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An Analysis of Fund Management of HDFC Bank Limited, India

*** Dr. A. Joseph Xavier ** Ms. M. Kala Devi**
*Assistant Professor, **Ph.D. Scholar, Department of Commerce
Ayya Nadar Janaki Ammal College, Sivakasi, Tamil Nadu, India

Abstract

HDFC Bank is headquartered in Mumbai. As of September 30, 2014, the Bank's distribution network was at 3,600 branches in 2,272 cities. All branches are linked on an online real-time basis. The Bank also has a network of 11,515 ATMs across India. HDFC Bank's ATM network can be accessed by all domestic and international Visa / MasterCard, Visa Electron / Maestro, Plus / Cirrus and American Express Credit / Charge cardholders. The study examines the overall CAGR of working fund of HDFC bank was very high, it was 79 per cent during the study period and it indicated rapid growth of HDFC bank during the period of the study. At the same time the growth rate of total deposits of this bank increased the higher rate at 78.19 per cent than other components. The average annual growth rate of other liabilities increased at 67.49 per cent. The overall results of the study indicated that the growth of HDFC bank was rapid during the study period.

Key words: *HDFC- ATM- CAGR- annual growth- rate- domestic- international*

Introduction

The major customers in the private sector banks are individuals and corporate. When banks were nationalized under two tranches (in 1969 and in 1980), all banks were not included. Those non nationalized banks which continue operations even today are classified as Old Generation Private Sector Banks like. The Jammu and Kashmir Bank Ltd, The Federal Bank, The Laxmi Vilas Bank etc. In July 1993 on account of banking sector reforms the Reserve Bank of India allowed many new banks to start banking operations. Some of the leading banks which were given licenses are: UTI bank (presently called Axis Bank) ICICI Bank, HDFC Bank, KotakMahindra Bank, Yes Bank etc., These banks are recognized as New Generation Private Sector Banks. Tenbanks were licensed on the basis of guidelines issued in January 1993. The guidelines were revised in January2001 based on the experience gained from the functioning of these banks, and fresh applications were invited. Of the 10 licenses issued in 1993, four banks merged with other lenders over a period of time. Times Bankmerged with HDFC Bank, while Global Trust Bank was amalgamated with the state-owned Oriental Bank ofCommerce. Centurion Bank took over Bank of Punjab to become Centurion Bank of Punjab, which merged withHDFC Bank in 2008. On account of these new generation private sector banks, a new competitive environmentwas created in the Indian Banking System. These banks were having competitive advantages over their counterparts(of the existing old private banks, public sector banks) in their IT support system, innovative products, and pricingof their products. Private sector banks have been rapidly increasing their presence in the recent times andoffering a variety of newer services to the customers and posing a stiff competition to the group of public sectorbanks. Total private sector banks as on 31st March 2013 were 22. Besides these, four Local Area Banks are alsocategorized as private banks.(Tannan, 2008, Srivastava, 2009, Gupta, 2010 and Clifford Gomez, 2009).

HDFC Bank Limited

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 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

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Commercial Bank in January 1995 (www.hdfcbank.com).

Statement of the Problem

Banks are the important segment in IndianFinancial System. Efficient banking systemhelps the nation's economic development.Various categories of customers of the Societyuse the banks for their different requirements.Banks are financial intermediaries between thedepositors and the borrowers. Apart fromaccepting deposits and lending money, banksin today's changed global business environmentoffer many more value added services to theirclients. Hence the profitability and operational efficiencyof fund management is necessary for any banking company, it is crucial to understand the efficiency to understand fund management of a banking company to know its overall efficiency of HDFC bank limited. So the present study has attempted to study the fund management of HDFC bank limited with the following objective.

