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LIQUIDITY ANALYSIS OF LIBERTY SHOES LIMITED

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ABSTRACT

The purpose of this paper is to analysis he liquidity position of the Liberty shoes Limited. Liquidity refers to meet the abilities of current obligations. Liquidity positions are calculated by ratio analysis because ratio analysis is an analytical tool for financial statement analysis. This study concludes that liberty shoes limited having a satisfactory liquidity position.

INTRODUCTION

Finance is lifeblood of any business; the overall successful of any organization depend of effective utilization of funds. The financial management is an important part of overall business management. Liquidity refers to ability of a concern to meet its current obligations when they become due. The current assets should either be liquid or near liquidity. These assets are short term nature because converted into cash with in one year. The commercial bankers, suppliers of goods and other short term creditors are interested in the liquidity position. They will give credit only when they are sure that current assets are enough to pay out the current obligation.

Ratio analysis is a very powerful analytical tool of financial statement analysis. Ratio analysis is a process of comparison one figure to another figure, which called ratio. Ratios pinpoint a strength and weakness of firm's operations. The absolute accounting figures reported in the financial statements do not provide meaningful information about performance and financial position of a firm. Ratio analysis stands for the process of determining and presenting the relationship of items and groups of items in the financial statements. It is an important technique of the financial analysis. It is the way by which financial stability and health of the concern can be judged. Thus ratios have wide applications and are of immense use today. The study is confined to a financial performance of Liberty Shoes Limited for five year's i.e. 2008-12.

LIBERTY SHOES LIMITED PROFILE

Liberty Footwear is the only Indian company that is among the top 5 manufacturers of leather footwear of the world with a turnover in excess of U.S. $100 million and producing more than 50,000 pairs of footwear in a day. A range of companies largest in the industry covers the every age group and income category of person. Marketed across the globe through 150 distributors, 350 exclusive showrooms and over 6000 multi-brand outlets, and sold in thousands every day in more than 25 countries including fashion-driven, quality-obsessed nations like France, Italy, and Germany.

REVIEW OF LITERATURE:

The problems, which are common to most of the public sectors under taking, are materials scarcity. Capacity utilization and mainly working capital requirements and Liberty shoes Limited are no exception. Thus the importance of the study reveals as to how efficiently the working capital has been used so far in the organization. Khamrui b, Bagchi B (2012), investigate the relationship between working capital management and firm profitability and to identify the variables that most affect profitability and selected a sample of 10 FMCG (Fast Moving Consumer Goods) companies in India from CMIE database covering a period of 10 years from 2000–01 to 2009–10 and shows that negative relationship between debt used by the firm and its profitability. Kaur Harsh Vineet, Singh Sukhdev (2013), analyses the working capital performance of 164 manufacturing BSE 200 companies classified into 19 industries over the period of 2000-

2010 based on working capital score calculated by using normalized values of Cash Conversion Efficiency, Days Operating Cycle and Days Working Capital and the results of the study support earlier studies revealing that efficient management of working capital significantly affects profitability. Gumber Mansavi, Kumar Surender (2012), concluded that the co-operative sector was better off than the public sector as regard liquidity and payment to creditors as their credit period were much shorter than the public sector. Kumar Amit (2013), evaluate the working capital management in Tata steel and Sail Ltd and conclude that the gap between a government and private organization in managing their working capital requirement. Manisha Jagtap (2012), conclude that organization have satisfactory liquidity position and proper balance between the cash inflow and cash outflow. The study is confined to a financial performance of Liberty Shoes Limited for five year's i.e. 2008-12.

RESEARCH METHODOLOGY

OBJECTIVES OF THE STUDY:

To examine the Liquid performance of the **Liberty Shoes Limited** for the period of 2008 to 2012 with the help of ratios.

DATA SOURCES:

The study is based on secondary data. However the primary data is also collected to fill the gap in the information.

- Primary data will be through regular interaction with the officials of Liberty Shoes Limited
- Secondary data collected from annual reports and also existing manuals and like company records balance sheet and necessary records.

LIMITATIONS:

- The study is based on only secondary data.
- The period of study was 2008-12 financial years only.

Liquidity analysis through ratios:

The ratio analysis is not helpful only to analysis of past performance and also helpful to make future projections. An accounting figure conveys meaning when it is related to some other relevant information. For example, an Rs.5 core net profit may look impressive, but the firm's performance can be said to be good or bad only when the net profit figure is related to the firm's Investment.
It plays a dominant role in setting the framework of managerial decision.

