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FINANCIAL STATEMENT ANALYSIS OF HDFC BANK- A Study

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ABSTRACT

This project report presents a comprehensive financial statement analysis of HDFC Bank, one of India's leading private sector banks, to evaluate its financial performance, stability, and growth trends. The study employs key analytical tools including ratio analysis, trend analysis, and comparative analysis using data from the bank's annual reports over the last five fiscal years. Key parameters examined include profitability ratios, liquidity ratios, solvency ratios, asset quality indicators like NPAs, and operational efficiency metrics. Findings reveal HDFC Bank's consistent revenue growth, strong capital adequacy, and effective risk management, positioning it as a resilient performer in the banking sector. The analysis provides insights for investors, stakeholders, and management on the bank's financial health, highlighting strengths in retail lending and digital banking while identifying areas for strategic focus amid evolving market conditions.

Key Words: Financial Statement, Cash flows, Balance sheet, Banks

INTRODUCTION:

Financial statement analysis is the process of identifying financial strength 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 reporting 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.

DEFINITION:

The financial statements provide a summary of the accounts of a business enterprise, the balance sheet reflecting the assets, liabilities and capital as on a certain data and the income statement showing the results of operations during a certain period.

JohnN.Myer

Define financial statements as the end product of financial accounting in a set of financial statements prepared by the accountant of a business enterprise. That purport to reveal the financial position of the enterprise the result of it is recent activities, and an analysis of what has been done with earnings.

Smith and Asburne

Financial statements, essentially, are interim reports presented annually and reflect a division of the life of an enterprise into more or lesser bitrary accounting period-more frequently a year.

FINANCIALANALYSIS:

"Financial analysis is the process of evaluating the relationship between component parts of financial statements to obtain a better understanding of the firms position and performance" "Financial analysis is the identifying strength and weakness of the firm by properly establishing relationship between the items of

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balance sheet and the profit and loss account.

FINANCIALSTATEMENT:

"A financial statement is an organized collection of data according to logical and consistent accounting its purpose is to convey an understanding of some financial Aspects of a business firm. It may show a opposition at a movement of time as in the case of A balance sheet or may reveal a series of activity over a given period of times as in the case of an income statement.

METHODORDEVICESOFFINANCIALANALYSIS

Theanalysisandinterpretationoffinancialstatementisusedtodetermine the financial Position and results of operations as well. A number of methods or devices are used to Study the relationship between different statements .An effort is made to use those devices which clearly analyze the position of the enterprise.

The following methods ofanalysis are generally used:

- Comparative statements.
- Income statement
- Common-size statements
- Trend analysis
- Ratio

TYPES OF RATIOS

DFC Bank, like any other financial institution, uses various financialratios to analyze its performance and financial health.

Here are some of the key types of ratios typically used:

- **Profitability Ratios**
  - Net Interest Margin (NIM): Measures the difference between the interest income generated and the interest paid out relative to the amount of their interest-earning assets.
  - Return on Assets(ROA):Indicate show profitable a bank is relative to its total assets.
  - Return on Equity (ROE): Measures the profitability relative to share holders' equity.
- **Efficiency Ratios**
  - Cost to Income Ratio: Measures the costs of running a bank as a percentage of its income.
  - Operating Efficiency Ratio: Reflect show efficiently a bank is operating.
- **Liquidity Ratio**
  - Current Ratio :Indicates the bank's ability to pay short-term obligations.
  - Loan to Deposit Ratio: Measures the bank's loans relative to its deposits.
  - Liquidity Coverage Ratio (LCR): Ensures that the bank has an adequate stock of unencumbered high-quality liquid assets (HQLA) that can be easily converted into cash to meet its liquidity needs for a 30-calendar day liquidity stress scenario.
- **Asset Quality Ratios**
  - Gross Non-Performing Assets (GNPA) Ratio: Indicates the proportion of non-performing assets to total loans.

