Vol 4 Issue 7 April 2015

ISSN No : 2249-894X

Monthly Multidisciplinary Research Journal

Review Of Research Journal

Welcome to Review Of Research

RNI MAHMUL/2011/38595 **ISSN No.2249-894X**

Review Of Research Journal is a multidisciplinary research journal, published monthly in English, Hindi & Marathi Language. All research papers submitted to the journal will be double - blind peer reviewed referred by members of the editorial Board readers will include investigator in universities, research institutes government and industry with research interest in the general subjects.

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Address:-Ashok Yakkaldevi 258/34, Raviwar Peth, Solapur - 413 005 Maharashtra, India
Cell : 9595 359 435, Ph No: 02172372010 Email: ayisrj@yahoo.in Website: www.ror.isrj.org

Review Of Research ISSN : 2249-894X Impact Factor : 3.1402(UIF)
Volume-4 | Issue-7 | April-2015 Available online at www.ror.isrj.org

FINANCIAL PERFORMANCE OF COMMERCIAL BANKS IN INDIA- AN ANALYTICAL STUDY

J. Sathyanarayana
Research Scholar, Dept. of Commerce, S.K.University, Anantapur.

Co-Author Details :

K. V. Ramana Reddy
Professor, Dept. of Commerce, S.K.University, Anantapur.

ABSTRACT:
The banks play an important role in the economic development of every nation. They have control over a large part of the supply of money in circulation. A bank is a financial intermediary that accepts deposits and channels those deposits into lending activities. The banks are a fundamental component of the financial system and are also active players in financial markets. The financial performance refers to the achievement of the bank in terms of profitability. The profitability of a bank denotes the efficiency with which a bank deploys its total resources to optimize its net profits and thus serve as an index to the degree of asset utilization and managerial effectiveness. The sound financial health of a bank is the guarantee not only to its depositors but is equally significant for the shareholders, employees and whole economy as well. As a sequel to this maxim, efforts have been made from time to time, to measure the financial position of each bank and manage it efficiently and effectively. In this article an attempt is made to see the financial performance of the selected public sector banks with the different norms. The Indian banking system faces several difficult challenges. The selected public sector banks have performed well on the sources of growth rate and financial efficiency during the 2003-2013. The private sector banks play a vital role in marketing of new type of deposits and advances schemes.The important steps are introducing modern marketing strategies, improving credit-deposit proportion, generating non-interest Income, introducing innovative branch administration, monitoring the controlling mechanism on important ratios and prudential disclosure of the financial information.M implementation.

KEYWORDS
Financial Performance , Analytical Study , Commercial Banks , economic conditions .

INTRODUCTION

A good bank is not only the financial heart of the community, but also one with an obligation of helping in every possible manner to improve the economic conditions of the common people. A bank is a financial intermediary that accepts deposits and channels those deposits into lending activities. The banks are a fundamental component of the financial system, and are also active players in financial markets. The essential role of a bank is to connect those who have capital (investors or depositors), with those who seek capital (such as individuals wanting a loan or businesses wanting to grow). The banks play an important role in the economic development of every nation. They have control over a large part of the supply of money in circulation. Through their influence over the volume of bank money, they can influence in nature and character of production in any country. The economic development is a dynamic and continuous process. The banks are the main stay of economic progress of a country, because the economic development highly depends upon the extent of mobilization of resources are investment and on the operational efficiency of the various segments aretrade, industrial developmentand agriculture in the economy. Thus, in the modern economy, banks have become a part and parcel of all economic activities in India. The integration of Indian financial sector with the rest of the world, the concept of banks and banking has undergone a paradigm shift. Before financial reforms, the Indian banks were enjoying, in a protected environment with a strong cushion of the government and their banks. This had made them operationally inefficient and commercially almost wreck, as they had cumulated as much as Rs.37,000 Crores as non-performing advances.

