

Liquidity and Profitability analysis of the selected Stock Broking Companies

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ABSTRACT

Finance is the nerve centre and lifeline of any economic activity and therefore present in every sphere of economic and business life. It plays an extremely crucial role in the continuity and growth of a business. Ratio analysis is one of the basic analysis for examining the financial position and performance of the selected stock broking companies. t-test is a statistical procedure used to examine the mean difference between the sample and the population mean. It can also help to examine the existence of the significant difference between the years of the selected ratios during the study period from 2005-06 to 2014-15.

Indian security market has experienced significant growth over the years on the back of various economic reforms and liberalization of financial markets. However, in the wake of the global economic crisis, Indian stock markets remained passive. Global economic recovery, which started taking shape post the 2008 financial crisis, looked promising at one point but suffered a major setback in 2011. The increased role of financial intermediaries in recovering from the global financial market disorder has realigned the role of the broking industry in the financial sector. The financial performance analysis constitutes the approach to judge the effectiveness of the finance function of the institution. Financial analysis is the most useful technique which enables financial manager to take rational decisions from time to time, keeping in view the objectives of the company. It relies on the comparisons or relationships of the data that enhances the utility or the practical value of the accounting information. This analysis consists in applying various analytical tools and techniques to the financial data. Financial analysis provides for analyzing financial conditions and performance of a company. Financial statement analysis is the process of identifying the financial strengths and weakness of the firm by properly establishing relationships between the items of the balance sheet and the profit and loss account. It helps the analyst to make a quantitative judgement with regard to company's financial position and performance.

1. Objective of the Study

- To analyze the financial performance of the select stock broking firm in India.

2. Methodology of the Study

Exploratory research design was adopted for present study to analyze and interpret the available information. The study covers ten financial years from 2005-2006 to 2014-2015. Ratio analysis has been classified into four heads viz., liquidity, solvency, activity and profitability. Further, the performance of profitability ratio of the select stock broking companies is found through mean, standard deviation, co-efficient of variation and 't' test analysis. With a view to find the significant difference between the years among the various profitability ratios of selected stock broking companies, a hypothesis has been framed and tested by using 't' test analysis. The firm level audited financial data is collected by using CMIE prowest database. A list of a total 182 Stock Broking Companies has been generated under the category of fee based financial services. Based on continuous availability of data over the 10 year period between 2004 and 2015 five companies form the sample set for the study. The companies selected were DB

(International) Stock Brokers, Jhaveri Credits and Capital, KBS India, NAM Securities Ltd and Stampede Capital.

3. Findings of the Study

Liquidity and Profitability Analysis

The financial structure is a challenging task for financial and non financial sectors, as they face complexities and lack efficiency in taking financial decisions in these sectors. Therefore many companies are encouraged to ensure sound knowledge over financial structure decisions. The major results of this research provide an overview of financial structure status. For the purpose of analysis, financial ratios of liquidity and profitability and statistical techniques were applied to achieve the research objective and shown in the table 1 and 2.

1. t- test Analysis

The data were analyzed by various financial ratios and appropriate statistical tools like mean, standard deviation, co-efficient variation, and 't' test.

- The DB (International) Stock Brokers has registered the highest mean in working capital turnover ratio, operating profit ratio and return on networth ratio. The

KBS India has also recorded the highest mean in net profit ratio and earnings before interest and tax to net sales ratio. The highest mean in gross profit ratio has been registered by the Nam Securities.

- Co-efficient of variation analysis shows that the stampede capital stock broking company recorded inconsistent in the G/P ratio, Earnings before interest and Tax to net sales ratio, Return on Total Assets ratio and Return on networth ratio during the covered study period.

II. Liquidity Analysis

- Current ratio of all the select companies show significant difference within the ten years of the study period at 1 percent and 5 percent level except Jhaveri Credits and Capital.
- In terms of quick ratio, the select companies revealed a significant difference during the study period.

III. Profitability Analysis

- In Gross Profit Ratio, there exists a significant difference for all the companies throughout the study period except KBS India and Stampede Capital.

- No significant difference in Net profit ratio during the study period is identified in all the stock broking companies except DB (International) Stock Brokers, Jhaveri Credits and Capital and Nam Securities.
- It is observed that all the select stock broking companies operating profit ratio indicates no significant difference over the study period except DB (International) Stock Brokers.

4. Conclusion

India has a diversified financial sector undergoing rapid expansion, both in terms of strong growth of existing financial services firms and new entities entering the market. The findings of the research are quite eye-opening and the objective of this study has been successfully achieved in knowing financial liquidity and profitability of the company. The study explores that current ratio and quick ratio have a significant difference within the study period for all the companies except jhaveri credits and capital. The profitability ratio analysis shows that all the companies have a significant difference except DB (International) Stock Brokers .

TABLE:1

Profitability & Liquidity Ratio	DB (International) Stock Brokers					Jhaveri Credits and Capital					KBS India				
	M	SD	CV	T test	P value	M	SD	CV	T test	P value	M	SD	CV	T test	P value
Gross profit ratio	48.14	30.71	63.80	4.956	0.001*	7.91	5.72	72.22	4.154	0.003*	-880.56	2564.86	-291.28	-1.086	0.306 NS
Net profit ratio	9.24	4.78	51.66	5.807	0.000*	9.24	4.78	51.66	5.807	0.000*	132.97	274.94	206.77	1.529	0.161 NS
Operating profit ratio	40.80	20.94	51.32	6.162	0.000*	4.69	7.62	162.50	1.846	0.102 NS	-946.40	2534.73	-267.83	-1.181	0.268 NS
Current ratio	4.21	3.52	83.61	3.782	0.004*	5.64	9.59	170.11	1.859	0.096NS	9.38	6.75	72.00	4.392	0.002*
Quick ratio	4.16	3.54	85.14	3.714	0.005**	2.45	2.16	88.12	3.589	0.006*	9.31	6.82	73.26	4.317	0.002*

TABLE:2

Profitability & Liquidity Ratio	Nam Securities					Stampede Capital				
	M	SD	CV	T test	P value	M	SD	CV	T test	P value
Gross profit ratio	353.70	114.61	32.40	7.560	0.001*	-9.72	101.71	-1045.98	-0.270	0.795 NS
Net profit ratio	10.26	5.70	55.48	4.415	0.007*	-3.19	44.75	-1401.07	-0.202	0.846 NS
Operating profit ratio	11.65	28.04	240.80	1.017	0.356 NS	22.12	46.24	209.07	1.353	0.218 NS
Current ratio	8.59	6.98	81.27	3.014	0.030**	4.30	4.91	114.20	2.769	0.022**
Quick ratio	4.81	4.21	87.60	2.796	0.038**	4.18	4.52	108.13	2.925	0.017**

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