A Study on Financial Statement Analysis of HDFC Bank

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ABSTRACT

The financial analysis is the process of identifying the financial strength and weakness of the firm establishing relationship between the items of balance sheet and the profit and loss account.

This study was conducted to assess HDFC Bank's financial performance. HDFC was among the first to receive an 'in principle' approval from Reserve Bank of India (RBI) to establish a private sector bank.The bank currently has an enviable network of more than 4,805 outlets, distributed throughout India 's towns. Both divisions are in real time linked online. Customers are now serving via mobile banking in over 500 places. The bank already has a network of about 12,860 networked ATMs 2,657 throughout towns and regions.HDFC Bank offers a range of products and services including wholesale banking and retail finance, treasury, vehicle loans, two-wheel loans, personal loans, land loans, consumer-sustainable loans, lifestyle loans, credit cards and other digital goods.Over the past five years, i.e. 2015, 2016, 2017, 2018 and 2019, the financial results of the above listed bank have been measured. Data analyzed through ratio analysis such as current ratio, cash position ratio, fixed asset ratio, debt-equity ratio, and proprietary ratio, and interpretation of each ratio is given. To conclude this article, the Bank's financial soundness during the study is satisfactory

Keyword:*Financial performance, Ratio analysis of HDFC bank.*

INTRODUCTION

Finance is the master key that provides access to all manufacturing and merchandising sources. Financial success is important for the preparation and management of financial decisions.It is a process of measuring how effectively a company uses its assets from the primary business mode to raise revenues and measures organizations' entire financial health over a given period of time.For the period from 2013-2014 to 2017-2018, financial performance evaluation was carried out on the basis of certain selected parameters such as liquidity, solvency and profitability ratios. HDFC is among the biggest institutions in the private sector.This process served to clearly understand the bank's long-term and short-term growth. There are several ways in which the researcher used data in this research to analyze the ratio analysis. This useful research also evaluates the bank's credit worthiness when determining the rivals' business place.From the total information contained in the financial statements, the financial analyst needs to select the information relevant to decision making under consideration. The information then needs to be arranged in a way to highlight the important relationship. After that the inferences and conclusions are interpreted and drawn.

Financial statements may be used by users for different purposes:

• Owners and managers require financial statements to make significant business decisions affecting their continued existence.

• Financial analysis of these statements is then carried out to provide a more detailed understanding of the figures for management.

• Such declarations are sometimes regarded as the basis of handling the stockholders' annual report.

Tools for financial statement analysis:

The history of financial statement analysis is traced back to the beginning of 20th century. The analysis was started in western countries for the use of credit analysis. Till 1914, thefinancial institutions used to relay on the facts of financial statements. But over a period of time, the need for analysis was felt and a number of techniques were invented and made use of the purpose of analysis. The most important tools of analysis and interpretation of financial statements are listed below;

• Ratio analysis;

• Cash flow analysis;

• Fund flow analysis;

• Comparative financial statement;

• Common size analysis;

• Net working capital analysis;

• Trend analysis;

HDFC Bank was incorporated in August 1994. As of September 30th, 2019, the Bank had 5,314 branches and 13,514 ATM's in 2,768 cities / towns across the country.

The Housing Development Finance Corporation Limited (HDFC) was among the first to receive an approval 'in principle' from Reserve Bank of India (RBI) to establish a private sector bank,As part of RBI 's 1994 Indian Banking Sector liberalization. The bank, with its registered office in Mumbai, India, was established in August 1994 in the form of 'HDFC Bank Limited.' In January 1995 HDFC Bank began operations as a Scheduled Commercial Bank.

Vision:

To be the leading provider of financial services in India and a major global bank.

Mission:

We will leverage our people, technology, speed and financial capital to:

- Be the banker of first choice for our customers by delivering high quality, world-class products and services.
- expand the frontiers of our business globally.

OBJECTIVES OF THE STUDY

- To measure HDFC Bank financial results.
- Analysis of the Bank's liquidity and solvency status.
- To offer suggestions that are based on study findings.
- Measuring the efficiency of various properties with bank's turnover.

HYPOTHESIS

NULL HYPOTHESIS:

H_0= Financial statement will not have any significant relationship.

H_1= The relation between the financial statements will be significant.

ALTERNATE HYPOTHESIS:

H_0 = Financial statement will not have any significant relationship.

H_1= The financial statement will have a significant relation.

METHODOLOGY

This study is quantitative in nature, meaning that it deals primarily with the HDFC Bank's financial statements over the last five years. This study is based on secondary data and annual reports taken from the website of banks. The data were evaluated through the review of the ratio and the Bank's output for the sample duration were easily clarified.

DATA ANALYSIS:

Some of the major ratios have been evaluated and interpreted for the purpose of understanding the financial performance of the bank.

