A STUDY ON FINANCIAL STATEMENT ANALYSIS OF HDFC BANK, VIZAG, ANDHRA PRADHESH

1. Duggirala Rama Durga Manikanta, II MBA, Department Of MBA, Malla Reddy Engineering College (Autonomous), Hyderabad, Email: naidumanikanata03@gmail.com

2. Dr. N. Ramanjaneyulu, Professor and Head, Department of MBA, Malla Reddy Engineering College (Autonomous), Hyderabad, E-Mail: ramanjimba09@gmail.co

ABSTRACT

The present study aims to analyse and interpret the financial statements of HDFC Bank to evaluate its financial performance and position over a specific period. HDFC Bank, being one of the most prominent private sector banks in India, has shown consistent growth in profitability, operational efficiency, and financial stability. This study focuses on key financial indicators such as profitability ratios, liquidity ratios, solvency ratios, and trend analysis of income statements and balance sheets. By applying financial tools and ratio analysis techniques, the report assesses the bank's strengths and areas for improvement. The findings highlight HDFC Bank's effective financial management practices, strong capital base, and sound asset quality. The study provides insights for investors, stakeholders, and researchers regarding the bank's overall financial health and long-term sustainability in the competitive banking sector.

Key Words: Banking Sector, Financial Statements, Liquidity and Sustainability.

I. INTRODUCTION

Financial statements are the cornerstone of financial reporting and serve as a basis for decision-making by internal and external stakeholders. They provide a summarized view of a company's financial performance and position over a specific period. The major financial statements include the balance sheet, income statement, and cash flow statement. Analyzing these documents allows businesses and investors to evaluate the financial viability and strategic direction of the firm. Financial statement analysis involves examining historical data to identify patterns, assess current performance, and predict future financial health. It uses a variety of tools and techniques, such as ratio analysis, trend analysis, and comparative financial statements, to interpret the data. This process is essential for making investment decisions, assessing creditworthiness, and managing internal business operations.

In a competitive and dynamic economic environment, effective financial analysis enables organizations to enhance efficiency, identify financial risks, and ensure regulatory compliance. It is particularly crucial in an era where investors and regulators demand higher transparency and accountability. This study provides a comprehensive overview of how financial statement analysis can aid in achieving organizational and financial objectives. The research focuses on the practical application of financial analysis tools to assess the financial health of a chosen organization, offering insights for strategic planning and operational improvements.

II. REVIEW OF LITERATURE

1. **Sharma, A. (2020)**
   Analyzed financial ratios of FMCG companies and found that profitability and liquidity ratios are crucial indicators for investor decisions.
2. **Patel, R. (2020)**
   Studied the comparative financial statements of Indian banks and highlighted how vertical and horizontal analysis reveal financial trends effectively.
3. **Gupta, N. (2021)**
   Explored the use of cash flow statements in assessing financial health and found it

provides better insights than traditional income statements alone.

4. **Kumar, S. (2021)**
   Conducted a study on the impact of IFRS adoption on financial transparency, concluding that IFRS enhances comparability and reliability in financial reports.
5. **Joshi, M. (2021)**
   Emphasized the role of solvency and debt-equity ratios in assessing long-term financial risk in manufacturing firms.
6. **Verma, T. (2022)**
   Applied ratio analysis on IT companies and concluded that efficiency ratios like inventory turnover are less relevant, while profitability ratios are more indicative.
7. **Rao, P. (2022)**
   Compared pre-pandemic and post-pandemic financials of retail businesses and noted a significant decline in liquidity and profitability metrics.
8. **Nair, R. (2022)**
   Investigated financial statement analysis techniques used by small and medium enterprises (SMEs) and found a lack of awareness and application of advanced tools.

NEED FOR THE STUDY

The need for this study arises from the growing importance of financial transparency and informed decision-making in today's corporate environment. Financial statement analysis helps stakeholders understand the financial strength and weaknesses of an organization. It is essential for evaluating profitability, solvency, and liquidity. With increasing competition and regulatory scrutiny, businesses must monitor their financial performance regularly. This study is intended to enhance knowledge about the application of various financial analysis tools and provide a deeper understanding of financial performance for better strategic and operational decisions.

