Determinants of current ratios: a study with reference to companies listed in Bombay stock exchange

Krishnankutty, Raveesh and Chakraborty, K. S.
ICFAI University Tripura

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By

Raveesh krishnankutty[1]

Dr. K.S. Chakraborty[2]

Abstract

Current ratio measures the liquidity and margin of safety that companies maintain in order to allow for the inevitable unevenness in the flow of funds. The present study examines the trend and determinants of current ratios of listed companies in India using panel least square with fixed and random effect. The analysis is based on data collected from 219 companies of Bombay Stock Exchange 500 index. The study evaluated the determinants of current ratios and trend in sector wise as well as sample taken as a whole. The result of the study shows current ratio is showing a negative trend in last decade. Receivable days, payable days, inventory days and size of the firm are the major determinant of current ratio. Inventory turnover does not have any impact for determine current ratio.

Key words: current ratio, liquidity, panel least square, inventory turnover, receivable days.

JEL Classification Code: C13, C23, M41

1. Introduction

Current ratio which provide the best single indicator which the claims of short term creditors are covered by assets that are expected to be converted to cash in a period roughly corresponding to the maturity of the claims. This is the most commonly used ratio in the analysis of financial statements. It gives the analyst a general picture of the adequacy of the working capital of company and of the company's ability to meet its day to day payment obligations. As current obligation and commitments are directly related to working capital, this ratio is aptly called working capital ratio.

Current ratio is not only the measure of the company's liquidity but also is a measure of the margin of safety that management maintains in order to allow for the inevitable unevenness in the flow of funds through the current asset and liability accounts (Anthony at el., 2010) The current ratio is the true indicator of liquidity since it considers the overall magnitude of each fund (Gitman, 2005). It is a relative measure of liquidity which can be used for the purpose of inter-firm comparison. Thus this ratio is generally recognised as the patriarch among ratios.

[1] Management Research Scholar, Faculty of Management, ICFAI University Tripura, Kamalghat Sadar, Tripura west, Agartala, Tripura , India-799210 Email: raveeshbabu@gmail.com

[2] Regional Director, Indira Gandhi National Open University, Agartala Regional Centre, Tripura, India. Email: ksc_agartala@rediffmail.com

Current ratio measures the firm's liquidity. Liquidity ratios are generally based on the relationship between current assets and current liability. Current assets are the sources of meeting short term obligations. Include cash, current investment, debtors, inventories, loans and advances and prepaid expenses. Current liabilities represent the liabilities that are expected to mature within one year. These comprise of creditors, other current liabilities and provision, short term loans. (Chandra, 2008). The ideal current ratio is 2:1 (Pandey, 2010; Chandra, 2008), But in the recent decades in the presents of high competition in the market a number of firms have tried to achieve a zero or even a negative. So interpreting the current ratio at present is very difficult.

The trend of current ratios of the selected large companies, sector wise as well as sample companies taken as a whole, listed in Bombay Stock Exchange during the period 2001 –2010 are shown in table.1

Table 1: Sectoral Average of Current Ratio

Sectors	01	02	03	04	05	06	07	08	09	10
Total Sample as a whole	1.50	1.44	1.37	1.26	1.29	1.34	1.39	1.45	1.38	1.39
Agriculture	2.27	2.19	2.00	2.14	1.83	1.96	2.26	1.90	1.53	1.98
Capital Goods	1.68	1.60	1.53	1.47	1.51	1.49	1.42	1.39	1.38	1.33
Chemical & petro chemical	1.65	1.54	1.54	1.43	1.49	1.46	1.62	1.45	1.30	1.24
FMCG	1.15	1.15	1.10	1.01	1.09	1.13	1.24	1.25	1.41	1.24
Healthcare	2.54	2.54	2.33	2.23	2.31	2.64	2.49	2.22	1.91	1.96
Housing related	1.60	1.55	1.36	1.49	1.32	1.52	1.75	2.15	2.14	2.18
Metal & metal products & mining	1.15	1.10	0.97	0.99	1.29	1.49	1.81	1.65	1.60	1.74
Miscellaneous	1.55	1.51	1.44	0.63	0.60	1.42	1.79	1.56	1.71	1.74
Oil & gas	1.51	1.37	1.24	1.29	1.21	1.20	1.18	1.38	1.20	1.23
Power	1.96	2.32	2.83	1.72	1.94	1.73	1.61	1.52	1.51	1.56
Transport equipment	1.63	1.44	1.30	1.09	1.18	1.22	1.21	1.08	1.14	0.96

