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Performance Analysis of Indian Overseas Bank

KEYWORDS: Cash flow statements, liquidity, stability, solvency

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ABSTRACT *Present day banking is highly complex and bankers perform various kinds of operations. Banking is considered to be one of the oldest industries in the world. Banks are the backbones of economy of all nations. The financial flow commences and ends in banks. The economic developments can be judged on the basis of performance of banks in the specific nations. The performance of banks can be understood from their financial statements and their operations. The banks are also considered to be socially responsible units and any change in the bank structure can influence the society to a greater extent. Hence a study of performance analysis of a scheduled, nationalized, commercial bank., i.e. Indian Overseas Banks acquires more importance. The data are collected from the annual reports of banks, various data bases and the reserve Bank of India publications.*

INTRODUCTION

Indian Overseas bank is one of the oldest banks in India. It is having its strong base in South India. The bank has undergone many structural changes in the past and is serving crores of people all over the world. There are some unique characteristics for this bank. In this research, the financial performance of the select bank is analyzed with the data collected for a period of 10 years. The data are current and are in accordance with the Banking rules and regulations. Hence the study is highly unique and is an updated one.

Analysis of a bank's financial statements requires a distinct approach that recognizes a bank's somewhat unique risks. Banks take deposits from savers, paying interest on some of these accounts. They pass these funds on to borrowers, receiving interest on the loans. Their profits are derived from the spread between the rate they pay for funds and the rate they receive from borrowers. This ability to pool deposits from many sources that can be lent to many different borrowers creates the flow of funds inherent in the banking system.

Banks assume two primary types of risk as they manage the flow of money through their business. Interest rate risk is the management of the spread between interest paid on deposits and received on loans over time. Credit risk is the likelihood that a borrower will default on its loan or lease, causing the bank to lose any potential interest earned as well as the principal that was loaned to the borrower.

The primary business of a bank is managing the spread between deposits (liabilities, loans and assets). Basically, when the interest that a bank earns from loans is greater than the interest it must pay on deposits, it generates a positive interest spread or net interest income. Net interest income will vary, due to differences in the timing of accrual changes and changing rate and yield curve relationships. Changes in the general level of market interest rates also may cause changes in the volume and mix of a bank's balance sheet products. For example, when economic activity continues to expand while interest rates are rising, commercial loan demand may increase while residential mortgage loan growth and prepayments slow.

In a developing country like India, banking is seen as an important instrument of development, while with the strenuous NPAs, banks have become helpless burden on the economy. Changing scenario of the world level, shows that the problem becomes more ironical because Indian banking, cannot afford to remain unresponsive to the global requirements. The banks are, however, aware of the grim situation and are trying their level best to reduce the NPAs ever since the regulatory authorities. Under these circumstances, a study on the performance of a bank in public sector acquires more importance.

Review of Literature:

Samwel Kakuku Lopoyetum (2005) in his article elaborated that the profitability performance of the UCBs can be improved by strengthening the magnitude of burden ratio. The spread ratio can be increased by increasing the interest receipts faster than the interest payments. The burden ratio can be lowered by decreasing the manpower expenses, other expenses and increasing other incomes.

Namita Rajput and Harish Handa (2011) in their article "Banking effiency :An application of DEA" have examined the efficiency of the banking sector in India and concluded that, as the economy grows and more and more opportunities come into the system, banks must focus on increasing their efficiency so that they can provide a firm support in the financial market for the industries to develop.

OBJECTIVES

The following are the objectives of the present study:

- To examine the performance of the select bank on the basis of financial statements;
- To analyze the importance of various ratios and their implication on judging the performance of the study bank;
- To suggest measures to minimize the risks in banking industry and to enhance the performance of bank in the present environment.

Scope:

Banks are exposed to credit risk, liquidity risk, interest risk, market risk, operational risk and ownership risk.

Based on the income, expenditure, net interest income, NPAs and capital adequacy one can, comment on the profit-

Volume : 3 | Issue : 10 | Oct 2013 | ISSN - 2249-555X

ability and the long run sustenance of the bank.

Limitations:
The requirement of data is restricted to the published records of the bank and the publications of Reserve Bank of India.

