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## **LIQUIDITY ANALYSIS OF CONSUMERS' COOPERATIVE WHOLESALE STORES IN TAMILNADU**

**(With reference to Erode and Nilgiris Districts)**

**Dr. X.L.X. Wilson**

Associate Professor, PG & Research Department of Cooperation, SRKV College of Arts & Science, Coimbatore.

**B. Santhi**

Research Scholar in Cooperation, SRKV College of Arts & Science, Coimbatore.

### **Abstract**

In a developing country like India where a large number of people are below the poverty line, the low income group is exploited by unscrupulous middlemen and merchants. Indian consumers are the victims of scarcity, both artificial and natural. The non-availability of essential goods at reasonable prices coupled with inferior quality adds to this problem. There was an urgent need for effective retail distribution of consumer goods, in both urban and rural areas. Thus, consumer co-operatives, which are basically organisations of the consumers, came into existence. They have taken the role of price stabilizer, quality controller and leader of the market over the years.

**Key Words:** Consumers, Cooperatives, Wholesale Stores, Price, Quality



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## **INTRODUCTION**

The consumer cooperatives in India were established to safeguard the consumers from unethical malpractices like adulteration, under weightage, poor quality of goods, duplicate goods, high prices, creation of artificial scarcity of goods, etc., of middlemen. According to cooperative economist Charles Gide, the aim of a cooperative wholesale society is to arrange “bulk purchases, and, if possible, organize production”.

However, a consumer cooperative whose ultimate goal is to protect the interest of consumers has come to occupy an important place in the distribution system of consumer articles. Consumer cooperatives came into existence mainly to safeguard the interests of consumers from the onslaughts of profiteering middlemen. Supplying the member-consumer with pure, unadulterated goods at reasonable price is the maxim of the consumer stores. They have taken the role of price stabilizer, quality controller and leader of the market over the years.

### **Development of Consumer Cooperative Movement in India**

In a developing country like India where a large number of people are below the poverty line, the low income group is exploited by unscrupulous middlemen and merchants. Indian consumers are the victims of scarcity, both artificial and natural. The non-availability of essential goods at reasonable prices coupled with inferior quality adds to this problem. There was an urgent need for effective retail distribution of consumer goods, in both urban and rural areas. Thus, consumer co-operatives, which are basically organisations of the consumers, came into existence.

Tamil Nadu is the pioneer of both the Cooperative and Consumer Movement in India. The first Consumer Cooperative Society was started in Tamil Nadu in the year 1904. The Indian Consumer Movement started from here. The institution first registered is known as the Triplicane Urban Cooperative Society. It is shortly called as TUCS. It is extending its services even today. The enactment of Cooperative Societies Act 1912 paved way to register number of non-credit cooperatives especially consumer cooperatives.



In 1919, on the basis of Montague-Chelmsford reforms, the subject cooperation became a Provincial (State) Subject and accordingly state laws were passed subsequently to enable the State Governments to effectively administer the cooperatives organized for various economic activities. Consumer Cooperatives in Tamil Nadu is managed by three tier structure. State Consumers' Cooperative Federations, Consumer Cooperative Wholesale Stores and Primary cooperative Stores are acting to serve the consumers.

- **State Consumer Cooperative Federations**

The State Consumers' Cooperative Federations (at Apex level), one in each State, have been established with the objective of coordinating the activities of wholesale stores, and serve as leader of consumer cooperative movement in a State. The membership of State Federations mainly comprises of wholesale stores in the respective States purchase commodities in bulk for its member societies.

- **Consumer Cooperative Wholesale Stores**

In Tamil Nadu Cooperative Wholesale Stores are located at the middle or at the District level from the year 1962 onwards. The membership of cooperative wholesale stores is confined to the primary cooperative stores in the district. There are 34 wholesale stores are functioning in Tamil Nadu.

- **Primary Consumer Cooperative Stores**

There are around 20,000 primary cooperative stores are undertaking distribution of essential commodities to the ultimate users (consumers). These stores are functioning at Tertiary Level.

## **OBJECTIVES OF THE STUDY**

- To study the business performance of the District Consumers' Cooperative wholesale Stores in Erode and Nilgiris, Tamil Nadu.



