



Profitability Analysis of Hero Moto Corp

KEYWORDS

Net profit, EBIDT, PBT, PAT, Return on Net worth.

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ABSTRACT The study examines the profitability position of Hero MotoCorp. for the past ten years. It involves in-depth analysis of profitability of the company. Profitability ratios are calculated for arriving at results and conclusions which are further tested using statistical methods and techniques. Comparative study of annual increase in sales and profitability is made to understand the growth of the company during period under study.

Introduction

Wealth Maximization is considered the ultimate objective of any business organization and same is not possible without earning profits. Higher the profits, higher would be the growth and wealth maximization. Profit earning is considered essential for the survival of the business. A business needs profits not only for its existence but also for expansion and diversification. The investors want an adequate return on their investments, workers want higher wages, creditors want higher security for their interest and loan and so on. . Profit is the most useful measure of overall efficiency of a business.

Profit to the management is the test of efficiency and a measurement of control; to owners, a measure of worth of their investment; to the creditors, the margin of safety to employees, a source of fringe benefits; to Government, a measure of taxpaying capacity & basis of legislative action; to customers, a hint to demand for better quality and price cuts; to an enterprise, existence and growth.

Objective of the Study

To examine the profitability position of the company for the past ten years

To ascertain the growth of company in light of important profitability indicators.

Methodology Adopted

The study is concerned with the ten year's data of Hero Moto Corp. i.e. (2002- 2011).The data is secondary in nature and is obtained from the published annual reports of Hero MotoCorp. Data is analyzed through various profitability ratios and statistical techniques to comment upon the profitability position of the company. Company's growth is calculated by analyzing incremental annual turnover and profitability over ten years under study.

RESULTS & DISCUSSIONS

Profitability Analysis of Hero MotoCorp.

Important profitability ratios are calculated to measure Company's performance by analyzing results obtained through ratio analysis. Purpose is to assess the adequacy of profits earned by the company and to discover whether profitability is increasing or declining.

1. EBIDT Ratio- It's a type of measurement assessment used in analyzing the profitability of a company by taking

that company's revenue figures and comparing them with the earnings of the company. This ratio helps in determining the percentage of revenue left over after the company pays its operating expenses.

Table No 1.1

Particulars	EBIDT Ratio of Hero Motors (In %)									
	2002-02	2003-03	2004-04	2005-05	2006-06	2007-07	2008-08	2009-09	2010-10	2011-11
Net Sales	4539.49	5194.58	5997.47	7421.05	8713.96	9899.96	10331.8	12319.12	15758.18	19245.03
EBIDT	754.22	955.45	1145.14	1303.54	1520.73	1362.89	1534.79	1930.44	3002.58	2883.13
EBIDT as % of Sales	16.61	18.41	19.09	17.59	17.45	13.77	14.86	15.67	19.05	14.99

(Source: Annual Reports of Hero MotoCorp.)

The ratio assumes great importance to financiers of the company as it reveals the cash availability of the firm for payment of interest. Hero Motocorp. has grown significantly in terms of this ratio and recorded highest EBIDT in FY 2009-10 at Rs. 3002.58/- Crores. However, in percentage terms, company registered its highest EBIDT ratio of 19.09% in 2003-04. Thus, the best year in terms of this ratio is FY 2003-04.

2. Operating Profit Ratio

Table No 1.2

Particulars	Operating Profit Ratio of Hero Motors (In %)									
	2002-02	2003-03	2004-04	2005-05	2006-06	2007-07	2008-08	2009-09	2010-10	2011-11
Net Sales	4539.49	5194.58	5997.47	7421.05	8713.96	9899.96	10331.8	12319.12	15758.18	19245.03
PBT	664.18	884.56	1077.46	1317.25	1412.24	1246.1	1419.28	1781.46	2831.73	2434.74
Operating Profit as % of sales	14.63	17.03	17.88	16.40	16.21	12.59	13.65	14.46	17.97	12.56

(Source: Annual Reports of Hero MotoCorp..)

Operating profit ratio is in line with the results of erst-while EBIDT ratio. The Operating profit ratio is highest in FY 2009-10 at 17.97%. Company has posted highest profit of Rs. 2831.73 in that year. Thus, this financial year can be termed as the best year for the company in terms of operating profit ratio.

3. Net Profit Ratio- Net Profit Ratio shows the relationship between Net Profit of the concern and Its Net Sales.

Net profit indicates final amount which is added to the net worth of the firm after provision for taxes.

