iJRASET
International Journal For Research in
Applied Science and Engineering Technology

INTERNATIONAL JOURNAL FOR RESEARCH

IN APPLIED SCIENCE & ENGINEERING TECHNOLOGY

Volume: 6 **Issue:** IV **Month of publication:** April 2018

DOI: http://doi.org/10.22214/ijraset.2018.4140

International Journal for Research in Applied Science & Engineering Technology (IJRASET)
ISSN: 2321-9653; IC Value: 45.98; SJ Impact Factor: 6.887
Volume 6 Issue IV, April 2018- Available at www.ijraset.com

A study on Relationship between Liquidity and Profitability of Selected Indian Tyres Companies

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Abstract: Throughout the world all financial managers make financing decisions by considering an objective of wealth maximization, a whole range of techniques might be used to maximize revenues or minimize costs. Liquidity management is very important for every organization that means to pay current commitment on business, the payment include operating and financial expenses that are short term however it increasing long period debt. The financial Manager finally measure of economic success and healthiness by a company in relation to the Liquidity and Profitability Conditions of the Firm. This economic success is determined by the magnitude of the net profit. In this study, the researchers examined the relationship between liquidity and profitability of Selected Three Tyres companies (APOLLO Tyres, TVS Tyres and JK Tyres) listed on the Indian Stock Exchange and we have compiled last 5 years data of these companies from 2013-2017).
Keywords: Financial Statement, Liquidity Analysis and Profitability Analysis

I. INTRODUCTION

The impact of liquidity and Profitability on financial performance has increased business environment, this is a concept linked with financial stability and financial stability was considered a matter of macroeconomics, assessed at country level or as a link between markets. However, at the present, companies also approach the financial stability issue. Income statement represents revenues and expenses, it enables to measure efficiency of the company and it is necessary to evaluate profitability and balance sheet that show assets, liabilities and equity of the company at a given Financial Period of time. The balance sheet provides a picture of financial health and Liquidity of the company. Liquidity is defined by the relative ease, cost, and speed with which an asset can be converted into cash within a short Period of Time. Liquidity ratios measure capacity of the business to meet short term financial commitments as they become due. In order to achieve the objective of studying the Liquidity of sample company's two parameters were chosen for the study. These were; Current Ratio and Quick Ratio. Profitability ratios measure ability of a company to generate profit. we use return on assets as the proxy for profitability of a company, it increase in the ratio is viewed as a positive trend and This indicator is relative to company´s total assets and shows efficiency of management in using assets to generate earnings. In order to achieve the objective of studying the profitability of sample company's five parameters were chosen for the study. These were; Operating Profit Margin Ratio (OPMR), profit Before Interest and Tax Margin Ratio (PBITMR), Gross Profit Margin Ratio (GPMR), Cash Profit Margin Ratio (CPMR), Net Profit Margin Ratio (NPMR), Return on Capital Employed (RCER), Return on Net Worth (RNWR) and Return on Long Term Funds Ratio(RLTFR).

II. REVIEW OF LITERATURE

According to Shim and Siegel (2000) accounting liquidity is the company‘s capacity to liquidate maturing short-term debt (within one year). The Firm Maintaining adequate liquidity Position is much more than a corporate goal, it is a condition without which the continuity of a business is at risk.

Muhammad Nabeel, Sobia Muhammad Hussain (2017) Studied that Liqudity Relation With Profitability of the Firm, The quick ratio has positive relationship with profitability. The current ratio suggest the positive but insignificant relationship when look the relationship with return on assets. And current ratio suggests the negative and significant relationship with return on assets and negative and insignificant with earning per share. Therefore, the overall results explain that liquidity management has positive related with banks profitability. The research results also relate to the previous studies conducted by various scholars.

Eljelly (2004) empirically studied the relationship between profitability and liquidity Position of the Firms, as measured by current ratio and cash conversion cycle on a sample of some joint stock companies in Saudi Arabia and he found that have significantly negative relationship between the firm's profitability and its liquidity Position level, as measured by current ratio. This relationship is more pronounced for firms with high current ratios.

Dr. Munther Al Nimer and at all study is conducted by studying the banking sector in Jordan as one of the most animated and leading sectors in Jordan. For the analysis use the simple regression for the period from 2005 to 2011, to investigate the impact of liquidity through quick ratio on profitability through return on asset (ROA). Based on the statistical results, we conclude that there is significant impact of quick ratio on return on asset (ROA).

