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A COMPARATIVE STUDY ON LIQUIDITY ANALYSIS IN AUTOMOBILE COMPANIES

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Abstract

Liquidity is a significant concept in the entire business firm in today's modern world. In order to achieve the desired goal the liquidity level plays an essential part in every management sector. The managers of the firms work efficiently in order to achieve the desired goal. Nowadays Automobile Industry has become one of the fast moving sectors in India. So, this study tries to examine the liquidity level of automobile sector. The researcher has selected five auto mobile companies from toppers and covered the period from 2012-13 to 2016-17 and to analyze selected data, ratio analysis method was used as tools. The final conclusion of this study is that the liquidity position of Mahindra and Bajaj is better among all the selected companies. Whereas, the debt equity ratio of HERO and BAJAJ is best compared to other selected companies.

Key words: Liquidity, Auto mobile companies, Ratio analysis.

In present time, the Automobile Industry in India became one of the most rapidly rising sectors. The main growth driver of the automobile industry is raised demand for cars, and other vehicles and the enhanced income. Recently, it has been noted that India secured second rank in the global two-wheeler market and 4th in biggest commercial vehicle market worldwide, eleventh and fifth rank in the international passenger car market and pertaining to the number of buses and trucks sold in the world respectively. Earlier in the year 2007, the growth rate of the Passenger Cars was 13.50%. Nowadays, most of the mergers and acquisitions on the international scale are occupied with the Indian Automobile industry and its part in foreign sector worth US$ 515 million.

Generally, the automobile manufacturing industry includes the production of commercial vehicles, passenger cars, three & two-wheelers and so on. During the period of 2015-16, the Indian automobile industry covered 80% of share in two-wheelers as they are in trend and it boosted the market of two-wheeler globally by selling 17.7 million two-wheelers in the financial year 2016. Unbelievably, the production of automobiles worth 25.3 million was recorded in FY17.

The total production amount reach at a CAGR of 4.43 per cent during FY12-17 and the exports from India also raising with15.81% yearly during April 2017 – February 2018. On this very time, the exports of two and three-wheelers had also boosted with 20.30 % and 37.02 % respectively.

The contribution of Indian automobile industry is 7.1% in Gross Domestic Product (GDP). Due to the favorable policies of Indian Government the key players of this sector will make India a leading industry in the production of 2W and Four Wheeler (4W) and would break all the markets worldwide by 2020.

This industry opens new doors for investments and it is also expected to reach US$ 16.5 billion by 2021 from around US$ 7 billion in 2016 and grow its market about 10-15%. It is also estimated that it will create around US$ 300 billion income yearly by 2026 and avail 65 million plus jobs, give over 12 % of its share to Indian Gross Domestic Product.

Liquidity means the capability of a firm to fulfill its short term liabilities. It is the capacity of the firm to change its assets into cash. Normally, short term indicates the liabilities that mature within one accounting year. Short term moreover, reveals the operating cycle: Buying, Manufacturing, Selling, and Collecting.

The company which doesn't pay its creditors timely and continue not to respect its liabilities to the suppliers of credit, services, and goods proved a sick company or bankrupt company. In order to fail in fulfilling the short term obligations the influence of company's functions and its reputation can also get affected.

Due to Insufficient cash or liquid assets the business firm may fail to get some kinds of benefits and the incentives given by the suppliers of credit, services, and goods. This may result as increase in cost of goods and profitability of business gets affected by this.

Therefore, it is essential for company to maintain a proper liquidity level. There is no defined criteria mentioned for liquidity but it is based on the nature of the business, scale of operations, location of the business and other elements. The liquidity position of a company draws attention of many of the members associated with the company such as shareholders, employees, stakeholder and suppliers and so on. So, role of liquidity is major in companies' survival.

- **Review of literature**

Mohmad Mushtaq khan and Dr. Syed khaja Safiuddin (2016), analyzed the Liquidity and profitability performance of select pharmaceutical companies. For this study the researchers have selected two pharmaceutical companies' namely Cipla and Dr. Reddy's labs. In this study Ratio analysis was used as tools. Finally this study proved that there was huge difference between liquidity and profitability of selected pharmaceutical companies.

Ms. A.nilafor nisha and Dr. S. David soundararajan (2016), studied the liquidity analysis of selected 17 public limited automobile companies from India and covered the period from2004-05 to 2013-14. For this research Ratio analysis and ANOVA were used as tools. The conclusion of this study was that there were strong and better financial sources and their important improvement. As the companies entered into foreign collaboration it results in improvement in performance of this industry.

