LIQUDITY ANALYSIS OF DOMESTIC APPLIANCES MANUFACTURING COMPANIES IN INDIA

M.Suresh

Ph.D Research Scholar, Department of Commerce, Annamalai University, Assistant Professor, PG and Research Department of Commerce, Thiru Kolanjiappar Government Arts College, Vriddhachalam

Dr. J. Paramasivam

Assistant Professor, PG and Research Department of Commerce, Thiru Kolanjiappar Government Arts College, Vriddhachalam

Abstract

The financial performance of a company is measured using various financial performance indicators. It is measured by using the data available in some basic financial statements like the Income statement, Balance sheet and Cash Flow Statement. Liquidity analysis also known as short term solvency analysis is an integral part of financial performance analysis. Ratio analysis is an effective tool to do the liqudty analysis of a company. Various ratios are measured to assess the short term solvency position of the company. Liqudty simply represents the ability of the company to meet out its short term debts or obligations. The liqudty ratios commonly used are current ratio and liquid ratio. Domestic Appliances industry in India recorded a tremendous growth in recent years. This trigger an interest in studying the performance of the sector. Financial Performance analysis of Companies operating in a sector is an important aspect to be done while studying the performance of the sector. The liqudty and profitability happens to be the most prominent aspects of this financial performance analysis and are measured by almost all the Companies analysing their financial performance. This research study tends to measure and analyse the liqudty aspect of financial performance between the chosen companies in domestic appliances industry in India.

Introduction

Financial performance of a company simply means the process of measuring how effective the company uses it's resources (Assets) engaged in the business to raise its income (Revenue). Financial performance also refers to the process of measuring the overall financial strength of the company during a particular period of time. The researchers and the investors of a company mostly use the financial performance measures to do inter firm comparison of two or more companies engaged in similar business in the same industry or to compare two different industries or sectors.

The financial performance of a company is measured using various financial performance indicators. The Financial performance indicators are also known as key performance indicators (KPIs). These indicators are quantitative in nature and are used to measure the financial health and strength of the company. They are the primary financial performance measurement tools that helps the stakeholders of the company, both internal and

external, to find the strengths, weaknesses, threats and future opportunities of the company.

The basic financial performance indicators are

I. Gross profit margin or ratio that indicate the percentage of gross profit made out of the turnover/sales of the company.
II. Net profit margin or ratio indicating the amount or percentage of net profit earned from the turnover/sales of the company.
III. Working capital indicating the availablity of highly liquid resources that finance the daily business activities of the company.
IV. Operating cash flow indicating the quantity of fund raised from the daily business activities.
V. Current ratio indicating the short term solvency of the company.
VI. Debt-equity ratio indicating the long term solvency position of the company.
VII. Quick ratio is another short term solvency ratio indicating the percentage relationship with quick asset and current liabilities.
VIII. Inventory turnover ratio indicating the movement of stock during a given period of time.
IX. Return on equity indicating the net income available to the equity shareholders of the company.

Financial Statements

Financial performance of a company is measured by using the data available in some basic financial statements. Even though a company prepare a lot of financial statements for various use, the following three financial statements are primarily used to analyse the financial performance of the company.

Income Statement

The income statement is nothing but the collection of the trading and the profit and loss account. It disclose the operative and non operative incomes and expenses incurred during the study period. The income statement is prepared to know whether a company earned profit or loss during the period and if so how much is the profit or Loss earned during the said period. The income statement is used to analyse the profitability and the activity levels of the company by enabling the calculation of gross profit ratio, operating profit ratio, and net profit ratio.

Balance Sheet

The balance sheet is yet another important statement showing the balance between the assets and the liabilities of the company as on the end date of the accounting period. It gives a snapshot of how effectively the company handle its assets and liabilities. Researchers can arrive at the long-term and the short-term debt and can know the solvency status of the company using the balance sheet data. One can also analyse the capital structure and the leverage using the balance sheet information.

Cash Flow Statement

The cash flow statement is a fusion of both profit and loss account and the balance sheet. The cash flow statement is the vital statement for analysing the financial performance of a company. It reconcile the net income (cash inflow) of the company with the cash expenses

(cash outflow) during the period. It clearly disclose the source of cash inflow and how the cash is used during the period.

