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PERFORMANCE ANALYSIS OF BANKS: A COMPARATIVE STUDY

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ABSTRACT

Banks are the backbone of the economy of the country because they play significant role in the effort to achieve stable prices, high level of employment and sound economic process. This industry had already seen various ups and downs before independence, but nationalization gave some boost and stability to the present sector leading to acceleration of economic process, especially after reforms in 1991. Besides, following India's commitment to the WTO, foreign banks were also given permission to open more branches with effect from 1998-99. With the accelerated competition and high emphasis on profitability, the general public sector banks started adopting economic-oriented model rather than social approach followed for many years. Thus, restructuring of public sector banks and therefore the emergence of latest private sector banks exacerbated the professionalism in the banking sector, and this increased presence of the private Banks. The target of this study is to classify Indian banks on the premise of their financial characteristics and to assess their financial performance. The aim of this study is to research the financial data of Indian banks with a view to examining the relationships among measures like bank's size, operational efficiency, asset management, return on assets and interest income and thereby to debate their impact on performance of the banks. A shot has also been made to rank the banks on the premise of their financial performance and measures.

Keywords: *Improvements, Commercial Banks, Economic, Utilization, Evaluation, Income.*

Introduction

The Indian national economy has been regulated mainly by charge per unit regulation, credit restrictions, equity market controls and interchange controls. Indian Banking Sector is split into four categories i.e. Public Sector Banks, Private Sector Banks, Foreign Banks in India and Scheduled Commercial Banks. Banks are considered to be important financial mediators or institutions because they result into well being of saver similarly as investors. Financing facilitates the flow of products and services and also the activities of the government. It also provides an excellent portion of the medium of exchange to the country. Banks are the backbone of the economy of the country because they play significant role in the effort to realize stable prices, high level of employment and sound economic process. With a view to evaluating financial performance of Indian private sector banks, financial indicators like growth rates of deposits, credits, assets and shareholders' equity are constructed from their financial statements. Financial ratios like return on assets, asset utilization and operational efficiency have also been calculated. So as to assess the performance of India private sector banks, measures like assets size and interest income have also been used. It's hypothesized for this study that Return on Assets and Interest Income Size have negative relationship with operational efficiency and

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positive relationship with Asset management and Bank Size. It's also hypothesized that financial performance of the bank is littered with the asset management, operational efficiency and therefore the size of the bank. This study is organized as follows: the following section following introduction discusses the review of relevant literature. Third section throws light on methodology. The main points of the results and analysis of the available data are described in fourth section and also the final section presents the most conclusions.

Objective of Study

From the above review of empirical works, it's clear that different authors have approached profitability performance of banks in several ways in varying levels of study. These different approaches helped in the emergence of more and more literature on the topic over time. It gives an inspiration on extensive and diverse works on profitability performance of banks. It's been noticed that the studies profitability performance of banks in various aspects provide divergent results regarding the study period overlap or coincide. The most reason for divergence in the results is use of various methods for the measurement of profitability performance of banks. All the studies aimed to research the profitability performance of banks in India & abroad with number of things. The survey of the present literature reveals that no specific work has been meted out to look at and ascertain the profitability performance of personal sector companies in India. The current study is a trial during this direction and thus, aims to complement the literature of comparative study of profitability performance of banks.

Review of Litreature

Spathis & Doumpos, 2002 has discussed the amount of effectiveness of Greek banks on the idea of the numerous level of assets of the banks. Making the Returns and operational factors because the basis they used segmental and multi basis methodology to form a listing of greek banks to classify them, keeping profitability as their basis.

Pathak, 2003 has taken their view in the area of varied factors like Deposits or return on assets, productivity, and other similar basis of assorted private sector Banks.

Chien & Danw, 2004 Their study was totally supported "2 stage Data Envelopment" analysis model. the idea taken by them is that it's not necessary that the banks who has better efficiency always provides the simplest effectiveness.

Balasubramanin, 2007 revealed that personal sector banks play a very important role in development of Indian economy. After liberalization, the industry underwent major changes. The economic reforms have changed the banking sector. RBI permitted new banks to be started in the private sector as per the advice of the Narashiman Committee.

Chaudhary & Sharma, 2011 concluded that an efficient management system should be developed. The bank staff involved in sanctioning the advances should be trained about the correct documentation and charge of securities and motivated to require measures in preventing advances turning into NPA. Public banks must concentrate on their functioning to compete private banks. Banks should be versed in proper selection of borrower/project and in analyzing the budget.

