
FINANCIAL ANALYSIS ON HDFC –AN NON BANKING FINANCIAL COMPANY

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Financial Analysis:

The term **financial analysis** is also known as ‘**analysis and interpretation of financial statements**’ refers to the process of determining financial strength and weakness of the firm by establishing strategic relationship between the items of the Balance Sheet, Profit and Loss account and other operative data.

The first task of financial analysis is to select the information relevant to the decision under consideration to the total information contained in the financial statement. The second step is to arrange the information in a way to highlight significant relationship. The final step is interpretation and drawing of inference and conclusions. Financial statement is the process of selection, relation and evaluation.

Need for the study

The absolute account figure report in the financial statement does not provide a meaningful understanding of the performance and financial position of the firm. The study is concentrated on financial analysis of HDFC. The evaluation of the financial performance was for a period of five years from 2010-11 to 2015-16. Necessary data was obtained from the annual report of the bank and balance sheet, profit and loss account and from various websites. Traditional financial analysis techniques are used for this purpose.

Statement of the problem

The HDFC Bank offers service especially financial service to the members of the bank, living in the areas. The functions of the HDFC Banks are inevitable for the economic empowerment of various walk of the people i.e., business men, employers etc., This study has attempted to high list of performance of the HDFC bank, as it is referring the financial statement of the bank for the fixed period.

Scope of the study

The scope of the study entitled “The study on financial analysis of HDFC Bank Ltd., consists of studying the functions of the bank by referring the constitutions of the bank, performance of the bank referring the financial statement from 2010-11 to 2015-16. Evaluating the performance of the bank using ratio analysis. Which helps to know the overall financial performance of the bank.

Objective of the study

- To provide the financial analysis of HDFC bank.
- To identify the growth of HDFC bank in key areas.
- To provide suggestion to improve more in present scenario.

Limitation of the study

- The analysis and interpretation are based on secondary data contained in the published annual reports of HDFC Bank for the study period.
- Ratio itself will not completely show the company's good or bad financial position.
- The study of financial performance can be only a means to know about the financial condition of the company and cannot show a through picture of the activities of the company.

Review of literature

SUGANTHI (2015) The financial analysis at tensors corporation a case study. The focus of the assessment of the company focus on the firm financial performance is relation to liquidity and efficiency ratio.

Srinivas K., Saroja L. (2013) compared and analyzed the Financial Performance of HDFC and HDFC Bank. For the purpose of analysis of comparative financial performance of the selected banks using CAMELS model with test. The result showed that there is no significance difference between the HDFC and HDFC bank's financial performance but the HDFC bank performance is slightly less compared with HDFC.

Introduction about the organization

PRODUCTS AND SERVICES:

Loan Product: Auto loan, Loan against security, Loan against property, Personal loan, Credit card

2- wheeler loan, Commercial vehicles finance, Home loans, Retail business banking, Tractor loan

Working capital finance, Construction, Equipment finance, Health care finance, Education loan

Gold loan

Deposit Product: Savings A/Current A/Fixed Deposits, Demat A/C, Safe Deposit Lockers

Investment & Insurance: Mutual Funds, Bonds, Knowledge Centre, Insurance, General and Health Insurance, Equity and Derivatives, Mudra Gold Bar

Cards, payment services, access to bank, corporate, Small and Medium enterprises, Financial institutions and trusts, NRI services, savings accounts, security deposits, bonds, GOI bonds

Data analysis & interpretation

Correlations

| YEAR | INCOME(X) | EXPENSES(Y) | XY | X ² | Y ² |
|-------------------|-----------|-------------|-------------|----------------|----------------|
| 2011 | 38696.27 | 29771.04 | 1152028202 | 1497401312 | 886314822.7 |
| 2012 | 39599.11 | 31638.42 | 1252853274 | 1568089513 | 1000989620 |
| 2013 | 28923.46 | 23049.06 | 666658564.9 | 836566538.4 | 531259166.9 |
| 2014 | 18767.63 | 14076.96 | 264191176.8 | 352223935.8 | 198160802.8 |
| 2015 | 12826.04 | 9870.04 | 126593527.8 | 164507302.1 | 97417689.6 |
| TOTAL(Σ) | 138812.51 | 108405.52 | 3462324745 | 4418788601 | 2714142102 |

SOLUTION:

r = 0.998559048

INTEPRETATION: The coefficient of correlation is 0.99. therefore, it is concluded that there is a positive correlation between dependent and independent variable i.e., income and expenditure respectively. So the relation between income and expenditure is sufficient.

