RESEARCH PAPER | Finance | Volume : 4 | Issue : 4 | Special Apr Issue 2014 | ISSN - 2249-555X

A Study on Financial Performance of Ashok Leyland

KEYWORDS: annual report, capital, finance, performance, profitability.

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ABSTRACT *The financial Performance of any organization has to be evaluated keeping track of its progress. The project titled "A Study on financial Performance of Ashok Leyland is undertaken for a period of two months with the objective of analyzing the profitability, liquidity and solvency position of the Ashok Leyland. To analyze the financial position the data were collected from the annual reports of Ashok Leyland 2007 to 2011.*

INTRODUCTION

Finance is very important fact of every concern. The financial requirements of a business must be sufficient to meet its long-term and short-term commitments. In long term commitment, it needs permanent capital and for short-term commitments it needs working capitals.

Both excessive as well as inadequate finance position are dangerous from the business point of view. Finance is the heart of the concern without finance there is no another functions are operated.

Therefore the financial analyst is responsible to monitor the financial position of the business regularly. The company performance is judged though its financial statement. financial statement analysis is one of the methods that can be used in predicating financial distress which focus on financial variables.

Among the variable tools are used to the financial information contained in the financial statement. Ratio analysis is widely tools, which is relevant in assessing the performance of a firm in respect of liquidity position short term solvency.

RESEARCH METHODOLOGY

Objectives of Study

- To know the liquidity position of the Company
- To find the profitability position of the Company.
- To find out the debt servicing capacity of the company.

Scope of the Study

The present study is concerned with the financial analysis of the company. It is the analysis of liquidity, activity and profitability ratios of the company.

Period of the Study

The Study covered a period of Five years from 2006-07 to 2010-11 accounting year end 31st March every year.

REVIEW OF LITERATURE

Aziz, (1984), emphasizes in this article, accrual accounting ratio were shown to predict bankruptcy accurately for the manufacturing industry; such financial ratios usually lack theoretical justification. Since bankruptcy is cash oriented phenomenon, the use of variables based cash flows is theoretically appealing. Specifically, the equation developed by G.H. Lawson was used to test a bankruptcy predictive model. Lawson's cash flow based model is compared to Altman's accounting based financial ratios analyses with updated discriminate coefficients. The results show that it is difficult to state which model performs better all the time.

Indranil Bose, Anurag Agarwal (2001), in their study it seems that the click-and-mortar companies are likely to reap huge profits in the future due to the increased business base. At this critical juncture, thus the obvious question becomes which of these corporations will succeed and which fail in the next few years. Are there any specific characteristics that set the winners apart from the losers? What does it take for a click-and-mortar corporation to survive in the long run as the consumer base for ecommerce continues to expand; Neural Networks and Z-Score are a good tool to determine the relationship between the characteristics of such firms and their likelihood of survival

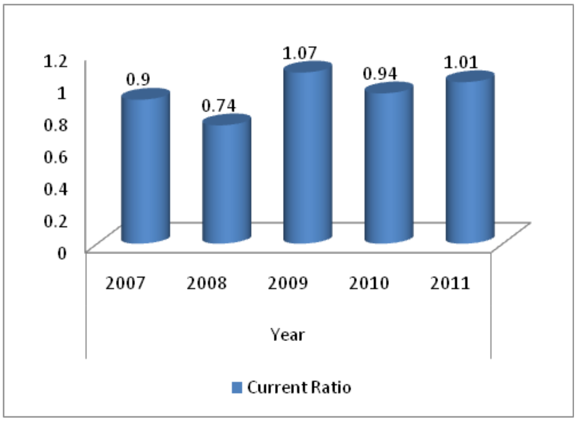
DATA ANALYSIS AND INTERPRETATIONS

Table 1: Current Ratio

Year	Current Asset	Current Liabilities	Current Ratio
2007	1681.75	1865.97	0.90
2008	1644.30	2196.49	0.74
2009	2374.91	2207.29	1.07
2010	2849.22	3002.68	0.94
2011	3573.64	3505.26	1.01

Source: Collected from the annual report of Ashok Leyland.

