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Research Article

A Study Of Liquidity Analysis of 2&3 Wheelers Companies Listed On The BSE

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ABSTRACT

Liquidity ratios are utilised to assess a company's capacity to meet its immediate financial obligations. Every investor uses the company's liquidity ratios to conduct a fundamental business study. Should the business have any difficulties fulfilling its short-term obligations on time, it would soon go bankrupt. Liquidity is a useful indicator of a company's health as a going concern. Both excessive and insufficient liquidity harm the business. In the business, it ought to be to a sufficient extent. When liquidity is abundant in the business, ideal funds are accumulated, the business becomes less profitable, speculation rises, and money is spent needlessly. Conversely, insufficient liquidity causes disruptions in the way businesses operate.
This research aims to analyse the liquidity performance of Six 2 & 3 Wheelers Companies listed on the BSE during five years, spanning from 2019 to 2023. The current ratio and Quick ratio, are computed for this purpose. Furthermore, hypothesis testing has been done using the ANOVA. Among the 2 and 3 Wheelers companies listed in the BSE during the study period, it was found that TVS Motor Company Ltd had the lowest value of the current ratio and quick ratio, while Wardwizard Innovations and Mobility Ltd Company had the highest average value of both ratios. The null hypothesis in this hypothesis testing scenario has been accepted, and it has been determined that there was no statistically significant difference in the liquidity of the chosen two- and three-wheeler enterprises over the study period.

Keywords: 2 & 3 Wheelers Industry, Liquidity Analysis, BSE, Current Ratio, Quick Ratio

Introduction

India ranks second globally in terms of two-wheeler production and manufacturing. In terms of the quantity of two-wheelers produced and domestic sales, it is ranked third only after China and Japan. This differentiation was made possible by several factors, including the government of India's stringent policies towards the passenger vehicle sector, the growth in demand for private transportation, the inefficiencies of the public transportation system, etc.

India is among the relatively few nations that produce three-wheelers worldwide. It is the biggest three-wheeler manufacturer and retailer in the world. Having more than 80% of the domestic market, Bajaj Auto holds a monopoly; the remaining part is split between Bajaj Tempo, Greaves Ltd, and Scooters India. As of March 31, 1998, there were 1.7 million registered three-wheelers and 27.9 million registered two-wheelers in India. Between 1990 and 1996, the number of two-wheelers nearly doubled from 12.6 million in base year 1990.

The adoption of new business models and digitization, together with government initiatives in the automotive sector, are poised to upend the global automotive industry landscape. In a similar vein, India is leading the way in revolutionising the auto industry, with electrification top of the government's priority. As the government plans to create a green economy, one way to reduce pollution is through electrification of the vehicle industry. The government's regulations and subsidy programmes, such as FAME, have helped to propel the electric vehicle market, particularly in India's 2W and 3W markets, which has increased commercial opportunities. The government intends to have 30% more electric vehicles (EVs) on the road by 2030 due to the significant potential in the 2W and 3W sector. Based on the present growth rate of 7-8% compound annual growth in car sales, over 46,000,000 two-, three-, and four-wheel drive vehicles might be sold by 2030. With this yearly market size, Indian businesses would have the chance to take the lead in EV technology globally.

Liquidity Analysis

Analysing liquidity ratios can assist in determining a company's short-term solvency. In other words, it aids in assessing a business's capacity to fulfil its immediate responsibilities. Therefore, liquidity refers to the speed at which a company's assets are turned into cash. It also guarantees that a company will always have enough cash on hand to pay its present responsibilities. Additionally, liquidity shows that a corporation has enough money to cover its ongoing expenses.

Therefore, this implies that in order to guarantee prompt payment to third parties, the very conversion of current assets into cash should be done quickly. In other words, the bulk of current assets shouldn't be invested in credit sales and inventory (also known as accounts receivable). Liquidity analysis has therefore become increasingly important in recent years. Although liquidity measures are helpful in assessing a company's capacity to pay short-term obligations, they do not provide insight into the efficiency of cash resource management. The current ratio, quick ratio, and inventory turnover ratio are the three liquidity ratios that are primarily employed for liquidity analysis.

For the current study purposes, the researcher used the current ratio, and quick ratio for the liquidity analysis after choosing all six two & three wheelers companies listed on the BSE.

