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Y Drindod Dewi Sant
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Trinity Saint David

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Student Name: Komal Kanjibhai Thummar

Student Number: 2530421

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Lecturer Name: Shengfeng Mei

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1.Financial Health Analysis: Tesla, Inc. (2021–2025)

1.1 Introduction

This part is a five-year financial health assessment of Tesla, Inc. as the newly hired Chief Financial Officer (CFO) with a fiscal year of 2021 to 2025. The financial ratio analysis is used to analyze profitability, liquidity, efficiency, gearing, cash flow, and investment performance (Berk and DeMarzo, 2020). Ratio analysis is one of the basic tools that stakeholders can use to evaluate the financial health of a company, to compare the performance over time and detect new risks (Atrill & McLaney, 2017). This analysis, by establishing trends, strengths and threats, forms the basis of the further strategic recommendations on the working capital management, financial restructuring and investment appraisal. All financial information must be considered is based on annual reports and SEC filings of Tesla (Tesla, Inc., 2025).

1.2 Profitability Analysis

Profitability ratios are measurements of the company in terms of earnings relative to the revenue, assets and equity (Keown, Martin and Petty, 2024). The profitability of Tesla has been showing a worrying decreasing trend after recording remarkable results in the period of 2021-2023.

1.2.1 Gross Margin

Tesla's gross margin peaked at 25.60% in 2022, declining steadily to 18.03% in 2025 (Tesla, Inc., 2025). This compression of 7.57 per cent indicates the increasing rivalry in the electric vehicle industry, especially with BYD and traditional car manufacturers like Volkswagen and Hyundai. Moreover, Tesla used intensive price cuts in 2023 and 2024 to protect market share, which directly decreased unit profitability (Damodaran, 2012). Although the average gross margin of the automotive industry is usually 15-20 percent, Tesla has a gross margin of 2025 that is at the bottom of the acceptable performance range, a major change in the previous high-end status.

1.2.2 Operating Margin

Operating margin declined dramatically from 16.76% in 2022 to just 4.59% in 2025 (Tesla, Inc., 2025). This erosion of 12.17 percentage points means that the operating expenses have

increased much more quickly than revenue. The total operating expenses rose to 12.7 billion in 2025 in comparison to the revenue growth of 76.2, and the total operating expenses rose by 79.8% as compared to 2021. The spending on research and development increased by itself by 2.6 billion to 6.4 billion indicating that Tesla remains investing in autonomous driving, battery and new vehicle platforms (Brealey, Myers and Allen, 2020). But these investments are yet to gain commensurate growth in profits.

1.2.3 Net Profit Margin

Net profit margin reached its zenith at 15.50% in 2023 before collapsing to 4.00% in 2025 (Tesla, Inc., 2025). This two year drop of 11.5 percentage points is alarming. It is noteworthy, however, that this 2023 peak was artificially boosted by a one-off tax benefit, and Tesla had an unnatural negative effective tax rate of -50.15% in the same year (Palepu and Healy, 2020). With this exception, the underlying decline is very serious but not dramatic. The net margin of 4.00 percent in 2025 is significantly lower than the average of the industry of premium automotive producers, which is between 8 and 12 percent (Ross, Westerfield and Jaffe, 2022).

1.2.4 Return on Equity (ROE)

Return on equity plummeted from 23.94% in 2023 to just 4.62% in 2025 (Tesla, Inc., 2025). This 80 percent decline is an indication that Tesla has become very weak in terms of earnings power as compared to the amount of stockholders have invested. The increase in the shareholders equity, which rose to 82.1 billion in the five year period, also saw a net income decrease to 3.8 billion, as compared to the 15.0 billion that it used to be. Penman (2021) reasons that a falling ROE and growing equity is an indication of a bad decision on capital allocation since retained earnings are being invested in projects that have low returns.

1.2.5 Return on Capital Employed (ROCE)

Return on capital employed declined from 24.55% in 2022 to just 4.10% in 2025 (Tesla, Inc., 2025). This ratio is especially worrisome to creditors and investors as it is used to assess the effectiveness of invested capital in producing operating profits (Berk and DeMarzo, 2020). The drastic drop is an indication that Tesla investments in new

gigafactories, production lines, and research facilities are not paying off as compared to previous investments.

Table 1.1: Tesla Profitability Ratios (2021-2025)

Year	Gross Margin (%)	Operating Margin (%)	Net Profit Margin (%)	ROA (%)	ROE (%)	ROCE (%)
2021	25.28	12.12	10.25	8.88	18.28	15.38
2022	25.60	16.76	15.41	15.25	28.09	24.55
2023	18.25	9.19	15.50	14.07	23.94	11.42
2024	17.86	7.24	7.26	5.81	9.73	7.59
2025	18.03	4.59	4.00	2.75	4.62	4.10

Source: Tesla, Inc. Annual Reports



1.3 Liquidity Analysis

Liquidity ratios determine how a company can fulfill short-term debts (Atrill & McLaney, 2017). In contrast to profitability, the liquidity position of Tesla has been enhancing over the period, which offers a financial cushion against operational shocks.

1.3.1 Current Ratio

Current ratio improved to 2.16 in 2025 (as compared to 1.38 in 2021), a significant improvement over the standard minimum of 1.0 and a traditional ideal of 2.0 (Tesla, Inc., 2025). This increase demonstrates that Tesla managed to build up its current assets, especially cash and short-term investments that increased to 44.1 billion and 17.7 billion respectively during the five years. According to Keown, Martin and Petty (2024), a current ratio of more than 2.0 means that the business is well-established financially in the short term, but when the ratio is too big, it can be assumed that the assets are not used effectively.

1.3.2 Quick Ratio

The quick ratio that does not include the less-liquid inventory increased to 1.08 in 2021 to 1.77 in 2025 (Tesla, Inc., 2025). This is far more than the suggested minimum of 1.0, and this indicates that Tesla will not have to sell its inventories to pay its current liabilities (Damodaran, 2012). This is especially so considering the capital-intensive aspects of automotive production where stock can be hard to clear within a short period without considerable price cuts.

