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HDFC Bank Financial Analysis

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ABSTRACT :

A key component of financial management will be the measurement and administration of assets such as money and machinery. It is used to assess economic trends, establish financial policies, create long-term company goals, and choose banks or projects to invest in. The income statement, balance sheet, and cash flow statement of a bank will all be carefully examined by a financial analyst. It is possible to perform financial analysis in both corporate and investment finance contexts. Financial analysts frequently take the following actions: Make recommendations for individual investments and portfolios, assess financial data from the past and present, and research business and economic trends. Financial experts create financial models, analyze financial data, create financial strategies, offer financial advise, and evaluate financial risk. Therefore, financial analysis is essential to a corporation since it gives a detailed study of the enterprise and aids the bank in anticipating and controlling the risks involved. The study's goals are to ascertain HDFC Bank's financial performance as well as its solvency, liquidity, and profitability status. The results indicate that while loans and advances have declined over the past five years, HDFC Bank's deposits have climbed dramatically. Over the last five years, the bank's interest coverage ratio has been declining, which suggests that it may be having trouble making enough money to pay its interest costs. This might put the bank in financial trouble and raise the possibility that it would default on its debts. The bank's overall performance was deemed satisfactory.

The purpose of this study is to assess HDFC Bank's financial performance. The Reserve Bank of India (RBI) gave HDFC one of the first "in principle" approvals to open a bank in the private sector. Currently, the bank boasts an impressive network of more than 4,805 branches located throughout Indian cities. Every branch has a real-time online connection. Telephone banking is also used to service clients in more than 500 locations. Additionally, the bank has a network of 2,657 networked ATMs in cities and villages, totaling approximately 12,860. Among the many goods and services offered by HDFC Bank are retail and wholesale banking, treasury, credit cards, consumer durable loans, lifestyle loans, auto loans, two-wheeler loans, personal loans, and loans secured by real estate. The aforementioned bank's financial performance has been assessed during the last five years, which are 2020, 2021, 2022, 2023, and 2024. The information is studied using ratio analysis, which provides interpretation for each ratio, including the debt-equity ratio, return on assets ratio, net profit ratio, current ratio, and proprietary ratio. In summary, the bank's financial stability during the research period is good.

Keywords – Financial strategies, Ratios and HDFC Bank

INTRODUCTION

A financial analysis evaluates the viability, stability, and profitability of a firm, subbusiness, or project. Using information from financial accounts and other reports, the experts create the reports using ratios and other methods. The process of evaluating banks, initiatives, spending, and other finance-related activities to determine their suitability and performance is known as financial analysis. Banks benefit greatly from financial analytics since it helps them identify business risks, focus operations appropriately, and enhance operational procedures. It assists the leaders in focusing their attention on critical issues, like which sales channels to prioritize and which goods are performing well. A bank's asset structure, asset liquidity, funding source, debt level, and liability structure are among the financial details it offers. Therefore, banks can prevent financial risks by using financial instruments to conduct a thorough analysis of the financial accounts. The practice of assessing companies, initiatives, budgets, and other financial activities to ascertain their viability and effectiveness is known as financial analysis. The analysis's goals are to comprehend the data in financial statements in order to identify the company's strengths and weaknesses and to estimate the company's future prospects, which will allow the analysts to make operational decisions.

It is believed that finance is the lifeblood of business. Financial performance is the extent to which financial goals have been or are being met. An organization's strengths and weaknesses are addressed by its financial performance. Financial statement analysis aids in the examination of financial performance.

Examining, evaluating, and contrasting the financial statements yields information about financial performance. Crowding Out: A number of studies look at how more government spending can affect private investment. They look at whether borrowing by the government to cover deficits raises interest rates and discourages investment from the private sector.

Financial performance is the process of evaluating how well a business uses its resources from its main line of business to generate revenue. It also evaluates the overall financial health of the organization over a given time frame. The organization's financial performance addresses the bank's strengths and weaknesses by precisely establishing a connection between the income statement and balance sheet. Through this method, the long-term and short-term growth of the bank was well understood. There are various approaches to data analysis; in this study, the researcher employed ratio analysis. In order to assess the bank's competitive position in the market, this research also helps determine the bank's credit worthiness.

2. OBJECTIVE OF THE STUDY

1. To know the causes of the financial analysis of HDFC Bank.
2. To know procedure of financial analysis of HDFC Bank.
3. To know the working capital management of HDFC Bank.
4. To study the solvency, liquidity and profitability position of HDFC Bank.
5. To offer suggestions that are based on the findings of the study.

3. LITERATURE REVIEW

In their research paper titled "Financial Performance of State Bank of India," Bhaveshkumar (2022). In order to assess the bank's financial health and viability and improve its financial performance, they have examined the profitability, solvency, and liquidity ratios. The data was examined during a five-year span, from 2014 to 2019. The study concluded that the ratio of total assets to debt equity was low. Because of the reduced net profit ratio, the researcher came to the conclusion that SBI Bank had good financial performance and a good dividend payment ratio.

