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ANALYZE LIQUIDITY AND PROFITABILITY IN ORGANIZATION

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ABSTRACT

In the present context, liquidity management and profitability of a company are important for the financial management choice in particular. Only companies that can maintain a balance between profitability and liquidity position of the company can achieve the most acknowledged fiscal performance. The major aim of this research is to understand their significance. Researchers are interested in the study of car firms in this respect. Managers are known to improve profits and maintain liquidity by focusing on several corporate ratios, such as current, liquidity, etc. It may also stress that the cost of the items sold is maintained and the many sectors of operations analysed in order to boost the country's financial condition. The conclusion reveals that the present ratio and liquid ratio are positive with the profitability of Kerala's manufacturing enterprises while the cash conversion period is negative. In all of the situations, however, the link was statistically insignificant, demonstrating a minimal degree of liquidity effects on productivity. Therefore, a more realistic credit strategy that would generate less cash conversion period (CCP) would enhance the overall liquidity situation such that it would have a beneficial influence on the company's profitability.

INTRODUCTION

Management of working capital is one of the four key financial management decisions for which any trade-oriented organisation needs to make (Pandey, 2005). Focusing on the liquidity element of an enterprise and thus vital to effective and successful operations and the durability of the company's current financial management condition (Enyi, 2006). It should be noted from the start that working capital and liquidity are used in this article for the management of the company's current assets and obligations. This synonym is based on the fact that working capital ratios are the most prevalent liquidity measurements (Lamberg, & Valming, 2009). The amount of profit resulting and the worth of wealth of shareholders are to a considerable part determined by liquidity management (Ben-Caleb, 2008). In order to survive, a company has to be liquid, as failing to fulfil its duty in due course results in short-term credit rating, the fall in the goodwill value on the market and eventually liquidation (Bhavet, 2011). A smart and sound financial management strategy tries thus to preserve enough liquidity so as, without hurting profitability, to fulfil its long-term maturing bonds.

In any firm, liquidity management plays a crucial part since everyone wants their profits to be increased The ROA and ROE are used to assess the financial performance and position of the corporation by the use of a liquidity ratio, which is the current ratio, a fast relation, and Many investigations into the liquidity and profitability ratios have been carried out which reveal that liquidity may improve or reduce its profitability in companies. This report was performed on several sectors and nations, but first on the car industry, it examines the link between liquidity and profitability of five listed businesses in karachei comprising Pak Suzuki, Toyota, Honda atlas, Nissan Ghandhara and Hino Pak. Liquidity management implies the company's payment and improvement of performance and performance of its short-term financial commitments. If any firm experiences liquidity problems, then the liquidity issue should be resolved by appropriate policies or strategies. Enterprises must have enough funds to address their liquidity situation. These three measures have a handy way of identifying a company's liquidity and profitability management or approaches. This research also helps to discover how the liquidity and profitability relationships are that how a liquidity crisis may have negative outcomes for corporate revenues and generate more revenue or profit for the firm.

In order to achieve a profit for a longer term, the fixed assets, for example land&building, plant & equipment, furniture etc. must not be acquired in the sale. Current assets are bought in the process of producing the items and selling those goods through a work-in-progress process, such as the conversion of raw material into work-in-progress, the process of working progress into completed products, completed goods into creditors and debtors, on the other. The fixed assets are employed to boost an organization's output and current assets make daily use of additional fixed assets. The administration of this working capital is called the management of working capital (Pandey & Jaisal, 2011). Working capital plays a key part in the company's development and profitability and is closely connected with the liquidity concept. This connection between liquidity and profitability is linked to the management of the right working capital level. The two significant and essential parts of corporate company life are liquidity and profitability. Without liquidity no company can survive. A company might be regarded sick without producing any profit, but one without any liquidity will soon be able to face the downturn and perish. In reality, liquidity is a precondition for a company's existence. Liquidity management has therefore become a fundamental and general factor to evaluate an entity's success.

