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ijirset@gmail.com

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A Study on Financial Performance Analysis of HDFC Bank Ltd

P.Thanigaivalen, Dr.M.Vidya, Dr. K. Ramasamy

Part Time Ph.D. Research Scholar, Department of Management Science, Sri Krishna Arts and Science College,
Kuniyamuthur, Coimbatore (Affiliated to Bharathiar University), India

Assistant Professor, Department of Management Science, Sri Krishna Arts and Science College, Kuniyamuthur,
Coimbatore (Affiliated to Bharathiar University), India

Assistant Professor, Department of Management Science, Sri Krishna Arts and Science College, Kuniyamuthur,
Coimbatore (Affiliated to Bharathiar University), India

ABSTRACT: The focus of this study is to analyse HDFC Bank's financial performance. The Reserve Bank of India (RBI) granted "in principle" approval to HDFC, one of the first companies to open a bank in the private sector. Currently, the bank boasts an impressive network of over 4,805 branches located in various cities throughout India. Every branch has real-time online connectivity. Additionally, telephone banking is used to service customers in more than 500 locations. Approximately 12,860 networked ATMs, spread across 2,657 cities and towns, are also part of the bank's network. Retail and wholesale banking, treasury, auto, two-wheeler, personal, loans against property, consumer durable, life style, credit cards, and a variety of digital products are just a few of the services and products offered by HDFC Bank. The aforementioned bank's financial performance has been assessed over the last five years, specifically in 2019 and 2020 and in 2021 and 2022 and 2023. Ratio analysis is used to analyse data and provide an interpretation for various ratios, including the debt-to-equity ratio, cash position ratio, fixed assets ratio, and proprietary ratio. In summary, the bank's financial soundness during the study period is satisfactory.

KEY WORDS: Ratio Analysis HDFC Bank Ltd financial performance Ratios.

I. INTRODUCTION

Financial performance evaluation is the process of assessing how well an organization uses its resources from its main line of business to generate revenue. It also assesses the overall financial well-being of the organization over a specified time frame. The organization's financial performance relates to the bank's strengths and weaknesses in terms of accurately establishing the relationship between the income statement and balance sheet. This procedure was used to comprehend the bank's growth, both short- and long-term. The researcher employed ratio analysis in this study, one of several methods for data analysis. This analysis also helps to assess the bank's creditworthiness in order to assess its position in the market relative to its competitors.

HISTORY OF HDFC BANK

HDFC Bank Limited (Housing Development Finance Corporation) was incorporated in August 1994 with its registered office in Mumbai, India. HDFC Bank commenced operations as a scheduled commercial bank in January 1995. 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. The bank at present has an enviable network of over 4,805 branches spread over cities across India. All branches are linked on an online real time basis. Customers in over 500 locations are also servicing through telephone banking. The bank also has a network of about over 12,860 networked ATMs 2,657 across cities and towns. HDFC Bank provides a number of products and services including wholesale banking and retail banking, treasury, auto loans, two wheeler loans, personal loans, loans against property, consumer durable loans, life style loan, credit cards and the various digital products.

II. REVIEW OF LITERATUR

1. Nagalekshmi V S, Vineetha S Das (2018), found that the positive impact of merger Kotak Mahindra Bank Ltd with ING-Vysya Bank. It also found that momentous increment in various budgetary like operating profit, net profit, earnings per share, interest earned, return on assets, equity share capital, income on investment etc.
2. K. Dinesh Kumar and G. Venugopal (2018) revealed that ICICI Bank good performance of balance sheet ratios and Debt coverage ratios and next position of HDFC Bank. SBI andKotak Mahindra Bank performance is good in profitability ratios.
3. PriyankaJha (2017) analyzed financial performance of Public Sector Banks (Punjab National Bank) and Private Sector Banks (ICICI) in India. The researcher concludes her research PNB has lower operational efficiency comparatively than ICICI Bank. In case of dividend pay- out ratio, debt-equity ratio and interest expended to interest earned, ICICI Bank has performed sounder as compare to PNB
4. Jaiswal and Jain (2016) entitled a comparative study of financial performance SBI and ICICI Bank in India. This study examines the financial performance of Indian Banks with the help of CAMEL Model. This study compares the financial performance of SBI and ICICI from 2010-11 to 2014-15. The authors suggested that the SBI is performing well as compare to the ICICI. Furthermore, it was found that the market position of SBI is better than ICICI in terms to earning per share, price ratio per share and dividend payout ratio. On the other hand ICICI Bank performing well in terms of NPA and provision for NPA in comparison of SBI bank.
- 5.Gupta (2014) entitled an empirical study of financial performance of ICICI bank a comparative analysis focused on operational control profitability and solvency etc., this research paper aimed to analysis and compare the financial performance of ICICI bank and offer suggestions for the improvement of efficiency in the bank. This study suggested that NPAs of the ICICI Bank is more than 1percent. Therefore, ICICI should control NPAs

