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A STUDY ON ASSET LIABILITY MANAGEMENT

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ABSTRACT

Assets and Liabilities Management (ALM) is a dynamic process of planning, organizing, coordinating and controlling the assets and liabilities – their mixes, volumes, maturities, yields and costs in order to achieve a specified Net Interest Income. As all transactions of the banks revolve around raising and deploying the funds, Asset-Liability Management (ALM) gains more significance as an initiative towards the risk management practices by the Indian banks. Measuring and managing liquidity risk is an important dimension of ALM. Mismatch in the maturity profile of assets and liabilities exposes the balance sheet to liquidity risk. This paper is aimed at measuring the liquidity Risk, by using Gap Analysis Technique (maturity profiling).

KEYWORDS: *Asset, Liability, Banking Sector, Nationalization, Balance Sheet, Liquidity, Net Interest, Margin.*

I. 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.

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 ASSET AND LIABILITY MANAGEMENT (ALM).

II. OBJECTIVES OF THE STUDY

- To study the concept of Asset and Liablity Management **in The Housing Development Finance Corporation Limited (STATE STREET INDIA PRIVATE LIMITED)**
- To study process of CASH INFLOWS and OUTFLOWS in **The Housing Development Finance Corporation Limited (STATE STREET INDIA PRIVATE LIMITED)**
- To study RISK MANAGEMENT under **The Housing Development Finance Corporation Limited (STATE STREET INDIA PRIVATE LIMITED)**

III. RESEARCH METHODOLOGY

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

SECONDARY DATA COLLECTION:

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

- Annual report of **The Housing Development Finance Corporation Limited (STATE STREET INDIA PRIVATE LIMITED)**
- Published report of **The Housing Development Finance Corporation Limited (STATE STREET INDIA PRIVATE LIMITED)**
- **RBI** guidelines for **ALM.**

IV. LIMITATION OF THE STUDY:

(i) This subject is based on past data of The Housing Development Finance Corporation Limited (STATE STREET INDIA PRIVATE LIMITED)

(ii) The analysis is based on structural liquidity statement and gap analysis.

(iii) The study is mainly based on secondary data.

(iv) Approximate results: The results are approximated, as no accurate data is Available.

(v) The study is based on the issues that are listed on NSE only.

V. REVIEW OF LITERATURE

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. But in the last decade the meaning of ALM has evolved. It is now used in many different ways under different contexts. 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."

ANALYSIS OF STUDY

VI. Risk management system:

Assuming and managing risk is the essence of business decision-making. Investing in a new technology, hiring a new employee, or launching a marketing campaign is all decisions with uncertain outcomes. As a result all the major management decisions of how much risk to take and how to manage the risk. The implementation of risk management varies from business to business, from one management style to another and from one time to another. Risk management in the financial services industry is different from others. Circumstances, Institutions and Managements are different. On the other hand, an investment decision is no recent history of legal and political stability

Data Interpretation

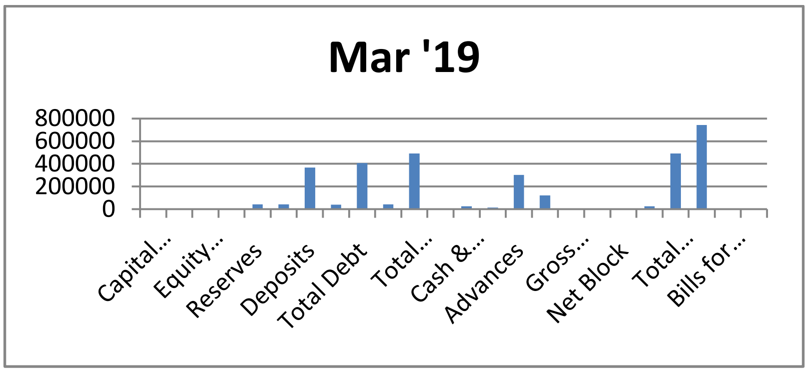
GENERAL:

The classification of various components of assets and liabilities into different time buckets for preparation of Gap reports (Liquidity and interest rate sensitivity) may be done as indicated in Appendices I & II as a sort of **bench mark,** which are better equipped to reasonably estimate the behavioral pattern, embedded options, rolls-in and rolls-out etc. of various components of assets and liabilities on the basis of past date. Empirical studies could classify them in the appropriate time buckets, subject to approval from the STATE STREET INDIA PRIVATE LIMITED / Board. A copy of the note approved by the ALOC / Board may be sent to the Department of Supervision.

COMPARATIVE ASSET LIABILITY SHEET AS ON 31ST MARCH 2018-19

	Mar '19	Mar '18	**Increase (+) / Decrease (-) (in Rs)**	**Percentage (%)**
Capital and Liabilities:				
Total Share Capital	479.81	475.88	3.93	0.82583845
Equity Share Capital	479.81	475.88	3.93	0.82583845
Share Application Money	0.00	0.00		
Reserves	42,998.82	35,738.26	7260.56	20.3159303
Net Worth	**43,478.63**	36,214.14	7264.49	20.0598164
Deposits	367,337.48	296,246.98	71090.5	23.9970379
Borrowings	39,438.99	33,006.60	6432.39	19.4881933
Total Debt	**406,776.47**	329,253.58	77522.89	23.5450409

