



Portfolio Management- a new dimension of Banking Sector in India

By

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Abstract

A portfolio is a collection of fiscal means similar as bonds, unrestricted- end finances, goods, stocks, cash and cash coequals, exchange- traded finances, unrestricted- end as well as exchange- traded finances (ETFs). A portfolio's base is frequently viewed as conforming of stocks, bonds, cash and securities. Portfolio operation is the practice of both effectively and intelligently managing a bank's asset and arrears blend. Nationalized or private Banks purchase and vend means that produce income throughout this process. Demand drafts and term deposits, as well as other kinds of deposits, bonds regard for a substantial part of Commercial Bank's finances. Since liberalization, portfolio operations come play significant and vital part in Indian frugality which is important counting on banking assiduity. Thus, this paper is tried to assay the colourful strategy and ways of portfolio operation being espoused by Indian banking sector along with its major objects.

KEYWORDS: Portfolio Management, Commercial Banks, Stock, Bonds and Securities.

Introduction

Profit is the main ideal of a marketable bank, as it's for any other business. Its earning eventuality is told by its investment strategy. Its investing gospel is determined by how it handles its investment portfolio. Portfolio operation is the scrupulous operation of a bank's means and arrears in order to achieve the optimum admixture of income, liquidity and solvency. It meets the long- term fiscal objects and threat forbearance of an investor, a company, or an institution. Some investors do their own investment portfolio operation.

That requires an introductory understanding of the crucial rudiments of portfolio structure and conservation that make for success, including asset allocation, diversification, and rebalancing. Portfolio is a collection of fiscal means and investment tools that are held by an individual, a fiscal institution or an investment establishment. Asset allocation involves spreading the investor's plutocrat among different asset classes so that pitfalls are reduced and openings are maximized. Stocks, bonds, and cash are the three most common asset classes, but others include real estate, goods, currencies, and crypto. fiscal mathematics shows that proper diversification of fiscal means of banking sectors increases a portfolio's overall anticipated return while reducing its risk intensity.

Key Objectives of portfolio management in Banking Sectors

The ideal of portfolio operation is to allocate fund to a variety of asset classes and manage them to reach an investor's long- term fiscal earnings. The asset classes and the plutocrat allocated are designed to match the investor's threat profile, and the portfolio earns optimum threat- acclimated returns.

- The main ideal of portfolio operation in banking sector is to produce and maintain a substantiated plan for investing of an investor's fund over the long- term period in order to meet fiscal pretensions. This means opting a blend of investments that matches a person's liabilities, objects, and appetite for risk.
- Portfolio operations re-evaluate the factual performance of the portfolios over time to make sure it's on track and to revise as it's demanded.
- In an investment portfolio directors take detail information of the investor's current fiscal situation, long- term pretensions, and forbearance for threat.
- The portfolio director can draw up a offer as per the investor's plan, the portfolio can be created by buying the named means. The investor or banker may start out by contributing a lump sum, or add to the portfolio's balance periodically, or both.
- The portfolio director takes responsibility for covering the means and making changes to the portfolio as per requirements, with the blessing of the investors. Portfolio directors generally charge a figure for their services that's depending on the customer's means under operation.

Review of some Empirical Literature

- **Khalid(2012)**, made an analysis of multiple retrogression model to determine if the quality of the bank's means and operating performance have any relationship, by examining the effect of "asset quality on private banks' profitability in India". His findings indicated that a bad asset rate is equally related to banks' operation when the goods of functional size, the attention of traditional banking business, and the rate of the idle fund are controlled.
- **Opoku, Angmor, and Boadi (2016)**, assessed the relative effectiveness of products in marketable banks' product portfolios. Their study made use of secondary data collected from 20 Ghanaian marketable banks from the time 2009 to 2013. The check indicated that marketable banks' loan products, which are followed by investments, produce the loftiest income to fiscal return. Deposits and consulting make the least fiscal return boosting benefactions.
- A study by **Eric (2016)** looked into how the quality of a loan portfolio affects a bank's performance using information from ten universal banks in Ghana's periodic reports from the time 2007 to 2013. The disquisition was carried out using STATA Statistical Software and the panel retrogression approach.

Key elements of Portfolio Management

- ❖ **Asset Allocation:** Asset allocation is grounded on the understanding of different types of means. Some means are more unpredictable than others. An optimal blend of means provides balance and protects against threat. Investors with a more aggressive profile weight their portfolios toward more unpredictable investments similar as growth stocks finances. Investors with a conservative profile weight their portfolios toward moderate investments similar as bonds and blue- chip stocks.
- ❖ **Risk management and Diversification:** involves spreading the threat Portfolio Management. It's delicate to know which asset class or sector is likely to outperform another, diversification seeks to

capture the returns of all of the sectors over time while dwindling volatility at any given time. Threat diversification is made across colourful classes of securities, sectors of the frugality, and geographical area.

