International Journal for Multidisciplinary Research (IJFMR)
E-ISSN: 2582-2160 ● Website: www.ijfmr.com ● Email: editor@ijfmr.com

Banking on Efficiency: A Comparative Analysis of Working Capital Management with Respect to SBI And AXIS Banks

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Abstract

Working capital management is crucial in this day of Globalization, privatization, and liberalization. Modern companies must use both aggressive and conservative approaches. It is clear that the corporation reduces its working capital to accept more risk in exchange for larger gains and losses; conversely, it increases its working capital level to increase liquidity. To get adequate working capital, a corporation must strike a balance between profitability and liquidity. This study looks at how public and private sector banks managed their working capital between 2008 and 2013. Financial ratios were calculated, and the banks' financial statements for the relevant period were inspected. This study attempts to identify the primary reasons of short-term funding challenges at public and private sector banks. It demonstrates the importance of working capital management in public and private sector banks and, using the T test, the cause of short-term insolvency. It may be claimed that both public and private sector banks are adopting an aggressive strategy, focused on profit maximization while not ignoring short-term solvency.

Keywords: Working Capital Management, Liquidity, Public and Private Sector Bank

Introduction

To start and run its daily operations, any firm needs money. Funds necessary for meeting the day-to-day operations or short term needs are known as working capital. An operational liquidity of a company, organization, or other entity is represented by the financial statistic working capital. Working capital is included into operating capital together with fixed assets. A corporation requires positive working capital to continue doing business and have enough money to pay off impending operating bills as well as maturing short-term debt. A lucrative and asset-rich firm may lack liquidity if its assets cannot be converted into cash.

Normally, creditors want to get paid as quickly as possible, hence they prefer large amounts of working capital to provide payment security. But since working capital generates a very poor rate of return and also prevents precious funds from being used in better alternatives, management prefers minimal amounts of working capital. Inefficient management of working capital may cause a company to fail in addition to losing money. Managers are giving working capital management more and more thought in the fiercely competitive world of today.

Literature Review

Sagan's paper (1955), which is possibly the earliest theoretical publication on the theory of working capital management, emphasized the importance of managing working capital accounts and cautioned that it might have a substantial impact on the company's performance.

Walker (1964) made a pioneering effort to construct a theory of working capital management by empirically analysing, if partially, three propositions based on the risk-return trade-off of working capital management, recognizing the scarcity of relevant literature on the subject. He explored how fluctuations in working capital levels affected the rate of return in nine industries. Furthermore, they advocated that a company only hold short-term marketable securities if there were money left over after satisfying short-term loan obligations.

Vanhorne (1969) noticed that working capital management lacked theoretical perspective. He attempted to develop a framework in the form of a probabilistic cash budget to analyse judgments about the quantity of liquid assets and the maturity composition of debt, which required a risk-return trade-off. He recommended calculating multiple predicted liquid asset requirements, as well as subjective probability under various assumptions.

Weston and Brigham (1972) extended on Walker's second argument by distinguishing between long-term and short-term debt. They proposed that short-term debt be used instead of long-term debt if doing so would lower the firm's average cost of capital.

Moyer, Mcguigan, and Kretlow (1998), the most important policy issue in working capital management is the degree of investment and finance. According to them, corporations have two goals: liquidity and profitability. Working capital management is critical for generating profit for shareholders. **Shin and Soenen (1998)**, effective working capital management has a major impact on both profitability and liquidity. The foregoing brief assessment of studies demonstrates that, despite numerous attempts to analyze working capital management, the field still has a lot of room for further research. The most common metrics of business liquidity are the current ratio and the quick ratio.

(Emery, 1984; Kamath, 1989) have claimed that the ongoing firm's liquidity is more dependent on the operating cash flow generated by its assets than on their liquidation value. Managers devote a significant amount of time to the day-to-day implementation of capital choices since current assets are short-lived investments that are constantly changed into other asset categories.

(Rao,1989) In the event of current liabilities, the firm is responsible for meeting the commitments listed under current liabilities on a timely basis. The ongoing firm's liquidity is based on the operating cash flows created by its assets.

