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A Study on Financial Reengineering in Ashok Leyland ltd.,Hosur.

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Abstract:- Financial Re-Engineering has become a major component in the financial and economic environment all over the world. Industrial restructuring has raised important issues for business decisions, government policy, and Foreign Direct Investment policy as well as for public policy formulation. Since 1991, Indian industries have been increasingly exposed to both domestic and international competition, competitiveness, and implemented on the LPG. Hence, in recent times, companies have started restructuring their operations around their core business activities through M & As and capital restructuring. But M & A is an area of potential good as well as potential harm in corporate strategy. It is necessary that an analysis has to be made to compare the financial performance of the Ashok Leyland ltd. Descriptive statistics were used to analyze the data. This study is mainly focus on the financial performance and to find out the impact of the study.

Keywords:- Financial Reengineering, Financial Performance, Ratio Analysis. Merger and Acquisitions

I. INTRODUCTION

A company may grow internally, or externally. The objective of the firm in either case is to maximize the wealth of the existing shareholders. Most corporate growth occurs by internal expansion, which takes place when a firm's existing divisions grow through normal capital budgeting activities. The mergers, takeovers, divestitures, spin-offs and so on, referred to collectively as **financial performance ,** have become a major force in the financial and economic environment all over the world. The industrial restructuring has raised important issues both for business decisions as well as for public policy formulation. On the more positive side, M & As may be critical to the healthy expansion of business firms as they evolve through successive stages of growth and development. The successful entry into new product markets and into new geographical markets by a firm may require M & As at some stage in the firm's development. The successful competition in international markets may depend on capabilities obtained in a timely and efficient fashion through M & As. According to Michael Hammer and James Champy (1993)…. "The fundamental rethinking and radical redesign of business processes to achieve dramatic improvements in critical contemporary measures of performance, such as cost, quality, service, and speed." Maximizing customer value and minimizing consumption of resources while delivering the products and services. This study mainly focuses on the effectiveness of financial performance of Ashok Leyland. This study analysis and determine the cash management and liquidity and profitability of the firm.

1. Objectives of the Study

- To analyze the cash management and to determine the efficiency in cash, inventories, debtors and creditors.
- To understand the liquidity and profitability position of the firm.
- To determine the optimum amount of cash for a company to hold under conditions of certainty and uncertainty.
- To determine excessive idle cash or cash shortage that is expected during the period.

II. REVIEW OF LITERATURE

Mansur.A.Mulla (2003)[1], in his study entitled "Forecasting the Viability and Operational Efficiency by use of Ratio Analysis - A Case Study", assessed the financial performance of a textile unit by using ratio analysis. The study found that the financial health was never in the healthy zone during the entire study period and ratio analysis highlighted that managerial incompetence accounted for most of the problems. It also suggested that toning up efficiency and effectiveness of all facets of management a necessary to move the company on a profitable footing. **Vanitha. S. and Selvam. M (2007)[2]** in their work "Financial Performance of Indian Manufacturing Companies during Pre and Post Merger", they analyzed the pre and post merger performance of Indian manufacturing sector during 2000-2002 by using a sample of 17 companies out of 58

