



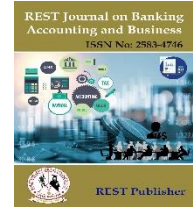
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A Study on Working Capital Management with Reference to Hero Moto Corp Ltd

Vadla Manasa, G. Swetha

Aristotle PG College, Hyderabad, Telangana, India.

Corresponding Author Email: vadlamanasa01@gmail.com

Abstract: Working capital management is one of the key areas of financial decision-making. It is significant because, the management must see that an excessive investment in current assets should protect the company from the problems of stock-out. Current assets will also determine the liquidity position of the firm. The goal of working capital management is to manage the firm current assets and current liabilities in such a way that a satisfactory level of working capital is maintained. If the firm cannot maintain a satisfactory level of working capital, it is likely to become insolvent and may be even forced into bankruptcy.

Keywords: working capital, current assets, liquidity, bankruptcy.

1. INTRODUCTION

Cash is the lifeline of a company. If this lifeline deteriorates, the company's ability to fund operations, reinvest and meet capital requirements and payments also deteriorate. Understanding a company's cash flow health is essential for making investment decisions. A good way to judge a company's cash flow prospects is to look at its working capital management (WCM). The working capital of a company reveals more about the financial condition of a business than almost any other calculation. It tells you what would be left if a company raised all of its short-term resources and used them to pay off its short term liabilities. The more working capital, the less financial strain a company experiences. Working capital also gives investors an idea of the company's underlying operational efficiency. Money that is tied up in inventory or money that customers still owe to the company can't be used to pay off any of its obligations. So, if a company is not operating in the most efficient manner (slow collection) it will show up in the working capital. This can be seen by comparing the working capital from one period of time to another; slow collection may signal an underlying problem in the company's operations.

2. REVIEW OF LITERATURE

Grey Filbeck (Schweser study program) (2018): Firms are able to reduce Financing cost and/or increase the funds available for expansion by minimizing the amount of funds tied up in current assets. We provide insights into the performance of surveyed firms across key components of working capital Management by using CFO Magazine's annual working capital management survey. We discover that significant differences exist between industries in working capital measures across time. In addition, we discovered that these measures for working capital change significantly within industries across time.

Scope of the Study: A study of the **Working capital** involves an examination of long term as well as short term sources that a company taps in order to meet its requirements of finance. The scope of the study is confined to the sources that **HERO MOTCORP PVT LTD** tapped over the years under study i.e. 2019-2023.

3. OBJECTIVES OF THE STUDY

- To study the existing working capital management system of HERO MOTCORP PVT LTD.
- To find the liquidity position of the current assets and current liabilities of the company.

- To examine feasibility of present system of managing working capital.
- To understand how the company finances its working capital.
- To analyze the financial performance of the company with reference to working capital.
- To give some suggestions to the management based on the information studied.

4. METHODOLOGY

The study of Working Capital management is based on primary as well as secondary data. Data relating has been collected through,

Secondary Sources:

- Published annual reports of the company for the year 2018-2022.

Primary Sources:

- Detailed discussions with Vice-President.
- Discussions with the Finance manager and other members of the Finance department.

Data Analysis:

The collected data has been processed using the tools of

- Ratio analysis
- Graphical analysis
- Year-year analysis

These tools access in the interpretation and understanding of the Existing scenario of the Working capital .

- The primary data was gathered through personal interaction with the director of the company.
- The secondary data was collected from company's annual reports from 2017-2021, various books and Internet.

Limitations:

- Due to the busy schedule of the executives in the company, all the required primary data could not be collected, which might affect the results of the study.
- Recommendations of the study are only personal opinions. Hence the judgments may be biased and could not be considered as ultimate and standard solutions.
- A short period of time is one of the limitations, due to which a detailed study could not be conducted on the topic.

