"A STUDY ON FINANCIAL PERFORMANCE OF HDFC LIFE INSURANCE"

Project Report submitted to

MAHADEVI INSTITUTE OF TECHNOLOGY

In partial fulfilment of the requirement for the award of the degree of

BACHELOR OF COMMERCE HONOURS

Submitted by

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CERTIFICATE

This is to certify that the project report entitled "A STUDY ON FINANCIAL PERFORMANCE OF HDFC LIFE INSURANCE" is a bonafide record of project done by SAMPADA SETHI, under my guidance and supervision in partial fulfilment of the requirement for the award of the degree of BACHELOR OF COMMERCE HONOURS and it has not previously formed the basis for any Degree, Diploma and Associateship or Fellowship.

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DECLARATION

I, SAMPADA SETHI, hereby declare that the project work entitled "A STUDY ON FINANCIAL PERFORMANCE OF HDFC LIFE INSURANCE" is a record of independent and bonafide project work carried out by me under the supervision and guidance of Dr. Richa, Department of Commerce, Mahadevi Institute of Technology. The information and data given in the report is authentic to the best of my knowledge. The report has not been previously submitted for the award of any Degree, Diploma, Associateship or other similar title of any other university or institute.

Sampada Sethi

ACKNOWLEDGEMENT

I would like to take the opportunity to express my sincere gratitude to all people who have helped me with sound advice and able guidance. Above all, I express my eternal gratitude to the Lord Almighty under whose divine guidance; I have been able to complete this work successfully. I would like to express my sincere obligation to our Deputy Director, Geeta Chauhan for providing various facilities. I am thankful to Mrs. Bhawna, Co-Ordinator for providing proper help and encouragement in the preparation of this report. I express my sincere gratitude to Dr. Richa, whose guidance and support throughout the training period helped me to complete this work successfully. I would like to express my gratitude to all the faculties of the Department for their interest and cooperation in this regard. I express my sincere thanks to my friends and family for their support in completing this report successfully.

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CHAPTER - 1
INTRODUCTION

FINANCIAL PERFORMANCE

Performance is the action or process of performing a task or function, the execution of an action or accomplishing something. Financial performance is a subjective measure of how well a firm can use assets from its primary mode of business and generate revenues. The term is also used as a general measure of a firm's overall financial health over a given period. Analysts and investors use financial performance to compare similar firms across the same industry or to compare industries or sectors in aggregate. The financial performance identifies how well a company generates revenues and manages its assets, liabilities, and the financial interests of its stakeholders. It undertakes full diagnosis of the profitability and financial soundness of the business.

Thus, financial performance analysis is the process of determining the operating and financial characteristics of a firm from accounting and financial statements. The goal of such analysis is to determine the efficiency and performance of firm's management, as reflected in the financial records and reports. The analyst attempts to measure the firm's liquidity, profitability and other indicators that the business is conducted in a rational and normal way ensuring enough returns to the shareholders to maintain at least its market value.

Financial analysis involves the use of financial statements. A financial statement is a collection of data that is organized according to logical and consistent accounting procedures. Its purpose is to convey an understanding of some financial aspects of a business firm.

The term 'financial statements' generally refers to two basic statements: the Balance Sheet and the Income Statement. Financial performance analysis involves analysis and interpretation of these financial statements.

However, financial statements do not reveal all the information related to the financial operations of a firm, but they furnish some extremely useful information, which highlights two important factors profitability and financial soundness.

My topic for the project is "The financial performance analysis of HDFC Life Insurance." Insurance is the backbone in managing the risk of the country. The insurance providers offer diversity of products to business, providing protection from risk thereby ensuring financial security. It helps individual and organization to minimize the consequences of risk which impart significant cause on the growth and development of insurance industry.

We examine the past and current financial data of the company, in order to analyse its financial position, evaluate its performance, and estimate the future risk and potential of the company.

Working capital

Working capital, also known as net working capital (NWC), is the difference between company's current assets, such as cash, accounts receivable (customers' unpaid bills) and inventories of raw materials and finished goods, and its current liabilities, such as accounts payable. Net operating working capital is a measure of a company's liquidity and refers to the difference between operating current assets and operating current liabilities. In many cases these calculations are the same and are derived from company cash plus accounts receivable plus inventories, less accounts payable and less accrued expenses. Working capital is a measure of a company's liquidity, operational efficiency and its short-term financial health. If a company has substantial positive working capital, then it should have the potential to invest and grow. If a company's current assets do not exceed its current liabilities, then it may have trouble growing or paying back creditors, or even go bankrupt. To calculate the working capital, compare a company's current assets to its current liabilities. Current assets listed on a company's balance sheet include cash, accounts receivable, inventory and other assets that are expected to be liquidated or turned into cash in less than one year. Current liabilities include accounts payable, wages, taxes payable, and the current portion of long-term debt. Current assets are available within 12 months. Current liabilities are due within 12 months.

The standard formula for working capital is:

Working Capital= Current assets- Current liabilities.

Working capital that is in line with or higher than the industry average for a company of comparable size is generally considered acceptable. Low working capital may indicate a risk of distress or default. Working capital is important because it is necessary in order for businesses to remain solvent. In theory, a business could become bankrupt even if it is profitable. After all, a business cannot rely on accounting profits in order to pay its bills—those bills need to be paid in cash readily in hand. There are two concepts of working capital namely gross working capital and net working capital.

a) Gross Working Capital:

It is also called simply 'working capital'. It refers to the total of all the current assets of the firm. Current assets are the assets which are meant to be converted into cash within a year or an operating cycle. Stock of raw materials, stock of semi-finished goods, stock of finished goods, trade debtors, bills receivable, prepaid expenses, cash at bank and cash in hand are examples of current assets.

Gross working capital= total current assets

b) Net Working Capital:

For financing current assets, long-term funds as well as short term funds are used. Short-term funds are provided by current liabilities i.e. claims of outsiders which are expected to mature for payment within a year. Trade creditors, bills payable and outstanding expenses are examples of current liabilities. Net working capital refers to the excess of current assets over current liabilities.

