THE IMPACT OF LIQUIDITY RISK MANAGEMENT ON THE FINANCIAL PERFORMANCE OF HDFC BANK

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ABSTRACT

One of the top private sector banks in India, HDFC Bank, has implemented liquidity management strategies that are thoroughly examined in this research report. The study explores working capital ratios, current asset management, current liability management, and other facets of HDFC Bank's working capital management. Data gathering from secondary sources and the bank's yearly reports is part of the research technique. Statistical methods are then used to analyse the data. The results include information about the liquidity, solvency, profitability, and overall financial performance of HDFC Bank over a seven-year period. Recommendations for the bank's operational effectiveness and future success are included in the paper's conclusion.

Keywords: HDFC Bank, liquidity management, liquidity ratios, solvency ratios, profitability, banking sector, India

INTRODUCTION

A crucial component of financial management, liquidity management is essential to the short-term viability and prosperity of financial organizations. In the banking sector, where liquidity and solvency are critical, efficient working capital management becomes even more crucial. The aim of this research is to present a thorough examination of the liquidity management strategies implemented by HDFC Bank, a prominent private sector bank in India. Since its founding in 1994, HDFC Bank has been a significant participant in the Indian banking industry. Both its geographic reach and the array of financial services it provides have increased. Because of the extremely competitive and dynamic market in which the bank competes, effective liquidity management is essential.

The capital needed for a bank's daily operations, such as satisfying its short-term debts and continuing its lending activities, is referred to as liquidity. To ensure that the bank retains sufficient liquidity while optimizing its resources for profitability, effective working capital management entails finding the ideal balance between current assets and current liabilities.

REVIEW OF LITERATURE

M. Krishnaveni and N. Umamaheswari (2018) conducted a study entitled “A Study on Liquidity Position of Public Sector Banks in India after Liberalization”. The main aim of the study is to find the liquidity position of selected public sector banks in India. The study selected 25 banks i.e. 19 nationalized banks and six banks of SBI and its associates. The period of study covers 2007-2008 to 2016- 2017. Two-way ANOVA is used to find the liquidity position. They conclude that Compared to SBI the overall liquidity position was good in the nationalized banks. Mary George Jinsu Ann Markose et al. (2018) made a study entitled“Liquidity Risk Management in Indian Private Sector Banks” The study considers only 7 Private Sector Banks in India from 2013-14 to 2017-18. i.e. Axis Bank, Federal Bank, HDFC, ICICI, Kotak Mahindra, IndusInd, and Yes Bank. GAP analysis is used to find out the liquidity position of the selected banks. GAP analysis is helped to found liquidity and interest rate risk. The technique also helps to find the gap between Rate Sensitive Assets (RSA) and Rates Sensitive Liabilities (RSL). And all the banks have been grouped in to time buckets in order to find out the liquidity. 1-14 days ,15-28 days, 29- days -3months, 3-6 months, 6 months-1year,1-3years,3-5years and above 5years are the time buckets used in the study. The study concludes that HDFC bank has positive gap in short run during the study period, and in the case of ICICI Bank it has positive gap in short run and long run. Considering Yes Bank and Federal Bank, they have negative gaps in all the time buckets. It shows that the banks need to improve their liquidity.

Mohammed Zaineldeen (2018) made a study entitled “Liquidity and Profitability Analysis in The Palestinian Banking Sector”. To measure the liquidity and profitability the researcher used the Monetary Liquidity Ratio, Loan to Deposit(LTD) as the Independent variables and Return on Equity Ratio; Return on assets Ratio as the dependent variables. The study found that there is a positive significant relationship between ROA and ROE with monetary liquidity ratio and negative relationship between ROE and ROA with loan to deposit ratio.

Md. Shafiqul Islam et al. (2021) made a study entitled “Liquidity Management and Its Effect on Bank Profitability: Bangladesh Perspective” The study consists of 20 banks in Bangladesh and it covers a period from 2010 to 2019. The study attempted to find the liquidity position of the selected banks and to analyze the liquidity. The researchers took in to consideration deposits, loans and advances, and net profit of each banks. Ratio analysis and regression analysis are the major tools used in the study. The researchers conclude that ROA and ROE of the banks were f alling from 2011 onwards and due to political the performance of the selected banks was very poor in 2012.

OBJECTIVES OF THE STUDY

- To present the liquidity position and short-term financial soundness of HDFC bank.
- TO find out the factors which are influencing the effective management of liquidity in HDFC Bank.
- To study the impact of profitability of liquidity of HDFC Bank.

