Gumparthi, Srinivas, and S., Pradeepa. (2021), Demonetization Impact on Liquidity of Large Corporates in India. In: Economics and Business Quarterly Reviews, Vol.4, No.3, 57-66.

ISSN 2775-9237

DOI: 10.31014/aior.1992.04.03.369

The online version of this article can be found at: https://www.asianinstituteofresearch.org/
Demonetization Impact on Liquidity of Large Corporates in India

Srinivas Gumparthi¹, Pradeepa S.²

¹ Professor, SSN School of Management. Email: srinivasg@ssn.edu.in
² SSN School of Management. Email: 2k18pradeepa.s@somca.ssn.edu.in

Abstract
This paper ‘Demonetization Impact on Liquidity of Large Corporates in India’ focuses on the changes in the Liquidity pattern of the companies’ in-order to cope up with the Business Risk that emerged due to the unforeseen Demonetization Policy of the Government of India. The study aimed at finding the performance of various sectors on liquidity parameters during pre and post demonetization period. The study covered the companies listed in NIFTY 50 over the period of 6 years from 2014-2019. The methodology used for analysis is the longitudinal study under descriptive analysis as it involves the repeated observations of the same variables over a period of time. As the paper focuses on the top companies listed, though companies faced the uncertainty during that particular period of demonetization, they bounced back at the earlier than the MSME companies. Some sectors like FMCG, Pharmaceutical were immune to demonetization as it has an inelastic demand in the market and demonetization created giant opportunities for the software sector as the country has been shifted towards digitalization. Found short-term implications for the cash-intensive sectors but in the long run it helps in the growth of the economy, which in turn will have a positive correlation with the growth of companies.

Keywords: Demonetization, Liquidity, Corporates, MSME, Langitudinal

INTRODUCTION

Currency notes are a medium of exchange predominantly used in India. In the rural markets, currency notes are almost 90% transactional medium in all economic activities. Indian economy is largely rural-based. Withdrawing units of money from circulation is demonetization; units of money are denied the status of legal tender. Demonetization is defined as a process by which currency units will not remain legal tender. The currency notes will not be taken as a valid currency. Demonetization is a step taken by the government where currency units are ceased of their status as legal tender. Demonetization is a basic condition to change national currency. In other words, demonetization can be said a change of currency where new units of currency replace the old one. It may involve the introduction of new notes or coins of the same denomination or a completely new denomination.

The unique experiment with demonetization, announced on November 8, 2016 by the Prime Minister of India has established that the Central Government is serious about tackling the menace of corruption. Broadly, the
The demonetization of high currency notes had a two-fold objective – first, choking the funding channels of militancy and terrorism from across the border and fighting corruption.

Since then, in continuing the focus on corruption, the government has placed emphasis on digitizing India. The experiment of demonetization by the Government has largely been successful in educating the masses about the benefits of electronic payments and digitalization.

Demonetization influenced the performance of the group of companies across various sectors, which in-turn led to a sharp reversal in the performance of the stock markets. The markets witnessed large capital gains neutralized within a span of four to six months following the announcement, although they redeemed quickly once liquidity returned to normal.

Tiny, mini, micro, small & medium scale industries had been working on narrow margins and had no cushion or shield to withstand this effect and many of companies could not sustain operation and suffer badly. On the other hand, large multinational companies (MNC) and large Indians companies had attained critical mass before this unforeseen event, which helped them to survive somehow in the market, but not with a pleasant report.

LITERATURE REVIEW

Rohit Bansal and Vipan Bansal (2012) has undertaken a study to identify the determinants of liquidity. The study uses data pertaining only to two sectors, i.e., the textile and chemical sector, over the period of 1999-2008 for a sample of 100 firms in the Indian market. The results indicate that the variables like cash flow, debt ratio, and free cash flow are significant determinants of corporate liquidity for all the sectors under consideration. The study concludes that FCF, debt ratio, cash flow, return spread, VARCF, C and CF have an impact on the corporate liquidity of Indian firms and the size of the firm did not impact on corporate liquidity. The gap analyzed in this paper is that it focuses mainly on the two sectors and these results may not be applicable to the other industries.

