International Journal of Advance and Applied Research (IJAAR)
Peer Reviewed Bi-Monthly
ISSN – 2347-7075
Impact Factor – 7.065
Vol.8 No.1 Sept – Oct 2020

PRIVATE SECTOR BANKING: AN ANALYTICAL STUDY ON FINANCIAL PERFORMANCE

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Abstract

Banking system is the vertebrae of an economy of any country. The strength of economy of any country basically hinges on the strength and efficiency of financial system, which, in turn depends upon a sound banking system. Banking sector in India, with its rapid expansion in the number of branches and the new functions allotted to them have started feeling pressure on their organizational abilities. The various valuable factors contributing towards the growth and effectiveness of an organization depends upon its consistent attempts to appraise its internal and external environment accompanied with financial backups. The present study assesses the financial performance of Private sector banks in Mumbai Region.

Keywords: Performance, Profitability Ratio, Financial Growth, Proficiency

1. INTRODUCTION

The Banking sector in India has emerged as a resurgent sector in the Indian economy. Today, banks have diversified their activities and are getting into new products and services that include opportunities in credit cards, consumer finance, wealth management, life and general insurance, investment banking, mutual funds, pension fund regulation, stock broking services, Custodian services, private equity, and various financial inclusions etc. Further, most of the leading Indian banks are going global, setting up offices in foreign countries, by themselves or through their subsidiaries. The banking section has navigated through all the aspects of the Banking System in India.

2. REVIEW OF EXISTING LITERATURE

Technology is being used in the banking sector on a large scale. Almost all banks today provide online banking services. ATMs have become an important tool in service delivery. As a result all banks whether public sector, private sector (old), new private sector & foreign sector have introduced technology to better & quicker services to the customers. New private sector banks have taken a greater lead in this direction as it has 100 %branches being computerized (**Mittal, et. al.2007), Aymen (2013), Chadha (2017), Rani (2015)** Thus profitability of banks differs widely among themselves even though they are performing the same function under the same market condition and similar banking rules and regulations (**Thakarshibhai, 2014).** Indian banks managed the banking activities in an effective manner as a result Indian banks maintained the growth in recession period. The Indian banks showed that they have a strong cash management system for the banking sector (**Aggarwal 2013, Antil, et.al, 2017).** It is believed that the impact to the bank's profitability from government's policy can be fully explained. On the one hand, the issues about how to explain heterogeneity in different time intervals and the degree of its potential impact to sustainability can also be resolved **Lee, et.al. (2015).** It has been found that Private sector banks and other banks ranked in higher position while Public sector banks and Foreign Banks are next in position. The results have shown highest expansion, largest CAGR, return on assets of private sector banks as compared to other banks. Foreign banks have shown the result of highest business per employee as well as profit per employee. The NPA of public sector banks was significantly higher compared to private and foreign banks, which shows the assets quality of public banks is relatively poor **Malyadri P (2015)**

3. SCOPE OF THE STUDY

The present study aims to perform analytical study of selected sample private sector banks in terms of the financial performance of them. The present study is mainly based on secondary data. The study concentrates on Indian Banking

Industry. Sampling size covers five Private Sector Banks (ICICI, IDBI, Axis Bank, Kotak Mahindra Bank and HDFC). Till date there are 23 Private Sector Banks in India. All these 23private sector banks are presently situated in Maharashtra and out of these 23 Private sector banks; there are 13 private sector banks in Mumbai region. These 13 private sector banks works through its 290 branches in Mumbai region. The period of the study is ten years from 2010-11 to 2019-2020.

4. OBJECTIVES OF THE RESEARCH STUDY

To analyse the financial performance of sample selected of Private sector banks in Mumbai region of Maharashtra State from 2010-11 to 2019-20.

5 DATA AND METHODOLOGY

This work primarily demands quantitative data analysis through the balance sheets of the banks chosen. The data was analysed in comparative form using Microsoft Excel and the results were presented in tabular and graphical manner. The descriptive analysis is used for concluding the research.

6 BANK - WISE FINANCIAL PERFORMANCE

In this segment all open and private area banks, which are working in the year 2010-11, are investigated based on CAMEL approach. CAMEL approach is globally acknowledged proportion base strategy. CAMEL is an abbreviation for five parts of bank security and adequacy.

