Case Study

Ashok Leyland Ltd (ALL)
ALL is Well: A Case study

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History about Ashok Leyland (ALL):

Ashok ley land was set up in 1948 as Ashok Motors in collaboration with Austin Motor Co, England to assemble Austin cars, by Raghunandan Saran, whose son was Ashok. Production began in September 1949, at the factory situated at Ennore, north of Madras, and soon the first indigenously assembled A40 Austin car was rolled out, Later, in 1950 an agreement was reached with Leyland, UK getting sole rights to import, assemble and progressively make Leyland trucks for seven years. In 1955, the company was renamed Ashok Leyland with equity participation from Leyland Motors. It became famous for its double-decker buses (the first to make them) with 50% indigenous components. In 1970 it delivered1, 000 6x4 Hippo tipper trucks to the Indian Army and its design remains even today at the centre of Army trucks.

In 1987,when the Hinduja group acquired Ashok Leyland (by acquiring the offshore Leyland stake in the company) its journey in technology began with Iveco, the Italian commercial vehicle (CV) manufacturer which wanted to introduce its expertise in India. Iveco later took a stake in the company too. But in 2007, the Hinduja brought out Iveco's stake. In the mid-1990's,ALL explored getting into car manufacturing but abandoned the idea, as it was a different business from CVs. The Hinduja group is 14billion transnational conglomerate, founded by late P.D.Hinduja in 1914and earlier focussed on trading and finance the traditional business of Sindhi Shikarpur merchants. The group's activities now span various fields like trading, project development, automotive, banking and fiancé health care IT/ITEs, real estate, energy and chemical &agribusiness. It has a presence in 37 countries, and employees more than 70,000 people. Ashok Leyland is the group's flagship company. The well-known four Hinduja brothers Srichand, Gopichand, Prakash and Ashok, control the group competently supported by members of the next generation. But the family is not involved in the day to day operations of the businesses, which have been entrusted to professionals. The Hinduja family has consistently been on various Rich Lists; and for long were the richest Indians in UK.

This 70year old company, the second largest Indian manufacturer of commercial vehicles (CV) was perceived as almost crippled since 2013 with market down. Annexure-I is very clear indicated the five year financial performance of the company. The annual medium and heavy commercial vehicle demand plummeted from 350,000 to 200,000 units during 2013 and 2014. The company finances were tender stage, with high investment of Rs6, 000 core over the previous five years more than the total investment in the company in its first 60years of existence. Its debt equity ratio to 2:4. Market sentiment was negative and at Rs 11 the price was under the book value. The debt equity ratio was has reduced to a low 0.3 and the stock price is hovering at 120-125 per share.

Leadership commitment: Mr.Vinod .K.Dasari was appointed as CEO in April 2011. The company was in very bad position, in all dimensions. He struggled with his team deftly executed his restructuring plans with determination. He disposed of the non-performing assets sold the company's holding of Indusind bank shares, renationalized Joint Venture holdings and trimmed the work force by 10 percent. But earlier investment in technology, improved product quality and operational efficiency allowed him to focus on new growth areas, to reduce dependency on the core business of heavy highway trucks. He aggressively expanded sales and services in the rest of the country disruptively launched new products and thrust on exports under a programme called RFG (Restructuring for Growth)

Identifying Bull market:

The market share has improved from 24 percent in 2013 to 32 percent. The operating working capital has come down from 37 days to eight days. The dealership and touch points have been ramped up from 350 to 2,800. The current manpower of the company is 10,700 an average age of 35-38 years. The turnover has increased from Rs 13,300 core to 21,300 all in the last five years. When the market partially recovered, we did not look back 'says Mr Gopal Mahadevan, CFO, Ashok Leyland (ALL). All these exercise helped as grow faster than the market." Ashok Leyland (ALL) has presence in trucks, buses, light vehicles defence vehicles and power solutions. It is fourth largest bus and 14thlargest truck maker in the world. It produces 145,000vehicles and is the second largest commercial vehicles manufacturer in India after Tata Motors in a market with more than 10 internationally recognised manufacturer. The company design and make its own engines. All was an early producer of multi axel trucks, articulated buses and CNG vehicles in India. Some of the new products like Jan Bus, U 3718, Boss, Captain, and 40-iT contributed to the company growth. All has consolidated its position and introduced new initiatives with2.5 percent of its revenue invested in R&D.

