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### **A Study on Cash Management of NBFC in India with Special Reference to Indiabulls Housing Finance Ltd.**

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#### **Abstract**

Financial management in companies assumed a cash flow management as one of the most important instruments to increase the Indiabulls housing finance Ltd value. The present study has as main objective to carry out a literature review regarding cash flow management policy and to withdraw the main aspects of managing in order to create an objective image upon this indicator. The contribution to research is providing a literature review study, focused on a comparative approach. The results proved that there is no generally accepted definition and cash flow management method, which can be widely used by corporation for achieving the best result of financial performance in India bulls housing finance Ltd. The study concluded that raising the quality of knowledge and skills in managing cash flows can be considered as a core ingredient for any business survival and developmental growth. India bulls housing finance Ltd. 216 branches in India.

**Keywords: Cash Flow, Cash Flow Management Models, Cash Flow Policy, Cash Requirements**

#### **Introduction**

Cash management is the art and increasingly the science of managing a company's short-term resources to sustain its ongoing activities, mobilize funds and optimize liquidity. The most important elements are:

- The efficient utilization of current assets and current liabilities of a firm throughout each phase of the business operating cycle.
- The systematic planning, monitoring and management of the company's collections, disbursements and account balances.
- The gathering and management of information to effectively use available funds and identify risk.

Cash management comprises at least nine major functions:

- Accelerating and efficiently collecting cash inflows.
- Concentrating collected funds.
- Controlling the timing of cash outflows.
- Securing adequate sources of short-term funds.
- Optimizing use of any temporary cash surpluses.
- Forecasting the cash position.
- Gathering timely information.
- Implementing the systems and services necessary to monitor, manage and control the cash position.
- Ensuring the internal and external transfer of financial data.

### **The Role of Cash Management at Different Companies**

Indicative content which outlines the scope of learning expected:

- The role of cash management at different companies-major factors that influence the structure of the cash management function.
- Size of the company.
- Industry.
- Nature of the business.
- Domicile.
- Extent of globalization.
- Legal structure.
- Account ownership.
- Corporate culture.
- Deployment of technology.
- Treasury structure.
- Existing banking relationships.
- Personal style of the treasurer.

### **Importance of Cash Management**

Benefits of good cash management

- Better control of financial risk.
- Opportunity for profit.
- Strengthened balance sheet.
- Increased stakeholder confidence in the company.
- Improved operational efficiencies.

## **Need for the Study**

The cash manager is responsible for managing the imbalances between a company's cash inflows and cash outflows caused by both the operating cycle and the nature of cash flows. An understanding of both concepts is necessary and especially how they relate to individual companies and their industry [1].

## **Scope of the Study**

Since it's impossible to conduct a micro-level study of all NBFC industries in Bangalore, this study is restricted to plain Chartered Bank.

## **Cash Management at Indiabulls Housing Finance Ltd.**

Cash Management As part of India bulls Housing finance transaction solutions to Corporate and Institutions, we provide cash management, securities services and trade services through our strong market networks in Bangalore. We are committed to providing you with

- Integrated, superior cross-border and local services.
- Efficient transaction processing.
- Reliable financial information.
- Innovative housing finance products.

## **Objectives of the Study**

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 indiabulls housing finance cash management.
- To analyze the cash management in indiabulls housing finance Ltd.
- To evaluate the cash in flow statement in indiabulls housing finance Ltd.
- To gain insights about functioning of Cash management in indiabulls housing finance Ltd.
- To explore the future prospects of indiabulls housing finance Ltd [2].

## **Literature Review**

According to Cash management has four major functions; determination of minimum cash balances, effective borrowing, advantageous investment of excess cash and acceleration of cash flow.

The minimum cash balance is established by taking into consideration the basic safety cushion needed, minimum bank balance requirements and the rate of daily cash collections and disbursements. Cash balances should be maintained at the lowest practical minimum because excess cash earns nothing and loses purchasing power in period of rising prices.