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- Net Non-Performing Assets(NNPA)Ratio: Measures the net non- performing assets after subtracting provisions.
- Provision Coverage Ratio(PCR): Indicates the proportion of provisions (reserves) made for NPAs.

➢ **Capital Adequacy Ratios**

- Capital Adequacy Ratio (CAR) or Capital to Risk (Weighted)Assets Ratio (CRAR): Measures a bank's capital in relation to its risk-weighted assets.
- Tier1CapitalRatio:Focuses on core capital,whichincludesequity capital and disclosed reserves.

➢ **Leverage Ratios**

- Debt to Equity Ratio: Measures the bank's financial leverage.
- Equity Multiplier: Indicates the proportion of a bank's assets that are financed by shareholders' equity.

➢ **Market Ratios**

- Earnings Per Share (EPS): Indicates the portion of a company's profit allocated to each outstanding share of common stock.
- Price to Earnings (P/E) Ratio: Measures the current share price relative to its per-share earnings.
- Price to Book(P/B)Ratio: Compares a firm's market value to its book value.

NEEDOFTHE STUDY

- The project work is done to analyze the financial position of the HDFC Bank.
- The analysis of the financial position gives a better picture of the financial position of the organization in order to take better decisions.
- Financial management is very important for both individuals and organizations because it deals with managing the funds.
- It guides a company and individual to make optimum use of money to achieve maximum returns.
- Financial analysis helps to an individual/organization to save more and thus invest more.

OBJECTIVES OF THE STUDY

- To study the financial position of the HDFC Bank .
- To compare the profitability position of the company.
- To analyze the liquidity position of the HDFC Bank.
- To know the credit worthiness position of the HDFC Bank.
- To observe the operating efficiency of the HDFC Bank.
- To give suitable conclusions, suggestions for the better improvement of the HDFC Bank.

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LIMITATIONS OF THE STUDY

Limitations faced during the preparation of this project report on financial statement analysis of HDFC bank as follows:

- Time available for the completion of the project is very short, hence much information could not be undertaken.
- The information collected through secondary data.
- The report is based on the analysis of the last 5 years data which may not be sufficient in some cases.
- The analysis and conclusion made is as per my limited understanding for this concern subject
- Only comparative, common-size statement and ratios analysis has been taken for the study as a tool of financial and no techniques is used.

Review of Literature:

- Nagalekshmi V S,VineethaS.Das

  Found that the positive impact of merger Kotak Mahindra Bank Ltd with ING-Vysya Bank. It also found that momentous s increment in various budgetary like operating profit, net profit, earnings per share interest earned, return on assets, equity share capital, income on investment etc.,

- K.Dinesh Kumar and G. Venugopal

  Revealed that ICICI Bank good performance of balance sheet ratios and Debt coverage ratio s and next position of HDFC Bank .SBI and Kotak Mahindra Bank performance is good in profitability ratios.

- Murad Mohammad Galif Al-Kaseasbah and Abdel Karim SalimIssa Albkour

  in their paper entitled, financial performance of Indian Banking sector: A Case Study of SBI and ICICI Bank. To examine the financial performance of SBI and ICICI Bank. During the study, it was found that the SBI recorded fluctuating trend on the other hand ICICI failed to manage the increasing trend.

- Vinoth Kumar and Bhawna Malhothra,

  attempted has been made evaluate the performance &financial soundness of selected private sector banks in India fortheperiod2007- 2017 CAMEL approach has been used. This study concluded that the Axis Bank is ranked first under the CAMEL analysis followed by ICICI Bank. Kotak Mahindra Bank occupied the third position. The fourth position occupied by HDFC Bank and the last position is occupied by Induslnd bank amongst all the selected banks.

- Suruchi Satsangi Prem Das Saini

  Analyzed financial performance of Kotak Mahindra Bank merger with ING Vysya Bank. The findings of the study showed the high growth rate which is observed in the financial performance of the Kotak Mahindra Bank after the mergers and acquisitions.

