



## Financial Performance of Scheduled Commercial Banks in India-A Study

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### Keywords :

One of the major segments of the economy that has received renewed focus in recent times has been the financial sector. Within the broad ambit of the financial sector, the banking sector has been the cynosure of academic and policy makers alike. Among the various reasons attributable to be resurgence of interest in banking, the world-wide trend towards deregulation of financial sector, ascendancy of free market philosophy and the growing number, breadth and severity of bouts of financial distress that have plagued several economies since the eighties have been the dominant ones. Such liberalization has raised a gamut of questions relating to the linkage between deregulation and the various categories of risks confronting the banking sector. With concerns about financial stability emerging and presenting of policy challenges to central banks world-wide, it is being increasingly realized that promoting healthy financial institutions, especially banks, is a crucial prerequisite towards this end. In consonance with this trend, the traditional face of banking has also been undergoing a change from one of mere intermediary to one of provider of quick, cost effective, efficient and consumer centric services.<sup>1</sup>

One of the key constituents of the financial sector in India is the banking system, which has been playing a significant role in the national economic development by providing intermediation services, enabling capital formation process and enhancing resources for achieving national objectives and priorities. Since the early 1990s, the structure of the banking sector has significantly changed due to deregulation and liberalization, accompanied by divestment of public banks and entry of new private and foreign banks. These developments are expected to have important implications for operating performance and profitability in the Indian public sector banks and private sector of reform measures based on the recommendation of the Narasimhan committee to make the banking sector economically viable and competitively strong.<sup>2</sup>

Banks are the institutions that not only possess the potential to be a great catalyst of growth but also have the capability of causing catastrophe to an economy. When they efficiently mobilize and allocate funds, this lowers the cost of capital to firms, boosts capital formation, and stimulates productivity growth. Their role in the intermediation process is very significant because of overwhelming control over the entire financial assets of the economy and more because of the under development of capital market in most of the developing economies like India and many others. They are the primary financial intermediaries that arise during savings-investment process and come in between the ultimate borrowers and lenders. They accept deposits on promise to pay a rate of interest, which is then converted to different categories of assets out of which loan is the most prominent one.<sup>3</sup>

### COMMERCIAL BANKS IN INDIA

On the organized sector of the money market, commercial

banks and cooperative banks have been in existence for the past several decades. A commercial bank is run on commercial line, that is, to earn profits unlike a cooperative bank which is run for the benefit of a group of members of the cooperative body. The commercial banks are spread across the length and breadth of the country, and cater to the short-term needs. These days the commercial banks also look after other needs of their customers including long-term credit requirements.

The banking sector has been undergoing drastic metamorphosis. The term progress witnessed in the realm of banking services has been engineered by the trends in globalization and privatization. Commercial banks operating in India may be categorized into public sector, private sector, and Indian or foreign banks depending upon the ownership, management and control. They may also be defined as scheduled or non-scheduled, licensed or unlicensed.

#### A. Scheduled Banks

- i) Public sector banks
- ii) Private sector banks
- iii) Foreign Banks
- iv) Regional Rural Banks

#### B. Non-scheduled Banks

- i) Cooperative Banks
  - Primary Credit Societies at the base,
  - Central Co-operative Banks at the district level in the middle, and
  - Provincial or State Co-operative Banks (also called as apex banks) at the top.

#### FUNCTIONS OF COMMERCIAL BANKS

Commercial banks play a very important role in our economy. In fact, it is difficult to imagine how our economic system could function efficiently without many of their services. They are the heart of our financial structure. In addition to mobilizing deposits by inculcating banking habit and spreading the message of thrift, by lending and investing these resources productively, the banks make possible a more complete utilization of the resources of the nation. Thus, through their lending and investing banks facilitate the economic process of production, distribution and consumption. By mopping up savings, they maintain a balance between present and future consumption and thus act as a lever controlling the prices. Commercial banking has been referred to as "department store of finance", a term that has been coined by commercial banks since it implies that they provide a wide variety of financial services and, consequently, places them in a stronger competitive position.<sup>5</sup>

According to section 6 of the Banking Regulation Act, 1949, the primary functions of a bank are: The borrowing, raising or taking up of money; the lending or advancing of money either upon or without security; and drawing, making, accepting,

discounting, buying, selling, collecting and dealing in bills of exchange, hundies, promissory notes, coupons, drafts, bills of exchange, railway receipts, warrants, debentures, certificates, scripts and other instruments, and securities whether transferable or negotiable or not.