From the above table.1 it is evident that except agriculture and healthcare all the other sectors as we all as sample taken as a whole, for all most all periods (periods taken for the analysis) are below the ideal ratio. In this context the study investigate the potential determinants of current ratio of sample companies as a whole and industry wise in particular Bombay Stock Exchange 500 companies and for examine the trend of current ratios in sector wise as well as sample taken as a whole. For understanding how well the companies are maintain the current ratio.

The result of the trend analysis shows that overall the current ratio showing a negative trend over the last decade and it is evident in the majority (7 out of 10) of the sector under study. Overall the study shows that Receivable days, payable days, inventory days and size of the firm are the major determinant of current ratios. But determents of current ratio is varies from sector to sector.

2. Methodology and data analysis

2.1 Data and source

The study is dealing with the large, in terms of market capitalization as determined by Bombay Stock Exchange, public limited companies listed in BSE 500 index. The period considered for the study is ten years i.e., 2001 – 2010. The study evaluated the determinants of current ratios and trend in sector wise as classified by Bombay Stock Exchange as well as sample companies taken as a whole. The banking, finance and IT companies are kept out of the scope of the study as the current assets and liabilities structure of these companies are different from others. More over the classified sectors having inadequate number of companies (less than 10 companies) and non availability of data of companies continuously for entire study period are kept out of the scope of the study for meaningful interpretation and comparison. Thus the total numbers of companies considered in the present study is 219. Table 2 is showing the sector wise number of companies selected for the study.

Table 2: sector wise the number of sample companies taken

Sl.No	Sector	No. Of. Companies
1	Agriculture	16
2	Capital Goods	35
3	Chemical & petro chemical	12
4	FMCG	17
5	Healthcare	28
6	Housing related	27
7	Metal & metal products & mining	26
8	Miscellaneous	11
9	Oil & gas	17
10	Power	10
11	Transport equipments	20
Total		219

Source: author's calculation

2.2 Variables used for the study

Current ratio : current assets/ current liability

Receivable days : (Accounts receivable X 365)/ sales.

Payable days : (Accounts Payable X 365)/ Sales.

Inventory turnover: sales/ inventory.

Size : natural logarithm of sales

Inventory days : (inventory X 365)/Sales

2.3 Model specification

There are three types of panel data models: a pooled Ordinary Least Squire (OLS) regression, panel model with random effects and the panel model with fixed effects. Considering the previously defined determinants of debt used in this study, the evaluation of a pooled OLS regression can be presented in the following way:

$$CR_{it} = \beta_0 + \beta_1(INVDAYS_{it}) + \beta_2(ARDAYS_{it}) + \beta_3(APDAYS_{it}) + \beta_4(SIZE_{it}) + \beta_5(INVTURN_{it}) + +\varepsilon_{it}, \ldots\ldots\ldots\ldots\ldots(1)$$