5. DATA ANALYSIS & INTERPRETION

TABLE 1. Size and growth of current assets and liabilities and Net working capital of HERO MOTOCORP LIMITED during the period 2018-19 to 2022-23. (All amounts are in Cr)

Year	Current Assets	Growth Rate (%)	Current Liabilities	Growth Rate (%)	Net W.C
2018-19	31900.29	140	23803.06	140	7997.23
2019-20	41817.78	171.184217	29197.75	162.663851	16517
2020-21	52198.18	165.038193	32664.91	151.874751	19493.2
2021-22	55487.68	146.383548	36584.65	151.999849	19903
2022-23	72423.07	170.520991	58092.19	198.788318	18330.9

Interpretation: The Current assets and the current liabilities of HERO MOTOCORP LIMITED are in the increasing stage but at the financial year 2022-2023 it is in the decreasing stage because of increasing in the current liabilities and the growth rate is 170.52. The net working capital is also in the increasing stage.

TABLE 2. working capital turnover ratio (all amounts are in cr)

Year	Sales (Income)	Networking Capital	Ratio
2018-19	4815.16	7997.23	0.601998
2019-20	7028.66	16517.03	0.561973
2020-21	9203.19	19493.2	0.472161
2021-22	14176.83	19903.03	0.537841
2022-23	15748.32	18330.92	0.8197882

Turnover Ratio: Debtors Turnover Ratio expresses the relationship between debtors and sales. A high Debtors Turnover Ratio or low Debt collection period is indicative of sound credit management policy.

TABLE 3. Debtors Turnover Ratio of HERO MOTOCORP Limited during 2018-19 to 2022-23. (All amounts are in Cr)

Year	Net Credit Sales (Income)	Avg. Debt	Ratio
2018-19	4815.16	40984.92	0.157388
2019-20	7028.66	55172.04	0.167488
2020-21	9203.19	71839.39	0.168824
2021-22	14176.83	71967.91	0.181668
2022-23	15748.32	87014.02	0.175022

From the above table, it is observed that the **HERO MOTOCORP LIMITED** debtor's turnover ratio shows a good sign. The company noted a maximum ratio of 18.16 in the year 2019-20 and the minimum ratio in the year of 2019-20 is 15.73. The present year i.e. on 2022-23 is 17.50. If we observed the above table, the ratio is increasing the year 2018-19 is 15.73 in the year 2020-21 in the year but it is decreased in the year 2022-23. It is a good sign for the company.

Current Ratio: It is the ratio of the current assets current liabilities this ratio is used to know the company's ability to meet its current obligations. The standard norm for the current ratio is 2:1.

Current ratio = current Assets / Current liabilities.

TABLE 4. Current ratio of HERO MOTOCORP Limited during the period 2017-18 to 2022-23 (All amounts are in Cr)

Year	Current Assets	Current Liabilities	Ratio
2018-19	31900.29	23803.06	1.335975
2019-20	41817.78	29197.75	1.428664
2020-21	52198.18	32664.91	1.596763
2021-22	55487.68	36584.71	1.51769
2022-23	72423.07	58092.19	1.246692

It is observed that HERO MOTOCORP LIMITED current rationing a increasing trend; the company's liquidity position is satisfactory. The current ratio increased slightly up to 2017-18 is 1.42. But in 2018-19 it declined because of increase in current liabilities, and then it started to decrease further in 2018-19 as 0.33. If the company manages to increase the ratio it can meet obligations.

Quick Ratio: Quick ratio is the relation between quick assets and current liabilities. The term quick assets, which can be converted into cash with a short notice. This category also includes cash bank balances, short – term investments and receivables.

Quick ratio = Quick Assets / current liabilities

TABLE 5. Quick ratio of HERO MOTOCORP Limited during the period 2017-18 to 2021-22. (All amounts are in Cr)

Year	Quick Assets	Current Liabilities	Ratio
2018-19	31900.29	23803.06	1.335975
2019-20	41817.78	29197.75	1.428664
2020-21	52198.18	32664.91	1.596763
2021-22	53987.54	36584.71	1.475685
2022-23	62548.67	58092.19	1.076718

It is observed that HERO MOTOCORP LIMITED current rationing a increasing trend; the company's liquidity position is satisfactory. The current ratio increased slightly up to 2017-18 is 1.33. But in 2018-19 it declined because of increase in current liabilities, and then it started to decrease further in 2022-23 as 1.07. if the company maintains to increase the ratio it can meet obligations.