Net working capital = current assets – current liability

The net working capital position of the firm is an important consideration as this will determine the firm profitability and risk. Here the profitability refers to the profit after expenses risk and refers to the profitability that a firm will become technically insolvent where it will be unable to meet obligation when they become due for payment.

LIQUIDITY RATIO

Liquidity ratios are a measure of the ability of a company to pay off its short term liabilities. Liquidity ratios determine how quickly a company can convert the assets and use them for meeting the dues that arise. The higher the ratio, the easier is the ability to clear the debts and avoid defaulting on payments.

Types of Liquidity Ratio

There are following types of liquidity ratios:

1. Current Ratio or Working Capital Ratio
2. Quick Ratio also known as Acid Test Ratio
3. Cash Ratio also known Cash Asset Ratio or Absolute Liquidity Ratio
4. Net Working Capital Ratio

- **Current Ratio or Working Capital Ratio**

The current ratio is a measure of a company's ability to pay off the obligations within the next twelve months. This ratio is used by creditors to evaluate whether a company can be offered short term debts. It also provides information about the company's operating cycle. It is also popularly known as Working capital ratio. It is obtained by dividing the current assets with current liabilities.

Current ratio is calculated as follows:

Current ratio = Current Assets / Current Liabilities

A higher current ratio around two(2) is suggested to be ideal for most of the industries while a lower value (less than 1) is indicative of a firm having difficulty in meeting its current liabilities.

- ## Quick Ratio or Acid Test Ratio

Quick ratio is also known as Acid test ratio is used to determine whether a company or a business has enough liquid assets which are able to be instantly converted into cash to meet short term dues. It is calculated by dividing the liquid current assets by the current liabilities

It is represented as

Quick Ratio = (Cash + Marketable securities + Accounts receivable) / Current liabilities

The ideal quick ratio should be one (1) for a financially stable company.

- ## Cash Ratio or Absolute Liquidity Ratio

Cash ratio is a measure of a company's liquidity in which it is measured whether the company has the ability to clear off debts only using the liquid assets (cash and cash equivalents such as marketable securities). It is used by creditors for determining the relative ease with which a company can clear short term liabilities.

It is calculated by dividing the cash and cash equivalents by current liabilities.

Cash ratio = Cash and equivalent / Current liabilities

- ## Net Working Capital Ratio

The net working capital ratio is used to determine whether a company has sufficient cash or funds to continue its operations. It is calculated by subtracting the current liabilities from the current assets.

Net Working Capital Ratio = Current Assets – Current Liabilities

Solvency Ratio

Solvency ratios are a key component of the financial analysis which helps in determining whether a company has sufficient cash flow to manage the debt obligations that are due. Solvency ratios are also known as leverage ratios. It is believed that if a company has a low solvency ratio, it is more at the risk of not being able to fulfil its debt obligation and is likely to default in debt repayment. Solvency ratios are used by prospective business lenders to determine the solvency state of a business. Companies that have a higher solvency ratio are deemed more likely to meet the debt obligations while companies with a lower solvency ratio are more likely to pose a risk for the banks and creditors. Solvency ratios vary with the type of industry, but as a good measure a solvency ratio of 0.5 is always considered as a good number to have.

Types of Solvency Ratios

Solvency ratio is calculated from the components of the balance sheet and income statement elements. Solvency ratios help in determining whether the organisation is able to repay its long term debt. It is very important for the investors to know about this ratio as it helps in knowing about the solvency of a company or an organisation.

Let us see in detail about the various types of solvency ratios.

- ## Debt to equity ratio

Debt to equity is one of the most used debt solvency ratios. It is also represented as D/E ratio. It is calculated by dividing a company's total liabilities with the shareholder's equity. These values are obtained from the balance sheet of the company's financial statements.

It is an important metric which is used to evaluate a company's financial leverage. This ratio helps understand if the shareholder's equity has the ability to cover all the debts in case business is experiencing a rough time.

It is represented as

Debt to equity ratio = Long term debt / shareholder's funds

Or

Debt to equity ratio = total liabilities / shareholders' equity

A high debt-to-equity ratio is associated with a higher risk for the business as it indicates that the company is using debt for fuelling its growth. It also indicates lower solvency of the business.

- ## Debt Ratio

Debt ratio is a financial ratio that is used in measuring a company's financial leverage. It is calculated by taking the total liabilities and dividing it by total capital. If the debt ratio is higher, it represents the company is riskier.

The long-term debts include bank loans, bonds payable, notes payable etc.

Debt ratio is represented as

Debt Ratio = Long Term Debt / Capital or Debt Ratio = Long Term Debt / Net Assets

Low debt to capital ratio is indicative of a business that is stable while a higher ratio casts doubt about a firm's long-term stability. Trading on equity is possible with a higher ratio of debt to capital which helps generate more income for the shareholders of the company

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- ## Proprietary Ratio or Equity Ratio

Proprietary ratios is also known as equity ratio. It establishes a relationship between the proprietors' funds and the net assets or capital.

It is expressed as

Equity Ratio = Shareholder's funds / Capital or Shareholder's funds / Total Assets

- **Interest Coverage Ratio**

Interest coverage ratio is used to determine whether the company is able to pay interest on the outstanding debt obligations. It is calculated by dividing company's EBIT (Earnings before interest and taxes) with the interest payment due on debts for the accounting period.

It is represented as

Interest coverage ratio = EBIT / interest on long term debt

Where EBIT = Earnings before interest and taxes or Net Profit before interest and tax.

PROFITABILITY RATIO

Profitability ratios are a type of accounting ratio that helps in determining the financial performance of business at the end of an accounting period. Profitability ratios show how well a company is able to make profits from its operations.

Let us now discuss the types of profitability ratios.