### FINANCIAL PERFORMANCE OF SCHEDULED COMMERCIAL BANKS

Performance evaluation is an important pre-requisite for sus-

tained growth and development of any institution. As in the case of any institution, the evaluation of the performance of banks has to be undertaken in relation to their goals and objectives. In the fore going pages an attempt has been made to analyze the financial performance of scheduled commercial banks on the following parameters: Deposits, Total Income, Total Expenditure, Operating Profit, and Net Profit. The year/sector wise deposits of scheduled commercial banks are shown in table 1.

**Table 1**  
**Year/Sector-wise Deposits of Scheduled Commercial Banks**  
**Rs. In Crore**

Years	Public Sector Banks	Private Sector Banks	Foreign Banks	Total
2001-02	968749(80.55)	169440(14.09)	64511(5.36)	1202700(100)
2002-03	1079167(79.60)	207174(15.28)	69313(5.11)	1355654(100)
2003-04	1229463(77.89)	268782(17.03)	80206(5.08)	1578451(100)
2004-05	1436541(78.18)	314630(17.12)	86389(4.70)	1837560(100)
2005-06	1622481(74.95)	428456(19.79)	112750(5.21)	2164687(100)
2006-07	1994200(73.94)	551987(20.47)	150750(5.59)	2696937(100)
2007-08	2453868(73.40)	675033(20.19)	214077(6.40)	3342978(100)
2008-09	3112748(77.04)	726379(17.98)	191161(4.73)	4040288(100)
2009-10	3691802(77.68)	822801(17.31)	237853(5.00)	4752456(100)
2010-11	4372985(77.86)	1002759(17.85)	240689(4.29)	5616432(100)

Source: RBI, Report on Trend and Progress of Banking in India various Issues.

Table 1 shows year/sector wise deposit mobilization of Scheduled Commercial Banks (SCBs) in absolute terms and its percentage to total over a ten year period from 2001-02 to 2010-11. The deposits of SCBs increased from Rs. 12,02,700 crore in 2001-02 to Rs. 56,16,432 crore in 2010-11. The increases in deposits of public sector banks, private sector banks and foreign banks were impressive during the years 2001-2011. The deposits of public sector banks in 2001-02 totalled Rs. 9,68,749 crore and they increased to Rs. 43,72,985 crore in 2010-11. The deposits of private sector banks in 2001-02 to-

totalled Rs. 1,69,440 crore and in 2010-11 Rs. 10,02,759 crore, The deposit mobilization of foreign banks in 2001-02 was Rs. 64,511 crore and in 2010-11 Rs.2,40,689 crore , Deposit mobilization of all banks showing an increasing trend.

The percentage of deposits of public sector banks when compare to the deposits of total banks declined from 80.55 percent to 77.86 percent during the 2001-02 to 2010-11 period. The total deposits percentage of private sector banks has increased from 14.09 percent to 17.85 percent during the 2001-02 to 2010-11 period. The total deposits percentage of foreign banks declined from 5.36 percent to 4.29 percent during the 2001-02 to 2010-11 period. Year/Sector-wise Income and Expenditure of Commercial Banks are shown in table 2.

