CHAPTER: 3 LITERATURE REVIEW

3.1 Literature review on Tea

There are a number of studies on modeling of tea production in Pakistan and other parts of Southeast Asia most of which consider climate related factors predominantly while some have even considered soil related factors for modeling. Chatterjee (2005) conducted a study on the domestic production, domestic consumption and exports of Indian tea and examined their inter linkages. The study examines possible reasons for stagnating export volumes of Indian tea industry by analyzing the inter linkages between production, consumption and exports of tea and also developing export function. The production function takes only the acreage and price as important variables in the model. The three models developed for supply, demand and export are analyzed together using the SUR (Seemingly Unrelated Regression) technique and the correlation between the disturbances of the three equations are estimated using generalized least squares method. The results of the study indicate that India did not experience a fall in tea exports in the USSR period due to favorable terms of trade with the USSR, while in the post USSR period, competition increased and hence Indian tea exports declined. It also highlights that tea in India is a necessity good as income elasticity is low.

Akhlas, Ahmad, Siyar& Khanum (2003) conducted a study on qualitative assessment of fresh tea produced in Pakistan growing under different agro ecological conditions and fertilizer treatments. The objective is to evaluate the effect of plucking season, altitude agronomic practices upon quality of tea using trials initiated in 1998 at Shinkiari (1000 m) and Battal (1500 m) on mature tea bushes. Analysis of variance technique is used which shows that increasing nitrogen treatments and different seasons have a significant influence on Epigallocatechin (EGC), Epicatechin (EPC) and Caffeine level of tea leaves at both localities. The results show that tea produced in Pakistan contains constituents in premium concentration highly desirable for Black tea processing.

Anjana Pasricha (2005) in her study entitled, “India’s tea industry, one of the world’s largest, faces problems” reveals that the labour problems were the latest bad news for an industry that has been hit in recent times by high production costs and slumping demand. This study also indicated that the cost of production per Kg. of tea manufactured has been
uncompetitive with respect to other global players such as Sri Lanka, Kenya and that has resulted in India losing out on export market. She concluded that the tea industry is also facing problems in the domestic market, which consumes 70 percent of the beverage produced in the country. In recent years, demand has stagnated or even declined in some areas due to the growing popularity of such beverages as soft drinks – particularly among youth.

Ashok Wagh (2014) in his study entitled “Indian tea Industry: It’s status in global scenario, studied that India and China are the leading tea producing and exporting countries in the world. In India, the increase in tea production is associated with increase in population size, increase in income, upliftment of social status, health awareness and increase in literacy level. The study shows that there is decline in tea production in India for the last two decades. The two monopolies namely China and India in the production and export of tea were replaced by China and Sri Lanka. The study found that there is a gradual fall in India’s share in tea export due to continuous increase in domestic consumption of tea. The study suggested that there is a need for framing and adopting new strategies to meet the international challenges and the health benefits of tea to be promoted to attract non – conventional areas of tea in the world for expansion of tea under cultivation.

Baten, Kamil & Haque (2009) conducted a study on modeling technical inefficiencies effects in a stochastic production function for panel data. The inefficiency effects are assumed to be independently distributed as truncations of normal distributions with constant variances but with means which are linear functions of observable variables. Panel data is used in this study to estimate the production frontier and the technical inefficiency effects of tea production using a Stochastic Frontier Analysis (SFA) methodology. The study observes that Stochastic Frontier Translog Production Function is more preferable compared to Stochastic Frontier Cobb-Douglas Production Function. The findings suggest that 49% technical inefficiency exists in tea yield. The null hypotheses, that inefficiency effects are not stochastic or do not depend on the labor-specific variables and time of observations, is rejected for these data. This study also reveals that there is a negative relationship between size and yield.

Differences in processing methods produce the independent varieties of tea (Carlson, Bauer, Vincent, Limburg, & Wilson, 2007). The four predominant types include green,
white, black and oolong (Matthews, 2010). In order to make green tea, bush leaves are immediately steamed and dried after picking, which prevents oxidation and produces larger amounts of catechins. Although green tea is recognized as having a simpler flavor, thousands of varieties and flavors exist (Matthews, 2010). Similar to green tea, white tea is unfermented. It is restricted from the sun in order to maintain its white hue and pure taste (Alcázar et al., 2007).

