



**A STUDY ON FINANCIAL PERFORMANCE OF AN AUTOMOBILE INDUSTRY
WITH SPECIAL REFERENCE TO HERO MOTOCORP LIMITED**

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ABSTRACT

Financial performance is important for various stakeholders like owners, management, investors and money lenders. Traditional financial statements comprising of the balance sheet and the profit and loss account and trading account do not give all the information related to the financial operations of a firm. Analysis and interpretation of financial statements help in determining the liquidity position, profitability, efficiency and long term solvency a firm. Ratio Analysis is an accounting tool to know the financial position of the selected entity. The purpose of the study is to assess and compare the financial performance of Hero Motocorp Ltd.

KEYWORDS: Financial Statements, Balance-Sheet, Leverage, Liquidity, Profitability, Ratio Analysis, Hero MotoCorp Ltd.

INTRODUCTION

Financial statements aim to providing financial information about a business enterprise to gather the information needs of the decision-makers. Financial statements prepared by a business enterprise in the corporate sector are published and are available to the decision-makers or users of accounting information. These statements provide financial data which require analysis, comparison and interpretation for taking decision by the external as well as internal users of accounting information. This act is called as financial statement analysis.

By doing the literature review, it is observed that a study on financial performance of Selected Automobile Company is very few also the recent financial performance measurement of selected automobile company is missing. So the researcher undertook this study to measure the financial performance of selected automobile industry. Hence, the researcher has made an attempt to compare the financial performance of Selected Automobile Company.



COMPANY PROFILE:

Hero MotoCorp Ltd. (Formerly Hero Honda Motors Ltd.) is the world's top manufacturer of two – wheelers, based in India. In the year 2001, the Company achieved the desired position of being the largest two-wheeler manufacturing Company in India and also, the 'World No.1' two-wheeler Company in terms of unit volume sales in a calendar year. Hero MotoCorp Ltd. continues to maintain this position till date.

REVIEW OF LITERATURE

Muruganantham and Barkavi (2020) conducted research for analysis of the financial performance of TVS Motors by using 5 years of annual audited reports. And finally, these studies concluded business is good and they have better performance. In addition to that want to increase their sales volume, and produce more from the owner's funds and available funds. This helps firms to increase their performance in their competitive world.

Pravin Narayanan Mahamuni and Anil Arun Poman (2019) executed a study to find out the comparative financial performance between Bajaj Auto and Hero Motor Corp By using Du Pont analysis made by calculating Return on Assets and Return on Equity. The result concluded Bajaj Auto's financial performance is better than Hero Motor Corp.

Sheela Christina (2017) carried out the study on Financial Performance of Wheels India Limited-Chennai. The study deals with Analytical type of research design with the help of secondary data collection method. For this purpose, the researcher took past five years" data and also checked out for the validity and reliability before conducting the study. The researcher used the following financial tool namely ratio analysis.

Jothi, K. & Geethalakshmi, A. (2017), this study tries to evaluate the profitability & financial position of selected companies of Indian automobile industry using statistical tools like, ratio analysis, mean, standard deviation, correlation. The study reveals the positive relationship between profitability, short term and long term capital.

Ravichandran, M. & Subramaniam M Venkata (2016) the main idea behind this study is to assessment of viability, stability and profitability of Force motors limited. Operating position of the company can be measured by using various financial tools such as profitability ratio, solvency ratio, comparative statement & graphs etc. This study finds that company has got enough funds to meet its debts & liabilities. Company can further improve financial performance by reducing the administrative, selling & operating expenses.



OBJECTIVES OF THE STUDY

- To study the financial performance of Hero Motocorp Ltd. using ratio analysis.
- To identify the profitability and liquidity position of the Hero Motocorp Ltd.
- To analyze the financial strengths and weaknesses of the Hero Motocorp Ltd.

RESEARCH METHODOLOGY

The main objective of this study is to know the financial position of selected automobile company. The study is based on secondary data, collected through annual reports of selected automobile company. The study of the financial performance of Hero Motocorp Ltd is for the period of the five years from 2019-20 to 2023-24.