**Table 2**  
**Year/Sector-wise Income and Expenditure of Commercial Banks**  
**Rs. In Crore**

Years	Income			Total	Expenditure			Total
	Public Sector Banks	Private Sector Banks	Foreign Banks		Public Sector Banks	Private Sector Banks	Foreign Banks	
2001-02	122814(78.43)	20817(13.29)	12960(8.28)	156590(100)	100363(79.65)	16189(12.85)	9447(7.50)	125999(100)
2002-03	134286(75.47)	31611(17.76)	12044(6.77)	177941(100)	103857(76.01)	24462(17.90)	8316(6.09)	136635(100)
2003-04	143818(75.00)	33153(17.45)	13012(6.89)	189984(100)	103300(75.81)	24945(18.31)	8025(5.89)	136270(100)
2004-05	150706(76.74)	32633(16.62)	13036(6.64)	196375(100)	116169(71.89)	29075(17.99)	11032(6.83)	161601(100)
2005-06	159780(72.38)	43314(19.62)	17663(8.00)	220754(100)	111475(76.94)	24948(17.22)	8459(5.84)	144882(100)
2006-07	188979(68.67)	62267(22.63)	24955(9.07)	275198(100)	116211(64.64)	48215(26.82)	15357(8.54)	179783(100)
2007-08	245939(66.67)	87998(22.86)	34948(9.47)	368884(100)	195499(68.54)	68765(24.11)	20960(7.35)	285224(100)
2008-09	315608(68.04)	103014(22.21)	45213(9.75)	463835(100)	248637(70.54)	78838(22.37)	25117(7.13)	352492(100)
2009-10	354876(71.77)	103229(20.88)	36341(7.39)	494446(100)	278015(74.71)	74057(19.90)	19.90(5.39)	372112(100)
2010-11	414183(72.51)	117553(20.58)	39494(6.91)	571230(100)	100363(79.65)	16189(12.85)	12.85(5.49)	422019(100)

Source: RBI, Report on Trend and Progress of Banking in India various Issues

Table 2 illustrates the year/year wise total income and expenditure and its percentage to total of SCBs in absolute terms over a ten year period from 2001-11. The total income of SCBs has been increasing from year to year. In the sense that, total income of SCBs in 2001-02 was Rs. 1,56,590 crore and it has increased to Rs. 5,71,230 crores in 2010-11 period. The individual group of banks also increased year to year, it means that the total income of public sector banks has increased from Rs. 1,22,814 crore in 2001-02 to Rs. 4,14,183 crore in 2010-11. The total income of private sector banks has been increased from Rs. 20,817 crore in 2001-02 to Rs. 1,17,553 crore in 2010-11 period and that of the foreign banks also increased from Rs. 12,960 crore to Rs. 39,494 crore during 2001-02 to 2010-11 years respectively.

The total income percent to total of public sector banks recorded a significant decreasing trend from 78.43 percent to 72.51 percent during 2001-02 to 2010-11 period. Private sector banks total income percent to total has been increasing year to year, that is the percentage increased from 13.29 percent to 20.58 percent during 2001-02 to 2010-11 period. But the total income percent to total of foreign banks was fluctuating during 2001-02 to 2010-11 period.

**Table 3**  
**Year/Sector-wise Operating Profit and Net Profit of Commercial Banks**  
Rs. In Crore

Year	Operating profit			Total	Net Profit			Total
	Public Sector Banks	Public Sector Banks	Private Sector Banks		Public Sector Banks	Public Sector Banks	Private Sector Banks	
2001-02	21673(72.69)	4628(15.52)	3513(11.78)	29814(100)	8914(73.16)	1779(14.60)	1492(12.24)	12185(100)
2002-03	29717(73.05)	7236(17.79)	3728(9.16)	40681(100)	12877(73.14)	2913(16.54)	1817(10.32)	17607(100)
2003-04	39290(74.69)	8325(15.83)	4986(9.48)	52601(100)	17302(75.14)	3481(15.12)	2243(9.74)	23026(100)
2004-05	39413(76.26)	7673(14.85)	4597(8.89)	51683(100)	16162(74.56)	3533(16.30)	1982(9.14)	21677(100)
2005-06	37967(69.80)	9768(17.96)	6658(12.24)	54393(100)	16538(62.27)	4975(20.24)	3071(12.49)	24584(100)
2006-07	42268(64.12)	14048(21.31)	9600(14.56)	65916(100)	20152(64.58)	6469(20.73)	4583(14.69)	31204(100)
2007-08	50307(60.18)	19236(23.01)	14047(16.80)	83590(100)	26591(62.24)	9518(22.28)	6612(15.48)	42721(100)
2008-09	66972(60.15)	24279(21.80)	20098(18.05)	111349(100)	34392(65.18)	10865(20.59)	7508(14.22)	52765(100)
2009-10	76861(62.82)	29173(23.84)	16314(13.33)	122348(100)	39257(68.74)	13111(22.96)	4741(13.15)	57109(100)
2010-11	100665(67.20)	32831(21.92)	16301(10.88)	149797(100)	44901(63.84)	17712(25.18)	7719(10.96)	70332(100)

