

## THE EUPHORIA OF LIQUIDITY POSITION: A CASE STUDY ON ANDHRA BANK

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### ABSTRACT

*Andhra Bank has a history of 93 years. The Andhra Bank is an important constituent of the Indian Financial System. The Andhra Bank's movement is originated in the South, but the importance that such banks have assumed in India. Their role in rural financing continues to be important even today, and their business in the urban areas also has increased phenomenally in recent years mainly due to the sharp increase in the number of Andhra Bank. While the Andhra Bank in rural areas mainly finance agricultural based activities including farming, cattle, milk, hatchery, personal finance etc. along with some small scale industries and self-employment driven activities, the Andhra Bank in urban areas mainly finance various categories of people for self-employment, industries, small scale units, home finance, consumer finance, personal finance, etc. Andhra Bank gained a hall mark in the field banking services moving towards cater the needs of customers across the nation and is on progress lines. There is no exaggeration that Andhra Bank maintains proper financial position over the period and moving towards to fulfill its objectives, for better results and for better performance in the long run.*

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**Keywords:** *Financial Position, Liquidity, Current Assets, Current Liabilities, Working Capital, Net Worth.*

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### Introduction

The finance function of a management is not only arranging funds for the business organization but also it includes planning, forecasting of cash flow, receipts and payments, raising and allocation of funds also financial control. Therefore every profit seeking organization putting their efforts for the effective utilization of its sources or finance plays an important role in any organization. Even the term financial management could be referred as money management, it is mainly concerned with the proper management of financial resources and the factors like risk, cost and control considerations are properly balanced in a given situation and there is optimum utilization of funds. It helps in profit planning, capital spending, measuring costs, controlling inventories, accounts receivable, etc. Liquidity and Profitability are very closely related, one increases the other decreases. The firm has adequate cash to pay for its bills, it has sufficient cash to make unexpected large purchases and above all, the firm has cash reserves to meet emergencies at all times.

### Financial Performance

Fixed and Current Assets differ in three important ways: 1) In managing fixed assets, time is a very important factor, consequently, discounting and compounding techniques play role in management of current assets. 2) The large holding of current assets, especially cash strengthens the firms liquidity positions but also reduces the overall profitability. 3) The levels of fixed assets as well as current assets depend upon expected sales but it is only current assets, which can be adjusted with sales fluctuation in the short run. Thus the firm has a greater degree of flexibility in managing current assets. Now days, working capital is gaining importance in every organization either in manufacturing sector or service sector. A firm's working capital reveals its strength against its current obligations. In any firm liquidity position in terms of its working capital plays a vital role without proper allocation of working capital and its management the firm can achieve its goals. The organization should maintain optimum and sufficient level of working capital or adequate liquidity position.

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### Need for the Present Study

The Andhra Bank has a history of 93 years. The Andhra Bank is an important constituent of the Indian Financial System. The Andhra Bank's movement was originated in the South, but the importance that such banks have assumed in India. Their role in rural financing continues to be important even today, and their business in the urban areas also has increased phenomenally in recent years mainly due to the sharp increase in the number of Andhra Bank.

While the Andhra Bank in rural areas mainly finance agricultural based activities including farming, cattle, milk, hatchery, personal finance etc. along with some small scale industries and self-employment driven activities, the Andhra Bank in urban areas mainly finance various categories of people for self-employment, industries, small scale units, home finance, consumer finance, personal finance, etc.

As against this backdrop, Zeal to know the facts which contributed to the success of Andhra Bank and to know its financial performance inspired me to take up the study of its financial analysis in general and its liquidity position in particular.

### Objectives

- To study the financial position of Andhra Bank through various modes of financial analysis.
- To examine and assess the liquidity position of Andhra Bank during 2013-14 to 2018-19
- To evaluate and interpret the financial performance of Andhra Bank through specific financial data and analysis.

