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## A Study on Financial Performance Analysis of Manufacturing Industry (Liquidity & Profitability)

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### Abstract

Financial performance analysis is the process of identifying the financial strength and weaknesses of the firm by properly establishing the relationship between the items of the balance sheet and profit and loss account. This study particularly aims at analysis of liquidity and profitability of Hero Motocorp Limited. It is an Indian multinational motorcycle and scooter manufacturing company. This study includes the 5 year financial performance of the company and gives some suggestions to improve their level.

**Keywords:** Hero motocorp limited, financial performance analysis, liquidity, profitability

### 1. Introduction

Finance is considered as the science around the money management. Basically, finance means money management and the process of acquiring needed funds. Finance also encloses the creation, oversight and banking, study of money, investments, credit, assets, and liabilities that make up financial systems. Financial analysis is used to find out an entity's liquidity, solvency, stability, or profitability. Financial performance analysis comprises of analysis and interpretation of financial statements in such a way that it undertakes full diagnosis of the profitability and financial soundness of the business. The main aim of such analysis is to determine the efficiency and performance of firm's management.

### 2. Statement of the problem

Finance is treated as the blood of every business organization; business cannot be valued without financial essence. It is mandatory for every company to do a financial performance analysis at the end of each accounting year to know the efficiency and profitability of the company. Financial performance analysis helps the company to make better decisions regarding the operation of the company. This study

aims at analysing the liquidity and profitability of Hero Motocorp Limited. [1-5].

### 3. Scope and period of the study

Financial statement analysis is considered as a part of the whole body of the business analysis. Financial performance analysis of a company may be used by different people for different reasons so the scope of the study varies as per the wants and desires of the persons. This study focuses mainly on the liquidity and profitability of HERO Motocorp Limited. The period of study is 5 financial years i.e from 2015-16 to 2019-20.

### 4. Objectives of the study

- To analyze the liquidity of the company
- To assess the profitability of the company

### 5. Research methodology

Research methodology is a process that is used to identify select, process and analyze information. It involves studying the methods that are being used in the field of examination. The secondary data of HERO Motocorp Limited is used for the study. The data are collected from the annual report of the companies. [6-10].

**6. Tools used Liquidity analysis**

This is a type of financial analysis that focuses on the balance sheet, particularly, a company’s ability to meet short-term obligations (those due in less than a year).

**Profitability analysis**

Profitability is a type of income statement analysis where an analyst assesses how attractive the economics of a business are.

**7. Limitations**

- The study is based on past data
- Financial statement cannot be substitute for judgment

**8. Review of literature**

**Zafar S.M.Tariq and Khalid S.M (2012)** the study explored that ratios are calculated from financial statements which are prepared as desired policies adopted on depreciation and stock valuation by the management. Ratio is straightforward comparison of numerator and a denominator that can't produce complete and authentic picture of business. Results are manipulated and also might not highlight other factors which affect performance of firm by promoters.

**Mistry Dharmendra S. (2012)** understood a study to research the effect of varied determinants on the profitability of the chosen companies. Debt equity ratio, inventory ratio, total assets are key factors which determine the positive or negative effect on the profitability.

**Hotwani Rakhi (2013)** the author examines the profitability position and growth of company in light of sales and profitability of Tata Motors for past ten years. The study reveals that there not exists a robust relationship between sales & profitability of company.[11-15].

**9. Overview of the study**

Financial ratio analysis is a quantitative tool that businesses use to collect valuable insights into a business firm’s liquidity, profitability, solvency and efficiency. Ratio analysis provides information to businesses by analysing the data contained in the firm’s income statement, balance sheet, and statement of cash flows.

The ratios applied are

- Liquidity ratio
- Profitability ratio

**10. Overview of the company**

Hero Motocorp Limited is an Indian multinational motorcycle and scooter manufacturer based in New Delhi, India. Earlier it is known as Hero Honda. It is the largest two-wheeler manufacturer in the world, and also in India. It holds a market share of about 46% in the two-wheeler category. Hero Honda was initiated in 1984 as a joint venture between Hero Cycles of India and Honda of Japan.

**11. Analysis and interpretation Liquidity analysis**

Liquidity ratio analysis is the use of several ratios to determine the ability of an organization to pay off your current dues within a year.

Current ratio

Formula = Current Assets/ Current Liabilities

**Table.1. Current Ratio (TIMES)**

YEAR	CURRENT ASSETS (RS. IN CRORES)	CURRENT LIABILITIES (RS. IN CRORES)	CURRENT RATIO(TIMES)
2015-16	6,151.22	3,448.32	1.78
2016-17	7,453.18	4,093.33	1.82
2017-18	8,848.18	4,343.32	2.03
2018-19	8,115.64	4,130.36	1.96
2019-20	8,288.56	3,976.06	2.08

The above table shows that the current ratio is highest with 2.08 times in the year 2019-20. In 2015-16, the current ratio is lowest with 1.78 times. The ideal standard current ratio is 2:1. In the year, 2017-18 though the ratio is beyond the standard ratio but it doesn’t reach the highest point. It is evident that the company is able to meet its short term obligations within the given period.

**Liquid ratio**

Formula = Liquid Assets / Current liabilities

**Table.2. Liquid Ratio (TIMES)**

YEAR	LIQUID ASSETS (RS. IN CRORES)	CURRENT LIABILITIES (RS. IN CRORES)	LIQUID RATIO (TIMES)
2015-16	5,478.24	3,448.32	1.59
2016-17	6,796.87	4,093.33	1.67
2017-18	8,024.6	4,343.32	1.85
2018-19	7,043.27	4,130.36	1.70
2019-20	7,196.59	3,976.06	1.80

The above table indicates that the liquid ratio is highest with 1.85 times in the year 2017-18 and lowest with 1.59 times in the year 2015-16. The

standard liquid ratio is 1:1. In all the five years the liquid ratio is beyond its standard ratio. Hero motocorp limited has to maintain this ratio level or else it will have to face financial hardships in future.