Debasish Biswas (2011) "Productivity and Industrial Relations: An empirical study on tea estates in Dooars region of West Bengal" established that various factors of industrial relations have got tremendous impact on productivity and concluded that productivity is largely affected by the industrial relations and vice versa.

Dutta (2011) conducted a study on impact of age and management factors on tea yield and modeling the influence of leaf area index on yield variations. The study attempts to analyze the effects of age, pruning and fertilizer application on tea yield and to derive a relation between yield and tea leaf area index (LAI). The study is motivated by the fact that tea yield has stagnated in Northeast India. For the purpose at hand, statistical analysis is applied to the data set collected at the section level of a tea estate from 1999-2007. Tea yield has been found to be correlated with age, NPK applications, pruning and also leaf area index. Age shows a significant negative effect. Clear negative effects of N applications could be observed. A significant positive effect of pruning could also be observed. Stepwise regression confirms that LAI could play an important role in predicting tea yield.

Dutta and Shama (1967) working on cold weather yields from unpruned tea in India observed that cool seasons at high altitudes are periods of very slow growth for the tea plant. They also indicated that similar low temperatures do not inhibit tea growth in high altitude equatorial regions.

“Economies of Tea Industry in India” a study by RC Awasthi in 1975, highlights on the gamut problems in the tea industry and other problems like finance, supplies, transport, marketing, etc. One of the important chapters of it has discussed the matter related to labor and this study basically dealt with labor relations. The basic importance indicates of industrial relations have not been included in this study.

"Study of trade union organization among the tea workers in Terai and Dooars region" studied by Kanchan Sarkar in 1998 has discussed the trade union movement in Indian
tea Industry based on different periods. Few chapters have discussed interestingly different issues relating to the socio-economic profile and so on.

**Gadd (1934)** writing on drought conditions in relation to tea culture observed that in many of the tea growing districts of Ceylon, the major problem was how to rid the soil of excess water. Gadd also noted the severe effects of drought in the eastern side of Ceylon. During the Kericho study most farmers also identified drought as one of the problem affecting tea production. It was established that the impact of drought on tea farming is equally important as an aspect of production, but for the purposes of this thesis, a decision was made to leave it out. This is because it can be shown to affect all smallholder tea producers and it also does not fall neatly into socio-economic factors.

**Goswami (2007)** identified the problems and prospects of tea industry in Assam. He suggested that the capital structure of the tea industries should be properly planned to revive sick tea gardens of Assam.

**Gupta & Dey (2010)** conducted a study on the development of productivity measurement model for tea industry. This study has made an attempt to address the issue of declining production and unsatisfactory productivity performance of the Indian tea industry. It proposes a relatively simple productivity measurement model suited to tea industry. Productivity accounting model is used and suitably given the form so as to fit to a tea industry. The performance of the model is assessed by applying it to tea industry in Assam and it has been found that the model is comprehensive and satisfies all the six criteria of measurement theory such as validity, comparability, completeness, timelines, inclusiveness and cost-effectiveness. The model also identifies areas of poor resource (labour, material and energy) utilization responsible for total productivity decline in the tea industry.

**Hicks (2009)** conducted a study on the current status and future development of global tea production and tea products to identify the critical challenges faced by the tea industry globally. It examines the current situation and medium term prospects for production, consumption and trade of tea and its impact on the world tea market. The following factors are taken to be affecting global tea production: weather conditions, planted areas, population, age of tea bushes, labor, capital, price of inputs and yield risk. The factors taken to be affecting global consumption are income of the country, quality of the products and substitutes and complements available, etc.
Krishnadas (2010) conducted a study on production and export performance of major Indian spices. The objectives of the study are to analyze the growth in area, productivity and production of major spices in India, to analyze the instability in production of major Indian spices, to examine the growth in exports and direction of trade of major spices from India and to examine the factors influencing changes in production and export of major spices. The following analytical techniques are employed viz. Compound growth rate analysis for computing the growth rate on area, production, yield and exports; Instability analysis to compute the extent of variability in area, production, productivity and export of major spices using coefficient of variation; Markov chain analysis to analyze the trade directions of Indian spice.

