"Assets- Liability Management: A Case Study on Comparison of Private Sector Bank with Public Sector Bank"

By

Dr Roop Kishore Singhal [1]

Dean (Academics), IIMS, Pune, India

Santoshi Kumari [2]

Student, IIMS, Pune

Radhika Maheswari [3]

Student, IIMS, Pune

Abstract

A bank is a financial institution that is licensed to accept checking and savings deposits and make loans. Banks also provide related services such as individual retirement accounts (IRAs), certificates of deposit (CDs), currency exchange, and safe deposit boxes. The Indian banking sector has witnessed very fast growth. Competitive business in asset and liabilities, changing interest rates and foreign exchange rates has brought pressure on banks to maintain good profitability and assets and liability management. Assets and liability management (ALM) is a systematic and dynamic process of planning, organizing, coordinating, controlling the assets and liabilities of banks. With adherence to objectives of the study, assets liability management and the performance of profitability of Government banks and Private Sector Banks (SBI and HDFC Bank) have been studied. Both banks today need to match their assets and liabilities and at the same time balancing their objectives of profitability, liquidity and risk. Calculating the various ratios and critically analysing them, it is evident that bank performing satisfactorily in terms of credit deposit ratio, quick ratio, other income to total income and interest spread because these ratios show increasing trend of both the banks. There are several types of banks including retail banks, commercial or corporate banks, and investment banks.

KEYWORDS: Return on Assets, Return on Equity, Net profit Margin, Asset-liability management, Liquidity, Net Interest Margin, Accounting ratio, Solvency.

INTRODUCTION:

Private sector banks are those in which private individuals or private corporations own a significant portion of the bank's equity. Even though these banks adhere to the guidelines of the country's central bank, they are free to develop their financial strategies for their customers. A significant portion of these banks' shares are traded on the stock market, and anyone can purchase a significant portion of these banks' shares on the stock market. Private Sector Banks are the banks in which private individuals own and maintain the majority of the shares or equity. Initially, public sector banks dominated the Indian banking sector, but after the 1990s, private sector banks emerged and expanded rapidly. Their rapid growth was due to their use of cutting-edge technology, new financial tools, and cutting-edge innovations.
Currently, there are 21 private sector banks in India.

Public Sector Banks are a major type of government owned banks in India, where a majority stake (i.e. more than 50%) is held by the Ministry of Finance of the Government of India or State Ministry of Finance of various State Governments of India. The shares of these government-owned-banks are listed on stock exchanges. Their main objective is social welfare. Assets liability management (ALM) is managing infrastructure asset to minimize the total cost of borrowing and delivering the service as per customer's desire. Asset liability management has been a greater concern for banks due to uncertainties and volatility in the market and unpredictable macro factors in domestic and global markets.

State Bank of India (**SBI**) is an Indian multinational public sector bank and financial services statutory body headquartered in Mumbai, Maharashtra. SBI is the 49th largest bank in the world by total assets and ranked 221st in the *Fortune Global 500* list of the world's biggest corporations of 2020, being the only Indian bank on the list.

HDFC Bank Limited is an Indian banking and financial services company headquartered in Mumbai. It is India's largest private sector bank by assets and world's 10th largest bank by market capitalisation as of April 2021. It is the third largest company by market capitalisation of $122.50 billion on the Indian stock exchanges. It is also the fifteenth largest employer in India with nearly 150,000 employees.

LITERATURE REVIEW

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.

Sayeed (2012), attempted to examine the impact of asset and liability management on the profitability high profitable and low profitable and private and public banks working in Bangladesh applying statistical cost accounting (SCA) methods and found high earning banks experience higher returns from their assets and lower returns from their liabilities than the low earning banks

Patriate (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 analysed short term liquidity and maturity gap of the banks in order to decreases risk in banking sector. This survey helps banks to reduce the risk which is very essential for all financial institution in India.

Shetty (2016) conducted a study on an analysis of private banks exposure to asset liability management. These paper attempts to assess the liquidity risk that all five private sector banks are exposed to spread over a period from 2011 to 2015. The finding from the study revealed that banks have been exposed to liquidity risk. The study also indicated that HDFC bank and ICICI bank have better ALM framework in practice.

