PERFORMANCE ANALYSIS OF HDFC BANK THROUGH CAMEL MODEL ANALYSIS

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ABSTRACT:

This paper examines HDFC Bank's financial performance over the past five years using the CAMEL model. Analysis of capital adequacy, asset quality, management efficiency, earnings, and liquidity reveals that while the bank maintains strong capital and liquidity, slight declines in profitability and asset quality indicate areas for improvement. Utilizing secondary data from 2019-2024, the study provides insights into risk management and operational efficiency, offering recommendations to sustain competitive advantage in an increasingly volatile financial environment.

Keywords: Camel model, financial performance, improvement, competitive advantage.

INTRODUCTION:

The banking sector plays an important role in the financial system of a country. The overall development of a country's economy Depends on the performance of the overall banking system.

Since the global financial 2008, private banks have seen an improvement in its profitability and overall performance HDFC bank is one such leading private banks in India with a market Cap of ₹13.36 lakh crore as an October 2024. It is the third largest company in India's stock Exchange. CAMEL model is a ranking system introduced first in the U.S in 1970s. RBI adopted this approach in 1996. This is used to examine the bank's performance with parameters like capital adequacy, asset quality, management, earnings and liquidity.

REVIEW OF LITERATURE:

1. Dr. Lalitha BS and Ms. Sunaina (2023) have studied various ratios to analyze the overall performance of banks using CAMEL model. It can be concluded that both the banks were maintaining the required standards and running profitability. HDFC bank was found to be a better performer than SBI
2. Vinod Kumar and Bhawna Malhotra (2017) examined and compared the performance of selected private sector banks {HDFC bank, ICICI bank, Kotak Mahindra Axis Bank and IndusInd bank} from 2006-7 to the year 2016-17 and have concluded that Asis bank was strong comparing to others, where IndusInd was weak.

SCOPE OF THE STUDY :

The scope of this research encompasses a detailed analysis of HDFC bank's financial performance, over a five-year period using the CAMEL model. The study focuses on the following aspects 1. Capital adequacy: Examining capital strength to determine its ability to absorb potential losses and maintain stability. 2. Asset quality: Evaluation of the quality of the bank's assets including its loan portfolio to assess risk levels. 3. Management efficiency: Assessing the efficiency and effectiveness of HDFC banks management in terms of cost control, resource allocation and strategic decision making.4. Earnings capability: HDFC bank's profitability, analyzing revenue generating ability and sustainability of earnings.
5. Liquidity position: Reviewing the bank's liquidity levels to determine its capacity to meet short-term obligations and maintain operational stability. This study provides insights for various stakeholders, including management, investors and policymakers by highlighting areas of strength and potential

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improvement. The CAMEL analysis will also help in benchmarking HDFC bank's performance against industry standards. Informed decision making and contributing to Strategic planning in a competitive financial sector. To interpret the financial position of the bank.

STATEMENT OF PROBLEM :

The rapid growth and evolving grounds in the Indian private banking sector have highlighted the need for comprehensive evaluation frameworks to measure bank performance and stability, despite HDFC bank's significant market position and financial strength, there exist a requirement to assess the bank's profitability, liquidity and it's changing economic conditions. HDFC bank is the leading, private bank in India as per the market capital in the recent times. This research aims to utilize the CAMEL model to systematically analyze and evaluate HDFC bank's financial performance by examining its capital adequacy, asset quality, management effectiveness, earnings capability and liquidity over a period of five years this analyze identify areas of strength, weakness and potential improvement with the bank's operations thus providing valuable insights, for stakeholders, enhancing decision making and sustainable growth strategies in a dynamic financial environment.

OBJECTIVE OF THE STUDY :

1. To assess the current situation of asset quality for any possibility of future deterioration.
2. To examine the productivity, efficiency and effectiveness of the bank's resources.
3. To analyse HDFC bank's performance by using CAMEL approach.
4. To analyse the bank's capital adequacy ratio to ensure whether it meets its respective norms.

RESEARCH METHODOLOGY:

The CAMEL approach will be used to examine the financial strength of HDFC bank in terms of the factors like Capital adequacy, Quality of assets, Management quality, Earnings or revenue, liquidity and market sensitivity. HDFC bank is being opted for study as it is the top private sector bank according to its market capitalization BSE and NSE.

