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   REVIEW OF LITERATURE

   NEED/IMPORTANCE OF THE STUDY

   STATEMENT OF THE PROBLEM

   OBJECTIVES

   HYPOTHESES

   RESEARCH METHODOLOGY

   RESULTS & DISCUSSION

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   RECOMMENDATIONS/SUGGESTIONS

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   APPENDIX/ANNEXURE

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MANAGEMENT OF FLOATING CAPITAL IN BANKING SECTOR: A CASE STUDY OF PUBLIC AND PRIVATE SECTOR BANKS IN INDIA

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ABSTRACT

In the present era of globalization, liberalization and privatization, management of working capital is of utmost importance. Shifting from conservative approach to aggressive approach is both the need and necessity of modern business. It has been seen that company reduces its working capital to take a greater risk for bigger profits and losses conversely if it is interested in improving its liquidity; it increases the level of its working capital. In order to get an adequate working capital a company should maintain an equilibrium balance between liquidity and profitability. In this paper an effort has been made to analyse the working capital of public and private sector banks of India for the period of 2006-07 to 2010-11. The working capital of banks under study are analyze through certain ratios and the inter comparison of working capital policies has been examined by applying the ANOVA test.

KEYWORDS

Working Capital, Public Sector Banks, Private Sector Banks, Current Assets, Current Liabilities.

ABBREVIATIONS

ATR	:	Acid Test Ratio
CR	:	Current Ratio
ICICI	:	ICICI Bank
HDFC	:	HDFC Bank
PNB	:	Punjab National Bank
SBI	:	State Bank of India
WCTR	:	Working Capital Turnover Ratio

INTRODUCTION

Every business requires funds for its establishment and to carry out its day to day operations. Funds required meeting the day to day operations or short term needs are known as working capital. Working capital is the amount of funds necessary to cover the cost of operating the enterprise. It represents the liquid reserves for meeting current obligations. In the normal course of business creditors are concerned about receiving payment as soon as possible so, in order to get security of payment they prefer high levels of working capital. However, management prefers low levels of working capital since working capital earns an extremely low rate of return and also blocks the valuable finance which may be utilized in some better alternative. Working capital's inefficient management can lead not only to loss of profits but also to the downfall of a business. In today's world of intense global competition, working capital management is receiving increasing attention from managers.

Concept of Working Capital: There are two concepts of working capital.

(a) Gross Working Capital: In broader sense the term working capital refers to the gross working capital and represents the amount of funds invested in current assets.

(b) Net Working Capital: In a narrow sense, the term working capital refers to the net working capital. It is the excess of current assets over current liabilities.

REVIEW OF LITERATURE

Sagan in his paper (1955),[5] perhaps the first theoretical paper on the theory of working capital management, emphasized the need for management of working capital accounts and warned that it could vitally affect the health of the company. Realizing the dearth of pertinent literature on working capital management, Walker in his study (1964)[6] made a pioneering effort to develop a theory of working capital management by empirically testing, though partially, three propositions based on risk-return trade-off of working capital management. Walker studied the effect of the change in the level of working capital on the rate of return in nine industries. Weston and Brigham (1972)[7] further extended the second proposition suggested by Walker by dividing debt into long-term debt and short-term debt. They suggested that short-term debt should be used in place of long-term debt whenever their use would lower the average cost of capital to the firm. They suggested that a business would hold short-term marketable securities only if there were excess funds after meeting short-term debt obligations. Vanhorne in his study (1969)[8], recognizing working capital management as an area largely lacking in theoretical perspective, attempted to develop a framework in terms of probabilistic cash budget for evaluating decisions concerning the level of liquid assets and the maturity composition of debt involving risk-return trade-off. He proposed calculation of different forecasted liquid asset requirements along with their subjective probabilities under different possible assumptions. According to Moyer, Mcguigan and Kretlow (1998)[9], the major policy issue encountered in the management of working capital is related to level of investment and its financing. According to them firms have two goals - liquidity and profitability. The above brief review of studies in shows that although a lot of attempts have been made to analyse working capital management but still the study has wide scope for research.

OBJECTIVES OF STUDY

Numerous attempts have been made to study the long term as well as short term financial management of banks but still it is required to spotlight an attention on the working capital analysis of banks. Therefore it appears that a profound study of the working capital analysis of public and private banks is extremely important. The study is undertaking for the following objectives.

1. To assess the short term financial position of banks under study by applying the technique of ratio analysis.
2. To compare the working capital management of banks under study on the basis of statistical test.
3. To highlight the major reasons responsible for the probability of short term financial distress.
4. To offer the constructive suggestion in order to improve the working capital management in banks.

