Research Paper

EPRA International Journal of Economic and Business Review-Peer Reviewed Journal
Volume - 11, Issue - 7, July 2023 | e-ISSN: 2347 - 9671| p- ISSN: 2349 – 0187

SJIF Impact Factor (2023): 8.55 || ISI Value: 1.433 || Journal DOI URL: https://doi.org/10.36713/epra2012

FINANCIAL PERFORMANCE EVALUATION OF SELECT INDIAN BANKS

Chanambam Chingkheinganba Meetei[1], Dr. Kshetrimayum Ranjan Singh[2]

[1]Research Scholar, Department of Commerce, Manipur University, Imphal, India.
[2]Assistant Professor, Department of Commerce, Manipur University, Imphal, India.

DOI No: 10.36713/epra13827 Article DOI: https://doi.org/10.36713/epra13827

ABSTRACT

Many are the factors that impact economic progress; howsoever, the Banking sector directly impacts its economy. Financial assistance of all the firms and companies had to be backed by the robust banking system of an economy. The banking sector is sensitive since they are the first to hit whenever an economic crisis or economic boom happens. Banks should survive intense competition by keeping new technology, innovative products, investors' interest in focus, etc. Depending only on financial data and unorganized accounting ratios is inadequate. Therefore, financial performance is necessitated to be rigorously analysed. In this study, two public sector banks, the Canara Bank and Bank of Baroda (BOB), and two private sector banks, namely Industrial Credit and Investment Corporation of India (ICICI) and Housing Development Finance Corporation (HDFC), will be comparatively evaluated.

KEYWORDS: ***Financial Performance Evaluation, Private Sector Banks, Public Sector Banks.***

1. INTRODUCTION

The financial system plays a very crucial role in any economy of a country in this world. It isthe only sector that provides its services to every sector of an economy. It is not possible to think about the growth and development of the country's economy with the role of the financial system. Development of new enterprises, growth, and expansion of the existing enterprises will remain a dream without finance from the bank. The financial background of the firm and companies has to be provided by the sound banking system of the country. The banking system is the main pillar of the financial system. When a country has a strong banking sector, the growth of an economy is certain. Banks are working in an environment encompassed by various challenges and threats from different edges. Bank has to consider redesigning the performance measurement system to counter the challenges of the rapidly changing environment (Khuntia & Pradhan 2019). Also, after the financial inclusion scheme of the Government of India, the banking sector could reach every corner including rural areas and even far-flung places. Although the Reserve Bank of India (RBI) has monitored the banking system of the country, SEBI regulates the financial market, and the Ministry of Finance and Ministry of Corporate affairs are concerned about the banking sector, it is not enough. Therefore, it is essential to monitor and measure the financial performance of banks continuously.

2. REVIEW OF LITERATURE

Jha and Natarajan (2021) conducted a comparative analysis of the financial performance of the SBI and PNB in the Public Sector and ICICI and AXIS Bank in the Private Sector from 2011-to 2018 with the CAMEL Model. this study showed that there is a significant difference in the performance of Public (SBI and PNB) and Private (ICICI and AXIS) sector Banks. Private Banks are better defenders than Public Banks, which have attained the least position in all parameters of the CAMEL model. According to the

CAMEL rating, ICICI's overall performance is excellent and gets the highest CAMEL rating. The performance of AXIS is also outstanding and gets second.

Khuntia and Pradhan (2019) in their study conducted to evaluate the financial performance based onthe BSC model for a period of 10 years (i.e., 2008-09 to 2017-18), along with the investigation of the financial strength of SBI and private banks (e.g.,Axis, ICICI, and HDFC), it mentioned that banks that are performing great financially can't be concluded as the best Banks.

Dinesh and Venugopal (2018) revealed that ICICI Bank's good performance in balance sheet ratios and Debt coverage ratios and the next position of HDFC Bank. SBI and Kotak Mahindra Bank's performance is good in profitability ratios.

Nagalekshmi and Das (2018) found the positive impact of the merger of Kotak Mahindra Bank Ltd with ING-Vysya Bank. It also found that momentous increments in various budgetary like operating profit, net profit, earnings per share, interest earned, return on assets, equity share capital, income on investment etc.

Majumder and Rahman (2016) measured the financial performance of the fifteen selected banks in Bangladesh and identified the significant difference in their performances for the period 2009-2013. The suggestion that the lower ranking banks should take necessary steps to improve their weaknesses.

Karri et al. (2015) analyzed the performance of banks from the important parameters like capital adequacy, asset quality, management efficiency, earning ability and liquidity with the help of CAMEL model.

