

INTERNATIONAL JOURNAL OF RESEARCH IN COMMERCE & MANAGEMENT

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NEED/IMPORTANCE OF THE STUDY

STATEMENT OF THE PROBLEM

OBJECTIVES

HYPOTHESES

RESEARCH METHODOLOGY

RESULTS & DISCUSSION

FINDINGS

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- Sharma T., Kwatra, G. (2008) Effectiveness of Social Advertising: A Study of Selected Campaigns, Corporate Social Responsibility, Edited by David Crowther & Nicholas Capaldi, Ashgate Research Companion to Corporate Social Responsibility, Chapter 15, pp 287-303.

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- Schemenner, R.W., Huber, J.C. and Cook, R.L. (1987), "Geographic Differences and the Location of New Manufacturing Facilities," Journal of Urban Economics, Vol. 21, No. 1, pp. 83-104.

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IMPACT OF WORKING CAPITAL MANAGEMENT ON FIRM'S PROFITABILITY & LIQUIDITY: AN EMPIRICAL STUDY OF ASHOK LEYLAND LTD.

JISHA JOSEPH
ASST. PROFESSOR
MANGALAM MANAGEMENT STUDIES
MAHATMA GANDHI UNIVERSITY
ETTUMANOOR

ABSTRACT

Every organization whether public or private, profit oriented or not, irrespective of its size and nature of business, needs adequate amount of working capital. The efficient working capital management is most crucial factor in maintaining survival, liquidity, solvency and profitability of the any business organization. Keeping in view the significance of working capital management as a gray area of corporate finance function, an attempt has been made to examine the working capital trends and practices of Ashok Leyland. Efficient management of working capital helps to avoid financial crisis, thereby, increasing the profitability and enhances the firms value. By observation of this it can be seen that both the liquidity position and the profitability position of Ashok Leyland is not up to the desired level. The year under review saw a slowdown in the Indian economy with a consequent adverse impact on the commercial vehicle industry. Whilst the overall volume declined by 2% year over year, the medium & heavy duty segment clocked a 25% drop. It caused a great impact on the profitability of the company during the past years. The short term solvency position of the firm must be strengthened so that it is able to meet its obligations timely.

JEL CODES

G31, G32

KEYWORDS

Current ratio, Net Working Capital, Liquidity, Profitability, Risk, ROCE, Risk-return Trade Off.

CONCEPT

The concept of working capital was first evolved by Karl Max. The capital required for a company can be classified under two main categories such as: fixed capital and working capital. Funds required to create production facilities through purchase of fixed asset is called as fixed capital whereas, Working capital refers to part of firm's capital which is required for financing short term or current assets such as cash, marketable securities, debtors and inventories. The Management of Fixed assets and Current assets has a great impact on future return and risk of the company. So it is vital ingredient to the business as the blood is to the human body.

Generally, there are two concepts of working capital i.e. balance sheet concept and operating cycle concept. Balance sheet concept can be again classified to gross concept and net concept. The former means the firm's investment in current assets and later the excess of current assets over the current liabilities. Since the elements of working capital are short term in nature constant monitoring must be done for proper management. Working capital can also be defined as the working expenses that get blocked in current assets along the productive line of an enterprise. The Net Working Capital is that liquidity which takes care of the working expenses.

The working capital requirement of a firm will depend upon its operating cycle. It is a cycle having a continuous series of steps for conversion of sales into cash. The working capital is required maintaining its liquidity in day-to-day operation to ensure it's smooth running and meets its obligation (Eljelly, 2004). Yet, this is not a simple task since managers must make sure that business operation is running in efficient and profitable manner. There are the possibilities of mismatch of current asset and current liability during this process. If this happens and firm's manager cannot manage it properly then it will affect firm's growth and profitability. This will further lead to financial distress and finally firms can go bankrupt.

WORKING CAPITAL MANAGEMENT

Efficient management of working Capital is one of the pre-conditions for the success of an enterprise. Efficient management of working capital means management of various components of working capital in such a way that an adequate amount of working capital is maintained for smooth running of a firm. An optimal working capital management is expected to contribute positively to the creation of firm value. To reach optimal working capital management firm manager should control the trade-off between profitability and liquidity accurately. The purpose of this study is to investigate the relationship between working capital management and firm's profitability.