Manharan (1974), analyses the problems of Indian tea industry based on production, consumption, export and share market after carefully observing the innovation of tea industry he observed that there had been considerable increase in exports of Indian Tea during 1950’s and India stood first in international tea export. Durig 1960’s India lost position as the largest exporter in the world to Sri Lanka. In his share market analyses, it has been found that low rate of profit, due to declining price and increasing cost of production, adversely affected the industry and the share value of tea companies had dumped considerably.

Matthews, 2010 All teas originate from the Camellia sinensis plant.

Othieno (1983) Studying the effects of nutrient uptake on the yield of tea found out that shading lowers light intensity, both air and soil temperatures, radiation, wind speed and other micro climatic factors within the shading area. He further noted that microclimate factors also influence one or many of the plant internal growth factors. He concluded that the uptake of nutrients was, therefore, reduced by shading. Nutrient uptake is necessary especially when considering the impact of fertilizers on tea crops.

Owuor and Odhiambo (1993) and (1994) noted that some black tea quality parameters responded to increasing nitrogen fertilizer rates and decreasing plucking frequencies by increasing the caffeine content of black tea. They recorded that the tasters preferred tea from shorter plucking intervals and low rates of nitrogen application. However, yields increased with increasing rates of nitrogen, but were lowered by long harvesting intervals. Fertilizer application in tea production is a very important exercise, which all farmers must carry out since other forms of manure are not recommended in tea production.
Smallholder farmers must spend their meagre income on these expensive fertilizers in order to increase their yields. However, information of the relevance on the increased fertilizer use on monthly incomes was still lacking. Hence the need for this particular study.

Owuor (1994) recorded that yields and quality of black tea are known to be affected by the genetic make-up of the plant materials, the climatic condition under which the plant was grown, and the general environmental factors, such as soil conditions. In studying the clonal variations in response of black tea quality parameters to time of the year in Western Kenya highlands, he confirmed that, even with minimal variations in weather, measurable changes in quality are observed. So it is impossible to make tea of consistent quality throughout the year. However, these changes in black tea quality with season are lower closer to the equator. Owuor's work was an important contribution towards knowledge about the physical environmental factors affecting tea production. The results of the work by Tea Research Foundation are made available to all tea growers through extension officers, including the smallholder producers, and these may be reflected in Tea yields, which in turn depend on the effectiveness of extension services.

Prasanneswari in 1984 of his remarkable study on Industrial Relation in Tea Plantations: The Dooars Scene, an attempt has made to describe the then present condition of labor relation in Dooars region of north Bengal. In the study he has identify two set factors namely, extraneous and intrinsic, inflation, political division of the affiliated parties of the workers regarding strikes and go-slow in the tea gardens, and labor legislations are factors under extraneous while the communication gap, and the increasing of population and unemployment in the tea gardens are under intrinsic factors.

Sharit Bhowmik in his study on Class Formation in the Plantation System in 1981, attempt has made on class formation among tribal workers in West Bengal. In this study he has emphases on the migration of workers, method of labour recruitment, trade union activities and the social customs.

Sharit Bhowmik in another study in 1992 on the Tea Plantation almost covers the all aspects of tea plantation in very brief manner. In this study he emphasis on the recent employment trend and unionization in the tea plantation and also shows high rate of casualization in one hand and on the other hand the trade union movement and the reason behind casualization, stagnation in trade union movement.
Sib Ranjan Mishra on Tea Industry in India, 1986, has carried out a detail study of the tea industry located in West Bengal and its economy, the study further identified the multifarious problems and the current state of the industry.

Thomas & Ahmad (1970) conducted a study on the factors affecting tea production in Pakistan. The total domestic absorption of tea in Pakistan is regressed with time as the independent variable and it has been found that there is a steady increase in absorption at the expense of declining exports. Acreage has been on the rise but tea production does not show an increasing trend. The short run fluctuations in tea production has been analyzed taking into account factors like rainfall, temperature, Lang’s factor (rainfall/temperature) and number of rainy days in a year. The results indicate that the quantity of rainfall is not closely related to production. On the other hand, rainfall has significant correlation with production in the not-so-cool months. The Lang's factor is found to be conceptually weak and the number of rainy days is found to have significant correlation with tea production both on a month-to-month and annual basis.