In every corporation, liquidity and profitability play an important role in fulfilling present commitments and in maintaining healthy profitability from activities. The aim of this research is to assess the liquidity and profitability of chosen drug firms. Each participant is interested in a company's liquidity situation. Goods suppliers will assess the company's liquidity before credit is sold. Staff also need to worry about liquidity of the firm to know whether the firm can pay any associated responsibilities to its employees - wage, pension, pension funds and so on. So a corporation has to keep sufficient liquidity so that liquidity has tremendous implications for earnings, some of which are distributed amongst shareholders.

Profit analysis is essential to shareholders since they obtain income in the form of dividends. Profits are significant to creditors since profit is a source of debt coverage money. Management also utilises profit as a metric of performance. Liquidity ratios evaluate a company's capacity to fulfil its short-term commitments. Anyone who interacts with the firm is concerned about the capacity to pay short-term debt. If a corporation cannot sustain a short-term debt payment capacity, it cannot sustain or satisfy its shareholders with a long-term debt payment capacity. The liquidity ratios examine characteristics and their connection to current obligations of the company's assets.

Literature Review

P. Megaladevi (2018) The purpose of this research is to analyse the liquidity-profit link amongst selected cement companies in India. In order to enhance profitability, any company must keep its healthy working capital in its everyday operation. The researcher has employed 8 profitability and 3 liquidity measures to analyse liquidity ratios on profitability. The findings of the research showed that CR and QR are closely related to ROAE. ROE is associated with the ICR at 5 percent and with the ROCE and EBDITCE at 1 percent. ROTA correlates positive to ROCE, EBDITCE, ROACE and ICR at 5 percent significant level In the financial conditions of organisations, profitability ratios also play a significant role. Each participant is interested in a company's liquidity situation. Before selling items on loan, suppliers should examine the liquidity of the firm. ROCE has a major association of 5 percent and 1 percent with ROE, ROTA, EBDITCE, ROAE, TDDR and ICR. The research shows the tight association between liquidity and profitability.

EHIEDU (2014) Liquidity and profitability are the main indices of company financial success. The liquidity ratio is used to assess a company's capacity to satisfy its maturing commitments in the near term. As the ratio is larger, short-term creditors will have more protection (current ratio). The profitability ratio concerns relative profitability and efficiency in the use of a company's resources. In this research, the following are determined: (1)The correlation between current ratio and profitability; (ROA) the correlation between acid test ratio and profitability; (ROA) the correlation between capital return employed and profitability; (2) the correlated relation between acido test ratio and profitability; Return on capital employed and profitability; (ROA). The "quantitative research design" is the research design used for this investigation. The public population is made up of enterprises that comprise the industry of "industrial/domestic items." The approach of sampling employed is the sample approach "not likely" of four enterprises chosen. The data utilised for this research were secondary data in the form of the chosen business' annual reports and accounts. To test the hypothesis at a 10 percent level of relevance, a simple correlation analysis was utilised. The whole results of these studies show: (1) the current ratio and profitability correlates significantly positively; and (2) the ratio between acid tests and profitability is not significantly correlated. (3) The return on capital utilised and profitability is not significantly correlating. The investigator proposes that corporates do not implement excessive liquidity measures at the cost of profitability, i.e. establish a balance between the two performance measures.

Dr. Amalendu Bhunia (2011) The major aim of this article is to assess the short-term liquidity effectiveness of private steel businesses in India. Since the LPG, it was considered important to design a robust private-sector production programme for steel on a formidable foundation in order to achieve rapid economic growth. Because of its weak capacity, under-use and low consumption, to some degree the priority assigned to the nation did not thrive. Liquidity working capital is responsible for low capacity, underuse and The major objective of this article is to determine the short-term liquidity of private steel businesses in India for working capital. Since LPG it is important that a good steel production programme be created on a formidable basis with the private sector in order to achieve rapid economic growth. Because of insufficient capacity, under-use, and inadequate consumption, the country's priorities did not thrive to some degree. Low capacity, poor use and bad consumption are the responsibility of the liquidity working capital. There is a connection between indices of liquidity and profitability.

Mrs.S.Vimala (2016) The word liquidity refers to a company's capacity to fulfil its commitments generally for a year in the near term. The company's liquidity funds may be stored in many ways: in cash and cash in current assets at banks, reserve drawing power under cash or overdrawals and short term deposits. The greatest level of liquidity are provided by cash holdings in the current account. The research looks at the liquidity situation of the top five sales-based pharmaceutical corporations. In order to investigate the position of liquidity, statistical procedures such as standard deviation, variation and Motaal test were used.

