STUDY OF CASH MANAGEMENT IN BANKING SECTOR OF INDIA

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ABSTRACT: -

Cash management in the Indian banking sector is a critical function that ensures liquidity, operational efficiency, and financial stability. This study explores the methodologies, challenges, and innovations in cash management practices adopted by Indian banks. It investigates the impact of regulatory frameworks, technological advancements, and market dynamics on cash management strategies. The study also examines the role of cash forecasting, liquidity management, and risk mitigation in optimizing cash flows. Through a combination of quantitative analysis and case studies, the research highlights the best practices and emerging trends in the sector. The findings reveal that effective cash management not only enhances the profitability and sustainability of banks but also contributes to the broader economic stability of the country. This study provides valuable insights for policymakers, banking professionals, and financial analysts aiming to improve cash management processes and frameworks in the Indian banking industry.

KEY WORDS:- -

-Cash Management

-Indian Banking Sector

-Liquidity Management

- Operational Efficiency

- Financial Stability

- Regulatory Frameworks

- Technological Advancements

- Market Dynamics

- Cash Forecasting

- Risk Mitigation

- Profitability

- Economic Stability

- Banking Practices

- Case Studies

- Financial Analysis

INTRODUCTION:-

Cash management has the following purposes: controlling spending in the aggregate, implementing the budget efficiently, minimizing of the cost of government borrowing, and maximizing the opportunity cost of resources (the last two purposes yielding interest). Control of cash is a key element in macroeconomic and budget management. However it must be complemented by an adequate system for managing commitment. For efficient budget implementation, it is necessary to ensure that claims will be paid according to the contract terms and that revenues are collected on time. It is necessary to minimize transaction costs; and to borrow at the lowest interest rate or to generate additional cash by investing in revenue-yielding paper. It is also necessary to avoid paying in advance and to track accurately the dates on which payments are due.

In developing countries, governments often do not pay attention to issues related to cash management. Budget execution procedures and the management of cash flows focus on compliance issues, while daily cash needs in are met at low cost by the Central Bank. Spending units are not concerned with borrowing costs since their interests are already taken account in the budget prepared by the Ministry of Finance.

However, the costs of borrowing, the fact that the credit granted to the government by the banking system is a key macroeconomic target and a performance criterion in IMF-supported financial programs, and the increasing separation between the activities of the Central Bank and the government budget make cash management more important. Performance concerns have also had an impact on cash management and some countries have implemented reforms to make spending agencies more responsible for cash, while maintaining instruments to ensure fiscal discipline

LITERATURE REVIEW:-

According to (Davidson et al, 1999), cash is any medium of exchange, which is immediately negotiable. It must be free of restriction for any business purpose. Cash has to meet the prime requirements of general acceptability and availability for instant use in purchasing and payment of debt. Acceptability to a bank for deposit is a common test applied to cash items. This is a process of Planning, controlling, and accounting for cash transactions and cash balances. It is channeling available cash into expenditures that enhance productivity, directly or indirectly.

In addition, Cash is ready money in the bank or in the business. It is not inventory, it is not accounts receivable (what you are owed), and it is not property. These might be converted to cash at some point in time, but it takes cash on hand or in the bank to pay suppliers, to pay the rent, and to meet the payroll. Profit growth does not necessarily mean more cash. (Davidson et al, 1999)

Cash is the important current asset for the operations of the business. Cash is the basic input needed to keep the business running on a continuous basis: it is also the ultimate output expected to be realized by selling the service or product manufactured by the firm. The firm should keep sufficient cash, neither more nor less. Cash shortage will disrupt the firm's manufacturing operations while excessive cash will simply remain idle. Without contributing anything towards the tint's profitability. Thus, a major function of the financial manager is to maintain a Sound cash position. (Pandey, 2007)

Cash is the money which a firm can disburse immediately without any restriction. The term cash includes coins, currency and cheques held by the firm, and balances in its bank accounts. Sometimes near-cash items, such as marketable securities or bank times deposits, are also included in cash. The basic characteristic of near-cash assets is that they can readily be converted into cash. Generally, when a firm has excess cash, it invests it in marketable securities. This kind of investment contributes some profit to the firm. (Hampton, 2001)

Waltson and Head (2007) explained Cash management as the concept which is concerned with optimizing the amount of cash available, maximizing the interest earned by spare funds not required immediately and reducing losses caused by delays in the transmission of funds

According to Zimmerer et al (2008) cash management is the process of forecasting, collecting, disbursing, investing, and planning for cash a company needs to operate smoothly. They further added that cash management is a vital task because it is the most important yet least productive asset that a small business owns. A business must have enough cash to meet its obligations or it will be declared bankrupt. Creditors, employees and lenders expect to be paid on time and cash is the required medium of exchange.