Singh, de Vries, Hulley and Young (1977) carried out their study in Malawi and Kenya. Their major concern was the market prices and development lending. One of their findings was that tea could be grown under a wide range of climatic conditions, from Mediterranean to Tropical areas and the nearer the tea area to the equator, the higher the altitude necessary to achieve any given standard of quality. They also noted that rapid expansion of tea production, which is likely to accelerate the decline in International prices, would have more serious adverse effects on some growers than others. In East Africa, the production of tea on smallholdings is likely to remain stable despite the low International prices of recent years.

Viswanathan (1994) concluded that working capital limits to large tea borrowers should be fixed by banks purely on the basis of cash budgets and banks should desist them from financing tea brokers to enable them to lend to tea factories/ estates.

3.2 Literature Review on Profitability

Chakraborty (2012) studied the profitability of tea gardens of Barak Valley of Assam. It was revealed from the study that tea gardens in that region were sustaining losses due to increase in cost, decrease in average auction prices of Barak Valley tea and mounting burden of tax on tea.
Vijayakumar and Kadirvelu (2004) in their study “Determinants of Profitability: The case of Indian Public Sector Power Industries” has presented a basic model of multiple regression of profitability using return on total assets and profit margin to sales ratio as the major indicators of profitability. The study is mainly focused to examine the determinants of profitability in the selected Indian public manufacturing industries during the period of 1981-2002. The determinants of profitability are analyzed using the technique of ordinary least square. Regression technique has been used to reduce the problem of auto correlation. Return on assets and return on sales are widely used measure of profitability. Size was used as measure of total assets, growth by measure of growth rate of assets. The other independent variables employed in the study include leverage, current ratio, inventory turnover ratio, operating expenses to sales ratio, vertical integration and age. The study was evaluated using two multiple regression models one by using return on total assets as dependent variable and other using profit margin on sales as dependent variables. The study identified that the age was strongest determinant of profitability followed by operating expenses to sales ratio, leverage, fixed assets turnover ratio, inventory ratio, size, current ratio, growth rate and vertical integration and further, size, operating expenses to sales ratio and fixed assets ratio have negative contribution in variation of profit in the Indian public sector power industries.

**Value of profitability**

There are many words to describe the meaning of value. According to the Webster dictionary, value can be described as relative worth, merit or importance; it can also be described as monetary or material worth or the worth of something in terms of the amount of other things for which it can be exchanged or in terms of some medium of exchange.

Osiegbu and Nwakanma (2008) Profitability helps in taking decisions and constructing policies.

**Factors that Affect Profitability**

There are many factors that may have an effect on profitability of any enterprise. In crop production most of the factors that affect profitability are the production costs, farm gate price, fertilizer usage, seed variety, tillage methods, labor, land tenure, power sources, extension services, remittances and farmer characteristics. Most of these factors have been considered in many studies on profitability. Some studies find some of these factors
to have significant effect on profitability were as other studies find that these factors have insignificant on the profitability. For instance a study that was done on the profitability of sorghum in Tanzania found that the farm size, production costs, farm location, interaction between production costs and farm gate price as well as the interaction between the varieties used and fertilizer applied were significant. Surprisingly, farm size was negatively influencing the gross margin contrary to the literature. However, the interaction between Production cost and farm gate price was positive and significant while farm gate price alone was not significant. In addition, the variety used, application of fertilizer and tillage method were not significant but the interaction between variety used and fertilizer application was positive and significant. (Erbaugh, 2008).

Bagamba (1998) in studying the profitability of bananas found that the total farm size, total farm income, off-farm income, age of the farmer, weevil damage, interaction with government extension agents, gender of the farmer, distance from the farm to the tarmac, years spent in school and number of cattle owned had a significant effect on the profitability of banana production. Similarly in a study that was carried out on the market value of rice in Malaysia, the farm size, production costs, seed variety, tillage methods and power sources, farm price were found to be significant. In these studies some factors were common in affecting profitability of each of these enterprises; however some of the factors were specific in affecting a particular crop. Thus these factors affect the profitability in different ways depending on the enterprise in question.

