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INDIAN PUBLIC SECTOR BANKS - PERFORMANCE ANALYSIS

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ABSTRACT Financial performances of any business have more impact on the long run survival of the business in the present competitive business environment. The equivalent circumstances are too applicable in financial sector which includes banks. As banks are said to be the source for economic growth of a country, the present study is an effort to analyse the performance of top five public sector banks based on the market capitalization on 4th January 2019. The secondary data has been collected from the annual reports of the selected banks and other financial data websites from 2013-14 to 2017-18. Financial ratios, correlation and regression have been applied to analyse the performance of the banks.

KEYWORDS : Bank, performance, profitability

Introduction

Banks are the most important constituents of the financial structure of a country. Banks are considered to be the mart of the world, the nerve centre of the economies and financial backbone of a nation and it is the barometer of a nation's economic perspective. Therefore, banks are said to be the key players of the economic evolution. Banking business is important in a country to control the supply of money and credit, to increase savings of the individuals and to avoid financial powers in the hands of few individuals and institutions. Banking industry has witnessed a tremendous change due to globalization, liberalization and privatization.

Banking concepts have varied from traditional banking to profit making business. Traditional banking has been replaced by electronic banking where the customers are provided service for 24x7 hours. The non-stop banking facilities have made a revolution among new generation people who adopt cashless, anywhere and anytime banking. Banks play a significant role in the growth and development of a country through mobilization and allocation of available resources which ensures the control of deflation and inflation through the right credit control system. Reserve Bank of India concentrates on commercial banks to implement best monetary policy for the growth of the economy. New banking strategies have expanded the banking operations from traditional banking to merchant banking, leasing, factoring, mutual funds, portfolio management, venture capital, housing finance, stock trading and securitisation of debts which have helped for massive growth of the industry. To analyse the performance of the Indian public sector banks, SBI, Bank of Baroda, IDBI Bank, Punjab National Bank and Canara Bank have been selected for the study.

Review of Literature

Shah and Jan (2014), in their article "Analysis of Financial Performance of Private Banks in Pakistan" have analysed the performance of top ten private commercial banks of Pakistan. The data has been collected from the respective bank financial statements. Descriptive and correlation analysis have been applied to study the performance of the select banks. The results have revealed that factors, namely, bank size and operational efficiency have been negatively related with return on assets and positively related with assets management ratio. It is also found that interest income is positively related with bank size and negatively related with asset management and operational efficiency. **Ahmeti, Hoti, Alshiqi and Bekteshi (2014),** in their research paper "Analysis of Financial Performance in the Banking System in Kosovo - the Period 2006-2012" have revealed the quality of financial indicators in identifying the profitability of commercial banks in Kosovo. Statistical results reveal that profit-flow, liquidity and profitability have been found in an increase trend from 2006-2008 and declining trend from 2008 due to financial crisis at the global level. **Prakash et.al (2017),** in their research article "An Evaluation of Financial Performance of Commercial Banks" have stated the performance of eight commercial banks at Bahrain for a period of ten years from 2005-2015. Secondary data have been collected from various

sources, namely, annual reports, websites, newspaper, investor's guide and newsletters of the banks. Statistical tools, namely, correlation, regression and t-test have been applied to find the relationship between the select variables to analyse the performance of the banks. It is understood from the results that capital adequacy and financial leverage have impact on the profitability and also states that there is no impact on profitability due to efficiency of the banks. **Makkar and Singh (2012),** have evaluated the solvency of 37 Indian commercial banks by applying bankometer model for a period of five years from 2006-07 to 2010-11.The analysis reveals that the private sector banks have performed much better than public sector banks in terms of financial soundness. The results conclude that top five financially sound banks in the private sector are Kotak Mahindra Bank, Federal Bank, ICICI Bank, HDFC Bank and Development Credit Bank. The least five banks of public sector are Central Bank of India, UCO, Syndicate Bank, Bank of Maharashtra and State Bank of Travancore where the researchers have suggested that the weak banks should adopt right strategies to avoid future losses. **Muhammad Hanif et al. (2012),**in their paper "Comparative Performance Study of Conventional and Islamic Banking in Pakistan" have analysed Islamic and Conventional banks in Pakistan with a sample of 22 Conventional banks and 5 Islamic banks for a period of five years from 2004-05 to 2008-09. For an in-depth sound comparison, the researchers have divided the key performance indicators as external and internal bank factors. The external factor analysis includes the study on customer behaviour and perception. The internal factor analysis has been carried out by studying the profitability, liquidity, credit risk and solvency of select banks. Bankometer model has been applied to gauge the solvency of banks. It has been found that in terms of profitability and liquidity Conventional banking is better and in terms of credit risk and solvency Islamic banking is found to be much better. **Arpit and Suchismita (2015),** have identified the shareholder value in different sectors, namely, IT, Banking and pharmaceuticals. The main objective of the study is to identify the best tool for measurement of performance that influences its capacity to enhance the shareholders' wealth. From the results of the analysis, the researchers have concluded that EVA is an important indicator for the companies to implement the right business planning approach to focus and monitor the accountability for the shareholders to increase their wealth. The tools like MVA and TSR also play a vital role to measure the shareholders value as the market value and dividend paid are taken into account to enhance the wealth of the shareholders. Among the select value based measures in the study CVA is found to be the best tool as it shows the difference between operating cash flow and cash flow demand.

Objectives

The study covers the following objectives:

1. To ascertain the financial performance of select public sector banks in India.
2. To find the relationship between the select financial parameters in analysing the performance.

Research Methodology

The following methodology has been adopted to analyse the financial soundness and shareholder value of select private banks in India.

Data

Data has been collected from financial statements of the select public sector banks in India from 2013-14 to 2017-18. The following are the variables chosen for the study to analyse the performance of the public sector banks.

