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A Study on Financial Performance of Hdfc Bank

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ABSTRACT:
In today's dynamic world banks are inevitable for the development of a country. Banks play a pivotal role in enhancing each and every sector. They have helped to bring a draw of development on the world's horizon and developing country like India is no exception.

Banks fulfills the role of a financial intermediary. This means that it acts as a vehicle for moving finance from those who have surplus money to (however temporarily) those who have deficit. In simple, terms the banks channel funds from depositors whose accounts are in credit to borrowers who are in debit.

Without the intermediary of the banks both their depositors and their borrowers would have to contact each other directly. This does happen of course. This is what has led to the very foundation of financial institution like banks.

Before few decades there existed some influential people who used to land money. But a substantially high rate of interest was charged which made borrowing of money out of the reach of the majority of the people so there arose a need for a financial intermediate.

The Bank have developed their roles to such an extent that a direct contact between the depositors and borrowers in now known as disintermediation. Banking industry has always revolved around the traditional function of taking deposits, money transfer and making advances. Those three are closely related to each other, the objective being to lend money, which is the profitable activity of the three. Taking deposits generates funds for lending and money transfer services are necessary for the attention of deposits. The Bank have introduced progressively more sophisticated versions of these services and have diversified into in numerable areas of activity not directly relating to this traditional trinity.

I. INTRODUCTION:

The HDFC bank was incorporated on August 1994 by 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. The Housing Development Finance Corporation (HDFC) was amongst the first to receive an 'in principle' approval from the Reserve Bank of India (RBI)to setup a bank in the private sector, as part of the RBI's liberalization of the Indian Banking Industry in 1994.

HDFC bank merged with Times Bank in February 2000. This was the first merger of two private banks in the new generation private sector banks category. In 2008, centurion Bank was acquired by HDFC bank. HDFC bank board approved the acquisition of CBOP for 95.1 billion INR is one of the largest mergers in the financial sector in India.

The bank has made substantial efforts and investments in acquiring the best technology available internationally to build the infrastructure for a world class bank has prioritized its engagement in technology and the internet as one of its key goals and has already made significant progress in web enabling its core business. In each office, the bank has succeeded in leveraging its market position, expertise and technology to create a competitive advantage and build market share.

SCOPEOFTHESTUDY:

The study greatly giving attention on appraising any changes that perceived and revealed in the financial performance of HDFC Bank.

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Financial analysis is the process of identifying the financial strengths and weaknesses of the firm by properly establishing relationships between the various items of the balance sheet and the statement of profit and loss. This study mainly attempts to analyses the financial performance of the HDFC Bank. The financial authorities can use this for evaluating their performance in future, which will help to analyze financial statements.

OBJECTIVEOFTHESTUDY:

1) To study the solvency and liquidity position of the HDFC bank.
2) To analyses the financial changes over the period of 4years
3) To study the profitability position of the HDFC bank.
4) To evaluate the performance of asset management of the HDFC bank.
5) To summarizethe finding and other suggestions for improving the performance of the HDFC banks.

LIMITATIONSOFTHESTUDY:

1. The study has been confined only to a period of 4 years.
2. The changes that had taken place before and after the study period is not taken into consideration.
3. The financial performance is not compared with other firm in the industry.
4. The mathematical figures that are in the ratio are only approximate values and do not have the accurate value.
5. The findings and suggestions may or may not be applicable for the other researchers.

II. STATEMENT OF PROBLEM:

Banking Facilities are increasing day by day and the studies and researches conducted on these private banks are limited. Before privatization, only public sector banks are there in the country, after privatization, private sector banks started to emerge and some banks are failed due to lack of research among their problems and no change of trends and also on bad loans.

The Financial Statements of HDFC bank does not provide the interrelationship between data and the effect of an element over other elements. This is the Critical element which is covered in this project and it provides a greater insight into financial position of the company.This analysis is completely a based on comparison of HDFC past performance with its own performance during the study period. Thus, the industry position is not ascertained in this project.

III. REVIEW OF LITERATURE:

Yadav, S., Jang, J., 2021tried to examine the impact on financial performance of HDFC Bank before and after the merger and to compare the pre and post-merger effect caused on its financial performance by CAMEL Analysis. The data used in the study is secondary data covering total time period of ten years which include five-year prior merger (2003-2008) and five year of post-merger period (2009-2014). The research technique used in this study is CAMEL Analysis. Paired sample Test has been also conducted to check the statistical significance difference between before and after merger CAMEL ratios and to measure the effect of merger on financial performance. The result showed that the financial performance of HDFC increased after the merger and positively impacted by the act of merger.

