Liquidity and Profitability Management of Ashok Leyland Ltd. during the corona virus disease period.

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***Abstract*—Liquidity and profitability are the two most significant key performance indicators of business. Liquidity measures the time and ability it takes to transform our assets, such as accounts receivables, into cash to deal with immediate and short-term financial obligations and/or emergencies. Having adequate or high liquidity does not mean a business is profitable – it simply means there are assets to sufficiently cover immediate and short-term expenses. And even if business is profitable, that does not necessarily mean that adequately dealing with current financial obligations. It can come as a complete shock to some business owners to realize that a company that is profitable can experience a financial crisis and may not be positioned for long-term growth, or even have enough liquidity to cover short-term financial obligations. Understanding how to leverage liquidity and profitability to evaluate and improve business is a significant piece of effective financial analysis is enviable in the corona virus disease period.**

***Index Terms*—Business, Finance, Liquidity, Performance and Profitability.**

I. INTRODUCTION

Liquidity has influence on profitability and profitability will have an impact on liquidity—so while the two are not one-in-the-same, both go on holding hands. Liquidity is a measure of the availability of cash and cash equivalent funds while profitability is the measure of profit a company can earn by selling its products or services. Both liquidity and profitability are related to the current assets and working capital of a company. It is computed by a set of liquidity ratios, most commonly the Current Ratio, Quick Ratio, and Cash Ratio. Profitability is how well your business is actively generating financial revenue relative your business size, computed by profitability ratios such as profit margin ratios, operating margins/operating ratios, asset return ratios as well as Return on Equity and Return on Investment. Both are measures to aid business owners to assess and examine their ability for growth and hearten the business in the corona virus disease period.

II.COMPANY PROFILE

Ashok Leyland, flagship of the Hinduja group, is the 2nd largest manufacturer of commercial vehicles in India, the 4th largest manufacturer of buses in the world, and 19th largest manufacturers of trucks. It was founded in 1948 as Ashok Motors by Raghunandan Saran and became Ashok Leyland in the year 1955. The current chairman of the company is Mr. Dheeraj J.Hinduja. It’s manufacturing footprint widens all over the world with 9 plants; comprising one each at Great Britain and Ras Al Khaimah (UAE). Our Joint Venture partners include John Deere (USA) for Construction Equipment, Continental AG (Germany) for Automotive Infotronics and the Alteams Group for the manufacture of high-press die-casting extruded aluminum components for the automotive and telecommunications sectors. Over 70 million passengers make use of our buses to reach their destinations every day while over 700,000 trucks keep the wheels of economies moving.

III.LITERATURE REVIEW

Eva Malichová and Mária Ďurišová, (2015), highlights on financial accomplishment of enterprises and its evaluation belongs to basic identifiers of the overall success of the enterprises in the market. The aim of this article is the evaluation of financial accomplishment of enterprises operating in IT sector based on the setting of financial indicators, which specify their performance in the best way, while operating results of the enterprises are examined preferred chosen financial indicators. Taking the ability of indicators into account, the performance of given enterprises in IT sector is going to be defined in the best possible way. Based on the analyzed sample, the researchers have deduced that enterprises engaged in provision of IT services are recently achieving very good results in the field of financial performance. They can be identified as solvent in relation to accomplishing high values in the field of liquidity. They are also profitable based on analyses of return indicators and proportionately little indebted. This state is certainly attributable to the sector they operate in today. Hence, it will be very interesting to continue watching changes of financial performance of enterprises in this sector and identifying critical aspects of accomplishing high performance.

Itzel Monserrat Pérez Hernández, Karla González Hidalgo and Elizabeth Montiel Huerta (2020), their study revealed The purpose of this article has to call attention the situation of MSMEs in the commercial sector, as well as the importance of working capital in them. A documentary investigation acquired from secondary sources, such as books and scientific articles, was discharged. From this, the theoretical foundations were reviewed, as well as the prime causes of failure of MSMEs. From this conclusion, the life expectancy of SMEs in the commercial sector was very low due to different factors, among which is their poor administration of working capital, for which reason proper management of this item was significant in order to obtain economic resources necessary to solve the daily operations of companies.

