Financial ratios analysis of the toyota motor corporation finance essay

This report was written to make an analysis of the financial statements of the Toyota Motor Corporation for period from 2008 to 2010, according to analysis of the ratios and trend analysis of absolutes. The review of company's history and the impact of events happen to TMC gave an opportunity to enlarge our understandings of the entity's financial situation. Furthermore, this report performs a view to predict and forecast the expectations of the company.

Introduction

Nowadays major and popular companies publish their financial information such as balance sheet, cash flow, financial statement and others in order to perform the financial position of the company on the world market. All this financial data makes an influence on attractiveness of the company for investors and customers.

The purpose of this report is to study financial analysis instruments and methods according to published data of the company. The object of this report is Toyota Motor Corporation which takes the seventh place as the largest company worldwide and the second place as the largest manufacturer of automobiles. Toyota Motor Corporation founded in 1937 by Mr. Kiichiro Toyoda now is a famous multinational automaker simply known as Toyota. This company has 28 producing facilities all over the world, employs over 300 000 people and sells vehicles in over 170 countries/regions.

As for me the reason why I have chosen this company was to study and understand how this company was succeeding for so many years and even having global problems with gas pedal and financial crisis Toyota still is one of the leading car producers. Consequently the analysis of the financial statements of Toyota Company can give the answers for many questions. Also, one more reason of my choice is that Toyota is one of the largest car distributors in my country, in Kazakhstan. I wanted to learn more what Toyota did for my country as a customer and what is position of TMC in world as in Kazakhstan Toyota cars are really demanded.

The history of the
Toyota Motor Corporation

The era of information and technology made human race to develop different fields of business and automobile production was one of them. There are lots of companies established in XIX-XX century having a rich history, and Toyota Motor Corporation is not an exception.

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Kiichiro Toyoda, born in 1894 founded Toyota Motor Corporation in August 28, 1937. Kiichiro devoted his entire life to the manufacturing cars. And his first A1 prototype passenger car was created in 1935 which initiated the birth of TMC.

The Toyota Motor Corporation today

Toyota Motor Corporation now is a famous multinational automaker simply known as Toyota. This company has lots of factories worldwide and produces such cars and buses branded as Lexus, Toyota, Scion.

The Ratio analysis of

The Toyota Motor Corporation

The full financial picture for potential investors of any company is the annual report that makes an analysis of the financial profitability on the base of which a decision can be done whether invest or not. To perform the situation of TMC in a more precise way it is necessary to analyze the financial position of the company via financial ratios, statements and profitability. Financial ratios are helpful indicators of performance and financial situation of the company. The financial statements provide with the information from ratios. All these data give a full vision of trends and company's financial position. As many other business companies suffered from the global financial crisis, TM was impressed as well. Also the great scandal of Toyota cars recall didn't pass without a trace. All these events made a great influence on the financial stability of the company.

For the beginning, the observation of the main financial statements such as income for the period, revenue, basic earnings and dividends per share is very useful analysis. For revenue statement of Toyota, the decrease can be considered from 262 394 ($ millions) on the end of March 2008 to 202 814 ($ millions) on the end of 2010.

As a result, income for the period of 2008-2009 decreased almost for 21% and 2009-2010 for 2. 5% due to several problems as the global financial crises and Toyota cars recall because of technical problems of gas pedal.

Liquidity ratios

Liquidity ratios calculation is the start point in ratio analysis. This calculation performs the amount of cash available in the company in most cases for twelve month.

Current assets ratio

The current assets ratio is a proportion between current assets and current liabilities. The main idea of this ratio is the current assets must be higher than current liabilities and the proportion to be 3 to 1 accordingly.

Mar 31, 2010

Mar 31, 2009

Mar 31, 2008

139 914/114 364= 1, 22

114 396/107 212= 1, 06

120 633/119 181= 1, 01

A ratio under 1. 2 can be a sign of weakness. Generally it may be the cause of the financial problems of the company however as can be seen from calculations above Toyota has been becoming more stable despite the global financial crisis and scandal of cars recall.

