SHORT TERM LIQUIDITY OF SBI GLOBAL FACTORS LTD AND IFCI FACTORS LTD- A COMPARITIVE STUDY

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ABSTRACT

Factoring is a continuous arrangement between a financial institution,(the factor) and a company (the client), which sells goods and services to trade customers on credit. As per this arrangement, the factor purchases the client's trade debts including accounts receivable either with or without recourse to the client and administers the sales ledger of his client. The growth of industrialization and increase in the production and sales ledger during recent times in India has led to the growing importance of timely collection of receivables and management of the same. In a buyer's market, delay in collection of debts results in problems of working capital because of which the small suppliers with a limited finance raising capacity ultimately suffer. Delay or non-realization of dues has been responsible for the sick unit in the small – scale sector. Management of liquidity and liquid assets focuses on cash inflows and outflows along with a trade-off between liquidity versus investment of surplus cash in order to improve profitability The present paper highlights the short term liquidity of the select sample factoring services.

Keywords: Factoring Services, Liquidity, Short Term Liquidity.

INTRODUCTION

The word 'Factor' has been derived from the Latin word 'Facere' which means 'to make or to do'. In other words, it means 'to get things done'.

Factoring is a continuous arrangement between a financial institution,(the factor) and a company (the client), which sells goods and services to trade customers on credit. As per this arrangement, the factor purchases the client's trade debts including accounts receivable either with or without recourse to the client and administers the sales ledger of his client. The growth of industrialization and increase in the production and sales ledger during recent times in India has led to the growing importance of timely collection of receivables and management of the same. In a buyer's market, delay in collection of debts results in problems of working capital because of which the small suppliers with a limited finance raising capacity ultimately suffer. Delay or non-realization of dues has been responsible for the sick unit in the small – scale sector.

Collection of book debts is not undertaken by banks though they provide collection services in respect of bills purchased / discounted by them. The client must reimburse the dishonor bills and the latter thus enjoys no protection against default by the buyers. In addition to the working capital problems faced by the seller, no interest is realized for the period for which the payments are delayed beyond the estimated time.

Citation Information Mohammed, SB. Venkateswara Rao, P. Durga, Naga Siva Kumar, V. (2022). short term liquidity of sbi global factors ltd and ifci factors ltd- a comparitive study. *Academy of Marketing Studies Journal, 26*(6), 1-5.

REVIEW OF LITERATURE

Liquidity is a function of current assets and current liabilities and their composition. A company's level of liquidity depends upon the amount of the company's cash, the amount of other assets that can be quickly converted to cash, whether the company is making or losing money, the amount of obligations that will require repayment in the near future and the ability of the company to raise more cash by issuing securities or borrowing money Chambers & Lacey (2011).
The goal of cash and liquidity management is to plan an enterprise's cash position so that cash is available when it is needed and all available idle cash is invested to provide maximum income. To ensure that all available funds are optimally invested, some enterprises maintain a zero balance in their bank accounts and fully invest all cash in government securities or money market funds Engler (1993).
Ebben & Johnson (2011) investigated the relationship between cash conversion cycle and levels of liquidity, invested capital and performance in small firms over time. In a sample of 879 small manufacturing firms and 833 small retail firms, cash conversion cycle was found to be significantly related to all three of these aspects. Firms with more efficient cash conversion cycles were more liquid, required less debt and equity financing and had higher returns.

In perfect financial markets, decision pertaining to debt maturity structure is inconsequential to the value of the firm (Stiglitz, 1974; Kraus, 1973). However, market imperfections such as agency costs, corporate and personal taxes, information asymmetry, transaction costs, and bankruptcy costs present unique trade-offs at different levels of short-term financing and hence provide room for debt-maturity structure to enhance value of a firm. Seminal work on the debt-maturity structure in the presence of market imperfections include (Barnea, Haugen, & Senbet, 1980; Myers, 1977; Brick and Ravid, 1991; Diamond, 1991; and Ruiz, 2002) where several others have examined the relationship between firms' characteristics and choice of debt-maturity structure. However, less attention is paid to examine the relationship between the debt-maturity structure and firm's performance. Where the existing scanty research evidences present mixed results. The existing theoretical models do not clearly link maturity structure of a firm with its operating or market performance. For example, Miller and Modigiliani (1958), Stiglitz (1974) and Kraus (1973) argue that the firm's debt-maturity structure is irrelevant to the firm's value. However, the liquidity preference theory posits that short term financing is cheaper and could enhance firms' profitability due to lower liquidity and/or default premium. Moreover, Datta, IskandarDatta, and Raman (2005) argue that short-term debt can subject managers to frequent monitoring of the capital markets and therefore shall result in improved firms' performance. But a more relevant question than the expected positive relationship between short-term financing and profitability is that whether such an increase in profitability could result in the maximization of shareholders' wealth. The answer to the question would be unclear given the liquidity and refinancing risk that comes with higher level of short-term financing. In fact, frequent refinancing might create maturity mismatch between assets and liabilities (Stohs and Mauer, 1996). This implies that short term financing presents a tradeoff between profitability and liquidity risk. Short-term financing matures quickly and needs to be renewed at frequent intervals. Hence, this could be used as a monitoring device to control self-interested managers' actions (Datta et al, 2005). In less-developed markets like Pakistan, firms primarily rely on short-term financing where the prime source of which is commercial banks (Shah and Khan, 2009; Shah, 2011). The literature on financial contracting establishes that banks can effectively control moral hazards and adverse selection problems, thanks to their ability to control and produce information (see for example Diamond, 1984; Fama, 1985; Berlin and Loeys, 1988). Thus short-term financing and monitoring might be correlated due to high correlation between short term financing and banks in developing countries. The discipline imposed by short-term financing is likely to improve the operating performance of a firm

