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6 FINDINGS, CONCLUSIONS AND SUGGESTIONS

The analysis of capital structure of selected automobile two wheeler companies have been undertaken from the view point of composition of funds, impact of debt on profitability, the nature of financial plan adopted, earning power and overall financial strength of the companies as well as relationship existing between Debt-Equity Ratio and few of the variables affecting the same. The following points are noteworthy.

6.1 FINDINGS:

6.1.1 CAPITAL STRUCTURE POSITION:

Debt –Equity Ratio of HHML shows that company has not used “trading on equity”. Whereas Bajaj auto Ltd. has used trading on equity but not at the optimum level. Perhaps it may be the intention of the management not to accept the burden of charges and repayments of long term loans. Average ‘Total Debt-Equity Ratio’ of HHML is 0.05 shows very thin use of borrowing capacity & of BAL is 0.56 shows better use of borrowing capacity or Trading on Equity.

Debt-Total Fund Ratio indicates that both the companies have not use the trading on equity and the average Operating Profit Margins are 15.92 % and 14.01 % respectively against the average prevailing rate of interest of 11 % (Average effective rate of interest may be 7.5 %). If the companies have used the Trading on Equity at its maximum or for a part, the Profit after Tax should have been increased and so the EPS.

The Capital-Gearing Ratio shows that the companies have used trading on equity when it has been calculated with the paid-up equity shares only, but in both the companies they have very huge amount of reserves & surplus (i.e. 45 to 50 times to the equity share capital) so, we cannot certainly use the ratio for the analysis.

Proprietary Ratio serves to an important purpose of determining long term solvency of a firm. Higher the ratio better it is. Here its indicates that in HHML, tangible assets of re.1 were purchased from proprietors’ contribution of 96 paisa & by creating long term liabilities of 4 paisa only. In BAL, tangible assets of re.1 were purchased from proprietors’ contribution of 66 paisa and by creating long term liabilities of 34 paisa. So, BAL has used the trading on equity up to a certain level but still it is not up to the standard ratio, (i.e. 1:1) Interest coverage Ratio indicates that HHML has a strong position to pay interest whereas Bajaj Auto has interest burden below 1% to the profit before interest, depreciation and tax. As both the companies are huge profit making units with thin use of Trading on Equity, the ratio favour the companies’ debt serve position.

Long term fund To Fixed Assets Ratio shows that nearly 40 to 45 % of long term funds have been invested in fixed assets and remaining 60 to 55 % in
current assets. Both the companies may implement “Just in Time Approach” for their current assets.

Net worth To Net Fixed Assets Ratio of Bajaj Auto Ltd shows that the Net worth of the company is 4 times to the Net Fixed Assets (except investment) and the amount of investment made outside the business is 1.2 times to the net worth or 5 times to the net fixed assets & in HHML, instead of 1.2 it is 1:1. So we are not in a position to analyze the ratio independently as both the companies have made huge amount of investment outside the business.

In Net Current Assets to Net worth Ratio, net worth should equal to fixed assets plus net working capital, except borrowed capital. In both the companies, they have huge reserves & surplus and their investments are more to the Net Worth, at the same time their net working capitals are in negative. Certainly, this indicates that the companies have invested owners’ capital and the negative net working capital into the investment except fixed assets.

Net Fixed to Net Current Ratio shows that in HHML, fixed assets are just 1.15 times (average) to the current assets. It needs special attention to reduce the current assets. In BAL the fixed assets are only 0.50 times (average) to the current assets which indicate huge investment in current assets. We must consider the fact that HHML was established in 1984 & BAL in 1945, means they have invested in fixed assets during their year of establishment at the than prevailing price levels and have to invest in current assets at present price level. Company must implement JIT approach or theory for stock.

Reserves to Capital Ratio indicate that average reserves of HHML during the period are 72 times to the paid-up capital, Wherein BAL, it is 28 times only. It shows HHML has very strong economical position, very little dependence on borrowed capital, huge book value, and bonus candidate.