TABLE 6. Composition of current Assets (all the amounts are in Cr)

Particulars	2018-19	2019-20	2020-21
Sundry Debtors	40984.92	55172.04	71839.39
Cash and Balance with RBI	2147.72	2017.49	2207.9
Advances	29329.31	39079.23	48468.98
Balance with bank	363.26	619.06	1881.26
Total	72785.2	96845.8	163597.5

The income statement is also called as income statement, it is considered to be the most useful of all financial statements. It was prepared by a business concern in order to know the profit earned and loss sustained during a specified period. It explains what has happened to a business as a result of operations between two balance sheet dates. For this purpose, it matches the revenues and costs incurred in the process of earning revenues and shows the net profit earned or loss suffered during a particular period. The nature of Income which is a focus of the income statement can be well understood if business is taken as an organization that uses “Input” to produce “Output”. The output of the goods and services that the business provides to its customers. The value of these outputs is the goods and services that the business provides to its customers. The values of these outputs are the amounts paid by the customers for them. These amounts are called “revenues” in the accounting. The inputs are the economic resources used by the business in providing these goods and services. These are termed “expenses” in accounting. The comparative balance sheet analysis is the study of the same items, group of items and computed items in two or more balance sheets of the same enterprise on different dates. The changes in periodic balance sheet items reflect the conduct of a business. The changes can be observed by comparing the balance sheet at the beginning and at the end of a period and these changes can help in informing an opinion about the progress of and enterprise.

Working capital turnover ratio Of HERO MOTOCORP LIMITED:

Implementing an effective working capital management system is an excellent way for many companies to improve their earnings. The two main aspects of working capital management are ratio analysis and management of individual components of working capital.

TABLE 7. Working capital turnover ratio 2023

Working capital turnover ratio	2022	2023
Total current Assets		
Sundry Debtors	71967.91	87014.02
Cash and Balances with RBI	2,948.23	3928.3
Balance with Bank	3,031.66	2334.06
Advances	53,027.63	66170.71
Total	170975.43	199433.09
Total Current Liabilities		
Borrowings	16,895.58	16189.71
Other Liabilities	3,333.82	4857.97
Contingent Liabilities	46,903.54	68092.19
Total	63,172.94	85099.83
Net working capital	67842.49	74333.26
Increase\decrease in net working capital	6490.77	

Interpretation:

The networking capital of HERO MOTOCORP LIMITED has been increased to 6490.77 Cr the financial position i.e. the performance of HERO MOTOCORP LIMITED has increased and the current assets exceeds its current liability.

TABLE 8. Working capital turnover ratio Of HERO MOTOCORP LIMITED.

Working capital turnover ratio	2021	2022
Total current Assets		
Sundry Debtors	71,839.39	71967.91
Cash and Balances with RBI	2,207.90	2,948.23

Balance with Bank	1881.26	3,031.66
Advances	48468.98	53,027.63
Total	163597.53	170975.43
Total Current Liabilities		
Borrowings	20,414.62	16,895.58
Other Liabilities	2789.81	3,333.82
Contingent Liabilities	42,157.47	46,903.54
Total	65318.9	63,172.94

Interpretation:

The networking capital of HERO MOTOCORP LIMITED has been increased to 9562.86 Cr the financial position i.e. the performance of HERO MOTOCORP LIMITED has increased and the current assets defects its current liability.

TABLE 9. Working capital turnover ratio 2021

Working capital turnover ratio	2020	2021
Total current Assets		
Sundry Debtors	55172.04	71839.39
Cash and Balances with RBI	2017.49	2207.9
Balance with Bank	619.06	1881.26
Advances	39079.23	48468.98
Total	96845.82	163597.53
Total Current Liabilities		
Borrowings	17595.52	20414.62
Other Liabilities	2553.67	2789.81
Contingent Liabilities	18319.52	42157.47
Total	36468.71	65318.9
Net working capital	60377.15	58279.63
Increase\decrease in net working capital	2097.48	

Interpretation:

The networking capital of HERO MOTOCORP LIMITED has been decreased to 2097.48 Cr the financial position i.e. the performance of HERO MOTOCORP LIMITED has increased and the current assets defects its current liability.

