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LIQUIDITY ANALYSIS OF SELECT AUTOMOBILE COMPANIES IN INDIA

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Abstract

In the present period, the Indian automobile industry is critical. Liquidity analysis is used as a short-term and long-term assessment method. Select vehicle businesses in India were the subject of a study of this sort. Secondary data was analyzed through the use of ratio and ANOVA. Selected company's current and quick ratios have fallen short of optimum levels. A closer look into Eicher Motors Ltd and SML Isuzu's net working capital reveals that they are both in satisfactory condition, whilst other companies are not.

Keywords:Ratios and Liquidity in the Automobile Industry

Introduction

Liquidity refers to a company's capacity to instantly (or very quickly) turn part of its assets into other assets or payment of an obligation. As a result, financial managers devote a significant amount of time on managing current assets and current liabilities. The method in which a company's liquidity is managed is a major determinant of its operation's success.

Statementoftheproblem

There must be adequate money in the corporate sector to pay all pending legal bills. An unpaid bill indicates that the financial situation of the firm has worsened. Liquidity analysis is tough for financial managers to understand. Managing a company's cash flow is critical to its long-term success. Liquidity management has a significant impact on a company's overall performance. Maintaining proper working capital levels necessitates constant management. As a result, a study of the liquidity analysis of a few vehicle manufacturers has been undertaken.

Reviewofliterature

AmitandChakraborty(2005)Working capital management: an empirical research" states that the absolute liquid ratio shows the short-term liquidity situation of the organization, and that proper inventory management aids in managing short-term solvency.

NishiSharma(2011)The financial performance of Mahindra & Mahindra Limited and Tata Motors is not discovered in terms of liquidity in his report "Financial Analysis of Indian Automobile Industry."

Jothi and Kalaivani (2015) A comparison of Honda and Toyota's financial performance shows that both firms have a strong short-term liquidity position, according to their report, "A Study on Financial Performance of Honda and Toyota Automobile Company a Comparative Analysis".

RavichandranandSubrmaniam(2016)a financial analysis of force motors limited found that the company had enough cash on hand to cover its obligations.

3. Objectiveofthestudy

Determine which vehicle manufacturers have the best cash flow.

4. Researchmethodology

Annual reports from Ashok Leyland, Eicher Motors and SML Isuzu for the period from 2011-2012 to 2015-2016 are used as the basis for this research. ANOVA and ratio analysis were used to examine the data.

5. Hypothesis

Null Hypothesis: During the research period, the liquidity ratios of the selected enterprises showed no significant variation.

Alternative Hypothesis: During the study period, the selected companies' liquidity ratios differed significantly.

6. Results and Findings

6.1 Current Ratio

The ratio of current assets to current liabilities is used to assess the ability of a company to satisfy its short-term obligations. It's a good rule of thumb to aim towards 2:1.

Table:1 Current Ratio

Year	Ashok Leyland	Eicher	SML Isuzu	Tata Motors	Avg
2011-2012	0.87	0.51	1.34	0.5	0.81
2012-2013	0.77	0.36	1.35	0.44	0.73
2013-2014	0.69	0.33	1.45	0.43	0.73
2014-2015	0.71	0.33	1.55	0.49	0.77
2015-2016	0.89	0.36	1.49	0.58	0.83
Avg	0.79	0.38	1.44	0.49	0.77
sd.	0.09	0.08	0.09	0.06	0.05
CV(%)	11.58	19.92	6.30	12.24	5.95

Table:2 Analysis of Current Ratio – ANOVA

Source of Variation	SS	df	MS	F	P-value	Fcrit
Between Groups	3.38492	3	1.128307	175.6119	0.000000	3.238872
Within Groups	0.1028	16	0.006425			
Total	3.48772	19				

There was a 0.77 average current ratio for selected organizations. There are two companies above the average: Ashok Leyland (0.79) and SML Isuzu (1.44); the rest are Eicher (0.38) and Tata Motors (0.49). SML Isuzu has a high level of data consistency, while Eicher Motors has a low level of data consistency. According to a year-by-year analysis of the Current Ratio, the ratio was greater in 2011-2012 and 2015-2016.