6.1.2 PROFITABILITY POSITION:

The average Net Profit Ratio of the Hero Honda Motors Ltd and the Bajaj Auto Ltd are nearly the same. But comparing the net profit margin of the companies with the prevailing rate of return & risk involved, it shows greater margin ratio which was constant throughout the period. It indicates the growing market, quality production and ultimate faith of the customers.

The average rate of Return on Total Assets of the Hero Honda Motors Ltd is 62.21% as the Bajaj Auto Ltd has achieved 37.73%, because the Bajaj Auto Ltd was established in the year 1945 and the Hero Honda Motors Ltd was established in the year 1984. The Hero Honda Motors Ltd had invested in the fixed asset after 40 years of incorporation of the Bajaj Auto Ltd at an inflated cost even then the ratio is nearly 65% more to the Bajaj Auto Ltd.

The average rate of Return on Capital Employed in Hero Honda Motors Ltd is 68% higher to the Bajaj Auto Ltd, which shows the better utilization ratio and their asset-management contributes to the profit at a larger scale though they are the supportive assets.
Rate of Return on Shareholders’ fund and Rate of Return on Equity shareholders’ fund of both the companies reflect the same result as they have not issued any preference share capital. The average ratio of the Hero Honda Motors Ltd is nearly 10% more to the ratio of the Bajaj Auto Ltd, particularly when the Hero Honda Motors Ltd has invested their capital after 40 years to the Bajaj Auto Ltd. During this period the average bank-rate was between 10 to 12% and both the companies have earned the return by 400% on equity shareholders’ fund which clearly indicates the greater efficiency of management, better product, customer satisfaction and untapped demand.

The average Earning Per Share of the Hero Honda Motors Ltd is Rs. 63.21 and the Bajaj Auto Ltd is Rs. 89.31 shows greater earnings of the Bajaj Auto Ltd, but while analyzing the ratio we must keep in our mind that the Bajaj Auto Ltd had Invested their capital before 40 years to the Hero Honda Motors Ltd. The face value of the Hero Honda Motors Ltd is Rs.2 and its EPS is Rs.31.60 times to the face value as against the Bajaj Auto Ltd by 9 times to the face value.

The average ratio of Dividend Payout (including the silver jubilee dividend declared by the Hero Honda Motors Ltd in the year 2009-10 and demerger in the year 2008-09 of The Bajaj Auto Ltd) is 50% and 38% respectively for the Hero Honda Motors Ltd and the Bajaj Auto Ltd. The ratios of both the companies from 2005-06 to 2007-08 were nearly same. In the year 2008-09 the Bajaj Auto Ltd had declared the bonus shares in the ratio 2:5 indicates the same Dividend per share after diluting the impact of bonus issue. Both the companies are investor friendly as their average dividend payout ratio is 50% and the Bajaj Auto Ltd has issued bonus shares in the year 2008-09, where as the Hero Honda Motors Ltd has distributed 5500% silver jubilee dividends.

6.1.3 LIQUIDITY AND SOLVENCY POSITION:

The Current Ratio in the selected automobile two wheeler companies reveals that the HHML had adverse ratio during the period, but looking to the economical strength & market position we have no room for any remark, while the current ratio of BAL was quite higher than the average current ratio of HHML.

The Quick ratio of the sample companies shows fluctuating trend during the study period. The companies are not able to maintain the standard norm of 1.5:1, but again we have no room for any comment.

Among the selected companies, HHML has higher FATR than the BAL during the study period. A high ratio suggests management ability to make a better use of its investments in fixed assets.

Among the selected sample companies, HHML has higher Inventory Turnover Ratio comparing with BAL during the period of study. From this ratio analysis we may find which company is more efficient in converting their finished goods into sales.
On the basis of the liquidity analysis of the selected automobile two wheeler companies, we found that the Capital Turnover Ratio of HHML is higher to the BAL, which tells us that HHML was more efficient in the utilization of its capital employed compared to BAL.

