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# A Study on the Financial Performance of HDFC Bank Limited

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**ABSTRACT - This is a study on the financial performance of HDFC Bank using ratio analysis for the past 5 years and the forecasted financial performance for the past 5 years using the data obtained from the annual reports of the company. HDFC bank was the first to receive the in - principal approval from rbi for the set up of the private sector bank. It has been a pioneer in the banking sector of the company and has contributed tothe welfare of it and its success has also many importance to bring out, it has more than 5000+ branches and a widely spreads networks across globe. The financial performance has been carried out by using ratiosfor soundness of the financial statements.**

**KEY WORDS - Financial Performance analysis, Ratios, Financial Soundness, Forecasted Analysis, Growth and Trend, Liquidity andProfitability Analysis.**

## I. INTRODUCTION

Financial Performance Analysis is the process of analysing how effectively company uses his assets to generate income and how effectively manages its liabilities. It also complete evaluation from different aspects such as assets liabilities, income ,expense .It also brings out the company position to withstand any difficulties in the foreseeable future and also brings out the inherent features of its balance sheet.it is used by investors to compare different companies in the same industry by using metrics such as ratios ,trends which can be done with the helpof financial statement .It is a process of in depth analysis of a company financial performance to whether it is having sound financial statements and other factors.

***COMPANY PROFILE***

HDFC BANK was founded in 1994 as private sector bank with registered office in Mumbai.The company is into lending business with all types of lending the company is the largest credit issuing company. The company was the first Private bank to receive in principle approval from RBI to set up an banking business. The company is thelargest private sector bank in terms of balance sheet. The company has over 5000+ branches with over 20000 ATM. The company has the largest market share in the credit card issuing market share. The company is also onits tarck of merging itself with HDFC which is schedules to be completed by sept 2023.The Bank has various avenues including dealing in foreign exchange overseas branches. The bank is also lending in priority sector morethan the target mandated by RBI The company has many subsidiaries including HDB financial dealing in NBFCspace and also has HDFC life insurance and many other diversified options in the field.

***STATEMENT OF THE PROBLEM***

HDFC Bank has been a pioneer in private banking sector with consistently maintaining lowest NPA ratios in banking industry for many years with also consistently compounding profits at a staggering growth of 16% everyyear .It has been a landmark in the banking industry with the largest credit issuing card in the country ,surviving every crisis and coming out of it with more determination and unique technique. In this research we will analyse its financial performance for the past 5 years and find out its strength via ratios that had been making it consistentlythe largest private bank in term of size and profit over the past 25 years.

## II. LITERATURE

Concluded that due to intense competition between Indian banks and foreign banks it become necessary for mergers in the banking sector to consolidate their positions and in order to launch new programs and to benefit from the upcoming global boom of credit expansion it become necessary for mergers between them **(Rajamani and Ramakrishnan 2015)**

Evaluated the performance of HDFC bank after mergers and their inherent strength and weakness and their areas to improve for the benefit for the public and concluded that mergers of HDFC bank has also many positiveimpact on different sectors of the economy and why it proved to be successful in many different areas. **(Karthika.2021)**

Did a camel study on selected public and private sector banks

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and their importance which included banks from both the sectors namely Kotak HDFC AXIS ICICI and from public sector also banks namely SBI, PNB, bob, ubi and CANARA banks and concluded that a was collected and camel methodology study was made and concluded that AXIS AND HDFC performing above average **(Yadav and Jang 2021)**

Indian banks have been studied on the basis of financial performance founded that return on assets and interest income have negative relation with operational efficiency while asset utilization and asset size have positive relation and banks size also has a positive impact on their overall performance. and concluded that **(Koley 2019)**

Made a study on the comparison about HDFC bank and ICICI bank and concluded that the study based on the various parameters and concluded that banks like HDFC have an advantage over their rivals which could be useful in various other parameters and concluded that HDFC has a ruling Command with ICICI bank due to his advantage on various parameters. **(Abdulkareem 2020)**

Made a study and evaluated the financial soundness of select private sector banks and made a study for a periodof 10 years 2007-2017 and ranked the followings banks as under that AXIS ranked first followed by KOTAK bank ICICI bank and HDFC Bank been ranked last in the list and INDUSIND bank ranked last in the list **(Karthika. 2021)**

Banks have to play a fundamental role in improving the economy due to their rapid technological developmentsand how the upcoming decade will face a huge problem due to various introduction of fintech. HDFC bank has been ranked in the top most list to overcome in this problem and best poised to make inroads into this difficult phase and also has tremendous advantage on his side to take banks on his part and with the merger of HDFC limited fully poised to make inroads into the next generation. **(Reddy and Rajendhiran 2020)**

***OBJECTIVES***

1) Analyse the financial performance of HDFC Bank by means of “Ratio Analysis”. for the past 5 years
2) To predict the performance for the coming 3 years (forecasted ratio analysis) based on the performance for the past 5 years
3) To assess the company growth and financial stability in terms of its performance, solvency, profitability, turnover over the years.
4) To assess whether the company would be a profitable venture for the investors.

***LIMITATIONS OF THE STUDY***

**1)** The analysis is for the past 5 years i.e. 2018,2019,2020,2021,2022 and future forecasted analysis for the next 3 years (2023,2024,2025)

**2)** The data is obtained from the annual of the company and the accuracy depends on the data obtainedfrom the annual report.

