

## **CHAPTER 6**

### **LIQUIDITY IN CORPORATE SECTOR : TOTAL SAMPLE ANALYSIS**

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## CHAPTER 6

### LIQUIDITY IN THE CORPORATE SECTOR : TOTAL SAMPLE ANALYSIS

#### 6.1 *Introduction*

In the previous chapter, we examined the appropriateness of liquidity parameters in respect of corporate sector and have selected ten ratios for liquidity analysis which would cover all aspects of liquidity of total sample companies (corporate sector). Further, we have analysed and studied how the overall measure of liquidity (composite liquidity) of a firm can be expressed in a single index, which separates a liquid firm from its counterpart illiquid firm with high degree of precision. The liquidity is an indicator of the state of soundness of a firm. It not only reflects its financial strength but also helps in meeting obligations at ease. It also helps in improving profitability of the concern in long run. Therefore, it is necessary to analyse and interpret liquidity in corporate sector as a whole.

In this chapter an attempt has been made to analyse the liquidity in the corporate sector as a whole on the basis of as many as ten liquidity ratios for the period from 1987-88 to 1996-97. For this purpose, we need a consolidated income statement and a Balance sheet of all the 80 sample companies selected from Eastern India and constitute our universe for study.

#### 6.2 *Ratio Analysis*

In this section, an attempt has been made to analyse the liquidity of the corporate sector as a whole with the help of ratio analysis at a particular point of time as well as over a period of time, i.e., ten years with their respective average (Mean), coefficient of variation (C.V.) and annual growth rates (AGR). We have also tried to compare the ratios of our sample companies representing the corporate sector of Eastern India with the ratios of Reserve Bank of India (RBI) sample companies representing the corporate sector of India. However, such comparison have been restricted to the availability of data from the RBI monthly bulletins. It is proper to mention that the number of RBI sample companies vary

over the study period. It was 1885 during 1987-88 and 1988-89, 1909 in 1989-90, 1836 during 1990-91 and 1991-92, 1750 in 1992-93 to 1993-94, and 1930 in 1994-95 to 1996-97. Hence, the comparison is subject to these limitations. Further, we have calculated the 't' statistic to draw inference whether the mean liquidity of sample companies differs significantly or not from all India sample companies. The liquidity ratios of the total sample companies alongwith RBI sample companies have been presented in Table 6.1.

### 6.2.1 *Current Ratio*

Current ratio is expressed as current assets divided by current liabilities. It helps in analysing a company's ability to meet its obligations. A current ratio of 1.33 is considered satisfactory in Indian banking since about 25% of current assets is to be financed from long term sources. The rule of the thumb 2:1 is no more considered as standard. As long as the current ratio was in close proximity with the industry average the firm was said to be possessing the required liquidity. It was considered as the powerful barometer of ongoing corporate solvency and a reliable prognosticator of potential liquidity. Current ratio gives an idea of the liquidity position and short term financial strength of a concern<sup>1</sup>. The significance of the CR is that it is not only a measure of solvency but is an index of the working capital available to the enterprise<sup>2</sup>.

A good CR may mean a good umbrella for creditors against the rainy day, but to the management it reflects bad financial planning or presence of idle assets or over capitalisation.<sup>3</sup>

**Analysis :** Table 6.1 reveals an increasing trend in respect of current ratios of the corporate sector in Eastern India from the beginning of the study period (1987-88) till 1994-95 and thereafter the ratio registered a declining trend only for 1995-96 and again the ratio shows an improvement in the last year of the study period, i.e., 1996-97. On an average, the corporate sector of Eastern India witnessed an increasing trend as its annual growth rate under ordinary least square (OLS) method was worked out as 0.024. The average current ratio during the ten years study period was at 1.335 with C.V. 6.023%. The ratio for

