



Fundamental Analysis of Selected Public and Private Sector Banks in India

Milan B. Undavia

(Lecturer), M.COM; P.G.D.I.F.A,

ABSTRACT

Banking Sector plays an important role in economic development of a country. The banking system of India is featured by a large network of bank branches, serving many kinds of financial services of the people. Fundamental analysis studies the various financial, economic and industrial parameters that influence the risk-return of securities and helps in investment decision making. With the help of fundamental analysis, investors can track the past performance, recent changes and future prospects of the banking sector. This research paper analyses the fundamentals of selected banking companies using independent financial parameters.

KEYWORDS

EPS, ROE, NPA

INTRODUCTION

The Indian Banking system is unique and perhaps has no parallel in the banking history of any country in the world. It is interesting to study the evolution of Indian Banking over the last five decades, in terms of organization, functions, resource mobilization, Socio-economic role, problems and solutions. The period of five decades witnessed many macro-economic developments, monetary and banking policies and the external situation, which influenced the evolution of Indian banking in different ways and in different periods. Indian banks can be broadly classified into public sector banks (those banks in which the Government of India holds), private banks (government does not have a stake in these banks; they may be publicly listed and traded on stock exchanges) and foreign banks.

However, the Indian Banking industry is facing formidable challenges. Increasing competition, increasing level of Non-performing Assets (NPAs) and deteriorating asset quality have become major areas of concern for the entire banking industry, and by extension, the Indian economy.

This paper deals with public sector and private sector banks in India. Because of increasing competition in the banking sector, private sector and foreign banks are trying their best to improve their performance. So, there is a need to study the fundamentals and efficiency of public sector banks.

Fundamental analysis will examine the key financial ratios of banks and help in identifying the value of stocks of these banks to identify investment opportunities.

Review of Literature

Sathye (2003), using DEA to estimate efficiency, found that private banks are less efficient than public and foreign banks.

Das and Ghose (2006) used non-parametric DEA to estimate the efficiency of Indian commercial banks in the post-reform period, 1992-2002.

Mariappan (2005-2006) analyzed that the IT revolution has brought a stunning change in the business environment, with the maximum impact on the banking and finance sector; as a result, the banking sector sports a new look today.

R.K.UPPAL (2011) examined the efficiency of all the bank groups in the post-banking sector reforms era for the time period between 1999 and 2006. The main implication of this study is that although public sector banks have improved their financial position, they still need to make many changes. On the basis of some important parameters of efficiency, the paper concludes that among the Indian banks, efficiency of new

private sector banks is quite high, but foreign banks have an edge over new private sector banks.

Karan Walia (2012) has examined the impact of reforms on credit deposit ratio, credit to GDP ratio, investment in government securities, share of business of public sector banks and proportion of various types of advances. He also examined the differences in various aspects of working results of public sector and private sector banks in comparison to foreign banks.

Seema Malik (2014) has analyzed the effect of technology on transformation of banking in India and also studied the benefits and challenges of changing banking trends. Technology and financial innovations have led to tremendous improvement in banking services and operations over the past decade. Survival, growth and profitability of banks depend upon the organizational effectiveness and operational efficiency in today's competitive scenario where customers' needs are changing every day and technology is touching new highs.

Sana Samreen (2014) has analyzed the overall banking industry with the help of Porter's five forces model. The study also concentrated on the various developments, challenges and opportunities in the banking industry. The author emphasized upon the need to act both decisively and quickly to build an enabling, rather than a limiting, banking sector in India.

Malaya Ranjan Mohapatra, Avizeet Lenka, Subrat Kumar Pradhan (2015) have analyzed the operational efficiency of commercial banks in India and challenges faced by public sector banks. The parameters considered for study are labour productivity, branch expansion and profitability ratios. The study concluded that internal management and employee efficiency of foreign banks are far better than other sectors of commercial banks. Public sector banks are lagging behind in various financial parameters.