The current ratio is lower than the average for the years 2012-2013, 2013-2014, and 2014-2015. SML Isuzu has a high level of current ratio. According to the estimated P Value, there is a considerable mean variation in the mean values of current ratio across picked organizations..

6.2 Quick Ratio

As a test of the company's capacity to satisfy short-term obligations from its most liquid assets, this ratio is considered a rigorous test of liquidity.

Table:3 Quick Ratio

Year	Ashok Leyland	Eicher	SML Isuzu	Tata Motors	Avg
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2011-2012	0.51	0.29	1.18	0.58	0.64
2012-2013	0.65	0.09	1.39	0.32	0.61
2013-2014	0.61	0.13	0.61	0.21	0.39
2014-2015	0.68	0.11	0.70	0.32	0.45
2015-2016	0.83	0.14	0.57	0.39	0.48
Avg	0.66	0.15	0.89	0.36	0.52
sd.	0.12	0.08	0.37	0.14	0.11
CV(%)	17.76	52.34	41.70	37.60	20.80

Table:4AnalysisofQuickRatio–ANOVA

<i>SourceofVariation</i>	<i>SS</i>	<i>df</i>	<i>MS</i>	<i>F</i>	<i>P-value</i>	<i>Fcrit</i>
BetweenGroups	1.5746	3	0.524867	11.90133	0.000239	3.238872
WithinGroups	0.705624	16	0.044102			
Total	2.280225	19				

A sampling of organizations' Quick Ratios averaged 0.52. Ashok Leyland (0.66) and SML Isuzu (0.89) score more than the industry average, whereas Eicher (0.15) and Tata Motors (0.36) score worse than it. Ashok Leyland has a high level of data consistency, while Eicher Motors has a low level of data consistency. Comparison of Quick ratio over time reveals that it is higher in 2011-2012 and 2012-2013, and lower in the rest of those years: 2013-2014, 2014-15, and 2015-16. The SML Isuzu has a high Quick ratio. P-value less than 0.01 indicates that there are significant differences in Quick ratio values among selected organizations.

6.3 CashtoCurrentAssetsRatio

The link between current assets and short-term cash flow is shown in this ratio. Cash is a non-producing asset that can be effectively handled in order to achieve the overall goal of the company.

Table:5CashtoCurrentAssetsRatio

Year	AshokLeyland	Eicher	SMLIsuzu	TataMotors	Avg
2011-2012	0.01	0.03	0.19	0.17	0.10
2012-2013	0.00	0.08	0.15	0.06	0.07
2013-2014	0.00	0.07	0.11	0.03	0.05
2014-2015	0.18	0.10	0.18	0.11	0.14
2015-2016	0.31	0.04	0.07	0.08	0.13
Avg	0.10	0.06	0.14	0.09	0.10
sd.	0.14	0.03	0.05	0.05	0.04
CV(%)	137.40	42.65	34.88	59.34	36.36

Table:6AnalysisofCashtocurrentAssetsRatio–ANOVA

<i>SourceofVariation</i>	<i>SS</i>	<i>df</i>	<i>MS</i>	<i>F</i>	<i>P-value</i>	<i>Fcrit</i>
BetweenGroups	0.015206	3	0.005069	0.816472	0.503448	3.238872
WithinGroups	0.099325	16	0.006208			
Total	0.114531	19				

6.4 Selected companies had an average Cash to Current Assets Ratio of 0.10 on average. Two companies, Ashok Leyland (0.11) and SML Isuzu (0.14) are above the average, while Eicher (0.06) and Tata Motors (0.09) are below the average, respectively. SML Isuzu has a high level of data consistency, while Ashok Leyland has a low level of data consistency. It has been shown that during 2011-2012, 2014-2015, and 2015-2016, Cash to Current Assets Current ratio is higher than normal and during 2012-2013 and 2013-2014 it is lower than usual. SML Isuzu has a high Cash to Current Assets Ratio. There is no notable difference in the mean values of the Cash to current Asstes ratio between selected organizations, as the computed P Value is more than 0.01.