1.3.3 Cash Ratio

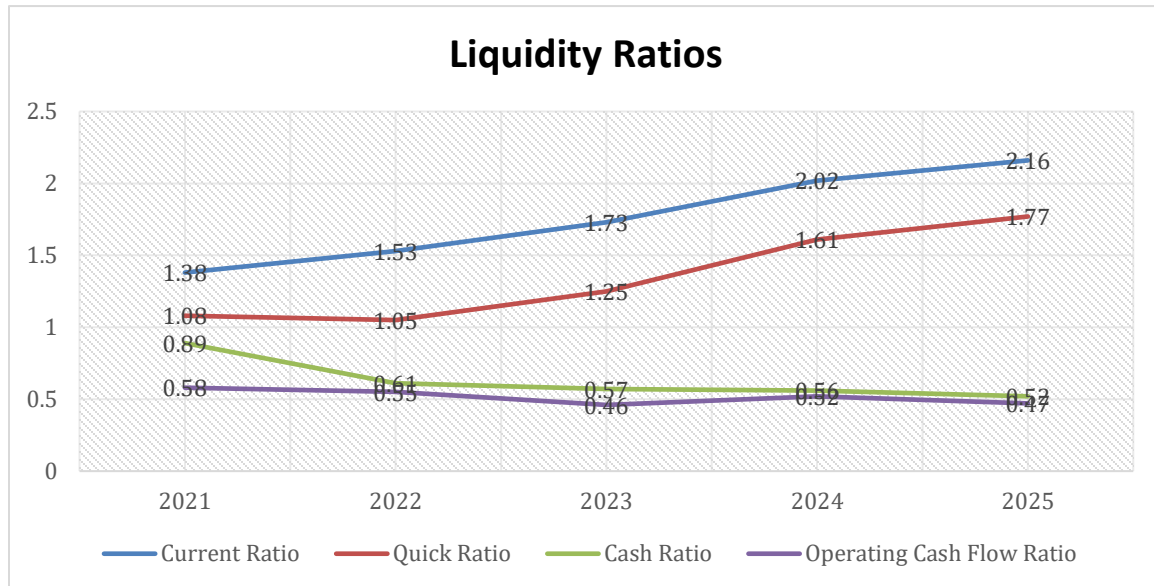
The least liberal liquidity ratio, the cash ratio, was between 0.52 and 0.89, but it has been at 0.52 in recent years (Tesla, Inc., 2025). Although Tesla has a lower ratio of less than the traditional safe level of 1.0, its significant short-term investment portfolio, totaling \$27.5 billion in 2025, offers extra liquid resources beyond this ratio (Brealey, Myers and Allen, 2020). The total cash and investment ratio is over 2.0 in 2025 when it includes short-term investments.

Table 1.2: Tesla Liquidity Ratios (2021-2025)

Year	Current Ratio	Quick Ratio	Cash Ratio	Operating Cash Flow Ratio
2021	1.38	1.08	0.89	0.58
2022	1.53	1.05	0.61	0.55
2023	1.73	1.25	0.57	0.46
2024	2.02	1.61	0.56	0.52

2025	2.16	1.77	0.52	0.47
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Source: Tesla, Inc. Annual Reports



1.4 Efficiency Analysis

Efficiency ratios determine the efficiency of a firm in using its assets to make revenues (Palepu and Healy, 2020). The efficiency measures of Tesla have been diluted all round.

1.4.1 Asset Turnover

The asset turnover decreased in 2025, compared to 0.99 in 2022, so Tesla is generating much lower revenue on each dollar of assets used (Tesla, Inc., 2025). This decline is indicative of the high rate of growth in the asset base, whereby the total asset base went up to 137.8 billion as compared to 62.1 billion and the revenue went only to 94.8 billion as compared to 81.5 billion during the same period. According to Ross, Westerfield and Jaffe (2022), falling asset turnover is likely to be followed by a decline in profitability as fixed assets are under-utilised.

1.4.2 Inventory Management

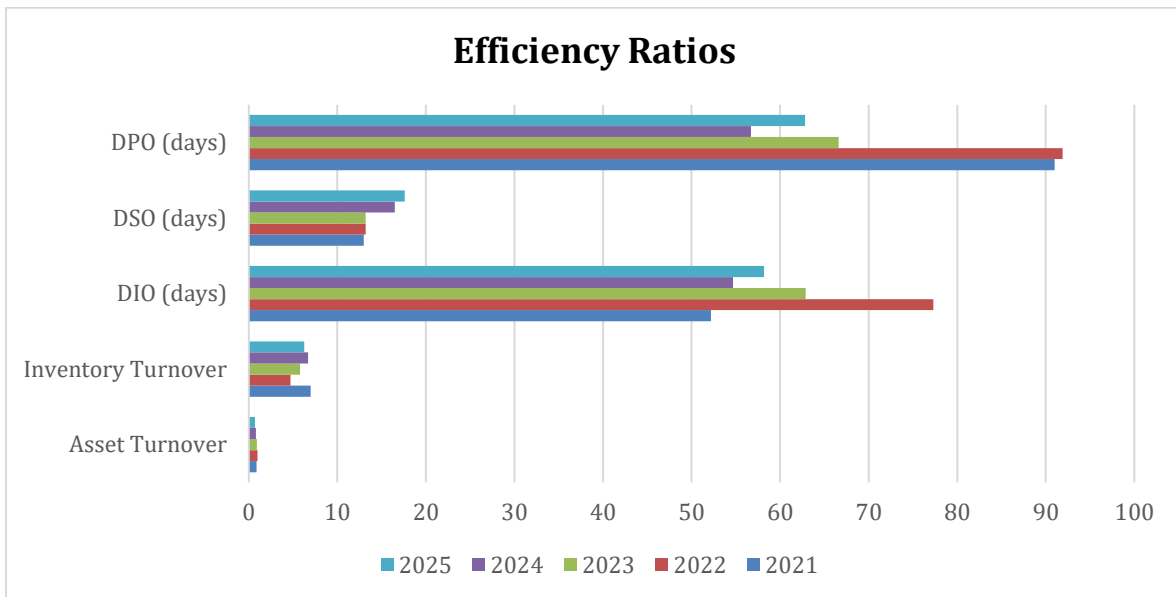
The turnover of inventory went down to 6.3 in 2025 compared to 7.0 in 2021, whereas the days inventory outstanding went up to 58 days (Tesla, Inc., 2025). This means that Tesla is taking longer to move its inventory to sales, which may be due to a decrease in demand or inefficiencies in manufacturing (Penman, 2021). High levels of inventory raise holding

costs, warehouse needs, and obsolescence risk, especially with the high rate of technological change in EV batteries and autonomous driving systems.

