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## Introduction

The present study presents a thorough examination of Tesla Inc.'s financial performance and standing spanning the years 2019 to 2022. It provides valuable insights and investment suggestions by evaluating crucial economic parameters, including profitability, efficiency, liquidity, solvency, and market indicators. Tesla Inc. exhibited enhanced leverage ratios, interest coverage, liquidity, and resource efficiency, rendering it a compelling investment opportunity. The firm had a significant increase in profitability, which can be attributed to the growth in sales and the decrease in costs. Additionally, it had superior performance in terms of return on assets (ROA), return on equity (ROE), and gross/net profit margins. In addition, the current analysis assesses the viability of allocating funds toward Tesla's Roadster and Model 2 initiatives using capital budgeting methodologies. It advises the investment based on a favorable net present value (NPV) outcome. The proposition recommends that Tesla Inc. continue distributing equity dividends and employ its available free cash flows to generate income. The research highlights the potential of Tesla to use its current assets, optimize inventory management, and explore novel investment prospects. Finally, it recommends refraining from distributing cash dividends and instead highlights the need to utilize retained revenues to foster future expansion and development. Tesla Inc. exhibits strong financial indicators, making it a compelling choice for investors in the dynamic automotive industry.

*Keywords:* Tesla Inc., financial analysis, financial ratios, profitability, efficiency, liquidity, solvency, market ratios, investment recommendations, net present value, capital budgeting, retained earnings

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## **Analyzing Tesla Inc.'s Financial Performance (2019-2022) and Investment Recommendations"**

This comprehensive report delves into a thorough analysis of Tesla Inc.'s financial performance and position spanning from the fiscal year 2019 to 2022. This report aims to provide a robust assessment and investment recommendation based on a meticulous evaluation of the company's key financial ratios and metrics. These crucial metrics encompass profitability, efficiency, liquidity, solvency, and market performance ratios. The introduction of this report offers essential background information about Tesla Inc. and its multifaceted product segments within the ever-evolving global landscape. It outlines Tesla's distinctive strategies, manufacturing facilities, corporate headquarters, and details about its stock exchange listings. Tesla Inc. has showcased remarkable financial prowess during the period under analysis. The company managed to maintain favorable leverage ratios and significantly improve its interest coverage ratio, making it an attractive prospect for potential investors. Tesla Inc. also demonstrated enhanced liquidity to meet short-term obligations efficiently.

Furthermore, the company exhibited improved resource efficiency, as evidenced by higher accounts receivable turnover, lower inventory turnover, reduced accounts payable turnover, and stable asset turnover across the three years examined. Notably, Tesla Inc. successfully diversified its funding sources beyond long-term debt, achieving a substantial increase in revenue coupled with reduced operating and finance costs. These factors collectively contributed to an impressive boost in profitability, poised to captivate investors' interest. During the fiscal years 2019 to 2022,

Tesla Inc. generated more excellent value for its shareholders, as reflected in elevated average returns on assets (ROA), equity (ROE), and gross/net profit margins. Furthermore, this report assesses the feasibility of investing in Tesla Inc.'s projects, specifically the Roadster 2.0 and Model 2, employing capital budgeting techniques such as Net Present Value (NPV) and Weighted Average Cost of Capital (WACC). The recommended investment comprises 40% equity investment and 60% debt financing, with a positive NPV. The report advocates for Tesla Inc. to maintain its existing policy of issuing stock dividends to shareholders and harnessing free cash flows to augment income further.

### Company Background

Tesla Inc. was founded in 2003 by Martin Eberhard as an American automaker and energy firm. The first electric vehicle from Tesla was released. Model S, Model 3, Model X, and Model Y are only a few of the electric cars sold by Tesla Inc. There is a wide variety of pricing, range, and powertrain options for Tesla automobiles. In addition, Tesla's approach departs from conventional manufacturers since it emphasizes more vertical integration. Tesla opts to sell directly to consumers rather than via franchised dealerships. It has established a worldwide network of galleries and showrooms, mainly in large urban centers. (Barbara A. Schrieber, 2023). Tesla is Headquartered in Austin, Texas, the US, and has manufacturing facilities in Germany, the US, China, and Asia Pacific. Tesla and UGL had agreed to start expanding the western downs battery project of 500MWh in Queensland, Australia. Tesla Inc.'s shares are traded in NASDAQ with the symbol TSLA. (data, 2023)

