

# Liquidity Assessment of Rubber Producers' Society, Kerala, India

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**Abstract:** *Rubber Producers' Societies (RPS) are the village level associations of small rubber growers formed to act as self-help groups to do whatever possible for the progress and development of rubber cultivation and all of its allied activities. Liquidity ratios measure the capability of a firm to meet its short term debt obligations. The present study assessed the liquidity position of RPS Poothrikka in Ernakulam district of Kerala, India. Study solely depends on secondary data and was collected from the annual reports of the society from the year 2008-09 to 2017-18. The analyses gave the outcome that both the ratios considered under study was in favour of society and hence concluded that RPS Poothrikka maintained good liquidity position.*

**Keywords:** Rubber Producers' Society, Natural Rubber, Liquidity, Ratios, Kerala

## 1. Introduction

Rubber Producers' Society Poothrikka is situated in Ernakulam district of Kerala state, India. Work for prosperity and agricultural development, socio-economic condition of the rubber growers inside the locale, without any intension of profit making are the objectives of the society. RPS Poothrikka got registered on January and started functioning on 27<sup>th</sup> of March 1990 with register number ER 26/90. Jurisdiction of the RPS covered Poothrikka and Maneed grama panchayats of Kunnathunaadu thaluk. Input supply at lower rate, spraying, soil testing with the help of rubber board, collection of latex, sheet processing etc., are the activities of the society.

## 2. Literature Survey

Krishnakumar (2009) examined the impact of trade liberalisation and its effect on Indian agriculture especially in Natural rubber sector. For the transformation of Indian natural rubber sector, he recommended two effective mechanisms in view of reaping best results to achieve self-sufficiency and market efficiency through research and extension activity. In his opinion, rubber sector is the one which succeeded in integrating research and development through 'Group Approach'. The study concluded with a remark on the present opportunities and challenges faced by Rubber Producers' Society by executing extension machinery to empower planters. He pointed out that growing demand for extension as well as supporting mechanisms in grass root level forced by the impact of improved integrated supply chain and growing uncertainties in the world market. Considering the present status quo Rubber Board introduced a participatory-group approach, named as Rubber Producer's Societies (RPS). This was considered as a revolutionary land mark in the extension strategies of Rubber Board and evolved to provide a wide range of rural services. [1]

Anuja *et al.* (2012) did study aspects of Rubber Producer Societies (RPSs) on furnishing services for input delivery, treatment and marketing of Natural Rubber. Focus of the study was on the rubber planters of Kerala, categorically

members of RPSs with small footprint cultivation area. Exploratory and analytical methods were used in the study. Identified key services provided by RPSs to the farming community using Factor analysis technique. RPSs instrumented in effective transferring of new technologies generated by the Rubber Board. The study found RPS beneficiaries enjoyed a favorable input, processing and marketing costs against non-beneficiaries. RPS appointed marketing channels helped member farmers to make better income by eliminating middlemen exploitation. A comparison has revealed that RPSs facilitated in getting better prices for their member farmers. Quality improvement, uniformity of rubber sheets and labor reduction were the key enablers in achieving higher productivity as facilitated by Group processing. Community smoke houses provided by RPSs as part of common facility helped to reduce the cost of building individual smokehouses. Facilities furnished by RPS have been grouped under five major categories, which are namely marketing, financial, efficiency, infrastructural and social factors. Farmers obtained better prices with due respect to combined efforts in producing high quality latex sheets. Improved collaboration and knowledge sharing within the farmer community through RPS platform promoted enhanced understanding of each other's strengths and weaknesses as an end result best practices are shared for their mutual benefits. [2]

## 3. Problem Definition.

Ratio analysis is a systematic use of ratios to interpret the performance and status of a firm. The ratios reveal the relationship in a more meaningful way so as to enable the management to take better investment and credit decisions and thus to improve the performance of the firm. On the basis of uses, or nature or purpose, accounting ratios can be classified into liquidity ratio, profitability ratio, activity ratio, solvency ratio etc. The present study uses the liquidity ratios to interpret the ability of a firm to meet the claims and obligations in the short run, usually in one year.

