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A Study of Working Capital Management in Banking Sector

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ABSTRACT

Working capital is widely recognised as the backbone and lifeblood of all businesses across the world. This necessitates effective working capital management to aid in the reduction of frequent incidents/cases of bank distress I Banking industry, since this has long been a cause of concern for financial statement readers. As a result, this project has aimed to provide an expository debate on the direction of working to improve the continuity of the banking business, with a special focus on United Bank plc Surulere, Lagos.It therefore focused on the how bank executives should handle financial trouble institutions when such indicators of distress try to appear. The conclusions drawn from this study are both impressive and useful.

Keyword - Banking Industry, Working capital factors, Banks, India

INTRODUCTION

Working capital is the money needed to keep a firm running on a daily basis. The current competitive market situation necessitates effective working capital management. The reason for this is that inefficient working capital management can compel a company to shut down operations and possibly lead to bankruptcy. As a result, the purpose of working capital management is to maintain a suitable amount of working capital in addition to managing current assets and current liabilities. Holding a huge quantity of current assets increases the liquidity position and decreases risk, but at the sacrifice of profitability. As a result, achieving a risk-reward trade-off is critical while owning current assets. While cash withdrawals are predictable, cash inflows are unpredictable. Working capital in the form of current assets is maintained with a temporal lag. The operation cycle notion explains the entire process of this conversion.The report examines the company's working capital management strategies in depth. The management of each current asset, such as inventory, cash, and accounts receivable, is analysed on a long-term basis by the Company. Similarly, account payable management is researched in order to better understand how to handle current obligations. This idea of operational cycle is addressed in part. The research approach used in this study is mostly based on secondary sources of data, such as the company's annual reports and website. The utilisation of primary sources is restricted to a few interviews with finance department staff.The Company has a healthy working capital position, according to a review of working capital management. The firm also has access to affordable short and medium-term financing. The company has set up foreign funds to meet the financial needs of projects outside of India. The company's sales performance is also excellent. Its incredible performance can be ascribed to the product's low cost. The Company's overall position is strong, and this is expected to continue as long as existing management strategies are followed, currency rate risk is managed, and quality and quantity competition with local and international companies is maintained.

LITERATURE REVIEW

Working capital management, according to Van Horne, is the management of current assets like as cash, marketable securities, receivables and staff advances, and inventory. Osisioma demonstrated that working capital necessitates an acceptable connection between the various components of a company's working capital in order to create an efficient mix that ensures capital sufficiency. As a result, working capital management must ensure that the desired quantities of each working capital component are accessible for management. "What defines the essential components of a bank's working capital, and how much of such necessary components may be considered appropriate or desirable?" is the question.

The three primary reasons postulated by Keynes for keeping cash provide the bedrock on which research on cash holdings is based. The main purpose for keeping cash is to support the company's day-to-day operations. While the cautious motivation explains that cash is maintained by businesses to meet unanticipated eventualities, the speculative motive claims that cash can also be kept or invested to profit from predicted future interest rate swings. The quantity of working capital investment is influenced by the purpose for maintaining cash coupled with the company's business cycle.

Treasury securities, repurchase agreements, agency securities, and commercial papers are all examples of marketable securities. On the balance sheet, cash equivalents are tangible assets with a maturity of the less than three months. 2.2.1 Keynesian motivations for cash holding Keynes devoted a dissertation to the reasons for keeping currency and expands on them. He specifies three distinct but interconnected otives.

This is because, rather than real assets or particular cash flows, their worth is determined by their growth prospects. As a result, to ease the expenses of financial trouble, this sort of company will hold larger cash reserves. In this regard, John observes that companies with outstanding growth prospects but little tangible assets prefer to keep more cash on hand. As a result, unions with greater investment prospects may be expected to maintain higher liquidity levels in order to avoid limiting or cancelling their profitable investment projects.As a result, age and banking growth (as measured by interest income change) are used as proxies for company expansion. Profitability 10 out of 11 Profit is a cash flow source for businesses. A company's profit is either kept to support future investment possibilities or paid to shareholders in the form of a dividend. Even while a firm's profit in a given year does not always convert into the same amount of expenditure, all other factors being equal, it is improbable that less profitable enterprises would have increased cash flows than extremely lucrative ones. As a result, profitable businesses are anticipated to provide more cash on hand than less lucrative businesses. Risk Risky businesses tend to keep cash on hand as a hedge against future uncertainty.

