

The Financial Performance Analysis of An Insurance Sector with Special Reference to HDFC Life Insurance

Dr. E. KARTHIKA,

M. Com, M.Phil. M.B.A., PGDCA, SET, Ph.D.
Assistant Professor, Dr. N.G.P Arts and Science College, Coimbatore-48

DR. J. NITHYA,

M.Com., M. Phil., M.B.A., Ph.D.
Associate Professor, Commerce, Dr. N.G.P Arts and Science College, Coimbatore-48

Mr. R. DHANASEKARAN,

M.Com., M. Phil., M.B.A., Ph.D.
Dr G R Damodharan College of Science, Coimbatore-14

DR.A. NAGALAXMI,

Assistant Professor, B. Com (Finance)
Dr. S.N.S. Arts and Science College, Coimbatore-49

Abstract-The act of performing a task or function, carrying out an activity, or achieving a goal is known as performance. The financial analyst tries to assess the company's liquidity, profitability, and other signs that the business is run in a sensible and regular manner, ensuring enough returns to the shareholders to preserve at least its market worth. The financial statements are analysed and interpreted as part of financial performance analysis. To determine the effectiveness and performance of the company's management, as seen in the financial records and reports, is the main aim of this research study. To research HDFC Life Insurance Company Pvt Ltd biography and roles in Understanding managerial aptitude and performance effectiveness and to assess HDFC Life Insurance Company Pvt Ltd solvency using annual financial reports are the objectives of the study. Data from HDFC Life Insurance Company Limited for the five years from 2018 to 2022 have been considered for the study's purposes. the ROA drastically dropped to 0.62% in 2022, showing that the company's profitability had fallen and it was not making enough money from its assets. The balance sheet as a whole demonstrates that the company's shareholders' money has grown along with its non-current and current assets. However, current obligations have slightly decreased. The rise in other long-term obligations is mostly to blame for the rise in non-current liabilities.

Keywords: financial performance analysis, performance of the company's management, financial interests.

1.1 INTRODUCTION

The act of performing a task or function, carrying out an activity, or achieving a goal is known as performance. Financial performance is a gauge of how effectively a company can utilise resources from its main line of business and generate income. The phrase is also used as a broad indicator of a company's long-term financial stability. Financial performance is compared by analysts and investors between similar companies in the same industry or between industries or sectors as a whole. How well a firm earns income, manages its assets, obligations, and the financial interests of its

stakeholders are all determined by its financial performance. It conducts a thorough analysis of the company's financial stability and profitability.

Determining a company's operating and financial characteristics from its accounting and financial records is hence the process of financial performance analysis. Determining the effectiveness and performance of the company's management, as seen in the financial records and reports, is the aim of such study. The analyst makes an effort to assess the company's liquidity, profitability, and other signs that the business is run in a sensible and regular manner, ensuring

enough returns to the shareholders to preserve at least its market worth. Financial statements are used in financial analysis. A financial statement is a compilation of information that has been arranged logically and consistently using accounting principles. Its goal is to impart a grasp of certain of a business firm's financial elements.

The Balance Sheet and the Income Statement are the two fundamental statements that are typically meant by the term "financial statements." These financial statements are analysed and interpreted as part of financial performance analysis..Financial statements highlight two crucial factors: profitability and financial soundness, although they do not provide all the facts pertaining to a company's financial activities. Nevertheless, they provide some incredibly helpful information.

"The Financial Performance Analysis of HDFC Life Insurance" is the subject of this project. The cornerstone of controlling the nation's risk is insurance. The insurance companies provide a variety of goods to businesses, protecting them from risk and assuring their financial security. It aids individuals and organisations in reducing the effects of risk, which has a substantial impact on the expansion and development of the insurance sector.

1.2 SITUATION OF THE PROBLEM

The main goal of financial management is effective management and control. Examining the common components of financial statements to have a better understanding of a firm's financial performance is the practise of status and accomplishments. Investors and creditors can assess past, present, and future performance as well as their financial condition by using financial performance analysis. Financial statements are used to assess a company's profitability and financial stability. Therefore, the purpose of the current study is to evaluate HDFC Life Insurance Ltd.'s financial performance.

1.3 IMPLICATION OF THE STUDY

Understanding the company's financial performance and goals is the study's relevance. It helps to understand the company's position and the associated risk for the future.

