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Research Paper

**AN ANALYTICAL APPROACH TO PORTFOLIO MANAGEMENT IN
CONTEMPORARY FINANCIAL MARKETS WITH REFERENCE TO
HDFC**

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ABSTRACT

Portfolio Management is used to select a portfolio of new product development projects to achieve the following goals:

- Maximize the profitability or value of the portfolio
- Provide balance
- Support the strategy of the enterprise

Portfolio Management is the responsibility of the senior management team of an organization or business unit. This team, which might be called the Product Committee, meets regularly to manage the product pipeline and make decisions about the product portfolio. Often, this is the same group that conducts the stage-gate reviews in the organization.

A logical starting point is to create a product strategy - markets, customers, products, strategy approach, competitive emphasis, etc. The second step is to understand the budget or resources available to balance the portfolio against. Third, each project must be assessed for profitability (rewards), investment requirements (resources), risks, and other appropriate factors.

The weighting of the goals in making decisions about products varies from company. But organizations must balance these goals: risk vs. profitability, new products vs. improvements, strategy fit vs. reward, market vs. product line, long-term vs. short-term. Several types of techniques have been used to support the portfolio management process:

- Heuristic models
- Scoring techniques
- Visual or mapping techniques

The earliest Portfolio Management techniques optimized projects' profitability or financial returns using heuristic or mathematical models. However, this approach paid little attention to balance or aligning the portfolio to the organization's strategy. Scoring techniques weight and score criteria to take into account investment requirements, profitability, risk and strategic alignment. The shortcoming with this approach can be an over emphasis on financial measures and an inability to optimize the mix of projects.

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1. INTRODUCTION

**CHARACTERISTICS OF PORTFOLIO
MANAGEMENT:**

Individuals will benefit immensely by taking portfolio management services for the following reasons:

- Whatever may be the status of the capital market, over the long period capital markets have given an excellent return when compared to other forms of investment. The return from bank deposits, units, etc., is much less than from the stock market.
- The Indian Stock Markets are very complicated. Though there are thousands of companies that are listed only a few hundred which have the necessary liquidity. Even among these, only some have the growth prospects which are conducive for investment. It is impossible for any individual wishing to invest and sit down and analyze all these intricacies of the market unless he does nothing else.
- Even if an investor is able to understand the intricacies of the market and separate chaff from the grain the trading practices in India are so complicated that it is really a difficult task for an investor to trade in all the major exchanges of India, look after his deliveries and payments

NEED & IMPORTANCE OF STUDY:

Portfolio management has emerged as a separate academic discipline in India. Portfolio theory that deals with the rational investment decision-making process has now become an integral part of financial literature.

Investing in securities such as shares, debentures & bonds is profitable well as exciting. It is indeed rewarding but involves a great deal of risk & need artistic skill. Investing in financial securities is now considered to be one of the most risky avenues of investment. It is rare to find investors investing their entire savings in a single security. Instead, they tend to invest in a group of securities. Such group of

securities is called as PORTFOLIO. Creation of portfolio helps to reduce risk without sacrificing returns. Portfolio management deals with the analysis of individual securities as well as with the theory & practice of optimally combining securities into portfolios.

The modern theory is of the view that by diversification, risk can be reduced. The investor can make diversification either by having a large number of shares of companies in different regions, in different industries or those producing different types of product lines. Modern theory believes in the perspective of combinations of securities under constraints of risk and return.

SCOPE OF STUDY:

This study covers the Markowitz model. The study covers the calculation of correlations between the different securities in order to find out at what percentage funds should be invested among the companies in the portfolio. Also the study includes the calculation of individual Standard Deviation of securities and ends at the calculation of weights of individual securities involved in the portfolio. These percentages help in allocating the funds available for investment based on risky portfolios.

OBJECTIVES OF THE STUDY:

- To study the investment pattern and its related risks & returns In The Housing Development Finance Corporation Limited (HDFC).
- To find out optimal portfolio of The Housing Development Finance Corporation Limited (HDFC), which gave optimal return at a minimize risk to the investor in HDFC.
- To see whether the portfolio risk is less than individual risk on whose basis the portfolios are constituted

- To see whether the selected portfolios is yielding a satisfactory and constant return to the investor
- To understand, analyze and select the best portfolio

STEPS IN PORTFOLIO MANAGEMENT:

- Specification and qualification of investor objectives, constraints, and preferences in the form of an investment policy statement.
- Determination and qualification of capital market expectations for the economy, market sectors, industries and individual securities.
- Allocation of assets and determination of appropriate portfolio strategies for each asset class and selection of individual securities.
- Performance measurement and evaluation to ensure attainment of investor objectives.
- Monitoring portfolio factors and responding to changes in investor objectives, constraints and / or capital market expectations.
- Rebalancing the portfolio when necessary by repeating the asset allocation, portfolio strategy and security selection.

2. METHODOLOGY AND FRAMEWORK

DATA COLLECTION METHODS

The data collection methods include both the primary and secondary collection methods.