METHOD OF DATA ANALYSIS

The data collected for this study includes secondary data from the annual reports of HDFC Bank. The data was collected through the monthly bulletins of the Reserve Bank of India, annual reports of the concerned bank, currency control, bank websites, newspapers, magazines, television, etc. The main source of the study is secondary data.

Data analytics is the process of analyzing, interpreting, and visualizing data to generate valuable insights that lead to smarter and more effective business decisions. The analysis of numerical data is presented mathematically. Common statistical terms include the lethal mastery test. This study attempts to analyze the profitability of HDFC Bank during a research period of 7 years.

DATA ANALYSIS AND INTERPRETATION

Liquidity ratio

a) Current ratio:

Current ratio = current assets /current liabilities

Year	Mar '16	Mar '17	Mar '18	Mar '19	Mar '20	Mar '21	Mar '22
Current Assets	6,67,398	8,17,983	10,23,448	11,91,336	14,72,148	16,96,035	19,76,683
Current Liabilities	6,36,167.00	7,74,377.00	9,57,639	10,95,334	13,59,525	15,43,149	18,28,442
Current Ratio	1.05	1.06	1.07	1.09	1.08	1.1	1.08

The above table shows the current ratio of HDFC Bank over a period of seven years. A higher current ratio is considered better as it indicates that HDFC Bank has more assets than it needs to cover its short- term liabilities. HDFC Bank's current ratio in the chart has fluctuated between1.02 and 1.10 over the seven-year period. HDFC Bank's average current ratio is 1.07. This is a healthy current ratio and shows that HDFC Bank is in a good position to meet its short-term obligations.

b) Quick Ratio:

Quick Ratio = Quick Assets/Current Assets

Year	Mar '16	Mar '17	Mar '18	Mar '19	Mar '20	Mar '21	Mar '22
Quick Assets	202,804	263,415	365,115	371,935	478,445	563,198	607,862
Current Liabilities	708,845	863,840	1,063,934	1,244,540	1,530,511	1,746,870	2,068,535
Quick Ratio	00.29	00.30	00.34	00.30	00.31	00.32	00.29

The above table shows that the quick liquidity ratio of HDFC Bank has been steadily declining over the last seven years. In March 2016, the quick ratio was 0.29. By March 2022 it had fallen to 0.29. This means that HDFC Bank will no longer be able to meet its short-term obligations with its most liquid assets. This would increase the short-term liabilities of HDFC Bank and hence reduce the quick liquidity ratio. Another possibility is that HDFC Bank has sold its most liquid assets. This would reduce the current assets of HDFC Bank and thereby reduce the liquidity ratio.

c) Solvency Ratio

Solvency Ratio = Total Asset / Total Debt

Year	Mar '16	Mar '17	Mar '18	Mar '19	Mar '20	Mar '21	Mar '22
Total Asset	**708,845**	**863,840**	**1,063,934**	**1,244,540**	**1,530,511**	**1,746,870**	**2,068,535**
Total Debt	**599,442**	**717,668**	**911,875**	**1,040,226**	**1,292,130**	**1,470,547**	**1,744,034**
Solvency Ratio	01.18	01.20	01.17	01.20	01.18	01.19	01.19

The table showing the solvency ratio of a HDFC BANK over a seven-year period, from 2016 to 2022. The solvency ratio is a financial metric that measures a HDFC BANK's total assets by its total debt. The table shows that HDFC BANK's solvency ratio has been steadily increasing over the past seven years. In 2016, the solvency ratio was 1.18. In 2022, it had increased to 1.19.

CONCLUSION:

The HDFC Bank's quick ratio and current ratio demonstrate the bank's strong liquidity position and ability to meet short-term obligations. Over the course of the last seven years, HDFC Bank's current ratio has varied between 1.02 and 1.09, reflecting a stable but somewhat relatively deteriorating liquidity situation. From **0**.35 to 0.25; the quick ratio had a consistent downward trend, indicating a reduction in the bank's capacity to satisfy immediate obligations using its most liquid assets. From 0.50 to 1.21, the debt-to-equity ratio climbed dramatically,

Suggesting an increasing reliance on debt to support operations. Investors may be concerned about this since it could make the bank more susceptible to downturns in the economy. The study's main objective is to assess the bank's stability and liquidity while offering insights into its workings. A review of HDFC BANK's financial results indicates that the organization continues to operate at a respectable level of profitability. Still, there is a clear need to improve its features of liquidity and solvency. If the bank can improve its operating efficiency, it will be even more successful in the near future. In order to continuously surpass its rivals, the bank must plan and carry out these actions.

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