### Andhra Bank Liquidity Position (2013-14 to 2018-19)

The importance of liquidity position is reflected in the fact that financial managers spend a great deal of time in managing current assets and current liabilities arranging short-term financing favorable credit terms, controlling the movement of cash, administrating accounts receivables and monitoring the investment in inventories covers a great deal of time of financial managers.

The total current assets and current liabilities of Andhra Bank during 2013-14 to 2018-19 has tremendously fluctuated 7 to 8 times i.e. Rs. 60,332 lakhs to 5,15,706 lakhs during the study period. The Liquidity position of Andhra Bank is up to the mark as its current assets increased by 46 percent i.e. from Rs 162,44,142 lakhs to Rs 234,80,961 lakhs during the study period. It is understood that Andhra Bank is having good liquidity position because the current ratios of Andhra Bank also up to the mark.

### Data Analysis and Interpretations

Liquidity position is concerned with the problems that arise in attempting to manage the current assets. The current liabilities and the inter relationship that exists between them. The current assets should be large enough to cover its current liabilities in order to ensure a reasonable margin of safety. Each of the current assets must be managed efficiently in order to maintain the liquidity of the firm while not keeping too high a level of any one of them. Based on the collected financial information from Andhra Bank, the data is analyzed and interpreted with the simple financial techniques.

**Table 1: Financial Position of Andhra Bank During 2013-14 to 2018-19**

| Years   | Current Assets<br>(Rs. In Lakhs) | Current Liabilities<br>(Rs. In Lakhs) | Working Capital<br>(Rs. In Lakhs) |
|---------|----------------------------------|---------------------------------------|-----------------------------------|
| 2013-14 | 16244142.00                      | 15860347.40                           | 383794.60                         |
| 2014-15 | 18011792.29                      | 17510626.14                           | 501166.15                         |
| 2015-16 | 19362443.82                      | 18846736.93                           | 515706.89                         |
| 2016-17 | 21427896.57                      | 21075947.14                           | 351949.43                         |
| 2017-18 | 22977873.08                      | 23135308.45                           | (157435.37)                       |
| 2018-19 | 23680961.76                      | 23614629.02                           | 66332.74                          |

The financial position of Andhra Bank during the study period was depicted in table 1. It is observed that the working capital of Andhra Bank is increasing from the financial year 2013 -14 to 2015 -16. Increase in Current assets might be the reason for this and subsequent years the working capital is decreased, where as it shows negative value in 2017-18 due to increase in current liabilities.

**Table 2: Operating Results of Andhra Bank during 2013-14 to 2018-19**

| Years   | Operating Income<br>(Rs. In Lakhs) | Operating Expenses<br>(Rs. In Lakhs) | Profit/Loss (Rs. In<br>Lakhs) |
|---------|------------------------------------|--------------------------------------|-------------------------------|
| 2013-14 | 1563015.80                         | 230993.52                            | 53357.71                      |
| 2014-15 | 1786844.62                         | 273944.10                            | 69460.06                      |
| 2015-16 | 1919914.97                         | 292543.58                            | 63483.17                      |
| 2016-17 | 2033572.35                         | 345199.35                            | 26933.46                      |
| 2017-18 | 2034659.98                         | 334578.85                            | (341099.30)                   |
| 2018-19 | 2097726.08                         | 373014.89                            | (624921.25)                   |

As per the table 2 the operating results of Andhra Bank during 2013-14 to 2018-19 show that profit of Andhra bank is increased from 2013-15. It is a good sign that the operating performance is good, reasons not known then onwards the operating results are not up to the mark. Mergers took place in banking sector and demonetization of currency might be some of the reasons the profit of Andhra bank is decreasing, and gets negative balance in the year 2017-19 due to huge amounts of operating expenditures.

