

Financial Planning through the Liquidity Ratios for HDFC and SBI Banks

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Abstract

Financial planning and Analysis plays a vital role in the evaluation of Budget and forecasting for the future periods. One of the tools is financial planning through the liquidity ratios calculation and Analysis of the ratios. The present study concentrates on current ratio and Cash ratio of both banks for evaluating the cash fluidness. The analysis of current ratio infers about the liquidity position of the firm, which is crucial in paying short-term liabilities. The current ratio is calculated by dividing current assets with current liabilities. The current ratio is called as “current” because it includes all current assets and current liabilities for a particular accounting year. A current ratio which is less than the industry average is an indicator of risk of default and distress. A high ratio indicates that the organization is utilizing the assets efficiently. The current ratio is used as yardstick for short term solvency of the firm. A high current ratio enables the firm to cover all the current liabilities of a particular accounting year. But it is also an indicator of non efficient usage of short term assets. A current ratio of 1.5 indicates that for 1.5 current assets to 1 current liabilities. The current assets are those assets which can be converted in to cash within the specified year. The second objective of the study is to compare the liquidity stand of the banks through analysis of cash ratio’s of the selected banks. The cash ratio helps the banks to is identify the deposited amount which can be used for the credit lending purposes for an accounting year. The cash ratio is calculated by dividing cash equivalents plus cash with current liabilities. The present study is financial planning through current ratios for HDFC and SBI banks operating in India. The data is collected through the official websites of banks. The data is collected for the years from March 16 to March 20. The analysis is done through the calculation of current ratio, descriptive statistical analysis, bar charts for both the banks.

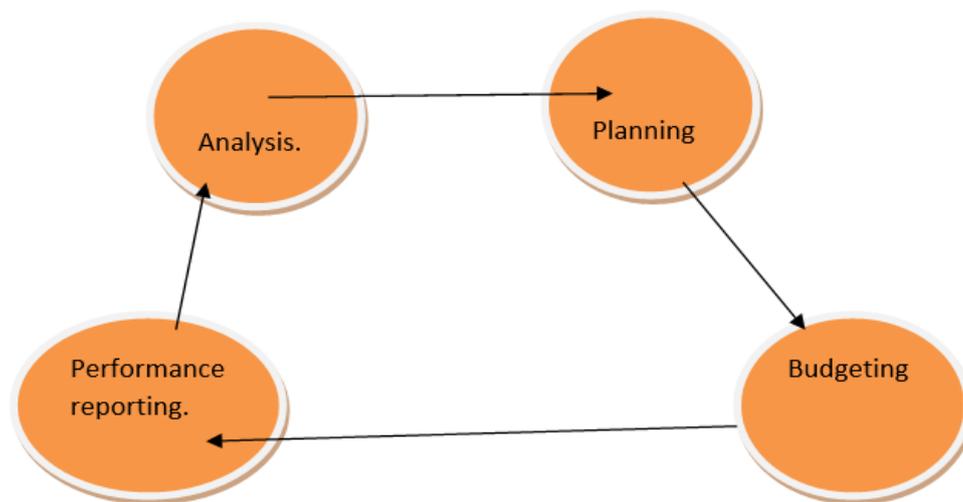
Key-words: Current Ratio, Cash Ratio, Financial Planning Current Assets and Current Liabilities.

1. Introduction

The Financial Planning and Ratios

The financial planning is the result of analysis of financial statements. It is a set of activities, namely, planning, budgeting, performance reporting and analysis based on the reports. Financial planning is considered as the foundation to success of financial objectives.

Financial Planning Process



In order to analyze the performance of the business, one need numbers from the financial statements. There is a need to view these numbers as a whole picture of your business. The true purpose of studying the figures from the financial statements is when it is compared with the other businesses financial statements. Such comparisons can be made with financial ratios.