(thirty percent of the total population). For financial performance analysis, they used ratio analysis, mean, standard deviation and't' test. They found that the overall financial performance of merged companies in respect of 13 variables were not significantly different from the expectations.**Kumar and Bansal (2008)**[3] in their research article "The impact of mergers and acquisitions on corporate performance in India" made an attempt to analyse the performance of merger and acquisition deals in India in long run. They mainly focused on study the impact of M&As on the financial performance of the outcomes in long run. They collected the financial data for six years, which includes three years pre-deal and three years post-deal of M&As. The Financial performance is analysed on five parameters to observe the overall financial health of merging and acquiring companies. These five parameters are: Liquidity position; operating efficiency; overall efficiency; return to equity shareholders; financing composition The research results indicated that the financial performance has improved in the post-merger time period when comparing with pre-merger time period of the same company. They stated that out of 52 acquisition deals, more than 60 percent of the cases showed an improvement in the financial performance in the post-acquisition time period. **N. M. Leepsa & Chandra Sekhar Mishra (2009)**[4] in a longitudinal study "Post Merger Financial Performance: A Study with Reference to Select Manufacturing Companies in India", intended to study the trend in merger and acquisition (M&A) particularly with reference to manufacturing companies. The present study was an attempt to find out the difference in post-merger performance compared with pre-merger in terms of profitability, liquidity and solvency. The statistical tools used are descriptive statistics, paired sample t-test**. Ravichandran et al (2010)**[5] in their research article "Market Based Mergers-Study on Indian & Saudi Arabian Banks" analysed the efficiency and performance of post merger using CRAMEL-type variable of selected banks in India & Saudi Arabia which are initiated by the market forces. The results suggested that the mergers did not seem to enhance the productive efficiency of the banks as they do not indicate any significant difference. The financial performance indicated that the banks are becoming more focused on their retail activities (intermediation) and the main reasons for their merger is to scale up their operations. However, it was found that the Advances to total Assets and the profitability are the two main parameters which were to be considered since they are very much affected by mergers. They concluded that even though the banks tend to improve their operational efficiency, the banks have to concentrate on their profits which must be one of their merger objectives. In this study an attempt has been made to briefly review the work already undertaken and methodology employed. A brief review of select studies has been presented in the following. **Azeem Ahmad Khan (2011)**[6] in his study entitled "Merger and Acquisitions in the Indian Banking Sector in Post Liberalization Regime" analysed the various motivations of Merger and Acquisitions in the Indian banking sector. . This study also examined the changes occurring in the acquiring firms on the basis of financial ground and also the overall impact of Merger and acquisitions on acquiring banks. He used independent t-test for testing the effect of Merger and Acquisitions on the performance of banks. This performance was being tested on the basis of two grounds i.e. Pre merger and Post merger. The result of the study indicated that the banks have been positively affected by the event of Merger and acquisitions. These results suggested that merged banks can obtain efficiency and gains through Merger and Acquisitions and passes the benefits to the equity share holders' in the form of dividend. He concluded that that the merger of banks has been beneficial to the Equity share holders and increases the overall bank performance in terms of profitability.

III. RESEARCH METHODOLOGY

Research methodology is a way to systematically analysis the research subject and it may be understood as science of study how research at done scientifically. Research is common parlance refer to a research for knowledge. According to Redman and Mary, research is defined as "a systematized effort to gain new knowledge". Research methodology is a way to systematically solve the problem. It may be understood as a science of studying how research at done scientifically. The advanced learner's dictionary lay down the meaning of research as a careful investigation or inquiry especially through search for new facts in any branch of knowledge. Research design is the conceptual structure within which the research is conducted. A research is the arrangement of conditions for the collection and analysis of data in a manner that aims to combine the relevance to research purpose with economy in procedures. Research constitutes the blue print for the collection, measurement and analysis of data. The research design used for this study is analytical research and descriptive research design.

3.1 Data Collection

The study has been made using secondary data, which are obtained from annual reports and statements of accounts. The study period for the annual reports and statements of accounts extended form the year 2009-10 to 2012-13.

IV. DATA ANALYSIS AND DISCUSSION

4.1 Current Ratio

Working capital ratio (or) Current ratio establishes the relationship between Current assets and Current liabilities. Normally, high current ratio is considered to be a sign of financial strength. It is the indicator of the firm's ability to promptly meet its short term liabilities

Table 4.1: Current Ratio

Year	Current Asset (In Millions)	Current Liabilities(In Millions)	Current Ratio
2009	28752.56	22719.40	1.27
2010	31656.15	21369.45	1.48
2011	41396.84	29607.57	1.40
2012	43672.45	35282.74	1.24
2013	46732.25	52935.12	0.88

Interpretation

Current ratio indicates the liquidity of current assets or the ability of the business to meet its maturing current liabilities. High current ratio finds favor with short-term creditors whereas low ratio causes concern to them. From the above table it is the evident that over the period of Ashok Leyland have been maintaining a sound liquidity position to meet the working capital requirements. Current ratio is highest in the year of 2008, and lowers in 2012 and 2013. Even though it will not satisfy the standard current ratio 2:1, it maintains the average positions as far as working capital is concerned.

4.2 Liquid Ratio

Liquid test ratio establishes a relationship between quick or liquid assets and Current Liabilities. An asset is liquid if it can be converted into cash immediately or reasonably soon without a loss of value. Cash is the most liquid asset. It is also known as acid test ratio.

