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Introduction

Now a day’s banks play a very important role in the Indian Economy. The bank of Venice established in 1157 in Italy is supposed to be the most ancient bank. During 1401 a public bank was established in Barcelona. In 1407 Bank of Genoa was established. In India during the 1786 the "General Bank of India" was established. Then two other Presidency Bank in Bombay and Madras in the year 1840 and 1843 respectively were established. The RBI first introduced in January 1927 and in 1949 RBI was nationalized.

From 1960 to 1987 the share of public sector banks has progressively increased from around 2% in 1960 to 80% in 1987. The Banking Companies Act was renamed as the Banking Regulation Act 1949. Within the banking sector, increasing competition and growing risks remain important challenges. The competition for market share is increasing the pressure on profitability and forcing banks to trim costs, particularly transaction costs and improve overall efficiency. As an effect of liberalization, privatization and globalization policy there have not only been rapid expansion in the number of banking institutions in the country, but the banking horizon of the country has also changed significantly.

The present study has been undertaken for critical evaluation of Indian banking sector [with reference to 10 private sector and 10 public sector banks]. The study period is of five years from 2009-10 to 2013-14.

In this study, the financial performance of selected banks has been evaluated. The selection of banks has been divided in to two groups,-public and private banks. The researcher has taken ten banks from public sector banks and ten banks from private sector banks randomly. And for each bank and each group, different types of parameters have been used with the help of ratios to evaluate the financial performance for the period of study. The research work has been divided in to six chapters.
Summary

The entire research study has been present in the following chapters which are as under.

Chapter: 1

In this chapter, Introduction, Origin of the World ‘Bank’, Meaning and Definition of Bank, History of Banking in India, Evolution of Banks in India, Banking Sector Reforms in India, Banking Structure in India, Reserve Bank of India, Current Developments in the Banking Sector, RBI’s EFFORTS, Challenges and Opportunities with Financial inclusion Drive, Financial Inclusion & Priority Sector, Guidelines on the Base Rate, Indian Banking at a Glance are included.

Chapter: 2


Chapter: 3

The title of the present study is “A Study of Financial Performance of Selected Private Sector and Public Sector Banks of India”. The present study is mainly intended to examine the financial performance of Indian banking industry. This study is mainly based on secondary data published by the selected banks in its annual reports, various websites, other publishing materials, journals have been referred. Various statistic techniques like average, F test (ANOVA) have been applied to test the validity of two hypothesis namely first null hypothesis and second alternative hypothesis. And finally the limitations of the present research have been present. In this chapter also existing review of literature has been included.

Chapter: 4

This chapter includes the individual information of the each bank undertaken for the present study. This chapter gives history, vision, mission, aim, policy etc. of each selected banks.
Chapter: 5

In this chapter the financial performances of selected banks have been evaluated. The researcher has taken 20 banks from ten public sectors and ten private sectors bank randomly. For each bank different types of parameters have been used with the help of ratio to evaluate the profitability ratio like return on equity, interest spread, net profit margin, return on long term fund, return on assets, interest income to total fund, net profit to total fund, return on capital employed, earning per Share, dividend payout ratio, credit deposit ratio, total debt to owners fund, quick ratio, capital adequacy ratio, operating expense to total income ratio for the period of study. Here various ratios to measure financial performance have been tested with the help of F test (ANOVA).

Findings & Conclusions

Ratio analysis is one of the most important techniques to measure the financial performance. The findings of this study have been narrated as under:

(1) Return on Equity Ratio:

This ratio was highest in Yes Bank, if we considered average of the last five years that is financial year 2009-2010 to 2013-2014. Average of this ratio was lowest in DCB Bank i.e. 3.90 percent. Different banks achieved highest return on equity during 2009-10 to 2013-14 year wise Punjab national bank 24.06 percent in 2009-10, Central bank of India 21.45 percent in 2010-11, Yes bank with 20.89 percent, 22.39 percent and 22.71 percent in the year 2011-12, 2012-13 and 2013-14 respectively.

The result shown by ‘F’ test ANOVA reveals that there is significant difference in Return on Equity ratio is found among the selected banks under the study.

(2) Interest Spread Ratio:

Overall result of study period showed that the KMB stood at first position with 9.16 percent interest spread while during the same period Yes Bank stood at last with 3.78 percent interest spread. Year wise interest spread showing better position in private sector banks only. During 2009-10 KMB bank stood at a first position at 8.11 percent, and also for rest of the year KMB secured and maintained highest that is 9.18
percent, 9.16 percent, 9.82 percent and 9.52 percent respectively during 2010-11 to 2013-14.

The result shown by ‘F’ test ANOVA reveals that there is significant difference in interest spread ratio is found among the selected banks under the study.