**3)** The study does not consider all the ratios in evaluating the financial performance of the bank . It isbased on the most important ratios used by investors

## III. RESAERCH METHODOLOGY

The main objective of this study is to figure out the financial performance study the financial performance of the company and to predict its performance. The study undertaken for study is the past five years (2018 - 2022). To ascertain the financial performance of the company “Financial Ratio Analysis” is used as a research methodology.Similarly, forecasted performance analysis is made for upcoming three years (2023 - 2025) through simple linearregression as a technique to predict its future performance.

***FINANICAL RATIO ANALYSIS***

Financial Ratios or Accounting Ratios are the relative relationship between two selected data points taken from an enterprise’s financial statements.

1) Current Ratio. 6)
Debt – Equity Ratio
2) Liquidity Ratio. 7)
working capital turnover Ratio
3) Return on Capital Employed. 8)
Earnings Per Share
4) Return on Total Assets. 9)
Price To Earnings Ratio
5) Net Profit Ratio.
10) Dividend Yield Ratio

***SIMPLE LINEAR REGRESSION***

IT is a study of mathematics which is used to describe the relationship between dependent and independent variable which is used to estimate the future values based on the current trend. The dependent variable is the estimated value Independent Variable is one which is used to make prediction about other variable.

***SIMPLE LINEAR REGRESSION EQUATION***

$Y = a + b(X)$

Here – X, Y are two variables on the line of regression whereb – slope of the line

a = y-Intercept the line

x – dependent variable, y- independent variable

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# IV. RESULTS AND DICUSSIONS

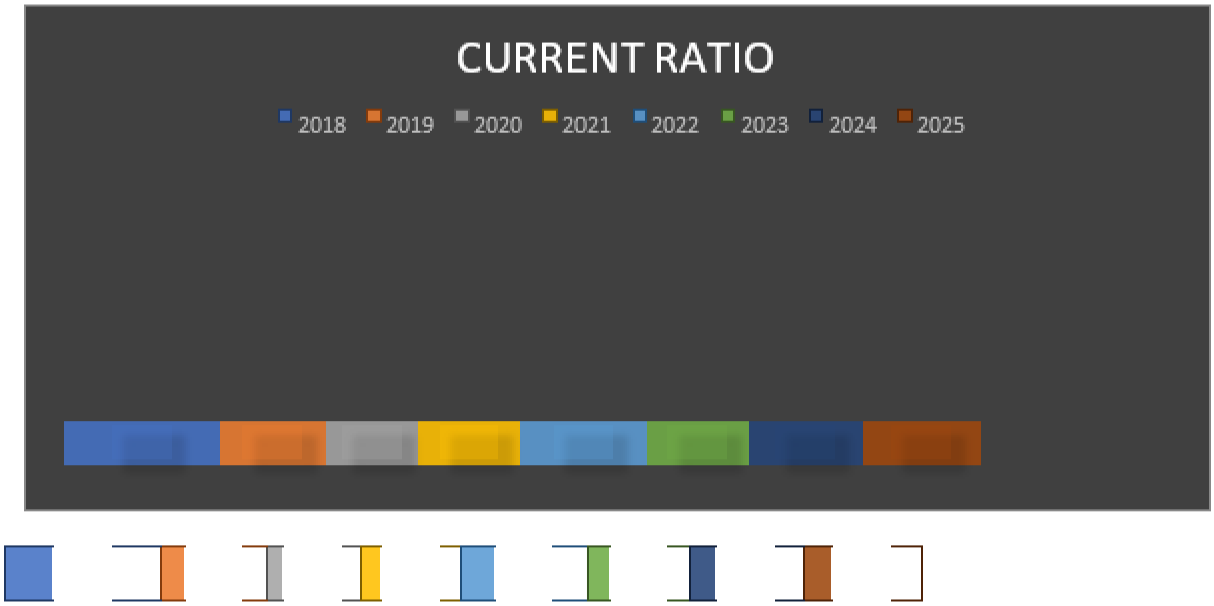
## 1) CURRENT RATIO

The current ratio assess the ability of the company to meet its short term obligations. Higher the ratio More liquidis the company and greater ability to pay his short term debts to pay off its debts and current obligations, and lower the current ratio indicates the opposite scenario.

**Table No -1**

| YERAS | 2018 | 2019 | 2020 | 2021 | 2022 | 2023(F) | 2024(F) | 2025(F) |
|---|---|---|---|---|---|---|---|---|
| CURRENTRATIO | 3.49 | 2.37 | 2.09 | 2.28 | 2.82 | 2.28 | 2.56 | 2.65 |

**Chart No -1**




**RESULT AND DICUSSIONS**

The ideal current ratio is 1.5 For the past 5 years the company has maintained a command in the current ratio .it has been in downward path in the last 5 years If this pattern continues, the estimated current ratios for the upcoming years would tend to decrease even more (up to 2.65 by 2025), which leads to difficulties or a hurdle forthe company in meeting its short-term obligations.

## 2) LIQUID RATIO

Liquid Ratio indicates whether current assets of the company are easily convertible into liquid cash. This ratio especially indicates the capacity of the company to pay off its obligation with most liquid form of current asset (except stock and prepaid expenses).