Table 4.2: Liquid Ratio

Year	Liquid Asset (In Millions)	Liquid Liability (In Millions)	Liquid Ratio
2009	**16513.42**	**22719.40**	**0.73**
2010	**18356.01**	**21369.45**	**0.86**
2011	**25014.44**	**29607.57**	**0.84**
2012	**21583.42**	**35282.74**	**0.61**
2013	**25568.65**	**36789.55**	**0.69**

Interpretation

Quick ratio eliminates inventory and prepaid expenses for matching against current liabilities therefore it is more rigorous test of liquidity as compared to Current ratio. It gives a clearer picture of business's liquidity position. Rule of thumb for acid test is 1:1 i.e., if business liquid assets are 100 percent of its current liabilities it is considered to be having fairly good current financial position. From the above table it is confined that liquid ratio of the organization increases in 2010 compared to that of 2009 and starts to decrease from 2011 and again shows a raising trend in 2013. It shows that the company's liquidity position is slowly rising.

4.3 Debtors 'turnover Ratio

Ratio of net credit sales to average trade debtors is called as debtor's ratio. It is also known as receivables turnover ratio. This ratio is expressed in times. Accounts receivables are the term which includes trade debtors and bills receivables. It is a component of current assets and as such has direct influence on working capital position (liquidity) of business. Perhaps, no business can afford to make cash sales only thus extending credit to the customers is a necessary evil. But care must be taken to collect book debts quickly and within the period of credit allowed. Otherwise chances of debts becoming bad and unrealizable will increase.

Table 4.3: Debtors Turnover Ratio

Year	Total Sales (In Millions)	Accounts Receivable(In Millions)	Debtors Turnover Ratio
2009	77291.23	3758.35	20.57
2010	59,810.23	9579.74	6.24
2011	72447.10	10220.62	7.09
2012	1,11,177.09	11852.13	9.38
2013	1,33,095.90	12645.26	10.52

Interpretation

Normally higher the debtors turnover ratio better it is. Higher turnover signifies and effective collection. Lower turnover indicates sluggish and inefficient collection leading to the doubts that receivables might contain significant doubtful debts. From the above table it is inferred that the turnover ratio shows a fluctuation, it was higher in the year 2009 and shows a decline in 2010 and again it starts to increase from 2011. It shows that the companies have better collection of debt.

4.4 Creditors Turnover Ratio

It is a ratio of net credit purchases to average trade creditors. Creditor's turnover ratio is also known as payables turnover ratio. It is on the pattern of debtor's turnover ratio. It indicates the speed with which the payments are made to the trade creditors. It establishes relationship between net credit annual purchases and average accounts payables. Accounts payables include trade creditors and bills payables. Average means opening plus closing balance divided by two. In this case also accounts payables' figure should be considered at gross value i.e. before deducting provision for discount on creditors (if any).

Table 4.4: Creditors Turnover Ratio

Year	Cost Of Sales (In Millions)	Average Creditors(In Millions)	Creditors Turnover Ratio
2009	72268.53	22719.40	3.18
2010	54987.72	21369.45	2.57
2011	66672.61	29607.57	2.25
2012	103665.24	35282.74	2.94
2013	112116.09	38548.36	2.90

Interpretation

Shorter average payment period or higher payable turnover ratio may indicate less period of credit enjoyed by the business it may be due to the fact that either business has better liquidity position; believe in availing cash discount and consequently enjoys better credit standing in the market or business credit rating among suppliers is not good and therefore they do not allow reasonable period of credit. From the above table it is inferred that the ratio fluctuates and it increases in 2012 and again it slowly declines in 2013. This implies that the firm is developing its position of liquidity.

4.5 Inventory Turnover Ratio

Inventory turnover is the ratio of cost of goods sold to inventory. This ratio indicates how many times inventory is created and sold during the period.

Table 4.5: Inventory Turnover Ratio

Year	Net Sales (In Millions)	Inventory (In Millions)	Inventory Turnover Ratio
2009	77291.23	12239.14	6.32
2010	59,810.73	13300.14	4.50
2011	72447.10	16382.40	4.42
2012	1,11,177.09	22089.03	5.03
2013	133095.90	22306.30	5.96

Interpretation

High turnover suggests efficient inventory control, sound sales policies, trading in quality goods, reputation in the market, better competitive capacity and so on. Low turnover suggests the possibility of stock

comprising of obsolete items, slow moving products, poor selling policy, over investment in stock etc. The ratio is high in the year 2009 but it declines in 2010 and 2011, but starts increasing from the year 2012, the increase in ratio shows that the inventory is controlled efficiently in the company.

