CHAPTER I
INTRODUCTION AND DESIGN OF THE STUDY

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1.1 INTRODUCTION

Economic development of any country, whether developed or developing is intrinsically interwoven with the development of financial system. India is not an exemption to this. In India, the banking sector forms the core of its financial system. The Indian banking has come a long way from being a sleepy business institution to a highly proactive and dynamic entity. This transformation has been largely brought about by a large dose of liberalization and economic reforms that allowed the banks to explore new business avenues rather than generating revenues from conventional streams (i.e., borrowing and lending).

The Indian banking sector has recorded an impressive improvement in productivity over the last 15 years; many of the productivity/efficiency indicators have moved closer to the global levels. There has been a particularly discernible improvement in banks’ operating efficiency in recent years owing to technology up-gradation and staff restructuring. However, to sustain the high and inclusive growth, there is a need to raise the level of domestic savings and channel those savings into investment. This implies that banks need to offer attractive interest rates to depositors and reduce the lending rates charged on borrowers - in other words, reduce the Net Interest Margin (NIM). The NIM of the Indian banking system is higher than that of other emerging market economies even after accounting for mandated social sector obligations such as priority sector lending and credit support for the Government’s anti-poverty initiatives.¹

During the financial year (FY) 2012-13 (up to February 22, 2013), bank credit showed an increase of 9.0 per cent, as compared to an increase of 11.9 per cent during the corresponding period in the last year. The year on year (y-o-y) variation revealed an increase of 16.3 per cent, as compared to 15.7 per cent during the same period in the previous year. Non-food credit during this period increased by 11.1 per cent (up to February 22, 2013), as compared to an increase of 11.6 per cent during the corresponding period in the last year. The y-o-y variation revealed an increase of 16.1 per cent as compared to 15.5 per cent during the same period in the previous year. The aggregate deposits with Scheduled Commercial Banks recorded an increase of 7.3 per cent (up to February 22, 2013) as compared to increase of 11.7 per cent during the corresponding period of last year. The y-o-y variation revealed an increase of 12.8 per cent as compared
to 14.4 per cent in the previous year. As on February 22, 2013, the bank rate was 8.75 per cent as compared to 9.50 percent on the approximately corresponding date of last year. Call money rates (borrowing & lending) were 7.85 per cent as compared to 8.73 per cent on the approximately corresponding date of last year.²

Inflation continued to remain sticky and much above the Reserve Bank of India’s (RBI’s) comfort zone throughout the year. In fact headline inflation as measured by Wholesale Price Index remained above 7.5 per cent from February to October 2012. As a result, the RBI has kept the repo rate at an elevated level in April, 2012 to support growth.³ The Scheduled Banks constitute Commercial Banks and Co-operative Banks. During the first phase of financial reforms, there was nationalization of 14 major banks in 1969. This crucial step led to a shift from Class Banking to Mass Banking. Since then, the growth of the banking industry in India has been a continuous process.⁴

As far as the present scenario is concerned, the banking industry in India is in a transition phase. The Public Sector Commercial Banks (PSCBs), which are the foundation of the Indian banking system account for more than 75 per cent of total banking industry assets. Unfortunately, they are burdened with excessive Non-performing Assets (NPAs), massive manpower and lack of modern technology. During the FY 2012, asset quality of banks was severely impaired, as revealed by the steep increase in NPAs of Scheduled Commercial Banks, particularly PSCBs owing to their significant exposure to troubled sectors such as power, aviation, real estate and telecom. There was a significant increase noted in the NPA levels during FY 2012. Gross NPAs value recorded a y-o-y growth of 45.3 per cent and net NPAs registered a y-o-y growth of 55.6 per cent during the financial year 2012. As per the RBI, this increase was due to inadequate credit appraisal process coupled with unfavorable economic situation in the domestic as well as foreign market.⁵

On the other hand, the Private Sector Commercial Banks (Pvt.SCBs) has been witnessing immense progress. They are the leaders in internet banking, mobile banking, phone banking and ATMs.⁶ With the adoption of technology, the Indian banking sector has undergone significant transformation from local branch banking to anywhere-anytime banking. Over the past couple of years, there has been huge growth registered in the number of transactions done through mobile devices. As per the RBI, there were 49 banks
with customer base of about 13 million offering mobile banking services at the end of March 2012. During the FY 2012, around 25.6 million mobile banking transactions valued at ₹18.2 billion were transacted, recording a growth of 198 per cent y-o-y and 174 per cent y-o-y respectively. This rapid growth is driven by availability of 3G/4G network, thereby increasing the number of smart phones wherein several telecom companies have started offering economical data usage packages.\(^7\)

In the meantime, the PSCBs are still facing the problem of unhappy employees. There has been a decrease of 20 per cent in the employee strength of the private sector in the wake of the voluntary retirement schemes\(^8\).

