FINANCIAL PERFORMANCE OF HERO MOTOCORP LTD DURING PRE & POST SPLIT PERIOD

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Abstract

Indian Automobile Industry plays a vital role in the economic development of the country. It contributes 7.1% of GDP. Automobile Industry provides 8.5 million direct and 29 million indirect employments. About 81% of the automobile market share is occupied by the two-wheeler industry. Hero Motocorp Ltd is the largest two-wheeler company in the India. The study was conducted to assess the financial performance of Hero Motocorp Ltd during and post joint venture period with Honda. For this purpose, Ratio analysis is used as a financial tool and different liquidity and profitability ratios are taken into consideration for analysis.

Keywords: Hero Honda, Hero Motocorp, Honda, Ratio analysis, Hero Joint Venture

Introduction

The automobile industry contributes 7.1% of the Indian Gross Domestic Product (GDP). In 2020, India was the fifth largest auto market, with more than 3 million units sold in passenger and commercial vehicles. Statistics published in 2018 by the European Automobile Manufacturers Association (ACEA) indicates India ranks 4 in the top ten global car production countries. In the Indian automobile industry, 81% share is occupied by the Two-wheeler category and emerged as the Indian automobile market leader. In the period, Apr' 2000 – Dec' 2015, The Indian automobile industry has attracted a Foreign Direct Investment (FDI) worth U.S. $14.32 billion, according to Department of Industrial Policy and Promotion (DIPP).

The automotive market demand was raised to more than 4 million units in the year 2019. It is expected that the market is to expand at a compound annual growth rate (CAGR) of 11.3% from 2020 to 2027. Several factors and conditions favourable for this include rising population, increasing disposable income and ease of availability of credit and financing. In the logistics and passenger transport sector, additional demand is forecasted. Government initiatives and policies are primary factors favouring market growth and are expected to continue the growth over the coming years.

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It is forecasted by Automotive mission plan 2016-26 prepared jointly by the Indian Government and Society of Indian Automobile Manufacturers (SIAM) that the Indian automotive can reach annual revenue of U.S. $300 billion by 2026, and this will generate 65 million added jobs. And it is estimated that this can contribute about 12% of Indian Domestic Product (GDP). As a leading two-wheeler manufacturer in India, Hero Motocorp was the world's largest manufacturer of two-wheel vehicles. And it occupies a significant market share among the two-wheeler industry is 37.04% in 2021. The main focus of the study is to determine the financial performance of Hero Motocorp during and after joint venture period with Honda.

Hero MotoCorp

Hero MotoCorp Limited was launched with the name Hero Honda in the year 1984. The Company was started as a joint venture company between Honda Motor Company of Japan and the Indian-based Hero Group. After more than 25 years of journey as one of the most successful joint ventures in the Indian automobile industry, in the month of October 2010, India-based Hero Group (Hero) and Japan-based Honda Motor Co. (Honda) decided to dissolve their partnership. This decision was owing to unresolved disputes and their new ventures for the Indian and international markets. Honda decided to sell its 26% stake to the Munjal family, the owners of Hero. After the split from Honda, Hero Motocorp Ltd. is exporting to America, Africa, and West Asia.

Literature Review

Shajar (2017) the study found an influence of cash conversion cycle and working Capital on Profitability. It recommended that the efficient management of working capital enhance the Profitability of the Indian automobile companies. Paliwal and Chouhan (2017) found a positive relationship between liquidity and Profitability and suggested the optimum relationship between liquidity and Profitability. Ranjithkumar and Eahambaram (2018) concluded that financial performance is governed by the velocity of operational activities, liquidity position, growth of the firms, and payment strategies and policies. Simlai and Guha (2019) The financial ratios have vital importance in making a financial decision for the well-being of companies and revealed that the ratio of internal and external is 1:2 in Indian automobiles and affects the Profitability. As per the study by Swalih, Adarsh, and Sulphey (2021), it is explored the financial soundness of the Indian automobile sector companies. It is concluded that the Indian automobile industry is sound and strong, and the automobile companies are not susceptible to financial distress or bankruptcy soon.

