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A Study on Cash Management at State Bank of India

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ABSTRACT

The significance of having sufficient cash to sustain daily business operations cannot be overstated. Almost every business entity requires a certain amount of cash to function effectively. However, the cash requirements vary among firms. The primary objective of a firm should be to maximize the wealth of its shareholders. To achieve this, the firm must generate adequate returns from its operations. Successful sales activities are crucial for earning a consistent profit. In order to generate sales, the firm needs to invest sufficient funds in current assets. Current assets are essential because sales do not instantly convert into cash. The main objectives of analysing cash management are to assess the efficiency of cash, inventories, debtors, and creditors. These objectives can be accomplished through ratio analysis, which provides insights into the efficiency or inefficiency of cash management. Based on the analysis, conclusions can be drawn that are vital for understanding the company's cash management effectiveness. Upon conducting the study, it was observed that the company has effectively utilized its cash resources. However, there is room for improvement to enhance its effectiveness further. The company maintains a normal level of cash to meet its current liabilities, indicating adherence to an average cash management policy.

Keywords : Shareholders, Liabilities, Indicating Adherence, Management Policy

I. INTRODUCTION

Cash management encompasses a wide range of financial activities that involve the collection, handling, and utilization of cash. It involves the evaluation of market liquidity, cash flow, and investment opportunities.

In the banking sector, cash management, also known as treasury management, refers to a set of services primarily offered to larger business customers to support their cash flow requirements. While it can include various types of bank accounts for businesses of a certain size, it often specifically pertains to specialized automated facilities. Cash management services may also be provided to private banking customers.

Cash holds immense importance as a current asset for business operations. It serves as the fundamental input required to sustain continuous business activities and represents the ultimate outcome expected from the sale of a firm's products or services. It is crucial for a firm to maintain an appropriate level of cash—not too much and not too little. Insufficient cash can disrupt manufacturing operations, while excessive cash remains idle and fails to contribute to the firm's profitability.

Cash refers to the readily available funds that a firm can immediately disburse without any restrictions. When a firm has excess cash, it is often invested in marketable securities, which can generate additional profit for the firm.

Cash management has gained significant attention from both scholars and practitioners in recent decades. In Finland, this increased interest is associated with the liberalization of the money market, technological advancements, and internationalization of businesses. These changes have prompted management to critically evaluate their cash management strategies, policies, and responsibilities. As a result, there is a growing demand for various cash management services, either developed internally or obtained from external providers. Finnish banks have also introduced new services to cater to their corporate customers. The markets for money market instruments, derivatives, and mutual funds have expanded rapidly alongside technological advancements, offering greater opportunities for effective cash management.

In modern cash management, the focus is typically on the aspect responsible for money market operations. The individual in charge of cash management primarily deals with short-term financial activities. In a dynamic money market environment, it is more crucial than ever to enhance the company's cash position by effectively managing accounts. Moreover, understanding the fundamental principles of short-term investments, including investment policies, available instruments, and strategies to minimize costs or maximize profits, is essential.

To participate in the money market, a firm must accurately determine its cash requirements. Forecasting the required funds is a challenging task, even for large companies. A cash manager needs to forecast the amount of funds needed to meet payments and maintain sufficient cash for immediate disbursements to be efficient. Before investing, they should be aware of different alternatives, interest rate yield curves, and market conditions. Modern techniques should be utilized to improve overall returns on invested funds.

In Finland, the availability of new financial and technological products for short-term investing has significantly influenced cash management practices. The study aims to investigate the cash management function and its stability in this evolving environment, with a specific focus on financial transactions.

Cash management is a critical component of financial management that involves the supervision and optimization of an organization's cash flow. It encompasses a range of activities and strategies aimed at efficiently managing the inflow and outflow of cash to ensure the organization maintains sufficient liquidity to meet its financial obligations and pursue opportunities for growth.

Effective cash management involves the careful monitoring and forecasting of cash flows, the maintenance of an appropriate cash balance, and the maximization of surplus cash utilization. It requires optimizing the timing of cash collections from customers and the timing of payments to suppliers and creditors.

An essential aspect of cash management is accurate cash flow forecasting, which entails estimating future cash inflows and outflows based on historical data and future projections. Precise cash flow forecasting enables organizations to anticipate potential cash shortages or surpluses, enabling them to take proactive measures to mitigate risks or invest excess cash to generate returns.

Liquidity management is another crucial element, focusing on maintaining an optimal level of cash reserves to meet ongoing operational needs and unforeseen expenses. It involves striking a balance between holding excess cash that could be invested elsewhere and minimizing the risk of cash shortages.

Cash management also involves streamlining the collection and disbursement processes. This includes implementing efficient cash collection mechanisms such as electronic payments, lockbox systems, and automated clearinghouse (ACH) transfers to expedite cash inflows. On the disbursement side, strategies may involve optimizing payment terms, negotiating discounts for early payments, and leveraging electronic funds transfers to ensure timely and cost-effective payments to suppliers.

