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Liquidity Management in Commercial Banks: A Critical Review from Indian Perspective

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Abstract

Banking area plays out a basic function in business division and economy of any nation. Bank is a money related foundation who stores the sparing of public and offers credit to individuals, different establishments, association, Govt. and so on. Bank likewise makes venture with the end goal of benefit. Consequently, to get most extreme advantage there is to have powerful utilization of assets. To accomplish greatest advantage the bank should discover the most significant level of assets to satisfy the momentary prerequisite and afterward make the venture of additional assets and furthermore have a few assets to get gain from speculation opportunity. Since by adequately oversee liquidity banks can expand the benefit. This paper analyzes banks liquidity the board and their effect on banks benefit in commercial banks of India. The secondary information utilized for this examination and has been taken from annual reports of commercial banks. The information was dissected by utilizing relationship, clear measurements. Generally speaking experimental outcomes show that liquidity the board has positive effect on banks benefit.

Keywords: Money, Economy, Commercial Banks, Relationship, Positive Effect.

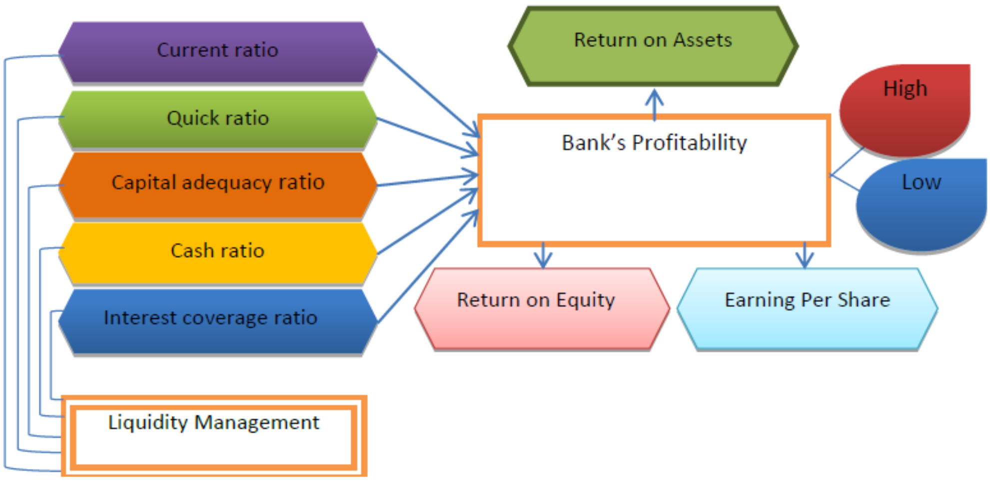
1.0 Introduction

Liquidity of banks is "the situation with which banks resources could without much of a stretch be changed over into money". The fluid resource remembers money for bank vaults, and other government protections that have not been utilized as guarantee for advances. The most fluid of every one of these benefits is money.

These are numerous reasons why a bank should have sensible fluid resources in its benefits portfolio. These incorporate among others to fulfil the bank to satisfy brief needs from stores and to guarantee that the bank fundamental prepared public certainty and furthermore beadle to use productive open doors that may turn out in future. In any case, it ought to be referenced that banks like most different business are benefit arranged. They work so as to make benefit for their investors.

The benefits could appropriately be acknowledged just if there are sufficient stores from bank clients. The stores won't come except if the contributors could be guaranteed of the wellbeing of their stores and for the security of the store to be guaranteed, these must be sufficient liquidity in the bank. Then again, a bank works so as to make benefit for her investors. Action intended to make benefit in banks may achieve bank trouble and the other way around. Subsequently, harmony must be looked for between the two. These taken outrageous cases, have been the consistent worries of bank the executives.

Figure 1.1 Theoretical Framework



Source:- Muhammad Ashraf & Muhammad Nabeel (2017)

2.0 Literature Review

Maqsood, et al. (2016) clarified that liquidity the executives had noteworthy effect on banks productivity. The information that was utilized in this examination was taken from fiscal report of 8 unique banks from 2004 to 2015. The relapse and relationship strategies were utilized in this investigation. To look the liquidity it utilizes the current proportion (CR) and money proportion (CASR) as free factor and to decide benefit utilizes return on resources (ROA) as reliant variable.

Bassy, et al. (2016) directed examination to investigate connection between liquidity the board and banks execution in Nigeria. The investigation inferred that productive and viable administration of liquidity is important for endurance and fruitful activities of banks.

Ikeora & Andabai (2016) found the positive connection between the needy (benefit) and free factor (liquidity the executives) utilizing time arrangement information. Liquidity the executives incorporates the expansive cash flexibly and total bank stores and gainfulness was measure by ROA. OLS econometrics strategy was utilized to investigation the theory.