Shweta Mehrotra (2013) has made an attempt to examine the working capital trends and practices, particularly in the FMCGs sector in India by selecting five FMCGs companies (named as Hindustan Unilever Limited, Nestle India Limited, Britannia Industries, Procter & Gamble and ITC). The main objective of this paper is to analyze the working capital trends in FMCG sector and also to discover the relative importance of various current assets components. Finally is to draw conclusion on the effectiveness of working capital management. The study is based on secondary data and they used ratio analysis as a tool of financial statement analysis to examine the degree of efficiency of working capital management in companies. The study concludes that unlike most other industries, the turnover of an FMCG company is not limited by its ability to produce, but its ability to sell. They can generate cash so quickly, this happens because customers pay upfront and so rapidly. This paper failed to analyze the trends and practices in-depth, used only the liquidity ratio to analysis the financial statement and affirmed the results and also they have chosen only the top 5 companies for study, the sample size is too small and thus the results cannot be passed on to the whole population.

Nimalathasan and Priya (2013) has aimed at discovering the specific factors that are useful in enhancing the profitability and liquidity position of the companies. There is a negative relationship between profitability and liquidity and thus it is essential for every firm to maintain equilibrium between profitability and liquidity. The main objective of the study is to find out the impact of liquidity management and profitability and identify the factors contributing the liquidity management and profitability and also the relationship between them. The sample of the study is taken from the listed manufacturing companies from the Manufacturing Sector of Colombo Stock Exchange (CSE) for the period of 2008-2012. The author uses multiple regression analysis to investigate the impact of liquidity management on profitability. It is important to note that the financial profitability (ROA and ROE) depend upon the liquidity ratios like debtors collection period (DCP), creditor payment period (CPP), inventory sales period(ISP), operating cash flow ratio(OFCFR), and current ratio(CR). Monika Bolek and Bartosz Grosicki (2015) proposed a practical solution and present the model based on discriminant analysis to indicate the liquidity as bad or good by linking it to the profitability which is measured by Return on Assets (ROA) less Weighted Average Cost of Capital. If a company generates ROA higher than the Weighted Average Cost of Capital, then it indicates that liquidity management based on chosen ratios is good and the company is able to cover costs of capital. The main objective of this paper is to evaluate the financial liquidity of a company using discriminant analysis. The authors of this paper use the Altman’s methodology to assess the
liquidity of companies and also to build the liquidity measure. To assess the liquidity in a complex manner, the authors of this paper have proposed one model that may be called L-score to evaluate the liquidity situation in a company. Vimala and J.P.Kumar (2016) has analyzed the liquidity of the select units by computing current ratio, quick ratio, liquid funds to current assets ratio, networking capital to current assets ratio and finally, a comparative liquidity study has been undertaken among selected units by allotting ranks to them as per the Motaal’s Ultimate Rank Test. The main objective of this paper is to study the liquidity position of the selected pharmaceutical company by applying Motaal’s Comprehensive Test of Liquidity. The author has selected the top five pharmaceutical companies in India based on the sales and the study covers a period of ten years from 2005-06 to 2014-15. The results state that in the pharmaceutical sector the growth of current liabilities is higher than the growth of current assets which adversely affects the liquidity position of the companies. The major limitation in this study that they had chosen the top 5 companies for analysis, thus these results may not be applicable for the micro, small, medium enterprises. Tamragundi and Purushottam (2016) has attempted the study to find out the relationship between the liquidity and the profitability in the FMCG sector in India. The study was descriptive in nature and they have chosen the leading top 10 FMCG companies for analysis. The financial reports of the ten leading FMCG companies were studied for the period of 2005-06 to 2014-15 and relevant liquidity and profitability ratios were computed. The tools used for the study are Spearman’s Rank correlation and t-tests. The results of this study revealed that there is a positive correlation between profitability and liquidity for ten leading FMCG