**Table No-2**

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| YEARS | 2018 | 2019 | 2020 | 2021 | 2022 | 2023(F) | 2024(F) | 2025(F) |
|---|---|---|---|---|---|---|---|---|
| LIQUID RATIO | 2.69 | 1.48 | 1.29 | 1.65 | 1.80 | 1.75 | 1.86 | 1.96 |

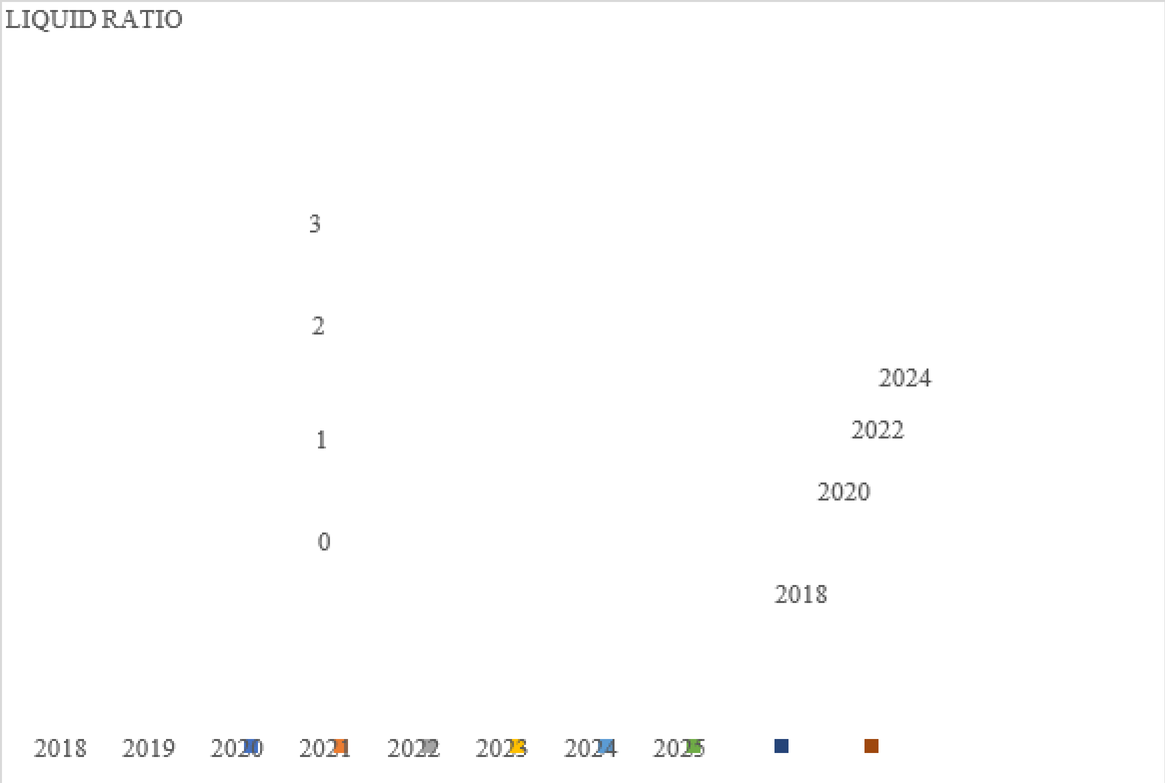


**Chart No -2**

**RESULT AND DICUSSIONS**

The ideal quick ratio is 1. For the past five years, the company has maintained an excellent quick ratio which indicates good solvency capacity to meets its obligations. Even though there is a decrease over the quick ratio over the years and the forecasted results based on the current trend also shows a slump in the quick ratio, but it has maintained the ideal scenario. Therefore, it shows that company is in a good solvency level.

**3) RETURN ON CAPITAL EMPLOYED**

This ratio indicates how much company is earning (operating profit) on long term sources of funds employed. Ahigher ratio indicates company his utilizing its assets efficiently and is capable of giving profits to shareholders .A higher operating profit can result in higher eps.

**Table No-3**

| YEARS | 2018 | 2019 | 2020 | 2021 | 2022 | 2023(F) | 2024(F) | 2025(F) |
|---|---|---|---|---|---|---|---|---|
| ROCE | 4 | 3.8 | 3.22 | 3.42 | 3.33 | 3.34 | 3.4 | 3.5 |

