A STUDY ON ASSET LIABILITY MANAGEMENT OF HDFC BANK

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ABSTRACT:

Asset Liability Management is one of the vital tool for risk management in banks. The banks have to work properly with regard to the Asset Liability Management so as to increase their performance. The concept of banking had undergone dynamic changes in keeping with the need to achieve rapid socio- economic progress. To study the assets and liabilities in banks and evaluate the impact of Asset Liability Management on profitability of banks were using Ratio Analysis. It provides the necessary framework to define, measures, monitor, modify and manage these risks.

Keywords: *Asset Liability, Ratio, Bank, Banking Sector, Nationalisation, Balance Sheet, Liquidity, Net Interest Margin.*

Introduction:

As financial intermediaries banks are known to accept deposit to lend money to entrepreneurs to make profit. They fundamentally intermediate between the opposing liquidity needs of depositors and borrowers. In this procedure, these finaanccial intermediaries function with an embedded between highly liquid liabilities on the one side and illiquid and on other hand, long term assets on the one side of the financial banks balance sheets. Apart from this, the balance sheet conflict, they also stand reveal to a wide array of risks such as market risk, transformation risk, credit risk, liquidity risk, forex risk, legal risk, operation risk, reputational risk, interest rate risk, etc. The identification of these risks predominately three main risk i.e. Interest Rate Risk, Liquidity Risk and Credit Risk gave rise to the concept of Asset Liability Management.

Asset-Liability Management (ALM) can be termed as a risk management methodology designed to knew an sufficient return while maintaining a comfortable surplus of assets over and above liabilities. Banks function in the environment of several risks which are multi-dimensional. Their prime and direct financial risks are interest rate risk, liquidity risk, credit risk and market risk. The initial focus of the ALM function would be to ensure the risk management discipline viz. managing business after assessing the risks involved. The objective of good risk management programmes should be that these programmes will evolve into a deliberate tool for bank management. The asset-liability management function would dealing with planning, directing and controlling the process of flow, level, mix, cost and yield of the consolidated funds of the Bank. It takes into account interest rates, earning power, and degree of willingness to take on debt and hence is also known as Surplus Management. It makes the financial institutions to sustain their required growth rate by pragmaticaly supervising market risk, liquidity risk, capital risk, etc

Review of literature:

Dash and Pathak (2011), his survey proposed on linear model for asset-liability assessment. They found public sector banks are having the best asset-liability management positions. in turn, they found that public sector banks had a strong short-term liquidity position, but with lower profitability, while private sector banks had a comfortable short-term liquidity position, balancing profitability.

Dr. Anurag Singh, Priyanka Tandon (2012) Asset-Liability Management (ALM) is one of the important tools of risk management in commercial banks of India. The banking industry of India is exposed to number of risk prevailed in the market. The research paper discusses about issues in asset liability management.

Petraityte (2013) states that ALM is a tool that combines several bank portfolios - asset, liabilities, and the difference between the banks received and interest paid by the bank. The main ALM purpose is to connect different bank activities into a single unit, facilitating liquidity and balance sheet management.

Kumar, (2014), studied on research, the most important factor which banks required to manage now days is liquidity. This study analyzed short term liquidity and maturity gap of the banks in order to decreases risk in banking sector. This survey help banks to reduce the risk which is very essential for all financial institution in India.

Ms. Pooja Patel, Ms. Nandini (2016) studies the Asset Liability Management in Indian Bank balance sheet structure in such a way the net earnings from interest are maximized within the overall risk preference of the banks. This study examined the effect of ALM on the Five Private Sector Banks profitability in Indian financial market by using Gap Analysis and Ratio Analysis Technique. The finding from the study revealed that banks have been exposed to liquidity risk.

Prabhakar, Dr. S. Mathivannan, J. Ashok kumar (2017) studied asset liability of the banks' balance sheet of commercial banks posed serious challenges as the banks, which have direct impact on their operations, profitability and efficiency to compete with. The RBI of the country focused and advised banks for taking concrete steps in minimizing the mismatch in the asset-liability management. There had been many positive impacts of various strategies followed by banks in the last one decade.

Tee (2017), evaluated on asset liability management and the profitability of listed banks in Ghana. The purpose of this paper is to assess the impact of asset and liability management on the profitability of listed banks in Ghana. Multiple linear regression has been applied by taking roa as the dependent variable, and TAS (the total asset) and TLT (the total liability) representing the asset and liability mix of the banks.