Figure1: Current Ratio



The rule of thumb of Current Ratio is 2:1; the ratio shows a fluctuating trend. In the year 2007 the ratio was 0.90 and it was decreased from 0.74 in the year 2008. In 2009 the ratio was increased 1.07 and 2009 again it is decreased 0.94. In the year 2011 increased 1.01. So, it is not satisfactory.

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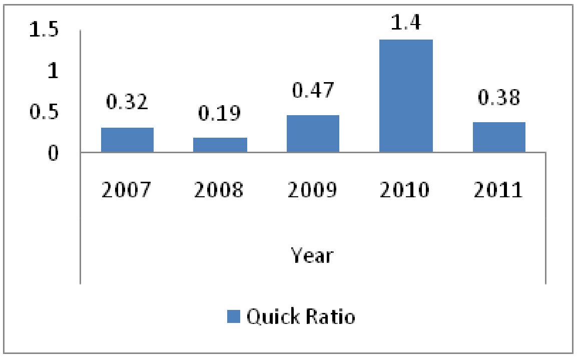
Table 2: Liquid ratio

Year	Liquid Asset	Current Liabilities	Liquid Ratio
2007	611.43	1865.97	0.32
2008	420.39	2196.49	0.19
2009	1044.91	2207.29	0.47
2010	1210.98	3002.68	0.40
2011	1364.74	3505.26	0.38

Source: Collected from the annual report of Ashok Leyland

Figure 2: Liquid ratio



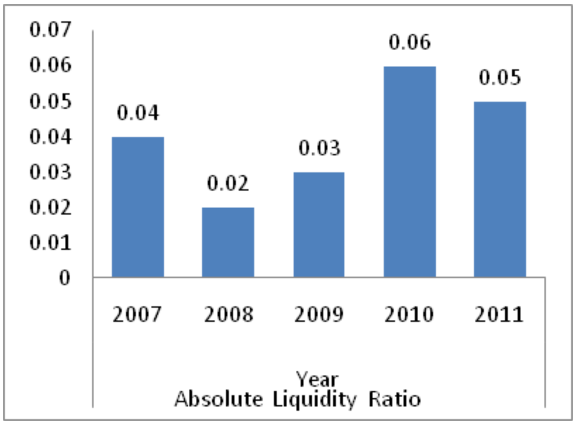
The rule of thumb of liquid ratio is 1:1. The liquid ratio in the year 2007 0.32 and it was decreased 0.19 in 2008. In the year 2009 increased 0.47 up to 2010. Again it was decreased in the year 2011 0.38. The liquid ratio was not satisfactory of the company.

Table 3: Absolute Liquid Ratio

Year	Absolute Liquid Asset	Current Liabilities	Absolute Liquid Ratio
2007	88.5	1865.97	0.04
2008	44.55	2196.49	0.02
2009	86.93	2207.29	0.03
2010	188.92	3002.68	0.06
2011	179.53	3505.26	0.05

Source: Collected from the annual report of Ashok Leyland

Figure 3: Absolute Liquid Ratio



The rule of thumb of absolute liquid ratio is 0.5:1. In the year 2007 ratio was 0.04 and next year on wards decreasing trend. In 2008 decreased from 0.04 to 0.02. Again it was increased 2009 to 2010 0.03 to 0.06. in the 2011 it was decreased 0.05. So, it was not satisfactory in the 2008-09.

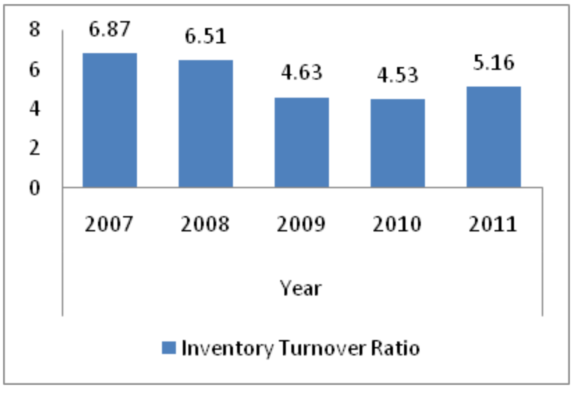
ACTIVITY RATIO

Table 4: Inventory Turnover Ratio

Year	Net sales	Inventory	Ratio
2007	7358.88	1070.32	6.87
2008	7972.52	1223.91	6.51
2009	6168.99	1330.01	4.63
2010	7436.18	1638.24	4.53
2011	11407.15	2208.90	5.16