Where *i* indexes firms, *t* indexes time, CR_{it} is current ratio proxy for current ratio. $INVDAYS_{it}$ is inventory days (Stocks * 365)/Sales), $ARDAYS_{it}$ is Receivable days (Accounts Receivable * 365)/Sales), $SIZE_{it}$ is size (Logarithm of Total Sales), $APDAYS_{it}$ is payable days (Accounts Payable * 365)/Sales), $INVTURN_{it}$ is inventory turnover (sales/inventory), and ε_{it} is the error term which is assumed to have a normal distribution and varies over both firm and time. However, by using a pooled OLS regression, firms' unobservable individual effects are not controlled, and so, as Bevan and (Danbolt, 2001) conclude, heterogeneity, a consequence of not considering those effects, can influence measurements of the estimated parameters. While by using panel models of random or fixed effects, it is possible to control the implications of firms' non-observable individual effects on the estimated parameters. Therefore, by considering the existence of non-observable individual effects, we have:

$$CR_{it} = \beta_0 + \beta_1(INVDAYS_{it}) + \beta_2(ARDAYS_{it}) + \beta_3(APDAYS_{it}) + \beta_4(SIZE_{it}) + \beta_5(INVTURN_{it}) + +u_{it}, \ldots\ldots\ldots\ldots\ldots(2)$$

Where $u_{it} = \mu_i + \varepsilon_{it}$, with μ_i being firms' unobservable individual effects. The difference between a polled OLS regression and a model considering unobservable individual effects lies precisely in μ_i.

However, there may be correlation between firms' unobservable individual effects and current ratio determinants. If there is no correlation between firms' unobservable individual effects and Current ratio determinants, the most appropriate way of carrying out evaluation is by using a panel model of random effects. If there is correlation between firms' individual effects and Current ratio determinants, the most appropriate way of carrying out evaluation is using a panel model admitting the existence of fixed effects. For testing the possible existence of correlation, we use the Hausman test. This tests the null hypothesis of non-existence of correlation between unobservable individual effects and the explanatory variables, in this study, Current ratio determinants, against the null hypothesis of existence of correlation. By not rejecting the null hypothesis, we can conclude that correlation is not relevant, and a panel model of random effects is the most correct way of carrying out evaluation of the relationship between current ratio and its determinants. On the other hand, by rejecting the null hypothesis, we conclude that correlation is relevant, and so the most appropriate way to carry out evaluation of the relationship between current ratio and its determinants is by using a panel model of fixed effects.

3 Result

3.1 Trend Analysis

We have analyzed the time trends in sector wise to find any variations are there between the sectors. We have checked the time trend for all variables using the following model:

$$Y_t = \beta_0 + \beta_1 * t + U_t \quad - (3)$$

Here Y_t is the sectoral average of current ratio for each sector't' is time taking the vales 1-10. β_1 representing the slope coefficient. β_0 is the constant.

Table 3: Result of Regression analysis

Sector	Variables	Beta	Std.Error	F-value	AdJ-Rsqure
Sample taken as a whole	Constant	1.400***	0.052	0.170	-.102
	Time	-0.003	0.008		
Agriculture	Constant	2.247***	0.132	4.253*	.265
	Time	-.044*	0.021		
Capital Goods	Constant	1.665***	0.022	87.935***	0.906
	Time	-0.034	0.004		
Chemical & petro chemical	Constant	1.648***	0.061	10.481**	0.513
	Time	-0.032**	0.010		
FMCG	Constant	1.040***	0.060	6.667**	.386
	Time	0.025**	0.010		
Healthcare	Constant	2.619***	0.131	6.767**	0.391
	Time	-0.055**	0.021		
Housing related	Constant	1.230***	0.149	13.019***	0.572
	Time	0.087***	0.024		
Metal & metal products & mining	Constant	0.883***	0.118	22.576***	0.706
	Time	0.090***	0.019		
Miscellaneous	Constant	1.128***	0.292	1.062	0.007
	Time	0.049	0.047		
Oil & gas	Constant	1.393***	0.063	3.950*	0.247
	Time	-0.020*	0.010		
Power	Constant	2.415***	0.214	8.277**	0.477
	Time	-0.099**	0.034		
Transport equipment	Constant	0.076***	0.076	19.174***	0.669
	Time	-0.054***	0.012		

Note: ***, **, and *denote significance at 1, 5 and 10 percent level of significance respectively

Source: author's calculation

The trend of sample taken as whole not showing any kind of significance but the coefficient is negative. The result of F- test shows that overall model is fit 10 out of 11 sectors. Only in case of Miscellaneous model is not significant.7 out of 10 sector times is negatively

significant (Agriculture 10percent, Chemical & petro chemical 5percent, Healthcare 5percent Oil& gas 10percent Power 5 percent and Transport and equipment 1 percent.) And 2 sectors it is positively significant (, FMCG 1percent, Metal & metal products & mining 1percent and Housing related1percent).