DATA COLLECTION: This study is based on the secondary data collected from the bank's website, audited financial statements and other related websites for a time period of 5years i.e. from the year 2019-20 to the year 2023-24.

DATA ANALYSIS:

In this section the data will be analyzed using the CAMEL model. Some of the indicators are necessary to be used to analyze the data. They are:

- Capital adequacy
- Asset quality
- Management
- Earnings
- Liquidity

LIMITATIONS OF THE STUDY:

1. The study uses secondary data, which might not be fully accurate or up to date.
2. The five-year period may not show long-term changes or other important factors.

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ANALYSIS AND INTERPRETATION :

CAPITAL ADEQUACY

The bank's capacity to fulfill its unforeseen expenditure or losses by absorbing its necessary capital is determined under capital adequacy by using certain ratios. Capital adequacy ratio is one such ratio calculated here

Capital adequacy ratio	$\frac{Tier\ 1\ capital + Tier\ 2\ capital}{Risk\ weighted\ assets}$	It is a measure of the bank's core capital. Generally higher the better

(Rs. Thousands)

YEAR	CAPITAL ADEQUECY RATIO	TOTAL CAPITAL	RISK WEIGHTED ASSETS
2019-20	18.52%	1,84,257.85	9,94,715.74
2020-21	18.79%	2,12,546.3	11,31,143.88
2021-22	18.90%	2,55,734.5	13,53,510.85
2022-23	19.26%	3,05,564.85	15,86,634.96
2023-24	18.80%	4,64,002.82	24,68,028.06

INTERPRETATION

The bank has demonstrated strong capital adequacy throughout the period, ensuring financial stability. However, the rise in RWA in 2023-24 has led to a slight decline in CAR, signalling the need for cautious risk management to maintain long-term financial resilience.

ASSET QUALITY :

The quality of the assets are needed to be analysed to determine their financial strength by assessing the risk factors of the bank's investments as these risks may affect the capital earnings capacity. Factors like loan concentration, credit risk, and provisioning for bad debts are analyzed to determine the institution's ability to withstand economic fluctuations. A strong asset quality rating indicates a healthy and well-managed bank with minimal credit risk exposure.

Gross NPA ratio	$\frac{Gross\ NPA}{Total\ advances}$	Lower the ratio indicates better efficiency of the bank's credit

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(Rs. Thousands)

YEAR	GROSS NPA RATIO	GROSS NPA	TOTAL ADVANCES
2019-20	1.27%	12,649.97	9,90,167.42
2020-21	1.33%	15,086	11,28,309.31
2021-22	1.18%	16,140.96	13,64,413.25
2022-23	1.12%	18,019.03	15,96,217.76
2023-24	1.25%	31,173.32	24,76,770.96

INTERPRETATION
The bank maintained a Gross NPA Ratio below 1.5%, indicating a healthy asset quality with controlled credit risk. The increase in Total Advances over the years suggests loan book expansion, but the rise in NPAs (2023-24) signals potential credit stress.

MANAGERIAL EFFICIENCY:
Management efficiency is used in evaluating a bank's leadership effectiveness, strategic decision-making and efficient resource allocation. It helps the banks sustainable growth.

Profit per employee ratio	$\frac{Net\ profit}{Average\ no\ of\ employees}$	It shows how efficiently the bank utilizes its employees. Hence the higher the ratio is better

(Rs. Thousands)

YEAR	PROFIT PER EMPLOYEE	NET PROFIT	AVG NO OF EMPLOYEES
2019-2020	2,453	26,25,73,150	107
2020-2021	2,636	31,11,65,252	118
2021-2022	2,825	36,96,13,552	130
2022-2023	2,802	44,10,87,014	157
2023-2024	3,144	60,81,22,785	193

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INTERPRETATION

The upward trend in Profit per Employee Ratio reflects strong management efficiency and workforce productivity. Increasing profitability with a growing workforce shows that the bank is expanding while maintaining operational efficiency.

EARNINGS:

It measures a bank's profitability and ability to generate sustainable income. Strong earnings ensure a bank can absorb losses, expand operations, and maintain capital adequacy. It can be assessed from the following ratio.

