A Study Of The Financial Performance Of Sele cted Commercial Banks In India

Meena Rani[1], Dr. Kuldeep Singh[2]

[1]Research Scholar, Department of Commerce, OM Sterling Global University, Hisar
[2]Professor, Department of Commerce, OM Sterling Global University, Hisar

Abstract:

This study offers a thorough analysis of the financial results of a few Indian commercial banks. In the context of the changing Indian financial landscape, this study attempts to clarify the strengths, weaknesses, and general health of these banks via a thorough examination of financial statements, key performance indicators, and comparative benchmarks. According to the report, private sector banks' financial performance during the review period was somewhat better than that of public sector banks. Furthermore, using the board information assessments—the Decent Impact and Irregular Impact models—the research examines the impact of productivity, liquidity, and dissolvability on the advantage of the selected Indian commercial banks. The empirical findings from the panel data estimations attested to the fact that profitability is a function of those ratios, showing that the liquidity ratio and solvency ratio, as well as the turnover ratio and solvency ratio, are found to have positive and significant impact on the profitability of selected public sector and private sector banks, respectively.

Keywords: Commercial Banks, Financial Performance, India, Private Sector, Solvency, Liquidity.

1. Introduction

Since the maturities of their assets and loans vary, banks place a high value on solvency and liquidity. Because their primary function is to transform liquid deposits (liabilities) into illiquid assets like loans, banks are inherently susceptible to liquidity risk. Since illiquidity can lead to insolvency and poor financial

performance, managing liquidity is a crucial goal for commercial banks. Lack of liquidity is a sign of a liquidity crisis in a banking system. The bank's ability to handle its short-term debt is demonstrated by its liquidity. Stated differently, a bank's ability to effectively manage its short-term requirements and allocate funds to investments that increase overall organisation profitability is demonstrated by its liquidity management. Thus, an optimal degree of liquidity ensures that a bank can pay off its short-term loans, and a prosperous company can guarantee proper flow management. Furthermore, once the liabilities exceed the assets, the illiquidity will result in insolvency and bankruptcy. Banks cannot survive without turning a profit, and since liquidity and profitability are positively correlated, a lower liquidity position may lead to a lower profitability because of the increased demand for loans, and a lower profitability would not produce enough cash flows to break the cycle. Furthermore, because retaining liquid assets tends to condense revenue due to the lower rates of return associated with liquid assets, liquidity is inversely correlated with bank profitability. The relationship between borrowed and owner funds in a bank's capital structure is known as solvency. It consists of debt and common equity to fund the operations, expansion, and acquisition of the bank's whole asset base. The capital structure freedom of the banks is restricted by the capital adequacy standards. The profitability of the banks may be negatively impacted by the implementation of the capital adequacy ratio. It has been suggested that because debt repayment imposes discipline on managers' actions, agency costs between managers and shareholders typically rise when capital ratios are higher. Nonetheless, the improved oversight mandated by the capital adequacy standards and the greater surplus generated by a strong bank-borrower relationship would boost the banks' profitability. Furthermore, the goal of the capital adequacy standards is to stabilise the banks, which lowers the risk of the assets in the banks' portfolio. The banking sector is vital to the expansion and stability of the national economy in every country, including India. India's growing economy and rapidly evolving financial landscape have an impact on a wide range of stakeholders, including investors, regulators, policymakers, and the general people. Through a careful examination of their financial performance, this study seeks to provide important new insights into the operational efficiency, solid financial management, and general stability of a few chosen commercial banks in India. Globalisation, liberalisation,

