International Journal of Enhanced Research in Educational Development (IJERED)
ISSN: 2320-8708, Vol. 7 Issue 3, May-June, 2019, Impact Factor: 3.275

Analysis of Financial Performance of Indian Public Sector Banks

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ABSTRACT

After the announcement of new Industrial Policy in in 1991, there was a great economic turmoil in the country. A number of private and foreign banks started to operate in the country and this has increased the competition to certain level, but then again it was an essential condition for such banks that they have to follow the rules and regulations laid down by the Reserve Bank of India. Since then private banks are sharing the fruits of profit and liquidity with public sector banks and it is stated that the corporate structure of private banks is helping them to improve the financial performance. This present study will evaluate the financial performance of banks, the researcher has considered top 10 banks and evaluated the financial results for 10 years i.e. 2009-10 to 2018-19 and CAMEL model is used to rank the selected components.

Keywords: Public Sector Banks, CAMEL Model, Financial performance.

INTRODUCTION

Banking system of any economy is considered as the backbone. All the measures taken by the respective governments for the growth and development of the economy are governed, regulated and financed by the banking system. On the other hand circulation of money is also the responsibility of banking system, banks use to promote savings among general public and provide them with some interest and other related benefits. As far as economic scenario of any country is concerned, it is dynamic in nature because the value of currency keeps on changing and the effect of this change can be experienced in the overall money market. As a matter of fact money market is governed by central bank of the country, RBI (Reserve Bank of India) is the central bank in case of India. After the announcement of new Industrial Policy in 1990 and the amendments of the same in 1991, there was a great economic turmoil in the country. A number of private and foreign banks started to operate in the country and this has increased the competition to certain level but then again it was an essential condition for such banks that they have to follow the rules and regulations laid down by the Reserve Bank of India, apparently RBI is in the process of providing quarterly guidelines for the proper functioning of respective banks. In order to activate the nationalized banks and welcome the private and foreign banks, Narasimham Committee (one) was constituted in 1991 and some of the reforms were brought about in the overall banking system of the country, then again in 1998 Narasimham Committee (Two) was constituted and some of the major reforms were constituted in the banking system of the country. Both the committees were determined to move the banking system of the country in a positive direction and for this they recommended that there should be more transparency in the banking system and approach of all the banks should be based on basic orientation of the market as such because after 1991, not only banks, many other type of private and foreign businesses started to operate in the country and there was a skeptical need of a particular banking system that can support this changeover. Then on the other hand strong regulatory framework was recommended by these two committees.

The main aim of banking system in the country is to mobilize savings and credit creation, in the present scenario banking services are converted into products and different divisions of the banks are working separately for the same. Then on the other hand the banking system of the country is liable to motivate investments in open market and in this regard RBI is having very clear and straight forward directive. In the starting of 21st century '*Financial Inclusion*' is one of the biggest task for all types of banks in the country and this measure has created a major opportunity, for the rural and deprived section of the society to become an integral part of overall financial system of the country.

This study will evaluate the financial performance of public sector banks in the country and also analyze the growth of the same in the in the present scenario.

LITERATURE REVIEW

Subramanyam (2014) conducted a study on the increasing NPAs of Indian commercial Banks for the period of 10 years i.e. 2000 to 2010. Findings of the study stated that the main reason for increasing the NPAs of Indian commercial Banks is the fair value accounting of the assets of the banks and the liberal credit policies of the respective banks. Rather this situation can be handled by revamping the asset management system.

Kumar et al (2015) conducted a study on the Credit risk management system of Indian banks, this was a quantitative study and findings of the study stated that there is a need to improve the basic CRM related operations at the level of transactions and development of portfolio, this will improve the situation of CRM system of a given banks and the efficiency of CRM executiveswill be increased. This study was conducted on CRM officials and 30 different banks and the study period was 2008. The researcher also evaluated the credit related policies of the smapled banks and conducted a survey of CRM officials.

Objective

The objective of the study is to evaluate the financial performance of the selected public sector banks of India and also to analyze the profitability situation of the overbanking system.

RESEARCH METHODOLOGY

Data

This study is based on secondary data. Annual reports of the selected banks and respective websites were used as a source for collecting this data.

