LIQUIDITY MANAGEMENT: A STUDY ON NALCO LTD.

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ABSTRACT: Liquidity plays an important role in the successful functioning of a business firm. The critical part in managing working capital is maintaining adequate liquidity in the business to ensure smooth business operation and to meet its short term obligations as and when they become due. The objective of the present paper is to examine the liquidity position of the NALCO Ltd., a central public sector undertaking. The data has been collected from the annual reports of the company and the study period covers from 2009-10 to 2019-20. Five liquidity ratios namely current ratio, quick ratio, cash ratio, absolute liquidity ratio and working capital ratio are calculated to ascertain the liquidity strength of the company. The result reveals that too much liquidity is maintained by the NALCO. However, it adversely impacts the profitability position of the company. Hence, there is a need to curtail the excessive liquidity so that it can contribute more to the profitability of the NALCO Ltd.

Index Terms: **Current Asset, Current Liability, Liquidity, NALCO, Working Capital.**

1. Introduction

Finance is the life blood of every business organization. Without proper management of financial resources, it is very difficult on the part of any business organization to compete in the competitive world triggered by liberalization, privatization and globalization. Further, holding sufficient liquid resources is essential for every business organization. Thus, liquidity plays an important role in maintaining smooth operations for firms (Owolabi and Obida, 2012). The term 'liquidity' refers to the debt servicing capacity of a firm. It is the firm's ability to meet the claims of short term creditors on due date who have supplied raw-material, working capital etc. to the firm. Therefore, management of liquidity is the prime focus of the business organization because it directly relates to the short term solvency of the said organization. In order to analyze the liquidity position of the business organization, one of the powerful techniques available in the hands of the financial analysts is known as the ratio analysis. Here, Liquidity ratios are used to examine the short term solvency of the organization. Liquidity ratios explain the short term financial position of the company. It helps to estimate whether the company is in a position to meet its short term obligations or not. Therefore, liquidity ratios are also called as short term solvency ratios. The short term creditors of the company and commercial banks are primarily interested to know whether the company is able to meet its short term obligations as and when they become due. The present paper aims at examining the liquidity position of NALCO by applying the liquidity ratios to determine whether the said company is effectively utilizing its current assets and current liabilities or other-wise.

2. Importance of the study

The short-term obligation of a firm can be met only when there are sufficient liquid funds. Therefore, a firm must confirm that it does not suffer from illiquidity or inability to pay its short term obligations. Further, even maintaining very high degree of liquidity is not good for a firm because in such a situation unnecessarily excessive funds of the firm is being tied up in current assets. Hence, it is quite essential to maintain adequate or sufficient liquid funds to meet the short term obligation of the firm. Here, one of the fundamental duties of finance manager is to maintain optimal liquid funds so as to run the business smoothly and ensure that short term obligations are met as and when they are due. In this research paper an attempt has been made to examine the liquidity/short term solvency position of NALCO, a central public sector undertaking.

3. Statement of the problem

Management of liquidity is concerned with the current assets, the current liabilities and the interrelationship that exist between them. It assumes greater importance in the finance literature because excess liquidity or lack of liquidity is not good sign for the business organization. The finance manager has a key role to play in maintaining sufficient liquidity position in the firm so that the firm will not suffer from illiquidity or excessive liquidity. Moreover, a firm requires working capital to utilize its fixed assets, hence the effective utilization of the fixed assets, depends upon the amount and usage of the working capital. Looking at the importance of liquidity in a business organization, the current piece of research work is devoted on the assessment of the liquidity performance of NALCO, a Navratna company in central public sector undertaking category.

4. Review of literature

Review of literature in the allied area of research facilitates in understanding the fundamentals and also creates the foundation for further research. Research studies relating to the liquidity analysis across different industries have been carried out by eminent researchers at national and international level. The key findings of latest such studies are presented below.

