

FINANCIAL PERFORMANCE ANALYSIS OF ASHOK LEYLAND.



Research Project Submitted in Partial Fulfillment of the Requirements for the

Degree of

B. COM Honors

By

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(Reg no: C2060895)

to the

DEPARTMENT OF COMMERCE

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2022-23

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CERTIFICATE

It is certified that the work contained in the project report titled "Financial performance analysis of Ashok Leyland," by "Vijaykumar Kalakeri," has been carried out under my/our supervision and that this work has not been submitted elsewhere for a degree*

Signature of Supervisor:



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DECLARATION

I hereby declare that this project report entitled "Financial performance analysis of Ashok Leyland. "Was carried out by me for the degree of B. Com Honors under the guidance and supervision of Prakash Teju Rathod, Assistant Professor of Department of Commerce & HOD of Commerce, G. P. PORWAL ARTS, COMMERCE & V. V. SALIMATH SCIENCE College. The interpretations put forth are based on my reading and understanding of the original texts and they are not published anywhere in any form. The other books, articles and websites, which I have made use of are acknowledged at the respective place in the text. This research report is not submitted for any other degree or diploma in any other University.

Place: Sindagi

Name of the Student: Vijaykumar Kalakeri

Class & Section: B. Com VI sem



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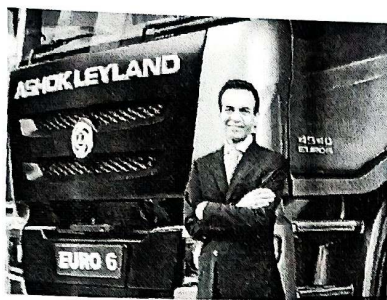


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Executive Summary



Dheeraj
Hinduja,
Chairman

Name	Designation
Andreas H Biagosch	Director
Andrew C Palmer	Director
Anuj Kathuria	Chief Operating Officer
Gopal Mahadevan	Whole Time Director & CFO
Jean Brunol	Director
Jose Maria Alapont	Director
Manisha Girotra	Director
N Ramanathan	Co. Secretary & Compliance Officer
Nitin Seth	Chief Operating Officer
R J Shahaney	Chairman Emeritus
Sanjay K Asher	Director
Saugata Gupta	Director
Vipin Sondhi	Managing Director & CEO

Introduction of Company


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Type	Public
Traded as	• BSE: 500477 • NSE: ASHOKLEY
ISIN	INE208A01029
Industry	Automotive
Founded	7 September 1948
Headquarters	Chennai, Tamil Nadu, India
Area served	Worldwide
Products	• Automobile • Commercial vehicles • Engines
Services	Vehicle financing

Company History

Ashok Leyland Ltd is the 2nd largest manufacturer of commercial vehicles in India the 4th largest manufacturer of buses in the world and the 12th largest manufacturer of trucks globally. The company's products include buses trucks engines defence and special vehicles. From 18 seaters to 82 seaters double-decker buses from 7.5 ton to 49 ton in haulage vehicles from numerous special application vehicles to diesel engines for industrial marine and genset applications Ashok Leyland offers a range of products. The company is the flagship of the Hinduja Group. Headquartered in Chennai India Ashok Leyland's manufacturing footprint spreads across the globe with 9 plants; including one each at Great Britain and Ras Al Khaimah (UAE). The company's Joint Venture partners include John Deere (USA) for Construction Equipment Continental AG (Germany) for Automotive Infotronics and the Alteams Group for the manufacture of high-pressure die-casting extruded aluminium components for the automotive and telecommunications sectors.

Ashok Leyland Ltd was incorporated in the year 1948 with the name Ashok Motors. The company was set up in collaboration with Austin Motor Company England for the assembly of Austin cars.

In The year 1949 they commenced production at the factory situated at Ennore south of Madras.

Assets

Gross Block	9224.52	7304.52	6719.91	5715.78	5207.33
(-) Acc. Depreciation	2420.95	1690.01	1171.94	744.97	415.35
Net Block	6803.57	5614.51	5547.97	4970.81	4791.99
Capital Work in Progress	594.14	657.62	422.64	205.86	75.86
Investments	2719.63	2636.50	5606.67	2878.86	1980.44
Inventories	1238.00	2684.67	1758.33	2631.03	1625.01
Sundry Debtors	1179.82	2505.53	944.78	1064.39	1250.95
Cash and Bank	1322.47	1373.59	1042.16	911.97	1593.13
Loans and Advances	2531.98	2751.98	2013.84	1377.16	1456.38
Total Current Assets	6272.27	9315.77	5759.11	5984.55	5925.47
Current Liabilities	5255.25	8441.17	8414.77	5918.18	5208.70
Provisions	805.54	1052.40	1063.53	650.86	311.86
Total Current Liabilities	6060.79	9493.57	9478.30	6569.04	5520.56
NET CURRENT ASSETS	211.48	-177.80	-3719.19	-584.50	404.91
Misc. Expenses	.00	.00	.00	.00	.00
TOTAL ASSETS(A+B+C+D+E)	10328.82	8730.83	7858.09	7471.03	7253.19