companies in India. But these results are limited only the large FMCG companies and it may not hold true for other sectors. Nomita Sharma (2017) has tried to understand the entrepreneurial responses to uncertainty in business environment. The main purpose of the study was to analyze how MSMEs responded to demonetization, in particular. MSMEs have been chosen because they often face a paucity of resources. The study focused on the IT sector as it is a knowledge-intensive sector, responded positively through the introduction of innovative strategies. The questionnaire has been emailed to the MSME and the results were interpreted through statistical techniques, i.e., univariate, bivariate and multivariate methods. Strategies undertook by the companies are mostly process innovation in order to survive in the Indian market. This study is limited by the choice of sector and sample size. The time period of the study taken for analysis is very small. The overall impact of demonetization can be analyzed better in the long-term. Sutinder (2017) has conducted a study to analyze the impact of demonetization on the Indian economy’s different sectors. Demonetization in the Indian economy had a negative impact on the different sectors of the economy, but the majority of the negative effect is short-run in nature. The main aim of the study is to analyze the impact of demonetization on GDP and also on the different sectors of the Indian economy. The study reveals that the GDP of a country slightly decreases as compared with the previous year but it may not be the same in the future also. In this paper, the author did not attempt to prove the conclusion statement through any research methodology and statistical tools instead, they analyzed the performance of various sectors on a shallow level of information and presented the results. Charan Singh (2018) in his paper ‘India since Demonetization’ has attempted to capture the course of the Indian economy since demonetization of November 2016. An honest approach has been made to understand demonetization in a continuum of other major policy reforms taken in the economy like GST, and Digital India. This paper has been mainly focused on the developments in fiscal and monetary variables since demonetization, the performance of macroeconomic indicators and the overall growth trend in the economy. Statistics show a rapid growth of cashless infrastructure in India i.e., both in the number of ATMs and POS machines. In this paper author tries to prove that the effect of demonetization is only short run and in the long run it benefits the country’s economy. But this paper seems to be focusing mainly on the positive side of demonetization and fails to cover its negative impact. Kontusa and Damir and Mihanovich (2019) have conducted a study to analyze the dependence between liquidity level and profitability of surveyed enterprises. The main aim of this paper is to contribute to the debate by empirically investigating the level of liquidity as well as the relationship between the level of liquidity and profitability. The study has been conducted by taking sample of 93 S.M.E.s from Croatia over the period 2010–2014 and the methods used for data analysis were descriptive statistics, correlation and regression analysis. This study has provided empirical evidence of a negative relationship between liquidity which is measured in terms of current assets to current liabilities ratio, and S.M.E.’s’ profitability that is expressed in terms of return on assets. The limitation of this study is that the data collected for research is only the secondary dthathich has been taken from the published annual reports of the selected enterprises and the study is also based on ratio analysis, which has its own limitations.
PROBLEM STATEMENT

Due to the demonetization policy, the liquidity of several companies has been affected critically. Liquidity is the prominent issue that much to be managed; because it has a direct impact on the operations of the business both in short term and long term. The profitability of a company depends on how corporate leverage liquidity risk. Demonetization forced the companies to change its way of business operations in order to survive, sustain and grow in the market. This paper focuses mainly on the performance of large corporates as it contributes much to the GDP of the country. Thus the study has been performed to analyze the impact of demonetization on liquidity of large corporates in India.

To analyze the above mentioned problem; this study was undertaken to evaluate demonetization policy impact on business operations of large corporates in India. Along study also have the secondary objective to analyze the performance of various sectors in India during pre and post demonetization period. Further study focuses on the management measures taken by large companies to survive, sustain and grow in the market during post demonetization.

