DO DEMERGERS IMPROVES THE LIQUIDITY POSITION

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Abstract
The purpose of this paper is to empirically examine the financial performance of companies after demerger. Companies exist to create value for their shareholders. To do so not only they hunt for new production techniques and/or design new marketing strategies but also seek to gain by inventing new things at the financial side. Demerger is one of such innovation. The objective of this paper is to empirically find/ascertain whether demerger has improved the performance of the selected companies. To do so ratio analysis has been selected as the technique. Selected financial ratios have been computed for pre- and post demerger period and the same has been compared. It is observed that liquidity position has improved in 33.33 % cases and declined in 66.67% cases. Overall position after demerger is not better from creditor's point of view because it is statistically significant only for four (22%) companies out of eighteen companies.
Key words: Demerger, Liquidity Position, Financial performance, Media Announcement

Introduction

The purpose of this paper is to empirically examine the financial performance of companies after demerger. Companies exist to create value for their shareholders. To do so not only they hunt for new production techniques and/or design new marketing strategies but also seek to gain by inventing new things at the financial side. Demerger is one of such innovation. The objective of this paper is to empirically find/ascertain whether demerger has improved the performance of the selected companies. To do so ratio analysis has been selected as the technique. Selected financial ratios have been computed for pre- and post demerger period and the same has been compared. To be specific some ratios have been selected. In order to comment about the Liquidity Ratios before and after demerger the following ratios have been selected.

> ➤ Liquidity Ratios
>> a. Current Ratio)
>> b. Quick Ratio

Objectives of the Study

To study to what extent, demergers have resulted in improving the financial performance. For this purpose, financial performance of pre and post de-merger period will be measured, analyzed and compared in respect of selected cases.

Scope of the Study

The sample companies for the present study have been selected in two stages. First, about 70 demergers during 1996 to 2006 were taken from Prowess 3.1; a database developed by Centre for

Monitoring Indian Economy. Subsequently the companies whose announcement date of demerger is not given were left out.

In the second stage those companies were excluded whose Stock Price Data for two years before announcement of demerger and two years after the announcement is not available. This exercise leaves me with a sample of 18 demerged companies which I have taken for my research work. The list of demerged companies was identified first from Bombay Stock Exchange (BSE) and National Stock Exchange web sites then finally from prowess 3.1.

Table 1-Date of Announcement of Demerged companies

Sr. No.	Company Name	Company Name	First Media Announcement date
1.	CEAT LTD	CEAT	MAY 18, 1999
2.	CROMPTON GREAVES LTD	CROMPT	JULY 7, 2000
3.	DABUR INDIA LTD	DABUR	AUGUST 9, 1999
4.	GODREJ INDUSTRIES LTD	GODREJ	AUGUST 1. 2000
5.	GRASIM INDUSTRIES LTD	GRASIM	JANUARY 7, 2000
6.	HMT LTD	HMT	JULY 16,1999
7.	INFOSYS TECHNOLOGIES LTD	INFO	JUNE 30, 2000
8.	J.K. SYNTHETICS LTD	JKSYNT	OCTOBER 14, 2000
9.	KESORAM INDUSTRIES LTD	KESO	JULY 7, 2000
10.	KODAK INDIA PRIVATE LTD	KODAK	NOVEMBER 1, 1999
11.	LARSON AND TOUBRO LTD	LARSON	JANUARY 19, 2000
12	NIRMA LTD	NIRMA	JUNE 30, 2000
13.	RAYMOND LTD	RAYMD	MAY 25, 1999
14.	STEEL AUTHORITY OF INDIA LTD	SAIL	DECEMBER 8,1999
15.	TATA COMMUNICATION LTD	TATA	OCTOBER 21, 1999
16.	VOLTAS LTD.	VOLTAS	JUNE 19, 2000
17.	WIPRO LTD.	WIPRO	AUGUST 19, 1999
18.	ZEE ENTERTAINMENT ENTERPRISES LTD	ZEE	JULY 5, 1999

Sources of Data

Besides reputed books and journals, the study is based on data taken from Prowess 3.1; a database developed by Centre for Monitoring Indian Economy (CMIE), company reports and Capitaline data basis. Web sites like bseindia.com, nseindia.com. moneycontrol.com, indiainfoline.com have also been extensively consulted.

