CHAPTER 9

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9.1 Introduction

Sound banking system is an important indicator of an economically strong nation. The Indian banking system has played a vital role in the growth and development of the economy. Banking sector in India, being the lifeline of the country's economy, has gone through metamorphosis over the years. The post-nationalization era witnessed a cataclysmic change in the face of the public sector banks, giving thrust to social and mass banking and expanding the network of branches. The process of globalization and liberalization has also strongly influenced the Indian banking industry. In the deregulated environment, a series of reformative measures were undertaken by the government as well as the central bank on the basis of the recommendations of the Narasimham Committee to improve the working of banks in line with the international banking practices. The emergence of new private sector banks as well as the entry of new foreign banks in this era has thrown tremendous challenges in the form of tough competition among Indian banks. Only banks with high level of financial performance would survive and grow for a long period of time.

In this backdrop, an attempt has been made here to examine the comparative performance of selected public and private sector banks in India during the period of 1994 – 2004. The financial performance has been evaluated from different parameters – deposit mobilization, loans & advances, investment, non-performing assets, cost efficiency, productivity and profitability. For this purpose five leading Indian banks from each of the public and private sectors has been taken into consideration. Tentatively it has been hypothesized that the performance of the private sector banks is better as compared to the public sector banks during the period of study. The main findings of the study are summarized below:
9.2 Performance of the selected public sector banks

Financial performance of the selected public sector banks has been judged on the basis of mobilization of deposits, loans and advances, investment of funds, non-performing assets, productivity, cost efficiency and profitability.

9.2.1 Analysis of Deposits

For examining performance of the selected banks, total deposits (TD) have been segregated into three main heads: demand deposits (DD), savings deposits (SD) and term & other deposits (Tr D & OD).

In case of mobilizing demand deposits during the study period, performance of PNB is quite satisfactory followed by SBI and CB. On the other hand, BOI and BOB could not make significant progress in increasing absolute quantum of demand deposits and growth rate. It is also observed from the analysis that performance of all the five public sector banks was satisfactory in case of mobilizing savings deposits. SBI, CB and PNB increased the absolute quantum of savings deposits during the study period by about 5 times. Estimated trend rate of growth of savings deposits over the time period for all banks advocates in favor of banks’ efficiency in this regard. In case of term and other deposits, satisfactory performance is noticed for CB and SBI, followed by PNB. Similar result is observed in case of mobilization of total deposits. As measured by increase in absolute quantum over the periods and trend rate of growth, notable performance is found for CB, SBI and PNB. On the other hand, there is a scope to improve the total resource base in case of BOB and BOI in order to cope up with the resource base of other three banks selected here. It is also important to mention here that for all cases fluctuating trend of increase has been observed. All the banks should take careful attention in this matter in order to make stable growth over the periods.

9.2.2 Analysis of Loans and Advances

For analyzing loans & advances total loans and advances have been segregated into three categories - bills purchased & discounted (BPD), cash credits (CC) and term loans (TL) and growth of each category both in absolute and relative terms have been analyzed individually for all the banks selected for the present study. After individual analysis, the performance of selected public sector banks taken together has also been discussed. The
observed results indicate that in absolute term, amount of all categories of loans and advances for all banks have increased during the study period. Of them, term loans increased significantly followed by cash credits and bills purchased and discounted. Apparently this implies satisfactory performance for all the banks. But increase in quantum for any loans and advances do not necessarily mean that due principal has been collected timely. If banks could not recover principal amount, then it indicates inefficiency of management in spite of its increase in quantum of loans and advances over the periods. So, correct interpretation may be drawn after analyzing recovery of loans and advances. Another important factor is that all the banks gradually issued more amount loans and advances in term loans. Though till the end of the study period, cash credits occupied major positions, but following observed trend it can be argued that within a very short period of time quantum of term loans would be greater than other categories.

9.2.3 Analysis of Investment

The findings of the study relating to investment of the selected banks indicate that performance of all banks is quite satisfactory in terms of increasing absolute quantum of total investment as well as in respect of growth rate. Investment deposit ratios also strongly support it. It is generally believed that yielding capacity of investment in different approved securities is less as compared to loans & advances. It is also true that deployment of funds in terms of loans & advances is beneficial for banks only if banks can recover loans and advances timely. Otherwise high levels of NPAs adversely affect profitability, liquidity and solvency of a bank. In this situation it is safe and justified for banks to invest their funds in different approved securities.

