A STUDY ON THE FINANCIAL PERFORMANCE OF HDFC BANK USING THE CAMEL APPROACH

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ABSTRACT

The HDFC bank is one of the top leading private sector banks in India. The main objective of this study is to analyze the financial performance of HFC Bank by using the CAMEL approach. This study covers the period of 5 years from the financial year 2020-2024. This study uses the CAMEL model as a tool to measure the financial performance of HDFC banks and evaluate parameters like Capital Adequacy, Asset Quality, Management Efficiency, Earnings, and Liquidity of the bank. Overall this bank had maintained CAMEL parameters as per regulatory requirements of RBI.

Keywords:

Finance, Camel Approach, Asset Quality, Earnings, Efficiency

1.1 INTRODUCTION

HDFC Bank, established in 1994, is one of India's leading private sector banks, known for its robust financial performance and strong customer base. The bank consistently demonstrates growth through a diversified portfolio of retail, corporate, and wholesale banking services. Its financial health is marked by steady growth in net interest income, high asset quality, and efficient cost management. HDFC Bank maintains a strong capital adequacy ratio, complying with Basel III norms, ensuring stability and reliability. The bank's profitability metrics, such as return on equity (ROE) and return on assets (ROA), consistently outperform industry benchmarks. Technology adoption and digital transformation have been key drivers of its operational efficiency. Prudent risk management practices have kept non-performing assets (NPAs) among the lowest in the industry. HDFC Bank's customer-centric approach and focus on innovation have strengthened its market position. Regular dividend pay outs highlight its commitment to shareholders, ensuring sustained investor confidence. Overall, HDFC Bank stands as a model of financial strength and operational excellence in India's banking sector.

1.2 STATEMENT OF THE PROBLEM

The Financial Performance plays a significant role in overall efficiency, and financial stability and contributes economic growth of the country. The HDFC bank is one of the top most leading private sector banks in India, representing its strong financial performance. However, with changes in regulatory requirements, competitive pressures, and economic challenges, assessing the financial health of the bank through a structured model is very essential. The CAMEL approach is a comprehensive framework to evaluate bank financial performance. Hence this study aims to analyze HDFC bank's financial performance using the CAMEL approach to identify strengths, weaknesses, and areas for improvement of the bank.

1.3 OBJECTIVES OF THE STUDY

- To analyze the financial performance of the HDFC Bank by using the CAMEL model.
- To evaluate six parameters of the CAMEL model for 5 years.

1.4 SCOPE OF THE STUDY

The study aims to analyze the financial performance of HDFC Bank over 5 years by using the CAMEL approach, ensuring a comprehensive evaluation of financial trends and changes in bank performance. This study provides valuable insights to the stakeholders, management, and regulators to make informed decisions in investment, managerial decisions, and regulatory requirements.

1.5 RESEARCH METHODOLOGY

This research is quantitative and it deals with secondary sources of data. The data are collected from the annual report of HDFC Bank for 5 years. For the sake of further investigation money control website was consulted. Before being used for the research, the data underwent certain basic mathematical processes for calculating ratios.

CAMEL RATING SYSTEM:

The CAMEL rating system is a bank rating system developed by the Federal Financial Examination Council (FFIEC) in the United States. Financial regulators use it to evaluate the overall financial health and performance of banks and other financial institutions. This system helps identify risks in the bank's operational areas. This system provides more complete financial health than a single ratio. The acronym CAMELS stands for six components which include:

C - Capital Adequacy, A - Asset Quality, M- Management Efficiency, E- Earnings, L – Liquidity and S- Sensitivity.

1.6 LIMITATIONS OF THE STUDY

- This study does not include public-sector banks.
- The study has been confined only to the period of 5 years.
- This study is based on secondary data.