Statistical Techniques Used

In order to analyze the data, student's t-test is used to evaluate the statistical significance of differences in paired means of financial variables computed for two sample groups, namely pre-demerger period and post demerger period. Pre and post demerger average ratios are calculated to measure the improvement in financial position. Then their significance is tested with the help of t- test and p- value.

Research Methodology

The research tools used are as under:
➢ Ratio Analysis

- ➢ Mean
- ➢ Standard Deviation
- ➢ F-test
- ➢ T-test

Review of literature:

Autio (1997) investigated evolution of academic spin-offs took place due to the need for a transformation process. The result of academic research, the evolved knowledge cannot easily put onto the market because its complexity would be an obstacle to be instantly useful for industry. Therefore special process was needed which called knowledge transfer or technology transfer. The technology based spin-off firms can precede this transformation through which the scientific knowledge is being converted into technological knowledge. Academic spin-off companies can be classified according to their role played in the knowledge transfer. Some firms were really dedicated to help with bringing scientifically result to the market.

Ronald, Roger and Agapos (1998) in their researchexamined 72 firms which have gone for spin off from 1979 to 1993 which showed that spin off announcement abnormal returns are significantly related to the firm's information environment. The result also indicated that analysts significantly increase their estimates of short-term earnings for spinoff firms at the time of separation, but do not significantly revise their long-term earnings forecasts. Further, it was also shown that neither the short-term nor long-term earnings revisions are significantly different across prediction error groups. The existence of a differential earnings prediction error based abnormal announcement period stock returns and the lack of a difference in earnings forecast revisions across prediction error groups supports the assertions of earlier studies that spinoff wealth effects cannot be attributed solely to expected performance gains.

Mulherin and Boone (2000) in their paper investigated cause and effects of acquisitions and divestitures during the 1990s. They compared the acquisition and divestiture activity of a sample of 1305 firms from 59 industries in the 1990-1999 periods. They found a significant occurrence of these two forms of restructuring during the period. ``They also found significant industry clustering in acquisition and divestiture activity during the period. Consistent with results for the 1980s, they found that acquisition activity is greater in industries undergoing deregulation, although the specific industries affected by deregulation differ between the 1980s and 1990s. In contrast to the evidence for the 1980s, they found that acquisitions in the 1990s were not restricted to industries with low growth options. They found that the acquisitions and divestitures in the 1990s create wealth. Indeed the wealth creation from the two restructuring events is comparable in magnitude. The combined target and bidder return at the announcement of an acquisition averages 3.5%, while the announcement return for corporate divestitures averages 3.0%. Moreover, the wealth creation for both acquisitions and divestitures was directly related to the relative size of the restructuring event. The result of the study was significant industry clustering in both acquisitions and divestitures. They also concluded that the announcement effects of two forms of restructuring both acquisitions and divestitures in the 1990s increased shareholder wealth. Moreover, the wealth effects for both acquisitions and divestitures we directly related to the relative size of the event. The symmetric, positive wealth effects for acquisitions and divestitures were consistent with a synergistic explanation for both forms of restructuring and were inconsistent with no synergistic models based on entrenchment, empire building and hubris.

Mohanty and Jain (2000) in their article had explained that the shareholders of the demerged company and resulting company had gained handsomely from demerger. They took a sample of two firms LG and Grasim. They proposed a model that can be used both to determine the

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swap ratio and to find the impact of demerger on the shareholders wealth. According to them business strategies are increasingly recommending the strategy of being focused on the core competence of the companies. Empirical research had done both in India and abroad has also provided evidence that diversified companies have not created as much value as the focused companies for their shareholders. They had attempted a model that can help the management in determining the swap ratio in case of demerger. This model showed that for positive synergy. Expected from one demerger, they will always a range of swap ratios, which will be acceptable to both the groups of shareholders.

