Financial Performance Analysis: A study of Indian Overseas Bank

Manthan Vernekar
M.Com Part- I, Narayan Zantye College of Commerce, Bicholim – Goa, INDIA

ABSTRACT
The banking industry in India plays a very important role because most of the people in the India make their deposits in saving account or in fixed deposits. The banking industry in India have opened lot of branches in the country. India is under becoming the banker country. The banking industry in India is the fastest and largest growing market globally. Indian overseas bank is the most leading bank in India with lot of profit.

Keywords--- Banking, industry, country, India.

I. INTRODUCTION
A Bank is a financial intermediary that accepts deposit and channels those deposits into lending activities, either directly by loaning or indirectly through capital markets. A bank links customers that have capital deficits and customers with capital surplus.

COMMERCIAL BANK
A Commercial bank is a type of financial intermediary and a type of bank. Commercial banking is also known as Business Banking. A commercial bank is a type of bank that provides services such as accepting deposits, making business loans and offering basic investment products. Commercial banks are those which provides banking services for profit. There are many types of commercial banks such as Deposit Bank, Saving Bank, Industrial Bank, Agricultural Bank and Miscellaneous Banks.

Commercial Banks have two possible meanings:
- Commercial Bank is the term used for a normal bank to distinguish it from an investment bank.
- Commercial banking can also refer to a bank or division of bank that mostly deals with deposits and loans from corporations or large business, as opposed to normal individual members of the public.

II. BACKGROUND OF INDIAN OVERSEAS BANK
Indian Overseas Bank was founded on 10 Feb 1937 and has the distinction of 3 branches at Chennai, Karaikudi and Rangoon simultaneously commencing business on the inaugural day. It was founded with twin objectives of specializing in foreign exchange business and overseas banking.

It was ranked no.1 among public sector banks by Business Today–PMG survey and Financial Express–Ernst & Young survey in 2011.

Indian Overseas Bank (IOB) is a major bank based in Chennai (Madras), with about 3350 domestic branches, 3 extension counters and six branches overseas. Indian Overseas Bank has an ISO certified in Information Technology department, the bank has achieved 100% networking status as well as 100% CBS status for its 3350 branches. IOB also has a network of about 3000 ATMs all over India and IOB's International VISA Debit Card is accepted at all ATMs belonging to the Cash Tree and NFS networks. IOB offers internet Banking (E-See Banking) & Mobile Banking and is one of the banks that the Govt. of India has approved for online payment of taxes. The bank's business more than doubled in the last four years.

In 2000, IOB engaged in an initial public offering (IPO) that brought the government's share in the bank's equity down to 75%. In 2001 IOB acquired the Mumbai-based Adarsha Janata Sahakari Bank, which gave it a branch in Mumbai. Then in 2009 IOB took over Shree Suvarna Sahakari Bank, which was founded in 1969 and had its head office in Pune. Shree SuvarnaSahakari Bank had been in administration since 2006.

The net profit for the year ended 31 March 2014 stood at 601.74 crores. Total income stood at Rs. 24853.07crore as against Rs.22649.63 crore registered during the same period last financial year.
III. OBJECTIVES OF STUDY

• The objectives of our study are as follows:
• To assess past and current performance of the bank.
• To study liquidity and solvency position.
• To study the financial performance of IOB in general by conducting ratio analysis of last 5 years.
• To study profitability of IOB.

IV. METHODOLOGY OF STUDY

Period of the study
• Data is collected by referring to the IOB annual report from financial year 2009-10 to 2013-14.

