

Profitability and Liquidity Analysis of Bajaj Auto Ltd. and Hero MotoCorp Ltd.

Sharmila Dayal^{1*} and Surender Singh²

¹Associate Professor, Commerce Department, A.S. (PG) College, Mawana, Meerut, India; sharmiladayal64@gmail.com

²Assistant Professor, Commerce Department, PGDAV College (M), (University of Delhi), New Delhi, India; sss727@gmail.com

Abstract

The research paper focuses on the profitability and liquidity analysis of Hero Moto Corp and Bajaj Auto Ltd. Analysis has been done on the basis of some selected parameters like Liquidity, Profitability, Efficiency, Leverage ratios and Market Value Ratios for the period from 2011 to 2015. The idea of this research paper is to know the short term as well as long term profitability and liquidity position of selected companies and to give suitable suggestions for improvement in their financial position.

Keywords: HMC, BAL, Financial Ratios, Financial Parameters

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1. Introduction

1.1 Hero Moto Corp

Hero Motocorp Ltd. Formerly Hero Honda, is an Indian motorcycle and scooter manufacture based in New Delhi, India. The company is the largest two wheeler manufacture in India. In India, it has a market share of about 46% in 2 wheeler category. A joint venture between the Hero Group and Honda Motor Company was established in 1984 as Hero Honda Motors Limited at Dharuhera, India. Munjal Family and Honda group both owned 26% stake in the company.

In 2010, it was reported that Honda planned to sell its stake in the venture to the Munjal family and finally Hero Honda Motors Ltd split from Honda motors and official announcement was made in august 2011. The new brand identity and logo, Hero MotoCorp, was revealed on 9 August 2011 in London, but Honda will continue to provide technology to Hero Honda motorbikes until 2014 for existing as well as future models.

Hero MotoCorp Ltd. is the world's largest manufacturer of two - wheelers, based in India. Hero Hondas has three manufacturing units based at Dharuhera, Gurgaon in Haryana and at Haridwar in Uttarakhand. These plants together are capable of churning out 3.9 million bikes per year. The company's most popular model is the Hero Honda's Splendor, which is the World's largest-selling motorcycle, selling more than one million bikes per year.

In 2001, the company achieved the coveted position of being the largest two-wheeler manufacturing company in India and the 'World No.1' two-wheeler company in terms of unit volume sales in a calendar year by a single company. Hero Honda has retained that coveted position till date. During the fiscal year 2008-09, the company sold 3.7 million bikes, a growth of 12% over last year. In the same year, the company had a market share of 57% in the Indian market.

1.2 Bajaj Auto Ltd

Bajaj Auto Ltd. is an Indian two-wheeler and three-wheeler manufacturing company. Bajaj Auto manufactures and sells motorcycles, scooters and auto rickshaws. Bajaj Auto is the world's sixth- largest manufacturer of motorcycles and the fourth-largest in India. It's the world largest three-wheeler manufacturer.

Bajaj Auto came into existence on November 29, 1945 as M/s Bachraj Trading Corporation Private Limited. It started off by selling imported two- and three-wheelers in India. In 1959, it obtained license from the Government of India to manufacture two- and three-wheelers and it went public in 1960. Bajaj Auto Ltd. is an important Indian automobile manufacturer. Bajaj Auto is the second largest two-wheeler manufacturer in India and one of the largest in the world. It is also the earliest one in India to venture into automobile manufacturing.

Bajaj Auto Ltd. is the largest exporter of two and three wheelers. With Kawasaki Heavy Industries of Japan, Bajaj man-

ufactures state-of-the-art range of two-wheelers. The brand, Pulsar is continually dominating the Indian motorcycle market in the premium segment. Its Discover DTSi is also a successful bike on Indian roads.

1.3 Popular Brands of HMC

CBZ, Karizma, Hunk, Impulse, Glamour, Passion XPRO, Splendor PRO, Achiever, Ambition, CBZ Star and Splendor.

1.4 Popular Brands of BAL

Bajaj Pulsar, Bajaj Discover and Bajaj Platina, Bajaj Ninja and Bajaj Avenger.

2. Review of Literature

Many of the research work have been conducted, over the period to evaluate the financial position of the company with the help of various ratios or by applying the Multiple Discriminate Analysis to predict the corporate failure.

L.C.Gupta (1999) attempted a refinement of Beaver's method with objective of predicting the business failure in, "Financial Ratios as Forewarning Indicators of corporate sickness", Bombay, ICICI, in this he tried to throw light on the business's strength and weakness with the help of ratio analysis, he explained that with the financial ratios a company can take measures to increase its profitability and can avoid company's bad financial position. Business Managers can make a strategy towards company's goal with the help of proper ratio analysis, because ratio analysis can prove a useful technique to present a true picture of any company. Whereas

Mansure. A. Mulla (2002) made a study in Textile mill with the help of Z score model for evaluating the financial wealth with five weighted financial ratios in, "Use of Z score analysis for Evaluation of financial health of Textile Mills-A case Study", Abhigyan, Jan-Mar, Vol XIX, No.-4, pp 37-41, with the help of five weighted financial ratios he tried to show the financial health of textile mills. With the help of Z score analysis he analyzed the financial health of textile mills. With the ratio analysis and Z score technique he tried to evaluate the profitability of textile mills, followed by Selvam⁹ and others had revealed about Cement Industry's financial health with special reference to India Cement Limited in his article, with the help of Z score analysis he tried to analyze the financial health of India Cement Ltd, he tried to explain how a company managers can take proper actions with financial ratios.