Types of Profitability Ratios

The following types of profitability ratios are discussed for the students of Class 12 Accountancy as per the new syllabus prescribed by CBSE:

1. Gross Profit Ratio
2. Operating Ratio
3. Operating Profit Ratio
4. Net Profit Ratio
5. Return on Investment (ROI)
6. Return on Net Worth
7. Earnings per share
8. Book Value per share
9. Dividend Payout Ratio
10. Price Earning Ratio

- ## Gross Profit Ratio

Gross Profit Ratio is a profitability ratio that measures the relationship between the gross profit and net sales revenue. When it is expressed as a percentage, it is also known as the Gross Profit Margin.

Formula for Gross Profit ratio is

Gross Profit Ratio = Gross Profit/Net Revenue of Operations × 100

A fluctuating gross profit ratio is indicative of inferior product or management practices.

- ## Operating Ratio

Operating ratio is calculated to determine the cost of operation in relation to the revenue earned from the operations.

The formula for operating ratio is as follows

Operating Ratio = (Cost of Revenue from Operations + Operating Expenses)/Net Revenue from Operations ×100

- ## Operating Profit Ratio

Operating profit ratio is a type of profitability ratio that is used for determining the operating profit and net revenue generated from the operations. It is expressed as a percentage.

The formula for calculating operating profit ratio is:

Operating Profit Ratio = Operating Profit/ Revenue from Operations × 100

Or Operating **Profit Ratio = 100 – Operating ratio**

- **Net Profit Ratio**

Net profit ratio is an important profitability ratio that shows the relationship between net sales and net profit after tax. When expressed as percentage, it is known as net profit margin.

Formula for net profit ratio is

Net Profit Ratio = Net Profit after tax ÷ Net sales

Or

Net Profit Ratio = Net profit/Revenue from Operations × 100

• Return on Capital Employed (ROCE) or Return on Investment (ROI)

Return on capital employed (ROCE) or Return on Investment is a profitability ratio that measures how well a company is able to generate profits from its capital. It is an important ratio that is mostly used by investors while screening for companies to invest.

The formula for calculating Return on Capital Employed is :

ROCE or ROI = EBIT ÷ Capital Employed × 100

Where EBIT = Earnings before interest and taxes or Profit before interest and taxes

Capital Employed = Total Assets – Current Liabilities

• Return on Net Worth

This is also known as Return on Shareholders funds and is used for determining whether the investment done by the shareholders are able to generate profitable returns or not.

It should always be higher than the return on investment which otherwise would indicate that the company funds are not utilised properly.

The formula for Return on Net Worth is calculated as:

Return on Shareholders' Fund = Profit after Tax / Shareholders' Funds × 100

Or **Return on Net Worth = Profit after Tax / Shareholders' Funds × 100**

- ## Earnings Per Share (EPS)

Earnings per share or EPS is a profitability ratio that measures the extent to which a company earns profit. It is calculated by dividing the net profit earned by outstanding shares.

The formula for calculating EPS is:

Earnings per share = Net Profit ÷ Total no. of shares outstanding

Having higher EPS translates into more profitability for the company.

- ## Book Value Per Share

Book value per share is referred to as the equity that is available to the the common shareholders divided by the number of outstanding shares

Equity can be calculated by:

Equity funds = Shareholders funds – Preference share capital

The formula for calculating book value per share is:

Book Value per Share = (Shareholders' Equity – Preferred Equity) / Total Outstanding Common Shares

- ## Dividend Payout Ratio

Dividend payout ratio calculates the amount paid to shareholders as dividends in relation to the amount of net income generated by the business.

It can be calculated as follows:

Dividend Payout Ratio (DPR) : Dividends per share / Earnings per share

- **Price Earning Ratio**

This is also known as P/E Ratio. It establishes a relationship between the stock (share) price of a company and the earnings per share. It is very helpful for investors as they will be more interested in knowing the profitability of the shares of the company and how much profitable it will be in future.

P/E ratio is calculated as follows:

P/E Ratio = Market value per share ÷ Earnings per share

It shows if the company's stock is overvalued or undervalued

STATEMENT OF THE PROBLEM

Effective management and control are most important function of financial management. Analysing financial performance is the process of evaluating the common parts of financial statements to obtain a better understanding of firm's position and performance. Financial performance analysis enables the investors and creditors evaluate past and current performance and financial position, and to predict future performance. Financial statement is used to judge the profitability and financial soundness of a firm. Hence the present study is to ascertain the financial performance of HDFC Life Insurance Ltd. Industry analysis is a tool that facilitates a company's understanding of its position relative to other companies that produce similar products or services. Understanding the forces at work in the overall industry is an important component of effective strategic planning. Industry analysis enables business owners to identify the threats and opportunities facing their businesses, and to focus their resources on developing unique capabilities that could lead to a competitive advantage. An industry analysis consists of three major elements: the underlying forces at work in the industry; the overall attractiveness of the industry; and the critical factors that determine a company's success within the industry. Industry analysis also provides the essential framework for Company analysis.

COMPANY PROFILE

The insurance industry helps to eliminate risks (as when fire-insurance providers demand the implementation of safe practices and the installation of hydrants), spreads risks from individuals to the larger community, and provides an important source of long-term finance for both the public and private sectors. The history of insurance traces the development of the

