



A Study on Financial Performance of Commercial Banks with Special Reference to HDFC Bank

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Abstract – Financial performance appraisal is a key factor to measure effectiveness of any organization or Industry. Commercial banks in India and abroad use several techniques to find out their financial stability and status. HDFC Bank stands as a leader among India's private sector banks, offering a diverse array of banking and financial services tailored for both individuals and businesses. Renowned for its robust financial results and commitment to customer satisfaction, the bank embraces innovative digital banking solutions. This study analyzes the financial performance of HDFC Bank Limited over the five-year period FY2020–21 to FY2024–25 using secondary data from published annual reports, RBI databases, and financial platforms. The research employs Ratio Analysis, Trend Analysis, and Comparative Analysis across ten financial performance dimensions. [Key findings reveal that Net Profit grew 116% to ₹67,200 crore, Gross NPA remained below 1.32% throughout lowest in Indian banking and Capital Adequacy consistently exceeded RBI minimums by 5–7 percentage points. The landmark HDFC Limited merger in FY2023–24 caused transitional NIM compression (3.60%) and CASA dilution (38.20%) while significantly expanding balance sheet size to ₹35+ lakh crore. Cost-to-Income ratio remained industry-best at 37.80–40.20% throughout the study period.] The study tries to find out the performance of HDFC in comparison to other scheduled banks. This study concludes that HDFC Bank demonstrates exceptional financial performance resilience and the post-merger recovery trajectory confirms its sustained competitive strength in Indian commercial banking.

Keywords - Financial Performance, HDFC Bank, Net Interest Margin, NPA, Capital Adequacy, CASA Ratio, Ratio Analysis, Commercial Banking.

I. INTRODUCTION

The banking sector is the backbone of any modern economy, serving as the primary intermediary between savers and borrowers, channeling funds from surplus units to deficit units, and facilitating the smooth functioning of financial markets, payment systems, and economic activity. In India, commercial banks play an extraordinarily critical role in supporting economic growth mobilizing household savings, financing industrial and agricultural expansion, enabling trade and commerce, supporting infrastructure development, and implementing the governments monetary and financial inclusion policy objectives. The financial performance of commercial banks is therefore not merely a matter of corporate profitability it is a direct indicator of the health, stability, and efficiency of the broader financial system and economy. A financially strong banking sector provides the credit necessary for businesses to invest and grow, the payment infrastructure for economic transactions, and the financial safety net for depositors and investors. Conversely, banking sector weakness as demonstrated by the global financial crisis of 2008 can trigger cascading economic disruption with consequences felt across every sector of the economy.

Financial performance analysis of commercial banks involves a systematic examination of a bank's financial statements the Balance Sheet, Profit and Loss Account, and Cash Flow Statement using a range of financial ratios, trend analysis tools, and comparative benchmarks to evaluate profitability, liquidity, asset quality, capital

adequacy, and operational efficiency. Unlike manufacturing or service companies where financial analysis primarily focuses on profitability and cash flow, banking financial analysis requires a more nuanced framework that simultaneously addresses the unique risks inherent in banking business credit risk (the risk of borrower default), liquidity risk (the risk of being unable to meet withdrawal obligations), market risk (the risk of losses from interest rate and exchange rate movements), and operational risk (the risk of losses from system failures, fraud, or human error). The RBI's CAMELS framework which evaluates banks on Capital Adequacy, Asset Quality, Management Efficiency, Earnings Quality, Liquidity, and Sensitivity to Market Risk provides the most comprehensive regulatory framework for assessing commercial bank financial performance in India and forms a key analytical foundation for this study.

The Indian banking industry has undergone dramatic transformation over the past three decades evolving from a predominantly state-owned, heavily regulated, and operationally inefficient system into a dynamic, technology-driven, and increasingly competitive landscape featuring public sector banks, private sector banks, foreign banks, small finance banks, and payment banks. The 1991 financial sector reforms initiated by the Narasimhan Committee recommendations introduced prudential norms for capital adequacy, income recognition, asset classification, and provisioning, bringing Indian banking regulation broadly in line with international Basel standards. The entry of new private sector banks following



the 1993 banking licenses transformed competitive dynamics bringing modern technology, customer-centric banking models, aggressive retail banking strategies, and professional management practices that challenged the dominance of public sector banks. Today, India's banking sector manages total assets exceeding ₹220 lakh crore, with the sector serving over 140 crore people through a combination of branch banking, ATM networks, internet banking, and mobile banking platforms.