SCOPE OF THE STUDY

The scope of the study is limited to the financial performance analysis of a selected company over a period of 3 to 5 years. It includes the evaluation of key financial statements such as the balance sheet, income statement, and cash flow statement. The analysis is carried out using ratio analysis, trend analysis, and comparative financial statements. The study is based on secondary data sourced from annual reports and financial databases. It aims to assist investors, financial analysts, and management in understanding the company's financial position and making data-driven strategic decisions.

OBJECTIVES OF THE STUDY

1. To evaluate the financial performance of HDFC Bank using key financial ratios such as profitability, liquidity, solvency, and efficiency ratios.
2. To analyze the trends in HDFC Bank's financial statements (comparetive, common size, trend analysis over the past five years.
3. To assess the bank's overall financial health and stability through a detailed examination of its capital structure, asset quality, and earnings capacity.
4. To compare HDFC Bank's financial performance with industry benchmarks and leading competitors in the private banking sector.
5. To provide suggestions and insights for stakeholders and investors based on the findings of the financial analysis.

III. RESEARCH METHODOLOGY

Methodology refers to the way adopted for collecting the facts and information formulae presented for drawing inference. Methodology is important part of the study. The above information is carried on with cooperation of management of HDFC BANK assisted to carry out the study.

COLLECTION OF DATA

Primary data

Primary data is the first-hand information collected a fresh. It deals with original information.

Discussions and personnel interaction with staff in finance department and executive of HDFC BANK for the purpose of collecting information relevant to the study serves as primary data for the study.

Secondary data

Secondary data implies second hand information which is already collected and recorded by other person then user not related to current research problem. It is readily available.

Secondary data

That are company's annual reports published records, company's manual and theoretical concepts compliance written as relevant to study from various books.

The primary and secondary data was collected is used to know about the company and how to interpret the movement of cash and funds in order to evaluate the financial performance of the company.

LIMITATIONS

1. The study is based on secondary data, which may lack real-time accuracy.
2. It focuses only on one company, limiting the scope of comparison.
3. External economic factors influencing performance are not considered.
4. Changes in accounting policies may affect comparability of data.
5. The study does not account for qualitative aspects like management effectiveness.

IV. DATA ANALYSIS AND INTERPRETATION

RATIO ANALYSIS

One of the most powerful tools in financial analysis is the ratio analysis. It is the procedure for calculating and understanding different ratios. The ratio analysis is used to investigate a company's liquidity, profitability, and solvency. The financial statements may be analyzed more clearly with the use of ratios, and decisions can be taken based on this analysis.

Liquidity Ratio

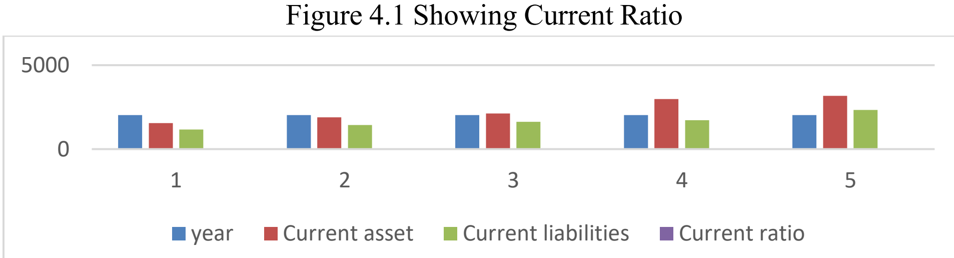
(A)CURRENT RATIO

Current Ratio = Current Asset /Current Liability (Ideal Ratio = 2:1)

Table Showing Current Ratio

year	Current asset	Current liabilities	Current ratio
2021	1556.13	1175.38	1.324
2022	21895.21	1436.38	1.319
2023	32115.49	1619.58	1.306
2024	42976.07	1725.60	1.725
2025	3181.36	2327.83	1.366

Figure 4.1 Showing Current Ratio



Interpretation:

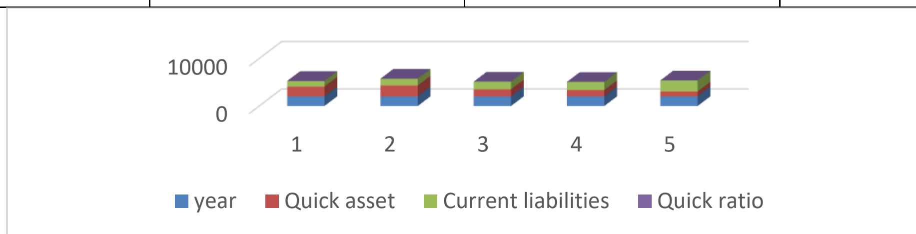
The above tables shows that the year from 2021-2025 the current ratio is increased from1.324 to 1.366.