Ratios enable the business men to find the relationship between two variables. Various ratios can be calculated from the financial statements of the business concern. They are very simple to calculate and are expressed in percentages and in the format of x: y. though they are very simple but still can be used as powerful tool to measure the performance of the firm. If a firm calculates the financial ratio's at the end of accounting year then it is easier to evaluate the performance, liquidity position and solvency position of the firm. The main objective of the ratios is to compare the performance with other firms of same size and within same industry. The Comparison can also be done with the past years financial statements of the same firm to see the progress of the firm. The ratios which have value for making financial decisions and financial planning are

1. Liquidity ratios
2. Efficiency ratios
3. Profitability ratios
4. Solvency ratios.

Current Ratio

Out of the above four, the liquidity ratio's is considered as one of the most valued and important for any business concern. Current ratio in the liquidity ratios is the most important ratio for preparing a business plan. Current ratio is the Comparison of current assets to current liabilities of the firm for an accounting period. The current assets and current liabilities are of assets that are cash or can be converted in to cash easily with in a year, and liabilities have to be paid within a year. The current ratio is a financial ratio which assess the cash resources for a given period to meet all the debts that are payable in 12 months. The standard current ratio is 1.33: 1 for banks. It varies from one industry to other industry. If a current ratio is below 1 then the firm may not repay the short term debts.

The high current ratio is referred as the ineffective management of short term assets. The current ratio is calculated with the formula.

$$\text{Current ratio} = \text{Current assets} / \text{current liabilities.}$$

Current assets include cash, accounts receivables, inventory and other current assets. Current liabilities include accounts payable, wages, taxes payable and other short term debts.

Cash Ratio

The cash ratio is the measurement of banks liquidity position for lending the loans to the customers. It identifies the amount of credit created from the deposit amount. It is used in determining the profitability of banks. If cash ratio is high then profit will be less. The cash ratio excludes inventory, debtors and other accounts receivable.

The high cash ratio means more amount is available for lending purposes. At the same time it also portrays the banks inefficiency in lending loans and earning profits. The ratio is calculated with a formula

$$\text{Cash} + \text{Marketable Securities} / \text{Current Liabilities.}$$

The standard cash ratio will be 0.5 to 1.

Objectives of the Study

1. To study how current ratios enable the banks in financial decision making and financial planning.
2. To identify the funds available for banks for credit creation through calculating and Comparing the cash ratio's of the selected banks.

2. Research Methodology

The data collected for the current research is secondary data. The data is collected from the websites of SBI and HDFC bank, blogs, international journals, Money control and other websites.

3. Literature Review

Rohit Bansal 2014, has compared and analyzed through financial ratios for selected banks, ICICI, Axis, Federal and HDFC. The author collected financial statements and calculated various types of ratios through which he can measure the financial performance of the banks, selected for analyzis.

K. Keerthi, S. Eswari 2020, focused on examining the financial performance of the Kumbhakonam central cooperative bank through ratios. The authors were in view that the ratio analysis provides a Comparision about inter-firm and intra- firm. The authors not only analyzed financial position and also suggested bank for better financial performance.

Eleonora Kontuš & Damir Mihanović 2019, in their empirical study analyzed the liquidity of small and medium enterprises. They focused on cash inflows and cash outflows along with a tradeoff between liquidity and investment of surplus cash to improve profitability of firm. They also have emphasized a research on exploring liquidity and liquid assets and a new mathematical model was used to calculate net earnings by a decrease in liquid assets.

Mr. Jegan M, Ms. D. Caroline Rebecca 2020 has given insights about the financial planning of the organization "Smik Systems". They discussed about the importance of planning which is determined by the management of finances in any organizations. To find out this, some ratios like

current ratio, quick ratio and gross profit ratio are calculated and analyzed to know the management of finances and also to do better financial planning.

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.

THEOGENE, TOM MULEGI, NIYOMPANO HOSEE, 2017 has done research on financial ratio analysis and its importance in decision making process in commercial banks. The research is descriptive and used qualitative and quantitative methods. The study was concluded that ratio analysis is good way to analyze the performance of the banks.

Jockie Lohery 2019 has discussed the importance of ratio analysis in financial planning. The small business owners rely upon the ratio analysis to find out the performance of the business. Not only owners in addition to that the lenders and investors also rely upon ratio analysis while making investment and lending decisions.

Diwahar Sunder Nadar, Bharti Wadhwa 2019 aimed to study whether the financial ratios are instrumental and comprehensive enough to study the various aspects like financial evaluation, insolvency prediction, Bench marking and decision making, technical analysis. The study is qualitative in nature and utilizes all the past studies in which ratio analysis was the main subject.

