

COMPARATIVE ANALYSIS ON FINANCIAL PERFORMANCE OF SELECTED PUBLIC SECTOR BANKS

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ABSTRACT

Banking plays an essential role in the uplift of natural resources through its services such as lending, investment, locker facility and transferring funds from one place to another. It is well known that Banks play a great role in the economic development of India. The Banking in India was first initiated at the end of 18th century by the English merchants. The growth of a Bank is identified by its financial performance. Financial performance is a measure of how a organization can use its primary property of business and revenues. In the present study a comparative analysis is made on the financial performance of some selected public sector Banks located in Chennai, Tamilnadu. The comparative analysis include the financial performance such as net profit ratio, operating profit ratio, return on capital, return on net worth, return on assets, cost-income ratio, net interest-income ratio and ratio of interest income to assets.

Keywords: net profit ratio, operating profit ratio, return on capital, return on net worth, return on assets, cost-income ratio, net interest-income ratio and ratio of interest income to assets.

INTRODUCTION

Financial performance or financial appraisal is defined as the method of analyzing the financial revenue and profitability status of an organization using suitable techniques. In India the organized Banking system is divided into three main types as central Bank, commercial Bank and cooperative Banks. In India the structure of commercial Bank is broadly classified into two types as scheduled commercial Banks and unscheduled commercial Banks. The reserve Bank of India is regarded as the responsibility control to monitor the Banks. The important function of commercial Bank is to receive deposit from the public and to lend the money for public at reasonable rate of

interest. On the other hand private sector Banks are the one on which government holds less than 50% of share holdings and the rest is being held by private entrepreneurs. The Indian Banking sector plays a vital role in the development of country economy. Bank is said to be only sector that provides services to all sort of customers located from rural to city. In order to determine the financial performance of an organization many techniques have been used in practice. Some of the most commonly used tools are univariate statistical techniques; mean standard deviation and coefficient of variance and multivariate statistical techniques; regression analysis and factor analysis.

LITERATURE REVIEW

A conference study had made a difference between the terms effectiveness, efficiency and productivity, it also divided the efficiency of Banks into four main types namely man power efficiency, operational efficiency, ancillary business efficiency and commercial efficiency (Varde 1988). The study with the help of data envelopment analysis (DEA) analysed the efficiency of 39 Banks during the year 1990 to 1995 had made five important observations the first observation is that in case of technical efficiency only the 31 percent is proved its efficiency while the rest remained constant. The second observation reveals that the foreign Banks occupied top position in terms of efficiency. The third observation reveals that between the year 1990 and 1995 the efficiency of private Banks has been reduced (Ketkar, 1996). The study based on interest and non-interest, interest expenditure man power expensed and other expenses analysed the profitability of scheduled commercial Banks operating in India concluded that the faster increase of expense compared to income and total investment (Mishra M.N, 1992). The investigation made on the profitability of commercial Banks revealed that the profitability is decreasing since the year 1969 and the results of investigation also revealed that the commercial Banks are performing more efficiently than the foreign Banks (Verma, 1996). The analysis on the efficiency of commercial Banks was made by the researcher and the results of analysis reveals that the efficiency of private sector Banks started decreasing after the year 1987 and on the other hand the efficiency of foreign Banks found slightly increasing (A.Bhattacharya, 1997). A comparison on the trend analysis

between 29 Singapore Banking companies during the period 1993-2003 resulted that the Singapore Banking companies had exhibited the technical efficiency of 88.4%. An attempt is made on discovering the relationship between the efficiency and the profitability of 51 domestic Banks functioning in India during the year 2006-2007 using efficiency-profitability matrix and the data development analysis had been used to obtain the efficiency range of each individual Bank (Gulati Rachita and Kumar Sunil, 2009).

