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Financial Performance Evaluation through Cost and Profitability Ratios: A Study of Ashok Leyland Ltd. (2021–2025)

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ABSTRACT

Cost control and profitability are the twin pillars on which the sustainability of a manufacturing business rests, and nowhere is this more evident than in the capital-intensive commercial vehicle industry. This article evaluates the financial performance of Ashok Leyland Ltd., one of India's leading commercial vehicle manufacturers and a Hinduja Group company, over the five-year period 2021–2025, using ratio analysis and trend analysis applied to secondary data drawn from the company's annual reports. Cost Ratio, Operating Ratio, Operating Expense Ratio, Material Cost Ratio, Employee Cost Ratio, Gross Profit Ratio, Net Profit Ratio, Cost Efficiency Ratio, and Revenue Growth are computed and interpreted year-on-year. The analysis shows that while revenue grew from ₹1,94,541 million in 2021 to ₹4,85,351 million in 2025, the company progressively brought its cost structure under control: the Cost Ratio fell from a peak of 69.16% in 2023 to 61.15% in 2025, the Operating Ratio fell from 92.76% to 81.94%, and the Cost Efficiency Ratio improved from 93.04% to 80.36% over the same period. These cost efficiencies translated directly into profitability, with the Net Profit Ratio rising steadily from 2.78% in 2021 to 6.10% in 2025 and the Gross Profit Ratio recovering from a low of 30.84% in 2023 to 38.85% in 2025. The findings indicate that Ashok Leyland achieved a balance between expansion and cost discipline over the study period, and the article offers suggestions for sustaining this performance through supply-chain efficiency, productivity improvement, and long-term risk management.

Keywords: financial performance; cost ratio; profitability ratio; ratio analysis; trend analysis; Ashok Leyland; commercial vehicle industry

1. Introduction

Analysing financial performance enables an assessment of a company's operations, earnings, and general financial stability, and is of value to policymakers, creditors, investors, and management alike. Cost and profitability ratios are among the principal tools used for this purpose, since they show how effectively a business manages its expenses and generates revenue from its operations.

The automotive sector is a major contributor to the Indian economy, generating employment and supporting broader economic expansion, even as it confronts rising input prices, intense competition, evolving technology, and shifting consumer demand. Ashok Leyland Ltd., a Hinduja Group company and one of India's leading commercial vehicle manufacturers, produces trucks, buses, defence vehicles, and other automotive products, and its scale and market position make its cost and revenue performance a matter of considerable interest.

This article examines Ashok Leyland's financial performance between 2021 and 2025 through the Net Profit Ratio, the Cost Efficiency Ratio, the Employee Cost Ratio, the Material Cost Ratio, and related cost and profitability measures, in order to assess whether the company has been able to reduce expenses, improve operations, and sustain profitability over the period. Cost control is central to this assessment: a company unable to manage its expenses effectively will find its earnings, and the value it delivers to shareholders, correspondingly diminished, whereas effective cost management allows better use of resources and stronger competitive performance.

1.1 Objectives of the Study

1. To examine Ashok Leyland Ltd.'s revenue and profit trends during the study period.
2. To evaluate the profitability of the business using the Net Profit Ratio

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Vol. 01, Issue 3, July2026, pp :704-713

3. To assess the efficiency of cost management using the Cost Efficiency Ratio.
4. To investigate the trend and effect of the Employee Cost Ratio on financial performance.
5. To examine how the cost of materials affects profitability and operational effectiveness.

1.2 Scope and Methodology

The study is confined to the analysis of Ashok Leyland Ltd.'s financial performance through cost and profitability ratios over the five-year period 2021–2025. It relies entirely on secondary data collected from the company's annual reports, records, and related published sources; no primary data was used. Ratio analysis is the principal analytical tool, covering the Cost Ratio, Operating Ratio, Net Profit Ratio, Cost Efficiency Ratio, Employee Cost Ratio, Operating Expense Ratio, Material Cost Ratio, and Gross Profit Ratio, supplemented by trend and percentage analysis to track year-on-year change. The findings relate to the company and period studied and are intended to illustrate the relationship between cost management and profitability rather than to serve as investment advice.

