



Efficiency And Performance: A study of private banks

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ABSTRACT

This study aims to investigate the impact of bank-specific factors which include various parameters for the evaluation of their performance, which is measured by profitability and efficiency e.g return on assets (ROA) and return on equity (ROE) Net Interest margin (NIM), Profit per employee (PPE), Business per employee (BPE) etc. The results imply that financial ratios employed in this study have different effects on the performance of banks. Three private sector banks were selected for analysis (AXIS,HDFC,INDUSIND). Period of study is taken from 2011-2015.Results shows that Private sector banks almost have similar performance overall

KEYWORDS

Bank performance, financial ratios, profitability ,efficiency

I.Introduction:

Those banks where private institutions/individuals hold more than 50% of the shares are known as private sector banks. Private-sector banks have been functioning in India since the very beginning of the banking system. Initially, during 1921, the private banks like bank of Bengal, bank of Bombay and bank of Madras were in service, which all together formed Imperial Bank of India. The banks, which came in operation after 1991, with the introduction of economic reforms and financial sector reforms are called "new private-sector banks. The present private-sector banks equipped with all kinds of contemporary innovations, monetary tools and techniques to handle the complexities are a result of the evolutionary process over two centuries These are the major players in the banking sector as well as in expansion of the business activities India. They have a highly developed organisational structure and are professionally managed. Thus they have grown faster and stronger since past few years.

II. Review Of Literature

Review of literature is essential for every research to carry on investigation successfully. Hence the present study is also based on the following review.

Bhatt & Ghosh (1992), observed that the profitability of commercial banks depend on several factors some of them are endogenous and some exogenous. The endogenous factors represent control of expenditure, expansion of banking business, timely recovery of loans and productivity. The exogenous factors consist of direct investments such as SLR (Statutory Liquidity Ratio), CRR (Cash Reserve Ratio) and directed credit programs such as region wise, population wise guidelines on lending to priority sectors. The regulated and restricted regime in the operation of banking system in terms of investment, credit allocation, branch expansion, interest rate determination and internal management eroded the productivity and profitability of commercial banks

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 see 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 then other banks in India

Varadi, et al (2006) measured the efficiency of Indian banks

and determined the performance of banks were of vital importance to stabilize a nation's economy and identified indicators for efficiency - i.e., Profitability, Productivity, Asset Management and Financial management and concluded that nationalized bank have shown high performance

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 4sector 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.

Devanadhen K (2013) concluded that Private sector banks HDFC bank, Axis bank and ICICI bank had particular tough competition, with respect to the public sector banks Andhra bank secured 1st place followed by corporation bank in standings of Asset Quality, Management Efficiency and Earning Capacity.

Brindadevi .V (2013) studies the overall profitability analysis of different private sectors banks in India based on the performances of profitability ratios like interest spread, net profit margin, return on long term fund, return on net worth & return on asset. Profitability is a measure of efficiency and control it indicates the efficiency or effectiveness with which the operations of the business are carried on. Recording profitability for the past period or projecting profitability for the coming period, measuring profitability is the most important measure

of the success of the business.

III. Objectives Of The Study

a) To highlight the various profitability analysis of some selected private sectors banks (i.e.,) AXIS, HDFC, INDUSIND BANK. Banks were selected on the basis of their year of formation 1994.

b) To analyze the overall profitability and efficiency of banks (i.e.,) Net interest margin, Business per employee ,Profit per employee, Return on equity, & Return on asset.

IV. Scope Of Study

The study is about the profitability and efficiency of private sectors banks in India. It is mainly dealt with the financial ratios show a banks overall efficiency and performance. A variety of Profitability and efficiency Ratios can be used to assess the financial performance of a bank.

V. Period Of Study The study covers a period of 5 years from 2011- 2015.

VI. Methodology

6.1 Data Collection The study is based on secondary data. Information required for the study has been collected from the annual report of AXIS, HDFC, INDUSIND BANK.

6.2 Statistical Tools In this study various statistical tools are used (i.e.,) Mean, Standard deviation, Coefficient of variation have been used for data analysis.

VII. Limitation Of The Study

a) The study is related to a period of 5 years.

b)The study is restricted to 3 banks only.

b) As the data are only secondary, i.e., they are collected from the published annual reports.

VII. Data Analysis And Interpretation

Introduction of AXIS bank

Axis Bank Limited is the third largest private sector bank in India. Axis Bank's stake holders include prominent national and international entities. As of 31 Dec. 2013, approximately 43% of the shares are owned by Foreign Institutional Investors. Promoters (UTI, LIC and GIC), who collectively held approx. 34% of the shares, are all entities owned and controlled by the Government of India. The remaining 23% shares are owned by corporate bodies, financial institutions and individual investors among others. The bank offers financial services to customer segments covering Large and Mid-Sized Corporates, MSME, Agriculture and Retail Businesses.[1] Axis Bank has its registered office at Ahmedabad. As of 22 April 2016, the bank had a network of 3062 branches and extension counters and 12922 ATMs. Axis Bank has the largest ATM network among private banks in India.