QUICK RATIO FORMULA

Quick ratio= current asset/ current liabilities

4.2. Table showing quick asset ratio

year	Quick asset	Current liabilities	Quick ratio
2021	2067.79	1175.38	0.88
2022	2289.41	1436.38	1.32
2023	1488.32	1619.58	0.91
2024	1337.34	1725.60	0.931
2025	1024.52	2327.83	0.872



Interpretation:

The above figure shows that the year from 2021-2025 the quick ratio is increased from 0.87 to 0.88.

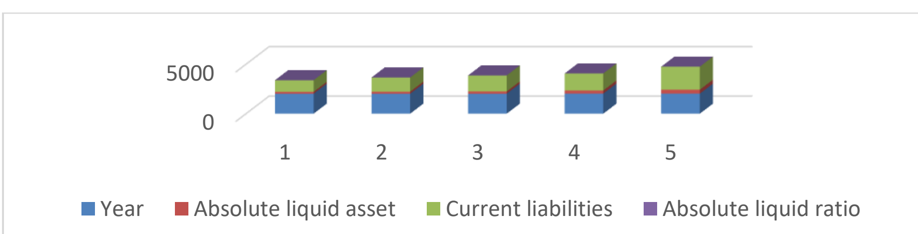
ABSOLUTE LIQUID RATIO

Absolute Liquid Ratio is a type of liquidity ratio that is calculated to analyze the short term solvency or financial position of the firm. It is calculated to exclude the receivables from the current and liquid assets and to know about the absolute liquid assets. Although receivables, debtors and bills receivables are generally more liquid than inventories, yet there may be doubts regarding their realization into cash immediately or on time as there are the chances of bad debts. To exclude this possibility, absolute ratio is calculated. The absolute liquid ratio is also known as Cash ratio. The absolute liquid ratio formula is:

Absolute Liquid Ratio= Absolute Liquid Assets/ Current Liabilities

table showing absolute liquid ratio:

Year	Absolute liquid asset	Current liabilities	Absolute liquid ratio
2021	187.79	1175.38	0.170
2022	202.22	1436.38	0.1407
2023	223.45	1619.58	0.138
2024	316.09	1725.60	0.183
2025	397.79	2327.83	0.170



Interpretation:

The above table shows that the year from 2021-2025 the absolute liquid ratio is not increased and not decreased.

SOLVENCY RATIO:

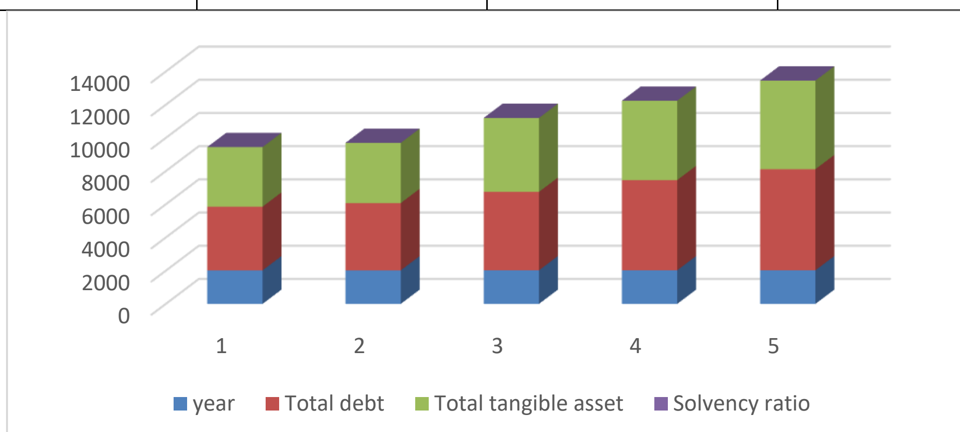
A solvency ratio is a performance metric that helps us examine a company's financial health. In particular, it enables us to determine whether the company can meet its financial obligations in the long term.

The metric is very useful to lenders, potential investors, suppliers, and any other entity that would like to do business with a particular company. It usually compares the entity's profitability with its obligations to determine whether it is financially sound. In that regard, a higher or strong solvency ratio is preferred, as it is an indicator of financial strength. On the other hand, a low ratio exposes potential financial hurdles in the future.

