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LIQUIDITY AND PROFITABILITY TRADE OFF

(A Study on Airtel Bharti Limited)

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Abstract: *"Liquidity and profitability trade off have become a crucial issue among any organisation.it is all about managing your current assests and current liabilities in such a way so that profitability will be optimum.As the company desires to have more and more current assests and least current liabilities,the profitability of the organisation adversely affected.In this research paper we,along with our theoretical background ,tries to evaluate the liquidity and profitability trade off in Bharti Airtel Ltd, India`s most outstanding telecommunication service provider".*

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INTRODUCTION

Liquidity - Having enough money in form of cash,to meet your financial obligations.Alternatively,the ease with assets can be converted in to cash.

Profitability – A measure of the amount by which a company`s revenue exceeds its relevant expenses.

Liquidity Vs Profitability-Liquidity and profitability are the two corners of a straight line. If you are on the line and move towards one,you automatically move away from the other.In other words, there is a trade – off between liquidity and profitability.

COMPANY PROFILE

Bharti Airtel Limited, usually referred to simply as "airtel", is a Indian telecommunications company that operates in 19 countries across South Asia, Africa and the Channel Islands. It operates a GSM network in all countries, providing 2G or 3G services depending upon the country of operation. Airtel is the fifth largest telecom operator in the world with over 200 million subscribers as of October 2010. It is the largest cellular service provider in India, with over 143 million subscribers as of September 30, 2010. Airtel is the 3rd largest in-country mobile operator by subscriber base, behind China Mobile and China Unicom. It has a 29.00% market share of the GSM mobile service in India.

Airtel also offers fixed line services and broadband services. It offers its telecom services under the Airtel brand and is headed by Sunil_Mittal. Bharti Airtel is the first Indian telecom service provider to achieve this Cisco Gold Certification. To earn Gold Certification, Bharti Airtel had to meet rigorous standards for networking competency, service, support and customer satisfaction set forth by Cisco. The company also provides land-line telephone services and broadband Internet access (DSL) in over 96 cities in India. It also acts as a carrier for national and international long distance communication services. The company has a submarine cable landing station at Chennai, which connects the submarine cable connecting Chennai and Singapore.

It is known for being the first mobile phone company in the world to outsource everything except marketing and sales and finance. Its network (base stations, microwave links, etc.) is maintained by Ericsson, Nokia Siemens Network and Huawei., business support by IBM and transmission towers by another company (Bharti Infratel Ltd. in India). Ericsson agreed for the first time, to be paid by the minute for installation and maintenance of their equipment rather than being paid up front. This enabled the company to provide pan-India phone call rates of Rs. 1/minute (U$0.02/minute). Call rates have come down much further. During the last financial year [2009-10], Bharti has roped in a strategic partner Alcatel-Lucent to manage the network infrastructure for the Telemedia Business.

The company is structured into four strategic business units - Mobile, Telemedia, Enterprise and Digital TV. The Telemedia business provides broadband, IPTV and telephone services in 89 Indian cities. The Digital TV business provides Direct-to-Home TV services across India. The Enterprise business provides end-to-end telecom solutions to corporate customers and national and international long distance services to telcos.

In January 2010, company announced that Manoj Kohli, Joint Managing Director and current Chief Executive Officer of Indian and South Asian operations, will become the Chief Executive Officer of the International Business Group from 1 April 2010. He will be overseeing Bharti's overseas business. Current Dy. CEO, Sanjay Kapoor, will replace Manoj Kohli and will be the CEO, effective from 1 April 2010.

Sunil Bharti Mittal founded the Bharti Group. In 1983, Sunil Mittal was into an agreement with Germany's Siemens to manufacture the company's push-button telephone models for the Indian market. In 1986, Sunil Bharti Mittal incorporated Bharti Telecom Limited (BTL) and his company became the first in India to offer push-button telephones, establishing the basis of Bharti Enterprises. This first-mover advantage allowed Sunil Mittal to expand his manufacturing capacity elsewhere in the telecommunications market. By the early 1990s, Sunil Mittal had also launched the country's first fax machines and its first cordless telephones. In 1992, Sunil Mittal won a bid to build a cellular phone network in Delhi. In 1995, Sunil Mittal incorporated the cellular operations as Bharti Tele-Ventures and launched service in Delhi. In 1996, cellular service was extended to Himachal Pradesh. In 1999, Bharti Enterprises acquired control of JT Holdings, and extended cellular operations to Karnataka and Andhra Pradesh. In 2000, Bharti acquired control of Skycell Communications, in Chennai. In 2001, the company acquired control of Spice Cell in Calcutta. Bharti Enterprises went public in 2002, and the company was listed on Mumbai Stock Exchange and National Stock Exchange of India. In 2003, the cellular phone operations were rebranded under the single Airtel brand. In 2004, Bharti acquired control of Hexacom and entered Rajasthan. In 2005, Bharti extended its network to Andaman and Nicobar.

In 2009, Airtel launched its first international mobile network in Sri Lanka. In 2010, Airtel began operating in Bangladesh and 16 African countries.

Today, Airtel is the largest cellular service provider in India and fifth largest in the world

REVIEW OF RELATED LITERATURES:-

In spite of such a greatcoat of liquidity management, it is strange that so long it could not draw towards as much mindfulness of the researchers in India as it desires. A brief review of the different pains of research in the field is attempted in the following paragraphs.

Agarwal (1988) devised the working capital decision as a goal programming problem, giving primary importance to liquidity, by targeting the current ratio and quick ratio. The modelcapital). In particular, the profitability constraints were designed to capture the opportunity cost of excess liquidity (in terms of reduced profitability).

