

A Study on Comparison about Working Capital Management of State Bank of India and Housing Development Finance Corporation Bank

Jeet Goswami

Assistant Professor, School of Management, Swami Vivekananda University, Kolkata, West Bengal.

Debraj Podder

Masters in Business Administration, Swami Vivekananda University, Kolkata, West Bengal.

Abstract:

Working capital management refers to managing a company's short-term financial assets and liabilities. In simpler terms, it's all about efficiently managing the day-to-day cash flow of a business to ensure smooth operations and maintain financial health. Working capital is a financial metric calculated as the difference between current assets and current liabilities. Efficient Working capital management helps balance current assets and Current liabilities, ensuring your business has the necessary resources to pay off its short-term debts. A Study On Comparison About Working Capital Management Of State Bank of India And Housing Development Finance Corporation Bank is analysed to know the Efficiency, Profitability and Liquidity ratio. The main purpose of this study is to know how these two financial institutions manage their short-term financial assets and liabilities to ensure smooth operations and financial stability.

Keywords: Working Capital, Current Assets, Current Liabilities, Liquidity ratio.

1.Introduction:

Every business whether big, medium or small, needs finance to carry on its operations and to achieve its target. In fact, finance is so indispensable today that its rightly said to be the lifeblood of an enterprise. The term working capital means the funds available and used for day-to-day operations of an enterprise. Working capital states that the period of debtors, receivables etc for a company to raise finance from them at the earliest.

Working capital management involves managing the relationship between a firm's short-term assets and its short-term liabilities. The goal of working capital management is to ensure that the firm is able to continue its operations and that it has sufficient cash flow to satisfy both maturing short-term debt and upcoming operational expenses.

Working capital is essential to the health of every business and improving your working capital position can provide a boost to the operational efficiency of a business, but managing it effectively is something of a balancing act.

1.1. Working Capital Analysis:

Working capital analysis is a financial statement analysis technique that helps lenders assess the company's ability to meet short-term financial obligations.

There are five steps involved in performing WCA:

1. Gathering data: To conduct WCA, analysts need to gather data on a company's assets, liabilities, and cash flows. This data can be obtained from financial reports, customer invoices, and bank statements.
2. Calculating ratios: Ratios help analysts measure a company's liquidity and solvency. Some common ratios used in WCA include: Current Ratio, Cash Deposit Ratio, Investment Deposit Ratio etc.
3. Determining risks: Using ratios and data gathered in Step 1, analysts can identify risks associated with a company's assets, liabilities, and cash flows. These risks can then be evaluated and mitigated.
4. Making recommendations: After analyzing the data and

risks in Step 3, analysts may make recommendations for improving a company's liquidity and solvency.

5. Monitoring progress: After making recommendations, it's important for companies to monitor their progress and make adjustments as needed.

1.2. State Bank of India

SBI is an institution that has been at the forefront of India's banking and financial sector since its inception more than 200 years ago. SBI's rich legacy, steadfast commitment to its customers, and its vision for the future makes it a cornerstone of India's economic progress. With a comprehensive suite of products and services, a strong focus on Corporate Social Responsibility (CSR), and a vision to be the bank of choice for all, SBI continues to be a trusted financial partner for millions across the nation. SBI remains the largest Indian Bank with 1/4th market share, serving over 48 crore customers through its vast network of over 22,405 branches, 65,627 ATMs/ADWMs, 76,089 BC outlets.

SBI's journey began in 1806 when the Bank of Calcutta was established. It later merged with the Bank of Bombay and Bank of Madras in 1921 to form the Imperial Bank of India. In 1955, the Imperial Bank was nationalized, and it became the State Bank of India. This transformation marked the birth of the nation's largest and most influential bank. SBI's history is a testament to its enduring commitment to the economic and social development of India. Over the years, it has played a pivotal role in supporting various sectors, including agriculture, small and medium-sized enterprises, and retail banking. SBI's wide network of branches, ATMs, and digital banking services ensures that it remains deeply ingrained in the lives of millions of Indians.

Presently, The Bank has successfully diversified businesses through its various subsidiaries i.e SBI General Insurance, SBI Life Insurance, SBI Mutual Fund, SBI Card, SBI Capital Markets Limited, SBI FUNDS MANAGEMENT LIMITED, SBI Payment Services Pvt Ltd. etc. SBI offers a plethora of products and services such as savings account, credit cards, fixed deposits, personal loan, home loan, business loan, debit card, loan against property, car loan, gold loan, mudra loan and more.