As financial managers perform in different ways, empirical researches have reported various relationships between potential growth and profitability of a firm (Coad and Holzl, 2010). In addition, in the literature, it is suggested that the profitability of firm should not be necessarily related to its growth (Goddard et al., 2004). This belief is confirmed by Coad’s study (2007). His concern could be summarized as there is not an uniform and globally accepted theory about the sign of the relationship between profitability and growth.

Profitability could be mentioned as one of the major aims of any kind of economic activity. As McMahon (1995) suggests, one of the main objectives of financial management is maximizing the shareholder’s value. In other words, profitability is a measure to analyze whether a business has been successful or not. However, a business
might not generate profit as soon as it starts operating since there are initial investments costs. As business gets mature, it should start its profit making.

There are various measures for profitability of a firm. One of the most known and widely used of all financial ratios is return on equity (ROE). It represents the performance of a firm in an accounting sense by reporting the ratio of net income to total shareholder’s equity (Ross et al., 1999).

Another measurement is return on 19 assets (ROA) which reflects the ability of management to employ firm’s assets in order to make profits (Rugman, 1979; Lin et al., 2005). Return on equity depicts the growth potentials of a company in the long term. So, if a firm has a high return on equity, it could imply that there are enough internal funds which could be allocated to good investment opportunities. However, firms might decide differently whether to invest all of the profits or a proportion of them.

Kambhampati and Parikh (2003) involves that trade reforms lead to a decrease in competition which can affect the profitability negatively. Also, results from this analysis prove that profit margins are affected significantly by liberalization. In addition, it can be concluded from this research that capital and managerial capabilities are not related to the profitability.

Profitability could present a more accurate view of firm’s performance (Velnamby and Nimalathasan, 2009). Pandy (1979) confirms the authenticity of many economists that the profitability is one of the important indicators for the efficient operation of an enterprise.

### 3.3 Literature Review on Liquidity

Chandra (2001) Financial strength of a business is measure of it liquidity

Deloof (2003) shows that companies with greater levels of liquidity are more flexible in terms of providing short-term financing which could lead to a higher profitability.

On the other hand, firms with higher level of liquidity could be more profitable according to Goddard et al. (2005). They state in their study that companies holding more liquidity would be more likely to adopt with market movements. In addition, those companies could benefit from a greater probability of allocating their investments optimally to grow.
According to the previous studies, higher levels of liquidity in a firm could lead to agent-principal conflict (Fama and Jensen, 1983; Myers and Rajan, 1995). It is stated that managers would exploit the resources to increase their individual benefits rather than allocating resources in investment opportunities which enhance firm’s profitability.

Pottier (1998) as well as Buckle and Adams (2003) show that greater level of liquidity is associated with decreased profitability because managers would more likely allocate firm’s resources in a way that increase their prestige which would not be the optimal allocation of investments.

Liquidity tells about the firm’s ability to meet short-term need of funds says Ibenta (2005). Performance of any business entity is judged by its liquidity management (Bardia 2007). Efficient liquidity management has a great significance for a business to run smoothly (Valrshney, 2008).

Liquidity refers to investment in current assets and current liabilities which are liquidated within one year or less and is therefore crucial for firm’s day to day operations (Kesimli&Gunay, 2011).

### 3.4 Literature review on Profitability and Liquidity

Abuzar and Eljelly (2004) by taking Current ratio as tool to find the relation between profitability and liquidity found that there is negative relation between the business’s liquidity and its profitability.

Abuzar and Eljelly (2004) evaluated the relation between profitability and liquidity, as measured by current ratio and cash gap (cash conversion cycle) on a sample of joint stock companies in Saudi Arabia. The study found significant negative relation between the firm’s profitability and its liquidity level, as measured by current ratio. This relationship is more evident in firms with high current ratios and longer cash conversion cycles. At the industry level, however, the study found that the cash conversion cycle or the cash gap is of more importance as a measure of liquidity than current ratio that affects profitability.

Afza and Nazir (2007) there is a negative relation between the profitability and business’s working capital investment and the financing policies.

Ajanthan (2013) investigated the relationship between liquidity and profitability of trading companies in Sri Lanka. The study covered 08 listed trading companies in Sri
Lanka over a period of past 5 years from 2008 to 2012. Correlation & regression analysis and descriptive statistics were used in the analysis and findings suggest that there is a significant relationship exists between liquidity and profitability among the listed trading companies in Sri Lanka.