Singh and Pawan (2016), made an analysis of five private sector banks that are HDFC, Axis bank, ICICI, Yes bank and Indusland bank to know their financial performance using CAMEL methodology. The study reveals that overall performance of HDFC bank is excellent and got 1st Rank among its rival banks.

IV. DATA ANALYSIS AND INTERPRETATION:

FINANCIAL PERFORMANCE

Financial performance is a subjective measure of how well a firm can use assets from its primary mode of business and generate revenues. The term is also used as a general measure of a firm's overall financial health over a given period. Analysts and investors use financial performance to compare similar firms across the same industry to compare industries or sectors in aggregate.

RATIO ANALYSIS

A ratio analysis is a quantitative analysis of information contained in a company's financial statements. Ratio analysis is used to evaluate various aspects of a company's operating and financial performance such as its efficiency, liquidity, profitability and solvency. Ratio are calculated from current year figures and then compared to past years, other companies, the industry, and also the companies assess the performance of the company. Besides, ratio analysis is used predominantly by proponents of financial analysis.

SOLVENCY

Solvency, in finance or business, is the

degree to which the current assets of an individual or entity exceed the current liabilities of that individual or entity. Solvency can also be described as the ability of a corporation to meet its long- term fixed expenses and to accomplish long-term expansion and growth.

(a) CURRENTRATIO

Current ratio may be defined as the relationship between current asset and current liabilities. This ratio, also known as working capital ratio, is a measure of general liquidity and is most widely used to make the analysis of a short-term financial position or liquidity of a firm. It is calculated by dividing the total of current assets by total of the current liabilities.

$$\text{Current Ratio} = \frac{\text{Current assets}}{\text{Current Liabilities}}$$

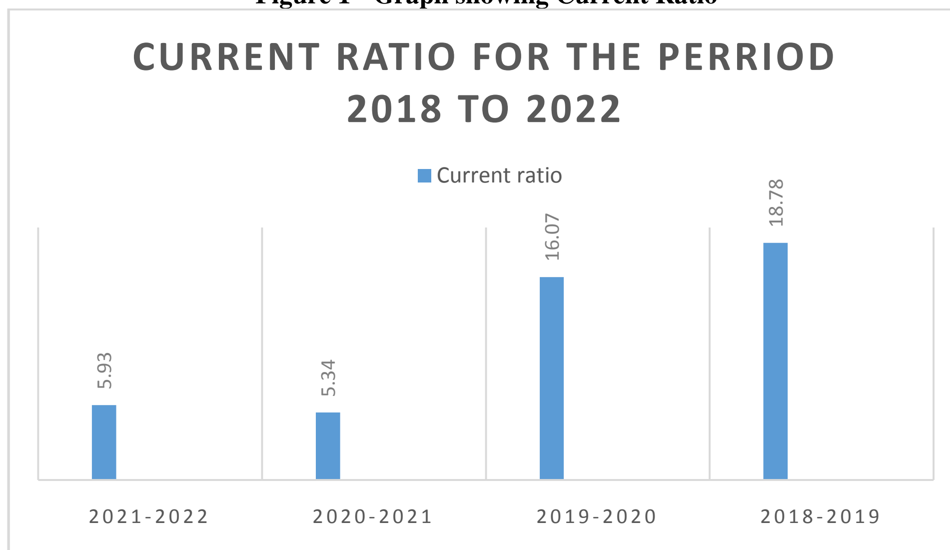
Table 1- Table showing current ratio

Year	Current asset Rs in Cr.	Current liabilities Rs in Cr.	Current ratio
2021- 2022	2,617.55	441.30	5.93
2020-2021	2,356.88	441.29	5.34
2019-2020	3101.78	192.90	16.07
2018-2019	2,750.18	146.43	18.78

INTERPRETATION

From the above table we can interpret that the current ratio of HDFC bank decreased from 18.78 in the year ended 2019 to 5.93 in the year ended 2022.This decrease are because of the increase in current liabilities.