By the research of (Zygmunt & Justyna, 2013) liquidity is associated with company profitability which reflect company performance of polish listed IT companies have positive relationship between receivable conversion period ,inventory conversion period and profitability it is also confirm that when growth of account payable days increase their profitability would be increased the companies should tightly focus on opportunities of liquidity and profitability because liquidity shows cash flows in hand.

III. RESEARCH METHODOLOGY

The study is aimed at studying the Relationship between Liquidity and profitability Position of the firms of sample Tyres companies in India. The time period for which the companies are studied is of Five years from 2012-'13 to 2016-'17. In order to study Tyres industry three major companies of the industry were chosen. These were; Apollo Tyres JK Tyres and TVS Tyres.

IV. OBJECTIVES OF THE STUDY

In order to achieve the objective of studying the Relationship between Liquidity and profitability of sample company's seven parameters were chosen for the study.

A. Determine the relationship between Liquidity and profitability of Selected Tyres Manufacturing Firms.
B. To determine the direction of the relationship between Current Asset Ratios and Profitability, That is whether there is a positive or negative relationship between them.
C. To determine the direction of the relationship between Quick Asset Ratios and Profitability, That is whether there is a positive or negative relationship between them

V. DATA COLLECTION

The requisite data were sourced through the websites of National Stock Exchange of India (www.nseindia.com), Money Control (www.moneycontrol.com) and the annual reports of the companies given on companies' website, Journal Papers, Conference Proceedings and Books.

A. Analysis

Apollo Tyres										
	CR	QR	OPMR	PBITMR	GPMR	CPMR	NPMR	RCER	RNWR	RLTFR
CR	1									
QR	0.967727	1								
OPMR	0.626181	0.70923	1							
PBITMR	0.659306	0.730126	0.996261	1						
GPMR	0.652364	0.726411	0.997752	0.999808	1					
CPMR	0.418652	0.55191	0.946735	0.916335	0.923875	1				
NPMR	0.469785	0.61912	0.950385	0.924948	0.931676	0.988931	1			
RCER	0.483271	0.365954	0.601289	0.65071	0.638873	0.375683	0.340218	1		
RNWR	0.627029	0.607786	0.84358	0.883014	0.874354	0.649721	0.656161	0.905252	1	
RLTFR	0.507235	0.403032	0.60984	0.664574	0.651788	0.370167	0.351981	0.992294	0.929091	1

Table: 1, APOLLO Tyres Correlation Analysis

In this study, the researchers examined the relationship between liquidity and profitability of Selected Tyres companies listed on the Indian Stock Exchange. The study Table: 1 concluded that, relationship management on liquidity and Profitability by the Apollo Tyres company Financial Performance. The Apollo Tyres have Positive Correlation between Liquidity Ratios (Current Ratio (CR), Quick Ratio (QR)) with Profitability Ratios (Operating Profit Margin Ratio (OPMR), profit Before Interest and Tax Margin Ratio

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(PBITMR), Gross Profit Margin Ratio (GPMR), Cash Profit Margin Ratio (CPMR), Net Profit Margin Ratio (NPMR), Return on Capital Employed (RCER), Return on Net Worth (RNWR) and Return on Long Term Funds Ratio (RLTFR).

JK Tyres										
	CR	*QR*	*OPMR*	*PBITMR*	*GPMR*	*CPMR*	*NPMR*	*RCER*	*RNWR*	*RLTFR*
CR	1									
QR	-0.47934	1								
OPMR	0.733091	-0.17424	1							
PBITMR	0.77322	-0.29483	0.991993	1						
GPMR	0.769519	-0.28415	0.993242	0.999933	1					
CPMR	0.744984	-0.18432	0.996702	0.988205	0.989091	1				
NPMR	0.430656	0.091184	0.914965	0.879665	0.884416	0.890607	1			
RCER	0.961257	-0.6188	0.801123	0.855024	0.850126	0.813282	0.512526	1		
RNWR	0.724211	-0.31418	0.948408	0.966135	0.966464	0.924564	0.889375	0.80686	1	
RLTFR	0.953485	-0.66621	0.612113	0.674934	0.668325	0.639342	0.249967	0.954591	0.595824	1

