EFFECTIVE PORTFOLIO MANAGEMENT OF ASKOY LEYLAND AND MARUTI SUZUKI LTD – AN ANALYTICAL STUDY

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ABSTRACT

The selection of right investment mix and policy for the individuals with the assurance of minimum risk and maximum return is called as portfolio management. The automobile industry is extended throughout the world and those companies are involved in the design, development, manufacturing, marketing, and selling of automobile vehicles. It is the largest economic sectors by revenue. In order to analyze the study, the Rate of Return, Return on Equity, and Earnings per share (EPS) are ascertained for the period of 5 years (2014 – 2018). Secondary data have been collected from Ashok Leyland and Maruti Suzuki Ltd. The major findings of this study consists of, when the rate of return is low or negative, the return which is received from such investment will be low or nil return. When the return on equity and EPS is higher, profitability of the company will also be higher and vice versa. It has been suggested that the investor can either reinvest in same security or diversify the investment with other securities which is yielding more return in future.

KEY WORDS: Portfolio Management, Diversification, investment, return, EPS.

INTRODUCTION

A portfolio refers to a collection of investment tools as stocks, bonds, shares, mutual funds, and cash and so on depending upon the investor's income, budget and convenient time frame. The selection of right investment mix and policy for the individuals with the assurance of minimum risk and maximum return is called as portfolio management. The primary objective of constructing a portfolio is to minimize the risk of loss of income by investing in different types of securities. Portfolio management extend the best investment plan and policy to the individuals according to their income, budget, age and ability to tackle risks in future. Portfolio managers suggest the best unique policy for them with minimum risks involved. In other words, a portfolio is a collection of assets. The portfolio gives an opportunity to diversify risk. Diversification of risk means risk management by combining variety of assets to reduce overall risk in portfolio management and it

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does not mean totally eliminating the risk. With every asset, there is an attachment of two type of risks that is diversified risk and undiversified risk.

RESEARCH METHODOLOGY

Objective of the study

- To ascertain the Rate of Return of Ashok Leyland and Maruti Suzuki Ltd.
- To find out the Rate of equity (ROE) and Earnings per share (EPS) of Ashok Leyland and Maruti Suzuki Ltd.

Area of study

This study restricted to Ashok Leyland and Maruti Suzuki Ltd.

Period of the study

The study period consists of five years from 2014 to 2018.

Source of the study

The study is based on secondary data which have been obtained from annual report of Ashok Leyland &Maruti Suzuki Ltd from the period of 2014 – 2018, journals, articles, and websites.

Tools and technique used

The following are the financial tools used in this study to analysis the investment portfolio of Ashok Leyland and Maruti Suzuki Ltd. for the period of 2014 -2018.

- Rate of return
- Return on Equity (ROE)
- Earnings per share (EPS)

Limitation of the study

- The study is based on secondary data only, therefore it is not appropriate.
- The study covers the period 2014 to 2018, so the findings and suggestions from this study cannot suitable for any other period in future.

REVIEW OF LITERATURE

SandipMukherji (2011) has made a study on **"A CAPITAL ASSET PRICING MODEL'S RISK-FREE RATE"**with the objective to investigate on the market and inflation risks of treasury

securities with different maturities over different investment horizons. The goal of this study was to identify the appropriate proxy for the risk-free rate, which has the lowest market and inflation over different horizons. Secondary data has been used for this study. Capital Asset Pricing Model is the only tool for this analysis. It has been found that Treasury securities of all maturities have significant inflation risk and also Treasury bill have the lower inflation risk. Further the inflation beta and explanatory power of inflation for real Treasury bill returns decline with the investor's horizons. So, Treasury bills better proxies for risk-free rate than longer term treasury securities regardless of the investment horizon. The study concluded that mean-real return, volatility and market inflation risk of treasury securities increase with maturity period.

To analyse the investment in securities in such a way that one maximises one's return and minimizes risks in order to achieve one's investment**NeelamKapoor**has conducted a study on **"FINANCIAL PORTFOLIO MANAGEMENT: OVERVIEW AND DECISION MAKING IN INVESTMENT PROCESS"**. The framework proposed in this article presents a holistic perspective of portfolio management, suggesting the use of a set of formal management methods for not only evaluating product projects but also extending to organisational aspects.

