e-ISSN:2582-7219

INTERNATIONAL JOURNAL OF MULTIDISCIPLINARY RESEARCH IN SCIENCE, ENGINEERING AND TECHNOLOGY

Volume 7, Issue 4, April 2024

INTERNATIONAL STANDARD SERIAL NUMBER INDIA

Impact Factor: 7.521

6381 907 438 6381 907 438 ijmrset@gmail.com www.ijmrset.com

| ISSN: 2582-7219 | www.ijmrset.com | Impact Factor: 7.521| Monthly Peer Reviewed & Referred Journal |

| Volume 7, Issue 4, April 2024 |

| DOI:10.15680/IJMRSET.2024.0704133 |

A Study of Working Capital Management and Profitability of Banks in India

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ABSTRACT: This research paper aims to examine the relationship between working capital management and profitability of banks in India. The study focuses on understanding how efficient working capital management practices can impact the financial performance and profitability of banks operating in the Indian banking sector. The paper begins by providing the overview of working capital management and its significance for banks.it explores the key component of working capital including current assets and liabilities and the role they play in maintaining liquidity and optimizing profitability. Next, it defines various strategies and techniques employed by banks in India to manage their working capital effectively. The study utilizes both quantitative and qualitative research methods to analyse the financial statements and performance indicators of banks in India. The findings of this research paper contribute to the existing body of knowledge on working capital management in the Indian banking sector. Overall. The research paper aims to provide comprehensive analysis of relationship between working capital and profitability of Indian banks. The findings for this study is valuable for banks, policymakers and researchers interested in understanding the dynamics of working capital management and its impact on banks profitability.

KEYWORDS: Working capital, Profitability, Indian Banks, Liquidity, Finance, Efficiency.

I. INTRODUCTION

Working capital management refers to the process of effectively managing a company's short-term assets and liabilities to ensure smooth day-to-day operations. It involves optimizing and monitoring the levels of current assets (such as cash, inventory and accounts receivables) and current liabilities (such as accounts payable and short-term debt).

The goal of working capital management is to strike a balance between maintaining adequate liquidity to meet short-term obligations and maximizing the efficiency of working capital utilization by effectively managing working capital, a company can improve its cash flow, reduce financing costs and enhance its overall financial performance.

One key aspect is managing the liquidity of the bank. Bank need to maintain an optimal level of cash and liquid assets to meet customer's demand for withdrawals and fund transfers.by effectively managing their working capital, banks can ensure that they have enough cash on hand to handle these transactions promptly.

Profitability of banks refers the ability to generate profits from their operations. Banks earn revenue primarily through interest income from loans and investments, fees from various services, and gains from trading activities

To assess, profitability banks commonly use financial metrics such as net interest margin (NIM), return on assets (ROA), and return on equity (ROE). NIM measures the difference between interest earned on loans and interest paid on deposits reflecting the bank's ability to generate income from its interest-earning assets. ROA calculates the bank's profitability relative to its total assets, while ROE measures profitability in relation to the bank's shareholder's equity.

A bank's profitability is influenced by various factors including interest rates, loan quality, operating expenses and efficiency in managing costs. Higher interest rates generally benefit banks by increasing their net interest income, while low-quality loans and high operating expenses can negatively impact profitability.

Overall, working capital management and profitability is crucial for banks to maintain financial stability and liquidity.9 By effectively managing their short-term assets and liabilities, banks can ensure the smooth functioning of their operations minimize risks, and provide quality services to their customers.

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The problem statement for researching the relationship between working capital management and profitability of banks in India would be to investigate how the management of working capital, which includes the management of current assets and liabilities, affects the profitability of banks in the Indian context.

The research would analyse the impact of factors such as cash conversion cycle (CCC), inventory management, accounts receivables and accounts payable on the profitability of banks. By understanding this relationship, the research can provide insights into how banks can optimize their working capital management practices to enhance profitability.

