

A  
Summer Training Project Report  
At



On  
WORKING CAPITAL MANAGEMENT  
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## **DECLARATION**

I, Shweta goel, roll no. 16022033, student of MBA-Financial Management (2017-2018) at, Bhagat Pool Singh Mahila Vishwavidalaya, Sonipat hereby declare that the Summer Training Report entitled “CRITICAL ANALYSIS OF WORKING CAPITAL MANAGEMENT AT HERO.” is an original work and the same has not been submitted to any other Institute for the award of any other degree.

**SHWETA GOEL**

## **ACKNOWLEDGEMENT**

At the outset, I am grateful to **HERO** for giving me the opportunity to do my summer internship with them. A sense of gratitude is not enough to express my sincere thanks towards my project guide, **Mr.Narender** (FINANCE MANAGER, HERO) who guided me with his insights and knowledge. He took active interest in my project and was always there to give me his word of guidance.

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**SHWETA GOEL**

## EXECUTIVE SUMMARY

The Automobile sector of today is one of the key sectors of the country contributing majorly to the economy of India. The Automobile industry is one of India's most vibrant and growing industries. This industry accounts for 22 percent of the biggest job creators, both directly and indirectly. It is estimated that every job created in an auto company leads to three to five indirect ancillary jobs.

India is presently the world's Third largest exporter of two- wheelers after china and Japan. Two- wheelers sale are projected to rise from 19.9 million in FY 2016 to 34 million by FY 2020. According to a report by standard Chartered Bank, India is likely to overtake Thailand in global auto – export market share by the year 2020. Strong growth in demand due to rising income, growing middle class, and a young population is likely to propel India among the world's top five auto manufacturers by 2015. Automobiles export volumes increased at a compound Annual Growth Rate (CAGR) of 26 percent in FY 2017.

The automobile sector is compartmentalized in four different sectors which are as follows:

- Two – wheelers which comprise of mopeds, scooters, motorcycles and electric two- wheelers
- Passenger vehicles which include passenger cars, utility vehicles and multi – purpose vehicles.
- Commercial vehicles that are light and medium – heavy vehicles.

Three wheelers that are passenger carriers and good carriers.

The automobiles industry is one of the key drivers that boost the economic growth of the country. Since the de- licensing of the sector of 1991 and the subsequent opening up of 100 percent Foreign Direct Investment (FDI) through automatic route. Indian automobile vikas sehgal, Global Head of automotive industry, Rothschild, the Indian automobile market, which includes cars, trucks and auto parts, is pegged at 3.5 million units by the end of 2015-2016. Rothschild I a UK based global financial advisory firm. India's car market is evolving at a great pace.

Two wheelers dominate market share; in FY 2016, the segment accounted for 82 percent and FY 2017 is 85.7 percent of the total automotive production in India. The overall growth in domestic sales during – may 2017 more as compare to last year.

The top players in the Indian automobile industry have played a key role in the growth and development of the automobile industry in India companies like Bajaj Auto, Hindustan Motors, Maruti Suzuki, Hero, Honda and TVS motors with their ever expansive car dealings networks, promotional, convenient customer care services have marked India among the leading automobile industries.

The government aim to develop India as a global manufacturing as well as a research development (R&D) hub. It has set up national automotive Testing and R&D Infrastructure Project (NATRIP) centers as well as a national automobiles Board to act as a facilitator between the governments in the industry. There are a wide range of jobs available in the automobile industry. According to the confederation of Indian Industry, the automobiles sector currently employees over 80 lakh people. An extension in production in the automobiles industry is forecasted, it is likely to raise to Rs. 7,50,000 corers by 2017.

Economic value added (EVA) is value based performance measure that give performance measure that gives importance on value creation by the management for the owners. Economic value is added in financial performance measure that comes closer than any other to capturing the true economic profits of an enterprise. Thus, in modern economics and finance area, EVA holds as important part that has less debate among practitioners.

Basically, the theory of economic value Added rest on two principles assertions:

- A company is not a truly profitable unless it earns a return on invested capital that exceeds that opportunity cost of capital.
  - Wealth is created when a firm's managers make positive NPV investment decisions for the shareholders
- The formula for calculating EVA is as follows:

$$\text{EVA} = \text{Net operating profit After Taxes (NOPAT)} - (\text{capital} \times \text{cost of capital})$$

It is an indicator of the market value of service center's owner's equity, a measure especially important to closely held companies, which don't have the benefit of a published stock price. For publicly traded companies, EVA correlates very closely with stock price.

The present research was study under the title: “ **A study of economic value added based Performance Measurement of Selected Automobiles companies in India**”.

**The present research has the following objective:**

- To examine whether Indian Automobiles Industry has been able to generate value for its shareholders.
- To compute the performance of the company by applying traditional performance indicator like ROI and new corporate performance measure EVA.
- To study overall performance of Indian Automobile industry.
- To make suggestion for improving EVA.
- To make suggestion for improving financial performance on basis of analysis through EVA.

To test the hypothesis following are the variables used in this study like, Return on investment (net worth), Return on capital Employed, Weighted Average cost of capital ,Economic value added and cost of Debt & Cost of Equity.

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## **1. Introduction**

1.1 Meaning Of Working Capital

1.2 Objectives Of Working Capital

1.3 Significance Of Working Capital

1.4 Conceptualization



# 1. INTRODUCTION

## 1.1 MEANING OF WORKING CAPITAL

**Working capital** (abbreviated **WC**) is a financial metric which represents operating liquidity available to a business, organization or other entity, including governmental entity. Along with fixed assets such as plant and equipment, working capital is considered a part of operating capital. Net working capital is calculated as current assets minus current liabilities. It is a derivation of working capital that is commonly used in valuation techniques such as DCFs (Discounted cash flows). If current assets are less than current liabilities, an entity has a working capital deficiency, also called a working capital deficit. A company can be endowed with assets and profitability but short of liquidity if its assets cannot readily be converted into cash. Positive working capital is required to ensure that a firm is able to continue its operations and that it has sufficient funds to satisfy both maturing short-term debt and upcoming operational expenses. The management of working capital involves managing inventories, accounts receivable and payable, and cash.

**Current assets and current liabilities** include **three accounts** which are of special importance. These accounts represent the areas of the business where managers have the most direct impact:

- Accounts receivable (current asset)
- inventory (current assets), and
- accounts payable (current liability)

The current portion of debt (payable within 12 months) is critical, because it represents a short-term claim to current assets and is often secured by long term assets. Common types of short-term debt are bank loans and lines of credit. An increase in working capital indicates that the business has either increased current assets (that it has increased its receivables or other current assets) or has decreased current liabilities, **for example** has paid off some short-term creditors.

**Implications on M&A:** The common commercial definition of working capital for the purpose of a working capital adjustment in an M&A transaction (i.e. for a working capital adjustment mechanism in a sale and purchase agreement) is equal to:

*Current Assets – Current Liabilities excluding deferred tax assets/liabilities, excess cash, surplus assets and/or deposit balances.*

Cash balance items often attract a one-for-one purchase price adjustment.

### **Working capital management**

Decisions relating to working capital and short term financing are referred to as *working capital management*. These involve managing the relationship between a firm's short-term assets and its short-term liabilities. The goal of working capital management is to ensure that the firm is able to continue its operations and that it has sufficient cash flow to satisfy both maturing short-term debt and upcoming operational expenses.

A popular measure of working capital management is the cash conversion cycle, that is, the time span between the expenditure for the purchases of raw materials and the collection of sales of finished goods for example, found that the longer the time lag, the larger the investment in working capital. A long cash conversion cycle might increase profitability because it leads to higher sales. However, corporate profitability might decrease with the cash conversion cycle, if the costs of higher investment in working capital rise faster than the benefits of holding more inventories and/or granting more trade credit to customers.