Review of Literature

1. Thakkar (2019), The study's goal is to investigate how stock splits and dividends (bonus) affect stock liquidity, both alone and collectively. The study aims to cover the stock liquidity for companies that make up the BSE-200 Index from 2010 to 2018 before these announcements, up until the current date, and after the current date. The outcome reveals that, in almost half of the cases, bonus and stock split do not result in a discernible increase in liquidity. In a few situations, however, an improvement in liquidity is visible throughout the time between the announcement date and the cum-date. However, following the ex-date, the liquidity usually does not get much better.

2. Safiuddin and Khan (2016) used CR and QR to analyse the liquidity condition of a subset of pharmaceutical companies from 2010 to 2014. ROE and ROA were used to calculate the firm's profitability. They concluded that during the study period, Cipla Firm had fared better in terms of liquidity situation.

3. Manoj (2016) assessed the profitability and liquidity status of a subset of automakers. The statistical method known as two-way ANOVA (2010-2014) revealed that there is no noteworthy variation in the chosen organisations' profitability and liquidity.

4. Malik and Ahmad (2013), additionally noted that QR and ROA have a negative correlation. The study provided support for the profitability and liquidity trade-off theory, which views these two variables as the two corners of a straight line. When you approach one on the queue, you inherently move away from the other. Put differently, a rise in liquidity will inevitably result in a decline in the company's ability to utilise its assets. We refer to this idea as a trade-off between profitability and liquidity.

5. Ajanthan (2013) conducted a five-year study on the correlation between profitability and liquidity of eight listed profit-oriented trading enterprises in Sri Lanka. The results of the studies showed that profitability and liquidity are positively correlated.

6. Ashok Kumar, Dr. Panigrahi (2013). The current study's focus was on the liquidity positions of the top five cement businesses in India. The working capital to current assets ratio, quick ratio, and current ratio of all the organisations are found to be ineffective, indicating an unstable or unsound liquidity position, according to the research findings.

7. Punit & Parmil (2012) found that maintaining a suitable balance between profitability and liquidity is crucial for any organisation. Maintaining current assets and current liabilities in a way that maximises the company's profitability is mandatory. The profitability of the company will suffer if it continues to maintain a higher level of current assets than current liabilities. The purpose of the study was to assess Airtel's trade-off between profitability and liquidity as a telecommunications service provider. A five-year analysis was conducted on the data, spanning from 2005–06 to 2009–10. The study concluded that profitability and

liquidity are negatively correlated. Therefore, maintaining a balance between profitability and liquidity is crucial for all businesses.

8. Barad Mahesh (2010) asserted working capital investments can be used to assess the financial performance of liquidity. The current study measures liquidity using a variety of ratios, including the quick ratio, current ratio, working capital turnover ratio, inventory turnover ratio, and average collection period. Furthermore, it was discovered that there was sufficient liquidity to support ongoing business operations.
9. Eljelly (2004) investigated the connection between profitability and liquidity using a Saudi Arabian company sample. The study's application of regression analysis and correlation revealed a negative association between profitability and liquidity, with CR serving as a proxy for liquidity.
10. Khandelwal (1985), To showcase their working capital management strategies, this study was centred on SSI in the Jodhpur manufacturing estate. This investigation showed that, for the duration of the investigation, the instant liquidity situation of the chosen SSI units was unsatisfactory. Additionally, it was stated in this investigation that the receivables and inventory were completely inadequate.
11.

Objectives of the study:

The present study comprises of following objectives:

1- To assess particular 2 & and 3-wheeler companies in India for their liquidity efficiency.
2- To evaluate and contrast the chosen 2 & and 3-wheeler companies liquidity positions.
3- To make recommendations on how the chosen 2 & and 3-wheeler companies in India might strengthen their liquidity situation.

Hypothesis:

H0: There is no significant difference in liquidity of selected 2 and 3-wheeler companies during the study periods.

H01: There is a significant difference in liquidity of selected 2 and 3-wheeler companies during the study periods.

Research Methodology:

Research Design- The researcher has obtained the analytical research design for current study purposes.

Sources of Data- Data gathered from the secondary source are used in the study. The data sources were the capitaline database, corporate annual reports, periodicals, journals etc.