METHOD OF DATA COLLECTION

The required secondary data for analyzing purposes is collected from Hero Motocorp Ltd. annual report and Money control websites, economic times, and other relevant articles published in the earlier period in the same area.

DATA ANALYSIS AND INTERPRETATION

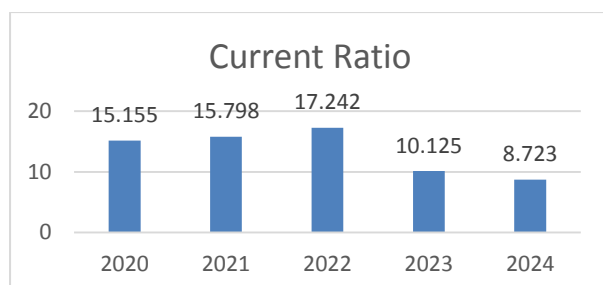
1.1 CURRENT RATIO

The current ratio is one of the important ratios to measure liquidity position. The ideal ratio of the current ratio was 2:1. The result will come to two and more than two means it short-term liquidity position is strong.

The formula for calculating the current ratio is
$$= \text{Current Assets} / \text{Current Liabilities}$$

Year	Current Assets	Current Liabilities	Ratio
2019-20	8,649.20	4,279.07	2.021
2020-21	11,370.48	6,504.53	1.748
2021-22	10,114.96	5,072.38	1.994
2022-23	9,435.33	6,012.62	1.569
2023-24	10,315.45	7,048.37	1.463

Table 1 Current Ratio



INTERPRETATION:

The above table shows that the current ratio in the year 2020 was highest 2.021 and 1.463 is the lowest for last five years. Then it decreases to 1.748 in the year 2021, further move upwards to 1.994 in the year 2022. The Current Ratio of all the above five years is above the Standard, so the company can meet its short term obligations easily.

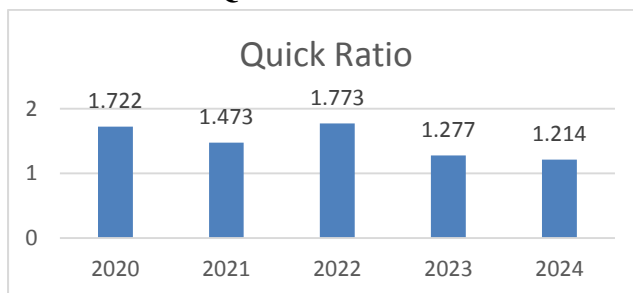
1.2 QUICK RATIO

Year	Quick Assets	Quick Liabilities	Ratio
2019-20	7366.88	4,279.07	1.722
2020-21	9,581.21	6,504.53	1.473
2021-22	8,992.31	5,072.38	1.773
2022-23	7,678.94	6,012.62	1.277
2023-24	8,559.55	7,048.37	1.214

The quick ratio helps to measure the Company's ability to pay its immediate liabilities without the sale of its stocks. It is a more conservative measure when compared to the current ratio. The ideal norm of the quick ratio was 1:1.

The formula for calculating the quick ratio was = Quick Assets/ Quick Liabilities

Table 2 Quick Ratio



INTERPRETATION:

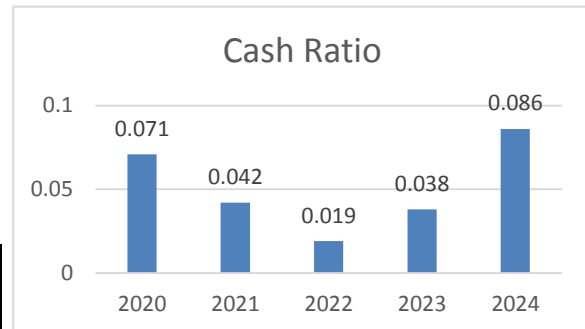
The Chart Shows that Quick Ratio in 2020 is above 1.5, in 202 it is below 1.5. In 2022 it increases to the highest of all the five years to 1.773 and in 2024 lowest of all the given years to 1.214. The Quick Ratio of all the above Five Years is above the Standard, So the company can meet its Short Term Obligation without any trouble. The Company is able to generate enough from Operations to Pay for its Current Obligation with Current Assets.

