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IMPACT OF WORKING CAPITAL MANAGEMENT ON PROFITABILITY: A STUDY OF SELECTED PUBLIC, PRIVATE AND FOREIGN SECTOR BANKS IN INDIA

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ABSTRACT

Any competent financial manager should prioritise increasing the company's net worth for the benefit of its shareholders. Because of this, he has to make calculated choices so that his assets and liabilities are always optimal. In the simplest terms, a company's working capital consists of all of its liquid assets that are used in the normal course of business. 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. Of the 150 bench divisions, the research sample was collected from 100 bank branches using a simplified random sample process. The optimal level of working capital is reached when both profitability and liquidity are maximised. It's important to keep in mind that although spending too much on working capital might hurt a bank's bottom line, not having enough can put you at danger of not being able to pay your bills. Because of this, working capital is seen as a reliable management tool for ensuring long-term success.

Keywords: Working Capital, Public Bank, Private Bank, Foreign bank, Current Assets, Profitability, Shareholders

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1. INTRODUCTION

Any competent financial manager should prioritise increasing the company's net worth for the benefit of its shareholders. Because of this, he has to make calculated choices so that his assets and liabilities are always optimal. To put it simply, a company's working capital consists of its liquid assets, or those that are used in the normal course of business but may be converted into other forms of asset (Gitman, 2002). Current assets often include liquid assets, prepaid costs, short-term investments, accounts receivable, inventory, etc. Net working capital is defined as the difference between current assets and current liabilities. Your working capital may be determined by subtracting your current assets from your current liabilities. The final result of net working capital might be positive or negative. The term "working capital management" is used to describe the method by which a company's financial manager chooses how much of the company's current assets and current obligations should be funded. To keep the company liquid and able to satisfy its short-term obligations, a certain level of current assets is required, and this must be taken into account. It's possible, however, that a company's current assets might be used to halt funding. Therefore, it has a negative effect on revenue. There is a risk that poor management of working capital would reduce profitability and return on investment. Successfulness may also be measured by the rate of return offered to investors. It's possible that if there's a mismatch between your company's existing assets and obligations, you'll be getting a less than desirable return (Vshnani & Shah, 2007). The goal of managing a company's working capital is to find a happy medium between maximisation of profits and the avoidance of insolvency. (Ricci & Vito, 2000)

The availability of working cash is critical to the continued success of any organisation. Without working capital, a business would be unable to function. An organization's capacity to maintain its liquidity, solvency, and profitability is heavily dependent on its working capital (Mukhopadhyay, 2004). It would be hard to overestimate the importance of a company's ability to manage its working capital. (Filbeck & Krueger, 2005). Profitability and the company's capacity to generate cash flow are directly affected (Rehman & Nasr, 2007). Spending more on working capital will lower the possible return from investing that same amount in long-term assets. Most importantly, the company will incur the expense of keeping inventory and managing the product for extended periods of time. (Arnold, 2008).

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Managers of financial institutions must constantly strike a compromise between shareholders who place constraints on the institution's capacity to generate profits and depositors who are demanding high rates of interest on both their demand and term deposits. Effective bank capital control is also highly significant in corporate finance management as it deals directly with the financing and revenue of the Bank. This mathematics describes working capital to calculate the well-being of a financial entity as a discrepancy in current assets and liabilities. The handling of job capital frequently fulfils the firm's short-term financial responsibility. A bank's job capital is essentially the operational liquidity that the bank will operate on a regular basis.

This paper explores the viability and the role of working capital of the banks selected. The structure of the article is as follows. In the following segment the philosophical, analytical and scientific literature analysis is examined, and the approach briefly presented. I would concentrate in this report on methods for controlling and the sustainability of banks. The learning results will help managers of financial banks adjust or change their policies to enhance their working capital management and the cash flow.

