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A STUDY ON FINANCIAL STATEMENT ANALYSIS OF HDFC BANK

U.Sneha Marium[1], Ms. S. Sathiya [2], Dr. R. Kavitha [3]
[1]Student, [2]Assistant Professor ,[3]Associate Professor
Sakthi Institute of Information and Management Studies, Pollachi

ABSTRACT

This study aims to assess the bank's financial performance, paying special attention to solvency, liquidity, and profitability. Understanding HDFC Bank's entire financial performance and evaluating its solvency, liquidity, and profitability situation using important financial parameters are the primary goals of this study. Among the instruments used in the study are the current ratio, debt-to-equity ratio, net profit margin, return on equity (ROE), and return on assets (ROA). The study evaluates how well the bank manages its assets, liabilities, and revenue creation by looking at data over a given period of time to spot trends. The findings show that HDFC Bank, which is backed by excellent management practices, keeps a stable financial position with steady profitability and sufficient liquidity. The study comes to the conclusion that in order for stakeholders to assess the bank's stability, operational effectiveness, and long-term viability, thorough financial analysis is essential.

KEYWORDS: *Return On Equity, Liquidity, Solvency, Profitability Ratios, Financial Performance, And Current Ratio.*

INTRODUCTION

The banking sector in India has experienced substantial change as a result of increased competition, digitization, and deregulation. Leading private sector bank HDFC Bank is renowned for its steady financial expansion and effective administration. Because it mobilizes savings and directs them toward profitable investments, the banking industry is essential to a nation's economic growth.

Analysis of financial statements is a crucial tool for evaluating the operational and financial performance of a bank. Based on the bank's capacity to manage assets, turn a profit, and preserve liquidity and solvency, this research assists stakeholders in the banking industry, including investors, regulators, and management, in making well-informed decisions. Important financial measures that provide important information about a bank's performance include profitability, liquidity, and solvency ratios.

This study analyzes HDFC Bank's financial strengths, liquidity position, solvency, and profitability in order to assess the bank's financial performance over a five-year period. The results are intended to offer insightful information on the bank's financial situation, assisting in well-informed decision-making and advancing scholarly studies in banking and finance.

OBJECTIVES

- To study the financial performance of HDFC Bank through ratio analysis.

REVIEW OF LITERATURE

Gupta and Jain (2019) evaluated the profitability and liquidity ratios of HDFC Bank, revealing that the bank has maintained strong capital adequacy and has been able to effectively manage its non-performing assets (NPAs). This reflects the bank's ability to weather economic volatility and deliver sustained growth.

Rathod and Joshi (2020) studied the relationship between financial performance and stock market returns in the case of HDFC Bank. Their findings suggest that HDFC Bank's solid financials are a major factor in the high investor confidence and positive market perception, leading to sustained stock price growth.

Das and Saha (2021) explored the role of financial statement analysis in understanding risk management practices in Indian banks. HDFC Bank's annual reports highlight the importance it places on risk management, especially concerning credit risk and market risk. The bank's diversified portfolio and prudent lending practices have helped maintain low NPAs, a key indicator of financial stability.

Nair and Thomas (2022) This study emphasized the predictive power of financial statements in gauging future market trends. By studying how investors react to published financials, the authors concluded that strong performance indicators in financial statements (e.g., rising net profit, improving operating margins) positively affect stock prices and investor confidence. HDFC Bank was cited as a case study, showing a strong correlation between its quarterly reports and its market performance.

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RESEARCH METHODOLOGY

The foundation for the research process is provided by the research methodology, which directs the gathering, processing, and interpretation of data. The research design, data sources, data collection techniques, analytical tools, and study constraints are all described in this chapter. By looking at HDFC Bank's financial statements over a given time period, the main goal of this study is to assess the bank's stability and financial performance.

RESEARCH METHODOLOGY

In order to identify and collect data about the features of a particular problem or event, this study uses a descriptive research design. In this case, HDFC Bank's financial performance is the topic of discussion. The study covers the period of five years from 2019 to 2024. The data required for this study is collected from secondary data. Secondary data may be collected from,

- Annual Reports of HDFC Bank
- Stock Market Data
- Financial Databases
- Regulatory Reports

Liquidity ratios, Profitability ratios and Solvency ratios have been used to analyze the collected data.

