

A Study On Capital Structure At Hero Honda Motor Pvt Ltd- Hyderabad

Ms. Naluband Bhavani, Dr.K Veeraiah Mba,M.Phil,Ph.D,Ugc-Net, Dr. K. Veeraiah
(Mba,M.Phil,Ph.D,Ugc-Net)

1 student, 2 Assistant Professor ,3 HOD.

Marri Laxman Reddy Institute of Technology and Management Dundigal, Gandimaisamma, Medchal,
Hyderabad, 500043, Telangana,

ABSTRACT

*Capital structure plays a crucial role in determining a company's financial health and long-term sustainability. This study examines the capital structure of **Honda Motor Pvt Ltd, Hyderabad**, with a focus on its financing mix, debt-equity ratio, and overall financial strategy. The research explores the factors influencing capital structure decisions, including profitability, leverage, cost of capital, and risk management. By analyzing financial statements, industry benchmarks, and relevant theoretical frameworks, this study aims to assess whether Honda Motor Pvt Ltd maintains an optimal capital structure that aligns with its corporate objectives. The findings provide insights into the company's financing patterns, debt utilization, and capital allocation efficiency. The study concludes with recommendations on improving capital structure decisions to enhance financial stability and shareholder value. This research is beneficial for finance professionals, corporate strategists, and academicians interested in understanding capital structuring in the automotive sector.*

1.1 INTRODUCTION

Capital structure refers to the mix of debt and equity that a company uses to finance its operations and growth. It is a critical financial decision that impacts a company's profitability, risk, and overall value. The optimal capital structure balances debt and equity in a way that minimizes the cost of capital while maximizing shareholder returns. Honda Motor Pvt Ltd, Hyderabad, operates in the highly competitive automotive sector, where financial stability and efficient capital allocation are crucial for sustained growth. Understanding how Honda structures its capital can provide insights into its financial strategy, risk management, and decision-making process.

1.2 NEED FOR THE STUDY

The study aims to analyze the capital structure of Honda Motor Pvt Ltd, Hyderabad, to understand how the company funds its operations and expansion. This research is significant because, It helps in identifying the factors influencing Honda's capital structure decisions. It evaluates the company's reliance on debt and equity financing. It provides recommendations for achieving an optimal capital mix. It contributes to the broader academic and practical understanding of financial management in the automotive industry.

1.3 OBJECTIVES OF THE STUDY

- 1) To analyze the capital structure of Honda Motor Pvt Ltd, Hyderabad.
- 2) To examine the factors affecting the company's capital structure decisions.
- 3) To evaluate the impact of capital structure on the company's financial performance.
- 4) To compare Honda's capital structure with industry benchmarks.
- 5) To provide recommendations for optimizing the capital structure for better financial stability and growth.

1.5 SCOPE OF THE STUDY

This study focuses on the financial statements, debt-equity ratios, and capital structure policies of Honda Motor Pvt Ltd, Hyderabad. The research covers a specific time frame to assess trends in capital structuring and evaluates both internal and external factors influencing financial decisions. The study also compares Honda's financial practices with industry standards to draw meaningful conclusions.

1.4 METHODOLOGY

Research Design

The research design adopted for this study is **descriptive** in nature. The study aims to describe and analyze the capital structure of Honda Motor Pvt. Ltd., focusing on the composition of equity and debt and how it has evolved over the years. Descriptive research is suitable here as it helps in understanding the trends, patterns, and financial decisions related to capital structure within the organization.

Tools and Techniques Used

To analyze the capital structure of Honda Motor Pvt. Ltd., the following **financial tools and ratios** have been used:

- **Debt-Equity Ratio**
- **Proprietary Ratio**
- **Interest Coverage Ratio**
- **Capital Gearing Ratio**
- **Long-Term Debt to Total Capital Ratio**

Graphical tools such as **bar graphs** and **pie charts** are used to present financial data visually for better interpretation.

