A study on measuring liquidity position of selected private sector banks

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Abstract

The main goal of banks today is to maintain stability and make sure they are impervious to external shocks while at the same time being internally sound and sensible. Hence, it is important to measure soundness across various banks in the country, identify the weaker sections of the banking sector, devise appropriate strategies and policies to lift these sections and eventually create an environment that leads banks to converge in soundness and result in a consistently stable system. This study analyzes the various aspects of convergence and soundness in the Indian Banking sector by computing the liquidity position of the selected banks with different ratios.

Keywords: Bank, Liquidity, Stability, Performance, Private sector banks.

Introduction

The progression of an economy is significantly dependent upon deployment as well as optimum utilization of resources and most importantly operational efficiency of the various sectors, of which banking sector plays a very vital role. Banking sector helps in stimulation of capital formation, innovation and monetization in addition to facilitation of monetary policy. It is imperative to carefully evaluate and analyze the performance of banks to ensure a healthy financial system and an efficient economy.

Introduction of new reforms in the banking sector has distorted the face of Indian banking industry. The liberalization, globalization and privatization of operations and implementation of new technologies have led to increase in resources productivity, increasing level of deposits, credit and profitability and decrease in non-performing assets. Due to this unfold transformation, every aspect of banking system is affected. Hence the current study has been undertaken to analyse the liquidity position of selected private sector banks in India in the light of various reforms carried out in India and also factors explaining the performance of selected private sector banks using different ratios for a ten year period ranging from 2009 to 2018.

Review of Literature

Introduction of reforms in the banking sector has changed the face of Indian banking industry. The globalization of operations and implementation of new technologies have led to increase in resource productivity, increasing level of deposits, credit and profitability (Krishnaveni M & Uma Maheshwari N 2018). Liquidity is the ability of a bank to fund increases in assets and meet the obligations as they come due, without incurring unacceptable losses (Karthikeyan and Mariappan 2017). A business that is not profitable cannot survive. Conversely, a business that is highly profitable has the ability to reward its owners with a large return on their investment. Increasing profitability is one of the most important tasks of the business managers. Managers constantly look for ways to change the business to improve profitability. These potential changes can be analyzed with a support of income statement and balance sheet (Amit Kumar Singh 2015).

Objectives of the Study

1. To analyze the overall performance of the selected private sector banks.
2. To evaluate the liquidity position of the selected private sector banks.

Materials and Methods

Data
Secondary data has been used in the study. Profit & Loss account statement and Balance sheet of the five respective banks has been taken from moneycontrol.com website.

Sample size
The number of banks selected for the study was 5.

Sampling method
Top 5 private sector banks have been selected using Judgmental sampling method.

Statistical tools used
Descriptive Statistics and Ratio Analysis has been applied.

Limitations of the Study

1. The study covers the period of 2009-2018. The changes that took place after this period is not taken into consideration.

2. The ratio analysis fails to consider qualitative aspects which are not capable of being expressed in terms of money.

Table 1: Current ratio

Year	Axis Bank	HDFC Bank	ICICI Bank	Karur Vysya Bank	Kotak Mahindra Bank
2009	2.39	1.16	1.75	2.64	0.96
2010	4.24	1.23	2.78	2.37	1.28
2011	4.34	1.49	2.59	2.90	1.38
2012	4.90	1.45	2.92	3.34	1.08
2013	3.61	1.71	3.92	2.99	1.23
2014	3.68	1.53	3.38	2.86	1.26
2015	2.74	1.12	2.18	3.37	1.76
2016	3.09	1.31	2.26	2.91	2.11
2017	3.40	1.98	2.28	3.18	2.49
2018	4.00	2.28	2.34	2.67	1.75
Average	**3.64**	**1.53**	**2.64**	**2.92**	**1.53**
Min.	**2.39**	**1.12**	**1.75**	**2.37**	**0.96**
Max.	**4.90**	**2.28**	**3.92**	**3.37**	**2.49**
Sd.	**0.77**	**0.37**	**0.64**	**0.32**	**0.49**

Source: Annual report

Table 2: Liquid ratio

Year	Axis Bank	HDFC Bank	ICICI Bank	Karur Vysya Bank	Kotak Mahindra Bank
2009	2.39	1.16	1.75	2.64	0.96
2010	4.24	1.23	2.78	2.36	1.28
2011	4.34	1.49	2.59	2.89	1.38
2012	4.90	1.45	2.92	3.33	1.08
2013	3.61	1.71	3.92	2.98	1.23
2014	3.68	1.52	3.38	2.85	1.26
2015	2.74	1.12	2.18	3.36	1.76
2016	3.09	1.31	2.26	2.91	2.1
2017	3.40	1.98	2.28	3.18	2.47
2018	4.00	2.28	2.34	2.66	1.75
Average	**3.64**	**1.53**	**2.64**	**2.92**	**1.53**
Min.	**2.39**	**1.12**	**1.75**	**2.36**	**0.96**
Max.	**4.90**	**2.28**	**3.92**	**3.36**	**2.49**
Sd.	**0.77**	**0.37**	**0.64**	**0.32**	**0.49**

Source: Annual report

Table 3: Absolute liquid ratio

Year	Axis Bank	HDFC Bank	ICICI Bank	Karur Vysya Bank	Kotak Mahindra Bank
2009	1.69	0.93	1.25	2.15	0.69
2010	3.43	0.92	2.25	1.75	0.87
2011	3.63	1.21	1.97	2.32	0.91
2012	4.03	1.17	1.94	2.56	0.48
2013	2.98	1.56	3.09	2.18	0.81