Bagechi³ analyzed about practical implication of accounting ratios in risk evaluation and concludes that accounting ratios are still dominant factors in the matter of credit risk evaluation in his paper, where he gave due attention on the importance of accounting ratios in risk evaluation, he explained accounting

ratios are the most important tools to avoid any risky situation for a company.

Sanjay² made a study in cement industry for the evaluation of financial performance with selected ratios and he tried to evaluate the profitability and efficiency of Indian Cement Industries with the help of ratios related to profitability and efficiency of companies.

Krishna Chaitanya (2005) used two models to measure the financial distress of IDBI and concluded that IDBI is likely to become insolvent in the years to come in, "Measuring Financial Distress of IDBI Using Altman Z-Score Model", The ICFAI Journal of Bank Management, August, Vol.IV, No.3, pp 7-17, in his study he tried to analyze the financial position of IDBI and conclude that company is suffering from bad financial position and can be insolvent in coming future. So to avoid any bad situation he tried to give some suggestions to improve the financial position of the IDBI in the coming future.

Rajesh⁵ analyzed the valuation of Indian companies on the basis of some selected indicators on the basis of some selected indicators like sales, cash flows, market capitalization, growth rate, research & development he tried to know the exact financial position of the top selected Indian Companies in the market. Companies from the different sector of our economy like automobiles industry, cement industry, IT industry, Tekcom industry, Fertilizer industry were taken into study.

Natescon & Allimuthus⁷ analyzed the performance of Tube Investment of India Ltd. with ratio analysis, with the help of ratio analysis technique he tried to evaluate the financial performance of Tube Investment of India Ltd on the basis of some selected ratios related to the profitability and efficiency of the company.

3. Objectives of the Study

1. To know the Liquidity, Profitability, Efficiency, Leverage and Market Value of Hero MotoCorp Ltd. and Bajaj Auto Ltd.
2. To give suggestions on the basis of Liquidity, Profitability, Efficiency, Leverage and Market Value Analysis.
3. To compare the financial position of the both the sampled units.

3.1 Data Source

Data has been taken from the year 2011 to 2015. It has been collected from the Capitaline, PROWESS Release 4.15. Various Tools and Techniques like Average, S.D. and COV have been used to arrive at any conclusion.

3.2 Liquidity Analysis

There are two aspects of the financial situation of any business the short term & the long term. Short term financial position is not only important for banks, creditors but also valuable for the

management in finding out the efficiency with which working capital is being employed in the business. It is also important for shareholders & long term creditors in determining to some extent, at least the prospects of dividend & interest payment.

3.2.1 Financial Performance on the Basis of Liquidity Analysis of the Two Companies (Table 1)

It is evident from the Table 2 that BAL leads in the liquidity analysis as compared to HMC. BAL's liquidity score is 0.69 whereas HMC's liquidity score is 0.27

Current Ratio of HMC during the reference period was lower than the standard norms of 2:1 and in the case of BAL it was also lower in all the years during the study period than the standard norms of 2:1. Low Current Ratio indicates that both the

Table 1. Liquidity ratios of companies (Times)

Year End	2011	2012	2013	2014	2015	Average	SD	Correlation
Quick Ratio								
Bajaj Auto Ltd.	0.56	0.7	0.66	0.58	0.65	0.63	0.05	0.1535
Hero Motocorp Ltd.	0.05	0.11	0.2	0.27	0.43	0.21	0.13	
Current Ratio								
Bajaj Auto Ltd.	0.67	0.82	0.78	0.69	0.8	0.75	0.06	0.4436
Hero Motocorp Ltd.	0.15	0.3	0.34	0.43	0.64	0.37	0.16	

Source: Computed with the help of Statistics Data taken from the PROWESS Release 4.15 from CMIE database for the period 2011 to 2015

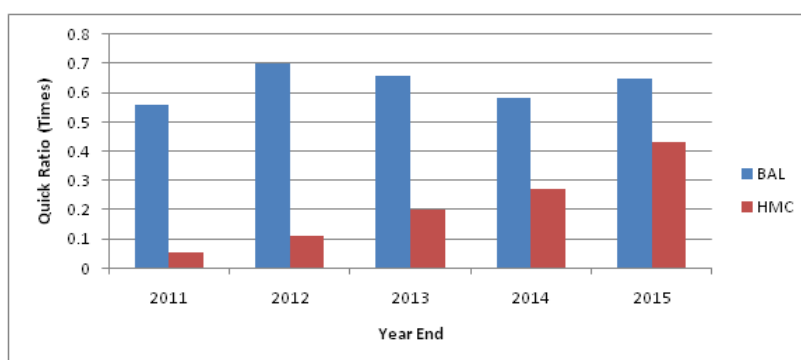


Figure 1. Quick ratio of companies.

