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A STUDY ON LIQUIDITY ANALYSIS OF SELECTED AUTOMOBILE COMPANIES IN INDIA

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ABSTRACT

In order to identify the ability of the firm to pay its short-term financial obligation, liquidity ratios are used. Every investors use liquidity ratios of the firm for fundamental analysis of the company. If the company faces any trouble in making timely payments of its short term obligation, the company become bankrupt in near future. Liquidity are good measures to know the company is doing well as a going concern. The excessive and inadequate liquidity harm the business concern. It should be in adequate degree in the business. (htt7) If there is excessive liquidity in the business, this situation means the accumulation of ideal fund and there is reduction in profitability of the business, speculations increase, and unnecessary usage of funds. While on the other hand, the inadequate liquidity leads to disturbance in business operations. Here, the study is made on the liquidity analysis of selected automobile companies in India for the period of ten years from 2011-12 to 2020-21.

Keywords: *Liquidity Analysis, Automobile Companies, Liquidity Ratios, Profitability, Investors.*

Introduction

Automobile industry is considered as one of the key industry in the growth of the economy. Due to development of automobile, there is possibility of mobility across the geographical boundaries. And as a result, many people have choice about where to live and where to work than before. History of automobile shows many hurdles from 1898, and this was the time when the first car had touched the land of India for the first time. But present situation is very different as around 40 million passenger vehicles rolled on Indian roads and also Indian manufactured cars and other automobile products touched the road of other nations. According to the report of ibef, India become the fifth largest auto market in 2020 with sales around 3.5 million units of passenger and commercial categories (2021). The Indian automobile industry become successful as the increase in exports and domestic market. But its success have faces many problems like poor road conditions, heavy pollution, rise in road accidents and political unrest etc.

Liquidity Analysis

A liquidity ratio is a financial ratio which used to get idea about ability of the company in discharging its short-term debt obligations. While analyzing the fundamental analysis, the investors considered the liquidity ratio of the firms. If the company continuous facing problem in discharging its short-term debt obligation that firm has high risk of bankruptcy. Liquidity ratios helps in deciding if a company can make use of its current or liquid assets to cover its current liabilities (htt7).

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So in recent year, there is great importance of liquidity analysis. Liquidity ratios are useful to determine the firms' ability to meet its current liabilities but these ratio does not reveal how effectively the cash resources can be managed. Mainly three liquidity ratios are used for the liquidity analysis: current ratio, quick ratio and inventory turnover ratio.

Here, the study is done on liquidity analysis of selected automobile companies in India. The selected automobile companies are Maruti Suzuki Ltd., Tata Motors Ltd., M & M, Ashok Leyland and Bajaj Auto Ltd. The study was done for ten years starting from 2011-12 to 2020-21.

Review of Literature

Priya K., and Dr. Nimalathasan. B. [2013]

Financial manager use the liquidity management and profitability in the growth of the company and these two factors are important for the survival of the firm. The study focus on the effect of liquidity on profitability of listed manufacturing companies in Shri Lanka. The study was done from 2008 to 2012 i.e. for five years. The statistical tools like regression and correlation were used to identify whether there is significant relationship between liquidity and profitability of selected listed manufacturing companies in Shri Lanka. The researcher also make use of financial ratios like liquidity ratios and profitability ratios. The study suggested that if the company reduce liquidity, there will be increase in profitability. The result state that there is negative relationship between profitability and liquidity so as a result, it is suggested that every company must maintain equilibrium between profitability and liquidity. (Nimalathasan, 2013)

Dr. Amalendu Bhunia [2010]

By considering the importance of working capital in the business for the short term, the study was done on liquidity trend analysis of the selected steel companies in India. The objective of the study is to examine the trend of working capital in the company and its recommendation for the improvement of liquidity management. The researcher selected two private sector steel companies i.e. Tata Steel Ltd. and Lloyds Steel industries Ltd. The study covers the period of nine years from 1997-98 to 2005-06. For the purpose of the study, secondary data was collected from the published audited financial reports, magazines and websites was used. For the analysis of the data, accounting and statistical tools and technique are used. Accounting techniques are includes accounting ratios whereas statistical technique includes mean, S.D, CV, Chi-square test, time series analysis etc. The study suggested that proper overall inventory control system should be implemented in all selected steel companies in order to reduce the peeling off finished goods. (Bhunia, 2010)

Puneet Saluja & Dr. Parmil Kumar [2012]

It is very importance for every business enterprise to maintain proper balance between profitability and liquidity. It is compulsory to maintain the current assets and current liabilities in such a way to optimize the profitability of the company. If the company is maintain more and more current assets in comparison with the current liabilities, there will be adverse effect on the profitability of the firm. The study was done to evaluate the profitability and liquidity trade off in Airtel- telecommunication service provider. The data was analyzed for the five years from 2005-06 to 2009-10. The study concluded that there is negative correlation between liquidity and profitability. So it is compulsory for every business to maintain balance between profitability and liquidity. (Kumar, 2012)

Objective of the Study

- To evaluate the liquidity efficiency of selected automobile companies in India.
- To compare the liquidity position of the selected automobile companies.
- To give suggestions to improve the liquidity position of the selected automobile companies in India.

Research Design

- **Source of Data:** The study use data collected from the secondary source. The data was collected from capitaline data base, annual reports of the companies, magazines and journals.
- **Period of Study:** The study was done covering the period of ten years starting from 2011-12 to 2020-21.
- **Sample Size:** The study selected the five automobile companies based on turnover. The selected companies are Maruti Suzuki, Tata Motors Ltd, M & M, Ashok Leyland and Bajaj Auto.

