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Liquidity Management: An Empirical Investigation in Maruti Suzuki India Limited (MSIL)

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ABSTRACT

In the paper, an effort made to analyses the liquidity management of Maruti Suzuki India limited (MSIL). Such, an analysis is expecting to show highpoint the strengths and weaknesses about various aspects of its liquidity management.

1. Introduction

A Company success is based on two vital aspects i.e., liquidity and profitability. The liquidity management refers management of current assets (Inventory, sundry debtors, bill receivables, cash and bank balances, etc.). Profit refers revenue minus expenses. A company is not earned profit may be sick in liquidity management. No company survives without liquidity. Therefore, companies should be maintain an adequate level of liquidity for smooth running of the business operations. If, they maintained excessive liquidity indicates more funds, which do not earn any profit for the company, and inadequate liquidity shows less fund, which affects the earning capacity of company, which mean the credit worthiness, affected but also interferes the production process. Thus, the overall performance and profitability of a company is to maintained efficient liquidity management throughout his operation.

2. Company Profile

Maruti Suzuki Company Ltd is one of the leading Indian automobile manufacturing companies. Maruti Suzuki India Limited (MSIL), formerly known as Maruti Udyog Limited, a subsidiary of Suzuki Motor Corporation of Japan, is India's largest passenger car company, accounting for over 50 per cent of the domestic car market. Maruti Udyog Limited was incorporated in 1981 under the provisions of Indian Companies Act 1956 and the government of India selected Suzuki Motor Corporation as the joint venture. The Chairman and Managing Director of the Maruti Suzuki India Limited is R C Bhargava and kenichi Ayukawa. The company is engaged in manufacturing of passenger cars. Currently, it owns manufacturing facilities located in Haryana. It is the market leader in the automobile industry, both in terms of production and revenue generation.

3. Objectives of the study

- To measure the liquidity position of the company.

4. Methodology

The data and information required for this study for the period 2008-09 to 2017-18 has been collected from the Money Control database. For studying data, the technique of ratio analysis, statistical techniques like averages, co-efficient variation (C. V.), have been used.

5. Analysis of the study

Table: 1 Ratios Relating to Liquidity Management of Maruti Suzuki Company Ltd

Years	CR	QR	CPR	IMR	HR
2008-09	1.5338	1.2853	0.5339	59.7252	1.1869
2009-10	1.0178	0.6988	0.0259	13.5672	1.2000
2010-11	1.5787	1.2562	0.5718	41.3736	1.2454
2011-12	1.3290	1.0314	0.4036	41.8788	1.2103
2012-13	1.1699	0.8979	0.1145	23.8991	1.2713
2013-14	0.8899	0.6732	0.0800	22.2924	1.3062
2014-15	0.6822	0.4117	0.0019	10.4427	1.3139
2015-16	0.7089	0.4474	0.0035	11.7725	1.3602
2016-17	0.5737	0.3462	0.0010	8.6785	1.3336
2017-18	0.4911	0.3105	0.0041	9.3964	1.3395
Mean	**0.9975**	**0.7359**	**0.1740**	**24.3026**	**1.2767**
CV (%)	**39.4793**	**49.8832**	**134.3980**	**72.4476**	**4.9380**

Source: Maruti Suzuki Company Ltd

5.1. Current Ratio (CR)

Current ratio can be defined as the relationship between current assets and current liabilities. This ratio is also known as "working capital ratio". It is a measure of general liquidity and is most widely used to make the analysis for short-term financial position or liquidity of a firm. A ratio equal or near to rule of thumb of 2:1 i.e., current assets double the current liabilities is considered to be satisfactory. Table 1 show that the CR in MSIL registered a fluctuating trend during the period under study. It varied between 1.5338 to 0.4911. On an average, the CR in MSIL was 0.9975 during the period under study. The CR ratio was less than the standard norms in eight years out of total ten years of study and in remaining 2 years it was equal to the rule of this ratio, i.e., the liquidity position of the sectors is not good and shall not able to pay its current liabilities in time without facing difficulties. The coefficient of variation of current ratio of MSIL is 39.4793%, which shows lack of consistency during the study period.