Research Methodology

With a view to evaluating performance and calculating financial ratios, the information was gathered from banks' financial statements as published in their annual reports. Besides, the review of various articles and research papers was another source of the information. With a view to describing, measuring, comparing and classifying the financial situations of Indian banks, descriptive financial analysis has been used. So as to look at and compare the impact of independent variables on the dependent variables, techniques of ratio analysis, correlations and regression are applied. Technique of study of Variance (ANOVA) has also been utilized in testing the hypotheses. The choice of the subject is formed with a view to evaluating and appraising the financial performance of Indian Banks. The subsequent hypotheses are formulated to check their validity In the context of the Indian Banks and tested through Correlations and Analysis of Variance (ANOVA):

Hypothesis

H_0	There is not any relationship among the performance as measured by Return on Assets and Return on Equity.
H_1	Return on Assets and Return on Equity have inverse relationship as relation to operational efficiency.

A Brief to selected Ratio's

- **Return on Assets Ratio**

Return on net assets (RONA) could be a measure of economic performance calculated as income divided by the sum of fixed assets and net assets. Net income is additionally called Net Earnings. RONA is additionally accustomed assess how well an organization is performing compared to others in its industry.

Key Features OF Return on Net Assets Ratio

- Return on Net Assets Ratio is employed to create a comparison of net income of an entity with corresponding Net Assets. This Ratio indicates that how an entity uses its Assets to earn income.
- A high RONA ratio indicates that management is maximizing the employment of the company's assets.
- Earnings and glued assets is also adjusted for unusual or non-recurring items to appreciate a normalized ratio result.

$$\textbf{Return on Net Assets Ratio} = \frac{\textbf{Net Profit}}{\textbf{(Fixed Assets + Net Working Capital)}}$$

- **Return On Equity Ratio**

Return on equity (ROE) could also be a measure of monetary performance calculated by dividing earnings by shareholders' equity. Because shareholders' equity is up to a company's assets minus its debt, ROE is taken under consideration the return on net assets. ROE is taken into consideration a measure of a corporation's profitability in relevancy stockholders' equity.

Key Features of Return on Equity Ratio

- Return on equity (ROE) measures a corporation's profitability in relevancy stockholders' equity.
- Whether an ROE is taken under consideration satisfactory will depend on what's normal for the industry or company peers.

How to Calculate Return on Equity

Return on Equity is calculated as percentage and might be calculate only there's profit (i.e. just in case of loss it cannot be calculated) additionally as equity is additionally positive. Here it should be noted that earnings or return shall be calculated only if profit is before dividend, i.e. profit shall be taken before dividend paid to equity shareholders but after preference shareholders dividend is given and interest to debt holders.

$$\textbf{Return on Equity Ratio} = \frac{\textbf{Net Income}}{\textbf{Average Shareholder's Equity}}$$

Average shareholders' equity is calculated by adding equity at the beginning of the amount. The beginning and end of the amount should coincide with the amount during which the web income is earned. Net profit over the last full 12 month, or trailing 12 months, is found on the profit-and-loss statement a sum of monetary Activity over that period. Shareholders' equity comes from the record a running balance of a company's entire history of changes in assets and liabilities. It's considered best practice to calculate ROE supported average equity over a period thanks to the mismatch between the profit-and-loss statement and also the record.

What Does ROE Indicates

Whether ROE is deemed good or bad will rely on what's normal among a stock's peers. As an example, utilities have many assets and debt on the record compared to a relatively touch of profits. A standard ROE within the utility sector may be 10% or less. A technology or retail firm with smaller record relative to income may have normal ROE levels of 18% or more. a good rule of thumb is to specialize in an ROE that's up to or just above the standard for the generation.

Result and Analysis

With the view to create classification and grading of the banks on the idea of the activities like Deposits, Advances, Total Assets, Return on Assets, Return on Equity etc are used as criteria. Below Table 1 indicates the ranks of the position of the Banks for the aim of the study. it's clear from the Table that ICICI Bank Ltd is on the primary position, where activities are concerned i.e. total deposits, are concerned; followed by Punjab National bank with second place and Axis Bank Ltd with third place. SBI and HDFC stand at the fourth and fifth place respectively. This means that individuals don't have their interest in depositing their money in nationalized Banks and their performance isn't good during this respect. On the opposite hand, to concern to advances, ICICI Banks also holds the primary position but like just in case of Deposits, Punjab National bank don't hold the Second position. Rather Axis Banks holds the Second position followed by Punjab National bank at the third position. It indicates that there's a grip correlation among the Deposit and Advances and most of the banks has the identical position in respect of the Advances as they need just in case of Deposits. SBI and HDFC stand at the fourth and fifth place respectively, same like.