Figure 1 - Graph showing Current Ratio



(b) Debt Equity Ratio

Debt equity ratio, also known as external-internal ratio. It is calculated to measure the relative claims of outsiders and the owners against firm's asset. This ratio indicates the relationship between the external equities or the outsiders fund and internal equities or the shareholder's funds. The formula for calculating a company's debt equity ratio is as follows:

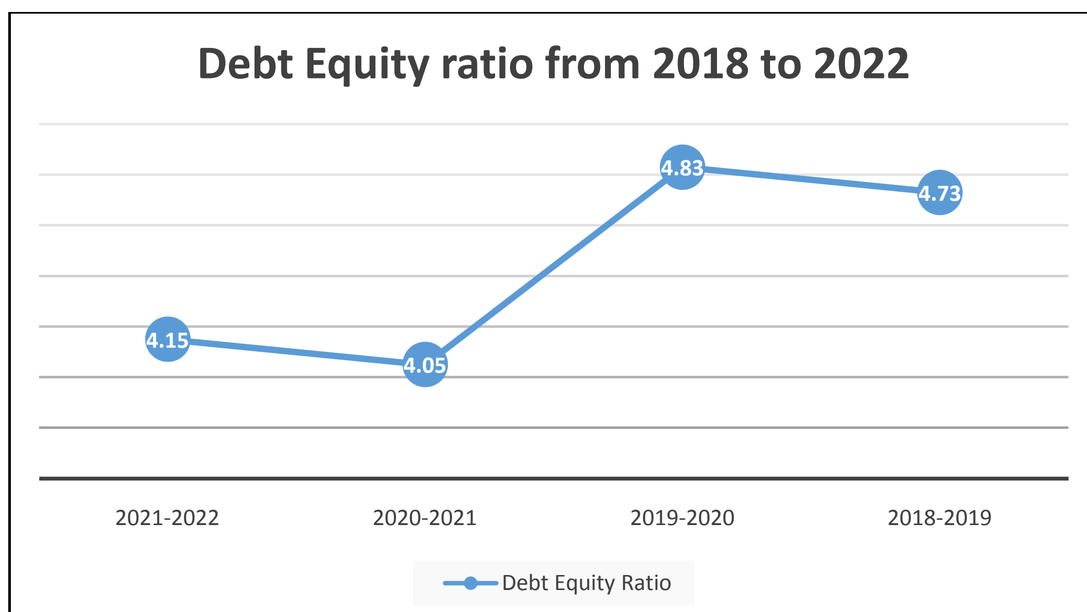
$$\text{Debt Equity Ratio} = \frac{\text{Outsiders' fund}}{\text{Shareholder's fund}}$$

Year	Outsiders fund Rs in Cr.	Shareholder's funds Rs in Cr.	Debt Equity Ratio
2021- 2022	4,99,114	1,20,251	4.15
2020-2021	4,40,595	1,08,782	4.05
2019-2020	4,15,959	86,158	4.83
2018-2019	3,65,851	77,355	4.73

INTERPRETATION

From the above table we can interpret that the debt equity ratio decreased from 4.73 in the year ended 2019 to 4.15 in the year ended 2022. This decrease is because of additional equity shares issued by the company.

Figure 2 – Graph showing Debt Equity Ratio



C) Proprietary Ratio

Proprietary ratio is also known as equity ratio or net worth to total assets ratio. This ratio establishes the relationship between shareholder's fund and total assets of the firm. It is used to determine the long term solvency of the firm. The equity ratio of the company is calculated as follows:

$$\text{Proprietary Ratio} = \frac{\text{Shareholder's fund}}{\text{Total assets}}$$

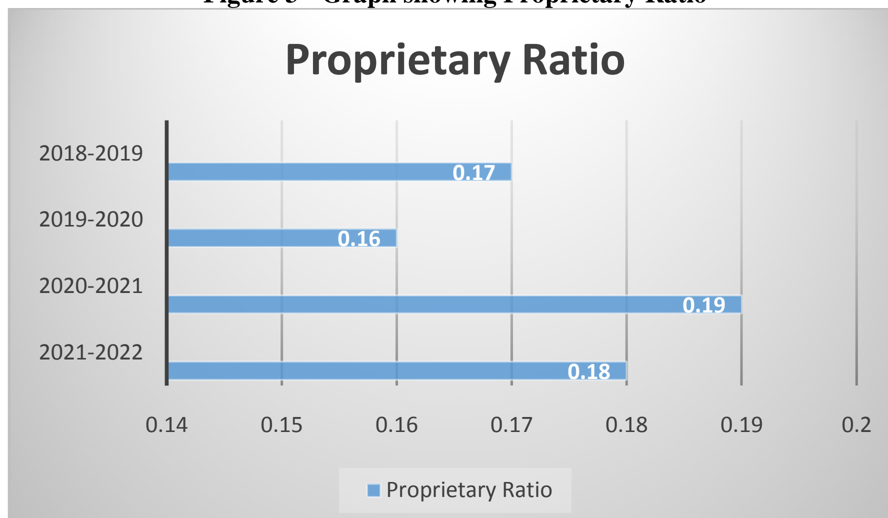
Table 3 - Table showing Proprietary Ratio

