



A Study of Liquidity Management of Selected Public & Private Sector Banks in India

KEYWORDS

Liquidity Management, Liquid Assets, Deposits, Total Assets

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ABSTRACT Liquidity Management measures the ability of Financial Intermediary to meet demand for deposits, withdrawal and other cash outflows. Financial Intermediaries are those middle men who transact in financial instruments between two parties. Public sector banks are typical Financial Intermediaries; it also includes Investment banks, Insurance companies, mutual funds, brokers, dealers and pension funds. The shares of these banks are listed in stock exchanges. In India. As we all know, these financial intermediaries are large players in the money and security market and if the liquidity management of these financial intermediaries fails, a lack of confidence prevails in the economy which leads to intolerable inflation. If the Government monetary policies fail to curb inflation, then it weakens the economic growth and development in any country. The recent fall in rupee, volatility in oil prices, instability in bullion and security markets in India, Sub-Prime crisis in United State, instability of euro in the European Market are examples of part of mismanagement of liquidity by banks across the globe and failure of government to manage the monetary and Fiscal policies. In this paper, an attempt has been made to explain why such crises arise and how to overcome or minimize such occurrences.

Introduction

A Financial organization that does not mobilize savings can maintain a lower Liquid Assets to Total Assets ratio than can a deposit-taking institution. The deposit-taking institution must plan for potential unanticipated withdrawals of deposits in addition to its lending program's liquidity needs. If financial organization needs greater liquidity, it may want to consider increasing its cash position. Additionally, if the organization has not already done so, it should establish committed credit lines who can provide potential liquidity sources, although these cannot be counted on in a financial stress situation. Another way to increase this ratio in the short term is to delay capital expenditures. Planning for this ratio is important, so that financial organization is not forced to decrease its intended on-lending due to a liquidity shortage. This ratio does not currently have an available microfinance benchmark, as it is currently defined. When including non-cash liquid assets, it is called Non-earning Liquid Assets as percentage of Total Assets by overall Market. For the purpose of present study following liquidity criteria is considered for this parameter:

(a) Liquid Asset To Total Assets

(b) Liquid Asset To Deposits

Research Methodology

The present study is concerned with the Indian banking system. For this study, five public sector nationalized banks and five private sector banks have been selected. The study is based on secondary data. The required data have been collected from the various issues of Banking Statistics, published by the Reserve Bank of India.

To compare the performance of selected sector banks, ratio analysis as an accounting tool while F-Test ONE WAY ANOVA as statistical tools is used.

The following ratios are analysed to examine the liquidity of the study.

(a) Liquid Asset To Total Assets

(b) Liquid Asset To Deposits

(a) Liquid Asset To Total Assets

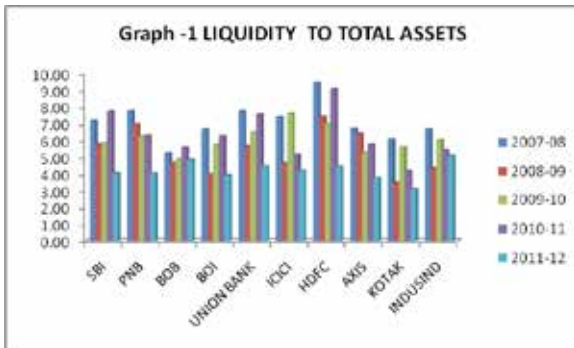
The Liquid Assets to Total Assets ratio is an important liquidity management tool to assess on on going basis the extent liquid assets can support its asset base. Most of the financial organization holds little cash, preferring to put liquid assets to productive use. This approach can yield a Liquid Assets to Total Assets ratio of near to zero. While asset productivity is important, in a liquidity crisis, a low Liquid Assets to Total Assets ratio can be hazardous for the financial health and survival of the organization. Any cash-like instrument other than cash is excluded since it may become encumbered, and therefore unavailable as a liquid asset. As noted above, a committed credit line may become unavailable in a financial stress scenario.

NAME OF BANK	2007-08	2008-09	2009-10	2010-11	2011-12	TOTAL	AVG.	RANK
SBI	7.14	5.76	5.82	7.71	4.05	30.48	6.10	4
PNB	7.73	6.95	6.21	6.28	4.04	31.21	6.24	3
BOB	5.22	4.66	4.86	5.54	4.84	25.13	5.03	9
BOI	6.63	3.98	5.70	6.23	3.91	26.46	5.29	8
UNION BANK	7.73	5.65	6.44	7.51	4.46	31.79	6.36	2
ICICI	7.35	4.62	7.57	5.15	4.18	28.87	5.77	5
HDFC	9.43	7.38	6.96	9.05	4.44	37.25	7.45	1
AXIS	6.67	6.38	5.24	5.72	3.75	27.76	5.55	6
KOTAK	6.04	3.47	5.57	4.14	3.07	22.29	4.46	10
INDUSIND	6.63	4.35	5.97	5.41	5.06	27.42	5.48	7

➤ **Analysis for calculated ratio for selected banks**

Liquidity to Total Assets is one of the most important criteria to evaluate the Liquidity Management. Liquidity is essential for emergency pay out. For the present study all the selected banks is having between 5 percent to 7.5 percent liquid assets of the total assets ratio. HDFC is having high liquid assets of the total assets while KOTAK MAHINDRA BANK has lowest liquid assets to total assets ratio.