Source: Drawn with the help of Statistics Data taken from the PROWESS Release 4.15 from CMIE database for the period 2011 to 2015

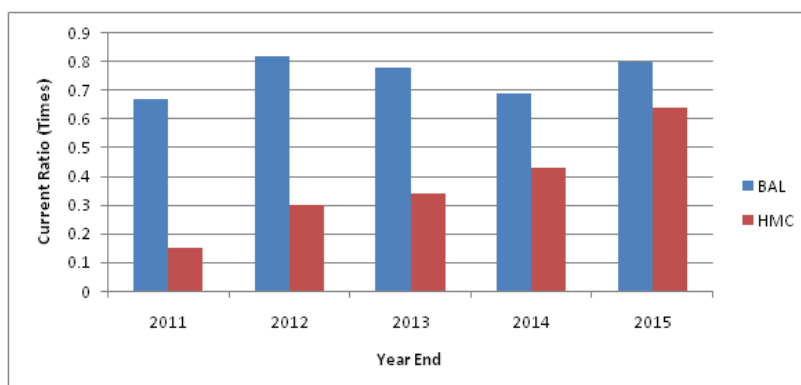


Figure 2. Current ratio of companies.

Source: Drawn with the help of Statistics Data taken from the PROWESS Release 4.15 from CMIE database for the period 2011 to 2015

companies faced difficulties in handling short term obligations on time.

Liquidity Ratio of HMC during the study period was less than the standard norms of 1:1 and in the case of BAL the liquidity ratio was lower than the standard ratio of 1:1. Like Current

Ratio, low Liquidity Ratio also signals that both the companies were not able to meet their short term liabilities.

It can be concluded that both the companies are not in good position to meet their short term obligation on time during the reference period, because in most of the years during the study period ratios are below than the recommended value.

Table 2. Comparison on the basis of mean value of ratios

Sl.no.	Liquidity Analysis	HMC	BAL
1	CR	0.37	0.75
2	LR	0.21	0.63
	Sum of Mean Value	0.58	1.38
	Avg. Score	0.27	0.69
	Ranking	2	1

3.3 Profitability Analysis

The main purpose of business unit is to make profit. The profitability ratios are computed to throw light on the current operating performance and efficiency of the business firm when they are related to some other figures such as sales, cost of goods sold, operating expenses, capital invested etc.

3.3.1 Financial Performance on the Basis of Profitability Analysis (Table 3)

Table 3. Profitability Ratios of Companies (Percentage) (In relation to Sales)

Year End	2011	2012	2013	2014	2015	Average	SD	Correlation
Gross Profit Ratio								
BAL	24.51	20.76	20.92	22.80	19.11	21.62	1.86	-0.2637
HMC	13.17	15.36	14.00	14.40	13.51	14.09	0.76	
Net Profit Ratio								
BAL	17.81	14.22	13.85	14.83	12.18	14.58	1.84	0.4784
HMC	8.97	9.15	8.04	7.61	7.98	8.35	0.60	
Operating Profit Ratio								
BAL	23.18	19.06	19.41	21.17	17.68	20.10	1.90	0.0837
HMC	11.19	11.03	9.6	10.35	11.14	10.66	0.61	

Source: Computed with the help of Statistics Data taken from the PROWESS Release 4.15 from CMIE database for the period 2011 to 2015

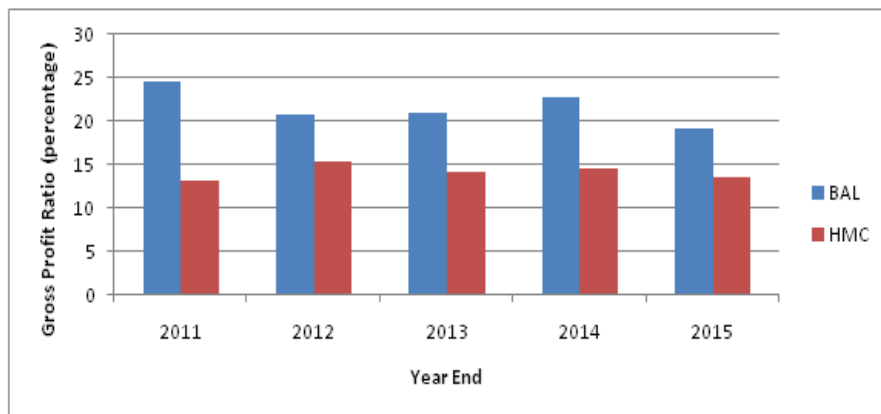


Figure 3. Gross profit ratio of companies.

Source: Drawn with the help of Statistics Data taken from the PROWESS Release 4.15 from CMIE database for the period 2011 to 2015

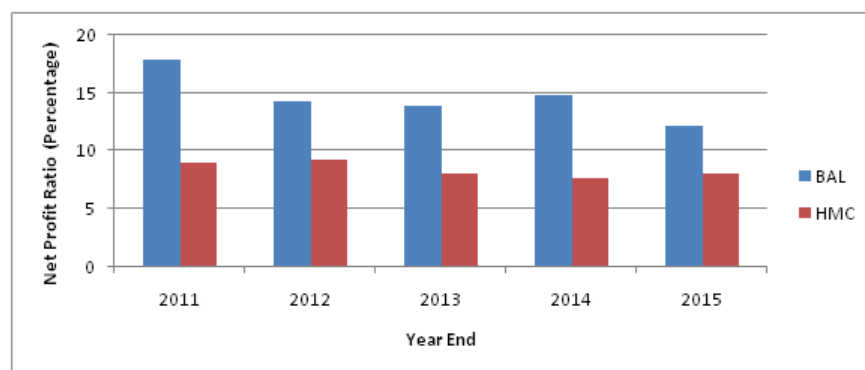


Figure 4. Net profit ratio of companies.

