SUMMARY

FINANCIAL PERFORMANCE OF SCHEDULED COMMERCIAL BANKS IN INDIA: AN ANALYSIS

INTRODUCTION

The banking sector is the lifeline of any modern economy. It is one of the important financial pillars of the financial sector, which plays a vital role in the functioning of an economy. It is very important for economic development of a country that its financing requirements of trade, industry and agriculture are met with higher degree of commitment and responsibility. Thus, the development of a country is integrally linked with the development of banking. The economic environment in many countries has been change after the global financial crisis. The financial structure in the whole world has been also change due to slow down. Banking sector is also affected by the crisis. Banking sector is the main component of financial sector, hence measuring the performance of banking institution has become a major task of all economies. The functioning of banking sector has change upside down in India also. To evaluate the efficiency of Indian Bank, their financial performance should be assessed. So it is important to examine as to whether the performance of banks has improved after crisis. Such information can provide use full guidance, to policy maker about understanding the efficiency of banking sector in India. There has been a wide development in techniques use to measure the efficiency of banking over the years.

SCHEME OF THE STUDY

The study consists of six chapters. The first and introductory chapter describes historical perspectives, major reforms of scheduled commercial banks in India. The second chapter reviews earlier research works on the topic both in India and abroad. The third chapter provides the methodology, objectives, scope and sources of data of the study. The fourth chapter evaluates the financial performance of banks through CAMEL Apporach. The fifth chapter measure efficiency of banks through data envelopment analysis. The last chapter provides conclusion and suggestions that emerge from the study to improve the financial performance of commercial banks in India.
OBJECTIVES OF THE STUDY

The major objective of the study is to measure the efficiency, profitability and overall performance of banks and bank groups in public and private sector banks during the study period 2007-08 to 2012-13. Keeping in view the main objectives of the study, an attempt has been made to attain the following objective:

- To measure and compare the technical and scale efficiency of Indian commercial banks.
- To identify the potential improvements.
- To identify the factors affecting efficiency of scheduled commercial banks.
- To evaluate the best bank regarding financial performance.
- To offer some feasible suggestion for efficient functioning of banks and draw some policy implications.

RESEARCH METHODOLOGY

In this study secondary data has been used to empirically examine the performance of Schedule Commercial Banks except Regional Rural Banks from 2006-07 to 2012-13. Two methods are used to measure the performance of banks.

1. CAMEL Approach

CAMEL approach is internationally accepted ratio base method. CAMEL is an acronym for five components of bank safety and soundness.

- Capital Adequacy
- Asset Quality
- Management Efficiency
- Earning Capacity
- Liquidity

To know the financial performance, growth rate is calculated of different parameters with their mean and coefficient of variation (CV). Ranks are also provided on the basis of growth rate in the present study. CV is also calculated to measure the stability in different parameters.
2. Data Envelopment Approach

Now a day, the most popular method to measure the efficiency of firms is Data Envelopment Analysis (DEA). DEA is a non-parametric method of measuring efficiency of firms i.e. Decision Making Units (DMUs). It is based on linear programming technique to measure the relative efficiency of firms where multiple inputs and outputs are used.

MAJOR FINDINGS ON THE BASIS OF CAMEL APPORACH

 ✓ On the basis of CAR, on an average, Kotak Mahindra Bank (17.61 percent) has top rank followed by Federal Bank (17.52 percent) and ICICI Bank (16.91 percent) among all public and private sector banks. Catholic Syrian Bank Ltd. (11.16 percent) and Dhanalakshmi Bank Ltd (11.39 percent) have least CAR among all banks under study. These banks are taking high risk as their CAR is lowest. Out of public sector banks, Canara Banks (13.69 percent) has highest CAR and Central Bank of India (11.67 percent) has lowest CAR. The CAR of public sector banks lies between 11.67 percent to 13.69 percent while private sector banks have range between 11.16 percent to 36.65 percent.

 ✓ An analysis of the growth value of different banks on the basis of net NPA to net advances for the entire period reveals that Ing Vysya Bank Ltd. (-40.84%), The Ratanakar Bank Ltd. (-37.91%) and Yes Bank Ltd. (-30.66%) were at the top while Andhara Bank (55.99%), State Bank Hyderabad (39.3%) and Indian Bank (36.43%) were in the bottom. The growth rate of all public sector banks except Bank of Maharashtra and Dena Bank are positive. This shows that assets of public sector banks are not managing efficiently. The growth rate of all new private sector banks is negative as they are managing their non performing assets more efficiently.