### Financial Ratio Analysis

#### Profitability Ratio is <sup>1</sup>

The profitability ratio measures a company's efficiency in turning a profit. A company's profit is the sum of its revenue less its cost of goods sold, operational expenditures, and other charges. As of 2015 (Rutkowska-Ziarko). Investors look at these statistics to gauge a company's efficiency in turning its resources into revenue and profit. The calculated profitability ratios are shown in Table 1. (Sec.gov, 2023)

Table 1: Profitability.

Profitability Ratios	Formula	Tesla, Inc.			
		FY19	FY20	FY21	FY22
Gross margin	Gross profit/sales	17%	21%	25%	26%
Operating profit margin	Operating profit/net sales	0%	6%	12%	17%
Net profit margin	Net profit/Net sales	-3%	3%	10%	15%
Return on Assets	Net profit/Average assets	-2%	2%	10%	17%
Return on Equity	Net profit/Average shareholders equity	-12%	6%	22%	34%
Return on capital employed	Net profit/capital employed	-3%	2%	14%	23%

### **Gross Profit Margin.**

The income statement presents a financial metric known as the "gross profit ratio," which evaluates a company's gross profit from its sales. The capacity of a business to cover its operational costs and other expenditures is measured by its gross profit margin. (Mahruzal Mahdi, 2020). TESLA INC.'s gross profit margin increased from 17% in FY19 to 25% in FY21 and 26% in FY22. The average gross profit margin for TESLA INC. from FY19 to FY22 was 22%. Although a significant increase in revenue was observed, gross profit almost remained at the same level due to a proportionate increase in product cost.

### **Net Profit Margin**

The Net Profit Margin of a company is the net income as a proportion of sales. This financial ratio is used to measure the amount of net profit earned per dollar revenue of the company. This ratio describes the profit available to distribute among shareholders and retain in business for further expansion. (Mahruzal Mahdi, 2020). TESLA INC. had a positive net profit margin of -3% in FY19, which increased and reached 15% during FY22. Net income increased due to a significant increase in revenue and income from business operations. Investors usually prefer to invest in businesses with higher net income, indicating that the company can pay dividends and have free cash flows.

### **Return on Assets (ROA)**

The ROA is the ratio of Net income to average business assets. This ratio describes how much net income the business earned for each dollar of assets held. (Mahruzal Mahdi, 2020) TESLA INC. experienced an increasing trend in ROA over FY19 to FY22 from -2% to 17% due to a relatively significant increase in profit after taxes and an increase in investment in Property, Plant, and Equipment. Debt finance leases declined from FY19 to FY22 using accessible business cash flows. The decrease in debt expense resulted in a reduction in interest expense and an increase in net income. Tesla Inc. was more efficient in generating revenue in the automobile industry and did a better job using company assets to create earnings from each dollar of purchases controlled during the three years.

### **Return on Equity (ROE)**

A company's profitability is a percentage of its return on equity (ROE). Profit after tax is divided by shareholders' equity to determine the return on equity. Comparatively, Toyota Motor Corporation has common, treasury, and mezzanine equity, whereas TESLA INC. only has common and preferred shareholders. TESLA INC. significantly increased ROE from -12% in FY19 to 34% in FY22. Profits per share rose as extra paid-in capital retained gains boosted shareholder equity, while Interest Expense fell as long-term obligations and financing leases shrank. The average ROE for TESLA INC. from FY19-FY22 was 21. In business, investments are attracted by ROE, which increases with ROE. Return on Capital Employed (ROCE)

ROCE is a ratio that measures how much a business earns by utilizing its sources, including equity and debt. Like ROA and ROE, Tesla Inc.'s ROCE increased from FY19 to FY22 from -3% to 23%. The increase in this ratio would encourage investors to invest more in such businesses and vice versa.

