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Assets And Liabilities Management At HDFC Bank Ltd.

Mamilla Navaneetha, Master of Business Administration,

Mrs. E.Pranavi, Associate Professor, Department of Master of Business Administration,

DR. Venkata Rangaiah, Professor, HOD, Department of Master of Business Administration,

St. Martin's Engineering College, Hyderabad, Telangana – 500100.

ABSTRACT

Asset-Liability Management (ALM) can be termed as a risk management technique designed to earn an adequate return while maintaining a comfortable surplus of assets beyond liabilities. It takes into consideration interest rates, earning power, and degree of willingness to take on debt and hence is also known as Surplus Management.

ALM, which was actually pioneered by financial institutions and banks, are now widely being used in industries too. The Society of Actuaries Task Force on ALM Principles, Canada, offers the following definition for ALM: "Asset Liability Management is the on-going process of formulating, implementing, monitoring, and revising strategies related to assets and liabilities in an attempt to achieve financial objectives for a given set of risk tolerances and constraints."

Traditionally, banks and insurance companies used accrual system of accounting for all their assets and liabilities. They would take on liabilities - such as deposits, life insurance policies or annuities. They would then invest the proceeds from these liabilities in assets such as loans, bonds or real estate. All these assets and liabilities were held at book value. Doing so disguised possible risks arising from how the assets and liabilities were

1. INTRODUCTION:

Asset Liability Management(ALM) is a strategic approach of managing the balance sheet dynamics in such a way that the net earnings are maximized. This approach is concerned with management of net interest margin to ensure that its level and riskiness are compatible with the risk return objectives of the .

If one has to define **Asset and Liability management** without going into detail about its need and utility, it can be defined as simply “management of money” which carries value and can change its shape very quickly and has an ability to come back to its original shape with or without an additional growth. The art of proper management of healthy money is

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ASSET AND LIABILITY MANAGEMENT (ALM).

The Liberalization measures initiated in the country resulted in revolutionary changes in the ing sector. There was a shift in the policy approach of s from the traditionally administered market regime to a free market driven regime. This has put pressure on the earning capacity of co-operative s, which forced them to foray into new operational areas thereby exposing themselves to new risks.

As major part of funds at the disposal of s come from outside sources, the management are concerned about **RISK** arising out of shrinkage in the value of asset, and managing such risks became critically important to them. Although co-operative s are able to mobilize deposits, major portions of it are high cost fixed deposits. Maturities of these fixed deposits were not properly matched with the maturities of assets created out of them. The tool called **ASSET AND LIABILITY MANAGEMENT** provides a better solution for this.

ASSETLIABILITY MANAGEMENT (ALM) is a portfolio management of assets and liability of an organization. This is a method of matching various assets with liabilities on the basis of expected rates of return and expected maturity patter.

In the context of s, **ALM** is defined as "a process of adjusting s liability to meet loan demands, liquidity needs and safety requirements". This will result in optimum value of the , at the same time reducing the risks faced by them and managing the different types of risks by keeping it within acceptable levels.

OBJECTIVES OF THE STUDY

- To study the concept of ASSET & LIABLITY MANAGEMENT **in HDFC**
- To study process of CASH INFIOWS and OUTFLOWS in **HDFC**
- To study RISK MANAGEMENT under **HDFC**
- To study RESERVES CYCLE of ALM under HDFC
- To study FUNCTIONS AND OBJECTIVES of **ALM** committee.

NEED OF THE STUDY:

The need of the study is to concentrates on the growth and performance of HDFC and to calculate the growth and performance by using asset and liability management. And to know the management of non performing assets.

- To know financial position of HDFC
- To analyze existing situation of HDFC
- To improve the performance of HDFC
- To analyze competition between HDFC with other cooperative s.

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SCOPE OF THE STUDY:

In this study the analysis based on ratios to know asset and liabilities management uder HDFCAnd to analyse the growth and performace of HDFC by using the calculations under asset and liability management based on ratio.

- Ratio analysis
- Comparative statement
- Common size balance sheet.

METHODOLOGY OF THE STUDY

The study of **ALM Management** is based on two factors.

1. Primary data collection.
2. Secondary data collection

PRIMARY DATA COLLECTION:

The sources of primary data were

- The chief manager – **ALM** cell
- Department Sr. manager financing & Accounting
- System manager- **ALM** cell

Gathering the information from other managers and other officials of the

SECONDARY DATA COLLECTION:

Collected from books regarding, journal, and management containing relevant information about ALM and Other main sources were

- Annual report of the **HDFC**
- Published report of the
- **RBI** guidelines for **ALM.**

LIMITATION OF THE STUDY:

1. This subject is based on past data of HDFC
2. The analysis is based on structural liquidity statement and gap analysis.
3. The study is mainly based on secondary data.