Amit et al (2005) there is no any relation between profitability and liquidity.

Assaf Neto (2003) Profitability will be lower the more funds are invested in current assets.

There are different approaches to evaluation of liquidity profitability trade-off. Most authors use panel data regressions with profitability measure as a dependent variable and liquidity indicators as explanatory variables. Thus, Bhunia (2011), analyzing association between liquidity management and profitability of 230 Indian private sector steel companies, uses return on assets as the dependent variable and current ratio, quick ratio, absolute ratio, debt to equity ratio, interest coverage ratio, inventory turnover ratio, debtors turnover ratio, and creditors turnover ratio as explanatory variables. Traditional current ratio is positively associated with profitability. But liquid ratio and absolute ratio influence profitability negatively. Still the relationship is weak. Therefore, traditional liquidity ratios are quite poor in measuring the efficiency of the firm's liquidity management.

Chinmoy Gosh (2009) Here are the methods help to compute liquidity in business organizations. We can determine how liquid the firm is by using ratio analysis. To find a ratio of current asset to current liabilities is by current ratio. Quick ratio will permit the firm know whether can disburse their current debt, exclude to sell any inventory. It's vital for an organization to concern on this because, if they need to sell inventory, they also need a customer to buy that inventory.

Christopher and Kamalevalli’s (2011) study, the independent variables used were current ratio, quick ratio, inventory turnover ratio, working capital turnover ratio, debtor’s turnover ratio, ratio of current asset to total asset, ratio of current asset to operating income, comprehensive liquidity index, net liquid balance size and leverage and growth while dependent variable (profitability) was measured in terms of return on investment (ROI). From multiple regression analysis, negative association with ROI was established in current ratio, cash turnover ratio, current asset to operating income and leverage. On
the other hand, positive association with ROI is in quick ratio, debtor’s turnover ratio, current asset to total asset and growth rate. In another study, 13 Gameson (2007) analyzed impact of working capital management upon the performance of firms in Telecom industry. The variables used were, days sales outstanding, number of days for payment to vendors, average days inventory held, cash conversion efficiency, revenue to total assets, revenue to total sales, etc. Findings revealed negative & insignificant relationship between profitability and daily working capital requirement in the said industry.


Negative relationship between accounts receivables turnover and profitability can be explained by the fact that customers need more time to assess attributes of goods they purchase from firms with declining profitability Deloof (2003). Here the question of endogeneity arises. It is possible that profitability of the company determines its liquidity. Higher profits should lead to the enlargement of accounts receivable, because more profitable companies have more funds to lend to customers. This issue was investigated by Deloof and Jegers (1996), who investigated whether Belgian firms with a shortage of cash reduced investment in accounts receivable. However their hypothesis was not confirmed.

Dong (2010) Working capital management affects the liquidity and profitability of any firm. Fixed and current assets are important for the successful running of any business and these both have direct impact on liquidity and profitability Saswata Chatterjee (2010).

Correlation and regression study of Eljelly (2004) founded that Current ratio is more important to measure profitability and cash conversion cycle is more important to measure liquidity.

Eljelly (2004) Cash conversion cycle shows the relation between liquidity and profitability. It is more important to measured profitability compared to if the company is using current ratio.
**Eljelly (2004)** Capable of forecasting and calculating the current assets and current liabilities will reduce the risk and unnecessary investment in assets and able to meet any short term commitments in the business.

**Ghosh and Maji (2003)** in their paper made an attempt to examine the efficiency of working capital management of the Indian cement companies during 1992 - 1993 to 2001 - 2002. For measuring the efficiency of working capital management, performance, utilization, and overall efficiency indices were calculated instead of using some common working capital management ratios. Setting industry norms as target efficiency levels of the individual firms, this paper also tested the speed of achieving that target level of efficiency by an individual firm during the period of study. Findings of the study indicated that the Indian Cement Industry as a whole did not perform remarkably well during this period.