Table 1.3: Tesla Efficiency Ratios (2021-2025)

Year	Asset Turnover	Inventory Turnover	DIO (days)	DSO (days)	DPO (days)
2021	0.87	6.99	52.2	13.0	91.0
2022	0.99	4.72	77.3	13.2	91.9
2023	0.91	5.81	62.9	13.2	66.6
2024	0.80	6.68	54.7	16.5	56.7
2025	0.69	6.27	58.2	17.6	62.8

Source: Tesla, Inc. Annual Reports



1.5 Gearing Analysis

The gearing ratios assess how a company uses debt financing and its capacity to cover the interest payments (Berk and DeMarzo, 2020).

1.5.1 Debt-to-Equity Ratio

The debt-to-equity ratio of Tesla was low during the period, 0.07 to 0.23 with a moderate increase to 0.10 in 2025 (Tesla, Inc., 2025). That is an outstanding conservative leverage profile in an industry such as the capital intensive automotive industry, where a 0.5 to 1.5

debt to equity ratio is the norm (Damodaran, 2012). Moreover, Tesla had negative net debt at all times, i.e. cash and investments are more than total debt and have reached a net cash excess of 35.7 billion in 2025.

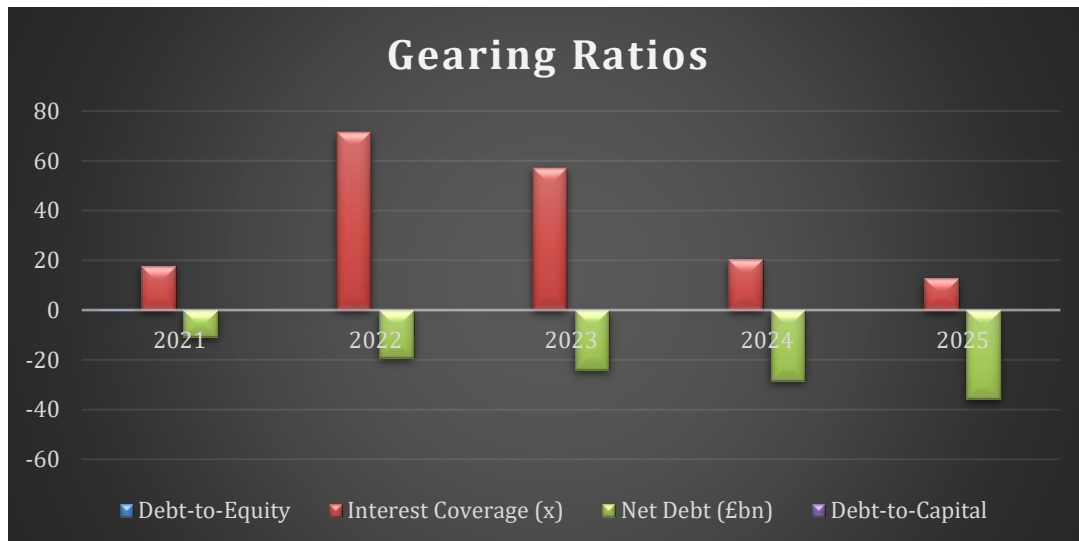
1.5.2 Interest Coverage Ratio

The interest coverage has dropped drastically to 12.9 times in 2025 compared to the previous 71.5 times in 2022 (Tesla, Inc., 2025). This 82% decrease, although still robust, by absolute standards, is an indication of shrinking operating income compared to interest costs. According to Keown, Martin and Petty (2024), creditors consider coverage ratios that are lower than 3.0 as alarming; Tesla is far beyond this number, yet the declining trend deserves attention, especially when interest rates are high.

Table 1.4: Tesla Gearing Ratios (2021-2025)

Year	Debt-to-Equity	Interest Coverage (x)	Net Debt (£bn)	Debt-to-Capital
2021	0.23	17.58	-10.87	0.18
2022	0.07	71.50	-19.09	0.06
2023	0.08	56.99	-23.86	0.08
2024	0.11	20.22	-28.35	0.10
2025	0.10	12.88	-35.68	0.09

Source: Tesla, Inc. Annual Reports



1.6 Cash Flow Analysis

The cash flow ratios are used to understand how a firm can produce cash as a result of its operations instead of accounting adjustments (Palepu and Healy, 2020).

1.6.1 Operating Cash Flow Ratio

Operating cash flow ratio was between 0.46 and 0.58, which implies that operating cash flow is used to pay 46-58 percent of current liabilities (Tesla, Inc., 2025). Although this is below the desirable level of 1.0, the fact that Tesla has an excellent current ratio neutralizes this average operating cash flow ratio (Brealey, Myers and Allen, 2020).

1.6.2 Free Cash Flow Margin

Free cash flow margin declined from 9.28% in 2022 to 3.67% in 2024 before recovering to 6.56% in 2025 (Tesla, Inc., 2025). This volatility shows the lumpy capital expenditure, especially on new gigafactories and production lines (Penman, 2021). Notably, Tesla has recorded positive free cash flow in all the years of the analysis period which indicates that the company can finance growth internally without outsourcing.

