

COMPARATIVE ANALYSIS OF LIQUIDITY MANAGEMENT OF SELECTED PUBLIC SECTOR AND PRIVATE SECTOR BANKS IN INDIA

Dr.S.Kokilavizhi, Assistant Professor, Department of Commerce (Finance) Nallamuthu Gounder Mahalingam College, Pollachi.

Abstract:

Liquidity management refers to the methods a banks employs both now and in the future to meet its short term or urgent needs.cash requirements without incurring large losses.It also ensures quick access to cash or liquid assets when needed.Because liquidity management affects risk as well as the long-term viability of banks' assets, The liquidity management practices of a few Indian public and private sector banks are contrasted in this essay. Five public sector banks (Punjab National Bank, Bank of India, Bank of Baroda, Union Bank of India, and State Bank India) and five private sector banks (ICICI, HDFC, AXIS, IDBI, and Kotak Mahindra Bank) have been taken into consideration for the eight-year period from 2015–16 to 2021–2022. Three ratios have been used to compare the liquidity management practices of banks in the public and private sectors: the Cash-Deposit Ratio (CDR), the Investment-Deposit Ratio (IDR), and the Credit-Deposit Ratio (CRDR).

Keywords: Liquidity Management, Profitability, Ratios, Cash-Deposit Ratio, Investment-Deposit Ratio, Credit-Deposit Ratio, Public Sector Banks and Private Sector Banks.

Introduction:

A country's financial system and institutions form the cornerstone of its economic power and strength. The financial system is considered the backbone of a country's economy, but even more essential to business growth, the country's economy, and the public's financial well-being are the safety and soundness of financial institutions. For any country's economy to grow, banking—the backbone of the financial system—is necessary. Central banks and national and international governments created essential processes and policies for risk management in order to protect their respective banking systems from danger. But in the past, the volatile and inherent risks connected to the banking industry have caused economies to implode.

Liquidity:

A bank's liquidity is determined by its capacity to finance asset growth and pay debts on time without suffering intolerable losses (BIS 2008). The latest global crisis has demonstrated that banks, as significant participants in the financial system, must modify their business plans to mitigate liquidity risk. Term deposits that are not yet closed and the maturity transformation of short-term deposits into long-term loans typically expose banks to liquidity risk. The fund manager evaluates the liquidity gap and manages it by adjusting the residual surplus or deficit balance. Every financial transaction or commitment made by a bank has an impact on the bank's liquidity. With its dual goals at the macro and micro levels, asset liability management (ALM) is one of the most effective tools for controlling the risk of liquidity in modern banking.

At the micro level, new product design and price adjustments are made as needed, while at the macro level, policy formulation for critical business, efficient capital usage, and capital allocation are the main focus areas. In this study, the liquidity risk of a few old private sector banks is measured.

Liquidity Risk Management in Banks

Two strategies are used in the banking system to reduce the risk of liquidity: the technical strategy deals with short-term liquidity targets on a daily basis by maturity-based bucketing of cash flow mismatches on the balance sheet by identifying potential sources of liquidity risk; thus, the two approaches work together to support the banks in reducing the risk of liquidity and ensuring viability. Additionally, at the strategic level, the fundamental strategy aims at adjusting the mix and maturity of assets as well as liabilities, diversifying the risk portfolio, and broadening the sources and uses of funds. Liability and asset management are the other approaches used to control liquidity. Liability management seeks to decrease liquidity risk by raising additional funds, while asset management aims to address the fundamental question of how to allocate the excess funds. The bank applies a technical approach to remove liquidity risk from its projected cash outflows and inflows, and then updates these two by calculating the discrepancies between the two.

Literature Review:

The study conducted by Bassy and colleagues (2016) investigated the correlation between liquidity management and bank performance in Nigeria. According to the research's findings, effective and efficient liquidity management is crucial to banks' ability to survive and thrive.