Muhammad Ahmad, Rabia Bashir and Hamid Waqas, (2022), their study paying attention on The recent covid 19 has increased the challenges for worldwide businesses to manage working capital. Compared to the studies on the financial crisis of 2008, hence, this study analyzed the working capital management and firm accomplishment relation in 577 firms from three Asian developing countries from 2004 to 2020. This study has compared the working capital management and firm accomplishment relation for covid 19 and crisis 2008 using the dynamic panel system generalized method of moments (GMM). Results exposed the difference in the effect of working capital management on firm performance during the covid 19 period as compared to the crisis 2008 period. From this research Researchers have made sure that effect of covid 19 was acute on working capital management and firm accomplishment than the crisis 2008. In covid 19, ROA and Tobins Q revealed significant decline. To lesser the adverse effect of covid 19, firms decreased the use of current liabilities to finance assets. NWC also revealed a decline in the covid period relative to the pre-crisis, crisis and pre-covid period.

Raavinuthala Satya Krishna Sharma, Kumar Bijoy and Arunaditya Sahay (2022), Their study explored the impact of different interventions of policymakers to maintain the optimal liquidity by simultaneously insulating the banks' profitability and overall economic growth from the policy's influence impact by using Auto-Regressive Distributed Lag regression. It has discovered that Fiscal deficit was negatively related to Liquidity deficit and GDP growth but soars past Banks' profit whereas Lending rates have an insignificant impact on Liquidity Deficit. Increasing Deposit rates have a positive influence on Liquidity deficit, negative on Banks' Profit, and immediate positive relationships with GDP growth which transforms to negative at the third lag. Similarly, the Credit growth rate has a positive relationship with the Liquidity deficit, augments GDP growth, and reduces Banks' profit. It also found that the profit of Indian Scheduled Commercial banks has reduced after the demonetization.

Rukhsana Rasheed, Mehwish Shahid, Munaza Mukhtar and Mazhar Nadeem Ishaq, (2022), their study threw light on the influence of capital structure and liquidity condition on the profitability of pharmaceutical firms listed with Pakistan Stock Exchange (PSX). To determine profitability level, return on assets (ROA) and gross profit margin (GPM) were used. The capital structure was measured through debt to equity ratio (DER) and debt to total funds (DTF). The liquidity level was measured through current ratio (CR) and acid test ratio (ATR). The findings have demonstrated that high debt to equity ratio significantly and negatively affect the profitability. The liquidity conditions have positive association with profitability of firms. The study has recommended that owners and company managers should use optimal value of debt and liquidity conditions for profit maximization and to bring down the cost.

OBJECTIVES OF THE STUDY

Administration of liquidity and profitability is the most significant component of financial management. The study has the following objectives:

1. To construct item wise analysis of each component of Total Current Assets using percentages.
2. To analyse the influence of liquidity and profitability by using statistical tool such as Correlation analysis.

RESEARCH METHODOLOGY

In this paper an attempt has been made to make an empirical study of Ashok Leyland Ltd . Ashok Leyland Ltd. is the second largest manufacturer of commercial vehicles in India, the fourth largest manufacturer of buses in the world, and 19th enormous manufacturers of trucks has been purposively selected evaluating the influence of liquidity on its profitability during the period of 2012 to 2022. The following are the methods and techniques adopted for procurement of data and their analysis in this study.

COLLECTION OF DATA

The data of Ashok Leyland Ltd has been gained from secondary sources such as annual reports of the company and CMIE prowess database for the period of 2012 to 2022.