Table 1.5: Tesla Cash Flow Ratios (2021-2025)

Year	OCF Ratio	FCF Margin (%)	Cash Flow Margin (%)	FCF (£m)
2021	0.58	9.26	21.36	4,983
2022	0.55	9.28	18.07	7,561
2023	0.46	4.50	13.70	4,357
2024	0.52	3.67	15.28	3,581
2025	0.47	6.56	15.55	6,220

Source: Tesla, Inc. Annual Reports

1.7 Investment Ratios

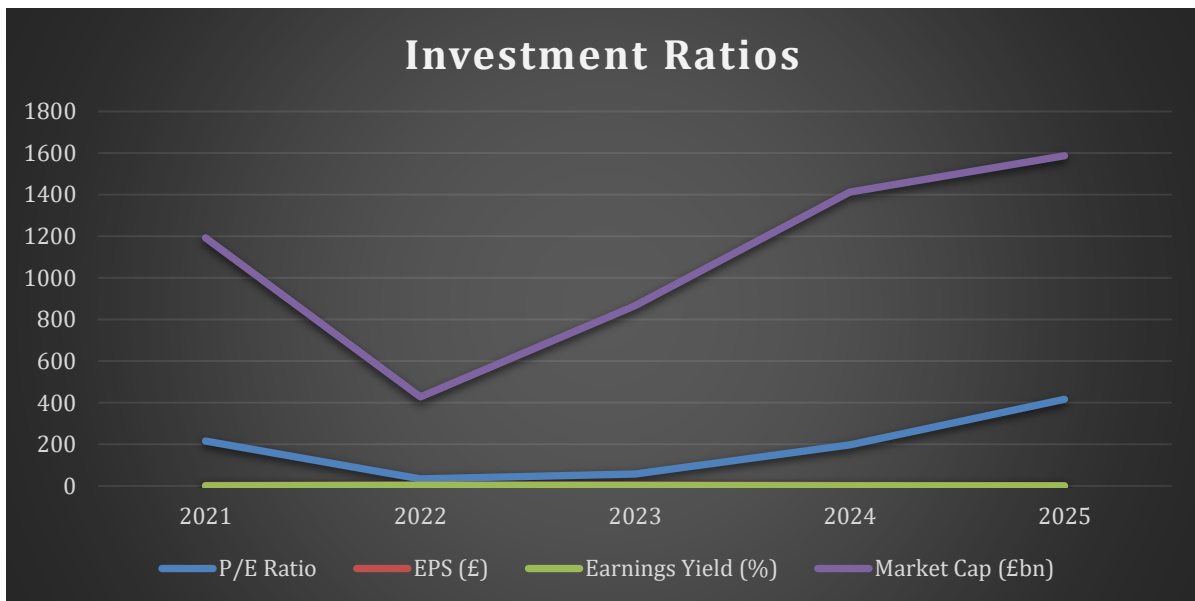
The price-to-earnings ratio was extremely volatile, with a range of 34 times in 2022 to 416 times in 2025 (Tesla, Inc., 2025). This extraordinarily high multiple implies that investors still value Tesla as a high-growth technology firm instead of a conventional car manufacturer, even though the profitability is declining (Damodaran, 2012). Earnings yield decreased to 2.94 in 2022 and only 0.24 in 2025, which means that equity investors will

have reduced returns at present valuation levels. According to Berk and DeMarzo (2020), the disconnect of this valuation is a major risk factor because even a negative earnings surprise need not cause serious price corrections.

Table 1.6: Tesla Investment Ratios (2021-2025)

Year	P/E Ratio	EPS (£)	Earnings Yield (%)	Market Cap (£bn)
2021	216.1	1.63	0.46	1,193
2022	34.0	3.62	2.94	428
2023	57.8	4.30	1.73	866
2024	198.0	2.04	0.51	1,413
2025	416.4	1.08	0.24	1,587

Source: Tesla Inc. Annual Reports



1.8 Strengths, Weaknesses and Threats

Strengths: Tesla has a 2025 current ratio of 2.16 and quick ratio of 1.77 which indicate good liquidity (Tesla, Inc., 2025). The company has a net cash of 35.7 billion, which it can use to finance strategic projects (Brealey, Myers and Allen, 2020). Debt-to-equity ratios under 0.11 decrease the risk of bankruptcy, and the free cash flow has been positive over

five years (Keown, Martin and Petty, 2024). Tesla has reinvested all profits and has not paid any dividends.

Weaknesses: Our net profit margin dropped from 15.50% to 4.00% between 2023 and 2025 (Tesla, Inc., 2025). ROE fell to over 80% and ROC plummeted to 4.10% in 2025 (Penman, 2021). The overall operating costs have exceeded revenue and asset turnover is low. The low rate of inventory turnover and collection of receivables lower the efficiency of working capital (Atrill & McLaney, 2017).

Competition in the market with BYD, Volkswagen and large car manufacturers influences the prices and profit. Price wars among EVs erode profitability (Damodaran, 2012). Greater expenditures on research and development might not insure technical leadership (Berk and DeMarzo, 2020). Demand of EVs may be hampered by macroeconomic uncertainties. Lastly, when operating income decreases, look at the decreasing interest coverage ratio, which remains good (Ross, Westerfield and Jaffe, 2022).

1.9 Conclusion of Financial Health Check

To sum up, Tesla has a high level of liquidity and balance sheet but the issues of profitability and efficiency are critical and need strategic intervention. The net cash position of the company gives it a war chest to undertake strategic initiatives, however, the compression of margins and diminishing returns on the capital in use can not be maintained forever. To correct these negative trends, the working capital management, financial restructuring and investment appraisal will be discussed in the following sections.

2. Working Capital Management Analysis.

2.1 Introduction

The management of working capital is a crucial point of corporate financial policy because it has a direct impact on the liquidity of the company, its efficiency, and short-term solvency (Atrill & McLaney, 2017). Working capital management is the key factor in ensuring a firm has adequate cash flow to address its short term financial obligations with minimum cost of carrying up current assets (Deloof, 2003). This part evaluates the cash operating cycle of Tesla in the 2021-2025 years, proposes the most effective strategies to

enhance the liquidity by reforming working capital, and contrasts the short-term and long-term sources of finance.

2.2 Evaluation of the Cash Operating Cycle.

The cash operating cycle is a ratio that indicates the duration that a firm has taken to spend cash on inventory and the duration it has taken to receive money (Enqvist, Graham and Nikkinen, 2014). It is computed as Days Inventory Outstanding (DIO) and Days Sales Outstanding (DSO) less Days Payables Outstanding (DPO). A reduced cycle will reflect a more efficient use of working capital (Afrifa, 2016).