### Absolute liquid ratio

Formula = Absolute liquid assets / Liquid liabilities

**Table.3. Absolute Liquid Ratio (TIMES)**

YEAR	ABSOLUTE LIQUID ASSETS (RS. IN CRORES)	LIQUID LIABILITIES (RS. IN CRORES)	ABSOLUTE LIQUID RATIO (TIMES)
2015-16	3,600.47	3,448.32	1.04
2016-17	4,677.58	4,093.33	1.14
2017-18	5,732.46	4,343.32	1.32
2018-19	3,303.56	4,130.36	0.80
2019-20	1,333.83	3,976.06	0.34

The above represented data shows that the absolute liquid ratio is highest with 1.32 times in the year 2017-18 and lowest with 0.34 times in the year 2019-20. The standard absolute liquid ratio is 0.75:1. The ratio is higher than the standard ratio in all the four years except 2019-20. The company has to take proper action to increase this ratio or else the company will struggle to pay their financial debts.

### Profitability analysis

Efficiency of a business is measured by profitability. Profitability ratio measures the profit earning capacity of the business concern.

#### Net profit ratio

Formula = Net profit / sales x 100

**Table .4. Net Profit Ratio**

YEAR	NET PROFIT (RS. IN CRORES)	SALES (RS. IN CRORES)	NET PROFIT RATIO
2015-16	3,160	30,700.88	10.29%
2016-17	3,377	30,871.59	10.93%
2017-18	3,697	32,871.82	11.24%
2018-19	3,385	33,650.54	10.05%
2019-20	3,633	28,836.09	12.59%

The above table clearly states that net profit ratio is highest in the year 2019-20 with 12.59% and lowest in the year 2018-19 with 10.05%. Higher net profit ratio indicates that the company can effectively control its costs or it can provide goods or services at a price significantly higher than its costs.

### Gross profit ratio

FORMULA = GROSS PROFIT / SALES x 100

**Table .5. Gross Profit Ratio**

Year	Gross Profit (RS. IN CRORES)	SALES (RS. IN CRORES)	Gross Profit Ratio
2015-16	4872.51	30,700.88	15.87%

2016-17	5151.19	30,871.59	16.68%
2017-18	5799.76	32,871.82	17.64%
2018-19	5612.74	33,650.54	16.68%
2019-20	5391.65	28,836.09	18.70%

The above table states that the gross profit is highest in the year 2019-20 with 18.70% and lowest in the year 2015-16 with 15.87%. The company has to maintain the same level or else it will face a huge loss in the business.

### Operating profit ratio

FORMULA = Operating Profit/ Sales x100

**Table.6. Operating Profit Ratio**

Year	Operating Profit (RS. IN CRORES)	Sales (RS. IN CRORES)	Operating Profit Ratio
2015-16	4877.40	30,700.88	15.88%
2016-17	5157.24	30,871.59	16.70%
2017-18	5806.01	32,871.82	17.66%
2018-19	5621.34	33,650.54	16.70%
2019-20	5413.67	28,836.09	18.77%

The table shows that the operating ratio is highest in the year 2019-20 with 18.77% and lowest in the year 2015-16 with 15.88%. The company has to maintain the same level or else it will face a huge risk in the future.

## 12. Findings and suggestions

- The current ratio is gradually increasing from 1.78 times in the year 2015-16 to 2.03 times in the year 2017-18, it was declined to 1.96 times in the year 2018-19 and it has reached its highest 2.08 times in the year 2019-20.
- The liquid ratio is increasing from 1.59 times in the year 2015-16 to 1.85 times in the year 2017-18, it was decreased to 1.70 times in the year 2018-19 and it has increased to 1.80 times in the year 2019-20.
- The absolute liquid ratio is steadily increasing from 1.04 times in the year 2015-16 to 1.32 times in the year 2017-18 and there was a sudden decrease of 0.80 times in the year 2018-19 and 0.34 times in the year 2019-20.
- The net profit, gross profit and operating profit ratio are fluctuating.

## Suggestions

- The ideal current ratio is 2 times. The company has achieved the ideal current ratio in 2019-20 if the company tries to maintain the same level of assets and liabilities in the upcoming year it can achieve the optimum current ratio.
- Considering the ideal liquid ratio 1:1 the company is maintaining near ideal ratio with some fluctuations it is advisable for the company to

maintain the liquid ratio in this range and should make sure that the ratio should not rise further.

- The company is moving in a decreasing trend if the company moves in the same trend the company will not have sufficient liquid assets to meet its current liabilities
- The company is currently showing an increasing trend in all the profitability ratios, the company shall continue to operate its business in an optimum manner.

### Conclusion

The purpose of financial performance analysis is to identify the financial strengths and weaknesses of the firm by properly establishing the relationship between the items of balance sheet and profit and loss account. This helps in planning the financial performance of the company in the future. From the analysis, it is concluded that Hero Motocorp limited can try to follow the suggestions presented above to improve its profit and increase turnover in the upcoming years. If they can properly implement the above suggested techniques they can maximize profits with minimum costs. Hence, we conclude this project that financial performance analysis of the company is essential from time to time to evaluate its business.

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