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A STUDY ON FINANCIAL PERFORMANCE ANALYSIS OF HERO MOTOCORP LTD

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ABSTRACT

The introduction discusses the significance of financial success and analysis in evaluating a company's performance, focusing on Hero Motors. It outlines the goals, objectives, scope, limitations, and problem statement of the study. Additionally, it explains the research methodology, including the period of study, data sources, and tools/techniques used. Overall, the study aims to analyze Hero Motors' financial performance, assess solvency, identify strengths/weaknesses, and evaluate financial growth using secondary data from annual reports.

Keyword:Financial success, financial analysis, Hero Motors, goals, objectives, scope, limitations, tools/techniques

INTRODUCTION

Financial success involves achieving economic goals and assessing financial health by analyzing company policies and operations. Financial analysis identifies strengths and weaknesses through balance sheet and income statement evaluations. It aids in economic forecasting, business development, and investment identification. Analyzing Hero Motors' financial statements aims to gauge asset utilization and profitability, informing future performance forecasts. The study's methodology focuses on past and present company performance. Financial statement analysis ensures compliance with regulations, meets stakeholder needs, and provides essential information for investment decisions. Lending institutions benefit from unbiased assessments of a company's financial health when making lending decisions.

OBJECTIVE OF THE STUDY

- To analyze the solvency position of the company.

SCOPE OF THE STUDY

The study focuses on analyzing the financial performance of Hero MotoCorp Limited over the past 5 years (2018-2023), including its mission, financial statements, ratios, trends, and managerial efficiency.

LIMITATION OF THE STUDY

Due to reliance on secondary data, direct observation is impossible, and historical data collection limits relevance of suggestions. Detailed employee discussions were unfeasible due to data dependence.

STATEMENT OF THE PROBLEM

Finance in today's economy is crucial, providing necessary funds for enterprises of all sizes to conduct daily operations and achieve targets. Often referred to as the "lifeblood" of businesses, finance is indispensable for goal attainment. Effective financial management involves not only acquiring funds but also their efficient utilization, contributing to organizational success.

REVIEW OF LITERATURE

1. **Pavithra (2020)** a study on financial performance analysis of hero MotoCorp limited, the study concludes that Hero MotoCorp Limited has exhibited strong financial performance over the initial four years, supporting its expansions and diversification efforts effectively. The researcher suggests several measures for further improvement: Implementing strategies to enhance net profit in the upcoming years. Maintaining liquid assets to bolster future liquidity positions.
2. **Hem Latal and Amandeep Singh (2017)** The finding in their research is Maruti Suzuki is the No.1 automobile industry in India and has changed the overtime to suit the needs of their customers. Maruti is the only company in India with lots of small car models. There was positive correlation of age, education and income with service quality during purchase, safety of car and cost of ownership. An association benefit was the most influential services provided by the dealers.
3. **Dr Pratibha Jain & Prof. Megha Mehta (2013)** In their study on financial performance of automobile companies finds that Hero Honda company Performed well because of its usage of latest technology.
4. **Rana (2019)** In this study the financial statement of Tata Motors & Maruti Suzuki was examined using ratio analysis from 2013-14 to 2017-18. In comparison to Maruti Suzuki, Tata Motors had a greater capacity to pay liabilities. Maruti Suzuki has a high debt-to-equity ratio, indicating the company's poor performance. Maruti Suzuki has a higher inventory turnover ratio, indicating that stock is selling quickly. Tata Motors has lower earnings per share than Maruti Suzuki.
5. **Qamar Azam and et.al (2020)** studied the financial ratio and analysis of Tata Motors for the financial Year 2007 to 2016.In this study, they analysed the financial status of the company through ratio analysis. They calculated the financial ratios of Tata Motors and compared to other automobile companies such as Maruti Suzuki, Ashok Leyland, SML Isuzu and Force motors. Under this research it was found that financial condition of Tata Motors was under performance.

HERO MOTORS PROFILE

Formerly known as Hero Honda, Hero MotoCorp is a publicly traded company listed on the Bombay Stock Exchange (BSE:500182) and the National Stock Exchange (NSE: HEROMOTOCO). It is also a constituent of the NSE Nifty 50. Established on January 19, 1984, by Brijmohan Lall Munjal, the company is headquartered in New Delhi, India.

Led by key figures such as Pawan Munjal, the Executive Chairman, and Niranjan Gupta, the Chief Executive Officer, Hero MotoCorp specializes in the production of motorcycles and scooters. With a robust production output of 7,587,130 units in 2018, the company has maintained its position as a significant player in the automotive industry.

In terms of financial performance, Hero MotoCorp has showcased impressive figures, with a revenue of ₹34,727.39 crore (US$4.3 billion) in 2023. The operating income stood at ₹3,863.62 crore (US$480 million), while the net income amounted to ₹2,799.90 crore (US$350 million) in the same year.

