Our Heritage

ISSN: 0474-9030

Vol-68-Issue-1-January-2020

A Study on Financial Performance of Selected Public Sector and Private Sector Banks In India

MANJULA.V
M.Com.,M.Phil.,
Assistant Professor,
Department of Commerce,
St.Joseph's College of Arts and Science for Women, Hosur.

ABSTRACT:

The banking sector plays a most important role in the economic development of the country. Banks are helps in mobilization and allocation of financial savings from the net savers to the borrowers. It is used to measure firm's overall financial health over a given period of time and can also be used to compare similar firms across the same industry or to compare industries or sectors in aggregation. Financial performance analysis includes analysis and interpretation of financial statements in such a way that it undertakes full judgment of the profitability and financial soundness of the business. Many models are applied to find the financial positions of the banks. The findings are very significant for different parties such as investors, shareholders, employees, competitors, general public.

Keywords: Banks, Financial performance, CAMEL analysis

INTRODUCTION:

Finance is very essential for smooth running of the business. It has been rightly termed as universal lubricant that keeps the firm dynamic. Financial statement is an organized collection of data according to logical and consistent accounting procedures. Its purpose is to get across an understanding of some financial aspects of a business firm. It may show assets position at a moment of time as in the case of balance sheet , or may reveal a series of activities over a period of times, as in the case of an income statement. Financial statement (or financial report) is a formal record of the financial activities and position of a business, person, or other entity. Relevant financial information is presented in a planned manner and in a form easy to understand. Financial statements are the written records that convey the financial activities and conditions of business entities. Financial analysis is the process of identifying financial strength and weakness of a business by establishing relationship between the fundamentals of balance

ISSN: 0474-9030

Vol-68-Issue-1-January-2020

sheet and income statement. The information pertaining to the financial statement is of great importance through which interpretation and analysis is made.

OBJECTIVES OF THE STUDY:

- To study the growth of selected public and private sector banks in India.
- To investigate the Capital adequacy, Asset Quality, Management Efficiency, Earning and Profitability and Liquidity position of selected private and public sector banks in India.
- To understand the financial performance of selected public and private sector banks in India.

TOOLS UESED IN THE STUDY:

- CAMEL Analysis**,** Mean**,** Standard Deviation**,** Co-efficient of Variance.

LIMITATION OF THE STUDY:

- This study is conducted mainly based on secondary data.
- This result of the study is applicable only to SBI, BOB, HDFC, ICICI Bank.

RESEARCH METHODOLOGY:

The present study is emprical in nature, in which conclusions have been reached on the basis of secondary data.

REVIEW OF LITERATURES:

Balaji and Kumar (2016) examined and compared the overall financial performance of selected public and private sector banks in India during the period 2011-12 to 2015-16 with help of mean and T-Test . They concluded that public sector banks must redefine their strategy by taking into account their strengths, weakness and operating market.

Melaku Alemu and Melaku Aweke (2017) have analyzed the performance of private commercial banks using CAMEL rating model in their study. Samples of 6 private banks were taken for their study for a period of 10 years. To conclude the profitability impact, explanatory variables were used. The banks were listed on the basis of various descriptive and inferential analyses.

ISSN: 0474-9030

Vol-68-Issue-1-January-2020

Taqi and Mustafa (2018) analyzed the expansion and performance of Punjab National Bank and HDFC bank for the period 2006-07 to 2015-16. They made quantitative analysis and found that PNB is more financially sound that HDFC but in context of deposits and expenses HDFC has better managing efficiency.

CAMEL ANALYSIS:

CAMEL rating is a financial performance evaluation system often useful to the banking industry, which originally developed by the uniform financial institutions rating system (UFIRS). It is a composite rating system based on the financial ratios of the bank's financial statements. The banks under evaluation are rated from 1(best) to 5(worst) in each of the CAMEL dimensions in order to identify the best and worst banks. Accordingly, the stakeholders are expected to take necessary reactive and proactive measures towards the prosperity of the banks. "CAMEL" model as a tool is very effective, efficient and accurate to be used as a performance evaluate in banking industries and to be hopeful of the future and relative risk. "Camel" ratios are calculated in order to focus on financial performances. In this study some important ratios are chosen and calculated to evaluate bank's performance. Camels rating can be efficient tools to manage & control and decide in management view. piyu (1992) notes "currently , financial ratios are often used to measuring the overall financial soundness of a bank and the quality of its management. Bank regulators, for example, use financial ratios to help evaluate banks performances as part of the CAMEL system". CAMEL approach is significant tool to assess the relative financial strength of a bank and to suggest necessary measures to improve weaknesses of a bank.

