

# A study on working capital management and its impact on profitability at Ashok Leyland

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## Abstract

In today's competitive business environment, efficient financial management plays a crucial role in ensuring organizational success. Among various financial components, working capital management stands out as a key determinant of a firm's operational efficiency and profitability. This study focuses on analyzing the working capital management practices of Ashok Leyland, one of India's leading commercial vehicle manufacturers, and examines its impact on the company's profitability.

The research is based on secondary data collected over a period of five years (2020–2025). Various financial tools such as ratio analysis, trend analysis, and cash flow evaluation have been used to assess liquidity, efficiency, and profitability. The findings indicate that effective management of inventory, receivables, and payables significantly contributes to improved financial performance. The study concludes that maintaining an optimal level of working capital is essential for achieving both liquidity and profitability.

## 1. Introduction

In the modern corporate world, financial stability is not just about generating profits but also about maintaining a smooth flow of operations. This is where working capital management becomes essential. It ensures that a company has enough resources to meet its short-term obligations while continuing its day-to-day activities without disruption.

Working capital, defined as the difference between current assets and current liabilities, represents the operational liquidity of a business. A well-managed working capital cycle helps organizations avoid financial stress, reduce dependency on external borrowing, and improve overall efficiency.

In industries like automobile manufacturing, where production cycles are complex and capital-intensive, the importance of working capital management increases significantly. Companies must carefully balance inventory levels, credit sales, and supplier payments to maintain stability.

Ashok Leyland, a key player in India's commercial vehicle sector, provides an excellent case for analyzing how working capital influences profitability. With its large-scale operations and dynamic market environment, the company highlights the real-world challenges and importance of efficient financial management.

## 2. Conceptual Framework of Working Capital

Working capital is often referred to as the lifeline of a business. It determines how effectively a company can manage its short-term financial needs.

### Types of Working Capital

Working capital can be classified into:

- \* Gross Working Capital – Total investment in current assets
- \* Net Working Capital – Difference between current assets and current liabilities
- \* Permanent Working Capital – Minimum level required for operations
- \* Temporary Working Capital – Additional requirement during peak periods

Understanding these types helps in better financial planning and decision-making.

## 3. Working Capital Cycle and Operational Efficiency

The working capital cycle represents the time taken to convert raw materials into cash through sales.

It involves:

- \* Procurement of raw materials

- \* Production process
- \* Inventory management
- \* Sales and receivables collection

A shorter cycle indicates higher efficiency, while a longer cycle suggests funds are locked in operations. In manufacturing companies like Ashok Leyland, managing this cycle efficiently is crucial for maintaining liquidity.

#### 4. Importance of Working Capital Management

Working capital management plays a critical role in ensuring:

- \* Smooth business operations
- \* Improved liquidity position
- \* Cost control and profitability
- \* Better supplier and customer relationships

An organization with efficient working capital management can respond quickly to market changes and maintain stability even during economic uncertainties.

#### 5. Company Overview: Ashok Leyland

Ashok Leyland is one of India's leading commercial vehicle manufacturers and a flagship company of the Hinduja Group. Established in 1948, the company has grown into a global player with a strong presence in domestic and international markets.

The company operates in multiple segments including:

- \* Medium and heavy commercial vehicles

- \* Light commercial vehicles
- \* Buses and defense vehicles
- \* Power solutions and engines

Its strong distribution network, focus on innovation, and commitment to quality have helped it maintain a competitive position in the automobile industry.

## 6. Research Methodology

This study is based on secondary data collected from:

- \* Annual reports of Ashok Leyland
- \* Financial statements
- \* Industry reports

### Tools Used

- \* Ratio Analysis
- \* Trend Analysis
- \* Cash Flow Analysis

### Study Period

- \* 5 years (2020–2025)

## 7. Analysis and Findings

The analysis reveals several important insights:

### 1. Liquidity Position

The company has shown improvement in liquidity over the years, indicating better management of current assets and liabilities.

### 2. Profitability Growth

After a challenging period in 2020–21, profitability has improved significantly due to better cost control and operational efficiency.

### 3. Receivable Management

Improved receivable turnover indicates faster collection of dues, which enhances cash flow.

### 4. Inventory Management

Although fluctuations exist, overall inventory control has been effective in supporting production without excessive holding costs.

### 5. Cash Flow Efficiency

Operating cash flow has improved, showing the company's ability to convert profits into actual cash.

### 8. Discussion

The relationship between working capital and profitability is clearly visible in this study. Efficient working capital management reduces unnecessary costs and enhances operational efficiency.

However, maintaining excessive working capital can lead to idle funds, while insufficient working capital can disrupt operations. Therefore, companies must focus on achieving an optimal balance.

Ashok Leyland's performance demonstrates how strategic financial management can help overcome challenges and improve long-term sustainability.

## 9. Conclusion

The study concludes that working capital management plays a vital role in determining the financial health of a company. Efficient management of inventory, receivables, and payables directly impacts profitability and operational efficiency.

Ashok Leyland has demonstrated strong improvement in its financial performance through effective working capital practices. The company's ability to adapt to changing market conditions and optimize resource utilization has contributed to its growth.

Maintaining an optimal level of working capital is essential for achieving a balance between liquidity and profitability.