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AN EMPIRICAL STUDY OF THE FINANCIAL POSITION AND PERFORMANCE OF HDFC BANK

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ABSTRACT

Financial Statement Analysis is an important tool for evaluating the financial performance, liquidity, solvency, and profitability of an organization. This study focuses on the financial statement analysis of HDFC Bank with the objective of assessing its financial position and operational efficiency over a selected period. The research is based primarily on secondary data collected from annual reports, financial statements, journals, and published sources related to the banking sector. Various financial ratios, including current ratio, quick ratio, absolute liquid ratio, debt-equity ratio, and profitability ratios, were analyzed to measure the bank's financial strength and performance. The findings indicate that HDFC Bank maintained a strong liquidity position throughout the study period, with current and quick ratios remaining above standard benchmarks. The debt-equity ratio showed a declining trend, reflecting improved financial stability and reduced dependence on external borrowings. Profitability analysis revealed gradual improvement in the bank's earnings and operational performance over time. The study concludes that HDFC Bank has maintained a sound financial structure and efficient management of resources, contributing to its growth and stability in the competitive banking industry. Continuous monitoring of financial indicators and effective utilization of resources can further strengthen the bank's financial performance and long-term sustainability.

Keywords: Financial Statement Analysis, HDFC Bank, Financial Performance, Ratio Analysis.

INTRODUCTION

Financial statement analysis is the process of identifying financial strengths and weaknesses of the firm by properly establishing relationship between the balance sheet and the profit and loss account.

There are various methods or techniques that are used in analyzing financial statements, such as comparative statements, schedule of changes in working capital, common size percentages, funds analysis, trend analysis, and ratios analysis. Financial statements are prepared to meet external Summer Internship obligations and also for decision making purposes. They play a dominant role in setting the framework of managerial decisions. But the information provided in the financial statements is not an end in itself as no meaningful conclusions can be drawn from these statements alone. However, the information provided in the financial statements is of immense use in making decisions through analysis and interpretation of financial statements.

RESEARCH METHODOLOGY

A research methodology describes the techniques and procedures used to identify and analyze information regarding a specific research topic. It is a systematic process through which researchers design their study to achieve the desired objectives using appropriate research tools and techniques.

It includes important aspects of research such as research design, research approach, data collection methods, and the framework within which the study is conducted. The selection of an appropriate methodology ensures the reliability and validity of the findings and helps in achieving the objectives of the study effectively.

Research Design

Research design is a comprehensive plan for conducting research. It outlines the procedures necessary to collect, measure, and analyze data systematically. The primary objective of the research design is to ensure that the study addresses the research problem effectively and provides reliable and valid results.

The present study is descriptive and analytical in nature. It focuses on analyzing the financial position and performance of HDFC Bank through the examination of financial statements and other published financial information.

Research Approach

The research approach outlines the strategy and methods used to systematically collect, analyze, and interpret data for the study. For the analysis of the financial position and performance of HDFC Bank, a quantitative research approach has been adopted, as the study involves the examination and interpretation of numerical financial data to evaluate the bank's financial performance.

Research Instrument

The research instrument refers to the tools and techniques used for collecting and analyzing data. In the present study, financial statements and related financial documents have been used as the principal instruments for obtaining relevant information. Various financial analysis techniques, such as ratio analysis and comparative analysis, have been employed to assess the financial position and performance of HDFC Bank.

Data Collection

In research methodology, data collection refers to the systematic process of gathering and measuring information on variables of interest. This process enables researchers to obtain accurate and comprehensive data, which can be analyzed to answer research questions and evaluate outcomes.

The present study is based exclusively on secondary data. The required data have been collected from published and authenticated sources.

Secondary Data

Secondary data have been collected from various published sources such as annual reports, financial statements, books, journals, magazines, and articles related to financial management and banking. Information has also been obtained from business newspapers and reliable online sources.

The data include:

- Collection of required data from the Annual Reports and Financial Statements of HDFC Bank.
- Reference from textbooks and journals relating to financial management and banking.
- Articles published in business newspapers and magazines such as *The Economic Times*, *Business Line*, and other relevant financial publications.
- Information available from official reports and other published records related to HDFC Bank.

RESULT AND DISCUSSION

This chapter deals with data analysis and interpretation. The outcome of the present study yields significant findings of HDFC Bank.

Some of the major ratio has been evaluated and interpreted for the purpose of understanding the financial performance of the bank.