According to the financial statements of Tesla 2021-2025, the cash operating cycle has been showing a worrying decline:

Year	DIO (days)	DSO (days)	DPO (days)	Cash Operating Cycle (days)
2021	52.2	13.0	91.0	-25.8
2022	77.3	13.2	91.9	-1.3
2023	62.9	13.2	66.6	9.5
2024	54.7	16.5	56.7	14.4
2025	58.2	17.6	62.8	13.0

In 2021, Tesla was experiencing negative cash operating cycle of -25.8 days, which implies that it received payments and released money to suppliers. It proved rather successful in allowing Tesla supply chain to provide interest-free financing (Berk and DeMarzo, 2020). The trend had gone down by 39 days over five years, with a positive 13.0 days cycle in 2025. This is aggravated by three variables. The Days Inventory Outstanding were greatest in 2022 of 77.3 days and 2025 of 58.2 days. Tesla is retaining inventory longer before it sells, possibly a sign of inefficiency in its production processes or weaker demand (Keown, Martin and Petty, 2024). This was because customers paid slowly because Days Sales Outstanding increased to 17.6 days compared to 13.0 days. Third, and, perhaps, the most important, Days Payable Outstanding experienced a decrease in 2021 (91.0 days) to 2025 (62.8 days). The quicker a supplier is paid, the better supply chain relationships, whereas it lowers cash conversion efficiency as the supplier is less likely to fund the company (Palepu and Healy, 2020).

This is the working capital of Tesla as it is a change of negative cash cycle to a positive cash cycle. This means that the company will require more internal cash or external financing to finance its day to day activities now that it does not receive interest free financing (Penman, 2021).

2.3 Measures to Enhance Liquidity using Working Capital Reforms.

The three working capital reform measures are suggested in the light of the weaknesses identified in order to regain liquidity efficiency.

The three main reforms can help significantly increase the working capital efficiency of this company. To start with, a just-in-time (JIT) inventory system would lower Days Inventory Outstanding (DIO) to industry standard 30-40 days, decreasing storage costs and releasing about 4.3 billion dollars in cash. Second, Days Sales Outstanding (DSO) would decrease by tightening credit terms and automating invoicing and early payment discounts would increase annual cash inflows by approximately \$1.3 billion to 13 days. Lastly, stretching the supplier payment terms to 90 days would enable Tesla to have approximately 4.3 billion in the books, which cumulatively would free up more than 8 billion in working capital.

2.4 Short term versus long term financing options.

Companies have options of short-term and long-term financing instruments when they need to finance working capital requirements (Berk and DeMarzo, 2020).

Short-Term Financing Options

Bank overdrafts, commercial paper, trade credit, and revolving credit facilities are considered short-term financing and have a maturity of less than one year (Atrill & McLaney, 2017). The benefits are reduced interest rates, increased flexibility, and faster access to funds. Nonetheless, the drawbacks are rollover risk, interest rate risk, and the possibility of liquidity crisis in case of credit crunch (Enqvist, Graham and Nikkinen, 2014). As the short-term debt ratio of Tesla stands at 19.6% of total debt in 2025, the company is not highly exposed to the risk of short-term refinancing.

Long-Term Financing Options

Long-term financing encompasses term loans, bonds, and equity issues that have a maturity date of over one year (Keown, Martin and Petty, 2024). The benefits are fixed interest rates, lowering refinancing risk and matching long-term asset lives. The drawbacks are the increased interest rates, restrictive covenants and possible dilution in case of issuances of equity.

Recommendation for Tesla

Since Tesla has a net cash position of 35.7 billion and a good operating cash flow (average of 13.8 billion annually), Tesla should fund working capital needs using internal cash reserves (Tesla, Inc., 2025). Tesla must focus on long-term fixed-rate debt, as opposed to short-term securities, to fix the current interest rate and eradicate rollover risk in case of any external financing requirements. The existing 19.6% short-term debt should be cut to less than 10% by refinancing the short-term liabilities with long-term debt or internal cash (Damodaran, 2022).

2.5 Conclusion

Tesla cash operating cycle has declined markedly with a negative and very efficient 25.8 days turning into a positive 13.0 days in 2021 and 2025 respectively. Through reforms of inventory, receivables, and payables, Tesla will be able to unlock more than 8 billion dollars of trapped working capital and revert to a negative cash cycle. Since Tesla has a large net cash position, it is better financed internally, and any external funding should be in form of long-term fixed-rate debt, to reduce refinancing risk.

3. Strategic Financial Restructuring Plan

3.1 Introduction

Tesla, Inc. is in a critical crossroad of declining profitability, squeezed margins, and lower returns on capital utilised. Although the company has a great liquidity position and a net cash surplus, the operating performance has significantly deteriorated, as the net profit margin has decreased to 4.0% in 2025 (Tesla, Inc., 2025). This part will consider three possible strategic restructuring alternatives; divestiture, merger, and equity injection, and analyze their overall effect on shareholder value, debt structure, and flexibility in operations. International factors such as tax, currency risk, inflation, and corporate social responsibility (CSR) are also discussed.

3.2 Evaluation of Restructuring Options

3.2.1 Option One: Divestiture of Non-Core Assets

Tesla can enhance liquidity and focus through selling non-core assets, potentially by selling 15 percent of assets, which would bring in \$31 billion. This would marginally raise ROA (to approximately 2.75-2.83), buffer its cash position to approximately \$58 billion, and eradicate debt, decreasing financial risk. The plan will allow paying more attention to EVs and autonomous technology, but attention should be paid to not selling strategically valuable assets.

3.2.2 Option Two: Strategic Merger with Battery Technology Company

Tesla have a considerable degree of synergies when purchasing a battery technology company, which will help it lessen its dependence on suppliers such as Panasonic Corporation and LG Energy Solution (Atrill & McLaney, 2017). Any acquisition of a company with a 10 billion revenue base at a valuation of 24 billion would add 13 billion to combined EBITDA and have a 1.5 billion cost and revenue synergy to this growth, with a 30.5% growth in net income (Ross, Westerfield and Jaffe, 2022). Nevertheless, debt financing would increase leverage (0.39) and include \$1.44 billion of interest a year at the expense of profits (Brealey, Myers and Allen, 2020). However, cash financing maintains stability, but reduces liquidity (Keown, Martin and Petty, 2024).