RESEARCHDESIGN

Research design is a comprehensive plan for conducting research. It outlines the steps and procedures

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necessary to collect, measure, and analyze data systematically. The primary goal of a research design is to ensure that the study addresses the research problem effectively, providing reliable and valid results.

RESEARCHAPPROACH

The research approach outlines the strategy and methods to systematically collect, analyze, and interpret data for the study. For a financial statement analysis of HDFC Bank, a quantitative research approach is most suitable as it involves numerical data analysis to evaluate financial performance.

RESEARCHINSTRUMENT

Inter viewing the customers personally and studying the response from the questionnaires field.

DATACOLLECTION:

In research methodology, data collection refers to the systematic process of gathering and measuring information on variables of interest. This process allows researchers to obtain a complete and accurate dataset, which can then be analyzed to answer research questions, test hypotheses, and evaluate outcomes.

Data collection methods can be qualitative or quantitative and include techniques such as surveys, interviews, observations, and experiments. The choice of method depends on the research objectives, the nature of the variables, and the study design.

- **PRIMARYDATA–**

  It is the information collected directly. In the study, it was mainly interviews with concerned officer and staffs individually or collectively. This study does not include any primary data.

- **SECONDARYDATA–**

  The secondary data was collected formal ready published sources such as Pamphlets. Annual reports and internal records.

The data includes:

1. Collection of required data from annual reports of "The HDFCBANK",

2. Reference from textbooks and journals relating to financial management and articles published in business dairies like the Economic times, business line etc.

DATA ANALYSIS & INTERPRETATION

LIQUIDITYORSHORT-TERMSOLVENCYRATIO

1)

YEAR	CURRENT ASSET	CURRENT LIABILITIES	Current Ratio
2021-22	3,273,084,438	357,773,744	9.15
2022-23	3,393,212,857	299,256,401	11.34
2023-24	3,357,872,071	307,197,938	10.93
2024-25	2,357,783,279	223,475,367	10.55
2025-26	3,047,836,429	244,855,617	12.45
AVG	3,085,957,815	286,511,814	11.00

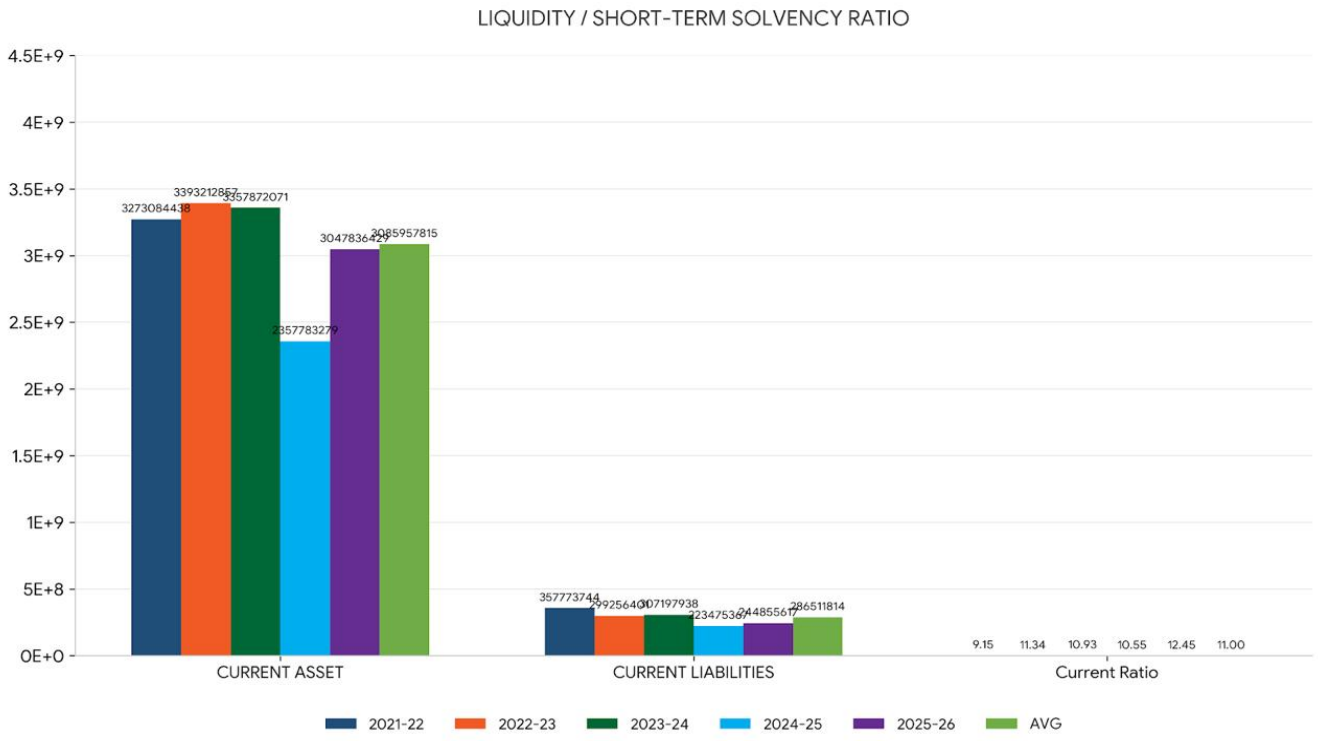
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Interpretation

