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"A Study On Financial Performance Evaluation Of Hdfc Bank Using Dupont Analysis".

Ms Tasleem Banu

Student, Dept of Management Studies(MBA) Ballari Institute of Technology & Management, Ballari

Mr Moula Hussain K

Assistant Professor Dept of Management Studies(MBA) Ballari Institute of Technology & Management , Ballari

ABSTRACT

The banking sector plays a vital role in the economic development of a country, and financial performance evaluation is essential for assessing the efficiency, profitability, and sustainability of banks. This study focuses on the financial performance of **HDFC Bank**, one of India's leading private sector banks, using the **DuPont Analysis framework**. The DuPont model disaggregates Return on Equity (ROE) into three key components—**Net Profit Margin, Asset Turnover, and Equity Multiplier**—thereby providing deeper insights into the underlying drivers of profitability.

The research is based on secondary data collected from annual reports and financial statements of HDFC Bank over a selected period. Ratios such as ROE, ROA, Net Profit Margin, and Leverage are analyzed to identify trends and evaluate the bank's operational efficiency and financial stability. The findings reveal that HDFC Bank has maintained consistent profitability, strong asset utilization, and efficient leverage management, which together contribute to its robust ROE performance.

This study not only highlights the financial strengths of HDFC Bank but also demonstrates the usefulness of DuPont Analysis as a comprehensive tool for stakeholders, investors, and policymakers in evaluating the performance of banking institutions.

Keywords: HDFC Bank, Financial Performance, DuPont Analysis, Return on Equity (ROE), Net Profit Margin, Asset Turnover, Equity Multiplier, Profitability Analysis, Banking Sector, Financial Evaluation

INRODUCTION

The banking sector is one of the most critical pillars of a nation's financial system and economic growth. In India, the sector has witnessed significant transformation over the past few decades due to liberalization, digitization, and global competition. Among the leading private sector banks, **HDFC Bank** has emerged as a strong player, known for its customer-centric services, technology-driven operations, and consistent financial performance. Evaluating the financial strength and efficiency of such institutions is essential for investors, policymakers, and management to make informed decisions. One of the most effective tools for measuring financial performance is the **DuPont Analysis**, developed by the DuPont Corporation in the 1920s. Unlike conventional ratio analysis, which provides limited insights, DuPont Analysis decomposes **Return on Equity (ROE)** into three components: **Net Profit Margin, Asset Turnover, and Equity Multiplier**. This decomposition allows for a detailed examination of profitability, operational efficiency, and financial leverage, offering a comprehensive view of how effectively a company is utilizing its resources to generate shareholder value.

By applying DuPont Analysis to HDFC Bank, this study aims to evaluate the bank's financial performance over a defined period and identify the key factors driving its profitability. Such an evaluation not only highlights the bank's operational strengths and weaknesses but also contributes to the broader understanding of performance measurement in the Indian banking industry.

OBJECTIVES OF THE STUDY :

- To use the DuPont Analysis model to explain HDFC Bank's financial performance over a certain time period.
- To describe how the bank's Return on Equity (ROE) is influenced by the Net Profit Margin, Asset Turnover, and financial Leverage.
- To present a detailed overview of year-wise trends in the components of ROE using factual financial data

SCOPE OF THE STUDY:

Aims to offer an in-depth evaluation of HDFC Bank's financial performance by applying framework. It limits its focus to identify internal financial efficiency through core performance indicators such as profitability, asset utilization, and leverage. The analysis is confined to a specific period, capturing structural changes post-merger. All findings are based on verifiable secondary data sources from published financial records.

REVIEW OF LITERATURE:

Some important research works undertaken in recent years which are very closely connected with the present study are reviewed

DEBBARNA DAWN, JENNET FERNADEZ AND DR.P. AMALANATHAN (2023)

The financial data of HDFC Bank, IDFC Bank, and Bandhan Bank from 2019–20 to 2021–22 are analysed in this study. By using DuPont analysis, ROE is divided into equity multiplier, asset turnover, and profit margin. Strong profitability and effective asset use are the reasons why HDFC Bank continuously beat its counterparts. The authors recommend that in order to increase ROE, banks should concentrate on improving capital management the determinants influencing bank performance requires the use of DuPont analysis.

