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Liquidity Management: An Empirical Study

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Abstract

Efficacious liquidity management is cardinal for being of an organization. Diverse components of current assets and current liabilities should be managed in such manner that an organization is able to keep appropriate liquidity structure. Adequate liquidity capacitates an organization to meet its obligations in time. Efficient liquidity management impact firm's risk, return and share prices, and surmises its success or failure. Liquidity management is credited as a lifeline of every concern. Need for dexterous liquidity management has, thus, become prime lately. The study developed on idiolect of disparate indices reveals that the overall liquidity position of the selected company, Titan Company Ltd. is not impressive. The paper also offers few suggestions to elevate certain facets stirring healthy liquidity management.

Keywords

working capital, liquidity, profitability, current assets, current liabilities

1. Introduction

Liquidity plays a crucial role in the cogent evolving of a firm. Liquidity management has, thus, become a motherly aspect of assessing the performance of a corporate entity. Liquidity should be neither excessive nor inadequate. Excessive liquidity indicates idle funds which do not earn any profit for the firm while inadequate liquidity adversely impacts the credibility of a firm, interrupts the production process and hampers its earning capacity substantially. Need for efficient liquidity management, has thus, become essential for the smooth running of any business enterprise. It is in this context that a modest attempt has been made in this paper to examine the different aspects of liquidity management and for better illustration, through a case study. The unit selected for the study is Titan Company Ltd.

2. Liquidity-Concept

Liquidity is a function of Current Assets (CA) and Current Liabilities (CL) and their composition. Company's degree of liquidity depends upon its cash and other assets that can be promptly converted into cash irrespective of company's making or losing money, obligations for repayment in near future and ability to raise cash through securities or borrowed money (Chambers & Lacey, 2011). An essential ingredient of liquidity is time it takes to convert an asset into cash or to pay CL. Quicker an asset converted into cash, more liquid it is. An enterprise is reasoned to be liquid if it has sufficient resources to meet its liabilities in time with minimal cost (Maness & Zietlow, 2005). Liquidity refers to the ability to pay in cash the due obligations. In the absence of adequate liquidity, an enterprise is technically insolvent and at least faces financial embarrassments of renegotiating its obligations to creditors (Kolb, Burton A., 1983). It may be defined as the ability to realize value in money (Van Horne, 1978). In other words, liquidity is a firm's ability to meet its maturing obligations. Such liquidity is ascertained by assessing its ability to hold necessary cash at the time of meeting obligations. Anthony and Reece viewed that liquidity refers to company's ability to meet its current obligations (Anthony & Reece, 1975). Solvency on the other hand, pertains to company's ability to meet interest costs and repayment schedules associated with its long-term obligations (Anthony & Reece, 1975). Hampton opined that liquidity means adequate cash in hand held by a firm to meet its obligations at all times (Hampton J., 1979). Bierman and Hass explained it as the likelihood of a firm being able to meet its financial obligation (Bierman & Hass, 1963). An enterprise must have certain level of cash above its expected needs to meet emergencies and to get all possible discount facilities for bulk purchases. Higher the financial liquidity, lower the risk of technical insolvency and vice versa. Liquidity beyond an acceptable limit would be disastrous as it increases risk of becoming technically insolvent.

3. Literature Review

Shapiro and Balbier (2000) viewed that an evaluation of quality of an organization's receivable and inventory is significant to assessment of liquidity. If receivable and inventory turnover promptly, cash flow can be invested for return. Ross and Westerfield (2005) opined that temporary cash surplus can be invested in short-term marketable securities for receiving high return since idle cash is reasoned inefficient. Toby (2008) in the investigation on liquidity execution relationship in Nigerian Manufacturing Companies unearthed that the results show strong connection between liquidity and productivity, effectiveness and obligation in Nigerian cited production. Ebben and Johnson (2011) investigated the relationship between cash conversion cycle and degree of liquidity, capital investment and performance over time and found significant relationship to all these aspects. Firms with more efficient cash conversion cycles have more liquidity and higher returns, and need less debt and equity financing. Campello, Giambona, Graham, and Harvey (2011) in their study of liquidity management offered new insights on interfaces between internal liquidity, external funds and corporate decisions. Firms with limited access to credit lines appear to choose between saving and investing during crisis.