Year	Shareholder's funds Rs In Cr.	Total assets Rs In Cr.	Proprietary Ratio
2021- 2022	1,20,251	6,40,862	0.18
2020-2021	1,08,782	5,67,598	0.19
2019-2020	86,158	5,16,994	0.16
2018-2019	77,355	4,54,080	0.17

INTERPRETATION

From the above table we can interpret that the proprietary ratio has increased from 0.17 in the year ended 2019 to 0.18 in the year ended 2022.The increase is because of less dependence on debt funds by the company.

Figure 3 - Graph showing Proprietary Ratio



D) Fixed Asset to Net Worth Ratio

Fixed assets to net worth is a ratio measuring the solvency of a company. This ratio indicates the extent to which the owners' cash is frozen in the form of fixed assets, such as property, plant, and equipment, and the extent to which funds are available for the company's operations (i.e. for working capital). The formula for calculating fixed asset to net worth ratio is as follows:

$$\text{Fixed asset to net worth Ratio} = \frac{\text{Fixed asset}}{\text{Shareholder's fund}}$$

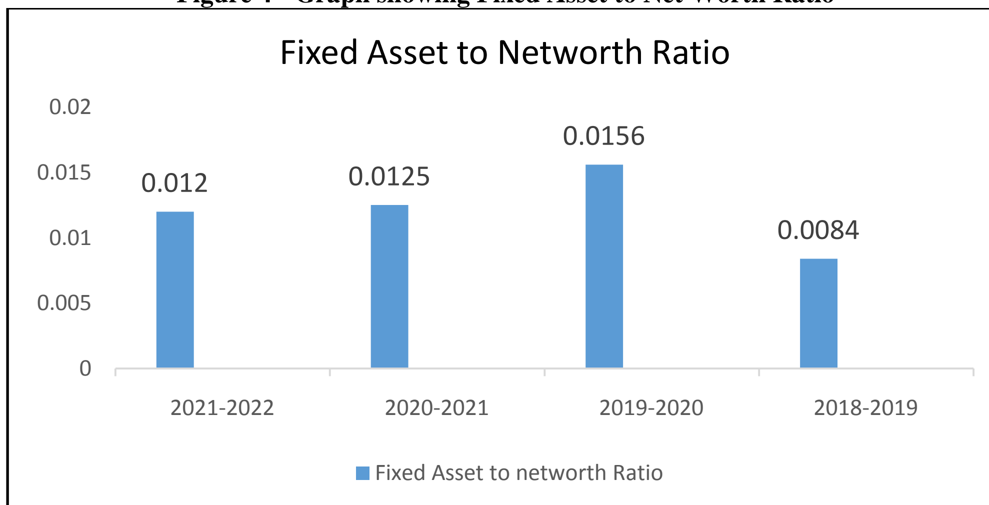
Table 4 - Table showing Fixed Asset to Net Worth Ratio

Year	Fixed asset Rs in Cr.	Net worth Rs in Cr.	Fixed Asset to Net Worth Ratio
2021- 2022	1,442	1,20,251	0.0120
2020-2021	1,355	1,08,782	0.0125
2019-2020	1,348	86,158	0.0156
2018-2019	651	77,355	0.0084

INTERPRETATION

From the above table we can interpret that fixed asset to net worth increased from 0.0084 in the year ended 2019 to 0.120 in the year ended 2022.The increase is because of rise in funds locked in fixed assets.