Ratio analysis

Balance sheet of HDFC bank LTD. (Rs. In crores)

| | 2015 | 2014 | 2013 | 2012 | 2011 |
|------------------------------------|------------------|------------------|------------------|------------------|------------------|
| CAPITAL AND LIABILITIES: | | | | | |
| Total Share Capital | 1086.75 | 1239.83 | 1249.34 | 1462.68 | 1463.29 |
| Equity Share Capital | 736.75 | 889.83 | 899.34 | 1112.68 | 1113.29 |
| Share Application Money | 0.02 | 0.00 | 0.00 | 0.00 | 0.00 |
| Preference Share Capital | 350.00 | 350.00 | 350.00 | 350.00 | 350.00 |
| Reserves | 11813.20 | 21316.16 | 23413.92 | 45357.53 | 48419.73 |
| Revaluation Reserves | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Net Worth | 12899.97 | 22555.99 | 24663.26 | 46820.21 | 49883.02 |
| Deposits | 99818.78 | 165083.17 | 230510.19 | 244431.05 | 218347.82 |
| Borrowings | 33544.50 | 38521.91 | 51256.03 | 65648.43 | 67323.69 |
| Total Debt | 146263.25 | 226161.17 | 306429.48 | 356899.69 | 335554.53 |
| Other Liabilities And Provisions | 21396.17 | 25227.88 | 38228.64 | 42895.39 | 43746.43 |
| Total Liabilities | 167659.42 | 251388.95 | 344658.12 | 399795.08 | 379300.96 |
| ASSETS: | | | | | |
| Cash And Balances With RBI | 6344.90 | 8934.37 | 18706.88 | 29377.53 | 17536.33 |
| Balances With Banks, Money At Call | 6585.07 | 8105.85 | 18414.45 | 8663.60 | 12430.23 |

| | | | | | |
|--------------------------|------------------|------------------|------------------|------------------|------------------|
| Advances | 91405.15 | 146163.11 | 195865.60 | 225616.08 | 218310.85 |
| Investments | 50487.35 | 71547.39 | 91257.84 | 111454.34 | 103058.31 |
| Gross Block | 5525.65 | 5968.57 | 6298.56 | 7036.00 | 7443.71 |
| Accumulated Depreciation | 1487.61 | 1987.85 | 2375.14 | 2927.11 | 3642.09 |
| Net Fixed Assets | 4038.04 | 3980.72 | 3923.42 | 4108.89 | 3801.62 |
| Capital Work In Progress | 96.30 | 147.94 | 189.66 | 0.00 | 0.00 |
| Other Assets | 8702.59 | 12509.57 | 16300.26 | 20574.63 | 24163.62 |
| Total Assets | 167659.42 | 251388.95 | 344658.12 | 399795.07 | 379300.96 |
| Contingent liabilities | 97507.79 | 119895.78 | 177054.18 | 371737.36 | 803991.92 |
| Bills for collection | 9803.67 | 15025.21 | 22717.23 | 29377.55 | 36678.71 |
| Book value(Rs.) | 170.35 | 249.55 | 270.37 | 417.64 | 445.17 |
| EPS | 27.22 | 28.55 | 34.59 | 37.37 | 33.78 |
| No. of equity shares | 736716094 | 889823901 | 899266672 | 1112687495 | 1113250642 |
| | | | | | |

PROFIT AND LOSS ACCOUNT OF HDFC BANK LTD.
(Crores)

