RESEARCH ARTICLE

A STUDY ON FINANCIAL PERFORMANCE OF ASHOK LEYLAND LIMITED, CHENNAI

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A R T I C L E I N F O	A B S T R A C T
	Financial is regarded as the life blood of a business enterprise. In the modern oriented economy, finance is one of the basic foundations of all kinds of economics activities. Finance statements are prepared primary for decision -making .They play a dominant role in setting the frame work and managerial conclusion and can be drawn from these statements is of immense use in decision- making through analysis and interpretation of financial statements. As said earlier finance is said to be life blood of any business every business under taking needs finance for its smooth working. It has to raise funds from the cheapest and risky source to utilize this in most effective manner. So every company will be interested in knowing its financial performance. The article entitled "Financial performance analysis of Ashok Leyland company Ltd " throw light on overall financial performance of the company.

INTRODUCTION

A financial statement is an organized collection of data according to logical and consist ant accounting procedures.

The income statements give the total of different expenditure and revenues during the given period and the net result, viz., profit or loss during the given period. The balance sheet shows the balance of assets, liabilities and the capital as on the last date of the accounting period .changes in these items between two dates and the effect of such changes. For this purpose, different tools of analysis are used by managements. Such analysis of items in the financial statements by using different tools of analysis is called financial statements analysis.

A financial statement is an organized collection of data according to logical and consist ant accounting procedures. Its purpose is to convey an outstanding of some financial aspects of a business firm. It may show a position at a moment of time as in the case of balance sheet, or may reveal a series of activities over a given period of time, as in the case of an income statement.

Definition

According to Metcalf and Titard, "Analysis financial statements is a process of evaluating the relationship between component parts of financial statements to obtain a better understanding of firm's position and performance"

Financial statement

A financial statement is an organized collection of data according to logical and consistent accounting procedures. Its purpose is to convey an understanding of some financial aspects of a business firm. It may show a position at a moment of time as in the case of a balance sheet, or may reveal activities over a given Period of time, as in the case of an income statement.

Thus, the term financial statement generally refers to the basis statements:

1) The income statement,
2) The balance sheet,
3) A statement of retained earnings,
4) A statement of charge in financial position in addition to the above two statement.

Financial statement Analysis

It is the process of identifying the financial strength and weakness of a firm from the available accounting data and financial statement. The analysis is done by properly establishing the relationship between the items of balance sheet and profit and loss account the first take of financial analyst is to determine the information relevant to the decision under consideration form the total information contained in the financial statement. The second step is to arrange information in a way to highlight significant relationship. The final step is interpretation and drawing of inferences and conclusion. Thus financial analysis is the process of selection relating and evaluation of the accounting data information.

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Ratio Analysis

Ratio analysis is a widely used tool of financial analysis. The term ratio is refers to the relationship expressed in mathematical terms between two individual figures or group of figures connected with each other in some logical manner and are selected from financial statements of the concern. It helps to express the relationship between two accounting figures in such a way that users can draw conclusions about the performance, strengths and weakness of a firm.

Scope of the Study

- The study covers the financial performance of the Ashok Leyland.
- The study is made by making comparison of five year of it operational efficiency.
- The study covered aims to reveal where the stands in respect to liquidity and an effective use of asset.

Objectives of the Study

- To know the financial position of the Ashok Leyland.
- To know the Liquidity and profitability position of the company.
- To know the Activity and Solvency position of the company.

RESEARCH METHODOLOGY

Research design

The study is based on secondary data. Data pertaining behaviour of liquidity solvency and profitability position were collection from the balance sheet and profit & loss account of Ashok Leyland. The necessary data were obtained from published annual report.

Nature of data

The data required for the study has been collected from secondary sources and the relevant information were taken from annual reports, journals and internet etc.

Period of Study

The study covers a period of Five years commencing from 2011-12 to 2015-16.

Tools applied

To have a meaningful analysis and interpretation of various data collected, the following tools were made for this study.
Ratio analysis, Standard Deviation, Coefficient of Variance and Compound Annual Growth Rate.