### **Efficiency Ratio's**

Efficiency or asset utilization ratios may measure how well a company uses its assets. According to these figures, we must either increase our asset investments or liquidate some of our present holdings. The asset's efficiency is shown by this ratio (Santosuosso, 2018). The activity/efficiency ratios of Tesla Inc. are illustrated in Table 2 below. (Sec.gov, 2023)

Table 2: Efficiency Ratio's

Efficiency Ratios	Formula	Tesla, Inc.			
		FY19	FY20	FY21	FY22
Inventory Turnover ratio	Cost of sales/average inventory	5	5	7	5
Inventory held days	365/Inventory turnover ratio	79	69	54	66
Receivables turnover ratio	Sales/Average receivables	19	20	28	33
Receivables collection days	365/Receivables turnover ratio	20	19	13	11
Payable turnover	Cost of sales/average payables	4	4	4	4
Day's payment in payables	365/Payable turnover ratio	84	88	88	90
Assets turnover ratio	Net sales/Average total assets	1	1	1	1

### Inventory Turnover & Inventory Days

The inventory turnover ratio is the cost as a percentage of average inventory. The lines reveal the turnover rates of inventories for a given fiscal year. During FY19–FY21, TESLA INC. saw an increase from 5 to 7 times inventory turnover; in FY22, inventory turnover declined and reached to 5 times. The three-year average inventory turnover for TESLA INC. is six times per year. In correlation with inventory turnover, TESLA INC.'s inventory days decreased from 79 to 66 days from FY19 to FY22. The decrease in Inventory days indicates that businesses perform efficiently in terms of sales performance and inventory management.

### Accounts Receivable Turnover and AR Days

The accounts receivable turnover ratio is the net sales ratio to average account receivables. This ratio helps determine how effectively a business collects and extends credit sales to customers. A higher ratio indicates higher business efficiency. AR turnover increased for TESLA INC. each year from 19 times to 33 times during FY19 to FY22. Regarding the account receivable turnover ratio, the days' AR outstanding for TESLA INC. decreased from 20 to 11 days from FY19 to FY22, with the average of the three years being 14 days. Tesla Inc. is more efficient in collecting from customers.

### Accounts Payable Turnover and AP Days

The accounts payable turnover may be calculated as the amount spent divided by the average amount owed. This ratio indicates the frequency at which a firm makes supplier payments within a given accounting period. In contrast, the AP days show the typical time it takes to pay



suppliers. The AP turnover for TESLA INC. remained constant around four times from FY19 to FY22. TESLA INC. had taken more time paying suppliers during FY19, with an average of 89 days to FY22.

### **Asset Turnover and Asset Turnover Days**

Turnover may be measured by comparing a company's net sales to its average assets. This ratio quantifies how well a corporation turns its resources into cash. The asset turnover ratio of Tesla Inc. remains at the same level 1 during FY19 to FY22 despite an increase in revenue and an increase in business assets.

### **Liquidity Ratio's**

The quantification of a firm's ability to fulfill its short-term commitments is achieved via the utilization of the liquidity ratio. A financial indicator known as the liquidity ratio evaluates a company's capacity to satisfy its immediate financial obligations. It is derived by utilizing the accounting value of the company's assets. The study has shown that liquidity ratios are used by creditors and lenders to assess whether a company is capable of meeting its immediate financial obligations. For example: (BREUER, 2012). The current ratio and quick ratio characterize Tesla Inc.'s liquidity. (Table 3).

Table 3: Liquidity Ratio's

Liquidity Ratios	Formula	FY19	FY20	FY21	FY22
Current Ratio	Current Assets/Current Liabilities	1.13	1.88	1.38	1.53
Quick Ratio	Quick Assets/Current Liabilities	0.73	1.49	1.00	0.94

### **Current Ratio**

A company's capacity to satisfy its short-term commitments is quantified by its current (working capital ratio). This ratio measures a company's liquidity by contrasting its current assets with its short-term debt. The current ratio for TESLA INC. rose from 1.13 in FY19 to 1.53 in FY22 due to a rise in inventory, cash, and prepaid costs. A significant gain in cash and equivalents that was subsequently reduced led to a significant rise in FY20. TESLA INC's present ratio is over 1 which indicates that its existing assets are outpacing the obligations it has.