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The minimum cash balance should be the basic liquidity cushion needed taking into consideration the rate of daily cash collections and disbursements. The average cash balance (size of demand deposit) tentatively determined can be tested against industry standard by use of the ratio of the average cash balance to total operating expenditures for the year. If the company's business is seasonal, the desirable cash balance will vary with peaks and valleys of enterprise activities. Such companies will find the ratio of average cash balance for each month to total expenditures for the month at a better standard.

According to financial theorists have developed mathematical models to help firms find an optimal "target" cash balance, between the minimum and maximum limits, that balances liquidity and profitability concerns. In the following sections the discussion will be on one of these models, the Miller-Orr model [3].

Conducted a study on approximately 501 Spanish firms with more than 10 employees and using confirmatory factor analysis observed that cash management was a culture that forms part of the strategy of the firms and dependent more on managers themselves than the characteristics of companies made a study on cash to cash metric. For this they initially taken 21608 companies but latter such firms reduced to 5884 firms. This study presented an overview of cash to cash and its calculation, comparisons between product and service industries etc.

The study also revealed that cash-to-cash knowledge of managers helped the service industries to improve their liquidity position and overall value undertook a study on working capital management. His study was based on cash conversion cycle. In his study he used different measures relating to the time lag between expenditure for the purchase of raw materials and collection of sales of finished goods. He argued that the longer the time lag, the larger the investment in working capital. Conducted a study on approximately 501 Spanish firms with more than 10 employees and using confirmatory factor analysis observed that cash management was a culture that forms part of the strategy of the firms and dependent more on managers themselves than the characteristics of companies. Made a study on cash to cash metric. For this they initially taken 21608 companies but latter such firms reduced to 5884 firms. This study presented an overview of cash to cash and its calculation, comparisons between product and service industries etc. The study also revealed that cash-to-cash knowledge of managers helped the service industries to improve their liquidity position and overall value. Undertook a study on working capital management [4]. His study was based on cash conversion cycle. In his study he used different measures relating to the time lag between expenditure for the purchase of raw materials and collection of sales of finished goods. He argued that the longer the time lag, the larger the investment in working capital.

Cash generally can be said to be liquid money in form of coins, notes and other related means of instant exchange. According to cash refers to money which an organization or firm can disburse immediately without restriction. The term cash includes coins, currency and cheques held by the firm and balances in its bank account. He asserts that sometimes, near cash items such as marketable securities or bank time deposits are also included as cash defined cash as liquid money in form of coins, notes and other related means of instant exchange. He opined that cash is absolutely essential to business stressing that without cash; operations will grind to a halt. Cash has also been described as the basic input necessary to start and keep a

business running, the ultimate. The recent financial crisis has put cash and its management back in the spotlight, forcing financial managers to focus their efforts on ways to improve their companies' cash management policy. Cash flow indicators become a popular measure of corporation performance among practitioners. Some investors prefer cash flow indicators since they believe it represents a better picture of the sustainability and wealth. Cash flow management is as critical as a profitable business model to the success of a business. Companies suffering from cash flow problems have no margin of safety in case of unanticipated expenses. They also suffer in finding the funds for as innovation as well expansion. Finally, it is very important issues that poor cash flow makes it difficult to hire and retain good employees. Failure to perceive cash flow management as an ongoing discipline that requires a collaborative effort can ultimately lead to business failure. It is, therefore, important to realize that proper cash flow management requires reviewing relevant theoretical literature [5].

The basics of cash management and its techniques have been discussed in academics literature. The basic terms of cash management, their definitions, models and techniques have been present in the business literature for so long, that they have become an integral part of classical corporate finance textbooks. Early studies of the costs and benefits of holding cash was studied by, which suggested that firm's cash management policy should depend on the access to external financing.

