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Cash flow analysis of Khadim India Limited and Liberty Shoe Limited: A comparative study

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ABSTRACT

The analysis of the cash flow statement is an important part in the evaluation of a financial statements, in order to analyze its financial performance, position and thereby make informed decisions. The main focus of this study is to analyze the cash flow statement of KHADIM INDIA LIMITED and LIBERTY SHOES LIMITED. To analyze the same Mean, Cash Flow based Ratios and Trend Analysis were used as research tools. From the analysis of the companies for a period of 5 years since 2015 to 2020, it has been observed that the cash flow of both the companies are fluctuating over the period. Although both the companies had shown a good cash flow position throughout the observation, but certainly there is room for improvement in the forthcoming years. The overall study has revealed that the cash flows of Khadim India Limited is slightly at a better position when compared to Liberty Shoes Limited during the five-year comparison.

Keywords— Cash flow, Financial, Performance, and Decisions.

1. INTRODUCTION OF THE STUDY

Financial statements are the end products of financial accounting which discloses the prescribed information to enable the users to make informed judgments and decisions. They are the prepared following the accounting standards, conventions and concepts which eases the avidity of the people to know more about the performance of the company. These statements are lucid and straightforward, allowing the users to fully grasp contents presented.

These statements are prepared following the company's act, 2013 and rules thereunder. It includes balance sheet which shows the financial position of the company on a said date, profit and loss account which shows the financial performance of the company over a period of time, notes to accounts are the documents used to support the data presented in position and income statements and cash flow statement which shows inflows and outflows of cash and cash equivalents.

Since balance sheet and statement of profit and loss do not provide information of inflows and outflows of cash during the accounting period, the preparation of cash flow statements becomes significant. They are prepared according to the Accounting Standard-3 or Ind AS 07. It divides/ segregates the cash flows under the three heads namely, operating activities, investing activities and financing activities. It can be prepared following either direct or indirect method though indirect method is largely preferred. The objectives for preparing it is to determine the sources (receipts), applications (payments) and net change in cash and cash equivalents under Operating, Investing and financing activities of the enterprise.

They are crucial for evaluating management decisions, dividend decision and capital budgeting decisions. They give information relating to surplus or deficit of cash thereby enabling an enterprise to decide about the short-term investments of the surplus and arrange the short-term credit in case of deficit.

They also indicate the reasons for the deficit or surplus arising out of the operations so that appropriate plans can be formulated and executed in order to reach a desirable position. Thus, preparation and analysis of the cash flow statement along with other financial statement elements are important for the users of the same.

2. STATEMENT OF PROBLEM

Analyzing the cash flow statement is the process of evaluating a part of the financial statements to get a far better understanding of firm's position and performance with regards to the flow of cash and cash equivalents during a period of time. Analysis of Cash flow statement enables the investors and creditors to evaluate past and current performance, financial position, and to predict future performance. Cash flow statement is used to judge the liquidity and financial soundness of a business enterprise.

Cash flow analysis may be used internally to evaluate potential investment prospects and aid in decision making with relation to the use of cash and cash equivalents of the business. Analysis of the cash flow statement is done between the two companies i.e., KHADIM INDIA LIMITED and LIBERTY SHOES LIMITED from 2015 – 2016 to 2019 – 2020. The analysis is based on the information provided by the firm itself in its annual report and required disclosures. The annual report includes the income statement, the balance sheet, and the statement of cash flows, amongst other requirements of the laws and regulations prevailing at the time.

With the information available, analysis and interpretations have been drawn in order to identify the movement of cash, use of cash and cash equivalents during the period and liquidity position of the business enterprise. The results so obtained have been represented in pictorial forms and simple terms for the users to have a far better understanding of the Cash flow statement.

3. OBJECTIVES OF STUDY

- To examine the statement of information of **Khadim India Limited** and **Liberty Shoes Limited** through cash flow statement which classifies cash flows during the period of operation into operating, investing, and financing activities.
- To understand the relationship of cash with other components using ratio analysis during the period.

4. RESEARCH METHODOLOGY

This is an analytical study of cash flow statement for the term of five years of **Khadim India Limited** and **Liberty Shoes Limited**. The research was performed using the secondary data collected from various websites, articles, journals, books, etc.

5. RESEARCH DESIGN

The research design utilized in the problem was analytical research. The data thus obtained will be analyzed, interpreted and tabulated and also the tools like bar, graph, etc., are applied therefore, the calculated information is in accordance with the predefined standard of precision.