Mohammad Yameen (2019) The major purpose of this article is to analyse the liquidity effect on the profitability of Bombay-listed pharmaceutical businesses (BSE). ProwessIQ database extracts the data. For the period between 2008 and 2017, the study is carried out with the use of a balanced panel data of 82 drug firms. Results demonstrate a positive and substantial influence of the current liquidity ratio and rapid ratio on pharmaceutical businesses' rentability as a result of asset returns, whereas leveraging control factors, size of businesses and age have a negctive influence on pharmaceutical businesses' profitability. The research examined the gap in current research using current literature. In order to comprehend the relevance of liquidity, this research will be valuable for regulators, financial managers and others involved. This research is regarded to be one of the pioneers studying the effects of liquidity on Indian pharmaceutical businesses' financial performance. A battery for future study in this area is deemed.

Liquidity Risk Management

Bank liquidity risk is derived from the short-term liability financing of long-term assets that put refinancing or roll-up obligations at risk. The risk of liquidity is usually individual, however under some conditions, the liquidity of the financial system is impacted. As in general, the formulation of the liquidity policy is the main task of each bank, which is highly dependent on the characteristics of each financial institution. Bank of Business Deposits are generally significantly shorter in contractual maturity than credit and liquidity management must provide a cover for anticipated deposit withdrawals. Liquidity is the ability to adjust and lower the deposits efficiently to support the development of the loans and the possible funding of off-balance sheet claims. The future behaviour, liabilities and off-balance sheet elements in the case of cash flows rely on many time buckets. Liquidity risk is closely linked to other parts of the financial structure of the financial institutions, such as interest rate and market risk, profitability and solvency. A market or refinancing risk may exist (and/or reinvestment risk), due to misalignments or dates of adjustment of interest rates. The bank additionally receives profitability-related rewards when converting maturities that are exposed to these risks. The liquidity risk flows, as well as the profitability, with more liquid assets or better alignment of assets and obligations. The connection operates another way since the forecast cash flows do not appear: loans will simultaneously damage profitability and liquidity under irregular circumstances. There is also a solvency connection: more capital reduces liquidity generation but enables a better reaction to financial crises.

Liquidity risk might be divided into liquidity risk finance and asset liquidity risk. Asset liquidity risks refers to exposure to losses because, either because of a relative position size or due to temporary market shrinking, the transaction cannot be carried out on current price. In certain cases, sales may lead to massive losses. If a company cannot fulfil its financial obligations, liquidity risk is the susceptibility to loss. This may lead to a number of difficulties, such as non-compliance with margin calls or withdrawal demands, compliance with collaterals or reversal of debt. These obstacles may lead to an institution liquidating assets which might combine liquidity and liquidity financing problems if it is obliged to sell illiquid assets on fire sales prices. In this case, when a portfolio's leverage is considerable, enforced sales may lead to a positive feedback loop between falling prices and forced sales rounds (as a result of margin calls). Liquidity risk is addressed by managing concentration sizes and relative sizes of portfolios, diversification, lending lines or other funding supports and minimising liquidity risk financing liquidity risk Gaps in monetary flow.

Liquidity risk management in banks described as a risk, without inadmissible charges or losses, of either failing to satisfy its debt obligations to depositors, or funding asset increases due. Management of bank risk of liquidity This risk occurs when depositors collectively choose to collect more money than is immediately accessible to the bank or if the borrower fail to meet the financial commitments of the banks. This suggests that the liquidity risk exists in two cases. Firstly, as far as the banks are interested, the borrowers are symmetrically affected, e.g. when the banks decide to stop the loan. Secondly, the banks may nonetheless not afford their funds if depositors elect to pay their depositors, for instance in connection with their dealings with the depositors. In fact, banks frequently detect imbalances that need to be equalised between the asset and liability side, since banks absorb, by their very nature, liquid liabilities but invest into them. If a bank does not address such a gap, liquidity risk might emerge, following undesirable consequences, including bankruptcy risk, government rescue, and reputation. The failure or inefficiency of the liquidity management is due to the strong liquidity pressure, the development of the bank's liquid device, its liquidity pressure and its inability to find national and international sources of liquidity.