1.3 CASH RATIO

The cash ratio is a liquidity measure that shows a company's ability to cover its short-term obligations using only cash and cash equivalents. The cash ratio is derived by adding a company's total reserves of cash and near-cash securities and dividing that sum by its total current liabilities.

Table 3 Cash Ratio

Year	Cash & Cash Equivalents	Current Liabilities	Ratio
2019-20	305.31	4,279.07	0.071
2020-21	274.62	6,504.53	0.042
2021-22	98.68	5,072.38	0.019
2022-23	226.30	6,012.62	0.038
2023-24	604.91	7,048.37	0.086



INTERPRETATION:

The above table shows that the cash ratio from 2020 to 2024. The Cash Ratio for the year 2020 is 0.071% and after that it decreases continuously till 2022 which is 0.019% lowest of all five years. After that it gradually increases to 0.038% in 2023 and 0.086% in 2024 which is highest of all the years. This means that the company is able to pay off its current liabilities easily.

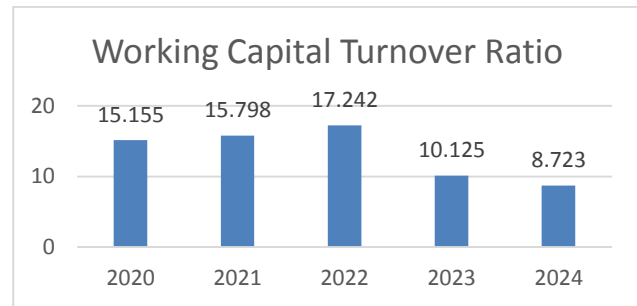
1.4 WORKING CAPITAL TURNOVER RATIO

The working capital turnover ratio is a financial ratio that measures how well a company uses its working capital to generate sales. It's calculated by dividing a company's net sales by its average working capital.

Table 4 Working Capital Turnover Ratio



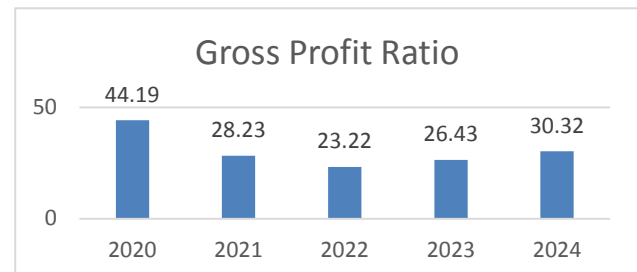
Year	Working Capital	Total Sales	Ratio
2019-20	4,370.13	28,836.09	15.155
2020-21	4,865.95	30,800.62	15.798
2021-22	5,042.58	29,245.47	17.242
2022-23	3,422.71	33,805.65	10.125
2023-24	3,267.08	37,455.72	8.723



INTERPRETATION:

That Chart Shows that Working Capital in 2020 & 2021 was above 15% which is favorable. It Further Increases up to 17.24 in 2022. And then it gradually decreases to 10.12 in 2023 and 8.72 in 2024 which is lowest in entire study period. The Company Working Capital is decrease gradually therefore company must look into this seriously.

Year	Gross Profit	Net Sales	Ratio
2019-20	3,896.32	28,836.09	13.512
2020-21	3,900.38	30,800.62	12.663
2021-22	3,250.13	29,245.47	11.113
2022-23	3,874.56	33,805.65	11.461
2023-24	5,418.35	37,455.72	14.466



1.5 GROSS PROFIT RATIO

The gross profit ratio (GPR) is a financial metric that measures how efficiently a company generates profit from its core business operations. It's calculated by dividing a company's gross profit by its net sales, and is often expressed as a percentage.

