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FINANCIAL PERFORMANCE OF SCHEDULED COMMERCIAL BANKS IN INDIA WITH SPECIAL REGARD TO RECENT BANKING DEVELOPMENTS

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ABSTRACT

Banking sector recent reforms in country and profitability of scheduled commercial banks, the existing scheduled banks in India has to face the world wide intense competition. As a consequence, there has not only been rapid expansion in the number of banking institutions and their services in the country, but the banking horizon of this nation has also changed drastically with coming of new private sector and foreign banking institutions'. The Financial performance of scheduled commercial banks in India with regards to operational efficiency, credit efficiency, profitability and credit efficiency is different for every changing financial year. There is a general perception that financial performance and efficiency of schedule commercial banks in India is not very better in comparison of private sector banks. This study emphases on the financial performance of all the schedule commercial banks of the country for the consecutive two financial years from the year 2015-16 to 2016-17. The main objective of this research is to analyze and to study various types of efficiency level of present scheduled commercial banks in India. The operational efficiency shows the performance of schedule commercial banks with reference to operational parts. The profitability aspects are something about financial soundness with the same category and other category of banking institution in the banking industry. The productivity aspect indicates about the labor productivity of scheduled commercial bank. The other parameter of credit efficiency indicates that how the given credits are efficient and also how they effects on solvency parameter of the bank. All financial parameters were taken into account consideration for the two consecutive financial years. Secondary information of financial performance of schedule commercial banks in India available with Reserve bank of India has been taken into account by the researcher for measuring and comparing their financial parameters.

***KEYWORDS**: Commercial banks, Efficiency, Financial performance, Profitability, Operational.*

Introduction

Banking industry in India at a critical juncture in its evolution. It is very much known that the decline in credit growth and boost in stressed assets has largely impacted the profitability of commercial banks and it has also challenged the survival of some of them. State-owned banks account for more than three-fourths of the stressed asset load, which is now far higher than their net worth. Provision levels are inadequate, as the banks hold only 28% of gross non-performing assets and restructured assets, as provisions. There is a huge gap of $ 110 billion between the stressed assets in the banking system and the provisions made for them. Changing consumer preferences also shifts in technology and regulations have created big problems. The solution will depend on the guidelines and speed of stakeholder reactions. The main challenge is that many of the public sector banks (PSBs) are undifferentiated, sub scale and with very limited capacities to be full universal banks.

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About 80% of them own only 25% of the assets. These banks are also operate in virtually every market with very limited sector or vertical-focused specialization. In fact, they focus on the same customer segments, offer similar products, and very often compete only on price. Some of this is because PSBs face challenges that impede them from competing effectively. These banks have to go up with a disproportionate share of national and social building obligations. Policies on compensation and human resources reduce management autonomy and prohibit their capability to manage and attract new talented people. The ongoing debate on banking consolidations in India often fails to check the underlying challenges of banking industry's structure in India.

While till now it is very clear than Indian banking industry with over more than 20 undifferentiated ,state owned banks is not working, a country of India's size and diversify requires more and variety of banking institutions. Modern banking industry plays a fundamental role in the delivery of social schemes and services to masses which is very significant at this phase of India's economic development. Empirical evidence from bad debts crisis in different parts of globe indicates that resolution often coincides with a consolidation of the scheduled banks.

A lasting solution will need to offer the banks more freedom with capital and talent. Banking industry is an "end state" industry structure and beyond consolidation many more steps are required to be taken. Consolidation is not the only solution and more steps can be taken for retaining talents in banks and infusing more capital in banking institutions.

Innovation from existing banks and new players in banking sector needs to be encouraged to serve the different needs of the nation. Restructuring of banks could lead to a complete transformation of Indian banking industry.