4.6 Net Profit Ratio

This is the profit of all expenses (Direct and indirect) expect tax deductions, expressed as a percentage of total sales. It is a more specific measure of the efficiency of the firm's operations. Both Gross Profit % and Net Profit % put together provides an insight into a firms operation and the role played by direct and indirect expenses

Table.4.6: Net Profit Ratio

Year	Net profit (In millions)	Net Sales (In millions)	Net Profit Ratio (%)
2009	4693.10	77291.23	6
2010	1899.96	59810.73	3
2011	4823.01	72447.10	7
2012	5774.49	111177.09	5
2013	6899.8	133095.90	5

Interpretation

Net profit ratio is used to measure the overall profitability and hence it is very useful to proprietors. The ratio is very useful as if the net profit is not sufficient, the firm shall not be able to achieve a satisfactory return on its investment, and higher the ratio the better is the profitability, the net profit ratio of Ashok Leyland limited is high in 2009 and it shows a decline in 2010 thereafter it shows a sudden increase in 2011 and again it starts declining from 2012.

4.7 Working Capital Turnover Ratio

Working capital of a concern is directly related to sales (i.e.) the current assets like debtors, bills receivables, cash, stock etc., and change with the increase or decrease in sales. This ratio indicates the number of times the working capital is turned over in course of a year. A higher ratio indicates efficient utilization of working capital and a low indicates vice versa.

Table 4.7: Working Capital Turnover Ratio

Year	Total Sales (In Millions)	Working Capital(In Millions)	Working Capital Turnover Ratio
2009	77291.23	6033.16	12.81
2010	59,810.23	10286.69	5.81
2011	72447.10	11789.27	6.15
2012	1,11,177.09	8389.70	13.25
2013	1,33.095.90	5773.10	23.05

Interpretation

Working capital turnover ratio establishes relationship between cost of sales and net working capital. Increasing ratio indicates that working capital is more active; it is supporting, comparatively, higher level of production and sales; it is being used more intensively. From the above, it is observed that it shows the good position as far as capital turnover ratio is concerned; although it shows a varying trend till 2012 it increases in 2013.

4.8 Cash to Working Capital Ratio

The cash to working capital ratio measure how well a company can meet its short-term liabilities using its liquid assets such as cash and cash equivalents and marketable securities. The ratio will also help uncover situations where the company may be too heavily spending its cash on inventory that is not being turned into sales as rapidly as it should be.

Table 4.8: Cash to Working Capital Ratio

Year	Cash	Working Capital	Ratio
2009	4455	6033.16	0.739
2010	8693	10286.69	0.84
2011	1889.2	11789.27	0.16
2012	1795.3	79813.83	0.023
2013	3256	24865.5	0.131

Interpretation

From the above table, the ratio is decreased gradually from year 2011 to 2012 and slowly starts rising from the year 2013.A decreasing cash to working capital ratio can indicate the company may be suffering from low cash reserves, and may not be able to meet its financial obligations.

4.9 Cash to Sales Ratio

It indicates the effectiveness of the firm's credit and collection policies and the amount of cash required as buffer for unexpected delays in cash collections. It is the inverse of cash turnover ratio.

Table 4.9: Cash to Sales Ratio

Year	Cash	Sales	Ratio
2009	4455	77291.23	0.058
2010	8693	59810.73	0.146
2011	1889.2	72447.10	0.026
2012	1795.3	111177.09	0.017
2013	3256	133095.90	0.025

Interpretation

From the above table the cash to sales ratio decreases from the year of 2012-2013 and at the end of the year it starts increasing slowly. So the cash to sales ratio is not in a good manner.

4.10 Cash Ratio

Cash ratio is the ratio of cash and cash equivalents of a company to its current liabilities. It is an extreme liquidity ratio since only cash and cash equivalents are compared with the current liabilities. It measures the ability of a business to repay current liabilities by only using cash and cash equivalents and nothing else.