9.2.4 Analysis of NPAs

For analyzing the asset quality of the selected banks both gross NPAs and net NPA (both in absolute and in relative term) have been considered. The findings indicate that none of the selected banks shows efficient performance in the matter of managing its loan assets. Among them performance of CB is satisfactory followed by BOB. PNB and SBI in some years improved their performance in this matter. As NPA arises from the non-recovery of interest and principal on loan assets, by analyzing NPAs it can be said that
the recovery performance of the banks was not satisfactory. But after deregulation and in the era of tough competition, it is ardently needed for the banks to take appropriate strategies to minimize their NPAs and utilize assets more efficiently. Several steps can be taken to minimize the NPAs, like compromising with the borrowers, legal steps, rating of loan assets, constitution of Assets Reconstruction Committee etc. But it can be said that no single policy or step can reduce the NPA levels because all these banks operate their banking business in every parts of this country. Economic background, cultural and some other environmental factors are different in different regions of this country. So to minimize the NPAs, Banks should frame strategies keeping in mind all these factors.

9.2.5 Analysis of Cost Efficiency, Productivity and Profitability

For measuring cost efficiency, three index values representing average performance of cost items, the degree of utilization of total expenses in relation to business and the efficiency in managing total cost have been computed for the selected banks over the study period. It is observed from the study that the performance of selected banks in managing costs was satisfactory for the period 1994-95 to 1996-97. During the rest of the study period none of the selected banks performed well. Another important factor is that the existence of a very high degree of inconsistency associated with the management of cost clearly points out the need for adopting sound policies by the banks.

In order to examine the productive efficiency of the selected banks, a composite productivity index has been calculated and numerical value of the index greater than 1 indicates efficiency in utilizing resources. It is observed from the study that, except a few cases, the productivity index of greater than one is found for all the selected banks, though no definite pattern is noticed. The existence of high degree of inconsistency regarding the occurrence of the most successful year followed by the most unsuccessful one and vice versa clearly demands the need for adopting stable management policies in this matter.

For measuring profitability three widely used measures of profitability, namely, spread as a % of total assets, return on total assets and return on net worth, have been considered. It has been observed that the banks could not maintain a steady growth of profit over the years, though the quantum of profit was not negligible. In respect of
spread as a percentage of total assets on an average, PNB and BOB performed well. Improvement is observed for all the banks in respect of return on assets and return on net worth during the period of study.

The analysis of financial performance of the selected banks from different criteria advocates in favour of improvement during the study period but not sufficient enough in this tough competitive environment.

9.3 Performance of the selected private sector banks

Performance of selected private sector banks has been judged using the same financial indicators as we have used in case of public sector banks. The findings of the study are summarized below:

9.3.1 Analysis of Deposits

It has been observed from the analysis that the quantum of different deposits in absolute term increased significantly over the study period for all the banks under consideration. Among them, the performance of ICICI Bank, UTI Bank and HDFC Bank was found to be satisfactory while that of other two banks was not up to the mark. Analysis of percentage increase of deposits over the previous year reveals fluctuating trend for almost all the banks. This needs due care especially in this tough competitive environment. Barring a few cases, the observed growth rates of different deposits for all the banks were found to be satisfactory. If they can maintain the growth rates in future this will lead them to highly satisfactory position in the Indian banking sector in term of resource base.

9.3.2 Analysis of Loans and Advances

The analysis of three main categories of loans and advances as well as total loans and advances of all the selected banks both in absolute and relative terms indicates that ICICI Bank, HDFC Bank and UTI Bank performed well during the study period. In case of IDBI Bank some improvement is also noticed. But the performance of Federal Bank was not up to the mark. The computed exponential growth rate of different categories of loans and advances also exhibit the same. But that increase in absolute quantum of any loan category does not necessarily mean satisfactory level of performance because of the
existence of NPA. So the performance of the banks can be better understood from the analysis of loan assets quality of the banks.

9.3.3 Analysis of Investment

From the analysis of quantum of total investments and percentage increase/(decrease) over the previous year it is seen that ICICI Bank performed better followed by HDFC Bank and UTI Bank. On the other hand, IDBI Bank and UTI Bank could not improve their performance significantly. Overall exponential growth rate computed for each bank also strongly support it. Regarding the proportion of investment in total deposits all the banks failed to follow a definite pattern. This should be taken into consideration.

9.3.4 Analysis of NPAs

From the analysis of gross and net NPAs in both absolute and relative terms some improvement is noticed for all banks during the study period. Among the selected banks, satisfactory improvement is noticed in the matter of managing loan assets in case of HDFC Bank. ICICI Bank and IDBI Bank also performed well in these years. On the other hand, poor performance is found in case of Federal Bank. The performance of UTI Bank is also not satisfactory. Since all the banks are operating in a tough competitive environment, poor recovery of loans and investment of loans would greatly affect the financial stability. To attain the international standard of NPAs, all the banks should take effective strategy to reduce the level of NPAs after taking into consideration the environmental and economic factors of different regions of this country.

