

LIQUIDITY MANAGEMENT -WITH REFERENCE TO SUJANA UNIVERSAL INDUSTRIES LIMITED

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DOI: <https://www.doi.org/10.58257/IJPREMS34818>

ABSTRACT

The Liquidity Management is the planned acquisition and utilization of cash – or near cash resources to ensure that the company is in a position meet its cash obligations as they fall due. Liquidity management requires due attention to be devoted to cash forecasting and planning. If the wheels of business are oiled by cash flow, the cash forecast, or cash budget, gauges how much oil is left in the can at any point in time. Any predicted cash shortfall may require the raising of additional finance, disposal of fixed assets or tighter control over working capital requirements in order to avoid a liquidity crisis. “Liquidity has two dimensions, i.e., the time required to convert the asset into cash and the certainty of the price realized. Even if the price realized on receivables were the predictable as that realized on inventories, receivables would be a more liquid asset than inventories, owing to the shorter time required to convert the asset into cash. If the price realized on receivables were more certain than that on inventories, receivables would be regarded as being more liquid”.

Keywords: Liquidity Management, Cash Management.

1. INTRODUCTION

Liquidity is the ability of a firm to meet its short-term obligations. The more liquid a firm, the more likely it is able to pay its employees, suppliers and holders of its short-term notes payable. Assets are liquid if they can be rapidly converted into cash. Different assets may exhibit different degrees of liquidity. cash is the most liquid asset; other assets have varying degrees of liquidity, depending upon the ease with which they can be turned into cash. Potential liabilities (unused available credits) also provide liquidity. For assets other than cash, liquidity has two dimensions”.

The firm’s liquidity – both on the asset side and the liability side must be managed. Liquidity management includes decisions regarding the determination of the expected surpluses or deficits of cash via cash budgets, along with managing the firm’s portfolio of short-term marketable securities, and the type and maturity structure of the firm’s short-term borrowings.

“The liquidity of a firm is the sum of liquidity of its individual assets. The real test of firm’s liquidity is its ability to meet its cash obligations when they are due”. When discussing the liquidity of a firm, the focus is on the concept of financial flexibility. A liquidity firm can quickly obtain funds to meet obligations or to take advantage of investment opportunities. The funds might come from ongoing operating activities, from issuing future claims on value, or from selling assets.

LIQUIDITY ANALYSIS:

Liquidity is the ability of a firm to meet its short-term liabilities. The more liquid a firm, the more likely it is to be able to pay its employees, suppliers and holders of its short-term notes payable. Analysis of liquidity is most important to short term creditors, but is also of concern to long term creditors and stockholders. even if a company has excellent long-term prospects, it may fail to realize the cash which leads to bankruptcy when it could not pay its short-term liabilities.

In order to get to the long term a firm has to get through the short term. Potential creditors and creditors of a business are chiefly interest in getting the answer to the following question.

Will the business be able to pay its liabilities as they come due, both in the near and distant future and, will it have enough working capital and facilities left to carry on normal operations?.

Short-term lenders such as suppliers and creditors, to assess the risk level and ability of a firm to meet its current obligations, use liquidity analysis.

Satisfying these obligations require the use of the cash resources available as of the balance sheet date and the cash to be generated through the operating cycle of the firm.

2. REVIEW OF LITERATURE

to eliminate cash management difficulties.

❖ Systematic Review of Literature on Effect of Liquidity on Bank

Sallahuddin Hassan This study carries out a systematic review on related empirical literature on the role of liquidity on banks' performance as well as risk-taking. The review of existing literature revealed that bank's liquidity has significant influence on banking outcomes such as banks performance, banks risk-taking behaviour, moral hazard, and other financial risks. However, we find that empirical evidence on all these is majorly skewed toward developed market. Therefore, we recommend that further studies in this area to provide additional insight for understanding of the impact of liquidity on the performance as well as the risk-taking behaviour and moral hazard. Thus, policy makers, banking regulators shareholder and other stakeholders will be properly guided on the potential impact of banks' liquidity and their performance and risk-taking behaviour.

❖ As it is clear by now, liquidity is one of the most important goals of working capital management and central task of cash management. Several authors have expressed their definition of liquidity but in general "a firm is liquid when it can pay bills on time without undue cost" (Maness & Zietlow 2005:25). Liquidity can also mean the extent to how quickly assets can be converted into money (Howells & Bain, 2005:587) but in this study when referred to liquidity the former definition applies. Solvency and liquidity are two concepts that are closely related (sometimes used interchangeable?) and reflect upon the actions of company's working capital policy. As Maness and Zietlow have defined; "a firm is considered solvent when its assets exceed its liabilities" (Maness & Zietlow 2005:25).

