A STUDY ON FINANCIAL PERFORMANCE OF GROUP WISE BANKS

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ABSTRACT

In India banking plays a primary role in the growth and development of the economy. In this paper, an attempt has been to compare the financial performance of group wise banks such as nationalised banks, private sector banks and foreign banks using CAMEL rating system. The study is based on secondary data. The secondary data needed for the study was collected from annual reports, magazines, websites, journals etc., The study period is from 2014 to 2018. The collected data has been analysed using CAMEL rating system. The research concluded that in this current economic scenario private sector banks is performing outstanding manner when compared to nationalized and foreign banks as per the overall rating of CAMEL framework.

Keywords: *Bank, financial, performance, economy, growth, development, role, private, nationalized, foreign, etc.*

INTRODUCTION

In India banking plays a primary role in the growth and development of the economy. For smooth functioning of entire monetary and financial system bank act as a main source of operations. . As a man needs blood for functioning as like bank supplies money and helps the industries to grow further. In every country to banking sector performance can be measured by means of banks' branches, deposits, credit, etc. While measuring the financial performance of the banking sector, it shows the direction in which the Indian economy is moving with the limitation of the process of liberalization, privatization and globalization of the economy. In India economic reforms in early nineties, but their outcomes seen now tremendous changes took place in the operations of banking services in India only after liberalization, globalization and privatization.

According to Indian planned economy the banking sector has showing a remarkable responsiveness. Due to the liberalization, privatization and globalization, banking sector has

enormously grown, hence there are more number of nationalized banks, private sector banks and foreign banks. These group wise banks in India has brought about a good progress in its efforts at deposit mobilization and has taken a lot of measures in the recent past for accelerating the rate of growth of deposits. The functioning of nationalized banks, private sector banks and foreign banks has growing in multi-directional ways as well as multi-dimensional manner. Banks play a major role in pooling the savings together and make available funds to specialized institutions which finance different sectors of the Indian economy, needing capital for various reasons, risks and periods. Role of banks are evolving in India, with different regions at different stages of development, in the matter of inter-mediation and for the future.

OBJECTIVE OF THE STUDY

- To determine the Capital adequacy, Asset quality, Management efficiency, Earnings and Liquidity of the group wise banks in India.
- To compare the financial performance of group wise banks such as nationalized banks, private sector banks and foreign banks using CAMEL rating system.

SCOPE OF THE STUDY

The study of financial performance helps to understand the overall profitability position, liquidity position and long term financial performance of the nationalized banks, private sector banks and foreign banks.

LIMITATIONS OF THE STUDY

- The study depends upon the secondary data collected i.e. various kinds of reports of the nationalized banks, private sector banks and foreign banks.
- The period of study is limited to five years only
- The CAMEL model analysis is often used for comparative study between the nationalized banks, private sector banks and foreign banks

REVIEW OF LITERATURE

A large number of studies on financial performance analysis of banks, the brief review of following research works contribution towards the financial performance evaluation of group wise banks.

REVIEW OF RELATED STUDIES

Gupta and Kaur (2008), examined a study with the main objective of examining the performance of Indian private Sector banks by using CAMEL model and by assigning rating system. According to this study, based on the performance of the bank the researcher rated 20 old and 10 new private sector banks using CAMEL framework. The period of the study covers the financial data of the banks for 5 years. from 2003-07. The study as founded by CAMEL Model revealed that HDFC was at its higher position of all private sectors banks in India succeeded by the Karur Vyasa and the Tamilnadu Mercantile Bank. The research summarized that new private sector of banks have attained the higher position due to core banking, aggressive marketing strategies and high level of technology.

Wirnkar and Tanko (2008), evaluated the adequacy of CAMEL in analyzing the performance of bank. This research was adopted to find out the ampleness of CAMEL in determining the overall performance of bank, to examine out the importance of each component in CAMEL and finally to look out for best ratios that bank regulators can adopt in evaluating the efficiency of banks. On the basis of a sample of eleven commercial banks operating in Nigeria analysis were made. The period of the research contains the annual reports over a period of nine years from 1997 to 2005. The research disclosed the inability of each component in CAMEL to congregate the full performance of a bank and best ratios in each CAMEL parameter were determined.

Cinko & Avci (2008), revealed that widely all the banking supervisory authorities are using CAMEL framework for many years. In this scenario financial ratios were applied to determine the components of CAMEL ratings for the period of 1996 to 2000. The financial ratios were also analysed to anticipate the functions of commercial banks in 2001 to the SDIF by adopting discriminant analysis, logistic regression and neural network models. The research concluded that it was impossible to predict the transfer of a bank to SDIF by mode of CAMEL ratios.