TABLE 6.1

**LIQUIDITY RATIOS OF TOTAL SAMPLE COMPANIES  
VIS-A-VIS ALL INDIA SAMPLE COMPANIES**

Sl. No.	Name of the Ratio	1987 - 88	1988 - 89	1989 - 90	1990 - 91	1991 - 92	1992 - 93	1993 - 94	1994 - 95	1995 - 96	1996 - 97	MEAN	C.V.	AGR.	
<b>• EASTERN INDIA</b>															
1.	Current Ratio	1.18	1.249	1.293	1.304	1.337	1.387	1.396	1.436	1.354	1.418	1.335	6.023	0.024	
2.	Liquid Ratio	0.621	0.708	0.74	0.763	0.810	0.840	0.888	0.938	0.885	0.986	0.818	13.68	0.036	
3.	Debtors Turnover Ratio	7.728	7.119	6.994	6.382	6.211	5.299	5.179	5.171	5.480	4.875	5.944	17.15	-0.302	
4.	Inventory Turnover Ratio	4.832	4.507	4.580	4.638	4.299	4.439	4.934	4.956	5.009	5.597	4.779	7.829	0.081	
5.	Cash Turnover Ratio	48.63	39.09	49.82	34.81	41.06	23.72	44.95	35.26	37.07	37.33	39.18	19.42	-1.064	
6.	W. C. Turnover Ratio	16.33	10.79	9.76	9.143	7.516	6.913	7.102	6.285	7.462	6.449	8.774	34.69	-0.826	
7.	Interval Measures (In days)	82.8	104.3	105.3	109.4	128.4	125.1	127.3	137	135.6	146.6	120.2	16.06	6.069	
8.	Working Capital to Total Tangible Assets Ratio	0.078	0.108	0.127	0.127	0.144	0.15	0.144	0.154	0.129	0.14	0.13	17.51	0.005	
9.	Cash Flow from Operation to Sales Ratio	7.936	9.206	11.48	9.641	10.62	9.442	10.8	10.02	11.15	10.28	10.06	10.46	0.18	
10.	Cash Flow from Operation to Cap. Employed Ratio	16.5	18.14	23.1	19.46	17.97	12.65	16.5	14.49	15.96	13.14	16.79	18.48	-0.622	
<b>** ALL INDIA</b>															
															t Value
1.	Current Ratio	1.23	1.22	1.28	1.30	1.31	1.35	1.41	1.65	1.65	1.65	1.405	12.64	0.05	-1.129
2.	Liquid Ratio	0.66	0.65	0.72	0.72	0.76	0.84	0.92	0.85	0.84	0.81	0.78	11.94	0.03	0.76
3.	Debtors, Turnover Ratio	4.008	3.959	3.812	3.765	3.472	3.136	3.041	5.493	5.58	5.351	4.162	23.12	0.18	4.02 ✓
4.	Inventory Turnover Ratio	3.083	3.047	3.101	2.945	2.986	3.057	3.328	3.954	4.018	4.396	3.392	15.53	0.15	6.792 ✓
5.	Cash Turnover Ratio	29.66	32.37	29.64	29.43	24.68	21.97	20.94	21.36	22.72	24.19	25.70	16.27	-1.13	4.911 ✓
6.	W. C. Turnover Ratio	9.682	10.226	8.265	7.693	7.174	6.017	9.296	5.646	5.808	5.893	7.57	22.96	-0.45	1.087
7.	Interval Measures (In days)	135.1	137.5	149.5	151.9	164.4	186.9	203.4	106.5	106.5	106.8	144.85	23.23	-3.09	-2.006 ✓
8.	Working Capital to Total Tangible Assets Ratio	0.099	0.091	0.120	0.124	0.127	0.139	0.085	0.155	0.152	0.144	0.131	19.6	0.01	0.472
9.	Cash Flow from Operation to Sales Ratio	9.98	10.09	11.62	12.08	12.71	12.15	12.95	11.71	12.45	10.7	11.64	9.06	0.15	-3.371 ✓
10.	Cash Flow from Operation to Cap. Employed Ratio	16.41	26.48	19.97	19.62	19.8	23.86	15.79	12.37	12.55	10.62	17.75	29.01	-1.18	-0.503

- Note :**
1. C.V. - Co-efficient of Variation
  2. AGR - Annual Growth Rate
  3. Table value of  $t_{0.05}$  for 18 d.f. = 1.734

**Source :** Compiled and Calculated from various volumes of Stock Exchange Directory, Mumbai\* and R.B.I. Monthly Bulletins, Mumbai\*\*

the first four years of the study period was below the average where as during the last six years of the study period, the ratio remained above the average. When the relevant ratios of our sample companies are compared with that of RBI sample companies, we find that the ratios of the All India RBI sample companies were higher than the former in five out of ten years of the study period namely the first year and last four years. The average current ratio of All India sample companies was 1.41 ( C.V. 12.64%) which presents a better average. Further, a comparison of calculated t value with that of the table value of t revealed that the difference between two mean ratios is statistically insignificant at 5 percent level of significance as computed value of t statistics was less than the rejection value for t. The negative value of 't' states that the sample average ratio is below the All India Average.

### 6.2.2 *Liquid Ratio*

It is a rigorous test to analyse corporate liquidity. The determinants of the ratio are the quick assets and the current liabilities. It is calculated by dividing the former by the later. It has been used as a liquidity measure with conventional norm of 1:1 since long. The liquidity position in corporate sector's analysed periodically by the RBI determined it to be about 0.6 and 0.7 in respect of private and public sectors, respectively. The LR is designed to show the amount of cash equivalent assets available for meeting immediate payments.<sup>4</sup>

