

A Study On Financial Performance Of Honda Motors Company Limited

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Abstract: Financial performance is the process of measuring the results of a firm's policies and operations in monetary terms. It is used to measure firm's overall financial health over a given period of time and can also be used to compare similar firms across the same industry or to compare industries or sectors in aggregation. By focusing on cost management, optimizing sales effectiveness, and managing working capital, Honda can further streamline operations and improve liquidity. Strengthening its asset utilization and continuing to refine inventory management will also enable the company to maximize returns on investments and reduce inefficiencies. Overall, by focusing on these areas, Honda can continue its growth trajectory, ensuring robust financial health and sustainable success in the competitive automotive industry.

Keywords: Finance, Ratios, Turnover, Assets and Working Capital

I. INTRODUCTION

Financial Management is the strategic planning and managing of an individual or organization's finances to better align their financial status to their goals and objectives. Financial Management seeks to optimize shareholder value, generate profit, mitigate risk, and safeguard the company's financial health in the short and long term.

FINANCIAL STATEMENT ANALYSIS

"Analysis and interpretation of financial statements are an attempt to determine the significance and meaning of the financial statement data so that forecast may be made of the prospects for future earnings, ability to pay interest and debt maturities (both current and long term) and probability of a sound dividend policy." - Kennady & Muller

FINANCIAL PERFORMANCE ANALYSIS

The analysis of financial statement is a process of evaluating the relationship between the component parts of

financial statement to obtain a better understanding of the firm's position and performance. The dictionary meaning of 'analysis' is to resolve or separate a thing in to its element or components parts for tracing their relation to the things as whole and to each other. It helps to identifying the financial strengths and weaknesses of the firm by properly establishing the relationship between the items of balance sheet and profit and loss account. It also helps in short-term and long-term forecasting and growth can be identified with the help of financial performance analysis. This analysis can be undertaken by management of the firm or by parties outside the namely, owners, creditors, investors.

STATEMENT OF THE PROBLEM

As the automobile industry is a vital contributor to India's economy, employing million of people and generating billions of dollars in revenue. Honda, has become a household brand in India due to its exceptional reputations for creating dependable, economical, and features packed vehicles. Assessing a Honda Motor's financial health is essential for understanding its ability to generate profits, meet short-term

obligations, and sustain long-term growth. This analysis aims to evaluate the profitability, liquidity, and solvency of Honda company over the period of 2020-2024. While financial reports provide basic insights, there is a gap in understanding how these key financial ratios reflect the company's operational efficiency, financial stability, and overall risk profile.

An attempt has been made by researcher to examine the company's profitability through metrics such as net profit margin and return on assets, its liquidity through ratios like the current ratio and quick ratio, and its solvency through debt-to-equity and other ratio. The findings will offer a comprehensive view of Honda Company financial performance, providing valuable insights into its potential vulnerabilities and strengths, and helping guide future strategic decisions.

SCOPE OF THE STUDY

This study aims at analyzing the overall financial position of the Honda Motor's by using accounting ratios. The study's scope includes the numerous variables that influence the company's financial position. The research takes into account data from the previous five years.

PERIOD OF THE STUDY

The analysis covers the years from 2019-2020 to 2023-2024.

OBJECTIVES OF THE STUDY

Primary objectives

To study the financial statement analysis of Honda Motors.

SECONDARY OBJECTIVES

- ✓ To examine the profitability position of the company.
- ✓ To evaluate the liquidity position of the company.
- ✓ To analyze the solvency position of the company.
- ✓ To other suggestion & recommendations to the company.

II. RESEARCH METHODOLOGY

Case study method has been followed for the study. The secondary data has been collected from the annual report of the bank, monthly magazines published by the bank, circulars, statement, standard books and journals, the analysis of data was made with help of accounting and statistical tools like ratio, trend and common size percentage.

LIMITATIONS OF THE STUDY

The following are the limitations faced by researcher during the study:

- ✓ The study has been taken only for five years from 2019-2020 to 2023-2024.