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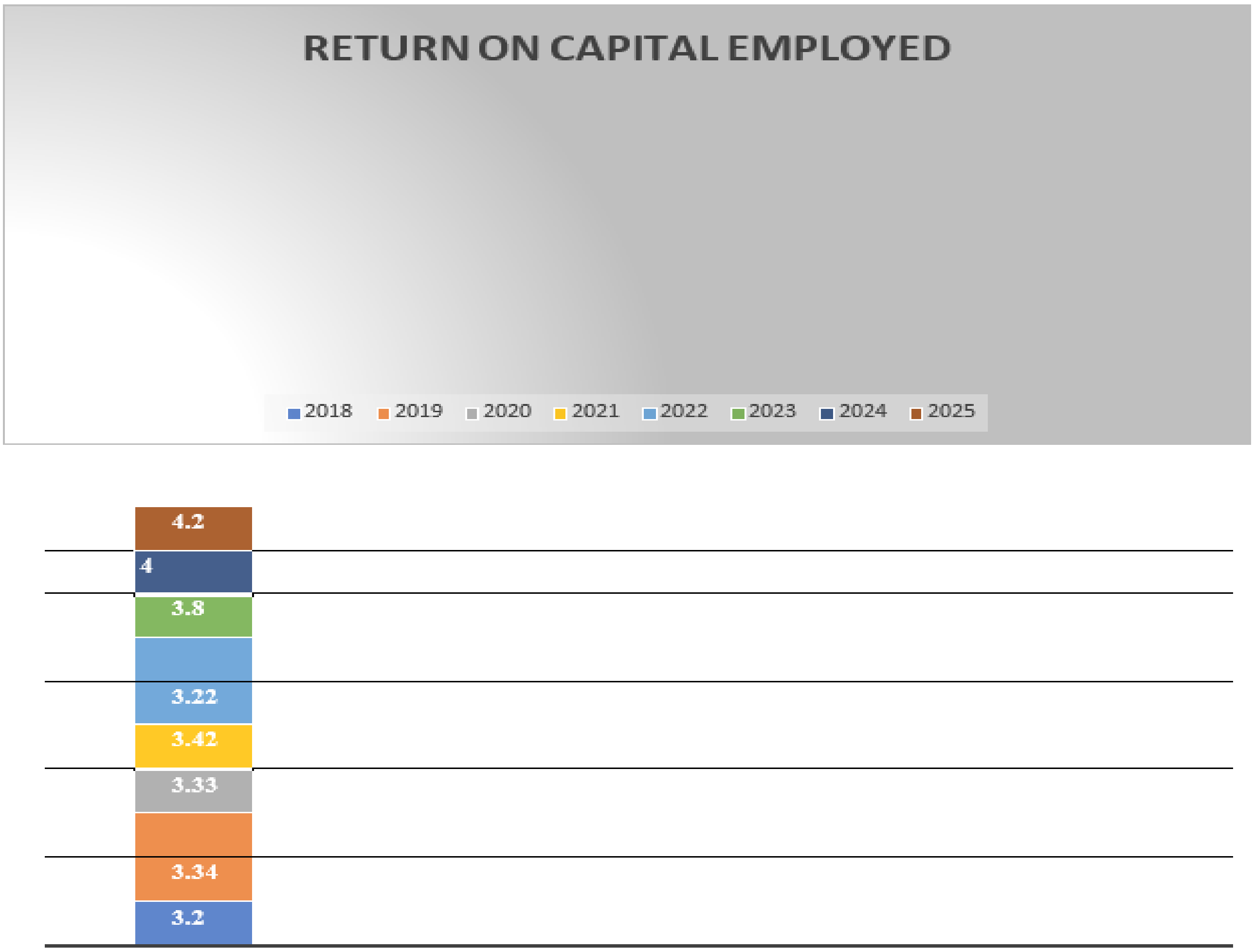
chart No -3




**RESULT AND DICUSSIONS**

The ideal ROCE percentage is 5%. For the past five years, the company has maintained an excellent ROCE percentage, which indicates the long – term funds have been utilised in an excellent profitable way. As the percentage keeps on gradually increases in a healthier manner, this would lead to a ROCE of 4.2 % by 2025, which is more than thrice times the ideal. This clearly shows how efficient the company is at utilising its long – term funds.

**4) RETURN ON ASSETS**

Return on assets indicates the profit which a company earns in proportion to its total assets a higher ratio indicatescompany has utilized his assets more efficiently and effectively. It also indicates management ability to effectivelyuse his assets in making greater profits.

**Table No -4**

| YEARS | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 |
|---|---|---|---|---|---|---|---|---|
| ROA | 1.64 | 1.89 | 1.78 | 1.71 | 1.78 | 1.85 | 2 | 2.2 |

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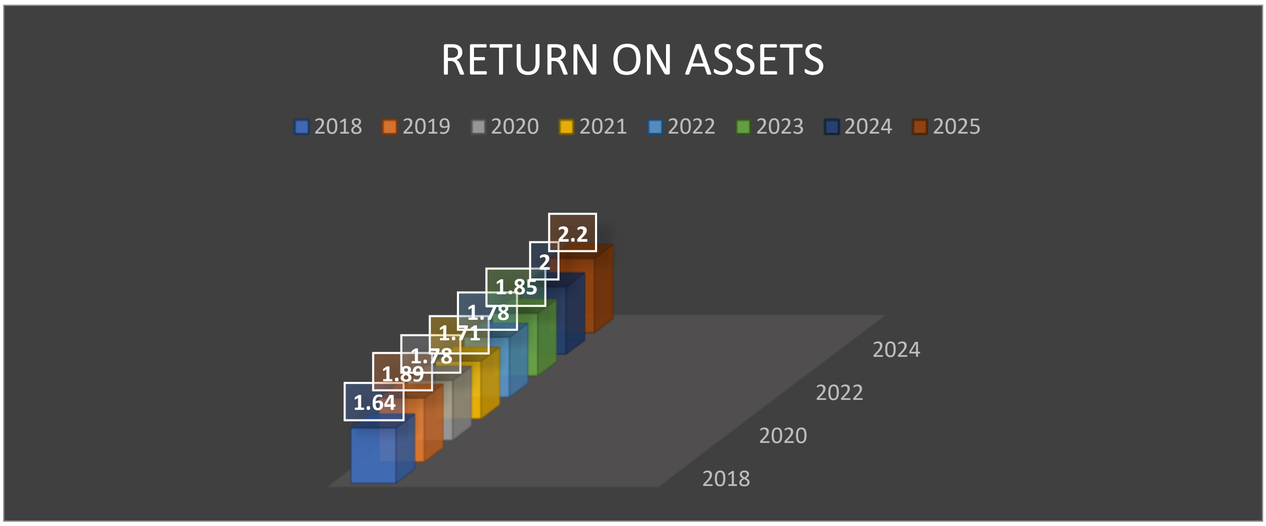
**Chart No -4**




## RESULT AND DICUSSIONS

The ideal ROA percentage is 2%. For the past five years, the company has maintained an excellent ROA percentage, which indicates the efficient management of assets by the company, which is evident based on the revenue earned by utilising its assets. As the percentage keeps on gradually increases in a healthier manner, this would lead to a ROA of 2.2 % by 2025, which is more than six times the ideal. This clearly shows how efficient the company is at managing its assets and earning revenue out of them.