(3) Net Profit Margin Ratio:

During the period of study average highest NPM found in axis bank i.e. 16.08 percent and lowest average NPM in Central Bank of India it was 3.50 percent. During the period of study NPM showing different tendency during first year it was found highest in Indian Bank i.e. 17.03 percent and there after it is found highest in second year 17.17 percent Bank of Baroda and there after it is found highest in private sector banks for remaining year Viz. 17.19 percent and 17.96 percent in axis bank during the 2012-13 and 2013-14 respectively and 15.88 percent in HDFC Bank during 2011-12.

The result shown by ‘F’ test ANOVA reveals that there is significant difference in Net Profit Margin ratio is found among the selected banks under the study.

(4) Return on Long Term Fund Ratio:

Among sample units Central Bank of India secured first position with best return on long term fund while ICICI Bank listed at last because of that continues poor performance. Year wise analysis of return on long term fund showed that public sector banks are more powerful than that private sector banks. During 2009-10 and 2010-11 central bank of India secured highest statistics that is 188.21 percent and 166.98 percent respectively. But only in 2011-12 return on long term fund ratio showing better position in private sector bank. During 2012-13 to 2013-14 Corporation Bank secured first position as far as return on long term fund ratio is concern with 142.11 percent, 142.94 percent respectively.

The result shown by ‘F’ test ANOVA reveals that there is significant difference in Return on Long Term Fund ratio is found among the selected banks under the study.
(5) **Return on Assets Ratio:**

During the study period average highest return on assets in SBI i.e. 1268.63 percent and lowest average return on assets in DCB Bank it was 36.50 percent. Year wise analysis of ROA showed that public sector banks are more powerful than that private sector banks. Year wise analysis of ROA showed that SBI is more powerful than that all other banks. SBI secured and maintained highest that is 1038.76 percent, 1023.40 percent, 1251.05 percent, 1445.60 percent and 1584.34 percent during 2009-10 to 2013-14 respectively.

The result shown by ‘F’ test ANOVA reveals that there is significant difference in Return on Assets ratio is found among the selected banks under the study.

(6) **Interest Income to Total Fund Ratio:**

Overall result of study period showed that the IndusInd Bank stood at first position with 10.50 percent interest income to total fund ratio while during the same period Bank of Baroda bank stood at last with 7.07 percent. Year wise analysis of interest income to total fund showed that private sector banks are more powerful than that public sector banks. During 2009-10 and 2012-13 KMB secured highest statistics that is 11.05 percent and 10.77 percent respectively. During 2010-11, 2011-12 and 2013-14 IndusInd Bank secured first position as far as interest income to total fund is concern with 10.02 percent, 11.56 percent and 10.30 percent respectively.

The result shown by ‘F’ test ANOVA reveals that there is significant difference in Interest Income to Total Fund Ratio is found among the selected banks under the study.

(7) **Net Profit to Total Fund Ratio:**

During the study period average highest net profit to total fund in KMB i.e. 1.80 percent and lowest average net profit to total fund in Central Bank of India and it was 0.30 percent. Year wise analysis of net profit to total fund ratio showed that private sector banks are more powerful than that public sector banks. During 2009-10 to 2012-13 KMB secured highest statistic that is 1.70 percent, 1.85 percent, 1.86 percent and 1.82 percent respectively and also 1.82 percent highest in 2012-13 in HDFC bank. During 2013-14 HDFC Bank secured first position with 1.90 percent. This ratio was lowest in 2009-10 and 2010-11 it was -1.31 percent and 0.32 percent
respectively in DCB Bank. Than after 2011-12, 2012-13 and 2013-14 it was lowest in public sector banks.

The result shown by ‘F’ test ANOVA reveals that there is significant difference in Net Profit to Total Fund ratio is found among the selected banks under the study.

(8) **Return on Capital Employed Ratio:**

This ratio was highest in IndusInd Bank if we considered average of the last five years that is financial year 2009-10 to 2013-14. Average of this ratio was lowest in BOB i.e. 7.77 percent. In 2009-10 KMB and IndusInd Bank secured first position with best return on capital employed while BOB listed at last because of that continues poor performance. Year wise analysis of return on capital employed showed that private sector banks are more powerful than that public sector banks. During 2009-10 and 2010-11 KMB secured highest return it was 11.13 percent and 11.26 percent respectively. ROCE for rest of the year IndusInd Bank secured and maintained highest that is 12.40 percent, 12.77 percent and 12.65 percent during 2011-12 to 2013-14 respectively.

The result shown by ‘F’ test ANOVA reveals that there is significant difference in Return on Capital Employed ratio is found among the selected banks under the study.