**Analysis :** It is evident from Table 6.1 that during the period under review, the liquid ratio of the corporate sector in Eastern India varied from 0.621 in 1987-88 to 1.436 in 1994-95. The trend of the liquid ratio was parallel to that of trend of the current ratio. As a whole the corporate sector witnessed an increasing trend from first year (1987-88) of the study period till eighth year (1994-95). In the ninth year (1995-96) the ratio declined and in the tenth year again it improved over the preceding year. On an average, the corporate sector witnessed an increasing trend. The annual growth rate in the ratio worked out under OLS method

was 0.036. The rise in this growth rate as compared to the growth rate of current ratio was attributable to the fact of efficient inventory management. The average liquid ratio of the total sample companies over the ten years span was 0.818 times with C.V. at 13.68%. During the first half of the study period the ratio remained below the corporate average (1987-88 to 1991-92), while in the second half of the study period the ratio remained above the corporate average. The comparison of the liquid ratio of our sample companies of Eastern India with that of the RBI sample companies (All India) revealed that the latter had a lower average ratio, i.e., 0.713 times as against 0.818 times for our sample companies. Out of 10 years period, the liquid ratio of Eastern India sample companies was higher than all India sample companies ratio barring two years, i.e., for the year 1987-88 and 1993-94. However, the difference between the two mean ratios, was found statistically insignificant at 5% level of significance as computed value of t statistic was less than the table value of t. The average ratio of our sample companies (Eastern India) is marginally better than that of RBI sample companies (All India)

### 6.2.3 *Debtors Turnover Ratio*

Debtors turnover ratio is applied to analyse the liquidity position. The liquidity position of a firm depends on the quality of debtors to a considerable extent. It is computed by dividing Net sales by debtors. It indicates the number of times on the average that debtors turn over each year. A high ratio indicates a better and more efficient management of credit. For better analysis, a firm's ratio may be compared with industry and corporate sector as a whole. It also helps in ascertaining the relative competitive strengths and weaknesses of credit policies and overall financial accomplishment.

According to Spiller and Gosman, "The analysis of debtor turnover ratio supplements to the informations regarding the liquidity of the debtors" <sup>5</sup>. The ratio measures how rapidly debts are collected. The objectives of the comparisons of the DTR is to judge how old the debtors are and to know how fast cash will flow from collection.

**Analysis :** Table 6.1 presents a declining trend of the debtors turnover ratio during the period under review. It fluctuated from 7.728 times in 1987-88 to 4.875 times in 1996-97 forming a range of 2.853 times. The ratio of the corporate sector of Eastern India showed a continuous declining trend from the beginning of the study period (1987-88) till the end of the study period (1996-97) barring 1995-96. On an average, the corporate enterprises as a whole witness declining trend as the annual growth rate in the relevant ratio worked out under OLS was at -0.302. The average of this ratio was 5.944 times with coefficient of variation at 17.15% . The ratio was less than the average value from 1992-93 to 1996-97 that is the last half of the study period, while during the first half of the study period (from 1987-88 to 1991-92), it was above the average. The comparison of the relevant ratios of our sample companies (Eastern India) with that of RBI sample companies of all India revealed that the ratio of the latter was much lower in the first seven years of the study period and in the last three years (1994-95 to 1996-97) of the study period RBI sample companies (All India) ratio was higher than the Eastern India sample companies. The average ratio of RBI sample companies was 4.162 times (C.V. 23.12%) which was much lower than the ratio of total sample companies of Eastern India. Further, a comparison of the calculated t value with that of the table value of t revealed that there was a significant difference between the two mean ratios and the relevant ratio of the total sample companies in Eastern India was significantly higher than that of All India RBI sample companies.

#### 6.2.4 *Inventory Turn Over Ratio*

ITR serves as an indicator of efficient handling of stock of a concern. It is ascertained by dividing the aggregate value of stock consumed, wages, direct manufacturing expenses and general expenses by the book value of inventory. A relatively higher ratio indicates better working capital, profitability and liquidity position, a small amount of working capital tied up in inventory, a very high ratio should be carefully studied before drawing any inference on a firm's strength. In

an appropriate way the ITR establishes a relationship between the cost of goods sold during a period and the average book value of inventory. Therefore, a high turnover is better than low inventory turnover ratio.

**Analysis :** Table 6.1 exhibits a fluctuating trend of the inventory turnover ratio during the period under review. But, on an average, the sample corporate sector of Eastern India witnessed an increasing trend as the annual growth rate in the relevant ratio worked out under OLS method was 0.081. During the study period the ratio fluctuated between 4.299 times in 1991-92 and 5.597 times in 1996-97. The corporate sector had an average inventory turnover ratio of 4.779 times with a coefficient of variance of 7.829 %.