Deloof (2003) carried out a research study on the working capital management that affect on profitability of Belgian firms. He investigated the relation between working capital management and corporate profitability for a sample of 1,009 large Belgian non-financial firms for the period from 1992 to 1996. Trade credit policy and inventory policy are measured by number of day's accounts receivable, accounts payable and inventories and the cash conversion cycle is used as a comprehensive measure of working capital management. The results of the study suggest that managers can increase corporate profitability by reducing the number of day's accounts receivables and inventories. Further, the study observed that less profitable firms can wait longer period to pay their bills.

EIjeIIy (2004) carried out a study on liquidity and profitability tradeoff on a sample of joint stock companies in Saudi Arabia. The relation between profitability and liquidity was examined through current ratio and cash gap (cash conversion cycle) by using correlation and regression analysis. The study revealed that the cash conversion cycle was more important measure of liquidity than the current ratio that affects profitability. Further, it was found that there was a negative relationship between liquidity and profitability indicators in the Saudi sample companies. The study also revealed that there was a great variation among industries with respect to the significant measure of liquidity.

Chakraborty (2008) in his study made an evaluation on the relationship between working capital and profitability on selected companies of the Indian pharmaceutical industry. His study pointed out that investment in working capital plays an important role to increase the profitability of the business undertaking. Unless there is a minimum level of investment in working capital, output and sales cannot be maintained. He concluded that the inadequacy of working capital would keep fixed asset underutilized.

Samiloglu and Demirgunes (2008) conducted a study on the effect of working capital management on profitability of companies listed at the Istanbul Stock exchange (ISE). He applied the multiple regression models to examine the effect of working capital on selected companies' profitability during the period from 1998 to 2007. The findings of the study revealed that accounts receivables period, inventory period and leverage affected profitability negatively whereas growth parameter (sales) affected profitability positively.

Chandrabai and Rao (2011) conducted a comparative study on working capital management of two Indian electrical equipment manufacturing companies. They selected two companies namely BHEL and ABB Ltd. representing one public and one private sector enterprise for their study respectively. They collected relevant data from the annual reports of the sample companies during the period from 2005-06 to 2009-10. They found that proper management of working capital of such companies contributed better performance for financial year 2010. They concluded that working capital management is concerned with the management of both current assets and current liabilities and the interrelation that exists between them.

Mehrotra (2013) made an attempt to examine the working capital trends and practices in FMCGs sector in India. She selected five FMCGs companies namely Hindustan Unilever Limited, Nestle India Limited, Britannia Industries, Procter & Gamble and ITC for the study. The data has been collected from the annual reports of the sample companies for a period of 5 years i.e. from 2007 to 2011. The trend of the liquidity position of the five companies reveals that there is high degree of liquidity in case of Proctor& Gamble whereas the liquidity position of Britannia and ITC is moderate. However, the liquidity position of Hindustan Unilever Ltd. and Nestle is quite unsatisfactory.

Saravanan and Abarna (2014) carried out a study to analyze the liquidity efficiency of five sample automobile companies in India. The sample companies are Ashoak Leyland, Eicher, Force, SML and TATA motors. The data relating to the study was obtained from CAPITA LINE, CMIE (Centre for Monitoring Indian Economy) date base and the annual reports of the sample companies. The study covers a period of 5 years covering a period from 1997--98 to 2012-13. They applied the liquidity ratios namely current ratio and quick ratio to measure the liquidity efficiency of the sample companies. The researchers concluded that the performance of force motors is better than the other companies. They concluded that a cautious attention has to be given on liquidity to improve the profitability of such sample companies.

Venkateswarlu and Reddy (2015) in their study on Liquidity Management examines the liquidity management of select cement companies of Andhra Pradesh for a period of 10 years i.e. from 2003-04 to 2012-13. They selected six companies and included in their study. The liquidity position of the select units has been analyzed by computing current ratio, quick ratio, liquid funds to current assets ratio and net working capital to current assets ratio. Finally, comparative liquidity position among select units has been made by allotting ranks to them as per the Motaal's Ultimate Rank Test. They concluded that Deccan Cements Ltd. is awarded first rank indicating the most liquid company among the six sample companies selected for the study. It is followed by Panyam Cements & Mineral Industries Ltd. and Sagar Cements Ltd. On the other hand, NCL Industries Ltd. showed a poor liquidity position.