ANALYSIS AND INTERPRETATION:

I. **CAPITAL ADEQUEACY RATIO:**

Capital adequacy is assumed to be a crucial reflector of the financial soundness of a bank. In order to survive, it is indispensable to protect the stakeholder confidence and preventing its bankruptcy. Capital and assumed to be a cushion that offers protection to stakeholders and it enhances the stability and efficiency of bank. Capital adequacy represents the overall financial

ISSN: 0474-9030

Vol-68-Issue-1-January-2020

position of a bank and also the ability of management to meet the need for additional capital. It reflects whether the bank has sufficient capital to bear unanticipated losses in the future and bank leverage. CAR shows the internal strength of the bank to withstand losses during the crisis.

- ADVANCES TO TOTAL ASSETS
- TOTAL CAPITAL TO TOTAL ASSETS

ADVANCES TO ASSETS

This is a ratio of the total advances to total assets. This ratio indicates a bank's aggressiveness in lending which ultimately results in better profitability. A total advance also includes receivables. The value of total assets excludes the revaluations of all the assets.

$$\text{Advances to Assets Ratio} = \frac{\text{Total Advances}}{\text{Total Assets}} * 100$$

Table showing the Advances to Assets ratio:

Year / Bank	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	MEAN	STD.DEV	C.V
SBI	56.25	59.99	61.84	64.96	66.76	67.50	63.48	64.79	58.06	56.01	61.96	4.22	6.81
BOB	63.32	62.89	63.81	64.24	59.98	60.20	59.87	57.16	55.16	59.37	60.60	2.99	4.93
HDFC	53.95	56.56	57.68	57.83	59.88	61.64	61.90	65.54	64.20	61.88	60.11	3.60	5.98
ICICI	57.56	49.86	53.26	53.57	54.07	56.96	59.98	60.40	60.15	58.28	56.41	3.56	6.31

(Source: Data computed from annual reports of SBI, BOB, HDFC, ICICI banks)

Interpretation: while comparing the Average of Advances to Assets ratio, SBI has the highest and ICICI has the lowest ratio.

TOTAL CAPITAL TO TOTAL ASSETS:

Capital to Assets ratio helps determine whether a company or bank has enough capital. A financial regulatory body can use the capital to assets ratio to set a minimum level of capital that banks must have. Business managers can use the capital to assets to adjust the company's capital

ISSN: 0474-9030

Vol-68-Issue-1-January-2020

and asset levels to reach healthy level. Investors may use it to choose whether to put money in the company.

$$\text{Capital to Assets} = \frac{\text{Capital}}{\text{Assets}} * 100$$

Table showing the Total Capital to Total Assets ratio:

Year / Bank	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	MEAN	STD.DEV	C.V
SBI	0.07	0.06	0.05	0.05	0.04	0.04	0.04	0.03	0.03	0.03	0.04	0.01	29.74
BOB	0.16	0.13	0.11	0.09	0.08	0.07	0.06	0.07	0.07	0.07	0.09	0.03	36.58
HDFC	0.23	0.21	0.17	0.14	0.12	0.10	0.08	0.07	0.06	0.05	0.12	0.06	51.15
ICICI	0.39	0.31	0.28	0.24	0.21	0.19	0.18	0.16	0.15	0.15	0.23	0.08	34.53

(Source: Data computed from annual reports of SBI, BOB, HDFC, ICICI banks)

Interpretation: while comparing the ratio of Total Capital to Total Assets of banks, reveals that ICICI bank is highest compare to other banks.

II. ASSETS QUALITY:

The quality of assets is significant aspect to assess the degree of financial strength of a bank. The principal purpose to measure the assets quality is to determine the composition of non-performing. Asset quality refers to the quality of bank's loan which is the major asset that generates the major share of its income. It is calculated by nonperforming loan ratio. It actions the risk facing a bank. The lower the ratio the better the bank performing. The higher NPL affects the profitability of the banks. It assures to cover the bad and doubtful loans of the bank. This parameter will benefit the bank in understanding the amount of funds that have been reserved by the banks in the event of bad investment.