Limitations of the Study

- The present study confined only to Ashok Leyland Limited the finding and suggestions are not applicable in general.
- The study covers only for a period of 5 years from 2011-12 to 2015-16.

LITERATURE REVIEW

Chiouet (2006)[1] investigated the determinants of working capital management. Results indicated that the debt ratio and operating cash flow affect the company's working capital. The study also revealed that in working capital management many companies still ignored many important factors like business cycle, industry effect, the growth of the company, the performance of the company and firm size.

Kannadhasan (2006)[2] analyzed the working capital management of Public limited companies. The study reveals that the liquidity position was as good as it had remained above standard norms throughout the period of study. It needed to be maintained and increased further by effective utilization and control of current assets.

Amalendu Bhunia, et al (2011)[3] made an attempt to study liquidity management efficiency of an Indian steel company – a case study. For this purpose, they collected secondary data for 230 Indian private sector steel companies covering a period of 8 years from 2002-2010. The study reveals that traditional current ratio and profitability is positively less (0.026) associated with higher profitability. But other traditional liquidity ratios of liquid ratio and absolute liquid ratio are negatively associated (0.024 and 0.086) with higher and lower profitability respectively. The result is in support expectation that traditional liquidity ratios merely affect the profitability.

Subramanian et al. (2014)[4] measured the firm's liquidity and profitability position of Seshasayee Paper and Boards Limited a leading and large-scale private sector paper mill in Tamil Nadu. The study is primarily based on the secondary data taken from the CMIE, Annual Reports and other relevant publications of SPBL. A moderate period of seven years from 2005-06 to 2011-12 is adopted to draw the meaningful inferences. The financial position of the SPBL is satisfactory, but there is a need for improvement in certain factors. A lot of funds invested in inventory and receivables can be released for alternative uses.

Analysis of Financial Performance of select Study Unit

Classification of ratios

a) **Liquidity ratios, Solvency ratios, Activity ratios, Profitability ratio**

Liquidity Ratio

These ratios portray the capacity of the business unit to meet its short term obligation from its short-term resources (e.g.) current ratio, quick ratio.

1. Chiou J., Cheng L. and Han W. "The Determinants of Working Capital Management", The Journal of American Academy of Business, Cambridge, Vol. 10, No. 1, pp 149-155, 2006.
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4. Dr. G. Subramanian and K. Venkatachalam, "Financial Performance Analysis – A Case Study", Star International Journal Of Commerce .Vol.2 Issue 7(2), pp. 10-18, 2014.

Current Ratio

Current ratio may be defined as the relationship between current assets and current liabilities it is the most common ratio for measuring liquidity. It is calculated by dividing current assets and current liabilities. Current assets are those, which can be realized with in a period of one year. Current liabilities are those amounts, which are payable with in a period of one year.

Current Ratio = current Assets/ Current liabilities

Current Ratio

Year	Current Assets (Rupees in Crore)	Current Liabilities (Rupees in Crore)	Ratio (in times)
2011-12	4,919.55	5,312.47	0.93
2012-13	4,788.26	5,136.77	0.93
2013-14	4,176.92	4,476.20	0.93
2014-15	5,286.96	5,601.46	0.94
2015-16	6,338.31	5,887.01	1.08
Mean			**0.96**
SD			**0.06**
CV (%)			**5.97**
CAGR (%)			**3.04**

Source: Annual Report.

The above table shows that the current ratio in the year 2011-12 was 0.93 times and the same ratio was maintained for subsequent years and increased in the year 2014-15 onwards. The ratio was less than the standard norm 2:1 during the study period. The mean ratio is 0.96 times, Standard deviation is 0.06 and coefficient variance is 5.97 per cent. This ratio registered a positive growth rate i.e. 3.04 per cent. This shows the company not enjoying credit worthiness.

Quick Ratio

The term Quick ratio refers to the ability of a firm to pay its short-term obligation and when they become due. The term quick assets or liquid assets refers current assets which can be converted into cash immediately and it comprises all current assets except stock and prepaid expenses it is determined by dividing quick assets by current liabilities.

