

An Evaluative Study on Measuring Financial Performance of Ashok Leyland Limited

Modi Vishakhaben

Research Scholar, S D School of Commerce, Gujarat University

Abstract: This paper attempts to evaluate the financial performance of Ashok Leyland Limited. For this purpose data were collected through secondary sources that consist of annual reports, articles, journals and consolidated financial statements for the period of 2014-15 to 2018-19. The data were analyzed through different accounting ratios. Statistical tools Mean, Standard Deviation and Coefficient of variance were also used to analyze the data. For a better understanding different charts were used in this study. This study concludes that profitability shows company generated a good amount of profit but, liquidity ratios show weak liquidity position of company further management efficiency ratios shows good strategies and dynamic policies for inventory management and also assets are efficiently used by the company and at the last solvency ratios shows the company is strong enough to afford the debt and taking the benefits of trading on equity. So, it shows the overall good financial performance of the company during the study period.

Keywords: Financial performance, profitability, liquidity, management efficiency, solvency

1. Introduction

Financial statement analysis is the process of analyzing a company's financial statements for decision-making purposes. External stakeholders use it to understand the overall health of an organization as well as to evaluate financial performance and business value. Internal constituents use it as a monitoring tool for managing the finances.

2. Literature Review

Kajanathan & Velnampy (2014) examined liquidity, solvency and profitability analysis using cash flow ratios and traditional ratios. The Results show that traditional ratios generated different results from cash flow ratios in liquidity, Solvency and Profitability. Sri Lanka Telecom PLC was found to have significantly higher solvency ratios than Dialog Axiata PLC, indicating a possibility that the difference may be caused by the type of ownership.

Rashid (2018) examined efficiency of financial ratios analysis for evaluating companies' liquidity. The study recommended that investing in this company or buying the company's share is not going to be bad due to their market position because, investors are more likely to concern about the company's market position even if the company has liquidity problem because market position can affect the share price powerfully.

Megaladevi (2018) undertook a study on the impact of liquidity ratios on profitability of selected cement companies in India. The study has empirically proved through analysis that liquidity has negatively relationship with profitability, and has considerable impact on the profitability of various cement Companies in India. With the growing liquidity level

to ascertain limit the profitability also increases. Hence, this research indicates that liquidity has negative relationship with profitability. The study suggested that liquidity ratios have little influence on the profitability ratios.³

3. Research Methodology

Objectives of the Study: To evaluate financial performance of Ashok Leyland Limited.

Sources of Data: data collected from secondary sources that consist of Journals, articles, annual reports, and consolidated financial statement.

Research Tools: Mean, Standard Deviation, Co-efficient of Variances,

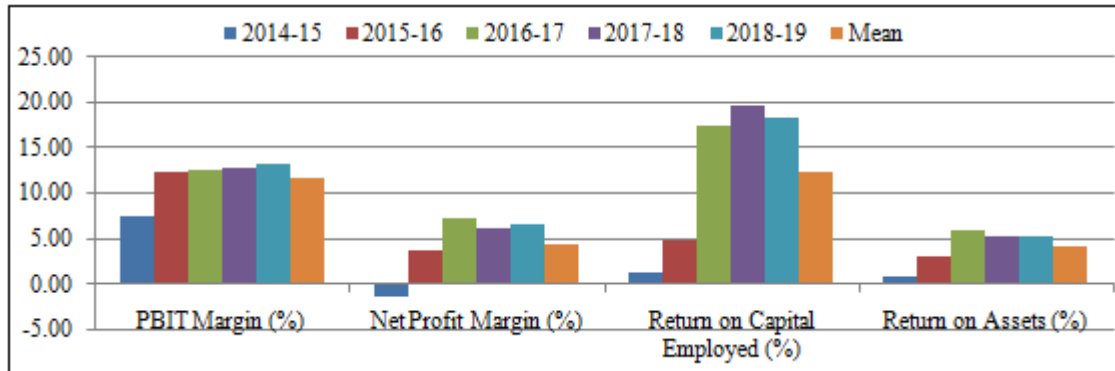
- 1) Profitability Ratios: To know the profitability of companies Profit Before Interest and Tax Margin, Net Profit Margin, Return on Capital Employed, and Return on Assets are used.
- 2) Liquidity Ratios: To know the liquidity status of companies liquid ratio and quick ratio are used.
- 3) Management Efficiency Ratios: To know management efficiency of companies total assets turnover ratio, inventory turnover ratio and debtor turnover ratio are used.
- 4) Solvency Ratios: To know solvency status of company total debt to owners fund ratio and financial charges coverage ratios are used.

