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A Study on Liquidity and Profitability Position with Reference to ITL Pvt. Ltd.

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Abstract:
Liquidity and profitability are very important issues in the growth and survival of business. Liquidity and Profitability two sources are key elements to know the financial position of the company. The study is aimed to know the firm's ability to gain profits .The study covered in ITL over a period of past five years from 2010-2014 Profitability ratio & liquidity ratios are financial tools and Karl Pearson, Co-efficient of correlation as a statistical tool used to analyze the data Liquidity &Profitability position of the company satisfactory the period of the study and positive relationship between Liquidity and Profitability position of the company. It is found that the networking capital position of the company was not satisfactory.

Keywords: *Liquidity, profitability, corporate finance*

1. Introduction

The term profitability is composed of two words 'profit' and 'ability'. The word profit has been defined in a number of ways. The meaning of a profit differs according to the use and purpose and figures. To obtain 'profit' form accounting point of view, total expenses are deducted from the total revenues for a given period. The term 'ability 'reflects the power of enterprise to earn profits. This ability referred as "earning power" to "operating performance of the concerned investment ". The word profitability may be defined as the ability of a given investment to earn a return from its use.

1.1. Measures

- Profitability in terms of total investment
- Profitability in terms of Sales
- Profitability in terms of shareholders and investment
- Profitability from creditor's point of view

Liquidity management is the most essential component of financial management. It plays most dominant role in the successful functioning of an enterprise liquid asset may be defined as the money and assets that are readily convertible into money. Money itself, by definition, the most liquid of assets, other assets has varying degree of liquidity, depending on the most liquid of they can be turned into cash.

2. Research Methodology

2.1. Objectives of the Study

- To evaluate the liquidity, the profitability position of the company using financial ratios.
- To find out the relationship between liquidity &profitability.

2.2. Need for the Study

The need of this study is to analyze the trade-off between two variables such as liquidity and profitability of ITL Company, liquidity is very important for running the business efficiently and effectively if the business does not have a good profitability and liquidity position it cannot survive in the competitive world.

2.2.1. Research Design

Based on the objectives of the study, descriptive research has adopted. Descriptive research is one which largely used to draw inferences about the possible relationships between variables. It is designed to gather descriptive information and provides information for formulating more sophisticated studies. It involves formulation of more specific hypothesis and testing them through statistical inference. This research is generally useful when we collect the information from the resource.

2.2.2. Sources of Data

There are mainly two sources of data available for the researcher

2.2.3. Secondary Data

The secondary data on the other hand, are those which have already been collected by someone else and which have already been passed through the statistical..

- News papers.
- Magazines.
- Journals.
- Financial reports.

This study is generally based on the secondary data which were obtained from the published sources, i.e. annual reports for a period of five years. The secondary sources data are available annual reports of the company relevant information has been collected from other publications

2.2.4. Period of the Study

The period of the study is restricted to 5 years from 2010-2014.

2.3. Financial Tools

The following financial tools were used to the analysis and make interpret of the financial data of the company.

- Profitability Ratio
- Liquidity Ratio

2.4. Statistical Tools

- Karl Pearson 's co –efficient of correlation

2.5. Scope of the Study

The scope of the study is restricted to five years only. This study is mainly concern with liquidity and profitability analysis of ITL Pvt ltd., selective accounting ratios such as liquidity ratios and profitability of the company. This study may help ITL Pvt ltd., to manage its financial resources effective by determining an optimal trade- off among liquidity and profitability of the company.

2.6. Limitations of the Study

- The study was limited to only five years.
- The study is purely based on secondary data which are then primarily from published annual reports of ITL Pvt ltd
- The study is not completely generalized because limited ratios are only calculated based on the financial information given by the company.
- The accounting ratios calculated may also suffer from the inherent weakness of accounting data provide by the company.
- The researcher may be provide with decorative figures because the company may not disclosure actual to the public.

➢ Liquidity Ratios

Year	**Current assets(Rs in crores)**	**Current liabilities (Rs in crores)**	**Ratio**
2009-2010	24.08	11.73	2.05
2010-2011	20.97	7.4	2.83
2011-2012	21.49	8.03	2.67
2012-2013	29.63	11.69	2.53
2013-2014	25.59	14.22	1.8

Table 1: Current ratio

During the year 4 current ratios was 2:1times which indicates that for every current liability, the company equal current assets, later in 2013-2014 year it has been decreased to 1.8times. It indicates to meet its current liability during the period of the study. The current ratio is said to be satisfactory for the period of the study.