Recent Developments in Indian Banking

- RBL Bank Limited, an Indian private sector bank, has raised Rs 330 crores (US$ 49.6 million) from a UK-based development finance institution CDC Group Plc, which will help RBL to strengthen the capital base to meet future requirements.
- The State Bank of India (SBI) signed an agreement with The World Bank for a Rs 4,200 crores (US$ 625 million) credit facility, aimed at financing grid connected rooftop solar photovoltaic (GRPV) projects in India.
- JP Morgan Chase, the largest bank in United States by assets, plans to expand its operations in India by opening three new branches in Delhi, Bangalore and Chennai in addition to its existing branch in Mumbai.
- Canada Pension Plan Investment Board (CPPIB), an investment management company, has bought a large stake in Kotak Mahindra Bank Ltd from Japan-based Sumitomo Mitsui Banking Corporation.
- India's first small finance bank called the Capital Small Finance Bank has started its operations by launching 10 branch offices in Punjab, and aims to increase the number of branches to 29 in the current FY 2016-17.
- Free Charge, the wallet company owned by online retailer Snap deal, has partnered with Yes Bank and MasterCard to launch Free Charge Go, a virtual card that allows users to pay for goods and services at online shops and offline retailers.
- EXIM Bank of India and the Government of Andhra Pradesh has signed a Memorandum of Understanding (MoU) to promote exports in the state.
- Kotak Mahindra Bank Limited has bought 19.9 per cent stake in Airtel M Commerce Services Limited (AMSL) for Rs 98.38 crore (US$ 14.43 million) to set up a payments bank. AMSL provides semi-closed prepaid instrument and offers services under the 'Airtel Money' brand name.
- The RBI has given in-principle approval to 11 applicants to establish payment banks. These banks can accept deposits and remittances, but are not allowed to extend any loans.
- The Bank of Tokyo-Mitsubishi (BTMU), a Japanese financial services group, aims to double its branch count in India to 10 over the next three years and also target a 10 per cent credit growth during FY16.
- The RBI has allowed third-party white label automated teller machines (ATM) to accept international cards, including international prepaid cards, and said white label ATMs can now tie up with any commercial bank for cash supply.
- The Negotiable Instrument Act, 1881 was amended by Lok sabha in order to make cheque bounce filling of cases easier to check payees.

- Mangaluru-headquartered Corporation bank had dropped the plan of taking over the assets and liabilities of a Maharastra based Cooperative bank which was named as Rupee co-operative bank whose license was cancelled by RBI before 3 years.
- According to the data released by RBI outstanding credit cards was huge in numbers i.e.20.29 million.
- Federal bank, a leading private sector bank in south had entered into a venture with SBI for launching of a credit card on 18 May, 2015.
- The new Gold Monetization scheme was announced in Union budget-2016 replacing earlier ones. The new scheme will felicitate both depositors of gold to earn interest and jewelers to get easy loans in their metal account.
- SBI, the largest entity in banking sector in India has launched online Customer Acquisition Solution (OCAs), an online platform to apply for loans.
- The Union Finance Ministry announced that it was able to contain the fiscal deficit for 2014-15 at 4% of GDP.
- ICICI, the largest private sector banking institution in India has launched voice password facility for users.
- ICICI Bank's first branch in China was launched in Shanghai economic giant city of China.
- India's largest lender State bank of India has launched contact less credit and debit cards SBIIN TOUCH, based upon near field technology that enables customer to transact the card by just waving or tapping it against the reader of Point of Sale.
- SBI is also providing a liability for fraud cover of Rs.1 lakh on these cards.

Several significant developments have come into existence which has transformed commercial banking sector in India drastically. Two main objectives set for scheduled commercial banks in India i.e. mobilization of deposits through a large scale branch expansion program mainly in unbanked rural areas and the other objective was set i.e. diversification of banking credit specially to priority sector, neglected sector and section of the economy in an increasing measure.

Research Methodology

- **Research Objectives**
  - To analyze comparative financial performance of Schedule commercial banking institutions in India for last two consecutive financial years.
  - To evaluate level of financial performance of Schedule commercial banking institutions in India for last two consecutive financial years.
- **Hypothesis**
  - **H1:** *There is no significant difference in the financial performance of scheduled commercial banks in India for last two consecutive financial years.*
  - **H2:** *There is a significant difference in the financial performance of scheduled commercial banks in India for last two consecutive financial years.*
- **Collection of Data**
  - **Secondary Data:** Secondary data related with financial performance of Non –banking financial institutions and urban banks were gathered from the official websites and annual reports of RBI. The data were also collected from newspapers, reports, records, policies, government publications, magazines, company publications, journals, books, articles, websites, etc.
- **Research Gaps**

Financial performance of scheduled commercial banks has been measured at various times but very less work on financial performance of scheduled commercial banking institutions has been done specially in terms of comparison between these consecutive years. This research will provide new insight in banking about financial performances of these banks under scheduled commercial banking sector. This research differs from other studies in that it undertakes to develop a theoretical framework on financial performances of scheduled commercial banks in India.