Source: Drawn with the help of Statistics Data taken from the PROWESS Release 4.15 from CMIE database for the period 2011 to 2015

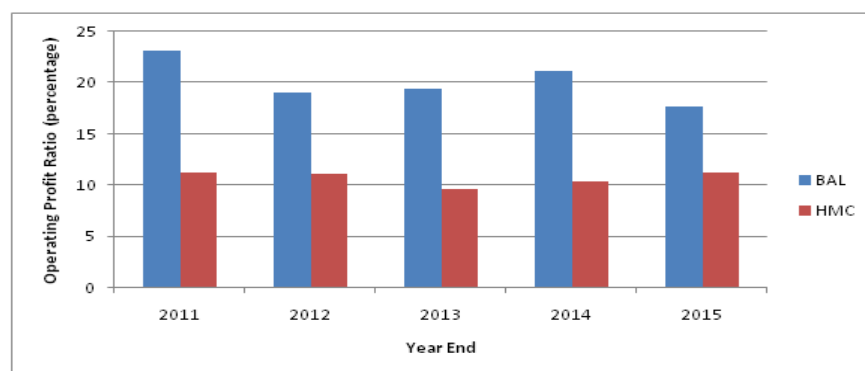


Figure 5. Operating profit ratio of companies.

Source: Drawn with the help of Statistics Data taken from the PROWESS Release 4.15 from CMIE database for the period 2011 to 2015

Table 4. Comparison on the basis of mean value of ratios

Sl.no.	Profitability Analysis	HMC	BAL
1	GPR	14.09	21.62
2	NPR	8.35	14.58
3	OPR	10.66	20.10
	Sum of Mean Value	33.10	56.30
	Avg. Score	11.03	18.77
	Ranking	2	1

The BAL leads in profitability analysis as compared to HMC's. Profitability score in relation to sales of BAL was 18.77 whereas HMC's score was 11.03

As per the Table 4 Gross Profit Ratio of HMC was less than the standard norms of 20-30 percent in all the years during the reference period. BAL's gross profit ratio was satisfactory in all

the years except in 2015. Low Gross Profit Ratio indicates that the profit was not sufficient to cover the operating expenses of the companies.

Net Profit Ratio of BAL varied in a range of 15 percent from 2011 to 2015, which can be said satisfactory because usually 5 to 10 percent net profit ratio is considered as good for the company. In the case of HMC the profit varied in a range of 8 percent during the study period. High Net Profit Ratio indicates that both the companies didn't face any difficulty in maintaining its reserves and they had sufficient amount to cover the operating and non-operating expenses.

Operating Profit Ratio of BAL varied in a range of 20 percent throughout the period whereas HMC's operating ratio varied in a range of 10 percent, usually operating ratio is considered good between 75-80 percent. In both the companies this ratio was lesser than this standard which means that the both the companies might have faced difficulty in covering its non-operating expenses.

Overall we can conclude that profitability in relation to sales was better of BAL in comparison to HMC.

3.3.2 Financial Performance on the Basis of Profitability Analysis (Table 5)

It is evident from the Table 6 that BAL leads in the profitability analysis in relation to investment as compared to HMC. BAL's score of profitability in relation to investment is 47.88 whereas HMC's score is 44.73

Return on Capital Employed of BAL varied in a range of 46.05 during the reference period and ROCE of HMC varied in

Table 5. Profitability Ratios of Companies (Percentage) (In relation to Investment)

Year End	2011	2012	2013	2014	2015	Average	SD	Correlation
ROCE								
BAL	70.27	52.69	43.00	36.79	27.49	46.05	14.63	0.7877
HMC	44.63	42.74	35.45	35.71	38.4	39.39	3.71	
RONW								
BAL	85.21	54.86	43.66	37.10	27.72	49.71	19.83	0.7729
HMC	60.05	65.64	45.57	39.77	39.30	50.07	10.81	

Source: Computed with the help of Statistics Data taken from the PROWESS Release 4.15 from CMIE database for the period 2011 to 2015

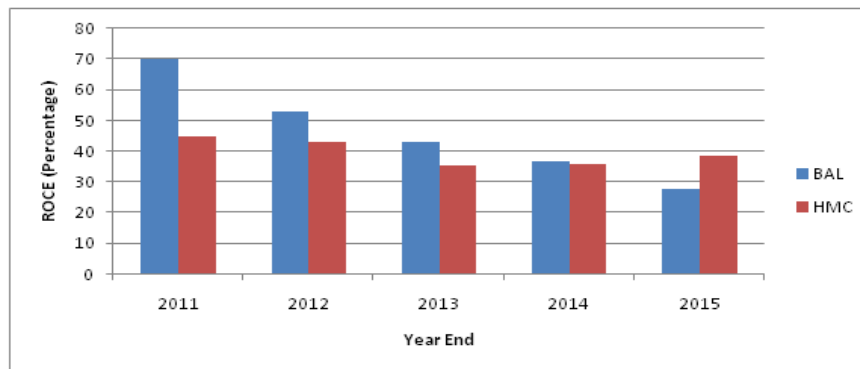


Figure 6. Return on capital employed of companies.