Sample size- The present study has employed a small sampling size, with a representative sample consisting of all 6 2 & and 3-wheeler companies registered on the BSE. Companies are Hero MotoCorp Limited, Scooters India Ltd, Eicher Motors Ltd, TVS Motor Company Ltd, Bajaj Auto Limited, Wardwizard Innovations and Mobility Ltd.

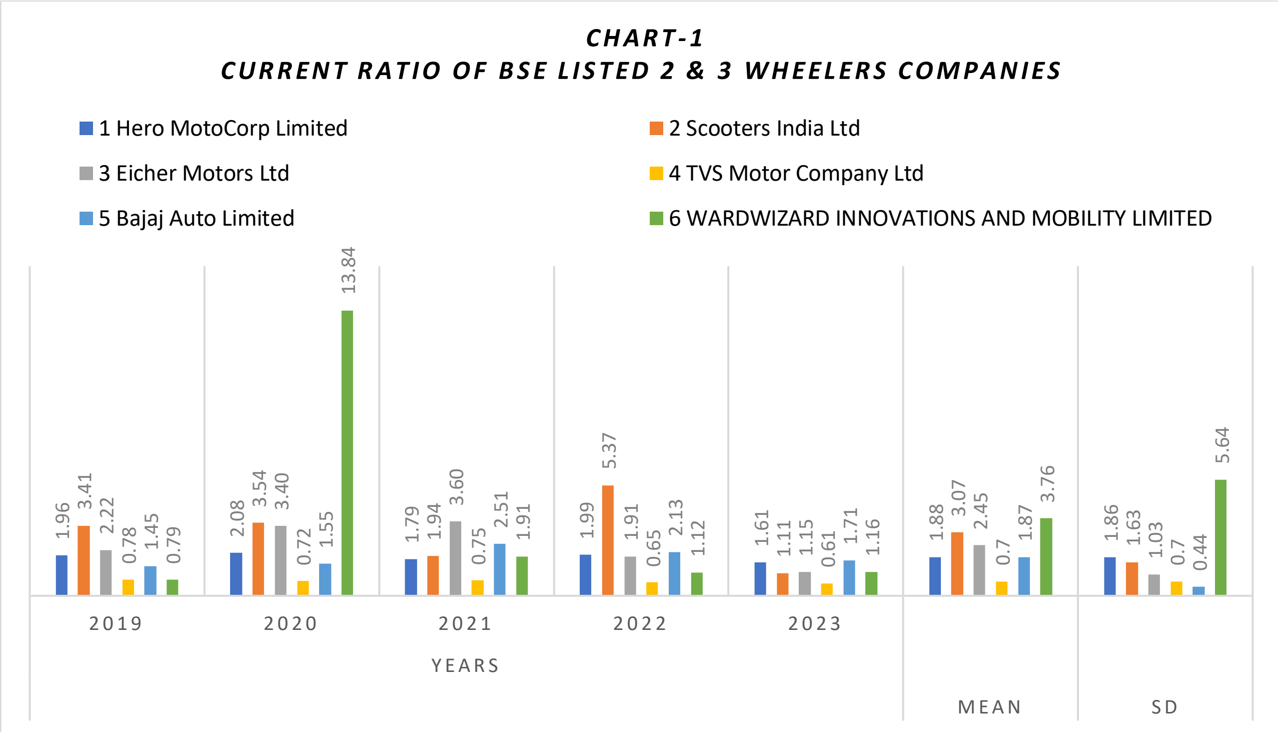
Period of Study-The research was conducted over five years, from 2019 to 2023.

Tools and Techniques- Statistical methods such as average mean and standard deviation have been utilised to analyse the data in the form of different liquidity ratios, and one-way ANOVA has been used to test the hypothesis. Liquidity metrics are comprised of the current ratio and quick ratio.

Table 1: Current Ratio of BSE Listed 2 & 3 Wheelers Companies

S.N.	Companies	Years					Mean	SD
		2019	2020	2021	2022	2023		
1	Hero MotoCorp Limited	1.96	2.08	1.79	1.99	1.61	1.88	1.86
2	Scooters India Ltd	3.41	3.54	1.94	5.37	1.11	3.07	1.63
3	Eicher Motors Ltd	2.22	3.40	3.60	1.91	1.15	2.45	1.03
4	TVS Motor Company Ltd	0.78	0.72	0.75	0.65	0.61	0.7	0.7
5	Bajaj Auto Limited	1.45	1.55	2.51	2.13	1.71	1.87	0.44
6	Wardwizard Innovations and Mobility Ltd Company	0.79	13.84	1.91	1.12	1.16	3.76	5.64

Source: Annual Reports of the companies.