The following analysis shows the company's performance. This analysis will help to understand the HDFCs financial position.

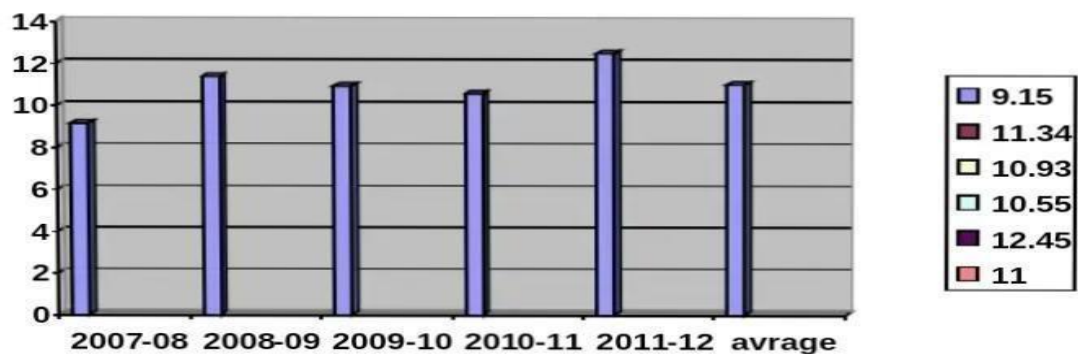
Liquidity Or Short-Term Solvency Ratio

CURRENT RATIOS:

FORMULA:

$$\text{Current ratio} = \frac{\text{Current assets}}{\text{Current liabilities}}$$

YEAR	CURRENT ASSETS	CURRENT LIABILITIES	CURRENT RATIO
2007-08	3273084438.4	357773744.9	9.15
2008-09	3393212856.5	299256401.6	11.34
2009-10	3357872071.3	307197938.3	10.93
2010-11	2357783278.8	223475367.9	10.55
2011-12	3047836429.1	244855617.6	12.45
Average	15429789074.1	286511814.06	11



Interpretation

From the above calculated current ratio of HDFC it is observed that the current ratios of the HDFC Bank is 9.15 in 2007-08, and increased to 12.45 in the year 2011-12. and the HDFC Bank is maintaining the average current ratio as around 11, is more than the standard of current ratio

Quick Ratio

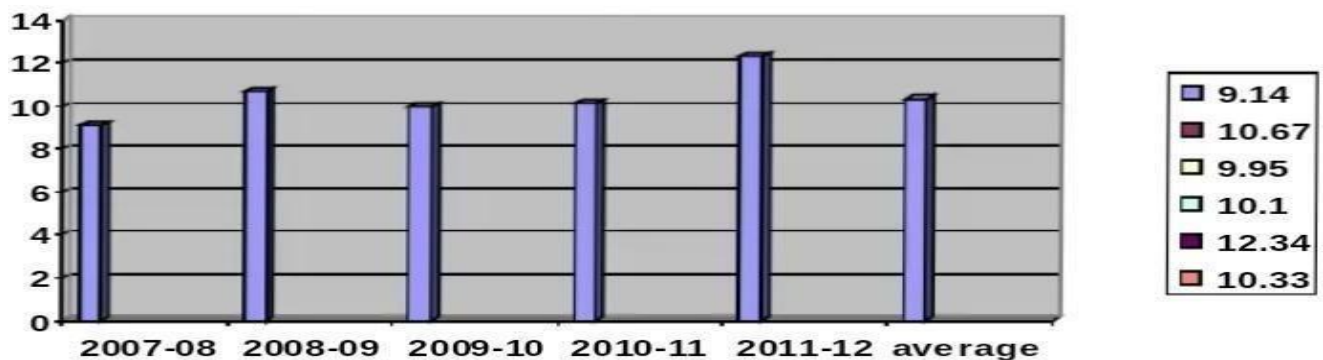
FORMULA:

$$\text{Quick ratio} = \frac{\text{Quick assets}}{\text{Current liabilities}}$$

Quick assets = Current assets – inventory & prepaid expenses

Quick liabilities = Current liability –HDFC Bank over draft (if there in current liabilities)

YEAR	QUICK ASSETS	CURRENT LIABILITIES	QUICK RATIO
2007-08	3272684438.4	357773744.9	9.14
2008-09	3191362856.5	299256401.6	10.67
2009-10	3057672071.3	307197938.3	9.95
2010-11	2257633278.8	223475367.9	10.10
2011-12	3023666429.1	244855617.6	12.34
Average	2960963814.1	286511814.06	10.33