The scheduled commercial banks in India include twenty six PSCBs, twenty Pvt.SCBs and forty Foreign Banks in 2012\(^9\). They have a combined network of over 81,240 branches and 95,686 ATMs.\(^10\) According to a report by Indian Credit Rating Agency Limited, the PSCBs hold over 75 per cent of total assets of the banking industry, with the Private and Foreign Banks holding 18.5 per cent and 6.5 per cent respectively. With an aim to reform and strengthen India’s banking sector, the Lok Sabha passed the ‘Banking Amendment Bill’ in December 2012. Once, the bill is passed by Rajya Sabha as well, it will pave way for the RBI to issue new banking licenses to private sector and attract more foreign investments in the sector. The Bill also proposes to enhance the voting rights of investors in the case of both PSCBs and Pvt.SCBs from existing 1 per cent to 10 per cent for PSCBs and from 10 per cent to 26 per cent for Pvt.SCBs. This move will attract more foreign investment.\(^11\)

The resilience of the banking sector was marked by improvement in the capital base, asset quality and profitability. Even though the PSCBs have the maximum share of banking industry, the role of Pvt.SCBs is very important in the economic development of India, particularly Tamil Nadu.

**1.2 STATEMENT OF THE PROBLEM UNDER STUDY**

The PSCBs are owned and operated by Government. Even though they earn profits, they are established primarily with service motive and not profit motive. The nationalization of banks killed and stifled competition in banking. Banks operated in regulatory environment with administered rate of interest structure, quantitative
restrictions on credit, high reserve requirements and significant proportion of lendable resources going to the priority and Government sectors. This resulted in low levels of investment and growth, decline in productivity and erosion of profitability of banking sector. Hence, Narasimham Committee I (1991) recommended the free entry of new banks into the financial market, provided, they conform to the minimum startup capital and other requirements with the permission of the RBI.

As per census 2011, a huge section of Indian population is still unbanked. The overall percentage of households availing banking services in India stood at around 59 per cent as on 2011, which means still over 40 per cent of total households, lacks access to formal banking services. This is largely driven by rural areas and/or low income group of population, due to their financial illiteracy, low level of income and savings, lack of collateral and absence of verifiable credit history.\(^{12}\)

The Pvt.SCBs came into existence to supplement the performance of PSCBs and serve the needs of the economy better.

The Pvt.SCBs have been improving their NIM continuously. It is mainly because of their thoughtful business mix strategy coupled with healthy loan book. The NIM of Pvt.SCBs has been improved by 2 basis points Quarter on Quarter (Q-o-Q) and 8 basis points y-o-y to 3.35 per cent in quarter ending December 2012. Moreover, the NIM of 37 listed Indian Banks has been stabled to 3.03 per cent after a period of continuous decline from the last five quarters supported by Private Banks\(^{13}\).

The PSCBs, on the other hand, have reported a negative growth in its profitability. It is mainly because of the rising NPAs coupled with pace of loan restructuring, which leads to higher provisioning (2.75 per cent). Whereas, Pvt.SCBs have reported a robust growth in their bottom line numbers and supported the entire Banking Industry's profitability. Stable asset quality and loan restructuring were the primary reasons for the Private Banks’ superior performance. Almost all PSCBs have an increase in fresh NPA formations and higher restructuring\(^{14}\).

The contribution of Pvt.SCBs to the economic development of India is admirable, particularly in the areas of financial literacy, technical up-gradation of operating,
entrepreneurial development, project financing and reaching the low income people in urban areas too.

The Private Sector Commercial Banks (Pvt.SCBs) includes thirteen Old Pvt.SCBs (excluding Bharat Overseas Bank Ltd.) and seven New Pvt.SCBs as on 31-03-2012\(^6\). Out of thirteen Old Pvt.SCBs in India, four banks have their registered office in Tamil Nadu having a population of more than six crores and are playing an important role in all spheres of economic activities. Though they have branches throughout India, their origin is from Tamil Nadu. They are City Union Bank Ltd. Kumbakonam, Karur Vysya Bank Ltd. Karur, Tamilnad Mercantile Bank Ltd. Thoothukudi, and Lakshmi Vilas Bank Ltd. Karur, which are collectively called as Tamil Nadu Based Private Sector Commercial Banks (TNBPvt.SCBs).

As TNBPvt.SCBs play a predominant role in the economic growth, a need is felt to analyze the performance of TNBPvt.SCBs.

1.3 REVIEW OF LITERATURE

The available literature in the field of performance evaluation of banks is extensive and keeping track of all them and making a review is a formidable job. But efforts were made to present an evaluation of the earlier studies and research works done relating to the present study.

Rajiv Ranjan and Sarat Chandra Dhal\(^15\) (2003) in their article “Non-performing Loans and Terms of Credit of Public Sector Banks in India: An Empirical Assessment” made an empirical analysis of the non-performing loans (NPLs) of public sector banks in India and investigated the response of NPLs to terms of credit, bank size and macroeconomic condition. They suggested that appropriate credit culture and lending policy designed with relevant economic and financial factors constituting the terms of credit will make a significant impact on banks nonperforming loans.

A. Subbiah and M. Selvakumar\(^16\) (2005) in their article, “Regional Rural Banks and Agricultural Credit”, examined the various agricultural credits given by RRBs in India. They observed that the RRBs were specially designed financial institutions for financing agriculture. The article concluded that the RRBs were suited to monitor regional development by providing financial assistance to the weaker sectors of the people.
Milind Sathye\textsuperscript{17} (2005) in his article “Privatization, Performance, and Efficiency: A Study of Indian Banks” evaluated the impact of privatization on firm performance through ‘Synchronic’ approach in which the performance of state-owned firms is compared with the firms that were privatized or with the firms that were already in private ownership and ‘Historical’ approach, in which ex-ante and ex-post privatization performance of the same enterprise was compared. He concluded that partially privatized banks have continued to show improved performance and efficiency in the years after privatization.