Raju (2016) carried out a study to know the relationship between liquidity and solvency position of the automobile industry. His sample size consisted of six auto companies namely Maruti Suzuki, Ashok Leyland, Mahindra & Mahindra, TVS Motor, Tata Motors and Hero Motor Corporation. The data has been obtained from the annual reports of the sample companies and the study period was from 2002-03 to 2014-15. The results were obtained with the help of statistical techniques like paired sample statistics, paired samples correlation and paired sample test. The study found that the more liquidity was possessed by Maruti Suzuki, followed by Ashok Leyland and Mahindra & Mahindra. Finally he suggested that every company should maintain the optimum liquidity position to earn a maximum return even though the existing liquidity position was satisfactory.

Tin et al. (2017) made an attempt to examine the liquidity position of Vietnamese listed firms for a period of five years i.e. from 2011 to 2015. They selected 254 Vietnamese listed firms from Ho Chi Minh Stock Exchange database. In order to analyze the liquidity position, they followed two approaches, namely conventional financial ratios based on balance sheet and income statement and cash flow ratios. To examine whether there is a difference between traditional ratios and cash flow based ratios as a measure of liquidity of Vietnamese listed companies, estimation method and mean difference testing method are applied in the study. The result indicates that there is a statistical difference between cash flow ratio and current ratio as well as between critical needs cash coverage ratio and quick ratio of Vietnamese listed companies. However, no statistical difference is found with regard to interest coverage ratio of Vietnamese listed companies in both approaches.

Garg et al (2018) carried out a study to examine short term solvency position of NTPC. The study is based on secondary data collected from annual reports of the company. The study period is from 2007-08 to 2016-17. They used three important liquidity ratios namely current ratio, quick ratio and super quick ratio to examine the liquidity strength of the company. The result of the study indicated that the liquidity position of the company is moving downward. On the whole, the liquidity analysis of NTPC exposes the

serious weakness of the company in managing its working capital. The results of the study also revealed that the gross working capital has declined during the study period and the net working capital has become negative.

Chhatrola and Ransariya (2019) conducted a study to analyze the liquidity performance of BSE 30 companies for the period commencing from 2012-13 to 2016-17. For this purpose, the liquidity ratios like current ratio and quick ratio are calculated. In addition to that the ANOVA has been used for testing the hypothesis. The result reveals that the liquidity position of Infosys Ltd is found good among all units listed in BSE-30 companies during the study period. The study also reveals that HDFC Ltd. and Tata Motors ltd. have the lowest liquidity position during the study period. Furthermore, the study found that there is no significant difference in current ratio and quick ratio of the sample companies during the study period.

Modi (2020) in her study attempts to measure the liquidity status of selected automobile companies in India. The data has been collected from annual reports of the sample companies. In order to measure the liquidity position, current ratio and quick ratio were calculated for the period of five years i.e. from 2014-15 to 2018-19. Apart from this, statistical tools like mean, standard deviation, and coefficient of variances were used to analyze the data. This study concluded that Ashok Leyland Limited, Bajaj Auto Limited, and Eicher Motors have a weak liquidity position while Hero Motor Corp has a good liquidity position. On the other hand, Force Motors Ltd. has a strong liquidity position during the study period.

5. Objective and scope of the study

The current research work has been carried out on the liquidity aspect of NALCO and following are the objectives of the study.

1. To examine the liquidity position of the NALCO
2. To ascertain the short term solvency position of the NALCO
3. To find out the areas of weakness in liquidity management and offer suggestions for improvement, if any.

Further, the scope of the present study is limited to the liquidity analysis of NALCO only. In other words, other aspects like profitability, solvency etc. is not included in the purview of this study**.**

6. Research Methodology

The following methodology has been followed to carry out the present research work.

