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A Study On Working Capital Management In Ashok Leyland Private Limited.

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Abstract

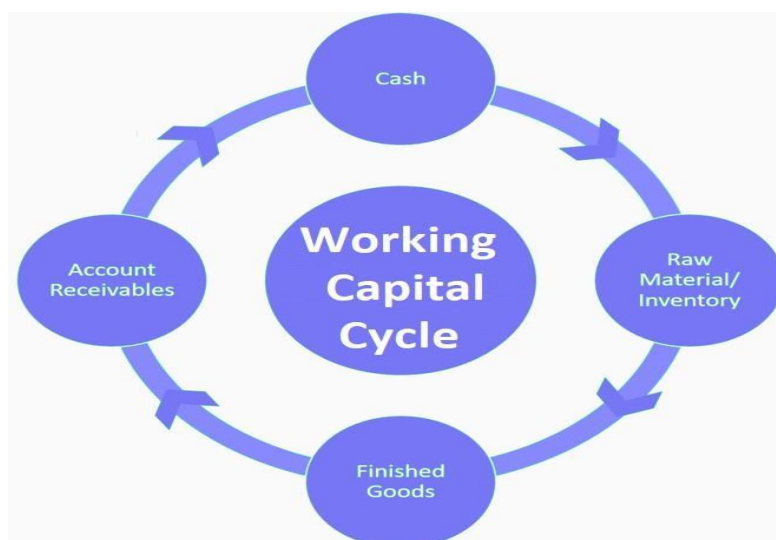
This research explores the significance and application of working capital management in Ashok Leyland Private Limited, a key player in India's commercial vehicle industry. Working capital, defined as the difference between current assets and liabilities, is vital for maintaining liquidity and operational efficiency. The study evaluates Ashok Leyland's financial performance through the analysis of components such as inventories, receivables, and payables. Findings suggest that effective working capital management enhances financial health and operational agility. The study concludes with suggestions for optimizing current asset and liability management for better profitability and business growth.

KEYWORDS:

Working Capital, Liquidity, Operational Efficiency, Financial Performance, Inventory Management, Ashok Leyland

I. INTRODUCTION

Working capital management (WCM) is an essential aspect of financial management that ensures the efficient operation of a business by maintaining a balance between current assets and current liabilities. In the context of Ashok Leyland Private Limited, an established name in India's automotive manufacturing sector, effective WCM is crucial to sustain production, meet market demands, and maintain profitability. This paper delves into the strategies and effectiveness of WCM practices at Ashok Leyland over a defined period. Working capital refers to the funds available for day-to-day operations of a business.



A firm with sound working capital management can meet its short-term obligations and operational expenses, avoiding disruptions in production and service delivery. In contrast, poor working capital control can result in financial stress, reduced profitability, and even insolvency.

2. REVIEW OF LITERATURE:

Priyanga V et al. (2023) emphasized that managing components of working capital like cash, inventory, and receivables significantly affects profitability. Uzoamaka Gloria et al. (2023) highlighted the negative correlation between account receivables and earnings per share in Nigerian manufacturing firms. Kaula Stephen (2023) found that firm size and profitability have a significant impact on WCM. Ishfaq Gulzar et al. (2023) linked corporate governance to WCM efficiency in Indian firms. Abdul Rahman (2023) stated that reduced unproductive assets increase profitability. Imam Hidayat et al. (2023) found that leverage positively influences profitability, while liquidity did not show significant effects. Other studies (Dharma Raj, 2022; Zaid Tareq Abdulhameed, 2022; Augustine Tarkom, 2022) further support that internal and external factors like GDP, interest rates, and capital expenditures significantly influence WCM.

3. OBJECTIVES

- To analyze the working capital structure of Ashok Leyland.
- To assess the efficiency of managing current assets and liabilities.
- To evaluate the impact of working capital management on profitability and liquidity.
- To identify key issues and provide suggestions for improvement.

4. RESEARCH METHODOLOGY

4.1 ANALYTICAL RESEARCH

A research approach that delves deeper than descriptive research to understand, interpret, or explain a phenomenon or situation by examining its components and relationships

4.2 PERIOD OF STUDY

Data of 10 years (2015 to 2024) has been collected for the study.