5.1 Method of data collection

Data is collected through secondary data like the annual report of the company, journals, magazines and books. Variables are collected from the profit and loss account and balance sheet of the selected company for the period of five financial years.

5.2 Source of data collection

This study relies on the secondary data. The specified data are collected from the company official website and related websites.

5.3 Tools and techniques used

- Mean
- Ratio analysis

6. REVIEW OF LITERATURE

B. Padma Sri, (2017) in her study "Cash Flow Statement Analysis with Special Reference to Jet Airways", has identified how the cash and cash equivalents has been used in the firm, if the cash inflow is lesser than the cash outflow then the company has used its cash and cash equivalents in such a way to get the gains for the company and if it is higher than the cash outflow then the company faces the loss. She also found that the company has no effect on the foreign exchange fluctuation, cash and cash equivalents of subsidiaries under liquidations. The aircrafts of Jet Airways are gradually increased during the period of study.

Amah and et al, (2016) carried out a study on "Relationship of cash flow ratios and financial performance of listed banks in emerging economies – Nigeria example". This study established an important and positive relationship exist between operating cash flow and performance of Banks in Nigeria. Also, the research came to an end that negative cash flow generated from investment activities and financing activities associated weak corporate governance are capable of decreasing the Banking sector performance.

Mangayarkkarasi Muthuvelan, (2015) carried out a study on Cash Flow analysis in m/s. Pantaloon Retail (India) limited". They have attempted to analysis the cash flow in Pantaloon Retail (India) Limited. Their study is an analytical research. Analytical research includes analysis of information to make difficult evaluation. It identifies variables and tries to form relationship between them. This study is supported secondary data. They focused on the statement of cash flows that recasts the financial statement data provided by the accrual process. They discussed the utilization and analysis of the data provided by the cash flow statement. According to them many users preferred direct method while only few of them considered the indirect method.

7. ANALYSIS AND INTERPRETATION

7.1 Mean

The arithmetic means or simply the mean or the average, is the sum of a set of numbers divided by the count of numbers within the collection. The collection is often a set of results of an experiment or an observational study, or frequently a collection of results from a survey.

$$\text{Mean / Average} = (A_1 + A_2 + A_3 + \dots + A_n) / \text{No. of Years}$$

Table 1: Mean of operating activities (Rupees in millions)

Financial Year	Operating activities	
	Khadim India Limited	Liberty Shoes Limited
2015-2016	₹ 498.61	₹ 389.90
2016-2017	₹ 309.07	₹ 207.12
2017-2018	₹ 141.29	₹ 321.97
2018-2019	₹ (107.13)	₹ 286.68
2019-2020	₹ 571.30	₹ 1,529.12
TOTAL	₹ 1,413.14	₹ 2,734.79
AVERAGE	₹ 282.63	₹ 546.96
RANK	2	1

SOURCE: Annual Report of Khadim India Limited & Liberty Shoes Limited

Interpretation: Cash flow from operating activities represent the operating efficiency of the company in performing its day-to-day work. It includes the different factors of the operation of a business, including the effect of non-cash and non-operating items of a financial statement and the changes in the working capital of the company. Accordingly, positive cash flow in operating activities of the company shall provide a basis of reliance on the company's ability to manage its cash and cash equivalents in an effective and efficient manner. From the table, it can be seen that the average of cash flow from operating activities of LIBERTY SHOES LIMITED is higher than that of KHADIMINDIA LIMITED. Theoretically higher the average, higher are the rank and vice versa. So, LIBERTY SHOES LIMITED is given 1st rank and KHADIM INDIA LIMITED is given 2nd rank.

Table 2: Mean of investing activities (Rupees in millions)

FINANCIAL YEAR	INVESTING ACTIVITIES	
	KHADIM INDIA LIMITED	LIBERTY SHOES LIMITED
2015-2016	₹ (112.06)	₹ (160.25)
2016-2017	₹ (187.80)	₹ (81.93)
2017-2018	₹ (59.35)	₹ (105.43)
2018-2019	₹ (153.57)	₹ (109.20)
2019-2020	₹ (151.12)	₹ (1,186.88)
TOTAL	₹ (663.90)	₹ (1,643.69)
AVERAGE	₹ (132.78)	₹ (328.74)
RANK	1	2

SOURCE: Annual Report of Khadim India Limited & Liberty Shoes Limited.