A firm should maintain adequate level of working capital to meet the current obligations and to maintain uninterrupted business operation. Firm should always keep monitoring the liquidity position as it projects the company's credit image. Lack of liquidity can create a bad image among the parties interested in the firms functioning. Also firm must ensure that there should be a proper balance between current assets and current liabilities, as it can affect the profitability of the firm. Greater investment in idle current assets can result in decrease in profitability.

So the goal of working capital management is to ensure that the firm is able to continue its day-to-day operations and it has the sufficient ability to satisfy its present and future short term expenses. There should be proper proportion between the level of current assets and current liability. So an efficient working capital management will enable the concern to maintain a good balance between the liquidity and profitability. Ezra Solomon states that "liquidity measures a company's ability to meet expected as well as unexpected requirement of cash to expand its assets, reduce its liabilities and cover up an operating losses".

JUSTIFICATION OF THE TOPIC

Proper management of working capital is required to ensure that the firm is able to continue its day-to-day operations and it has the sufficient ability to satisfy its present and upcoming short term expenses. The working capital position helps the investors, creditors, bankers, suppliers, financial institutions, government etc. judge the stability of the enterprise. The financial institutions and individuals may be interested in investing in that company which is financial strong to meet its present and upcoming short term expenses. Well maintained working capital will help to create good creditors image, avoid unwanted borrowing, healthy government support etc. An efficient working capital management will only help a firm to compete in the present global market. Working capital is the life blood and nerve centre of business. Just as circulation of blood is essential in the human body for maintaining life, working capital is very essential to maintain the smooth running of the business. No business can run successfully without an adequate amount of working capital. Working capital plays a vital role in the impact of the business. So there exist a number of implication and gaps for enquiry into working capital management of companies; against this background a study was conducted on the Working Capital position of Ashok Leyland.

RESEARCH DESIGN & METHODOLOGY

In this study the sample company named Ashok Leyland has been taken for analysis of Working Capital position. Present study is based on secondary data i.e. published annual reports of the company. These financial data's are edited, classified and tabulated as per the requirements of the study. This study has covered 10 years data's from 2004 to 2013 for analyzing the Working Capital position of Ashok Leyland Ltd.

The Liquidity and Profitability position have been measured to analyze the Working Capital position of Ashok Leyland. The collected data have been analyzed by the various ratios for finding liquidity and profitability. For assessing the behavior of above ratios, Regression Analysis, Spearman's Rank Correlation Co-efficient and Student t-test has been used.

OBJECTIVES OF STUDY

This study has the following objectives:-

1. To analyze the Working capital position of the firm.
2. To analyze the effect of liquidity on profitability.
3. To analyze the effect of risk on profitability.
4. To give suggestions on the basis of findings of the study.

HYPOTHESES OF THE STUDY

This study is based on the following null hypotheses (H_0):

1. There is no significant difference between liquidity and profitability of Ashok Leyland during the period of study.
2. There is no significant difference between risk and profitability of Ashok Leyland during the period of study.

COMPANY PROFILE

Ashok Leyland is an Indian automobile manufacturing company founded in the year 1948. It is Second largest commercial vehicle manufacturer. The industry encompasses commercial vehicle, multi-utility vehicles, passenger cars, two wheelers, three wheelers, tractors and auto component. It sells about 60,000 vehicles and about 7,000 engines annually, with passenger transportation options ranging from 19 seaters to 80 seaters, Ashok Leyland is a market leader in the bus segment. Operating six plants, Ashok Leyland also makes spare parts and engines for industrial and marine applications.

India's first Prime Minister Nehru persuaded Raghunandan Saran, an industrialist, to enter automotive manufacture. The company began in 1948 as Ashok Motors, to assemble Austin cars. The company was renamed and started manufacturing commercial vehicles in 1955 with equity participation by Leyland Motors. Today the company is the flagship of the Hinduja Group, a British-based and Indian originated transnational conglomerate. In the journey towards global standards of quality, Ashok Leyland reached a major milestone in 1993 when it became the first in India's automobile history to win the ISO 9002 certification.

Over the years, Ashok Leyland vehicles have built a reputation for reliability and ruggedness. This was mainly due to the product design legacy carried over from British Leyland. The company has also maintained its profitable track record for 60 years. The annual turnover of the company was USD 1.4 billion in 2012-2013. Ashok Leyland is India's largest exporter of medium and heavy duty trucks. It is also one of the largest private sector employers in India - with about 12,000 employees working in 6 factories and offices spread over the length and breadth of India.

REVIEW OF LITERATURE

Although working capital is an important ingredient in the smooth working of business entities, it has not attracted much attention of scholars. Whatever studies have conducted, those have exercised profound influence on the understanding of working capital management.

