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A STUDY ON FINANCIAL ANALYSIS AND PERFORMANCE OF HDFC BANK

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ABSTRACT This study has been carried out to evaluate the financial performance of HDFC bank. HDFC was amongst the first to receive an 'in principle' approval from the Reserve Bank of India (RBI) to set up a bank in the private sector. HDFC Bank is the second largest Private sector Bank in India and one of the top 5 banks in the country. The bank has a network of 5000+branches and 16000+ATMs in 2902 cities/towns. HDFC Bank provides a number of products and services including wholesale banking and retail banking, treasury, auto loans, two wheeler loans, personal loans against property, consumer durable loans, life style loan, credit cards and the various digital products. The financial performance of above mentioned bank has been evaluated for the past five years i.e. 2017, 2018, 2019, 2020, 2021. The data analyzed by ratio analysis such as current ratio, liquid ratio, fixed assets ratio, debt-equity ratio and net profit ratio and give interpretation to each ratio. To conclude this financial soundness of the bank is satisfactory during the study period.

KEYWORDS :

INTRODUCTION

Financial performance is the process of measuring how effectively a company utilizes its assets from primary mode of business to raise incomes it also measures organizations whole financial health over a particular period of time. Financial performance of the organization deals with the financial strength and weaknesses of bank accurately establishing a relationship between the balance sheet and income statement. This process used to clearly understand the growth of long-term and short-term of bank. There are several ways to analyze data the researcher used ratio analysis in this research. This analysis also helpful determines the credit worthiness of the bank to evaluate the market position among the competitors.

History Of Hdfc Bank

The Housing Development Finance Corporation Limited (HDFC) was amongst the first to receive an 'in principle' approval from the Reserve Bank of India (RBI) to set up a bank in the private sector, as part of the RBIs liberalization of the Indian Banking Industry in 1994. 'The bank was incorporated in August 1994 in the name of HDFC Bank Limited' with its registered office in Mumbai, India. HDFC Bank commenced operations as a scheduled commercial Bank in January 1995. HDFC Bank is the second largest private sector Bank in India and one of the top 5 banks in the country. It offers a variety of financial services like consumer banking, credit cards, corporate banking, investment banking, private banking, wealth management etc. it is one of the members in the 30 stock senses and 50 stock nifty. HDFC Bank has two subsidiaries viz., HDB financial services limited and HDFC securities Limited. HDBFS is a non-deposit taking non-bank finance company ('NBFC'). Apart from lending to individuals, the company grants loans to micro, small and medium business enterprises. It also runs call centers for collection services to the Bank's retail loan products. HDFC Securities Limited has emerged as a strong player in the broking services spaces.

Review Of Literature:

This section attempts to review some studies made in the past relevant to the problem under study.

Bikranjit Singh in his article captioned "The Financial performance of HDFC and SBOP: A comparative Study" has examined the profitability aspects of both the banks and found that the profitability of HDFC Bank is higher as compared to SBOP bank.

Nishit V.Davda in his article titled "Performance Appraisal of New Private Sector banks in India" examined the economic performance and financial performance of the seven major private sector banks in India.

Kalpesh B.Gelda in his article titled " A comparative study on performance and working capital management of ICICI and HDFC Banks" has given the different ways and techniques of working capital management to develop the sound financial base of the two banks.

K.Srinivas and L.Saroja in their article captioned "Comparative Financial performance of HFDC Bank and ICICI Bank" made an attempt to analyse and compare the financial performance of HDFC Bank and offer suggestions for the improvement of efficiency in select Banks.

Brindadevi. V in her article " A study on profitability Analysis of private sector banks in India" has made an attempt to study the profitability aspects of different private sector banks in India based on the performance of profitability rations and found that there is difference among the mean value of interest spread, net profit margin, return on long term fund and return on net worth and there is no difference among the mean value of return on asset of private banks.

Anurag. B.Singh and PriyankaTandon in their article captioned " A study of financial performance: A comparative analysis of SBI and ICICI Bank" made a comparative study of the financial performance of SBI and ICICI Bank found that SBI is performing well and financially sound than ICICI Bank but in context of deposits and expenditure ICICI bank has better managing efficiency than SBI.

