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TREND AND PROFITABILITY ANALYSIS HDFC OF LIFE INSURANCE LTD

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ABSTRACT

The main objective of this study is to find out the truth which is hidden and which has not been discovered as yet. And this study used to evaluate the liquidity and profitability position of selected HDFC Standard Life insurance Co. Ltd.. In addition to evaluate which company is performing best among the selected companies and make suggestions for improvement in financial or liquidity position of the selected companies. This study focused on knowing insurance sectors and it is performance in India through study conceptual framework of profitability and liquidity.

Keywords*: Financial, Trend Analysis, Liquidity, Profitability*

1. INTRODUCTION

HDFC Life Insurance Company Limited ('HDFC Life' / 'Company') is a joint venture between HDFC limited, India's leading housing finance institution and Standard Life Aberdeen, a global investment company. It is one of the leading insurance sector companies.

The main objective of the study is to find out financial performance of HDFC Life insurance, for the period of 2017-2022. Further the study also involve in analysing the liquidity position, ascertain profitability of HDFC, analyse the short term and long term solvency position of the life insurance. The researcher predicts the financial stability of HDFC life. The research methodology used in the study is descriptive research the method of data collection is secondary data is collected the annual reports from the HDFC Life.

2. STATEMENT OF THE PROBLEM

The study of the problem is that the trend and future projections of the profits, assets and liabilities. Profitability of the period mentioned above is analysed. The company's profitability analysis is gone through and interpretation of whether it was adequate as per benchmark and industry standards.

3. NEED OF THE STUDY

The study deals with the application of ratio analysis. The project aims at providing information about the concern and its ratio analysis. The study is confined to detailed analysis of various ratios and the balance sheets of. This study helps us to know the firms stability and also an insight into the effectiveness of the management. The ratios are, however, useful in judging the efficiency of the business only when they are compared with the past results of the concern.

4. REVIEW OF LITERATURE

(Kishore R.D, 2001) Stated that there is an Enormous scope for a big breakthrough and an accelerated growth with keen healthy Competition. He forecast that the Industry would generate 8 to 10 lakhs jobs in the Next 5 to 7 years".

"Krishnamurthy S, Mony S. V., Jhaveri N., Bakhshi S, Bhat S and Dixit M. R."Insurance Industry in India: Structure, Performance and Future Challenges" Their study has clearly discussed the status and growth of Indian insurance industry after liberalization and future challenges and opportunities with regard to insurance. The future growth of this sector will depend on how effectively the insurers are meeting the expectations of their customers and able to change the perceptions of the Indian consumers and make them aware of the insurable risks.

(Nena, 2016)"Performance Evaluation of Life Insurance Corporation (LIC) of India" He found that the insurance industries in India now a day have taken a giant shape especially after privatization and introduction of Insurance Regulatory & Development Authority (IRDA). Life Insurance

Corporation of India is one of the most significant public sector which plays excellent job in selling its products. But since last few years it is facing tremendous competition as many private players have emerged. The idea behind this study therefore to know the growth and performance of LIC. The researcher is going to analyze the major source of income (Premium Earned) of the sampled unit, as well as the significant heads of expenses of LIC to measure the performance during the period of the study ”.

5. RESEARCH METHODOLOGY AND INTERPRETATION

The sample of study includes analysis from the financial statements obtained from the annual reports of HDFC LIFE INSURANCE LTD. Other than the annual reports other publications where used for this study. The study is made for a period of five years from 2016-17 to 2020-21. The most appropriate parametric and non- parametric tests are used in data analysis. The data obtained is presented through different graphs and tables. Data has been converted in to relative measure such as ratios, percentages, indices rather than the absolute data. The data has been analysed and hypotheses have been tested at 5% level of significance, by employing technique. In this study, the used tools for data analysis are gross profit ratio, net profit ratio, return on assets, current ratio.