III. RESEARCH DESIGN

Methodology:

This study is quantitative nature meaning it primarily deals with financial statement of HDFC Bank for the past five years. This study is based on secondary data which is taken from banks website and the 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 :

- To evaluate the financial performance of HDFC Bank.
- To analyse the liquidity and solvency position of the bank.
- To find the changes in the trends of the bank using trend analysis.

Limitations of the study:

- The study is restricted only the five financial year's i.e.2019, 2020, 2021, 2022 and 2023.
- The study completely based on secondary data and the accuracy of the analysis depends on the data obtained.
- This study may not be extensive enough to cover all the ratios to be considered in evaluating the financial soundness of the bank accurately

Data analysis:

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

IV. SHORT-TERM SOLVENCY RATIOS

CURRENT RATIO:

Current ratio establishes relationship between current assets and current liabilities. Current assets mean any asset is converted in to cash within a year or 12 months. Current liabilities are those liabilities are settled or repay within a year
Current Ratio = Current Assets/ Current Liabilities

The standard norm or rule of thumb for current ratio is 2:1. It means that let the total amount of current liabilities. When a bank's current ratio is 2 or more it means that its liquidity position is good.

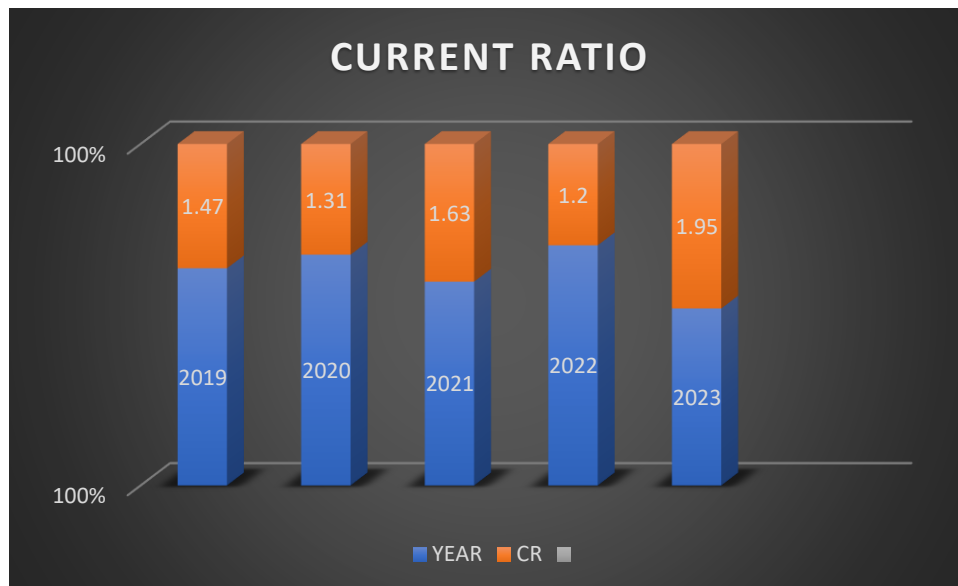
TABLE NO:1

YEAR	2019	2020	2021	2022	2023
CR	1.47	1.31	1.63	1.20	1.95

Source: Annual Report

INTERPRETATION:

Table 1 shows that the current ratio was 1.47 in the year 2018-19 it was increased to 1.63 in the years 2020-21. In the year 2022-23 the ratio was increased 1.95. It indicates that banks liquidity and its repayment of debts are sound during the period of study.