Objectives

1. To analyze the profitability in an organization
2. To analyze liquidity in Organization
3. To investigate role of profitability and liquidity in an organization

Research Methodology

This research was based on an analytical way of analysing liquidity ratio relationships and financial performance indicators for food industry listed businesses.

Sample

The population of the study is made up of industries in Kerala. In the period (2012-2014), the sample research was chosen from food industry enterprises (11).

Statistical Analysis Methods

In order to assess the hypotheses of the research using the following statistical procedures, statistic packages for social sciences are used: Standard deviations and simple coefficient of Pearson connection).

Data Analysis

Table 1-Descriptive Statistics of sample companies

	N	Min	Max	Mean	SD
Current Ratio	36	.51	2.67	1.2542	.57246
Quick Ratio	36	.19	1.72	.8344	.50319
EPS	36	-7.22	31.94	6.0275	7.79924
ROA	36	-28.10	39.47	9.4717	12.00945
DCL	36	.09	6.31	2.4872	1.53666
Valid N (listwise)	36				

For independent and dependent variables the lowest, highest, medium and standard deviation levels are shown in Table 1. On average 6.02 and 9.47 were criteria used for rentability measurements, including EPS or ROA. In addition, the current ratio mean values and the rapid ratio were respectively 1.25 and0.83. This shows that the average current and fast ratio is less than planned. The mean value of ROA is high 9.47 as compared to other factors. It has a high maximum value of 39.47, and a high standard deviation of 12.00, and the fast ratio of the table above is also low and low. The maximum and lowest values for each metric show that performance varies significantly amongst firms..

Table2-One way analysis of ANOVA to current ratio for sample companies

	Sum of Squares	Df	Mean Square	F	Sig.
Between Groups	2315.493	33	70.166	.27 4	.963
Within Groups	512.589	2	256.295		
Total	2828.082	35			

The P- value is 0.963 higher than the one such that no null hypothesis is rejected. The present relative position in CSE of listed firms for food, beverages and tobacco, thus, is not considerably different.

Table 3 Correlations coefficient of sample companies

	liquidity	profitability	DCL
Liquidity Pearson Correlation	1	.380*	.382*
Sig(2 tailed)		.022	.022
N	36	36	36
Profitability Pearson Correlation	.380*	1	.212
Sig(2 tailed)	.022		.214
N	36	36	36
DCL Pearson Correlation	.382*	.212	1
Sig(2 tailed)	.022	.214	
N	36	36	36

*. Correlation is significant at the 0.05 level (2-tailed).

Table 3 shows the connection between the many independent and dependent variables that are used in research.. The R values showed a moderate positive link, as evaluated by present ratio, between profitability and liquidity variables and rapid ratios, as shown in this table. This indicates that liquidity may influence profitability favourably. The correspondence is 0.380. According to the test findings of the 'Significant,' it is obvious that the correlation of sample firms on CSE is significant at 0.05 (2-tailed) level. Hypothesis is thus acceptable. Liquidity thus correlates considerably with profitability.

Table 4. Analysis of Variance (ANOVA)

Model	Sum of Squares	Df	Mean Square	F	Sig.
1 Regression	11497.64	3	3832.545	19.107	.000[a]
Residual	32293.51	161	200.581		
Total	43791.15	164			
2. Regression	13077.38	3	4359.125	18.609	.000[a]
Residual	37713.77	161	234.247		
Total	50791.15	164			
3. Regression	11820.74	3	3940.245	18.14	.000[a]
Residual	34970.41	161	217.207		
Total	46791.15	164			
a. Predictors: (Constant), CCC, ACP, APP, GROWTH, SIZE					
a. Dependent Variable ROE					

This table shows two variation sources: regression and residual. Regression sources for variations are the fraction of the variance in dependent variables (ROE), as the model could not explain it by depending on the regression model. A trustworthy model has an average square sum greater regression than that of the remaining average square sum. The medium square of each source of change is divided by the degree of freedom of its corresponding sum of squares. The F-value is achieved by dividing the medium-square regression by the residual medium-square. Therefore, a high F-value shows a credible model account. Whenever the p value is less than the 5% chosen, the F value is big and vice versa. F-values of 19.107, 18.609, 18.14 were analysed for Models 1, 2, and 3, with p-values of 0.00 correspondingly. This demonstrates that the models are quite dependable. This suggests that the ROE with great precision may be predicted using the models.

