

## Liquidity and Profitability

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### ABSTRACT

Liquidity and profitability are two essential pillars of financial performance that influence the sustainability and growth of any business. This study focuses on evaluating the relationship between liquidity and profitability with respect to **Tata Steel Private Limited**, one of India's foremost integrated steel producers. The objective is to analyze how the company manages its short-term obligations while simultaneously maintaining profitability. Key financial ratios such as the current ratio, quick ratio, net profit margin, return on assets (ROA), and return on equity (ROE) are used to assess financial efficiency over a selected time period. The analysis is based on secondary data collected from the company's financial statements, annual reports, and industry comparisons. The findings suggest that Tata Steel has maintained stable liquidity levels despite operating in a capital-intensive and cyclical industry. However, fluctuations in profitability were observed due to market volatility and raw material cost changes. The study concludes that maintaining an optimal balance between liquidity and profitability is critical for the financial health of Tata Steel. Recommendations include improving working capital efficiency and cost control strategies to ensure consistent profitability without compromising liquidity.

**KEYWORDS:** Liquidity, Profitability, Tata Steel Private Limited, Current Ratio, Quick Ratio, Net Profit Margin, ROA, ROE, Financial Performance, Steel Industry.

### 1. INTRODUCTION

In the realm of corporate finance, liquidity and profitability are two critical indicators that reflect a company's financial stability and operational efficiency. **Liquidity** refers to a firm's ability to meet its short-term obligations using its current assets, while **profitability** measures the company's ability to generate earnings relative to its revenue, assets, or equity. A sound balance between the two is essential, especially in capital-intensive industries like steel, where large investments and fluctuating market conditions can significantly impact financial outcomes.

This study focuses on **Tata Steel Private Limited**, a flagship enterprise of the Tata Group and a leading player in the global steel industry. Known for its vast production capacity and innovation, Tata Steel operates in a highly competitive and cyclical market. The purpose of this research is to analyze how the company manages its liquidity while

striving to maintain or enhance profitability. By examining key financial ratios and trends over a specified period, the study aims to offer insights into the company's financial management practices and evaluate whether its liquidity position supports or hinders its profitability.

Understanding this relationship is crucial for stakeholders, as it helps assess the company's resilience, operational strategy, and long-term sustainability in a dynamic industrial environment.

### 2. RESEARCH METHODOLOGY

Research Design : Analytical Design Type of Data : Secondary Data Sources of data : Financial Reports

Research Tools : Financial Ratio Analysis Duration : 2017-2018 To 2021-2022.:Research Design

Research Design is Analytical Design, As the data that is required mainly is from secondary sources like annual reports of the organization, it is based on the analysis done from the collected data.

#### Sources of data

The research is totally based on secondary data the required data for the study were collected from the various sources like annual reports , websites of Tata Steel Pvt. Ltd.

### 3. DATA ANALYSIS

The following ratios were calculated to analyse the Financial performance through Ratio

Analysis – influence of Financial Leverage on Profitability of Tata Steel Pvt. Ltd

- Current Ratio
- Quick Ratio
- Super Quick Ratio
- Operating Ratio
- Operating Profit Ratio
- Net Profit Ratio
- Earning Per Share
- Current Assets to Total Assets Ratio
- Current Assets to Fixed Assets Ratio

#### 1. Current Ratio:

Current Ratio is the ratio which explains the relationship between current Assets & Current Liabilities. The standard norm of current ratio is 2:1.