## Quick Ratio

The fast ratio, sometimes referred to as the acid test ratio, quantifies the efficiency with which a corporation may satisfy its immediate financial obligations by liquidating its assets. A high value for this percentage suggests that a debt may be settled promptly. The increase in cash and equivalents from FY19 to FY22 helped TESLA INC.'s quick ratio rise from 0.73 to 0.94. For TESLA INC., the quick ratio averages out to be 0.8 between FY19 and FY22. In order to meet his short term obligations, a company may use its inventories or assets for meeting the rapid ratio below one. This also indicates that there are more debts than assets.

## Long Term Solvency Ratio's

The long-term solvency ratio quantifies the leverage on an organization's assets. Owner financing accounts for this percentage of overall debt payment (Tunji Siyanbola, 2013). A company's reliance on debt and other types of leverage is reflected in these measures. If the firm has a high debt ratio, it poses a greater risk to its long-term viability. Investors would prefer to back a company not over its head in debt. If a business can pay its daily running expenses and long-term obligations on schedule and as a whole, it is said to be solvent. Long-term solvency ratios for Tesla Inc. are compared in Table 4.

Table 4: Long-Term Solvency Ratio's

Long-Term Solvency Ratios	Formula	Tesla, Inc.			
		FY19	FY20	FY21	FY22
Gearing ratio	Debt/(Debt+equity)	0.76	0.54	0.49	0.44
Debt to equity ratio	Total debts/Total equity	3.96	1.28	1.01	0.82
Equity Multiplier	Total assets/Total equity	5.18	2.35	2.06	1.84
Interest coverage ratio	EBIT/Interest expense	6	3	18	71
LTD to Assets ratio	LTD/Total assets	0.45	0.27	0.17	0.12

## Gearing Ratio and Equity Multiplier

A company's gearing ratio indicates how much debt it has in its working capital. This ratio can be used to determine the amount of leverage in a company's capital structure. Due to reduced long-term indebtedness and financing leases, Tesla Inc. saw a fall in its gearing ratio from 0.76 in FY19 to 0.44 in FY22. The ratio of total assets to total equity is known as the equity multiplier. TESLA INC. has high equity multipliers, suggesting they fund a significant amount

of their assets with debt. Tesla Inc. had improved its equity multiplier ratio from 5.18 to 1.84, indicating that equity was higher than the increase in assets.

### **Debt to Equity Ratio**

The debt-to-equity ratio measures debt to equity in a company. The debt-to-equity ratio of Tesla Inc. fell substantially from 3.96 to 0.82, while this is still above average. With the additional paid-in capital, Tesla Inc. was able to make principal payments on its long-term debt and financing leasing. As represented by this ratio, a company's capital structure shows how debt funding compares to equity financing. Investors usually consider businesses with lower debt-to-equity ratios in terms of long-term stability.

### **Interest Coverage Ratio**

EBIT divided by interest paid is the interest coverage ratio. This ratio measures the capacity to create enough money to meet debt and interest payments. How often are interest expenditures national earnings before taxes and interest represented by this ratio? TESLA INC. substantially improved its interest coverage ratio from 6 times to 71 times during FY19 to FY22 due to the repayment of long-term debts and finance leases. Decreased finance costs would increase the net unavailable for shareholders and attract. Businesses with higher leverage ratios and lower interest coverage ratios are riskier for investors than businesses with lower leverage and higher interest coverage ratios.

### **Long-term Debt to Assets**

The ratio of long-term debt to total assets is a vital indicator of the extent to which long-term debt was used to fund the acquisition of assets. TESLA INC. financed less of its assets using long-term debt. The metric fluctuated wildly for TESLA INC. from 0.45 to 0.12 from FY19 to FY22. TESLA INC. financed 0.12 on average of each asset dollar using long-term borrowing. The remaining 0.88 was funded from other sources (short-term borrowing or equity capital). As a result, less than 0.50 is good. If a company's asset-to-liability ratio is less than 1, it suggests it has sufficient assets to cover its debts.

## Market-Based Ratios

Market based ratios monitor the performance and financial position on the market. These indicators are used to monitor and analyze stock prices, as well as the comparison of market prices. (Emin Zeytinoglu, 2012). Tesla Inc.'s market-based ratios are described in Table 5.