Source: Drawn with the help of Statistics Data taken from the PROWESS Release 4.15 from CMIE database for the period 2011 to 2015

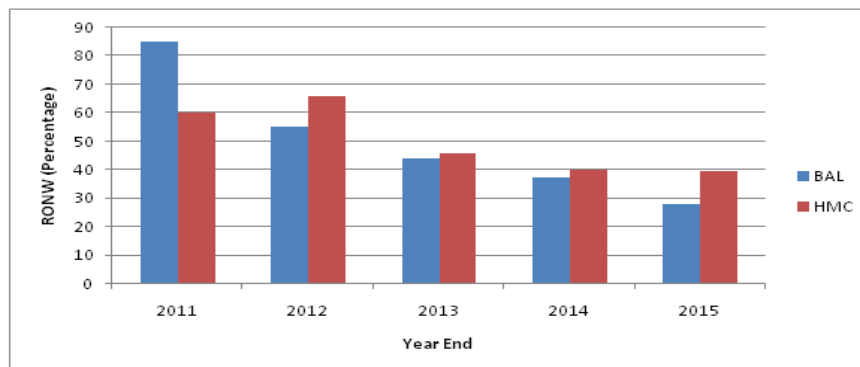


Figure 7. Return on net worth of companies.

Source: Drawn with the help of Statistics Data taken from the PROWESS Release 4.15 from CMIE database for the period 2011 to 2015

a range of 39.39 .It shows that BAL has used its funds received from owners as well as from long term lenders in a better way in comparison to HMC's ROCE.

Return on Net Worth of BAL varied in a range of 49.71 and of HMC varied in a range of 50.07. RONW indicates that how much

profit has been earned by the company and how much is available to the equity shareholders for the distribution of dividend. Higher RONW means more profit for the equity shareholders and low RONW means vice versa..

Overall we can say that profitability in relation to investment was better of BAL than HMC

Table 6. Comparison on the basis of mean value of ratios

Sl.no.	Profitability Analysis	HMC	BAL
1	ROCE	39.39	46.05
2	RONW	50.07	49.71
	Sum of Mean Value	89.46	95.76
	Avg. Score	44.73	47.88
	Ranking	2	1

3.4 Efficiency Analysis

Efficiency analysis shows how assets are being utilized in the company. For this purpose variouratios i.e. FATR, STR, DTR & WCTR can be calculated.

3.4.1 Financial Performance on the Basis of Efficiency Analysis (Table 7)

Table 7. Efficiency ratios of companies (Times)

Year End	2011	2012	2013	2014	2015	Average	SD	Correlation
Fixed Assets Turnover Ratio								
BAL	5.12	6.03	5.85	5.34	5.5	5.57	0.33	-0.4988
HMC	5.02	4.26	3.95	4.00	3.90	4.23	0.42	
Stock Turnover Ratio								
BAL	34.89	33.41	32.14	33.1	30.92	32.89	1.32	0.9248
HMC	43.31	42.04	39.11	41.58	39.46	41.10	1.59	
Debtors Turnover Ratio								
BAL	57.84	52.32	35.5	27.01	29.71	40.48	12.36	0.9834
HMC	174.2	125.27	54.75	34.25	25.37	82.77	57.62	

Source: Computed with the help of Statistics Data taken from the CapitalLine Plus database for the period 2011 to 2015

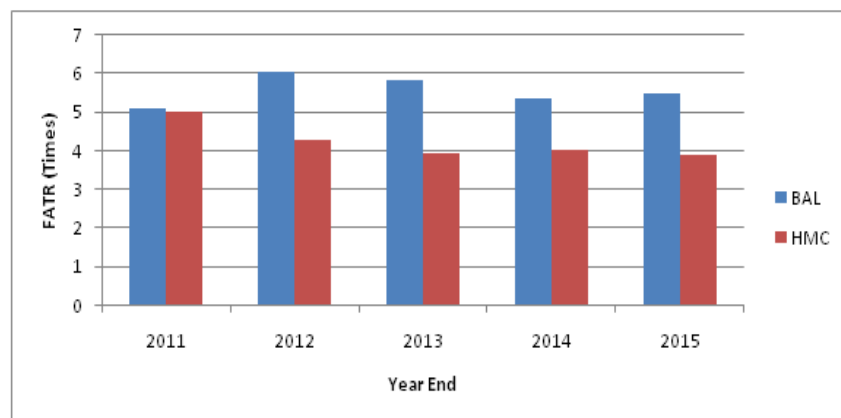


Figure 8. Fixed assest turnover ratio of companies.