(Rs. In

| | 2015 | 2014 | 2013 | 2012 | 2011 |
|-----------------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| INCOME: | | | | | |
| Interest Earned | 9409.90 | 13784.49 | 22994.29 | 30788.34 | 31092.55 |
| Other Income | 3416.14 | 4983.14 | 5929.17 | 8810.77 | 7603.72 |
| Total Income | 12826.04 | 18767.63 | 28923.46 | 39599.11 | 38696.27 |
| EXPENDITURE: | | | | | |
| Interest Expended | 6570.89 | 9597.45 | 16358.50 | 23484.24 | 22725.93 |
| Operating Expenses | 3299.15 | 4479.51 | 6690.56 | 8154.18 | 7045.11 |
| Total Expenses | 9870.04 | 14076.96 | 23049.06 | 31638.42 | 29771.04 |
| Operating Profit | 2956 | 4690.67 | 5874.40 | 7960.69 | 8925.23 |
| Other Provision And Contingencies | 428.80 | 1594.07 | 2226.36 | 2904.59 | 3808.26 |
| Provision For Tax | 522 | 556.53 | 537.82 | 898.37 | 1358.84 |
| Net Profit | 2005.20 | 2540.07 | 3110.22 | 4157.73 | 3758.13 |
| Extraordinary Items | 0.00 | 0.00 | 0.00 | 0.00 | (0.58) |
| Profit B/F | 53.09 | 188.22 | 293.44 | 998.27 | 2436.32 |
| Total | 2058.29 | 2728.29 | 3403.66 | 5156.00 | 6193.87 |
| Preference Dividend | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Equity Dividend | 632.96 | 759.33 | 901.17 | 1227.70 | 1224.58 |
| Corporate Dividend Tax | 90.10 | 106.50 | 153.10 | 149.67 | 151.21 |
| Pershare Data | | | | | |
| Eps(Rs.) | 27.22 | 28.55 | 34.59 | 37.37 | 33.78 |
| Equity Dividend(%) | 85.00 | 85.00 | 100.00 | 110.00 | 110.00 |
| Book Value(Rs) | 170.35 | 249.55 | 270.37 | 417.64 | 445.17 |

| | | | | | |
|------------------------------------|----------------|----------------|----------------|----------------|----------------|
| Appropriations | | | | | |
| Transfer To Statutory Reserve | 547.00 | 248.69 | 1351.12 | 1342.31 | 2014.42 |
| Transfer To Other Reserve | 600.01 | 1320.34 | 0.00 | 0.01 | 0.01 |
| Proposed Dividend/Transfer To Govt | 723.06 | 865.83 | 1054.27 | 1377.37 | 1375.79 |
| Balance C/F To Balance Sheet | 188.22 | 293.44 | 998.27 | 2436.32 | 2809.65 |
| Total | 2058.29 | 2728.30 | 3403.66 | 5156.01 | 6193.87 |

CURRENT RATIO

| Year | Current Assets (Rs. In crores) | Current Liabilities (Rs. In crores) | Current Ratio |
|------|-----------------------------------|--|---------------|
| 2011 | 21632.56 | 21396.16 | 1.01 |
| 2012 | 29549.79 | 25227.88 | 1.17 |
| 2013 | 53421.59 | 38228.64 | 1.39 |
| 2014 | 58615.76 | 42895.38 | 1.36 |
| 2015 | 54130.18 | 43746.43 | 1.23 |

Interpretation: An ideal solvency ratio is 2. The ratio of 2 is considered as a safe margin of solvency due to the fact that if current assets are reduced to half (i.e.) 1 instead of 2, then also the creditors will be able to get their payments in full. But here the current ratio is less than 2 and more than 1 which shows that the bank has current assets just equal to the current liabilities which is not satisfactory as the safety margin is very less or zero. Therefore, the bank should keep more current assets so that it can maintain a satisfactory safety margin.

LIQUID RATIO:

| | | | |
|------|----------|----------|------|
| 2011 | 12929.97 | 21396.16 | 0.60 |
| 2012 | 17040.22 | 25227.88 | 0.67 |
| 2013 | 37121.33 | 38228.64 | 0.97 |
| 2014 | 38041.13 | 42895.38 | 0.88 |
| 2015 | 29966.56 | 43746.43 | 0.68 |

Interpretation: A quick ratio of 1:1 is considered favorable because for every rupee of current liability, there is at least one rupee of liquid assets. A higher value of ratio is considered favorable. Here this ratio is less than 1 in 2011, 2012 & 2015 but in 2013 & 2014 it is close to 1 which is not satisfactory. This means the bank has not managed its funds properly in this particular period. Therefore, bank should rationally utilize its funds to maintain an ideal liquid ratio.