- **Scope of the Study**

  The scope of this research is confined to these two scheduled commercial bank only. This study is the comprehensive study for analyzing financial performances of scheduled commercial banking sector.

- **Statistical Tools Used in the Study:** Simple Tabulation & Graphical Representation.

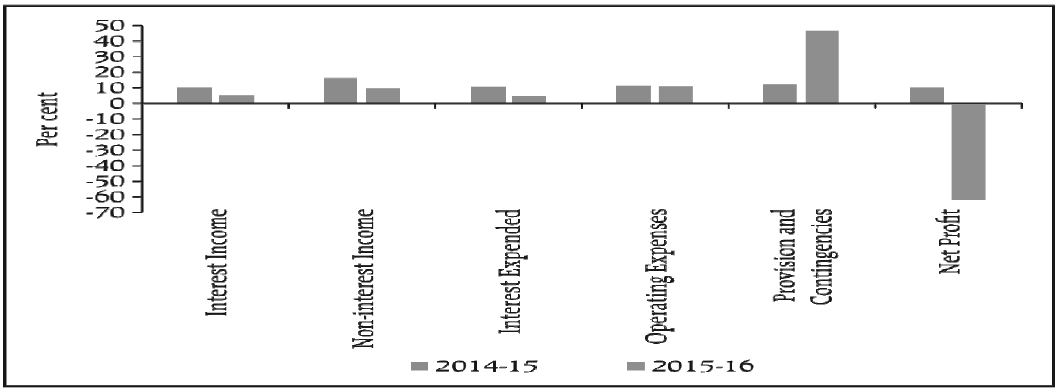
Data Analysis & Interpretations

- **Financial performance of SCBs**

During 2015-16, SCBs' interest earnings and non-interest incomes were adversely affected. Interest income reflected the impact of the continuing slowdown in credit growth. Interest expended also witnessed deceleration. However, growth in net interest income declined as compared to the previous year. Further, operating expenses showed an improvement largely due to moderate growth in the wage bill. Provisions and contingencies surged due to a sharp deterioration in asset quality. Provisioning for NPAs more than doubled on account of improved recognition of non-performing assets. This led to a more than 60 per cent drop in net profits for the banking sector as a whole though it remained in the positive zone (Chart 5.1). Bank group-wise, PVBs and FBs reported net profits while PSBs incurred losses. PSBs reported losses to the tune of `180 billion with net profits declining by 148 per cent over the previous year.

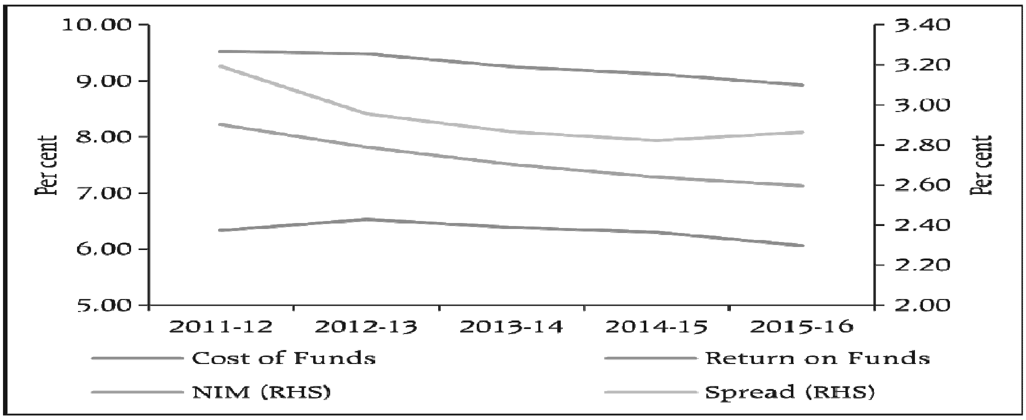
Net interest margin (NIM) came under further pressure during the year due to loss of interest from standard assets slipping into NPAs, the impact of implementation of the Ujwal DISCOM Assurance Yojana (UDAY) leading to lower yields and adoption of the marginal cost lending rate (MCLR) during a decreasing rate scenario. Lower costs of funds could not offset the decline in NIM. Spread marginally increased in 2015-16 (Chart 5.2).During the year, major indicators of profitability, that is, banks' return on assets (RoA) and return on equity (RoE) showed a substantial decline as compared to the previous year, reflecting the impact of a sharp decline in net profits. PSBs reported negative RoA (Table 1).

