PROJECT PROPOSAL (MS-100)

**“A STUDY TO ANALYZE THE FINANCIAL PERFORMANCE OF HOUSING DEVELOPMENT FINANCE CORPORATION LIMITED (HDFC) BANK”**

*SUBMITTED IN PARTIAL FULFILLMENT OF THE REQUIREMENT OF MASTER OF BUSINESS ADMINISTRATION (MBA)*

**SUBMITTED BY:**

**ENROLMENT NO.:**

**SUBMITTED TO:**



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**INTRODUCTION**

Financial statement provides basic data of the financial activities of a business, person or other entity and provides an overview of a business or person’s financial condition in both short & long terms. They give an exact envision of a company’s condition & operating results in a condensed form. Primarily co. executives & investors in assessing the overall position & operating results of a company use financial statements as a management tool. Analysis & interpretation of financial statements help in determining the liquidity position, long-term solvency, financial viability and profitability of a firm. Ratio analysis show whether the company is improving or deteriorating in past years. Moreover, comparison of different aspect of all the firms can be done effectively with ratio analysis that helps the client to decide in which firm the risk is less or in which one they should invest so that maximum benefit can be earned.

**Analysis of Financial Statement**

The analysis of financial statements is an important aid to financial analysis. They provide information on how the firm has performed in the past and what is its current financial position. Financial analysis is the process of describing the financial strengths and weakness of the firm from the available accounting data and financial statements. The analysis is done by establishing relationship between the different items of financial statements.

The stress of financial analysis is on fundamental figures in the financial statements and the substantial relationship that exists between them. The analysis of financial statements is a process of assessing relationship between components of financial statements to get a better understanding of the firm’s position and performance.

The first job of financial analyst is to select the information relevant to the decision under consideration from the total information contained in the financial statement. The second job involved in financial analysis is to arrange the information in a way to foreground significant relationships. The final job is interpretation and drawing of inferences and conclusions. In brief, financial analysis is the process of selection, relation, and evaluation.

Following are the important tools that are commonly used for analyzing and interpreting financial statements:

* Comparative financial statements
* Common size statements
* Trend analysis
* Ratio analysis
* Funds flow analysis
* Cash flow analysis
* Comparative financial statements

**Financial Performance of Banks**

A sound financial system is essential for an unavoidable and vibrant economy. As the performance of any economy to a large extent is dependent on the performance of the banking sector while it being the paramount component of the financial service industry. The Indian banking sector went through structural changes since independence. It is due to the financial linkages with the rest of the economy and to meet the social and economic objectives of development. Consequently, the sector was initially following strict controls on interest rates, as well as stringent regulations relating to branch licensing, directed credit programs, and mergers. However, the closed and strict regulated environment started showing adverse affect on the sector, resulting in under-performance of the banks over the years. As a result, Indian banking sector underwent a sea changes through its liberalization policy in early 1990s with implementation of a series of reforms with an objective to make the banking sector more productive and efficient by limiting the state intervention and enhancing the role of market forces. Like most developing countries, the banking sector in India is characterized by the co-existence of different ownership groups, public and private, and within private, domestic and foreign.

In this proposed study, I shall critically analyze the financial performance of HDFC bank with the help of various bank ratios namely Investment and Valuation Ratios, Profitability Ratios, Profit and Loss Account Ratios, Debt Coverage Ratios and Management Efficiency Ratios.

**PROFILE OF HOUSING DEVELOPMENT FINANCE CORPORATION LIMITED (HDFC) BANK**

The Housing Development Finance Corporation Limited (HDFC) was amongst the first to receive an 'in principle' approval from the Reserve Bank of India (RBI) to set up a bank in the private sector, as part of the RBI's liberalization of the Indian Banking Industry in 1994. The bank was incorporated in August 1994 in the name of 'HDFC Bank Limited', with its registered office in Mumbai, India. HDFC Bank commenced operations as a Scheduled Commercial Bank in January 1995.

HDFC Bank's mission is to be a World-Class Indian Bank. The objective is to build sound customer franchises across distinct businesses so as to be the preferred provider of banking services for target retail and wholesale customer segments, and to achieve healthy growth in profitability, consistent with the bank's risk appetite. The bank is committed to maintain the highest level of ethical standards, professional integrity, corporate governance and regulatory compliance. HDFC Bank's business philosophy is based on four core values - Operational Excellence, Customer Focus, Product Leadership and People.

In the year 1999, the Bank launched online, real-time Net Banking. In February 2000, Times Bank Ltd, owned by Bennett, Coleman & Co. / Times Group amalgamated with the Bank Ltd. This was the first merger of two private banks in India. The Bank was the first Bank to launch an International Debit Card in association with VISA (Visa Electron). In the year 2001, they started their Credit Card business. Also, they became the first private sector bank to be authorized by the Central Board of Direct Taxes (CBDT) as well as the RBI to accept direct taxes. During the year, the Bank made a strategic tie-up with a Bangalore-based business solutions software developer, Tally Solutions Pvt Ltd for developing and offering products and services facilitating on-line accounting and banking services to SMEs. During the year 2001-02 the bank was listed on the New York Stock Exchange. Also, they made the alliance with LIC for providing online payment of insurance premium to the customers.