Primary collection methods:

This method includes the data collection from the personal discussion with the authorized clerks and members of the hdfc financial services.

Secondary collection methods:

The secondary collection methods includes the lectures of the superintendent of the department of

market operations and so on., also the data collected from the news, magazines and different books issues of this study Superintendent

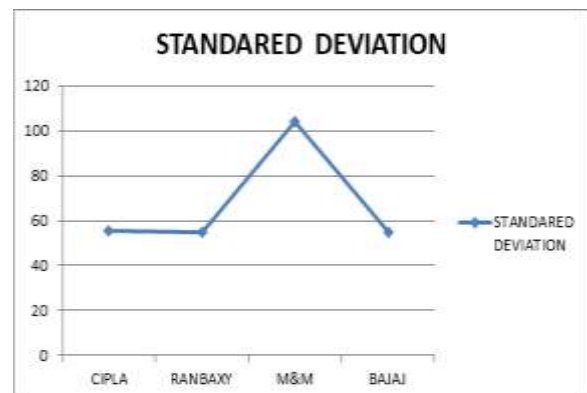
LIMITATIONS OF THE STUDY

1. Construction of Portfolio is restricted to two companies based on Markowitz model.
2. Very few and randomly selected scripts / companies are analyzed from BSE listings.
3. Data collection was strictly confined to secondary source. No primary data is associated with the project.
4. Detailed study of the topic was not possible due to limited size of the project.
5. There was a constraint with regard to time allocation for the research study i.e. for a period of two months.

3. DATA ANALYSIS AND INTERPRETATION

STANDARD DEVIATION

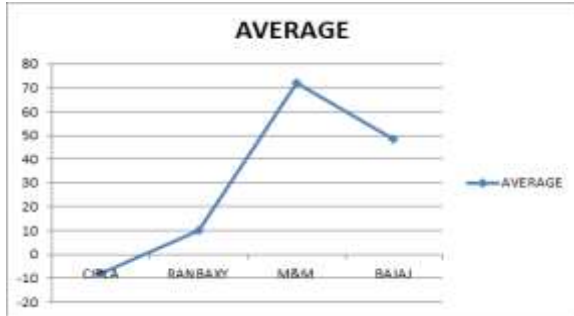
COMPANY	STANDARD DEVIATION
CIPLA	55.22
RANBAXY	55.13
M&M	104.186
BAJAJ	54.60



Standard Deviation

AVERAGE RETURN OF COMPANIES

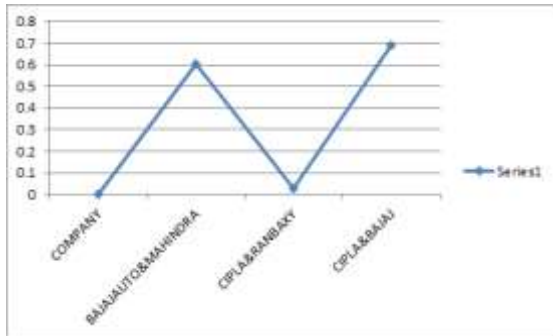
COMPANY	AVERAGE
CIPLA	-7.744
RANBAXY	10.18
M&M	71.788
BAJAJ	48.175



Average

CORRELATION COEFFICIENT

COMPANY	ρ
BAJAJAUTO&MAHINDRA	0.605
CIPLA&RANBAXY	0.0295
CIPLA&BAJAJ	0.690



Correlation Coefficient

4. FINDINGS

CIPLA & RANBAXY

The combination of CIPLA and RANBAXY gives the proportion of investment is 0.49916 and 0.50084 for CIPLA and RANBAXY, based on the standard deviations The standard

deviation for CIPLA is 55.22 and for RANBAXY is 55.13. When compared to both the risk is almost same, hence the risk is same when invested in either of the security.

MAHENDRA & BAJAJ AUTO

The combination of M&M and BAJAJ AUTO gives the proportion of investment is 1.6206 and 0.6206 for M&M and BAJAJ AUTO, based on the standard deviations The standard deviation for M&M is 104.186 and for BAJAJ AUTO is 54.6.

Hence the investor should invest their funds more in BAJAJ AUTO when compared to M&M as the risk involved in BAJAJ AUTO is less than M&M as the standard deviation of BAJAJ AUTO is less than that of M&M.

5. CONCLUSIONS

In case of perfectly correlated securities or stocks, the risk can be reduced to a minimum point.

In case of negatively correlative securities the risk can be reduced to a zero.(which is company's risk) but the market risk prevails the same for the security or stock in the portfolio.

SUGGESTIONS

Investor would be able to achieve when the returns of shares and debentures Resultant portfolio would be known as diversified portfolio. Thus portfolio construction would address itself to three major via. Selectivity, timing and diversification.

In case of portfolio management, negatively correlated assets are most profitable. Correlation between the BAJAJ are negatively correlated which means both the combinations of portfolios are at good position to gain in future.

Investors may invest their money for long run, as both the combinations are most suitable portfolios. A rational investor would constantly examine his chosen portfolio both for average return and risk.

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