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A Comparative Study of Financial Performance of HDFC Bank and ICICI Bank

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ABSTRACT

HDFC bank and ICICI bank are the two private Indian banks that are the subject of this article's analysis and examination. In order to better comprehend modern banking tactics, the paper also compares the profitability results of these two banks. Data may be analyzed using a variety of mathematical and statistical methods and tools, including ratios, trends, and simple and complicated correlations. Analysis of data is displayed in various graphs and tables using the most relevant parametric and non-parametric tests. According to these findings, HDFC Bank is more profitable than ICICI Bank.

INRODUCTION

The Indian economy is growing at an annual rate of more than 8%, making it one of the world's strongest. This has shaped the financial sector throughout the nation. As a result, the banking sector has seen an increase in competitiveness and new growth potential as a result of globalization. Private and public banks in the nation have the ability to boost economic development by increasing their share of the market and servicing the expanding upper and middle class segments of the population. Since banks are always seeking to improve their service to gain market share and continue their development, the customer is in a good position with a variety of options and improved service.

Three banks were created under British East India Company licenses before to independence. Some such banks have maintained the tradition of serving as quasi-central banks in the same capacity as the Presidency banks for many more years. The Imperial Bank of India was formed later in 1925, when the three banks amalgamated to become the Imperial Bank of India. After independence, the bank was renamed the State Bank of India, a title it has had since its founding. It was in 1839 that the 'Union Bank' was established by Indian businessmen in Calcutta. Nevertheless, the financial crisis of 1848 led to the failure of this bank. Allahabad Bank was established a few years after that. This bank, one of the country's oldest, is still in operation.

Indian banks were also established as a result of the country's cotton trade. New banks were established by merchants after the conclusion of the Civil War in the United States because Indian cotton was in high demand.

There can be no question that finance is a vital component of the economy and plays an important role in supporting it. Banks are now seen as a crucial part of contemporary business, and they are constantly adapting to satisfy the demands of economists and investors. In other words, the strength of a country's financial system is directly proportional to its progress. When human civilizations first began, there was no such thing as a monetary system, therefore goods and services were exchanged for one another via barter. Services and things were simply traded for other on-demand services and goods under this system. A major shift in commodities exchange and commerce was brought about by the modern development of 'currency.' This led to a significant expansion of the banking industry. Banks and the creation of money were able to resolve almost all of the issues with the ancient barter system, which had a number of flaws.

There are two major financial institutions in India today: HDFC and ICICI. In the previous several years, they've become thriving banks, earning spots among the country's 10 best. As a result, our investigation is focused on assessing the profitability of these two banks and discovering the ways they used to generate significant profits. Comparing the findings of the ratio method analysis of the secondary data acquired with those of the two banks in question reveals discrepancies and similarities.

The importance of ratio analysis in financial analysis cannot be overstated. When two mathematical expressions are compared, it shows the connection between them, as well as the relationship between two or more objects in general. Select data on an enterprise's financial statement are used to calculate a financial ratio.

In order to assess the overall financial health of a company or other organization, a number of standard ratios are used. Managers inside a company, present and future investors of a company, and the company's creditor all employ financial ratios. In order to assess the strengths and shortcomings of different organizations, financial analysts utilize financial ratios.

Using Ratio Analysis Is All About

There are several ways in which financial ratio analysis may be used to determine the profitability of an organization, as well as whether or not its shareholders will be satisfied.

Ratios in the financial statement may be compared:

Amongst businesses

From one industry to another

Between spans of time for a same firm

A comparison between a single firm and the average for its sector

The current ratios of a company will be compared to the previous ratios in order to assess its success. Time series or trend analysis refers to the comparison of financial ratios over a period of time. Changes in the company's financial performance are shown, as is whether or not they have improved or worsened throughout that time period. It's not enough to know what needs to be changed; it's also necessary to understand why those

The ratios have been altered. Because the accounting policies may have changed without a significant impact in the company's performance.

The ratios of two companies in the same sector at a given moment may also be compared. Cross-sectional analysis is a term for this kind of comparison. Choosing several rivals with comparable activities and comparing their ratios to those of the company may be more beneficial. This comparison illustrates how each company stacks up in terms of its financial health and performance. For this sort of examination, it's so simple to locate financial statements from comparable companies in journals or media.

Using the industry average, a company may assess its financial health and performance by examining its financial ratios. The industry analysis is a way for evaluating a company's financial health and capabilities within the industry to which it belongs.