The average Net Assets Turnover Ratio of BAL is higher than the HHML which shows better utilization of the fixed assets by the BAL to HHML.

On the basis of liquidity analysis we found that the current Assets Turnover ratio of HHML is higher compared to BAL, which shows that of HHML has more efficiently used its current assets for the generation of sales compared to BAL.

6.2 CONCLUSIONS:

6.2.1 CAPITAL STRUCTURE POSITION:

Trend analysis only tells us about the growth made over a period. But it doesn’t give us fair view of the comparison of the two companies as the Bajaj Auto Ltd was split into three companies in the year 2008. The demerger took place on 20th February, 2008 with effect from 1st April, 2007 and the company demerged into:

1. Bajaj Auto Ltd (Pure Auto business)

2. Bajaj Finserve Ltd (Two Insurance Companies + Bajaj Auto Finance + Wind Power Project)

3. Bajaj Holding & Investments Ltd (Existing Company - the businesses of above mentioned two new companies)

(The company had used the General Reserve to write-off the diminishing value of Investments)

The reserves were more than five times to the owners’ capital and investments also were more than five times to the fixed assets. So we may not compare certain ratios. As far as growth is concerned, it proves that the growth of BAL is rapid to the HHML.

Capital structure ratios tell us that both the companies have used the reserves for the expansion, have invested the reserves in the ‘Investments out-side the business’, so have not to create borrowed capital. This shows that companies were profit making units, their inventory turnover ratio were fast and their business is depended heavily on current assets to the fixed assets.

By comparing the Correlation of Coefficient between HHML and BAL, we can say that BAL is better to HHML as it has positive correlation coefficient, which indicates that the rate of earning is quite high, this could be further increased by an increase in the proportion of debt in future by taking benefit of tax deductibility through leverage.
During the period, the owners’ funds have been increased with the help of ‘Retained Profits’ (neither by issuing equity share capital nor by Convertible Debentures), by which the effective control of the management remained at the same level.

The companies have not created long term liabilities so have not used the trading on equity, so the capital structure have no impact either on the profitability or liquidity.

On the whole, it may be concluded that capital structure trends of both the companies are satisfactory, but BAL is more effective in its performance that to the HHML.

6.2.2 PROFITABILITY POSITION:

Trend analysis only tells us about the growth made over a period. But it doesn’t give us the fair picture of the comparison of the two companies. As far as growth is concerned, BAL is growing very rapidly and is a point of concern for HHML. BAL is way ahead in terms of operating income and PBDIT growth as compared to HHML. Cost of sales for HHML increases much significantly but for BAL. In terms of profits before and after tax, HHML makes some good increases especially over the last 2 years. But BAL declines in the year 2008, though it picked growth again in the year 2009.

Net profit and Gross profits ratios tell us what percent of sales is our gross profit and what percentage is the net profit. HHML is better in both the cases making higher profits than BAL. Operating ratio and cost of goods sold ratio establishes a relationship between the expenses and the net sales. Lower the ratio, the better it is.

Return on capital employed ratio tells us the returns earned on the investment made and the total capital employed. As it is obvious the profit is the motive of the firm, the higher the ratio, the better it is. HHML is earning a better return as compared to its competitor BAL because this ratio is more than the ratio of BAL.

Earning Per Share (Ratio) is very important from the investor’s point of view because they expect higher returns on their investments. This ratio tells us the earnings made per share. HHML, though has not used the trading on equity, is having better EPS than BAL. BAL even though have raised loans and has debt equity ratio of 0.56, is not able to give better returns to the equity shareholders. But HHML is doing this with very small amount of loan. So it is definitely performing better.