Variable	Proxy	sign
Return on Assets	Net Income /Total Assets	ROA
Interest income	Interest received – Interest Paid	IN
Bank Size	Total Assets	BS
Asset Management	Operational Income/Total Assets	AM
Operational Efficiency	Total Operating expenses / Interest Income	OE

Results and Discussion

The following table presents the descriptive statistics of the financial data of the select public sector banks in India from 2013-14 to 2017-18.

Table 1 Results of Descriptive Statistics

	ROA	IN	BS	AM	OE
Mean	0.0036	66124.346	2935810.82	0.0152	0.7669
Median	0.0036	61859.74	2705966.30	0.0147	0.7512
Max	0.0048	74853.72	3454752	0.0172	0.8008
Min	0.0018	57194.81	2357617.54	0.0136	0.7305
Std.dev	0.0012	8193.20	494612.06	0.0013	0.0320

It is determined from the above table that the mean value of ROA has been found to be 0.0036 which states ROA of 0.3 per cent and the standard deviation at 0.0012. It is also observed from the table that the mean value of interest income has been 66124.346 with the standard deviation of 8193.20. The highest mean value among the selected variables in the study has been found for the Bank size at 2935810.828 and Asset Management mean value at 0.0152. The mean value of the operating efficiency has been at 0.7669

Regression Analysis

Regression analysis has been done to find the relationship between the performance predictor variables in the select public sector banks. As an initial step for regression, correlation has been applied to find the relativity between the variables.

Table 2 Results of Correlation

	ROA	IN	BS	AM	OE
ROA	1	-.874	-.868	-.812	-.871
IN	-.874	1	.998**	.585	.999**
BS	-.868	.998**	1	.605	1.000**
AM	-.812	.585	.605	1	.596
OE	-.871	.999**	1.000**	.596	1

**Correlation is significant @ 1 per cent.
The table 2 indicates that interest income of the select public sector banks has significant positive high correlation with bank size and operating efficiency. It is also observed that bank size also has the significant positive correlation with operating efficiency of the bank.

H_0: The variables, namely, BS, AM and OE does not have a significant influence on ROA.

Table 3 Regression Analysis -Dependent Variable: ROA

	Regression Coefficients(B)	Std. Error	Beta	t	Sig.
(Constant)	-.016	.015		-1.064	Ns
BS	1.922E-9	.000	.235	1.311	Ns
AM	1.592	.541	.529	2.942	**
OE	-.014	.015	-.173	-.936	NS

R	R Square	F	Sig.
.605a	.367	.276	Ns

Ns- Not significant , Significant @ 1 per cent.
The coefficient of multiple correlation with its value at 0.605[a] indicates a positive moderate degree of correlation of independent variables (BS, AM and OE) with ROA.

The coefficient of multiple determinations (R^2) signifies that 36.7 per cent of variation in the ROA has been explained by the independent variables.

The regression analysis shows that the regression co-efficient of ROA has negative effect on OE of the bank. BS and AM have positive effect on ROA. The t-test results show that AM affect ROA significantly at 1 per cent level.

The Beta co-efficient (Standard Regression Co-efficient) of AM (Beta=.529), contributes more in explaining the relationship with ROA followed by BS (.235) in absolute terms. The least contributing beta value is that of OE (-.173).
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Hence, the relationship between independent and dependent variables hav
e been proved to be statistically not significant and the null hypothesis is accepted.

The ROA of the select banks during the study period have been taken as the dependent variable and other variables, namely, BS, AM and OE independent variables for the purpose of performance prediction, it is found that AM with Beta value of 0.529 has significantly influenced the ROA. The variables have moderate correlation with R-value of 0.605.

H_0: The variables, namely, BS, AM and OE does not have a significant influence on Interest Income (IN).

Table 4 Regression Analysis -Dependent Variable: Interest Income

	Regression Coefficients(B)	Std. Error	Beta	t	Sig.
(Constant)	-830.082	4374.995		-.190	Ns
BS	.023	.000	1.006	55.125	**
AM	242799.031	154795.655	.029	1.569	Ns
OE	-6745.098	4345.668	-.029	-1.552	Ns

R	R Square	F	Sig.
.997a	.993	.993	Ns

Ns- Not significant,** Significant @ 1 per cent.

The coefficient of multiple correlation with its value at 0.997[a] indicates a positive high degree of correlation of independent variables (BS, AM and OE) with IN.

The coefficient of multiple determinations (R^2) signifies that 99.3 per cent of variation in the IN has been explained by the independent variables.

The regression analysis shows that the regression co-efficient of IN has negative effect on OE of the bank. BS and AM have positive effect on IN. The t-test results show that BS affect IN significantly at 1 per cent level.

The Beta co-efficient (Standard Regression Co-efficient) of BS (Beta=1.006), contributes more in explaining the relationship with IN followed by AM (.029) in absolute terms. The least contributing beta value is that of OE (-.029).

Hence, the relationship between independent and dependent variables have been pzroved to be statistically not significant and

the null hypothesis is accepted.

The IN of the select banks during the study period have been taken as the dependent variable and other variables, namely, BS, AM and OE independent variables for the purpose of performance prediction, it is found that BS with Beta value of 1.006 has significantly influenced the IN. The variables have high correlation with R-value of 0.997.

Conclusion

The study is an attempt to analyse the performance of Indian public sector banks. Top five public sector banks have been selected for the study and about five variables, namely, Return on asset, interest income, bank size, asset management and operational efficiency have been chosen for the performance analysis. It is observed from the results that asset management has impact on return on assets and bank size influence the interest income of the banks. In general, the study would be beneficial to the bank personnel to improve the performance by planning the right strategies and frameworks.

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