For many firms the current assets account for over half of their total assets. The management of working capital may have both negative and positive impact of the firm's profitability, which in turn, has negative and positive impact on the shareholders' wealth. The present study seeks to explore in detail these effects. Firms may have an optimal level of working capital that maximizes their value. Large inventory and generous trade credit policy may lead to high sales. The larger inventory also reduces the risk of a stock-out. Trade credit may stimulate sales because it allows a firm to access product quality before paying. Another component of working capital is accounts payables. It is believed that delaying payment of accounts payable to suppliers allows firms to access the quality of bough products and can be expensive if a firm is offered a discount for the

early payment. By the same token, uncollected accounts receivables can lead to cash inflow problems for the firm.

By definition, working capital management entails short term decisions - generally, relating to the next one year period - which is "reversible". These decisions are therefore not taken on the same basis as Capital Investment Decisions (NPV or related, as above) rather they will be based on cash flows and / or profitability.

- One measure of cash flow is provided by the cash conversion cycle - the net number of days from the outlay of cash for raw material to receiving payment from the customer. As a management tool, this metric makes explicit the inter-relatedness of decisions relating to inventories, accounts receivable and payable, and cash. Because this number effectively corresponds to the time that the firm's cash is tied up in operations and unavailable for other activities, management generally aims at a low net count.
- In this context, the most useful measure of profitability is Return on capital (ROC). The result is shown as a percentage, determined by dividing relevant income for the 12 months by capital employed; Return on equity (ROE) shows this result for the firm's shareholders. Firm value is enhanced when, and if, the return on capital, which results from working capital management, exceeds the cost of capital, which results from capital investment decisions as above. ROC measures are therefore useful as a management tool, in that they link short-term policy with long-term decision making. See Economic value added (EVA).
- Credit policy of the firm: Another factor affecting working capital management is credit policy of the firm. It includes buying of raw material and selling of finished goods either in cash or on credit. This affects the cash conversion cycle.

### **Management of working capital**

Guided by the above criteria, management will use a combination of policies and techniques for the management of working capital. The policies aim at managing the *current assets* (generally cash and cash equivalents, inventories and debtors) and the short term financing, such that cash flows and returns are acceptable.

- **Cash management.** Identify the cash balance which allows for the business to meet day to day expenses, but reduces cash holding costs.
- **Inventory management.** Identify the level of inventory which allows for uninterrupted production but reduces the investment in raw materials - and minimizes reordering costs - and hence increases cash flow. Besides this, the lead times in production should be lowered to reduce Work in Process (WIP) and similarly, the Finished Goods should be kept on as low level as possible to avoid over production - see Supply chain management; Just In Time (JIT); Economic order quantity (EOQ); Economic quantity.
- **Debtors management.** Identify the appropriate credit policy, i.e. credit terms which will attract customers, such that any impact on cash flows and the cash conversion cycle will be offset by increased revenue and hence Return on Capital (or *vice versa*).
- **Short term financing.** Identify the appropriate source of financing, given the cash conversion cycle: the inventory is ideally financed by credit granted by the supplier; however, it may be necessary to utilize a bank loan (or overdraft), or to "convert debtors to cash" through "factoring".

## **1.2 OBJECTIVE**

To study and analyses working capital management at Paisaworth.com which includes

1. Inventory management
2. Receivable management
3. Cash management

The aim is to learn how to manage working capital needs of the organization and to learn the different ways through which theoretical learning is applied practically in the organization. The project is aimed to learn and gain knowledge of the day to day working of the organization as to how does the different decision are taken and on what basis. The project will help in gaining the knowledge of different steps of raising the short term funds and their effective management so as to ensure adequate availability of funds. The various analyses will help the management to assess the efficiency of the working capital management of the company.

### 1.3 SIGNIFICANCE

**Financial Analysis** is the process of identifying the financial strengths and weaknesses of the firm by properly establishing relationships between the items of the balance sheet and the profit & loss account. Financial analysis can be undertaken by management of the firm, viz. Owners, creditors, investors and others. Ratio analysis is a powerful tool of financial analysis. A **ratio** is defined as “the indicated quotient of two mathematical expressions and as “the relationship between two or more things”.

Ratios help to summarize large quantities of financial data and to make qualitative judgments about the firm's financial performance. WORKING CAPITAL MANAGEMENT deals with the management of current assets. The management of current assets is similar to that of fixed assets in the sense that in both cases firm analyses their effect on their return and risk profile. The management of fixed assets and current assets, however, differ in three aspects. First, in managing fixed assets, time is a very important factor; consequently, discounting and compounding techniques play a significant role in capital budgeting. Second, the large holding of current assets, especially cash, strengthens the firm's liquidity position (and reduces risk). Third, levels of fixed as well as current assets depend upon expected sales, but it is only current assets that can be adjusted with sales fluctuations in the short run.

Thus with such importance attached, a due diligence should be given to proper management of the working capital.

## 1.4CONCEPTUALIZATION

There are two concepts of working capital- gross and net.

**Gross Working Capital** refers to the firm's investment in current assets. Current assets are the assets which can be converted into cash within an accounting year and include cash, short-term securities, debtors, (accounts receivable or book debts) bills receivables and stock (inventory).

**Net Working Capital** refers to the difference between current assets and current liabilities. Current liabilities are those claims of outsiders which are expected to mature for payment within an accounting year and include creditors (accounts payable), bills payable, and outstanding expenses. Net working capital can be positive or negative. A positive net working capital will arise when current assets exceed current liabilities.

$$\text{Net Working Capital (+)} = \text{Current Assets} - \text{Current Liabilities}$$

Also, negative net working capital will arise when current liabilities exceed current assets.

$$\text{Net Working Capital (-)} = \text{Current Liabilities} - \text{Current Assets}$$

## **2. Company**

### **Overview**

1.1 Introduction

1.2 History

1.3 Vision

1.4 Mission

1.5 Strategy

1.6 Brand

1.7 Manufacturing

1.8 Distributors

1.9 SWOT Analysis

1.9.1 Privacy Policy

1.9.2 Security

1.9.2.1 Suppressing Of Personal Information



## **2. COMPANY OVERVIEW**

### **2.1 INTRODUCTION**

Hero Moto Corp Ltd. (formerly Hero Motors Ltd) is the world's two wheeler manufacturer based in India. world's No. 1 Two wheeler company in terms of unit volume sales in calendar year. The company was a joint venture between India's Hero Group and Honda motor company, Japan that began in 1984 later in 2011 it turned into Hero motors Limited.

Today, every second motorcycle sold in the country is a Hero bike. Every 30 seconds, someone in India buys a Hero Splendor which is India's selling motor cycle.

A popular advertising campaign based on the slogan motorcycle's fuel efficiency helped the company grow at a double-digit pace since inception. The technology in the bikes of Hero almost 26 years.

Industry	<u>Automotive</u>
Type	Public Company
Founded	19 January 1984
Founder(s)	<u>Brijmohan Lall Munjal</u>
Headquarters	New Delhi, India
Area served	<u>India</u> , Sri Lanka
Key people	<u>Deya Varadh Sens</u> (Chairman) Pawan Munjal (MD & CEO)
Products	Motorcycles, <u>scooters</u> , three-wheeler vehicles

# ORGANISATIONAL STRUCTURE



## 2.2 HISTORY

Hero Moto crop Ltd. (Formerly Hero Motors Ltd. ) is the world largest manufacturer of two- wheelers, based in India. In 2001 the company achieved the coveted position of being the largest two- wheelers manufacturing company in India and also, the world's no . 1 'Two wheelers company in term of unit volume sales in a calendar year. Hero Moto crop Ltd. Continues to maintain this position till date. Hero started in 1984 as a joint venture between **Hero cycles** of India and **Honda** of Japan.

The joint venture between India's Hero Group and Honda Motor Company, Japan has not created the world's single largest two wheeler company but also one of the successful joint ventures worldwide. In December 2010, the board of director of Hero Group has decided to terminate the joint venture between Hero Group of India and Honda of Japan in a phased manner.