Solvency Ratio = total debt/ total tangible asset

Table Showing Solvency Ratio

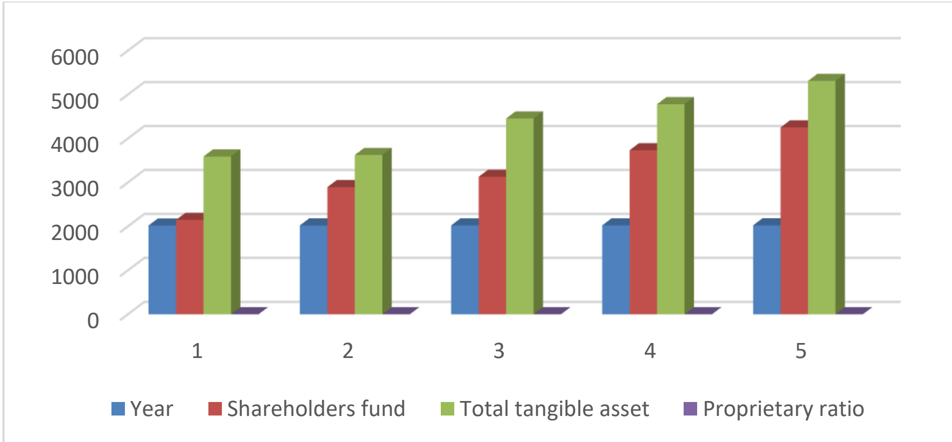
year	Total debt	Total tangible asset	Solvency ratio
2021	3836.46	3590.52	1.068
2022	4054.46	3624.97	1.118
2023	4726.08	4455.05	1.061
2024	5435.85	4781.02	1.137
2025	6090.59	5340.31	1.140



Proprietary ratio= shareholders fund/ total tangible asset

Table showing proprietary ratio:

Year	Shareholders fund	Total tangible asset	Proprietary ratio
2021	2147.35	3590.52	0.598
2022	2892.81	3624.97	0.798
2023	3128.09	4455.05	0.702
2024	3733.09	4781.02	0.781
2025	4251.67	5310.31	0.796



Interpretation:

The above table shows that the year from 2021-2025 the proprietary ratio is increased from 0.598 to 0.796.

PROFITABILITY RATIO:

Profitability ratios are a class of financial metrics that are used to assess a business's ability to generate earnings relative to its revenue, operating costs, balance sheet assets, or shareholders' equity over time, using data from a specific point in time. They are among the most popular metrics used in financial analysis.

Types of Profitability Ratios

Profitability ratios generally fall into two categories—margin ratios and return ratios.

Margin ratios give insight, from several different angles, into a company's ability to turn sales into a profit. Return ratios offer several different ways to examine how well a company generates a return for its shareholders using the money they've invested.

Some common examples of the two types of profitability ratios are:

- gross profit ratio
- operation cost ratio
- operation profit ratio
- net profit ratio
- return on investment ratio
- dividend payout ratio

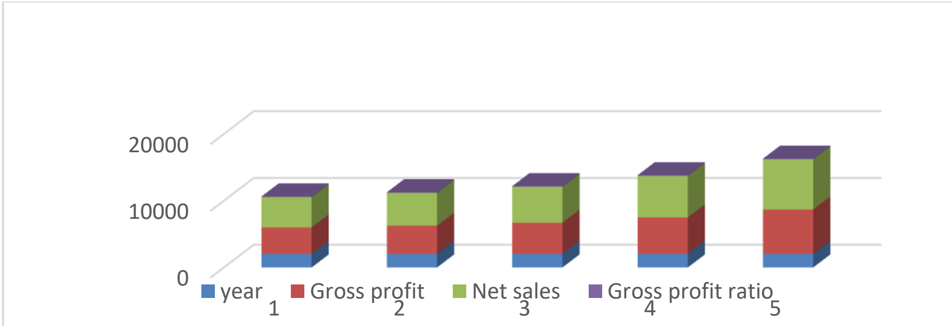
GROSS PROFIT RATIO:

The gross profit ratio is calculated by dividing the gross profit by the net sales. To make it easier to read and compare, the result is usually multiplied by 100 so it can be expressed as a percentage. This allows you to determine what percentage of the company's revenue is profit.