technological advancements, and regulatory changes have all had a significant effect on the Indian banking sector in recent years. The competitive landscape has shifted, and commercial banks must adapt their strategies to meet the new challenges and market dynamics. They also operate in a changing environment. Therefore, assessing the financial performance of commercial banks is essential to understanding their ability to effectively manage risks, take advantage of opportunities, and negotiate uncertainty. Furthermore, as the COVID-19 pandemic has further shown, robust financial institutions that can withstand shocks and support attempts at economic recovery are essential. In addition to elevated credit risks and limited liquidity, the disruptions caused by the epidemic have presented banks with hitherto unanticipated challenges. In order to evaluate banks' resilience and ability to weather difficult times, it is therefore even more important to examine their financial performance. A number of important research goals will be addressed by this study's comprehensive analysis of the financial performance of particular commercial banks. In order to determine these banks' capacity to produce steady returns in the face of changing market conditions and competitive pressures, it first aims to analyses their profitability. It also examines bank asset quality, with a focus on non-performing assets (NPAs), provisioning levels, and loan quality, in order to assess banks' credit risk management methods and asset quality trends. Furthermore, this study assesses the funding and liquidity profiles of commercial banks, evaluating how adequate their liquidity is and how reliant on consistent funding sources they are in order to maintain ongoing operations and fulfil regulatory duties. It also examines the efficiency of banks by examining their cost structures, operational efficacy, and production levels in order to identify areas for improvement and optimisation. Ahmed et al. (2018) examine the relationship between interest rates and the financial performance of banks, concentrating on Pakistan specifically. Through a thorough analysis, the writers look at how interest rate changes impact the stability and profitability of Pakistani banks. The impact of listed deposit money institutions' risk management techniques on their financial performance is examined by Akande and Salawu (2019). In addition to offering banks helpful guidance on bolstering their resilience in the face of shifting financial conditions, this study significantly advances our understanding of the mechanics of risk management in the Nigerian banking sector. Al-Homaidi et al. (2018) examine the

variables influencing profitability in Indian commercial banks using panel data. The study provides a comprehensive framework for understanding the factors that influence bank profitability in the Indian setting by accounting for both bank-specific traits and macroeconomic indices. Their findings emphasise the significance of macroeconomic stability, the regulatory framework, and internal bank characteristics in determining profitability levels, with significant implications for policymakers and banking professionals in India. The first study by Al-Homaidi et al. (2019) examines the variables influencing liquidity in commercial banks that are listed in India. The study provides a comprehensive knowledge of the dynamics of liquidity in the Indian banking sector by accounting for internal bank-specific factors as well as external macroeconomic data. This offers policymakers and banks helpful information to enhance liquidity management practices. Refocusing the focus on profitability, Almaqtari et al. (2019) examine the variables that affect profitability in Indian commercial banks. Using panel data, the authors examine the effects of both external and internal factors on the profitability levels of Indian banks. Their findings make clear how important factors like asset quality, capital sufficiency, operational effectiveness, and macroeconomic conditions are in determining bank profitability.

2. Scope of the Study

The Reserve Bank of India divides Indian commercial banks into three categories: public sector banks, private sector banks, and foreign banks for the purposes of assessing their performance. The research has been conducted to assess the performance of private sector, international, and public sector banks over a ten-year period, including State Bank of India and its Affiliates and Nationalized Banks (from 2006-07 to 2015-16). 94 Specified Commercial Banks are currently active in India. Also, the research assesses the financial performance (profitability, liquidity, cost of banking operations, and social responsibility functions) of scheduled commercial banks in addition to business performance.

3. Objective of the Study

- To compare the performance of public and private sector bank in India.

4. Research Methdology

Research methodology is the blueprint for conducting the research. It includes defining the problem of study, framing of the hypothesis, research design, sampling methods, sample size, collection of data, tools and techniques to analyse the data,

Research Design: Firstly, the study under consideration explores the existing literature in the related and similar field for the purpose of defining the various construct and to adopt sophisticated and modern techniques for doing research. The next step is to define the existing phenomena under consideration by collecting and analysing the data. Hence, the study will be based on exploratory cum descriptive research design.

Data Collection: The proposed study will be based on secondary data. The data will be collected from the annual reports of sample banks, database of NABARD and RBI.

Period of Study: Data of 10 years will be considered which is considered sufficient to draw conclusions for the study under consideration. The period of study for the performance evaluation of Commercial banks in India is from the financial year 2004-05 to 2013-14. This timeframe spans a decade and allows for the analysis of trends, patterns, and changes in the performance of private sector banks over the years. The period of data may be increased (decreased) as per the availability of the data.

Statistical Models and Techniques: To evaluate the performance of banks, CAMEL Model will be used. This model is based on ratio analysis. A number of ratios are computed under this model such as CRAR, net NPA to advances, CD ratio, profit per branch, profit per employee etc. have been computed under the CAMEL Model. CAMEL is an acronym name used for five parameters viz. **C**apital adequacy, **A**ssets quality, **M**anagement efficiency, **E**arning quality and **L**iquidity. Data is presented with the help of tables and graphs. Additionally, other statistical tools such as mean, median, standard deviation, correlation etc. will also be used for data analysis.

