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Financial Performance of Private Banking Industry in India, with Special Reference to HDFC Bank

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ABSTRACT

Financial performance is the process of evaluating how well a business uses its resources from its primary business model to generate income. The study's major goal was to determine the performance ratios of the bank that could be useful in determining the bank's growth characteristics. It employed secondary data from HDFC spanning five years. The study made use of a variety of techniques, including the current asset turnover ratio, net asset turnover, margin, and other performance ratios. The idea shows that although the bank is making higher profits and generating enough income, its efficiency in doing so is restricted. Eventually, the bank is operating satisfactorily in terms of income..

Keywords: HDFC Bank, Ratios,Private Sector

1.Introduction

Private banking consists of personalized financial services and products offered to the high-net-worth individual (HNWI) clients of a retail bank or other financial institution. It includes a wide range of wealth management services, and all provided under one roof. Services include investing and portfolio management, tax services, insurance, and trust and estate planning.

Private banking includes common financial services like checking and savings accounts, but with a more personalized approach: A "relationship manager" or "private banker" is assigned to each customer to handle all matters. The private banker handles everything from involved tasks, like arranging a jumbo mortgage, to the mundane like paying bills. However, private banking goes beyond CDs and safe deposit boxes to address a client's entire financial situation. Specialized services include investment strategy and financial planning advice, portfolio management, customized financing options, retirement planning, and passing wealth on to future generations.

HDFC Bank is headquartered in Mumbai. The Bank at present has an enviable network of over 6499 branches spread over 3226 cities across India. All branches are linked on an online real–time basis. Customers in over 500 locations are also serviced through Telephone Banking. The Bank also has a network of about over 18868 networked ATMs across these cities.

2. Objective of the study

- To evaluate the financial performance of HDFC Bank.
- An analytical study of the bank with the help of ratio analysis.
- To analyses the financial and performance analysis of the bank by using different ratios.

3. Research Methodology

Source of Data	Secondary Data
Period of Study	2018 to 2022
Tools and Techniques	Ratio Analysis

4.Demand Determination of The Industry

Bank accounts opened under GoI Pradhan Mantri Jan Dhan Yojana are over 450 Mn with deposits of ~$21.5 Bn in beneficiary accounts

Investments stood as the 2nd largest component in the assets side of the total banks' balance sheets after loans and advances, driven primarily by Government securities. As of 2020, the capital adequacy amongst Indian banks remained above regulatory requirements with RBI also further relaxing the leverage ratio for banks to boost lending.

RBI has taken steps to enable mobile payments key enablers to growth, by removing the transaction limit of $745 and allowing banks to set their own limits. Recovery of stressed assets improved during 2019-20 through the IBC, 2016 and Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interests (SARFAESI) Act, 2002.

The Top 5 banks in India banking assets are ~$ 1.3 Tn: State Bank of India, ICICI Bank, Punjab National Bank, Bank of Baroda, and Bank of India

On an y/y basis, loans and advances were up by 6% in Q1 FY2022 suggesting a generally better lending activity compared to Q1 FY2021 which was at the height of the pandemic

Total Loans and Deposits are projected to grow at CAGRs of 8.77% and 8.48% respectively from 2020-2025 with Total Loans expected at ~ $ 4 Tn by 2025 and Deposits at $3.7 Tn

Gross bank credit by commercial banks was up by 6.7% in August 2021, after expanding by 5.6% in 2020/21, and 6.8% in 2019/20.

Lending to industry growing by 2.3% and to services up by 3.5%. Credit to infrastructure—a major segment of industrial credit—rose by 5.9%. (FY 2021)
Industries make up about 30% of the commercial banks' loan book, followed by personal loans (29%) and the services sector (27%) (June 2021)

Citibank (US) is the largest foreign-owned lender in India, followed by HSBC (UK), Standard Chartered (UK) and Deutsche Bank (Germany). In recent years, Singapore's DBS has been aggressive in expanding its presence in India.