Quick ratio or acid test ratio

One more ratio to be considered is a quick ratio. It gives the statement analysis of the current assets without stock as it is difficult to exclude the stock (inventories) immediately and can be found as: (Current assets – stock) / Current liabilities.

Mar 31, 2010

Mar 31, 2009

Mar 31, 2008

(139914-15222)/114364= 1, 09

(114396-14776)/107212= 0, 93

(120633-18222)/119181= 0, 86

This indicator is a company's short-term liquidity. It measures a company's ability to meet its short-term obligations with its most liquid assets. The main idea of quick ratio is the higher the quick ratio, the better the position of the company. The appropriate proportion for this ratio is at least 1/1 meaning TMC was going up its position as a company during 2008-2010.

Profitability ratios

The next step is counting of profitability ratios which measure the profit of the company in terms of net assets or sales income.

Return On Capital Employed

Return on capital employed ratio gives the information how successfully the company uses own capital, simply the rate of return made on the total capital employed. The calculation is as following: Profit before Tax / (Total Assets – Current Liabilities)

Mar 31, 2010

Mar 31, 2009

Mar 31, 2008

3 119/(324 800-114 364)*100%= 1, 48%

(5 674)/(294 240-107 212)*100%=(3, 03%)

24 326/(323 968-119 181)*100%= 11, 88%

This ratio is very important indicator of profitability of the company as ROCE shows how successful Toyota owned the capital financed for its assets. From the table above it is evident that ROCE ratio indicators in 2009 were negative which is connected with the global financial crisis. However a positive recovery TMC had next year.

Gross profit ratio

Gross profit ratio is the way to calculate the gross profit earned on sales which is determined as (Sales – Cost of Goods Sold) or Gross profit/Sales. The figures of TMC are as follows:

Mar 31, 2010

Mar 31, 2009

Mar 31, 2008

24 263/202 814= 12%

20 996/207 852= 10%

47 599/262 394= 18%

This ratio defines how profitable was the company to its sales.

Mark-up ratio

The next ratio connected with gross profit is mark-up ratio and defined as the Gross Profit divided by the Cost of Sales Sold.

Mar 31, 2010

Mar 31, 2009

Mar 31, 2008

24 263/178 551= 14%

20 996/186 856= 11%

47 599/214 795= 22%

Net profit ratio

Another ratio as Net Profit Ratio gives the relationship between profit and revenue and defined as follows (Net Profit before Taxation/Revenue):

Mar 31, 2010

Mar 31, 2009

Mar 31, 2008

3 119/202 814= 2%

(5 674)/207 852=(3%)

24 326/262 394= 9%

This is very important ratio as it involves all the entity's costs. In the current case Toyota was more efficient in 2008 than in 2009 and 2010. As a result NP ratio is used to calculate the overall profitability. In case the net profit is not sufficient, the company will not be able to achieve a satisfactory return on its investment.

Efficiency ratios

Next step is to identify how the company is profitable in relation to investments. The four main ratios should be identified: fixed assets turnover, stock turnover, trade debtor/creditor collection period.

Fixed assets turnover

FAT is a proportion of net sales to fixed assets. It measures ability of the company to generate net sales from fixed-asset investments (property, plant and equipment). The higher the fixed-asset turnover the more effectively the company is using the investment in fixed assets to generate revenues. The formula for FAT is Net Sales divided by Net Property, Plant and Equipment.

Mar 31, 2010

Mar 31, 2009

Mar 31, 2008

202 814/71 820= 2, 82

207 852/74 939= 2, 77

4/77 972= 3, 37

Stock turnover or inventory turnover

A ratio that measures how often inventories are used per year. Stock turnover is defined as: Sales/Inventory

Mar 31, 2010

Mar 31, 2009

Mar 31, 2008

202 814/15 222= 13, 32

207 852/14 776= 14, 07

262 394/18 222= 14, 40

Inventory turnover to be compared against industry averages. A low turnover means

poor sales and, hence, excess of inventory. A high ratio tells either strong sales or ineffective buying.