- Capital Adequacy
- Asset Quality
- Management Efficiency
- Earring Capacity
- Liquidity

To know the monetary presentation, development rate is determined of various boundaries with their mean and coefficient of variety (CV). Positions are likewise given based on development rate in the current review. CV is likewise determined to quantify the soundness in various boundaries.

6.1 Capital Adequacy

It is one of the significant pointers of monetary strength of a bank. It mirrors the generally speaking monetary situation of the bank and furthermore the capacity of bank to meet the future capital prerequisite. It is estimated with the assistance of Capital Adequacy Ratio (CAR). The banks are needed to keep up with CAR according to RBI standards. As indicated by most recent RBI standards, banks ought to have a CAR of no less than 12 rate. Vehicle is determined by isolating the amount of Tier-I, Tier-II and Tier-III capital by total of hazard weighted resources (RWA). The higher the CAR, the more grounded the bank. The CAR of various banks is displayed in table 1

Table 1: Capital Adequacy Ratio of Private Sector Banks: 2010-11 to 2019-20

SR.NO.	NAME OF BANKS	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	MEAN	CV	GR	RANK
1	ICICI BANK	12.75	11.76	12.76	12.52	11.99	13.11	13.62	12.96	12.83	11.03	12.58	0.07	-2.09	45
2	HDFC BANK	11.39	12.65	12.45	11.33	11.61	13.22	13.93	14.38	13.18	11.76	12.77	0.09	0.62	22
3	AXIS BANK	12.67	13.98	11.76	11.8	12.91	14.05	14.36	14.52	14.67	13.3	13.66	0.08	2.01	14
4	IDBI BANK	0.08	12.02	12.78	11.75	12.95	13.01	12.94	12.17	11.95	11.02	12.26	0.06	-1.06	38
5	Kotak Mahindra Bank	10.12	10.76	0.45	12.06	10.26	12.05	12.78	13.35	12.43	12.59	12.22	0.08	0.72	21

Source: Compiled from Trend and Progress Report of RBI, Various Issues

An insight reveals that most of new private banks have high growth rate in comparison to other banks. The growth rate of all new private sector banks is negative as they are managing their non-performing assets more efficiently. The coefficient of variety uncovered barely any variety exists as for the previously mentioned indictor.

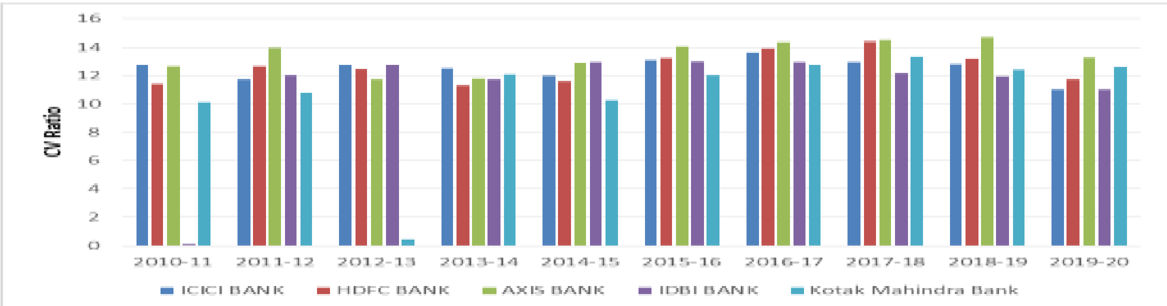

Figure 1: Graph showing Capital Adequacy Ratio of Private Sector Banks: 2010-11 to 2019-20

6.2 Assets Quality

Resources quality is one more fundamental part of CAMEL way to deal with measure the monetary wellbeing of bank resources. Net NPA to Net Advances proportion is utilized to examine resources nature of different banks. This proportion estimates the nature of advances. The lower the proportion the better is the nature of advances. The information identifying with Net NPA to Net Advances for the review time frame are introduced in table 2. An analysis of the growth value of different banks for the entire period reveals that ICICI Bank, HDFC Bank, Axis Bank, IDBI Bank, Kotak Mahindra Bank. An insight reveals that most of new private banks have high growth rate in comparison to other banks. The growth rate of all new private sector banks is negative as they are managing their non-performing assets more efficiently.

