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A STUDY ON "ANALYSIS OF LIQUIDITY-PROFITABILITY RELATIONSHIP IN ITC LTD"

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Abstract
Fast Moving Consumer Goods sector in India has been playing an important role in developing its nation not only by providing a large numbers of consumer goods necessary for carrying on daily activities of the general people and enrich their standard of living but also by creating a large amount of employment opportunities in India. The profile of Indian consumer have been notable changes in terms of income as well as the consumption pattern in the post liberalizations period.As a result the companies belonging to the Fast Moving Consumer sector have also changed their business strategy and policy to cope up with different challenges arise from external and internal environment due to liberalization measure taking by the government .It leads to notable changes in the profitability trend in Indian fast moving consumers goods companies. In this context, present paper examines the relationship between liquidity and overall profitability of fast moving consumers firm. Also attempts to understand the performance efficiency of the management during the study period of 2009-2014 and examined the significance of relationship between liquidity and financial performance indicator of fast moving consumer goods companies in India. In this context Pearson's simple correlation coefficient and t test were used in this study. The study revealed a statistically highly significant association between inventory turnover ratio and return on capital employed where as no significant relationships were found between cash turnover ratio, debtor turnover ratio and return on capital employed. The study has suggested a considerable amount of attention needed to cash management and debtor management performance result.

Key Word: Debtor Turnover Ratio, Cash Turnover Ratio Fast Moving Consumer Goods, Inventory Turnover Ratio, Return On Capital Employed.

Introduction
The paradigm shift of the Indian economy to a market-dominated open economy system in 1991 from a state- dominated subsidized financial system, consequent upon the world wide wave in favour of globalization and liberalization gaining motion in the last quarter of the twentieth century and signing of the Trade Related Intellectual Property Rights System (TRIPS) agreement in 1995 are watershed events for the Indian industries in the recent time. Indian FMCG sector is not a silent spectator to witness these path-breaking events. Due to changes brought about by these two mega events, a large number of companies in India which had grown exponentially over the years in a virtually non-competitive milieu have started facing increasingly stern competition in the domestic front as well as across the border. As a result, there has been a noticeable change in the profitability trends in the Indian FMCG companies .These companies have been forced to reorient their strategies for meeting the challenges thrown before them and for managing business operation efficiently in the post-liberalization era. Some of them have fruitfully adapted themselves to the new state of affairs while others have become completely unsuccessful. Financial statement analysis helps to pinpoint the strength and weakness of the company more precisely, to identify the factors responsible for such strength and weakness and also to measure the contribution made by such factors in this regards. In this study three factors such as Cash Turnover Ratio were considered as responsible factors for overall profitability of the firm.

Cash Turnover Ratio (CTR) is a measure of liquidity of the firm. The higher the value of Cash Turnover Ratio the higher is the liquidity.

Inventory Turnover Ratio (ITR) measures the efficiency of inventory management. So a high value is generally, desirable from the view point of the liquidity.

Debt Turnover Ratio (DTR) indicates the efficiency of debtors' management .A low value of DTR indicates high liquidity of the firm.

Relevant Literature Review
Susikala G (2016) examined the effect of capital structure on profitability of ITC Ltd. The study revealed that the debt equity ratio has influence on the profitability of the company. The study was found that the capital structure has a negative impact on profitability of the concern company.

Gupta D.shweta has conducted a study on the profitability of public sector enterprise during the study period 2011 to 2015. The study has measure the profitability of the selected company by using relevant ratios and statistical tools like mean.

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Standard deviation and coefficient of variation were used to test the significant the relationship between the relevant ratios. The study revealed that the overall profitability of Steel Authority of India was declined during the study period.

Khatik S.K.(2015) has conducted a study on impact of working capital management on profitability of ITC Ltd. The study has observed that the profitability position of ITC ltd was strong but the liquidity position was not up to the ideal level. The study also revealed a significant difference in profitability and liquidity position of the ITC ltd.

TamregundiA.N.(2016) has examined the relationship between liquidity and the probability of ten leading FMCG companies in India. Spearman's Rank Correlation and t test were used to analysis analysis the relationship between liquidity and profitbality. The study was found that both the liquidty and profitability of the selected companies were nearer to a particular level.