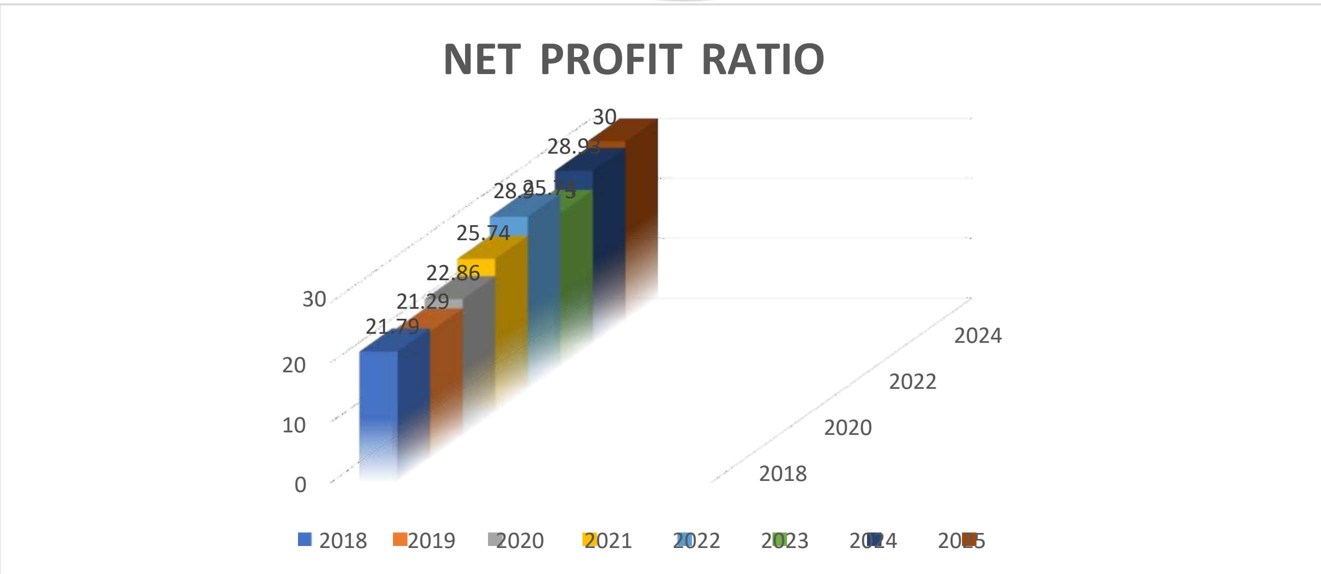
## 5) NET PROFIT RATIO

Net profit ratio is net profit as a percentage of sales. It is the most important thing from a shareholder perceptive as shareholder only gets profit. A higher profit ratio indicates company has managed its operations efficiently. Ahigher ratio indicates higher eps and higher share price.

**Table No-5**

| YEARS | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 |
|---|---|---|---|---|---|---|---|---|
| NET PROFIT RATIO | 21.79 | 21.29 | 22.86 | 25.74 | 28.93 | 25.74 | 28.93 | 30 |

**Chart No -5**





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## RESULT AND DICUSSIONS

The ideal Net Profit percentage is 10%. For the past five years, the company has maintained an excellent Net Profit percentage, which indicates the profit earning capacity of the company, which is evident based on the profitearned after meeting all its expenses. As the percentage keeps on gradually increases in a healthier manner, this would lead to a Net Profit percentage of 30% by 2025, which is more than twice the ideal. This clearly shows howprofitable the company is by budgeting its expenses efficiently out of the revenue earned by them

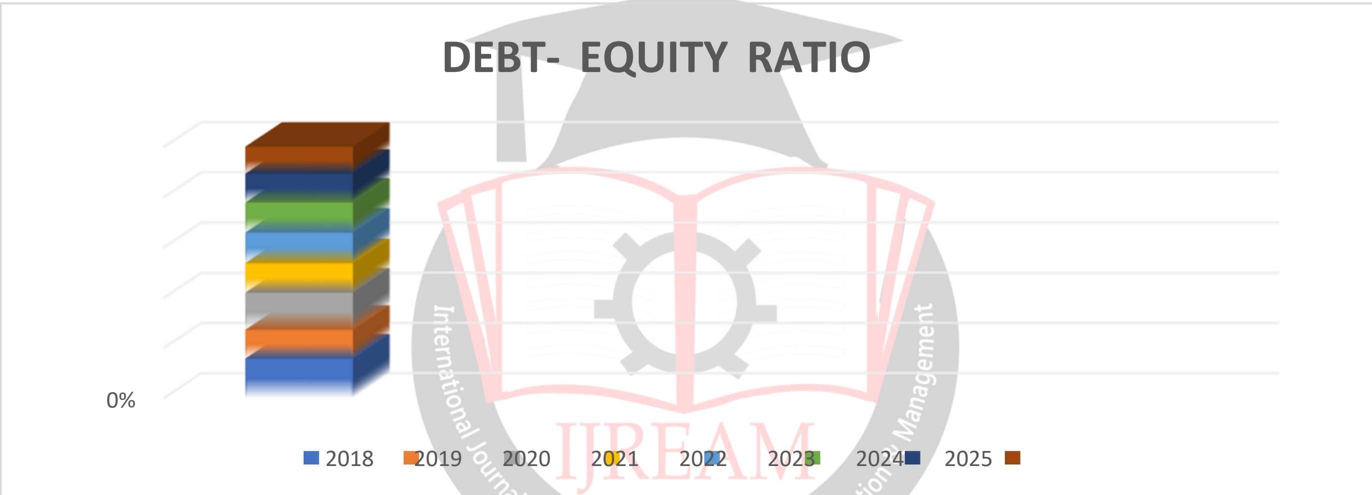
### 6) DEBT- EQUITY RATIO

Debt equity ratio indicates the proportion of long term debt funds in proportion to shareholders funds. A higher ratio indicates more debt which can cause financial interest in case of high interest rate as it becomes more difficultto finance its long term debt.it should be controlled within a particular range

