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FINANCIAL PERFORMANCE EVALUATION OF PRIVATE SECTOR BANKS IN INDIA: A COMPARATIVE STUDY

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ABSTRACT

India is fast emerging country on the world map as a strong economy and a global power. The country is going through a phase of rapid development and growth. All the vital industries and sectors of the country are registering growth and thus luring investors. Banking industry is one of them. The present study deals with the comparative financial performance evaluation of private sector banks in India. In this study, the authors have chosen TEN private sector banks, among the top private sector banks in India. The banks chosen for the study are Axis Bank (AXIS), Federal Bank (FED BANK), HDFC, ICICI, Indus land Bank (INDUS), ING VYSYA (ING), Jammu & Kashmir Bank (J&K), Kotak Mahindra (KOTAK), South India Bank (SOUTH IND), Yes Bank. The present study is aimed at comparing the financial performance of the selected banks by taking various financial indicators and thereby to show the relative financial position and performance of each bank and a comparative result. The core objective of this study is to evaluate the financial performance of the Private Sector Banks in India.

KEYWORDS

Private sector banks, net worth, deposits, borrowings, net profit, interest earned.

INTRODUCTION

India is fast emerging country on the world map as a strong economy and a global power. The country is going through a phase of rapid development and growth. All the vital industries and sectors of the country are registering growth and thus luring investors. Banking industry is one of them. If we glance the history of banking industry, it will be clearly seen that in all the countries the functioning of banking activities was started not by the public sector banks but by the private sector banks. The banks of merchant were the original form of banking all around the world. In India all the leading public sector banks of present day were originally established as private sector banks. At present there are 23 Indian private banks and 29 foreign private banks are functioning in India. Private Banks are playing vital role in the development of Indian economy. With the entry of foreign private banks, a new era was started in the functioning of private banks in India. Private Banks in India indirectly motivate the public sector banks by offering healthy competition. Beside this private banks offer high degree of professional management, encourage flow of FDI, opportunity to access foreign capital market; develop the innovation in the field of banking.

As per the recommendation of Narashiman committee RBI liberalized the policy for establishing new private sector banks in India. Till that time Indian banking industry was dominated by public sector banks. But now, the technology oriented functioning helped private banks to sustain and grow in Indian market. The revolutionary way of servicing by private banks forced other Indian public sector banks to undergo vital change in the way they serve their customer. Along with this strict control by the RBI on private banks made Indian customer to have faith on functioning of private banks. The private banks in India are required to undergo strict inspection of documentation by RBI on periodical intervals. That is why the proportion of private banks went on insolvent in India is very less when compared to other countries. In this study the authors have chosen 10 top public sector banks operating in India. The banks chosen for the study are Axis Bank (AXIS), Federal Bank (FED BANK), HDFC, ICICI, Indus land Bank (INDUS), ING VYSYA (ING), Jammu & Kashmir Bank (J&K), Kotak Mahindra (KOTAK), South India Bank (SOUTH IND), Yes Bank. The present study is aimed at comparing the financial performance of selected banks by taking various parameters and thereby to show the relative financial position and performance of the banks under study.

OBJECTIVES OF THE STUDY

The core objective of the study is to evaluate the financial performance of public sector banks in India. However in order to achieve the main objective, the following subsidiary objectives have been framed by the authors.

- To examine growth rate of key financial indicators such as; net worth, deposits, borrowings, net profit, interest earned.
- To find out the correlation, co efficient of determinant between various financial indicators.

HYPOTHESIS

In addition to the above objectives, the researchers formulated the following 4 hypothesis.

- Hypothesis 1: There is no significant correlation between interest expended and deposits over the years
 Hypothesis 2: There is no significant correlation between interest expended and borrowings over the years
 Hypothesis 3: There is no significant correlation between interest earned and advances years
 Hypothesis 4: There is no significant correlation between interest earned and investment over the years

METHODOLOGY OF THE STUDY

The entire study is based on the secondary data, procured and extracted from the financial statements of the selected private banks covering a period of five years from 2008 to 2012. For the purpose of analyzing the financial performance of selected banks the average growth and overall growth of selected banks in following financial indicators have been taken. They are; net worth, deposits, borrowings, net profit, interest earned has been taken. To test the hypothesis, t-test have been used. The tests have been conducted at 5% level of significance. The statistical tools used in this study are: correlation, co-efficient of determinant, t-value.

