



“An Analytical Study of Working Capital Management at Hero Moto Corp Nagpur.”

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Abstract: The automotive industry is a wide range of companies and organizations involved in the design, development, manufacturing, marketing, and selling of motor vehicles. The Government of India aims to make automobile manufacturing the main driver of "Make in India" initiative, as it expects the passenger vehicles market to triple to 9.4 million units by 2026, as highlighted in the Auto Mission Plan (AMP) 2016-26. The government plans to promote eco-friendly cars in the country—i.e., CNG-based vehicles, hybrid vehicles, and electric vehicles—and also to make mandatory 5 per cent ethanol blending in petrol. The government has formulated a Scheme for Faster Adoption and Manufacturing of Electric and Hybrid Vehicles in India, under the National Electric Mobility Mission 2020, to encourage the progressive introduction of reliable, affordable, and efficient electric and hybrid vehicles into the country.

Hero Moto Corp Ltd. (Formerly Hero Honda Motors Ltd.) is the world's largest manufacturer of two - wheelers, based in India. Hero Moto Corp, the country's largest two-wheeler maker by volume, continue to dominate the top 10 selling two-wheelers list in financial year 2014- 15 with its four products - Splendor, Passion, HF Deluxe, and Glamour ranked at 1st, 3rd, 4th, 8th spots respectively, according to the sales data released by Society of India Automobiles Manufacturers (SIAM) recently.

The motive behind the study is to develop an understanding about the working capital management in the running business organization and to help the company in developing the efficient working capital management. Therefore, it helps in future planning and control decisions.

Objectives of the study were

- To analyze the effective utilization of working capital
- To evaluate the performance of receivables and cash
- To study the structure of working capital
- To study the sources of working capital finance
- To study need of working capital requirement in organization

There were mainly two types of data used for the study

1 Primary data Secondary data

The study was restricted for a period of three years only commencing from 2017-2020. So it shows limited period data is considered.

As the financial information is confidential, they do not want to share accurate data or information.

The findings reveal shows that the end result of the statement of changes in working capital after comparing all the increases and decreases is the net increase in the amount of working capital is Rs.348007.7, during year 2017-18. is Rs.667550.8 during year 2018-19 and Rs.11176679 during year 2019-20.

Current ratio in 2017-2018 is 2.41, in 2014-2015 it is 4.99 and in 2018-2019 it is 6.28. The current ratio of all the above three years is above the standard current ratio, which is 2:1.

Working capital turnover ratio in 2017-2018 it is 1.80, in 2018-2019 it is decrease to 1.40 and in 2019-2020, and again it is decrease to 0.97. It shows that the company isn't using its working capital efficiently, so it isn't satisfactory.

It is suggested that the company should concentrate on the current ratio by utilizing current asset for productive purpose in order to achieve the standard ratio.

The society should take necessary steps to make use of the quick asset for the development of the society and should balance with the standard ratio.

Current assets turnover ratio is fluctuating. It's not good for society so in order to increase the current assets turnover ratio a society need to increase its sales.

The main scope of the study was to put into practical the theoretical aspect of the study into real life work experience.

Key Words: Working Capital, Balance, Standard Ratio, Working Capital Management

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INTRODUCTION: Working capital management refers to a company's managerial accounting strategy designed to monitor and utilize the two components of working capital, current assets and current liabilities, to ensure the most financially efficient operation of the company. The primary purpose of working capital management is to make sure the company always maintains sufficient cash flow to meet its short-term operating costs and short-term debt obligations.

Working capital management is concerned with the problems that arise in attempting to manage the current assets, the current liabilities and the interrelationship that exists between them. The term current assets refer to those assets which in the ordinary course of business can be, or will be, converted into cash within one year without undergoing a diminution in value and without disrupting the operation of the firm.

Working capital is defined as, —the excess of current assets over current liabilities and provisionsl.

In the Annual Survey of Industries (1961), working capital is defined to include,

–Stocks of materials, fuels, semi-finished goods including work-in-progress and finished goods and by-products; cash in hand and bank and the algebraic sum of sundry creditors as represented by,

- (a) outstanding factory payments e.g. rent, wages, interest and dividend;
- (b) purchase of goods and services;
- (c) Short-term loans and advances and sundry debtors comprising amounts due to the factory on account of sale of goods and services and advances towards tax payments.

In the words of shubin, "working capital is the amount of funds necessary to cover the cost of operating the enterprise."

The net working capital formula is calculated by subtracting the current liabilities from the current assets. Here is what the basic equation looks like:

➤ Net working capital = current assets - current liabilities

NEED FOR WORKING CAPITAL

Working capital is needed till a firm gets cash on sale of finished products. It depends on two factors:

1. Manufacturing cycle i.e. time required for converting the raw material into finished product.
2. Credit policy i.e. credit period given to Customers and credit period allowed by creditors.

Thus, the sum total of these times is called an operating cycle and it consists of the following six steps:

- a. Conversion of cash into raw materials.
- b. Conversion of raw materials into work-in-process.
- c. Conversion of work-in-process into finished products.
- d. Time for sale of finished goods—cash sales and credit sales.
- e. Time for realization from debtors and Bills receivables into cash.
- f. Credit period allowed by creditors for credit purchase of raw materials, inventory and creditors for wages and overheads.

DETERMINANTS OF WORKING CAPITAL

The factors influencing the working capital decisions of a firm may be classified as two groups, such as

- I. Internal factors
- II. External factors

The internal factors include

1. Nature of business size of business,
2. Firm's product policy
3. Firm's credit policy
4. Availability of credit
5. Growth and expansion of business
6. Profit margin and dividend policy
7. Operating efficiency of the firm
8. Co-coordinating activities in firm

The external factors include

1. Business fluctuations,
2. Changes in the technology,
3. Infrastructural facilities,
4. Import policy and
5. The taxation policy etc.

The main advantages of maintaining adequate amount of working capital are as follows:

1. Solvency of the business:

Adequate working capital helps in maintaining solvency of the business by providing uninterrupted flow of production.

2. Goodwill:

Sufficient working capital enables a business concern to make prompt payments and hence helps in creating and maintaining goodwill.

3. Easy loans:

A concern having adequate working capital, high solvency and good credit standing can arrange loans from banks and other on easy and favorable terms.

4. Cash Discounts:

Adequate working capital also enables a concern to avail cash discounts on the purchases and hence it reduces costs.

5. Regular supply of raw materials:

Sufficient working capital ensures regular supply of raw materials and continuous production.

6. Regular payment of salaries, wages and other day-to-day commitments:

A company which has ample working capital can make regular payment of salaries, wages and other day-to-day commitments which raises the morale of its employees, increases their efficiency, reduces wastages and costs and enhances production and profits.

7. Exploitation of favourable market conditions:

Only concerns with adequate working capital can exploit favorable market conditions such as purchasing its requirements in bulk when the prices are lower and by holding its inventories for higher prices.

8. Ability to face Crisis:

Adequate working capital enables a concern to face business crisis in emergencies such as depression because during such periods, generally, there is much pressure on working capital.

9. Quick and Regular return on Investments:

Every Investor wants a quick and regular return on his investments. Sufficiency of working capital enables a concern to pay quick and regular dividends to its investors as there may not be much pressure to plough back profits. This gains the confidence of its investors and creates a favorable market to raise additional funds i.e., the future.

10. High Morale:

Adequacy of working capital creates an environment of security, confidence, and high morale and creates overall efficiency in a business.