Need for the Study:

Asset and liability management is a technique to build a framework for banking activities to perform better and to take best decisions. Asset and liabilities management become essential tools to evaluate the risk facing by the bank in maintaining asset and liability to ensure profitability of the business. Assessing the quality of assets in banking sector play a vital role in progress and development of performance of banking sectors.

Objectives of the study:

1. To study the Profitability Position of HDFC Bank.
2. To study the Performance of Debt Coverage Ratio of Bank.
3. To Give Recommendations And Suggestions for investors

Research methodology:

This study was conducted to examine the relationship that existed between the asset-liability management and the profitability of bank.

SOURCES OF DATA COLLECTION

The researcher has used secondary data for the study.

Secondary Data:

The following are the major sources of secondary data:

• Articles • Websites • Journals • Books • Record etc

PERIOD OF STUDY:

The study was made for the period of 5 years i.e. 2018-19 to 2022-23.

Formulas:

$$\text{Quick Ratio: } \frac{\text{Quick Assets}}{\text{Current Liabilities}}$$

$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

$$\text{Net Interest Margin} = \frac{\text{Interest received – Interest paid}}{\text{Average Invested Assets}}$$

$$\text{Return on Networth} = \frac{\text{Net Income}}{\text{Share holders Equity}}$$

$$\text{Cash Deposit Ratio} = \frac{\text{Total Cash}}{\text{Total Deposits}}$$

Data analysis and Result discussion:

Table – 1 Ratio Analysis

Ratio \ Year	2018-19	2019-20	2020-21	2021-22	2022-23
Interest Spread	7.20	7.02	6.86	6.14	6.52
Adjusted Cash Margin(%)	19.05	19.88	22.19	24.52	22.87
Net Profit Margin	21.29	22.86	25.74	28.93	27.29
Return on Long Term Fund(%)	55.57	55.69	47.92	43.63	47.54
Return on Net Worth(%)	14.12	15.35	15.27	15.39	15.74
Credit Deposit Ratio	86.32	87.56	85.66	86.43	86.25
Investment Deposit Ratio	31.12	32.96	33.66	31.07	28.25
Cash Deposit Ratio	8.85	5.75	6.83	7.85	7.18
Total Debt to Owners Fund	6.97	7.56	7.22	7.26	7.46
Current Ratio	0.05	0.04	0.03	0.05	0.07
Quick Ratio	16.61	16.62	17.58	18.77	19.48
Net Interest Margin (X)	3.87	3.67	3.71	3.48	3.52
Net Interest Income / Total Funds	4.18	4.05	3.96	3.77	3.83
Capital Adequacy Ratio	17.11	18.52	18.79	18.90	19.26

Source: www.moneycontrol.com

According to the above table, interest spread is deceased, however it is comfortable for the company and Adjusted Cash Margin was increased that indicates higher profitability during the period. Profitability of the organization was raised during the period. Return on Long Term Fund table indicates that companies gain on such funds was down. The cash deposit ratio hints that the amount of money that the bank should have in its hand was decreased this indicates, the bank should lend more. The quick ratio was increased during the period and being financial institute quick assets were higher than ideal ratio of 1:1. Net interest margin was in down trend during the period. It indicates that companies net interest earnings were impacted and there by pressure on the profitability. Capital Adequacy Ratio was uptrend which increases the risk factor by taking excess leverage and becoming insolvent in due course. Return on Net Worth was increased which shows that total income to owners equity was raising.

Recommendations:

- Larger interest rate spread the earning will be more and the company try to increase interest rate spread.
- The company try to prevent excess leverage and company will becoming insolvent by decreasing CAR.
- The bank should try to improve net profit margin by curtailing and by by using value added services.
- The bank should increase the interest income level of the bank to get more profit.
- The unwanted expenses will be reduced to standardize the present performance of the bank.
- To increase the customer deposits to good money fluctuation of bank for this the risk will be reduced.

- The study suggests much scope for banks to improve profitability by monitoring and reducing short term liquidity.
- Effective utilization of the borrowings translates the organization to predominant position in the industry.
- Investments in technology, expansion, launching new products makes organization more profitable in long term.

Conclusion:

It has become the prime focus in the banking industry, with every bank trying to maximise yield and reduce their risk exposure. Asset Liability Management is one of the vital tool for risk management in banks. The banks have to work properly with regard to the Asset Liability Management so as to increase their performance. Managing the Asset and Liabilities is crucial for every bank.

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