M. Selvakumar\textsuperscript{18} (2006) in his Ph.D. Thesis on “Regional Rural Banks- A Performance Review” analyzed deposit mobilization and lending performance of RRBs in Tamil Nadu. He also compares income, expenditure, profit, deposit and advances of RRBs operating in Tamil Nadu among themselves and with RRBs at National level. He has suggested that modern technologies should be introduced to improve the quality of services in all spheres of banking activities and also mobile banking system for mobilizing more deposits from rural areas.

A. Subbiah and M. Selvakumar\textsuperscript{19} (2006) in their article, “Consolidation: Future of Regional Rural Banks”, presented a detailed vision of the consolidation of RRBs in India. Further the authors suggested the amalgamation of all RRBs in India, thus creating a single Regional Rural Bank covering all parts of the country.

Santha Vaithilingam, Mahendhiran Nair, and Muthi Samudram\textsuperscript{20} (2006) in their article “Key Drivers for Soundness of the Banking Sector: Lessons For Developing Countries”, empirically examined the impact of key factors such as infrastructure, intellectual capital, institutions, integrity, interaction and innovation on the soundness of the banks in developed, developing and under-developed countries. The empirical analysis showed that well developed institutions (institutions that facilitate efficient and effective functioning in the new economy), good integrity systems (governance) and high innovative capacity contribute positively to the soundness of the banking sector.

Medhat Tarawneh\textsuperscript{21} (2006) in his article “A Comparison of Financial Performance in the Banking Sector: Some Evidence from Omani Commercial Banks” classified the commercial banks in Oman on the basis of their financial characteristics as a guide line for future development, and to assess their financial performance. In order to evaluate the internal performance of a commercial bank, financial indicators are constructed from the
bank financial statements like return on assets, asset utilization, and operational efficiency. He concluded that the bank with higher predictors of total assets, credits, deposits, or shareholder equity does not always mean that it has better profitability performance.

Dilip Khankhoje and Milind Sathye\(^2\) (2008) in their article titled, “Efficiency of Rural Banks: The Case of India”, analyzed the efficiency of RRBs in India for the years from 1990 to 2002 through Data Envelopment Analysis and ANOVA. They recommended that the existing policy of bringing down non-performing assets as well as curtailing the establishment expenditure through voluntary retirement scheme for bank staff and rationalization of rural branches are steps in the right direction that could help these banks improve efficiency further over a period of time.

Sultan Singh and Ms. Komal\(^3\) (2009) in their article “Impact of ATM on Customer Satisfaction (A Comparative Study of SBI, ICICI and HDFC bank)” analyzed the present ATM facilities of individual banks, factors affecting the choice of ATM, problems faced by the customers and also analyzed the post purchase behavior of customers regarding the different banks under study. They concluded that satisfaction level is highest in SBI, followed by ICICI Bank and HDFC Bank. This is due to the size of the respective banks and number of years of its establishment.

P. K. Manoj\(^4\) (2010) in his article “Financial Soundness of Old Private Sector Banks (OPBs) in India and Benchmarking the Kerala Based OPBs: A ‘CAMEL’ Approach” studied the financial soundness of Old Private sector Banks (OPBs) in India with a focus on the Kerala-based OPBs for the ten years’ period (FY 2000 to 2009) using ‘CAMEL’ model. He also analyzed the relative position of Kerala-based OPBs (KOPBs) in respect of financial soundness with other OPBs in India. He gave suggestions to the individual banks on important aspects like liquidity management, profitability, asset quality, productivity, etc.

M. Selvakumar and E. Ramar\(^5\) (2010) in their article, “Customer Relationship Management in Banking Sector” have concluded that the customers are the king. They also found that CRM helps the banking to develop an enduring relationship with customers thereby ensuring profitability and service at right time. It will attract more customers and more revenue to the bank.
K. Karthikeyan, R. Karthi and D. Shyamala Graf\textsuperscript{26}, (2010) in their article “Impact of Training in Indian Banking Sector – An Empirical Investigation” evaluated the effectiveness of training in six banks (three public sector banks and three private sector banks) and how training contributes for growth of the banks is clearly examined. They pointed out that banks should take necessary steps in such a way that employees feel training is essential to enhance the productivity and customer satisfaction to meet the present business challenges in India.

P. K. Manoj\textsuperscript{27}, (2010) in his article “Determinants of Profitability and Efficiency of Old Private Sector Banks in India with Focus on Banks in Kerala State: An Econometric Study” studied the determinants of profitability and operational efficiency of private sector banks in India, with focus on the KOPBs. He pointed out the suggestions for enhancing operational efficiency. Higher profitability, and strong risk management capability are vital for these banks for survival and growth.

M. R. Shollapur and Y. G. Baligatti\textsuperscript{28} (2010) in their article “Funds Management in Banks: A Cost-Benefit Perspective” have examined the cost of sources of funds, analyzed the return from deployment of funds and traced the pattern of utilization of deposits. For this purpose, banks are reclassified as High, Medium and Low Profile Banks based on their performance. In each category, four banks are randomly selected. The study revealed that the overall cost of funds, in terms of cost of deposits, as well as borrowings for the banking industry, as a whole, are decreasing trend.