Liquidity Analysis

Liquidity analysis is also known as short term solvency analysis. Ratio analysis is an effective tool to do the liqudity analysis of a company. Various ratios are measured to assess the short term solvency position of the company. Liqudity simply represents the ability of the company to meet out its short term debts or obligations. The liqudity ratios commonly used are

- Current ratio
- Quick / Liquid / Acid test ratio

Significance of the Study

Domestic Appliances industry in India recorded a tremendous growth in recent years. This trigger an interest in studying the performance of the sector. Financial Performance analysis of Companies operating in a sector is an important aspect to be done while studying the performance of the sector. The liqudity and profitability happens to be the most prominent aspects of this financial performance analysis and are measured by almost all the Companies analysing their financial performance. This research study tends to measure and analyse the liqudity aspect of financial performance between the chosen companies in domestic appliances industry in India.

Review of Literature

The review of literature guides the researchers for getting better understanding of the methodology used. To get clear understanding about the methodology adopted in the previous studies, reviewing those literatures become unavoidable. So many research works have been carried out on various aspects of financial management, financial performance and about home appliances industry in different perspective. A review of these analyses is vital in order to develop an approach that can be employed in the present study.

A.Ajanthan(2013) the study is based on Nexus between liquidity and profitability ratio of a trading company in Sri Lanka. The study is to find out the relationship between two performance measures. The data extracted from annual report and accounts of the company. The correlation and regression are engaged to examine the relationship between the variables. The findings suggest that there is a significant relationship exists between liquidity and profitability of the trading company.

Venkateswararo.P, Hema Venkata siva sree.ch(2018) a research on working capital management in Radhika vegetables oils Pvt. Ltd. The result of the study operating leverage is good for 3 three years, financial leverage is good for 8 years, combines leverage is good for 4 years.

P. Kasthuri, C. Rajendran (2020) analysed the Financial performance of two top most home appliances Companies in India during the 5 years period from 2014 to 2018. The study evaluated the impact of working capital on profitability of the companies and the trend of liqudity and activity of the chosen companies. Correlation, regression and trend analysis are used for the study.

Research Problem

Maintaining the liquidity, profitability and activity at satisfying levels is more important in creating a goodwill for the Company in the field of its operation. However, maintaining such crucial levels is not that easy. It is not possible for all Companies to stick to the standard levels fixed, but can stay near the standard, which is made possible by analysing the actual performance of previous years. The present study is done to analyse the actual performance of three home appliance manufacturing companies in India, listed with NSE as shown in moneycontrol.com. The three companies to be studied are Bajaj electrical Ltd., TTK prestige Ltd., and Butterfly Gandhimathi Appliances Ltd.,. The study is about the Liqudity status of the companies using Liquidity ratios.

Objectives of the Study

The study will be based on following objectives:

- To analyze the Liquidity position of the selected Home Appliances manufacturing companies in India.
- To rank the chosen companies according to their performance in liqudity aspect during the study period.
- To find out the best performing Company out of selected Companies.

Period of the Study

The present study is done based on ten years data from 2011-12 to 2020-21. The ten years data collected is classified, tabulated and grouped under various appropriate heads for the purpose of analysis, interpretation, findings, suggestions and conclusion.

Sample Design

The universe of the present study comprises the home or domestic appliances manufacturing companies in India. The universe include only the home appliances manufacturing companies listed in NSE. The list is derived from the official website of money control (www.moneycontrol.com). The universe do not include the white goods manufacturing companies under the perview of the research study. There are totally seven companies listed with NSE, coming under Consumer durable sector in India. Out of this seven companies, four are white goods manufacturing units which is not within the scope of present study. The remaining three domestic appliances manufacturing companies only comes under the study scope. Census method of sampling is used in the present study as the universe itself is small (Three companies).
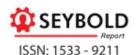
Data source

Secondary data is used for the study. The secondary data is collected from the annual reports of the selected Companies.

