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# A Study on Working Capital Analysis at Ashok Leyland Ltd., Chennai

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**ABSTRACT**

*A project entitled "A study on working capital management of Ashok Leyland ltd, Chennai" was carried out with an intention to analyze the utilization of working capital. The study helps to know the level of current asset and current liability. Various analytical tools is been used to analyze and to make inference. Findings are based on the analysis; the major finding was that the company has a good liquidity position and profit percentage. Based on the findings various suggestions have been given for the further improvement of the effective utilization of the working capital. Managing working capital in a manufacturing firm is very difficult and risky position. It is required to maintain the liquidity position of any firm to be good. This is the main problem for all firms. So, components of working capital like inventory management, cash management and receivables management should be managed well. Study of the working capital management is important because unless the Working capital is managed effectively, monitored efficiently planedproperly And reviewed periodically at regular intervals to remove bottlenecks if any the Company cannot earn profits and increase its turnover.*

## I. INTRODUCTION

In 1948, when independent India was one year old, Ashok Leyland was born. We were Ashok Motors then, assembling Austin cars at the first plant, at Ennore near Chennai. In 1950 started assembly of Leyland commercial vehicles and soon local manufacturing under license from British Leyland. With British Leyland participation in the equity capital, in 1954, the Company was rechristened Ashok Leyland.

Since then Ashok Leyland has been a major presence in India's commercial vehicle industry. These years have been punctuated by a number of technological innovations which went on to become industry standards. This tradition of technological leadership was achieved through tie-ups with international technology leaders and through vigorous in-house R&D.

Ashok Leyland vehicles have built a reputation for reliability and ruggedness. The 375,000 vehicles we have put on the roads have shared the additional pressure placed on road transportation in independent India.

The share of goods movement by road rose from 12% in 1950 to 60% in 1995. In passenger transportation, the jump is equally dramatic: from 25% to 80%. At 60 million passengers a day, Ashok Leyland buses carry more people than the entire Indian rail network. In the populous Indian metros, four out of the five State Transport Undertaking (STU) buses come from Ashok Leyland. Some of them like double Decker and vestibule buses are unique models from Ashok Leyland, tailor-made for high density routes.

In 1987, the overseas holding by LRLIH (Land Rover Leyland International Holdings Limited) was taken over by a joint venture between the Hinduja Group, the Non-Resident Indian transnational group and IVECO Fiat Spa, part of the Fiat Group and Europe's leading truck manufacturer.

Global Standards, Global Markets the blue-print prepared for the future reflected the global ambitions of the Company, captured in four words: Global Standards, Global Markets (Liberalization and globalization were not yet in the air). Buoyed by the backing of the two international giants, Ashok Leyland embarked on a major product and process technology up gradation to world-class standards of technology.

In the journey towards global standards of quality, Ashok Leyland reached a milestone in 1993 when it became the first in India's automobile industry to win the ISO 9002 certification. The more comprehensive ISO 9001 certification came in 1994. 1994 was also the year, when international technology changed the way Indiaperceived trucks. The year when a new breed of world class trucks - technologically superior and eco-friendly - rolled out on Indian roads**.**

## II. LITERATURE REVIEW

**Keontaek Oh, DaeSoo Kim, (2003),** The Trade credit policy and inventory policy are measured by number of days accounts receivable, accounts payable and inventories, and the cash conversion cycle is used as a comprehensice measure of working capital management.

Filbeck, G. and Krueger, T.M. **(2005),** Firms are able to reduce financing costs and/or increase the funds available for expansion by minimizing the amount of funds tied up in current assets. We provide insights into the performance of surveyed firms across key components of working capital management.

**Harris, Andrew.(2005),** From the perspective of the chief financial officer, the concept of working capital management is relatively straightforward: to ensure that the organization is able to fund the difference between short-term assets and short-term liabilities.

## III. OBJECTIVES OF THE STUDY

- To study the working capital management of Ashok Leyland Ltd.
- To study the optimum level of current assets and current liabilities of the Company.
- To study the liquidity position through various working capital related Ratios.
- To study the working capital components such as receivables accounts, Cash management, Inventory position.
- To study the way and means of working capital finance of the Ashok Leyland Ltd.
- To estimate the working capital requirement of Ashok Leyland Ltd
- To study the operating and cash cycle of the company.

