ETDT

Emerging Trends in Digital Transformation

Volume-2, Issue-1, January-March 2026 ISSN: **3107- 4308** *Paper ID:* ***ETDT-V2-I1-49***

CASH CONVERSION CYCLE AND PROFITABILITY IN BANKING AT BANDHAN BANK

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ABSTRACT: This research looks at the relationship between the Cash Conversion Cycle (CCC) and the profitability of the banking industry, with a specific emphasis on Bandhan Bank. The purpose is to assess the bank's capacity to maximize operational efficiency by successfully managing cash input and outflow. The research demonstrates the impact of CCC on financial success, liquidity, and working capital management. The research examines trends in inventory control, payment schedules, and cash collection using secondary financial data from the past five years. It also looks into how these factors influence key profitability metrics like Return on Equity (ROE) and Return on Assets (ROA). The research uses quantitative approaches to determine the relationship between profit margins and CCC components. The results show that good cash cycle management improves Bandhan Bank's profitability.

Keywords*: Cash Conversion Cycle (CCC), Working Capital Management, Liquidity Management, Accounts Payable Period, Operational Efficiency*

I. INTRODUCTION

The currency conversion cycle (CCC) measures how long it takes a corporation to sell its products, receive payment, and clear its debts. The cash conversion cycle should be reduced by shortening the period cash spends in inventories or accounts receivable. The CCC is specific to the industry or sector in question.

The cash cycle, also known as the cash conversion cycle (CCC), is a metric that measures how many days it takes a company to sell its inventory and return its investment. The amount of time a company's finances are held in inventory and accounts receivable lowers its CCC.

The cash cycle is a critical indicator for assessing working capital for any company that purchases and manages inventory. It demonstrates the organization's operating efficiency, cash reserves, and overall financial stability.

CCC is a significant financial indicator that shows how efficiently a firm manages its working capital components. These include accounts receivable, accounts payable, and inventories. The indicator also illustrates how long it takes for a business to generate cash flow from its investments.

Profitability is defined as the ratio of a company's revenue to its expenses. A corporation is considered profitable when its revenue grows faster than its operating and expenditure costs. Businesses that are not profitable are classified as "unprofitable" and must make changes in order to create revenue.

Profitability can be calculated in a variety of ways; nevertheless, at its most basic level, it indicates the potential revenue generated by a company's operations. Profit is normally calculated by deducting all expenses from total income. Profitability ratios are used to assess

DOI: https://doi.org/10.5281/zenodo.19401748

the performance. Those with an interest in the company might use these ratios to assess management profitability in relation to revenue, assets, or equity.

The most important measures for analyzing profitability are the gross profit margin, operational profit margin, net profit margin, return on equity (ROE), and return on assets (ROA). Each of these indicators provides a unique viewpoint on profitability and may be used to evaluate the performance of different organizations or industries.

The Cash Conversion Cycle (CCC) is a significant financial indicator that measures how well banks manage their liquidity, working capital, and cash flow. The CCC indicates how quickly cash may be converted into income through investments, loans, and other financial activity in the banking industry. A shorter cycle indicates higher efficiency since it allows institutions to reinvest cash flows in profitable ventures at a faster rate.

The CCC is critical to the profitability of banks because it cuts costs while increasing returns through good capital management. In response to regulatory limits and an increasingly competitive landscape, banks must optimize the CCC as a strategic goal. Effective liquidity management ensures that you continue to earn revenue while meeting your obligations. Furthermore, current technology, such as AI-powered financial instruments and digital banking, has greatly eased cash flow management. The ideal CCC of a bank allows it to manage risks, maintain solvency, and generate long-term profitability. As a result, the relationship between profitability and CCC is an important topic for both academic research and practical financial planning. This introduction demonstrates the CCC's direct impact on the performance and development of banks over time.