Interpretation: Cash flow from investing activities provides an account of cash used in the purchase of non-current assets or long-term assets, that will deliver value in the future or the cash earned from previous endeavors of the business organisation like interest or dividend from investments made. Generally, cash flows from investing activities are negative as there is outflow of cash. This can be viewed as good sign if the company has made the right choice in investing in long term assets which shall generate future cash flows for the business. Although cash out flow from investing activities are not bad, but for the evaluation of the organisation performance in managing its cash flows, it has been considered to be devaluing factor while assessing the average of cash flows. Accordingly, KHADIM INDIA LIMITED is given 1st rank and LIBERTY SHOES LIMITED is given 2nd rank.

Table 3: Mean of financing activities (Rupees in millions)

FINANCIAL YEAR	FINANCING ACTIVITIES	
	KHADIM INDIA LIMITED	LIBERTY SHOES LIMITED
2015-2016	₹ (336.43)	₹ (224.91)
2016-2017	₹ (126.44)	₹ (119.75)
2017-2018	₹ 396.55	₹ (207.11)
2018-2019	₹ (171.27)	₹ (190.98)
2019-2020	₹ (258.34)	₹ (368.44)
TOTAL	₹ (495.93)	₹ (1,111.19)
AVERAGE	₹ (99.19)	₹ (222.24)
RANK	1	2

SOURCE: Annual Report of Khadim India Limited & Liberty Shoes Limited.

Interpretation: Cash flow from financing activities focuses on how a firm raises its capital and pay back its debts. A positive cash flow shows that cash has come into the firm, which boosts its asset levels. A negative cash flow indicates when the company has paid out capital, such as retiring or paying off long-term debt. Theoretically, higher the average, higher are the rank and vice versa. But, in the situation of evaluating the company's performance in the management of its cash component, lower the average of out flow of cash is better. Thus, KHADIM INDIA LIMITED is given 1st rank and LIBERTY SHOES LIMITED is given 2nd rank.

7.2 Cash Flow Based Ratios

Cash flow ratios compare cash flows to other elements of an entity's financial statements. They are a vital element of any analysis that seeks to know the liquidity of a business. Cash flow ratios are especially significant when evaluating companies whose cash flows diverge substantially from their reported profits.

- **Liquidity Ratio:** A liquidity ratio is a financial ratio that indicates whether a company's current assets are sufficient to satisfy the company's obligations after they become due. It enables us to examine the strength or weakness of the firms in terms of its ability to meet its short-term debts.
- **Cash to Short Term Debt Ratio:** This ratio is a form of coverage ratio and can be used to determine the duration it would take for an organization to repay its debt if it devotes all of its cash flows towards the repayment of short term debt. It shows the liquidity position of the company during the period.

$$\text{Cash to Short Term Debt} = \text{CFFO} / \text{Short Term Debt}$$

Table 4: Cash to short term debt ratio (Rupees in millions)

FINANCIAL YEAR	KHADIM INDIA LIMITED			LIBERTY SHOES LIMITED		
	CFFO	SHORT TERM DEBT	CASH TO SHORT TERM DEBT	CFFO	SHORT TERM DEBT	CASH TO SHORT TERM DEBT
2015-2016	₹ 498.61	₹1751.26	0.28	₹ 389.90	₹ 2,186.73	0.18
2016-2017	₹ 309.07	₹2174.21	0.14	₹ 207.12	₹ 2,471.76	0.08
2017-2018	₹ 141.29	₹2148.51	0.07	₹ 321.97	₹ 2,268.42	0.14
2018-2019	₹ (107.13)	₹2562.89	(0.04)	₹ 286.68	₹ 2,189.52	0.13
2019-2020	₹ 571.30	₹3152.57	0.18	₹ 1,529.12	₹ 3,397.43	0.45

SOURCE: Annual Report of Khadim India Limited & Liberty Shoes Limited.

Interpretation

- **KHADIM INDIA LIMITED:** The above table shows that the Cash to Short term debt ratio is reducing during the start of the period of study. This is because of the reduction in the cash flow from operating activities over the years. Another reason for the fall in the ratios is the increase in the short-term debt throughout the years. In the year 2018-19 it has drastically fallen to -0.04 as a result of the negative cash flow from operating activities. Subsequently in the year 2019-20 has increased as a result of increase in cash flow from operating activities while the short-term debt during the period has also increased significantly.
- **LIBERTY SHOES LIMITED:** The above table shows that the Cash to Short term debt ratio is decreasing in the beginning from year 2015-16 to year 2016-17 as a result of decrease in the cash flow from operating activities and an increase in the short-term debt during the years. It stabilized in the next two years i.e. 2017-18 & 2018-19 because of an increase in the cash flow from operating activities and also a decrease in the short-term debts. In the year 2019-20, it has extremely increased to 0.45 as there is a steep increase in the cash flow from operating activities.