➤ **Graphical Analysis**



By observation of the graph of selected banks it shows range of the ratio between 4.46 % (KOTAK BANK) to 7.45 % HDFC BANK during research period of research unit .Hence Liquid Assets to Total Assets criteria of Liquidity Management of the selected Bank shows above 5 percent to 7.5 percent during research period

Statistical Analysis

H0: All the selected Banks have equal Liquid Asset To Total Asset Ratio

H1 : All the selected Banks have unequal Liquid Asset To Total Asset Ratio

Source of Variation	Sum of Square	Degree of Freedom	Mean Sum of Square	F _c	F _t
B.S.S.	30.66167	9	3.406852	1.92572	2.124029
W.S.S.	70.76526	40	1.769132		
T.S.S.	10.4269	49			

From the "F" test one way ANOVA Table as calculated above it shows that Calculated value of F_c = 1.92572 while tabular value of F_t = 2.124029 which show that calculated value F_c is smaller than tabular value F_t. F_c < F_t. Hence Null Hypothesis is accepted and Alternative Hypothesis is rejected that Liquid Assets to Total Assets is not different for selected Banks.

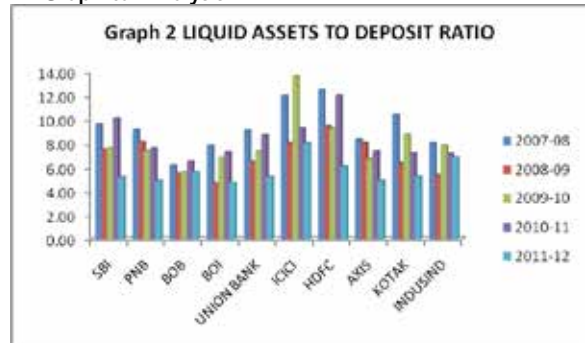
(b) Liquid Asset To Deposits

This ratio measures the liquidity available to the depositors of a bank. Liquid assets include cash in hand, balance with the RBI, balance with other banks (both in India and abroad), and money at call and short notice. Total deposits include demand deposits, savings deposits, term deposits and deposits of other financial institutions.

NAME OF BANK	2007-08	2008-09	2009-10	2010-11	2011-12	TO-TAL	AVG.	RANK
SBI	9.59	7.49	7.62	10.11	5.18	39.99	8.00	3
PNB	9.17	8.13	7.35	7.60	4.87	37.12	7.42	5
BOB	6.16	5.51	5.62	6.50	5.63	29.42	5.88	10
BOI	7.83	4.70	6.79	7.29	4.71	31.31	6.26	9
UNION BANK	9.10	6.48	7.33	8.70	5.22	36.84	7.37	6
ICICI	12.02	8.03	13.62	9.27	8.01	50.95	10.19	1
HDFC	12.46	9.47	9.25	12.03	6.08	49.29	9.86	2
AXIS	8.34	8.02	6.70	7.34	4.86	35.27	7.05	7.5
KOTAK	10.41	6.36	8.73	7.20	5.23	37.94	7.59	4
INDUSIND	8.02	5.39	7.86	7.15	6.85	35.26	7.05	7.5

Liquid Assets to Deposit Ratio indicates the overall liquidity of the bank towards the various deposits. ICICI is showing high liquidity to deposit with average 10.19 % while lowest liquidity to deposit is shown by BOB with average 5.88% during the research period. Liquidity to Deposit is one of the essential criteria to measure the available fund for the deposit holders when they demanded and it also shows the efficiency of management for leverage management of the bank.

➤ **Graphical Analysis**



By observation of the graph of selected banks it shows that most of the selected research unit shows average liquid assets to deposit ratio ranging between 5 percent to 8 percent except ICICI BANK and HDFC BANK who is having high liquidity towards deposits. SBI is also having high liquidity with average 8 percent during research period. Private bankers are having high liquidity to nationalized banker during research period.

Statistical Analysis

H0: All the selected Banks have equal Liquid Assets to Deposit Ratio

H1 : All the selected Banks have unequal Liquid Assets to Deposit Ratio

Source of Variation	Sum of Square	Degree of Freedom	Mean Sum of Square	F _c	F _t
B.S.S.	86.64885	9	9.62765	3.077293	2.124029
W.S.S.	125.1444	40	3.12861		
T.S.S.	211.7933	49			

From the "F" test one way ANOVA Table as calculated above it shows that Calculated value of $F_c = 3.077293$ while tabular value of $F_t = 2.124029$ which show that calculated value F_c is greater than tabular value F_t . $F_c > F_t$. Hence, Null Hypothesis is rejected and Alternative Hypothesis is accepted that Liquid Assets to Deposit Ratio is different for selected Banks.

Conclusion

From this study it is concluded that Liquidity to total assets of each selected banks are having an equal management during research period while liquidity to deposit of selected banks are not having an equal management during research period. Hence it is concluded that deposit is far variable to total assets while liquid assets is also variable factors so that from the result it is said that Liquidity of the selected banks are far different during research period

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