2. LITERATURE REVIEW

2.1 Working Capital in Banks

Senan et al., (2021) Examining how effective management of working capital affects commercial bank profits in India is the focus of this study. In this analysis, we use the Generalized Moments Method (GMM), a static modelling technique that combines fixed and random effects into a single model. Data from 98 different Indian banks were used to compile this extensive research, which spans the years 2008-2018. A company's success may be measured in part by calculating its return on assets (ROA) and its return on equity (ROE) (ROE). The policy interest rate is unrelated to the business cycle, net profit, asset size, financial leverage, quick ratio, current ratio, ROCE, ROA, ROTA, NPM, and the other ratios and metrics. The research shows that several factors, including the Working Capital Cycle, Monetary Policy, Profitability, and Working Capital Margin, contribute to an institution's financial health, and hence to its performance, among them being Indian Commercial Banks. (ROA).

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Agyei & Yeboah (2011) The primary goal of this research is to determine whether financial institutions like banks in Ghana may benefit from the same working capital management methods that have been shown to increase profits for non-financial businesses. For this study's data presentation and analysis, the researchers relied on panel data methods grounded on the random effects approach. Cash operational cycle, like debtors' collecting time, strongly positively correlates with bank profitability, whereas creditors' payment term significantly negatively correlates with profitability. Bank profitability is also influenced by other factors such as credit risk, exchange risk, capital structure, and size. When compared to their unlisted counterparts, listed banks' performance is quite low. This paper's findings will help steer bank directors and policymakers toward more efficient methods of managing working capital.

2.2 Profitability in Bank

Tharu & Shrestha (2019) The primary goal of this research is to analyse the ways in which different sized banks in Nepal fare in terms of profitability. Design/Research The panel study method was used for this investigation. Assuming a normal distribution, we selected 8 of the 28 banks as our sample banks. Data from the years 2013 and 2018 have been processed. The Nepal Rastra Bank served as the data collector. Data was analysed using both descriptive and inferential statistics. The data was analysed using SPSS 20. Multiple analyses showed that bank size does not have a substantial effect on return on assets (ROA) (Assets). The elements that contribute to develop this connection are beyond the scope of this research. The results may be highly important for the owners and executives of Nepalese commercial banks, as well as policymakers who are pressing for a merger.

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Alshatti (2016) The key determinants affecting the profitability of Jordanian commercial banks are investigated using a representative panel data set in this study. The research uses a sample of 13 banks and years to collect 130 observations, from which key traits that differ by location are identified and analysed (2005-2014). One way to measure a bank's success is by looking at its return on assets (ROA) or its return on equity (ROE). Capital adequacy, capital, and leverage all have favourable effects on a bank's profitability, whereas the quality of the bank's assets has a negative effect. Increasing capital adequacy has been linked to higher bank profits in Jordan, according to the study's findings.

Alrabei (2013) argue that financial institutions are "the backbone of the country's economy" (whether in India, Jordan, or anywhere else). Since profitability is an important factor in the evaluation of these banks' performances, we zero in on State Bank of India (SBI) and Cairo Amman Bank (CAB) of Jordan. Beginning with the 2006-2007 fiscal year and continuing through the 2010-11 fiscal year, the research looks at the years in between. Comparatively, CAB's fiscal year begins on January 1 and concludes on December 31, whereas SBI's spans from April 1 to March 31. You may choose from two distinct sources of information: primary data and secondary data. Primary sources are unique pieces of information. Officials from the banks were interviewed for the main data. The secondary data came from secondary sources including periodicals and the web. The current research relies heavily on previously collected data. Increasing the number of branches globally is recommended for both the Cairo Amman Bank and the State Bank of India by the research.