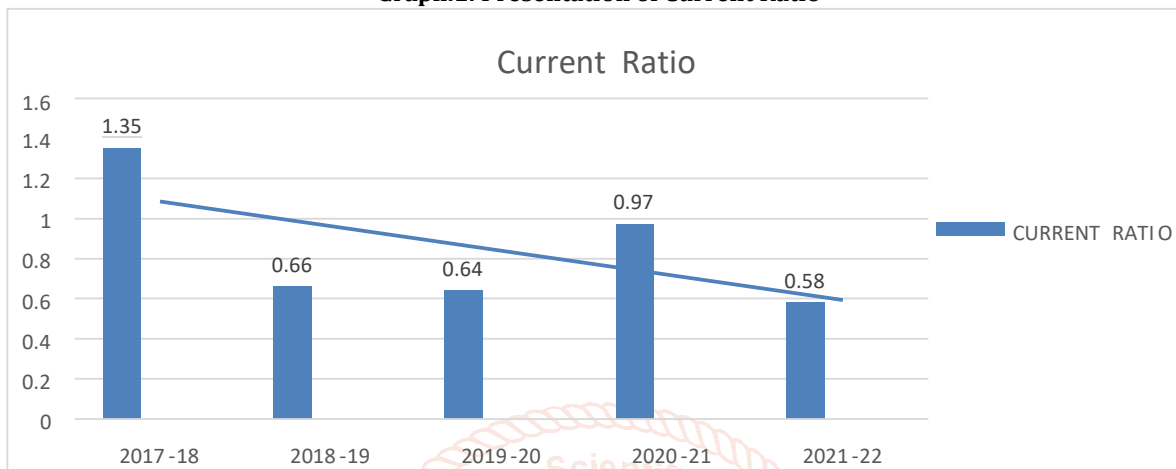
$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

**Table.1: Calculation of Current Ratio**

Years	Current Assets	Current Liabilities	Current Ratio
2017-18	34,643.91	25,607.34	1.35
2018-19	17,035.58	25,593.65	0.66
2019-20	20,009.19	30,871.30	0.64
2020-21	29,274.40	30,067.60	0.97
2021-22	31,289.57	53,664.83	0.58

Source: By using the Financial Statements of TATA Steel Pvt Ltd.

**Graph.1: Presentation of Current Ratio**



**Interpretation:**

From the above graph, it is represented that the Current Ratio of Tata Steel Pvt Ltd from the financial year 2017-18 to 2021-22. The Calculated Current Ratios are 1.35 in 2017, 0.66 in 2018, 0.64 in 2019, 0.97 in 2020, 0.58 in 2021 Financial Year. The highest current ratio was reported in 2017-18 i.e. 1.35 and the lowest current ratio was reported in 2021-22 financial year. The calculated standard norm of Current Ratio was not satisfactory in the entire research. Why because the poor management of Current Assets.

**2. Quick Ratio:**

Quick ratio is the ratio which explains the relationship between quick asset & Current liabilities. The standard norm of quick Ratio is 1:1.

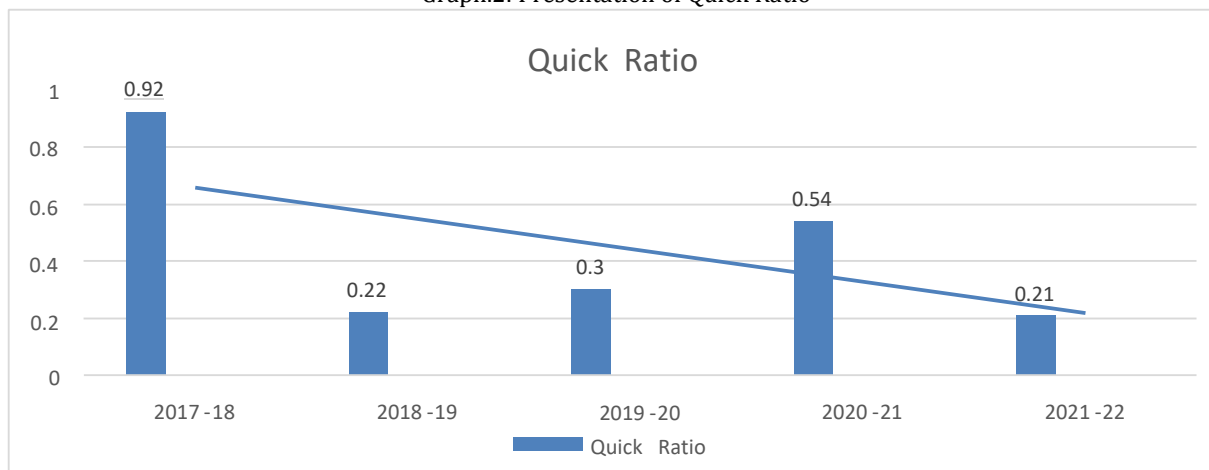
$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

