

**Research Paper**



**Reliability of Cash Flow Ratios**

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**A B S T R A C T**

*In this paper we have tried to show that cash flow ratios are more reliable in showing the actual financial position of a company. In this paper we have taken one of the most reputed company TATA STEEL LTD. to demonstrate the reliability of cash flow ratios.*

*Key Words : Dividend Payout Ratio Net Profit, Dividend Payout Ratio Cash Profit ,Earning Retention Ratio ,Cash Earning Retention Ratio*

**Introduction**

Financial ratio analysis is one tool of investigating and comparing relationships between different pieces of financial information. We can use information from the income statement and balance sheet to calculate financial ratios in order to determine information about the small business firm. There are any numbers of ratios for financial analysis. To solve that problem, there are some standard ratios that most business firms use.

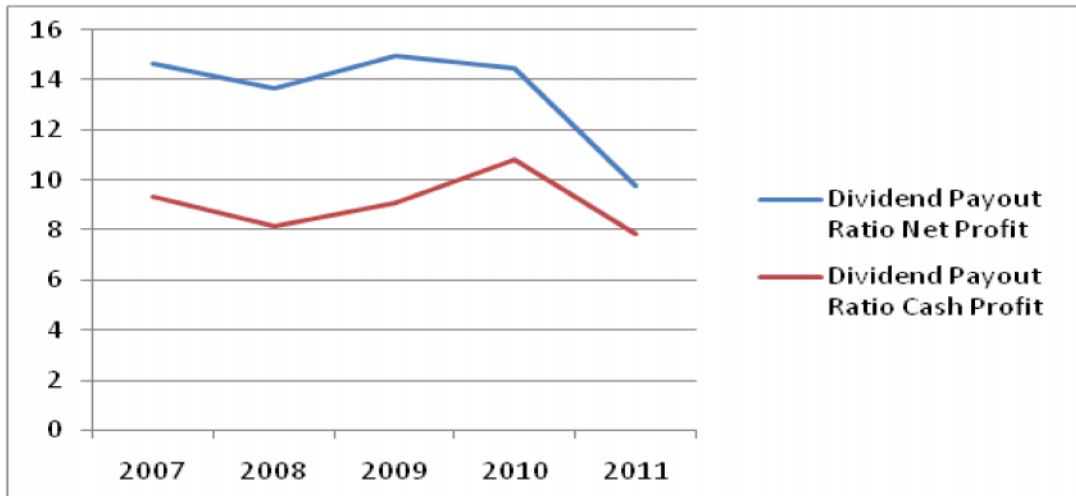
**Following are different ratios available for different types of decisions:**

**Cash Flow Ratios**

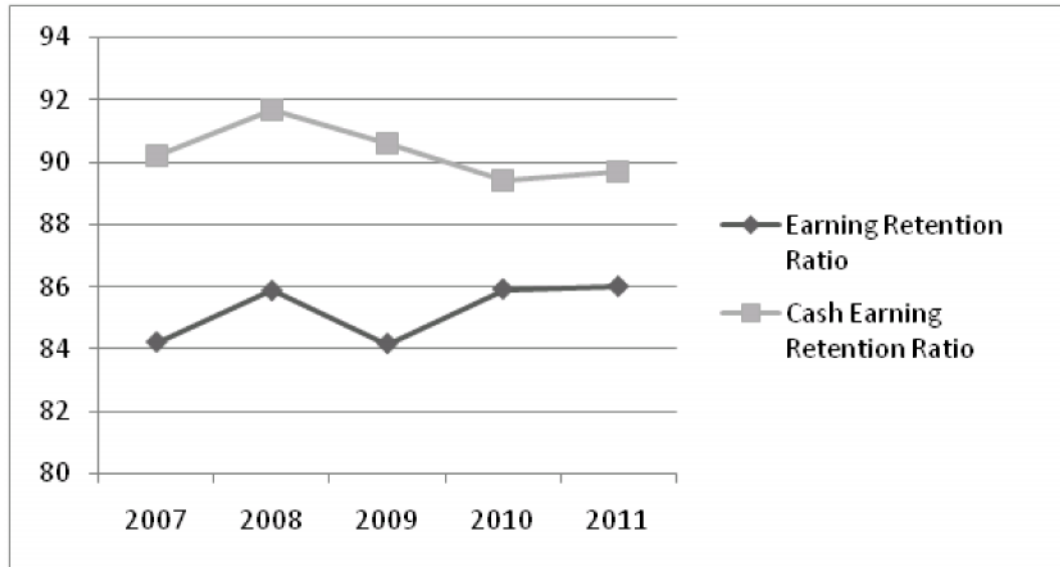
Although not widely used, cash flow ratios can be useful in determining the adequacy of cash and cash equivalents. Cash flow ratios are used depending upon the critical needs of cash. Some of the variations for cash flow ratios include: Cash Flow / Total Debt, Cash Flow / Long-Term Debt, Cash + Marketable Securities / Working Capital, Cash + Marketable Securities / Current Liabilities.

**Cash Flow Indicator Ratios of tata steel limited for the year from 2007 to 2011 is focused as under.**

Name of the Ratio	2007	2008	2009	2010	2011
Dividend Payout Ratio Net Profit	14.67	13.66	14.97	14.49	09.80
Dividend Payout Ratio Cash Profit	09.35	08.17	09.09	10.82	07.85
Earning Retention Ratio	84.21	85.87	84.16	85.92	86.01
Cash Earning Retention Ratio	90.20	91.66	90.60	89.41	89.68



**Cash Flow Indicator Ratios of tata steel limited for the year from 2007 to 2011 is focused as under.**  
Source: annual reports of Tata steel ltd.



From the above chart it seems that Tata Steel is giving less dividend from its profit over the years. There is a nominal decline in cash profit dividend payout ratio in comparison to net profit dividend payout ratio.

**Source:** annual reports of Tata steel ltd.

There is a minor fluctuation during the 5 years but there is nominal decline in cash earning retention ratio. Where as there is nominal change in the same duration but there is a noticeable increase in earning retention ratio. In the company cash remains an important factor for decision making. This point is focused in the above

taken data of tata steel that during the year company retained 90.60% of total cash flow generated during the year 2009. Explanation of cash flow ratios is also effected by the dividend payout ratio. The ratio is presented into the graph as above.

This graphical presentation shows the impact of cash inflows over the years. It remained average over the years considered. It can be concluded that cash-flow ratio of the company maintained good level, which helps in different decision related to cash of the company.

## **REFERENCE**

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