Dividend Payout Ratio is another ratio of major concern of the investors. This ratio tells us what part of the Earning per share is actually given to the shareholders as dividend. The more it is, the better it is. In this case HHML is paying less to the shareholders than BAL. But seeing the capital structure of HHML it must be paying more to the shareholders because it is not having
much of fixed cost capital also. BAL having some amount of debt is paying handsome dividends and has comparatively better ratio.

On the whole, it may be concluded that profitability of both the companies are satisfactory, but the Hero Honda Motors Ltd is more effective in its performance that to the Bajaj Auto Ltd.

The average net profit ratio of the Hero Honda Motors Ltd and the Bajaj Auto Ltd were nearly the same. But comparing the net profit margins of the automobile industry, it shows greater margin ratio which is constant throughout the period. It indicates the quality production and ultimate faith of the customers. This ratio indicates that even in adverse conditions of declining selling price, rising cost of production and low demand for product both the sample companies have a sound capability to withstand this situation.

The average rate of Return on Total Assets of the Hero Honda Motors Ltd is 62.21% as the Bajaj Auto Ltd has achieved 37.73%, because the Bajaj Auto Ltd was established in the year 1945 and the Hero Honda Motors Ltd was established in the year 1984. The Hero Honda Motors Ltd had invested in the fixed asset after 40 years of incorporation of the Bajaj Auto Ltd at an inflated cost even then the ratio is nearly 65% more to the Bajaj Auto Ltd.

The average rate of return on capital employed in Hero Honda Motors Ltd is 68% higher to the Bajaj Auto Ltd, which shows the better utilization ratio and their asset-management contributes to the profit at a larger scale though they are the supportive assets. The Return on Investment Ratio shows sharp increase. It indicates that management is very efficient in utilizing borrowed funds and owner’s funds in generating profit out of fit and still company is able to increase its reserves because of very high After Tax Profit.

The Rate of Return on shareholders’ fund (Ratio) and the rate of Return on Equity shareholders’ fund (Ratio) give the same result as both the companies have not issued any preference share capital. The ratios of both the sample companies remained same during the period. The average ratio of the Hero Honda Motors Ltd is nearly 10% more to the ratio of the Bajaj Auto Ltd, particularly when the Hero Honda Motors Ltd has invested their capital after 40 years to the Bajaj Auto Ltd. During this period the average bank-rate was between 10 to 12% and both the companies have earned the return by 400% on equity shareholders’ fund which clearly indicates the greater efficiency of management, better product and untapped demand.

The average earning per share of the Hero Honda Motors Ltd is Rs. 63.21 and the Bajaj Auto Ltd is Rs. 89.31 shows greater earnings of the Bajaj Auto Ltd, but while analyzing the ratio we must keep in our mind that the Bajaj Auto Ltd had Invested their capital before 40 years to the Hero Honda Motors Ltd. the face value of the Hero Honda Motors Ltd is Rs.2 and its EPS is Rs.31.60 times to the face value as against the Bajaj Auto Ltd by 9 times to the face value.
The average ratio of Dividend Payout (including the silver jubilee dividend declared by the Hero Honda Motors Ltd in the year 2009-10 and demerger in the year 2008-09 of the Bajaj Auto Ltd) is 50% and 38% respectively for the Hero Honda Motors Ltd and the Bajaj Auto Ltd. The ratio of both the companies from 2005-06 to 2007-08 was nearly same. In the year 2008-09 the Bajaj Auto Ltd had declared the bonus shares. In the ratio 2:5 indicates the same Dividend per share after diluting the impact of bonus shares. Both the companies are investor friendly as their average dividend payout ratio is 50% and the Bajaj Auto Ltd has issued bonus shares in the year 2008-09, while the Hero Honda Motors Ltd has distributed 5500% silver jubilee dividends.