Gross profit ratio =gross profit*100/net sales.

Table Showing Gross Profit

year	Gross profit	Net sales	Gross profit ratio
2021	3988.48	4542.59	87.80
2022	4239.99	4919.19	86.19
2023	4677.66	5397.13	86.66
2024	5476.47	6233.42	87.84
2025	6665.99	7529.05	88.53



Interpretation:

The above table shows that the year from 2021-2025 the gross profit ratio is increased from 87.80 to 88.53.

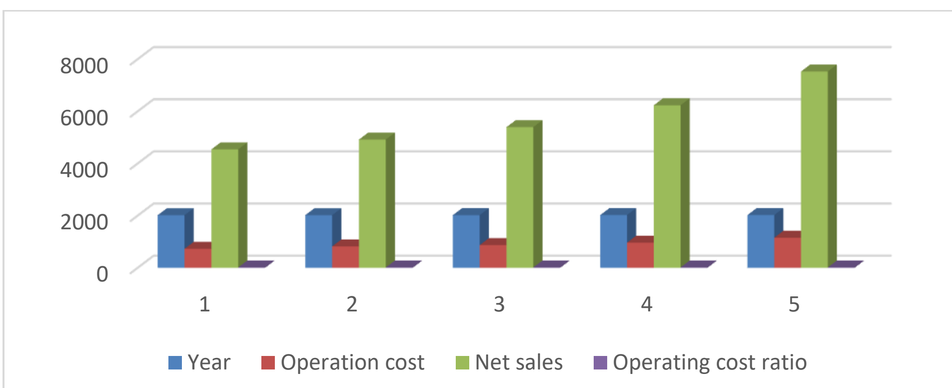
OPERATION COST RATIO

Also known as operating cost ratio or operating expense ratio, the operating ratio compares operating expenses to net sales. It's a common metric companies use to determine how efficient their management is at keeping operating costs low while also earning revenue or making sales.

Operating cost ratio= operating cost /net sales.

Table Showing Operating Cost Ratio

Year	Operation cost	Net sales	Operating cost ratio
2021	730.38	4542.59	16.07
2022	821.22	4919.19	16.69
2023	871.99	5397.13	16.15
2024	965.17	6233.42	15.48
2025	1155.39	7529.05	15.34



Interpretation:

The above table shows that the year from 2021-2025 the operating cost ratio is decreased from 16.07 to 15.34.

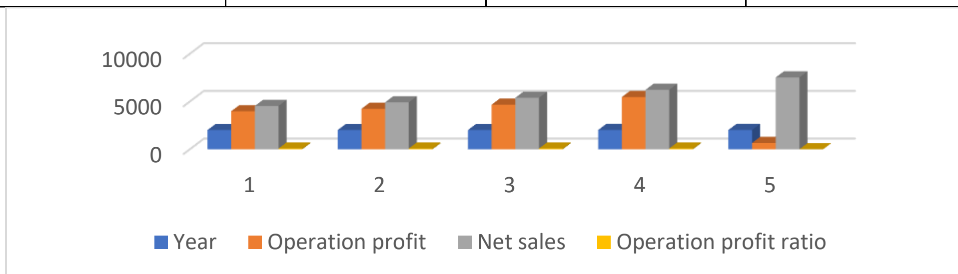
OPERATING PROFIT RATIO:

Operating profit Ratio = Operating Profit / Net Sales × 100

Since, the operating profit ratio is expressed as a percentage, therefore we need to multiply by 100, the value obtained by the division of operating profit with the net sales.

Table showing that operation profit ratio:

Year	Operation profit	Net sales	Operation profit ratio
2021	3988.48	4542.59	87.80
2022	4239.99	4919.19	86.19
2023	4677.66	5397.13	86.66
2024	5476.47	6233.42	87.85
2025	665.99	7529.05	8.84



Interpretation:

The above table shows that the year from 2021-2025 the operating profit ratio is decreased from 8.84 to 87.80.

