Educational Administration: Theory and Practice
2024, 30(4), 7084-7088
ISSN: 2148-2403
https://kuey.net/

Research Article

Effects Of Asset Liability Management On The Profitability And Liquidity Of Particular Indian Commercial Banks

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Citation: Dr. Janet Jyothi Dsouza, et al (2024) Effects Of Asset Liability Management On The Profitability And Liquidity Of Particular Indian Commercial Banks, *Educational Administration: Theory and Practice*, 30(4), 7084-7088
Doi: 10.53555/kuey.v30i4.2512

ARTICLE INFO

ABSTRACT

This quantitative study focuses on Bank of India, Andhra Bank, Axis Bank, and HDFC Bank while analyzing the asset-liability management, profitability, and liquidity of a few chosen Indian commercial banks. Information on capital, reserves, deposits, borrowings, assets, liabilities, profitability ratios, liquidity ratios, and compound growth rates were gathered from their annual reports and financial statements. For analysis, statistical tools such as inferential and descriptive methods were used. The findings demonstrate that different banks have different approaches, with Bank of India and HDFC Bank seeing strong increases in capital, reserves, deposits, and borrowings. Andhra Bank is notable for its robust reserves of liquidity, although HDFC Bank exhibits more profitability. The report emphasizes how crucial efficient asset-liability management is to Indian commercial banking's capacity to maintain profitability and reduce risks.

Keywords: Asset-liability management, profitability, liquidity, commercial banks, India.

1. INTRODUCTION

A wide range of organizations, markets, and financial instruments make up the financial system. It offers the main mechanism for converting savings into profitable investments. A contemporary economy must have an effective financial system since it plays a major role in the distribution of resources. A financial institution's primary goal is to mobilize resources and direct them toward investors. In various economic systems, financial institutions have a varied channeling function. Somashekar (2019) asserts that commercial banks have a leading role in economic growth in addition to being thought of as money exchangers. They serve as the nation's financial safe havens as well as the repositories of resources required for growth in the economy. They contribute significantly to a nation's economic growth. According to conventional wisdom, commercial banks are among the financial intermediaries that raise capital mainly through the issuance of time/fixed, savings, and checkable/demand deposits. Commercial banks are also permitted to offer every banking service in the financial market because our nation's financial system is still in its infancy. Commercial banks handle practically all of the money and capital market transactions and operations since there isn't a well-organized financial market. According to Roy (2010), commercial banks are significant for the nation's financial stability as well as economic prosperity. Banks are especially significant in emerging economies for three main reasons. Initially, they play a crucial part in the growth of additional financial markets and intermediaries. Second, the business sector and investors significantly rely on banks to satisfy their funding needs since there are weak bond and stock markets. Finally, due to their general inability to control financial risks, banks serve the interests of a large number of family savers in emerging or undeveloped nations who want to ensure income, liquidity, and fund safety.
An organization's not entirely set in stone by how much cash it makes contrasted with the capital it contributes. The amount of detailed income for a given monetary year may be utilized to financially measure this level of progress. According to Zopounidis (2001), in order for banks to effectively compete in the market, they must manage their assets and liabilities while keeping an eye on risk levels, earnings, liquidity, profit, solvency, and

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the volume of deposits and loans. By doing this, they can reduce losses and increase profitability. Given the pivotal role asset liability management plays in risk management, banks must acknowledge the significance of asset liability and implement efficient risk management protocols. By employing sophisticated asset liability management strategies, banks can optimize profitability and mitigate risk in the fiercely competitive banking services markets of today. A company may balance its assets and liabilities with the help of asset liability management. Consequently, this reduces monetary hazards and enhances profitability. When a company is making investment decisions, asset liability management helps.

1.1. Research Objectives

1. To assess asset-liability management methods in Indian commercial banks, analyze growth rates of capital, reserves, deposits, and borrowings.
2. 2To examine how liquidity, profitability, and asset composition affect financial performance and risk management in these institutions.

