A STUDY OF THE FINANCIAL PERFORMANCE ANALYSIS OF ASHOK LEYLAND LTD

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ABSTRACT

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 economic activities. Financial statements are prepared primary for decision-making. They play a dominant role in setting a frame work and managerial conclusion can be drawn from these statements. The project entitled "Financial performance analysis of Ashok Leyland company ltd" throw light on overall financial performance of the company. The financial statements of ASHOK LEYLAND have been collected over a period of five years from 2013 – 2018. Ratio analysis has been used to know the financial performance of the firm. Results indicate that the performance of Ashok Leyland in the study period has been excellent

I.INTRODUCTION

The Indian auto industry is one of the largest in the world. The industry accounts for 7 % of the country's Gross Domestic Product (GDP). As of financial year 2014-2015, around 31% of small cars sold globally were manufactured in India. The two wheeler segment with 81% market share is the leader of the Indian Automobile market owing to a growing middle class and a young population.

Financial statement analysis is an analysis that highlights the important relationship in the financial statements. It focuses on evaluation of past performance of the business firms in terms of profitability, liquidity, solvency, operational efficiency and growth potentiality. Financial statement analysis includes the methods used in assessing and interpreting the result of past performance and current financial position as they relate to particular factors of interest in investment decisions. Thus, it is an important means of assessing past performance and in forecasting and planning future performance. Financial statements are prepared primarily for decision making. They play a dominant role in setting the frame work of managerial decisions. The financial analysis is the process of financial strength and weakness of the firm by properly establishing relationship between items of the balance sheet and P & L account.

II.OBJECTIVE

- To analyze the solvency and liquidity position of the firm through ratio analysis.

III.STATEMENT OF THE PROBLEM

Financial performance analysis is the use of financial data to evaluate the financial position of the firm in order to understand and make decisions regarding the operation of the firm. It is the process of identifying and establishing the financial strengths and weakness of the firm. Analysis of the financial statement is basically a study of the relationship among the various financial facts and figures. Understanding the past is a pre requisite for anticipating the future. The present study aims at evaluating the overall financial performance of Ashok Leyland ltd by using ratio analysis and applications of a statistical tool. As ratios are the effective analytical tool, it is been used for the analysis of financial performance of Ashok Leyland ltd. To analyse the financial performance, ratio analysis is a logical way to show firm's financial position. So this study is done by ratio analysis of Ashok Leyland ltd by comparing its last five years balance sheet and income statements.

IV.SCOPE OF THE STUDY

The study mainly attempts to analyse the financial performance of the Ashok Leyland. The financial authorities can use this for evaluating their performance in future, which will help to analyse financial statements and help to apply the resources of the company properly for the development of the company and to bring overall growth.The present study attempt to develop a trend analysis model for sales and working capital and profit and loss accounts.

V.RESEARCH METHODOLOGY

AREA OF STUDY

This study is about the financial performance analysis of Ashok Leyland ltd with the help of their annual reports available as a secondary data, by using ratio analysis.

SOURCE OF STUDY

The data used for this study are from secondary sources. The balance sheet and the income statement for the last five years provided in the annual report by Ashok Leyland and other relevant data from newspapers, websites and journals are used.

TOOL USED

- Ratio analysis

VI.LIMITATIONS OF THE STUDY

- This study is based on the secondary data collected from the annual report of the company
- This study is based on the details of last 5 years.

VII.REVIEW OF LITERATURE

- **Amandeep Kaur(2018)**[1] made an attempt to determine the financial performance of Ashok Leyland Ltd in In dia by using financial performance parameters. The main objective of this study is to analyze the profitability, liquidity and solvency of Ashok Leyland Ltd. The researcher applied the tool ratio analysis by taking data for the period from 2013-2014 to 2017-2018. The study concluded that the financial performance of Ashok Leyla nd was fair enough. It can be further improved, if the company's operating, administrating, selling and distrib ution expenses are controlled.

- **M. Rajesh(2017)**[2], the researcher made an attempt to measure the efficiency of operations or the profitability of the organization and to access the financial strength as compared with a similarly situated concern. The mai n objective of this study is to identify the overall financial performance of the company and improve their perf ormance. The researcher used the tool ratio by taking the data period 2005-2009. It is concluded that the comp any has achieved a tremendous progress over the years. It reveals the findings and recommendations which w ould be useful for the development and improvement of the company.

VIII.ANALYSIS AND INTREPRETATION

Solvency ratios includes Short term solvency ratios and long term solvency ratios.