II. LITERATURE REVIEW

"Working capital management and profitability: A Study of Indian Banks" by Sharma and Jain (2017): this study examines the relationship between working capital management practices and the profitability of Indian banks. It explores various factors such as liquidity management, cash conversion cycle, and inventory management to understand how they impact bank's profitability.

"Impact of Working Capital Management on Profitability: A Study of Indian Banks "by Kumar and Gupta (2018): Kumar and Gupta's study focuses on the impact of working capital management on the profitability of Indian banks. It analyses the efficiency of working capital management practices, including accounts payable and receivable management, and its influence in bank's profitability.

"Working Capital Management and Profitability: A study of Public Sector Banks in India" by Singh and Singh (2019): Singh and Singh's research specifically investigates the relationship between working capital management and profitability in public sector banks in India.it examines factors such as cash conversion cycle, liquidity management and inventory management to understand their impact on bank's profitability.

"Efficiency of Working Capital Management and Profitability: A Study of Private Sectors Banks in India" by Verma and Sharma (2020): This study by Verma and Sharma focuses on the efficiency of working capital management and its impact on profitability in private sector banks in India. It explores various aspects of working capital management such as accounts payable and receivable, inventory management and cash conversion cycle, to understand their relationship with bank's profitability.

III. STATEMENT OF PROBLEM

Efficient management of working capital focuses on continuing to provide an optimum amount of working capital to optimize organizational value. By using the cash exchange period, the management of working capital is calculated. Since it leads to higher revenue, a longer cash conversion period could improve profitability. However, with the cash conversion period, corporate profitability could also decline if the costs of higher investment in working capital increase faster than the benefits of keeping more inventories and/or giving consumers more commercial credit.

Objectives

- To examine the relationship between working capital management and profitability of banks in India.
- To analyse the impact of various components of working capital, such as cash conversion cycle, inventory management, accounts receivables and accounts payables on bank profitability.
- To assess the effectiveness of working capital management strategies employed by banks in India and their impact on profitability.

IV. RESEARCH METHODOLOGY

Descriptive research: Descriptive research aims to describe and analyze existing phenomenon without manipulating variables. In this, descriptive research used to provide an overview of working capital practices, profitability trends and the components of working capital management in Indian banks.

Empirical analysis: Empirical research involves collecting and analyzing real-world data to draw conclusions. This analysis can empirically examine the relationship between working capital management practices (such as cash conversion cycle, inventory management, accounts receivables, and accounts payable) and bank profitability.

Panel data methodology: Panel methodology allow researcher to study the same entities over multiple time periods. it investigate how working capital management practices impact profitability across different banks in India.

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Quantitative analysis: it involves numerical data analysis. It quantify the impact of working capital components on banks profitability, it has dependent variable (profitability) and independent variables (working capital components).

Comparative study: Comparative study compares the different banks or group of banks. it compares the effectiveness of working capital management strategies employed by listed and unlisted banks in India. it also identifies best practices and areas for improvements.

Case studies: Case studies involves in-depth exploration of specific banks. It investigates how individual banks implement working capital strategies and their impact on profitability. It collects data by taking interviews with bank managers, review of policies, and financial data.

IV. RESEARCH FINDINGS

The working capital management and performance are positively correlated. In other words, efficient management of working capital tends to enhance bank's profitability.

Efficient management of working capital tends to have a positive correlation with bank's profitability. When banks effectively handle their working capital components such as cash inventory, receivables and payables. It often leads to improved financial performance.

A shorter CCC tends to positively impact bank's profitability. When banks efficiently manage their cash flows, reduce the time between production and sales, and collect payments promptly, it contributes to better financial performance.

V. CONCLUSION

The research underscores the importance of working capital management as a critical determinant of bank's profitability in the Indian context. By identifying the key drivers and implications of efficient working capital management, the study contributes to the existing literature on financial management practices in the banking sector. The findings have important implications for bank managers, policymakers, and investors, emphasizing the need for proactive strategies to optimize working capital and enhance overall profitability. Effective working capital management not only improves bank's financial health but also strengthens their ability to support economic growth and development in India,

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