Year	Quick assets(Rs in crores)	Current liabilities (Rs in crores)	Ratio
2009-2010	20.26	11.73	1.72
2010-2011	17.18	7.4	2.32
2011-2012	18.77	8.03	2.33
2012-2013	26.56	11.69	2.27
2013-2014	23.07	14.22	1.62

Table 2: Quick ratio

The standard quick ratio is 1:1 that means 1rupee worth of quick assets and 1 rupee worth of current liabilities. From the above table appeared the company quick ratio is fluctuating. So it is satisfaction to the company. In the 2011-2012 more than the standard norm of ratio it means firm is maintains idle funds.

Year	Cash &bank balances (Rs in crores)	Current liabilities (Rs in crores)	Ratio
2009-2010	0.28	11.73	0.02
2010-2011	0.3	7.4	0.04
2011-2012	1.83	8.03	0.22
2012-2013	1.89	11.69	0.16
2013-2014	0.89	14.22	0.06

Table 3: Absolute liquidity ratio

The absolute liquidity ratio standard ratio is o.50:1. During third year and second year the ratio was increased to 0.22 and 0.16 and in first , fourth , fifth was decreased 0.06,0.040, 0.02which was less than the standard ratio of Absolute liquidity ratio .It assumes that the liquidity position of the company is said to be not satisfactory to meet its day to day activities

Year	Net sales(Rs in crores)	Net working capital (Rs in crores)	Ratio
2009-2010	92.35	12.35	0.07
2010-2011	82.51	13.56	6.08
2011-2012	84.2	13.45	6.26
2012-2013	68.89	17.94	3.84
2013-2014	35.84	11.38	3.14

Table 4: Working capital turnover ratio

The above table shows that working capital ratio is absolute decreased in three years from the period of study it is said to be that the liquidity position is not satisfactory and the company is not able to meet its day today financial activities of the company

Year	Current assets (Rs in crores)	Net fixed assets (Rs in crores)	Ratio
2009-2010	24.08	3.17	7.59
2010-2011	20.97	4.23	4.95
2011-2012	21.49	4.6	4.67
2012-2013	29.63	4.27	6.93
2013-2014	25.59	3.95	6.47

Table 5: Current assets to fixed assets ratio

The above table shows that the current asset to fixed assets ratio as increased to 7.59 later it has been fluctuating. It indicates that the current assets to fixed assets are highly proportionate and it is said to be satisfactory. The company has more current assets when compared to fixed assets. The overall liquidity position of the company is said to be satisfactory during the period of study.

Year	Current assets (Rs in crores)	Total assets (Rs in crores)	Ratio
2009-2010	24.08	15.52	1.55
2010-2011	20.97	17.79	1.17
2011-2012	21.49	18.05	1.19
2012-2013	29.63	22.21	1.33
2013-2014	25.59	15.33	1.66

Table 6: Current assets to total assets ratio

The above table shows that the current asset to total assets ratio as increased to 1.66% later it has been fluctuating. It indicates that the current assets to total assets are highly proportionate and it is said to be satisfactory. The company has more current assets when compared to total assets. The overall liquidity position of the company is said to be satisfactory during the period of study.

- Profitability Ratios

Year	Operating profit (Rs in crores)	Capital employed (Rs in crores)	Ratio
2009-2010	3.46	3.79	91.29
2010-2011	3.23	10.39	31.08
2011-2012	3.92	10.02	39.12
2012-2013	4.32	10.52	41.06
2013-2014	1.94	1.11	174.77

Table 7: Return on investment

The above table shows that the ratio return on investment has increased to 174.77%. Later it has been decreasing years and it was too less in 2010-2011(31.08%). The overall profitability position of the company is said to be satisfactory during the period of the study.