3.2 Panel least square with fixed and random effect

Before conducting regression analysis, correlation analysis was carried out in order to find out whether there is any evidence of severe multicollinearity among the test variables. Since we do not find evidence of multicollinearity (see appendix 1), regression analysis has been carried out with incorporation of all variables simultaneously. First, we present the results of the static panel model analysis. Results of panel data models with random and fixed effects have been presented in table 4

Table 4: panel least square with fixed and random effects

Independent variable	Model 1: Fixed effect	Model 2: Random effect
Inventory days	-2.77e-06 ** (1.23e-06)	-2.43e-06 ** (1.22e-06)
Receivable days	.0014401*** (.0001272)	.0014783*** (.0001204)
Payable days	-.0023646 *** (.0004302)	-.002685*** (.0004175)
Inventory turnover	.0006767 (.0004606)	.0007622* (.0004493)
Size of the firm	.0466379 ** (.0243996)	-.0113669 (.0201238)
constant	1.285307*** (.1749616)	1.703352*** (.1542655)
Model summary		
R2 with in	0.0786	0.0758
R2 between	0.0525	0.1150
R2 overall	0.0643	0.0954
F- test	33..53***	
Wald chi^2		188.44***
Hausman test		26.14***
No.of firms	219	219
Total panel observation	2190	2190
Dependent variable : current ratio		

Notes: 1. The Hausman test has $\chi 2$ distribution and tests the null hypothesis that unobservable individual effects are not correlated with the explanatory variables, against the null hypothesis of correlation between unobservable individual effects and the explanatory variables. 2. The Wald chi2 has $\chi 2$ distribution and tests the null hypothesis of insignificance as a whole of the parameters of the explanatory variables, against the alternative hypothesis of significance as a whole of the parameters of the explanatory variables. 3. The F test has normal distribution N(0,1) and tests the null hypothesis of insignificance as a whole of the estimated parameters, against the alternative hypothesis of significance as a whole of the estimated parameters. 4. ***, **, and *denote significance at 1, 5 and 10 percent level of significance respectively.

Source: author's own calculation

From analysis of the results of the Wald and F tests, we can conclude that we cannot reject the null hypothesis that the explanatory variables do not explain, taken as a whole, the explained variable, and so the determinants selected in this study can be considered explanatory of the current ratio.

The results of the Hausman test show that we cannot reject the null hypothesis of absence of correlation between firms' unobservable individual effects and debt determinants. Therefore, we can conclude that the most appropriate way to carry out evaluation of the relationship between debt and its determinants is evaluation of a fixed effects panel model. So the study will interpret the result based on the fixed effect model.

Inventory days and payable days are negatively significant at 5percent and 1percent respectively. All other variable except inventory turnover are showing positively significant at 1percent.

For the better understanding about the determinants of level of current ration we have done individual sector wise analysis the result of the sector wise analysis are shown in the below tables table 5

Table: 5 the result of panel least square with fixed and random effects in sector wise

