The Impacts of Liquidity and Solvency on Profitability and Their Effects on Raymond's Limited's Financial Performance

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ABSTRACT

The Indian textile industry is one of the biggest in the world, with a sizable basis for producing raw materials and textiles. Along with other important industries, textile manufacturing and commerce are significant parts of our economy. Raymond Group is one of the largest players in fabrics, designer wear, denim, personal care, engineering files and tools, prophylactics, and air charter services in national and international markets. The main objectives of this study are to find out the impacts of liquidity and solvency on profitability and their effects on Raymond's financial performance. The financial data from 2016 to 2021 was used for the study. Majoritarily, liquidity, solvency, and profitability ratios were calculated, and the impacts and effects were tested using correlation and regression. The study found that the liquidity and solvency of the company were not great and were also highly influenced by profitability factors.

Keywords: Financial Performance, Liquidity, Solvency, Profitability.

1.INTRODUCTION

The Indian Textile and apparel industry has strengths across the entire value of chain from Fiber, Yarn, Fabric and Apparel. The production is highly diversified with a wide range of segments ranging from products of traditional handloom, handicrafts, wool and silk products to the organized textile industry in India. This is a standardized textile industry in India which is characterized by the use of Capital – intensive technology for the mass production of textile products and comprises of spinning, weaving, processing and apparel manufacturing.

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The domestic apparel and textile industry in India contributes approximately 2% to the country's GDP, 7% of industry output in value terms. India is holding 4% share of the global trade in Textiles and apparel. As everyone knows, India is one of the largest producers of cotton and jute in the World. And it is also the 2nd largest manufacturer of silk in the world where 95% of the world's fabric comes from India. India's textile industry has a capacity to produce a wide variety of products suitable for different market segments, both within India and across the world. Consecutively to attract private equity and to hire more people, the government has implemented various schemes such as Scheme for Integrated Textile Parks (SITP), Technology Up gradation Fund Scheme (TUFS) and Mega Integrated Textile Region and Apparel (MITRA) Park scheme.

Raymond is a diversified group with predominance business interest in Textile and Apparel sectors and a presence across varied segments such as consumer care, Realty and Engineering in national and international markets. In 2015, Raymond became the first textile company in the world to produce super 250s and innovative fabrics. Raymond consumer care brands- Park Avenue and KamaSutra have a prominent presence in the FMGC market. Raymond and its brands are also available in tier IV and V cities with over 1500 outlets scattered across 600 towns and vast network of over 20,000 point of sale in India. And today in this beautiful world, when one thinks of Raymond, one thinks of "A Complete Man"!

2. STATEMENT OF THE PROBLEM:

Financial reporting is a process of documenting and communicating the financial activities and performance over a period, typically on a Quarterly or Annual basis. All companies use financial reports to organize accounting data and report on current financial status. It is essential for projecting future profitability, industry position and growth. In other context, a financial report clearly tells about how much money needed, where the money is coming from and where money needs to go. The role of financial reporting is to manage the business decisions based on the company's financial health. Potential investors and banks will also use company's financial reporting to decide whether to invest or loan the money. As we have discussed above, India playing the pivot role in the textile manufacturing industry of the world, **Raymond** being a part of it; the financial report of the same is declared below.

3. OBJECTIVES OF THE STUDY:

To assess Raymond Ltd.'s financial statement, the researcher sets the following goals:

- To study the liquidity, solvency, and profitability position of Raymond Ltd.
- To find out impact of profitability on working capital.
- To measure the effects of profitability over solvency of the company.

4. METHODOLOGY

Period of Study:

A period of Five years is taken for the consideration to analyze the Company's position for the F.Y 2016-17 to 2020-21.

Tool used for analysis:

The tool used for analysis of financial performance of Raymond ltd is **Ratio Analysis.**

5. DATA ANALYSIS

5.1 LIQUIDITY RATIOS:

The Liquidity ratio refers to the measure of the ability where the company can pay off its short-term liabilities. It determines how quickly a company can convert the liquid assets into cash and use them for meeting their dues that arise. This is a very major criteria that creditors should check before lending short term loans to the business. When the organization fails to clear the dues, thus results in creating impact on the creditworthiness and also affects the credit rating of the company.