6.5 NetWorkingCapitaltoSalesRatio

In order to estimate an organization's short-term liquidity needs, the net working capital to sales ratio is calculated.

Table:7NetWorkingCapitaltoSalesRatio

Year	AshokLeyland	Eicher	SMLIsuzu	TataMotors	Avg
2011-2012	0.02	0.15	0.22	-0.06	0.08
2012-2013	0.05	0.11	0.30	-0.09	0.09
2013-2014	0.00	0.15	0.18	-0.20	0.03
2014-2015	0.00	0.17	0.18	-0.08	0.07
2015-2016	0.05	0.21	0.19	-0.06	0.10
Avg	0.02	0.16	0.21	-0.10	0.07
sd.	0.02	0.04	0.05	0.06	0.03
CV(%)	106.31	22.26	24.91	-58.33	36.43

Table:8AnalysisofNetworkingcapitaltosalesRatio–ANOVA

SourceofVariation	SS	df	MS	F	P-value	Fcrit
BetweenGroups	0.297737	3	0.099246	49.73803	0.000000	3.238872
WithinGroups	0.031926	16	0.001995			
Total	0.329663	19				

Select companies had an average net working capital to sales ratio of 0.07 on average. SML Isuzu (0.21) and Ashok Leyland (0.02) are both above average, while Tata Motors (-0.10) and Eicher (0.16) are both below average. Tata Motors has a high level of data consistency, whereas Ashok Leyland has a low level of data consistency. According to a year-by-year comparison of Net working capital to sales ratio, 2011-2012,2012-2013,2014-2015 and 2015-2016 is found higher than the averageand rest oftheyear2013-2014,Networkingcapitaltosalesratioisbelowtheaverage.HighlevelofNet working capital to sales ratio is noticed with SML Isuzu. As the calculated P Value is lessthan 0.01,there exists significant mean difference in mean values of Net working capital tosalesratioamongselect companies.

6.6 CashRatio

This ratio establishes the relationship between a company's total cash and the cash equivalent of its current obligations and measures the firm's ability to repay short-term debts. This is a more helpful ratio for lenders.

Table:9CashRatio

Year	AshokLeyland	Eicher	SMLIsuzu	TataMotors	Avg
2011-2012	0.01	0.02	0.43	0.16	0.16
2012-2013	0.00	0.01	0.49	0.04	0.14

2013-2014	0.00	0.04	0.21	0.02	0.07
2014-2015	0.19	0.03	0.35	0.09	0.16
2015-2016	0.39	0.04	0.16	0.06	0.16
Avg	0.12	0.03	0.33	0.08	0.14
sd.	0.17	0.01	0.14	0.05	0.04
CV(%)	143.28	44.08	43.62	73.20	29.91

Table:10 Analysis of Cash Ratio – ANOVA

<i>Source of Variation</i>	<i>SS</i>	<i>df</i>	<i>MS</i>	<i>F</i>	<i>P-value</i>	<i>Fcrit</i>
Between Groups	0.262794	3	0.087598	6.684375	0.003906	3.238872
Within Groups	0.209678	16	0.013105			
Total	0.472472	19				

Select companies' average cash ratio was 0.14. It's SML Isuzu, Ashok Leyland, Eicher, and Tata Motors that are all below the average of 0.33. SML Isuzu has a high level of data consistency, while Ashok Leyland has a low level of data consistency. When looking at the Cash Ratio year over year, we see that it was greater than normal in 2011-2012, 2012-2013, 2014-2015, and 2015-2016, while it was lower than average in 2013-2014. SML Isuzu has a very high Cash Ratio. Select organizations' Cash Ratios differ significantly in mean values, as the computed P Value is less than 0.01.

7. Conclusion

Liquidity management relies heavily on the success of every company. Consequently, analyzing liquidity is typically seen as an evaluation of short-term solvency. If a company is unable to satisfy its financial obligations, there is a long-term benefit to researching liquidity. Select companies failed to maintain an optimal current ratio and quick ratio in the current attempt. A closer look into Eicher Motors Ltd and SML Isuzu's net working capital reveals that they are both in satisfactory condition, whilst other companies are not.

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