Research Paper Banking

Performance Appraisal of Public Sector Banks in India- TOP 10 PSB in 2010

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ABSTRACT

Performance Appraisal of banks of a country is quite a difficult task. There are so many factors, which need to be taken care while saying that a bank has performed well in a particular year. Ratios are one of the important tool of financial analysis which is used for the same. The traditional analysis largely focused on parameters like Credit Deposit ratio, commonly referred to as CD ratio, level of nonperforming assets, Capital Adequacy ratio and the other usual earnings ratio. Now, the things have changed; by just having high CD ratio it doesn't mean that the bank is sound. Banking business has no longer remain just a business of holding deposits and credit advances, but it has taken new dimensions and has become a multiservice provider. Accordingly the performance appraisal of a bank depends upon so many parameters. This paper tries to analyse the economic performance of commercial banks on the basis of some modern techniques popularly used for this purpose.

Keywords : Commercial banks, performance analysis, modern techniques.

Introduction

Enhancing efficiency and sound performance of banks is a key indicator of development of any economy including India. Indian banking system has seen many ups and downs in the recent years. The backdrop of global financial crisis and its impact on the Indian economy, has made previous year a testing year for the Indian banking sector. The Indian banking sector, however, withstood this test and the resilience of this sector was more than evident. Also, its a very much acceptable fact that this sector is currently in a transition phase.

Every component of Indian banking sector is going through transformations and is under the influences of a number of forces that are operating in the domestic economy as well as in the international financial system. While public sector banks are in the process of restructuring, private sector are busy in consolidating through mergers and acquisitions. The entry of foreign banks leaves influential impact over the whole sector. Consequently the financial sector is likely to witness a significant structural change in the coming year. Entry of private and foreign banks in the segment has provided healthy competition and is likely to bring more operational efficiency into the sector. The analysis of banks accounts differs significantly from any other company due to their structure and operating system. Those key operating and financial ratios which one would normally evaluate before investing in a company may not hold true for a bank. However, there have been standard parameters developed over the years, which can serve as a very effective tool for judging a bank's performance.

Review Of Literature

Many researchers have studied performance of banks in the previous years. Most of the studies are based upon comparative analysis of public and private sector banks .

Saha and Ravishankar (2000) rated 25 public sector banks using the data envelopment analysis (DEA). Swamy (2001) studied the comparative performance of different banks groups . Das (2002) has studied the interrelationship among capital, non-performing loans and productivity of public sector banks. Qamar (2003) has studied the profitability and resource use efficiency in scheduled commercial banks in India. He found that new private sector banks and foreign banks are marginally more efficient than the old private sector and public sector banks. This study is an addition to the literature by using the modern techniques for evaluating bank performance.Uppal (2004) conducted a comparative study of the business, efficiency, soundness and productivity of the new private sector banks. He concluded that private sector banks are sound in urban area and he has ranked the banks as per the parameters. Sathye (2005) examines the impact of privatization on bank performance and efficiency using data of banks in India. The study found that partially privatized banks have continued to show improved performance and efficiency in the years after privatisation

Satishkumar(2007) made an evaluation of the financial performance of Indian private sector banks.He found that private sector banks are professionally managed banks and are growing at a very higher rate.

Objective Of The Study

The basic objective of the study is to analyse the performance of the banks through the

modern techniques and to rank them according to their performance.

The Universe And Sample Of The Study

For the present study, the universe is Indian commercial banks irrespective of their size. From this a total of 27 public sector banks including nationalised banks

SBI and its associates and other public sector banks have been chosen as sample for the study .The study is mainly based on secondary data. The relevant information in this regard is collected from various sources like the IBA publications, CMIE, stock exchanges and magazines like Analyst, Business today, RBI and IBA bulletins. The period taken for the study purpose is 2009-10.

Coding: For simplification of the process Banks have been given codes as follows.