SBI honoured with India's Best Annual Report Awards-2022 by Free Press Journal. Recently, SBI has won 4 awards - 2 Golds and 2 Silvers in the following different categories at the DIGIXX 2024 Summit & Awards - 1. Gold - "Brand of the Year", 2. Gold - "Influencer Marketing Campaign", 3. Silver - "Best Use of Social Media", 4. Silver - "PR/Online Reputation Management".

1.3. Housing Development Finance Corporation Bank

HDFC Bank Limited (also known as HDFC) is an Indian banking and financial services company headquartered in Mumbai. It is India's largest private sector bank by assets and the world's sixth-largest bank by market capitalization as of January 2024, following its takeover of parent company HDFC. As of April 2024, HDFC Bank has a market capitalization of \$145 billion, making it the third-largest company on Indian stock exchanges.

HDFC Bank was incorporated in 1994 as a subsidiary of HDFC Ltd, which received an 'in principle' approval from the RBI to set up a bank in the private sector, as part of its liberalization of the Indian banking industry. The bank commenced operations in January 1995, with its registered office in Mumbai. As of March 31, 2024, the Bank's distribution network was at 8,735 branches and 20,938 ATMs across / Cash Recycler Machine (Cash deposit & withdrawal) across 4,065 cities/towns. HDFC Bank now boasts an expansive customer base of around 120million individuals, bigger than the population of Germany.

Presently, the bank has Various subsidiaries i.e. HDFC Life, HDFC ERGO, HDFC securities etc. HDFC Bank provides a number of products and services including wholesale banking, retail banking, treasury, auto loans, two-wheeler loans, personal loans, loans against property, consumer durable loan, lifestyle loan and credit cards. Along with this, various digital products are PayZapp and SmartBUY. HDFC Bank's business philosophy is based on five core values: Operational Excellence, Customer Focus, Product Leadership, People and Sustainability. HDFC Bank has been awarded the 'Best Bank of the Year' (Joint Winner) and 'Best Large Indian Bank' award at the 28th BT - KPMG Best Banks and NBFCs Survey 2022-23.

Literature Review:

Working capital is very important for every company to meet day to day operation expenses and urgent payments. Effective working capital increase the company profit and vice versa. For effective working capital, collection days should be less and payment days should be more overall cash conversion cycle days should very low or in negative.

Many researchers have studied working capital from different views and in different environments. The following ones were very interesting and useful for our research:

R. Bhuvaneshwari, Dr. Prakash Babu and kavitha 2013 emphasizes about the importance of financial planning and forecasting in estimating the future cash flow needs of the organization. They also have given insights about the management utilizing their financial strength and to identify the financial weakness of the firm by analyzing the liquidity position and changes in the working capital.

Rao and Rao (1991) in their study among a few public enterprises belonging to manufacturing sector in the state of Karnataka, have attempted to probe in to the capacity of the various techniques I evaluating working capital efficiency of business enterprises. The study revealed that the investment working capital was considerably high when compared to the total investment. The Tandon Committee norms were found to be yielding better results among the surveyed companies. However, the study also revealed that the working capital planning and control was found to be disorderly and ineffective and hence, the urgent need for full focus on working capital management.

According to **Agyei, S. K., & Yeboah, B. (2011)** ,being profitable and liquid are not negotiable for banks at least for two reasons;to meet regulatory requirements and to guarantee enough liquidity to meet the unexpected and unannounced withdrawal of customers.

Agyei, S. K., & Yeboah, B. (2011) also states that balanced working capital management would help banks in nourishing growth,which results in profitability and liquidity which helps the banks to serve its customers more effectively and efficiently. There is a large discrepancy that supports the study of banks

working capital management. Banks in developing nations rely more heavily on internal savings than larger banks in industrialised economies because they have more difficulty obtaining external financing.

Dr.V. Bhuvaneswari (2020) highlighted the working capital which will determine whether the position of the company from the working capital point of view is sound and satisfactory. She concluded that the overall working stability, soundness and overall financial performance have improved over the years.

Objectives of the study:

1. **To Understand the concept of Working Capital Management.**
2. **To analyze the Efficiency in the Working Capital Management with State Bank of India And Housing Development Finance Corporation Bank.**
3. **To analyze the liquidity ratio of State Bank of India and Housing Development Finance Corporation Bank.**
4. **To analyze the profitability position of State Bank of India and Housing Development Finance Corporation Bank.**

Research Methodology:

Research is a process of steps used to collect and analyze information to increase our understanding of a topic or issue. This study try to evaluate how these two financial institutions manage their short-term financial assets and liabilities to ensure smooth operations and financial stability. The area of study is Financial Management.

