INTERNATIONAL JOURNAL OF RESEARCH IN COMMERCE & MANAGEMENT

IJRCM

A Monthly Double-Blind Peer Reviewed (Refereed/Juried) Open Access International e-Journal - Included in the International Serial Directories

Indexed & Listed at:

Ulrich's Periodicals Directory ©, ProQuest, U.S.A., EBSCO Publishing, U.S.A., Cabell's Directories of Publishing Opportunities, U.S.A.,

Open J-Gage, India [link of the same is duly available at Inflibnet of University Grants Commission (U.G.C.)],

Index Copernicus Publishers Panel, Poland with IC Value of 5.09 & number of libraries all around the world.

Circulated all over the world & Google has verified that scholars of more than 1771 Cities in 148 countries/territories are visiting our journal on regular basis.

Ground Floor, Building No. 1041-C-1, Devi Bhawan Bazar, JAGADHRI – 135 003, Yamunanagar, Haryana, INDIA

http://ijrcm.org.in/

CONTENTS

CALL FOR MANUSCRIPTS

We invite unpublished novel, original, empirical and high quality research work pertaining to recent developments & practices in the area of Computer, Business, Finance, Marketing, Human Resource Management, General Management, Banking, Insurance, Corporate Governance and emerging paradigms in allied subjects like Accounting Education; Accounting Information Systems; Accounting Theory & Practice; Auditing; Behavioral Accounting; Behavioral Economics; Corporate Finance; Cost Accounting; Econometrics; Economic Development; Economic History; Financial Institutions & Markets; Financial Services; Fiscal Policy; Government & Non Profit Accounting; Industrial Organization; International Economics & Trade; International Finance; Macro Economics; Micro Economics; Monetary Policy; Portfolio & Security Analysis; Public Policy Economics; Real Estate; Regional Economics; Tax Accounting; Advertising & Promotion Management; Business Education; Management Information Systems (MIS); Business Law, Public Responsibility & Ethics; Communication; Direct Marketing; E-Commerce; Global Business; Health Care Administration; Labor Relations & Human Resource Management; Marketing Research; Marketing Theory & Applications; Non-Profit Organizations; Office Administration/Management; Operations Research/Statistics; Organizational Behavior & Theory; Organizational Development; Production/Operations; Public Administration; Purchasing/Materials Management; Retailing; Sales/Selling; Services; Small Business Entrepreneurship; Strategic Management Policy; Technology/Innovation; Tourism, Hospitality & Leisure; Transportation/Physical Distribution; Algorithms; Artificial Intelligence; Compilers & Translation; Computer Aided Design (CAD); Computer Aided Manufacturing; Computer Graphics; Computer Organization & Architecture; Database Structures & Systems; Digital Logic; Discrete Structures; Internet; Management Information Systems; Modeling & Simulation; Multimedia; Neural Systems/Neural Networks; Numerical Analysis/Scientific Computing; Object Oriented Programming; Operating Systems; Programming Languages; Robotics; Symbolic & Formal Logic and Web Design. The above mentioned tracks are only indicative, and not exhaustive.

Anybody can submit the soft copy of his/her manuscript **anytime** in M.S. Word format after preparing the same as per our submission guidelines duly available on our website under the heading guidelines for submission, at the email address: **infoijrcm@gmail.com**.

GUIDELINES FOR SUBMISSION OF MANUSCRIPT

1. **COVERING LETTER FOR SUBMISSION:**

DATED: _____________

THE EDITOR
IJRCM

Subject: **SUBMISSION OF MANUSCRIPT IN THE AREA OF .**

(e.g. Finance/Marketing/HRM/General Management/Economics/Psychology/Law/Computer/IT/Engineering/Mathematics/other, please specify)

DEAR SIR/MADAM

Please find my submission of manuscript entitled '____' for possible publication in your journals.

I hereby affirm that the contents of this manuscript are original. Furthermore, it has neither been published elsewhere in any language fully or partly, nor is it under review for publication elsewhere.

I affirm that all the author (s) have seen and agreed to the submitted version of the manuscript and their inclusion of name (s) as co-author (s).

Also, if my/our manuscript is accepted, I/We agree to comply with the formalities as given on the website of the journal & you are free to publish our contribution in any of your journals.

NAME OF CORRESPONDING AUTHOR:
Designation:
Affiliation with full address, contact numbers & Pin Code:
Residential address with Pin Code:
Mobile Number (s):
Landline Number (s):
E-mail Address:
Alternate E-mail Address:

NOTES:
a) The whole manuscript is required to be in ***ONE MS WORD FILE*** only (pdf. version is liable to be rejected without any consideration), which will start from the covering letter, inside the manuscript.
b) The sender is required to mention the following in the **SUBJECT COLUMN** of the mail:
New Manuscript for Review in the area of (Finance/Marketing/HRM/General Management/Economics/Psychology/Law/Computer/IT/Engineering/Mathematics/other, please specify)
c) There is no need to give any text in the body of mail, except the cases where the author wishes to give any specific message w.r.t. to the manuscript.
d) The total size of the file containing the manuscript is required to be below **500 KB**.
e) Abstract alone will not be considered for review, and the author is required to submit the complete manuscript in the first instance.
f) The journal gives acknowledgement w.r.t. the receipt of every email and in case of non-receipt of acknowledgment from the journal, w.r.t. the submission of manuscript, within two days of submission, the corresponding author is required to demand for the same by sending separate mail to the journal.