Because each sector has unique features that impact financial and operational ties, industry ratios are critical benchmarks. However, this approach has a number of practical drawbacks. The first step in determining industry average ratios is very time-consuming and challenging. Second, since industries contain both strong and weak enterprises, the averages take both into consideration. The average may be of little use if the spread is so large. Third, if companies within the same industry have substantially divergent accounting standards and procedures, the average may be meaningless and comparison impossible. However, industry ratios will be immensely helpful if they can be harmonized and the highly strong and weak enterprises are removed.

THE INDIA BANKING SECTOR

With the advent of globalization and deregulation, the banking sector in India has seen a significant uptick in the quality of its products and services. With the widespread use of online banking, you can now access your account from any place at any time, making banking a lot more convenient than it used to be. Government-owned banks and private banks make up the majority of the Indian banking industry. Government-owned banks have long had a disproportionate part of the banking sector. In India, private banking has made a big difference in the quality of financial services. To assist the consumer better understand their accounts and investments, private banking delivers better and more proactive information regarding banking products, such as interest rates.

The banking system's significance:-

System of banking The financial intuitions in many nations have developed rapidly, and with this expansion, numerous banking systems have emerged. The amount of operator business patterns and geographic regions of operation may be used to classify banks.

Banking is defined as:-

People's homes, businesses, and even governments may borrow money from a bank, which takes deposits from the public. Banks are financial entities responsible for managing the flow of funds. As a result, banks are becoming more and more money dealers as they grow and broaden their activities. Now, banks aren't just money dealers; they're also credit creators. The scope and variety of their operations are expanding.

QamarIzhar and PushpaSuryavanshi are the speakers at this year's conference. Bills of exchange in the United Kingdom, 1982 "Bankers" refers to a group of people, whether incorporated or not, who engage in banking activities.

Regulation of the banking industry under the Banking Act of 1949 establishes

The definition of banking is "accepting for the preparation of lending and investment of public deposits of money, repayable on demand or otherwise by cheque, draft, order or otherwise.".

The Bank's Requirement:-

Money lenders and private persons conducted financial transactions prior to the foundation of banks. The interest rates were quite high at the time. This time around, neither public savings nor lending terms were standardized. To deal with these issues, the government formed regulated organised banking sectors.

The bank performs the following functions:
Emphasizes the need of the bank and the significance of its existence.
• To ensure the safety of the money you've saved customers.
• To manage the flow of money and credit in the economy.
•Increase saving quickly and effectively in order to build public trust in the workings of financial institutions.
• To prevent the concentration of financial power and teaching in the hands of a few people.
• To ensure that all consumers are treated the same.

ICICI BANK'S HISTORY

Mumbai, Maharashtra, India's ICICI Bank is a worldwide banking and financial services corporation based in Mumbai. In terms of assets and market capitalization, it is the second-largest bank in India as of 2014. For both corporate and individual clients, it provides a comprehensive range of banking products and financial services via a number of distribution channels. Currently, the bank has 4050 branches in India, as well as 17 locations around the world, including in India. State Bank of India (SBI), Punjab National Bank (PNB), and Bank of Baroda (BOB) are the other Indian banks. Branches and representative offices are located throughout the United Kingdom and Canada, as well as the United States; Singapore; Bahrain; Hong Kong; Sri Lanka; Qatar; Dubai International Finance Center; and China.

The World Bank sent a team here to provide suggestions for how to best help small and medium-sized businesses thrive to the size of Indian industry In January 1, 1955, this company was formed as a Private Limited Company. As of April 1, 1966, the ICICI and Shipping Credit and Investment Company of India were combined by the Indian government. In the past, this corporation provided financing for sea-based types of transportation. Since the Reserve Bank of India authorised the merger between ICICI Bank with this firm, this organisation no longer qualifies as a Development Finance Organization.

ICICI's aims include:

The estimation of new industry development.

To aid in the growth and upgrading of already operating industries.
In order to boost output
To increase the number of people who can find work

INTRODUCTION TO THE HDFC BANK

India's HDFC bank is a Mumbai-based banking and financial services organization. With a founding year of 1994, it is now the world's sixth biggest Professor QamarIzhar and Ms. PushpaSuryavanshi bank in India as a percentage of their total assets. In terms of market value, it was India's biggest private sector bank as of February 2014. The Home Development Financing Corporation, a leading Indian housing finance firm founded in 1977, sponsored the bank. Among India's most trusted brands, HDFC bank placed 32nd. Market capitalization ranks HDFC 45th on a list of the world's top 50 largest banks. The bank's assets were INR 4.08 trillion as of March 31, 2013. The bank had a profit of INR 69 billion in the fiscal year 2012-12, an increase of 31% from the previous year. At the end of March 2013, it had 28.7 million subscribers.
HDFC bank was founded in 1956 by HasmukhBhai Parekh, who was awarded the PadamBhushan by the Indian government in 1992. He left the planet in 1994.