Interpretation

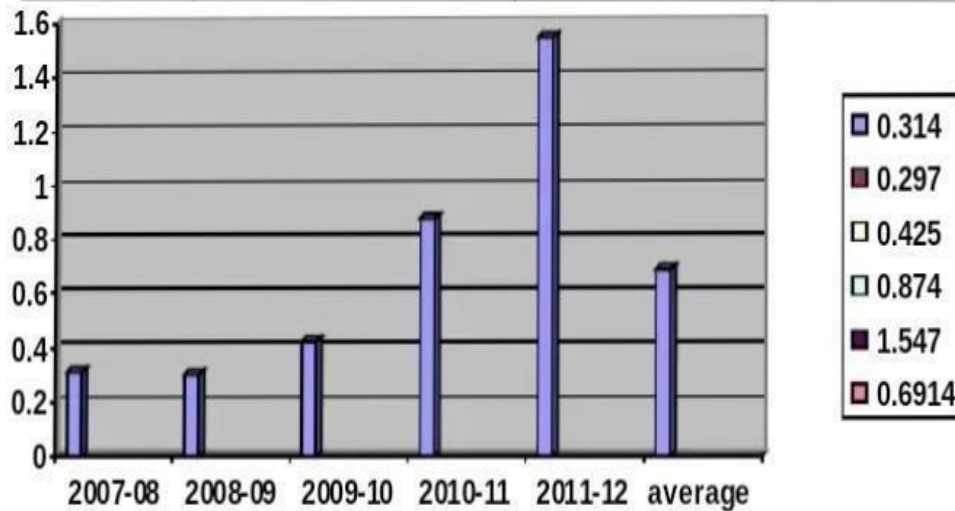
From the above calculated quick ratio of HDFC it is observed that the quick ratios of the HDFC Bank are 9.14 in 2007-08, and increased to 12.34 in the year 2011-12. and the HDFC Bank is maintaining the average quick ratio as around 10.33, which is more than the standard of current ratio.

Absolute Liquid Ratio / Super Quick Ratio:**FORMULA:**

$$\text{Absolute liquid ratio} = \frac{\text{Absolute liquid assets}}{\text{Current Liabilities}}$$

Absolute liquid assets = cash at HDFC Bank + short term / temporary investments

YEAR	ABSOLUTE LIQUID ASSETS	CURRENT LIABILITIES	ABSOLUTE RATIO
2007-08	112462919.4	357773744.9	0.314
2008-09	89066055.3	299356401.7	0.297
2009-10	130859505.9	307197938.3	0.425
2010-11	195511154.3	223475367.9	0.874
2011-12	378889599.8	244855617.6	1.547
Average	181357846.94	28651181.48	0.6914

**Interpretation**

From the above calculated absolute liquid ratio of HDFC it is observed that the absolute ratio of the HDFC Bank is 0.314 in 2007-08, and increased to 1.547 in the year 2011-12. And the HDFC Bank is maintaining the average absolute ratio as around 0.6914, which is more than the standard of current ratio

Debt Equity Ratio

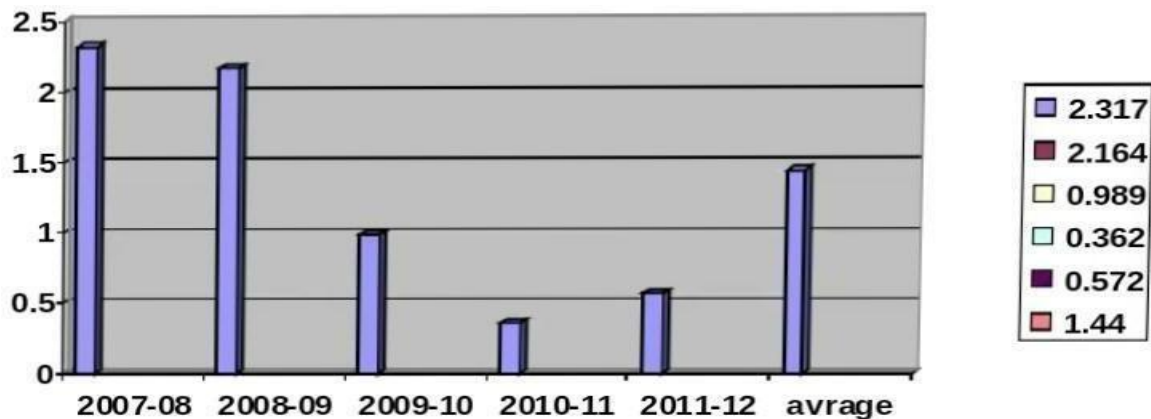
FORMULA:

$$\text{Debt equity ratio} = \frac{\text{External debt}}{\text{Internal debt}}$$

External debt = borrowings, adj., Heads by other liabilities, payable a/c.