2. **MANUSCRIPT TITLE**: The title of the paper should be in a 12 point Calibri Font. It should be bold typed, centered and fully capitalised.

3. **AUTHOR NAME (S) & AFFILIATIONS**: The author (s) **full name**, **designation**, **affiliation** (s), **address**, **mobile/landline numbers**, and **email/alternate email address** should be in italic & 11-point Calibri Font. It must be centered underneath the title.

4. **ABSTRACT**: Abstract should be in fully italicized text, not exceeding 250 words. The abstract must be informative and explain the background, aims, methods, results & conclusion in a single para. Abbreviations must be mentioned in full.

5. **KEYWORDS**: Abstract must be followed by a list of keywords, subject to the maximum of five. These should be arranged in alphabetic order separated by commas and full stops at the end.

6. **MANUSCRIPT**: Manuscript must be in ***BRITISH ENGLISH*** prepared on a standard A4 size ***PORTRAIT SETTING PAPER***. It must be prepared on a single space and single column with 1" margin set for top, bottom, left and right. It should be typed in 8 point Calibri Font with page numbers at the bottom and centre of every page. It should be free from grammatical, spelling and punctuation errors and must be thoroughly edited.

7. **HEADINGS**: All the headings should be in a 10 point Calibri Font. These must be bold-faced, aligned left and fully capitalised. Leave a blank line before each heading.

8. **SUB-HEADINGS**: All the sub-headings should be in a 8 point Calibri Font. These must be bold-faced, aligned left and fully capitalised.

9. **MAIN TEXT**: The main text should follow the following sequence:

   INTRODUCTION

   REVIEW OF LITERATURE

   NEED/IMPORTANCE OF THE STUDY

   STATEMENT OF THE PROBLEM

   OBJECTIVES

   HYPOTHESES

   RESEARCH METHODOLOGY

   RESULTS & DISCUSSION

   FINDINGS

   RECOMMENDATIONS/SUGGESTIONS

   CONCLUSIONS

   SCOPE FOR FURTHER RESEARCH

   ACKNOWLEDGMENTS

   REFERENCES

   APPENDIX/ANNEXURE

   It should be in a 8 point Calibri Font, single spaced and justified. The manuscript should preferably not exceed ***5000 WORDS***.

10. **FIGURES & TABLES**: These should be simple, crystal clear, centered, separately numbered &self explained, and **titles must be above the table/figure**. **Sources of data should be mentioned below the table/figure**. It should be ensured that the tables/figures are referred to from the main text.

11. **EQUATIONS**:These should be consecutively numbered in parentheses, horizontally centered with equation number placed at the right.

12. **REFERENCES**: The list of all references should be alphabetically arranged. The author (s) should mention only the actually utilised references in the preparation of manuscript and they are supposed to follow **Harvard Style of Referencing**. The author (s) are supposed to follow the references as per the following:

- All works cited in the text (including sources for tables and figures) should be listed alphabetically.
- Use (**ed.**) for one editor, and (**ed.s)** for multiple editors.
- When listing two or more works by one author, use --- (20xx), such as after Kohl (1997), use --- (2001), etc, in chronologically ascending order.
- Indicate (opening and closing) page numbers for articles in journals and for chapters in books.
- The title of books and journals should be in italics. Double quotation marks are used for titles of journal articles, book chapters, dissertations, reports, working papers, unpublished material, etc.
- For titles in a language other than English, provide an English translation in parentheses.
- The location of endnotes within the text should be indicated by superscript numbers.

PLEASE USE THE FOLLOWING FOR STYLE AND PUNCTUATION IN REFERENCES:

BOOKS

- Bowersox, Donald J., Closs, David J., (1996), "Logistical Management." Tata McGraw, Hill, New Delhi.
- Hunker, H.L. and A.J. Wright (1963), "Factors of Industrial Location in Ohio" Ohio State University, Nigeria.

CONTRIBUTIONS TO BOOKS

- Sharma T., Kwatra, G. (2008) Effectiveness of Social Advertising: A Study of Selected Campaigns, Corporate Social Responsibility, Edited by David Crowther & Nicholas Capaldi, Ashgate Research Companion to Corporate Social Responsibility, Chapter 15, pp 287-303.

JOURNAL AND OTHER ARTICLES

- Schemenner, R.W., Huber, J.C. and Cook, R.L. (1987), "Geographic Differences and the Location of New Manufacturing Facilities," Journal of Urban Economics, Vol. 21, No. 1, pp. 83-104.

CONFERENCE PAPERS

- Garg, Sambhav (2011): "Business Ethics" Paper presented at the Annual International Conference for the All India Management Association, New Delhi, India, 19–22 June.

UNPUBLISHED DISSERTATIONS AND THESES

- Kumar S. (2011): "Customer Value: A Comparative Study of Rural and Urban Customers," Thesis, Kurukshetra University, Kurukshetra.

ONLINE RESOURCES

- Always indicate the date that the source was accessed, as online resources are frequently updated or removed.