**Table No – 6**

| YERAS | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | |
|---|---|---|---|---|---|---|---|---|---|
| D/E RATIO | 6.5 | 5.8 | 6.2 | 4.9 | 5.1 | 5 | 4..8 | 4.5 | |

**Chart No – 6**




100% 4.5
80% 4.8
5
60% 5.1
4.9
40% 6.2
20% 4.8
6.5

## RESULT AND DICUSSIONS

The company has maintained an ideal ratio of its long – term funds and shareholder funds. It is also forecasted that in the upcoming years the ratio is pretty much ideal which indicates that the company is purely dependent onits shareholder's funds for its operations rather than outsider's funds which is generally healthier for every company as their retained earnings would be higher.

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7) **WORKING CAPITAL TURNOVER RATIO**

Working capital turnover ratio indicates sales a percentage of working capital A higher ratio indicates more working capital which can affect the liquidity requirements of the company therefore it should be controlled withina particular limit to manage the company effectively.

**Table No -7**

| YEARS | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 |
|---|---|---|---|---|---|---|---|---|
| WCTR | 7.8 | 8.2 | 7.6 | 8.5 | 8.8 | 7.5 | 7.9 | 8 |

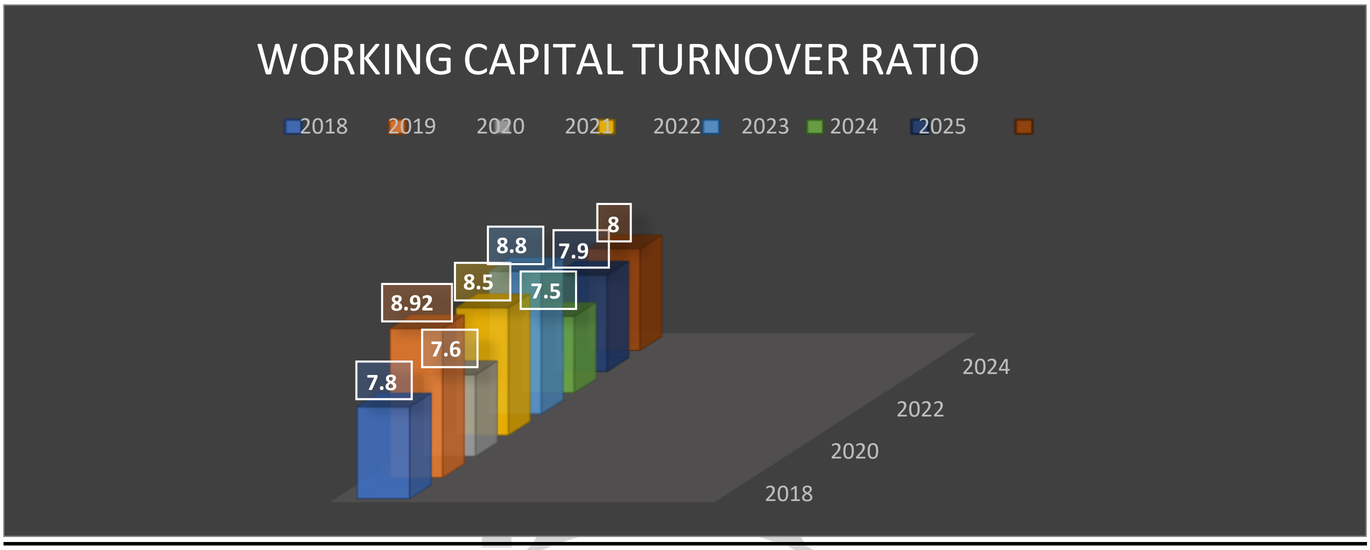


**Chart No – 7**

**RESULT AND DICUSSIONS**

The ideal Working Capital ratio is 1.5. For the past five years, the company has maintained an ideal ratio of its working capital to revenue, which indicates that the working capital has been utilised in an efficient manner. It isalso forecasted that in the upcoming years the ratio is pretty much ideal and promising that the short – term fundswould be utilised in an efficient way to increase its revenue which generates more profit indirectly.

8) **EARNINGS PER SHARE**

Earnings per share indicates the profit on per share basis which accrues to the shareholders a higher eps commandshigher pe ratio which in turn commands higher market price .it is the main indicator of company growth followedby different shareholders to manage its investing sense.it is calculated by dividing the annual net profit by numberof shares

**Table No – 8**

| YEARS | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 |
|---|---|---|---|---|---|---|---|---|
| EPS | 67.76 | 78.65 | 48.01 | 56.68 | 66.8 | 75 | 77 | 80 |

**Chart No – 8**

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## RESULT AND DICUSSIONS

Earnings Per Share of Rs. 50 or higher than Rs. 80 is ideal. For the past five years, the company has maintained an ideal ratio of its EPS, which indicates it has well performed and the investors are willing to invest more becausethe company is in good profit-making position. It is also forecasted that in the upcoming years the ratio is pretty much ideal and promising and it would invite more investors in the upcoming years as the company focuses on its long-term activities by increasing their investments it would yield a significant profit for the investors in the upcoming years (Further discussed in detailed regarding their expansion as a crucial factor).