II. REVIEW OF LITERATURE

Dr. Nishant V. Rao (2021), predictive risk modeling is becoming increasingly important for controlling cash conversion cycles, which are strongly related to banking profits. AI-powered algorithms predicted when customers would be late, allowing banks to reduce the number of days they had to wait for payment. The use of CCC indicators in credit underwriting resulted in higher loan quality and fewer non-performing assets. Real-time data displays were implemented to unify treasury, lending, and collections, ensuring that all departments worked together to achieve profitability. Market volatility and liquidity problems have increased the need of CCC-focused risk buffers. Small businesses found it easier to repay loans tailored to their anticipated CCC cycles.

Rajiv N. Menon 2022: To improve their cash conversion cycles, banks prioritized digital investments, notably in collections and accounts receivable. The days-sales-outstanding for retail and small business portfolios have significantly decreased as a result of open banking and speedy payments. Treasury departments' creative financing options led to a decrease in client CCC and the generation of fee revenue. Inflation and rising interest rates caused a significant increase in the cost of financing money, making CCC efficiency critical. Because of real-time financial flow information, the treasury's profitability rose, allowing it to keep a larger number of deposits. Banks improved their payables management by painstakingly extending terms while maintaining a balance between efficiency and supplier relationships. Hazard functions regularly watched counterparties to ensure that CCC tactics did not increase the risk of default.

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Volume-2, Issue-1, January-March 2026 ISSN: 3107- 4308 Paper ID: ETDT-V2-I1-49

Dr. Kiran Deshpande 2023 Predictive analytics and artificial intelligence have transformed the way institutions handle the cash conversion cycle. Machine learning algorithms predicted how customers would make payments, lowering the risk of late payments and the amount of days before payments were due. The implementation of CCC insights into credit underwriting resulted in improved loan profitability and asset quality. Treasury screens offered real-time monitoring of cash inflows and outflows, which improved operations. SME clients received finance solutions adapted to their specific needs, as established by predictive CCC research. Furthermore, data-driven optimization improved capital allocation, allowing cash to be directed toward more profitable loans. Banks were able to increase revenues by reducing provisioning requirements and speeding up operational cycles. Risk, operations, and analytics teams were integrated across divisions to differentiate themselves from competition. Nonetheless, the need for legislation governing the decision-making process of AI has grown.

Priyanka Mehta 2024 Supply chain financing is currently an important component of banks' Cash Conversion Cycle plans, according to Priyanka Mehta in 2024. Banks were able to offer invoice discounting and integrate credit products into digital ecosystems by working with e-commerce platforms. These unique concepts resulted in lower customer CCCs and more transaction-based revenues for banks. Ease of borrowing improved corporate clients' operations and financial flow. Nonetheless, margin pressure increased as banks and fintechs raced to lower service costs. The requirements required transparent capital reporting for embedded finance risks, which made them more difficult to follow.

Prof. Manish Kaul 2025 Banking's sustainability and ESG aims were increasingly matched with Prof. Manish Kaul's Cash Conversion Cycle estimates for 2025. Working-capital loans related with ESG and green supply-chain financing enabled shorter cycles and lower costs. Automation and APIs helped to speed up cash inputs by reducing settlement delays. Banks set common CCC KPIs to help them compare performance across business divisions. Shorter cycles freed up capital, which was then reinvested in green finance, increasing brand equity and ROE. Nonetheless, institutions with limited financial resources risk incurring losses if they attempt to undermine CCC services.

III. COMPONENTS OF THE CASH CONVERSION CYCLE

Days Inventory Outstanding (DIO)

The DIO represents the average time it takes a corporation to turn inventory into sales. A lower DIO indicates that things are sold faster, implying that inventory management is effective and there is room for cost reductions. However, the presence of additional days may indicate an excess of inventory, resulting in higher storage costs and resource ties. By

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evaluating this data, you can determine the amount of inventory required to meet actual demand.

