UNIDIMENSIONAL IMPACT OF LEVERAGE ON THE LIQUIDITY OF SELECTED CANADIAN COMPANIES OPERATING IN INDIA

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- **Leverage** is employment of debt fund or borrowed capital and it entails **fixed charges.**

- **Liquidity** is about **financial adequacy and strength of a firm** to be **able to meets its immediate (short-term) obligations has been measured through**
  1) **Current ratio**
  2) **Liquid ratio** or **Quick ratio** or **Acid test ratio**

- And Leverage , because it entails fixed charges, has a profound impact on a firm's Liquidity.

- In today's market conditions when the expectations of the Equity shareholders are rising, a company has to be able to **determine a judicious mix of debt funds and owned funds.**

STATISTICAL ANALYSIS

- Correlations and Regression Analysis as statistical tools have been used
- SPSS 18 edition

RESEARCH OBJECTIVES

- To study the **theoretical aspects of Financial Leverage and Liquidity**
- To **examine relationship between Financial Leverage and Liquidity of selected companies**
- To **investigate the actual impact of Financial Leverage on the Liquidity of selected companies**

HYPOTHESIS

- There is **no relationship between Financial Leverage and Liquidity of selected Canadian companies.**
- There is **no impact of Financial Leverage on the Liquidity of selected industries.**

LIMITATIONS

- The **accuracy of the study depends upon the accuracy of the financial data** of the respective company.
- The study covers **only financial information** and **ignores** completely **qualitative aspects**.
- The **ratio analysis** is the study of past financial records of the company. Such **past records may or may not prove to be useful** for future decision-making.
- **Different companies adopt different accounting methods** in respect of depreciation, valuation of closing stock, provision of debt etc. This can adversely affect their **uniformity and comparability**. The Price level fluctuation can't be ignored in the above study.
- **Accounting analysis** is based on **selected accounting ratios**.
- The use of **statistical techniques was restricted to Correlations and Regression Analysis.**

Selection Of Companies

For the purpose of this research, the **companies that have their origin in Canada and are currently successfully operating in India have been selected.** This research work is based on eleven years' data **(2004-05 to 2014-15)** of the selected companies. **For the years not spent in India, the data of the companies' performance in Canada are used to complete and facilitate data analysis.**

RATIOS	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
McCAIN FOODS LTD. (A)											
Current Ratio	1.5	1.71	1.66	1.64	1.81	1.96	2.44	2.15	2.12	2.09	2.10
Quick Ratio	1.14	1.23	1.17	1.19	1.28	1.43	1.86	1.67	1.58	1.46	1.67
BROOKFIELD ASSET MANAGEMENT INC. (A)											
Current Ratio	0.94	0.83	0.95	0.82	0.99	0.94	1.14	1.08	1.39	1.53	1.48
Quick Ratio	0.38	0.81	0.56	0.82	0.59	0.38	0.48	0.55	0.46	0.54	0.54
LEA GROUP HOLDINGS INC. (A)											
Current Ratio	0.59	0.65	0.6	0.51	0.6	0.61	0.72	0.61	0.58	0.69	1.15
Quick Ratio	0.43	0.56	0.85	0.74	0.67	0.45	0.55	0.57	0.51	0.61	0.69

R.V. ANDERSON ASSOCIATES LTD. (A)											
Current Ratio	1.04	1.16	1.36	1.38	1.25	1.08	1.11	0.87	0.88	0.73	2.11
Quick Ratio	1.08	1.07	1.09	1.31	1.23	1.32	1.66	1.29	1.27	1.34	1.58
CANADIAN TECHNOLOGIES & BUSINESS FACILITATORS INC. (B)											
Current Ratio	0.84	0.84	0.84	0.78	1.18	1.08	0.9	0.79	0.82	0.73	0.73
Quick Ratio	0.92	0.92	0.84	0.72	1.37	1.2	1.14	0.75	0.81	0.96	0.9
ELECTROVAYA INC. (B)											
Current Ratio	0.5	0.6	0.81	0.71	0.6	0.51	0.52	0.62	0.59	0.83	0.8
Quick Ratio	1.67	1	1.48	1.25	1.33	1.62	1.62	1.4	1.6	1.27	0.96