Their evidence indicated that credit lines ease impact of financial crisis on corporate spending. Almeida, Campello, and Hackbarth (2011) studied firms liquidity policies as a function of real asset reallocation, analyzing trade-off between cash and credit lines. Their findings showed that firms are more likely to apply credit lines in industries with more liquidity mergers. Nunes, Viveiros, and Serrasqueiro (2011) in their study observed relative importance of age, size, liquidity and long-term debts for the increased profitability while risk is of great relative importance for the diminished profitability of young S.M.E. compared to old S.M.E European enterprises. Campello, Giambona, Graham, and Harvey (2012) explored in their study that firms with restricted access to credit draw more funds from their credit lines during their crisis than large profitable counterparts. Their findings suggested that credit lines do not wane during crisis and provide liquidity that firms used to cope with the phenomenal constraint. Banos-Caballero, Garcia-Teruel and Martinez-Solano (2014) analyzed the linkage between working capital management and corporate performance for selected non-financial British companies. Their findings provided strong support for an inverted U-shaped relation between investment in working capital and firm performance. Lima, Martins, and Brandao (2015) in their investigation observed that working capital management truly influences profitability of S.M.E. in European countries. Positive relationship exists between liquidity and profitability. Lyngstadas and Berg (2016) in their study assured that working capital management is relevant for small and medium-sized Norwegian firms profitability. Banos-Caballero, Garcia-Teruel, and Martinez-Solano (2016) in their investigation on the relationship between financing strategies of working capital requirement and firm performance found that an appropriate strategy can help firms improve their performance. Managers should be aware of investment in working capital and financing pattern of investment. Afrifa and Tingbani (2018) in their analysis on impact of working capital management on S.M.E. performance on selected British S.M.E. observed insignificant negative impact and suggested that in case of cash flow unavailability/availability, managers should attempt to decrease/increase investment in working capital to foster performance. Valaskova, Kliestik, and Kovacova (2018) investigated financial risks of Slovak companies using multiple regression and reasoned net return on capital, cash ratio, quick ratio, current ratio, net working capital, current debt ratio, financial debt ratio and current assets turnover as valid determinants grounded on which decision about the future companies default can be framed. Kontuš (2018) studied the relationship between liquidity and profitability of S.M.E. and large companies in the Republic of Croatia in 2014 but offered no empirical evidence favoring negative correlation.

4. Objective of the Study

The prime objectives of the study are: (i) to assess the liquidity of the selected company through ratio analysis.(ii) to examine the relationship between liquidity and profitability by using Spearman's Rank Correlation Coefficient and also to test the significance of such correlation coefficient.(iii) to offer suggestions to improve the liquidity management of Titan Company Ltd.

5. Research Methodology

The researcher, being an external analyst, has to depend solely on secondary data for the examination of the different aspects of liquidity management of the selected undertaking, i.e., Titan Company Ltd. Hence the data and information required for the study have been collected mostly from the annual reports of the company for the period from 2017-2018 to 2021-2022. Editing, classification and tabulation of the financial data collected from the above-mentioned source have been done as per requirement of the study. For the purpose of analyzing the efficiency of the liquidity management of the company under study, the technique of ratio analysis, statistical techniques like mean, Standard Deviation (SD), Coefficient of Variation (CV), Spearman's Rank Correlation, etc. have been employed. In order to test the significance of relationship between liquidity and profitability worked out by the rank correlation coefficient, the "t-test" has also been applied.