The relevant ratio was below the corporate average in five out of ten years study period, i.e., from 1988-89 to 1992-93, whereas it remained above the corporate average during the first year and last four years of the study period (1987-88, 1993-94 to 1996-97). Further, the comparison of the said ratio of the Eastern India sample companies with that of the RBI Sample companies (All India) revealed that the ratio of the former was much higher than the later during the entire period under study. The average inventory turnover ratio of RBI sample companies was 3.392 times (C.V. 15.53%). The Eastern India sample companies fared better in terms of the average inventory turnover ratio. The difference between the two mean ratios was found statistically significant at 5% level of significance as the calculated value of  $t$  is 6.792, which is more than the table value of  $t_{(0.05)}$ , i.e., 1.734. The relevant ratio of total sample companies in Eastern India was significantly higher than that of the RBI sample companies (All India).

#### 6.2.5 **Cash Turn Over Ratio**

It is calculated by dividing net sales by cash which includes cash in hand, cash at bank and in marketable securities. A high ratio generally indicates a relatively better liquidity position. It also states an effective and better utilisation

of cash. On the contrary, a very high or a very low ratio warrants further, analysis before drawing any meaningful conclusions. Holding of unnecessary cash adversely affects the profitability since idle cash as an asset is not only devoid of earning power, but on the contrary, also involves cost.

**Analysis :** It is apparent from table 6.1 that the cash turnover ratio of the sample companies of the Eastern India had an erratic trend throughout the study period. It fluctuated from 23.72 time in 1992-93 to 48.63 times in 1987-88, forming a range of 24.91 times. On an average, the corporate sector in Eastern India witnessed a declining trend as the computed annual growth rate of relevant ratio worked out under OLS method was at -1.064. The average of this ratio was 39.18 times with coefficient of variation at 19.42 %. The ratio was less than the average value in six, out of ten yearly study period that is for the year 1998-89, 1990-91, 1992-93 and from 1994-95 to 1996-97, while in the rest of the years it was above the average . The comparison of the relevant ratios of our sample companies (Eastern India) with that of the RBI sample companies (All India) revealed that the ratio of the former was much higher than the latter, in the entire study period. The average ratio of the RBI sample companies was 25.7 times (C.V. 16.27%). Further, a comparison of the calculated t value with that of the table value of t revealed that ratio of total sample companies in Eastern India was significantly higher than that of the RBI sample companies (All India) and there was a significant difference between the two mean ratios of total sample companies and all India RBI sample companies.

#### 6.2.6 *Working Capital Turnover Ratio*

This ratio is obtained by dividing net sales by net working capital. A higher ratio reveals a better liquidity position. For better analysis this ratio may be compared with the industry and corporate sector as a whole. In case of any significant difference between them, the analyst must analyse its causes. The ratio shows the efficiency with which the working capital is being employed<sup>6</sup>. In other words, the ratio helps to assess the degree of efficiency in the use of short

term funds for generating sales. This ratio helps in studying the over trading or under trading. A very high ratio may be the result of over trading which indicates an increase in sales without corresponding increase in the amount of working capital. On the other hand, a very low ratio may be the result of under trading which means more working capital funds have been invested in the enterprise than needed. It also helps in evaluating business efficiency.

**Analysis :** It is observed from the Table 6.1 that the working capital turnover ratio for the corporate sector in Eastern Indian marked a declining trend during the first six years of the study period that is from the beginning of the study period (1987-88) till 1992-93 and thereafter it registered an erratic trend in the last four years of the study period. It increased in 1993-94 and 1995-96 and declined in 1994-95 and 1996-97. However, the corporate sector in general witnessed a falling trend as its annual growth rate under OLS method was -0.826. The ten yearly average of this ratio of the corporate sector was 8.774 times with coefficient of variation at 34.69% which is very high in comparison to other related ratios. The ratio was above the average from 1987-88 to 1990-91 and in the remaining six years, i.e. from 1991-92 to 1996-97 of the study period, the ratio was below the corporate average. The average working capital turnover ratio of RBI sample companies (All India) was 7.57 time with coefficient of variation of 22.96%. A comparison of the average ratio of the sample companies (Eastern India) with All India RBI sample companies revealed that the ratio of later was always lower except during 1993-94 where all India ratio is above the ratio of Eastern India sample companies. However, the difference between the two mean ratios was found statistically insignificant as the calculated value of t statistic (i.e., 1.087) was less than the critical value of t at 5% level of significance (i.e., 1.734).

## 6.2.7 *Interval Measures (In Days)*

Interval Measures relates to liquid assets to average daily operating cash outgoings. The daily operating expenses will be equal to cost of goods sold plus selling, administrative and general expenses less depreciation (and other non-cash expenditure) divided by number of days in the year. A relatively higher ratio is an indicator of better liquidity. It is expressed in days.