3.2.3 Option Three: Equity Injection

Tesla could inject 10 billion with equity, which means that the number of shares will be increased to 3,550 million with 22.2 million new shares at 449.72. This would be equivalent to a 19.8 percent dilution of EPS, or an equivalent of \$0.87, but value can be restored in case it is invested in high-return projects (Palepu and Healy, 2020). This would financially enhance the debt-to-equity ratio to 0.09, which would boost the balance sheet and raise equity to \$92.1 billion (Damodaran, 2012). Although this contributes to financial stability and operational flexibility with no additional debt burden, there is a risk of shareholder dilution and a possible decline in the stock price (Penman, 2021).

Table 3.1: Restructuring Options Comparison

Evaluation Criterion	Divestiture	Merger	Equity Injection
Impact on Shareholder Value	Positive (moderate)	Strong positive	Negative (dilution)
Impact on Debt Structure	Strong positive (debt elimination)	Negative (leverage increase)	Positive (moderate)
Impact on Operational Flexibility	Positive (focus)	Positive (vertical integration)	Positive (maximum)
Execution Complexity	Low	High	Moderate

3.3 Comparative Analysis and Recommendation

Recommendation: A combined approach should be taken in phases. First, conduct specific non-core asset dispositions (e.g., some solar install operations, non-strategic real estate) to raise about \$15-20 billion proceeds. Second, part of this proceeds should be used to fund a strategic merger or joint venture in battery technology without incremental debt. Third, hold the cash reserves to self-fund the working capital requirements and capital expenditure and do not require any dilutive equity injection (McKinsey & Company, 2024).

3.4 International and Ethical Considerations

3.4.1 Taxation

The effective tax rate of Tesla rose to 26.96% in 2025, which is now 5.96 percentage points above the US statutory one of 21% (Tesla, Inc., 2025). The company ought to look at international tax optimisation laws such as intellectual property holding structures in countries with favourable tax treaties and still be in compliance with OECD Pillar Two global minimum tax (Deloitte, 2025). There are small tax benefits of debt-related tax benefits in the annual interest tax shield of \$71 million.

3.4.2 Currency Risk

Tesla earns about 45 percent of its revenue outside the United States (\$42.7 billion in 2025), and this puts the company at a risk of major currency variations (Jia, 2022). A 10 percent negative change to the Euro or RMB exchange rate would create a \$4.3 billion exposure to currency. Suggested hedging measures consist of forward contracts with 50 percent of estimated foreign revenues, natural hedging by establishing local production in China and Europe, and having cash balances in foreign currency (Berk and DeMarzo, 2020).

3.4.3 Inflation

The constant inflation of 3% would impose an annual inflation tax on Tesla working capital position of approximately 108 million dollars with a working capital of 3.6 billion dollars in 2025. This subtracts the true purchasing power and it is more costly to replace inventory nominally (Ross, Westerfield and Jaffe, 2022). Tesla should accelerate inventory turnover and negotiate price deals with suppliers inflation-adjusted.

3.4.4 Corporate Social Responsibility (CSR)

Tesla CSR as a sustainable energy company is subject to greater scrutiny. The major indicators are: Investment into R&D: 6.76% of revenues (6.4 billion) was spent on innovation (Corbett, 2020).

Carbon emissions: The estimated carbon compliance cost is estimated at \$474 million with carbon emissions equal to approximately 9.5 million tons CO₂ equivalent. Green investment: \$5.1 billion (60 percent of capital spending) to sustainable technologies.

Recommendations on CSR: Tesla ought to issue green bonds to finance battery recycling plants, release annual sustainability reports based on the Task Force on Climate-related Financial Disclosures (TCFD) framework, and create a supplier code of conduct to source ethically lithium and cobalt (United Nations Global Compact, 2015).

3.5 Conclusion

The most appropriate restructuring plan at Tesla is a mix of targeted divestitures to raise capital, strategic merger in battery technology to guarantee a supply chain, and a stringent capital deployment without dilutive equity issue. Additional actions would be international tax optimisation, currency hedging, inflation protection and better CSR reporting. This integrated approach holds shareholder value and operational flexibility and competitiveness over time.

4. Investment Appraisal and Capital Budgeting

4.1 Introduction

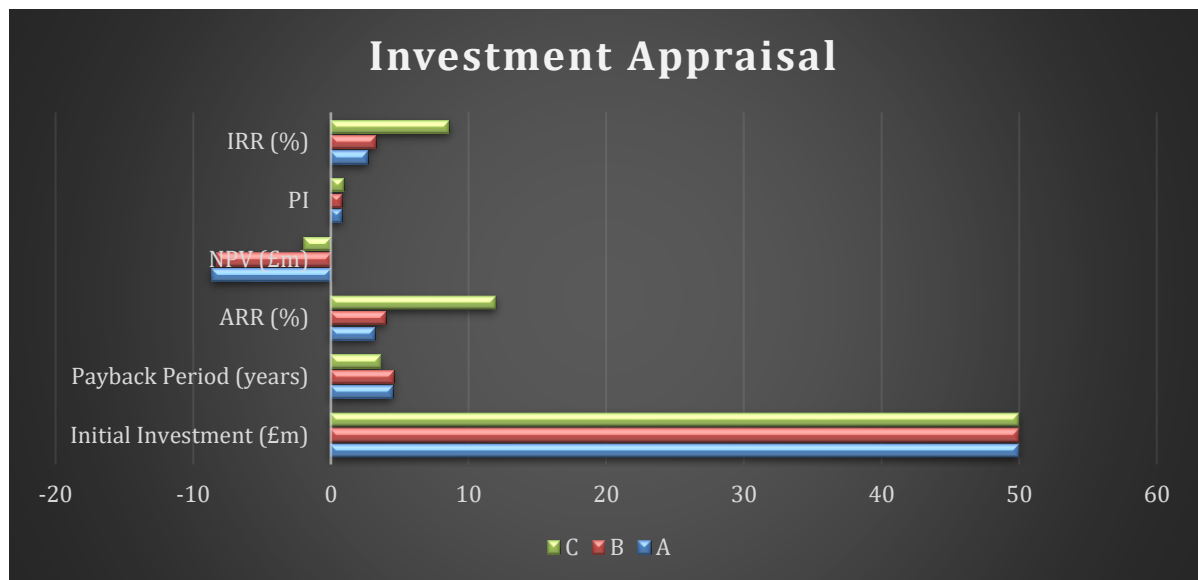
Capital budgeting helps companies evaluate and select long-term investments (Berk and DeMarzo, 2020). Tesla, Inc., which is experiencing declining profitability (net profit margin declining to 15.5% in 2023 and 4.0% in 2025) and returns on capital employed, needs careful investment appraisal to ensure capital is invested in value-creating opportunities (Damodaran, 2012). This section will evaluate three investment proposals (A, B, and C) using five evaluation methods: PBP, ARR, NPV, PI, and IRR. An examination of capital rationing with a £100 million budget determines the best project mix (Ben-David and Chinco, 2025). All calculations use a 10% discount rate and a five-year straight-line depreciation to zero (Keown, Martin and Petty, 2024).

