

Financial Performance of Selected Banks in India

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Abstract - Banking Sector plays an important role in the growth and development of Indian economy in each and every aspect. The main aim of the study is to compare and evaluate the financial performance of selected banks using CAMEL rating system. The research is descriptive and analytical in nature. The data used for study was entirely secondary in nature and was taken from the annual reports of the banks, Bulletins, Periodicals, News letters, Internal reports of the bank, Journals, Magazines and Websites. The collected data has been analysed CAMEL framework. The banks selected for analysis are ICICI Bank, HDFC Bank, YES Bank, AXIS Bsnk and FEDERAL Bank.. The period of study for the selected banks from 2014 to 2018 period. The study found that HDFC Bank and AXIS Bank are the best banks.

Keywords - bank, rating, ratios, financial, performance, economy, country, liquidity etc

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INTRODUCTION

Financial system is the backbone of any economy as it has a direct bearing on the economic growth of a country and thereby prosperity and welfare of the populace.. The financial system services other sectors of the economy, viz, the real economy. Stability of the financial system is critical to the stability of the economy itself. Banking plays an important role in the growth and development of Indian economy in each and every aspect. Banks lubricate the entire financial system and ensure smooth operations in India. It supplies the lifeblood-money that supports and rapid growth in all the industries as well as for the nation. . The banking sector is the principal constituent of the financial system, which is directly linked to the country's economy; each complements the other for growth, strength and status. A strong and resilient banking system is the foundation for sustainable economic growth. Financial performance of the banking sector is measured by the increase in number of banks branches, deposits, credit, etc. In analyzing the financial performance of the banking sector. it indicates the direction in which the Indian economy is moving with the limitation of the process of liberalization and globalization of the economy.

The major landmark in the development of the Indian banking system was the nationalization of banks, after which profit earning was not regarded as the main objective. The focus shifted to social banking and the main focus on public sector that too highly regulated environment. However, after liberalization, privatization and globalization, commercial banks started facing lot of challenges in the form of competition due to which

increased efficiency to meet new challenges led to stable banking system. Banking sector has brought about a considerable progress in its efforts at deposit mobilization and has taken a number of measures in the recent past for increase in the rate of growth of deposit..The analysis of financial performance of banks is the process of identifying the financial strengths and weakness of the bank by establishing proper relationship between profit and loss account and balance sheet. Financial performance helps in short term and long term forecasting and growth can be identified..Performance of commercial banks is important indicator of the growth of the banking system..Performance can be measured in terms of profitability, efficiency, solvency and credibility of banks. These indicators not only tell about the success or the performance of the banks but also help in retaining the confidence of the saving community, who view banking as one of the safest modes of savings.

LITERATURE REVIEW

Kulkarni (1979) emphasized the social responsibilities of banking sector in India. He concluded profit maximization was not indicator of profitability of banks because social benefits arising from the bank operations cannot be ignored. He was of view that while fulfilling social responsibility, the Indian banks must always try to make the banking industry as successful by reducing cost, improving banking system and by increasing overall profitability.

Chopra (1987) covered the operational efficiency of some selected public sector banks and concluded that there is a lack of professionalism in the banking industry of India. Further, she stressed that the scientific management practices must be introduced in order to enhance the profits and profitability of the public sector banks.

Das (1997) thoroughly studied various variables affecting the productivity of nationalized banks in India. He also recommended the restructuring of banks in order to improve the different parameters of productivity in the Indian banks.

Raul and Ahmed (2005) conducted their study for two distinct time periods, pre- and post reforms, and found that during the post-reform years, public sector banks had shown low level of net profit as a percentage to total assets. So, the profitability of banks had come under reverse pressure. It was analyzed that lower interest spread and priority sector lending to a large extent are responsible for the low profitability. They suggested that in order to control the adverse situation, corporate governance should be implemented in these banks to make the system more transparent, consistent and accountable

Baral (2005), examined the performance of joint ventures banks in Nepal by applying the CAMEL Model. The research was mainly based on secondary data drawn from the annual the reports published by joint venture banks. The report of the research were analyzed the financial health of joint ventures banks in the CAMEL parameters. The findings of the research stated that the financial health of joint ventures is more effective than that of commercial banks. The research also revealed that the components of CAMEL showed that the financial health of joint venture banks was not difficult to manage the possible impact to their balance sheet on a large scale basis without any constraints inflicted to the financial health.

