INTERNATIONAL JOURNAL OR MULTIDISCIPLINARY RESEARCH AND TECHNOLOGY
ISSN 2582-7359
PEER-REVIEWED JOURNAL
IMPACT FACTOR 6.328

EVALUATING THE PERFORMANCE OF INDIAN COMMERCIAL BANKS: A COMPARATIVE ANALYSIS OF PRIVATE AND FOREIGN BANKS

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Abstract

The banking sector performs three primary functions in an economy; first, the operation of the payment system, second, the mobilization of savings and finally, the allocation of savings to investment projects. The banking system which constitutes the core of the financial sector plays a critical role in transmitting monetary policy impulses to the entire economic system. An efficient banking structure can promote greater amount of investment which can further help to achieve a faster growth rate of economy. Banks are the backbone of the economy of the country because they play significant role in the effort to attain stable prices, high level of employment and sound economic growth. The objective of the present study is to classify Indian private sector banks on the basis of their financial characteristics and to assess their financial performance. The study found that Return on Assets and Interest Income Size have negative correlation with operational efficiency, whereas positive correlation with Assets Utilization and Assets size. It is also revealed from the study that there exists an impact of operational efficiency, asset management and bank size on financial performance of the Indian Private Sector Banks and foreign banks.

Key Words: Private Sector bank, foreign bank, financial performance, Operational Efficiency, Economy.

Introduction

Banking industry in India has come a long way from the nationalization of its banks in 1969 to the liberalization of the financial system since 1991. During the reform process that started in 1991, the banking sector was opened up with the objective of improving the efficiency of the banking system in India through increased competition from private and foreign banks. With this view, government initiated the process of removing interest rate controls. Government also introduced capital adequacy requirements and other safety norms to ensure sound banking system. The objective is to strengthen banking supervision and increase competition through licensing of private banks and foreign banks. The ultimate goal is to integrate Indian banks into the global financial system.

Secondly, the Indian economy is the second fastest growing economy in the world after China. A prospect for global recovery from the worst financial crisis in seven decades is being leveraged with China and India at the fulcrum. Since these nations represent an engine of growth for the world economy, a large amount of capital is flowing to the stock markets of these nations. Banks, as financial intermediaries, are playing a crucial role by bringing enhanced liquidity and promoting market efficiency by facilitating smooth transfer of funds between borrowers and lenders that will promote capital mobility among nations. A sound banking system is essential for a smooth integration of Indian financial markets with the rest of the world, because banks play a crucial role in facilitating transfer of funds between borrowers and lenders.

Thirdly, previous studies show that a country's financial sector influences future economic growth. The banking sector is the most important part of the financial markets. If the Indian banking sector is sound and efficient, it will have a positive impact on India's growth.

The Indian financial system has been regulated mainly by interest rate regulation, credit restrictions, equity market controls and foreign exchange controls. Indian Banking Sector is divided into four categories i.e. Public Sector Banks, Private Sector Banks, Foreign Banks in India and Scheduled Commercial Banks. Banks are considered to be very important financial mediators or institutions because they result into well being of saver as well as investors. Financing facilitates the flow of goods and services and the activities of the government. It also provides a great portion of the medium of exchange to the country. Banks are the backbone of the economy of the country because they play significant role in the effort to attain stable prices, high level of employment and sound economic growth. Improvement of economic efficiency of savers and investors raises overall improvement in living standard of the society at large.

The purpose of this study is to analyze the financial data of twenty one Indian private sector banks for the financial period 2019-20 with a view to examining the relationships among measures such as bank's size, operational efficiency, asset management, return on assets and interest income and thereby to discuss their impact on performance of the banks. An attempt has also been made to rank the banks on the basis of their financial performance and measures. Therefore, the objective of the study is to classify Indian private sector banks on the basis of their financial characteristics and to assess their financial performance.

