

# An Analytical Study on Working Capital Efficiency and Cash Flow Sustainability at Royal Enfield: A Study with Special Reference to Royal Enfield (Eicher Motors Limited) - Chennai

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**Abstract:** Working capital management is fundamental to the operational and financial stability of any enterprise. This study undertakes an analytical examination of working capital efficiency and cash flow sustainability at Royal Enfield (Eicher Motors Limited), a leading motorcycle manufacturer. Using five years of secondary financial data spanning 2020–21 to 2024–25, the research employs ratio analysis, trend analysis, and cash flow analysis to evaluate liquidity, solvency, asset utilisation, and profitability. Key findings reveal that the current ratio remained above 1:1 in all five years; net profit margins grew from 15.45% to 25.09%; operating cash flows surged from Rs. 423.96 crores to Rs. 3,979.92 crores; and the working capital trend recovered to 43.50% in 2024–25 after declining to 7.26% in 2022–23.

**Keywords:** Working Capital Efficiency, Cash Flow Sustainability, Liquidity Ratios, Ratio Analysis, Trend Analysis, Royal Enfield.

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## 1. INTRODUCTION

Working capital management is a vital dimension of corporate financial management that focuses on maintaining an appropriate balance between short-term assets and liabilities. It ensures that a business retains sufficient liquidity to meet day-to-day operational requirements such as purchasing raw materials, paying wages, and discharging short-term obligations. Working Capital = Current Assets – Current Liabilities. A positive working capital indicates that the company is in a good position to meet its short-term obligations.

Cash flow sustainability is equally important for evaluating the long-term financial strength of a company. Cash flow is classified into three categories: operating activities, investing activities, and financing activities. Royal Enfield, established in 1901 and headquartered in Chennai, Tamil Nadu, operates under Eicher Motors Limited and has built a strong market position in the premium mid-size motorcycle segment through models such as the Bullet, Classic, Meteor, and Himalayan.

## 2. REVIEW OF LITERATURE

Deloof (2003) examined working capital management among Belgian firms and found that efficient management of receivables, inventory, and payables reduces the cash conversion cycle and improves profitability. Shin and Soenen (1998) concluded that efficient working capital management enables firms to generate better cash flows. Raheman and Nasr (2007) identified a significant relationship between working capital efficiency and cash flow generation. Padachi (2006) confirmed that proper working capital management leads to improved operational efficiency and stable cash flow.

Uyar (2009) highlighted that a shorter cash conversion cycle improves liquidity and supports sustainable cash flow. Gill et al. (2010) found that effective management of current assets contributes to improved profitability and consistent cash flow. Banos-Caballero et al. (2012) suggested that maintaining an optimal level of working capital helps achieve both profitability and long-term cash flow sustainability. Aktas et al. (2015) concluded that efficient working capital management improves cash flow generation and reduces financial risk. Brigham and Houston (2012) and Gitman (2015) emphasised that cash flow analysis is essential for evaluating a firm's ability to sustain operations and meet financial obligations.

### 3. OBJECTIVE OF THE STUDY

- To Analyze the efficiency of working capital management of Royal Enfield.
- To evaluate the liquidity position using current ratio and quick ratio.
- To study the components and structure of working capital.
- To Analyze the cash flow from operating, investing, and financing activities.
- To assess the sustainability of cash flow over the study period.

### 4. RESEARCH METHODOLOGY

The present research is descriptive and analytical in nature, based on secondary data collected from audited annual reports and financial statements of Royal Enfield for the period 2020–21 to 2024–25. The tools used for analysis include: (i) Statement of Changes in Working Capital, (ii) Ratio Analysis, (iii) Cash Flow Analysis, and (iv) Trend Analysis.