Year	Net profit after tax& interest (Rs in crores)	Shareholders fund (Rs in crores)	Ratio
2009-2010	1.41	3.32	42.46
2010-2011	1.78	4.08	19.11
2011-2012	0.84	4.92	17.07
2012-2013	0.34	5.26	6.84
2013-2014	-1.39	3.87	-35.91

Table 8: Return on shareholder's fund

From the above table revealed that in the 2010-2011 year the percentage of(NPAT)was (42.46%) and the share value of the company is high. But in the year 2013-2014 and 2012- 2013 the share value of the company is too low (-35.91%, 6.84%)

Year	Profit after taxation (Rs in crores)	Equity share capital(Rs in crores)	Ratio
2009-2010	1.41	3.32	42.46
2010-2011	0.78	4.08	19.11
2011-2012	0.84	4.92	17.07
2012-2013	0.34	5.26	6.46
2013-2014	-1.39	3.87	-35.91

Table 9: Return on equity

The above table shows that the return on equity ratio was increased to42.46%.Later it was fluctuating in the remaining year's. It was too low in the 2013-2014(-35.91%). The overall funds invested in the company is said to be not satisfactory during the period of the study.

year	Net profit after tax (Rs in crores)	Total Assets (Rs in crores)	Ratio
2009-2010	1.41	15.52	9.08
2010-2011	0.78	17.79	4.38
2011-2012	0.84	18.05	4.65
2012-2013	0.34	22.21	1.53
2013-2014	-1.39	15.33	-9.06

Table 10: Return on total assets

The above table shows that the return on total assets ratio was not increased and it is started gradually decreasing in the remaining years and it was too low in the 2013-2014 year (9.06%). It is said that the amount invested in the total assets of the company is not effectively utilized during the period of the study.

Year	Gross profit (Rs in crores)	Net sales (Rs in crores)	Ratio
2009-2010	8.69	92.35	9.4
2010-2011	10.39	82.51	12.59
2011-2012	11.21	84.2	13.31
2012-2013	11.36	68.89	16.49
2013-2014	11.46	35.84	31.97

Table 11: Gross profit ratio

- Interpretation

The above table shows that the gross profit ratio was 9.4% and it gradually increased (12.58%, 13.31%, 16.49%, 31.97%). The gross profit ratio indicates the net sales of the company are also increased during the period of the study.

year	Operating cost (Rs in crores)	Net sales (Rs in crores)	Ratio
2009-2010	88.88	92.35	96.24
2010-2011	79.28	82.51	96.08
2011-2012	80.28	84.2	95.34
2012-2013	64.57	68.89	93.72
2013-2014	33.9	35.84	94.58

Table 12: Operating ratio

The above table shows that the operating ratio was decreased in the all the years. The company's operating ratio said to be calculated to know the cost of goods sold and to meet its day to day administration expenses and the profitability position of the company is said to be not satisfactory during the period of the study.

Year	Operating profit(Rs in crores)	Net sales (Rs in crores)	Ratio
2009-2010	3.46	92.35	3.74
2010-2011	3.32	82.51	3.91
2011-2012	3.92	84.2	4.65
2012-2013	4.32	68.89	6.27
2013-2014	1.94	35.84	5.41

Table 13: Operating profit ratio

From the above table it is inferred that during the 2012-2013 year profit before and tax (PBIT), in rising trend (6.27%) and the company's profitability position was good and it was able to meet its administration expenses but from the2013-2014 year was in declining trend(5.41%) and the company has been in ability to meet its operating expenses during this period.

Year	Net profit after tax (Rs in crores)	Net sales (Rs in crores)	Ratio
2009-2010	1.41	92.35	1.52
2010-2011	0.78	82.51	0.94
2011-2012	0.84	84.2	0.99
2012-2013	0.34	68.89	0.49
2013-2014	-1.39	35.84	-3.87

Table 14: Net profit ratio

The above table shows that the net profit ratio was 1.52% and it started gradually decreasing in the all the years. The proportion of net profit and net sales is comparatively high during the period of the study. The company has no ability to meet its financial expenses of the company during the period of the study.

Year	Net profit after tax & preference dividend(Rs in crores)	No of equity shares (Rs in crores)	Ratio
2009-2010	1.41	62.89	0.02
2010-2011	0.78	62.89	0.01
2011-2012	0.84	62.89	0.01
2012-2013	0.34	62.89	0
2013-2014	-1.39	62.89	-0.02

Table 15: Earning per share ratio

The above table shows that the earning per share ratio was 0.0224% in the 2010-2011 year. It started gradually decreasing the remaining year and too low in the year 2013-2014 and the profitability position of the company is said to be not satisfactory during the period of the study due to low profit in the company.

