

WORKING CAPITAL MANAGEMENT: A CASE STUDY OF HERO MOTOCORP PVT. LTD.

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ABSTRACT

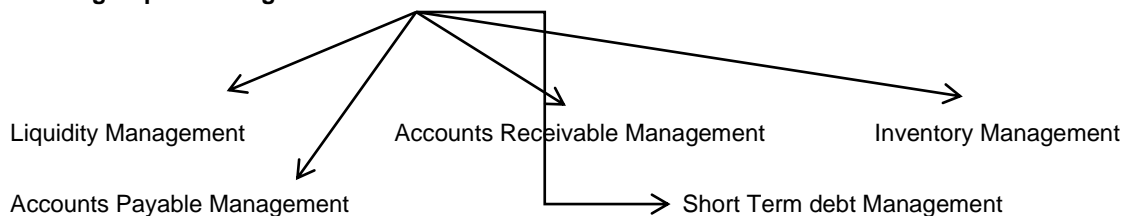
There are two types of capital required for any company to run smoothly, one capital is fixed capital and the other capital is working capital. Working capital is used to meet the short term needs of the company while fixed Capital is used to meet long term needs and it is very important to have a balance in both. Cash and current assets should be used so efficiently for the business's success or survival that there is neither an excess of current assets nor a lack of current assets. The paper investigated what Hero MotoCorp Pvt. Ltd.'s working capital was from 2018 to 2022 in order to gain a full understanding of its character. Although Hero Motor Corp., as it is now known, was previously known as Hero Honda Motors Pvt. Ltd. Hero initially started its business as a cycle business in Ludhiana in 1956. Taking it further, it ventured into motorcycle manufacturing. The Pearson correlation was calculated and SPSS tools were used for testing Hypothesis formulated.

Keywords: Per Share Ratio, Profitability Ratio, Liquidity Ratio, and Valuation Ratio.

Introduction

Hero Motocorp Pvt. Ltd. is the largest two wheeler manufacturing company not only in India but in the whole world. When it comes to buying a two-wheeler, the rural population of the country prefers Splendor. It is still popular due to its quality product, and the company made headlines with its most innovative fuel efficient vehicle. Hero Motocorp Pvt. Ltd. was known as Hero Honda Motors Ltd., but the partnership between Honda Motors of Japan and Hero Cycle of India ended in the year 2010, and the companies have been competitors ever since. Working capital management is a business strategy designed to ensure that a company operates efficiently by monitoring and using its current assets and liabilities to their most effective use. The efficiency of working capital management can be quantified using ratio analysis. Working capital management refers to set of activities performed by a company to make sure it has enough resources for day to day operating expenses while keeping resources invested in a particular way. Working Capital Management can be explained using the following diagrams:

Working Capital Management



It has also been investigated how the working capital of Hero Motocorp Pvt. Ltd. has changed from 2018 to 2022, and whether the relationship of working capital is directly or indirectly based on production, sale, or profit. Efforts have been made, and along with this, it has also been seen that, along

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with production, Hero Motocorp Pvt. Ltd. has also promoted education under CSR (corporate social responsibility). The following two-wheelers manufacturing by the company: XTREME 160R BS6, XPULSE 200 BS6, PASSION PRO BS6, SPLENDOR ISMART BS6, SPLENDOR + BS6, GLAMOUR BS6, HF DELUXE BS6, SUPER SPLENDOR BS6, DESTINI 125 BS6, MAESTRO EDGE 15 BS6, MAESTRO EDGE 110 BS6, PLEASURE +BS6, XPULSE 200T, XTREME 200S

Review of Literature

Nufazil Altaf, Farooq Ahmed Shah, (2018) has study on that "How does working capital management affect the profitability of the companies. His main focus in the paper was any relationship between an organization's profitability and working capital management. His study was based on 437 non-financial companies regarding generalised methods of moments (GMM) techniques to arrive at the result, and the results of the study confirm the inverted U-shape between WCM and firm profitability.