Inna (2016) made a study on comparative analyses of working capital management in automobile industry from India. For this study the researcher selected 5 two wheelers companies as a sample and covered the period from 2011 to 2016. In this study Ratio analysis was used as tools for analyzing the collected data. The final conclusion of study was that negative working capital would carry on working for the two wheeler industry.

➢ **Objectives**

The key objectives of the study are to examine the liquidity of selected automobile companies.

1) To study the liquidity position of selected automobile companies.

2) To compare between selected automobile companies regarding liquidity level.

➢ **Research methodology**

- **Sources of Data:**

Secondary sources of data will be utilized for this research study. Secondary data have been collected from automobile company's annual reports, companies' websites and so on.

- **Universe:**

In the research study, the researcher has selected five automobile companies.

❖ Tata Motors
❖ Bajaj Auto
❖ Mahindra and Mahindra
❖ Maruti Suzuki India.
❖ Hero Moto corp

- **Period of data coverage**

Five years of financial statements have been analyzed for automobile companies taken under study. Liquidity position measures from 2012-13 to 2016-17 will be studied to analyses latest trends and performance of selected automobile Companies.

- **Analysis of data**

Tables, diagrams and statistical results will be derived with the help of statistical calculate Microsoft excel tools. Data will be analyzing by liquidity ratios of selected automobile companies

➢ **Limitation of study**

1. Under this study only five automobile companies working in India are selected.
2. This study is supported by ratio analysis and it has some limitation that affects to this study also.
3. The present study is based on the data which is collected from annual reports of selected automobile companies working in India.
4. For the explanation of several ratios a thorough knowledge is essential and it might be less highlighted in this matter.
5. As there are numerous concepts of liquidity which are not easy to include all together in the study so, researcher has tried to cover some of them.

- **Data analysis and interpretation**
- **Current ratio**

The current ratio is a liquidity ratio, which presents the ability of a company to pay its short-term and long-term obligations. This ratio goes through all the current total assets of a company liquid and illiquid. Significant value of this ratio is 2:1. Well thought-out as satisfactory level for a firm. It gives you an idea about good short-term solvency of business firm.

Table no: 1.1

Table presents the current ratio of selected automobile companies during the year from 2012-13 to 2016-17.

Year	Tata	Bajaj	Mahindra	Maruti	Hero
2013	0.42	0.88	1.02	1.04	0.67
2014	0.43	0.8	1.19	0.77	0.65
2015	0.42	0.89	1.05	0.68	0.94
2016	0.51	1.27	1.01	0.63	0.83
2017	0.42	1.07	1.03	0.55	0.86

Sources: Money control.

Chart showing the current ratio of selected automobile companies during the year from 2012-13 to 2016-17.

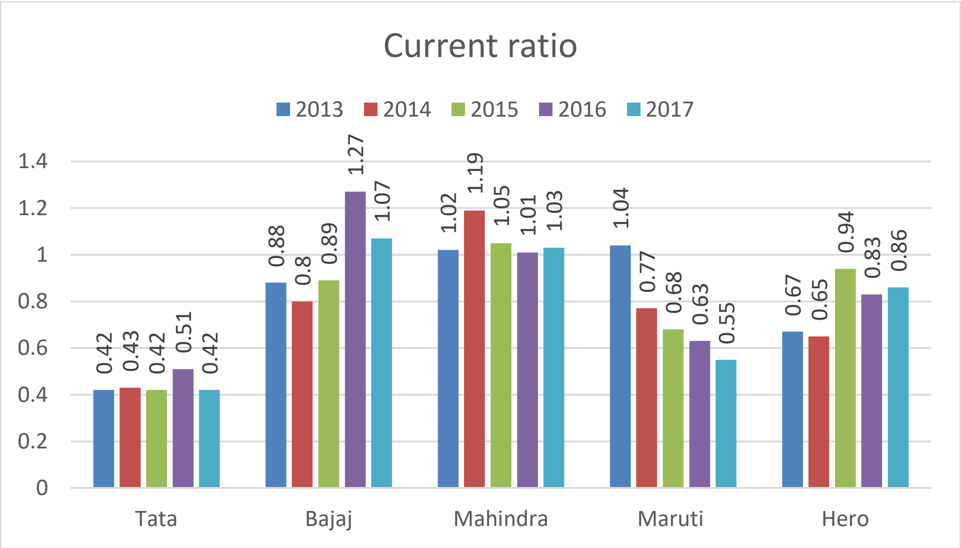

Chart: 1.1

The current ratio of TATA in the year 2013 was 0.42. Thereafter, it was increased with 0.43 in 2014. Consequently, it decreased with 0.42 in 2015. After that, it again rises with 0.51 in 2016 and lastly in the financial year 2017, it was reached to 0.42.This shows that there are many up and downs during the entire research time.

