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   STATEMENT OF THE PROBLEM

   OBJECTIVES

   HYPOTHESES

   RESEARCH METHODOLOGY

   RESULTS & DISCUSSION

   FINDINGS

   RECOMMENDATIONS/SUGGESTIONS

   CONCLUSIONS

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   APPENDIX/ANNEXURE

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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.

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LIQUIDITY PERFORMANCE: A CASE STUDY OF NAGARJUNA FERTILIZERS COMPANY LIMITED

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ABSTRACT

Liquidity refers to the ability of the firm to meet the current financial obligations in the short run usually in one year. A firm should assure that it does not suffer from lack of liquidity and also it does not carry too much liquidity as this hampers profitability. To analyze the firm's liquidity position, liquidity ratios are used. These ratios are generally based on the relationship between current assets and current liabilities. The liquidity of the NFCL is analysed with the help of Liquidity ratios. The huge funds were unnecessarily blocked up in the current assets in the first part of the study period. This situation had negative impact on profitability of company. The current assets were not sufficient to meet the current liabilities in the later years of the study period. Hence, the liquidity performance was not satisfactory in the company. The NFCL had failed to achieve the balance between the twin objectives of working capital management i.e., liquidity and profitability. Undoubtedly, the short-term obligation could be comfortably meet from quick assets. But more quantum of working funds were blocked up in quick assets, particularly in the former years of the study period. Thus, the profitability of the company could be adversely affected. The variations in the cash ratio were due to variations in the current liabilities. The ratio never did less than the unity during the entire period of the study. Therefore, the liquidity performance was comfortable and NFCL did not face the problem of liquidity risk. The actual liquidity position was adequately comfortable only in two years out of 10 years. In other words, the NFCL had faced the problem of liquidity in actual terms. In other words, the actual liquidity performance was threatening in the company. The management of NFCL shall release the funds blocked up in current assets through quick conversion of current assets into cash. On the other hand, the company either shall have to improve the quantum of current assets or to reduce the magnitude of current liabilities in later years of the study. To this end, the management of NFCL shall bring the balance between the liquidity and profitability. The size of the quick assets shall be reduced so as to improve the profitability performance. The management of the company shall reduce the variations in the cash ratio by minimizing the variations in current liabilities. The management of NFCL shall improve the actual liquidity performance by improving the cash flows of the company.

KEYWORDS
Technical liquidity, Actual liquidity, current ratio, quick ratio, cash ratio.

INTRODUCTION

Several financial ratios computed from the accounting data can be grouped into various classes according to financial activity to be evaluated. As stated earlier, the parties interested in financial analysis are short-term and long-term creditors, owners and management. Short-term creditors' main interest is in the liquidity position or the short-term solvency of the firm. Long-term creditors, on the other hand, are more interested in the long-term solvency and profitability of the firm. Liquidity refers to the ability of the firm to meet the current financial obligations in the short run usually in one year. A firm should assure that it does not suffer from lack of liquidity and also it does not carry too much liquidity as this hampers profitability. To analyze the firm's liquidity position, liquidity ratios are used. These ratios are generally based on the relationship between current assets and current liabilities. The liquidity of the NFCL is analysed with the help of Liquidity ratios.

OBJECTIVE

The present research paper aims at evaluating the technical and actual liquidity performance of Nagarjuna Fertilizers Company Limited.