PROFILE OF SELECTED BANKS

BANK OF BARODA

Bank of Baroda was started in the year 1908 by H.H.Sayajirav Gaekwad with the capital fund of Rs.10 lakhs. The founder of this Bank is said to be the maharaja of Baroda. Bank of Baroda is an Indian nation owned Bank functioning under the monitory of Reserve Bank of India and as per the regulations derived by the Reserve Bank of India. The head quarters of this Bank is located at Vadodara. Bank of Baroda is also having its branches other than India like Srilanka, Singapore, Brussels and Oman. In the year 1972, Bank of Baroda acquired Bank of India's operation in Uganda, two years later Bank of Baroda has started its new branches in Dubai and Abu Dhabi. In the year 1988, Bank of Baroda obtained traders Bank. The traders Bank had a network of 34 branches in Delhi. Bank of Baroda has won the shield of Indira Gandhi Raj Basha for its extended service. During the year 2014, Bank of Baroda was awarded as the most efficient public sector Bank.

INDIAN BANK

The Indian Bank is one of the familiar Banks in the Indian Banking sector. Especially Indian Bank has its extended services even in rural areas of Tamilnadu. Indian Bank is one among the Indian nation owned Bank and was started during the year 1907 in Chennai, India. It should be noted that the Bank is having 2594 branches with 20,661 employees. Indian Bank is said to be the Bank which is providing the best rural service.

UNION BANK OF INDIA

Union Bank of India is said to be the one among the largest authorities owned Bank with a share capital of 63.44 percent. The union Bank of India started its global enlargement in the year 2007, and as a result started its branches in other countries like Abu Dhabi, Beijing, London, China, Shanghai, Sydney and Hong Kong. Until the year 2016, the union Bank of India has 4500 branches in India. The Bank is said to have 6909 ATM centers. The union Bank of India has become nationalized from the year 1969.

INDIAN OVERSEAS BANK

The Indian Overseas Bank is one among the public sector Bank functioning under the supervising of Reserve Bank of India as per its guide lines. The Bank is said to have about 1150 braches operating in Tamilnadu. The union Bank of India is said to have about 3300 ATM centers located all over the India.

FINANCIAL PERFORMANCE OF SELECTED BANKS

In this research study the financial performance such as net profit ratio, operating profit ratio, return on capital, return on net worth, return on assets, cost-income ratio, net interest-income ratio and ratio of interest income to assets of four selected public sector Banks namely; Bank of Baroda, Indian Bank, union Bank of India and Indian overseas Bank are analysed and compared. The financial performances of selected Banks are shown in the pie chart below.

