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Identification of Factors Responsible For Difference in Financial Performance

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Abstract – It is most critical to choose suitable parameter at the time of measuring financial performance of banks. Till today numerous specialists have given their opinion on parameters of financial performance of banks, even huge numbers of research are accessible on financial performance of banks which has utilized diverse parameters for measuring financial performance. Based on aftereffect of financial performance investigation, inquire about is to convey forward for identifying the variables in charge of deviation in financial performance of private and public sector banks. For identifying the elements in charge of better/poor financial performance of private/public sector banks, parameters are disintegrated by using their definition.

Keywords: Financial, Performance, Banks, Factors, Private, Public, etc.

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1. INTRODUCTION

As far as financial performance of banks I might want to include one more point regarding parameters of financial performance that time period likewise assume an essential job as far as selection of financial parameters. The financial parameters that we should choose in 1990 or before must be distinctive that the parameters we should choose in 2010 - 11, as since independent Indian banking is passing through loads of changes which do not allow us to assess on same parameters. One increasingly vital viewpoint which one should feature at the time of selecting financial performance parameters is accessibility of data on chosen parameters for wanted time period. "The performance of banks in India has been evaluated by considering factors, viz. branches, deposits, advances, investments, spread, burden, business, operating profits, NPA, cost of deposits, cost of borrowings, cost of funds, return on advances, return on investments, return on funds, net profit, spread, burden and operating expenses and sectorial deployment of credit."

For this exploration work financial performance of banks is estimated by chosen financial Performance parameters which are isolated into seven heads, for example, capital adequacy ratios, debt coverage parameters, balance sheet parameters, management efficiency parameters, profitability parameters, employee's efficiency parameters and non performing assets parameters. There will be a huge contrast regarding selecting parameters for financial performance, when we are talking about financial performance of any individual bank and financial performance of banking sector, as Indian banking sector is isolated into various sectors, for example, SBI and its associates banks, nationalized banks, old private sector banks, new private sector banks and so forth… which has some distinct qualities as far as its operations, tenets and regulations and so on… The decent variety of Indian banking sector makes it increasingly troublesome for analyst to determine and think of a final rundown of parameters for financial performance of banking sector which give break even with representation to all banks and additionally portray genuine picture about financial performance of Indian banking. In this examination work by going through bunches of literature review, RBI bulletins, RBI database, discussion with board individuals at different occasions of advancement review presentation, discussion with DPC individuals and guide, we thought of final rundown of parameters for measuring financial performance of banks, which are explain here in detail.

1.2 Factors for Bank Performance

Profit is a definitive objective of commercial banks. Every one of the strategies planned and exercises performed thereof are intended to realize this grand target. In any case, this does not imply that commercial banks have no other objectives. Commercial banks could likewise have additional social and economic objectives. In any case, the intention of this examination is identified with the principal objective, profitability. To gauge the profitability of commercial banks there are assortment of ratios utilized of which Return on

Asset, Return on Equity and Net Interest Margin are the real ones

1. **Return on Equity (ROE):** ROE is a financial ratio that alludes to how much profit a company earned contrasted with the aggregate sum of shareholder equity invested or found on the balance sheet. ROE is the thing that the shareholders search in return for their investment. A business that has an exceptional yield on equity is bound to be one that is fit for generating cash internally. In this way, the higher the ROE the better the company is as far as profit generation. It is further explained by Khrawish (2011) that ROE is the ratio of Net Income after Taxes separated by Total Equity Capital. It speaks to the rate of return earned on the funds invested in the bank by its stockholders. ROE reflects how viably a bank management is using shareholders' funds. Along these lines, it very well may be derived from the above statement that the better the ROE the more viable the management in utilizing the shareholders capital.

2. **Return on Asset (ROA):** ROA is likewise another real ratio that indicates the profitability of a bank. It is a ratio of Income to its absolute resource (Khrawish, 2011). It measures the capacity of the bank management to generate income by utilizing company assets available to them. In other words, it indicates how effectively the assets of the company are utilized to generate the income. It further indicates the efficiency of the management of a company in generating net income from every one of the assets of the institution (Khrawish, 2011). Wen (2010), state that a higher ROA demonstrates that the company is progressively effective in using its assets.

3. **Net Interest Margin (NIM):** NIM is a proportion of the distinction between the interest income generated by banks and the measure of interest paid out to their loan specialists (for instance, deposits), with respect to the measure of their (interest earning) assets. It is generally communicated as a level of what the financial institution acquires on loans in a particular time period and other assets minus the interest paid on obtained funds partitioned by the normal measure of the assets on which it earned income in that time period (the normal earning assets). The NIM variable is defined as the net interest income isolated by all out earnings assets.