Net profit margin	$\frac{Net\ profit}{Total\ revenue} \times 100$	Measures the percentage of the company's revenue

(Rs. Thousands)

YEAR	NET PROFIT RATIO	NET PROFIT	TOTAL REVENUE
2019-2020	19.01%	26,25,73,150	1,38,07,34,696
2020-2021	21.3%	31,11,65,252	1,46,06,31,192
2021-2022	23.5%	36,96,13,552	1,57,26,30,195
2022-2023	22.88%	44,10,87,014	1,92,80,03,618
2023-2024	19.77%	60,81,22,785	3,07,58,15,749

INTERPRETATION

Overall profitability improved over the years, peaking in 2021-22 before declining slightly. The absolute net profit has grown consistently, but the declining margin in 2022-23 and 2023-24 suggests rising costs or reduced efficiency.

LIQUIDITY:

Liquidity is important for a bank to easily pay its short-term obligations. Possessing large liquidity, the bank can effortlessly satisfy all customer withdrawal requests, provide large funding for new loans and maintain exceptionally strong stability during periods of important economic uncertainty

Liquidity Coverage Ratio	$\frac{Total\ High\ Quality\ Liquid\ Assets}{Net\ total\ Cashflows}$	It reveals the liquidity coverage position

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(Rs. Crores)

YEAR	LIQUIDITY COVERAGE RATIO	TOTAL HQLA	TOTAL NET CASH FLOWS
2019-2020	132.49	10,37,285.53	7,82,912.23
2020-2021	143.43	15,00,291.87	10,46,796.77
2021-2022	120.54	15,77,985.69	13,09,141.93
2022-2023	113.37	16,62,701.16	14,66,639.08
2023-2024	117	21,75,136.16	18,59,029.49

INTERPRETATION
The bank maintains a strong liquidity position, with an LCR consistently above 100%, indicating that it holds sufficient liquid assets to cover short-term cash outflows. The rebound in 2023-24 indicates that the bank strengthened its liquid asset reserves to ensure stability.

FINDINGS OF THE STUDY:

Asset Quality:
HDFC Bank maintained a Gross NPA ratio below 1.5%, indicating healthy asset quality, though a slight uptick in NPAs in 2023-24 suggests the need for continued monitoring.

Productivity, Efficiency, and Effectiveness:
The rising profit per employee ratio demonstrates efficient resource utilization and strong management, even as the bank expands its workforce.

Overall CAMEL Performance:
Across all CAMEL indicators, HDFC Bank shows robust performance with strong capital, earnings, and liquidity, despite minor challenges in asset quality and capital adequacy.

Capital Adequacy:
The bank's Capital Adequacy Ratio consistently exceeds regulatory requirements, though a minor decline in 2023-24 due to increased risk-weighted assets calls for cautious risk management.

SUGGESTION:
Looking at HDFC Bank through the CAMEL model points out several key areas needing improvement to increase its financial performance and long-term stability. The bank has a strong capital adequacy ratio. It needs to optimize its risk-weighted assets to guarantee strong capital. A modest increase in the Gross NPA ratio occurred in 2023-24, suggesting a need for better credit assessment and stronger risk management to protect asset quality. Management efficiency has shown improvement; however, an important further investment in technology-driven banking solutions and thorough employee training would yield a large improvement in overall productivity. Substantially declining net profit margins over the past several years necessitate meaningful cost optimization coupled with large revenue diversification to guarantee sustained profitability. The bank should diligently and carefully monitor its liquidity coverage ratio to maintain a high level of preparedness for unforeseen and potentially meaningful market changes, even with its stable

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liquidity position. HDFC Bank must considerably improve its risk management, expand its digital banking services substantially and focus on a large degree of sustainable growth to remain competitive.

CONCLUSION:

HDFC Bank has shown strong financial performance for the past five years, based on key CAMEL model indicators. The bank remains financially good, although there are some minor weaknesses in areas such as the CAR and Gross NPA ratio. HDFC Bank remains an exceptionally well-managed and strong institution, showing strong capital, asset quality, management and earnings, along with outstanding liquidity, thus guaranteeing its large financial resilience and undergoing long-term viability in a highly volatile financial landscape. Despite this, a small decline in profitability, added with a measurable reduction in asset quality, points out several key areas requiring further attention to greatly strengthen the bank's future competitive standing.

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