



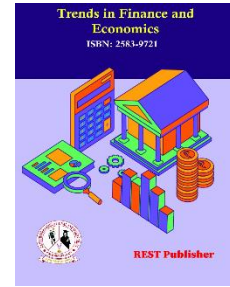
## Trends in Finance and Economics

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# A Study On Financial Performance with Reference to HDFC Bank

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**Abstract.** *The financial performance policy of a firm determines what proportion of earnings is paid to shareholders by the way of financial decisions and what proportion is ploughed back in the firm for reinvestment purposes. If a firm 's capital budgeting decision is independent of its financial performance of its financial performance policy, a higher financial performance payment will entail a greater dependence on external financing.*

*On the other hand, if a firm' s capital budgeting decision is dependent on its financial performance decision, a higher payment will cause shrinkage of its capital budget and vice versa. In such a case the financial performance policy has a bearing on the capital budgeting decision.*

*Keywords: Financial performance, capital budgeting decisions, external financing*

## 1. INTRODUCTION

The term 'financial performance analysis, also known as analysis and interpretation of financial statements', refers to the process of determining financial strength and weaknesses of the firm by establishing strategic relationships between the items of the balance sheet, profit and loss account and other operative data. "Financial performance analysis is a process of evaluating the relationship between component parts of a financial statement to obtain a better understanding of a firm's position and performance.

The purpose of financial analysis is to diagnose the information contained in financial statements so as to judge the profitability and financial soundness of the firm. Just like a doctor examines his patient by recording his body temperature, blood pressure etc. Before making his conclusion regarding the illness and before giving his treatment. A financial analyst analyses the financial statements with various tools of analysis before commenting upon the financial health or weaknesses of an enterprise.

The analysis and interpretation of financial statements is essential to bring out the mystery behind the figures in financial statements. Financial statements analysis is an attempt to determine the significance and meaning of the financial statement data so that forecasts may be made of the future earnings, ability to pay interest and debt maturities (both current and long term) and profitability of a sound dividend policy.

Financial performance refers to the act of performing financial activity. In a broader sense, financial performance refers to the degree to which financial objectives are being or has been accomplished. It is the process of measuring the results of a firm's policies and operations in monetary terms. It is used to measure a firm's overall financial health over a given period of time and can also be used to compare similar firms across the same industry or to compare industries or sectors in aggregation.

In short, the firm itself as well as various interested groups such as managers, shareholders, creditors, tax authorities, and others seeks answers.

## 2. REVIEW OF LITERATURE

**Merchant (1990)**, argues that traditional control systems have been criticised for their short sightedness and discouraging effect on the creation of new ideas. He argues that traditional financial measurement is open to data manipulation and other forms of gamesmanship. The negative side effects of financial controls were examined by survey of sizeable organizations. The results merchant found was that financial controls put significant pressure on employees to meet targets. So according to merchant, financial measurement and control could cause myopia and pressure to achieve targets. Merchant's research included a follow-up interview with the analysed firm's controller. He stated that 'if the manager can't swing the short term, he can't swing the long term'. However the firm has since shifted away from heavy weighted financial measures in performance evaluation.

## 3. SCOPE OF THE STUDY

- A well-diversified portfolio reduces unsystematic risk in a large way.
- Investor prefers among securities which yield higher return for the same risk or lower risk for the same return
- Investment decisions are based on investment objectives and constraints.
- Higher the time period of investment less is the uncertainties of investment..

### Objectives of the study:

- To understand the financial statements of HDFC BANK
- To study the change in assets and liabilities of the company.
- To study the liquidity position of the firm.
- To study the financial health of the company using ratio analysis.
- To study the profitability of the company.

## 4. METHODOLOGY OF THE STUDY

### DATA COLLECTION:

#### Sources of Data

Data we collected based on two sources.

- Primary Data.
- Secondary Data.

#### Primary Data

The Primary Data Are Those Information's, which are Collected afresh and for the First Time, And Thus Happen to Be Original in Character.

#### Secondary Data:

The secondary data are those which have already been collected by some other agency and which have already been processed. The sources of secondary data are annual reports, browsing the internet, and magazines.

1. It includes data gathered from the annual reports of (HDFC BANK).
2. Articles are collected from the official website of (HDFC BANK).

#### Methodology Used:

#### Types of Financial Statements Adopted:

Following Two Types of Financial Statements Are Commonly Used in Analyzing the Firm's Financial Position

- a. Balance Sheet.
- b. Income Statements.