Sources of Data

The main sources of data were as follows:

1. Annual report of selected banks
2. www.moneycontrol.com
3. www.financiaexpress.com
4. Research papers from reputed national and international journals
5. Other published and unpublished sources

Time Period

Due to the constraint of time and resources the researcher as considered the ten years period forthe evaluation of data, the respective time period is 2009-10 to 2018-19.

Sample

Top 10 public sector banks (as per the ratings of www.moneycontrol.com) are chosen forconducting the study.

Tools of analysis

1. CAMEL model.
2. Regression Analysis

CAMEL Model

CAMEL is the abbreviation for Capital adequacy, Asset quality, Management, Earnings and Liquidity. Under this model the selected banks are provided with ratings from 1-5 and a cumulative rank of all the banks is also calculated. Apparently in late 1990s ‘S’ was added to CAMEL and this ‘S’ stands for ranging the ‘Sensitivity to Market Risk’ and since then the name of CAMEL was changed to CAMELS.

Data Analysis and Interpretation

Table.1: CAMELS Ranking of Selected Banks

S.No.	Bank	C	A	M	E	L	S	Average Rank	CAMELS Rank
1.	Punjab National Bank	29	35	25	15	29	21	27	31
2.	Bank of Baroda	19	18	7	4.5	16	26	15.07	8.5

3.	Canara Bank	17	21	15.9	25	31	36	24.18	25
4.	Union Bank ofIndia	34	29	11	31	40	38	31	38.5
5.	Bank of India	42	18.5	39	35	4	10.5	25	27
6.	Indian Bank	14	12.5	17	23	26	33	21	23.50
7.	Central Bank ofIndia	45.5	45	43	41	10	21	34	43
8.	Bank of Maharashtra	9	8.5	4	16	31	12.5	13	5
9.	Oriental Bank of Commerce	44	42	25	34.5	21	31	33.50	41
10.	Indian Overseas Banks	10	17.5	27	12.5	2	20	15	5

Source: website of RBI and www.moneycontrol.com

Table 1 shows the CAMELS ranking of selected public sector banks and the cumulative results show that the average rating of Bank of Baroda is highest and it can be inferred that on the basis of financial performance Bank of Baroda is performing better as compared to other public sector banks. This also states that the profitability and liquidity of Bank of Baroda is comparable to Punjab National bank and central banks of India, then on the other hand earning of IOB are better, but then again BOB stands as a consistent performer during the study period and selected group of banks.

Table 2: Regression Statistics of Ranking in table 9.1

turn onAssets	**Coefficient**	**S.E. (StandardError)**	**Value of 't'**	**P (if p>t)**
Capital Adequacy	0.0795	0.034	3.978	-
Quality of NPA	0.214	0.016	-11.5039	-
CDR	0.068	0.00291	0.304	0.752
Liquidity	0.063	0.0852	0.7723	0.395
Const.	0.178	0.2953	-0.421	0.568

As can be seen form the above table of regression analysis, ROA is quoted as dependent variableand remaining are the independent variables. Now the values in the form of coefficient state that CAD and NPA are statistically significant and ROA can be stated and explained on the basis of the same. Then on the other hand the coeff. Of liquidity is not in the comfortable zone and states that the quotients are not significant in explaining the ROA.

Table 3: Test Statistics (*Mann Whitney U test*)

Component	M-W Variable	Z Score	p-Value
CAMELS Rank	174.58	-0.682	.297

Source: Output of SPSS Ver. 22.0

As per the results of Mann Whitney U test, given in table 3, it can be seen that at the 95% of significance level the Z –score lies within the limits of ±1.96 which is an acceptable limit and the p-value of the same is 0.297 or more than 5% level of significance. This proves that the test results are in right direction and motivates for the acceptance of the assumption and in comprehension with the results of CAMEL Ranking.

CONCLUSION

Banking system of a country is the basic skeleton of economic structure and is very important forthe circulation of currency and creation of credit. In the present scenario the banks are becoming the hub of financial inclusion and many of the public and private sector banks are providing their helping hands in this regard. This present study states that the public sector banks of India are in better situation, as far as liquidity and profitability is concerned, but then again rising NPAs of the public sector banks is a major issues. The analysis of data states that Bank of Baroda and Punjab National banks are the best performers on the fronts of profitability and Indian Overseas bank is good in case of earnings. Then on the other hand the results of regression analysis also agree to the ranking of CAMEL ratings and state the negative effect of NPA on the overall performance of the selected banks.

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