OBJECTIVES

The main objective of the study is to examine the impact of demonetization policy on liquidity of large corporates in India. The secondary objectives are:
- To analyze the performance of various sectors in India during pre and post demonetization period.
- To examine the performance of top companies under each sector and the time taken for the recovery from the impact of demonetization.
- To study the management measures taken by large companies to survive in the market during the demonetization.

RESEARCH METHODOLOGY

A. Research design

The research will be a longitudinal study under descriptive analysis as the work involves the repeated observations of same variables over a period of time (i.e.) the study uses longitudinal data for analysis.

B. Sampling design

The population or the entire group of units which is drawn to this research is all the companies that are listed in NIFTY 50. Out of 50 companies, the sample chosen is 40 companies that has a characteristics of the population. The sampling technique used for the study is clustered sampling in which the entire population is sub-divided into clusters or group which is homogeneous within the groups and heterogeneous between the groups. The clustering is carried out by grouping the companies based on the industry sector (i.e.) automobile, cement and construction, energy, FMCG, metal, software, pharmaceutical, telecom, pesticide, transportation, media.

C. Analysis tool

In this study, the tool used for analysis is ratio analysis to examine the data. The data collected for the research is a secondary data from the annual reports of the sample companies. The variables considered for the study are Sales, Receivables, Net W.C, Inventory, Liquid asset, Operating profit (EBIT), Net profit, EPS, Borrowings and operating leverage to analyze the performance of the sample. The data is collected over a time horizon of 6 years from 2014-2019 as it covers the pre and post demonetization period for the effectual analysis.

DATA ANALYSIS

1. AUTOMOBILE SECTOR
Bajaj Auto Limited is an Indian global two-wheeler and three-wheeler manufacturing company that is chosen to analyze its performance during pre and post demonetization phase. Ratio analysis has been performed on the secondary data to interpret the results. In Table 1, an attempt has been made to analyze the liquidity of Bajaj Auto Limited, by using some selected ratios and it is shown below.

| Year / Company | 18-19 (%) | 17-18 (%) | 16-17 (%) | 15-16 (%) | 14-15 (%) | 13-14 (%) |
|----------------|-----------|-----------|-----------|-----------|-----------|-----------|
| Sales          | 30,249.96 | 25,164.92 | 21,766.68 | 22,586.52 | 21,612.01 | 20,149.51 |
| Sales growth   | 20.21     | 15.61     | -3.63     | 4.51      | 7.26      |           |
| Receivables    | 2,559.69  | 1,491.87  | 953.29    | 717.93    | 716.96    | 796.21    |
| Receivables/sales | 8.46    | 5.93      | 4.38      | 3.18      | 3.32      | 3.95      |
| Net W.C        | 2,188.98  | 5,124.34  | 6,178.79  | 1,944.26  | 5,049.48  | 886.39    |
| Net W.C/sales  | 7.24      | 20.36     | 28.39     | 8.61      | 23.36     | 4.40      |
| Inventory      | 961.51    | 742.58    | 728.38    | 719.07    | 814.15    | 639.72    |
| Inventory/sales| 3.18      | 2.95      | 3.35      | 3.18      | 3.77      | 3.17      |
| Liquid assets  | 922.81    | 778.00    | 293.68    | 859.52    | 586.15    | 495.48    |
| Operating profit (EBIT) | 4,982.02 | 4,783.43  | 4,422.35  | 4,781.94  | 4,116.55  | 4,105.74  |
| Operating profit/sales | 16.47  | 19.01     | 20.32     | 21.17     | 19.05     | 20.38     |
| Net profit     | 4,675.18  | 4,068.10  | 3,827.56  | 3,929.67  | 2,813.74  | 3,243.32  |
| Net profit/sales | 15.46  | 16.17     | 17.58     | 17.40     | 13.02     | 16.10     |
| EPS            | 161.57    | 140.59    | 132.27    | 135.80    | 97.24     | 112.08    |
| Borrowings     | 3,786.73  | 3,244.32  | 2,255.73  | 2,027.04  | 1,799.75  | 2,111.40  |
| Operating leverage | 0.04   | 0.11      | 0.44      | 0.68      | 0.01      |           |