1.4 ANALYSIS OF THE STUDY

The study is designed to assess the financial performance of HDFC Life by using tools and techniques of financial analysis. Financial statement analysis is not all about ratio analysis it goes beyond that. It helps to predict the future events. This analysis will give the exact picture of the company. These studies will also help the management to take managerial decisions and understand the new possibilities. The study helps us to conduct researches in financial areas and it also helps us for taking financial decisions.

The study's primary goal is to analyse the company that was chosen for the study's finances. The financial authorities can use this information to assess their performance in the future, which will aid in the analysis of financial statements and the right use of firm resources for the growth of the business and IT personnel. Forecasting can be used to assess the organisation as a whole in the future. However, financial statement analysis goes beyond ratio analysis and includes other aspects as well.

1.5 STUDY OBJECTIVES

The objectives of the study are as follows;

- To research HDFC Life Insurance Company Pvt Ltd's biography and roles
- Understanding managerial aptitude and performance effectiveness
- To assess HDFC Life Insurance Company Pvt Ltd's solvency using annual financial reports
- To utilise ratios to analyse profitability and performance
- To make recommendations for improving the performance of HDFC Life Insurance

1.6 NATURE OF THE STUDY

In order to evaluate a firm's financial performance and health, financial ratio analysis projects analyse the financial accounts of the organisation. A company's liquidity, profitability, solvency, and efficiency are assessed using financial ratio.

Ratios, such as liquidity ratios, profitability ratios, and efficiency ratios, by analysing a

company's balance sheet, income statement, and cash flow statement as part of a financial ratio analysis project to learn about HDFC Life's financial situation.

1.7 PERIOD OF STUDY

Data from HDFC Life Insurance Company Limited for the five years from 2018 to 2022 have been considered for the study's purposes.

1.8 RESEARCH METHODOLOGY

Research design is concerned with the excellent research methodology or approach chosen for a specific undertaking. A research project must be carried out scientifically, ensuring that the data is gathered effectively and affordably. This research is design of a descriptive study to get understanding of the problem. Its purpose is to accurately portray a few elements of the market environment. When the goal is to produce a thorough account that is as true and accurate as feasible, descriptive research is used. Data Collection Method: Subsidiary data. Primary Data: Using published data and the internet.

1.9 REVIEW OF LITERATURE

T. Thirupathi and S. Subhashini,

"An Empirical Analysis Of Key Determinants Affecting The Financial Performance Of Hdfc Life Insurance Company," Journal of Positive School Psychology, 2022. Globalisation and liberalisation opened the door for several new businesses in numerous industries across the nation. One significant step in this direction is the privatisation of the life insurance industry. The dominant monopoly LIC dominated the Indian life insurance sector for more than 40 years. The prevalence of insurance rose with the entry of numerous private life insurance businesses. Each life must become more competitive.

Meenu Gupta and Dinesh Seth (2022)

Comparative analysis of customer satisfaction with Indian life insurance companies: practical

information for the BFSI sector. Customer satisfaction has evolved into a critical component of aggressive marketing in the fiercely competitive life insurance market. Providing high-quality services has become necessary for survival in the modern day. With a combined market share of almost 80% among all 24 life insurance companies, LIC, ICICI Prudential Life, HDFC Life, and SBI Life dominate the life insurance industry. These four businesses were selected for the study based on their market shares.

1.10 ANALYSIS AND INTERPRETATION

1.10.1 RETURN ON ASSETS RATIO (ROA)

This ratio shows a company's profitability in relation to its total assets. An analyst, manager, or investor can use ROA to determine how well a company's management uses its assets to produce profits.

Formula for calculating return on asset ratio

The return on total assets ratio is calculated by dividing a company's earnings after tax by its total assets. Total assets are equal to the sum of the shareholders' equity and the company's debt. This value is found on the company's balance sheet.

$$\text{Return on assets} = \frac{\text{Net income}}{\text{Total assets}} \times 100$$

Higher ROA indicates more asset efficiency

The return on equity ratio, which is determined by dividing earnings after tax by equity only as opposed to total assets, is how the return on assets ratio is calculated.

