

Equity Research Initiative Program

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Introduction

Tata Motors Limited is an Indian multinational automotive manufacturing company. Its products includes passenger cars, trucks, vans, coaches, buses and military vehicles. It is headquartered in Mumbai. It has manufacturing plants in Jamshedpur, Pantnagar, Lucknow, Sanand, Dharwad and Pune districts of India and in countries like Argentina, South Africa, Thailand and United Kingdom. At present, Tata Motors is the world's 17th-largest motor vehicle manufacturing company, fourth-largest truck manufacturer and second-largest bus manufacturer company. It is a part of Tata group and was established in 1945. It entered the segment in 1954. Over 9 million Tata Vehicles run on Indian roads, since first rolled out in 1954. It started exporting its products in the year 1961 and thus established the international footprint in the world.

Overview of TML

- Company Name: Tata Motors Ltd
- Area served: Worldwide
- Year of Incorporation: 1945
- Year of IPO:
- Number of employees: 73,485
- Industry: Automotive
- Chairman Emeritus: Ratan Tata
- Number of shares outstanding:
- Chairman: Cyrus Pallonji Mistry
- Subsidiaries: Land ROver, Jaguar Cars, Jaguar Land Rover, Tata Daewoo, Tata Marcopolo, Tata Hispano, Tata Motor Cars



Pest Analysis

- Pest analysis means Political, Economical, Social and Technolgical way of analyzing any company.
- It is a standard way of analyzing macro-economical forces which impact a company or corporation.
- Pest analysis helps to infer whether a particular factor is helping the organization to achieve its goals.
- Hence, its very important to perform Pest analysis on any company to study its behaviour.

Illustration of Pest Analysis



Political factors

- Tata Motors Limited have a good political relation with the both previous and present governments of India.
- For the manufacturing of Nano Cars, Tata Motors Limited acquired a land of 997 acres with the Gujarat state government, with this decision farmers were displaced and thus they were unhappy. Taking advantage it, other opposition parties like TMC of Mamata Bannerjee started a “Save Farmland” movement. Anyway, finally plant was established in Sanand, Gujarat.
- Conclusion : Tata Motors Limited maintains a good relation with major powerful political parties which helps them in taking important actions.

Economical factors

- TML's economic scenario is quite promising with GDP growth rate around 7%.
- However, high interest rates and low freight availability impacted its financial infrastructure in first quarter of 2013.
- During the same time, price pressure from competitors also marred its financial position.
- The commercial vehicle segment of TML gave it an edge over others this time and the big and mid-sized vehicles helped TML to regain its ground.

Social factors

- Where ever TML goes, may it be domestic or international markets, it hires mostly the local population generating employment.
- Due to its age long history and its welfare activities, Tata enjoys full public support.
- Tata also works towards provided high standards of education to students. Some of the institutes opened and managed by Tata are Indian Institute of Science, Tata Memorial Centre, Tata Institute of Social Sciences, etc.
- Besides automotive industries, there are many beneficial Tata products available in Indian market which are the daily basic needs of the people. For example - Tata salt.

Technological factors

- In order to adapt with the latest technology, TML owns Tata Technologies Limited.
- Tata Technologies Limited helps TML in the upgradation of designs and technology.
- Tata faced some technological challenges when Tata Nano was introduced in the markets but it later assured the customers that Nano is perfectly safe to drive.

Swot Analysis

Swot analysis means study of strengths, weaknesses, opportunities and threats of any company. Also, by performing swot analysis we get to know about the factors which are favourable for the company's main objectives.



Strengths of Company

- 1.Tata is the leading manufacturer of automobiles in India and it has hence strong hold in Indian domestic market.
- 2.It produces many types of products which generally satisfies the needs of all types of people.
- 3.Also, Tata motors is present globally in many countries of the world.
- 4.Tata Motors is fourth biggest truck producer in the world.
- 5.Tata Motors is the second biggest bus producer in the world.

Weaknesses of Company

1. Tata motors products are not considered as luxurious because products are generally targeted for economy class rather than luxury.
2. Also investors are not satisfied with the return on investment on Tata motors because earnings per share is low.
3. Also there is very less value of the Brand Recognition of the company.

Opportunities of Company

1. Tata Motors industry needs to work on production of some luxurious cars and vehicles, as presently it does not have any luxurious vehicle.
2. Also it has to make their investors happy by raising the value of Earnings per share.

Threats for company

1. Other competing car manufacturers have been in the passenger car business for 40 to 50 years. Therefore, Tata Motors Limited has to catch up in terms of quality and lean production.
2. Low safety standards can hamper the public trusts it has already attained which may prove fatal to its domestic market.
3. Rising cost of manufacturing: The price of steel and aluminium is increasing and thus putting pressure on the costs of production.
4. Many of Tata's products run on Diesel fuel which is becoming expensive globally and within the domestic market too.