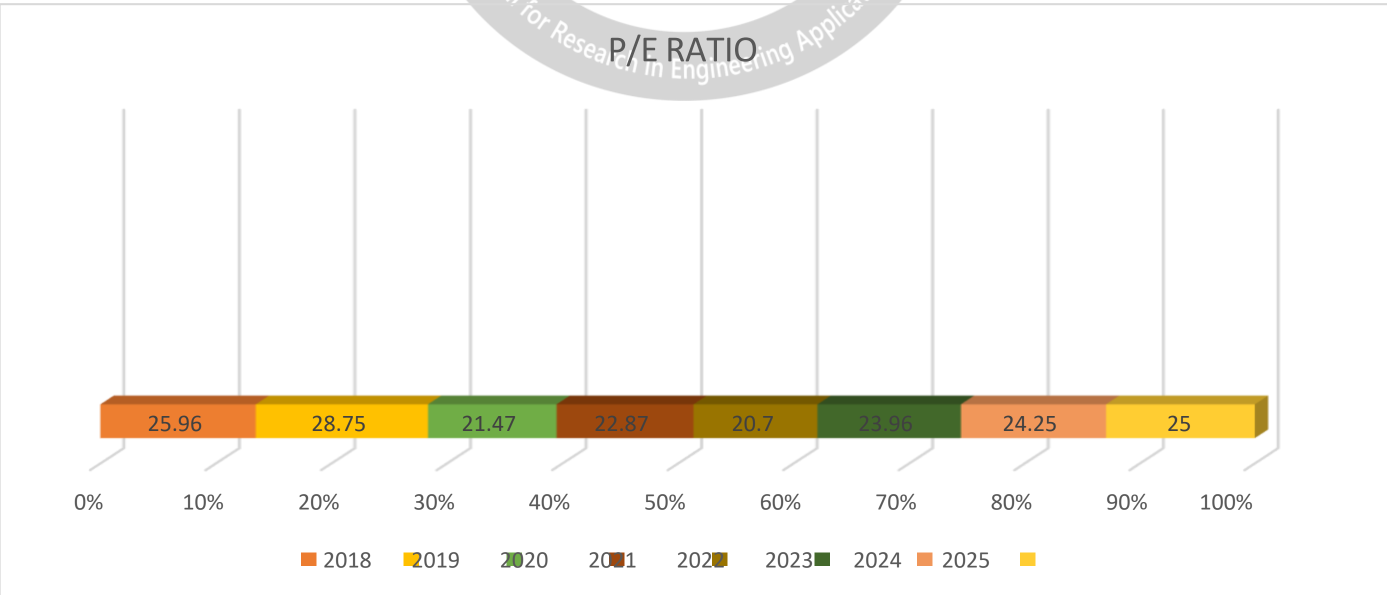
## 9) PRICE TO EARNINGS RATIO

Price to earnings ratio indicates for every 1 rupee of profit how much the investors are willing to pay. A higher pe ratio indicates investors are more confident the profits will grow over future years. The investors watch this ratio closely as it also indicates whether share is overvalued or undervalued.

**Table No – 9**

| YERAS | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 |
|---|---|---|---|---|---|---|---|---|
| P/E | 25.96 | 28.75 | 21.47 | 22.87 | 20.70 | 23.96 | 24.25 | 25 |

**Chart No – 9**




## RESULT AND DICUSSIONS

Price to Earnings Ratio has both benefits and drawbacks. Higher Price-Earnings Ratios are good, as they indicatethat potential

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investors are keenly interested in investing in the company because of its profitable growth and success in the past five years. But a Higher Price-Earnings Ratio is also an indicator that the stock would have been overvalued. Past from the above it can be seen that it had maintained a good Price-Earnings Ratio and it alsoforecasted to have a higher ratio in upcoming years which displays that investors' expectations and faith are highon the company performance and growth in upcoming years.