TARASPAN INC. (C)											
Current Ratio	0.5	0.4	0.41	0.44	0.47	0.55	0.67	0.76	0.74	0.68	0.72
Quick Ratio	0.67	0.92	1.08	1.88	2.5	1.61	1.8	2.08	1.99	1.85	1.57
PRAIRIE PULP & PAPER INC. (C)											
Current Ratio	2.15	3.16	2.59	3.42	1.3	1.19	0.88	0.79	0.79	1.02	1.98
Quick Ratio	1.73	1.97	1.62	2.05	2.34	2.66	2.34	2.52	1.92	1.17	1.15

ACCOUNTING ANALYSIS

- **Current Ratio: Group A, B and C** companies the **average Current ratios are 1.30, 0.98 and 0.93** respectively and **Debt-Equity ratios are 0.48, 0.53 and 0.51. Group C** companies have comparatively higher Debt-Equity ratio and yet their average Current Ratio is the lowest of all. **Group A** companies also enjoy a good working capital position and these companies have sufficient liquidity. Therefore, they can use these financial circumstances to opt for greater leverage and the debt so raised will not adversely affect the companies' liquidity position. **Group B and C** companies have lower Current Asset ratios and they have higher Debt-Equity ratios.
- **Quick Ratio: Group A, B and C** companies the average Quick ratios are **0.98, 1.71 and 0.97** respectively and **Debt-Equity ratios are 0.48, 0.53 and 0.51. Group B** companies have the highest debt ratio and yet their average Quick Ratio is the highest. Hence, these companies have sufficient liquidity and it follows that the debt raised has not hampered the companies' liquidity position. **Group A and C companies** have comparatively much **lower Quick ratio and have lower Debt-Equity ratio.**

STATISTICAL RESULTS OF CORRELATIONS AND REGRESSION ANLYSIS :

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	-.354(a)	.125	.115	.62711

a Predictors: (Constant), DEBTEQTY

ANOVA(b)

Model		Sum of Squares	df	Mean Square	F	Sig.
1	**Regression**	4.842	1	4.842	12.312	.0037(a)
	Residual	33.821	86	.393		
	Total	38.662	87			

a Predictors: (Constant), DEBTEQTY

b Dependent Variable: CurrRatio

Coefficients(a)						
		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
Model		B	Std. Error	Beta		
1	(Constant)	1.254	.101		12.450	.000
	DEBTEQTY	-.282	.080	-.354	-3.509	.0037

a Dependent Variable: CurrRatio

This model is appropriate in the context of the selected Canadian companies. **There is correlation between Leverage and Liquidity**. The **Regression model is appropriate.** The following equation is derived: Current Ratio = 1.254 – 0.282 (Debt-Equity Ratio). It is possible that some companies have reported adverse impact while others may have positive impact.