- To analyze the liquidity position of the select District Consumers' Cooperative Wholesale Stores in Tamil Nadu.

## **METHODOLOGY**

The study is both descriptive and analytical. Both primary and secondary sources of data were collected and collated for the study. There were 34 wholesale stores functioning in Tamil Nadu, out of which two wholesale stores were selected for the study purposively. They are (1) Erode District Consumers' Cooperative Wholesale Stores Ltd., and (2) Nilgiris District Consumers' Cooperative Wholesale Stores Ltd .

- **Tools for Data Collection**

Secondary data is used in this study which is collected from books, records and annual reports of the selected District Consumers' Cooperative Wholesale Stores Ltd.

- **Frame work of analysis**

The secondary data is analyzed by the ratio analysis. Further the following statistical tools have also applied for analyzing the data.

- Mean
- Standard Deviation
- Co-efficient of Variation
- Average Growth Rate
- Compound Annual Growth Rate
- Ratio

- **Period of the Study**

The present study covered a period of twelve years i.e., from 2005 - 2006 to 2016 - 2017.



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## **REVIEW OF LITERATURE**

A study conducted by *Sivaji K* (2013) on PDS in Tamil Nadu found that the relationship between PDS vis-a-vis cooperatives created a situation of ‘win for all’. The cooperatives offer its vast network, manpower and distinct banking support for providing effective delivery mechanism. On the other hand, the PDS helps the cooperatives not only to increase their volume of business and earn sizeable amount of profit but also enables them to perform the basic objectives enshrined in their bye-laws to supply basic needs of their members and the general public. Though it is often criticized for its shortcomings, PDS in Tamil Nadu ensures food security to needy

Alicia Lake and Catherine Leviten - Reid (2015) in a study on Conventional Consumer Cooperatives and Local Foods in Cape Breton, Canada found that cooperative stores have opportunities to develop their communities by supporting local producers; scaling up this work may require learning from consumer cooperatives that specialize in partnering with local producers, and from horizontal networks of cooperative organizations that exist in other parts of Canada and around the world.

## **GENERAL PERFORMANCE OF THE SELECTED DISTRICT CONSUMERS’ COOPERATIVE WHOLESALE STORES**

### **The Erode District Consumers’ Cooperative Wholesale Stores (EDCCWS)**

Erode, (popularly called as Turmeric City) a part of the historical Kongu Nadu region is the seventh largest urban agglomeration of the South Indian State, Tamil Nadu and serves as administrative headquarters of Erode District, Administered by a Municipal Corporation since 2009. Erode is an agricultural as well as textile based economy.

The Erode District Consumers’ Cooperative Wholesale Stores (EDCCWS) was registered and started functioning on 8.3.1964. The area of operation of this store covers entire Erode District. At present EDCCWS undertakes its business operations by 56 branches of its own. The branches include 12 Retail shops (Chinthamani Self Service Sections), 15 Medical Shops (it includes 2 Amma Marundagam), 25 Fair Price Shops, 1 Uzhavar Santhai Vegetable Section, 1 Farm Fresh Consumer Outlet, 1 quality testing laboratory and 1 fruit and cool drink



Section. Those branches concentrate on distributing both controlled and non-controlled goods to the consumers at moderate rate with good quality and correct weighment.

### **The Nilgiris District Consumers' Cooperative Wholesale Stores (EDCCWS)**

The Nilgiris District is in southern Indian State of Tamil Nadu. Nilgiris (popularly called as Blue Mountains) is the name given to a assortment of mountains spread across the borders among the States of Tamil Nadu, Karnataka and Kerala.

The Nilgiris District Consumers' Cooperative Wholesale Stores (NDCCWS) was registered on 24.6.1947 and started functioning on 2.7.1947. The area of operation of this store covers entire Nilgiris District. NDCCWS run 72 branches of its own consisting of 2 sales outlets/godown, 64 Fair Price Shops (including 10 part time FPS), 1 kerosene shop, 1 Mini Multipurpose Cooperative Society, 4 medical shops (including 2 Amma Marundagam)

The primary objective of EDCCWS and NDCCWS is to procure necessary articles in bulk from Civil Supply Corporation as well as from the manufacturer and traders and supply those commodities to its branches and fair price shops to cater the needs of the consumers. In tune to this the specific objectives of these CCWS are given below.