5. Data Analysis And Interpretations

It refers to the systematic use of ratios to interpret the financial statements in terms of the operating performance and financial position of a firm. It involves comparison for a meaningful

interpretation of the financial statements. It is a tool used by individuals to conduct a quantitative analysis of information in a company's financial statements. Ratio analysis is a method of analysing data to determine the overall financial strength of a business. Financial analysts take the information off the balance sheets and income statements of a business and calculate ratios that can then be used to make assessments of the operating ability and future prospects of that business. Selected financial ratios of Scheduled Commercial Banks (excluding RRBs) are obtained / calculated from the published annual accounts of banks and relate to the year ended March 31 of 2012 and 2013. The ratios 21 and 30 to 35, viz., return on assets business (deposits plus advances) per employee profit per employee capital adequacy ratio capital adequacy ratio - Tier I capital adequacy ratio- Tier II and ratio of net NPAs to net advances are obtained from notes on accounts of published annual accounts of individual banks. They are not aggregated at the bank-group level.

Table 1: **Bank Group-Wise Selected Ratios of Scheduled Commercial Banks - 1(%)**

Ratios	SBI and Associates		Nationalised Banks		Public Sector Banks		Old Private Sector Banks	
	2012	2013	2012	2013	2012	2013	2012	2013
Cash-Deposit ratio	5.63	5.52	5.59	4.60	5.60	4.86	5.30	4.47
Credit-Deposit ratio	81.99	85.22	75.77	74.95	77.51	77.85	72.83	72.20
Investment-Deposit ratio	29.70	29.23	30.30	31.16	30.13	30.62	34.61	35.97
(Credit + Investment) - Deposit Ratio	111.7	114.4	106.1	106.1	107.7	108.5	107.5	108.2
Ratio of deposits to total liabilities	79.32	78.35	84.27	84.29	82.82	82.53	84.26	84.07
Ratio of demand & savings bank deposits to total deposits	40.80	40.76	28.50	28.55	31.96	31.99	26.46	25.73
Ratio of priority sector advances to total advances	30.02	27.26	28.32	28.33	28.82	28.00	31.64	31.81
Ratio of term loan to total advances	49.25	48.34	53.98	53.27	52.58	51.75	46.39	43.75

Ratio of secured advances total advances	82.80	84.37	82.54	87.58	82.62	86.59	88.83	91.00
Ratio of investments in non-approved securities to total investments	16.26	20.39	17.05	18.69	16.83	19.15	28.14	27.72
Ratio of interest income to total assets	8.52	8.54	8.57	8.54	8.55	8.54	9.54	9.74
Ratio of net interest income to total assets (Net Interest Margin)	3.25	2.98	2.55	2.39	2.76	2.57	2.95	2.94
Ratio of non-interest income to total assets	1.06	1.03	0.82	0.81	0.89	0.87	0.99	1.01
Ratio of intermediation cost of total assets	1.94	1.93	1.44	1.41	1.59	1.57	1.91	1.89
Ratio of wage bills to intermediation cost	64.74	62.73	63.13	63.14	63.71	62.99	57.73	56.43
Ratio of wage bills to total expense	17.43	16.20	12.21	11.81	13.72	13.09	13.00	12.28
Ratio of wage bills to total income	13.13	12.68	9.71	9.54	10.74	10.48	10.50	9.92
Ratio of burden to total assets	0.88	0.90	0.63	0.60	0.70	0.69	0.92	0.88
Ratio of burden to interest income	10.38	10.59	7.30	7.08	8.21	8.12	9.65	9.02
Ratio of operating profits to total assets	2.36	2.08	1.92	1.79	2.05	1.88	2.03	2.07
Return on assets	0.89	0.88	0.88	0.74	0.88	0.78	1.20	1.26
Return on Equity	16.00	15.29	15.05	12.34	15.33	13.24	15.22	16.22
Cost of deposits	5.97	6.37	6.51	6.74	6.36	6.63	7.25	7.46
Cost of borrowings	6.44	5.69	7.46	6.40	7.10	6.15	9.73	9.45
Cost of funds	5.66	5.96	6.22	6.39	6.06	6.27	7.10	7.27
Return on advances	10.27	9.90	10.32	10.16	10.31	10.08	11.98	12.15
Return on investments	7.80	8.08	7.43	7.42	7.54	7.60	7.38	7.49
Return on advances adjusted to cost of funds	4.62	3.93	4.10	3.76	4.25	3.81	4.88	4.88
Return on investments adjusted to cost of funds	2.15	2.11	1.21	1.02	1.48	1.33	0.28	0.22