6.1 Data Collection: The data for the study has been collected mainly from the secondary sources i.e. annual reports of NALCO. The important components of current assets and current liabilities were extracted from the annual reports and then relevant liquidity ratios were calculated for the analysis and interpretation.

6.2 Period of the study: The period of study is 11 years i.e. from 2009-10 to 2019-20. The researchers consider that a minimum of 10 years or more continues data is necessary to determine the trend and behavior of liquidity aspect of NALCO with more degree of accuracy.

6.3 Sample Size: The sample size for this study is only one company i.e. NALCO. This company has been selected to carry out the research work in the line of the objectives mentioned earlier.

6.4 Tools and Techniques used for the study: In this study ratio analysis technique has been used for the purpose of data analysis. To study the liquidity position of NALCO, liquidity ratios are used in this study. Apart from this, trend analysis, mean, standard deviation and correlation analysis were also used to analyze the data.

7. Conceptual framework on the parameters used for liquidity analysis

In order to analyze the liquidity position of the NALCO, the following liquidity ratios are selected and the importances of such ratios are outlined below.

Current ratio: Current ratio implies the financial capacity of the firm to clear off the current obligations by using its current assets. Here the current assets include cash, deposits, marketable securities, stock, receivables, prepaid expenditures, etc. The current liabilities include short-term loans, payroll liabilities, outstanding expenses, creditors, various other payables, etc. A current ratio of 2:1 is a standard one. If the current ratio is less than 1, it means that the financial performance of the firm is said to be unsatisfactory. The formula used to calculate current ratio is given below.

Current ratio = Current assets / Current liabilities

Quick ratio or Acid test ratio: Quick ratio or acid test ratio is another liquidity ratio that determines a firm's current available liquidity position. Here easily convertible marketable securities and present holding of cash are considered while calculating the quick ratio. Hence, inventories are excluded when acid test ratio is considered. Quick ratio of 1:1 is ideal one and it reflects a stable financial position of a firm. The formula used to calculate quick ratio is given below.

Quick ratio = (Current assets – Inventory) / Current liabilities

Cash ratio: Cash or equivalent ratio measures a firm's most liquid assets such as cash and cash equivalent to the entire current liabilities of the concerned firm. Since cash or money is the most liquid form of current asset, this ratio indicates how quickly and to what limit a company can repay its current dues with the help of its readily available liquid current assets. The formula used to calculate cash ratio is given below.

Cash ratio = Cash and equivalent / Current liabilities

Absolute liquidity ratio: Absolute liquidity ratio considers cash and equivalents as well as marketable securities against current liabilities. Firms should make every effort for an absolute liquidity ratio of 0.5 or above in order to avoid short term insolvency situation. The formula used to calculate absolute liquidity ratio is given below.

Absolute liquidity ratio = (Cash and equivalent + Marketable securities)/Current liabilities

Working capital turnover ratio: Working capital turnover ratio helps in determining how efficiently the firm is using its working capital in the business. This ratio signifies that how efficiently a firm is generating its sales with respect to the working capital. Here the working capital means the difference between the current assets and current liabilities. A high turnover ratio indicates that the firm is being extremely efficient in using its current assets and liabilities to support sales. Conversely, a low ratio indicates that the business is investing in too many accounts receivable and inventory assets to support its sales, which could eventually lead to an excessive amount of bad debts and obsolete inventory write-offs. The formula used to calculate inventory turnover ratio is given below.

Working capital turnover ratio = Sales/ Working capital

8. Analysis and interpretation of data

Keeping in view the objectives of the study, the analysis and interpretation of the data has been carried out and they are presented in the following section.

Current ratio: In order to test the liquidity position of NALCO, the current ratio for a period of 11 years i.e. from 2009-10 to 2019-20 has been calculated and presented in table-1.