Nagarkar (2015) examined the performance of major five public, private and foreign sector banks with the help of principle component analysis technique. He found that commercial banks mostly depend on deposits for providing credit. So, Commercial banks need to check their credit appraisal process to reduce the non-performing
assets and regain the faith of depositors as key to banks' success.

Mistry and Savani (2015) classified Indian private sector banks on the basis of their financial characteristics and analyzed their financial performance. They found that return on assets and interest income have a negative correlation with operational efficiency whereas, positive correlation with asset utilization and asset size. They also revealed that operational efficiency, asset management and bank size have an impact on the financial performance of the Indian private sector banks.

Goel and Rekhi (2013) attempted to measure the relative performance of Indian public sector and private sector banks. They concluded that the efficiency and profitability are interrelated and the performances of private sector banks are better than public sector banks in India.

Malhotra (2011) analyzed the performance of commercial banks in India during the period 2005 to 2009. This period covers the pre-credit crisis and the crisis time period. Specifically, the paper examines the behavior of profitability, cost of intermediation, efficiency, soundness of the banking system, and industry concentration for public and private sector Indian commercial banks. The empirical results show that competition in the Indian banking industry has intensified. While the net interest margin has improved, cost of intermediation is actually rising and banks are responding to the increased costs with higher efficiency levels.

Research Gap
The previous Literature Review lacks a comparative analysis of the selected banks i.e. Canara Bank, Bank of Baroda, ICICI, and HDFC from 2017 to 2022.

3. OBJECTIVES OF THE STUDY

i. To measure the earning capacity or profitability of the selected bank.
ii. To measure the solvency of the selected bank.
iii. To measure the liquidity among the selected bank.
iv. To measure the financial strength among the selected bank.
v. To judge the efficiency of management.

4. HYPOTHESES

1. H0: There is no significant difference between the performances of selected banks based on the Earning Ratios.
   H1: There is a significant difference between the performances of selected banks based on the Earning Ratios
2. H0: There is no significant difference between the performances of selected banks based on Asset Quality Ratios.
   H1: There is a significant difference between the performances of selected banks based on Asset Quality Ratios.
3. H0: There is no significant difference between the performances of selected banks based on the Management Ratios.
   H1: There is a significant difference between the performances of selected banks based on the Management Ratios
4. H0: There is no significant difference between the performances of selected banks based on the Liquidity Ratios.

H1: There is a significant difference between the performances of selected banks based on the Liquidity Ratios.

5. H0: There is no significant difference between the performances of selected banks based on the Solvency Ratios.

H1: There is a significant difference between the performances of selected banks based on the Solvency Ratios.

5. DATA COLLECTION

Secondary data, such as annual reports, RBI periodicals, and other available data bases have been collected.

6. PERIOD OF THE STUDY

The present study covers the span of 6 years i.e., from 2017 to 2022.

7. LIMITATIONS OF THE STUDY

a) There are only few selected banks under this study which may not draw accurate and efficient conclusions.
b) The study is restricted only the six financial years i.e., 2017 to 2022.
c) The study is completely based on secondary data and the accuracy of the analysis depends on the data so obtained.
d) The study may not be extensive enough to cover all the ratios to be considered in evaluating the financial soundness of the bank accurately.
e) There are various tools and techniques for evaluating financial performance of the banks. Under this study, only ratio analysis tool is used which is not an enough tool for evaluating financial performance of the banks.

8. TOOLS AND TECHNIQUES

1. Earning Ratios	i) Net Profit Margin (NPM) ii) Net Interest Margin (NIM)
2. Asset Quality Ratios	i) Net NPA to Total Advances
3. Management Ratios	i) Return on Assets (ROA) ii) Return on Equity (ROE)s
4. Liquidity Ratios	i) Cash to Deposits ii) Current Ratio
5. Solvency Ratios	i) Debt-Equity Ratio ii) Total Assets to Debt Ratio

9. ANALYSIS & DISCUSSION

1. Earning Ratios

TABLE-1: EARNING RATIOS PARAMETERS

YEAR	Net Profit Margin (NPM)				Net Interest Margin (NIM)			
	HDFC	ICICI	Canara	BoB	HDFC	ICICI	Canara	BoB
2017	20.99	18.09	2.23	3.25	4.3	3.25	2.23	3.25
2018	21.79	12.33	2.42	2.43	4.3	3.23	2.42	2.43
2019	21.29	5.3	2.63	2.72	4.3	2.8	2.63	2.72
2020	22.86	10.3	2.29	2.73	4.3	3.02	2.29	2.73
2021	25.74	20.6	2.75	2.71	4.1	3.16	2.75	2.71
2022	28.93	27.02	8.18	10.4	3.48	3.96	2.82	3.03
Mean	23.6	15.61	3.42	4.04	4.13	3.09	2.46	2.77
Rank	1	2	4	3	1	2	4	3
Variance	9.79	61.3	5.48	9.78	0.11	0.15	0.06	0.08
P-value	3.79E-07				1.70E-07			