In their 2016 research paper, Ikeora and Andabai emphasized the positive correlation between the independent variable—liquidity management—and the dependent variable profitability using time series data covering the years 1989–2013. The broad money supply and total bank deposits are included in the liquidity management equation, which is measured by the return on assets ratio (ROA). Using the ordinary least square (OLS) econometrics method, the hypothesis was analyzed.

The research conducted by Khan and Ali (2016) indicates a positive correlation between banks' profitability and liquidity. The current ratio and quick ratio are indicators of liquidity, and the net profit margin and gross profit margin ratios are indicators of profitability. Data from Habib Bank Limited's annual account covering the last five years (2008–2014) was taken into consideration for the study deposits. The ordinary least square (OLS) econometrics method was applied to analyze the hypothesis.

The difficulties with managing liquidity in Indian banks were noted by Srinivasan and Gupta (2007). To finance the expansion of credit, the statutory liquidity ratio (SLR) has been used excessively. According to the study, banks in India favor short-term borrowing over long-term lending, which widens the gap between their liabilities and assets. Banks' reliance on short-term resources is anticipated by Srinivasan and Gupta (2007) as inflationary pressures may compel India's central bank to employ monetary measures to stanch inflation.

Liquidity management problems in the Indian financial system were identified by Mohan (2006). After the launch of financial system reforms in India in 1991, the country was able to maintain capital inflows, which supported the Indian central bank to preserve interest rates moderate. Market Sterilization Scheme (MSS) was developed in India in order to maintain open market operations, which aided monetary authorities in controlling currency cycles. India managed liquidity and reduced volatility in capital flows and short-term interest rates with the introduction of the Liquidity Adjustment Facility (LAF). Rates on loans and deposits cleaned up the excess liquidity in the Indian banking system. A variety of instruments have been used by the central bank, Reserve Bank of India (RBI), to manage liquidity, including the bank rate, bank discount rate, and cash reserve ratio (CRR).

Objectives

1. To comparatively analyze liquidity management of public and private sector banks.

2. To analyze the factors those are influencing liquidity management of banks.

Analysis and Interpretation:

Efficient liquidity management is the key factor for success of any bank. In the study, liquidity management is determined by CDR, IDR and CRDR. The results of study by CDR, IDR and CRDR signify the efficient liquidity management of selected private sector banks and inefficient liquidity management of selected public sector banks.

S. No	Name of Bank	2021-22	2020-2021	2019-2020	2018-2019	2017-2018	2016-2017	2015-2016	2014-2015	TOTAL	AVER AGE	RANK	Max	Min
Public Sector Bank														
1	PNB	63.39	67.47	67.75	67.53	72.52	78.36	78.93	79.79	575.74	71.97	8	79.79	63.39
2	BOI	62.23	66.08	65.64	66.80	68.96	72.91	76.70	76.97	556.29	69.54	9	76.97	62.23
3	BOB	72.61	72.66	72.44	67.79	65.10	67.96	69.35	69.39	557.30	69.66	10	72.66	65.10
4	UBI	66.11	70.86	71.20	73.46	77.11	79.23	78.85	77.89	594.71	74.34	6	79.23	66.11
5	SBI	69.75	74.04	73.94	72.47	77.61	82.72	84.04	85.71	620.28	77.54	5	85.71	69.75
Private Sector Bank														
6	ICICI	85.08	91.30	95.79	98.52	104.71	111.37	110.78	106.38	803.93	100.49	2	111.37	85.08
7	HDFC	89.88	92.47	91.72	89.80	90.22	87.41	85.50	84.84	711.84	88.98	4	92.47	84.84
8	AXIS	90.24	91.34	95.04	95.45	93.86	92.44	85.74	80.60	724.71	90.59	3	95.45	80.60
9	IDBI	56.96	61.56	67.06	70.27	76.26	80.87	82.02	85.19	580.19	72.52	7	85.19	56.96
10	KOTAK	93.10	101.67	108.03	107.60	107.01	111.80	123.54	129.75	882.50	110.31	1	129.75	93.10

The above table of CDR reveals that the top 4 positions in terms of average CDR are secured by the private sector bank, while the lower positions are attained by public sector bank. Hence, with respect to CDR, liquidity management of private sector banks is more efficient. Top position is secured by Kotak bank which has the highest value of average CDR at 110.31cr and 10th position is attained by BOB which has the lowest value of average CDR at 69.66cr.