4. Financial Performance of Ashok Leyland Limited

4.1 Profitability Analysis of Ashok Leyland Limited

Table 1: Profitability Ratios of Ashok Leyland Limited

Ashok Leyland Limited								
Profitability	2014-15	2015-16	2016-17	2017-18	2018-19	Mean	SD	CV
PBIT Margin (%)	7.34	12.31	12.46	12.83	13.14	11.62	2.4122	20.77%
Net Profit Margin (%)	-1.39	3.71	7.18	6.10	6.57	4.43	3.5115	79.19%
Return on Capital	1.14	4.88	17.52	19.67	18.32	12.31	8.6228	70.07%
Return on Assets (%)	0.68	3.07	5.95	5.25	5.31	4.05	2.1769	53.72%

**Chart 1:** Profitability Ratios of Ashok Leyland Limited**Data Analysis**

The data has been analysed to know the profitability status of Ashok Leyland Limited. The above table presents PBIT Margin, Net Profit Margin, Return on Capital Employed and Return on Assets for the period of five years ranging from 2014-15 to 2018-19. The above table indicates that PBIT Margin of Ashok Leyland Limited is continuously in increasing trend, and on an average company is having 11.62% PBIT Margin which seems quite good for company. The above table also indicates that Net Profit Margin of Ashok Leyland Limited is on an average company having 4.42% Net Profit Margin for company.

The above table also indicates that Return on Capital Employed of Ashok Leyland Limited is on an average company is having 12.32% PBIT Margin which will be generated by company for making timely payments of debt with interest, payment of dividend, future growth, and

shareholders wealth creation. The above table also indicates that Return on Assets of Ashok Leyland Limited is on an average company having 4.05% Return on Assets for company. To know the consistency of profitability standard deviation and co-efficient of variance is calculated and found that PBIT Margin is the most consistent among all the profitability ratios.

Remarks

The profitability ratios shows that during the period of study company has generated good amount of profit and maintained the consistent growth of profit before interest and taxation for payment of interest & dividend, shareholders wealth creation, business expansion, and for future plans.

4.2 Liquidity Analysis of Ashok Leyland Limited**Table 2:** Liquidity Ratios of Ashok Leyland Limited

Ashok Leyland								
Liquidity Ratios	2014-15	2015-16	2016-17	2017-18	2018-19	Mean	SD	CV
Current Ratio	0.96	1.08	1.07	1.02	1.08	1.04	0.0522	5.01%
Quick Ratio	0.76	0.84	0.79	0.86	0.88	0.83	0.0498	6.03%

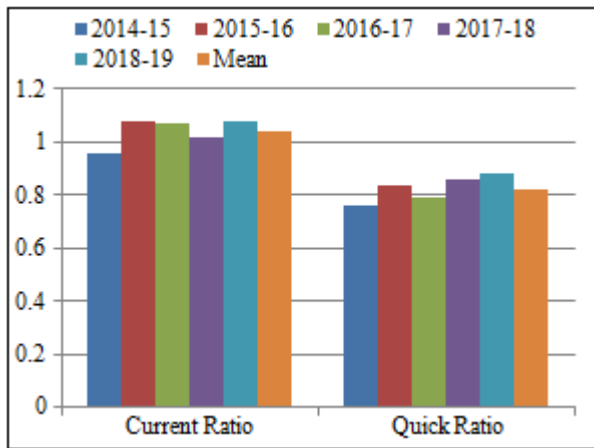


Chart 2: Liquidity Ratios of Ashok Leyland Limited

Data Analysis

The data has been analysed to know the liquidity status of Ashok Leyland Limited. The above table presents Current Ratio and Quick Ratio for the period of five years ranging from 2014-15 to 2018-19. The above table indicates that during the period of study Ashok Leyland Limited has

maintained liquidity ratio around 1.04 which means current assets are just equal and enough to meet current liabilities, which also indicates that company has maintained very less net working capital. The Quick Ratio of company shows on an average 0.83 which means quick assets are not enough to meet short term obligations arising in business. The standard deviation and co-efficient of variance of ratios shows that company has maintained consistency in liquidity during the period of study, which means that requirement of company may be of less net working capital.