Chart 1: Growth of Select Items of Income and Expenditure



Source: Banks' annual accounts.

Chart 2: Financial Performance of SCBs



Notes: Cost of funds= (interest paid on deposits + interest paid on borrowings)/(average of current and previous year's deposits + borrowings). Return on funds = (interest earned on advances + interest earned on investments)/(average of current and previous year's advances + investments). Net interest margin = net interest income/average total assets. Spread = difference between return and cost of funds. **Source:** Banks' annual accounts.

Table 1: SCBs' Return on Assets and Return on Equity (Bank Group-Wise) (Per cent)

S. No.	Bank Group	Return on Assets		Return on Equity	
		2014-15	2015-16	2014-15	2015-16
1	Public Sector Banks	0.46	-0.20	7.76	-3.47
	1.1 Nationalized Banks*	0.37	-0.49	6.44	-8.52
	1.2 The State Bank Group	0.66	0.42	10.56	6.78
2	Private Sector Banks	1.68	1.50	15.74	13.81
3	Foreign Banks	1.84	1.45	10.24	8.00
4	**All SCBs**	**0.81**	**0.31**	**10.42**	**3.59**

Notes: Return on assets = net profit/average total assets. Return on equity = net profit/average total equity.
* Nationalised banks include IDBI Bank Ltd and Bharatiya Mahila Bank Ltd.
Source: Banks' annual accounts.

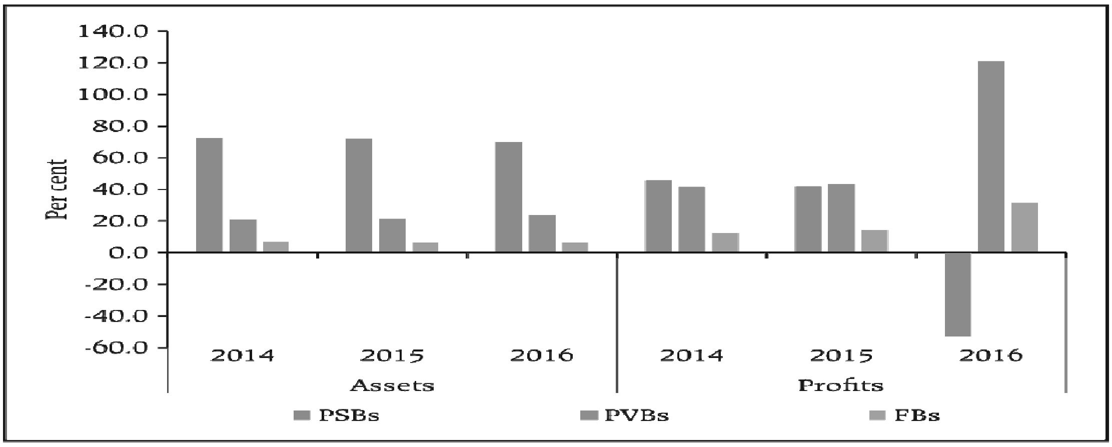
- **Bank group-wise Share in Assets and Profits**

  The declining trend in the share of assets and profits of PSBs continued during 2015-16 reflecting slower growth in assets and large losses (Chart 5.3).

- **Recovery of NPAs**

Banks have been making all efforts to reduce their non-performing assets through various legal channels like resolutions through Lok Adalats, Debt Recovery Tribunals (DRTs) and invocation of SARFAESI. However, the amount recovered by all SCBs during 2015-16 reduced to ₹ 227.68 billion as against ₹ 307.92 billion during the previous year (Table 5.2). PSBs, which are burdened with a high proportion of the banking sector's NPAs, could recover only ₹ 197.57 billion as against ₹ 278.49 billion during the previous year (Table 5.3). The deceleration in recovery was mainly due to a reduction in recovery through the SARFAESI channel by 52 per cent from

Chart 3: Bank group-wise Share in Total Assets and Profits of the Banking Sector



Source: Banks' annual accounts.