RESEARCH METHODOLOGY

The data relating to the working capital analysis of banks under study is collected from primary as well as secondary sources. Personal interview method is used for obtaining primary data and the published annual reports and other statements prepared by the banks and other institutions are used as secondary data. For the purpose of the study the annual reports and other financial and non financial statements of banks for the period from 2006-07 to 2010-11 are considered. The financial statement of banks are recast and represented in the forms of tables and diagrams. For testing significance of the difference between the working capital management, the one way ANOVA test is applied as statistical tool.

AREA OF THE STUDY

The commercial banks are operating throughout the country. But for this study a sample of four banks are selected. In order to make it comprehensive and comparative study, a sample of four banks are selected out of which State Bank of India (SBI) and Punjab National Bank (PNB) are selected from the public sector and ICICI Bank and HDFC Bank are selected from the private sector.

HYPOTHESIS

Hypothesis testing is a technique through which some claims can be proved or disproved. It is a logical test of findings and conclusions.
For the present study the following hypothesis are formulated

Null Hypothesis (H_o) : There is no significant difference between working capital management of banks under study.
Alternative Hypothesis (H_1) : There is a significant difference between working capital management of banks under study.

LIMITATIONS OF THE STUDY

Although a sincere efforts are made to depict a fair and accurate picture of the short term financial position of the banks under study but the data related to the study are mostly secondary data, and the accuracy and authenticity of the same depends upon the reliability of sources.

TOOLS FOR ANALYSIS OF WORKING CAPITAL

As depicted in the Table No. 1 the working capital of SBI were throughout negative during the study period. It was ₹ - 34750 in the year 2006-07 and there from the same were reached at ₹ - 61470 in the year 2010-11 with a remarkable decrease of 176%. The decrease in working capital was highest in the year 2008-09 in which the same were reached at ₹ -72964 but than in the very next year the bank has improved and its working capital reached at ₹ -45224.

TABLE NO. 1: WORKING CAPITAL OF STATE BANK OF INDIA (₹ Crore)

Particulars	2010-11	2009-10	2008-09	2007-08	2006-07
Current Assets	43777	35112	37733	44417	25292
Current Liabilities	105248	80336	110697	83362	60042
Working Capital	-61470	-45224	-72964	-38945	-34750

Source: Dion Global Solutions Limited

As stated earlier working capital is the result of surplus of current assets over current liabilities. The rate of increase in current assets in SBI was highest in the year 2007-08 in which the same were increased with the margin of 175% and reached at ₹ 44417. But the same growth rate could not maintain in the next two years i.e. 2008 -09 and 2009-10 in which the same were reduced by 15% and 7% and reached at ₹ 37733 and ₹ 35112 respectively. Although SBI manage to improve its current assets in the year 2010-11in which it reached at ₹ 43777. In comparison to current assets, the current liabilities of SBI increased with consistency. It was ₹ 60042 in the year 2006-07 and there from the same were increased with a considerable margin of 175%and reached at ₹ 105248.
Similar to the SBI the position of PNB is also considerable. The bank is facing negative working capital throughout the study period.

TABLE NO. 2: WORKING CAPITAL OF PUNJAB NATIONAL BANK (₹ Crore)

Particulars	2010-11	2009-10	2008-09	2007-08	2006-07
Current Assets	8259	6320	5020	4380	3980
Current Liabilities	12328	10317	18130	14798	10178
Working Capital	-4269	-3997	-13110	-10418	-6198

Source: Dion Global Solutions Limited

The working capital which were ₹ -6198 in the year 2006-07 increased and reached at ₹ -10418 and ₹ -13110 in the year 2007-08 and 2008-09 respectively. But PNB managed to reduce the negativity in the following years with an effective margin as the working capital reached at ₹ -3997 in the year 2009-10.
On the one hand the working capital in public sector banks were negative but on the other hand the position of private sector were also not considered satisfied although some efforts were reflected in the ICICI Bank. The working capital in ICICI Bank were negative with a huge amount of ₹ -21928 in the year 2006-07 but remarkable recovery.