I.Satyanarayana and et al have conducted a study on "**REVIEW ON PORTFOLIO MANAGEMENT**" with an objective of analysing the risk return characteristics and helps to construct the effective portfolio that offers maximum return for minimum return and also about marketability of the security which is essential for providing flexibility to investment portfolio. Both primary and secondary data has been used in this study. The results have revealed by comparing two companies and help to choose wisely between alternative investments.

In order to identify the expected rate of return, mispricing, undervaluation and undervaluation of stocks and also ascertain the market premium and beta of stocks **Pankunni** has made an analysis on**"BETA ANALYSIS OF EQUITY RETURN: AN EMPIRICAL STUDY THE SIGNIFICANT OF BETA AND ITS LINEARITY"**by using closing price of stock of different industries listed in Bombay stock exchange in India during the period of 1999-2013. The analysis intense to study the expected rate of return on stock as per Capital Asset Pricing Model and also check whether the market premium is positive or negative. The linearity between beta and equity return is attempt to study the whether the market price and value of stock coincide. Secondary data has been used for this study. The findings have revealed that the expected rate of return of stock vary with beta, "higher the beta- higher will be the expected return and vice versa". The stock with high beta had high expected and actual return when compared to low beta stocks. He also found that co-efficient of correlation between the stock and market return significantly affects the magnitude of beta. The market premium is positive in all cases. The study finds that there is a significant relation beta and equity but the relationship cannot be exactly defined as linear.

ANALYSIS AND INTERPRETATION

RATE OF RETURN

Rate of return is the ratio of return of money gain or loss from the investment that the investor does .The money invested may be referred to as asset, capital, principal, or the cost basis of the investment. The rate of return is expected of an investor can be calculated from the data that already exist. The rate of return is calculated to provide the investors an idea of appropriate return on such investment or combination of investments. The rate of return shows the amount of time it will take to recover one's investment. The result of the rate of return is usually expressed as a percentage. Present return and annual percentage return allows comparing the return provided by different investments or investments held for different periods of time.

Formula:

RATE OF RETURN = D+P1-P0/P0*100

Whereas;

D = dividend for current year.

P1 = closing price of the share.

P0 = opening price of the share.

AVERAGE OF RETURN = TOTAL OF RETURN OF FIVE YEARS / 5

Table.1 RATE OF RETURN

ASHOK LEYLAND

YEAR	P0 (Rs.)	P1 (Rs.)	D (Rs.)	P1-P0 (Rs.)	R (%)
2013-2014	17.25	51.40	-	34.15	**197.97**
2014-2015	51.50	87.90	0.45	36.40	71.55
2015-2016	87.85	80.10	0.95	-7.75	-7.74
2016-2017	80.50	119.10	1.56	38.60	49.89
2017-2018	119.65	102.50	4.86	-17.15	-10.27

(Source: www.money control .com)

AVERAGE RETURN = 60.28

MARUTI SUZUKI

YEAR	P0 (Rs.)	P1 (Rs.)	D (Rs.)	P1-P0 (Rs.)	R (%)
2013-2014	1770.00	3329.80	8.00	1559.80	**88.58**
2014-2015	3320.25	4621.95	12.00	1301.70	39.57
2015-2016	4621.00	5319.55	25.00	698.55	15.66
2016-2017	5320.05	9729.55	35.00	4409.50	83.54
2017-2018	9749.00	7465.50	75.00	-2283.50	-22.65

(Source: www. money control .com)

AVERAGE RETURN = 40.94

From the above table.1, it is concluded that, the rate of return of Ashok Leyland for the period of five years (i.e. 2014 to 2018) shows a fluctuating trend. It is high (197.97) in the year 2014 and it is low and negative (-10.27) in the year 2018.

Whereas, the rate of return of Maruti Suzuki shows a fluctuating trend during the study period of five years (i.e. 2014 to 2018). It is high (88.58) in the year 2014 and it is low and negative (-22.65) in the year 2018. When the rate of return is high, then income which yields from such investment isalso high. When the rate of return is low or negative, the return which is received from such investment is low or nil return.

