

A STUDY ON FINANCIAL PERFORMANCE OF HDFC BANK

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Abstract

The Housing Development Finance Corporation was amongst the first to receive an 'in principle' approval from the Reserve Bank of India to set up a bank in the private sector. The main purpose of this study is to determine the Capital adequacy, Asset quality, Management efficiency, Earnings and Liquidity of the HDFC bank using CAMEL rating system. This study is analytical in nature. Secondary Data is collected from annual reports, websites, books, journals and periodicals. The study covers the five years period from 2014 to 2018. The collected data has been analysed using CAMEL rating system and Comparative Balance Sheet. The study concludes that overall rating of the CAMEL analysis HDFC bank is the best banks for investing.

Keywords: Housing, Development, Industries, Financial, Comparative Performance, Market, Investing, Private, Growth, etc.,

INTRODUCTION

In today's environment banking plays a important role in the growth and development of developing countries like India. Banks functions the entire monetary and financial system to ensure smooth operations in India. It acts like lifeblood-money that supports and fosters growth in all the industries in the country. In banking sector, the growth of the bank is measured by the increase in the number of banks' branches, deposits, credit, etc. In determining and analyzing the banking sector in the country, it indicates the direction in which the country's economy is moving with the limitation of the process of liberalization and globalization of the economy. In India, the economic reforms started in early nineties, but their outcomes visible now major changes took place in the functioning of banks in India only after LPG (liberalization, globalization and privatization).

The Housing Development Finance Corporation (HDFC) Bank was incorporated on August 1994 by the name of 'HDFC Bank Limited', with its registered office in Mumbai, India. HDFC Bank commenced operations as a Scheduled Commercial Bank in January 1995. The HDFC was amongst the first to receive an 'in principle' approval from the Reserve Bank of India to set up a bank in the private sector, as part of the RBI's liberalization of the Indian Banking Industry in 1994.

HDFC Bank is headquartered in Mumbai. The Bank at present has an enviable network of more over 1500 branches spread over 550 cities across India. All branches are linked on an online real-time basis. Customers in over more than 500 locations are also serviced through Telephone Banking.

OBJECTIVES:

- To determine the Capital adequacy, Asset quality, Management efficiency, Earnings and Liquidity of the HDFC bank using CAMEL rating system
- To compare the financial performance of HDFC bank from 2014-2018.

SCOPE OF THE STUDY

- To study the financial performance of HDFC bank.
- To understand the overall profitability position of the bank.
- To determine the liquidity position and long term financial performance of the HDFC bank.
- This study helps to analyse the financial performance of HDFC bank from 2014-2019 and suggest to their investors.

LIMITATIONS OF THE STUDY:

- The study depends upon the secondary data collected from HDFC bank i.e. Annual reports of the bank.
- The period of study is limited to 2014-2018 only.

REVIEW OF LITERATURE

Gupta and Kaur (2008), examined the performance of Indian private Sector banks by using CAMEL model and by assigning rating to the top five and bottom five banks. In this research, for rating 20 old and 10 new private sector banks based on CAMEL framework. The financial data for the research period is 5 years i.e. from 2003-07. As per CAMEL Model the research revealed that HDFC was at its higher position of all private sectors banks in India succeeded by the Karur Vyasa and the Tamilnad Mercantile Bank. The research also finds that Gobal Trust Bank and the Nedungradi Banks was considered as bad management. The research concludes that new private sector of banks have attained the higher position due to core banking, aggressive marketing strategies and high level of technology. It also give suggestions that to attain perfection banks should always concentrate on new financial assets, excellent service and customer loyalty.

Kaur (2010), analyzed the commercial banks operating in India with reference to CAMEL approach. In this research he has categorized the banks into Public sector Bank, Private sector Banks and Foreign Banks. The researcher used the CAMEL analysis technique with the purpose of ranking the banks. In this research each component of CAMEL has been interpreted using two ratios and a final composite index has been established. For this research data tools which were used was a sample of 28 public sector, 26 private sector, 28 Foreign banks and the data needed for the study was secondary in nature which was collected from statistical tables related to the Banks in India in the financial year 200-01 to 2006-07. The research revealed that the best bank from the public sector has been awarded to Andhra Bank and State Bank of Patiala. It also concluded that in the category of private sector banks, Jammu and Kashmir Bank has been assigned the first rank succeeded by HDFC Bank. It also revealed that the foreign sector banks, Antwerp has bagged the first rank followed by JP Morgan Chase Bank.

