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A Study on Measuring Liquidity of Selected Indian Automobile Companies

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Abstract: ***The study attempts to measure the liquidity status of selected automobile companies in India. For the study, data were collected from secondary sources such are journals, articles, annual reports, and consolidated financial statements. In this study, Liquid ratio and quick ratio are calculated for the period of five years 2014-15 to 2018-19 to Measure the liquidity position of companies. Statistical tools like Mean, Standard Deviation, and Coefficient of Variances were used to analyze the data and also used Bar-charts to better understand the comparison of liquidity ratios. This study concludes that Ashok Leyland Limited, Bajaj Auto Limited, and Eicher Motors; these automobile companies have a weak liquidity position while on the other hand Hero Motocorp Limited has a good liquidity position and the Force Motors Limited has a very much Strong liquidity position.***

Keywords: Liquidity, Liquid ratio, Quick Ratio, Automobile companies

1. Introduction

Liquidity ratios examine whether a business has enough money to pay the money it owes. Liquidity ratios are important because they show you whether a business will be able to pay off its short term debt. They focus on short term debt (current liabilities) because liquidity is about daily income and expenses. A profitable business will not survive very long if it cannot pay its daily expenses.

2. Literature Review

Billah et al. (2015) analyzed the liquidity position of selected public-listed companies in Malaysia. This study tested the use of cash flow ratios to measure liquidity by comparing it with relevant traditional ratios. The empirical result showed a statistically significant difference between these two types of ratios. In most cases cash flow ratios supported traditional ratios by providing additional insight into this research. Therefore, it is recommended to use these two types of ratios simultaneously to conclude a firm's financial strength or weakness.

Durrah et al. (2016) explored the relationship between liquidity ratios and indicators of financial performance on food industrial companies listed in Amman bursa. The study found that there was no relationship between all liquidity ratios and the gross profit margin, while there is a weak positive relationship between the current ratio and each of the operating profit margins and the net profit margin, as the study pointed to the existence of a positive relationship between (quick ratios, defensive interval ratio) and operating cash flow margin. There is a positive relationship between liquidity ratios (current ratio, quick ratio, cash ratio), and return on assets.

Hiadlovský (2016) studied the importance of liquidity analysis in the process of financial management of companies operating in the tourism sector in Slovakia. This research results reveal the low long-term level of average current and total liquidity for the 2011 to 2014 period and indicate moderate to weak relationship between selected liquidity and profitability ratios. As liquidity is one of the areas reflecting one side of the company´s performance, its systematic and proper management may help companies achieve their goals on the way to excellence.

Maloth (2017) undertook a study on liquidity and short-term solvency position of select pharmaceutical companies in India. The study found that the current ratio of Cipla Ltd., Lupin Ltd., and Piramal Enterprise Ltd. are holding more current assets compare to standard norms 2:1 ratio and the liquid ratio of Cipla Ltd. and Lupin Ltd. are maintaining more than the rule of 1:1. But the absolute liquid ratio of all companies is below the standard norms of 1:2. This study concludes that the liquidity positions of the selected firms are not satisfactory. The findings of the study provide insights into the financial health of the select pharmaceutical companies in India.

3. Research Methodology

Objectives of the Study: To evaluate the liquidity status of selected companies.
Sources of Data: data collected from secondary sources that consist of Journals, articles, annual reports, and consolidated financial statements.
Research Tools: Mean, Standard Deviation, Coefficient of Variances, and Liquidity Ratios: To know the liquidity status of companies liquid ratio and quick ratio are used.