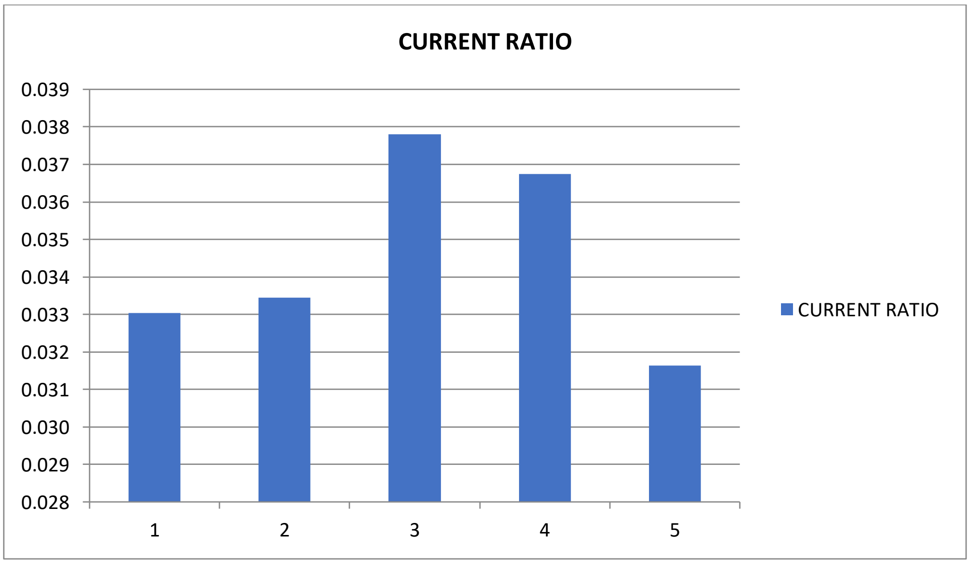
Current ratio:

Table 1

PARTICULARS	Mar-17	Mar-18	Mar-19	Mar-20	Mar-21
Trade Payables	934	1,178	267	1,570	2,299
Other liability items	90,334	1,04,585	1,24,083	1,23,799	1,68,034
TOTAL CURRENT LIABILITIES	**91,268**	**1,05,763**	**1,24,350**	**1,25,369**	**1,70,333**
Trade receivables	0	0	186	0	0
Cash Equivalents	796	1,108	1,240	680	1,036
Loans n Advances	2,171	2,410	3,195	3,627	3,929
Other asset items	48	19	80	299	424
TOTAL CURRENT ASSETS	**3,015**	**3,537**	**4,701**	**4,606**	**5,389**
CURRENT RATIO	**0.033**	**0.033**	**0.038**	**0.037**	**0.032**

(SOURCE: COMPUTED DATA)

Chart 1



The above indicates the Current Ratio of HDFC Life Insurance during the period of the study from 2017-21. The Current Ratio of HDFC standard life insurance shows continuously decreasing trend with an average 0.035 during the period of the study.

HYPOTHESIS: H0=There is no significant difference of Current ratio of 5 years of period under study.

It represents the liquidity of the company. It is the relationship between current assets and current liabilities of the company. The ideal current ratio is 2:1 but in this company the ratio is low as there are no Trade Receivables of the company.

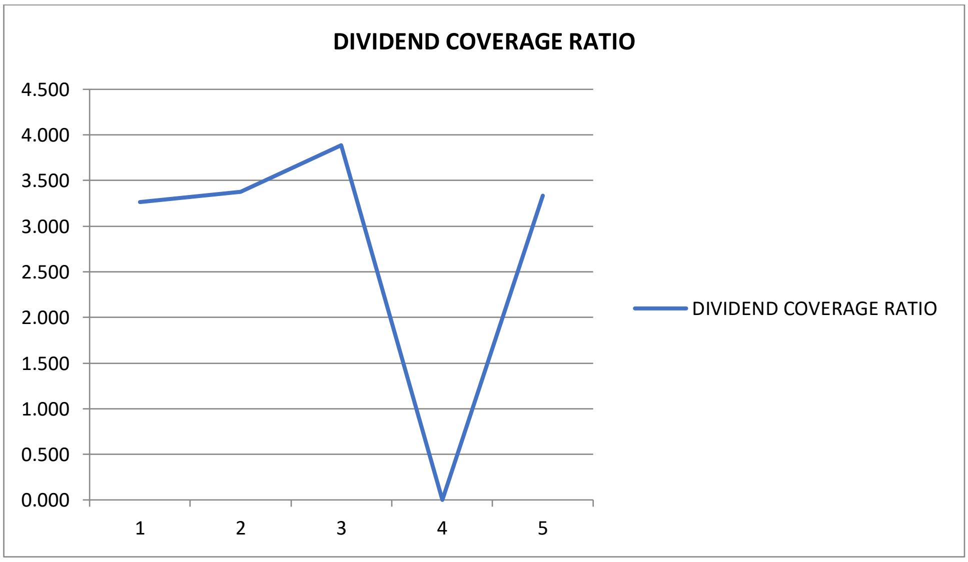
Dividend coverage ratio:

TABLE 2

PARTICULARS	Mar-17	Mar-18	Mar-19	Mar-20	Mar-21
Sales	30,647	32,260	38,857	29,403	71,528
Expenses	29,674	31,186	37,643	28,262	70,294
Operating Profit	972	1,074	1,215	1,141	1,234
OPM %	3%	3%	3%	4%	2%
Other Income	139	282	136	369	445
Interest	9	11	14	0	0
Depreciation	41	44	45	47	51
Profit before tax	1,061	1,300	1,291	1,463	1,629
Tax %	16%	15%	1%	11%	16%
Net Profit	887	1,107	1,278	1,297	1,361
DIVIDEND PAID	271.728	327.956	328.771	0	408.242
DIVIDEND COVERAGE RATIO	3.264	3.375	3.887	0.000	3.334

(SOURCE: COMPUTED DATA)

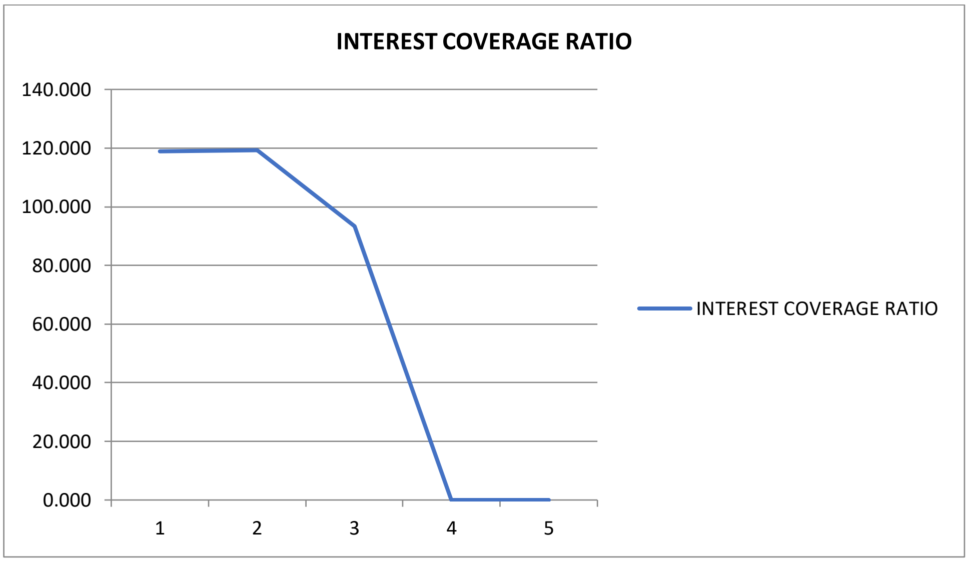
Chart 2



It is the ratio of how much profit does the company have in order to declare the dividend which it declared for the particular financial year. The ratio is quite decent as the company has earned atleast 3 times of the dividend declared by the company.