Net interest margin measures the hole between the interest income the bank gets on loans and securities and interest cost of its acquired funds. It mirrors the cost of bank intermediation services and the efficiency of the bank. The higher the net interest margin, the higher the bank's profit and the more steady the bank is. In this way, it is one of the key measures of bank profitability. In any case, a higher net interest margin could reflect riskier lending rehearses associated with considerable loan loss provisions.

2. LITERATURE REVIEW

Meenakshi Rajeev and H P Mahesh (2013), The issue of non-performing assets (NPA), the underlying driver of the ongoing worldwide financial crisis, has been drawing the attention of the policy producers and academicians alike. The issue of NPAs, which was disregarded till as of late has been given considerable attention after liberalization of the financial sector in India. This exploratory paper examines the patterns of NPAs in India from different dimensions and explains how unimportant recognition of the issue and self-monitoring has had the capacity to decrease it all things considered. It likewise demonstrates that public sector banks in India, which function to some degree with welfare thought processes, have as great a record in reducing NPAs as their partners in the private sector. The paper likewise examines the job of joint risk gatherings (JLGs) or self improvement gatherings (SHGs) in enhancing the loan recuperation rate.

McKinsey and Company (2014), The most recent decade has seen numerous positive developments in the Indian banking sector. The policy creators, which contain the Reserve Bank of India (RBI), Ministry of Finance and related government and financial sector administrative elements, have attempted a few eminent efforts to improve regulation in the sector. The sector currently contrasts positively and banking sectors in the region on measurements like growth, profitability and non-performing assets (NPAs). A couple of banks have built up an outstanding reputation of innovation, growth and esteem creation. This is reflected in their market valuation. In any case, improved regulations, innovation, growth and esteem creation in the sector remain constrained to a little piece of it. The cost of banking intermediation in India is higher and bank penetration is far lower than in other markets. India's banking industry must strengthen itself altogether on the off chance that it needs to help the advanced and lively economy which India tries to be. While the onus for this change lies mainly with bank managements, an enabling policy and administrative system will likewise be basic to their prosperity.

Dwivedi and Charyulu (2015), One of the significant destinations of Indian banking sector reforms was to energize operational independence, adaptability and competition in the system and to increase the banking standards in India to the international accepted procedures. The second period of reforms started in 1997 with intend to reorganization measures, human capital development, technological up-gradation, auxiliary development which helped them for achieving widespread benchmarks as far as prudential standards and pre-eminent practices. This paper looks to determine the effect of different market and administrative initiatives on efficiency enhancements of Indian banks. Efficiency of firm is estimated regarding its relative performance that is, efficiency of a firm in respect to the efficiencies of firms in an example.

Joshi P.V. and Bhalerao J. V.(2017), Banks manage people's most fluid resource (cash), and run a nation's economy. The banking system in India is fundamentally not the same as that of other nations as a result of the nation's one of a kind economic, social and geographic qualities. India has a vast population and land estimate, a differing society, and extraordinary abberations in income, which are set apart among its regions. There are abnormal amounts of lack of education among a substantial level of its population in any case, in the meantime, the nation has a vast repository of administrative and technologically propelled gifts. Between around 30 and 35 percent of the population dwells in metro and urban cities and the rest is spread in a few semi-urban and rural focuses. The nation's economic policy structure combines communist and capitalistic highlights with an overwhelming predisposition Literature 41 towards public sector investment.

Waheed Akhter (2018), The reason for this examination is to investigate to efficiency and performance of Islamic Bank as contrast with two types of conventional banks i.e public and private sector banks . The literature review demonstrates that no such type of technique has been utilized for Islamic Banking before this investigation. Therefore this investigation is being conducted first time in Pakistan. It will give clear understanding of the efficiency and performance of Islamic banking to decision creators. The nine financial ratios are utilized under (I) profitability (ii) Liquidity Risk and (iii) Credit Risk to gauge the efficiency and performance. These ratios are connected on financial statements of these Islamic and conventional banks. The financial statements are utilized for the financial year 2006-2010.

3. OBJECTIVES

- To distinguish the parameters in which private/public sector banks are performing better/poor contrast with private/public sector banks.
- To distinguish the factors (reason) responsible for better/poor financial performance of private/public sector banks.

4. METHODOLOGY

Research structure: Any venture requires an essential arrangement of action, or a progression of actions chalked out, in order to achieve the objectives successfully and effectively within a time framework, without deviating from the original target. In other words we can say that, from where we are and where we need to go, the procedure involved is cautiously transformed in to a blue print called the examination structure. This examination is mainly founded on secondary data, propriety and accessibility of data is imperative for completed this exploration. Data collection configuration consists of planning for collecting required data from satisfactory source.