The Research methodology adopted for this study is secondary source of data. The Period Considered for the study is five years i.e. from financial year 2018-19 to 2022-23. The study is based on secondary data which is collected from the annual financial reports and Ratio Analysis is used for analysis of the data. The data is presented using various graphs and charts.

Data Analysis and Result:

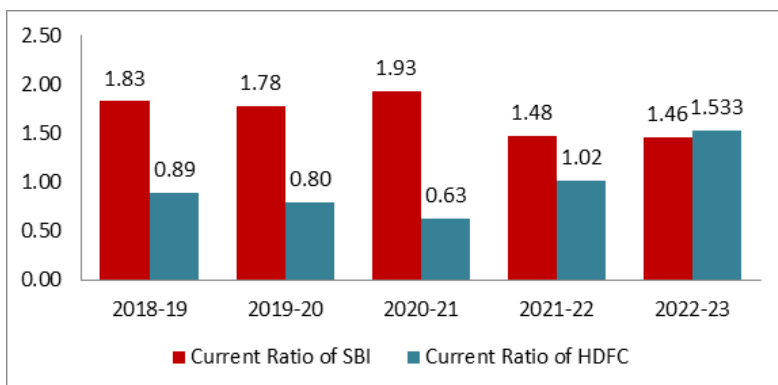
Table 1

Comparison Of Current Ratio of State Bank of India with Housing Development Finance Corporation Bank

The current ratio is also referred to as the working capital ratio. This ratio compares a company's current assets to its current liabilities, testing whether it sustainably balances assets, financing, and liabilities. It is Calculated as follows:

Formula : **Current Ratio = Current Assets / Current Liabilities**
(Rs. In Cr.)

Year	Current Assets of SBI	Current Liabilities of SBI	Current Assets of HDFC	Current Liabilities of HDFC	Ratio of SBI	Ratio of HDFC
2018-19	266,327.70	145,597.30	49,173.95	55,108.29	1.83	0.89
2019-20	289,613.55	163,110.10	53,931.09	67,394.40	1.78	0.80
2020-21	351,768.68	181,979.66	45,925.89	72,602.15	1.93	0.63
2021-22	339,924.86	229,931.84	85,767.83	84,407.46	1.48	1.02
2022-23	397,061.58	272,457.15	146,712.52	95,722.25	1.46	1.53



Source: Annual Report of SBI and HDFC.

Graph Analysis: The graphical representations of Current Ratio of SBI Shows from year 2018-19 as 1.83, then 2019-20 it decreases after that it again increases in 2020-21 as 1.93. But after 2020-21, it Shows gradual Decrease.

On the other hand, the graphical representations of Current Ratio of HDFC bank Shows from year 2018-19, it gradually decreases. But after 2020-21, current ratio of HDFC bank started increasing gradually. The current ratio of HDFC bank in 2022-23 is 1.53.

Table 2

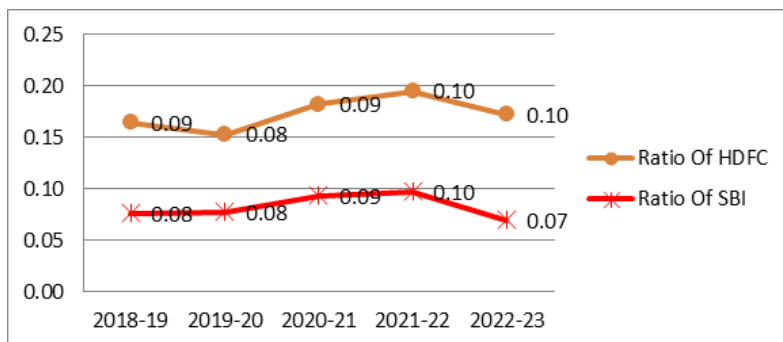
Comparison Of Cash Deposit Ratio Of State Bank of India With Housing Development Finance Corporation Bank

Cash Deposit ratio (CDR) is the ratio of how much a bank lends out of the deposits it has mobilised. It indicates how much of a bank's core funds are being used for lending, the main banking activity.

Formula: **Cash Deposit Ratio = Cash / Deposits** (Rs. In Cr.)

