
Liquidity Management of Mahindra and Mahindra Ltd. - An Empirical Study

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Abstract

Efficiently Assets Management is required to increase the shareholder's value while Assets utilization and liquidity has direct relationship. In this article an attempt has been made to study the impact of liquidity management of Mahindra and Mahindra Ltd. A firm should ensure that it does not suffer from lack of liquidity, and also that it is not too highly liquid. The failure of the company to meet its obligations, due to lack of sufficient liquidity, will create a bad image, loss of creditors, investors confidence, or even it results in closure of the company. Too much of liquidity, is also not good for the company because idle cash earns nothing. The company's funds will be unnecessarily tied up in current assets. It is very important for any company to maintain the liquidity position of the business. This research paper also offers some meaningful suggestions to improve the efficiency of the liquidity management of the company.

Introduction

Liquidity is an attribute that signifies the capacity to meet financial obligation as and when required. Liquidity management is the most essential component of financial management. It plays most dominant role in the successful functioning of an enterprise. Liquid assets may be defined as assets that are readily convertible into money. It refers to the ability of a concern to meet its current obligations as and when they become due. Different assets are said to exhibit different degree of liquidity. Money itself is the most liquid form of assets and other type of assets vary in degree of liquidity. In our study we focus on the most liquid assets of the company namely cash, marketable securities, stock and other liquid current assets.

Liquidity management involves determining the total amount of these two types of assets that

company will hold. The day-to-day problem of liquidity management consists of the highly important task of finding sufficient cash to meet current obligations.

About the company

· Mahindra and Mahindra, a home grown automobile major is into manufacture and marketing of passenger cars and multiutility vehicles. Originally incorporated on October 2, 1945 as a private limited under the name Mahindra and Mohammed Limited

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the name of the company was changed to Mahindra and Mahindra Limited on January 13, 1948. The company turned a public limited on June 15, 1955. The shares were first listed on the BSE in 1956. In the year 1995 Mahindra Nissan Allwyn Limited merged with the company. Mahindra Holding and Finance Limited (MHFL) becomes a subsidiary of M&M to carry out business as an investment company. Mahindra Eco Mobiles Limited and Mahindra Information Technology Services Limited with effect from 1st July 2003. During 2004-05, in view to enter into the passenger cars and multiutility vehicles segment the company has entered into a joint venture with Renault; one of the world's largest automobile manufactures, to introduce their new sedan, 'Logan', in India in 2007. The company will hold 51% stake in the joint venture company, Mahindra Renault Limited. The project amount is estimated to be Rs.7 million.

Objectives of the study

The following are the objectives of the study:

1. To examine and evaluate the liquidity position of Mahindra and Mahindra Ltd, by taking measures of cash and bank.
2. To offer some suggestion for improvement of the liquidity position of Mahindra and Mahindra Ltd.

Period of the study

A period of fifteen years from 1992-93 to 2006-07 is selected for the study.

Methodology

The study is analytical in nature. The data for the study have been collected from the secondary sources only. Secondary data are collected from annual reports of Mahindra and Mahindra Ltd from 1992-93 to 2006-07. Besides this necessary supporting documents a details have been collected from books, journals and reports. The study covers various aspects of liquidity analysis.

- Analyzing liquidity position.
 - Analyzing liquidity ratios.
- Statistical techniques namely Mean, Standard

Deviation (S.D) and Co-efficient of Variance (C.V) are applied for analyzing the data.

Limitation of the study

1. The data used in his study have been taken only from Prowess Database.

Liquidity Position of Mahindra and Mahindra Ltd

Liquidity refers to the ability of the firm to pay its current liabilities as and when it becomes due. If the current asset is able to pay-off current liability, then the liquid position of the firm is good. The bankers, suppliers of goods and other short-term creditors are interested in the liquidity of the concern. They will extend credit only if they are sure that current assets are enough to pay out the obligations. The liquidity position of the Mahindra and Mahindra Ltd is presented in Table 1. To measure the liquidity of the firm the following ratios have been analyzed.

1. Current ratio
2. Quick ratio
3. Absolute liquid ratio

Net working capital ratio

It is evident from the Table 1 that the size of current assets had increased from Rs.623.99 crores in 1992-93 to Rs.3732.28 crores in 2006-07 and current liabilities also increased from Rs.411.79 crores in 1992-93 to Rs.2687.34 crores in 2006-07. The mean values of current assets and current liabilities are Rs.1720.92 crores and Rs.1151.04 crores respectively with a standard deviation of Rs.820.14 crores and Rs.633.21crores. The co-efficient of variance was lower with 47.66 per cent in case of current assets in comparison to current liability being 55.01 per cent. This is because of increase in inventory that is purchase of raw material and closing stock and increase in creditors and provision, because there was demand for automobile industry, this can be inferred from balance sheet and income statement.

The total of liquid assets increased from Rs.362.59 crores in 1992-93 to Rs.2853.80 crores in 2006-07. The net working capital also increased from Rs.212.20 crores in 1992-93 to Rs.1044.94 crores in

2006-07. The mean values of liquid assets and net working capital are Rs.1205.30 crores and Rs.569.95 crores. The co-efficient of variance in liquid assets is 53.66 per cent and in case of net working capital is 51.40 per cent.

The analysis represents that variability in quick assets is less than current assets and more than current liability. Thus it reveals that the liquidity position of the company is not satisfactory.