Soenen (1993) and Joshi (1995), managing a company's working capital is a crucial aspect of financial management. Measuring company liquidity is an empirical question. Efficient working capital management is crucial for corporate finance, allowing firms to respond quickly and effectively to unexpected market changes like interest rates and raw material prices, gaining a competitive edge over competitors

(Appuhami, 2008) Another study evaluates the importance of working capital in case of banking system and comparison of public sector and private sector banks in this regard. Basic statistical tools and Kruskal Wallis test is used to analyze the data.

(Juni Khyat,2020) To analyse how working capital is important and significant and affect the profitability of different banks, In the analysis, 150 managers of banks based in India were the target community. These 150 branch branches comprised the same number, i.e. 50 private banks, 50 public banks and 50

international banks. The optimal level of working capital is reached when both profitability and liquidity are maximised.

(Anwar,Ghani 2022). The study delves into various aspects of HDFC Bank's working capital management, including current asset management, current liability management, and working capital ratios.

Methodology

In this paper the secondary data is taken from RBI, and from other financial websites. The balance sheet and profit and loss of both the banks SBI and AXIS are taken from the secondary sources and then analysis is done on basis of ratios, and other calculations. The period taken for the study is of 5 years from 2019 to 2023. The analytical tables constructed are explained below. T-test for independent samples have been used to test the significance between working capital management between public and private sector banks.

Statement of Problem

An organization's profitability and short-term solvency are greatly influenced by its working capital management. A corporation cannot be successful if its management is ineffective. Any type of organization's long-term viability depends on effective workforce management.Working capital management include maintaining the business's liquidity in day-to-day operations to facilitate the seamless running of the enterprise and the fulfilment of its obligations. Any company's lifeblood is its working capital. A business cannot grow without sufficient working capital. A deficiency in working capital indicates a scarcity of inputs, while an excess implies superfluous expenses.

Objectives

1. To compare the working capital between public and private sector bank.
2. To analyse the financial position of both the banks.

Sample Size

Two banks one from public sector and one from private sector have been taken for the comparative study and fulfilling of objectives. Axis bank and SBI Bank have been taken for the purpose of the study.

Period of Study

The period of study has been taken for 5 years from 2019-2023.

Hypothesis:

H0: There is no significant difference in working capital management between public and private sector banks.

H1: There is significant difference in working capital management between public and private sector banks.

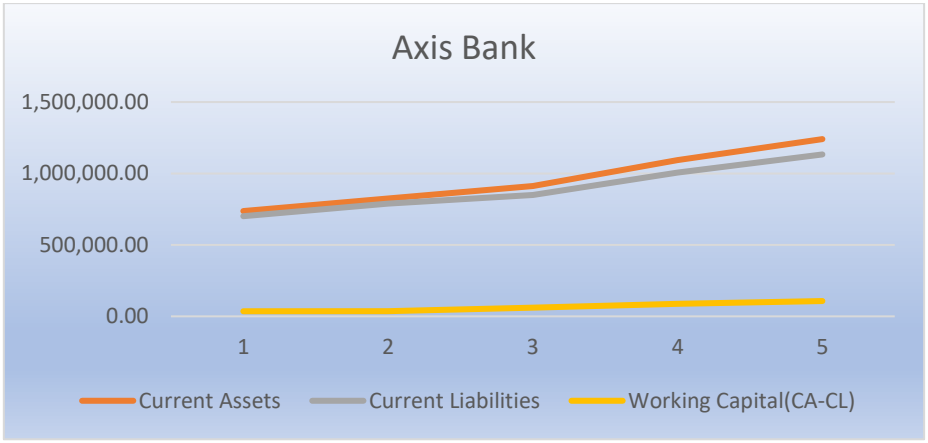
Limitation:

- The data has been collected from secondary sources.
- Only 2 banks have been taken for the sample study.

