Volume-5, Issue-6, June - 2016 • ISSN No 2277 - 8160 IF : 3.62 | IC Value 70.36

Research Paper Commerce

A Financial Performance Analysis of Selected Nationalised Banks of India

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ABSTRACT

India is the largest country having many and varied financial institutions both public and private banks, who are controlled and governed by Reserve Bank of India, and Ministry of Finance. Efficiency and profitability of the banking sector in India has assumed primal importance due to intense competition, greater customer demands and changing banking reforms.

This study attempts primarily to measure the financial performance of SBI, BOB and BOI which are leading public sector banks of India. Financial performance of these banks have been analysed for the period 2010-11 to 2014-15. Analyse the ratio here used financial ratio analysis (FRA) method which help to draw an overview about financial performance of public sector banks. The study findings can be helpful for management of banks.

KEYWORDS : Public Sector Banks, Financial Performance, Efficiency, Profitability

INTRODUCTION
OVERVIEW OF BANKING

Bank is defined in many ways by various authors in the book son economics and commerce. It is very difficult to define a bank; because a bank performs multifarious functions may be defined in many ways according to their functions. The evolution of different types of banks, each specializing in a particular field, gives emphasis on each and every kind of bank. A general and comprehensive definition to cover all types of banking institutions would be unscientific and probably impossible. Each type of bank should have its own definition, explaining its specialized functions. Legislators have understood this difficulty and that is why the bill of exchange Act 1882 (England) defines

"A bank includes a body of persons, whether incorporated or not, who carry on the business of banking"

MARKET SIZE

The Indian banking sector is fragmented, with 46 commercial banks jostling for business with dozens of foreign banks as well as rural and co-operative lenders. State banks control 80 percent of the market, leaving relatively small shares for private rivals.

At the end of February, 13.7 crore accounts had been opened under Pradhanmantri Jan DhanYojna (PMJDY) and 12.2 croreRuPay debit cards were issued. These new accounts have mobilised deposits of Rs 12,694 crore (US$ 2.01 billion).

Standard & Poor's estimates that credit growth in India's banking sector would improve to 12-13 per cent in FY16 from less than 10% in the second half of CY14.

INVESTMENTS/DEVELOPMENTS

Since last few months, many investments done in the Indian banking sector.

The United Economic Forum (UEF), an organisation that works to improve socio-economic status of the minority community in India has signed a memorandum of understanding (MoU) with Indian Overseas Bank (IOB) for financing entrepreneurs from backward communities to set up businesses in Tamil Nadu

The RBI has allowed third-party white label automated teller machines (ATM) to accept international cards, including international prepaid cards, and said white label ATMs can now tie up with any commercial bank for cash supply.

With the objective of increasing investment opportunities for Indian alternative investment funds (AIFs), the RBI has allowed these funds to invest overseas.

In a major boost for the infrastructure sector, as well as for banks financing long gestation projects, the RBI has extended its flexible refinancing and repayment option for long-term infrastructure projects to existing ones where the total exposure of lenders is more than Rs 500 crore (US$ 78.98 million).

Syndicate Bank is planning to open 300-500 branches in the next financial year

RBI governor Mr RaghuramRajan and European Central Bank President Mr Mario Draghi have signed anMoU on cooperation in central banking. "The memorandum of understanding provides a framework for regular exchange of information, policy dialogue and technical cooperation between the two institutions. Technical cooperation may take the form of joint seminars and workshops in areas of mutual interest in the field of central banking," RBI said on its website.

RBL Bank has announced that it would be the anchor investor in Trifecta Capital's Venture Debt Fund, the first alternative investment fund (AIF) of its kind in India with a commitment of Rs 50 crore (US$ 7.89 million). This move provides RBL Bank the opportunity to support the emerging venture debt market in India.

The RBI has allowed banks to become insurance brokers, permitting them to sell policies of different insurance firms subject to certain conditions.

Bandhan Financial Services Pvt. Ltd has raised Rs 1,600 crore (US$ 252.69 million) from two international institutional investors to help convert its microfinance business into a full service bank. Bandhan was one of the two entities to get a banking licence in April 2014 along with infrastructure finance company IDFC Ltd.

Yes Bank Ltd has signed a MoU with the US government's development finance institution Overseas Private Investment Corp (OPIC) to explore US$ 220 million of financing to lend to micro, small and medium enterprises (MSMEs) in India.