Remarks

The data shows that company had current assets almost equal to current liabilities and quick assets less than current liabilities, which shows that company doesn't have enough current assets to meet unexpected, unforeseen and operational short term obligations that indicates weak liquidity position of company.

4.3 Management Efficiency Analysis of Ashok Leyland Limited

Table 3: Management Efficiency Ratios of Ashok Leyland Limited

Ashok Leyland								
Management Efficiency	2014-15	2015-16	2016-17	2017-18	2018-19	Mean	SD	CV
Total Assets Turnover Ratio	1.59	1.71	1.49	1.57	1.42	1.56	0.1095	7.03%
Inventory Turnover Ratio	10.39	11.61	8.34	13.54	10.84	10.94	1.8895	17.27%
Debtors Turnover Ratio	11.22	15.86	16.94	24.54	17.06	17.12	4.7825	27.93%

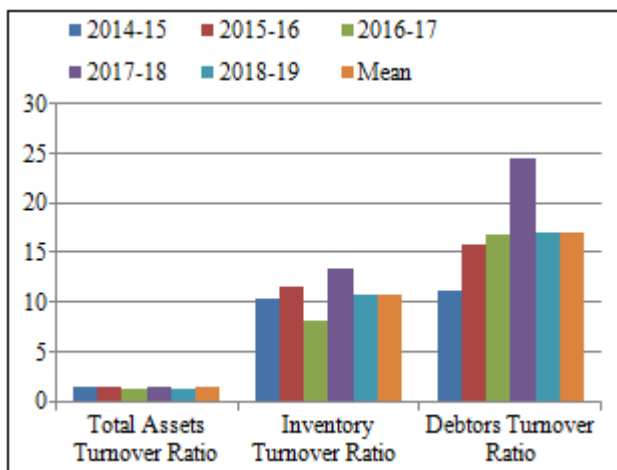


Chart 3: Management Efficiency Ratios of Ashok Leyland Limited

Data Analysis

The data has been analysed to know the Management Efficiency of Ashok Leyland Limited. The above table presents Total Assets Turnover Ratio, Inventory Turnover Ratio and Debtors Turnover Ratio for the period of five years ranging from 2014-15 to 2018-19. The Total Assets Turnover ratio shows that during the study period on an average company has generated 1.56 times revenue from

total assets; the company has also maintained consistency in the revenue generation from total assets. The average inventory turnover ratio of company is 10.94, while in the year 2017-18 it is 13.54 which is highest and for the year 2016-17 it is 8.34 which is lowest. The average debtors turnover ratio of company is 17.12, while in the year 2017-18 it is 24.54 which is highest and for the year 2016-17 it is 11.22 which is lowest.

Remarks

- The Management Efficiency ratios indicates that on an average stock turnout from business within 33 days and trade collection within 21 days, standard deviation and co-efficient of variance shows the variability in policy during the period of study, which indicates good strategies and dynamic policies for inventory management and stock management adopted by company.
- The Management efficiency ratio also indicates that company has consistently maintained their assets in well manner and there is a consistency in revenue generated from assets which proves that assets are efficiently used by company.

4.4 Solvency Analysis of Ashok Leyland Limited

Table 4: Solvency Ratios of Ashok Leyland Limited

Ashok Leyland								
Solvency Ratios	2014-15	2015-16	2016-17	2017-18	2018-19	Mean	SD	CV
Total Debt to Owners Fund	2.02	1.63	1.55	1.64	1.73	1.71	0.1826	10.65%
Financial Charges	1.96	4.54	3.27	3.61	3.35	3.35	0.9249	27.64%

