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Research Paper Management

Liquidity Analysis of Britannia Industries Ltd

Arup Kumar Sarkar Research Scholar Department of Commerce with Farm Management Vidyasagar University Midnapore-721 102

ABSTRACT

The liquidity characterise the financial situation of the company, its ability to convert assets into cash or to obtain cash to meet short-term obligations. Lack of liquidity may affect seriously the continuity of the company activities. The study examines the liquidity position of Britannia Industries Ltd. for the past ten years. It involves in-depth analysis of working capital of the company, calculation of liquidity ratios, discussion about results and conclusions. It is aimed at studying the different aspects of liquidity position of company in light of basic principles governing liquidity.

KEYWORDS Liquidity, Liquid Assets, ratio, Liquidity analysis

INTRODUCTION

The term liquidity and short term solvency are used synonymously. Liquidity means ability of the business to pay short-term liabilities. Inability to pay-off short term liabilities affects its credibility as well as its credit rating. Continuous default on the part of the business leads to commercial bankruptcy may lead to its sickness and dissolution. Short term lenders and creditors of a business are very much interested to know its state of liquidity because of their financial stake.

Objective of the study

To analyse the liquidity position of the company

To evaluate the management of working capital of the company

Methodology Adopted

The study is concerned with the ten year's data of Britannia Industries Ltd. i.e. (2005- 2014). The data is secondary in nature and is obtained from the published annual reports of Britannia Industries Ltd. Different components of current assets and current liabilities are evaluated in context of fundamental principles of working capital. Data is analysed through various liquidity ratios and statistical techniques to comment upon the liquidity position of the company.

Results and Discussions

WORKING CAPITAL ANALYSIS OF BRITANNIA INDUSTRIES LTD

There are two concepts of working capital- gross and net. Gross working capital refers to the firm's investment in current assets. Current assets are those assets which can be converted into cash within an accounting year. Net working capital refers to the difference between current assets and current liabilities. Current liabilities are those claims of outsiders which are expected to mature for payment within an accounting year.

A positive working capital means that the company is able to pay off its short-term liabilities. A negative working capital means that the company currently is unable to meet its short-term liabilities.

The statement below shows the Current Assets and Current Liabilities of Britannia Industries Ltd. For knowing the working capital for the past ten years

Table 1

Statement showing current assets and current liabilities of Britannia Industries Ltd

	Amount as on 31st March (Rs. in Crores)									
Particulars	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14
Current Assets										
Current investments								210.54	45.50	144.04
Inventories	134.22	184.80	214.94	301.53	253.63	268.34	311.20	382.28	331.49	366.86
Sundry Debtors	42.78	20.85	28.61	46.33	49.61	39.49	57.27	52.14	77.12	53.69
Cash and Bank Balances	16.31	35.34	48.65	43.77	40.80	23.36	28.75	30.94	64.48	65.78
Other Current Assets	0.18	0.56	0.17	13.19	13.71	14.46	12.12	-	-	-
Loans and Advances	70.87	94.07	89.00	147.65	181.59	175.36	216.12	182.08	196.79	229.69
Total Current Assets	264.36	335.61	381.37	552.46	539.34	521.02	625.45	857.98	715.38	860.06
Current Liabilities										
Short-term borrowings	-	-	-	-	-	-	-	-	189.24	-
Liabilities	205.97	224.70	238.12	247.02	265.81	320.49	377.52	518.26	210.49	148.37
Provisions	973.43	783.31	849.10	100.65	147.48	165.02	219.33	124.80	134.40	325.38
Trade Payables	-	-	-	-	-	-	-	336.20	333.61	484.68
Total Current Liabilities	303.31	303.03	323.03	347.67	413.29	485.51	596.85	979.26	867.74	958.43

Source: Published annual reports of Britannia Industries Ltd.

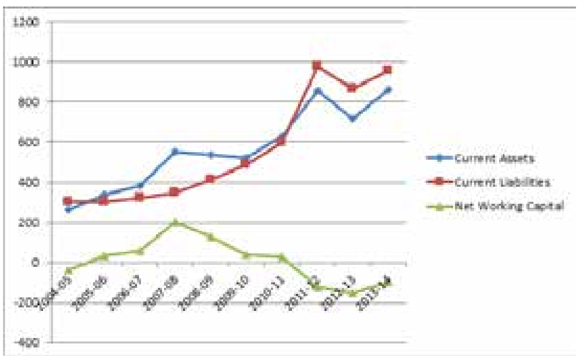
Table 2
Position of Net Working Capital of Britannia Industries Ltd Amount as on 31st March (Rs in Crores)

Years	Current Assets	Current Liabilities	Net Working Capital
2004-05	264.36	303.31	(38.95)
2005-06	335.61	303.03	32.58
2006-07	381.37	323.03	58.34
2007-08	552.46	347.67	204.79
2008-09	539.34	413.29	126.05
2009-10	521.02	485.51	35.51
2010-11	625.45	596.85	28.60
2011-12	857.98	979.26	(121.28)
2012-13	715.38	867.74	(152.36)
2013-14	860.06	958.43	(98.37)
Average	565.30	557.81	7.49
Std. Deviation	205.11	277.04	112.02
C.V %	36.28	49.67	1495.59

Source: Published annual reports of Britannia Industries Ltd

Note: Std. Dev. - Standard Deviation, C.V. - Coefficient of Variation

Figure 1
Graph showing Net Working Capital of Britannia Industries Ltd



Source: Published annual reports of Britannia Industries Ltd

Working Capital analysis of Britannia Industries Ltd highlights insistent strategy of the company for financing its operations. Since 2011-12, company has been consistently maintained negative working capital as shown in Table 2. Besides, substantial fluctuations can be observed in working capital figure as reflected by standard deviation of 112.02 and C.V of 1495.59%.