Year	Cash Of SBI	Deposits Of SBI	Cash Of HDFC	Deposits Of HDFC	Ratio Of SBI	Ratio Of HDFC
2018-19	222,490.11	2,911,386.01	81,347.64	923,140.93	0.08	0.09
2019-20	251,097.01	3,241,620.73	86,618.72	1,147,502.29	0.08	0.08
2020-21	343,038.71	3,681,277.08	119,470.40	1,335,060.22	0.09	0.09
2021-22	394,552.32	4,051,534.12	152,326.93	1,559,217.44	0.10	0.10
2022-23	307,899.62	4,423,777.78	193,765.08	1,883,394.65	0.07	0.10

Source: Annual Report of SBI and HDFC



Graph Analysis: The graphical representations of cash deposit ratio of SBI bank shows from 2018-19 to 2019-20 same. It gradual increases for the following years, it is 0.09 during the year 2020-21 and for the year 2021-22 is 0.10. The overall Cash Deposit ratio of HDFC Bank is same as SBI except during the year 2018-19 and 2022-23.

Table 3

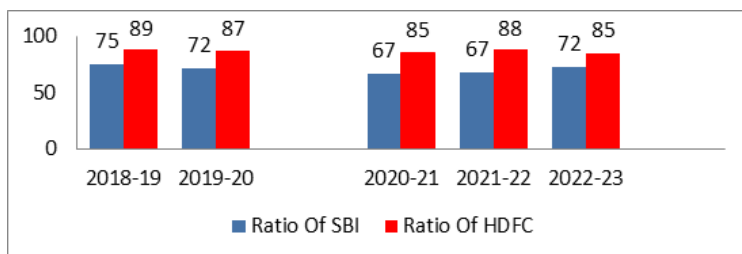
Comparison Of Credit Deposit Ratio Of State Bank of India With Housing Development Finance Corporation Bank

It is the ratio of how much a bank lends out of deposits it has mobilised. CD ratio helps in assessing a bank's liquidity and indicates its health.

Formula: **Credit Deposit Ratio = Total Credit/Total Deposits*100**
(Rs. In Cr.)

Year	Credit Of SBI	Deposits Of SBI	Credit Of HDFC	Deposits Of HDFC	Ratio Of SBI	Ratio Of HDFC
2018-19	2,185,876.92	2,911,386.01	819,401.22	923,140.93	75	89
2019-20	2,325,289.56	3,241,620.73	993,702.88	1,147,502.29	72	87
2020-21	2,449,497.79	3,681,277.08	1,132,836.63	1,335,060.22	67	85
2021-22	2,733,966.59	4,051,534.12	1,368,820.93	1,559,217.44	67	88
2022-23	3,199,269.30	4,423,777.78	1,600,585.90	1,883,394.65	72	85

Source: Annual Report of SBI and HDFC



Graph Analysis: The graphical representations of Credit deposit ratio of SBI bank shows it is 75% during the year 2018-19 and 2019-20 it is 72%. Then gradually decreases but during the year 2022-23, it increases as 72%.

On the other hand, the graphical representations of Credit Deposit Ratio of HDFC bank Shows from year 2018-19 it gradually decreases. Then it increases during the year 2021-22 as 88%. But, after 2021-22 it again decreases during the year 2022-23 as 85%.

Table 4

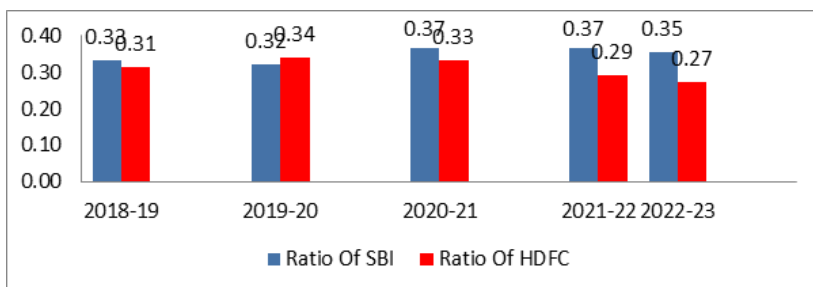
Comparison Of Investment Deposit Ratio Of State Bank of India With Housing Development Finance Corporation Bank

This ratio is crucial parameter for evaluating the performance and stability of a bank in India. It provides insight into the bank's investment strategy, risk tolerance, and its ability to generate returns for its depositors.

Formula: Investment Deposit Ratio = Investment / Deposits (Rs. In Cr.)