INADEQUATE WORKING CAPITAL

1. A concern which has inadequate working capital cannot pay its short-term liabilities in time. Thus, it will lose its reputation and shall not be able to get good credit facilities.
2. It cannot buy its requirements in bulk and cannot avail of discounts, etc.
3. It becomes difficult for the firm to exploit favorable market conditions and undertake profitable projects due to lack of working capital.
4. The firm cannot pay day-to-day expenses of its operations and it creates inefficiencies, increases costs and reduces the profits of the business.
5. It becomes impossible to utilize efficiently the fixed assets due to non-availability of liquid funds.

The rate of return on investments also falls with the shortage of working capital

The automotive industry is a wide range of companies and organizations involved in the design, development, manufacturing, marketing, and selling of motor vehicles.

The Government of India aims to make automobile manufacturing the main driver of "Make in India" initiative, as it expects the passenger vehicles market to triple to 9.4 million units by 2026, as highlighted in the Auto Mission Plan (AMP) 2016-26.

In the Union budget of 2015-16, the Government has announced plans to provide credit of Rs 850,000 crore (US\$127.5 billion) to farmers, which is expected to boost sales in the tractors segment.

The government plans to promote eco-friendly cars in the country—i.e. CNG-based vehicles, hybrid vehicles, and electric vehicles—and also to make mandatory 5 per cent ethanol blending in petrol.

The government has formulated a Scheme for Faster Adoption and Manufacturing of Electric and Hybrid Vehicles in India, under the National Electric Mobility Mission 2020, to encourage the progressive introduction of reliable, affordable, and efficient electric and hybrid vehicles into the country.

The Automobile Mission Plan (AMP) for the period 2006–2016, designed by the government is aimed at

accelerating and sustaining growth in this sector. Also, the well-established Regulatory Framework under the Ministry of Shipping, Road Transport and Highways, plays a part in providing a boost to this sector.

Hero Moto Corp, the country's largest two-wheeler maker by volume, continue to dominate the top 10 selling two-wheelers list in financial year 2014- 15 with its four products - Splendor, Passion, HF Deluxe, and Glamour ranked at 1st, 3rd, 4th, 8th spots respectively, according to the sales data released by Society of India Automobiles Manufacturers (SIAM) recently.

REVIEW OF LITERATURE

- **Dr. Khatik S. K. and Jain Rashmi (2009)** states that the management of working capital is one of the most important and key resources of an organization for its day-to-day operations. Working capital can be taken as funding resources for routine activities of business. It is the most vital and important part of fund management and profitability for business. The writer has analyzed the working capital position of MPSEB (Madhya Pradesh State Electricity Board) by ratio analysis technique and it was found that the position of current ratio, quick ratio, acid-test ratio, working capital ratio, inventory turnover ratio are not up to the standard benchmark. 105
- **Sen Mehmet and Oruc Eda (2009)** determines the relationship between efficiency level of firms being traded in Istanbul Stock Exchange (ISE) in working capital management and their return on total assets. In this article they have made an attempt to explain the relationship between different indicators relating to efficiency in working capital management and their return on total assets through two models. The study concludes with the observation that according to the results in terms of both, all the firms involved in the study and sectors, there is a significant negative relationship between cash conversion cycle, net working capital level, current ratio, accounts receivable period, inventory period and returns on total assets.
- **Ramachandran Azhagaiah and Janakiraman Muralidharan (2009)** analyzed the relationship between working capital management efficiency (WCME) and earnings before interest and taxes (EBIT) of the paper industry in India during 1997-98 to 2005-06. To measure the working capital management efficiency three index values i.e., performance index, utilization index and efficiency index, and EBIT have been used for all the firms over the period of the study. At the end of the study it was noted that Indian paper firms performed remarkably well during the period. Industry overall efficiency index was >1 in 3 out of 9 years for the study period. Though some of the sample units had successfully improved efficiency during the three years, the existence of a very high degree of inconsistency in this matter clearly points out the need for adopting sound WCM (working capital management) policy in these firms.
- **Baig Viqar Ali (2009)** aimed at reporting comparative findings of a survey of working capital management practices of selected agribusiness firms from dairy co-operatives, private and MNC dairy firms as a part of the research thesis completed in July 2008. Besides, an attempt has been made to know the effect of the ownership, government regulations, managerial empowerment and cultural factor on the working capital decision making.

- **Uyar Ali (2009)** examined the relationship of cash conversion cycle with firm size and profitability of the corporations listed in the Istanbul Stock Exchange (ISE) for the year 2007. The following are the objectives of the study: 1. To set industry benchmarks for cash conversion cycle (CCC) of merchandising and manufacturing companies, 106 2. To examine the relationship between the length of the CCC and the size of the firms, and 3. To study the length of the CCC and profitability. 4. It was observed that the retail/wholesale industry showed shorter CCC than the manufacturing industries. Another important finding of the study was that the textile industry had the longest CCC, which explains the liquidity problems in the industry. Moreover, the findings indicated a significant negative correlation between the length of CCC and the firm size, in terms of both net sales and total assets. Lastly, the significant negative correlation between the length of CCC and profitability is another important finding of the study.
- **Bhunja Amalendu (2010)** showed how Indian Pharmaceutical Industry has played a key role in promoting and sustaining development in the vital field of medicines. Financial analysis often assesses a firm's production and productivity performance, profitability performance, liquidity performance, working capital performance, fixed assets performance, fund flow performance and social performance. The study concludes with the observation that the financial performance of the selected pharmaceuticals' liquidity position was strong in case of KAPL and RDPL, thereby reflecting the ability of companies to pay short term obligations on due dates. Long-term solvency in case of KAPL and RDPL in all the years shows that companies relied more on external funds in terms of long-term borrowings, thereby providing a lower degree of protection to the creditors. Debtors turnover ratio of RDPL needs to be improved as the solvency of the firm depends upon the sales income generated from the use of various assets.
- **Singh Swaran and Dr Bansal S. K. (2010)** carried out a study of the structure of working capital, the management of inventory, accounts receivable, accounts payable and cash. The authors have used the data from the published annual reports of IFFCO and KRIBHCO starting from the year 1999-00 to 2006-07. The main objective of the present study is to examine and evaluate the working capital management in IFFCO and KRIBHCO. The analysis has been done with the help of various ratios to derive conclusions. It may be concluded that as far as management of working capital is concerned, IFFCO was performing better than KRIBHCO. 107
- **Arunkumar O. N. and Jayakumar S. (2010)** explained how working capital is considered to be the lifeblood and controlling nerve centre of the business. Profitability and solvency are two vital aspects of working capital management. The survival and growth of the company depends upon the ability to meet profitability and solvency. Here the authors have concentrated on the analysis of liquidity and solvency position of the major Public Sector Electrical Industries in Kerala such as Kerala Electrical and Allied Engineering Company Ltd (KEL) and Transformers and Electrical Kerala Ltd (TELK) for the financial years 1997-98 to 2007-08 and 1997-98 to 2005-06 respectively. In conclusion the authors have made a few important observations with regard to the companies. Both the companies show a trend of very low level of solvency position. The liquidity position of the companies is below the

normal value. KEL has a lower level of net profit compared to TELK for the stated period. In comparison with KEL, the sensitivity of changes in the level of current assets is high in case of TELK.

OBJECTIVES OF STUDY

- To analyze the effective utilization of working capital
- To evaluate the performance of receivables and cash
- To study the structure of working capital
- To study the sources of working capital finance
- To study need of working capital requirement in organization

RESEARCH METHODOLOGY

Research methodology describes about the research objectives, design and methodology adopted to conduct the study. The data collected can be either primary or secondary. The above information is carried on with the cooperation of management of Hero Moto Corp Ltd.