6. TITAN COMPANY LTD.-A BRIEF PROFILE

Titan Company Ltd., a joint venture between the Tata Group and the Tamil Nadu Industrial Development Corporation (TIDCO) commenced its operations in 1984 as Titan Watches Limited. Titan is the fifth largest incorporated own brand watch manufacturer in the world. Over the last three decades, Titan has entered into market competitiveness and fashioned lifestyle brands across diverse production categories. Titan is acclaimed for metamorphosing watch and jewellery industry in India and for shaping India's retail market by building client experience. The company keeps thriving and establishes yardsticks for merit with each fresh bid. Titan Company Limited is involved in presenting watches, jewelry, eyewear and others. Titan Co. Ltd. has lately started its new division namely Taneira and SKINN. It has different brands like Titan, Sonata, Helios, Nebula, Tanishq, Titan EyePlus, etc. The company has received many prestigious awards in different times, e.g., "Best Store Experience" award from the Platinum Guild International, London, 'Red Dot: Best of the Best' award for innovative laser cut tube jewellery, the most prestigious and coveted award in the world in the field of Product Design and also for groundbreaking design innovation, "Best Employer Award" by Tamil Nadu Government, Brand Equity Shark Award, "Customer Service Excellence" and "Retail Store of Year—Merchandising" awards in Future of Retail Awards 2019, Bronze in the prestigious ACEF Asian Leadership Award, etc. The company has developed its first international Tanishq store in Dubai based on thriving regions outside India and obtained Hyderabad-based technology and wearable firm HUG Innovations.

7. Results and Discussions

7.1 Different Measures

Liquidity implies the capacity to meet current financial obligations as per necessity. Liquidity position of Titan Company Ltd. has been studied with the help of several measures in the following paragraphs: Table 1 evidences that CA of the company has increased from Rs.7277.32 crore in 2017-2018 to

Rs.16379.00 crore in 2021-2022 showing an increase of 125.07% over the years. CA have increased every year. On an average, the company has CA of Rs. 10955.48 crore. Liquid Assets (LA) have also increased from Rs.1528.12 crore in 2017-2018 to Rs. 3592.00 crore in 2021-2022 showing an increase of 135.06% over the years. Like CA, LA have also increased year after year. On an average, LA are of Rs.2759.48 crore. CL have increased from Rs.4098.48 crore in 2017-2018

Table 1. Liquidity Position of Titan Company Ltd. for the Years from 2017-2018 to2021-2022 (Rs. in Crore)

Year	Current Assets(CA)	Liquid Assets (LA)	Current Liabilities (CL)	Net Working Capital (NWC)	Quick Net Working Capital (QNWC)
2017-2018	7277.32	1528.12	4098.48	3178.84	(-)2570.36
2018-2019	9085.26	2366.08	5169.25	3916.01	(-)2803.17
2019-2020	9534.83	1794.21	5243.88	4290.95	(-)3449.67
2020-2021	12501.00	4517.00	7193.00	5308.00	(-)2676.00
2021-2022	16379.00	3592.00	9559.00	6820.00	(-)5967.00
Mean	10955.48	2759.48	6252.72	4702.76	(-)3493.24

Source: Annual Reports and Accounts: Results Computed.

to Rs. 9559.00 crore in 2021-2022 showing an increase of 133.23% over the years under study. Table 1 also shows that current liabilities have also increased from year to year. On an average, CL are of Rs.6252.72 crore.

Of the several measures, NWC indicates margin of safety provided for creditors (Kolb, Burton A., 1983). Such a margin provided by the company is exhibited in Table 1. Table shows that the company has positive NWC throughout the period of study. Greater the amount of NWC, greater the liquidity of the firm. NWC has increased from Rs. 3178.84 crore in 2017-2018 to Rs.6820.00 crore in 2021-2022 showing an increase of Rs.114.54%. On an average, it is Rs. 4702.76 crore. Indeed, the measure of NWC does not demonstrate true ability to pay current debts when they become outstanding. NWC being the excess of CA over CL and since these CA contain illiquid inventory, the measure of QNWC, i.e., LA less CL, has been adopted as ad rem. Table 1 exhibits that the selected company has negative "margin of safety" or "cushion" of protection provided for creditors from LA throughout the period of study. Except 2020-2021, QNWC shows increasing trend. On an average, it is Rs. (-)3493.24 crore, i.e., negative. Hence, the measure of QNWC evidences inability of the company to pay current debts in all the years. Size of QNWC is not sufficient to assess the qualitative efficacy of liquidity management.

However, nothing concrete can be concluded depending solely upon NWC and QNWC while assessing

liquidity position of the company. Problem is that the measures of NWC and QNWC do not show the extent of margin of safety provided to creditors. Due to this, ratio and other similar measures are recognized as better measures.