However, with the RBI taking strong measures based on the recommendations of the Narsimhan Committee, the landscape of Indian banking changed altogether. All the banks were directed to follow the norms of capital adequacy, asset quality, provisioning for NPAs, prudential norms, disclosure requirements, acceleration of pace and reach of latest technology, streamlining the procedures and complying with accounting standards and making financial statements transparent. Towards this end, they re-defined their objectives, strategies, policies, processes, methods and technologies which have a direct bearing on the financial health and performance of these banks. In this way, these banks were not only required to take the above steps but always evaluate their financial position from period to period. Because of this factor, the interest of the analysts and researchers got developed to analyze, evaluate, measure and finally manage the financial performance of the Indian banks. The major objectives areto enlighten on the establishment of public sector banks, to analyze the financial position of selected public sector banks and suggestions for improving the performance of the banks.

METHODOLOGY

To accomplish the objectives of the study, secondary data were used. It has been collected from bank records, published and unpublished financial reports, journals, magazines and websites. The study period is covered from 2003 to 2013. The financial performance of the selected public sector banks were analyzed for the period of ten years with the help of the tools and techniques are ratio analysis and regression used. They can also be termed as Government owned banks are selected for the study. The banks are Indian Bank (IB), CanaraBank (CB), Union Bank of India (UBI) and State Bank of India (SBI). The ratio of advances to assets in public sector banks are presented in Table-I.

TABLE-I

RATIO OF ADVANCES TO ASSETS IN PUBLIC SECTOR BANKS OF INDIA

year	IB	C B	UBI	S B I
2003	41.31	45.92	48.19	34.69
2004	38.93	49.32	49.97	36.65
2005	39.99	47.86	50.46	38.73
2006	45.92	54.78	55.38	44.01
2007	47.21	59.81	59.89	52.98
2008	51.75	59.35	60.76	59.54
2009	56.51	59.41	59.92	57.76
2010	61.18	62.93	59.97	56.25
2011	62.13	63.49	60.16	57.92
2012	63.45	65.78	62.45	58.16
2013	64.88	67.18	63.18	59.45

From the Table-I shows that the ratio of advances to assets, the ratio ranges from 41.31per cent to 64.88 per cent of Indian Bank, 45.92per cent to 67.18 per cent of Canara Bank, 48.19 per cent to 63.18 per cent of Union Bank of India and 34.69 per cent to 59.45 per cent of State Bank. There is an increasing trend in the ratio of advances to assets. The concluded that, the banks aggressiveness in lending which ultimately results in better profitability. The ratios of capital deposits in public sector banks are presented in Table-II.

TABLE- II

RATIO OF CAPITAL TO DEPOSITS IN PUBLIC SECTOR BANKS OF INDIA

year	IB	C B	UBI	S B I
2003	15.82	0.91	0.85	0.19
2004	17.38	0.81	1.03	0.18
2005	15.02	0.47	0.91	0.17
2006	13.14	0.42	0.74	0.14
2007	1.82	0.35	0.68	0.14
2008	0.91	0.29	0.59	0.12
2009	0.71	0.27	0.49	0.12
2010	0.59	0.22	0.36	0.09
2011	0.56	0.21	0.34	0.08
2012	0.53	0.20	0.32	0.07
2013	0.52	0.18	0.29	0.06

From the Table-II shows that the ratio enables the banks ability to meet the contingencies of repayment of deposits. The ratio ranges from 15.82 per cent to 0.52per cent of Indian Bank, 0.91 per cent to 0.18 per cent of Canara Bank, 0.85 per cent to 0.29 per cent of Union Bank of India and 0.19 per cent to 0.06 per cent of State Bank of India.The concluded that, there is andecreasing trend in the capital of the selected public sector banks. This ratio enables the banks ability to meet the contingencies of repayment of deposits. The ratios of capital to working fund in public sector banks are presented in Table-III.

