



ISSN: 2321-2152

**IJMECE**

*International Journal of modern  
electronics and communication engineering*

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## A STUDY ON WORKING CAPITAL MANAGEMENT OF HERO MOTO CORP

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### Abstract

Working capital management is an important aspect of firm financial management since it directly affects liquidity, profitability, and operational efficiency. This abstract discusses the necessity of working capital management as well as significant improvement measures. Working capital management is the process of managing a company's current assets and liabilities in order to meet short-term obligations and keep day-to-day operations running. It is crucial to strike a cautious balance between having enough working capital on hand to address liquidity difficulties and reducing idle cash, which can have an impact on profitability. This abstract discusses and emphasizes the importance of working capital components such as cash, inventories, receivables, and payables in the administration of working capital. It emphasizes the significance of understanding cash flow dynamics and forecasting tools in order to accurately predict future working capital needs. Furthermore, the abstract highlights key working capital management practices. Among these methods include effective cash flow management, inventory control systems, optimizing receivables and payables cycles, and the use of financial instruments such as credit lines and factoring. It also stresses the use of technology, such as automated payment systems and real-time financial reporting tools, to streamline working capital processes.

**Keywords:** Working Capital, Current assets, Current Liabilities, Cashflow, Operating Cycle.

### I. Introduction

The working capital of a corporation is its brains and heart. Having sufficient working capital allows a company to take advantage of better terms on purchases, cheaper production costs as a result of accepting cash discounts, more favorable loan rates, and so on. A company can't make a profit without a sufficient amount of working capital. Having

a stable supply of working capital is crucial. The financial manager is responsible for calculating the exact amount of working capital needed. A business that has enough of cash on hand can take advantage of any favorable opportunity, whether it's to fulfill an urgent order, stock up on necessary supplies, or wait for the market to improve.

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For several reasons, knowing how much working capital a company has is crucial. The working capital calculation will show the corporation and its investors how well the business is actually doing. In addition, the purchase of new equipment and stock lines, among other things, contribute to the company's working capital. Working capital is the most important aspect when analyzing a company's performance or making projections about its growth. A company's growth and success may be stymied if its leaders don't take the time to learn about working capital and how to properly manage it. Without sufficient operating capital, a company will be unable to grow. The ACC is a very large corporation. As a result, a great deal of regular action occurs. ACC requires substantial working capital for the purchase of raw materials, stock, and spare parts in order to finance its current assets.

## II. Review of literature

Both concept-based and research-based studies are being analyzed by **Ramudu Janaki P. and Rao Durga S. (2008)**. Working capital could be thought of as the heartbeat of any business division. While incompetent management will unquestionably result in the demise of the company, effective management can significantly increase the success of the company. The management of working capital is of utmost significance in this situation.

The fundamentals of working capital, various issues faced by commercial enterprises in managing working capital, and tactics to be used for its judicious management are all explained by **Dinesh M. (2008)**. The author comes to the conclusion that the majority of enterprises collapsed due to a lack of funds, not a lack of profit. The business may use all available financial resources to grow as a result of the rapid increase in production and sales, which will make assets like inventories,

accounts receivable, and other assets less liquid.

Working capital management is one of an organization's most crucial and vital resources for day-to-day operations, according to **Dr. Khatik S. K. and Jain Rashmi (2009)**. Working capital can be considered a cash source for standard business operations.

As a part of the study thesis finished in July 2008, **Baig Viqar Ali (2009)** seeks to describe comparative findings of a survey of working capital management methods of chosen agricultural enterprises from dairy cooperatives, private, and MNC dairy firms. Additionally, an effort has been made to understand the impact of ownership, governmental restrictions, managerial empowerment, and cultural factors on the choice of working capital.

A study of the structure of working capital, the management of inventories, accounts receivable, accounts payable, and cash was conducted by **Singh Swaran and Dr. Bansal S. K. in 2010**. From the years 1999–2000 through 2006–2007, the writers used data from the IFFCO and KRIBHCO annual reports that were released. The primary goal of the current study is to analyze and assess how IFFCO and KRIBHCO manage their working capital. To draw results from the analysis, different ratios were used. We can draw the conclusion that IFFCO outperformed KRIBHCO in terms of managing working capital.

## III. Need for the study:

- Management must ensure that an excessive investment in current assets protects the organization from stock-out concerns, making working capital management one of the most critical areas of financial decision-making.
- Current assets are a key indicator of a company's liquidity. Effective management of a company's

current assets and current obligations is the goal of working capital management.

- If the company cannot keep its operating capital at a sustainable level, it will likely become insolvent and may be driven into bankruptcy. The goal of working capital management is to maximize operational efficiency.
- Efficient working capital management helps maintain smooth operations and can also help to improve the company's earnings and profitability. Further, management of working capital includes inventory management and management of accounts receivables and accounts payables.

#### IV. Objectives of the study:

- The objective is to learn about the present working capital management status at Hero MotoCorp.
- To evaluate the company's liquidity by studying its current assets and current liabilities.
- To determine the effectiveness of existing working capital mechanism at Hero Moto corp.
- To understand the sources and channelization of working capital at Hero MotoCorp which would enable the company to meet its day to day cashflow needs.

#### V. Scope of the study

- Long-term and short-term sources that hero MotoCorp Group tapped to pay its financial obligations is included in the study, however it is limited to those accessed throughout the study period (2018-2022).
- Data sources are from the industry and the website of the company.
- Duration of the study of project on Hero MotoCorp is from the period of (2018-2022).

- The tools used in this project includes current ratios, debt ratios, turnover ratios.