Review of Literature

The differences in the financial characteristics of public sector banks, private sector banks and foreign banks in India based on factors, such as profitability, liquidity, risk, and efficiency. The findings suggest that foreign banks and private sector banks were better performers, as compared to the public sector banks, in general and in terms of utilization of resources in particular during the period chosen for the study (Pal Ved and Malik N.S., 2007).
The study five new private sector banks were selected for a period of five years from 2004 to 2008. The study revealed that private sector banks are lagging on the major thrust areas such as asset qualities, business per employees", capital adequacy requirements and profitability. The study made suggestions to implement restructuring plan, reduce unnecessary expenses and provide quality products and services at reasonable prices (Swaty K. Thumar., 2009). The profitability of public sector commercial banks in India for a period from 1997 to 2006. The positive correlation between profitability and interest earned, interest paid, operating expenses and other income was the major outcome of the study. The study offered suggestions to collect overdues from the borrowers, to introduce new technology, to conduct awareness programmes among the rural poor the repay the loans, to concentrate on mobilizing current deposits, to take efforts to reduce the operating expenses and to introduce attractive and innovative schemes for the requirements of different clients (Selvakumar, M., 2009). The growth index value of various parameters through overall profitability indices. The data for 19 nationalized banks, for the post-reform period from 2002-03 to 2006-07, was used to calculate the index of spread ratios, burden ratios, and profitability ratios. They found that while four banks had excellent performance, five achieved good performance, four attained fair performance, and six had poor performance (Dangwal and Kapoor., 2010). The relationship between the performance of bank foreign subsidiaries and the degree of the implication of the present banks in the organization and the management of their activities abroad. The result were found that ownership means share of the capital held by the parent bank (HamandouBoubacar., 2011). The study makes use of Ratio Analysis and Spearman's Rank Correlation Test to compare Profitability and Productivity of different categories of banks. Ratio analysis is a powerful tool of Financial Analysis. In financial analysis, ratios are generally used as benchmarks for evaluating a firm's position or performance. The absolute values may not provide us meaningful values until and unless they are related to some other relevant information. Ratios represent the relationship between two or more variables. Ratios help to summarize large data to draw qualitative judgments about the organization's performance. Spearman's Rank Correlation is a technique used to test the direction and strength of the relationship between two variables. In other words, it is a device to show whether any one set of numbers has an effect on another set of numbers. It uses the statistic Rkwhich falls between -1 and +1 (SakshiJhamb and Bibhu Prasad., 2012). The study found that the overall CAGR of working fund of Axis bank was very high, it was 31 per cent during the study period and it indicated rapid growth of Axis bank during the period of the study. The study also

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found that the overall results of the study indicated that the growth of Axis bank was rapid during the study period (Santhanakannan., 2013). Top Indian banks are maintaining adequate level of CRAR. It has been found out that ICICI bank has maintained highest level of CAR followed by HDFC and Axis bank while Bank of India has the lowest. This made us conclude that private sector banks are in good position as compare to public banks in maintaining higher capital adequacy ratio. On an average basis all the banks have CAR between 12.22% to 18.35%, which is an indicator that even implementation of Basel III norms will not pose much difficulty for Indian banks at least initially. Financial crisis in the world has increased the importance of capital adequacy requirements. In India, the impact of financial crises was low due to strong capital structure regulatory environment (Nikhat Fatima., 2014).The banks play an important role in the socio-economic development of Indian economy. Banking system in the country has undergone a lot of changes as competition has intensified with the entry of large number of private banks and foreign banks. Operational efficiency is the ability for an organization to execute its tactical plans while maintaining a healthy balance between cost and productivity. The objectives of this study are to classify the commercial banks in India on the basis of their Ownership as a guide line for future development, and to assess their operational efficiency. It has been argued since long time that private ownership of firms leads to better firm performance, since private ownership leads to better intra-firm allocation of resources. The results of this study imply that it might be necessary for a bank management to take all the required decisions to enhance the financial positions of the bank (Shruti., 2014). The key drivers of profits at India's largest public and private sector banks. Bank specific metrics and risk factors were important drivers of profits at both banks. Productivity measures were key drivers of profits at India's largest public sector bank SBI but had no effect on profits at India's largest private sector bank, HDFC bank. Asset usage efficiency measures were key determinants of profitability at HDFC bank but not at SBI. The single most important determinant of SBI proved to be business per employee, a productivity measure while advances and bank size which are traditional bank metrics were key drivers of profits at HDFC bank. Managers at both banks and their shareholders thus can look at these drivers to develop a broad understanding of profitability at the two banks (RajveerRawlin., 2014).

