WORKING CAPITAL MANAGEMENT PRACTICES IN EMERGING MARKETS: STRATEGIES FOR NAVIGATING ECONOMIC VOLATILITY AT HERO MOTO CORP LTD.

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ABSTRACT

This abstract focuses on analyzing the working capital position of a company, which reflects its short-term financial health and operational efficiency. Working capital is the difference between current assets and current liabilities, and it plays a critical role in maintaining liquidity and meeting day-to-day expenses. The study examines key components such as inventories, receivables, cash and bank balances, loans and advances, as well as current liabilities and provisions. The analysis shows whether the company maintains a positive or negative working capital and how this affects its ability to manage operations smoothly. A negative working capital position indicates financial stress, potential delays in payments, or over-reliance on short-term borrowings. The abstract also highlights changes in working capital over two financial years, providing insights into the company's approach to managing resources, credit policies, and operational funding. The findings help evaluate whether the company is efficiently utilizing its current assets to meet short-term obligations and sustain business continuity.

I. INTRODUCTION

WORKING CAPITAL:

Cash is the lifeline of a company. If this lifeline deteriorates, the company's ability to fund operations, reinvest and meet capital requirements and payments also deteriorate. Understanding a company's cash flow health is essential for making investment decisions. A good way to judge a company's cash flow prospects is to look at its working capital management (WCM).

Working capital of a company reveals more about the financial condition of a business than almost any other calculation. It tells you what would be left if a company raised all of its short term resources, and used them to pay off its short term liabilities. The more working capital, the less financial strain a company experiences.

Working capital also gives investors an idea of the company's underlying operational efficiency. Money that is tied up in inventory or money that customers still owe to the company can't be used to pay off any of its obligations. So, if a company is not operating in the most efficient manner (slow collection) it will show up in the working capital. This can be seen by comparing the working capital from one period of time to another; slow collection may signal an underlying problem in the company's operations.

DEFINITION

The definition of working capital is that it is the difference between an organization's current assets and its current liabilities. Of more importance is its function which is primarily to support the day-to-day financial operations of an organization, including the purchase of stock, the payment of salaries, wages and other business expenses, and the financing of credit sales. It's a measure of both a company's efficiency and its short-term financial health.

The better a company manages its working capital, the less the company needs to borrow. Even companies with cash surpluses need to manage working capital to ensure that those surpluses are invested in ways that will generate suitable returns for investors.

There are two concepts of working capital. They are

→ Gross working capital and
→ Net working capital.

The term gross working capital, also referred to as working capital means the total current assets.

The term net working capital can be defined in two ways:

- The most common definition of net working capital is the difference between the current assets and the current liabilities.
- The alternate definition of NWC is that portion of current assets which is financed with long term funds. Since the current liabilities represent the sources of short term funds, as long as current assets exceed current liabilities, the excess must be financed with long term funds.

The net working capital, as a measure of liquidity is quite useful for internal control. The net working capital helps in comparing the liquidity of the same firm over time.

Therefore:

Current Assets - Current Liabilities = Working Capital

A positive working capital means that the company is able to pay off its short-term liabilities. A negative working capital means that a company currently is unable to meet its short-term liabilities with its current assets (cash, accounts receivable, inventory). Management must ensure that a business has sufficient working capital. Too little of the working capital will result in cash flow problems highlighted by an organization exceeding its agreed overdraft limit, failing to pay suppliers on time, and being unable to claim discounts for prompt payment. In the long run, a business with insufficient working capital will be unable to meet its current obligations and will be forced to cease trading even if it remains profitable on paper.

On the other hand, if an organization ties up too much of its resources in working capital it will earn a lower than expected rate of return on capital employed. Again this is not a desirable situation.

As it is said that working capital is the difference between the current assets and the current liabilities, the management of the company has to manage their current assets and current liabilities.

Need of the study

Working capital management is one of the key areas of financial decision-making. It is significant because, the management must see that an excessive investment in current assets should protect the company from the problems of stock-out. Current assets will also determine the liquidity position of the firm.

The goal of working capital management is to manage the firm current assets and current liabilities in such a way that a satisfactory level of working capital is maintained. If the firm cannot maintain a satisfactory level of working capital, it is likely to become insolvent and may be even forced into bankruptcy.

