
CASH MANAGEMENT : A COMPARATIVE STUDY OF SBI AND CANBANK FACTORS

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ABSTRACT

The present study looks in to the size of cash and their components, liquidity status and comparative study of SBI factors and Can Bank Factors Ltd. with regards to cash management. The study is based on secondary data collected from the Annual reports of SBI Factors and CanBank Factors from 1991-92 to 2000-01. The liquidity status of SBI Factors and Canbank factors is determined by using various ratio's such as current ratio. It was found that the overall size of cash balance maintained by SBI Factors and CanBank Factors is very low as compared to sales or factored debts. It was also found that increase in sales does not require to increase the cash balance.

Maintaining cash balance very high and low will create certain impact on liquidity and profitability of the concern. Thus an attempt has been made to analyse the significance of cash balance and its impact on liquidity of the SBI Factors and CanBank factors .

OBJECTIVES OF THE STUDY

The objectives of the study are ;

- 1) To understand the size of cash, its components and linkage with factored debts in SBI Factors and CanBank Factors
- 2) To study the liquidity status of SBI and CanBank Factors
- 3) To make a comparative analysis of SBI Factors and CanBank Factors on cash management

DATA AND METHODOLOGY

The SBI Factors and CanBank factors were the two factoring organisation considered for the proposed study. The study is based on purely secondary data collected from the annual

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Reports of SBI Factors and CanBank Factors Ltd. from 1996-97 to 2000-01 The available data were properly analysed by using Ratio and Percentage method. Cash Balance include cash in hand, cash at bank and cheques in transit. Bank balance include the current account and deposit Account. To assess the liquidity of the firm, the ratio technique was used.

RESULTS AND DISCUSSION

It can be seen from the Table 1 that the cash balance of SBI Factors for the study period is steady. In the year 1997-98 it was decreased whereas sales or Factored Debts of SBI Factors has been increased from 438.14 crs. to 750 crs. It indicates that increase in Factored debts does not increase cash balance. The cash balance maintained is much lower compared to sales or factored debts. The cash balance of CanBank Factors is much higher for first three years of the study period whereas later period it decreased and specially in last year it is very low. In the year 1997-98 it was very high i.e. 17 crs. It was found in the table that SBI Factors has maintained cash balance low and adequate compared to CanBank Factors. Increase in factored Debts or sales has not increased cash balance which indicates that firm is receiving cash which is used for purchase of debts. If there is proper synchronisation of cash receipt and cash disbursement then firm does not require high cash balance to be maintained.

The analysis of short term financial position or test of liquidity is presented in Table 2. Test of liquidity is essential to determine ability of the firm to pay the short current debts and effective utilisation of funds in business. It can be observed from the table that current ratio of SBI factors has been increased from 2.53 to 3.24 times. Thus it indicates that current ratio is satisfactory. Traditionally 2:1 current ratio is taken as satisfactory standard for the purpose of evaluating liquidity. Higher the current ratio, the larger the amount of rupees available per rupee of current liabilities, more the firm's ability to meet current obligations and greater the safety of funds to short term creditors. When the current ratio is high it is good from the creditors point of view but extremely high current ratio is not good from the management point of view. The current ratio of CanBank Factors showed very high indicating more funds has been employed in unproductive uses which do not fetch any return. It shows that compared to CanBank Factors, SBI Factors current Ratio is satisfactory. The ideal liquid ratio is 1:1 which implies that liquid Assets of the firm are just equal to the current liabilities. It was observed in the table that liquid ratio of SBI Factors is high i.e. 2.42 in 1997-98 and increased to 3.2 times in 1999-00. Increase in liquid ratio shows that the financial position of the firm seems to be sound and good. The liquid ratio of CanBank Factors is 2.12, 9.14 and 8.38 in 96-97, 99-00 and 2000-01 which is considered as very high. A reasonable standard for the liquid ratio may vary from season to season and business to business. The liquid ratio in factoring company is high due to receivables in current account is high and current liability is low since it is a business where debts are purchased and pre-payment is made. The factor liability only to the balance amount which is very low.

The ratio of cash balance to total current assets, sundry debtors, liquid assets, current liabilities and working capital are presented in table 3. It was observed that ratio of cash to current asset in SBI Factors showed very low. Thus it indicates that the significance of cash in current assets is very less. The ratio of cash to current assets of Canbank Factors shows mixed trend. In the first three years of the study it showed little higher where as later on it shows low. In Factoring business sundry debtors is the major component of current Assets representing nearly 85-90% thus, it is observed from the table that the size of cash balance in SBI Factors and Canbank factors is low as compare to the size of current assets, total assets and working capital.

