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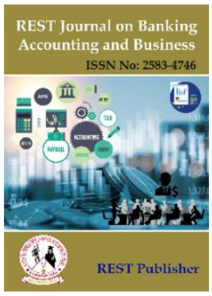

Liquidity Analysis of selected Indian Electronics Companies

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Abstract: *Liquidity is a position of any business to settle down its obligations within a year i.e., short-term dues. When a business has an adequate amount of current assets, it can easily pay-off its obligations without any external borrowings. And so, analysis of liquidity is preferably done by stakeholders. The liquidity of a business can be measured with the help of financial ratios like current ratio, quick ratio, absolute liquid ratio and net working capital ratio. In this research paper, analysis of liquidity of selected Indian electronics companies has been done on the basis of current ratio and quick ratio. It has been found that Bharat Electronics Ltd (BEL) has sound liquidity position as compared to other companies for the period under study.*
Keywords: *Liquidity, Current Ratio, Quick Ratio, Electronics companies*

1. INTRODUCTION

Any business runs its daily core operations on the basis of current assets and current liabilities. They are the life force of a business to keep going with its activities and generate desirable profits. And hence, there should be an adequate balance between current assets and current liabilities in any business. The term ‘Liquidity’ refers to the ability of a business to meet its current liabilities (short-term obligations) with current assets. This means every business that have a sufficient amount of current assets to settle its current liabilities on time, is a soundly liquid business. Stakeholders like short-term lenders and creditors are always interested to study liquidity of business so that they can come to a decision whether to lend or give credit or not. There are financial ratios that measure liquidity position- Current Ratio, Absolute Liquid Ratio, Quick Ratio and Net Working Capital Ratio. The liquid ratios that have been used to conduct this research study includes- Current Ratio and Quick Ratio as they are the most popular and commonly used ratios. Current Ratio is a measure to check ability of a business to pay-off its short-term obligations in next twelve months. This ratio also provides information about a business’ operating cycle and so known as Working Capital Ratio also. An ideal current ratio is 2:1. It is calculated as: Current Assets/Current Liabilities. This means a company must possess ‘double’ the current assets as compared to current liabilities to easily pay-off short-term obligations and keep going with their core-operations. Quick Ratio is a measure to determine whether a business has enough liquid assets that can be easily converted into cash when in need to settle short-term dues. This ratio is also known as Acid test Ratio. An ideal quick ratio is 1:1. It is calculated as: Quick Assets/Current Liabilities. This means a company must possess equal current assets that are highly liquid in nature and can be easily converted into cash to current liabilities.

2. LITERATURE REVIEW

Khatri & Dave (2022)1 compared liquidity analysis of selected pharmaceuticals companies namely, Aarti Drugs, Divis Labs, Nectar Life Science, Nature Organics and Gujarat Themis of India for period 2011-12 to 2020-21 on the basis of current ratio, quick ratios and interest coverage ratio. They found out that Divis Labs had best performance in terms of current ratio and quick ratio while, Gujarat Themis had best performance in terms of interest coverage ratio. They also found out there is significant difference between liquidity performance of selected companies over the period under study. Panigrahi et al. (2017)2 analyzed liquidity of selected pharmaceuticals companies in India namely, Ajanta Pharma, Biocon Ltd, Torrent Pharma Ltd, Ipca labs and Lyka labs for the period 2012-16 on the basis of current ratio, quick ratio and absolute liquid ratio. They found out that Ajanta Pharma was best as far as current ratio and quick ratio were concerned but absolute liquid ratio was mixed. They applied Motaal’s ultimate rank test and found out that Biocon Ltd stood with first rank showing best liquidity overall. Kumara & Agarwalb (2012)3 studied liquidity management in Indian electrical equipment companies

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listed on Nifty 50. The descriptive measures of mean, standard deviation and CV, ratio analysis and Motaal's ultimate rank test were applied to conduct study. They found out that BHEL and Suzlon Energy Ltd had safe liquidity position whereas, ABB Ltd and Siemens Ltd had unsound liquidity position. As per Motaals' ultimate rank test, they found out that Siemens Ltd to be sound among all companies

3. RESEARCH GAP

It has been witnessed from review of existing literatures that there are research works available on liquidity analysis of Indian companies but there are no literatures on liquidity analysis of Indian electronics companies specifically. And so, this research study bridges this gap of sample selection by taking Indian electronics companies as sample

4. RESEARCH METHODOLOGY

Research Aim: Usually, whenever a company's financial performance is thought to be assessed either by stakeholders or public in general, the first thing that catches minds is liquidity position i.e., whether the company is that much financially stable to pay its short-term obligations on time even if there's a loss or not? Liquid ratios are the mirrors which reflect a company's ability to soundly pay-off short-term obligations and balance its working capital to keep core-operations going. Hence, the basic aim behind this research study is to analyse liquidity position of selected electronics companies on the basis of most commonly used liquidity ratios: Current Ratio & Quick Ratio.