SHORT TERM SOLVENCY RATIOS

CURRENT RATIO

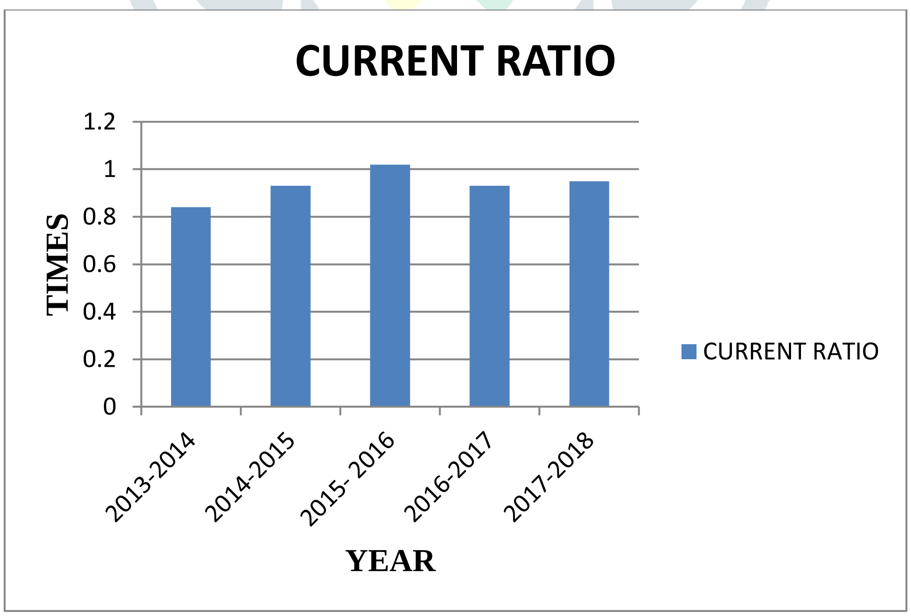
FORMULA: CURRENT RATIO = CURRENT ASSETS/CURRENT LIABILITIES

TABLE NO: 1

CURRENT RATIO

(Rs in lakhs)

YEAR	CURRENT ASSETS	CURRENT LIABILITIES	CURRENT RATIO (in times)
2013-2014	385543.50	458660.20	0.84
2014-2015	469299.52	503551.94	0.93
2015- 2016	529060.52	520986.36	1.02
2016-2017	573660.83	618108.03	0.93
2017-2018	786981.00	824698.21	0.95



From the above table, it is understood that the current ratio of the company ranges minimum of 0.84 during the year 2013-2014 and maximum of 1.02 during the year 2015-2016. The ideal normal is 2:1 of current ratio which means that one rupee of current liability is approximately covered by two rupees of current assets. Finally it depicts that the average current ratio is 0.93 which is below the standard normal.

LIQUID RATIO

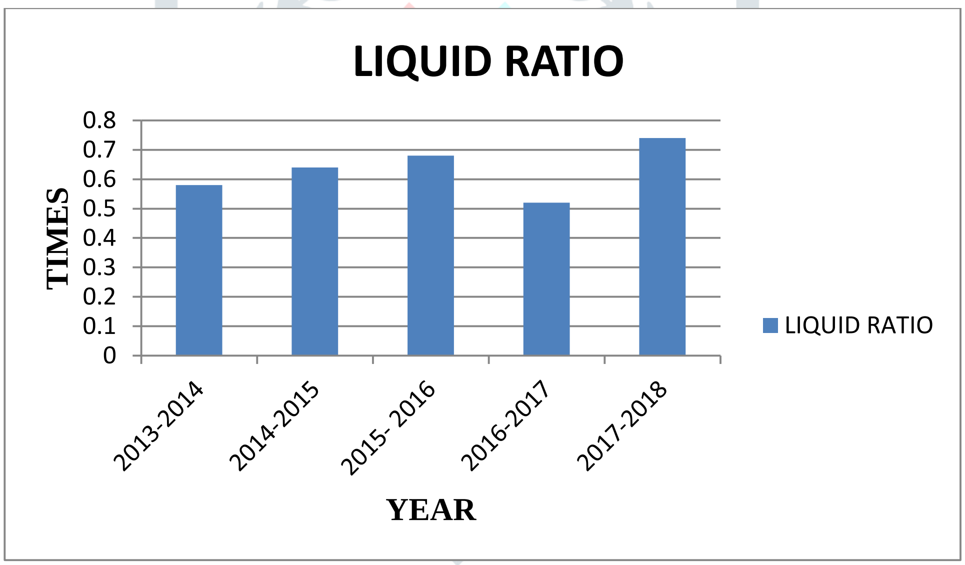
FORMULA: LIQUID RATIO = LIQUID ASSETS/CURRENT LIABILITIES

TABLE NO: 2

LIQUID RATIO

(Rs. in lakhs)