Wirnkar and Tanko (2008), analyzed the adequacy of CAMEL in evaluating the performance of bank. This research was examined to find out the amplexness of CAMEL in examining the overall performance of bank, to find out the importance of each component in CAMEL and finally to look out for best ratios that bank regulators can adopt in assessing the efficiency of banks. To analysis the bank was evaluated from a sample of eleven commercial banks operating in Nigeria. The research period covered data from annual reports over a period of nine years (1997-2005). The research concluded the inability of each component in CAMEL to congregate the full performance of a bank. It also determined the best ratios in each CAMEL parameter.

Prasad and Ravinder (2014) analyzed the profitability of four major banks in India, i.e., State Bank of India, Punjab National Bank, ICICI Bank and HDFC Bank for the period 2005-06 to 2009-10. Statistical tools used in this stusy like arithmetic mean,

one-way ANOVA, Tukey HSD Test have been employed for the purpose of study. The profitability of these banks have been determined using various parameters like Operating Profit Margin, Gross Profit Margin, Net Profit Margin, Earning per Share, Return on Equity, Return on Assets, Price Earning Ratio and Dividend Payout Ratio. The study stated that State Bank of India performed better in terms of earning per share and dividend payout ratio, while Punjab National Bank performed better in terms of operating profit margin and return on equity. The study determined that HDFC Bank outperformed in terms of gross profit margin, net profit margin, return on assets and price earning ratio. The study concluded that ICICI Bank paid highest portion of earning as dividends to shareholders.

OBJECTIVE OF THE STUDY

1. To find out Capital adequacy, Assets quality, Management efficiency, Earnings and liquidity of the selected banks.
2. To compare the financial performance of selected banks using CAMEL rating system.
3. To evaluate the financial performance of selected banks.

LIMITATIONS OF THE STUDY

1. The study depends on secondary data only.
2. The period of study is limited to five years only
3. All the secondary data complications are apply for the study.
4. The result of the study is restricted to selected banks only.

RESEARCH METHODOLOGY

Nature and source of data:

The nature of study of this project is analytical study. The study is based on secondary data.

Secondary data may collected from

- Annual reports
- Periodicals
- Bulletins
- News letter
- Internal report of banks
- Journals
- Websites

STATISTICAL TOOLS USED FOR THE STUDY

The tool used to analysis the financial performance of selected banks are:

CAMEL FRAMEWORK

PERIOD OF STUDY

This study contains a secondary data of selected banks from 2014 to 2018 period.

DATA ANALYSIS & INTERPRETATION

CAMEL ANALYSIS

- Capital Adequacy Ratios

Table 1: Capital adequacy ratio

BANK	2018	2017	2016	2015	2014	AVG	RANK
ICICI	17.02	17.70	18.74	18.52	19.54	18.30	1
HDFC	16.8	16.1	16.8	16.5	16.2	16.48	3
Yes	15.6	14.4	18.3	17.9	16.5	16.54	2
AXIS	15.09	16.07	17.00	13.66	12.65	14.90	5
FEDERAL	15.46	15.14	14.73	15.39	13.83	14.91	4

During the last five years, ICIC Bank is in a position to maintain more than this minimum Requirement. Higher the ratio the bank is in a comfortable position to absorb losses. It is found that ICICI ranked on the top position followed by YES bank and HDFC bank..

- Assets Quality Ratio

Table 2: Net NPA to total advances ratio

BANK	2018	2017	2016	2015	2014	AVG	RANK
ICICI	1.61	0.97	0.77	0.73	1.11	1.04	5
HDFC	0.25	0.27	0.20	0.18	0.18	0.22	2
YES	0.12	0.05	0.01	0.05	0.03	0.05	1
AXIS	0.44	0.40	0.32	0.25	0.26	0.33	3
FEDERAL	0.73	0.74	0.98	0.53	0.60	0.72	4

YES bank is one of the top position with least average of 0.05 followed by HDFC bank with average of 0.22 and AXIS bank with average of 0.33. ICICI bank sound the lowest position with highest average of 1.04.

