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# A STUDY OF FINANCIAL PERFORMANCE OF SELECTED INDIAN PUBLIC SECTOR BANKS

**Ruzuta Shah[1], Dr. H. A. Hasan[2]**

[1]Research Scholar, S.D. School of Commerce, Gujarat University, Gujarat, India.
[2]Principal (Retired), Shree Sarvajanik College of Education, Godhra, Gujarat University, Gujarat, India.

## ABSTRACT

India is the largest country having many and varied financial institutions both public and private banks, who are controlled and governed by Reserve Bank of India, and Ministry of Finance. Efficiency and profitability of the banking sector in India has assumed primal importance due to intense competition, greater customer demands and changing banking reforms. This study attempts primarily to measure the financial performance of SBI, BOB and BOI which are leading public sector banks of India. Financial performance of these banks have been analysed for the period 2015-16 to 2019-20. Analyse the ratio here used financial ratio analysis (FRA) method which help to draw an overview about financial performance of public sector banks. The study findings can be helpful for management of banks.

**KEYWORDS:** Public Sector Banks, Financial Performance, Efficiency, Profitability

## INTRODUCTION:

### Overview of Banking:

Bank is defined in many ways by various authors in the book son economics and commerce. It is very difficult to define a bank; because a bank performs multifarious functions may be defined in many ways according to their functions. The evolution of different types of banks, each specializing in a particular field, gives emphasis on each and every kind of bank. A general and comprehensive definition to cover all types of banking institutions would be unscientific and probably impossible. Each type of bank should have its own definition, explaining its specialized functions. Legislators have understood this difficulty and that is why the bill of exchange Act 1882 (England) defines

> "A bank includes a body of persons, whether incorporated or not, who carry on the business of banking"

### Market Size:

The Indian banking sector is fragmented, with 46 commercial banks jostling for business with dozens of foreign banks as well as rural and co-operative lenders. State banks control 80 percent of the market, leaving relatively small shares for private rivals.

At the end of February, 13.7 crore accounts had been opened under Pradhanmantri Jan Dhan Yojna (PMJDY) and 12.2 crore RuPay debit cards were issued. These new accounts have mobilised deposits of Rs 12,694 crore (US$ 2.01 billion).

Standard & Poor's estimates that credit growth in India's banking sector would improve to 12-13 per cent in FY16 from less than 10% in the second half of CY14.

## LITERATURE REVIEW:

Mayuri, J. Farmer's (2009) study was primarily based on the secondary data relating to the financial performance of 27 nationalized banks of India during 1989 to 1998. A regression analysis has been attempted to identify the quantifiable variables and to judge how far the changes in profitability are influenced by each of these variables. A detailed study has also been undertaken by selecting a very profitable bank and a highly loss making bank to identify the variables affecting the profitability of each of them. The application of the concept of Break Even Analysis has been attempted to differentiate between a profit earning bank and a losing bank and to help in suggestions how margin of safety can be improved.

Rachita Gulati and Sunil Kumar (2009) endeavour to explore the relationship between efficiency and profitability in 51 Indian domestic banks operating in the financial year 2006-2007.The empirical results show that de novo private sector banks dominate in the formation of the efficient frontier for Indian domestic banking industry. The efficient- profitability matrix reveals that the resource utilization process in 22 banks that fall in the "Question Mark" and "Sleeper quadrants is not functioning well and featuring the presence of considerable wastage of inputs. Further, Tamil Nadu Mercantile Bank and Yes Bank may be considered as an ideal bench mark for the poor performing banks on the efficiency and profitability dimensions of performance evaluation.

Roma Mitra, Shankar Ravi (2008), A stable and efficient banking sector is an essential precondition to increase the economic level of a country. This paper tries to model and evaluate the efficiency of 50 Indian banks. The Inefficiency can be analyzed and quantified for every evaluated unit. The aim of this paper is to estimate and compare efficiency of the banking sector in India. The analysis is supposed to verify or reject the hypothesis whether the banking sector fulfils its intermediation function sufficiently to compete with the global players. The results are insightful to the financial policy planner as it identifies priority areas for different banks, which can improve the performance. This paper evaluates the performance of Banking Sectors in India.

B.Satish Kumar (2008), in his article on an evaluation of the financial performance of Indian private sector banks wrote Private sector banks play an important role in development of Indian economy. After liberalization the banking industry underwent major changes. The economic reforms totally have changed the banking sector. RBI permitted new banks to be started in the private sector as per the recommendation of Narashiman committee. The Indian banking industry was dominated by public sector banks. But now the situations have changed new generation banks with used of technology and professional management has gained a reasonable position in the banking industry.

Vradi, Vijay, Mauluri, Nagarjuna (2006), in his study on´ Measurement of efficiency of bank in India concluded that in modern world performance of banking is more important to stable the economy .in order to see the efficiency of Indian banks we have seen the fore indicators i.e. profitability, productivity, assets, quality and financial management for all banks includes public sector, private sector banks in India for the period 2000 and 1999 to 2002-2003. For measuring efficiency of banks we have adopted development envelopment analysis and found that public sectors banks are more efficient than other banks in India.