Average working capital of the company comes to 7.49 for a period of ten years from year 2004 to 2014.

LIQUIDITY RATIOS OF BRITANNIA INDUSTRIES LTD
Current Ratio:
Current ratio is a simple measure that estimates whether the business can pay debts due within one year from assets that it expects to turn into cash within that year. It is expressed as the figure referring number of times current assets exceed current liabilities as shown in Table 4. A generally acceptable current ratio is 2:1. A ratio of less than one is often a cause for concern, particularly if it persists for any length of time. Very high ratio indicates existence of idle Current Assets.

The Table 3 below shows the key Liquidity figures, which are Current Assets, Current Liabilities, Liquid Assets and Cash & Bank Balances for calculating the Liquidity Ratios.

Table 3
Position of Key Liquidity figures of Britannia Industries Ltd
Amount as on 31st March (Rs. in Crores)

Years	Current Assets	Current Liabilities	Liquid Assets	Cash & Bank Balance
2004-05	264.36	303.31	59.09	16.31
2005-06	335.61	303.03	56.19	35.34
2006-07	381.37	323.03	77.26	48.65
2007-08	552.46	347.67	90.10	43.77
2008-09	539.34	413.29	90.41	40.80
2009-10	521.02	485.51	62.85	23.36
2010-11	625.45	596.85	86.02	28.75
2011-12	857.98	979.26	83.08	30.94
2012-13	715.38	867.74	141.60	64.48
2013-14	860.06	958.43	119.47	65.78

Source: Published annual reports of Britannia Industries Ltd

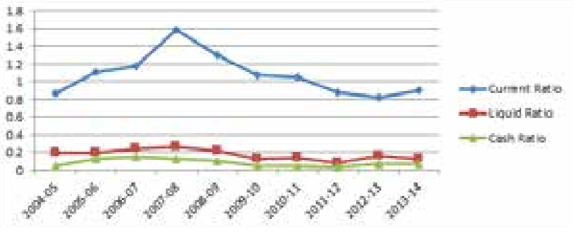
Table 4
Liquidity Ratios of Britannia Industries Ltd. (in Times)

Years	Current Ratio	Liquid Ratio	Cash Ratio
2004-05	0.87	0.19	0.05
2005-06	1.11	0.19	0.12
2006-07	1.18	0.24	0.15
2007-08	1.59	0.26	0.13
2008-09	1.30	0.22	0.10
2009-10	1.07	0.13	0.05
2010-11	1.05	0.14	0.05
2011-12	0.88	0.08	0.03
2012-13	0.82	0.16	0.07
2013-14	0.90	0.12	0.07
Average	1.08	0.17	0.08
Std. Deviation	0.24	0.06	0.04
C.V %	22.22	35.29	50

Source: Published annual reports of Britannia Industries Ltd

Note: Std. Dev. - Standard Deviation, C.V. - Coefficient of Variation

Figure 2
Liquidity Ratios of Britannia Industries Ltd



Source: Published annual reports of Britannia Industries Ltd

Generally, a current ratio of 2:1 is considered to be the good ratio. In case of Britannia Industries Ltd, it can be observed from the Table 2 that company has maintained sufficient current assets to cover its short term liabilities till financial year 2010-11 (except 2004-05). Afterwards, working capital of the company has become negative and current ratio has gone below 1.

Average current ratio of the company for last ten years is 1.08 with a standard deviation of 0.24 and coefficient of variation as 22.22%. Low standard deviation implies proximity of average current ratio with actual current ratios of the company for years under study. Coefficient of variation is also relatively low. Thus, it can be said that company's current assets are just failing to match the current liabilities.

This could be due to various factors like slow recovery from debtors, high inventory turnaround period, good credit period available to the company, etc.

Liquid Ratio: liquid ratio is also known as quick ratio and acid-test ratio. It is one of the best measures of liquidity. The liquid ratio is a much more exacting measure than the current ratio. By excluding inventories, it concentrates on the really liquid assets, with value that is fairly certain. A liquid ratio of 1:1 is considered satisfactory. Once again, a ratio of less than one would start to send out danger signals.

Average ratio of the company is 0.17 with a standard deviation 0.06 and coefficient of variation of 35.29%. It means that company has meagre current assets to pay off its short term liabilities. Such a low ratio implies below par security for creditors of the company at given point of time. Company has considerable investment in the form of inventory. Further, inventory to debtor conversion period of the company could also be high due to long drawn processes starting from procuring raw material to produce a finished product.

Going through the liquid ratio of the company we may conclude that company has not maintained enough liquidity.

Cash Ratio: The cash ratio measures the absolute liquidity of the business. It indicates availability of cash to meet short-term commitments. Ideal ratio is 0.5. If ratio is greater than 1, it indicates very liquid resources, which are low in profitability.

From Table 4, it can be seen that company has maintained a very low cash ratio. The average cash ratio is 0.08. Coefficient of variation is 50. The ratio of the company indicates low cash maintenance policy of the company. It also implies availability of long credit period by suppliers of the company.

CONCLUSION
Lack of liquidity may affect seriously the continuity of the company activities. From the study we may conclude that the company has not maintained enough liquidity to match its current obligations. Company may adopt various suitable measures like reducing inventory turnover time, credit period to debtors, offering some kind of offers to the debtors for speeding the collections from them, etc to improve its liquidity.

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