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A Study on the Effect of Liquidity Management on Profitability At Central Co-Operative Bank in Villupuram District

Indhumathi. N[1], Mr. T. Chandramohan[2]

[1]MBA Student, Department of Management Studies, Sri Manakula Vinayagar Engineering College (Autonomous), Puducherry.
[2]Assistant Professor, Department of Management Studies, Sri Manakula Vinayagar Engineering College (Autonomous), Puducherry.

ABSTRACT
The study investigates the liquidity management of the District Central Cooperative Bank (DCCB) in Villupuram district and their impact on profitability. It emphasizes the critical role of liquidity in ensuring the bank's operational efficiency and financial health. By analyzing historical financial data, including liquidity and profitability ratios, the research aims to assess the effectiveness of various liquidity management techniques such as cash flow management, reserve maintenance, and loan disbursements. The study also explores the relationship between liquidity management and profitability, focusing on key profitability ratios like Return on Assets (ROA) and Return on Equity (ROE). Limitations of the study include reliance on historical data, a specific time frame, and the focus on a single institution, which may affect the generalizability of the findings. The research seeks to provide actionable recommendations to enhance liquidity management strategies, thereby improving the bank's profitability and overall financial stability.

Keywords: Financial health, liquidity management, profitability

1. INTRODUCTION

Finance is often compared to the blood in the human body, essential for the proper functioning and growth of a business. Just as efficient blood circulation ensures a healthy body, a well-structured financial system enables a business to operate smoothly and make sound decisions. Financial management involves determining the right amount of long-term capital required and identifying suitable sources for it, ensuring an optimal capital structure that balances long-term and short-term needs. Investment decisions, especially those involving capital-intensive projects like expansion, diversification, or research and development, are critical as they demand significant upfront investment with returns materializing over time.

1.1 OBJECTIVE

- To analyze the liquidity and profitability ratio of district central cooperative bank in Villupuram district
- To identify the relationship between liquidity and profitability of district central cooperative bank

2. REVIEW OF LITERATURE

- **Borio,C. & Zhu H. (2024)** The Role of Central Banks in Liquidity Management Central banks play a crucial role in maintaining financial stability by providing liquidity support to the banking system.This study analyzes the impact of central bank interventions on bank liquidity and systemic risk.
- **AcharyaV. & Shin H. S. (2023)** liquidity Management in Emerging Markets.Emerging market banks face unique challenges in liquidity management, including volatile capital flows, currency risks, and underdeveloped financial markets. Effective liquidity management strategies are essential for these banks to maintain stability and support economic growth.
- **Xialong duan(2023)** Liquidity Risk Management in Commercial Banks. This study leverages secondary data from annual reports of commercial banks in different countries to compare their liquidity risk management practices.
- **M.A. Khan, N.A. Khan(2022)** . liquidity Risk Management in Islamic Bank.This paper investigates the unique challenges and opportunities faced by Islamic banks in managing liquidity risk. It examines the impact of Sharia-compliant products and services on liquidity profiles and highlights the importance of robust risk management frameworks.
- **Wei Dachen, Shu-Chun Hang (2021)** Liquidity Risk Management and Bank Performance This paper leverages secondary data from bank financial statements to examine the relationship between liquidity risk management practices and bank performance metrics (ROA, ROE). Correlation and regression analysis are used to assess the impact of liquidity ratios on profitability and risk. The findings highlight the importance of effective liquidity risk management in enhancing bank performance and mitigating financial instability.
- **A.B. Gupta, S.K. Sharma (2021)** The Impact of Digitalization on Liquidity Risk Management in Banks. This research explores the transformative effects of digital technologies on liquidity risk management. It discusses the benefits of digital tools, such as real-time monitoring, predictive analytics, and automated decision-making, in enhancing liquidity risk management practices.

3. RESEARCH METHODOLOGY

It is a type of Research Design that aims to obtain information to systematically describe a phenomenon, situation (or) population. A Descriptive Research Design can use a wide variety of Research methods to investigate one (or) more variable. Descriptive research is a type of research design that focuses on accurately describing the characteristics, behaviors, or phenomena within a particular group or situation. It does not aim to manipulate or influence variables but instead observes and reports on existing conditions.

3.1 Collection of Data

Sources of data refer to the origins or locations from which data is collected. These can be primary sources, where data is collected firsthand, or secondary sources, where data is collected from existing sources.

SECONDARY DATA:

Secondary data is the data that has already been collected through primary sources and made readily available for researchers to use for their own research. It is a type of data that has already been collected in the past.