Under the joint venture Hero Group could not export to international markets (except sri lanka and Nepal) and the termination would mean that hero group can export. Since the beginning, the Hero Group relied on their Japanese partner Honda for the technology in their bikes. Honda will continue to provide technology to Hero Motorbikes until 2017 as well as future models.

## **2.3 VISION**

The story of Hero began with a simple vision the vision of mobile and an empowered India, powered by its two wheeler. Hero Moto crop ltd. Company's new identity , reflects its communicate towards providing world class mobility solutions with renewed focus on expanding company's footprint In the global arena.

## **2.4 MISSION**

Hero Motor crop's mission is become a global enterprise fulfilling its customers' needs and aspiration for mobility, setting benchmarks in technology, styling and quality so that it converts its customers into its brand advocates.

## **2.5 STRATEGY**

Hero Motor crop' key strategies are to build a robust product portfolio across categories, explore growth opportunities globally , continuously improve its operational efficiency , aggressively expand its reach to customers, continue to invest in brand building activities and ensure customer and shareholder delight.

## **2.6 BRAND**

The new Hero is raising is posed to shine on the global company's new identity a Hero Moto crop Ltd'' is truly effective its vision to strengthen from an mobility and technology creating global formatting, Building and promoting new brand identity will be control to all imitative utilizing every opportunity and leveraging its strong presence across sports, entertainment and ground level activation.

## **2.7 MANUFACTURING**

Hero Moto crop two wheelers are manufactured across 3 globally benchmarks manufacturing facilities. Two of these are based at gurgoan located in started of Haryana is northern India. The third and the latest manufacturing plant are based at Haridwar, in the hell state of uttrakhand.

## **2.8 DISTRIBUTION**

The company's growth in the two wheeler in India is the result of an in India is the result of an intrinsic ability to increase reached in new geographies and growth markets hero Moto crops extensive sales and services network how spans over to 5000 customers tough points these comprise a mix of authorized dealership , services and spare parts outlets and dealer – appointed outlets across the country.

## 2.9 SWOT ANALYSIS

<b>STRENGTHS</b>	<ol style="list-style-type: none"><li>1. Hero Moto crop has huge brand equity &amp; of the biggest players in the two wheelers Indian market.</li><li>2. Excellent R &amp; D of Hero Moto crop, wide variety of products in every segment.</li><li>3. Excellent distribution over 3000 dealership &amp; service centers.</li><li>4. Good advertising &amp; excellent branding &amp; marketing of Hero Moto crop.</li><li>5. More than 5000 people are employed with the organization.</li><li>6. Sponsorship of many events related to sports &amp; racing has made Hero Moto crop a strong band.</li><li>7. The brand has received several awards &amp; recognition for its work in the industry. Ad campaigns through TV, bill boards, online media etc. boost the brand image.</li></ol>
<b>WEKNESSES</b>	<ol style="list-style-type: none"><li>1. Intense competition from indian &amp; international players mean limited market share growth of the hero Moto crop.</li><li>2. Most of the products have similar features &amp; low on design and motivation.</li></ol>
<b>OPPORTUNITIES</b>	<ol style="list-style-type: none"><li>1. Two wheelers segment is lof the most growing industries.</li><li>2. Export of Hero Moto crop bikes is limited i.e. untapped international markets.</li><li>3. Introduction of bikes in the premium segment.</li></ol>
<b>THREATS</b>	<ol style="list-style-type: none"><li>1. Strong competition from India as well as international brands.</li><li>2. Dependence on govt. policies &amp; raising fuel prices can affect the business margins for Hero Moto crops.</li><li>3. Better public transport will affect two wheeler sales.</li></ol>

## 2.10 PRIVACY POLICY

At Travel Technologies (the operator of the Hero Platform), we are concerned about privacy issues and want you to be familiar with how we collect use and disclose personal information (as defined below). This hero platform privacy policy describes our practices in connection with personal information that we may collect through the platform as defined in the terms of use. This privacy policy does not address the collection, use of disclosure the information through any other means other than the platform.

This privacy policy does not apply to the personal information we may have collected from you as a traveler or consumer of products offered within the platform by providing personal information to us, you agree to the terms & conditions of this privacy policy. If you don't agree to the terms & conditions of this privacy policy do not use the platform.

Travel Technologies reserves the right to change this privacy policy at any time at its sole discretion. You are responsible for regularly reviewing the privacy policy that is on a continuous basis put at your disposal by their inclusion in the platform. If you don't agree to the modify terms you should continued use to platform following any such changes shall constitute your acceptance of such changes.

The terms of use are included in this privacy policy and will be applicable to all subjects not explicitly regulated by this privacy policy.

### 2.10.1 What Types Of Information Do We Collect From You?

Personal Information is information that identifies you as individual to create your profile on the platform (or Where your profile has been created on your behalf by someone else) we will require some information about you such as name, surname and e-mail address. Additional information such as gender, birthday, nationality, pictures etc. We will use this information to personalize your experience when using the platform.

**Cookies:** We collect Personal Information from you through the use of cookies. The personal Information we may collect by using cookies refers to your behavior as a user of the platform and provides us with the opportunity to personalize your navigation through the platform. We intend to use cookies for the temporary storage of data in relation to your use of the platform to assist with navigation and storage of your branch location.

### 2.10.2 Specific Conditions For Uploading Information To The Websites:

To create your company profile we will collect Information such as:

- Company details (name, address etc).
- Operating location details (address).
- Financial details (bank details).

The above information will only be shared on the platform where necessary, e.g. for a Travel Agent to determined the location of one of your products or service. The location of one of your Product and Services. Financial information will never be shared and its solely for internal use to automate direct debit and direct credit transactions. Additional Non- personal Information is aggregated information or information about you

n your company that doesn't reveal your specific identity. To create Products and Services available for sale through that platform you will upload specific data in relation to each product and service included:

- Product names and descriptions
- Images or videos
- Pricing , including Nett and Retail rates

We will use the above the information and share it with Agents using the platform only for the purpose of viewing information about your products and services and to facilitates bookings. We may collect Additional Non- Personal Information from you such as your Media Access control (MAC) address, computer, type, screen resolution, operating systems (OS) version, Internet browser, and demographic data including your IP address. Your IP Address is a number that is automatically assigned to the computer that you are using by your internet service protocol (ISP). This number is identified and logged automatically in our Server log files whenever users visit the websites, along with the times of such visits and the pages that were visited. Collecting IP Addresses is standard practice on the Internet & is done automatically by many Web sites.

### **2.10.3 How Does Travel Technologies use Information Collected from You?**

#### **Personal Information:**

We use cookies information and the information we collect from you when creating your profile to personalize and facilitate your navigation through the platform. We will not use the content you upload for any purposes other than providing Agents details about your products and Services and to facilitate bookings of these products and Services.

For our internal business purposes, such as data analysis, audits, developing new features for the platform, enhancing our websites, improving our services, identifying usage trends & determining the effectiveness of certain features within the platform.

#### **Non – Personal Information:**

It doesn't personally identify you, because we may use it for any Purposes. In addition, we reserve the right to share non- personal information, which doesn't personally identify you, with affiliates & other third parties for any purpose. In some instances, we may combine any Non – Personal Information .If you don't combine any Non – Personal Information, the combined information will be treated by us as Personal Information her under as long as it is so combined.

### **2.10.4 What Are Your Responsibilities?**

By submitting any Personal Information you warrant that you hold all the necessary consents to do that, Please don't submit any sensitive Personal Information. When you post contents other materials you need to ensure you hold the appropriate licenses to share that material on a public website.

### **2.10.5 How Is Personal Information Disclosed?**

- To our affiliates so that they may use such Personal Information for the purposes described in this privacy policy.



