

The Key players of two wheeler industry in India A case study of Hero / Hero Honda Two wheelers

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Abstract— The role of Automobile Industry in Indian economy is the main phenomenon. The automobile industry plays a vital role in the economic, social and technological developments of the country. The LPG has created an environment advantageous to an enterprise, investment and innovation. With the advent of this change, the corporate houses can now enter in joint venture strategy to acquire and access new technology, new managerial strategies, new innovative products and services. Automobile industry in India is an emerging sector and has a potential to improve it. The key Players have framed the strategies to tap the sector as per their features of the automotives. The Increasing GDP and economical resources have boost up during the last decade which has increased purchasing power of the Indian peoples. The emergence of Hero Honda group in 1984 was also an outcome of the joint venture strategy for technological innovative products. The present paper deals with the brief study of joint venture and then split up of the Hero and Honda enterprises and the impact on the Hero. The paper focus a spotlight on the performance of Hero during pre and post split through trend analysis by taking some parameters. The data is entirely based on secondary data through annual reports of the company.

Index Terms— Hero, Honda, Hero Honda, Joint venture, Breakup etc.,

1. INTRODUCTION

As far as Indian citizens are concerned, they prefer two wheelers because of their small manageable size resulting into smooth riding during peak hours and easy parking , low maintenance, pricing and easy finance. Growing working population, increased access to credit, lower interest loans and upward migration of household income levels are also factors which flourished the two wheeler industry in India. India had the largest population of two-wheelers (around 41.6m vehicles) in the world. They accounted for almost 70% of the country's automobile market in volume terms. India was the second largest manufacturer of two wheelers in the world. The birth of the Indian two-wheeler industry can be traced to the small beginnings that it made in the early 1950s when Automobile Products of India (API) started manufacturing scooters in the country. Confronted with a larger array of choices, the consumers were regaining their influence over the products that they bought. In keeping up with these higher customer expectations, the industry accelerated the launch of new models, and every company was trying to outdo the other in terms of styling, price, and fuel efficiency.

The technological expertise that the foreign companies brought to the marketplace helped increase the overall quality and reliability of the products quite significantly. The old-guard companies soon found themselves under pressure to improve their offerings and bring their products on par with their global counterparts.

2. LITERATURE REVIEW

Financial statements do not explore all financial and operational information of a firm but it furnishes useful information, which evolves two important factors- financial soundness and profitability. It includes analysis, interpretation and diagnosis of financial health and profitability based on financial statement of the firm. (Akram Alkhatih, 2012) observed that operational efficiency and asset management have impact on Return on Assets. (Gilbert Sebe – Yeboah, 2014) used profitability, efficiency, liquidity, risk measures, asset quality and investor analysis to identify long term performance of banks.

(Vivek Singla, 2013) analysed the financial performance of selected firms. It includes analysis of profitability and working capital. Financial performance is a yardstick to measure financial and operational efficiency of the firm. Strategic and operational of thinking mainly depends on analysis of financial performance. The consistency and routine efforts made to improve financial condition. This will result on increasing effectiveness and efficiency of the firm and increase the interest on investment.

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(Anurag. B.Singh, 2012) examined the financial performance of ICICI and SBI bank with a comparison of private and public sector. (Amalendu Bhunia, 2011) evaluates the financial performance of pharmaceutical company. The study was mainly focused on long term and short term solvency, liquidity and profitability, efficiency and behaviour of profitability and liquidity position. The study suggested that, the sector poised with new challenges and sustain the growth. (G. Subramanian, 2014) suggested that avoid the bulk investment in inventory and receivables. Instead of that use the available funds an effective and efficient manner for alternative profitable uses. The study concludes that financial performance analysis is more important for the accomplishment of a firm. This tool is a consideration of solidity, feasibility and fertility of a firm. (Maryam Mahammadi, 2012) emphasis accounting information helps to decision makers to evaluate the firm's financial performance, how to examine future obligations and evaluate better investment decision. The results are interpreted firm do not performed well and overall organisational performance in terms of profitability, liquidity and creditworthiness declined due to weakening in firm's operational environment. (V. Srei kanth, 2014) pointed out that overall firm performance declined remarkably at overall study period. (Mistry, 2011) analysed the mean value of automobile production is the highest in two wheelers. The highest fluctuations are found in both of commercial and passenger vehicle when compared to two wheelers and three wheeler segment.

3 HISTORY OF HERO:

3.1 Hero Motocorp - Hero MotoCorp Limited, formerly Hero Honda Motors Limited is an India-based company engaged in the manufacture of motorcycles. The Company is engaged in manufacturing of two wheelers and its parts and ancillary services. The Company's bikes are manufactured across three manufacturing facilities. Two of these are based at Gurgaon and Dharuhera, which are located in the state of Haryana in The Company offers a range of bikes which include CD Dawn, CD Deluxe, Splendor Plus, Splendor NXG, super splendor and Passion Pro. It exports to international markets under the brand name Hero.