Table-1: Bank Codes

Bank codes	NAME OF BANK
B1	Allahabad Bank
B2	Andhra Bank
B3	Bank of Baroda
B4	Bank of India
B5	Bank of Maharashtra
B6	Canara Bank
B7	Central Bank of India
B8	Corporation Bank
B9	Dena Bank
B10	IDBI Bank
B11	Indian Bank
B12	Indian Overseas Bank
B13	Oriental Bank of Commerce
B14	Punjab & Sind Bank
B15	Punjab National Bank
B16	State Bank of Bikaner & Jaipur
B17	State Bank of Hyderabad
B18	State Bank of India (SBI)
B19	State Bank of Indore
B20	State Bank of Mysore
B21	State Bank of Patiala
B22	State Bank of Travancore
B23	Syndicate Bank
B24	UCO Bank
B25	Union Bank of India
B26	United Bank of India
B27	Vijaya Bank

Modern Techniques For Evaluating Bank Performance

Traditional analysis, which is more subjective doesn't talk about any ratio but identifies some broad dimension of banking business and it largely dwells on some basic parameters for broadly analysing bank performance. While, the modern techniques lay large emphasis on ratio and they have developed certain standard ratio that will analyse banks from various perspectives. Let's look at some key ratio that differentiates a good bank from a bad one.

Key Operating Performance Ratios

1. Net Interest Margin (NIM): Net interest margin is the net interest income earned by the bank on its average earning assets. These assets comprise of advances, investments, balance with RBI& Money at call.

NIM = Interest income Interest expenses/Average earning assets

2. Operating Profit Margins (OPM): Operating margin is profit earns by the bank on its total interest income.

OPM = Net interest income (NII) operating expenses/Total interest income

3. Cost To Income Ratio: The ratio is calculate as a proportion of operating profit including noninterest income(fee based income).

Cost to income ratio = Operating expenses/NII + non interest income

4. Other Income To Total Income: The higher ratio indicates increasing proportion of fee based income. The ratio is influenced by gain on government securities, which fluctuated depending on interest rate movement in the economy

Table-2 Ratios: NIM/OPM/CII/OITI

Bank Code	NIM	Rank	OPM	Rank	CII	Ranking	OI/TI	Rank
B1	0.044	10	0.123387	9	0.388306	4	0.153	2
B2	0.049	4	0.132625	5	0.427155	11	0.131	7
B3	0.043	13	0.127497	7	0.435683	13	0.144	3
B4	0.042	15	0.116799	14	0.438055	15	0.128	13
B5	0.037	23	0.047297	24	0.568326	26	0.111	18
B6	0.043	12	0.117481	13	0.407308	8	0.132	6
B7	0.028	26	0.026774	27	0.519159	22	0.126	14
B8	0.04	19	0.130363	6	0.370916	2	0.14	5
B9	0.038	22	0.062823	22	0.502221	20	0.128	12
B10	0.019	27	0.028547	26	0.401772	6	0.13	10
B11	0.065	1	0.200282	1	0.386423	3	0.13	8
B12	0.048	5	0.068523	21	0.571979	27	0.1	23
B13	0.042	14	0.119041	11	0.410519	10	0.105	21
B14	0.042	16	0.118388	12	0.450061	16	0.095	26
B15	0.057	2	0.175199	2	0.393931	5	0.142	4
B16	0.045	9	0.080724	17	0.496304	19	0.13	9
B17	0.042	17	0.138775	4	0.363905	1	0.12	15
B18	0.045	8	0.047226	25	0.525851	24	0.17	1
B19	0.046	7	0.10959	15	0.430135	12	0.12	16
B20	0.054	3	0.143774	3	0.436074	14	0.11	19
B21	0.040	20	0.105982	16	0.407917	9	0.10	24
B22	0.047	6	0.120578	10	0.452391	17	0.11	20
B23	0.039	21	0.070433	20	0.520111	23	0.104	22
B24	0.034	25	0.077648	18	0.481579	18	0.092	27
B25	0.043	11	0.126633	8	0.406646	7	0.129	11
B26	0.036	24	0.060413	23	0.55084	25	0.096	25
B27	0.041	18	0.07259	19	0.50343	21	0.116	17

Key Financial Ratios

1. Credit to deposite ratio (cd ratio): the ratio is indicative of the percentage of funds lent by the bank out of the total amount raised through deposits. Higher ratio reflects ability of the bank to make optimal used of the available resource.

2. capital adequacy ratio (car): a banks capital ratio is the ratio of qualifying capital to risk adjusted (or weighted) assets. As per the latest rbi norms, banks in india should have a car of 9 %. A ratio below minimum indicates that the bank is not adequately capitalized to expand its operations. The ratio ensures that the banks do not expand their business without having adequate capital.