SOURCES OF DATA

The analysis of financial viability of the company necessitates accurate and reliable data. Therefore, the methodology used for the collection of information. There are mainly two types of data.

- 1 Primary data
2. Secondary data

PRIMARY DATA:

Most of the information is collected from internal discussion with various officials in the finance department and concerned executive of other department.

SECONDARY DATA:

The information collection from Annual reports, published records and reference books, official websites, staff and Executive of financial accounting department.

TOOLS OF ANALYSIS

There are some of the tools, which are relevant for the study of ration analysis and performance of **Hero Moto Corp Ltd.**

- Net working capital
- Ratio analysis
- Balance sheet

DATA ANALYSIS AND INTERPRETATION**TABLE 1 OF STATEMENT OF CHANGES IN WORKING CAPITAL FOR THE YEAR 2017-18**

Particulars	31/3/2017	31/3/2018	Increase	Decrease
Current assets				
closing stock	49329	60952	11623	
deposits	328566	497091	168525	
sundry debtors	544202.1	546352	2149.89	
cash in hand	19507.29	13720.18		5787.11
bank accounts	850937.2	1075527	224590	
TDS A/C	104669	124965	20296	
value added tax A/C	4377.13	5900.81	1523.68	
A= total current assets	1807386	2324508		
Current liabilities				
duties & taxes	27061	31659.07		4598.07
sundry creditors	465493.3	535808		70413.72
B= total current liabilities	398352	567467.1		
NET WORKING CAPITAL(A-B)	1409034	1757041	428707.6	80699.9
Increase or decrease in working capital	348007.7			348007.7
	1757041	1757041	428707.6	428707.6

INTERPRETATION

The above table clearly shows the increase in the working capital for the year 2017 to 2018. All the Current assets except cash in hand have decreased in year 2018 as compared to year 2017. The end result of the statement of changes in working capital after comparing all the increases and decreases is the net increase in the amount of working capital. The above table focuses on the fact that the increase in working capital is Rs.348007.7

TABLE 2 OF STATEMENT OF CHANGES IN WORKING CAPITAL FOR THE YEAR 2018-19

Particulars	31/3/2018	31/3/2019	Increase	Decrease
Current assets				
closing stock	60952	90485	29533	
deposits	497091	1193568	696477	
sundry debtors	546352	549272	2919.79	
cash in hand	13720.18	31116.68	17396.5	
bank accounts	1075527	669936.3		405591
TDS A/C	124965	146221	21256	
value added tax A/C	5900.81	5883.24		17.57
A= total current assets	2324508	2686482		
Current liabilities				
duties & taxes	31659.07	5000	26659.07	
sundry creditors	535808	256890	278918	
B= total current liabilities	567467.1	261890		
NET WORKING CAPITAL(A-B)	17757041	2424592	1073159	405608.6
Increase or decrease in working capital	667550.8			667550.8
	2424592	2424592	1073159	1073159

INTERPRETATION

The above table clearly shows the increase in the working capital for the year 2018 to 2019. All the Current assets except bank account and value added tax A/C have decreased in year 2019 as compared to year 2018. The end result of the statement of changes in working capital after comparing all the increases and decreases is the net increase in the amount of working capital. The above table focuses on the fact that the increase in working capital is Rs.667550.8

TABLE 3 OF STATEMENT OF CHANGES IN WORKING CAPITAL FOR THE YEAR 2019-20

Particulars	31/3/2019	31/3/2020	Increase	Decrease
Current assets				
stock	90485	78143		12342
deposits	1193568	2290545	1096977	
sundry debtors	549272	565969	16697	
cash in hand	31116.68	5787.29		25329.39
bank accounts	669936.3	811997.8	142061.5	
TDS A/C	146221	169068.8	22847.8	
value added tax A/C	5883.24	12249.33	6365.09	
A= total current assets	2686482	3933760		
Current liabilities				
duties & taxes	5000	4500	500	
sundry creditors	256890	327989		71099
B= total current liabilities	261890	332489		
NET WORKING CAPITAL(A-B)	2424592	3601271	1285448	106770.4
Increase or decrease in working capital	11176679			1176678
	3601271	3601271	1285448	1285448

INTERPRETATION

The above table clearly shows the increase in the working capital for the year 2019 to 2020. All the Current assets except stock and cash in hand have decreased in year 2020 as compared to year 2019. The end result of the statement of changes in working capital after comparing all the increases and decreases is the net increase in the amount of working capital. The above table focuses on the fact that the increase in working capital is Rs.11176679.

RATIO ANALYSIS

LIQUIDITY RATIOS

CURRENT RATIO

Current ratio may be defined as a relationship between current assets and current liabilities. It is a measure of general liquidity and is most widely used to make the analysis of short term financial position of a firm. The ideal value of current ratio is 2:1

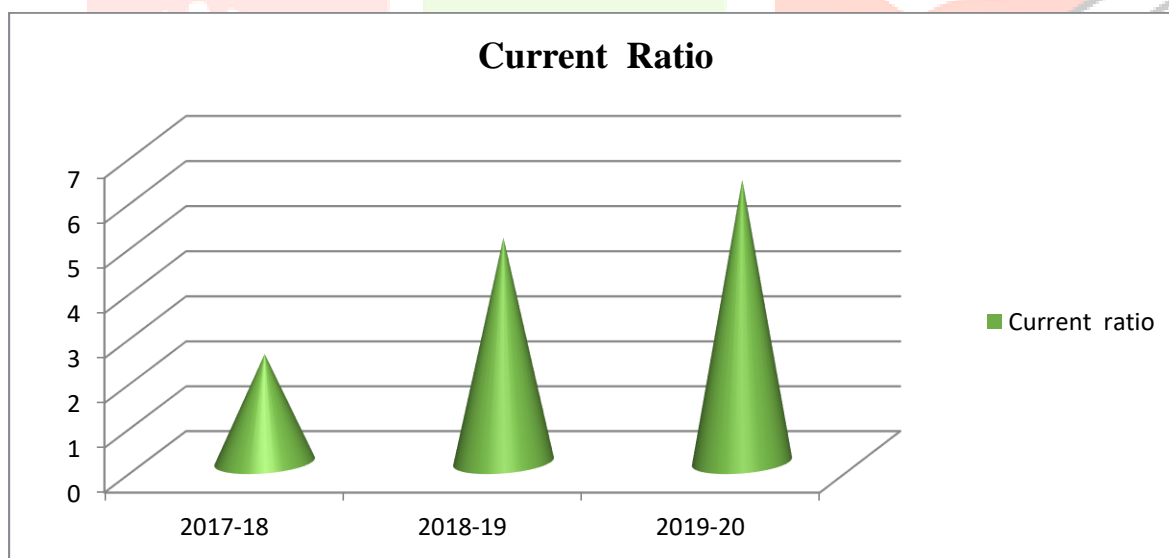
Current Ratio = Current Assets / Current Liabilities

Table 4 Current Ratio of Hero Moto Corporation Ltd. of Past 3 Years:-

Year	Current assets	Current liabilities	Current ratio
2017-18	1220002	504148.9	2.41
2018-19	1307987	261890	4.99
2019-20	2089140	332489	6.28

ANALYSIS

From the above table, we can observe that current ratio in 2013-2014 it is 2.41, in 2014-2015 it is 4.99, in 2015-2016 it is 6.28. This is higher than ideal ratio. The ideal value of current ratio is 2:1



Current Ratio of Hero Moto Corporation Ltd. of Past 3 Years:- INTERPRETATION

The chart shows that current ratio in 2017-2018 is 2.41, in 2018-2019 it is 4.99 and in 2019-2020 it is 6.28. The current ratio of all the above three years is above the standard, so the society can meet its short term obligation. The company is able to generate enough from operations to pay for its current obligations with current assets.

