International Journal of Engineering & Scientific Research
Vol. 6 Issue 3, March 2018,
ISSN: 2347-6532 Impact Factor: 6.660
Journal Homepage: http://www.esrjournal.com Email: esrjeditor@gmail.com Double-Blind Peer Reviewed Refereed Open Access International Journal - Included in the International Serial Directories Indexed & Listed at: Ulrich's Periodicals Directory ©, U.S.A., Open J-Gage as well as in Cabell's Directories of Publishing Opportunities, U.S.A

AN ANALYSIS OF PRODUCTIVITY OF SCHEDULED COMMERCIAL BANKS IN INDIA

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ABSTRACT

The strength of any economy is defined by the efficiency and competitiveness of the banking system. The banking sector is the core segment of the Indian financial system which decides the development of the economy. A Bank is a financial institution and a financial intermediary that accepts deposits and channelizes these deposits into lending activities, either directly or through capital markets. A Bank connects customers that have capital deficit to customers with capital surpluses. The sound financial position of a bank is the guarantee to its depositors as well as the whole economy of the nation. The present paper tries an attempt to understand the productivity of Scheduled Commercial Banks in India. It evaluates the performance of SCBs to know the operational efficiency. The study is analytical in nature and makes use of secondary data. Ratio analysis is the main tool used for the analysis. The study finds that Scheduled Commercial Banks in India have significantly improved their productivity and operational efficiency. From the analysis it can be concluded that the financial performance of scheduled commercial banks is progressive and due to the increased provision and contingencies the profitability has declined and it contributes towards the economic development of the nation.

Keywords : Scheduled Commercial Banks, Performance, Operational Efficiency, Productivity

INTRODUCTION

A sound financial system is essential for a healthy and vibrant economy. The strength of any economy is defined by the efficiency and competitiveness of the banking system. A bank is a financial institution and a financial intermediary that accepts deposits and channelizes these deposits into lending activities, either directly or through capital markets. Today in India the service sector is contributing half of the Indian GDP and the banking is the most popular service sector in India. The banking sector is the core segment of the Indian Financial System which decides the development of the economy. A Bank is a financial institution and a financial intermediary that accepts deposits and channelizes these deposits into lending activities, either directly or through capital markets. A Bank connects customers that have capital deficit to customers with capital surpluses. The sound financial position of a bank is the guarantee to its depositors as well as the whole economy of the nation. The Indian Banking Sector is broadly classified into Scheduled banks and Non Scheduled banks. The Scheduled banks are further classified into Commercial banks and Cooperative banks. Commercial banks include Nationalised banks, SBI, Regional Rural Banks, Foreign banks and other Indian private sector banks. Presently the Indian banking sector consists of 26 Public Sector Banks, 20 Private Sector Banks and 43 Foreign Banks along with 61 Regional Rural Banks and more than 90,000 credit cooperatives. The banking system in India is most extensive. The total asset value of the entire banking sector in India is nearly US$270 billion and the total deposits are nearly US $220 billion. Banking Sector in India has been transformed completely. Demonetization made vibrations in the operations as well as products and services of banks. It created greater demand to digital banking services where cashless transactions are prioritized. Demonetization is a tool used by the Central Government to fight against corruption and black money. Though it affected badly to certain extent of bank operations, it helped the economy to find growth and development of the country through financial institutions like banks. The latest inclusions of internet banking and core banking have made banking operations more users friendly and easy. During 2016-17 the banking sector remained struggling with worsening asset quality with implications in the form of declining profitability and credit growth.

REVIEW OF LITERATURE

Growth and Development of Banking sector with inclusive approach in India was conducted by Dr. Y. Kesava Reddy with an objective to analyse the growth and development of commercial banking in India and to examine the inclusive approach of Reserve Bank of India and banking sector in India. He has found out that Indian banking system was recorded rapid progress by planned economic growth, increase in money supply, and growth of banking habit, control and guidance by RBI generally after independence and particularly after nationalization of banks in 1969. He has concluded that still there are villages waiting for banking services and in banking areas also new depositors have to be attracted and existing depositors have to be motivated to increase their deposits so that all the resources put to optimum use in the country.

Satendar Singh and Ajaydeep Singh (2016) in their research paper titled Information Technology in Indian Banking sector some recent developments analysed the recent trends in Indian banking industry and the various challenges and opportunities for Indian Banking Industry and highlighted the role of information technology. They have found out that banking today is a redefined and reengineered with the uses of information technology and it is sure that the future of banking will offer more sophisticated services to the customers with the continuous product and process innovation. They have concluded that there is a paradigm shift from the seller's market to buyer's market and affected the bankers' level to change their approach from conventional banking to convenience banking and Mass banking to class banking.

Dr. M. Syed Ibrahim (2011) in his research paper titled Operational Performance of Indian Scheduled Commercial Banks – an Analysis made an effort to evaluate the operational performance of the commercial banks in India with special reference to the scheduled commercial banks since 2000. He has mainly used ratios as the tool for his study. The study has found out that operational performance of Indian scheduled commercial banks has improved since the year 2000. He has concluded that deposits show a constant increase and there is positive correlation between demand deposits and time deposits. He has concluded that improvement in investment deposit ratio and share of percentage of priority sector advances in total credit can further help in improving operational efficiency as well as profitability of Indian scheduled commercial banks.