Table 5: Market-Based Ratios

Market Based Ratios	Formula	Tesla, Inc.
Market to book ratio	Market value of share/book value per share	19.4
Price earnings ratio	Share Price/Net income	70.5
Earning per share	Net income/No.of outstanding shares	3.87

A company's market capitalization ratio to its book equity value is known as the market price to book value ratio. To determine whether the stock has growth potential, such information will be useful. Insurance from Tesla. The market price to book value ratio of a stock is lower than the other way around. Tesla Inc. is increasing its earnings per share as a result of the company's growing profitability. The price-earnings ratio measures profitability relative to share price. Tesla Inc.'s price-to-earnings ratio is greater than the auto sector average. More investors are drawn to market-based ratios to increase their financial standing and bottom lines.

## Recommendation

Based on my analysis, the following recommendations are made to improve the company's business:

- Tesla Inc. had a higher current ratio that indicates under-utilization of business assets. Tesla should increase business revenue by optimum utilization of assets. By optimum utilization of assets, Tesla Inc. could increase its profitability.
- Current assets comprise a high proportion of inventory; Tesla Inc. should boost its sales and reduce the inventory holding period.
- Tesla Inc. should develop a strategic team to make intelligent costing decisions to increase potential growth and profitability. It would help to have the correct data, analysis, and recommendations to make wise decisions quickly. With these resources, you can fundamentally and sustainably improve the trajectory of your business.
- Tesla Inc. should reduce the payment period to accounts payable, increasing the credibility and long-term stability of the business.

- It is noted that Tesla Inc. is improving its debt-to-equity ratio by issuing more shares. Tesla Inc. should maintain enough retained earnings in business that will be used to repay long-term debts.
- Tesla Inc. had a slightly better Free cash flow overall from FY19 to FY22, which can be utilized for investment in future projects to generate revenue. Therefore, Tesla Inc. should explore more investment opportunities to increase revenue and shareholders' wealth.
- Tesla Inc. had a better profitability ratio as compared to Toyota Motors Corporation. Tesla Inc. can generate more revenue for the business by utilizing its existing assets.

### Proposed Investment Project

The following project is recommended for investment in light of available free cash flows and business retained earnings. Tesla should launch Roadster 2.0 and an affordable hatchback called the Model 2, which aims to make high-end EVs more accessible to a broader range of buyers. Tesla Inc. has needed \$20m to upgrade the plant to produce these models with 40% capital investment and 60% debt financing with life of 5 years. The debt financing would be received at 9% and the cost of equity would be 12%. In that case, we will be able to determine the project's actual performance by considering the weighted mean cost of capital and net current value.

### WACC Calculation

Table 3: WACC

WACC	Percentage
Equity	40%
Debt	60%
Cost of debt before tax	9%
Cost of debt after tax	7.10%
Cost of equity	10%
WACC	8.26%

The above-calculated WACC is less than the cost of equity. WACC considers all the different company sources, while the cost of equity considers only returns for shareholders.

## NPV of the project

To choose the best project, NPV is one of the most influential investment assessment methods. The project with the greater and more favorable NPV gets approved. Most businesses rely on NPV when deciding which projects to fund. However, the NPV approach to project selection is not without its limitations. This method cannot be used in long term projects because of the need to ensure a constant discount rate for determining the current value of Future Cash Flows. While NPV emphasizes fixed discount rates, long-term investments sometimes need a more flexible rate. (Shou, 2022)

Table 4: NPV

Year	0	1	2	3	4	5
Initial investment	\$ (20.00)					
Cash inflows		\$ 10.00	\$ 8.00	\$ 7.00	\$ 7.00	\$ 5.00
Interest expense		\$ (0.84)	\$(0.84)	\$(0.84)	\$(0.84)	\$ (0.84)
Net cash inflows		\$ 9.16	\$ 7.16	\$ 6.16	\$ 6.16	\$ 4.16
PVIF $i=9.06\%$		0.9169	0.8408	0.7709	0.7069	0.6481
Present value of cash flows		\$ 8.40	\$ 6.02	\$ 4.75	\$ 4.35	\$ 2.70
<b>Total PV of cash flows</b>		<b>\$ 26.22</b>				
<b>NPV</b>		<b>\$ 6.22</b>				

This project will cash outflow of \$20m at present, and cash inflows during the years are \$10m, \$8m, \$7m, \$7m, and \$5m, respectively. The project's net cash flows would be discounted at a WACC of 9.06%. The calculated present value of future cash inflows is \$26.22. The NPV of the abovementioned project for Tesla Inc. is \$ 6.22 million positive for five years. Based on the above calculated positive NPV, the project is recommended to be accepted.