CASH POSITION RATIO:

This ratio is also called “Absolute Liquidity Ratio” or Super Quick Ratio. This is a variation of quick ratio. This ratio is calculated when liquidity is highly restricted in terms of cash and cash equivalents. This ratio measures liquidity in terms of cash and near cash items and short-term current liabilities. Cash position ratio is calculated with the help of the following formula.

$$\text{Cash Position ratio} = \frac{\text{Cash and Bank Balances} + \text{Marketable Securities}}{\text{Current Liabilities}}$$

An ideal cash position ratio is 0.75: 1. This ratio is a more rigorous measure of a firms' liquidity position.

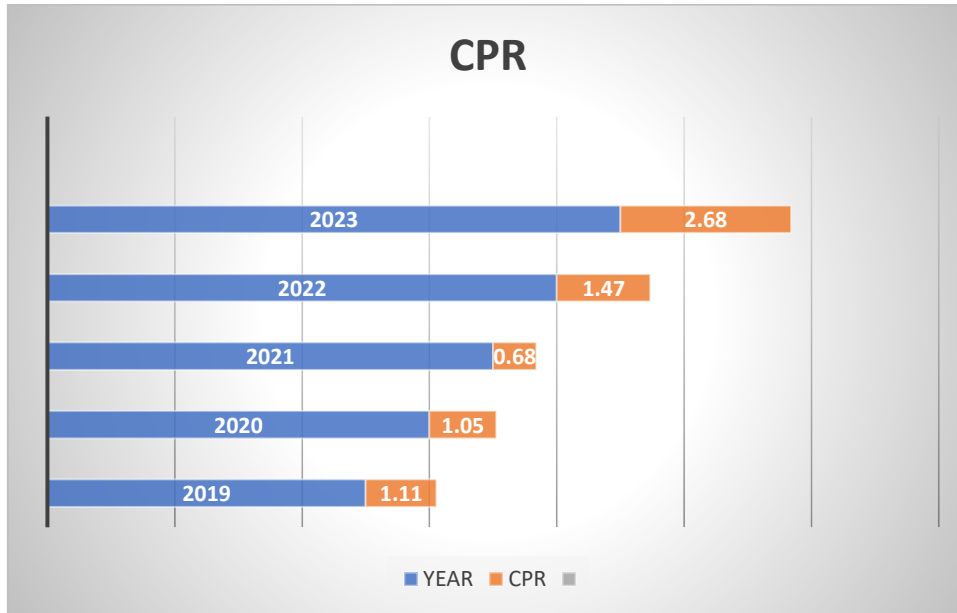
TABLE NO:2 CASH POSITION RATIO

YEAR	2019	2020	2021	2022	2023
CPR	1.11	1.05	0.68	1.47	2.68

Source: Annual Report

INTERPRETATION:

Table 2 explains ability of bank to meet its financial obligations it gives better position of the bank. Cash Position Ratio in the year 2018-19 1.11 it was increased to 1.47 in the years 2021-22. In the year 2022-23 the ratio was increased 2.68. During the study period the bank liquidity position is good.



V. LONG-TERM SOLVENCY RATIOS

FIXED ASSETS RATIO

This ratio deals the relationship between fixed assets and long-term funds. The primary motto of this ratio is to ascertain the proportion of long-term funds invested in fixed assets.

Fixed Assets Ratio = Fixed Assets/ Long-Term Funds An ideal fixed assets ratio is 0.67. The ratio must not be more than 1, if the ratio is less than 1 it indicates that a portion of working capital had financed by long-term funds.