❖ Kim et al. 1998 have cited Brealey and Meyers claiming that value of liquidity is among the ten unsolved problems in finance. Why do firms need liquidity and how much liquidity is enough then? Costs and benefits for holding liquid assets have to be carefully weighted against the opportunity costs for holding more productive but less liquid assets. Optimal amount of liquidity is determined by a trade-offs between the low return earned on liquid assets and the benefit of minimizing the need for external finance (Chang-Soo Kim, David S. Mauer, and Ann E. Sherman, 1998:335). The main counter-argument for holding cash is usually connected with the low return it can offer. However, there are advantages for having liquidity reserves and three widely used motives for holding cash can be found in the literature:

- Transaction Motive: Companies hold cash for their daily expenses i.e. paying salaries, materials and taxes etc. Cash acts as a buffer for the mismatch between cash in- and outflows.
- Precautionary Motive: Future cash flows are uncertain and excess cash is hold to meet unexpected costs.
- Speculative Motive: Cash is kept easily available for profitable future opportunities that need to be undertaken immediately (Arnold, 2008:537-538).

RESEARCH GAP:

The study concludes that the adjustment of liquidity practice is beneficial for the companies\$ even through benefits are not always directly measurable as profitability.

OBJECTIVES:

- ❖ To evaluate the working capital as well as liquidity position.
- ❖ To evaluate the relationship between liquidity and profitability.
- ❖ To present and discuss the profile of the select units with a view to discuss their achievements since their inception.
- ❖ To study the organization for liquidity management in order to bring out its usefulness for effective liquidity management.
- ❖ To examine the asset structure of the select units to point out the relative share and importance of current/fixed assets in the total assets of the units.

3. RESEARCH METHODOLOGY

Need For the Study- Liquidity plays key role in the satisfactory ongoing of a firm. Liquidity management has, thus, become a basic and broad aspect of judging the performance if a corporate entity liquidity should be neither excessive nor inadequate. Excessive liquidity is an indicator of idle funds, which do not earn any profits for the other hand, adversely affects the credit worthiness of the firm, interrupts the production process an hampers it earnings capacity to a great extent. The need for efficient liquidity management has, thus, become essential for the smooth running of any business enterprise. It is in this context that modest effort has been made in this paper to examine the different aspects of Liquidity Management And For Better Illustration. The Unit Selected For The Study Is 'Sujana Universal Industries Limited'.

Scope of the Study: The scope of the present study on composes within its fold a theoretical frame work of Cash flow analysis. In general, analysis of Cash flow analysis trends, relationship of Cash flow analysis to sales, liquidity of Cash flow analysis, analysis of management of components of Cash flow analysis and the management of Cash flow analysis finance Pharmacy Company in five years from 2020 to 2023..

Research is the systematic collection, analysis and reporting of data and making relevant finding to deal with a specific situation faced by the company. The data can be collected and analyzed with the help of diagram and charts, which help in arriving to a conclusion.

In general sense research methodology means how to research and which best way select for finding out data from the company during the industrial training. The main objective of the research methodology is choosing the best path for collecting required data.

The report is on “cash flow statement” at Sujana Universal. The following research methodology is being followed for the project work.

SOURCES OF DATA

The study is based on the data collected both from primary and secondary source relevant for the analysis and to draw inferences, which will throw light upon the subject.

PERIOD OF STUDY:

The study is encircled basically with the management of liquidity, which is of ever-changing in nature and no financial manager can plan or predict accurately the trends of these over a long period. Based on these specific characteristics the relevant data of the units for the purpose of the study is collected for a period of 12 years commencing from 1981-82 to 1993-94. The period is set in such a way as to the availability of the latest information from the units during the period of data collection is included.

DESIGN OF THE STUDY:

The present study of “Liquidity Management in A.P. State Public Enterprises – A Study of Select units” is to be organized into the following chapters.