Monika Bolek, Bartosz Grosicki, 2014 wanted to prove that the cash conversion cycle is the best measure for liquidity forecasting in a firm which is considered as vital in strategic planning. The study did not confirm the liquidity forecasting can be measure through Cash conversion cycle. But they identified some other interesting problems in liquidity forecasting.

Agnieszka Bema, Katarzyna Prędkiewicza, Paweł Prędkiewicza, Paulina Ucieklak-Jeż b a Wrocław 2014, researched on the key factors which affect the liquidity position of the hospital. The findings stated that there is a positive relationship between debt ratio and financial liquidity and also found that the size of the hospital is no way related with the liquidity position of the hospital.

Ramya. S, Pooja Priya Dharshini. N, Chandran R. Pavithra 2018, The main objective of this analysis is to determine the firm's liquidity, solvency and financial position of the firm by using the tools like ratio analysis and common size balance sheet. Various ratios like current ratio, liquid ratio, absolute liquid ratio, turnover ratios have been used to measure the financial performance of the company. The data used in this analysis were collected from various magazines, audited reports and from website.

4. Data Analysis

1. To Study how Current Ratios enable the Banks in Financial Decision Making and Financial Planning

Particulars of Current Assets and current Liabilities of HDFC Bank

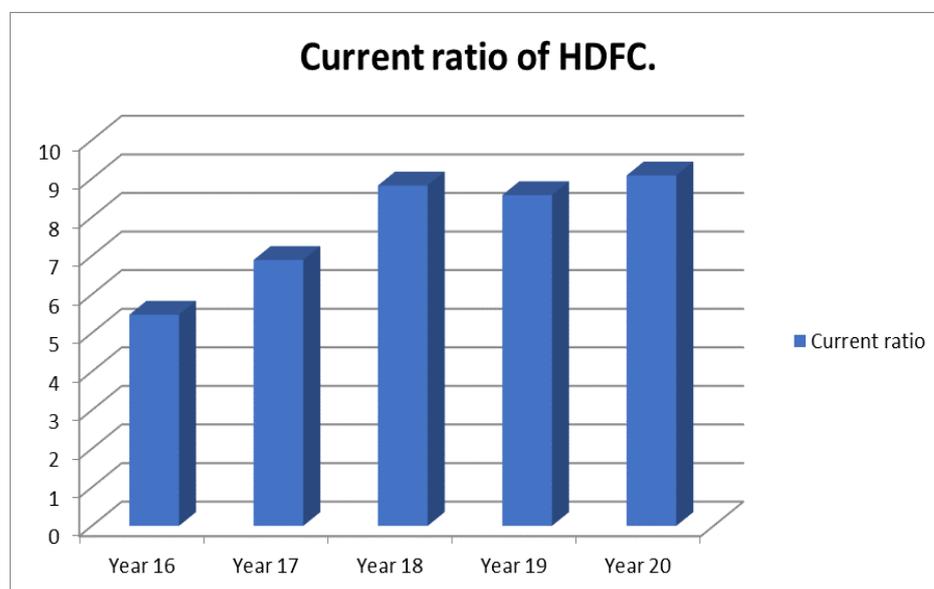
Particulars.	March 20	March 19	March 18	March 17	March 16
Current Assets:					
Cash and Bank.	72,205.12 14,413.60	46,763.62 34,584.02	104,670.47 18,244.61	37,896.88 11,055.22	30,058.31 8,860.53
Loans and Advances.	993,702.88	819,401.22	658,333.09	554,568.20	464,593.96
Total Current assets.	1080321.6	900748.86	781248.17	603520.3	503512.80
Current Liabilities					
Other liabilities. Provisions	67,394.40	55,108.29	45,763.72	56,709.32	36,725.13
Bills for collection	51,584.90	49,952.80	42,753.83	30,848.04	55,242.58
Total current Liabilities.	118979.3	105061.09	88517.55	87557.36	91967.71.