During the year 2006-07, they commenced direct lending to Self Help Groups. Also, they opened a dedicated branch for lending to SHGs, in Thudiyalur village (Tamil Nadu). On May 23, 2008, the merger of Centurion Bank of Punjab with HDFC Bank which is considered as one of the biggest merger in domestic banking was formally approved by Reserve Bank of India to complete the statutory and regulatory approval process. The shareholders of Centurion Bank of Punjab received 1 share of HDFC Bank for every 29 shares of CBoP. The merger has been advantageous to HDFC Bank in terms of increased branch network, geographic reach, and customer base, and a bigger pool of skilled manpower. In October 2008, the bank opened their first overseas commercial branch in Bahrain. The branch offers the bank's suite of banking services including treasury and trade finance products for corporate clients and wealth management products for Non-resident Indians.

As on 31st March, 2012 the authorized share capital of the Bank is Rs. 550 crore. The paid-up capital as on the said date is Rs. 469,33,76,540. The net profit is Rs. 5,167 crore, with Total deposits of Rs. 246,706 crore, and Total advances of Rs.195,420 crore. The bank is having a strong network with number of branches are 2544 of which 70% of bank branches are outside metro areas and 8913 ATMs in 1399 cities.

**NEED OF THE STUDY**

The Financial Statements are mirror that reflects the financial position and strengths or weakness of the concern. The Banking sector has been witnessed intense competition from domestic banks and international banks. Every business needs to view the financial performance analysis.

The study on effectiveness of operational and financial performance of HDFC Bank is conducted to measure the overall performance of bank. The financial analysis strengths the firms to make their best use, and to be able to spot out financial weakness of the firm to state suitable corrective actions.

This study aims at analyzing the overall financial performance of HDFC Bank by using various bank ratios namely Investment and Valuation Ratios, Profitability Ratios, Profit and Loss Account Ratios, Debt Coverage Ratios and Management Efficiency Ratios.

**STATEMENT OF THE PROBLEM**

The statement of the problem is “A STUDY TO ANALYZE THE FINANCIAL PERFORMANCE OF HOUSING DEVELOPMENT FINANCE CORPORATION LIMITED (HDFC) BANK”

**OBJECTIVES OF THE STUDY**

The following objectives are formulated for the present study: -

* To find out various financial services and facilities offered by the Housing Development Finance Corporation Limited (HDFC) Bank.
* To evaluate the financial performance of Housing Development Finance Corporation Limited (HDFC) Bank by using various bank ratios namely Investment and Valuation Ratios, Profitability Ratios, Profit and Loss Account Ratios, Debt Coverage Ratios and Management Efficiency Ratios.

**RESEARCH METHODOLOGY**

Research design is a conceptual structure within which research is conducted. It constitutes the blueprint for the collection, measurement and analysis of data. Research design is needed because it facilitates the smooth sailing of the various research operations, thereby making research as efficient as possible yielding maximum information with minimum effort, time and money. Research design stands for advance planning of methods to be used for collecting the relevant data and the techniques to be used in their analyses. Preparation of research design should be done with great care as any error may upset the entire project. Therefore it is imperative that an efficient design must be prepared before starting research operations. The design helps the researcher to organize his ideas in a form whereby it will be possible for him to look for flaws and inadequacies.

Once the problem is identified, the next step is the research design. Research design is the basic framework of rest of the study. A research design specifies the methods and procedures for conducting particular study.

The study is a case method of Research analysis in nature. The study will used only secondary data that will be collected from research articles, books related and thesis works already done on the topic and particularly from annual reports of HDFC Bank. Housing Development Finance Corporation Limited (HDFC) Bank will be selected as sample banks for the study, as this is the top banks in the domain of private sectors.

The total time period of the study will be 5 years, i.e. 2009-2013.

In this proposed study, the financial performance of HDFC Bank will be critically analyzed with the help of various bank ratios namely

**Investment and Valuation Ratios**

* **Dividend per share:** The amount of dividend that a stockholder will receive for each share of stock held is called Dividend per Share. It can be calculated by taking the total amount of dividends paid and dividing it by the total shares outstanding.
* **Operating Profit per Share:** Operating profit per share ratio establishes the relationship between operating profit and sales. It indicates the portion remaining out of every rupee worth of sales after all operating costs and expenses have been met.
* **Net Operating Profit per Share:** Net operating profit represents the profitability of a company after accounting for cost of goods sold and operating expenses.