Analytical tools
• We have also made use of Ratio Analysis to study performance

Summary of Financial Ratios of Indian Overseas Bank

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Ratio of Interest earned to Total Income</td>
<td>89.54%</td>
<td>90.44%</td>
<td>91.25%</td>
<td>91.29%</td>
<td>91.27%</td>
</tr>
<tr>
<td>2</td>
<td>Ratio of Interest Expended to Total Expenses</td>
<td>65.93%</td>
<td>64.14%</td>
<td>69.39%</td>
<td>69.85%</td>
<td>70.54%</td>
</tr>
<tr>
<td>3</td>
<td>Ratio of Interest Earned to Total Advances</td>
<td>12.97%</td>
<td>10.82%</td>
<td>12.72%</td>
<td>12.89%</td>
<td>12.90%</td>
</tr>
<tr>
<td>4</td>
<td>Ratio of Interest Expended to Total Deposit</td>
<td>6.39%</td>
<td>5.44%</td>
<td>7.22%</td>
<td>7.63%</td>
<td>7.50%</td>
</tr>
<tr>
<td>5</td>
<td>Spread Ratio</td>
<td>6.58%</td>
<td>5.38%</td>
<td>5.50%</td>
<td>5.26%</td>
<td>5.40%</td>
</tr>
<tr>
<td>6</td>
<td>Other Income to Total Income Ratio</td>
<td>10.45%</td>
<td>9.55%</td>
<td>8.75%</td>
<td>8.71%</td>
<td>8.73%</td>
</tr>
<tr>
<td>7</td>
<td>Operating Expenses to Total Income Ratio</td>
<td>29.59%</td>
<td>26.95%</td>
<td>23.62%</td>
<td>15.04%</td>
<td>15.08%</td>
</tr>
<tr>
<td>8</td>
<td>Profitability Ratio</td>
<td>9.39%</td>
<td>11.50%</td>
<td>8.81%</td>
<td>4.21%</td>
<td>3.72%</td>
</tr>
<tr>
<td>9</td>
<td>Total Advances to Total Asset Ratio</td>
<td>60.26%</td>
<td>62.55%</td>
<td>64.06%</td>
<td>65.55%</td>
<td>63.98%</td>
</tr>
<tr>
<td>10</td>
<td>Total Investment to Total Asset Ratio</td>
<td>28.72%</td>
<td>27.19%</td>
<td>25.29%</td>
<td>25.10%</td>
<td>25.55%</td>
</tr>
<tr>
<td>11</td>
<td>Total Advances to Total Deposit Ratio</td>
<td>71.30%</td>
<td>77%</td>
<td>78.87%</td>
<td>79.34%</td>
<td>77.15%</td>
</tr>
<tr>
<td>12</td>
<td>Liquid Asset to Total Asset Ratio</td>
<td>7.49%</td>
<td>6.72%</td>
<td>7.40%</td>
<td>6.24%</td>
<td>6.91%</td>
</tr>
<tr>
<td>13</td>
<td>Liquid Asset to Total Deposit Ratio</td>
<td>8.87%</td>
<td>8.27%</td>
<td>9.11%</td>
<td>7.55%</td>
<td>8.34%</td>
</tr>
</tbody>
</table>
**Interpretation:**

From the above ratio analysis, the following comparative study can be made:

1. In the year 2010 the interest earned on advances is 89.54%. Since 2010 the ratio has continuously increased i.e. 90.44% in 2011, 91.25% in 2012, 91.29% in 2013 and 91.27% in 2014. The mean ratio of interest earned on advances to total income is 90.76%.

2. In the year 2010 the interest expended on deposit is 65.90% which is less than 2011 where it was 64.14%. Since 2011 the ratio has shown an increasing trend i.e. 69.39% in 2012, 69.85% in 2013 and 70.54% in 2014 when compared to 2011. Mean ratio of interest expended on deposit to total expenses is 67.96%.

3. In the year 2010 the total interest earned is 12.97%. In 2011 the ratio has dropped to 10.82% and there onwards the ratio has shown an increasing trend i.e. 12.72% in 2012, 12.89% in 2013 and 12.90% in 2014 as compared to 2011. The mean ratio of interest earned to total advances is 12.46%.