2. LITERATURE REVIEW

i) **B. Lavanya, T. Srinivas (2018)** in their study a country's financial system depends upon the financial soundness of the banking industry, it is very much essential to measure it. The main objective of his study is to analyze the financial performance of select private sector banks and compare them using the CAMEL model. The CAMEL model helped to measure the performance of banks from each important parameter like Capital Adequacy, Asset Quality, Management Efficiency, Earnings Quality, and Liquidity. This study analyzes the financial performance of select private banks which includes, ICICI Bank, HDFC Bank, Kotak Mahindra, Axis Bank, and Yes Bank. " Performance analysis using CAMEL Model- a Study of Select Private banks".

ii) **Ms. M. Richitha, Dr. RS Ch Murthy Chodisetty** In their article Companies with a global presence are generally compelled to have a substantial impact on social concerns in each country where they operate. Failing to do so many results in massive financial losses due to government rules, environmental limitations, labor exploitation, and other related issues. An essential tool for evaluating financial institutions and banks and suggesting improvements where needed is the CAMEL model. Based on their total assets, this research takes into account ten different types of Indian banks: five public and five private banks. The five years from 2017-2022 are included in this research. The current research looks at how well-chosen banks have done financially. The CAMEL metrics were used to evaluate the bank and other financial institutions. Kotak Mahindra outperformed all other banks and came out on top, while Punjab National Bank came in last, according to the survey. All the things are considered, private banks have done better than their public sector counterparts. The purpose of the paper is to use the CAMEL model to recognize the presentation of Federal Bank Ltd.
"Analysis of bank performance using camel model- with special reference to federal bank ltd- empirical evidence".

3. PROFILE OF THE BANK

HDFC Bank Limited is an Indian banking and financial service company, headquartered in Mumbai. It is India's largest private sector bank by assets and the world's tenth-largest bank by market capitalization as of May 2024. As of April 2024, HDFC Bank has a market capitalization of $145 billion making it the third largest company on the Indian stock exchanges. It is also the sixteenth largest employer in India with over 173,000 employees, following its takeover of parent company Housing Development Finance Corporation.

PRODUCTS AND SERVICES

- Wholesale banking
- Retail banking
- Treasury
- Auto loans and Two- wheeler
- Personal loans
- Loan against the property
- Consumer durable loan
- Lifestyle loans and credit cards

4. ANALYSIS AND INTERPRETATION

i)   C - Capital Adequacy Ratio (CAR)

$$\text{Capital Adequacy Ratio} = \frac{\text{Tier 1+ Tier 2 Capital}}{\text{Risk-Weighted Assets}} \times 100$$

YEAR	TIER- 1 (%)	TIER-2 (%)	RISK-WEIGHTED ASSETS	CAR (%)
2020	17.23	1.29	1862658.57	18.53
2021	17.56	1.23	163182606.2	18.79
2022	17.87	1.03	192067437.8	18.90
2023	17.13	2.13	228763725.2	19.26
2024	16.79	2.01	339855659.84	18.80

(Source: Secondary data)

INTERPRETATION

As per RBI requirement, 12% indicates strong capital adequacy. The high capital adequacy signals to strong financial stability of the company. Thus, HDFC bank has consistently maintained a CAR as per regulatory norms of RBI, showing its strong capital base and ability to absorb risk, in all 5 years from (2020 to 2024) which is critical for the long-term stability of the bank in the financial institutions.

ii)   A - Asset Quality

$$\text{Asset Quality} = \frac{\text{Net NPA}}{\text{Net advance}} \times 100$$

YEAR	NPA	NET ADVANCE	NET NPA (%)
2020	3,542.36	993,702.88	0.35
2021	4,554.82	1132,836.63	0.40

2022	4,407.68	1368,820.93	0.32
2023	4,368.43	1600,585.90	0.27
2024	8091.74	2484,861.52	0.33

(Source: Secondary data)

INTERPRETATION:

From the above analysis, the bank has maintained excellent asset quality with Net NPAs below 0.5% consistently for 5 years. It reflects the strong credit management and effective provision of the bank.

i) M- Management Efficiency

$$\text{Management efficiency} = \frac{\text{Net Profit}}{\text{Number of Employees}}$$

YEAR	NET PROFIT	NUMBER OF EMPLOYEES	MANAGEMENT EFFICIENCY
2020	26,257.32	116971	0.224
2021	31,116.53	120093	0.259
2022	36,961.36	141579	0.261
2023	44,108.70	173222	0.254
2024	64,382.39	213527	0.301

(Source: Secondary data)