TABLE- III

RATIO OF CAPITAL TO WORKING FUND IN PUBLIC SECTOR BANKS OFINDIA

year	IB	C B	UBI	S B I
2003	15.61	0.86	0.82	0.18
2004	16.57	0.76	0.98	0.17
2005	14.33	0.45	0.87	0.16
2006	12.47	0.41	0.71	0.13
2007	1.73	0.33	0.65	0.13
2008	0.85	0.27	0.56	0.11
2009	0.65	0.25	0.46	0.11
2010	0.55	0.21	0.35	0.08
2011	0.53	0.21	0.34	0.07
2012	0.51	0.19	0.33	0.08
2013	0.51	0.17	0.31	0.07

From the Table-III shows that the ratio of capital to deposits ranges from 15.61 per cent to 0.51 per cent of Indian Bank, 0.86 per cent to 0.17per cent of Canara Bank, 0.82 per cent to 0.31per cent of Union Bank of India and 0.18 per cent to 0.07 per cent of State Bank of India. The concluded that, overall efficiency of the selected public sector banks is good.The ratios of demand deposits to total deposits are analyzedthe public sector banks are presented in Table-IV.

TABLE- IV

RATIO OF DEMAND DEPOSITS TO TOTAL DEPOSITS IN PUBLIC SECTOR BANKS OF INDIA

year	IB	C B	UBI	S B I
2003	7.36	11.16	16.72	15.64
2004	8.11	10.87	11.25	15.12
2005	7.69	10.02	9.91	15.78
2006	8.21	9.24	8.11	15.42
2007	7.85	8.79	8.07	17.89
2008	7.71	8.74	10.12	18.83
2009	7.76	9.61	11.41	18.26
2010	7.29	7.68	9.49	14.92
2011	7.27	7.69	8.89	1306
2012	7.25	7.67	8.17	12.93
2013	7.23	7.65	7.86	11.29

From the Table-IVrevels that, the ratio of demand deposits to total deposits of the selected public sector banks by ranging from 7.36 per cent to 7.23 per cent of Indian Bank, 11.16 per cent to 7.65 per cent of Canara Bank, 16.72 per cent to 7.86 per cent of Union Bank of India and 15.64 per cent to 11.29 per cent of State Bank of India.The conclude that, the ratio was at highest during the beginning of the study period, which thereafter had declined considerably. The ratios are analyzed the credit deposits of public sector banks are presented in Table-V.

TABLE- V

RATIO OF CREDIT DEPOSIT IN PUBLIC SECTOR BANKS OF INDIA

year	IB	C B	UBI	S B I
2003	45.38	51.74	53.74	44.65
2004	46.65	56.14	57.02	46.52
2005	46.41	55.17	58.21	49.57
2006	52.81	62.35	64.86	55.14
2007	55.11	68.01	72.04	68.84
2008	61.71	69.18	73.24	77.46
2009	65.26	69.61	71.59	77.55
2010	70.91	73.96	69.61	73.11
2011	72.45	76.45	71.08	74.35
2012	73.18	77.39	72.15	75.43
2013	75.09	79.16	73.78	76.39

From the Table-V shows that the ratio of credit deposit of ratio plays an important role in determining the profitability of the banks. The ratio ranges from 45.38 per cent to 75.09 per cent of Indian Bank, 51.74 per cent to 79.16 per cent of Canara Bank, 53.74 per cent to 73.78 per cent of Union Bank of India and 44.65 per cent to 76.39 per cent of State Bank of India. The concluded that, the public sector banks maintains the highest credit deposit ratio and the profitability of the banks is good. The ratios are analyzed the returns on average net worth in public sector banks are presented in Table-VI.