Table 1: Liquidity Ratios of Selected Automobile Companies

	Current Ratio					Quick Ratio					Inventory Turnover Ratio				
year	**Maruti**	**Tata**	**M & M**	**Ashok Leyland**	**Bajaj Auto**	**Maruti**	**Tata**	**M & M**	**Ashok Leyland**	**Bajaj Auto**	**Maruti**	**Tata**	**M & M**	**Ashok Leyland**	**Bajaj Auto**
2011-12	1.69	0.62	1.08	0.89	1.12	1.42	0.41	0.76	0.43	0.98	19.81	11.84	13.51	5.76	28.78
2012-13	1.63	0.48	1.1	0.81	1.5	1.35	0.27	0.8	0.45	1.35	23.68	10.05	16.71	6.58	31.43
2013-14	1.76	0.36	1.29	0.84	1.19	1.54	0.15	0.97	0.58	1.05	25.62	8.88	14.45	8.36	31.5
2014-15	0.93	0.42	1.13	0.93	2.13	0.63	0.19	0.86	0.65	1.95	19.11	7.56	15.98	9.7	26.55
2015-16	0.71	0.63	1.18	1.06	1.7	0.43	0.36	0.91	0.73	1.44	18.37	8.37	15.21	11.65	31.41
2016-17	0.66	0.59	1.31	0.93	2.92	0.42	0.33	1.02	0.52	2.7	20.86	7.98	15.97	7.65	29.88
2017-18	0.51	0.62	1.24	0.91	2.25	0.31	0.38	1.03	0.71	2.07	25.23	10.38	18.02	14.99	33.89
2018-19	0.87	0.58	1.26	0.93	1.45	0.64	0.37	0.99	0.63	1.25	25.87	14.84	13.96	10.82	31.46
2019-20	0.75	0.53	1.38	0.77	1.55	0.46	0.38	1.07	0.6	1.3	23.52	11.46	13.38	14.11	28.13
2020-21	1.15	0.6	1.34	0.9	2.51	0.96	0.43	1.08	0.64	2.25	23.06	10.33	11.39	7.14	18.57
Total	10.66	5.43	12.31	8.97	18.32	8.16	3.27	9.49	5.94	16.34	225.13	101.69	148.58	96.76	291.6
Average	1.066	0.543	1.231	0.897	1.832	0.816	0.327	0.949	0.594	1.634	22.513	10.169	14.858	9.676	29.16
SD	0.4659	0.0937	0.1040	0.07959	0.5943	0.4653	0.0939	0.112	0.10102	0.5727	2.7841	2.1822	1.9162	3.16742	4.2692
CV	0.4370	0.1725	0.0845	0.08873	0.3244	0.5702	0.2872	0.1180	0.17006	0.3504	0.1236	0.2145	0.1289	0.32735	0.1464
CAGR	-0.853	-0.896	-0.919	-0.901	-0.955	-0.852	-0.904	-0.929	-0.932	-0.956	-0.914	-0.8854	-0.8814	-0.9193	-0.845

[Sources: Calculated from the annual reports of the companies]

Analysis and Interpretation

The liquidity position of the selected automobile companies stated in the below table no-1. The table shows that the ratios are fluctuating during the study period. The compound growth rate of the ratios were negative for all the companies during the study period. The average of the current ratio shows that the Bajaj Auto only maintain the current ratio as per the rule of thumb 2:1 and other four companies were less than the prescribed level 2:1.

One-way Analysis of Variance Test (ANOVA)

Null Hypothesis and alternative hypothesis have been tested on the basis of ANOVA one-way analysis of variance test. This method is useful inter-firm comparison.

Null Hypothesis H_0: There is no significance difference among the liquidity ratios of the selected Automobile companies in Indian automobile industry.

Alternative Hypothesis H_1: There is significance difference among the liquidity ratios of the selected automobile companies in Indian Automobile industry.

Result of the test of significance at 0.05 and 95% confidence interval for liquidity indicated the following result:

Table 2: One – Way ANOVA

5 % Significance Level

Variable		Sum of Squares	Df	Mean Square	F	F –crit
Current	Between Groups	9.046468	4	2.261617	18.96513	2.578739
Ratio	Within Groups	5.36631	45	0.119251		
	Total	14.41278	49			
Liquid	Between Group	9.63698	4	2.409245	20.90947	2.578739
Ratio	Within Group	5.18502	45	0.115223		
	Total	14.822	49			
Inventory	Between Group	2827.72	4	706.9295	79.52923	2.578739
Turnover	Within Group	400.0017	45	8.888927		
Ratio	Total	3227.72	49			

Source: computed from the annual reports of the companies.

Here, the one-way ANOVA test was done at 5% significance level to analyze the significance difference between the liquidity ratios of selected automobile companies. From the above table, it was concluded that Current Ratio F –statistic was 18.96513 and for Quick Ratio F-Statistic was 20.90947. And here, the p-value is more than the significance value 0.05 so the null hypothesis is accepted that means there is no significance difference between the liquidity ratios of selected automobile companies in India.

Conclusion

Every companies must maintain the adequate level of liquidity to maintain the profitability in the companies. Present study analyze the liquidity of the automobile companies. It is concluded that the liquidity position of the Bajaj Auto is satisfactory and it suggest that the other companies have to improve their liquidity position for the better performance.

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