VirenderKoundal in his article title " Performance of Indian Banks in Indian Financial System", attempts to measure the relative performance of Indian banks and found that public sector banks are still lagging behind regarding the various financial parameters in comparison with other banks. He also gave suggestions to tackle the challenges faced by the banks particularly public sector banks. I

RESEARCH DESIGN

Methodology

This study is quantitative nature meaning it primarily deals with financial statement of HDFC Bank for the past 5 years. This study is based on secondary data which is taken from banks website and annual reports. The data is analyzed by the ratio analysis and the performance of the bank is clearly explained for the study period.

Objectives of the study

1. To evaluate the financial performance of HDFC Bank.
2. To analyze the liquidity and solvency position of HDFC bank.
3. To find the changes in the trends of the bank using trend analysis.

Limitation of the study

1. The present study concentrates only on the financial performance of HDFC Bank.
2. The study is undertaken only on the basis of secondary data (Annual Reports of the Banks) and the limitation of using secondary data may affect the results.
3. The study excludes the non-performing assets management of HDFC Bank.
4. The study is restricted only to the period of five years 2017, 2018, 2019, 2020, 2021.

Data analysis

Some of the major ratios have been evaluated and interpreted for the purpose of understanding the financial performance of the bank.

SOLVENCY RATIOS

CURRENT RATIO

Current Ratio is the most commonly used measure of short term solvency, since it indicates the extent to which the claims of short term creditors are covered by assets that are expected to be converted into cash in a period of roughly corresponding to the maturity of the claims. It brings relationship between the total current assets and total current liabilities. This is the indication of general measure of liquidity and state of trading.

Current asset include cash and those assets which can be converted into cash within a year and all liabilities maturing within a year are included in current liabilities. Items which are included in the current assets of the Banks are Cash and Balances with RBI, Balances with Bank and Money at Call and Short Notice, Investments and Advances. The components of current liabilities are Deposits, Borrowings and Other liabilities and provisions.

"A Current Ratio of 2:1 is considered ideal as rule of thumb. But in actual practice 1:1 is found more suitable than 2:1. "It is important to note that a very high ratio of current assets to current liabilities may be indicative of slack management practices, as it might signal excessive inventories for the current requirements and poor management in terms of overextended accounts receivables. At the same time, the firm may not be making full use of its current borrowing capacity".

"A low current ratio also indicates a weak liquidity position. It means that the firm may experience difficulty in meeting its maturing obligations. Poor ratio may be due to heavy losses, excessive financing on a short term basis and the practice of using current funds to finance fixed assets".

The significance of the Current Ratio is that it is not only a measure of solvency but it is an index of the working Capital available to the enterprise.

The current ratio is computed as follows

$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current liabilities}}$$

The Current Ratio of the study units is depicted in the following table.

Table 1: Current Ratio

Year	HDFC		
	Current Assets	Current Liabilities	Ratio (in times)
2016-2017	817983	774378	1.06
2017-2018	1023448	957639	1.07
2018-2019	1191337	1095335	1.09
2019-2020	1472148	1359525	1.08
2020-2021	1696036	1543150	1.10

Source: Annual Report

The Table 1 shows that the current ratio was 1.10(in times) in the year 2020 – 2021 it was increased to 1.06(in times) 2016 – 2017 the ratio was increased in the years except 2019 – 2010. It indicates that banks liquidity and its repayment of debts are sound during the period of study.

Liquid Ratio

Liquid Ratio is also known as Quick Ratio or Acid Test Ratio or Near Money Ratio. It is the ratio between Liquid Assets and Current Liabilities. It is a more refined tool to measure the liquidly of an organization. A Liquid Ratio of 1:1 is usually considered as satisfactory, it is again a rule of thumb only.

"A company with a high value of Quick Ratio can suffer from the shortage of funds if it has slow paying, doubtful and long duration outstanding debtors. On the other hand, a company with a low value of Quick Ratio may really be prospering and paying, its current obligation in time if it has been turning over its inventories efficiently".

