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"An Impact of Liquidity and Leverage on Profitability of Selected Gems and Jewellery Companies of India"

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ABSTRACT: The Gems and Jewellery sector is one of the important contributors of the Indian economy. Gems and Jewellery is a leading foreign exchange earner for the country. There is always an issue with the combination of liquidity variables and leverage variables as to how best to combine these elements to improve the firm's financial performance. This present study attempts to analyse the impact of liquidity and leverage on profitability of selected sample units. This study covers the period from 2010-11 to 2019-20. For testing of hypotheses, multiple linear regression is applied by researchers in this study. There is no significant impact of liquidity and leverage are found on profitability in this study.

KEY WORDS: Gems and jewellery, Liquidity, Leverage and Profitability

INTRODUCTION

Every stakeholder has interest in the liquidity position of the company. Liquidity plays a key role in the upliftment of a company. Liquidity is the ability of a company to meet its short-term obligations, and convert its assets into cash. Short-term liquidity generally signifies obligations which mature within one accounting year. By the term "liquidity" is meant the debt-repaying capacity of an undertaking. It refers to the firm's ability to meet the claims of suppliers of goods, services and capital. According to Herbert Mayo, "Liquidity is the ease with which assets may be converted into cash without loss".

Generally speaking, a company with high level of debt as compared to equity is thought to carry higher risk, though some analysis does not believe that capital structure matters with regard to risk or profitability. Investment returns help to generate through assets, most often, it is considered as a 'return on investment'. The capital of the firm represents the amount of fund which is used for the firm's fixed assets, accounts receivable, marketable securities and inventories. Any business needs to be very selective in establishing the capital structure for the firm to achieve its objectives.

The combination of liquidity variables and leverage variables has been always a major concern for the financial managers. There is always an issue with these variables as to how best to combine these elements to improve the firm's financial performance. This research is intending to find the impact of these variables on the profitability of selected Gems and Jewellery companies listed on BSE, India.

OBJECTIVES

- To understand the concept of liquidity and leverage and profitability.
- To investigate the impact of liquidity and leverage on profitability of selected gems and jewellery companies of India.

LITERATURE REVIEW

Rudin M., Djayani Nurdin and Vita Yanti Fattah (2016) Examine in their research paper, "The Effect of Liquidity and Leverage on Profitability of Property and Real Estate Company in Indonesian Stock Exchange." To know and analyse the effect of leverage and liquidity simultaneously and partially on profitability at go public real estate and property company in Indonesia stock exchange within the period of 2005 to 2010. The data were analysed using SPSS version 16 with multiple linear regression tests. At last, researcher concludes that leverage and liquidity simultaneously have significant impact on profitability. Maria Rasheed Awan (2014) in his research paper, "Impact of liquidity, leverage, and inflation on firm profitability an empirical analysis of food sector of Pakistan" This study mainly focused on investigating the collision of leverage, liquidity and inflation on firm's profitability of the food industries of Pakistan. The study period is for six years from 2006 to 2011. 55 food companies have taken as sample. Researcher use regression, correlation and descriptive statistics as tools for analysis of data. At last, research come to the conclusion that there's a solid bad negatively relating to the changing control leverage, liquidity, inflation and also the firm's earning (profitability). Reddy Y. V., Narayan, Parab (2018) published a research paper on, "The Impact of Liquidity and Leverage on Profitability: Evidence from India." This study attempts to analyse the relationship between liquidity and profitability and investigate the impact of financial leverage and liquidity on the financial performance of select pharmaceutical companies for the period from 2006-07 to 2015-16. For the analysis of data researcher use regression analysis, Hausmann test, t-test, multiple regressions. Suhaila Ahmed Muhaji (2014) did work on the project report "The Effect of Liquidity and Leverage on Financial Performance of Commercial State Corporations in The Tourism Industry in Kenya". The results of this study reveal a significant impact of all the factors of liquidity and leverage on financial performance of commercial state corporations in the tourism industry in Kenya.

METHODOLOGY

The study is based on secondary data which is collected from thesis, books, reports, journals, periodicals, newspaper and websites. Exploratory research design is used for conducting this study. The main objective of this study is to find the impact of liquidity and leverage on profitability of selected gems and jewellery companies of India.

PERIOD OF THE STUDY

This research work covers ten years from the year 2010-11 to 2019-20.

HYPOTHESIS FOR THE STUDY

H0: There is no significant impact of liquidity and leverage on profitability of selected Gems and Jewellery companies of India.

H1: There is significant impact of liquidity and leverage on profitability of selected Gems and Jewellery companies of India.

