



A Study on Liquidity Analysis of Selected Automobile Companies in India

KEYWORDS

Automobile Industry, Liquidity Analysis, Performance Analysis

Dr.S.S.Saravanan

Professor and Head, Department of Commerce with Information Technology, Dr.N.G.P Arts and Science College, Kallapatti Road Coimbatore-641048 Tamilnadu.

J.Abarna

Final M.com CA Dr.N.G.P Arts and Science College

ABSTRACT

Liquidity ratios are used to determine a company's ability to meet its short-term debt obligations. Investors often take a close look at liquidity ratios when performing fundamental analysis on a firm. Since a company that is consistently having trouble meeting its short-term debt is at a higher risk of bankruptcy, liquidity Ratios are a good measure of whether a company will be able to comfortably continue as a going concern. The liquidity is a vital factor in business operations. For the very survival of business, the firm should have requisite degree of liquidity. It should be neither excessive nor inadequate. Excessive liquidity means accumulation of ideal funds. Which may lead to lower profitability, increase speculation, and unjustified extension, extension of liberal credit terms, liberal dividend policy etc; whereas inadequate liquidity result in interruptions of business operations. A proper balance between these two extreme situations therefore should be maintained for efficient operation of business through skill full liquidity management.

Introduction about Automobile Industry

Transportation throughout the world has made possible unprecedented level of mobility across the geographical boundaries. The mobility has given many people more options about where to live, and work than they had years ago. Similarly, mobility has broadened the access of business to new markets and more choices by increasing the available pool of resources. History of Indian automobile industry shows that it has grown with leaps and bounds since 1898, a time when a car had touched the Indian streets for the first time. But now India is in verge to rewrite history in different conditions as it is home to 40 million passenger vehicles and Indian manufactured cars and other automobile products are touching other nation roads. Presently Indian automobile industry is regarded as largest and second fastest growing industry after China in the world with annual production of over 3.9 million units. With increasing export and domestic market Indian automobile industry is riding high on success. But success has to solve many existing complexities and challenges which are hampering its growth to a great extent. Indian poor road conditions, heavy pollution, increasing road accidents, political unrest, and industrial and workers rights are some serious impediments in the way of its growth and need improvement and with permanent solution for better future and overall growth.

Liquidity Analysis

Liquidity ratios are used to determine a company's ability to meet its short-term debt obligations. Investors often take a close look at liquidity ratios when performing fundamental analysis on a firm. Since a company that is consistently having trouble meeting its short-term debt is at a higher risk of bankruptcy, liquidity Ratios are a good measure of whether a company will be able to comfortably continue as a going concern. The need of efficient liquidity management corporate sector has become greater in recent years. Accordingly, liquidity ratios are useful in obtaining an indication of a firm's ability to meet its current liabilities, but it does not reveal how effectively the cash resources can be managed. To measure the liquidity of a firm, the following ratios are commonly used:

- (1) Current Ratio.
- (2) Quick Ratio (or) Acid Test or Liquid Ratio.
- (3) Absolute Liquid Ratio (or) Cash Position Ratio.

Review of Literature

A study has been conducted by Bhunia (2010) on private sector steel companies of India to test the short term liquidity trend of the companies and its effect on the financial performance. A balanced and proper amount of working capital should be maintained in the business for smooth running of the same.

Ramaratnam and Jayaraman (2010) used financial ratios in terms of liquidity, profitability, variability and sustainability to measure the financial performance of Indian steel industry for a period of five years from 2005 to 2010. Their study reveals that the critical situation faced by the Indian steel industry is due to over capacity and demand slowdown resulting in price cuts.

Eljelly (2004) identified the relation between profitability and liquidity who was examined, as measured by current ratio and cash gap (cash conversion cycle) on a sample of joint stock firms in Saudi Arabia. The study found that the cash conversion cycle was of more importance as a measure of liquidity than the current ratio that affects profitability. The size variable was found to have significant effect on profitability at the industry level.

Reddy and patkar (2004) conducted a study on working capital and liquidity management in factoring to find out the determines of liquidity and profitability and to study the size and components. They have concluded that the sundry debtors and amount due to creditors are the major components of current assets and current liabilities in determining the size of working capital.