Source: www.Money control

Comparison and Calculation of Current Ratio with Current Assets and Current Liabilities- HDFC Bank

Year	Current Assets.	Current Liabilities	Current ratio.
March 16	503512.80	91967.71.	5.47
March 17	603520.3	87557.36	6.89
March 18	781248.17	88517.55	8.82
March 19	900748.86	105061.09	8.57
March 20	1080321.6	118979.3	9.08

Authors own creation



Interpretation: The aim of this study is to analyze the current ratio for the years from March 16 to March 20, which is taken as a base for financial planning and decision making of HDFC Bank.

The current ratio is calculated through formula current assets/current liabilities. In the above table the current ratio's for the years from March 16 to 20 are 5.47, 6.89, 8.82, 8.57, and 9.08. From the calculated current ratio values it is found that the HDFC's current ratios are constantly increasing from March 16 to 18. There was a slight decrease in March 19 but it regained its position in March 20.

From the analysis it is found that the current ratios of HDFC bank are far healthier and they can cover their current liabilities easily. Apart from that they can also invest in other short term ventures so that they can earn short term profits.

Particulars of Current Assets and Current Liabilities of SBI

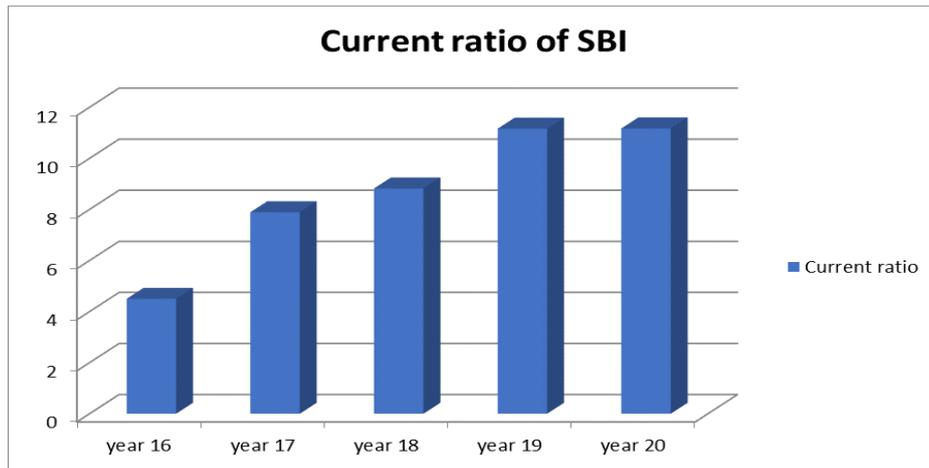
Particulars	March 20	March 19	March 18	March 17	March 16
Current Assets:					
Cash Balance.	166,735.78	176,932.42	150,397.18	127,997.62	129,629.33
Bank Balance.	84,361.23	45,557.69	41,501.46	43,974.03	37,838.33
Advances	2,325,289.56	2,185,876.92	1,934,880.19	1,571,078.38	1,463,700.42
Total current Assets.	2576386.57	2408367.03	2126778.83	1743049.65	1631168.08
Current Liabilities:					
Other liabilities and provisions.	163,110.10	145,597.30	167,138.08	155,235.19	159,276.08
Bills for collection	55,758.16	70,022.54	74,027.90	65,640.42	199,140.17
Total current Liabilities.	218868.26	215619.84	241165.98	220875.61	358416.25

Source: www.moneycontrol.

Comparison and Calculation of Current Ratio with Current Assets and Current Liabilities – SBI

Year	Current assets.	Current Liabilities	Current Ratio.
March 16	1631168.08	358416.25	4.55
March 17	1743049.65	220875.61	7.89
March 18	2126778.83	241165.98	8.82
March 19	2408367.03	215619.84	11.16
March 20	2576386.57	218868.26	11.77

Authors own creation.