Identifying similar friends: ALL has not entirely smooth sailing. In 2011 it formed joint venture (JV) with Nissan Motors of

Japan to make LCVs at Hosur in India. In November 2017, ALL acquired the Nissan Motor stake of the joint venture (JV). All also Nissan Motor Co Ltd's stake in each of the three JVs formed between two companies, namely Ashok Leyland Nissan –vehicles Limited, Nissan-Ashok Leyland Powertrain Limited and Nissan-Ashok Leyland Technologies Limited at nominal cost after Nissan decide to venture on its own in India.

Innovation of Products: ALL is now making 32,000 LCVs (light Commercial vehicles) called Dost, MITR, and Partner which are based around the Nissan designs. ALL late entrant in LCVs vehicle market and it EBIDTA margin turned positively by 8-9 percent and ALL having 15% market share in the 2- 2.5 tone segment. The company is now ready to invest Rs 400 core in the product and plant capex in the LCV business and add additional capacity of another 25,000 units. Mr. Vinod K. Dasari, CEO of the company emphasis ALL is the first company to introduce air conditioned cabins and provide power steering. It claims vehicles from the company are 20% more fuel efficient that it competitors. It plans to launch new products every six months.

Mr.Dheeraj Hinduja highlighted the importance to become technology self-reliant and make the product suited for cost sensitive Indian market. We bought a stake in Iveco. It revamped the Research and Development centre completely five years back and now employs 1,100 people there, as against 120 people in the past.. The Technological up gradation includes their own cabs, engine and whole vehicle configurations. ALL developed the intelligent Exhaust Gas Recirculation (IEGR) technology a simple yet innovative solution which achieved BS IV emission norms. It works on single process where a portion of an engine's exhaust gas recirculated back to the engine cylinders. This technology is based on the conventional Exhaust cylinder. This technology is based on the conventional Exhaust Gas Recirculation (EGR) technology, which works well for vehicles or engines up to 130HP only. ALL's claims no other OEM has achieved anywhere else in the world. IEGR is proud example of Innovation.

Standard Operation Procedures: In the year 2016 ALL's Pantnagar unit had become the first truck and bus plant in the world and also only commercial vehicle manufacturer outside of Japan to win Deming Prize-the oldest and most widely recognised quality prize. Which awarded to companies that have established Total Quality Management (TQM) in their business. ALL only commercial vehicle Company in the world to win Deming prizes in consecutive years, says proud CEO Mr.Vinod K.Dasari. ALL is the first company to offer a five year comprehensive annual maintenance contract to its customers. (Its model 3718 is of 37tonne capacity). Under tatkal scheme the company has made a promise to attend to break down within four hours anywhere in India and put a vehicle back on the road in 48hours failing which the company will pay rs1, 000 per day to the truck owner

Think Global and act Local: All has started it operation in Ras Al Khaimah venture in United Arab Emirates is very small but very successful and profitable addressing to local market. The successful lessons from the Ras Al Khaimah now ALL is planning to establish its operations in East Africa, Russia, South East Asia and Kenya. In the year 2016, ALL has linked a strategic tie-up with its largest dealer, IFAD Auto Limited, Bangladesh to build an assembly unit for ALL .The Joint venture has a capacity to rolling out 600-800 vehicles in all ranges every moth.