- INTEREST INCOME TO TOTAL ASSETS
- NET NPA TO ADVANCES

INTEREST INCOME TO TOTAL ASSETS

ISSN: 0474-9030

Vol-68-Issue-1-January-2020

This ratio refers to the interest earned on the total assets. Interest income is a basic source of revenue for banks. The interest income as a percentage of total assets indicates the ability of the bank in generating income from its lending.

$$\text{Interest Income to Total Assets} = \frac{\text{Interest Income}}{\text{Total Assets}} * 100$$

Table showing the Interest Income to Total Assets ratio:

Year / Bank	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	MEAN	STD.DEV	C.V
SBI	6.61	6.74	6.65	7.98	7.64	7.61	7.44	7.25	6.49	6.38	7.08	0.57	8.03
BOB	6.64	6.00	6.11	6.63	6.43	5.90	6.01	6.56	6.07	6.06	6.24	6.24	4.64
HDFC	8.91	7.27	7.19	8.08	8.76	8.37	8.21	8.50	8.02	7.54	8.08	0.59	7.35
ICICI	8.20	7.07	6.39	7.08	7.47	7.43	7.60	7.32	7.02	6.25	7.18	0.57	7.90

(Source: Data computed from annual reports of SBI, BOB, HDFC, ICICI banks)

Interpretation: The ratio of Interest Income to Total Assets, depict that the ratio is high in case of HDFC bank and it is low in the case of BOB.

NET NPA TO ADVANCES

Non- performing assets (NPA) ratio means the net NPA to loans (advances) ratio is used as measure of the overall quality of the bank’s loan book. Higher ratio reflects rising bad quality of loans. Hence, the lower the NPA level, the better is the quality of the assets of the bank.

$$\text{NPA to Advances} = \frac{\text{NPA}}{\text{Advances}} * 100$$

Table showing the NPA to Advances ratio:

Year / Bank	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	MEAN	STD.DEV	C.V
SBI	1.78	1.72	1.63	1.82	2.10	2.57	2.12	3.81	3.71	5.73	2.70	1.33	49.15
BOB	0.31	0.34	0.35	0.54	1.28	1.52	1.89	4.96	4.72	5.49	2.14	2.09	97.79
HDFC	0.63	0.31	0.19	0.18	0.20	0.27	0.25	0.28	0.33	0.40	0.30	0.14	44.54
ICICI	2.09	1.93	1.11	0.73	0.77	0.97	1.61	2.98	5.43	5.43	2.31	1.79	77.44

(Source: Data computed from annual reports of SBI, BOB, HDFC, ICICI banks)

ISSN: 0474-9030

Vol-68-Issue-1-January-2020

Interpretation: The ratio of NPA to Advances, describe that the ratio is high in case of HDFC bank and it is low in the case of BOB.

III. MANAGEMENT EFFICIENCY

Management quality reflects the management soundness of a bank. The management acts as a safeguard to operate the bank in a smooth and decent manner and is called excellence management or skillful management, whenever it controls its cost and increases productivity, ultimately achieving higher profits.

- TOTAL ADVANCES TO TOTAL DEPOSITS
- BUSINESS PER BRANCH

TOTAL ADVANCES TO TOTAL DEPOSITS

The ratio measures the efficiency of management in converting the deposits available with the bank (excluding other funds like equity capital, etc) into high earning advances. Total deposits include demand deposits, savings deposits, term deposits and deposits of other banks. A total advance also includes the receivables.

$$\text{Total Advances to Total Deposits} = \frac{\text{Total Advances}}{\text{Total Deposits}} * 100$$

Table showing the Total Advances to Total Deposits ratio:

Year / Bank	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	MEAN	STD.DEV	C.V
SBI	73.11	78.58	81.03	83.13	86.94	86.76	82.45	84.57	76.83	71.49	80.49	5.39	6.69
BOB	74.84	72.62	74.87	74.67	69.25	69.79	69.32	66.85	63.70	72.28	70.82	3.73	5.26
HDFC	69.24	75.17	76.70	79.21	80.92	82.49	81.08	85.02	86.16	83.46	79.94	5.10	6.38
ICICI	99.98	89.70	95.91	99.31	99.19	102.05	107.18	103.28	94.73	91.34	98.27	5.41	5.50

(Source: Data computed from annual reports of SBI, BOB, HDFC, ICICI banks)

Interpretation: The ratio of Total Advances to Total Deposits, portray that the ratio is high in case of ICICI bank and it is low in the case of SBI.