Quick Ratio = Quick assets/ Current liabilities

Quick Ratio

Year	Quick Assets (Rupees in Crore)	Current Liabilities (Rupees in Crore)	Ratio (in times)
2011-12	2,954.04	5,312.47	0.56
2012-13	3,216.30	5,136.77	0.63
2013-14	3,549.05	4,476.20	0.79
2014-15	4,165.02	5,601.46	0.74
2015-16	4,736.52	5,887.01	0.80
Mean			**0.70**
SD			**0.10**
CV (%)			**13.84**
CAGR (%)			**7.39**

Source: Annual Report.

The above table reveals that the quick ratio is fluctuating and lower than the standard norm of 1:1 during the study period. It was low in the year 2011-12 (0.56 times) and high ratio in the year 201516 (0.80 times). The mean value is 0.70 times, standard deviation is 0.10, and coefficient of variance is 13.84 per cent. This ratio records a positive growth rate during the study period. Hence the firm is not controlling its stock

position because these are lower relationship between current ratio and liquid ratio.

Solvency Ratio

Many financial analyses are interested in the relative use of debt and equity in the firm. The term solvency refers to the ability of a concern to meet its long-term obligation. According to, long-term solvency ratios indicate a firm's ability to meet the fixed interests, costs and repayment schedules associated with its long-term borrowings. (E.g.) Debt equity ratio, proprietary ratio, etc….

Debt Equity Ratio

Debt equity ratio expresses the relationship between the external equities and internal equities or the relationship between borrowed funds and owners capital. It is a popular measure of the long-term financial solvency of a firm. This relationship is shown by the debt equity ratio. This ratio indicates the relative proportion of debt and equity in financing the assets of a firm. This ratio is computed by dividing the total debt of the firm by its equity (i.e.) net worth.

Debt equity ratio = Outsider's funds / Proprietor's funds

Debt Equity Ratio

Year	Outsiders Fund (Rupees in Crore)	Net Worth (Rupees in Crore)	Ratio (in times)
2011-12	5,289.92	2894.82	1.83
2012-13	6,663.28	3158.46	2.11
2013-14	7,157.87	3,273.96	2.19
2014-15	6,688.22	4,096.89	1.63
2015-16	6,476.70	4492.33	1.44
Mean			**1.84**
SD			**0.28**
CV (%)			**15.27**
CAGR (%)			**-4.68**

Source: Annual Report.

The above table exhibits that the debt equity ratio of select study unit is low in the year 2015-16 (1.44 times) and higher ratio in the year 2012-13 (2.11 times).the mean ratio is 1.84 times, standard deviation is 0.28 and coefficient of variance is 15. 27 per cent. This ratio registered a negative growth rate during the study period. Therefore, it is inferred from this ratio that the company's solvency position is somewhat better during the study period.

Activity Ratio

These ratios evaluate the use of the total resources of the business concern along with the use of the components of total assets. They are intended to measure the effectiveness of the assets management the efficiency with which the assets are used would be reflected in the speed and rapidity with which the assets are converted into sales. The greater the rate of turnover, the more efficient the management would be the stock turnover ratio, Debtors turnover ratio etc.

Inventory Turnover Ratio

Every firm has to maintain a certain level of inventory of finished goods so as to be able to meet the requirements of the business. But the level of inventory should neither be too high nor too low. Inventory turnover ratio indicates the number of times the stock has been turned over during the period and

evaluates the efficiency with which a firm is able to manage its inventory.

Inventory Turnover Ratio = Cost of Sales / Average Inventory

Inventory Turnover Ratio

Year	Cost of Sales (Rupees in Crore)	Average Inventory (Rupees in Crore)	Ratio (in times)
2011-12	11,585.90	1965.51	5.89
2012-13	11,604.73	1572.96	7.38
2013-14	9,776.86	628.87	15.55
2014-15	12,535.55	1122.94	11.16
2015-16	16,655.61	1601.79	10.4
Mean			**10.08**
SD			**3.35**
CV (%)			**33.21**
CAGR (%)			**12.04**

Source: Annual Report.