Source: Drawn with the help of Statistics Data taken from the PROWESS Release 4.15 from CMIE database for the period 2011 to 2015

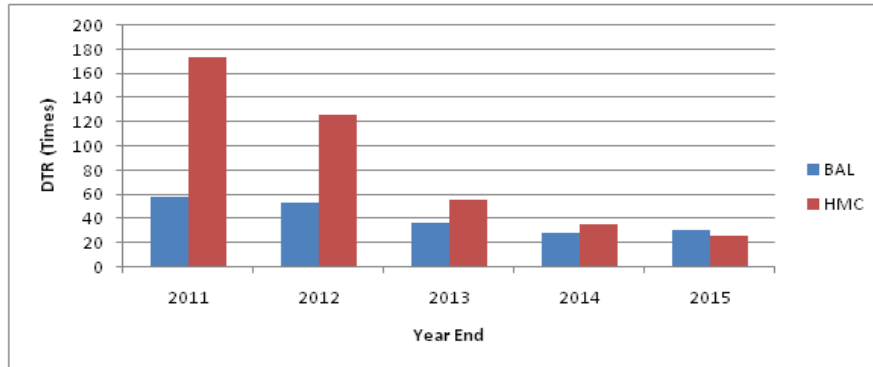


Figure 9. Stock turnover ratio of companies.

Source: Drawn with the help of Statistics Data taken from the PROWESS Release 4.15 from CMIE database for the period 2011 to 2015

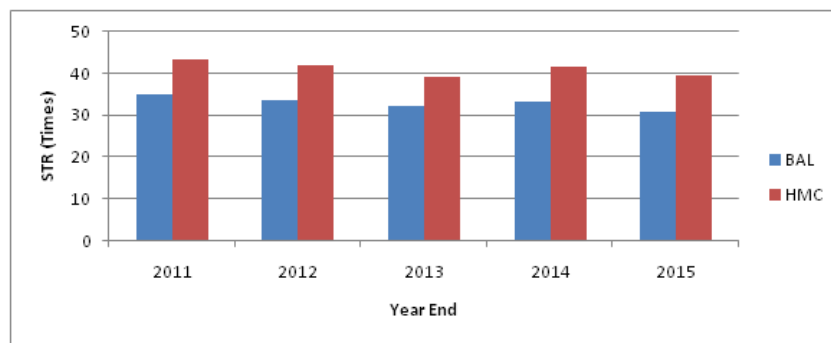


Figure 10. Debtors turnover ratio of companies.

Source: Drawn with the help of Statistics Data taken from the PROWESS Release 4.15 from CMIE database for the period 2011 to 2015

Table 8. Comparison on the basis of mean value of ratios

Sl.no.	Efficiency Analysis	HMC	BAL
1	FATR	4.23	5.57
2	STR	41.10	32.89
3	DTR	82.77	40.48
	Sum of Mean Value	128.10	78.94
	Avg. Score	42.7	26.313
	Ranking	1	2

It can be observed from the Table 8 that HMC leads in the efficiency analysis as compared to the BAL efficiency analysis.

Fixed Assets Turnover Ratio of HMC varied in a range of 4.23 and of BAL varied in a range of 5.57. Usually a 5-6 times FATR is considered good for any company. In those years where it was less than the standard it shows insufficient utilization of fixed

assets in both the companies. Overall it can be concluded that BAL's FATR was better than the FATR of HMC.

Stock Turnover Ratio of HMC varied in a range of 41 and of BAL varied in a range of 33 during the study period. Higher STR shows efficient management of inventory and lower STR indicates inefficient management of inventory, stock accumulation and slow moving of goods. In all the years HMC has proved efficient company in managing its inventory in comparison to BAL. Overall we can say that HMC's STR was better than the STR of BAL.

Debtors Turnover Ratio of HMC varied in a range of 83 and of BAL varied in a range of 40. Higher DTR indicates more efficiency in recovering the debtors and low DTR is a signal of inefficient management of debtors. HMC has proved a better managing company in recovering its debtors in comparison to BAL.

Overall HMC's efficiency analysis can be said satisfactory in comparison to BAL.

Leverage Analysis: Leverage analysis means to know the long term solvency position of the company. It means that is company able to pay off its long term creditors or not on time. For this CGR, DER & ICR ratios can be taken to arrive at definite conclusion.

It can be observed from the Table 10 that HMC leads in leverage analysis as its score is 106 and BAL's score is 104.

Debt Equity Ratio of BAL varied in a range of 0.02 and of HMC in a range of 0.28 during the study period. In all the years DER was less than the 2:1 in both the companies during the reference period which signals good situation for the company because it means that the company is not dependent on the debt

3.4.2 Financial Performance on the Basis of Leverage Analysis (Table 9)

Table 9. Leverage ratios of companies (Times)

Year End	2011	2012	2013	2014	2015	Average	SD	Correlation
Debt-Equity Ratio								
BAL	0.07	0.02	0.01	0.01	0.01	0.02	0.02	0.9266
HMC	0.73	0.4	0.18	0.05	0.02	0.28	0.26	
Interest Coverage Ratio								
BAL	2060.21	179.72	7632.17	136.02	465.93	2094.81	2857.31	-0.0624
HMC	165.57	136.02	213.86	244.7	301.16	212.26	58.22	

Source: Computed with the help of Statistics Data taken from the PROWESS Release 4.15 from CMIE database for the period 2011 to 2015