Performance of Indian Banks in Indian Financial System was conducted by Dr. Virender Koundal (2012) with the main objective of analysing the comparative performance of Public sector, Private sector and Foreign banks. It also studies the challenges and opportunities particularly faced by the public sector banks. Various ratios were used to analyse the data. The researcher has concluded that although various reforms have produced favorable effects on commercial banks in India and due to that transformation is taking place almost all categories of the banks. The public sector banks are lagging behind regarding various financial parameters in comparison with other banks. New reforms are required to improve the performance of the banks particularly public sector banks to meet the requirement of new and open competitive environment.

Singla. H. K. (2008) in his research paper titled "financial performance of banks in India" has examined how financial management plays a crucial role in the growth of banking. The study analysed the profitability position of the selected banks for a period of six years. The research shows that profitability position was reasonable during the study period. Strong capital position and balance sheet place Banks in better position to deal with and absorb the economic constant over a period of time.

STATEMENT OF THE PROBLEM

Banks motivate people to save and help to channelize household savings into productive capital. Banking industry in our country is fast developing and it has been assigned a crucial role in the economic development. Indian banks have adopted better operational strategies and updated their skills. The following research questions arise: Is the banking activity ensures financial productivity? Is the bank performance progressive? Is it contributes towards the economic development of the country?

OBJECTIVES OF THE STUDY

- To understand the financial productivity of Scheduled commercial banks
- To evaluate the performance of Scheduled commercial banks.

RESEARCH METHODOLOGY

The study is descriptive and analytical in nature and is based on secondary data. The research is mainly conducted based on secondary data collected from Reserve Bank of India website, Journals, Books, and Newspapers etc. The study was conducted on the basis of last five years data. The tools used for analysis are ratio analysis and linear and compound growth rate.

ANALYSIS & FINDINGS

Financial Productivity of banks can easily be analysed with the help of the following ratios:

Credit Deposit Ratio

It is the ratio which shows how much bank lends out of the deposits it has mobilised. The primary function of the banks are accepting deposits and lending loans. Credit Deposit ratio shows how much the bank lends out of the amount of deposit mobilised. Reserve Bank of India does not stipulate minimum or maximum level for the ratio. High ratio indicates more reliance on deposits for lending and low ratio indicates that banks are not making full use of their resources.

$$\text{Credit Deposit Ratio} = \frac{\text{Total Advances}}{\text{Total Deposits}}$$

Year	Advances (Rs. In Billion)	Deposits (Rs. In Billion)	CD Ratio
2012-13	58,798	74,297	0.79
2013-14	67,352	85,332	0.79
2014-15	73,882	94,351	0.78
2015-16	78,965	100927	0.78
2016-17	81,162	111139	0.73
Average CGP	38.04%	49.59%	(7.59%)

Source: Report on Trends and Progress in Banking in India. Various years. www.rbi.org

The Deposits mobilised by the SCB was 74,297 Billion in the year 2012-13 and it has reached 111139 Billion in 2016-17 showing an average growth rate of 49.59 %. The Advances shows an average growth rate of 38.04%. While reviewing the Credit Deposit Ratio it shows a negative growth rate of 7.59 % by the end of March 2017. Post demonetization the credit deposit ratio of banks sharply decreased to 73% as at March 2017 from 78% present in the previous year. Apart from Investments and Loans & Advances, banks deployed deposits in the form of cash and balances with RBI and various money market instruments.

Return on Assets

It is a financial ratio which shows the percentage of profit a company earns in relation to its overall resources. It is an indicator of how profitable a company is in relative to its total assets. Return on Assets gives an idea as to how efficient a company's management is at using its assets to generate earnings. It is a pure measure of efficiency of a company in generating returns from its assets, without being affected by management financing decisions. Good management will strive to increase Return on Assets to extract greater profit from every rupee of assets at its disposal.

Return on Assets = Net Income / Total Assets

Return on Assets

2012-2013	**1.03**
2013-2014	**0.81**
2014-2015	**0.81**
2015-2016	**0.40**
2016-2017	**0.35**
Mean	**0.68**
Compound Annual Growth Rate	**(-) 19.42%**

Source: Report on Trends and Progress in Banking in India. Various years. www.rbi.org

This Ratio shows Return on Assets is showing a downward trend. The average return on assets is 0.68 and the compound annual growth rate (-) 19.42%. It indicates the poor performance on average on the basis of return on assets. The past five years return indicates high variability and less consistency.

Return on Equity

Return on Equity is a measure of the profitability of a business in relation to the book value of share holders' equity. It measures how well a company uses investments to generate earnings. It indicates the profitability of a bank from the shareholder's perceptions. The ability of the banks to attract fresh capital in the market depends upon the Return on Equity.