When the mean value of the different banks are taken into consideration Yes Bank (0.09 %), Karur Vysa Bank Ltd. (0.24 %) and HDFC Bank (0.34 %) have secured better ranks while UCO Bank (2.11 %), The Lakshmi Vilas Bank Ltd. (1.94 %) and Central Bank of India (1.84 %) have secured least rank with regard to this indicator. Inter-Bank comparison of co-efficient of variation reveals that there exists huge variation on net NPA to net advances. Hence, stability in above indicator varies from bank to bank and from year to year as well.
On the basis of average profit per employee, IDBI Ltd bank has registered top position followed by Corporation Banks and Oriental Banks of Commerce among all public sector banks. Yes Bank, Axis Bank and ICICI Bank have also highest mean profit per employee among all private sector banks. From the view point of profit per Employee, average PPE of new private sector banks is more than old private sector banks.

An Inter bank analysis shows that average return on assets of City Union Banks (Rs. 1.59 Lakh) is highest followed by Yes Bank (Rs.1.58 Lakh) and Karur Vysya Bank Ltd (Rs. 1.58 Lakh). Average return on assets of Development Credit Bank (Rs. 0.04 Lakh) is lowest followed by Catholic Syrian Bank (Rs. 0.32 Lakh) and Central Bank of India (Rs.0.52 Lakh). Indian Bank, Punjab National Bank and Andhra Bank are top most public sector banks while City Union Banks, Karur Vysya Bank Ltd and Yes Bank are top most private sector banks. When a comparison of growth rate of different banks is made, Development Credit Bank (35.67percent), Indusind Bank (29.85percent) and Ratnakar Bank Ltd (22.74percent) are in the top while Dhanlakshmi Bank (-40.91percent), Indian Overseas Bank (-25.11percent) and Punjab and Sind Bank (-12.93percent) were at the bottom.

On the basis of average spread, Kotak Mahindra Bank (4.21 percent), HDFC Bank (3.87 percent) and Nainital Bank Ltd. (3.59 percent) are top three Banks while IDBI Ltd. (1.11 percent), UCO Bank (1.97 percent) and Corporation Bank (2.01 percent) are three least efficient banks. Indian banks has highest spread as percentage of assets ratio among all public sector banks. Among SBI and its associates, State Bank of Bikaner and Jaipur (SBBJ) has highest spread ratio.

In brief, the financial performance analysis of public and private sector banks using CAMEL approach reveals that on an average private sector banks are much ahead of public sector banks. In the present study CAR is considered ICICI Bank, Axis Bank and Yes Bank are much stronger than other banks. On the basis of asset quality again new private sector banks are performing better then other banks. From the business per employee point of view, public sector banks are performing will than new private sector bank. When profit per employee is considered new private sector banks are earning more than private sector banks. Again from the earning present
of view new private sector banks are better performer in comparison to other banks. This show that new private sector banks are giving importance to their earning capacity and efficiently utilizing their asset. When liquidity is considered most of new private sector banks are again in better position in comparison to public sector banks.

Indian commercial banks should always remember that banking is service industry and focus more on service quality as new private sector bank. On the whole, it appears that new private sector banks is better than old private sector banks and public sector banks.

**MAJOR FINDINGS ON THE BASIS OF DEA APPROACH**

- Technical Efficiency under constant return to scale of different bank groups analysis reveals that new Private sector banks are much ahead among all groups. When the mean values of seven year period are observed, new private sector banks registered 95.04% TE (CRS) while old private sector banks posted only 87.07%. Among public sector banks, Nationalized banks (91.11 %) have more efficient than SBI and Associates (89.83%). Average TE (CRS) of public sector banks are slightly much better than private sector banks due to lowest efficiency of old private sector banks.