Jaynal Ud-din Ahmed\textsuperscript{29} (2010) in his article “Priority Sector Lending by Commercial Banks in India: A Case of Barak Valley” has attempted to diagnose the various lacunas of priority sector advances by commercial banks. It covers various factors of priority sector lending such as reasons, determinants, level of NPA and its recovery. His analysis indicates that two factors viz., mounting overdue and C/D ratio, out of five identified factors, are the most affecting factors of deployment of bank credit to priority sector.

M. Selvakumar\textsuperscript{30} (2010) in his article, “Regional Rural Banks (RRBs): Performance Analysis”, have examined three regional rural banks namely Pandian Grama Bank, Adhiyaman Grama Bank and Vallalar Grama Bank. He concluded that there was no significance difference in the growth rates of deposits, advances, income expenditure and profit of RRBs operating in Tamil Nadu. Also there was no significance difference in
the growth rates of deposits, advances, income expenditure and profit of RRBs in India and RRBs operating in Tamil Nadu.

Ghosh, Debarshi and Ghosh Sukanya\textsuperscript{31} (2011) presented a paper on “Management of NPAs in Public Sector Banks: Evidence from India.” which emphasized on management of NPAs in the perspective of the public sector banks in India under strict asset classification norms, use of latest technological platform based on Core Banking Solution, recovery procedures and other bank specific indicators in the context of stringent regulatory framework of the RBI. The reduction of NPA is necessary to improve the profitability of banks and comply with the capital adequacy norms as per the Basel Accord.

T. Somanadevi, S. Ayyappan and A. Ramachandran\textsuperscript{32}, (2011) in their paper on “Market Discipline, Behavior and Capital Adequacy of Public and Private Sector Banks in India” analyzed the role of market discipline on the behaviour of commercial banks with respect to their capital adequacy. The Pvt.SCBs shows a higher percentage of Tier-I capital than the PSCBs. However, the PSCBs show a higher level of Tier-II capital. Although the full implementation of Basel II accord by the regulatory authority (the RBI) may have influenced the level of capital adequacy in the banking sector.

R. K. Uppal\textsuperscript{33}, (2011) in his article “Banking Sector Reforms: Policy Implications and Fresh Outlook” analyzed the performance of the commercial banks in the period of post-second banking sector reforms i.e. 1998-99 to 2004-05. He studied the productivity and profitability in terms of parameters such as Per Employee Business, Per Branch Business, Per Employee Profitability, Per Branch Profitability and Per Employee Expenses. He pointed out that Indian banking system needs a fresh outlook and keeping in mind the various distortions, government should introduce third banking sector reforms. He also suggests that public sector banks should provide qualitative services with the help of information technology particularly to the rural masses.

Amir Hussain Shar, Muneer Ali Shah and Hajan Jamali\textsuperscript{34} (2011) in their article “Performance evaluation of pre- and post nationalization of the banking sector in Pakistan: An Application of CAMEL model” evaluated the performance of banks by applying the parameters of CAMEL frame work, capital adequacy, asset quality and management soundness, sensitivity to market risk, liquidity and earning. They conclude
that the analyses of soundness of the banking sector particularly show a positive impact of reforms and revealed an overall improvement in that sector.

S. Dharmalingam and K. V. Kannan\textsuperscript{35} (2011) in their article “Customer Perception on Service Quality of New Private Sector Banks in Tamil Nadu - An Empirical Study” have analyzed the quality of service in selected new private sector banks in Erode District by identifying the gap between customer expectation and perception and requirements of banks to deliver superior quality of service. They concluded that banks have developed innovative products, keeping in view the needs of different classes of individual customers.

Kajal Chaudhary and Monika Sharma\textsuperscript{36} (2011) in their article “Performance of Indian Public Sector Banks and Private Sector Banks: A Comparative Study” have compared the performance of public and private banks of India and suggested various measures for NPA management such as one time settlement schemes, regular follow-up measures, etc,. Also they concluded that the concept of privatization has overall improved the services in all the banks.

N. Manicka Mahesh\textsuperscript{37} (2011) in his Ph.D. Thesis “Performance Evaluation of Urban Co-operative Banks in Virudhunagar District” has examined income, expenditure and profits of Urban Co-operative Banks in Virudhunagar District and also the factors that influence the net profit through multiple regression analysis. He concluded that there is no significant difference among the growth rates of interest expenses, provision and contingencies, total expenses, operating profit and net profit of Urban Co-operative Banks at the Virudhunagar District and UCBs at National level.

G. V. Bhavani Prasad and D. Veena\textsuperscript{38} (2011) in their article “NPAs In Indian Banking Sector – Trends And Issues “ made an effort to evaluate the operational performance of the SCBs in India since 2000, NPAs Trends and issues. They viewed that New Private Sector Banks and Foreign Banks started with clean slate and latest technologies and so the Public Sector Banks and Old Private Sector Banks had to overcome the old systems and employee resistance and introduce the new systems and processes and norms.
Jasmindeep Kaur and Silony\(^39\) (2011) in their article “Performance Review of Commercial Banks in India with Special Reference to Priority Sector Lending - A Study of Post Reforms Era” have studied the contribution of public and private sector banks in financing priority sector and examined the component wise lending and evaluated the performance of commercial banks. They concluded that private sector banks in India were giving higher attention to priority sector of the economy than public sector banks during the study period.

