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Performance Evaluation of Private Sector Banks in India

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ABSTRACT

The present study is an attempt to examine the performance evaluation of private sector banks in India in the light of various angles that contribute financial stability, quality of assets, management capability, earnings efficiency and liquidity position. The secondary data are used and collected from the annual reports, magazines and online sources from 2015-19. The data analyzed through statistical tools such as ratios, mean, co-efficient of variation and 't' test. Three private sector banks namely AXIS, HDFC and ICICI were chosen that have largest financial base. The results reveal that capital adequacy ratios are approximately equal of all these banks. Assets quality of HDFC bank is found good as it represented lowest NPA (0.33 percent).Management capability of HDFC bank shows good business per employee and profit per employee. Return on assets of HDFC bank is higher than AXIS and ICICI banks. HDFC bank maintained balanced level of current ratio. Hence, HDFC bank is seen as a role model in private sector banks of India. Therefore, the study is helpful for the banks and government to design polices and to take decisions regarding financial stability, solvency, liquidity and granting loans etc.

Keywords: CAR, NPA, BPE, PPE, ROA and CR

Introduction

Banking industry is a significant segment in financial system and occupies a unique place in economic development of a nation. The banking sector of our country is considered to be lifeline in the global economy. Perform is the current mantra in work places around in modern world. Performance evaluation means to measure and improve the performance of employees and organization. The increasing pressures due to regulation and declining in the economy, banks have been searching for new and innovative techniques to improve their bottom lines. At present, we have seen that banks are facing lots of challenges in the form of capital adequacy ratio, high rate of non –performing assets, competition in banking sector, govt. policies and credit worthiness etc. There are collectively creating a negative impact on our economy. This research paper attempts to address this issue and tries to evaluate the performance of the banks using different variables i.e. financial stability, quality of assets, management capability, earnings efficiency and liquidity position of the banks.

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Year	AXIS	HDFC	ICICI	INDUSTRY

Objectives of the Study

The study is related with the following objectives:

1. To evaluate the financial perspective in term of capital adequacy ratio (CAR)
2. To ascertain the quality of assets in term of non-performing assets ratio (NPAR)
3. To study internal business process perspective in term of profit per employee (PPE) and business per employee (BPE)
4. To examine the earnings efficiency in term of return on total assets(ROA)
5. To assess the liquidity position in term of current ratio (CR)

Scope of the Study

In the light of the objectives of the present study, it has been decided to choose the banks on purposive sampling basis. The sample consists of three banks in private sector namely Housing Development Finance Corporation (HDFC), Industrial Credit and Investment Corporation of India (ICICI) and AXIS Bank. The study covers the periods of five years ranging from 2014-15 to 2018-19. The study examines the performance of private sector banks in India.

Methodology

The secondary data have been used in the study, the information have been collected from published annual reports of the respective banks, RBI annual bulletin, bank websites, journals, research paper and text book etc. The collected data have been analyzed through financial and statistical tools such as ratio, percentage, mean, co-efficient of variation and 't' test.

Analysis and Discussion

The data analyzed have been presented in different tables (six in numbers), reflecting upon the various objectives of the study.

Objective 1: Analysis of financial perspective in term of capital adequacy has been shown in table number 1.

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2014-15	0.47	0.25	1.61	0.78
2015-16	.074	0.28	2.97	1.33
2016-17	2.31	0.33	5.43	2.69
2017-18	3.77	0.40	5.43	3.20
2018-19	3.70	0.39	2.31	2.13
Mean	2.20	0.33	3.55	2.03
C.V.	0.64	0.18	0.45	0.43
‘t’ Value	0.27	63.18	2.14	

Table No. 1
Analysis of Capital Adequacy Ratio in Private Sector Banks of India
(%)