2.3 Working Capital and Profitability

Ponsian et al., (2014) This study investigates the link between working capital management and company profitability. Achieving financial success as a business is the focus of this study, which aims to investigate the link between working capital management and that achievement. The research does this by use quantitative techniques to investigate a number of outcomes. The research uses 30 stock price observations over 10 years from 3 distinct industrial businesses listed on the Dar es Salaam Stock Exchange (2002-2012). (DSE). Quantitative data analysis makes use of techniques like Pearson's correlation and regression analysis (Ordinary Least Square). The following are only a few of the study's most significant conclusions. To begin,

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there exists a favourable relationship between the cash conversion cycle and the profitability of a corporation. Managers may add value for shareholders if they reduce the time it takes to convert capital into profits, so long as they do so within acceptable bounds. Fourth, there is an inverse relationship between liquidity and profitability, such that a decrease in liquidity results in an increase in profitability. The average payment period has a highly significant positive relationship with profitability, while the average collection period has a highly significant negative relationship with profitability. As a result, a company's potential earnings grow as its obligations remain unpaid for longer. and Fifthly, firms with greater inventory turnover rates have lower holding costs and better profits, implying that the longer an organization's product is on the shelf, the less money it makes.

Muslims Mansoori and Muhammad (2012) The study's main objective is profit maximisation, thus understanding how effectively a firm manages its working capital is essential. Our research, which makes use of panel data analysis, pooled OLS, and Fixed Effect estimates on a sample of Singaporean enterprises in operation between 2004 and 2011, suggests that managers may boost profits by keeping an eye on working capital. Managers might potentially boost profits by reducing losses in accounts receivable and inventory conversion times. There is a full examination of both the sample and the economic sector levels. Despite this, studies in the field indicate that there might be a sector impact on the connection between working capital management and profitability.

Sharma & Kumar (2011) This study's primary purpose is to examine how firms in India may best manage their working capital to maximise profits. For this study, we used OLS multiple regression to examine data for 263 non-financial BSE 500 businesses that traded on the Bombay Stock Exchange (BSE) between 2000 and 2008. When compared to earlier worldwide research from other marketplaces, ours show considerable discrepancies. The findings demonstrate a causal relationship between the efficiency with which Indian businesses manage their working capital and their bottom lines. Multiple studies have shown that a company's profitability decreases as the number of days it takes to cycle through its inventory and pay its bills increases, and that it increases when the number of days it takes to convert receivables into cash decreases. To fill a gap in the literature, this research analyses how effective working capital management might increase profits in a developing economy like India's.

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3. Objectives

- To analyse how working capital is important and significant and affect the profitability of different banks.

4. Methodology

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. Of the 150 bench divisions, the research sample was collected from 100 bank branches using a simplified random sample process. Stratification means that the survey correctly represents the community on the basis of stratification parameters thus random sampling offers a fair playing field for any member of the target population to be chosen (Oso and Onen, 2005).

5. RESULTS

Table 1: Demographic Variables

Variables		**N (%)**
Age	18-25 Years	24 (16.0%)
	26-35 Years	44 (29.3%)
	36-45 Years	44 (29.3%)
	56-65 Years	22 (14.7%)
	Above 65 Years	16 (10.7%)
Gender	Male	86 (57.3%)
	Female	64 (42.7%)

The majority of respondents are from 26-35 years (29.3%) and 36-45 years (29.3%) while the remaining are from 18-25 years (16%) and 56-65 years (14.7%). Male participation is higher (57.3%) than female participation (42.7%) (table 1).