4.2 Investment Appraisal Results

4.2.1 Summary of Findings

Table 4.1: Investment Appraisal Summary

Project	Initial Investme nt (£m)	Payback Period (years)	ARR (%)	NPV (£m)	PI	IRR (%)
A	50	4.50	3.2	-8.68	0.83	2.72
B	50	4.55	4.0	-8.30	0.83	3.26
C	50	3.60	12.0	-1.98	0.96	8.59



4.2.2 Payback Period (PBP) Analysis

Payback period is a measure that shows how long it takes the cumulative cash inflows to cover the initial investment (Atrill & McLaney, 2017). Project C has the least payback period of 3.60 years with Project A having a payback period of 4.50 and project B having a payback period of 4.55 years (Sokolov et al., 2026). Nonetheless, all of the three initiatives surpass the 3-year payback period of Tesla on any automotive manufacturing investment (McKinsey & Company, 2024). The main weakness of the payback method is that it does not take into account the time value of money and post-payback cash flows (Brealey, Myers and Allen, 2020).

4.2.3 Accounting Rate of Return (ARR) Analysis

ARR estimates the average accounting profit in a percentage of average investment (Ross, Westerfield and Jaffe, 2022). The ARR of Project C is the highest, 12.0% which is vastly higher in comparison with Project B (4.0%) and Project A (3.2%). But none of the projects have a higher historical ROE than Tesla had in 2023 of 23.9% although Project C has a higher historical ROE of 12.0% than the current ROE of 4.6% in 2025 (Feenstra and Wang, 2000). The use of accounting profits instead of cash flows by the ARR method and its lack of awareness of the time value of money restrict its usefulness as a significant decision criterion (Penman, 2021).

4.2.4 Net Present Value (NPV) Analysis

NPV is often considered the best investment appraisal method since it is used to directly estimate the absolute growth in shareholder wealth (Berk and DeMarzo, 2020). The NPV analysis shows that the three projects have negative NPV at the discount rate of 10%. Project C has the lowest negative NPV at -£1.98 million after which Project B has -£8.30 million and Project A has -£8.68 million (Ye and Tiong, 2000). The negative NPVs show that none of the projects is profitable enough to be able to yield returns that are high enough to satisfy Tesla 10 percent required rate of return. This result is especially alarming considering that Tesla has the weighted average cost of capital (WACC) currently estimated at around 8-10% (Damodaran, 2012). Tesla should turn down all three projects as independent investments in a strict wealth maximisation viewpoint.

4.2.5 Profitability Index (PI) Analysis

The profitability index is a calculation of the cash flows of the future in relation to the value of the initial investment in dollars (Keown, Martin and Petty, 2024). PI of over 1.0 signifies creation of value (Al-Rikabi, 2021). All three projects have PI values below 1.0: Project C (0.96), Project B (0.83), and Project A (0.83). This validates the NPV conclusion that all of the projects do not yield returns high enough to warrant the initial investment.

4.2.6 Internal Rate of Return (IRR) Analysis

IRR is the discount rate where NPV is equal to zero (Brealey, Myers and Allen, 2020). Project C has the highest IRR of 8.59% after which Project B has 3.26% and Project A has 2.72%. Notably, the IRR of all the three projects is lower than the 10% discount rate, which validates the negative NPV results. Compared to the current return on equity of 4.62% (2025) of Tesla, the IRR of Project C of 8.59 percent is higher than the current ROE implying that Project C would enhance the returns of Tesla compared to current operations. Nevertheless, it still does not satisfy the necessary hurdle rate (Tesla, Inc., 2025).

4.3 Capital Rationing Analysis

Table 4.2: Capital Rationing Analysis (Budget: £100m)

Combination	Projects	Total Cost (£m)	Total NPV (£m)	NPV per £1
Project C Only	C	50	-1.98	-0.040
Project B Only	B	50	-8.30	-0.166

Project A Only	A	50	-8.68	-0.174
Projects B + C	B + C	100	-10.29	-0.103
Projects A + C	A + C	100	-10.66	-0.107
Projects A + B	A + B	100	-16.98	-0.170

4.3.1 Optimal Combination

The best combination under capital rationing is Project C alone which gives the greatest total NPV of -£1.98 million. Though this is still negative, it is the combination with the least wealth destruction among all combinations that are possible. Projects A + C would ruin the value of £10.66 million whereas Projects A + B would ruin the value of £16.98 million.

4.4 Non-Financial Risks Assessment

4.4.1 Political Risk

There is a large difference in the EV subsidies and tariffs across jurisdictions. The US Inflation Reduction Act offers tax credits of up to \$7,500 per vehicle, whereas the EU has introduced countervailing taxes on Chinese EV imports (Deloitte, 2025). The cash flows of project B are stable and therefore, it is best suited to international expansion but all projects are subject to regulatory uncertainty.

4.4.2 Customer Loyalty and Brand Risk

Tesla enjoys a good brand loyalty, but the increasing price-sensitive EV market poses a danger to its margin. Competitive vulnerabilities have been identified as quality issues and wait times in the service centres (McKinsey and Company, 2024). The back-loaded cash flow profile of project C fits the requirements of Tesla to invest in brand rebuilding, prior to achieving returns.