Between banks, correlation of co-proficient of variety uncovers that there exists tremendous minor departure from net NPA to net advances. Henceforth, strength in above pointer changes from one bank to another and from one year to another too.

Table 2 Net NPA to Net Advances of Private Sector Banks: 2010-11 to 2019-20

SR.NO.	NAME OF BANKS	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	MEAN	CV	GR	RANK
1	ICICI BANK	1.28	1.09	1.87	1.07	0.8	0.72	2.15	0.79	0.98	3.19	1.39	0.67	19.95	37
2	HDFC BANK	0.17	2.87	2.87	0.17	0.15	0.18	2.77	0.38	0.91	2.45	1	1.13	55.99	45
3	AXIS BANK	1.26	0.7	1.69	0.6	0.47	0.31	2.53	0.35	0.54	1.28	0.87	0.92	13.42	31
4	IDBI BANK	1.67	1.87	2.76	0.95	0.52	0.44	2.67	0.91	1.47	2.06	1.29	0.64	13.73	32
5	Kotak Mahindra Bank	2.79	1.97	0.86	1.21	0.87	0.79	2.69	1.32	0.84	0.52	1.18	0.61	-13.11	7

Source : Compiled from Trend and Progress Report of RBI, Various Issues (excluded Nainital Bank As data are not available)

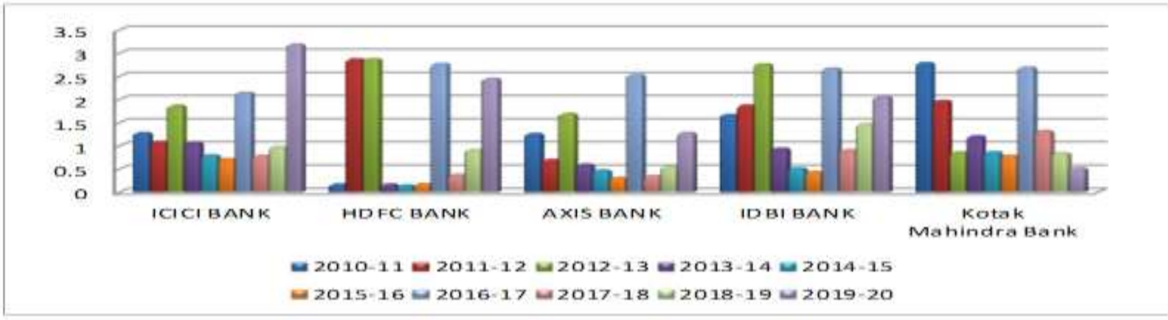

Figure 2- Graph showing Net NPA to Net Advances of Private Sector Banks: 2010-11 to 2019-20

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6.3 Management Efficiency

The board productivity is a significant boundary to pass judgment on the proficiency of HR. Actual estimation as far as yield is preposterous in financial area. Work effectiveness is estimated with the assistance of business per worker of various banks. Improvement in productivity will at last prompt bigger benefit and lower cost. Along these lines, benefits per worker are additionally taken as pointer to quantify the proficiency of the board. Business per worker and benefit per representative proportion are utilized to assess the proficiency of the board.

6.3.1 Business per Employee (BPE)

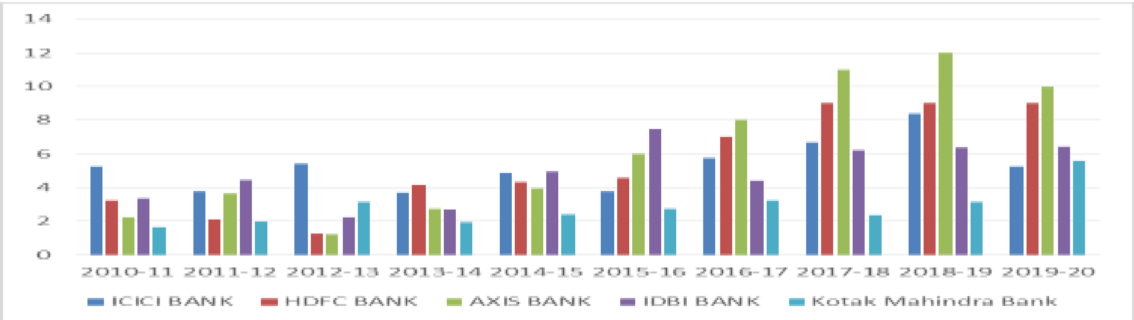
Average business per employee is a good measure of management Efficiency. It is calculated the total business divided by number of employees. Here, business means summation of deposits and advances ICICI Bank, HDFC Bank, Axis Bank, IDBI Bank, Kotak Mahindra Bank. An insight reveals that most of new private banks have high growth rate in comparison to other banks. The growth rate of all new private sector banks is negative as they are managing their non-performing assets more efficiently. The study also concludes that BPE of all banks increased through the study period except few banks.