Table: 2, jk Tyres Correlation Analysis

In this study, the researchers examined the relationship between liquidity and profitability of Selected Tyres companies listed on the Indian Stock Exchange. The study Table: 1 concluded that, relationship management on liquidity and Profitability by the JK Tyres Company Financial Performance. The JK Tyres have Positive Correlation between Current Ratio (CR) with Profitability Ratios (Operating Profit Margin Ratio (OPMR), profit Before Interest and Tax Margin Ratio (PBITMR), Gross Profit Margin Ratio (GPMR), Cash Profit Margin Ratio (CPMR), Net Profit Margin Ratio (NPMR), Return on Capital Employed (RCER), Return on Net worth (RNWR) and Return on Long Term Funds Ratio (RLTFR). The JK Tyres have Positive Correlation between Quick Ratio (QR)) with Net Profit Margin Ratio (NPMR). The JK Tyres have Negative Correlation between Quick Ratio (QR)) with (Operating Profit Margin Ratio (OPMR), profit Before Interest and Tax Margin Ratio (PBITMR), Gross Profit Margin Ratio (GPMR), Cash Profit Margin Ratio (CPMR), , Return on Capital Employed (RCER), Return on Net Worth (RNWR) and Return on Long Term Funds Ratio (RLTFR).

TVS Tyres										
	CR	*QR*	*OPMR*	*PBITMR*	*GPMR*	*CPMR*	*NPMR*	*RCER*	*RNWR*	*RLTFR*
CR	1									
QR	0.778427	1								
OPMR	-0.85757	-0.67062	1							
PBITMR	-0.81125	-0.6297	0.994605	1						
GPMR	-0.81165	-0.63669	0.994096	0.999895	1					
CPMR	-0.84771	-0.67826	0.999099	0.993012	0.992444	1				
NPMR	-0.81564	-0.67161	0.993183	0.997978	0.998665	0.992518	1			
RCER	-0.25992	-0.53122	0.584678	0.641731	0.650173	0.592619	0.672623	1		
RNWR	-0.17418	-0.27461	0.634871	0.699788	0.702334	0.646674	0.706335	0.894684	1	
RLTFR	-0.35116	-0.57607	0.658262	0.710693	0.718722	0.664225	0.739496	0.994928	0.892783	1

Table: 3, TVS Tyres Correlation Analysis

In this study, the researchers examined the relationship between liquidity and profitability of Selected Tyres companies listed on the Indian Stock Exchange.

The study Table: 1 concluded that, relationship management on liquidity and Profitability by the TVS Tyres Company Financial Performance. The TVS Tyres have Negative Correlation between Current Ratio (CR) with Profitability Ratios (Operating Profit Margin Ratio (OPMR), profit Before Interest and Tax Margin Ratio (PBITMR), Gross Profit Margin Ratio (GPMR), Cash Profit Margin Ratio (CPMR), Net Profit Margin Ratio (NPMR), Return on Capital Employed (RCER), Return on Net worth (RNWR) and Return on Long Term Funds Ratio (RLTFR).

The TVS Tyres have Negative Correlation between Quick Ratio (QR) with Profitability Ratios (Operating Profit Margin Ratio (OPMR), profit Before Interest and Tax Margin Ratio (PBITMR), Gross Profit Margin Ratio (GPMR), Cash Profit Margin Ratio (CPMR), Net Profit Margin Ratio (NPMR), Return on Capital Employed (RCER), Return on Net worth (RNWR) and Return on Long Term Funds Ratio (RLTFR).

VI. RECOMMENDATIONS

Recommendations After a careful study of the findings, the team of researchers came out with the following recommendations:

A. Firm managers should concentrate on the Current ratio Standard Position of the Financial Statement.
B. Companies should endeavor to increase a higher current ratio to meet their day to day activities and Smooth functioning of the firm.
C. Companies should assume effective and efficient methods for managing and maintaining optimal levels of liability.
D. The firm have low relationship exists between liquidity and profitability, but Firm have to take necessary Steps for improving Profits.

VII. CONCLUSION

However, this conclusion does not disagree with the fact that liquidity management practices and Profitability Management Practices are vital. The analysis indication of the fact that, using the above mentioned measures of Liquidity Management has no significant impact on profitability. These results prove that every profitability ratio is influenced by different liquidity and risk factors.

