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A STUDY ON ASSET AND LIABILITES MANAGEMENT AT HDFC BANK KAKINADA

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ABSTRACT

In India asset liability mismatch in balance sheet of commercial banks posed serious challenges as the banks were following the traditional methods of recording assets and liabilities at the book value. The liberalization process in the economy coupled with multifaceted global developments exposed banks for various kinds of risks viz. interest rate risk, liquidity risk, exchange risk, operational risk etc. which have direct impact on their operations, profitability and efficiency to compete with. The Central Bank of the country focused and advised banks for taking concrete steps in minimizing the mismatch in the asset-liability composition. There had been many positive impacts of various strategies followed by banks in the last one decade. This paper is an attempt to analyze the impact of measures and strategies banks undertook to manage the composition of asset-liability and its impact on their performance in general and profitability in particular.

Keywords: Asset-Liability Management, Interest Rate Risk, Gap Analysis,

1. INTRODUCTION

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 is a comprehensive and dynamic framework for measuring, monitoring and managing the market risk of a bank. It is the management of structure of balance sheet (liabilities and assets) in such a way that the net earning from interest is maximized within the overall risk-preference (present and future) of the institutions. The post-reform banking scenario in India was marked by interest rate deregulation, entry of new private banks, and gamut of new products along with greater use of information technology. To cope with these pressures banks were required to evolve strategies rather than ad hoc solutions. ALM in its most apparent sense is based on funds management. Funds management represents the core of sound bank planning and financial management. Although funding practices, techniques, and norms have been revised substantially in recent years, it is not a new concept. Funds management is the process of managing the spread between interest earned and interest paid while ensuring adequate liquidity. Therefore, funds management has following three components, which have been discussed briefly.

2. LITERATURE REVIEW

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4. Dr.BbCharumati(2008), "Assetlliability Managementjin IndiancBanking Industrykwith specialoreference tocinterest ratemrisk managementgin ICICIlBank" . discoveries this examination is ALM idea however in vogue since 1997, it's characteristic complexities in acquiring precise auspicious data from the gross course level makes the banks in not getting its full favorable position. The modernized condition has helped the banks to accomplish the target of MIS gin the territory of gathering of exact and opportune information required for hazard the executives.
5. Dr. K.Prince Poul Antony, J Manimegalai (2014-18), "A Study on Asset Liability Management in Indian Bank", It became the primary focusgin the3banking sector, with all the banks tryingftovmaximize performance andxreduce theirqexposure to risk. Asset-liabilityzmanagement iswthe essential toolxfor riskbmanagement in

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thevbanks. The banks1have to6work correctly withhregard toxthe asset4liability management has so.increase theirkperformance, assets and liabilities management is crucial for all banks.

3. TECHNIQUES OF ASEET LIABILITY MANAGEMENT

As interest rated in both the liability and the asset side were deregulated, interest rates in various market segments such as call money, CD's and the retail deposit rates turned out to be variable over a period of time due to competition and the need to keep the bank interest rates in alignment with market rates. Consequently the need to adopt comprehensive Asset- liability strategy emerged, the key objectives of which were as under.

- The volume, mix and cost/return of both liabilities and assets need to be planned and monitored in order to achieve the bank's short and long term goals.
- Management control would comprehensively embrace all the business segments like deposits borrowing, credit, investments, and foreign exchange. It should be coordinated and internally consistent so that the spread between the bank's earnings from assets and the costs of issuing liabilities can be maximized.
- Suitable pricing mechanism covering all products like credit, payments, custodial financial advisory services should be put in place to cover all costs and risks

1. GAP ANALYSIS MODEL:

Under the Gap analysis method, the various assets and liabilities are grouped under various time buckets based on the residual maturity of each item or the next repricing date, if on floating rate, whichever is earlier. Then the gap between the assets and liabilities under each time bucket is worked out. Since the objective is to maximize the NII, it will be sufficient if this is done only with respect to rate sensitive assets and liabilities. If the rate sensitive assets equal the rate sensitive liabilities, it is known as the Zero Gap or matched book position. If the rate sensitive assets are more than the rate sensitive liabilities, it is referred to as positive gap position and if the rate sensitive assets are less than the rate sensitive liabilities, it is known as negative gap position. The decision to hold a positive gap or a negative will depend on the expectation on the movement of interest rates. The effect of an upward movement or a downward movement in the interest rate on the NII will also depend on the position taken. These effects are given in the table below:

Positive Gap indicates a bank has more sensitive assets than liabilities and the NII will generally rise (fall) when interest rate rises (fall).

Negative Gap indicates a bank has more sensitive liabilities than assets and the NII will generally fall (rise) when interest rates rise (fall).