Reliance Industries Limited (RIL) has said that it has applied for a Payments Bank licence, where the company will be the promoter and State Bank of India will be its joint venture partner with an equity investment of up to 30 per cent.

The RBI has allowed bonds issued by multilateral financial institutions like World Bank Group, the Asian Development Bank and the African Development Bank in India as eligible securities for interbank borrowing. The move will further develop the corporate bonds market, RBI said in a notification.

The Competition Commission of India (CCI) has cleared the merger of

ING Vysya Bank with Kotak Mahindra Bank, which would create the country's fourth largest private sector lender. The proposed Rs 15,000 crore (US$ 2.36 billion) deal is not likely to have any appreciable adverse effect on competition in India, as per the competition "The share of both entities in various relevant markets is insignificant," the CCI said.

Tata Consultancy Services Ltd (TCS), India's largest software services exporter, has announced that it has expanded its presence in Singapore with the opening of a new 1,000-seat TCS Singapore banking and financial services (BFS) centre. The new centre replaces a 500-seat centre opened in 2011 and will offer a broader range of services to global banks in the Asia-Pacific region, with a major focus on digital offerings.

GOVERNMENT INITIATIVES

There have been a lot of developments in the Indian banking sector.

The Government has announced a capital infusion of Rs 6,990 crore (US$ 1.1 billion) in nine state run banks, including State Bank of India (SBI) and Punjab National Bank (PNB), but based on new efficiency parameters such as return on assets and return on equity. In a statement, the finance ministry said, "This year, the Government of India has adopted new criteria in which the banks which are more efficient would only be rewarded with extra capital for their equity so that they can further strengthen their position."

The Union cabinet has approved the establishment of the US$ 100 billion New Development Bank (NDB) envisaged by the five-member BRICS group as well as the BRICS "contingent reserve arrangement" (CRA).

The RBI has decided to allow nominated banks to import gold, including coins, on a consignment basis, extending its clarification issued in November 2014, which had eased certain categories of gold imports.

To help Micro Small and Medium Enterprises (MSME), RBI has permitted setting up of an exchange-based trading platform to facilitate financing of bills raised by such small entities to corporate and other buyers, including government departments and PSUs.

ROAD AHEAD

The Indian economy is now on the threshold of a major transformation, with expectations of policy initiatives being implemented. Positive business sentiments, improved consumer confidence and more controlled inflation should help boost the economic growth. Higher spending on infrastructure, speedy implementation of projects and continuation of reforms will provide further impetus to growth. All this translates into a strong growth for the banking sector too, as rapidly growing business turn to banks for their credit needs, thus helping them grow.

Also, with the advancements in technology, mobile and internet banking services have come to the fore. Banks in India are focusing more and more to provide better services to their clients and have also started upgrading their technology infrastructure, which can help improve customer experience as well as give banks a competitive edge.

Many banks, including HDFC, ICICI and AXIS are exploring the option to launch contact-less credit and debit cards in the market soon. The cards, which use near field communication (NFC) mechanism, will allow customers to transact without having to insert or swipe.

Exchange Rate Used: INR 1 = US$ 0.0157 as on April 28, 2015

LITERATURE REVIEW

Mayuri, J. Farmer's (2009) study was primarily based on the secondary data relating to the financial performance of 27 nationalized banks of India during 1989 to 1998. A regression analysis has been attempted to identify the quantifiable variables and to judge how far the changes in profitability are influenced by each of these variables. A detailed study has also been undertaken by selecting a very profitable bank and a highly loss making bank to identify the variables affecting the profitability of each of them. The application of the concept of Break Even Analysis has been attempted to differentiate between a profit earning bank and a losing bank and to help in suggestions how margin of safety can be improved.

Rachita Gulati and Sunil Kumar (2009) endeavour to explore the relationship between efficiency and profitability in 51 Indian domestic banks operating in the financial year 2006-2007.The empirical results show that de novo private sector banks dominate in the formation of the efficient frontier for Indian domestic banking industry. The efficient- profitability matrix reveals that the resource utilization process in 22 banks that fall in the "Question Mark" and "Sleeper quadrants is not functioning well and featuring the presence of considerable wastage of inputs. Further, Tamil Nadu Mercantile Bank and Yes Bank may be considered as an ideal bench mark for the poor performing banks on the efficiency and profitability dimensions of performance evaluation.