LIQUID OR QUICK RATIO

The liquidity ratios are a result of dividing cash and other liquid assets by the short term borrowings and current liabilities. They show the number of times the short term debt obligations are covered by the cash and liquid assets. If the value is greater than 1, it means the short term obligations are fully covered. Liquidity refers to the ability of a concern to meet its current obligations and when these become due. The ideal value of quick ratio is 1:1.

$$\text{Liquid Ratio} = \text{Liquid Assets} / \text{Current Liabilities}$$

OR

$$\text{Quick Ratio} = \text{Quick Assets} / \text{Quick Liabilities}$$

$$\text{Quick assets} = \text{Current assets} - (\text{stock} + \text{prepaid expenses}) \quad \text{Quick}$$

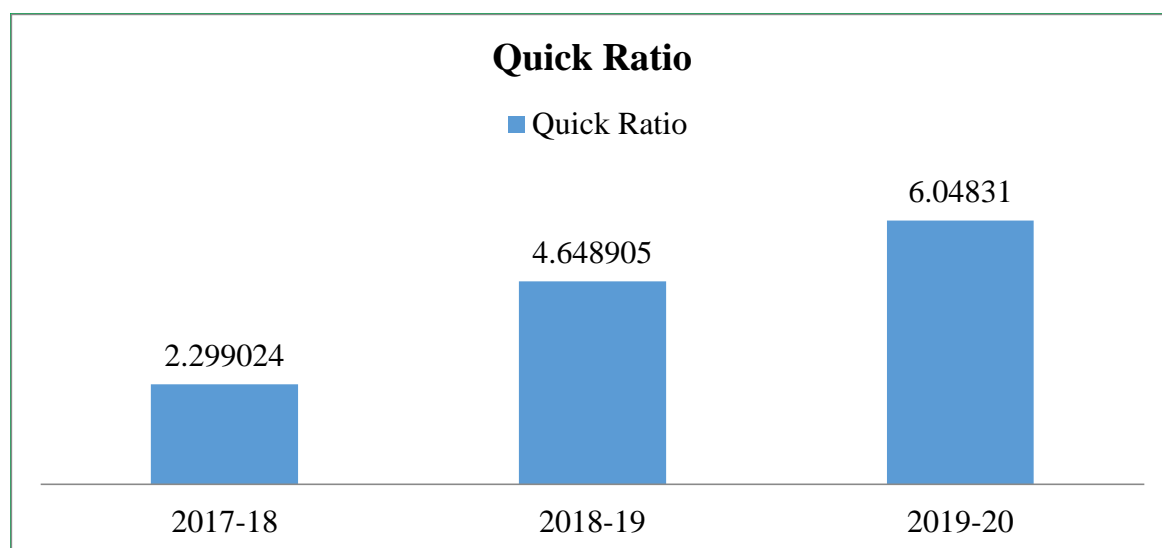
$$\text{liabilities} = \text{Current liabilities} - \text{Bank overdraft}$$

Table 5 Quick Ratio of Hero Moto Corporation Ltd. of Past 3 Years:-

Year	Quick assets	Quick liabilities	Quick Ratio
2017-18	1159050	504148.9	2.299024
2018-19	1217502	261890	4.648905
2019-20	2010997	332489	6.04831

ANALYSIS

From the above table, we can observed that Liquid or quick ratio in 2017-2018 it is 2.29, in 2018-2019 it is 4.64, in 2019-2020 it is 6.04. Above all the value of that Liquid or quick ratio is greater than standard form of absolute liquid ratio.



Quick Ratio of Hero Moto Corporation Ltd. of Past 3 Years

INTERPRETATION

The chart shows that that Liquid or quick ratio in 2017-2018 is 2.29, in 2018-2019 it is 4.64, and in 2019-2020 it is 6.04. The Liquid or quick ratio of allthe above three years is above the standard, so the society can meet its short term obligation. The company is able to generate enough from operations to payfor its current obligations with current assets.

ABSOLUTE LIQUID RATIO

Absolute Liquid Assets include cash in hand and at bank and marketable securities or temporary investments. The acceptable norm for this ratio is 50% or 0.5: 1 or 1: 2

Absolute Liquid Ratio = Absolute Liquid Assets / Current Liabilities

Table 6 Absolute Liquid Ratio of Hero Moto Corporation Ltd. of Past 3 Years

Year	Absolute Liquid Assets	Current liabilities	Absolute Liquid Ratio
2017-18	2132690	504148.9	4.230278
2018-19	2443892	261890	9.331751
2019-20	3674299	332489	11.05089

ANALYSIS

From the above table, we can observed that Absolute Liquid Ratio in 2017-2018 it is 4.23, in 2018-2019 it is 9.33, in 2019-2020 it is 11.05. Above all the value of Absolute Liquid Ratio is greater than standard form of absolute liquid ratio.

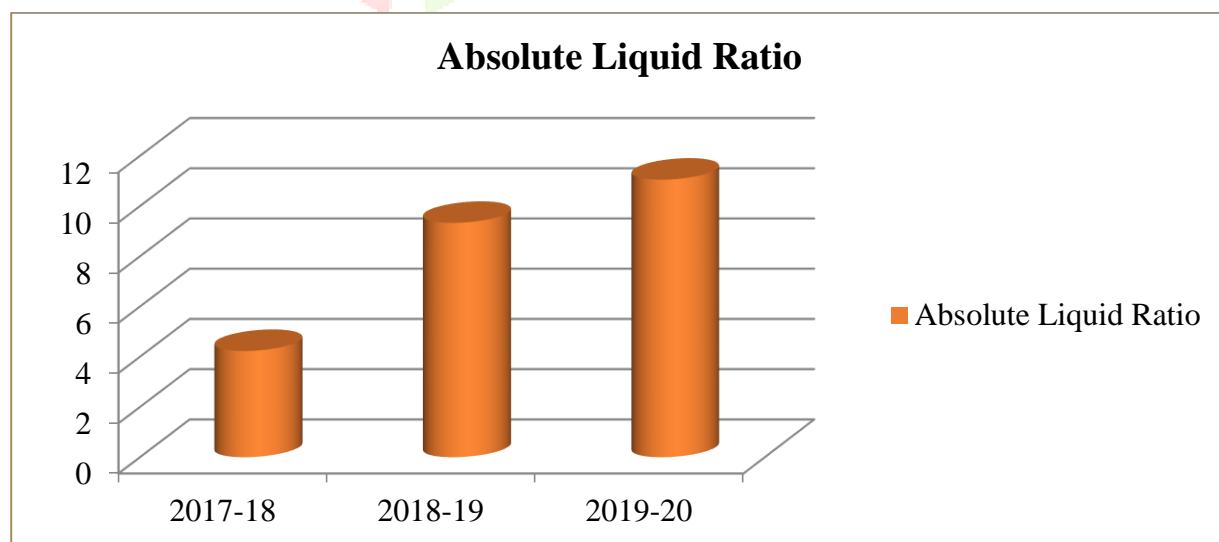


Figure 3 Absolute Liquid Ratio of Hero Moto Corporation Ltd. of Past 3 Years

INTERPRETATION

The chart shows that Absolute quick ratio in 2017-2018 is 4.23, in 2018-2019 it is 9.33, and in 2019-2020 it is 11.05. The Absolute quick ratio of all the above three years is above the standard, so the society can meet its short term obligation. The company is able to generate enough from operations to payfor its current obligations with current assets.