WEBSITES

- Garg, Bhavet (2011): Towards a New Natural Gas Policy, Political Weekly, Viewed on January 01, 2012 http://epw.in/user/viewabstract.jsp

LIQUIDITY MANAGEMENT: AN EMPIRICAL STUDY OF CUDDAPAH SPINNING MILLS LIMITED, KADAPA (AP)

N.VENKATA RAMANA
ASST. PROFESSOR
ANNAMACHARYA P.G.COLLEGE OF MANAGEMENT STUDIES
RAJAMPET

ABSTRACT

This paper mainly focus on liquidity management of Cuddapah Spinning Mills Ltd, Kadapa (AP).This study tries to achieve the objective of finding relationship if any between liquidity and profitability with the help of Spearman's Rank Correlation. In this study the few financial ratios are calculated such as Current Ratio (CR),Quick Ratio (QR),Absolute Liquidity Ratio (ALR), Inventory turnover Ratio (ITR),Age of Inventory, Debtor Turnover Ratio (DTR),Average Collection Period, Working Capital Turnover Ratio (WTR),Current Assets Turnover Ratio (CATR) and Current Assets to Total Assets(CATA).This study utilized the database from 2001-02 to 2009-10 from the annual reports of Cuddapah Spinning Mills Limited, Kadapa (AP).The final results reveals excess current assets were invested, absolute liquidity ratio are not satisfactory and it not met the standard norm of 0.5 : 1, inventory turnover ratio was very high. There is a positive correlation between the liquidity and profitability. A few solutions are have been offered to ameliorate the problems such as optimum utilization of current assets to maintain the cash position properly to meet the liquidity of the firm and investment in inventory should be minimized.

KEYWORDS

Absolute Liquidity Ratio (ALR), Average Collection Period, Age of Inventory Current Ratio (CR), Liquidity and Profitability.

INTRODUCTION

Liquidity refers to the ability to pay in cash the obligations that are due. In the absence of adequate liquidity, an enterprise is technically insolvent and at least faces the financial embarrassments of renegotiating its obligations to creditors. It may be defined as a firm's ability to realize value in money. In other words, liquidity is a firm's ability to meet its maturing obligations.

In relation to business the concept of liquidity has a multiplicity of definitions. In the words on Anthony and Reece, "liquidity refers to the company's ability to meet its current obligations". "Solvency" on the other hand, pertains to the company's ability to meet the interest costs and repayment schedules associated with its long-term obligations. In the words of Hampton, "liquidity means adequate cash in hand held by the firm to meet its obligations at all times". An enterprise must have certain level of cash above its expected needs to act as a reserve to meet emergencies. It should also be able to meet all its bills and to get all possible discount facilities available to for bulk purchases. The highest financial liquidity, the lowest risk of technical insolvency and vice versa.

LITERATURE REVIEW

To estimate loss rates and scheming quality of portfolio, a simple statistical tool by means of risk index was developed for risk measurement (Smith, 1964). Modigliani and Pogue (Modigliani, (1974)) presented two measure of risk; relative measure denoted by beta and measure of total risk denoted by standard deviation. Relying on monthly rate of return from1945 to 1970 they established beta measure to be more significant for securities' pricing and predictable for great portfolios.(Doherty, 1975) Presented a model based on loss probabilities to show how the scope and level of interdependence connecting unusual ways of treating risk rely on the composition of quality in risk management.

(Ratti, 1980) found that dissimilarities in environment can cause positive (negative) income affect that show the way to fewer (extra) risk taking by banks. (Kim, 1988) Found capital ratios fruitless mean to limit bank's insolvency risk. (Deakins, 1994) argued that method of risk estimation has very important inferences for banker and business relationships and highlighted on investing both in time and resources through risk assessment process, (Metwally, 1997) found that while financing loans interest-free banks depend deeply on their equity, face extra complexity, and inclined to be fairly additional conservative in utilizing their loan able resources than conventional banks (Clementi, 2001). Presented an outline of the tendency in consolidation of the market, prior to reviewing present suggestions on new Basel Accord and on the bank's capital adequacy.The study highlighted the returning difficulty of liquidity and then presented some examination of fresh developments, predominantly in risk transfer method. The study stressed that modernism must be handled with some care, and found risk management as significant goal of financial system.

(Ghannadian, 2004) Observed the performance of an Islamic banks and how Islamic banking scheme can offer liquidity and support in the process of money creation from side to side contribution transactions accounts and found that in all developing economies investing funds on basis of profits and losses is an attractive choice for the banks. (Gabbi, 2004), Emphasized about the reliance of risks on organization's place in the market. The study explained that liquidity risk can be controlled in the course of practices that are severely connected to the scale and scope of financial measures, seeing as large banks are capable both to manage additional market information and to influence monetary policy functions. (Zheng H. , 2006) Found that short-term yield spreads are dominated by liquidity risk. (Franck, 2007,2011) Found that securities market matter more in supporting bank for likely liquidity deficiency while studying the function of stock exchange as a similar function of and lender of last resort. Many dealers assert that extra liquid markets are superior to fewer liquid markets, (Mainelli, 2008) and found uniqueness of liquid markets are flexibility deepness and tightness.

(Zheng H. &., 2008) Stated that in the presence of liquidity risk more realistic loss can be estimated by liquidity adjusted conditional value at risk which provides a better measure for risk. And also suggested efficient Monte Carlo method: which applies to portfolio of securities or single securities, and finds approximate conditional value at risk and risk at value of all percentiles from the loss distribution with in single set of samples.