Uppal (2010) examined the extent of mobile banking in Indian banking industry during 2000-07. The study determined that among all e-channels, ATM is the most effective, while mobile banking does not hold a strong 47 position in public sector banks and old private sector banks. The study also observed that new private sector banks and foreign banks, mobile banking is good enough with nearly 50 per cent average branches providing mobile banking services. The study also finds that mobile banking customers are also the highest in banks providing electronic services,

which have a positive impact on net profits and business per employee of these banks. The study concludes that foreign banks are on the top position followed by new private sector banks in providing mobile banking services; and their efficiency is also much higher as compared to other banks. The research also provided suggestions regarding some strategies to improve mobile banking services

RESEARCH METHODOLOGY

➤ Nature of Study

The nature of study of this project is analytical study. In analytical study, one has to use facts or information already available and analyze these to make critical evaluation of the material.

➤ Nature of Data

Data needed for the study is secondary data. Secondary data are those data which have already collected and stored.

➤ Sources of Data

Secondary data may collected from

- Annual reports of the banks
- Bulletins
- Periodicals
- News letters
- Internal reports of the bank
- Websites

➤ Period of Study

The study covers the five years period from 2014 to 2018

➤ Tools Used In Analysis

- CAMEL Rating Analysis
- Comparative Balance Sheet

ANALYSIS AND INTERPRETATION

➤ CAMEL ANALYSIS

Table No.1
CAPITAL ADEQUACY RATIOS

Ratios	2018	2017	2016	2015	2014
Capital Adequacy Ratios	16.8	16.1	16.8	16.5	16.2
Debt Equity Ratio	7.27	8.45	8.18	8.24	8.22
Advances to asset ratio	61.89	61.63	59.88	57.83	57.68
Government Securities to total investments	61.89	61.63	59.88	57.83	57.68

From the above table, it is found that HDFC Capital adequacy ratio was highest in the year 2018, Debt equity ratio was highest in the year 2017, Advance to asset ratio was highest in the year 2018 and Government Securities to total investments was highest in the year 2018

Table No.2
ASSETS QUALITY RATIOS

Ratios	2018	2017	2016	2015	2014
Net NPA to total advances ratio	0.25	0.27	0.20	0.18	0.18
Total investments to total assets ratio	28.18	24.60	27.88	28.84	25.57
Net NPA to total assets ratio	0.15	0.17	0.12	0.10	0.11

From the above table, it is found that HDFC Net NPA to total advances ratio was highest in the year 2017, Total investments to total assets ratio was highest in the year 2018 and Net NPA to total assets ratio was highest in the year 2017.

Table No.3
MANAGEMENT EFFICIENCY RATIOS

Ratios	2018	2017	2016	2015	2014
Total advances to total deposits ratio	81.08	82.48	80.92	79.21	76.70
Business per employee	107003994.66	98340460.49	77603363.18	66911809.90	66108672.48
Profits per employee	1339160.38	1243801.97	973906.44	781992.05	704261.89
Return on equity ratio	16.47	19.50	18.75	17.26	15.47

From the above table, it is found that HDFC Total advances to total deposits ratio was highest in the year 2017, Business per employee was highest in the year 2018, Profits per employee was highest in the year 2018 and Return on equity ratio was highest in the year 2016.

Table No.4
EARNING QUALITY RATIOS

Ratios	2018	2017	2016	2015	2014
Operating profit to total asset ratio	1.53	1.45	1.30	1.25	1.40
Net profit to total asset ratio	1.73	1.72	1.68	1.53	1.41
Interest income to total income ratio	84.34	83.86	83.65	83.88	82.13
Net interest margin to total asset ratio	84.34	83.86	83.65	83.88	82.13

From the above table, it is found that HDFC Operating profit to total asset ratio was highest in the year 2018, Net profit to total asset ratio was highest in the year 2018, Interest income to total income ratio was highest in the year 2018 and Net interest margin to total asset ratio was highest in the year 2018.