Objectives

1. To understand the concept of Factoring services of select sample.
2. To analyse the short term liquidity position of the select sample.

METHODOLOGY

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Twelve Years from the year 2008-09 to 2019-20 has been selected as the period of study. The scope of the present study is limited to two companies i.e SBI Global Factors limited and IFCI Factors Limited. The Period of the Study is from 2008-09 TO 2019-20 (Twelve Years). Financial and other Reports published by the Factoring Businesses. Conceptual theory and industry related information is taken from Journals, Periodicals, Reference Text books, websites etc. data collected was analysed with the help of comparative statements.

LIMITATIONS OF THE STUDY

The study has the following limitations.

1. The present research is restricted to two companies only.
2. The period of study is twelve years.
3. No Comparison with other types of Financial services is performed Table 1.

RESULTS OF EMPIRICAL ANALYSIS AND DISCUSSION

Table 1

COMPARITIVE ANALYSIS OF CURRENT ASSETS , CURRENT LIABILITIES AND CURRENT RATIOS

									Rs in Crores
Sno	Year	IFCI-Factors Limited				SBI Global Factors Limited			
		(CA)	(CL)	(CR)	Changes %	(CA)	(CL)	(CR)	Changes %
1	2008-09	148.27	25.42	5.83	-	3,353.34	54.30	61.76	-
2	2009-10	386.82	87.60	4.42	-24%	3,088.23	21.87	141.18	129%
3	2010-11	920.93	677.55	1.36	-69%	2,266.34	236.72	9.57	-93%
4	2011-12	1,499.96	1,001.84	1.50	10%	2,243.48	1,456.97	1.54	-84%
5	2012-13	1,332.18	1,084.56	1.23	-18%	1,532.33	782.69	1.96	27%
6	2013-14	908.72	423.59	2.15	75%	966.57	349.41	2.77	41%
7	2014-15	746.36	504.44	1.48	-31%	926.39	302.30	3.06	11%
8	2015-16	674.43	445.72	1.51	2%	1,023.69	414.06	2.47	-19%
9	2016-17	514.51	284.68	1.81	19%	1,069.06	443.58	2.41	-3%
10	2017-18	406.98	269.75	1.51	-17%	1,303.29	676.97	1.93	-20%
11	2018-19	10.61	68.46	0.16	-90%	1,447.37	822.11	1.76	-9%
12	2019-20	21.65	65.27	0.33	114%	1,171.44	907.05	1.29	-27%
13	Mean	630.95	411.57	1.94	(0.02)	1,699.29	539.00	19.31	(0.04)
14	SD	480.12	358.02	1.62	0.56	842	409.78	42.00	0.57
15	CV	76%	87%	83%		49.55%	76%	218%	
16	I/D	(0.85)	1.57	(0.94)		-0.65	15.71	(0.98)	

The Mean current assets of IFCI Factors Ltd for the twelve year period of Study ending on 31-12-2020 was Rs.631Crores with a variance of 76%.The Overall Changes in current assets of IFCI Factors Limited is - 0.85 (Negative) whereas the Mean Current assets of SBI Global Factors Limited for the same period was Rs.1699 Crores with a variance of 50%.The overall changes in current assets of SBI Global Factors Ltd is - 0.65 (Negative).The Mean Current Liabilities of IFCI Factors Ltd for the twelve year period of Study ending on 31-12-2020 was Rs.412 Crores with a variance of 87%. The Overall Changes in current liabilities of IFCI Factors Ltd is 1.57, while the Mean Current Liabilities of SBI Global Factors Limited was Rs.539 Crores with a variance of 76%.The overall changes in current liabilities of SBI Global Factors Ltd is 15.71.

The Current Ratio of IFCI Factors Limited through out the period of Study remained above

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the Bench mark of 1.5, except for the last two years when it fall below 0.5.The overall change in Current Ratio of IFCI Factors Limited is – 0.94 (Negative).The Current Ratio of SBI Global Factors Limited during the period of Study remained above the Bench mark of 1.5, except for the last one year when it is 1.39.The overall change in Current Ratio of SBI Global Factors Limited is – 0.98 (Negative).