SCOPE OF THE STUDY:

A study of the **Working capital** involves an examination of long term as well as short term sources that a company taps in order to meet its requirements of finance. The scope of the study is confined to the sources that Hero MotoCorp Ltd. (Formerly Hero Honda Motors Ltd.) tapped over the years under study i.e. 2021-25.

OBJECTIVES OF THE STUDY

- To study the existing working capital management system of Hero MotoCorp Ltd. (Formerly Hero Honda Motors Ltd.).
- To find the liquidity position of the current assets and current liabilities of the company.
- To examine feasibility of present system of managing working capital.
- To understand how the company finances its working capital
- To analyze the financial performance of the company with reference to working capital.
- To give some suggestions to the management based on the information studied.

II. METHODOLOGY

- The study of Working Capital management is based on primary as well as secondary data.

Data relating to. Has been collected through

SECONDARY SOURCES:

Published annual reports of the company for the year 2021-25.

PRIMARY SOURCES:

Detailed discussions with Vice-President (finance department).

Discussions with the Finance manager and other members of the Finance department.

DATA ANALYSIS

The collected data has been processed using the tools of

- Ratio analysis
- Graphical analysis
- Year-year analysis

These tools access in the interpretation and understanding of the Existing scenario of the Capital Structure.

- The primary data was gathered through personal interaction with the director of the company.
- The secondary data was collected from company's annual reports from various books and Internet.

LIMITATIONS

- Due to the busy schedule of the executives in the company, all the required primary data could not be collected, which might affect the results of the study.
- Recommendations of the study are only personal opinions. Hence the judgments may be biased and could not be considered as ultimate and standard solutions.
- Short period of time is one of the limitations, due to which a detailed study could not be conducted on the topic

III. REVIEW OF LITERATURE

WORKING CAPITAL MANAGEMENT

Management of working capital plays a very important role in the financial management of a company because maintaining a balance of income to debt can be difficult and owners must be diligent to assure that it is kept. Sometimes it takes a little assistance to maintain levels of fluidity or make major purchases.

If working capital dips too low, a business risks running out of cash. Even very profitable businesses can run into trouble if they lose the ability to meet their short-term obligations. Working capital financing can be used as a fast cash option to cushion the periods when the flow is not ideal or readily available. Even when owners are meticulous in managing working capital, finding the right levels to remain comfortable and competitive can be difficult.

The Importance of Good Working Capital Management

Working capital constitutes part of the Company's investment in a department. Associated with this is an opportunity cost to the company. (Money invested in one area may "cost" opportunities for investment in other areas.) If a department is operating with more working capital than is necessary, this over-investment represents an unnecessary cost to the Company

From a department's point of view, excess working capital means operating inefficiencies. In addition, unnecessary working capital increases the amount of the capital charge which departments are required to meet

OBJECTIVES OF MANAGING WORKING CAPITAL

- Describe the risk-return trade-off involved in managing a firm's working capital.
- Explain the determinants of net working capital.
- Calculate the effective cost of short-term credit.
- List and describe the basic sources of short-term credit.
- Describe the special problems encountered by multinational firms in managing working capital.

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Working capital management takes place on two levels:

- Ratio analysis can be used to monitor overall trends in working capital and to identify areas requiring closer management
- The individual components of working capital can be effectively managed by using various techniques and strategies

When considering these techniques and strategies, departments need to recognize that each department has a unique mix of working capital components. The emphasis that needs to be placed on each component varies according to department.

Furthermore, working capital management is not an end in itself. It is an integral part of the department's overall management. The needs of efficient working capital management must be considered in relation to other aspects of the department's financial and non-financial performance.

Working Capital Ratio

Current Assets divided by **Current Liabilities**

The working capital ratio (or current ratio) attempts to measure the level of liquidity, that is, the level of safety provided by the excess of current assets over current liabilities.

The "quick ratio" a derivative, excludes inventories from the current assets, considering only those assets most swiftly realizable. There are also other possible refinements.

There is no particular benchmark value or range that can be recommended as suitable for all government departments. However, if a department tracks its own working capital ratio over a period of time, the trends-the way in which the liquidity is changing-will become apparent.