5. Distribution Channel in the Industry

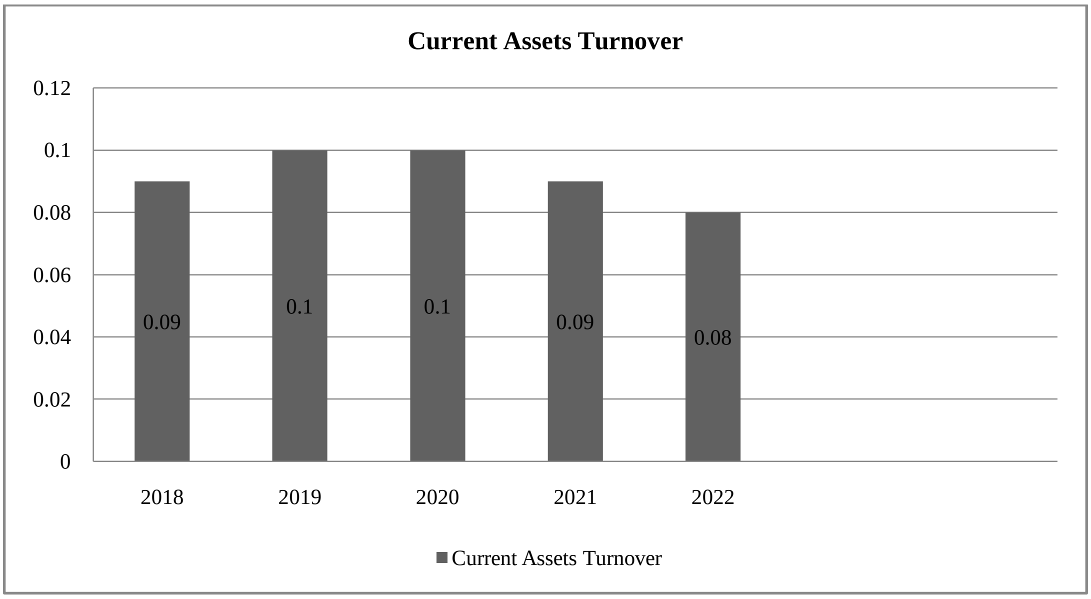
As competition intensifies with similar pricing on banking services, the competitive advantage will be shifted towards non-price factors. In this context, new forms of distribution channels are invaluable outlets for financial institutions, since they provide the opportunity for cutting costs without diminishing the existing service levels (Akinci et al., 2004). The use of technology has provided banks with new forms of financial businesses, through the advent of new channels such as E-banking, internet (online) banking and the latest development: mobile banking. A fusion of mobile technology and financial services, mobile banking, emerged after the advent of the portable internet and smart-chip-embedded handsets (Tae-Gyu, 2006) and provided banks with a true one-to-one business-to-consumer channel to their subscribers, which enables a level of customer intimacy unforeseen in the banking industry. To conclude, with customers demanding greater convenience and accessibility, many banks are eyeing cost-effective additional/alternative service delivery systems. The shift is towards the distribution strategies and the multi-channels banks will opt for to provide the basis for differentiation in an intensely competitive market (Thorton et al., 2001).

6. Data Analysis and Interpretation

Current Assets Turnover

The current assets turnover ratio indicates how many times the current assets are turned over in the form of sales within a specific period of time. A higher asset turnover ratio means a better percentage of sales.

Current Assets Turnover = Net Sales /Current Assets



Interpretation

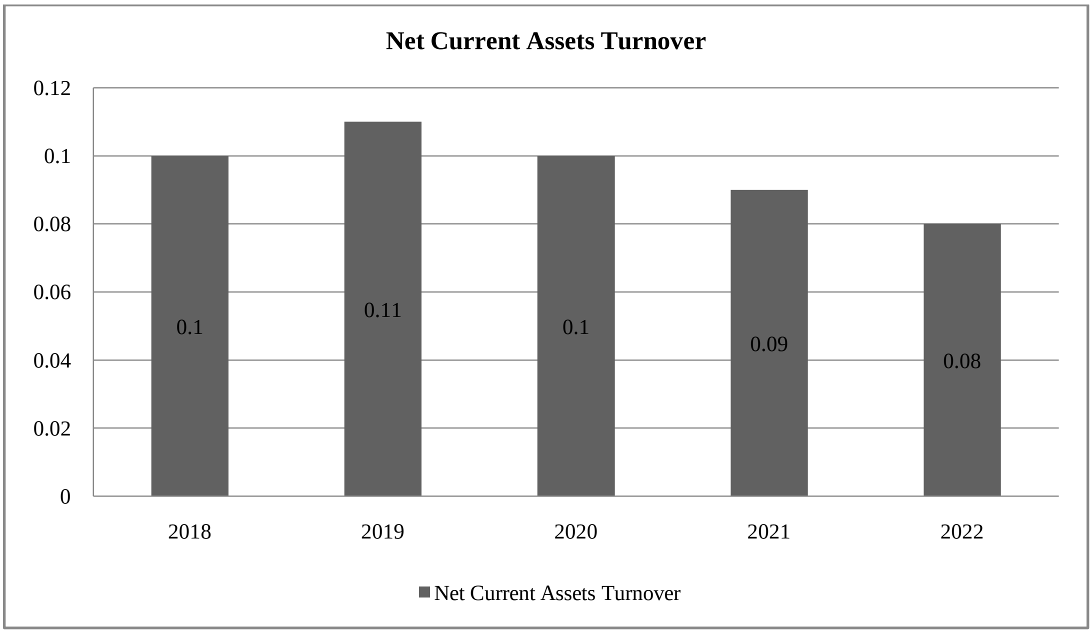
From the above table and chart we can see the higher current turnover ratio in the year 2019 and 2020 which is 0.10, it shows that the more efficient a company is at generating revenue from its assets.

