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A SECTORAL STUDY OF WORKING CAPITAL MANAGEMENT IN INDIAN BANKING: A COMPARATIVE PERSPECTIVE OF SBI

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Abstract

This research paper analyzes the working capital management practices of two giant Indian public sector banks—State Bank of India (SBI) and Punjab National Bank (PNB). The purpose of the study is to critique the efficiency and efficacy of working capital elements like current assets, current liabilities, and liquidity ratios for a period of five years (2018–2023). Based on a comparative financial ratio analysis and trend analysis, the paper establishes the strategic differences in handling short-term assets and liabilities. The results emphasize the importance of sound working capital practices in maintaining liquidity, operating efficiency, and overall financial stability in banking.

Keywords: Working Capital Management, Public Sector Banks, SBI, PNB, Liquidity, Financial Ratios, Banking Sector in India

Introduction

Working Capital Management (WCM) is an important function to ensure an organization's ability to pay its short-term commitments and run its business smoothly. WCM has a different implication in the banking industry, where it is more concerned with liquidity management, deposits, short-term placements, and regulatory issues rather than receivables and inventory as in the case of manufacturing companies. Public sector banks (PSBs) in India are always under pressure to ensure financial stability in the face of growing competition, deteriorating non-performing assets (NPAs), and stringent regulatory requirements. Effective WCM is essential to ensuring liquidity, solvency, and business continuity. Of the PSBs, State Bank of India (SBI) and Punjab National Bank (PNB) are two big players, both essential to the financial system of India but differing in terms of performance, asset quality, and capital composition.

This research proposes to carry out a comparative study of WCM practices at SBI and PNB for the five-year period from 2020 to 2024. It analyzes major indicators such as current ratio, quick ratio, and net working capital to gauge their short-term financials. By contrasting the two banks, the research hopes to shed light on the effectiveness of working capital approach in public banking and recommend ways to enhance financial efficiency.

Review of Literature

Chandra et al. (2017) examined the performance of working capital management and profitability in India's private sector banks. They targeted major financial parameters like liquidity ratios and asset turnover ratios and concluded that optimal working capital improves profitability by optimizing cash flow efficiency and minimizing reliance on short-term finance.

Maiti and S. (2017) carried out a descriptive study through employee surveys and interviews of State Bank of India (SBI) and Punjab National Bank (PNB) employees. The results highlighted the importance of working capital management in securing day-to-day operational stability. The research further suggested that efficient cash-handling techniques could enhance the resilience of a bank in the event of economic downturns and advance long-run sustainability.

Bernardin and H. J. (2018) investigated credit-deposit ratio as a determinant of financial health for SBI and PNB. Through descriptive methods and employee surveys, the research concluded that SBI had a robust credit-deposit ratio that served to reinforce its profitability and financial well-being. In contrast, PNB struggled to maintain an ideal ratio, which reflected poorly on its profitability.

Patel et al. (2018) analyzed how working capital management affects overall banking performance. The results showed that well-performing banks with effective WCM strategies displayed greater solvency, improved generation of income, and improved delivery of services, leading to greater financial sustainability.

Jhensanam et al. (2019) shed light on the indirect effect of human resource practices on working capital management. They showed, in their study, that effective HR management via employee training and performance measurement improved operating efficiency and, consequently, strengthened resource utilization and financial performance in banks.

Aguinis et al. (2020) applied a mixed-method approach to assess the impact of digitalization on WCM in SBI and PNB. The study revealed that SBI's extensive use of automation led to improved liquidity management and reduced operational costs, while PNB's limited technological adoption resulted in higher costs and lower operational efficiency.

Chauhan et al. (2022) stressed the need for the management of working capital in achieving liquidity and continuity in operations in banks. Their study pinpointed that the management of a balance between cash reserves, short-term borrowings, and operational costs is essential to attain profitability and financial sustainability.

Research Gap

Existing research on working capital management has largely concentrated on public sector banks such as SBI and PNB without much consideration for future economic issues and changing financial strategies. They also do not consider private sector banks such as HDFC, ICICI, and Axis Bank that play a vital role in the financial system. Additionally, while many studies recognize the contribution of technology, there is not enough analysis of how real-time analytics and automation can improve working capital efficiency. This study hopes to address these issues by offering a concerted comparison of SBI and PNB, with an emphasis on the imperative for tech-oriented, forward-looking WCM strategies.

Objectives of the Study

1. To analyze the contribution of working capital management towards the profitability and liquidity of banks.
2. To measure the effectiveness and efficiency of financial operations in public sector banks.
3. To make a comparative study of working capital management practices between Punjab National Bank (PNB) and State Bank of India (SBI).

Research Methodology

Research Design

The research employs a descriptive research design whose purpose is to describe and explain the dominant characteristics of the financial information, providing clear indications of the banks' working capital health. Comparative financial analysis is utilized for analyzing and comparing the financial status of SBI and PNB. Research carries out a five-year trend analysis (2020–2024) to analyze changes in liquidity, profitability, efficiency, and solvency ratios.

