IMPACT OF LIQUIDITY POSITION ON FINANCIAL PERFORMANCE" IN BHEL-EPD

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Abstract

Liquidity risk can be measured by two main methods which are liquidity gap and liquidity ratios. The liquidity gap is the difference between assets and liabilities at both present and future dates. Liquidity ratios on the other hand are three liquidity ratios and they include the current ratio, the quick ratio and the capital ratio. Liquidity management is very important for every organization that expects to pay current obligations on business, for example operating and financial expenses that are short term. Liquidity therefore, not only helps ensure that a person or business always has a reliable supply of cash close at hand, but it is a powerful tool in determining the financial health of future investments as well. Under critical conditions, lack of enough liquidity even results in bank‘s bankruptcy. The objective of this paper is to study the liquidity position of the business unit, to measure liquidity positions of the business unit, and to provide valuable suggestions to company.

Keywords : Liquidity, financial performance, Company performance

I. INTRODUCTION

Liquidity refers to the available cash for the near future, after taking into account the financial obligations corresponding to that period. It is the amount of capital (cash, credit and equity) that is available is available for investment and spending. An illiquidity of a firm means that it cannot obtain sufficient funds, either by increasing liabilities or by converting assets promptly, at a reasonable cost. In periods during which the firms don't enjoy enough liquidity, they cannot satisfy the required resources from debt without conversion the asset into liquidity by reasonable cost. In this stage the company is said to experience a liquidity risk. Liquidity risk is the probability that the organization shall not be able to make its payments to creditors, as a result of the changes in the proportion of long term credits and short term credits and the uncorrelation with the structure of organizations liabilities.

Solvency is defined as the ability of an institution to meet its short, middle and long term financial obligations. It is the ability of a business to meet its obligations in the event of cessation of activity or liquidation. A firm is considered as solvent if the existing assets exceed or equal total liabilities. However, if total assets are lower than current liabilities, the firm faces an insolvency risk and cannot pay its debts. Solvency is usually measured by ratios. There are three main ratios used measure solvency: the solvency ratio, the net worth ratio, and the leverage ratio. The solvency ratio divides total liabilities by total assets and determines the amount of debt per dollar of assets. The net worth ratio, which is the ratio of total equity to total assets, uses the owner's equity in the business to indicate future solvency owned and the leverage ratio compares debts to equity.

Solvency impacts a company's ability to obtain loans, financing and investment capital. This is because solvency indicates a company's current and long-term financial health and stability as determined by the ratio of assets to liabilities. In other words, the degree of solvency in a business is measured by the relationship between the assets, liabilities and equity of a business at a given point in time. A company may be able to cover current or upcoming liabilities by quickly liquidating assets with little business interruption. However, fluctuations over time in the value of assets while the value of liabilities remains unchanged affect asset-to-liability ratios. The accounting equation: Assets = Liabilities + Equity, means the business usually have positive equity. When this equity becomes negative, the business is said to be insolvent. By subtracting liabilities from assets you calculate the amount of equity in a business. The larger the number is for equity amount the better off is the business. But everything is relative. Larger businesses need more equity to remain viable than does a smaller business. Bankruptcy is just around the corner for an insolvent business if it does not generate enough cash flow income to meet its debt requirements in a timely manner.

II. Liquidity And Solvency

Liquidity and solvency plays a major part in finding the cash & cash equivalent position of the organization, liquidity mainly deals with the short term availability of cash in the company where as the solvency shows the long term cash & cash equivalent position in the organization. It shows not only the cash & cash equivalent position of the company but also it shows the capacity of getting debts and creditworthiness of the company. Whenever the organization is in need of funds, the first and foremost thing the lender or the financial institution look in profitability, liquidity and solvency position in the organization. This shows creditworthiness so that the lender comes to know about the repayment of the given loan by them.

Liquidity refers to the portion of your wealth that is liquid, or easy to convert into cash. Liquid assets include cash itself, as well as any investment that you can sell quickly, such as stocks and bonds. Savings accounts and mutual funds are also liquid investments, since you can convert them into cash simply by placing sale order. Other assets such as real estate or a business that you own are not liquid, since it would take longer duration to sell them.

III. Statement Of The Problem

Liquidity and Solvency is the skeleton and blood for the any organization. To achieve the organization goals and set of objectives, the company should exist and run smoothly in the market, in order to existence the liquidity position of the company matters a lotto be there in long run the solvency plays a major role in the company. Both are equally important for the business. In the short run the liquidity affects the business but in long term the Solvency position affects the business unit in doing the business smoothly and effectively. It is hard to maintain exact liquidity and solvency in any organization. A slight negligence in maintaining liquidity/solvency will result in the severe loss or profitas well as it will affect the market share. This study is done to know kin and kith of BHEL-EPD about its Liquidity and Solvency position.

IV. Objectives Of The Study

1) To study the liquidity position of the business unit.
2) To measure liquidity positions of the business unit.
3) To offer suitable suggestions to company.