2. LITERATURE REVIEW

Rahmi and Sumirat (2021) utilized liquidity risk, functional proficiency, capital sufficiency, and financing cost risk as free factors and ROA as a relapse and variable to concentrate on asset-liability the board during the Coronavirus pestilence and its impact on banks' profitability in Indonesia. The review's decision clarified that compelling AL the executives ensures the financial business would be more profitable all through the pandemic. In rundown, when assets and liabilities are effectively followed and made due, the bank's profit will rise.
Owusu and Alhassan (2021) utilized the SCA model to dissect the ALM of Ghana's financial industry and observed that how ALM is overseen affects business banks' profits. The outcomes confirmed that the whole execution of banks is straightforwardly affected by the fitting administration of Asset-Liability.
The effect of asset-liability the executives on the profitability of Nigerian store cash banks is examined by **Onaolapo and Adegoke (2020).** The asset-liability pointers for estimation were credit and advance, NPL, credits and advances, borrowings, and request store, while ROA and return on initial capital investment filled in as intermediary appraisals for monetary execution. The review's decisions show that the presentation of Nigeria's store cash organizations is exceptionally influenced by asset-liability the board.
Likewise, **Ukpong and Olowokudejo (2021)** directed an AML examination on ten Nigerian protection firms utilizing the SCA model. As a substitute for profitability, ROA was utilized. That's what the investigation discovered, except for property and hardware, asset the executives essentially adds to enhancements in the profitability of disaster protection firms. Expressed in an unexpected way, further developed asset-liability the board will yield a bigger return.
Utilizing CAMEL proportions, **Mun and Thaker (2016)** directed an observational investigation of Malaysia's banks, both Islamic and Ordinary, to inspect the effect of asset-liability the executives on the Profit from Value proportion, a proportion of profitability, for the monetary years 2010 to 2013. Their review's discoveries showed that asset-liability the board, which applies to both ordinary and Islamic banks, essentially influences the profitability of the last option. The monetary presentation of the Afghan financial framework was concentrated by **Haidary and Monastery (2018).**
The impacts of both interior and outside factors were analyzed in the examinations. The discoveries showed serious areas of strength for a connection between's inside bank qualities and bank profitability. Along these lines, the strength and sort of the connection among assets and liabilities in Tunisia were likewise discovered utilizing the Standard Relationship Examination apparatus.
As indicated by **Said and Edge's (2018)** study, the monetary record's parts were effectively taken care of by Tunisian banks, and the profitability of the sheet was dependent upon the nature of asset the executives.
By the by, **Shrestha (2015)** utilized POLS to research the profitability of Nepal's financial industry. ROA filled in as the profitability pointer, while Different Assets, expansion, ostensible Gross domestic product, and Assets that get through longer than a year filled in as the AML markers. As per the report, there is a measurably significant connection among's AML and banking profitability. Significant commitments came from stores on the liability side and credits and advances on the asset side.

To determine the sort and power of the connection among commitments and assets, **Said and Edge (2018)** used the Accepted Relationship Examination instrument. As indicated by the review's discoveries, the asset-liability things were effectively overseen by Tunisian banks, and their prosperity was generally subject to how well the assets were dealt with. The impacts of macroeconomic variables, bank-explicit elements, and industry-explicit elements on the monetary execution of a UK bank were undeniably inspected by Saeed (2014). His examination's discoveries show that stores, advances, capital, and bank size all emphatically influence the profitability of not entirely settled by ROE and ROA. In his review, he proceeded to say that banks might turn out to be more profitable by acquiring an upper hand and wellbeing net, which comes from having a lot of capital, stores, credits, value, and macroeconomic elements like Gross domestic product and expansion.

Menicucci and Paolucci (2016) researched the association between inside bank attributes and the financial business' profitability in the European setting. ROE gives a sign of profitability. The review's decision exhibits

that bank size and capital proportion well affect banks' monetary presentation. In his exploration, **Masindi (2021)** found a relationship between's the expansion rate and bank profitability. Proof from Afghanistan's Financial Area 38 demonstrates that asset-liability the executives altogether affects bank profitability, as shown by return on value (ROE).

As per **Baariu and Peter (2021),** the financial area's good yet irrelevant monetary exhibition is affected by the pace of expansion. There is other proof to help the positive relationship between's bank profitability and expansion rate. In his exploration led in an African setting, **Masindi (2021)** tracked down a positive and genuinely critical relationship between's genuine Gross domestic product and the proportion of return on value.