### **Theoretical Approaches to Cash Management**

**Identified three theoretical approaches to cash management as listed below:**

- Monetary theoretic approach to cash management.
- Operations research approach to cash management.
- Financial approach to cash management.

### **Monetary Theoretic Approach to Cash Management**

According to monetary economists are interested in the cash management of firm; their objective has been to describe the mechanism of the demand for money by firms, because it differs from the behaviour of other economic agents. He is of the opinion that researchers have tried to find a stable relationship between the quantity of money and its determinants in order to forecast demand for money. He further stressed that in monetary theory, the demand for money is one of the most intensively investigated areas. Both long and short run behaviour have been examined on the macro and micro level. He asserts that demand for money investigates decisions made in the cash management process. He explained used microeconomic data on households to estimate the parameter of the demand for currency derived from a generalized Baumol-Tobin model.

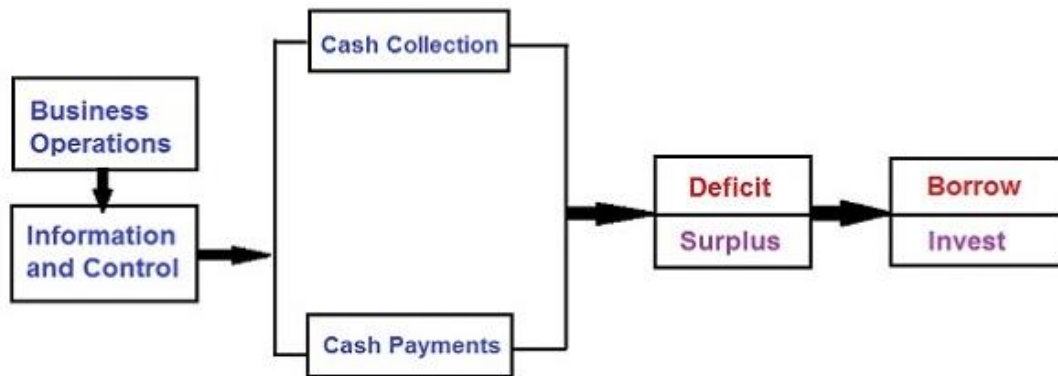
### **Operations Research Approach to Cash Management**

Numerous operational models have been developed to optimize the split between cash and marketable securities based on the firm's needs for cash, the predictability of these needs, the interest rate on marketable securities, and the cost of a transfer to cash and vice versa. The two basic transaction models most commonly accepted in the financial literature are the deterministic and the stochastic Miller-Orr inventory models [6].

### **Financial Theoretic Approach to Cash Management**

Opined that in financial theory, researchers are interested in how cash and other liquid assets affect firm value and the optimal capital structure of a firm. Financial theory considers the cash

management problem in the framework of the evaluation and capital structure of a firm. He suggested that, cash management as a representative for the liquidity management, can be linked to financial theory by considering its importance in an imperfect market. According to him this can be done, by adding cash balances to the financial theoretic models, such as the Capital Asset Pricing Model (CAPM) or the Modigliani-Miller (M and M) model. The effects of the inclusion of cash balances in these theoretical models show the importance of liquid assets for the value of a firm (through the systematic risk component) and for the optimal capital structure (through the liquidity slack concept) (Figure 1).



**Figure 1:** Cash management cycle.

### Speculative Motive

The speculative motive relates to holding of cash to seize an advantage of investment opportunities which may arise from time to time. Cash is required for taking advantage of unusually profitable opportunities which may suddenly occur. According to Van Horne (2002), firms must decide the quantum of cash to be held for motives identified above. Amount of cash to be held is influenced by the following factors;

- The expected cash flow.
- The degree of variation between the expected and actual net cash flow.
- The maturity structures of the firms liabilities.
- The firm's ability to borrow at a short notice in event of any emergency.
- The philosophy of management regarding liquidity and risk of insolvency.
- The efficient planning and control of cash.