Financial Ratio

Ratio	2020	2019	2018	2017	2016
Current Ratio	1.03	0.98	0.60	0.91	1.07
Formula- Current Assets/Current Liabilities					

Quick Ratio	0.89	0.69	0.42	0.51	0.77
Formula- Quick Assets/Current Liabilities					
Debt-Equity Ratio	0.18	0.03	0.07	0.18	0.33
Formula- Long Term Debt/ Shareholders Fund					
Assets Turnover Ratio	1.83	3.50	3.44	2.74	2.53
Formula- Net Sales/Total Assets					
Fixed Assets Ratio	0.58	0.46	0.65	0.56	0.52
Formula- Long Term Funds/Fixed assets					
Inventory Turnover Ratio	1.69	3.33	15.15	8.15	12.30
Formula- Cost of Goods Sold/ Average Stock					
Debtors Turnover Ratio	10.64	17.27	25.13	18.21	16.28
Formula- Net Credit Sales/Average Debtors					
Gross Profit Ratio (%)	2.88	8.65	8.97	8.36	9.32
Formula- Gross Profit/Net Sales					
Net Profit Ratio (%)	1.37	6.82	6.51	6.07	2.05
Formula- Net Profit/Net Sales					

Ratio Analysis

Current Ratio

Meaning- The ratio reveals the relationship between current assets and current liabilities. This ratio also reveals that how efficiently the working capital of the firm is used.

2020	2019
1.03	0.98

Interpretation- Generally the standard ratio for the concern is 2:1 i.e., current assets should be twice of the current liabilities. If the ratio is 2 it means that the concern to profitably manage the current assets but if the ratio is less than 2, it indicates that the concern has difficulty in meeting its current obligations. In year 2020, this ratio was 1.03 which is more than the standard and in 2019, it is 0.98 that is it further increased by 0.05. From the creditor point of view this ratio is satisfactory because there is sufficient amount or cash, their amount can be paid in time. This ratio is also satisfactory from the point of view of banks and other financial institutes who

has provided the firm with short term loans. The reason for increase in this ratio is that, though there has been increase in the investment in working capital from 2018-19 to 2019-2020 but current assets investment has risen in more than proportion to the current liabilities.

Quick Ratio

Meaning- The ratio reveals the relationship between quick assets (current assets – inventories) and current liabilities. This ratio also reveals the ability of the firm to convert its current assets quickly into cash in order to meet its current liabilities. Current ratio fails to reveal the any information regarding the composition of the current assets of the firm. A rupee of cash is considered equivalent to a rupee of inventory or receivable. But it is not so. A rupee of cash is more readily available (i.e., more liquid) to meet current obligation than a rupee of, say, inventory. But this drawback of current ratio is overcome through the use of quick ratio.

2020	2019
0.89	0.69

Interpretation- Generally the standard ratio for the concern is 1:1 i.e., quick assets should be equal of the current liabilities, if the ratio is 1 it means that the concern has the ability to meet its very short term obligations. In year 2019, this ratio was 0.69 which is approximately equal to the standard and in 2020, it is 0.89, that is it increased by .20. this shows that firm will able to satisfy its short-term obligations quickly which is good from creditors, financial institutes and banks point of view. This ratio rises due to increase in debtor and decrease in current liabilities both. The company debtors are slightly increased, this is because of slight increase in the trend of demand.

Debt Equity Ratio

Meaning- The relation between borrowed funds and owner's fund is measured under this ratio. This ratio reflects the relative claim of creditors and shareholders against the assets of the firm. Or in other words, it shows the proportion of debt and equity in financing the assets of the company.

2020	2019
0.18	0.03

Interpretation- A ideal ratio in this industry is 0.50. In 2019, debt equity ratio of the firm was 0.03 and in 2020, it was 0.18 i.e., it has slightly

increased. Higher the ratio better it is from the shareholders point of view because the earning available to the would increase more than proportionate the increase in the operating profit of the firm. Whereas lower the ratio better it is for the creditors, because for every 18 paise of the creditors, the firm has one rupees of owner's capital. The ratio currently is satisfactory from both point of view.