Azeem Ahmad Khan\(^40\) (2011) in his article “Merger and Acquisitions (M&As) in the Indian Banking Sector in Post Liberalization Regime “ evaluates the banks performance in terms of net profitability, return on capital employed and impact of merger on company’s debt equity ratio. He suggested that after the merger the efficiency and performance of banks have increased and also that to generate higher net profits after the merger in order to justify the decision of merger undertaken by the management to the shareholders.

Krishna A. Goyal and Vijay Joshi\(^41\) (2012) in their article “Indian Banking Industry: Challenges and Opportunities” discussed the various challenges and opportunities like rural market, transparency, customer expectations, human factor, global banking, social, ethical issues, employee and customer retentions. The competition from global banks and technological innovation has compelled the banks to rethink their policies and strategies.

S. Rajamohan\(^42\) (2012) in his article “Analysis of NPAs of the Public Sector Banks in India” has analyzed NPAs in the Nationalized Banks and SBI and its associates. He concluded that the public sector banks and SBI group lend money to both the priority and non-priority sector and face the problems of the NPAs. For reducing NPA, the bank should keep personnel touch with the customers through effective customer relationship management.

Rajveer Rawlin, Shwetha M Sharan and Pradeep B Lakshmipathy\(^43\) (2012) in their article “Modeling the NPA of a Midsized Indian Nationalized Bank as a Function of Advances” tried to obtain a reasonable estimate of NPA both in terms of gross and net from the advances made by a mid-sized Indian public bank. They concluded that ‘cubic model’ provide the best fit for net NPA percentage and ‘S Curve model’ provide the best
fit for the Gross NPA percentages as a function of advances for arriving at NPA estimates.

R. K. Patel and P. V. Nayak\textsuperscript{44} (2012) in their article “Impact of Global Crises on Non-performing Assets of Indian Scheduled Commercial Banks” have studied the impact of global financial crises on NPAs level in all SCBs in India. They concluded that the Indian banking sector should be further strengthened to improve financial stability of banking sector. Also the problems of NPAs can only be solved when the SCBs put in place proper credit assessment and risk management will have to be supported extremely by proper legal framework.

Paneer Selvam, R. Mutlur and V.Rajaraman\textsuperscript{45}, (2012) published an article entitled “A Study on the Financial Performance of Nationalized Banks in India: A Post Liberalization Analysis” focused on the performance of the nationalized banks being carried out with the help of certain crucial operational variables of the banks including total business, expenditure, deposits, advances, profits etc. To identify the relative performance of the operational variables the linear and compound growth rates have been calculated.

M. Selvakumar and B. Arumugam\textsuperscript{46} (2012) in their article, “Role of Banking Sector in Climate Change”, highlighted that the climate change agenda is being increasingly mainstreamed for the banking sector. Implementing this may appear to entail additional resources. Banks in India can carefully evaluate which areas would be most complementary to their inherent organizational structure and ideology. As soon as banks can capitalize on the inherent opportunities which are now available, the concern over cost will diminish.

M. Selvakumar and M. Nagalakshmi\textsuperscript{47} (2012) in their article, “Earning Quality of Scheduled Commercial Banks in India: A sector –wise Analysis”, reveals that the operations of SCBs in India are satisfactory and have shown an appreciable improvement in their fee-based income. The profitability of SCBs is growing continuously due to increasing fees-based income and restriction of operating expenses.

M. Selvakumar and E. Ramar\textsuperscript{48} (2012) in their article, “Sales Promotional Strategies for Banks” observed that the bank has framed a strategy to concentrate in rural and semi-urban areas for business promotion. As the competition from private and foreign banks in urban and metropolitan centre is stiff, it is wise to market safely in the
areas where the bank has good presence through large network of branches and competition is not that formidable.

A. Shyamala\(^49\) (2012) in her article “NPAs in Indian Banking Sector: Impact on Profitability” have analyzed the impact of non-performing assets on profitability with other variables. She found that nationalized bank group and SBI groups secured first two places respectively and the extent of NPA was higher in public sectors banks. She has also concluded that the prudential norms and other schemes have rushed banks to improve their performance as well as enhancement in the financial strength of the Indian banking structure.

Ruchi Paruthi and Shalini Aggarwal\(^50\) (2012) in their article “Evaluation of Credit Risk Ratios between Public and Private Sector Banks in India” found the credit risk in various public and private sector banks in India from the year 2005 to 2011. They concluded that the bank should be more vigilant while advancing loans to their customers. It will enhance the profitability of the banks and will be good for the society.

Mishra Aswini Kumar, G. Sri Harsha, Shivi Anand and Neil Rajesh Dhruva\(^51\) (2012) in their article, “Analyzing Soundness in Indian Banking: A CAMEL Approach”, have analyzed the various aspects of convergence and soundness of the Indian Banking sector, computes various factors affecting and determining the two using econometric analysis and provides policy suggestions on tackling obstacles encountered while achieving soundness and convergence and how to maintain stability for longer periods. They conclude that private sector banks are at the top of the list with their performances in terms of soundness being the best.