Table No.5
LIQUIDITY RATIOS

Ratios	2018	2017	2016	2015	2014
Liquid asset to total asset ratio	6.15	8.05	6.81	6.20	10.70
Liquid asset to total deposit ratio	8.06	10.77	9.21	8.49	14.22
Liquid asset to demand deposit ratio	49.39	64.58	52.15	46.11	63.86
Government securities to total asset ratio	20.39	19.25	21.21	22.55	19.34

From the above table, it is found that HDFC Liquid asset to total asset ratio was highest in the year 2014, Liquid asset to total deposit ratio was highest in the year 2014, Liquid asset to demand deposit ratio was highest in the year 2017 and Government securities to total asset ratio was highest in the year 2015.

➤ COMPARATIVE BALANCE SHEET

TABLE 6

COMPARATIVE BALANCE SHEET OF HDFC BANK 2014-18

(Rs in crores)

LIABILITIES	2014	2015	2016	2017	2018
Equity Share Capital	465.23	469.34	475.88	479.81	501.30
Total Share Capital	465.23	469.34	475.88	479.81	501.30
Reserves and Surplus	24,911.13	29,455.04	35,738.26	42,998.82	61,508.12
Total Reserves and Surplus	24,911.13	29,455.04	35,738.26	42,998.82	61,508.12
Total Shareholders' Funds	25,379.27	29,924.68	36,214.15	43,478.63	62,009.42
Deposits	208,586.41	246,706.45	296,246.98	367,337.48	450,795.64
Borrowings	14,394.06	23,846.51	33,006.60	39,438.99	45,213.56
Other Liabilities and Provisions	28,992.86	37,431.87	34,864.17	41,344.40	32,484.46
Total Capital and Liabilities	277,352.59	337,909.50	400,331.90	491,599.50	590,503.07
ASSETS					
Cash and Balances with Reserve Bank of India	25,100.82	14,991.09	14,627.40	25,345.63	27,510.45

Balances with Banks Money at Call and Short Notice	4,568.02	5,946.63	12,652.77	14,238.01	8,821.00
Investments	70,929.37	97,482.91	111,613.60	120,951.07	166,459.95
Advances	159,982.67	195,420.03	239,720.64	303,000.27	365,495.03
Fixed Assets	2,170.65	2,347.19	2,703.08	2,939.92	3,121.73
Other Assets	14,601.08	21,721.64	19,014.41	25,124.60	19,094.91
Total Assets	277,352.61	337,909.50	400,331.90	491,599.50	590,503.07

The table shows that the share capital of the bank has increased by 501.30 Crores in 2018 as compared to 2014. The reserves and surplus has increased by 61,508.12 Crores in 2018. The deposits have increased by 450,795.64 Crores in 2018 as compared to 2014. At the same time other liabilities and provisions are increased by 29.11%.

The investment of the bank has increased by 166,459.95 Crores in 2018 as compared to 2014. The fixed asset has increased by 3,121.73 compared to 2014. At the same time, other asset has increased by 19,094.91 Crores. The total assets increased by 590,503.07 Crores in 2018 when compared to other years.

CONCLUSION:

The study examined the financial performance of the HDFC banks with a specific end goal to give better degree to financiers, shareholders, leasers and the administration themselves about the rating of the bank and its functions. During the process of evaluation of financial performance of the selected Banks ,the study highlighted that, the banks have obtained different ranks with respect to CAMEL ratios. This study concluded that in terms of capital adequacy ratio parameter HDFC bank was at the top position. In terms of asset quality parameter, HDFC bank held the top rank when compare to others. In terms of earning quality parameter the capability of HDFC was in a growing trend. Under the liquidity parameter HDFC bank was in an rising trend. According to the comparative balance sheet analysis, HDFC bank is the best banks for investing.

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