VARIABLES

In the study, liquidity ratios such as current ratio, Liquid ratio, Absolute Liquid ratio, working capital turnover ratio, Inventory turnover ratio, Debtors turnover ratio, and Return on capital employed ratio has been employed. The statistical test such as simple correlation analysis has been applied to explain the relation between liquidity ratios and profitability. The Ratios employed can be explained below:-

Current Ratio= Current asset/Current liabilities

Liquid Ratio= Quick asset/Current liabilities

Absolute Liquid ratio = Cash , Loans & Advances / Current liabilities

Working capital turnover ratio = Cost of goods sold/ Net working capital

Inventory turnover Ratio = Cost of goods sold/ average Inventory

Receivables turnover Ratio = Total Sales / Average Receivables

Return on Capital employed = Earnings before interest and taxes / Capital employed

Capital employed= Net fixed assets + Working capital

DATA ANALYSIS AND INTERPRETATION: COMPOSITION OF TOTAL CURRENT ASSETS

The item wise analysis of Total Current Assets (Gross working capital) will allow to analyse in which each element Total Current Assets funds are locked in. The Table – I shows the share of each variable calculated in percentages for each year of the study period and the averages of the ten year time period are computed for each component of Total Current Assets.

Figure 1 Composition Of Total Current Assets

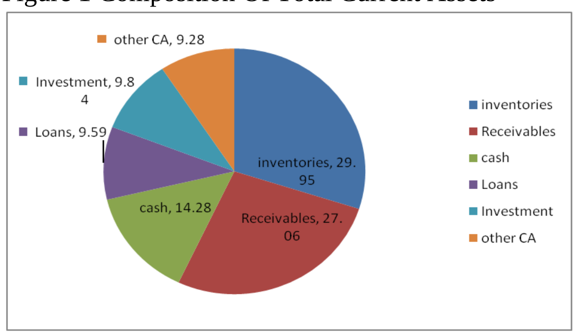

Table No.I Composition of Total Current Assets (in Crores)

	Inventories	Receivables	Cash	Loans	Investment	Other CA	Total CA
2012-13	1896 (44.34)	1419 (33.19)	14 (0.33)	871 (20.37)	0	76 (1.78)	4276 (100)
2013-14	1189 (33.71)	1299 (36.83)	12 (0.34)	472 (13.38)	384 (10.89)	171 (4.85)	3527 (100)
2014-15	1398 (29.80)	1243 (26.49)	751 (16.01)	564 (12.02)	408 (8.70)	328 (6.99)	4692 (100)
2015-16	1625 (31.36)	1251 (24.15)	1593 (30.75)	196 (3.78)	0	516 (9.96)	5181 (100)
2016-17	2631 (44.02)	1064 (17.80)	912 (15.26)	211 (3.53)	877 (14.67)	282 (4.72)	5977 (100)
2017-18	1758	945	1042	414	3155	749	8063

	(21.80)	(11.72)	(12.92)	(5.13)	(39.13)	(9.29)	(100)
2018-19	2685 (32.80)	2505 (30.60)	1374 (16.78)	487 (5.95)	0	1135 (13.87)	8186 (100)
2019-20	1238 (22.83)	1188 (21.91)	1322 (24.38)	926 (17.08)	0	749 (13.81)	5423 (100)
2020-21	2142 (28.75)	2816 (37.79)	823 (11.05)	829 (11.13)	0	841 (11.29)	7451 (100)
2021-22	2075 (21.94)	3111 (32.89)	1047 (11.07)	996 (10.53)	1298 (13.72)	931 (9.84)	9458 (100)
Total	18637 (29.95)	16841 (27.06)	8890 (14.28)	5966 (9.59)	6122 (9.84)	5778 (9.28)	62234 (100)

Source: Annual Reports of the company

The average inventory represents highest with 29.95% of the Total Current Assets. The Receivables contribute with 27.06% of the total current assets. The receivables have shifted from 33.19% in 2012-13 to 37.79% in 2020-21 reach as highest. Excess funds in the receivables may lead to more credit sales and liberal credit policy. The cash balance was recorded a Minimum of 0.33% in 2012-13 and maximum is 30.75% in 2015-16 with an average of 14.28% for the study period. The company has required more cash balance during the study period and this may pose additional fund to maintain liquidity of the company. The Loans and advances contribute 9.59 % of the Total Current Assets which is merely important part of the gross capital. It has exhibited a fluctuating trend from 20.37 in 2012-13 and 10.53 in 2021-22. Lastly other current assets contribute 9.28% of Total Current Assets.