Objective of the study

1. To know the trend percentage of working fund of HDFC Bank Limited.
2. To study the fund management of HDFC bank.

Sample and Period of the Study

The study has chosen HDFC bank as sample for the study covers a period of eleven years from 2004 to 2014.

Methodology

The study is purely based on secondary data. The data required for the present study are collected from Annual Reports of HDFC, Standard Books, Journal and Websites.

Results and Discussion

The study has analysed the working fund and its components of HDFC bank in the following section. The components of working fund has been classified in to four, such as own fund, deposits, borrowings and other liabilities. It calculated the trend percentage of total working fund, percentage com-position of each component on the total working fund, meanvalue, standard deviation, skewness and Compound Annual Growth Rate (CAGR) for each component andtotal working fund. They are presented in the following table.

TABLE 1
WORKING FUND AND ITS COMPONENTS OF HDFG BANK LIMITED
(Rs. in lakhs)

Year	Own Fund	% on WF	Total Deposits	% on WF	Total Borrowings	% on WF	Other Liabilities	% on WF	WF	% Trend
2004	73479	2.07	3040886	85.53	230782	6.49	210030	5.91	3555177	8.32
2005	75988	1.69	3635425	81.02	479001	10.68	296572	6.61	4486986	9.60
2006	76314	1.21	5579682	88.33	185848	2.94	474711	7.52	6316555	12.44
2007	76939	1.01	6826427	89.46	281539	3.69	445969	5.84	7630874	13.92
2008	90443	0.80	10063138	88.62	447886	3.94	754390	6.64	11355857	19.30
2009	97538	0.60	14271157	88.32	916362	5.67	873857	5.41	16158914	25.70
2010	100774	0.52	16750342	86.92	1291569	6.70	1129256	5.86	19271941	28.81
2011	101522	0.42	20828720	85.65	1465043	6.02	1923188	7.91	24318473	34.28
2012	101933	0.34	24653956	82.48	2633415	8.81	2501188	8.37	29890492	39.87
2013	102588	0.29	29609176	82.84	3949661	11.05	2083002	5.83	35744427	45.25
2014	102981	0.23	36708032	81.81	4959671	11.05	3096503	6.90	44867187	54.04
Total	**1000499**		**171966941**		**16840777**		**13788666**		**203596993**	
Mean	**90954.45**		**15724313.56**		**1530980**		**1253515**		**18508808**	
SD	**12031.66**		**10715825.7**		**1555093**		**942037.3**		**13141184**	
Skewness	**-0.45808**		**0.634276462**		**1.310858**		**0.74522**		**0.724741**	
CAGR	**39.12**		**78.19**		**72.83**		**67.49**		**79.34**	

Source: *Calculated from annual reports of HDFC*
Note: *WF –* ***Note:*** *Working Fund*

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From Table 1 it was seen that working fund was in increasingtrend over the study period. It was Rs.35,55,177 lakh in 2004 it went to Rs.44,867,187lakh in 2014. Its trendpercentage shows the substantial growth of working fund of HDFC bank, it was 12.44 per cent in 2006, it reached 28.81 per cent during 2010, it went up 34.28per cent in 2011 and it reached 54.04 per cent at the end of 2014. It had highrate of increase in the year from the year 2014. The meanvalue of working fund stood at Rs.18,508,808lakh. The standarddeviation of working fund was Rs.13, 1,41,181 lakh. Skewness of variation of working fund of HDFC bank was 72 per cent; it showed that working fund of HDFC bank was widely varied overthe study period. The CAGR of working fund stood at 79.34 per cent for the study period of eleven years, it showed very high rateof increase in working fund over the study period.