### Factors of Cash Management

According to there is need for proper management of cash, since it is the most important current asset for the operation of business. The firm should keep sufficient cash, neither more or less [6]. Cash shortage will disrupt the firms operations, while excessive cash will simply remain idle, without contributing anything towards the firm's profitability. He suggested the following as facets of cash management;

- Cash planning.
- Managing cash flows.
- Optimum cash levels.
- Investing surplus cash.

### Managing Cash Flows

Once cash budget has been approved, and appropriate net cash flow established, the financial manager should ensure that there does not exist a significant deviation between projected cash flows and actual cash flows. To achieve this, there will have to be proper control of cash collections and disbursements. According to Cash management in the modern corporation involves two simple rules:

- Speed up cash collection (Cash Inflow)-minimize collection float.
- Slow down cash disbursement (Cash Outflow)-maximize disbursement float.

Stated that the objective of cash management in cash collection is to speed up collections and to reduce the lag time between the time consumer pays their bills and the time the cheques are collected. While the objective of cash management in disbursements is to control payments and minimize the cost associated with making payments. The rule is to accelerate collections and delay disbursement. Therefore it can be concluded that objective of management of collection and disbursement is to collect it faster, keep it longer and spend it slower.

### **Cash Collection**

To accelerate collections and reduce collection time; lock boxes, concentration banking and electronic fund transfer are techniques majorly used. Explained that the lock boxing techniques started after Second World War when banks identified a business opportunity in managing the collection of float for companies. This technique was developed to reduce the involvement of corporate clients in the handling of incoming cheques. It requires company to organize different receipts of cash centers where they have their customers through lock up boxes at different post offices nearer to the customers. This is a special post office boxes set up to intercept and speed up account receivable collection. According to Allman-Ward lock boxing involves; receiving mails (cheques) in a bank-controlled post office box, picking up mails (cheques) at several times in a day, taking mails (cheques) back to the bank processing site, opening and sorting mails, determining if any cheques received should not be deposited based on instructions from the company. Such cheques may be with wrong payee, postdated cheques etc., taking copy or image of cheques approved for deposit, depositing all acceptable cheques received, assigning availability and clearing deposited cheques and sending electronic information about the remittances to the company with physical copies of cheques, cheques not deposited and the remittance documents.

**Bank/cash concentration:** This is similar to lock boxes with the exception that different local banks are appointed as collection centres. It refers to the practice of moving cash from multiple banks into the firm's main account. Described this as a system of operating through a number of collection centres instead of a single collection centre centralized at the firm's Head office. Explained that concentration is an excellent solution to solving the problem of inefficient management of treasury where with subsidiaries and branches maintain individual banks accounts resulting into serious tracking and reconciliation problem by the head office. He further explained that with cash concentration, cash in multiple accounts is pooled either through physically sweeping or notional pooling [7]. Also stated that deposit reporting services, company-initiated concentration, standing instructions and maintaining zero balance accounts are options available to a company to move funds into the concentration account. They argued that to have an effective concentration system, the following cost element must be considered; the cost of the transfer mechanism, the value of the funds in the bank and the opportunity cost of local accounts. Electronic fund transfer-electronic transfer is another method of effectively managing the collection of cash. It is a process whereby funds are transferred from one bank account to another bank account through computer terminals. Electronic transfer of cash takes few minutes and the cash becomes available to the company

upon receipt of transfer notice. According to a wire transfer sends funds to the recipient's bank account more rapidly than any other form of payment and is the standard form of international payment. Identified two methods of transferring fund as follows:

- **Wire transfer:** Funds are immediately transferred from one bank to another.
- Electronic depository transfer cheque; an electronic cheque image is processed through an automatic clearing house.

He further stated that the use of electronic fund transfer to enhance the process of cash collection will result in instantaneous receipt of payment and availability of cash to the company. It will also shortens cash cycle and results in more usable fund.