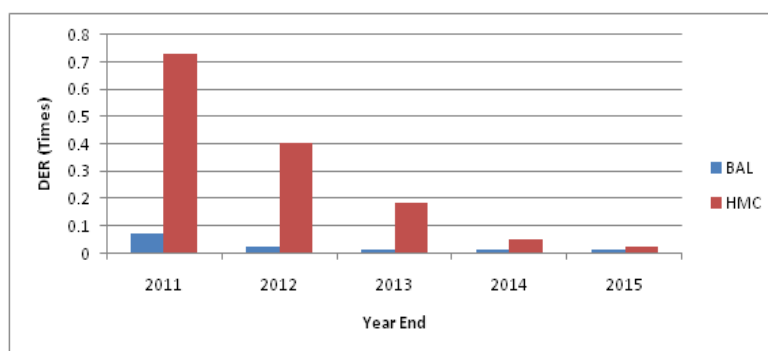


Figure 11. Debtors turnover ratio of companies.

Source: Drawn with the help of Statistics Data taken from the PROWESS Release 4.15 from CMIE database for the period 2011 to 2015

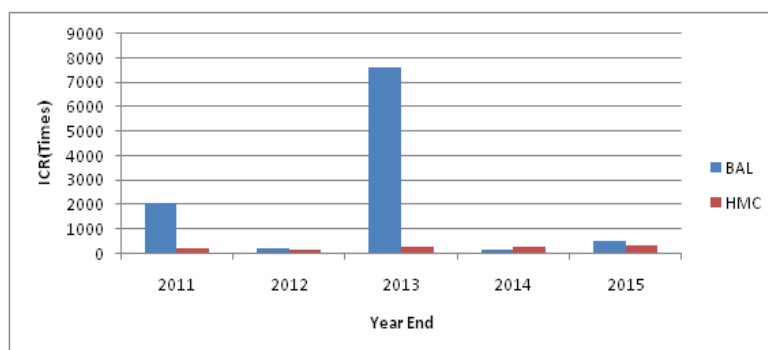


Figure 12. Interest coverage ratio of companies.

Source: Drawn with the help of Statistics Data taken from the PROWESS Release 4.15 from CMIE database for the period 2011 to 2015

for its capital requirements. Overall HMC's DER can be said satisfactory in comparison to BAL.

Interest Coverage Ratio of BAL varied in a range of 4012.18 and of HMC varied in a range of 415.54. Higher ICR indicates

company's efficiency to pay interest on loans on times, low indicates otherwise. Overall BAL's ICR can be said well in all the years during the study period in comparison to the ICR of HMC.

Overall HMC can be said better company in Leverage Analysis as compared to BAL.

Market Value Analysis: The THREE ratios of EPS, P/ER, BVPS, taken as indicators of market valuation.

Table 10. Comparison on the basis of mean value of ratios

Sl.no.	Leverage Analysis	HMC	BAL
1	DER	0.28	0.02
2	ICR	212.26	2094.81
	Sum of Mean Value	212.54	209.83
	Avg. Score	106.27	104.91
	Ranking	1	2

3.4.3 Financial Performance on the Basis of Market Value Analysis (Table 11)

Table 11. Market value ratios of companies

Year End	2011	2012	2013	2014	2015	Average	SD	Correlation
EPS								
BAL	85.43	102.03	100.16	108.04	107.59	100.65	8.20	0.6094
HMC	101.14	119.65	106.37	106.29	120.58	110.81	7.84	
PER								
BAL	17.13	16.45	17.97	19.28	18.74	17.91	1.03	0.6913
HMC	15.71	17.18	14.5	21.4	21.89	18.14	2.99	
BVPS								
BAL	169.69	246.82	287.48	332.04	369.5	281.11	69.34	0.9575
HMC	148.03	236.90	292.14	280.43	327.58	257.02	61.72	

Source: Computed with the help of Statistics Data taken from the PROWESS Release 4.15 from CMIE database for the period 2011 to 2015

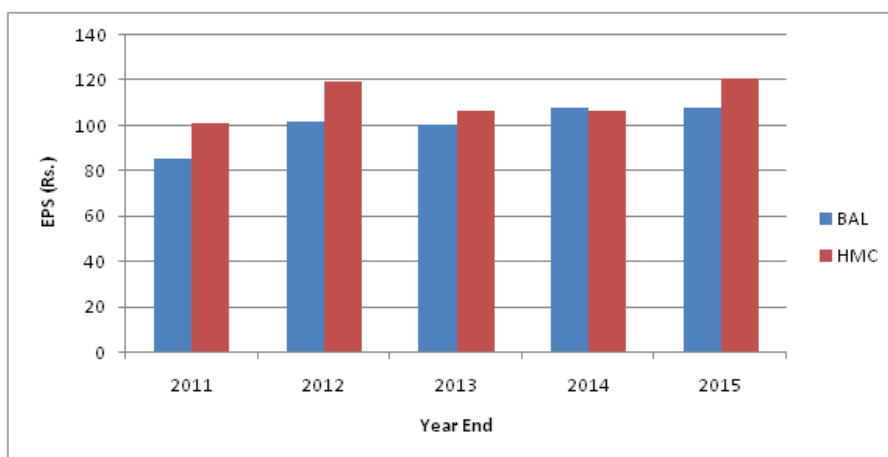


Figure 13. Earnings per share of companies.