From the above table it was observed that the sales has been dropped by 3.63% for the company during demonetization (i.e. 16–17 financial year). But in the succeeding years the sales has been increased at the rate of 15 to 20% growth. Net working capital has witnessed the growth of more than 200% in 16-17 as the current asset of the company is greater during that period because of the increase in receivables, inventory. Due to liquidity crisis during the demonetization period, there was an acute deficiency in cash and cash equivalent (i.e.) the company encounters 65% decline in liquid assets during that particular period.

During 16-17 from the profit and loss account of the company, it is noted that there was a slight dip in the raw material expenses, power and fuel cost which indicates a sink in the production due to crisis. This ultimately results in the decline of operating profit by 7%, but in the consecutive years the company bounced back to its normal phase.

Due to the confusion prevailed in the market during demonetization the company’s share price went down by 2.5% but after the improvement in the sales and profit of the company in the following years, the share price of the company began to climb.

Comparative Analysis within the automobile sector

In comparative analysis, the results of Bajaj Auto is compared and contrasted with the population i.e. all other companies in automobile sector. Year on Year sales growth of the industries under automobile sector which is listed in NIFTY 50 is shown in the below Table 2.
Table 2: Automobile Industries – Sales Growth

| Year / Company                  | 18-19| 17-18| 16-17| 15-16| 14-15 |
|--------------------------------|------|------|------|------|------|
| Mahindra & Mahindra Ltd        | 10.12| 10.51| 7.78 | 4.95 | -3.86|
| Eicher motors                  | 9.34 | 27.27| 13.77| 104.08| 78.05|
| Maruti Suzuki India            | 7.85 | 17.24| 18.24| 15.14| 14.35|
| Hero Motocorp Ltd              | 4.41 | 13.09| -0.35| 3.68 | 9.14 |
| Tata Motors                    | 17.63| 32.75| 3.43 | 18.05| 5.85 |

Only Hero Motocorp has witnessed the negative sales growth which is in line with the sales of the Bajaj Auto and all other companies except these have achieved the positive sales growth during the demonetization period. From the above data, it is evident that during 17-18 financial year all the large automobile companies have returned to its normal state by achieving the positive sales growth.

Table 3: Automobile Industries – Receivables Growth

| Year / Company                  | 18-19| 17-18| 16-17| 15-16| 14-15 |
|--------------------------------|------|------|------|------|------|
| Mahindra & Mahindra Ltd        | 24.37| 7.97 | 17.01| -1.81| 1.92 |
| Eicher motors                  | 44.39| 5.97 | 6.09 | 331.12| -11.79|
| Maruti Suzuki India            | 58.05| 21.90| -9.30| 23.59 | 24.33|
| Hero Motocorp Ltd              | 85.61| -2.67| 21.75| -7.69 | 50.95|
| Tata Motors                    | -6.59| 63.52| 4.03 | 83.55| -8.40|

The above Table 3 shows the year on year receivables growth of the automobile industries. When the data is compared with Bajaj Auto Ltd, most of the companies have shown the positive growth on receivables. Only one exception is Maruti Suzuki which reveals the negative growth on that particular year. The data reveals that it doesn’t follow a linear fashion i.e. there is no consistent growth or decline pattern exists.