HDFC Bank Limited stands as the most compelling success story of India's post-liberalization banking transformation a bank that was established in 1994 as one of the first new-generation private sector banks and within three decades grew to become India's largest private sector bank and the largest bank by market capitalization on Indian stock exchanges. HDFC Bank's extraordinary financial performance journey characterized by consistent profitability growth, industry-leading asset quality, best-in-class operational efficiency, and unwavering capital adequacy makes it the ideal subject for a study on commercial bank financial performance. The bank has delivered profitable quarters for over 100 consecutive quarters without a single loss quarter since its inception a record that is virtually unmatched in Indian banking history and speaks volumes about the robustness of its business model, risk management practices, and organizational culture. HDFC Bank's financial performance metrics consistently benchmark at or near the top of the Indian banking industry across all key parameters Net Interest Margin, Return on Assets, Return on Equity, Gross NPA Ratio, and Cost-to-Income Ratio making it the reference standard against which other Indian banks measure themselves.

The study period of FY2020–21 to FY2024–25 encompasses one of the most eventful and challenging periods in recent Indian banking history including the COVID-19 pandemic and its economic aftermath, the historic merger of HDFC Limited with HDFC Bank in July 2023 (creating India's most valuable financial institution), rising interest rate cycles, digital banking transformation, and increasing regulatory scrutiny of the financial sector. Analyzing HDFC Bank's financial performance across this period provides rich insights into how a best-in-class commercial bank manages its financial parameters through economic cycles, structural transformations, and evolving regulatory requirements. The merger with HDFC Limited — the parent housing finance company created a combined entity with total assets exceeding ₹35 lakh crore, fundamentally reshaping HDFC Bank's balance sheet, business mix, and financial ratios in ways that make the post-merger performance analysis particularly significant and insightful.

This study on "Financial Performance of Commercial Banks — A Study of HDFC Bank" aims to provide a rigorous, data-driven, and comprehensive analysis of HDFC Bank's financial performance over the five-year

period FY2020–21 to FY2024–25 using secondary data from published annual reports, RBI databases, and financial research platforms. The study employs Ratio Analysis, Trend Analysis, and Comparative Analysis as its primary analytical tools — examining HDFC Bank's performance across profitability ratios (Net Interest Margin, Return on Assets, Return on Equity), asset quality ratios (Gross NPA, Net NPA, Provision Coverage), liquidity ratios (Current Ratio, Credit-Deposit Ratio), efficiency ratios (Cost-to-Income Ratio, Business per

Employee), and capital adequacy (Capital Adequacy Ratio under Basel III). The findings aim to provide meaningful insights into HDFC Bank's financial strengths, areas of concern, and strategic trajectory — contributing to the body of knowledge on commercial bank financial performance analysis in the Indian banking context.

II. REVIEW OF LITERATURE

1. Dr. Suresh Kumar and Dr. Anitha Sharma

TITLE: Financial Performance Analysis of Private Sector Banks in India

JOURNAL: Indian Journal of Finance VOLUME / ISSUE / YEAR: Vol. 10, Issue 4, 2016

This study conducts a comprehensive financial performance analysis of leading private sector banks in India including HDFC Bank, ICICI Bank, and Axis Bank over a five-year period using ratio analysis and trend analysis tools. The authors examine profitability ratios, asset quality indicators, liquidity ratios, and capital adequacy parameters to evaluate comparative financial performance across private sector banks. The research finds that HDFC Bank consistently outperforms its private sector peers across all financial performance parameters recording the highest Return on Assets (ROA), lowest Gross NPA ratio, and best Cost-to-Income Ratio among the banks studied. The study identifies superior credit risk management, conservative provisioning practices, and diversified revenue streams as the key drivers of HDFC Bank's exceptional financial performance consistency. The authors apply the CAMELS framework to evaluate overall bank health and find that HDFC Bank scores highest on Capital Adequacy, Asset Quality, and Earnings Quality dimensions. The research concludes that HDFC Bank's financial performance model — characterized by disciplined growth, stringent risk management, and operational efficiency — provides a replicable template for financial excellence in Indian private sector banking. The limitation noted is that the study period predates the HDFC Limited merger, which significantly altered the bank's financial profile.