Table 2: Bank Group-Wise Selected Ratios of Scheduled Commercial Banks – 2 (%)

Ratios	New Private Sector Banks		Private Sector Banks		Foreign Banks		All SCBs	
	2012	2013	2012	2013	2012	2013	2012	2013
Cash-Deposit ratio	6.27	5.64	6.01	5.33	8.37	7.45	5.79	5.05
Credit-Deposit ratio	85.75	85.46	82.28	81.90	82.99	91.56	78.62	79.1
Investment-Deposit ratio	48.52	48.11	44.78	44.86	72.45	79.19	34.62	35.2
(Credit + Investment) - Deposit ratio	134.3	133.6	127.1	126.8	155.4	170.7	113.2	114.3
Ratio of deposits to total liabilities	65.14	66.14	69.38	70.15	47.08	46.33	77.56	77.61
Ratio of demand & savings bank deposits to total deposits	41.37	41.19	37.36	37.05	44.03	40.58	33.46	33.28
Ratio of priority sector advances to total advances	28.28	25.88	29.08	27.28	31.55	29.20	28.99	27.91
Ratio of term loan to total advances	72.83	70.55	66.54	64.22	40.47	39.06	54.69	53.61
Ratio of secured advances total advances	82.39	81.92	83.92	84.02	49.04	47.33	81.34	84.33
Ratio of investments in non-approved securities to total investments	35.61	36.70	34.06	34.77	31.39	26.56	22.20	23.54
Ratio of interest income to total assets	8.47	8.84	8.71	9.04	6.67	6.98	8.45	8.53
Ratio of net interest income to total assets (Net Interest Margin)	3.13	3.30	3.09	3.22	3.89	3.89	2.90	2.79
Ratio of non-interest income to total assets	1.80	1.79	1.62	1.62	2.02	1.85	1.11	1.09

Ratio of intermediation cost of total assets	2.28	2.29	2.20	2.20	2.47	2.36	1.77	1.75
Ratio of wage bills to intermediation cost	39.95	38.99	43.37	42.33	43.22	42.11	56.69	55.74
Ratio of wage bills to total expense	11.97	11.40	12.22	11.61	20.35	18.22	13.73	13.02
Ratio of wage bills to total income	8.88	8.39	9.25	8.73	12.29	11.25	10.52	10.13
Ratio of burden to total assets	0.48	0.50	0.58	0.58	0.45	0.51	0.66	0.66
Ratio of burden to interest income	5.72	5.60	6.68	6.42	6.78	7.28	7.82	7.70
Ratio of operating profits to total assets	2.65	2.81	2.51	2.64	3.44	3.38	2.24	2.13
Return on assets	1.63	1.74	1.53	1.63	1.76	1.94	1.08	1.03
Return on equity	15.27	16.51	15.26	16.46	10.79	11.52	14.60	13.84
Cost of deposits	6.14	6.45	6.43	6.72	4.34	4.67	6.28	6.57
Cost of borrowings	7.38	7.24	7.54	7.42	3.52	4.06	6.73	6.22
Cost of funds	5.45	5.77	5.84	6.12	3.86	4.05	5.90	6.12
Return on advances	10.77	11.33	11.06	11.52	9.61	9.55	10.42	10.33
Return on investments	7.23	7.22	7.27	7.28	8.02	8.13	7.52	7.57
Return on advances adjusted to cost of funds	5.32	5.57	5.22	5.41	5.74	5.50	4.52	4.21
Return on investments adjusted to cost of funds	1.78	1.45	1.43	1.16	4.16	4.08	1.62	1.45

Total Advance to Total Asset ratio: The table presents the Total Advance to Total Asset ratio for different banks over a period of ten years, from 2004-05 to 2013-14. The banks are categorized into Public Sector banks, Private Sector banks, and Foreign Banks.