TOOLS AND TECHNIQUES FOR HYPOTHESES TESTING

In this research study researcher applied following ratios of liquidity, leverage and profitability:

Ratios		
Liquidity Ratios	Current Ratio (CR)	Current Assets/ Current Liabilities
	Quick Ratio (QR)	CurrentAssets-Inventories/ Current Liabilities
Leverage Ratios	Debt to Equity (D/E) Ratio	Long term Borrowings/ Total Equity
	Interest Coverage Ratio (ICR)	EBIT/ Interest Expenses
	Debt to Assets (D/A) Ratio	Total Debts / Total Assets
Profitability Ratios	Return on Assets Ratio (ROA)	Net income (PAT)/ Average Total Assets
	Return on Investment (ROI)	EBIT / Cost of Investment

Statistical Techniques:

For hypothesis testing researchers applied multiple linear regression in excel version.

Multiple linear regression equation:

$$\hat{y} = b_0 + b_1X_1 + b_2X_2$$

In this equation, $\hat{y}$ is the predicted profitability. The independent variables are liquidity and leverage, which are denoted by X_1 and X_2, respectively. The regression coefficients are b_0, b_1 and b_2.

DATA ANALYSIS AND INTERPRETATION

Impact of liquidity and leverage on profitability:

Proxy Variable	Ratio	P- Value	@5% significance level	H_0 Accepted/Rejected	Remark
A Multiple Regression of Current Ratio and Debt to Equity Ratio with Return on Assets					There is no significant impact of Current Ratio and Debt to Equity Ratio on Return on Assets(P-value > 0.05)
	CR	0.27			
			0.05	Accepted	
	D/E	0.11			
A Multiple Regression of Quick Ratio and Debt to Equity Ratio with Return on Assets					There is no significant impact of Quick Ratio and Debt to Equity Ratio on Return on Assets(P-value > 0.05)
	QR	0.16			
			0.05	Accepted	
	D/E	0.08			

Proxy Variable	Ratio	P- Value	@5% significance level	H_0 Accepted/Rejected	Remark
A Multiple Regression of Current Ratio and Debt to Equity Ratio with Return on Investments					There is no significant impact of Current Ratio and Debt to Equity Ratio on Return on Investments(P-value > 0.05)
	CR	0.24			
			0.05	Accepted	
	D/E	0.46			
A Multiple Regression of Quick Ratio and Debt to					There is no significant impact of Quick Ratio
	QR	0.16			

Equity Ratio with Return on Investments			0.05	Accepted	and Debt to Equity Ratio on Return on Investments(P-value > 0.05)
	D/E	0.49			

Proxy Variable	Ratio	P- Value	@5% significance level	H_0 Accepted/Rejected	Remark
A Multiple Regression of Current Ratio and Interest Coverage Ratio with Return on Investments					There is no significant impact of Current Ratio and Interest Coverage Ratio on Return on Investments(P-value > 0.05)
	CR	0.35			
			0.05	Accepted	
	ICR	0.25			
A Multiple Regression of Quick Ratio and Interest Coverage Ratio with Return on Investments					There is no significant impact of Quick Ratio and Interest Coverage Ratio on Return on Investments(P-value > 0.05)
	QR	0.29			
			0.05	Accepted	
	ICR	0.32			

Proxy Variable	Ratio	P- Value	@5% significance level	H_0 Accepted/Rejected	Remark
A Multiple Regression of Current Ratio and Debt to Assets Ratio with Return on Assets					There is no significant impact of Current Ratio and Debt to Assets Ratio on Return on Assets(P-value > 0.05)
	CR	0.38			
			0.05	Accepted	
	D/A	0.26			
A Multiple Regression of					There is no significant

Quick Ratio and Debt to Assets Ratio with Return on Assets	QR	0.21			impact of Quick Ratio and Debt to Assets Ratio on Return on Assets(P-value > 0.05)
			0.05	Accepted	
	D/A	0.17			

Proxy Variable	Ratio	P- Value	@5% significance level	H_0 Accepted/Rejected	Remark
A Multiple Regression of Current Ratio and Debt to Assets Ratio with Return on Investments					There is no significant impact of Current Ratio and Debt to Assets Ratio on Return on Investments(P-value > 0.05)
	CR	0.23			
			0.05	Accepted	
	D/A	0.74			
A Multiple Regression of Quick Ratio and Debt to Assets Ratio with Return on Investments					There is no significant impact of Quick Ratio and Debt to Assets Ratio on Return on Investments(P-value > 0.05)
	QR	0.16			
			0.05	Accepted	
	D/A	0.84			

CONCLUSION

The study used data of ten companies of gems and jewellery sector listed on BSE for the period 2010-11 to 2019-20. The result revealed that there is no significant impact of liquidity and leverage on profitability of selected gems and jewellery companies of India. The gems and jewellery companies should exercise extra care on control of its cost by improving the efficiency. However, the gems and jewellery companies ensure the effective utilization of various assets towards their growth aspects. It is suggested that the gems and jewellery companies can improve their profitability by increasing their operating efficiency. In this research study it is also found that Gems and jewellery companies unconsciously or deliberately bear risks of price volatility that their business models cannot support. They must reevaluate their business models to improve operational efficiency.it is advisable for this sector, it should cope up with the change in global economy and fluctuating currency values so as to maintain steady profit.

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