- ❖ **Rebalancing:** Rebalancing is used to return a portfolio to its original target allocation at regular intervals. Rebalancing generally involves dealing high- priced securities and putting that plutocrat to work in lower priced and low- threat securities. The journal exercise of rebalancing allows the investor to capture earnings and expand the occasion for growth in high-implicit sectors.
- ❖ **Tax efficiency:** A potentially material aspect of portfolio operation relates to how portfolios are shaped to minimize levies in the long- term. This pertains to how different withdrawal accounts are used, how long securities are held on for, and which securities are to be held.

Types of Portfolio Management

➤ Active portfolio operation:

It means banks laboriously buy and vend securities (equity, debt, gold, etc.) to beat standard indicators or the broader requests. A hand- on approach is used to make maximize returns. Unvalued securities are linked by using quantitative or qualitative styles and also vended at a profit.

➤ Passive portfolio operation:

It involves banks buy a fixed set of securities (equity, debt, bond etc.) and holding them for long- term period. It's done using indicator finances and exchange traded finances (ETFs) on various equities and debts mix.

Strategies taken by Portfolio Managers

Portfolio Managers can explore various strategies like growth investing or income-focused approaches. Every investor's situation is unique, with threat forbearance and financial pretensions varying extensively. There are many portfolio operation strategies taken by the portfolio managers in marketable banks.

- **Aggressive Approach:** Maximise portfolio earnings by investing in high- threat diligence or indispensable means. Emphasis on striking significant returns, accepting the eventuality for advanced losses.
- **Conservative Approach:** Then Priority is given to capital preservation to minimise threat. Suitable for threat antipathetic investors willing to abstain expansive growth for reduced exposure to losses.
- **Moderate Blend:** Combination of portfolio operation in the stock request, including both aggressive and conservative approaches. Strive for a balanced portfolio that involves heavy equity investment to alleviate threat.
- **Income- oriented Strategy:** Suitable for retirees on portfolio income. Prioritise fixed- income securities or tip- issuing equities to support living charges.
- **Tax-efficient Focus:** its end to minimise levies, especially applicable for high- earners or youthful investors with a long- time horizon. Consider to grow the portfolio duty-free over time, which is particularly profitable during retirement.

Theories of Portfolio Management in Commercial Banks

The main points of the marketable banks are to maintain liquidity, safety, and profitability goals. Economists have tried to settle some rules or ideas, in reality, regulate asset allocation while keeping these goals in mind. They're used "liquidity management Theories".

The Real Bills Doctrine theory:

The real bills conception, occasionally called the economic credit thesis, argues that successful banks should only advance to businesses for short-term, tone-standing creative loans. Tone-standing loans are used to fund creation and posterior development of the products through the various structures, warehousing, shipping and rotation phase. When similar type of particulars is vended, the scores are automatically liquidated.

The Shiftability Theory:

The H.G. Moulton's versatility proposition of bank liquidity has claimed that when marketable banks retain an enough number of means which may be transferred in cash to other banks without substantial losses, they are not demanded to depend on liquidity majorities. According to this perspective, for a property to be fully transmittable, it must be transmittable incontinently without incurring a loss of capital. Especially for short-term request means similar as storeroom bills and bills of exchange may be traded fleetly if a bank needs cash. In a worldwide extremity, for case, when every bank need cash, the proposition of shifting capacity argues that every bank has means that may be moved to a central bank.

The Anticipated Income Theory:

Grounded on US marketable banks furnishing term loans, H.V. Prochanow developed the awaited income thesis in 1944. According to this conception, the bank aims to liquidate the term loan from the borrower's awaited income, anyhow of the form and nature of the borrower's business. It safeguards means like as outfit, supplies, and indeed real estate from being presupposed.

The Liabilities Management Theory:

In the 1960s, this thesis was created. According to this proposition, banks do not have to issue self-liquidating loans or maintain cash means, as they can adopt cash from the financial request. Fresh arrears from a number of sources may raise the reserves of a bank. These sources include time deposit instruments, adopting from other marketable banks, central bank borrowing, generating capital plutocrat via share allocation, and reinvesting income.

Portfolio investment of some commercial banks in India

Portfolio investment and its market share of most populated bank in India (SBI) are discussed here. In Fig. 1 depicted the picture of percentage of market share holding of SBI in 2023-24. It is seen that more than 40% of its investment are funded in portfolios. On the other hand, in Fig.2, it is depicted that fund manager of the bank invests its portfolio investment in Large and Mid-corporate, like infrastructure, basic metal products, retail and agricultural sector.