Bhabatosh Banerjee (1982) in his study on "corporate liquidity and profitability in India, has analyzed the trend of liquidity position of industries of medium and large public limited companies in the corporate sector of India during 1971-78 and has identified the relationship of liquidity with their profitability.

Objectives of the study

1. To analyze the liquidity efficiency of selected Automobile companies in India.

Research Design

Source of data: The study is based mainly on secondary

data. The data relating to the study was obtained from CAPITA LINE, CMIE (Centre for Monitoring Indian Economy) data base. In addition, the annual reports of the sample companies, Magazines, Journals and were also referred for finalizing that methodology for the study. Period of study: The study covers a period of 5 years covering a period from 1997-98 to 2012-13. It is also decided by taking into consideration of the availability of data. Sample for the study: The universe of Indian Automobile industry consists of 26 companies. Out of 26, the researcher have selected only 5, on basis of turnover, irrespective of their size to see to what extent they are profitable, financially strength, and liquidity position. The lists of companies are Ashoak Leyland, Eicher, Forcec, SML and TATA motors.

Framework of analysis: The secondary data were collected

Table No-1- Liquidity Ratios of Automobile Companies

Year	Current ratio					Quick ratio					Absolute liquid ratio				
	Ashoak Leyland	Eicher Motors	Force Motors	SML	TATA Motors	Ashoak Leyland	Eicher Motors	Force Motors	SML	TATA Motors	Ashoak Leyland	Eicher Motors	Force Motors	SML	TATA Motors
1998-99	4.04	1.63	1.68	0.15	2.20	2.60	1.28	0.53	0.07	1.68	0.01	0.30	0.03	0.06	0.28
1999-00	3.64	1.46	1.55	0.22	1.46	2.56	0.91	0.45	0.11	1.18	0.17	0.15	0.03	0.13	0.16
2000-01	3.40	1.35	1.61	0.23	1.35	2.33	0.89	0.48	0.15	0.91	0.10	0.03	0.08	0.17	0.03
2001-02	2.89	1.12	1.68	0.24	1.06	1.93	0.81	0.53	0.15	0.63	0.35	0.01	0.02	0.06	0.05
2002-03	2.71	1.06	1.52	0.25	1.00	1.67	0.73	0.66	0.17	0.64	0.56	0.01	0.03	0.11	0.13
2003-04	2.26	1.21	1.59	0.27	0.85	1.57	0.85	0.76	0.17	0.52	0.45	0.12	0.12	0.05	0.08
2004-05	1.76	1.11	1.56	0.25	0.79	1.15	0.75	0.84	0.17	0.55	0.47	0.08	0.08	0.06	0.18
2005-06	1.85	1.24	1.48	0.28	1.08	1.36	0.83	0.66	0.20	0.84	0.83	0.09	0.06	0.08	0.37
2006-07	1.58	1.15	1.35	0.32	1.37	0.94	0.83	0.72	0.25	1.08	0.53	0.12	0.05	0.08	0.20
2007-08	1.54	1.21	1.14	0.22	1.36	0.93	0.72	0.57	0.17	1.04	0.26	0.13	0.06	0.13	0.13
2008-09	1.27	4.82	1.16	0.15	0.97	0.73	4.64	0.55	0.10	0.75	0.23	5.75	0.05	0.05	0.28
2009-10	1.48	1.38	1.16	0.16	0.88	0.86	1.22	0.60	0.09	0.67	0.05	1.10	0.05	0.05	0.13
2010-11	1.40	0.61	1.25	0.12	0.66	0.85	0.43	0.69	0.07	0.49	0.20	0.09	0.08	0.17	0.12
2011-12	1.13	0.50	1.27	0.11	0.86	0.50	0.29	0.52	0.05	0.55	0.06	0.02	0.04	0.23	0.23
2012-13	1.07	0.31	2.60	0.12	0.78	0.51	0.10	1.70	0.06	0.46	0.01	0.01	1.23	0.43	0.16
Average	2.13	1.34	1.51	0.21	1.11	1.37	1.02	0.69	0.13	0.80	0.29	0.53	0.13	0.12	0.17
S.D	0.97	1.03	0.36	0.06	0.39	0.72	1.05	0.30	0.06	0.33	0.24	1.47	0.31	0.10	0.09
CV	2.20	1.31	4.21	3.19	2.86	1.91	0.97	2.28	2.26	2.40	1.18	0.36	0.44	1.22	1.83
CAGR	-8.50	-10.52	2.92	-1.94	-6.65	-10.26	-15.91	8.13	-1.28	-8.28	2.90	-19.38	28.46	14.38	-3.58

