

# A STUDY OF LIQUIDITY OF SELECTED COMPANIES OF FERTILIZER INDUSTRY OF INDIA

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## ABSTRACT

*The fertiliser industry's financial performance continued to remain moderate in 9Month Financial Year 2018. Operating income witnessed 13% growth owing to the volume growth in fertiliser segment and growth in chemical segment realization during the period while lower raw material prices continue to provide tailwinds to the operating profitability of the sector. Lower interest expenses, driven by lower working capital borrowings and a low interest rate environment, provided support to the net profitability of the sector during 9Month Financial Year 2018. The overall profitability of the fertilizer sector will witness significant improvement in Financial Year 2018 vis-à-vis FY2017, though on an absolute basis it will continue to remain moderate in Financial Year 2018.*

**Keywords:** Current Ratio; Quick Ratio, Fertilizer Industry

## Introduction

Indian Agriculture is one of the most important sectors in the economy of the country. Agriculture in itself contributes more than 18.5 percent of the Gross Domestic Product of the country and around 60 percent people of India are dependent on this sector. There is a lot of development going on to meet the demand of fertilizers in the country through indigenous production, self-reliance in design engineering and execution of fertilizer projects is very crucial. There are consultancies which organize themselves to undertake execution of fertilizer projects starting from concept/designing to commissioning of fertilizer plants in India and abroad. Many concepts have been developed to carry out research and development / basic research work by mutual understanding between industry and academic institutions, and even there is support from the Department of Fertilizers to sponsor research and development projects through the Indian Institutes of Technology, Delhi and Kharagpur under the Science and even other major institutions in the country.

## Meaning of fertilizer

Fertilizer is defined as any organic or inorganic substance, natural or artificial in nature supplying one or more of the chemical elements/nutrients required for plant growth. They provide six macronutrients Nitrogen (N), Phosphorus (P), and Potassium (K), Calcium (Ca), Magnesium (Mg), Sulphur (S) and five micronutrients Boron (B), Chlorine (Cl), Copper (Cu), Iron (Fe), Zinc (Zn) to the plants for well balanced growth. A chemical or natural substance added to soil or land to increase its fertility is Fertilizer

## Constitution provision for fertilizer as an industry

Union List (Entry 52) & Concurrent List (Entry 33) – Fertilizer as an industry is under the control of the Union Government (being in the First Schedule of the IDR (Industries (Development and Regulation)) Act, 1951) vide Entry 52 of List I and also Entry 33 of List III. Urea dominates the sector. It is the most produced (86%), the most consumed (74%) and the most imported (52%). India's produces about 80 percent of its Urea fertilizer needs. And the fertilizer industry has the capacity to indigenously meet 50 percent of the country's phosphatic fertilizers. But India still depends heavily on imports for the raw ingredients for its phosphatic and potassium fertilizers.

## Objective of the Study

Present article is based on the Study of Liquidity of Selected Companies of Fertilizer Industry of India

## Period of the Study

The study period is to be converted 5 years; from 2012-13 to 2016-17.

## No. of Samples

Researcher has selected 5 Fertilizer companies on the base of highest profit for the year ended March 2013. Following are the research unit for the present study.

- i. Coromandel International Limited - CIL
- ii. Chambal Fertilizers and Chemicals Limited - CFCL

- iii. Gujarat Narmada Valley Fertilizers & Chemicals - **GNFC**
- iv. Rashtriya Chemicals and Fertilizers Limited - **RCFL**
- v. Gujarat State Fertilizers & Chemicals - **GSFC**

### Tools & Techniques

For the present study Ratio Analysis as an accounting tools and F-Test - ONE WAY ANOVA is used as tools of Statistics

### Liquidity Analysis

The analysis of liquidity focuses on the measure in which the companies have the ability to honor their obligations having an eligibility term less than a year, current debts that must be covered from the assets with a similar term of transformation in liquidity.

#### (a) Current Ratio

The current ratio is a vital liquidity ratio. It measures the liquidity position of a company. It is one of the liquidity ratios calculated to manage or control liquidity position of a company. Current ratio helps in understanding how cash rich a company is. The current ratio gives an idea of a company's operating cycle.