K.A. Goyal and Vijay Joshi\(^52\) (2012) in their article “Merger and Acquisition in Banking Industry: A Case Study of ICICI Bank Ltd.” studied the growth of ICICI Bank Ltd. through mergers, acquisitions, and amalgamation. They conclude that ICICI Bank Ltd must devise a strategy in three phases i.e. Pre-merger phase, acquisition phase and post-merger phase. Also it has to focus on manpower to get sustainable development.

Namita Rajput, Monika Gupta and Ajay Kumar Chauhan\(^53\) (2012) in their article “Profitability and Credit Culture of NPAs: An Empirical Analysis of PSBs” analyzed the nature, extent and magnitude of NPA in Indian banking sector and examined the relationship between NPAs and profitability measure (ROA) of banks. They concluded
that there is a diminishing trend in the ratios of non-performing assets as GNPAs and NNPAs and recommended the measures to be adopted by them.

S. Ayyappan and M. Sakthivadivel\textsuperscript{54} (2012) in their article “Growth and Trend Analysis of Key Profitability Factors in Indian Scheduled Commercial Banks” have studied the contribution of select financial variables towards the profitability and analyzed the trend and progress of selected financial variables. From their study they conclude that the compound growth rate is comparatively higher for private sector Banks than that of the public sector Banks. The trend analysis also showed that the private sector Banks are making aggressive attempts to compete with the public sector Banks.

Anindita Chakraborty\textsuperscript{55} (2012) in his article “Employees’ Perception towards NPAs: A Comparative Study of Public Sector and Private Sector Banks” have evaluated and compared the factors underlying employees’ perception towards of NPAs in both private as well as in public sector banks. He found that if the banks take care of the factors like manager’s motivation level, manpower, skills to appraise collateral, efforts to reduce costs, government and political intervention and budget constraints, they can reduce NPAs.

K. Sriharsha Reddy\textsuperscript{56} (2012) in his article “Relative Performance of Commercial Banks in India using Camel Approach” used modified version of CAMEL ranking approach to assess relative positions of commercial banks. It is found that during the year 2009 the top three performing banks in all the categories of CAMEL are Mashreq Bank, China Trust Commercial Bank and Bank of Ceylon because of high capital adequacy, and liquidity.

M. Anbalagan and M. Gurusamy\textsuperscript{57} (2013) in their article “Performance Evaluation of Scheduled Commercial Banks in India”, have compared the performance of public, private and foreign banks in India. They concluded that the PSCBs rendered excellent service towards collection of deposits and granting of advances. The Foreign Banks secured first place in number of banks, business per employee and profit per employee.

M. Anbalagan\textsuperscript{58} (2013) in his article, “Loan Assets Classification of Scheduled Commercial Banks in India” found that Foreign Banks have highest average in ratio of sub-standard assets, loss of assets and gross NPA to total advances. When overall position was assessed, the PSCBs group has placed first.
Thirupathi Kanchu and M. Manoj Kumar\(^5\) (2013) presented an article on “Risk Management in Banking Sector- An Empirical Study” have suggested the Risk Management Committee, the Credit Policy Committee, the Asset Liability Committee, etc., are the committees that handle the risk management aspects. The effectiveness of risk measurement in banks depends on efficient Management Information System, computerization and net working of the branch activities.

M. Jayadev and Rudra Sensarma\(^6\) in their article “Mergers in Indian Banking: An Analysis” provided an analysis of ongoing merger trends in Indian banking from the viewpoint of two important stakeholders of a banking firm—stock holders and managers. Banks are optimistic about realizing the merger gains such as exploration of new markets and reduction in operating expenses. They suggested that the RBI should activate the Prompt Corrective Mechanism which helps in identifying the sick banks and the timing of the merger may be advanced to avoid total collapse of the bank.

C.S. Balasubramaniam\(^6\) in his article “Non-performing Assets and Profitability of Commercial Banks in India: Assessment and Emerging Issues” have analyzed the trend of the NPA of the banks, impact of NPA on profitability and financial soundness of banks in general. He found that new and old private sector banks are well placed to comply with Basel III norms in general. PSU banks although dominant banks in the Indian financial system may take more time and face challenges in following the Basel III guidelines in the ensuing years.

Nafees A. Khan and Ms. Fozia\(^6\) (2013) in their article “Growth and Development in Indian Banking Sector” showed the growth, technological development and computerization in Indian banking sector. They concluded that technology enhances the choice of creating new markets, and improves productivity and efficiency. Effective use of technology has a multiplier effect on growth and development.

Suresh Kumar\(^6\) (2013) in his article “Impact of Bank Mergers on the Efficiency of Banks: A study of merger of Bharat Overseas Bank with Indian Overseas Bank” have studied the impact of mergers on the efficiency and profitability of banks. He also found that the merger between Bharat Overseas Bank and Indian Overseas Bank has resulted in significant improvement in Business per Employee, Investment and advances, Interest income and other income. But other variables like Profit per Employee, Return on
Advances and NPA ratio have not recorded significant improvement in the post merger period.