Year	Investment Of SBI	Deposits Of SBI	Investment Of HDFC	Deposits Of HDFC	Ratio Of SBI	Ratio Of HDFC
2018-19	967,021.95	2,911,386.01	290,587.88	923,140.93	0.33	0.31
2019-20	1,046,954.52	3,241,620.73	391,826.66	1,147,502.29	0.32	0.34
2020-21	1,351,705.21	3,681,277.08	443,728.29	1,335,060.22	0.37	0.33
2021-22	1,481,445.47	4,051,534.12	455,535.69	1,559,217.44	0.37	0.29
2022-23	1,570,366.23	4,423,777.78	517,001.43	1,883,394.65	0.35	0.27

Source: Annual Report of SBI and HDFC.



Graph Analysis: The graphical representations of Investment deposit ratio of SBI bank shows it is 0.33 during the year 2018-19 and in 2019-20 a little less 0.32. Then started increasing gradually from 2020-21 to 2021-22. During the year, 2022-23 decreased to 0.35. On the other hand, the graphical representations of Investment deposit ratio of HDFC bank shows to have increased during the year 2019-20 as 0.34, then gradually decreased.

Table 5

Comparison Of Loan-to-Deposit Ratio of State Bank of India With Housing Development Finance Corporation Bank

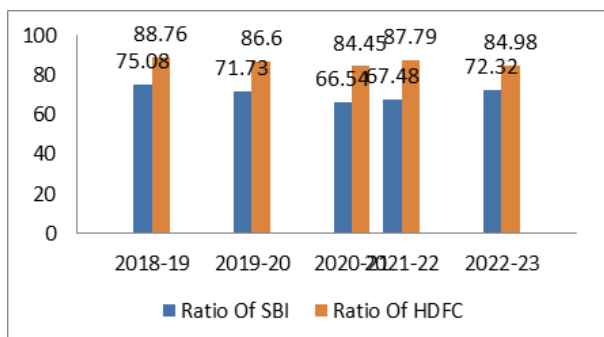
The loan-to-deposit ratio (LDR) is used to assess a bank's liquidity by comparing a bank's total loans to its total deposits for the same period.

Formula: **Loan-to-Deposit Ratio = Total Loans / Total Deposits *100**

(Rs.In Cr.)

Year	Loans of SBI	Deposits of SBI	Loans of HDFC	Deposits of HDFC	Ratio of SBI	Rato of HDFC
2018-19	2,185,876.92	2,911,386.01	819,401.22	923,140.93	75.08	88.76
2019-20	2,325,289.56	3,241,620.73	993,702.88	1,147,502.29	71.73	86.60
2020-21	2,449,497.79	3,681,277.08	1,132,836.63	1,335,060.22	66.54	84.45
2021-22	2,733,966.59	4,051,534.12	1,368,820.93	1,559,217.44	67.48	87.79
2022-23	3,199,269.30	4,423,777.78	1,600,585.90	1,883,394.65	72.32	84.98

Source: Annual Report of SBI and HDFC.



Graph Analysis: The graphical representations of Loan-to-Deposit ratio of SBI bank shows variation 2018-19 75.08% to 72.32% during the year 2022-23.

On the other hand, The percentage of HDFC bank shows variation 2018-19 88.76% to 84.98% during the year 2022-23. The Loan-to-deposit ratio of SBI bank is less percentage 72.32% when compared to HDFC bank.

Table 6

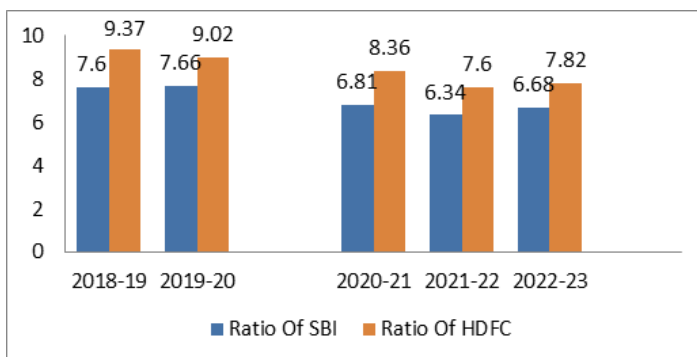
Comparison Return on Asset Ratio of State Bank of India with Housing Development Finance Corporation Bank

Return on assets (ROA) measures how efficient a company's management is in earning a profit from their economic resources or assets on their balance sheet.