LIQUIDITY PERFORMANCE

The terms liquidity and short-term solvency are used synonymously. Liquidity or short-term solvency means ability of the business to pay its short-term liabilities. Inability to pay-off short-term liabilities affects its credibility as well as its credit rating. Continuous default on the part of the business leads to commercial bankruptcy. Eventually, such commercial bankruptcy may lead to its sickness and dissolution. Short-term lenders and creditors of a business are very much interested to know its state of liquidity because of their financial stake. The liquidity ratio include for the purpose of analysis are:

- Current ratio
- Quick ratio
- Cash ratio
- Net cash flows to current liabilities ratio

CURRENT RATIO

The current ratio is an acceptable measure of the firm's short-term solvency. Current assets include cash within a year, marketable securities, debtors and inventories. Prepaid expenses are also included in current assets. All obligations maturing within a year are included in current liabilities. Current liabilities include creditors, bills payable, accrued expenses, short-term bank loan, income-tax liabilities and long-term debt maturing in the current year. A current ratio of 2:1 is considered satisfactory. It indicates the availability of current assets in two rupees for every one rupee of current liability. The higher the current ratio is the greater the margin of safety; the larger the amount of current assets in relation to current liabilities, the more the firm's ability to meet its obligations. It is a crude and quick measure of the firm's liquidity.

The current ratio is calculated by using the following formula.

Current Ratio = Current Assets/Current liabilities

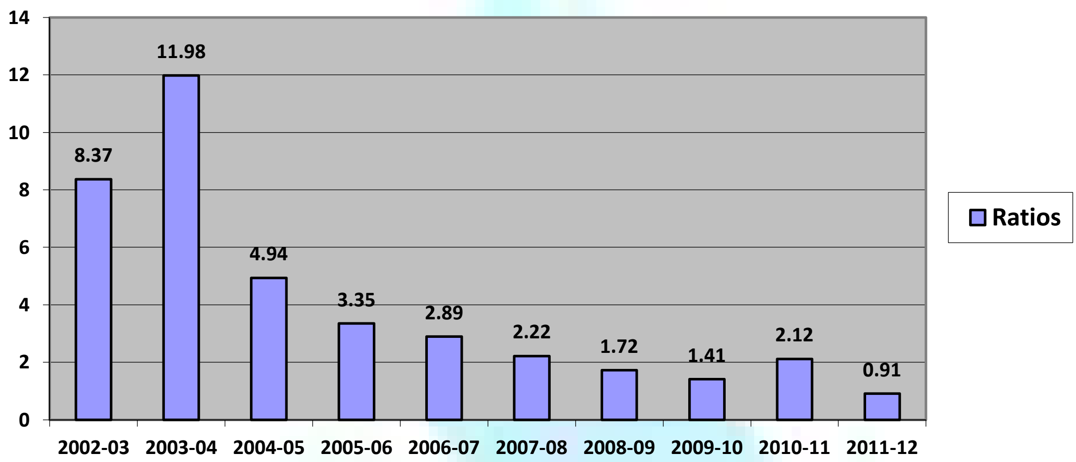
The current ratio of Nagarjuna Fertilizers and Chemicals Ltd. is presented in the Table.1.

TABLE 1: CURRENT RATIO OF NAGARJUNA FERTILIZERS AND CHEMICALS LIMITED (Rs. in crores)

Years	Current Assets	Current Liabilities	Current Ratio(times)
2002-03	1060.07	126.59	8.37
2003-04	932.61	77.83	11.98
2004-05	498.77	100.71	4.94
2005-06	675.14	201.52	3.35
2006-07	653.74	226.42	2.89
2007-08	934.52	420.11	2.22
2008-09	830.99	483.37	1.72
s2009-10	534.47	380.22	1.41
2010-11	778.10	366.83	2.12
2011-12	2283.62	2502.76	0.91

Source : Compiled from Annual Reports.

FIGURE 1: CURRENT RATIO OF NAGARJUNA FERTILIZERS AND CHEMICALS LIMITED



It is evident that the current assets had reported a rise from Rs.1060.07 crores in 2002-03 to Rs.2283.62 crores in 2011-12. The quantum of current assets had depicted ups and downs over the study period. The current liabilities had advanced from abnormally from Rs.126.59 crores in 2002-03 to Rs.2502.76 crores in 2011-12. The magnitude of current liabilities had also shown ups and downs over the study period. The current ratio of NFCL had varied between the lowest of 0.9 times to the highest of 11.91 times over the study period under reference. The current ratio was abnormal in the first part of the study period while it was less than standard norm of 2:1 in the latter part of the study period with the exception of the year 2010-11. It may be observed that the current ratio of NFCL was not constant. It may be concluded that the huge funds were unnecessarily blocked up in the current assets in the first part of the study period. This situation had negative impact on profitability of company. The current assets were not sufficient to meet the current liabilities in the later years of the study period. Hence the liquidity performance was not satisfactory in the company. The NFCL had failed to achieve the balance between the twin objectives of working capital management i.e., liquidity and profitability.