Debt related coefficients, debt to equity and interest coverage ratio have negative and positive relationship with return on asset correspondingly. This also is shown in the research of **Gill, Biger, and Mathur (2010)**. Negative relationship points to the fact that the firms with high leverage have usually softer positions in the market than companies with healthy capital structure. Therefore, the former may lose in the market competition (**Myers, 2003**). Also, debt increase creates interest expenses, which reduce profits. Accounts receivable and inventory turnover ratios are inversely related to profitability, while creditors turnover ratio has a positive impact on ROA, since the company can hold money longer in order to finance its operations.

**Gomez (2008)** observed that the commercial banks have maintained an attitude of superiority as regard to the provision of long term capital to industry. The commercial banks are a major source of financing tea industry in the region. The industrial houses require credit for short period for working capital and for long period for their fixed capital requirements.

**Ignatius Ekanem (2010)** examined to focus on liquidity management in small firms. Paper uses a qualitative methodology that involves in-depth, semi-structured interviews and direct observation, conducted longitudinally in eight case study companies. Suggest that liquidity management is either based on owner-manager past experiences, experiences of others or is strongly influenced by industry norms, which are shared rules
within the industry, and not based on the calculation of costs and benefits of particular causes of action.

A number of studies (Liargovas& Skandalis, 2008; Almajali et al, 2012;) have been done with regard to factors affecting the financial performance of listed companies, especially in developed economies. In Kenya, a few studies have been done in this area and therefore it is imperative to find out how liquidity affects the financial performance of non-financial listed companies at the Nairobi Securities Exchange. The impact of liquidity position in management of an institution has remained fascinating and intriguing, though very elusive in measurement of financial performance. There appears to be an endless argument in the literature over the years on the roles, meaning and determinants of liquidity management. In fact the firm should manage its liquidity in such a way that sales are expanded to an extent to which risk remains within an acceptable level. The aim of liquidity management should be to regulate and control those costs that cannot be eliminated altogether. These costs include the credit administration expenses, bad debts, losses and opportunity cost of the fund tied up in receivables.

Mahmood and Qayyum, (2010) argue that the liquidity and profitability are important to achieve two main objectives profitability is related to the wealth maximization goal of the shareholders and liquidity is important for the continuity of business.

Mansor, Mahmood and Zapfrofita (2007) conducted another study on the period between 1996 and 2003 in Malaysia. They examined the factors that affected the profitability and capital structure of the 25 real estate companies and the 20 construction companies. The capital gearing, the rate of debts to equities, profit margin before tax, the value of the fixed assets, net profit margins, equity share profit rate variables were used in this study. Also, OLS Method was applied. As a result of the study, it was determined that the capital gearing had a negative effect on net profit margin and on price earnings ratios.

According to Marques and Braga (1995) and Renato Schwambach Vieira (2010) The relation of profitability to liquidity is inverse. When a firm is determining a WCM policy, its faces a dilemma of achieving the optimal level of working capital, where the desired trade-off between liquidity and profitability is reached (Nazir and Afza, 2009; Hill et al., 2010; Smith, 1980 and Nasr, 2007). This tradeoff is a choice between risk and return. An investment with more risk will result in more return. Thus, a firm with high liquidity of working capital will have low risk and therefore low profitability. The
other way around is when a firm has low liquidity of working capital, which result in high risk but high profitability. When determining a WCM policy, a firm has to consider both sides of the coin and try to find the right balance between risk and return.

**Narware (2004)** in his study on NFL concluded that; there is both negative and positive relationship between profitability and liquidity.

The liquidity requirement of firms differs depending on the circumstances of the company. According to **Pandy (2005)**, the main factors that influence liquidity requirements are the nature and the size of business (trading and financial firms require large investments in working capital, construction firms also have to invest substantially in working capital); manufacturing cycle; business fluctuations; credit policy of the firm; growth and expansion activities (growing industries require more working capital than those that are static), operating efficiency (optimum utilization of resources), production policy and price level changes.

**Samilogu and Dermirgunes (2008)** the relationship of working capital management to profitability is negative. Decisions related to liquidity have no impact on profitability but the use of forecasting of liquidity and short-term financing during crisis effects profitability positively **Lambery and Valming (2009)**.