#### Limitations of The Study:

- The study is limited to certain projects of HDFC BANK LTD.
- Due to the time constant inter firm comparison is carried out.
- Only past data of accounting information is included in the financial statements, which are analyzed.
- The size of business concern is varying according to the volume of transactions.
- Sometimes, the contents of the financial statements are manipulated by window dressing. If so, the analysis of financial statements results in misleading or meaningless.

## 5. DATA ANALYSIS & INTERPRETATION

### 1) Current Ratio:

TABLE 1. Current Ratio

YEAR	Current Ratio (x)	MEAN ( $\bar{X}$ )	Std. Deviation
2018-19	2.19	2.9	1.05
2019-20	2.15		
2020-21	3.62		
2021-22	3.60		
2022-23	3.02		

**Inference:** From the above table it is inferred that the Current ratio status records the maximum for the financial year 2020-21 and it records the least for the financial year 2019-2020. The current ratio status revolves around the computed mean value (2.9) for the financial years 2018-19 and 2022-23.

### 2) Liquid Ratio

TABLE 2. Liquid Ratio

Year	Liquid Ratio(x)	Mean ( $\bar{X}$ )	Std. Deviation
2018-19	0.94556	0.69	0.5209
2019-20	0.3204		
2020-21	0.975		
2021-22	0.9699		
2022-23	0.2685		

**Inference:** From the above table it is inferred that the Liquid Ratio status records the maximum for the financial year 2021-22 and it records the least for the financial year 2022-23. The liquid ratio status revolves around the computed mean value (0.69) for the financial years 2018-19 and 2022-23.

### 3) Gross Profit:

TABLE 3. Gross Profit

Year	Gross Profit (x)	Mean ( $\bar{X}$ )	Std. Deviation
2018-19	3.49	3.208	0.8200
2019-20	3.71		
2020-21	2.88		
2021-22	2.28		
2022-23	3.43		

**Inference:** From the above table it is inferred that the Gross Profit status records the maximum for the financial year 19-20 and it records the least for the financial year 2021-2022. The Gross Profit status revolves around the computed mean value (3.208) for the financial years 2018-19 and 2022-23.

### 4) Net Profit:

TABLE 4. Net Profit

Year	Net Profit(x)	Mean ( $\bar{X}$ )	Std. Deviation
2018-19	0.0340	0.01974	0.04324
2019-20	0.0381		
2020-21	0.0281		
2021-22	0.0043		
2022-23	0.0308		

**Inference:** From the above table it is inferred that the Net Profit status records the maximum for the financial year 19-20 and it records the least for the financial year 2020-2021. The Net Profit status revolves around the computed mean value (0.01974) for the financial years 2018-19.

### 5) Proprietor Fund

TABLE 5. Proprietor Fund

YEAR	Proprietor Fund (X)	Mean ( $\bar{X}$ )	Std. Deviation
2018-19	0.020	0.2966	0.5429
2019-20	0.020		
2020-21	0.30		
2021-22	0.94		
2022-23	0.21		

**Inference:** From the above table it is inferred that the Proprietor Fund status records the maximum for the financial year 2021-22 and it records the least for the financial year 2018-2019.

The Proprietor Fund status revolves around the computed mean value (0.2966) for the financial years 2018-19 and 2022-23

### 6) Earnings Per Share:

TABLE 6. Earnings Per Share

Year	Earnings Per Share (X)	Mean ( $\bar{X}$ )	Std. Deviation
2018-19	0.71	0.424	0.4902
2019-20	0.47		
2020-21	0.80		
2021-22	0.02		
2022-23	0.17		

**Inference:** From the above table it is inferred that the Earnings Per Share status records the maximum for the financial year 2020-21 and it records the least for the financial year 2021-2022.

The Earnings Per Share status revolves around the computed mean value (0.424) for the financial years 2018-19.

### 7) Stock Velocity Ratio:

TABLE 7. Stock Velocity Ratio

Year	Stock velocity ratio (x)	Mean ( $\bar{X}$ )	Std. Deviation
2018-19	4.56	5.258	5.8204
2019-20	2.27		
2020-21	3.26		
2021-22	17.47		
2022-23	3.73		

**Inference:** From the above table it is inferred that the Stock Velocity Ratio status records the maximum for the financial year 2021-22 and it records the least for the financial year 2019-2020.

The Stock Velocity Ratio status revolves around the computed mean value (5.258) for the financial year 2018-19.

### 8) Inventory Turnover Ratio

TABLE 8. Inventory Turnover Ratio

Year	Inventory turnover ratio (x)	Mean ( $\bar{X}$ )	Std. Deviation
2018-19	0.2191	0.2603	0.2093
2019-20	0.43		
2020-21	0.3062		
2021-22	0.0826		
2022-23	0.2689		

**Inference:** From the above table it is inferred that the Inventory Turnover Ratio status records the maximum for the financial year 2019-20 and it records the least for the financial year 2022-2023.