Table 2: SCBs' NPAs Recovered through Various Channels

(Amount in ₹ billion)

Channel of Recovery	2014-15 (Revised)			2015-16		
	No. of cases Referred	Amount involved	Amount Recovered *	No. of cases Referred	Amount involved	Amount Recovered *
Lok Adalats	29,58,313	309.79	9.84	44,56,634	720.33	32.24
DRTs	22,004	603.71	42.08	24,537	693.41	63.65
SARFAESI	1,75,355	1,567.78	256.00	1,73,582	801.00	131.79
Total	**31,55,672**	**2,481.28**	**307.92**	**46,54,753**	**2,214.74**	**227.68**

Note: * refers to the amount recovered during the given year, which could be with reference to cases referred during the given year and those referred during earlier years.
Source: RBI Supervisory Returns.

Table 3: PSBs' NPAs Recovered through Various Channels (Amount in ₹ billion)

Channel of Recovery	2014-15 (Revised)			2015-16		
	No. of cases Referred	Amount involved	Amount Recovered *	No. of cases Referred	Amount involved	Amount Recovered *
Lok Adalats	25,96,351	270.20	9.31	42,44,800	690.17	31.34
DRTs	18,397	532.03	34.84	19,133	574.39	55.90
SARFAESI	1,66,804	1,463.06	234.34	1,59,147	650.08	110.33
Total	**27,81,552**	**2,265.29**	**278.49**	**44,23,080**	**1,914.64**	**197.57**

Note: * refers to the amount recovered during the given year, which could be with reference to cases referred during the given year and those referred during earlier years.

Source: RBI Supervisory Returns.

Banks also reduced their stressed assets by selling them to asset reconstruction companies (ARCs). This has been increasing since March 2014 because of the regulatory support extended to banks under the Framework to Revitalize the Distressed Assets in the Economy (Table 5.4).

₹ 256 billion in 2014-15 to ₹ 131.79 billion in 201516. On the other hand, recovery through Lok Adalats and DRTs increased.

- **Priority Sector Credit**

In contrast to the trend in total credit, the priority sector registered a strong growth of 16.0 per cent during 2015-16 as compared to 9.3 per cent in the previous year. Credit for housing loans increased significantly (Chart 5.4). SCBs as a whole could achieve the priority sector target of 40 per cent (of adjusted net bank credit (ANBC) or credit equivalent amount of off-balance sheet exposure, whichever is higher). As on end-March 2016, bank-group wise achievement of priority sector target is: PSBs (39.3 per cent), PVBs (45.1 per cent) and FBs (35.3 per cent).

- **Priority Sector Lending Certificates**

The priority sector lending certificates (PSLCs) scheme introduced by the Reserve Bank in April 2016 provides for the purchase of these instruments by banks in the event of a shortfall in their achievement of PSL targets/sub-targets. It simultaneously incentivizes surplus banks by making available a mechanism to sell their over-achievement thereby enhancing lending to the categories under the priority sector. The PSLC mechanism does not involve transfer of credit risk or underlying assets.

- **Retail Credit**

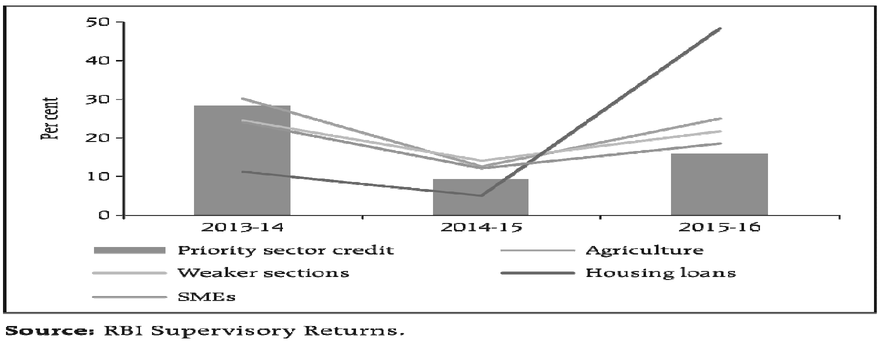
Banks' retail loan portfolios registered double-digit growth. The housing loan component which constitutes more than 54 per cent of the total retail loan portfolio of banks has been increased by 16.4 per cent (Chart 5). The personal loans component, which is the second major retail segment and consists of education loans, loans against fixed deposits, shares and bonds, among others, however, continued to witness negative growth. In comparison, the auto loan segment made a smart recovery after registering negative growth during the previous year (Chart 6).