Liquidity ratio of Mahindra and Mahindra Ltd

Liquidity ratios are also termed as working capital or short-term solvency ratio. An enterprise must have adequate working capital to run its day-to-day operations. Inadequacy of working capital may be the entire business operation to blockage because of inability of the enterprise to pay day-to-day expenses.

These ratios are used to judge a firm's ability to meet short-term obligations.

Liquidity has three dimensions

1. The time necessary to convert assets into money.
2. The degree of certainty associated with the conversion ratio.
3. The most significance liquidity ratios are current ratio, liquid ratio and absolute liquid ratio.

Current ratio

This ratio is also called as working capital ratio, which measures the relationship between current assets and current liabilities. As current assets should be able to repay current liabilities, this ratio highlights the firm ability to repay its current dues as and when they become due. As a rule of thumb a current ratio of 2:1 has been considered as standard of liquidity for a business enterprise.

Quick ratio

It is the ratio of quick current assets to current liabilities. This ratio is same as current ratio except that it excludes stock and prepaid expenses. This ratio

concentrates more on liquid assets that is cash, marketable securities and receivables. It provides a more penetrating measure of liquidity than does of current ratio. A rule of thumb is 1:1 is considered as satisfactory.

Absolute liquid ratio

It indicates the immediate liquidity of the firm. A high cash ratio indicates that the firm is not using its cash in best possible manner in operation of the company. This ratio is calculated by dividing the total amount of absolute liquid assets by total amount of current liabilities. The acceptable form for this ratio is 50 per cent or 0.5:1.

Net working capital ratio

The difference between assets and current liabilities excluding short-term borrowings is called net working capital or net current assets.

Net working capital is also used as a measure of liquidity. It is observed from the Table 2 that the current ratio of Mahindra and Mahindra Ltd varied between 1.52 and 1.39 during 1992-93 to 2006-07. The mean value is 1.57. The ratio is not reached the rule of thumb of 2:1. Hence the liquidity position of the company is not satisfactory. The quick ratio of Mahindra and Mahindra Ltd during the study period fluctuated between 0.88 in 1992-93 to 1.06 in 2006-07. It reveals that the ratio is more or less to standard norms 1:1, which means that the company is not maintaining its assets properly and unable to meet its short term liabilities.

The absolute liquid ratio of the company fluctuates from 0.17 to 0.49 in 1992-93 to 2006-07. The ratio is lower than the standard norms that is 0.5:1 which means that current liabilities are more than the liquid assets so that the company is not able to pay its dues in prompt time.

Conclusion

Liquidity management plays a crucial role in the success of a business firm. It can be explained in terms of consequence which the firm has to face inability to meet its commitments and thus losing goodwill and credit worthiness, losing profitable

opportunities and even insolvency leading to closer of the firm. From the view point of the conventional standard norms, the quick ratio is good but inventory the current ratio and absolute ratio are less than standard norms and the company is not using inventory in productive manner. Hence the liquidity position of Mahindra and Mahindra Ltd is not good. In order to improve the liquidity position of Mahindra and Mahindra Ltd has to utilize its assets in the effective manner and increase its cash balance and reduce its liability by paying it as when it becomes due.

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Table 1
Showing liquidity position of Mahindra and Mahindra Ltd

(Rs. In Crores)

Year	Current Assets	Current Liabilities	Quick Assets	Net Working Capital
1992-93	623.99	411.79	362.59	212.20
1993-94	804.31	402.71	485.07	401.60
1994-95	868.99	535.03	517.08	333.96
1995-96	964.72	805.19	572.93	159.53
1996-97	1500.80	767.49	1053.32	733.31
1997-98	1850.70	973.98	1335.83	876.72
1998-99	1874.60	967.27	1437.61	907.33
1999-00	1793.80	974.71	1278.25	819.09
2000-01	1711.85	1144.40	1159.31	567.45
2001-02	1732.04	1199.80	1263.00	533.24
2002-03	1611.60	1117.80	1154.86	493.84
2003-04	1500.58	1342.70	1000.88	157.88
2004-05	2266.71	1844.65	1506.87	422.06
2005-06	2976.84	2090.67	2098.10	886.16
2006-07	3732.28	2687.34	2853.80	1044.94
Sum	25813.81	17265.53	18079.50	8549.31
Mean	1720.92	1151.04	1205.30	569.95
S.D	820.14	633.21	646.82	292.96
C.V(%)	47.66	55.01	53.66	51.40

Source: Computed from Annual reports of the Mahindra and Mahindra Ltd

Table 2

Showing liquidity ratio of Mahindra and Mahindra Ltd

Year	Current Ratio	Quick Ratio	Absolute Liquid Ratio
1992-93	1.52	0.88	0.17
1993-94	2.00	1.20	0.11
1994-95	1.62	0.97	0.07
1995-96	1.20	0.71	0.04
1996-97	1.96	1.37	0.53
1997-98	1.90	1.37	0.28
1998-99	1.94	1.49	0.33
1999-00	1.84	1.31	0.27
2000-01	1.50	1.01	0.13
2001-02	1.44	1.05	0.12
2002-03	1.44	1.03	0.22
2003-04	1.12	0.75	0.17
2004-05	1.23	0.82	0.34
2005-06	1.42	1.00	0.35
2006-07	1.39	1.06	0.49
Sum	23.51	16.03	3.62
Mean	1.57	1.07	0.24

Source: Computed from Annual Reports of the Mahindra and Mahindra Ltd