(9) **Earnings per Share Ratio:**

During the study period average highest EPS in J&K Bank and it was 171.97 percent and lower EPS in DCB Bank and it was 1.91 percent. Year wise analysis of earnings per share showed that public sector banks are more powerful than that private sector banks. During 2009-10 and 2011-12 SBI secured highest statistics that is 144.37 percent and 174.46 percent respectively and in 2010-11 PNB bank stood at a first position at 139.94 percent and there after it is found highest in private sector banks for remaining year Viz. 217.65 percent and 243.92 percent in J&K Bank during the 2012-13 and 2013-14 respectively. This ratio is lowest in 2009-10, 2010-11 and 2011-12 it was -3.92 percent, 1.07 percent and 2.29 percent in DCB Bank only. In South Indian Bank this ratio was 3.75 percent in the year of 2012-13 than after in 2013-14 it was lowest in public sector bank.
The result shown by ‘F’ test ANOVA reveals that there is significant difference in Earning per Share ratio is found among the selected banks under the study.

(10) Dividend Payout Ratio:

The dividend payout ratio is a very simple statistic. It shows how much of a bank’s net income gets paid out as dividends to shareholders. The percentage of earnings paid to shareholders in dividends. This ratio was highest in ICICI Bank if we considered average of the last five years that is financial year 2009-10 to 2013-14. Year wise analysis of Dividend Payout Ratio showed that ICICI is more powerful to payout dividend than that all other banks. During 2009-10, 2010-11 and 2013-14 ICICI Bank which is private sector bank secured first position as far as dividend payout is concern with 37.31 percent, 35.23 percent and 27.07 percent respectively and there after it is found highest in public sector bank is Central Bank of India secured and maintained highest that is 36.4 percent and 30.2 percent respectively during 2011-12 to 2012-13. Of course, a high payout ratio seems to have an obvious benefit.

But in many situations, you should be happy to find low payout ratios. If you’re investing in banks, you’ll want its leaders to make wise decisions with the bank’s profits. When a bank pays a dividend, the profits are no longer at the disposal of the bank. Holding on to some cash, instead of paying everything out, allows a business to:

- Invest in more efficient technology and machinery
- Hire additional staff and expand skill sets
- Prepare for economic uncertainty
- Operate effectively in bad economic environments
- Maintain consistent, stable dividend payments over short- and long-term periods
- Take advantage of high-growth opportunities like new product lines
- Consider attractive acquisition properties
- Invest in affordable real estate or new facilities

In short, lower payout ratio has own benefits.

The result shown by ‘F’ test ANOVA reveals that there is significant difference in Dividend Payout Ratio is found among the selected banks under the study.
(11) **Credit Deposit Ratio:**

The Credit Deposit Ratio indicates the relationship between loans and deposits. The regulator does not stipulate a minimum or maximum level for this ratio. But, a very low ratio indicates banks are not making full use of their resources. And if the ratio is above a certain level, it indicates a pressure on resources. In the case of Indian banks, a credit-deposit ratio of over 70 per cent indicates pressure on resources. The average ratio was the highest in KMB which was 95.94 percent followed by IDBI Bank, DCB Bank, Axis Bank, Bank of India, Bank of Baroda, SBI. The remaining selected banks maintained the CDR between 50 percent and 70 percent during the study period.

The result shown by ‘F’ test ANOVA reveals that there is significant difference in Credit Deposit Ratio is found among the selected banks under the study.

(12) **Total Debt to Owners Fund Ratio:**

Overall position of last five years shown ICICI Bank is strong with minimum average total debt to owners fund ratio it was 4.23 percent and Central Bank of India as standing last position of last five years average it was 25.48 percent. During the year 2009-10 to 2013-14 ICICI Bank secured top position with minimum total debt to owners fund ratio. From the analysis it is clear that the private sector banks leads as far as total debt to owners fund as concern during the entire period.

The result shown by ‘F’ test ANOVA reveals that there is significant difference in Total Debt toOwners Fund ratio is found among the selected banks under the study.

(13) **Quick Ratio:**

On the basis analysis of quick ratio it can be said that the quick ratio of Dena Bank was the highest with 33.05 percent followed by Allahabad Bank and South Indian Bank. Remaining banks under the study did not hold a reasonable and satisfactory position of Liquidity.

The result shown by ‘F’ test ANOVA reveals that there is significant difference in Quick Ratio is found among the selected banks under the study.
(14) **Capital Adequacy Ratio:**

Overall result of study period showed that the ICICI stood at first position with 18.78 capital adequacy ratio. It shows a very good operational efficiency as well as capital adequacy and also can be said that the Yes Bank, HDFC Bank, and Axis Bank have the good performance regarding capital adequacy to their risk weighted assets. It shows their long-term solvency also. Aggregately private sector banks have performed superbly compared to public sector banks. But all the banks have maintained the standards of RBI guidelines advocating CAR of 9%.

The result shown by ‘F’ test ANOVA reveals that there is significant difference in Capital Adequacy Ratio is found among the selected banks under the study.