They have applied the model to the famous Grasim – Indian Rayon demerger. Using event study methodology, we estimated the synergy expected by the market. We found that the shareholders of Grasim were willing to exchange 0.46 share of Grasim for every share of Indian Rayon. The shareholders of Indian Rayon, on the other hand, were willing to receive at least 0.22 share of Grasim for every share of Indian Rayon. The actual exchange ratio of 0.3 share of Grasim for every share of Indian Rayon was, therefore, acceptable to both the groups of shareholders. We found that the market reacted favorably when the demerger announcement was made. Since demerger makes a company more focused, it shows that there is a focus – premium in the Indian stock market. The major objective of the article was to develop a model that can be used to determine the swap ratios in case of mergers. If somebody has all the information required in the model, then one can easily obtain the range of exchange ratios that will be acceptable to both the groups of shareholders. Since, we did not have information regarding synergy from the demerger; we made certain assumptions regarding market behavior to estimate synergy. One may not agree with the assumptions made by us. However, one can use this model to analyze any real life demerger, if one has the necessary information.

Gabor Raday (2000) concluded that in the 80s and 90s, the accelerated development of technology caused several changes in most of sciences, even in the field of business formations. The classical value chain transformed, the university science center obtained a bigger focus and the role of research organizations is getting more and more important. New business form emerged and became popular: the academic spin-off firm. However, the spin-off companies are well known and widely used ventures in the corporate business for a long time, especially at technology-oriented industries. For the time being, there are plenty of literatures and completed survey available regarding both academic and corporate spin-off. Some of them are engaged to reveal the critical success factors of spin-off companies and several models were created. The hypothetical question of this study whether common success factors exist for both type of spin-off even if they are established in quite different environments. Using the relevant international literature and available public data of academic and corporate spin-off firms, six aspects were investigated: Raison d'etre, management, investment, networking, location and relation to intellectual property. As a result of this study, common success factors of spin-off companies having different origins could be identified.

Chan-Lau (2001)evaluated whether the implications of official initiatives and changes in business practices are seen by the market as having contributed to the restructuring process by examining the average stock price impact of 1011 restructuring announcements in the periods before and after the implications of the Commercial Rehabilitation Law (CRL) on April 1, 2000. The result indicate that restructuring plans based on improvements in disclosure and mergers had a more positive stock price impact during the post-CRL period compared to the pre-CRL period. Also, the negative impact of labor force reductions announcement on the announcing firms' stock price during the pre- CRL period disappeared in the post- CRL period. The other types of announcements have not had a major impact on stock prices either in the pre- CRL and Post-CRL period In the case of sales of fixed assets and capital reductions, the results suggest that measures claimed at reducing excess capital in the corporate sector are being viewed skeptically by the market.

Pawaskar (2001)studied 36 mergers that had taken place in India between 1992 and 1995. Using accrual measures of accounting spread over three years before and after the merger, the study found that the profitability of the merged firms was impacted negatively due to the merger, i.e., corporate performance did not improve significantly post-merger.

Kirchmaier (2002)in his paper examined a sample of 48 European Demerger and their security price reactions. For a period ranging from one and a half years prior to the demerger announcement through to three years after the execution date, the relative performance of the parent, spin-off and the combined effect is analyzed relative to the overall market performance. Significant announcement effects were established for a sample. In addition, significant positive long-term value creation, in particular in year 2 after the demerger, was found for the spin-off but not for the parent firm. While size has, on average, a decisive but inverse impact on performance for both parent and spin-off, takeover activity did not.