Hays, Lurgio & Arthur (2009), analysed the performance of low efficiency and high efficiency community banks in conjunction with the logistical regression analysis using CAMEL rating system. The data which are collected for the study are based on quarterly reports by commercial banks. The discriminant model derived from the CAMEL rating system is analysed among data for 2006, 2007, 2008. The study concluded that the model

accuracy floats from approximately 88% to 96% for both original and cross-validations data sets.

RESEARCH METHODOLOGY

❖ Nature and source of data:

The nature of study of this project is analytical in nature. The study is based on secondary data. Secondary data may collected from

- Annual reports of the group wise banks
- Bulletins
- Journals
- Magazines
- Websites
- Periodicals
- News letters
- Internal reports of the bank

Here group wise banks means nationalized banks, private sector banks and foreign banks.

❖ Statistical tools study

The tool used to analysis the financial performance of group wise banks are:

CAMEL FRAMEWORK

❖ Period of study

This study contains a secondary data of group wise banks from 2014 to 2018 period.

DATA ANALYSIS & INTERPRETATION

CAMEL ANALYSIS

➢ Capital Adequacy Ratios

Table 1

Capital Adequacy Ratios of Group Wise Banks

Bank	2018	2017	2016	2015	2014	Avg	Rank
Nationalised banks	27.02	27.70	28.74	28.52	29.54	28.30	1
Private sector banks	26.8	26.2	26.8	26.5	26.2	26.48	3
Foreign banks	25.6	24.4	28.3	27.9	26.5	26.54	2

During the last five years, nationalised bank is in a position to maintain more than this minimum requirement. Higher the ratio the bank is in a comfortable position to absorb

losses. It is found that nationalised banks ranked on the top position with highest car of 28.30 followed by foreign banks bank (26.54) and private sector banks bank. (26.48).

- Assets quality ratios

Table 2

Net NPA to Total Advances Ratio of Group Wise Banks

Bank	2018	2017	2016	2015	2014	Avg	Rank
Nationalised banks	2.62	0.97	0.77	0.73	2.22	2.04	5
Private sector banks	0.25	0.27	0.20	0.28	0.28	0.22	2
Foreign banks	0.22	0.05	0.02	0.05	0.03	0.05	1

In above table and figure shows that foreign banks bank is one of the top position with least average of 0.05 followed by private sector banks bank with average of 0.22 and nationalised banks bank scored the lowest position with highest average of 2.04

Table 3

Total Investments to Total Assets Ratio of Group Wise Banks

Bank	2018	2017	2016	2015	2014	Avg	Rank
Nationalised banks	28.87	29.76	32.92	33.68	33.25	32.48	2
Private sector banks	28.28	24.60	27.88	28.84	25.57	27.02	1
Foreign banks	34.22	37.56	43.36	37.70	32.90	36.95	3

In above table and figure shows that private sector banks bank is one of the top position with least average of 27.02 followed by nationalized banks with average of 32.48 and foreign banks scored the lowest position with highest average of 36.95.

- Management efficiency ratios

Table 4

Total advances to total deposits ratio of Group Wise Banks

Bank	2018	2017	2016	2015	2014	Avg	Rank
Nationalised banks	207.28	202.04	99.29	99.32	95.90	200.72	1
Private sector banks	82.08	82.48	80.92	79.22	76.70	80.09	2
Foreign banks	82.86	74.98	70.29	77.29	74.80	76.02	3

in above table and figure shows that nationalised banks is one of the top position with highest average of 200.72, followed by private sector banks bank with average of 80.09 and foreign banks with average of 76.02.