4. Data Analysis

4.1 Current Ratio

Table 1: Comparison of Current Ratio

Current Ratio					
	Ashok Leyland Limited	Bajaj Auto Limited	Eicher Motors Limited	Force Motors Limited	Hero MotoCorp Limited
2014-15	0.96	2.14	0.8	1.68	1.35
2015-16	1.08	1.7	0.87	1.7	1.76
2016-17	1.07	2.95	0.9	1.54	1.81
2017-18	1.02	2.25	1.12	1.65	2.01
2018-19	1.08	1.45	2.1	1.67	1.91
Mean	1.042	2.098	1.158	1.648	1.768
SD	0.052153619	0.57642866	0.483007246	0.06300794	0.252626206
CV	5%	27%	42%	4%	14%

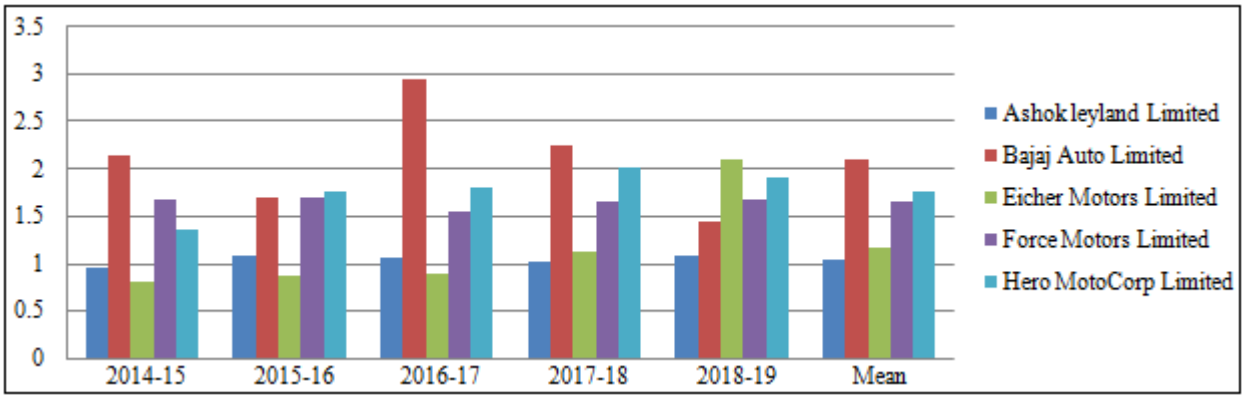

Chart 1: Comparison of Current Ratio

Data Analysis: The above table shows a comparison of the current ratio for five years ranging from 2014-15 to 2018-19 between five selected companies of the automobile industry, standard deviation, and coefficient of variance also calculated to know the consistency or variability in liquidity policy of companies for current ratio. Considering the current ratio, Bajaj Auto Limited has maintained the ideal liquidity ratio of 2.09:1 which shows strong short term position of the company to meet obligations arising from operations or unforeseen events and Ashok Leyland Limited has lowest 1.04:1 ratio which shows weak liquidity position among all five automobile companies. The trend and coefficient of variance indicate that Force Motors and Ashok Leyland Limited has maintained consistency in liquidity position, while Bajaj Auto Limited has adopted a dynamic policy for maintaining liquidity position.

Remarks

The data indicate that Bajaj Auto Limited has maintained the ideal current ratio with a dynamic policy for liquidity position during the study period among all the five companies.

4.2 Quick Ratio

Table 2: Comparison of Quick Ratio

Quick Ratio					
	Ashok Leyland Limited	Bajaj Auto Limited	Eicher Motors Limited	Force Motors Limited	Hero MotoCorp Limited
2014-15	0.76	1.96	0.6	1.02	1.13
2015-16	0.84	1.44	0.61	0.94	1.55
2016-17	0.79	2.72	0.68	1.06	1.64
2017-18	0.86	2.07	0.94	0.95	1.79
2018-19	0.88	1.25	1.8	0.9	1.62
Mean	0.826	1.888	0.926	0.974	1.546
SD	0.049799598	0.578420262	0.507621907	0.06465292	0.248455227
CV	6%	31%	55%	7%	16%