Sagan in his paper (1955), perhaps the first theoretical paper on the theory of working capital management, emphasized the need for management of working capital accounts and warned that it could vitally affect the health of the company. He realized the need to build up a theory of working capital management. He discussed mainly the role and functions of money manager inefficient working capital management. Sagan pointed out the money manager's operations were primarily in the area of cash flows generated in the course of business transactions. However, money manager must be familiar with what is being done with the control of inventories, receivables and payables because all these accounts affect cash position. Thus, Sagan concentrated mainly on cash component of working capital. Sagan indicated that the task of money manager was to provide funds as and when needed and to invest temporarily surplus funds as profitably as possible in view of his particular requirements of safety and liquidity of funds by examining the risk and return of various investment opportunities. He suggested that money manager should take his decisions on the basis of cash budget and total current assets position rather than on the basis of traditional working capital ratios. This is important because efficient money manager can avoid borrowing from outside even when his net working capital position is low. The study pointed out that there was a need to improve the collection of funds but it remained silent about the method of doing it. Moreover, this study is descriptive without any empirical support.

Appavadhanulu (1971) recognizing the lack of attention being given to investment in working capital, analysed working capital management by examining the impact of method of production on investment in working capital. He emphasized that different production techniques require different amount of working capital by affecting goods-in-process because different techniques have differences in the length of production period, the rate of output flow per unit of time and time pattern of value addition. Different techniques would also affect the stock of raw materials and finished goods, by affecting lead-time, optimum lot size and marketing lag of output disposals. He, therefore, hypothesised that choice of production technique could reduce the working capital needs. He estimated the ratio of work-in-progress and working capital to gross output and net output in textile weaving done during 1960, on the basis of detailed discussions with the producers and not on the basis of balance sheets which might include speculative figures. His study could not show significant relationship between choice of technique and working capital. However, he pointed out that the idea could be tested in some other industries like machine tools, ship building etc. by taking more appropriate ratios representing production technique correctly.

The study by **R.N. Agarwal** (1982) estimated total inventory investment equation for individual firms in automobile manufacturing industry, which was divided into two sectors- car-sector and non car-sector. His study was based on the data for 1959-60 through 1978-79. Official Directory of Mumbai Stock Exchange had been the basic source of data. Analysis of two sector revealed that sales and stock-sales ratio were important explanatory variables. Cost of capital and trend were important in only car sector while fixed investment and flows of external funds were significant in non-car sector. Existing stock of inventories was statistically significant in both the sector but contrary to expectations, it possessed negative coefficient. Several other variables as dividends, capacity utilization and liquidity ratio were found to be of no importance in explaining inventory investment behavior. **Shin and Soenen** (1998) suggested that efficient working capital management was very important for creating value for the shareholders. The way working capital was managed had a significant impact on both profitability and liquidity. Using correlation and regression analysis they justified the relationship between the length of net trading cycle, corporate profitability and risk adjusted stock return. They found a strong negative relationship between lengths of the firm's net trading cycle and its profitability. In addition, they also found that shorter net trade cycles were associated with higher risk adjusted stock returns.

Extensive research works on working capital management have been done in both public and private sectors. **Sayaduzzaman** (2006) in his article on "Working Capital Management: A study on British American Tobacco Bangladesh Company Limited" mentions that the efficiency of working capital management of British American Tobacco Bangladesh Company Ltd. is highly satisfactory due to the positive cash inflows and planned approach in managing the major elements of working capital. He found that working capital management helps to maintain all around efficiency in operations. **Padachi** (2006) find in his research study that a firm is required to maintain a balance between liquidity and profitability while conducting its day to day operations. The manager of a business entity is in a dilemma of achieving desired trade-off between liquidity and profitability in order to maximize the value of a firm. **Ganesand** (2007) suggest that efficient working capital management increases firms' free cash flow, which in turn increases the firms' growth opportunities and return to shareholders.

Raheman (2007) studied the effect of different variables of working capital management including the Average Collection Period, Inventory Turnover in Days, Average Payable Period, Cash Conversion Cycle and Current Ratio on the Net Operating Profitability of Pakistani Firms. By using Pearson's correlation and regression analysis he found that there was a strong negative relationship between variables of Working Capital Management and Profitability. He also finds that

as the cash conversion cycle increases, it leads to decrease in profitability of the firm and managers can create a positive value for the shareholders by reducing the cash conversion cycle to a possible minimum level.