- To our third party services providers who provide services such as website hosting, data analysis, infrastructure provision, IT services, customer services, e-mail deliveries services& promotional activities.
- To identify you to any person to whom you send message reading platform – related content through the platform.
- To an affiliates or other third party in the event of any reorganization, merger, sale, joint-venture, assignment, transfer or other disposition of all or any portion of our business , assets or stock(including in connection with any bankruptcy or similar proceedings).

## **2.11 Security**

We use reasonable organizational, technical and administrative measures to protect Personal Information under our control. Unfortunately, no data transmission over the internet or data storage system can be guaranteed to be 100% secure. Please don't store or provide us with sensitive information. If you have that believe your interaction with us no longer secure.( for example, if you feel that the security of any account you might have with us has been compromised), you must immediately notify us of the problem by contracting us at [privacy@hero.travel](mailto:privacy@hero.travel) or in accordance with the contracting section of the platform.

### **2.11.1 Changing Or Suppressing Personal Information**

If you would like to review, correct , update suppress or otherwise limit our use of your Personal Information that has been previously provided to us, you may contact us at [privacy@hero.travel](mailto:privacy@hero.travel) & for your protection we will only implement such requests with respect to the Personal Information associated with the particular e-mail address that you use to send us your request and we may need to verify your identity before implementing your request. In each event, you must clearly indicate the information that you have wish to have changed or suppressed. We will endeavor to comply with your request as soon as reasonably practicable.

### **2.11.2 Retention Period**

We will retain your Personal Information for the period necessary to fulfill the purposes outlined in this privacy unless a longer retention period is required or permitted by law.

### **2.11.3 Jurisdictional And Cross- Border Issues**

We don't represent or warrant that the platform or any part thereof, is appropriate or available for use in any particular jurisdiction. Those who choose to access the platform do so on their own initiatives & at their own risk, are responsible for complying with all local laws, rules and regulations. We may limit the platform's availability, in whole or in part, to any person, geographic areas or jurisdiction

## COMPETITORS



- Bajaj Auto
- TVS Motors
- Yamaha Motors
- Honda motors
- Suzuki
- Royal Enfield



### **3. Reviews and Literatures**

3.1 Basic Reviews

3.2 Main Reviews

### **3. REVIEWS OF LITERATURE**

#### **3.1 Basic Review**

##### **Automobile Industry**

Abhijeet Singh and Brijesh Kumar (2011)-

Hero Motors Ltd, is running a program called Good life Passport to Relationship Reward, with an objective to create an innovative environment for interaction between Hero and its customers. Members of this program are given a magnetic card in which all information is stored and this card is swiped when using any service at a showroom or workshop and it works like a loyalty benefit card.

Abhijeet Singh (2011)-

Tata Motors uses a customer relationship management and dealer Management system (CRM-DMS) which integrates one of the largest applications in the automobile industry, linking more than 1200 dealers across India. CRM DOS has helped Tata Motors to improve its inventory management, tax calculation and pricing. This system has also proved to be beneficial to dealers because it has reduced their working capital cost.

Arvin Saxena(2010)-

Director and Board member (marketing and sales), Hyundai Motor India (HMIL) “No company in automobile sector can fight competition on price. Companies need to have the right product, distribution, CRM and after sales service network to grow.

Biswajit Mahantyand Virupaxi Bagodi (2006)-

The success of two wheeler manufacturers in India depends on the competitive advantage gained by them through after sales service and providing and maintaining customer satisfaction in the face of rapid changes in technology is a difficult task, which can be overcome by timely addition of capacity, and upgrading of technical manpower and focusing on the CRM programs.

Biswajit Mahanty and Virupaxi Bagodi (2007)-

More than 55 million two-wheelers are moving on Indian roads. Accordingly, two-wheeler service sector should have generated revenue amounting to INR 100,000 million per year, but in reality, this has not been realised in the organised service sector, the Indian two-wheeler service industry has not considered servicing as a line of business and providing conveniently reliable services is most important in two-wheeler services in India to capture the market.

Biswajit Mahanty and Virupaxi Bagodi(2008)-

It is an era of customer delight for the two wheeler industry and the conventional measures implemented by the service organizations tend to be inadequate to attract customers persistently.

Gordon Fullerton (2006)-

,  
“Putting relationship in CRM”, that JEEP, a division of Daimler Chrysler Automobile Company, has served a classic example of CRM program that provides a considerable value to both the customers and the firm by developing a program exclusively for jeep owners and fostered a community that is highly effectively committed to the product, the brand and the customers.

### 3.2 Main reviews

Kevin Keller(2012)-

Caterpillar has become a leading firm by maximizing the total customer value with the help of effective CRM , best after sales service in the industry and better trained dealer. This allows the firm to command a premium price of 10% to 20% higher than competitors such as Volvo,Komatsu etc.

Michael Cusumano, Steve Kahl and Fernaando Suarez (2008)

In their research paper “A theory of services in product industries”,has concluded that in many product oriented industries,services have become increasingly important. In case of automobiles, many automakers generate the vast majority of their profits from a service activity closely tied to their product activity. The

automobile industry overall generates a large portion of its profits from other product-related service activities such as insurance and repairs. The authors argued that despite the seeming importance of services, there is not much theory to help researchers or practitioners explain the conditions under which services matter in product industries. The general view that emerges from the services literature is that services tend to become important for manufacturing firms once their industries reach a mature stage.

Milind Bade (2011)-

GM-Marketing, Bajaj Auto, has mentioned that Bajaj Auto Limited is currently trying to move the industry from a commuter to a biker mindset and at present the focus of the company is on keeping the sub brands and the mother brand different and the main motive behind establishing individual brand is to create differentiation which would help Bajaj auto, as an organization to develop relationship easily with its customers.

Mona J Fitzsimmons (2010)-

has concluded that the profitability of automobile manufacturers depends on exploiting value added services for instance automobile manufacturers have discovered that financing and after sales service can achieve significant profits.

Oyama(2012)-

Honda Motor wants to be number one in the Indian market and the company wanted 30% of Honda's global sales to come from Indian operations by 2020. HMSI have had issues related to production in the past with most of its models having the longest waiting period in the country, this reduced in Honda's penetration in the rural market, which is less than a third of Hero Moto Corp.

Pawan Chabra(2011)-

Nowadays every second bike sold in the premium segment is a pulsar and this shows the dominance of Bajaj in the Indian market place, this was possible because the company has been regularly making the alterations to make the motorbike look fresh at all times and Bajaj today holds over 50% market in the premium segment (for FY 2014-2011) followed by a distant second largest player Honda Motorcycle & scooter India with a 19% market share.

Pawan Chabra(2011)-

has mentioned that the death knell off Bajaj's scooters business was sounded when the company officially stopped the production of its flagship Chetak in December 2002, to get cracking on its ambition of becoming a credible motorcycle brand manufacturer, the company invested big in R&D and product development, but the company faced challenges in the sales and distribution because their dealers had little idea how to sell motorcycles, so the entire dealership network was trained to sell motorcycles.

Philip Kotler(2012)-

Harley –Davidson dealers ranging from the CEO to the sales staff, maintain personalized relationships with customers through face to face and social media contact. Knowing customers as individuals and conducting ongoing research to keep up with their changing expectations and experiences which helps Harley –Davidson to define their customers needs better.

R K Garg (2011)-

CRM requires a seamless, single view of the customer with consistent cross channel interaction models and it is recommended that companies bundle all internal CRM strategies into one comprehensive multi-channel strategy. More over if the two wheeler manufacturer integrate CRM with SCM, then product design and production planning can be aligned with the customer information available, to increase customer loyalty. S.Saravan, N Panchanathan and S

Pragadeeswaran(2009)-

concluded in their research paper "Markets and Consumers-Consumer Behavior Towards Showroom Services of Two-Wheeler with reference to Cuddalore District" that students and employees are more satisfied about showroom service and age of consumer is an important factor while choosing the brand of bike and all the consumers give importance all factors relating to buying a vehicle.