YEAR	LIQUID ASSETS	CURRENT LIABILITIES	LIQUID RATIO (in times)
2013-2014	265138.34	458660.20	0.58
2014-2015	322559.05	503551.94	0.64
2015- 2016	351795.48	520986.36	0.68
2016-2017	319328.98	618108.03	0.52
2017-2018	608553.74	824698.21	0.74



From the above table, it is understood that the liquid ratio of the company ranges minimum of 0.52 during the year 2016-2017 and maximum of 0.74 during the year 2017-2018. The ideal normal is 1:1 of liquid ratio in which the current liability and liquid assets will be equal. Finally it depicts that the average liquid ratio is 0.63 which is also below the standard normal.

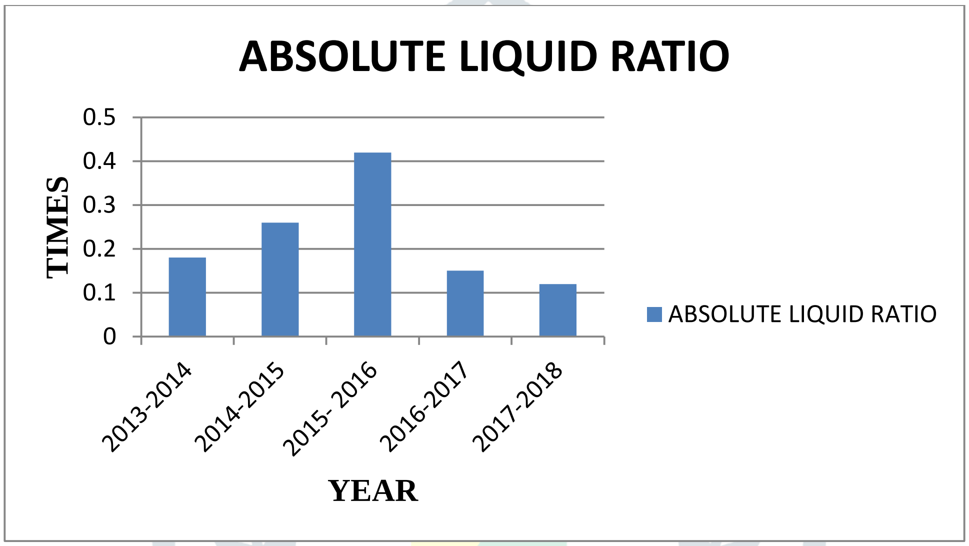
ABSOLUTE LIQUID RATIO

FORMULA: ABSOLUTE LIQUID RATIO = ABSOLUTE LIQUID ASSETS/CURRENT LIABILITIES

TABLE NO: 3
ABSOLUTE LIQUID RATIO

(Rs in lakhs)

YEAR	ABSOLUTE LIQUID ASSETS	CURRENT LIABILITIES	ABSOLUTE LIQUID RATIO (in times)
2013-2014	81240.16	458660.20	0.18
2014-2015	132010.96	503551.94	0.26
2015- 2016	219427.81	520986.36	0.42
2016-2017	91543.94	618108.03	0.15
2017-2018	102850.60	824698.21	0.12



From the above table, it is understood that the absolute liquid ratio ranges minimum of 0.12 during the year 2017-2018 and maximum of 0.42 during the year 2015-2016. The ideal normal is 1:2 or 0.5:1 of absolute liquid ratio in which the absolute liquid assets is covered by two rupees of current liability. Finally it depicts that the average absolute liquid ratio is 0.23 which is also below the standard normal.