RAJARAJESWARI SANJEEVINATHAN, DR. S. REVATHY, AND SRINIVASAN KRISHNAN (2023)

This research evaluates the financial-performance' of selected banks, including HDFC Bank, using DuPont analysis. HDFC Bank exhibited superior ROE, driven by high net interest margins and robust asset turnover. The study recommend that banks should benchmark against HDFC's strategies to enhance profitability. It concludes that DuPont Analysis effectively highlights areas of strength and opportunities for improvement in bank performance.

SRINIVASAN KRISHNAN AND RAJARAJESWARI SANJEEVINATHAN (2021)

This study assesses the ROE of HDFC Bank demonstrated consistent performance with balanced leverage and margin management. The authors suggest that maintaining low financial risk while increasing operational throughput is essential for sustainable ROE. The study concludes that Dupont analysis serves as an insightful tool to monitor bank performance across different business cycles.

RUCHI GUPTA AND SANDEEP JAIN (2020)

This paper evaluates HDFC Bank's resource utilization over five years, employing performance measures including return on Assets and Interest Coverage Ratio. Findings indicate strong revenue and profit growth, though efficiency in generating profits is constrained.

SHIVANI THAKUR (2019)

In this comparison research, the financial well-being of ICICI and HDFC Bank is evaluated from FY2012 to FY2016 using DuPont analysis and Porter's Five Force Model. HDFC Bank consistently posted better ROE due to higher margins and controlled leverage. The author suggests that integrating qualitative tools like Porter's Model complements quantitative DuPont analysis. The study concludes that combining DuPont and strategic frameworks enables holistic financial assessment.

Y. SAILAJA AND V. ALAGRISWAMY (2023)

This research critically examines HDFC Bank's performing assets by analysing asset quality ratios, ROA, and NIM using data from annual reports The results emphasize important areas for improvement and stress the importance of efficient asset management in maintaining financial stability. The authors contend that in command to continue its financial stability, HDFC Bank should focus on enhancing asset quality. According to the study's findings, maintaining profitability depends on using efficient asset management techniques.

DANIEL TABBUSH (2023)

This analysis evaluates HDFC Bank's first earnings post-amalgamation using DuPont analysis. The study notes a strong ROA base and declining credit costs, indicating improved financial performance. The author suggest that Dupont analysis is an effective-tools to assess changes in bank performance post-merger.

MEGHA BHOGAWAR (2023)

This study evaluates HDFC Bank's financial performance from 2015 to 2019 using ratio analysis, including the current ratio, The writers advise continuing to monitor one's financial well-being. The results of the analysis show that HDFC Bank's financial status has not changed over time.

MICHAEL JAMES, RAHUL SHARMA, AND DR. AMALANATHAN PAUL (2022)

HDFC Bank, one of the Indian banks evaluated in this study, has shown excellent performance in terms of ROE, net interest margin, asset turnover ratio, and net profit margin. In instruction to progress their financial performance, the authors advise banks to concentrate on maximizing these characteristics.

SIMRAN LOSALKA (2024)

This report offers a thorough DuPont analysis of HDFC Bank, dissecting ROE into equity multiplier, asset turnover, and profit margin. According to the analysis, HDFC Bank's prudent financial leverage and effective asset utilization allow it to maintain a high return on equity. In instruction to continue its financial performance, the author advises the bank to keep concentrating on operational efficiency.

EPRA INTERNATIONAL JOURNAL OF MULTIDISCIPLINARY RESEARCH (2020)

This study examines HDFC Bank's monetary records over a five-year period, paying particular attention to credit expansion, loan lending, and deposit growth. Conferring to the statement, the bank has successfully increased both its clientele and its offerings. Conferring to the writers, sustained growth requires strategic planning and ongoing monitoring. Conferring to the account's findings, HDFC Bank has shown steady financial performance and has room to grow.