Findings

The survey also shows the results if asset quality ratios suggest a high development potential for a firm out of 100 respondents 69 interviewees agreed while 31 disagreed. In the case of a confidence building of the inventor in asset quality ratios, 54 respondents out of 100 participants agreed strongly, while 46 voted in favour. In the research, 54 respondents agreed, while 46 selected disagreed, whether asset quality ratios led to improved decision-making. In addition, the study showed the effect of analysing asset quality ratios on effective decision making and used SPSS and determined that regression analysis is an efficient decision analysis =13,065+16,935*, which implies a path equivalent to 16,935, meaning if the quality of the assets increased by 1%, effective decision making also increases by 16,935*. The ratios analysis also increased by 1%. The examination of asset quality ratios so has a favourable influence on successful decision-making. The evaluation of the function of the profitability ratio in successful decision making in BK with regard to the fourth study goal. According to a company's profitability in terms of its sales or investments, 58 of the 100 respondents agreed, and 42 disagreed. Findings continue to suggest respondents' views when profitability measures the efficiency of a company's operations by means of profit, of the 100 respondents 52 opted to agree, and 48 decided to disagree. In addition, the research gives the perspectives of the interlocutor, when profitability is an effective instrument to analyse the efficiencies and inefficiencies. In addition, the data demonstrate respondents' beliefs that profitability help the management and owners to take remedial action out of 100 participants. 80 interviewees agreed, while 20 disagreed.

The survey also gives respondents a perspective when the profitability assesses the company's operational efficiency and returns, 58 respondents out of 100 participants agreed and 42 disagreed. The findings show also respondents' opinions when profitability enables analyst to identify adequacy and adequacy, of which 13 respondents have been strongly voted, and 87 have chosen to agree. 13 respondents have been picked. In the survey, 66 respondents were chosen to agree on the profitability ratio as a helpful tool for analysis of the financial statement, while 34 disagreed. The findings also illustrate participants' perspectives if profits are simplified and accounting statistics are summarised to make it comprehensible for 100 respondents 16 interviewees agreed with 84 disagreements. The profitability ratios were also reported to support financial projections, 66 out of 100 respondents were strongly chosen and 34 agreed. The conclusions also demonstrate that respondents perceive the strength and weakness of a company concern if ratio analyses are valuable, of the 100 respondents 59 have firmly voted in favour of this analysis, while 41 have been voted in favour. Furthermore, the research examined those 82 respondents out of 100 respondents agreed to short-term profit by measuring profitability ratios. 18 respondents disagreed.

Conclusion

In financial decision-making, management of liquidity and profits is key. Companies with a balance between profitability and liquidity indicators accomplish their most critical fiscal performance. Through this research, we are able to assess and calculate the financial status of businesses. Descriptive statistics teach us about an efficient firm's performance and assist us examine a company's liquidity status. The research thus examines the financial concern, financial factors and the wealth of the company's owners. The consequence is that the profitability of production enterprises in Nigeria is little affected by liquidity. In view of the existing dying condition of many manufacturer enterprises in Nigeria, this is inevitable. This is merely to prove inefficiency and inefficiency in liquid asset management. The amount predicted from good liquidity planning is thus wasted. Therefore It is worth noting here that, with regard to CCP and ROCE, the negative tendency is particularly revealing of the need to reduce the cash conversion cycle to boost profitability. It is clear from the outcome that this paper calls for the general condition of liquidity to be improved, so as to have a beneficial impact on the profits of the company and also on a more realistic credit policy that would reduce cash flows, and reduce the cash conversion period that can improve profitability. Further study on the same subject will also be done and the years of the sample will be extended.

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