Scope of the study

The scope of the study is limited to the three Home appliances manufacturing companies in India, listed with NSE and reflected in www.moneycontrol.com.The scope is limited to analysis of liqudity aspect alone using ratio analysis as financial analysis tool and mean, t test and ANOVA as statistical tool. The units selected for the study are:

- Bajaj Electricals Limited

- TTK Prestige Limited
- Butterfly Gandhimathi Appliances Ltd

Current Ratio

Current Ratio establishes the relationship between current assets and current liabilities. It attempts to measure the ability of a firm to meet its current obligations. To compute this ratio, the following formula is used:

Current Ratio =   Current Assets

Current Liabilities

The two basic components of this ratio are current assets and current liabilities. Current assets refers to those assets that can be easily converted into cash within a year's time. On the other hand current liabilities represent those liabilities that are payable within a year. The ideal current ratio is 2: 1. It indicates that the current assets equals the current liabilities.

Hypothesis for Current Ratio

H0: There is no significant difference in current ratio of selected Companies during the study period.
H1: There is significant difference in current ratio of selected Companies during the study period.

Table 1.1
Current Ratio

Year	Bajaj Electricals		TTK Prestige		Butterfly	
Mar2012	1.2	0.01	1.2	1.44	1.2	0.01
2013	1.1	0	1.2	1.44	1.3	0
2014	1	0.01	1.9	.25	1.2	0.01
2015	1	0.01	2.4	0	1.5	0.04
2016	1	0.01	2.7	0.09	1.4	0.01
2017	1	0.01	2.5	0.01	1.3	0
2018	1.1	0	2.6	0.04	1.2	0.01
2019	1.1	0	2.9	0.25	1.2	0.01
2020	1.1	0	3	0.36	1.2	0.01
2021	1.2	0.01	3.2	0.64	1.2	0.01
Total	10.8	0.06	23.6	4.52	12.7	0.11
Average	1.1		2.4		1.3	
Minimum	1		1.2		1.2	
Maximum	1.2		3.2		1.5	

Source: Calculated from Annual Reports.

From Table 1.1 it is evident that the current ratio of Bajaj electricals Limited is maximum during March 2021 with a reading of 1.2 and minimum during March 2014, March

2015, March 2016 and March 2017 with a reading of 1. The current ratio of TTK Prestige Limited is maximum during March 2021 with a reading of 3.2 and minimum during March 2012 and March 2013 with a reading of 1.2. The current ratio of Butterfly Gandhimathi Appliances Limited is maximum during March 2015 with a reading of 1.5 and minimum during March 2012, March 2014, March 2018, March 2019, March 2020 and March 2021 with a reading of 1.2. The average Current Ratio for Bajaj Electricals Limited is 1.1, TTK Prestige Limited is 2.4 and Butterfly Gandhimathi Appliances Limited is 1.3 during the study period.

Table 1.2

ANOVA Table for Current Ratio

Source of variance	Sum of squares	Degree of freedom	Mean squares	F value	Table value
Between Groups(SST)	9.8	2	4.9	24.5	3.34
Within Groups (SSE)	4.7	27	0.2		
Total	14.5(SS)	29			

Source: Calculated from Annual Reports.

From Table 1.2 the calculated value of F is higher than the table value of F. Hence, the null hypothesis H0 is rejected and the alternative hypothesis H1 is accepted. It infers that there is significant difference in current ratios of selected Companies during the study period.

Liquid Ratio

The Liquid ratio is also known as Quick ratio or Acid test ratio or near cash ratio. It is complementary to the current ratio. This ratio is concerned with the establishment of relationship between the liquid assets and quick liabilities. The term 'liquidity' refers to the ability of a firm to pay its short-term obligations as and when they become due. The liquid assets refers to those assets that can be immediately or at a short notice be converted into cash without loss or diminution in value. The quick assets usually include all current assets except inventories (stock of raw materials, work-in-progress and finished goods) and prepaid expenses. The reason as to why inventories are to be excluded for computing quick ratio is that the inventories require more time to become liquid assets. Prepaid expenses cannot be termed as liquid assets because they cannot be normally converted into Cash. Liquid liabilities usually refers to current liabilities less bank overdraft. Bank overdraft is not included in current liabilities because it is not required to be paid-off in the immediate future.To compute this ratio, the presented formula is used:

Liquid Ratio = Liquid Assets (Current Assets less Stock and Prepaid Expenses)

Quick or Liquid Liabilities (Current Liabilities less Overdraft)

Sometimes, the liquid ratio is also calculated by using current liabilities instead of liquid liabilities, Thus, the formula is

Quick Ratio   =   <u> Quick Assets   .</u>

Current Liabilities

where,

Quick Assets = Current Assets -- Inventories and Prepaid Expense

The ideal quick ratio of 1: 1. If the ratio is more than 1 : 1, it indicates that the firm has sound liquidity position. At the same time, a quick ratio of less than 1 : 1 does not necessarily imply poor liquidity position as the conclusion is to be drawn after a careful analysis of the contents of quick assets.

Hypothesis for Liquid Ratio

H0: There is no significant difference in Liquid ratio of selected Companies during the study period.

H1: There is significant difference in Liquid ratio of selected Companies during the study period.

Table 2.1

Liquid Ratio

Year	Bajaj Electricals		TTK Prestige		Butterfly	
Mar2012	0.9	0.01	0.7	0.4	0.8	0.01
2013	0.8	0	0.6	0.5	0.8	0.01
2014	0.8	0	0.9	0.2	0.8	0.01
2015	0.8	0	1.2	0.01	0.8	0.01
2016	0.8	0	1.3	0	1	0.1
2017	0.7	0.01	1.3	0	0.7	0
2018	0.9	0.01	1.6	0.1	0.7	0
2019	0.8	0	1.7	0.2	0.6	0.01
2020	0.9	0.01	1.9	0.4	0.5	0.04
2021	0.8	0	2.2	0.8	0.5	0.04
Total	8.2	0.04	13.4	2.6	7.2	0.2
Average	0.8		1.3		0.7	
Minimum	0.7		0.6		0.5	
Maximum	0.9		2.2		1	

Source: Calculated from Annual Reports.

From Table 2.1 it is evident that the Liquid ratio of Bajaj electricals Limited is maximum during March 2012, March 2018 and March 2020 with a reading of 0.9 and minimum during March 2017 with a reading of 0.7. The Liquid ratio of TTK Prestige Limited is maximum during March 2021 with a reading of 2.2 and minimum during March 2013 with a reading of 0.6. The Liquid ratio of Butterfly Gandhimathi Appliances Limited is maximum during March 2016 with a reading of 1 and minimum during March 2020 and March 2021 with a reading of

0.5. The average Liquid Ratio for Bajaj Electricals Limited is 0.8, TTK Prestige Limited is 1.3 and Butterfly Gandhimathi Appliances Limited is 0.7 during the study period.

Table 2.2
ANOVA Table for Liquid Ratio

Source of variance	Sum of squares	Degree of freedom	Mean squares	F value	Table value
Between Groups(SST)	2.2	2	1.1	11	3.34
Within Groups (SSE)	2.84	27	0.1		
Total	5.04(SS)	29			

Source: Calculated from Annual Reports.

From Table 2.2 the calculated value of F is higher than the table value of F. Hence, the null hypothesis H0 is rejected and the alternative hypothesis H1 is accepted. It infers that there is significant difference in Liquid ratios of selected Companies during the study period.

Table 3.1
Comparison on the basis of Mean value of Ratios in relation to Liqudity.

Liqudity Ratios	Bajaj Electricals Limited	TTK Prestige Limited	Butterfly Gandhimathi Limited
Current Ratio	1.1	2.4	1.3
Liquid Ratio	0.8	1.3	0.7
Sum of mean	1.9	3.7	2
Average score	0.95	1.85	1
Ranking	3	1	2

From Table 3.1 it is evident that TTK Prestige Limited ranks first, Butterfly Gandhimathi Appliances Limited ranks second and Bajaj Electricals Limited ranks third in Liqudity status during the study period.

Conclusion

From the above Liqudity analysis of selected Companies, it is concluded that TTK Prestige Limited performed best during the study period and Butterfly Gandhimathi Appliances Limited performance is average. The Liqudity performance of Bajaj Electricals Limited lag far behind the other two companies chosen for the study during the study period.

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