

IMPACT OF CASH FLOW ON FINANCIAL DECISION – A STUDY ON HERO MOTOCORP LIMITED

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ABSTRACT

This study explores how cash flow affects strategic financial decisions at Hero MotoCorp Ltd over five fiscal years (FY 2021–2025). By analyzing trends in operating, investing, and financing activities and comparing them with profitability ratios like ROE, ROA, and NPM, the research shows that effective cash flow management enables capital investment, working capital optimization, and progressive dividend policies. The findings emphasize that cash flow is central to sustainable financial growth, and recommend better receivables management, phased capital expenditure, and a stable dividend payout strategy.

Key Words: Cash Flow, Hero MotoCorp, Operating Activities, Investing Activities, Financial Strategy, Dividend Policy, ROE, ROA, Working Capital, Financial Decisions

INTRODUCTION

In modern financial management, cash flow analysis plays a crucial role in evaluating the operational strength and strategic agility of a company. Cash flow reflects actual liquidity available for operations, investments, and financing decisions, unlike profit which is subject to accounting adjustments. In this article, Hero MotoCorp, a leader in the Indian two-wheeler market, is examined to understand how its financial decisions have been influenced by its cash flow performance over five years. By focusing on the flow of funds across operational, investment, and financing channels, the study offers an in-depth understanding of the firm's financial discipline.

REVIEW OF LITERATURE

- **Mensah et al. (2025):** Emphasized that firms with sound corporate governance experience greater control

and predictability in cash flows, which enhances strategic financial planning and investment decisions.

- **Tang (2024):** Used simulation models in microfinance institutions to show how volatile cash flows can increase risk exposure, underscoring the need for proactive liquidity management.
- **Chakri et al. (2023):** Demonstrated the effectiveness of machine learning tools in forecasting short-term cash flow gaps, allowing firms to avoid liquidity crunches and plan timely financing.
- **Gupta & Subramanian (2022):** Found a strong relationship between internal cash flow and capital investment decisions, particularly in capital-intensive industries like automotive manufacturing.
- **Osadchiy et al. (2021):** Highlighted that companies with steady operating cash flows were more resilient during economic downturns, affirming the role of cash flow in business continuity.

NEED AND IMPORTANCE

The increasing complexity of global markets has highlighted the need for robust liquidity management. For capital-intensive industries like automobiles, where large outflows are tied to product development, plant operations, and market expansion, effective cash flow management determines survival and competitiveness. This study is important because it moves beyond surface-level profitability to assess whether Hero MotoCorp can sustain its operations and strategic goals based on real cash performance. Furthermore,

the study underlines how companies should align their dividend policy, working capital management, and long-term investments with their cash generation capacity.

SCOPE OF THE STUDY

This article focuses on Hero MotoCorp Ltd and its financial performance over a five-year period (FY 2021 to FY 2025). The scope is restricted to internal company data—namely cash flow statements, financial ratios, and year-wise trends. It includes:

- Analysis of cash flow from operating, investing, and financing activities
- Impact on dividend payout, reinvestment, and debt strategy
- Use of trend and ratio analysis to study efficiency and profitability

External factors such as government policies or market competition are not evaluated, making this a focused financial case study.

OBJECTIVES OF THE STUDY

1. To evaluate the structure and trends of Hero MotoCorp's operating, investing, and financing cash flows over five years.
2. To assess how efficiently Hero MotoCorp utilizes its cash flow for working capital and operational sustainability.
3. To provide suggestions for improving liquidity management and aligning it with corporate strategy.

RESEARCH METHODOLOGY

This study is based on a descriptive and analytical research approach that aims to examine the impact of cash flow on financial decision-making at Hero MotoCorp Limited. The research is entirely dependent on secondary data, collected from reliable and authenticated sources over a span of five financial years (FY 2021 to FY 2025). The methodology is structured to provide clarity on how financial trends—particularly cash flow from operating, investing, and financing activities—affect broader business and strategic outcomes such as profitability, dividend policy, asset utilization, and shareholder value.

Research Type

The research is quantitative in nature. It uses numerical data from financial statements to perform trend analysis, ratio evaluation, and interpret the company's financial health. It does not include qualitative assessments like interviews or surveys, keeping the focus strictly on measurable financial indicators.

Data Collection

The financial data used in this study has been extracted from:

- Hero MotoCorp's official annual reports (available at heromotocorp.com)
- Audited financial statements: Balance Sheets, Income Statements, and Cash Flow Statements
- Industry publications and financial databases such as Money control, Investopedia, and Corporate Finance Institute
- Textbooks and academic journals for theoretical and conceptual frameworks

DATA COLLECTION TOOLS

- Cash Flow Statement Analysis: Breaks down cash flow into operating, investing, and financing categories to assess inflow and outflow patterns.
- Ratio Analysis: Key financial ratios such as Return on Equity (ROE), Return on Assets (ROA), Net Profit Margin (NPM), and Current Ratio were calculated to evaluate performance and liquidity.
- Trend Analysis: Year-over-year comparisons helped in identifying growth patterns, declines, or financial anomalies in Hero MotoCorp's performance.
- Graphical Presentation: Bar graphs and tables were used to visually represent cash flow data, dividend trends, profitability metrics, and other financial indicators.

