Liquidity Analysis of Selected Tyre Industries in India

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ARTICLE DETAILS

ABSTRACT

The accounting dates is analysed and interpreted meaningfully for effective planning and decision-making. Ratio analysis is the technique and methodology used to analysis and interpretation of financial statements. Liquidity means one’s ability to meet claims and obligations as and when they become due. In the context of a business, liquidity means its potential ability to meet its obligations. In other words, we can say this ratio tells how quickly a company can convert its current assets into cash so that it can pay off its liability on a timely basis. Generally, Liquidity and short-term solvency are used together. In this paper, we tried to evaluate the liquidity performance of selected tyre industries in India.

1. Introduction

The word tyre has been derived from the French word tirer meaning 'to pull'. Prior to the invention of pneumatic or air filled tyres, tyres were made up of bands of leather or iron placed on wooden wheels. This would protect the wheels of the carts and wagons from rapid wear and tear. Charles Goodyear discovered vulcanised rubber in 1839, by adding sulphur, making it elastic and strong enough to be used as cushion tyres for cycles. In 1926, Dunlop Rubber Limited became the first company in India to set up a tyre company in West Bengal. The MRF (Madras Rubber Factory Limited) followed its footsteps and entered the tyre manufacturing market in 1946 although it ventured into manufacturing tread rubber in 1952.

Today, the India tyre industry employs as many as one million people including dealers, retraders, and growers of natural rubber. The economic outlook for India in the coming years bodes well for the tyre industry. From an agriculture-led economy over the decade, India has transformed itself into the fastest growing services economy in the world. India’s services sector is growing at an annual rate of 10%, the fastest in the world.

2. Objectives of the study

- To know the importance of maintaining liquidity in business.
- To study and analyse the short-term solvency and liquidity position.
- To analyse the factors which affect the liquidity of tyre industries.
- To analyse the past performance and operational efficiency and growth prospects.

3. Review of literature

Some important research works undertaken in recent years which are very closely connected with the present study are reviewed.

Nisha Rapheal (2013)

The author tries to evaluate the performance of Indian tyre industry in terms of various financial indicators, sales trend, production trend, export trend etc for the period of 2003-04 to 2011-12. The result says that the key to success in the industry is to improve labour productivity, labour flexibility, and capital efficiency.

S Ramya, Porgeetha Angel R and Pavithra SR (March 2018)

The research has been conducted to analysis the financial performance of Apollo Tyres for the period of 5 years from 2013 – 2017 and has found that the ratio analysis of the company could help to understand the Profitability, Liquidity, Leverage, Turnover positions of the company. The study recommends to reducing the dept capital and providing security to creditors and to increase the sales to reduce the loss of the bank. From the analysis they found that the overall financial performance of the company was good with a positive impact although there were some fluctuations.

4. Scope of the study

Scope of the study extended to analyse the liquidity position and operational efficiency of selected major 4 tyre industries in India during the period from 2011-12 to 2015-16.

5. Research methodology of the study

(i) Sample Design

The present study was based on selected 4 tyre industries in India. They were,

1. Apollo Tyres
2. CEAT Tyres
3. JK Tyre & Industries
4. TVS Tyres

2 “An analysis of financial performance of Apollo Tyres” - International Journal of Advanced Research and Development - Volume 3; Issue 2; March 2018
(ii) Collection of Data

The data used for this study is from 2011-12 to 2015-16 were collected from secondary data source. i.e. Capitaline Database of PSGLRC, Coimbatore.

(iii) Analysis of Data

For analysing the data in this study, simple statistical tool of Ratio Analysis was used. The ratios relating to liquidity used in this study are, I. Current Ratio, II. Acid Test Ratio or Quick Ratio, III. Absolute Liquidity Ratio, IV. Basic Defense Ratio

6. Profile of the selected companies

(i) APOLLO TYRES LTD.