Dr. Navena Kumari and Dr. Victor Louis Anthuvan(2017) In the study "Impact of Working Capital Management on the Profitability of the Leading Automobile Companies in India," the purpose of the researcher was to analyse whether working capital management could affect the profitability of the company as far as the automobile sector is considered in India. This study has been framed to show how efficient working capital management impacts the corporate profitability of 10 leading companies listed Automobile Sector in Chennai.

Hina Agha (2014) reviewed the impact of working capital management on profitability. The main base on the study was to find out empirically test the impact of working capital management on profitability. The interpretation of result is that by increasing the debtor's turnover, inventory turnover and by decreasing creditor's turnover ratio, the company can increase profitability.

Ajanthan (2013) studies the relationship between liquidity and profitability of manufacturing companies in relation to their current and quick ratios for liquidity, return on equity, and return on assets. His studies reflect that there is a significant impact of liquidity on profitability.

Chandra Kartik (2012): In his paper on "Trends in Liquidity Management & Impact on Profitability," the author states that the selected companies always try to maintain an adequate amount of net working in relation to current liabilities so as to maintain a good amount of liquidity.

Need/ Importance of the Study

To meet short term obligations and day-to-day expenses, it is essential for every company to maintain a certain amount of working capital, i.e., the difference between the amount of current assets and current liabilities. Excessive or insufficient amounts of working capital are both bad for business, while continuous and efficient management of working capital will make the company more profitable. To meet the competition as well as maximise the profitability of the organization, businesses always need to know about the metrics and tools and techniques that are going to be used to manage a quantum level of working capital. In the case of manufacturing companies, it is essential to concentrate on the differences in metrics, methods, and processes as compared with competitors in order to manage the amount of working capital in the best way possible. In the case of manufacturing companies, the amount of profitability, solvency, liquidity, and stability directly affects the volume of working capital.

Statement of the Problem

There is some problem in case of automobiles manufacturing companies which are facing while make production or to meet competition in the market such as:

- Setting up a production unit
- Comprehensive market analysis
- Partner search and assistance in joint ventures
- Expansion and growth advisory services
- Establishing and monitoring dealer networks

Objectives

- To investigate the amount of working capital management and the relationship between working capital and profitability at Hero Motocorp Pvt. Ltd. from 2018 to 2022.
- Working capital influences the amount of profitability, solvency, liquidity, and stability of the business, as well as whether the business can function without a certain amount of working capital.

Hypothesis

The hypothesis reflected in the study is tested for Hero Motocorp Pvt. Ltd., namely that the relation between working capital and profitability is as follows:

Null Hypothesis, i.e., H0: The study reflects that there is no relationship between the amount of working capital and the profitability of Hero Motocorp Pvt. Ltd.

Alternative Hypothesis, i.e., H1: It reflects that there is a relationship between the amount of working capital and the amount of profitability of Hero Motocorp Pvt. Ltd.

Research Methodology

This study covers the period w.e.f. **2018 to 2022** for a period of six years by using data that is both descriptive and analytical in nature. The desk-research method has been used. The research is based on secondary data gathered from the annual report or balance sheet, the profit and loss statement, and a few published journals and articles. Some information is also gathered from the company's registered office as well as its employees. It has been stated that the research data was collected from more secondary sources, and secondary data was collected using the content analysis method. SPSS is also used for the analysis and interpretation of financial data in such a way to reflect the amount of profitability, solvency, and liquidity of the company for the period of **2018 to 2022**.