### 5. DATA ANALYSIS AND INTERPRETATION

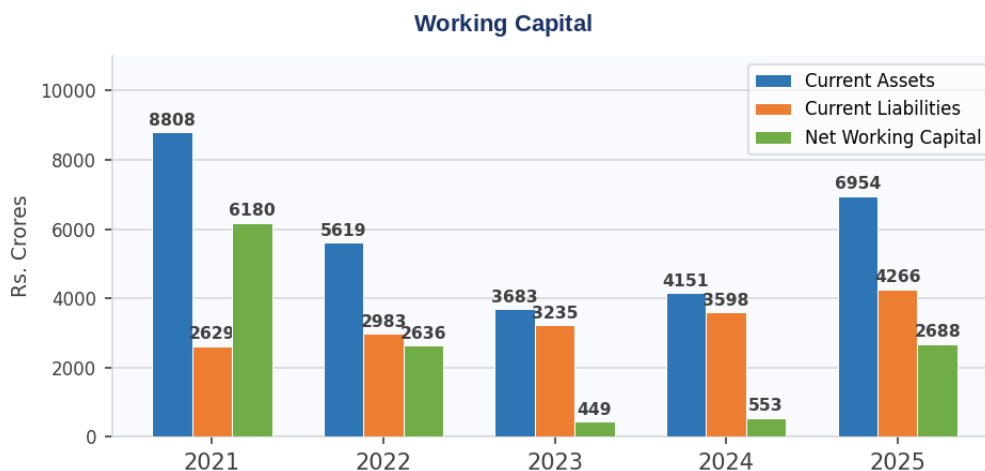
#### 5.1 Statement of Changes in Working Capital:

The table below presents the net working capital of Royal Enfield across the five-year study period.

**Table 1.1: Calculation of Working Capital (Rs. Crores)**

Year	Current Assets (Rs. Cr.)	Current Liabilities (Rs. Cr.)	Net Working Capital (Rs. Cr.)
2020–21	8,808.48	2,628.81	6,179.67
2021–22	5,619.34	2,983.36	2,635.98
2022–23	3,683.23	3,234.58	448.65
2023–24	4,151.33	3,598.41	552.92
2024–25	6,954.16	4,265.78	2,688.38

*Source: Secondary Data (Annual Reports of Royal Enfield)*



#### Working Capital

From the above table and chart, it is identified that the working capital of the company shows a declining trend from 2021 to 2023, but it has gradually increased to Rs. 2688.38 Cr. during the year 2025.

**Ratio Analysis:**

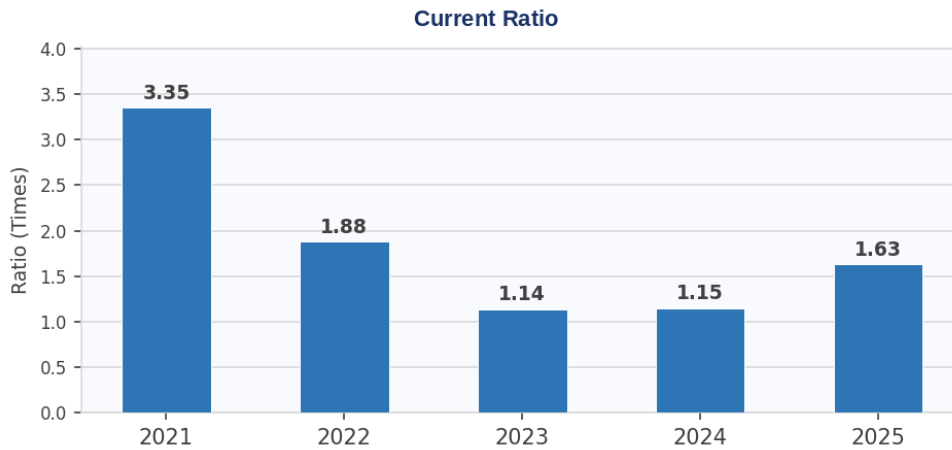
**5.2 Current Ratio**

**Current Ratio = Current Assets / Current Liabilities**

**Table 1.2: Current Ratio**

Year	Current Assets (Rs. Cr.)	Current Liabilities (Rs. Cr.)	Current Ratio (Times)
2020–21	8,808.48	2,628.81	3.35
2021–22	5,619.34	2,983.36	1.88
2022–23	3,683.23	3,234.58	1.14
2023–24	4,151.33	3,598.41	1.15
2024–25	6,954.16	4,265.78	1.63

*Source: Secondary Data (Annual Reports of Royal Enfield)*



**Current Ratio**

The chart shows that the current ratio in 2021 is 3.35, in 2022 it is 1.88, in 2023 it is 1.14, in 2024 it is 1.15, and in 2025 it is 1.63. The current ratio of the company is above 1 in all five years, which indicates that the company is capable of meeting its short-term obligations.