TABLE NO: 1.10.1 RETURN ON ASSET

YEAR	NET INCOME	TOTAL ASSETS	RETURN ON ASSET
2018	1219.16	110481.46	1.10
2019	1433.7	130005.30	1.10
2020	1240.8	132162.38	0.93
2021	1735.43	179567.95	0.96
2022	1314.96	210389.25	0.62

EXHIBIT NO:1.10.1-A



INTERPRETATION

- We can see from the presented statistics that the company's ROA has been falling over time. The ROA remained largely constant in 2018 and 2019 at 1.10 percent, indicating that the business was making \$1.10 in profit for every dollar invested in assets. However, the ROA dropped to 0.93% in 2020. This can indicate a drop in the company's profitability or an investment in less lucrative projects or resources than in prior years.
- The ROA climbed slightly to 0.96% in 2021, showing a minor improvement in the company's profitability.
- Finally, the ROA drastically dropped to 0.62% in 2022, showing that the company's profitability had fallen and it was not making enough money from its assets.

1.10.2 RETURN ON CAPITAL EMPLOYED

A company's earnings after taxes are divided by its total assets to determine the return on total assets ratio. Equity held by shareholders plus debt owed by the business equal the total assets. The balance sheet of the corporation contains this amount.

The return on equity ratio, which is determined by dividing earnings after tax by equity only as opposed to total assets, is how the return on assets ratio is calculated.

Formula for calculating return on capital employed

$$ROCE = \frac{EBIT}{\text{Capital employed}}$$

Return on investment A financial ratio called employed gauges a company's profitability relative to all of its capital. The terms ROCE and ROI are interchangeable. It's wise to compare the ROCE of businesses in the same industry because

they typically differ from those in other industries. Higher ratios typically signify a company's profitability.

The return on equity, return on assets, return on invested capital, and return on capital employed are four important return ratios that many businesses may assess as part of their performance analysis.

ROCE is a statistic for examining profitability and

comparing capital-based profitability levels across different organisations. Calculating ROCE requires two elements. These are capital employed and earnings before interest and taxes (EBIT). EBIT, commonly referred to as operational income, reveals how much a business makes from operations just, free of taxes and debt interest. It is computed by deducting operational costs and cost of goods sold (COGS) from revenues.

TABLE NO: 1.10.2

RETURN ON CAPITAL EMPLOYED

YEAR	EBIT	CAPITAL EMPLOYED	RETURN ON CAPITAL EMPLOYED
2018	139698.29	105832.04	1.32
2019	167361.98	124897	1.34
2020	125961.58	127233.97	0.99
2021	174796.4	173065.83	1.01
2022	130662.74	204160.54	0.64

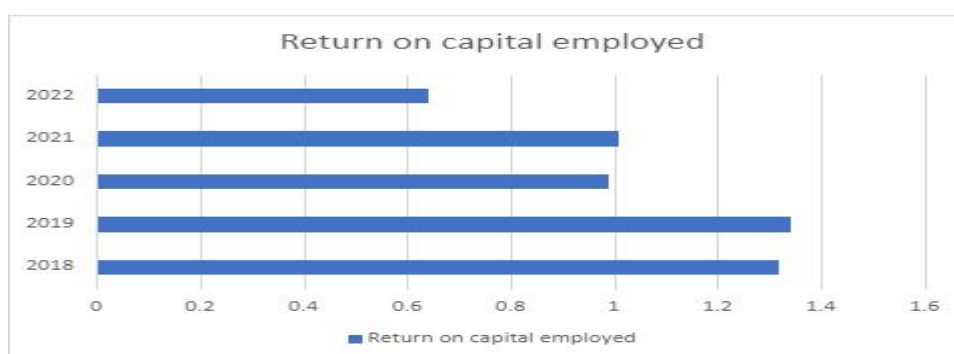
INTERPRETATION

- The company's ROCE has varied over the years, reaching a high of 1.34 in 2019 and a low of 0.64 in 2022, according to the provided data
- The company's ROCE was very stable in 2018 and 2019, coming in at 1.32 and 1.34, respectively, showing that it was producing a consistent amount of profit for each unit of capital invested.
- However, the company's ROCE dropped to 0.99 and 1.01 in 2020 and 2021, respectively,

which raises the possibility of a reduction in profitability and/or capital utilisation efficiency.