- ✓ The data used in the analysis is based on the company's own published past results. As a result, ratio analysis metrics are not always indicative of future company performance.
- ✓ The study is limited to the secondary data available from various records and annual reports of Honda Motor's.
- ✓ The study is limited to the field of activities of the Honda Motor's.

III. REVIEW OF LITERATURE

A Review of literature serves as a comprehensive analysis of existing research on a specific topic, providing an overview of current knowledge, key findings, and identified gaps within the field, allowing researchers to establish a foundation for their own study by understanding what is already known and where new insights can be contributed.

Buvaneshwari .R & Kanimozhip (2014) To study the credit worthiness of selected firms in Indian car industry, tiruchy. Professor Edward Altman of New York University developed method Z score analysis to predict the company failure or bankruptcy. To measure the fiscal fitness of a company combined a set of five financial ratios.

Anu B (2015) Made an attempt to examine the relationship between capital structure indicators, market price per shares and also to test relationship between debt-equity and market price per share of selected companies in industry. The study concludes that all three companies support the hypothesis that there is relation between debt-equity and MPS.

Vikas Garg & Pooja Tewari, Shalini Srivastav (2018) Found out that in terms of operating profit ratio, net profit ratio, and gross profit ratio, Maruti Suzuki India was doing exceptionally well. Mahindra and Mahindra's return on net worth and long-term funds were below average, and Tata Motors' output during the same time was also similar.

Chandra and Rathi (2020) Analyzed the financial health of the Indian auto sector and concluded that the lockdowns and disruption of retail sales led to revenue declines for most manufacturers. Tata Motors and Hero Moto Corp reported losses for the first time in years, highlighting the negative financial impact of the pandemic, as the industry struggled to recover from the halted production and sluggish sales.

Liu and Zhao (2022) Cash flow management became a focal point in the face of uncertainty. liquidity ratios such as the current ratio and quick ratio were vital in assessing how companies could weather global supply chain issues and semiconductor shortages. Companies with robust liquidity were better positioned to cope with these supply chain disruptions.

IV. PROFILE OF HONDA COMPANY LIMITED

The history of the Honda Motor Company began with the vision of one man Soichiro Honda. His dream was personal mobility for everyone. Soichiro Honda founded the Honda Motor Company in 1948. In the same year, he designed and

engineered the first product of this company a 50 cc motorized bike on a bicycle frame in his small shed at Hamamatsu. Today, Honda is a global company with a global viewpoint that is reflected in a solid commitment to local markets and economies. Honda Siel Power Products was incorporated in Sep.'85 as a joint venture, earlier it is called Shriram Honda Power, was promoted by Honda Motor Co, Japan, and Shriram Industrial Enterprises. Honda Motor, Japan, holds a 66.67% stake in the company.



V. DATA ANALYSIS AND INTERPRETATION

Data analysis is a process of inspecting, cleansing, transforming, and modeling data with the goal of discovering useful information, informing conclusions, and supporting decision-making. Data analysis has multiple facets and approaches, encompassing diverse techniques under a variety of names, and is used in different business, science, and social science domains. In today's business world, data analysis plays a role in making decisions more scientific and helping businesses operate more effectively.

Financial performance is the process of measuring the results of a firm's policies and operations in monetary terms. It is used to measure firm's overall financial health over a given period of time and can also be used to compare similar firms across the same industry or to compare industries or sectors in aggregation. It refers to the degree to which financial objectives being or has been accomplished and is an important aspect of finance risk management. Financial performance analysis includes analysis and interpretation of financial statements in such a way that it undertakes full diagnosis of the profitability and financial soundness of the business. Ratio analysis and comparative statements are the important tools used for the analysis of financial performance of the company.

RATIO ANALYSIS

Ratio analysis is a quantitative method of gaining insight into a company's liquidity, operational efficiency, and profitability by studying its financial statements such as the balance sheet and income statement. Ratio analysis is a cornerstone of fundamental equity analysis.