Okechi (2004) in his study attempted to present a profitability assessment tool developed for the purposes of evaluating the feasibility of fish farming investment and operations. To evaluate the profitability of the venture, indicators of investment returns were determined such as net present value (NPV), internal rate of return (IRR) and payback period and debt service coverage ratio. A sensitivity analysis on stocking density, survival rates, cost of feed, cost of fingerlings and sales price was also conducted. The findings of the analysis indicated that fish farming is financially feasible and would be viable if operated at a larger scale.

Yoong Hon et al, (2007) in their study attempted to present the Telecom sector in Malaysia it was found that corporatization along with liberalization followed by privatization of the incumbent yielded positive results in terms of increased profits and reduction in cost due to increase in efficiency in terms of improved labour productivity and service quality.

De Zoysa et al, (2009) in their study compared the performance of 161 listed manufacturing companies based on Return on Assets (ROA) and Return on Equity (ROE) in Sri Lanka and Malaysia over the period of 2006 to 2008, the Sri Lankan manufacturing companies were considerably more profitable than their counterparts in Malaysia in terms ROA but less profitable in terms of ROE. It is also identified a relatively weaker position of equity investments in the manufacturing sector of Sri Lankan companies and attributed this to a number of factors, such as poor equity market, high interest rates and excessive fear of high-risk investment.

Nobanee and Alttajjar (2009) carried out a study on the relationship between working capital management and corporate profitability of Japanese firms. The study was based on a sample of 2123 Japanese non-financial firms listed in the Tokyo Stock Exchange for the period 1990-2014. The net outcome of the study concluded that the profitability can be increased by shortening the cash conversion cycle, the receivable collection period, inventory conversion period and also by lengthening the payable deferral period.

Napompech, (2012) in his study examined the effects of working capital management on profitability. The result disclosed a negative relationship between the gross operating profits and inventory conversion period and the receivables collection period.

Niresh (2012) attempted to his study the cause and effect relationship between liquidity and profitability. The study covered 31 listed manufacturing firms in Sri Lanka over a period of past five years from 2007 to 2011. Correlation analysis and descriptive statistics were used in the analysis and the findings suggested that there is no significant relationship between liquidity and profitability among the listed manufacturing firms in Sri Lanka.

Popat (2013) in his study compared the profitability of international and domestic hotels and found that the international ones fared better than the domestic ones and also that the latter were overstaffed when compared to the former.

Solanki (2014) conducted analysis of sugar industry based on the two region northern and southern using EBDIT, EBIT, Gross Profit, PAT and PBT; t-test of two sample assuming unequal variance of above variance. The results revealed that sugar companies of the southern region are performing better than the northern region companies.

Sur and Panja (2014) carried out a study in order to examine the profitability trends in NTPC Ltd. during the Pre and Post-liberalization periods. The study revealed that NTPC Ltd. was able to prove itself as a better performer in terms of earning capability in the Post- liberalization periods as compared to the Pre- liberalization era by combating efficiently all the obstacles emanated from liberalization, globalization and competitiveness.

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Objectives of the study

The study has considered the following as its objectives:.

1. To analyze the average and consistency aspects of the profitability of the ITC ltd.
2. To examine the relationship between the selected liquidity and efficiency indicators of the company under study.
3. To examine whether the outcomes of the study conform to the theoretical arguments.

Methodology of the Study

The study was based on secondary data and it was confined to only six years, i.e., year 2009-2010 to 2013-2014. The study has attempted to find out the relationship between overall profitability of ITC Ltd with its liquidity and management efficiency during the above said period. The study conducted was empirical in nature and hence descriptive study has been conducted. Hence secondary data was used to conduct the study. Data pertaining to overall profitability, liquidity and management efficiency was collected from annual report. Simple mathematical tool such as measure of central tendency and dispersion was used to analysis the data. Pearson's simple correlation coefficient was used to measure the relationship between variables and to test the statistical significance of the relationship, t test was used. In this study Cash Turnover Ratio, Inventory Turnover Ratio and Debtor Turnover Ratio were considered independent variable while Return on Capital employed was considered as a measure of overall profitability depends on the above three variables .

