

Financial Performance Analyzing Factors of Banking Industry

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Abstract – In a country's economic growth, banks play an essential role. They are the lifeblood of contemporary business and control most of the supply of money. A bank is a financial broker that receives deposits and transfers them to lending. It plays an important role in the marketing and promotion of new types of deposits. The key areas for monitoring the performance of a bank are operational efficiency, service quality and management efficiency. A bank's financial performance is assessed in terms of profitability, service, customer happiness and other important elements as the bank's success. The profitability of a bank refers to the efficacy of a bank's entire resources to optimize their net earnings, and is thus a measure of the use of assets and the effectiveness of the management. There are a lot of severe problems facing the Indian financial system at now.

Keywords – Financial Performance, Analyzing, Factors, Banking Industry, etc.

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INTRODUCTION

Every company organization's fundamental objective is to generate good returns on the money invested in it. A firm must benefit from several expenditures, such as workers' wages, upkeep of machinery and structures, payment of loan interest and reimbursement to the owners of the enterprise. Without a profit, a firm cannot exist long. Keynes says (as mentioned in Gupta and Sharma, 2011), that profit is driven by the business company. In order to guarantee a business company is financially strong and in a stable position, profit creation is highly vital to it. Another version of profits is profitability, which means the company's economic efficiency and results in an effective distribution of resources, given that resources tend to be targeted towards the most profitable applications (Khan & Jain, 2011). However, maximizing profits or maximizing profits was challenged and deemed an insufficient financial management purpose, whereas maximizing the wealth was thought to be an acceptable financial management aim and the sole alternative for utility shareholders (Gupta & Sharma, 2011). In relation to value maximization two main concerns are the economic added value (EVA) and the interests (customer, supplier, creditor, owners etc.) of stakeholders in particular (Khan & Jain, 2011).

An analysis, analysis and interpretation of a financial report includes the establishment of a strategic link between balance sheets, profit and loss accounts

and other operational data to evaluate financial strength and defects in an enterprise (Gupta & Sharma, 2011). Sometimes an assessment is made to attain the efficiency and profitability of the business. This evaluation is referred to as a financial performance or performance review. The financial statements include information sources which conclude the company's earnings and financial position. The statement provides the foundation for management choices as well as all other external actors, including as investors, lenders, customers, suppliers, banks, employees, prospective investors, governmental authorities and interested parties in the company's operation. The Financial Report However, the information included in the financial statements cannot be deduced on its own as no conclusion is necessary. In the study and interpretation of financial accounts, however, information included in the financial statements is very essential. In order to analyze financial performance, a financial analyst utilizes information in an organization and in other reports (Gupta & Sharma, 2011). As mentioned in this chapter, we utilize several techniques and methods for analyzing the company's financial statements. This chapter discusses the conceptual basis for the study of financial performance.

TYPES OF FINANCIAL STATEMENTS

Both the management and other outsider utilize financial statements for decision-making purposes. A financial statement is a rational and consistent

accounting processes structured data gathering. The aim is to provide knowledge of a company's financial elements. It can explain a condition at a moment such as with a balance sheet; a sequence of activities can be revealed over a certain period, (Hampton, as in the event of a return report. In Sharma & Gupta, John J. referenced, 2011). In general, the phrase 'financial statement' refers to the accounting and the statement of income.

1. **Balance sheet:** balance sheet indicates, at a particular time, the company's financial status (condition). It provides a picture and is a static picture. Balance sheet provides a summary at a particular date of a company's financial situation that shows:

$$\text{Total assets} = \text{Total liabilities} + \text{Owner's equity}$$

2. **Statement of revenue:** Statement of revenue is created to establish a company's operating condition. The statement of income is available to determine a business' operating situation. The return is the success of the business during a period of time. For that income it is a statement of revenue and expenses.
3. **Statements of changes in equity of the owners:** The account of changes in equity gives the starting balance of share of each owner, the rationale for each increase or reduction and the balance of each owner.
4. **Statements on changes in the financial position:** A second report called a financial account must be drawn out, which represents changes in assets and liabilities from the end of one to the end of the other period to provide an insight into the financial condition of the enterprise.

MEANING OF FINANCIAL PERFORMANCE

The performance of a particular work is judged against the current recognized criteria of correctness, completeness, expense, and speed, as stated by BusinessDictionary.com (n.d.). Contrary performance should be considered to satisfy a duty to free the executive from any contractual liabilities. Financial and non-financial evaluation of performance. Financial performance is seen as split by various financial metrics in terms of profit and investment performance assessments. Investopedia refers to financial performance as a subjective evaluation over a period of time of the overall financial health of a firm that may be used to compare similar businesses in a single sector or to compare aggregates of industries or industries.