The above table shows that the inventory turnover ratio of select company. It records low ratio in the financial year 2011-12 (5.89 times) and high ratio in the financial year 2013-14 (15.55 times). The mean ratio is 10.08 times, standard deviation is 3.35. This ratio records a positive growth rate i.e. 12.04 per cent during the study period. Hence, their stock conversion period is moderately satisfied during the study period.

Debtors Turnover Ratio

The debtor's turnover ratio indicates the velocity of debt collection of firm. In simple words, it indicates the number of times average debtors are turned over during the year. Generally, the higher the value of debtor's turnover the more efficient is the management of debts. Similarly the low ratio implies inefficient management of debtors. This ratio is calculated by dividing Net credit Annual sale by Average trade debtors.

Debtors Turnover Ratio = Credit sales / Average Debtors

Debtors Turnover Ratio

Year	Credit Sales (Rupees in Crore)	Average Debtors (Rupees in Crore)	Ratio (in times)
2011-12	12,841.99	1842.03	6.97
2012-13	12,481.20	1980.18	6.31
2013-14	9,943.43	2092.04	4.75
2014-15	13,562.18	2519.01	5.38
2015-16	18,821.58	2978.4	6.31
Mean			**5.95**
SD			**0.78**
CV (%)			**13.15**
CAGR (%)			**-1.94**

Source: Annual Report.

The above table exhibits that the debtors turnover ratio minimum in the year 2013-14 (4.75 times) and high ratio in the year 2011-12 (6.97 times). This ratio is fluctuating in the nature during the study period. The mean ratio is 5.95 times, standard deviation is 0.78 and coefficient of variance is 13.15 per cent. This ratio registered a negative growth rate during the study period. Hence, the debt collection strategy of select company is moderately satisfied during the study period.

Net Working Capital

Working capital of the concern is directly related to sales, the current assets like debtors, bills receivable, cash, stock etc., and changes with the increase or decrease in sales. The ratio is calculated by dividing the cost of goods sold by working capital. The working capital turnover ratio indicates the velocity of the utilization of net working capital. This ratio indicates the number of times the working capital is turned over in the course of a year. This ratio measures the efficiency with which the working capital is being used by a firm. A higher ratio indicates the efficient utilization of working capital and a low ratio indicates otherwise. This ratio can be best be used by making of comparative and trend analysis for different firms in the same industry and for various periods.

Net Working Capital = Current Assets – Current Liabilities

Net Working Capital

Year	Current Assets (Rupees in Crore)	Current Liabilities (Rupees in Crore)	Net Working Capital
2011-12	4,919.55	5,312.47	-392.92
2012-13	4,788.26	5,136.77	-348.51
2013-14	4,176.92	4,476.20	-299.28
2014-15	5,286.96	5,601.46	-314.51
2015-16	6,338.31	5,887.01	451.31
Mean			**-903.91**
SD			**433.67**
CV (%)			**-47.98**

Source: Annual Report.

The above table shows that the networking capital of the select study unit. The company has negative working capital for all the financial years except 2015-16 (451.31 Crore). Hence, the company has poor working capital during the study period.

Profitability Ratio

The profitability ratios of a business concern can be measured by the profitability ratios. These ratios highlight the end result of business activities by which alone the overall efficiency of a business unit can be judged. (E.g.) Operating Profit ratio, Net profit ratio.

Operating Profit Ratio

This ratio expresses the relationship between Operating profit and sales. It indicated the efficiency of production or trading operation. A high operating profit ratio is a good management as it implies that the cost of production is relatively low and their operation is sound.

Operating profit ratio = Operating profit / Net sales x 100

Operating Profit Ratio

Year	Operating Profit (Rupees in Crore)	Sales (Rupees in Crore)	Ratio (%)
2011-12	1,256.09	12,841.99	9.78
2012-13	876.47	12,481.20	7.02
2013-14	166.56	9,943.43	1.68
2014-15	1,026.63	13,562.18	7.57
2015-16	2,165.97	18,821.58	11.51
Mean			**7.51**
SD			**3.33**
CV (%)			**44.33**
CAGR (%)			**3.31**

Source: Annual Report.