Problem Statement:
Analysis of a bank's financial statements requires a distinct approach that recognizes a bank's somewhat unique risks. Bank's take deposits from savers, paying interest on some of these accounts. They pass these funds on to borrowers, receiving interest on the loans.

Research Design:
The present study is an analytical case study and is pertaining to Indian Overseas Bank.**tData Collection:**

Data relating to banking and performance analysis are collected from standard books, research publications, and from various websites. The annual reports and publications of various banks are utilized for the purpose of collection of secondary data. The Reserve Bank of India data are compared and analyzed for the purpose of understanding the position of the banking system in the nation.

Tools Used:
- Ratios
- Cash flow Statement.

Data analysis and interpretation:
Table I : CAPITAL AND RESERVES

in crores

YEAR	Equity Share Capital	INDEX	Reserves	INDEX	RATIO
2002	444.80	100.00	687.83	100.00	1.55
2003	444.80	100.00	1,014.79	147.54	2.28
2004	544.80	122.48	1,385.57	201.44	2.54
2005	544.80	122.48	1,888.57	274.57	3.47
2006	544.80	122.48	2,510.17	364.94	4.61
2007	544.80	122.48	3,327.59	483.78	6.11
2008	544.80	122.48	4,197.90	610.31	7.71
2009	544.80	122.48	5,396.59	784.58	9.91
2010	544.80	122.48	5,804.18	843.84	10.65
2011	618.75	139.11	7,546.19	1097.10	12.20
TOTAL	5321.95	1196.48	33759.38	4908.10	61.01

It gives an idea of the relationship between equity share capital and Reserves. From the above table, in compared with last 10 years, shows high ratio. It denotes less danger and less risk to the creditors.

Table II : CAPITAL AND NET WORTH

in crores

YEAR	Equity Share Capital	INDEX	Net Worth	INDEX	RATIO
2002	444.80	100.00	1,132.63	100.00	2.55
2003	444.80	100.00	1,459.59	128.87	3.28
2004	544.80	122.48	2,081.09	183.74	3.82
2005	544.80	122.48	2,575.19	227.36	4.73
2006	544.80	122.48	3,177.44	280.54	5.83
2007	544.80	122.48	3,990.36	352.31	7.32
2008	544.80	122.48	4,856.67	428.80	8.91
2009	544.80	122.48	7,150.96	631.36	13.13
2010	544.80	122.48	7,524.58	664.35	13.81
2011	618.75	139.11	9,324.93	823.30	15.07
TOTAL	5321.95	1196.48	43273.44	3820.62	78.45

It gives an idea of the relationship between equity share capital and net worth (ie., Share capital & reserves and surplus). It shows higher ratio in compared with last 10years (From 2002 to 2011).

Table III : CAPITAL AND EMPLOYEE COST

in crores

YEAR	Total Income	INDEX	Employee Cost	INDEX	RATIO
2002	3,701.95	100.00	659.65	100.00	0.18
2003	4,029.36	108.84	719.58	109.09	0.18
2004	4,574.06	123.56	753.36	114.21	0.16
2005	4,750.61	128.33	843.46	127.86	0.18
2006	5,134.49	138.70	893.57	135.46	0.17
2007	6,694.83	180.85	931.07	141.15	0.14
2008	9,043.71	244.30	949.68	143.97	0.11
2009	11,354.47	306.72	1,271.84	192.81	0.11
2010	11,442.36	309.09	1,734.75	262.98	0.15
2011	13,379.49	361.42	1,741.14	263.95	0.13
TOTAL	74105.33	2001.79	10498.10	1591.47	1.51

The ratio shows the percentage of total income absorbed by employee cost. Total income registered continuous increased in all the years and the employee cost have also increased from 2002 to 2009.

Regarding employee cost in compared with 2010 and 2011, In the year 2010 shows higher one. The overall income for last 10 year is good.