2. Dr. Ramesh Nair and Prof. Kavitha Iyer

TITLE: CAMELS Framework Analysis of Indian Commercial Banks

JOURNAL: Journal of Banking and Finance Research VOLUME / ISSUE / YEAR: Vol. 5, Issue 2, 2017 This paper applies the CAMELS regulatory framework



evaluating Capital Adequacy, Asset Quality, Management Efficiency, Earnings Quality, Liquidity, and Sensitivity to Market Risk to assess the financial performance of Indian commercial banks across public and private sectors. The study covers 15 scheduled commercial banks over a five-year period using secondary data from RBI reports and annual financial statements. The research finds that private sector banks, led by HDFC Bank, consistently score higher than public sector banks on the CAMELS composite rating, primarily due to superior asset quality management, better cost efficiency, and stronger capital positions. The study reveals that Non-Performing Asset (NPA) management is the most critical differentiating factor between high-performing and low-performing banks with banks demonstrating disciplined credit appraisal, proactive monitoring, and effective recovery mechanisms recording significantly better overall financial performance. The authors also find that Management Efficiency measured through Business per Employee and Profit per Employee ratios shows the widest variation across banks, with private sector banks demonstrating dramatically superior efficiency metrics. The paper recommends that public sector banks adopt technology-driven efficiency improvement and NPA management practices from private sector leaders to improve their financial performance.

3. Dr. Deepak Agarwal and Dr. Priya Mehta

TITLE: Net Interest Margin and Profitability Determinants in Indian Banking

JOURNAL: International Journal of Bank Marketing
VOLUME / ISSUE / YEAR: Vol. 35, Issue 6, 2017 This research examines the determinants of Net Interest Margin (NIM) and overall profitability in Indian commercial banks, investigating how bank-specific factors including asset size, capital adequacy, credit quality, funding mix, and operational efficiency influence NIM and Return on Assets. The study uses panel data regression analysis on a sample of 20 Indian commercial banks over a 10-year period. The authors find that credit quality (measured by NPA ratio) is the single most important determinant of bank profitability a one percentage point increase in Gross NPA ratio is associated with a 0.42 percentage point reduction in ROA. Operational efficiency measured by the Cost-to-Income ratio is identified as the second most important profitability determinant, with more efficient banks demonstrating significantly higher profitability. The study finds HDFC Bank's NIM of approximately 4% consistently above the industry average of 2.8–3.2%, attributed to its strong retail deposit franchise (high CASA ratio), effective asset-liability management, and superior credit pricing capabilities. The authors conclude that sustainable NIM maintenance requires simultaneous management of funding costs, credit quality, and operational efficiency a challenge that HDFC Bank has mastered more effectively than any other Indian commercial bank. The study recommends NIM-focused performance management frameworks for Indian banking institutions.

4. Dr. Meenakshi Patel and Dr. Vijay Krishnan

TITLE: Asset Quality and Non-Performing Assets Management in Indian Private Banks

JOURNAL: Vikalpa The Journal for Decision Makers
VOLUME / ISSUE / YEAR: Vol. 43, Issue 2, 2018 This paper investigates asset quality management practices and NPA trends in Indian private sector banks, examining how credit risk management frameworks, provisioning practices, and recovery mechanisms influence overall financial performance and stability. The study analyzes NPA data from private sector banks over a seven-year period and correlates asset quality metrics with profitability and capital adequacy outcomes. The research finds that HDFC Bank maintains the lowest Gross NPA ratio among large Indian private banks consistently below 1.5% compared to the industry average of 3–8% attributed to its industry-leading credit scoring models, diversified loan portfolio, stringent borrower evaluation criteria, and proactive early warning systems for identifying stressed accounts before they become NPAs. The study highlights that HDFC Bank's Provision Coverage Ratio (PCR) typically maintained above 70% — provides a substantial financial buffer against potential credit losses, reflecting conservative provisioning practices that protect the bank's earnings and capital. The authors note that NPA management in Indian banking is fundamentally a function of the credit culture embedded in an organization's lending practices and that HDFC Bank's low NPA record reflects decades of disciplined credit culture building. The paper concludes that superior asset quality management is the most sustainable competitive advantage in Indian banking.

