



Financial Performance of Hero Honda Motors Limited, New Delhi

KEYWORDS

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STATEMENT OF THE PROBLEM

The high degree of business risk input cost escalation, severe competition, introduction of new and innovative technology and models day by day and financial risk (high debt capital and service burden) affected the normal operations and posed a threat towards financial fundamentals of Indian Automobile Industry In the context of uncertainty in market with increase in operating and financing costs, analysis of financial performance is deemed to be a perfect fit to focus the core areas on liquidity, profitability and solvency to assess the financial soundness of the Company under study.

REVIEW OF LITERATURE

The researcher has reviewed 25 relevant studies.

OBJECTIVES OF THE STUDY

The following are the objectives of the study

- To analyse the liquidity position of the Hero Honda Motors Limited.
- To analyse the solvency position of the Hero Honda Motors Limited.
- To analyse the profitability position of the Hero Honda Motors Limited.

To give suitable suggestions based on the findings of the present study

METHODOLOGY OF THE STUDY

The study is purely based on secondary data. The data have been collected from published annual reports on Hero Honda Motors Limited. The relevant literatures for analyze the financial performance are collected from various text book, articles, newspaper and related website. To know the financial performance of Hero Honda Motors Limited the researcher has to analyze the liquidity, solvency and profitability accounting tool with the help of Ratio analysis. The relevant statistical tools viz. mean, standard deviation, coefficient of variance and CAGR are also used for the analysis.

STATISTICAL TOOLS USED

The study used Mean, Standard Deviation, Co efficient of variation, Compound Annual Growth Rate as statistical tools.

SCOPE OF THE STUDY

The present study has been undertaken in the financial Performance of Hero Honda Motors Limited. The study mainly focuses on liquidity, solvency, and profitability position of Hero Honda Motors Limited. It does not include production performance.

PERIOD OF THE STUDY

The present study covers a period of 8 years from 2002-

2003 to 2009-2010.

LIMITATION OF THE STUDY

The data used in this study have been collected from published annual report of Hero Honda Motors Limited from 2002-2003 to 2009-2010. The financial performance is mainly based on the financial data collected from the financial statements. Hence the analysis, results and findings are subject to the data published in the annual reports of Hero Honda Motors Limited. Moreover, the statistical tools used for analysing the collected data, especially the ratios used in the study have certain limitations.

FRAME WORK OF ANALYSIS

Ratio analysis is the most commonly used method of analyzing the financial statements. The traditionally known as ratios reflecting liquidity, solvency and profitability analyse of Hero Honda Motors Limited. However the selection of ratio used for evaluating the performance of an entity should be based on nature of its activities and objective to be achieved by performing same.

FINDINGS OF THE STUDY

The findings of the study on financial performance of hero Honda motors limited id Summarised below.

LIQUIDITY POSITION

1. The current ratio of hero Honda limited fluctuate in between a low if 0.36 times in2004-2005 and a high if 0.62 times in 2006.2007.throughiut the period of analysis the current ratio is not equal to the standard for the current ratio2:1

2. liquid ratio of hero Honda limited Fluctuates in between a low if 0.23 times in 2001-2005 and a high of 0.51timws in 2009-2010.through out the period of analysis the liquid is not equal to the standard for the current ratio of

3. The quick ratio of hero Honda limited fluctuates in between a law of 0.01 times in 2004-2005 and a high of 0.39 times in 2009-2010. Throughout the period of analysis the quick ratio is not equal to the standard for the current ratio of0.5:1.

4. The working capital turnover ratio of hero Honda limited shows the fluctuation during the period analysis. It lies between a low of 7.91 times in 2004-2005 and high of 7.83 times in 2006-2007. Throughout the analysis period this ratio shows negative value. This reveals that the hero Honda motors limited can achieve higher volume of sales with relatively small amount of working capital. it is an indication of the operating efficiency of the company.

5. Inventory turnover ratio of hero Honda motors limited shows fluctuation between a low of 25.85 times in 2002-2003 and a high of 39.15 times in 2005-2006. The high inventory turnover ratio reflects efficient business activities of the company. The inventory conversion period varied from 9 days to 14 days. It implies good inventory management and an indication of under investment.

6. Debtors' turnover ratio shows fluctuation between a low of 30.10 times in 2006-2007 and a high of 145.38 times in 2009-2010. An increase in the debtor turnover ratio in 2003-2004 represents the improvement in the liquidity position of hero Honda motors limited. A decrease in debtors' turnover ratio in 2006-2007 indicates that there has been deterioration in the liquidity position of the firm. The average collection period lies in between 3 days and 12 days.

Solvency Position.

1. The total assets financed by shareholders fund of the hero Honda motors limited marked down from 62 per cent to 39 per cent during the first seven years of the study (2002-2003 to 2008-2009). It is an indication of safety to term lenders as only 35 per cent of total assets had been financed by debt funds. While observing the two components of the ratio. It is observed that both shareholders fund and total assets increased, but the higher disproportionate increase in shareholders fund in relation to total assets made the ratio higher in the last two years of the study to make the solvency position safer at the end.