- To purchase in bulk articles of domestic consumption and sell them in wholesale and retail.
- To purchase or hire processing plants for the purpose of processing and or manufacturing goods into a state fit for consumption or use.
- To construct, purchase or hire godowns or yards for purposes of storage, processing or manufacture of goods.
- To purchase or hire lorries for the transport of goods.
- To act as the agent of the Government and/or cooperative societies to procure and stock food grains and other commodities.
- **Purchases in EDCCWS and NDCCWS**

Purchase is the major function of consumer cooperative wholesale stores and it is basis for As Lead Societies the stores under study purchase commodities in bulk but do not classify them as controlled and non-controlled goods.

**Table 1**

**Performance of EDCCWS and NDCCWS in Purchase (including Controlled and Non-controlled Commodities)**

*(Rs. in Lakhs)*

Year	Purchase			
	EDCCWS	GR %	NDCCWS	GR %
2005-06	4761.31		1172.91	
2006-07	4501.62	-5.45	1111.23	-5.26
2007-08	4996.55	11.00	1062.99	-4.34
2008-09	6406.72	28.22	1451.33	36.53
2009-10	6423.28	0.26	1477.75	1.82
2010-11	7057.85	9.88	1305.12	-11.68
2011-12	7113.92	0.79	1348.32	3.31
2012-13	7081.51	-0.45	1323.22	-1.86
2013-14	6726.99	-5.01	1165.95	-11.89
2014-15	4964.82	-26.20	1209.69	3.75
2015-16	5006.50	0.84	1324.34	9.48
2016-17	5762.18	15.09	1192.47	-9.96

*(Source: Compiled and computed from audit reports of EDCCWS & NDCCWS)*

Table 1 exhibit that the purchases made by EDCCWS and NDCCWS for the period from 2005-06 to 2016-17. Above table explains the Growth Rate of purchases over a period of study in EDCCWS was minimum during 2012-13 (-0.45%) and maximum during 2008-09 (28.22%); and it was minimum (-1.86%) during 2012-13 and maximum (36.53%) during 2008-09.

- **Sales in EDCCWS and NDCCWS**

The commodities like rice, Tur dhal, polmolein oil, sugar are distributed through fair price shops only limited quantity at reasonable or highly subsidized prices. Non controlled commodities such as Ooty tea, amma and arasu salt, groceries are also sold at reasonable rates at their retail outlets.

**Table 2**

**Performance of EDCCWS in Sales of Controlled and Non-Controlled Commodities**

*(Rs. in Lakhs)*

Year	Sales			
	EDCCWS	GR %	NDCCWS	GR %
2005-06	5083.29	-	1271.03	-
2006-07	4847.77	-4.63	1208.56	-4.91
2007-08	5422.07	11.85	1168.69	-3.30
2008-09	6871.15	26.73	1527.28	30.68
2009-10	6907.72	0.53	1608.33	5.31
2010-11	7594.73	9.95	1430.65	-11.05
2011-12	7726.42	1.73	1450.75	1.40
2012-13	7683.51	-0.56	1400.74	-2.09
2013-14	7415.87	-3.48	1241.19	-11.39
2014-15	5501.79	-25.81	1297.82	4.56
2015-16	5456.06	-0.83	1307.79	0.77
2016-17	5208.78	-4.53	1230.45	-5.91

*(Source: Compiled and computed from audit reports of EDCCWS & NDCCWS)*

Table 2 depicts that the sales made by EDCCWS and NDCCWS for the period from 2005-06 to 2016-17. Above table explains the Growth Rate of sales over a period of study in EDCCWS and NDCCWS were minimum during 2012-13 (-0.56% & -2.09%) and maximum (26.33% & 30.68%) during 2008-09.



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## ANALYSIS & INTERPRETATION

### ➤ Liquidity Ratio

A liquidity ratio is an indicator of whether a company's current assets will be sufficient to meet the company's current obligations when they become due or not.