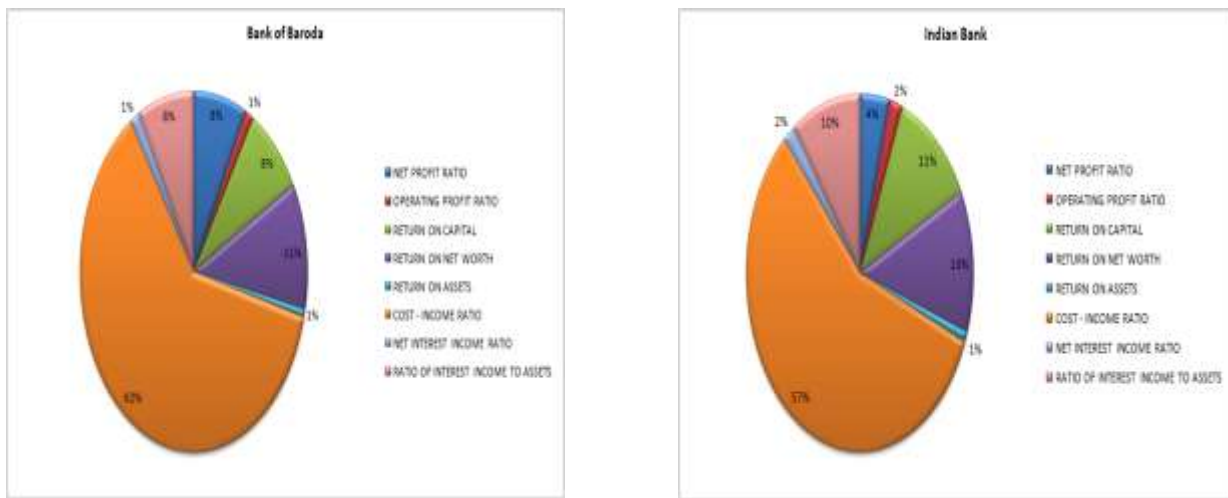


Figure 1 Financial performance of Bank of Baroda Figure 2 Financial performance of Indian Bank

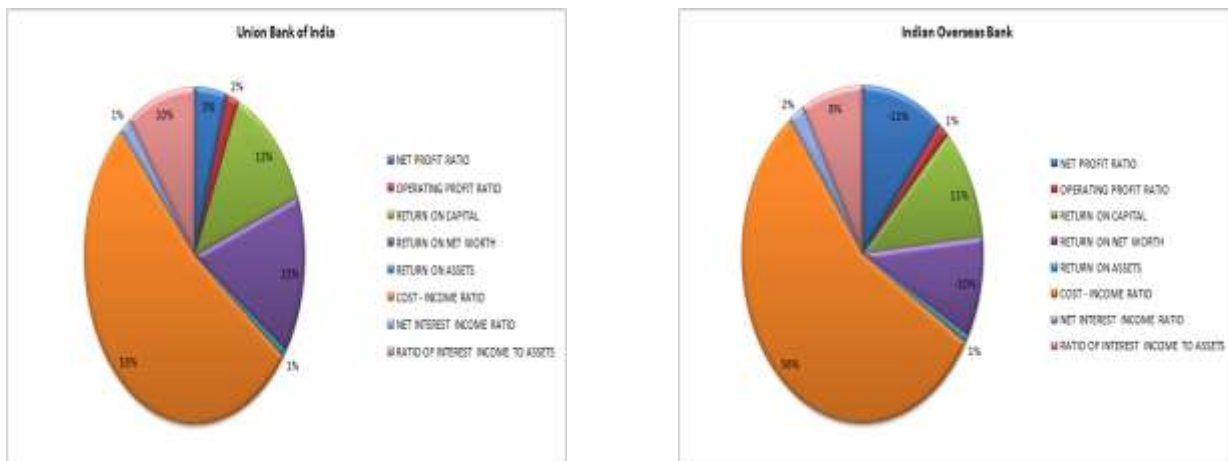


Figure 1 Financial performance of Union Bank of India Figure 2 Financial performance of Indian Overseas Bank

RESULT AND DISCUSSION

From the chart the financial performance of four selected public sector Banks are analysed and it is concluded that the net profit ratio is high for Bank of Baroda and less for Indian overseas Bank. The operating profit ratio is found high for Indian Bank and union Bank of India whereas the operating profit cost is found relatively less for both Bank of Baroda and Indian overseas Bank. The return on capital is found relatively high for union Bank of India and it is

found less for Bank of Baroda. The return on net worth is found relatively high for union Bank of India and less for Bank of Baroda. The return on assets is found similar for all the four respective public sector Banks. The cost-income ratio is found high for Bank of Baroda and it is found less for union Bank of India. the net interest income ratio is found high for both Indian Bank and Indian overseas Bank and is often similar and on the other hand the net interest-income ratio is found less for both Bank of Baroda and union Bank of India. The net interest-income ratio is also found similar for Bank of Baroda and union Bank of India. The ratio of interest income to assets is found relatively high for both Indian Bank and union Bank of India when compared with the Indian overseas Bank and Bank of Baroda.

CONCLUSION

From the study it is concluded that the financial performance of union Bank of India is found satisfactory when compared other three selected public sector Banks. Only in the aspect of net profit ratio, cost-income ratio and net interest income ratio the performance of union Bank of India is found relatively less when compared other three selected public sector Banks.

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