



Comparative Analysis of Liquidity Status of Selected FMCG Companies in India

KEYWORDS

Liquidity, FMCG Companies, Liquidity Ranks, ANNOVA test on Liquidity Ratios.

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ABSTRACT Liquidity is inevitable for all the business units, Even if a company is economically strong and profitable, it may be put into difficulties, if adequate Liquidity is not maintained. In this Research paper, Comparative Analysis of Liquidity Status of selected Indian Companies is undertaken. For the purpose of study, 40 FMCG Companies are selected. Analysis of variance (one way) is done.

INTRODUCTION :

Liquidity is very important for business enterprises. Inadequate liquidity leads to cash shortages. Any possibility of cash shortage must be quickly detected by manager of a business unit. In case of cash shortages, funds must be generated in order to keep the level of liquidity intact. The success of any business organisation, to the great extent, depends upon its Liquidity status.

REQUIREMENT OF LIQUIDITY :

Liquidity is inevitable for business enterprises. Even if a business unit owns sufficient assets, it can be put into troubles if those assets are not easily convertible into cash. The requirements of liquidity are as under :

- It is required for keeping business operations ongoing.
- It is required for meeting disbursement needs.
- It is also required for contingent disbursements.
- It is required for minimising the cost of acquiring liquidity whenever needed.
- It is required for generating sufficient levels of free cash flow to take advantage of opportunities, to innovate new products and services and to grab market share from competitors.

Thus, liquidity is the prerequisite for any business unit. The more the liquidity, the higher would be the solvency of a

business unit. At the same time, it is also required to consider the fact that excess liquidity has opportunity cost and thus reduces profitability. Thus, the more the liquidity, the less the profitability and vice-versa.

ANNOVA TEST ON VARIOUS LIQUIDITY RATIOS :

Here, one way classification has been used by considering the following aspects:

- Average current ratio of five years ended on 31st March, 2009.
- Average Quick ratio of five years ended on 31st March, 2009.
- Average Net Working Capital ratio of five years ended on 31st March, 2009.

Null hypothesis (H0): There is no significant difference between Average Current Ratio, Average Quick Ratio and Average Net Working Capital Ratio.

Alternative hypothesis (H1): There is significant difference between Average Current Ratio, Average Quick Ratio and Average Net working Capital Ratio.

The following **Table 1** provides basis for calculation of analysis of variance.

TABLE 1 : CALCULATIONS FOR ANALYSIS OF VARIANCE (ANNOVA)- FOR LIQUIDITY RATIOS

Sr. No.	Company Name	Average Current Ratio	Average Quick Ratio	Average NWC Ratio	Total average of Current, Quick & NWC Ratio	Square of Average Current Ratio	Square of Average Quick Ratio	Square of Average NWC Ratio	Square of Total Average of Current, Quick & NWC Ratio
1.	AVT Natural Products Ltd.	1.522	0.730	0.548	2.800	2.316	0.533	0.300	7.840
2.	Ajanta Soya Ltd.	1.410	0.712	0.388	2.510	1.988	0.507	0.151	6.300
3.	Ambica Agarbathies Aroma Inds. Ltd.	1.742	0.494	0.296	2.532	3.035	0.244	0.088	6.411
4.	Amrit Corp. Ltd.	1.934	1.262	0.258	3.454	3.740	1.593	0.067	11.930
5.	Asian Paints Ltd.	1.252	0.314	0.056	1.622	1.568	0.099	0.003	2.631
6.	Bagrrys India Ltd.	4.764	1.280	0.278	6.322	22.696	1.638	0.077	39.968
7.	Britannia Industries Ltd.	1.952	0.460	0.056	2.468	3.810	0.212	0.003	6.091
8.	CCL Products (India) Ltd.	1.608	1.068	0.254	2.930	2.586	1.141	0.065	8.585
9.	Chordia Food Products Ltd.	1.220	0.528	0.194	1.942	1.488	0.279	0.038	3.771
10.	Dubur India Ltd.	1.142	0.314	-0.024	1.432	1.304	0.099	0.001	2.051
11.	Dhunseri Petrochem & Tea Ltd.	1.158	0.446	0.048	1.652	1.341	0.199	0.002	2.729

