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ANALYSIS OF MAHINDRA &  
MAHINDRA AND TATA MOTORS**

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# A STUDY ON PROFITABILITY ANALYSIS OF MAHINDRA & MAHINDRA AND TATA MOTORS

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**Abstract:** *The automobile industry in India is world's fourth largest, with the country currently being the world's 4th largest manufacturer of cars and 7th largest manufacturer of commercial vehicles in 2021. Indian automotive industry (including component manufacturing) is expected to reach Rs 16.16-18.18 trillion (US\$ 251.4-282.8 billion) by 2026. Two-wheelers dominate the industry and made up 81 per cent share in the domestic automobile sales in FY19. Overall, Domestic automobiles sales increased at 6.71 per cent CAGR between FY13-18 with 26.27 million vehicles being sold in FY19. Indian automobile industry has received Foreign Direct Investment (FDI) worth US\$ 20.85 billion between April 2000 and December 2021.*

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## **Introduction:**

Domestic automobile production increased at 6.96 per cent CAGR between FY13-19 with 30.92 million vehicles manufactured in the country in FY19. India as country is also a prominent exporter country in the field of automobile. The Indian market is trying to make India leader of two-wheeler (2W) and four wheeler (4W) vehicles till the year 2020.

Profit plays the role of blood for the companies therefore there should be enough profit for the firm to make the firm move on smoothly and efficiently lifelong Account implies the board of enormous measure of cash. The life-blood of business is fund. It is by and large named as the exploration of cash. Account is exceptionally fundamental instrument for smooth running of the business. Money is to for the most part control the approaches, exercises and choice of each business. Monetary administration is that administrative movement which is worried about the arranging and controlling of a company's money related assets. Monetary investigation is the way toward distinguishing the money related qualities and shortcomings of the firm. Money related examination can be attempted by the board of the firm or by gatherings' outside the firm. The target of money related investigation is the procedure of the basic examination of the monetary data

contained in the fiscal summaries so as to comprehend and settle on choices with respect to the tasks of the firm. Money related examination is as the last advance of bookkeeping that outcome in the introduction of last and the precise information that helps business chiefs, financial specialists and banks to take appropriate and exact choices. The goal of the monetary examination is to evaluate the present gainfulness and working proficiency of the firm.

#### Objectives of the study

- To study Profitability analysis of both the companies.
- To study the financial statement of both the companies using the financial tools.
- To evaluate the financial position of the companies

#### Research Methodology

In this study the focus has been made on to compare, measure and evaluates the profitability and financial performance of both the companies Mahindra & Mahindra Ltd and Tata Motors. This study is based on data collected from primary and secondary sources. The study covers the data of last 5Years. Certain tool ratios have been applied in this study to compare between both the companies i.e. Mahindra & Mahindra and Tata Motors.

#### **Sources of Data**

The study is mostly based on the secondary data, obtained from the annual report and analysis of other supported financial statements of TATA MOTORS and MAHINDRA AND MAHINDRA

#### **Period of Study**

The analysis of Profitability was done for a period of five years from 2021-20.

#### **Tools and Techniques used**

The following are the Tools and Techniques used for the analysis:

#### Profitability Ratios

1. Operationg Profit Margin
2. PBIT
3. Gross Profit Margin
4. Net Profit Margin
5. Return on Capital Employed
6. Return on Networth
7. Return on Capital Employed
8. Current Ratio

9.Quick Ratio

10.Debt Equity Ratio

### **Review of literature**

**ShubhraJohri (2014)** In this study author has tried to analyse the effect of five specific mergers in automobile industry on the shareholders wealth that taken place during year 2011-12. An empirical study is conducted to examine pre to post merger stock performance and also deals with the synergies that the merging companies have achieved post integration.

**Wei Zheng&Zhijun Sheng (2021)** In this paper researcher examined the impact of merger and acquisitions of Chinese automobile enterprises. Main objective of the study is to understand problems such as political barriers, legal barriers and cultural conflicts etc. in implementation in M&A and countermeasures that make ideal results when they implement the M&A.