Source: Collected from the annual report of Ashok Leyland

Figure 4: Inventory Turnover Ratio



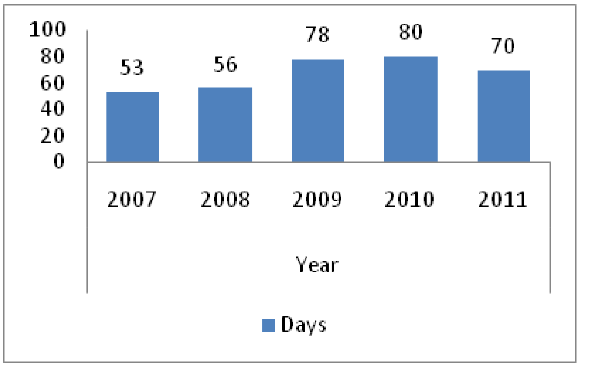
Inventory Turnover Ratio was6.87 it was decreased 6.51 in the year 2008. In 2009 the ratio decreased 4.64 to 4.53. Again it was increased upto 5.16 in the year 2011. This stock turnover ratio implies over investment in stock.

Table 5: Inventory Conversation Period

Year	Days	Stock Turnover Raito	Inventory Period in Days
2007	365	6.87	53
2008	365	6.51	56
2009	365	4.63	78
2010	365	4.53	80
2011	365	5.16	70

Source: Collected from the annual report of Ashok Leyland

Figure 5: Inventory Conversation Period



In the year 2007 53 days it was increased 56 days in the 2008. In 2009 and 2010 it was increased up to 80 days. Again it was decreased in the 2011 it was 70 days. It indicates more days to clear stock compared to previous days up to 2010.

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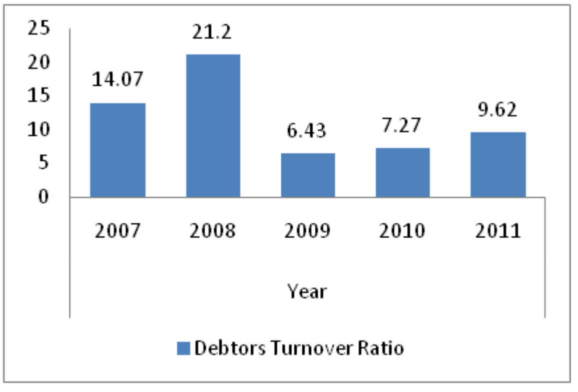
Table 6: Debtors Turnover Ratio

Year	Credit Sales	Average Debtor	Ratio
2007	7358.88	522.88	14.07
2008	7972.52	375.84	21.2
2009	6168.99	957.97	6.43
2010	7436.18	1022.06	7.27
2011	11407.15	1185.21	9.62

Source: Collected from the annual report of Ashok Leyland

Figure 6: Debtors Turnover Ratio



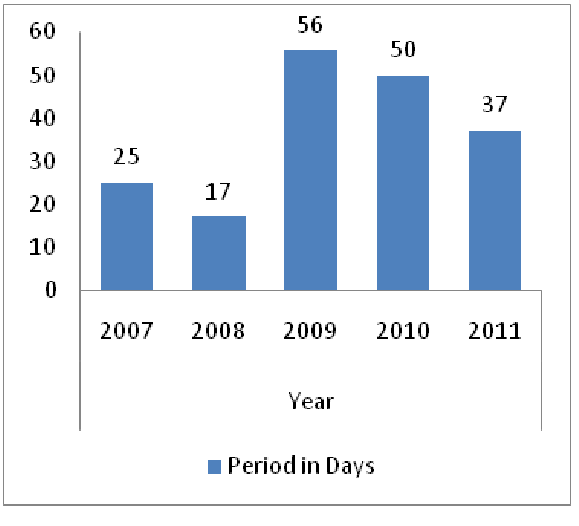
In this year 2007 14.07 times and it was increased to 21.01 and it was decreased 6.43 in 2009. In 2010 -2011 it was slightly increased 7.27 to 9.62. It implies in efficient management of debtors or sales