Independent variable	**Agriculture**		**Capital goods**	
	FE	RE	FE	RE
Inventory days	-.000186*** (.0000303)	-.000170*** (.000028)	-2.89e-06*** (1.25e-06)	-2.53e-06 ** (1.21e-06)
Receivable days	.0065338*** (.0008492)	.0061505 *** (.0007897)	.0050584*** (.00035)	.0052389*** (.0003155)
Payable days	-.006678*** (.0022564)	-.007632*** (.0019487)	-.006148*** (.0011655)	-.007359*** (.0010724)
Inventory turnover	.0008798** (.0003794)	.0010392*** (.0003486)	-.0022486 (.0024562)	-.0018718 (.0023968)
Size of the firm	-.0491788 (.075125)	-.135651*** (.0475009)	-.0080709 (.0366684)	-.0261158 (0323919)
constant	1.660833*** (.5519708)	2.332896*** (.3735217)	1.267502*** (.2713775)	1.43335 *** (.255178)
Model summary				
R2 with in	0.4024	0.3958	0.4846	0.4829
R2 between	0.6519	0.7440	0.5888	0.6125
R2 overall	0.5064	0.5499	0.5509	0.5672
F- test	18.72***		58.30***	
Wald chi2		129.93***		341.56***
Hausman test		4.20		9.67**
No.of firms	16	16	35	35
Total panel observation	160	160	350	350

Independent variable	**FMCG**		**Healthcare**	
	FE	RE	FE	RE
Inventory days	.0000122 (.0000242)	9.91e-06 (.0000239)	-2.53e-06 (8.41e-06)	-3.23e-06 (8.35e-06)
Receivable days	.006019 *** (.0016842)	.0053002*** (.0014779)	.000076 (.0028547)	.0024472 (.0022455)
Payable days	-.011069*** (0029259)	-.009190*** (.0025596)	-.016881*** (.006211)	-.020896*** (.0054582)
Inventory turnover	-.014036*** (.0052434)	-.013844*** (.0050803)	-.0616452 (.0578925)	-.0361363 (.0448429)

Size of the firm	-.1426947** (.055733)	-.115482 *** (.0450932)	.4208348*** (.1487548)	.1975674 (.1209558)
constant	2.604724*** (.4129994)	2.365518*** (.3529056)	.386751 (1.047315)	1.645669** (.8649777)
Model summary				
R2 with in	0.1914	0.1900	0.0662	0.0550
R2 between	0.3943	0.3978	0.0055	0.0945
R2 overall	0.2898	0.2930	0.0094	0.0711
F- test	7.00***		3.50***	
Wald chi2		42.27***		17.17***
Hausman test		2.17		8.21*
No.of firms			17	17
Total panel observation			170	170

Independent variable	**Chemical & Petrochemical**		**Housing related**	
	FE	FE	FE	RE
Inventory days	-.0001153 (.0002084)	-.0001153 (.0002084)	2.52e-06 (1.81e-06)	2.15e-06 (1.83e-06)
Receivable days	.003654 ** (.0016822)	.003654 ** (.0016822)	.001168*** (.0001388)	.001179 *** (.000128)
Payable days	-.008747*** (.0025891)	-.008747*** (.0025891)	-.0023595 ** (.0009546)	-.002075** (.0009066)
Inventory turnover	-.0199061 (.0123983)	-.0199061 (.0123983)	-.0017433 ** (.0008994)	-.0008177 (.0008239)
Size of the firm	-.1548922 ** (.0606831)	-.1548922 ** (.0606831)	.1678236*** (.0528821)	.0729754* (.044013)
constant	2.73103 *** (.4585918)	2.73103 *** (.4585918)	.609502* (.3469886)	1.15569 *** (.3129314)
Model summary				
R2 with in	0.2044	0.1967	0.2891	0.2776
R2 between	0.1537	0.2662	0.0133	0.1275
R2 overall	0.1667	0.2459	0.1505	0.2136
F- test	5.29****		19.36***	
Wald chi2		29.42***		90.92***
Hausman test		14.29**		63.58***
No.of firms	12	12	27	27
Total panel observation	120	120	270	270