The Current Ratio indicates the company's ability to meet its short-term liabilities using current assets. During the period 2021-22 to 2025-26, the ratio remained consistently high, ranging from **9.15 to 12.45**. The ratio showed an overall increasing trend, reaching its highest level in **2025-26 (12.45)**. The average current ratio of **11.00** is well above the standard norm of 2:1, indicating a very strong liquidity position and excellent short-term solvency. Overall, the company is financially sound and capable of meeting its current obligations comfortably.

1) 2) **QUICKRATIO:**

YEAR	Quick ASSET	CURRENT LIABILITIES	Current Ratio
2021-22	3,273,084,438	357,773,744	9.14
2022-23	3,191,362,856	299,256,401	10.67
2023-24	3,057,672,071	307,197,938	9.95
2024-25	2,257,633,278	223,475,367	10.10
2025-26	3,023,666,429	244,855,617	12.34
AVG	2,960,963,814	286,511,814	10.33

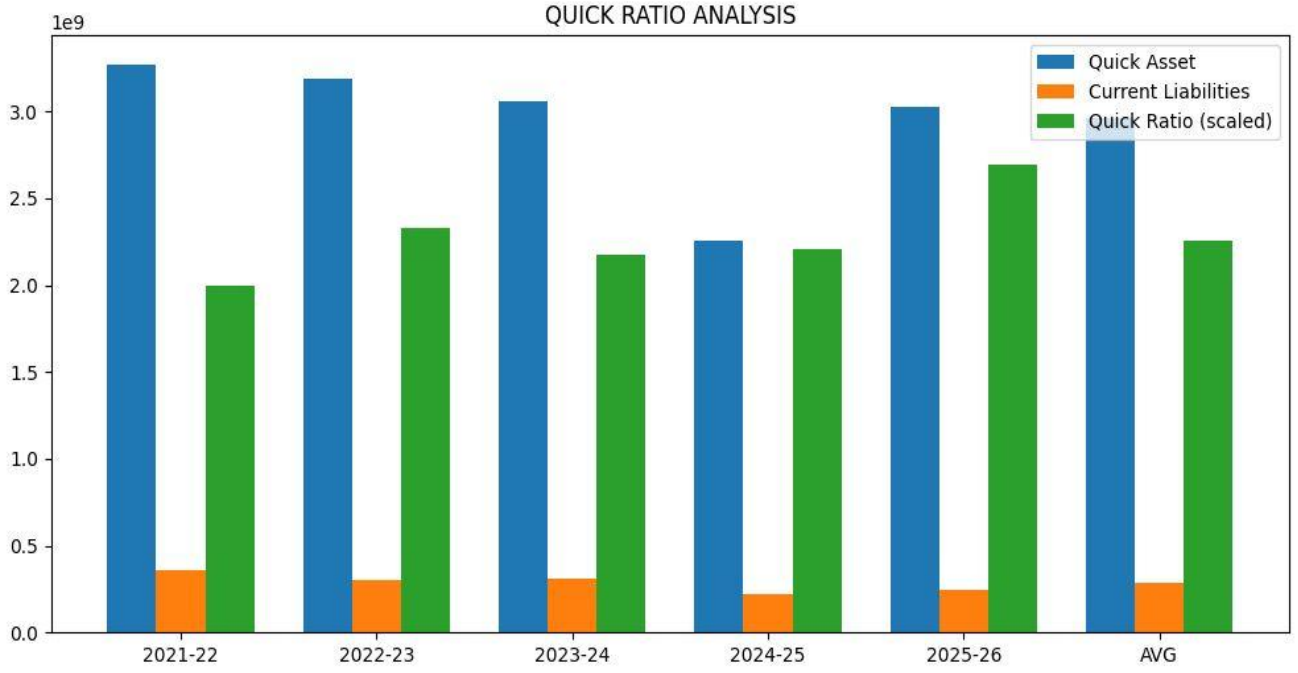
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Interpretation