Importance of Liquidity Ratio:

- It helps to understand the accessibility of cash in the company which determines the short term financial position of the company.
- It organizes the company's working capital requirement by studying the level of cash assets available over a period of time.
- It shows how efficiently and effectively the company can easily convert inventories into cash.
- It also proves that higher values indicate solid financial standing, whereas lower values indicate financial distress.

ANALYSIS OF LIQUIDITY RATIOS

S.no	Ratio	Formula	2017	2018	2019	2020	2021
1	Networking Capital	CA – CL	15594	-1233	-11575	13202	76724
2	Current Ratio	CA/CL	0.86	0.83	0.94	1.48	1.26
3	Quick Ratio	QA/CL	0.60	0.53	0.51	0.52	0.71

4	Cash Ratio	Cash + Bank+ ST Mkt Sec/ CL	0.02	0.03	0.03	0.08	0.19
5	Basic Defense Interval	Cash + Receivables+ ST Mkt Sec/ Average Operational Expenses	91	90	92	94	147

Interpretation:

The above table represents the liquidity ratios of Raymond ltd. It is said that if the liquidity ratio of the company is greater than or equal to 1, it indicates that the company is in good financial health and is less likely to face financial hardships. According to the research, the company's liquidity ratio interprets the following:

- **Networking Capital:** In 2018 and 2019 the company does not have sufficient Current assets to meet their day to day business expenses, when compared to 2017, 2020 and 2021.
- **Current Ratio:** Sufficient Current assets are not available to pay short term debts.
- **Quick Ratio:** Quick assets is less than 1 time than current liabilities.
- **Cash Ratio:** The Company's cash is not much available to pay the current liabilities or short term debts.
- **Basic Defence Interval:** The Company's Basic interval is stable.

Overall, The Company's liquidity condition is not that great.

5.2 SOLVENCY RATIOS:

These ratios measure the extent to which assets cover commitments for future payments, and the liabilities. It is said that a solvency ratio of any company should be of less than 20% to 30% is considered as financially healthy. The lower a company's solvency ratio, the greater the probability that the company will default on its debt obligations.

Importance of Solvency Ratios:

- To measure the financial aspects of actual cash flow to provide a comprehensive idea about its ability to repay its long-term debt and meet its other financial obligations.
- To determine whether it will be able to avoid going bankrupt due to declining sales and profitability.
- One of the important aspects about the ratio is to analyze whether the company is earning enough to be solvent.

ANALYSIS OF SOLVENCY RATIO

S.no	Ratio	Formula	2017	2018	2019	2020	2021
1	Debt-Equity Ratio	Long-term debt/ Equity	0.36	0.35	0.20	0.16	0.54
2	Capital gearing Ratio	Total debt (LT & ST debt)/ Capital employed	0.72	0.68	0.85	0.63	0.55
3	Solvency Ratio	(PAT + Depreciation)/ Total Liabilities	0.053	0.074	0.080	0.103	0.002
4	Equity or Proprietary Ratio	Net worth/ Capital Employed	0.71	0.71	0.80	0.71	0.58
5	Interest Coverage Ratio	Profit before Interest & Tax/ Total Interest	0.3	1.0	1.1	0.4	-1.7

Interpretation:

Above is the table projecting the 5 years comparison of **Raymond's** Solvency ratio. According to the research following are the brief detail of the company's solvency position:

- **Debt Equity Ratio:** The Company's Debt/Equity ratio is stable and ideal.
- **Capital gearing Ratio:** Half of the assets are used for settling their long-term debts.
- **Solvency Ratio:** The Company's earnings are somewhat increased which help to settle their liabilities.
- **Equity or Proprietary Ratio:** The Equity Ratio are increased.
- **Interest Coverage Ratio:** The interest coverage ratio shows that the company is not that good in paying its interest in debts. The interest coverage position was not in a comfortable zone in all the years. It is said be good when it is greater than or equal to 3. The company should improvise its efficiency in using its assets and profitability for comfortable earnings.

The overall solvency ratio of the company should strengthen their assets to pay their long-term debts and claim settlements.

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5.3 PROFITABILITY RATIOS:

These Ratios are the group of financial metrics that are used to evaluate a business's ability to generate earnings in compared to its revenue, operating costs, balance sheet assets or shareholder's equity over a period by using a data. It also shows how well a company can able to make profits from its operations. High in profitability ratio is good because they show high level of efficiency. Low profitability can suggest that the organization is in a growing phase and may be operating in a very competitive industry.