LIMITATION OF THE STUDY

The following are the limitation of the study:

1. The study covers only 10 years period i.e. 2003-2004 to 2012-2013 for the Working Capital analysis of CIL Ltd.
2. The secondary data's used in this study have been taken from published annual reports only.

ANALYSIS OF WORKING CAPITAL MANAGEMENT OF ASHOK LEYLAND LTD

WORKING CAPITAL POSITION

The two concept of working capital are Gross Working Capital and Net Working Capital. The former means the firm's investment in current assets and later the excess of current assets over the current liabilities. The excess of current assets over the current liabilities provides measures of safety margin available against uncertainty in realization of current assets and flow of funds.

TABLE-I: STATEMENT SHOWING NET WORKING CAPITAL POSITION (₹ in Millions)

Year	Current Assets (₹)	Current Liabilities (₹)	Net Working Capital (₹)
2003-2004	14,636.67	8,327.02	6,309.65
2004-2005	21,572.63	11,656.67	9,915.96
2005-2006	22,324.13	14,085.16	8,238.97
2006-2007	26,977.14	17,558.55	9,418.59
2007-2008	28,752.58	22,719.39	6,033.19
2008-2009	31,656.16	21,369.46	10,286.70
2009-2010	41,396.84	29,607.57	11,789.27
2010-2011	43,672.45	35,282.74	8,389.71
2011-2012	43,038.86	48,431.40	-5,392.54
2012-2013	42,965.32	52,960.98	-9,995.65
A.M. (x)	31,699.28	26,199.89	5,499.39
Avg Annual Growth Rate	19.35	53.60	-25.84
S.D (σ)	10569.71	15247.36	7248.59

Source: Annual reports of ASHOK LEYLAND (2003-2004 to 2012- 2013)

Table 1: Shows the working capital position of the concern. During the period of study working capital showed a fluctuating tendency. The highest value of working capital ₹11,789.27 million was in 2009-2010 and least of ₹ -9,995.65 million in last year 2012-2013. The net working capital had an average value of ₹5,499.38 million. The Gross Working capital of the firm had a mean value of ₹31,699.28 million. Gross Working Capital was highest in 2010-11 and least in 2003-04 with values of ₹14,636.67Crores and ₹9995.58 million respectively. The Current liability of the firm was highest in 2012-2013 with ₹52,960.98 million and least in 2003-04 with ₹8,327.02 million. The Gross working capital had an average annual growth rate of 19.35% and standard deviation of ₹10569.71 million. The Net working capital of the firm had a negative average annual growth rate of -25.84% and a standard deviation of 7248.59.

CURRENT RATIO

Current ratio is defined as the ratio of current assets to current liabilities. It is an index of technical solvency and an index of the strength of the working capital. A high current ratio is an assurance that a firm will have adequate funds to pay current liabilities and other current payments. It can be calculated as follows:

$$= \frac{\text{Current Assets}}{\text{Current liabilities}}$$

TABLE II: STATEMENT SHOWING CURRENT RATIO (₹ in Millions)

Year	Current Assets (₹)	Current Liabilities (₹)	Current Ratio
2003-2004	14,636.67	8,327.02	1.76
2004-2005	21,572.63	11,656.67	1.85
2005-2006	22,324.13	14,085.16	1.58
2006-2007	26,977.14	17,558.55	1.54
2007-2008	28,752.58	22,719.39	1.27
2008-2009	31,656.16	21,369.46	1.48
2009-2010	41,396.84	29,607.57	1.40
2010-2011	43,672.45	35,282.74	1.24
2011-2012	43,038.86	48,431.40	0.89
2012-2013	42,965.32	52,960.98	0.81
A.M. (x)	31,699.27	26,199.80	1.38
Avg Annual Growth Rate	19.35	53.60	-5.39
S.D (σ)	10569.71	15247.36	0.34

Source :Annual reports of ASHOK LEYLAND (2003-2004 to 2012- 2013)

Interpretation

Table II: Shows the current ratio as a measure of liquidity position.

During the period of study it was observed that current ratio was above 1, except for the last two years. The Highest ratio 1.85 times was observed in the year 2004-2005 and the least of 0.81 in the 2012-2013. The current assets and current liabilities showed a fluctuating trend throughout the study. The Average annual Growth rate of Current assets and Current liabilities was 19.35% and -5.39% respectively. The Current Ratio showed a varying trend with an average ratio of 1.38 times with an average annual growth rate of -5.39%. The standard deviation of the ratio was low with a value of 0.34.