Hero Moto Corp Ltd. has 740 dealers across India.

In the state of Andhra Pradesh it has 35 dealers.

3.2 The milestones of Hero Moto Corp Limited

S NO	YEAR	ACHIEVEMENT
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1	1944	Established a business of bicycle spare parts
2	1956	Started a bicycle unit called Hero Cycles
3	1963	Started exporting bicycles
4	1975	Became the largest manufacturer of bicycles in India with a production of 7500 cycles per day
5	1984	Joint Collaboration with Honda Motor Co. Ltd. Japan ,Hero Honda Motors Ltd. Incorporated
6	2001	Hero Honda became the largest selling two-wheeled manufacturer in India
7	2011	New licensing arrangement signed between Hero and Honda (Hero Honda is renamed as Hero), Technology support will be continued from Honda till 2014
8	2012	Strategic partnership with Erik Buell Racing (EBR) of USA

3.3 Impact on Hero Group after the Split up:

The company has posted a 16.2% decline in Net Profit (Quarter-4 ended March 2011) this is because of two reasons.

- Because of rising Input cost, as Raw materials like steel, non-ferrous, and Rubber based components are not showing any signs of easing.
- Higher advertising spending during the World Cup Cricket.

3.4 Direct Impact:

The Hero Group has to pay total Royalty of Rs.2479 crores to Honda Motors (which includes Rs.550 crore for export license) for the purpose of producing, Selling and Servicing

current products. The company has roped Law and Kenneth(L&K) as an Creative partner to launch and establish a New Brand for the company. The Company is in search for hiring an International Brand and Innovator Specialist.

3.5 Strengths of Hero Group:

- Market Leader in Two wheeler category.
- Strong Distribution channel across the length and breadth of the country.
- Huge Production units. (The company has increase its production capacity this year from 5.5Million to 6.15Million units with an initial investment of Rs300crores.)
- Brand Loyal Customers(doubted as people now are familiar with the name Hero Honda rather than Hero)
- Good Product Mix as a Portfolio.
- Enriching its R&D capabilities as a part of its long term plan.

4 METHODOLOGY

The study has been conducted for 10 years covering a period from 2005-2006 to2014-2015, ie., 5 years before the split and 5 years during and after the split. The study is based on the secondary data. The data of the sample company was collected from the annual reports and the balance sheets published by the companies, the websites of the companies and journals.

Trend analysis: An aspect of technical analysis that tries to predict the future movement based on past data.

Limitations

1. The period of the study covers only 10 years from 2005-2006 to 2014-2015.
2. The secondary data used the study have been taken from published annual reports.
3. As per the requirement and necessity of the study some data have been grouped and sub-grouped.
4. Due to the time constraint some of the factors were not taken into consideration.

5 ANALYSIS AND INTERPRETATION

Pre Split (Joint Venture)

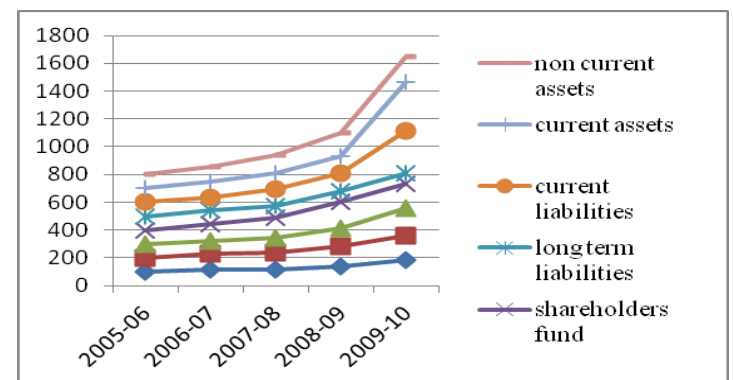
Particulars	2005-06	2006-07	2007-08	2008-09
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	100	113.61	118.57	141.37	2009-10
Sales	100	113.61	118.57	141.37	180.84
Total Expenses	100	118.58	122.11	144.25	177.89
profit before tax	100	88.24	99.86	126.14	200.51
shareholders fund	100	122.93	148.62	189.16	172.45
long term liabilities	100	96.36	85.85	75.71	74.10
current liabilities	100	94.65	116.76	131.36	309.15
current assets	100	111.21	114.07	123.41	351.00
non current assets	100	108.96	135.33	165.92	

