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A Study on Liquidity Position of stationery products Industries

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Abstract

Financial performance analysis is a process of identifying the financial strength and weakness of the firm by properly establishing the relationship between the items of balance sheet and profit and loss account. This study aims to identify the financial strength and weakness of Kokuyo Camlin Ltd.; thus, it covers a period of five years from 2015-2016 to 2019-2020. However, a Solvency ratio is a performance metric that helps to examine a company's financial health. On the other hand, a low ratio exposes potential financial hurdles in the future.

Keywords: Short-term solvency, Current Ratio, Quick Ratio, Absolute Liquid Ratio

1. Introduction

Financial performance analysis includes analysis and interpretation of financial statements in such a way that it undertakes full diagnosis of the profitability and financial soundness of the business. The financial analyst program provides vital methodologies of financial analysis. Financial analysis assists the firm to show better economic decision making. The term 'analysis' means the simplification of financial data by methodical classification of the data given in the financial statements, 'interpretation' means, 'explaining the meaning and significance of the data so simplified.' However, both analysis and interpretation are interlinked and complementary to each other. With the help of financial performance analysis, one can arrive at short-term and long-term liquidity, solvency and other business aspects.[1-4].

1.1 Scope of the Study

The study is extended to the analysis of financial performance of Kokuyo Camlin Ltd., The purpose of analysing financial statements is to examine the past and present financial performance and forecasting plans for the future. The financial

statements assist in analysing the liquidity, profitability and solvency position of Kokuyo Camlin Ltd. These financial statements help the management to make wise decisions. This is study is mainly focused on the study of short-term solvency position of Kokuyo Camlin Ltd.,

1.2 Objective

- To study the short-term solvency position of the company.

2. Review of Literature

A Literature review is a survey of scholarly sources on a specific topic. It provides an overview of current knowledge, allowing to identify relevant theories, methods, and gaps in the existing research. **Ravishankar & Harshvardhan Mitra (2019)**¹, the researchers done on "Study of financial Ratio analysis on Naranja Sahakari Sakkare Karkhane Ltd, Bidar." The researchers mainly focused on to study and analyse the financial performance of the firm. The research was designed in a descriptive study and they have evaluated with the secondary data of the firm. The study covers a period of three years. The findings were made with the help of ratio analysis and chart analysis. The researchers have analysed that it is in

good position on view of financial performance but it is not good at its solvency position. **S. Sathya & Dr. R. Umarani (2015)**² researched “A Study on Financial Performance Analysis of Spinning Mills of Coimbatore City”. The primary objective of the study was to analyse the financial performance of the selected spinning mills in Coimbatore city. The period of the study was about five years from 2009-10 to 2013-14. The researcher used Comparative Ratio Analysis throughout the study. The author concluded that the textile industries in India is the largest of all other industries of the five selected mills, the current ratio of Lakshmi Mills is the highest while the others are below the standard ratio of 2:1. The study indicates that the overall financial performance of Lakshmi Mills is good.[5-9]. Dave (2015)³ The researcher conducted a study on “A comparative analysis of profitability and liquidity performance of petroleum refineries in India”. He researched the liquidity and profitability performance of the selected six refinery companies listed in the Bombay Stock Exchange (BSE). The study period was from 2007 to 2012. The study involved various financial ratios for the evaluation of liquidity and profitability. The researcher identified that there is a significant change in their gross profit and net profit.[10-12].

3. Methodology

Research methodology is the procedure used to identify select, process and analyse the information of the topic. The research is completely based on the secondary data. The data of profit and loss account, balance sheet and all other remaining information is collected from various websites, journals and books.

4. Short-Term Solvency Ratios

4.1 Current Ratio

$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

Table 1.1

Financial year	Current Assets (Rs. in lakhs)	Current Liabilities (Rs. in lakhs)	Current Ratio (in times)
2015-16	29,585.81	18,862.22	1.56

2016-17	27,495.92	22,123.57	1.24
2017-18	28,914.38	23,060.27	1.25
2018-19	35,492.54	26,950.79	1.31
2019-20	28,780.67	20,020.12	1.43

4.2 Quick Ratio

$$\text{Quick Ratio} = \frac{\text{Liquid Assets}}{\text{Current Liabilities}}$$

Table 1.2

Financial Year	Liquid Assets (Rs. in lakhs)	Current Liabilities (Rs. in lakhs)	Quick Ratio (in times)
2015-16	17,148.62	18,862.22	0.90
2016-17	13,411.17	22,123.57	0.60
2017-18	13,038.85	23,060.27	0.56
2018-19	15,571.94	26,950.79	0.57
2019-20	14,418.07	20,020.12	0.72

4.3 Absolute Liquid Ratio

$$\text{Absolute Liquid Ratio} = \frac{\text{Absolute Liquid Assets}}{\text{Current Liabilities}}$$

Table 1.3

Financial Year	Absolute Liquid Assets (Rs. in lakhs)	Current Liabilities (Rs. in lakhs)	Absolute Liquid Ratio (in times)
2015-16	7,917.65	18,862.22	0.41
2016-17	2,750.35	22,123.57	0.12
2017-18	465.96	23,060.27	0.02
2018-19	1,075.05	26,950.79	0.03
2019-20	554.80	20,020.12	0.02

5. Findings

The current ratio is high during the financial year 2015-16 i.e., 1.56 times. The ratio has an increasing trend from 2017-18 to 2019-20. The higher the current ratio, the more capable a company is of paying its obligations because it has a larger proportion of short-term asset value relative to the value of its short-term liabilities. It is identified that the quick ratio is high during the year 2015-16. The overall quick ratio has a decreasing trend. It indicates that the company is

improving to settle its current liabilities. The absolute liquid ratio is high during 2015-16 i.e., 0.14 times. The ratio gradually decreases from the financial year 2016-17 to 2019-20. It shows that the firm is not having adequate cash and cash equivalents to meet its liability.

6. Suggestions

The company is in requirement of better liquidity position to meet its short-term obligations. We suggest that the company can use its long-term funds for the acquisition of assets or other investments rather than using its short-term funds. The shareholders' funds during the study period has been increasing when compared to the previous years, so the company can take initiatives to retain their shareholders.

Conclusion

The financial performance analysis plays a major role in identifying the strengths and weakness of an organization so that the work can be done in an efficient and an effective way. The study was made on the financial performance analysis of "KOKUYO CAMLIN LTD.," using Ratio Analysis. The study shows that the debt-equity is increasing indicating that the company maintains a positive relationship with the Investors. It is concluded that the financial performance of the company during the study period is satisfactory.

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