Liquidity ratios measure the capability of a firm to meet its short term debt obligations. Liquidity ratios are generally based on the relationship between current assets and current liability. It is an indicator of whether a firm's current assets will be sufficient to meet the firm's obligations when they become due. Generally, the higher liquidity ratios enjoy higher margin of safety that the company posses to meet its current liabilities. Liquidity ratios greater than 1 indicate that the company is in good financial health and it is less likely fall into financial difficulties whereas low liquidity ratio may lead to reduced rate of return, missing of profitable business opportunities etc. Therefore the present study is a modest attempt to assess the liquidity position of RPS Poothrikka in Ernakulam district of Kerala, India

**4. Methodology**

The study was conducted in Ernakulam district of Kerala state, India during June-July 2020. The data were collected from the annual reports of the society from the year 2008-9 to 2017-18. The analysis of the collected data was conducted with the help of statistical tool like financial ratios and CAGR.

**4.1 Financial ratios**

Sl. No	Name of the ratio	Formula
1.	Current ratio	$\frac{\text{Current assets}}{\text{Current liabilities}}$
2.	Quick ratio	$\frac{\text{Quick assets}}{\text{Current liabilities}}$

**4.2 Compound Annual Growth Rate (CAGR)**

Compound annual growth rate (CAGR) is the rate of return that would be required for an investment to grow from its initial value to its end value, assuming the profits were reinvested at the end of each year of the investment's lifespan.

$$CAGR = \left( \frac{\text{End value}}{\text{Initial value}} \right)^{\frac{1}{\text{Number of years}}} - 1 * 100$$

**5. Results and Discussion**

**5.1 Current ratio**

Current ratio depicts the relationship between current assets and current liabilities i.e., firm's ability to pay its current liability from current assets. A current ratio of 2:1 indicates that for every ₹1 in current liabilities, the company has ₹2 in current assets.

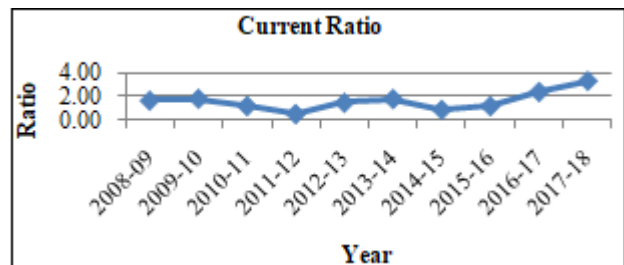
Current ratio is calculated by using the formula,

$$\begin{aligned} \text{Current ratio} &= (\text{Current assets}) / (\text{Current liabilities}) \\ \text{Current assets} &= \text{Closing stock} + \text{Loans \& Advances} + \\ &\text{Cash in hand} + \text{Sundry debtors} + \text{Bank} \\ &\text{accounts} + \text{Investments} \\ \text{Current liabilities} &= \text{Sundry creditors} + \text{Sundry deposits} + \\ &\text{Advance form growers} \end{aligned}$$

**Table 1:** Current ratio of RPS from 2008-09 to 2017-18 (Amt. in Rs. Lakhs)

Year	Current assets	Current liabilities	Ratio
2008-09	6.87	3.96	1.73
2009-10	7.94	4.20	1.89
2010-11	23.77	18.51	1.28
2011-12	6.19	10.14	0.61
2012-13	19.73	12.66	1.56
2013-14	31.45	16.82	1.87
2014-15	8.43	8.66	0.97
2015-16	11.47	8.99	1.28
2016-17	23.98	9.77	2.45
2017-18	18.85	5.60	3.37
CAGR	11.86	3.92	

Source: Audit reports of RPS Poothrikka from 2008-09 to 2017-18



**Figure 1:** Current ratio of Current ratio of RPS from 2008-09 to 2017-18

Table 1 and figure 1 show the current ratio for ten years from 2008-09 to 2017-18. It was observed that the current assets registered a CAGR of 11.86 and current liabilities of 3.92. Further, the current ratio ranged between 0.61 and 3.37 which implies that the current assets of the society are sufficient to service the current liabilities. Fire accident occurred in the year 2010 accounted for an increase in amount due to creditors and hence turned out to be a liability to the firm. On an average the ratio of Rubber Producers' Society Poothrikka was 1.7. Therefore it could be concluded that, the society is in a position to pay off its liabilities.