2. Review of Literature

A comparative study of leading Indian automobile companies, with particular attention to Ashok Leyland, found that its profitability and operational effectiveness had been increasing gradually between 2019 and 2024 relative to its peers (Fartyal & Agarwal, 2025). Earlier work using secondary data from annual reports similarly found a positive trend in the company's overall financial performance, notwithstanding fluctuations in working-capital performance and profitability, and recommended routine monitoring of cost and profitability indicators (Vadivel & Raghul, 2023). A study covering 2015–2020 using ratio analysis found that profitability and financial health improved over the period and emphasised the value of ratio analysis for management decision-making (Sivasakthi & Thabasvini, 2021). Comparative balance sheet and trend analysis of the company likewise found continuous improvement in performance and stability, underlining the importance of financial analysis for understanding automotive-sector trends and efficiency levels (Swamy & Rajashekar, 2021).

An evaluative study spanning 2014-15 to 2018-19 examined Ashok Leyland through profitability, liquidity, solvency, and management-efficiency criteria and found low liquidity alongside strong profitability and solvency, concluding that effective inventory and asset management is critical to sustained financial success (Modi Vishakhaben, 2020). More broadly, studies of profitability and liquidity ratios have identified financial ratios as essential tools for assessing management effectiveness, forecasting, and comparative decision-making, with profitability ratios standing out as the primary performance metric (Mutmainah et al., 2024). A review of efficiency-assessment literature using Data Envelopment Analysis found cost-efficiency to be the most widely used technique in the efficiency literature (Camanho et al., 2024), while a separate study of the effects of cost, revenue, and profit efficiency on organisational performance found that improvements in cost effectiveness are consistently followed by higher profitability, underscoring the importance of effective cost-management techniques (Sharma & Vyas, 2021).

An integrative analysis comparing traditional profitability ratios with cash-flow-based ratios found that combining efficiency ratios with conventional financial ratios yields a more accurate assessment of financial sustainability (Seretidou et al., 2025). Most directly relevant to the present study, an analysis of Ashok Leyland covering 2021–2025 found that strong sales volumes together with an appropriate cost-control mechanism had substantially improved the company's revenue, profitability, and stability, with the Net Profit Ratio rising steadily as evidence of effective cost control (Arasan & Harsath, 2026). Collectively, this literature establishes both the relevance of cost-and-profitability ratio analysis to automotive-sector performance and the specific relevance of Ashok Leyland as a case in which cost discipline and profitability have moved together, forming the basis for the detailed year-on-year analysis undertaken here.

3. Data Analysis and Interpretation

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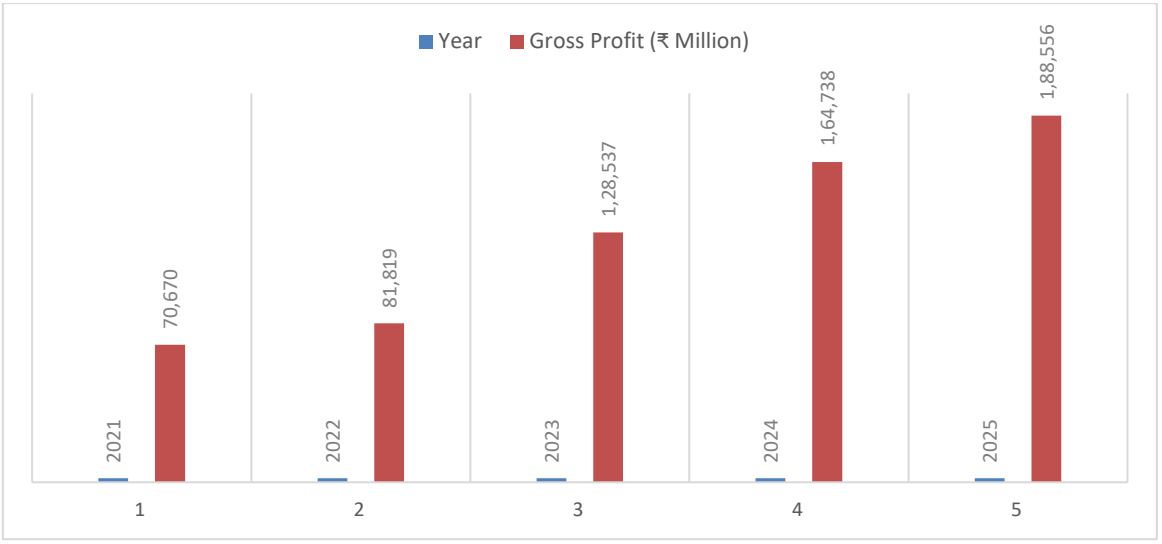
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Vol. 01, Issue 3, July2026, pp :704-713