Current assets:

The term current assets refer to those assets which in the ordinary course of business can be, or will be, converted into cash within one year without under going any diminution in the value and without disrupting the operations of the firm. The major current assets are cash, cash equivalent, marketable securities, accounts receivable, inventory, prepaid expenses and other short term investments.

Debtors

Debtors are people or other firms who owe money to the firm. This will usually happen where the firm has sold goods with a period of credit. The firm sells the good or service but allows the purchaser a period of credit to pay - usually a month. During this month the purchaser owes the firm the money and is therefore a debtor.

If the firm has debts these are considered an asset, because when the debtors pay the firm will have converted the debt into cash in the bank. Because most debts are relatively short-term they are considered current assets the amount of debtors a firm has depends on the line of business they are in.

CASH

In a business the term cash may have a broader meaning. Cash is an asset to the business and is usually considered to be one of the current assets. Under the heading cash on the balance sheet may be included a number of items of varying liquidity. A small amount may actually be cash (or readies) held in tills or as petty cash, but the majority is likely to be held in various bank accounts. However, since money in current accounts rarely earns interest, if a business has a surplus of cash it may invest it in various ways. Some will have to be in very liquid accounts so that if necessary they can get at it very quickly, but some may be tied up for longer periods of time.

Inventory

Inventory is also a current asset which can be either raw materials, finished items available for sale, or goods in the process of being manufactured. Inventory is recorded as an asset on a company's balance sheet.

Raw material

An item used to produce something else is called a "raw material." Some raw materials are easy to spot, but many require detective work. Raw material of a company may be imported or indigenous. Raw material should be managed in such a way that flow of production is not interrupted. Reordering quantity and time should be estimated in a proper manner.

Work in process

An operation is composed of *processes* designed to add value by transforming inputs into useful outputs. Inputs may be materials, labor, energy, and capital equipment. Outputs may be a physical product (possibly used as an input to another process) or a service. Processes can have a significant impact on the performance of a business, and process improvement can improve a firm's competitiveness.

Finished Goods

Definition: Commodities that will not undergo further processing and are ready for sale to the final demand user, either an individual consumer or business firm. This includes unprocessed foods such as eggs and fresh vegetables, as well as processed foods such as bakery products and meats.

This also includes durable goods such as automobiles, household furniture and appliances, and Nondurable goods such as apparel and home heating oil.

Prepaid Expenses:

In the course of every day operations, businesses will have to pay for goods or services before they actually receive the product Sometimes companies decide to prepay taxes, salaries, utility bills, rent, or the interest on their debt. These would all be pooled together and put on the balance sheet under the heading prepaid expenses. By their very nature, Prepaid Expenses are a small part of the balance sheet

Current liabilities

The term current liabilities are those liabilities which are intended at the time of their inception, to be paid in the ordinary course of business, within a year, out of the current assets or earnings of the concern. The basic current liabilities are accounts payable, bills payable, bank overdraft and outstanding expenses and other short term debts.

Creditors:

Creditors (Accounts Payable) are suppliers whose invoices for goods or services have been processed but who have not yet been paid.

In other words, creditors are people to whom the company owes the money.

The term creditor is frequently used in the financial world, especially in reference to short term loans, long term bonds, and mortgages.

The term creditor derives from the notion of credit. In modern America, credit refers to a rating which indicates the ability of a borrower and likelihood to pay back his or her loan. In earlier times, credit also referred to reputation or trustworthiness.

IV. DATA ANALYSIS & INTERPRETION

Size and Growth of Current Assets, Current Liabilities and Net Working Capital of Hero MotoCorp Ltd. (2019-20 to 2024-25)

(All amounts are in ₹ Crores)

Year	Current Assets	Growth Rate (%)	Current Liabilities	Growth Rate (%)	Net Working Capital
2019-20	1,504.57	100.00	6,144.75	100.00	-4,640.18
2020-21	1,951.69	129.72	4,610.73	75.04	-2,659.04
2021-22	2,884.75	147.81	4,333.25	93.98	-1,448.50
2022-23	2,911.17	100.92	4,497.43	103.79	-1,586.26
2023-24	3,742.35	128.55	3,980.37	88.50	-238.02
2024-25	**4,285.60**	**114.52**	**3,745.20**	**94.09**	**540.40**