The reviews collected under the head customer service quality have focused on the importance of marketing the banking services, more customer satisfaction, increased customer retention rates and building good customer relationship through social banking. Various research conducted above have analyzed the factors that influence the profitability of banks, impact of banking reforms, requirements for improving the efficiency of Pvt.SCBs and CAMEL parameters. Reviews relating to NPA have discussed the causes of NPA and suggestions for reducing the NPA. The effect of amalgamation, merger and consolidation of banks, causes and effects of amalgamation of banks, effect of FDI in banking, etc have covered under reviews collected regarding amalgamation. But all the above research studies have failed to analyze the financial performance of Tamil Nadu Based Private Sector Commercial Banks (TNBPvt.SCBs) in India. In order to fulfill this research gap, this present study has been undertaken.

1.4 SCOPE OF THE STUDY

The scope of this research study is limited to analyze the performance of TNBPvt.SCBs. For evaluating the performance of this selected Pvt.SCBs, the growth rates of income, expenditure, profit, NPA, deposits and advances are taken. Besides, this research compares the income, expenditure, profit, deposits and advances of TNBPvt.SCBs among themselves and also with other Old Pvt.SCBs in India.

1.5 OBJECTIVES OF THE STUDY

This study has the following objectives.

- To analyze the income and expenditure of TNBPvt.SCBs.
- To analyze the deposits and advances of TNBPvt.SCBs.
- To identify the trend of non-performing assets of TNBPvt.SCBs.
- To compare the income and expenditure of TNBPvt.SCBs with Old Pvt.SCBs in India and also with one another.
- To make a comparative analysis of the deposits and advances of TNBPvt.SCBs with Old Pvt.SCBs in India and with one another.
- To identify the best performer among the TNBPvt.SCBs.
• To offer suggestions for the betterment of the functioning of TNBPvt.SCBs, based on the findings of the study.

1.6 OPERATIONAL CONCEPTS

1.6.1 Private Sector Banks

For the purpose of this study, private sector banks mean Private Sector Commercial Banks.

1.6.2 Business per Employee

When the sum total of advances and deposits are divided by number of employees of a bank, the result is called Business per Employee.

1.6.3 Profit per Employee

The profit per Employee is calculated by dividing the net profit of a bank by its number of employees.

1.6.4 Interest Income

Interest income consists of interest or discount on advances or bills, interest on investments and interest on balance with the RBI and other interbank funds.

1.6.5 Other Income

Other income includes commission, exchange and brokerage, profit less loss on sale of investments, profit less loss on revaluation, profit less loss on sale of fixed assets, demand draft and miscellaneous incomes.

1.6.6 Total Income

Total income is the combination of interest income and other income earned by a bank.

1.6.7 Interest Paid

Interest paid includes interest on deposits, interest on RBI or interbank borrowings, interest on participating certificates and penal interest paid by a bank.

1.6.8 Operating Expenses

Operating expenses include payments to and provisions for employees, rent, taxes and lighting, printing and stationary, advertising and publicity, depreciation on bank property, director’s fees, allowances and expenses, auditors fees and law charges, repairs and maintenance and insurance and postage.
1.6.9 Provisions and Contingencies

Provisions and Contingencies include all provisions made for diminution in the value of investments and transfer to contingencies.

1.6.10 Total Expenditure

Total Expenditure of a bank consists of interest paid, operating expenses and provisions and contingencies.

1.6.11 Net Profit

The excess of total income over total expenditure of a bank is called Net Profit.

1.6.12 Operating Profit

Sum of net profit and provisions and contingencies of a bank are called Operating Profit.

1.6.13 Interest Spread

Interest spread is the difference between interest income and interest paid.

1.6.14 Net Interest Margin

Excess of income of a bank’s earnings assets over its funding cost is called net interest margin.

1.6.15 Demand Deposit

Demand Deposit is the deposit in which the customers deposit any amount and withdraw any amount by cheque at their convenience.

1.6.16 Savings Bank Deposit

An account opened by a customer to make a deposit and withdrawal of small sums of money is called Savings Bank Deposit.

1.6.17 Term Deposit

A type of deposit where the money is kept for a longer period of time in order to get a regular income is called Term Deposit.

1.6.18 Deposit

Any amount received by a company in any form other than by way of share capital would be deemed to be deposit.
1.6.19 Other Priority Sector Advances

Other Priority Sector Advances include advances to small scale industries, export and other small borrowers.

1.6.20 Credit Deposit Ratio

The Credit Deposit Ratio brings out the relationship between the total advances and total deposits of a bank.

1.6.21 Priority Sector

Priority Sector refers to those sectors of the economy which may not get timely and adequate credit in the absence of this special dispensation.

1.6.22 Non-Performing Assets

All those assets which do not generate periodical income are called as Non-Performing Assets.

1.6.23 Gross NPA

Gross NPA is the total of sub-standard advances, doubtful assets and loss assets.

1.6.24 Other Deductions

Other deductions include provisions, interest reserve and DICGC/ECGC claim collection made by a bank.

1.6.25 Net NPA

Net NPA is calculated by deducting the total of; (1) balance in interest suspense account, (2) DICGC/ECGC claims received and held for pending adjustment, (3) part payment received and kept in suspense account, and (4) total provisions held from the Gross NPA.