Table 5 Gross Profit Ratio

INTERPRETATION:

The ratio indicates the efficiency of production or trading operations. In 2020 the gross profit margin was 13.5% which is decline to 12.6% in 2021. In 2022 & 2023 the gross profit margin was stable to 11%. And finally in 2024 the Gross Profit margin was jump to 14.4% which was the highest for all the five years.

1.6 OPERATING PROFIT RATIO

The operating profit ratio (OPR) is a profitability ratio that measures the amount of profit a

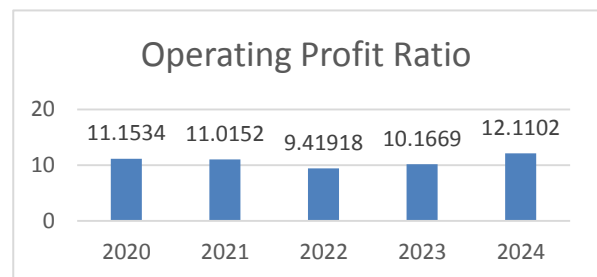
Year	Operating Profit	Total Revenue	Ratio
2019-20	3168.52	28,408.43	11.1534
2020-21	3337.98	30,303.53	11.0152
2021-22	2702.15	28,687.74	9.41918
2022-23	3396.38	33,406.21	10.1669
2023-24	4515.90	37,290.12	12.1102

company makes from its operations relative to its net sales. It's also known as the operating margin. The operating profit ratio helps to measure the operating efficiency of the business. Operating profit comes from the company's regular courses of business. And it is the major source of income.

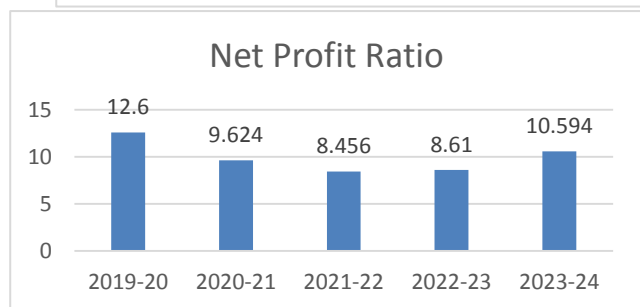
Table 6 Operating Profit Ratio

INTERPRETATION:

Above table shows the operating profit position of the firm. The operating profit ratios show a constant trend for all years except in year 2022 which is below 10%. The



Year	Net Profit	Net Sales	Ratio
2019-20	3,633.26	28,836.09	12.600
2020-21	2,964.20	30,800.62	9.624
2021-22	2,473.02	29,245.47	8.456
2022-23	2,910.58	33,805.65	8.610
2023-24	3,967.96	37,455.72	10.594



operating profit ratio increased from 9.41% to 10.16 in the year 2023. It is an appreciable one. So, the company tries to increase revenue from the operations of the business.

1.7 NET PROFIT RATIO

Net Profit Ratio, also referred to as the Net Profit Margin Ratio, is a profitability ratio that measures the company's profits to the total amount of money brought into the business. In other words, the net profit margin ratio depicts the relationship between the net profit after taxes and net sales taking place in a business.

Table 7 Net Profit Ratio

INTERPRETATION:

Above table shows the Net profit ratio of the firm. The Net profit ratios show a fluctuating trend for all years between 12% to 8%. In year 2020 it is 12.6% which is higher in all the years. After that it gradually decreases till 2022. Then again it increased from 8.45% to 8.61% in the year 2023 and 10.595 in 2024.

Year	Net Income	Shareholder Equity	Ratio
2019-20	3,633.26	14,136.40	25.701
2020-21	2,964.20	15,198.43	19.503
2021-22	2,473.02	15,782.92	15.669
2022-23	2,910.58	16,705.09	17.423
2023-24	3,967.96	17,986.18	22.061