PROFITABILITY RATIOS

GROSS PROFIT RATIO

Gross profit is a financial metric used to assess a company's financial health andbusiness model by revealing the proportion of money left over from revenues after accounting for the cost of goods sold (COGS).It is a popular tool to evaluate the operational performance of the business.

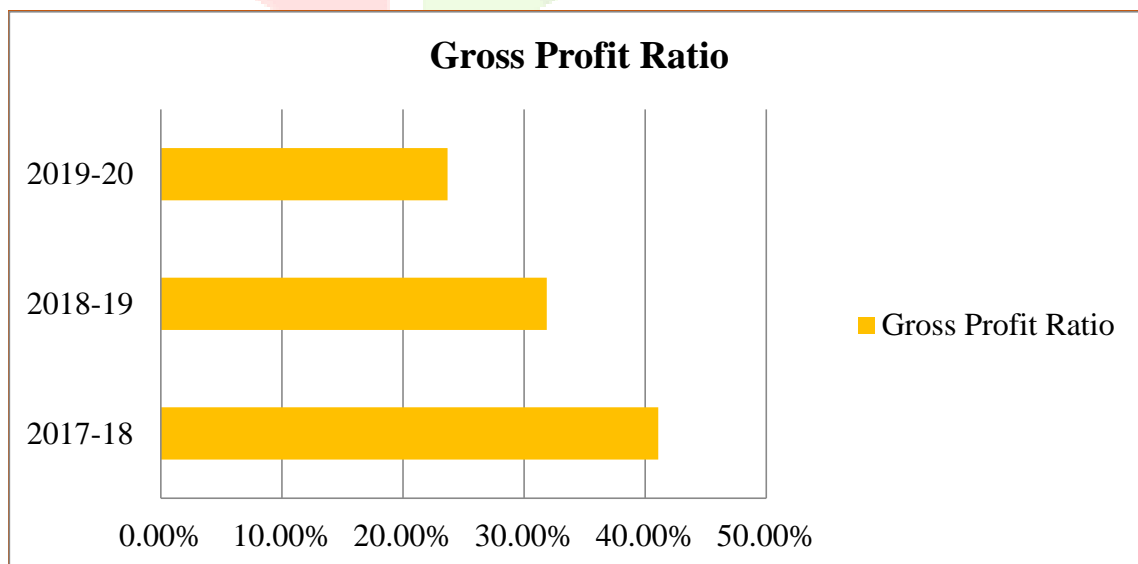
Gross profit ratio = (Gross profit / Net sales) × 100

Table 7 Gross profit Ratio of Hero Moto Corporation Ltd. of Past 3 Years

Year	Gross profit	Net sales	Gross profit ratio	Gross profit ratio (in percentage)
2017-18	532999.8	1293793	0.411967	41.1 %
2018-19	471627.3	1474486	0.319859	31.9 %
2019-20	407400.3	1717079	0.237264	23.7 %

ANALYSIS

From the above table, we can observed Gross profit ratio in 2017-2018 it is 41.1%, in 2018-2019 it is decrease to 31.9%, and in 2019-2020 it is decrease to 23.7%.There is no norm or standard to interpret gross profit ratio (GP ratio). Generally,a higher ratio is considered better.



Gross profit Ratio of Hero Moto Corporation Ltd. of Past 3 Years

INTERPRETATION

The chart shows that Gross profit ratio in 2017-2018 it is 41.1%, in 2018-2019 it is decrease to 31.9%, and in 2019-2020 it is decrease to 23.7%. Therefore by comparing the entire three years ratio, the chart shows that its keep decreasing from 2017-18 to 2019-20. The ratio can be used to test the business condition by comparing it with past years ratio. The gross profit ratio from the chart, over the past three years is the indication that there is no improvement in this firm.

OPERATING PROFIT RATIO

Operating profit ratio is a profitability ratio that measures what percentage of total revenues is made up by operating income. This ratio shows what proportion of revenues is available to cover non-operating costs like interest expense. This ratio is important to both creditors and investors because it helps show how strong and profitable a company's operations are.

Operating profit ratio = (Operating profit / Net sales) × 100

Operating profit = Net sales - (Cost of goods sold + Administrative and office expenses + Selling and distribution exp.)

OR

Operating profit = Net sales - Operating cost

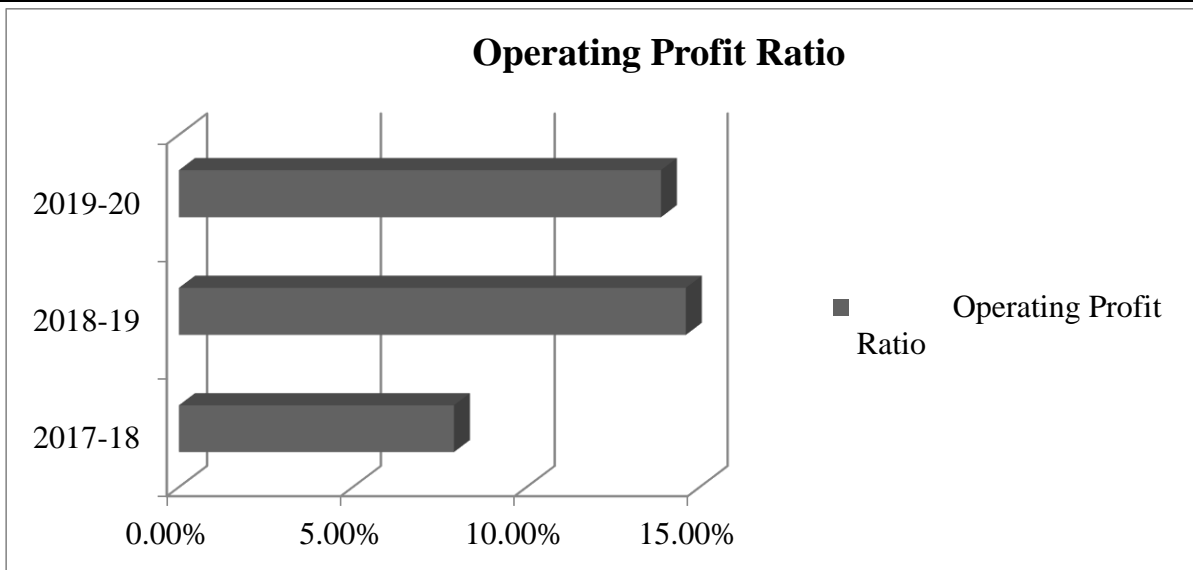
A higher operating margin is more favorable compared with a lower ratio because this shows that the company is making enough money from its ongoing operations to pay for its variable costs as well as its fixed costs.

Table 8 Operating profit Ratio of Hero Moto Corporation Ltd. of Past 3 Years

Year	Operating profit	Net sales	Operating profit ratio	Operating profit ratio (in percentage)
2017-18	102427.8	1293793	0.079169	7.91%
2018-19	215355.3	1474486	0.146054	14.6%
2019-20	238442	1717079	0.138865	13.88%

ANALYSIS

From the above table, we can observed operating profit ratio in 2017-2018 it is 7.91%, in 2018-2019 it is increase to 14.6%, and in 2019-2020 again it is decrease to 13.88% . A higher operating margin is more favorable compared with a lower ratio.