Days Sales Outstanding (DSO)

The DSO represents the average time it takes the business to receive payment after a transaction. Effective credit management and prompt accounts receivable collection both indicate a lower DSO, which increases cash flow. A higher number of days could indicate that there are issues with how clients pay their bills or with credit policies. Monitoring this figure allows you to develop techniques for expediting payment collection. For example, you may offer incentives to early payers or improve the credit check procedure.

Days Payable Outstanding (DPO)

The DPO is the average time it takes a corporation to pay its suppliers after receiving new inventory. A longer DPO may improve cash flow by giving you more time to use your resources before they need to be paid for. However, establishing excessively long payment terms may result in the loss of discounts and a deterioration in your relationship with suppliers. To maximize your cash flow without jeopardizing your strategic partnerships, you must maintain strong relationships with your suppliers and strike a balance between the DPO and these relationships.

IV. DATA ANALYSIS AND RESULTS

Balance Sheet of Bandhan Bank (in Rs. Cr.)

Balance Sheet of Bandhan Bank (in Rs. Cr.)	25-Mar	24-Mar	23-Mar	22-Mar	21-Mar
EQUITIES AND LIABILITIES					
SHAREHOLDER'S FUNDS					
Equity Share Capital	1,610.97	1,610.97	1,610.84	1,610.77	1,610.60
Total Share Capital	1,610.97	1,610.97	1,610.84	1,610.77	1,610.60
Revaluation Reserve	0	0	0	0	0
Reserves and Surplus	22,748.13	19,954.48	17,973.32	15,770.38	15,797.58
Total Reserves and Surplus	22,748.13	19,954.48	17,973.32	15,770.38	15,797.58
Total ShareHolders Funds	24,605.01	21,609.64	19,584.15	17,381.15	17,408.18
Deposits	151,212.50	135,201.99	108,069.31	96,330.61	77,972.22
Borrowings	11,138.49	16,371.52	24,710.82	19,921.23	16,960.36
Other Liabilities and Provisions	4,520.29	4,658.51	3,405.68	5,233.55	2,652.29
Total Capital and Liabilities	191,476.29	177,841.66	155,769.97	138,866.55	114,993.05
ASSETS					
Cash and Balances with Reserve Bank of India	7,477.45	15,392.68	7,326.58	4,942.56	5,235.39
Balances with Banks Money at Call and Short Notice	2,091.94	777.84	923.14	4,378.79	957.56
Investments	40,712.28	29,287.58	32,365.89	29,078.71	25,155.39
Advances	131,987.32	121,136.78	104,756.77	93,974.93	81,612.88
Fixed Assets	1,180.38	1,173.43	854.59	587.89	486.71
Other Assets	8,026.92	10,073.34	9,542.99	5,903.67	1,545.13
Total Assets	191,476.29	177,841.66	155,769.97	138,866.55	114,993.05

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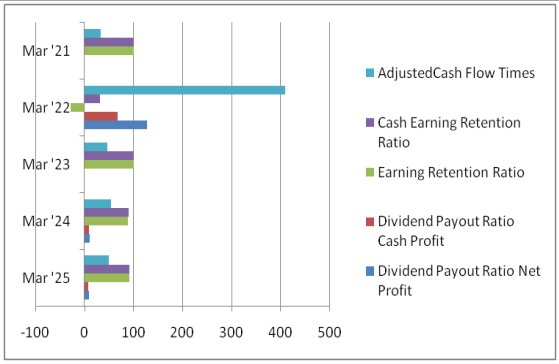
Cash Flow Indicator Ratios

Cash Flow Indicator Ratios	Mar '25	Mar '24	Mar '23	Mar '22	Mar '21
Dividend Payout Ratio Net Profit	8.8	10.83	0	128.04	0
Dividend Payout Ratio Cash Profit	7.98	9.79	0	68.29	0
Earning Retention Ratio	91.2	89.17	100	-28.04	100
Cash Earning Retention Ratio	92.02	90.21	100	31.71	100
AdjustedCash Flow Times	50	54.8	46.24	408.47	33.78



The cash flow indicator ratios show how the bank pays dividends and manages its funds. The Dividend Payout Ratio (Net Profit) fell from 10.83% to 8.8% in March 2025, indicating that the company was being careful with its allocation of funds to shareholders. In the same line, the company's prudent financial management was demonstrated by the reduction of the Dividend Payout Ratio (Cash Profit) to 7.98%. The Cash Earning Retention Ratio and Earning Retention Ratio both remained strong at 92.02% and 91.2%, respectively, indicating that earnings are properly reinvested. Although it was slightly lower than the previous year, the company was able to generate cash efficiently in relation to its obligations, as demonstrated by Adjusted Cash Flow Times of 50.