MEANING OF FINANCIAL ANALYSIS

The phrase "financial analysis" refers to the process by developing strategic linkages between balance sheets, the profit and loss account and other operational data for determining the financial strengths and weaknesses of a business. The study and interpretation of the financial accounts is sometimes referred to. Financial analysis is an increasingly significant scientific method in the general evaluation of the true value, success and failure of the company. The Analysis of Financial Statements (quoted by the Gupta and Sharma reports in 2005) states that "a study of their relationships and an examination of the trends pattern of these variables is mainly provided by a number of statements in a single statement. The purpose of the financial analysis is to diagnose information from the financial accounts in order to assess the company's profitability and financial well-being. Like a physician, a financial analyst analyses financial data using a number of analytical techniques before commenting on a company's health or flaws by documenting a bodily temperature, a blood pressure, etc (Gupta and Sharma, 2005).

The review of the financial report so helps answer concerns regarding profitability, trustworthiness and security of investment. It is used to self-evaluate its financial health and managerial capabilities. It describes the credit rating and evaluates the social responsibility of a firm. The success of an enterprise may be assessed in its financial statements made up of a revenue and balance sheet. The financial information for a period is shown in these statements.

TOOLS AND TECHNIQUES OF FINANCIAL PERFORMANCE ANALYSIS

Blow is covered in many instruments and methodologies used in the financial analysis (Sharma & Gupta, 2011)

Comparative Statements: Reports of financial status at different times are comparative financial statements. The financial position parts are provided in a comparative form so that the financial situation may be understood throughout two or more periods. A comparative statement is a statement written in a comparative manner. Two statements, balance sheet and revenue statement are often generated for financial analysis in a comparative manner. An Absolute figure can be a comparison remark.

Trend Analysis

Sometimes the trend analysis is termed horizontal analysis since each variable is horizontally positioned. This method sets the way up and

down and requires that the % for each statement item in the base year be calculated for the same item. For many years the trend analysis gathers data and typically lasts 1 year for the year of basis. The base year is 100 and the trend ratios are based on the basic year for other years. The foundation must be carefully selected. It is assumed that the base time is typical. To compute trends, the next procedures are followed,

- The first year, usually the foundation year,
- The basic year figure is 100
- Trend percentages with respect to the base year are calculated

FRAME WORK OF CAMEL MODEL

Camel rating was first established in the United States as a supervisory rating system to classify an overall condition of a bank. It applies to all banks and credit unions in the USA as well as to several bank regulatory agencies outside the USA. Capital, Asset Quality, Management, Revenues, and Liquidity were well established with the CAMEL acronym, signifying five assessment categories. In 1995 CAMEL was replaced by CAMELS by the Federal Reserve and the OCC, and "S" was added, a market risk sensitivity.

Capital Adequacy

Capital is a critical component of the risk management strategy of the credit union. The reviewers evaluate how credit capacity and future capital position may affect the interest rate, liquidity, transactions, compliance, strategic and reputational risk. The inspector also examines links to other places (RBI 2011).

Ratings

The credit institutions are granted a capital adequacy rating of 1 in accordance with their existing and expected risk profile and they maintain their level of rating investment completely in line with the present or predicted losses. Such lending institutions often keep their capital levels so as to at least meet statutory net worth norms and meet their risk-based net value needs. The 2 grade capital adequacy is awarded to credit institutions that further retain their capital content fully in line with their existing and future risk profiles and are capable of absorbing any current or projected losses. The company's capital situation is not as robust as the credit union. Moreover, it must be maintained without serious difficulties in terms of the value of the assets, income gaps or interest-rate risk that the credit union has the capacity to maintain capital levels within the category of net value at least 'sufficiently capitalised'.

Asset Quality

The quality of assets is high loans that provide the banks with an unnecessary risk;

- Adequacy of investment policies and processes;
- Risk factors for investment compared to capital structure and profit structure;
- Fair value for investment compared to book value for investment.

The evaluation of asset quality is based on the current circumstances and the probability of economic conditions, existing practices and trends will degrade or improve in the future. The examiner assesses the risk management of credit unions to achieve an adequate asset quality assessment (RBI 2011, BASEL II).

Management Ability

Management identifies possible future opportunities and is a crucial factor in evaluating whether a lending union can detect financial problems effectively and respond to them. There are objective, not only subjective indications for the management component. The management evaluation is not restricted to the credit union's current financial statements and does not average additional values. This assessment includes the capacity of the Board of Directors to identify, measure, monitor, and manage the risks associated with the operations of Credit Union in order to preserve its safety and sound functions as well as to implement the applicable legislation and regulations. Currency, interest rate, liquidity, transactions, respect, reputation, strategic risk and other hazards must be included in certain risk management approaches.