5.2. Liquid Ratio (LR)

Liquid ratio is also termed as "Liquidity Ratio", "Acid Test Ratio" or "Quick Ratio". It is the ratio of liquid assets to current liabilities. The 'liquid assets' refer to those assets which can be immediately of at a short notice, be converted into cash without loss or diminution in value. The quick assets usually include all current assets except inventories and prepaid expenses. The ideal liquid ratio 1:1 considered being satisfactory. It is evident from table 1 that the LR also marked a fluctuating trend during the period under study and ranged between 1.2853 to 0.3105. On an average, the LR in MSIL was 0.7359 during the period of study. The LR in MSIL was much below than the standard norm of 1:1 in eight years out of total ten years of study and in remaining 2 years, it was equal to the rule of this ratio. It clearly indicates that the liquidity position of the company was not satisfactory level in last five years. It can be concluded that throughout the period under study fluctuating trend shows liquid assets of MSIL were inadequate to meet its short-term obligations. The coefficient of variation in quick ratio of MSIL is 49.8832%, it indicates less consistency during the study period.

5.3. Absolute Liquidity Ratio (ALR)

Absolute liquidity is represented by cash and near cash items. It is a ratio of absolute liquid assets to current liabilities. In the computation of this ratio, only the absolute liquid assets are compared with the liquid liabilities. It is generally said that cash and marketable investments are sufficient to cover 50 percent of current liabilities; only then, a good sign of liquidity position prevails. Table 1 depicts that ALR in MSIL showed a fluctuating trend during the period of study. ALR during the period of study ranges between 0.5339 and 0.0041. On an average, this ratio was 0.1740 during the period of study. The ALR ratio was less than the 50% in eight years out of total ten years of study and in remaining two years, it was equal to the rule of this ratio. It indicates that the liquidity position of the company in maximum of the years was not sufficient to meet its obligations in time. However, the company may be arranged the credit facilities granted by the banks or any financial institution's to the company should be taken care of. The coefficient of variation was 134.3980%, it indicates inconsistency during the study period.

5.4. Interval Measure Ratio (IMR)

In addition to the comparison of current or liquid assets to current liabilities, the liquidity position of a firm may also be examined to measure whether the liquid assets are sufficient relative to the firm's daily cash requirements for operating expenses. Such a measure of liquidity is called internal measure or the defensive interval ratio. Table I presents that this ratio recorded a fluctuating trend during the period of study. The IM ratio was variation between 59.7252 and 8.6785. An average of this ratio was 24.3026. There is no standard rule for this IM ratio, but even though it was shows, decrease in daily cash requirements for operating expenses year to year. The coefficient of variation of this ratio of MSIL is 72.4476%. The management of cash was inconsistency for this company during the study period.

5.5. Health Ratio (HR)

This single ratio is now capable of measuring the liquidity of an enterprise and predicts an impending liquidity crisis. So long as the health ratio is equal to or greater than 1, the firm has no liquidity problem. But even in such a case if the health ratio is falling through, it is still greater the 1, and it indicates that the firm is losing its liquidity gradually. If the down turn is not arrested in time, the firm will soon reach down the funds-break-even level and cross the threshold limit of liquidity when health ratio becomes less than unity. The health ratio at a value of unity is the last signal for an impending liquidity crisis when it has a downward trend. It is observed from Tables 1 that the HR during the period of study ranges between 1.3602 to1.1869 with an average of 1.2767 of MSIL. The Health ratio was more than 1 in all ten years of study period and it was more than to the rule of this ratio. It indicates that there no liquidity problem for this company. The coefficient of variation of this ratio was 4.9880%. It indicates perfect consistency maintained during the period of study.

6. Conclusion of the Study

From the above analysis, Maruti Suzuki India limited has less current assets compare with current liabilities are more, especially in last five years. So the company should be more concentrate and efficient manage the liquidity position, in particularly to maintain of an adequate quantum of net current assets in relation of current liabilities as to keep a good amount of liquidity position in future year, to avoid the liquidity crisis.

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