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The Study of Working Capital Management as a Financial Strategy for Hero Motocorp Limited

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Abstract

Working capital management as a money strategy has its effects on liquidity additionally as profit of the firm. Hero Motocorp Limited was selected for an amount of 10 years from 2006 to 2015. The effect of completely different variables of assets management as well as current quantitative relation and profit movement co-efficient was used for analysis. The results showed that there is an indirect correlation (–0.201) between current ratio and gross profit margin. This means that as current quantitative relation reduces, gross profit of the corporate will increase. The firm should be aggressive in the management of its assets to enhance profit. In order to run the corporate successfully, the fixed and the current assets play a commendable role. Managing the working capital is necessary as a result of, it has a serious significance on profitability and liquidity of the business. The various parts for measurement the assets management embrace the owed days, Inventory turnover days, Payable days, Cash conversion cycle, Current quantitative relation and fast ratio on the web in operation profit of the Hero Motocorp restricted. The controlled variables like; fixed assets on total assets, the debt ratio and the size of the firm (measured in terms of logarithm of sales) have conjointly been used for measurement of the assets management.

Keywords: financial strategy, liquidity, profitability, working capital

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INTRODUCTION

Working capital is that the quantity of funds necessary to hide the price of in operation the enterprise. Every business wants funds for 2 purposes-for its institution and carries out its day to day operations. It is the a part of firm's capital which is needed for funding short term or current assets like money, marketable securities, debtors, inventories.

Working capital management is bothered with the issues that arise in making an attempt to manage the present assets, the current liabilities and also the relationship that exists between them. Assets refer to those assets which is in standard course of business will be, into cash inside one year while not undergoing administration in price and while not disrupting the operation of the corporations. Examples are money, marketable securities, account receivables and inventory.

Current liabilities square measure those liabilities that are supposed, at their inception to be paid in the standard course of business in a very year out of current assets or earnings of the priority. The basic current liabilities are account liabilities, bills payable, bank overdraft and outstanding expenses. Efficient management of operating capital may be an elementary a part of the general company strategy to form shareholders' price.

In the past assets strategies has been the responsibility selected to those managers in accounting and finance departments. However, today's economy is changing those roles and several managers World Health Organization historically were not a part of this method square measure being referred to as upon to require pro-active steps in reducing the chance related to assets. [1–5]

Profitability and liquidity square measure the most imperative problems which require to be balanced against one another WCM has been outlined in varied ways that in keeping with some, it is the management of inventory management associate degree to therefore it is the management of accounts receivables in an optimum so on maximize the profit. [6] A good WCM wants the mandatory elements with fascinating quantities.

Maximizing shareholders wealth is the main objective of monetary management and this can be solely potential if the corporate makes adequate profits to be distributed out as dividends. Now, the amount of profit is essentially captivated with sales however sales do not get born-again into money instantly therefore, there is a time gap between the sales of products and recovery of money.

WCM aims to provide corporations success and its trustworthiness in paying the external debts and future in operation expenses. In the midst of rising price of capital an organization with scarce funds usually struggles and as a result the WCM has become a lot of outstanding currently. Profitability is heavily dependent on the WCM as a result of associate degree inefficient WCM may cause lack of gain and which might tend to monetary crisis. A company's ultimate long-run success is primarily based upon all departments inside the organization coming back along to fulfil its business purpose or mission. The same ideology should be utilized in managing the company's assets ways. It is probably not within the best interest of the corporate to supply all departments with each side of the present status.

LITERATURE REVIEW

The authors concluded that the industries had distinctive and considerably completely different operating capital management policies. The study also showed a high and important negative correlation between business plus and liabilities policies and located that once comparatively aggressive assets asset policies are followed, they are balanced by comparatively conservative assets monetary policies.

Many researchers have studied monetary ratios as half of assets management, very few, however, have discussed the operating capital policies in specific. Filbeck et al. (2005) [3] found out analysis of assets management policies of 32 non-financial industries in US. The result revealed that important variations exist between industries in operating capital follow overtime.

This study exhibits the introduction of the WC followed by the contributions made by the completely different researchers during this field of WCM. This chapter will additionally mention the empirical studies that are employed by those researchers regarding the WC and profit. These are later on analyzed and evaluations are created for that the analysis objectives are meant to be distributed.

The company features a stated aim of achieving revenues of $10 billion and volumes of ten million two-wheelers by 2016–2017. This is in combination with new countries where they would currently market their two-wheelers following the disengagement from Honda. Hero MotoCorp hopes to achieve ten per cent of their revenues from international markets and that they expected to launch sales in African nation by end-2011 or early-2012.[7]

Objectives of the study

The following are the objectives of the study:

1) To determine the capital position of Hero Motocorp restricted.
2) To assess the degree of association between the various magnitude relations with the well-known profitableness indicator ROCE and Inventory turnover ratio of hero Motocorp restricted throughout the amount beneath study.

The purpose of this study is to carryout empirical investigation whether it is highly aggressive or conservative in formulating ways for capital management.

Methodology, Sources of Data and Sampling Design

The study employed the use of secondary information that is collected from the Report and Accounts of Hero Motocorp restricted from 2006 to 2015 as printed in keeping with the regulation of the businesses and Allied Matters Decree 1990 and different restrictive bodies. The collected data from this supply have been compiled and used with charge as per the necessity of the study. The choice of secondary information is wise as a result of information from such a supply is free from bias, accurate and provides chance for replication. The sampling method adopted for this study is purposeful sampling.