Generally an addition to debt up-to the standard, the Debt-Equity Ratio shows the improvement in the profitability of the company. If the Rate of Return on Investment is higher than Rate of Interest on borrowed funds, which results in increase in Earning Per Share and Dividend Per Share. HHML & BAL both have reduced its debt and still profits of both the companies have improved sharply. And the Dividend Per Share have also increased. So, the known theory is not applicable here and the reasons for improved profitability may be efficient management and customer satisfaction with wide range of better quality product.

The reason for low Debt-Equity Ratio can be that both the sample companies resorting to internal funds for the requirement of additional funds and not taking the benefit of leverage in the form of tax deductibility perhaps the reason are the companies are profitable with sound liquidity position & do not want creditor's influence in business management.

To have understanding of seriousness posed by low performing Liquidity Ratios and other favourable ratios, the Multiple Discriminant Analysis is used to consolidate the effect of all ratios which indicates that the companies have very sound financial position. The market value of an equity share of both the sample companies are far higher to their respective book value indicates huge amount of the secret reserve, better future and brand image. Moreover favourable market trend in two wheeler segment as well as companies' efficient management indicates strong financial position even in future.

6.2.3 LIQUIDITY & SOLVENCY POSITION:

The Current Ratio in the selected automobile two wheeler companies reveals that during the period, it was not as per the standard, mainly due to fast inventory turn-over, better profitability, huge amount of investments. Even in the situation, we have no room to comment for any of the selected sample companies. We can conclude from the analysis of current ratio that the performance of BAL was better than HHML.

The quick ratio of the sample companies shows fluctuating trend during the study period. Both the companies were not able to maintain the standard norm of 1.5:1. Thus, the liquid position of the companies was not good.
Among the selected companies, HHML has higher FATR than the BAL during the study period. Thus we can conclude that HHML better management ability to make a good use of its investments in fixed assets.

HHML has higher Inventory Turnover Ratio compared to BAL during the period of study. Thus we can conclude that HHML is very efficient in converting the finished goods into sales, but BAL even though has lower ITR compared to HHML, we cannot say that the company has not maintained the proper inventory management, this may be treated as satisfactory turnover looking to the size of the company.

On the basis of the Capital Turnover Ratio of the selected automobile two wheeler companies, we may conclude that, the HHML was more efficient in the utilization of its capital employed to BAL.

The average Net Assets Turnover Ratio of BAL is higher than the HHML so we may conclude that BAL has made better utilization of the fixed assets compared to HHML.

On the basis of the Current Assets Turnover ratio, we can clearly conclude that HHML had more efficiently used its current assets to generate its sales compared to BAL.

**6.3 SUGGESTIONS**

**6.3.1 CAPITAL STRUCTURE POSITION:**

Debt-Equity Ratio of HHML shows overall declining trend. The average Debt-Equity Ratio of HHML for the period under the study is 0.05 times. This provides a margin of safety to long term creditors as owners are investing nearly every rupee by increasing the retained profits. If the project fails financially, the creditors will have to lose less (which is not the case for any of the companies under research). From the company’s point of view debt servicing is less burdensome. The average interest coverage ratio of HHML is 148.43, so the company is in a very comfortable position in payment of interest but at the same time very high ratio suggests that the company follows very conservative debt policy. Secondly, there is no interference from creditors in management and the biggest benefit of having low Debt-Equity Ratio is that the company has reserve capacity for raising long term debt with easy terms in future. On the other hand, because of low debt, the company cannot take proper advantage of trading on equity.

While in BAL Debt-Equity Ratio shows overall fluctuating trend during the span of research period with an average of 0.56 times. Here also this provides a margin of safety to long term creditors as owners are putting up relatively more funds. If the project fails financially, the creditors will have to lose less. From the company’s point of view debt servicing is less burdensome. The average interest coverage ratio is 1237.914 times in BAL, so the company is in very comfortable position in payment of interest but at the same time very high ratio suggests that the company follows very conservative debt policy.
Secondly, there is no interference from creditors in management and the biggest benefit of having low Debt-Equity Ratio is that the company has reserve capacity for raising debt in future. On the other hand, because of low debt, the company cannot take proper advantage of trading on equity, despite the fact that Rate of Return on investment of BAL is quite higher than the Rate of Interest on borrowed funds. Despite the increase in ownership funds the BAL has not diluted the control. The effective control has remained with the promoters.