- Inter bank group analyses, on the basis of technical efficiency under VRS reveals that new private sector banks have registered higher average efficiency compare to other bank groups (Table5.26). Average TE (VRS) of new private sector banks are 95.58 which is highest as most of the new public sector banks have highest TE (VRS) (see table 5.23). In case of TE (VRS), old private sector banks have much lower efficiency in comparison of other bank groups specially new private sector banks. It is further observe that TE (VRS) of public sector banks 92.81 higher than private sector banks (90.97%). A deep insight reveals that average TE (VRS) of all banks groups are lowest in the year 2007-08. This show that global financial crisis has inversely effected the efficiency of Indian banks.
The scale efficiency of various banks groups reveals that new private sector banks, on an average, continue to register higher scale efficiency in the period under study. The average scale efficiency of groups is marginally differing from each other. An insight into the data reveals that average scale efficiency of private sector banks (98.54 %) are higher than public sector banks (97.7 %).

In brief, the analyses of public sector and private sector banks reveal that SBI, HDFC, ICICI banks are best DMUs. They are using their inputs and outputs more efficiently than other banks. Inter bank group analysis indicate that performance of new private sector banks, on an average, is better than old private sector banks, public sector banks. The performance of old private sector banks on TE and SE basis consider to be weak when compared to other groups. It appears that all public sector banks have not responded after crisis in the same degree and speed. Some of them, for instance, SBI, PNB and Corporation banks recoded a remarkable improvement while other banks like Central Bank Of India, Vijaya Bank, Punjab and Sind Bank failed to so any significant improvement. Similarly, private sector banks have also shown lower improvement in the efficiency in comparison new private sector banks.

**SUGGESTIONS**

There is no doubt that after global financial crisis Indian Banking system has improved rapidly and helps in economic development of the country. However, on the basis of present study following suggestions may be considered to improve the health of commercial bank performance in terms of efficiency, profitability and over-all performance.

- Deposits and credits are main components of every bank. Most of the portion of income and expenditure are depends upon these components. Therefore, banks should given more importance to enhance deposits. Financial inclusion can be helpful to increase deposits and credits. Credit can also helpful to generate interest income and profits. But, Liquidity, solvency and profitability should not be ignored at the time of giving loans.
➢ Bank should try to reduce cost at the minimum possible level, but not at the cost of quality of service. Optimum use of technology, proper utilization of human resources can help the bank to cut down the cost.

➢ Banks should allot Unique Customer Identification Code for customers which will help to identify a customer, track the facilities availed of, monitor financial transactions in various accounts, improve risk profiling as soon as possible.

➢ Bank should work to increase other income, so that dependency on interest income can be reduced. Most of the operating expenses should be paid out of other income. Bank should develop new product and services such as selling of insurance products, government securities etc. to accelerate other income. It is the need of the hour that public sector bank should given more attention to increase other income.

➢ Another area, which requires urgent attention, is improving employee’s productivity in public sector banks as their business per employee and profit per employee are low in comparison to private sector banks. It would be become impossible to survive without improving the efficiency of staffs.

➢ Bank should also work on the behavior of the staff, especially in public sector banks. An indifferent and well mannered staff can helpful to improve the quality of services. Proper training of staff regarding behavior, incentive for good behavior, code of conduct are some important strategies by which staff behavior can improve.

➢ To improve the quality of service, number of counter for deposit and withdraw should be increased specially in big branches. It will help to save the customer’s valuable time.

➢ Public sector banks should be given full autonomy in HRM related issues as it is given in private and foreign banks. This will help to face the global competition and increase their efficiency to provide better services to their customer.
➢ To fulfill the expectations of customer, to improve the profitability and efficiency, banks should adopt latest and cost-effective technology, because technology has emerged as a strategic tool in the operation of banks. Computerization, implementations of single window concept, online banking, anytime/ anywhere banking, Electronic fund Transfers (EFTs), Automated Teller Machines (ATMs) tele-banking are some technological innovations which aim at providing the better customer service.

➢ High level of NPAs is the most crucial challenge face by India banking system. To tackle this problem, different options are available which would include:

   i) Reducing the existing NPAs and curbing their further build up
   ii) Exploring avenues of recovering NPAs such as Lok Adalats for recovering smaller loans.
   iii) Strengthening the provisions of the Debt Recovery Act for recovery dues of banks and FDIs.
   iv) Increasing the number of Debt Recovering Tribunals.

➢ Due to innovation in information technology, internet facility, tele-banking, mobile banking has increased the efficiency of banks. But at the same time these technological facilities have some drawbacks like online frauds, password hacking etc. Therefore, the banks should improve the quality of these services and pay more attention for the safety of customer’s money. Its bank’s duty to aware the customers about these facilities and provide workshops, online study material etc. from time to time to how these facilities can be used carefully and safely.