

A STUDY ON FINANCIAL STATEMENT ANALYSIS AT HDFC BANK.

V. LAKSHMI PRASANNA KUMARI

ASSISTANT PROFESSOR, DEPARTMENT OF MBA, ST. MARTIN'S ENGINEERING COLLEGE, DHLUPALLY,
SECUNDERBAD

Vlprasanna527@gmail.com

KUMMARI SRIKANTH

DEPARTMENT OF MBA, St. MARTIN'S ENGINEERING COLLEGE, DHLUPALLY, SECUNDERBAD

srikanth.k8121@gmail.com

ABSTRACT:

Financial Statements are prepared primarily for decision-making. They play a dominant role in setting the framework of managerial decisions. But the information in the financial statement is not an end in itself as no meaning can be drawn from these statements alone.

The information provided in the financial statement is of immense use in making decisions through analysis and interpretation of financial statements. The financial analysis is the process of identifying the financial strength and weaknesses of the firm by properly establishing a relationship between the items on the balance sheet and P&L A/C.

There are various methods or techniques used in analyzing financial statements such as comparative statements, trend analysis, common size statement, schedule of changes in working capital, fund flow, and cash flow analysis, cost volume profit analysis, and "RATIO ANALYSIS".

Ratio analysis is one of the most powerful tools of financial analysis. It is a process of establishing and interpreting various ratios so that the financial statements can be analysed more clearly and decisions made from such analysis.

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 analysis the financial statement with various tools of analysis before commenting upon the financial health or weaknesses of an enterprise.

A financial ratio is a relationship between two accounting figures expressed mathematically ratio provides clues to the financial position of the concern. These are the pointers and indicators of the financial strength, soundness, position, or weakness of an enterprise. One can conclude the exact financial position of a concern with the help of ratios.

KEY WORDS:

- Financial Statements
- RATIO ANALYSIS
- The balance sheet
- P&L A/C.

1. INTRODUCTION

Financial statements are prepared primarily for decision-making. 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. Financial analysis is 'the process of identifying the financial strengths and weaknesses of the firm by properly establishing a relationship between the items of the balance sheet and the profit and loss account' There are various methods or techniques used in analysing financial statements are an important source of information for evaluating the performance and prospects of the firm, if properly analysed and interpreted these statements can provide valuable insights into firm's performance. Analysis of financial statements is of interest to lenders, investors, security analysts, managers, and others.

Financial statements analysis may be done for a variety of purposes, which may range from simple analysis of short term liquidity position of the form to a comprehensive assessment of the strengths and weakness of the firm in various areas, it helps assess corporate excellence, judge credit worthiness forecasting bond rating, evaluating the intrinsic value of equity shares predicting bankruptcy and assessing market risk.

A financial statement is an organized collection of data according to logical and consistent accounting procedures. Its purpose is to convey an understanding of some financial aspects of a business form. It may reveal a series of activities over a given period, as in the case of an income statement.

The focus of the financial analysis is on key figures in the financial statements and the significant relationships that exist between them. The analysis of financial statements is a process of evaluating relationships between parts of financial statements to obtain a better understanding of the firm's position and performance.

Financial Analysis:

Financial analysis is the process of identifying the financial strengths and weaknesses of the firm by properly establishing relationships between the item on the balance sheet and the profit and loss account. Financial analysis can be undertaken by the management of the firm, or by parts outside the firm.

USERS OF FINANCIAL ANALYSIS:

- Management
- Trade creditors
- Investors
- Government
- Others

Management:

Management of the firm would be interested in every aspect of the financial analysis. It is their overall responsibility to see that the resources of the firm are used most effectively and efficiently and that the firm's condition is sound.

Trade Creditors:

The trade creditors are to be paid in the short-term solvency of the concern. The current ratio and acid test ratio will enable the creditors to assess the short-term solvency position of the concern

Investors:

The Investors are interested in their money in the firm's shares and are not concerned about the firm's earnings. They restore more confidence in those firms that show steady growth in earnings. As such, they concentrate on the analysis of the firm's present and future profitability. They are also interested in the firm's financial structure to the extent it influences the firm's earning ability and risk.

Government:

The financial statements are used to assess the tax liability of a business enterprise. These statements enable the government to find out whether the business is following various regulations or not.

Definition

According to Myres "Financial statement analysis is largely is a study of the Relationship among the various financial factors in a business as disclosed by a single set of statement and a study of the trend of these factors as shown in a series of statements.