RESEARCH METHODOLOGY:

This study employs a quantitative, analytical research approach based on secondary data to evaluate HDFC Bank's financial performance using the DuPont Analysis framework. While the analytical research method should be cause and effect of an increase or decrease in profitability, efficiency, and risk, the quantitative research method is examine the data in a structured format using the Bank's determine the most likely ratios research. The information was gathered between 2020 and 2025 from RBI bulletins, HDFC Bank annual reports reliable financial sources.

RESEARCH DESIGN:

The research design applicable for the proposal study is of analytical. As the use of facts information are already available and analyses these to make a critical evaluation of the material

DATA COLLECTION:

The study's only foundation must be secondary data. As a result, secondary sources are the most significant sources of the data. The financial information, which includes net profit, total revenue, and working capital, is to be gathered from the company's financial statements over a five-year period.

Other necessary secondary data is to be collected from the following sources;

Journals: the journals gathered from the data that has been published.

Newspaper: The firm website has the newspaper clippings that are mentioned in the paper on a daily basis.

Books: The primary source of the data needed books on the DuPont analysis and financial- performance of the firm.

Websites: The company's background information is gathered from its official websites.

TOOLS FOR DATA-COLLECTION DATA ANALYIS

The previous 5 years data and financial performance examination was done with the help of DuPont Approach. DuPont distinctiveness breaks down ROE into three separate elements. This Analysis facilitates the analyst to understand the source of superior or inferior return by comparison with the firms in similar industries. It also settles on whether a firm is a profit-creator or a profit burner and management's profit generating.

HYPOTHESIS:

H_0: ROE values are not autocorrelated
H_1: ROE values are autocorrelated

H_0: Profit margin, Asset Turnover and Financial Leverage do not have a significant impact on ROE.

H_1: Profit Margin, Asset Turnover and Financial Leverage have a significant impact on ROE.

DATA ANALYSIS:

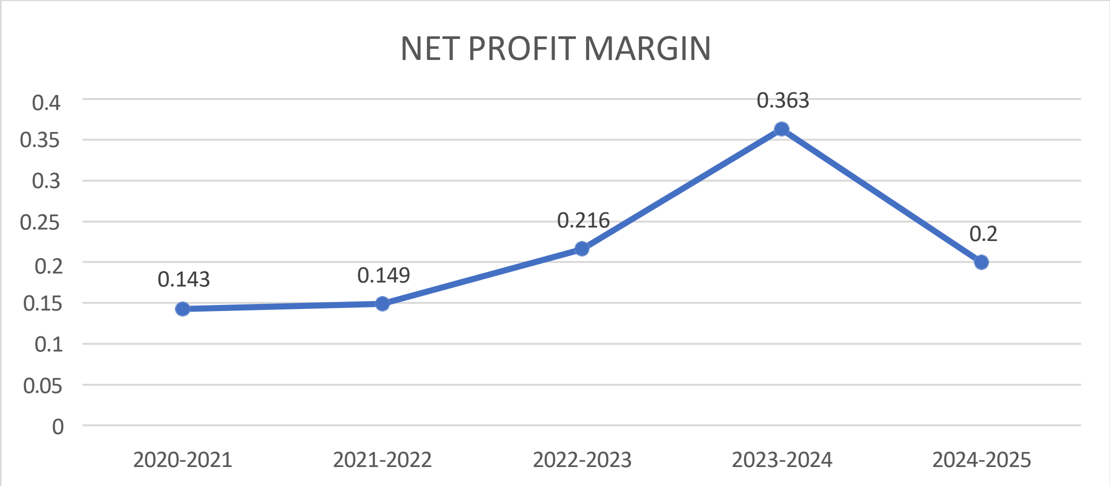
The data analysis is done by using different statistical tools below are some of the observations are obtained from the study