Trade debtor collection period

This ratio evaluates how easily the entity can obtain its money to avoid cash flow problems. The formula is (trade debtors / sales) x 365

Mar 31, 2010

Mar 31, 2009

Mar 31, 2008

(75 859/202 814)*365= 136, 52 days

(62 997/207 852)*365= 110, 63 days

(74 140/262 394)*365= 103, 13 days

As can be seen from the table above the trade debtors collection period was increasing since 2008 to 2010 which determines that the time for debtors to pay increased.

Trade creditor collection period

The similar calculation is for creditors as: (trade payables/turnover x 365 days).

Mar 31, 2010

Mar 31, 2009

Mar 31, 2008

(41 159/202 814)*365= 74, 07 days

(29 274/207 852)*365= 51, 41 days

(49 225/262 394)*365= 68, 47 days

Investment ratios

This ratio is a measurement of the direct interest of investors or shareholders. It covers

analysis of dividend yield, dividend cover, earnings per share, price/earnings ratio and capital gearing.

Dividend yield

Dividend yield is expressed as an annual percentage of the company's annual cash dividend per share divided by the current price of the stock. The shareholder can value his income by comparing dividend per share and market price per share. The calculation is dividend per share/market share price:

Mar 31, 2010

Mar 31, 2009

Mar 31, 2008

0, 56/46, 23= 1, 2%

1, 23/38, 51= 3, 2%

1, 73/61, 35= 2, 8%

Dividend cover

This ratio shows how often dividend can be received from current earnings. The formula

is: profit after tax/dividends.

Mar 31, 2010

Mar 31, 2009

Mar 31, 2008

2 569/1 846= 1, 39 times

4 670/4 455= 1, 05 times

16 368/4 300= 3, 81 times

Earnings per share

Earnings per share is a published information provided in the company's annual report.

Mar 31, 2010, $

Mar 31, 2009, $

Mar 31, 2008, $

0, 82

1, 72

6, 67

Price/earnings ratio

Price/earnings ratio defines relationship of market price per share and earnings per share.

Mar 31, 2010

Mar 31, 2009

Mar 31, 2008

46, 23/0, 82= 56, 07

38, 51/1, 72= 22, 42

61, 35/6, 67= 9, 19

Earnings yield

This ratio is the relationship of earnings ratio to price

Mar 31, 2010

Mar 31, 2009

Mar 31, 2008

0, 82/46, 23= 0, 02

1, 72/38, 51= 0, 04

6, 67/61, 35= 0, 11

Gearing

Gearing is ratio of borrowed capital and capital employed and calculated as (short-term loans and Overdrafts + long-term liabilities) / shareholders funds x 100.

Mar 31, 2010

Mar 31, 2009

Mar 31, 2008

(64 966 + 41 159 + 75 079)/110 870*100= 163, 44%

(70 748 + 29 274 + 63 799)/101 865*100= 160, 82%

(62 163 + 49 225 + 59 706)/118 470*100= 144, 42%

Interest cover

Interest cover is a ratio used to define if a company is able to pay interest on outstanding debt. The formula of interest coverage ratio is (earnings before interest and taxes (EBIT) of one period)/(interest expenses of the same period)

Mar 31, 2010

Mar 31, 2009

Mar 31, 2008

3 477/358= 9, 71%

(5 199)/475=(10, 95%)

24 786/460= 53, 88%

From data above it can be seen that TMC had financial problems with interest cover as the ratio fell down in 2009 however recovered in 2010.

Conclusion

The Toyota Motor Corporation is one of the biggest world cars producing company. Nowadays it has lots of manufacturing factories all over the world and the demand for Toyota cars is going up year by year as automobiles of this company are of good quality, sold on available price and safety. The financial analysis of the company performed the good statement in 2008 and recovery process till 2010 as TMC as other automobile producers suffered from the global financial crisis. Though Toyota’s image was collapsed due to millions of cars recall, the company still has a stable position on the world market and will recovery easily.

In conclusion, I would point out that the strong potential of TMC will return the level it had before and attract more and more investors to its business.

Appendix

Financial Statement, Balance Sheet and Cash Flow are available from the following link – http://finance. yahoo. com/q/is? s= TM+Income+Statement&annual