The following ratios have been used in the study:

Rs, (in Crores)

YEAR	CURRENT ASSETS	CURRENT LIABILITIES	RATIO
2019-2020	556.35	144.13	3.86
2020-2021	598.94	183.41	3.26
2021-2022	623.82	189.71	3.29
2022-2023	749.52	191.42	3.96

2023-2024	769.10	178.81	4.30
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Sources: Annual reports of Honda Motor's company Ltd
Interpretation

Table No: 1 Current Ratio

The company's current ratio has steadily increased from 3.86times in 2019- 2020 to 4.30 times in 2023-2024, indicating a strong and improving ability to cover short-term liabilities with its current assets. Assets grew each year, contributing to improved liquidity. Liabilities increased initially but stabilized and even decreased in 2023-2024, supporting the higher ratio. The company's liquidity position has been strengthening over the five year period, with the current ratio consistently staying above 3, which is considered healthy. In short, the company has shown significant improvement in its ability to meet short-term obligations over the analyzed period.



Chart No.1 Current Ratio

Rs, (in Crores)

YEAR	DEBT	SHARE HOLDER'S EQUITY	RATIO
2019-2020	144.13	569.61	0.25
2020-2021	183.41	605.51	0.30
2021-2022	189.71	669.88	0.28
2022-2023	191.42	736.74	0.26
2023-2024	178.81	812.11	0.22

Sources: Annual reports of Honda Motor's company Ltd
Interpretation

Table No: 2 Debt Equity Ratio

The company's Debt-Equity Ratio has steadily decreased from 0.25times in 2019-2020 to 0.22 times in 2023-2024, indicating a reduction in reliance on debt over time. This trend reflects a move toward greater financial stability and less financial risk, as the company has increasingly relied on equity rather than debt for financing.

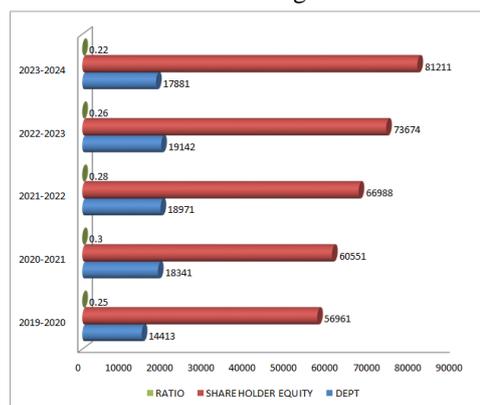


Chart No: 2 Debt-Equity Ratio

Rs, (in Crores)

YEAR	SHAREHOLDER'S FUNDS	TANGIBLE ASSETS	RATIO
2019-2020	569.61	96.88	5.88
2020-2021	605.51	90.62	6.68
2021-2022	669.88	85.50	7.83
2022-2023	736.74	89.36	8.24
2023-2024	812.11	95.34	8.52

Sources: Annual reports of Honda Motor's company Ltd Interpretation

Table No: 3 Proprietary Ratio

The Shareholders' Fund to Tangible Assets Ratio shows a consistent upward trend from 5.88 in 2019-2020 to 8.52 in 2023-2024. The company's shareholders' equity has grown at a faster rate than its tangible assets, indicating a strengthening of its financial position over time. A higher ratio suggests that the company is increasingly backed by equity rather than debt, which typically indicates lower financial risk and better financial health. The company has shown continuous improvement in its financial strength, as its equity base has grown in comparison to its tangible asset base. This indicates solid financial health and a reduced reliance on debt for asset funding.