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Objectives

The main aim of this study is to know the financial performance of Hero Motocorp Ltd during the pre and post-split period.

- To assess the financial performance of the selected Company in terms of different parameters.
- To assess the impact of EPS and DPS.
- To study the trend of selected performance indicators over a period using Ratio Analysis.

Scope and Study period

Only one unit of the Automobile Industry (Two-wheeler manufacturers) has been studied to evaluate financial performance. The study has been conducted for 15 years, that is F.Y. 2005 – 2006 to 2019 – 2020. Further to know the financial performance of selected Company the period is sub-divided into two periods. From 2005 -2006 to 2010 – 2011 is pre-split period and from 2011 – 2012 to 2019 - 2020 is post-split period.

Source of Data

The data is entirely based on secondary data published in the annual reports of Hero Moto Corp Ltd. The proposed study is entirely based on recent data. The data has beencompiled from annual reports of the respective companies, reference books, journals, articles,magazines and from the internet.

Methodology

To know the selected Company's financial performance, the researcher used Ratio Analysis as a financial tool, and different Profitability and liquidity ratios were considered.

RATIO ANALYSIS

One of the critical instruments of analysis of financial statements is the Ratios that throw light on the different aspects of the concern's financial position. It is an approach of analysis and interpretation of financial statements and is the process of establishing and interpreting various ratios for helping in making critical decisions. However, ratio analysis is not an ultimate final approach, and it is a means of analyzing a firm's financial strengths and limitations.

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Liquidity ratios:

Liquidity ratios concerned with the short term solvency of the concern or its ability to meet financial obligations on their due dates. The current assets should be either be liquid or near liquidity. These should be exchangeable into cash for paying obligations of short-term nature. Three liquidity ratios are commonly considered, current ratio, quick ratio, and cash ratio.

Table-1 Liquidity Ratios

Pre – Split

YEAR	CURRENT RATIO	QUICK RATIO	CASH RATIO
2005-06	0.74	0.38	0.1
2006-07	0.84	0.43	0.02
2007-08	0.68	0.34	0.07
2008-09	0.45	0.33	0.11
2009-10	0.51	0.51	0.39
2010-11	0.4	0.87	0.01

Post - split

YEAR	CURRENT RATIO	QUICK RATIO	CASH RATIO
2011-12	1.11	0.96	0.02
2012-13	1.22	1.06	0.04
2013-14	1.26	1.1	0.03
2014-15	1.36	1.15	0.04
2015-16	1.47	1.3	0.03
2016-17	1.82	1.66	0.03
2017-18	2.04	1.85	0.03
2018-19	1.96	1.71	0.03
2019-20	2.08	1.81	0.06

Source: Annual Reports of the selected company

The current ratio is defined as the relationship between current assets and current liabilities and a measure of liquidity. It is extensively used to analyse a short-term financial position or liquidity of a firm. It is calculated by dividing the total current assets by current liabilities. The Company's current ratio has started to grow in 2005-06 and declined to 0.51 during spilt time. But after the dissolution, there is steady growth.

Figure – 1 Trends in Liquidity Ratios

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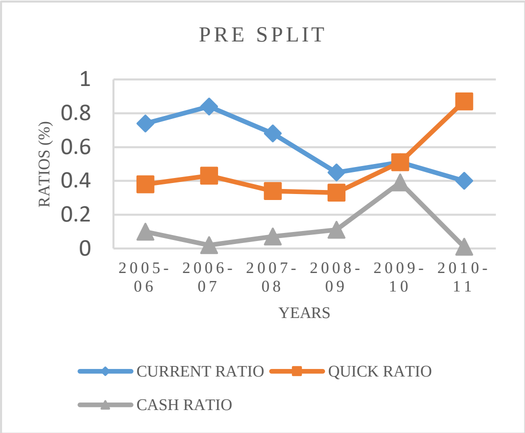