LITERATURE REVIEW

As India's banking system evolves, competition between banks heats up, resulting in improved services, new technologies, and other improvements. Banks in India are now under pressure to develop, distinguish, and innovate in order to attract new customers in a competitive market. Banks compete for market share in order to expand their customer base.

Product development and micro-planning are two activities that must be undertaken with vigor. Customers' wants and demands should be met with reasonable price and applicable service customization. As a result of constant technological advancements, banks in India are also required to explore cost-cutting measures and to change their lending practices. Amandeep attempted to investigate the various patterns in the profitability of twenty Indian commercial banks in her paper, "Profitability of Commercial Banks." Analyses of the specified parameters were conducted using trend analysis, ratio analysis, and concentration indexes. Her research also used a multivariate approach. Amandeep came to the conclusion that banks must excel in burden management if they are to have good profitability performance (p.17). For retail banking in India to grow, Ashok Kumar (2018) finds that a paradigm change in bank financing is necessary via novel products and mechanisms requiring ongoing up-gradation of banks' internal systems and procedures.

In the same line (p.14). According to him, the potential for profit generation in retail banking is greater than that of any other conventional way. Commercial banks' productivity in India was examined by Cheema and Agarwal, who contrasted the results of public and private sector banks as well as those of international banks operating in India. State banks and nationalized banks were the two groups of public sector banks that were examined in her study (p.66). Owned money, deposits, borrowings, and wage bills were employed as input variables. Spread and non-interest income were employed as output variables. It was discovered that the most efficient public sector banks were Allahabad Bank and State Bank of Patiala, whereas Jammu & Kashmir Bank was considered to be the most efficient private sector bank (p.73). ING Bank was at the top of the list of international banks. According to the findings, public sector banks were found to be inefficient due to large amounts of owned money, while foreign banks were found to be inefficient due to excessive borrowings (p.76).

Delvin James used First Direct, a subsidiary of Midland Bank, as a case study to examine retail banking services in the United Kingdom. Through careful communication and timely product delivery, he found that banks may expand their market share (p.44). Goyal and Kauranalysed the performance of a set of private banks in India (seven in total). Mean, standard deviation, yearly compound growth rate, and one-way ANOVA have all been used in the statistical analysis of the data. Various ratios of bank capital adequacy, asset quality, productivity, earnings quality, and liquidity were computed by the researchers. According to the findings of the research, all of the banks examined had capital adequacy ratios that are higher than 9 percent. In addition, the research shows that the average

Axis Bank's debt/equity ratio is greater. Kotak Mahindra Bank, on the other hand, had their NPAs rise by the greatest proportion. Liquid assets to total assets, Liquid assets to total deposits, Net profit / average assets, and percentage change in NPAs were all shown to have significant variances among the mean ratios of all criteria.

Because of the severe rivalry among Indian banks, the efficiency and profitability of India's banking system is of paramount significance, according to Goeland ChitwanBhutaniRekhi.(p.30). Furthermore, the banking industry is under increasing pressure to personalise its offerings in light of changing client preferences. Some measures have been employed more recently to assess banks' productivity and performance. Public banks, on the other hand, aren't profitable in the same way that private ones are. Due to the fact that efficiency and profitability are intertwined, their performance cannot be compared to that of private banks as a consequence. According to Mahalakshmi Krishnan, the notion of retail banking is beyond the comprehension of the average person both in urban and rural areas. An effort being made to enhance Indian banking institutions, as a result of this.

According to a study done in 2007, computerization has a significant influence on the productivity and profitability of Indian banks. Between 2003 and 2005, the research was conducted. The study's findings showed that ICICI Bank performed well across the board (p.102). Althou gh the research was done so long ago, fresh developments may have led to different outcomes. This study intends to compare and contrast the profitability of HDFC bank and ICICI bank in India in light of past research. The findings of this study will contribute to the body of information already available on Indian banking and the profitability of the country's financial institutions. Mathematical mean, one-way ANOVA, and Turkey HSD tests will be used to evaluate the data from the last five years. There are several other metrics that may be used to measure the profitability of these banks. These metrics include Operating Profit Margin (OPM), GPM, NPM and Earning per Share, Return on Assets (ROA), Price Earnings Ratio and Dividend Payout Ratio.