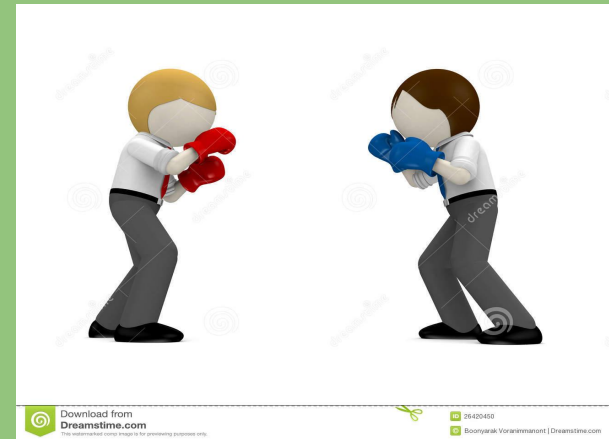
Porter's five forces model

The Porter's Five Forces tool is helpful to assess the attractiveness of an industry or a market by analyzing the forces acting upon it.



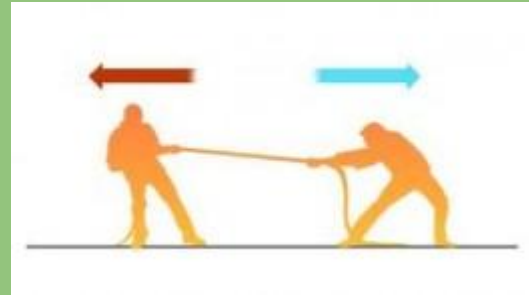
Intensity of Existing Rivalry

- Large industry size
- Fast industry growth rate



Bargaining power of suppliers

- High competition among suppliers
- Diverse distribution channel
- Low cost of switching suppliers
- Volume is critical to suppliers



Bargaining power of customers

- Driving prices far below competitors, causing them to exit, thus shifting power with buyers back to the firm.
- Low buyer price sensitivity.
- Large number of customers.



Threat of substitutes

- Price band.
- Substitutes performance.



Threat of new entrant

- High capital requirements
- Strong distribution network required.
- Advanced technologies are required.
- Industry requires economies of scale.
- Entry barriers are high.



Ratio Analysis

- Ratio Analysis is quantitative analysis of information obtained in a company's financial statements.
- It is used to evaluate various aspects of a company's operating and financial performance such as its efficiency, liquidity, profitability and solvency.
- Values of ratios are compared with different companies ratios in the same sector to see how they stack up, and to get an idea of comparative valuations.
- It is a cornerstone of fundamental analysis.

Operating Margin

Operating Margin : EBIT / Net Sales

YEAR	2011	2012	2013	2014	2015
TATA MOTORS	0.076	0.047	0.035	0.009	-0.065

- These values tells us that company made highest profit from it's current operations in the year 2011 followed by 2012 which is followed by 2013 and further followed by 2014. In year 2015, company made losses from it's current actions.

comparison with different competitors

Company	Year	Operating margin value
FORD	2015	2.97 %
GM	2015	3 %
MAHINDRA	2015	7.74 %
TATA MOTORS	2015	-6.5 %

- These values tells us that MAHINDRA is making most profit from it's current performing actions than any other companies, followed by GM which is followed by FORD.
- TATA motors is making losses from it's current performing actions.

EBT margin

- Formula: $EBT / \text{Net Sales}$
- It includes the total profit the company makes before paying tax.

Year	2011	2012	2013	2014	2015
TATA MOTORS	0.047	0.025	0.004	-0.03	-0.11

- These values tells us that company company is highly likely to make most profit out of its sales in the year 2011 because of high EBT margin value followed by year 2012 which is followed by year 2013.
- In year 2014, 2015 company suffered from losses as it has made negative earnings which means losses.

comparison of EBT margin with different companies

Company	Year	EBT margin value
FORD	2015	3.69 %
GM	2015	4.79 %
MAHINDRA	2015	7.86 %
TATA MOTORS	2015	-11 %

- MAHINDRA is highly likely to make the most profit than FORD, GM and TATA MOTORS in the year 2015. Hence by looking this values, investors best choice will be MAHINDRA followed by GM which is followed by FORD. Investors will try to avoid investing money in TATA MOTORS.

Return on Assets

- It tells how much profit a company is able to generate for each unit of assets invested.

YEAR	2011	2012	2013	2014	2015
TATA MOTORS	0.05232	0.040	0.009	0.01	-0.1357

- It measures the operating efficiency of a company.
- The company was able to make the most profit in the year 2011 and least in year 2013, while in 2015 company was not even able to make profit and suffered from losses.

comparison of ROA value with different companies

Company	Year	ROA value
FORD	2015	1.73 %
GM	2015	2.49 %
MAHINDRA	2015	5.67 %
TATA MOTORS	2015	-13.57 %

- These values shows that MAHINDRA managed to make the most profit out of it's assets while GM the least and Tata Motors was not even able to make profit and suffered a huge losses.