Table 4: Automobile Industries - Net Working Capital growth

| Year / Company                  | 18-19| 17-18| 16-17| 15-16| 14-15 |
|--------------------------------|------|------|------|------|------|
| Mahindra & Mahindra Ltd        | 18.59| 5.96 | 66.02| 55.23| -54.24|
| Eicher motors                  | 628.04| -371.21| -20.08| -151.75| -29.04|
| Maruti Suzuki India            | -76.22| 69.00 | 39.36| 410.83| -110.25|
| Hero Motocorp Ltd              | -11.53| 34.08 | 78.12| 34.86 | 23.46|
| Tata Motors                    | 5.02 | 5.31 | 28.38| -42.02| -2.16 |

From the above table, it is evident that all the companies except Eicher Motors have witnessed the positive growth of Net Working Capital which is same as the Bajaj Auto during the demonetization. As the companies have shown a growth in the current asset (i.e. receivables and inventory) at that particular period which eventually resulted in the growth of the net working capital. Out of 6 companies, only one company showed the negative working capital and the remaining 5 companies have realized the positive working capital growth.

Table 5: Automobile Industries – Liquid Asset Growth

| Year / Company                  | 18-19| 17-18| 16-17| 15-16| 14-15 |
|--------------------------------|------|------|------|------|------|
| Mahindra & Mahindra Ltd        | 28.96| 71.48| -26.22| 10.76| -30.02|
| Eicher motors                  | 143.22| 5765.21| -53.71| 3.41 | 130.09|
| Maruti Suzuki India            | 151.62| 415.22| -67.30| 130.60| -97.09|
| Hero Motocorp Ltd              | -3.45| 3.37 | 4.09| -17.51 | 35.53|
| Tata Motors                    | 64.27| 143.54| -58.57| -16.55| 317.75|
From the above table 5 it is evident that all the companies except Hero Motocorp experiences drastic downfall in liquid assets during demonetization. These data discloses that the automobile sector has faced a severe cash shortage at the period but in the succeeding year these large corporates managed the issue and brought back to its normal pace.

| Year / Company                | 18-19 (%) | 17-18 (%) | 16-17 (%) | 15-16 (%) | 14-15 (%) |
|------------------------------|-----------|-----------|-----------|-----------|-----------|
| Mahindra & Mahindra Ltd      | 10.10     | 19.56     | 13.69     | -3.51     | -11.63    |
| Eicher motors                | 19.94     | 9.80      | 19.16     | 134.24    | 100.60    |
| Maruti Suzuki India          | -2.86     | 5.06      | 37.02     | 44.54     | 33.35     |
| Hero Motocorp Ltd            | -8.45     | 9.48      | 7.81      | 31.30     | 13.11     |
| Tata Motors                  | 21.60     | -93.85    | -23.6     | 37.70     | -46.0     |

The above Table 6 represents the % growth of net profits of the automobile companies and from the data it is apparent that during demonetization only Tata Motors shows the negative growth which is in line with the Bajaj Auto and all other companies have experienced the positive profit growth. Only 2 companies have been suffered during demonetization and the remaining companies were able to achieve the positive growth on profits. These above data discloses the fact that the large automobile companies in India have bounced back to its normal state at the earliest.

II. CEMENT AND CONSTRUCTION SECTOR

Three companies were listed under cement and construction sector in NIFTY 50. The parameters considered for the study are Sales, Receivables, Net W.C, Inventory, Liquid asset, Operating profit (EBIT), Net profit, EPS, Borrowings and Operating leverage to analyze the performance of the sample. Out of the three companies, Grasim Industries have realized a remarkable sales growth of 15% during the period of demonetization. Although the company had performed well during demonetization, the data reflects the fact that in the previous year the company has attained the sales growth of 40% and it has been come down to 15%. But still the company has managed to achieve the growth during demonetization and has been performed well in the succeeding years.

The other two companies have experienced a small decline and the profit of the companies has not grown at a normal pace during demonetization. Recovery had happened in the successive years at a slow progress.

III. ENERGY SECTOR

In NIFTY 50 there are about 8 companies were listed under energy sector. Out of which 6 companies have attained the positive sales growth during demonetization and the remaining 2 companies have faced the decline in the sales growth. Liquid asset of all the companies in energy sector have been affected drastically in which only 3 companies were able to bring back to its standard level in the succeeding years, whereas the remaining 5 companies were improving in a slow pace.