Results & Discussion

Table 1

HERO MOTOCORP LTD. (HEROMOTOCO) - FINANCIAL OVERVIEW						
Years	2022	2021	2020	2019	2018	Average
Net Sales	29,245.47	30,800.62	28,836.09	33,650.54	32,230.49	30,952.64
Operating Profit	3,925.68	4,599.09	5,413.67	5,621.34	5,806.01	5,073.16
Other Income	556.91	579.85	1,515.82	691.25	525.82	773.93
Interest	25.80	21.84	22.02	8.60	6.25	16.90
Depreciation	649.75	676.87	817.96	602.01	555.60	660.44
Profit Before Tax	3,250.13	3,900.38	4,573.69	5,010.73	5,244.16	4,395.82
Tax	777.11	936.18	940.43	1,625.86	1,546.80	1,165.28
Profit After Tax	2,473.02	2,964.20	3,633.26	3,384.87	3,697.36	3,230.54
Share Capital	39.96	39.96	39.95	39.95	39.94	39.95
Reserves	15,742.96	15,158.47	14,096.45	12,817.17	11,728.94	13,908.80
Net Worth	15,782.92	15,198.43	14,136.40	12,857.12	11,768.88	13,948.75
Loans	501.18	468.01	272.33	117.20	114.94	294.73
Gross Block	14,665.72	14,324.48	13,865.39	11,628.23	11,134.41	13,123.65
Investments	10,652.32	10,499.67	8,222.65	5,968.61	7,525.20	8,573.69
Cash	175.12	257.15	241.86	136.46	141.34	190.39
Debtors	2,304.27	2,426.76	1,603.14	2,821.57	1,520.18	2,135.18
Net Working Capital	-632.90	-1,258.23	-272.27	1,845.27	-614.31	-186.49
Operating Profit Margin (%)	13.42	14.93	18.77	16.71	18.01	16.37
Net Profit Margin (%)	8.46	9.62	12.60	10.06	11.47	10.44
Earning Per Share (Rs)	123.77	148.36	181.89	169.46	185.15	161.73
Dividend (%)	4,750.00	5,250.00	4,500.00	4,350.00	4,750.00	4,720.00
Dividend Payout	1,898.13	1,897.81	1,937.44	1,897.35	1,697.50	1,865.65

Table 2

Profit & Loss (All Figures in Cr. Adjusted EPS in Rs.)						
PARTICULARS	Mar-18	Mar-19	Mar-20	Mar-21	Mar-22	Average
Net Sales	32,230.49	33,650.54	28,836.09	30,800.62	29,245.47	30,952.64
Total Expenditure	26,950.30	28,720.45	24,878.13	26,781.38	25,876.70	26,641.39
Operating Profit	5,280.19	4,930.09	3,957.96	4,019.24	3,368.77	4,311.25
Other Income	525.82	691.25	778.34	579.85	556.91	626.43
Interest	6.25	8.6	22.02	21.84	25.8	16.90
Depreciation	555.6	602.01	817.96	676.87	649.75	660.44
Exceptional Items	0	0	677.37	0	0	135.47
Profit Before Tax	5,244.16	5,010.73	4,573.69	3,900.38	3,250.13	4,395.82
Tax	1,546.80	1,625.86	940.43	936.18	777.11	1,165.28
Net Profit	3,697.36	3,384.87	3,633.26	2,964.20	2,473.02	3,230.54
Adjusted EPS (Rs.)	185.15	169.46	181.89	148.36	123.77	161.73

Table 2 will be used for analysis and interpretation of the WCM ratios of HCML. As according Table 2, HCML's average annual sales throughout the five accounting years of the study were Rs 30952.64 Crores, the with highest amount coming in the year 2019 at Rs 33,972.23 Crores. Whatever strikes out is that sales income has continued to rise throughout the study period, which is excellent for company. Conversely, throughout the course of five years of research, working capital likewise exhibited an upward trend, even though it fell in 2019. It is obvious that there is a contradiction between the increase in sales and working capital. The delay between making the sale and the money being collected could be the issue.