**Bijoy Gupta &Parimalendu Banerjee (2020)** Examined the impact of merger and acquisitions on financial performance of selected acquirer firms across India by selecting seven different units merged during 2006-12. Various financial ratios applied to assess the profitability and liquidity position of the selected firms. The analysis is conducted with the help of statistical tool paired t test used on accounting ratios by SPSS to test the significance of the study. The study revealed insignificant improvement of acquiring firms after merger. Authors found the efficiency of acquiring firms' deteriorated in post-merger period

### **COMPANY PROFILE**

#### **TATA MOTORS**

Tata Motors Ltd. (formerly TELCO, short of Tata Engineering and Locomotive Company) is an Indian multinational automotive manufacturing company. Its headquarter is in Mumbai, India. Tata Motors is a part of Tata Groups.

#### **Mahindra & Mahindra Ltd.**

Mahindra & Mahindra Ltd. (M&M) is a multinational automobile company whose head office is situated in Mumbai, Maharashtra, India. It is one of the largest producers of tractors in the whole world. In 2011 Mahindra & Mahindra was ranked as 21<sup>st</sup> top most companies by Fortune India 500.

Table 1 Financial Ratios of Mahindra &amp; Mahindra Motors

		2022	2021	2020	2022	2021
1.	Operating Profit Margin(%)	12.38	12.78	10.24	11.30	10.71
2.	Profit Before Interest And Tax Margin(%)	8.64	9.54	6.58	8.51	8.03
3.	Gross Profit Margin(%)	8.91	9.74	6.78	8.68	8.21
4.	Cash Profit Margin(%)	12.09	10.86	10.17	10.07	9.95
5.	Adjusted Cash Margin(%)	12.09	10.86	10.17	10.07	9.95
6.	Net Profit Margin(%)	8.94	8.94	8.27	7.83	8.52
7.	Adjusted Net Profit Margin(%)	8.67	8.76	8.02	7.68	8.34
8.	Return On Capital Employed(%)	17.62	17.43	14.66	18.13	18.51
9.	Return On Net Worth(%)	14.01	14.37	13.60	14.29	17.25
10.	Adjusted Return on Net Worth(%)	14.10	12.94	11.55	13.98	15.51
11.	Return on Assets Excluding Revaluations	287.09	243.68	431.26	361.03	309.85
12..	Return on Assets Including Revaluations	287.09	243.68	431.26	361.03	310.02
13.	Return on Long Term Funds(%)	17.84	17.79	14.93	18.40	18.60
14.	<b>Liquidity And Solvency Ratios</b>					
15.	Current Ratio	1.08	1.06	1.12	1.10	1.05
16.	Quick Ratio	0.90	0.92	0.89	0.90	0.84
17.	Debt Equity Ratio	0.07	0.09	0.10	0.08	0.14

Source : Annual Report of Tata Motors

Table 2 Financial Ratios of Tata Motors

		2022	2021	2020	2022	2021
1.	Operating Profit Margin(%)	7.13	5.62	3.63	6.87	-3.40
2.	Profit Before Interest And Tax Margin(%)	2.56	0.34	-3.14	1.39	-10.06
3.	Gross Profit Margin(%)	2.66	0.35	-3.21	1.44	-10.58
4.	Cash Profit Margin(%)	7.41	5.02	2.08	6.24	-4.53
5.	Adjusted Cash Margin(%)	7.41	5.02	2.08	6.24	-4.53
6.	Net Profit Margin(%)	2.91	-1.75	-5.48	-0.14	-13.05
7.	Adjusted Net Profit Margin(%)	2.81	-1.71	-5.36	-0.14	-12.41
8.	Return On Capital Employed(%)	11.07	4.84	-1.11	5.38	-5.61
9.	Return On Net Worth(%)	9.11	-5.13	-11.48	-0.26	-31.93
10.	Adjusted Return on Net Worth(%)	10.03	-0.33	-9.88	1.85	-29.21
11.	Return on Assets Excluding Revaluations	65.26	59.40	62.32	68.51	46.10
12..	Return on Assets Including Revaluations	65.26	59.40	62.32	68.51	46.18
13.	Return on Long Term Funds(%)	12.18	5.29	-1.27	5.96	-7.21
14.	<b>Liquidity And Solvency Ratios</b>					
15.	Current Ratio	0.54	0.57	0.53	0.51	0.42
16.	Quick Ratio	0.51	0.44	0.42	0.41	0.42
17.	Debt Equity Ratio	0.79	0.81	0.89	0.61	1.35