Table 3: Total investments to total assets ratio

BANK	2018	2017	2016	2015	2014	AVG	RANK
ICICI	28.87	29.76	31.92	33.68	33.15	31.48	4
HDFC	28.18	24.60	27.88	28.84	25.57	27.01	1
YES	34.22	37.56	43.36	37.70	31.90	36.95	5
AXIS	28.64	29.62	33.39	32.62	29.66	30.79	3
FEDERAL	29.46	32.33	29.77	28.70	28.25	29.70	2

HDFC bank is one of the top position with least average of 27.01 followed by FEDERAL bank with average of 29.70 and AXIS bank with average of 30.79.

- Management Efficiency Ratio

Table 4: Total advances to total deposits ratio

BANK	2018	2017	2016	2015	2014	AVG	RANK
ICICI	107.18	102.04	99.19	99.31	95.90	100.72	1
HDFC	81.08	82.48	80.92	79.21	76.70	80.09	2
YES	82.86	74.98	70.19	77.29	74.80	76.02	4
AXIS	87.17	81.89	77.97	77.13	75.25	79.88	3
FEDERAL	72.41	72.72	76.54	77.15	74.28	74.62	5

In above table and figure shows that ICICI bank is one of the top position with highest average of 100.72, followed by HDFC bank with average of 80.09 and AXIS bank with average of 79.88. FEDERAL bank scored the lowest position.

Table 5: Return on equity ratio

BANK	2018	2017	2016	2015	2014	AVG	RANK
ICICI	14.3	13.7	12.9	11.1	9.6	12.32	5
HDFC	16.47	19.50	18.75	17.26	15.47	17.49	3
YES	19.0	25.0	24.8	23.1	21.1	22.6	1
AXIS	18.57	18.23	20.51	21.22	20.13	19.73	2
FEDERAL	13.77	12.80	14.03	14.37	11.98	13.39	4

In above table and figure shows that YES bank is one of the top position with highest average of 22.6, followed by AXIS bank with average of 19.73 and HDFC bank with average of 17.49. ICICI bank scored the lowest position.

- Earning ability

Table 6: Net profit to total asset ratio

BANK	2018	2017	2016	2015	2014	AVG	RANK
ICICI	1.73	1.65	1.55	1.36	1.27	1.51	3
HDFC	1.73	1.72	1.68	1.53	1.41	1.61	1
YES	1.47	1.48	1.31	1.33	1.23	1.36	4
AXIS	1.59	1.62	1.52	1.48	1.40	1.52	2
FEDERAL	1.21	1.12	1.18	1.28	1.14	1.19	5

In above table and figure shows that HDFC bank is one of the top position with highest average of 1.61, followed by AXIS bank with average of 1.52 and ICICI bank with average of 1.52. FEDERAL bank scored the lowest position.

- Liquidity ratio

Table 7: Liquid asset to total asset ratio

BANK	2018	2017	2016	2015	2014	AVG	RANK
ICICI	6.55	6.98	7.71	7.65	8.39	7.46	2
HDFC	6.15	8.05	6.81	6.20	10.70	7.58	1
YES	5.55	5.40	4.10	4.87	5.92	5.17	5
AXIS	7.81	7.37	6.00	4.88	8.82	6.98	3
FEDERAL	5.77	6.07	5.23	5.83	7.28	6.04	4

In above table and figure shows that HDFC bank is one of the top position with highest average of 7.58, followed by ICICI bank with average of 7.46 and AXIS bank with average of 6.98. YES bank scored the lowest position.

Table 8: Liquid asset to total deposit ratio

BANK	2018	2017	2016	2015	2014	AVG	RANK
ICICI	11.70	12.51	14.15	14.18	15.11	13.53	1
HDFC	8.06	10.77	9.21	8.49	14.22	10.15	2
YES	8.29	7.94	6.07	7.29	7.61	7.44	4
AXIS	11.19	10.05	8.09	6.33	11.31	8.39	3
FEDERAL	6.75	7.50	6.46	7.22	8.71	7.34	5

In above table and figure shows that ICICI bank is one of the top position with highest average of 13.53, followed by HDFC bank with average of 10.15 and AXIS bank with average of 9.394. FEDERAL bank scored the lowest position.