QUICK RATIO

Quick ratio establishes a relationship between quick or liquid assets and current abilities. An asset is liquid if it can be converted into cash immediately or reasonably soon without a loss of value. Cash is the most liquid asset, other assets which are considered to be relatively and included in quick assets or debtors and bills receivables and marketable securities (temporary quoted investments). Inventories are considered to be less liquid. The inventories normally require some time for realizing into cash; their value also has a tendency to fluctuate. Quick ratio is calculated by using the following formula.

Quick Ratio = Quick Assets / Current liabilities.

Where; Quick Assets= current Assets – Inventory

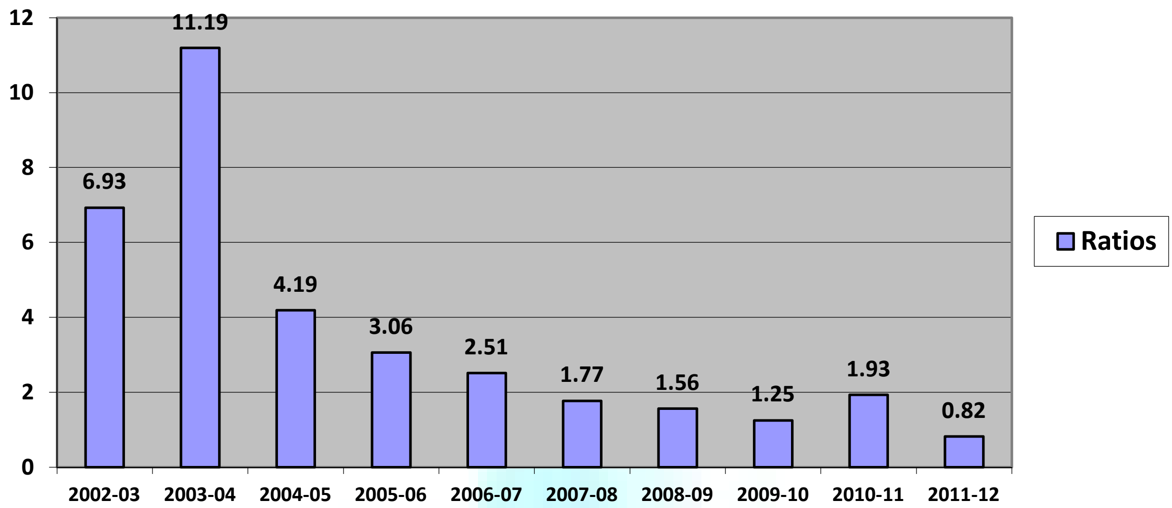
Generally a quick ratio of 1:1 is considered to represent a satisfactory current financial condition. Quick ratio is a more penetrating test of liquidity than the current ratio, yet it should be used cautiously. A company with a high value of quick ratio can suffer from the shortage of funds if it has slow-paying, doubtful and long duration outstanding debtors. A low quick ratio may really be prospering and paying its current obligation in time. The quick ratio of the fertilizer industry has been presented in the Table 2.