Cash Flow

Cash Flow	---------- in Rs. Cr. ----------				
	Mar '25	Mar '24	Mar '23	Mar '22	Mar '21
Net Profit Before Tax	3623.28	2942.91	2892.98	128.62	2948.65
Net Cash From Operating Activities	2752.33	14808.4	-4244.6	902.04	-944.56
Net Cash (used in)/from Investing Activities	-3878.7	1690.98	-1617.9	-611.83	-1803.9
Net Cash (used in)/from Financing Activities	-5474.7	-8578.5	4791.25	2802.8	588.45
Net (decrease)/increase In Cash and Cash Equivalents	-6601	7920.87	-1071.3	3093.02	-2160
Opening Cash & Cash Equivalents	16168.4	8247.5	9318.8	6227.81	8352.41
Closing Cash & Cash Equivalents	9567.32	16168.4	8247.5	9320.82	6192.43

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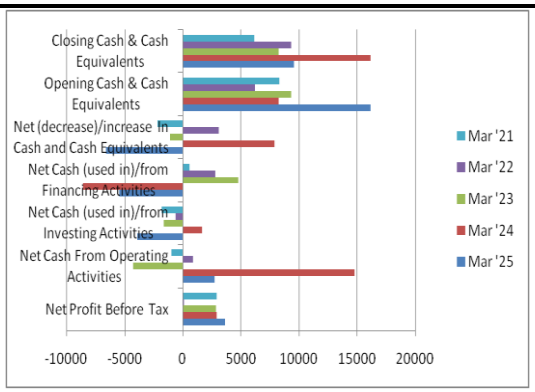

The cash flow statement shows that the bank's cash management changed significantly over a five-year period. The business was lucrative, with a Net Profit Before Tax of ₹3,623.28 Cr in March 2025. However, the company's revenue from primary activities declined, with Net Cash from Operating Activities decreasing from ₹14,808.4 Cr in March 2024 to ₹2,752.33 Cr. Investing activities cost ₹3,878.7 Cr and finance operations cost ₹5,474.7 Cr. The net cash loss was ₹6,601 Cr, with a closing cash balance of ₹9,567.32 Cr. The numbers show that there is a significant expenditure on finance and investments, despite the fact that revenues are increasing. This demonstrates the challenge of controlling liquidity and the importance of using resources wisely.

V. CONCLUSION

In conclusion, the Cash Conversion Cycle (CCC) is an important statistic for assessing a bank's operational efficiency and cash flow management. A shorter CCC improves the bank's ability to meet its obligations and seek profitable opportunities by allowing it to convert its assets into currency more quickly. The efficient management of accounts receivable, payable, and inventories, or their banking equivalents, such as loans, deposits, and investments, has a direct impact on earnings. Banks can improve financial stability, lower funding costs, and increase cash flows by optimizing their CCC. A well-managed CCC also helps with risk management by ensuring that there is enough cash on available to deal with unexpected occurrences. Profitability and CCC are intrinsically related since faster cash turnover allows for greater reinvestment and higher interest rates. The efficiency of operations can be increased by employing technology and intelligently automating procedures, resulting in an additional reduction in CCC. According to a survey of several banks, those with the strongest CCC ratios often produce greater returns on equity and assets. As a result, CCC is used both as a financial metric and to improve bank performance. In order to grow sustainably, banks must strike a balance between income development and liquidity preservation.

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