



Financial Performance Analysis of Selected Private Sector Banks in India

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ABSTRACT

The performance of the banking system has been widely recognized as an important element for economic growth and for enhancing the economic and financial system buoyancy in facing financial crisis. In fact, such a vital role in the economy has made banks to be considered as one of the most strained kinds of businesses in the globe as they are subject to close scrutiny since banks will otherwise be counterproductive and severely damage the economy of a country. Efficient and profitable banks maximize shareholders' value and encourage the shareholders to make additional investments. As a result of which, more employment opportunities will be created and more goods and service will be produced and ultimately bring about economic growth in which private and public sector banking institutions play equal role. The present study analyses the financial performance of selected private banks in India with the help of correlation analysis by considering return on total assets as the independent variable.

Keywords-- Banking, economic growth, Financial crisis, Economy of a country, Shareholders' value, Correlation analysis, Return on total assets

I. INTRODUCTION

Banking Sector reforms were initiated to upgrade the operating standard health and financial soundness of the banks. The Government of India setup the Narasimham Committee in 1991, to examine all aspects relating to structure, organization and functioning of the Indian banking system the recommendations of the committee aimed at creating a competitive and efficient banking system. Another committee which is Khan Committee was instituted by RBI in December, 1997 to examine the harmonization of the role and operations of development financial institutions and banks. It submitted its report in 1998.

At present, financial regulation in India is oriented towards product regulation, i.e. each product is separately regulated. For example, fixed deposits and other banking products are regulated by the Reserve Bank of India (RBI), small savings products by the Government of India (GoI) etc..The enactment of the Banking Laws Amendment Act 2012 is expected to make the regulatory and supervisory powers of the RBI more effective and facilitate banks in raising funds from the capital market required for expansion of banking business. It will also facilitate finalization of guidelines by the RBI for providing licenses for new banks, which is essential for achieving the objective of financial inclusion in the current perspective.

II. REVIEW OF LITERATURE

Karunakar et al. (2008) reported that the efficiency of a bank is not reflected only by the size of its balance sheet but also the level of return on its assets. The study emphasized that the NPAs do not generate interest income for banks but at the same time banks are required to provide provisions for NPAs from their current profits. The study revealed that NPAs have deleterious impact on the return on assets and contributes significantly to credit risk concentration in the Indian banking sector.

Al-Zubi et al. (2008) examined empirically the Jordanian banks capital and risk behavior as a reaction to pressure during the period 1990-2003. The study used various econometric models such as the Generalized Least Square (GLS), the Fixed Effect Model (FEM), and the Random Effect Model (REM). The study reported that there was a strong positive correlation between the regulatory pressure and banks' capital and their risk levels. The study concluded that the Jordanian banks are close to the minimum regulatory capital requirements and the banks

tend to increase both their ratio of capital-to-risk weighted assets and levels of risk.

Ho and Yusoff (2009) studied the credit risk management practices in Malaysian commercial banks and reported that the financial institutions believed in risk mitigation and managed their credit risk through better quality assets and human resources. The research also noted that the financial institutions utilize a variety of mitigations techniques to avoid credit risk. The study concluded that no single strategy is superior in covering all exposures, but combinations of a variety of techniques were effective in the mitigation of credit risk in the Malaysian commercial banks.

Aman and Zaman (2012) studied the credit risk performance of private and state owned banks in Pakistan and found that the private sector banks were performing better with regards to the credit risk compared to the state owned banks. The study by analyzing data for a fifteen year period from 1990 to 2005 reported that the private sector banks were efficient in managing their credit risk and suggested that the public sector banks need to improve their efficiency of credit risk management.

III. RESEARCH METHODOLOGY

The financial data and relevant information required for the study are drawn from the various secondary source. The Prowess' corporate databases developed by CMIE (Centre for Monitoring Indian Economy) and CLP (Capital Line Plus) have been used as principal sources. The other relevant data are collected from Journals, Magazines, Dailies namely The Financial Express and The Economic Times. According to the prowess corporate database developed by CMIE, (Centre for Monitoring Indian Economy) there are 17 private sector banks operating India

and listed in both Bombay Stock Exchange (BSE) and National Stock Exchange (NSE). Out of 17 Private sector banks 6 banks are having the net profit above 2000 crores and 10 years data are available for all the 6banks. So they were selected as sample units for the present study. The following are the sample banks which have been considered for the present study. HDFC Bank, ICICI Bank Axis Bank Yes Bank IndusInd Bank and Kotak Mahindra bank.