Source : Annual Report of Mahindra &amp; Mahindra Motors

### **Findings and Suggestions**

The findings are based the performance metrics of the companies, by the key performance indicators. The sales volume or expansion of their business is not considered as a point.

Mahindra & Mahindra is well maintained their performance consistently in the last 5 years. The operating profit margin is maintained in average though there is a drop in 2020 slightly. They improved their cash profit margin gradually and reached 12.09% in 2022. It is better when compare to industry growth of 6.96 % in past 5 years.

Additional capex or expansion projects not affected their growth. It may be due to the assets are depreciated fully or ROI is well maintained. This is indicative through their return on assets.

Return on long term funds gives maximum of 18.60% in 2021 which means investors value growing higher. The fund flow is better in the years and value of investments is growing.

Current ratio & Quick ratio is as per norms. Working capital balanced in all years. So their current assets & liabilities are in line with their growth and control mechanism is well established.

There is no much loans and advances. Debt equity ratio shows this. So major of the fund requirement for the business generated internally. The company control the funds and invest through internal funding it seems.

Tata motors have more volatile in terms of performance. Their gross profit ratio is negative I 2021 and improved well. In 2020 there is some drop and it recovered immediately in next years. It shows their capability in operations, they have the efficiency in performance.

The return on net worth is in negative till 2021, it means their profitability affected by their capital cost, it will be depreciation, interest cost. Their investment is not yet giving returns. The company invested more amounts from 2021.

Debt equity ratio is more 1.35 times in 2021 which confirms the debt is more than equity capital. So the cost of capital is more in 2021 and gradually got reduced and in 2022 it become 0.79 times. The company capital structure got changed in the last 5 years. So in future the interest cost will come down.

Cash profit % is not affected from 2022. The company has maintained to get cash from operations even the profit % is less. Depreciation and Interest cost is more in early period and getting reduced in next few years.

Return on assets is good except 2021 and company giving 65.26 in 2022. Investments made from 2021 but return on assets is in positive only. Investments are able to give returns from 2021 itself. In future return on assets will increase if same asset structure maintained.

Return on net worth is main thing to be noted for Tata motors. It is recovered from negative to positive in this 5 years. The company managed the pressure in fund management. They came out with their efficiency.

As Tata motors invested globally the management has to observe lot of international standards to arrive a constructive business. The volatile in market will not affect the profitability upto some limits. But challenges will be in restructure the resources to control cost and improve productivity.

### **Conclusion**

While comparing both companies, in view of researcher, Mahindra & Mahindra is good as Return on capital employed is better at 17.26% in 2022 against Tata motors 11.07%. Capital structure also good in Mahindra by debt equity ratio and they can invest in future by utilize their internal fund or using debt facility. Tata motors is efficient more than Mahindra & Mahindra as they are able make profit within 5 years. Their profit increased 16% from 2021 to 2022 and in same time Mahindra & Mahindra consistently maintained the Net profit ratio. The well-structured business is Mahindra & Mahindra and risk of debt is not more, profitability also consistent. Tata motors is need more structural changes and consistent performance needed to grow in the volatile market. It is recommended to Mahindra & Mahindra to invest and elaborate their capital structure to get new business or increase existing business models.

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