Table 6: Average collection Period

Year	Days	Debtors Ratio	Days
2007	365	14.07	25
2008	365	21.2	17
2009	365	6.43	56
2010	365	7.27	50
2011	365	9.62	37

Source: Collected from the annual report of Ashok Leyland

Figure 6: Average collection Period



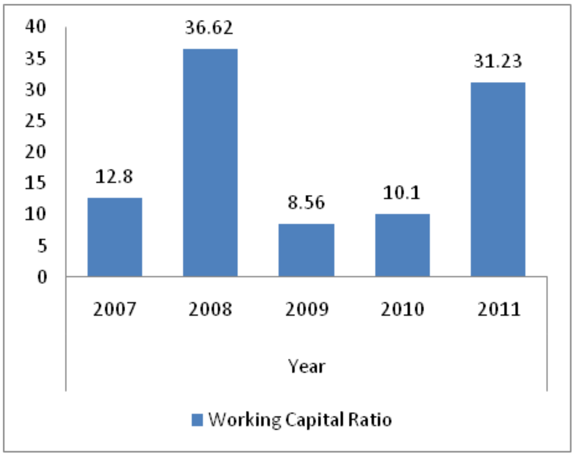
The collection period in the year 2007 it was 25 days in the year 2008 decreased up to 17 days. Again it was increased in 2009 56 and after it was decreased 50 days in the year 2010. After it was decreasing trend in the year 2011 it was 37 days only. It indicates the debt was collected in 37 days.

Table 7: Working Capital Turnover Ratio

Year	Net Sales	Working Capital	Ratio
2007	7358.88	574.72	12.80
2008	7972.52	217.66	36.62
2009	6168.99	720.32	8.56
2010	7436.18	736.17	10.10
2011	11407.15	365.22	31.23

Source: Collected from the annual report of Ashok Leyland

Figure 7: Working Capital Turnover Ratio



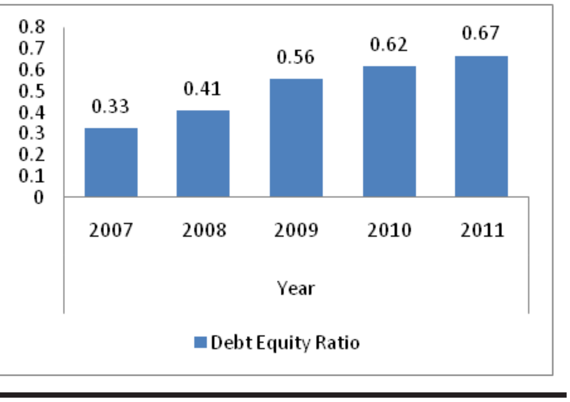
The ratio was fluctuating trend from 2007 to 2011 The ratio was 12.8 and suddenly increased up to 36.62 and after reducing in the year 2009 t0 2010 8.56 to 10.1. And again it was slightly increasing in 31.23.

Table 8: Debt-Equity Ratio

Year	Long Term	Short Term	Ratio
2007	640.40	1894.58	0.33
2008	887.50	2148.98	0.41
2009	1961.98	3478.89	0.56
2010	2280.45	3659.30	0.62
2011	2658.19	3962.96	0.67

Source: Collected from the annual report of Ashok Leyland

Figure 8: Debt-Equity Ratio



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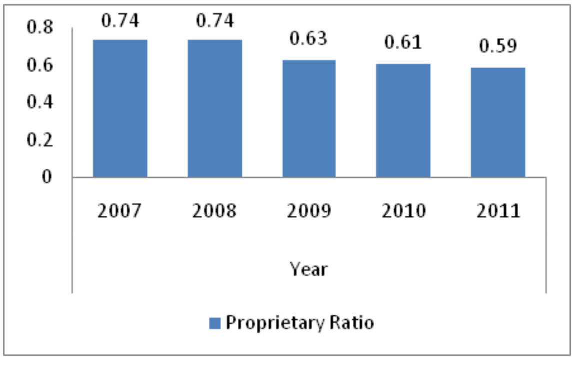
The rule of thumb is 2:1. The debt equity ratio in the year 2007 was 0.33 but it was slightly increasing trend 0.41 to 0.67 in the year 2008 to 2011. The ratio shows that the long term debt is very low. So the company can make use of the law of cost of fund, and it was satisfactory.