TABLE- VI

RATIO OF RETURN ON AVERAGE NET WORTH IN PUBLIC SECTOR BANKS OF INDIA

year	IB	C B	UBI	S B I
2003	-	23.59	15.88	16.95
2004	23.27	26.74	23.65	19.15
2005	27.11	28.47	25.19	19.67
2006	21.42	19.53	21.46	19.43
2007	21.95	20.29	16.52	17.04
2008	24.01	16.25	17.34	15.41
2009	22.41	15.01	22.13	16.75
2010	20.26	18.25	21.46	17.05
2011	20.95	19.08	22.35	17.81
2012	21.45	20.45	23.18	18.06
2013	22.93	21.92	23.65	18.34

From the above Table-VIobserves that the ratio of return on average net worth of the public sector banks. In study period the Indian Bank and Canara Bank return on average net worth ratio was decreased that is from 23.27 per cent to 22.93 per centand 23.59 per cent to 21.92 per cent respectively.In case of Union Bank of India and State Bank of India ratio of return on average net worth ratio was increased from 15.88 per cent to 23.65 per cent and 16.95 per cent to 18.34 respectively. The concluded that the higher the ratio ensures increased return to the equity shareholders. The return on net worth during the study period is good in case of all the banks except Union Bank of India and State Bank of India.The ratios are analyzed the liquid assets to working funds in public sector banks are presented in Table-VII.

TABLE- VII
RATIO OF LIQUID ASSETS TO WORKING FUND IN PUBLIC SECTOR BANKS OF INDIA

year	IB	C B	UBI	S B I
2003	57.06	53.02	49.08	15.88
2004	64.08	50.13	49.71	23.65
2005	62.16	52.28	49.45	25.19
2006	55.86	45.41	45.21	21.46
2007	55.31	40.22	41.32	16.52
2008	51.07	40.93	40.49	17.34
2009	43.74	41.69	40.12	22.13
2010	37.71	37.81	40.47	21.46
2011	36.45	36.93	40.16	22.87
2012	35.93	36.01	39.96	22.45
2013	34.81	35.46	38.43	23.84

From the Table-VII indicates the ratio of liquid assets to working fund. The ratio has been an inferred irregular variation that is from 57.06 per cent to34.81 per cent of Indian Bank, 53.02 per cent to 35.46 per cent of Canara Bank, 49.08 per cent to 38.43 per cent of Union Bank of Indiaand 15.88per cent to 23.84 per cent of State Bank of India.The concluded that, the fluctuation in ratio has showed adverse effect to the bank and the public sector bank has to take care of liquid assets to maintain steady position.In this analysis, the regression between the independent variables namely, credit deposit ratio, total investment to total deposits, interest income to working fund, spread to working fund, non-interest income to working fund and non-interest expenses to working fund as well as, the regression between the dependent variable, Net Profit to Working Fund. The regression analysis are analyzed the above banks structure. The regression analyses of Indian Bank are presented in Table-VIII.

TABLE-VIII
REGRESSION ANALYSIS OF INDIAN BANK

Variables	Regression Coefficient (B)	Standard Errors	T	Sign	R	R^2	Adjusted R^2	Std.Error The Estimate
Constant	-2.918	10.581	-.276	@	.918	.8427	.899	.37302
C.D	.074	.106	.718	@				
T.I to T.D	.031	.102	.305	@				
I.I to W.F	-.485	.286	-1.695	@				
S to W.F	.436	.691	.631	@				
N.I.I to W.F	1.118	.611	1.831	@				
N.I.E to W.F	-.126	.172	-.741	@				

From the Table-VIII shows that the all variables found in the table do not have significant effect on the dependent variable. The regression coefficient is observed that the interest income to working fund, and non-interest expenses to working fund have negative effect on net profit to working fund and all other variables have positive effect on net profit to working fund. Overall multiple correlationsshow a high correlation (0.8427) between the dependent variable and set of independent variables taken together. The regression analyses of Canara Bank are presented in Table-IX.

TABLE-IX
REGRESSION ANALYSIS OF CANARA BANK

Variables	Regression Coefficient (B)	Standard Errors	T	Sign	R	R^2	Adjusted R^2	Std.Error The Estimate
Constant	-2.005	2.368	-.823	@	.981	0.9623	.954	.08385
C.D	.021	.013	2.013	@				
T.I to T.D	.001	.015	-.021	@				
I.I to W.F	-.094	.082	-1.068	@				
S to W.F	.618	.285	2.143	@				
N.I.I to W.F	1.065	.135	7.785	*				
N.I.E to W.F	-0228	.155	-1.501	@				

From the Table-XI shows that the non-interest income to working fund ratio has a significant effect on net profit to working fund at 5% level and all other variables do not have significant effect on the dependent variable. It is observed that interest income to working fund and non-interest expenses to working fund have negative effect on net profit to working fund and all other variables have positive effect on net profit to working fund. Overall multiple correlations show a high correlation (0.9623) between the dependent variable and set of independent variables. The regression analyses of Union Bank of India are presented in Table-X.