4.3 SOURCES OF DATA

Balance sheet (2015-2024)

4.4. TOOLS USED FOR ANALYSIS

• RATIO ANALYSIS

Ratio analysis is a method of examining a company's financial statements (like the balance sheet and income statement) to understand its financial health and performance. It involves calculating and interpreting relationships between different financial figures to assess aspects like profitability, liquidity, solvency, and efficiency.

Analysis: The financial performance of Ashok Leyland over ten years was analysed using key ratios:

- **Current Ratio.**
- **Quick Ratio**
- **Debt-Equity Ratio.**
- **Asset-Equity Ratio**

WORKING CAPITAL CHANGES

The change in working capital is calculated by subtracting the prior period's working capital from the current period's working capital. Essentially, it's the difference between the beginning and ending working capital balances over a specific period.

5. DATA ANALYSIS AND INTERPRETATION

1. Current Ratio

Formula: $\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$

- The current ratio ranged from 1.23 (2018) to 1.58 (2015).
- The trend shows gradual decline after 2015, indicating either an increase in current liabilities or slower current asset growth.

- Notable stability around 1.30–1.35 in recent years (2020–2023), before a slight dip to 1.28 in 2024.
- Interpretation: The firm maintains adequate short-term solvency, but the declining trend suggests the need for improved asset turnover or liability control.

2. Quick Ratio

Formula: $\text{Current Asset} - \text{Inventories} / \text{Current Liabilities}$

- This is a more stringent liquidity measure, excluding inventories.
- The quick ratio started at 1.54 in 2015 and declined to 1.25 by 2024.
- The dip to 1.20 in 2018 is the lowest, showing dependency on inventory in that year.
- Ratios consistently above 1.0 indicate a healthy short-term liquidity position, though the declining trend reflects rising short-term liabilities or reduced liquid assets.

3. Debt-Equity Ratio

Formula: $\text{Total Debt} = \text{Long Term} + \text{Short Term Borrowings} + \text{Lease Liabilities}$

- The Debt-Equity Ratio shows a sharp rise from 4.25 in 2015 to 8.84 in 2024.
- Indicates increasing reliance on debt financing over equity and reserves.
- Highest debt load observed in 2024 with total debt of ₹40,565 crore.
- Suggests increasing financial risk but potentially more aggressive capital investment.

4. Asset to Equity Ratio

Formula: $\text{Asset Equity Ratio} = \text{Total Asset} / \text{Equity} + \text{Reserves}$

- Shows a steady increase from 5,156.49 (2015) to 9,259.97 (2024).
- Reflects a rise in asset base not matched by growth in equity/reserves.
- Indicates higher financial leverage and possibly more fixed asset investment or expansion.

The financial data from 2016 to 2024 highlights significant fluctuations in Ashok Leyland's working capital position, driven by structural shifts in liabilities and changes in asset allocation:

Working Capital Trend:

- The **working capital** experienced sharp **volatility** — turning negative in some years (e.g., 2017: ₹–20,216 Cr) and gradually improving in later years (2024: ₹35,212 Cr).
- **Current Liabilities:**
 - Saw a **consistent increase** across the period, especially in **short-term borrowings, lease liabilities, and other financial obligations**.
 - A spike in **trade payables** suggests a heavier reliance on supplier credit, which may have supported operations but increased short-term pressure.
- **Current Assets:**
 - Significant investments were made in **inventory and receivables**, indicating expansion in sales and production.
 - From 2020 onwards, improved control in **cash and cash equivalents** and **loans/advances** supported liquidity.

6.FINDING AND SUGESSTION FINDING

- The liquidity position remained stable, with adequate short-term assets.
- Effective inventory control contributed to steady quick ratios.
- Debt levels have been optimized, enhancing long-term solvency.
- Working capital management positively influenced profitability and operational flexibility.

7.SUGESSTION

- Strengthen receivable monitoring and adopt stricter credit policies.
- Implement just-in-time (JIT) inventory strategies where feasible.
- Enhance digital tracking of working capital components for real-time monitoring.
- Review supplier contracts periodically to negotiate better credit terms.
- Improve forecasting of cash flows and seasonal demand patterns.

8.Conclusion

- Efficient working capital management is vital for the financial health and operational success of Ashok Leyland. The study demonstrates that while the company maintains an acceptable level of liquidity and operational efficiency, enhancements in receivables and inventory management can yield significant benefits. Sound working capital policies will contribute to the company's long-term growth, solvency, and resilience in a competitive market

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