The Liquid Assets of the bank include the cash and balances with RBI, balances with banks and money at call and short notice, and Advances and the current liabilities include the items already mentioned.
The ratio is expressed as

$$\text{Liquid Ratio} = \frac{\text{Liquid Assets}}{\text{Current Liabilities}}$$

The Liquid Ratio of the study units is exhibited below:

Table 2:liquid Ratio

Year	HDFC		
	Liquid Assets	Current Liabilities	Ratio (in times)
2016-2017	1252308	774378	1.62
2017-2018	1080321	957639	1.13
2018-2019	900749	1095335	0.82
2019-2020	781248	1359525	0.57
2020-2021	603520	1543150	0.39

Source: Annual Report

The Table 2 shows that the liquid ratio was 0.39 (in times) in the year 2020 – 2021 it was decreased to 1.62 (in times) in the year 2016 – 2017.

Debt – Equity Ratio

Debt – Equity Ratio is used to determine the soundness of the long term financial policies of the company. It is also known as "External – Internal" Equity Ratio. The purpose of calculating Debt – Equity is, to have an idea of the amount of capital supplied to the bank by the members and the amount available to creditors in the event of liquidation.

The following formula is used to calculate Debt – Equity Ratio

$$\text{Debt – Equity Ratio} = \frac{\text{Debt}}{\text{Equity}}$$

The Debt includes deposits and borrowings of the bank and the Equity Consists of share capital and reserves and surplus. The followings table shows the Debt – Equity Ratio of the study units.

Table 3: debt - Equity Ratio

Year	HDFC		
	Debt	Equity	Ratio (in times)
2016-2017	717669	89463	8.02
2017-2018	911876	106295	8.58
2018-2019	1040226	149207	6.97
2019-2020	1292131	170986	7.56
2020-2021	1470547	203721	7.22

Source: Annual Report

The above table highlights that the debt-equity ratio of HDFC bank shows an increasing trend (except in the year 2018-2019) during the period of study. Hence, the creditors are safe during the study period.

Income

The incomes of the banks mainly consist of interest earned on the loans and advances issued by the banks. Apart from interest received, bank has other incomes as commission, exchange and brokerage, profit on sale of investment, dividends from subsidiaries and so on.

The following table shows a classification of income of the banks.

Table 4: Classification Of Income

(Rs. In Crores)

Year	HDFC		
	Interest Income	Other Income	Total
2016-2017	69305	12297	81602
2017-2018	80241	15220	95461
2018-2019	98972	17626	116598
2019-2020	114813	23261	138074
2020-2021	120858	25205	146063

Source: Annual Report

The above table highlights the year-wise total income of the study units are increasing every year 2016-2017 to 2020-2021. The total income of

HDFC bank is increasing during the study period.

Dividend Per Share (dps)

Dividend per share indicates the return earned per share. It is bit different from return on equity capital. It is calculated by dividing dividend on equity share capital by the total number of equity shares. It is a good measure of profitability and when compared with DPS of similar other banks, it gives a view of the comparative earnings or earning power of a bank. The following table depicts the dividend per share of the study units.

Table 5: Dividend Per Share

Year	DPS
	HDFC
	(Face value Rs. 2 per share)
2016-2017	11.00
2017-2018	13.00
2018-2019	15.00
2019-2020	-
2020-2021	-

Sources: annual reports

It is clear from the above table the bank is having an increasing trend in 2016 – 2017 To 2018 – 2019. 2019 – 2020 and 2020 – 2021 pandemic situation so bank has not released DPS.

Findings

1. Current ratio indicates that banks liquidity and its repayment of debts are sound during the period of study.
2. Liquid ratio is shows during the study period the bank liquid ratio is good.
3. Debt equity ratio explains the creditors are safe during the study period.
4. The bank is performing well in terms of profit and spread.
5. The bank shows a better performance in terms of total income and average income.

Conclusion

The HDFC Bank is the largest private sector bank in the India. The researcher has found the financial performance for the past five financial years from 2016-2017 to 2020-2021. The data collected from annual reports of the bank and the web site. The data analyzed through various ratios. This research article finally concluded that the HDFC bank financial performance is strong during the study period.

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