7.3 Cash to Sales Ratio

The cash to sales ratio is used to identify the ability of the company's capacity to generate cash flow in comparison to its sales volume. This ratio helps the users of the financial statements to have an understanding of the entity's turnover and cash flow from operating activities. It is calculated by dividing operating cash flows by net sales.

$$\text{Cash to Sales} = \text{CFFO} / \text{Turnover}$$

Table 5: Cash to sales ratio (Rupees in millions)

FINANCIAL YEAR	KHADIM INDIA LIMITED			LIBERTY SHOES LIMITED		
	CFFO	TURN OVER	CASH TO SALES RATIO	CFFO	TURNOVER	CASH TO SALES RATIO
2015-2016	₹ 498.61	₹ 5294.93	0.09	₹ 389.90	₹ 4,706.59	0.08
2016-2017	₹ 309.07	₹ 6,038.24	0.05	₹ 207.12	₹ 5,189.08	0.04
2017-2018	₹ 141.29	₹ 7,411.70	0.02	₹ 321.97	₹ 5,503.08	0.06
2018-2019	₹(107.13)	₹ 7,910.38	(0.01)	₹ 286.68	₹ 6,011.72	0.05
2019-2020	₹ 571.30	₹ 7,612.80	0.08	₹1,529.12	₹ 6,495.42	0.24

SOURCE: Annual Report of Khadim India Limited & Liberty Shoes Limited.

Interpretation

- **KHADIM INDIA LIMITED:** From the above table it is evident that the Cash to Sales ratio in the years 2015-16 is falling throughout the years in the period of study. The reasons for the same can be attributed to the gradual fall in the cash flows from operating activities while there is a visible increase in the sales during the period. Further, it has fallen to -0.01 as a result of the

negative cash outflow from operating activities during the year 2018-19 and in the year 2019-20, it has increased to 0.08 as a result of increase in the cash flow from operating activities.

- **LIBERTY SHOES LIMITED:** From the above table it can be seen that the Cash to Sales ratio is fluctuating at a similar range between the period 2015-16 to 2018-19 as a result of the fluctuation in the cash flow from operating activities while the turnover in the said period also fall in a similar range. In the year 2019-20 it has drastically increased to 0.24 as a result of increase in the cash flow from operating activities in that year i.e. Rs.1529.12.

7.4 Cash to Assets Ratio

The cash to assets ratio aims in evaluating the proportion of a company's cash and cash equivalents in terms of cash flow from operating activities to cover its total assets. It is often used to analyse funds and investment trusts.

$$\text{Cash to Assets} = \text{CFFO} / \text{Total Assets}$$

Table 6: Cash to asset ratio (Rupees in millions)

FINANCIAL YEAR	KHADIM INDIA LIMITED			LIBERTY SHOES LIMITED		
	CFFO	TOTAL ASSETS	CASH TO ASSETRATIO	CFFO	TOTAL ASSETS	CASH TO ASSETRATIO
2015-2016	₹ 498.61	₹ 3523.00	0.14	₹ 389.90	₹ 3,892.74	0.10
2016-2017	₹ 309.07	₹ 4,051.40	0.08	₹ 207.12	₹ 4,249.23	0.05
2017-2018	₹ 141.29	₹ 4,896.53	0.03	₹ 321.97	₹ 4,136.36	0.08
2018-2019	₹ (107.13)	₹ 5,497.99	(0.02)	₹ 286.68	₹ 4,195.84	0.07
2019-2020	₹ 571.30	₹ 6,984.65	0.08	₹ 1,529.12	₹ 6,419.82	0.24

SOURCE: Annual Report Of Khadim India Limited & Liberty Shoes Limited.