Mayilsamy and Dharshiny (2021) looked at ICICI Bank's financial results. The pattern of expenses, sales, and profit was disclosed by the financial statement. The main obstacle to progress during the post-nationalization era was identified by researchers. Profit, income, and liquidity have all increased, the study discovered. Finally, it is determined that the bank's position is stable.

Aithal, P. S., and Haralayya, B. (2021). explains further that the slow rate of adoption of technology-based banking services in India can be attributed to a number of factors, including the lack of early mass adopters of these services, the slow rate of internet adoption by the 40+ age group, and the lack of security and trust in the deliverables of these services.

Researchers Dharchana and Shree (2019) conducted an investigation on City Union Bank's financial performance. Using ratio analysis, they conducted an analysis spanning five years, from 2015 to 2019. The bank's annual report served as the source of secondary data for the researchers. Ratio analysis, including the liquidity, profitability, and solvency ratios, was one of the study's tools. The researchers came to the conclusion that the bank's deposit risk was far larger than its performance, profitability, and advances.

4. RESEARCH METHODOLOGY

The study is the outcome of a survey conducted for HDFC Bank's fundamental analysis. By conducting a personal interview with the employees involved in these sectors in the finance department, the project's goals were achieved. The company's working capital management is assessed using the answers obtained from the balance sheet and in-person interview.

4.1 Data Collection Methods:

Both primary and secondary data were gathered for the study. Bank managers are interviewed in order to gather primary data. The information was gathered via a standardized questionnaire, in-person visits, and phone conversations. A questionnaire is made up of several questions that are typed or printed on a form or series of forms in a specific order. On the other hand, secondary data was gathered from HDFC Bank papers, journals, websites, and other published data.

4.1.1 Primary Data:

Primary data is information gathered by a researcher from first-hand sources through techniques such as creative works (such as paintings, cinema reel music, etc.), diaries, your own experiments, letters, surveys, censuses, and interviews. Direct collection from the original source constitutes a primary source. It is not tainted by the opinions or opinions of others.

4.1.2 Secondary Data:

The following sources were used to gather secondary data: balance sheets, online books, in-person interviews, bank annual reports, newsletters, magazines, and articles.

5. FINDINGS

- 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.
- The current ratio indicates that banks' liquidity and their repayment of debts are sound during the period of study.
- 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.
- The current ratio indicates that bank liquidity and repayment of debts are sound during the period of study.
- The current ratio of HDFC Bank limited has been increased to 90.79 times 2020 and it has been decreased to 10.07 times 2021 during the study period.
- The operating profit ratio of the company has been increased to 9.3 the year of 2021. it has been decreased to 8.63 the year of 2022 during the study period.
- Return on Capital Employed Ratio of The company has been increased to 16.5 the year of 2020 it has been decreased to 10.2 the year of 2023 during the study period.
- The return on assets ratio of the company has been increased to 10.0 the year of 2023 it has been decreased to 8.96 the year of 2020 during the study period.
- The net profit ratio of the company has been increased to 87.84 year of 2020 and it has been decreased to 43.04 the year of 2024 during the study period.
- The gross profit ratio of the company has been increased to 72.08 and The year of 2022 it has been decreased to 31.31 and 2020 during the study period.
- The liquid ratio of the company has been increased to 137.55 times 2020 and the company’s liquid ratio has been decreased to 14.7 times 2021 during the study period.

7. RECOMMENDATIONS

The bank has a stable balance sheet, with advances, investments, and cash as major assets and deposits as the largest liability. However, the bank should focus on improving profitability and monitor its current assets and liabilities closely for long-term sustainability. The bank's current ratio remained stable over the past five years, with a slight increase until 2021, followed by a decline in 2022. The bank should monitor its current assets and liabilities to ensure sufficient liquidity.

8. CONCLUSION

The analysis indicates that HDFC Bank's deposits have markedly risen over the past five years, whilst loans and advances have diminished during the same timeframe. The bank has successfully attracted increased deposits and a substantial volume of loans; yet, its profitability has not escalated at the same pace as its assets. The bank's current assets and current liabilities have not adhered to the established rules over the past five years; these norms must be maintained to ensure positive working capital. The bank's quick ratio has reached acceptable levels, indicating a healthy liquidity situation and a high quick ratio. The bank's absolute liquid ratio was low, indicating potential difficulties in fulfilling its short-term obligations. The bank's proprietary ratio has experienced minor fluctuations but has stayed largely constant over five years. A slight variation has occurred throughout the span of five years. The bank's interest coverage ratio has declined over the previous five years, suggesting that it may be facing challenges in generating sufficient earnings to meet its interest expenses, perhaps resulting in financial troubles and heightened risk of defaulting on its debt commitments. The bank's overall performance was deemed satisfactory.

Upon examining the data derived from HDFC Bank's annual reports and website, the researcher determined that the bank's financial performance was robust during the five-year study period from 2019 to 2023. HDFC Bank is the preeminent private sector bank in India. A variety of financial ratios were employed to perform the analysis.

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