Clubb and Stouraitis (2002)explored the extent to which the relevant information necessary to evaluate sell-offs is embodied in the profitability of the sale - the price received by the seller over the value-in-use of the divested assets, where the latter was a function of past operating earnings and book value. Results showed that sell-off profitability is substantially more significant in explaining the market reaction to divestiture announcements than the previous literature has suggested. Strong evidence is provided of a positive relation between selling firm abnormal returns during sell-off announcements and profit on the sale, which remains significant after controlling for the motivation behind the sell-off, the use of the proceeds from the sale and the presence of agency costs of managerial discretion. Sell-off profitability explained a major portion of selling firm abnormal returns and is one of the most significant determinants of the market reaction to divestiture announcements.

Suryanarayana (2003)explained in his article that Grasim finally succeeded in getting hold of the cement capacities of L & T, which makes it the biggest player in the country. This acquisition has several interesting features like the business first being spun off with another company, sale of stake in that company and finally an offer for it. While for the buyer it was almost a dream comes true, for the seller it was a rectification of a mistake but without any punishment. He examined the L & T report and concluded that for L & T the movement in cement was unprofitable, right from the beginning. For fiscal 2002, its cement division was the poorest performer with both the operating margin and return on capital employed being the lowest among the segment of L & T.

Mehrotra, Mikkelson and Partch (2003)conducted a study with a sample of 98 spinoffs during the period 1979-1997.They examined the differences in financial leverage between parent and spun-off firms that emerge from corporate spin-off. Their tests control for past financing choices and the costs of adjusting capital structure, factors that can obscure cross-sectional patterns among firm's targets leverage ratios. They emerged that the firms that emerge from spin-off with more financial leverage have a higher cash flow return on assets, lower variability of industry operating income, and a greater proportion of fixed assets. The positive relation between profitability and the use of financial leverage, in a setting that is free of pecking order effects, is particularly important because it contrasts with existing evidence. They suggested no evidence that managerial incentives or governance characteristics affect the difference in leverage ratios in firms that emerge from spin-off.

Vyas Pavak (2015) examines that the demergers and the announcement period price reaction of demergers during the year 2012-2014. He studied total 51 demergers of companies listed in India and tried to establish that demergers results into abnormal returns for the shareholders of the parent company. Using event study methodology the authors have analyzed the security price performance of the announcement day effect 10 days prior to the announcement to 10 days post demerger announcement. He found significant out-performance of the security over the benchmark index post

demerger announcement ranging from 1.74% average abnormal return for a demerger announcement to 0.16% average abnormal return 10 days following the announcement.

Ratio Analysis

Ratio analysis is regarded as one of the best tools in analyzing and comparing the time series accounting data of different companies. That is why it has been used in the present study. For our study 10 important ratios of demerged companies for four years before demerger and four years after demerger have been calculated. The year of demerger is omitted because it is considered as transitional period. The ratios used for this purpose are liquidity ratios, solvency ratios, activity ratios and efficiency ratios. These ratios are:

> Liquidity Ratios
>   a. Current Ratio
>   b. Quick Ratio

A brief about financial position is detailed as under:

Liquidity Position

Liquidity refers to the ability of a firm to meet its short-term (usually up to 1 year) obligations. The ratios which indicate the liquidity of a company are Current ratio, Quick/Acid-Test ratio, and Cash ratio. These ratios are discussed below.

Current Ratio

Liquidity position can be measured with Current Ratio. It measures the ability of the company to meet its Current Liability, i.e., Current Assets gets converted into cash in the operating cycle of the firm and provides the funds needed to pay for Current Liability. The higher the current ratio, the greater will be the short-term solvency. A current ratio of 2:1 is considered satisfactory.