Future Direction: ALL is also looking at electric vehicle (EV) to become future ready. The company has formed a technical alliances with Sun Mobility to develop electric mobility solutions. Sun mobility plans to revolutionise the transportation sector by deploying a unique open –architecture ecosystem. The company is built around hard work, talent and innovation by professional managers along with prudent and controlled capital allocation from the promoters which defines its success. “ALL is very good company with large product range” says Mr.Vinod Agarwal, MD & CEO, Volvo and Eicher Commercial Vehicles joint venture. During Last few years it has grown well the particularly in the new segments under Mr.Vinod K. Dasari leadership.

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Annexure-I : Five year results: (In cores)

Particulars/Years	2017	2016	2015	2014	2013
Revenue	21,331.67	19992.97	14485.93	10,560.85	13,298.56
Profit before tax	1.330.09	826.54	442.20	91.22	470.71
Profit after tax	1.223.08	389.81	334.81	29.38	433.71

Annexure-II : Regional market share of all (In %)

Zone	**2011-12**	**2017-18**
South	47.10	42.80
North	16.40	25.01
West	20.60	31.00
East	10.00	26.20
Central	22.90	35.00

Annexure III: Peer comparison in M&HCV (Units sold)

Name	2015-16	2016-17	Market Share %	Growth (%)	Remarks
Ashok Leyland	109,760	113,292	3	33	
Tata Motors	176493	175262	-1	51	
M&M	7385	8631	17	2	
VECV-Eicher	36,736	41,416	13	12	
Others	7,220	7,631	6	2	

Teaching Notes: All is Well- Case Study

Questions for Discussion:

1. What is the Restructuring? Identify symptoms of restructuring?
2. What are the steps can be recommended Restructuring Plan?

Introduction:

Business restructuring may be defined as a conscious effort to restructure policies, programmes, products, processes and people to serve the redefined policies, programmes on a sustainable basis, because most of the restructuring policies are carried out with an reaction to the market variables or internal problems, without a serious attempt of looking at long-term (or sustainable) results. Let us look at the comprehensive scope available to restructure, which defines various interesting dimensions of restructuring – The Purpose is Quantitative & Qualitative Results and their sustainability.

If the purpose decides the scope of restructuring, it should also decide the broad sequence of restructuring. Very often the purpose alone may not decide the sequence, the owner's confidence, market variables of urgent attention etc. do decide the sequence of restructuring. The following may be alternative sequences. Symptoms to restructuring need to address through discussion in the class room looking at Annexure-I, student managers need to discuss what are the main reasons will lead to restructuring of the company and student managers need understand and contribute to the discussion what are the efforts were contributed a Mr.Vinod.K.Dasari, CEO of the company in understanding the problem of the company.

Meaning of Restructuring: Restructuring is a strategy through which a firm changes its set of businesses or its financial structure to position its business in the competitive market. This strategy has become necessary for all those organisation which were having fallowing symptoms

Symptoms of Restructuring:

Financial Symptoms

1. Increasing operating costs and cost of finance 2. Falling share prices in the market, without a near-future scope for correction. 3. Declining earnings ratios for divisions, vendors, distributors and shareholders. 4. Increasing costs at the supply-side and demand side of the value-chain.5.Growing costs on marketing operations and hence growing pressure on manufacturing costs. 6. Growing costs of corrective efforts, revisions or reincarnation of products and services.7.Unusual cost of wastage, inefficiencies, idle time, insurance, maintenance, deliveries, etc. 8. Increased costs of applied research, concept sale and take-off efforts.

Strategic Symptoms

1. Slowed down desire for perpetual growth and wealth acceleration. 2. Growing mismatch between strategy formulation by owners and professional

managers. 3 Imbalance of value-additions done by value-driving divisions, individuals and other strategic inputs. 4. Imbalance between short-term tactics and long-term strategies.