With a view to evaluating financial performance of Indian private sector banks, financial indicators such as growth rates of deposits, credits, assets and shareholders' equity have been constructed from their financial statements. Financial ratios such as return on assets, asset utilization and operational efficiency have also been calculated. In order to assess the performance of India private sector banks, measures such as assets size and interest income have also been used. It is hypothesized for this study that Return on Assets and Interest Income Size have negative relationship with operational efficiency and positive relationship with Asset management and Bank Size. It is also hypothesized that financial performance of the bank is affected by the asset management, operational efficiency and the size of the bank.

REVIEW OF LITERATURE

Presently Indian banking sector is witnessing a wide range of structural changes in policies and regulation which affects every facet of Indian banking system ranging from financial position to customer reliance (Gayval and Bajaj, 2016).As banks are imperative for industrial development, economic growth and prosperity of a country, an assessment of bank financial performance is the key concern for all the stakeholders including the regulator, bank management, and the general public (Tran, 2019). It is essential to introduce the precise and useful modern method for evaluating financial performance of various commercial banks working in India (Sharma, 2014).

The financial performance of banks is evaluated by various researchers. Various traditional techniques based on ROE, ROA, CAMEL approach was utilized to determine the financial performance of banking sector. Dhanabhakyam, and Kavitha (2012), evaluated the financial performance of Indian public sector banks by Ratio Analysis, Correlation, and

Regression. Kumar and Sharma (2014) utilized rating based on CAMEL approach to rank the Indian Banks Subsequently, approach of data envelopment analysis (DEA) analyzed the relative efficiency of banks by financial ratios as multiple inputs and outputs.

Study by (Spathis & Doumpos, 2002) investigated the effectiveness of the Greek Banks on the basis of size of the assets of the bank. On the basis of return and operation factors, they used multi criteria methodology to classify Greek banks on the basis of banks profitability and efficiency between small and large banks.

The study by (Pathak, 2003) focused on financial parameters like deposits, profits, return on assets and productivity from the view point of Indian Private Sector Banks.

Study by (Chien & Danw, 2004) was based on innovative two-stage data envelopment analysis model. Bank with better efficiency does not always mean that it has better effectiveness was the upshot of the study.

Study by (Balasubramanin, 2007) revealed that private sector banks play an important role in development of Indian economy. After liberalization, the banking industry underwent major changes. The economic reforms have changed the banking sector. RBI permitted new banks to be started in the private sector as per the recommendation of the Narashiman Committee.

The study by (Singla, 2008) revealed that profitability position of the banks was reasonable and sustained at a moderate rate during the study period. Increasing interest covering ratio and maintaining debt equity ratio over 1:1 indicated strong solvency position of the banks. Negative correlation between return on net worth and the debt equity ratio was revealed during the study period. Even interest income to working funds also had negative association with interest coverage ratio. It was also divulged from the study that the Non-Performing Assets to net advances was negatively correlated with interest coverage ratio.

The study by (Chaudhary & Sharma, 2011) concluded that an efficient management information system should be developed. The bank staff involved in sanctioning the advances should be trained about the proper documentation and charge of securities and motivated to take measures in preventing advances turning into NPA. Public banks must pay attention on their functioning to compete private banks. Banks should be well versed in proper selection of borrower/project and in analyzing the financial statement.

The study by (Prabhakar & LakshmiPrabha, 2012) found the existence of consistency among the sector and suggested investors to follow perfect portfolio management in order to avoid risk involved in it.

The purpose of the study by (Kaur, 2012) is to examine the financial performance of public and private sector banks. The study found that the overall performance of Public Sector Banks is better than private Sector Banks over the period of study.

The study by (Kumar & Malhotra, 2013) found that Bank of Baroda was at the first position with overall composite ranking average of 6.05 due to its better performance in the areas of liquidity and asset quality, closely followed by Andhra Bank with overall composite ranking average of 6.15 because of its strength in the spheres of management efficiency, capital adequacy and asset quality. United Bank of India held the bottom most rank with overall composite ranking average of 14.60 due to management inefficiency, poor assets and earning quality. The study recommends that United Bank of India has to improve its management efficiency, assets and earning quality. Similarly Bank of Maharashtra should take necessary steps to improve its liquidity position and management efficiency.