The liquidity ratio includes current ratio acid test or quick ratio and absolute liquid ratio. The current ratio and quick ratio are also referred to as solvency ratios. Working capital is an important indicator of liquidity or solvency, even though it is not technically a ratio. Liquidity ratios sometimes include the accounts receivable turnover ratio and the inventory turnover ratio. These two ratios are also classified as activity ratios.

- **Current ratio**

The current ratio is a liquidity ratio that measures a company's ability to pay short-term obligations. To gauge this ability, the current ratio considers the current total assets of a company (both liquid and illiquid) relative to that company's current total liabilities. The formula for calculating a company's current ratio is:

$$\text{Current Ratio} = \text{Current Assets} / \text{Current Liabilities}$$

- **Liquid / Acid Ratio**

The second ratio that we will discuss is the **acid ratio**. This ratio is also referred to as the quick ratio. The purpose of this ratio is to measure how well a company can meet its short-term obligations with its most liquid assets. Remember, **liquid assets** are those that can be quickly turned into cash. Most of the current assets are highly liquid with the exception of inventory, which often takes a longer amount of time to turn into cash. The formula for calculating the acid ratio is:

$$\text{Acid Ratio} = (\text{Cash \& Cash Equivalent} + \text{Short-Term Investments} + \text{Accounts Receivable}) \div \text{Current Liabilities}$$



Cash and cash equivalents refer to such things as cash on hand, checking accounts, savings accounts, and money market accounts. Short-term investments are any investments that will mature within 90 days, such as U.S. Treasury bills and commercial paper.

- **Absolute Liquid Ratio**

In addition to computing current and quick ratio, some analysts also compute **absolute liquid ratio** to test the liquidity of the business. Absolute liquid ratio is computed by dividing the absolute liquid assets by current liabilities.

$$\text{Absolute Liquid Ratio} = \text{Absolute Liquid Assets} / \text{Current Liabilities}$$

Absolute liquid assets are equal to liquid assets minus accounts receivable and bills receivable. These assets usually include cash, cash equivalents, bank balances and marketable securities etc.

**Table 3**  
**Liquidity Ratios**

**(Ratios in Proportions)**

Year	Current Ratio		Liquid Ratio		Absolute Liquid Ratio	
	EDCCWS	NDCCWS	EDCCWS	NDCCWS	EDCCWS	NDCCWS
2005-06	2.03	0.82	0.94	0.67	0.08	0.03
2006-07	1.98	0.88	1.08	0.68	0.42	0.06
2007-08	1.58	0.96	0.92	0.75	0.29	0.05
2008-09	1.23	1.02	0.58	0.71	0.13	0.02
2009-10	1.02	1.03	0.46	0.68	0.07	0.02
2010-11	0.95	1.05	0.43	0.72	0.08	0.04
2011-12	0.81	1.09	0.41	0.67	0.07	0.03
2012-13	0.73	1.15	0.36	0.67	0.08	0.04
2013-14	0.61	1.11	0.3	0.79	0.05	0.14
2014-15	0.58	1.28	0.26	0.55	0.03	0.15
2015-16	0.59	1.27	0.25	0.52	0.03	0.16
2016-17	0.58	1.19	0.25	0.51	0.04	0.17
<b>Average</b>	<b>1.06</b>	<b>1.07</b>	<b>0.52</b>	<b>0.66</b>	<b>0.11</b>	<b>0.08</b>
<b>SD</b>	<b>0.54</b>	<b>0.14</b>	<b>0.30</b>	<b>0.09</b>	<b>0.12</b>	<b>0.06</b>
<b>CV</b>	<b>50.65</b>	<b>13.27</b>	<b>56.95</b>	<b>13.43</b>	<b>104.27</b>	<b>79.01</b>
<b>AGR</b>	<b>-13.08</b>	<b>3.48</b>	<b>-14.39</b>	<b>-2.27</b>	<b>-18.84</b>	<b>17.47</b>
<b>CGR</b>	<b>-11.94</b>	<b>3.63</b>	<b>-13.25</b>	<b>-2.48</b>	<b>-16.56</b>	<b>17.91</b>

(Source: Compiled and computed from audit reports of EDCCWS & NDCCWS)