## IV. SCOPE OF THE STUDY

- The scope of the study is identified after and during the study is conducted.
- The Study of working capital is based on tools like trend Analysis, Ratio Analysis, Working capital leverage, operating cycle etc.
- Further the study is based on last 5 years Annual Reports of Ashok leyland
- To study the optimum level of current assets and current liabilities of the Company.
- To study the operating and cash cycle of the company

## V. RESEARCH METHODOLOGY

- **Type Of Research:** Descriptive research design
- **Sampling Design :** Simple random sampling
- **Sample Population:** Ashok Leyland PVT LTD., Chennai
- **Data Collection :** Secondary data

***STATISTICAL TOOL***

The statistical tools used for analyzing the collected data are

1. Percentage analysis
2. Reliability Statistics
3. Simple Linear regression
4. Multiple Linear regression

## VI. DATA ANALYSIS AND INTERPRETATION

**Table No.1-RELIABILITY STATISTICS**

| Cronbach's Alpha | Cronbach's Alpha Based on Standardized Items | N of Items |
|---|---|---|
| .989 | .991 | 14 |

- This table shows that Cronbach's alpha value of all the 14 items are $\alpha = 0.989$. This value is highly reliable and internally consistent.

**Table No.2-WORKING CAPITAL TURN OVER RATIO**

**CURRENT ASSETS**

| | | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|---|
| Valid | 21572.63 | 1 | 14.3 | 14.3 | 14.3 |
| | 22324.13 | 1 | 14.3 | 14.3 | 28.6 |
| | 26977.14 | 1 | 14.3 | 14.3 | 42.9 |
| | 28752.58 | 1 | 14.3 | 14.3 | 57.1 |
| | 31656.16 | 1 | 14.3 | 14.3 | 71.4 |
| | 413968.43 | 1 | 14.3 | 14.3 | 85.7 |
| | 436724.53 | 1 | 14.3 | 14.3 | 100.0 |
| | Total | 7 | 100.0 | 100.0 | |

**CURRENT ASSETS**

| | | Frequency | Percent | Valid Percent | Cumulative Percent |
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| Valid | 21572.63 | 1 | 14.3 | 14.3 | 14.3 |
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| | 413968.43 | 1 | 14.3 | 14.3 | 85.7 |
| | 436724.53 | 1 | 14.3 | 14.3 | 100.0 |
| | Total | 7 | 100.0 | 100.0 | |

**INTERPRETATION:**

1. Net working capital of Ashok Leyland Ltd is maintained balanced in all years.
2. Except in 2017-2018. In this year the net working capital is very low.
3. 2018-2019 net working capital is high

**Table No.3 - LIQUIDITY RATIO**

***CURENT RATIO:***

**Statistics**

| | | CURRENT ASSETS | CUREENT LIABIALITES | RATIO | INDUSTRY AVERAGE |
|---|---|---|---|---|---|
| N | Valid | 7 | 7 | 7 | 7 |
| | Missing | 0 | 0 | 0 | 0 |

**CURRENT ASSETS**

| | | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|---|
| Valid | 21572.63 | 1 | 14.3 | 14.3 | 14.3 |
| | 22324.13 | 1 | 14.3 | 14.3 | 28.6 |
| | 26974.14 | 1 | 14.3 | 14.3 | 42.9 |
| | 28752.58 | 1 | 14.3 | 14.3 | 57.1 |
| | 31656.16 | 1 | 14.3 | 14.3 | 71.4 |
| | 413968.43 | 1 | 14.3 | 14.3 | 85.7 |
| | 436724.53 | 1 | 14.3 | 14.3 | 100.0 |
| | Total | 7 | 100.0 | 100.0 | |

**CUREENT LIABIALITES**

| | | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|---|
| Valid | 11656.67 | 1 | 14.3 | 14.3 | 14.3 |
| | 14085.16 | 1 | 14.3 | 14.3 | 28.6 |
| | 17558.55 | 1 | 14.3 | 14.3 | 42.9 |
| | 21369.46 | 1 | 14.3 | 14.3 | 57.1 |
| | 22719.39 | 1 | 14.3 | 14.3 | 71.4 |
| | 296075.72 | 1 | 14.3 | 14.3 | 85.7 |
| | 352827.40 | 1 | 14.3 | 14.3 | 100.0 |
| | Total | 7 | 100.0 | 100.0 | |

**RATIO**

| | | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|---|
| Valid | 1.24 | 1 | 14.3 | 14.3 | 14.3 |
| | 1.27 | 1 | 14.3 | 14.3 | 28.6 |
| | 1.39 | 1 | 14.3 | 14.3 | 42.9 |
| | 1.48 | 1 | 14.3 | 14.3 | 57.1 |
| | 1.54 | 1 | 14.3 | 14.3 | 71.4 |
| | 1.58 | 1 | 14.3 | 14.3 | 85.7 |
| | 1.85 | 1 | 14.3 | 14.3 | 100.0 |
| | Total | 7 | 100.0 | 100.0 | |

**INDUSTRY AVERAGE**

| | | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|---|
| Valid | 1.55 | 7 | 100.0 | 100.0 | 100.0 |

**INTERPRETATION:**

1. This CA to TA ratio is in tending of decreasing.
2. In 2017-18 it is highest and in 2018-19 it is lowest.
3. The portion of current assets is reducing year by year.