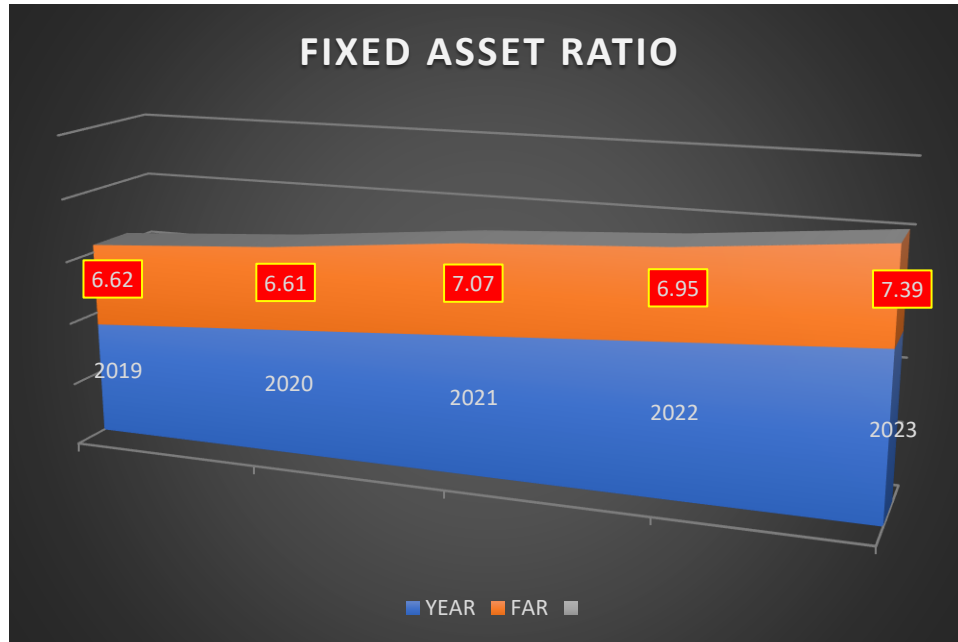
TABLE 3 FIXED ASSETS RATIO

YEAR	2019	2020	2021	2022	2023
FAR	6.62	6.61	7.07	6.95	7.39

Source: Annual Report

INTERPRETATION:

Table 3 reveals that fixed assets and long-term funds of the bank. In the year 2018-19 fixed assets ratio is 6.62 which has decreased by 6.61 in the year 2019-2020. During the year 2020-21 the ratio was 7.07 and in the year 2021-22 it had decreased by 6.95. 2022-23 the ratio was increased to 7.39. These ratios are compared with standard norm of fixed assets ratio, it is very high. Hence a portion of working capital had financed by long-term funds during the study period.



DEBT-EQUITY RATIO:

This ratio is otherwise called as “External-Internal Equity Ratio”. Mainly it is calculated to assess the financial soundness of long-term policies and to determine the relative shares of outsiders and shareholders. It determines relationship between the debt and equity.

$$\text{Debt-Equity Ratio} = \frac{\text{Shareholders Funds}}{\text{Total Long-Term Funds}}$$

A high debt-equity ratio shows the highest claims of creditors over assets of the firm than those of shareholders. A high ratio reveals an unfavourable position of the company. A low debt-equity ratio indicates lesser claim of creditors and a higher margin is safe for them. The standard norm of this ratio 2:1 is satisfactory.

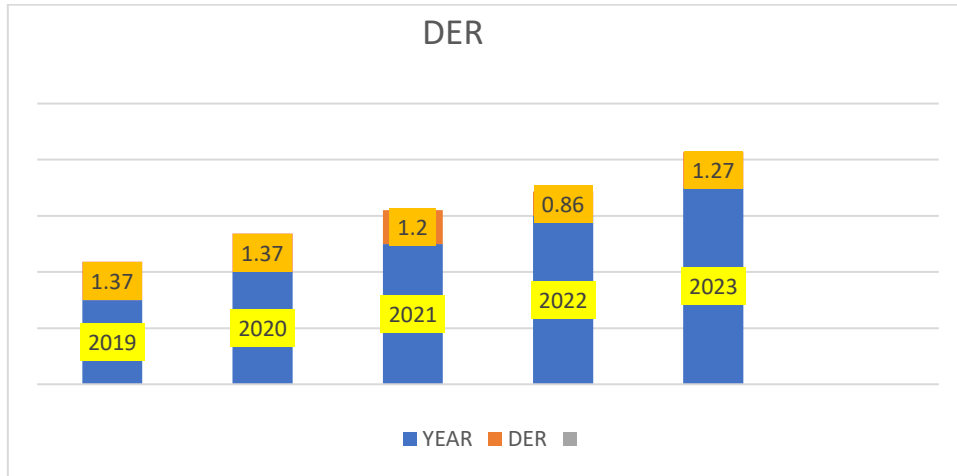
TABLE 4 DEBT EQUITY RATIO

YEAR	2019	2020	2021	2022	2023
DER	1.37	1.37	1.20	0.86	1.27

Source: Annual Report

INTERPRETATION:

Table 4 explains debt-equity relationship. In the year 2018-19 the ratio was 1.37 and it was same in the year 2019-20 followed by this it was decreased by 1.20 during the year 2020-21. In 2021- 22 it was decreased by 0.86 But it was increased in the year 2022-23 was 1.27. These ratios are less than the standard norm of 2:1. Hence, the creditors are safe during the study period.