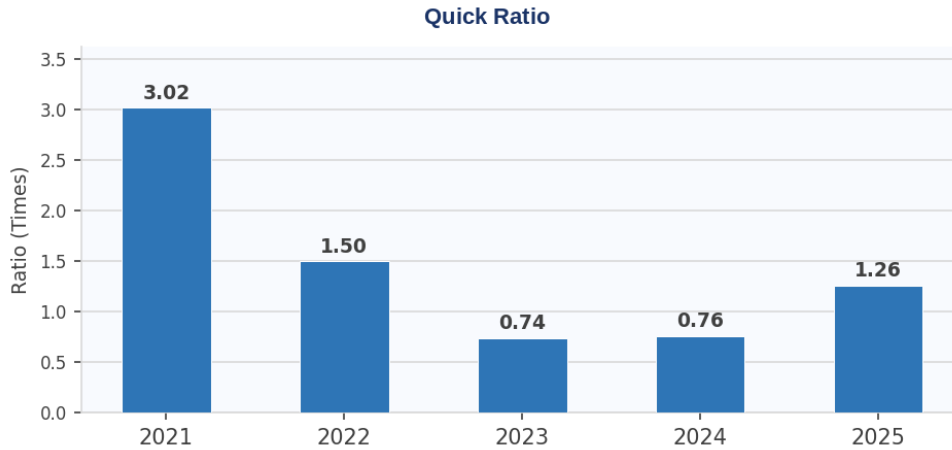
**5.3 Liquid or Quick Ratio**

**Liquid Ratio = Liquid Assets / Current Liabilities**

**Table 1.3: Quick Ratio**

Year	Liquid Assets (Rs. Cr.)	Current Liabilities (Rs. Cr.)	Quick Ratio (Times)
2020–21	7,933.88	2,628.81	3.02
2021–22	4,486.94	2,983.36	1.50
2022–23	2,404.79	3,234.58	0.74
2023–24	2,741.69	3,598.41	0.76
2024–25	5,390.41	4,265.78	1.26

*Source: Secondary Data (Annual Reports of Royal Enfield)*



**Quick Ratio**

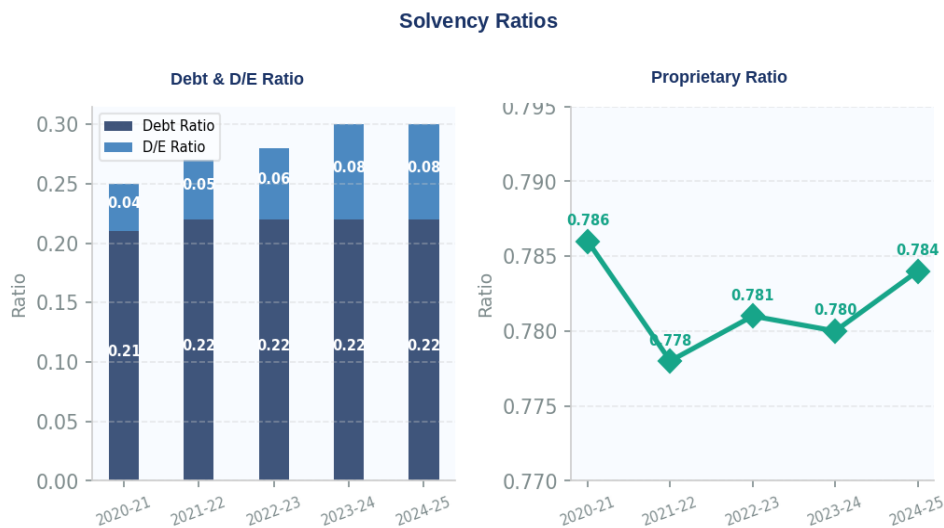
The chart shows that the quick ratio in 2021 is 3.02, in 2022 it is 1.50, in 2023 it is 0.74, in 2024 it is 0.76, and in 2025 it is 1.26. The ratio fell below the standard during 2023 and 2024, showing temporary weakness in immediate liquidity, but improved again in 2025, reflecting better short-term financial management.