The current ratio of Bajaj was 0.88 in the financial year of 2013. Later on, it decreased with 0.80 in 2014. Subsequently, it increased for constant two years during the period of 2015 and 2016 with 0.89 and 1.27 respectively. Then after, it reached to 1.07in the financial year 2017. This shows moderate performance.

The current ratio of Mahindra was 1.02 in the financial year of 2013. Later on, it rose with 1.19 in 2014. Thereafter, it decreased for constant three years and reached 1.03

in the financial year 2017. In this way during the whole research period moderate trend was shown.

The current ratio of Maruti was 1.04 in the financial year of 2013. Later on, it decreased for constant four years and reached 0.55in the financial year 2017. In this way during the whole research period downward trend was seen.

The current ratio of Hero was 0.67 in the financial year of 2013. Later on, it decreased with 0.65 in 2014. Subsequently, it was increased in 2015 with 0.94. Thereafter, it was decreased constant two years and reached 0.86 in the financial year 2017. In this way during the whole research period there were many up and down showed.

- **Quick ratio**

The quick ratio is also known as the acid-test ratio. This ratio measures the liquidity more precisely than current ratio. The significant value of this ratio is1:1. It determines how well a company can meet its short-term financial liabilities.

Table no: 1.2

Table presents the quick ratio of selected automobile companies during the year from 2012-13 to 2016-17.

Year	Tata	Bajaj	Mahindra	Maruti	Hero
2013	0.4	0.74	0.77	0.9	0.52
2014	0.36	0.67	0.93	0.67	0.47
2015	0.42	0.72	0.84	0.41	0.72
2016	0.41	1.04	0.83	0.37	0.67
2017	0.42	0.88	0.83	0.35	0.72

Sources: money control

Chart showing the quick ratio of selected automobile companies during the year from 2012-13 to 2016-17.

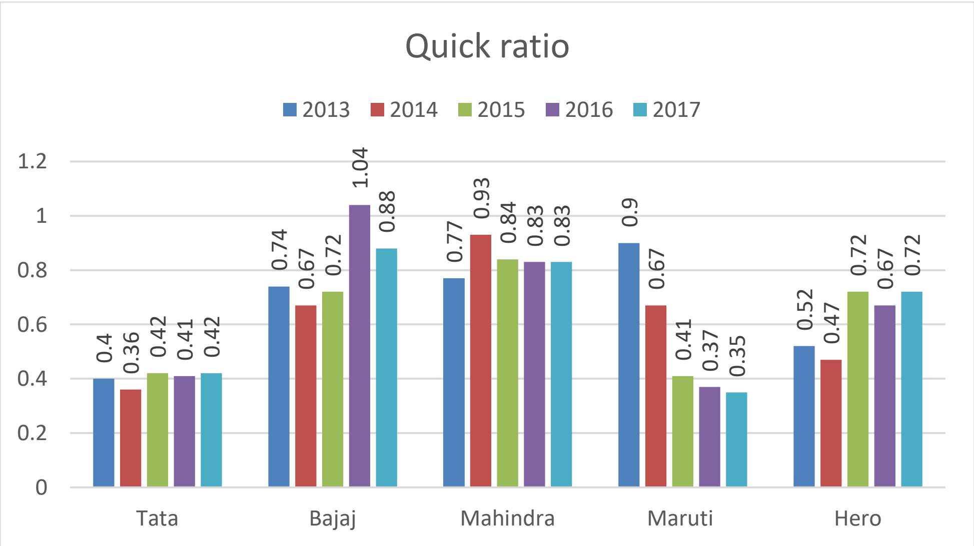

Chart: 1.2

The quick ratio of TATA in the year 2013 was 0.40. Thereafter, there were many up and downs seen. Lastly, in the financial year 2017 it was reached 0.42.

The quick ratio of Bajaj was 0.74 in the financial year of 2013. Later on, it decreased with 0.67 in 2014. Subsequently, it was boost up in 2015 with 0.72. Subsequently, it was raised with 1.04 again it was decreased and reached to 0.88 in the financial year 2017. In this way during the whole research period moderate performance was seen.

The quick ratio of Mahindra was 0.77 in the financial year of 2013. Later on, it increased with 0.93 in 2014. After that, it declined constant three years and reached 0.83 in the financial year 2017. The performance was not appreciable during the last years of research period.

The quick ratio of Maruti was 0.90 in the financial year of 2013. Later on, it declined constant four years and reached 0.35 in the financial year 2017. In this way during the whole research period the performance was not remarkable.