Table 3 expresses the mean value, standard deviation, co-efficient of variation, AGR and CGR of current ratio of select Wholesale Stores viz., Erode District Consumers' Cooperative Wholesale Stores (EDCCWS), Erode and Nilgiris District Consumers' Cooperative Wholesale Stores (NDCCWS), Ooty. The mean value of current ratio of EDCCWS was 1.06 per cent and 1.07 per cent in NDCCWS. The standard deviation and Co-efficient of Variation are high i.e., 0.54 per cent and 50.65 per cent in EDCCWS and followed by NDCCWS i.e., 0.14 and 13.27 per cent respectively. Both the Average growth rate and compound annual growth rate is high for NDCCWS (3.48 per cent) and (3.63 per cent) and low for EDCCWS (-13.08 per cent and -11.94 per cent) respectively.

Table 3 describes the mean value of liquid ratio of EDCCWS was 0.52 per cent and 0.66 per cent in NDCCWS. The standard deviation and Co-efficient of Variation are high i.e., 0.30 per cent and 56.95 per cent in EDCCWS and followed by NDCCWS i.e., 0.09 and 13.43 per cent respectively. Both the annual growth rate and compound annual growth rate for NDCCWS were -2.27 per cent and -2.48 per cent and for EDCCWS -14.39 per cent and -13.25 per cent respectively.

It can be inferred from table 3 that the mean value of absolute liquid ratio of EDCCWS was 0.11 per cent and 0.08 per cent in NDCCWS. The standard deviation and Co-efficient of Variation are high i.e., 0.12 per cent and 104.27 per cent in EDCCWS and followed by NDCCWS i.e., 0.06 and 79.01 per cent respectively. Both the annual growth rate and compound annual growth rate is high for NDCCWS 17.47 per cent and 17.91 per cent and low for EDCCWS -18.84 per cent and -16.56 per cent respectively.

### ➤ **Turnover Ratios**

In accounting, turnover ratios are the financial ratios in which an annual income statement amount is divided by the average balance of an asset (or group of assets) throughout the year. Turnover ratios include:

- Debtors Turnover Ratio
- Creditors Turnover Ratio
- Inventory Turnover Ratio
- Working Capital Turnover Ratio

**Table 4**  
**Efficiency/ Activity/Turnover Ratios**

(Ratios in Times)

Year	Debtors Turnover		Creditors Turnover		Inventory Turnover		Working Capital	
	Ratio		Ratio		Ratio		Turnover Ratio	
	EDCCWS	NDCCWS	EDCCWS	NDCCWS	EDCCWS	NDCCWS	EDCCWS	NDCCWS
2005-06	27.75	24.16	24.43	21.21	23.4	27.86	58.33	15
2006-07	30.13	16.32	20.35	26.53	24.04	20.76	54.42	15.37
2007-08	20.54	16.12	16.24	30.37	27.43	18.73	48.06	21.95
2008-09	26.65	19.36	20.1	19.73	30.86	13.9	43.73	36.05
2009-10	22.16	19.64	14.19	18.01	24.77	16.5	56.05	24.43
2010-11	24.9	16.51	17.15	17.46	20.57	11.22	42.78	63.7
2011-12	22.03	16.92	17.47	17.24	21.53	12.64	34.21	27.88
2012-13	20.61	31.07	13.09	42.7	18.12	13.29	36.8	31.68
2013-14	21.15	35.55	14.37	32.83	23.73	12.74	45.49	76.62
2014-15	15.78	60.45	10.77	31.55	18.13	14.28	28.94	10.75
2015-16	14.77	48.71	10.31	28.43	17.53	12.4	27.86	8.74
2016-17	13.62	34.33	11.72	22.07	17.14	11.56	23.84	7.63
<b>Average</b>	<b>21.67</b>	<b>28.26</b>	<b>15.85</b>	<b>25.68</b>	<b>22.27</b>	<b>15.49</b>	<b>41.71</b>	<b>28.32</b>
<b>SD</b>	<b>5.17</b>	<b>14.39</b>	<b>4.29</b>	<b>7.81</b>	<b>4.26</b>	<b>4.86</b>	<b>11.51</b>	<b>21.69</b>
<b>CV</b>	<b>23.85</b>	<b>50.93</b>	<b>27.07</b>	<b>30.43</b>	<b>19.14</b>	<b>31.39</b>	<b>27.60</b>	<b>76.61</b>
<b>AGR</b>	<b>-5.84</b>	<b>10.26</b>	<b>-6.62</b>	<b>2.37</b>	<b>-3.88</b>	<b>-6.77</b>	<b>-6.79</b>	<b>-0.37</b>
<b>CGR</b>	<b>-5.96</b>	<b>10.05</b>	<b>-6.42</b>	<b>2.28</b>	<b>-3.90</b>	<b>-5.83</b>	<b>-6.98</b>	<b>-4.71</b>