LIQUID RATIO OR QUICK RATIO

Liquidity ratio shows the relationship between liquid assets and current liabilities. It is the firm's capacity to pay its obligation at time of emergency situation. The ideal ratio is 1:1 Times. The ratio can be expressed as given below:

$$= \frac{\text{Liquid Assets}}{\text{Current liabilities}}$$

Where Liquid Assets= Current Assets - (Stock +Prepaid Expenses)

TABLE NO. III: STATEMENT OF LIQUID ASSETS TO CURRENT LIABILITIES (₹ in Millions)

Year	Liquid Assets (₹)	Current Liabilities (₹)	Liquid ratio
2003-2004	9,568.00	8,327.02	1.15
2004-2005	15,892.00	11,656.67	1.36
2005-2006	13,299.00	14,085.16	0.94
2006-2007	16,274.00	17,558.55	0.93
2007-2008	16,514.00	22,719.39	0.73
2008-2009	18,356.00	21,369.46	0.86
2009-2010	25,015.00	29,607.57	0.84
2010-2011	21,584.00	35,282.74	0.61
2011-2012	20,733.00	48,431.40	0.43
2012-2013	24,006.00	52,960.98	0.45
A.M. (x)	18,124.10	26,199.89	0.83
Avg Annual Growth Rate	15.08	53.60	62.17
S.D (σ)	4812.00	15247.36	0.29

Source :Annual reports of ASHOK LEYLAND (2003-2004 to 2012 - 2013)

Interpretation

The Above table III shows the liquidity ratio of the firm during the period of study. The ratio had the highest value of 1.36 times in the year 2004-05 and the least of .43 times in 2011-02. During the period of study this ratio also observed a fluctuating tendency. The liquid assets of the firm were highest in 2009-2010 and least in 2003-2004 with values of ₹25,015.00 million and ₹9,568.00 million respectively. The liquid assets had an average value of ₹1,81,24.10 million with an average annual growth rate of 15.08 %. The liquidity ratio had an average value of .83 times with an average annual growth rate of 62.17%. The standard deviation of the ratio was very low with a value of 0.29.

CASH POSITION RATIO

It shows how much of total assets is kept in the form of cash is revealed through this ratio. How much per rupee of total assets is kept in the form of cash. Higher the ratio shows less risk, but lower rate of return as cash by itself does not earn profit. The ratio can be denoted as given below:

$$= \frac{\text{Cash + Cash Equivalents}}{\text{Total Assets}}$$

TABLE NO.1V: STATEMENT OF CASH TO TOTAL ASSETS (₹ in Millions)

Year	Cash & Equivalents (₹)	Total Asset (₹)	Cash position Ratio (Times)
2003-2004	3,249.74	25,313.69	0.128
2004-2005	7,966.82	33,654.54	0.237
2005-2006	6,028.76	36,852.79	0.164
2006-2007	4,349.39	44,633.32	0.097
2007-2008	4,513.70	55,399.52	0.081
2008-2009	880.84	78,265.79	0.011
2009-2010	5,189.21	92,768.68	0.056
2010-2011	1,795.27	1,05,890.00	0.017
2011-2012	325.56	1,19,157.47	0.003
2012-2013	139.42	1,30,967.02	0.001
A.M. (x)	3,443.87	72,290.28	0.080
Avg Annual Growth Rate	-9.57	41.73	-9.921
S.D (σ)	2627.15	38339.19	0.078

Source :Annual reports of ASHOK LEYLAND (2003-2004 to 2012- 2013)

Interpretation

The above table 1V shows the cash generating capacity of the total assets of the firm. Cash position ratio also showed similar fluctuating tendency like the above ratios. It had a mean value of 0.08 times with an average annual growth rate of -9.92%. The highest ratio of 0.237 times was observed in 2004-2005 and least of 0.001 in 2012-2013. The firm maintained the highest cash of ₹7,966.82 million in 2004-2005 and the least of 139.42 in 2006-07. Cash had an average value of ₹3443.87 million with an average annual growth rate of -9.57%. The Total Assets of the firm had a mean value of ₹72,290.28 million with an average annual growth rate of 41.73%. Total Assets of the firm was highest in 2012-13 and least in 2003-2004 with values of ₹1,30,967.02 million and ₹25,313.69 million. The ratio had a very low degree of standard deviation with value of 0.14.