Table 3 Business per Employees of Private Sector Banks: 2010-11 to 2019-20

SR.NO.	NAME OF BANKS	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	MEAN	CV	GR	RANK
1	ICICI BANK	5.26	3.76	5.43	3.68	4.85	3.75	5.76	6.7	8.36	5.25	5.48	0.3	6.1	38
2	HDFC BANK	3.23	2.13	1.26	4.14	4.3	4.58	7	9	9	9	6.72	0.35	13.82	17
3	AXIS BANK	2.26	3.65	1.23	2.73	3.94	6	8	11	12	10	7.67	0.47	24.16	2
4	IDBI BANK	3.32	4.45	2.26	2.71	4.95	7.49	4.39	6.2	6.4	6.44	5.51	0.29	15.52	13
5	Kotak Mahindra Bank	1.67	1.98	3.13	1.95	2.39	2.76	3.21	2.38	3.12	5.59	3.06	0.39	19.19	7

Sources : Compiled from Trend and Progress Report of RBI, Various Issues

Figure 3 – Graph showing Business per Employees of Private Sector Banks: 2010-11 to 2019-20



6.3.2 RETURN ON ASSETS (ROA)

ROA is characterized as net benefit isolated by normal all out resources. This proportion estimates a bank benefit for every cash unit of resources. This is the fundamental marker of benefit utilized in worldwide correlations and it is one among the rules of RBI for asset report investigation of banks (Surya Chandra Rao, 2008). The Returns on Assets of various banks are displayed in table 4.

An Inter bank investigation shows that normal profit from resources of ICICI Bank, HDFC Bank, Axis Bank, IDBI Bank, Kotak Mahindra Bank. There did not exist any huge bank variety regarding Return on Assets, with the exception of Axis Bank. It is further seen that development pace of most of the banks is negative.

Table 4 Return on Assets of Private Sector Banks: 2010-11 to 2019-20 (In Lakh)

SR.NO.	NAME OF BANKS	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	MEAN	CV	GR	RANK
1	ICICI BANK	1.23	3.35	2.09	1.26	1.32	0.9	1.16	1.11	1.02	0.64	1.06	0.22	-10.68	43
2	HDFC BANK	2.45	4.67	4.87	1.31	1.16	1.09	1.39	1.36	1.19	0.99	1.21	0.12	-4.56	32
3	AXIS BANK	2.67	3.76	3.65	0.8	0.89	1.09	1.21	1.33	1.24	0.9	1.07	0.19	1.98	15
4	IDBI BANK	3.65	-2.76	1.32	0.88	1.25	1.49	0.7	0.79	0.72	0.65	0.93	0.35	-4.92	34
5	Kotak Mahindra Bank	2.25	5.05	0.65	0.76	0.75	0.7	0.72	0.47	0.55	0.74	0.67	0.17	-0.44	22

Sources : Compiled from Trend and Progress Report of RBI, Various Issues

Figure 4– Pie Chart showing Return on Assets of Private Sector Banks: 2010-11 to 2019-20 (In Lakh)

6.1.1 SPREAD AS A PERCENTAGE TO ASSETS

Spread is the difference between interest income and interest expenditure. It is also known as net interest margin. Other things being equal, there is positive relationship between spread and profitability of bank. The data relating to spread are shown in table below.

On the basis of average spread, ICICI Bank, HDFC Bank, Axis Bank, IDBI Bank, Kotak Mahindra Bank. There exist marginal differences in CV with regard to this indicator during the period under study.