**Table.2: Calculation of Quick Ratio**

Years	Quick Assets	Current Liabilites	Quick Ratio
2017-18	23,620.5	25,607.34	0.92
2018-19	5,780.24	25,593.65	0.22
2019-20	9,292.53	30,871.30	0.30
2020-21	16,416.89	30,067.60	0.54
2021-22	11,346.63	53,664.83	0.21

Source: By using the Financial Statements of TATA Steel Pvt Ltd.

**Graph.2: Presentation of Quick Ratio**



**Interpretation:**

From the above graph is represented that the Quick Ratio of Tata Steel Pvt Ltd from the financial year 2017-18 to 2021-22. The Calculated Quick Ratios are 0.92 in 2017, 0.22 in 2018, 0.30 in 2019, 0.54 in 2020, 0.21 in 2021 Financial Year. The highest Quick ratio was reported in 2017-18 i.e, 0.92 and the lowest Quick ratio was reported in 2021-22 i.e, 0.21 financial year. The calculated standard norm of Quick Ratio was not satisfactory in the entire research. Why because the poor management of Quick Assets.

**3. Super Quick Ratio:**

Super quick ratio is also called as cash position ratio cash ratio is the ratio which explains the relationship between cash and cash equableness with current liabilities. The standard norm of super quick of super quick ratio is 0.5:1.

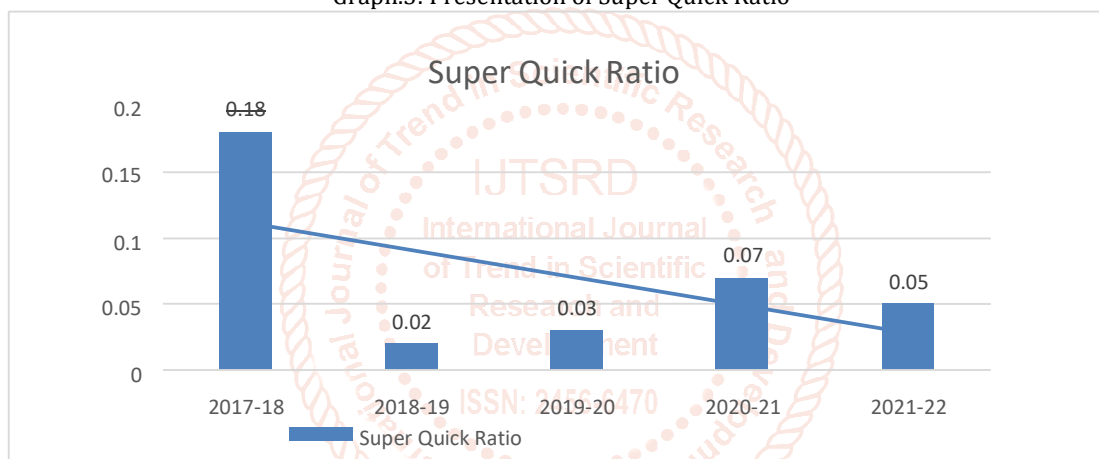
$$\text{Super Quick Ratio} = \frac{\text{Cash + Marketable Securities}}{\text{Current Liabilities}}$$

**Table.3: Calculation of Super Quick Ratio.**

Years	Cash/Marketable Securities	Current Liabilites	Super Quick Ratio
2017-18	4,696.74	25,607.34	0.18
2018-19	718.11	25,593.65	0.02
2019-20	1,226.87	30,871.30	0.03
2020-21	2,396.90	30,067.60	0.07
2021-22	2,855.29	53,664.83	0.05

Source: By using the Financial Statements of TATA Steel Pvt Ltd.