1.6.26 Mean

Mean is obtained by adding together all the items and by dividing this total by the number of items.

1.6.27 Median

Median is the central value of the distribution that divides the distribution into two equal parts.
1.6.28 Standard Deviation

Standard Deviation is the square root of the means of the squared deviations from the arithmetic mean.

1.6.29 Range

Range is the difference between the value of the smallest item and the value of the largest item included in the distribution.

1.6.30 Co-efficient of Variation

When the relative dispersion is stated in terms of the arithmetic mean and the standard deviation, the resulting percentage is known as co-efficient of Variation.

1.6.31 Growth Rate

Growth Rate refers to the percentage of increase or decrease of certain information in particular year, when compared with the previous year.

1.6.32 Year

Year means financial year, which starts from 1st April to 31st March of the following year.

1.6.33 TNBPvt.SCBs

TNBPvt.SCBs are the Old Private Sector Commercial Banks whose head offices are situated within Tamil Nadu.

1.6.34 Trend Values

Trend values are an aspect of technical analysis that tries to predict the future movement of something based on past data.

1.6.35 Compound Growth Rate

Compound growth rate is a measure of how much something grew on average, per year, over a multiple-year period, after considering the effects of compounding.

1.7 HYPOTHESES OF THE STUDY

For the purpose of this study, the following hypotheses are framed:

- There is no significant difference between the growth rates of deposits, advances, income, expenditure, net profit and operating profit of TNBPvt.SCBs and Old Pvt.SCBs in India.
There is no significant difference among the growth rates of deposits, advances, income, expenditure, net profit and operating profit of various TNBPvt.SCBs.

There is no significant difference among the NPA of various TNBPvt.SCBs.

1.8 PERIOD OF STUDY

This study covers a period of 11 years from 2001-02 to 2011-12.

1.9 METHODOLOGY

This study is based upon the secondary data collected from the annual reports of the individual bank, RBI Bulletin, RBI annual reports, journals, Government publications, books, reports on trends and progress of banking in India, profile of banks 2011-12, websites and so on.

1.10 PLAN OF ANALYSIS

The statistical tools like Percentage Analysis, Simple Growth Rate, Compound Growth Rate, Trend Analysis, Mann-Whitney U Test, Mann-Whitney-Wilcoxon Test, Kruskal Wallis Test, Regression Analysis, Median Test, Discriminate Analysis and descriptive statistics has been used to analyze and evaluate the operations of TNBPvt.SCBs.

To evaluate deposit mobilization, lending performance, income, expenditure and profit of TNBPvt.SCBs and Old Pvt.SCBs in India, the tool of growth rate and compound growth rate are used. Growth rate refers to the percentage increase/decrease of amounts of TNBPvt.SCBs as compared to previous year. The compound growth rate is calculated using the following model:

\[ y = a b^t \]

\[ \log_e y = \log_e a + t \log_e b \]

\[ \log_e = \ln \]

Intercept = \( \log_e a \)

Regression co-efficient = \( \log_e b \)

Compound growth rate = \((e^b - 1) \times 100\)

Mann-Whitney-Wilcoxon Test is used to compare the growth rates of income, expenditure and net profit of TNBPvt.SCBs and Old Pvt.SCBs in India.

Mann-Whitney U Test is used to compare the growth rates of deposits and advances of TNBPvt.SCBs and Old Pvt.SCBs in India.
In order to know the significant difference in the growth rates of income, expenditure, profit, deposits and advances of various TNBPvt.SCBs, Kruskal-Wallis Test is used.

Trend analysis is used to estimate the amount of income, expenditure, net profit, deposits and advances from 2012-13 to 2024-25.

Descriptive statistics are used for comparing the gross NPA and net NPA of various TNBPvt.SCBs.

To analyze the NPA ratios of TNBPvt.SCBs, Median Test is used.

To identify the best performer of various TNBPvt.SCBs, Discriminate Analysis has been used.

1.11 CHAPTER SCHEME OF THE REPORT

This thesis has been organized and presented in nine chapters.

- The first chapter deals with the introduction and design of the study. It comprises of introduction, statement of the problem, review of literature, scope of the study, objectives of the study, period of the study, operational definitions of the concepts, methodology of the study, tools for analysis and chapter scheme.

- The second chapter examines the genesis and growth of TNBPvt.SCBs by considering eight factors namely the number of branches, number of employees, business per employee, profit per employee, capital and reserves and surpluses, investments, fixed assets and total assets of TNBPvt.SCBs.

- The third chapter deals with the income, expenditure and profits of various TNBPvt.SCBs.

- The fourth chapter analyses the growth of deposits and advances of various TNBPvt.SCBs.

- In the fifth chapter, the researcher has analyzed the NPA of various TNBPvt.SCBs.

- The sixth chapter compares the income and expenditure of TNBPvt.SCBs with Old Pvt.SCBs in India and compare with one another.
The seventh chapter compares the growth of deposits and advances of TNBPvt.SCBs with Old Pvt.SCBs in India and among themselves.

The eighth chapter identifies the best performer of various TNBPvt.SCBs.

The ninth chapter which is the last chapter offers a brief summary of the study as well as the suggestions for the betterment of the functioning of TNBPvt.SCBs.
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