The variables used in this study about assets management as monetary strategy area unit as follows current magnitude relation and assortment days as mensuration of relationship of assets are freelance variables. Operating profit here is a live of profit of a firm is mistreatment dependable variable, is measured by gross profit margin and return on capital used.[8,9]

The scope of this study is limited to an amount of 10 years there is scope for any analysis which can be extended to the assets parts management as well as money, marketable securities and inventory management.

RESULTS AND DISCUSSIONS

Key Financial Ratio

Financial performance ratio of 2006–2015 is shown in Table 1.

Table 1. *Financial Performance Ratio (2006–2015).*

Year	Operating profit margin (OPM)	Gross profit margin (GPM)	Net profit margin (NPM)	Return on capital employed (ROCE)	Current ratio (CR)	Interest coverage ratio (ICR)	Inventory turnover ratio (ITR)	Fixed assets turnover ratio (FATR)
2006	15.84	16.35	11.06	60.31	0.49	453.39	38.74	11.41
2007	12.13	12.85	8.58	43.48	0.57	711.75	36.25	9.54
2008	13.22	11.67	9.27	41.57	0.48	648.15	42.82	5.89
2009	14.22	12.75	10.3	43.33	0.46	664.4	47.53	5.34
2010	17.32	16.11	14	75.07	0.58	1,262.36	42.8	6.29
2011	13.4	11.33	9.95	60.31	0.24	146.73	43.88	3.7
2012	15.46	10.81	10.08	43.48	0.42	123.65	40.84	4.05
2013	13.97	9.17	8.91	41.57	0.67	216.51	37.33	7.32
2014	14	9.62	8.34	43.33	0.65	243.58	40.56	7.4
2015	12.84	10.88	8.64	75.07	0.94	315.14	35.93	5.99
Average	14.24	12.15	9.91	52.75	0.55	478.57	40.67	6.69

SD	1.48	2.32	1.60	13.08	0.18	334.56	3.51	2.24
Min	12.13	9.17	8.34	41.57	0.24	123.65	35.93	3.7
Max	17.32	16.35	14	75.07	0.94	1262.36	47.53	11.41

Source: *computed data from financial statement of Hero Motocorp Limited.*

The ideal quantitative relation of current ratio is 2:1. In no year the company reached ideal ratio. Operating profit was unsteady trend from year to year. Gross profit margin was fluctuating from year to year. In the year 2013, ratio was too low once compared to alternative years. Because the direct expenses area unit high.Net profit is unsteady year to year except within the year 2010. Net profit margin was low within the year 2014, due to increase in expenses. Return on capital used additionally unsteady year to year except 2010 and 2015. Because, net profit margin was unsteady from year to year. Fixed plus turnover quantitative relation was satisfactory except the years 2011, 2012. Due to cost of products oversubscribed was high. Inventory turnover ratio is slightly fluctuated in all years. Interest coverage ratio is a lot of in the year 2010. When compare to alternative years internet profit margin is high within the year 2010. [10–15]

Correlation

Hypothesis: The 'null hypothesis' might be: H0: There is no correlation between current ratio and gross profit margin about Hero Motocorp Limited (equivalent to saying r = 0).And an 'alternative hypothesis' might be: H1: There is a correlation between current ratio and gross profit margin about Hero Motocorp Limited (equivalent to saying r ≠ 0). From the correlations Table 2, it can be seen that the correlation coefficient (r) equals –0.201, indicating that, negative relationship between current ratio and gross profit margin.

Table 2. *Correlation Between Current Ratio and Gross Profit Margin Correlation.*

		Current ratio	Gross profit margin
Current ratio	Pearson correlation	1	–0.201
	Sig. (2-tailed)		0.578
	N	10	10
Gross profit margin	Pearson correlation	–0.201	1
	Sig. (2-tailed)	0.578	
	N	10	10

Source: *computed data from financial statement of Hero Motocorp Limited.*

ANOVA

The Table 3 shows the relation between the dependent variable (return on capital employed) and independent variable (inventory turnover ratio) from the year 2006 to 2015 the regression value is 0.5 there is strong relationship between the dependent and independent variable. This analysis describes that between groups relations are more than within the group relations. So, the null hypothesis is rejected. [16–19]

Table 3. *One Way ANOVA (Quick Ratio).*

	Sum of squares	df	Mean square	F	Sig.
Between groups	0.430	7	0.061	2.990	0.086
Within groups	0.144	7	0.021		
Total	0.574	14			

Source: *Computed Data From Financial Statement of Hero Motocorp Limited.*

CONCLUSION

The study investigated working capital management as a monetary strategy for Hero Motocorp restricted from 2006 to 2015. It was discovered that there is a negative relationship between current asset and net profit margin. The company must improve upon assets that are that the life blood of any organization.

On basis of the above associate in nursing analysis the results obtained will be improved if there's an economical coming up with concerned within the WCM. The company should use caution whereas managing the WC that consists of CA and CL. The firm should be prudent enough to manage their money, debtors and inventories in a suitable manner so, and it would yield higher profitability. This research is left at this stage thus that, future research is conducted in this field with additional firms for Associate in nursing extended amount of your time. The dimension of this WC could be extended by taking not solely inventories, debtors and payables solely however additionally marketable securities, cash and thus on. In the recent scenario, competition is driving everybody crazy. So, all the companies got to watch out whereas coming up with its WC demand.

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