Source: RBI, Report on Trend and Progress of Banking in India various Issues

Table 3 depicts the year/year wise operating profit and net profit of SCBs over a ten year period from 2001-02 to 2010-11. The operating profit of total SCBs increased from Rs. 29,814 crore to Rs. 1,49,797 crore during 2001-02 to 2010-11 period. The operating profit of public sector banks was an impressive Rs. 21,673 crore in 2001-02 and it has increased to Rs. 1,00,665 crore in 2010-11 period. The operating profit of private sector banks has increased from Rs. 4,628 crore to Rs. 32,831 crore in the years 2001-02 to 2010-11 and foreign banks operating profit also increased from Rs.3,513 crore to Rs. 16,301 crore during the same period.

The operating profit percentage of public sector banks to total has decreased from 72.69 percent to 67.20 percent during 2001-02 to 2010-11. The operating profit percent to total percent of private sector banks has increased from 15.52 percent to 21.92 percent during 2001-02 to 2010-11 and the operating profit percent to total of foreign banks has fluctuating during 2001-02 to 2010-11 period.

The year/sector wise net profits and their percentage to total of SCBs during 2001-02 to 2010-2011 is an increasing trend, noticed particularly in the case of public sector banks and private sector banks during the above said period. The net profit of SCBs increased from Rs. 12,185 crore to 70,332 crore during 2001-02 to 2010-11 respectively. The public sector banks net profit shows an increasing trend from Rs. 8,914 crore to Rs. 44,901 crore during 2001-02 to 2010-11 period. The private sector banks net profit has increased from Rs. 1,779 to Rs. 17,712 crore during 2001-02 to 2010-11 and the

Total expenditure and percentage of total expenditure to total of commercial from 2001-02 to 2010-11 of SCBs recorded slow growth from Rs.1,25,999 crore in 2001-02 to Rs. 4,22,019 crore in 2010-11. The public sector banks total expenditure has increased from Rs. 1,00,363 crore in 2001-02 to Rs. 3,14,118 crore in 2010-11. The total expenditure of private sector banks has been increased from Rs.16,189 crore in 2001-02 to Rs. 84,721 crore in 2010-11 and the total expenditure of foreign banks also increased from Rs.9,447 crore in 2001-02 to Rs. 23,180 crore in 2010-2011. All banks recorded a slow increase in expenditure during the years 2001-11.

The total expenditure percentage of public sector banks to total has significantly decreased from 79.65 percent to 74.43 percent during the years 2001-02 to 2010-11. The total expenditure percentage of Private sector banks to total increased from 12.85 percent in 2001-02 to 20.08 percent in 2010-11 and the total expenditure percentage of foreign banks to total fluctuated during the same period. The year/sector wise operating profits and net profits of scheduled commercial banks is shown in table 3.

foreign banks net profit also increased from Rs. 1,492 crore to Rs. 7,719 crore during 2001-02 to 2010-11 but there were fluctuations.

The net profit percentage to total of public sector banks has decreased from 73.16 percent to 63.84 percent during 2001-02 to 2010-11. The net profit percentage to total of private sector banks significantly increased from 14.60 percent to 25.18 percent during 2001-02 to 2010-11 and the net profit percentage to total of foreign banks was fluctuating during 2001-02 to 2010-11 period.

#### CONCLUSION

In this study, we have evaluated the performance of Scheduled Commercial Banks India. The study reveals the overall performance of public sector, private sector and foreign sector banks in India. The Deposits, Total Incomes, Total Expenditures, Operating Profits, and Net Profits of these banks were relatively good performance and increasing year to year, these are identified by using the various parameters noted in the present study. The percentage to total of public sectors banks share is decreasing year to year and foreign sector banks share is fluctuating. So they should improve their operations. Indian banking system has under gone a drastic change since liberalization. The new generation private sector banks have best used the technology and utilized the manpower in an effective manner and they are professionally managed. These have made them to attract more customers and made them grow faster and stronger. To conclude, let us hope, in the coming years through dedication and hard work, all sector banks in India would improve their performance and march towards the achievement of their corporate mission and goals in a better way.

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