Car = tier i capital + tier ii capital/

3. Npa ratio: net npa's are calculated by reducing cumulative balance of provisions outstanding at a period in from gross npas. Higher ratio reflects rising bad quality on loans.

Npa ratio =net non -performing assets/ loans given

4. roa: returns on assets ratio is the net income profit generated by the bank on its total assets (including fixed assets).the higher the proportion of average earnings assets, the better would be the resulting return on total assets.

Roa = net profits/avg. Total assets

Table-3 Ratios: CD/CAR/NPA/ROA

Bank	CD	Ranking	CAR	Rank	NPA	Rank	ROA	Rank
B1	67.52	21	13.62	8	0.014	21	0.019819	9
B2	72.28	13	13.93	6	0.002	3	0.023235	3
B3	72.62	12	14.36	4	0.015	22	0.021975	6
B4	73.33	9	12.94	16	0.054	27	0.012663	21
B5	63.68	26	12.78	18	0.016	23	0.012385	22
B6	72.16	14	13.43	10	0.032	26	0.022824	5
B7	65.01	25	12.23	26	0.011	20	0.011584	24
B8	68.16	20	15.37	1	0.003	4	0.020955	8
B9	69.07	19	12.77	19	0.005	10	0.017747	13
B10	82.43	1	11.31	27	0.010	17	0.008828	26
B11	70.44	16	12.71	20	0.002	2	0.030674	1
B12	72.91	10	14.78	3	0.023	25	0.010786	25
B13	70.00	18	12.54	22	0.008	13	0.016517	17
B14	66.40	24	13.10	15	0.001	1	0.017965	12
B15	74.84	8	14.16	5	0.009315	15	0.026329	2
B16	76.47	5	14.90	2	0.007	11	0.016793	16
B17	72.69	11	13.30	12	0.005	7	0.018578	11
B18	78.60	2	13.39	11	0.017	24	0.017402	15
B19	77.31	3	13.53	9	0.011	19	0.017416	14
B20	75.97	6	12.42	25	0.010	16	0.019644	10
B21	71.80	15	13.26	13	0.010415	18	0.014485	19
B22	75.59	7	13.74	7	0.009	14	0.023009	4
B23	77.25	4	12.70	21	0.008	12	0.011694	23
B24	67.40	22	13.21	14	0.006	9	0.014739	18
B25	70.17	17	12.51	23	0.005	8	0.021264	7
B26	62.09	27	12.80	17	0.004	6	0.008362	27
B27	67.04	23	12.50	24	0.003	5	0.01444	20

Efficiency Ratios

1. Profits per Employee: It is computed by the dividing the profit after tax earned by the bank by the total number of employees. A higher ratio indicates higher efficiency of management.
2. Business per Employee: It is computed by dividing total business by the total number of employees. Business includes the sum of total advances and deposits in a particular year.
3. Spread ratios: The percentage difference between the interest rate charged on a bank loan and the lender's cost of funds
4. Burden Ratios: Burden = Non-interest operating Expenditure - Non-interest operating income) / Average Total Assets. A bank with a low burden ratio is more better off. An increasing trend would show lack of burden bearing capacity.

Table -4 Ratios: PPE /BPE/Spread/Burden

Bank	PPE	Rank	BPE	Rank	Spread	Rank	Burden	Rank
B1	5.76	9	8.45	12	2.18	10	1.22	3
B2	7.32	7	9.38	8	2.43	4	6.04	14
B3	0.08	22	9.81	6	2.13	13	6.01	11
B4	4.39	16	10.11	4	2.09	16	5.88	12
B5	3.21	19	7.62	17	1.83	23	10.17	25
B6	7.35	6	9.82	5	2.14	12	3.30	5
B7	3.30	18	7.11	23	1.39	26	4.03	6
B8	9.52	1	12.69	3	1.98	20	1.01	2
B9	4.86	11	8.27	14	1.91	22	6.47	15
B10	8.44	2	24.17	1	0.97	27	-3.01	1
B11	7.92	3	7.61	18	3.26	1	7.08	19
B12	0.03	27	7.12	22	2.42	5	12.92	27
B13	7.39	5	13.31	2	2.12	14	4.74	9
B14	0.06	23	9.63	7	2.09	17	7.79	21
B15	7.31	8	8.08	15	2.87	2	5.57	13
B16	3.96	17	6.27	27	2.24	9	2.25	4
B17	5.58	10	7.56	19	2.10	15	7.74	20
B18	4.46	13	6.36	26	2.25	8	7.54	17
B19	4.83	12	7.64	16	2.28	7	4.93	10
B20	0.04	26	6.72	25	2.72	3	8.41	24
B21	4.45	14	8.95	10	2.02	19	3.79	8
B22	0.06	24	6.96	24	2.36	6	7.86	22
B23	3.18	20	7.47	20	1.97	21	8.62	23
B24	4.43	15	9.01	9	1.69	25	6.49	16
B25	7.47	4	8.53	11	2.15	11	4.01	7
B26	2.11	21	7.14	21	1.81	24	9.82	26
B27	0.05	25	8.36	13	2.06	18	7.54	18