The Mean Current Ratio of IFCI Factors Limited was 1.94 which deviated from the mean by 83%, while the Mean Current Ratio of SBI Global Factors Limited was 19.31 which deviated from the mean by 218%. It is found that the mean current Ratio of SBI Global Factors limited is greater than that of IFCI Factors Limited. The Mean Current Ratio of IFCI Factors limited was 1.97 while the Mean Current Ratio of SBI Global Factors limited was 19.31. It is found that the mean current Ratio of SBI Global Factors limited is greater than that of IFCI Factors Limited. We can observe that current Ratio of SBI Global Factors Limited is above the current ratio of IFCI Factors Limited during the first four years of the study, later both coincides.

Table 2

COMPARITIVE ANALYSIS OF CASH EQUIVALENTS , CURRENT LIABILITIES AND SUPER QUICK RATIOS RATIOS

Rs in Crores

Sno	Year	IFCI-Factors Limited				SBI Global Factors Limited			
		(CE)	(CL)	(SQR)	Changes %	(CE)	(CL)	(SQR)	Changes %
1	2008-09	13.20	25.42	0.52	-	328.91	54.30	6.06	-
2	2009-10	1.67	87.60	0.02	-96%	24.02	21.87	1.10	-82%
3	2010-11	24.38	677.55	0.04	89%	5.97	236.72	0.03	-98%
4	2011-12	5.27	1,001.84	0.01	-85%	0.83	1,456.97	0.00	-98%
5	2012-13	1.49	1,084.56	0.00	-74%	7.82	782.69	0.01	1654%
6	2013-14	11.80	423.59	0.03	1931%	8.95	349.41	0.03	156%
7	2014-15	16.99	504.44	0.03	21%	4.69	302.30	0.02	-39%
8	2015-16	7.02	445.72	0.02	-53%	14.91	414.06	0.04	132%
9	2016-17	38.21	284.68	0.13	753%	6.33	443.58	0.01	-60%
10	2017-18	35.05	269.75	0.13	-3%	14.21	676.97	0.02	47%
11	2018-19	10.61	68.46	0.16	19%	39.48	822.11	0.05	129%
12	2019-20	21.65	65.27	0.33	114%	1.87	907.05	0.00	-96%
13	Mean	15.61	411.57	0.12	2.18	38.17	539.00	0.61	1.37
14	SD	12.15	358.02	0.16	5.86	92	409.78	1.74	4.87
15	CV	78%	87%	135%		241.57%	76%	284%	
16	I/D	0.64	1.57	(0.36)		-0.99	15.71	(1.00)	

The Mean Cash Equivalents of IFCI Factors Limited for the twelve year period of Study ending on 31-12-2020 was Rs.16 Crores with a variance of 78%.The Overall Change in Cash Equivalents of IFCI Factors Limited is 0.64, whereas the Mean Cash Equivalents of SBI Global Factors Ltd for the same period was Rs.38.17 Crores with a variance of 241.57%.The overall change in cash equivalents of SBI Global Factors Ltd is - 0.99 (Negative).The Mean Current Liabilities of IFCI Factors Ltd for the twelve year period of Study ending on 31-12-2020 was Rs.412 Crores with a variance of 87%.The Overall Changes in current liabilities of IFCI Factors Ltd is 1.57, while the Mean Current Liabilities of SBI Global Factors Ltd was Rs.539 Crores with a variance of 76%.The overall changes in current liabilities of SBI Global Factors Ltd is 15.71. The Super Quick Ratio of IFCI Factors Limited through out the period of Study remained below the Bench mark of 0.5, except during the year 2008-09 when it cross the bench mark of 0.5 by 2

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percentage points at 0.52. The overall change in Super Quick Ratio of IFCI Factors Limited is -0.36 (Negative). The Super Quick Ratio of SBI Global Factors Limited during the period of Study remained below the Bench mark of 0.5, except during the year 2008-09, when it cross the bench mark of 0.5 at 6.06. .The overall change in Super Quick Ratio of SBI Global Factors Limited is – 1.00 (Negative). The Mean Super quick Ratio of IFCI Factors Limited was 0.12, which deviated from the mean by 135%, while the Mean Super Quick Ratio of SBI Global Factors Limited was 0.61 which deviated from the mean by 284%. It is found that the mean Super Quick Ratio of SBI Global Factors limited is greater than that of IFCI Factors Limited.The Mean Super Quick Ratio of IFCI Factors limited was 0.12, while the Mean Super Quick Ratio of SBI Global Factors limited was 0.61. It is found that the mean Super Quick Ratio of SBI Global Factors limited is greater than that of IFCI Factors Limited. We can observe that Super Quick Ratio of SBI Global Factors Limited is above the Super Quick Ratio of IFCI Factors Limited during the first two years of the study, later both coincides.

CONCLUSION

Management of liquidity and liquid assets focuses on cash inflows and outflows along with a trade-off between liquidity versus investment of surplus cash in order to improve profitability. It is found that the mean current Ratio of SBI Global Factors limited is greater than that of IFCI Factors Limited.

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