WORKING CAPITAL TURNOVER RATIO

Working capital turnover ratio reveals the overall picture of the operational capital necessary for maintaining a level of its sales. Higher ratio indicates quick conversion of working capital into sales. Also greater the ratio, shorter is the working capital cycle and better is working capital management. It can be expressed as follows:

$$= \frac{\text{Annual Sales}}{\text{Average Working Capital}}$$

TABLE NO. V: STATEMENTS OF ANNUAL SALES TO WORKING CAPITAL (₹ in Millions)

Year	Avg Annual Sales(₹)	Working Capital (₹)	Working Capital Turnover ratio (Times)
2003-2004	35,006.34	6,309.65	5.55
2004-2005	43,692.78	9,915.96	4.41
2005-2006	54,321.95	8,238.97	6.59
2006-2007	71,789.13	9,418.59	7.62
2007-2008	48,888.10	6,033.19	8.10
2008-2009	78,068.94	10,286.70	7.59
2009-2010	72,696.19	11,789.27	6.17
2010-2011	99,831.02	8,389.71	11.90
2011-2012	13,720.81	-5,392.54	-2.54
2012-2013	13,298.56	-9,995.65	-1.33
A.M. (x)	53,131.38	5,499.39	5.41
Avg Annual Growth Rate	-6.2	-25.84	-12.39
S.D (σ)	28107.94	7248.59	4.36

Source :Annual reports of ASHOK LEYLAND (2003-2004 to 2012-2013)

Interpretation

The above table V shows the sales generated per amount of working capital of the firm. This Ratio also showed a fluctuating tendency during the period of study. The Ratio had an average value of 5.41 times with a negative average annual growth rate of -12.39%. Net Working Capital turnover ratio observed the highest value of 11.90 times in 2010-11 and least of -2.54 times in 2011-2012. The highest average sales of ₹99,831.02 million was in 2010-2011 and the least of ₹13,298.56 million in 2012-2013. Average annual sales had a mean value of ₹53,131.38 million with an average annual growth rate of -6.2%. The Ratio had a high standard deviation of 28107.94.

ANALYSIS OF LIQUIDITY, PROFITABILITY AND RISK USING SPEARMAN'S RANK CORRELATION AND STUDENT t-TEST

Spearman's rank correlation is the relationship between different rankings of the same set of items. A rank correlation coefficient measures the degree of similarity between two rankings, and can be used to assess its significance.

$$r = 1 - \frac{6 \sum D^2}{n(n^2-1)}$$

Where D = R1-R2, R = Rank

Student t – Distribution is a small test used for testing of hypotheses of sample size less than 30. If the calculated value of t is less than the table value. The null hypotheses will be accepted and vice-versa; for a given significance level. It can be calculated as follow:

$$t = \frac{r}{\sqrt{1-r^2}} \times \sqrt{n-2}$$

Where

r = Spearman's Rank Coefficient of Correlation

n = No. Observation

Liquidity & Profitability Analysis of CIL using Student t-test**PROFITABILITY**

It indicates the percentage of return in the business. A high Return on Investment shows the company is having a higher rate of profit as percentage of capital employed. It is calculated as follows:

$$= \frac{\text{Operating Profit}}{\text{Capital Employed}} \times 100$$

TABLE VI: STATEMENT SHOWING PROFITABILITY (₹ in Millions)

Year	Total Assets (TA)	Current Liabilities (CL)	Capital Employed (TA- CL)	Operating Profit (₹)	ROCE%
2003-2004	25,313.69	8,327.02	16,986.67	3,072.51	18.09
2004-2005	33,654.54	11,656.67	21,997.87	3,578.08	16.27
2005-2006	36,852.79	14,085.16	22,767.63	4,687.53	20.59
2006-2007	44,633.32	17,558.55	27,074.77	6,098.38	22.52
2007-2008	55,399.52	22,719.39	32,680.12	5,190.50	15.88
2008-2009	78,265.79	21,369.46	56,896.33	3,087.05	5.43
2009-2010	92,768.68	29,607.57	63,161.11	6,259.05	9.91
2010-2011	1,05,890.00	35,282.74	70,607.26	9,654.61	13.67
2011-2012	1,19,157.47	48,431.40	70,726.07	9,452.30	13.36
2012-2013	1,30,967.02	52,960.98	78,006.04	8,475.92	10.87
A.M. (x)	72,290.28	26,199.89	46,090.39	5,955.59	14.66
Avg Annual Growth Rate	41.73	53.60	35.92	17.58	-6.64
S.D (σ)	38339.20	15247.36	23915.68	2511.33	4.88