Table 2. Selected Ratios of Titan Company for the Years from 2017-2018 to2021-2022

YEAR	CR (×)	QR (×)	CCL (%)	ID	DD	PD	WCS(×)	CATA(%)
2017-2018	1.78	0.37	14.94	122.57	5.69	26.05	4.92	77.45
2018-2019	1.76	0.46	19.36	119.62	6.61	22.62	4.79	78.21
2019-2020	1.82	0.34	6.79	131.27	6.35	18.09	4.69	72.30
2020-2021	1.74	0.63	7.12	139.22	5.72	15.40	3.95	78.82
2021-2022	1.71	0.38	10.97	139.52	5.90	17.57	4.15	81.34
Mean	1.76	0.44	11.84	130.44	6.05	19.95	4.50	77.62
SD	0.07	0.09	4.78	8.24	0.42	3.83	0.37	3.07
CV	3.98	20.45	40.37	6.32	6.94	19.20	8.22	3.96

Source: Annual Reports and Accounts: Results Computed.

7.1.2 Ratio Analysis

i) Current Ratio (CR): CR indicates the extent of soundness of current financial position of an undertaking and degree of safety provided to creditors. Higher the CR, greater the assurance of ability to pay CL and vice versa. A good CR may mean a good umbrella for creditors against the rainy day; but to management, it reflects bad financial planning or the presence of idle assets or over-capitalization (Walker & Bough, 1964). Table 2 shows that CR of the company has always been below the hypothetical norm of 2:1. In fact, CR varies between 1.71 times in 2021-2022 to 1.82 times in 2019-2020; on an average, it is 1.76 times. SD and CV are 0.07 time and 3.98 times respectively. It can be inferred that the short-term debt paying strength is not very satisfactory.

ii) Quick Ratio ((QR): Efficiency of CR may be challenged since CA may embrace high amount of slow moving or non-moving inventory. A normal CR is, thus, required to be substantiated by QR. QR is a rigorous and penetrating measure of a firm's ability to meet short-term liabilities. QR enables a financial officer to ascertain the circumstances if creditors pressurize for immediate payment especially at the time when it is not possible to boost the sales of closing stock or it shows that a colossal loss is approaching. Table 2 depicts that the behaviour of QR is alarming. Actually, it fluctuates between 0.34 time in 2019-2020 to 0.63 time in 2020-2021 as against the hypothetical norm of 1:1. SD and CV of the company are 0.09 time and 20.45 times. On an average also, the ratio has been less than unity. This

indicates that quick assets are inadequate to meet currently maturing obligations and a large part of cash is invested in inventory. Performance regarding liquidity management of the company is not impressive.

iii)Cash Position Ratio or Cash to Current Liabilities Ratio (CCL): This ratio is a more rigorous test of liquidity position of a concern. Although receivables and debtors are usually more liquid than inventories, yet there may be uncertainty regarding their realization into cash in time. It delineates liquidity position of a concern if creditors pressurize for immediate payment. It designates availability of cash to pay current obligations (Bernstein, 1978). A high cash position ratio is good from creditors point of view but from the management point, it stipulates poor investment policy. The acceptable norm for this ratio is 0.5:1 or 1:2. Table 2 shows that cash position ratio ranges between 6.79% in 2019-2020 and 19.36% in 2018-2019. On an average, this ratio is 11.84%. SD and CV are 4.78% and 40.37% respectively. CCL of the company is not satisfactory during the period under reference i.e. the level of cash and bank balance maintained by the company is lower in current assets if it is compared to the acceptable norm of o.5:1. It indicates that cash position in relation to current liabilities has been weak.

iv) Inventory Day (ID): This specifies duration of inventory in an organization. Movement of inventory or stock during a year can be known from this ratio. Lower the age of inventory, better the liquidity position and vice versa. Table 2 evidences that inventory days vary from 119.62 days in 2018-2019 to 139.52 days in 2021-2022. On an average, it is 130.44 days indicating danger of over-stocking. SD and CV are 8.24 days and 6.32 days respectively. All these reflect that the management of the company is inefficient in relation to its inventory and working capital management.