Table 3.1 Revenue and Cost of Revenue

Year	Revenue (₹ Million)	Cost of Revenue (₹ Million)	Gross Profit (₹ Million)
2021	1,94,541	1,23,871	70,670
2022	2,62,372	1,80,552	81,819
2023	4,16,726	2,88,189	1,28,537
2024	4,57,033	2,92,295	1,64,738
2025	4,85,351	2,96,796	1,88,556

Fig 3.1 Revenue and Cost of Revenue



Interpretation:

The above table shows the company's revenue, cost of revenue and gross profit from 2021 to 2025. Revenue has increased from ₹194,541 million in 2021 to ₹485,351 million in 2025, which indicates strong business growth during the study period. At the same time, the cost of revenue rose from Rs. 123,871 million to Rs. 296,796 million, which reflects higher production costs associated with increased sales volume.

Table 3.2 Cost of Materials Consumed

Year	Cost of Materials (₹ Crores)
2021	11,118.96
2022	15,913.16
2023	27,246.95
2024	26,916.54
2025	25,711.74

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Vol. 01, Issue 3, July2026, pp :704-713

Fig 3.2 Cost of Materials Consumed



Interpretation:

The Cost of Materials jumped from ₹11,118.96 crores in 2021 to ₹27,246.95 crores in 2023.

This increase indicates a substantial increase in production activities, sales volume or purchase of raw materials for the expanding business operations.

This is in line with the company's robust revenue growth in the same period. This is a function of improved operating leverage and scale.

Table 3.3 Employee Benefit Expenses

Year	Employee Cost (₹ Crores)
2021	1,583.89
2022	1,694.60
2023	2,113.86
2024	2,233.38
2025	2,406.27

Fig 3.3 Employee Benefit Expenses

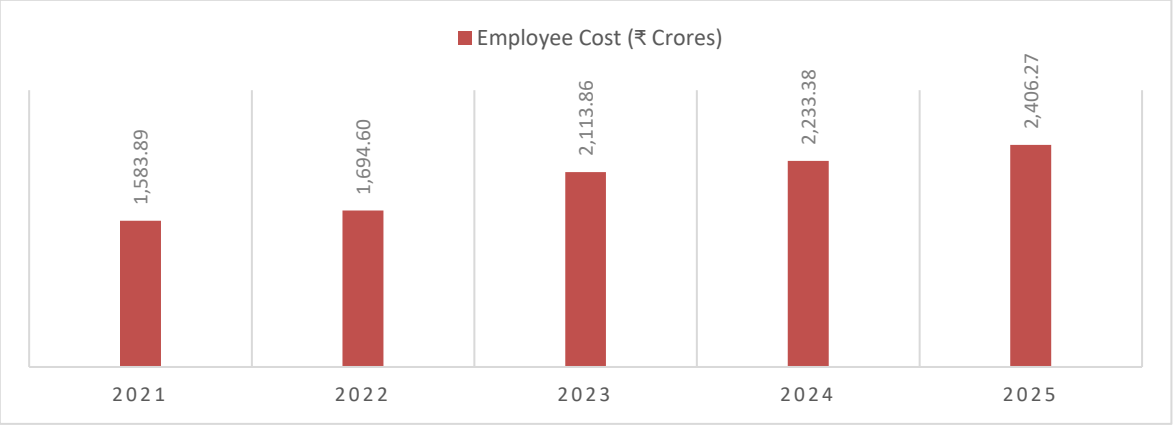
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Interpretation:

The above table shows that employee cost improved consistently from Rs. 1,583.89 cr in 2021 to Rs. 2,406.27 crores in 2025. This rose trend indicates growth in the company's workforce, annual salary revision, employee benefits, and advancements in business operations.

The most notable rise occurred between 2022 and 2023, when employee cost surged from Rs. 1,694.60 crores to Rs. 2,113.86 crores, suggesting increased recruitment and investment in Human resources to support business expansion. Anyway, the employees' costs continued to increase in 2024 & 2025.