- Statistical Tools

Correlations					
		Current assets	Total assets	Capital employed	EBIT
Current assets	Pearson Correlation	1	.518	-.129	-.357
	Sig. (2-tailed)		.371	.837	.555
	N	5	5	5	5
Total assets	Pearson Correlation	.518	1	.778	.165
	Sig. (2-tailed)	.371		.121	.791
	N	5	5	5	5
Capital employed	Pearson Correlation	-.129	.778	1	.515
	Sig. (2-tailed)	.837	.121		.375
	N	5	5	5	5
EBIT	Pearson Correlation	-.357	.165	.515	1
	Sig. (2-tailed)	.555	.791	.375	
	N	5	5	5	5

Table 16: Karl Pearson co-efficient correlation

The Pearson correlation coefficient is found between current assets and total assets with R .518, which is positive and low both current assets and total assets are moving in a same direction. Therefore, there is a statistical relationship them and significant P0.371 which is greater than 0.05 and there is A insignificant relationship between them. Later the capital employed and EBIT with R 0.515, which is positive and low both capital employed and EBIT are moving the same direction. Therefore, there is a statistical relationship them and significant P 0.375 which is greater than 0.05 and there is a insignificant.

3. Findings

- The current ratios standard ratio is 2:1times. During the 2010-2011 year the current ratio was increased to 2.83because of low current liabilities.Later2013-2014year the current ratio has decreased to 1.8because of high current liabilities.
- The quick ratios standard ratio is 1:1 times. During the 2009-2010 year the quick ratio is1.72 times of its current liabilities but, it has been increased to 2.32 and 2.33.later 2012-2013 and 2013-2014year the quick ratio has decreased to 2.27 and 1.62 was more that its standard ratio.
- The absolute liquidity ratios standard ratio is 0.50:1 and in 2010-2011, 2011-2012and2012-2013, 2013-2014 year the ratio was increased to(0.04,0.22,0.16,0.06) .
- The working capital turnover ratio was increased 3.14 later it has been fluctuating it indicates that the working capital is highly proportionate and it is said to be satisfactory. The company is able to meet its day-to-day financial activity of the company.
- The current assets to total assets ratio has increased to 1.66.later it has been fluctuating it indicates that the all the years current assets to total assets is highly proportionate and it is said to be satisfactory. The overall liquidity position of the company is said to be satisfactory during the period of the study.
- The return on investment ratio has increased to 174.77 because of decreasing the capital employed.

- In the first year the percentage of the (NPAT) was (42.46%) and the share value of the company was high. The percentage of NPAT and the share value of the company was decreased to(19.11,17.07,6.84,-35.91).
- The return on total assets ratio was not increased and it is started gradually decreasing in the remaining years and it was too low in the 2014-2013 year (-9.06%).
- The equity ratio was increased to42.46%.Later it was fluctuating in the remaining year's .It was too low in the 2014-2013(-35.91%)
- During the year 2009-2010 year the gross profit ratio was 9.4% and it gradually increased in the remaining years.
- During the 2012-2013 year profit before and tax (PBIT)in the rising trend (6.27%) and the company's profitability position was good and it was able to meet its administration expenses, but from the2013-2014 year was in the declining trend(5.41%) and the company has been in ability to meet its operating expenses during this period
- The overall earnings of the company have decreased during the period of the study in all years.

4. Suggestions

- It is suggested that the company needs to maintain its liquidity position by making all the resources available to meet its day to day financial operations effectively in the upcoming period of time.
- It is suggested that the company needs to maintain its working capital position by showing that every current asset has been effectively utilized by the company for meeting its current liability. Is excess of working capital transfer to fixed assets that is benefit for future returns.
- The study is clearly shows the positive relationship between liquidity and profitability position of the company during the period of the study. The company has to maintain the same tradeoff between liquidity and profitability for enhancing its value and thereby its shareholders value over a period of time.

5. Conclusion

The study has come to conclusion that the liquidity and profitability position of the ITL pvt ltd. To be satisfactory during the period of the study. And this study indicates the positive relationship between liquidity and profitability position of the company during the period of the study. It is found that the net working capital position of the company was not said to be satisfactory during the period of the study. It concluded that the net working capital position of the company should not effectively utilize the day-today financial operations.

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