S. No	Name of Bank	2021-22	2020-2021	2019-2020	2018-2019	2017-2018	2016-2017	2015-2016	2014-2015	TOTAL	AVER AGE	RANK	Max	Min
Public Sector Bank														
1	PNB	36.08	33.36	31.20	30.98	29.72	29.65	31.34	33.01	255.34	31.92	7	36.08	29.65
2	BOI	29.84	29.00	27.85	25.44	23.95	23.41	23.66	24.70	207.85	25.98	9	29.84	23.41
3	BOB	29.03	29.62	29.13	25.79	22.39	20.85	20.40	23.31	200.52	25.07	10	29.62	20.40
4	UBI	35.80	32.49	30.67	30.34	28.28	26.66	29.34	31.43	245.01	30.63	8	35.80	26.66
5	SBI	40.39	37.77	40.67	41.55	37.80	34.38	32.19	31.70	296.45	37.06	4	41.55	31.70
Private Sector Bank														
6	ICICI	55.66	56.79	60.80	61.60	61.27	66.95	72.70	77.60	513.37	64.17	1	77.60	55.66
7	HDFC	33.39	32.81	30.86	31.38	34.01	34.44	32.91	34.76	264.56	33.07	6	34.76	30.86
8	AXIS	28.20	27.61	32.50	32.40	33.68	36.72	38.42	42.51	272.04	34.01	5	42.51	27.61
9	IDBI	36.09	39.01	38.99	35.84	34.86	36.25	40.55	43.65	305.24	38.16	3	43.65	34.86
10	KOTAK	49.72	44.24	46.74	45.98	47.60	55.49	65.02	74.96	429.75	53.72	2	74.96	44.24

The above table of IDR depicts that the highest average of IDR is maintained by ICICI at 64.17cr which shows its outstanding performance in terms of liquidity management. On the other hand, poorest performance is shown by BOB which depicts inefficient liquidity management in terms of IDR. The lowest value of average IDR by BOB stood at 25.07cr.

COMPARATIVE ANALYSIS OF LIQUIDITY MANAGEMENT OF SELECTED PUBLIC SECTOR AND PRIVATE
SECTOR BANKS IN INDIA

S. No	Name of Bank	2021-2022	2020-2021	2019-2020	2018-2019	2017-2018	2016-2017	2015-2016	2014-2015	TOTAL	AVERAGE	RANK	Max	Min
Public Sector Bank														
1	PNB	4.54	5.10	4.61	4.26	4.33	4.69	4.80	4.69	37.02	4.63	9	5.10	4.26
2	BOI	7.62	5.44	5.82	5.55	5.84	5.88	4.62	4.81	45.58	5.70	5	7.62	4.62
3	BOB	3.78	3.81	4.11	3.92	3.88	3.81	3.55	3.16	30.02	3.75	10	4.11	3.16
4	UBI	4.21	4.70	5.05	4.77	4.45	4.64	5.44	5.20	38.46	4.81	8	5.44	4.21
5	SBI	5.44	5.54	5.79	5.86	6.62	7.08	6.64	5.88	48.85	6.11	3	7.08	5.44
Private Sector Bank														
6	ICICI	4.64	4.95	5.63	5.93	6.14	6.35	6.43	6.14	46.21	5.78	4	6.43	4.64
7	HDFC	6.84	5.75	8.85	9.96	5.72	5.78	6.47	6.03	55.40	6.93	2	9.96	5.72
8	AXIS	10.13	10.06	7.01	7.62	6.88	6.20	6.11	5.98	59.99	7.50	1	10.13	5.98
9	IDBI	5.20	5.18	5.45	5.14	5.10	5.14	5.23	5.03	41.47	5.18	6	5.45	5.03
10	KOTAK	4.09	4.21	4.77	4.74	4.95	5.21	5.32	4.87	38.16	4.77	7	5.32	4.09