TABLE-X
REGRESSION ANALYSIS OF UNION BANK OF INDIA

Variables	Regression Coefficient (B)	Standard Errors	T	Sign	R	R^2	Adjusted R^2	Std.Error The Estimate
Constant	-.511	2.589	-.193	@	.955	0.912	.825	.14983
C.D	-0.24	.016	1.438	@				
T.I to T.D	-.018	.052	-.338	@				
I.I to W.F	-.064	.0122	-.518	@				
S to W.F	-.411	.501	-.812	@				
N.I.I to W.F	-921	.384	2.312	@				
N.I.E to W.F	.224	.268	.824	@				

From the Table-X shows that the all variables found in the table do not have significant effect on the dependent variable. The observed that the total investment to total deposits, interest income to working fund and spread to working fund have negative effect on net profit to working fund and all other variables have positive effect on net profit to working fund. In all multiple correlationsshow a high correlation (0.912) between the dependent variable and set of independent variables.The regression analyses of State Bank of India are presented in Table-XI.

TABLE-XI

REGRESSION ANALYSIS OF STATE BANK OF INDIA

Variables	Regression Coefficient (B)	Standard Errors	T	Sign	R	R^2	Adjusted R^2	Std.Error The Estimate
Constant	-.635	.635	-1.008	@	.988	0.9761	.985	.02485
C.D	.005	.002	1.632	@				
T.I to T.D	.003	.003	.838	@				
I.I to W.F	.035	.024	1.459	@				
S to W.F	.153	.042	3.518	@				
N.I.I to W.F	1.065	.079	13.705	**				
N.I.E to W.F	-.238	.26	-8.358	*				

From the Table-XI shows that the non-interest income to working fund ratio has a significant effect on net profit to working fund at 1% level and non-interest expenses to working fund ratio has a significant effect on net profit to working fund at 5% level. The remaining other variables do not have significant effect on the dependent variable. The non-interest expenses to working fund have negative effect on net profit to working fund and all other variables have positive effect on net profit to working fund. Overall multiple correlationsshow a high correlation (0.9761) between the dependent variable and set of independent variables.

The financial performance of the selected four public sector banks is analyzed using different parameters. The selected public sector banks that are, Indian Bank (IB), Canara Bank (CB), Union Bank of India (UBI) and State Bank of India (SBI) are in a position to follow the rules of the Government for the social and economic development of the country. The selected public sector banks have performed well on the sources of growth rate and financial efficiency during the 2003-2013. The private sector banks play a vital role in marketing of new type of deposits and advances schemes. These banks, by earning at least a nominal profit, have to serve the economy through extension of advances and safeguard the interest of their investors by providing the expected return on their investment in banks. These forces the public sector banks not only to increase their earnings but also to create surplus out of their banking activities. The Indian banking system faces several difficult challenges. The banks have to re-orient their strategies in the light of their own strengths and the kind of market in which they are likely to operate on. In the perspective of this domestic and international development, the banking sector has to chart out a perfect path for the development in its own.Since the banking sector reforms have been set in motion, the profitability became the buzzword and the prime mover of the financial strength and performance of banks. In the past, all banking operations gradually came to be measured in terms of their ability to generate possibilities of social banking for their meaningful survival and growth. The important steps are taken by the banks for overall real growth and an introducing modern marketing strategies, improving credit-deposit proportion, generating non-interest Income, introducing innovative branch administration, monitoring the controlling mechanism on important ratios and prudential disclosure of the financial information India.

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