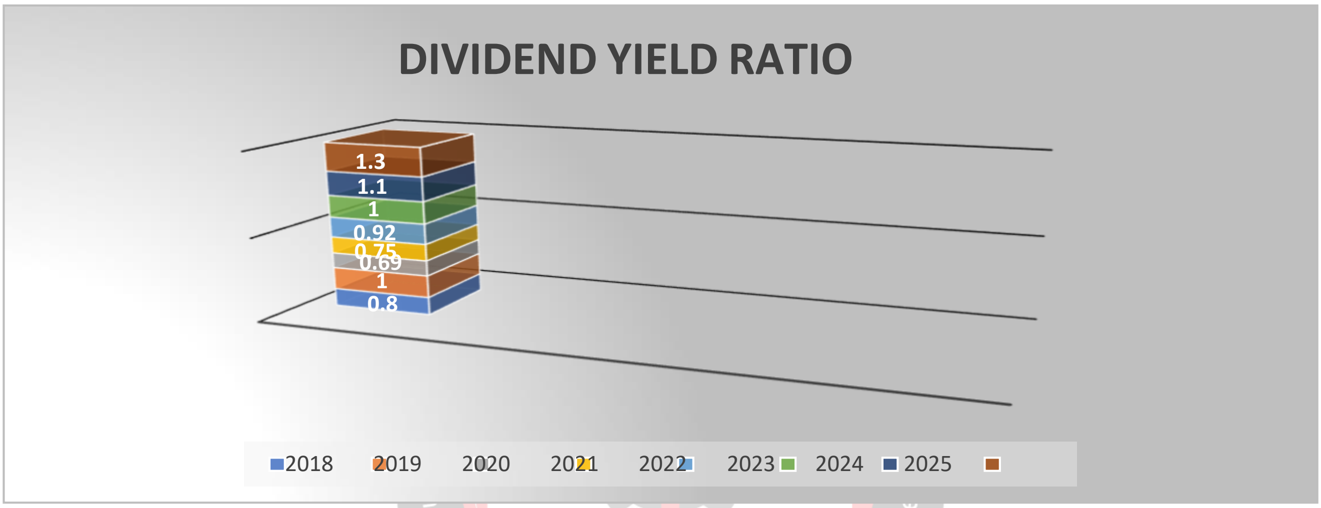
**10) DIVIDEND YIELD RATIO**

Dividend yield ratio indicates dividend as a percentage of market value. A higher dividend yield ratio indicates investors are more confident about the company and vice versa. A higher dividend ratio means investors get morecash in hand which is also useful for their reinvestment options.

**Table No – 10**

| YEARS | 2018 | 2019 | 2020 | 2021 | 2022 | 2023(F) | 2024(F) | 2025(F) |
|---|---|---|---|---|---|---|---|---|
| DY RATIO | 0.8 | 1 | 0.69 | 0.75 | 0.92 | 1 | 1.1 | 1.3 |

**Chart No – 10**




**RESULT AND DICUSSIONS**

The ideal Dividend Yield percentage is 0.4%. For the past five years, the company has maintained an average ratio when compared to the ideal, which indicates the investors have benefited from investing. As the percentagegradually decreases over the years, it is predicted to decrease in upcoming years which indicates from an investorspoint of view it would be a reasonable investment for potential investors in upcoming years. But it is to be mentioned that in recent years, the company had started to invest in similar kind of their businesses and in long term assets as a part of its expansion and diversification process through the profits earned over the years (Furtherdiscussed in detailed regarding their expansion as a crucial factor).

## V. RESEARCH FINDINGS

During the past five years, the Current, Liquidity and Working Capital Turnover Ratio are in an ideal scenario but the trend of such ratios tends to decline slightly and, the forecasted ratios speculates that it may or may not meet the ideal scenario in the upcoming years. in recent times they have also experienced some small attritionproblems. But the following table shows a significant factor contributing to the decline in their solvency and liquidity ratios.

| YERAS | BS GROWTH | % CHANGE IN GROWTH |
|---|---|---|
| 2019 | **1,244,540.69** | - |
| 2020 | **1,530,511.26** | 22.98 |
| 2021 | **1,746,870.52** | 14.14 |
| 2022 | **2,068,535.05** | 18.41 |

- As we can see from the above the company has grown it balance sheet at a wonderful phase implying, they are ready to finance the next credit cycle boom we should also attribute this as a management intention of taking its total share in credit market from 5% to 10% Bank is also positioned to grow from credit expansionin the country.
- The bank is also on its goal of becoming a global player in the banking system.as it has huge experience over20 years in the field of banking so it has numerous advantages in its side and also to take advantage from thehigh interest rates due to inflation bank is the most

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credit card issuing cards in the country so it could take advantage from the rapid credit expansion in the country.

- HDFC is also on its track of merging with HDFC bank so that it could become mammoth in the banking sector with balance sheet of over 20 lakh rupees potentially also overcoming state bank of India to be completed by sept 2023

➢ As their CFO has also confirmed, they tend to invest in similar kind of businesses, strengthening research and innovation as part of their expansion and diversification process for the future growth, and they trying to revamp their organisation structure to remain even more competitive in the market, which make it evident that even though they may face some short-term difficulties their profitability and growth are on a positive trajectory.

➢ As the company has also maintained an ideal balance of debt and equity over the years, and it is equally clearthat their investment and growth are on track, their Earnings per Share and Price to Earnings ratio may deliver a progressive growth, as even though in the current scenario they maintain the ideal ratio of such, it is predicted tohave a growth that would be more profitable for the investors and may also attract more investors in the upcoming years, which would make the company more profitable.

➢ Based on the analysis made, it is evident that HDFC BANK has maintained the ideal scenario of all the ratios undertaken for research, and forecasted results are also promising and excellent, which shows the success of the company over the years and it is also anticipated to remain financially sound and healthier in upcoming years.

## VI. CONCLUSION

To conclude that even though the company have experienced a slight decline in its liquidity ratios and the forecasted values show that the company may or may not meet the ideal scenario. It is to be noted that the forecasted values using simple linear regression are predicted based on the performance trend and existing data of the company over the years, and these forecasted values are predicted as an indicator for upcoming years, whichmay also tend to change depending on based on their past performance it is obvious that even though there is a slight decrease in the liquidity ratios they would manage to meet the ideal scenarios. But the profitability ratios have been excellent and they tend to gradually increase in the upcoming years, as it attracts more investors and generates a good name for the company in the community. As the company started to focus on expansion and diversification process which may also be a reason for slight decline in liquidity ratio over the years but the returns, they make over the owner's capital and on assets are consistently high and it is forecasted to increase in upcoming years. Focusing on future growth and innovation makes the company an ideal venture for the investors to invest in and to enjoy a good profitable return and it also equally contributes towards the GDP of the company and creates more opportunity for the upcoming generations in this consistent Bank sector.

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