Table 9: Liquid asset to demand deposit ratio

BANK	2018	2017	2016	2015	2014	AVG	RANK
ICICI	85.43	96.03	112.16	103.59	98.02	99.05	2
HDFC	49.39	64.58	52.15	46.11	63.86	55.22	4
YES	88.91	83.96	61.00	73.35	88.87	79.22	3
AXIS	64.34	58.00	42.29	35.06	57.99	51.54	5
FEDERAL	117.83	134.02	127.88	138.75	155.99	134.89	1

In above table and figure shows that FEDERAL bank is one of the top position with highest average of 134.89, followed by ICICI bank with average of 99.05 and YES bank with average of 79.22. AXIS bank scored the lowest position.

Table 10: Overall performances of banks

BANK	C	A	M	E	L	AVG	RANK
ICICI	2.75	4.7	3.25	3.25	2.5	3.29	5
HDFC	2	1.7	3.5	2.5	2.5	2.44	1
YES	4	2.3	1.75	3.75	3.25	3.01	3
AXIS	3.5	3	2.26	2.5	3.75	3	2
FEDERAL	2.75	3.3	4.25	3	3	3.26	4

The overall financial performance of new generation banks in India for the period of 2014-2018. It is found that under the capital adequacy ratio parameter HDFC bank was at the top position, while YES bank got lowest rank. Under the asset quality parameter, HDFC bank held the top rank while ICICI bank held the lowest rank. Under management efficiency parameter it is observed that top rank taken by YES bank and lowest rank taken by FEDERAL bank. In terms of earning quality parameter the capability of HDFC bank and AXIS bank were got the top rank in the while YES bank was at the lowest position. Under the liquidity parameter HDFC bank and ICICI bank were on the top position and AXIS bank was on the lowest position.

FINDINGS OF THE STUDY

1. According to the capital adequacy ratio of the banks during the last five years ICICI bank is able to achieve more than the minimum requirement capital adequacy in the last five years.
2. The overall performance of the capital adequacy ratio of the banks shows the HDFC bank got top positions.
3. The overall performance of the assets quality ratio of the banks shows the HDFC bank got top position. This indicates the models of advances which the bank has made to generate interest income.
4. According to the overall performance of management efficiency ratio of the banks shows the YES bank got top position.
5. According to the overall performance of earning quality ratio of the banks show the HDFC and AXIS bank were got top position.

CONCLUSION

During the process of evaluation of financial performance of the selected banks, the study highlighted that, the banks have obtained different ranks with respect to CAMEL ratios. This study concluded that in terms of capital adequacy ratio parameter HDFC bank was at the top position, while YES bank got lowest rank. The possible reason for this was the poor performance of YES bank in

debt equity, advances to assets and government securities to total investment ratios. In terms of assets quality parameter, HDFC bank hold the top rank while ICICI bank held the lowest rank. The possible reason for this was the poor performance of ICICI in net NPAs to net advances, total investments to total assets and net NPAs to total assets ratios. Under management efficiency parameter it is observed that top rank taken by YES bank and lowest rank taken by FEDERAL bank. The possible reason for this was the poor performance of FEDERAL bank in total advances to total deposits, profit per employee assets ratios. Under management efficiency parameter it is observed that top rank taken by YES bank and lowest rank taken by FEDERAL bank. The possible reason for this was the poor performance of FEDERAL bank in total advances to total deposits, profit per employee and return on equity ratios. In terms of earning quality parameter the capability of HDFC and AXIS banks were got the top rank in the while YES bank was at the lowest position. The possible reason for this was the poor performance of YES bank in operating profit to total assets, net profit to total assets and net interest margin to total assets ratios. Under the liquidity parameter HDFC and ICICI banks were on the top position and AXIS bank was on the lowest position. The possible reason for this was the poor performance of AXIS bank in Liquid Assets to Demand Deposits, Government securities to total asset ratios.

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