LONG TERM SOLVENCY RATIOS

DEBT-EQUITY RATIO

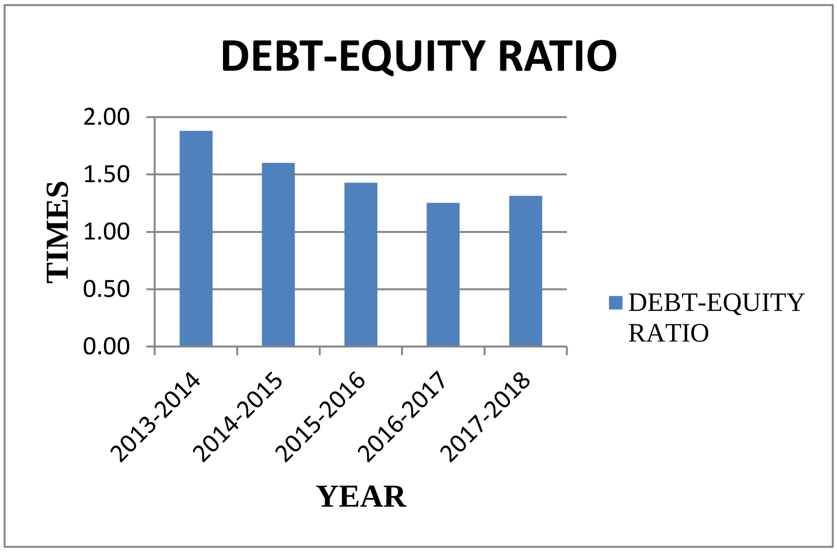
FORMULA: DEBT-EQUITY RATIO = EXTERNAL EQUITIES/INTERNAL EQUITIES

TABLE NO: 4
DEBT-EQUITY RATIO

YEAR	EXTERNAL EQUITIES	INTERNAL EQUITIES	DEBT-EQUITY RATIO (in times)
2013-2014	836011.14	444788.43	1.88
2014-2015	819279.64	511869.38	1.60
2015-2016	787138.31	551413.83	1.43

2016-2017	767333.85	612606.76	1.25
2017-2018	942128.47	716479.75	1.31

(Rs in lakhs)



From the above table, it is clear that the Debt-Equity ratio is in a decreasing trend from the year 2013-2014 to 2016-2017 that is from 1.88 to 1.25. In the year 2017-2018, it has increased to 1.31.A value higher than 1.00 means that more assets are financed by debt that those financed by money of shareholders' and vice versa.Normally, debt-equity ratio of 1:1 is considered reasonable. A high ratio means that claims of creditors are greater than those of owners. Conversely, a low debt-equity ratio implies a greater claim of owners than creditors. So, the company has lower financial risk.

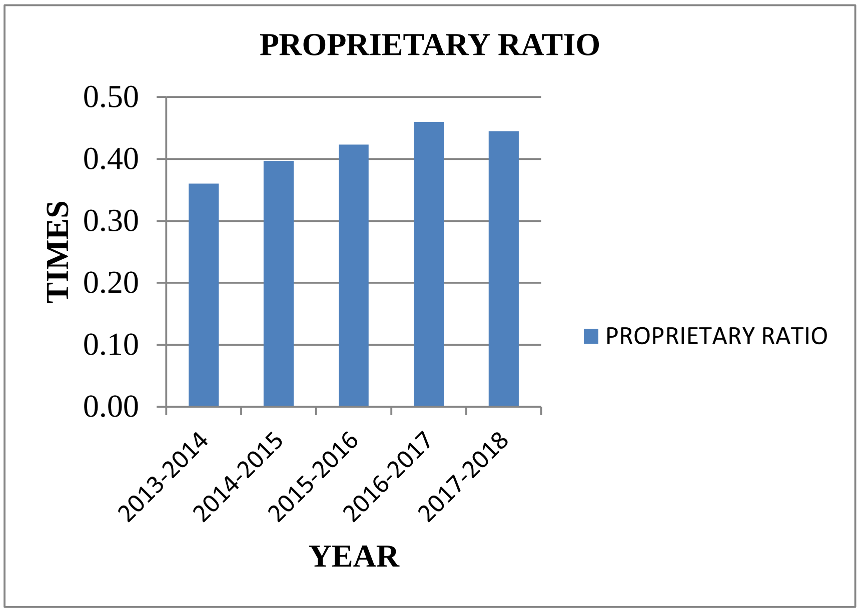
PROPRIETARY RATIO

FORMULA: PROPRIETARY RATIO = PROPRIETORS FUND/TOTAL TANGIBLE ASSETS

TABLE NO: 5
PROPRIETARY RATIO

(Rs in lakhs)

YEAR	PROPRIETORS FUND	TOTAL TANGIABLE ASSETS	PROPRIETARY RATIO (in times)
2013-2014	444788.43	1234365.86	0.36
2014-2015	511869.38	1288807.37	0.40
2015-2016	551413.83	1302713.38	0.42
2016-2017	612606.76	1331357.85	0.46
2017-2018	716479.75	1611118.59	0.44



This ratio measures the extent to which assets are financed by owner's funds. A high ratio of proprietor's funds to total assets is desirable from the point of the creditors/ lenders as there is sufficient margin of safety available to them. While a firm with a very low ratio would expose the creditors to higher risk. Therefore, a higher ratio is an indication of sound financial position of a company. From the above table, it can be understood that the proprietary ratio increases from 0.36 to 0.46 from the year 2013-2014 to 2016-2017. But in the year 2017-2018 it has a decrease to 0.44. So, the company has sound financial position.

