

DEMONETIZATION AND FINANCIAL PERFORMANCE OF SELECTED INDIAN BANKS

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ABSTRACT

Demonetization is a situation where the Central Bank of the country (Reserve Bank of India) withdraws the old currency notes of certain denomination as an official mode of payment. In 2016, the Indian government decided to demonetize the 500- and 1000- rupee notes, the two biggest denominations in its currency system; these notes accounted for 86% of the country's circulating cash. With little warning, India's Prime Minister Narendra Modi announced to the citizenry on Nov. 8 that those notes were worthless, effective immediately – and they had until the end of the year to deposit or exchange them for newly introduced 2000 rupee and 500rupee. Banks are directed and organized for this work. Here the researcher has tried to study this Demonetization impact on the financial indicators of banks .Two public sector and two private sector banks are taken here with data of financial year 2016 and 2017.

KEYWORDS: *Demonetization, Public Sector Bank, Private Sector Bank.*

Introduction

The banking companies Act-1949 of India defines bank as 'A bank is a financial institution which accepts money from the public for the purpose of lending or investment repayable on demand or otherwise withdraw able by cheque ,drafts or order or otherwise. To provide the security to the savings of customers, the other functions of bank is like To control the supply of money and credit. To encourage public confidence in the working of the financial system, increase savings speedily and efficiently. To avoid focus of financial powers in the hands of a few individuals and institutions. As soon as Reserve Bank of India declared that the notes of Rs500 and Rs 1000 were worthless, effective immediately – and they had until the end of the year to deposit or exchange them for newly introduced 2000 rupee and 500rupee. Now to cope up with this reform and historical step banks had to do a lot of work with stipulated time period and guidelines of RBI which kept on changing time to time. Some financial performance indicators have a large impact and this study is based on pre and post Demonetization.

Background

In 1946, the first time the currency note of Rs 1,000 and Rs 10,000 were removed from circulation. The ban really did not have much impact, as the currency of such higher denomination was not accessible to the common people. However, both the notes were reintroduced in 1954 with an additional introduction of Rs 5,000 currency. Rs 500 and Rs 1000 notes were introduced in 1934 and after four years in 1938, Rs 10,000 notes were introduced.

The second denomination came in 1978; the then Prime Minister of India Morarji Desai announced the currency ban taking Rs 1000, Rs 5000 and Rs 10,000 out of circulation. The sole aim of the ban was to curb black money generation in the country.

Review of Literature

Hetal Tank, Dr. Ashvinkumar Solanki (2018): In this study impact of Demonetization on BSE indices was done and concluded that no difference on selected sector wise indices was found.

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Tax Research Team (2016): This report has made an attempt to find out the impact of demonetization on overall economy with stressing out about credit availability, level and span of economic activity as well as government monetary and finance activity.

Anil I Ramdurg & Dr. Basavraj CS (2016): In this study the researchers had made out a point about parallel economy and effectiveness of demonetization as toll to remove it.

Objective of the study

The main objective of the study is to compare the changes of some financial measure of public sector banks namely, State Bank of India and Bank of Baroda, while AXIS bank and HDFC bank of private sector.

Data Collection

The data are to be used for the study is mainly secondary data and they are to be collected from banks financial statements, Annual reports of the Banks under the study, different journals and magazines. The researcher will also use the publicly available information published at Reserve Bank India, Indian Banks association, moreover related websites also will be used.

Plan of Analysis

As the researcher wants to compare some financial indicator of the selected banks some ratios like Total advance to Total Deposit Ratio, Return on Assets, current ratio are studied, more over the portion of deposits and advances in the balance sheet are studied, their changes are also taken into consideration. The main aim of Demonetization is to take back old currency back the economy so cash inflow in the banking operation and balance of cash and cash equivalent are studied.

Hypothesis

To test the impact of demonetization on the working of selected banks a hypothesis is framed.

Null hypothesis (H₀): There would be no significance difference in the performance of selected bank in pre- demonetization and post- demonetization period of the study.

Data Presentation and Interpretation

At first study is about the amount of deposits received and advances given by banks in the year 2016 and 2017 here it shows increase in both of them after Demonetization.