Figure 4 - Graph showing Fixed Asset to Net Worth Ratio



E)Earnings per Share

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Earnings per share (EPS) is a metric which investors commonly use to value a stock or company because it indicates how profitable a company is on a per-share basis. EPS is calculated by subtracting any preferred dividends from a company's net income and dividing that amount by the number of shares outstanding. Net income is the amount of money that remains in a reporting period after all cash and non-cash expenses are deducted, and net income minus preferred dividends is synonymous with a company's profit for the period. Preferred dividends must be subtracted because holders of preferred stock have contractual rights to dividend payouts.

$$EPS = \frac{\text{Net Income of the company}}{\text{Outstanding shares}}$$

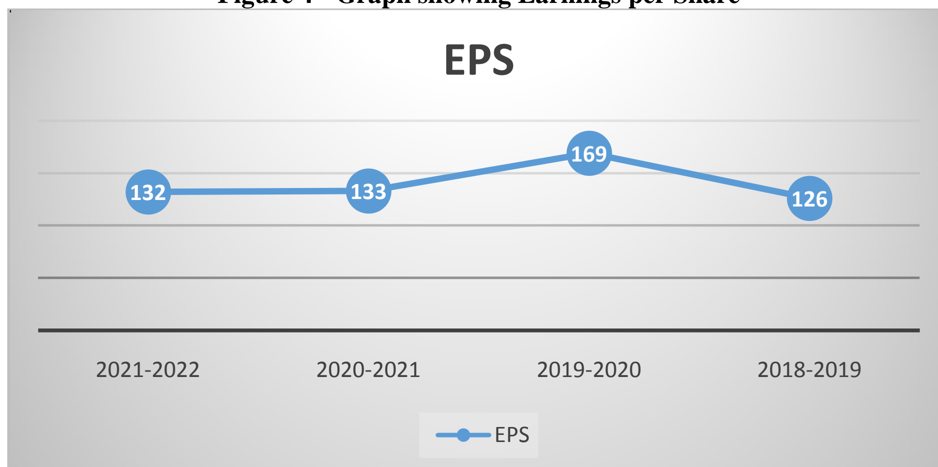
Table 5 - Table showing Earnings per share

Year	Net income Rs in Cr.	Shares outstanding Rs in Cr.	EPS
2021-2022	47,975	362	132
2020-2021	48,149	360	133
2019-2020	58,768	346	169
2018-2019	43,348	344	126

INTERPRETATION

From the above table we can interpret that EPS increased from 126 in the year ended 2019 to 132 in the year ended 2022.The increase is because in high net flow of income from operations.

Figure 4 - Graph showing Earnings per Share



V. FINDINGS:

1. The current ratio of the HDFC Bank has shown

a decreasing trend during the study periodand it resulted in deterioration of the liquidity position of the Company.

2. The debt equity ratio of the HDFC Bank has shown a decreasing trend during the study period. However, the reduction of debt is in low rate and ratio is decreased because of increase in share capital.
3. The proprietary ratio of the HDFC Bank has shown an increasing trend during the study period, it shows that the company has great potential to raise equity capital from the market.
4. The fixed asset to net worth ratio of the HDFC Bank has shown an increasing trend during the study period. It is clear from the study the increase is because of increase in fixed assets.
5. The EPS of the company increased during the study period because of increase in revenue from operation.

VI. SUGGESTIONS:

- ❖ The bank has to increase its current assets to meet its current liabilities as this will improve the liquidity position of the bank.
- ❖ The bank is increasing its share capital at a rate over and above the deposits. Thus, it needs to increase its deposit for better performance.
- ❖ The bank owner’s funds are substantially invested in fixed assets particularly in land & buildings, which is different from the futuristic view of “Neo bank”-Bank only in digital space without physical presence.
- ❖ The EPS of the bank is reducing because of rise in number of shares, so it needs to increase its efficiency to offer more return to investors.

VII. CONCLUSION:

HDFC Bank is one of the leading private banks in the banking sector of the country. This bank has satisfied the people through its speedy service. On the basis of various techniques applied for financial analysis of HDFC Bank we can arrive at the conclusion that the financial position of the bank and overall performance of the bank is satisfactory. The bank has succeeded in maintaining a reasonable profitability position.

The bank has made a major achievement by increasing its deposits which is its main objective. The bank had a slight increase in its share capital.

The current assets and current liabilities of the bank are satisfactory. The liquidity position of the bank is good enough to meet its obligations. However, the bank has performed poor in maintaining its solvency position over the years. It also let its funds sunk into the fixed assets of the bank. As far as the debt-equity ratio is concerned, it is clear that bank has been increasing equity rather than debt.

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