2. The solvency ratio of hero Honda limited shows the fluctuation during the period of analysis. It ties between a low of 0.27 times in 2009-2010 and high of 0.57 times in 2002-2003. It means that even a decline of 50 per cent in total assets is not going to harm the outside liabilities and it is an indication of highest safety for the trade creditors.

3. Fixed assets to proprietary fund of hero Honda limited show fluctuations between low values of 0.45 times. a higher disproportionate increase in fixed assets during the mid 4 years (2004-2005 to 2007-2008) and a higher disproportionate increase in equity funds during the 2 years (2008-2009 to 2009-2010) was the reason for the Up and down in the ratio. One third funds towards fixed assets is an indication of high safety for term lenders. Cs in 2008-2009 and high of 0.60 times in 2002-2003.

4. Debt equity ratio of Hero Honda limited show fluctuation between a low of 0.02 times in 2009-2010 and a high of 0.16 times in 2002-2003. Table 3.2 indicates of the Hero Honda motors limited low debt equity ratio implies a greater claim of owners than creditors. From the point of view of creditors. It represents a satisfactory capital structure of a business since a high proportion of equity provides a larger margin of safety for them.

Profitability Position

1. Operating profit ratio fluctuates in between 12.53 per cent in 2005-2006 and the high of 18.00 per cent in 2009-2010. The decline in sales and increased direct cost of manufacture.

2. The net profits of the hero Honda motors limited have an increasing trend during the study period. The net profits for the year 2002-2003 to 2009-2010 show an upward trend with an exception for the year 2006-2007 when the net profit decreased to Rs. 857.89 crore. A similar trend

of increase is also observed in sales during the year 2002-2003 to 2009 - 2010. The increasing trends in the last three years are remarkable one.

3. The combined effect of these two caused for the fluctuations between a low value of 37.20 per cent in 2007-2008 and high of 57.72 per cent in 2009-2010 overall the net profit to shareholder equity was improved at the end when compared to the beginning this was possible due to the higher disproportionate increase in net profits when compared to the beginning. This was possible due to the higher disproportionate increase in net profits when compared to the capital employed.

4. Fluctuations between a low value of 32.41 per cent in 2007-2008 and high of 67.45 times in 2002-2003 overall the net profit to shareholders equity was improved at the end when compared to the beginning. This was possible due to the higher disproportionate increase in net profit when compared to the shareholders funds.

The analysis made and findings arrived at on the financial performance of the hero Honda motors limited, in a nutshell is presented below.

The financial performance of the Hero Honda motors limited under study recorded better performance on liquidity, solvency and profitability and during the study period. Current ratio, liquid ratio and quick ratio show very low. It reflects that the liquidity of the hero Honda motors limited not encouraging while analyzing the inventory turnover a fluctuating conversion period was observed that is an indication of change in efficiency in utilizing inventory. The trend of debtors' turnover ratio showed efficient collection efforts during the second half of the study period. With the negative working capital the company makes the large amount of sales reflects the efficiency of the select units for the study.

Over the period of analysis proprietary ratio. Solvency ratio of fixed assets and share holders' funds. Debt-equity ratio of the hero Honda motors limited shows fluctuating trend. Creditors and lenders of the company are very safe. The long term solvency ratios also exhibit a strong and solvent financial position of the company. The company should take necessary steps to make use of the situation.

The decline in operating profit ratio is mainly attributed by a decline in sales and increased direct cost of manufacture. The study unit under the current study in spite of having an increased sales trend is not in a position to have the increased level of operating profit. Hence it is conclude that the second reason namely increase in direct cost of manufacture lead to the said decline in operating profit ratio during the study period. The net profit ratio and the operating net profit ratio demonstrates that the profitability position of hero Honda motors limited improve during the study period. Even though returns on capital employed and returns on shareholders fund and encouraging there is no stability.

Suggestions

Based on findings of the study the following suggestions are offered for the improvement of the financial position of hero Honda motors limited.

The hero Honda motors limited already has a good financial performance. This can be made still better for which the following suggestion would be of more relevance. The

company should still improve the current assets position to meet out their short term obligation still effectively. Efficient management of cash and bank balance, inventory and debtors should be continued for smooth running of the business. A strict check and control on the current liabilities is also recommended to improve the financial performance. It is also recommended to reduce the creditors and other short term loans to the maximum possible extent so as to help keep a good amount of liquidity in the future periods. Special cares is also required on creditors and outstanding expenses for improvement of liquidity position as well as expedite the benefits of sufficed working capital.

The company should take necessary steps to make use of the external borrowings in the form of secured and unsecured loans for trading on equity benefit.

Conclusion

The Hero Honda motors limited is one of the largest two wheeler company in the Indian automobile industry. It is one among the most profit making public limited automobile companies in India. The finding in the area of liquidity, profitability and solvency shows highly satisfactory financial performance. The company with a major share in Indian two wheeler markets has a very good potential to improve its profitability in future if it continues its diligence and care in its financial performance sphere.

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