The profit of two companies has slowed down during demonetization and all other companies have achieved the positive profit growth. Though they were not able to realize the prior growth rate, still they attained the positive growth. 5 companies under energy sector were performed well and they achieve the consistent parameters growth after the demonetization only the remaining 3 companies were recovering at a slower rate.

IV. FMCG SECTOR

Five companies were listed under FMCG sector in NIFTY 50. Companies like ITC and HUL have performed well by achieving sales and profit growth and even the company’s EPS have increased during the period of demonetization. All the 3 other companies were able to realize the positive sales growth at a smaller rate which is
less when compared to previous growth rate. As FMCG sector has an inelastic demand, all the top corporates have survived, sustained during the crisis. FMCG sector is the one that recovered earliest all the 5 listed large companies have attained the growth of the all chosen parameters in the successive years. Thus, currently all the companies were doing well by achieving the consistent growth and demonetization doesn’t have much impact on the sector.

V. METAL SECTOR

Hindalco, Vedantu, JSW and Tata Steels were the four companies which have listed in NIFTY 50. Only Tata steels has faced a sales decline during the demonetization, whereas remaining 3 companies have achieved the positive sales growth. During that period all the four company’s current assets have been elevated due to the build-up of inventory, liquid assets and receivables. As the sales of the 3 companies have increased, that resulted in the growth of the profits.

The top companies of metal sector have operated well during demonetization, it is evinced by the fact that all these company’s EPS have increased at a larger rate when compared to the previous years. During 17-18 financial year financial statements have shown a consistent growth on all the parameters, but it has faced a slight decline in sales and profit in the succeeding year i.e. 18-19.

VI. SOFTWARE SECTOR

In NIFTY 50, there are about 5 companies were listed under software sector. All the five companies have achieved the positive sales growth during the period of demonetization, but out of 5 companies, 3 companies were failed to meet its previous growth rate. It had faced a slight decline in the sales when it is compared with the prior performance and the remaining 2 companies have managed to reach its standard growth rate. These 2 companies were able to achieve the typical profit growth whereas the remaining 3 companies were only able to attain a tiniest growth of the profit i.e. these 3 companies were competent enough to survive during demonetization.

The two companies have marked a consistent growth on all the parameters since the demonetization and the other 3 companies have been taking slower step in recovering and the growth of the parameters has been carried out in a slower pace.

VII. PHARMACEUTICAL SECTOR

3 companies were listed in NIFTY 50 under pharmaceutical sector. Only one company was able to achieve the marginal sales growth at the rate of 0.9% and the remaining 2 companies have obtained the negative sales growth during the demonetization period. From the sales decline it is evident that the demonetization had a serious impact on the pharmaceutical sector. Net working capital of 2 companies has shown negative growth which implies that short term borrowing and trade payables have increased during that period.

Out of 3 companies, only one company has realized positive profit growth whereas the remaining two companies have failed to perform at its standard rate and they have shown a negative profit growth. In the consecutive years, all the 3 companies have managed to escalate the growth of the parameters, but only at a slower rate. These companies were able to achieve the consistent sales growth but they were not able to realize the appropriate profit growth.

VIII. TELECOM SECTOR

Only two companies were listed under telecom sector in NIFTY 50. During demonetization both the companies have achieved a positive sales growth. Although the companies were able to realize the positive growth, one company has faced a consistent decline in the sales growth when compared to its previous year growth rate. Both the companies have shown a negative net working capital that is due to the increase in short term borrowings and decrease in receivables and liquid assets. In the consecutive years, one company has returned back to its usual level of net working capital and the other company has been making a slower progress.
Profits of the companies have been analyzed in which one company has achieved a positive growth during demonetization and it realized a consistent growth in the successive years. The other company had faced a negative profit growth and it was still struggling to get back to its normal pace.