(Anas, 2008) Suggests that Islamic banks should strengthen their risk management practices such as, to enhance secondary market they need price transparency and liquidity. Moreover, they can trade Sukuks and Financial Takaful (insurance) as a medium of risk-hedging. (Hassan, 2009) Argues that three types of risks are being faced by Islamic banks in Brunei Darussalam such as, credit risk, foreign-exchange risk and operating risk, and they are managing those risks very efficiently with the help of risk management practices, which includes risk identification (RI) and risk assessment and analysis (RAA). (Dinger, 2009) proposed that in emerging economies, due to the existence of transnational banks aggregate liquidity shortage risk has been reduced, as in normal circumstances they are holding low liquidity assets but in crises they holds higher liquid assets as compared to single market banks.

(Vaihekoskia, 2009) Investigated that in the period of systematic liquidity risk (illiquidity) of those stocks which provides high rate of return were negatively related to the price of liquidity risk. Therefore, systematic liquidity risk is not priced as an asset-specific risk but as market-wide systematic risk as it is enough to occupy all liquidity related risks. (Uddin, 2009) Identified that there exists the negative relationship between liquidity and stock return, as stock become more illiquid the liquidity risk increases more than the relative rate, also indicate that return is not affected by the fluctuations in the relative stock liquidity.

(Ismal, "Assessment of liquidity management in Islamic banking industry". , 2010)Indicate that with respect to liquidity management, the Islamic banks in Indonesia are evaluating themselves on the basis of three factors such as, banks liquidity management policy, liability side and asset side, and they stands in the index of —good grade. (Ismal, "Strengthening and improving the liquidity management in Islamic banking"., 2010) Suggested that Islamic banks should improve their policies to balance liability and asset, communicate their operations and principles to public to deepen their understanding towards Islamic banks and restructure management of liquidity on asset and liability side in order to improve and strengthen their liquidity management

(Sawada, 2010) Investigated that in the times of crises, due to the liquidity shock persuaded by the depositors, banks increase their cash holdings by selling their securities in the financial market, not by liquidating their loans. As they adjust their portfolio dynamically through selling and buying their securities in financial market. (Ojo, 2010) Emphasized on the significance of risks all the way through a position to the vital role engaged by capital adequacy. On the basis of Accord principles the study observed that beside substantial development, a lot work is yet to be done specifically relative to liquidity risk.

NEED FOR THE STUDY
Liquidity plays a crucial role in the satisfactory ongoing of a firm. Liquidity management has, thus, become a basic and broad aspect of judging the performance of a corporate entity. Liquidity should be neither excessive nor inadequate.
Excessive Liquidity is an indicator of idle funds, on the other hand, adversely affects the creditworthiness of the firm, interrupts the production process and hampers its earning capacity to a great extent. Thus, efficient Liquidity management has become essential for the smooth running of any business enterprise.

OBJECTIVES OF THE STUDY
The specific objectives of the study are:
- To evaluate the liquidity management of the company through ratio analysis.
- To examine the relationship between liquidity and profitability by using Spearman's rank correlation and also to test the significance of such correlation

HYPOTHESIS OF THE STUDY
H0: there exists no significant correlation between the liquidity and profitability of Cuddapah Spinning Mills Ltd.

TOOLS OF ANALYLIS
Current ratio: Current ratio is found out by dividing the amount of current assets by the amount of current liabilities.

$$\text{Current Ratio} = \frac{\text{Current assets}}{\text{Current liabilities}}$$

Quick ratio or Acid test ratio: Quick ratio is found out by dividing the amount of quick assets by the amount of current liabilities.

$$\text{Quick Ratio} = \frac{\text{Quick assets}}{\text{Current liabilities}}$$

Absolute liquidity ratio: Absolute liquid ratio is found out by dividing the amount of absolute liquid assets (Cash, bank balance & Marketable securities) by the amount of current liabilities.

$$\text{Absolute liquidity Ratio} = \frac{\text{Cash \& bank balance + Marketable securities}}{\text{Current liabilities}}$$

Inventory turnover ratio: Inventory turnover ratio is calculated by dividing the Cost of goods sold by the amount of Average stock.

$$\text{Inventory to sales Ratio} = \frac{\text{Cost of goods sold}}{\text{Average stock}}$$

Age of inventory: Age of inventory is calculated by dividing the Number of effective days in a year by the Inventory turnover ratio.

$$\text{Age of inventory} = \frac{\text{No. of effective days in a year}}{\text{Inventory turnover ratio}}$$

Debtors' turnover ratio: Debtors turnover ratio is calculated by dividing the amount of sales by the amount of debtors.

$$\text{Debtors to sales Ratio} = \frac{\text{Sales}}{\text{Debtors}}$$

Age of debtors: Age of debtors is calculated by dividing the Number of effective days in a year by the debtors' turnover ratio.

$$\text{Age of debtors} = \frac{\text{Number of days in a year}}{\text{Debtors' turnover ratio}}$$

Working capital turnover ratio: The working capital turnover Ratio is calculated by dividing the amount of sales by the amount of net working capital.

$$\text{Working capital turnover Ratio} = \frac{\text{Sales}}{\text{Net working capital}}$$

Current assets turnover ratio: Current assets turnover ratio is calculated by dividing the amount of sales by the amount of Current assets.

