REVIEW OF RESEARCH

FINANCIAL PERFORMANCE OF PUBLIC SECTOR BANKS IN INDIA

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ABSTRACT:

Bank nationalization was an important landmark in the history of banking in India. In order to serve the development needs of the country, nearly 20 commercial banks were nationalized between 1969 and 1980. This brought nearly 80% of the banking industry under the government control. For two decades, public sector banks dominated the banking space and exhibited enhanced performance. However, in the late 1980s, the performance and growth of public sector banks started waning, confronted by problems of low productivity and high costs. This called for an urgent need for reforms in the banking industry. After the introduction of financial sector reforms in 1993, the public sector banks could not sustain competition from new-generation tech-savvy private banks. Despite attempts of the government to revive the banking industry, public sector banks continued to show poor performance and accumulating NPAs. After the global financial crisis in 2007, India witnessed economic slowdown and subsequent recession. During this phase, private banks started eclipsing the banking scenario, surpassing the performance of public sector banks. With major share of public sector banks in the country's banking business, it becomes imperative to examine the financial performance of the public sector banks in India. Time series data were engaged for the study. Financial performance of the public sector bank group was examined and evaluated on the basis of selected financial parameters. The entire time period of the study from 1995-96 to 2016-17 was fragmented into two phases, Phase I being the period immediately following reforms and before the financial crisis set in (1995 - 96 to 2006 - 07), and Phase II coinciding with the post global financial crisis period (2007 - 08 to 2016 - 17). The study concluded that all indicators of financial performance of the public sector bank group showed positive trends during the first phase ; whereas, they exhibited falling trends over the second phase of the analysis period.

KEYWORDS: *Bank nationalization , banking industry.*

INTRODUCTION

The improvement financial system is the key to the economic development of a nation. The Banking sector is one of the vital components of the financial system. The sector provides financial services not only to the industry but also to the agriculture and household sectors. It also plays important role in formation of capital in the economy. India Banking sector has a great contribution in the economic growth of the nation. Reserve Bank of India (RBI) is the apex body of the Indian Banking sector. It ensures the stability in the monetary system of the country. Since independence, RBI has initiated several measures to improve more access to financial services through financial education, awareness and technological up gradations in an affordable manner. The performance of the banking sector is supposed to be a crucial economic active of Indian economy. So, the reforms in banking sector are intended to make the banks more efficient.

However, the Banking sector is facing alarming challenges like rising in competition, level of on -Performing Assets and weakening asset quality. These may have a negative impact on the economy of the nation.

The government will start surveying public sector banks annually to rank them on performance parameters ranging from profitability to customer satisfaction. Last year, the government had initiated its reforms agenda for state run lenders termed EASE — Enhanced Access and Service Excellence — and directed them to draw up a board-approved strategic vision consistent with theirrisk-appetite framework.

"We will come out with the EASE survey in this fiscal, which will indicate how banks have performed. This will be done annually and will encourage competitiveness among lenders," a senior finance ministry official said.

The parameters include customer responsiveness, financial inclusion, digital platforms and security. "Financial performance will be assessed on the basis of recoveries made, return on assets and differentiated banking strategy," the finance ministry official said.

The government expects the financial performance of banks to improve as their bad loans come down. Last month, the RBI allowed three lenders to come out of the prompt corrective action framework, under which some of their activities were curbed.

Financial services secretary Rajiv Kumar had then told ET that both the government and banks are fully committed towards the reform process and other lenders are also working towards faster recovery.

The finance ministry had noted that the recognition exercise for public sector banks is almost over, with restructured standard assets declining from a peak of 7% in March 2015 to 0.59% as of September 2018. "PSBs have made a record in recoveries at Rs 60,726 crore in the first half of the current financial year, which is more than double the amount recovered over the corresponding period last year," Kumar had said. The government will also infuse the last tranche of additional capital of Rs 41,000 in state-run lenders to strengthen their capital base. This would enhance the total recapitalisation in the current financial year to Rs 1.06 lakh crore from Rs 65,000 crore. The finance ministry has said that the gross non-performing assets of state-owned banks have started declining after peaking in March 2018, registering a drop of Rs 23,860 crore in the first half of the current financial year.