ISSN: 0474-9030

Vol-68-Issue-1-January-2020

BUSINESS PER BRANCH

The higher the ratio, the more is the business per branch and hence the greater efficiency per branch it is suggested that business at a branch level is to be considered for the valuation of performance, as a branch is an operating unit instead of conducting the study at bank level.

$$\text{Business per Branch} = \frac{\text{Deposits} + \text{Advances}}{\text{Number of Branches}} * 100$$

Table showing the Business per Branch ratio:

Year / Bank	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	MEAN	STD.DEV	C.V
SBI	11.22	11.45	12.34	13.39	14.98	16.41	17.61	19.03	21.05	22.7	16.02	4.04	25.24
BOB	11.4	13.31	15.62	16.98	18.49	19.57	19.57	17.61	17.61	18.63	16.93	2.73	16.13
HDFC	17.28	17.13	18.55	17.37	17.5	19.69	20.33	22.36	25.41	30.22	20.58	4.31	20.93
ICICI	31.33	19.51	17.47	18.5	18.8	17.86	18.49	19.25	19.68	22.05	20.29	4.08	20.09

(Source: Data computed from annual reports of SBI, BOB, HDFC, ICICI banks)

Interpretation: The ratio of Business per Branch, expose that the ratio is high in case of HDFC bank and it is low in the case of SBI.

IV. EARNINGS QUALITY

High earnings quality should reflect the firm's current operating performance and a good indicator of future operating performance. Earning quality reflects quality of a bank's profitability and its ability to earn consistently.

- INTEREST INCOME TO TOTAL INCOME
- NON INTEREST INCOME TO TOTAL INCOME

INTEREST INCOME TO TOTAL INCOME

ISSN: 0474-9030

Vol-68-Issue-1-January-2020

It is appropriate to recognize the percentage of interest earned on the total assets. Interest income is a basis source of revenue for banks. The interest income to total income indicates the ability of the bank in generating income from its lending.

$$\text{Interest Income to Total Income} = \frac{\text{Interest Income}}{\text{Total Income}} * 100$$

Table showing the Interest Income to Total Income ratio:

Year / Bank	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	MEAN	STD.DEV	C.V
SBI	83.41	82.59	84.50	88.13	88.18	88.02	87.10	85.32	83.19	83.18	85.36	2.30	2.69
BOB	84.55	85.61	88.62	89.66	90.65	89.72	90.71	89.81	86.20	86.77	88.23	2.25	2.55
HDFC	82.47	80.93	82.13	83.88	83.65	83.86	84.34	84.85	84.93	84.06	83.51	1.28	1.53
ICICI	79.30	77.90	79.62	81.72	82.76	80.90	80.13	77.49	73.52	75.93	78.93	2.78	3.53

(Source: Data computed from annual reports of SBI, BOB, HDFC, ICICI banks)

Interpretation: The ratio of Interest Income to Total Income reveals that higher in the case of BOB and lower in ICICI Bank.

NON INTEREST INCOME TO TOTAL INCOME

Banks income that has been generated by non interest related activities as a percentage of total income (net interest income plus noninterest income). Non interest related income includes net gains on trading and derivates net gains on other securities net fees and commission and other operating income.

$$\text{Non Interest Income to Total Income} = \frac{\text{Non Interest Income}}{\text{Total Income}} *100$$

Table showing the Non Interest Income to Total Income ratio:

Year / Bank	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	MEAN	STD.DEV	C.V
SBI	16.59	17.41	15.50	11.87	11.82	11.98	12.90	14.68	16.81	16.82	14.64	2.30	15.69
BOB	15.45	14.39	11.38	10.34	9.35	10.28	9.29	10.19	13.80	13.23	11.77	2.25	19.12
HDFC	17.53	19.07	17.87	16.12	16.35	16.14	15.66	15.15	15.07	15.94	16.49	1.28	7.75
ICICI	20.70	22.10	20.38	18.28	17.24	19.10	19.87	22.51	26.48	24.07	21.07	2.78	13.22

(Source: Data computed from annual reports of SBI, BOB, HDFC, ICICI banks)

ISSN: 0474-9030

Vol-68-Issue-1-January-2020

Interpretation: The ratio Non Interest Income to Total Income, illustrate that the value is higher in the case of ICICI bank and it is lower in BOB.

V. LIQUIDITY

Liquidity is another noteworthy aspect which expresses the financial performance of banks. Liquidity means the ability of banks to honor its obligations towards depositors. Bank can preserve adequate liquidity point either by rising current liabilities or by converting its assets in to cash quickly. Cash and investment are the most liquid assets of a bank.