Other Liabilities & Provisions	41,344.40	34,864.17	6480.23	18.5870766
Total Liabilities	**491,599.50**	400,331.89	91267.61	22.7979864
Assets				
Cash & Balances with RBI	25,345.63	14,627.40	10718.23	73.2750181
Balance with Banks, Money at Call	14,238.01	12,652.77	1585.24	12.528798
Advances	**303,000.27**	239,720.64	63279.63	26.3972389
Investments	**120,951.07**	111,613.60	9337.47	8.3658891
Gross Block	2,939.92	2,703.08	236.84	8.76185684
Accumulated Depreciation	0.00	0.00		
Net Block	**2,939.92**	2,703.08	236.84	8.76185684
Other Assets	25,124.60	19,014.41	6110.19	32.1345232
Total Assets	**491,599.50**	400,331.90	91267.6	22.7979834
Contingent Liabilities	744,097.98	746,226.39	-2128.41	-0.28522309
Bills for collection	0.00	0.00		
Book Value (Rs)	181.23	152.20	29.03	19.0735874



Interpretation:

The total current liabilities for the year are Rs.491599.50 in the year 2019 is less than the total current assets for the year. Therefore the assets are more than the liabilities. So there is a positive gap of Rs.236.84 i.e 8.76 % .

Ratio Analysis

- Return on Assets (ROA)

Net Income

Return on Assets (ROA) = ----------------------------------

Average Total Assets

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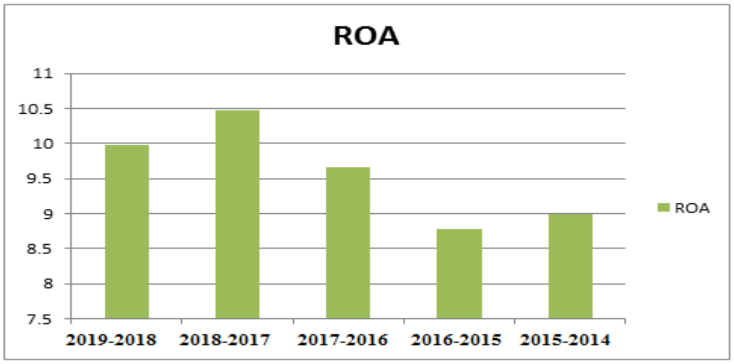
Year	Net income	Average Total Assets	ROA
2018-2019	49055.17	491599.50	9.97868
2017-2018	41917.49	400331.90	10.47068
2016-2017	32619.76	337909.49	9.653402
2015-2016	24361.72	277352.61	8.783664
2014-2015	19983.52	222458.56	8.98303



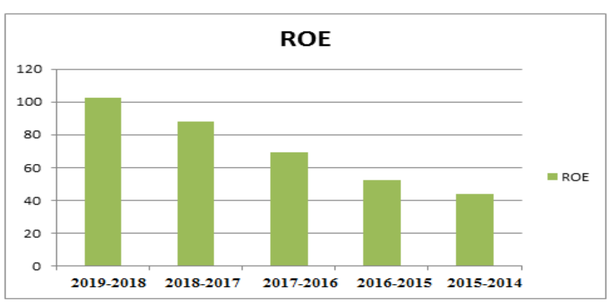
Interpretation:

In the ROA the total Average Assets was increasing year by year and the net income was also in the decreasing position

- Return on Equity (ROE)

$$\text{Return on Equity (ROE)} = \frac{\text{Net Income}}{\text{Average Stockholders' Equity}}$$

Year	Net income	Average Equity	ROE
2018-2019	49055.17	479.81	102.233874
2017-2018	41917.49	475.88	88.0841598
2016-2017	32619.76	469.34	69.5013423
2015-2016	24361.72	465.23	52.3648948
2014-2015	19983.52	457.74	43.6569231



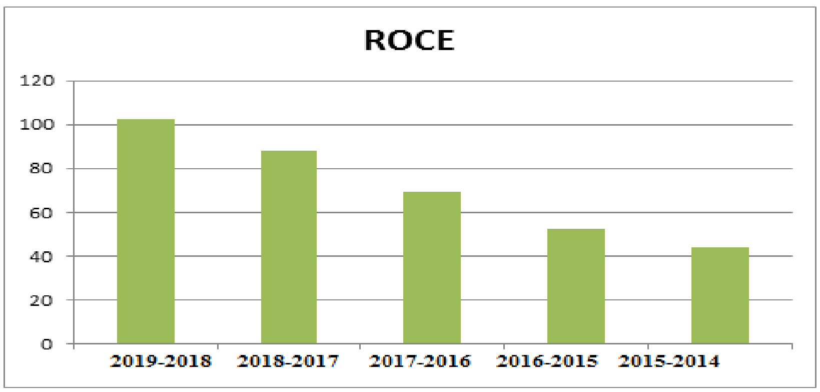
Interpretation:

The net income of the organization was in the increasing position and also the equity value for the investors is also in the increasing stage.

◆Return on Common Equity (ROCE)

$$\text{Return on Common Equity} = \frac{\text{Net Income}}{\text{Average Common Stockholders' Equity}}$$

Year	Net income	Average Common Stockholders' Equity	ROCE
2018-2019	49055.17	479.81	102.233874
2017-2018	41917.49	475.88	88.0841598
2016-2017	32619.76	469.34	69.5013423
2015-2016	24361.72	465.23	52.3648948
2014-2015	19983.52	457.74	43.6569231



Interpretation:

The net income of the organization was in the increasing position and also the equity value for the shareholders is also in the increasing stage.

VII. CONCLUSION:

The purpose of ALM is not necessarily to eliminate or even minimize risk. The level of risk will vary with the return requirement and entity's objectives. Financial objectives and risk tolerances are generally determined by senior management of an entity and are reviewed from time to time. All sources of risk are identified for all assets and liabilities.

FINDINGS:

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

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

3. The company also increased considerably which investors in coming period. The company has taken up a plant expansion program during the year to increase the production activity and to meet the increase in the demand

VIII. 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.

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