TABLE 2: QUICK RATIO OF NAGARJUNA FERTILIZERS AND CHEMICALS LIMITED (Rs. in crores)

Years	Current Assets	Inventories	Quick Assets	Current Liabilities	Quick Ratio (times)
2002-03	10600.07	183.43	876.65	126.59	6.93
2003-04	932.61	61.57	871.04	77.83	11.19
2004-05	498.77	76.20	422.56	100.71	4.19
2005-06	675.14	57.76	617.38	201.52	3.06
2006-07	653.74	84.88	568.85	226.42	2.51
2007-08	934.52	189.24	745.29	420.11	1.77
2008-09	830.99	74.94	756.05	483.37	1.56
2009-10	534.47	59.38	475.29	380.22	1.25
2010-11	778.10	68.00	710.09	366.83	1.93
2011-12	2283.62	227.50	2056.12	2502.76	0.82

Source: Compiled from Annual Reports

FIGURE 2: QUICK RATIO OF NAGARJUNA FERTILIZERS AND CHEMICALS LIMITED



It is obvious that quick assets had increased from Rs.876.65 crores to 2056.12 crores during the study period. Even after deduction of inventories from current assets the quick ratio was too high with exception of concluding year of the study period. It is evident that the quick ratio had fluctuated between the lowest ratio of 0.82 times in 2011-12 and the highest of 11.9 times in 2003-04. Undoubtedly, the short-term obligation could be comfortably meet from quick assets. But more quantum of working funds were blocked up in quick assets, particularly in the former years of the study period. Thus, the profitability of the company could be adversely affected.

CASH RATIO

Since cash is the most liquid asset, a financial analyst may examine cash ratio and its equivalent current liabilities. Trade investment or marketable securities are equivalent of cash; therefore, they may be included in the computation of cash ratio. If the company carries a small amount of cash there is nothing to be worried about the lack of cash if the company has reserves borrowing power. In India, funds have credit limits sanctioned from banks, and easily draw cash. Cash ratio is calculated by using the following formula.

Cash Ratio = Cash Equivalents +Marketable Securities/Current Liabilities

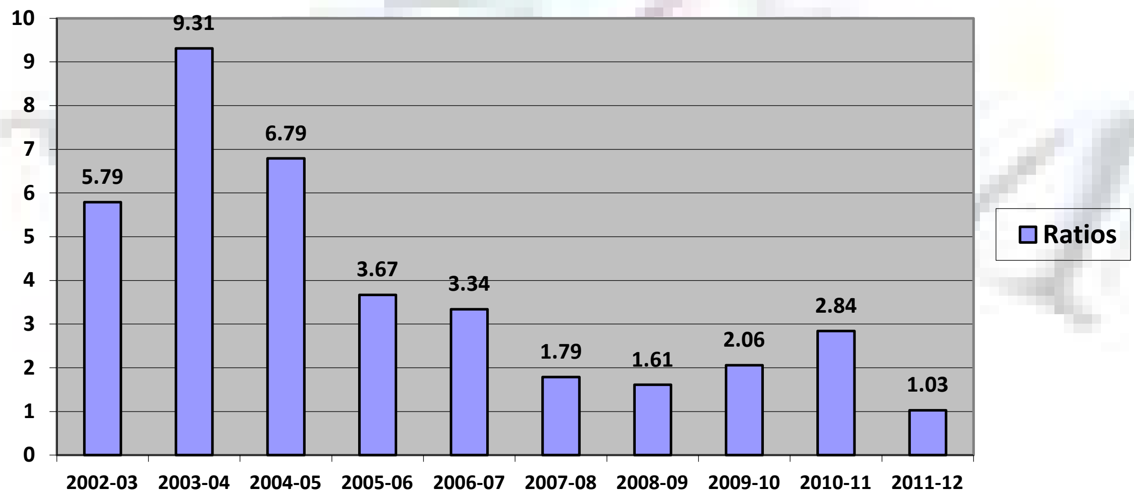
The cash ratio is presented in the Table 3.