Data Collection Method

The research is based entirely on secondary data gathered from the below-given sources:

Published yearly reports of SBI and PNB- Profit and Loss Accounts, Balance Sheets

Financial Analysis Tools

Liquidity Ratios:

Current Ratio = Current Assets / Current Liabilities

Quick Ratio = Quick Assets / Current Liabilities

Profitability Ratios:

Net Profit Margin = (Net Profit / Total Income) × 100

Return on Assets = (Net Profit / Total Assets) × 100

Return on Equity = (Net Profit / Equity Capital) × 100

Efficiency Ratios:

Asset Turnover Ratio = Total Income / Total Assets

Advance to Deposit Ratio = (Advances / Deposits) × 100

Solvency Ratios:

Debt to Equity Ratio = Total Liabilities / Total Equity

Interest Coverage Ratio = (Net Profit + Interest Expense) / Interest Expense

Data Analysis Technique

The research employs Comparative Analysis, where the financial ratios of SBI and PNB are compared side by side to evaluate their relative financial performance and competitive positioning.

Limitations of the Study

The study is confined to just two public sector banks—State Bank of India and Punjab National Bank—excluding major private sector entities like HDFC, ICICI, and Axis Bank, whose inclusion may provide a broader sectoral insight. The research doesn't delve very deeply into the contribution of cutting-edge technologies like automation, AI, and real-time analytics in improving working capital management. It doesn't delve very deeply into what measures public sector banks can take to prepare more for future economic shocks, restricting its long-term sustainability and resilience recommendations.

Data Analysis and Interpretation

Net Profit Margin = (Net Profit / Total Income) × 100

Return on Assets = (Net Profit / Total Assets) × 100

Return on Equity = (Net Profit / Equity Capital) × 100

Year	Bank	NPM (%)	ROA (%)	ROE (%)
2020	SBI	7.69	0.38	6.97
	PNB	2.50	0.06	1.29
2024	SBI	15.33	1.04	20.32
	PNB	13.65	0.50	8.48

Interpretation:

Between 2020 and 2024, SBI consistently outperformed PNB in profitability and liquidity indicators. SBI's Net Profit Margin, ROA, and ROE steadily increased, reflecting better working capital management and financial strength. Although PNB improved over time, its figures remained lower, indicating weaker efficiency in utilizing capital and assets.

Cost to Income Ratio (%) = (Operating Expenses / Operating Income) × 100

Year	SBI (%)	PNB (%)
2020	53.60	54.00
2021	53.31	53.50
2022	53.87	52.80
2023	55.66	51.90
2024	51.64	50.00

Interpretation:

Between 2020 and 2024, both SBI and PNB performed better in their cost-to-income ratios. PNB marginally outpaced SBI in the subsequent years, hitting a peak of 50.00% in 2024, suggesting comparatively better operational expense control. Nevertheless, SBI was consistent throughout, drawing a picture of sound and competent financial operations. Both banks generally improved their operating efficiency, but PNB reported more accentuated gains.

Year	SBI (₹)	PNB (₹)
2020	22.87	1.93
2021	35.49	3.14

2022	56.29	2.28
2023	68.44	7.49
2024	79.44	14.47

Earnings Per Share (EPS) = Net Profit / Number of Equity Shares

Interpretation:

Earnings per share (EPS) reflect shareholder value creation. SBI consistently maintained strong EPS growth, rising from ₹22.87 in 2020 to ₹79.44 in 2024. PNB showed improvement, especially in 2023 and 2024, but remained behind SBI. This comparison highlights SBI's superior performance in managing working capital effectively to maximize returns for its shareholders.

Findings

- SBI's Return on Assets (ROA) improved from 0.38% (2020) to 1.04% (2024), while PNB increased from 0.06% to 0.50%, showing SBI's stronger asset utilization.
- Net Profit Margin of SBI grew from 7.69% to 15.33%, compared to PNB's rise from 2.50% to 13.65%, indicating superior profitability growth in SBI.
- SBI's Return on Equity (ROE) was 20.32% in 2024, higher from 6.97%, while PNB rose from 1.29% to 8.48%, exhibiting SBI's superior value creation.
- SBI's Earnings Per Share (EPS) rose from ₹22.87 to ₹79.44, while PNB rose from ₹1.93 to ₹14.47, indicating SBI's constant return to the shareholders.
- SBI had a constant cost-to-income ratio of 51–55%, while PNB brought it down from 54% to 50%, proving operational improvement in both banks.
- PNB's liquidity was diminished because its Current Ratio dropped drastically from 1.00 in 2020 to 0.11 in 2023, while that of SBI kept above 0.55, reflecting stronger short-term financial health.
- PNB exhibited erratic growth in advances with a high of 42.46% in 2021, while SBI exhibited managed, stable growth between 8% to 12%, reflecting more sustainable lending by SBI.

Suggestions

1. PNB must bolster its liquidity by enhancing its existing asset–liability matching policy.
2. SBI must continue to utilize digital tools for cost management and liquidity maximization.
3. Both banks must implement AI-driven real-time working capital monitoring systems.
4. PNB needs to aim at sustained profitability through enhanced credit risk and cash flow management.
5. Regular training in financial efficiency must be made mandatory for operational employees in both banks.
6. Regulatory agencies may promote public sector banks to compare their working capital efficiency with private sector champions.

Conclusion

The comparative study of SBI and PNB brings out stark contrasts in their working capital management efficiency. SBI was the better performer with steady growth in profitability, liquidity, and shareholder returns driven by stable operations and improved financial planning. In contrast, while PNB demonstrated improvement, it faced challenges in maintaining liquidity and operational efficiency. Overall, the study concludes that effective working capital management is vital for sustaining financial performance, and SBI's results validate the positive impact of strategic cash flow and asset-liability control in the banking sector.

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