However, some firm retain an excessive amount of cash to meet any unexpected circumstances that might arise. These dormant cash have an income-earning potential that owners are ignoring and this restricts a firm's growth and lowers its profitability. Investing cash, even for a short time, can add to company's earning. Proper cash management permits the owner to adequately meet cash demands of the business, avoid retaining unnecessarily large cash balances and stretch the profit generating power of each dollar the business owns (Zimmerer et al, 2008).

Cash management is particularly important for new and growing businesses. (Jeffrey P. Davidson et al, 1992) indicated in their book that cash flow can be a problem even when a small business has numerous clients, offers a superior product to its customers, and enjoys a sterling reputation in its industry.

Companies suffering from cash flow problems have no margin of safety in case of unanticipated expenses. They also may experience trouble in finding the funds for innovation or expansion. Finally, poor cash flow makes it difficult to hire and retain good employees.

Westerfield et al, 1999 noted that it is important to distinguish between true cash management and a more general subject of liquidity management. The distinction is a source of confusion because the word cash is used in practice in two different ways.

First, it has its literal meanings, actual cash on hand. However, financial managers frequently use the word to describe a firm's holdings of cash along with its marketable securities, and marketable securities are sometimes called cash equivalents or near cash. In our distinction between liquidity management and cash management is straightforward, they added

OBJECTIVE OF RESEARCH

Objectives of a project tell us why project has been taken under study. It helps us to know more about the topic that is being undertaken and helps us to explore future prospects of that organization. Basically it tells what all have been studied while making the project.

- To learn about various aspects of cash management.
- To gain insights about functioning of cash management.
- To explore the future prospects of cash management.

RESEARCH METHODOLOGY

SRESEARCH DESIGN

RESEARCH DESIGN & NATURE

Research design explains the decisions regarding what, where, when, how by what means concerning an enquiry or a research. Research design as such is defined as -an arrangement of conditions for collection and analysis of data in a manner that aims to combine relevance the research purpose with economy in procedure.

Research design is a framework within which researches conducted and contains a blueprint for collection, measurement and analysis of data.

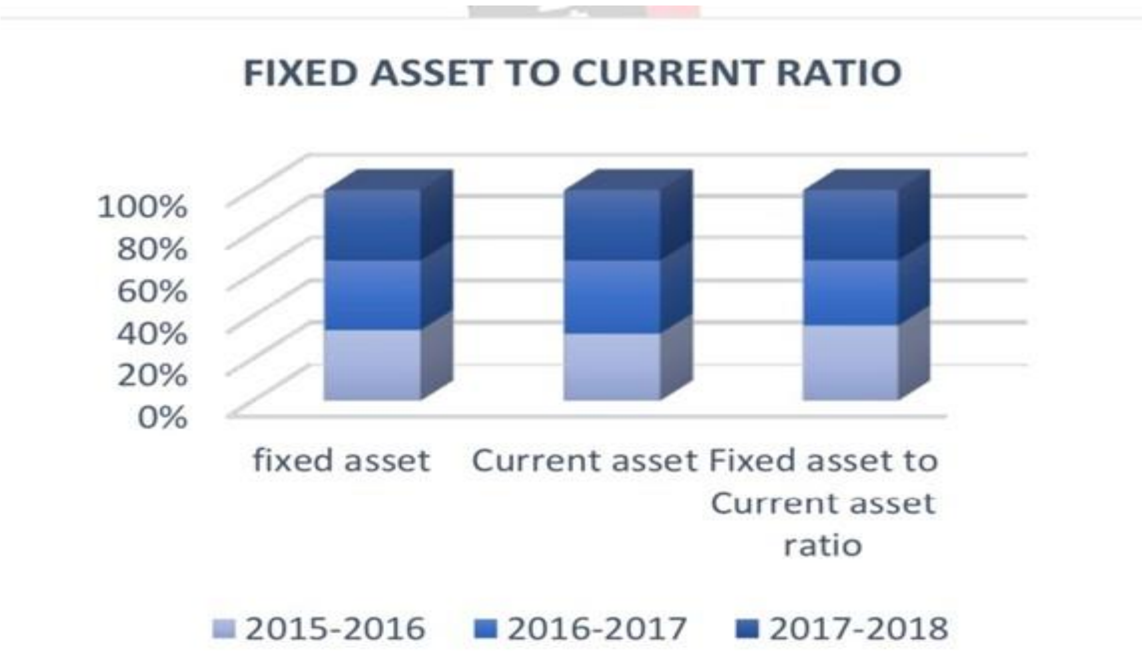
DATA COLLECTION

There are two types of data:

- **Primary Data:-**. These data are collected first time as original data. The data is recorded as observed or encountered. Essentially they are raw materials. They may be combined, totaled but they have not extensively been statistically processed. For example, data obtained by the peoples.
- **Secondary Data:-** Sources of Secondary Data are Official Publications, Publications Relating to Trade, Journal/ Newspapers, Data Collected by Industry Associations, Unpublished Data etc. My main source of data collection for this project report is Secondary Data.