**Profitability Ratios**

* **Adjusted Cash Margin:** The Cash Flow Margin is a measure of how efficiently a company converts its sales dollars to cash. Since expenses and purchases of assets are paid from cash, this is an extremely useful and important profitability ratio.
* **Net Profit Margin:** This ratio reveals the overall profitability of the concern. It establishes relationship between net profit and sales. It is expressed as a percentage to sales.
* **Return on Net worth (RONW):** The return on equity ratio (also known as the return on net worth) reveals the amount of return earned by investors on their investments in a business.
* **Adjusted Return on Net Worth:** Adjusted Return on Net Worth is all about the modified RONW, which is subject to the inclusion of various non-operating incomes.

**Profit and Loss Account Ratios**

* **Operating Expense / Total Income:** This ratio is calculated by dividing the operating expenses by the total income generated i.e.net interest income plus the other income. The lower the ratio, the better it is for a bank as it would help to prop up its profit and return ratios.
* **Capital Adequacy Ratio (CAR):** CAR relates a bank’s core net worth to its risk-weighted assets. The ratio is internationally accepted risk-driven measure of a bank’s degree of capitalization. A higher ratio indicates that a bank is well capitalized vis-a-vis its perceived risks. It is also an indicator of a bank’s long term solvency.
* **Advances/Loan Funds:** Advances to Loan funds refer to any advance made on a future commitment or payment. The term, advance funding, is used very broadly, ranging from personal or project loans, future contractual payments like annuities or royalties and government appropriations.

**Debt Coverage Ratios**

* **Credit Deposit Ratio:** It is the proportion of loans generated by banks from the deposits received. It indicates the performance of the bank in terms of turning the total inflow in to very productive outflow. It can be computed by the principle, Credit Deposit Ratio = Total Advances/Total Deposits × 100.
* **Investment Deposit Ratio:** It represents total investments including investments in non approved securities. It can be computed as Investment Deposit Ratio (%) = Total Investments/Total Deposits.
* **Cash Deposit Ratio:** It is the amount of money a bank should have available as a percentage of the total amount of money its customers have paid into the bank. This amount is calculated so that customers can be sure that they will be able to take their money out of the bank if they want to. It can be measured as Cash – Deposit Ratio = [Cash in hand + Balances with RBI]/Total Deposits.

**Management Efficiency Ratios.**

* **Net Interest Income / Total Funds:** Net interest does mean the difference between the revenue that is generated from a bank's assets and the expenses associated with paying out its liabilities, when it is divided by total funds, it is called as net interest income to total funds ratio. It explains about the total net margin as a percentage over the funds of the banks.
* **Interest Expended / Total Funds**: This ratio indicates about the percentage of total expenditure over the funds of the banks.
* **Operating Expense / Total funds:** It is expenditure incurs in carrying out an organization's day-to-day activities, but not directly associated with production/Total Funds.
* **Profit before Provisions / Total Funds:** It is the amount of income a bank or similar type of financial institution earns in a given time period, before taking into account funds set aside to provide for future bad debts and others over the Total Funds.
* **Net Profit / Total Funds:** Net Profit ratio reveals the overall profitability of the concern. Net Profit / Total Funds ratio establishes relationship between net profit after taxes and sales and Total Funds.
* **Loans Turnover:** Loan turnover ratio is all about the amount of sales, divided by the outstanding loans on the balance sheet. This could measure how much sales a company has to pay off its loans.
* **Total Income / Capital Employed:** Capital employed is the value of the assets that contribute to company's ability to generate revenue. Capital employed can be expressed as the total amount of capital that has been utilized for acquisition of profits. It also refers to the value of all assets (fixed as well as working capital) employed in a business.
* **Total Assets Turnover Ratio (TAT):** Total Assets Turnover Ratio reveals the relationship between the total assets of the business concern and sales. A high ratio indicates overtrading of assets and a low ratio reveals ideal capacity.

**LIMITATIONS OF THE STUDY**

The present study will focuses on a critical evaluation of financial performance of select private sector bank through financial, fiscal, Investment, Management efficiency and profitability ratios.

Though, the study is very comprehensive in nature, it is subjected to the following limitations, they are:

* The bank considered is HDFC from Private sector Bank as this is the leading bank.
* Co-operative banks and foreign banks are kept out of the study as they follow different set of guidelines given by RBI.

**SUGGESTIONS FOR FURTHER RESEARCH**

The study will pave the way for other researchers to conduct similar studies from any bank in any states and any countries to bring to analyze their financial performance.

**SCHEME FOR THE STUDY**

The chapterization of the thesis is proposed to be made, keeping in mind the objectives

* The first chapter shall be an introduction about financial analysis and tools with specific reference to banking sector. This chapter shall also present the research methodology including the review of literatures related to present study.
* The second chapter shall present the brief profile and milestones of HDFC Bank.
* The third chapter shall critically analyze the financial performance of HDFC Bank with the help of various bank ratios namely Investment and Valuation Ratios, Profitability Ratios, Profit and Loss Account Ratios, Debt Coverage Ratios and Management Efficiency Ratios
* The forth chapter shall give the major findings, conclusions, and suggestions of the present study.

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