## **Cash Disbursement**

Objective in disbursement as a cash management strategy is to slow down disbursement as much as possible. By delaying payments, firm makes maximum use of trade creditors as a source of fund, as source which is interest free. This can be achieved through increasing disbursement float and maintaining controlled disbursement accounts.

Defended the idea put forward that the objective of cash disbursement is to delay payment as long as it is legally and practically possible. He however warned that in pursuing this objective the firm should not compromise its relationship with supplier as they may withdraw credit. According to a disbursement system must be managed to reduce idle balances while providing timely disbursement information. Slowing down payments can increase disbursement float, but it may not be ethical or optimal to do this in the light of its associated costs as stated above-vendor or employee ill will. They further explained that disbursements can be controlled with the operation of the following accounts;

- **Zero-balance accounts:** Where a master account funds the disbursement account which have experienced payments during the day. The aim is to return the disbursement account to zero at the close of each business day.
- **Controlled Disbursement Account:** A specialized form of zero balance account arranged with a bank where the account is funded at the beginning of each business day to cover the cheques presents for each day. This approach is to eliminate the need for companies to leave balances to cover clearing items [8].
- Proposed that firms should make use of credit terms to the fullest extent as there is no advantage in paying sooner than agreed. He however warned that, although delaying disbursement results in maximum availability of fund, firms that delay in making payment may endanger their credit standing. Thus a firm should pay within the terms offered by supplier.

## **Determining the Target Cash Balance**

According to one of the primary responsibilities of a financial manager is to maintain a sound liquidity of the firm so that dues may be settled in time. He should be able to determine the appropriate amount of cash balance to be held by the company. Such a decision is influenced by a trade-off between risk and returns. Opined that cash management involves a trade-off between the need for liquidity and desire for profitability. The more cash a firm holds, the more liquid it becomes, however piling up funds to sustain liquidity will prevent fund from being invested in long term, high return producing assets.

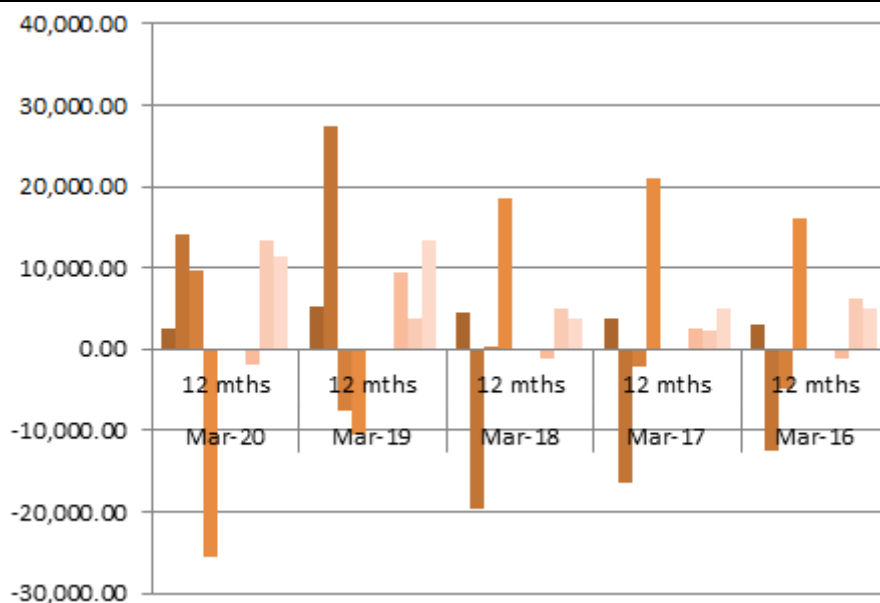
The trade-off between benefits and cost of liquidity is one essential part of cash management. If the firm maintains a small balance, its liquidity position becomes weak and it will suffer paucity of cash to make payments. It may have to sell marketable securities, if available or