Financial statements are indicators of two significant factors:

1. Profitability
2. Financial Soundness

2. REVIEW OF LITERATURE

Hosamani (1995) utilized different proportions to assess the exhibition of Malaprabha Grameena Bank in Karnataka. Productivity proportions were negative (- 43%) because of a higher weight proportion (3.11%) contrasted with spread (2.96%).

Pathania and Sharma (1997) concentrated on the working of Himachal Pradesh State Cooperative Agricultural and Rural Development Bank, which loans cash on a drawn out premise to an assortment of end-clients. The monetary solidness of the bank was estimated, and information were introduced on the drawn out monetary strength, obligation to value proportion, fixed resources for total assets proportion, the momentary monetary presentation, and the ongoing proportion. It was inferred that the monetary place of the bank was not sound, with liabilities surpassing value.

Shekhar et al. (1999) utilized monetary proportion examination for the Karimnagar District Central Cooperative Bank in Andhra Pradesh, India. Monetary proportions connecting with the dissolvability, liquidity, benefit, effectiveness, and strength of the bank were dissected for the period 1985/86-1994/95.

Siddhanti (1999) utilized different monetary proportions to break down the monetary execution of the Indian Farmers Fertilizers Cooperative and believed that the ongoing proportion of the foundation between 1987-88 and 1997-98 was going from 2.62 to 2.52 as against the standard of 2:1. obligation value city proportion during the period was somewhere in the range of 1.05 and 1.07 as against the standard of 1:1.

Patil (2000) utilized different monetary proportions to assess the exhibition of Primary Cooperative Agricultural and Rural Development Banks in the Dharwad region of Karnataka. The review uncovered that the ongoing proportion was more than solidarity and the analysis proportion was not as much as solidarity, while the total assets and benefit proportions were negative for every one of the banks in every one of the periods with the exception of PCARDB, Dharwad.

ANIL KUMAR SONI and HARJINDER PAL SINGH SALUJA (2013) utilized monetary proportions to assess the presentation of the District Central Cooperative Bank assumes a crucial part in the horticulture and rustic improvement of the Rajnandgaon. The review uncovered that financial position of this bank was broke down by proportion investigation strategies. It is tracked down that the position dissolvability, liquidity, and benefit are acceptable. The effectiveness proportions demonstrated a medium degree of consumption over the net in the profitability of the bank was exceptionally low because of the weighty over duty and low pace of recuperation.

Cnossen, (1992) VAT is employable in a few nations and fundamentally in nations where the central government isn't in presence. The creator has concentrated on the different VAT frameworks existing on the planet and attempted to show up at a suitable VAT for Central and East Europe nations. The creator has set down different necessities to guarantee that the said VAT is totally viable like it ought to be objective based, the info credit system ought to be consistent, the law ought to be straightforward, the expense of congruity ought to be low, and so forth.

Crossley, (2009) In 2009, the United Kingdom Government chose to diminish the VAT rate by a minor add up to support buyer spending. The creators have concentrated on the expressed connection in their paper and reasoned that assuming the VAT rate is diminished, the spending by broad customers increments bringing about generally speaking lightness in the economy.

Emmanuel, (2013) The creator has analyzed the connection between VAT, the expansion in VAT rates, and the monetary development and assessment income in Nigeria. For this review, the creator has set out 2 Null speculations which are posted and the exploration acknowledged. The creator presumes that given areas of strength for the between the abovementioned, the Government and specialists ought to effectively teach the general population on the advantages of VAT so they acknowledge changes in VAT rates all the more without any problem.

Eugen, (2011) The creators have analyzed the different techniques taken on by assesseees to dodge VAT, particularly in intra-country exchanges in Romania. The creators have likewise suggested the documentation and returns which could be depended upon by both the specialists and the assesseees to guarantee that there is no tax avoidance.

RESULTS AND DISCUSSION

Ratio Analysis

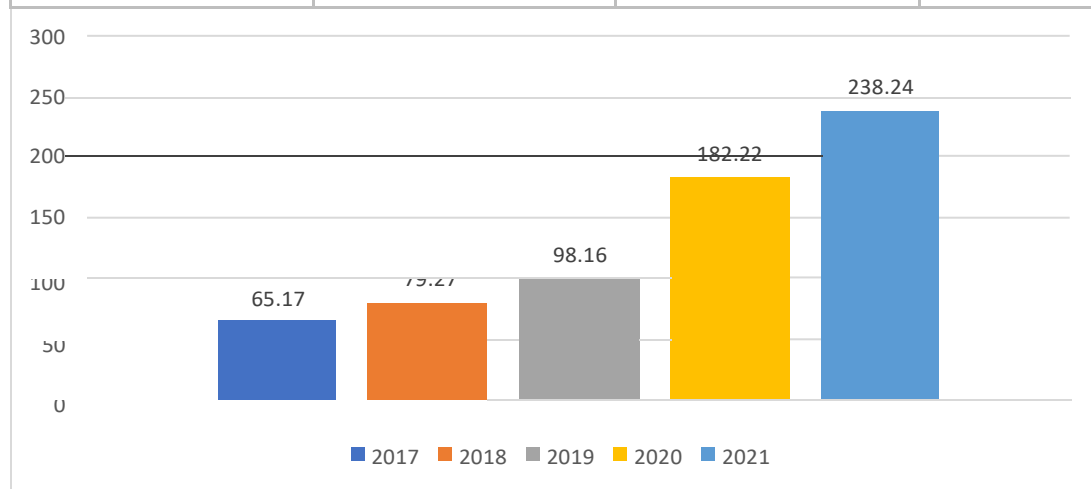
CURRENT RATIO:

$$\text{CURRENT RATIO} = \frac{\text{CURRENT ASSETS}}{\text{CURRENT LIABILITIES}}$$

Current Ratio may be defined as the relationship between current assets and current liabilities.

Table: 3

YEAR	PERCENTAGE	CURRENT ASSETS	CURRENT LIABILITIES
2017	65.17	20906.97	406233
2018	79.27	27514.29	67363.399
2019	98.16	17536.33	72379.300
2020	182.22	29377.53	96399.795
2021	238.24	18706.88	08344658



A moderately high current proportion means that the firm is fluid and can pay its ongoing commitments in time as and when they become due. An expansion in the ongoing proportion address improvement in the liquidity position of the firm while a reduction in the ongoing proportion demonstrates that there has been disintegration in the liquidity position of the firm.

Capital Adequacy Ratio:

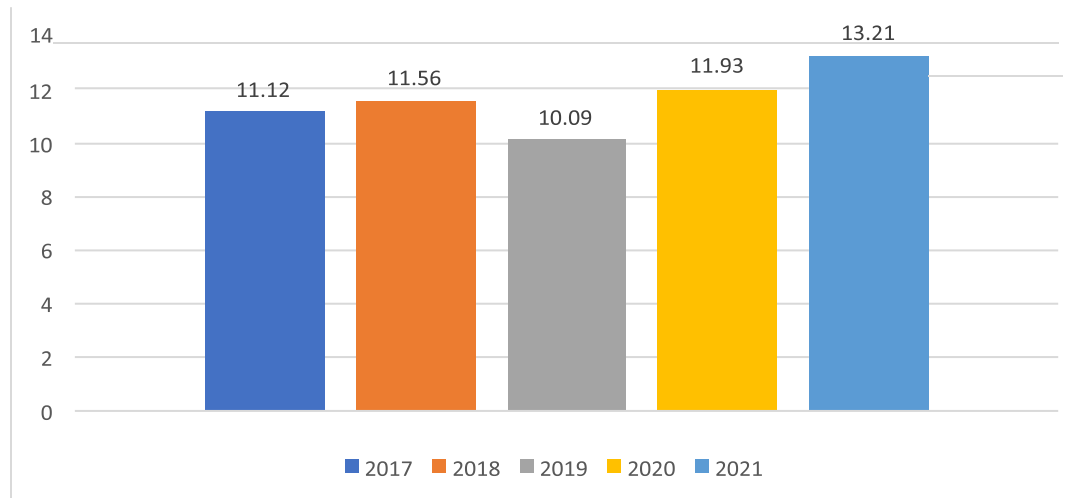
FORMULA: TIER1 CAPITAL+ TIER 2 CAPITAL/RISK RELATED ASSET

A measure of a bank's capital. It is expressed as a percentage of a bank's risk weighted credit exposures.

Table:1

Mar '17	Mar '18	Mar '19	Mar '20	Mar '21
11.12	11.56	10.09	11.93	13.21

Figures: 1



(Source: Calculated from the annual report of HDFC BANK Bank.)

A capital sufficiency proportion (CAR) is a proportion of a bank's cash-flow to its gamble. Public controllers track a bank's CAR to guarantee that it can retain a sensible measure of misfortune and is conforming to its legal Capital prerequisites.

CONCLUSION

Profitability and solvency ratios are indicating good soundness of the bank. Efficiency ratios like management, operating, operating and gross ratios are indicating that the bank is effectively managing the employee costs and other administrative costs. Current Ratios show some negative indications regarding the maintenance of current assets for current liabilities but banks maintain the capital to risk-free assets known as the capital adequacy ratio for fulfilling the obligations which was good for the bank. The overall performance of the bank was good showing a positive sign to the stakeholders.

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