The Inventory Turnover Ratio status revolves around the computed mean value (0.2603) for the financial year 2022-23.

9) Interest Coverage Ratio

TABLE 9. Interest Coverage Ratio

Year	Interest coverage ratio (x)	Mean ( $\bar{x}$ )	Std. Deviation
2018-19	0.74	0.432	0.4491
2019-20	0.61		
2020-21	0.62		
2021-22	0.20		
2022-23	0.01		

**Inference:** From the above table it is inferred that the Interest Coverage Ratio status records the maximum for the financial year 2018-19 and it records the least for the financial year 2022-2023. The Interest Coverage Ratio status revolves around the computed mean value (0.432) for the financial years 2018-19 and 2020-21.

10) Degree of Operating Leverage

TABLE 10. Degree of Operating Leverage

Year	Degree of operating leverage (x)	Mean ( $\bar{x}$ )	Std. Deviation
2018-19	2.32	1.97	1.2051
2019-20	1.60		
2020-21	3.27		
2021-22	1.54		
2022-23	1.17		

**Inference:** From the above table it is inferred that the Degree of Operating Leverage status records the maximum for the financial year 2020-21 and it records the least for the financial year 2022-2023. The Degree of Operating Leverage status revolves around the computed mean value (1.97) for the financial year 2018-19.

11) Degree of Financial Leverage

TABLE 11. Degree of Financial Leverage

Year	Degree of financial leverage (x)	Mean ( $\bar{x}$ )	Std. Deviation
2018-19	0.36	0.856	0.6420
2019-20	1.46		
2020-21	1.05		
2021-22	0.96		
2022-23	0.45		

**Inference:** From the above table it is inferred that the Degree of Financial Leverage status records the maximum for the financial year 2019-20 and it records the least for the financial year 2018-2019. The Degree of Financial Leverage status revolves around the computed mean value (0.856) for the financial year 2021-22.

12) Fixed Assets

TABLE 12. Fixed Assets

Year	Fixed assets (x)	Mean ( $\bar{x}$ )	Std. Deviation
2018-19	4.32	2.804	1.5049
2019-20	2.21		
2020-21	3.20		
2021-22	1.49		
2022-23	2.81		

**Inference:** From the above table it is inferred that the Fixed Assets status records the maximum for the financial year 2018-19 and it records the least for the financial year 2021-2022. The Fixed Assets status revolves around the computed mean value (2.804) for the financial year 2022-23.

## 6. FINDINGS

- The Share capital remains constant. Share capital is unchanged all the years from 2022-2023.
- Reserves & surplus were recorded an increasing trend in the period between 2022 and 2023.
- It is showing a decreasing trend in the period 2018-2019 (i.e. from 190.20 % in 2022 to 93.09 % in 2023).
- Current Liabilities were increased compared to base year i.e. 2023.
- Provisions increased to 2625.97 % i.e., in Rupees 392.32 crores in the current year.
- The current ratio for all the five year is lower (less) than the standard rule i.e., 2:1. And it is 0.97 in the year 2022-2023 (current year).
- The Debt-Equity Ratio was shown under the standard ratio. It is clear that the long term debt is more than that of the shareholders' fund. It indicates that the firm is heavily relying on external funds rather than the internal funds.
- The operating and net profit of (HDFC BANK) is in decreasing trend due to heavy increase of manufacturing & administrative expenses. ROI is highest in the year 2022-2023 at 38.62 %.
- The ROI is negative in the years 2019-2022 & 2022-2023 as -21.67 & -41.65 respectively.
- Return on Equity Capital Employed Ratio of (HDFC BANK) has decreased every year from 2018-2019 to 2019-2022. It further decreased to negative in the year 2022-20 to -32.80.
- EPS of (HDFC BANK) has decreased every year from 2019-20. It is negative in the year 2022 & 21.

## 7. SUGGESTIONS & CONCLUSION

- The organization should adopt an appropriate capital structure.
- The company's debt-equity ratio is recorded more or less as 1.16 in the year 2019 and it is increased to 4.49 in the year 2021 (current year). The company should adopt a better debt equity mix in the future to control the fluctuations in returns.
- The company should control fluctuations in cash and bank balances as it impacts the current ratio of the company.
- The provisions are showing an increasing trend which indicates risk of debtors. The firm should implement an effective credit management policy. It should utilize its idle funds by decreasing provisions.
- The company should control the heavy increase of manufacturing & administration expenses as it is impacting the operating and net profit of the company.

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