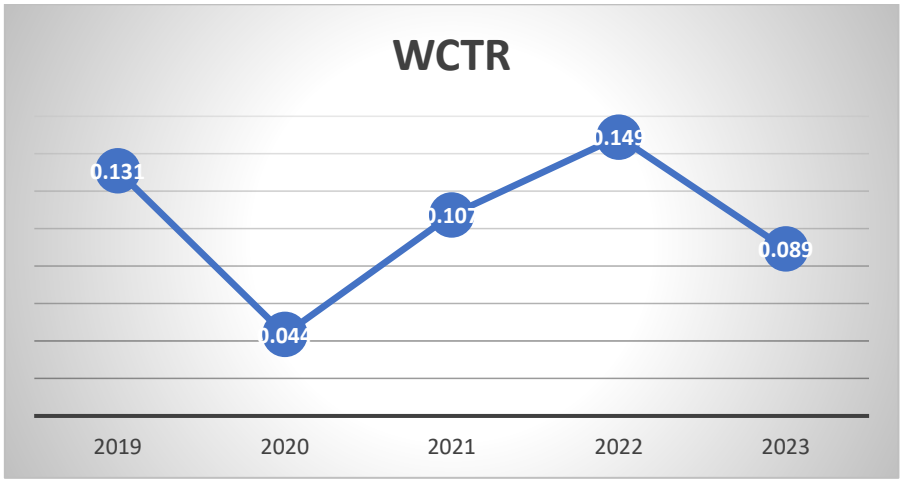
Table 1.1 (Source : Calculated)

	Working Capital of SBI BANK				
Particulars	**Mar-23**	**Mar-22**	**Mar-21**	**Mar-20**	**Mar-19**
Cash and Balances with Reserve Bank of India	66,117.76	94,034.51	51,808.56	84,959.24	35,099.03
Balances with Banks Money at Call and Short Notice	40,293.05	16,952.62	9,921.26	12,309.04	32,105.60
Investments	2,88,814.83	2,75,597.20	2,26,119.62	1,56,734.32	1,74,969.28
Advances	8,45,302.84	7,07,695.95	6,23,720.19	5,71,424.16	4,94,797.97
Current Assets	12,40,528.48	10,94,280.28	9,11,569.63	8,25,426.76	7,36,971.88
Deposits	9,46,945.21	8,21,720.91	7,07,306.08	6,40,104.94	5,48,471.34
Borrowings	1,86,300.04	1,85,133.86	1,42,873.16	1,47,954.13	1,52,775.78
Current Liabilities	11,33,245.25	10,06,854.77	8,50,179.24	7,88,059.07	7,01,247.12
Working Capital (CA-CL)	1,07,283.23	87,425.51	61,390.39	37,367.69	35,724.76
Current Ratio	1.09	1.09	1.07	1.05	1.05
Net Profit / Total Revenue	9,579.68	13,025.48	6,588.50	1,627.22	4,676.61
WCTR	0.089	0.149	0.107	0.044	0.131

- The time frame has been restricted till 5 years.



Graph 1.1



Graph 1.2

Interpretation

1. The data of Axis Bank is analysed from the year 2019 to year 2023 and it is found that Current Assets are steadily increasing 2019(7,36,971.88) to2021(9,11,569.63) to 2023(12,40,528.48) and Current Liabilities are also increasing continuously 2019 (7,01,247.12) to 2021(8,50,179.24) to 2023(11,33,245.25) which gives comparatively less steep curve of working capital as much difference is only seen in the year 2021(61,390.39) 2022(87,425.51) and 2023(1,07,283.23).
2. The current ratio shows a company's ability to meet its short-term obligations. The ratio is calculated by dividing current assets by current liabilities. An asset is considered current if it can be converted into cash within a year or less, while current liabilities are obligations expected to be paid within one year.

Current ratio: Current assets / Current liabilities

The ideal current ratio varies by industry. However, an acceptable range for the current ratio could be 1.0 to 2. Ratios in this range indicate that the company has enough current assets to cover its debt

The current ratio has been consistent starting from (1.05) in 2019 and 2020 and increasing to(1.09) in 2022 and 2023.Since the current ratio is above 1 it is sufficient to maintain the Current Assets.