Source: Compiled from Annual report of the banks

Inference

As table-1 indicates that in both of the sub-parameter NPM and NIM, p-value is less than 0.05, therefore, there is a significant difference between selected banks. HDFC bank exhibits the highest NPM scoring a mean score of 23.6% with variance of 9.79 during the given period, followed by ICICI bank 2nd scoring 15.61 % with variance of 61.30, BoB 3rd ranked scoring 4.04% with a variance of 9.78 and 4th ranked by Canara Bank scoring 3.41% only with a variance of 5.48. Here public sector banks were performing quite lower than the Private sector banks.

HDFC bank exhibits the highest NIM scoring a mean score of 4.13% with variance of 0.11 during the given period, followed by ICICI bank 2nd scoring 3.09 % with variance of 0.15, BoB 3rd ranked scoring 2.77% with a variance of 0.08 and 4th ranked by Canara bank scoring 2.46% only with a variance of 0.06. Here public sector banks were performing quite lower than the Private sector banks.

2. Asset Quality Ratios

TABLE-2: ASSET QUALITY PARAMETERS

Net NPA to Total advances Ratio				
YEAR	**HDFC**	**ICICI**	**Canara**	**BoB**
2017	0.33	5.43	6.33	4.72
2018	0.4	5.43	7.48	5.49
2019	0.39	2.29	5.37	3.33
2020	0.36	1.54	4.22	3.13
2021	0.4	1.24	3.82	3.09
2022	0.32	0.81	2.65	1.72
Mean	0.37	2.79	4.98	3.58
Rank	1	2	4	3
Variance	0.001	4.414	3.115	1.782
P-Value	0.00039			

Source: Compiled from Annual report of the banks

Inference

As table 2 indicates p-value of Asset Quality is less than 0.05, therefore, there is a significant difference between selected banks. HDFC bank exhibits the lowest Net NPA to Total advances Ratio scoring a mean score of 0.37% with variance of 0.001 during the given period, followed by ICICI bank 2nd scoring 2.79% with variance of 4.414, BoB 3rd ranked scoring 3.58% with a variance of 1.782 and 4th ranked by Canara bank scoring 4.98% only with a variance of 3.115. Here public sector banks were performing quite lower than the Private sector banks.

3. Management Ratios

TABLE-3: MANAGEMENT RATIO PARAMETERS

YEAR	Return on Assets (ROA)				Return on Equity (ROE)			
	HDFC	**ICICI**	**Canara**	**BoB**	**HDFC**	**ICICI**	**Canara**	**BoB**
2017	1.88	1.35	0.2	-0.2	18.04	35.4	4.15	0.01
2018	1.93	0.87	-0.75	-0.34	18.22	6.61	-16.74	-7.64
2019	1.9	0.39	0.06	0.06	16.3	11.07	1.4	1.18
2020	2.01	0.81	-0.32	0.05	16.76	10.13	-8.05	1.23
2021	1.97	1.42	0.23	0.07	16.6	11.93	6.71	1.5
2022	2	1.84	0.48	0.57	16.29	13.94	9.85	8.46
mean	1.95	1.11	-0.02	0.035	17.03	14.85	-0.45	0.79
rank	1	2	4	3	1	2	4	3
variance	0.0028	0.2705	0.198	0.0968	0.75	107.22	101.01	26.27
p-value	2.06E-08				0.00074			

Source: Compiled from Annual report of the banks

Inference

As table 3 indicates that in both of the sub-parameter of Management Ratio, ROA and ROE, p-value of is less than 0.05, therefore, there is a significant difference between selected banks. HDFC bank exhibits the highest ROA scoring a mean score of 1.95% with variance of 0.002 during the given period, followed by ICICI bank 2nd scoring 1.11% with variance of 0.270, BoB 3rd ranked scoring 0.03% with a variance of 0.096 and 4th ranked by Canara bank scoring -0.02% only with a variance of 0.198

HDFC bank exhibits the highest ROE scoring a mean score of 17.03% with variance of 0.75 during the given period, followed by ICICI bank 2nd scoring 14.85% with variance of 107.22, BoB 3rd ranked scoring 0.79% with a variance of 26.27 and 4th ranked by Canara bank scoring –0.45% only with a variance of 101.01. Here public sector banks were performing quite lower than the Private sector banks.