IV. STATISTICAL ANALYSIS

Correlation analysis is one of the most common and most useful statistics. A correlation is a single number that describes the degree of relationship between two variables. The most familiar measure of dependence between two quantities is the Pearson product-moment correlation coefficient, or "Pearson's correlation." It is obtained by dividing the covariance of the two variables by the product of their standard deviations. In the present study the relationship between return on total assets and Advances to Assets, Debt - Equity Ratio, Investments to Total Assets, Current Ratio, Quick Ratio Investments Deposit Ratio, Credit + Investments Deposit Ratio, Fixed Assets to Total Assets, Return on Advances, Interest Income to Total Assets, Other Liabilities to Total Assets, Return on Networth, Operating Expenses to Total Income, Interest Expended to Total Expenses, Interest expended to interest earned, Spread to Working Fund, Burden to Working Fund, Interest Income to Total Income, Non-Interest Income to Working Fund Non Operating Expenses to Total Assets, Deposits to Total Assets, Liquid Assets to Total Assets, Provision & Contingencies to Total Assets, Cash Deposit Ratio, Investments to Advances and Interest cover.

TABLE No.1
Correlation Analysis Of The Selected Variables With The Ratio Of Return On Total Assets

S.No.	Ratios	HDFC Bank		ICICI Bank	
		r-value	p-value	r-value	p-value
X ₁	Advances to Assets	-0.663**	0.028	0.35	0.182
X ₂	Debt - Equity Ratio	-0.259	0.245	0.743*	0.02
X ₃	Investments to Total Assets	0.032	0.493	0.27	0.248
X ₄	Current Ratio	0.061	0.459	-0.971**	0.012
X ₅	Quick Ratio	0.600**	0.049	-0.917**	0.014
X ₆	Investments Deposit Ratio	-0.227	0.265	0.601**	0.049
X ₇	Credit + Investments Deposit Ratio	0.061	0.459	-0.971*	0.009
X ₈	Fixed Assets to Total Assets	-0.144	0.346	0.668**	0.032

X ₉	Return on Advances	-0.007	0.492	0.717**	0.023
X ₁₀	Interest Income to Total Assets	0.482	0.097	0.421	0.132
X ₁₁	Other Liabilities to Total Assets	-0.014	0.483	0.656**	0.034
X ₁₂	Return on Networth	-0.785**	0.015	0.116	0.4
X ₁₃	Operating Expenses to Total Income	-0.532	0.064	0.544	0.069
X ₁₄	Interest Expended to Total Expenses	-0.708**	0.021	0.156	0.358
X ₁₅	Interest expended to interest earned	-0.332	0.177	0.012	0.512
X ₁₆	Spread to Working Fund	-0.023	0.474	-0.534	0.063
X ₁₇	Burden to Working Fund	-0.383	0.141	-0.801*	0.014
X ₁₈	Interest Income to Total Income	0.065	0.454	-0.147	0.342
X ₁₉	Non-Interest Income to Working Fund	0.518	0.081	-0.028	0.468
X ₂₀	Non Operating Expenses to Total Assets	0.305	0.218	0.175	0.339
X ₂₁	Deposits to Total Assets	0.363	0.755	0.689	0.54
X ₂₂	Liquid Assets to Total Assets	-0.937	0.408	-0.337	0.753
X ₂₃	Provision & Contingencies to Total Assets	-0.032	0.979	-1.279	0.265
X ₂₄	Cash Deposit Ratio	-1.217	0.299	-0.689	0.527
X ₂₅	Investments to Advances	-1.145	0.324	-0.148	0.891
X ₂₆	Interest cover	33.393	0.012	1.428	0.228

**significant at 5% level. *Significant at 1% level

The correlation coefficient matrices of the selected variables with the dependent variable, i.e., Return on Total Assets of selected Banks for the periods from 2006-2007 to 2015-2016 .

In HDFC Bank four variables namely X₁(Advances to Assets),X₅(Quick Ratio), X₁₂(Return on Networth), X₁₄(Interest Expended to Total Expenses)are having significant correlation with profitability of the bank. The variables X₅(Quick Ratio)is positively correlated to the profitability of the bank where as remaining variables have negative correlation.