The quick ratio of Hero was 0.52 in the financial year of 2013. Later on, it decreased with 0.47 in 2014. Subsequently, it was increased in 2015 with 0.72. Thereafter, it was decreased with 0.67 in 2016 and reached 0.72 in the financial year 2017. In this way during the whole research period there were many up and downs showed.

- **Debt equity ratio**

Debt Equity Ratio is a debt ratio. It verifies the financial leverage of the firm. This ratio points to the accounts of debt a firm is utilizing in order to finance its assets relation to the amount of value characterized in shareholders' equity.

Table no: 1.3

Table presents the debt equity ratio of selected automobile companies during the year from 2012-13 to 2016-17.

YEAR	Tata	Bajaj	Mahindra	Maruti	Hero
2013	0.75	0.01	0.22	0.07	0.06
2014	0.76	0.01	0.22	0.08	0.00
2015	1.35	0.01	0.14	0.01	0.00
2016	0.61	0.01	0.08	0.00	0.00
2017	0.92	0.00	0.11	0.01	0.00

Sources: Money control

Chart showing the current ratio of selected auto mobile companies during the year from 2012-13 to 2016-17.

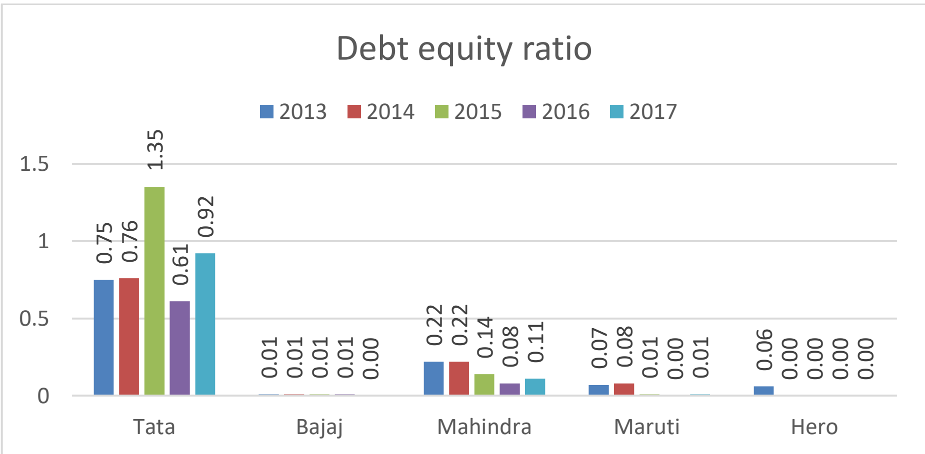

Chart: 1.3

The debt equity ratio of TATA in the year 2013 was 0.75. Thereafter, it was little increased in 2014 with 0.76. Subsequently, it rose with 1.35 in 2015. Afterward, decreased for consecutive two years and in the financial year 2017 it reached 0.92.

The debt equity ratio of Bajaj was 0.01 from 2013 to 2016. Lastly, it was nil in 2017.

The debt equity ratio of Mahindra was 0.22 for constant two years during 2013 and 2014. Later on, it declined constant three years and reached 0.11 in the financial year 2017. In this way during the whole research period downward trend were showed.

The debt equity ratio of Maruti was 0.07 in the financial year of 2013. Later on, it increased with 0.08 in 2014. Subsequently, it was declined in 2015 with 0.01. Thereafter, it was decreased and became nil in 2016. Lastly, it reached 0.01 in the financial year 2017. In this way during the whole research period moderate performance was seen.

The debt equity ratio of Hero was 0.06 in the financial year of 2013. Later on, it became nil during the rest research period.

➢ Findings.

- As the standard criteria for this ratio is 2:1, none of the selected companies have appreciable performance due to having lower ratio compare to standard value. But while looking at the overall performance during the whole research period the performance of Mahindra and Maruti was appreciable compare to rest.
- As the standard criterion for this ratio is 1:1, none of the selected companies have appreciable performance except Bajaj with 1.04 which is noticeable and the performance of rest of selected companies is below 1.
- As the standard criterion for this ratio is that the lower value of ratio is the higher and its performance would be better. Therefore, the performance of Bajaj and Hero are remarkable and the rest are average.

➢ Conclusion

The overall performances of all the selected companies with the selected ratios are not satisfactory. The liquidity position of Mahindra and Bajaj is better among all the selected companies. Whereas the debt equity ratio of HERO and BAJAJ is best compare to other selected companies. This proves that their turnover is appreciable compared to other companies. Therefore, rest companies should pay proper attention on the management of the companies in order to enhance their performance and improve their management skills.

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