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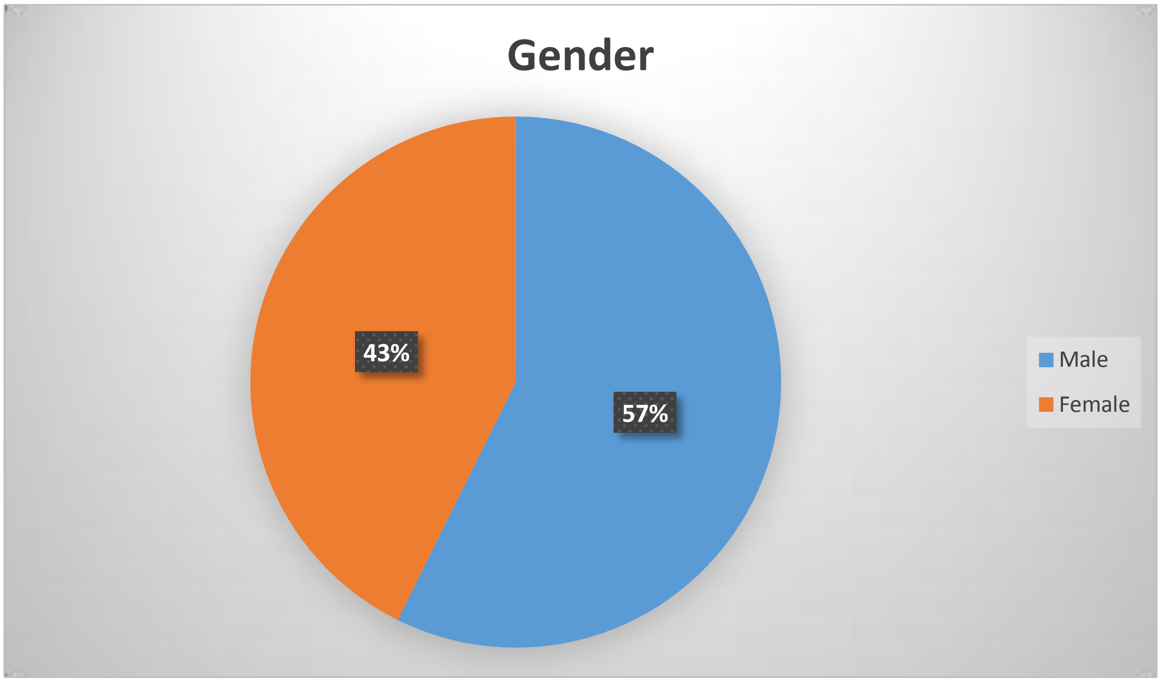

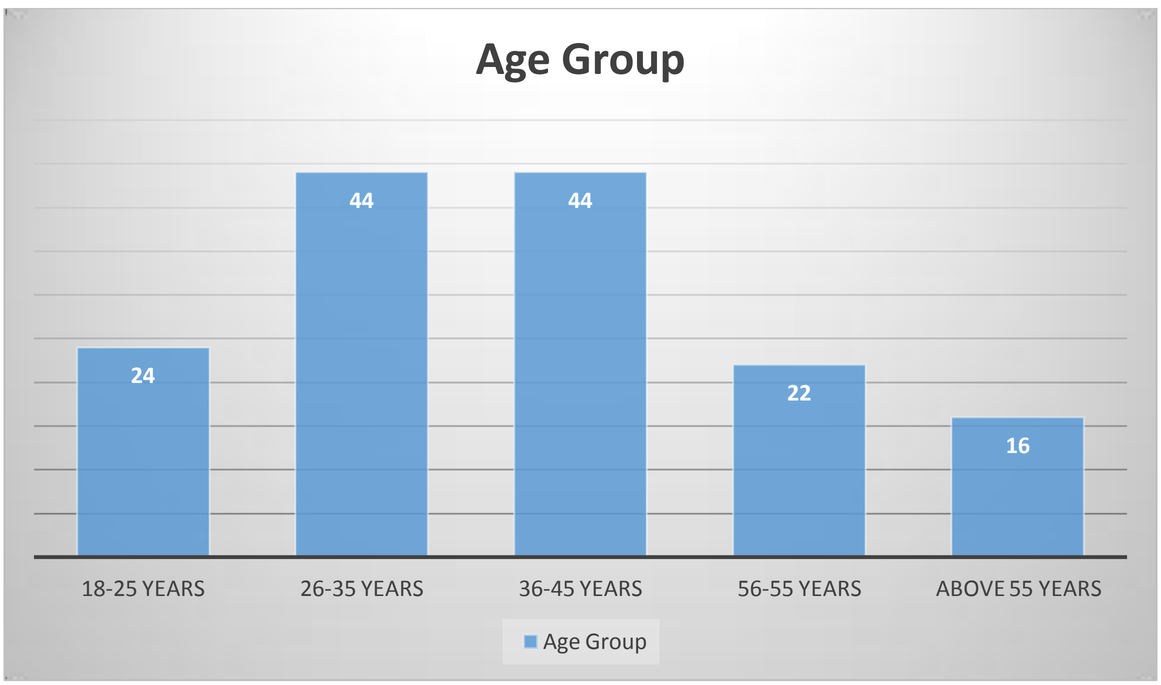

	Government Bank	Private Bank	Foreign Bank
Inventory	3.64 ± 0.54	3.57 ± 0.57	3.57 ± 0.69
Receivables	3.22 ± 0.70	3.39 ± 0.72	3.25 ± 0.72