### **3. Objectives**

3.1 Main Objectives

3.2 Other Objectives

## 4. OBJECTIVES

### 4.1 Main Objectives

Only in light of the hero's objective can a screenplay be plotted, because in the end , the purist of that objectives determined the course of the action and the lengths the hero will go to attain it , however straight forward or devious the path may be.

Here are the three essential keys to the objective:

- There can be only one main objective if the firm is having to unity.
  - The objective breeds opposition in order produce conflict.
  - It is a leading factor in determining the attitude the audience has toward the hero.
  - The main purpose of our study is to render a better understanding of the concept "Working Capital Management ".
- 
- To understand the planning and management of working capital **HERO CYCLES LTD.**
  - To measure the financial soundness of the company by analyzing various ratios.
  - To suggest ways for better management and control of working capital at the concern.

## **4.2 Other Objectives**

- Profitability
- Productivity
- Customer services
- Employee Retention
- Growth
- Change Management
- Competitive Analysis

## **5. Research Methodology**

5.1 Meaning of Research Methodology

5.2 Techniques of Research

5.3 Types of Research

5.4 Research Area

5.5 Research Design

5.6 Sample Size

5.7 Sampling Types

## **5. RESEARCH METHODOLOGY**

### **5.1 Meaning**

To systematically solve the research problem. it may be understand as a science of studying how research is done in other words, research & methodology in the specification of method of acquiring the formation method to structure or solve the problem at hard.

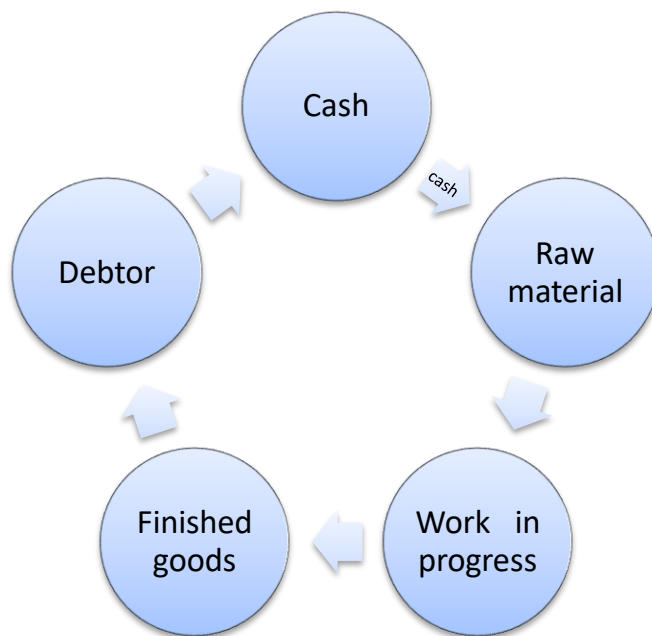
## 5.2 Techniques

- Ratio analysis
- Operating cycles

### Ratio Analysis

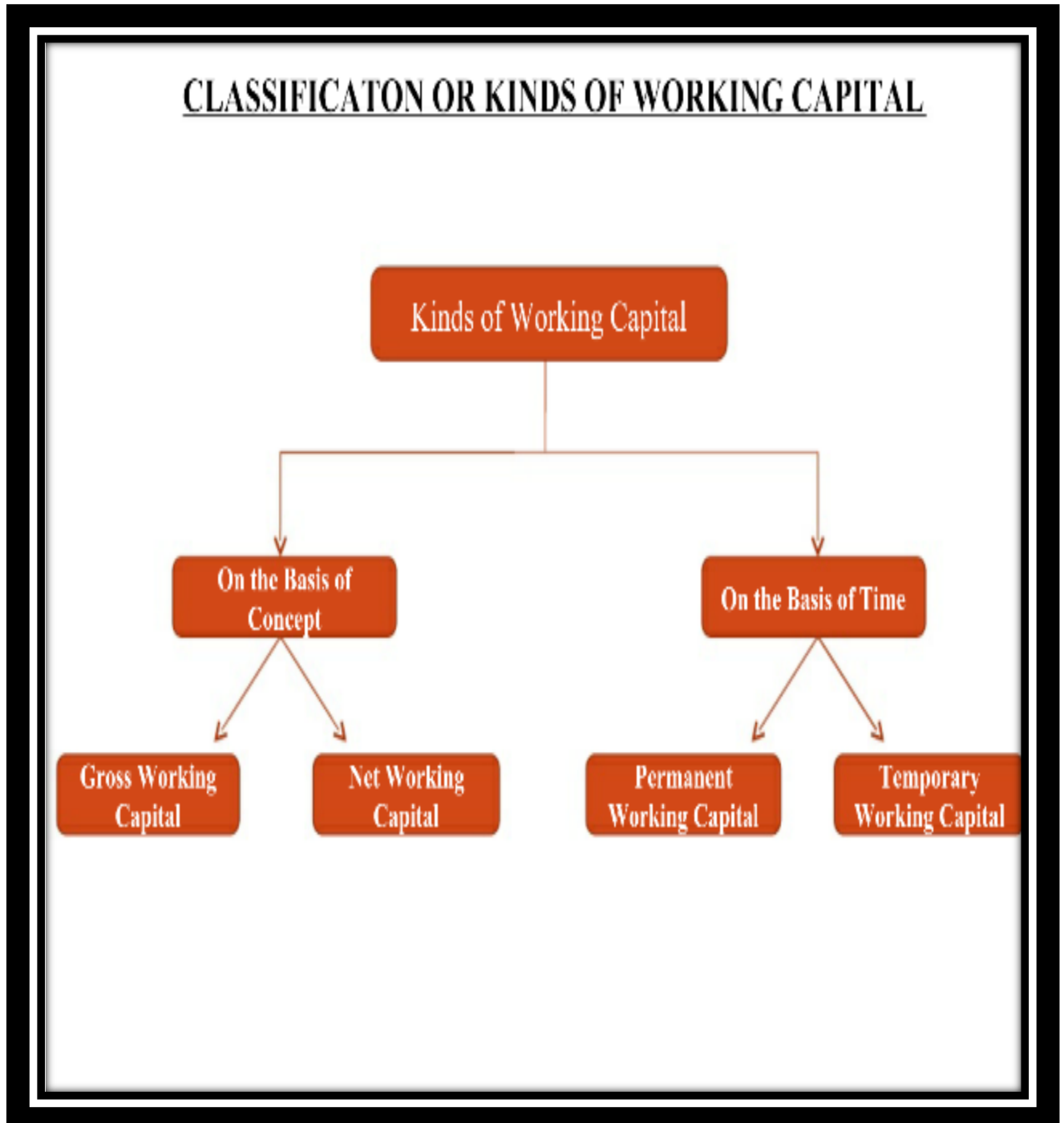
Ratio Analysis is a form of financial statement analysis that is used to obtain a quick indication of a firm's financial performance in several key areas. The ratios are categorized as short – term solvency ratios, debt management ratios, assets management ratios, profitability ratios, market value ratios etc. Ratio Analysis is a tool that possesses several important features. The data, which are provided by financial statements, are readily available. The computation of ratios facilitates the comparison of firms which differ in size. It also helps in improving performance.

### Operating Cycles



### 5.3 Types of Research

According to Research topics (Working Capital) it's classified in two categories:



### **On The Basis Of Concept**

- 1) Gross Working Capital** – It refers to all current assets. Thus the gross working capital is the capital invested in total current assets of the company. total current assets of the company.
- 2) Net Working Capital- Net** Working Capital is the difference between the current assets and the current liabilities.

$$\text{Net Working Capital} = \text{Current assets} - \text{current liabilities}$$

### **On The Basis Of Time**

- 1)** Variable working capital can be further divided:  
Seasonal Working Capital, Special Working Capital.