Source: Drawn with the help of Statistics Data taken from the PROWESS Release 4.15 from CMIE database for the period 2011 to 2015

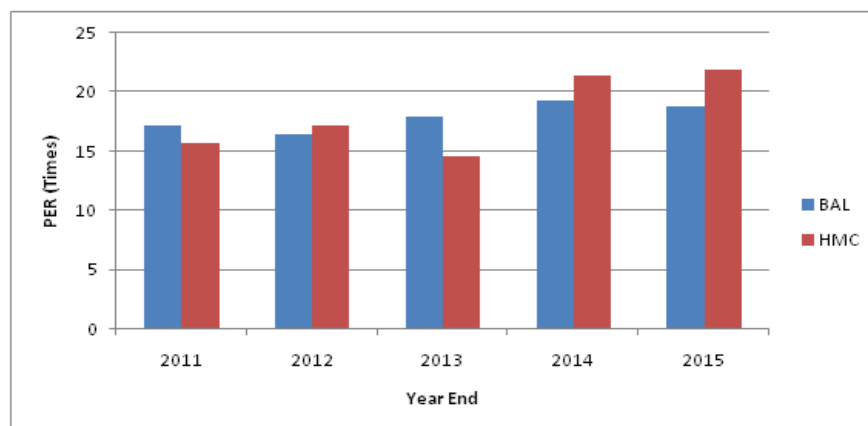


Figure 14. Price earnings ratio of companies.

Source: Drawn with the help of Statistics Data taken from the PROWESS Release 4.15 from CMIE database for the period 2011 to 2015

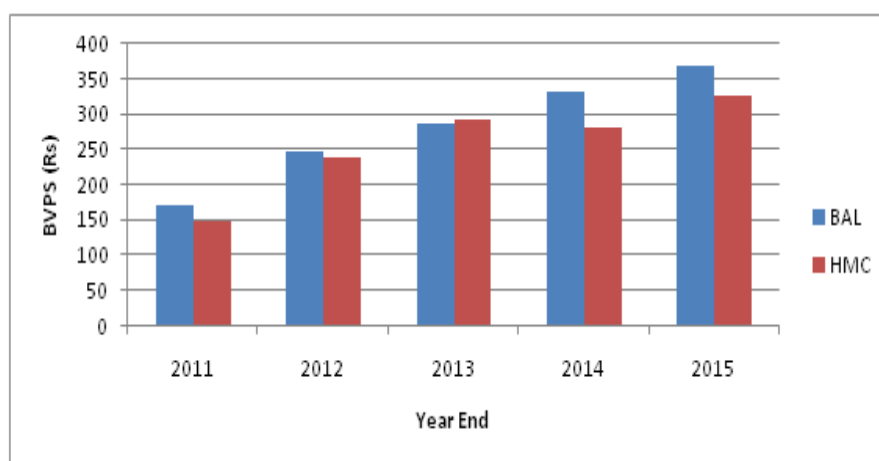


Figure 15. Book value per share of companies.

Source: Drawn with the help of Statistics Data taken from the PROWESS Release 4.15 from CMIE database for the period 2011 to 2015

Table 12. Comparison on the basis of mean value of ratios

Sl.no.	Market Value Analysis	HMC	BAL
1	EPS	110.81	100.81
2	PER	18.14	17.91
3	BVPS	257.02	281.11
	Sum of Mean Value	385.93	399.67
	Avg. Score	128.66	133.22
	Ranking	2	1

It can be evident from the Table 12 BAL leads in the market valuation as compared to HMC.

Earnings per Share of BAL varied in a range of 100.81 and of HMC varied in a range of 110.81 during the study period. EPS indicates the amount available for the distribution of dividend to equity shareholders. Overall in all the years during the reference period except in 2014 EPS of HMC was higher than the EPS of BAL.

Price Earnings Ratio of BAL varied in a range of 17.91 PER signals the market price of the company, it helps in deciding the investors whether to buy or not the shares of a particular com-

Table 13. Points based on Ranking

Particulars	Points	
	HMC	BAL
Liquidity Analysis	1	2
Profitability Analysis (sales)	1	2
Profitability Analysis (investment)	1	2
Efficiency Analysis	2	1
Leverage Analysis	2	1
Market Valuation	1	2
Total Points	8	10

pany. To conclude HMC's PER can be said well in comparison to the PER of BAL.

Book Value per Share of BAL varied in a range of 281 and of HMC varied in a range of 257. BVPS indicates the net assets available for the distribution of equity shareholders. BAL's BVPS was more than in all the years during the reference period than the HMC's BVPS.

Overall it can be concluded that BAL was better company in market valuation in comparison to HMC.

It is clear from the Table 13 that on the basis of rank got by each company points have been given. If a company has got 1st rank, according to this 2 marks have been given to that company for every analysis and if company has got 2nd rank, only 1 mark has been given to that company BAL has got 10 points in comparison to the 8 points of HMC so it can be concluded that BAL is satisfactory in most of the analysis.

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Author of a paper had no conflict neither financially nor academically.