DATA ANALYSIS AND INTERPRETATION

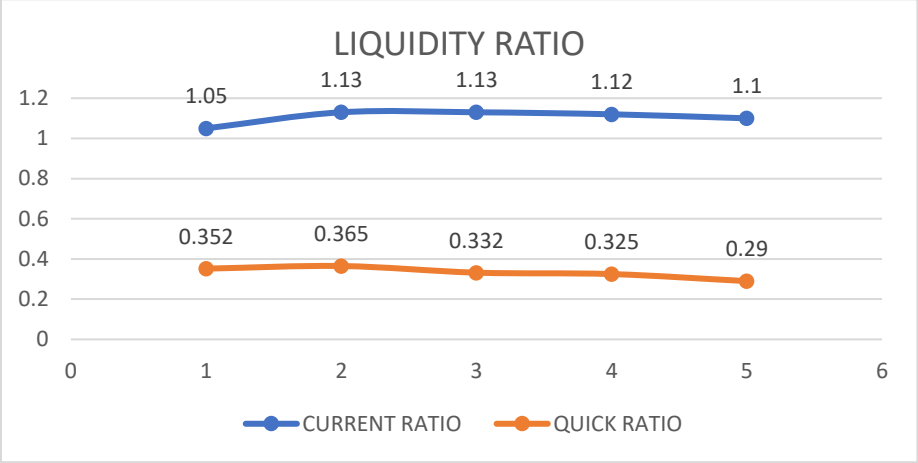
LIQUIDITY RATIOS

Liquidity ratios measure a company ability to meet its short-term obligations. They help assess the company's financial health in the short term.

Table 1. Liquidity Ratios

YEAR	CURRENT RATIO	QUICK RATIO
2019-2020	1.05	0.352
2020-2021	1.13	0.365
2021-2022	1.13	0.332
2022-2023	1.12	0.325
2023-2024	1.1	0.29

CHART 1. LIQUIDITY RATIOS



INTERPRETATION

The current ratio remained slightly above 1 from 2019–2020 to 2023–2024, showing adequate but constrained short-term liquidity. The fast ratio, however, decreased from 0.352 to 0.29, indicating a diminished capacity to fulfill commitments without using inventories. This widening disparity may be a sign of slower turnover or possible cash flow problems, as well as a greater reliance on inventories.

PROFITABILITY RATIOS

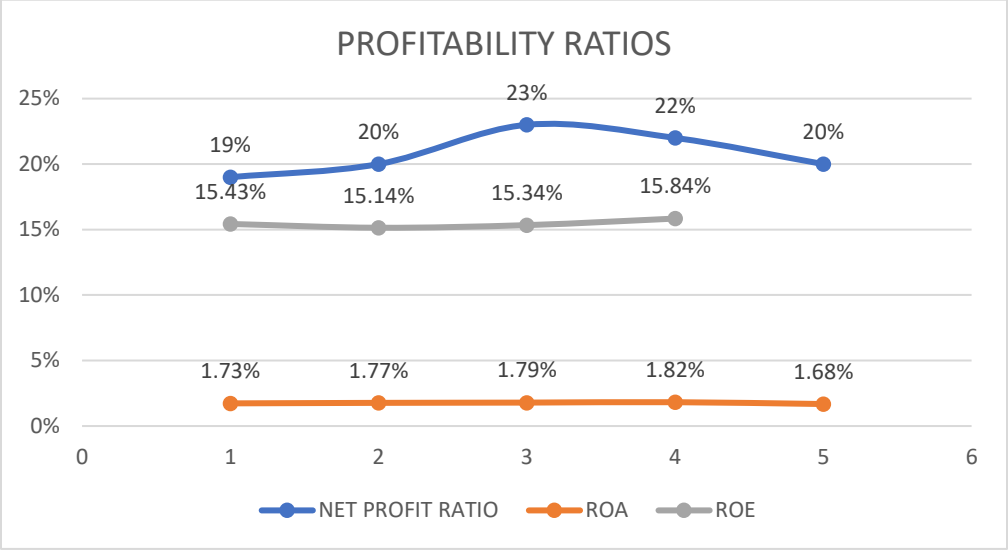
Profitability ratios are financial metrics that assess a company's ability to generate earnings compared to its expenses and obligations. They help evaluate the efficiency and effectiveness of operations and the company's profitability.