5. OBJECTIVES OF THE STUDY

1. To study liquidity in terms of current ratio of selected electronics companies for the period under study.
2. To study liquidity in terms of quick ratio of selected electronics companies for the period under study.
3. To compare liquidity position of selected electronics companies in terms of current ratios and quick ratios for the period under study.

Research Type: The research design that perfectly suits to this specific study is 'quantitative descriptive research design'. The electronics companies selected as sample are chosen randomly and hence, 'random sampling design' is the best fit sampling design for this specific study.

Research Sample: The research sample includes five electronics companies: Havells India Ltd, Dixon Technologies (India) Ltd, Bharat Electronics Ltd (BEL), Voltas Ltd, Bajaj Electricals Ltd.

Research Data: The research data has been extracted from the published annual reports of selected electronics companies for the period of five consecutive financial years i.e., 2019-20 to 2023-24.

Research Tools & Techniques: The research has been conducted on the basis of financial ratios of liquidity: Current Ratio (Current Assets/Current Liabilities) and Quick Ratio (Quick Assets/Current Liabilities) to study liquidity has been opted. The research data has been comprehended using graphical representation and MS Excel formulas to calculate ratios.

Limitations of the Study:

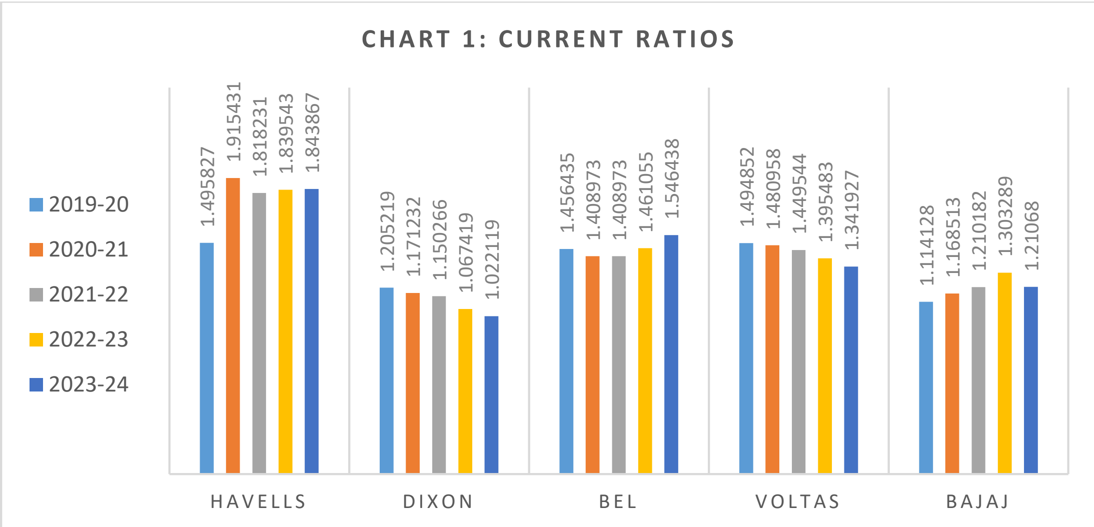
1. This specific research has been carried out solely on the basis of secondary data. Any manipulation or inaccuracy in data may has led to different findings and conclusions.
2. The research objectives have been justified using limited financial ratios. This may have restricted conclusions and suggestions.

Future Scope for the Study: The future research study can be conducted considering more years as period under study to has an idea regarding long-term trend of liquidity and/or more sample companies to has a glimpse about industrial performance.