The above table reveals that the operating profit ratio minimum value in the year 2013-14 (1.68 per cent) and high ratio in the year 2015-16 (11.51 per cent). The company earned below 10 per cent on sales as its operating profit except in the year 2015-16. An average operating profit ratio of the company is 7.5 per cent, standard deviation is 3.33 and coefficient of variance is 44.33 per cent. This ratio records a positive growth rate during the study period.

Net Profit Ratio

Net profit ratio establishes a relationship between net profit (after taxes) and sales. It is determined by dividing the net income after tax to the net sales for the period and measures the profit per rupee of sales

Net profit Ratio = Net profit/ Net sales x 100

Net Profit Ratio

Year	Net Profit Rupees in Crore)	Sales (Rupees in Crore)	Ratio (%)
2011-12	565.98	12,841.99	4.41
2012-13	433.71	12,481.20	3.47
2013-14	29.38	9,943.43	0.31
2014-15	334.81	13,562.18	2.47
2015-16	721.78	18,821.58	3.83
Mean			2.91
SD			1.45
CV (%)			49.91
CAGR (%)			-2.78

Source: Annual Report.

The above table exhibits that the net profit ratio of select company. The company records minimum ratio in the year 2013-14 (0.31 per cent) and higher ratio in the year 2011-12 (4.41 per cent). The mean value of net profit ratio is 2.91 per cent, standard deviation is 1.45 and coefficient of variance is 49.91 per cent. This ratio records a negative growth rate during the study period. Hence, the company earns nominal net profit during the study period.

Findings

- The current ratio in the year 2011-12 was 0.93 times and the same ratio was maintained for subsequent years and increased in the year 2014-15 onwards. The ratio was less than the standard norm 2:1 during the study period. This ratio registered a positive growth rate i.e. 3.04 per cent. This shows the company not enjoying credit worthiness.
- The quick ratio is fluctuating and lowers than the standard norm of 1:1 during the study period. It was low in the year 2011-12 (0.56 times) and high ratio in the year 201516 (0.80 times). Hence the firm is not controlling its stock position because these are lower relationship between current ratio and liquid ratio.
- The debt equity ratio of select study unit is low in the year 2015-16 (1.44 times) and higher ratio in the year 2012-13 (2.11 times). This ratio registered a negative growth rate during the study period. Therefore, it is inferred from this ratio that the company's solvency position is somewhat better during the study period.
- It records low ratio in the financial year 2011-12 (5.89 times) and high ratio in the financial year 2013-14

(15.55 times). Hence, their stock conversion period is moderately satisfied during the study period.
- The debtor's turnover ratio minimum in the year 2013-14 (4.75 times) and high ratio in the year 2011-12 (6.97 times). This ratio is fluctuating in the nature during the study period. Hence, the debt collection strategy of select company is moderately satisfied during the study period.
- The operating profit ratio minimum value in the year 2013-14 (1.68 per cent) and high ratio in the year 2015-16 (11.51 per cent). The company earned below 10 per cent on sales as its operating profit except in the year 2015-16. This ratio records a positive growth rate during the study period.
- The company records minimum net profit ratio in the year 2013-14 (0.31 per cent) and higher ratio in the year 2011-12 (4.41 per cent). This ratio records a negative growth rate during the study period. Hence, the company earns nominal net profit during the study period.

Suggestions

- The company should get the goodwill from the creditors so as to enjoy the credit worthiness.
- Current assets should be increased to improve the liquidity position of the company.
- The company should maintain its debt position.
- Sales should be increased without the additions of fixed assets.
- To improve the selling strategy through which the operating and net profit to be improve.
- The company should take necessary steps to improve the collection methods.
- The company should take necessary steps to reduce and control administrative and selling expenses.

CONCLUSION

The study reveals that the financial performance is fair. It has been maintaining good financial performance and further it can improve if the company concentrates on its operating, Administrative and selling expenses and by reducing expenses. The company should increase sales volume as well as gross profit. Despite price drops in various products, the company has been able to maintain and grow its market share to make strong margins in market, contributing to the strong financial position of the company. The company was able to meet its entire requirements for capital expenditures and higher level of working capital commitment with higher volume of operations and from its operating cash flows.

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