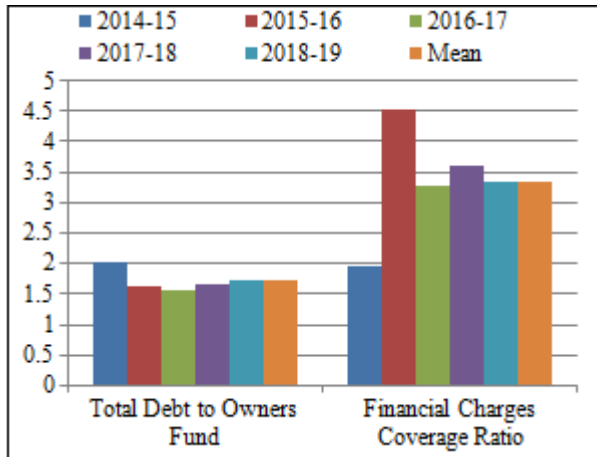


Chart 4: Solvency Ratios of Ashok Leyland Limited

Data Analysis

The data has been analysed to know the Management Efficiency of Ashok Leyland Limited. The above table presents Total Debts to Owners Fund and Financial Charges Coverage Ratio for the period of five years ranging from 2014-15 to 2018-19. The above table shows that on an average total debt to owner fund ratio during the study period is 1.71 which means company has higher amount of debt in capital structure and lower amount of equity and its fund, company has reduced the amount of debt or increased the amount of equity from 2014-15 to 2018-19. The financial charges coverage ratios indicates the number of times the profit can meet the financial charges of the company which is on an average 3.35 times during study period, that seems quite good that after making payment of financial charges company has surplus of fund for business expansion and wealth creation for shareholders.

Remarks

The Solvency ratios indicates that company is using higher amount of debt in capital structure but besides that company also generated handsome amount of profit to meet the financial charges, which shows company is strong enough to afford the debt and may be taking the benefit of trading on equity.

5. Major Findings and Conclusion

The profitability ratios shows that during the period of study Ashok Leyland Limited has generated good amount of profit and maintained the consistent growth of profit before interest and taxation for payment of interest & dividend, shareholders wealth creation, business expansion, and for future plans. The data shows that Ashok Leyland Limited had current assets almost equal to current liabilities and quick assets less than current liabilities, which shows that company doesn't have enough current assets to meet

unexpected, unforeseen and operational short term obligations that indicates weak liquidity position of company. The Management Efficiency ratios of Ashok Leyland Limited indicates that on an average stock turnout from business within 33 days and trade collection within 21 days, standard deviation and co-efficient of variance shows the variability in policy during the period of study, which indicates good strategies and dynamic policies for inventory management and stock management adopted by company. The Management efficiency ratio also indicates that company has consistently maintained their assets in well manner and there is a consistency in revenue generated from assets which proves that assets are efficiently used by company. The Solvency ratios of Ashok Leyland Limited indicates that company is using higher amount of debt in capital structure but besides that company also generated handsome amount of profit to meet the financial charges, which shows company is strong enough to afford the debt and may be taking the benefit of trading on equity.

References

- <https://www.investopedia.com/terms/f/financial-statement-analysis.asp>
- <https://www.edupristine.com/blog/financial-reporting>
- <https://www.investopedia.com/terms/f/financial-statement-analysis.asp>
- <http://www.yourarticlelibrary.com/accounting/financial-statements/meaning-financial-statements/financial-statement-analysis-meaning-objectives-and-limitations-firm/66775>
- <https://www.quora.com/What-are-the-advantages-of-financial-statement-analysis>
- <https://www.accountingtools.com/articles/limitations-of-financial-statements.html>
- <https://accountlearning.com/interested-parties-of-financial-statements/>
- <https://accountlearning.com/tools-techniques-financial-statement-analysis/>
- <https://www.edupristine.com/blog/ratio-analysis-ratios-formulae>
- Kajanathan, R., & Velnampy, T. (2018). Liquidity, Solvency and Profitability Analysis Using Cash Flow Ratios and Traditional Ratios: The Telecommunication Sector in Sri Lanka. *Research Journal of Finance and Accounting*, 5(23).
- Rashid, C. A. (2018). Efficiency of Financial Ratios Analysis for Evaluating Companies' Liquidity. *International Journal of Social Sciences & Educational Studies*, 4(4), 110-123.
- Megaladevi, P., & Subramaniam, A. S. (2018). A Study on Working Capital Management in Selected

Cement Companies in India. ITIHAS-The Journal of Indian Management, 8(3).

Author Profile



Modi Vishakhaben received the B.com degree in Advanced Accounting & Auditing from H.L. College of Commerce and M.Com degree in Accounting and Finance from S.D. School of Commerce in 2015 and 2017 respectively. She had qualified GSET and UGC

NET examinations with commerce subject in 2016 and 2018 respectively. She had two year teaching experience in Accountancy subject. She is now pursuing Ph.D. in Accountancy at S.D. School of Commerce, Gujarat University.