Table 2 expresses that the co-efficient of correlation between selected ratios relating to liquidity management and ROCE of Ashok Leyland Ltd is presented in Table 2. The current ratio of Ashok Leyland Ltd has not achieved ideal value i.e., 2:1, which is around 1:1 during the study period. The liquid ratio has also soared past from 0.44 to 0.77 for the same period (Rule of thumb 1:1). The mean of CR and LR is 0.90 and 0.62 respectively. These two ratios have been consistently below the rule of thumb throughout the study period. The relationship between current ratio, liquid ratio and ROCE exhibited a low degree of positive association of 0.330 and 0.185 respectively. This means that the increase in current asset will slow increase in profitability and vice-versa. Any business with an absolute liquidity ratio 0.5 or more shows that it is flourishing. The mean value of absolute liquid ratio shows 0.22 during the study period. There is a moderate negative correlation between absolute liquid ratio and ROCE of - 0.054.

Impact of Liquidity on Profitability

Table No.II

Year	CR	LR	ALR	WTR	ITR	DTR	ROCE
2012-13	0.81	0.45	0.17	-12.58	13.53	18.74	0.06
2013-14	0.77	0.51	0.11	-10.06	17.92	16.26	-0.01
2014-15	0.94	0.66	0.26	-43.21	20.09	23.31	0.05
2015-16	1.06	0.73	0.37	65.86	23.59	31.96	0.10
2016-17	0.93	0.52	0.17	-45.32	15.30	40.33	0.17
2017-18	0.91	0.71	0.17	-32.07	27.58	56.37	0.28
2018-19	0.93	0.63	0.21	-44.04	19.78	23.20	0.26
2019-20	0.77	0.60	0.32	-10.85	27.63	29.40	0.04
2020-21	0.90	0.64	0.20	-19.09	14.67	10.87	-0.04
2021-22	0.99	0.77	0.21	-271.28	20.40	13.94	0.05
Mean	0.90	0.62	0.22	-42.26	20.05	26.44	
R	0.33	0.18	-0.05	-0.004	0.35	0.75	

The correlation between ROCE and Working capital turnover ratio indicated negative association which means that increase in working capital will lesser profitability. The correlation between ROCE and Inventory turnover ratio is low positive correlation (0.35). A low inventory ratio is considered as not good for the business because company has not effective inventory control methods, as well as strong sales procedures. Receivables turnover ratio shows that the number of times average debtors have been transformed into cash during a year. The correlation between ROCE and Receivables turnover ratio exhibits that high degree of positive association of 0.749 which measures the company's ability to procure cash from debtor is also good.

CONCLUSION

Herewith the researcher can deduced that the mean of CR and LR of Ashok Leyland Ltd. is 0.90 and 0.62 respectively. These two ratios have been consistently below the rule of thumb throughout the study period. The relationship between current ratio, liquid ratio and ROCE exhibited a low degree of positive association of 0.330 and 0.185 respectively. The mean value of absolute liquid ratio shows 0.22 during the study period. Moreover any business with an absolute liquidity ratio 0.5 or more shows that it is flourishing which shows that the increase in current asset will slow increase in profitability and vice-versa.

The correlation between ROCE and Inventory turnover ratio is low positive correlation (0.35)which shows that a company has to get effective inventory control methods as well as strong sales procedures. A high receivables turnover ratio exhibits the company's ability to procure cash from debtor is excellent. They are having very administration in receivables.

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