TABLE NO. 3: WORKING CAPITAL OF ICICI BANK (₹ Crore)

Particulars	2010-11	2009-10	2008-09	2007-08	2006-07
Current Assets	16347	19214	24163	20574	16300
Current Liabilities	15986	15501	43746	42895	38228
Working Capital	361	3713	-19583	-22321	-21928

Source: Dion Global Solutions Limited

Is noticed in the year 2009-10 in which the same was reached at ₹ 3713 with a margin of 216% although it fell to ₹ 361 in the year 2010-11. The liquidity position of HDFC bank was also considerable as the working capital was negative in the whole study period with a huge amount of ₹ -10094 in the year 2006-07 and ₹ -16364 in the year 2008-09. The position was slightly improved in the succeeding years as the same were reached at ₹ -14660 and ₹ -14391 in the years 2009-10 and 2010-11 respectively.

TABLE NO. 4: WORKING CAPITAL OF HDFC BANK (₹ Crore)

Particulars	2010-11	2009-10	2008-09	2007-08	2006-07
Current Assets	14601	5955	6356	4402	3605
Current Liabilities	28992	20615	22720	16431	13699
Working Capital	-14391	-14660	-16364	-12029	-10094

Source: Dion Global Solutions Limited

Ratio Analysis: Ratio Analysis is the most effective tool of analysis. it is a technique which facilitates the inter and intra comparison of data. The ratios analysis is the most powerful tool of financial statement analysis. Ratios simply mean one number expressed in terms of another. A ratio is a statistical yardstick by means of which relationship between two or various figures can be compared or measured. Ratios can be found out by dividing one number by another number. Ratios show how one number is related to another. Following ratios are calculated under study for working capital analysis.

Current Ratio (CR): Current ratio is an essential ratio for estimating the short term financial solvency of a business. The ratio is calculated by applying the following formula

Current Ratio = $\dfrac{\textbf{Current Assets}}{\textbf{Current Liabilities}}$

Current Assets include all such assets which are expected to be liquefied within a period of one year. In other words the assets which are convertible in cash within a period of one year are called as current assets such as cash in hand, cash at bank, inventories, receivables, prepaid expenses etc. Similarly the liabilities which have to be paid within one year are considered as current liabilities such as creditor, bills payables, outstanding expenses etc. 2 : 1 is considered as an ideal current ratio for a business which denotes the availability of 2 ₹ for every liability of 1₹ .

TABLE NO. 5: CURRENT RATIO

Banks/Years	2006-07	2007-08	2008-09	2009-10	2010-11
SBI	0.05	0.07	0.04	0.04	0.04
PNB	0.03	0.02	0.02	0.02	0.03
ICICI Bank	0.09	0.11	0.13	0.14	0.11
HDFC Bank	0.04	0.04	0.04	0.03	0.06

As depicted from the table no. 5 the current ratio in SBI were far away from the ideal throughout the study period. It was 0.05 in the year 2006-07 and in the next year the same were increased a bit and reached at 0.07 but than it was again decreased to 0.04 continuously in the following years. The position of PNB was worse than that of SBI as the current ratio in the same were maintained at 0.02 on an average. In comparison to public sector the private banks especially ICICI Bank has held better position. The current ratio in ICICI Bank were 0.09 in the year 2006-07 there from the same were increased and reached at 0.14 in the year 2009-10 but it was slightly decreased in the year 2010-11 where as in HDFC Bank it was constant at 0.04 on an average. As per the table no bank weather private or public has maintained a good current ratio which generates a fear of short term insolvency in them.

Acid Test Ratio (ATR):Acid Test Ratio is another important ratio for justifying the short term solvency of a business. The ratio is used as a tool for testing very short term solvency. The ratio is calculated by applying the following formula:

Acid Test Ratio: $\dfrac{\textbf{Quick Assets}}{\textbf{Current Liabilities}}$

The quick assets consist of those assets which are easily converted into cash within a very short period of time. Normally quick assets are calculated by subtracting stock and prepaid expenses from current assets. In other words

Quick Assets = Current Assets – (Stock + Prepaid Expenses)

The ideal quick ratio is 1:1 for a business, which denotes the availability of ₹ 1 of quick assets for every ₹ 1 current liability.

TABLE NO.6: ACID TEST RATIO

Banks/Years	2006-07	2007-08	2008-09	2009-10	2010-11
SBI	6.52	6.15	5.74	9.09	8.50
PNB	11.10	9.40	9.75	20.47	22.24
ICICI Bank	6.04	6.42	5.94	14.70	15.86
HDFC Bank	6.39	7.14	5.23	4.89	4.07

As per table no. 6 the quick ratio in SBI was in a noticeable position. It was 6.52 in the year 2006-07 and reached at 9.09 in the year 2009-10. The position of PNB is worse than SBI as the quick ratio which were 11.10 in the year 2006-07 increased and reached at 22.24 in the year 2010-11. ICICI Bank which is a private bank also suffered from the same situation as the ratio which was 6.04 in the year 2006-07 increased to 15.86 in the year 2010-11. HDFC Bank is the only unit under study which was able to reduce its quick ratio from 6.39 in the year 2006-07 to 4.07 in the year 2010-11. As per observation

the quick ratio were very much more than the ideal ratio in all the four banks under study which is a clear notice of heavy inefficiency in the management of quick assets, the banks had blocked a huge amount of cash resources in quick assets which can be used in some other fruitful alternates.