Md. Salim, & Anamul Haque (2016) investigated the impacts of ALM policy on the profitability of sample banks working in Bangladesh. The rationality of this study is to observe the degree of relationship of different assets and liability variables with profitability through applying Statistical Cost Accounting (SCA) model using time series data from 2003 to 2014 to identify the relationship among the variables. After analysis, Loans &Advances is found to have a significant positive relationship with banks' profitability.

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.

PROFILE OF BANK:

State Bank of India (**SBI**) is an Indian multinational public sector bank and financial services statutory body headquartered in Mumbai, Maharashtra. SBI is the 49th largest bank in the world by total assets and ranked 221st in the *Fortune Global 500* list of the world's biggest corporations of 2020, being the only Indian bank on the list. It is a public sector bank and the largest bank in India with a 23% market share by assets and a 25% share of the total loan and deposits market. It is also the fifth largest employer in India with nearly 250,000 employees. On 14 September 2022, State Bank of India became the third lender (after HDFC Bank and ICICI Bank) and seventh Indian company to cross the ₹ 5-trillion market capitalisation on the Indian stock exchanges for the first time.

HDFC Bank was incorporated in 1994 as a subsidiary of the Housing Development Finance Corporation, with its registered office in Mumbai, Maharashtra, India. Its first corporate office and a full-service branch at Sandoz House, Worli were inaugurated by the then Union Finance Minister, Manmohan Singh.

As of 30 June 2022, the bank's distribution network was at 6,378 branches across 3,203 cities. It has installed 430,000 POS terminals and issued 23,570,000 debit cards and 12 million credit cards in FY 2017.[15] It has a base of 1,52,511 permanent employees as of 30 June 2022.

HDFC Bank provides a number of products and services including wholesale banking, retail banking, treasury, auto loans, two-wheeler loans, personal loans, loans against property, consumer durable loan, lifestyle loan and credit cards. Along with this various digital product are Pays app and Smart BUY.

SIGNIFICANCE OF STUDY:

1. To provide an insight into the evaluation process of the banking sector.
2. To get the knowledge of asset liability management of both Public Sector Banks AND Private Sector banks with the help of a comparison study.
3. To initiate the concerned banking organization to reassess existing practices and put a renewed emphasis on undermined ones.
4. To initiate interested researchers to carry out more extensive studies in this particular area.
5. To recognize the importance of financial performance in general and the Indian banking sector in particular and,
6. To draw attention towards the financial performance and financial ratios and contribution for correct decision making

OBJECTIVES OF THE STUDY:

The main objectives of the study are as follows:

1. To examine the profitability position of Public Sector Bank in comparison to Private Sector Bank.

2. To examine the business performance i.e., especially credit deposit relationship/ratio of SBI and HDFC Bank.

3. To measure the impact better utilization of Bank’s Assets and liabilities on the profitability and functionalities of the bank.

RESEARCH METHODOLOGY:

In the present study, an attempt has been made to evaluate the financial performance of

SBI and HDFC Bank. The present research is a case study in nature based on the Public Sector Bank and Private Sector Bank i.e., SBI and HDFC Bank. The secondary data has been considered for the purpose of financial performance analysis of both the banks. The data used for the present study has been taken from published annual reports of SBI and HDFC Bank Limited. Other relevant data sources are journals, newspapers, magazines and internet sources.

Analysis Tools of ASSET LIABILITY MANAGEMENT:

ALM leads to the formulation of critical business policies, efficient allocation of capital, and designing of product with appropriate pricing strategies. therefore, this study showcases those ratios and assets liability management on the profitability position of the banks. the calculations are based upon the following formulas, tools and techniques.

Interest spread: It is the difference between borrowing and lending rates of banks in the financial year. It is similar to the profit margin. Larger interest rate spread the earning will be more and fluctuation in interest rate spread decrease income.

Adjusted cash margin: It is a profitability ratio and it is also called as true margin.

Net profit margin: It is the percentage of revenue left after all expenses, tax and preference stock have been deducted from sales. Net income after tax.

Adjusted return on net worth: It is the method of valuating the value of a bank by using capital value and surplus value.

Current ratio: The current ratio is a ratio that measures a bank ability to pay short-term obligations. The current ratio considers company total current assets relative to that company’s current total liabilities. The standard ratio is 2:1 Current asset/current liabilities.

Quick ratio: The quick ratio is a financial ratio, also known as acid test ratio used to analyses the company's liquidity. Quick ratio can be measure of liquidity of a bank than its current ratio. The standard ratio is 1:1.