**Analysis :** The computed value of Interval measures (in days) of Eastern India sample companies as well as all India RBI sample companies during the ten yearly period under review are presented in Table 6.1. It can be seen from the table that the interval measures (in days) of the corporate sector in Eastern India shows a continuous increasing trend in the entire study period (from 1987-88 to 1996-97) barring the year 1992-93, where it declined a little. The ratio fluctuated between 82.8 days in 1987-88 and 146.6 days in 1996-97 with a range of 63.8 days. On an average the corporate sector of Eastern India in general witnessed a rising trend as the annual growth rate under OLS method was as high as 6.069. The average interval measures (in days) of the total sample companies during the period under review was 120.2 days with C.V at 16.06 %. The ratio was above the average ratio in the last six years of the study period, i.e., from 1991-92 to 1996-97, while it remained below the corporate average in the first four years of the study period, i.e., from 1987-88 to 1990-91. Further, a comparison of the relevant ratios of our sample companies with All India RBI sample companies revealed that the ratios of the latter was always higher except the last three years of the study period, i.e., from 1994-95 to 1996-97. The average interval measures (in days) of all India sample companies was 144.85 (in days) (C.V. 23.23%). The difference between the two mean ratios was found statistically significant as the calculated value of *t* statistic (i.e., 2.006) was more than the critical value of *t* at 5% level of significance (i.e., 1.734). Further, the computed value of '*t*' statistic revealed that there was

significant difference between the mean interval measures (in days) of Eastern India and all India companies and the relevant measure of all India companies was significantly higher than that of Eastern India sample companies.

#### 6.2.8 *Working Capital To Total Tangible Assets Ratio*

It refers to the proportional amount of working capital to total tangible assets. The ratio is calculated by dividing net working capital by total tangible assets. A relatively higher ratio indicates better position of working capital and better liquidity position, whereas a relatively lower ratio states a poor position of working capital and a state of illiquidity.

**Analysis :** It is apparent from table 6.1 that the ratio of working capital to total tangible assets of the corporate sector in Eastern India shows a fluctuating trend during the period under review. The ratio was minimum at 0.078 in 1987-88 and maximum at 0.154 in 1994-95, consisting a range of 0.076. The ratio marked an increasing trend until 1992-93, and thereafter a fluctuating trend till the end of the study period. On an average, the corporate sector in Eastern India witnessed an increasing trend as the annual growth rate in the ratio was at 0.005. The average of this ratio was 0.13 (C.V. 17.51%). During the year 1991-92 to 1994-95 and 1996-97 the ratio was more than the average ratio, while it was less than the average ratio in rest of the years under study, i.e., 1987-88 to 1990-91 and 1995-96. The average ratio of RBI sample companies (All India) is slightly below the average ratio of sample companies in the corporate sector of Eastern India. In four out of ten years study period, this ratio is higher in case of All-India RBI sample companies, i.e., for the year of 1987-88, and from 1994-95 to 1996-97, whereas in other six years Eastern India sample companies ratios registered a higher ratio. It is seen that the sample companies in Eastern India fared better than All India sample companies, in terms of average of this ratio. The difference between the two mean ratios was found statistically insignificant at 5% level of

significance as the calculated value of  $t$  comes to 0.472 which is much less than the critical value of  $t$ , i.e., 1.734 at 5% level of significance.

#### 6.2.9 *Cash flow from operation to sales ratio (CFOS)*

Cash but not profit is needed for meeting day to day requirements. Cash is obtained through two sources, i.e., realization from operation and /or borrowing from outside. Since there is a limit to the borrowing of funds, more emphasis is put on cash generation in a particular financial set up. Cash generated from operations consists of profits after meeting all obligatory expenses such as interest and tax, and adding back non-cash expenses like depreciation and write-offs.

The ratio of CFO to sales explains the percentage of cash generated from a rupee of sales. A high ratio reveals a healthy trend and a very low ratio is bound to put pressure on total cash resources and needs to be improved.

**Analysis :** In the table 6.1, we see that the cash flow from operation to sales ratio during the period under study registered a fluctuating trend. The ratio marked an increasing trend from the beginning of the study period (1987-88) until 1989-90 when it went up to 11.48% and thereafter it marked a fluctuating trend. On an average, the corporate sector in Eastern India witnessed an increasing trend as the annual growth rate in the ratio was at 0.18. The average of this ratio was 10.06% (C.V. 10.46%). During the year 1981-82, 1991-92, 1993-94, 1995-96 and 1996-97, the ratio was more than the average ratio, while it was less than the average ratio in the rest of the years. The CFO to sales ratio of RBI sample companies (all India) was 11.64% (C.V. 9.06%). It is apparent from the foregoing analysis that the RBI sample companies (All India) fared better in terms of average of this ratio. But the difference between the two mean ratios was found statistically significant at 5% level of significance as the calculated value of  $t$  comes to -3.371 which do exceeds the critical value of  $t$ , i.e., 1.734 at

5% level of significance. Further, it is revealed that the relevant mean ratio of all India RBI sample companies is significantly higher than Eastern India sample companies.