FINANCIAL PERFORMANCE OF PUBLIC SECTOR BANKS AS ON 31-3-2018

Rs in crores

BANK	OPERATING PROFIT	PROVISIONS FOR BAD LOANS & CONTINGENCIES	NET PROFIT / NETLOSS
1. Indian Bank	5001	3925	+ 1259
2. Vijaya Bank	3098	2114	+ 727
3. Punjab & Sind Bank	1145	1740	- 744
4. Bank of Maharastra	2191	5457	- 1146
5. United Bank of India	1024	3971	- 1454
6. Dena Bank	1171	4350	- 1923
7. Bank of Baroda	12005	14796	- 2432
8. Syndicate Bank	3864	8252	- 3223
9. Andhra Bank	5361	10822	- 3413
10. Corporation Bank	3950	10631	- 4054
11. Canara Bank	9548	16109	- 4222
12. UCO Bank	1334	5761	- 4436
13. Allahabad Bank	3438	10029	- 4674
14. Central Bank of India	2733	10629	- 5105
15. Union Bank of India	7540	14181	- 5247
16. Oriental Bank of Commerce	3703	9798	- 5872
17. Bank of India	7139	15772	- 6044
18. Indian Overseas Bank	3629	12261	- 6299
19. State Bank of India	54075	75039	- 6547
20. IDBI Bank	7904	20497	- 8238
21. Punjab National Bank	10294	29869	- 12283
TOTAL	1,50,149	2,86,004	- 85,370

Since RBI's asset quality review in second half of FY16, public sector banks have recorded close to 1.7 trillion in losses and almost 9 trillion in NPAs.

Media reports say the parliamentary committee on estimates, headed by Murli Manohar Joshi, has invited former Reserve Bank of India (RBI) governor Raghuram Rajan to brief it on the mounting non-performing assets (NPAs) of Indian banks. The invitation follows former chief economic adviser Arvind Subramanian's praise for Rajan's role in identifying the problem and taking steps to address it, before the committee. It is seeking Rajan's views on the "crisis" —how it has been created and how it should be tackled.

Rajan forced the banks to come clean by conducting a first-of-its-kind asset quality review in the second half of fiscal year 2016. Reserve Bank of India (RBI) inspectors checked the books of all banks with a fine-tooth comb, identified the bad loans and asked the banks to clean up their balance sheets in six quarters between December 2015 and March 2017. However, the clean-up process has not yet completed.

Let's take a look how the 21 public sector banks fared between December 2015 and June 2018. Their share of banking assets is less than 70% but when it comes to bad loans, they contribute about 87%. The gross NPAs of India's public and private banks was ₹ 10.03 trillion in June 2018.

Data compiled by Ashwin Ramarathinam of Mint shows the PSU banks have recorded close to ₹ 1.7 trillion in losses between December 2015 and June 2018, more than 80% of ₹ 2.11 trillion capital infusion that the government has announced. This also exceeds the total capital infusion in 31 years between 1986 and 2017, one-third of which— ₹ 50,000 crore—flowed in 2016 and 2017. Since December 2015, Indian Overseas Bank (IOB), Central Bank and Uco Bank have posted loss in every quarter. While IOB's cumulative loss is ₹ 12,997 crore, that of Central Bank is ₹ 10,800 crore and Uco Bank ₹ 10,133 core. Bank of Maharashtra has been in the red for 10 successive quarters, IDBI Bank Ltd and Oriental Bank of Commerce seven quarters, United Bank of India five quarters, Andhra Bank four quarters and State Bank of India (SBI), Syndicate Bank, Allahabad Bank and Punjab & Sind Bank three quarters each.

IDBI Bank has recorded the maximum loss in this period (₹ 20,022 crore) followed by Punjab National Bank (₹ 19,724 crore), SBI (₹ 15,010 crore) and Bank of India (₹ 13,190 crore). In eight of the last 11 quarters, PSU banks as a group posted net losses because of high provisions to take care of their bad assets. Provision and contingencies which were ₹ 42,417 crore in December 2015, rose to ₹ 1.29 trillion in March 2018, before dropping to ₹ 63,010 in June. Between December 2015 and June 2018, the cumulative provision was ₹ 6.09 trillion.

During this period, many PSU banks such as Allahabad Bank, Andhra Bank, Bank of Maharashtra, Central Bank, IDBI Bank, Syndicate Bank, Uco Bank and United Bank have seen their gross NPAs as a percentage of their loan books growing around two and half times.

For others, barring Indian Bank and Vijaya Bank, gross NPAs have at least doubled. Such loans of Indian Bank and Vijaya Bank (two banks which have not made any loss) have risen around one and a half times in these 11 quarters.

Apart from high provision, the other reason for many PSU banks making losses is stagnancy and even drop in their net interest income. Ditto about fee income. Both have been on the decline for those which have started shrinking their balance sheets.

Between September 2015 and March 2018, six banks have shrunk their deposit portfolios. They are Uco Bank (16%), Corporation Bank (10%), Indian Overseas Bank (7%), Bank of Baroda (3%), BoI and Dena Bank (less than 1% each). Indeed, SBI has grown its deposits by 65% during this period but mergers of its associate banks with itself also contributed to this. Among others, Vijaya Bank, Andhra Bank, Union Bank of India and Indian Bank have grown their deposit books between 20% and 28%.