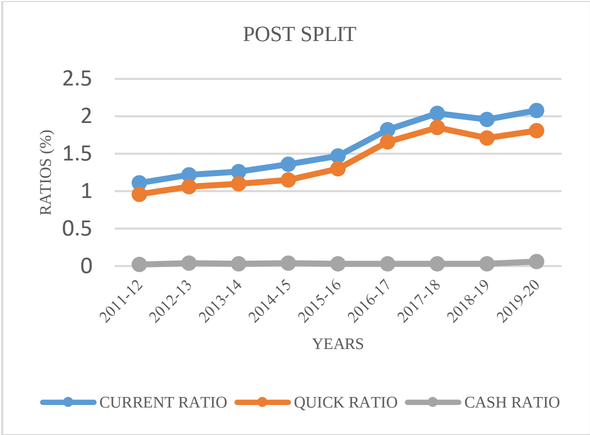

The quick ratio is a more precise test of liquidity than the current ratio. Liquid assets do not include inventories and prepaid expenses, as these cannot be converted into cash immediately. The quick ratio can be calculated by dividing quick assets by current liabilities. The Company's quick ratio during the joint venture period didn't reach the ideal ratio. But after the split it increased up to 1.85. This may happen because of their increase in inventory turnover and sales.

Although receivables, debtors, and bills receivable are generally more liquid than inventories, there may still be doubts regarding their realization into cash immediately or in time. It can be calculated by dividing absolute liquid assets by current liabilities. The Company's cash ratio didn't reach at least the ideal ratio of one neither during joint venture nor after the split.

Profitability Ratios

Profitability ratios are a category of financial metrics that are used to evaluate a business's performance to generate profit (income) relative to its revenue. This considers operating costs, balance sheet assets, or shareholders' equity over time, using data from a specific point in the time period. The profitability ratio can be compared with efficiency ratios, which consider how well a company uses its assets internally to generate income (as opposed to after-cost profits). For most profitability ratios, having a higher value relative to a competitor's ratio or relative to the same ratio from a previous period indicates that the Company is performing well. Profitability ratios are most usefulwhen compared to similar companies or the Company's own history or average ratios for the Company's industry.Various types of Profitability ratios are Return on Equity (ROE), Earnings Per Share (EPS), Dividend Per Share (DPS), Return on Capital Employed (ROCE), Return on Assets (ROA), and Net Profit.

Table – II PROFITABILITY RATIOS

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PERIOD	YEAR	RETURN ON EQUITY	EARNINGS PER SHARE	DIVIDEND PER SHRE	RETURN ON CAPITAL EMPLOYED	RETURN ON ASSETS	NET PROFIT
PRE SPLIT PERIOD	2005-06	48.34	48.6	20	41.95	25.04	11.14
	2006-07	34.73	43	17	31.02	20.21	8.66
	2007-08	32.41	48.5	19	29.79	19.07	9.35
	2008-09	32.72	64.19	20	31.78	21.06	10.39
	2009-10	64.41	111.8	110	60.45	26.18	14.09
	2010-11	65.21	96.5	105	40.93	17.97	9.93
POST SPLIT PERIOD	2011-12	55.43	119.09	45	42.86	24.04	10.08
	2012-13	42.31	106.07	60	38.71	21.96	8.91
	2013-14	37.66	105.61	65	37.16	20.88	8.34
	2014-15	36.46	119.46	60	35.93	22.67	8.64
	2015-16	39.42	156.86	72	37.77	25.38	10.95
	2016-17	33.39	169.12	85	44.01	22.98	11.84
	2017-18	31.41	185.14	95	42.35	22.08	11.47
	2018-19	26.32	169.48	87	37.15	19.18	10.05
	2019-20	20.7	181.91	90	26.52	19.37	12.59

Source: Annual Reports of the selected Company

In Table II, the Return on Equity ratio measures the Profitability of the equity fund invested in the Company. It also measures how Company utilized funds to generate revenues. A high ratio represents better the Company is. It is calculated by dividing net profit after tax by equity share capital. Table II shows that the Company's return on equity has decreased during the first three years of study but increased after that up to 2010-11. But after the split, the Company ROE has shown a steady decline and went down up to 20 in 2019-20.