#### 6.2.10 *Cash Flow from Operation to Capital Employed Ratio*

The funds required to meet day to day routine operational and non-operational needs are mainly made available from cash generated from operation and by borrowing to meet special needs. Therefore, the firm in order to maintain a healthy liquidity position must take adequate care to generate as much fund as required by efficient handling of operational activities of the concern.

The ratio of cash flow from operations to capital employed reveals the percentage of cash (funds) generated from capital employed. Therefore the CFO to capital employed ratio is a very vital tool which projects the degree of liquidity or illiquidity of the sample companies under study. It also helps in analysing company's ability to meet day to day operational needs and ability to settle maturing obligations during a short period. Cash flow from operation consists of profits after meeting all obligatory expenses such as interest and tax and adding back non-cash expenses like depreciation and write offs, while capital employed consists of debentures, long term debts/loans, equity capital, preference capital and shareholders reserves. A high ratio helps in projecting a healthy trend and a very low ratio is bound to put pressure on total cash resources and needs to be improved for maintaining a steady liquidity position.

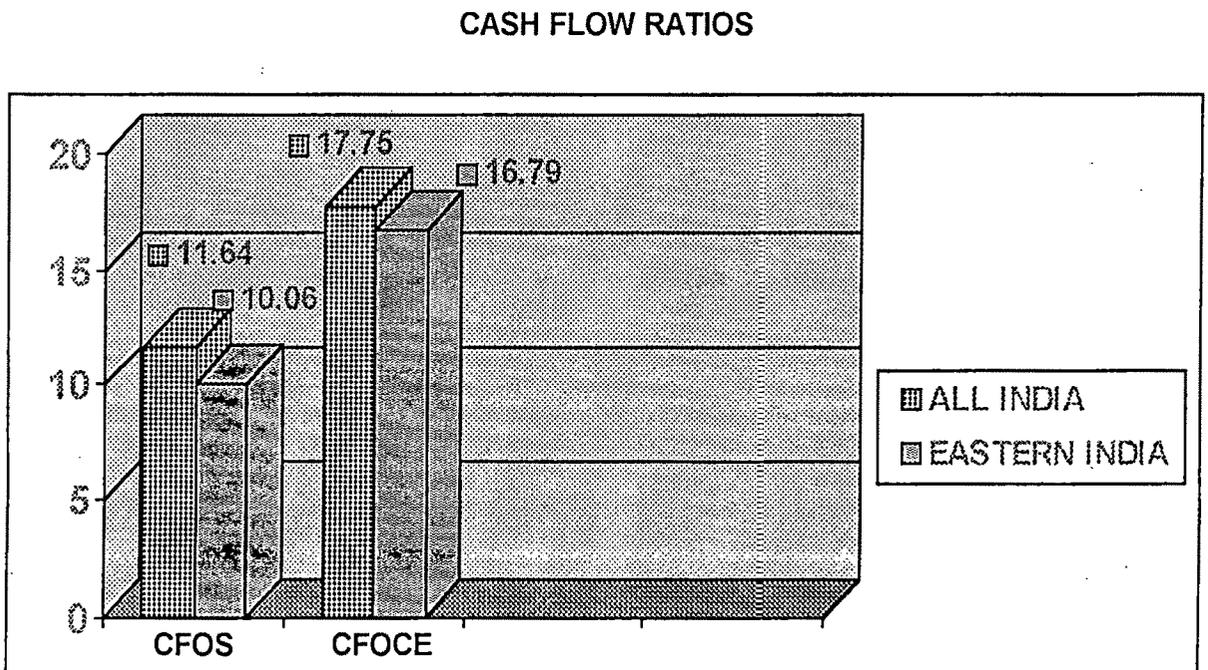
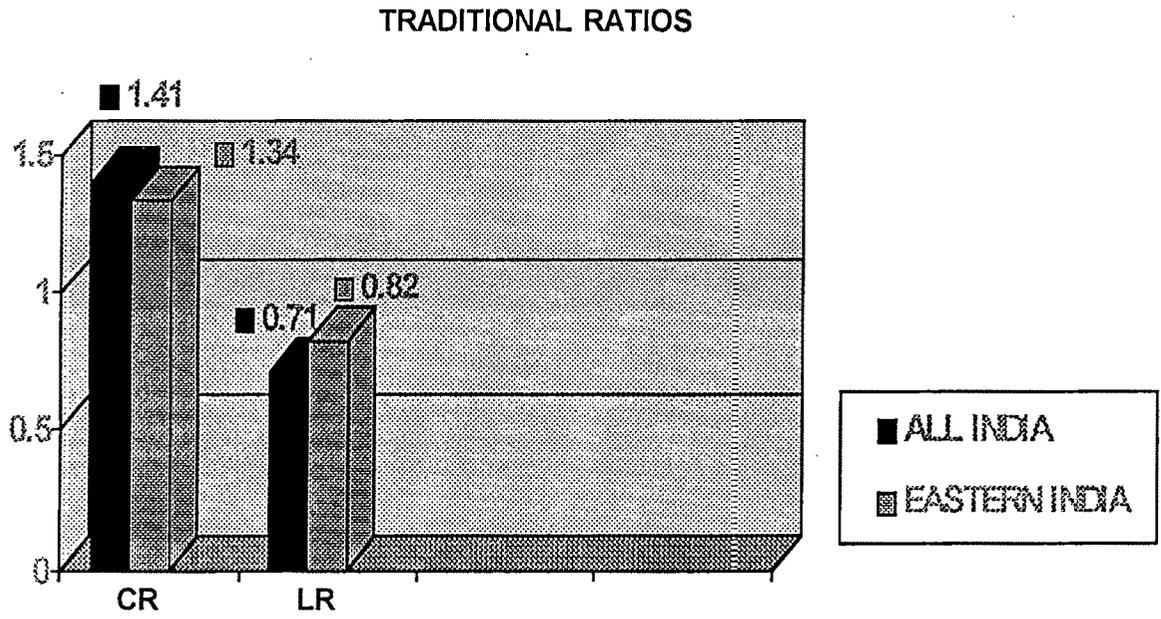
**Analysis :** It can be seen from the table 6.1 that the trend of the ratio of cash flow from operations to capital employed was parallel to that of the trend of the cash flow from operation to sales ratio. During the period under review, the CFO to capital employed ratio of the corporate sector in Eastern India shows a fluctuating trend and it varied from 12.65% in 1992-93 to 23.1% in 1989-90. On an average, the corporate sector witnessed a declining trend. The annual growth rate in the ratio worked out under OLS method was -0.622%. The fall in the