modern business of insurance against risks, especially regarding cargo, property, death, automobile accidents, and medical treatment. The market for insurance in India which covers both the public and private sector organizations is the insurance in India. It is listed in the Constitution of India in the Seventh Schedule as a Union List subject, meaning it can only be legislated by the Central Government only. The insurance industry of India has 57 insurance companies 24 are in the life insurance business, while 33 are non-life insurers. Among the life insurers, Life Insurance Corporation (LIC) is the sole public sector company. There are six public sector insurers in the non-life insurance segment. In addition to these, there is a sole national re-insurer, namely General Insurance Corporation of 29 India (GIC Re). Other stakeholders in the Indian Insurance market include agents (individual and corporate), brokers, surveyors and third-party administrators servicing health insurance claims. The insurance sector has gone through a number of phases by allowing private companies to solicit insurance and also allowing foreign direct investment. India allowed private companies in insurance sector in 2000, setting a limit on FDI to 26%, which was increased to 49% in 2014. Since the privatization in 2001, the largest life-insurance company in India, Life Insurance Corporation of India has seen its market share slowly slipping to private giants like HDFC Life, ICICI Prudential Life Insurance and SBI Life Insurance Company. In India, the overall market size of the insurance sector is expected to US$ 280 billion in 2020. Government's policy of insuring the uninsured has gradually pushed insurance penetration in the country and proliferation of insurance schemes. Gross premium collected by life insurance companies in India increased from Rs. 2.56 trillion (US$ 39.7 billion) in FY12 to Rs. 7.31 trillion (US$ 94.7 billion) in FY20. During FY12-FY20, premium from new business of life insurance companies in India increased at a CAGR of 15% to reach Rs. 2.13 trillion (US$ 37 billion) in FY20. Overall insurance penetration (premiums as% of GDP) in India reached 3.71% in FY19 from 2.71% in FY02. Life insurers reported 14% YoY growth in individual annualized premium equivalent (APE) in October 2020, compared with 4% YoY in September 2020. The market share of private sector companies in the non-life insurance market rose from 15% in FY04 to 56% in FY21 (till April 2020). In life insurance segment, private players had a market share of 31.3% in new business in FY20. In October 2020, health insurance witnessed an increase in premiums at Rs. 4,074.8 crore (US$ 553.93 million) compared with Rs. 3,840.6 crore (US$ 554.29 million), recording 6% growth on y-o-y basis. Retail health also witnessed a 30% increase in premiums to Rs. 1,982.6 crores (US$ 269.69 million)

FUNCTIONS:

Functions of insurance are to spread the loss caused by a particular risk over several persons, who are exposed to it and who agree to insure themselves against the risk. The most important function of insurance is to spread the risk over a number of persons who are insured against the risk, share the loss of each member of the society on the basis of the probability of loss to their risk and provide security against losses to the insured.

So, insurance functions are;

1. The system to spread the risk over several persons who are insured against the risk.

2. The principle to share the loss of each member of the society based on the probability of loss to their risk.

3. The method to provide security against losses to the insured.

The functions of insurance can be studied into two parts:

1. Primary Functions.

2. Secondary Functions.

Primary Functions of Insurance:

1. Insurance provides certainty: -

Insurance provides certainty of payment at the uncertainty of loss. The uncertainty of loss can be reduced by better planning and administration. But the insurance relieves the person from such a difficult task. Moreover, if the subject matters are not adequate, the self-provision may prove costlier. There are different types of uncertainty in a risk: Whether the risk will occur or not, when will occur, how much loss will be there? In other words, there is the uncertainty of happening of time and amount of loss. Insurance removes all these uncertainties and the assured is given certainty of payment of loss. The insurer charges the premium for providing the said certainty.

2. Insurance provides protection: -

The main function of insurance is to protect the probable chances of loss. The time and amount of loss are uncertain and at the happening of risk, the person will suffer the loss in the absence of insurance. The insurance guarantees the payment of loss and thus protects the assured from sufferings. The insurance cannot check the happening of risk but can provide for losses at the happening of the risk.

3. Risk-Sharing: -

The risk is uncertain, and therefore, the loss arising from the risk is also uncertain. When risk takes place, the loss is shared by all the persons who are exposed to the risk. The risk-sharing in ancient times was done only at the time of damage or death; but today, based on the probability of risk, the share is obtained from every insured in the shape of premium without which protection is not guaranteed by the insurer.

Secondary Functions of Insurance:

Besides the above primary functions, the insurance works for the following functions:

1. Prevention of loss: -

The insurance joins hands with those institutions which ate engaged in preventing the losses of the society because the reduction in loss causes the lesser payment to the assured arid so more saving is possible which will assist in reducing the premium. Lesser premium invites more business and more business cause lesser share to the assured. So again, premium is reduced to what will stimulate more business and more protection to the masses.

Therefore, the insurance assists financially to the health organization, fire brigade, educational institutions and other organizations which are engaged in preventing the losses of the masses from death or damage.

2. It Provides Capital: -

The insurance provides capital to society. The accumulated funds are invested in the productive channel. The death of the capital of the society is minimized to a greater extent with the help of investment in insurance. The industry, the business, and the individual are benefited by the investment and loans of the insurers.

3. It Improves Efficiency : -

Insurance eliminates worries and miseries of losses at death and destruction of property. The carefree person can devote his body and soul together for better achievement, it improves not only his efficiency but the efficiencies of the masses are also advanced.

4. It helps Economic Progress : -

The insurance by protecting the society from huge losses of damage, destruction, and death, provides an initiative to work hard for the betterment of the masses. The next factor of economic progress, the capital, is also immensely provided by the masses. The property, the valuable assets, the man, the machine and the society cannot lose much at the disaster.

FUNCTIONS OF INSURANCE COMPANY

1. Provides Reliability : -

The main function of insurance is that eliminates the uncertainty of an unexpected and sudden financial loss. This is one of the biggest worries of a business. Instead of this uncertainty, it provides the certainty of regular payment i.e., the premium to be paid.

2. Protection : -

Insurance does not reduce the risk of loss or damage that a company may suffer. But it provides a protection against such loss that a company may suffer. So at least the organization does not suffer financial losses that debilitate their daily functioning.

3. Pooling of Risk: -

In insurance, all the policyholders pool their risks together. They all pay their premiums and if one of them suffers financial losses, then the payout comes from this fund. So, the risk is shared between all of them.

4. Legal Requirements: -

In a lot of cases getting some form of insurance is actually required by the law of the land. Like for example when goods are in freight, or when you open a public space getting fire insurance may be a mandatory requirement. So, an insurance company will help us fulfill these requirements.