Table No. 1 reveals the analysis of capital adequacy ratio in private sector banks of India namely AXIS, HDFC and ICICI along with industry position over the periods of the study. The mean value of capital adequacy ratio is recorded to be 15.6 percent with c.v. value 0.05 in AXIS bank. The ‘t’ value 1.95 is statistically insignificant at 95 percent level of confidence, which proves bank’s performance matches to industry. The capital adequacy ratio in HDFC is noticed to be 16 percent with c.v. value 0.06. The ‘t’ test value 0.75 is insignificant at 95 percent level of confidence. It means bank’s position is alike over the periods of the study. The capital adequacy ratio is happened to be 17.2 percent with c.v. value 0.02 in ICICI bank. The ‘t’ value 5.02 is statistically significant at 95 percent level of confidence. It proves that bank’s performance is higher than industry performance. It can be said that all the banks under study reflect the good financial perspective and banks are able to meet with future unabsorbed liability in term of capital adequacy ratio over the periods of the study.

Objective 2:

Analysis of quality of assets in term of non –performing assets has shown in table number 2.

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Table No. 2
Analysis of Non –Performing Assets to Net Advances (%) in Private Sector Banks of India

Year	AXIS	HDFC	ICICI	INDUSTRY
2014-15	15	17	17	16.3
2015-16	15	16	17	16.0
2016-17	15	15	17	15.7
2017-18	17	15	18	16.7
2018-19	16	17	17	16.7
Mean	15.6	16.0	17.2	16.3
C.V.	0.05	0.06	0.02	0.02
't' Value	1.95	0.75	5.02	

Table No. 2 reports the analysis of non –performing assets to net advance in private sector banks of India namely AXIS, HDFC and ICICI banks along with industry over the periods of the study. The mean value of this ratio is happened to be 2.20 with C.V. value 0.64 in AXIS bank. The C.V. value 0.64 proves high variation in to growth of non –performing assets. The 't' value 0.27 is statistically insignificant at 95 percent level of confidence. It means bank's performance matches to industry. The ratio of non –performing assets to net advance is recorded to be 0.33 with C.V. value 0.18 in HDFC. The C.V. value 0.18 is just nominal. The 't' value 63.18 is significant at 95 percent level of confidence which proves that bank's performance .033 differs to industry performance (2.03). The ICICI bank experiences this ratio 3.55 with C.V. value 0.45. The 't' value 2.14 is insignificant. It means bank's position is similar to industry performance. It can be concluded that ICICI bank has high ratio, so that there is need to improve in the recovery mechanism, whereas HDFC has lowest ratio in compare to other banks. Hence, HDFC bank ratio reflects the good quality of bank assets and expresses the efficiency of the banks to recover their advances.

Objective 3:

Analysis of internal business process perspective in term of PPE and BPE has been shown in table numbers 3 to 4.

Table No. 3
Analysis of Profit per Employee (PPE) in Private Sector Banks of India
(Rs. In Lakh)

Year	AXIS	HDFC	ICICI	INDUSTRY
2014-15	17.42	13.39	16.84	15.88
2015-16	16.40	14.04	13.47	14.64
2016-17	6.49	17.25	11.83	11.86
2017-18	0.46	19.81	8.19	9.49
2018-19	7.55	21.49	-	14.52
Mean	9.66	17.20	12.58	13.28
C.V.	0.66	0.18	0.25	0.17
't' Value	1.27	2.79	0.50	

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Table No. 3 highlights the analysis of profit per employee in private sector banks of India namely AXIS, HDFC, ICICI and along with industry over the periods of the study. The mean value of PPE is observed to be 9.66 with C.V. value 0.66 in AXIS. The 't' value 1.27 is insignificant at 95 percent level of confidence. It means bank's performance is similar to industry position. The mean value of PPE in HDFC is reported to be 17.20 with C.V. value 0.18. The 't' value 2.79 is significant. It shows that PPE is higher than industry. The PPE in ICICI is happened to be 12.58 with C.V. value 0.25. The 't' value 0.50 is insignificant at 95 percent level of confidence. It proves bank's performance matches to industry. It can be inferred that PPE of HDFC is highest and AXIS reported the lowest position. The trend of profit per employee of HDFC bank is witnessed an increasing trend over the periods of the study. Hence, internal business process perspective of HDFC is good in compared to other banks.

