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Cash Management

Adhila Kathoon. KM, Abiyarasi. S, Indhumathi S, Prof Mr S. Prakash

MBA Student, Vivekanandha Institute of Information and Management Studies, Namakkal, Tamil Nadu, India.

Assistant Professor, Vivekanandha Institute of Information and Management Studies, Namakkal, Tamil Nadu, India

ABSTRACT: Cash (liquidity) management is at the heart of a firm's financial management. It is a silver lining between the bankruptcy and the success story of a company. Therefore, this study intends to contribute some insights into cash management practices and how firms can use them to achieve sound financial performance. This study provides a comprehensive literature review on existing theories and cash management practices that are useful in decision making. After the analysis of the available literature, the study highlights important theories including trade-off theory (TOT), transaction model, precautionary measures, financial hierarchy, and cash flow theory. Furthermore, management practices such as stochastic cash management model, speeding up cash collections, centralization & decentralization of management, asset portfolio diversification, and cash disbursement are discussed. The study suggests that a sound financial performance can be achieved through a hybrid approach and through adaptation and embracing innovations in cash management systems. Efficient cash flow management is paramount for the success of any project, ensuring timely completion and sustainable growth. This abstract explores the significance of cash flow management within project frameworks, analyzing its impact on project viability, resource allocation, and stakeholder satisfaction. It delves into various strategies and tools available to project managers for optimizing cash flow, including budgeting, forecasting, risk mitigation, and financing options.

KEYWORDS: cash management, cash flow, budgeting, forecasting, risk mitigation, and financing options.

I. INTRODUCTION OF THE STUDY

Cash management is the process of collecting and managing cash flows. Cash management can be important for both individuals and companies. In business, it is a key component of a company's financial stability. For individuals, cash is also essential for financial stability while also usually considered as part of a total wealth portfolio.

Individuals and businesses have a wide range of offerings available across the financial marketplace to help with all types of cash management needs. Banks are typically a primary financial service provider for the custody of cash assets. There are also many different cash management solutions for individuals and businesses seeking to obtain the best return on cash assets or the most efficient use of cash comprehensively.

UNDERSTANDING CASH MANAGEMENT

Cash is the primary asset individuals and companies use to pay their obligations on a regular basis. In business, companies have a multitude of cash inflows and outflows that must be prudently managed in order to meet payment obligations, plan for future payments, and maintain adequate business stability. For individuals, maintaining cash balances while also earning a return on idle cash are usually top concerns.

TYPES OF CASH MANAGEMENT

Cash Flow from Operating Activities: It is found on an organization's cash flow statement and does not include cash flow from investing.

Free Cash Flow to Equity: Free Cash Flow to Equity represents the cash available after the capital is reinvested.
Free Cash Flow to The Firm: It is used for valuation and financial modeling.
The Net Change in Cash: It refers to the movement in the cash flow from one accounting period to another.

ROLES AND FUNCTIONS OF CASH MANAGEMENT

1.Inventory Management

Cash management helps an organization in managing its inventories. Higher inventory in hand indicates trapped sales, leading to less liquidity. Therefore, a company must always focus on fast pacing its stock out to allow cash movement.

2.Receivables Management

The organization has recorded all its sales, but the money concerning these transactions has not yet been received. In such a scenario, cash management's function will ensure faster recovery of all the receivables to avoid a probable cash crunch. It also includes a follow-up mechanism that provides more rapid recovery and will make the company aware of future contingencies like bad debts, etc.

3.Payables Management

This is also an essential function of cash management where the companies can avail of benefits like cash discounts and credit periods.

NEED OF THE STUDY

- It helps to check how much stuff (inventory) the company has and how much money (cash) it has.
- It gives the liquidity position whether the company pay its bills and debts on time.
- It focuses to avoid having too much or too little stock, which can cost money or lead to shortages.
- To understand the better to handle the company's money and to ensure to have enough cash for daily needs and emergencies.

STATEMENT OF THE PROBLEM

Despite the acknowledged importance of cash management, many businesses struggle with suboptimal cash utilization, leading to reduced financial stability and missed growth opportunities. This study aims to identify the underlying factors contributing to inefficient cash management practices and proposes strategies to enhance liquidity while fostering sustainable business growth.

OBJECTIVES OF THE STUDY

- Analyze current cash utilization practices across industries to identify inefficiencies in cash management.
- Examine the repercussions of suboptimal cash utilization on financial stability and growth opportunities.
- Investigate factors contributing to ineffective cash management, including working capital and risk strategies.
- Identify gaps in existing cash management frameworks hindering optimal utilization for stability and growth.
- To give remedial measures for cash management in the industry

SCOPE OF THE STUDY

- To increase in current trends by using past records with the enough stock and cash to keep going.
- To improve short debts on their bills that they own and owe within short period with quick money.
- To analyse and check how to buy, store, and sell goods with the right amount of stock and find ways to save money on inventory.
- To finalise any problems with how they handle money to bring more in cash in spend in less.