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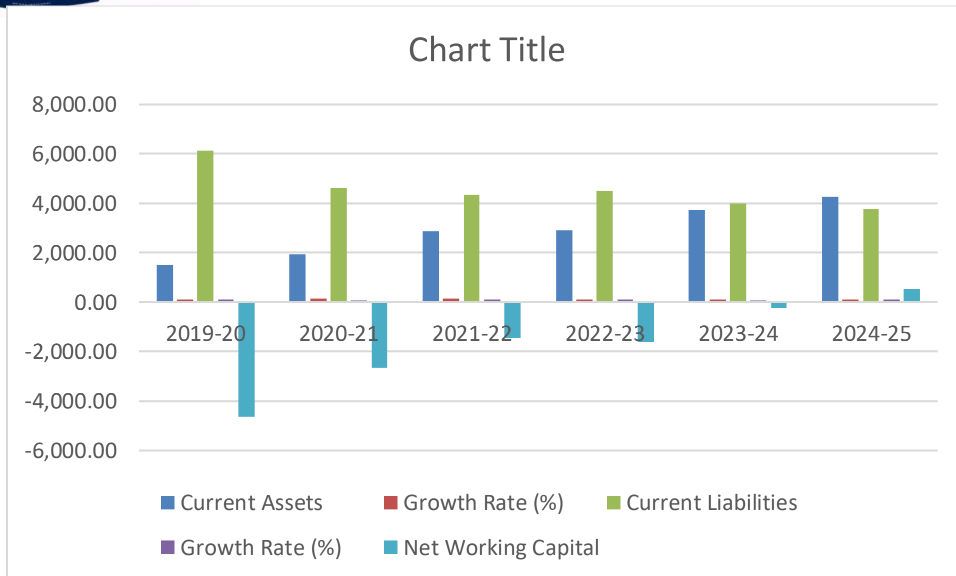


Interpretation:

The above table shows the size and growth of current assets, current liabilities, and net working capital of Hero MotoCorp Ltd. during the period 2019-20 to 2024-25. The current assets increased steadily from ₹1,504.57 crore in 2019-20 to ₹4,285.60 crore in 2024-25, indicating a significant improvement in the company's short-term asset base. The highest growth in current assets was observed during 2021-22, while moderate growth continued in the subsequent years.

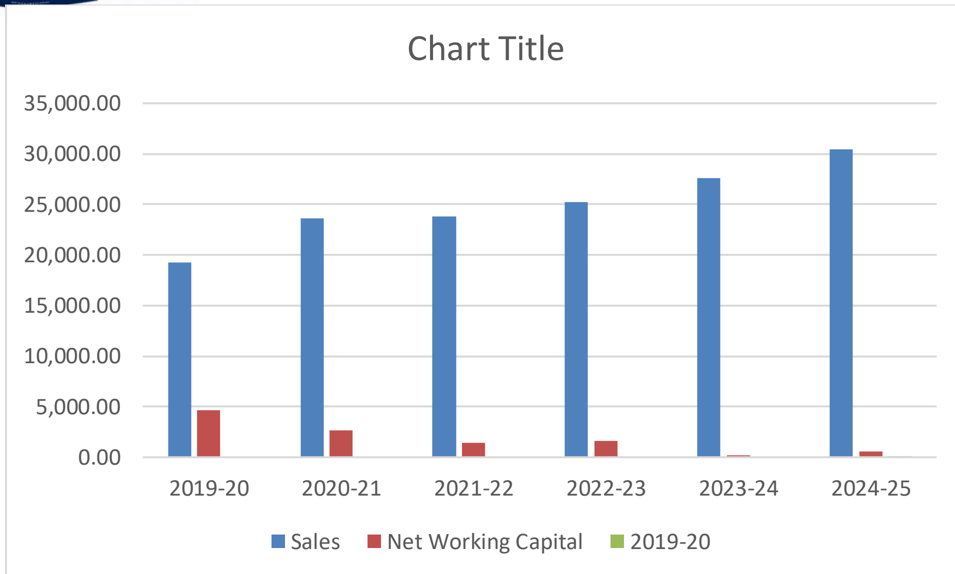
Current liabilities decreased from ₹6,144.75 crore in 2019-20 to ₹3,745.20 crore in 2024-25. This decline reflects better management of short-term obligations and improved liquidity. Although liabilities showed slight fluctuations during the study period, the overall trend remained downward.