The average Debt-Equity ratio of HHML is too low in comparison with BAL. The lower ratio reveals that HHML has not invested short term debt in fixed assets, which is considered as good financial planning for capital budgeting as it is a short term interest free liability. The company may increase the net worth to invest in fixed assets.

In most of the years the ratio of total debt equity of HHML is equal to long-term debt equity. It means the company is not relying on short-term debt. So there is no pressure on management to serve the interest or to manage the liquidity. Thus, Debt – Equity Ratio of HHML shows that company has not used “trading on equity. Whereas Bajaj auto Ltd. has used trading on equity but not at the maximum level. Perhaps it may be the intention of the management not to accept the burden of charges and repayments of long term loans.

The average Long Term Funds to Fixed Assets Ratio of HHML & BAL is 2.37 and 3.70 times respectively throughout the period under the study. The Long Term Funds to Fixed Assets Ratio have remained above 1:1. It indicates that all capital assets of the companies were purchased from long term funds. So there is no chance to sale capital asset to serve the short term borrowings.

In Hero Honda Motors Ltd, average proprietary ratio is 0.96: 1, which can be considered as most satisfactory, as 96% of the assets were employed from proprietors' funds. In Bajaj Auto Ltd, average proprietary ratio is 0.66: 1, which can be considered as most satisfactory, as 66% of the assets are employed from proprietors' funds. In short it means, in HHML tangible assets of re.1 were purchased from proprietors’ contribution of 96 paisa & by creating long term liabilities of 4 paisa. In BAL, tangible assets of Re.1 were purchased from proprietors’ contribution of 66 paisa and by creating long term liabilities of 34 paisa.

From both of the selected automobile two wheeler companies, HHML has better proprietary ratio and hence it is considered less worry-some for its creditors. It indicates that proprietors have provided larger funds to purchase the assets. And at the same time by using borrowed funds company takes benefit of trading on equity. Proprietary Ratio serves to an important purpose of determining long term solvency of a firm. Higher the ratio better it is. So, Bajaj Auto has used the trading on equity up to a certain level but still it is not up to the standard ratio (i.e. 1:1).
The average net fixed assets to current assets ratio of both companies’ remained at 1.15:1 and 0.51:1 respectively. It means that Hero Honda Motors Ltd has invested Rs.1.15 and Bajaj Auto Ltd has invested Re.0.51 in net fixed assets as compared to current assets of Re.1. The increase in current assets accompanied with increase in profit suggests expansion of business. Net Fixed to Net Current Ratio shows that in HHML, fixed assets are just 1.15 times (average) to the current assets. It needs special attention to reduce the current assets. In BAL, the fixed assets are only 0.50 times (average) to the current assets which indicate huge investment in current assets. Company must implement JIT approach or theory for stock.

The reserve to capital ratio shows reserves created out of profit to share capital, and indicates the financial strength of the company. Generally the ratio is expected higher where there is high degree of risk in the business or when it’s earning rise at an exponential rate. The Hero Honda Motors Ltd’s average reserve to capital ratio is higher than the Bajaj Auto Ltd’s average reserve to capital ratio. The reason for lower ratio of Bajaj Auto Ltd in the year 2007-08 is that there was change in the amount of share capital compared to previous year. Reserves to Capital Ratio indicate that average reserves of HHML during the period are 72 times to the paid-up capital, Wherein Bajaj Auto Ltd, it is 28 times only. It shows HHML has very strong economical position, little dependence on borrowed capital, huge book value, and bonus candidate.