Formula: **Return on assets (ROA) = Net Income / Total Assets *100 (Rs.In Cr.)**

Year	Net Income Of SBI	Total Asset SBI	Net Income Of HDFC	Total Asset HDFC	Ratio Of SBI	Ratio Of HDFC
2018-19	279,643.54	3,680,914.25	116,597.94	1,244,540.69	7.60	9.37
2019-20	302,545.0	3,951,393.92	138,073.47	1,530,511.26	7.66	9.02
2020-21	308,647.00	4,534,429.63	146,063.12	1,746,870.52	6.81	8.36
2021-22	316,021.20	4,987,597.41	157,263.02	2,068,535.05	6.34	7.6
2022-23	368,718.66	5,516,978.53	192,800.36	2,466,081.47	6.68	7.82

Source: Annual Report of SBI and HDFC.



Graph Analysis: The graphical representations of Return on Assets of SBI bank shows a lower ratio when compared to HDFC bank. Although HDFC bank ratio is decreasing since 2018-19 but higher than that SBI bank ratio. The SBI bank shows ratio as 7.60 for the year 2018-19 and for the year 2022-23 as 6.68. Whereas the ratio of HDFC bank shows 9.37 for the year 2018-19 and 7.82 for the year 2022-23.

Findings and Suggestions

On the basis of the study the following suggestions can be given to the State Bank of India and HDFC bank to improve their performance

1. The study provides the key findings according to the data analysis, it is concluded that the Idle Current ratio was well maintained by SBI bank than HDFC bank. Generally, a current ratio of 2:1 is considered ideal, which means that the current assets must be twice the amount of current liabilities. So, it is important to maintain Current ratio. From 2021-22 HDFC bank trying to enhance their Current ratio.

2. Cash Deposit Ratio is a measure of a bank's ability to meet the demands of its depositors for cash withdrawals. After observation it appears that there is not much difference between SBI bank and HDFC bank Cash Deposit Ratio. So, both SBI bank and HDFC bank have to keep balance between liquidity and profitability by managing their Cash Deposit Ratios.

3. After study it is concluded that HDFC bank Credit Deposit Ratio much higher than SBI bank. the Average Credit

Deposit ratio of SBI is 71% and HDFC is 87%. CD ratio indicates how much of the money that banks have raised in the form of deposits have been deployed as loans. An ideal CD ratio would be between 65-75%, say experts. So SBI bank should try to maintain the ideal CD Ratio.

4. Investment Deposit ratio provides an indication of how much of a bank's assets are being invested, and how much is being held in reserve in the form of deposits. After study, it is concluded that SBI bank is actively investing its funds in various investment opportunities while HDFC bank is holding more of its assets in the form of deposits.

5. Typically, the ideal loan-to-deposit ratio is 80% to 90%. The loan deposit ratio of SBI bank is less percentage when compared to HDFC bank. A lower loan-to-deposit ratio indicates that SBI bank is lending out a smaller portion of its deposits, which could mean that the bank is being more conservative.

6. A Return on Asset of over 5% is generally considered good and over 20% excellent. After study, it is concluded that SBI bank shows a lower ratio when compared to HDFC bank. A higher Return on Asset of HDFC Bank, which reflects greater efficiency in asset utilization and profitability. So, for better efficiency in asset utilization and profitability SBI bank has to improve Return on Asset.

Conclusion

In conclusion, working capital management in banks involves the efficient management of current assets and liabilities to ensure sufficient liquidity, optimize profitability, and support lending activities. On the basis of the overall study, it is concluded that Current ratio was well maintained by SBI bank. It means SBI bank has ability to pay off its current debt (liabilities that are due less than one year) with its current assets. Cash Deposit Ratio of SBI bank and HDFC bank has not much difference. Credit Deposit Ratio of HDFC bank is much higher than SBI bank. The SBI bank should implement various strategies for full use of their resources. The overall Investment Deposit Ratio of SBI bank is little bit better compare to HDFC bank. It means SBI bank is actively investing its funds in various investment. The loan deposit ratio of HDFC bank is better when compared to SBI bank. It means HDFC bank take risk by lending out more money than

it has in deposits. If SBI bank has to improve Return on Asset, then SBI bank should focus more on efficiency and productivity in managing its balance sheet to generate profits. Overall, this study is based on secondary source of data. We all know that, SBI bank is a Public Sector Bank and the largest bank in India and HDFC bank is India's largest private sector bank by assets. These two banks have not only provided excellent services to their customers but have also played a pivotal role in shaping the banking landscape.

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