TABLE 3: CASH RATIO OF NAGARJUNA FERTILIZERS AND CHEMICALS LIMITED (Rs. in crores)

Years	Cash	Marketable securities	Cash Flows	Current liabilities	Cash Ratio
2002-03	19.32	714.88	734.20	126.59	5.79
2003-04	14.64	710.18	424.82	77.83	9.31
2004-05	19.22	664.44	683.66	100.71	6.79
2005-06	60.84	679.12	739.96	201.52	3.67
2006-07	15.00	740.57	755.57	226.42	3.34
2007-08	31.20	722.46	753.65	420.11	1.79
2008-09	57.46	722.46	779.91	483.37	1.61
2009-10	61.96	722.51	784.47	380.22	2.06
2010-11	120.78	921.51	1042.30	366.83	2.84
2011-12	280.20	53.11	333.31	2502.76	1.03

Source: Compiled from Annual Reports.

FIGURE 3: CASH RATIO OF NAGARJUNA FERTILIZERS AND CHEMICALS LIMITED



It is clear that the quantum of cash had increased while the marketable securities had declined during the period under reference. The more evidently the quantum of cash had increased from Rs.99.32 crores to Rs.280.20 crores whereas the marketable securities had declined from Rs.714.88 crores to Rs.1453.11 crores over the study period. The total cash assets had depicted more or less consistency over the study period. The cash ratio had edged down from 5.79 times to 1.03 times over the study period. The variations in the ratio were due to variations in the current liabilities. It may be observed that the cash ratio never did less than the unity during the entire period of the study. Therefore, it may be inferred that the liquidity performance was comfortable and NFCL did not face the problem of liquidity risk.

NET CASH FLOWS TO CURRENT LIABILITIES RATIO

Actual liquidity position of an enterprise mostly depends on its ability in paying-off its current financial obligations from the net cash flows(net profit and non-cash expenses) generated from its own operations but not by current assets alone when it is on the run. Irrespective of the source cash is generated from, it definitely provides coverage to the current obligations. Depreciation is non-cash expenses.

Net cash flows to current liabilities ratio is calculated by using the following formula.

Net cash flows to current liabilities ratio = Net profit +Non – cash expenses/current liabilities x 100

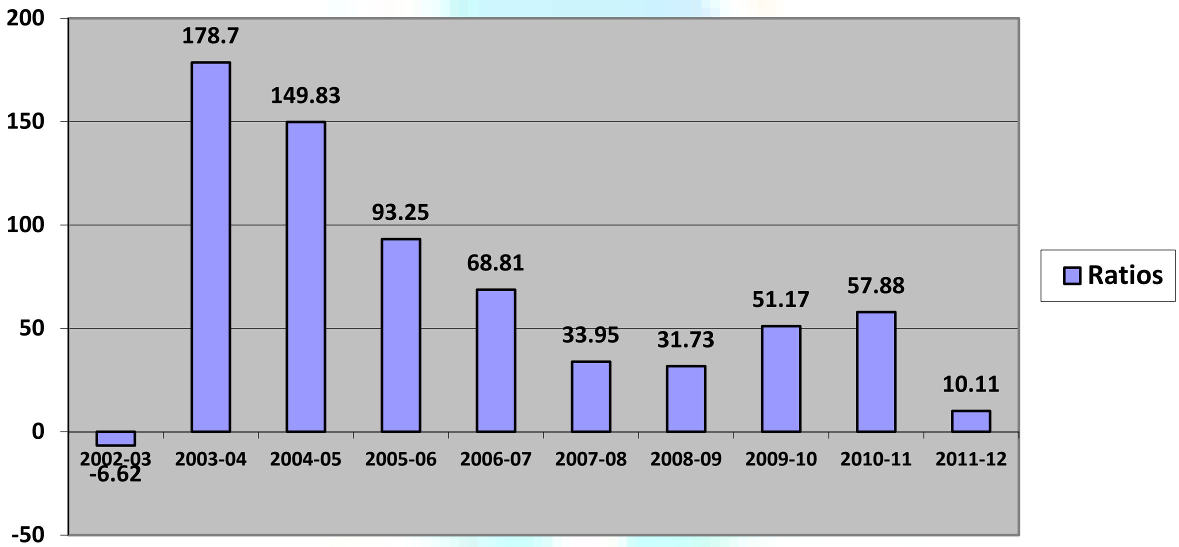
The net cash flows to current liabilities ratio is presented in the Tables 4.