The study by (Goel & Bajpai, 2013) used financial indicators like Liquidity, Capital Adequacy, and Profitability ratios to explain that there is no such great impact on Indian banks due to global recession for the time period 2006-2009.

The study by (Mohanraj & Gomathi, 2013) finds that the banking sector faces profitability pressures due to higher funding costs, mark-to-market requirements on investment portfolios, and asset quality pressures due to a slowing economy. But Indian banks' global exposure is relatively small, with international assets at about 6 per cent of the total assets. The strong economic growth in the past, low defaulter ratio, absence of complex financial products, regular intervention by central bank, proactive adjustment of monetary policy and so called close banking culture has favored the banking industry in India in recent global financial turmoil.

The study by (Yadav, 2014) concludes that before the global recession foreign bank group was performing much better than other banking sectors. Private, Nationalized and SBI bank groups kept on performing almost same, but certainly better than RRBs for all the period of study. But, Indian banks have to innovate to take advantage of the new business opportunities and at the same time ensure continuous assessment of risks.

RESEARCH METHODOLOGY

The data for the accomplishment of the aforementioned research objectives used was secondary. With a view to evaluating performance and calculating financial ratios, the data was gathered from banks' financial statements as published in their annual reports (2019-2020). Besides, the review of different articles and research papers was another source of the data. With a view to describing, measuring, comparing and classifying the financial situations of Indian Private Sector banks, descriptive financial analysis has been used. The sample of this study contains twenty one Indian private sector banks.

Financial performance is the dependent variable and is measured by Return on Assets and Interest Income Size and therefore they are the dependent variables of this study. The independent variables of this study are as under:

1. The Bank Size (Measured by Total Assets of the Bank)
2. Asset administration (Measured by Asset Utilization Ratio = Operational Income/Total Assets)
3. Operational Efficiency (Measured by Operating Efficiency Ratio = Total Operating Expenses/Net Interest Income)

This study uses the major banking activities comprising of Total Deposits, Total Credits, Total Assets, Total Shareholders' Equity, Return on Equity (ROE =Net Profits/ Total Shareholders' Equity), and Return on Assets (ROA= Net Profit/ Total Assets) with a view to classifying Indian Private Sector banks. In order to examine and compare the impact of independent variables on the dependent variables, techniques of ratio analysis, correlations and regression have been applied. Technique of Analysis of Variance (ANOVA) has also been used in testing the hypotheses.

The selection of the topic is made with a view to evaluating and appraising the financial performance of Indian Private Sector Banks and foreign banks. The following hypotheses have been formulated to test their validity in the context of the selected Indian

Private Sector Banks and foreign banks tested through Correlations and Analysis of Variance (ANOVA).

H_0 : There is no relationship among the financial performance measured by Return on Assets and Interest Income Size and the Independent Variables (Operational efficiency, Asset Management and Bank Size)

H_1 : Return on Assets and Interest Income Size have negative relationship with operational efficiency and positive relationship with Asset management and Bank Size.

H_2 : There exist an impact of operational efficiency, asset management and bank size on financial performance of the Indian Private Sector Bank.

ANALYSIS AND RESULTS

Table 1 Ranks of Indian Private Sector Banks and Foreign Banks Based on Financial Indicators

Bank	Indicators				
	Activities			Profitability	
	Deposits	Credits	Assets	Return on Equity (RoE)	Return on Assets (RoA)
Union Bank of India	14	14	14	1	5
ING Vysya Bank Ltd.	10	9	9	12	14
SBI Commercial & International Bank Ltd	21	21	21	21	21
Tamilnad Mercantile Bank Ltd	13	13	13	3	3
The Catholic Syrian Bank Ltd	17	17	17	19	20
Dhanlaxmi Bank Ltd	16	16	16	20	19
The Federal Bank Ltd	6	6	6	13	12
ICICI Bank Ltd	4	8	7	4	11
The Karnataka Bank Ltd	12	12	12	16	16
The Karur Vysya Bank Ltd	11	11	11	5	8
The Lakshmi Vilas Bank Ltd	15	15	15	15	17
Nainital Bank Ltd	20	20	20	10	9