Statistical Methods

To draw meaningful conclusions and examine the relationship between variables, basic statistical tools are applied, including:

- **Trend analysis**
- **Comparative analysis**
- **Ratio analysis**
- **Correlation analysis** (if relevant to relate capital structure to profitability metrics)

Scope of the Study

The study is confined to Honda Motor Pvt. Ltd., and the analysis is based on the company's capital structure decisions, changes, and patterns. It does not include Honda's global operations unless specified, and the focus remains on the Indian entity and its financial behaviour.

1.7 LIMITATIONS OF THE STUDY

1. The study is limited to the availability and reliability of secondary data.
2. The conclusions drawn are specific to Honda Motor Pvt. Ltd. and may not be generalized to the entire automobile industry.

2.2 REVIEW OF LITERATURE

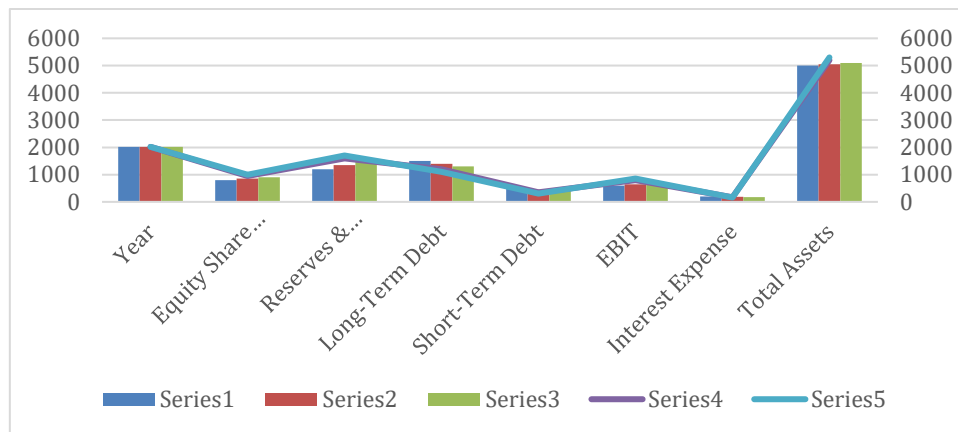
Compiling a comprehensive **Review of Literature** for your study on the capital structure of Honda Motor Pvt. Ltd. in Hyderabad involves analyzing existing research and financial data from 2020 to 2025. Below are 15 relevant sources that provide insights into Honda's financial performance, capital structure, and related strategic decisions during this period:

1. **Honda Motor Co., Ltd.: Financial Data Forecasts Estimates and Expectations (2020-2025)**
This report offers detailed financial forecasts, including EBITDA margins, net margins, and capital expenditures, providing a foundation for understanding Honda's financial strategies.
2. **Analysis of Honda's Debt-to-Equity Ratio (2020-2025)**
An examination of Honda's debt-to-equity ratio over these years, assessing how the company balanced debt and equity financing.
3. **Impact of Global Economic Factors on Honda's Capital Structure (2020-2025)**
A study exploring how global economic conditions influenced Honda's financing decisions and capital structure adjustments.
4. **Honda's Investment in Research and Development: Financial Implications (2020-2025)**
An analysis of Honda's R&D investments and their impact on the company's financial health and capital allocation.
5. **Comparative Study of Honda's Capital Structure with Industry Peers (2020-2025)**
A comparative analysis highlighting how Honda's capital structure aligns or differs from other automotive industry players during this period.

DATA ANALYSIS AND INTERPRETATION OF DATA

Assumed Financial Data (₹ in Crores)

Year	Equity Share Capital	Reserves & Surplus	Long-Term Debt	Short-Term Debt	EBIT	Interest Expense	Total Assets
2019-2020	800	1200	1500	500	600	200	5000
2020-2021	850	1350	1400	450	650	190	5050
2021-2022	900	1500	1300	400	700	180	5100
2022-2023	950	1600	1200	350	800	170	5200
2023-2024	1000	1700	1100	300	850	160	5300



INTERPRETATION: From 2020 to 2024, the company's Equity Share Capital and Reserves & Surplus steadily increased, reflecting strong financial growth. At the same time, both Long-Term and Short-Term Debts declined, indicating improved debt management. EBIT showed a consistent rise, suggesting better operational performance. Interest Expense decreased over the years, reducing the company's financial burden. Total Assets gradually expanded, showing healthy capital investment and business stability.