Source: Annual reports of ASHOK LEYLAND (2003-2004 to 2012- 2013)

Interpretation

Table VI: During the period of study the operating profit ratio showed a fluctuating trend. The operating profit ratio had the highest value of 22.52% in 2006-07 and the least of 5.43% in 2008-09. The operating profit ratio had a mean value of 14.66% with an average annual growth rate of 3.91%. The Standard Deviation of the ratio was moderate with a value of 4.88. The firm employed the highest amount of capital ₹78,006.04 million in 2012-13 and least of ₹16,986.67 million in 2003-04. The Capital employed of the firm had a mean value of ₹46,090.39 million with an average annual growth rate of 35.92%.

RELATION BETWEEN LIQUIDITY AND PROFITABILITY**TESTING OF 1ST NULL HYPOTHESIS****TABLE VII: STATEMENT FOR CALCULATION OF CORRELATION**

Year	Current Ratio	R1	ROCE	R2	D=(R1-R2)	D ²
2003-2004	1.75	2	18.09	3	-1	1
2004-2005	1.85	1	16.27	4	-3	9
2005-2006	1.58	3	20.59	2	1	1
2006-2007	1.53	4	22.52	1	3	9
2007-2008	1.26	7	15.88	5	2	4
2008-2009	1.48	5	5.43	10	-5	25
2009-2010	1.39	6	9.91	9	-3	9
2010-2011	1.23	8	13.67	6	2	4
2011-2012	0.88	9	13.36	7	2	4
2012-2013	0.81	10	10.87	8	2	4
						70

Source :Annual reports of ASHOK LEYLAND (2003-2004 to 2012- 2013)

Interpretation

Table VII: The current ratio is used as an indicator of liquidity and ROCE as for measuring profitability. The Spearman's rank coefficient of correlation(r) between Current Ratio and ROCE has been shown for which the relevant formula has been used. The test used for determining significance of r is "t" test. The Spearman's rank coefficient of correlation (r) between ROCE & liquidity has been calculated. The "t" test is applied for determining significance of r. Then computed value of 't' has been compared with the tabulated value of 't'.

In the above table r = 0.58 and value of t = 2.03. The table value of 't' at 5% level of significance for 8 degrees of freedom (Where n=10) is equal to 2.305. Since the computed value of t is less than the table value the null hypothesis (Ho) is accepted.

PROFITABILITY & RISK ANALYSIS OF CIL

The risk associated with the concern can be calculated by the following method:

$$R_k = \frac{(E + LTL) - FA}{CA}$$

Where

R_k = risk
 E = Equity + Reserve % Surplus
 L = Long term loan
 FA = Fixed Assets
 CA = Current assets

In the aggressive approach the current assets are financed by short term sources and in case of conservative approach the current assets are financed by both long term and short term sources. The risk faced by the firm can be measured with the above formula

TABLE VIII: STATEMENT SHOWING RISK (₹ in millions)

Year	Equity + Reserve & Surplus (E)Rs	Long term Loans (L)	Fixed Assets (FA)	Current Assets (CA)	Risk (R _k) %
2003-2004	10,517.97	4,989.08	9,211.00	14,636.67	43.02
2004-2005	11,678.65	8,804.06	9,790.01	21,572.63	49.57
2005-2006	14,124.53	6,919.28	10,846.88	22,324.13	45.68
2006-2007	18,945.68	6,403.98	15,445.24	26,977.14	36.71
2007-2008	21,489.83	8,875.01	20,547.95	28,752.58	34.14
2008-2009	34,738.99	19,581.44	43,974.06	31,656.16	32.68
2009-2010	36,687.58	22,038.92	48,110.29	41,396.84	25.64
2010-2011	39,629.62	25,682.65	49,917.58	43,672.45	35.25
2011-2012	42,123.26	22,933.51	60,773.82	43,038.86	9.95
2012-2013	44,551.05	48,616.16	64,625.38	42,965.32	66.43
A.M. (\bar{x})	27,448.71	1,74,484.41	3,33,242	31,699.28	37.91
Avg Annual Growth Rate	413.57	964.45	691.61	19.35	144.41
S.D (σ)	13397.35	13462.84	22271.20	10569.71	14.97

Source :Annual reports of ASHOK LEYLAND (2003-2004 to 2012-2013)

Interpretation

Table VIII shows the measure of liquidity. During the period of Study concern's highest risk of 66.43% generated a return of 10.87% and the least risk of 43.02% generated a return of 18.09%. The risk taken by the company showed a variation in its value with deviation of 144.41. The average risk taken by the company was 37.91% with a average annual growth rate of 144.41.