v) Debtors' Day(DD): Debtors day or average collection period shows the number of days that glide between the date of actual credit sales to debtors and the date of actual payment made by debtors for the same. Usually, a high collection period implies an inefficient collection performance. which, in turn, adversely affects liquidity or short-term paying capacity of a firm. But a very short collection period may imply a firm's conservative policy to sell on credit or its inability to allow credit to its customers or debtors and thereby losing sales and profit. Moreover, longer the average collection period, longer are the chances of bad debts. Thus, an average collection period serves as a useful measure of collectability of receivables and effectiveness with which credit policy of a business is being enforced. Table 2 reveals that DD fluctuates from year to year moderately. Highest DD is 6.61days in 2018-2019 and lowest is 5.69 days in 2017-2018 with an overall average of 6.05 days. This may be an indicator of liberal credit policy adopted by the company. Such a policy succeeds in avoiding bad debt losses but so severely curtails sales that overall profit is low. SD and CV are 0.42 day and 6.94 days respectively.

vi) Payment Days (PD): Disbursement period or payment days bespeaks the time required to pay its debts. Table 2 shows that PD fluctuates from 15.40 days in 2020-2021 to 26.05 days in 2017-2018 with an overall average of 19.95 days. SD and CV are 3.83 days and 19.20 days respectively. PD when read with DD reveals that the former is always higher than its later which evinces payment takes more time than collection.

vii) Working Capital to Sales (WCS): WCS shows the number of times NWC is transposed during a specific accounting period. WCS measures the efficiency of the utilization of MWC. Higher the turnover, greater is the efficiency and larger is the rate of profit earned. But a very high ratio may denote hornet's nest of the lack of working capital and over-trading. On the other hand, a very low turnover ratio hints that working capital is not efficiently utilized. Table 2 depicts that WCS has decreased in all the years except 2021-2022. Minimum ratio is 3.95 times in 2020-2021 and maximum is 4.92 times in 2017-2018. On an average, WCS is 4.50 times. SD and CV are 0.37 time and 8.22 times respectively. Accepting the norm that lower the WCS, less efficient the management, it can be inferred that management is not efficient enough to manage its liquidity position.

viii) Current Assets to Total Assets (CATA): This ratio insinuates the magnitude of funds invested for working capital purpose and thus expresses the correlation between the amount of CA and the amount of investment in total assets. Table 2 shows that this ratio reports fluctuating trend during the period of study. It is as high as 81.34 times in 2021-2022 and as low as72.30 times in 2019-2020. On an average, the company invests about 78% of the total assets in the form of CA and the remaining 22% are invested in permanent assets in the years of study. It testifies that the bulk of the total investment of the company is made for working capital purpose. It also signifies that the company has invested a big portion of CA in total assets which may hurt the efficiency of liquidity management. SD and CV are 3.07 times and 3.96 times respectively. Bulk investment in CA increases liability but decreases profitability as this lowers return on assets. Funds blocked in idle cash and huge debtors lessen profitability. Cost of liquidity through low rate of return increases with the level of CA. Again, a firm will not be in a position to honor its obligations if it carries little cash. This may enforce a firm to borrow at high cost. Optimum level of CA should, therefore, be maintained by considering the concepts of liquidity, profitability and solvency.

In Table 2, an attempt has also been made to measure the consistency among the eight parameters (CR, QR, CCL, ID, PD, DD, WCS and CATA) of liquidity management more precisely with the help of statistical technique of CV. CV is the most commonly used method where the variability between two or more variables is compared. Variable for which CV is greater is said to be less consistent or less variable. On the other hand, variable for which CV is less is regarded as more consistent, more stable or more homogenous. Table 2 reveals that out of the eight different parameters of liquidity management, CATA is the most consistent and stable followed by CR, ID, DD, WCS, PD, QR and CCL. Most consistency and stability in CATA supports the fact that the company has always maintained maximum investment in CA. However, a low level of CR and QR may not indicate poor liquidity position so long an enterprise has adequate earnings or cash flows. The major defect of the above ratios is that they neglect cash flows (Emery & Cogger, 1982). Hence, the measures of liquidity that contemplate earnings and cash flows have been employed in cases where CL exceed quick or CA. For the purpose, the measures (Clarkson & Elliott, 1983) are:

$$\text{(i) } CLE_1 = \frac{\sum l_j - (\sum a_j - a_3)}{EBT} \times 360 \text{ ; (ii) } CLE_2 = \frac{\sum l_j - \sum a_j}{EBT} \times 360$$

$$\text{(iii) } CLC_1 = \frac{\sum l_j - (\sum a_j - a_3)}{C_f} \times 360; \text{ (iv) } CLC_2 = \frac{\sum l_j - \sum a_j}{C_f} \times 360$$

Here, CLE_1 and CLE_2 = Number of days required to discharge net current debts out of earnings, net of LA and net of CA respectively; CLC_1 and CLC_2 = Number of days required to discharge net current debts out of cash flows, net of LA and net of CA respectively; EBT = Earnings Before Tax and C_f = Cash Flows; a_j ; a_3 = Inventories and l_j = CL. The above measures have not shown any different picture.

Table 3. Selected Parameters of Titan Company Ltd. for the Years from 2017-2018 to2021-2022

Year	CLE_1	CLE_2	CLC_1	CLC_2
2017-2018	M360	NA	M360	NA
2018-2019	M360	NA	M360	NA
2019-2020	M360	NA	NA	NA
2020-2021	M360	NA	235	NA
2021-2022	M360	NA	NA	NA

Source: Annual Reports and Accounts: Results Computed.

Note. NA = Not Applicable; M360 = More than 360 days.

Measure of CLE_1 evidences that the company has failed to meet its net current debts within a year from the earnings in all the years of reference. Liquidity position of the company for which CL are greater than LA may be considered poor due to the fact that they have either low level of earnings or poor cash flows. Values of CLE_2 cannot be computed as CA are higher than CL, i.e., positive NWC. Measures of CL employed above show that earnings are insufficient to pay net current debts within a year. The company may have insufficient earnings but its cash flow positions may be good. Hence, CL measures that consider cash flows are attached more importance. Table 3 shows that the company has failed to meet its current debts within a year out of cash flows in 2017-2018 and 2018-2019; only in 2020-2021, it has paid its debts within a year. Measure is not applicable in 2019-2020 and 2021-2022 as in these two years there were negative cash flows. There is no question of covering net current debts out of cash flows. In addition to measure of CLC_1, measure of CLC_2 can be applied in the cases where CL exceed CA. But this measure cannot be applied here as there are positive working capital, i.e., CA

exceed CL. Thus, the above measures show that liquidity position of the company has deteriorated over a period of time. Except one year, the company has inability to pay its debts within a year.

7.1.3 Coefficient of Rank Correlation

An attempt has been made to study the extent of relationship between the liquidity and profitability of Titan Company Ltd. by using Spearman's Rank Correlation Coefficient. With a view to judging significance of the relationship, "t-test" has been applied. For this purpose, ratio of current assets to total assets has been used as the "liquidity" indicator and ratio of return on capital employed has been taken as the "profitability" parameter.

Table 4. Coefficient of Rank Correlation for the Years from 2017-2018 to2021-2022

Year	Current Assets to Total Assets (%)	Liquidity Rank(r_1)	Return on Capital Employed (%)	Profitability Rank (r_2)	($r_1 - r_2$) d	d^2
2017-2018	77.45	4	30.04	3	+1	1
2018-2019	78.21	3	17.89	5	-2	4
2019-2020	72.30	5	28.37	4	+ 1	1
2020-2021	78.82	2	32.40	1	+ 1	1
2021-2022	81.34	1	32.27	2	-1	1
						$\sum d^2 = 8$

Source: Annual Reports and Accounts: Results Computed.

$$R1 = 1 - \frac{6\{\sum d^2 + \sum (t^3 - t)/12\}}{n^3 - n} = 1 - \frac{6\{(8 + 0)\}}{124} = 0.613$$

Where, d = difference in the ranks of an individual in the two characters; t = number of individuals involved in a tie and n = number of individuals.