LIMITATIONS OF THE STUDY

- The study is only based on the facts and figures obtained from the company annual reports.
- Difficulty of getting access to some important data due to its sensitivity and secretive nature.
- The non- uniformity in the accounting periods of the years under study made it difficult to interpret the data concisely.
- The study was restricted only to four months where in the details for the past five years only considered for the study.
- Cash analysis is a record of past events only. Past can never forecast the future accurately and also the analysis and interpretation of the cash is based on the past performance.

II. REVIEW OF LITEATURE

Jensen & Meckling (2023) explains that the managerial decision team will prefer to hold cash in their reserves so that they can increase the volume of their firm's assets and to some extent hold significant power in financing their investments and making financial decisions. the discusses the contradictory results to the free cash flow theory where they found a negative relationship among the investment opportunity and cash holding, of which they are highly related to the investors protection rights, that in turn reduces the agency conflict prospects.

Wang Z. et al (2023) proposed an optimum cash holdings model based on the Continuous Time model, that suggest using of excess cash (outside the buffer zone) in investment only with consideration of risk and return of the associated investment. He proposed a dynamic simple policy (DSP), an approach that proved 16% cost efficient based on stochastic cash flows. Stochastic cash flows arising from multiple bank accounts can be dealt with by a proposed stochastic goal program in cash management (SGP-CM). The model provides dynamics to predict cash flows in a discrete time frame.

Kaplan and Zingales (2023) investigated the relationship between sensitivity of investment to cash flow and financing constraints, expressed as the differential cost between internal and external finance. They found that even though investment is sensitive to cash flow for the vast majority of farms analyzed, investment-cash flow sensitivities do not increase monotonically with the degree of financing constraints. Most of the firms analyzed could increase their investment if they choose to do so, thus providing further evidence of the agency motive for holding cash. Contrary to what was thought before, the authors concluded that higher sensitivities cannot be interpreted as evidence that firms are more financially constrained.

III. RESEARCH METHODOLOGY

RESEARCH DESIGN

Research in common parlance refers to a search for knowledge. One can also define research as scientific and systematic search for patient information on a specific topic. In fact research is an art of scientific investigation.

SAMPLE DESIGN

The methodology used in this study is analytical data in nature where the researcher has to use facts (or) information already available and study the characteristics of a particular group respectively and there by analyses to make a critical evaluation of the study.

SOURCES OF DATA

Secondary data is the data, which is already available. It can be obtained through company records, internet and some data collected from the observation method by the researcher. The secondary data is used for the study and are collected from the annual reports of the company.

PERIOD OF THE STUDY

The financial data for a period five years of 2020-2024 analyzed for the study.

TOOLS FOR ANALYSIS

- Ratio analysis
- Trend analysis
- Cash cycle
- Compound annual growth rate - CAGR

RATIO ANALYSIS

Ratio Analysis is a form of Financial Statement Analysis that is used to obtain a quick indication of a firm's financial performance in several key areas. The ratios are categorized as Short-term Solvency Ratios, Debt Management Ratios, Asset Management Ratios, Profitability Ratios, and Market Value Ratios. Ratio Analysis as a tool possesses several important features. The data, which are provided by financial statements, are readily available. The computation of ratios facilitates the comparison of firms which differ in size. Ratios can be used to compare a firm's financial performance with industry averages.

TREND ANALYSIS

Trend analysis is the process of comparing business data over time to identify any consistent results or trends. You can then develop a strategy to respond to these trends in line with your business goals. Trend analysis helps you understand how your business has performed and predict where current business operations and practices will take you. Done well, it will give your ideas about how you might change things to move your business in the right direction.

CASH CYCLE

Flow of cash that being with payment for raw materials and ends with receipt of cash on goods sold. Shorter the number of days in the cycle, more the amount of available cash and lesser the need to borrow Also called as cash conversion cycle or cash flow cycle

Cash Cycle = Inventory Conversion Period + Debtor Conversion Period + Creditor Conversion Period

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COMPOUND ANNUAL GROWTH RATE - CAGR

The year-over-year growth rate of an investment over a specified period of time The compound annual growth rate is calculated by taking the nth root of the total percentage growth rate, where n is the number of years in the period being considered.