Apollo Tyres Ltd. came into inception in 1972 and has since been a trusted name in the business of manufacture and sale of tyres. With the corporate headquarters in Gurgaon, India. They cater to over a 100 countries across the globe. The company markets its products under our two global brands- Apollo and Vredestein. These products are available in countries across the globe through a vast network of branded, exclusive and multi-product outlets. Apollo Tyres has multiple manufacturing units in India, the Netherlands and Hungary.

At the end of the financial year 2018, the company clocked a turnover of US$ 2.28 billion, backed by a global workforce of approximately 16,000 employees.

As of March 31, 2018, the company traded in India on the Bombay Stock Exchange and National Stock Exchange, with 59.68% of shares held by the public, governed and financial institutions.

(ii) CEAT TYNES

Mumbai head-quartered CEAT, the flagship company of the Rs 22,000-crore RPG Enterprises, was established in 1958. Today, CEAT is one of India’s leading tyre manufacturers and has strong presence in global markets. CEAT produces over 15 million tyres a year and offers the widest range of tyres to all segments and manufactures world-class radials for: heavy-duty trucks and buses, light commercial vehicles, earthmovers, forklifts, tractors, trailers, cars, motorcycles and scooters as well as auto-rickshaws.

CEAT ranked highest in India for Original Equipment (OE) Tyre customer satisfaction Award in the year 2017 in a study by J.D Power. Also they got Deming Prize for Total Quality Management during October 2017.

(iii) JK TYRE AND INDUSTRIES LTD.

JK Tyre & Industries Ltd was incorporated in the year 1951 as a private limited under the name JK Industries Pvt Ltd. Until March 31, 1970, the company was engaged in the managing agency business. Thereafter the company decided to undertake manufacturing activities and obtained a letter of intent in February 1972 for the manufacture of automobile tyres and tubes. JK Tyre & Industries Ltd is one of the leading automotive tyre manufacturers in India. The company is engaged in manufacturing of automobile tyres, tubes and flaps.

(iv) TVS TYRES

TVS Srichakra Ltd., one of India’s leading two & three-wheeler tyre manufacturers. Being a part of TVS Auto Ancillary Group founded by T.V. Sundaram Iyengar. Over 30 years, they have leveraged to ensure every ride is as safe as it is sensible. With state-of-the-art manufacturing units at Madurai (Tamil Nadu) and Rudrapur (Uttarakhand), spread over 2.9 lakh sq. meters, they manufacture a prolific range of tyres: Two & Three-wheeler tyres, Industrial pneumatic tyres, Fanm and implement tyres, Skid steer tyres, Multipurpose tyres, Floatation tyres. They got certifications from ISO 9001 : 2015 (QMS)IATF 16949 : 2016(QMS)ISO 14001 : 2015 (QMS).

Today, TVS Tyres cruises across the globe as well, extending its presence through export to USA, Europe, South America, Africa and Australia.

7. Analysis and interpretation

I. Current Ratio

This ratio measures the financial strength of the company. Generally 2:1 is treated as the ideal ratio, but it depends on industry to industry.

Formula: Current Assets / Current Liability

From the above table it is absorbed that all the selected companies are shows that good in current ratio, in that TVS Tyres shows the highest percentage of current ratio is 1.89 in the year 2011-12 and rest of all the years JK Tyres is at the top in current ratio. CEAT Tyres shows the least percentage of current ratio is 1.13 in the year 2012-13. There are ups and downs in ratio for the past five years.
II. Acid Test Ratio or Quick Ratio:

This ratio is the best measure of the liquidity in the company. This ratio is more conservative than the current ratio. The quick asset is computed by adjusting current assets to eliminate those assets which are not in cash. Generally 1:1 is treated as an ideal ratio.

Formula: Quick Assets/ Current Liability

Quick assets = Current assets – Inventory and Prepaid expenses

Table 2
Quick ratio analysis of selected tyre industries (Rs.In Cr.)