Independent variable	**Metal products& Mining**		**Oil &Gas**	
	FE	RE	FE	RE
Inventory days	-.0000288* (.000017)	-.000045 *** (.0000158)	4.32e-06 (.0000113)	8.59e-06 (.0000106)
Receivable days	.0003791 (.0006983)	.0002243 (.0006968)	-.0013654 (.00175)	.0022116 (.0015541)
Payable days	-.0037857 (.0025313)	-.007468*** (.0024839)	-.0009909 (0006123)	-.001800*** (.000583)
Inventory turnover	.0143855 (.0159158)	.0145904 (.014944)	-.000603 (.0077164)	-.0075427 ** (.0031437)
Size of the firm	.1769921 ** (.0877014)	-.0207558 (.0760721)	-.293225 *** (.101548)	-.138855*** (.040131)
constant	.8280583 (.6638125)	2.48078 *** (.6188349)	4.134844*** (.8984885)	2.81325*** (.4274379)
R2 with in	0.0603	0.0381	0.0892	0.0488
R2 between	0.0023	0.4916	0.1958	0.5525
R2 overall	0.0168	0.1949	0.1165	0.2508

F- test	2.94**		2.90**	
Wald chi2		20.08***		332.60***
Hausman test		103.56***		18.70***
No.of firms	26	26	17	17
Total panel observation	260	260	170	170

Independent variable	**Power**		**Transport equipment**	
	FE	RE	FE	RE
Inventory days	-8.13e-06* (4.36e-06)	-7.33e-06* (4.43e-06)	-5.08e-06 (0000102)	-3.75e-06 (.0000104)
Receivable days	.003625*** (.0006877)	.0034921*** (.0006939)	.007490 *** (.0015271)	.008068*** (.0014575)
Payable days	-.005411** (.0021427)	-.006095*** (.002167)	-.015891*** (.0030148)	-.01608*** (.0028159)
Inventory turnover	-.0175105 (.0109107)	-.0221007** (.0105418)	.0350642*** (.0078496)	.019436 *** (.0069725)
Size of the firm	-.2038448* (.111316)	-.023325 (.0981922)	-.0456182 (.0445147)	-.0430388 (.040925)
constant	3.343701*** (.8532547)	2.079682*** (.7992599)	1.519184*** (.3989226)	1.63709 *** (.3756704)
Model summary				
R2 with in	0.3164	0.2941	0.2825	0.2666
R2 between	0.1667	0.0727	0.1470	0.3491
R2 overall	0.0162	0.1698	0.1829	0.3140
F- test	7.87***		13.97***	
Wald chi2		35.17***		73.88***
Hausman test		9.53**		20.22***
No.of firms	10	10	20	20
Total panel observation	100	100	200	200

Independent variable	**Miscellaneous**	
	FE	FE
Inventory days	.0000119 (.0000221)	.0000119 (.0000221)
Receivable days	.0064704 *** (.0015905)	.0064704 *** (.0015905)
Payable days	-.008074*** (.0026931)	-.008074*** (.0026931)
Inventory turnover	.0022364 (.0026711)	.0022364 (.0026711)
Size of the firm	.0152849 (.0634691)	.0152849 (.0634691)
constant	1.109354** (.5039464)	1.109354** (.5039464)
Model summary		
R2 with in	0.2088	0.1752
R2 between	0.0280	0.2176
R2 overall	0.0568	0.1740
F- test	4.96***	
Wald chi2		21.67***
Hausman test		11.01*
No.of firms	11	11
Total panel observation	110	110
Dependent variable: Current ratio		

Notes: 1. The Hausman test has $\chi 2$ distribution and tests the null hypothesis that unobservable individual effects are not correlated with the explanatory variables, against the null hypothesis of correlation between unobservable individual effects and the explanatory variables. 2. The Wald chi2 has $\chi 2$ distribution and tests the null hypothesis of insignificance as a whole of the parameters of the explanatory variables, against the alternative hypothesis of significance as a whole of the parameters of the explanatory variables. 3. The F test has normal distribution N(0,1) and tests the null hypothesis of insignificance as a whole of the estimated parameters, against the alternative hypothesis of significance as a whole of the estimated parameters. 4. ***, **, and *denote significance at 1, 5 and 10 percent level of significance respectively. 5. FE, RE denotes fixed effect and random effect respectively.
Source: author's own calculation