- The company's profitability has deteriorated significantly, and the large decline in ROCE to 0.64 in 2022 suggests that it may be difficult to turn a profit in relation to the capital it has invested. There could be a number of causes for it

EXHIBIT NO: 1.10.2-A



1.10.3 COMPARATIVE BALANCE SHEET OF HDFC LIFE INSURANCE COMPANY LIMITED FOR THE YEAR 2022 2021

Particulars	2022	2021	Increase/ decrease	Percentage
Equity share capital	2112.62	2020.96	91.68	4.33
Total share capital	2112.62	2020.96	91.68	4.33
Reserves and surplus	13369.97	91698.1	4200.16	31.4
Total Reserves and surplus	13369.97	91698.1	4200.16	31.4
Total shareholders fund	15482.59	11190.76	4200.16	27.7
Long term borrowings	600.00	600.00	600.00	0.00
Deffered tax liability (net)	0.00	0.00	0.00	0.00
Other long term liabilities	11155.64	90309.57	21246.07	19.04
Long term provisions	76.518.98	70963.52	5555.46	7.2
Total non current liabilities	188674.63	161873.10	26801.53	14.2
Short term borrowings	0.00	0.00	0.00	0.00
Trade payables	0.00	0.00	0.00	0.00
Other current liabilities	6137.55	6423.18	-285.63	-4.6
Short term provisions	91.60	78.94	12.22	13.4
Total current liabilities	6228.71	6502.12	-273.41	-4.4
Total capital and liabilities	210389.25	179567.95	30821.3	14.6
Tangible assets	323.34	326.76	-3.42	-1.05
Intangible assets	0.00	0.00	0.00	0.00
Capital work in progress	19.40	13.39	6.01	30.9
Other assets	0.00	0.00	0.00	0.00
Fixed assets	342.74	340.15	2.59	0.7

Non current investment	204170.42	173839.44	30330.98	14.8
Deffered tax assets (net)	0.00	0.00	0.00	0.00
Long term loans and advances	642.83	424.05	200.78	31.23
Other non current assets	0.00	0.00	0.00	0.00
Total non current assets	205155.99	174603.64	30552.35	14.89
Current asset:				
Current investment	0,00	0.00	0.00	0.00

Inventories	0.00	0.00	0.00	0.00
Trade receivable	0.00	0.00	0.00	0.00
Cash and cash Equivalent	1086.55	1035.56	50.99	4.6
Short term loans and advcances	4146.71	3928.75	217.96	5.25
Other current asset	0.00	0.00	0.00	0.00
Total current asset	5233.26	4964.31	268.95	5.31
Total asset	210389.25	179567.95	30821.3	14.64

INTERPRETATION

- Equity share capital, reserves, and excess are all included in the shareholders' fund. The entire shareholders' fund increased significantly by 27.7%, from 11,190.76 in 2021 to 15,482.59 in 2022. The rise in reserves and excess is primarily to blame for this growth
- Long-term borrowings, deferred tax liability, other long-term liabilities, and long-term provisions are some examples of the non-current liabilities. Comparing 2021 to 2022, the total non-current liabilities increased by 14.2%. The rise in other long-term liabilities is the main cause of this growth.
- Short-term borrowings, trade payables, other current obligations, and short-term provisions are all examples of current liabilities. In 2022 compared to 2021, the total current liabilities dropped by 4.4%. The decline in other current obligations is primarily to blame for this decrease.
- Non-current Assets: Non-current assets include long-term loans, advances, fixed assets, deferred tax assets, tangible and intangible assets, capital work-in-progress, and other non-current assets. In comparison to 2021, the total amount of non-current assets increased by 14.89% in 2022. Non-current investments have increased, which is primarily to blame for this rise.
- Current Assets: The current assets consist of cash and cash equivalents, short-term loans and advances, inventory, trade receivables, current investments, and other current assets. In 2022 compared to 2021, the total current assets increased by 5.31%. The rise

in short-term loans, advances, and cash and cash equivalents is mostly to blame for this surge.