EARNING PER SHARE

| Year | Net Income Available For Shareholders (Rs. In crores) | No. Of Equity Shares (Rs. In crores) | EPS |
|------|--|---|-------|
| 2011 | 2011.2 | 73.6716 | 27.22 |
| 2012 | 2540.07 | 88.9823 | 28.55 |
| 2013 | 3110.22 | 89.9266 | 34.59 |
| 2014 | 4157.73 | 111.2687 | 37.37 |
| 2015 | 3758.13 | 111.325 | 33.78 |

Interpretation: Earnings Per Share is the most commonly used data which reflects the performance and prospects of the company. It affects the market price of shares. Here the Earning Per Share is shows a persistent increase till the year 2014 after that in the year 2015 Earnings Per share is followed by a downfall due to decline in profits.

NET PROFIT RATIO

| Year | Net Profit (Rs. In crores) | Sales (Rs. In crores) | Net Profit Ratio (in %) |
|------|-------------------------------|--------------------------|----------------------------|
| 2011 | 2011.2 | 9409.9 | 21.3 |
| 2012 | 2540.07 | 13784.49 | 18.42 |
| 2013 | 3110.22 | 22994.29 | 13.52 |
| 2014 | 4157.73 | 30788.34 | 13.5 |
| 2015 | 3758.13 | 31092.55 | 12.08 |

Interpretation: Although both the sales and net profit have increased during the above period but the Net Profit Ratio of the bank is declining continuously. This is because of the reason that net profits have not increased in the same proportion as of the sales.

OPERATING PROFIT RATIO

| Year | Operating Profit (Rs. In crores) | Sales (Rs. In crores) | Operating Profit Ratio (in %) |
|------|-------------------------------------|--------------------------|----------------------------------|
| 2011 | 2956 | 9409.9 | 31.41 |
| 2012 | 4690.67 | 13784.49 | 34.02 |
| 2013 | 5874.4 | 22994.29 | 25.54 |
| 2014 | 7960.69 | 30788.34 | 25.85 |
| 2015 | 8925.23 | 31092.55 | 28.7 |

Interpretation: In the year 2011 & 2012 the operating profit is 31.41% & 34.02% respectively. After that it has been consistently declined from the year 2013 till 2014 and again gaining momentum in 2015. This may be due to the reason that operating expenses have been increased more as compared to sales during the above period consequently reducing the operating profits. Therefore, the bank should check on unnecessary operating expenses to correct this situation and to provide a sufficient return.

DEBT- EQUITY RATIO

| Year | Debt (Rs. In crores) | Equity (Rs. In crores) | Debt Equity Ratio |
|------|-------------------------|---------------------------|-------------------|
| 2011 | 154759.45 | 12899.97 | 11.99 |
| 2012 | 228832.96 | 22555.99 | 10.14 |
| 2013 | 319994.86 | 24663.26 | 12.97 |
| 2014 | 352974.87 | 46820.21 | 7.53 |
| 2015 | 329417.94 | 49883.02 | 6.6 |

❖ **Interpretation:** The ratio shows the extent to which funds have been provided by long-term creditors as compared to the funds provided by the owners. Here the Debt-Equity ratio for the above period is always high. This shows that the bank is more relying on outside funds as compared to internal sources of capital, in its capital structure. From the long-term lenders point of view this ratio is not satisfactory

PROPRIETARY RATIO

| Years | Shareholder's Funds (Rs. In crores) | Total Assets (Rs. In crores) | Proprietary Ratio |
|-------|--|---------------------------------|-------------------|
| 2011 | 12899.97 | 167659.4 | 0.07 |
| 2012 | 22555.99 | 251388.95 | 0.08 |
| 2013 | 24663.26 | 344658.11 | 0.07 |
| 2014 | 46820.21 | 399795.07 | 0.12 |
| 2015 | 49883.02 | 379300.96 | 0.13 |

Interpretation: Above table exhibits the proprietary ratio of the bank for last five years. It was 7% in 2011, After that was 8% in year 2012. Similarly, it was once again reduced to 7 % in the year 2013. After 2013 it registered increase and was 12% and 13% in the year 2014 and 2015 respectively. Hence it leads to the conclusion owners have less than 13% stake in the total assets of the bank. It is not a good sign as far the long term solvency is concerned.