Secondary Data:

The secondary data is which have already been collected by someone else and which have already been passed through the statistical process. Most of the data used for the study is secondary in nature and has been collected from. Annual report of the company, internet

TOOLS: LIQUIDITY RATIOS

HYPOTHESIS:

To pursue the proposed study, the following hypothesis is framed and their validity tested through research techniques:

NULL HYPOTHESIS: There is no liquidity management in order to bring out its usefulness for effective liquidity management

ALTERNATIVE HYPOTHEIS: There is liquidity management in order to bring out its usefulness for effective liquidity management

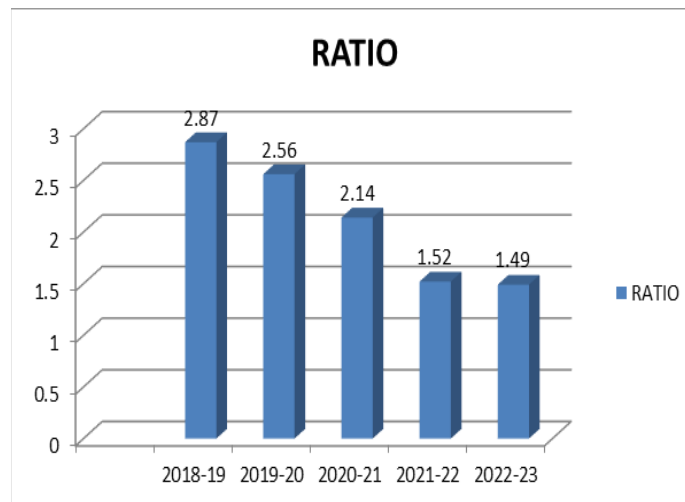
4. DATA ANALYSIS & INTERPRETATION:

CURRENT RATIO:

$$\text{CURRENT RATIO} = \frac{\text{CURRENT ASSETS}}{\text{CURRENT LIABILITIES}}$$

Calculation of Current ratio

Years	Current assets (in cr)	Current liabilities (in cr)	Ratio
2018-19	292.26	151.78	2.87
2019-20	336.49	130.96	2.56
2020-21	400.12	186.35	2.14
2021-22	613.75	399.54	1.52
2022-23	1611.04	739.39	1.49

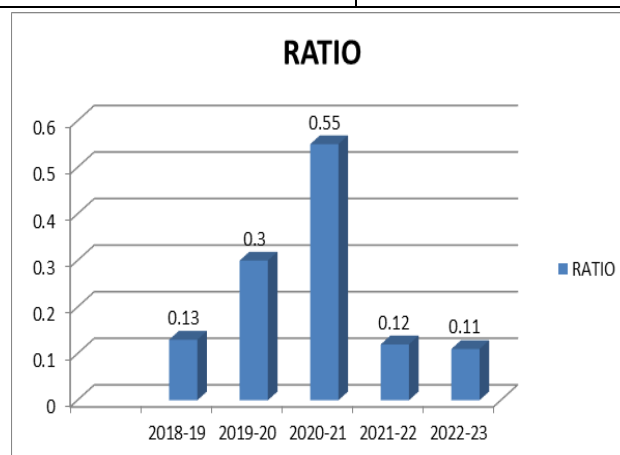


Interpretation:

From the above table it is observed that the current ratio is gradually decreasing during the study period 2018-2023. The current ratio was highest level of 2.87 in the year 2018-2019 and was at lowest level of 1.49 in the year 2022-2023.

Calculation of Liquid ratio

Years	Current assets (in cr)	Current liabilities (in cr)	Ratio
2018-19	13.60	151.78	0.13
2019-20	40.37	130.96	0.30
2020-21	153.29	186.35	0.55
2021-22	50.12	399.54	0.12
2022-23	47.17	739.39	0.11

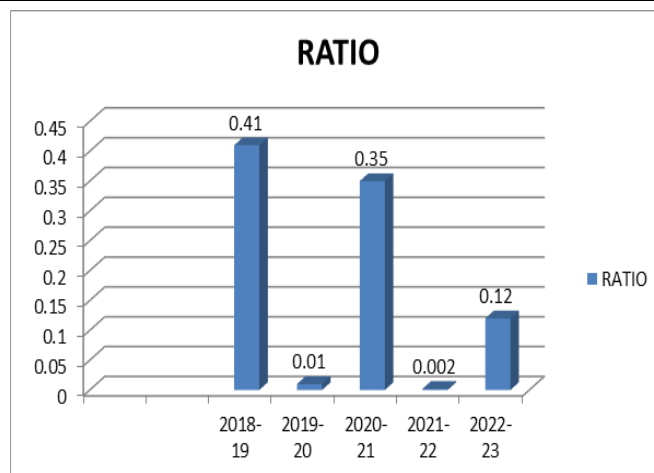


Interpretation:

The above table it is observed that the liquid ratio is fluctuating during the study period 2018-2023. The liquid ratio was highest value 0.55 in the year 2020-2021 and was at lowest value 0.11 in the year 2022-2023..