Net Working Capital (NWC), which was negative throughout 2019-20 to 2023-24, improved considerably from a deficit of ₹4,640.18 crore in 2019-20 to a deficit of only ₹238.02 crore in 2023-24. In 2024-25, the company achieved a positive net working capital of ₹540.40 crore, indicating a stronger liquidity position and enhanced ability to meet short-term financial commitments.

Working Capital Turnover Ratio of Hero MotoCorp Ltd. (2019-20 to 2024-25)

(All amounts are in ₹ Crores)

Year	Sales	Net Working Capital	Working Capital Turnover Ratio
2019-20	19,245.03	4,640.20	4.14
2020-21	23,586.80	2,650.00	8.90
2021-22	23,768.11	1,448.50	16.40
2022-23	25,275.47	1,586.26	15.93
2023-24	27,585.30	238.02	115.89
2024-25	**30,420.50**	**540.40**	**56.29**



Turnover Ratio:

The Working Capital Turnover Ratio measures the efficiency with which a company utilizes its net working capital to generate sales. Hero MotoCorp's ratio increased from 4.14 times in 2019-20 to 16.40 times in 2021-22, indicating improved efficiency in utilizing working capital.

In 2022-23, the ratio slightly declined to 15.93 times but remained at a healthy level. During 2023-24, the ratio rose sharply to 115.89 times because net working capital reduced substantially to ₹238.02 crore, while sales continued to grow. Such an exceptionally high ratio indicates very low working capital relative to sales.

In 2024-25, the company achieved positive net working capital of ₹540.40 crore. Consequently, the ratio moderated to 56.29 times, which still reflects efficient utilization of working capital while maintaining improved liquidity.

Debtors Turnover Ratio of Hero MotoCorp Ltd. (2019-20 to 2024-25)

(All amounts are in ₹ Crores)

Year	Net Credit Sales	Average Debtors	Debtors Turnover Ratio (Times)
2019-20	19,245.03	130.59	147.37
2020-21	23,586.80	272.31	86.61
2021-22	23,768.11	636.76	37.32
2022-23	25,275.47	920.58	27.45
2023-24	27,585.30	1,389.59	19.85
2024-25	**30,420.50**	**1,520.75**	**20.00**

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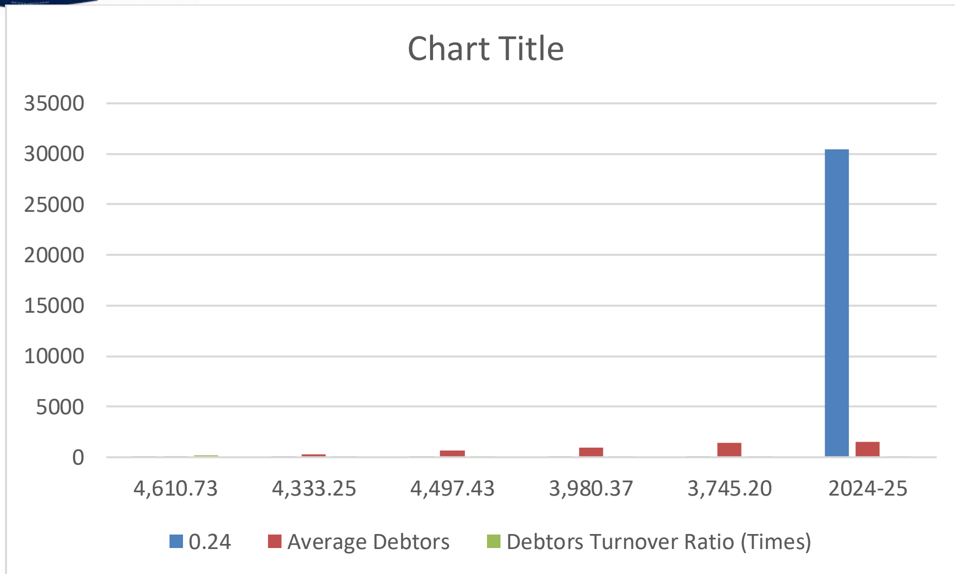

INTERPRETATION

The Debtors Turnover Ratio indicates the efficiency with which Hero MotoCorp Ltd. collects receivables from customers. A higher ratio signifies faster collection and effective credit management, while a lower ratio indicates a longer collection period.