**Table 3: Total Assets Position during 2013-14 to 2018-19**

| Years   | Current Assets<br>(Rs. In Lakhs) | Fixed Assets<br>(Rs. In Lakhs) | Total Assets<br>(Rs. In Lakhs) |
|---------|----------------------------------|--------------------------------|--------------------------------|
| 2013-14 | 1,62,441.42                      | 433.92                         | 1,62,875.34                    |
| 2014-15 | 1,80,117.92                      | 1263.57                        | 1,81,381.49                    |
| 2015-16 | 1,93,624.43                      | 433.92                         | 1,94,058.35                    |
| 2016-17 | 2,14,278.96                      | 1530.70                        | 2,15,809.66                    |
| 2017-18 | 2,29,778.73                      | 1473.29                        | 2,31,252.02                    |
| 2018-19 | 2,36,809.62                      | 1558.08                        | 2,38,367.70                    |

The Total assets position (both current assets and fixed assets) of Andhra Bank during the study period was exhibited in table 3. It is observed from the table that the total net worth position of Andhra Bank is increasing from 1,629 crores to 2,384 crores during the said period. Constant increase in current assets might be the reason for this and Fixed assets also increased Rs 4 crores to Rs 16 crores which a positive signal for maintain good liquidity position.

**Table 4: Current Assets to net Working Capital Ratio During 2013-14 to 2018-19**

| Years   | Current assets<br>(Rs. In Lakhs) | Net Working Capital<br>(Rs. In Lakhs) | CA to Net WC Ratio |
|---------|----------------------------------|---------------------------------------|--------------------|
| 2013-14 | 16244142.00                      | 383794.60                             | 42.33 times        |
| 2014-15 | 18011792.29                      | 501166.15                             | 35.94 times        |
| 2015-16 | 19362443.82                      | 515706.89                             | 37.55 times        |
| 2016-17 | 21427896.57                      | 351949.43                             | 60.88 times        |
| 2017-18 | 22977873.08                      | (157435.37)                           | (145.95 times)     |
| 2018-19 | 23680961.76                      | 66332.74                              | 357 times          |

The current assets to net working capital ratio of Andhra Bank are in decreasing stage from the year 2013-14 to 2015-16. And the ratio increases in the financial years 2016-17 & 2018-19. In the year 2017-18 the ratio is negative due to huge fall in working capital or liquidity. Hence it is suggested to enhance the liquidity position by possible means at corporate level.

**Table 5: Current Assets to Fixed Assets Ratio During 2013-14 to 2018-19**

| Years   | Current Assets<br>(Rs. In Lakhs) | Fixed Assets<br>(Rs. In Lakhs) | CA to FA ratio |
|---------|----------------------------------|--------------------------------|----------------|
| 2013-14 | 16244142.00                      | 43392.54                       | 374.35 times   |
| 2014-15 | 18011792.29                      | 126357.18                      | 132.09 times   |
| 2015-16 | 19362443.82                      | 136844.45                      | 141.49 times   |
| 2016-17 | 21427896.57                      | 153070.38                      | 139.99 times   |
| 2017-18 | 2977873.08                       | 147329.58                      | 155.96 times   |
| 2018-19 | 23680961.76                      | 155808.48                      | 151.99 times   |

The current assets to Fixed Asset Ratio of Andhra bank in the financial year 2013-14 is More (i.e., 374.35 times) when compared to other financial years, and in the financial years 2017-18 & 2018-19 the ratio 155.96 times and 151.99 times respectively. And in the financial year 2014-15, 2015-16 & 2016-17 the ratio is 132.09, 141.49, & 139.96 which is below 150 times.

### **Conclusion**

As a whole, it is observed that with the vision of Andhra Bank to provide best services to the Indian customers. That's why the Andhra Bank gained a hall mark in the field banking services. It can be also stated that the study of financial analysis and appraisal is an effective tool and paramount importance to see that Andhra Bank is on progress lines. Hence, after analysing the financial data and financial statements of Andhra Bank during the said period the financial performance of bank is up to the mark and moving towards to fulfill its objectives, for better results and for better performance in the long run.

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