Earnings Ability

A credit union's continuing survival depends upon its capacity to generate a reasonable return on its assets, enabling it to fund expansion, stay competitive and replenish and/or raise capital. It is not enough to evaluate previous and current performance alone in assessing and evaluating income. For future performance, including achievement under varied economic circumstances, is of equal or higher worth. Reviewers assess 'core' revenues: that is, the credit union's long-term revenue discounting transitory income and one-time revenue swings. For this aim it is important to examine the reasonability of the budget of the credit union and its underpinning assumptions.

LIQUIDITY: ASSET AND LIABILITY MANAGEMENT

Asset management and responsibility (ALM) is a technique for assessing, monitoring and controlling the balance sheet risk (interest rate risk and liquidity risk). A good ALM strategy combines with risk management, strategic, profitable and net-cost planning. (a) short-term reliance on variable sources of funding (including undue borrowing dependence), (c) readily convertible access to cash assets and (d) technical competence in the fields of ALM (including interest risk management, cash and cash flow management), with special emphasis on ensuring potential hazard and exposure are met; ALM includes interest rates as well as liquidity hazards, as well as strategic and reputational risks.

Interest Rate Risk

Interest rate Risk: risks of negatively affecting income and capital by altering interest rate. In terms of the sensitivities and susceptibility to value of investments and loan union portfolios, the risk of interest rate fluctuations is evaluated in significant part. The ALM evaluation should concentrate on the costs of credit union debt financing in connection with the return on assets and the market environment.

Liquidity Risk

Liquidity risk means that the current and future cash flow demands will not be adequately met without adversely impacting everyday activities. Current and expected cash flow demands are being assessed in terms of liquidity, such as financing the request for loans, withdrawals of share and the payment of liabilities and costs. The danger of liquidity also includes inadequate over-fund management. In comparison to present and planned financing demands, the examiner examines existing liquidity levels and future liquidity sources. Funding needs include credit demand, shares and debt and expenditure withdrawals.

MODEL

The CAMEL model expands, that is, the CAMEL VS model for PNB's and other chosen banks' financial performance. To characterize the bank's financial performance, As the added value (economic value and shareholder value) and social banks are not included.

CAPITAL ADEQUACY RATIO (CAR)

The CRAR ratio is sometimes referred to as the capital-to-risk (weighted) asset-ratio. In order to guarantee that a reasonable amount of loss may be absorbed and to meet the required capital requirements, national authorities monitor CAR

banks. This is a measure of a bank's capital. In this figure, credit exposure represents a percentage of the risk of a bank. The adoption of this ratio's regulated levels is intended to protect depositors and enhance global stability and efficiency of the financial system. There are two forms of capital: level one which can absorb losses without having to stop trading a bank; and level two, capable of absorbing losses in case of liquidation, which thus gives depositors less security.

DEBT-TO-EQUITY RATIO (D/E)

The D / E debt-to-equity ratio shows the shareholders and the debt of a business to finance the assets of a company. The ratio is also recognized for its tight links to leveraged risk, equipment or heavyweight. Both components frequently originate from the Company's financial position or balance sheet (the so-called book value), but also from the market prices of both the Company's debt and equity, whether publicly traded or financially combining the Company's debt and share value. Debt or equity component might be viewed as preferred stocks. In certain cases the use of preferred shares is a subjective option but also takes account of the special characteristics of the preferred shares. The debt typically only includes long-term debt in the calculation of a firm's financial contribution (LTD).

DEBT SERVICE COVERAGE RATIO (DSCR)

For interest payments and principal payments, the debt coverage ratio (DSCR) is provided for debt servicing. Ratio of debt coverage This is sometimes called the "DSCR debt coverage ratio." It is a popular benchmark for assessing a company's capacity (including rental) to earn adequate cash to fulfil its debt commitments. The higher the ratio, the easier it is to secure a loan. It may also be utilized as an acceptable minimum ratio for a creditor and can be depicted through business banks; it can be a credit condition. In certain circumstances, violation of DSCR may constitute a default act. In the context of corporate finances, the DSCR refers to the amount of cash flow available to satisfy yearly interest and debt main payments, including sinking reserves. DSCR refers to a ratio used by banks in personal finance in determining the debt-service capability.