5. Capital Formation: -

The pooled premiums of the policyholder's help create a capital for the insurance company. This capital can then be invested in productive purposes that generate income for the company.

CHAPTER -2
REVIEW OF LITERATURE

REVIEW OF LITERATURE

Review of literature is very important to give better understanding and insight necessary to develop a broad conceptual framework in which a particular problem can be examined. It helps in the formation of specific problem and helps acquaint the investigator to what is already known in relation to the problem under review and it also provides a basis for assessing the feasibility of the research. Review of literature is important to a scholar in order to know what has been established and documented as there are critical summaries of what is already known about a particular topic. Therefore a review of literature helps in relating the present study to the previous ones in the same field.

The review of some of the literature related to the performance of mutual fund is shown below:

Darzi T. A., (2011) in the Ph. D. dissertation 'Financial Performance of Insurance Industry in Post Liberalization Era in India' stated that the insurance sector in the country is passing through a period of structural changes under the combined impact of financial sector reforms in general and insurance sector in particular. The market has transformed from earlier government monopoly to a competitive structure. Liberalization has led to a paradigm shift in the Indian life insurance sector. Liberalization has introduced competition leading to expansion and growth insurance. Hence, the larger cake is being shared by the existing and new players. It suggests that life insurers should come out with innovative covers and selling techniques coupled with wider choice of pricing and improved customer focus for growth and expansion of the Indian insurance market. The thesis concentrates on performance evaluation of the non life insurance sector.

Kamal Gulati, (2012) studied customer satisfaction level and analyzed quality of service and post sale relationship is very important. Many a times in Insurance industry, it is assumed that" Sell it and forget it" nature of insurance agents and employees. But it is wrong.

Rashmita Sahoo, (2012) analyzed Indian Life insurance market. More 80%ofthe population in India does not have any lifeinsurance cover. There was monopoly of LIC. But after privatization and opening up of life insurance sector, this sector is developing very fast. The growth rate of life insurance industry inIndia is @ 15 to 20% per annum.

Swadesh Kumar Dash (2013) evaluated the prospectus and challenges for insurance sector in growing economy of India. Indian economy is one of the leading economies in the world. After China, India is fastest growing economy. Insurance sector is growing whenever there is growth of economy across the world. It declares that there is huge growth potential for insurance sector inIndia.

Preeti Upadhyay, (2013) the main objective has studied The Satisfaction level of the policy folders. Simultaneously it is aimed to study the trends in insurance sector before privatization and after a decade of privatization. Various products and plans offered by insurance companies have been studied and awareness about public sector companies and private sector companies has been analyzed.

Yogita Sharma, (2013) The SWOT analysis i.e. "Strength and weakness" and "Opportunities and threats" in insurance sector in India has been studied. There is huge potential for growth in insurance sector in India, very low penetration of insurance is a big concern as well as it is big opportunities also.

Manoj Kumar Mishra, (2014) analyzed demand of life insurance. For this annual financial data from the year 1970-71 up to 2009-10 has been considered. It is pointed out that factors like income, inflation, interest rates, financial development, grows domestic savings and the rate of growth of economy play vital role in creating the demand of life insurance.

N. Prasanna Kumar, (2014) took overall review of Indian insurance market. There are 52 insurance companies out of which 24 are in life insurance sector and 28 are in general insurance sector. 8 companies belong to public sector and privately company and insurance company

Suman Si, (2014) the impact of advertisement on decision making of consumer i.e. Policyholder has been studied. The Study also focuses on the Role of IRDA as governing body and it has taken overview of the insurance companies and their advertising efforts on the insurance sector.

Ruby Singh, (2014) Studied the need and importance of foreign direct investment in Indian Insurance Industry. Before it the review of the scenario of Insurance sector in India on three levels has been taken

(i) Pre independence
(ii) Nationalization and
(iii) Post IRDA. It is discussed and analyzed that there is huge potential for expansion and growth for insurance sector in the country.

CHAPTER -3
OBJECTIVES

OBJECTIVES

- To evaluate working capital position of HDFC life insurance by analysing liquidity and profitability ratio

- To suggest some measures for the improvement of financial performance of HDFC life insurance

CHAPTER- 4

RESEARCH METHODOGY

RESEARCH METHODOLOGY

Research is a process of systematic inquiry that entails collection of data; documentation of critical information; and analysis and interpretation of that data/information, in accordance with suitable methodologies set by specific professional fields and academic disciplines.

Research is conducted to...

- Evaluate the validity of a hypothesis or an interpretive framework.
- To assemble a body of substantive knowledge and findings for sharing them in appropriate manners.
- To help generate questions for further inquiries.

RESEARCH DESIGN

Research design is the framework of research methods and techniques chosen by a researcher to conduct a study.

SOURCES OF DATA

The secondary data published from the company is used for the collection of information required for the report.

Secondary data refers to data that is collected by someone other than the primary user. Common sources of secondary data for social science include censuses, information collected by government departments, organizational records and data that was originally collected for other research purposes.

PERIOD OF STUDY

For the purpose of the study, data of three financial years that is from 2020-2023 of HDFC life has been taken into consideration.

AREA OF STUDY

We have taken Dehradun, Uttarakhand area into consideration for this project.

SCOPE 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 mainly attempts to analyse the financial performance of the company selected for the study. The financial authorities can use this for evaluating their performance in future, which will help to analyse financial statements and help to apply the resources of the company properly for the development of the company and IT employees to bring overall growth. There can be forecasting to evaluate the overall company in future. However, financial statement analysis is not all about ratio analysis it goes beyond that.

SIGNIFICANCE OF THE STUDY

The significance of the study is to know about the financial performance of the company and its objectives. It clearly specifies the position of the company and helps to know about the future risk involved in it.

