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# JUNI KHYAT जूनी ख्यात

इतिहास, कला एवं संस्कृति की शोध पत्रिका

A Peer-Reviewed and Listed in UGC Care List



JUNI KHYAT

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(सामाजिक विज्ञान; कला एवं संस्कृति की शोध पत्रिका)

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डॉ. वी. एल. भादानी

प्रोफेसर

प्रबंध संपादक

श्याम महर्षि



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श्याम महर्षि

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डॉ. बी.एल. भादानी

रांगड़ी चौक, बीकानेर 334001(राज.)

editor.junikhyat@gmail.com

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**A COMPARATIVE STUDY ON FINANCIAL PERFORMANCE OF HDFC BANK AND  
AXIS BANK USING COMMON SIZE STATEMENT ANALYSIS.**

**Dr. Amarish Padma**, Assistant Professor, PCET's S. B. Patil Institute of Management, Pune,  
Maharashtra

**Dr. Hansraj Thorat**, Head Research, Suryadatta Group of Institute, Pune, Maharashtra

**ABSTRACT:**

The financial analysis is the process of identifying the financial strength and weakness of the firm establishing relationship between the items of balance sheet and the profit and loss account. The study has undertaken of HDFC Bank and Axis Bank Limited with a view to have an insight in the financial performance of the banks. In the present study efforts have been taken to determine the financial condition and performance of the firm using Common Size Statement Analysis. The present study has thrown major concentration in common size statements of last five years of the banks.

**Key words:** Financial analysis, Common size statement, Banks, Financial Performance

**INTRODUCTION:**

Common size analysis, also referred as vertical analysis, is a tool that financial managers use to analyze financial statements. It evaluates financial statements by expressing each line item as a percentage of the base amount for that period. The analysis helps to understand the impact of each item in the financial statement and its contribution to the resulting figure.

Common Size Statements: These are the statements which indicate the relationship of different items of a financial statement with a common item by expressing each item as a percentage of that common item. The percentage thus calculated can be easily compared with the results of corresponding percentages of the previous year or of some other firms, as the numbers are brought to common base. Such statements also allow an analyst to compare the operating and financing characteristics of two companies of different sizes in the same industry. Thus, common size statements are useful, both, in intra-firm comparisons over different years and also in making inter-firm comparisons for the same year or for several years. This analysis is also known as 'Vertical analysis'.

**PROBLEM STATEMENT:**

It is difficult to analyze the banks of different sizes and varying sales figure. Common size financial statements help to analyze and compare a company's performance over several periods with varying sales figures. The common size percentages can be subsequently compared to those of competitors to determine how the company is performing relative to the industry.

**OBJECTIVES OF THE STUDY:**

1. To study and analyze the financial statements of HDFC Bank and Axis Bank
2. To study and compare the financial performance of HDFC Bank and Axis Bank
3. To analyze changes in individual items of financial statements during a given period

**REVIEW OF LITERATURE:**

New evidence on measuring financial constraints: Moving beyond the KZ index, Hadlock, C. J., & Pierce, J. R. (2010). The Review of Financial Studies, 23(5), 1909-1940. The authors collect a random sample of companies from 1995-2004 and obtain complete qualitative data from financial filings in order to classify financial constraints. With the help of this categorization, they assess ordered Logit approaches anticipating constraints as a function of various quantitative factors. The results are doubtful about the KZ index validity as a financial constraint measure when they present mixed evidence on other common constraint measures validity. The findings are that age and firm size are specifically useful predictors of levels of financial constraints. Finally, the authors present a financial constraints measure solely on the basis of these features of a firm.

Have financial statements lost their relevance?, Francis, J., & Schipper, K. (1999). *Journal of Accounting Research*, 37(2), 319-352. This research investigates the Kuwait issue of a frontier market. The authors use the price regression model. They collect 2490 samples from all firms listed on the KSE (Kuwait Stock Exchange) for twenty-one years. The findings are that the decrease in the value relevance of earnings is more pronounced and deeper as compared to the book value. The findings are useful for the regulators since they provide an estimate of the effectiveness of the recent financial reporting environment. It focuses on the need for improvements as high-quality data assists equity holders to calculate value more precisely. This paper contributes to the research related to capital market changes in the value relevance of financial statement data by a statistical examination of a frontier capital market.