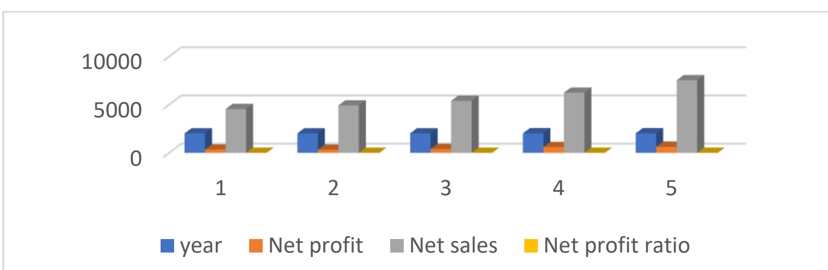
NET PROFIT RATIO:

Net Profit Ratio, also referred to as the Net Profit Margin Ratio, is a profitability ratio that measures the company's profits to the total amount of money brought into the business.

Net profit ratio =net profit / net sales

table showing net profit ratio:

year	Net profit	Net sales	Net profit ratio
2021	341.87	4542.59	7.53
2022	324.90	4919.19	6.6
2023	400.38	5397.13	7.42
2024	602.83	6233.42	9.67
2025	630.68	7529.05	8.38



Interpretation:

The above table shows that the year from 2021-2025 the net profit ratio is increased from 7.53 to 8.38.

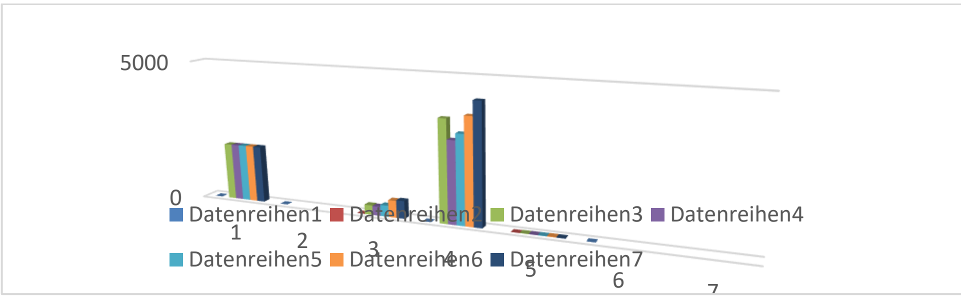
RETURN ON SHAREHOLDERS FUND

It is calculated by dividing a company's earnings after taxes (EAT) by the total shareholders' equity, and multiplying the result by 100%. The higher the percentage, the more money is being returned to investors. This ratio helps business owners and financing professionals determine a company's financial health.

Return on shareholders' funds =net profit after tax and interest *100/shareholders' funds

table showing return on shareholders' funds

Year	Net profit after tax & interest	Shareholder fund	Return on shareholder fund
2021	341.87	3590.52	9.52
2022	324.90	2892.87	11.23
2023	400.38	3128.90	12.8
2024	602.83	3733.09	16.15
2025	630.68	4251.67	14.83



Interpretation:

The above table shows that the year from 2021-2025 the net profit ratio is increased from 9.52 to 14.83.

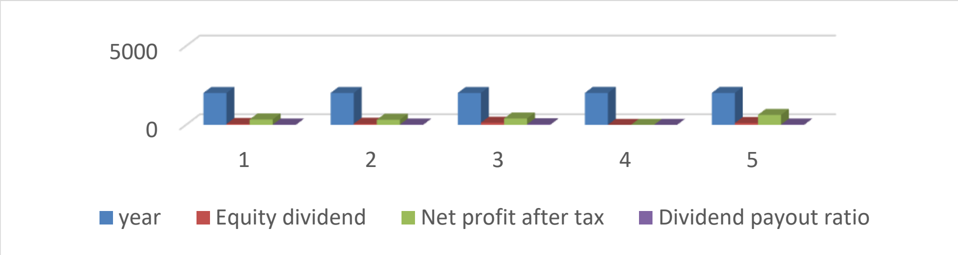
DIVIDEND PAYOUT RATIO

The dividend payout ratio is the ratio of the total amount of dividends paid out to shareholders relative to the net income of the company. It is the percentage of earnings paid to shareholders via dividends. The amount that is not paid to shareholders is retained by the company to pay off debt or to reinvest in core operations. It is sometimes simply referred to as simply the payout ratio.

Dividend payout ratio = equity dividend/ net profit after tax.

Table Showing Dividend Payout Ratio

year	Equity dividend	Net profit after tax	Dividend payout ratio
2021	55.94	341.87	16.36
2022	69.93	324.90	21.52
2023	135.22	400.38	33.77
2024	0	0	0
2025	115.90	630.6	18.38



Interpretation:
The above table shows that the year from 2021-2025 the dividend payout ratio is increased from 16.36 to 18.38.