$$\text{Current assets turnover Ratio} = \frac{\text{Sales}}{\text{Current assets}}$$

Current assets to total assets ratio: Current assets to total assets Ratio is found out by dividing the amount of current assets by the amount of Total assets.

$$\text{Current assets to total assets Ratio} = \frac{\text{Current Assets}}{\text{Total assets Current assets}}$$

Coefficient of rank correlation: An attempt has been made to study the extent of relationship between the liquidity and profitability. For this purpose the ratio of current assets to total assets has been used as the liquidity indicator and the ratio of return on capital employed has been taken as the profitability parameter.

$$R = 1 - \frac{6(\Sigma d^2)}{n^3 - n}$$

d = difference in the ranks of individuals in the two characters
n = number of individuals

ANALYSIS AND FINDINGS
The table 1 shows the current ratio of Cuddapah Spinning Mills Ltd from 2001-to-2010. Current ratio is the relationship between current assets and current liabilities and shows the proportion of current assets available per unit of current liability. From the Table 1 it is inferred that current ratio is satisfied the standard ratio norm of 2:1 in all years except in 2001-02, 2002-03, 2004-05 and 2005-06 the rest of the years excess current ratio it implies that more investment is made in current assets. So, current assets were idle.

TABLE 1: CURRENT RATIO OF CUDDAPAH SPINNING MILLS LTD FROM 2001-02 TO 2009-10 (In rupees)

Year	Current assets	Current liabilities	Current ratio
2001-02	38351673	26324726	1.45
2002-03	37046802	28103426	1.31
2003-04	34886586	11621086	3.00
2004-05	23966296	43784885	0.54
2005-06	39848938	24341623	1.63
2006-07	33454568	9273444	3.60
2007-08	41787791	5436783	7.68
2008-09	48321576	5621176	8.59
2009-10	50028938	5591317	8.94

Source: annual reports from 2002-to-2010

Table no 2 represent the quick ratio**.** Quick ratio is a rigorous and penetrating measure of a firm's ability to meet the short-term liabilities. It is a widely used parameter of judging the short-term repaying ability of the firm in the near future. It excludes inventory and bank overdraft, which are difficult to realize at short notice. Thus, it can assess the liquidity position of a company more effectively. Normally, an ideal quick ratio of 1:1 is considered to represent a satisfactory current financial condition. From the table no 2 refers that quick ratio was least in 2004-05 and highest in 2009-10 overall excess quick ratios than standard ratio of quick ratio. Hence, excess investment is made in quick assets.

TABLE 2: QUICK RATIO OF CUDDAPAH SPINNING MILLS LTD FROM 2001-02 TO 2009-10 (In rupees)

Year	Quick assets	Current liabilities	Quick asset ratio
2001-02	19379490	26324726	0.73
2002-03	19299917	28103426	0.68
2003-04	26429103	11621086	2.11
2004-05	14859476	43784885	0.33
2005-06	12489004	24341623	0.51
2006-07	11274756	9273444	1.21
2007-08	11330916	5436783	2.08
2008-09	19285356	5621176	3.43
2009-10	32872469	5591317	5.87

Source: annual reports from 2002-to-2010

Looking at the table 3 reveals the absolute liquidity of Cuddapah Spinning Mills Ltd. Absolute liquidity ratio establishes a relationship between absolute liquid assets and quick liabilities. It is a more rigorous test of the liquidity position of a company. A high absolute liquidity ratio is good from the creditor's point of view but from the management point of view, it indicates poor investment policy. In the table 3 it is observed that the absolute liquidity ratio was not satisfied standard ratio of absolute liquidity ratio i.e. 0.5:1 in all years except 2003-04. It means that not invested sufficient amount in cash and marketable securities. Since, the company not meets the liabilities of creditors.

TABLE 3: ABSOLUTE LIQUIDITY RATIO OF CSM LTD FROM 2001-02 TO 2009-10 (In rupees)

Year	Absolute liquid assets	Current liabilities	Absolute liquidity ratio
2001-02	8165102	26324726	0.31
2002-03	8586827	28103426	0.30
2003-04	16542256	11621086	1.42
2004-05	770573	43784885	0.02
2005-06	1647279	24341623	0.06
2006-07	718691	9273444	0.07
2007-08	1058716	5436783	0.19
2008-09	968999	5621176	0.17
2009-10	1397194	5591317	0.24

Source: annual reports from 2002-to-2010

The table no 4 depicted the inventory turnover ratio of Cuddapah Spinning Mills Ltd from 2001-to-2010.The Inventory turnover ratio measures the velocity of conversion of stock into sales. Usually a high inventory turnover/stock velocity indicates efficient management of inventory because more frequently the stocks are sold; the lesser amount of money is required to finance the inventory. A low inventory turnover ratio indicates an inefficient management of inventory. A low inventory turnover implies over-investment in inventories, dull business, poor quality of goods, stock accumulation, accumulation of obsolete and slow moving goods and low profits as compared to total investment. The inventory turnover ratio is also an index of profitability, where a high ratio signifies more profit; a low ratio signifies low profit. Sometimes, a high inventory turnover ratio may not be accompanied by relatively high profits. Similarly a high turnover ratio may be due to under-investment in inventories. From the table no 4 states that inventory turnover ratio is less in all years except in 2004-05 .It indicates that inefficient management of inventory, over investment is made in inventory, poor quality of goods, dull business.

