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A Study on Financial analysis and performance of HDFC Bank

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ABSTRACT

This study aims to assess the financial performance of HDFC Bank, which was among the first to obtain approval from the Reserve Bank of India to establish a private-sector bank. Presently, the bank has an extensive network of over 8,344 branches in various cities throughout India, all linked through an online real-time system. Additionally, customers in over 1000 locations access the bank through telephone banking, and it boasts an extensive network of more than 19,727 networked ATMs, with 3,811 in cities and towns. HDFC Bank offers an array of products and services such as wholesale banking and retail banking, treasury, personal loans, auto loans, two-wheeler loans, loans against property, consumer durable loans, lifestyle loans, credit cards, and various digital products. We analyzed data over the preceding five years, such as 2019, 2020, 2021, 2022, and 2023, through ratio analysis such as the current ratio, cash position ratio, fixed assets ratio, debt-equity ratio, and proprietary ratio. We interpreted each ratio's financial performance and capital structure. In conclusion, the bank's financial soundness during the study period was satisfactory.

***Keywords*:-** Ratio Analysis of HDFC BANK LTD Financial Performance Ratios, Capital Structure

INTERDUCTION

HDFC Bank Limited, which is headquartered in Mumbai, is the largest private sector bank in India based on its assets and the sixth-largest bank globally by market capitalization as of August 2023, following its acquisition of parent company HDFC. The Reserve Bank of India has identified HDFC Bank, along with the State Bank of India and ICICI Bank, as Domestic Systemically Important Banks, that are considered "too big to fail." The bank was established in August 1994 under the approval of RBI to set up a bank in the private sector, as part of the liberalization of the Indian banking industry, and began operations in January 1995. With a market capitalization of $140 billion as of January 2024, HDFC Bank is the third-largest company listed on the Indian stock exchanges and the sixteenth-largest employer in India, with almost 173,000 employees.

HISTORY OF HDFC BANK

In 1994, HDFC Ltd received an "in principle" approval from the Reserve Bank of India (RBI) to establish a private sector bank, following RBI's policy for liberalization of the Indian banking industry. In August of that year, HDFC Bank Limited was incorporated with a registered office in Mumbai. It became a Scheduled Commercial Bank in January 1995 and commenced operations. In April 2022, the merger of HDFC Ltd and HDFC Bank was announced. HDFC Ltd is a leader in housing finance, while HDFC Bank offers a broad range of financial products, including home loans. As of January 31, 2024, HDFC Bank's distribution network comprised 8,143 branches and 20,688 ATMs/Cash Recycler Machines across 3,836 cities/towns. The amalgamation of HDFC Ltd's 737 outlets, including 214 offices of HDFC Sales Private Limited, into the bank's network has been completed. The bank also has branches in four countries and representative offices in Dubai, London, and Singapore. It offers home loan products to non-resident Indians and persons of Indian origin.

REVIEW OF LITERATURE

Haralayya, B., & Aithal, P. S. (2021). further states that the slow pace of popularity in the usage of technology-based banking services in India is due to factors such as lack of early mass adaptors of technology-based banking services, slowness in the adoption of the internet by 40+ age group and lack of security and trust in technology-based banking service deliverables.

Yadav, S., Jang, J., 2021. tried to examine the impact on the financial performance of HDFC Bank before and after the merger and to compare the pre and post-merger effects caused by its financial performance by CAMEL Analysis. The data used in the study is secondary data covering a total period of ten years which includes a five-year prior merger (2003-2008) and five years 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 the merger on financial performance. The result showed that the financial performance of HDFC increased after the merger and was positively impacted by the act of the merger.

K. Dinesh Kumar and G. Venugopal (2018). revealed ICICI Bank's good performance in balance sheet ratios and Debt coverage ratios and the next position of HDFC Bank. SBI and Kotak Mahindra Bank's performance is good in profitability ratios.

RESEARCH DESIGN

❖ **METHODOLOGY**

This study is quantitative meaning it primarily deals with financial statements of HDFC Bank for the past five years. This study is based on secondary data which is taken from the bank's 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.

❖ **Objective of the study**

- To analyze the current ratio of HDFC BANK.
- To evaluate the financial performance of HDFC BANK.
- To study the capital structure of HDFC BANK.

❖ **Limitations of the study**

- The study is completely on secondary data and the accuracy of the analysis depends on the obtained.
- To study is restricted only to the five financial years i.e. 2019 to 2023.
- The mathematical figures that are in the ratio are only approximate values and do not have accurate values.

SHORT-TERM SOLVENCY RATIOS

A solvency ratio measures how well a company's cash flow can cover its long-term debt. Solvency ratios are a key metric for assessing the financial health of a company and can be used to determine the likelihood that a company will default on its debt. HDFC Life maintains an adequate capital position which is reflected in a healthy solvency margin of over 1.80 times maintained for the last 10 fiscals. As of December 31, 2022, the company reported a solvency margin at 2.09 times on account of an equity infusion of Rs 2,000 crore during Q2 Fiscal 2023.