Table.4.10: Cash Ratio

Year	Cash	Current Liabilities	Ratio
2009	4455	17558.55	0.25
2010	8693	22719.40	0.38
2011	1889.2	21369.45	0.089
2012	1795.3	29607.57	0.061
2013	3256	35282.74	0.093

Interpretation

From the above table it is proved that the cash to current liabilities are not in a constant the ratios changes for each and every year. A cash ratio of 1.00 and above means the business will be able to pay all its current liabilities in immediate short term. But business usually does not plan to keep their cash and cash equivalent at level with their current liabilities because they can use a portion of idle cash generate profits. This means that a normal value of cash ratio is somewhere below 1.00.

4.11 Current Asset to Total Asset:

This ratio represents the structure of assets and the amount in form of current assets per each pound invested in assets. Current assets are important to business because they are the assets that are used to found day-to-day operations and pay on-going expenses and include cash, accounts receivable, inventory, marketable securities, prepaid expenses and other liquid assets that can be readily converted to cash.

Table.4.11: Current Assets To Total Assets Ratio

Year	Current Asset	Total Assets	Ratio
2009	28752.56	30364.8	0.94
2010	31656.15	54358.7	0.58
2011	41396.84	44503.0	0.93
2012	43672.45	88177	0.49
2013	46732.25	98592	0.47

Interpretation

The above table shows the relationship between current assets to total assets ratio and ratio decreases in the year of 2010 and increases in the year of 2011 and then decreases gradually to the end of the year.

4.12 Loans Advances to Current Assets Ratio

This ratio defines the relationship between loans and advances to current assets ratio. It also determines the loans and advances that had been taken by the company.

Table 4.12: Loans and Advances to Current Assets Ratio

Year	Loans& Advances	Current Asset	Ratio
2009	7082.6	28752.56	0.24
2010	8196.3	31656.15	0.25
2011	9283.1	41396.84	0.22
2012	7871.7	43672.45	1.80
2013	13024.8	46732.25	0.27

Interpretation

The above table shows the relationship between loans and advances to current assets ratio and ratio decreases in the year of 2011 and increases in the year of 2012 and then decreases gradually to the end of the year.

V. FINDINGS

- From this study the Ashok Leyland has been maintaining a sound liquidity position to meet the working capital requirements. Current ratio is highest in the year of 2008, and lowers in 2012 and 2013.
- From the study is confined that liquid ratio of the organization increases in 2010 compared to that of 2009 and starts to decrease from 2011 and again shows a raising trend in 2013.
- From this study is inferred that the turnover ratio shows a fluctuation, it was higher in the year 2009 and shows a decline in 2010 and again it starts to increase from 2011.
- From this study is inferred that the ratio fluctuates and it increases in 2012 and again it slowly declines in 2013. This implies that the firm is developing its position of liquidity.
- From this study the ratio is high in the year 2009 but it declines in 2010 and 2011, but starts increasing from the year 2012, the increase in ratio shows that the inventory is controlled efficiently in the company.
- From this study the net profit ratio of Ashok Leyland limited is high in 2009 and it shows a decline in 2010 thereafter it shows a sudden increase in 2011 and again it starts declining from 2012.
- From this study, it is observed that it shows the good position as far as capital turnover ratio is concerned.
- From the analysis the cash to sales ratio decreases from the year of 2012-2013 and at the end of the year it starts increasing slowly. So the cash to sales ratio is not in a good manner.
- From this study it is proved that the cash to current liabilities are not in a constant the ratios changes for each and every year.
- From this study find the relationship between loans and advances to current assets ratio and ratio decreases in the year of 2011 and increases in the year of 2012 and then decreases gradually to the end of the year.

VI. SUGGESTIONS

- The respective current ratio it will not satisfy the standard current ratio 2:1, it maintains the average positions as far as working capital is concerned.
- It shows that the company’s liquidity position is slowly rising.
- It shows that the companies have better collection of debt.
- It is implies that the firm is developing its position of liquidity.

- This shows the increase in ratio shows that the inventory is controlled efficiently in the company.
- It shows a varying trend till 2012 it increases in 2013.
- The cash to sales ratio is not in a good manner.

VII. CONCLUSION

It is evident from the above analysis that both the hypotheses set for justification are not fully accepted. With the series of financial performance is that the ashok layland companies were taken over by more concentration on working capital management. It's to achieve a perfect position of liquidity, well before the combination, plan with precision, and ensure a relentless clarity of purpose and concerted action in the actual integration and good financial position of the company. Therefore, it was possible for the financial performance to turn around successfully in due course. However it should be tested with a bigger sample size before coming to a final conclusion.

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