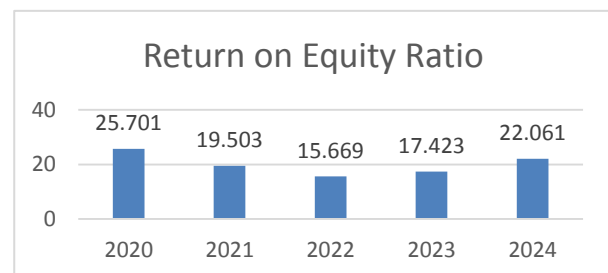
1.8 RETURN ON EQUITY RATIO

The return on equity ratio indicates the profitability of any business in relation to the equity shareholders' funds. We can calculate the shareholder's equity by deducting all liabilities from all assets. The formula for calculating Return on equity = Net Income/Shareholders' equity

Table 8 Return On Equity Ratio

INTERPRETATION:

The above table clearly explains the return on equity ratio. The highest return on equity ratio shown in the year 2020 was 25.70%. The lowest ratio shown in the year 2022 was 15.66%. This ratio suddenly decreased from 25.70 % to 19.50% in the year 2021. After 2022 the ratio is gradually increases to 17.42% in 2023 and 22.06% in 2024.



1.9 RETURN ON INVESTMENT RATIO

The return on investment is helping to measure used to assess the efficiency or profitability of an investment. Income from investment is not a main source of business. Investment may be invested in other companies' equity shares, debenture, and another mode.

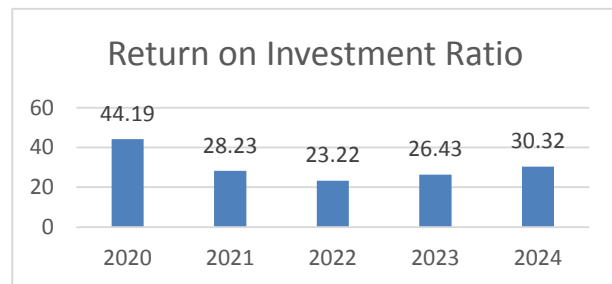
The formula for calculating Return on Investment ratio = Net Profit/ Investment ×100

Year	Net Income	Shareholder Equity	Ratio
2019-20	3,633.26	8,222.65	44.19
2020-21	2,964.20	10,499.67	28.23
2021-22	2,473.02	10,652.32	23.22
2022-23	2,910.58	11,010.36	26.43
2023-24	3,967.96	13,086.1	30.32

Table 9 Return On Investment Ratio

INTERPRETATION:

Table above table shows the return on investment ratio. This ratio is highest to 44.19% in 2020. After that, the ratio decreased up to 28.23% in 2021 and 23.22% in 2022. But again from 2023 it increases to 26.43% and 30.32% in 2024. It is not an



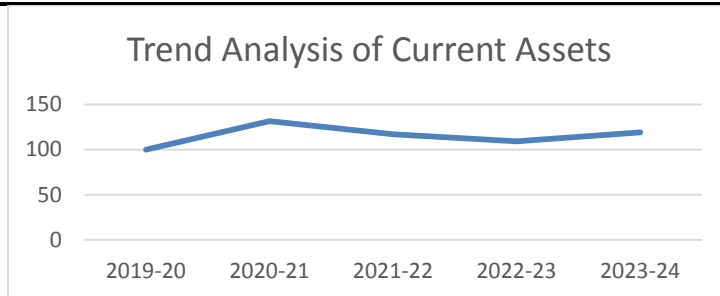
Year	Current Assets	Trend Analysis
2019-20	8,649.20	100.00
2020-21	11,370.48	131.46
2021-22	10,114.96	116.94
2022-23	9,435.33	109.08
2023-24	10,315.45	119.26

appreciable factor. So, the firm must want to concentrate on returns from investments by the way of selecting the best investment securities when choosing investments.

1.10 TREND ANALYSIS OF CURRENT ASSETS

Trend analysis is a technique used in technical analysis that attempts to predict future movements based on recently observed trend data. Trend analysis uses historical data, such as price movements and trade volume, to forecast the long-term direction of market sentiment.

Table 10 Trend Analysis of Current Assets



INTERPRETATION:

From the above trend analysis, the year 2020 is used as base year. Current asset has been Increased during the year 2021. After that it gradually decreases to 116.94 in 2022 and 109.08 in 2023. And again in 2024 current assets were increases to 119.26 in year 2024. So it is observed that the trend for current assets is fluctuating.

