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PERFORMANCE ANALYSIS OF SELECTED PUBLIC AND PRIVATE SECTOR BANKS IN AGRA REGION

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ABSTRACT

Banks are a fundamental component of the financial structure, and are also active players in financial markets. It has become very mandatory to study and to make a comparative analysis of Public sector Banks and Private Sector banks in Agra region. This study tries to analyze Profitability & Productivity of Private Banks in India (A Comparative Study of Selected Public and Private Sector Banks). The study takes ten public sector banks and ten private sector banks in terms of market capitalization. The period of study is from 2008-09 to 2017-18. The performance of any economy to a large extent is dependent on the performance of the banking sector. The banking sector's performance is seen as the replica of economic activities of the nation as a healthy banking system acts as the base of social, economic and industrial growth of a nation. In fact economic development is a continuous process. The success of economic development depends essentially on the extent of mobilization of resources and investment and on the operational efficiency and economic discipline displayed by the various segments of the economy. It has become very mandatory to study and to make a comparative analysis of Public sector Banks and Private Sector banks in Agra region. This study tries to analyze the performance of largest public sector banks and largest private sector banks in Agra region.

KEYWORDS: *Financial Structure, Financial Markets, Capitalization, Economic & Industrial Growth.*

Introduction

The Stalwart of Indian Financial Community nodded their heads sagaciously when Prime Minister Mr. Manmohan Singh said in his speech "If there is one aspect in which we can confidently assert that India is ahead of China it is the robustness and soundness of banking system." Indian banks have been rated than Chinese banks of the international rating agency Standards & Poor's.

Though small in comparison to, say, USA, it has a strong banking system, a set of large and small stock and commodity exchanges, strong equity culture, large number of mutual funds, development institutions like Industrial Development Bank of India, non-banking finance companies, other specialized financial institutions, besides a large informal sector. India, since 1950s chose the mixed economy model, with strong emphasis on public sector. The banking sector comprises three major segments: Scheduled Commercial banks, State Cooperative banks, and other banks like NABARD. The scheduled commercial banks include all major banks and account for more than 98% of all the assets in the banking sector. In India, prior to nationalization, banking was restricted mainly to the urban areas. After nationalization, the Indian banking system registered tremendous growth in volume. Banks enjoyed little autonomy as both lending and deposit rates were controlled until the end of the 1980s. Although, nationalization of banks helped in spreading of banking to the rural and uncovered areas, the monopoly granted to the public sector and lack of competition led to overall inefficiency and low productivity on the other side. By 1991, the country's financial system had an inefficient and financially unsound banking sector.

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Statement of the Problem

Banks are the critical part of financial system. It plays an important role in contributing to a country's economic development. If the banking industry does not perform well, the effect of the economy could be huge and broad. Efficient banking system reflects a sound intermediation process and hence the banks due contribution to economic growth. So, profitability and productivity analysis is essential for evaluating the bank's performance.

Banking Sector Reforms Since 1991

Until the early 1990s, the banking sector suffered from lack of competition, low capital base, Low productivity and high intermediation cost. The role of technology was minimal and the quality of service was not given adequate importance. Banks also did not follow proper risk management systems and the prudential standards were weak. All these resulted in poor asset quality and low profitability." The key objective of reforms in the banking sector in India has been to enhance the stability and efficiency of banks. To achieve this objective, various reform measures were initiated that could be categorized broadly into three main groups: (a) enabling measures, (b) strengthening measures and (c) institutional measures. Enabling measures were designed to create an environment where banks could respond optimally to market signals on the basis of commercial considerations. Salient among these included reduction in statutory preemptions so as to release greater funds for commercial lending, interest rate deregulation to enable price discovery, granting of operational autonomy to banks and liberalization of the entry norms for financial intermediaries.

The strengthening measures aimed at reducing the vulnerability of banks in the face of fluctuations in the economic environment. These included, inter alia, capital adequacy, income recognition, asset classification and provisioning norms, exposure norms, improved levels of transparency, and disclosure standards. Institutional framework conducive to development of banks needs to be developed. Salient among these include reforms in the legal framework pertaining to banks and creation of new institutions.

It was in this backdrop, that wide-ranging banking sector reforms in India were introduced as an integral part of the economic reforms initiated in the early 1990s. Reforms in the commercial banking sector had two distinct phases. The first phase of reforms implemented subsequent to the release of the Report of the Committee on Financial System (Chairman: M. Narasimham), 1992 (or Narasimham Committee) focused mainly on enabling and strengthening measures. The Committee was guided by the fundamental assumption that the resources of the banks come from the general public and held by the banks in Despite opposition from trade unions and some political parties, the Government accepted all the major recommendations of the Committee some of which have already been implemented.

Further, the second phase of reforms, implemented subsequent to the recommendations of the Committee on Banking Sector Reforms (Chairman: M. Narasimham), 1998 (or Narasimham Committee II) placed greater emphasis on structural measures and improvement in standards of disclosure and levels of transparency in order to align the Indian standards with international best practices. The Off-site Monitoring and Surveillance (OSMOS) system was operationalized in 1995 as a part of crisis management framework for early warning system and as a trigger for on-site inspections of vulnerable institutions. The banks were required to increase the level of utilization of the INFINET for regulatory-cum-supervisory reporting. To identify areas requiring urgent supervisory action and initiate timely action, the time limit has been reduced for submitting returns across all categories of banks since June, 2008.