1. Working capital turnover is a ratio that measures how efficiently a company is using its working capital to support sales and growth. Also known as net sales to working capital, working capital turnover measures the relationship between the funds used to finance a company's operations and the

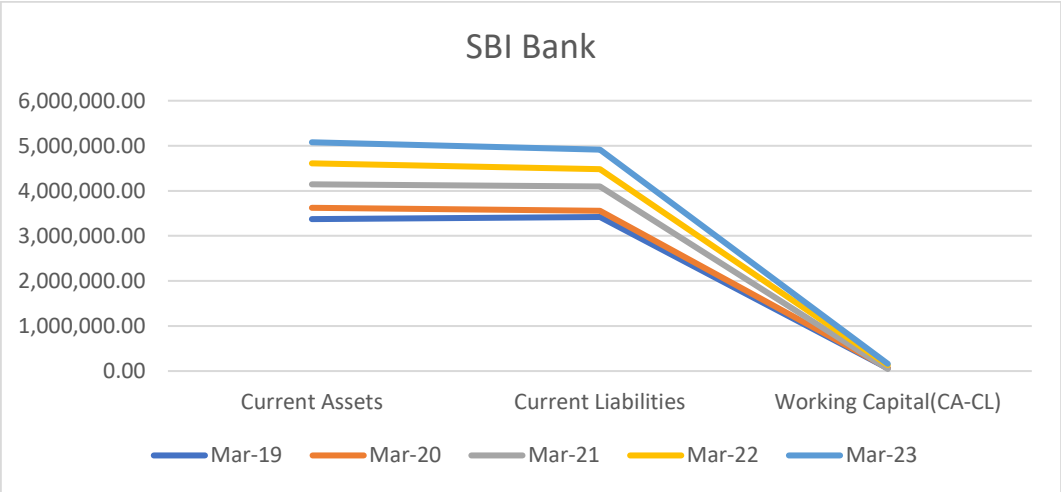
revenues a company generates to continue operations and turn a profit.

A high working capital turnover ratio shows a company is running smoothly and has limited need for additional funding. Money is coming in and flowing out regularly,

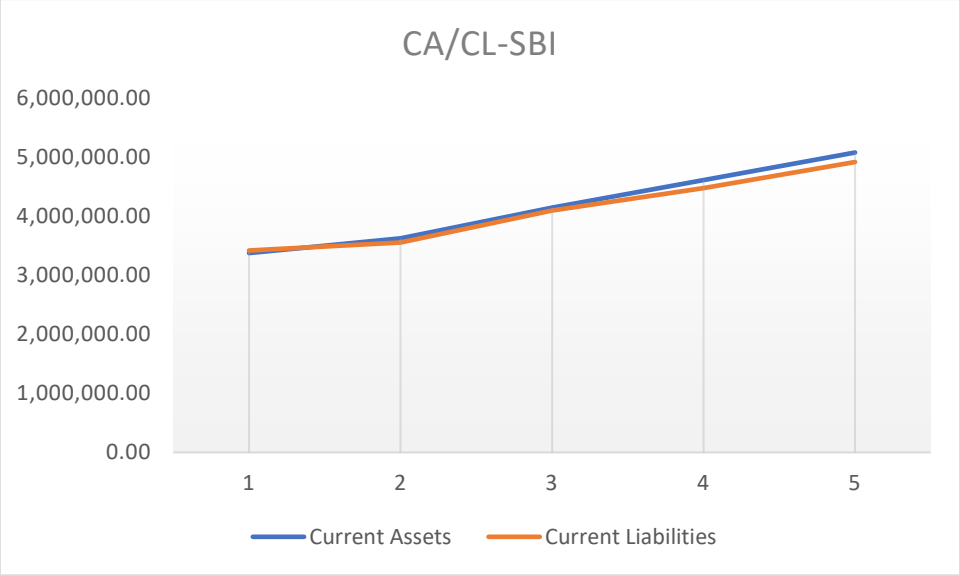
From this chart it evident that the working capital turnover ratio (WCTR) dipped (0.044) in 2020 but again the bank started to strengthen its position in (0.107) in 2021 and then further (0.149)in 2022, so WCTR shows upward and downward peaks.