Objective of the study

Fundamental analysis of public and private sector banks in India has been done with the objective of analyzing the profitability position of the selected banks which is helpful in taking investment decisions.

Hypotheses of Study

H0: There is no significant difference between the selected variables of selected banks.

H1: There is a significant difference between the selected variables of selected banks.

RESEARCH METHODOLOGY

The present study attempts to evaluate the performance of selected public and private sector banks in India. Secondary data has been used for the purpose of this study. To analyze the fundamentals of the top six banks, three in the public sector and three in the private sector have been taken as samples. Punjab National Bank, Dena Bank, Vijaya Bank, DCB, South Indian Bank, Dhanlaxmi Bank have been taken as samples for the purpose of this study. The variables which are considered for analyzing the profitability are net profit margin, operating profit margin, return on equity, earnings per share. The variables are studied over a period of five years starting from 2011-12 to 2015-16. While interpreting the results, the statistical tool of one way Analysis of Variance (ANOVA) has been used.

FINANCIAL ANALYSIS

This section of study embodies the calculation and analysis of selected variables taken into reflection for the study purpose. The ratios are being calculated by the aid of raw data available on the concerned website. The raw data encompasses yearly results and balance sheet of the sample companies. After calculation of ratios, analysis individual ratio is being done.

The statistical tool used for analysis in one way analysis of variance (ANOVA). The ratios being calculated for the purpose of analysis of financial performance are:

- Net Profit Margin (NPM)
- Operating Profit Margin (OPM)
- Earning Per Share (EPS)
- Return on Equity (ROE)
- RESULTS AND DISCUSSIONS
- NET PROFIT MARGIN (NPM)

Meaning: This ratio measures the relationship between net profit and net sales.

Objective: The main objective of computing this ratio is to determine the overall profitability due to various factors such as operational efficiency, trading on equity, etc.

Components: There are two components of this ratio which are as under:

1. Net Profit
2. Net Sales

Table: 1 Net Profit Margin (NPM)

YEAR	PNB	DENA BANK	VIJAYA BANK	DCB	SOUTH INDINAN BANK	DHANLAXMI BANK
2011-2012	13.4	11.82	7.27	7.68	11.2	-8.29
2012-2013	11.33	9.1	6.46	11.14	11.32	0.2
2013-2014	7.73	5.52	3.88	13.41	10.11	-19.49
2014-2015	6.61	2.46	3.58	13.44	5.81	-18.81
2015-2016	-8.38	-8.78	3.15	11.45	5.99	-17.39
MEAN	6.138	4.024	4.868	11.424	8.886	-12.756
S.D	8.561879	7.987019469	1.863510129	2.3509211	2.767025479	8.533386198

Table: 2 One Way ANOVA for NPM

ANOVA						
Source of Variation	SS	df	MS	F	P-value	F crit
Between Groups	1823.716	5	364.7432	9.658964	3.75E-05	2.620654
Within Groups	906.2914	24	37.76214			
Total	2730.007	29				

Interpretation: This ratio indicates (a) an average net margin earned on a sale of rs.100. (b) What portion of sales is left to pay dividend and to create reserves, and (c) firm's capacity to withstand adverse economic conditions when selling price is declining, cost of production is rising and the demand for the product is falling. Higher the ratio, greater is the capacity of the firm to withstand adverse economic conditions and vice versa.

From Table 1, it can be seen that DCB has earned the highest NPM of Rs.11.424 for every Rs.100 among all the six banks. Negative NPM in Dhanlaxmi Bank. PNB has the highest degree of variability in NPM with a standard deviation of 8.5618.

From Table 2, As the calculated value 9.658964 is greater than the critical value 2.620654 at 5% level of significance, the null hypothesis is rejected.

OPERATING PROFIT MARGIN (OPM)

The operating profit margin is a type of profitability ratio known as a margin ratio. The information with which to calculate the operating profit margin comes from a company's income. Operating Profit Margin= Operating Income / Sales Revenue. The operating profit margin gives the business owner a lot of important information about the firm's profitability, particularly with regard to cost control.