NET PROFIT MARGIN

$$\text{Net Profit Margin} = \frac{NET\ INCOME}{REVENUE}$$

PARTICULARS	2024-2025	2023-2024	2022-2023	2021-2022	2020-2021
NET INCOME	67347	60812	44109	60812	1116
REVENUE	470916	407995	204666	167695	155885
NET PROFIT MARGIN	0.2	0.363	0.216	0.149	0.143

Table 1 : Showing the Results of Net Profit Margin



INTERPRETATION

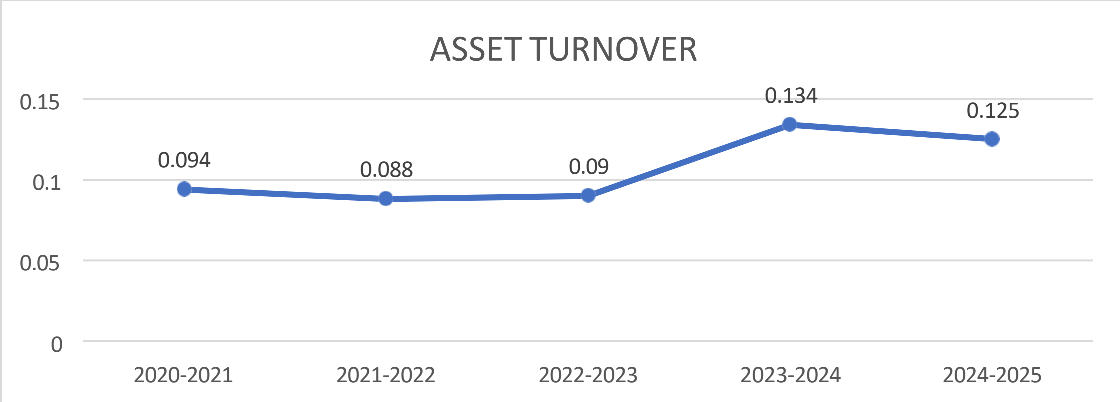
The Net Profit Margin of HDFC has shown fluctuations over the five-year period. Starting at 0.143 in 2020–2021, it rose slightly to 0.149 in 2021–2022, indicating marginal improvement in profitability. In 2022–2023, the margin increased to 0.216, reflecting better cost efficiency or increased profitability. A sharp rise was observed in 2023–2024, reaching the highest margin of 0.363, suggesting strong financial performance during this period. However, in 2024–2025, the margin declined significantly to 0.20, indicating either a rise in expenses or a drop in income relative to revenue.

ASSET TURNOVER

$$\text{Asset Turnover} = \frac{REVENUE}{AVERAGE\ TOTAL\ ASSETS}$$

PARTICULARS	2024-2025	2023-2024	2022-2023	2021-2022	2020-2021
REVENUE	470916	407995	204666	167695	155885
TOTAL ASSETS (CY)	3910200	3617623	2466084	2068534	1746872
TOTAL ASSETS (PY)	3617623	2466084	2068534	1746872	1580830
AVERAGE TOTAL ASSETS	3763912	3041854	2267309	1907703	1663851
ASSET TURNOVER	0.125	0.134	0.090	0.088	0.094

Table 2 : Showing the Results of Asset Turnover



INTERPRTATION

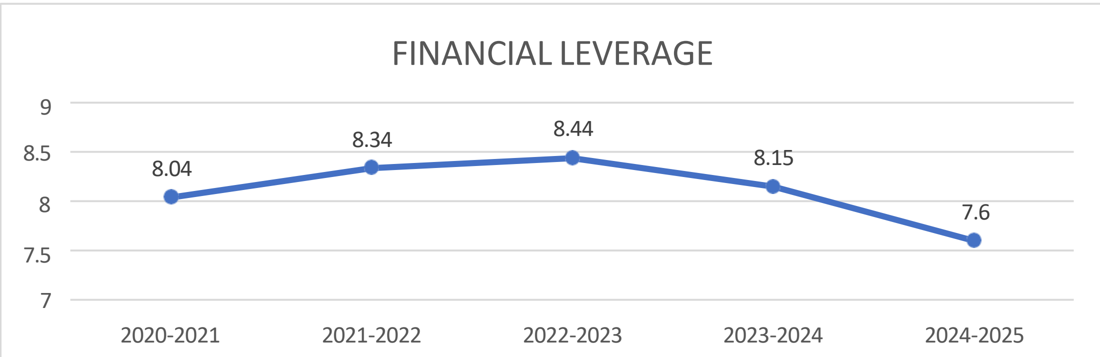
The Asset Turnover Ratio, which specifies how proficiently the company is using its assets to create revenue, shows a fluctuating trend over the five-year period. It initially declined from 0.094 in 2020–2021 to 0.088 in 2021–2022, a slight improvement in 2022–2023.However, the ratio improved significantly to 0.134 in 2023–2024, reflecting better operational efficiency and asset usage. In 2024–2025, the ratio dipped again to 0.125, though it remained higher than the earlier years.