Interest coverage ratio:

Chart 3

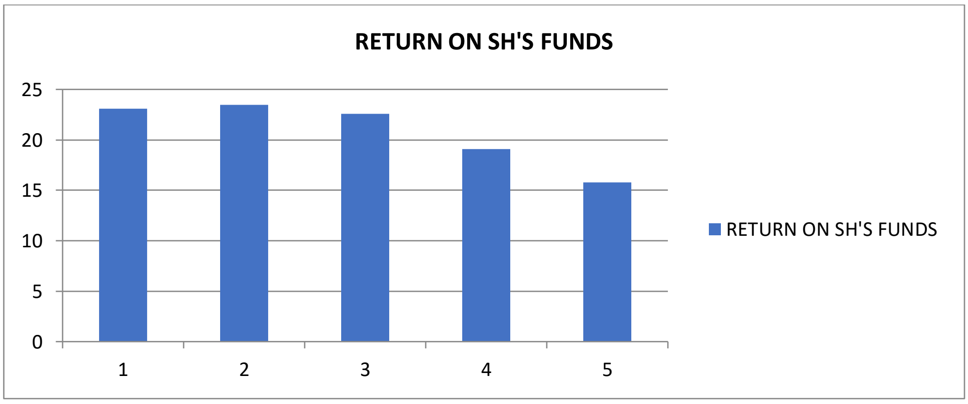


(SOURCE: COMPUTED DATA)

It is the ratio indicating number of times the company has earned forpaying the int exp. By barely seeing the graph we see that the coverage ratio has gone down but, int exp has also gone down which is a good sign for the company as a whole. In the last 2 years we come to know that the interest expenditure is nil. This means that the company is not into any form of debt. There is also a negative about this interpretation that the company has no long term debt in its capital structure for which the company can attain tax benefit of the same.

Return on shareholder’s funds:

Chart 4



(SOURCE: COMPUTED DATA)

It is the ratio of profits generated for the total shareholder's funds. The return on shareholder's funds are decent of the company as they are around 20%.Thecompany average of return on shareholder’s funds of this company is somewhere around the industry standard which is 25%.

Operating profit margin :

Table 3

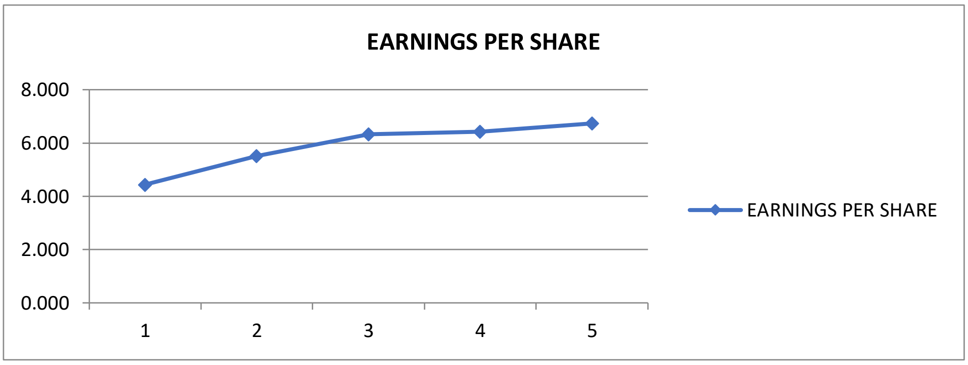
	Mar-17	Mar-18	Mar-19	Mar-20	Mar-21
Sales	30,647	32,260	38,857	29,403	71,528
Expenses	29,674	31,186	37,643	28,262	70,294
Operating Profit	972	1,074	1,215	1,141	1,234
OPM %	3%	3%	3%	4%	2%
Other Income	139	282	136	369	445
Depreciation	41	44	45	47	51
EARNINGS BEFORE INT AND TAX	1070	1312	1306	1463	1628
Net profit	**173.99**	**193.29**	**13.09**	**165.51**	**267.78**
OPM	3.172	3.329	3.127	3.881	1.725

(SOURCE: COMPUTED DATA)

The Operating profit margin of the company was quite consistent until 2020. But it has come down drastically in the year 2021 is not looking that appealing to the users of this ratio. This maybe to attract more customers during the pandemic.

Earnings per share :

Chart 5



It can be clearly interpreted in the above diagram that the EPS is rising year on year even during thepandemic period. The avg EPS being around RS.6. Actually , this EPS is slightly lower than the industry average because the company does not have long term debt in the recent past.