TABLE 4: NET CASH FLOWS TO CURRENT LIABILITIES RATIO OF NAGARJUNA FERTILIZERS AND CHEMICALS LIMITED (Rs. in crores)

Years	Net Profit	Non–cash expenses (Depreciation)	Total	Current liabilities	Ratio (%)
2002-03	(127.47)	119.09	(8.38)	126.59	(6.62)
2003-04	17.4	121.64	139.08	77.83	178.70
2004-05	29.53	121.37	150.89	100.71	149.83
2005-06	66.85	121.05	187.91	201.52	93.25
2006-07	31.71	124.09	155.80	226.42	68.81
2007-08	22.49.	120.15	142.64	420.11	33.95
2008-09	32.41	120.96	153.37	483.37	31.73
2009-10	66.37	128.18	194.55	380.22	51.17
2010-11	117.35	94.98	212.33	366.83	57.88
2011-12	135.96	117.01	252.97	2502.76	10.11

Source: Compiled from Annual Reports

FIGURE 4: NET CASH FLOWS TO CURRENT LIABILITIES RATIO OF NAGARJUNA FERTILIZERS AND CHEMICALS LIMITED



It is evident that net profit was negative in the beginning year of the study period. Further, the net profit had reached to Rs.135.95 crores in 2011-12 from Rs.17.44 crores in 2003-04. Depreciation as non- cash item was more or less static during the period of the study with the exception of the year 2010-11. The net cash flows which were negative in the beginning the year had reached to 8.38 ties to positive figure net cash flows to Rs.252.97 crores in the concluding year of the study. The lowest cash flows ratio (6.62 percent) was recorded while the highest cash flow coverage ratio was 178.80 percent followed by 149.83 per cent. The cash flow coverage ratio had never exceeded cent percent standard norm excluding the years 2003-04 and 2004-5. It is concluded that actual liquidity position was adequately comfortable only in two years out of 10 years. In other words, the NFCL had faced the problem of liquidity in actual terms. In other words, the actual liquidity performance was threatening in the company.

CONCLUSION

- The huge funds were unnecessarily blocked up in the current assets in the first part of the study period. This situation had negative impact on profitability of company. The current assets were not sufficient to meet the current liabilities in the later years of the study period. Hence, the liquidity performance was not satisfactory in the company. The NFCL had failed to achieve the balance between the twin objectives of working capital management i.e., liquidity and profitability.
- Undoubtedly, the short-term obligation could be comfortably meet from quick assets. But more quantum of working funds were blocked up in quick assets, particularly in the former years of the study period. Thus, the profitability of the company could be adversely affected.
- The variations in the cash ratio were due to variations in the current liabilities. The ratio never did less than the unity during the entire period of the study. Therefore, the liquidity performance was comfortable and NFCL did not face the problem of liquidity risk.
- The actual liquidity position was adequately comfortable only in two years out of 10 years. In other words, the NFCL had faced the problem of liquidity in actual terms. In other words, the actual liquidity performance was threatening in the company.

SUGGESTIONS

- The management of NFCL shall release the funds blocked up in current assets through quick conversion of current assets in to cash. On the other hand the company either shall have to improve the quantum of current assets or to reduce the magnitude of current liabilities in later years of the study. To this end the management of NFCL shall bring the balance between the liquidity and profitability.
- The size of the quick assets shall be reduced so as to improve the profitability performance.

- The management of the company shall reduce the variations in the cash ratio by minimizing the variations in current liabilities.
- The management of NFCL shall improve the actual liquidity performance by improving the cash flows of the company.

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