**Saleemi, (2009)** Profitability refers to the ability of an enterprise to generate profits from its investments. Working capital management affects profitability in several ways. The management of cash, debtors and stocks affects the level of profits made by an enterprise. The excessive holding of stocks leads to high stock handling costs, deterioration in the value of stocks due to damage and obsolescence, theft or pilferage by employees and wastage. All these are cost to the firm which reduces its profitability. Inadequate stocks also lead to stock out costs and loss of goodwill of the firm, leading to losses or profits. Holding a high level of inventories leads to high capital tied up in stocks. This tied up capital means lost profitability due to forgone interest income which would have been earned if the capital tied up in stocks were invested.

**Shim and Siegel (2000)** Liquidity is business capacity to pay short- term debts means their maturity is less than one year. Economic success achieved by any business by investing capital in it is said to be its profitability and it is determined by the net profit margin (**Pimentel et al, 2005**). High financial cost and business’s inability to pay its obligations are the results of low liquidity (**Maness &Zietlow 2005**). Liquidity tells about
the firm’s degree of independence against the creditors and it also tells about the difficulties and crises face by the company Matarazzo (2003).

**Smith and Begemann (1997)** Combination of profitability and liquidity in working capital theory makes the goals of working capital management succeed. If the firms return is too high, it will give problem to the liquidity of the firm and the pursue of liquidity had a propensity to make the returns down.

**Sur et al (2001), Bardia (2007), Bardia (2004) and Sur and Ganguly (2001)** the relationship between profitability and liquidity is positive. As liquidity has a close relation with day to day activities so the study of liquidity is important for the internal analysts as well as external analysis in their study (Bhunia, 2010). Working capital management is important due to its direct relation with the firm’s profitability and liquidity Singh and Pandey (2008).

Corporate liquidity can be examined along two basic dimensions: static and dynamic Uyar (2009). Static analysis is focused on traditional ratios (current and quick ratios) based on the data from the balance sheet. These ratios assess to what extent current liabilities are covered by current assets. Dynamic analysis is based on cash outflows and inflows and uses cash conversion cycle (CCC) to measure effectiveness of a company’s ability to generate cash. It comprises both balance sheet and income statement data to create a measure with a time dimension (cash flow within the operating cycle of the firm). To conduct a comprehensive liquidity analysis both types of ratios are used.

**Vishnani and Shah (2007)** Liquidity is commonly measured by current ratio and profitability is commonly measured by ROI.

**Walt (2009)** Profitability can be turned into liquid asset that’s why it is more important but this never means that company is profitable if its liquidity is high. Liquidity is more important than profitability because it has impact on the survival of the company Don (2009).

**Walt (2009)** investigated that profitability is more important because profit can usually be turned into a liquid asset, and that liquidity is also important but does not mean that the company is profitable. Don (2009), while acknowledging the relative importance of both, submits that liquidity is more important because it has to do with the immediate survival
of the company. Dilemma in liquidity management is to achieve desired tradeoff between liquidity and Profitability (Rahemanet all, 2007).

**Walt (2009):** What is more important? Profitability or Liquidity of a Company.

Therefore, according to Ngwu (2006) liquidity management is the act of storing enough funds and raising funds quickly from the market to satisfy customer and other parties with a view to maintain public confidence.

Ratio analysis is one of the conventional way that use financial statements to evaluate the company and create standards that have simply interpreted financial sense (George H. Pink, G. Mark Holmes 2005).

**Research Gap**

The study aims to make an analysis of financial position of tea companies in India. A research gap in literature review provide that the areas of enforce in research financial performance in different tea companies. There is a scope to study the profile of influence of financial performance analysis in industries, comparing and comparing different industries. Hence, the present study is pertaining to Indian ten tea companies. The study have used the financial truths of the selected tea companies from 2007-08 to 2016-17. The financial position of the sample of the ten companies is evaluated in terms of profitability, liquidity, solvency and activity. The scope of financial position is very wide and the study is based on working capital and liquidity. The tea sector is doing extraordinarily sound and is registering high growth rates for the past few years. The tea industry which is a part of the agriculture industry has been the major driver of the tea industry and has been responsible for the phenomenal growth achieved by the tea industry. The exports are pioneering the agriculture industry. Set of studies it can be done in the area of tea companies keeping in mind the new development in field of financial position.