

A STUDY ON PROFITABILITY OF ASHOK LEYLAND LIMITED

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ABSTRACT:

The Indian automobile industry has a vital role to play in the world's automobile market. The automobile industry is one of the largest when compared to the world market. Every household now has a vehicle and India is a home to 40 million passenger vehicles proving that the automobile industry has been able to provide the suitable match of vehicle for this large population of India. The automobile industry has continued its growth trajectory over the past few years. With the increasing growth in demand on back of rising income, expanding middle and young population base, large pool of skilled manpower and growing technology. It is important to know how this growing sector is affecting the financial analysis -of companies under this sector. The automobile industry in India is one of the key sectors of the economy in terms of the employment opportunities that it offers directly as well as indirectly.

INTRODUCTION:

Profitability is the ability to earn profit from all the activities of an enterprise. It indicates how well management of an enterprise generates earnings by using the resources at its disposal. A business needs profits not only for its existence but also for expansion and diversification. The investors want an adequate return on their investments, workers want higher wages, creditors want an adequate return on their investments, workers want higher wages, creditors want higher security for their interest and loan and so on. Profit is the most useful measure of overall efficiency of a business.

REVIEW OF LITERATURE:

Vijayakumar and Kadirvel (2003) studied the determinants of profitability of Indian Public Sector Manufacturing Industries- an Econometric analysis It is evident from the results that age is the strongest determinant of profitability followed the variables Vertical integration, leverage size current ratio, inventory turnover ratio, operating expenses to sales ratio and growth rate. The selected variables have both positive and negative contribution in variation of profit rate. In a nutshell, it can be concluded that firms should consider all these possible determinants while considering its profitability

Amir Hossein Jamali and Asghar Asadi (2012), in their article on “Management efficiency and profitability in Indian automobile industry: from theory to practice they investigated that the relationship

between the management efficiency and the firm's profitability for a sample of 13 Auto manufacturing companies listed on the Bombay Stock Exchange, located in Pune for the period of 5 yrs from 2006 to 2010. Management efficiency is an important component of corporate financial management because it directly affects the profitability of the firms considering the importance of profitability for the survival of a business and the role of efficient management to achieve this aim, this paper explores the relationship between management efficiency and profitability in Automobile Industry of India. For this purpose, 13 auto manufacturing companies are located in Pune were chosen as the sample: The analysis is carried out using Minitab 14 and conducting Pearson Coefficient correlation test on variables of the study including Gross Profit Ratio (GPR) and Assets Turnover Ratio (ATR). The central conclusion of the study is that profitability and management efficiency are highly correlated to each other and based on the results of the study recommendations for improving the management efficiency and profitability in this industry are suggested.

OBJECTIVES OF THE STUDY:

- To analyse the profitability of Ashok Leyland Limited.

RESEARCH METHODOLOGY:

Sample Design:

For the purpose of the study the Ashok Leyland limited Company has been selected conveniently that have highest sales and production in commercial vehicle.

Period of the Study:

The period of the study was taken for Past Five years i.e., from 2016-17 to 2020-21

Sources of Data:

The study is based on the secondary data only. The secondary data have been collected from books, Journals, magazines, daily newspapers, Internet, Society of Indian Automobile Manufacturers (SIAM), published annual reports of the Ashok Leyland limited in India and Automobile industry annual review etc.

Tools of Analysis:

The simple mathematical and statistical tools are used as measures for judging the degree of efficiency of financial analysis of the Ashok leyland limited in India. Further, various statistical tools are deployed Such as ratios, mean, Standard Deviation, Maximum, Minimum are applied at an appropriate context to analyse the data.

ANALYSIS:

Profitability is significant for survival and growth of the business enterprise. Several Factors play an important role directly or indirectly in determining profitability. Profitability is determined by pricing strategy as well as sales volume. It also depends not only on the factors affecting elements of cost of sales but cost of production also as the large size firms have the advantage of technical knowhow and economics in manufacturing, marketing, supervision, and in raising capital; positive relationship exists between the size of the firms and profitability. Profitability is also determined by the assets structure and proper utilization of the production capacity. Profitability is also explained by the age of the firms, diversification, expansion of capacities and retained earnings. Vertical integration, leverage, liquidity, inventory turnover and operating expenses to sales ratio are also the Strongest determinants of the profitability of an enterprise.

India is one of the fastest growing economies in the world. Industry segments like auto mobile textile and agriculture have grown since the nation's independence. The support received from government and welfare schemes have given a boost to these segments for steady and progressive growth. Among these, the automobile industry has flourished like never before. The Indian auto industry is one of the largest globally, both regarding production as well as sales.