Effects of comprehensive-income characteristics on nonprofessional investors' judgments: The role of financial-statement presentation format, Maines, L. A., & McDaniel, L. S. (2000). The SFAS (Statement of Financial Accounting Standards) number 130 requires firms to report whole income in a basic financial statement, but the presentation can be in the form of a comprehensive income statement or stockholders equity statement. The authors evaluate the effects of alternative formats of presentation on the processing of comprehensive income data of the nonprofessional investors, particularly, data disclosing the unrealized gains volatility on marketable securities available for sale. The findings are that the judgement of nonprofessional investors about the performance of management and corporate depict the comprehensive income volatility only when they present it in a comprehensive income statement. So, the formats affect the way, the nonprofessional investors weight their comprehensive income data.

Auditfirm tenure and the quality of financial reports, Johnson, V. E., Khurana, I. K., & Reynolds, J. K. (2002). This paper evaluates, for how long the relationship between an audit firm and a company exist with the quality of financial reporting. The authors use 2 proxies for quality of financial reporting and a Big six clients sample matched on size and industry. They find audit-firm tenures of 4 to 8 years as medium and 2 to 3 years as short tenures related to financial reports of low quality. They do not find any evidence of decreases quality of financial reporting for long-term audit firm tenures of 9 or more years. On the whole, the results show empirical evidence relevant to the recurring discussion which relies on isolated cases and anecdotal evidence.

#### ***TYPES OF COMMON SIZE ANALYSIS:***

Common size analysis can be conducted in two ways, i.e., vertical analysis and horizontal analysis. Vertical analysis refers to the analysis of specific line items in relation to a base item within the same financial period. For example, in the balance sheet, we can assess the proportion of inventory by dividing the inventory line using total assets as the base item.

On the other hand, horizontal analysis refers to the analysis of specific line items and comparing them to a similar line item in the previous or subsequent financial period. Although common size analysis is not as detailed as trend analysis using ratios, it does provide a simple way for financial managers to analyze financial statements.

#### ***Balance Sheet Common Size Analysis***

The balance sheet common size analysis mostly uses the total assets value as the base value. On the balance sheet, the total assets value equals the value of total liabilities and shareholders' equity. A financial manager or investor uses the common size analysis to see how a firm's capital structure compares to rivals. They can make important observations by analyzing specific line items in relation to the total assets.

For example, if the value of long-term debts in relation to the total assets value is too high, it shows that the company's debt levels are too high. Similarly, looking at the retained earnings in relation to the total assets as the base value can reveal how much of the annual profits are retained on the balance sheet.

#### ***Income Statement Common Size Analysis***

The base item in the income statement is usually the total sales or total revenues. Common size analysis is used to calculate net profit margin, as well as gross and operating margins. The ratios tell

investors and finance managers how the company is doing in terms of revenues, and they can make predictions of future revenues. Companies can also use this tool to analyze competitors to know the proportion of revenues that goes to advertising, research and development, and other essential expenses.

**SCOPE OF STUDY:**

The study shows financial position of the two selected private banks. The scope is limited to two banks HDFC and Axis bank and study is only about Financial Statements i.e. Profit and Loss account and Balance Sheet of last five years.

**RESEARCH METHODOLOGY:**

*Type of Research* – Descriptive Research

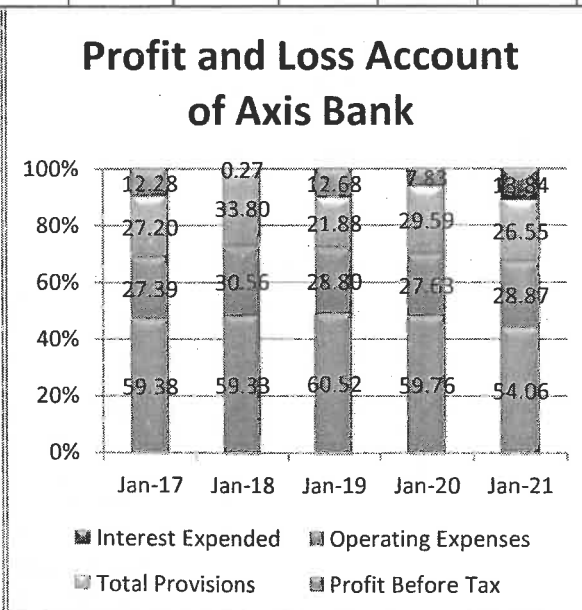
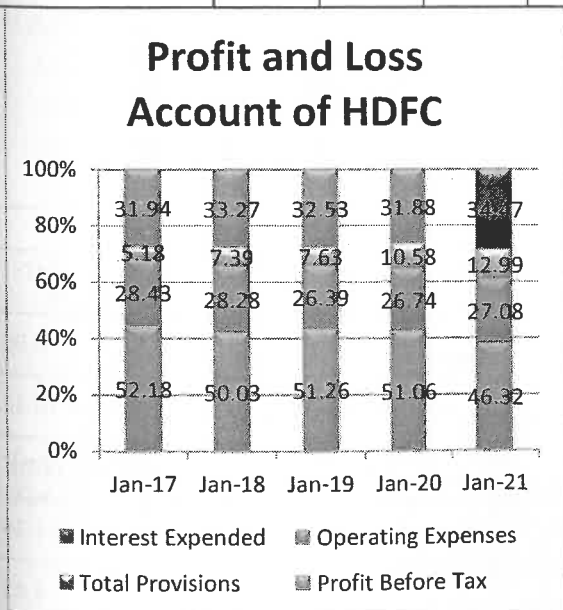
*Sources of Data* – The study is based on secondary data. Information required for the study has been collected from the Annual Reports of HDFC Bank and Axis Bank.