Table 4 depicts that rank correlation coefficient between liquidity and profitability of the company selected for study registers at 0.613. To study the significance of the computed value of such correlation coefficient, 't-test' has further been applied here.

7.1.4 Testing the Significance of Correlation Coefficient

H_0 : Null hypothesis ⟶ There exists no significant correlation between liquidity and profitability of Titan company Ltd.

H_1 : Alternative hypothesis ⟶ There exists significant correlation between liquidity and profitability of Titan company Ltd.

μ:- 0.05 ⟶ Level of significance for testing the hypothesis.

$$R1\ 0.613\ t = \frac{}{} \times \sqrt{(n-2)} = \frac{}{} \times \sqrt{(5-2)} = 1.34$$

$\sqrt{(1- R1^{2)}}\sqrt{(1- 0.613^2)}$

The computed value of "t", i.e., 1.34 is less than the critical value of "t" (i.e., 2.57) at 5% level of significance. Hence, H_0, i.e., the null hypothesis may be accepted which signifies there exists no significant relationship between liquidity and profitability of the company. They are mildly related to each other.

8. Conclusion

Liquidity management occupies an important place in financial management. An analysis of liquidity aspect of working capital is vital for both short-term creditors and management of a business enterprise. Efficient liquidity management could be ascertained by firm's ability to meet maturing debts or obligations. Liquidity is considered as busy-bee of working capital management. Moreover, analysis of liquidity aspect helps management to get information about the adequacy of working capital. Study of liquidity, in fact, implicates study of interface between current assets and current liabilities. This study evidences that the company is not making payment of its current debts within the time over the years and hence, the company's internal operations have to be improved to achieve better management status. The company is unable to meet its entire requirements for payment of high liquidity commitments with prolific operations and from its cash flow operations. The study based on different parameters witnesses that the overall liquidity position of Titan Company Ltd. is capricious and dispiriting. There is a need for improvement in almost all factors.

9. Suggestions

Investment in CA is much high in the company under study which should be reduced steadily. Optimum level of CA should, therefore, be maintained by considering the concept of liquidity, profitability and solvency.

There is a need for immediate improvement in the creditors' payment policy because creditors are not paid in time. In nearly all cases, payment is made beyond one year. Management should put stress on the payment of debts.

Management of Titan Company Ltd. should try to maintain a definite proportion among the various components of working capital in relation to the overall CA to keep adequate quantum of liquidity invariably. Such a proportion can be resolved following past experience.

As the cash position of the company is poor, investment appearing as inventory should be reduced and through prompt collection of debts.

The company should improve its liquidity position through raising its LA like cash in hand, bank balance, etc., to maintain proper liquid funds like cash and bank balances.

The company having high stock, it should lessen the stock by increment deals.

The company should keep up legitimate fluid supports like money and bank balance.

Inventories should be reduced to the least possible extent. Norms both for the consumption and stock of raw materials should be laid down on a scientific basis and in no case should they be violated in practice.

Liquidity management system of the company to be effective for successful survival in the competitive business world must adopt varied scientific methods of liquidity management so that CA can be maintained at optimum level.

10. Future study

The paper is developed on distinct company. Exploratory study may further be elevated taking a great number of companies of other sectors ingrained on their liquidity strategy to disseminate the conclusion. The researcher adjudges that the prospect in this sphere demands extensive study to clinch at more meaningful conclusion and hopes that other possible conditions for liquidity ideology will be extricated by future studies.

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Notes

Note 1. Current Assets (CA) consist of Current Investments, Inventories, Trade Receivables, Cash and Cash Equivalents, Short Term Loans and advances and other Current Assets.

Note 2. Current Liabilities (CL) consist of Short Term Borrowings, Trade Payables, Other Current Liabilities and Short Term Provisions.

Note 3. Net Working Capital (NWC) = Current Assets less Current Liabilities.

Note 4. Current Liabilities (CL) = Liquid Liabilities (LL) or Quick Liabilities (QL) as there is no long term borrowing or bank overdraft included in current liabilities (CL).

Note 5. Quick Net Working Capital (QNWC) = Liquid Assets (LA) less Current Liabilities (for the reasons stated above).

SD = Standard Deviation.

CV = Coefficient of Variation.