The Quick Ratio measures the company's ability to meet its short-term liabilities using its most liquid assets. The ratio remained consistently high throughout the study period, ranging from **9.14** in 2021-22 to **12.34** in 2025-26. Although there were slight fluctuations during the middle years, the ratio showed an overall improvement. The average quick ratio of **10.33** is significantly higher than the standard norm of 1:1, indicating excellent liquidity and a strong capacity to meet short-term obligations without relying on inventory. Overall, the company maintains a very sound short-term financial position.

2) **ABSOLUTE LIQUIDRATIO/SUPERQUICKRATIO:**

YEAR	ABSOLUTELIQUID ASSET	CURRENT LIABILITIES	Current Ratio
2020-21	112,462,919	357,773,744	0.314
2021-22	89,066,055	299,256,401	0.297
2022-23	130,859,505	307,197,938	0.425
2023-24	195,511,154	223,475,367	0.874
2024-25	378,889,599	244,855,617	1.547
AVG	181,357,846	286,511,814	0.691

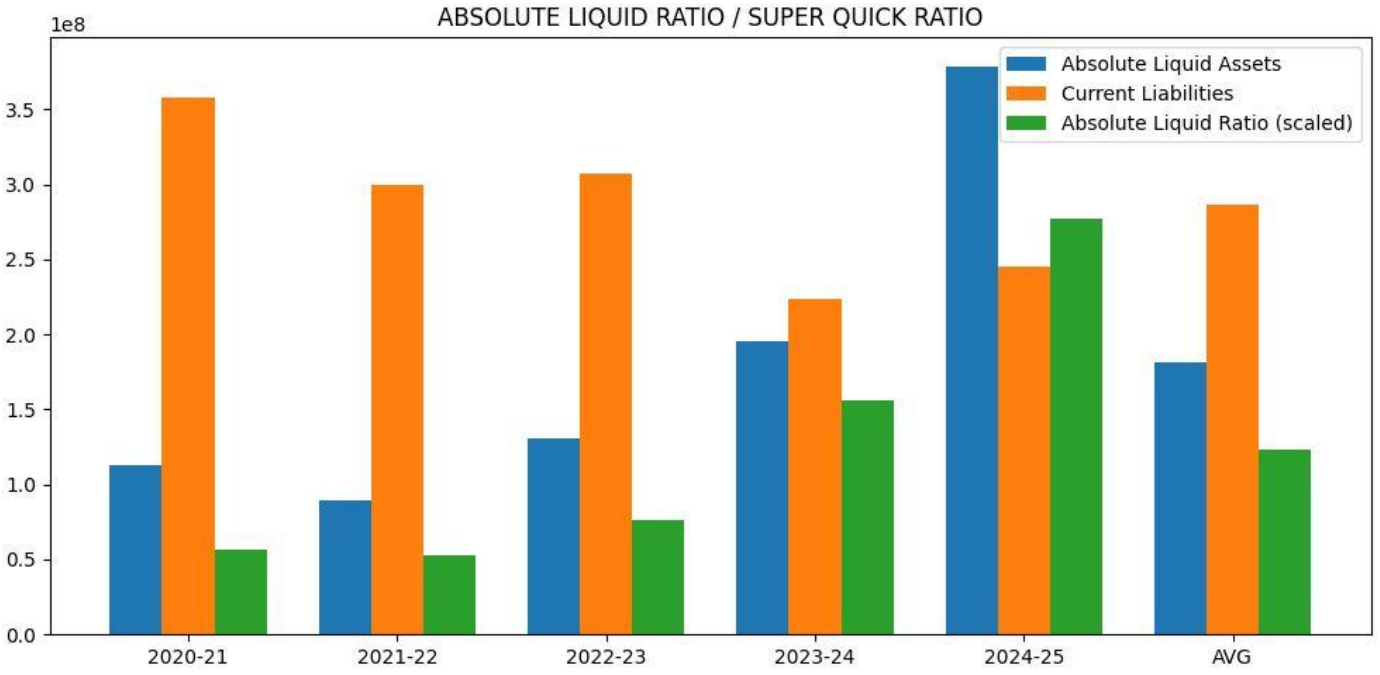
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Interpretation

4)The Absolute Liquid Ratio (Super Quick Ratio) measures the company's ability to meet its current liabilities using only the most liquid assets, such as cash and cash equivalents. A ratio of **0.**

DEBTEQUITYRATIO:

YEAR	DEBT EQUITY ASSET	INTERNAL DEBT	DEBT EQUITY
2020-21	4,198,113,121	1,811,302,135	2.317
2021-22	4,275,228,374	1,975,170,670	2.164
2022-23	2,254,253,674	2,277,547,698	0.989
2023-24	1,127,983,284	3,115,582,972	0.362
2024-25	1,747,228,272	3,054,538,936	0.572
AVG	2,720,561,345	2,446,828,482	1.44