In order to strengthen the banking system, it was considered necessary to introduce capital adequacy norms to ensure uniform standards of capital structure and progress towards Basel Committee norms (Basel I). The adoption of Basel Core Principles for Effective Banking Supervision requires adherence to the principles, of consolidated accounting and supervision of the affairs of bank's subsidiaries. The Basel II framework has been designed to provide operations to banking system for determining the capital requirements for credit risk, market risk and operational risk and enable banks/supervisors to select approaches that are most appropriate for their operations and financial markets. Under Basel II, banks' balance sheets. With a view to ensuring migration to Basel II in a non-disruptive manner, given the complexities involved, a consultative approach is envisaged. Indian banks are preparing to adopt the Basel II norms from March 2010, as directed by the RBI.

Objectives of the Study

The main objectives of the study are as under:

- To Capital adequacy, asset quality, management, earning capacity and liquidity are the important parameters of performance of any banking sector. CAMEL evaluates five key components (Capital, Asset, Management, Earning and Liquidity) to judge the overall efficiency of operations. The present study seeks to evaluate the overall performance through CAMEL rating of the banks under study.
- To evaluate the financial performance based on the deployment of funds in the form of granting loans and advances or investment which is another important function of any banking business. So, the study will also examine the performance of the selected banks in the field of loans and advances and investment position during the period under study.
- To evaluate the productivity of selected commercial banks in India.
- To examine the performance of Indian banking sector in liberalization era.
- To find out the overall strength and weaknesses of the selected private and public sector banks in terms of their financial performance through the technique of ratio analysis and other statistical tools as t-test etc.

Research Methodology

- **Research Design**

Research design is the arrangement of activities for the collection and analysis of the data in a manner that aims to combine relevance to the purpose with economy in procedure. The study carried out here is an Analytical Research.

- **Data Collection Method**

The data has been collected from secondary sources.

- **Tools Used for Study**

The selected relevant parameters like mobilization of deposits, loans and advances, investment, return on assets, earning and expenses, responsiveness of earnings to expenses, capital assets risk weighted assets ratio, interest cost of deposits, interest cost of borrowing, ratio of intermediation cost to total assets, ratio of burden to total assets, output-input analysis, business per employee, profit per employee, spread as a percentage of total assets, interest yield on loans, interest yield on investment and bank balances, intermediation costs to total assets, dept-equity ratio, advances to assets ratio, total investments to total assets, cash-deposit ratio, advances to assets ratio, total investments to total assets, cash- deposit ratio, credit deposits ratio, percentage growth in net profit, interest income to total income, non-interest income to total income, wage bill to total income, priority sector advances and non-performing assets of the selected public sector and private sector banks will be considered to study the operational performance whereas average, percentage, rank, ultimate rank, tables, charts, graphs, statistical tools like measures of central tendency, Wilcoxon-Mann-Whitney or U-test etc. have been used at appropriate places for their analysis for the study period.

Limitations and Assumptions of the Study

The study has the following limitations and is based on certain assumptions:

- The study is limited to only ten years period (i.e. 2008-09 to 2017-18).
- The study is limited to the published secondary data of annual reports of RBI, Reserve Bank of India Publications, various issues of Economic Review of RBI, Statistical Tables Relating to Banks in India and India Banker's Association Bulletins, Reserve Bank of India's Report on Trend and Progress in Banking (RBI, 2017).
- It is assumed that the selected banks under study have given much emphasis on creation of money and profits by lending loans and receiving deposits and by other Activites keeping in mind their obligations to the society for using public money and for enjoying social and economic franchise for utlizing and holding of money resource.
- While selecting the public and private sector banks for research purposes, focus has been given on the basis of the availability of requisite information needed for conducting the research.

- The study was focused on selected ten public sector banks and ten private sector banks only. So, it cannot be generalized and applicable to all other banks.
- Since only secondary data have been used, the drawback of this will in turn the limitation of the study.
- The inflation in the economy is not taken into consideration.

Findings & Conclusion

An attempt has been made in this study to examine the comparative performance of selected public and private sector banks in the period of 2008-09 to 2017-18. The financial performance has been evaluated under different parameters- deposit mobilization, loans and advances, investment, NPA, priority sector advances, cost control efficiency, productivity efficiency, earnings and profitability efficiency. For this purpose ten leading Indian banks from each of the public and private sector banks have been taken into consideration. The present chapter seeks to make a summary of the findings of the study and the conclusion from the findings. The chapter also points out the suggestions for further study.

In an attempt to evaluate comparative financial performance of twenty leading Indian commercial banks, ten each from public sector and private sector, the present study has employed different parameters of study. Performance of each bank has been analysed in detail in terms of deposit mobilization, loans and advanced, investment position, non- performing assets, social responsibility efficiency, cost minimizing efficiency, productivity efficiency, earning and profitability efficiency. Lastly, comparative performance has been done using different relevant statistical tools and also by using CAMEL Rating Method.

Major operational changes have come in the banking sector after the financial sector reforms. Some new banks have entered into this sector with some innovative thinking to cope up with the competitive environment. These new private sector banks are more technology savvy and more concerned about the changing needs of customers. Public sector banks and old private sector banks were in the banking service under controlled economy for a long period of time. The success of any firm including banks depends on internal strength and how it adjusts with the external changes. Practically to keep pace with the changing environment without having the exposure to the latest technological developments in bank functioning.

The study also reveals that there is a phenomenal development in both the selected public and private sector banks during the study period. There are some factors responsible for the decrease in profits in bank especially private sector banks due to their sheer dependence on interest income, escalating operating cost, growing incidence of financial disintermediation, emphasis on social goals, rapid branch expansion particularly in the unbanked and under-banked areas.

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