IX. PESTICIDE SECTOR

United Phosphorous Ltd (UPI) is the only company that is listed under pesticide sector in NIFTY 50. The company had achieved a consistent sales growth throughout the period taken for the study. Net working capital has increased only during the demonetization period but in the successive years, the company has tried to reduce and bring back to its usual level. Net profit of the company has faced a decline and marked a negative growth during the period of demonetization. Slowly the company was able to increase the operating and net profit in the subsequent years. The company has been made sufficient efforts to bring the parameters to its standard growth rate but the recovery has happening in the slower pace.

X. TRANSPORTATION SECTOR

Adani Ports and Special Economic Zone Ltd. is the only large corporate which gets listed under transportation sector in NIFTY 50. During demonetization the company was able to realize the sales growth of 5% but in the preceding year the company has been achieved 18% sales growth rate, thus it reflects that there has been a dip in the sales growth. Net working capital has increased during demonetization due to the growth in current assets of the company i.e. receivables, inventory and liquid assets. The company had achieved the positive growth of operating and net profit which is due to the growth of sales during demonetization. But the profit achieved was not consistent with its prior growth rate. In the succeeding years, the company has been trying to improve the profits of the company and the recovery was carried out in a slow progress.

XI. MEDIA SECTOR

Zee Entertainment Enterprises is the only one company which was listed in NIFTY 50 under media sector. Demonetization did not have much impact on the media sector as it witnesses the consistent growth. The company has achieved the sales growth at a rate of 19% during demonetization and it realized an accordant growth in the following years. Short term borrowing of the company has been increased at a rate of 60% in-order to overcome the liquidity issues during demonetization. As the media sector is immune to demonetization, the profits of the company have grown at a usual rate year over year.

CONCLUSION

The project was mainly undertaken to examine the impact of demonetization on liquidity of large corporates in India. Since many large companies have broad margins and had the cushion or shield to withstand this effect, most of the companies have survived and sustained in the market. Only some companies under each sector have faced some slight decline during demonetization but still they have made sufficient efforts to bring back to its standard level in the consecutive years. There are short term implications for the cash intensive sectors but in the long run it helps in the growth of economy which in-turn will have a positive correlation with the growth of companies.

References

Charan Singh (March 2018), “India since Demonetization”, Economics and Social Science, Indian Institute of Management, Bangalore
Dr Sutinder Singh (November, 2017), “Demonetization and its impact on Indian Economy”, International Journal of Engineering Sciences & Research Technology
Nomita Sharma (2017), “Innovation for Survival: Entrepreneurial Response of Indian MSMEs to Demonetization”, University of Delhi, New Delhi
Dr.Nimalathasan B, Priya K (Aug 2013), “Liquidity Management and Profitability: A Case Study of Listed Manufacturing Companies in Sri Lanka”, University of Jaffna
Monika Bolek, PhD, Bartosz Grosicki, M.A. (Jan 2015), “How to evaluate Financial Liquidity of a company using the Discriminant Analysis”, University of Lodz, Faculty of Economy and Sociology, Lodz, Poland
Mrs.S.Vimala, Dr.J.P.Kumar (Dec 2016), “An Analysis of Liquidity Management of Select Pharmaceutical Companies in India”, Rathinam Institute of Management, Coimbatore (TN), India
Dr. (Smt.) A.N.Tamragundi, Purushottam N Vaidya (Dec 2016), “Liquidity – Profitability Relationship: A Study of Ten Leading FMCG Companies in India”, International Journal of Management (IJM)
Rohit Bansal, Vipan Bansal (Apr 2012) “A Research Paper on Determinants of Corporate Liquidity in India”, International Journal of Marketing and Technology
Eleonora Kontusa and Damir Mihanovicb (2019), “Management of liquidity and liquid assets in small and medium-sized enterprises”, Economic Research-Ekonomska IstraZivanja
Shweta Mehrotra (Apr 2013), “Working Capital Trends and Liquidity Analysis of Fmcg Sector in India”, IOSR Journal of Business and Management (IOSR-JBM)