**5.4 Solvency Ratios:**

**Table 1.4: Solvency Ratios (2020–21 to 2024–25)**

Year	Debt Ratio (times)	Debt-Equity Ratio (times)	Proprietary Ratio (times)
2020–21	0.21	0.04	0.786
2021–22	0.22	0.05	0.778
2022–23	0.22	0.06	0.781
2023–24	0.22	0.08	0.780
2024–25	0.22	0.08	0.784

Source: Secondary Data (Annual Reports of Royal Enfield)



**Solvency Ratios**

From the above table and chart, it is interpreted that the debt ratio remained stable at approximately 0.22, and the proprietary ratio consistently hovered around 0.78–0.79, confirming that shareholders' equity finances the majority of the company's assets. The debt-equity ratio's gradual rise from 0.04 to 0.08 reflects a modest, controlled increase in long-term borrowings, indicating a strong and stable capital structure.

### 5.5 Inventory Turnover Ratio

Inventory Turnover Ratio = Cost of Goods Sold / Average Inventory

**Table 1.5: Inventory Turnover Ratio**

Year	COGS (Rs. Cr.)	Average Inventory (Rs. Cr.)	Inventory Turnover Ratio (Times)
2020–21	5,112.77	723.48	7.07
2021–22	5,955.68	1,003.50	5.93
2022–23	8,211.90	1,205.42	6.81
2023–24	8,980.65	1,344.04	6.68
2024–25	10,297.08	1,486.70	6.93

Source: Secondary Data (Annual Reports of Royal Enfield)



#### Inventory Turnover Ratio

The chart shows that the inventory turnover ratio shows slight fluctuations during the study period, indicating changes in the efficiency of inventory management. Overall, the company maintains a satisfactory turnover level, reflecting effective utilisation and movement of inventory in generating sales.

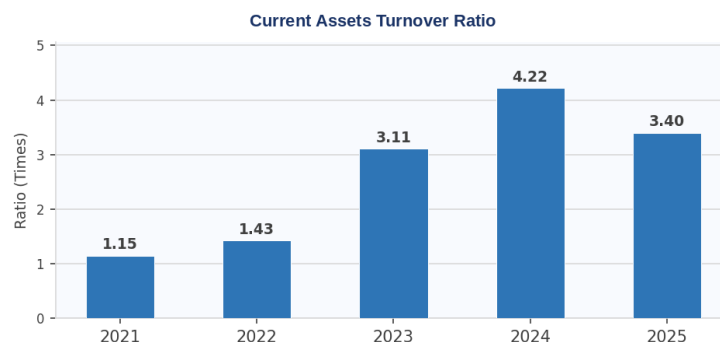
### 5.6 Current Assets Turnover Ratio

Current Assets Turnover Ratio = Net Sales / Current Assets

**Table 1.6: Current Assets Turnover Ratio**

Year	Net Sales (Rs. Cr.)	Average Current Assets (Rs. Cr.)	Current Assets Turnover (Times)
2020–21	8,720.35	7,591.54	1.15
2021–22	10,297.83	7,213.91	1.43
2022–23	14,442.18	4,651.29	3.11
2023–24	16,535.78	3,917.28	4.22
2024–25	18,870.35	5,552.75	3.40

Source: Secondary Data (Annual Reports of Royal Enfield)



**Current Assets Turnover Ratio**

The chart shows that the current assets turnover ratio shows an increasing trend up to 2024, indicating improved efficiency in utilising current assets to generate sales. Although it slightly declined in 2025, the ratio remains strong, reflecting effective management of current assets.

