A STUDY ON SUSTAINABLE GROWTH RATE OF HERO MOTOCORP LTD- AN ANALYTICAL STUDY

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ABSTRACT

This paper examines the impact of Sustainable Growth Rate of Hero Motocorp Ltd. The Objective of the study is to analyse the sustainable growth rate position of Hero Motocorp Ltd in India. This analytical study examines the sustainable growth rate of Hero Motocorp Ltd, a leading two-wheeler manufacturer in India. The data have been taken for a period of 5 years from 2017 to 2022; from the official database of Center for Monitoring Indian Economy (CMIE) namely Prowess and company websites. Ratios have been used to analyse the sustainable growth rate position of the selected companies. The findings of this study suggest that Hero Motocorp Ltd has the potential for sustainable growth in the long run. However, the company needs to address some challenges such as increasing competition, changing customer preferences, and regulatory changes. The study provides insights and recommendations for the company to overcome these challenges and continue on its growth trajectory.

Keywords: Sustainable Growth Rate Analysis, Ratio Analysis, Automobile Company.

I. INTRODUCTION

A sustainable growth rate refers to the maximum growth rate an organization can attain with existing resources, or without acquiring additional equity or debt finance. The SGR focuses on maximizing profits, through higher sales and retaining them to avoid the dependency on outside sources of finance Higgins (1977) proposed the use of sustainable growth rate as a maximal growth rate in sales that an enterprise can achieve while maintaining a given set of financial policies. Sustainable Growth Rate is one of the valuable gears for long term financial planning and analysing the company’s growth. It help the managers to determine the what should be company’s growth in sales so that it can be sound with company’s actual operational performance and financial policy. The consistency of a company’s growth objectives and its policies can be tested by using a concept called ‘sustainable growth’. Sustainable growth rate (SGR) is the maximum annual percentage increase in sales, that can be achieved based on target operating, debt and dividend payout ratios. It is also called accounting sustainable growth rate which implies the rate of growth in sales, assets, debt and equity that can be sustained indefinitely without the management altering the debt to equity relationship, the return on equity performance or the dividend payout rate.

II. REVIEW OF LITERATURE

Mr Arya kumar [ 2017 ]1 “An empirical study on sustainable growth rate of Pharmaceutical companies” The pharmaceutical industry in India is found to be ever raising industry since 90’s. This growth lies with the proper utilization of resources, research and development, and technology. Due to the continuous growth of such industry, it has found that the Indian economy tends to grow with the growth of other industries. Hence this paper will try to find out the sustainable growth rate of Pharmaceutical companies that are listed in Nifty 50.Profit margin, debt-equity ratio, returns on equity, dividend payout ratio and return on total assets to sales will be compared to sustainable growth rate to understand the impact.

The research of Pandit and Tejani , (2011)2 to assess sustainable growth rate of the textile and apparel segments of the Indian retail sector found that in order to attain optimum growth in sales the firms has to maintain a consistent level in profit margins, asset turnover, leverage, and retained earnings. From the above discussion it can be conferred that even though a number of studies on the diverse issues associated with firms sustainable growth rate and its determinants carried out in abroad, but in Indian context a significant attempt is yet to be conducted. So, keeping in mind the above gap the present study aims to
investigate the association of liquidity (Cash Flow Ratio), profitability (Return on Capital Employed) and leverage (Debt-Equity Ratio) with sustainable growth rate of the firm.

III. STATEMENT OF THE PROBLEM

Sustainable growth represents the maximum sales or asset growth that a firm can support using both internally generated funds & debt. The goal of such analysis is to determine the performance of firms management. From the above point of view researcher has undertaken an analysis of Sustainable Growth Rate [SGR] of Hero motocorp Ltd. Therefore, the problem addressed in this study is to analyze the sustainable growth rate of Hero Motocorp Ltd and identify factors that could impact the company's growth potential and sustainability in the future.

IV. OBJECTIVES OF THE STUDY

- To analyse the explanatory variables ie, liquidity, profitability, and leverage with sustainable growth rate of the firm.
- To know the stability and growth rate of financial parameters of the Hero Motocorp Ltd.