TOOLS FOR ANALYSIS

Ratio analysis is the main tool used for liquidity and profitability of the company. Mainly two types of ratios are used: liquidity ratio and profitability ratio

CHAPTER -5
DATA ANALYSIS

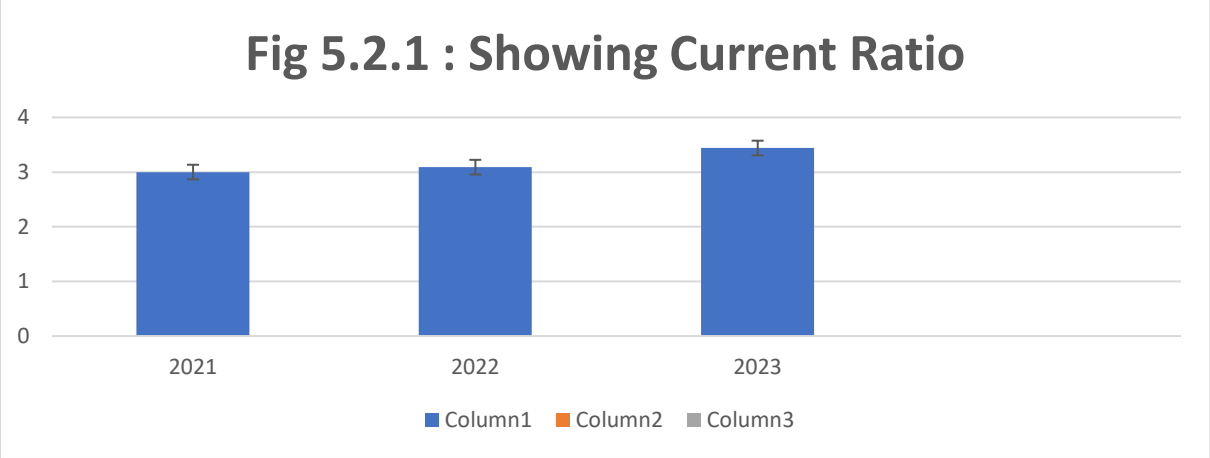
LIQUIDITY RATIO

Current Ratio

(Ideal ratio=2:1) Current ratio = $\frac{\text{Current Assets}}{\text{Current liability}}$

Table: Showing Current Ratio

Year	Current assets (in crs)	Current liability (in crs)	Current ratio
2021	13945.52	4650.78	3.00:1
2022	15836.30	5118.84	3.09:1
2023	17156.94	4989.93	3.44:1



INTERPRETATION

A very high current ratio indicates that too much of money is blocked in current assets, too much cash is idle and too much money is blocked in stocks. It implies that funds are not properly used in the business. The ideal current ratio is 2:1

Quick Ratio

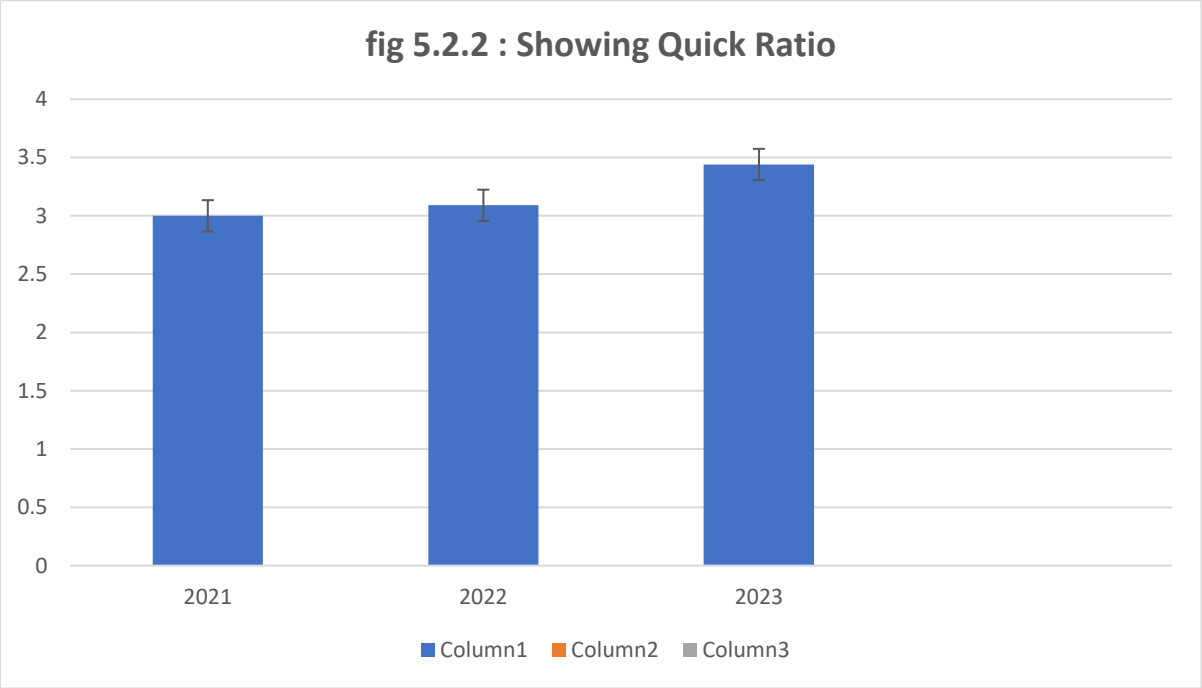
(Ideal ratio=1:1)

Quick Ratio= Quick Assets

Current Liabilities

Table: Showing Quick Ratio

Year	Quick Assets (in crs)	Current liability (in crs)	Quick Ratio
2021	13945.52	4650.78	3.00:1
2022	15836.30	5118.84	3.09:1
2023	17156.94	4989.93	3.44:1



INTERPRETATION

There are no inventories or prepaid expenses to be deducted from current assets to find quick assets. So current assets = quick assets. The financial position of the firm is said to be good if quick ratio is 1:1 (ideal) or more. A higher quick ratio means that quick assets are sufficient to pay off the short-term obligations. The ratios over the years are greater than 1:1 and are thus satisfactory.