In ICICI Bank, nine variables namely X₂(Debt - Equity Ratio),X₄(Current Ratio), X₅(Quick Ratio),X₆(Investments Deposit Ratio),X₇(Credit + Investments Deposit Ratio),X₈(Fixed Assets to Total Assets) , X₉(Return on Advances) ,X₁₁(Other Liabilities to Total Assets) , X₁₇(Burden to Working Fund) are having significant correlation with profitability of the bank. The variables X₂(Debt - Equity Ratio), X₆(Investments Deposit Ratio), X₈(Fixed Assets to Total Assets) , X₉(Return on Advances) , X₁₁(Investments Turnover Ratio) are positively correlated to the profitability of the bank where as the remaining variables have negative correlation.

TABLE No.2
Correlation Analysis Of The Selected Variables With The Ratio Of Return On Total Assets

S.No.	Ratios	Axis Bank		Yes Bank	
		r-value	p-value	r-value	p-value
X ₁	Advances to Assets	0.328	0.177	-0.380	0.140
X ₂	Debt - Equity Ratio	.758*	0.007	-0.324	0.181

X ₃	Investments to Total Assets	.585**	0.042	0.037	0.460
X ₄	Current Ratio	-.613**	0.021	.832*	0.001
X ₅	Quick Ratio	-.659**	0.014	.835*	0.001
X ₆	Investments Deposit Ratio	.679**	0.018	-0.397	0.128
X ₇	Credit + Investments Deposit Ratio	-.649**	0.021	.814	0.001
X ₈	Fixed Assets to Total Assets	.618**	0.020	-0.456	0.093
X ₉	Return on Advances	0.474	0.083	.618**	0.016
X ₁₀	Interest Income to Total Assets	-0.275	0.221	-.719*	0.009
X ₁₁	Other Liabilities to Total Assets	0.360	0.154	0.515	0.064
X ₁₂	Return on Networth	.503**	0.044	-.584**	0.038
X ₁₃	Operating Expenses to Total Income	.609**	0.028	-0.434	0.105
X ₁₄	Interest Expended to Total Expenses	.805*	0.001	-0.158	0.332
X ₁₅	Interest expended to interest earned	0.000	0.000	-0.116	0.375
X ₁₆	Spread to Working Fund	-0.158	0.331	-.629**	0.024
X ₁₇	Burden to Working Fund	-0.077	0.417	-0.255	0.238
X ₁₈	Interest Income to Total Income	0.513	0.065	0.441	0.101
X ₁₉	Non-Interest Income to Working Fund	-.561**	0.044	-.853*	0.000
X ₂₀	Non Operating Expenses to Total Assets	-0.254	0.239	.724*	0.009
X ₂₁	Deposits to Total Assets	-.067	.949	-.067	.949
X ₂₂	Liquid Assets to Total Assets	-.430	.682	-.430	.682
X ₂₃	Provision & Contingencies to Total Assets	.649	.540	.649	.540
X ₂₄	Cash Deposit Ratio	-.170	.871	-.170	.871
X ₂₅	Investments to Advances	1.071	.325	1.071	.325
X ₂₆	Interest cover	.756	.478	.756	.478

**significant at 5% level.*Significant at 1% level

In **Axis Bank** Eleven variables namely X₂(Debt - Equity Ratio), X₃(Investments to Total Assets), X₄(Current Ratio), X₅(Quick Ratio), X₆(Investments Deposit Ratio), X₇(Credit + Investments Deposit Ratio), X₈(Fixed Assets to Total Assets), X₁₂(Return on Networth), X₁₃(Operating Expenses to Total Income), X₁₄(Interest Expended to Total Expenses), X₁₉(Non-Interest Income to Working Fund) are having significant correlation at both 1% and 5% level of profitability of the bank. The variables X₂, X₃, X₆, X₈, X₁₂, X₁₃, X₁₄ are positively correlated to the profitability of the bank where as remaining variables have negative correlation.

In **Yes Bank**, Nine variables namely X₄(Current Ratio), X₅(Quick Ratio), X₇(Credit + Investments Deposit Ratio), X₉(Return on Advances), X₁₀(Interest Income to Total Assets), X₁₂(Return on Networth), X₁₆(Spread to Working Fund), X₁₉(Non-Interest Income to Working Fund), X₂₀(Non Operating Expenses to Total Assets) are having significant correlation with profitability of the bank. The variables X₄, X₅, X₇, X₉, X₂₀ are positively correlated to the profitability of the bank where as the remaining variables have negative correlation.