Salim (2016) led an examination and discovered noteworthy connection between the Loans to add up to resources, Loans to momentary liabilities and stores, Bank's advances, client stores to Total resources and ROA. The investigation likewise found that no huge connection between liquidity position and net premium edge of Omani banks. The information was gathered of four banks from 2010 to 2014 from their budget summary to investigate the association among liquidity and banks financial execution. The information was examined by utilizing numerous relapse investigations.

Sheikhdon & Kavale (2016) inferred that critical direct connection between Account receivable administration, Account payable and money the board on commercial banks execution in Mogadishu. Survey was utilized as a technique for information assortment. The objective populace was 112 representatives of commercial banks in Mogadishu. The example size of 87 respondents was chosen utilizing trudge van's recipe. By utilizing SPSS rendition the information was examined.

Ali (2016) portrayed the positive relationship among banks liquidity and productivity. The current proportion and speedy proportion was consider as proportion of liquidity and Gross overall revenue and Net overall revenue proportions were consider as proportion of productivity. The information was assessed Habib Bank Limited of most recent long term (2008-2014).

Nedunchezhian (2015) clarified that no critical connection between the money at bank, and profit for resources (ROA). And furthermore described there was no critical connection between the development all out resources and profit for resources (ROA). The example size was removed 5 banks from 20 in India.

3.0 Objectives

- To understand the conceptual framework of Liquidity of Banks.
- To study the effect of Liquidity on the profitability of commercial banks.
- To study the variable affecting the liquidity of commercial banks

4.0. Methodology

This investigation clarifies the effect of liquidity the board on the productivity of banking division in India utilizing diverse liquidity and gainfulness proportions. The liquidity the executives will consider as autonomous variable and productivity as reliant variable. The Analysis of Asset Liability Management in Indian bank will be done for the example time frame from 2014 to 2018.This examination is absolutely founded on the auxiliary information; the wellsprings of information were gathered through different diaries, books and so on. Financial reports of the Indian bank and the RBI online site.

5.0 Variables influencing the Liquidity of Banks

The different factors are utilized to inspect liquidity the executive's impact on banks gainfulness.

a) Dependent factors: Under this investigation banks benefit is considered as reliant variable. Banks productivity measure by utilizing three gainfulness proportions: return on resources, return on value and income per share which are clarified beneath:

Return on Assets: ROA implies that how much benefit banks create by overseeing it resources. It is as certain by separating net benefit by normal all out resources. Higher the profit for resources implies higher the bank's benefit.

Return on Equity: Another banks productivity measurement is return on value (ROE) which is process by partitioning gaining after premium and duty with the normal absolute value. Profit for value implies benefit return as segment of all out value contributed. It implies the parentage of salary create by utilizing the value of investors.

Earnings per share: It implies that the aspect of an organization's profit after intrigue and assessment that is disperse to each regular stock remarkable, which utilize a sign of business' prosperity.

b) Independent factors: Liquidity the executives are taken as free factor under such exploration contains cash ratio, quick ratio, CR, premium inclusion proportion (ICR) and CAR are clarified beneath:

Cash ratio: One of the organization's liquidity markers is process by isolating the organization's money to its present liabilities. It gives a look that the amount Cash Company needs to meet its transient prerequisites.

Quick ratio: The QR additionally perceived as analysis proportion shows bank's ability to satisfy its transient prerequisite (current liabilities) when relate just with brisk resources. Brisk resources incorporate money, money counterparts, debt claim, momentary ventures or attractive protections. An expansion in QR is a positive sign for banks since it implies banks have all the more brisk resources for pay its present liabilities.

Current ratio: CR is figure by means of isolating transient resources for current liabilities. Current resources are those might be changed over inside one year into money and current liabilities implies commitment that must satisfy inside one year.

Capital Adequacy ratio: This investigation additionally incorporate CAR as one component of liquidity the executives it portray bank's capital extent towards its present liabilities and danger weighted resources. It is chosen by bank administrative and national bank to dodge commercial banks from extra influence and getting bankrupt in measure.

Interest coverage ratio: Interest coverage ratio additionally recognized as times premium earned proportion quantifies bank's capacity to pay its advantage cost on its obligation. It is processed by isolating before premium and assessment winning to add up to intrigue cost of a similar time span.