4. Liquidity Ratios

TABLE-4: LIQUIDITY RATIO PARAMETERS

YEAR	Cash to Deposit Ratio (CDR)				Current Ratio (CR)			
	HDFC	ICICI	Canara	BoB	HDFC	ICICI	Canara	BoB
2017	5.89	6.45	4.02	3.79	0.74	4.04	5.58	7.91
2018	13.27	5.9	4.21	3.84	0.81	5.16	4.68	5.46
2019	5.07	5.79	4.99	4.17	0.89	4.28	5.69	5.1
2020	6.29	4.58	3.6	3.45	0.8	4.07	6.51	3.92
2021	7.29	4.94	4.26	4.02	0.63	3.51	7.12	4.04
2022	8.33	5.52	4.75	5.28	1.02	3.37	8.16	4.14
Mean	7.69	5.53	4.31	4.09	0.82	4.07	6.29	5.1
Rank	1	2	3	4	4	3	1	2
Variance	8.75	0.46	0.25	0.4	0.02	0.4	1.54	2.29
P-Value	0.000274				9.80E-08			

Source: Compiled from Annual report of the banks

Inference

As Table 4 indicates that in both of the sub-parameter of Liquidity Ratio, CDR and CR, p-value is less than 0.05, therefore, there is a significant difference between selected banks. HDFC bank exhibits the highest cash to deposit ratios coring a mean score of 7.69% with variance of 8.75 during the given period, followed by ICICI bank 2nd scoring 5.53% with variance of 0.46, Canara bank 3rd ranked scoring 4.31% with a variance of 0.25 and 4th ranked by BoB scoring 4.09% only with a variance of 0.40. Here public sector banks were performing quite lower than the Private sector banks.

Canara Bank exhibits the highest Current ratio scoring a mean score of 6.29 with variance of 1.54 during the given period, followed by BoB bank 2nd scoring 5.10 with variance of 2.29, ICICI 3rd ranked scoring 4.07 with a variance of 0.40 and 4th ranked by HDFC scoring 0.82 only with a variance of 0.02.

Since, ideal ratio of Current Ratio is 2:1, closer to ideal ratio is better.

5. Solvency Ratio

TABLE-5: SOLVENCY RATIO PARAMETERS

YEAR	Debt Equity Ratio (DER)				Total Assets to Debt Ratio(TADR)			
	HDFC	ICICI	Canara	BoB	HDFC	ICICI	Canara	BoB
2017	0.83	1.88	1.17	0.76	11.67	4.1	14.77	22.7
2018	1.16	1.74	1.09	1.44	8.64	4.81	15.9	11.51
2019	0.78	1.53	1.13	1.46	10.63	5.83	16.95	11.62
2020	0.85	1.4	1.09	1.3	10.58	6.74	16.93	12.44
2021	0.67	0.62	0.85	0.87	12.89	13.43	23.08	17.28
2022	0.77	0.89	0.7	1.21	11.19	10.85	26.51	12.3
Mean	0.84	1.34	1	1.17	10.93	7.63	19.02	14.64
Rank	4	1	3	2	3	4	1	2
Variance	0.02	0.24	0.03	0.09	1.98	13.69	21.81	20.23
P-Value	0.06385				0.00031			

Source: Compiled from Annual report of the banks

Inference

As Table 5 indicates that p-value of DER is greater than 0.05, therefore, there is no significant difference between the selected banks. ICICI bank exhibits the highest Debt Equity ratio scoring a mean score of 1.34 with variance of 0.24 during the given period, followed by BoB bank 2nd scoring 1.17 with variance of 0.09, Canara bank 3rd ranked scoring 1.00 with a variance of 0.03 and 4th ranked by HDFC scoring 0.84 only with a variance of 0.02. Here public sector banks were performing quite similar to the Private sector banks.

Similarly, Table 5 indicates that p-value of TADR is less than 0.05, therefore, there is a significant difference between the selected banks. Canara bank exhibits the highest total assets to debt ratio scoring a mean score of 19.02 with variance of 21.81 during the given period, followed by BoB bank 2nd scoring 14.64 with variance of 20.23, HDFC bank 3rd ranked scoring 10.93 with a variance of 1.98 and 4th ranked by ICICI bank scoring 7.63 only with a variance of 13.69. Here public sector banks were performing quite better than the Private sector banks.