CONCLUSION & SUGGESTION

The overall size of cash balance maintained by SBI Factors and CanBank Factors is very low compared to sales or factored debts. The sales or factored debts has been increased over the years in both organisation but correspondingly cash balance was not increased. Thus it indicates that increase in sales does not require to increase the cash balance. Cash in Hand and cash in current account are the major component of cash balances of SBI Factors and Canbank Factors. The liquidity of SBI Factors and Canbank Factors was measured by using current ratio and liquid ratio. It was observed that current ratio of SBI Factors showed satisfactory but CanBank Factors is little higher than SBI Factors.

Table 1
Size of cash in factoring companies and value of factored debts

| Companies | 1996-97 | 1997-98 | 1998-99 | 1999-00 | 2000-01 |
|----------------------------------------|---------|---------|---------|---------|---------|
| <i>(Rs in Crs)</i> | | | | | |
| SBI Factors Ltd. | | | | | |
| Cash and Bank Balance | 0.64 | 0.42 | 0.64 | 0.62 | 0.64 |
| Factored Debts | 438.14 | 460.58 | 471.8 | 517.35 | 750 |
| Ratio of cash to factored debts (in %) | 0.14 | 0.09 | 0.13 | 0.11 | 0.08 |
| CanBank Factors LTD. | | | | | |
| Cash and Bank Balance | 3.09 | 16.99 | 3.97 | 0.47 | 0.003 |
| Factored Debts | 476 | 468 | 581 | 732 | 887 |
| Ratio of cash to factored debts (in %) | 0.64 | 3.63 | 0.68 | .06 | |

Source: Annual Reports of SBI Factors and CanBank Factors Ltd. (various issues)

Reddy & Patkar

Table 2
Liquidity Status of Factoring Companies

| Companies | 1996-97 | 1997-98 | 1998-99 | 1999-00 | 2000-01 |
|----------------------|---------|---------|---------|---------|---------|
| Current Ratio | | | | | |
| SBI Factors Ltd. | 2.53 | 2.43 | 2.96 | 3.24 | 3.21 |
| CanBankFactors | 2.38 | 2.78 | 2.7 | 10.09 | 9.14 |
| Liquid Ratio | | | | | |
| SBI Factors Ltd. | 2.52 | 2.42 | 2.95 | 3.2 | 3.14 |
| CanBank Factors Ltd. | 2.12 | 2.50 | 2.52 | 9.14 | 8.38 |

Source: Annual Reports of SBI Factors Ltd. & CanBank Factors Ltd. (various issues)

Table 3
Statement of Liquidity Position of factoring companies
(in percentage)

| SBI Factors Ltd. | | | | | | |
|-------------------------|-------------------------|-----------------------|------------------------|------------------------|-----------------------------|-------------------------|
| Years | Cash to current Assests | Cash to total assests | Cash to sundry debtors | Cash to liquid assests | Cash to current liabilities | Cash to working capital |
| 1996-97 | 0.68 | 0.67 | 0.68 | 0.68 | 1.72 | 1.12 |
| 1997-98 | 0.35 | 0.35 | 0.35 | 0.35 | 0.86 | 0.58 |
| 1998-99 | 0.47 | 0.47 | 0.48 | 0.48 | 1.41 | 1.42 |
| 1999-00 | 0.44 | 0.44 | 0.45 | 0.44 | 1.43 | 0.64 |
| 2000-01 | 0.46 | 0.46 | 0.48 | 0.47 | 1.50 | 0.64 |

| Canbank factors Ltd. | | | | | | |
|-----------------------------|-------------------------|-----------------------|------------------------|------------------------|-----------------------------|-------------------------|
| Years | Cash to current Assests | Cash to total assests | Cash to sundry debtors | Cash to liquid assests | Cash to current liabilities | Cash to working capital |
| 1996-97 | 02.80 | 02.40 | 02.90 | 02.82 | 05.99 | 04.34 |
| 1997-98 | 13.16 | 11.46 | 15.31 | 13.31 | 33.33 | 18.36 |
| 1998-99 | 2.26 | 02.04 | 02.32 | 02.27 | 05.75 | 06.13 |
| 1999-00 | 00.37 | 00.32 | 00.26 | 00.37 | 03.46 | 00.38 |
| 2000-01 | - | - | - | - | 00.05 | - |

Source: Annual Reports of SBI Factors Ltd. & CanBankFactors Ltd.(various issues)