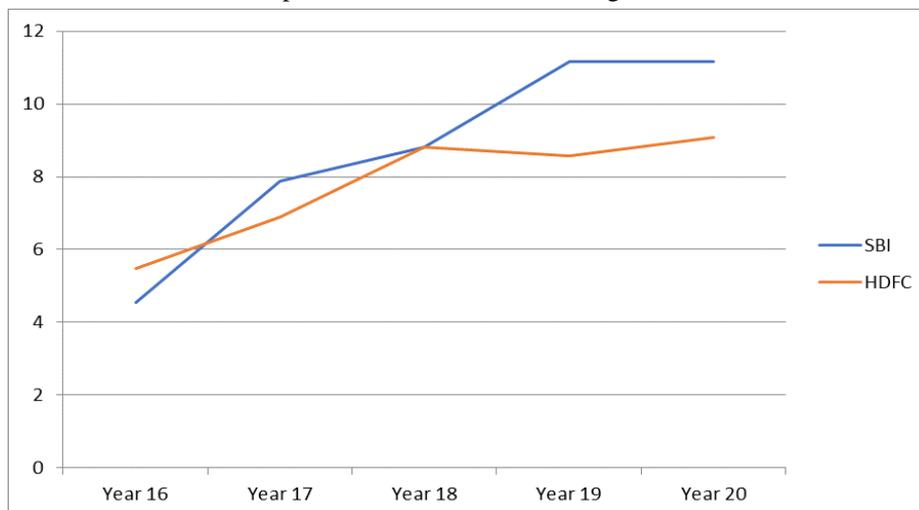
Interpretation: As discussed earlier the current ratio analysis helps in financial decision making and financial planning, the current ratios for SBI are calculated and found that the ratios are far greater from the standard ratio. The ratios from March 16 to 20 are 4.55, 7.89, 8.82, 11.16, and 11.77. The ratios are increasing year by year. It portrays a huge amount of current assets are idle and are not invested in any other assets.

Comparison of Current Ratios of Both Banks

Year	HDFC	SBI	Comparison.
March 16	5.47	4.55	HDFC > .92
March 17	6.89	7.89	SBI > 1.00
March 18	8.82	8.82	equal
March 19	8.57	11.16	SBI > 2.59
March 20	9.08	11.17	SBI > 2.09.

Authors own creation

Comparison of Current Ratio through Charts



Interpretation: The current ratio of HDFC in the year 2016 is higher than SBI's current ratio. And for the other years from 2017, 2020 Current ratio of SBI is higher and equal in 2018.

The advantage of calculating current ratio is to understand the operating cycle and working capital requirements of the banks, and also exhibits the efficiency in managing the banks funds.

The current ratio of both the banks are displaying high ratios and since the study is essentially concentrates on financial planning through liquidity ratios the banks are having ample reserves to boot investments and earning profits.

2. To Identify the Funds available for Banks for Credit Creation through Calculating and Comparing the Cash Ratio's of the Selected Banks for Analysis

For comparing cash deposits which are available for credit lending for both banks, Cash ratio is calculated and analyzed. The formula is calculated as Cash plus Cash equivalents/ banks total liabilities.

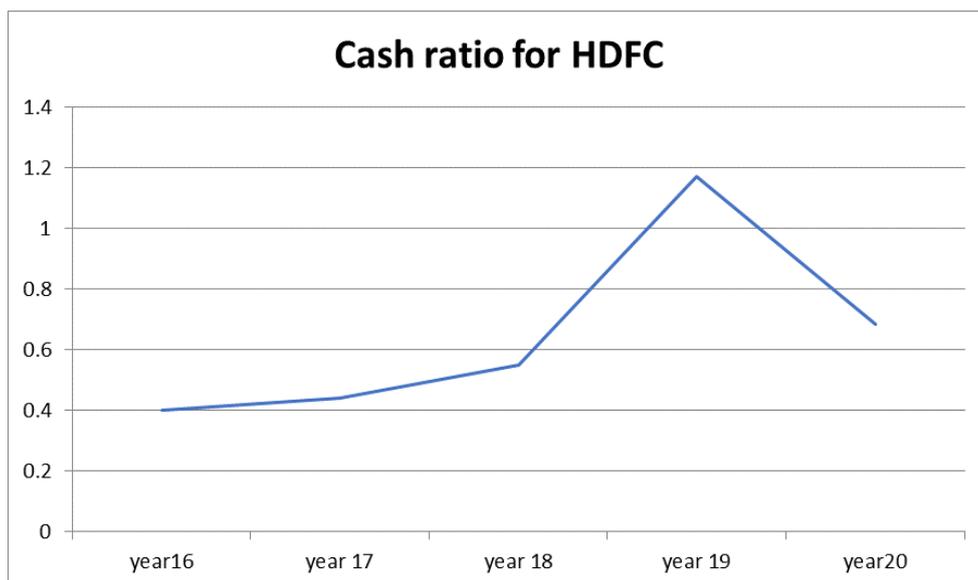
From the ratio we can find out whether the banks can create credit from deposits. If ratio is high then the bank's profitability will be less. If ratio is less, the bank's position is risky.