Name of Company	2012-13	2013-14	2014-15	2015-16	2016-17	Total	Average
CIL	1.25	1.15	1.11	1.15	1.22	5.88	1.176
CFCL	1.07	1.06	1.08	1.03	0.99	5.23	1.046
GNFC	1.03	1.02	1.05	1.08	1.23	5.41	1.082
RCFL	1.42	1.58	1.62	1.35	1.56	7.53	1.506
GSFC	1.72	1.93	2.23	1.85	1.97	9.7	1.940
<b>Total</b>	6.49	6.74	7.09	6.46	6.97	33.75	6.750
<b>Average</b>	1.298	1.348	1.418	1.292	1.394		

Source: moneycontrol.com

From the above table it is evident that GSFC is having highest average liquidity management system with 1.94 ratios during research period in compare to remaining research unit during research period. RCFL is following to GSFC with 1.506 ratios while remaining research unit is having least liquidity with reference to current ratio during research period.

### Statistical Analysis

<b>H<sub>0</sub>:</b> There is No Significant Different between Current Ratio of Selected Fertilizer companies of India for the period from 2012-13 to 2016-17					
<b>H<sub>1</sub>:</b> There is Significant Different between Current Ratio of Selected Fertilizer Companies of India for the period from 2012-13 to 2016-17					
Source of Variation	Sum of Square	Degree of Freedom	Mean Sum of Square	F <sub>c</sub>	F <sub>t</sub>
B.S.S.	2.83476	04	0.70869	58.41494	2.866081
W.S.S.	0.24264	20	0.012132		
T.S.S.	3.0774	24			

$F_c = 58.4194$  and  $F_t = 2.866081$  that means  $F_c > F_t$  Hence Null Hypothesis is rejected and Alternative Hypothesis is accepted that there is significant difference in Current Ratio for selected Fertilizer companies of India during research period.

#### (b) Quick Ratio

The quick ratio is a measure of short-term solvency of a business. It is said to be an improved version of current ratio in many aspects. A firm with a quick ratio or acid test ratio of 1:1 is considered to have

sufficient liquidity. It is a reliable ratio because assets forming part of quick assets are easily convertible into cash in a short notice without shrinking in value.

<b>Table 3</b>							
<b>Quick Ratio in Proportion for the selected companies of the Fertilizer Industry of India for the Period from 2012-13 to 2016-17</b>							
<b>Name of Company</b>	<b>2012-13</b>	<b>2013-14</b>	<b>2014-15</b>	<b>2015-16</b>	<b>2016-17</b>	<b>Total</b>	<b>Average</b>
<b>CIL</b>	0.95	0.77	0.72	0.77	0.91	4.12	0.824
<b>CFCL</b>	0.82	0.90	0.90	0.85	0.79	4.26	0.852
<b>GNFC</b>	0.74	0.75	0.79	0.81	0.90	3.99	0.798
<b>RCFL</b>	1.00	1.24	1.26	1.06	1.28	5.84	1.168
<b>GSFC</b>	1.42	1.52	1.79	1.59	1.59	7.91	1.582
<b>Total</b>	4.93	5.18	5.46	5.08	5.47	26.12	5.224
<b>Average</b>	0.986	1.036	1.092	1.016	1.094		
<b>Source: moneycontrol.com</b>							

quick ratio of GSFC is also sound with an average ratio of 1.582 in compare to remaining research unit that shows that inventory management is almost not reflecting on liquidity management of the organization likewise RCFL is following to GSFC with an average ratio with 1.168 and remaining research unit is having least acid test ratio during research period but liquidity management of research unit is almost same during research period on the base of core liquidity ratios.

**Statistical Analysis**

<b>Table 4</b>					
<b>"F"-Test One Way ANOVA for Quick Ratio in Proportion for selected Fertilizer Companies of India for the Period from 2012-13 to 2016-17</b>					
<b>H<sub>0</sub>: There is No Significant Different between Quick Ratio in Proportion of Selected Fertilizer companies of India for the period from 2012-13 to 2016-17</b>					
<b>H<sub>1</sub>: There is Significant Different between Quick Ratio in Proportion of Selected Fertilizer Companies of India for the period from 2012-13 to 2016-17</b>					
<b>Source of Variation</b>	<b>Sum of Square</b>	<b>Degree of Freedom</b>	<b>Mean Sum of Square</b>	<b>F<sub>c</sub></b>	<b>F<sub>t</sub></b>
<b>B.S.S.</b>	2.252984	04	0.563246	54.88657	2.866081
<b>W.S.S.</b>	0.20524	20	0.010262		
<b>T.S.S.</b>	2.458224	24			

$F_c = 54.88657$  and  $F_t = 2.866081$  that means  $F_c > F_t$  Hence Null Hypothesis is rejected and Alternative Hypothesis is accepted that there is significant difference in Quick Ratio for selected Fertilizer companies of India during research period.

**Conclusion**

From the above study it is found that Current Ratio and Quick Ratio is showing equal parameters with reference to liquidity and it shows that research unit under study have different liquidity management during research period.

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