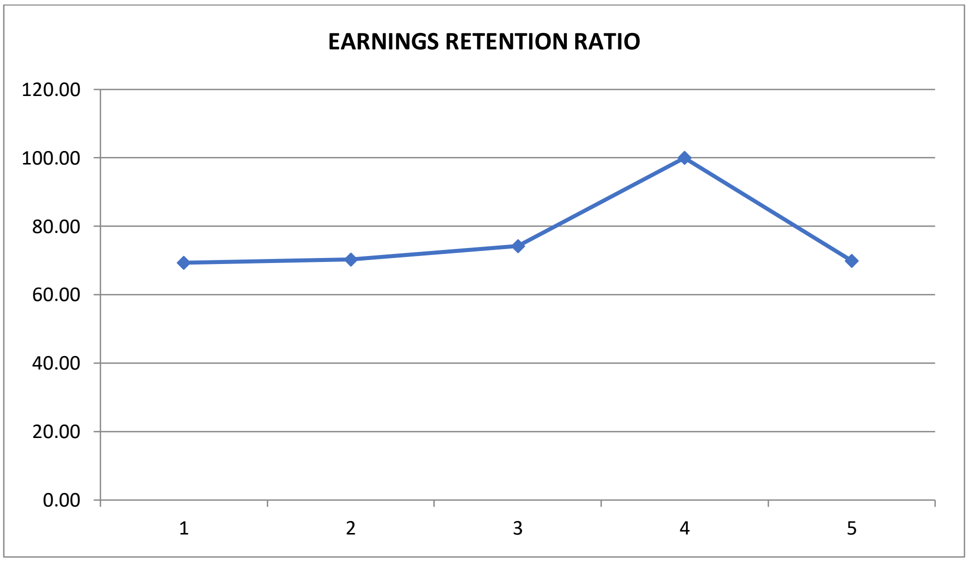
Price earnings ratio:

Chart 6

The price earnings multiple of the company is averaging 86.752. We can observe that the trend is increasing and has crossed 100 in the latest financial year. This is further expected to grow in the coming years as there is a rising trend and the company is doing well as per there plans and procedures.

Earnings retention ratio:

Chart 7



(SOURCE: COMPUTED DATA)

This is the relationship between retention of profits by the company to the total earnings available to the equity shareholders. The company is retaining around 75% of their profits which is a good sign as they are wanting to invest back into the business to grow. This hints us that GROWTH is the main motivation for the company.

6. CONCLUSION

By the above ratio analysis, we could conclude that the company is not having that good numbers as it requires high working capital at a rising rate. But the positive to be taken being reinvesting the profits back into the business. Interpretations of some of the most relevant ratios for the above company are as follows:

1. Current Ratio – Ideal Current Ratio is 1.5:1 for insurance companies, so the current ratio of .035 is not decent for the company
2. Dividend Coverage Ratio – The company has a decent dividend coverage ratio barring one year where they did not distribute any dividend.
3. Interest Coverage Ratio – At present there is no long or short term debt in the capital structure of the company. It is a good sign as the company is not dependent on debt capital.
4. Earnings Retention Ratio – The Company believes in retaining the profits and re-invest it back into the business in order to grow and expand.
5. Earnings per Share – The EPS of the company is around RS.5 per share , which is quite decent. The investors must take it as a big positive before investing.

7. LIMITATION OF STUDY

The major drawback and analysis of this study is that sometimes market trend and business attractiveness predicted can go wrong because of any giant or transformational change or strategic change in the marketing or operating improvement. So, the past analysis may not always make us know about the future of the company. The process of research can be painstakingly time consuming. It can involve the overcoming of many obstacles and may unfortunately need to be revised several times as you progress through the steps. By completing your study in the correct order and making sure you don't forget important tasks, your progression from theory to publication will occur much more smoothly.

8. SCOPE FOR FURTHER STUDY

There are many other financial ratios which could be computed to analyse the past performance and future trends of the company. There are other methods other than Ratio Analysis which can be used to evaluate the performance of the company which is not being considerd for the purpose of study in the current article.

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