Table 4: Number of ARCs and Assets Acquired From Banks (Amount in ₹ billion)

Values	December, 2013	March, 2014	March, 2015	March, 2016
Company count	5	13	14	16
Total Acquired From Banks	**163.56**	**351.64**	**584.79**	**726.26**

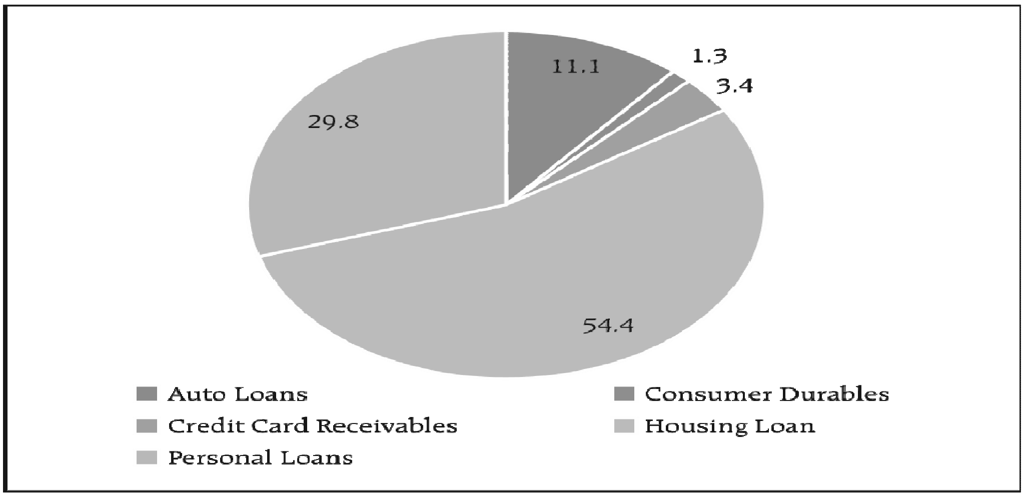
Source: RBI Supervisory Returns.

Chart 4: Trend in Growth in Priority Sector Credit



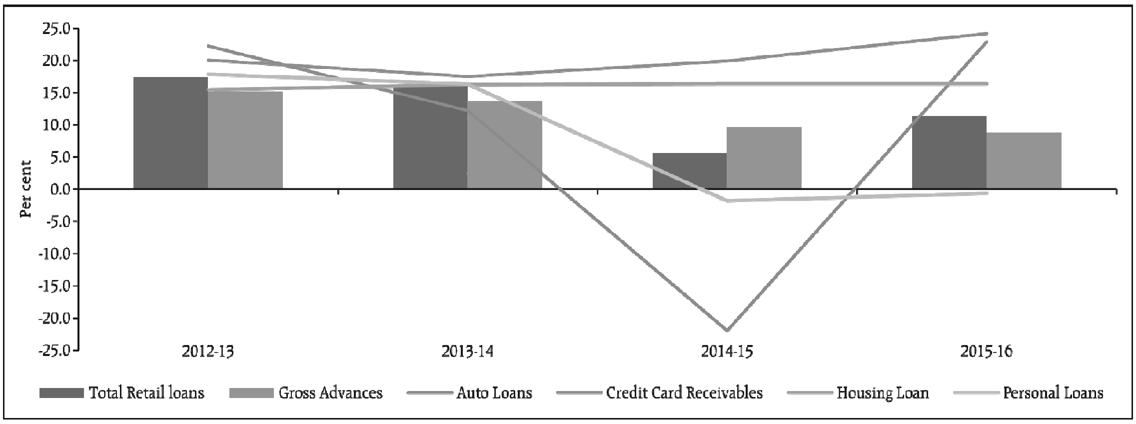
Source: RBI Supervisory Returns.

Chart 5: Composition of Retail Loans
(in per cent – as at end-March, 2016)



Source: RBI Supervisory Returns.