Rashid (2022) led an exact review to look at the development and solidness of customary and Islamic banks in Pakistan using GMM. The review's decision showed that macroeconomic factors and bank endogenous factors inconveniently affected the development, profitability, and dependability of the two sorts of banks. Yet, the way this sort of risk influences monetary associations changes; though risks emerging from credit and premium were higher for regular banks, risks emerging from liquidity, activity, capital, expansion, and money were higher for Islamic banks.

3. RESEARCH METHODOLOGY

3.1. Research Design:

In order to examine the profitability, liquidity, and asset-liability management of particular Indian commercial banks, this study uses a quantitative research approach. It entails gathering numerical data from financial documents and analyzing the links between various factors using statistical methods.

3.2. Data Collection:

The annual reports and financial statements of the chosen commercial banks—Bank of India, Andhra Bank, Axis Bank, and HDFC Bank—will serve as the source of data for this study. We will specifically extract and analyze data on capital, reserves, deposits, borrowings, assets, liabilities, profitability ratios, liquidity ratios, and compound growth rates.

3.3. Statistical Tools:

Various factual apparatuses will be utilized to investigate the information that has been accumulated. The information will be summed up utilizing graphic measurements, which incorporate rates, means, medians, and standard deviations. Additionally, associations, trends, and noteworthy variations between variables can be found using inferential statistical techniques including regression analysis, correlation analysis, and ANOVA.

3.4. Ethical Consideration:

Throughout the study procedure, ethical concerns will be strictly followed. The information gathered from the commercial banks' financial statements will only be utilized for scholarly study, and it will be treated with integrity and secrecy. To maintain academic integrity and openness, the data sources will be properly cited and acknowledged. Furthermore, all possible conflicts of interest will be declared, and the study will be carried out in compliance with legal and ethical requirements.

4. DATA ANALYSIS

Table 1: Compound Growth Rates of Assets and Liabilities of Components in Selected Commercials Banks

Items	**Compound Growth Rates**			
	Bank of India	**Andhra Bank**	**Axis Bank**	**HDFC Bank**
Capital and Liabilities				
Capital	5.31	3.56	5.38	4.68
Reserve and surplus	24.98	14.51	33.60	28.06
Deposits	46.02	15.38	19.74	22.84
Borrowings	22.73	29.57	33.92	33.75
Other liabilities and provisions	3.91	8.35	9.88	10.46
Quick Ratio	20.10	36.30	3.07	1.63
Assets				
Cash and balances with RBI	84.57	11.45	17.06	19.14
Balances with Banks and Money at Call & short notice	20.43	-16.25	17.05	8.45
Investments	12.96	14.22	16.26	18.36
Loans and Advances	15.47	16.69	24.79	32.51
Fixed assets	26.85	21.75	18.05	32.97
Other assets	22.92	15.84	30.92	41.74
ROA (%)	0.49	1.40	1.85	2.13