Table 9: Proprietary Ratio

Year	Shareholder Fund	Total Assets	Ratio
2007	1894.58	2534.97	0.74
2008	2148.98	3036.48	0.74
2009	3473.89	5435.87	0.63
2010	3656.30	5936.76	0.61
2011	3962.96	6621.14	0.59

Source: Collected from the annual report of Ashok Leyland

Figure 9: Proprietary Ratio



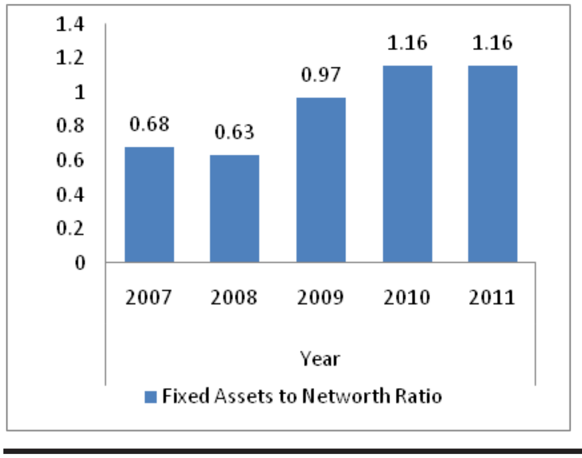
The rule of thumb is above 50% of the ratio is satisfactory. The ratio was 2007 to 2008 was 0.74. In 2009 the ratio was decreasing to 0.63 and again decreasing to 0.59 in 2011. It shows the shareholders are financed to total asset so it was satisfactory.

Table 10: Fixed Assets to Net worth Ratio

Year	Fixed Assets	Share holder Fund	Ratio
2007	1307.04	1894.58	0.68
2008	1525.55	2148.98	0.63
2009	3399.11	3473.89	0.97
2010	4249.56	3656.30	1.16
2011	4633.79	3962.96	1.16

Source: Collected from the annual report of Ashok Leyland

Figure 10: Fixed Assets to Net worth Ratio



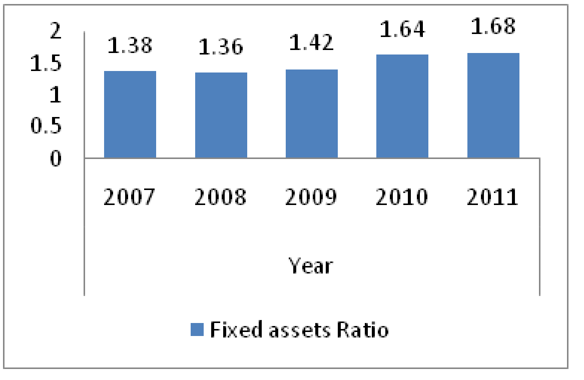
There is no rule of thumb but 60 plus o.65 is said to be satisfactory. The ratio was 0.68 in the year 2007-2008.In 2008 it was increased 0.97 and 2009 to 2011 again the ratio was increasing 1.16.The shareholder fund is properly utilized.

Table 11: Fixed Asset Ratio

Year	Fixed Asset	Long term Fund	Ratio
2007	2620.20	1894.58	1.38
2008	2942.44	2148.98	1.36
2009	4953.27	3473.89	1.42
2010	6018.63	3656.30	1.64
2011	6691.89	3962.96	1.68

Source: Collected from the annual report of Ashok Leyland

Figure 11: Fixed Asset Ratio



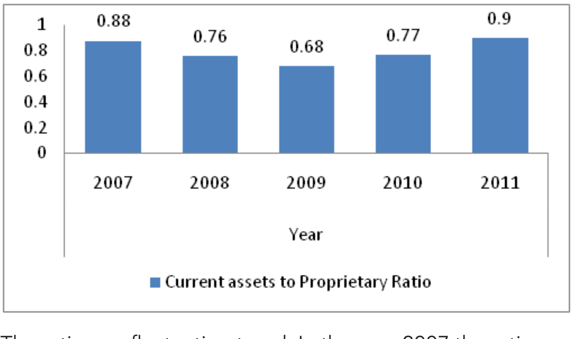
In the year 2007 the fixed Asset Ratio was 1.38 and it was decreased from 1.38 to 1.36. In 2009 the ratio was slightly increasing from 1.42 to 1.68. It implies the company has financed a part of fixed out of current assets.