TABLE 4: INVENTORY TURNOVER RATIO OF CSM LTD FROM 2001-02 TO 2009-10 (In rupees)

Year	Cost of goods sold	Average stock	Inventory turnover ratio
2001-02	13844853	8528802	1.62
2002-03	16195711	8590661	1.88
2003-04	18974905	6707534	2.82
2004-05	31554232	3339884	9.44
2005-06	53780998	11073184	4.85
2006-07	55972761	17456906	3.20
2007-08	39915264	19084404	2.09
2008-09	44531474	22521551	1.97
2009-10	35286317	21435257	1.64

Source: annual reports from 2002-to-2010

Table 5 present the age of inventory turnover ratio from the table it is inferred that the Age of inventory is very high in all years except in 2004-05. Generally the lower age of inventory is better the liquidity position and vice versa. 2004-05 is good when compared to other years as its age is very less compared to other years during the study period.

TABLE 5: AGE OF INVENTORY OF CSM LTD FROM 2001-02 TO 2009-10

Year	No. of days in a year	Inventory turnover ratio	Age of inventory (days)
2001-02	365	1.62	225
2002-03	365	1.88	194
2003-04	365	2.82	129
2004-05	365	9.44	39
2005-06	365	4.85	75
2006-07	365	3.20	114
2007-08	365	2.09	175
2008-09	365	1.97	185
2009-10	365	1.64	225

Source: annual reports from 2002-to-2010

Table 6 : The debtor's turnover ratio indicates the speed with which debtors are converted into cash. This ratio measures the rapidity or slowness of debtors' collection. Generally, the higher the turnover, the more efficient is the trade credit management. On the other hand, low debtors' turnover implies inefficient management of debtors' and less liquid debtors. From the table no 6 is observed that the debtors' turnover ratio is high in 2006-07 year compared to other years. Generally debtors turnover ratio is satisfactory level so more efficient credit management and more liquid debtors

TABLE 6: DEBTORS TURNOVER RATIO OF CSM LTD FROM 2001-02 TO 2009-10 (In rupees)

Year	Sales	Debtors	DTR
2001-02	26286788	3466393	7.58
2002-03	43852014	3623870	12.10
2003-04	37935599	1095476	34.62
2004-05	52584203	5425978	9.69
2005-06	80988831	1261936	64.17
2006-07	98078050	921732	106.40
2007-08	66743392	2029944	32.87
2008-09	71633690	10074101	7.11
2009-10	61268742	10373149	5.90

Source: annual reports from 2002-to-2010

Table no 7 shows the age of debtor of Cuddapaha Spinning Mills Ltd from the 2001-to-2010.The average collection period refers to the average time lag between sales and collection measurable in terms of number of days. It is a significant measure of the collection activity and quality of accounts receivables. A rule of thumb is that the collection period should not exceed 1/3 times the regular credit period. From the table no 7 states that the shorter collection period implies quick payment by debtors, it occurs in the years of 2003-04, 2005-06, 2006-07& 2007-08. Longer the payment period in the years of 2008-09&2009-10.Overall average collection period is satisfactory during the period

TABLE 7: AGE OF DEBTORS OF CUDDAPAH SPINNING MILLS LTD FROM 2001-02 TO 2009-10

Year	No. of days in a year	DTR	Age of inventory (Days)
2001-02	365	7.58	48
2002-03	365	12.10	30
2003-04	365	34.62	11
2004-05	365	9.69	38
2005-06	365	64.17	6
2006-07	365	106.40	3
2007-08	365	32.87	11
2008-09	365	7.11	51
2009-10	365	5.90	62

Source: annual reports from 2002-to-2010

The working capital turnover ratio measures the efficiency with which the working capital is being used by a firm. A high ratio indicates efficient utilization of working capital and vice versa. But a very high working capital turnover ratio may also mean lack of sufficient working capital which is not a good situation. Table no 8 indicates that the Working capital turnover ratio is fluctuating from year to year. It is higher in 2005-06 and lower in 2004-05. It shows inefficient utilization of working capital during the operation of the business.

TABLE 8: WORKING CAPITAL TURNOVER RATIO OF CSM LTD FROM 2001-02 TO 2009-10 (In rupees)

Year	Sales (Rs)	Net working capital (Rs)	Working capital turnover Ratio
2001-02	26286788	12026947	2.18
2002-03	43852014	8943376	4.90
2003-04	37935599	23265500	1.63
2004-05	52584203	-19818589	-2.65
2005-06	80988831	15507315	5.22
2006-07	98078050	24181124	4.05
2007-08	66743392	36351008	1.83
2008-09	71633690	42700400	1.67
2009-10	61268742	44437621	1.37

Source: annual reports from 2002-to-2010

Table no 9 represents the current assets turnover ratio of Cuddapaha Spinning Mills Ltd from 2001-to-210.It is applied to measure the turnover and profitability of the total current assets employed to conduct the operations of the firm. The ratio is calculated by dividing the amount of sales by the amount of current assets. The idea behind the current assets turnover ratio is to give an overall impression of how rapidly the total investment in current assets is being turned. The lower the turnover of the current assets, the worse is the utilization of current assets. The higher the turnover, the better is the use of current assets. From the table no 9 it is inferred that the Current assets turnover ratio is fluctuating from year to year. Current assets are ranging between 1 to 3 times. The higher the turnover of current assets the better is the utilization of them.