The lowest current assets turnover ratio in the year 2022 which is 0.08.

Net Current Assets Turnover

The net current assets turnover ratio expresses the ability of a company's working capital in promoting the sales of the company. Net current assets are also known as working capital. The ratio shows to what extent the day-to-day expenses fuel the net sales of a company.

Net Current Assets Turnover = Net Sales/Net Current Assets



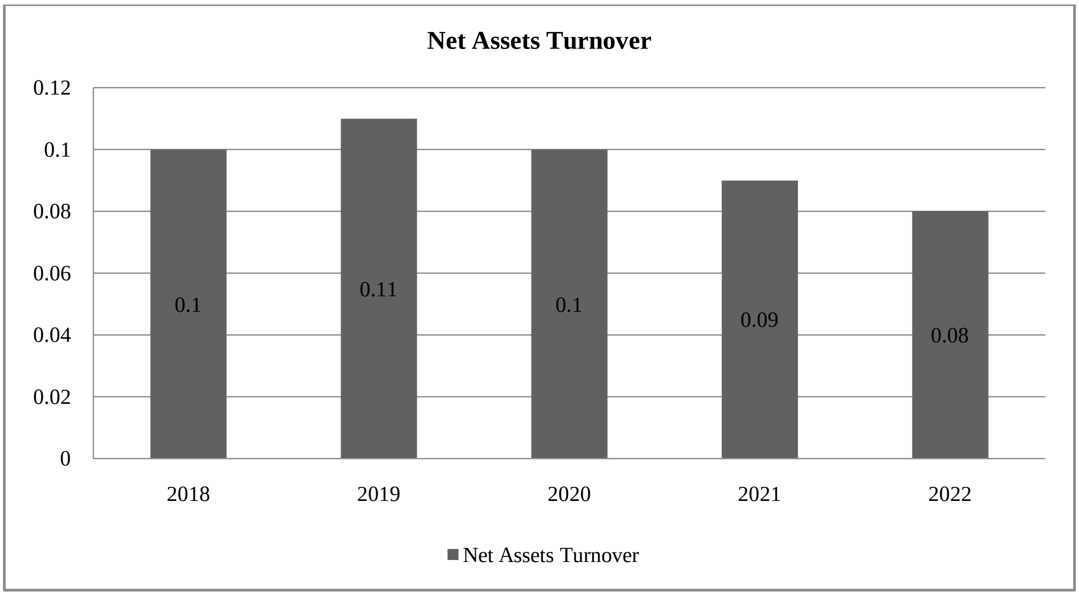
Interpretation

The highest net current assets turnover ratio in the year 2019 which is 0.11, it indicates the company is using more efficient use of assets. The lowest

net current assets turnover ratio in the year 2022 which is 0.08. it indicates the company is not using its assets as efficiently.
Hinger ratio represents more turnover, more sales and more profit. Lower ratio represents less turnover, less sales and less profit.

Net Assets Turnover

The asset turnover ratio measures the value of a company's sales or revenues relative to the value of its assets. The asset turnover ratio can be used as an indicator of the efficiency with which a company is using its assets to generate revenue.The higher the asset turnover ratio, the more efficient a company is at generating revenue from its assets. Conversely, if a company has a low asset turnover ratio, it indicates it is not efficiently using its assets to generate sales.