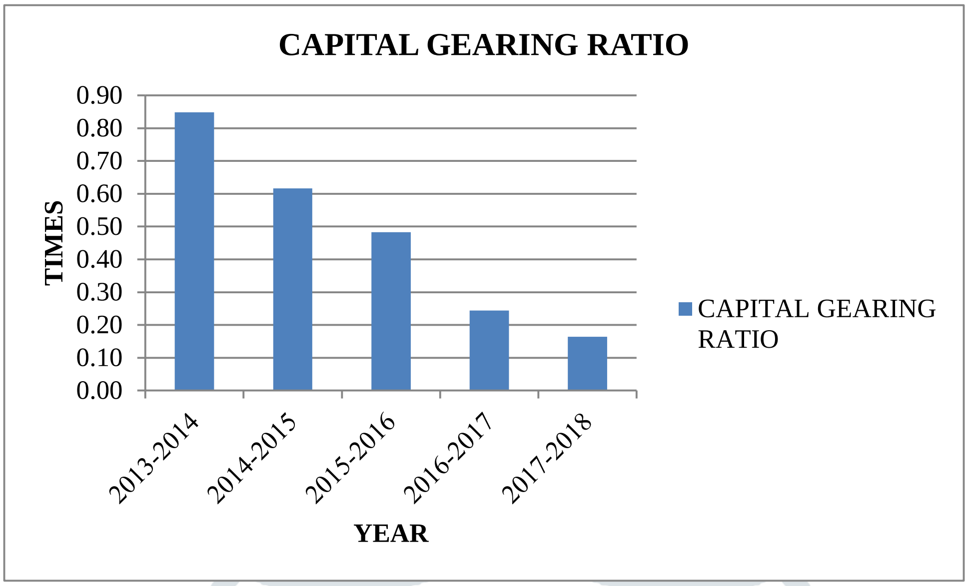
CAPITAL GEARING RATIO

FORMULA: CAPITAL GEARING RATIO = (PREFERENCE CAPITAL+LONG TERM DEBT)/ (EQUITY CAPITAL+RESERVES AND SURPLUS)

TABLE NO: 6
CAPITAL GEARING RATIO

(Rs in lakhs)

YEAR	PREFERENCE CAPITAL+LONG TERM DEBT	EQUITY CAPITAL+RESERVES AND SURPLUS	CAPITAL GEARING RATIO
2013-2014	377350.94	444788.43	0.85
2014-2015	315727.7	511869.38	0.62
2015-2016	266151.82	551413.83	0.48
2016-2017	149225.82	612606.76	0.24
2017-2018	117430.26	716479.75	0.16



Highly geared means less common stockholders' equity where as low geared means more common stockholders' equity.Capital gearing ratio is the measure of capital structure analysis and financial strength of the company and is of great importance for actual and potential investors. From the above table it is clear that there is a decreasing trend of the Capital Gearing Ratio from 0.85 in the year 2013-2014 to 0.16 in the year 2017-2018. So, the company has increasing stockholders' equity.

IX.FINDINGS

- The average current ratio of the company is 0.93 times which is below the standard normal.
- The liquid ratio is fluctuating and the average liquid ratio is 0.63 times which is also below the standard normal.
- The absolute liquid ratio is in decreasing trend after the year 2015-2016 and the average absolute liquid ratio is found to be 0.23 times.
- Debt- equity ratio implies that the company has lower financial risk.
- The increasing trend of proprietary ratio depicts that the company has sound financial position.
- The capital gearing ratio implies that the company has increasing stockholders equity.

X.SUGGESTIONS

- The overall liquidity position of the company is fluctuating because the current liabilities of the firm are more than its current assets. So, the company should increase their current assets.
- Debt position of the company should be maintained at lower level to reduce the liability of the firm.
- The company should concentrate on their selling, distribution and administrative expense and should take necessary steps to reduce the expenses of their company.

XI.CONCLUSION

This study is mainly done to analyze the financial performance of "ASHOK LEYLAND LTD" for the period of 2014-2018.Increasing the profitability of the firm will be the main aim of any organization and it is same for ASHOK

LEYLAND LTD. By this study the financial performance of the Ashok Leyland Ltd was analyzed. This study also gives he knowledge about the usefulness of the tool used. Ratio is the tool used in this study.

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