RESEARCH METHODOLOGY

Need for research

An important advantage of financial reporting is that it provides an early warning system for banks to prevent financial risks, including credit risk and interest rate risk.

Research questions

1. Do you have a bank account over the internet?

2. What factors influenced your decision to open a bank account?

Research design

Descriptive research

OBJECTIVES OF THE STUDY

- To evaluate the financial performance of ICICI bank and HDFC bank for the year 2017-2021.
- To compare financial performance of ICICI bank and HDCF bank.
- To examine CAMEL analysis of ICICI bank and HDFC bank.
- To suggest measures to overcome the obstacles faced by ICICI and HDFC bank.

Hypothesis

HDFC Bank and ICICI Bank's gross profit ratios do not vary much.

There is a significant disparity in the gross profit ratios of selected HDFC Banks and ICICI Banks, according to hypothesis

This hypothesis states that there is no statistically significant difference in the net profit ratios of HDFC and ICICI banks.

A significant difference in the net profit ratio between HDFC Bank and ICICI Bank has been found, according to hypothesis.

Sources of data:

Both the primary sources and secondary sources of data have been used to conduct the study.

Primary source:

The primary data for this study has been collected by approaching the salaried employees via internet (digital survey method).

Secondary source:
The secondary data are collected from articles published on various websites (desk research).

MethodsforDataCollection

- Primary Data
- Secondary Data

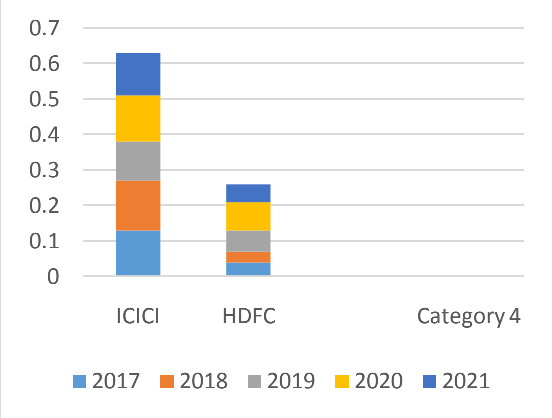
Primary Data

Primary source of data was collected by questionnaire.

Secondary Data
Secondary source of data was collected from
Book,websites.
Analysis of data

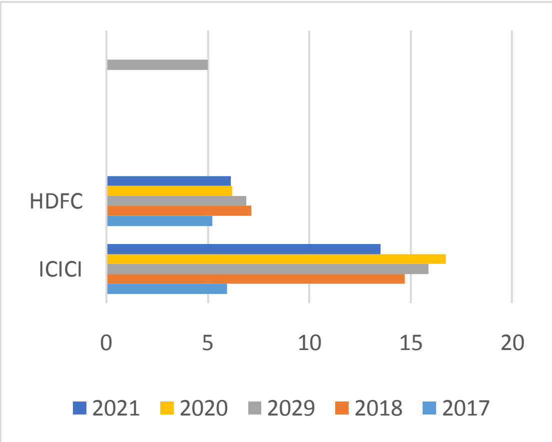
Table 1: Current Ratio

year	**2017**	**2018**	**2019**	**2020**	2021
ICICI	.13	.14	.11	.13	.12
HDFC	.04	.03	.06	.08	.05



According to this table and graph, ICICI is in a lot better position than HDFC when it comes to meeting our responsibilities, but it is still a long way behind. The current ratio of ICICI and HDFC in 2020 was 0.13 and 0.08.

Table 2: Quick Ratio

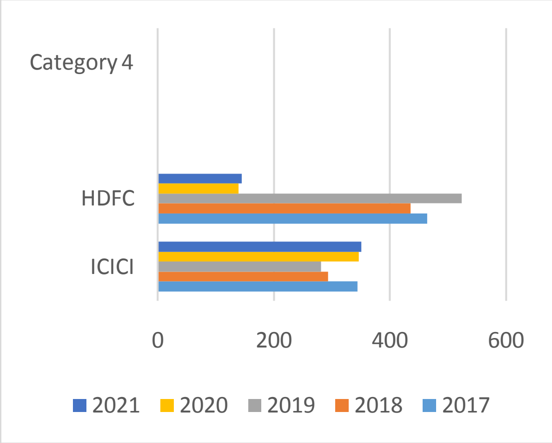


Particulars	2017	2018	2029	2020	2021
ICICI	5.94	14.70	15.86	16.71	13.5
HDFC	5.23	7.14	6.89	6.20	6.14

As can be seen from the above Quick ratio graph, ICICI is in a stronger position than HDFC, whose position is expected to decline in 2020 and 2021 due to a larger quick ratio.