12.	Emami Ltd.	2.356	1.118	0.170	3.644	5.551	1.250	0.029	13.279
13.	Fem Care Pharma Ltd.	1.222	0.462	0.026	1.710	1.493	0.213	0.001	2.924
14.	GM Beveries Ltd.	0.590	0.280	-0.020	0.850	0.348	0.078	0.000	0.723
15.	Godfrey Phillips India Ltd.	2.246	0.236	0.088	2.570	5.045	0.056	0.008	6.605
16.	Godrej Consumer Products Ltd.	1.150	0.556	-0.032	1.674	1.323	0.309	0.001	2.802
17.	Golden Tobacco Ltd.	1.346	0.672	0.192	2.210	1.812	0.452	0.037	4.884
18.	Gujarat Foils Ltd.	1.262	0.674	0.300	2.236	1.593	0.454	0.090	5.000
19.	Hipolin Ltd.	2.746	1.916	0.474	5.136	7.541	3.671	0.225	26.378
20.	ITC Ltd.	1.840	0.384	0.100	2.324	3.386	0.147	0.010	5.401
21.	JVL Agro Inds. Ltd.	0.974	0.360	0.274	1.608	0.949	0.130	0.075	2.586
22.	KRBL Ltd.	1.334	0.330	0.676	2.340	1.780	0.109	0.457	5.476
23.	Marico Ltd.	1.052	0.364	0.142	1.558	1.107	0.132	0.020	2.427
24.	Mcleod Russel India Ltd.	0.536	0.352	-0.016	0.872	0.287	0.124	0.000	0.760
25.	Nippo Batteries Co. Ltd.	2.616	1.792	0.438	4.846	6.843	3.211	0.192	23.484
26.	Nirma Ltd.	3.678	1.826	0.298	5.802	13.528	3.334	0.089	33.663
27.	P G Foils Ltd.	3.718	1.860	0.600	6.178	13.824	3.460	0.360	38.168
28.	Paramount Cosmetics (India) Ltd.	1.434	0.730	0.282	2.446	2.056	0.533	0.080	5.983
29.	Poona Dal & Oil Inds. Ltd.	1.322	0.702	0.156	2.180	1.748	0.493	0.024	4.752
30.	Pudumjee Industries Ltd.	1.912	1.162	0.392	3.466	3.656	1.350	0.154	12.013
31.	Radico khaitan Ltd.	1.348	0.948	0.430	2.726	1.817	0.899	0.185	7.431
32.	Raj Agro Mills Ltd.	1.264	0.518	0.306	2.088	1.598	0.268	0.094	4.360
33.	Rasoil Ltd.	0.924	0.228	-0.026	1.126	0.854	0.052	0.001	1.268
34.	Rossell Tea Ltd.	0.756	0.316	-0.012	1.060	0.572	0.100	0.000	1.124
35.	Ruchi Soya Inds. Ltd.	0.924	0.486	0.292	1.702	0.854	0.236	0.085	2.897
36.	Standard Surfactants Ltd.	2.066	1.360	0.370	3.796	4.268	1.850	0.137	14.410
37.	Tai Industries Ltd.	1.198	0.766	0.192	2.156	1.435	0.587	0.037	4.648
38.	Tata Global Beverages Ltd.	1.012	0.276	0.034	1.322	1.024	0.076	0.001	1.748
39.	United Spirits Ltd.	1.154	0.690	0.156	2.000	1.332	0.476	0.024	4.000
40.	VST Ltd.	1.484	0.176	-0.192	1.468	2.202	0.031	0.037	2.155
	TOTAL	65.168	29.148	8.442	102.758	135.694	30.624	3.245	339.654

Sum of values (Grand Total) :

$$T = T = \sum x_1 + \sum x_2 + \sum x_3 \dots + \sum x_{40}$$

$$T = 102.758$$

Correlation factor / Coefficient factor :

$$CF = \frac{(T)^2}{N}$$

$$= \frac{(102.758)^2}{120}$$

$$CF = 87.993388$$

Total sum of squares :

$$SST = \left[\begin{matrix} \text{Total of square} \\ \text{of average} \\ \text{current ratio} \end{matrix} + \begin{matrix} \text{Total of square} \\ \text{of average} \\ \text{quick ratio} \end{matrix} + \begin{matrix} \text{Total of square} \\ \text{of average NWC} \\ \text{ratio} \end{matrix} \right] - \begin{matrix} \text{Correction} \\ \text{Factor} \\ \text{(CF)} \end{matrix}$$

$$SST = (135.694+30.624+3.245) - 87.99339$$

$$SST = 81.56961$$

Sum of squares between samples:

$$SSC = \left[\left(\begin{matrix} \text{Square of total} \\ \text{of Average} \\ \text{current ratio} \end{matrix} + \begin{matrix} \text{Square of total} \\ \text{of average} \\ \text{quick ratio} \end{matrix} + \begin{matrix} \text{Square of total} \\ \text{of average NWC} \\ \text{ratio} \end{matrix} \right) \div n \right] - CF$$

$$= \left[\left[(65.168)^2 + (29.148)^2 + (8.442)^2 \right] \div 40 \right] - 87.99339$$

$$= (5167.741 \div 40) - 87.99339$$

$$SSC = 41.20015$$

Sum of squares within samples:

$$SSE = SST - SSC$$

$$= 81.56961 - 41.20015$$

$$SSE = 40.36946$$

VARIANCE RATIO (F)

$$\text{Calculated Value} = \text{M.S.C./M.S.E}$$

$$= 20.60007/1.091067$$

$$F(\text{Cal}) = 18.88068$$

Table 2 :CALCULATION OF ANALYSIS OF VARIANCE (ONE WAY)

(1) Sources of variation	(2) Sum of Squares	(3) Degrees of freedom	(4) Mean sum of squares	(5) 'F' Calculated value
SSC	41.20015	2	20.60007	18.8806764
SSE	40.36946	37	1.091067	
SST	81.56961	39		

From the above Analysis of Variance, it can be observed that the calculated value of F is 18.88068 and the Critical Value (Tabulated Value) of F at 5% level of significance is 5.1785. As the Calculated Value of F (18.88068) is much higher than critical (Tabulated) Value (5.1785), it is concluded that Null Hypothesis is rejected and thus, we could hereby conclude that there is significant difference between Average Current Ratio, Average Quick Ratio and Average Net Working Capital Ratio of selected FMCG companies under study.

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