INTERPRETATION

The above analysis shows the management efficiency of the bank for the 5 years. This ratio measures the productivity of the bank employees and management. Thus, the bank has demonstrated improvement in employee productivity, effective cost management, and operational efficiency.

ii) E- Earnings

Return on Assets (ROA) = $\dfrac{\text{Net Profits Total Assets}}{\rule{3cm}{0.4pt}}$

X100

YEAR	NET PROFIT	TOTAL ASSETS	RETURN ON ASSETS (ROA) %
2020	26,257.32	1,530,511.26	1.715
2021	31,116.53	1,746,870.52	1.781
2022	36,961.36	2,068,535.05	1.786
2023	44,108.70	2,466,081.47	1.788
2024	64,382.39	3,617,623.09	1.779

(Source: Secondary data)

INTERPRETATION

This analysis shows the Earning capacity of the HDFC bank. As per RBI guidelines, the banks in India are expected to maintain a minimum ROA of 1%, and below 1% may be poor. The HDFC bank has maintained more than 1.5 % in all the 5 years (2020-2024). Thus, this bank indicated good profitability and asset management of the bank.

iii) L- Liquidity

Cash Deposit Ratio = $\dfrac{\text{Cash and Bank balance}}{\text{Total deposits}} \times 100$

YEAR	CASH & BANK BALANCE	TOTAL DEPOSITS	CASH DEPOSIT RATIO (%)
2020	86,618.72	1,147,502.29	7.548
2021	119470.4	1335.060.22	8.948
2022	152326.93	1559217.44	9.769
2023	193765.08	1883,394.65	10.288
2024	219147.42	2379786.28	9.208

(Source: Secondary data)

INTERPRETATION

In 1st the year 2020 shows a very low liquidity position of 7.548% and in the year 2021 to 2023, it shows a great improvement of the bank maintaining above 8%. In the year 5 (2024) the Cash Deposit Ratio for HDFC Bank is 9.20%, showing a slight decline of 1 % from the year 2023. The higher ratio indicates a better liquidity position for the bank. Thus. This bank has enough ability to meet our short-term obligations.

5. FINDINGS

I.   **Capital Adequacy:**

The HDFC bank has maintained a Capital Adequacy Ratio (CAR) of more than 12% as per regulatory requirements of RBI in the comparison of 5 years.

- 2020 - 18.53 %
- 2021- 18.79 %
- 2022- 18.90 %,
- 2023- 19.26%
- 2024- 18.80%.

This indicates the bank's strong financial soundness and ability to absorb risk effectively.

II. Asset Quality:

The bank's Net NPA Ratio showed a declining trend, reflecting improvement in credit risk management.

- 2020-0.35%
- 2021- 0.40%
- 2022-0.32%
- 2023-0.27%
- 2024-0.33%

The steady reduction in Net NPA to Advances indicates that these banks focus on maintaining healthy loan portfolios and minimizing default.

III. Management Efficiency:

Net profit per employee demonstrated consistent growth and enhanced productivity.
- 2020- 0.224
- 2021- 0.259
- 2022- 0.261
- 2023-0.254
- 2024- 0.301

The improvement reflects efficient operational management and cost optimization strategies.

IV.   Earnings:

The HDFC bank's Return on Assets (ROA) is more than 1.5 % showing stable and positive growth consistently for 5 years.

- 2020 - 1.715 %
- 2021- 1.781 %
- 2022 - 1.786 %
- 2023 - 1.788 %
- 2024 - 1.779 %

This indicates the HDFC bank's strong profitability and efficient utilization of assets.

V.   Liquidity

The Cash Deposit ratio remained stable, ensuring sufficient liquidity to meet our short-term obligations.
- 2020 - 7.548 %
- 2021- 8.94 %
- 2022- 9.769 %

- 2023- 10.28 %
- 2024- 9.208 %

6. CONCLUSION

HDFC Bank is one of the leading private-sector banks in India. This research outlines the several ratios that help in evaluating the financial performance of the banking industry. The rankings of HDFC banks are based on their scores on five criteria. Capital Adequacy, Asset Quality, Management Efficiency, Earnings and Liquidity. Overall, this bank's consistent performance across all the CAMEL parameters reaffirms its leadership, financial health, and growth in sustainability in competitive banking and financial institutions.

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