Working Capital Turnover Ratio (WCTR): A measurement comparing the depletion of working capital to the generation of sales over a given period. This provides some useful information as to how effectively a company is using its working capital to generate sales.

Working Capital Turnover Ratio = $\dfrac{\textbf{Total Revenue}}{\textbf{Net Working Capital}}$

The ratio consists of two components i.e. total revenue and net working capital. The net working capital is calculated by deducting current liabilities from current assets.

The working capital turnover ratio measures the efficiency with which the working capital is being used by a firm. A high ratio indicates efficient utilization of working capital and a low ratio indicates otherwise. But a very high working capital turnover ratio may also mean lack of sufficient working capital which is not a good situation.

TABLE NO. 7: WORKING CAPITAL TURNOVER RATIO

Banks/Years	2006-07	2007-08	2008-09	2009-10	2010-11
SBI	-1.2	-1.45	-1.02	-1.90	-1.55
PNB	-2.07	-1.56	-1.69	-6.26	-7.16
ICICI Bank	-1.36	-1.77	-2	8.88	9.16
HDFC Bank	-8.83	-1.02	-1.21	-1.35	-1.69

The working capital turnover ratio calculated in all the selected banks except of few exceptions are at considerable position. As depicted under the table no. 7 the ratio were negative throughout the study period in case of SBI, PNB and HDFC Bank, ICICI Bank managed to make it positive and better in the years 2009-10 and 2010-11 in which the same were at 8.88 and 9.16 respectively, which denotes a good sign as far as utilization of working capital concern. Rest of banks under study have to pay their concentration on the better utilization of working capital as the ratio were negative with a considerable margin specially in PNB where the ratio were negatively increasing year by year. It was -2.07 in the year 2006-07 and there from the same reached at -7.16 in the year 2010-11. in this context some corrective measures are reflected in HDFC Bank in which the ratio was reduced to 1.69 in the year 2010-11 from -8.83 in the year 2006-07.

Application of Statistical Tool (ANOVA): 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 sample of four banks are selected and the working capital management among them are hypothetically tested by using ANOVA technique at 5% level of significance.

TABLE NO. 8: ANOVA TABLE

Sr.No.	Source of Variance	Degree of Freedom		F Ratio	Table Value	Hypothesis
1	Between Samples	3	17.68 (MSB)	3.88	4.07	Accepted
2	Within Samples	8	68.76 (MSW)			
	Total	11				

As depicted in the table no. 8 the calculated value of F ratio is 3.88 at 5% level of significance**.** The table value at 5% level of significance is 4.07 which is more than that of calculated value of F ratio that is 3.88 so the null hypothesis that there is a significant difference in the working capital management of selected banks is accepted.

CONCLUSIONS AND SUGGESTIONS

Banking sector is one of the most important sectors of any economy. It built up the creditability and economic strength of not only the country but also the people who lives in. from the above study it is concluded that the banks in India whether in public or private sector were not performing well as far as management of working capital concern. Except of ICICI Bank, rest of the banks under sample was not able to maintain the sufficient amount of working capital. The banks under study were facing negative working capital through out the study period which generated a probability of short term insolvency. The banks should pay attention to the level of working capital and should create 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. But short term solvency should also not to be neglected.

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Looking forward an appropriate consideration.

With sincere regards

Thanking you profoundly

Academically yours

Sd/-

Co-ordinator

ABOUT THE JOURNAL

In this age of Commerce, Economics, Computer, I.T. & Management and cut throat competition, a group of intellectuals felt the need to have some platform, where young and budding managers and academicians could express their views and discuss the problems among their peers. This journal was conceived with this noble intention in view. This journal has been introduced to give an opportunity for expressing refined and innovative ideas in this field. It is our humble endeavour to provide a springboard to the upcoming specialists and give a chance to know about the latest in the sphere of research and knowledge. We have taken a small step and we hope that with the active co-operation of like-minded scholars, we shall be able to serve the society with our humble efforts.

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