The Ratnakar Bank Ltd	19	19	19	18	15
The South Indian Bank Ltd	9	10	10	7	13
Axis Bank Ltd	3	3	3	6	4
Development Credit Bank Ltd	18	18	18	17	18
HDFC Bank Ltd	2	2	2	8	2
ICICI Bank Ltd	1	1	1	14	10
Induslnd Bank Ltd	7	7	8	9	7
Kotak Mahindra Bank Ltd	8	5	5	11	1
YES Bank	5	4	4	2	6

With the end goal of summing up arrangement of the banks based on exercises for example absolute stores, all out credits, complete resources and investors' value and benefit proportions for example return on Equity and Return on Assets determined above, positions have been given to the banks student. Table 1 reflects the ranks of the positions for the banks under the study. It is clear from the Table that ICICI Bank Ltd is on the first position as far as its activities i.e. total deposits, total credits and total assets are concerned; followed by HDFC Bank Ltd with second place and Axis Bank Ltd with third place. The Jammu and Kashmir Bank Ltd in Deposits and Yes Bank in Credits as well as Assets occupy fourth place. Yes Bank in Deposits and Kotak Mahindra Bank Ltd in Credits as well as Assets occupy fifth position. Sixth place in all the activities is occupied by the Federal Bank Ltd. Induslnd Bank Ltd in Deposits and Credits, while the Jammu and Kashmir Bank Ltd in Assets occupy seventh place. Kotak Mahindra Bank Ltd in Deposits, the Jammu and Kashmir Bank Ltd in Deposits and Induslnd Bank Ltd in Assets occupy eighth place.The South Indian Bank Ltd in Deposits and ING Vysya Bank Ltd in Credits as well as Assets occupy ninth position; while ING Vysya Bank Ltd in Deposits and the South Indian Bank Ltd in Credits as well as Assets occupy tenth position. The eleventh, twelfth, thirteenth, fourteenth, fifteenth, sixteenth, seventeenth, eighteenth, nineteenth, twentieth and twenty first positions in case of all the activities are occupied by The Karur Vysya Bank Ltd, The Karnataka Bank Ltd, Tamilnad Mercantile Bank Ltd, City Union Bank Ltd, The Lakshmi Vilas Bank Ltd, Dhanlaxmi Bank Ltd, The Catholic Syrian Bank Ltd, Development Credit Bank Ltd, The Ratnakar Bank Ltd, Nainital Bank Ltd and SBI Commercial & International Bank Ltd respectively.

As far as RoE is concerned, City Union Bank Ltd occupies the first place, followed by YES Bank, Tamilnad Mercantile Bank Ltd, The Jammu & Kashmir Bank Ltd, The Karur Vysya Bank Ltd, Axis Bank Ltd, The South Indian Bank Ltd, HDFC Bank Ltd, Indusind Bank Ltd, Nainital Bank Ltd, Kotak Mahindra Bank Ltd, ING Vysya Bank Ltd, The Federal Bank Ltd, ICICI Bank Ltd, The Lakshmi Vilas Bank Ltd, The Karnataka Bank Ltd, Development Credit Bank Ltd, The Ratnakar Bank Ltd, The Catholic Syrian Bank Ltd, Dhanlaxmi Bank Ltd and SBI Commercial &International Bank Ltd. As far as RoA is concerned, Kotak Mahindra Bank Ltd occupies the first place, followed by HDFC Bank Ltd, Tamilnad Mercantile Bank Ltd, Axis Bank Ltd, City Union Bank Ltd, YES Bank, Indusind Bank Ltd, The Karur Vysya Bank Ltd, Nainital Bank Ltd, ICICI Bank Ltd, ICICI Bank Ltd, The Federal Bank Ltd, The South Indian Bank Ltd, ING Vysya Bank Ltd., The Ratnakar Bank Ltd, The Karnataka Bank Ltd, The Lakshmi Vilas Bank Ltd, Development Credit Bank Ltd, Dhanlaxmi Bank Ltd, The Catholic Syrian Bank Ltd and SBI Commercial & International Bank Ltd.