Table 5- Spread as a Percentage to Assets of Private Sector Banks: 2010-11 to 2019-20

SR. NO.	NAME OF BANKS	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	MEAN	CV	GR	RANK
1	ICICI BANK	1.65	3.59	7.9	2.59	2.15	2.21	2.18	2.66	2.82	2.38	2.43	0.11	-1.38	24
2	HDFC BANK	2.43	2.76	4.67	2.98	2.51	2.38	2.43	2.96	3.02	2.57	2.69	0.1	-2.46	29
3	AXIS BANK	3.67	3.89	3.89	2.5	2.18	2.26	2.13	2.46	2.31	2.07	2.27	0.07	-3.11	33
4	IDBI BANK	2.54	4.78	6.82	2.43	2.36	2.44	2.09	2.22	2.16	1.99	2.24	0.08	-3.22	34
5	Kotak Mahindra Bank	2.87	0.09	1.43	2.81	2.55	2.13	1.82	2.58	2.76	2.59	2.46	0.14	-1.3	23

Sources : Compiled from Trend and Progress Report of RBI, Various Issues

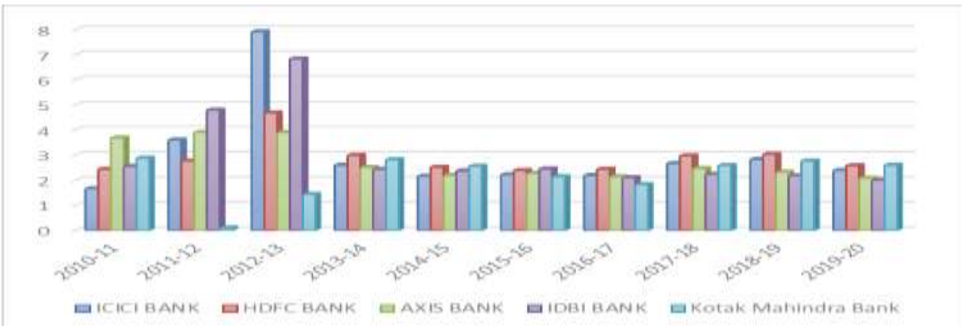


Figure 5– Pie Chart showing a Percentage to Assets of Private Sector Banks: 2010-11 to 2019-20

5.1.1 LIQUIDITY

Liquidity is likewise another significant boundary which estimates the limit of banks to meet its monetary commitments. There ought to be an appropriate equilibrium so far liquidity is concern. Assuming liquidity is a lot of low, banks are not in a situation to meet its present monetary liabilities. Then again, assuming liquidity is an excess of high, banks are not using their money appropriately. Hence, a legitimate equilibrium is fundamental in liquidity so that banks can produce high benefit while simultaneously give liquidity to the investors. Credit-Deposits proportion is utilized to assess liquidity.

7 RECOMMENDATIONS OF THE STUDY

The role of new generation Bank to Indian economy is inevitable however comparing to the public sector bank it wants to walk a long distance. Therefore, all new generation Banks in India framed their own strategy and adopt new innovative scheme for better services to the customers.

7.1 Banks should concentrate to increase profit by way of increasing the network all over the India.

7.2 All the Banks should take more effort to improve their operation to overcome the difficulties. It is suggested to form a new forum among the new generation bank to their own problem and difficulties.

7.3 All the banks should take the step to increase the branch network all over the India particularly rural places.

7.4 They should come forward to increase their capital to meet the contingency in the market place.

7.5 The bank should take effort to reduce the operating expense by means of improving the efficiency of the nonverbal branches by utilizing some expert services like professional management, private management and the like.

7.6 Prompt major steps should be taken to increase the investment deposit ratio

7.7 The bank should take some effective step to increase the credit deposit ratio, because by this Bank can perform the credit creation function and this is the main function of any Bank which should be taken care of.

7.8 The bank should take efforts to reduce the provision and contingency.

CONCLUSION

In the current review CAR is thought of, ICICI Bank, Axis Bank and Kotak Mahindra Bank are a lot more grounded than different banks. Based on resource quality, again new private area banks are performing better compared to different banks. From the business per worker perspective, performing admirably than new private area bank. At the point when benefit per worker is viewed as new private area banks are procuring more than private area banks. Again according to the procuring perspective new private area banks are better entertainer in contrast with different banks. This show that new private area banks are offering significance to their procuring limit and proficiently using their resource.

Indian business banks ought to consistently recollect that banking is administration industry and spotlight more on help quality as new private area bank.

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