Table 12: Current Assets to Proprietary Fund

Year	Current Asset	Shareholder Fund	Ratio
2007	1681.75	1894.58	0.88
2008	1644.30	2148.98	0.76
2009	2374.91	3473.89	0.68
2010	2849.22	3656.30	0.77
2011	3573.64	3962.96	0.90

Source: Collected from the annual report of Ashok Leyland

Figure 12: Current Assets to Proprietary Fund



The ratio was fluctuating trend. In the year 2007 the ratio was 0.88 and it was reduced 0.76 to 0.68 in 2008 to 2009. But it

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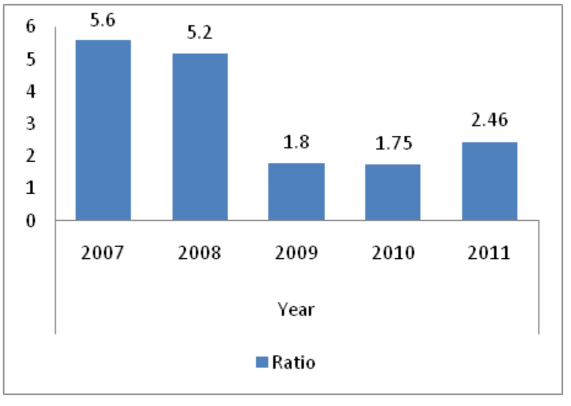
was slightly increased from 0.77 to 0.90 in the year 2011.This shows more than 50% of shareholder are invested in current assets.

Table 13: Fixed asset Turnover Ratio

Year	Net Sales	Fixed Asset	Ratio
2007	7358.88	1307.04	5.6
2008	7972.52	1525.55	5.2
2009	6168.99	3399.11	1.8
2010	7436.18	4249.56	1.75
2011	11407.15	4633.79	2.46

Source: Collected from the annual report of Ashok Leyland

Figure 13: Fixed asset Turnover Ratio



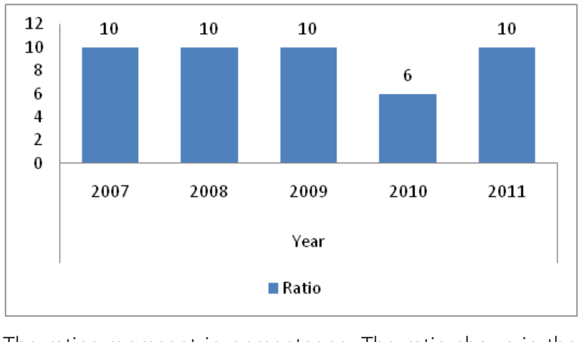
This ratio was decreasing trend was 5.68 in the year 2007, and it easy slightly reduced from 5.6 to 1.75. And again it was slightly increasing 2.46 in the year 2011. The ratio implies the company utilizes the fixed assets to achieve the highest sales.

PROFITABILITY RATIO
Table 14: Gross Profit Ratio

Year	Gross Profit	Net sales	Ratio
2007	768.16	7358.88	10
2008	828.25	7972.52	10
2009	400.35	6168.99	10
2010	752.16	7436.18	6
2011	1232.89	11407.15	10

Source: Collected from the annual report of Ashok Leyland

Figure 14: Gross Profit Ratio



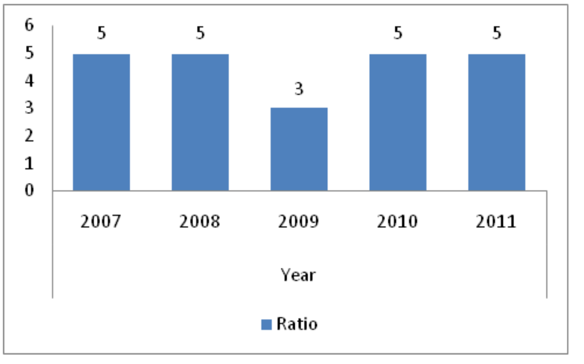
The ratios represent in percentages. The ratio shows in the year 2007 to 2009 was 10% and the ratio was decreasing 6% in the year 2010. In 2011 the ratio again increased to 10%. The gross profit ratio was increasing trend, so overall ratio was satisfactory.