2014	3.13	1.12	2.69	2.10	0.83
2015	1.98	0.62	1.23	2.43	1.06
2016	2.42	0.90	1.48	1.81	1.37
2017	2.70	1.43	1.39	2.34	1.91
2018	3.29	1.79	1.61	2.09	1.35
Average	**2.93**	**1.17**	**1.89**	**2.17**	**1.03**
Min.	**1.69**	**0.62**	**1.23**	**1.75**	**0.48**
Max.	**4.03**	**1.79**	**3.09**	**2.56**	**1.91**
Std.	**0.74**	**0.35**	**0.63**	**0.26**	**0.41**

Source: Annual Report

Table 4: ANOVA results

Liquidity Ratios		Sum of Squares	DF	Mean Square	F	Sig.
Current Ratio	Between Groups	33.737	4	8.434	28.670	.000
	Within Groups	13.239	45	.294		
	Total	46.976	49			
Liquid Ratio	Between Groups	33.745	4	8.436	28.786	.000
	Within Groups	13.188	45	.293		
	Total	46.934	49			
Absolute Liquid Ratio	Between Groups	24.121	4	6.030	23.258	.000
	Within Groups	11.667	45	.259		
	Total	35.788	49			
Cash Ratio	Between Groups	618.203	4	154.551	31.853	.000
	Within Groups	218.342	45	4.852		
	Total	836.545	49			

Results and Discussion

Current ratio
Table 1 shows the Current ratio of the selected private sector banks from the year 2009 to 2018. The minimum average current ratio of 1.53 was found in HDFC Bank and Kotak Mahindra bank. The maximum average current ratio of 3.64 was derived by Axis bank. The standard deviation is minimum at Karur Vysya bank with the value of 0.32 and maximum at Axis bank with the value of 0.77. Out of the five banks selected, the current ratio is good and satisfactory in Axis Bank, ICICI Bank and Karur Vysya Bank as the value meets the standard rule of 2:1.

Liquid ratio
Table 2 shows the Liquid ratio of the selected private sector banks from the year 2009 to 2018. The minimum average liquid ratio of 1.53 was found in HDFC Bank and Kotak Mahindra bank. The maximum average liquid ratio of 3.64 was derived by Axis bank. The standard deviation is minimum at Karur Vysya bank with the value of 0.32 and maximum at Axis bank with the value of 0.77. Out of the five banks selected, the liquid ratio is good and satisfactory in Axis Bank, HDFC Bank, ICICI Bank, Karur Vysya Bank and Kotak Mahindra Bank as the value meets the standard rule of 1:1.

Absolute liquid ratio
Table 3 shows the Absolute Liquid ratio of the selected private sector banks from the year 2009 to 2018. The minimum average absolute liquid ratio of 1.03 was found in Kotak Mahindra bank. The maximum average absolute liquid ratio of 2.93 was derived by Axis bank. The standard deviation is minimum at Karur Vysya bank with the value of 0.26 and maximum at Axis bank with the value of 0.74. Out of the five banks selected, the absolute liquid ratio is good and satisfactory in all the selected five banks.

Cash ratio
Table 4 shows the cash ratio of the selected private sector banks from the year 2009 to 2018. The minimum average cash ratio of 4.67 was found in HDFC bank. The maximum average cash ratio of 14.60 was derived by Axis bank. The standard deviation is minimum at HDFC with the value of 1.01 and maximum at Kotak Mahindra Bank with the value

of 2.79. Out of the five banks selected, the cash ratio is good and satisfactory in all the selected five banks.

Relationship among the selected private sector banks with respect to Liquidity ratios

ANOVA test has been applied to check whether there is significant difference in the liquidity ratios among the selected private sector banks for the study period ranging from 2009 to 2018. The results are highlighted in Table 5.

Hypothesis

There exists no significant difference in the liquidity ratios among the selected private sector banks for the study period ranging from 2009 to 2018.

The significant value of Current ratio, Liquid ratio, Absolute liquid ratio and Cash ratio are 0.000. Hence the hypothesis is rejected and it is implied that there exists significant difference in the liquidity ratios among the selected private sector banks for the study period ranging from 2009 to 2018.

Conclusion

This study intended to assess the liquidity position of the private commercial banks of Bangladesh with special reference of ABBL, PBL, SEBL, UCBL, DBBL and BAL. The analysis was for ten years started from 2004 to 2013. Liquidity was evaluated in terms of core deposit to total funding, liquid asset to demand liabilities and this study intended to assess the liquidity position of the private commercial banks of Bangladesh with special reference of ABBL, PBL, SEBL, UCBL, DBBL and BAL. The analysis was for ten years started from 2004 to 2013. Liquidity was evaluated in terms of core deposit to total funding, liquid asset to demand liabilities and the study intended to know the liquidity position of the selected private sector banks namely Axis Bank, HDFC Bank, ICICI Bank, Kotak Mahindra Bank and Karur Vysya Bank.

The banks liquidity position was measured using the following ratios namely Current ratio, Liquid ratio, Absolute Liquid ratio and Cash ratio. The study resulted that the liquid position of Axis Bank, ICICI Bank and Karur Vysya Bank are better in the years from 2009 to 2018 when compared to the HDFC Bank and Kotak Mahindra Bank. ANOVA result states that there exists significant difference in the liquidity ratios among the selected private sector banks and it is concluded that each bank has its own nature of maintain the assets and liabilities and no banks are similar in maintaining their current assets and current liabilities.

Source of Funding

None.

Conflict of Interest

None.

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