RETURN ON EQUITY

A company's earnings divided by the amount of money invested in stock, expressed as a percentage. It signifies the level of company`s performance in generating returns on the investment it received from its investors. A high return on equity indicates that the company is sending wisely and is likely profitable; a low return on equity indicates the opposite. As a result, high return on equity leads to higher stock prices. Some analyst believes that return on equity is the single most important indicator of companies' health.

Formula:

RETURN ON EQUITY = NET INCOME / SHAREHOLDERS' EQUITY

Table.2 RETURN ON EQUITY

ASHOK LEYLAND

YEAR	NET INCOME (in millions)	SHAREHOLDERS EQUITY (in millions)	ROE

2013-2014	-1641	175343	-0.94
2014-2015	1339	195246	0.69
2015-2016	10707	229632	4.66
2016-2017	15894	264278	**6.01**
2017-2018	17604	335180	5.25

(Source: www.money control .com)

MARUTI SUZUKI

YEAR	NET INCOME (in millions)	SHAREHOLDERS EQUITY (in millions)	ROE
2013-2014	28529	214964	13.27
2014-2015	38074	243184	15.66
2015-2016	54961	277487	19.81
2016-2017	75099	370751	**20.26**
2017-2018	78800	425594	18.52

(Source: www.money control .com)

From the above table.2, it is concluded that, the return on equity of Ashok Leyland is high (6.01) in the year 2017 and it is low and negative (-0.94) in the year 2014.Whereas for Maruti Suzuki the return on equity is high (20.26) in the year 2017 and it is low (13.27) in the year 2014. When the return on equity is higher the stock price and profitability will also be higher and vice versa.

EARNINGS PER SHARE

Earnings per share (EPS) are important financial measures, which indicate the profitability of a company. It is a financial tool used by investors to measure the profitability of a company before buying its shares. EPS is the part of a company`s profit that is issued to every individual share held by the shareholders. It is the important term for investors and people who trade in the stock market. The higher earnings per share indicate the better profitability of the company. While calculating the EPS, it is advisable to use the weighted ratio, as the number of shares outstanding can change over a period.

Formula:

EARNINGS PER SHARE (EPS) = EARNINGINGS AVAILABLE TO SHAREHOLDERS / NO. OF SHARES

Table.3 EARNINGS PER SHARE

ASHOK LEYLAND

YEAR	EAE (in millions)	NO.OF SHARES (in millions)	EPS (Rs.)
2013-2014	-1641	2661	-0.617
2014-2015	1339	2798	0.479
2015-2016	10707	2846	3.762
2016-2017	15894	2886	5.507
2017-2018	17604	2927	**6.014**

(Source: www.money control .com)

MARUTI SUZUKI

YEAR	EAE (in millions)	NO.OF SHARES (in millions)	EPS (Rs.)
2013-2014	28529	302	94.467
2014-2015	38074	302	126.073
2015-2016	46988	302	155.589
2016-2017	75099	302	248.672
2017-2018	78800	302	**260.927**

(Source: www.money control .com)

From the table.3, it is interpreted that, EPS of Ashok Leyland shows an increasing trend during the study period (i.e. 2014 to 2018). It is high (6.014) in the year 2018 and it is low and negative (-0.617) in the year 2014. EPS of Maruti Suzuki shows an increasing trend in the study period of five years (i.e. 2014 to 2018). It is high (260.927) in the year 2018 and it is low (94.467) in the year 2014. EPS and net profit of the company has direct relationship. When EPS of the company is high it tends to show that profit of the company will be high.

Conclusion

The major findings of the study consist of, when the rate of return is low or negative, the return which is received from such investment is low or nil return. When the return on equity is higher the stock price and profitability will also be higher and vice versa. When EPS of the company is high it tends to show that profit of the company will be high.The conclusion of this studyThe investor can either reinvest in same security or diversify the investment with other securities which is yielding more return in future on basis of rate of return. The right time to invest in securities when the Earnings per share (EPS) and Return on Equity (ROE) is high with the acceptable risks.

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