When companies have important growth prospects after a brief reduction in liquid assets, these chances are passed up, and the firm's value drops. Minton and schrand discovered that enterprises with more unpredictable cash flow avoid investing permanently versus reacting to cash flow deficits by shifting discretionary investment timing. Firms that have a higher rate of interest are thought to be riskier than those that don't.To illustrate risk, the leverage to profitability is employed. Firms' efficiency Cash can be used for a variety of purposes, including transactions, precautions, and speculation. In some cases, the amount of cash a company has on hand may be used to determine how efficient it is. If the returns on investment vehicles are predicted to be higher than retaining cash, it is believed that efficient organisations led by logical executives would put idle capital into these organizations.

OBJECTIVES OF STUDY

- investigations the company's working capital management method in general.
- Analyse and implement the working capital operation cycle idea in the company.
- To understand how working capital is financed.
- To be aware of the different inventory management strategies used by the company.
- To make ideas, if any, for improving the Company's working capital management.

  As a result, a complete analysis of COMPANY's working capital management will be conducted in order to assess the efficacy of management of working capital, uncover management flaws, and make recommendations for improving working capital management.

RESEARCH METHODOLOGY

Research Design

EMPLOYED METHODS

Descriptive type of research

The use of secondary data
• Analysis of financial reports
• Ratio analysis
• Analysis of cash flow

Analysis of financial

A proxy information is a collection of facts structured according to the same consistent and logical accounting technique in order to express an understanding of some financial characteristics of a company. It can disclose a succession of operations over an amount of time, just like in the case of a balance sheet, or it can reveal a position at a certain particular moment in time, just like in the position of a financial statements. As a result, the word "financial statements" applies to both statements.

(1) The balance sheet or position statement.
(2) The financial statement, often known as the income statement.

Ratio analysis

Ratio analysis is important for a financial performance of a company, leverage ratio, cash flow, risk, liquidity position, efficiency, and operations effectiveness, as well as proper fund utilisation. It also demonstrates the increase or comparison of financial results, which can be useful for shareholders making investment decisions.

Analysis of cash flow

The study of both the supplier during which additional money were extrapolated as well as the use to which other publications were put is known as fund flow analysis. The money flow analysis entails the following steps:

A. Creating a timetable for working capital changes

B. Sources of funding and how they were used.

It is a useful management tool for analysing changes in a company's financial situation (working capital) from the beginning to the conclusion of the fiscal year.

LIMITATION

Financial statements of COMPANY are the most common secondary data sources. The data from most of these financial reports is used to create a proclamation of accruals over the last five years. Similarly, a time series data of the operating cycle is performed, as well as ratio computations. Aside from these financial statements, Similarly, a causal research of the operating cycle is performed, as well as ratio computations. Apart from that, the Company's website is used to learn about its goods, product features, and network, among other things. Industry research is based on data acquired from newspapers, the Indian Steel Ministry's website, and other sector-related websites.
Accounting information do not provide a whole picture of a company. The information provided in one of these statements is simply a rough estimate. Only after the firm so far has been sold or liquidated can the true worth be ascertained.

FINDINGS

Banks are often thought of purely as capital suppliers by businesses; however, this is still a conservative and limited perspective. Today's successful banks have moved from transactional banks that just provide credit and typical banking products to strategic advice partners. This is a trend that businesses can try to capitalise on by putting more pressure on expressing personal banking partners.

Of course, a bank may give capital and financial guidance, such as how to improve liquidity and cash management, but it should also be able to provide an incomes that can serve as the foundation for a company's management plan. A bank should be able to forecast income and expenses, imbalances, operational development, working capital, and investment, including other things.

CONCLUSION

Any change in a company 's financial performance will have an impact on its cash flow. A progressive effect in working capital shows that the company has spent money, such as on inventory purchases or conversions, paying debtors, and so on. As a result, a rise in current liabilities will still have a negative impact on the cash position of the company. A decrease in working capital, on the other hand, implies a lack of finances to pay off short-term commitments (current liabilities), which might have significant consequences for the company's future.

The company is now keeping a close eye on financial management.
o Its WC is however displaying an upward trend, which can be attributable to rising earnings.

Year over year, net working capital grew. The following are some of the causes that have contributed to the rise:
• Increase in unsecured debts as a result of loosening lending policies Inventory has increased.
• Other Current Assets, Loans, and Advances have increased.
• However, the rise in Cash Flow from operating activities and Provisions has more than offset the rise in Current Assets.

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