Assets Turnover Ratio

Meaning- This ratio indicates that how efficiently and profitably the assets of the firm are used.

2020	2019
1.83	3.50

Interpretation- Higher the ratio better it is because more the ratio more will be the production of goods in the business which increases profits. Lower the ratio is unfavourable for the business. Much higher ratio indicates over trading of the business. In the concerned case in 2019 the ratio was 3.50 which further fall to 1.83 in 2020, this shows that the efficiency of the management of the firm is average and much satisfactory in utilizing the assets. The company should try to use assets more efficiently and effectively for increasing the production and reducing the cost.

Fixed Assets Ratio

Meaning- This ratio shows the relationship between long term funds (i.e., both shareholder funds and long-term debts) and fixed assets.

2020	2019
0.58	0.46

Interpretation- This ratio tells that whether the fixed assets are purchased out of the long-term funds or liability or not. It is always advisable for the firm to not to purchase the fixed asset out of working capital. The ideal ratio is less than one. In 2019, this ratio was 0.46 and in 2020 it was 0.58 which is not satisfactory from point of view of company future. The ratio has slightly increased due to decrease in the issue of long-term funds is more than proportion to increase in the purchase of fixed assets.

Inventory

Meaning- This ratio

utilized efficiently or no. Also, it is used to check up that the required minimum stock has been invested or not. Only proper inventory turnover enables the business to earn a reasonable margin of profit.

2020	2019
10.64	17.27

Turnover Ratio

2020	2019
1.69	3.33

Interpretation- Higher ratio is good from view point of liquidity. Lower ratio is not desirable because it signify that the inventory does not sell fast and stay in the shelf or the warehouse for a long period. Higher ratio tell that more sales are being produced by a unit investment in stock. In 2019 the firm had inventory turnover of 3.33 which is satisfactory but this reduced to 1.69 which should not happen. Sales of the firm has not increased much this year as a result of which finished goods in the warehouse and shelf of the firm increased, resulting in high average stock and approximately the same sales as of last year. It leads to fall in the inventory turnover ratio showing decrease in the managerial efficiency in the firm.

Debtor Turnover Ratio

Meaning- Debtor turnover ratio is calculated to measure the collectability of accounts receivable and talks about how the credit policy of the company is enforced.

Interpretation- The ratio measures how rapidly receivables are collected. Higher the ratio better it is because it indicates short time-lag between the credit sales and cash collection. A low ratio shows that debt is not being collected rapidly. In 2019, the ratio was 17.27 times and in 2020, it was 10.64 times, showing the bad performance of management in regard to collection of debt. This ratio tells that there are more chances of bad debts.

Gross Profit Ratio

Meaning- Gross margin ratio tells the earning capacity or the gross margin on trading.


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2020	2019
2.88	8.65

Interpretation- A high ratio is a sign of good management as it implies that the cost of production is relatively low and vice-versa. The gross profit ratio of the company was 8.65% in 2019 and it fall to 2.88% in 2020. Though the ratio is decreasing which is not good.

Net Profit Ratio

Meaning- The net profit margin is indicative of management's ability to operate the business with sufficient success not **only** to recover from revenues of the period, the cost of merchandise, the expenses of operating the business, and the cost of borrowed funds, but also to leave a margin of reasonable compensation to the owner for providing their capital at risks. The net profit (after interest and tax) to sales expresses the cost price effectiveness of the operations.

2020	2019
1.37	6.82

Interpretation- In year 2019, the ratio was 6.82%, and in 2020 it slightly falls to 1.37%. The reason behind fall in the net profit ratio shows that there has been increase in the operating cost more than proportionate to the increase in the sales. Operating cost which has affected this ratio basically consists of financial expenses (interest expenses and cost of issue and others) and employees' remuneration and benefits.

Conclusion-

By going through the records of Ashok Leyland Private Ltd. we can find out it's very huge company which provides commercial vehicles with world class technology that is relevant, appropriate and affordable. It has diversity in its products and services while maintaining exceptional quality.

But despite having significant growth in profit in recent years. The 2020 year has not good for the company in terms of performance as it witnessed the enormous drop in the profit.

By doing the ratio analysis from the records we find out the causes for decline in the

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profit it is due to increase in the operating cost more than proportionate to the increase in the sales.

References-

I got all the information regarding the study of Financial Analysis of Ashok Leyland from the following references.

Websites:

www.wikipedia.com

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