II. UTILITY OF CASH FLOW ANALYSIS

It is a valuable financial tool for management, offering several benefits:

1. Facilitates Efficient Cash Management

Cash flow analysis helps evaluate financial policies and assess cash position. Cash is the foundation for all operations, and projecting cash flow statements enables effective planning and coordination of financial activities. It enables management to determine the required cash, its sources, and utilization potential.

2. Aids in Internal Financial Management

Cash flow analysis provides information about funds available from operations, assisting management in making decisions regarding repayment of long-term debt, dividend policies, and more.

3. Reveals Cash Movements

A cash flow statement presents a comprehensive view of cash movement, including increases, decreases, and reasons behind them. It highlights factors contributing to low cash balances despite significant operational profits or vice versa.

4. Evaluates Cash Planning Success or Failure

By comparing projected cash flow statements with actual ones, management can assess the degree of success or failure in cash planning and take appropriate remedial actions.

III. NEED FOR THE STUDY

Effective cash management is crucial for any industrial concern, especially in the current inflationary conditions. Managing cash is considered even more important than managing profit, requiring the utmost attention and efforts of the finance manager. Cash management involves different treatment for each component and requires skill, judgment, and awareness of economic trends. The tight money conditions resulting from anti-inflationary measures by the government have made working capital management challenging, necessitating unique skills. Studying and managing cash is of significant importance to assess the current position of business concerns. Hence, this study on "Cash Management" has been undertaken.

IV. OBJECTIVES OF THE STUDY

• To analyze the cash management practices of SBI (State Bank of India).

• To assess the liquidity position of SBI through ratio analysis.

• To study the growth of SBI based on its cash flow statement.

• To provide suggestions and recommendations for improving the cash position of SBI.

V. SCOPE OF THE STUDY

The study provides insights into short-term financial decision-making. It indicates the cash requirements for plant or equipment expansion programs. Strategies for efficient cash management are identified. It helps in arranging funds on favorable terms. Routine cash requirements for financing transactions can be met. The liquidity position of the firm is revealed by analyzing various sources and uses of cash.

VI. RESEARCH METHODOLOGY

RESEARCH

Research is a process through which researchers aim to find solutions to given problems and derive future courses of action. It involves careful investigation and inquiry, seeking new facts in a particular field of knowledge.

DATA COLLECTION

Primary Data: Observation and personal interactions were the sources of primary data.

Secondary Data: Internet, books, and newspaper articles were the sources of secondary data.

TOOLS USED IN THE ANALYSIS

- Cash flow statement
- Trend analysis
- Ratio analysis

VII. LIMITATIONS OF THE STUDY

- The study is focused solely on SBI bank, and the findings may not be generalized.
- Inflation is not considered in the study.
- Only quantitative data is analyzed, and qualitative aspects are not taken into account.
- The study relies on secondary data from various sources.
- The project timeline was short, limiting the study to four sectors.

VIII. REVIEW OF LITERATURE

The Latest Cash management plays a pivotal role in the financial management of various organizations, spanning banks, corporations, and small businesses. The efficient handling of cash ensures the availability of funds for day-to-day operations while optimizing surplus funds for returns. This literature review offers an overview of diverse research findings concerning cash management practices, strategies, and their impact on financial performance.

1. Cash Management Strategies: Numerous researchers have delved into different cash management strategies embraced by organizations. Notably, the cash budgeting approach involves forecasting cash inflows and outflows to ascertain the optimal cash balance. This method aids in identifying potential cash deficits or surpluses, allowing timely adjustments to maintain financial stability (Salisu et al., 2019).
2. Cash Conversion Cycle: The cash conversion cycle (CCC) gauges the time taken by a company to convert inventory investments into cash inflows from sales. Studies demonstrate that a shorter CCC is linked to improved liquidity and operational efficiency (Deloof, 2003). Effective management of accounts receivable, inventory, and accounts payable is crucial in reducing the CCC and augmenting cash flow.
3. Cash Management Technology: Advancements in financial technology have streamlined cash management processes. Research highlights the importance of adopting cash management systems, such as electronic payments and mobile banking, to optimize cash flows, curtail transaction costs, and enhance overall efficiency (Kumar et al., 2020).
4. Impact of Cash Management on Financial Performance: Robust cash management practices are linked to enhanced profitability, liquidity, and reduced financial risks for organizations (Raheman & Nasr, 2007). Maintaining an optimal cash balance can also positively impact stock returns and shareholder value (Filbeck & Krueger, 2005).

5. Cash Management in Banking Institutions: Cash management practices in banks, including SBI, have been subject to comprehensive investigation. Given banks' unique role as financial intermediaries, their cash management strategies revolve around maintaining sufficient reserves to meet customer demands while adhering to regulatory requirements (Kumar & Bharti, 2017). Studies underscore the significance of effective liquidity management in banks to ensure stability and uninterrupted financial services (Khan & Akhtar, 2020).

In conclusion, this literature review emphasizes the significance of cash management in organizations and its impact on financial performance. By adopting effective strategies, leveraging technological advancements, and optimizing cash conversion cycles, businesses can achieve financial stability and prosperity in today's dynamic business landscape.