With total assets valued at ₹23,917.03 crore (US$3.0 billion) and total equity of ₹16,780.63 crore (US$2.1 billion) in 2023, Hero MotoCorp maintains a strong financial footing. The company employs around 8,599 individuals as of 2020 and operates under the parent company Hero Motors Company, with subsidiaries including Vida Electric Scooter.

TOOLS OF FINANCIAL ANALYSIS

In the analysis of financial statements, the analyst has a variety of tools available to choose the best that suits his specific purpose. In this report we will confine ourselves to **Ratio Analysis** based on information provided from financial statements such as Balance Sheet and Profit & Loss Account.

RATIO ANALYSIS

Ratio analysis is the study of different financial data points seen in a company's financial statements. They are mostly utilized by outside analysts to assess a company's profitability, liquidity, and solvency, among other factors.

TYPES OF RATIO ANALYSIS

- Liquidity Ratio
- Solvency Ratio

1. LIQUIDITY RATIOS

Liquidity refers to the ability of a concern to meet its current obligations as and when these become due. The short-term obligations are met by realizing amounts from current, floating or circulating assets. The important liquidity ratios are:

1. Current Ratio
2. Liquid Ratio
3. Absolute Liquid Ratio

- CURRENT RATIO

The current ratio may be defined as the relationship between current assets and current liabilities. This ratio measures general liquidity and it is most widely used to make the analysis of a short-term financial position or liquidity of a firm.

Current Ratio = Current Asset / Current Liabilities

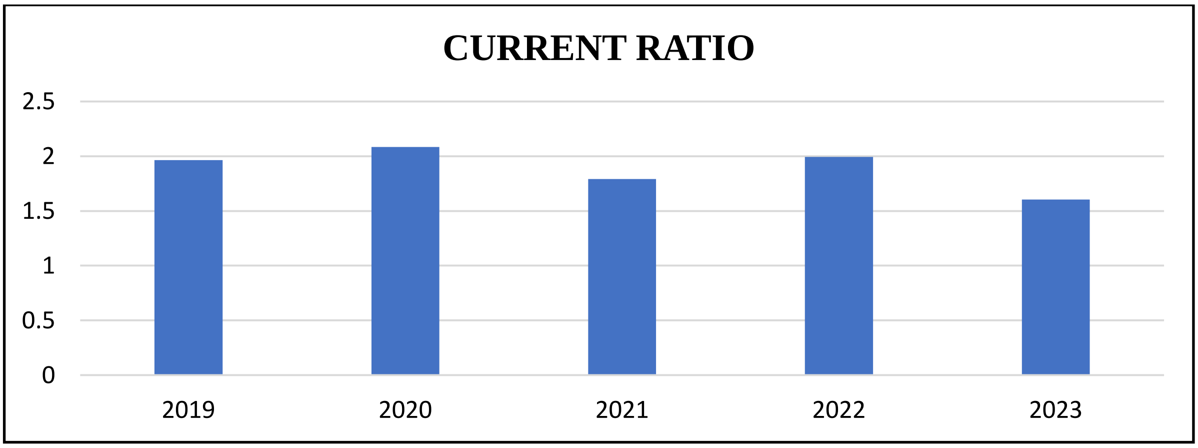
TABLE SHOWING CURRENT RATIO

YEAR	CURRENT ASSET	CURRENT LIABILITY	CURRENT RATIO
2019	8115.64	4130.36	1.96
2020	8288.56	3976.06	2.08
2021	10952.79	6110.22	1.79
2022	10114.96	5072.38	1.99
2023	9036.79	5632.98	1.60

INTERPRETATION

The current ratio reflects a company's short-term liquidity. From 2019 to 2020, there's an improvement, indicating stronger ability to cover short-term liabilities with assets. However, in 2021 and 2023, the ratio decreases, suggesting potential challenges in meeting short-term obligations due to changes in asset and liability levels.

CHART SHOWING CURRENT RATIO



SOLVENCY RATIO

Solvency ratio, also known as financial leverage ratios, relate a firm's debt levels to its assets, equity, and profits to assess the chances of a company being afloat in the long run by paying down both long-term debt and debt interest.

Solvency ratios include:

- Debt to Equity Ratio,
- Debt-Assets Ratio,
- Interest Coverage Ratio
- Proprietary Ratio *or Equity Ratio*

PROPRIETARY RATIO

Proprietary ratio is a type of solvency ratio that is useful for determining the amount or contribution of shareholders or proprietors towards the total assets of the business. It is also known as equity ratio or shareholder equity ratio or net worth ratio. The main purpose of this ratio is to determine the proportion of the total assets of a business that is funded by the proprietors.