**Graph.3: Presentation of Super Quick Ratio**



**Interpretation:**

From the above graph is represented that the Super Quick Ratio of Tata Steel Pvt Ltd from the financial year 2017-18 to 2021-22. The Calculated Super Quick Ratios are 0.18 in 2017, 0.02 in 2018, 0.03 in 2019, 0.07 in 2020, 0.05 in 2021 Financial Year. The highest Super Quick ratio was reported in 2017-18 i.e, 0.18 and the lowest Super Quick ratio was reported in 2018-19 i.e, 0.02 financial year. The calculated standard norm of Super Quick Ratio was not satisfactory in the entire research. Why because the poor management of cash and cash equivalents.

**4. Operating Ratio:**

Operating Ratio is the ratio between cost of Goods Sold plus operating Expenses and Net Sales. This is expressed as a percentage (%) to net sales.

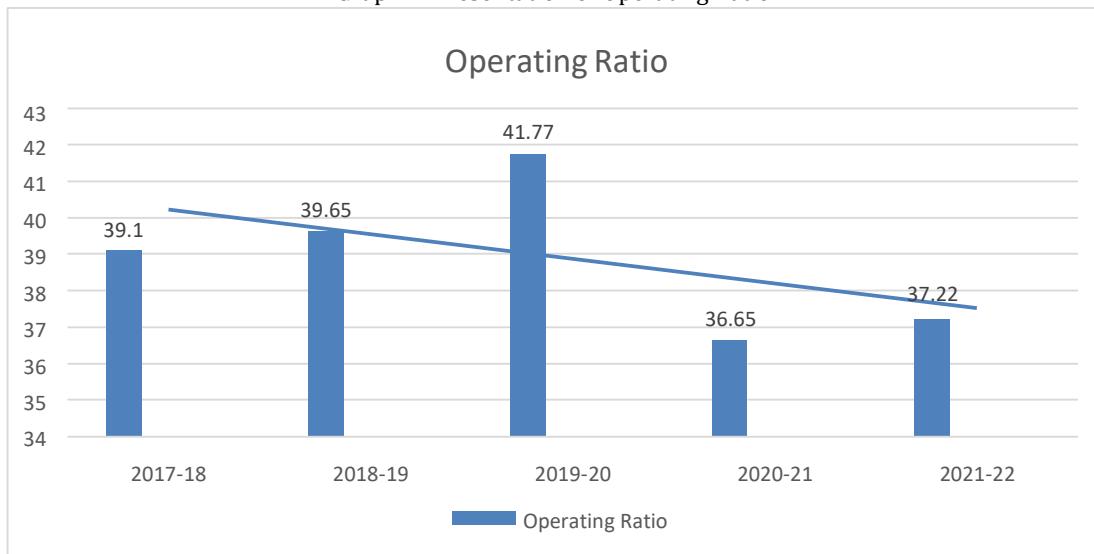
$$\text{Operating Ratio} = \frac{\text{Operating Expenses}}{\text{Net Sales}} * 100$$

**Table4.: Calculation of Super Operating Ratio.**

Years	Operating Expenses	Net Sales	Operating Ratio
2017-18	22,899.05	58,550.68	39.10
2018-19	27,333.53	68,923.15	39.65
2019-20	24,571.15	58,815.57	41.77
2020-21	30,364.38	82,828.16	36.65
2021-22	47,532.68	1,27,681.40	37.22

Source: By using the Financial Statements of TATA Steel Pvt Ltd.

Graph.4: Presentation of Operating Ratio.



**Interpretation:**

From the above graph is represented that the Operating Ratio of Tata Steel Pvt Ltd from the financial year 2017-18 to 2021-22. The Calculated Operating Ratios are 39.10 in 2017, 39.65 in 2018, 41.77 in 2019, 36.65 in 2020, 37.22 in 2021 Financial Year. The highest Operating Ratio was reported in 2019-20 i.e, 41.77 and the lowest Operating Ratio was reported in 2020-21 i.e, 36.65 financial year.