SHORT TERM DEBT TO EQUITY RATIOS

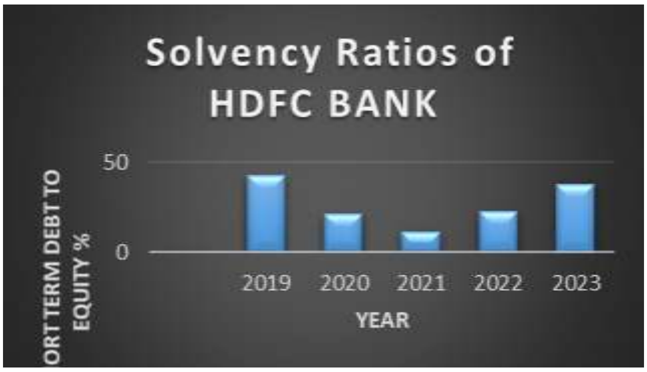
Debt-to-equity (D/E) ratio is used to evaluate a company’s financial leverage and is calculated by dividing a company’s total liabilities by its shareholder equity. The D/E ratio is an important metric in corporate finance. It is a measure of the degree to which a company is financing its operations with debt rather than its resources. The debt-to-equity ratio is a particular type of gearing ratio.

Debt/Equity= Total Shareholders’ / Equity Total Liabilities

TABLE NO.1:- debt on equity Ratios of HDFC BANK

YEAR	**2019**	**2020**	**2021**	**2022**	**2023**
Short-term debt to equity%	42.56	21.40	11.40	22.41	37.66

CHART NO: 1



INTERPRETATION

The solvency ratio of HDFC Bank provides insights into the bank's long-term financial stability and ability to meet its long-term obligations. From the above chart, it is observed that HDFC Bank is 42.56 in the year 2019, 21.6 in the year 2020, 11.4 in the year 2021, 22.41 in the year 2022, and 37.66 in the year 2023. Over the past few years, HDFC bank solvency ratio consistently remained above industry benchmarks, indicating a strong financial position. There might be variations or regulatory requirements.

- **CURRENT RATIO**

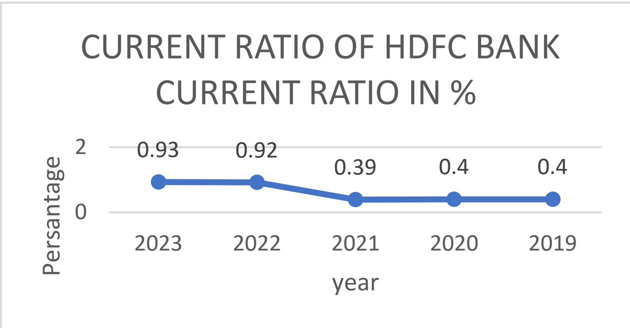
The current ratio is a liquidity ratio that measures a company's ability to pay short-term obligations or those due within one year. It tells investors and analysts how a company can maximize the current assets on its balance sheet to satisfy its current debt and other payables. Current and historical current ratio for HDFC Bank (HDB) from 2010 to 2023. The current ratio can be defined as a liquidity ratio that measures a company's ability to pay short-term obligations. HDFC Bank's current ratio for the three months ending December 31, 2023, was.

Current ratio = Current Assets /Current Liabilities

TABLE NO. 2:- CURRENT RATIO OF HDFC BANK

YEAR	CURRENT ASSETS IN $	CURRENT LIABILITIES IN $	CURRENT RATIO IN %
2023	$233.82B	$252.87B	0.93
2022	$207.19B	$224.73B	0.92
2021	$75.20B	$192.21B	0.39
2020	$70.17B	$174.63B	0.40
2019	$149.42B	$159.62B	0.40

CHART NO: 2



INTERPRETATION

The current ratio of HDFC Bank offers insights into its short-term liquidity and ability to cover immediate financial obligations... From the above chart, it is observed that HDFC Bank is 0.40 in the year of 2019, 0.40 in the year of 2020, 0.39 in the year of 2021, 0.92 in the year of 2022, and 0.93 in the year of 2023. The current ratio has displayed a stable trend, consistently maintaining a healthy level of 0.35 over the past few years. Any significant variations in the ratio may coincide with changes in the bank's short-term liquidity position.

LONG TERM SOLVENCY RATIOS

A solvency ratio is a key metric used to measure an enterprise's ability to meet its long-term debt obligations and is used often by prospective business lenders. A solvency ratio indicates whether a company's cash flow is sufficient to meet its long-term liabilities and thus is a measure of its financial health.