Proprietary Ratio = Proprietor fund / Total Tangible Assets

TABLE SHOWING PROPRIETARY RATIO

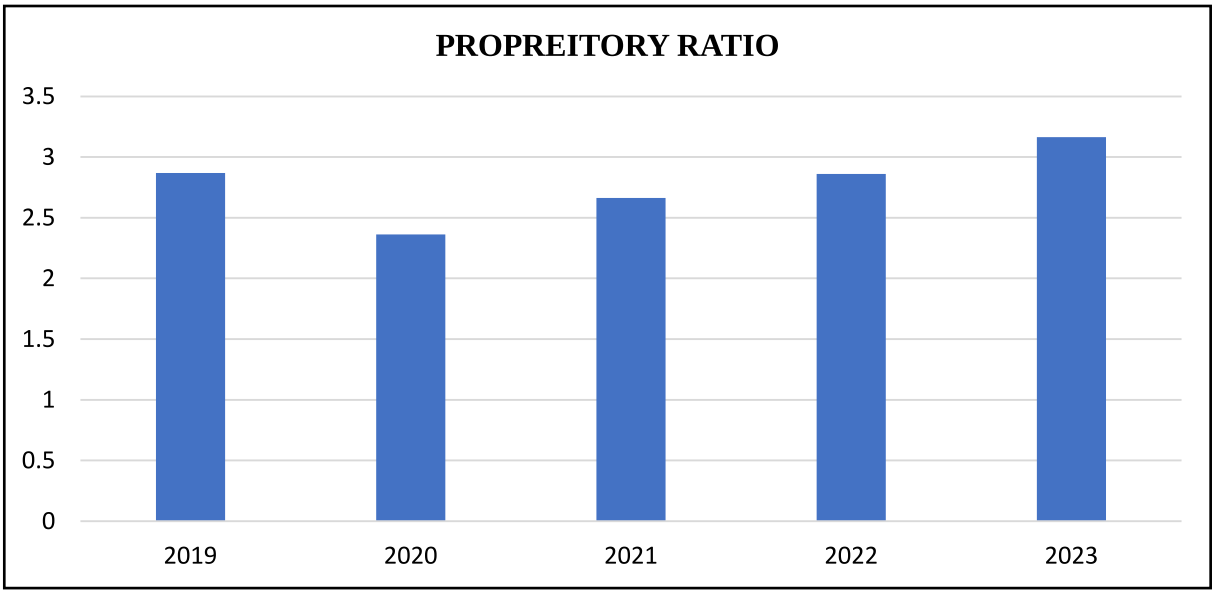
YEAR	PROPRIETORS FUND	TANGIBLE ASSETS	PROPREITORY RATIO

2019	12847.53	4477.53	2.86
2020	14120.96	5976.99	2.36
2021	15179.39	5698	2.66
2022	15758.47	5507.98	2.86
2023	16669.46	5267.23	3.16

INTERPRETATION

The proprietary ratio measures the reliance on owner's equity to finance tangible assets. Over the years, there's a consistent trend of increasing reliance on proprietor's funds, as evidenced by a steady rise in the ratio from 2.36 in 2020 to 3.16 in 2023, indicating evolving financial dynamics favoring owner's equity.

CHART SHOWING PROPRIETARY RATIO



FINDINGS

LIQUIDITY RATIO

- The current ratio done for the fiscal years 2019–2023.
- The company's current ratio has grown throughout the course of the year, indicating that it has sufficient current assets to cover its current liabilities.
- The current ratio, indicating a company's ability to meet short-term obligations, fluctuated over the years, peaking at 2.08 in 2020 but declining to 1.60 in 2023, showcasing varying liquidity levels.

SOLVENCY RATIO

- The Proprietary ratio done for the fiscal years 2019–2023.
- A good proprietary ratio is 0.5 or higher, meaning that at least 50% of a company's assets are funded by its capital.
- The proprietary ratio fluctuated: 2.86 (2019), 2.36 (2020), 2.66 (2021), 2.86 (2022), and 3.16 (2023).

SUGGESTIONS

- **Focus on Innovation:** Hero Motocorp should continue to innovate and develop new products to meet changing customer needs and preferences. This could involve investing in research and development, collaborating with technology companies, and exploring new markets and customer segments.
- **Expand Distribution Channels:** Hero Motocorp should look for ways to expand its distribution channels and reach new customers. This could involve partnering with dealerships, online platforms, and other businesses that can help to expand the company's reach and brand awareness.

CONCLUSION

In conclusion, the financial performance analysis of Hero MotoCorp Ltd reveals significant insights. The company demonstrated fluctuations in short-term liquidity, with improvements from 2019 to 2020 but challenges in 2021 and 2023. However, there's a consistent trend of increasing reliance on proprietor's funds for financing tangible assets, reflecting evolving financial dynamics favoring owner's equity. These findings underscore the importance of continuously monitoring financial ratios to assess and adapt to changing financial conditions for sustainable growth.

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