**5.2 Acid test ratio/Quick ratio**

Quick ratio establishes a relationship between quick or liquid assets and current liabilities. Since it indicates the company's ability to instantly use its near-cash assets (assets that can be converted quickly to cash) to pay down its current liabilities, it is also called the acid test ratio.

Quick ratio is calculated by using the formula,

$$\begin{aligned} \text{Quick ratio} &= (\text{Quick assets}) / (\text{Current liabilities}) \\ \text{Quick assets} &= \text{Current assets} - \text{Inventory} - \text{Prepaid} \\ &\text{Expenses} \end{aligned}$$

**Table 2:** Quick ratio of RPS from 2008-09 to 2017-18 (Amt. in Rs. Lakhs)

Year	Quick assets	Current liabilities	Ratio
2008-09	0.76	3.96	0.19
2009-10	7.14	4.20	1.70
2010-11	23.12	18.51	1.25
2011-12	4.96	10.14	0.49
2012-13	13.23	12.66	1.05
2013-14	23.35	16.82	1.39
2014-15	5.58	8.66	0.64
2015-16	7.67	8.99	0.85

2016-17	18.60	9.77	1.90
2017-18	17.07	5.60	3.05
CAGR	41.31	3.92	

Source: Audit reports of RPS Poothrikka from 2008-09 to 2017-18

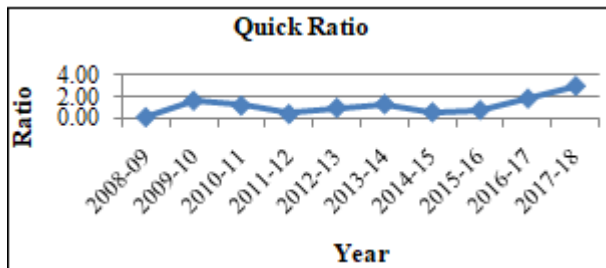


Figure 2: Quick ratio of RPS from 2008-09 to 2017-18

The table 2 and figure 2 depicts the quick ratio of the society from the year 2008-09 to 2017-18. It is clear from the table that the CAGR of quick assets and current liabilities are 21.31 & 3.92 during the course of study period. On an average, the ratio was 1.25 which indicates that the society has ₹1.25 amount of liquid assets available against the ₹1 amount of current liabilities. This implies that the performance of the society is satisfactory since it is fully equipped with enough assets to be instantly liquidated to pay off its current liabilities.

## 6. Conclusion

The current ratio ranged between 0.61 and 3.37 for the study period and on an average the current asset ratio of Rubber Producers' Society Poothrikka was found to be 1.7. The CAGR of quick assets and current liabilities were found to be 21.31 & 3.92 during the course of study period. On an average, the quick ratio was calculated as 1.25 which indicates that the society has ₹1.25 amount of liquid assets available against the ₹1 amount of current liabilities.

The analyses gave the outcome that both the current and quick ratios was in favour of society and hence concluded that RPS Poothrikka maintained good liquidity position.

## 7. Future Scope

Due to constrain of time, resources and COVID-19 pandemic outbreak, the study enabled to examine the liquidity of only RPS. Only simple statistical techniques were used for the study. And also the ratio analysis was limited to certain selected financial ratios. No reviews were available on the financial performance of RPS.

The future researchers can conduct related studies in other districts/states and also can do a comparative study which will provide clarity on the profitability and performance of RPS in different districts/states. Further, the researchers can also incorporate more ratios to obtain relevant conclusions.

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## Author Profile



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