It measures the direction and extent of asset-liability mismatch through either funding or maturity gap. It is computed for assets and liabilities of differing maturities and is calculated for a set time horizon. This model looks at the repricing gap that exists between the interest revenue earned and the bank's assets and the interest paid on its liabilities over a particular period of time. It is sometimes referred to as periodic gap because banks use gap analysis report to measure the interest rate sensitivity of RSA and RSL for different periods. These periods are known as maturity buckets which vary across banks, depending on the operating strategy.

2. DURATION ANALYSIS:

The Gap method ignores time value of money. Under the duration method, the effect of a change in the interest rate on NII is studied by working out the duration gap and not the gap based on residual maturity.

a. Timing and the magnitude of the cash flows is ascertained and calculated.
b. By using appropriate discounting factor, the present value of each of the cash flows needs to be worked out.
c. The time weighted value of the present value of the cash flows is calculates.
d. The sum of the time weighted value of the cash flows divided by the sum of the present values will give the duration of a particular asset.

Duration analysis is useful in assessing the impact of the interest rate changes on the market value of equity i.e. asset-liability structure.

4. NEED FOR THE STUDY

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

Bank manages the risk of Asset liability disparity by matching the assets and ALM is concerned with strategic management of Balance Sheet by giving due weight age to market risks viz. Liquidity Risk, Interest Rate Risk & Currency Risk.

5. SCOPE OF THE STUDY

- This study will be helpful to know in managing the asset liability management & the profitability of management.
- This study also suggests the ways and means for improving the asset management in HDFC Bank Limited. It also helps to know the proper management of asset &liability management. This study is helpful to know the financial performance of the HDFC Bank Limited.
- We can gain the practical knowledge and experience of HDFC Bank Limited. The m amazement will be helpful to identify the risk of the firm. The research will help the management to measures to overcome problems prevailing in the firm.

6. LIMITATIONS OF THE STUDY

- The period of study is limited.
- Project training duration permitted by the bankers was limited.
- This study is based on the secondary data, which involve bank annual.

7. DATA ANALYSIS

Coming to Assets Cash in Bank Balance with RBI decreased to -7.29%, Balance with Banks increased 49%, Advances 9.08%, Investments 16.75%, fixed assets 5.69% and other assets are decreased to -7.73%, over all Total Assets increased 12.9% compare to 2021. Cash in Bank Balance with RBI increased to 12.56%, Balance with Banks decreased -20.33%, Advances 12.65%, Investments 2.28%, fixed assets 0.35% and other assets are increased to 12.3%, over all Total Assets increased 8.84% compare to 2020. Coming to Assets Cash in Bank Balance with RBI increased to 4.23%, Balance with Banks increased 13.81%, Advances 9.39%, Investments 20.43%, fixed assets 1.24% and other assets are increased to 12.81%, over all Total Assets increased 12.22% compare to 2019.Coming to Assets Cash in Bank Balance with RBI increased to 14.49%, Balance with Banks increased 25.56%, Advances 6.24%, Investments 0.67%, fixed assets 2.92% and other assets are increased to 7.39%, over all Total Assets increased 6.62% compare to 2018.Coming to Assets Cash in Bank Balance with RBI increased to 5.36%, Balance with Banks increased 49.17%, Advances 10.97%, Investments decreased -16.31%, fixed assets 37.63% and other assets are increased to 56.58%, over all Total Assets increased 10.34% compare to 2017.

8. FINDINGS

1. HDFC Bank Equity Share Capital Increased From 1159.66 in the year of 2017 to 1294.76 in 2022.
2. Reserves of HDFC Bank increased from 2017 to 2022. The value of 2017 is 88,572.42 and 2022 is 115,209.65.
3. Total Net worth of HDFC Bank Limited is increasing trend in 2017 the net worth value is 89,735.59 and 2020 Net worth Value 116,504.41 and Deposits also increased from 2017 to 2021.
4. Total Liabilities of HDFC Bank Limited Increased to 646,129.30 in 2017 to 1,098,365.15 in 2022.

9. SUGGESTIONS

- They should strengthen its management information system (MIS) and computer processing capabilities for accurate measurement of liquidity and interest rate Risks in their Books.
- 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.
- HDFC Bank Limited requires efficient human and technological infrastructure which will future lead to smooth integration of the risk management process with effective business strategies.

10. CONCLUSION

The two types of banks' balance sheet risks include interest rate risk and liquidity risks. Their regular monitoring and managing is the need of the hour. Banks should use the information about these risks as key input in their strategic business planning process. While increasing the size of the balance sheet, the degree of asset liability mismatch should be kept in control. Because, the excessive mismatch would result in volatility in earnings. Banks can also use sensitivity analysis for risk management purpose. This study used gap analysis for measuring the interest rate risk under different assumptions such as introduction of negative and positive interest rate shock, adjusting and counter balancing the portfolio. It is found that the bank is exposed to interest rate risk.

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