2. LITERATURE SURVEY

In the normal course, the s are exposed to credit and market risks in view of the asset liability transformation. With the liberalization in theIndian financial markets over the last few years and growing integration of domestic markets and with external markets the risks associated with s operations have become complex, large, requiring stragic management. s are now operating in a fairly deregulated environment and are required to determine on their own, interest rates on deposits and advance in both domestic and foreign currencies on a dynamic basis. The interest rates on s investments in government and other securities are also now market related. Intense competition for business involving both the assets and liabilities, together with increasing volatility in the domestic interest rates, has brought pressure on the management of s to maintain a good balance among spreads, profitability and long-term viability. Impudent

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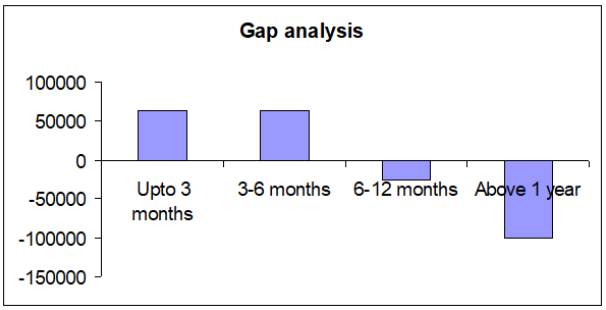
liquidity management can put s earnings an reputation at great risk. These pressures call for structured and comprehensive measuresand not just adahoc action. The management of s has to base their business decisions on a dynamic and integrated risk management system and process, driven by corporate strategy. s are exposed to several major risks in course of their business-credit risk, interest rate and operational risk therefore important than s introduce effective risk management systems that address the issues related to interest rate, currency and liquidity risks.

s need to address these risks in a structured manner by upgrading their risk management and adopting more comprehensive Asset-Liability management (ALM) practices than has been done hitherto. ALM among other functions, is also concerned with risk management and provides a comprehensive and dynamic framework for measuring, monitoring and managing liquidity interest rate, foreign exchange and equity and commodity price risk of a that needs to be closely integrated with the s business strategy. It involves assement of various types of risks altering the asset liability portfolio in a dynamic way in order to manage risks.

The initial focus of the ALM function would be to enforce the risk management discipline, viz., managing business after assessing the risks involved.

In addition, the managing the spread and riskiness, the ALM function is more appropriately viewed as an integrated approach which requires simultaneous decisions about asset/liability mix and maturity structure.

3. DATA ANALYSIS & INTERPRETATION



Structural liquidity statement analysis on 2017

(1) The total current liabilities for the 3months are Rs.69176.2 is less than the total assets for the months are Rs.131724.59.Therefore the assets are more than the liabilities. So there is a positive gap of Rs.62548.39

(2)The total current liabilities for the 3-6 months are Rs.33048.25 is less than the assets for the 3months are Rs.95515.39. Therefore assets are more than the liabilities. So there is a positive gap of Rs.62467.14

(3)The total current liabilities for the 6-12 months are Rs.157602.33 is more than total assets for 6-12 months are Rs.133159.62. Therefore the liabilities are more than the assets. This is a negative gap. So the company should take steps to ensure the liquidity position.

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(4)The total current liabilities for the above 1 year are Rs.529926.82 is more than the total assets for the above 1 year Rs.430354.8. Therefore the liabilities are more than the assets. This is a negative gap. So the company should take steps to ensure the liquidity position

4.FINDINGS OF THE STUDY

1. **ALM** technique is aimed to tackle the market risks. Its objective is to stabilize and improve Net interest Income (**NII)**.

2. Implementation of ALM as a Risk Management tool is done using maturity profiles and GAP analysis.

3. ALM presents a disciplined decision making framework for s while at the same time guarding the risk levels.

4. For the duration of upto 3 months, the has a positive gap Rs 17226.33 per the year 2009 &Rs72070.18 for the year 2016 however for the year 2017 there is a negative Gap of Rs 62548.39.

5. For duration of 3-6 months, the has a negative Gap of Rs 10606.45 for the year 2017&Rs 30013.31 for the year 2016. In the year 2017 is able to maintain a positive gap of Rs 62467.14.

6. For the duration 6-12 months, the has positive Gap of Rs 17437.43 in the year 2009. However for the year 2016 & 2017, the Gap is negative.

7. For the time duration of above 1 year the has negative Gap in all the 3 years is Rs 24057.31 In the year 2017, Rs 48585.94 in the year 2016 of& Rs 99572.02 in the year 2017

5. SUGGESTIONS

1. The should strengthen its management information system (MIS) and computer processing capabilities for accurate measurement of liquidity and interest rate Risks in their ing Books.

1. In the short term the Net interest income or Net interest margins (NIM) creates economic value of the which involves up gradation of existing systems & Application software to attain better & improvised levels.

2. It is essential that remain alert to the events that effect its operating environment & react accordingly in order to avoid any undesirable risks.

3. HDFC requires efficient human and technological infrastructure which will future lead to smooth integration of the risk management process with effective s business strategies

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