FINANCIAL LEVERAGE

$$\text{Financial Leverage} = \frac{\textit{AVERAGE TOTAL ASSETS}}{\textit{AVERAGE TOTAL EQUITY}}$$

PARTICULARS	2024-2025	2023-2024	2022-2023	2021-2022	2020-2021
AVERAGE TOTAL ASSETS	3763912	3041854	2267309	1907703	1663851
TOTAL EQUITY(CY)	521789	456395	289437	247326	209810
TOTAL EQUITY(PY)	456395	289437	247326	209810	203720
AVERAGE TOTAL EQUITY	489092	372916	268381	228568	206765
FINANCIAL LEVERAGE	7.6	8.15	8.44	8.34	8.04

Table 3 : Showing the Results of Financial Leverage



INTERPRETATION

The fluctuating trend over the five-year period. Starting at 8.04 in 2020–2021, it rose steadily to a peak of 8.34 in 2021–2022, suggesting increased reliance on borrowed funds during that period. In the subsequent years, the ratio showed a gradually rose to

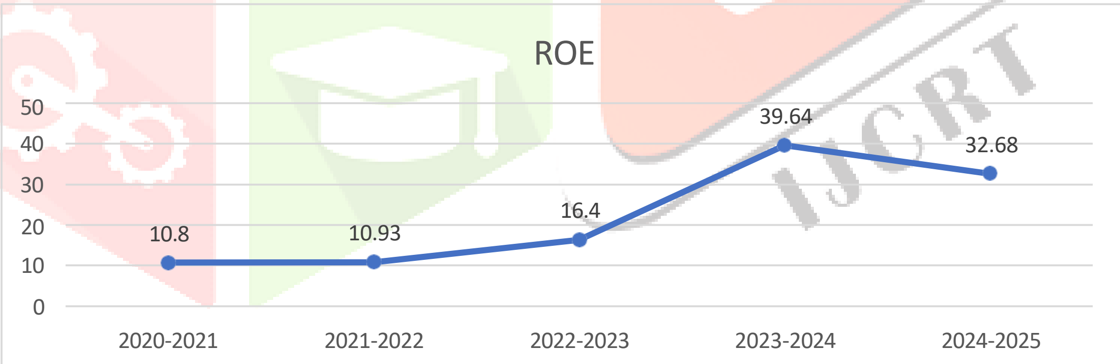
8.44 in 2022–2023 fall to 8.15 in 2023–2024, and finally 7.06 in 2024–2025 indicating a shift towards slightly more equity-based financing.

DUPONT ANALYSIS(ROE)

ROE =NET PROFIT MARGIN* ASSET TURNOVER* FINANCIAL LEVERAGE

PARTICULARS	2024-2025	2023-2024	2022-2023	2021-2022	2020-2021
NET PROFIT MARGIN	0.2	0.363	0.216	0.149	0.143
ASSET TURNOVER	0.125	0.134	0.090	0.088	0.094
FINANCIAL LEVERAGE	7.6	8.15	8.44	8.34	8.04
ROE	32.68	39.64	16.40	10.93	10.80

Table 4 : Showing the Results of ROE



INTERPRETATION

ROE was relatively low in 2020–2021 and 2021–2022, at 10.8% and 10.93% respectively, indicating modest returns to shareholders. It increased significantly to 16.4% in 2022–2023, and peaked at an impressive 39.64% in 2023–2024, driven by a sharp rise in profit margin and solid financial health, and consistently high financial leverage. However, in 2024–2025, ROE dropped to 32.68%, it remained robust, supported by consistent profitability and reliance on leverage.