9.3.5 Analysis of Cost Efficiency, Productivity and Profitability

In an attempt to investigate cost efficiency of five selected private sector banks in this study, three index values representing performance index of cost items, the degree of utilization of total expenses in relation to business and the efficiency in managing total cost have been computed for all the selected banks over the study period. It is observed from the study that average performance of all the selected banks was satisfactory. More specifically, ICICI Bank performed well throughout the study period, followed by HDFC Bank. On the other hand, IDBI Bank, UTI Bank and Federal Bank could not manage their cost efficiently over the periods. Another important factor is that the existence of a very
high degree of inconsistency associated with the management of cost clearly points out the need for adopting sound policies by the banks.

In case of productivity as measured by the productivity index, the findings of the study indicate that on an average all the banks selected for this purpose performed well over the periods. In spite of some inconsistency associated with the definite trend, ICICI Bank performed quite well followed by UTI Bank, HDFC Bank and IDBI Bank. If we exclude very high and very low productivity index of Federal Bank, then it can be argued that in most of the years the bank was efficient in the matter of utilizing its resources.

Profitability of the selected banks as measured by the three ratios, spread as a percentage of total assets, return on total assets and return on net worth, improved during the period of study. Initially it declined for almost all the banks, but later the bank registered satisfactory performance. Among the banks, HDFC performed well throughout the study period, followed by ICICI Bank and UTI Bank. But no definite trend is observed for all, which is very necessary in the days of tough competitive environment.

It is, thus, evident from the analysis of financial performance of the selected private sector banks using different parameters that HDFC Bank and ICICI Bank performed very well. Performance of UTI Bank and IDBI Bank is also satisfactory for most of the indicators of financial performance employed here. But Federal Bank could not register better performance in most cases.

9.4 Comparative Performance of Selected Public Sector and Private Sector Banks

For analyzing comparative performance, world renowned CAMEL Model has been used. In order to examine the overall efficiency of the selected public sector and private sector banks using CAMEL technique, first appropriate ratios for parameters over the years have been computed and then ranked them on the basis of simple average over the study period for each parameter. Then the composite score of each bank for each parameter has been computed by taking an average of the individual ranks achieved by the banks for each ratio in a single parameter and final rank has been prepared.
**Capital Adequacy:** In Capital adequacy, both BOI and Federal Bank ranked 1st position followed by SBI (2nd position) and BOB (3rd position). ICICI Bank, IDBI Bank and HDFC Bank could not perform well in Capital adequacy and ranked as 6th, 7th and 8th respectively. In fact, all the three private sector banks maintained satisfactory capital to weighted risk assets during the study period. But for other measures of Capital adequacy, they failed to acquire the top positions. It cannot be denied that CAR is the most important measure that determines the Capital adequacy of a bank. In CAR SBI, ICICI and HDFC Bank occupied 1st, 2nd and 3rd position respectively.

**Asset Quality:** It has been observed that new private sector banks occupied first four positions in case of asset quality. HDFC Bank ranked 1st position followed by IDBI Bank (2nd), ICICI Bank (3rd) and UTI Bank (4th). It has already been mentioned that HDFC Bank performed consistently well for all the measures of asset quality. Among the public sector banks, SBI occupied 5th position followed by PNB (6th), CB (7th) and BOB (8th). Both FB and BOI occupied last position in asset quality among the selected banks. It is, thus, evident from the analysis of asset quality that new private sector banks are more cautious about the quality of their assets than the other banks selected for this study.

**Management Quality:** The findings of the study indicate that IDBI Bank occupied 1st Position in management quality followed by ICICI Bank (2nd), UTI Bank (3rd), FB (4th) and HDFC Bank (5th). Thus first five ranks are occupied by private sector banks and rest ranks are occupied by public sector banks. Both SBI and BOI ranked 6th Position in this matter. Management performance of PNB is found to be poor among the selected banks and occupied last position. Similarly CB and BOB did not perform well in this respect.

**Earnings Quality:** In earnings quality HDFC Bank ranked 1st position followed by PNB (2nd position) and BOI (3rd position). On the other hand, UTI Bank and FB did not perform well in earnings quality and occupied 7th and 8th position respectively. Both ICICI Bank and BOB occupied 4th position. The result shows that no definite conclusion can be drawn regarding earnings quality of public sector bank and private sector banks. A mixed result is observed.
Liquidity: It has been observed that ICICI bank occupied 1st position in liquidity, followed by BOB (2nd) and SBI (3rd). While UTI bank achieved 4th position in this matter, both HDFC and CB occupied 5th position. On the other hand, PNB and IDBI Bank ranked as 8th and 9th position respectively in the matter of maintaining adequate liquidity.