Operating profit Ratio of Hero Moto Corporation Ltd. of Past 3 Years

INTERPRETATION

The chart shows that operating profit ratio in 2017-2018 it is 7.91%, in 2018- 2019 it is increase to 14.6%, and in 2019-2020 again it is decrease to 13.88%. A higher operating margin is more favorable compared with a lower ratio. The graph shows that last two years operating profit ratio is higher than 2017-18year ratio. But it is also shows that 2019-20 operating profit ratios are less than 2018-19. Also 2018-19 operating ratio is highest compare to 2017-18 and 2019- 20. Therefore, operating profit is more favorable in 2018-19.

NET PROFIT RATIO

It is the ratio that shows relationship between net profit after tax and net sales. It is computed by dividing the net profit (after tax) by net sales. The measure is commonly reported on a trend line, to judge performance over time.

It is also used to compare the results of a business with its competitors. Net profit is not an indicator of cash flows, since net profit incorporates a number of non-cash expenses, such as accrued expenses, amortization, and depreciation. The formula for the net profit ratio is to divide net profit by net sales, and then multiply by 100. The formula is:

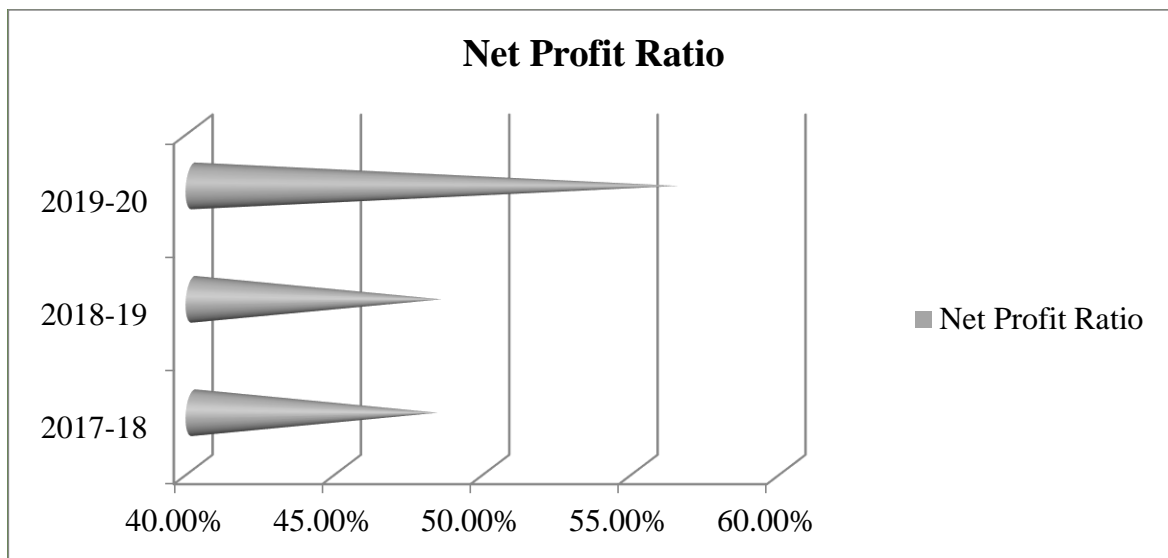
$$\text{Net profit ratio} = (\text{Net profit} / \text{Net sales}) \times 100$$

Table 9 Net profit Ratio of Hero Moto Corporation Ltd. of Past 3 Years

Year	Net Profit	Net sales	Net profit ratio	Net profit ratio x 100
2017-18	624187.8	1293793	0.482448	48.24%
2018-19	713099	1474486	0.483625	48.36%
2019-20	967525.8	1717079	0.563472	56.34%

ANALYSIS

From the above table, we can observed Net profit ratio in 2017-2018 it is 48.24%, in 2018-2019 it is increase to 48.36%, and in 2019-2020 again it is increase to 56.34% .



Net profit Ratio of Hero Moto Corporation Ltd. of Past 3 Years

INTERPRETATION

The chart shows that net profit ratio in 2017-2018 it is 48.24%, in 2018-2019 it is increase to 48.36%, and in 2019-2020 again it is increase to 56.34%. A highernet profit ratio is more favorable compared with a lower ratio. The graph shows that last year net profit ratio is higher than both 2017-18 and 2018-19 year ratio. So it is satisfactory to the society.

ACTIVITY RATIOS

INVENTORY TURNOVER RATIO

The Inventory turnover is a measure of the number of times inventory is sold or used in a time period such as a year. The equation for inventory turnover equals the cost of goods sold or net sales divided by the average inventory.

$$\text{Inventory turnover ratio} = \text{Cost of goods sold} / \text{Average inventory}$$

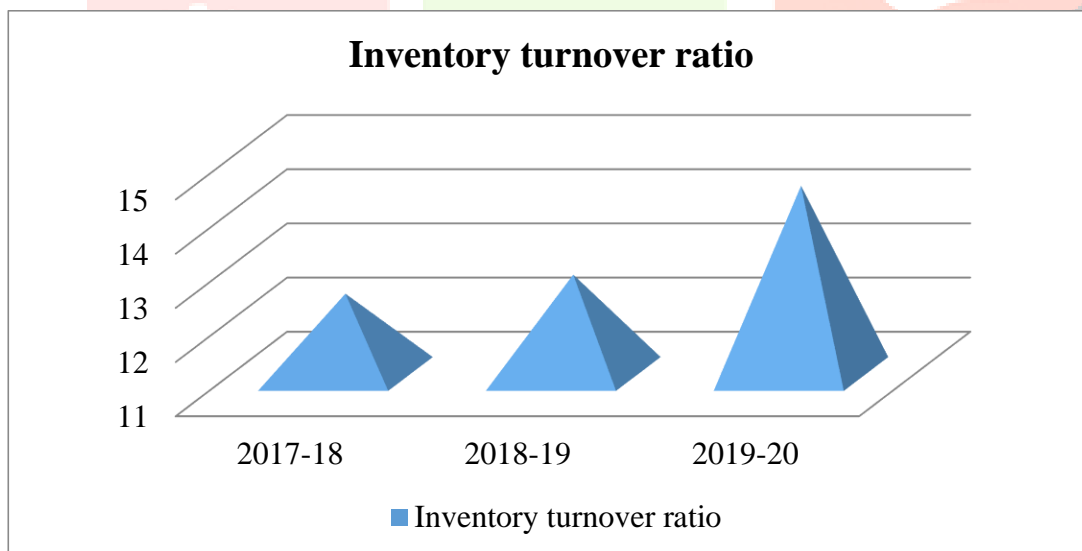
Usually, a higher inventory turnover ratio is preferred, as it indicates that more sales are being generated given a certain amount of inventory. Sometimes a very high inventory ratio could result in lost sales, as there are not enough inventories to meet demand. It is always important to compare the inventory turnover ratio to the industry benchmark to assess if a company is successfully managing its inventory.

Table 10 Inventory turnover Ratio of Hero Moto Corporation Ltd. of Past 3 Years

Year	Cost of goods sold	Average inventory	Inventory turnover ratio
2017-18	760793.3	60952	12.48184
2018-19	1002859	78143	12.83364
2019-20	1309679	90485	14.47399

ANALYSIS

From the above table, we can observe Inventory turnover ratio in 2017-2018 it is 12.48, in 2018-2019 it is increase to 12.83, and in 2019-2020 again it is increase and reached to 14.47. Last year (2019-20) inventory ratio is higher, satisfactory to the society.