Table 1.2(source calculated)

	Working Capital Management of SBI Bank				
Particulars	**Mar-23**	**Mar-22**	**Mar-21**	**Mar-20**	**Mar-19**
Cash and Balances with Reserve Bank of India	**2,47,087.58**	**2,57,859.21**	**2,13,201.54**	**1,66,735.78**	**1,76,932.42**
Balances with Banks Money at Call and Short Notice	**60,812.04**	**1,36,693.11**	**1,29,837.17**	**84,361.23**	**45,557.69**
Investments	**15,70,366.23**	**14,81,445.47**	**13,51,705.21**	**10,46,954.52**	**9,67,021.95**
Advances	**31,99,269.30**	**27,33,966.59**	**24,49,497.79**	**23,25,289.56**	**21,85,876.92**
Current Assets	**50,77,535.15**	**46,09,964.38**	**41,44,241.71**	**36,23,341.09**	**33,75,388.98**
Deposits	**44,23,777.78**	**40,51,534.12**	**36,81,277.08**	**32,41,620.73**	**29,11,386.01**
Borrowings	**4,93,135.16**	**4,26,043.38**	**4,17,297.70**	**3,14,655.65**	**4,03,017.12**
Current Liabilities	**49,16,912.94**	**44,77,577.50**	**40,98,574.78**	**35,56,276.38**	**33,14,403.13**
Working Capital (CA-CL)	**1,60,622.21**	**1,32,386.88**	**45,666.93**	**67,064.71**	**60,985.85**
Current Ratio	**1.03**	**1.03**	**1.01**	**1.02**	**1.02**
Net Profit/Total Revenue	**56,558.43**	**36,356.17**	**24,279.72**	**18,176.83**	**3,069.07**
WCTR	**0.35**	**0.27**	**0.53**	**0.27**	**0.05**



Graph 1.3



Graph 1.4

Interpretation

1. The working capital has been increasing continuously from 2019(60,985.85) to 2020(67,064.71) except for year 2021(45,666.93) again compensating this decline with another increase in 2022(1,32,386.88) to 2023(1,60,622.21).
2. The current assets and current liabilities do not have much difference as can be seen from the graph above but current assets start increasing from 2021(41,44,241.71) to 2022(46,09,964.38) to 2023(50,77,535.15) and current liabilities are comparatively increasing lesser 2022(44,77,577) to 2023(49,16,912) thus giving an increased working capital figure.
3. The current ratio is above 1 throughout the sampling phase of 5 years 2021(1.01) and 2022 and 2023 (1.03) which suggests that the current liabilities are sufficient to maintain the current assets.

Research Methodology (T test)

Analysis of Variance is the classification and cross classification of statistical data with a view of testing whether the means of specific classification differ significantly or they are homogeneous. In this study one Public Sector Banks and Private Sector Banks are selected and the working capital management among them is hypothetically tested by using T Test at 5% level ofsignificance.

Table 1.3

Group Statistics					
	Bank	N	Mean	Std. Deviation	Std. Error Mean
Working_capital	SBI	5	93345.3160	50153.40958	22429.28662
	Axis	5	65838.3160	31308.44410	14001.56185

Table 1.4

Independent Samples Test

Levene's Test for Equality of Variances				
F	Sig.	t	df	Sig. (2-tailed)
3.405	.102	1.040	8	.329
		1.040	6.707	.334

An independent sample T test was conducted to compare the working capital of public and private sector banks and the significance value for N=5 for public and private sector bank at 5% is 0.329 which is greater that 0.05,and thus we accept the null hypothesis that there is no significant difference in working capital management between public and private sector banks which shows that both public and private sector banks are efficient and hence Ho is Accepted.

Finding, Suggestions and Conclusion:

Banking sector is one of the most important sectors of any economy. It builds up the creditability and economic strength of not only the country but also of the people who live in it. From the above study it is concluded that the banks in India whether in public or private sector were performing well as far as management of working capital is concerned.

The banks under study were facing positive working capital throughout the study period, which generated a probability of short term solvency. The banks have paid maximum attention to the level of working capital and should have created a reserve for the same. It is evident from the above analysis that banks in public sector as well as in private sector are following the aggressive approach and concentrating on the profit maximization and also that short term solvency has not been neglected.

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