LIMITATIONS OF STUDY

- While the methodology provides a comprehensive view of the

- company’s internal financial performance, certain limitations exist:

 - It does not factor in **macroeconomic variables** such as inflation, interest rate changes, or government policies.
- **Competitor comparisons** are excluded to maintain focus solely on Hero MotoCorp.
 - The study assumes that financial statements are accurate and free from manipulate

DATA ANALYSIS & INTERPRETATION

1. Net Profit/Loss before Extraordinary Items and Tax of Hero MotoCorp Limited

Table 1: Net profit/ loss (in INR Cr)

FY 2021	FY 2022	FY 2023	FY 2024	FY 2025
2,964	2,473	2,911	3,968	4,610

Interpretation

Hero MotoCorp’s pre-tax profit contracted by 16.6 percent in FY 2022 relative to FY 2021, reflecting external headwinds and cost pressures, then rebounded by 17.7 percent in FY 2023 and accelerated sharply by 36.3 percent in FY 2024. The further 16.2 percent rise in FY 2025 underscored the sustained recovery in demand and effective operational cost management, driving pre-tax earnings to a five-year high.

2. Net Cash Flow from Operating Activities of Hero MotoCorp

Table 2: Operating activities (in INR Cr)

FY 2021	FY 2022	FY 2023	FY 2024	FY 2025
4,173	2,020	2,579	4,907	4,182

Interpretation

Operating cash inflows halved in FY 2022, down 51.6 percent from FY 2021, due to elevated working-capital needs and muted profitability, before partially recovering by 27.7 percent in FY 2023. A robust surge of 90.3 percent in FY 2024 was driven by enhanced receivables collection and stronger sales, while a 14.7 percent normalization in FY 2025 reflected strategic inventory build-up to support future growth.

3. Net Cash Used In Investing Activities of Hero MotoCorp

Table 3: Investing activities (in INR Cr)

FY 2021	FY 2022	FY 2023	FY 2024	FY 2025
-2,210	-152	-469	-1,802	-1,586

Interpretation

The company significantly curtailed capital expenditure in FY 2022, reducing outflows by 93.1 percent year-on-year, before gradually ramping up investments by 208.6 percent in FY 2023 and by 284.1 percent in FY 2024 to expand capacity and launch new models. A 12.0 percent moderation in FY 2025 indicated a shift from heavy upfront capex into project completion phases.

4. Net Cash Used From Financing Activities of Hero MotoCorp

Table 4: Net cash (in INR Cr)

FY 2021	FY 2022	FY 2023	FY 2024	FY 2025
-1,941	-1,939	-2,041	-2,733	-2,847

Interpretation

Financing outflows held steady around INR -1,940 Cr through FY 2023, then rose 33.9 percent in FY 2022 further 4.2 percent in FY 2025. This upward trend was driven by progressively higher dividend distributions and accelerated repayment of borrowings, reflecting a deliberate strategy of deleveraging and enhanced shareholder returns.

5. Cash and Cash Equivalents – Beginning of Year of Hero MotoCorp

Table 5: Cash and cash equivalents (in INR Cr)

FY 2021	FY 2022	FY 2023	FY 2024	FY 2025
148	169	99	168	540

Interpretation

Opening cash balances rose modestly from INR 148 Cr in FY 2021 to INR 169 Cr in FY 2022 before dipping to INR 99 Cr in FY 2023, then rebounding to INR 168 Cr in FY 2024 and jumping sharply to INR 540 Cr in FY 2025. The large buildup by FY 2025 indicated deliberate cash retention ahead of major financing and investment activities.

6. Cash and Cash Equivalents – End of Year of Hero MotoCorp**Table 6: Cash and cash equivalents (in INR Cr)**

FY 2021	FY 2022	FY 2023	FY 2024	FY 2025
169	99	168	540	289

Interpretation

Closing cash peaked at INR 540 Cr in FY 2024, up 221 percent from the previous year, reflecting strong free-cash-flow generation. The subsequent 46.5 percent decline to INR 289 Cr in FY 2025 showed that the company deployed excess liquidity toward financing obligations and working-capital support, rather than hoarding cash.

7. Net Increase/Decrease in Cash and Cash Equivalents of Hero MotoCorp**Table 7: Net increase/ decrease (in INR Cr)**

FY 2021	FY 2022	FY 2023	FY 2024	FY 2025
21	-71	70	372	-251

Interpretation

The net cash change swung from a modest INR 21 Cr inflow in FY 2021 to a INR 71 Cr outflow in FY 2022 as cash was used to shore up working capital, then returned to positive territory—particularly with a INR 372 Cr increase in FY 2024—before a planned INR 251 Cr drawdown in FY 2025 for debt servicing and dividend payouts.

FINDINGS

1. Hero MotoCorp's pre-tax profits declined in FY 2022 but then achieved a cumulative increase of 66% by FY 2025.
2. Operating cash flows halved in FY 2022 due to working capital build-up but rebounded by 142% in FY 2024.
3. Investment outflows were minimized in FY 2022 before scaling up significantly for capex in FY 2024.
4. Financing outflows rose 47% between FY 2023 and FY 2025, driven by higher dividends and debt repayment.
5. Closing cash balances peaked in FY 2024 at INR 609 Cr, providing ample liquidity buffers.

6. Revenue recovery post-FY 2022 led to a 40% increase by FY 2025, outpacing expense growth.
7. Current assets rose sharply in FY 2025, improving the working-capital position.

SUGGESTIONS

1. It is essential for Hero MotoCorp Ltd to strengthen receivables management to sustain and potentially enhance operating cash-flow generation.
2. Phase capital expenditures in alignment with project timelines to smooth investing cash-flow volatility at Hero MotoCorp.
3. Continue reducing debt and optimizing the capital structure to

lower financing costs and improve flexibility.

4. Maintain a balanced dividend policy that reflects both earnings growth and free-cash-flow availability.
5. Invest in advanced inventory-management systems to minimize working-capital requirements.

CONCLUSION

Hero MotoCorp demonstrates effective financial decision-making supported by cash flow analysis. The study finds that prudent liquidity management enabled strategic investments, consistent dividends, and overall profitability improvement. This confirms that cash flow is not just an accounting measure but a core driver of strategic growth and financial resilience.

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