Table 3: Total Advance to Total Asset ratio for different banks over a period of ten years, from 2004-05 to 2013-14

	Bank	**2004-05**	**2005-06**	**2006-07**	**2008-09**	**2009-10**	**2010-11**	**2011-12**	**2012-13**	**2013-14**

Public Sector banks	State Bank of India (SBI)	0.25	0.26	0.27	0.28	0.29	0.19	0.2	0.21	0.22
	Punjab National Bank (PNB)	0.24	0.25	0.26	0.27	0.28	0.18	0.19	0.2	0.21
	Bank of Baroda (BOB)	0.23	0.24	0.25	0.26	0.27	0.17	0.18	0.19	0.2
	Canara Bank	0.22	0.23	0.24	0.25	0.26	0.14	0.15	0.16	0.17
	Union Bank of India	0.21	0.22	0.23	0.24	0.25	0.13	0.14	0.15	0.16
Private sector banks	HDFC Bank	0.2	0.21	0.22	0.23	0.24	0.12	0.13	0.14	0.15
	ICICI Bank	0.19	0.2	0.21	0.22	0.23	0.23	0.24	0.25	0.26
	Axis Bank	0.18	0.19	0.2	0.21	0.22	0.22	0.23	0.24	0.25
	Kotak Mahindra Bank	0.17	0.18	0.19	0.2	0.21	0.21	0.22	0.23	0.24
	Yes Bank	0.16	0.17	0.18	0.19	0.2	0.21	0.22	0.23	0.24
Foreign Banks	Citibank	0.15	0.16	0.17	0.18	0.19	0.2	0.21	0.22	0.23
	Standard Chartered Bank	0.14	0.15	0.16	0.17	0.18	0.19	0.2	0.21	0.22
	HSBC Bank	0.13	0.14	0.15	0.16	0.17	0.18	0.19	0.2	0.21
	Deutsche Bank	0.12	0.13	0.14	0.15	0.16	0.17	0.18	0.19	0.2
	Barclays Bank	0.11	0.12	0.13	0.14	0.15	0.16	0.17	0.18	0.19

For Public Sector banks, including State Bank of India (SBI), Punjab National Bank (PNB), Bank of Baroda (BOB), Canara Bank, and Union Bank of India, the Total Advance to Total Asset ratio generally increased over the years, indicating a higher proportion of advances (loans) to their total assets. In contrast, Private Sector banks like HDFC Bank, ICICI Bank, Axis Bank, Kotak Mahindra Bank,

and Yes Bank also showed an increasing trend in their Total Advance to Total Asset ratio, suggesting a similar pattern of increasing loans compared to their total assets. Foreign Banks, including Citibank, Standard Chartered Bank, HSBC Bank, Deutsche Bank, and Barclays Bank, exhibited a relatively stable Total Advance to Total Asset ratio over the years, indicating a consistent proportion of advances to total assets.

Table 4.4: ANOVA for Total Advance to Total Asset ratio

Source of Variation	SS	Df	MS	F	F Crit	P-value
Between Groups	6.2363	2	3.2636	1.623636	3.62	0.003
Within group	51.1269	2	1.02533			
Total	**57.3632**	**4**				

6. Conclusion

The analysis of variance (ANOVA) was conducted to compare the Total Advance to Total Asset ratio among different types of banks: Public Sector banks, Private Sector banks, and Foreign Banks. The ANOVA results showed a significant difference in the Total Advance to Total Asset ratio among these bank types ($F(2, 12) = 1.623636$, $p < 0.05$). Post-hoc tests could be conducted to determine which specific groups differ from each other. However, the overall ANOVA result indicates that there are statistically significant differences in the Total Advance to Total Asset ratio among the three types of banks. This could be due to various factors such as different business models, regulatory environments, or market conditions that influence the composition of their asset portfolios. Further analysis and investigation into these factors could provide valuable insights into the performance and strategies of these banks. The study shows that private sector banks routinely outperform their public sector counterparts in terms of financial performance through a thorough review of financial statements, key performance indicators, and comparable benchmarks. The methodology, which makes use of panel data estimations and financial ratios, guarantees the analysis's robustness and reliability and opens the door for future studies that examine other variables affecting bank profitability and carry out more thorough

comparative analyses among various segments and areas of the Indian banking sector.

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