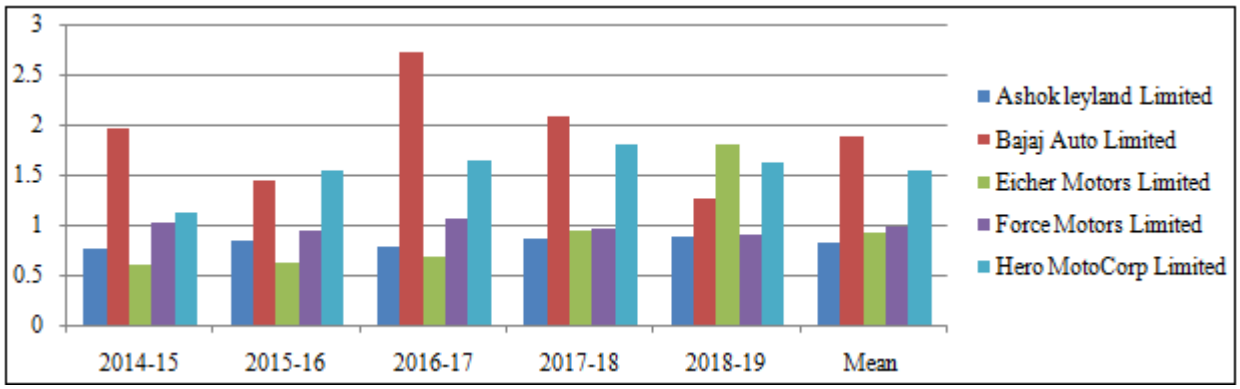

Chart 2: Comparison of Quick Ratio

Data Analysis: The above table shows a comparison of quick ratio for five years ranging from 2014-15 to 2018-19 between five selected companies of the automobile industry, standard deviation, and coefficient of variance also calculated to know the consistency or variability in liquidity policy of companies for current ratio. Considering the quick ratio, Eicher Motors and Force Motors have maintained the quick ratio at 0.92:1 and 0.97:1 respectively which shows good short term position of the company to meet obligations arising from operations or unforeseen events among all five automobile companies. The trend and coefficient of variance indicate that Force Motors Limited has maintained consistency in liquidity position.

Remarks:
The data indicate that Force Motors Limited has maintained the quick ratio at the ideal level with good short term position of the company to meet obligations arising from operations or unforeseen events, during the study period among all the five companies.

Major Findings and Conclusion

The data shows that Ashok Leyland Limited had current assets almost equal to current liabilities and quick assets less than current liabilities, which shows that the company doesn't have enough current assets to meet unexpected, unforeseen, and operational short term obligations that indicate weak liquidity position of the company. The data shows that Bajaj Auto Limited had current assets almost double to current liabilities and quick assets more than current liabilities, which indicate that the company has enough current assets to meet unexpected, unforeseen and operational short term obligations that indicate weak liquidity position of the company. The data shows that Eicher Motors Limited had current assets almost equal to current liabilities and quick assets less than current liabilities, which indicate that the company doesn't have enough current assets to meet unexpected, unforeseen and operational short term obligations that indicate not too much strong liquidity position of the company. The data shows that Force Motors Limited had current assets more than current liabilities and quick assets almost equal to current liabilities, which indicate that the company has enough current assets to meet unexpected, unforeseen, and operational short term obligations that indicate good liquidity position of the company. The data shows that Hero MotoCorp Limited had current assets and quick assets are more than current liabilities, which indicate that the company has enough current assets to meet an unexpected, unforeseen, and operational short term obligation that indicates good liquidity position of the company.

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Author Profile

Modi Vishakhaben received the B.com degree in Advanced Accounting & Auditing from H.L. College of Commerce and M.Com degree in Accounting and Finance form S.D. School of Commerce in 2015 and 2017 respectively. She had qualified GSET and UGC NET examinations with commerce subject in 2016 and 2018 respectively. She had two year teaching experience in Accountancy subject. She is now pursuing Ph.D. in Accountancy at S.D. School of Commerce, Gujarat University.