(15) **Operating Expense to Total Income Ratio:**

The importance of operating expense to total income ratio lies in the fact of it being an indicator of the efficiency level of managing a property. A lower operating expense to total income ratio indicates a greater profit for the investors. In simple words, the operating expense to total income ratio reflects the percentage of a property’s income which is being utilized to pay operational and maintenance expenses. Overall position of last five years shown IDBI Bank is strong with lowest average of operating expense to total income ratio it was 12.63 percent and DCB Bank as standing last position with highest 34.40 percent of last five years average. During the year 2009-10, 2012-13 and 2013-14 IDBI Bank secured top position with minimum operating expense to total income ratio and during the year 2010-11 and 2011-12 Yes Bank secured top position with minimum operating expense to total income ratio. Aggregately public sector banks have performed superbly compared to private sector banks.

The result shown by ‘F’ test ANOVA reveals that there is significant difference in Operating Expense to Total Income ratio is found among the selected banks under the study.
Suggestions

1) Every Sector Banks must have to concentrate on to provide more working hours time like 8.00 A.m. to 8.00 P.m.

2) Every sector bank as specially Public Sector Banks must have to take care of his N.P.A. and must have to take serious steps to reduce N.P.A.

3) Private sector Banks have to open more branches in rural areas to provide better facilities compared with Public Sector Banks.

4) Public Sector Banks can also take the advantage of merger & acquisitions to make his share capital’s size bigger.

5) Public Sector Banks Profit is somewhat affected by the more branches in rural area comparing with Private Sector Banks so Public Sector Banks must have to aware about the loss made by rural branches and also maintain the more profit at city branches to overcome the losses made by the rural branches.

6) The Return on Equity Ratio in every bank it is very poor so they must have to think about to get more return on it.

7) Every bank must have to seriously think regarding the decreasing net profit margin ratio.

8) The long term fund ratio in most of the banks is decreasing year by year so they have to keep it steady or to grow slowly but steadily.

9) The banks included in the study must have to keep close eye on the interest income to total fund ratio it was negative during the last two year so they have to identify funds in which they can get safe, secure & more interest than previous one.

10) There are ups & downs in the previous few years in the net profit to total fund ratio so every sector banks should proper use of total funds to maintain stabile return.

To conclude, let us hope, in the coming years through dedication and hard work the public sector banks and private sector banks in India would improve their performance and march towards the achievement of their mission and goals in a better way.
Limitations of the Study

Each study cannot be free from limitations. Some limitations likewise, the limitation of time, areas, economic, efforts, scope as well as the method of the study. Some limitations for present research work are as under:

1. There are many different approaches to analyze financial performance and experts are not unanimous regarding the approach.
2. This study is mainly based on ratio analysis, which has its own limitations.
3. Scope of this study is wider but sample size is limited to only 20 banks. From the 20 banks, 10 are Public sector and 10 are Private sector banks are covered under study.
4. This research study based on secondary data collected from annual reports of various banks and related websites. The limitation of the secondary data and its findings depend entirely on the accuracy of such data.
5. The data, which is used for his study is based on annual report of the bank and secondary data collected from published reports from time to time. Therefore the quality of this research depends on quality and reliability of data published in annual reports.
6. This study provide glimpse of the past performance and the future conclusion may not be correct since several other factors may affect the future operations.
7. This study based on external analyses only, being outsider inside views may not be duly considered.
8. Results of this research are confined and limited to the selected banks.
9. The study is limited to five years (2009-10 to 2013-14) only.
10. In this research only selected public and private sector banks are covered. Co-operative banks and foreign banks are working in India could not covered. So, it is very difficult to come proper conclusion regarding whole banking sector.
11. Researcher has tried best to remain faithful and kin. But after all being a human, physical constrains may affect the result and as such the result of the analysis may not be cent percent correct to be relied upon.
12. Financial performance has been analyzed in aggregate and segmental analysis is left for future research efforts. Since this study is in the nature of a positive empirical research, it is not proposed to enter in the normative aspect and offer suggestion for improvement in the working.
13. The researcher does not have experience of working in banking industry and, therefore, it is not felt proper to offer suggestions for improvement in financial performance. Since this study is related to selected Public Sector Banks and Private Sector Banks only, it is not proposed to make any generalization for universal application.

Scope for future research

The present study deals with the “A STUDY OF FINANCIAL PERFORMANCE OF SELECTED PRIVATE SECTOR AND PUBLIC SECTOR BANKS OF INDIA”. The present study is limited to private sector banks and public sector banks only and limited to selected 10 banks of each sector. A future study can be made by taking other banks into consideration. The study can be extended to regional rural banks, foreign banks, co-operative banks and other financial institutions. The further scope of the study is that a comparison between the Indian banks and banks of foreign countries can also be done using same conceptual model or some other conceptual model with use of more advanced statistical tools. The time period of collecting secondary data can be extended from 5 years to 10 years or more to better analysis of the study.