TABLE-1 RATIOS OF AXIS BANK

| YEARS | ROA | ROE | NIM | BPE | PPE |
|---------|-------|-------|-------|--------|-------|
| 2011 | 1.68 | 19.34 | 3.10 | 136.60 | 1.40 |
| 2012 | 1.68 | 20.29 | 3.04 | 127.60 | 1.40 |
| 2013 | 1.70 | 18.53 | 3.09 | 121.50 | 1.50 |
| 2014 | 1.78 | 17.43 | 3.30 | 123.00 | 1.50 |
| 2015 | 1.83 | 17.75 | 3.37 | 137.10 | 1.70 |
| AVG | 1.73 | 18.66 | 3.18 | 129.16 | 1.5 |
| STD DEV | 0.063 | 1.046 | 0.130 | 6.594 | 0.109 |

Introduction of HDFC bank

HDFC Bank Limited is an Indian banking and financial services company headquartered in Mumbai, Maharashtra. It has about 76,286 employees including 12,680 women and has a presence in Bahrain, Hong Kong and Dubai HDFC Bank is the second largest private bank in India as measured by assets. It is the largest bank in India by market capitalization as of February 2016.It was ranked 58th among India's most trusted brands according to Brand Trust Report, 2015.Total balance

sheet size as of December 31, 2015 was Rs. 687,892 crores as against Rs. 534,855 crores as of December 31, 2014.

TABLE-2 RATIOS OF HDFC BANK

| YEARS | ROA | ROE | NIM | BPE | PPE |
|---------|------|-------|------|--------|-------|
| 2011 | 1.58 | 16.74 | 6.78 | 59.00 | 0.74 |
| 2012 | 1.90 | 18.69 | 7.22 | 65.30 | 0.80 |
| 2013 | 2.00 | 20.34 | 7.48 | 75.00 | 1.00 |
| 2014 | 2.02 | 21.28 | 7.77 | 89.00 | 1.20 |
| 2015 | 2.02 | 19.37 | 7.45 | 101.00 | 1.00 |
| AVG | 1.80 | 18.80 | 7.34 | 77.86 | 0.94 |
| STD DEV | 0.20 | 1.96 | 0.33 | 15.37 | 0.163 |

Introduction of INDUSIND bank

Indusind Bank Limited is a Mumbai based Indian new generation bank ,established in 1994. The bank offers commercial, transactional and electronic banking products and services. Indusind Bank was inaugurated in April 1994 by then Union Finance Minister Manmohan Singh. Indusind Bank is the first among the new-generation private banks in India. The bank started its operations with a capital amount of Rs. 1 billion among which Rs. 600 million was donated by the Indian Residents and Rs. 400 million was raised by the Non-Resident Indians. The bank has specialized in retail banking services and continuously upgrades its support systems by introducing newer technologies. It is also working on expanding its network of branches all across the country along with meeting the global benchmark.

TABLE-3 RATIOS OF INDUSIND BANK

| YEARS | ROA | ROE | NIM | BPE | PPE |
|---------|-------|-------|------|-------|------|
| 2011 | 1.46 | 17.91 | 3.40 | 84.40 | 0.82 |
| 2012 | 1.57 | 18.26 | 3.30 | 78.84 | 0.86 |
| 2013 | 1.63 | 17.15 | 3.41 | 84.05 | 0.92 |
| 2014 | 1.81 | 16.89 | 3.61 | 71.71 | 0.90 |
| 2015 | 1.90 | 18.22 | 3.49 | 71.92 | 0.94 |
| AVG | 1.674 | 17.68 | 3.44 | 78.18 | 0.88 |
| STD DEV | 0.160 | 0.563 | 0.10 | 5.56 | 0.04 |

IX. Findings

1.Return on Assets is a financial ratio that shows the percentage of profit that a company earns in relation to its overall resources (total assets). Measures the company's ability to utilize its assets to create profit.ROA is highest in HDFC bank followed by AXIS BANK showing not so difference of INDUSIND BANK.

2.Return on equity

Measures the income earned on the shareholder's investment in the business. This ratio is highest in HDFC bank 18.80 as compare to other two bank AXIS bank and show INDUSIND BANK comparatively low ratio.

3. Net interest margin

It is the ratio of net interest income to total assets.This ratio is comparatively higher in HDFC bank 7.34 with low in other two banks.

4. Business per employee-It is the total business done by each employee each year. This ratio is maximum in AXIS bank 129.96 followed by other two banks they does not have much difference in this ratio.

5. Profit per employee-It is the total profit earned by per employee over the year. This ratio is highest in AXIS bank 1.5 and HDFC bank and INDUSIND BANK having ratios 0.94 and 0.88 respectively.

X. Conclusion

Private bank in India are performing very well and more and more private banks are coming up with high quality standards since globalization. Profitability of private sector banks in India

plays major role in banking sector without profit the investors cannot invest in this business A strong financial system promotes investment by financing productive business opportunities, mobilizing savings, efficiently allocating resources and makes easy the trade of goods and services. Ratio Analysis is helpful for any shareholder, investor, creditor, banker or any other party who is concerned with the financial performance of the company So profitability ratios are employed by the management in order to assess how efficiently they carry on their business operations and also it is suggested for the entire bank to take effective steps to improve the operating efficiency of the business.

So profitability ratios are employed by the management in order to assess how efficiently they carry on their business operations and also it is suggested for the entire bank to take effective steps to improve the operating efficiency of the business. Profitability acts as a yardstick to measure the effectiveness and efficiency of business effort for the growth and success of any business entities.

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