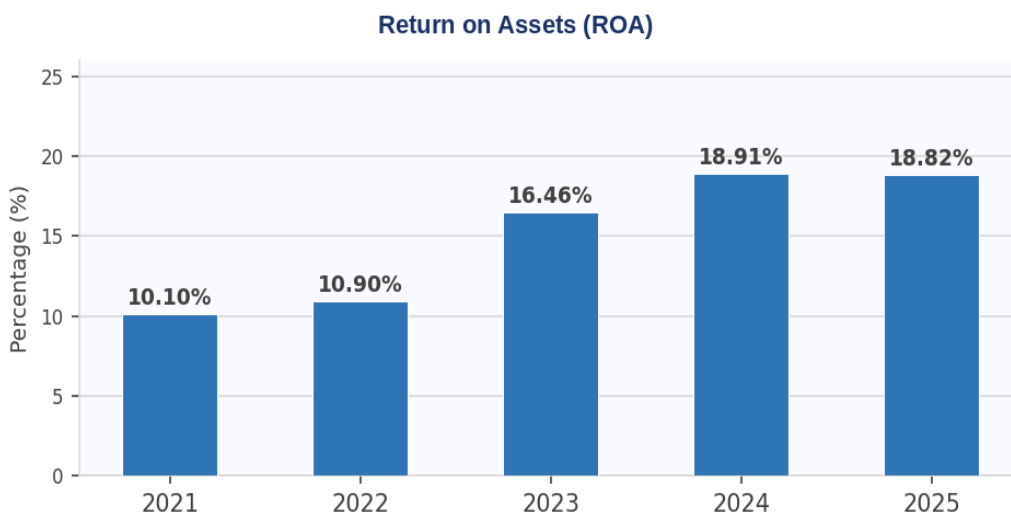
**5.7 Return on Assets (ROA)**

**Return on Assets = (Net Profit / Total Assets) × 100**

**Table 1.7: Return on Assets (ROA)**

Year	Net Profit (Rs. Cr.)	Average Total Assets (Rs. Cr.)	ROA (%)
2020–21	1,346.89	13,329.07	10.10%
2021–22	1,676.60	15,379.80	10.90%
2022–23	2,913.94	17,699.32	16.46%
2023–24	4,001.01	21,162.79	18.91%
2024–25	4,734.44	25,151.17	18.82%

Source: Secondary Data (Annual Reports of Royal Enfield)



**Return on Assets (ROA)**

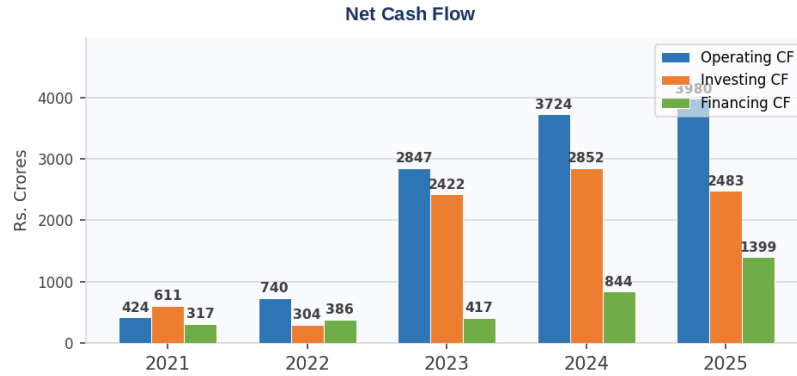
From the above table and chart, it is identified that the return on assets shows a continuous increasing trend from 10.10% in 2021 to 18.82% in 2025, indicating improved efficiency in utilising total assets to generate profits and reflecting strong overall financial performance.

**5.8 Cash Flow Analysis:**

**Table 1.8: Cash Flow Analysis (2020–21 to 2024–25)**

Year	Operating Cash Flow	Investing Cash Flow	Financing Cash Flow	Net Cash Flow
2020–21	Rs. 423.96 Cr.	Rs. 610.75 Cr.	Rs. 316.89 Cr.	Rs. 1,351.60 Cr.
2021–22	Rs. 740.11 Cr.	Rs. 304.21 Cr.	Rs. 386.01 Cr.	Rs. 1,430.33 Cr.
2022–23	Rs. 2,847.46 Cr.	Rs. 2,421.60 Cr.	Rs. 417.44 Cr.	Rs. 5,686.50 Cr.
2023–24	Rs. 3,723.71 Cr.	Rs. 2,851.97 Cr.	Rs. 844.36 Cr.	Rs. 7,420.04 Cr.
2024–25	Rs. 3,979.92 Cr.	Rs. 2,483.34 Cr.	Rs. 1,398.67 Cr.	Rs. 7,861.93 Cr.