Market, Economy-level and Global Symptoms

1. Sustained recession, shrinking international markets. 2. Cheaper funds availability from the international market. 4. Growing import substitution. 5. Growing influence of networking and multinational corporations. 6. Increased international culture of branding anything and everything. 7. Hyper rate of ‘information technology advancement, resulting in the globe becoming one single market. 9. Increasing replacement of skill and system employees by knowledge employees and entrepreneurial employees. 10. Opening up of certain economies, regions and the growing scope of new businesses, government-private sector participation, international joint ventures, etc. 11. An economy’s transition from the core sector to service sector to information tech-sector to advisory sector.

Operational symptoms

1. Delays in supply chain and distribution chain. 2. Weak market feedback on products, prices and promotional policies 3. Decline in new market development efforts. 4. High asset maintenance and repairs. 5. Distributed ratio between the number of core employees and support employees and the time and effort spent in core performances and support performances. 6. Uncomfortable relations with external stakeholders like contractors, vendors, government departments, consultants etc.

Answer: 2 Restructuring Plan:

The Restructuring Plan, the purpose of restructuring is clearly decided, a restructuring plan could then have reasonable clarity and shape. Although each individual purpose would decide the details of the plan distinctively and leadership demonstration will play vital role in the restructuring process. A general structure may be summarized as follows:

Steps involved in Restructuring:

1. Define the purpose further, with the maximum details of possible sustainability. 2. Decide the sequence of restructuring. 3. Check out all minute details of each operation (related to the soft and hard aspects of restructuring) under each phase of the sequence, with the use of Program evaluation and Review technique (PERT) Critical Path Method (CPM) charts and details about major hurdles and tactics to overcome these hurdles. 4. Have a parallel cost-benefit chart along with the PERT-CPM chart of operations. The costs and benefits should be on both the scales-short and long. 5. Decide a lead team of key executives and owners to carry out the whole process of restructuring, decide on the action plan for each member of the team and ‘homogenous progress parameters’ to monitor the process. 6. Chalk out a detailed plan with soft and hard aspects, costs and crisis-management of change and result indicators.

Significance of Corporate Restructuring

Corporate restructuring is a strategic decision leading to the maximization of company growth by enhancing its production and marketing operations, reduced competition, free flow of capital, globalization of business, etc. Some of the most common reasons of corporate restructuring are discussed briefly hereunder:

(i) Economies of scale: Economies of scale arises when increase in volume of production leads to a reduction in cost of production per unit. For instance, overhead costs can be substantially reduced on account of sharing central services such as – accounting and finance, personnel and legal, sales promotion and advertisement, top level management and so on. So when two or more companies combine, certain economies are realized due to the larger volume of operations of the combined entity. These economies arise due to increased production capacity, strong distribution networks, effective engineering services, research development facilities, data processing system and others.

(ii) Operating Economies: Various functions may be consolidated and duplicate channels may be eliminated by implementing proper planning and control system.

(iii) Synergy: Synergy refers to a situation where the combined firm is more valuable than the sum of the individual firms. It refers to benefits other than those related to economies of scale. Apart from operating economies, synergy may also arise from enhanced managerial capabilities, creativity, innovativeness, R&D, productivity improvements, improved procurement and the elimination of duplication.

(iv) Managerial Effectiveness: One of the potential benefits of joint venture is an increase in managerial effectiveness. This may occur if the existing management team, which has performed poorly, is replaced by a more efficient one.

(v) Other reasons of corporate restructuring are given below: (a) To return to the shareholders of the surplus cash, which is not required in the near foreseeable future. (b) To enhance the earnings per share of the company. (c) To provide to shareholders/investors that the company is presently undervaluing the share of the company in relation to its intrinsic value and the proposed buy back will facilitate recognition of the true value. (d)To maintain shareholders' value in a situation of poor state of secondary market by return of surplus cash to the shareholders. (f) Eliminate the takeover threats. (g) An opportunity to grow faster, with ready-made market share. (h)To eliminate the competition by buying it out. (i) Diversification with minimum cost and immediate profit. (j) To forestall the company's own takeover by a third party.

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