Source: Computed from the Annual Reports

One-way Analysis of Variance Test (ANOVA)

It is useful for inter-unit comparisons. The following null and alternative hypotheses have been tested on the basis of ANOVA one-way analysis of variance test.

H0: There is no any significant difference among the liquidity ratios of the selected Automobile companies in Indian automobile industry.

Results of the test of significance at 95% Confidence interval (that is, 0.05 level of significance) for liquidity indicated the

following results.

Analysis and Interpretation

The below mentioned table no-1 shows that the liquidity position of the selected automobile companies. The ratios were fluctuating trend during the study period. The compound growth rate of the ratios were negative for all the companies during the study period except Force Motors Ltd. The average of the current ratio shows that the Ashoak Leyland only maintain the the current ratio as per the rule of thumb 2 : 1 and all other four companies were less than the prescribed level 2 : 1.

following results.

Table No-2- One Way ANOVA

Variables		Sum of Squares	df	Mean Square	F	Sig.
Current Ratio	Between Groups	29.489	4	7.372	16.169	.000
	Within Groups	31.917	70	0.456		
	Total	61.406	74			

Quick Ratio	Between Groups	12.418	4	3.104	8.557	.000
	Within Groups	25.397	70	0.363		
	Total	37.815	74			
Absolute Liquid Ratio	Between Groups	1.767	4	0.442	0.951	0.440
	Within Groups	32.530	70	0.465		
	Total	34.297	74			

Source: Computed from the Annual Reports
Level of Significance: 5 percent

The test of one-way ANOVA at 0.05 significance level was used to analysis the liquidity ratios significant difference between the Automobile companies. From the above table it is concluded that Current Ratio F statistic was 16.169 and Quick Ratio F statistic was 8.557 and its P- value was .000 So the null hypotheses is accepted. It is decided that for all these ratios there is no significant difference among the variables. But the Absolute Liquid Ratio F statistic was 0.951 and its P- value was 0.440 so the null hypothesis is rejected. Hence there is a significant difference among the Absolute Liquid Ratio of the selected Automobile companies in Indian automobile industry.

Conclusion

Through the present study the researcher conclude that the liquidity ratios concerned the performance of force motors is better and other companies are to improve their liquidity and turnover for the better performance. A cautious attention has to be paid as far as the liquidity is concerned to improve the profitability.

REFERENCE

1. Bhunia, A. (2010). "A Study of Liquidity Trends on Private Sector Steel Companies in India", Asian Journal of Management Research, 1(1):618-628 [http://: www.ipublishing.co.in/ajmrvol1no1/EIJMRS1056.pdf](http://www.ipublishing.co.in/ajmrvol1no1/EIJMRS1056.pdf); Access on April 23, 2012. | 2. Ramaratnam, M.S., Jayaraman, R., (2010), "A Study on Measuring the Financial Soundness of Selected Firms with Special Reference to Indian Steel Industry-An Empirical View wit Z-Score", Asian Journal of Management Research, 1(1): 724-735. | 3. Eljelly, A.M. (2004). Liquidity –Profitability Tradeoff: An Empirical Investigation In An Emerging Market, International Journal Commerce and Management. 14(2), 48-61. | 4. Y.V. Reddy and S.B. Pathar, " Working Capital and Liquidity Management in factory A Comparative study of SBI and CanBank factors". The Management Accountant May 2004, page No373-380 Vol. 39 No.5. | 5. Bhabatosh Banerjee, "Corporate Liquidity and Profitability in India". Research Bulletin, Institute of Cost and Works Accountants of India, July 1982, Pp. 224-234. |