Inventory turnover Ratio of Hero Moto Corporation Ltd. of Past 3 Years

INTERPRETATION

The chart shows that inventory turnover ratio in 2017-2018 it is 12.48, in 2018-2019 it is increase to 12.83 and in 2019-2020 again it is increase to 14.47. A higher inventory turnover ratio is more favorable compared with a lower ratio. The graph shows that last year net profit ratio is higher than both 2017-18 and 2018-19 year ratio. So it is satisfactory to the society.

FIXED ASSETS TURNOVER RATIO

Fixed-asset turnover is the ratio of sales to the value of fixed assets. It indicates how well the business is using its fixed assets to generate sales. This ratio measures the efficiency with which a firm is utilizing its fixed assets in generating sales.

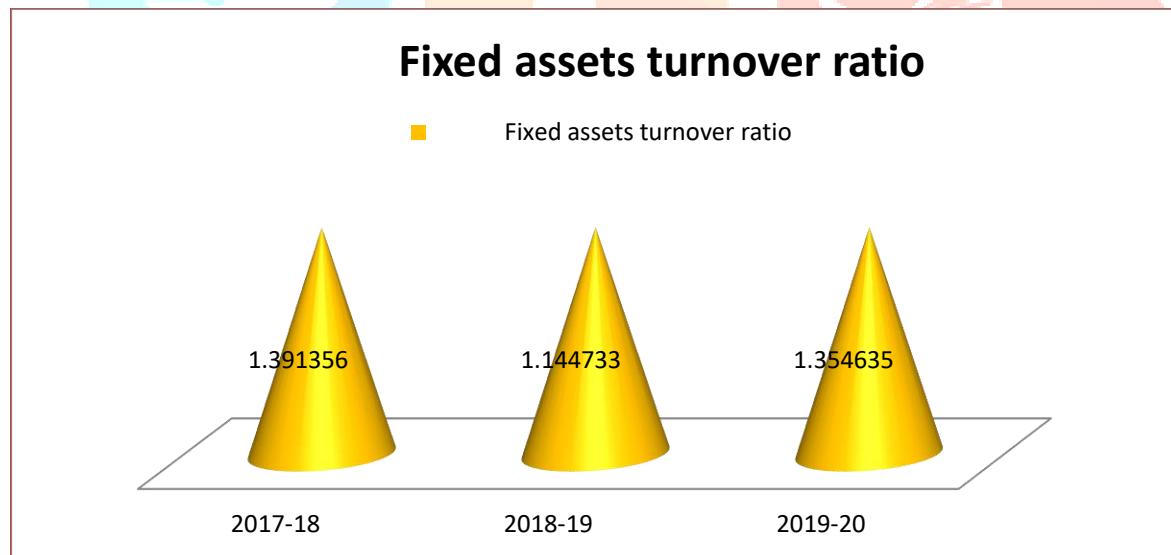
Fixed assets turnover ratio = Net sales / Fixed assets (Net)

Table 11 Fixed assets turnover Ratio of Hero Moto Corporation Ltd. of Past 3 Years

Year	Net sales	Fixed assets	Fixed assets turnover ratio
2017-18	1293793	929879	1.391356
2018-19	1474486	1288061	1.144733
2019-20	1717079	1267558	1.354635

ANALYSIS

From the above table, we can observed Fixed-asset turnover ratio in 2013-2014 it is 1.39, in 2014-2015 it is decrease to 1.14, and in 2015-2016 again it is increase and reached to 1.35.



Fixed assets turnover Ratio of Hero Moto Corporation Ltd. of Past 3 Years

INTERPRETATION

The chart shows that Fixed-asset turnover ratio in 2013-2014 it is 1.39, in 2014-2015 it is decrease to 1.14 and in 2015-2016 again it is increase and reached to 1.35. A higher Fixed-asset turnover ratio is more favorable compared with a lower ratio. Analysis of fixed assets turnover ratio reveals that it is increasing in the last year signifying that there is an improvement in the utilization of resources, so it is satisfactory.

CURRENT ASSETS TURNOVER RATIO

Current assets turnover ratio is the relationship between sales or cost of goods sold and current assets employed in the business. This ratio measures the efficiency with which a firm is utilizing its current assets in generating sales.

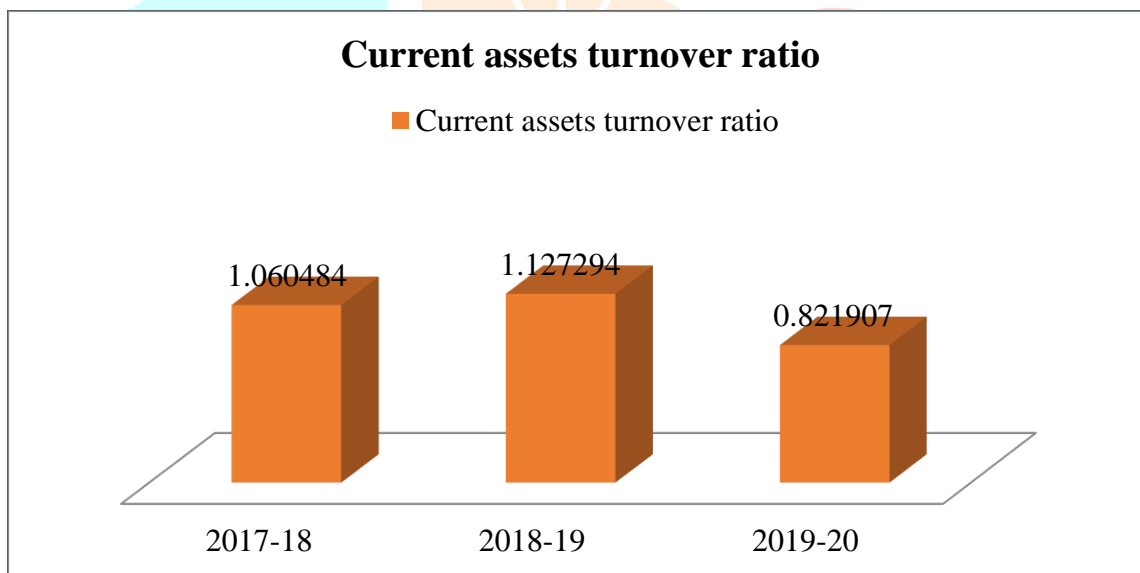
$$\text{Current assets turnover ratio} = (\text{Net sales} / \text{Current asset})$$

Table 12 Current assets turnover Ratio of Hero Moto Corporation Ltd. of Past 3 Years

Year	Net sales	Current assets	Current assets turnover ratio
2017-18	1293793	1220002	1.060484
2018-19	1474486	1307987	1.127294
2019-20	1717079	2089140	0.821907

ANALYSIS

From the above table, we can observe current asset turnover ratio in 2017-2018 is 1.06, in 2018-2019 it is increase to 1.12, and in 2019-2020 it is decrease to 0.82.



Current assets turnover Ratio of Hero Moto Corporation Ltd. of Past 3 Years

INTERPRETATION

The chart shows that current asset turnover ratio in 2017-2018 it is 1.06, in 2018-2019 it is increase to 1.12, and in 2019-2020 it is decrease to 0.82. Analysis of current assets turnover ratio reveals that it is increasing during 2018-19 and a decreasing in the 2019-20. A higher ratio is always more favorable. Higher turnover ratios mean the company is using its assets more efficiently. This chart shows that the company isn't using its assets efficiently.

WORKING CAPITAL TURNOVER RATIO

The working capital turnover ratio is also referred to as net sales to working capital. It indicates a company's effectiveness in using its working capital. A high working capital turnover ratio shows a company is running smoothly and has limited need for additional funding. Money is coming in and flowing out on a regular basis, giving the business flexibility to spend capital on expansion or inventory. A high ratio may also give the business a competitive edge over similar companies. However, an extremely high ratio, typically over 80%, may indicate a business does not have enough capital supporting its sales growth. Therefore, the company may become insolvent in the near future.