PROPRIETARY RATIO:

This ratio is called as owners fund ratio or net worth ratio. This ratio points out relationship between the stake holder’s funds and total tangible assets.

$$\text{Proprietary Ratio} = \frac{\text{Shareholders funds}}{\text{Total tangible assets}}$$

This ratio is very useful to determine the long-term solvency of the company. It is important to the creditors who can ascertain the proportion of shareholders’ funds in the total assets employed in the company. Standard norm of this ratio 0.5, below this standard norm the creditors may have to loss heavily in the event of winding up of the company.

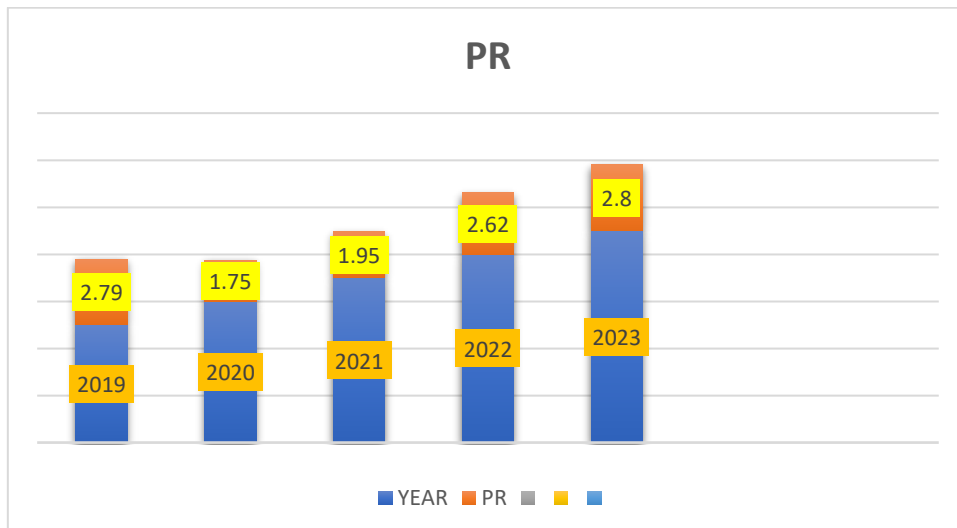
TABLE 5 PROPRIETARY RATIO

YEAR	2019	2020	2021	2022	2023
PR	2.79	1.75	1.95	2.62	2.80

Source: Annual Report

INTERPRETATION:

Table 5 clearly explains that long-term solvency of the company. In the year 2018-19 the ratio was 2.79 which have decreased by 1.75 in the year 2019-20. But it was increased to 1.95 during the year 2020-21. Followed by this in the year 2021-22 and 2022-23 it was increased to 2.62 and 2.80 respectively. These ratios are more than the standard norm of 0.5. It is clearly shows that the creditors are highly safe during the study period.



VI. FINDINGS

1. Current ratio indicates that banks liquidity and its repayment of debts are sound during the period of study.
2. Cash position ratio or Absolute Liquidity Ratio is shows during the study period the bank liquidity position is good.
3. Fixed assets ratio explains portion of working capital had financed by long-term funds during the study period.
4. Debt equity ratio explains the creditors are safe during the study period.
5. Proprietary ratio reveals that the bank long-term solvency position is good in the study period

VII. CONCLUSION

The HDFC Bank is the largest private sector bank in India. The researcher finds the financial performance for the past five financial years from 2014-15 to 2018-19. The data collected from annual reports of the bank and the web site. The data analysed through various ratios. This research article finally concluded that the HDFC bank financial performance is strong during the study period.

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