Table 2-Current Ratio of Selected Companies before and after Demerger

Sr. No.	Name of the Companies	Before Demerger Years				After Demerger Years			
		-4	-3	-2	-1	1	2	3	4
1	CEAT	1.36	1.39	1.36	1.16	1.42	1.35	1.33	1.13
2	CROMPT	1.29	1.34	1.21	1.33	1.06	1.02	1.10	1.06
3	DABUR	4.19	3.82	2.53	2.18	1.81	1.86	2.07	2.06
4	GODREJ	1.45	1.30	2.14	1.62	1.50	1.74	1.52	1.68
5	GRASIM	1.19	1.15	1.27	1.32	0.97	1.00	0.89	0.84
6	HMT	1.54	1.80	1.47	1.22	1.73	1.36	1.29	1.14
7	INFOSYS	1.53	1.29	1.21	1.13	0.83	1.02	0.95	0.70
8	JKSYNT	1.11	1.07	1.22	1.15	1.33	1.46	0.96	0.81
9	KESORAM	3.22	3.33	4.50	6.43	2.69	3.07	3.36	1.51
10	KODAK	0.90	0.82	0.52	0.35	0.32	0.31	0.30	0.35
11	LARSON	1.41	1.29	1.56	1.65	1.60	1.14	1.05	1.13
12	NIRMA	1.22	1.17	1.96	2.10	2.68	2.61	2.51	2.33
13	RAYMOND	1.20	1.17	1.13	1.13	1.37	1.38	1.22	1.27
14	SAIL	1.28	0.88	1.60	1.75	1.63	1.43	1.44	1.35
15	TATA COM	1.72	2.08	1.53	1.24	1.57	2.55	4.20	3.01
16	VOLTAS	1.15	1.46	1.43	1.85	1.70	1.20	1.18	2.48
17	WIPRO	1.22	1.14	1.16	1.27	0.84	0.79	0.63	0.79
18	ZEE	1.22	1.18	1.69	1.93	3.13	2.17	1.94	2.39

After calculating current four years before and after demerger average is taken to apply t- test and significance level is assessed. Average of ratios is calculated by adding four years ratio and then dividing them with number of ratios. To test the significance level t-value and p-value is calculated with the help of SPSS package and Data analysis tool in Excel.

Table 3-Test of Significance for difference in Current Ratio before and after Demerger

Sr. No.	Company Name	Average before Demerger	Average after Demerger	Increase/ Decrease	t- value	p- value
1	CEAT	1.318	1.308	-0.010	0.122	0.907
2	CROMPT	1.293	1.060	-0.233	6.887	0.000*
3	DABUR	1.628	1.610	-0.017	0.091	0.930
4	GODREJ	1.233	0.925	-0.308	5.796	0.001*
5	GRASIM	1.508	1.380	-0.128	0.737	0.489
6	HMT LTD	1.290	0.875	-0.415	3.726	0.010*
7	INFOSYS	4.370	2.658	-1.713	2.017	0.090***
8	JKSYNT	0.648	0.320	-0.328	2.539	0.044**
9	KESORAM	1.478	1.230	-0.248	1.670	0.146
10	KODAK	1.613	2.533	0.920	-3.614	0.011**
11	LARSON	1.158	1.310	0.153	-3.588	0.012**
12	NIRMA	1.643	2.833	1.190	-2.075	0.083***
13	RAYMOND	1.473	1.640	0.168	-0.497	0.637
14	SAIL	1.198	0.763	-0.435	7.992	0.000*
15	TATACOM	1.505	2.408	0.903	-2.855	0.029**
16	VOLTAS	1.020	0.990	-0.030	1.260	0.254
17	WIPRO	1.400	2.543	1.143	-3.297	0.016**
18	ZEE	2.428	1.543	-0.885	2.394	0.054***

 * denotes significance at 1% level, **denote significance at 5% level, ***denote significance at 10% level

For better interpretation increase and decrease is shown in separate table

Table 4-Effect on Current Ratio after demerger

Results after demerger	Number of companies	In percentage terms
Current ratio increased	6	33.33
Current ratio decreased	12	66.67
Total	18	100

Again separate table is made to check the significance level of increase and decrease in Current Ratios of Selected Companies.