Table 3: Net Operating Profit per Share

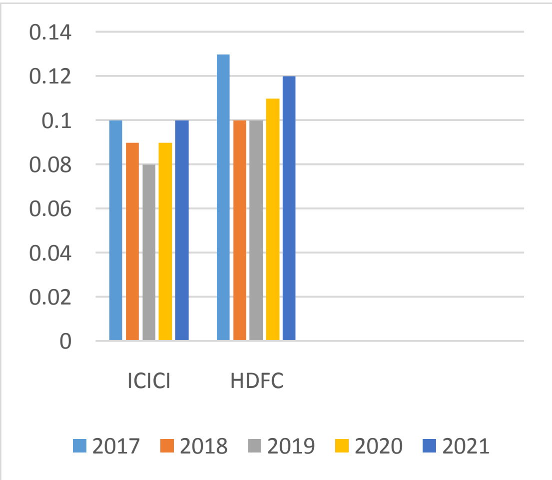
Particulars	**2017**	**2018**	**2019**	**2020**	2021
ICICI	343.59	293.19	281.04	346.59	351.13
HDFC	464.77	436.03	524.34	138.66	144.21



In the years 2018, 2019, and 2020, HDFC's net operating profit per share was higher than ICICI's, but in 2021, ICICI's net operating profit per share climbed fast, while HDFC's net operating profit per share decreased.

Table 4: Total Asset Turnover Ratio

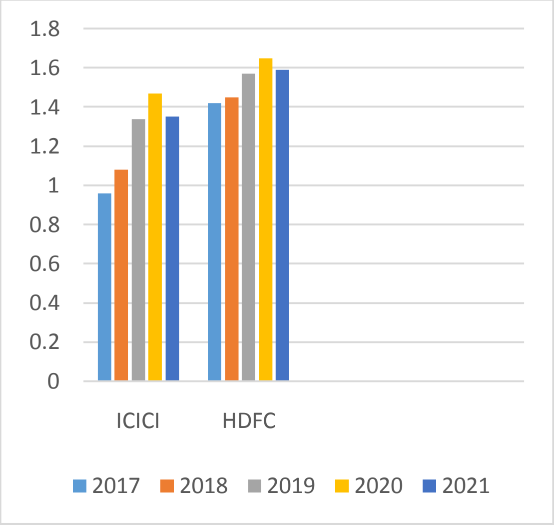
Particulars	2017	2018	2019	2020	2021
ICICI	.10	.09	.08	.09	.10
HDFC	.13	.10	.10	.11	.12



In contrast to ICICI, HDFC's four-year ratio reveals that they are more efficient in utilizing their assets, as seen in the table and graph above.

Table 5: Net Profit on Total Funds

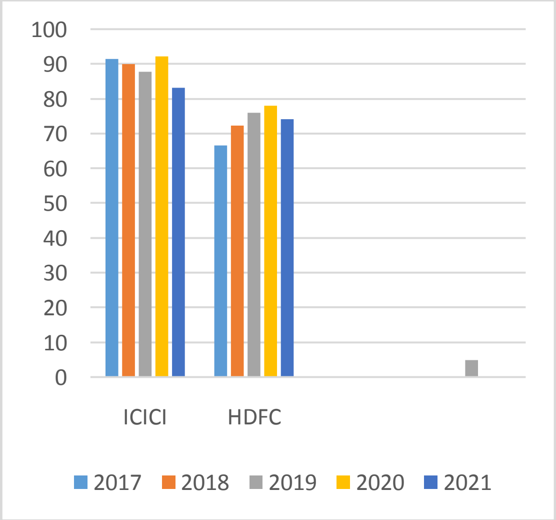
Particulars	2017	2018	2019	2020	2021
ICICI	0.96	1.08	1.34	1.47	1.35
HDFC	1.42	1.45	1.57	1.65	1.59



HDFC's return on investment is higher than ICICI's, as seen in the table and graph above. There is a slight and progressive increase in both ratios.