Net Profit Ratio of Hero Motors (In %)										
Rs. Crores										
Particulars	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
Net Sales	4539.49	5194.38	5997.47	7421.65	8713.96	9899.96	10331.8	12319.12	15758.18	19245.03
PAT	462.93	580.76	728.32	811.47	971.31	857.89	967.88	1281.76	2231.83	1927.9
Net Profit Ratio	10.20	11.18	12.14	10.92	11.15	8.67	9.37	10.40	14.16	10.82

Difference between Net profit ratio and PBT ratio reflects the tax provisions made by the company. It may also reflect provision for extraordinary & non reoccurring items. Rates of Income tax etc have a direct bearing on this ratio. Lowest Net profit ratio was in 2001-02 at 10.20%. FY 09-10 has been the best year for the company as it has recorded the highest NP of 14.16%, which is in consonance with the results of other profitability ratios calculated above.

4. Return on Net worth ratio

It is the ratio of net profit to share holder's investment. It is the relationship between net profit (after interest and tax) and share holder's/proprietor's fund (Net worth).

Table No 1.4

Return on Net Worth Ratio of Hero Motors (In %)										
Rs. Crores										
Particulars	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
Capital	39.94	39.94	39.94	39.94	39.94	39.94	39.94	39.94	39.94	39.94
Reserves	645.82	821.09	1091.87	1451.44	1969.39	2470.12	2946.3	3762.81	3425.08	2216.12
Net Worth	685.76	861.03	1131.81	1491.38	2069.33	2470.06	2986.24	3800.75	3465.02	2916.06
PAT	462.93	580.76	728.32	811.47	971.34	857.89	967.88	1281.76	2231.83	1927.9
Return on Net Worth Ratio	67.51	67.45	63.95	54.27	48.34	34.73	32.41	33.72	64.41	65.22

(Source: Annual Reports of Hero MotoCorp.)

Stakeholders of the company are most concerned with this ratio as it indicates return on amount invested by them in the firm. Generally, a return of more than 8% or the rate offered by the bank on deposits is considered to be the minimum benchmark return for any investment. This is because one can safely earn this much return without risking his/her money. The company has a strong position in 2001-02 where the ratio is 67.51%. However, return on net worth was on a decline till FY 08-09 and after that it gears up in 2009-10 and 2010-11.

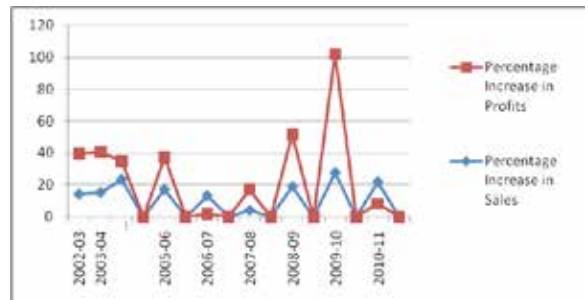
5. Percentage increase in Profits in proportion to percentage increase in Sales Table No 1.5

Years	Percentage Increase in Sales	Percentage Increase in Net Profits
2001-02	-	-
2002-03	14.43	25.45
2003-04	15.46	25.41
2004-05	23.75	11.28
2005-06	17.41	19.85
2006-07	13.61	-11.68
2007-08	4.36	12.82

Years	Percentage Increase in Sales	Percentage Increase in Net Profits
2008-09	19.23	32.43
2009-10	27.92	74.12
2010-11	22.13	-13.62
Average	17.59	19.56
Std Deviation	6.83	25.99
Co-efficient of Variance	38.83	132.84

(Source: Annual Reports of Hero MotoCorp.)

Graph No 1.1



(Source: Annual Reports of Hero MotoCorp.)

Above data indicates considerable growth attained by the company in last ten years. Percentage increase in Profits is very high in FY 2009-10 i.e. 74.12%. And Percentage increase in Sales 27.92% in FY 2009-10. The average increase in Sales and profits are 17.59%, 19.56% respectively. While standard deviation of increase in sales is moderate at 6.83, same is high for profits at 25.99 indicating significant impact of change in sales over profitability.

Conclusions

It can be concluded from the study that company has grown significantly from having a turnover of 4539.49 Crores in 2001-02 to 19245.03 Crores in 2010-11. It has created value for its shareholders by consistently posting huge profits and thereby increasing the net worth.

However, company has, despite of having a good track record, a challenging task of maintaining its profitability. As indicated by the trend of last ten years, company's operating margins shranked in the middle i.e. from 2004-05 to 2006-07 which started recovering from 2007-08.

Company has to guard against such fluctuations and effectively control its costs to maintain the profitability successfully.

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