Tesla Inc. has maintained significant retained earnings, which are not utilized. Tesla Inc. should utilize retained earnings for new projects rather than raise equity funds. By doing so, the business's profitability would be increased, and WACC would also be reduced.

## Decide whether or not the company should pay return earnings or not

Based on a thorough examination of Tesla Inc.'s financial performance spanning the years 2019 to 2022, together with the evaluation of diverse financial indicators and an investment project assessment, the below suggestions may be put forth pertaining to the company's utilization of return earnings:

### Continue Distributing Equity Dividends:

During the time under analysis, Tesla Inc. has demonstrated robust financial success and

profitability. The company has the ability to maintain its current practice of allocating equity dividends to its shareholders. This technique enables shareholders to derive advantages from the company's achievements and yields a financial gain on their invested capital.

#### Utilize Available Free Cash Flows for Income Generation:

Tesla Inc. has generated positive free cash flows over the years. These funds can be used to finance income-generating projects and investments. By reinvesting free cash flows wisely, the company can further increase its profitability and shareholder value.

#### Consider Retaining Earnings for Expansion:

While distributing equity dividends is a viable option, Tesla Inc. A proportion of its earnings should also be retained in case of further expansion and development. The potential for growth as well as profitability can be seen from a positive net present value NPV of the planned investment project. Retained earnings can be used to finance such projects and reduce the need for additional equity financing.

Tesla Inc. can strike a balance between distributing equity dividends to reward shareholders and utilizing retained earnings to foster future growth. This approach capitalizes on the company's strong financial position and investment opportunities while ensuring sustainable long-term development.

#### Conclusion:

Considering the above findings, Tesla Inc. is a better investment in the automobile industry regarding profitability, efficiency, liquidity, solvency, and market ratios. Tesla Inc.'s potential for growth and success was significantly market compatible, and they were focused on reducing long-term debts, finance leases, finance costs, and improving the liquidity position of a business. Tesla Inc. had a handsome amount of free cash flows that could be utilized to invest in potential projects. Tesla Inc. was in better shape to repay its debt during the periods analyzed when looking at the interest coverage ratio. Tesla Inc.'s equity multiplier is also better. Tesla can increase its business revenue by optimum utilization of assets. The more likely investors prefer to make business investments that are long-term stable and less risky due to the lower debt-to-

equity ratio. It is important to note that this analysis is limited, and other aspects should also be considered while making investment decisions.

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Table of the equation:

<b>Liquidity Ratios</b>	<b>Formula</b>
Current Ratio	Current Assets/Current Liabilities
Quick Ratio	Quick Assets/Current Liabilities
<b>Profitability Ratios</b>	<b>Formula</b>
Gross margin	Gross profit/sales
Operating profit margin	Operating profit/net sales
Net profit margin	Net profit/Net sales
Return on Assets	Net profit/Average assets
Return on Equity	Net profit/Average shareholders equity
Return on capital employed	Net profit/capital employed
<b>Efficiency Ratios</b>	<b>Formula</b>
Inventory Turnover ratio	Cost of sales/average inventory
Inventory held days	365/Inventory turnover ratio
Receivables turnover ratio	Sales/Average receivables
Receivables collection days	365/Receivables turnover ratio
Payable turnover	Cost of sales/average payables
Day's payment in payables	365/Payable turnover ratio
Assets turnover ratio	Net sales/Average total assets
<b>Long-Term Solvency Ratios</b>	<b>Formula</b>
Gearing ratio	Debt/(Debt+equity)
Debt to equity ratio	Total debts/Total equity
Equity Multiplier	Total assets/Total equity
Interest coverage ratio	EBIT/Interest expense
LTD to Assets ratio	LTD/Total assets

Appendix II

Graphs for Ratio calculations