Current Ratio: Current ratio is calculated by dividing current assets by current liabilities. The current ratio is a measure of firm's short-term solvency. It indicates the availability of current assets in rupees[1] for every one rupee of current liability. A ratio of greater than one means that the firm has more current assets than current claims against them Current liabilities.

Table 1 Current Ratio

(Rs. In Lacs)

Year	Current Assets	Current Liabilities	Current Ratio
2008	8133.07	2864.19	2.84
2009	14479.12	6435.97	2.25
2010	25459.61	12433.14	2.05
2011	55132.02	24722.77	2.23
2012	83467.24	37469.92	2.23

The table indicates that current ratio of the company, which is more as compared to the standard norm 2:1. The current ratio of the Liberty shoes ltd. decreasing up to 2.84 to 2.23.

Quick ratio: Quick ratio also called Acid-test ratio, establishes a relationship between liquid resources and current obligation. A low ratio is a represent that a firm may not be able to pay future current liabilities.

TABLE 2 Quick Ratios

(Rs. In Lacs)

Year	Quick Assets	Current Liabilities	Quick Ratio
2008	5690.11	2864.19	1.99
2009	8902.79	6435.97	1.38
2010	14755.46	12433.14	1.19
2011	34365.82	24722.77	1.39
2012	43449.05	37469.92	1.16

The tables indicate that the quick ratio of the company is above the standard norm of 1:1 for the entire period. It confirms that the liquidity position of this Liberty Shoes Limited is satisfactory.[i]

Cash Ratio: cash is the most liquid asset; it may be examined cash ratio and its equivalent to current liabilities. Trade investment or marketable securities are equivalent of cash; therefore, they may be included in the computation of cash ratio:

TABLE 3 Cash Ratio

(Rs. In Lacs)

Year	Cash & Bank Balances	Current Liabilities	Cash Ratio
2008	1275.66	2864.19	0.4454
2009	1237.83	6435.97	0.1923
2010	3791.87	12433.14	0.3050
2011	7301.83	24722.77	0.2953
2012	8360.79	37469.92	0.2231

This Cash Ratio indicates that the capacity of the company to realize current liabilities with its liquidity position. The Cash Ratio of Liberty Shoes Limited is undergone and many fluctuations. The cash ratio started with high ratio at first by 0.45 in the year 2008; it was decreased to 0.19 by next year it was slightly increased in next year i.e.2010 to 0.30.again fallen down to 0.295 in the year 2011 and decreased to 0.22 in the year 2012.

Inventory to working capital ratio: the ratio is an index of the position of over stocking. It shows that what part of the working capital is represented by the closing stock. The higher is the cover given by working capital; the lower is the risk of loss by the likely fall in the value of inventories.

Table 4 **Inventory to working capital ratio**

(Rs. In Lacs)

year	Stock	Working capital	Ratio

2008	413.04	5268.89	0.08
2009	755.18	8061.16	0.09
2010	3588.65	13026.5	0.28
2011	4363.72	30409.2	0.14
2012	6008.9	45997.3	0.13

Table shows the fluctuating trend of inventory to working capital during the study period.

Inventory Turnover Ratio: Inventory turnover ratio indicates whether investment in inventory is efficiently utilized or not. It, therefore, explains whether investment in inventory in within proper limits or not. It is calculated by dividing the cost of goods sales by the average inventory. The inventory turnover shows how rapidly the inventory in turning into receivable through sales. A high inventory turnover is indicative of good inventory management. The normal ratio may be taken as 5 to 6 times. Inventory Conversion Period to see the average time taken for clearing the stock.

TABLE 5
Inventory Turnover Ratio & conversion days

(Rs. In Lacs)

Year	Net sales	inventory	ratio	Conversion days
2008	17417.14	413.04	42.17	9
2009	26734.80	755.18	35.40	10
2010	54339.16	3588.65	15.14	24
2011	85012.43	4363.72	19.48	18
2012	132147.33	6008.90	21.99	16

The inventory ratio of Liberty Shoes Limited is started from 42.17 in the year 2008 and it was slightly decreased to 35.4 in the next year. It was decreased to 15.14 in the year 2010, it increased slightly by next two years. It shows the inefficiency of management in proper inventory turnover in organization.

Debtors Turnover Ratio and debt collection period: A firm sells goods for cash and credit. Credit is used as a marketing tool by number of companies. Debtors' turnover ratio indicates the number of times debtors' turnover each year generally, the higher the value of debtors' turnover, the more efficient is the management of credit. The liquidity position of the firm depends on the quality of debtors to a great extent.