Net worth To Net Fixed Assets Ratio of BAL shows that the Net worth of the company is 4 times to the Net Fixed Assets (except investment) and the amount of investment made outside the business which is 1.2 times to the net worth or 5 times to the net fixed assets. In HHML, instead of 1.2 it is 1:1, so we are not in a position to analyze this ratio independently.

In the Net Current Assets to Net worth Ratio, net worth should equal to fixed assets plus net working capital, except borrowed capital. In both the sample companies, they have huge reserves & surplus and their investments are more to the Net Worth. Second thing is that their net working capitals are in negative. Certainly, this indicates that the companies have invested owners’ capital and the negative net working capital into the investment except fixed assets.

Thus we may suggest from the capital structure analysis that both the companies should use more credit facility which is given by the creditors and both the sample companies should also use more short term loans to recover the working capital requirement because the interest rate for short term loans is less and it should be flexible to use.

6.3.2 PROFITABILITY POSITION:

The profitability position of the selected automobile two wheeler companies have been analyzed from the point of view of financial management and shareholders’ benefits. Profitability can be measured in terms of different components of profit and loss account and balance sheet. In analysing the
profitability of selected automobile two wheeler companies from the point of view of financial management, we may suggest the sample companies in following way:

From the analysis of trends we found that, as far as growth is concerned, BAL is growing rapidly and it’s a point of concern for HHML. BAL is way ahead in terms of operating income and PBDIT growth as compared to HHML. The Cost of sales for HHML increases much significantly but for BAL it turns out to more than 600%. In terms of profits before and after tax HHML makes some good increases especially over the last 2 years. But BAL declines in the year 2008, though it picks up growth again in the year 2009.

HHML is better in gross profit ratio and net profit ratio and making higher profits than BAL. Therefore BAL is advised to increase its gross profit and net profit margin.

Operating ratio and cost of goods sold ratio establishes a relationship between the expenses and the net sales. Lower the ratio, the better it is. BAL has higher operating ratio and COGS ratio compared to HHML, therefore we may suggest to BAL to incur less expense so can make better profits.

BAL has lower Return on capital employed shows lower returns earned on the investment made and the total capital employed. As it is obvious the profit is the motive of the firm, the higher the ratio, the better it is. Thus we may suggest BAL to earn a better return on its investment.

Though HHML has not taken the benefit of trading on equity, its EPS is better to BAL. BAL even though have raised loans and has debt equity ratio of 0.93, is not able to give better returns to the equity shareholders. But HHML is doing this with very small amount of loan. So it is definitely performing better. Thus we may suggest BAL to decrease its loan liability in order to increase its EPS.

6.3.3 LIQUIDITY & SOLVENCY POSITION

The Current & Quick ratios of both the selected two wheeler companies were not up to the standard ratios. But looking to their profitability, retained earnings, investments made out-side the business and the sales policy adopted (sales against the pre-payments or over-draft), both the companies have managed the liquidity very cleverly. Thus companies are able to meet their obligations when they become due which will result in high credit worthiness and increase in creditors’ confidence.

As current ratios of both the companies are below the standard ratio, they may increase their current assets to maintain the norms of 2:1.

BAL has lower FATR than HHML, therefore we suggest them to make good use of their investments in fixed assets.
As ITR of BAL is lower than the HHML, we may suggest BAL to increase its ITR for efficient conversion of finished goods into sales.

HHML has lower NATR compared to BAL, therefore we may suggest HHML to use their fixed assets efficiently to increase their sale.

On the basis of the Current Assets Turnover ratio, we may suggest BAL to use its current assets more efficiently in order to generate more sales.

Thus both the automobile two wheeler companies who have continuously strived for synergy between technologies, systems and human resources to provide products and services that meet the quality, performance and price aspiration of their customers. While doing so, both the companies have maintained higher standards of ethics and social responsibility, have constantly innovated products and processes and developed teams that keep the momentum in order to take the company to new heights.