Findings

- Profit before tax for the year ended March 31, 2015 (FY2015) was Rs. 5,117 crores (US\$ 1,009 million), compared to Rs. 5,056 crores (US\$ 997 million) for the year ended March 31, 2014 (FY2014).

- Profit after tax for FY2015 was Rs. 3,758 crores (US\$ 741 million) compared to Rs. 4,158 crores (US\$ 820 million) for FY2014 due to the higher effective tax rate on account of lower proportion of income taxable as dividends and capital gains.
- Net interest income increased 15% from Rs. 7,304 crores (US\$ 1,440 million) for FY2014 to Rs. 8,367 crores (US\$ 1,650 million) for FY2015. While the advances declined marginally year-on-year, the net interest income increased due to improvement in net interest margin from 2.2% in FY2014 to 2.4% in FY2015.
- Operating expenses (including direct marketing agency expenses) decreased 14% to Rs. 6,835 crores (US\$ 1,348 million) in FY2015 from Rs. 7,972 crores (US\$ 1,572 million) in FY2014. The cost/average asset ratio for FY2015 was 1.8% compared to 2.2% for FY2014.

Liquidity position

- The liquid ratio of the bank in the year 2011,2012 and 2015 is 0.60,0.67and 0.68 respectively and the year 2013 and 2014 liquid ratio is 0.97 and 0.88 respectively which is close to 1. So in nut shell, it can be concluded that the liquidity position of the bank is quite satisfactory.

Earnings per share: - The earnings per share for the period under study also shows a promising increase.it suggests that bank has better profitability position and in future it can be a better or attractive channel of investment for shareholders

Suggestions

- ☉ Although the short term liquidity position is quite satisfactory as per revealed by liquid ratio but the current ratio is below the ideal ratio of 2:1. So the bank should make efforts to increase its current assets to maintain a safety margin and to maintain a better liquidity position.
- ☉ Profits are increasing but not with same pace as of the expenditure due to higher reliance on debt capital in the form of borrowings and loans for financing capital structure. So in order to improve profitability, the bank should reduce its dependence on external equities for meeting capital requirements.
- ☉ Higher trend of credit deposit ratio reveals that the bank has performed satisfactorily as regard to granting loans and advances to generate income. It suggests that the credit performance of bank is good and it is performing its business well by fulfilling the major objective of granting credit and accepting deposit. So in order to have more creditability in the market the bank should maintain its credit deposit ratio.
- ☉ Schemes can be in the form of higher rate of interest and shorter maturity period for FD's etc.
- ☉ The bank is having a greater reliance on debt capital. The increasing reliance on external equities may prove hazardous in the long run. So in order to remedy this situation bank should increase its focus on internal equities and other sources of internal financing.
- ☉ The bank should simplify the procedure of advances for quick disbursement.
- ☉ Last but not least, bank should adopt branch automation experiment to control the operational cost.

Conclusion: On the basis of various techniques applied for the financial analysis of HDFC Bank we can arrive at a conclusion that the financial position and overall performance of the bank is satisfactory. Though the income of the bank has increased over the period but not in the same pace as of expenses. But the bank has succeeded in maintaining a reasonable profitability position. The bank has succeeded in increasing its share capital also which has increased around 50% in the last 5 years. Individuals are the major shareholders. The major achievement of the bank has been a tremendous increase in its deposits, which has always been its main objective. Fixed and current deposits have also shown an increasing trend. Equity shareholders are also enjoying an increasing trend in the return on their capital. Though current assets and liabilities (current liquidity) of the bank is not so satisfactory but bank has succeeded in maintaining a stable solvency position over the years. As far as the ratio of external and internal equity is concerned, it is clear that bank has been using more amount of external equity in the form of loans and borrowings than owner's equity. Bank's investments are also showing an increasing trend. Due to increase in advances, the interest received by the bank from such advances is proving to be the major source of income for the bank.

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