4. In the year 2010 the interest expended on deposit is 6.39%. Later in 2011 it witnessed a fall to 5.44%. Thereafter the ratio has shown an increasing trend i.e. 7.22% in 2012, 7.63% in 2013 and 7.50% in 2014 as compared to 2011. The mean ratio of interest expended to total deposit is 6.84%.

This reveals that interest earned by the bank on its total advances has increased during the last three years of our study period.

5. In the year 2010 the interest expended on total deposit is 6.39%. Later in 2011 it witnessed a fall to 5.44%. Thereafter the ratio has shown an increasing trend i.e. 7.22% in 2012, 7.63% in 2013 and 7.50% in 2014 as compared to 2011. The mean ratio of interest expended to total deposit is 6.84%.

This demonstrate that interest expenditure of bank is showing an increasing state in the recent years due to increase in the amount of deposits of the bank.

6. Other Income to Total Income Ratio was high i.e. 10.45% in 2010 and it kept on decreasing in 2011 to 9.55%, in 2012 to 8.75%, in 2013 to 8.71% and in 2014 it slightly increased to 8.73% as compared to 2013.

7. In 2010 the profitability ratio was 9.39%, it increased in 2011 to 11.50%. Since 2011 the profitability has been decreasing as it dropped to 8.81%, 8.21% and 8.32% in 2012, 2013 and 2014 respectively. This shows that financial position of the bank is deteriorating year after year since the two initial years of study period.

8. The above graph shows that the debt equity ratio in 2011 which was 17.64:1 has increased as compared to 2010 where it was 15.91:1. There onwards the ratio has kept on decreasing to 16.93:1 in 2012, 16.75:1 in 2013 and 15.61:1 in 2014 as compared to 2011.

**V. CONCLUSION**

This project makes an attempt to study the performance of Indian Overseas Bank. We have used ratio analysis method for analyzing and evaluating the performance of the bank.

The highlights of the bank financial performance during the study period are outlined below:

1. Total income of the bank is continuously increasing this is due to tremendous increase in the business of the bank. The number of branches stood at 3350 as on 31-03-14.

2. The bank signed a joint venture agreement with Bank of Baroda and Andhra bank to open a banking subsidiary in Malaysia.

3. Generally, most banks earn a large portion of their total income through interest on advances. In Indian Overseas Bank also their major share of total income is occupied by interest earned on advances. A lower interest earned ratio means less earnings are available to meet banks interest payments and other expenditures.

4. The interest expended on deposit to total expenses is showing quite a high percentage. Actually, the lower the percentages the better. A higher ratio than indicates that bank is spending too much of its earnings on paying interest on borrowed money out of the total expenses.

5. Other Income to Total Income ratio measures the proportion of bank's total income that have been generated by non-interest related activities eg fees and commission. A high ratio is good, since it shows that the bank is not dependent on its lending activities to generate a profit. However the opposite view is that a high ratio is indicating that the bank is dependent on unstable revenues that are not predictable for its profitability. In case of IOB the ratio is low throughout the study period.

6. Operating expense ratio can be explained as a way of measuring the cost of operation as compared to the income generated. A lower operating expense ratio indicates a greater profit for the bank and vice versa. In IOB the operating ratio is not very high so bank will be able to earn more profits.

7. The total advances to total assets ratio has been quite high throughout the study period. A year-over-year slight increase in this ratio would suggest the bank is progressively becoming more dependent on advances to grow their business.

8. The total advances to total deposit ratio is commonly used statistic for assessing a bank's liquidity by dividing the banks total advances by its total deposits. If the ratio is too high, it means that banks might not have enough liquidity to cover any unforeseen fund requirements; if the ratio is too low, banks may not be earning as much as they could be. In our case the ratio has been quite high.
9. To conclude we can say that IOB bank is emerging as a very good bank in the banking sector. The bank also focuses on providing agricultural finance and helps in development of weaker sections of the society. Bank is continuously opening new branches and is becoming stronger year by year.

REFERENCES