Calculation of Cash Ratio for HDFC Bank

Year	Cash and cash equivalents.	Current Liabilities.	Cash Ratio
2016	36,331.45	91967.71.	0.4
2017	38918.84	87557.36	0.44
2018	48,952.10	88517.55	0.55
2019	1,22,915.08	105061.09	1.17
2020	81347.64	118979.3	0.684

Prepared by author for analysis

Interpretation: The cash ratio for 2016 and 2017 are low and indicates the riskier position of the bank. Where as in 2019, the banks liquidity stands in a strong position and can even make further investments to earn more profits. In 2018 and 2020 the ratio's are just enough may be to cover the working capital requirements of the banks.



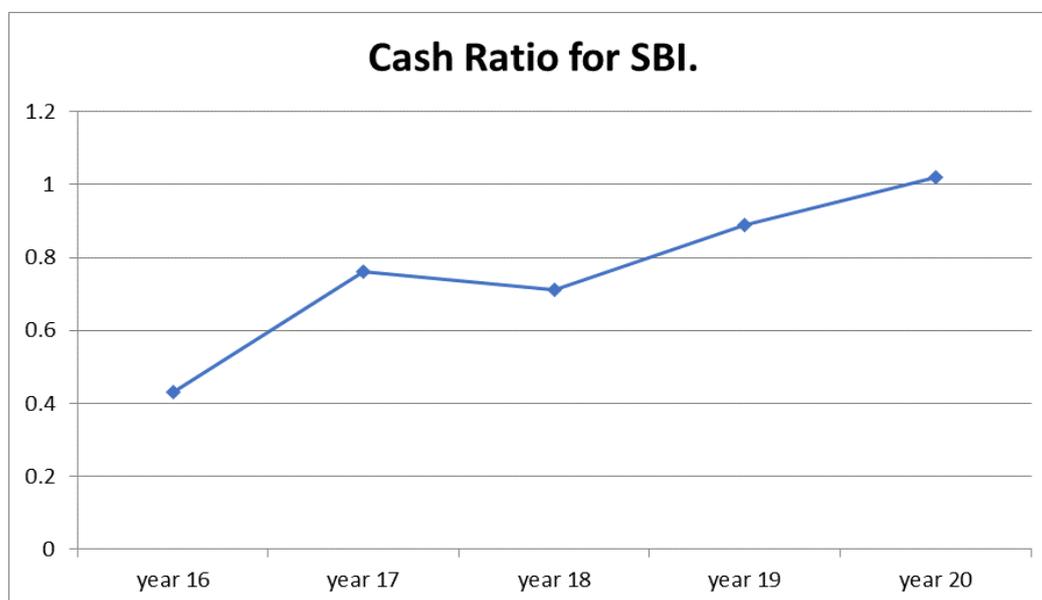
Calculation of Cash Ratio for SBI Bank

Year	Cash and Cash equivalents.	Current liabilities.	Cash Ratio.
2016	1,54755.78	358416.25	0.43
2017	1,67467.66	220875.61	0.76
2018	1,71,971.65	241165.98	0.71
2019	1,91,898.64	215619.84	0.89
2020.	2,22,490.11	218868.26	1.02

Prepared by author for analysis

Interpretation: The cash ratio of 2016, 0.43 is low when compared to standard ratio i.e., 0.5 to 1. From this it is perceived that the banks financial position is at risk.

In the subsequent years the ratio is high and allows the bank to invest further and earn profits.