The balance sheet as a whole demonstrates that the company's shareholders' money has grown along with its non-current and current assets. However, current obligations have slightly decreased. The rise in other long-term obligations is mostly to blame for the rise in non-current liabilities

1.10.4 COMPARATIVE BALANCE SHEET OF HDFC LIFE INSURANCE COMPANY LIMITED FOR THE YEAR 2021&2020

Particulars	2021	2020	Increase/ decrease	Percentage
<u>Equities and liabilities: -</u>				
Shareholders fund:				
Equity share capital	2020.96	2018.80	2.14	0.10
Total share capital	2020.96	2018.80	2.14	0.10
Reserves and surplus	91698.1	4775.53	4394.28	47.9
Total Reserves & surplus	91698.1	4775.53	4394.28	47.9
Total shareholders fund	11190.76	6794.33	4396.43	39.2
Non current liabilities:				
Long term borrowings	600.00	0.00	600.00	0.00
Deffered tax liability (net)	0.00	0.00	0.00	0.00
Other long term liabilities	90309.57	66203.45	24106.12	26.69
Long term provisions	70963.52	54182.08	16781.14	23.6
Total non current liabilities	161873.10	120385.53	41487.57	25.6
Current liabilities:				
Short term borrowings	0.00	0.00	0.00	0.00
Trade payables	0.00	0.00	0.00	0.00
Other current liabilities	6423.18	4901.91	1521.27	23.6
Short term provisions	78.94	75.02	3.92	4.9
Total current liabilities	6502.12	4976.93	1525.19	23.4
Total capital & liabilities	179567.95	132162.38	47405.57	26.3

<u>Assets:-</u>				
Non current assets:				
Tangible assets	326.76	321.71	5.05	1.5
Intangible assets	0.00	0.00	0.00	0.00
Capital work in progress	13.39	8.41	4.98	37.19
Other assets	0.00	0.00	0.00	0.00
Fixed assets	340.15	330.13	10.02	2.9
Non current investment	173839.44	127226.71	46613.27	26.8
Deffered tax assets (net)	0.00	0.00	0.00	0.00

Long term loans and advances	424.05	299.05	125	29.4
Other non current assets	0.00	0.00	0.00	0.00
Total non current assets	174603.64	127855.34	46748.3	26.7
Current asset				
Current investment	0.00	0.00	0.00	0.00
inventories	0.00	0.00	0.00	0.00
Trade receivable	0.00	0.00	0.00	0.00
Cash and cash Equivalent	1035.56	679.87	355.69	34.34
Short term loans and advances	3928.75	3627.17	301.58	7.67
Other current asset	0.00	0.00	0.00	0.00
Total current asset	4964.31	4307.04	657.27	13.2
Total asset	179567.95	132162.38	47405.57	26.39

INTERPRETATIONS

- The entire shareholders' money increased by 39.2%, from 6794.33 in 2020 to 11190.76 in 2021, mostly because reserves and surplus expanded significantly Next interface.
- Additionally, there has been a 25.6% increase in non-current liabilities from 2020 to 2021, from 120385.53 to 161873.10, principally as a result of an increase in other long-term liabilities and long-term provisions. A rise in other current liabilities is mostly to blame for the current liabilities' 23.4% growth from 4976.93 in 2020 to 6502.12 in 2021
- Non-current assets have grown by 26.7% in value from 127855.34 in 2020 to 174603.64 in 2021, mostly as a result of an increase in non-current investments. In 2020, the current assets were 4307.04, and as of today, they are 4964.31 in 2021, a 13.2% increase, mainly as a result of a rise in cash and cash equivalents as well as short-term loans and advances.
- Overall, the total assets increased by 26.39% from 132162.38 in 2020 to 179567.95 in 2021. This rise is mostly attributable to an increase in long-term provisions, reserves, and non-current investments.

1.11 FINDINGS AND SUGGESTIONS OF THE STUDY

- The return on assets of the company remained stable in 2018 and 2019, but decreased in 2020 and
- It was fluctuated in 2021 and 2022, with a low of 0.62 in 2022, indicating a decrease in the company's ability to generate profits using its assets.
- The return on capital employed (ROCE) for the years 2018 and 2019 remained stable,
- The return on capital employed (ROCE) decreased in 2020 and 2022, with a slight increase in 2021

1.12 CONCLUSION

By raising current assets or lowering current liabilities, HDFC Life Insurance Company should concentrate on enhancing their short-term liquidity. The organization needs to reassess its capacity to satisfy its immediate liabilities with its readily available liquid assets. They ought to concentrate on increasing operational efficiency in order to increase returns from shareholder investments. They should concentrate on enhancing their investing techniques in order to increase the returns on their assets. To increase revenue, they must concentrate on increasing asset utilization's corporation is utilizing its own capital to finance more of its assets and relying less on external debt.

In order to maintain its growth and profitability in the future, HDFC Life Insurance Company should keep concentrating on enhancing its profitability and operational effectiveness

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