Roma Mitra, Shankar Ravi (2008), A stable and efficient banking sector is an essential precondition to increase the economic level of a country. This paper tries to model and evaluate the efficiency of 50 Indian banks. The Inefficiency can be analyzed and quantified for every evaluated unit. The aim of this paper is to estimate and compare efficiency of the banking sector in India. The analysis is supposed to verify or reject the hypothesis whether the banking sector fulfils its intermediation function sufficiently to compete with the global players. The results are insightful to the financial policy planner as it identifies priority areas for different banks, which can improve the performance. This paper evaluates the performance of Banking Sectors in India.

B.Satish Kumar (2008), in his article on an evaluation of the financial performance of Indian private sector banks wrote Private sector banks play an important role in development of Indian economy. After liberalization the banking industry underwent major changes. The economic reforms totally have changed the banking sector. RBI permitted new banks to be started in the private sector as per the recommendation of Narashiman committee. The Indian banking industry was dominated by public sector banks. But now the situations have changed new generation banks with used of technology and professional management has gained a reasonable position in the banking industry.

Vradi, Vijay, Mauluri, Nagarjuna (2006), in his study on´ Measurement of efficiency of bank in India concluded that in modern world performance of banking is more important to stable the economy .in order to see the efficiency of Indian banks we have seen the fore indicators i.e. profitability, productivity, assets, quality and financial management for all banks includes public sector, private sector banks in India for the period 2000 and 1999 to 2002-2003. For measuring efficiency of banks we have adopted development envelopment analysis and found that public sectors banks are more efficient than other banks in India.

PetyaKoeva (July 2003) in his study on The Performance of Indian Banks. During Financial Liberalization states that new empirical evidence on the impact of financial liberalization on the performance of Indian commercial banks. The analysis focuses on examining the behaviour and determinants of bank intermediation costs and profitability during the liberalization period. The empirical results suggest that ownership type has a significant effect on some performance indicators and that the observed increase in competition during financial liberalization has been associated with lower intermediation costs and profitability of the Indian banks.

RESEARCH OBJECTIVE

1. To analyse financial performance of selected nationalised banks of India

2. To study the impact of financial reform on banking industry

RESEARCH METHODOLOGY

SOURCES OF DATA

Secondary sources of data will be utilised for this proposed research study

Secondary data have been collected from Company Annual Reports.

UNIVERSE

In the research study selected 3 public banks.

PERIOD OF DATA COVERAGE

Five years of financial statements will be analysed for public banks taken under study.

ANALYSIS OF DATA

The proposed statistical tools for the analysis of data are ratio analysis and ANOVA test.

DATA ANALYSIS

1. INTEREST EXPENDED / TOTAL FUNDS

INTEREST EXPENDED / TOTAL FUNDS					
BANK NAME	YR2015	YR2014	YR2013	YR2012	YR2011
STATE BANK OF INDIA	5.24	5.38	5.40	5.15	4.40
BANK OF INDIA	5.36	5.26	5.46	5.48	4.46
BANK OF BARODA	4.33	4.47	4.82	4.79	4.11

From the above table it can be seen that, all banking companies have ratio range between 4 to 7. There is no significant change in positive or negative manner can be seen for all 5 years of study for all three banks. Bank of Baroda performing best followed by state bank of India and then Bank of Baroda.

ANOVA						
Source of Variation	SS	df	MS	F	P-value	F crit
Between Groups	1.45033	2	0.72517	4.91483	0.02759	3.88529
Within Groups	1.77056	12	0.14755			
Total	3.22089	14				

Fcal>Ftab and p-value is less than specified α of 0.05.

So, null hypothesis is rejected and it is concluded that the difference is seen in Interest Expended / Total FundsRatio of three selected banking companies

2. INTEREST INCOME / TOTAL FUNDS

INTEREST INCOME / TOTAL FUNDS					
BANK NAME	YR2015	YR2014	YR2013	YR2012	YR2011
STATE BANK OF INDIA	8.18	8.37	8.49	8.48	7.35
BANK OF INDIA	7.26	7.38	7.63	7.75	6.98
BANK OF BARODA	6.37	6.55	7.17	7.41	6.92

From the above interest income / total funds ratio table it can be concluded that no significant hike or decline in ratio value can be observed throughout last 5 years for all three banks. State Bank of India has highest average ratio value followed by Bank of India and then Bank of Baroda.