This can be written as follows:

$$\text{CAGR} = \left(\frac{\text{Ending Value}}{\text{Beginning Value}}\right)^{\left(\frac{1}{\#\text{ of years}}\right)} - 1$$

IV. DATA ANALYSIS AND INTERPRETATION

TREND ANALYSIS OF CASH AND BANK

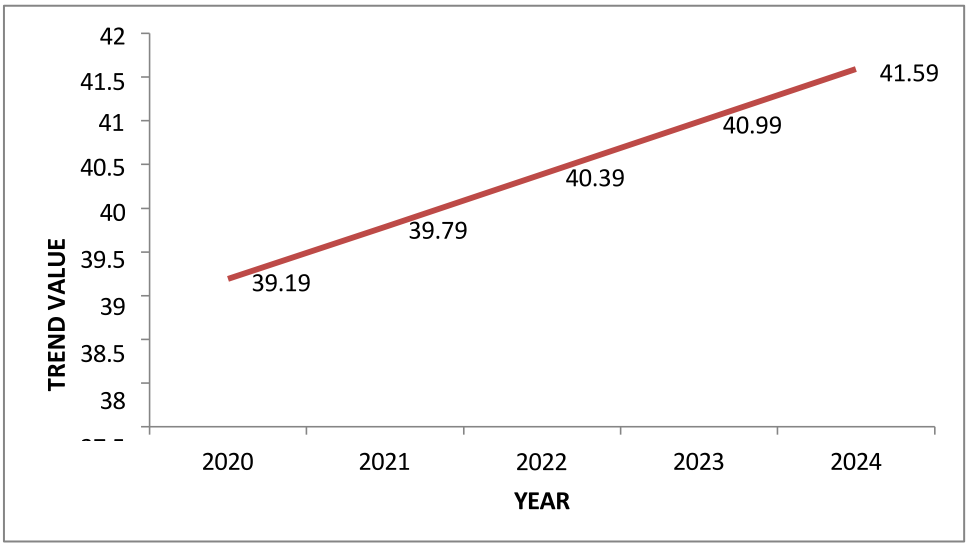
YEAR	X	X^2	CASH AND BANK (Y)	XY	Y = a + Bx
2020	-2	4	36.41	-72.82	39.19
2021	-1	1	44.70	-44.70	39.79
2022	0	0	39.25	0	40.39
2023	1	1	39.67	39.67	40.99
2024	2	4	41.93	83.86	41.59
TOTAL	**0**	**10**	**201.96**	**6.01**	
2025	3				42.19
2026	4				42.79

a = 201.96/ 5   b = 6.01/ 10   a = 40.39   b = 0.60

INTERPRETATION

This table indicates that the volume has been increased every year. It must be increased for every year, it should be increased. It is Positive in the company. Cash and Bank value in the year 2025 will be Rs.42.19 (in lacks) and in the year 2026 will be Rs.42.79 (in lacks).

TREND ANALYSIS OF CASH AND BANK



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COMPOUND ANNUAL GROWTH RATE

YEAR	CASH AND BANK
2019-20	36.41
2020-21	44.70
2021-22	39.25
2022-23	39.67
2023-24	41.93

Source: Secondary Data

$$CAGR = \left(\frac{\text{Ending Value}}{\text{Beginning Value}}\right)^{\left(\frac{1}{\#\text{ of years}}\right)} - 1$$

$$= \left(\frac{41.93}{36.41}\right)^{\left(\frac{1}{5}\right)} -1$$

CAGR = -0.77

INFERENCE

From the above analysis the researcher found that the compound annual growth rate is -0.77 between the year 2020 and 2024.

V. SUGGESTIONS

- Optimize the cash management to ensure effective utilization of assets and liabilities and implement strategies to accelerate accounts receivable collection to improve cash flow.
- There should be careful with borrowing money make sure it helps the company grow without becoming too risky. Look for ways to pay off or fine better borrowing deals.
- Predict the better sales and adjust how much inventory will be kept accordingly. Offer a variety of products and work closely with supplies to manage inventory effectively
- For better cash management or in order to find minimum cash balance required for the company can use control charts with the help of this company will able to invest its excess amount of funds in short term securities and can reduce bank charges charged by the bank for overdraft purpose.
- Company is going in the right path, if they maintain the same level and improve the current level scope for the further development for the future.

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VI. CONCLUSION

In conclusion problem statement serves as the core issue that drives the research's exploration into cash management. By focusing on the dual problems of reduced financial stability and missed growth opportunities arising from inefficient cash utilization, the study endeavors to provide actionable insights to businesses across industries, enabling them to steer their financial strategies toward sustainable growth. This research highlights the pivotal role of effective cash management in ensuring business sustainability and driving growth. The identified problem of suboptimal cash utilization leading to reduced financial stability and missed growth opportunities underscores the urgency of the issue. Through comprehensive analysis, the study aims to uncover underlying factors contributing to these challenges. Ultimately, this study's significance lies in its potential to offer actionable insights.

By understanding the intricacies of cash management, businesses can develop strategies that optimize liquidity, minimize risk, and promote sustainable growth. These insights can empower organizations to navigate the evolving economic environment with confidence and secure their position in the market. In a world characterized by uncertainty, adept cash management emerges as a guiding light, enabling businesses to not only endure challenges but thrive in the face of adversity.

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