**5. Operating Profit Ratio:**

Operating Profit Ratio is the ratio of operating profit and net sales. It is calculated through deducting the value of operating ratio from the value of hundred. Operating profit ratio explains the amount of profit is achieved by the firm through its operations.

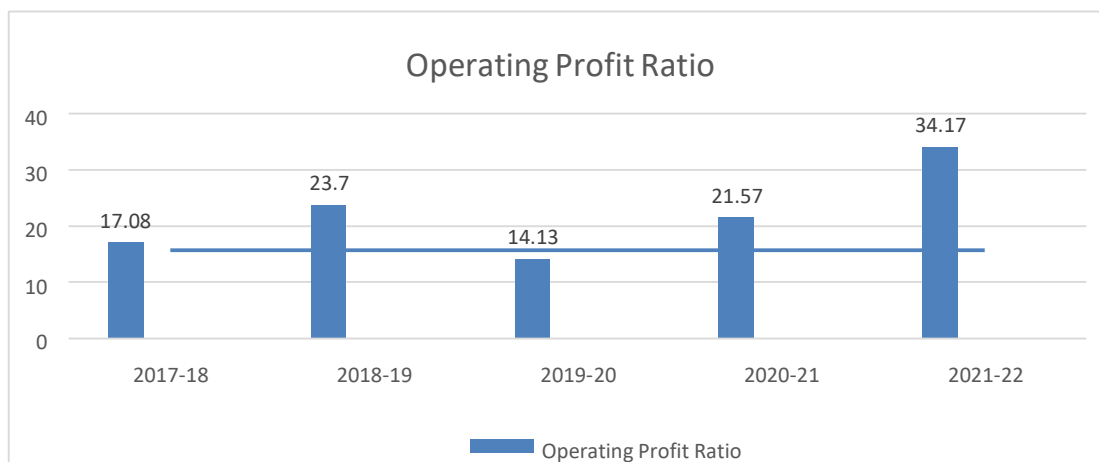
$$\text{Operating Profit Ratio} = \frac{\text{Earning Before Interest \& Taxes}}{\text{Net Sales}} * 100$$

**Table5.: Calculation of Operating Profit Ratio.**

Years	Earning Before Interest & Taxes	Net Sales	Operating Profit Ratio
2017-18	10,004.54	58,550.68	17.08
2018-19	16,341.48	68,923.15	23.70
2019-20	83,14.56	58,815.57	14.13
2020-21	17,868.54	82,828.16	21.57
2021-22	44,326.10	1,27,681.40	34.17

Source: By using the Financial Statements of TATA Steel Pvt Ltd.

Graph.5: Presentation of Operating Profit Ratio.



**Interpretation:**

From the above graph is represented that the Operating Profit Ratio of Tata Steel Pvt Ltd from the financial year 2017-18 to 2021-22. The Calculated Operating Profit Ratios are 17.08 in 2017, 23.7 in 2018, 14.13 in 2019, 21.57 in 2020, 34.17 in 2021 Financial Year. The highest Operating Profit Ratio was reported in 2021-22 i.e, 34.17 and the lowest Operating Profit Ratio was reported in 2019-20 i.e, 14.13 financial year.

#### 4. CONCLUSION

The Calculated Super Quick Ratios of TATA Steel Pvt Ltd are 0.18 in 2017, 0.02 in 2018, 0.04 in 2019, 0.07 in 2020, 0.05 in 2021 Financial Year. The highest Super Quick ratio was reported in 2017-18 i.e., 0.18 and the lowest Super Quick ratio was reported in 2018-19 i.e., 0.02 financial year. The calculated standard norm of Super Quick Ratio was not satisfactory in the entire research. Why because the poor management of cash and cash equivalents.

The company should focus on reduction in operating expenses to boost the operating profit.

#### 5. REFERENCES

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