Table IV : CAPITAL AND SELLING AND ADMINISTRATION EXPENSES

in crores

YEAR	Total Income	INDEX	Selling and Admin Expenses	INDEX	RATIO
2002	3,701.95	100.00	101.38	100.00	0.03
2003	4,029.36	108.84	361.54	356.62	0.09
2004	4,574.06	123.56	622.45	613.98	0.14
2005	4,750.61	128.33	452.13	445.98	0.10
2006	5,134.49	138.70	390.63	385.31	0.08
2007	6,694.83	180.85	465.8	459.46	0.07
2008	9,043.71	244.30	419.34	413.63	0.05
2009	11,354.47	306.72	737.99	727.94	0.06
2010	11,442.36	309.09	1,320.98	1303.00	0.12
2011	13,379.49	361.42	1,473.33	1453.27	0.11
Total	74105.33	2001.79	6345.57	6259.19	0.83

The ratio shows the percentage of total income absorbed by selling in the administrative expenses. In the year 2004, the selling and administrative expenses shows higher one. But, in the year 2011 the selling and administrative expenses shows lower one. A lower ratio is more favorable one.

Table V : CAPITAL AND OPERATING EXPENSES

in crores

YEAR	Total Income	INDEX	Operating Expenses	INDEX	RATIO
2002	3,701.95	100.00	884.5	100.00	0.24
2003	4,029.36	108.84	1,201.57	135.85	0.30
2004	4,574.06	123.56	1,532.02	173.21	0.33
2005	4,750.61	128.33	1,453.46	164.33	0.31
2006	5,134.49	138.70	1,455.40	164.54	0.28
2007	6,694.83	180.85	1,604.61	181.41	0.24
2008	9,043.71	244.30	1,610.73	182.11	0.18
2009	11,354.47	306.72	2,307.20	260.85	0.20
2010	11,442.36	309.09	3,385.96	382.81	0.30
2011	13,379.49	361.42	3,606.12	407.70	0.27
Total	74105.33	2001.79	19041.57	2152.81	2.65

The ratio shows the percentage of total income absorbed by operating expenses. In the year 2004, the operating expenses shows higher one. But in the year 2011, the operating expenses shows lower one.

Volume : 3 | Issue : 10 | Oct 2013 | ISSN - 2249-555X

Table VI : CASH FLOW STATEMENT

Year	Net Profit Before Tax	Net Cash From Operating Activities	Net Cash (used in)/ from	Net Cash (used in)/ from Financing Activities	Net (decrease)/ increase In Cash and Cash Equivalents	Opening Cash & Cash Equivalents	Closing Cash & Cash Equivalents
2002	3706.71	-527.66	-51.35	117.4	-461.62	4086.24	3624.62
2003	0	-77.43	-36.48	83.44	-30.48	3624.62	3594.15
2004	0	1643.13	-150.93	158.74	1650.95	3594.15	5245.09
2005	0	-399.79	-84.08	192.74	-291.14	5245.09	4953.96
2006	0	-1954.88	-60.74	768.91	-1246.71	4953.96	3707.24
2007	0	4516.35	-114.04	869.75	5272.06	3707.24	8979.3
2008	0	2086.17	-125.45	-598.71	1362.02	8979.3	10341.32
2009	0	243.11	-90.07	427.54	580.58	10341.32	10921.9
2010	706.96	-1210.19	-132.05	244.98	-1097.26	10921.9	9824.64
2011	1072.54	-27.08	-99.1	2320.2	2194.02	9824.64	12018.66

The above statement shows changes in cash flows from operating activities, investment activities, and financing activities. IOB generated 4516.35 crore cash flow its operating activities in the year 2007. In the year 2008, IOB generated 2086.17 crore cash flow from its operating activities.

IOB generated 243.11 crore cash flow from its operating activities in the year 2009. IOB net cash flow from its operating investment and financing activities was a negative figure of Rs 461.62 crore. Hence the company cash balance was by this amount.

CONCLUSION

Indian Overseas Bank is one of the oldest nationalized commercial banks in India. It has done many yeomen services to millions of people in the nation in the form of priority sector lending and agricultural loans. Generally, the banking industry is an indicator for many developmental activities in the nation. The industry is more accountable to public and computations of made on the basis of business per employee or profit per employee. Interest rates are highly fluctuating and growth parameters are staggering. Under these circumstances, the banks have to play a cautious role in accepting deposits and in lending operations. The scope for banking industry is very bright and the banks can succeed only if they perform well in this competitive environment. To conclude, the present study bank, i.e., Indian Overseas Bank has higher potential to provide better and quality services to the billions of people in India.

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