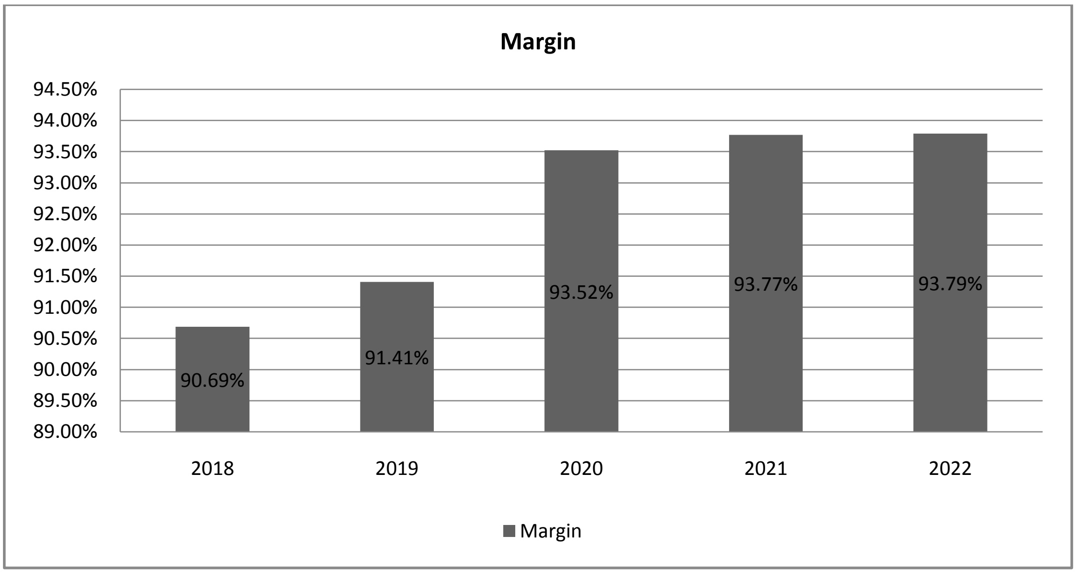
Interpretation

From the above table and chart the higher the asset turnover ratio in the year 2019 which is 0.11. It indicates the more efficient a company is at generating revenue from its assets. The lower asset turnover ratio in the year 2022 which is 0.08. It indicates it is not efficiently using its assets to generate sales.

Margin

Margin ratio measure a company's ability to turn its sales into profits. Standalone figures provide only a snapshot and are in some way meaningless without a benchmark. Margin ratio have applications in valuation, credit analysis, and company performance.

Margin= PBIT/ Net



Interpretation

The higher margin in the year 2022 which is 93.79%, It means company's more earning capacity and more profit in that year. The lower margin in the year 2018 which is 90.69% it means company's less earning capacity and less profit.

Higher the ratio represents more earning capacity and more profit. Lower the ratio represents less earning capacity and less profit.

5. Findings:

1. Current ratio indicates the banks liquidity and its repayment of debts are sound during the period of study.
2. Debt equity ratio of HDFC Bank continuously decreases during the period of 2018 to 2022. It means company is utilizing its assets and borrowing less money from the market.
3. Company's current assets are continuously increasing and Sales is also increasing during the period 2018 to 2022. It indicates company is more efficient to generating revenue from its assets.
4. Fixed assets ratio indicates the company is using its fixed assets more effectively because company's fixed assets increase during the period. Fixed assets ratio explains portion of working capital had financed by long term funds during the study period.
5. Margin ratio of HDFC Bank increases during the study period, it means company's more earning capacity and more profit.
6. During the period of study the profitability ratio is satisfactory.
7. Return on equity ratio indicates the company may be mismanaged and could be reinvesting earnings into unproductive assets.
8. Net margin ratio of the HDFC Bank increasing during the study period it indicates the bank have high profitability, and profit is generated from sales by company.
9. Company's working capital is also increasing during study period it means company have available fund for day-to-day operations.

6. Conclusion:

The financial position of the concern can be analyzed with the help of the ratios. The study used various key performance banking ratios. The study has been made on various aspects of the bank like interest, loans, assets, expenses, deposits etc. Finally, the financial performance of HDFC Bank from 2018 to 2022 is satisfactory. This study will be helpful for the researcher to analysis the financial performance of HDFC Bank in the future.

7.References

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