CURRENT RATIO:

Current ratio establishes relationship between current assets and current liabilities. Current assets mean any asset is converted in to cash within a year or 12 months. Current liabilities are those liabilities are settled or repay within a year.

Current Ratio = Current Assets/ Current Liabilities.

The standard norm or rule of thumb for current ratio is 2:1. It means that let the total amount of current liabilities. When a bank’s current ratio is 2 or more it means that its liquidity position is good.

Table.1

Year	2018-19	2017-18	2016-17	2015-16	2014-15
Current Ratio	6.74	7.97	4.64	5.52	6.24

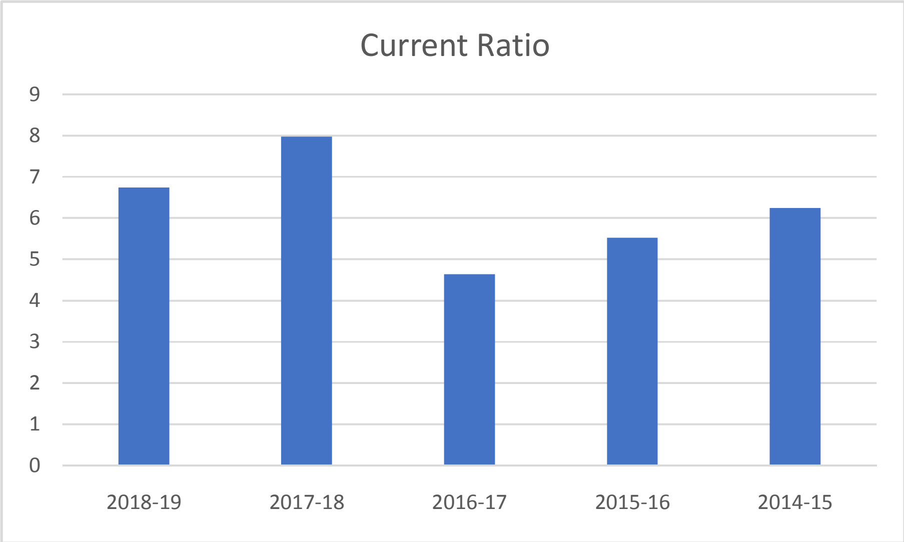


Table 1 shows that in 2014-15, the current ratio was 6.24, and increased to 5.52 and 4.64 in 2015-16 and 2016-17. The ratio was raised 7.97 in 2017-18 and in 2018-19 year. This suggests that the profitability of banks and their debt repayments are strong throughout the study era.

CASH POSITION RATIO:

Sometimes known as "Absolute Liquidity Ratio" or Ultra Simple Ratio. That's a quick-ratio variation. This measure is determined when currency- and cash-equivalent availability is strongly constrained. The percentage compares assets and close assets object availability, and total short-term liabilities. Cash-position ratio is determined using the formula below.

CashPositionratio=CashandBankBalances+MarketableSecurities/CurrentLiabilities

Anidealcashpositionratiois0.75:1.Thisratioisamorerigorousmeasureofafirm'sliquidity position.

Table 2

Year	2018-19	2017-18	2016-17	2015-16	2014-15
CPR	1.47	2.68	0.86	1.05	1.11

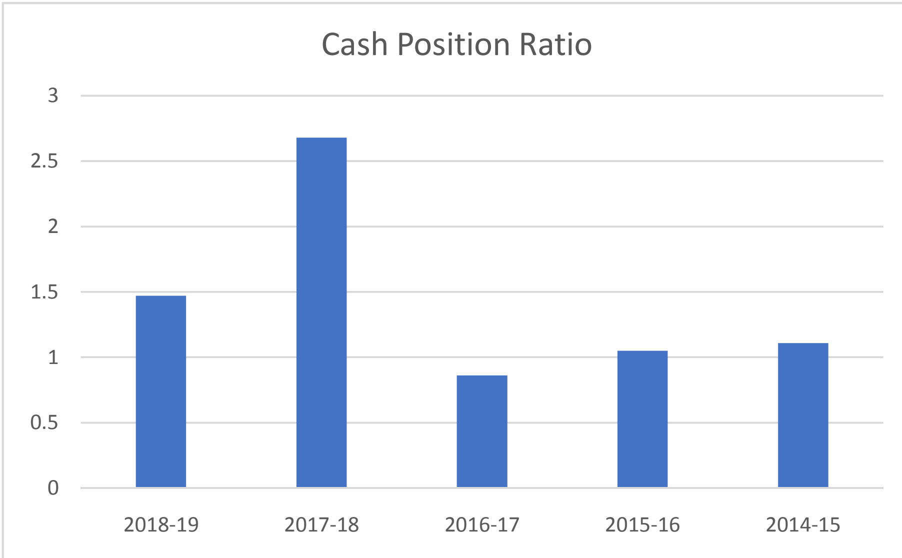


Table 2 demonstrates the bank's willingness to meet its contractual commitments, which offers the business a stronger role. Cash status Ratio for 2014-15 is 1.11 and had dropped by 1.05 and 0.86 respectively in 2015-16 and 2016-17. Yet this had risen to 2,68 in the year 2017-18. It had been down 1.47 in the year 2018-19. The Bank's liquidity status is strong throughout the study time.