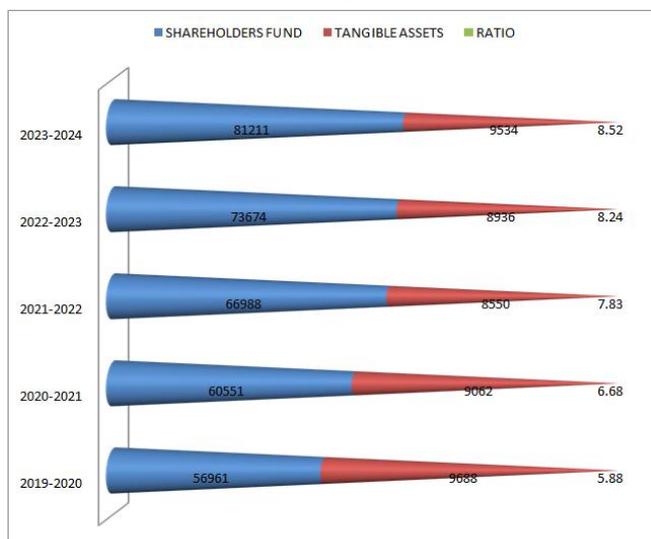


Chart No 3: Proprietary Ratio

Rs, (in Crores)

YEAR	NETSALES	WORKING CAPITAL	RATIO
2019-2020	832.04	412.22	2.02
2020-2021	922.67	415.53	2.22
2021-2022	1136.38	434.11	2.62
2022-2023	1225.59	558.10	2.20
2023-2024	975.59	590.29	1.65

Sources: Annual reports of Honda Motor's company Ltd Interpretation

Table No: 4: Networking Capital Turnover Ratio

From 2019 to 2024, the company's net sales steadily increased, peaking at 2022-2023. Working capital also grew, from 2019-2020 to 2023-2024. However, the working capital

ratio showed a decline, from 2.02 times in 2019-2020 to 1.65 times in 2023-2024. This indicates that, while the company had strong liquidity in the earlier years, its ability to cover short-term liabilities has decreased, suggesting potential liquidity risks. The drop in the ratio signals a need for attention to cash flow management to avoid future financial strain.

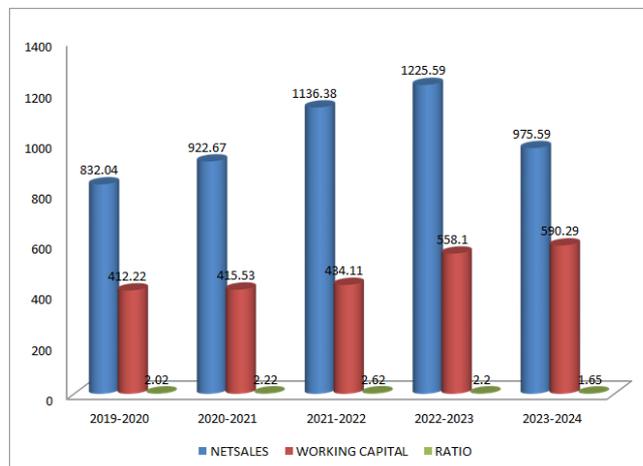


Chart No: 4: Networking Capital Turnover Ratio

Rs, (in Crores)

YEAR	NET PROFIT AFTER TAX	NET SALES	RATIO
2019-2020	66.52	832.04	7.99
2020-2021	48.67	922.67	5.27
2021-2022	74.53	1136.38	6.56
2022-2023	85.09	1225.59	6.94
2023-2024	92.21	975.59	9.45

Sources: Annual reports of Honda Motor's company Ltd Interpretation

Table No: 5 Net Profit Ratio

The Net Profit Ratio decreased from 7.99% in 2019-2020 to 5.27% in 2020-2021, indicating a decline in profitability. However, it gradually improved in the following years, reaching 6.94% in 2022-2023. The ratio increased sharply to 9.45%, suggesting a strong recovery and improved profitability, possibly due to better cost control or increased sales efficiency.