*Period of Study:* - The study covers a period of 5 years from 2017 to 2021 is taken for the study.

**ANALYSIS AND INTERPRETATION OF DATA:**

Profit & Loss (All Figures in Percentage): -

PARTICULARS	HDFC					Axis				
	Mar-17	Mar-18	Mar-19	Mar-20	Mar-21	Mar-17	Mar-18	Mar-19	Mar-20	Mar-21
Interest Earned	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
Other Income	17.74	18.97	17.81	20.26	20.85	26.25	23.96	23.88	24.80	23.31
Interest Expended	52.18	50.03	51.26	51.06	46.32	59.38	59.33	60.52	59.76	54.06
Operating Expenses	28.43	28.28	26.39	26.74	27.08	27.39	30.56	28.80	27.63	28.87
Total Provisions	5.18	7.39	7.63	10.58	12.99	27.20	33.80	21.88	29.59	26.55
Profit Before Tax	31.94	33.27	32.53	31.88	34.47	12.28	0.27	12.68	7.83	13.84
Taxes	10.95	11.48	11.24	9.01	8.72	4.01	-0.34	4.18	5.23	3.48
Net Profit	20.99	21.79	21.30	22.87	25.75	8.26	0.60	8.51	2.60	10.35



**Interpretation: -**

**Interest Earned:** - Interest earned is considered as base of 100%

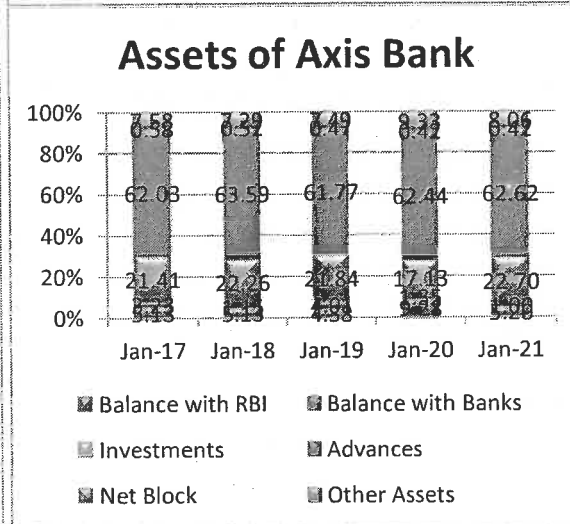
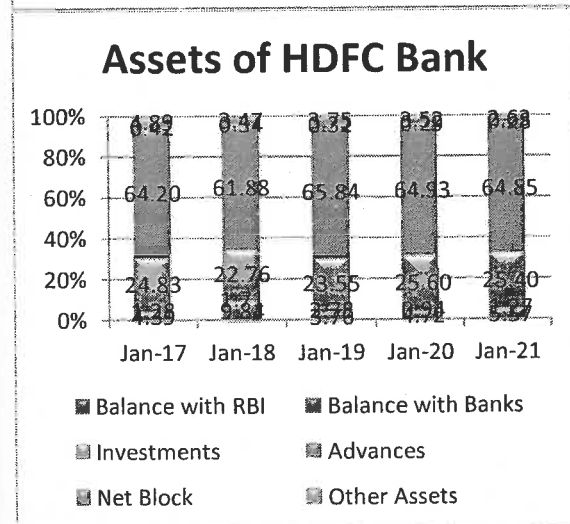
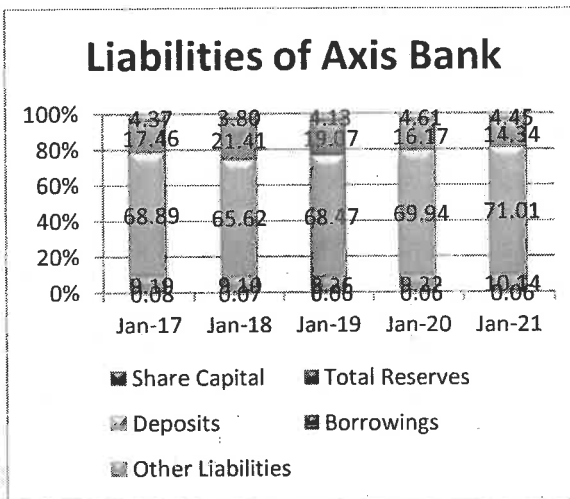
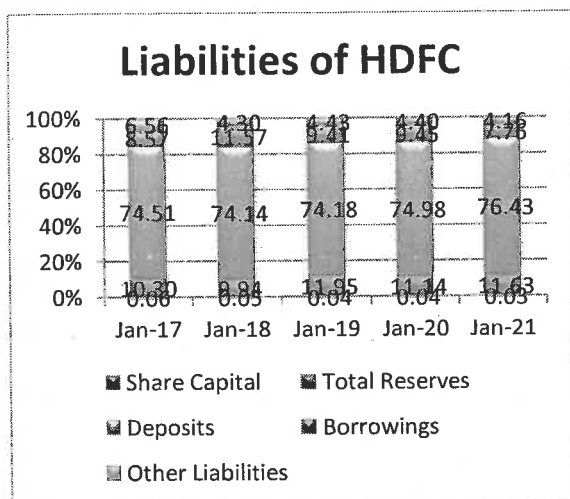
1. *Interest Earned*: - It is the revenue earned by the bank from its core lending activity over a financial year, which is income earned on core operations.
2. *Other Income*: - It refers to the type of income that is not related to core-operations of an entity. More the other income means more efficient in non-core banking activity.
  - a. HDFC has shown increasing trend in other income from FY 2017 is 17.74% to 20.85% in year 2021
  - b. Axis Bank – It has other income reduced from 26.25% in 2017 to 23.31% in 2021 which still more than HDFC.