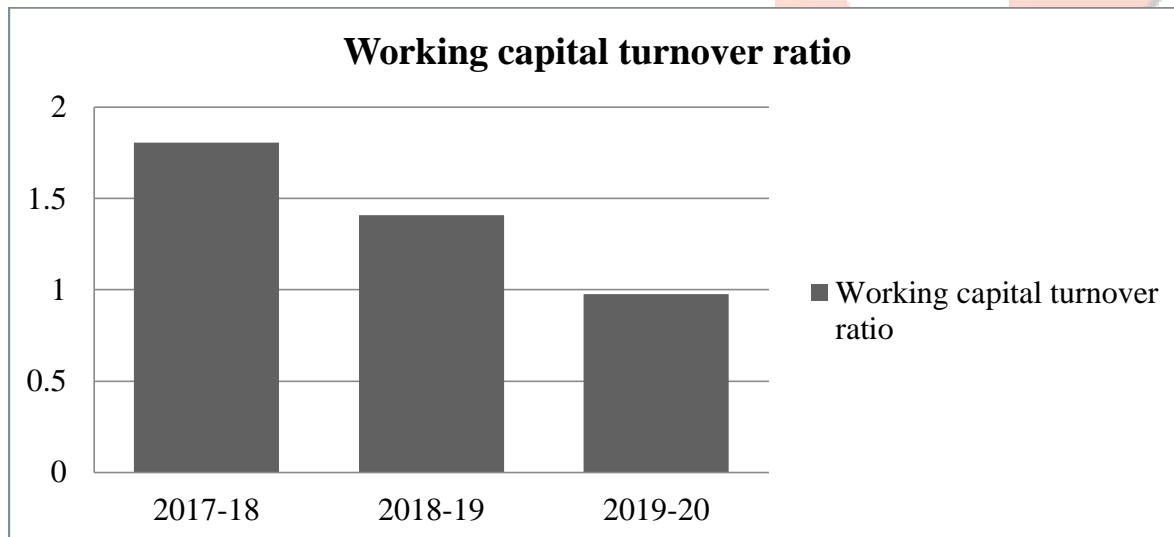
Working capital turnover ratio = Sales / Working capital

Table 13 Working capital turnover Ratio of Hero Moto Corporation Ltd. of Past 3 Years

Year	Sales	Working capital	Working capital turnover ratio
2017-18	1293793	715853.5	1.807343
2018-19	1474486	1046097	1.409512
2019-20	1717079	1756651	0.977473

ANALYSIS

From the above table, we can observe that working capital turnover ratio in 2017-2018 it is 1.80, in 2018-2019 it is decrease to 1.40, and in 2019-2020, again it is decrease to 0.97.



Working capital turnover Ratio of Hero Moto Corporation Ltd. of Past 3 Years

INTERPRETATION

The chart shows that working capital turnover ratio in 2017-2018 it is 1.80, in 2018-2019 it is decrease to 1.40 and in 2019-2020, and again it is decrease to 0.97. A low ratio shows that this business is investing in too many accounts receivable (AR) and inventory assets for supporting its sales. This may lead to an excessive amount of bad debts and obsolete inventory. This chart shows that the company isn't using its working capital efficiently, so it isn't satisfactory.

FINDINGS AND CONCLUSIONS

- The end result of the statement of changes in working capital after comparing all the increases and decreases is the net increase in the amount of working capital is Rs.348007.7 during year 2017-18.
- The end result of the statement of changes in working capital after comparing all the increases and decreases is the net increase in the amount of working capital is Rs.667550.8 during year 2018-19.
- The end result of the statement of changes in working capital after comparing all the increases and decreases is the net increase in the amount of working capital is Rs.11176679 during year 2019-20.
- Current ratio in 2017-2018 is 2.41, in 2014-2015 it is 4.99 and in 2018-2019 it is 6.28. The current ratio of all the above three years is above the standard current ratio, which is 2:1.
- Liquid or quick ratio in 2017-2018 is 2.29, in 2018-2019 it is 4.64, and in 2019-2020 it is 6.04. The Liquid or quick ratio of all the above three years is above the standard liquid or quick ratio, which is 1:1.
- Absolute quick ratio in 2017-2018 is 4.23, in 2018-2019 it is 9.33, and in 2019-2020 it is 11.05. The Absolute quick ratio of all the above three years is above the standard absolute quick ratio, which is 0.5:1 or 2:1.
- Gross profit ratio in 2017-2018 it is 41.1%, in 2018-2019 it is decrease to 31.9%, and in 2019-2020 it is decrease to 23.7%. Comparing all the three years ratio, the chart shows that its keep decreasing from 2017-18 to 2019-20. That indicates there is no improvement in this firm.
- Operating profit ratio in 2017-2018 it is 7.91%, in 2018-2019 it is increase to 14.6%, and in 2019-2020 again it is decrease to 13.88%. A higher operating margin is more favorable compared with a lower ratio.
- Net profit ratio in 2017-2018 it is 48.24%, in 2018-2019 it is increase to 48.36%, and in 2019-2020 again it is increase to 56.34%. A higher net profit ratio is more favorable compared with a lower ratio.
- Inventory turnover ratio in 2017-2018 it is 12.48, in 2018-2019 it is increase to 12.83 and in 2019-2020 again it is increase to 14.47. A higher inventory turnover ratio is more favorable compared with a lower ratio.
- Fixed-asset turnover ratio in 2017-2018 it is 1.39, in 2018-2019 it is decrease to 1.14 and in 2019-2020 again it is increase and reached to 1.35. A higher Fixed-asset turnover ratio is more favorable compared with a lower ratio.
- Current asset turnover ratio in 2017-2018 it is 1.06, in 2018-2019 it is increase to 1.12, and in 2019-2020 it is decrease to 0.82. Analysis of current assets turnover ratio reveals that it is increasing during 2014-15 and a decreasing in the 2015-16. A higher ratio is always more favorable.
- Working capital turnover ratio in 2017-2018 it is 1.80, in 2018-2019 it is decrease to 1.40 and in 2019-2020, and again it is decrease to 0.97. It shows that the company isn't using its working capital efficiently, so it isn't satisfactory.

CONCLUSIONS:

The study conducted on working capital management at Hero Moto Corp Ltd.” gives a view of assessing the performance of working capital management of the society by analyzing the financial data with the help of ratio analysis.

During the period of study, there were a few up and downs in the working capital and ratio analysis it will affect the operations of the society but it is observed that the overall financial position is good.

The Hero Moto Corp Ltd. resources utilization has been very low. The society has totake necessary steps to utilize current asset for improve profitability.

It is anticipated that the profitability will improve in the coming years.

LIMITATIONS OF THE STUDY

- The study is restricted for a period of three years only commencing from 2017-2020. So it shows limited period data is considered.
- As the financial information is confidential, they do not want to share accurate data or information.
- Study duration is very short (one month only).
- Limited interaction with concerned head because of their busy schedule.

SUGGESTIONS

- The company should concentrate on the current ratio by utilizing current asset for productive purpose in order to achieve the standard ratio.
- The society should take necessary steps to make use of the quick asset for the development of the society and should balance with the standard ratio.
- Current assets turnover ratio is fluctuating. It's not good for society so in order to increase the current assets turnover ratio a society need to increase its sales.
- Gross profit ratio is not stable. So in order to increase the gross profit the society wants to increase the production.

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