V. FINDINGS

- As a conventional rule, a current ratio of 2:1 is considered satisfactory. Current ratio of super auto forge private limited company shows that they are maintaining current ratio as 2 and more standard, which indicates the ability of the firm to meet its current obligations is more. But it is more than 2:1, it may also indicates that they are not using current assets efficiently, or indicates idleness of working capital.
- Quick ratios of the company is sufficient. It indicates that the firm position in meeting its current obligation is satisfactory. It shows that the firm had sufficient liquid assets.
- Net profit ratio has increased from beginning itself. It has increased from 7.53 in 2021, which drops to 6.6 in 2022 and increased by 7.42 in 2023 and increased by 9.67 in 2024 and drops to 8.38 in 2025 .This indicates that there is an improvement in the operational efficient of the business and it leads to the increase in the profitability position of the firm.
- The gross profit in the year 2021 is 87, and in 2022 and 2023 is 86 and in 2024 is 87 and in 2025 is 88 this shows the company is maintained a good profit margin.
- Working capital turnover ratio in the year 2020-2021 shows a highly increase trend which indicator of efficient use of the company´s short-term assets and liabilities to support sales. But in the year 2023 there is a drastic decrease. So, a low working capital turnover ratio implies that the company is not generating sales sufficient enough from the working capital available.
- Comparative balance sheet proves that the financial performance for each succeeding year is very much satisfactory as compared with previous year during the period of 2021-2022
- In common size income statement, the profit of the year is in increasing trend year by year. It is increased by 22.22% which shows the company is earning its profit yearly.
- From trend analysis, the balance sheet total shows an increasing trend year by year.
- The working capital turnover ratio can be improved by providing incentives to customers who pay on time will help in increasing the working capital.
- The gross profit can be maintained or further improved by increasing the gross profit and factors decreasing the gross profit ratio should thoroughly checked. Thus, by reducing their expenses which in turn will increase the profitability ratio.
- The liquidity position of the company can be utilized in a better or other effective purpose. The trend analysis of current assets, non-current assets, and non-current liabilities shows increasing trend. The company has to maintain it for the upcoming years.

VI. SUGGESTIONS

Based on the findings the following the suggestions can be given to the company for a better business to the possible

1)The Company can invest more in current assets than in working capital

2)The Company can improve the net profit by reducing interest and finamcial charges

3)The Company has to increase its current asset and improves the sort-term financial position and cost of goods sold has be reduced.

VII. CONCLUSION

The study of financial performance analysis of Company has revealed the great deal of their various financial aspects for five years. The comparative analysis unlocks the overall performance methodology. It aids the company, the shareholders as well as the creditors in taking valuable decisions and scope with deviations. As such, there are more avenues and scope for the companies to improve and thrive successfully in the nature.

REFERENCES

RESEARCH ARTICLES

1. Mohan, B., & Rajkumar, N. (2022). Financial performance analysis of HDFC Bank. International Journal of Scientific Research in Engineering and Management (IJSREM), 6(4), 112–118.
2. Aggarwal, R. (2021). A comparative study of financial performance of HDFC Bank and ICICI Bank. International Journal of Research in Commerce and Management, 12(3), 45–50.
3. Meenakshi, S. (2020). Financial statement analysis of Indian banks: A case study of HDFC Bank. Journal of Banking and Finance Management, 8(2), 33–41.
4. Choudhury, P., & Khan, M. R. (2023). Performance evaluation of HDFC Bank using CAMEL model. Journal of Management and Economic Studies, 11(1), 55–63.
5. Sharma, K. (2022). Financial analysis of HDFC Bank Limited with reference to pre and post-COVID period. International Journal of Finance and Accounting, 9(1), 28–35.

Books

- Financial management by I.M Pandey
- Balance Sheet Decoded by G.B. Pipara
- Financial Statement Analysis by Charles H. Gibson
- Financial management by C.Ehrhardt

Websites

https://www.moneycontrol.com Ratios, charts, quarterly results, peer comparison
https://www.screener.in 5–10 years financial data in tabular form (very useful)
https://www.nseindia.com Annual and quarterly reports for liste companies like HDFC Bank
https://www.rbi.org Sectoral analysis, regulations, and industry-wide statistics
https://www.statista.com Market share, financial trends https://www.hdfcbank.com