Table 3.4 Operating Expenses

Year	Operating Expenses (₹ Million)
2021	54,402
2022	62,827
2023	86,610
2024	89,727
2025	1,00,825

Fig 3.4 Operating Expenses

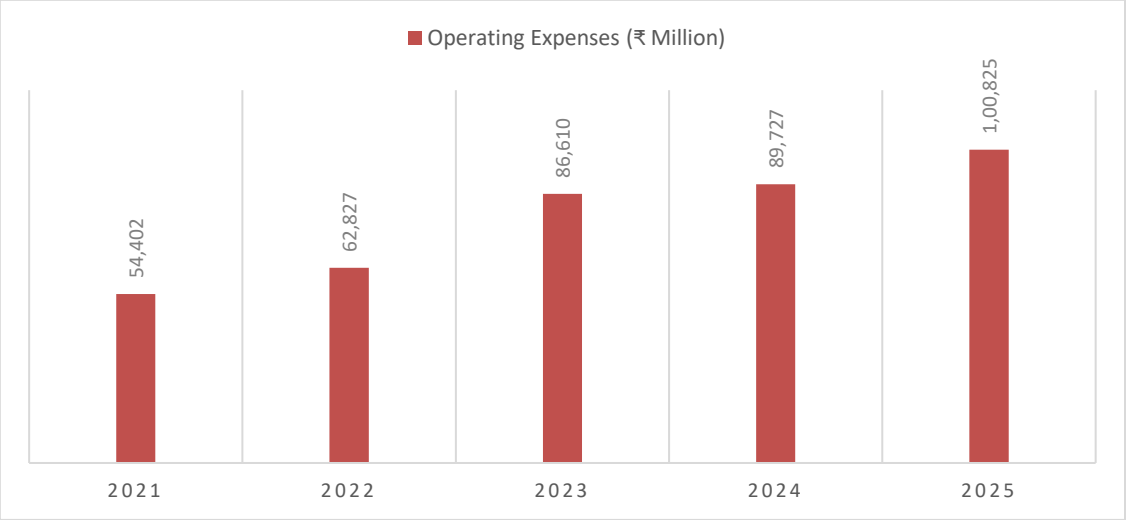
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Vol. 01, Issue 3, July2026, pp :704-713



Interpretation:

The table shows the operating expenses of the company from 2021 to 2025. Operating expenses shows a continuous rise from Rs.54,402 million in 2021 to Rs. 100,825 million in 2025. This increase in trend indicates the growth of business operations, increased production activities and higher spending on selling, administrative and employee-related expenses.

Table 3.5 Gross Profit Ratio

Formula=Gross Profit/Net Sales×100

Fig 3.5 Gross Profit Ratio

Year	Revenue (₹ Mn)	Gross Profit (₹ Mn)	Gross Profit Ratio (%)
2021	1,94,541	70,670	36.32
2022	2,62,372	81,820	31.18
2023	4,16,726	1,28,537	30.84
2024	4,57,033	1,64,738	36.05
2025	4,85,351	1,88,555	38.85

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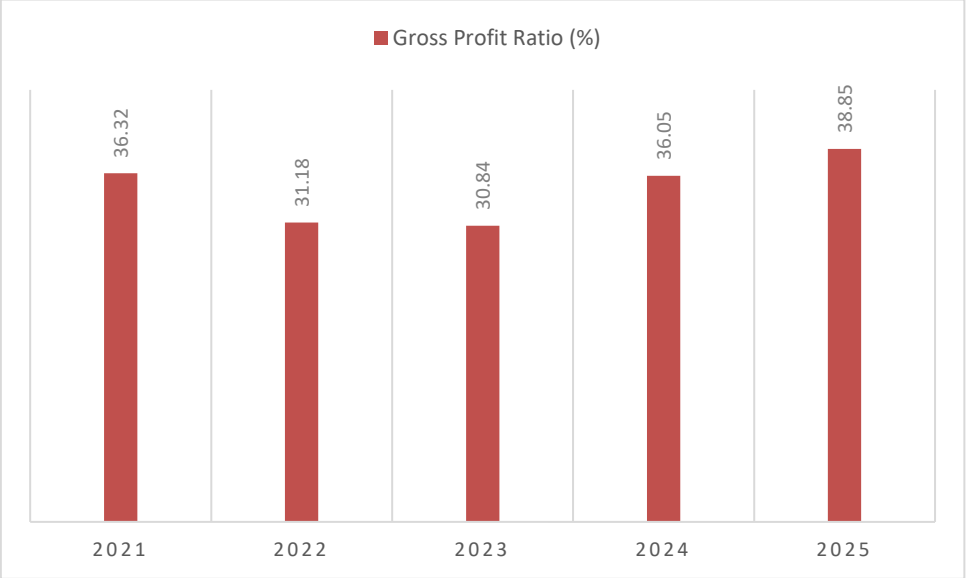
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Interpretation:

The Gross Profit ratio shows the percentage of revenue remaining after deducting the cost of revenue. The ratio decreased from 36.32% in 2021 to 30.84% in 202, which indicates that direct costs increased at a faster rate than revenue during this period, which affected the company's gross profitability.



From 2024, the ratio increased significantly, reaching 36.05% in 2024 and 38.85% in 2025. This improvement suggests that the company successfully controlled its production costs and increased operational efficiency while continuing to strengthen its revenue.

Table 3.6 Cost Ratio

Formula=Total Cost/Net Sales×100

Fig 3.6 Cost Ratio

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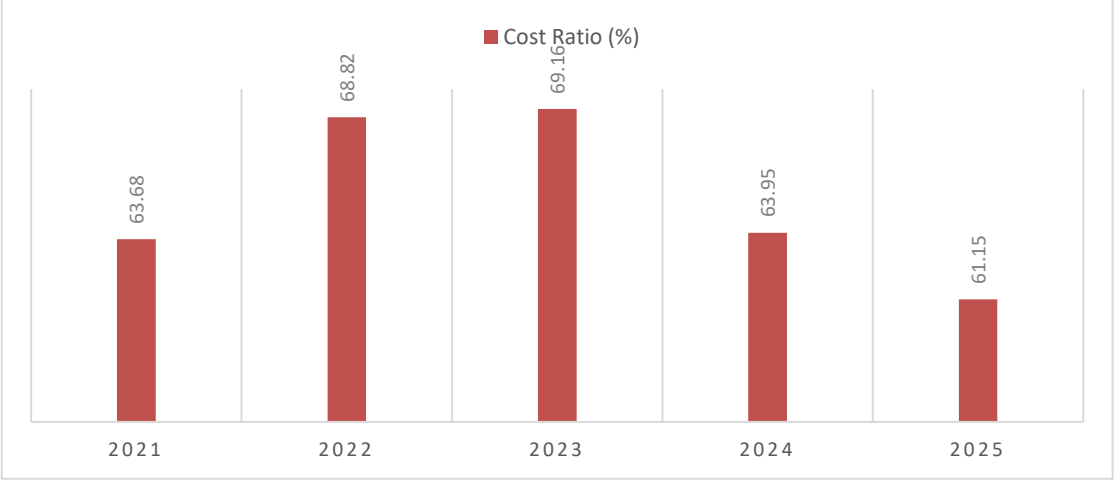
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Vol. 01, Issue 3, July2026, pp :704-713

Year	Revenue (₹ Mn)	Cost of Revenue (₹ Mn)	Cost Ratio (%)
2021	1,94,541	1,23,871	63.68
2022	2,62,372	1,80,552	68.82
2023	4,16,726	2,88,189	69.16
2024	4,57,033	2,92,295	63.95
2025	4,85,351	2,96,796	61.15



Interpretation:

Cost Ratio represents the percentage of revenue consumed by the cost of revenue. The cost ratio improved from 63.68% in 2021 to 69.16% in 2023, indicating that the company's costs were increasing faster than its revenue during the period. This increase may lead to higher raw material prices, an increase in production costs, and expansion of business operations.

However, the Cost Ratio declined significantly to 63.95% in 2024 and to 61.15% in 2025. This reduction in cost ratio suggests that the company was able to control its production and operating costs more effectively while continuing to increase its revenue. This declining trend reflects increased cost efficiency, better utilisation of resources, and effective management of costs.

4. Findings

1. Revenue increased significantly, from ₹1,94,541 million in 2021 to ₹4,85,351 million in 2025, reflecting sustained business growth and market expansion.
2. Gross profit grew steadily from ₹70,670 million to ₹1,88,556 million over the period, despite rising production costs.