TABLE 10. Working capital turnover ratio 2020

Working capital turnover ratio	2019	2020
Total current Assets		
Sundry Debtors	40984.92	55172.04
Cash and Balances with RBI	2147.72	2017.49
Balance with Bank	363.26	619.06
Advances	29329.31	39079.23

Total	72785.21	96845.82
Total Current Liabilities		
Borrowings	15723.95	17595.52
Other Liabilities	3032.36	2553.67
Contingent Liabilities	16291.3	18319.52
Total	27047.61	36468.71
Net working capital	45737.6	60377.15
Increase\decrease in net working capital	18639.51	

Interpretation:

The networking capital of HERO MOTOCORP LIMITED has been increased to 60377.15 Cr the financial position i.e. the performance of HERO MOTOCORP LIMITED has increased and the current assets defects its current liability.

TABLE 11. Working capital turnover ratio 2019

Working capital turnover ratio	2017	2018
Total current Assets		
Sundry Debtors	30026.98	40984.92
Cash and Balances with RBI	2085.67	2147.72
Balance with Bank	218.59	363.26
Advances	20775.05	29329.31
Total	53142.29	72785.21
Total Current Liabilities		
Borrowings	6180.51	15723.95
Other Liabilities	2869.42	3032.36
Contingent Liabilities	4196.19	16291.3
Total	17176.08	27047.61
Net working capital	39936.21	45737.6
Increase\decrease in net working capital	5801.39	

Interpretation:

The networking capital of HERO MOTOCORP LIMITED has been increased to 45737.60 Cr the financial position i.e. the performance of HERO MOTOCORP LIMITED has increased and the current assets defects its current liability.

FINDINGS:

1. The HERO MOTOCORP LIMITED net working capital is satisfactory between the years 2019-23 since it shows increasing trend ; but after that it is in declining position.
2. The current ratio of HERO MOTOCORP LIMITED is satisfactory during the period of study 2016-17 to 2022-23. It is increased but after that it is declining.
3. The average quick ratio of HERO MOTOCORP LIMITED is not good though the quick ratio is showing maximum value of 1.07 in the year 2022-23 and then it is declining to be deal.
4. Fixed assets turnover ratio of HERO MOTOCORP LIMITED increased. The company has to maintain this.

5. Inventory turnover ratio of HERO MOTOCORP LIMITED is also increased gradually, without any fit falls up to 2018-19. In the year 2018-19 it is inclined, and again it has increased in the year 2021-22. Good inventory management is good sign for efficient management
6. Total Assets turnover ratio of HERO MOTOCORP LIMITED is not satisfactory because it is always below one, except in the year 2022-23 having a value of 5.67.
7. Return on investment is not satisfactory. This indicates that the company's funds are not being utilized in a good way.

SUGGESTIONS:

1. Improve position funds should be utilized properly.
2. Better Awareness to increase the sales is suggested.
3. Cost cut down mechanics can be employed.
4. Better production technique can be employed.
5. The investment on raw material should be made as per the requirement. Unnecessary investment may block up the funds.
6. Neither too high nor too low inventory turnover ratios may reduce profit and liquidity position of the industry. So, proper balance should be made to increase profits and to ensure liquidity.
7. The raw material should be acquired from the right source at right quality and at right cost.
8. The process that was being used by **HERO MOTOCORP LIMITED** with the purchasing department should undergo changes; so that, it seeks enhance the celerity of the delivery of a product without compromising its quality by improving the utilization of materials, labor and equipment.

6. CONCLUSIONS

The HERO MOTOCORP LIMITED Net Profit Ratio is showing profit in the year 2018-19. These event is an expected one because since from the previous two years it is showing the decline stage in Net Profit Ratio. Profit Margin of HERO MOTOCORP LIMITED is decreasing and showing negative profit because there is increase in the price of banking services. The HERO MOTOCORP LIMITED Net Working Capital Ratio is satisfactory. The HERO MOTOCORP LIMITED return on Total Assets ratio shows a negative sign in the year 2016-17. The Operating Ratio of HERO MOTOCORP LIMITED increased in the year 2018-19, in the year 2022-23 and reached in the year 2019-20 So the company has to reduce its operating costs. The Operating Ratio of HERO MOTOCORP LIMITED is satisfactory. Due to the increase in cost of production, this ratio is decreasing. So, the has to reduce its office administration expenses.

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