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LIQUIDITY AND PROFITABILITY ANALYSIS OF SELECT AUTOMOBILE INDUSTRIES

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ABSTRACT

Liquidity means the efficiency of a firm to fulfill its short-term requirements and commitments. It is considered to be a very important factor to fulfill the working capital requirements of a concern on daily basis. In case of a bad liquidity, it becomes difficult for a firm to fulfil its working capital requirements every day. The goodwill of a company are based on the firms borrowing capacity .In situations of excess liquidity it is difficult for the firm to invest its excess funds as there are less options available for investment.

INTRODUCTION

Liquidity means the efficiency of a firm to fulfill its short-term requirements and commitments. It is considered to be a very important factor to fulfill the working capital requirements of a concern on daily basis. In case of a bad liquidity, it becomes difficult for a firm to fulfil its working capital requirements every day. The goodwill of a company are based on the firms borrowing capacity .In situations of excess liquidity it is difficult for the firm to invest its excess funds as there are less options available for investment. Since excess funds are earning less returns it effects profitability which finally leads to changes in wealth maximization. Profitability is categorized in various ways like profits before tax, profit after tax, shareholders return on investment and return on assets. Profitability mainly deals in two areas: Income and Ability. The former indicates earnings based on sales and latter defines the capacity of a firm for effective utilization of its resources. It is said that high profit cannot explain the effectiveness of any firm because at times it does not relate with organizational growth and low profitability every time does not show that the company is under losses. As we realize that profitability is the major criteria, there are various statistical tools which we require to understand the capacity of a business concern and asset management mangers and heads are authorized to take necessary action. The objective of these indicators is to calculate the operational efficiency and also the returns generated by the company by the help of stakeholders like management, owners, creditors etc. The automobile industry in India was the fifth largest in the world in 2020. India is expected to emerge as the third largest automotive market in the world in term of volume by 2026. Automobile industry comprises a wide range of industries and organizations involved in the design, development, manufacturing, market, selling of motor vehicles. The automobile industry in India, Currently manufactured 22.7million vehicles including passenger vehicles, commercial vehicles, two wheelers, three wheelers, and quadric cycles in April-March 2020. Due to increasing population of the country, there is a surge of demand in the two and four wheelers segment. In the past four years, domestic automobile production has grown at a CAGR(Compound Annual Growth Rate) of 2.36%. various automobile industries have expanded their operations internationally in the past few years. It is expected to be a third largest automobile industry in the world in terms of volumes by the end of 2026.

LIQUIDITY:

Liquidity explains how easily an asset or shares can be bought or sold on the market at a price that represents its intrinsic value. In other words, liquidity means the ease with which you can convert a financial instrument to cash.

Cash is, globally, considered the most liquid asset, whereas tangible assets are all relatively illiquid, such as real estate, fine art, and collectables. Many financial assets fall on the liquidity continuum at different places, ranging from equities to partnership units.

PROFITABILITY:

Profitability is the ability of a company or business to generate revenue over and above its expenses. It is usually measured using ratios like gross profit margin, net profit margin EBITDA, etc. These ratios help analysts, shareholders, and stakeholders to analyze and measure the company's ability to generate revenue to cover its operational cost, create value by adding assets to the balance sheet and analyze its ability to expand and take up projects for its future growth.

RATIOS

A ratio is defined as a mathematical number that can be calculated with respect to the relationship of two or more numbers and can be expressed as a ratio, percentage, and fraction. When a ratio is calculated by relating two accounting numbers derived from the financial statements, it is termed as an accounting ratio or financial ratio.

OBJECTIVE OF THE STUDY

- To examine the liquidity and solvency position of Automobile industries.
- To identify the profitability position of the Automobile industries.
- To review the long-term financial performance of the automobile industries

LIQUIDITY RATIO

Liquidity refers to the ability of the firm to meet its current liabilities. The liquidity ratios, therefore, are also called 'Short-term Solvency Ratios.' These ratios are used to assess the short term financial position of the concern. They indicate the firm's ability to meet its current obligations out of current resources

CURRENT RATIO

The ratio is used to assess the firm's ability to meet its short-term liabilities on time.

Current Assets = Cash & Bank Balance + Stock + Debtors + Bills Receivable +Prepaid Expenses+ Investments readily convertible into cash + Loans and Advances

Current Liabilities = Creditors + Bills Payable + Bank Overdraft + Unclaimed dividend + Provision for Taxation + Proposed Dividend.

$$\textbf{Current ratio} = \frac{\textbf{Current asset}}{\textbf{Current liabilities}}$$

TABLE 4.1.1 SHOWING CURRENT RATIO

YEARS	**MARUTI SUZUKI LTD**	**TATA MOTORS LTD**	**MAHINDRA & MAHINDRA LTD**
2018	0.51	0.62	1.24
2019	0.87	0.58	1.26
2020	0.75	0.53	1.38
2021	1.15	0.60	1.34
2022	0.99	0.58	1.38
MEAN	0.854	0.582	1.32
MEDIAN	0.94	0.58	1.17
S.D	0.615	0.093	0.120
VARIANCE	0.378	0.009	0.014

INTERPRETATION

In the above table current ratios resulted average 0.854 in Maruti, 0.582 in Tata Motors and 1.32 in Mahindra & Mahindra since past five years which are less than the industry standards. So it is interpreted that short term financial position is not met properly and higher level of consistency is noticed in Mahindra & Mahindra.

ANOVA Test of Current Ratio

Analysis of Variance- Current Ratio of selected industries

Source of Variation	SS	Df	MS	F	P-value	F crit
Between Groups	15287.587	3	5095.862	79.48623	1.37049	3.238872
Within Groups	1025.76	16	0.6411			
Total	16312.663	19				

The obtained F value is greater than the table value (F-critical) at 5% level of significance. Therefore, the null hypothesis is rejected. Hence it can be interpreted that there is higher significant difference between the values of current ratio among the selected industries of automobile industry.

SUGGESTION

- From this analysis the quick ratio decreases so it is advisable to the management to have enough assets to be instantly liquidated to pay off its current liabilities.
- Capital turnover of the company has been decreases so the company can mainly concentrate in order to increase it and they should maintain the proper working capital management.
- It is suggested to the company to take necessary steps for the improvement and better utilization of Capital in generating sales.
- The fixed assets has been decreased; it is suggested to manage the fixed-asset investment for greater efficiency.

CONCLUSION

Tata Motors company may concentrate on their cost of production, investment in fixed assets and their sales turnover to improve their profitability position. The management should further try to control over the expenses disbursement cost in order to increase the profit. Profitability shows Mahindra and Maruti has good performance. On considering Liquidity ratio of Mahindra and Maruti manages their liquidity in a strong and efficient manner. Comparing to Maruti Suzuki remaining two companies are suggested to change their investment pattern and cost management strategies to manage and improve the liquidity and profitability of the business. I conclude that compared to other top companies in the sales, Maruti places a good and healthy financial position in the market.

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