Table 2 : Result of Correlations Analysis

	ROA	**Interest Income**	**Operational Efficiency**	**Assets Utilization**	**Assets Size**
ROA	1				
Interest Income	0.4500314	1			
Operational Efficiency	-0.493465	-0.074043	1		
Assets Utilization	0.4763422	0.090957	0.27738983	1	
Assets Size	0.4230985	0.996307	-0.0667209	0.0645436	1

Table 2 shows the results of correlations analysis between dependent and independent variables. It is clear that Return on Assets and Interest Income Size have negative correlation with operational efficiency (-0.49 & -0.07 respectively) while positive correlation with Assets Utilization (0.47 & 0.09 respectively) and Assets size (0.42 & 0.99 respectively). Based on these correlations, null hypothesis is rejected and the first alternate hypothesis is accepted.

Table 3 Summary of Result of ANOVA				
	Degree of Freedom	**Sum of Squares**	**Mean Square**	**F**
Regression	3	4.2250516	1.4083505	18.39337

Residual	17	1.3016627	0.0765684	
Total	20	5.5267143		
Predictors: (Constant) Assets Size, Assets Utilization (%), Operational Efficiency Dependent Variable: ROA (%)				
	Degree of Freedom	**Sum of Squares**	**Mean Square**	**F**
Regression	3	1.692E+09	563913413	878.2841
Residual	17	10915065	642062.67	
Total	20	1.703E+09		
Predictors: (Constant) Assets Size, Assets Utilization (%), Operational Efficiency Dependent Variable: Interest Income				

Table 3 shows the summary results of the analysis of variance with a view to testing impact of independent variables i.e. Assets Size, Assets Utilization and Operational Efficiency on financial performance i.e. Return on Assets and Interest Income of the Indian Private Sector Banks. As far as impact of independent variables on Return on Asset is concerned, it is clear that the calculated value of 'F' is 18.39337, which is more than the table value of 'F' (3.196777) at 5% level. Therefore, second alternate hypothesis is accepted. As far as impact of independent variables on Interest Income is concerned, it is clear that the calculated value of 'F' is 878.2841, which is more than the table value of 'F' (3.196777) at 5% level. Therefore, second alternate hypothesis isaccepted.

Conclusion

The investigation discovered that general execution covering Deposits, Credits, Assets and Profitability of HDFC, AXIS, YES, Kotak, ICICI and Indusind has been acceptable out of the example chose for the review. To the extent that exercises for example Stores, Credits and Assets are concerned, it was observed that ICICII, HDFC, AXIS, YES, Kotak and Federal were driving among the chose players. All things considered, City, Tamilnad, YES, HDFC, AXIS and Kotak could be put in the classification of GOOD Performer; though SBI, Catholic, Dhanlaxmi, Lakshmi Vilas, Ratnakar and Development could be put in the classification of POOR Performer and the rest could be AVERAGE Performer. It is fascinating to see that the banks having higher positions in exercises need not to have higher positions in productivity execution and bad habit a-versa. The investigation discovered that ICICI and Kotak are the banks which had higher positions in exercises yet normal positions in productivity, while City and Tamilnad are the banks having lower positions in exercises yet higher positions in benefit. The investigation additionally discovered that Return on Assets and Interest Income Size have negative relationship with functional proficiency, though certain connection with Assets Utilization and Assets size. It is additionally uncovered from the review that there exist an effect of functional productivity, resource the board and bank size on monetary execution of the Indian Private Sector Banks.

It is recommended that banks ought to attempt to hold the gifted labor force with contributes most to the productivity objectives of the banks to stay cutthroat in this sort of climate. The administration ought to additional attempt to control the over the costs and dispensing cost to expand the benefits. The banks ought to zero in on the gamble the board while growing its business universally. The banks ought to offer the items to the clients as per their taste. The banks ought to establish a well disposed client climate to fulfill their clients and to hold them. Banks ought to have a capacity to rehash and support such endeavors in future, which would be basic in keeping up with their productivity.

It tends to be reasoned that the current review might help leaders of Indian Private Sector Banks and Foreign Banks in Indian Banking Sector to focus on financial exercises and consequently to build the bank positioning and productivity execution.

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