6. DATA ANALYSIS & INTERPRETATION

TABLE 1. Current Ratios of selected Indian Electronics Companies (values in bold are maximum)

Year	Havells	Dixon	BEL	Voltas	Bajaj
2019-20	1.495827	1.205219	1.456435	1.494852	1.114128
2020-21	1.915431	1.171232	1.408973	1.480958	1.168513
2021-22	1.818231	1.150266	1.393885	1.449544	1.210182
2022-23	1.839543	1.067419	1.461055	1.395483	1.303289
2023-24	1.843867	1.022119	1.546438	1.341927	1.21068
Mean	1.782579785	1.123251137	1.453357359	1.432552811	1.201358386
Rank	1	5	2	3	4
SD	0.164429702	0.075986136	0.059665235	0.063443363	0.069358413
Rank	5	4	1	2	3
CV	0.092242548	0.067648394	0.041053382	0.044286928	0.057733324
Rank	5	4	1	2	3

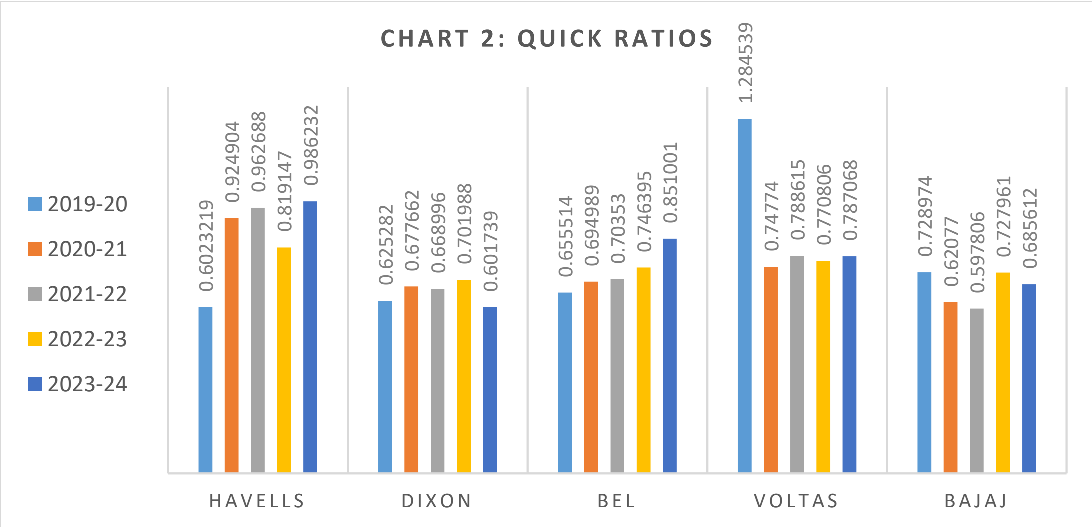


Interpretation:

An ideal current ratio for any company is considered to be 2:1. Keeping this ideal ratio in mind, it can be interpreted that: Havells India Ltd has almost sound current assets in comparison to current liabilities over the period under study as ratios are near to 2:1 except the year 2019-20 where current ratio is around 1.5:1. Also the trend of current ratios is not quite fluctuating which is also a good sign of stable liquidity position over the period under study. Dixon Technologies (India) Ltd has current ratios moving approximately near to 1:1 over the period under study. This means the company isn't that much capable enough able to pay-off short-term obligations as well as run their core-working efficiency in time. Moreover, the trend of current ratios is declining constantly. Both the signs cannot be considered sound. Bharat Electronics Ltd (BEL) also has current ratios that are not near to 2:1 over the period under study. Yet it had current ratios near to 1.5:1 which can be considered finely liquid to a certain extent. Looking at the trend of current ratios, it can be interpreted that trend is moving over the period under study but it's not highly varying in-between years. Voltas Ltd has almost similar current ratios to BEL. It had current ratios near to 1.4:1 which is not that much satisfactory. Still, it can be a manageable situation for the company. The concern for this company is that the trend of current ratios is decreasing over the period under study with more variations in-between years. Bajaj Electricals Ltd has failed to keep current ratios on track for the study period. The current ratios are approximately between 1.1:1 to 1.3:1 and this cannot be considered a position where a company can handle both paying obligations and managing working capital cycle. The trend of current ratios is also fluctuating, which is highly variable over the period under study. Considering Mean, SD and CV; Havells India Ltd has more average but has high CV whereas, Bharat Electronics Ltd (BEL) has second best average and also has least standard deviation and co-efficient of variation in comparison to other companies.