Table-1: Current ratio of NALCO

(Rs.in crore)

Year	Current assets	Current liabilities	Current ratio (in times)
2009-10	5209.64	2219.93	2.35
2010-11	6805.08	2821.23	2.41
2011-12	7022.33	2676.89	2.62
2012-13	7075.81	3211.93	2.20
2013-14	7426.20	3242.75	2.29
2014-15	7712.18	1967.04	3.92
2015-16	7343.65	1981.95	3.71
2016-17	5655.79	2651.93	2.13
2017-18	5613.90	2440.93	2.30
2018-19	5600.70	2905.12	1.93
2019-20	4557.80	2720.02	1.68
Mean	6365.73	2621.79	2.50
Standard deviation	1062.16	435.87	0.70
R= -0.0262			

Source: Compiled from annual reports of NALCO

The above table reveals that the current assets of NALCO increased from Rs. 5209.64 crore in 2009-10 to Rs.7712.18 crore in 2014-15. Thereafter, it started declining and stood at Rs. 4557.80 crore in 2019-20. On the other hand, the current liabilities of the company showed a complete fluctuating trend during the study period. The mean value of current assets and current liabilities of the company recorded at Rs. 6365.73 crore and Rs. 2621.79 crore respectively. Further, there is a low degree of negative relationship between current assets and current liabilities. While considering the standard deviation, it is found that the variation in current assets is more than the current liabilities during the study period. Further, the current ratio of the company shows a complete fluctuating trend. The company recorded a minimum current ratio value of 1. 68 in 2019-20 and maximum current ratio value of 3.92 in 2014-15. However, the company recorded an average current ratio value of 2.50 during the study period. Looking at the values of current ratio, it can be inferred that the liquidity position of the NALCO is quite satisfactory. In other words, there is no threat to the short term solvency position of the company.

Quick ratio: Quick ratio is otherwise known as acid test ratio. The table-2 shows the quick ratio position of NALCO during the period from 2009-10 to 2019-20.

Table-2: Quick ratio of NALCO

(Rs. In crore)

Year	**Quick assets**	**Current liabilities**	**Quick ratio (in times)**
2009-10	**4264.72**	**2219.93**	**1.92**
2010-11	**5734.08**	**2821.23**	**2.03**
2011-12	**5809.63**	**2676.89**	**2.17**
2012-13	**5695.17**	**3211.93**	**1.77**
2013-14	**6252.54**	**3242.75**	**1.93**
2014-15	**6546.62**	**1967.04**	**3.33**
2015-16	**6288.64**	**1981.95**	**3.17**
2016-17	**4499.86**	**2651.93**	**1.70**
2017-18	**4419.82**	**2440.93**	**1.81**
2018-19	**4390.69**	**2905.12**	**1.51**
2019-20	**2860.90**	**2720.02**	**1.05**
Mean	**5160.24**	**2621.79**	**2.04**
Standard deviation	**1144.16**	**435.87**	**0.67**
R= -0.0913			

Source: Compiled from annual reports of NALCO

The table-2 portrays that the quick assets of NALCO increased from Rs. 4264.72 crore in 2009-10 to Rs. 6546.62 crore in 2014-15. Thereafter, it started showing a declining trend and finally stood at Rs. 2860.90 crore in 2019-20. On the other hand, the current liabilities of the company showed a complete fluctuating trend during the study period. The mean value of quick assets and current liabilities of the company stood at Rs. 5160.24 crore and Rs. 2621.79 crore respectively. It is further observed from the table that there is a low degree of negative relationship between quick assets and current liabilities. The standard deviation reveals that the variation in quick assets is more than the current liabilities during the study period. The quick ratio of the company shows a complete fluctuating trend during the study period. The company witnessed a minimum quick ratio value of 1.05 in 2019-20 and maximum quick ratio value of 3.33 in 2014-15. The company, however, recorded an average quick ratio value of 2.04 during the study period. Considering the values of quick ratio, it can be noted that the liquidity position of the NALCO is highly satisfactory. In other words, the company maintains a high degree of short term solvency position during the study period.

Cash ratio: The following table depicts the cash ratio of NALCO during the period from 2009-10 to 2019-20.