3. *Interest Expended*: - It is the amount paid on deposits accepted by the bank over financial year. This should be less in proportion to interest earned shows how efficiently you are managing the loans.
  - a. HDFC – Interest expended is reduced from 52.18% in 2017 to 46.32% in 2021 of Interest earned means approximately only near to half amount is paid as interest.
  - b. Axis Bank - Interest expended is reduced from 59.38% in 2017 to 54.06% in 2021 of Interest earned. But which is still more than HDFC Bank.
4. *Operating Expenses*: - It is non-interest expenses of the banks like salaries, rents, taxes, amortization etc. over financial year
  - a. HDFC and Axis Bank– Operating expenses of Axis bank slightly higher of 28.87% of interest earned in 2021 as compared to HDFC which is 2708% of interest earned in 2021. HDFC is slightly more efficient compared to Axis Bank.
5. *Total Provisions*: - It includes provisions for unrecoverable assets over financial year. It shows the lending habit. Higher the provisions, poor the lending habit of bank.
  - a. For HDFC, it is not good sign as provisions is goes on increasing from 5.18% to 12.99% but compared to Axis, it is in better position where Axis has to keep approx.. 27% as provisions and shows poor lending habit this has affected their Net profit.
6. *Profit before tax*: - It is the total profit after accounting for operating and non-operating expenses but before paying corporate tax.
7. *Taxes*: - The amount of income taxes paid or payable on net earnings of the business
8. *Net Profit*: - It is the final profit left over after subtracting all operating and non-operating items from revenues.
  - a. HDFC – Net profit shown increasing trend and increased to 25.75% in 2021 which is good sign.
  - b. Axis shows fluctuating profit and reached to 10.35% in 2021.