growth rate as compared to the growth rate of CFO to sales ratio was attributable to the fact of higher increase in the capital employed in the later part of the study period. The average CFO to capital employed ratio of the total sample companies over the ten years span was 16.79% with C.V. 18.48%. The ratio remained below the corporate average in 1987-88, 1992-93 to 1996-97 constituting the first year and the second half of the study period, whereas in the first half of the study period barring 1987-88 the ratio remained above the corporate average. The comparison of this ratio of the sample companies in Eastern India with that of All India RBI sample companies revealed that the later had a higher average ratio i.e., 17.75 % (C.V. 29.01%) as against 16.79% (C.V. 18.48%) for our sample companies in the Eastern India. The Eastern India sample companies fared better in the second half of the study period, whereas the All India RBI sample companies performances in the first half has an edge. The difference between the two mean ratios was found statistically insignificant at 5% level of significance as the calculated value of t (i.e., -0.503) was less than the table value of  $t_{0.05}$  (i.e., 1.734).

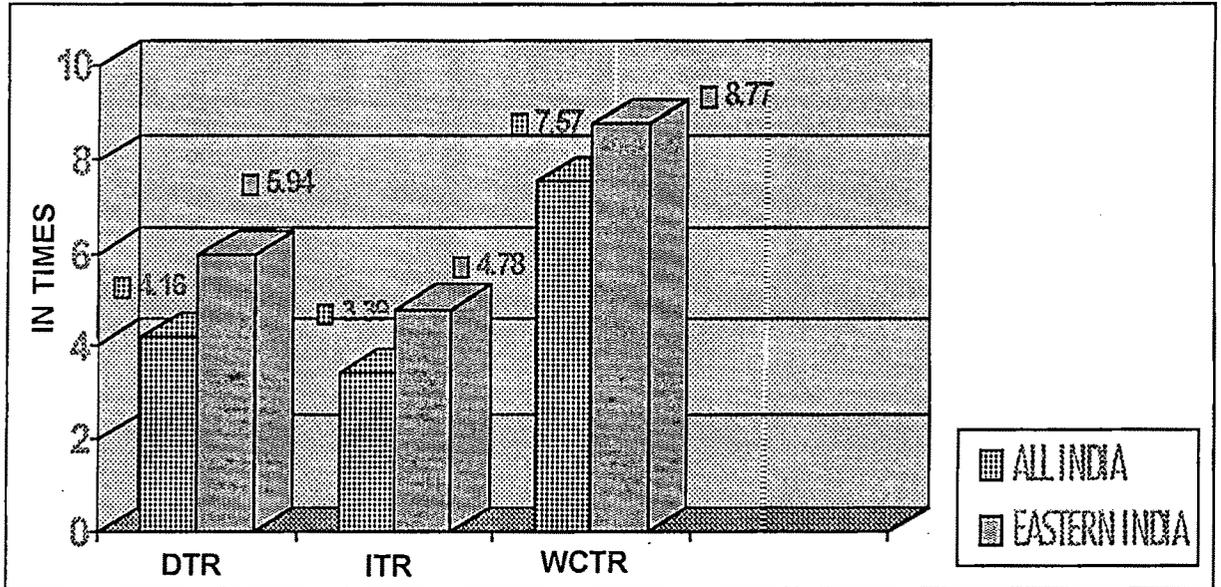
On the whole, it can be said from the above ratio analysis that All India RBI sample companies has an edge and distinctly superior than Eastern India sample companies with regard to their liquidity position since its cash flow and traditional I.M. and CR are distinctly high. The average ratio position of few important liquidity ratios of all India and Eastern India sample companies have also been projected in Figure 6.1 below to justify the above statement.