Table 5-Classification on the basis of Significance level of the increase and decrease in Current Ratios of Selected Companies

Level of significance	Companies indicating an increase in Current Ratio		Companies indicating a decrease in Current Ratio	
	Number of companies	In percentage terms	Number of companies	In percentage terms
1%	-	-	4	33.33
5%	4	66.67	1	8.33
10%	1	16.67	2	16.67
More than 10%	1	16.66	5	41.67
Total	6	100	12	100

Current ratio is calculated to assess the impact of Demerger on the liquidity position of a company.

Table 2 shows current ratio of eighteen companies four years before demerger and four year after demerger.

Table 3 shows increase and decrease in average of current ratio, t - test and p – value.

Table 4 reveals that current ratio has increased in 33.33 % cases but decreased in 66.67% cases.

Table 5 shows that current ratio of only 1/3 companies has increased but significant increase in current ratio is in 22.22% companies. These companies are Kodak, L&T, Tata communication and Wipro ltd. Increase in ratio but insignificant is in 11.11% companies.

After demerger current ratio of 2/3 companies has decreased. Significant decrease in current ratio is in 27.78% companies like Godrej, Crompt, HMT, JK Synthetic, Sail companies and decrease but insignificant is in 38.89% companies. It is observed that liquidity position has improved in 33.33 % cases and declined in 66.67% cases. Overall demerger is not favourable for the short term solvency of the firm because it is statistically significant only for 4(22%) companies out of eighteen companies.

Quick Ratio

Another Ratio that has been used to check the liquidity is Quick Ratio. Quick Ratio is the ratio between Quick assets and Current Liabilities. Quick Assets refer to those current assets that can be converted into cash immediately without any value dilution. Quick assets include cash and bank balances, short-term marketable securities, and sundry debtors. Inventory and prepaid expenses are excluded since these cannot be turned into cash as and when required. Quick Ratio is calculated by dividing Quick Assets by Current Liabilities.

Quick Ratio indicates the extent to which a company can pay its current liabilities without relying on the sale of inventory. This is a fairly stringent measure of liquidity because it is based on those current assets that are highly liquid. Inventories are excluded from the numerator of this ratio because they are deemed the least liquid component of current assets. Generally, a quick ratio of 1:1 is considered good. One drawback of the quick ratio is that it ignores the timing of receipts and payments.

Table 6-Quick Ratio of Selected Companies before and after Demerger

Sr. No.	Name	Before Demerger Years				After Demerger Years			
		-4	-3	-2	-1	1	2	3	4
1	CEAT	1.36	1.39	1.36	1.16	1.42	1.35	1.33	1.13
2	CROMPT	0.84	0.79	0.76	0.75	0.57	0.63	0.62	0.58
3	DABUR	1.45	1.30	2.14	1.62	1.50	1.74	1.52	1.68
4	GODREJ	1.19	1.15	1.27	1.32	0.97	1.00	0.89	0.84
5	GRASIM	1.54	1.80	1.47	1.22	1.73	1.36	1.29	1.14
6	HMT	1.53	1.29	1.21	1.13	0.83	1.02	0.95	0.70
7	INFOSYS	2.63	2.50	4.13	6.20	2.24	2.51	2.89	1.37
8	JKSYNT	0.90	0.82	0.52	0.35	0.32	0.31	0.30	0.35
9	KESORAM	0.74	0.76	0.85	0.85	0.85	0.54	0.43	0.55
10	KODAK	1.22	1.17	1.96	2.10	2.68	2.61	2.51	2.33
11	LARSON	0.41	0.32	0.28	0.23	0.54	0.55	0.54	0.75
12	NIRMA	1.72	2.08	1.53	1.24	1.57	2.55	4.20	3.01
13	RAYMOND	1.15	1.46	1.43	1.85	1.70	1.20	1.18	2.48
14	SAIL	1.22	1.14	1.16	1.27	0.84	0.79	0.63	0.79
15	TATA COM	1.22	1.18	1.69	1.93	3.13	2.17	1.94	2.39
16	VOLTAS	1.04	1.01	1.01	1.02	0.93	0.98	1.03	1.02
17	WIPRO	1.52	1.31	1.45	1.32	1.63	3.21	2.89	2.44
18	ZEE	2.62	3.32	2.07	1.70	1.56	1.83	1.49	1.29