Table No.4
Analysis of Business Per Employee (BPE) in Private Sector Bank of India
(Rs. In Lakh)

Year	AXIS	HDFC	ICICI	INDUSTRY
2014-15	1429	1070	1129	1209
2015-16	1390	1155	1187	1244
2016-17	1391	1421	1152	1321
2017-18	1498	1640	1298	1479
2018-19	1684	1777	-	1731
Mean	1478.4	1412.6	1191.5	1396.8
C.V.	0.07	0.19	0.05	0.09
't' Value	1.66	0.14	7.06	

Table No. 4 explains the analysis of business per employee in private sector banks of India namely AXIS, HDFC, ICICI and along with industry over the periods of the study. The mean value of BPE in AXIS is recorded to be 1478.4 with C.V. value 0.07. The 't' value 1.66 is insignificant at 95 percent level of confidence which proves that bank's position is similar to industry. BPE in HDFC Bank is presented to be 1412.6 with c.v. value 0.19. The 't' value 0.14 is insignificant. It means bank's internal business process perspective matches to industry. The mean value of BPE in ICICI bank is showed to be 1191.5 with C.V. value 0.05. The 't' value 7.06 is significant at 95 percent level of confidence. It proves that bank's position differs to industry position. It can be said that HDFC bank is witnessed higher figure (Rs. 1777 Lakhs) in term of business per employee. The trend of BPE showed an increasing trend in HDFC banks. Hence, internal business process perspective of HDFC bank is better in compared to other banks. It is major ratio which emphasizes the management efficiency of a bank.

Objective 4: Analysis of earning efficiency in term of return on total assets has been shown in table numbers 5.

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Table No. 5
Analysis of Return on Assets (ROA) in Private Sector Bank of India
(%)

Year	AXIS	HDFC	ICICI	INDUSTRY
2014-15	1.59	2.00	1.72	1.77
2015-16	1.56	1.92	1.34	1.61
2016-17	0.61	1.88	1.26	1.25
2017-18	0.03	1.93	0.77	0.91
2018-19	0.58	1.90	0.34	0.94
Mean	0.87	1.93	1.09	1.30
C.V.	0.69	0.02	0.49	0.27
‘t’ Value	1.57	35.12	0.91	

Table No. 5 shows the analysis of return on assets in private sector banks of India namely AXIS, HDFC, ICICI and Industry as whole over the period of the study. The mean value of ROA ratio in AXIS bank is recorded to be 0.87 with c.v. value 0.69. The ‘t’ value 1.57 is statistically insignificant at 95% level of confidence. This proves that bank’s performance is alike with industry. The ROA in HDFC bank is noticed to be 1.93 with c.v. value 0.02. The ‘t’ value 35.12 is significant. It means ROA of HDFC bank is higher than that of industry. The ROA in ICICI bank is recorded to be 1.09 with c.v. value 0.49. The ‘t’ value 0.91 is insignificant at 95 percent level of confidence which proves that bank’s position matches to industry. It can be inferred that HDFC performed good position in compared to AXIS and ICICI under study periods. Further the earnings efficiency in term of ROA in all the banks and industry as a whole under study reported declining trend. It is resulted due to slow down in the economy whereas all the banks showed the positivereturn. However, the declining trend needs to be properly safe guarded.

Objective 5: Analysis of liquidity position has been shown in table number 6.

Table No. 6
Analysis of Current Ratio in Private Sector Banks of India
(Times)

Year	AXIS	HDFC	ICICI	INDUSTRY
2014-15	3.05	1.71	2.12	2.29
2015-16	4.05	2.09	3.38	3.17
2016-17	3.64	1.61	4.04	3.10
2017-18	3.58	3.49	5.16	4.08
2018-19	3.84	2.36	4.28	3.49
Mean	3.63	2.25	3.80	3.23
C.V.	0.09	0.30	0.27	0.18
‘t’ Value	2.70	3.21	1.26	