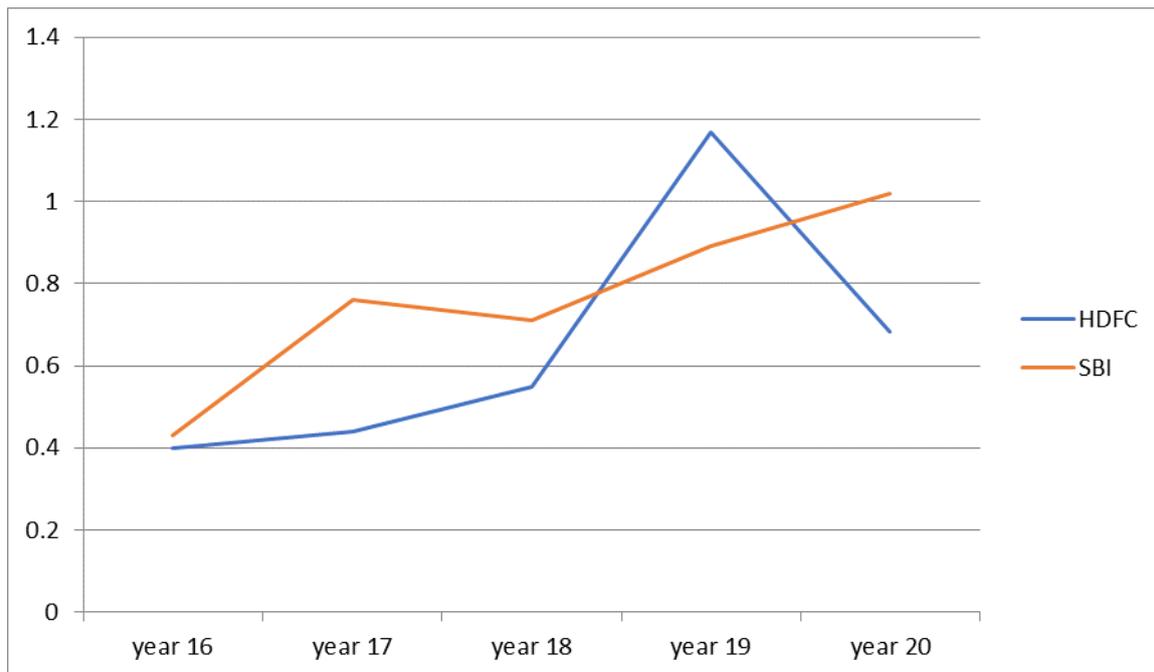


Comparison of Cash Ratios for Both the Banks

Year	Cash Ratio of HDFC	Cash Ratio of SBI	Comparison.
March 16	0.40	0.43	SBI> 0.03
March 17	0.44	0.76	SBI>0.32
March 18	0.55	0.71	SBI>0.16
March 19	1.17	0.89	SBI<0.28
March 20	0.684	1.02	SBI>0.336

Prepared by author for analysis

Comparison of Cash Ratios – Graphical Representation



Interpretation: From the above Analysis and graphical representation, It is obvious that the SBI's Cash ratio is high in almost all years except, 2019. The SBI's scope and advantage to squeak for earning better profits.

5. Findings

1. For both the banks, HDFC and SBI the current ratio is boosting from 2016 to 2020.
2. Current ratio is in fluctuating trend, and hence can be identified that both the banks have surplus current assets to cover current liabilities.
3. Cash ratio is high for both the banks implying less profitability.

4. The banks, particularly SBI have favorable circumstances for exploiting new investment avenues and make profits.
5. The current liabilities are more than cash and cash equivalents, which increases the risk for both the banks.
6. The SBI is not using its short term investments properly.
7. High current ratio indicates more short term value assets.

6. Conclusion

The study is primarily focused on the importance of liquidity ratios in financial planning for the banks. The ratios' which the author has studied are the important ratios in calculating the liquidity stand of the banks. After analyzing the banks five years of data, it can be concluded that both the banks have substantial funds to cover their current liabilities. Apart from covering liabilities, the SBI, however has to maintain sufficient liquidity and imperative to earn highest possible returns. The HDFC bank a leading private bank has less cash ratio, means they have to attract more customers for deposits and credit creation.

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