Rafuse (1996) quarreled that attempts to improve working capital by delaying payment to creditors are counter-productive, and that altering debtor and creditor levels for individual tiers within a value system will rarely produce any net benefit. He proposed that stock reduction generates system-wide financial improvements and other important benefits, and suggested that, to achieve this, companies should focus on stock management strategies based on “lean supply- chain” techniques.

Sur (2006) studied the efficiency of the working capital management in the National Thermal Power Corporation (NTPC), and showed that the company achieved a higher level of efficiency in managing its working capital during the post-liberalization era by adapting itself to the new environment which had emanated from liberalization, globalization and competitiveness. They pointed out that, while many of the public enterprises are learning to survive and grow by adapting themselves to the new situation, a large group of public sector undertakings, significant both in number and investment, have been beset with serious problems like slow growth, low productivity, inadequate emphasis on research and development, inefficient working capital management, and so on.

Garcia-Teruel and Martinez-Solano (2007) studied the effects of working capital management on the profitability of a sample of small and medium-sized Spanish firms. They found that managers can create value by reducing their inventories and the number of days for which their accounts are outstanding. Moreover, shortening the cash conversion cycle also improves the firm's profitability.

Chakraborty (2008) evaluated the relationship between working capital and profitability of Indian pharmaceutical companies. He pointed out that there were two distinct schools of thought on this issue: according to one school of thought, working capital is not a factor of improving profitability and there may be a negative relationship between them, while according to the other school of thought, investment in working capital plays a vital role to improve corporate profitability, and unless there is a minimum level of investment of working capital, output and sales cannot be maintained - in fact, the inadequacy of working capital would keep fixed asset inoperative.

Singh (2008) found that the size of inventory directly affects working capital and its management. He suggested that inventory was the major component of working capital, and needed to be carefully controlled.

Singh and Pandey (2008) suggested that, for the successful working of any business organization, fixed and current assets play a vital role, and that the management of working capital is essential as it has a direct impact on profitability and liquidity. They studied the working capital components and found a significant impact of working capital management on profitability for Hindalco Industries Limited. The conclusive sum of this retrospective review of relevant literature produced till date on the offered subject reveals wide room for the validity and originates of this work and reflects some decisive evidences that affirm its viability, as may be marked here it. Nor has any previous research examined the liquidity position and the existence of liquidity and profitability relationship of private sector steel companies in India.

RESEARCH METHODLOGY

For the purpose of our study we have taken the last five year data of Bharti Airtel Ltd.With the help of the data,we will try to evaluate the relationship between profitability and liquidity.

NULL HYPOTHESIS- There is negative relationship between profitability and liquidity.

ALTERNATIVE HYPOTHESIS-Alternative hypothesis will be quite opposite to null hypothesis.that means that there is not negative relationship between profitability and liquidity.

Position of Liquidity in Airtel Bharti Ltd.

Year	Current assests (CA)in cr.	Current liabilities(CL)in cr.	Current ratio (CR)	Working capital in cr.
05-06	3338.88	7272.80	.46	-3933.92
06-07	5406.81	11042.67	.49	-5635.86
07-08	8439.38	14362.33	.59	-5922.95
08-09	10466.63	14466.89	.72	-4000.26
09-10	9225.08	12842	.72	-3616.92

The ideal ratio among current assets and current liabilities is said to be 2:1,but in Airtel Bharti the current ratio is quite poor.that means the company is more concerned about profitability rather than liquidity.

Profitability Analysis

Year	CA(current assets) in crore	FA(fixed assets) in crore	Total assests(TA) in crore	Current liabilitie(CL) in crore	Capital employed (CE) =(TA-CL) in crore	EBIT(earning before interest and tax) in crore	ROEC(EBIT/ROEC
05-06	3338.88	16065.70	19404.58	7272.80	12131.78	2646.13	21.81
06-07	5406.81	22385.15	27791.96	11042.67	16749.29	5006.05	29.89
07-08	8439.38	32732.85	41172.23	14362.33	26809.90	7759.66	28.93
08-09	10466.63	39355.66	49822.29	14466.89	35355.40	10222.49	28.91
09-10	9225.08	45390.90	54615.98	12842	41773.98	10176.52	24.36

Relationship between liquidity and profitability

(Spearsman`s Rank Difference method used)

Year	CR	Rank	ROEC	Rank	D(rank difference)	D^2
2005-06	.46	5	21.81	5	0	0
2006-07	.49	4	29.89	1	3	9
2007-08	.59	3	28.93	2	1	1
2008-09	.72	1.5	28.91	3	-1.5	2.25
2009-10	.72	1.5	24.36	4	-2.5	6.25
					Total	18.50

$r = 1- 6\{\sum D^2 +1/12(m^3-m)\} /n(n^2-1)$

$= 1- 6\{18.50 +1/12(8-2)\}/5(25-1)$

= 1-6{18.50+.50}/120

=1-114/120

= .05

T test analysis

r= r$\sqrt{n} - 2/\sqrt{1} -$r^2

= .05$\sqrt{5} - 2/\sqrt{1}$-(.05)^2

=.05x$\sqrt{3}/1$-.0025

=.0868

Value of t at 5% level of significance of (n-2)=(5-2)=3.182Our computed value is less than table value which means null hypothesis is accepted. That means there is negative relationship between profitability and liquidity.

CONCLUSION

Management of liquidity and profitability has become a crucial issue in todays cut throat competition.if the firm decreses its liquidity the profitability would be high.the results shows that there is a negative relationship between profitability and liquidity.so it is essential for the every firm to maintain equilibrium between profitability and liquidity.

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