4.4.3 Technological Risk

The high technological risk is posed by a rapid development of battery technology and the uncertainty of regulatory regulations that are applied to autonomous driving. This risk would be diversified by spreading it across projects, which would not be possible due to capital budget restrictions when investing in multi-projects. The risky nature of project C is back-loaded, but its IRR is higher, so the higher risk is compensated (Penman, 2021).

4.4.4 Competition Risk

BYD, VW, and Hyundai further strengthen the competition in EVs, causing price wars that squeeze the industry margins. The identical returns of Project B will afford some margin protection, whereas its lower IRR (3.26%) will not be attractive when compared to Project C (Brealey, Myers and Allen, 2020).

4.5 Final Recommendation

4.5.1 Single Project Recommendation

Project C is suggested as the only project on the basis of the total analysis. Although each of the projects shows negative NPV at the 10% discount rate, Project C shows better performance in all metrics: Highest IRR (8.59%) - Slightly higher than Tesla current ROE of 4.62% and is almost reaching the 10% hurdle rate; Shortest payback period (3.60 years); Highest ARR (12.0%); Best PI (0.96); Highest NPV (-£1.98m). The back-loaded cash flow chart fits into the direction of investment in autonomous driving and battery technology that Tesla has made, with initial investments paying off only in the long term. Based on the net cash position of Tesla of £35.7 billion, the negative NPV can be absorbed as a strategic investment to stay ahead technologically (Tesla, Inc., 2025).

4.5.2 Capital Rationing Recommendation

Within the budget limit of less than £100 million, Project C is the only one that is the best option. Projects A + C would ruin a value of £10.66 million whereas Projects B + C would ruin a value of £10.29 million. There is no combination that better works with the Project C position.

4.5.3 Strategic Justification

Project C should be implemented according to three strategic reasons, although the NPV is negative. First, the IRR of 8.59% is higher than the current ROE of Tesla at 4.62%, which implies that the project will increase overall returns of the corporation. Second, the cash flows (back-loaded) are consistent with Tesla strategic shift to more lucrative autonomous driving and energy storage. Third, the refusal to approve any projects would imply stagnation to the investors which could negatively affect the already-depressed P/E ratio of 416x (Damodaran, 2012).

4.6 Conclusion

The three proposed projects do not offer a 10% required rate of return required by Tesla which is indicated by negative NPVs and IRRs that are lower than the discount rate. Nevertheless, Project C shows better results on all appraisal measure and can be the best decision to be taken in single-project and capital rationing. The strategic advantages of technological leadership and the IRR of the project being higher than the existing corporate returns makes it a viable project to proceed with Project C. Future investment projects ought to aim at IRR of higher than 12 percent to generate positive shareholder value.

5. Conclusion

This report has presented a detailed financial analysis of Tesla, Inc. in the 2021-2025 timeframe with a view to identifying key challenges and a strategic turnaround plan. The financial health check showed a disturbing decline in profitability, as net profit margin decreased to 4.0% in 2025 compared to 15.5% in 2023, and that the return on equity declined to 4.6% in 2025 compared to 23.9%. Nevertheless, Tesla is still well-liquidated (current ratio 2.16) and has a large net cash value of £35.7 billion (Tesla, Inc., 2025).

The working capital analysis indicated that the cash operating cycle deteriorated to a negative figure of 25.8 days in 2021, which was highly efficient, to a positive figure of 13.0 days in 2025. The proposed changes such as the use of just-in-time inventory and the use of longer supplier payment terms would free up about £9.3 billion in frozen working capital (Atrill & McLaney, 2017).

The restructuring analysis suggested a gradual solution: sell non-core assets to raise £15-20 billion, have a strategic amalgamation in battery technology with divestiture proceeds and keep cash reserves to fund themselves. Risk mitigation at the international level such as currency hedging and tax optimisation is necessary (Damodaran, 2012).

Three projects that were evaluated in terms of investment appraisal had a negative NPV value at 10% discount rate. Project C showed better performance (IRR 8.59%, payback 3.60 years) and is suggested as a strategic investment in order to remain technologically ahead of the competition (Berk and DeMarzo, 2020).

Tesla has outstanding financial capabilities, and drastic action is needed to turn the margin compression around. By being disciplined in implementing the proposed strategies, Tesla will be available to regain its profitability and remain the best producer of electric vehicles in the world.

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Appendix

Year	Revenue	CostOfRevenue	GrossProfit	OperatingExpenses	OperatingIncome	InterestExpense	NetIncome	EBITDA
2021	53823	40217	13606	7083	6523	371	5519	9434
2022	81462	60609	20853	7197	13656	191	12556	17403
2023	96773	79113	17660	8769	8891	156	14997	13558
2024	97690	80240	17450	10374	7076	350	7091	12444
2025	94827	77733	17094	12739	4355	338	3794	10503
Year	TotalAssets	TotalLiabilities	ShareholdersEquity	TotalDebt	CashAndEquivalents	ShortTermInvestment	Inventory	AccountsReceivable
2021	62131	30548	30189	6834	17576	131	5757	1913
2022	82338	36440	44704	3099	16253	5932	12839	2952
2023	106618	43009	62634	5230	16398	12696	13626	3508
2024	122070	48390	72913	8213	16139	20424	12017	4418
2025	137806	54941	82137	8376	16513	27546	12392	4576

PROFITABILITY RATIOS					
Year	GrossMargin	OperatingMargin	NetProfitMargin	ROA	ROE
2021	25%	0.121193542	0.102539806	0.088828443	18.281%
2022	26%	0.167636444	0.154133215	0.152493381	28.087%
2023	18%	0.0918748	0.154970911	0.140661052	23.944%
2024	18%	0.072433207	0.072586754	0.058089621	9.725%
2025	18%	0.045925738	0.040009702	0.027531457	4.619%

LIQUIDITY RATIOS				
Year	CurrentRatio	QuickRatio	CashRatio	OCFRatio
2021	1.375285461	1.278203502	0.891956356	0.583455976
2022	1.531955521	1.421430978	0.608521472	0.551274851
2023	1.725893975	1.603868095	0.570404898	0.461110338
2024	2.02491239	1.871621387	0.55997363	0.517782173
2025	2.164406887	2.020117298	0.520684871	0.464999685