Comparison of Deposits			
Bank	2016 Rs in Cr	2017 Rs in Cr	% change
AXIS	357967.56	414378.79	15.76%
HDFC	546424.19	643639.66	17.79%
BOB	574037.87	601675.17	4.81%
SBI	1730722.44	2044751.39	18.14%
Comparison of Advances			
Bank	2016 Rs in Cr	2017 Rs in Cr	% change
AXIS	338773.72	373069.35	10.12%
HDFC	464593.96	554568.2	19.37%
BOB	383770.18	383259.22	0.13%
SBI	1463700.42	1571078.38	7.34%
Advances to Deposit Ratio			
Bank	2016		2017
AXIS	94.63		90.03
HDFC	85.02		86.16
BOB	66.85		63.69
SBI	84.57		76.83

Total advances to Total deposit ratio shows the management efficiency of lending and borrowing process. Here AXIS banks has maintained the highest one during the study period.

Cash Flow

The flow of cash in banks are inflows and(out flow) is used to understand cash inflow of operating activity, in this respect to study the status of cash and cash equivalent at the end of financial year is also helpful to understand the impact of Demonetization which shows the old currency is come back or might have been exchanged. To compare the liquidity position of the bank Current ratio is also reviewed here.

Comparison of Cash Inflow (Rs in Cr)				Cash & Cash Equivalent Status (Rs in Cr)			
Bank	2016	2017	% change	Bank	2016	2017	%Change
AXIS	-19183.38	34192.28	278.24%	AXIS	33325.44	50256.18	50.80%
HDFC	-30132.19	23585.28	178.24%	HDFC	38918.89	48952.1	25.78%
BOB	-9841.66	17193.86	274.70%	BOB	133900.35	150469.9	12.37%
SBI	11196.53	11060.32	-1.22%	SBI	167467.66	171971.7	2.69%

The above data shows that the cash inflow in Axis Bank, HDFC Bank and BOB was negative in 2016 but it has remarkable hike in 2017 and Axis bank has the most hike during study period while only SBI shows the negative trend.

In the composition of Cash & cash Equivalent status almost all the banks have positive and strong position where again AXIS bank was on the top and SBI was at bottom during study period.

Liquidity

The current ratio shows the liquidity status of bank to meet its current liabilities with current assets without any adverse impact on banking operation

Comparison of Current Ratio		
Bank	2016	2017
AXIS	0.37	0.31
HDFC	0.36	0.33
BOB	0.21	0.22
SBI	0.33	0.37

There was decrease in current ratio of AXIS and HDFC while it was increased in BOB and SBI during the study period.

Hypothesis Testing

To test the hypothesis T-test, two –sample assuming unequal variance, two tail is to be applied and a conclusion would be drawn that if T-stat < T-critical value our null hypothesis is to be rejected otherwise it is to be accepted during the study period.

Total advance to Total deposit ratio T-Test: Two-Sample Assuming Unequal Variances

	Variable 1	Variable 2
Mean	82.7675	79.1775
Variance	134.136158	137.3018
Observations	4	4
Hypothesized Mean Difference	0	
Df	6	
t Stat	0.43580191	
P(T<=t) one-tail	0.33911128	
t Critical one-tail	1.94318027	
P(T<=t) two-tail	0.67822256	
t Critical two-tail	2.44691185	

The above test shows that T stat < T critic so value our null hypothesis is to be rejected during the study period. That there would be no significance difference in the total advance to total deposit ratio of selected bank in pre- demonetization and post- demonetization period of the study.

Current ratio T-Test: Two-Sample Assuming Unequal Variances

	Variable 1	Variable 2
Mean	0.3175	0.3075
Variance	0.005425	0.004025
Observations	4	4
Hypothesized Mean Difference	0	
Df	6	
t Stat	0.205738	
P(T<=t) one-tail	0.421899	
t Critical one-tail	1.94318	
P(T<=t) two-tail	0.843799	
t Critical two-tail	2.446912	

The above test shows that $T_{stat} < T_{critic}$ value so our null hypothesis is to be rejected during the study period. There would be no significance difference in the Current ratio of selected bank in pre-demonetization and post- demonetization period.

Conclusion

This was probably one of the most significant effects of demonetization. The banks were given a massive liquidity injection thanks to the government. This may also allow the lending rates to be reduced. As it is shown in the study, the banking activities are speed up and more people are approaching to banks.

Limitation

The present study is done with only four banks of Indian banking sector and only some of the parameters are studied from the financial statements so it cannot be applicable to the whole banking industry and overall financial performance of it. The study period of two years data is not sufficient to make a statement about overall and imperative impact of demonetization.

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