The current ratio of chosen BSE companies across the study period is displayed in the table and chart no. 1 above. Among all the units listed in BSE 2 & 3-wheeler companies during the study period, it was discovered that Wardwizard Innovations and Mobility Ltd Company had the highest average value of the current ratio at 3.76:1, which is a positive sign and it means short-term asset value is greater than its short-term liability value, the corporation can meet its financial obligations more efficiently. TVS Motor Company Ltd was found to have the lowest value of this ratio at 0.70:1 among all the 2 & 3 Wheelers companies listed in BSE during the study period.

Hypothesis Testing:

H0: There is no significant difference in the current ratio of selected 2 and 3-wheeler companies during the study periods.
H01: There is a significant difference in the current ratio of selected 2 and 3-wheeler companies during the study periods.

Table 2: ANOVA Table for Current Ratio

ANOVA
Current_Ratio

	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	28.381	5	5.676	.949	.468
Within Groups	143.524	24	5.980		
Total	171.905	29			

Interpretation: The above ANOVA table shows that the F-value is 0.949. Since the ANOVA test has been performed under a 5% significance level and the p-value is greater than 0.05 (p-value>0.05), we accept our Null hypothesis and reject the Alternative hypothesis. So, we conclude that there is no significant difference between the current ratio of selected automobile companies.
Hence,
H0: Accepted
H01: Rejected.

Table 3: Quick Ratio of BSE Listed 2 & 3 Wheelers Companies							**Mean**	**SD**
S.N.	**Companies**	**Years**						
		2019	**2020**	**2021**	**2022**	**2023**		
1	Hero MotoCorp Limited	1.71	1.81	1.55	1.77	1.35	1.63	0.18
2	Scooters India Ltd	1.23	1.86	1.79	5.37	1.11	2.27	1.76
3	Eicher Motors Ltd	1.91	3.13	3.29	1.60	0.85	2.15	1.03
4	TVS Motor Company Ltd	0.49	0.49	0.50	0.43	0.40	0.46	0.04

5	Bajaj Auto Limited	1.25	1.30	2.25	1.87	1.44	1.62	0.42
6	Wardwizard Innovations and Mobility Ltd Company	0.79	9.11	1.16	0.50	0.59	2.43	3.74

Source: Annual Reports of the companies.