Result and Discussion

1. The descript statistic table shows the coefficient of variance of the three variables.

	Cash Turnover Ratio	Inventory Turnover Ratio	Debtor turnover Ratio
Mean	16.73	4.73	26.03
S.D	8.66	0.67	6.87
C.V.	48.18%	14.16%	26.39%

Source: Annual Report.

Conclusion: The C.V. measure the consistency in the performance done by management in an organization. Lower value of C.V. in CTR, ITR and DTR is an indication of better financial performance. The highest value of C.V. of CTR indicates the lower the consistency in the performance of cash management where as the lower value of C.V. of ITR indicates a highly satisfactory consistence performance of the inventory management over the study period A consistence efficiency of debt management was also noticed during the study period..

2. The following table show The Cash Turnover Ratio (CTR) and Return on Capital Employed (ROCE) of ITC ltd during the study period.

Year	CTR	ROCE
2014	10	0.22
2013	25.45	0.22
2012	8.8	0.21
2011	9.44	0.2
2010	23.8	0.27
2009	22.88	0.22

Self calculated

Analysis : The correlation between CTR and ROCE was found Positive (+0.59).The number of observations (n) were six .Table value of t at 1% level of signification with 4 degree of freedom is 4.604. The calculated value of t is 1.4632.

Conclusion: The computed value of t (1.4632) is lower than the table value of t at 1% level (1.4632) as well as 5% level (2.776). CTR measures the efficiency of cash management and ROCE indicates the overall profitability. Pearson's simple correlation coefficient between CTR and ROCE +0.59 which was found to be statistically insignificant at 1 % level and 5% level. It implies that there was a insignificant positive association between Cash management of the company and its overall profitability. The result has failed to confirms to the theoretical argument that the higher the efficiency of cash management the higher the profitably of the company. It can be concluded that the cash management of the company failed to make any contribution toward enhance its overall profitability during the study period.

3. The following table show the Inventory Turnover Ratio (STR) and Return on Capital Employed (ROCE) of ITC ltd during the study period.

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Year	ITR	ROCE
2014	4.47	0.22
2013	4.48	0.22
2012	4.4	0.21
2011	4.02	0.2
2010	5.89	0.27
2009	5.13	0.22

Self calculated.

Analysis : The correlation between ITR and ROCE was found Positive (+0.93).The number of observations (n) were six .Table value of t at 1% level of signification with 4 degree of freedom is 4.604. Table value of t at 5% level of significance with 4df is 2.776.The computed value of t is 5.060.

Conclusion: The computed value of t (5.060) is higher than the table value of t at 1% level (1.4632) as well as 5% level (2.776). ITR measures the efficiency of inventory management and ROCE indicates the overall profitability. Pearson's simple correlation coefficient between ITR and ROCE was (+) 0.93 which was found to be statistically significant both at 1% level and 5% level. It implies that there was a very significant positive association between the inventory management of the company and its overall profitability. It also confirms to the theoretical argument that the higher the efficiency of inventory management of the company the higher the profitability of the company.

4. The following table show the Debtor Turnover Ratio (DTR) and Return on Capital Employed (ROCE) during the study period.

Year	DTR	ROCE
2014	15.18	0.22
2013	25.45	0.22
2012	25.15	0.21
2011	23.91	0.2
2010	31.22	0.27
2009	35.28	0.22

Self calculated.

Analysis: The correlation between DTR and ROCE was found Positive (+0.37).The number of observations (n) were six .Table value of t at 1% level of signification with 4 degree of freedom is 4.604. Table value of t at 5% level of significance with 4df is 2.776.The computed value of t is 0.80.

Conclusion

The computed value of t (0.80) is lower than the table value of t at both 1% level (1.4632) 5% level (2.776).DTR measures the efficiency of debtor management of the company. Pearson's simple correlation coefficient between DTR and ROCE was (+) 0, 37 which was found to be insignificant both at 1% and 5% level. It reveals that the association between the debtor management of the company and its profitability was positive but not at all significant. It also reflects that the debtor management of the company failed to notable contribution toward improving it overall profitability during the study period..

Thus the performance of cash management and debtor management was found not satisfactory during the last six years and as a result failed to notable contribution to overall profitability. This demand a special attention needed for improving the performance of cash management and debtor management in future. , beside this, inventory management performance was found highly satisfactory and positively associated with profitability of the firm.

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