10. FINDINGS

Table 6: Table showing Overall Average of Selected Ratios

Sl No	Ratios	HDFC	ICICI	Canara	BoB
1	NET PROFIT MARGIN	23.6	15.61	3.42	4.04
	NET INTEREST MARGIN	4.13	3.09	2.46	2.77
	Overall average of profitability	9.24	6.23	1.96	2.27
	Rank	1	2	4	3
2	NET NPA TO TOTAL ADVANCES	0.37	2.79	4.98	3.58
	Rank	1	2	4	3
3	RETURN ON ASSET	1.95	1.11	-0.02	0.1
	RETURN ON EQUITY	17.03	14.85	-0.45	0.79
	Overall average of management	9.49	7.98	-0.24	0.45
	Rank	1	2	4	3
4	CASH TO DEPOSIT	7.69	5.53	4.31	4.09
	CURRENT RATIO	0.82	4.07	6.29	5.1
	Overall average of Liquidity	4.255	4.8	5.3	4.595
	Rank	4	2	1	3
5	DEBT EQUITY	0.84	1.34	1	1.17
	TOTAL ASSETS TO DEBT	10.93	7.63	19.02	14.64
	Overall average of Solvency	5.89	4.49	10.01	7.91
	Rank	2	1	4	3

Sources: Analyzed and Compiled by the Researchers.

According to Table 7, performance of HDFC bank secured most of the 1st Rank. Although Current Ratio of HDFC bank mean score is low, it is nearest to its Ideal ratio However, Canara bank and BOB are very weak in its overall ranking. NPAs of Canara bank and BOB are very high thereby affected its Profitability Ratios and Management efficiency ratios and it is performing very poorly compared to the other selected banks. While comparing Public Sector banks with Private Sector banks, Private banks i.e., HDFC bank and ICICI bankare ahead in Net Profit, NIM, ROA, and ROE than the public sector banks. Public sector banks must redefine their strategies by considering their strengths, weakness and operating market.

11. CONCLUSION

The study shows that there is a significant difference between the performance of selected banks based on the Earning Ratios, Asset Quality Ratio, Management Ratio, and Liquidity Ratio. Although p-value of TADR is less than 0.05, p-value of DER is greater than 0.05. therefore, for Solvency ratio it shows an unsettling result. Here, it can be concluded that there is not enough evidence to prove that there is no significant difference between the selected banks except for Debt-Equity ratio, a sub-parameter of Solvency Ratio.

REFERENCES

1. *Goel, C., & Rekhi, B. C. (2013). A Comparative Study on the Performance of Selected Public and Private Sector Banks in India. Journal of Business Management & Social Sciences Research (JBM&SSR) ISSN No: 2319-5614, 46-48.*
2. *Jha, P., & Natarajan, S. (2021). Asset Quality Evaluation of Select Indian Banks: A Camel Model. Orissa Journal of Commerce, 42(1), 59-76. Retrieved from https://www.ojcoca.org/issues.html*
3. *Karri, H. K., Meghani, K. M., & Mishra, B. M. (2015). A Comparative Study on Financial Performance of Public Sector Banks in India: An Analysis on CAMEL Model. Arabian Journal of Business and Management Review (OMAN Chapter) Vol. 4, No.8, 2-34.*
4. *Khuntia, R., & Pradhan, P. K. (2019). Devising Balanced Scorecard to Evaluate Banks' Performance: An Empirical Study of Selected Indian Banks. Orissa Journal of Commerce, 40(4), 20-33. Retrieved from https://www.ojcoca.org/otherissues*
5. *Kumar, K. D., & Venugopal, D. G. (2018). Financial Performance of Selected Scheduled Commercial Banks in India. Volume-7, Issue-4, April-2018 • Print Issn No 2277 - 8160, 82-86.*
6. *Majumder, M. T., & Rahman, M. M. (2016). A CAMEL Model Analysis of Selected Banks in Bangladesh. International Journal of Business and Technopreneurship Volume 6, No. 2, 233-266.*
7. *Malhotra, D. K., Poteau, R., & Singh, R. (2011). Evaluating the Performance of Commercial Banks in India. Asia Pacific Journal of Finance and Banking Research Vol. 5. No. 5., 17-18.*
8. *Mistry, D.S. and Savani,V. (2015). A Comparative Study of the Profitability Performance in the Banking Sector:*

Evidence from Indian Private Sector Bank. XVI Annual Conference Proceedings, 346-360

9. *Nagarkar, J. (2015). Analysis of Financial Performance of Banks in India. Annual Research Journal of Symbiosis Centre for Management Studies, 3, 26-37.*