Rs, (in Crores)

YEAR	EBIT	SALES	RATIO
2019-2020	91.68	832.04	11.02
2020-2021	66.42	922.67	7.20
2021-2022	100.54	1136.38	8.85
2022-2023	115.98	1225.59	9.46
2023-2024	124.17	975.59	12.73

Sources: Annual reports of Honda Motor's company Ltd Interpretation

Table No: 6 Operating Profit Ratio

The company's Operating Ratio improved from 11.02% in 2019-2020 to 7.20% in 2020-2021, showing increased efficiency. However, from 2021-2024, the ratio gradually increased, peaking at 12.73% in 2023-2024, indicating a decline in efficiency. Despite the rise in EBIT (operating profit), the increase in operating costs relative to sales

suggests the company is facing challenges in managing expenses effectively. The declining efficiency in recent years highlights the need for better cost control to maintain profitability.

Rs. (in Crores)

YEAR	NET PROFIT	TOTAL ASSETS	RATIO
2019-2020	66.52	715.30	9.3
2020-2021	48.67	790.97	6.2
2021-2022	74.53	861.45	8.7
2022-2023	85.09	930.14	9.1
2023-2024	92.21	991.93	9.3

Sources: Annual reports of Honda Motor's company Ltd
Interpretation

Table No: 7 Return On Assets Ratio

The company maintained a strong and consistent Return on Assets (ROA), primarily around 9%, indicating efficient asset utilization. There was a dip to 6.2% in 2020-2021, likely due to external challenges, but the company quickly recovered, with ROA improving to 9.1% in 2022-2023 and returning to 9.3% in 2023-2024. Overall, the company demonstrated resilience and effective management of its assets, generating solid profitability throughout the years.

VI. FINDINGS

The following are the findings of the study:

- ✓ The company's liquidity has improved over the past five years, with its current ratio increasing from 3.86times to 4.30times.
- ✓ The company's Debt-Equity Ratio has gradually decreased from 0.25 times in 2019-2020 to 0.22 times in 2023-2024, signaling a reduced reliance on debt for financing.
- ✓ The company's Shareholders' Fund to Tangible Assets Ratio has consistently increased from 5.88 in 2019-2020 to 8.52 in 2023-2024.
- ✓ From 2019 to 2024, the company's net sales and working capital grew, but the working capital ratio declined from 2.02 to 1.65.
- ✓ The Net Profit Ratio dropped from 7.99% to 5.27% in 2020-2021, but gradually improved to 6.94% by 2022-2023. It then sharply increased to 9.45%
- ✓ The company's Operating Ratio improved initially but gradually increased from 2021-2024, peaking at 12.73%, indicating declining efficiency.
- ✓ The company maintained a strong and consistent Return on Assets (ROA) around 9%, with a brief dip to 6.2% in 2020-2021. However, it quickly recovered, reaching 9.3% in 2023-2024.

VII. SUGGESTIONS

The following are the suggestions offered by the researcher:

- ✓ Honda should evaluate cost management strategies, look for areas to reduce production or operational costs, and

assess pricing strategies to maintain or increase margins.

- ✓ Honda should focus on boosting sales efficiency by improving marketing strategies, sales force effectiveness, or exploring new revenue streams. Additionally, it could work on optimizing the conversion of equity into sales through strategic investments.
- ✓ Honda could consider more proactive management of receivables and inventory to avoid potential liquidity strains.
- ✓ Honda should evaluate whether its current liquidity is optimal or if funds can be better utilized to generate higher returns.
- ✓ Honda could assess whether its assets are being optimally deployed, ensuring that investments generate strong returns.

VIII. CONCLUSION

In conclusion, implementing financial management strategies can help Honda address key areas of its operations and financial performance, leading to enhanced efficiency and profitability. By focusing on cost management, optimizing sales effectiveness, and managing working capital, Honda can further streamline operations and improve liquidity. Strengthening its asset utilization and continuing to refine inventory management will also enable the company to maximize returns on investments and reduce inefficiencies. Additionally, maintaining a cautious approach to debt while ensuring effective use of cash reserves will contribute to long-term financial stability. Overall, by focusing on these areas, Honda can continue its growth trajectory, ensuring robust financial health and sustainable success in the competitive automotive industry.

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