Sample: As this exploration work depends on secondary data each of the 10 private sector banks and public sector banks has been chosen as a sample

Time Frame: Secondary data for chose parameters of all private and public sector banks has been gathered for most recent multiyear i. e. from year 2013 – 14 to 2017 – 18.

Hypothesis:

- There is no significance difference in the financial performance of different old private sector banks within sector.
- There is no significance difference in the financial performance of different **new private sector banks within sector.**

Financial tools: For quantifying the financial performance of banks different banking financial ratios have been utilized, which has been as of now canvassed in detail.

- Capital adequacy ratio (BASEL – II)

5. RESULT AND ANALYSIS

a. Capital adequacy ratio (Tier – I)

Old private sector banks

H_0 = There is no significance difference in the financial performance of different old private sector banks in capital adequacy ratio (Tier – I). ($\mu_1 = \mu_2 = \mu_3 .... = \mu_{13}$)

H_1 = There is significance difference in the financial performance of different old private sector banks in capital adequacy ratio (Tier – I). ($\mu_1 \neq \mu_2 \neq \mu_3 .... \neq \mu_{13}$)

Table 1: Summary Capital Adequacy Ratio (Tier – I) – Old Private Sector Banks

Groups	Count	Sum	Average	Variance
CITY UNION BANK LIMITED	10	132.46	11.03833	0.534706
FEDERAL BANK LTD	10	145.76	12.31333	24.55081
ING VYSYA BANK LTD	10	93.8	7.816665	3.786488
JAMMU & KASHMIR BANK LTD	10	148.5	12.374	0.688227
KARNATAKA BANK LTD	10	135.17	11.18053	0.573599
KARUR VYSYA BANK LTD	10	163.98	13.665	0.791464
LAKSHMI VILAS BANK LTD	10	103.25	8.4375	4.50082
NAINITAL BANK LTD	10	148.31	12.3665	3.80582
RATNAKAR BANK LTD	10	303.75	23.5625	277.9579
SOUTH INDIAN BANK LTD	10	114.17	9.754167	5.550917

Table 2: ANOVA - Capital Adequacy Ratio (Tier – I) – Old Private Sector Banks

Source of Variation	SS	Df	MS	F	P-value	F crit
Between Groups	3284.226	10	272.6855	10.63219	5.67E-13	1.782442
Within Groups	3647.003	134	25.51352			
Total	6931.229	150				

Interpretation:

F value (10.632) is higher than F critical value (1.782) indicate that there is significance difference in financial performance of different old private sector banks in capital adequacy ratio (Tier – I).

New private sector banks

H_0 = There is no significance difference in the financial performance of different new private sector banks in capital adequacy ratio (Tier – I). ($\mu_1 = \mu_2 = \mu_3 .... = \mu_7$)

H_1 = There is significance difference in the financial performance of different new private sector banks in capital adequacy ratio (Tier – I). ($\mu_1 \neq \mu_2 \neq \mu_3 .... \neq \mu_7$)

Table 3: Summary Capital Adequacy Ratio (Tier – I) – New Private Sector Banks

Groups	Count	Sum	Average	Variance
AXIS BANK LIMITED	10	107.25	8.9375	1.555784
DEVELOPMENT CREDIT BANK LTD.	10	110.42	9.201667	10.32483
HDFC BANK LTD.	10	121.54	10.12833	3.070833
ICICI BANK LIMITED	10	126.6	10.55	5.790727
INDUSIND BANK LTD	10	101.63	8.469167	4.600081
KOTAK MAHINDRA BANK LTD.	10	153.91	12.82583	11.32024
YES BANK LTD.	10	111.09	9.2575	1.88042

Table 4: ANOVA - Capital Adequacy Ratio (Tier – I) – New Private Sector Banks

Source of Variation	SS	Df	MS	F	P-value	F crit
Between Groups	144.9032	10	22.81521	4.57871	0.000418	2.328327
Within Groups	323.9722	134	4.506132			
Total	575.8754	150				

Interpretation:

F value (4.578) is higher than F critical value (2.328) indicate that there is significance difference in financial performance of different new private sector banks in capital adequacy ratio(Tier – I).

6. CONCLUSION

The point of this exploration considers was to think about the performance of private and public banks which are operated in India from the year 2013 to 2018. The consequence of this examination consider depends on bank size and Capital adequacy ratio (Tier – I).The findings of the exploration think about is Private Banks have higher all out assets then public banks. In other words, private banks are bigger in size.

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