Interpretation

- **KHADIM INDIA LIMITED:** Through the observation of the Cash to Asset ratio over the years of study, it can be seen that the ratio is falling since 2015-16 as the cash flow from operating activities in the said period continues to fall in contrast to a continuous increase in the total assets of the company. The ratio sees a fall of -0.02 as a result of the negative cash outflow from operating activities during the year 2018-19. It is also visible that in the year 2019-20 it has increased to 0.08 due to the increase in the company's cashflow from operating activities as well as the total assets during the year.
- **LIBERTY SHOES LIMITED:** From the above table it has been noticed that the Cash to Asset ratio is fluctuating between the period 2015-16 to 2019-20 as a result of the fluctuating cash flows from the operating activity of the company. It has first decreased then slowly increased. Another contributing reason is the constant increase in the total assets of the company during the years. In the year 2019-20 it has drastically increased to 0.24 as a result of increase in the cash flow from operating activities in that year i.e. Rs.1529.12.

8. FINDINGS

8.1 Mean

From the average of cash flow from operating activities it can be seen that the LIBERTY SHOES LIMITED is higher than that of KHADIM INDIA LIMITED. Considering the average of investing as the situation is totally different for investing financing activities as it is negative. Accordingly, KHADIM INDIA LIMITED is given 1st rank and LIBERTY SHOES LIMITED is given the 2nd rank accordingly

8.2 Cash Flow Based Ratio

Liquidity Ratio:

- **KHADIM INDIA LIMITED**
The cash to short term debt ratio is fluctuating over the years. In the year 2018-19 it has drastically fallen to -0.04 as a result of the negative cash flow.
- **LIBERTY SHOES LIMITED**
The cash to short term debt ratio is decreasing in the beginning and as stabilized in the next two years i.e. 2017-18 & 2018-19. And has them later drastically increased in the year 2019-20 to 0.45.

Cash to sales and asset ratios

- **KHADIM INDIA LIMITED**
The Cash to Sales ratio in the years 2015-16 is falling over the years, it has drastically fallen to -0.01 as a result of the negative cash outflow from operating activities during the year 2018-19. Through the Cash to Asset ratio over the years of study, it can be seen that since 2015-16 is falling over the years, to a deep fall to -0.02 as a result of the negative cash outflow from operating activities during the year 2018-19. It is also visible that in the year 2019-20 it has increased to 0.08.
- **LIBERTY SHOES LIMITED**
The Cash to Sales ratio is at a similar zone between the period 2015-16 to 2018-19. In the year 2019-20 it has drastically increased to 0.24 as a result of increase in the cash flow from operating activities in that year i.e. Rs.1529.12. Through the Cash to Asset ratio is fluctuating between the period 2015-16 to 2019-20. It has first decreased then slowly increased. In the year 2019-20 it has drastically increased to 0.24 as a result of increase in the cash flow from operating activities in that year i.e. Rs.1529.12.

9. SUGGESTION

- They (Khadim India Limited & Liberty Shoes Limited) can use software to track their inflows and outflows of cash and cash equivalents in regular short intervals.
- They shall focus on reviewing and reducing cost of the businesses while not compromising on their requirements.
- They may try encouraging for payments from their debtors as the same shall constitute in better cash flow from operating activities.
- It shall also be considered that they are consistent with the application of accounting policy & practices as change in the same shall result in adjustments under the non-cash items and thus significantly affect the cash flow from operating activities.
- Making payments or repayments of the liabilities are important for businesses as they will result reduction of the outstanding liabilities, this will result in cash outflow from financing activities and are considered good for the organisation is paying off their debts.
- Purchase or sale of non-current assets shall be of major concern to the organisation as they will have huge impact on the cash flow statement of the company. Thus, it is important for the company to not frequently indulge in such transactions as they may misguide the users of financial statements in thinking that the company is not confident about its scale or size of operations.
- The company shall concentrate on better compliance of the laws and regulations as that will create a sense of confidence and reliability in the minds of the users of financial statements on the company.

10. CONCLUSION

This project, “**CASH FLOW ANALYSIS: COMPARATIVE STUDY ON KHADIM INDIA LIMITED AND LIBERTY SHOES LIMITED**” using mean, ratio analysis and trend analysis gives a brief knowledge and experience of how to analyze the cash flow position of the firm. The research includes the performance of the cash flow for the past five financial years from the 2015-2020. On a final note, it is concluded that KHADIM INDIA LIMITED and LIBERTY SHOES LIMITED has a decent cash flow position. Although, there is enough room for improvement and further strengthening of its cash flow position. The trend analysis reflected a moderate level of performance as there were fluctuations during the years, but the trend line showed a stable level of improvements towards the end of the study, thus, it can be expected that there will be an increase in cash flow in the years to come. It can be said that with more focus and efficient use of the cash and cash equivalents of the company, a better cash flow position can be attained.

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