OPERATING PROFIT RATIO:

Operating profit ratio establishes a relationship between operating profit earned and net revenue generated from operations (net sales). Operating profit ratio is a type of profitability ratio which expressed as a percentage. Net sales include both cash and credit sales, on the other hand, Operating Profit is the net operating profit i.e the operating profit before interest and taxes. Operating profit ratio helps to find out Operating profit earned in comparison to revenue earned from operations.

$$\text{Operating Profit Ratio} = \frac{\text{Operating Profit}}{\text{Revenue from Operations}} \times 100$$

TABLE NO: 2

Year	Operating profit	Net sales	Operating profit ratio
2016-2017	1840.3	19741.58	9.32
2017-2018	3532.12	25965.78	13.60
2018-2019	1115.01	28614.03	3.90
2019-2020	1495.07	17267.22	8.66
2020-2021	-674.88	15301.45	-4.41
MEAN			6.21
S.D.			6.86
MINI			-4.41
MAXI			13.60

INTERPRETATION:

From the above table it can be seen that ASHOK LEYLAND limited has the Meanvalue of 6.21, S.D of 6.86, Minimum value of -4.41 and Maximum value of 13.60. During the study period, the operating profit ratio shown fluctuating.

NET PROFIT RATIO:

Net profit ratio is a popular profitability ratio that shows relationship between net profit aftertax and net sales. It is computed by dividing the net profit (after tax) by net sales. For the purpose of this ratio, net profit is equal to gross profit minus operating expenses and income tax. All nonoperating revenues and expenses are not taken into account because the purpose of this ratio isto evaluate the profitability of the business from its primary operations.

Net Profit Ratio = $\frac{\text{Net Profit}}{\text{Net Sales}} \times 100$

TABLE NO: 3

Year	Net profit	Net sales	Net profit ratio
2016-2017	1,223.08	19,741.58	6.20
2017-2018	1,717.73	25,965.78	6.62
2018-2019	1,983.20	28,614.03	6.93
2019-2020	239.52	17,267.22	1.39
2020-2021	-313.68	15,301.45	-2.05
MEAN			3.82
S.D.			3.98
MINI			-2.05
MAXI			6.93

INTERPRETATION:

From the above table it can be seen that ASHOK LEYLAND limited has the Meanvalue of 3.82, S.D of 3.98, Minimum value of -2.05 and Maximum value 6.93.During the study period the net profit ratio shows Fluctuating trend.

RETURN ON CAPITAL EMPLOYED:

Return on capital employed or ROCE is a profitability ratio that measures how efficiently a company can generate profits from its capital employed by comparing net operating profit to capital employed. In other words, return on capital employed shows investors how many dollars in profits in each dollar of capital employed generates. ROCE is a long-term profitability ratio because it shows how effectively assets are performing while taking into consideration long-term function.

$$\text{Return on Capital Employed} = \frac{\text{Net operating profit}}{\text{capital employed}} \times 100$$

TABLE NO: 4

Year	Operatingprofit	Capital Employed	Return Capital Employed
2016-2017	6322.4	7618.32	82.99
2017-2018	9092.4	8516.89	106.76
2018-2019	6975.66	9435.44	73.93
2019-2020	6089.54	9390.68	64.85
2020-2021	3435.83	10176.07	33.76
		MEAN	72.46
		S.D.	26.67
		MINI	33.76
		MAXI	106.76

INTERPRETATION:

From the above table it can be seen that ASHOK LEYLAND limited has the Mean value of 72.46 S.D. of 26.67, Minimum value of 33.7 and Maximum value of 106.76. During the studyperiod, the Return on capital employed shown Fluctuating trend.

FINDINGS:

- ☐ Minimum 22.45 and Maximum of 35.27 is attained and shown Fluctuating trend in Grossprofit Ratio.
- ☐ Minimum -4.41 and Maximum of 13.60 is attained and shown Fluctuating trend in Operating profit Ratio.
- ☐ Minimum -2.05 and Maximum of 6.93 is attained and shown Fluctuating trend in Netprofit Ratio.
- ☐ Minimum 33.76 and Maximum of 106.76 is attained and shown Fluctuating trend in Returnon Capital Employed.
- ☐ Minimum 0.49 and Maximum of 1.25 is attained and shown Fluctuating trend in Returnon Net worth.
- ☐ Minimum 0.13 and Maximum of 0.37 is attained and shown Fluctuating trend in Returnon Asset.
- ☐ Minimum -0.06 and Maximum of 0.33 is attained and shown Fluctuating trend in Returnon long term funds.

SUGGESTIONS:

- ❑ Ashok Leyland Limited should utilize their fixed asset to a maximum extend and to generate more revenue by enhancing their sales volume.
- ❑ The company has to improve the profitability position. So, the company may maintain the good Profitability position the future year.
- ❑ Profitability position of the company is now low. So, the company has to take necessary steps to increase its profit.
- ❑ The company's profit over the years has been fluctuating when compared to past five financial years. The company must increase its profit in upcoming years.

CONCLUSION:

Ashok Leyland is an Indian multinational automotive manufacturer company. Ashok Leyland is the second-largest manufacturer of commercial vehicles in India, the third-largest manufacturer of buses in the world, and the tenth-largest manufacturers of trucks. Ashok Leyland has a product range from 1T GVW (Gross Vehicle Weight) to 55T GTW (Gross Trailer Weight) in trucks, 9 to 80-seater buses, vehicles for defence and special applications, and diesel engines for industrial, genset and marine application. Ashok Leyland limited has great achievements and got many awards in the field of automobile industry. Ashok Leyland Limited Profitability analyses shows fluctuating during the study period according to the demand and preference of the customers

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