FIGURE 6.1

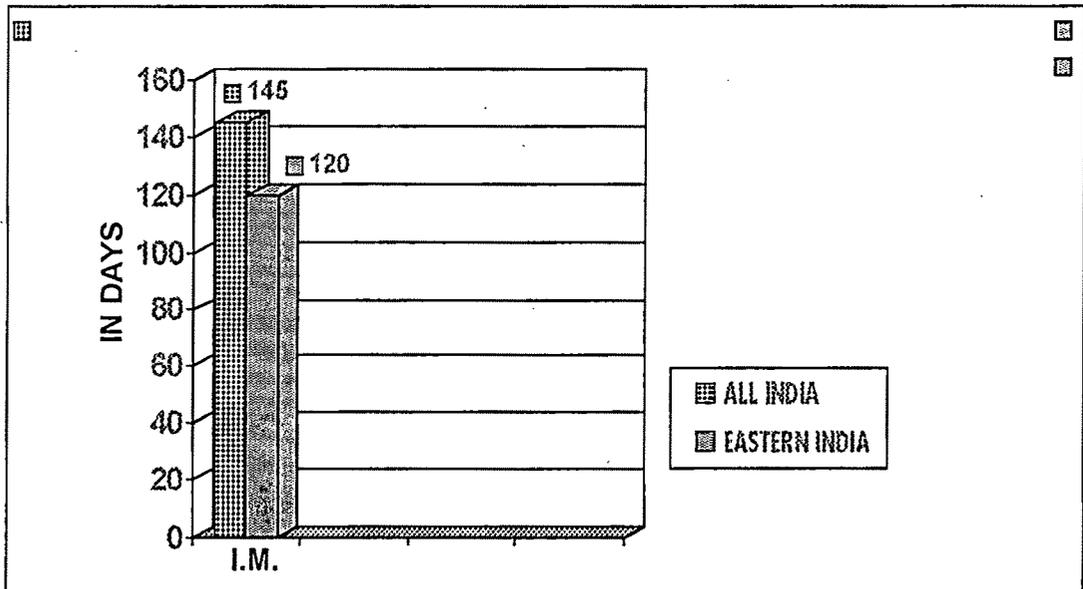
SELECTED LIQUIDITY RATIOS (AVERAGE)



### TURNOVER RATIOS



### INTERVAL MEASURES (IN DAYS)



### 6.3 *Summary*

An attempt has been made to analyse the liquidity in the corporate sector in Eastern India as a whole on the basis of 10 (ten) selected ratios for the period from 1987-88 to 1996-97.

Ratio analysis revealed that the liquidity of the sample corporate sector in Eastern India has shown an increasing trend during the period under study. The liquidity position varied from year to year, but the corporate sector in Eastern India in general witnessed an increasing trend as annual growth rate of different ratios worked out under OLS method were positive for six out of ten ratios. Only four ratios, namely debtors turnover ratio, cash turnover ratio, working capital turnover ratios and cash flow from operations to capital employed ratio depicted a negative growth rate over the ten yearly period under study.

Most of the liquidity ratios in the selected corporate sector of Eastern India during the first five years of the study period remained below their respective ten yearly averages, while the reverse was true during the last five years of the study period. On the whole, it can be said that there is a marked improvement in the liquidity position of the corporate sector during the later part of the period under study.

The Reserve Bank of India sample companies representing all India corporate sector, had always a higher liquidity ratios, as compared to Eastern India corporate sector, in terms of current ratio, interval measure (in days), ratio of cash flow from operations to sales and ratio of cash flow from operations to total capital employed, while the reverse was true in terms of liquid ratios, debtors turnover ratios, inventory turnover ratio, cash turnover ratios, working capital turnover ratios, and working capital to total tangible assets ratios. The Eastern India sample companies' liquidity position could have been better if their cash flow ratios and current ratios were higher than or at least at par with the all India corporate sector.

On an average, the sample corporate sector in Eastern India, had a current ratio of 1.335, liquid ratio of 0.818, debtors turnover ratio of 5.944, inventory turnover ratio of 4.779, cash turn over ratio of 39.18, Working Capital turn over ratio of 8.774, interval measures of 120.2 days, working capital to total tangible assets ratio of 0.13, CFO to sales ratio of 10.06% and CFO to capital employed ratio of 16.79%.

## Notes

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