LIQUIDITY, RISK AND PROFITABILITY TRADE OFF - AN EMPIRICAL INVESTIGATION IN INDIAN CEMENT INDUSTRY

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ABSTRACT
For financing of current assets, a firm should decide upon two important constraints; firstly, the type of financing policy to be selected and secondly, the relative proportion of modes of financing. This decision is totally based on trade-off between risk and return. Aggressive policy of financing is less costly but risky, conservative policy financing is less risky but costly. Keeping these theoretical backgrounds in view, a modest attempt has been made to make an in-depth study in respect of liquidity management and liquidity, risk and profitability trade-off of Indian cement industry during the study period. The analysis of correlation between liquidity and profitability shows that there is a positive correlation in the case of Indian cement industry, Associated Cement Companies Limited, Chettinad Cement Corporation Limited, Dalmia Cement Limited, Madras Cements Limited and Shree Cement Limited. However, there is a negative correlation between liquidity and profitability in the case of Birla Corporation Limited, Grasim Industries Limited and India Cements Limited. Further, the analysis of correlation between risk and profitability shows that there is a positive correlation in the case of whole industry, Birla Corporation Limited, Grasim Industries Limited, India Cements Limited, Madras Cements Limited and Shree Cement Limited. However, there is a negative correlation in the case of Associated Cement Companies Limited, Chettinad Cement Corporation Limited and Dalmia Cement Limited. The result of the study shows the mixed trend with respect to liquidity, risk and profitability.

KEYWORDS: Liquidity, Risk, Profitability, Risk –Return Trade-off and Indian Cement Industry