- Books
- Published source
- Journal

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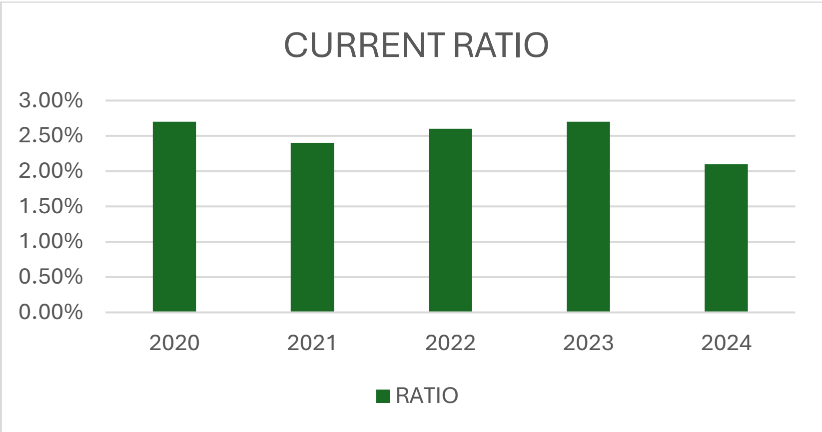
4. DATA ANALYSIS AND INTERPRETATION

RATIO ANALYSIS

4.1 CURRENT RATIO

Current ratio=current asset / current liability

YEAR	CURRENT ASSET	CURRENT LIABILITY	RATIO
2020	22,353,654,405	8,244,184,710	2.7%
2021	26,168,917,150	10,525,494,442	2.4%
2022	27,666,764,438	10,583,969,114	2.6%
2023	29,789,633,951	10,974,098,510	2.7%
2024	28483494989	13,210,070,534	2.1%



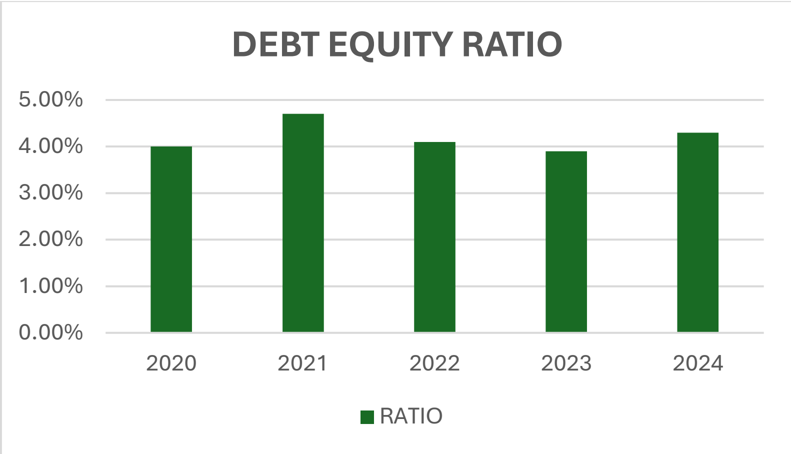
INFERENCE

The current ratio, a measure of a company's liquidity, has remained relatively stable over the years 2020 to 2024. It fluctuated between 2.00% and 2.50% during this period. 2024 sawa slight dip in the ratio compared to the previous years. This suggests that the company's ability to meet its short-term obligations remained consistent, with a slight decline in 2024.

DEBT EQUITY RATIO

Debt equity ratio=current liability / shareholder’s equity

YEAR	CURRENT LIABILITY	SHARE HOLDER” S EQUITY	RATIO
2020	8,244,184,710	2,031,491,942	4.0%
2021	10,525,494,442	2,233,876,558	4.7%
2022	10,583,969,114	2,576,671,980	4.1%
2023	10,974,098,510	2,010,725,250	3.9%
2024	13,210,070,534	3,062,843,385	4.3%



INFERENCE

The Debt Equity Ratio (DER) has shown a steady increase from 2020 to 2024. This indicates a growing reliance on debt financing to fund operations. While this can potentially boost growth, it also increases the company's financial risk. It's essential to monitor this trend and ensure that the company's debt levels remain manageable.

FINDINGS

The analysis of the company's financial performance from 2020 to 2024 reveals significant trends and challenges. The liquidity position, reflected in the declining current and quick asset ratios, indicates potential struggles in meeting short-term obligations, requiring immediate attention to ensure solvency. The rising debt-equity ratio points to an increased reliance on debt financing, which, if not carefully managed, could heighten financial risks. Profitability metrics such as return on equity (ROE) and return on assets (ROA) have shown a downward trend, particularly in 2024, signaling reduced efficiency in asset utilization and profitability generation. The cash ratio's fluctuations, with notable declines in 2021 and 2024, further highlight inconsistencies in liquidity management.

CONCLUSION

The study highlights the critical importance of maintaining a balanced liquidity and an optimal capital structure for businesses. A strong liquidity as indicated by a favorable current ratio and net working capital, enables companies to meet their short-term obligations effectively, fostering confidence among stakeholders. Additionally, the positive correlation between return on assets (ROA) and return on equity (ROE) suggests that efficient asset utilization directly contributes to profitability, which is essential for sustainable growth and attracting potential investors.

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