Internal debt = share capital, reserves, deposits.

YEAR	EXTERNAL DEBT	INTERNAL DEBT	DEBT EQUITY
2007-08	4198113121.1	1811302135.5	2.317
2008-09	4275228374.2	1975170670.3	2.164
2009-10	2254253674.1	2277547698.0	0.989
2010-11	1127983284.7	3115582972.7	0.362
2011-12	1747228272.3	30545388936.	0.572
Average	2720561345.48	1886028482.6	1.44



Interpretation

From the above calculated debt equity ratio of HDFC it is observed that the debt equity ratio of the HDFC Bank is 2.317 in 2007-08, and decreased to 0.572 in the year 2011-12. And the HDFC Bank is maintaining the average debt equity ratio as around 1.44, which is more than the standard of debt-equity ratio.

Profitability Ratios

GROSS PROFIT RATIO:

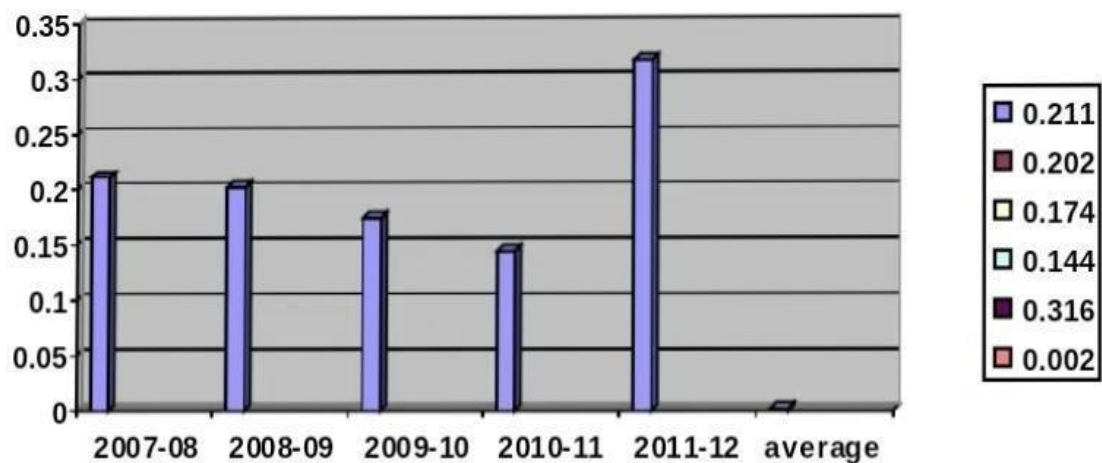
FORMULA:

$$\text{Gross profit ratio} = \frac{\text{Gross profit}}{\text{Net sales}} \times 100$$

$$\text{Gross profit} = \text{net sales} - \text{Cost of goods sold}$$

$$\text{Net sales} = \text{Total sales} - \text{sales revenue}$$

YEAR	GROSS PROFIT	NET SALES	GROSS PROFIT RATIO
2007-08	8381547.75	3963505421.56	0.211
2008-09	8605417.96	4239867264.45	0.202
2009-10	9373324.56	5358043483.07	0.174
2010-11	12823215.74	8868340185.5	0.144
2011-12	33424156.36	10577061148.7	0.316
Average	14521532.86	6601363500.6	0.002



Interpretation

The gross profit ratio of the HDFC Bank is 0.211 in 2007-08, and decreased to 0.202 in the year 2007-08. And increased to 0.316 in the year 2011-12. And the HDFC Bank is maintaining the working capital turnover ratio as averagely around 0.002

CONCLUSION

The HDFC Bank is maintaining the current ratio above, then the standard during the study period. The HDFC Bank is not utilizing the capital funds in fixed assets. The HDFC Bank is investing the huge funds in the current assets which leads to idle funds. The long term solvency position of the HDFC Bank is not satisfactory. The profitability position of the HDFC Bank is not satisfactory during the study period.

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