Importance of Profitability Ratio:

- It helps in finding out the problems that the company haven't focused before.
- Comparing of one company with other to understand whether the business is efficient or not, and to make further improvements.
- These ratios are important because they can catch the attention of investors when the business is generating good profits so that investors have some confidence to make future investments in the business.

ANALYSIS OF PROFITABILITY RATIO

S.no	Ratio	Formula	2017	2018	2019	2020	2021
1	Gross Profit Ratio	(Gross profit/ Net sales) * 100	79%	79%	81%	81%	80%
2	Net Profit Ratio	(Net profit/ Net Sales) *100	1%	2%	3%	3%	-9%
3	Operating Ratio	((COGS+ Operating expenses)/ Net Sales) * 100	101%	98%	96%	96%	106%
4	Return on Investment	(Profit before Interest and Tax/ Capital employed) * 100	3%	7%	10%	3%	-12%
5	ROE- Return on Equity	(Profit after Tax/Net worth) * 100	2%	7%	9%	8%	-14%
6	ROA- Return on Assets	(Profit after Tax/Total assets) *100	1%	2%	3%	3%	-5%

Interpretation:

The EBIT has been gradually increased for the first 4 years and it has a huge fall in 2021. PAT margin when compared to EBIT margin is very less due to the finance cost as it indicates that the company can increase cash and income to serve its debts and pay timely installments. In the above, the profitability position of the **Raymond Ltd.** has been briefly explained:

- **Gross profit ratio:** The Company's Gross profit has been increased widely.
- **Net profit ratio:** The Net profit is slightly increased by 1% or 2%. The company was not that good in earnings.
- **Operating ratio:** There is a slight change in their operational expenses.
- **Return on Investment:** The Return on Investment is not stable. The ROI is decreased in 2021.
- **Return on Equity:** The Return on Equity is slightly increased and there is a loss in 2021.
- **Return on Assets:** The Return on Assets have not increased that much for the last 5 years.

The overall profitability position of the company is increased in First four years compared to last year. It shows that company will earn decent profit in the future.

5.4 IMPACT OF PROFITABILITY ON WORKING CAPITAL

Year	PAT (Rs. in Cr)	Working Capital (Rs. in Cr)
2017	3001	15593
2018	14155	-1233
2019	17477	-11576
2020	20176	13201
2021	-30365	76724

H_0: There is no relationship between profitability increase/decrease between changes in working capital.

Correlation:

	PAT	*WC*
PAT	1	
WC	-0.942625	1

The results show a negative correlation between profit after tax and working capital. Therefore, the null hypothesis was rejected, the alternative hypothesis was accepted, and it was inferred that there would be a strong relationship between profitability changes and working capital changes.

5.5 EFFECTS OF PROFITABILITY OVER SOLVENCY

Year	PAT (Rs. in Cr)	Capital Employed (Rs. in Cr)
2017	3001	244661
2018	14155	266455
2019	17477	253078
2020	20176	347235
2021	-30365	377115

H_0: There is no relationship between Solvency position and Earnings of the Company

Regression

ANOVA

	df	*SS*	*MS*	*F*	*Significance F*
Regression	1	536679493	536679493	1.3555497	0.32848321
Residual	3	1187738436	395912812		
Total	4	1724417929			

	Coefficients	*Standard Error*	*t Stat*	*P-value*
Intercept	62083.0719	49923.5622	1.24356254	0.30198267
Capital Employed	-0.1921148	0.16500729	-1.1642808	0.32848321

Because the F-value of 0.32 is greater than 0.05, the null hypothesis was rejected, according to the table above. The alternate hypothesis was accepted, and it was inferred that there would be an influence of earnings on increasing the solvency position of the company.

6. CONCLUSION:

According to a study, the company's liquidity and solvency were both low, and its profitability was declining. The decline in profitability was highly impacted by the liquidity and solvency position of the company. The study of analyzing Raymond Ltd.'s financial statements concludes that Raymond Ltd. is one of the Indian branded fabric fashion retailers and is performing internally. In the profit and loss account of the company, the operating expenses are good, and even the gross profit has been increased gradually. And according to the position statement of the company, they must increase more assets and liabilities in the upcoming years so that the company has enough cash to pay its debts. Overall, we conclude that they need to plan seriously to improve their overall financial performance by using long-term strategic plans.

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