TABLE 6 Debtor's turnover Ratio & collection Period

(Rs. In Lacs)

Year	Sales	debtors	ratio	Collection period
2008	17417.14	3391.9	5.135	70
2009	26734.80	5943.59	4.98	80
2010	54339.16	7740.24	7.02	51
2011	85012.43	20909.68	4.07	88
2012	132147.33	40018.09	3.30	109

From the table it can be seen that debtor's turnover ratio is declining while the average collection period shows the increasing trend which represents the inefficiency of management in collecting the debts in time which may in turn affect the liquidity position of the firm.

Working Capital Turnover Ratio: working capital turnover Ratio indicates the velocity of the utilization of net working capital. This Ratio indicates the number of times the working capital is turned over in the course of a year. This Ratio measures the efficiency with which the working capital is being used by a firm. A higher ratio indicates the efficient utilization of working capital and the low ratio indicates inefficient utilization of working capital.

TABLE 7 Working Capital Turnover Ratio

(Rs. In Lacs)

Year	sales	Working capital	ratio
2008	17417.14	5268.89	3.31
2009	26734.80	8061.16	3.32
2010	54339.16	13026.47	4.17
2011	85012.43	30409.23	2.80
2012	132147.33	45997.32	2.87

Table and Chart shows that the velocity of the utilization of Net Working Capital. In the year 2010 Liberty Shoes Limited holds with efficient working capital.

Current Assets Turnover Ratio: A firm may also like to relate current assets (or net working gap) to sales. It may thus complete networking capital turnover by dividing sales by net working capital.

TABLE 8 Current Assets Turnover Ratio

(Rs. In Lacs)

Year	sales	Current assets	ratio
2008	17417.14	8133.07	2.14
2009	26734.80	14497.12	1.84
2010	54339.16	25459.61	2.13
2011	85012.43	55132.02	1.54
2012	132147.33	83467.24	1.58

Table shows that Current assets turnover ratio is 2.14, 1.84, 2.13, 1.54 and 1.58 in respective year of 2008, 2009, 2010, 2011 and 2012 so the company achieved maximum Current assets turnover ratio in 2010.

Net profit Ratio: This ratio is the overall measure of the firm's ability to turn each rupee sales into net profit. If the net margin is inadequate the firm will fail to achieve satisfactory return on shareholders' funds. A firm with high net margin ratio would be advantageous position to survive in the face of falling prices, selling prices, and cost of production.

TABLE 9 Net Profit Ratio

(Rs. In Lacs)

Year	PAT	sales	ratio
2008	1529.92	17417.14	8.78
2009	2400.90	26734.80	8.98
2010	4607.65	54339.16	8.48
2011	8977.64	85012.43	10.56
2012	13559.83	132147.33	10.26

Net profit ratio of the liberty shoes ltd ranges between the 7% and 10% that is satisfactory.

Return on Investment (ROI): The term investment may refer to total assets or net assets. The funds employed in net assets in known as capital employed. Net assets equal net fixed assets plus current assets minus current liabilities excluding bank loans. Alternatively, capital employed is equal to net worth plus total debt. Since taxes are not controllable by management, and since firm's opportunities for availing tax incentives differ, it may be more prudent to use before tax to measure ROI.

TABLE 10 Return on Investment

(Rs. In Lacs)

Year	EBIT	Total assets	Ratio	Percentage%
2008	3381.65	14033.27	0.24	24.10
2009	4372.30	21775.87	0.20	20.08
2010	8437.42	33924.33	0.25	24.87
2011	15055.89	75566.90	0.20	19.92
2012	24212.469	337301.62	0.07	7.18

Table shows that Return on investment ratio is 24.1, 20.08, 24.87, 19.92 and 7.18 in respective year of 2008, 2009, 2010, 2011 and 2012 so the company achieved maximum Return on investment ratio in 2010.

Finding &Conclusions:

Financial analysis is the process identifying the financial strengths and weaknesses of the firm by properly by properly establishing relationship between the items of the balance sheet and the profit and loss account. The ratio is the most powerful tool of financial analysis. Current ratio of the company, which is more as compared to the standard norm 2:1 and Quick ratio and cash ratio shows the liquidity position of this Liberty Shoes Limited is satisfactory but the inventory ratio of Liberty Shoes Limited shows the inefficiency of management in proper inventory turnover in organization. Through ratio analysis it can be concluded that the organization is having the satisfactory current ratio, liquid ratio, inventory to working capital ratio which shows the efficiency the management in the maintaining liquidity in these respect but at the same time their inefficiency in collecting the debts in time and inventory management and the net profit ratio of the liberty shoes ltd ranges between the 7% and 10% that is satisfactory.

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