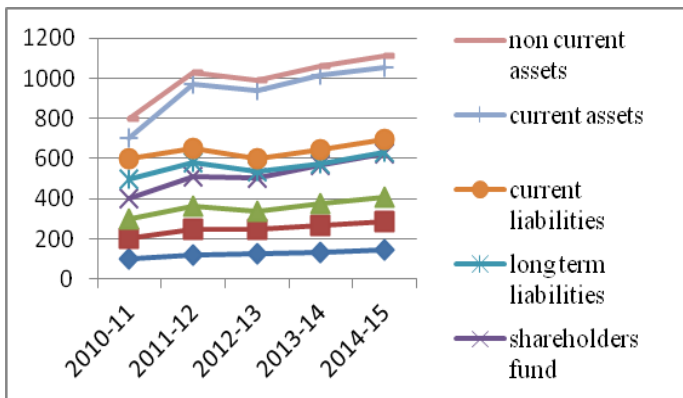
Source: Annual Reports

Post Split

Particulars	2010-11	2011-12	2012-13	2013-14	2014-15
Sales	100	121.42	122.54	130.55	142.12
Total Expenses	100	122.66	125.91	132.99	143.11
profit before tax	100	119.13	88.29	113.24	119.99
shareholders fund	100	145.12	169.36	190.21	221.24
long term liabilities	100	72.12	26.65	4.27	6.28
current liabilities	100	70.65	67.87	71.99	64.87
current assets	100	321.09	337.48	369.43	357.56
non current assets	100	54.15	48.86	48.86	56.47



Source: Annual Reports



6 ABOUT THE PROFITABILITY

The increase / decrease in sales should be compared with the increase / decrease in expenses. An increase in sales will not always indicate the increase in profit. The profitability will improve if increase in sales is more than the increase in expenses. Expenses includes cost of goods sold, office and administrative expenses and selling and distribution expenses. An increase in the profit will result from the increase in sales position and control of expenses. A decrease in the [profit may be due to an increase in expenses or decrease in sales. The change of the individual expenses should also be considered. Some expenses may increase due to the expansion of business activities while others may go up due to managerial in-efficiency. The increase or decrease in the profit will give an idea about the overall profitability of the company.

6.1 Before Split:

The sales, expenses and profit are increasing. Increase in Sales is more than increase in the Expenses. Hence a upward profit trend is observed.

6.2 After Split:

The sales, expenses and profit are increasing. Increase in Sales is more than increase in the Expenses. Hence a upward profit trend is observed.

When compared before and after split the percentage increase in profits are more at before split.

6.3 About Balance-sheet Items

For studying the current financial position or short term position of the company can be analyzed by the changes in current assets and current liabilities. An increase in the current assets accompanied by the increase in the current liabilities of the same amount will not show any improvement in the short term financial position. The long term financial position of the company can be analyzed by studying the changes in non-current assets, long-term liabilities and capital. The proper financial policy of the company will be to finance fixed assets by the issue of either long-term securities such as debentures, bonds, loans from financial institutions or issue of fresh capital. An increase in fixed assets should be compared to the increase

in long-term loans and capital. If the increase in fixed assets is more than the increase in long term loans, then the part of fixed assets has been finance from current liabilities. On the other hand if the increase in log term liabilities is more than the increase in fixed assets, then fixed assets have not only been financed from long term sources but part of current assets has also been financed from long term sources. A wise policy will be to finance fixed assets by raising long term funds.

6.4 Before Split:

Observations:

- Long term liabilities – Decreasing
- Current liabilities – Increasing
- Current Assets – Increasing
- Non Current Assets – Increasing

Analysis:

While long term liabilities are decreasing, which is the indication for healthy savings in the interest liability. Raise in the Non Current Assets will be the better sign for the company expansion.

6.5 After Split:

Observations:

- Long term liabilities – Decreasing
- Current liabilities – Varying
- Current Assets – Increasing
- Non Current Assets – Varying

7 ANALYSIS:

Increase In the Current assets indicate a strong short term financial position, while long term liabilities are decreasing, which is the indication for is healthy savings in the interest liability. While variation in the non current assets is observed when compare to Pre Split. This area is affecting minor after the split.

8 CONCLUSION:

The split up between Hero and Honda group was initially at a set back as shares of both the companies plummeted with the demerger announcement. The Hero group had by corporate restructuring of the organization emerged as Hero Motocorp and has now launching its vehicles under the new brand name. The company has got an huge opportunity to remain as an market leader for longer time by holding majority of the market share. In addition as the increase of the bank interest rate the sales of the car has been decreased and an increase in the sales of two-wheelers/bikes is expected. This will create and huge opportunity to grab it. However, the numbers of the financial statements are encouraging , The company should

be more effective in its technological innovations and should have to invest high on creating brand positioning of Hero Motocorp as the brand was perceived as Hero Honda in customer's mindset.

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