Testing of IInd Null Hypothesis**TABLE IX: STATEMENT FOR CALCULATION OF CORRELATION**

Year	Risk (R _k)	R3	ROCE(%)	R4	D=(R3-R4)	D ²
2003-2004	43.02	4	18.09	3	1	1
2004-2005	49.57	2	16.27	4	-2	4
2005-2006	45.68	3	20.59	2	1	1
2006-2007	36.71	5	22.52	1	4	16
2007-2008	34.14	7	15.88	5	2	4
2008-2009	32.68	8	5.43	10	-2	4
2009-2010	25.64	9	9.91	9	0	0
2010-2011	35.25	6	13.67	6	0	0
2011-2012	9.95	10	13.36	7	3	9
2012-2013	66.43	1	10.87	8	-7	49
						88

Source :Annual reports of ASHOK LEYLAND (2003-2004 to 2012-2013)

Interpretation

Table IX: The Spearman's rank coefficient of correlation (r) between ROCE & Risk Factor has been calculated. The "t" test is applied for determining significance of r. Then computed value of 't' has been compared with the tabulated value of 't'.

In the above table r= 0.47 and value of t = 4.27 The table value of 't' at 5% level of significance for 8 degrees of freedom (Where n=10) is equal to 2.305. Since the computed value of t is greater than the table value the null hypothesis (H₀) is rejected.

FINDINGS AND SUGGESTIONS

- The Net working Capital of Ashok Leyland during the period of study was not satisfactory as it showed a decreasing trend in its values. The company must try to improve this position in future. Ashok Leyland must try to keep regular check, whether its current liabilities are exceeding the gross working capital of the firm.
- Liquidity position of the firm was not adequate because the average value of this Current Ratio was 1.38 times which is not near to the ideal ratio of 2:1 times. This indicates that, it is not in a position to meet its short term obligations with the existing current assets. So the firm must stabilize the position of its current assets to maintain a current ratio of at least the ideal value.
- The cash position ratio of the firm was also satisfactory as it was able to generate adequate amount of cash from its assets. The average value of the ratio was only 0.80 times. The firm must try to keep regular check on its assets to identify whether they are staying idle or obsolete. Only the liquid cash will help the firm to face any uncertainties at the times of depressions.
- During FY 2012-13, the Indian economy experienced a low growth rate of about 5-5.5%. Industrial sectors, too, continued to reel under the severe slowdown. The financial crunch and slowdown of economy witnessed in Sri Lanka, as well as the overall global economic situation, impacted Ashok Leyland's international volumes this year. Company exported 8,778 vehicles in 2012-13, 32% lower than the previous year.
- Company's profitability remained subdued due to lower volumes. The general economic slowdown adversely impacted the volumes. In spite of lower volumes, Company produced 28,870 vehicles from Pantnagar, achieving proportionately increased benefits on account of exemptions from levy of excise duty and income tax. Company managed to contain material cost at about the previous year levels and granting increases only for unavoidable reasons like power tariff increases, etc.

- The Spearman's rank coefficient of correlation (r) between ROCE & liquidity has been calculated. The " t " test is applied for determining significance of r . Then computed value of ' t ' has been compared with the tabulated value of ' t '. Since the computed value of t is less than the table value the null hypothesis (H_0) is accepted. So there is no significant difference between liquidity and profitability of the firm during the period of study.
- The Spearman's rank coefficient of correlation (r) between ROCE & Risk Factor has been calculated. The " t " test is applied for determining significance of r . Then computed value of ' t ' has been compared with the tabulated value of ' t '. Since the computed value of t is greater than the table value the null hypothesis (H_0) is rejected. So there is significant difference between risk and profitability of the firm during the period of study.

While analyzing the company's performance it is clear that, the firm give little importance to the issues related with working capital. It may be of the reason that the amount and risk involved in capital investment decision are very high. But from the above study we can say that Ashok Leyland should give due consideration to improve the working capital management policies irrespective of the economic slow down. The company must improve its present liquidity position to remain stable at the time of discrepancies or recession. It should also try to generate higher returns from its assets. The company must keep an optimum balance between liquidity and profitability for efficient use of its working capital. At the same time it should not stop formulating certain policies to keep a well-monitored working capital for better profitability, stability, reliability, growth and consistency.

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