6.0 Data presentation

The information based on secondary data is presented below:

Table 6.1 Analysis of Current Assets to Deposits Ratio

YEAR	PERCENTAGE
2017-2018	6.20
2016-2017	5.50
2015-2016	6.73
2014-2015	7.73
2013-2014	6.46

Source: Based on annual reports of Indian bank

Table: 6.2 Analysis of Credit Deposits Ratio

YEAR	PERCENTAGE
2017-2018	0.75
2016-2017	0.70
2015-2016	0.72
2014-2015	0.74
2013-2014	0.75

Source: Based on annual reports of Indian bank

Table: 6.3 Analysis of Debt Equity Ratio

YEAR	PERCENTAGE
2017-2018	13.69
2016-2017	12.71
2015-2016	12.52
2014-2015	13.00
2013-2014	13.50

Source: Based on annual reports of Indian bank

Table: 6.4 Analysis of Current Ratio

YEAR	PERCENTAGE
2017-2018	3.4
2016-2017	3.2
2015-2016	3.1
2014-2015	2.9
2013-2014	2.1

Source: Based on annual reports of Indian bank

Table: 6.5 Analysis of Quick Ratio

YEAR	PERCENTAGE
2017-2018	2.08
2016-2017	1.77
2015-2016	2.12
2014-2015	2.13
2013-2014	1.69

Source: Based on annual reports of Indian bank

Table: 6.6 Relationship between variables

Variables	ROA	ROE	EPS	QR	CR	CASR	ICR	CAR
ROA	1							
ROE	0.8288	1						
EPS	0.7494	0.6426	1					
QR	0.0043	-0.0091	-0.0795	1				
CR	-0.3279	-0.3368	-0.3786	0.7677	1			
CASR	-0.0453	-0.1212	-0.0586	0.8368	0.7148	1		
ICR	0.9441	0.832	0.6886	0.0265	-0.31	-0.0246	1	
CAR	0.7183	0.5113	0.7259	0.2478	-0.5084	-0.148	0.6589	1

Source: Based on annual reports of Indian bank

Table: 6.7 Dependent variable: Return on Assets

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-1.0588	0.2657	-3.9847	0.0001
ROE	0.0066	0.0028	2.3741	0.0197
EPS	0.0113	0.0052	2.1860	0.0314
QC	0.3116	0.5069	0.6148	0.5402
CR	0.1302	0.1331	0.9776	0.3302
CASR	-0.8999	0.9300	-0.9676	0.3358
ICR	0.7853	0.0744	10.5603	0.0000
CAR	0.0550	0.0172	3.1928	0.0019
R-squared	0.9220			
F-statistic	151.9987			
Prob.	0.0000			

Source: Based on annual reports of Indian bank

7.0 Key findings

- In the year 2014-2015 this proportion was 7.73% and decreased to 5.50%in 2016-2017.which implies that the extent current resources supported by stores has gone down, anyway the normal extent of current advantage for stores is high in 6.20 in the 2017-2018.
- The proportion was 0.70 in the year 2016-2017 that expanded to 0.75 in 2017-2018.The in general consequence of the tables uncover that the advances of the banks are given through the store
- In the year 2017-18, a high proportion is 13.69 for the most part implies that an organization has been forceful in financing its development with obligation
- The capacity of a bank to pay its momentary commitments when they become due. A higher Current proportion shows solid dissolvability position. A Current proportion is 2:1 is viewed as adequate The Higher current proportion 3:4, the more fit for bank.
- The Quick proportion quantifies an organization's capacity to meet its transient commitments with its most fluid resources. In 2015-2016, the higher proportion is 2.12 and highlights better organization's liquidity position.
- The discoveries of such investigation explain that premium inclusion proportion has positive and huge relationship with banks productivity when it examined by banks benefit determinants return on asset and ROE.
- The QR has positive and inconsequential relationship with return on resources (ROA) and earnings per share. Besides, QR has positive and noteworthy relationship when assess utilizing ROE.
- The CAR has positive and critical relationship with EPS and ROA.
- The current proportion recommends positive however irrelevant relationship with banks gainfulness while it research with return on assets.
- The discoveries of this investigation likewise portrayed that cash ratio is decidedly connected with banks benefit measurement return on equity.

8.0 Conclusion

It has become the prime concentration in the financial business, with each bank attempting to boost yield and diminish their danger presentation. Resource Liability Management is one of the crucial instrument for hazard the executives in banks. The banks need to work appropriately with respect to the Asset Liability Management to build their presentation. Dealing with the Asset and Liabilities is essential for each bank.

The exploration result shows that liquidity is a fundamental factor for banks productivity. Thus, there is whole need bank must keep up an adequate measure of liquidity to satisfy its momentary interest of money and to misuse speculation open door for amplify the benefit. Thusly it very well may be reasoned that on the off chance that, banks don't viably and productively deal with the liquidity then it can't satisfy the momentary commitments and make the most of venture opportunity.

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