Table -3 Operating Profit Margin (OPM)

YEAR	PNB	DENA BANK	VIJAYA BANK	DCB	SOUTH INDINAN BANK	DHANLAXMI BANK
2011-2012	1.87	3.25	0.66	-6.31	4.31	-18.6
2012-2013	1.26	1.74	-0.23	-1.63	3.77	-8.53
2013-2014	-2.85	-3.65	-2.74	1.12	2.77	-25.18
2014-2015	-6.1	-4.23	-3.58	1.79	-3.59	-25.42
2015-2016	-22.88	-15.51	-4.07	-1.52	-3.31	-23.76
MEAN	-5.74	-3.68	-1.992	-1.31	0.79	-20.298
S.D	10.11402	7.376543906	2.093864848	3.188315	3.911061237	7.131326665

Table 4 – One Way ANOVA for OPM

ANOVA						
Source of Variation	SS	df	MS	F	P-value	F crit
Between Groups	1458.391	5	291.6783	7.371551	0.00026	2.620654
Within Groups	949.6344	24	39.5681			
Total	2408.026	29				

Interpretation:

Higher the ratio, the more efficient is the operating management. This ratio may increase due to any one of the following factors: (1) Higher gross profit (2) Lower operating expenses; and (3) A combination of aforesaid two factors.

Table 3 shows that the average OPM of South Indian Bank is the highest among all the six banks. It can be clearly seen that OPM of PNB shows the highest degree of variability (highest standard deviation of 10.11402).

Table 4 shows, as the calculated value 7.371551 is greater than the critical value 2.620654 at 5% level of significance, the null hypothesis is rejected.

- **Earning Per Share (EPS)**

Meaning: This ratio measures the earnings available to an equity shareholder on a per share basis.

Objective: The objective of computing this ratio is to measure the profitability of the firm on per equity share basis.

Components: There are two components of this ratio which are as under:

1. Net profit after interest, tax and preference dividend.
2. No. of equity shares

Table 5 Earning Per Share (EPS)

YEAR	PNB	DENA BANK	VIJAYA BANK	DCB	SOUTH INDIAN BANK	DHANLAXMI BANK
2011-2012	154.02	24.08	9.49	2.73	3.55	-13.58
2012-2013	139.52	23.15	9.41	4.19	4.03	0.31
2013-2014	93.91	14.4	7.64	6.05	3.78	-20
2014-2015	16.91	4.94	5.11	7.21	2.28	-13.6
2015-2016	-20.82	-15.5	4.44	6.86	2.47	-11.8
MEAN	76.708	10.214	7.218	5.408	3.222	-11.734
S.D	76.33137	16.32600319	2.36145506	1.89887335	0.794462082	7.420894825

Table 6 One Way ANOVA for EPS

ANOVA						
Source of Variation	SS	df	MS	F	P-value	F crit
Between Groups	24182.991	5	4836.598	4.712579	0.003865	2.620654
Within Groups	24631.599	24	1026.317			
Total	48814.59	29				

Interpretation:

In general, higher the figure, better it is and vice versa. While interpreting this ratio, it must be seen whether there is any increase in equity shareholders' funds as a result of retained earnings without any change in numbers of outstanding shares.

Table 5 shows the earnings per share of the selected banks. It can be seen that PNB tops in terms of EPS with a highest average value of Rs. 76.708. Also the degree of variability of EPS is lowest in case of South Indian Bank with a standard deviation of 0.79.

Table 6 shows, as the calculated value 4.712579 is higher than the critical value 2.620654 at 5% level of significance, the null hypothesis is rejected.

RETURN ON EQUITY (ROE)

Meaning: This ratio measures a relationship between net profit after interest, tax and preference dividend, and equity shareholder's funds.