When it comes to advances, 10 banks have contracted their books and at least two of them—Uco Bank and Indian Overseas Bank—by more than one-fifth of the size of their loan portfolios. Corporation Bank, IDBI Bank and Central Bank's loan books have contracted by around 16% each and that of Bank of India, Bank of Maharashtra and Dena Bank, between 10.5% and 12.7%. Four PSU banks have recorded marginal growth in their loan portfolios in the past one a half years and seven of them have shown a double-digit growth.

What do all these mean? The public sector banks are losing market share to their private peers. Since they are backed by the sovereign, the depositors are still keeping money with them but many PSU banks are turning into narrow banks—investing in government securities instead of giving loans.

Of course, at least two of them have no choice. They are restrained by RBI from giving fresh loans while nine others are also not allowed to carry on expansion in business.

Public sector banks plunge into Rs 87,000 crore loss in FY18

Indian Bank posted the highest profit of Rs 1,259 crore and Vijaya Bank's profit was Rs 727 crore during the fiscal year. After factoring in the profit of these two banks, the net loss piled up by public sector banks works out to around Rs 85,370 crore in 2017-18 compared with a net profit of Rs 473.72 crore in 2016-17.

Losses of public sector banks have touched a staggering Rs 87,370 crore during the financial year ended on March 31, 2018, with fraud-hit Punjab National Bank leading the pack as the biggest loss-maker. Of the 21 state-owned banks, only two banks, Indian Bank and Vijaya Bank, posted profits during 2017-18.

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The 19 public sector banks together posted a net loss of Rs 87,357 crore during the fiscal year, according to the latest financial results that have come in for the last quarter (Jan-March) of 2017-18. All 21 banks had together posted a net profit of Rs 473.72 crore in 2016-17.

Punjab National Bank, which has been rocked by Rs 13,600-crore fraud perpetrated by rogue jewellers Nirav Modi and Mehul Choksi, posted a net loss of Rs 12,283 crore for 2017-18. In 2016-17, the Delhi-headquartered bank had posted a profit of Rs 1,325 crore.

PNB was followed by IDBI Bank, which saw its net loss shoot up to Rs 8,237.93 crore in the fiscal year from Rs 5,158.14 crore in the preceding year. The country's biggest bank, State Bank of India, went into a net loss of Rs 6,547.45 crore for the year compared with a net profit of Rs 10,484.1 crore in 2016-17. Indian banking sector is grappling with mounting non-performing assets (NPAs) and host of scams and frauds.

The NPA in the banking sector stood at Rs 8.31 lakh crore as of December 2017. Weak financials due to mounting bad loans have already pushed 11 banks, out of 21 state-owned banks, under the Prompt Corrective Action (PCA) framework of the RBI which imposes restrictions on their extending more loans and bars expansion plans.

The government is worried as the mounting losses will prevent banks from extending more credit to corporates and consumers which in turn will slow down the country economic growth rate. Interim Finance Minister Piyush Goyal has announced setting up of a committee to submit recommendations within 15 days on setting up an Asset Reconstruction Company to resolve stressed accounts.

RBI BOND RULE POSES DANGER

The RBI on Wednesday tweaked an old rule relating to government bonds on Wednesday which market insiders say could add to the losses of state-run banks laden with bad debt. The central bank said investors in state government bonds will now have to value this debt at market prices, and not at a fixed mark-up that was allowed for years.

For years, the RBI had allowed investors in state government securities to value these holdings at a fixed markup of 25 basis points above the corresponding central government security. This allowed banks to mask actual trading losses, especially in recent quarters.

BLEEDING BOOK TRAIL

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Fraud-hit Punjab National Bank leads the loss-making pack with a net loss of Rs 12,283 crore for 2017-18 . IDBI Bank is next with a net loss Rs 8,238 crore, State Bank of India went into a net loss of Rs 6,547 crore

CONCLUSION

From the above analysis we conclude that the banks have much better growth prospects in recent years of public sector banks. For ensuring susutainable development of banking sector, it's very important to take following steps . Application of recent technology in public sector banks, debt recovery mechanism, and improved manpower skills could be some way outs for improving the financial performance of the sector. Public sector banks are needed to devise innovative ways of responding to the evolving challenges. So, in the era of liberalization and globalization, the banks should adopt the latest framework as per the Basel-III Accord, and evolve cost -reduction strategies and should venture into integrated banking services.Further, to ensure the resilience of the banking sector and to avoid the volatility of other sector banks more stringent provisions may be enacted. This study may help the decision makers of Indian Public sector banks and other categories of banks in Indian Banking sector to concentrate on banking activities and thereby to increase the bank ranking and financial performance of the banks. It may help the management in formulating appropriate strategies for achievement of objectives.

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