Return on Equity = Net Profit ÷ Capital + Reserves & Surplus

Return on Equity

2012- 2013	13.80
2013- 2014	10.70
2014- 2015	10.42
2015- 2016	3.6
2016- 2017	4.2
Mean	8. 54
Compound Annual Growth Rate	**(-) 21.17%**

Source: Report on Trends and Progress in Banking in India. Various years. www.rbi.org

The return on equity was 13.80 in the year 2012-13 shows a decreasing trend. During the year 2015-16 it has become 3.6 and slightly improved to 4.2 in the year 2016-17. From the shareholders' perspective the performance of the bank is not satisfactory The average return on equity is 8.54 and the compound growth rate is negative 21.17%

Performance of the Banks

The profitability of the banks can be analysed with the help of following ratios

Interest Income to Total Income Ratio

Interest income is the major source of revenue for banks. The interest income to total income indicates the ability of the bank in generating income from lending. It shows the efficiency of credit management in banks.

Interest Income to Total Income

Year	**Interest**	**Total Income**	**Ratio**
2012- 2013	7,636	8,614	0.886
2013- 2014	8,551	9,692	0.882
2014- 2015	9,408	10,732	0.877
2015- 2016	9,909	11,350	0.873
2016- 2017	10,120	12,053	0.840

Source: Report on Trends and Progress in Banking in India. Various years. www.rbi.org

The interest income to total income shows that the scheduled commercial banks maintain high percentage of interest income. During the study period the percentage of interest was above 85 percent. During the year 2016 -17 it has slightly decreased. It shows the efficiency of credit management in scheduled banks.

Net Profit as percentage of working funds

It establishes the relation between Net profit and the working funds. Working fund refers to the total resources or the total assets of the bank. It indicates the net profit per unit of working funds. Higher value indicates better profitability and lower ratio shows poor performance of the bank.

$$\text{Net profit as a percentage of working funds} = \frac{\text{Net Profit}}{\text{Working Funds}}$$

Net profit as a percentage of working funds

Year	Net Profit	Working Fund	NP/WF	Growth Rate
2012-2013	912	95,900	.01	
2013-2014	809	109,759	.007	(-) 0.43
2014-2015	891	120,370	.007	0
2015-2016	341	131,293	.003	(-) 1.33
2016-2017	439	141,586	.003	0

Source: Report on Trends and Progress in Banking in India. Various years. www.rbi.org

The net profit of the scheduled commercial banks is not consistent. The net profit of the banks is increasing, but the percentage of net profits on working fund is showing a downward trend. It is showing negative growth rate. The performance of the banks is not satisfactory.

Operating Profit as a percentage of working funds

Operating profit denotes the difference between the interest spread and burden. This ratio indicates the operating profit per unit of working funds. Higher the ratio indicates better profitability and lower the ratio shows lower profitability of the bank.

$$\text{Operating Profit as a percentage of working fund} = \frac{\text{Operating profit}}{\text{Working funds}}$$

Operating Profit as a percentage of working funds

Year	Operating Profit	Working Fund	OP/ WF	Growth Rate
2012- 2013	1,909	95,900	0.020	**-**
2013- 2014	2,096	109,759	0.020	**0**
2014- 2015	2,333	120,370	0.019	**(-) 0.05**
2015- 2016	2,436	131,293	0.019	**0**
2016- 2017	2,876	141,586	0.020	**0.05**

Source: Report on Trends and Progress in Banking in India. Various years. www.rbi.org

The Operating profits of the banks are increasing in absolute value year after year. But the percentage of operating profit on working fund remains more or less consistent. During the last five years the growth rate is either nil or negative.

Conclusion

Banking sector plays a significant role in the development of Indian Economy. During 2016- 17 the banking sector remained stressed with worsening asset quality with implications in the form of declining profitability and reduced credit growth. With the persisting deceleration in credit and the sizeable inflow of deposits post demonetization, the Credit Deposit Ratio of Scheduled Commercial Banks sharply declined to 73 percent as at 31st March 2017 compared to 78.2 percent in the previous year. The Return on Assets also shows a decreasing trend. The average return on assets is 68% and it shows a negative growth rate of 19.42%. It indicates that the performance of the bank has declined during the year 2016- 17. Return on Equity was 13.80% in the year 2012 - 2013 has come down to 4.2% during 2016- 17 which shows a negative growth rate of 21.17%. The total income of the scheduled commercial banks increased during the year 2016- 17 mainly driven by interest income. Interest income growth was restrained by subdued credit growth and increase in Non Performing Assets. On the expenditure side, the interest expended also experienced negligible growth due to the surge in low cost funding from current account and savings a/c on account of demonetization and the slower pace of transmission of policy rate cuts to lending rates and deposit rates. The operating profit of the scheduled commercial banks shows progressive growth during the period of study. While reviewing the progress made by the banks during the last five years it was observed that the performance has by and large been remarkable. The net profit of the banks was Rs. 912 Billion in the year 2012-13 has become 439 billion in 2016- 17. The net profit as a percentage of working fund has deteriorated during the study period. The main reason for the decrease in the net profit is due to the increased provisions and contingencies. During 2016-17, bank credit accounted for 35 percent of the total flow of financial resources to the commercial sector. It can be concluded that the performance of the scheduled commercial banks is progressive and due to the increased provisions and contingencies the profitability has decreased.

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