V. RESEARCH METHODOLOGY

Analytical research design is chosen for the study, this research is conducted to find out facts about given topic from answers obtained to develop new and useful ways during things.

TOOLS AND TECHNIQUES

In this topic only various types of ratios are used. Such as

- Profit Margin After tax
- Retention Ratio
- Leverage
- Asset Turnover Ratio

VI. ANALYSIS AND INTERPRETATION

The sustainable growth rate computed for Hero motocorp Ltd have been presented in the following tables.

<table>
<thead>
<tr>
<th>Years</th>
<th>P</th>
<th>R</th>
<th>A</th>
<th>T</th>
<th>SGR</th>
<th>Percentage of SGR</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017-2018</td>
<td>0.07672</td>
<td>-0.9207</td>
<td>1.3757</td>
<td>1.4843</td>
<td>0.14423</td>
<td>14.423</td>
</tr>
<tr>
<td>2018-2019</td>
<td>0.0880</td>
<td>-0.7711</td>
<td>1.4581</td>
<td>1.5184</td>
<td>-0.15023</td>
<td>-15.023</td>
</tr>
<tr>
<td>2019-2020</td>
<td>0.1259</td>
<td>-0.2385</td>
<td>1.3263</td>
<td>15.3438</td>
<td>-0.61106</td>
<td>-61.106</td>
</tr>
<tr>
<td>2020-2021</td>
<td>0.1098</td>
<td>0.26103</td>
<td>1.3720</td>
<td>1.74594</td>
<td>0.06865</td>
<td>6.865</td>
</tr>
<tr>
<td>2021-2022</td>
<td>0.1264</td>
<td>-0.2841</td>
<td>1.4229</td>
<td>1.74716</td>
<td>-0.0897</td>
<td>-8.97</td>
</tr>
<tr>
<td>AVERAGE</td>
<td>0.52682</td>
<td>-1.95397</td>
<td>6.955</td>
<td>2.18396</td>
<td>-0.63811</td>
<td>-63.811</td>
</tr>
</tbody>
</table>

INTERPRETATION

The profit margin of Hero Motocorp limited has shown a fluctuating trend during the study period and the mean profit margin is Rs.0.52682cr. An increase in the firm's ability to generate funds internally would increase its sustainable growth. The mean of retention ratio for the past 5 years (2017-2018 to 2021-2022) is -1.95397. The mean of asset to equity ratio is 6.955 which has resulted in wealth maximization of the firm. The sales to asset ratio for the past 5 years has shown a fluctuating trend. The mean of sales to asset ratio is 2.18396. The sustainable growth rate is highest during the year 2017-2018 (14.423%) and the lowest sustainable growth rate is attained during the year 2021-2022 (8.97%). From the period 2017-2018 to 2021-2022 and, it has shown a decreasing trend. During the study period, there has been a small increase in sustainable growth rate from 14.423% to 61.106% (2017-2018 to 2019-2020). The mean of sustainable growth rate for the study period is 63.811 per cent.
INFERENCE
The highest profit margin in the year 2021-2022, highest retention ratio in the year 2020-2021, lowest asset to equity ratio in the year 2017-2018.

VII. FINDINGS
- The revenue from sales is high during the year 2020-2021 and it is low during the period 2018-2019.
- The sustainable growth rate is highest during the year 2017-2018 and the lowest sustainable growth rate is attained during the year 2021-2022.

VIII. SUGGESTIONS
- The company can increase its profit margin thereby it increases the sustainable growth rate of the firm.
- The proportion of assets is more than equity so company should maintain stable assets.
- The company should maintain the asset utilization efficiency, because they generate higher turnover resulting in a higher asset turnover ratio.
- Overall the company is performing well and consistently on an average. Overall the company is performing well and consistently on an average.

IX. CONCLUSION
The Sustainable Growth Rate (SGR) of a firm can be achieved, if the firm's profitability, asset utilization, and desired dividend payout and debt equity ratios. In case of Heromoto corp ltd the sustainable growth rate have been fluctuating and found to be very low. Overgrowth or undergrowth of companies should be avoided. All the companies should work to attain sustainable growth, so that there is full utilization of the available resource.

X. REFERENCE

BOOKS

WEBSITES