DATA ANALYSIS & INTERPRETATION

TABLE:1

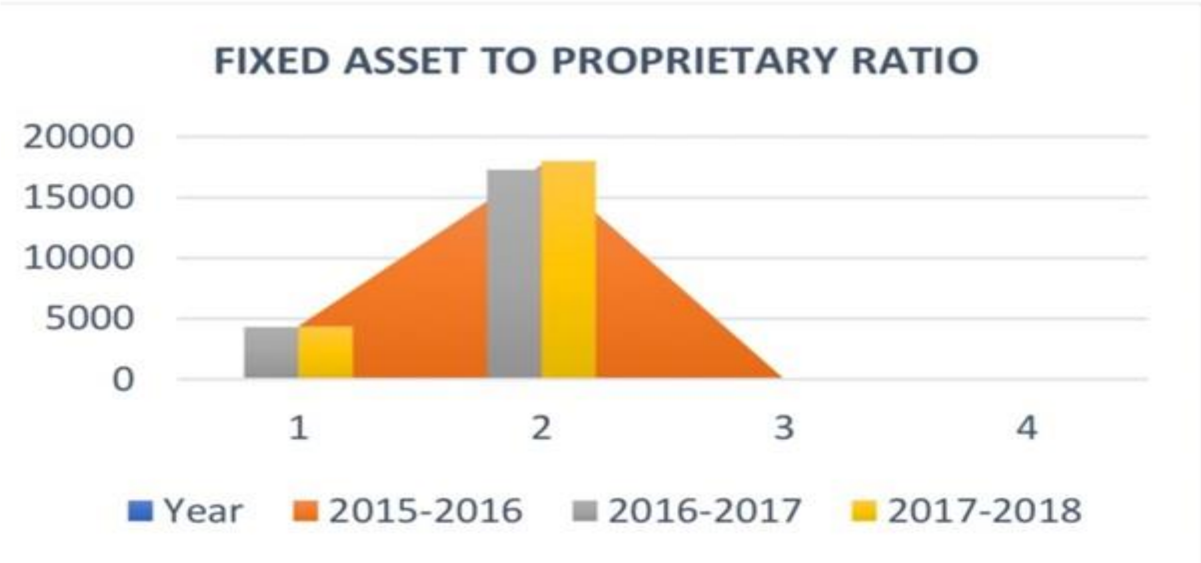


Fixed asset to current asset ratio FIXED ASSET CURRENT ASSET			
Year	Fixed asset	Current asset	Fixed asset or current asset
2015-2016	4359.29	284418.18	0.015
2016-2017	4290.37	310260.19	0.013
2017-2018	4343.38	29840.23	0.014

INTERPRETATION:

From the above table, during 2015-2016 the fixed asset to current asset ratio 0.015, 2016-2017 it was 0.013 and 2017-2018 is0.014.During the year of 2016-2017 was increase.

TABLE:2



Fixed asset proprietary ratio fixed assets			
Shareholder's funds			
year	Fixed asset	Shareholder's funds	Current asset to proprietary ratio
2015-2016	4359.29	17679.14	0.246
2016-2017	4290.37	17268.14	0.248
2017-2018	4343.38	17985.53	0.241

Interpretation:

From the above table, during 2015-2016 current asset to proprietary ratio 0.246, 2016-2017 it was 0.248 and 2017-2018 in 0.241 this year was increased.

CONCLUSION: -

Cash management in the banking sector of India encompasses various strategies and practices aimed at optimizing cash flow, minimizing idle cash, and ensuring efficient utilization of funds. Through digitalization, real-time monitoring, accurate cash forecasting, infrastructure investment, regulatory compliance, customer education, risk management, and collaboration with fintech companies, banks can enhance their cash management practices and deliver superior services to customers. Conclusion: Effective cash management is essential for banks in India to maintain liquidity, mitigate risks, improve operational efficiency, and meet the evolving needs of customers in an increasingly digital banking landscape.

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