CONCLUSIONS

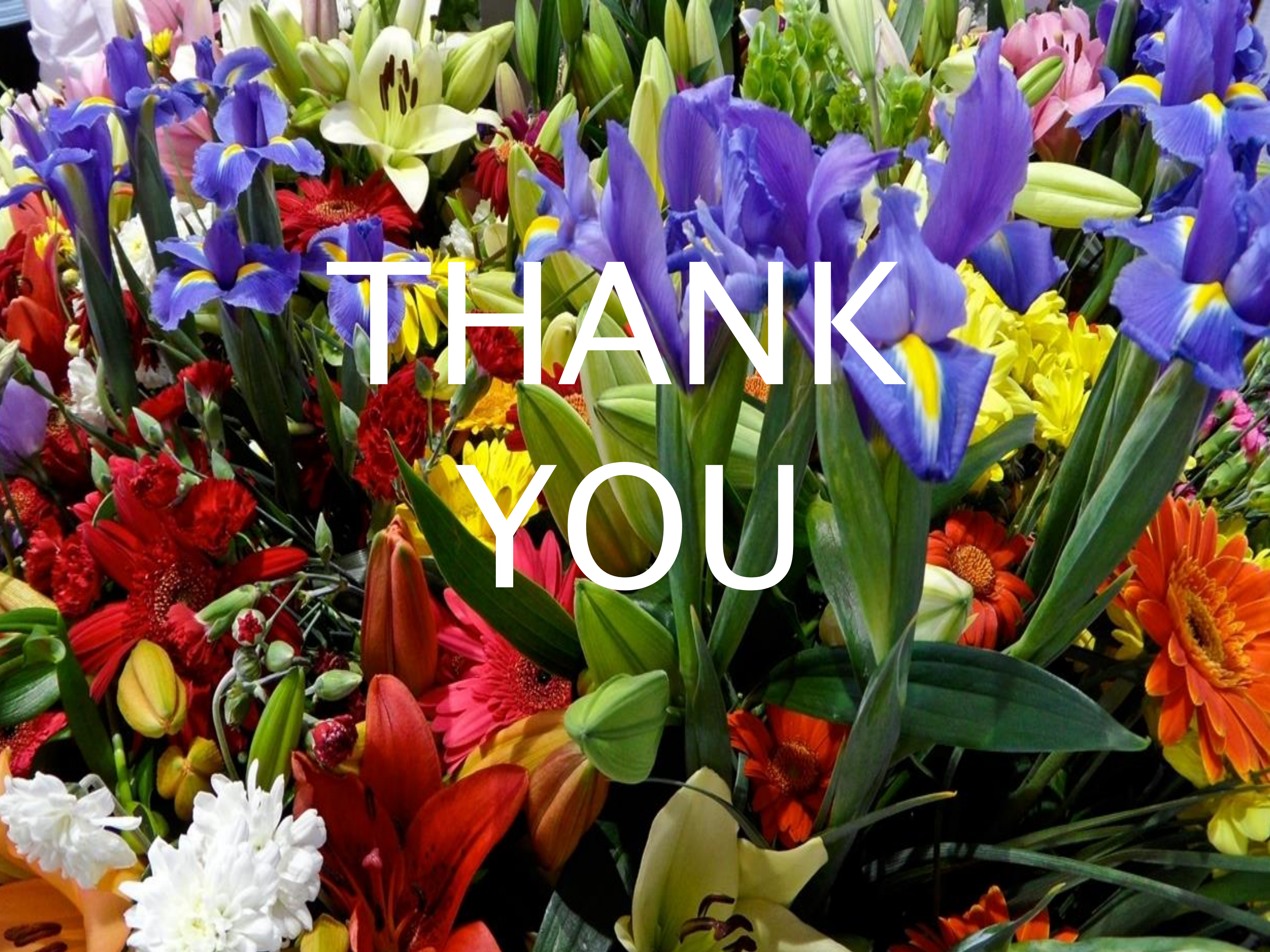
BASED ON ACCOUNTING ANALYSIS

- ✓ **Group A** companies have reported **good liquidity condition**. These companies have maintained their liquidity at optimum level **despite having contracted debt**.
- ✓ **Group B** companies have normal liquidity status which is also in accordance with expectation.
- ✓ **Group C** companies also have **acceptable liquidity position** but they need to manage debt even more gainfully and efficiently so that their liquidity does not suffer. **Group C companies are required to rejig and manage their liquidity still better to influence their profitability positively.**

BASED ON STATISTICAL ANALYSIS

- ✓ It is reported that the **overall impact of financial leverage on liquidity of the companies in this industry is negative**.

Notwithstanding all that, the investors can be suggested that if other parameters of performance in these companies are good or are found to be satisfactory, they should stay invested and wait and watch for reasonable amount of time before taking the final call.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