Source: Secondary Data (Annual Reports of Royal Enfield)



**Net Cash Flow**

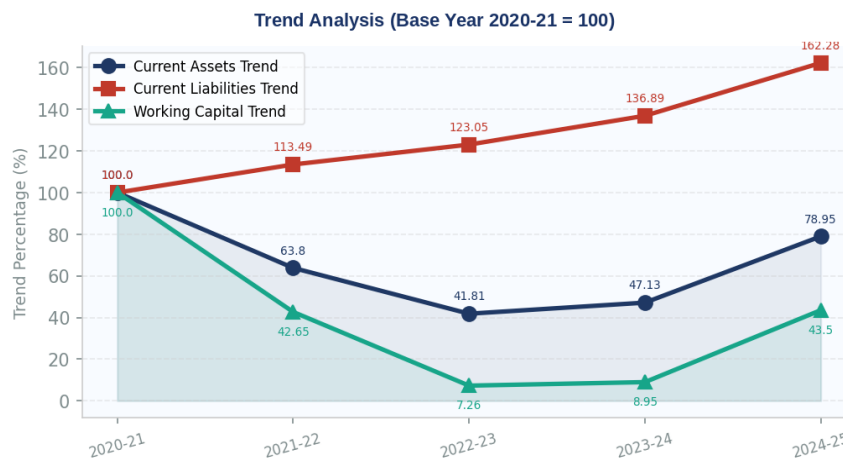
From the above chart, the net cash flow increased from Rs. 1,351.60 crores in 2020–21 to Rs. 7,861.93 crores in 2024–25, indicating strong cash generation and improved financial sustainability. This reflects efficient cash management and the company's ability to support growth and operational requirements.

**5.9 Trend Analysis:**

**Table 1.9: Trend Analysis — Base Year 2020–21 = 100**

Year	Current Assets Trend (%)	Current Liabilities Trend (%)	Working Capital Trend (%)
2020–21	100.00	100.00	100.00
2021–22	63.80	113.49	42.65
2022–23	41.81	123.05	7.26
2023–24	47.13	136.89	8.95
2024–25	78.95	162.28	43.50

Source: Secondary Data (Annual Reports of Royal Enfield)



**Trend Analysis (Base Year 2020–21 = 100%)**

From the above table and chart, it is interpreted that current assets declined to 41.81% of the base year level in 2022–23 but recovered to 78.95% in 2024–25. Current liabilities expanded continuously to 162.28%, compressing working capital to 7.26% in 2022–23. The partial recovery to 43.50% in 2024–25 signals improvement, though the rising liabilities trend warrants ongoing monitoring.

**6. CONCLUSION**

Working capital management plays a crucial role in maintaining the financial efficiency and liquidity position of a company. The study conducted on Royal Enfield (Eicher Motors Limited) over 2020–21 to 2024–25 reveals the following. The current ratio remained above 1:1 in all five years, indicating adequate liquidity. The quick ratio, after declining below standard in

2022–23 and 2023–24, recovered to 1.26 in 2024–25. The absolute liquid ratio declined steeply from 2.22 to 0.06, indicating very low immediate cash availability.

The debt ratio remained stable at 0.22 and the proprietary ratio consistently around 0.78–0.79, reflecting a strong equity-dominated capital structure with low dependence on external debt. Net profit ratio improved from 15.45% to 25.09%; ROE from 12.58% to 24.07%; and ROA from 10.10% to 18.82%, confirming strong and improving profitability. Operating cash flow surged from Rs. 423.96 crores to Rs. 3,979.92 crores, and net cash flow from Rs. 1,351.60 crores to Rs. 7,861.93 crores, confirming robust cash sustainability. The working capital trend, after declining to 7.26% in 2022–23, partially recovered to 43.50% in 2024–25. By strengthening liquid asset management, controlling short-term liabilities, and sustaining the growth in operating cash flow, Royal Enfield can further enhance its financial resilience and sustainable growth.

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