TABLE 9: CURRENT ASSETS TURNOVER RATIO OF CSM LTD FROM 2001-02 TO 2009-10 (In rupees)

Year	Sales	Current assets	Current assets turnover ratio
2001-02	26286788	38351673	0.68
2002-03	43852014	37046802	1.18
2003-04	37935599	34886586	1.08
2004-05	52584203	23966296	2.19
2005-06	80988831	39848938	2.03
2006-07	98078050	33454568	2.93
2007-08	66743392	41787791	1.59
2008-09	71633690	48321576	1.48
2009-10	61268742	50028938	1.22

Source: annual reports from 2002-to-2010

The table no 10 shows the current assets to total assets ratio of Cuddapaha Spinning Mills Ltd from the 2001-to-2010.Increasing Current Assets to Total Debt ratio is generally a positive sign, showing the company has a better ability to satisfy its debt obligations using its total current assets. A ratio of 1.0 or greater indicates the company would just meet its debt obligations, when in reality the company would need a ratio result that is higher than this, as some of the current assets could not easily be converted into cash. Table no 10 refers that current assets to total assets ratio is very less during the analysis period so the company not using current assets in proper way and not satisfy the debt obligations.

TABLE 10: CURRENT ASSETS TO TOTAL ASSETS RATIO OF CSM LTD FROM 2001-02 TO2009-10 (In rupees)

Year	Current assets	Total assets	Current assets to total assets Ratio
2001-02	38351673	196544442	0.19
2002-03	37046802	201811688	0.18
2003-04	34886586	218207224	0.15
2004-05	23966296	130758311	0.18
2005-06	39848938	164495311	0.24
2006-07	33454568	164495311	0.20
2007-08	41787791	172389165	0.24
2008-09	48321576	172389165	0.28
2009-10	50028938	172389165	0.29

Source: annual reports from 2002-to-2010

Table no 11 depicted the rank correlation between the liquidity and profitability of Cuddapaha Spinning Mills Ltd and an attempt have been made to judge the significance of the relationship by using the t-test. For this purpose the ratio of current assets to total assets has been used as the liquidity indicator and the ratio of return on capital employed has been taken as the profitability parameter. It is found that there is a significant correlation is exist between liquidity and profitability (r=0.583) which is significant at 0.05 level. To test the null hypothesis t-test have been used from the results it is inferred that the computed value of t=1.8995 is less than the critical value of 't' (3.499) at 5% level of significance. Hence, the null hypothesis have been accepted, which signifies there exists no significant relationship between the liquidity and profitability of the company

TABLE 11: RANK CORRELATION BETWEEN LIQUIDITY AND PROFITABILITY OF CSM LTD.

Year	Current assets to total assets (%)	Liquidity rank (r1)	Return on capital employed (%)	Profitability rank (r2)	(r1-r2) d	d^2
2001-02	19	6	-37.03	8	-2	4
2002-03	18	7.5	-10.35	6	1.5	2.25
2003-04	15	9	-13.17	7	2	4
2004-05	18	7.5	-106.70	9	-1.5	2.25
2005-06	24	3.5	0.37	4	-0.5	0.25
2006-07	20	5	12.99	1	4	16
2007-08	24	3.5	1.93	3	0.5	0.25
2008-09	28	2	6.80	2	0	0
2009-10	29	1	0.14	5	-4	16

$E\ d^2 = 45$

$$\mathbf{R} = 1 - \frac{6\left(\mathcal{E} d^2 + \mathcal{E}(t^3 - t)/12\right)}{n^3 - n}$$

$$\mathbf{R} = 1 - \frac{6\,(45+5)}{9^3 - 9}$$

$$\mathbf{R} = 1 - \frac{300}{720}$$

$$\mathbf{R} = 1 - 0.416$$

$$\mathbf{R} = 0.583$$

T-TEST

$$t = \frac{R^1}{\sqrt{1 - R^{1^2}}} \times \sqrt{n-2}$$

$$t = \frac{0.583}{\sqrt{1-(0.583)^2}} \times \sqrt{9-2}$$

$$t = \frac{0.583}{\sqrt{0.6602}} \times 2.6457$$

$$t = \frac{0.583}{0.812} \times 2.6457$$

$$t = 1.8995$$

SUGGESTIONS

1. The company not maintains the standard ratio of 2:1 in between Current assets and Current liabilities. So, the company maintains 2:1 proportionate in between current assets and current liabilities to avoid the shortage and excess current assets and current liabilities.
2. Made excess investment in quick assets, it leads to idle quick assets. Hence, the company takes necessary steps to control the excess investment in quick assets.
3. The company invest sufficient amount in cash and marketable securities to meet the liabilities of creditors
4. To more emphasis on inventory management for the purpose of optimum investment in inventory and improve the quality of goods.
5. Utilization of working capital is inefficient during the operations of the business. So those utilize working capital properly and effectively during the operations of the business.