Table 2. Profitability Ratios

YEAR	NET PROFIT RATIO	ROA	ROE
2019-2020	19%	1.73%	15.43%
2020-2021	20%	1.77%	15.14%
2021-2022	23%	1.79%	15.34%
2022-2023	22%	1.82%	15.84%
2023-2024	20%	1.68%	13.90%

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Chart 2. Profitability Ratios



INTERPRETATION

The net profit ratio stayed stable at 19%–23% between 2019–2020 and 2023–2024, indicating steady profitability. ROA decreased to 1.68% in 2023–2024, showing decreased asset efficiency, after improving marginally until 2022–2023. Similarly, ROE indicated reduced returns to shareholders, peaking at 15.84% and then falling to 13.90%. Reduced operational efficiency or increased expenses could be indicated by the drop in ROA and ROE.

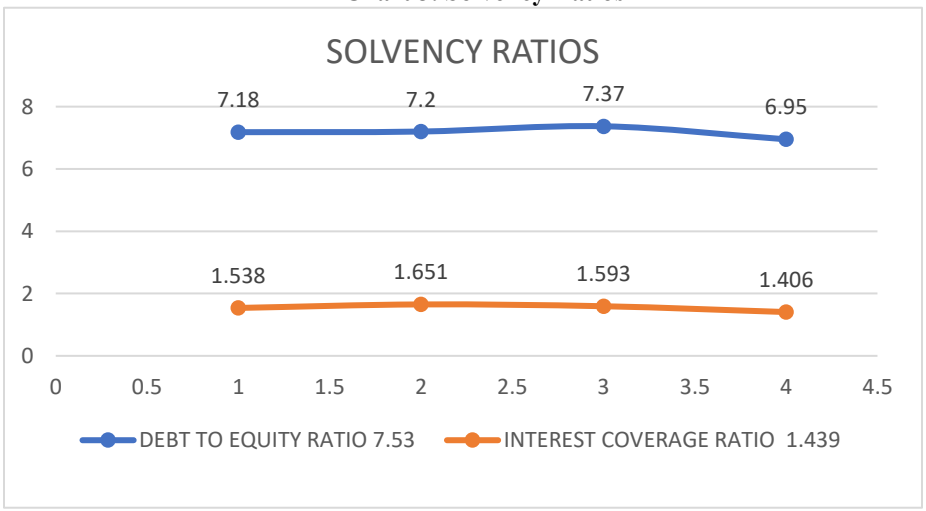
SOLVENCY RATIOS

Solvency ratios measure a company's ability to meet its long-term debt obligations and assess its overall financial stability. These ratios compare a company's debt levels to its assets or equity, indicating its capacity to stay solvent in the long run. Higher ratios can indicate greater financial risk, while lower ratios suggest better financial health.

Table 3. Solvency Ratios

YEAR	DEBT TO EQUITY RATIO	INTEREST COVERAGE RATIO
2019-2020	7.53	1.439
2020-2021	7.18	1.538
2021-2022	7.2	1.651
2022-2023	7.37	1.593
2023-2024	6.95	1.406

Chart 3. Solvency Ratios



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INTERPRETATION

Despite a minor reduction from 7.53 to 6.95, the debt-to-equity ratio remained high from 2019–2020 to 2023–2024, reflecting a continued significant reliance on debt. In 2023–2024, the interest coverage ratio fell to 1.406, indicating a restricted capacity to pay interest. Increased financial risk and possible pressure on debt servicing are indicated by this combination.

FINDINGS

- The current ratio stayed slightly above 1, suggesting that short-term liquidity was just about enough.
- From 0.352 to 0.29, the quick ratio steadily decreased, indicating a rising dependence on inventory and possible cash flow problems.
- Throughout the period, the net profit ratio remained stable from 19% to 23%.
- The high debt-to-equity ratio (over 6.9) indicates a sustained reliance on debt financing.

CONCLUSION

The financial performance of India's biggest private sector bank, HDFC Bank, was examined during a five-year period, from 2019–20 to 2023–24. The bank's official website and annual reports provided the data for this study. Several financial ratios were used in the analysis to assess the bank's performance. These ratios shed light on important facets of the bank's financial situation, including efficiency, liquidity, and profitability. The analysis came to the conclusion that HDFC Bank continued to have solid financial performance over the course of the investigation. The outcomes demonstrate the bank's steady expansion and stability, enhancing its standing as a major force in the Indian banking industry.

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