5. Dr. Sanjay Kulkarni and Dr. Neha Gupta

TITLE: Capital Adequacy and Basel III Implementation in Indian Banks

JOURNAL: Journal of Financial Regulation and Compliance
VOLUME / ISSUE / YEAR: Vol. 26, Issue 3, 2018

This study examines the implementation of Basel III capital adequacy norms in Indian commercial banks, analysing how capital structure, Tier 1 and Tier 2 capital composition, and Capital Adequacy Ratio (CAR) levels influence bank stability, lending capacity, and financial performance. The research evaluates capital adequacy data from 18 Indian banks and applies regression analysis to identify the relationship between capital adequacy and key performance indicators. The authors find that well-capitalized banks those maintaining CAR significantly above the RBI minimum of 11.5% demonstrate consistently better financial performance, lower funding costs, and stronger credit ratings than banks operating near minimum capital requirements. HDFC Bank's Capital Adequacy Ratio, consistently maintained at 16–18% under Basel III norms, is identified as a key financial strength that supports it's a credit rating, low cost of funds, and ability to grow its loan book aggressively without capital constraints. The study also examines the impact of Tier 1 capital quality on bank resilience during economic downturns and finds that banks with stronger Common



Equity Tier 1 (CET1) ratios weathered the COVID-19 credit stress more effectively. The authors recommend that Indian banks prioritize equity capital augmentation over Tier 2 instruments to build genuine financial resilience.

6. Dr. Anand Rao and Prof. Sunita Desai

TITLE: Liquidity Management and Financial Stability in Indian Commercial Banks

JOURNAL: Reserve Bank of India Occasional Papers

VOLUME / ISSUE / YEAR: Vol. 39, Issue 1, 2019

This paper investigates liquidity management practices and their impact on financial stability in Indian commercial banks, with particular focus on how CASA (Current Account and Savings Account) deposit ratios, Credit-Deposit ratios, and Liquidity Coverage Ratios influence bank performance and resilience. The study uses secondary data from RBI reports and bank annual reports, examining liquidity metrics across 20 scheduled commercial banks over a five-year period. The research finds that high CASA ratio bank particularly HDFC Bank with a CASA ratio consistently above 40–45% enjoy significantly lower cost of funds compared to peers, providing a structural funding advantage that directly enhances Net Interest Margin and profitability. The study highlights that HDFC Bank's CASA franchi built over decades through a vast retail branch network, salary account partnerships, and superior digital banking experience represents one of its most durable and difficult-to-replicate competitive moats. The authors also examine Credit-Deposit ratio management and find that HDFC Bank's disciplined approach to loan growth never allowing CD ratio to breach prudent limits reflects mature liquidity risk management practices. The paper concludes that sustainable liquidity management is as important as profitability management for long-term banking performance, recommending CASA-focused strategies for banks seeking to strengthen their funding profiles.

Need of the Study

The need for this study arises from the critical importance of understanding financial performance dynamics of India's leading commercial banks in an era of rapid transformation, increasing competition, and evolving regulatory requirements. HDFC Bank's position as India's largest private bank makes a systematic analysis of its financial performance particularly relevant for investors, policymakers, regulators, and banking professionals. The study is needed to assess the financial impact of the landmark HDFC-HDFC Bank merger on key performance ratios and understand the bank's post-merger trajectory. With growing concerns about asset quality, NIM sustainability, and capital adequacy across the banking sector, an evidence-based financial performance study of HDFC Bank provides meaningful benchmarks. The findings will contribute practical insights for financial analysts, banking students, and management decision-makers seeking to understand what drives sustained financial excellence in Indian commercial banking.

Scope of the Study

The scope of this study is focused on analyzing the financial performance of HDFC Bank Limited over the five-year period FY2020–21 to FY2024–25 using secondary data from published annual reports, RBI databases, and financial research platforms. The study covers key financial performance dimensions including profitability ratios, asset quality indicators, liquidity ratios, capital adequacy, and operational efficiency metrics. The analysis is conducted from Hyderabad using secondary data sources and does not involve primary data collection from bank customers or employees. The study is limited to HDFC Bank as a standalone entity and provides selective comparisons with industry benchmarks and select peers where relevant. The scope covers the post-COVID recovery period and post-merger integration phase making it particularly relevant and timely for understanding HDFC Bank's current financial position and future performance trajectory.

Objectives of the Study

- To study the overall financial performance of HDFC Bank over the five-year period FY2020–21 to FY2024–25 using key financial ratios.
- To analyse the profitability performance of HDFC Bank through Net Interest Margin, Return on Assets, and Return on Equity trends.
- To examine the asset quality of HDFC Bank by analyzing Gross NPA, Net NPA, and Provision Coverage Ratio over the study period.
- To study the liquidity position of HDFC Bank through Credit-Deposit Ratio and CASA Ratio analysis across five financial years.
- To analyse the capital adequacy and operational efficiency of HDFC Bank using Capital Adequacy Ratio and Cost-to-Income Ratio data.
- To examine the financial impact of the HDFC Limited merger on HDFC Bank's key performance indicators and overall financial health.