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Cash	3.48 ± 0.68	3.19 ± 0.75	3.38 ± 0.54
Trade Payables	3.41 ± 0.66	3.79 ± 0.61	3.28 ± 0.73

Average of inventory and cash is high in government banks rather private and foreign bank while receivables and trade payables are high in private. The standard deviation is high in inventories in foreign banks while receivables are high in private and foreign banks. In private banks, cash and trade payables are higher. With all of this, the study can conclude that working capital management affects the profitability of the selected banks.

Hypothesis testing

Hypothesis 1

- H1: High Inventories are profitable for private, public, and foreign banks

One-Sample Test						
	Test Value = 0					
	T	df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
Government Bank	47.080	49	.000	3.64000	3.4846	3.7954
Private Bank	43.998	49	.000	3.57000	3.4069	3.7331
Foreign Bank	36.448	49	.000	3.57000	3.3732	3.7668

On testing the hypothesis 1, the study obtain that p-value are highly significant as they are less than 0.05. Hence, *High Inventories are profitable for private, public, and foreign banks.*

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Hypothesis 2

- H2: More receivables are profitable for private, public, and foreign banks

One-Sample Test						
	Test Value = 0					
	T	df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
Government Bank	32.479	49	.000	3.22500	3.0255	3.4245
Private Bank	33.054	49	.000	3.39000	3.1839	3.5961
Foreign Bank	31.636	49	.000	3.25500	3.0482	3.4618

On testing the hypothesis 2, the study obtain that p-value are highly significant as they are less than 0.05. Hence, *More receivables are profitable for private, public, and foreign banks.*

Hypothesis 3

- H3: High borrowing cost is not profitable for private, public, and foreign banks

One-Sample Test						
	Test Value = 0					
	T	df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
Government Bank	35.739	49	.000	3.48000	3.2843	3.6757
Private Bank	30.140	49	.000	3.19000	2.9773	3.4027
Foreign Bank	43.587	49	.000	3.38500	3.2289	3.5411

On testing the hypothesis 3, the study obtain that p-value are highly significant as they are less than 0.05. Hence, *High borrowing cost is not profitable for private, public, and foreign banks.*

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Hypothesis 4

- H4: Highly trade Payables balance decrease the working capital management which is not profitable for private, public, and foreign banks

One-Sample Test						
	Test Value = 0					
	T	df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
Government Bank	36.390	49	.000	3.41500	3.2264	3.6036
Private Bank	43.710	49	.000	3.79000	3.6158	3.9642
Foreign Bank	31.791	49	.000	3.28000	3.0727	3.4873

On testing the hypothesis 4, the study obtain that p-value are highly significant as they are less than 0.05. Hence, *Highly trade Payables balance decrease the working capital management which is not profitable for private, public, and foreign banks.*

6. CONCLUSION

Any bank's profitability and the well-being of its shareholders rest heavily on the quality of its working capital management. You will miss bill payments if you don't properly manage your working capital. The optimum strategy is to increase revenue to meet or exceed expenses. Typically working capital may be described as the volume of inventory kept, where under-utilised surplus inventory might become a source of anxiety and shortfall may hinder you from fulfilling the bank objectives. A company working capital loan is a convenient way to get through a hard patch.

Most crucially, the capacity to sustain bank operations relies on the degree of investment made in the working capital. The optimal level of working capital is reached when both profitability and liquidity are maximised. It's important to keep in mind that although spending too much on working capital might hurt a bank's bottom line, not having enough can put you at danger of not

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being able to pay your bills. As a result, working capital is seen as a smart management tool for ensuring sustained prosperity.

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