Table No. 6 presents the analysis of current ratio in private sector banks of India namely AXIS, HDFC, ICICI and industry as a whole over the period of the study. The mean value of current ratio in AXIS bank is showed to be 3.63 times with c.v. value .09. The 't' value 2.70 is insignificant at 95 percent level of confidence. It means bank's position matches to industry. The current ratio in HDFC bank is recorded to be 2.25 times with c.v. value .30. The 't' value 3.21 is statistically significant at 95 percent level of confidence. It means bank's liquidity position differs to industry. The current ratio in ICICI bank is presented to be 3.80 times with c.v. value 0.27. The 't' value 1.26 is statistically insignificant. It proves that bank's liquidity position is similar to industry. It is found that HDFC bank showed a good relationship between current assets and current liabilities by exhibiting current ratio 2.25 times, whereas AXIS, ICICIand industry as whole have higher level of current ratio and reflected the higher blocking of assets under the study periods. The ideal current ratio is 2:1. Hence,HDFC bank maintained the balanced level of current ratio. It is resulted that all the banks under study maintained adequate level of liquidity position and able to meet the sudden demand of high cash by customer demand or depositors.

Concluding Remarks

The following results are obtained from the analysis:

Capital Adequacy Ratio

The ideal capital adequacy norm set by RBI is 12%. The all the banks under study acquired more than 12%. Therefore, it reflects a good financial condition and more secure from the depositors point of view.

Non –Performing Assets

This ratio explains the quality of assets. It shows the relationship between the uncovered loans or bad loans to net advances. Low rate of this ratio is better for the banks to recover their advances. The HDFC bank has lowest ratio (0.33%) in compare to other banks. Hence, HDFC bank witnesses the good quality of assets and expresses the efficiency to recover their advances.

Profit PerEmployee

The efficiency of employee is analyzed with the help of profit per employee. The profit per employee of HDFC bank is highest and showed an increasing trend over the periods of the study. Hence, employee contribution in financial position of HDFC Bank is good and if bank can maintain this trend in future years also.

Business Per Employee

It is major ratio which emphasizes the management efficiency of a bank, HDFC bank is showed higher figure (Rs. 1777 Lakhs) in term of business per employee Hence, internal business process perspective of HDFC bank is better is compared to other bank under study. The business per employee ratio of HDFC bank showed increasing trend. This trend should be further maintained by the bank.

Return on Assets

It indicates the operational efficiency of the bank in earning profit by utilizing the available resources. The HDFC bank performed good position in compare to AXIS and ICICI bank. The earning efficiency in term of ROA in all these bank and industry as whole under study periods observed declining trend. It is resulted due to slow down in the economy. The return seems to be satisfactory on the face of it. However, declining trend needs to be properly safe guarded.

Current Ratio

It explains the liquidity position of the banks. The high level of current ratio shows extra cost on bank, whereas low level of current ratio reflects the risk of bankruptcy. The HDFC bank showed good relationship between current assets and current liabilities by exhibiting current ratio 2.25 times whereas AXIS and ICICI banks and industry as a whole have high level of current ratio. Hence, HDFC Bank is able to maintain balanced level of current ratio. The result shows that all the banks under study maintained adequate level of liquidity position.

On the whole, it may be concluded that overall performance evaluation of selected private sector banks in India during the study periods found efficient in terms of capital adequacy, assets quality management efficiency, earning quality and liquidity. . The HDFC bank is seen as a role model bank. Findings of this paper may be useful for the government in design the policy and provides a base for the banks to take decisions regarding liquidity, profitability, efficiency, granting loan to needy and to judge theoverallhealth of the banks.

Scope for Further Research

There is vast scope for further research on various aspects, viz., customer satisfaction, perspective, learning & growth prospective and private and foreign banks along with public sector banks for assessing the holistic performance of Indian banking sector.

Limitations of the Study

The study is confined only selected private sector banks from Indian banking industry and also limited to a five years period. The present study is considered selected performance indicators under different perspectives, however, there may exist still the possibility of missing certain performance indicator under financial and non –financial perspectives. The information is based on secondary data may suffer from all limitations inherent with the use of secondary data.

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