1.11 TREND ANALYSIS OF CURRENT LIABILITIES

Trend analysis is a technique used in technical analysis that attempts to predict future movements based on recently observed trend data. Trend analysis uses historical data, such as price movements and trade volume, to forecast the long-term direction of market sentiment.

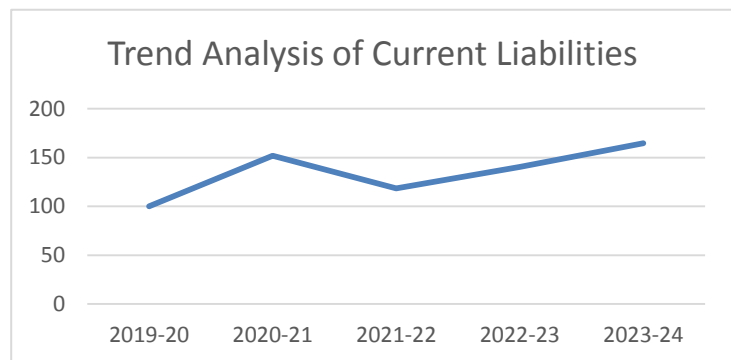


Table 11 Trend Analysis of Current Liabilities

Year	Current Liabilities	Trend Analysis
2019-20	4,279.07	100.00
2020-21	6,504.53	152.00
2021-22	5,072.38	118.53
2022-23	6,012.62	140.51
2023-24	7,048.37	164.71

INTERPRETATION:

From the above trend analysis, 2020 is used as base year. Current Liabilities has been Increased during the year 2021 and decreases to 118.53 in 2022. But form the year 2023 it is gradually increases to 140.51 and 164.71 in 2024. Which means company look into this and control the current liabilities.



FINDINGS

1. The current ratio in the year 2020 is found to be the highest 2.021 due to the decrease in the liabilities. But afterwards it is found fluctuating constantly.
2. The Quick Ratio of all the above five years is found above the standard.
3. The cash ratio 0.082 is highest of all the five years as compared to other years.
4. The working capital turnover ratio is lowest 8.72 in 2024 and highest in 2022 17.24 after that it gradually decreases to 10.12 in 2023 and 8.72 in 2024.
5. Gross profit ratio is constant & satisfactory for all five years. GPR is highest in 2024 14.46 and lowest in 2022 11.11.
6. Current assets trend is constantly fluctuating. As in year 2021 it is 131.46 % which reduces to 116.94 % in 2022 and 109.08% in 2023. And again in 2024 it increases to 119.26 % which shows the constant fluctuation.
7. Current liabilities also show the fluctuating trend as compared to current assets. Because in 2021 CL increases to 152% which after reduces to 118.53% in 2022. But after that it constantly increase to 140.51% in 2023 and 164.71% in 2024.
8. Operating ratio is constant for all the years except in 2022 which is 9.41%. Otherwise the operating ratio is above 10% for all the yeas.
9. Return on Equity ratio is quite satisfactory as it is highest 25.70% in 2020 and lowest 15.66% in 2022. Rest for other years it is moderate.
10. Return on Investment is also constant for all years except 44.19% in 2020 which is highest for the given period. After that it ranges between 23% to 30%.

CONCLUSION

1. The Company has been to increase its Sales and Profit during the Year. The Net Profit ratio has increased which proved the company has been able to control the cost Effectively.
2. Financial performance can improve the financial strength of company. The company liquidity position has to increase and it will solve future problem. The company is maintaining the reserves and surplus better by earning profit so it can face financial stress in the future.
3. The Current Assets of the company are enough to meet the Current Liabilities, Hero Moto Corp Limited holding the highest share in Two Wheeler's Market.
4. The company has increasing liabilities over years. The company has also raised its investments and reserves for future purpose.
5. This clearly shows that the company is in the developing nature and their position in the society is satisfactory.



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