The ratio was very high at 147.37 times in 2019-20, reflecting excellent collection efficiency and a low level of outstanding debtors. It declined to 86.61 times in 2020-21 and further to 37.32 times in 2021-22 due to a significant increase in average debtors.

During 2022-23 and 2023-24, the ratio continued to decrease to 27.45 times and 19.85 times respectively, indicating a gradual increase in the credit period extended to customers. In 2024-25, the ratio slightly improved to 20.00 times, suggesting stabilization in receivables management despite growing sales.

V. FINDINGS

1. Current assets increased significantly from ₹1,504.57 crore in 2019-20 to ₹4,285.60 crore in 2024-25, indicating continuous growth in the company's short-term asset base.
2. Current liabilities declined from ₹6,144.75 crore in 2019-20 to ₹3,745.20 crore in 2024-25, reflecting effective management of short-term obligations.
3. Net Working Capital improved substantially from a negative ₹4,640.18 crore in 2019-20 to a positive ₹540.40 crore in 2024-25, demonstrating improved liquidity and financial stability.
4. The Working Capital Turnover Ratio increased from 4.14 times in 2019-20 to 56.29 times in 2024-25, showing efficient utilization of working capital for generating sales.
5. Sales revenue recorded a consistent upward trend throughout the study period, reaching ₹30,420.50 crore in 2024-25.
6. The Debtors Turnover Ratio declined from 147.37 times to 20.00 times, indicating an increase in receivables and a relatively longer collection period.
7. Sundry debtors increased substantially during the study period, reflecting expansion in credit sales and business operations.
8. The Current Ratio improved from 0.24 times in 2019-20 to 1.14 times in 2024-25, indicating better liquidity management.
9. The Quick Ratio increased from 0.22 times to 0.91 times, showing improvement in the company's ability to meet short-term liabilities using liquid assets.

10. Loans and Advances formed the largest component of current assets, accounting for a major share throughout the study period.
11. Inventory levels increased steadily, indicating growth in production and operational activities.
12. Cash and bank balances improved gradually, strengthening the company's liquidity position.
13. The company maintained continuous growth in total current assets while simultaneously controlling current liabilities.
14. Overall working capital efficiency improved considerably during the study period.

VI. SUGGESTIONS

1. Improve position funds should be utilized properly.
2. Better Awareness to increase the sales is suggested.
3. Cost cut down mechanics can be employed.
4. Better production technique can be employed.

VII. CONCLUSIONS

Working capital management plays a crucial role in ensuring the liquidity, operational efficiency, and financial stability of a business organization. The present study analyzed the working capital position of Hero MotoCorp Ltd. during the period 2019-20 to 2024-25 using various liquidity and efficiency ratios. The analysis revealed that the company experienced substantial growth in current assets while effectively reducing current liabilities over the study period. Net Working Capital improved remarkably from a negative position to a positive balance in 2024-25, indicating a significant enhancement in liquidity. The Current Ratio and Quick Ratio also showed continuous improvement, reflecting the company's increasing ability to meet short-term obligations.

Although the Debtors Turnover Ratio declined due to the rise in credit sales and receivables, the company maintained satisfactory control over its working capital resources. The Working Capital Turnover Ratio demonstrated efficient utilization of working capital in generating sales revenue.

Overall, Hero MotoCorp Ltd. exhibited considerable improvement in its working capital management practices during the study period. The company's strengthening liquidity position, positive net working capital, and efficient utilization of resources indicate sound financial management. If the company continues to focus on receivables management, liquidity enhancement, and optimal utilization of current assets, it can further strengthen its financial performance and sustain long-term growth.

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