CONCLUSION

Managing liquidity is a fundamental component in the safe and sound management of firm finance. Sound liquidity management involves prudently managing assets and liabilities (on- and off-balance sheet), both as to cash flow and concentration, to ensure that cash inflows have an appropriate relationship to approaching cash outflows. The study investigate the relationship between the liquidity and profitability of Cuddapaha Spinning Mills Ltd during years from 2001-to-2010.In this study various ratios are calculated to find out the relationships between the liquidity and profitability the results are shows that liquidity has not have a significant influence on the profitability of the company.

REFERENCES

1. Anas, E. &. (2008). "Managing Risks and Liquidity in An Interest Free Banking Framework: The Case of The Islamic Banks". International Journal of Business and Management, 80-95.
2. Clementi, D. (2001). "Financial Markets: Implications for Financial Stability". B A L A N C E S H E E T, , 9 (3), 7-12.
3. Deakins, D. &. (1994). "Risk Assessment with Asymmetric Information". International Journal of Bank Marketing, , 24-31.
4. Dinger, V. (2009). "Do Foreign-Owned Banks affect Banking System Liquidity Risk?". . Journal of Comparative Economics, 647–657.
5. Doherty, N. A. (1975). "Some Fundamental Theorems of Risk Management". The Journal of Risk and Insurance, , 447-460.
6. Franck, R. &. (2007, 2011). "Liquidity Risk and Bank Portfolio Allocation". International Review of Economics and Finance, Interdisciplinary Journal of Research in Business , 1 (1), 60-77.35-44.
7. Gabbi, G. (2004). "Measuring Liquidity Risk in A Banking Management Framework". Managerial Finance, (30), 44-58.
8. Ghannadian, F. F. (2004). "Developing Economy Banking: The Case of Islamic Banks". International Journal of Social Economics, 740-752.
9. Hassan, A. (2009). "Risk Management Practices of Islamic Banks of Brunei Darussalam". The Journal of Risk Finance, 23-37.
10. Ismal, R. (2010). "Assessment of Liquidity Management in Islamic Banking Industry". International Journal of Islamic and Middle Eastern Finance and Management, 147-167.
11. Ismal, R. (2010). "Strengthening and Improving The Liquidity Management in Islamic Banking". Humanomics, 18-35.
12. Kim, D. &.-1. (1988). "Risk In Banking and Capital Regulation". The Journal of Finance, 1219-1233.
13. Mainelli, M. (2008). "Liquidity 5 Diversity". . The Journal of Risk Finance, 211-216.
14. Metwally, M. (1997). "Differences Between The Financial Characteristics of Interest-Free Banks and Conventional Banks". European Business Review, 92-98.
15. Modigliani, F. &. ((1974)). "Introduction to Risk and Return: Concepts and Evidence". Financial Analysts Journal, 69-86.
16. Ojo, M. (2010). "Risk Management by The Basel Committee: Evaluating Progress Made from The 1988 Basel Accord to Recent Developments". Journal of Financial Regulation and Compliance, (18), 305-315.
17. Ratti, R. A.-3. (1980). "Bank Attitude Toward Risk, Implicit Rates of Interest, and The Behavior of An Index of Risk Aversion for Commercial Banks". The Quarterly Journal Of Economics, 309-331.
18. Sawada, M. (2010). "Liquidity Risk and Bank Portfolio Management in A Financial System Without Deposit Insurance: Empirical Evidence from Prewar Japan". International Review of Economics and Finance, 392–406.
19. Smith, P. (1964). "Measuring Risk on Consumer Instalment Credit". Management Science, II (2), 327-340.
20. Uddin, M. H. (2009). "Reexamination of Stock Liquidity Risk with A Relative Measure". . Studies in Economics and Finance, 4-35.
21. Vaihekoskia, M. (2009). "Pricing of Liquidity Risk: Empirical Evidence from Finland". Applied Financial Economics, 1547 — 1557.
22. Zheng, H. (2006). "Interaction of Credit and Liquidity Risks: Modelling and Valuation". Journal of Banking & Finance, 391-407.
23. Zheng, H. &. (2008). "Jump Liquidity Risk and Its Impact on Cvar". The Journal of Risk Finance, 477-491.

REQUEST FOR FEEDBACK

Dear Readers

At the very outset, International Journal of Research in Commerce and Management (IJRCM) acknowledges & appreciates your efforts in showing interest in our present issue under your kind perusal.

I would like to request you to supply your critical comments and suggestions about the material published in this issue as well as on the journal as a whole, on our E-mail i.e. **infoijrcm@gmail.com** for further improvements in the interest of research.

If you have any queries please feel free to contact us on our E-mail infoijrcm@gmail.com.

I am sure that your feedback and deliberations would make future issues better – a result of our joint effort.

Looking forward an appropriate consideration.

With sincere regards

Thanking you profoundly

Academically yours

Sd/-

Co-ordinator

ABOUT THE JOURNAL

In this age of Commerce, Economics, Computer, I.T. & Management and cut throat competition, a group of intellectuals felt the need to have some platform, where young and budding managers and academicians could express their views and discuss the problems among their peers. This journal was conceived with this noble intention in view. This journal has been introduced to give an opportunity for expressing refined and innovative ideas in this field. It is our humble endeavour to provide a springboard to the upcoming specialists and give a chance to know about the latest in the sphere of research and knowledge. We have taken a small step and we hope that with the active co-operation of like-minded scholars, we shall be able to serve the society with our humble efforts.

Our Other Journals