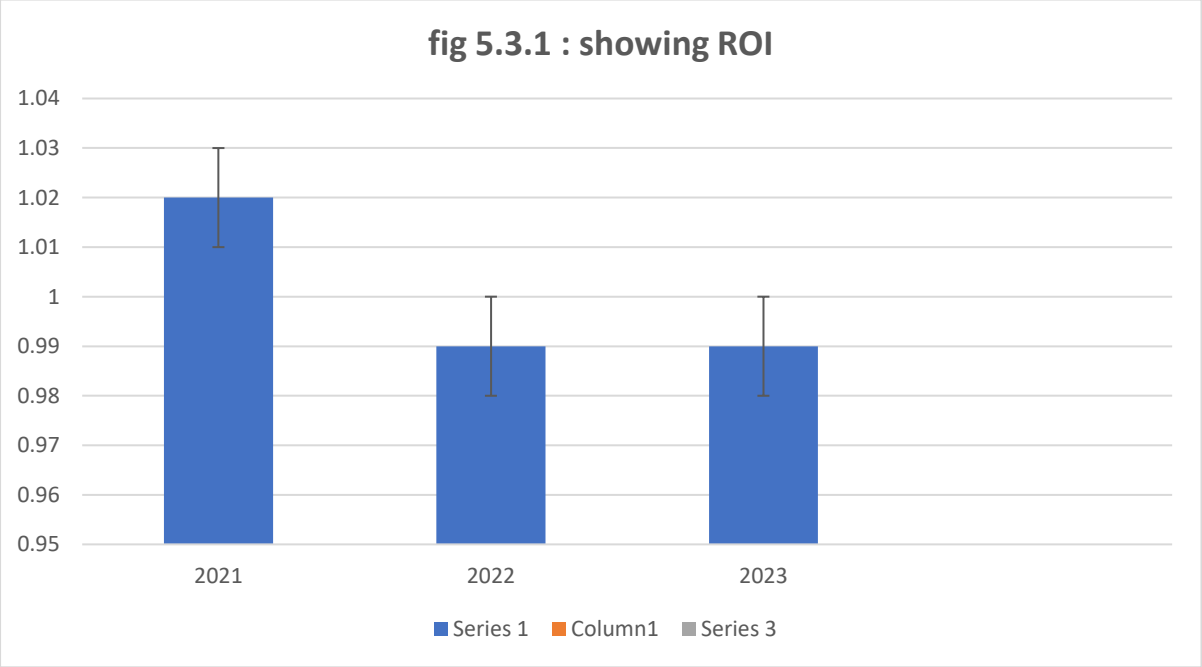
PROFITABILITY RATIO

Return on Investment Return on Investment = Profit before interest and tax X 100

Capital employed

Table: Showing ROI

Year	Profit before int. & tax (in crs)	Capital employed (in crs)	ROI
2021	1124.94	105832.04	1.02%
2022	1291.02	124897.00	0.99%
2023	1313.92	127233.92	0.99%



INTERPRETATION

The figure shows that the company is not having sufficient return on capital employed. The ratios are very much low compared to the ideal ratio of 15 % even though there is profit. Thus, there is a low efficient use of capital employed.

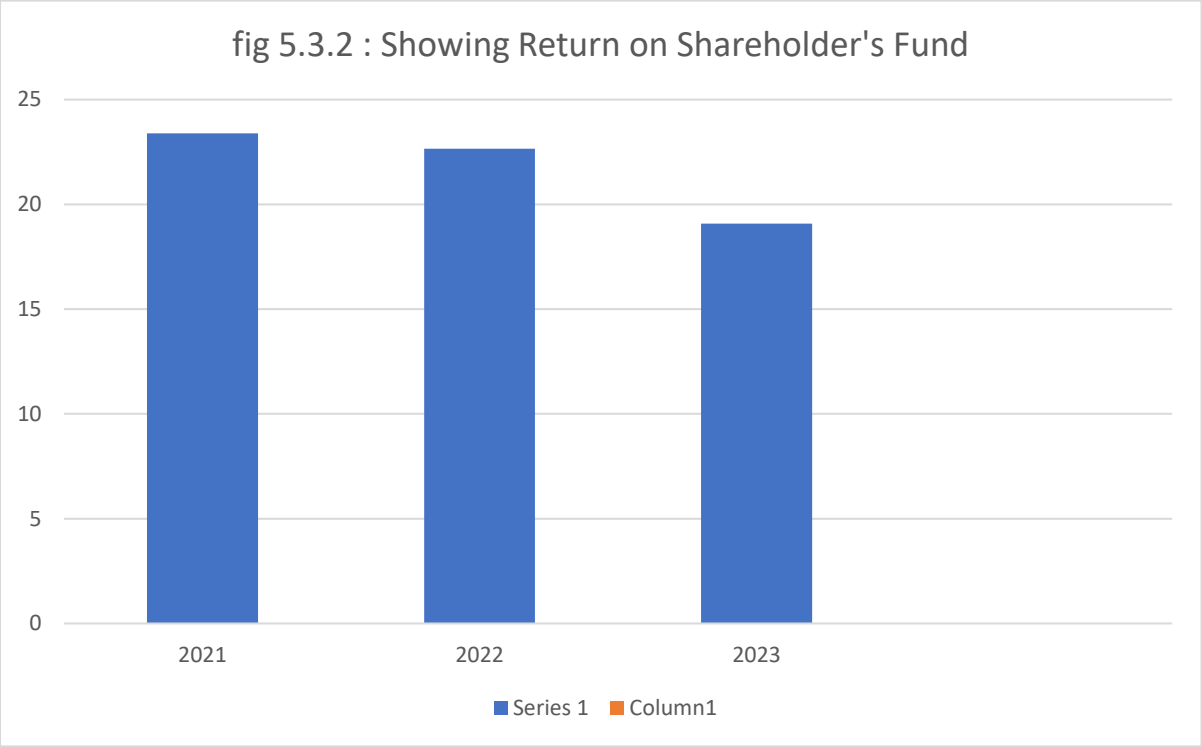
Return on Shareholder's Fund

Return on shareholders' fund = Net profit after interest and tax X 100

Shareholder's fun

Table Showing Return on Shareholder's Fund

Year	Net profit after int. & tax (in crs)	Shareholder's fund (in crs)	Return on shareholder's fund
2021	1107.20	4734.37	23.39%
2022	1277.93	5642.21	22.65%
2023	1237.44	6801.03	19.08%



INTERPRETATION

The figure shows that the return on shareholders' fund is satisfactory. It means that the shareholders' funds have been used effectively by the company.