Cash planning involves projecting and controlling cash flows, which are integral to a firm's business operations. Cash is needed for inventory investment, accounts receivable, fixed assets, and operating expenses, ensuring sales and earnings growth. Even if a firm generates adequate profits, it may face a cash shortage due to fast cash consumption resulting from its growth. To rectify the firm's "poor cash" position, advance planning of cash needs is necessary. Conversely, excess cash can remain idle if not properly anticipated and invested. Cash planning is a technique that assists in projecting and controlling cash usage, helping anticipate future cash flows.

The frequency of cash planning depend on the firm's size and management philosophy. Large firms typically prepare daily and weekly forecasts, medium-size firms prepare weekly and monthly forecasts, while small firms may not engage in formal cash forecasts due to limited information and small-scale operations. However, as firms grow and their operations become more complex, cash planning becomes essential for sustained success.

Several factors influence the size of cash balances in addition to the motives discussed. The availability of short-term credit allows firms to avoid holding excessive cash balances by arranging for borrowing when unexpected needs arise. Money market rates impact the decision to invest cash, as low returns may deter investment efforts, while high interest rates encourage investing excess funds. Variation in cash flows also affects the size of cash balances, with firms experiencing routine fluctuations requiring a more substantial cash balance. Additionally, loan agreements with banks may stipulate the maintenance of a minimum cash balance known as a compensating balance. This ensures the firm uses the bank's services, but it doesn't earn interest on the deposited amount, compensating the bank for its advice and assistance.

Cash management strategies are developed by the management based on the cash position determined through the cash budget. These strategies aim to effectively manage cash within the firm. The cash cycle refers to the process of utilizing cash to purchase materials, produce goods, and sell them to customers. The cash cycle is calculated by adding the average age of the firm's inventory, days to collect accounts receivable, and subtracting the days to pay accounts payable. Cash turnover represents the number of times the firm's cash is used during a year. A higher cash turnover indicates a lower cash requirement for the firm. Therefore, the firm should strive to maximize cash turnover.

IX. FINDINGS

SBI BANK has demonstrated exceptional cash flow management within the organization, as evidenced by the consistent increase in Funds from Operations year after year. The efficiency of cash flow from operations has been commendable, leading to a remarkable 4.2 times surge in cash balance compared to the previous year.

Moreover, the company's financial health is further validated by its strong Current Ratio, indicating that it possesses sufficient funds to meet short-term obligations. The positive trend in the Liquidity Ratio further reinforces the company's ability to handle financial challenges effectively.

The Super Quick Ratio highlights SBI BANK's capacity to meet its current liabilities promptly, showcasing the company's robust financial position. Additionally, satisfactory inventory control efficiency signifies prudent management of inventory levels.

Lastly, the Cash Ratio indicates that the company maintains an optimal level of cash to meet current liabilities, following a prudent and balanced financial policy. Overall, SBI BANK's sound financial management practices have positioned it favorably in the market, ensuring stability and success in meeting its financial obligations.

X. SUGGESTIONS & RECOMMENDATIONS

- SBI BANK should focus on aligning its cash holdings with sales to ensure efficient cash management. Any excess cash should be strategically invested in securities or used to repay borrowings, maximizing returns on surplus funds.
- To mitigate bad debts and expedite the collection process, it is recommended that the company establish an appropriate aging schedule of debtors. This will enable better monitoring and management of accounts receivable.
- Taking advantage of cash discount opportunities is crucial for optimizing cash utilization. SBI BANK should prioritize making timely payments to suppliers to benefit from discounts offered, reducing overall costs.
- Determining the optimal cash balance is of utmost importance for SBI BANK. By conducting thorough cash flow analysis and forecasting, the company can maintain an ideal cash reserve to meet operational needs while avoiding excess idle cash.
- If SBI BANK adopts an aggressive policy for financing working capital, it should consider securing 50% of its working capital using long-term sources of finance. This strategic approach will enhance the company's overall financial standing and stability.
- Although a current ratio of 2:1 is generally satisfactory, SBI BANK should strive to improve this ratio by investing a larger portion in current assets. This approach will enhance liquidity and ensure the company's solvency in the short term.
- Adopting a matching policy for financing current assets by utilizing both long-term and short-term sources of finance is recommended for SBI BANK. This balanced approach will help align the maturity of assets and liabilities, minimizing financial risk and ensuring steady cash flows.

XI. CONCLUSION

The comprehensive analysis of the company's cash management has yielded valuable insights into its financial position. Through the implementation of various financial management techniques, such as ratio analysis, trend analysis, and cash flow statements, this study has effectively evaluated the company's financial stability.

From a managerial standpoint, this project has proven to be indispensable in assessing the company's financial health. The findings have provided crucial information for management to make well-informed decisions regarding fund allocation, strategies to increase sales, and measures to enhance profitability.

In conclusion, I express my sincere appreciation for the training I received at SBI BANK, which has offered me immense satisfaction and practical knowledge of the company's financial operations. The support, kindness, and cooperation extended to me by all the officials at the company have made my project a seamless and enriching experience. My time at SBI BANK has been a truly delightful journey.

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