(Source: Compiled and computed from audit reports of EDCCWS & NDCCWS)

It can be inferred from table 4 that the mean value of Debtors Turnover ratio of EDCCWS was 21.67 per cent (in times) and 28.26 per cent (in times) in NDCCWS. The standard deviation and Co-efficient of Variation are high i.e., 14.39 per cent and 50.93 per cent in NDCCWS and followed by EDCCWS i.e., 5.17 and 23.85 per cent respectively. Institution wise annual growth rate and compound annual growth rate is high for NDCCWS 10.26 per cent and 10.05 per cent and low for EDCCWS -5.84 per cent and -5.96 per cent respectively.

Table 4 expressed that the average value of Creditors Turnover Ratio of EDCCWS was 15.85 per cent (in times) and 25.68 per cent (in times) in NDCCWS. The Standard Deviation and Co-efficient of Variation is maximum (7.81 per cent and 30.43 per cent) in NDCCWS and followed by EDCCWS (4.29 and 27.07 per cent). Institution wise Annual Growth Rate and



Compound Annual Growth Rate is high for NDCCWS 2.37 per cent and 2.28 per cent and low for EDCCWS -6.62 per cent and -6.42 per cent respectively.

Table 4 also revealed that the average value of Inventory Turnover Ratio of EDCCWS was 15.49 per cent (in times) and 22.27 per cent (in times) in NDCCWS. The Standard Deviation and Co-efficient of Variation is maximum (4.86 per cent and 31.39 per cent) in NDCCWS and followed by EDCCWS (4.26 and 19.14 per cent). Institution wise Annual Growth Rate and Compound Annual Growth Rate is -3.88 per cent and -3.90 per cent for EDCCWS and low for NDCCWS -6.77 per cent and -5.83 per cent respectively.

It can be observed from table 4 that the average value of Working Capital Turnover Ratio of EDCCWS was 41.71 per cent (in times) and 28.32 per cent (in times) in NDCCWS. The Standard Deviation and Co-efficient of Variation is maximum (21.69 per cent and 76.61 per cent) in NDCCWS and followed by EDCCWS (11.51 and 27.60 per cent). Institution wise Annual Growth Rate and Compound Annual Growth Rate is -6.79 per cent and -6.98 per cent for EDCCWS and low for NDCCWS -0.37 per cent and -4.71 per cent respectively.

## **FINDINGS**

Based on Ratio Analysis, It is found that

- (i) The Liquidity Ratios such as current ratio, liquid ratio and absolute liquid ratios are best managed by Nilgiris DCCWS than EDCCWS.
- (ii) The Efficiency Ratios include Debtors Turnover Ratio, Creditors Turnover Ratio, Inventory Turnover Ratio and Working Capital Turnover Ratio of select DCCWS expressed in times shows greater possibilities of receipt of cash frequently by the stores from its debtors and making payment to suppliers in time and maintaining proper inventory control system for continuous distribution of goods to primaries and fair price shops and finally meeting the current liabilities is possible with working capital of CCWS.



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## CONCLUSION

The consumer cooperatives are closely associated with the every one living in the world and it can be termed as people's movement has to concentrate on the activities undertaken by them. In this regard the select stores have to concentrate at the high level to maintain and manage the liquid assets for the overall development of the institution. The higher authorities in the top management, Board of Directors should take necessary steps to reduce administrative and operational expenses and utilize the liquid resources diplomatically with the support of stakeholders especially employees, suppliers and customers for the better performances of the stores.