Table 3

Balance Sheet (All Figures are in Crores.)						
PARTICULARS	Mar-18	Mar-19	Mar-20	Mar-21	Mar-22	Average
Equity and Liabilities						
Share Capital	39.94	39.95	39.95	39.96	39.96	39.95
Total Reserves	11,728.94	12,817.17	14,096.45	15,158.47	15,742.96	13,908.80
Borrowings	0	0	0	0	0	0.00
Other N/C liabilities	2,073.55	2,245.16	1,710.29	1,770.24	1,654.80	1,890.81
Current liabilities	4,343.32	4,130.36	3,976.06	6,110.22	5,072.38	4,726.47
Total Liabilities	18,185.75	19,232.64	19,822.75	23,078.89	22,510.10	20,566.03
Assets						0.00
Net Block	4,654.54	4,618.58	6,117.08	5,988.41	5,806.48	5,437.02
Capital WIP	203.78	360.67	160.25	177.86	87.32	197.98
Intangible WIP	114.61	181.19	181.02	258.73	370.88	221.29
Investments	1,934.08	2,801.51	3,528.17	4,308.18	4,814.66	3,477.32
Loans & Advances	2,183.65	2,906.70	1,542.62	1,386.74	1,305.91	1,865.12
Other N/C Assets	246.91	248.35	5.05	6.18	9.89	103.28
Current Assets	8,848.18	8,115.64	8,288.56	10,952.79	10,114.96	9,264.03
Total Assets	18,185.75	19,232.64	19,822.75	23,078.89	22,510.10	20,566.03
Working Capital	4,504.86	3,985.28	4,312.50	4,842.57	5,042.58	4,537.56

Table 4

Key Financial Ratios of Hero Motocorp (in Rs. Cr.)	Mar-22	Mar-21	Mar-20	Mar-19	Mar-18
Per Share Ratios					
Basic EPS (Rs.)	123.78	148.39	181.91	169.48	185.14
Diluted EPS (Rs.)	123.78	148.37	181.91	169.47	185.13
Cash EPS (Rs.)	156.29	182.24	222.84	199.59	212.97
Book Value [ExclReval Reserve]/Share (Rs.)	789.94	760.68	707.7	643.66	589.33
Book Value [InclReval Reserve]/Share (Rs.)	789.94	760.68	707.7	643.66	589.33
Dividend / Share (Rs.)	95	105	90	87	95
Revenue from Operations/Share (Rs.)	1,463.74	1,541.57	1,443.61	1,684.63	1,613.95

PBDIT/Share (Rs.)	196.48	230.18	237.11	281.42	290.74
PBIT/Share (Rs.)	163.96	196.31	196.16	251.28	262.91
PBT/Share (Rs.)	162.67	195.21	228.97	250.85	262.6
Net Profit/Share (Rs.)	123.77	148.36	181.89	169.46	185.15
Profitability Ratios					
PBDIT Margin (%)	13.42	14.93	16.42	16.7	18.01
PBIT Margin (%)	11.2	12.73	13.58	14.91	16.29
PBT Margin (%)	11.11	12.66	15.86	14.89	16.27
Net Profit Margin (%)	8.45	9.62	12.59	10.05	11.47
Return on Net worth / Equity (%)	15.66	19.5	25.7	26.32	31.41
Return on Capital Employed (%)	19.68	24.43	26.52	37.15	42.35
Return on Assets (%)	11.38	13.37	19.37	19.18	22.08
Total Debt/Equity (X)	0	0	0	0	0
Asset Turnover Ratio (%)	1.33	138.98	153.79	190.74	192.54
Liquidity Ratios					
Current Ratio (X)	1.99	1.79	2.08	1.96	2.04
Quick Ratio (X)	1.77	1.55	1.81	1.71	1.85
Inventory Turnover Ratio (X)	15.98	20.96	26.41	31.38	39.13
Dividend Payout Ratio (NP) (%)	76.75	64.02	53.32	56.05	45.91
Dividend Payout Ratio (CP) (%)	60.78	52.12	43.52	47.58	39.91
Earnings Retention Ratio (%)	23.25	35.98	46.68	43.95	54.09
Cash Earnings Retention Ratio (%)	39.22	47.88	56.48	52.42	60.09
Valuation Ratios					
Enterprise Value (Cr.)	45,714.94	57,987.55	31,602.29	50,904.66	70,662.30
EV/Net Operating Revenue (X)	1.56	1.88	1.1	1.51	2.19
EV/EBITDA (X)	11.65	12.61	6.67	9.06	12.17
Market Cap/Net Operating Revenue (X)	1.57	1.89	1.1	1.52	2.2
Retention Ratios (%)	23.24	35.97	46.67	43.94	54.08
Price/BV (X)	2.91	3.83	2.25	3.97	6.02
Price/Net Operating Revenue	1.57	1.89	1.1	1.52	2.2
Earnings Yield	0.05	0.05	0.11	0.07	0.05
Source : Web site and Annual Report					