Objective: The objective of computing this ratio is to find out how efficiently the funds supplied by the equity shareholders have been used.

Interpretation:

This ratio indicates the firm's ability of generating profit per rupee of equity shareholders' funds. Higher the ratio, the more efficient the management and utilization of equity shareholders' funds.

Table: 7 RETURN ON EQUITY (ROE)

YEAR	PNB	DENA BANK	VIJAYA BANK	DCB	SOUTH INDIAN BANK	DHANLAXMI BANK
2011-2012	18.52	18.71	15.39	6.82	19.82	0
2012-2013	15.19	14.05	14.29	10.75	17.51	0.35
2013-2014	9.69	7.72	7.37	13.74	15.66	0
2014-2015	8.12	3.56	7.41	12.43	8.89	0
2015-2016	0	0	5.84	11.16	8.97	0
MEAN	10.304	8.808	10.06	10.98	14.17	0.07
S.D	7.118548	7.613052607	4.426307716	2.60341122	5.005412071	0.156524758

Table: 8 One Way ANOVA for ROE

ANOVA						
Source of Variation	SS	df	MS	F	P-value	F crit
Between Groups	566.1473467	5	113.2295	4.243959	0.006613	2.620654
Within Groups	640.3236	24	26.68015			
Total	1206.470947	29				

Table 7 shows, It can be clearly seen that South Indian bank highest in average ROE at 14.17%. Lowest Std. deviation in Dhanlaxmi bank 0.1565.

Table 8 shows, as the calculated value 4.243959 is higher than the critical value 2.620654 at 5% level of significance, the null hypothesis is rejected.

Conclusion:

The first basic objective of any investor is the return or yield on investments. The fundamental analysis helps in developing an insight into the economic performance of above selected six banks. For every investor analysis of economic performance is very vital in taking investment decisions. Thus, the present study has been conducted to study and examine the economic performance and sustainability of the total six major banks from public sector and private sector.

From the above calculations, South Indian Bank is the best stock from private sector banks for investment purpose & PNB is the best stock from Public Sector banks for investment purpose.

ABBREVIATIONS**EPS – Earning Per Share****ROE- Return on Equity****NPA- Non Performing Asset****REFERENCES**

- Sathy, Milind. (2003). Efficiency of Banks in a Developing Economy: The Case of India. *European Journal of Operational Research*, 148 (3), 662-671.
- Das, Abhiman & S.Ghosh. (2006). Financial Deregulation and Efficiency: An Empirical Analysis of Indian Banks during the Post Reform Period. *Review of Financial Economics*, Vol. 15 (3), 193-221.
- Mariappan, V. (2005-2006). Changing the Way of Banking in India. *Vinimaya*, Vol.26 (2): 26-34.
- Uppal R.K. (2011). Global Crisis: Problems and Prospects for Indian Banking Industry *Journal of Economics and Behavioral Studies* Vol.2 (4), 171-176.
- Walia, Karan (2012). A Study on Fundamental Analysis of Banking sector. *Asian Journal of research in Banking & Finance*, Vol.2 (4).
- Malik, Seema (2014) Technological Innovations in Indian Banking Sector: Changed face of Banking. *International Journal of Advance Research in Computer Science and Management Studies*, Volume 2 (6).
- Samreen, Sana, (2014). An Analysis of Indian Banking Industry with Special Reference to ICICI Bank. *International Journal of Recent Research in Social Sciences and Humanities*, Vol.1 (1), 29-39.

- Mohaptra Malaya Ranjan, Lenka Avizeet, Pradhan Subrat Kumar (2015). A Study of Operational Efficiency of Commercial Banks in Indian Financial System: At a Glance. *Abhinav Journal of Research in Commerce & Management*, Vol. 4(6), 13-18.

BOOK

- Priyanka Singh & Rajkumar Singh "Accounting for Managers", Thakur Publisher.

WEBSITE:

- www.moneycontrol.com