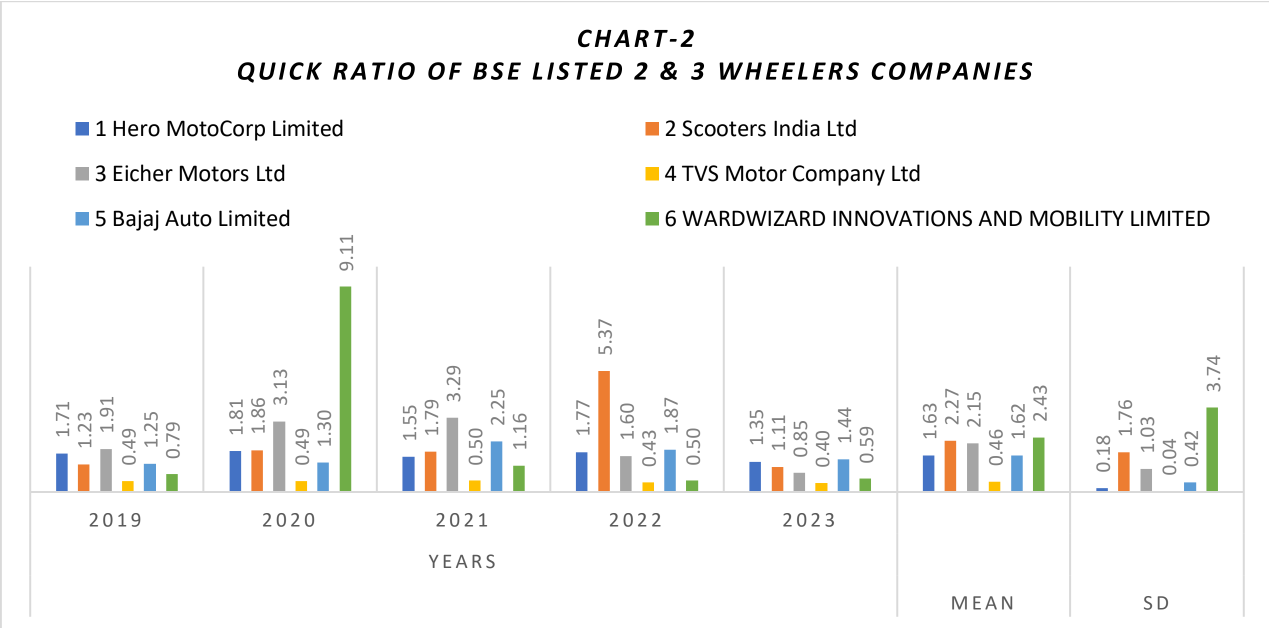


CHART-2
QUICK RATIO OF BSE LISTED 2 & 3 WHEELERS COMPANIES

The quick ratio of chosen BSE companies across the study period is displayed in table 3 and chart no. 2 above. Among all the units listed in BSE 2 & 3-wheeler companies during the study period, the organisation with the greatest average quick ratio value was found to be Wardwizard Innovations and Mobility Ltd. at 2.43:1, which is a positive sign. The greater the ratio, the more probable it is that your business will have sufficient current assets to cover all of its current liabilities without having to sell any long-term or capital assets. TVS Motor Company Ltd was found to have the lowest value of this ratio at 0.46:1 among all the 2 & 3 Wheelers companies listed in BSE during the study period. If any company's quick ratio is less than 1, it indicates that it lacks enough current assets to cover its current liabilities promptly.

Hypothesis Testing:

H0: There is no significant difference in the quick ratio of selected 2 and 3-wheeler companies during the study periods.

H01: There is a significant difference in the quick ratio of selected 2 and 3-wheeler companies during the study periods.

Table 4: ANOVA Table of Quick Ratio

ANOVA

Quick_Ratio

	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	12.933	5	2.587	.843	.533
Within Groups	73.663	24	3.069		
Total	86.595	29			

Interpretation: The above ANOVA table shows that the F-value is 0.843. Since the above ANOVA test has been performed under a 5% significance level and the p-value is greater than 0.05 (p-value>0.05), we accept our Null hypothesis and reject the Alternative hypothesis. So, we conclude that there is no significant difference between the quick ratio of selected automobile companies.

Hence,

H0: Accepted and

H01: Rejected.

Conclusion:

The two- and three-wheelers industry has sufficient liquidity, even though the current asset ratio fluctuates annually. Currently, there is an opportunity for improvement and when current assets surpass current liabilities, the company's liquidity condition is deemed sufficient in the above industry. The companies have consistently adhered to a set quick ratio over time. We can therefore conclude that the company's liquidity condition is advantageous. Dual controls are used to monitor credit and cash, and management approaches are used to manage cash. The investigating companies have sufficient financial stability. The researcher concluded that other businesses should boost their liquidity and turnover to perform better because the liquidity ratios had a more favourable impact on efficiency. Liquidity requires careful management if profitability is to rise. Strong net cash flows from operating activities show that the company's sales are increasing annually, which suggests that the business is expanding. Because of this, the two and three-wheeler industry's overall financial situation is sufficient and may potentially get stronger in the future.

Recommendation:

- If TVS Motor Company wants to maintain a healthy average liquidity, they should concentrate on increasing their liquidity by utilising different strategies like debt reconfiguration, improved asset management, expense reduction, etc.
- Due to the restricted net cash flow from investing activities, the company needs to keep an ideal number of investment options available.
- It's also not a good indicator when the Wardwizard Innovations and Mobility Ltd Company has more liquidity than it needs in certain years. Even if a business should have kept a healthy level of liquidity, an abnormally high current ratio suggests that it is not managing its working capital effectively, obtaining funding appropriately, or making the most of its current assets.
- Dual controls can be utilised in addition to other cash management strategies.
- To maintain appropriate cash management, the industry should increase sales of cash and minimise sales of credit.
- The industry needs to concentrate on lowering debt and increasing its liquidity resources in order to improve its solvency situation.

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