TABLE No.3
Correlation Analysis Of The Selected Variables With The Ratio Of Return On Total Assets

S.No.	Ratios	IndusInd Bank		Kotak Mahindra	
		r-value	p-value	r-value	p-value
X ₁	Advances to Assets	-0.033	0.464	0.328	0.178
X ₂	Debt - Equity Ratio	-0.089	0.404	-.744*	0.007
X ₃	Investments to Total Assets	-0.316	0.187	-0.078	0.415
X ₄	Current Ratio	.747*	0.007	-.603**	0.033
X ₅	Quick Ratio	.803*	0.003	-.874*	0.000
X ₆	Investments Deposit Ratio	0.437	0.104	0.029	0.468
X ₇	Credit + Investments Deposit Ratio	.747*	0.007	-.603**	0.033
X ₈	Fixed Assets to Total Assets	0.477	0.082	0.008	0.491
X ₉	Return on Advances	.573*	0.042	0.408	0.121
X ₁₀	Interest Income to Total Assets	0.511	0.066	0.281	0.216
X ₁₁	Other Liabilities to Total Assets	0.469	0.086	0.387	0.134
X ₁₂	Return on Networth	-0.153	0.337	0.293	0.205
X ₁₃	Operating Expenses to Total Income	.556**	0.048	.802**	0.003
X ₁₄	Interest Expended to Total Expenses	0.125	0.366	.759*	0.005
X ₁₅	Interest expended to interest earned	-0.208	0.282	0.106	0.385
X ₁₆	Spread to Working Fund	-0.375	0.143	-0.464	0.088
X ₁₇	Burden to Working Fund	-.747*	0.006	-.625**	0.027
X ₁₈	Interest Income to Total Income	0.371	0.145	0.098	0.394
X ₁₉	Non-Interest Income to Working Fund	-.758*	0.006	-.658**	0.019
X ₂₀	Non Operating Expenses to Total Assets	0.130	0.361	0.013	0.486
X ₂₁	Deposits to Total Assets	-.067	.949	-1.977	.095
X ₂₂	Liquid Assets to Total Assets	-.430	.682	.106	.919
X ₂₃	Provision & Contingencies to Total Assets	.649	.540	-1.443	.199
X ₂₄	Cash Deposit Ratio	-.170	.871	.390	.710
X ₂₅	Investments to Advances	1.071	.325	-.357	.733
X ₂₆	Interest cover	.756	.478	1.648	.150

**significant at 5% level. * Significant at 1% level

In **IndusInd Bank** , Seven variables namely X₄(Current Ratio), X₅(Quick Ratio), X₇(Credit + Investments Deposit Ratio),X₉(Return on Advances), X

₁₃(Operating Expenses to Total Income) , X₁₇(Burden to Working Fund), X₁₉(Non-Interest Income to Working Fund)are having significant correlation with profitability of the

bank. The variables $X_4, X_5, X_7, X_9, X_{13}$ are positively correlated to the profitability of the bank where as remaining variables have negative correlation.

In **Kotak Mahindra**, Eight variables namely X_2 (Debt - Equity Ratio), X_4 (Current Ratio), X_5 (Long Quick Ratio), X_7 (Credit + Investments Deposit Ratio), X_{13} (Operating Expenses to Total Income), X_{14} (Interest Expended to Total Expenses), X_{17} (Burden to Working Fund), X_{19} (Non-Interest Income to Working Fund) are having significant correlation with profitability of the bank. The variables X_{13} and X_{14} are positively correlated to the profitability of the bank where as the remaining variables have negative correlation.

V. CONCLUSION

Currently, Private sector banks in India is matured in terms of supply, product range and reach, even though, reach in rural India still remains a challenge for the private sector banks. In terms of quality of assets and capital adequacy, Indian banks are considered to have clean, strong and transparent balance sheets. With the growth in the Indian economy which is expected to move faster, especially in the services sector, the demand for the banking services, especially retail banking, mortgages and investment services are expected to be strong. Mergers and acquisitions, takeovers and asset sales are expected to increase. Eventhough public sector banks dominating the industry there is a wide scope for private sector banks due to their simplified procedures and user friendliness. The bankers need to analyse the financial variables which effectively contributed to the growth of the private sector banks and which influences the overall performance and negative variables should be given utmost care for efficient and effective financial performance.

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