Return on Equity value (ROE)

- Formula: $\text{Net Profit} / \text{Shareholder Equity}$

YEAR	2011	2012	2013	2014	2015
TATA MOTORS	0.091	0.063	0.016	0.018	-0.32

- Very low positive values in the year 2011-2014 indicates that company is making profits but it is very less and in 2015, the value is negative which means company is suffering from losses.

return on equity value of different companies

Company	Year	ROE value
FORD	2015	13.92 %
GM	2015	12.29 %
MAHINDRA	2015	21.57 %
TATA MOTORS	2015	-32 %

- A higher R/E value is better than lower. So, for Mahindra R/E value is the best and hence shareholders of Mahindra will make more profits and will get the maximum return followed by FORD and GM.
- A negative R/E value means shareholders of TATA MOTORS are incurring losses and hence there is no return at all rather they have to pay their own money for the suffered losses.

Current ratio

- It is measure of the ability of a firm to meet its short-term obligations.
- A current ratio of 2 to 3 is usually considered good.

YEAR	2011	2012	2013	2014	2015
TATA MOTORS	-0.32	-0.44	-0.41	-0.48	-0.32

- A very high value (>3) indicates that the firm has too many assets tied up and is not making efficient use of them and also company having high current ratio value becomes attractive to creditors who are expecting to be paid in next few period of time.

Current ratio of different companies

Company	Year	Current ratio value
FORD	2015	3.03
GM	2015	1.22
MAHINDRA	2015	1.44
TATA MOTORS	2015	-0.32

- The best value of current ratio is of FORD (close to 3) and the values of GM and MAHINDRA are not so bad but they have less potential to overcome their obligations. On the other way, TATA MOTORS having the current ratio value less than 1 which indicates company is in bad financial health.

P/E ratio

- Lesser the P/E ratio value, it becomes more attractive for the investors to invest money in that company.

YEAR	2011	2012	2013	2014	2015
TATA MOTORS	11.57	84.46	347.63	317.55	-22.44

- Industries like technology has a very high P/E ratio around 17 whereas public utilities industry have a very low P/E ratio value around 3.
- As the P/E value was very high in 2013-2014, TML was unfavourable for many investors as they had to deposit large amount of money to earn unit profit.

Meaning of negative P/E ratio

- P/E ratio can also be negative if the value of Earnings per share (EPS) is negative.
- EPS values below 0 means that the company is losing money.
- Investors buying a company with a negative P/E should be aware that they are buying a share of a company that has been losing money per share of its stock.
- It is very unfavourable value for the investors and investors will avoid to invest money in the company having negative P/E ratio.

comparison of P/E ratio with different companies

Company	Year	P/E value
FORD	2015	14.88
GM	2015	11.12
MAHINDRA	2015	22.01
TATA MOTORS	2015	-22.44

- As Tata Motors is having negative P/E value, investors will avoid them.
- The best choice for investors will be GM followed by FORD which is followed by MAHINDRA.

Assets turnover value

- Value of Assets turnover indicates the efficiency with which a company is utilizing its assets in generating revenue.

YEAR	2011	2012	2013	2014	2015
TATA MOTORS	1.36	1.77	1.34	1.02	1.04

- Since value is close to 1 in 2014 and 2015, which is not good for company. If value of assets turnover is close to 1, then it means there is very less chance of making profits.
- Higher the assets turnover ratio value, better the company is performing since higher ratios that the company is generating more revenue per unit of assets.

comparison with competitors

Company	Year	Assets turnover value
FORD	2015	0.66
GM	2015	0.84
MAHINDRA	2015	0.9
TATA MOTORS	2015	1.04

- As the value for Tata Motors is highest, it means Tata motors is utilizing its resources in a best way than any other company.
- As the value for Ford is lowest, it means Ford's efficiency of utilizing its assets (resources) is very less and thus not able to generate more revenue per unit of assets.

P/S ratio value

YEAR	2011	2012	2013	2014	2015
TATA MOTORS	0.445	1.93	2.35	3.1	2.9287

- It is considered more stable than P/E ratio.
- P/S ratio value was highest in the year 2014 followed by the year 2015 which is followed by the year 2013 and is further followed by the year 2012.
- It helps determine a stock's relative valuation.
- $P/S \text{ ratio} = \text{Price per share} / \text{Annual Net Sales per share}$

P/S ratio values of different companies

Company	Year	P/S value
FORD	2015	0.3872
GM	2015	0.3297
MAHINDRA	2015	0.176
TATA MOTORS	2015	2.9287

- The lower the ratio, the more attractive the investment.
- Hence from investors point of view, MAHINDRA is the best company to invest followed by GM which is further followed by FORD and TATA MOTORS is the company which investors will try to avoid.