TABLE 2. Quick Ratios of selected Indian Electronics Companies (values in bold are maximum)

Year	Havells	Dixon	BEL	Voltas	Bajaj
2019-20	0.603219	0.625282	0.655514	1.284539	0.728974
2020-21	0.924904	0.677662	0.694989	0.74774	0.62077
2021-22	0.962688	0.668996	0.70353	0.788615	0.597806
2022-23	0.819147	0.701988	0.746395	0.770806	0.727961
2023-24	0.986232	0.601739	0.851001	0.787068	0.685612
Mean	0.859237825	0.655133332	0.730286044	0.87575351	0.67222467
Rank	2	5	3	1	4
SD	0.156759688	0.040734409	0.074806939	0.229109664	0.060605129
Rank	4	1	3	5	2
CV	0.182440395	0.06217728	0.10243512	0.261614326	0.090156062
Rank	4	1	3	5	2



Interpretation: An ideal quick ratio for any company is considered to be 1:1. Taking this ideal ratio as comparison base, it can be interpreted that: Havells India Ltd has quick ratios which are near to 1:1 except the year 2019-20 where quick ratio is around 0.6:1. This cannot be considered as a good sign but cannot be that bad as quick assets are almost equal to current liabilities excepting a single year. The trend of quick ratios is quite fluctuating, which is varying in-between years under study. Dixon Technologies (India) Ltd quick ratios moving approximately in between 0.6:1 to 0.7:1 over the period under study. This means the company has near enough quick assets to convert into cash in time. Looking at the trend of quick ratios, it fluctuates over the period under study but is not that much varying in-between years. Bharat Electronics Ltd (BEL) has varying quick ratios. The maximum stands at 0.85:1 and minimum at 0.65:1. This clarifies the trend is highly fluctuating in-between years under study and it is quite not a good sign to have so much of have variations. Voltas Ltd has quick ratio of 1.2:1 for the year 2019-20 which is a sign of having more quick assets that current liabilities. Except this year, quick ratios almost near to 0.8:1 and it can be considered sound to a certain extent. The trend is highly fluctuating over the period under study. Bajaj Electricals Ltd also has quick ratios that are varying over the period under study with a maximum of 0.72:1 and minimum with 0.59:1. This cannot be considered a stable position. The trend of current ratios is fluctuating over the period under study. Taking a look at Mean, SD and CV; it can be seen that Voltas Ltd has more average but has high CV whereas, Dixon Technologies (India) Ltd has least standard deviation and co-efficient of variation but least average in comparison to other companies. Bharat Electronics Ltd (BEL) is the only company with consistent ranks in all three measures.

7. FINDINGS, CONCLUSIONS & SUGGESTIONS

For first objective, it has been found out that Havells India Ltd is the only company which has satisfactory current ratios near to ideal ratio of 2:1 over the period under study (excepting year 2019-20) among all other companies. This concludes that Havells India Ltd has sound liquidity to pay-off short-term obligations and engage itself efficiently in working capital cycles. It has been also found out that Dixon Technologies (India) Ltd and Bajaj Electricals Ltd have unsatisfactory current ratios as they are far from ideal ratio of 2:1. Hence, it can be suggested to these companies to procure more current assets in comparison to current liabilities. For second objective, similar to previous one Havells India Ltd has quick ratios near to ideal ratio of 1:1 over the period under study (excepting year 2019-20) among all other companies. This concludes that Havells India Ltd has acquired good amount of quick assets to liquify into cash and settle current liabilities. It has been also found out that Voltas Ltd has succeeded ideal quick ratio of 1:1 in the year 2019-20. Bajaj Electricals Ltd and Dixon Technologies (India) Ltd have least satisfactory quick assets being far from ideal ratio of 1:1. And hence, it can be suggested to these to invest more in quick assets as compared to current liabilities so that it can be easily converted into cash when in need. For third objective, it has been found that Bharat Electronics Ltd (BEL) has second better average and least CV in terms of current ratios and has third rank in all three measures in terms of quick ratios as compared to other companies which have differences in average and consistency. And hence, it can be concluded that Bharat Electronics Ltd (BEL) has better as well as consistent liquidity position in terms of current ratios and quick ratios over the period under study. This company has sufficient current assets as well as quick assets that can be easily converted to cash when in need to pay-off short-term obligations in time. The other companies with high average and high CV are advised to work on maintaining their consistency so that CV can be made less. Vice versa for the companies with least average and least CV are suggested to invest more current assets and quick assets as compared to current liabilities to have better averages.

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