Chart 6: Growth in Retail Loans



- **Credit to Sensitive Sectors**

Credit to sensitive sectors viz. the capital market and real estate sector accounted for around 20 per cent of the total loans and advances by SCBs. Among bank-groups, exposure of FBs to these sectors was the highest at 27.7 per cent followed by PVBs (26.3 per cent) and PSBs (16.9 per cent). Even among these two sectors, 92.5 per cent of the credit pertained to the real estate sector. During 2015-16, credit to both the sectors witnessed deceleration.

Findings

- SCBs' interest earnings and non-interest incomes were adversely affected. Interest income reflected the impact of the continuing slowdown in credit growth. Interest expended also witnessed deceleration. However, growth in net interest income declined as compared to the previous year. Further, operating expenses showed an improvement largely due to moderate growth in the wage bill. Provisions and contingencies surged due to a sharp deterioration in asset quality. Provisioning for NPAs more than doubled on account of improved recognition of non-performing assets. This led to a more than 60 per cent drop in net profits for the banking sector as a whole though it remained in the positive zone (Chart 5.1). Bank group-wise, PVBs and FBs reported net profits while PSBs incurred losses. PSBs reported losses to the tune of `180 billion with net profits declining by 148 per cent over the previous year.

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- During the year, major indicators of profitability, that is, banks' return on assets (RoA) and return on equity (RoE) showed a substantial decline as compared to the previous year, reflecting the impact of a sharp decline in net profits. PSBs reported negative RoA (Table 5.1).
- The declining trend in the share of assets and profits of PSBs continued during 2015-16 reflecting slower growth in assets and large losses (Chart 5.3).
- Banks have been making all efforts to reduce their non-performing assets through various legal channels like resolutions through Lok Adalats, Debt Recovery Tribunals (DRTs) and invocation of SARFAESI.
- In contrast to the trend in total credit, the priority sector registered a strong growth of 16.0 per cent during 2015-16 as compared to 9.3 per cent in the previous year. Credit for housing loans increased significantly
  - Banks retail credit is growing double growth
  - Housing loan is growth
  - Personal loans witnessing negative growth
  - Education loan is also not showing growth
  - Auto loan s*egment is doing well*

H1 : There is no significance difference in the financial performance of scheduled commercial banks in India for last two consecutive financial years. *Result: Rejected.*

Conclusion

This paper analyses the performance of schedule commercial banks in India for the period ended March 31, 2016 and presents the near to medium term analysis for the Indian banking sector. Public sector banks in India are facing major deterioration in asset quality, banks have started focusing more on NPA recoveries attracting highly indebted corporate to divest, and to bring new investors or sale of assets in order to repay loans. Some of the major commercial banks have declared plans or deal to sell/divest assets to get down debt, after execution of these measures in a significant way help banks reducing pressure on banks asset quality. Further, recent new regulations for scheme of Sustainable structuring of stressed assets can also help banks easing pressure on asset quality over a period of time. There also seems some favorable improvements in some of the credit sensitive sectors which certainly can help banks in reducing pressure with regards to asset quality.

The Scheduled commercial banks are on a situation where on one side they are growing like anything, their deposit and credit base is very strong and are, as a group, a strong force in about half a dozen states; In the evolving business environment wherein banking is increasingly becoming a function of technology and smart operations on the other side. However, the schedule commercial banks are now on a critical situation where internally they require a complete metamorphosis and externally they have to fight a battle with new banking entities like small finance banks and new age MFIs.It is an uphill task for schedule commercial banks. The Indian economy is transforming with new policy measure coming every day ahead.

India is growing as fastest economy of the world with all positive sentiments, friendly customer and controlled inflation rates. This growth is expected to continue in coming days with more spending's on infrastructure, faster implementation of projects and continuous banking reforms. Indian banking sector is poised for robust and sound growth and running towards becoming global banking players.

Despite India boasting economic growth rates higher than most developed countries in recent years, a majority of the country's population still remains unbanked. Financial Inclusion is a relatively new socio-economic concept in India that aims to change this dynamic by providing financial services at affordable costs to the underprivileged, who might not otherwise be aware of or able to afford these services. Global trends have shown that in order to achieve inclusive development and growth, the expansion of financial services to all sections of society is of utmost importance

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