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Vol. 01, Issue 3, July2026, pp :704-713

3. Material costs rose rapidly through 2023 in line with expanding production and sales, before declining in 2024 and 2025 as material-cost control improved.
4. Employee benefit costs rose steadily from ₹1,583.89 crores in 2021 to ₹2,406.27 crores in 2025, reflecting growth in the workforce and periodic salary revisions.
5. Operating expenses rose from ₹54,402 million to ₹1,00,825 million, but revenue grew faster than operating costs across the period, indicating effective cost control.
6. The Gross Profit Ratio fell from 36.32% in 2021 to 30.84% in 2023 before recovering to 38.85% in 2025, showing renewed effectiveness in managing production costs.
7. The Cost Ratio rose to a peak of 69.16% in 2023 and then fell to 61.15% in 2025, indicating improved cost efficiency in the later years of the study.
8. The Operating Ratio declined from 92.76% in 2022 to 81.94% in 2025, showing improved control over operating expenses relative to revenue.
9. Revenue growth peaked at 58.8% in 2023 on strong vehicle demand, before moderating to single-digit growth in the following two years.
10. The Operating Expense Ratio declined from 27.96% in 2021 to 19.63% in 2024, reflecting better utilisation of resources.
11. The Material Cost Ratio rose to 65.38% in 2023 before falling to 52.99% in 2025, showing improved control over material purchasing.
12. The Employee Cost Ratio fell from 8.14% in 2021 to 4.96% in 2025, indicating that revenue grew faster than employee costs.
13. The Net Profit Ratio improved every year, from 2.78% in 2021 to 6.10% in 2025, showing consistently strengthening profitability.
14. The Cost Efficiency Ratio declined from 93.04% in 2021 to 80.36% in 2025, indicating steadily improving cost efficiency as revenue grew.
15. Overall, Ashok Leyland Ltd. achieved sustained financial improvement between 2021 and 2025, combining revenue growth with progressively better cost control.

5. Suggestions

1. Strengthen cost control measures by continuing to monitor raw-material prices and seeking more economical procurement of manufacturing inputs.
2. Improve supply-chain efficiency through digital procurement systems and closer coordination with suppliers to maintain optimal inventory levels.
3. Focus on sustainable revenue growth by pursuing new markets and strengthening exports, given the moderation in growth from 58.8% in 2023 to 6.2% in 2025.
4. Continue optimising employee productivity through training and skill development, building on the decline already achieved in the Employee Cost Ratio.
5. Maintain a long-term focus on sustainability by adopting environmentally sound production technologies and methods.
6. Strengthen risk-management practices to handle raw-material price fluctuations and broader economic uncertainty.
7. Maintain financial discipline by continuing to monitor and reduce unnecessary expenditure to further improve the Cost Efficiency Ratio.

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Vol. 01, Issue 3, July2026, pp :704-713

6. Conclusion

This study of Ashok Leyland Ltd.'s financial performance through cost and profitability ratios over 2021–2025 shows that the company performed well both financially and operationally across the period. Revenue grew from ₹19,454.10 crores in 2021 to ₹48,535.10 crores in 2025, and the company was able to keep its cost structure under comparatively better control even as labour, material, and overall costs rose in absolute terms. The Cost Ratio, Operating Ratio, Material Cost Ratio, Employee Cost Ratio, and Cost Efficiency Ratio all declined over the later years of the study, indicating better management of revenue and expenses, while profitability ratios improved significantly — the Gross Profit Ratio recovered strongly after 2023 and the Net Profit Ratio rose steadily from 2.78% to 6.10%.

Ashok Leyland Ltd. has thus strengthened its financial stability by controlling expenses, making better use of its resources, and growing revenue in tandem. Having struck a balance between expansion and profitability over the study period, the company appears financially stable and competitive enough to sustain further growth, with its future performance likely to depend on continued innovation, cost-effectiveness, and initiatives such as the development of electric vehicles.

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Declarations

Funding: This research received no specific grant from any funding agency in the public, commercial, or not-for-profit sectors.

Conflict of Interest: The author declares no conflict of interest.

Data Availability: The data used in this study were drawn from secondary sources, namely Ashok Leyland Ltd.'s published annual reports and financial statements for 2021–2025.