WCM Ratios are Calculated

Through proportion analysis and ratio analysis, the usage of the various working capital components is examined. The percentage of a certain item, such as cash and bank accounts or inventory, in the total current assets is determined using a proportional analysis. In ratio analysis, the connection between current asset components and current asset components and sales is computed and examined. From the perspective of the company's management of its liquidity, proportion analysis is also helpful. Analysis of the efficient use of each rupee invested as working capital may be done by looking at the percentage of cash and bank, inventory, receivables, etc. in the total current assets. Turnover ratios, such as the gross working capital turnover ratio and the net working capital turnover ratio, are calculated for monitoring of working capital management.

Finding

Generally, the research uses a variety of secondary data analyses to highlight difficulties with the working capital management processes used by manufacturing industries. Below is a summary of the sector's intelligent study's recommendations. This was based on secondary data. In accordance with the study, stock turnover period, among other working capital components, has a major impact on the net profitability of the automotive sector. It has been established that there is a direct link between the two, i.e., a reduction in inventory days will improve profitability of the business. In accordance with the inference, if inventory takes longer to sell, it will decrease profitability or vice versa. This would be known as a rise in inventory turnover days.

Recommendations/Suggestion

Ultimately, the research employs a variety of secondary research analyses to highlight difficulties with the working capital management procedures used among manufacturing industries. Below is a discussion of the findings of the sector-specific research based on secondary data. According to this study, among the components of working capital, the percentage of inventory turnover has an influence on the net operating profitability of the automotive sector. It has been observed that there is a

causal relationship between the two, i.e., a decrease in inventory days will boost business profitability. In accordance with the inference, if inventory takes longer to sell, this should decrease profitability or vice versa. This would be known as a rise in inventory turnover days.

Conclusion

According to the Auto Mission Plan, the Indian government expects the market for passenger vehicles to expand to 9.4 million units by 2026, and as a consequence, it aims to make automobile production the primary target of its "Make in India" initiative (AMP). Working capital management is one of the most fundamental and essential accounting functions for the successful operation of an organisation in any industry. Consequently, this strategy impacts the operations of the automobile sector, as well as the ability of commercial undertakings to generate wealth. The goal of the current study on working capital management is to analyse the operating capital structure in order to assess the effectiveness of inventory management, examine into the credit periods,

Limitations

The review results commenced with the identification of the automobile company's value chain's structure. Value chains presented in previous research (Wheelen and Hunger, 2002; Blackman and Holland, 2006; Heneric et al., 2005) provided a framework for the development of the study's value chain. The value chain was constructed through talks with managers working in the automobile sector. The value chain references from earlier literature. The value chain structure of this study is shown as the bottom value chain, six stages before the end customers. The primary components required for creating and delivering an automobile for the end customer are characterized by the stages raw material suppliers, refining raw material suppliers, component suppliers, system suppliers, car manufacturers, and car dealers (see Fig. 4). The initial three phases have been further separated into branches. It should be emphasised that the value chain's upstream stakeholders, particularly the raw material suppliers, are also providers to other sectors of the economy. The research covered the stage of raw material providers (branches oil and iron ore), since our goal was to track the value chain from raw materials to the final consumer. This study employed secondary data since it was gathered from financial statements and annual reports. Although a research implementation like this study takes more time than using databases, it guarantees that the data is acquired from each organisation included in the sample in a consistent manner. In order to achieve a better level of stage uniformity, there were two key conditions for the firms included in the sample: the financial statements had to be publicly available, and the company's yearly sales had to be greater than 100 million euros.

Scope for Further Research

The current study's goal is to examine the relationship between credit risk management and profitability while taking into consideration a variety of factors, including profitability, liquidity, solvency, and working capital components. Working capital is a vibrant business with significance for both small and medium-sized businesses as well as top-performing companies. The methodology or framework used for the study may be extended to SME's and distressed companies to evaluate their working capital management performance and significance.

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