## **5.4 Research Area**

My research area is INDIA.

## **5.5 Research Design**

It is an empirical study and will be an explorative research.

### **Period of Study**

The time period of the proposed study is limited to five years from 2006-07 to 2010-11.

### **NSE and Nifty**

The National Stock Exchange of India Ltd. (NSE), set up in the year 1993, is today the largest stock exchange in India and a preferred exchange for trading in equity, debt and derivative instruments by investors. NSE has set up a sophisticated electronic trading, clearing and settlement platform and its infrastructure serves as a role model for the securities industry. The standard set by NSE in terms of market practices; products and technology have become industry benchmark and are being replicated by many other market participants. It provides a screen-based automated trading system with a high degree of transparency and equal access to investor irrespective of geographical location. The high level of information dissemination through the online system has helped in integrating retail investors across the nation. The exchange has a network in more than 350 cities and its trading members are connected to the central servers of the exchange in Mumbai through a sophisticated telecommunication network comprising of over 2500 VSATs. NSE has around 850 trading members and provides trading in over 1000 equity shares and 2500 debt securities. Besides this, NSE provides trading in various derivative products such as index futures, index option, stock futures, stock options and interest rate futures.

## 5.5 sample size

I have selected fifty NSE Nifty companies and their names are:

ABB Ltd.(Electrical equipment) ,ACC Ltd.(Cement and cement products) ,Ambuja Cements Ltd.(Cement and Cement Products) ,Bajaj Auto Ltd.(Automobiles -2 and 3 Wheelers) ,Bharat Heavy Electricals Ltd.(Electrical Equipment) ,Bharat Petroleum Corporation Ltd.(Refineries) ,Bharti Airtel Ltd.(Telecommunication –Services) ,Cipla Ltd.(Pharmaceuticals),Dr.Reddy'sLaboratoriesLtd.(Pharmaceuticals) ,GAIL (India) Ltd.(Gas) ,Glaxosmithkline Pharmaceuticals Ltd.(Pharmaceuticals) ,Grasim Industries Ltd.

Cement and Cement Products) ,HCL Technologies Ltd.(Computers –Software) ,HDFC Bank Ltd.(Banks) ,Hero Motors Ltd.(Automobiles -2 and 3 Wheelers) ,Hindalco Industries Ltd.(Aluminium) ,Hindustan Petroleum Corporation Ltd.(Refineries) ,Hindustan UnileverLtd.(Diversified) ,Housing Development Finance Corporation Ltd.(Finance–Housing) ,I T C Ltd.(Cigarettes) ,ICICI Bank Ltd.(Banks) , Infosys Technologies Ltd.(Computers –Software) ,Larsen & Toubro Ltd.(Engineering) , Mahanagar Telephone Nigam Ltd.(Telecommunication–Services)

,Mahindra & Mahindra Ltd.(Automobiles-4 wheelers) ,Maruti Udyog Ltd.(Automobiles -4 wheelers) ,NTPC Ltd.(Power) ,National Aluminium Co. Ltd.(Aluminium) ,Oil & Natural Gas Corporation Ltd.(Oil Exploration/Production) ,Punjab National Bank(Banks) ,Ranbaxy Laboratories Ltd.(Pharmaceuticals) ,Reliance Communications Ltd.(Telecommunication –Services) ,Reliance Energy Ltd.(Power) ,Reliance Industries Ltd.(Refineries) ,Reliance Petroleum Ltd.(Refineries) , Satyam Computer Services Ltd.(Computers –Software) ,Siemens Ltd.(Electrical Equipment) , State Bank of India(Banks) ,Steel Authority of India Ltd.(Steel and Steel Products) ,Sterlite Industries (India) Ltd.(Metals) ,Sun Pharmaceutical Industries Ltd.(Pharmaceuticals) ,Suzlon Energy Ltd.(Electrical Equipment) ,Tata Consultancy Services Ltd.(Computers –Software) ,Tata Motors Ltd.(Automobiles -4 Wheelers) ,Tata Power Co. Ltd.(Power) ,Tata Steel Ltd.(Steel and Steel Products) ,Unitech Ltd.(Construction) ,Videsh Sanchar Nigam Ltd.(Telecommunication –Services) ,Wipro Ltd.(Computers –Software) ,Zee Entertainment EnterprisesLtd.(Media & Entertainment),

## 5.6 Sampling Type

The sampling type is Convenient Sampling.

## **6. Data Collection, analysis & Interpretations**

6.1 Data Collection

6.2 Data Analysis & Interpretations

6.3 Importance of the Study

## 6. Data collection and analysis & Interpretations

### 6.1 Data Collection

- Primary Data
- Secondary Data

#### Primary Data

Data collected by the investigator himself/ herself for a specific purpose. The will be collected through questionnaire and personal interviews with the officers of the selected companies and investors. The questionnaire will contain different question on interim reporting . It will also included the items of information which will be required to be published in the annual report of a company. The main aim of questionnaire will be to know the options of Indian investors views to officers of companies about the disclosure of item of interim report. Direct contact with the prospective & present investors will be established for analysis of 'perceptions of investors'. The questionnaire will printed & distributed among different binvestors across the country to obtain ideal answer for the research questions.

#### Secondary Data

This will be collected through published financial and annual reports of the selected companies and from the websites of [www.nseindia.com](http://www.nseindia.com), [www.sebi.com](http://www.sebi.com), [www.moneycontrol.com](http://www.moneycontrol.com) .

The data thus collected will be tabulated, classified & grouped for the purpose of interpretation, analysis and finding conclusions in order to analysis the data. The various financial techniques such as common size analysis, comparative analysis & trend analysis will be used in the purposed study.

## 6.2 Data Analysis & Interpretations

- Net Working Capital –

An analysis of the net working capital will be very help full for knowing the operational efficiency of company. The following table provides the data relating to the net working capital.

Net Working Capital = Current assets – Current liabilities

Years	Current Assets	Current Liabilities	Net Working Capital

- Ratio Analysis –

Ratio Analysis is a powerful tool of financial analysis. Alexander Hall first presented in 1991 in federal reserve bulletin, Ratio Analysis is a processes of comparison of one figure against other , which makes a ratio and the appraisal of the ratios of the ratio refers to make proper analysis about the strength and weakness of the firms operations. The term ratios refer to the numerical or quantitative relationship between two accounting figures. Ratio Analysis of financial statement stands for the process of determining and presenting the relationship of items and group of items in the statement.

1. Liquidity Ratios

Liquidity refers to the ability of a firm to meet its current obligation as and when these become due. The short- term obligation is met by realizing amounts from current, circulating assets.

2. Turnover Ratios

These are the ratios which indicate the speeds with which assets are converted or turned over sales.

### **6.3 Importance of the study**

The study will help to know the real picture of the BSE Sense Companies about interim financial reporting. The importance of study is:-

- The companies will know the requirements of the investors and they will try to satisfy them. That will help to them.
- In the aspect of investors the study is import and also. They will get awareness about the matter and it will improve their ability. For the view of management the study will help in decisions making. The Study is also important for creditors, government and public

## 7. Conclusions

## 7. Conclusions

In this section the major conclusions and suggestions emerging out of the present study conducted on working capital management in automobile industry have been highlighted.

- The companies are not using real professional assistance and are not using scientific analysis effectively. Although they have been emphasizing upon the coordination and joint decisions, in reality decision are made independently. Decision are taken in short term perspective& its viability and the impact in long term for expansion and replacement are not given due consideration.
- Most of the companies study the past trends of different components of working capital and try to make decisions on their basis.
- The companies rely more on bank borrowing and don't try to generate funds from internal sources. Besides this, the cost effectiveness of each source of funds is not analyzed. The cost of different sources of funds is also not compared.
- Cash Planning is not effective and they are finding it difficult to procure from operations leading to overtrading. The companies are not clear in determining cash levels.
- The companies are becoming stricter regarding collection. But the credit terms of the companies are varying. A major portion of current assets are blocked in advances.
- The investment in inventory is reducing showing clearly that the companies are now managing inventory more efficiently than was done during previous year.