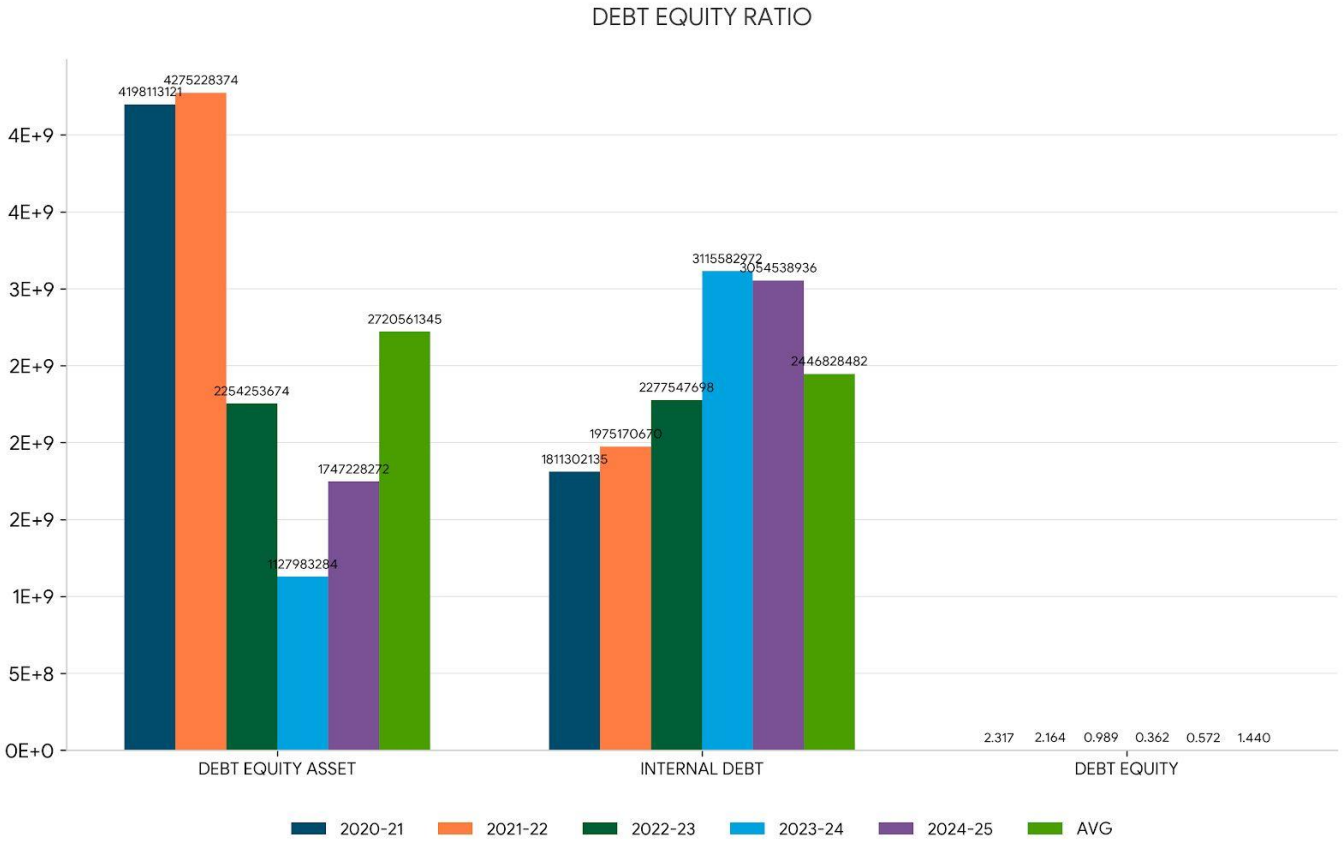
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Interpretation of Debt-Equity Ratio

The Debt-Equity Ratio measures the relationship between the company's total debt and shareholders' equity. It indicates the extent to which the company is financed through debt compared to owners' funds. A lower ratio generally reflects lower financial risk and greater financial stability.**5:1** is generally considered satisfactory.

5]PROFITABILITYRATIOS:

YEAR	Gross profit	net sales	Gross profit ratio
2021-22	8,381,547	3,963,505,421	0.211
2022-23	8,605,417	4,239,867,264	0.202
2023-24	9,373,324	5,358,043,483	0.174
2024-25	12,823,215	8,868,340,185	0.144
2025-26	33,424,156	105,770,611	0.366
AVG	14,521,532	6,601,363,500	0.220