borrow and this involves transaction cost. On the other hand, if the firms maintains a higher level of cash balance, it will have a sound liquidity position, but forego the opportunity to earn interest .the potential interest lost on holding large cash balance involves an opportunity cost to the firm. Thus, the firm should maintain an optimum cash balance, neither a small nor a large cash balance. The cash balance will be at its optimum position when the transaction cost and risk of a small cash balance is matched or equals the opportunity cost of too large a balance [9]. The target cash balance can be set by the use of Baumol model and other theoretical models but this may not be relevant practically as most companies make use of Monte Carlo simulation by setting their target cash balances based on some ‘safety stock” of cash that holds the risks of running out of money to some acceptable low level. Sophisticated models have been developed to aid companies and managers in determining the target (optimal) cash balances by establishing the optimum cash management strategy that will reduce cost. The most prominent ones are Baumol and Miller-Orr Cash management models which are explained below. The working of this model is comparable to the Economic Order Quantity (EOQ) model in stock control (Table 1 and Figure 2).

**Table 1:** The Financial analysis shows a Net profit is increase Rs. 5,147.62 crores in 2019. Decrease Rs. 2,546.72 crores.

<b>Cash flow of indiabulls housing finance (in rs. cr.)</b>	43891	43525	43160	42795	42430
	12 mths	12 mths	12 mths	12 mths	12 mths
<b>Net profit/loss before extraordinary items and tax</b>	2546.72	5147.62	4590.09	3680.78	3053.23
<b>Net cashflow from operating activities</b>	14011.67	27425.75	-19684.8	-16306.6	-12384.2
<b>Net cash used in investing activities</b>	9726.29	-7446.05	185.56	-2145.76	-4968.27
<b>Net cash used from financing activities</b>	-25603	-10506.2	18467.43	21029.62	16080.38
<b>Foreign exchange gains / losses</b>	0	0	0	0	0
<b>Adjustments on amalgamation merger demerger others</b>	0	0	0	0	0
<b>Net inc/dec in cash and cash equivalents</b>	-1864.99	9473.53	-1031.76	2577.24	-1272.04
<b>Cash and cash equivalents begin of year</b>	13356.59	3883.06	4914.82	2337.58	6190.6
<b>Cash and cash equivalents end of year</b>	11491.6	13356.59	3883.06	4914.82	4918.57



**Figure 2:** The company’s net profit is Rs. 3,05323cr. In 2016 and Rs. 3,680.78 cr in 2017 and Rs. 4,590.09cr in 2018. Cash flow analysis calculation for 5 years but net increasing cash equivalents are Rs.9, 473.53cr. In 2019 and Rs. 2,577.24cr.

## Discussion

Explaining the treatment of cash management problem noted that Baumol treated cash management problem as an inventory management problem where he applied techniques developed for inventory optimization to the problem of covering transactions demand for cash. Having optimal cash balance basically involves a tradeoff between the opportunity costs of holding too much cash and the transaction costs of holding too little cash. Stated that the Baumol model can be used to determine the target cash balance that a firm should hold at any given time. The optimal (target) cash balance is found where the opportunity costs equal the trading costs [10].

## Conclusion

It is obvious from the study that cash management is an important aspect of management function and its importance cannot be over-emphasized. When companies understand and implement the concept of efficient cash management, business success will be achieved. However, shortage or bad management of cash may result in loss of cash discount, loss of reputation due to non-payment of obligation on due dates and insolvency which may result in operational shut down of the company . This study has revealed that the company's decision on what amount to hold as cash balance, the choice of the source of short term finances, the approach adopted for the management of its collections and disbursements, its cash forecasting strategy and investment attitude towards idle fund form the major basics for ensuring an efficient and effective cash management system. As suggested by Gallagher (2002), implementation of a good cash management system will ensure better control of financial risk, increase the opportunity for profit, strengthen the company's balance sheet, ensure increased confidence in the company and improve operational efficiency.

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