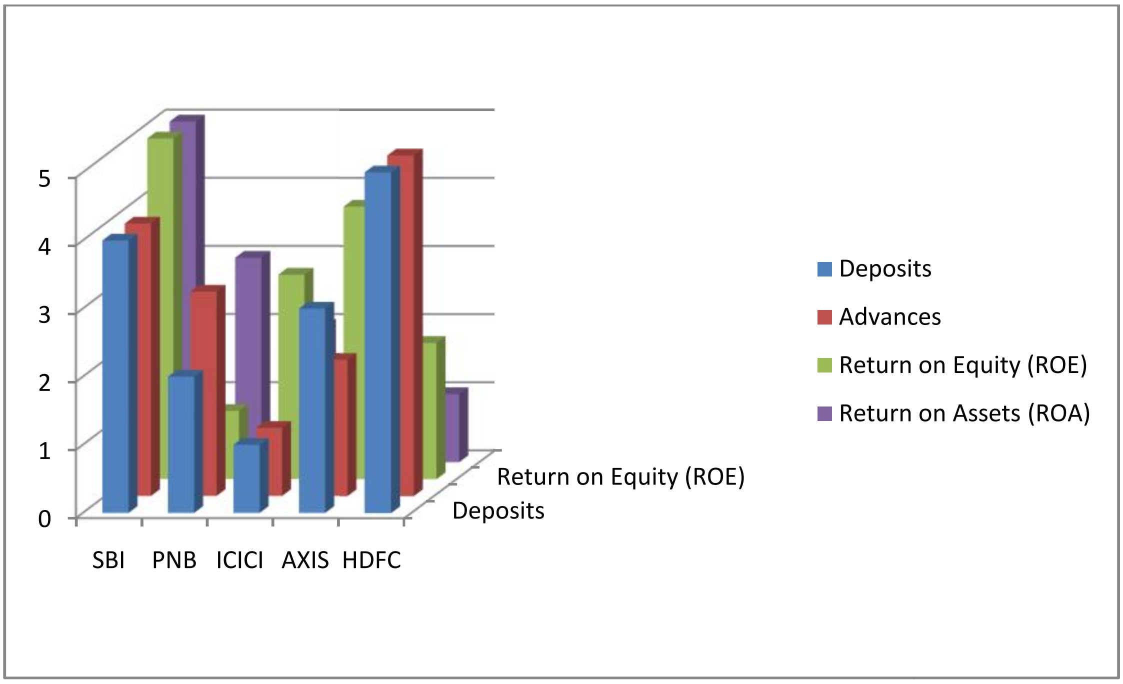
However if we glance into the Return on Equity Position the Punjab National bank holds the primary position. This can be because their earning indicating the continual return and lesser amount of NPA's. HDFC holds the second position. Very cheap position is of SBI where it's on fifth number with very cheap return on equity ratio. This is often perhaps due to high amount of Non Performing Assets. The ICICI Bank and Axis Bank stand at the third and fourth position respectively. Conversely if we glance into the Return on Assets Position the HDFC Bank holds the primary position. This is often due to constant and equal earnings. ICICI Bank holds the second position. Very cheap position is of SBI where it's on fifth number with very cheap return on equity ratio. This is often perhaps due to high amount of Non Performing Assets. The Punjab national bank and Axis Bank stand at the third and fourth position respectively.

Table 1: Ranks of Banks on the basis of their Financial Indicators

Banks	Financial Indicators Chosen			
	Deposits	Advances	Return on Equity (ROE)	Return on Assets (ROA)
SBI	5	5	5	4
PNB	2	2	3	1
ICICI	1	1	1	2
AXIS	3	2	4	5
HDFC	5	5	2	3

Source

Chart 1: Ranks of banks on the basis of their financial Indicators



Conclusion

The Study conducted gives overview of the performance of the Banks with reference to Deposits, Advances, Return on Equity and Return on Assets of SBI, Punjab Punjab bank, ICICI Bank, Axis Bank and HDFC Bank. Position of ICICI Bank and HDFC Bank has been found satisfactory out of the sample selected for the study. As far as activities i.e. Deposits, and Advances are concerned, position of ICICI Bank, HDFC Bank and Punjab Punjab bank is found satisfactory were leading among the chosen players. Axis Bank is a median performer, but the position of SBI is worst all told respect. It's quite interesting to grasp that position of upper cadre banks aren't as higher in profitability position obviously, rather a reverse trend is observed. SBI being the most important Bank of India has shown very cheap performance. The researcher has also observed that Return on Assets have correlation with operational efficiency. It's also revealed from the above position that there's an effect on the operational efficiency and asset management with the financial performance analysis. The researcher recommend that banks should add reduction of their NPA's and shall cause make policies where advances are granted with proper caution and predefined rules and norms with some SOP's started considering the various aspects of the Advances. The Talented people are required in the men to attain the profitability goals. The Expenditure control is another aspect that shall be looked into for the aim of increase profitability and Return on assets. The cut throat completion is the greatest problem in today's world and therefore the services shall be offered to customer, which they have most and services shall be designed in line with their taste and requirements. Another important consideration which shall lean is proper Risk management and international Expansion. The Customer satisfaction and customer friendly environment is incredibly important. The consistent efforts and skill to retain such efforts for the future is kind of important now a days. From this study it may be concluded this study will help the banking system including selected banks to form a priority on banking activities and to enhance thereby their profitability performance.

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