ANOVA						
Source of Variation	SS	df	MS	F	P-value	F crit
Between Groups	4.21572	2	2.10786	12.5329	0.00115	3.88529
Within Groups	2.01824	12	0.16819			
Total	6.23396	14				

Fcal>Ftab and p-value is less than specified α of 0.05.

So, null hypothesis is rejected and it is concluded that the difference is seen in Interest Income / Total Funds Ratio of three selected banking companies

3. LOANS TURNOVER

LOANS TURNOVER					
BANK NAME	YR2015	YR2014	YR2013	YR2012	YR2011
STATE BANK OF INDIA	0.13	0.13	0.13	0.14	0.12
BANK OF INDIA	0.11	0.12	0.12	0.12	0.11
BANK OF BARODA	0.11	0.11	0.12	0.12	0.11

From the above LOANS TURNOVER ratio table it can be seen that State Bank of India has highest amount of ratio value followed by Bank of Baroda and then Bank of India. So State Bank of India has highest sales which has to pay off its loans

ANOVA						
Source of Variation	SS	df	MS	F	P-value	F crit
Between Groups	0.00076	2	0.00038	10.3636	0.00243	3.88529
Within Groups	0.00044	12	3.7E-05			
Total	0.0012	14				

Fcal>Ftab and p-value is less than specified α of 0.05.

So, null hypothesis is rejected and it is concluded that the difference is seen in Loans Turnover Ratio of three selected banking companies

4. NET PROFIT MARGIN

NET PROFIT MARGIN					
BANK NAME	YR2015	YR2014	YR2013	YR2012	YR2011
STATE BANK OF INDIA	8.17	7.49	10.66	10.42	9.40
BANK OF INDIA	4.60	7.83	8.78	9.52	11.63
BANK OF BARODA	8.70	12.35	13.18	17.21	19.69

From the above Net Profit Margin ratio table it can be concluded that Bank of Baroda is keeping most of its revenue as net income followed by Bank of India and State Bank of India.

ANOVA						
Source of Variation	SS	df	MS	F	P-value	F crit
Between Groups	97.7668	2	48.8834	5.42538	0.02097	3.88529
Within Groups	108.121	12	9.01012			
Total	205.888	14				

Fcal>Ftab and p-value is less than specified α of 0.05.

So, null hypothesis is rejected and it is concluded that the difference is seen in Net Profit Margin of three selected banking companies

5. OPERATING EXPENSE / TOTAL FUNDS

OPERATING EXPENSE / TOTAL FUNDS					
BANK NAME	YR2015	YR2014	YR2013	YR2012	YR2011
STATE BANK OF INDIA	2.84	2.72	2.59	2.62	2.92
BANK OF INDIA	1.31	1.28	1.25	1.31	1.59
BANK OF BARODA	1.17	1.17	1.18	1.25	1.41

From the above table it can be seen that State Bank of India has highest operating expense / total funds average ratio value of last 5 years of study period. It shows State Bank of Indiahas highest ability to leverage its average total resources in enhancing its main stream of Operating expenses. Bank of Baroda has lowest ability to leverage its average total resources in enhancing its main stream of Operating expenses.

ANOVA						
Source of Variation	SS	df	MS	F	P-value	F crit
Between Groups	7.00108	2	3.50054	212.497	4.3E-10	3.88529
Within Groups	0.19768	12	0.01647			
Total	7.19876	14				

Fcal>Ftab and p-value is less than specified α of 0.05.

So, null hypothesis is rejected and it is concluded that the difference is seen in Operating Expense / Total FundsRatio of three selected banking companies

CONCLUSION

Based on the ratio analysis of public sector banks, it can be concluded that higher net profit margin ratio can be seen in earlier years i.e. in earlier years banks keeping higher amount of their revenue as net income. Public sector banks have lower loans turnover ratio, public banks have higher outstanding loan compare to the revenue generated. State bank of India has highest ability to leverage its average total resources in enhancing its main stream of Operating expenses. Public banks have high ability to leverage their average total resources in enhancing their main stream of operational interest income. Difference is seen in Interest Expended / Total Funds Ratio of three selected banking companies. Difference is seen in Interest Income / Total Funds Ratio of three selected banking companies. Difference is seen in Loans Turnover Ratio of three selected banking companies. Difference is seen in Net Profit Margin of three selected banking companies. Difference is seen in Operating Expense / Total Funds Ratio of three selected banking companies

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