VALUE ADDITION

Concept of Economic Value Added (EVA)

For explanatory fluctuations in shareholder value no accounting method is provided. The recent invention I of a significant shift in residual earnings known as economic added value is a financial performance analysis (EVAR). The concept of

economic added value is the responsibility of Sten Stewart & Co (EVA). Sten Stewart and Co., as quoted in Worthington & Wester, in 2001, believe that incomes per share and profit growth are deceptive parts of the company's success. EVA is the measure of financial success closer to the actual economic benefit of a company than ever before. EVA is also the measure of performance most closely related to the increase of the company's shareholder value. EVA is the resultant value of the investors' desired return. The business profit is less than the cost of financing the capital of the company, which reflects the financial advantages of the company. It is a common indicator used by many companies to evaluate if the current / planned investment boost owner/equity benefits.

Computation of EVA

A company's economic added value is calculated by removing its adjusted NOPAT figure from the overall capital cost. If a company's adjusted earnings exceed its overall cost of capital, it is considered to have succeeded in generating wealth for shareholders (i.e., positive EVA Company). Instead, if the entire cost of capital is higher than its adjusted earnings, an undertaking is considered as a wealth killer (e.g. negative EVA Company). If EVA is zero, this should be regarded as an achievement adequate to pay its overall cost of capital because the firm produced a return that at least is sufficient. It is determined as follows:

$$\text{EVA} = \text{Net Operating Profit after Taxes} - \text{WACC} \times \text{Capital Employed}$$

Computation of NOPAT and Economic Capital

NOPAT was computed for the purposes of this study as follows:

$$\text{NOPAT} = \text{EBIT} (1 - T)$$

$$\text{Economic Capital} = \text{total assets} - \text{NIBCLs}$$

Computation of Weighted Average Cost of Capital (WACC)

WACC usually includes four components: equity costs, cost of preferential shares, expenditures for loans and cost for revenue retained. In this research, there are no preferential shares of retained profits from capital and SAIL. For retained earnings and preferential shares, no additional costs are assessed. The WACC defines debt and equity investors, who weigh against their share's share, as the overall returns from the corporation's objective capital structure. Each component is described in detail below: The next item is: The WACC component is determined by several means: dividend reduction model, long-term loan premium, CAPM model, etc. Various techniques exist. As a foundation for the capital cost evaluation, CAPM utilises the market.

CONCEPT OF MARKET VALUE ADDED

Market added value (MVA) is a measuring instrument for a specific time period for shareholder value. Stewart began this treatment in 1991. Market value added (MVA) refers to the difference between the current company and the investment capital markets. The increasing market capitalization surpasses the capital stock value, according to Gupta & Kundu (2008). Market value has been helpful (MVA). The company has added value when MVA is positive. The company destroyed the value, if negative. Market value below investment costs means that the management has not produced a satisfactory result by providing the value of the investment fund (Market Value Added Asset, n.d.). As a capital that adds to investment, Investopedia defines market added value (total market added value, n.d.). This is all capital claims against the business including debt and equity market prices. MVA is the best gauge of a company's success from an investor's perspective. State that the business has a cumulative value for money and that the stock market valuation represents the current net worth of all the past and planned capital projects of that company at a given time. The MVA is also computed at the same time but the difference or variation in MVA from day to day may be discovered if performance is assessed over time.

TECHNIQUES OF FINANCIAL PERFORMANCE ANALYSE

Annual RBI and PNB report data were collected with a view to assessing the Punjab National Bank's financial performance. However, the Annual Statement data were supplemented by additional secondary information where necessary and useful for funds. The financial ratios were evaluated in various categories, and inferences derived from PNB and other chosen banks' financial condition were computed throughout the research period. Based on their importance and popularity in literature, the ratios were selected for current study. Calculation and analysis have also been made of the economic added value, extra market value and social banking.

CONCLUSION

Financial Performance Analyzing Factors Of Banking Industry, Banks rating CAMELS is used to assess financial health and performance by Bank Management. This study analyses and interprets the influence of each CAMELS model category on performance. It is vital that effective indicators and elements are identified and concentrated in each category for analysis of this model. Indeed, it might be difficult to select indicators and evaluate them in any business. The researcher assessed Punjab National Bank's financial performance by using CAMEL as a study basis. The analysis and interpretation of data has produced many important

results that PNB management may utilize to make beneficial decisions to improve the Bank's financial situation in order to emerge from the unhealthy area. Furthermore, these data are extremely beneficial for PNB for future study and research. It may be determined from the analysis and interpretation of data that the Bank's financial condition is not very good. Using capital appropriateness analysis, the capital adequacy of PNB throughout the study period has been shown to be low. The capital adequacy of the PNB throughout the first years of the research was less than the standard norms and their industry averages indicate financial difficulty over the course of these years.

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