Total debts to owner's fund: It can be measurement of a bank's financial leverage. The concept of timing and rate of interest in ALM is a key because managers need to know at what time the liability will be paid and to insure about availability of assets to pay this liability to minimize risk factors in banking sectors.

DATA ANALYSIS AND INTERPRETATION:

TOOLS	SBI					HDFC				
	2018	2019	2020	2021	2022	2018	2019	2020	2021	2022
Income per share	256.6	283.8	302.4	311.6	324.9	328.7	386.2	222.8	233.2	245.1
Earnings per share	-5.1	2.6	22.1	25.1	39.6	71.3	82.0	49.7	57.7	68.6
Cash Flow per share	17.5	70.6	119.3	142.0	205.1	138.2	152.9	85.0	87.1	109.0

TOOLS	SBI					HDFC				
	2018	2019	2020	2021	2022	2018	2019	2020	2021	2022
Dividend per share	0.07	0.00	0.00	4.00	7.10	6.50	7.50	2.50	6.50	15.50
Ang Dividend Yield	0.0	0.0	0.0	1.4	1.6	0.4	0.4	0.2	0.5	1.0
Book Value Per Share	258.1	262.8	281.3	308.8	342.4	422.3	564.3	321.6	380.6	445.4

TOOLS	SBI					HDFC				
	2018	2019	2020	2021	2022	2018	2019	2020	2021	2022
Avg Price Earning Ratio	-57.2	108.2	12.4	11.5	11.0	24.1	25.7	20.6	21.3	22.0
Avg Price to Cash Flow Ratio	4.1	4.2	3.2	3.3	5.1	12.8	13.5	10.8	11.0	12.2
Credit Deposit Ratio	72.0	75.7	72.5	67.3	68.4	88.8	94.2	91.1	88.9	91.2

TOOLS	SBI					HDFC				
	2018	2019	2020	2021	2022	2018	2019	2020	2021	2022
Net Intere st	823673	974547	1087279	1221053	1337783	420964	514481	600519	693048	773521
Gros s	- 137872	- 173456	-230537	-283243	-405851	189791	237533	270158	343036	370397
Profi t Afte	-45563	22996	179678	224055	353739	185100	223324	272540	318332	380528

TOOLS	SBI					HDFC				
	2018	2019	2020	2021	2022	2018	2019	2020	2021	2022
Credit-Deposit Ratio	72.0	75.7	72.5	67.3	68.4	88.8	94.2	91.1	88.9	91.2
Return On Assets	-0.1	0.1	0.5	0.5	0.7	1.7	1.7	1.7	1.8	1.8
Return On Equity	-2.0	1.0	7.9	8.1	11.6	16.9	14.5	15.5	15.2	15.4
NPA	5.7	3.0	2.2	1.5	1.0	0.4	0.4	0.4	0.4	0.3

INTERPRETATION, ANALYSIS OF FINANCIAL AND OTHER DATA: -

Public Sector Banks are the banks whose more than 50% shareholding lies with the central or state government. Private Sector Banks are the banks whose majority of stake is held by private corporations or individuals. Private banks have a higher FDI cap at 74 percent, provided there should be no change of control. After the above study on the comparative analysis of SBI and HDFC it was discovered that both the banks are managing their ratios to the best of their abilities within the specified parameters. However, when we compare the two banks, it appears that HDFC Bank has an edge over SBI, reason being HDFC Bank have lower NPAs than the SBI. HDFC Bank having average Gross NPAs less than 1.5% while SBI having the GNPAs near about 8.1% as per the annual report of both banks over the last three years. HDFC Bank has managed their NPA and profitability ratios in a very efficient manner and are playing an important role as a profitable commercial bank, while SBI is controlling its ratios particularly the current assets ratio but is not as competitive in terms of net profit and Non Performing Assets (NPAs). SBI needs to be more focused on managing the net profits and NPAs part to be a commercially successful bank. During, the comparative study of SBI v/s HDFC Bank it is found that HDFC Banks has never gone above 2% in net NPAs during the study period while SBI has never gone below 6% during the study period. This is an eye-opening comparison that demonstrates SBI's need to concentrate on acquiring high-quality assets, otherwise they will be compromising customers' hard-earned money in the future. In order to study the trends of NPA, t-Test has been used, the results of which have been shown in the relevant tables. The comparative analysis of the profitability of the two banks clearly reveals that there is no significant relation between the NPA ratios of both the Banks.

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