A. Limitations of the Study

The research did not consider the organizational policies regarding the management of liquidity. The study was limited to a five year period (2013-2017), An extension of the period might give a slightly different result. The researchers did not have access to current information on companies; the available date was up to 2017. The study did not include economic indicators (inflation, Demonetization and GDP) which also have a great impact on profitability.

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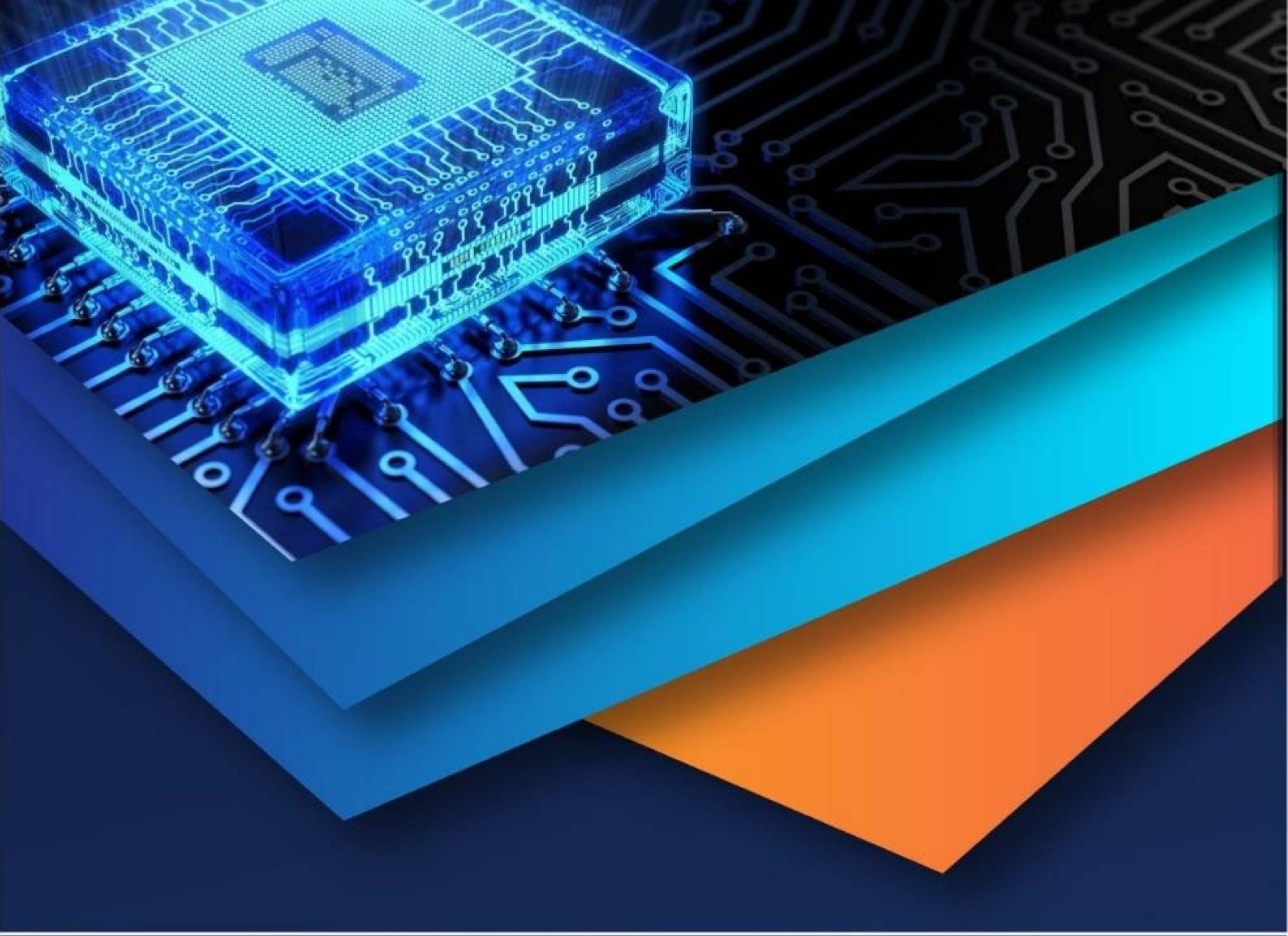

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