- LIQUID ASSETS TO TOTAL ASSETS
- LIQUID ASSETS TO TOTAL DEPOSITS

LIQUID ASSETS TO TOTAL ASSETS

The proportion of liquid assets to total assets indicates the overall liquidity position of the bank. This liquidity is considered to be adequate enough to meet the immediate liabilities of the banks.

$$\text{Liquid to Assets to Total Assets} = \frac{\text{Liquid Assets}}{\text{Total Assets}} * 100$$

Table showing the Liquid Assets to Total Assets ratio:

Year / Bank	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	MEAN	STD.DEV	C.V
SBI	10.83	9.13	10.04	7.28	7.33	7.40	8.54	7.41	6.36	5.55	7.99	1.64	20.48
BOB	10.59	12.74	13.93	14.35	15.61	19.84	20.75	19.95	21.65	12.90	16.23	3.96	24.38
HDFC	9.55	13.46	10.70	6.20	6.81	8.05	6.15	5.49	5.67	11.55	8.36	2.80	33.50
ICICI	7.90	10.70	8.39	7.65	7.72	6.98	6.55	8.31	9.81	9.57	8.36	1.31	15.63

(Source: Data computed from annual reports of SBI, BOB, HDFC, ICICI banks)

Interpretation: The ratio Liquid Assets to Total Assets, point up that the value is higher in the case of BOB and it is lower in SBI.

ISSN: 0474-9030

Vol-68-Issue-1-January-2020

LIQUID ASSETS TO TOTAL DEPOSITS

Liquid assets to total deposits ratio procedures the liquidity available to the deposits of a bank. Liquid assets include cash in hand, balances with RBI, balances with banks (both in India & abroad) and money at call and short notice. Higher this ratio indicates higher liquidity of bank and vice versa.

$$\text{Liquid Assets to Deposits} = \frac{\text{Liquid Assets}}{\text{Deposits}} * 100$$

Table showing the Liquid Assets to Total Deposits ratio:

Year / Bank	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	MEAN	STD.DEV	C.V
SBI	14.07	11.96	13.16	9.31	9.55	9.51	11.09	9.68	8.41	7.09	10.38	2.16	20.84
BOB	12.52	14.71	16.35	16.67	18.02	23.01	24.02	23.34	25.01	15.71	18.94	4.48	23.66
HDFC	12.26	17.89	14.22	8.49	9.20	10.78	8.06	7.12	7.61	15.58	11.12	3.73	33.52
ICICI	13.72	19.24	15.11	14.18	14.15	12.51	11.70	14.21	15.45	15.00	14.53	2.02	13.90

(Source: Data computed from annual reports of SBI, BOB, HDFC, ICICI banks)

Interpretation: The ratio of Liquid Assets to Total Deposits, highlight that the value is higher in the case of BOB and it is lower in SBI.

FINDINGS:

- A study shows that the ratio of Advances to Total Assets is higher in case of SBI bank.
- Capital to Assets ratio of ICICI bank is higher than other banks.
- Interest Income to Total Assets of HDFC is higher than other banks.
- Net NPA to Advances is higher in case of BOB.
- Total Advances to Total Deposit is higher in case of ICICI.
- Business per Branch is higher in case of ICICI.
- Interest Income to Total Income is higher in case of BOB.
- Non- interest to Income Total Income is higher in case of ICICI.
- Liquid Assets to Total Assets is higher in case of BOB.
- Liquid Assets to Deposits is higher in case of BOB.

ISSN: 0474-9030

Vol-68-Issue-1-January-2020

SUGGESTIONS:

- The banks has higher rate of Non Performing Assets which has to be reduced at minimum level for better profitability and the banks should take a reasonable effort against NPA.
- The ratio of Advances to Total Assets and Deposits to Total Assets are low than to all other banks for that the bank should give more importance on Loans and Advances and also on deposits for more profitability of bank.

CONCLUSION:

The Banking industry plays a major role in the economic development of the country. The financial performance serves as a tool of decision making for the investors to invest in the banks and companies at right time. The authorities of the bank can introduce new tools and techniques to perform well in the banking services. The RBI and Central government of India have undertaken several reform actions to make the Indian banks competitively strong and economically viable.

REFERENCES:

- C.R.Kothari, "Research Methodology, Methods and Techniques" (second revised edition), New Age International Publishers, New Delhi.
- AGARWAL N.P., "Analysis of Financial Statement" National Publishing Housing, 23 Darya Ganj, New Delhi,1981.
- Joy O.M., "Introduction to Financial Management" – Homewood, Irwin, 1997.
- Pandey L.M., " Financial Management" - Vikas Publishing House, New Delhi,1979.
- Mohsin M.,"Financial planning & Control" - Vikas Publishing House, New Delhi, 1977.
- www.moneycntrol.com
- www.investopedia.com
- www.shodhganga.inflibnet.ac.in