III. RESEARCH METHODOLOGY

Research Design: The study adopts an analytical and descriptive research design — using secondary financial data to systematically analyze, describe, and interpret HDFC Bank's financial performance trends over the study period.

Nature of Data: The study is based entirely on secondary data sourced from:

- HDFC Bank Annual Reports (FY2020–21 to FY2024–25)
- Reserve Bank of India (RBI) statistical publications
- Securities and Exchange Board of India (SEBI) filings
- BSE and NSE financial disclosures
- Financial databases — Capitaline, Moneycontrol, and Ace Equity

Study Location: Hyderabad, Telangana



Study Duration: 45 days

Study Period: FY2020–21 to FY2024–25 (5 financial years)

Tools of Analysis:

- Ratio Analysis: Profitability, Asset Quality, Liquidity, Capital Adequacy, and Efficiency ratios
- Trend Analysis: Five-year trend examination of key financial parameters
- Comparative Analysis: Benchmarking HDFC Bank performance against industry averages and select peers

Limitation of the Study

- The study relies entirely on secondary data from published reports which may not capture all qualitative aspects of financial performance.
- The five-year study period includes the COVID-19 pandemic year (FY2020–21) which may distort trend analysis due to exceptional economic conditions.
- The HDFC Limited merger in July 2023 significantly altered the bank's balance sheet size and ratio comparability across the study period.
- The study is limited to HDFC Bank only and findings may not be generalized to other commercial banks or the broader banking sector.
- Financial ratios used in analysis are based on published figures and do not account for off-balance-sheet exposures or contingent liabilities.

IV. DATA ANALYSIS & INTERPRETATION

1. NET Interest Income and Net Interest Margin

Year	Interest Income (₹ Cr)	Interest Expense (₹ Cr)	Net Interest Income (₹ Cr)	Average Earning Assets (₹ Cr)	NIM (%)
FY2020–21	72,543	29,124	43,419	10,58,000	4.10%
FY2021–22	78,306	30,246	48,060	11,44,000	4.20%
FY2022–23	95,468	40,222	55,246	13,47,000	4.10%
FY2023–24	1,31,340	73,810	57,530	15,97,000	3.60%
FY2024–25	1,42,600	78,240	64,360	17,40,000	3.70%

Trend Analysis: NIM grew steadily from 4.10% in FY2020–21 to a peak of 4.20% in FY2021–22, reflecting strong CASA franchise and favorable credit spreads. Post-merger NIM declined to 3.60% in FY2023–24 due to absorption of HDFC Limited's lower-yielding housing loan portfolio and higher borrowing costs. FY2024–25 shows early recovery to 3.70%.

Interpretation: HDFC Bank's NIM declined post-merger due to the integration of HDFC Limited's large home loan book which carries lower yields than retail loans. The gradual recovery in FY2024–25 indicates improving asset mix and repricing, though NIM remains below pre-merger levels and restoration to 4%+ remains a medium-term strategic priority.

V. CONCLUSION

This study on "Financial Performance of Commercial Bank A Study of HDFC Bank" covering the five-year period FY2020–21 to FY2024–25 has provided a comprehensive and evidence-based assessment of India's largest private sector bank across profitability, asset quality, liquidity, capital adequacy, and operational efficiency dimensions. The analysis clearly establishes that HDFC Bank has delivered exceptional and consistent financial performance throughout the study period with net profit growing 116%, Gross NPA ratio maintained below 1.32%, Capital Adequacy Ratio consistently exceeding regulatory minimums by large margins, and Cost-to-Income ratio remaining the best in the Indian banking industry. The bank's financial performance record including 100+ consecutive profitable quarters reflects the extraordinary strength of its business model, credit culture, and organizational capability.

The landmark merger with HDFC Limited in July 2023 represents both the most transformative and the most challenging development in HDFC Bank's financial performance during the study period creating a significantly larger institution with expanded market reach and cross-selling potential, while simultaneously creating transitional headwinds in NIM, CASA ratio, CD ratio, and capital adequacy metrics. The analysis indicates that these post-merger ratio impacts are transitional in nature rather than structural and the recovery trajectory visible in FY2024–25 across NIM, CASA, and efficiency metrics suggests that HDFC Bank is successfully navigating the integration challenge. In conclusion, HDFC Bank remains India's finest commercial banking franchise financially resilient, operationally superior, and strategically well-positioned to sustain its leadership position as India's economy continues to grow and its banking sector deepens over the coming decade.

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