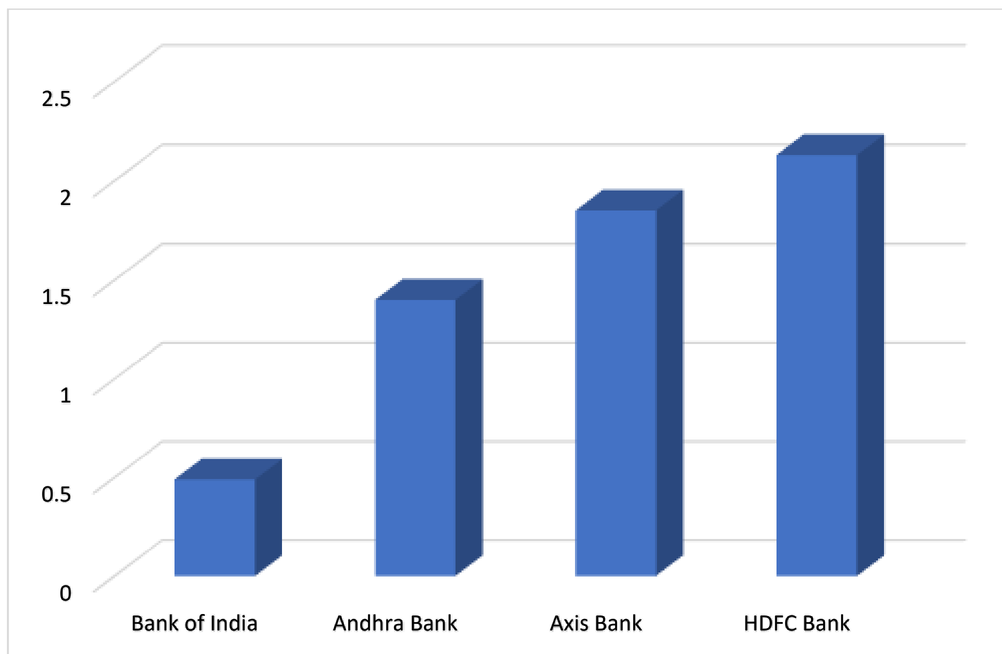

Figure 1: Quick Ratio of Selected Commercials Banks

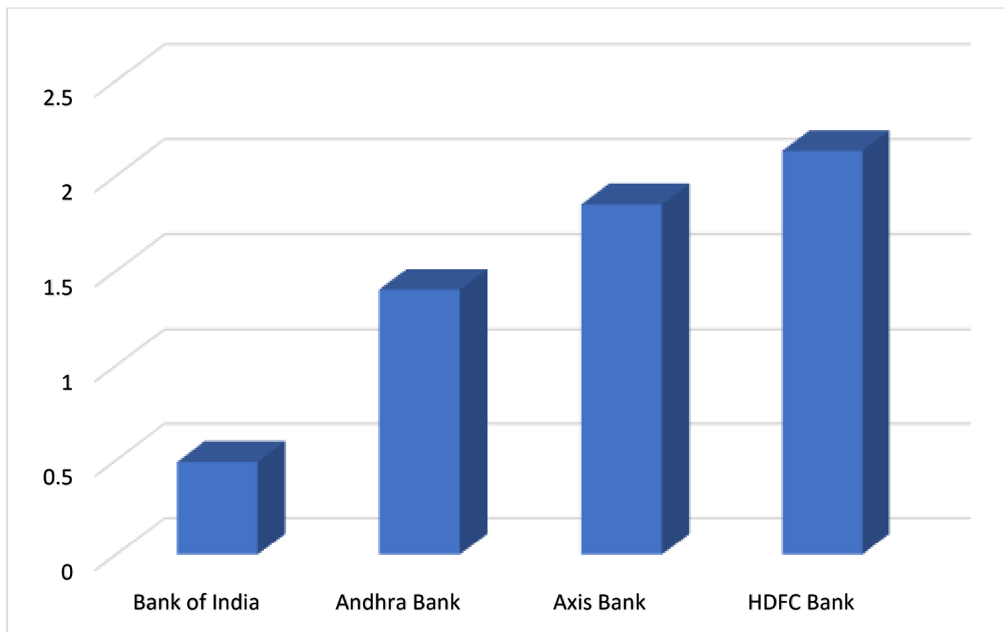

Figure 2: ROA (%) of Selected Commercials Banks

The compound growth rates of assets and liabilities for a subset of Indian commercial banks are displayed in Table 1, which also includes profitability and liquidity metrics related to asset liability management (ALM). Particularly, Bank of India and HDFC Bank have greater rates of capital, reserve, deposit, and borrowing growth; these might be signs of strong financial health and room to develop. With an exceptionally high fast ratio that indicates substantial liquidity buffers relative to its obligations, Andhra Bank stands out. Regarding assets, the majority of banks have significant growth in cash and balances with the RBI, showing an emphasis on preserving liquidity buffers. Of the listed banks, HDFC Bank exhibits the greatest Return on Assets (ROA), a sign of better profitability.

5. CONCLUSION

This study concludes with a variety of approaches and results. Considerable variations in capital, reserve, deposit, and borrowing growth rates are indicative of different asset and liability management strategies. Additionally, the analysis of profitability, liquidity, and asset composition reveals the vital interactions among these variables that impact the banks' overall financial health and risk management plans. These results highlight how crucial efficient asset-liability management is to maintaining profitability and reducing risks in the ever-changing Indian commercial banking industry.

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