### BALANCE SHEET ANALYSIS:

Balance Sheet (All Figures %)

Equity and Liabilities	HDFC					Axis				
	Mar-17	Mar-18	Mar-19	Mar-20	Mar-21	Mar-17	Mar-18	Mar-19	Mar-20	Mar-21
Share Capital	0.06	0.05	0.04	0.04	0.03	0.08	0.07	0.06	0.06	0.06
Total Reserves	10.30	9.94	11.95	11.14	11.63	9.19	9.10	8.26	9.22	10.14
Deposits	74.51	74.14	74.18	74.98	76.43	68.89	65.62	68.47	69.94	71.01
Borrowings	8.57	11.57	9.41	9.45	7.76	17.46	21.41	19.07	16.17	14.34
Other Liabilities	6.56	4.30	4.43	4.40	4.16	4.37	3.80	4.13	4.61	4.45
Total Liabilities	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
Assets	Mar-	Mar-	Mar-	Mar-	Mar-	Mar-	Mar-	Mar-	Mar-	Mar-

	17	18	19	20	21	17	18	19	20	21
Balance with RBI	4.39	9.84	3.76	4.72	5.57	5.13	5.13	4.38	9.28	5.20
Balance with Banks	1.28	1.71	2.78	0.94	1.27	3.23	1.15	4.01	1.35	1.00
Investments	24.83	22.76	23.55	25.60	25.40	21.41	22.26	21.84	17.13	22.70
Advances	64.20	61.88	65.84	64.93	64.85	62.03	63.59	61.77	62.44	62.62
Net Block	0.42	0.34	0.32	0.29	0.28	0.58	0.52	0.47	0.42	0.42
Other Assets	4.89	3.47	3.75	3.52	2.63	7.58	7.29	7.49	9.33	8.06
Total Assets	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00



**Interpretation: -**

**Total Liabilities and Total Assets:** It is considered as base for calculation.

1. **Total Liabilities:** It is the sum of sources from Share Capital, Total Reserves, Deposits, Borrowings and other liabilities. Maximum source of funds should be from depositors as it is very cheap source and need to pay very low cost from the source.
2. **Share Capital:** - It is the part of the capital that have been obtained by issue of shares (common shares and preference shares)

3. *Total Reserves*: - It is a certain portion of profits retained in the business to meet future contingencies and growth prospects etc.
  4. *Deposits*: - It includes sum of all money deposited into savings, fixed deposits, term deposits etc. cheaper source of funds.
    - a. HDFC- Maximus source of funds is 76.43% in 2021 from depositors good in attracting depositors.
    - b. Axis Bank – Maximum source of funds is 71.01% in 2021 from depositors which is good sign but still less as compared to HDFC Bank.
  5. *Borrowings*: - It includes money taken from central bank or interbank bank loans.
    - a. Axis has more borrowings from banks 14.34% as compared to HDFC of 7.76% in 2021
  6. *Other Liabilities*: - It is the amount that is kept aside in your accounts to cover a future liability. Other liabilities are all miscellaneous obligations that a company lumps together on financial statements
    - a. Axis bank and HDFC bank has almost same amount of source from other liabilities with approx. 4%
  7. *Total Liabilities*: - It is the combined debts that a company owes to stakeholders and others.
- Assets:-** Almost similar in all aspects except Investments and Deposits.
8. *Balance with RBI*: - It is the short term asset for a bank in terms of cash kept with RBI
  9. *Balance with Banks*: - It is the short term loan that a bank gives to earn interest on the surplus balance
  10. *Investments*: - All investments made by the bank. Mostly it comprises of government securities, treasuries and bonds.
    - a. HDFC has more investments of 25.40% as compared to Axis of 22.70% of total assets.
  11. *Advances*:- The total of advance of a specified sum of money to individual or business by a bank
  12. *Net block*: - It is the sum of total of all the assets valued at the cost of acquisition (gross block) less accumulated depreciation on assets.
  13. *Other Assets*: - The sum of other assets apart from loans and investments
  14. *Total Assets*: - Assets are anything that a business owns, has value and can be converted into cash. It includes all the current and non-current assets that a company owns.

### CONCLUSIONS:

In core banking – HDFC is good compared to Axis banks. Where the interest expended is less than Axis bank, which shows they don't pay higher interest to attract depositors. In Non-core banking – Axis is good in income from other sources. Interest expended is higher in Axis banks, means paying higher interest rates to attract the depositors. Overall HDFC is more efficient in lending habits and able to earn more profits than Axis Bank.

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