Table 15: Net Profit Ratio

Year	Net Profit	Net Sales	Ratio
2007	441.29	7358.88	5
2008	469.31	7972.52	5
2009	190.00	6168.99	3
2010	423.67	7436.18	5
2011	631.30	11407.15	5

Source: Collected from the annual report of Ashok Leyland

Figure 15: Net Profit Ratio



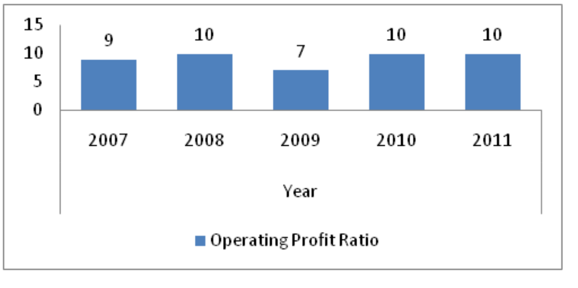
The ratio shows in the year 2007 to 2008 5% and the ratio was decreasing to 3% in the year 2009. In 2010 to 2011 and it was increasing again 5%. Because the company has been increasing the net sales and over net profit was increasing trend.

Table 16: Operating Profit Ratio

Year	Operating Profit	Net Sales	Ratio
2007	686.16	7358.88	9
2008	804.49	7972.52	10
2009	473.09	6168.99	7
2010	761.40	7436.18	10
2011	1217.56	11407.15	10

Source: Collected from the annual report of Ashok Leyland

Figure16: Operating Profit Ratio



The ratio was 9% in the year 2007 and it slightly increasing in 2008 10%. And it was decreasing in 2009 up to 7%. After that 2010 to 2011 it was increasing trend 10%. The overall operating profit and sales and reduce the expenses.

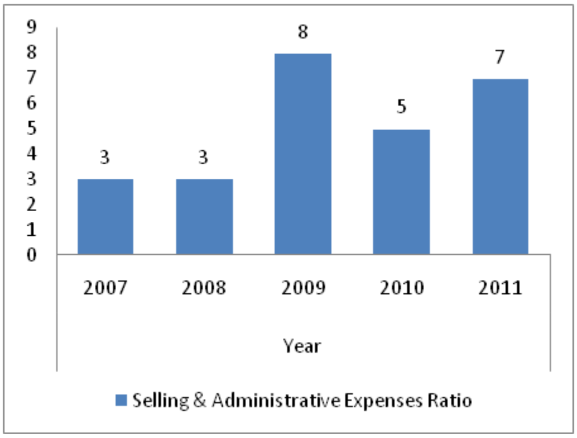
Table 17: Selling and Administrative Expenses Ratio

Year	Selling and Administrative	Net Sales	Ratio
2007	259.50	7358.88	3

2008	263.5	7972.52	3
2009	495.68	6168.99	8
2010	645.89	7436.18	5
2011	857.00	11407.15	7

Source: Collected from the annual report of Ashok Leyland

Figure 17: Selling and Administrative Expenses Ratio



The expenses ratio was 3% in 2 year that is 2007 to 2008. In the year 2009 it was increasing to 8% but in the year 2009 it was decreasing to 5%. Again it was increasing 2011 up to 7%. Because the expenses are slightly decreasing compared to previous year.

CONCLUSION

The project entitled "A Study on financial Performance of Ashok Leyland Limited" was undertaken with the objective of financial performance and to examine profitability performance of the company. From the study Gross Profit and Net profit position was good. The liquidity position should be increase in the company. Long term solvency position of company was satisfactory. The Overall Financial performance of Ashok Leyland was good.

REFERENCE Financial and Management Accounting, T.S. Reddy and Y.Hari Prasad. | www.moneycontrol.com | www.ashokleyland.com |