V. Scope Of The Study

This study is exclusively conducted for the company BHEL-EPD for a period of five financial years (2012-2017). The trends indicated might differ year to tear in the pattern of instrument, sales etc., this study is conducted in order to evaluate the company's liquidity and solvency position. The study shall provide scope for further research in this area.

Methods of Data Collection

The collection of data is based on the Primary as well as Secondary data.

Primary data – Primary data was collected by the observation and interaction during the course of time, the financial manager offered very significant co-operation during the interaction.

Secondary data –In case of secondary data, the data collected from financial report of the company, internet , company websites and magazines.

- Tools used in analysis of data :

The tools and technique is used for analyzing the data, which includes tables, bar chart, line graph which have been used for the purpose of analysis and presentation. For data analysis is a subsequent interpretation has been interpreted.

VI. Analysis and Results

Current Ratio

Years	Current assets	Current liabilities	Current ratio
2012-13	152.58	124.11	1.23 times
2013-14	194.89	160.78	1.21 times
2014-15	217.13	174.56	1.24 times
2015-16	260.14	183.93	1.41 times
2016-17	234.37	164.42	1.42 times

During the period of this study, the current assets are in the range of ₹152.58 crores in 2013-14 to ₹234.37 crores in 2016-17 and current liabilities are in the range of ₹124.11 crores to ₹164.42 crores in 2016-17. Current ratio has been in the range of 1.23 times in 2013-14 to 1.42 times in 2016-17. Current assets have shown steady increase have been decreased in the year 2016-17.

Cash Ratio

Years	Cash & cash equivalent	Current liabilities	Cash ratio
2012-13	116.16	124.11	0.94 times
2013-14	139.65	160.78	0.87 times
2014-15	165.76	174.56	0.95 times
2015-16	183.02	183.93	0.99 times
2016-17	157.04	164.42	0.95 times

Cash and cash equivalent are in the range of ₹116.16 crores in 2013-14 to ₹157.04 crores in 2016-17. Current liabilities are in the range of ₹124.11 crores in 2013-14 to ₹164.42 crores in 2016-17. Cash ratio has been in the range of 0.94 times in 2013-14 to 0.95 times in 2016-17. Cash and cash equivalent are fluctuating accordingly over the year. It shows that the company's cash management is highly fluctuating.

Super Quick Ratio

Years	Super quick ratio	Current liabilities	Super quick ratio
2012-13	12.08	124.11	0.09 times
2013-14	16.74	160.78	0.10 times
2014-15	21.47	174.56	0.12 times
2015-16	20.23	183.93	0.11 times
2016-17	20.14	164.42	0.12 times

From the above table indicating Super Quick Ratio, we can find that from the financial year. The highest ratio is achieved in the year 2016-17 with 0.12 times and with the least in the year 2013-14 with 0.09 times. But from 2013-14 till 2014-15 it has increased in a increasing rate. Again in the year 2015-16 it has decreased by 0.01 and in the year 2016-17 it has increased by 0.01.It shows that company's cash is well managed.

Debtors Turnover Ratio

Years	Credit sales	AAR	Debtors turnover ratio
2012-13	220.47	48.99	4.5 times
2013-14	196.51	54.59	3.6 times
2014-15	216.07	123.47	1.75 times
2015-16	216.48	134.00	1.61 times
2016-17	151.28	114.35	1.32 times

During the study period the Debtors turnover ratio indicates that, for the financial year 2016-17, it is very low that is 1.32 times. In the year 2013-14 the Debtors turnover ratio had shown a tremendous increase when compared to the previous year. But after 2013-14 it has started decreasing. It depicts that the company's solvency management is fluctuating.

VII. FINDINGS

Based on the study on Impact of Liquidity and Solvency position on Financial Performance conducted at BHEL-EPD, Bangalore. Following are some of the findings.

- In the year 2013-14 the quick ratio of the company has shown the tremendous increase when compared to the previous year during the study, and then it is observed that during the financial year 2016-17 the quick ratio is showing tremendous increase.
- The management of Super Quick Ratio of the company during the period of the study is highly growing continuously, this is happening because of the better maintenance of the super quick assets which include debtors and inventory.

The debtors' turnover ratio of the company was good but after the financial year 2014-15 the company has increased the average collection period

VIII. SUGGESTION

On the whole, the study reveals that the company had maintained good liquidity and solvency position but in the current year there is some slight variation in rates. However, with a view to improve its performance and working, the following suggestions are given below:

- It is suggested for the company to frame and follow the effective management policy in order to increase efficiency in the process of manufacturing, administering and selling the products which results in high sales and increase in profits.
- The super quick ratio of the company during the period of study is highly growing continuously.

This denotes the positive sign, as liquid cash is important object for any organization. The company should try to maintain the same for longer period, in order to achieve excellence.

- The debtors' turnover ratio is fluctuating slightly. The company's solvency position is affected by fluctuation in interest expended and it should try to maintain the expenses properly

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