## **8. Limitations of the Study**

## **8. Limitations of the Study**

The proposed Study Interim financial Reporting Practices in India (An Empirical study of selected NSE NIFTY Companies) Suffers with a few draw backs like:

- The study could not cover all Companies due to shortage of resources and human limitations.
- Most of the information so obtained is based of secondary data. Hence, the limitation of reliability and short comings of Secondary data affects the result of the study adversely.
- The Study also suffers with the General human limitation.
- There may be any sampling error because the sample if very small. So the shortcomings of small samples may be affecting the conclusions.
- There is also the limit of time that is 5 years commencing 1st April 2006.
- The study could not cover all Companies due to shortage of resources and human limitations
- The information in this study is based on secondary data only and the time period of study is limited to only 5 years i.e. 2005-06 to 2009-10.
- The study is confined to only one industry i.e.an Automobile Industry & that only in two-wheeler segment.
- The study is confined to only two companies i.e. Hero Motors Limited & Bajaj Auto Limited, and the size of both the companies were nearly the same.

## **9. Recommendations**

9.1 Guidelines

9.2 Finding of the Study

9.3 Suggestions

## **9. Recommendations**

### **9.1 Guidelines**

## 9.2 FINDINGS OF THE STUDY

### Based on secondary data:

- The empirical results reveal that the dividend payout policies of Dabur India Ltd., Infosys and TCS Ltd. are significant and strong positively correlated with leverage. Infosys and Tata consultancy services Ltd. are significant and strong positively correlated with provision for Taxation. NTPC Ltd, HDFC bank Ltd. and TVS motors company Ltd. are significant and strong positively correlated with Liquidity.
- Britannia Industries Limited, State Bank of India, TVS Motor Company Limited, Tata Steel Limited, J.K cement Limited, DLF Limited(Delhi Land & Finance), J.M. Financial Ltd. are partially correlated with Leverage. Britannia Industries Limited, NTPC Limited, Dr. Reddy's Laboratories Ltd, State Bank of India, Axis Bank, IDFC and JMC Projects (India) Ltd. are partially correlated with Provision for taxation. Cipla Global Limited, Infosys, Axis Bank and Tata Steel Limited are partially correlated with Growth. Dabur India Ltd., Power Grid Corporation of India Limited(POWERGRID), Tata Power and Tata Steel Limited are partially correlated with Liquidity.
- Eicher Motors Limited, Hero Motocorp Ltd. and Mahindra & Mahindra Financial Services Limited are weakly correlated with leverage. Tata Power, Sun Pharmaceutical Industries Limited, Wipro Limited, HDFC Limited, Eicher Motors Limited, JSW Steel Ltd, J.K cement Limited, Ambuja Cements Limited and DLF Limited(Delhi Land & Finance) are weakly correlated with Provision for taxation. Dabur India Ltd., Nestle India Ltd., Tata Power, Dr. Reddy's Laboratories Ltd, Sun Pharmaceutical Industries Limited, Bhushan Steel, J.K cement Limited, Ambuja Cements Limited and IDFC are weakly correlated with Growth. Tata Power, Sun Pharmaceutical Industries Limited, Wipro Limited, State Bank of India, JSW Steel Ltd, ACC Limited, Bhushan Steel, Ambuja Cements Limited, Ambuja Cements Limited, DLF Limited(Delhi Land & Finance) and NBCC are weakly correlated with Liquidity. 267
- Nestle India Ltd., NTPC Limited, Power Grid Corporation of India Limited (POWERGRID), NBCC, Tata Power, Dr. Reddy's Laboratories Ltd, Sun Pharmaceutical Industries Limited, Wipro Limited, Axis Bank, HDFC Bank Limited, JSW Steel Ltd, Ambuja Cements Limited, ACC Limited, IDFC and JMC Projects (India) Ltd. Are negatively correlated with leverage. Nestle India Ltd., Power Grid Corporation of India Limited(POWERGRID), Cipla Global Limited, TVS Motor Company Limited, Hero Motocorp Ltd., NBCC, ACC Limited, Bhushan Steel and J.M. Financial Ltd. are negatively correlated with provision for taxation.
- Mahindra & Mahindra Financial Services Limited, Britannia Industries Limited, NTPC, Power Grid Corporation of India Limited(POWERGRID), HDFC Bank Limited, State Bank of India, Eicher Motors Limited, NBCC, Hero Motocorp Ltd., TVS Motor Company Limited, ACC Limited, JMC Projects (India) Ltd. and DLF Limited(Delhi Land & Finance) are negatively correlated with Growth. Nestle India Ltd., Britannia Industries Limited, Cipla Global Limited, Dr. Reddy's Laboratories Ltd, Infosys, Tata Consultancy Services Limited, Axis Bank, Hero Motocorp Ltd., Eicher Motors Limited, J.K cement Limited, Infrastructure Development Finance Company, Mahindra & Mahindra Financial Services Limited, JMC Projects (India) Ltd. And J.M. Financial Ltd. is negatively correlated with Liquidity.

- The study reveals that out of four variables (Liquidity, Leverage, for taxation and Growth) Liquidity has least influence on dividend payout in Britannia Industries Limited, Infosys, Tata Consultancy Services Limited, Dr. Reddy's Laboratories Ltd, Infrastructure Development Finance Company, JMC Projects (India) Ltd., Mahindra & Mahindra Financial Services Limited, J.K cement Limited and Hero Motocorp Ltd.. Liquidity is significantly influences to dividend payout in case of Dr. Reddy's Laboratories Ltd, Infrastructure Development Finance Company and JMC Projects (India) Ltd. Dividend payout of Britannia Industries Limited, Infosys, Tata Consultancy Services Limited, Mahindra & Mahindra Financial Services Limited, J.K cement Limited and Hero Motocorp Ltd. are not significantly influenced by liquidity.
- The study reveals that out of four variables (Liquidity, Leverage, Provision for taxation and Growth) Leverage has least influence on dividend payout in NTPC Limited, Power Grid Corporation of India Limited (POWERGRID), Tata Power Sun Pharmaceutical Industries Limited, Wipro Limited, HDFC Bank Limited, Axis Bank, JSW Steel Ltd and Ambuja Cements Limited. Leverage is significantly influences to dividend payout in case of NTPC Limited and Ambuja Cements Limited. Dividend payout of Power Grid Corporation of India Limited (POWERGRID), Tata Power, Sun Pharmaceutical Industries Limited, Wipro Limited, HDFC Bank Limited, Axis Bank and JSW Steel Ltd are not significantly influenced by leverage.
- The study reveals that out of four variables (Liquidity, Leverage, for taxation and Growth) Provision for taxation has least influence on dividend payout in Nestle India Ltd., Cipla Global Limited, Tata Steel Limited, Bhushan Steel, ACC Limited and, NBCC. Provision for taxation is significantly influences to dividend payout in case of Nestle India Ltd. and ACC Limited only. Dividend payout of Cipla Global Limited, Tata Steel Limited, Bhushan Steel and, NBCC are not significantly influenced by provision for taxation.
- The study reveals that out of four variables (Liquidity, Leverage, Provision for taxation and Growth) Size and Growth has least influence on dividend payout in Dabur India Ltd., Bank of India, Eicher Motors Limited, TVS Motor Company Limited, J.M. Financial Ltd. And DLF Limited (Delhi Land & Finance). And dividend payout of all companies whose least influence variable is Size and Growth are not significantly influenced by Size and Growth.
- The empirical results reveal that Profitability is significantly influenced to dividend payout of Dabur India Ltd., Power Grid Corporation of India Limited (POWERGRID), Tata Power, TVS Motor Company Limited, Tata Steel Limited, Infrastructure Development Finance Company, Ambuja Cements Limited, J.K cement Limited, and NBCC. From the data (Table 7.1, 7.5, 7.6, 7.17, 7.20, 7.23, 7.24, 7.25 and 7.29) it can be observed that dividend and profitability are positively related. It means each year a steady increase in earnings has led to steady increase in dividends and Dividend payout of Nestle India Ltd., Britannia Industries Limited, NTPC Limited, Cipla Global Limited, Sun Pharmaceutical Industries Limited, Infosys, Tata Consultancy services Limited, Wipro Limited, HDFC Bank Limited, State Bank of India, Axis Bank, Eicher Motors Limited, Hero Motocorp Ltd., JSW Steel Ltd, Bhushan Steel, , Mahindra & Mahindra Financial Services Limited, J.M. Financial, DLF Limited (Delhi Land Finance) and JMC Projects (India) Ltd. are not significantly influenced by profitability.
- As per theory a high profitable companies pay higher dividend but in this study it is observed that even a higher profitable companies pay lower dividend and a company with low profit pay high dividend. For example, companies like ACC LTD. pay DPY 31% in the year 2007-08 with 24.62% profitability whereas in the year 2011-12 it has paid 53% DPY with profitability of 14.37%. Moreover it is also observed that in case of Axis bank dividend payout ratio has declined in the year 2009-10 and 2010-