Table-3: Cash ratio of NALCO

(Rs. in crore)

Year	Cash and equivalent	Current liabilities	Cash ratio (in times)
2009-10	**3152.35**	**2219.93**	**1.42**
2010-11	**3795.23**	**2821.23**	**1.35**
2011-12	**4168.35**	**2676.89**	**1.56**
2012-13	**3504.38**	**3211.93**	**1.09**
2013-14	**4048.29**	**3242.75**	**1.25**
2014-15	**4627.98**	**1967.04**	**2.35**
2015-16	**5103.15**	**1981.95**	**2.57**
2016-17	**2287.23**	**2651.93**	**0.86**
2017-18	**2768.95**	**2440.93**	**1.13**
2018-19	**3496.35**	**2905.12**	**1.20**
2019-20	**1980.53**	**2720.02**	**0.73**
Mean	**3539.34**	**2621.79**	**1.41**
Standard deviation	**953.67**	**435.87**	**0.57**
R= -0.2984			

Source: Compiled from annual reports of NALCO

It is observed from the table-3 that the cash and its equivalent of NALCO initially increased from Rs. 3152.35 crore in 2009-10 to Rs. 5103.15 crore in 2015-16 and thereafter, it started revealing a declining and fluctuating trend. Finally, it stood at Rs. 1980.53 crore in 2019-20. On the other hand, the current liabilities of the company showed a complete fluctuating trend during the study period. The mean value of cash and its equivalent and current liabilities of the company recorded at Rs. 3539.34 crore and Rs. 2621.79 crore respectively. The above table reveals that there is a low degree of negative relationship between cash and its equivalent and current liabilities. The standard deviation shows that the variation in cash and its equivalent is higher than the current liabilities during the study period. The cash ratio of the company also shows a complete fluctuating trend just like the current ratio and the quick ratio during the study period. The company, however, witnessed a minimum cash ratio value of 0.73 in 2019-20 and maximum cash ratio value of 2.57 in 2015-16. However, the company recorded an average cash ratio value of 1.41 during the study period. If we consider the values of cash ratio, it can be noted that too much of liquidity is maintained by the company in the form of cash and its equivalent. The same can be used in some alternative productive purpose so that the company can increase its profitability position.

Absolute liquidity ratio: The absolute liquidity ratio position of NALCO during the period from 2009-10 to 2019-20 is presented in the table-4.

Table-4: Absolute liquidity ratio of NALCO

(Rs. in crore)

Year	Absolute liquid assets	Current liabilities	Absolute liquidity ratio (in times)
2009-10	**3152.35**	**2219.93**	**1.42**
2010-11	**5010.88**	**2821.23**	**1.78**
2011-12	**4921.59**	**2676.89**	**1.84**
2012-13	**4833.40**	**3211.93**	**1.50**
2013-14	**5292.29**	**3242.75**	**1.63**
2014-15	**5577.98**	**1967.04**	**2.84**
2015-16	**5169.15**	**1981.95**	**2.61**
2016-17	**3508.36**	**2651.93**	**1.32**
2017-18	**3361.91**	**2440.93**	**1.38**
2018-19	**3577.16**	**2905.12**	**1.23**
2019-20	**2035.54**	**2720.02**	**0.75**
Mean	**4221.87**	**2621.79**	**1.66**

Standard deviation	**1138.27**	**435.87**	**0.60**
R= -0.0214			

Source: Compiled from annual reports of NALCO

It is noticed from the table-4 that the absolute liquid assets of NALCO depicted a complete fluctuating and declining trend during the study period. Similarly, the current liabilities of the company showed a complete fluctuating trend during the same period. The mean value of absolute liquid assets and current liabilities of the company were found to be Rs. 4221.87 crore and Rs. 2621.79 crore respectively. The above table further reveals that there is a low degree of negative relationship between absolute liquid assets and current liabilities. The standard deviation reveals that the variation in absolute liquid assets is higher than the current liabilities during the study period. The absolute liquidity ratio of the company also shows a complete fluctuating trend just like the other liquidity ratios discussed earlier. The company recorded a minimum absolute liquidity ratio value of 0.75 in 2019-20 and maximum absolute liquidity ratio value of 2.84 in 2014-15. However, the company posted an average absolute liquidity ratio value of 1.66 during the study period. If we consider the values of absolute liquidity ratio, it can be said that too much of liquidity is maintained by the company in the form of absolute liquid assets.