Table 7-Test of Significance for difference in Quick Ratio before and after Demerger

Sr. No.	Company Name	Average before demerger	Average after demerger	Increase/ Decrease	t- value	p- value
1	CEAT	1.318	1.308	-0.010	0.122	0.907
2	CROMPT	0.785	0.600	-0.185	7.400	0.000*
3	DABUR	1.628	1.610	-0.017	0.091	0.930
4	GODREJ	1.233	0.925	-0.308	5.796	0.001*
5	GRASIM	1.508	1.380	-0.128	0.737	0.489
6	HMT	1.290	0.875	-0.415	3.726	0.010*
7	INFOSYS	3.865	2.253	-1.613	1.752	0.130
8	JKSYNT	0.648	0.320	-0.328	2.539	0.044**
9	KESORAM	0.800	0.593	-0.208	2.193	0.071***
10	KODAK	1.613	2.533	0.920	-3.614	0.011**
11	LARSON	0.310	0.595	0.285	-4.437	0.004*
12	NIRMA	1.643	2.833	1.190	-2.075	0.083***
13	RAYMOND	1.473	1.640	0.168	-0.497	0.637
14	SAIL	1.198	0.763	-0.435	7.992	0.000*
15	TATA COM	1.505	2.408	0.903	-2.855	0.029**
16	VOLTAS	1.020	0.990	-0.030	1.260	0.254
17	WIPRO	1.400	2.543	1.143	-3.297	0.016**
18	ZEE	2.428	1.543	-0.885	2.394	0.054***

* denotes significance at 1% level, ** denotes significance at 5% level,*** denotes significance at 10% level,

Table 8-Effect on Quick Ratio after demerger

Results after demerger	Number of companies	In percentage terms
Quick ratio increased	6	33.33
Quick ratio decreased	12	66.67
Total	18	100

Quick ratio is calculated to assess the impact of demerger on the liquidity position of a company.

Table 6 shows quick ratio of eighteen companies four years before demerger and four year after demerger.

Table 7 shows increase and decrease in average of quick ratio, t - test and p – value.

Table 8 reveals that quick ratio has increased in 33.33 % cases but decreased in 66.67% cases.

Table 9- Classification on the basis of Significance level of the increase and decrease in Quick Ratio of Selected Companies

Level of significance	Companies indicating an increase in Quick Ratio		Companies indicating a decrease in Quick Ratio	
	Number of companies	In percentage terms	Number of companies	In percentage terms
1%	1	16.67	4	33.33
5%	3	50.00	1	08.33
10%	1	16.67	2	16.67
More than 10%	1	16.66	5	41.67
Total	6	100	12	100

Table 9 shows that Quick ratio of only 1/3 companies has increased. Significant increase in current ratio is in 22.22% companies that companies are Kodak, L&T, Tata communication and Wipro ltd and increase but insignificant is in 11.11% companies.

After demerger Quick ratio of 2/3 companies has decreased. Significant decrease in Quick ratio is in 27.78% companies like Godrej, Crompton, HMT, JK Synthetic, SAIL companies and decrease but insignificant is in 38.89% companies.

It is observed that liquidity position has improved in 33.33 % cases and declined in 66.67% cases. Overall position after demerger is not better from creditor's point of view because it is statistically significant only for four (22%) companies out of eighteen companies.

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