In the given table of CRDR, the private sector banks once again secure the top positions with AXIS bank securing the first position. AXIS bank gives the highest value of average CRDR at 7.50cr. Again, the same pattern of poor performance is observed in the case of CRDR by public sector banks. BOB has the least value of average CRDR at 3.75cr. Only SBI maintained to achieve the third rank while other public sector banks occupying the lower ranks of CRDR.

Findings of the Study:

Analysis of this study shows that a high average CDR for private sector banks indicates that these banks lend a substantial amount of deposits, which leads to high profitability and effective liquidity management. In contrast, the low average CDR of public sector banks indicates ineffective liquidity management due to the banks' inability to control deposits, which lowers profitability.

The high value of average IDR by private sector banks in Table II above indicates that private banks are significantly using their deposits in various profitable sectors. Their liquidity management is crucial as a result. Conversely, public sector banks are not significantly using their deposits in various profitable sectors, which lead to poor liquidity.

Conclusion:

In banking, liquidity management is important. Based on the study's inferential statistical results, private sector banks were able to significantly better manage their liquidity over the 2013–2021 period compared to public sector banks. While public sector banks lack this ability, private sector banks were able to allocate their deposits significantly across a variety of profitable industries, demonstrating effective liquidity management. Therefore, it follows that public sector banks must also seek out profitable ventures in which to invest their deposits in order to boost their notable ratios—the CDR, CRDR, and IDR ratios—and, ultimately, their profitability, which will result in significant liquidity management.

Acknowledgement:

This article has been Published Using the Seed Money granted by the Management of Nallamuthu Gounder Mahalingam College (Autonomous) Pollachi.

References:

- Khan, A., and R. Mutahhar Ali. (2016). Impact of Liquidity on Profitability of Commercial

Banks in Pakistan: An Analysis on Banking Sector in Pakistan. *Global Journal of Management and Business Research*, 16 (1).

- Maqsood, T., M. A. Anwer, A. Raza, M. Ijaz, and U. Shouqat. (2016). Impact of Liquidity Management on Profitability in Banking Sector of Pakistan. *International review of management and business research*, 5 (2).
- Mishra, S. & pradhan, Bibhuti Bhusan. (2019). Impact of Liquidity Management on Profitability: An Empirical Analysis in Private Sector Banks of India. *Revista Espacios*, 40(30): pp. 14-18.
- Mohan, R. (2006). Coping with liquidity management in India: A practitioner's view. Paper presented at Eighth annual conference on money and finance in the Indian economy, Indira Gandhi Institute of Development Research. pp. 1-20.
- Olagunju, A., David, A. O., & Samuel, O. O. (2011). Liquidity Management and Commercial Banks' Profitability in Nigeria. *Research Journal of Finance and Accounting*, 2(7): pp.2222-2847.
- Saleem, Q., & Rehman, R. U. (2011). Impacts of liquidity ratios on profitability. *Interdisciplinary Journal of Research in Business*, 1(7), pp. 95-98.
- Srinivasan, K. and V. Gupta (2007). Liquidity management in banks - An increasingly complex affair. ICRA Rating Feature, February, pp.10.
- <http://www.businessdictionary.com/definition/liquidity.html> Retrieved from URL.
- <https://www.business-standard.com/company/axis-bank-5554/financials-ratios/1/Consolidated> Retrieved from URL.
- <https://www.business-standard.com/company/bank-of-baroda-5456/financials-ratios/1/Consolidated> Retrieved from URL.