LONG-TERM SOLVENCY RATIOS

FIXED ASSETS RATIO:

This ratio deals the relationship between fixed assets and long-term funds. The primary motto of this ratio is to ascertain the proportion of long-term funds invested in fixed assets.

Fixed Assets Ratio = Fixed Assets/ Long-Term Funds

An ideal fixed assets ratio is 0.67. The ratio must not be more than 1, if the ratio is less than 1it indicates that a portion of working capital had financed by long-term funds.

Table 3

Year	2018-19	2017-18	2016-17	2015-16	2014-15

FAR	7.39	6.95	7.07	6.61	6.22

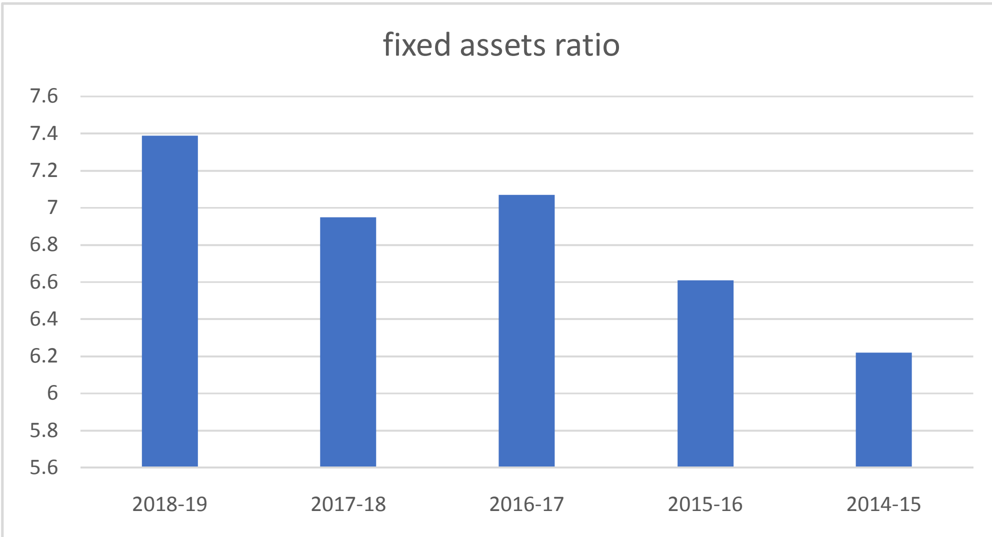


Table 3 displays the Bank's capital assets and long-term reserves. The fixed asset ratio for the year 2014-15 is 6.22 and rose to 6.61 in 2015-16. The ratio was 7.07 during 2016-17, and it had decreased by 6.95 in 2017-18. The ratio rose to 7.39 in 2018-19. These ratios are similar to the normal fixed asset ratio, it is quite high. Compared with the normal average of fixed asset ratio, such ratios are very small. During the study period, therefore, a portion of working capital had been financed by long-term funds.

DEBT-EQUITY RATIO:

This measure is otherwise called "External-Internal Measure of Equity" Mainly, the estimation of the financial soundness of long-term strategies is measured and the respective shares of insiders and owners are decided. It determines the debt-equity relation.

Debt-Equity Ratio = Shareholders Funds / Total Long-Term Funds

A high debt-equity ratio shows the highest claims of creditors over assets of the firm than those of shareholders. A high ratio reveals an unfavorable position of the company. A low debt-equity ratio indicates lesser claim of creditors and a higher margin is safe for them. The standard norm of this ratio 2:1 is satisfactory.

Year	2018-19	2017-18	2016-17	2015-16	2014-15
DER	1.27	0.86	1.20	1.37	1.37

Table 4:

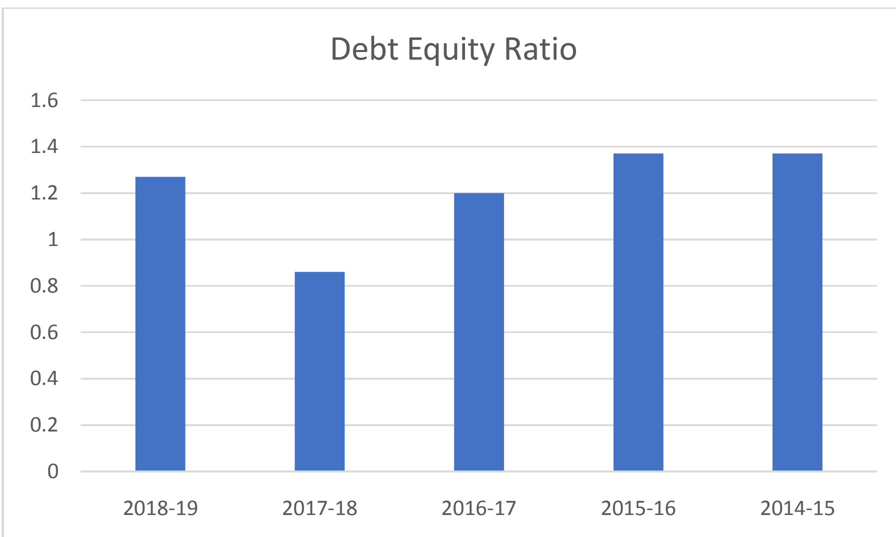


Table 4 illustrates the connection between the debt and equity. Throughout 2014-15, the figure was 1.37, and in 2015-16 it remained the same, accompanied by a 1.20 fall in 2016-17. It was reduced by 0.86 in 2017-18 but it was improved by 1.27 in the year 2018-19. These ratios are below the standard 2:1 norm. Therefore, the creditors are secure throughout the time of analysis.

PROPRIETARY RATIO:

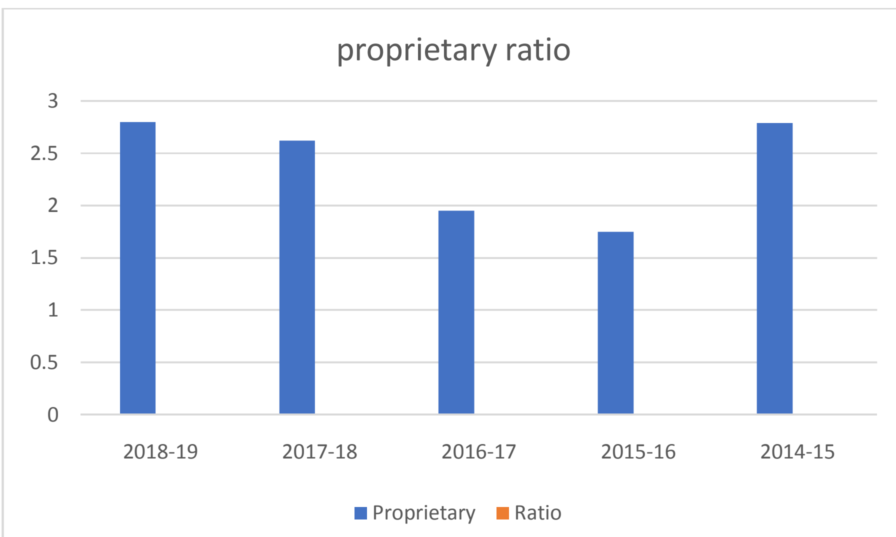
This ratio is called as owners fund ratio or net worth ratio. This ratio points out relationship between the stake holder's funds and total tangible assets.

Proprietary Ratio = Shareholders funds/Total tangible assets

This ratio is very useful to determine the long-term solvency of the company. It is important to the creditors who can ascertain the proportion of shareholders' funds in the total assets employed in the company. Standard norm of this ratio 0.5, below this standard norm the creditors may have to loss heavily in the event of winding up of the company.

Year	2018-19	2017-18	2016-17	2015-16	2014-15
Proprietary Ratio	2.80	2.62	1.95	1.75	2.79

Table:5



The firm's long-term solvency is clearly explained in Table 5. The level in 2014-15 was 2.79, and in 2015-16 reduced by 1.75. But during the 2016-17 year, it was raised to 1.95. Followed by this, it increased to 2,62 and 2,80 respectively in the years 2017-18 and 2018-19.Both percentages are in excess of the normal 0.5. It obviously indicates that the creditors during the study time are extremely safe

FINDINGS:

1. The current ratio indicates that the liquidity of banks and their debt repayment is sound during the study period.

2. Cash status ratio or Total Liquidity Ratio indicates the bank's liquidity situation is strong over the study time.

3. Fixed asset ratio explains the portion of working capital during the study period had been financed by long-term funds.

4. Debt equity ratio explains how safe the creditors are during the period of study.

5. The ownership ratio reveals that the long-term solvency position of the Bank is good during the period of study.

SUGGESTIONS:

1. HDFC Ltd 's total liquidity status has fluctuated over the study period but it still retains adequate funds that are more than appropriate to meet the concern's short-term obligations.

2. The chosen unit 's long-term solvency is more than satisfactory and HDFC is heavily dependent on funding from outside rather than bond capital**.**

3. This study indicates that HDFC Ltd will offer further housing loans for the nation's growth to the citizens of India.

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