PROPRIETARY RATIO

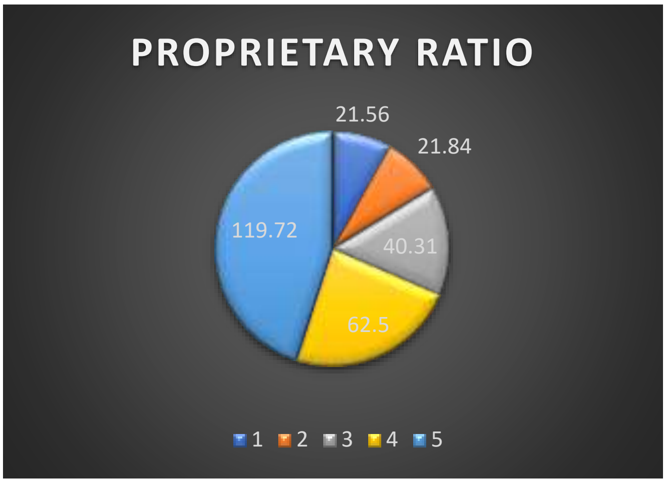
A proprietary ratio is a type of solvency ratio that is useful for determining the amount or contribution of shareholders or proprietors towards the total assets of the business. It is also known as equity ratio shareholder equity ratio or net worth ratio.

Proprietary Ratio = Proprietors' Funds or Shareholders' Equity/ Total Tangible Assets.

TABLE NO. 3:- PROPRIETARY RATIO OF HDFC BANK

YEAR	2023	2022	2021	2020	2019
PROPRIETARY RATIO	21.56	21.84	40.31	62.5	119.2

CHART NO : 3



INTERPRETATION

The proprietary ratio of HDFC bank provides insights into the proportion of total assets financed by shareholder's equity, indicating the bank's reliance on internal funding sources. From the above chart, it is observed that HDFC bank is 119.2 in the year 2019, 62.5 in the year of 2020, 40.31 in the year of 2021, 21.84 in the year of 2022, and 21.56 in the year of 2023. The proprietary ratio of HDFC bank has shown a consistent downward trend, indicating a gradual decrease in the proportion of assets financed by shareholders' equity over time.

DEBT-TO-EQUITY RATIO

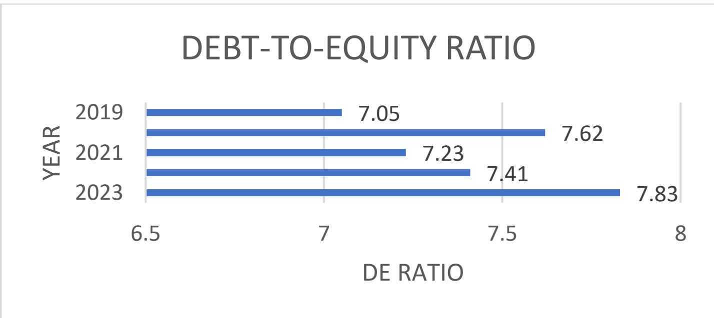
The debt-to-equity (D/E) ratio is used to evaluate a company's financial leverage and is calculated by dividing a company's total liabilities by its shareholder equity. The D/E ratio is an important metric in corporate finance. It is a measure of the degree to which a company is financing its operations with debt rather than its resources. The debt-to-equity ratio is a particular type of gearing ratio.

DE Ratio= Total Liabilities / Shareholder's Equity

TABLE NO. 4:-Debt-to-equity ratio

YEAR	2023	2022	2021	2020	2019
DEBT-TO-EQUITY RATIO	7.83	7.41	7.23	7.62	7.05

CHART NO: 4



INTERPRETATION

The debt-to-equity ratio of HDFC bank offers insights into the bank's capital structure, indicating the proportion of debt and equity used to finance its assets. From the above chart, it is observed that HDFC bank is 7.05 in the year 2019, 7.62 in the year 2020, 7.23 in the year 2021, 7.41 in the year 2022, and 7.83 in the year 2023. The debt-to-equity ratio for HDFC banks has demonstrated a consistent volatile trend, signaling a reduction in the bank's reliance on debt financing over time.

Capital structure OF HDFC BANK

As of 31 March 2023, the authorized share capital of the Bank is ₹ 650 crore. The paid-up share capital of the Bank as of the said date is ₹ 557,97,42,786 comprising 557,97,42,786 equity shares of the face value of ₹ 1/- each. The HDFC Group holds 20.87% of the Bank's equity and about 18.43% of the equity is held by the ADS Depositories in respect of the Bank's American Depository Shares (ADS). Further, 26.30% of the equity is held by Foreign Institutional Investors (FIIs) and the Bank has 22,90,092 shareholders.

The shares are listed on the BSE Limited (BSE) and The National Stock Exchange of India Limited (NSE). The Bank's American Depository Shares (ADS) are listed on the New York Stock Exchange (NYSE) with the symbol 'HDB'.

FINDING

1. The debt-equity ratio of the HDFC Bank has shown a decreasing trend during the study period. However, the reduction of debt is at a low rate, and the ratio is decreased because of an increase in share capital.
2. The current ratio indicates that banks' liquidity and their repayment of debts are sound during the period of study.
3. The proprietary ratio of the HDFC Bank has shown an increasing trend during the study period, it shows that the company increased during the study period because of an increase in fixed assets.
4. The current ratio indicates that bank liquidity and repayment of debts are sound during the period of study.

CONCLUSION

After analyzing the data collected from HDFC Bank's annual reports and website, the researcher concluded that the bank's financial performance was strong during the study period of five financial years from 2019 to 2023. This is noteworthy as HDFC Bank is the largest private sector bank in India. Various financial ratios were used to conduct the analysis.

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