Table 1 also found that deposits were the major component of working fund. It ranged from 82 per cent to 86 per cent ontotal working fund, during the beginning of the study period deposits was more than 85 per cent on total working fund, butlatter its proportion declined slightly, it went below 81 per cent of the total working fund. The proportion of deposits on totalworking capital was very high in the year 2007 at 89 per cent. It was happened because of increase in the proportionof own fund and borrowings of the total working fund. The mean value of total deposits stood at Rs.15,7 24,313.56 lakh withthe standard deviation of Rs.10, 715,825.70 lakh. Its skewness was 63 per cent, it was very high, it showed widevariation of total deposits during the study period. The CAGR of total deposits was 78.19 per cent during the study period, thehigh rate CAGR showed sharp increase of total deposits during the study period.

When own fund was concerned, its proportion on total working fund ranged from 2.07 per cent to 0.23 per cent. The proportionof own fund was high in the year 2004 at 2.07 percent and it was low in the year 2014 at 0.23 per cent. Theproportion of own fund on total working fund was below 5 per cent in all the year of the study period, it showed the bankdid not depend more on own fund. The figures showed thatover the study period HDFC bank increased their own fund. The amount of own fund was Rs.7,34,79 lakh during 2004 itwent to Rs.1,02,981lakh in 2014.The mean value of own fund stood at Rs.90,954.45lakh with the standard deviation of Rs.12031.66lakh. The skewness of own fund stood at 46 per cent over the studyperiod, it was near to 50per cent it showed very low variationin own fund during the study period. High rate of CAGR (39.12 per cent) showed substantial growth of share capital andreserves and surpluses of HDFC bank.

The proportion of total borrowings of ranged from 6.49 per cent to 11.05 per cent. The proportion of total borrowings on workingfund was very high during the year 2014 at 11.05 per centand it was very low in the year 2004 at 2.94 per cent. Thefigures showed that in the beginning of the study period theproportion of total borrowings was high but latter the bankstarted to increase its borrowings level. The amount of total borrowingswas Rs.2,30,782lakh in 2004 it went up to Rs.49,59,671 lakh in 2014, it revealed that the bank increased its borrowingslevel substantially over the study period. The meanvalue of total borrowings stood at Rs.15,30,980 lakh and itsstandard deviation was Rs.15,550,93 lakh, it was more than its mean value. The skewness was 131 per cent,it was more than 100 per cent it showed very wide variationin total borrowings of the bank. It means it often changed itsborrowings policies. Very high CAGR of total borrowings (72.83 per cent) showed rapid growth of total borrowings during thestudy period.

The proportion of other liabilities on total working fund ranged from 5 per cent to 8 per cent. It was high in the year 2012 at 8.37 per cent and it was low in the year 2009 at 5.41 percent. The results showed major fluctuations in other liabilities of HDFC bank. It increased 8 times during the study period, itwas Rs.21,00,30 lakh in the year 2004 and it increasedto 30,96,503 lakh during 2014. The mean value of other liabilities stood at Rs.12,53,515 lakh with standard deviation of Rs.94,20,37.30 lakh. Its skewness was 74 percent, compared to other components of working fund it wasvery low even though in general it is high, it showed that other liabilities of HDFC bank widely varied.

Conclusion

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The study revealed that the overall CAGR of working fund of HDFC bank was very high, it was 79.34 per cent during the studyperiod and it indicated rapid growth of HDFC bank during theperiod of the study. At the same time the growth rate of total deposits of this bank increased the higher rate at 78.19 percent than other components. The average annual growth rateof other liabilities increased at 67.49 per cent. The overall results of thestudy foundthat the growth of HDFC bank was rapid duringthe study period.

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