<table>
<thead>
<tr>
<th>INDUSTRY</th>
<th>APOLO TYRES</th>
<th>CEAT TYRES</th>
<th>JK TYRES</th>
<th>TVS TYRES</th>
</tr>
</thead>
<tbody>
<tr>
<td>YEAR</td>
<td>QA</td>
<td>CL</td>
<td>QR</td>
<td>QA</td>
</tr>
<tr>
<td>2011-12</td>
<td>728.72</td>
<td>1268.1</td>
<td>0.57</td>
<td>774.43</td>
</tr>
<tr>
<td>2012-13</td>
<td>643.23</td>
<td>1058.1</td>
<td>0.61</td>
<td>838.27</td>
</tr>
<tr>
<td>2013-14</td>
<td>743.84</td>
<td>1449.3</td>
<td>0.51</td>
<td>938.94</td>
</tr>
<tr>
<td>2014-15</td>
<td>733.56</td>
<td>1321.5</td>
<td>0.56</td>
<td>839.63</td>
</tr>
<tr>
<td>2015-16</td>
<td>1205.9</td>
<td>1718.8</td>
<td>0.70</td>
<td>789.32</td>
</tr>
</tbody>
</table>

Source: Computed

From the above table it was absorbed that quick ratio of JK Tyres ranked top when compare with all others. During the year 2013 – 14 the highest ratio of 1.24 shown by JK tyres and the least ratio of 0.51 shown by Apollo tyres in the year 2013 – 14. There are ups and downs in quick ratio for the past five years.

III. Absolute Liquidity Ratio:

This ratio measures the total liquidity available to the company. This ratio only considers marketable securities and cash available to the company. It only tests short-term liquidity in terms of cash, marketable securities, and current investment. The most favourable and optimum value for this ratio should be 1:2.
Formula: Cash + Marketable Securities / Current Liability

<table>
<thead>
<tr>
<th>INDUSTRY</th>
<th>APOLLO TYRES</th>
<th>CEAT TYRES</th>
<th>JK TYRES</th>
<th>TVS TYRES</th>
</tr>
</thead>
<tbody>
<tr>
<td>YEAR</td>
<td>CASH(CL)</td>
<td>CASH(CL)</td>
<td>CASH(CL)</td>
<td>CASH(CL)</td>
</tr>
<tr>
<td>2011-12</td>
<td>678.24</td>
<td>1268.1</td>
<td>0.53</td>
<td>111.63</td>
</tr>
<tr>
<td>2012-13</td>
<td>766.89</td>
<td>1058</td>
<td>0.72</td>
<td>126.06</td>
</tr>
<tr>
<td>2013-14</td>
<td>872.57</td>
<td>1448.3</td>
<td>0.60</td>
<td>227.3</td>
</tr>
<tr>
<td>2014-15</td>
<td>959.76</td>
<td>1321.5</td>
<td>0.73</td>
<td>499</td>
</tr>
<tr>
<td>2015-16</td>
<td>1083.1</td>
<td>1718.8</td>
<td>0.83</td>
<td>292.06</td>
</tr>
</tbody>
</table>

Source: Computed

From the above table it was observed that Apollo tyres shows highest ratio when compare with all other industries. But no one reached the Optimum ratio. Apollo tyres show the highest ratio of 0.73 in the year 2014 – 15. Whereas TVS tyres shows all the years very low absolute liquid ratio. The least ratio is 0.09 by TVS tyres during the years 2011 – 12 and 2013 – 14. There are ups and downs in absolute liquid ratio of selected companies for the past five years.

![Chart 3](image-url)

IV. Working Capital – Measure of Liquidity

Working capital, computed on the basis of short-term elements in the balance-sheet, is the difference between current assets and current liabilities, which makes it a measure of the liquidity. A company’s net working capital is the difference between its current assets and current liabilities:

Formula: Current Assets - Current Liabilities

<table>
<thead>
<tr>
<th>INDUSTRY</th>
<th>APOLLO TYRES</th>
<th>CEAT TYRES</th>
<th>JK TYRES</th>
<th>TVS TYRES</th>
</tr>
</thead>
<tbody>
<tr>
<td>YEAR</td>
<td>CA(CL)</td>
<td>CA(CL)</td>
<td>CA(CL)</td>
<td>CA(CL)</td>
</tr>
<tr>
<td>2011-12</td>
<td>1836.5</td>
<td>1268.1</td>
<td>1354</td>
<td>310.97</td>
</tr>
<tr>
<td>2012-13</td>
<td>1764.1</td>
<td>1058</td>
<td>706.11</td>
<td>1375.8</td>
</tr>
<tr>
<td>2013-14</td>
<td>2027.5</td>
<td>1449.3</td>
<td>578.25</td>
<td>1657.2</td>
</tr>
<tr>
<td>2014-15</td>
<td>1918.8</td>
<td>1321.5</td>
<td>597.28</td>
<td>1481.7</td>
</tr>
<tr>
<td>2015-16</td>
<td>2228.8</td>
<td>1718.8</td>
<td>509.97</td>
<td>1408.6</td>
</tr>
</tbody>
</table>

Source: Computed

From the above table it was observed that all the years JK tyres maintaining a highest working capital. During the year 2013 – 14 it maintains the highest working capital of 1074.85 crs. Whereas TVS tyres maintaining very least level of working capital of 137.14 crs. during the year 2014 – 15. There are ups and downs in working capital of selected companies for the past five years.
8. Findings

- From the analysis it was absorbed that all the selected companies are shows that good in current ratio, in that TVS Tyres shows the highest percentage of current ratio is 1.89 in the year 2011-12 and rest of all the years JK Tyres is at the top in current ratio. CEAT Tyres shows the least percentage of current ratio is 1.13 in the year 2012-13.
- In quick ratio it was absorbed that JK Tyres ranked top when compare with all others. During the year 2013 – 14 the highest ratio of 1.24 shown by JK tyres and the least ratio of 0.51 shown by Apollo tyres in the year 2013 – 14.
- Whereas obsolete liquid ratio it was absorbed that Apollo tyres shows highest ratio when compare with all other industries. But no one reached the Optimum ratio level. Apollo tyres show the highest ratio of 0.73 in the year 2014 – 15. Whereas TVS tyres shows all the years very low absolute liquid ratio. The least ratio is 0.09 by TVS tyres during the years 2011 – 12 and 2013 – 14.
- In maintenance of working capital, it was observed that all the years JK tyres maintaining a highest working capital. During the year 2013 – 14 it maintains the highest working capital of 1074.85 crs. Whereas TVS tyres maintaining very least level of working capital of 137.14 crs. during the year 2014 – 15.
- In overall observation it was found that JK Tyres shows a very good performance as compared to all other selected industries. But in absolute liquid ratio JK tyres shows a least ratio and Apollo tyres is in top in maintaining the absolute ratio. Overall there are ups and downs in ratios of selected companies for the past five years.
- At the same time it was observed that CEAT tyres shows a low current ratio in all the years, Quick ratio low in Apollo tyres, Absolute liquid ratio no one reached the optimum level of 2:1 and TVS tyres maintains very low working capital during the observed years.
- The study reveals that the absolute liquid ratio of all the companies is very low.

9. Conclusion

The basic function of the liquidity ratio is to measure a company’s capability to settle all current debt with all current available assets. The stability and financial health, or lack thereof, of a company and its efficiency in paying off debt is indicated by liquidity ratios and is of great importance to market analysts, creditors and potential investors. The lower the liquidity ratio, the greater the chance the company is, or may soon be, suffering financial difficulty. Still, a high liquidity rate is not necessarily a good thing. A very high value resulting from the liquidity ratio may be a sign the company is overly focused on liquidity, which can be detrimental to the effective use of capital and expansion of the business. The absolute liquid ratio represents enough funds in the form of cash in order to meet its short-term obligations in time. Ultimately, every company's owners or executives need to make decisions regarding liquidity that are tailored to their specific companies. To be successful and remain in business, both profitability and liquidity is necessary for a company.

References

5. https://cleartax.in/s/liquidity-ratio
8. “An analysis of financial performance of Apollo Tyres” - International Journal of Advanced Research and Development - Volume 3; Issue 2; March 2018