Calculation of Absolute Liquid ratio

Years	Current assets (in cr)	Current liabilities (in cr)	Ratio
2018-19	42.37	151.78	0.41
2019-20	1.42	130.96	0.01
2020-21	65.46	186.35	0.35
2021-22	0.80	399.54	0.002
2022-23	53.70	739.39	0.12

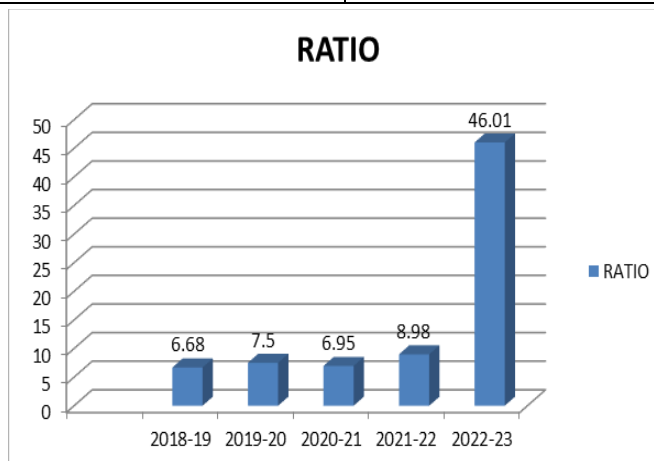


Interpretation:

The ratio indicates the extent to which the current liabilities are represented by cash and bank balances. The absolute liquid ratio has shown a highest value 0.41 during the year 2018-2019 and the lowest of 0.002 during the year 2021-2022

Calculation of Return on Capital employed

Years	Current assets (in cr)	Current liabilities (in cr)	Ratio
2018-19	25.26	377.67	6.68
2019-20	33.15	441.92	7.50
2020-21	32.47	466.6	6.95
2021-22	27.97	316.38	8.98
2022-23	33.64	73.1	46.01

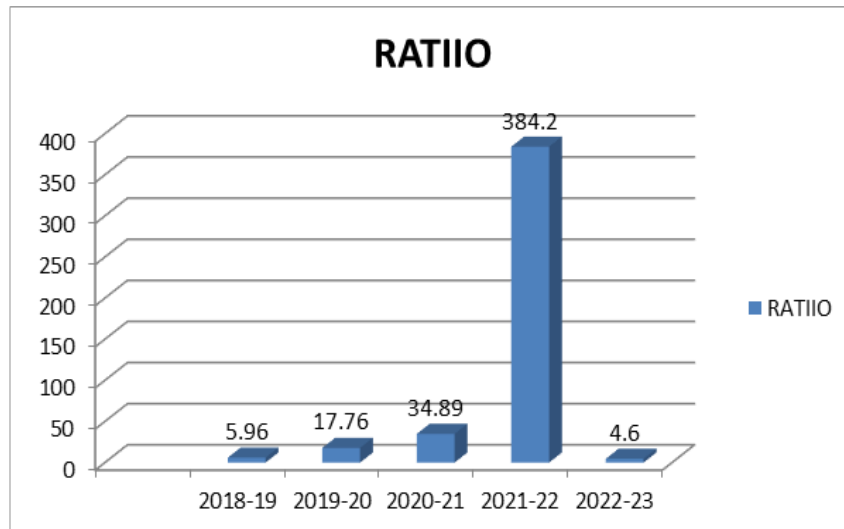


Interpretation:

The above table it is observed that the return on capital employed during the study period. The highest value of 46.01 in the year 2022-2023 and the lowest value of 6.68 in the year 2018-2019.

Calculation of Inventory turnover ratio

Years	Current assets (in cr)	Current liabilities (in cr)	Ratio
2018-19	365	61.15	5.96
2019-20	365	20.55	17.76
2020-21	365	15.46	34.89
2021-22	365	0.95	384.2
2022-23	365	79.29	4.60



Interpretation:

From the above table it is observed that the age inventory is fluctuating during the year 2018-2023. The age of inventory highest is value is 384.2 in the year 2021-2022, and the lowest value is 4.60 in the year 2022-2023

Coefficient Of Correlation:

Correlations			
		CR	ROCE
CR	Pearson Correlation	1	-.604
	Sig. (2-tailed)		.280
	N	5	5
ROCE	Pearson Correlation	-.604	1
	Sig. (2-tailed)	.280	
	N	5	5

Interpretation:

The relationship between current ratio and return on capital employed is negative correlation.

5. CONCLUSION OF THE STUDY

The overall analysis of the company performance was good. But also due to some changes in financial position of the company. Operating efficiency is also increased. But there is in current ratio and return on capital employed is good. In these inventory turnover ratio, and also debtors collection period was low try to improve all those rectification, it may possible in the company.

6. REFERENCES

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