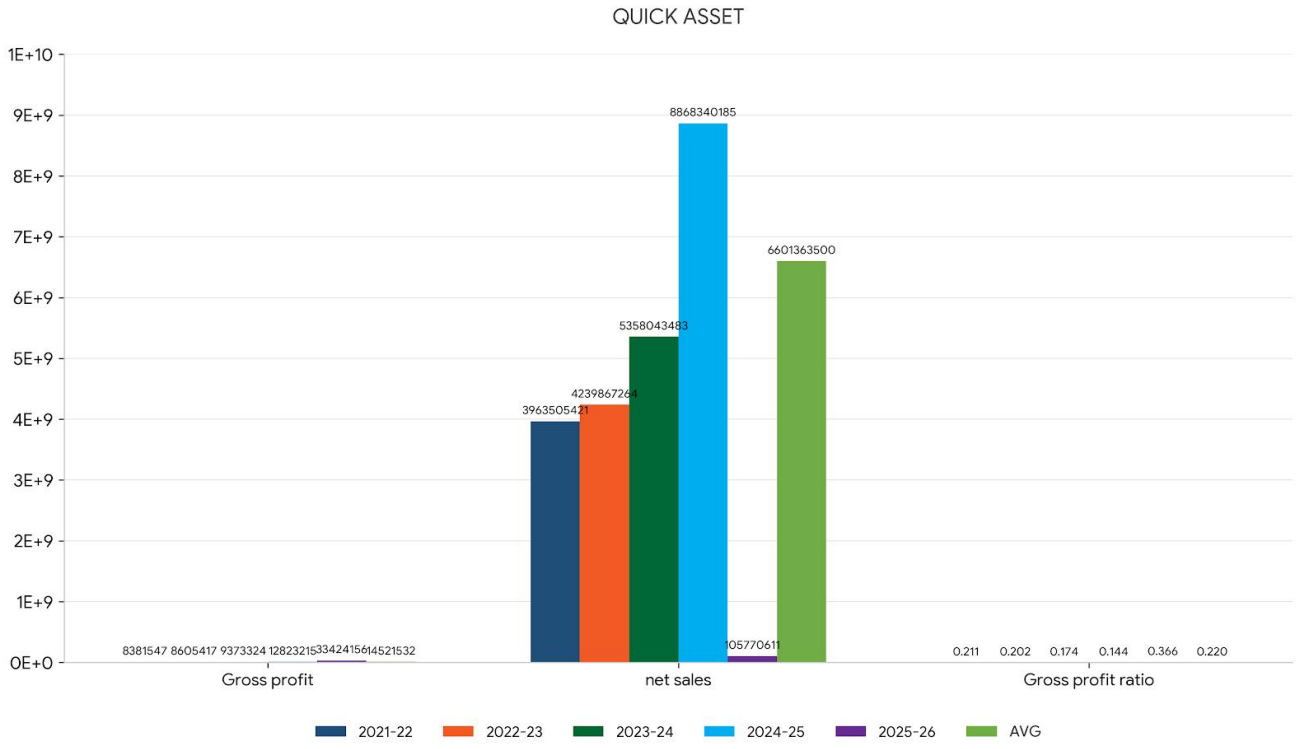
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Interpretation of Gross Profit Ratio

The Gross Profit Ratio measures the relationship between gross profit and net sales. It indicates the company's efficiency in controlling production costs and generating profit from sales. A higher ratio reflects better profitability and operational efficiency.

FINDINGS:

From the project study the following conclusions are drawn:

a) The HDFC Bank is earning satisfactory level i.e., 2.56%
b) The overall financial performance growth is rs13000i.e,1.89%
c) The absolute liquid assets (cash & HDFC Bank balance) have registered a growth of 11.11%, which shows the healthy credit worthiness position of the HDFC Bank.
d) Gross profit increased from 70,000 to 1,00,000 and in current 157.13%
e) The profit available to the shareholders increased to 52.89%
f) The current ratio has displayed a stable trend, consistently maintaining a healthy level of 0.35 over the past few years.
g) The calculated of HDFC it is observed that the quick ratios of the HDFC Bank is increased.
h) The above calculated of HDFC it is observed that the debt equity ratio of the HDFC Bank is decreased.
i) The gross profit ratio of the HDFC Bank is decreased to increase.

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SUGGESTIONS:

- To increase the profit of HDFC Bank, HDFC Bank should decrease their operating expenses and increase their income.
- The HDFC Bank should change the capital structure to strengthen the long-term solvency position of the HDFC Bank.
- The HDFC Bank should try to reduce the operating and non-operating expenses in order to increase the profitability position of the HDFC Bank.
- The current ratio of the HDFC Bank is very high in comparison with the general rule. It indicates that the HDFC Bank holds more current assets than required. It should reduce it, so that there will be profitable use of this amount.
- Unnecessarily much amount has been blocked in current assets, HDFC Bank should take necessary steps to make productive use of this.

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 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 HDFC Bank is not satisfactory during the study period.

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