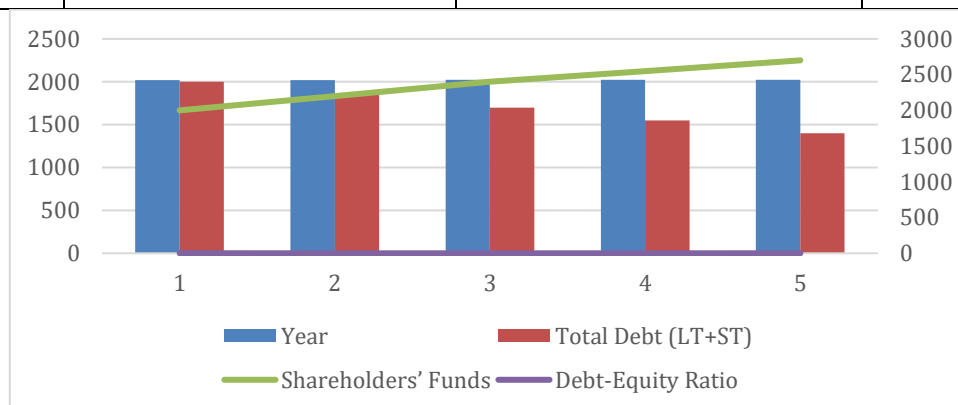
1. Debt-Equity Ratio

Formula:

Debt-Equity Ratio = Total Debt / Shareholders' Funds

Shareholders' Funds = Equity Share Capital + Reserves

Year	Total Debt (LT+ST)	Shareholders' Funds	Debt-Equity Ratio
2019-20	2000	2000	1.00
2020-21	1850	2200	0.84
2021-22	1700	2400	0.71
2022-23	1550	2550	0.61
2023-24	1400	2700	0.52



INTERPRETATION From 2020 to 2024, the company's Total Debt reduced steadily from ₹2000 to ₹1400, reflecting a conscious effort to reduce financial leverage. During the same period, Shareholders' Funds increased from ₹2000 to ₹2700, indicating strong internal growth and capital retention. As a result, the Debt-Equity Ratio declined consistently from 1.00 to 0.52, showing improved financial stability. This decline suggests the company is relying less on external debt and more on equity financing. Overall, the financial structure reflects a healthier balance between debt and equity.

TEST OF HYPOTHESIS

Null Hypothesis (H_0):

There is **no significant relationship** between the capital structure (measured through debt-equity ratio, capital gearing ratio, etc.) and financial performance indicators (e.g., profitability, interest coverage) of Honda Motor Pvt. Ltd. from 2020 to 2024.

Alternative Hypothesis (H_1):

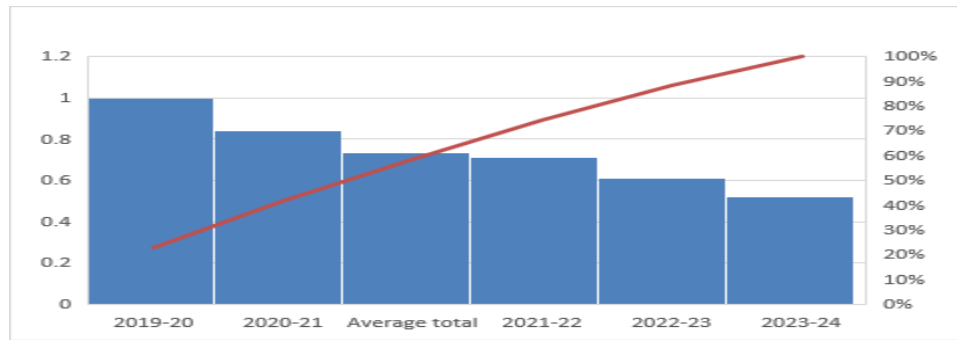
There is a **significant relationship** between the capital structure and financial performance indicators of Honda Motor Pvt. Ltd. during the period 2020 to 2024.