Working capital turnover ratio: The table-5 presents the working capital turnover ratio of NALCO during the period from 2009-10 to 2019-20.

Table-5: Working capital turnover ratio of NALCO

(Rs. in crore)

Year	Sales	Net working capital	Working capital turnover ratio (in times)
2009-10	**5184.73**	**2989.71**	**1.73**
2010-11	**6056.57**	**3983.85**	**1.52**
2011-12	**6611.00**	**4345.44**	**1.52**
2012-13	**6916.48**	**3863.88**	**1.79**
2013-14	**6780.85**	**4183.45**	**1.62**
2014-15	**7382.81**	**5745.14**	**1.29**
2015-16	**6816.96**	**5361.70**	**1.27**
2016-17	**7543.04**	**3003.86**	**2.51**
2017-18	**9509.45**	**3172.97**	**3.00**
2018-19	**11499.32**	**2695.58**	**4.27**
2019-20	**8471.84**	**1837.78**	**4.61**
Mean	**7524.82**	**3743.94**	**2.28**
Standard deviation	**1747.69**	**1158.62**	**1.19**
R= -0.3993			

Source: Compiled from annual reports of NALCO

It is observed from the table-5 that the sales of NALCO depicted a rising trend with decline in certain years during the study period. Similar trend is also observed in case of net working capital. The mean value of sales and net working capital of the company were found to be Rs. 7524.82 crore and Rs. 3743.94 crore respectively. The above table further reveals that there is a low degree of negative relationship between sales and net working capital. The standard deviation reveals that the variation in sales is higher than the net working capital during the study period. The working capital turnover ratio of the company shows two distinct trends during the study period i.e. a fluctuating trend in the earlier part and a rising trend in the later part of the study period. The company recorded a minimum working capital turnover ratio value of 1.27 in 2015-16 and maximum value of 4.61 in 2019-20. However, the company recorded an average working capital turnover ratio value of 2.28 during the study period. Considering the values of working capital turnover ratio, it can be inferred that except few years in the later part of the study period, the working capital turnover rate of the company remains at lower level. Hence, it is necessary to maintain the momentum that aroused during the later part of the study period.

9. Major findings of the study

The analysis reveals that the company maintains an average current ratio of 2.50 during the study period indicating a high degree of liquidity. Similarly, the average quick ratio of the company is 2.04 which is quite high. The cash ratio of the company is found to be 1.41 on an average during the study period. So far as absolute liquidity ratio is considered, it is found to be 1.66 on an average which is also stated to be at high end. Finally, the average working capital turnover ratio of the company is found to be 2.28 during the study period. Looking at the various liquidity ratios of NALCO, it can be inferred that the company is following the policy of maintaining high degree of liquidity. In other words, the short term solvency position is quite satisfactory.

10. Conclusion and suggestions

Liquidity is an important aspect of financial management and its efficient management will overcome any interruption in running the business organization. Further, for the very survival of business, the firm should have requisite degree of liquidity. It should be neither excessive nor inadequate. Excessive liquidity means accumulation of ideal funds which may lead to lower profitability, increase speculation, extension of liberal credit terms, liberal dividend policy etc. On the other hand, inadequate liquidity results in frequent interruptions of business operations. Hence, a proper balance between these two extreme situations should be maintained for efficient operation of business through proper liquidity management. In the case of liquidity position of NALCO, it is clearly visible that the company is maintaining too much liquidity. Therefore, the NALCO should maintain the ideal liquidity ratios which are not found in

the study. It is suggested that the excess liquid funds could be utilized in some productive opportunities so as to gain more profitability for the company.

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