Aggregate Ranks:

Table-5 Aggregate Ranks

NAME OF BANK	NIM	OPM	CII	OE/TE	CDR	CAR	NPA	ROA	PPE	BPE	Spread	Burden	Total
B15	2	2	5	4	8	5	15	2	10	15	2	13	83
B2	4	5	11	7	13	6	3	3	9	8	4	14	87
B11	1	1	3	8	16	20	2	1	4	18	1	19	94
B8	19	6	2	5	20	1	4	8	8	3	20	2	98
B1	10	9	4	2	21	8	21	9	2	12	10	3	111
B6	12	13	8	6	14	10	26	5	5	5	12	5	121
B25	11	8	7	11	17	23	8	7	1	11	11	7	122
B3	13	7	13	3	12	4	22	6	17	6	13	11	127
B16	9	17	19	9	5	2	11	16	12	27	9	4	140
B22	6	10	17	20	7	7	14	4	6	24	6	22	143
B17	17	4	1	15	11	12	7	11	22	19	15	20	154
B19	7	15	12	16	3	9	19	14	26	16	7	10	154
B20	3	3	14	19	6	25	16	10	14	25	3	24	162
B4	15	14	15	13	9	16	27	21	3	4	16	12	165
B14	16	12	16	26	24	15	1	12	7	7	17	21	174
B13	14	11	10	21	18	22	13	17	25	2	14	9	176
B18	8	25	24	1	2	11	24	15	16	26	8	17	177
B10	27	26	6	10	1	27	17	26	15	1	27	1	184
B21	20	16	9	24	15	13	18	19	19	10	19	8	190
B9	22	22	20	12	19	19	10	13	20	14	22	15	208
B27	18	19	21	17	23	24	5	20	13	13	18	18	209
B12	5	21	27	23	10	3	25	25	21	22	5	27	214
B24	25	18	18	27	22	14	9	18	18	9	25	16	219
B23	21	20	23	22	4	21	12	23	24	20	21	23	234
B26	24	23	25	25	27	17	6	27	11	21	24	26	256
B7	26	27	22	14	25	26	20	24	23	23	26	6	262
B5	23	24	26	18	26	18	23	22	27	17	23	25	272

Findings and Conclusions:

As per the analysis and decoding top 10 Public sector banks are as follows:

Table-6: Top 10 PSB

Bank Code	NAME OF BANK	Rank
B15	Punjab National Bank	I
B2	Andhra Bank	II
B11	Indian Bank	III
B8	Corporation Bank	IV
B1	Allahabad Bank	V
B6	Canara Bank	VI
B25	Union Bank of India	VII
B3	Bank of Baroda	VIII
B16	State Bank of Bikaner & Jaipur	IX
B22	State Bank of Travancore	X

It is evident from the analysis that PNB Punjab National bank has taken the lead and has been ranked no. 1 amongst the public sector banks followed by Andhra bank which is holding rank 2.The 3rd rank has been taken by Indian bank, Corporation Bank, Allahbad Bank and Canara bank has been ranked 4th 5th 6th respectively.

Inspite of good NIM , CDR & SR ratio, still SBI has lagged behind due to low OPM , high CII and high NPA ratio. Similarly SBOP ,IDBI, OBC and Punjab &Sindh bank have low ranks due to low NIM ,CAR and spread.

Banks with lower ranks will have to work hard upon their finances so as to increase their incomes and reduce the expenses or in other words reducing the burdens and increasing the spread ,then and then only they will be able to achieve good ranks in the coming years and will be able to compete with the private and foreign banks.

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