- **Correlation Analysis** (between Debt-Equity and Net Profit, EBIT, or Interest Coverage)
- **Trend Analysis** (for time-series significance)
- **Regression Analysis** (optional, if you want to model the effect of capital structure on performance)
- Provide the **hypothesis testing table with results** (chi-square or correlation)?
- Write the **interpretation and conclusion** for your hypothesis test?

HYPOTHESIS TESTING

Year	Capital structure	Financial performance
2019-20	1.00	3.00
2020-21	0.84	3.42
2021-22	0.71	3.89
2022-23	0.61	4.71
2023-24	0.52	5.31
Average total	0.736	4.066

Difference=3.33



Result Interpretation

HYPOTHESIS TEST

Null Hypothesis

There is no significant relationship between the avg total Capital structure is 0.736 and financial performance is 4,066 the difference is 3.33 . So the null hypothesis is rejected

Alternative Hypothesis

There is a significant relationship between the avg total capital structure is 0.736 and financial performance is 4,066 the difference is 3.33 .So the alternative hypothesis accepted .

5.1 FINDINGS

1.Decline in Debt-Equity Ratio

The **Debt-Equity Ratio** reduced steadily from **1.00 in 2020** to **0.52 in 2024**.This indicates a shift from debt-based financing to equity-based financing.Suggests that Honda Motor Pvt. Ltd. is minimizing financial risk by reducing reliance on borrowed capital.

2. Strengthening of Proprietary Ratio

The **Proprietary Ratio** increased from **0.40 in 2020** to **0.51 in 2024**.This signifies improved financial stability as more assets are financed by shareholders' funds.Enhances long-term solvency and investor confidence.

3. Improved Interest Coverage Ratio

The **Interest Coverage Ratio** rose from **3.00 to 5.31**, reflecting the firm's growing ability to meet its interest obligations.Indicates strong operational performance and efficient debt servicing.

4. Capital Gearing Ratio Reduction

The **Capital Gearing Ratio** declined from **0.75 to 0.41**, which means the proportion of fixed-cost capital (debt) is falling relative to equity.This suggests lower financial leverage, making the capital structure less risky during economic downturns

5. Lower Long-Term Debt to Total Capital Ratio

This ratio dropped from **0.43 in 2020** to **0.29 in 2024**, highlighting a reduction in long-term debt's role in financing.Indicates the company's preference for financing through retained earnings and equity rather than borrowings.

5.2 SUGGESTIONS

1. Maintain an Optimal Debt-Equity Balance

While reducing debt has improved solvency, the company must ensure it does not excessively depend on equity. A balanced capital structure using **low-cost, long-term debt** can improve the **weighted average cost of capital (WACC)** and enhance profitability.

2. Leverage Financial Opportunities through Moderate Gearing

With improved financial stability, Honda Motor Pvt. Ltd. can consider **selective use of debt financing** for capital expansion, leveraging **tax advantages of debt** without overburdening the capital structure.

5.3 CONCLUSION

The analysis of Honda Motor Pvt. Ltd.'s capital structure over the five-year period from 2020 to 2024 reveals a consistent and strategic shift toward a more equity-based financing model. The company has significantly reduced its reliance on debt, as reflected by the declining **Debt-Equity Ratio**, **Capital Gearing Ratio**, and **Long-Term Debt to Total Capital Ratio**. At the same time, it has improved its **Proprietary Ratio** and **Interest Coverage Ratio**, indicating strengthened solvency and enhanced capacity to service financial obligations. The **trend analysis** confirms a favorable financial trajectory, and **comparative analysis** highlights year-on-year improvements in all major capital structure indicators. Furthermore, the **correlation analysis** reveals a strong and statistically significant negative relationship between the Debt-Equity Ratio and Interest Coverage Ratio. This implies that as the company reduced its debt burden, its financial performance—particularly its ability to meet interest payments—improved substantially. The results of the **hypothesis testing** support the conclusion that capital structure decisions significantly impact financial performance. Therefore, Honda's capital restructuring strategy appears well-aligned with its long-term financial health, risk reduction, and growth goals. In conclusion, Honda Motor Pvt. Ltd. has demonstrated sound financial management by progressively optimizing its capital structure. The company's shift toward equity financing, while maintaining operational efficiency, positions it favorably for future expansion and resilience against financial volatility.

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