Table 5

Return on Equity Ratio of Group Wise Banks

Bank	2018	2017	2016	2015	2014	Avg	Rank
Nationalised banks	24.3	23.7	22.9	22.2	9.6	22.32	3
Private sector banks	26.47	29.50	28.75	27.26	25.47	27.49	2
Foreign banks	29.0	25.0	24.8	23.2	22.2	22.6	1

In above table and figure shows that foreign banks bank is one of the top position with highest average of 22.6, followed by private sector banks with average of 27.49. Nationalised banks bank scored the lowest position

- Earning Quality

Table 6

Net Profit to Total Asset Ratio of Group Wise Banks

Bank	2018	2017	2016	2015	2014	Avg	Rank
Nationalised banks	2.73	2.65	2.55	2.36	2.27	2.52	2

Private sector banks	2.73	2.72	2.68	2.53	2.42	2.62	1
Foreign banks	2.47	2.48	2.32	2.33	2.23	2.36	3

In above table and figure shows that private sector banks is one of the top position with highest average of 2.62, followed by nationalised banks bank with average of 2.52. Foreign bank scored the lowest position

- Liquidity Ratios

Table 7

Liquid Asset to Total Asset Ratio of Group Wise Banks

Bank	2018	2017	2016	2015	2014	Avg	Rank
Nationalised banks	6.55	6.98	7.72	7.65	8.39	7.46	2
Private sector banks	6.25	8.05	6.82	6.20	20.70	7.58	1
Foreign banks	5.55	5.40	4.20	4.87	5.92	5.27	5

In above table and figure shows that private sector banks is one of the top position with highest average of 7.58, followed by nationalised banks with average of 7.46 and foreign banks bank scored the lowest position

Table 8

Liquid Asset to Total Deposit Ratio of Group Wise Banks

Bank	2018	2017	2016	2015	2014	Avg	Rank
Nationalised banks	22.70	22.52	24.25	24.28	25.22	23.53	1
Private sector banks	8.06	20.77	9.22	8.49	24.22	20.25	2
Foreign banks	18.29	17.94	16.07	17.29	17.62	17.44	3

In above table and figure shows that nationalised banks is one of the top position with highest average of 23.53, followed by private sector banks bank with average of 20.25 and foreign bank scored the lowest position

Table 9

Liquid Asset to Demand Deposit Ratio of Group Wise Banks

Bank	2018	2017	2016	2015	2014	Avg	Rank
Nationalised banks	85.43	96.03	222.26	203.59	98.02	99.05	1
Private sector banks	49.39	64.58	52.25	46.22	63.86	55.22	3
Foreign banks	88.92	83.96	62.00	73.35	88.87	79.22	2

In above table and figure shows that nationalized bank is one of the top position with highest average of 99.05 and foreign banks with average of 79.22. Private sector banks scored the lowest position.

Table 10

Overall Performances of Group Wise Banks

Banks	C	A	M	E	L	Avg	Rank
Nationalised banks	2.75	4.7	3.25	3.25	2.5	3.29	3
Private sector banks	2	2.7	3.5	2.5	2.5	2.44	1
Foreign banks	4	2.3	2.75	3.75	3.25	3.02	2

The overall financial performance of group wise banks in India for the period of 2014-2018. It is found that under the capital adequacy ratio parameter private sector banks was at the top

position, while foreign banks got lowest rank. Under the asset quality parameter, private sector banks bank held the top rank while nationalised bank held the lowest rank. Under management efficiency parameter it is observed that top rank taken by foreign banks and lowest rank taken by nationalized bank. In terms of earning quality parameter the capability of private sector banks and foreign bank were got the top rank . Under the liquidity parameter private sector banks and nationalised banks were on the top position and foreign bank was on the lowest position.

Findings of the study

- According to the capital adequacy ratio of the banks during the last five years nationalised bank is able to achieve more than the minimum requirement capital adequacy in the last five years.
- The overall performance of the capital adequacy ratio of the banks shows the private sector banks got top positions.
- The overall performance of the assets quality ratio of the banks shows the private sector banks got top position.
- According to the overall performance of management efficiency ratio of the banks shows the foreign banks got top position.
- According to the overall performance of earning quality ratio of the banks shows the private sector banks got top position.
- According to the overall performance of liquidity ratio of the banks shows the private sector banks and nationalised banks were got top position
- According to the overall rating of the CAMEL analysis for private sector banks is good.

CONCLUSION

Financial performance analysis of group wise banks such as nationalized banks, private sector banks and foreign banks is the process of identifying the financial strengths and weaknesses of the bank by properly analyzing the relationship between the items of balance sheet and profit and loss account. These nationalized banks, private sector banks and foreign banks helps in short-term and long term forecasting and growth can be determined with the help of financial performance analysis. In India, banking sector contributes 8.6% for our economy in 2010 The tremendous growth of the banking industry is the positive sign for the

growth and development of the country as the more number of people are voluntarily wanted to access the banks. In this current economic scenario private sector banks is performing outstanding manner when compared to nationalized and foreign banks as per the overall rating of CAMEL framework.

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