11 even though the profitability has increased in the year 2010-11 which depicted that rise in profitability is not always associated with rise in dividend payout. Moreover it is also observed that in Heromoto corp Ltd., Profitability remains stable inspite of drastic increase in dividend payout in the year 2010-11.

- Appendixes shows that the companies selected to have continuous dividend payment record during the selected time period for study purpose and general trend observed is that the dividends have either remained constant or increased; instances of decline in dividends have been very rare.
- Fluctuation in dividend payment is high in case of J. M. Financial Ltd. TVS Motors Ltd., Heromotocorp Ltd. Whereas the companies like NTPC Ltd., Powergrid, Tata power, TCS., HDFC Bank, State bank of India, IDFC, Mahindra and Mahindra Financial Ltd. were manage to pay stable dividend.
- As per theory it is said that company's dividend policy is affected by the factors like Liquidity, Leverage, Provision for taxation and Size and Growth. But this study reveals that in some of the companies there were higher fluctuations in dividend payout which are not due to these independent variables. It is found by observing annual reports that company's dividend payout policy is affected by management decisions.

## **BASED ON PRIMARY DATA**

- The empirical result reveals that Age-group is positively and significantly correlated with Dividend decision and negatively correlated with Capital appreciation decision. This shows that with increased age shareholders prefer to invest in those companies which gives stable dividends.
- The study reveals that there is significant impact of Age group on investment purpose of shareholders. It also shows that with increased age, the purpose of shareholders for investment is for receiving stable dividends and not for capital appreciation.
- By observing the responses of shareholders regarding stability of dividend policy, it can be observed that most of the shareholders agreed with the statement that company should maintain stable dividend policy. In which it is also observed that generally housewives, Old age persons and also a service class people are more. The reason behind them is, they believe, for them dividend should become a stable income. It is also observed that persons who are involved in business are not agreed with the statement.
- It can be observed that majority of the respondents agreed with the statement that stock market places more emphasis on dividend than on retained earnings and higher dividend increases the firm value. This can be due to lack of proper knowledge about stock market.
- Most of the shareholders believes that dividend is a safer than retained earnings since they consider dividend as a safer income of source.
- Regarding effect of current earnings on dividend policy, it can be observed that fifty percent of shareholders are agreed with it whereas fifty percent of them are disagreed. The reason behind is that some of the respondents believe, company can declare the dividend out of the reserves also.

- There is not much difference in opinion regarding dividend announcement for accessing the value of firms.
- Shareholders did not give their opinion regarding “clientele effect”.
- The study reveals that shareholders prefer to remain invested for long duration in those companies which pay steady, consistent and high dividend and thereby shows their loyalty with the companies.
- It is found that shareholders are always interested in making investment only in those companies which pay steady, consistent and high dividends. Because of which, they are satisfied and prefer to remain invested.
- By making an observation regarding views of dividend policies, it can be seen that majority of the shareholders prefer to invest in companies in form of shares according to proportion of their income, they preferred to receive dividend by way of cash and their preferable sector for investment is BANKING sector followed by IT& SOFTWARE. It is also observed that shareholders preferable duration for holding of shares is short-term and medium-term. Regarding consistency of dividend received from the selected companies, majority of shareholders have given their positive views.



### 9.3 SUGGESTIONS

- Dividend policy is set largely at the discretion of the management. One of the major important factor management has to consider is shareholders' interest. By observing responses of the shareholders regarding the dividend policy and shareholders' beliefs regarding dividend policy and making comparative analysis of dividend policies of selected companies, following suggestions can be made:
- Every year declaration of dividends is necessary. As shareholders' are the owners of the company and risk is directly associated with the ownership. As shareholders bear the risk, so they expect a fair return in form of dividend. So it is suggested to the companies to provide fair dividends to the shareholders for better investment options and goodwill of the company.
- Since reduction in dividend may create a negative impression in the mind of shareholders which will affect the credit position of the company so it is suggested to the companies that dividend raised should not be reduced.
- Management of each company sets its unique dividend policy which depends on a few "determinants" or factors affecting dividend policy because Dividend policy of a company should depend on various internal firm specific factors hence companies should design internal policies in such a way that best interest of both the shareholders and the company are satisfied
- Dividend policy should be decided keeping in mind the growth needs of the firm. A high dividend payout reduces firm's access to retained earnings, the cheapest source of capital. For that reason management may prefer lower dividend payout ratios, especially in growth firms as the retained funds would be required for expansion purposes.
- It has been found that majority of old age people prefers to invest their income only in those companies which provides fair dividends. However to them, it is suggested that rather than making investment in only dividend paying firms, they should also focus on capital appreciating firms which in turn would result in increasing their overall capital.
- Contrary to above point, it has been found that majority of youngsters prefers to invest their income only in those companies which provides capital appreciation. However to them, it is suggested that rather than making investment in only capital appreciating firms, they should also focus on dividend paying firms which in turn would help them to receive consistent gain.
- Specific corrective actions are suggested to those companies whose dividend payout signals drastic fluctuations.
- It was found that there were certain companies like Britannia Industries Limited, Dr. Reddy's Laboratories Ltd, Infosys, TCS, Hero Motocorp Ltd., J.K cement Limited, Mahindra & Mahindra Financial Services Limited, IDFC, JMCP Projects (India) Ltd. whose Liquidity is having least correlation with dividend payouts. However suggestion is made to such companies to increase their liquid position by reducing long term investment.
- It was found that there were certain companies like NTPC Limited, Powergrid Ltd, Tata Power, Sun Pharma Industries Ltd, Wipro, HDFC Bank Ltd, Axis Bank,

JSW Steel Ltd, Ambuja Cement Ltd etc whose Leverage is having least correlation with dividend payouts. Hence suggestion is made to such companies to reduce their borrowing and thereby they can increase their dividend payouts.

- It was found that there were certain companies like Nestle India Ltd., Cipla Global Limited, Tata Steel Limited, Bhushan steel, ACC Ltd, NBCC Ltd etc whose Provision for Taxation is having least correlation with dividend payouts. Hence suggestion is made to such companies that whenever there is a cut in taxation policy then it should have direct reflection in dividend payouts to the shareholders.
- It was found that there were certain companies like Dabur India Ltd., SBI, Eicher Motors Ltd, TVS Motors Ltd, JM Financial Ltd, DLF etc whose Size and Growth is having least correlation with dividend payouts. Hence suggestion is made to such growth making companies to provide satisfied dividend payouts to shareholders rather than only focusing on increasing capitals.

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## 10. Bibliography

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