Petya Koeva (July 2003) in his study on The Performance of Indian Banks. During Financial Liberalization states that new empirical evidence on the impact of financial liberalization on the performance of Indian commercial banks. The analysis focuses on examining the behaviour and determinants of bank intermediation costs and profitability during the liberalization period. The empirical results suggest that ownership type has a significant effect on some performance indicators and that the observed increase in competition during financial liberalization has been associated with lower intermediation costs and profitability of the Indian banks.

## RESEARCH OBJECTIVE:

1. To analyses financial performance of selected public banks of India

2. To study the impact of financial reform on banking industry

## RESEARCH METHODOLOGY:

### Sources of Data:

Secondary sources of data will be utilised for this proposed research study

Secondary data have been collected from Company Annual Reports.

### Universe:

In the research study selected 3 public banks.

**Period of Data Coverage:**
Five years of financial statements has been analysed for public banks taken under study.

**Analysis of Data:**
The proposed statistical tools for the analysis of data are ratio analysis

**DATA ANALYSIS:**

**INTEREST EXPENDED / TOTAL FUNDS**

| BANK NAME | 2015-16 | 2016-17 | 2017-18 | 2018-19 | 2019-20 |
|---|---|---|---|---|---|
| STATE BANK OF INDIA | 4.4 | 5.15 | 5.4 | 5.38 | 5.24 |
| BANK OF INDIA | 4.46 | 5.48 | 5.46 | 5.26 | 5.36 |
| BANK OF BARODA | 4.11 | 4.79 | 4.82 | 4.47 | 4.33 |

**INTEREST INCOME / TOTAL FUNDS**

| BANK NAME | 2015-16 | 2016-17 | 2017-18 | 2018-19 | 2019-20 |
|---|---|---|---|---|---|
| STATE BANK OF INDIA | 7.35 | 8.48 | 8.49 | 8.37 | 8.18 |
| BANK OF INDIA | 6.98 | 7.75 | 7.63 | 7.38 | 7.26 |
| BANK OF BARODA | 6.92 | 7.41 | 7.17 | 6.55 | 6.37 |

**LOANS TURNOVER**

| BANK NAME | 2015-16 | 2016-17 | 2017-18 | 2018-19 | 2019-20 |
|---|---|---|---|---|---|
| STATE BANK OF INDIA | 0.12 | 0.14 | 0.13 | 0.13 | 0.13 |
| BANK OF INDIA | 0.11 | 0.12 | 0.12 | 0.12 | 0.11 |
| BANK OF BARODA | 0.11 | 0.12 | 0.12 | 0.11 | 0.11 |

**NET PROFIT MARGIN**

| BANK NAME | 2015-16 | 2016-17 | 2017-18 | 2018-19 | 2019-20 |
|---|---|---|---|---|---|
| STATE BANK OF INDIA | 9.4 | 10.42 | 10.66 | 7.49 | 8.17 |
| BANK OF INDIA | 11.63 | 9.52 | 8.78 | 7.83 | 4.6 |
| BANK OF BARODA | 19.69 | 17.21 | 13.18 | 12.35 | 8.7 |

**OPERATING EXPENSE / TOTAL FUNDS**

| BANK NAME | 2015-16 | 2016-17 | 2017-18 | 2018-19 | 2019-20 |
|---|---|---|---|---|---|
| STATE BANK OF INDIA | 2.92 | 2.62 | 2.59 | 2.72 | 2.84 |
| BANK OF INDIA | 1.59 | 1.31 | 1.25 | 1.28 | 1.31 |
| BANK OF BARODA | 1.41 | 1.25 | 1.18 | 1.17 | 1.17 |

From the above table it can be seen that, all banking companies have ratio range between 4 to 7. There is no significant change in positive or negative manner can be seen for all 5 years of study for all three banks. Bank of Baroda performing best followed by state bank of India and then Bank of Baroda.

From the above interest income / total funds ratio table it can be concluded that no significant hike or decline in ratio value can be observed throughout last 5 years for all three banks. State Bank of India has highest average ratio value followed by Bank of India and then Bank of Baroda.

From the above LOANS TURNOVER ratio table it can be seen that State Bank of India has highest amount of ratio value followed by Bank of Baroda and then Bank of India. So State Bank of India has highest sales which has to pay off its loans

From the above Net Profit Margin ratio table it can be concluded that Bank of Baroda is keeping most of its revenue as net income followed by Bank of India and State Bank of India.

From the above table it can be seen that State Bank of India has highest operating expense / total funds average ratio value of last 5 years of study period. It shows State Bank of India has highest ability to leverage its average total resources in enhancing its main stream of Operating expenses. Bank of Baroda has lowest ability to leverage its average total resources in enhancing its main stream of Operating expenses.

**CONCLUSION:**
Based on the ratio analysis of public sector banks, it can be concluded that higher net profit margin ratio can be seen in earlier years i.e. in earlier years banks keeping higher amount of their revenue as net income. Public sector banks have lower loans turnover ratio, public banks have higher outstanding loan compare to the revenue generated. State bank of India has highest ability to leverage its average total resources in enhancing its main stream of Operating expenses. Public banks have high ability to leverage their average total resources in enhancing their main stream of operational interest income

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