#### VI. Research Methodology

**Data Sources:** Both primary and secondary sources contribute to the study of working capital management.

**Secondary sources:** Published firm annual reports for the years 2018–2022.

#### DATA ANALYSIS

- In order to better understand the current state of working capital data has been processed using ratio analysis, visual analysis, and year-on-year analysis.
- The secondary data came from the company's annual reports from 2018 through 2022, as well as from a wide variety of books and the Internet. Primary source information came from interviews with the company's director.

#### VII. Limitations of the Study

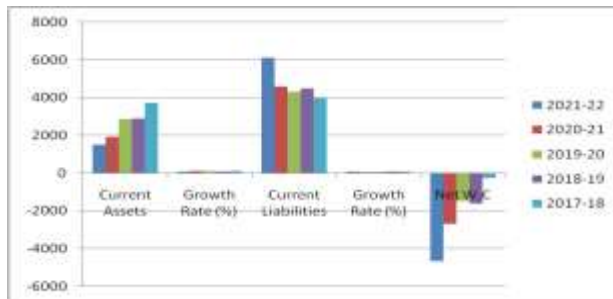
- The study's suggestions are at best but arbitrary.
- Duration of the study is confined to 2018-2022 only.
- Only secondary data sources are used.
- Ratios are the only data analysis tools applied.

**VIII. Empirical Results:** A sample of the data analysis results are presented below,

#### Tabular representation of Current assets & liabilities 2017-2022

Year	Current Assets	Growth Rate (%)	Current Liabilities	Growth Rate (%)	Net W.C
2021-22	1504.57	100	6144.75	100	-4640.2
2020-21	1951.69	129.71746	4610.73	75.035274	-2659
2019-20	2884.75	147.8078	4333.25	93.981864	-1448.5
2018-19	2911.17	100.91585	4497.43	103.788842	-1586.3
2017-18	3742.35	128.55141	3980.37	88.5032118	-238.02





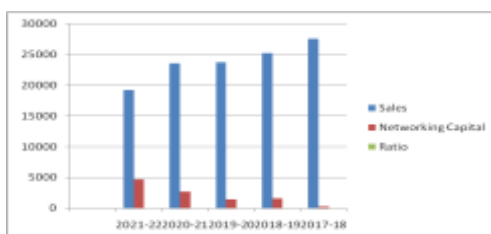
### Graphical representation of Current Assets and Liabilities

Hero Motorcar has the following assets and debts right now: In the growing stage, but in the 2017-18 fiscal year, it is in the decreasing stage because present liabilities are going down, and the growth rate is 121.55. Because of the fixed assets, the net working capital is also in the decreasing stage

### Tabular representation of Working Capital Turnover Ratio

Year	Sales	Networking Capital	Ratio
2021-22	19245.03	4640.2	4.14
2020-21	23586.8	2650	8.9
2019-20	23768.11	1448.5	16.4
2018-19	25275.47	1586.26	15.93
2017-18	27585.3	238.02	11.58

### Graphical representation of working capital turnover ratio



The relationship between debtors and revenue is measured by the Debtors Turnover Ratio. Credit management that results in a high

Debtors Turnover Ratio or a short time to collect on debts is doing its job. Similar results are obtained from data analysis carried out using Debtors turnover ratio and so on.

## IX. Findings, Suggestions & Conclusion

### Findings

- The net working capital of Hero Motorcar Ltd. is insufficient in 2018 and 2019. Due to the fact that it exhibits a dropping tendency, followed by a decline.
- During the 2017–2022 evaluation period, Hero Motorcar Ltd. has an acceptable current ratio. Initially, it rises, but then it begins to fall.
- Despite the quick ratio peaking at 0.73 in 2020-21 and gradually decreasing thereafter, Hero Motorcar Ltd. has a poor quick ratio on average.
- Hero Motorcar Ltd. saw an improvement in the turnover rate of its fixed assets. This is something the corporation must keep up.
- Hero Motorcar Ltd.'s inventory turnover ratio has been steadily rising without any dips in performance between 2017 and 2012. Though it fell in 2017–18 and again in 2020–21, it is down overall. Effective management can be predicted from well-organized stockpiles.
- The ROI is low and unsatisfactory. This suggests that the corporation is wasting its resources.

**Suggestions:** After the study of working capital management at Hero MotoCorp there are some suggestions:

- The funds allotted to the position improvement should be used wisely.
- Increased sales can be achieved through improved brand recognition.
- It is possible to implement mechanisms for reducing costs.
- The production process can be improved upon.
- Manage inventory more efficiently.
- Keep the networking capital ratio in check
- Manage expenses better to improve the cashflow

## Conclusion

From the study of the working capital management at Hero MotoCorp the conclusion is negative profit is displayed by the 2019-20 Hero Motorcar Ltd Net Profit Ratio. Since the Net Profit Ratio has been steadily declining over the past two years, this development was predictable. Due to rising or falling sales, Hero Motorcar Ltd.'s gross profit margin goes up or down. As the price of copper rises, Hero Motorcar Ltd.'s profit margin shrinks, and the company posts a loss. The Net Working Capital Ratio of Hero Motorcar Ltd. is Acceptable. In 2020-21, the ratio of return on total assets for Hero Motorcar Ltd is negative. Hero Motorcar Ltd.'s operating ratio improves from 2017-2018 to 2018-2019 and reaches its maximum in 2020-2021. Therefore, it is imperative that we cut expenditures wherever possible. Hero Motorcar Ltd. has an unsatisfactory operating ratio. This ratio is dropping as production costs rise. Therefore, it is imperative that the cut back on administrative costs.

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