Figure – II Trends in Profitability Ratios

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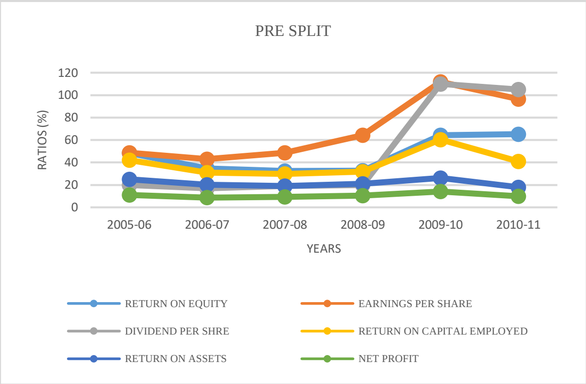

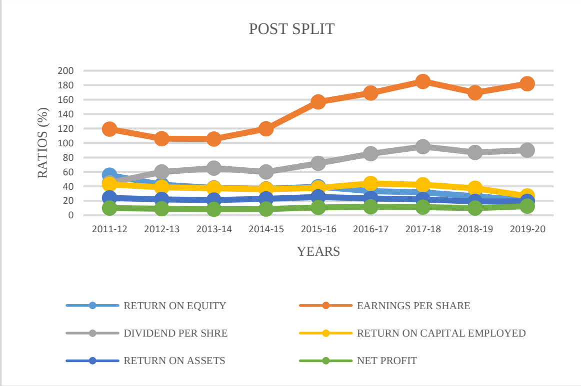

The earnings Per Share ratio is the measure of Profitability from the perspective of ordinary shareholders. A high ratio represents better the Company is. It is calculated by dividing earnings available to shareholders by the number of shares. The Company's EPS is low in 2006-07 at 43 Rs but steadily increased after the dissolution and reached 181.91 Rs in 2019-20. The Company may have decreased its outstanding shares, which resulted in an EPS increase.

The dividend Per Share ratio measures the amount of dividend distributed by the Company to its shareholders. The high ratio represents the surplus cash position of the Company. A company that is likely to distribute about half of its earnings as dividends indicates that it is well established and a leader in its industry. The Company DPS is at its peak during the dissolution year and at present is giving up to 90% as dividends to its shareholders.

Return on Capital Employed ratio computes percentage return in the Company on the funds invested in the business by its owners. A high ratio represents better the Company is. To indicate that a company makes reasonably efficient use of Capital, the ROCE should be equal to about twice current interest rates. It is calculated by dividing net profit by Capital employed. The ROCE of the Company relatively is better before the dissolution of the joint venture. After the split, it maintained an average ROCE but has decreased in 2019-20.

Return on Assets ratio is a measure to evaluate the earnings per rupee of the Company's assets. A high ratio represents better the Company is. A high return on assets indicates that the business was utilizing the resources in an effective way in generating income. The Company reached the highest return on assets in the year of 2009-10(26.18%) out of the remaining years. It achieved an all-time high during the joint venture period.

The net profit ratio measures the Overall Profitability of the Company, considering all direct and indirect costs. A high ratio represents a positive return and the performance of the Company. The

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higher the net profit margin (or return on sales) represents, the better performance. A high percentage means that the Company is managing its expenses in an organized way. It is calculated by dividing net profit by sales. The Company reached the highest net profit ratio of 14.09% in 2009-10 compared to other years.

CONCLUSION:

By considering the current, quick, cash, net profit ratios, EPS, DPS, ROE, and ROCE for the period 2005-06 to 2019-20, it is evident that there is a considerable increase in current and liquidity ratios. Average Net Profit is stable. Also, EPS is constantly increasing. On the flip side, the decline in the Return on Equity and Return on Capital employed is not favourable. Despite the drawback observed after the split, Hero Motocorp Ltd. has been making moderate profits and uniformly sustaining in the global market.

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