Table 6: Credit Deposit Ratio

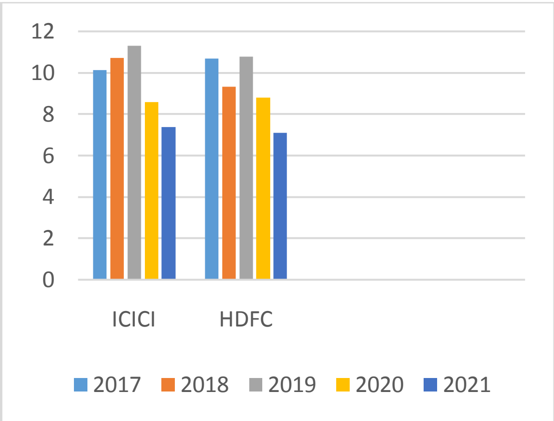
Particulars	2017	2018	2019	2020	2021
ICICI	91.44	90.04	87.81	92.23	83.2
HDFC	66.64	72.44	76.02	78.06	74.21



HDFC bank's credit deposit ratio was lower in each of these four years than ICICI bank's credit deposit ratio. According to this data, ICICI bank has a greater number of loan assets generated from its deposit than HDFC bank does

Table 7: Cash Deposit Ratio

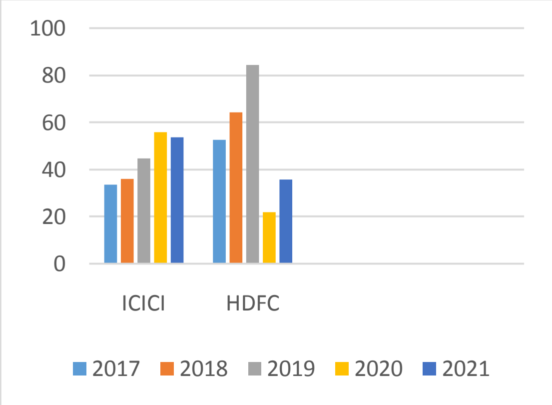
Particulars	2017	2018	2019	2020	2021
ICICI	10.14	10.72	11.32	8.60	7.4
HDFC	10.71	9.35	10.79	8.81	7.1



ICICI had a better cash deposit ratio in 2019 and 2020, whereas HDFC had a better cash deposit ratio in 2014 and 2020, according to the above table and graph. ICICI's cash deposit ratio has been steadily rising over the last several years, but it will begin to decline in 2021.

Table 8: Earnings per Share

Particulars	2017	2018	2019	2020	2021
ICICI	33.76	36.10	44.73	56.09	53.76
HDFC	52.77	64.42	84.40	22.02	35.77



As can be seen in the graph, HDFC's earnings per share are higher than those of ICICI. HDFC's earnings per share climbed from 2018 to 2021 before declining in 2021. In the years leading up to 2021, the earnings per share of ICICI Bank are expected to rise steadily.

FINDINGS

- When it comes to satisfying our obligations, this table and graph show that ICICI is far ahead of HDFC, but it's a long way off. In 2020, ICICI and HDFC had a current P/E ratio of 0.13 and 0.08, respectively.
- Given the increased quick ratio, HDFC's position could weaken in 2020 and 2021. This can be observed in the above Quick ratio graph.
- When it comes to operating profit per share, HDFC's was larger than ICICI's in 2018, 2019, and 2020, but in 2021, ICICI's net operating profit per share rose quickly, while HDFC's declined.
- According to the table and graph above, HDFC's five-year ratio demonstrates that they are more efficient in using their assets than ICICI.
- As can be seen in the table and graph above, HDFC has a better return on investment than ICICI. Both ratios are increasing at a steady pace.
- In each of these five years, HDFC bank's credit deposit ratio was lower than ICICI bank's credit deposit ratio. ICICI bank has more loan assets produced from deposits than HDFC bank, according to these figures.
- According to the following table and graph, ICICI had a better cash deposit ratio in 2019 and 2020, whereas HDFC had a better cash deposit ratio in 2014 and 2020. However, the cash deposit ratio of ICICI will begin to drop in 2020 after a long period of growth.
- ICICI's profits per share are below HDFC's, as the graph shows. During the years 2018-2021, HDFC's profits per share increased, but then began to decline. It is projected that ICICI Bank's profits per share would climb gradually through 2021.

CONCLUSIONS

As can be seen from the aforementioned ratio, ICICI is in a stronger position than HDFC. As can be seen from the above charts and tables, ICICI Bank's performance is stronger in terms of current ratios, quick ratios, credit deposit ratios, and cash deposit ratios, whereas HDFC Bank's profits per share have decreased over the last year.

SUGGESTIONS

- There is a low level of uptake in rural areas.
- Fewer branches compared to rivals;
- Make banking easier for people to use

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