The result of Wald test and F- test shows that the overall model is fit. Except Agriculture and FMCG the result of Hausman test is significant. So the interpretation of the result will be based on random effect model in case of Agriculture and FMCG. All the other sector result will interpret on the basis of fixed effect model. Inventory days are negatively significant in sectors like Agriculture, Capital goods, Metal & metal products & mining and power as 1percent, 1percent, 10percent, and 10percent respectively. All other sector it is not showing any kind of significance. Except Healthcare, Metal & metal products & mining and Oil& gas receivable days are showing a positive significance(Agriculture 1percent, Capital goods 1percent, Chemical & petrochemical 5percent, FMCG 1percent, Housing related 1percent, Miscellaneous 1percent, Power 1percent and Transport equipment 1percent). In these sectors it is not showing any king of significance. Payable days are negatively significant at 1percent in case of Agriculture, Capital goods, Chemical & petrochemical, FMCG, Healthcare, Miscellaneous, and Transport equipment. And it is significant at 5percent in the case of Housing related and Power. Other sectors it doesn't have any impact (Metal & metal products & mining and Oil& gas). Inventory turnover showing non- significances 7 out of 11 sectors (Capital goods, Chemical & petrochemical, healthcare, Metal & metal products & mining and Oil& gas, Miscellaneous and Power). In case of Agriculture, FMCG and Transport equipment it is positively significant at 1percent. And housing related at 5percent. Size of the firm is showing different impact for different sectors. Sectors like Agriculture, Chemical & petrochemical, FMCG, Oil & gas and power are negatively significant at 1percent, 5percent, 1percent, 1percent, 1percent, and 10percent respectively. It is showing positive significance in case of healthcare, Housing related and Metal & metal products & mining as 1percent, 1percent and 5percent respectively and other sector it doesn't have any impact (Capital goods, Miscellaneous and Transport equipment). Constant is not showing any significance in case of Healthcare and Metal & metal products & mining. And in all other sectors it is positively significant.

4 Findings

1. In last decade majority (7 out of 10) of the sectors in the BSE 500 companies are showing a declining trend in current ratio. Overall it is not showing any impact on time.
2. Receivable days, payable days, inventory days and size of the firm are the major determinant of current ratio.
3. Inventory turnover does not have any impact for determine current ratio. Inventory days and payable days negatively and receivable days and size of the firm positively determine the current ratio.

4. In sector wise analysis inventory days shows negative determinants only for the 4 sectors (Agriculture, Capital goods, Metal & metal products & mining and power as 1percent, 1percent, 10percent, and 10percent respectively) in all other case it does not have any impact.
5. Receivable days are positively determine the current ration in majority of the sector (Agriculture 1percent, Capital goods 1percent, Chemical & petrochemical 5percent, FMCG 1percent, Housing related 1percent, Miscellaneous 1percent, Power 1percent and Transport equipment 1percent) other sectors it does not have any impact (Healthcare, Metal & metal products & mining and Oil& gas).
6. Payable days are showing negative significant 9 out of 11 sectors. Size of the firm is showing different impact on different sectors it varies from sector to sector. Inventory turnover has a positive impact on 4 sectors (Agriculture, FMCG and Transport equipment it is positively significant at 1percent. And housing related at 5percent) other cases not.

5 Conclusion

The study is evaluated the present trend of current ratio in Indian corporate sector based on the sample collected from Bombay Stock Exchange 500 index. The study shows that overall the current ratio showing a negative trend over the last decade and it is evident in the majority (7 out of 10) of the sector under study. Overall the study shows that Receivable days, payable days, inventory days and size of the firm are the major determinant of current ratios. But determents of current ratio is varies from sector to sector.

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Appendix 1

Result of correlation analysis.

	cr	invday	arday	apday	lnsales	invturn
cr	1.0000					
invday	0.0085	1.0000				
arday	0.2119	0.0284	1.0000			

apday	-0.1410	0.0089	0.2433	1.0000		
lnsales	-0.1761	-0.0424	-0.2769	-0.1613	1.0000	
invturn	0.0199	0.0012	-0.0038	0.0252	0.0363	1.0000