**Table No.4 - RATIO ANALYSIS:**

**INVENTORY PROPORTION**

**Raw material**

| | | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|---|
| Valid | 2306.29 | 1 | 14.3 | 14.3 | 14.3 |
| | 2728.32 | 1 | 14.3 | 14.3 | 28.6 |
| | 3853.39 | 1 | 14.3 | 14.3 | 42.9 |
| | 4229.28 | 1 | 14.3 | 14.3 | 57.1 |
| | 5325.74 | 1 | 14.3 | 14.3 | 71.4 |
| | 6518.94 | 1 | 14.3 | 14.3 | 85.7 |
| | 7342.20 | 1 | 14.3 | 14.3 | 100.0 |
| | Total | 7 | 100.0 | 100.0 | |

**Working in Process**

| | | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|---|
| Valid | 912.41 | 1 | 14.3 | 14.3 | 14.3 |
| | 940.82 | 1 | 14.3 | 14.3 | 28.6 |
| | 990.99 | 1 | 14.3 | 14.3 | 42.9 |
| | 1095.07 | 1 | 14.3 | 14.3 | 57.1 |
| | 1140.46 | 1 | 14.3 | 14.3 | 71.4 |
| | 1178.99 | 1 | 14.3 | 14.3 | 85.7 |
| | 1437.30 | 1 | 14.3 | 14.3 | 100.0 |
| | Total | 7 | 100.0 | 100.0 | |

**Finished Goods**

| | | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|---|
| Valid | 2092.68 | 1 | 14.3 | 14.3 | 14.3 |
| | 4493.67 | 1 | 14.3 | 14.3 | 28.6 |
| | 5325.70 | 1 | 14.3 | 14.3 | 42.9 |
| | 6255.05 | 1 | 14.3 | 14.3 | 57.1 |
| | 6465.16 | 1 | 14.3 | 14.3 | 71.4 |
| | 6987.45 | 1 | 14.3 | 14.3 | 85.7 |
| | 7890.23 | 1 | 14.3 | 14.3 | 100.0 |
| | Total | 7 | 100.0 | 100.0 | |

| | | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|---|
| Valid | 366.32 | 1 | 14.3 | 14.3 | 14.3 |
| | 369.43 | 1 | 14.3 | 14.3 | 28.6 |
| | 429.05 | 1 | 14.3 | 14.3 | 42.9 |
| | 530.23 | 1 | 14.3 | 14.3 | 57.1 |
| | 568.41 | 1 | 14.3 | 14.3 | 71.4 |
| | 614.33 | 1 | 14.3 | 14.3 | 85.7 |
| | 678.67 | 1 | 14.3 | 14.3 | 100.0 |
| | Total | 7 | 100.0 | 100.0 | |

**INFERENCE:**

1. Raw materials consumed are increasing from year by year.
2. WIP increased in first 2 years and then started decreasing.
3. FG is in increasing condition. There is a rapid change in the year 2017-18.
4. Total inventory is increasing from year to year. There is rapid change in the year 2018-19.

## SUGESSTION

- Company should raise funds through short term sources for short term requirement of funds, which comparatively economical as compare to long term funds.
- Company should take control on debtor s collection period which ismajor part of current assets.
- Company has to take control on cash balance because cash is nonearning assets and increasing cost of funds.
- Company should reduce the inventory holding period with use of zeroinventory concepts.
- Company should make a policy in respect of investment of excess cash, if any; in marketable securities and overall cash policy should be introduced.
- Management should develop a credit policy and proper self realization system from customers so that efficient and effective management of accounts receivable can be ensured.

## CONCLUSION

Working capital of the company was increasing and showing positive working capital per year. It shows good liquidity position Positive working capital indicates that company has the ability of payments of short terms liabilities. Working capital increased because of increment in the current assets is more than increase in the current liabilities. Company's current assets were always more than requirement it affect on profitability of the company. Current assets are more than current liabilities indicate that company used long term funds for short term requirement, where long term funds are most costly then short term funds. Current assets components shows sundry debtors were the major part in Current assets it shows that the inefficient receivables collection management.

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