AUTO-CORRELATION TEST

Table 5 : Showing the Results of Auto-correlation Test

Autocorrelations					
Series: ROE					
			Box-Ljung Statistic		
Lag	Autocorrelation	Std. Error[a]	Value	df	Sig.[b]
1	.391	.338	1.338	1	.247
2	-.272	.293	2.203	2	.332
3	-.449	.239	5.731	3	.125

a. The underlying process assumed is independence (white noise).

b. Based on the asymptotic chi-square approximation.

INTERPRETATION

The autocorrelation analysis of ROE across three lags reveals that the autocorrelation values at lag 1 (0.391) and lag 3 (0.449) are moderately high, while lag 2 shows a weaker negative autocorrelation (-0.272). However, the corresponding p-values from the Box-Ljung test are 0.247, 0.332, and 0.125 for lags 1, 2, and 3 respectively — all of which are greater than 0.05. Since these p-values are not statistically significant, we fail to reject the null hypothesis that ROE values are not autocorrelated. This indicates there is no strong evidence of autocorrelation in the ROE data, and the time series can be considered independent over time, resembling a random (white noise) process.

LINEAR REGRESSION

ANOVA[A]						
MODEL		SUM OF SQUARES	DF	MEAN SQUARE	F	SIG.
1	REGRESSION	701.447	3	233.816	75.681	.084[B]
	RESIDUAL	3.089	1	3.089		
	TOTAL	704.536	4			

A. DEPENDENT VARIABLE: ROE

B. PREDICTORS: (CONSTANT), FL, NPM, AT

INTERPRETATION

The Anova results showed that the overall model was not statistically significant (p = 0.084), indicating that these three Dupont components do not collectively have a significant effect on ROE. Therefore, we fail to reject Null hypothesis and, indicating that Net Profit Margin, Asset Turnover and Financial Leverage do not have combined significant impact on ROE.

SUGGESTIONS

- Improve asset utilization to boost asset turnover. This can be done by optimizing operational processes, increasing sales from existing assets, and better capacity management.
- The dip in profit margin in the latest year suggests a need for better cost control, pricing strategies, and diversification of income sources to maintain profitability.
- While leverage has boosted ROE, excessive debt poses financial risk. A balanced capital structure with controlled debt levels and stronger equity funding is advisable for long-term sustainability.
- Given the results of the autocorrelation test, ROE lacks predictability based on past trends. Decision-making should be driven by current financial strategies, operational performance, and external factors.
- Rather than focusing on a single factor, simultaneously improving profit margin, asset turnover, and leverage management will ensure robust and consistent ROE growth.
- A year-wise DuPont analysis should be institutionalized within the performance review process to provide deeper insights into the drivers of shareholder value and facilitate data-driven decision-making.

RECOMMENDATIONS AND CONCLUSION

The comprehensive financial analysis using the DuPont model over the period 2020– 2025 reveals that the company demonstrated significant improvement in profitability, efficiency, and return on equity, particularly peaking in 2023–2024. The increase in ROE during this period was largely driven by a strong net profit margin and effective financial leverage. However, the subsequent decline in 2024–2025 highlights the need for consistent focus on maintaining operational efficiency and cost management. The asset turnover ratio remained relatively low throughout, indicating potential for improvement in utilizing assets more efficiently. Furthermore, the autocorrelation test indicates that ROE does not follow a predictable pattern over time, suggesting that future financial performance cannot be reliably forecasted based on past trends. Therefore, a strategic approach focusing on enhancing each component of ROE profit margin, asset turnover, and leverage will be essential for sustaining long-term financial growth and value creation.

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