Overall Rank: Findings of the study indicate that new private sector banks performed better than other banks. ICICI Bank occupied 1st position in overall rank, followed by HDFC Bank. On the other hand, UTI Bank and IDBI Bank got 4th and 5th position in this respect. Among the public sector banks, SBI performed well and occupied 3rd position. Apart from SBI, performance of BOB is also found satisfactory and got 5th position in overall ranking. One old private sector bank, Federal Bank, has been selected for this study and the bank could not perform well. Federal Bank ranked 7th position along with PNB. CB occupied last position in this matter. Average performance is observed in case of BOI.

Tentatively we hypothesized that performance of private sector banks is better as compared to that of public sector banks. The findings of this study confirm the hypothesis of this study with slight modification, i.e. performance of new private sector banks is better than public sector banks or old private sector banks.

9.5 Limitations of the study and scope for further research

Before concluding, it is necessary to point out the limitations of the study and scope for further research:

1. The present study is based on a sample of 10 leading Indian banks included in public sector and private sector. For comparative analysis, the banks selected for this purpose is justified. But to get a clear picture of Indian banking sector other banks have also to be considered. Again foreign banks operating in India also constitute a significant part of Indian banking industry; these banks need also to be considered to judge the competitive strength of Indian banks.
2. The study is based on published secondary data only. All information required for judging the financial performance, such as year-wise recovery of different loans, age of overdue, interest income on various deposits separately etc. are not available from the published reports. A study using internal unpublished data, which are normally not available, may provide better reflection relating to this issue. So, future study using internal records for a significantly long period may be more useful to have an idea about the present position of Indian banks.

3. Retail banking is an important issue in the banking sector in India as well as in the world scenario. As the banks are moving from traditional banking to develop a long term relationship with the customers (relationship banking) by providing more and more new ideas and products, an extensive research study on retail banking performance of Indian banks may be very useful. No attempt has been made here about the performance of the banks in retail banking due to non-availability of sufficient data.

4. Technology in this tough competitive environment plays a vital role in cost saving, providing better quality of services and improving overall performance. Recently Indian banks are using technology to a large extent to retain the existing customers and acquiring new one at a low cost. A research study is necessary to examine the role of technology in modern banking service.

5. Risk management is another important issue in banking as well as non-banking companies. Management of assets and liabilities of Indian commercial banks may be very useful research study in the present context.

9.6 Conclusion

In an attempt to evaluate comparative financial performance of ten leading Indian commercial banks, five each from public sector and private sector, the present study has employed different parameters of financial performance. Performance of each bank has been analyzed in details in terms of deposit mobilization, loans & advances, investment
position, non-performing assets, cost efficiency, productivity and profitability. Lastly, comparative performance has been done using CAMEL Rating Method.

After the financial sector reforms, major operational changes have come in Indian banking sector. Some new banks have entered this sector with some innovative thinking to cope up with the competitive environment. These new private sector banks are more technology savvy and more concerned about the changing needs of customers. Old private sector and public sector banks were in the banking service under controlled economy for a long period of time. The success of any firm including banks depends on internal strength and how it adjusts with the external changes. Practically it is very difficult to cope up with the changing environment within a very short period of time.

In the present study we have examined the performance of the selected banks for the period 1993-94 to 2003-04. Tentatively we hypothesized that the performance of private sector banks is better as compared to public sector banks. The finding of our study also supports the hypothesis with a little modification. It has been observed from the study that new private sector banks performed well as compared to selected public sector banks and old private sector banks.

In this study out of selected five private sector banks, only one is old private sector bank. It is evident from the analysis of financial performance of the selected private sector banks using different parameters that HDFC Bank and ICICI Bank performed very well. Performance of UTI Bank and IDBI Bank is also satisfactory for most of the indicators of financial performance employed here. But Federal Bank could not register better performance in most cases. While the new private sector banks entered the banking services in the deregulated environment, Federal Bank operated the banking service under the controlled economy earlier. It seems that the bank could not cope up with the major changes in the structure and operations of the banking sector after the introduction of financial sector reforms. Thus the bank could not improve its performance to a satisfactory level. Another important matter is that all the new private sector banks used high technology to provide new and better products and services to the customers. Earlier, use of technology was not so important for the Indian banks.
Among the selected public sector banks, SBI performed well. The bank has large quantum of resource base and branches in every part of the country. Large part of Indian rural and semi-urban people depends on SBI for banking service. BOI also performed well as compared to other public sector banks selected in this study. But the overall performance of PNB and CB is not satisfactory, though both the banks registered better performance in some respect.

The RBI and the Central Government of India undertook several reform measures to make the Indian banks competitively strong and economically viable. It has been observed from the present study that the performance of all the selected banks improved in the later part of the study period. It can be said that Indian banks are gradually strengthening their financial performance while working in a very tough competitive environment. At the same time, some inconsistency is noticed regarding steady growth on different parameters. The reasons for such inconsistency need to be examined using internal data.