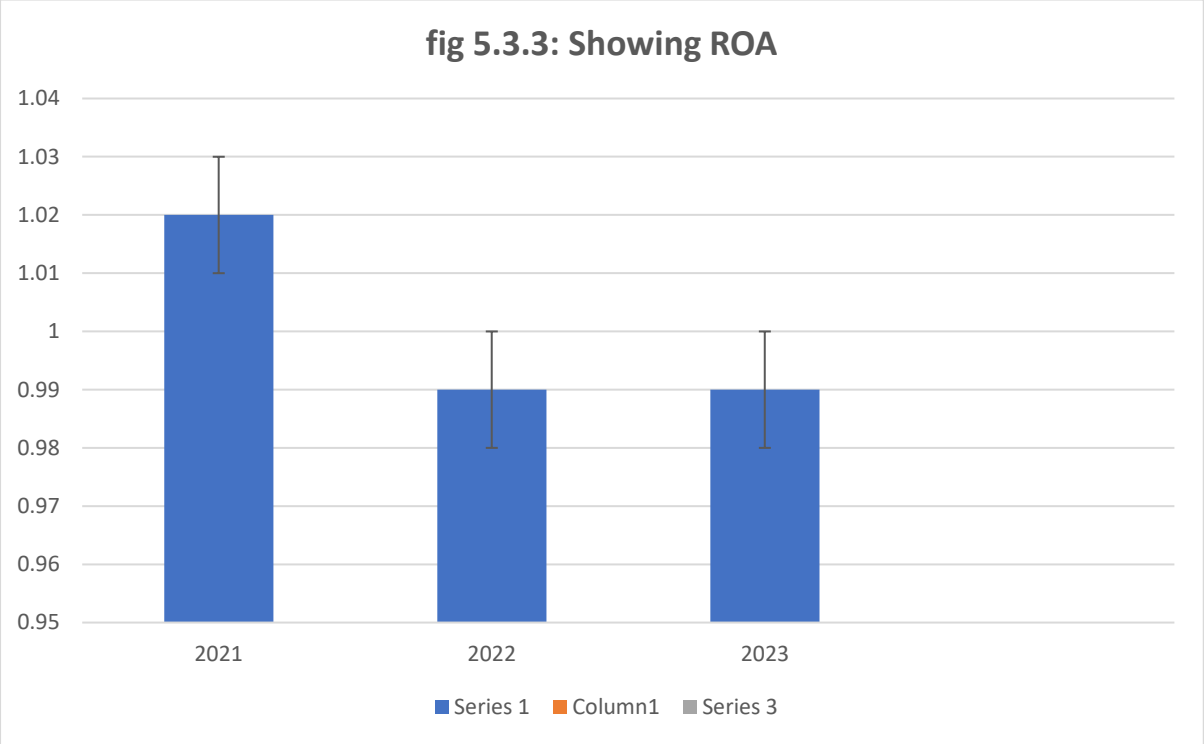
Return on Assets

Return on Assets = Net Income X 100

Total Asset

Table Showing Return on Assets

Year	Net income (in crs)	Total assets (in crs)	ROA
2021	1124.94	110428.82	1.02%
2022	1291.02	130015.84	0.99%
2023	1313.92	132223.85	0.99%



INTERPRETATION

The figure shows that the company is not having sufficient return on assets. The ideal ratio is 5 % but the company is having less than 5 %. A low ROA indicates that they are not able to make maximum use of their assets for getting more profits. A higher ratio shows effective utilization of asset for getting more net income.

CHAPTER -6
FINDINGS

FINDINGS

- The quick ratios over the years are greater than 1:1 and it means that the business is financially secure in short-term future.
- The company is not having sufficient return of capital employed as the returns are very less than ideal ratio of 15 %. Overall, the company is less efficient in the use of capital employed.
- The company has a high return on shareholders' fund and is profitable from the shareholders point of view.
- Return on assets is very less than the ideal ratio of 5% and it indicate that they are not able to make maximum use of their assets for more profits.

CHAPTER -7
SUGGESTIONS & LIMITATIONS

SUGGESTIONS

- The organization should try to maintain the current ratio at or near to ideal level i.e.2:1.
- Return on assets should be maintained at a higher level as it is beneficial for the company.
- It is advisable that the company earn more profit by efficient use of capital employed.
- The organization should have a clear business plan
- The company should ensure customers pay on time
- The company should know day to day functioning
- The organization should choose the right type of funding for the business
- The company should know show to tackle problems when they arise

LIMITATIONS

- Only secondary data is available, so the reliability cannot be ensured.
- Done only for the past five years due to time constraint.
- Data collected is of historical in nature and it cannot be used as an index for future estimates.

CHAPTER -8
CONCLUSION

CONCLUSION

HDFC Life is one of India's leading insurance companies offering a range of individual and group insurance solutions that make various life stages need of customer. The present study was conducted with the main objective of analysing the financial performance of HDFC Life Insurance and for this purpose I have taken financial statements of past three years (2021-2023). This study included analysis of liquidity, profitability and position and working capital management of HDFC Life Insurance. The study revealed that the liquidity position is absurd at the beginning but improves over the years. But the profitability position is not much satisfactory.

CHAPTER -9
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