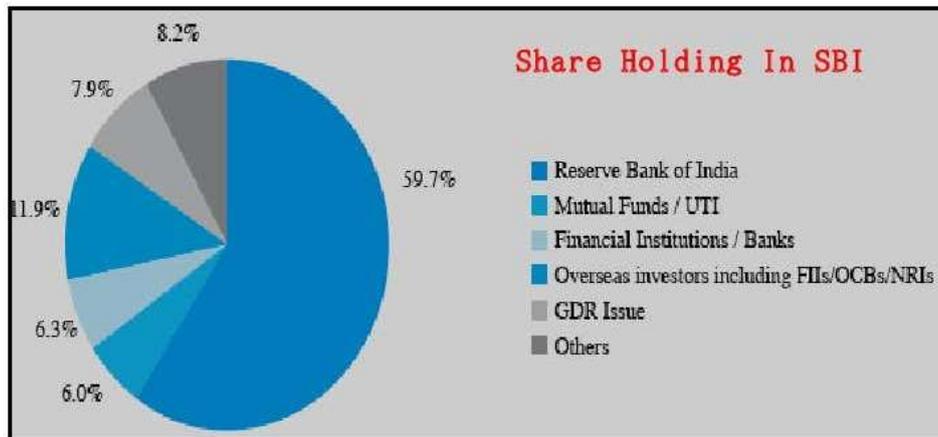


Figure 1 source: scribd.com

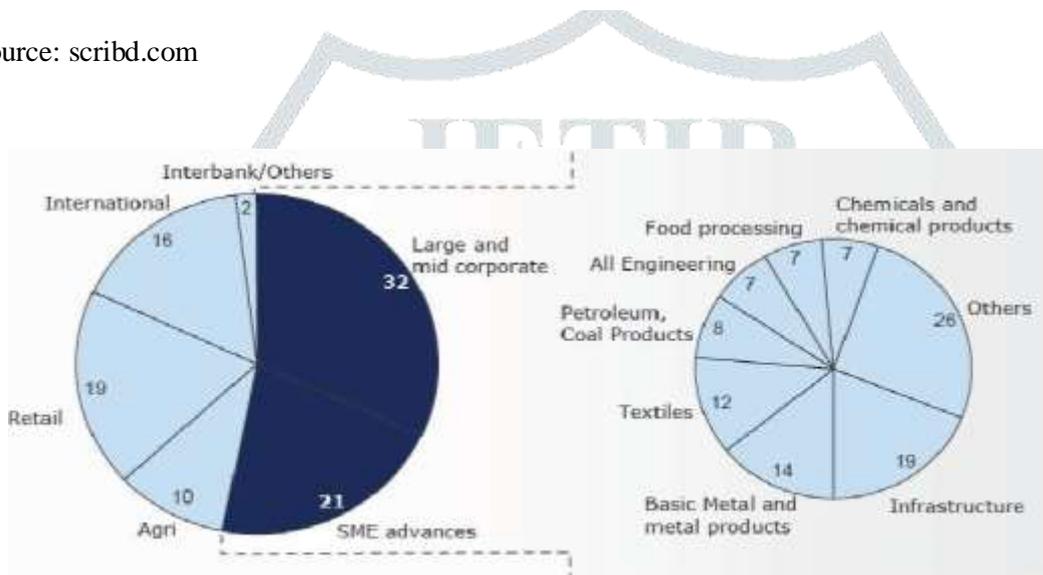


Figure 2: scribd.com

Shareholding of HDFC bank

Promoter	share
Mutual Fund	23.93%
Others	10.60%
Public	16.23%
FII	49.21%

Source: www.hdfc.com

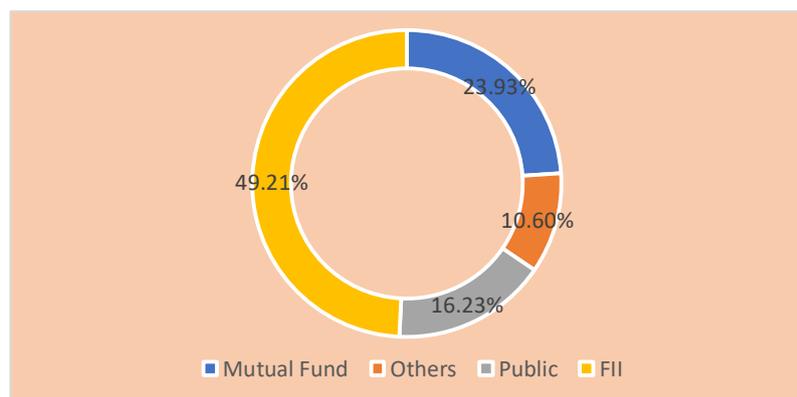


Fig.3 self generated

Findings

From the above figure.3, it is shown that mutual fund investment of HDFC Bank is about 24% where as FII investment is about 49.21% of total investment. So HDFC Bank invests its share near 75% of its total share. Not only HDFC Bank but also SBI Bank portfolio its share to the global market.

Conclusions

In allocating investors funds the commercial banks have to fulfil a number of legal restrictions. The increasing nature of the restrictions has reduced the freedom of the banks to operate on their portfolio investment. Despite this it seems desirable to study the portfolio behaviour of banks, because an analysis of the data of individual banks shows various mix in their asset holdings. The banks do not have much freedom on their portfolio but within the freedom available the banks can concentrate on cash management and maturity mix of the securities over which they have freedom in order to improve their earnings.

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