RESULTS AND DISCUSSIONS

TABLE 1: GROWTH RATE OF THE NET WORTH OF THE SELECTED BANKS (Rs. In Crore's)

BANK/YEAR	2008	2009	2010	2011	2012	AVERAGE GROWTH (%)
AXIS	8,770.69	10,214.80	16,044.61	18,998.83	22,808.54	28.00056
FED BANK	3,925.69	4,325.88	4,690.44	5,108.66	5,706.33	9.809284
HDFC	11,497.23	15,052.73	21,522.49	25,379.27	29,924.68	27.4338
ICICI	46,820.21	49,883.02	51,618.37	55,090.93	60,405.25	6.598576
INDUS	1,349.71	1,664.39	2,397.23	4,050.22	4,741.71	38.34306
ING	1,535.66	1,702.89	2,330.92	2,624.29	3,979.79	28.00203
J&K BANK	2,308.93	2,622.86	3,010.46	3,478.68	4,093.18	15.39799
KOTAK	3,593.71	3,905.53	4,539.92	6,833.39	7,980.75	23.05714
SOUTH IND	1,160.99	1,304.01	1,485.29	1,847.28	2,170.39	17.02083
YES BANK	1,318.92	1,624.22	3,089.55	3,794.08	4,676.64	39.85758

Source: Annual reports of the banks under study

Table 1 shows the absolute value of net worth of the selected banks under study over the period of five years. ICICI bank has highest net worth among the selected banks. Yes bank & Indus land bank have recorded highest average growth (i.e. 39.86% and 38.34% respectively) in the net worth during the period of five years. No banks have recorded negative change in growth of net worth. Net worth of all the banks under study is increased over the period of last five year. ICICI bank has highest and SOUTH INDIA Bank has the least net worth among the selected banks.

TABLE 2: GROWTH RATE OF THE DEPOSITS OF THE SELECTED BANKS (Rs. In crores)

BANK/YEAR	2008	2009	2010	2011	2012	AVERAGE GROWTH(%)
AXIS	87,626.2	117,374.1	141,300.2	189,237.8	220,104.3	26.14253
FED BANK	25,913.4	32,198.2	36,057.9	43,014.8	48,937.1	17.32559
HDFC	100,768.6	142,811.6	167,404.4	208,586.4	246,706.5	25.45463
ICICI	244,431.1	218,347.8	202,016.6	225,602.1	255,499.9	1.694264
INDUS	19,037.42	22,110.3	26,710.8	34,365.4	42,361.6	22.21846
ING	20,498.1	24,889.9	25,865.3	30,194.3	35,195.4	14.66109
J&K BANK	28,593.3	33,004.1	37,237.2	44,675.9	53,346.9	16.90934
KOTAK	16,423.7	15,644.9	23,886.5	29,260.9	38,536.5	25.5342
SOUTH IND	15,156.1	18,092.3	23,011.5	29,721.1	36,500.5	24.63253
YES BANK	13,273.2	16,169.4	26,798.6	45,938.9	49,151.7	41.4933

Source: Annual reports of the banks under study

Table 2 shows the amount held by the banks as deposits. Deposits collected from outsiders of all banks have considerably increased. Even though deposits fall under the head liability, it shows the trust worthiness of the banks. ICICI bank has collected highest amount of deposits from the outsiders over the period of last five years. The performance of ING Vysya bank and South India in collecting deposits is comparatively low. The growth rate of Yes bank in collecting deposits is high i.e. 41.5%.

TABLE 3: GROWTH RATE OF THE BORROWINGS OF THE SELECTED BANKS (Rs. In crores)

BANK/YEAR	2008	2009	2010	2011	2012	AVERAGE GROWTH(%)
AXIS	5,624.0	10,185.5	17,169.6	26,267.9	34,071.7	58.09
FED BANK	791.9	748.9	1,546.8	1,888.4	4,241.03	61.94
HDFC	4,478.9	2,685.8	12,915.7	14,394.1	23,846.5	104.49
ICICI	65,648.4	67,323.7	94,263.6	109,554.3	140,164.9	21.68
INDUS	1,095.4	1,856.5	4,934.3	5,525.4	8,682.0	76.09
ING	1,249.8	2,152.4	3,671.4	4,146.9	5,696.5	48.28
J&K BANK	751.8	996.6	1,100.2	1,104.7	1,241.0	13.93
KOTAK	5,119.3	5,904.1	6,140.5	11,723.9	16,595.5	37.95
SOUTH IND	27.6	257.0	331.0	290.4	588.2	237.65
YES BANK	986.2	2,189.1	4,749.1	6,690.9	14,156.5	97.85

Source: Annual reports of the banks under study

Table 3 shows the amount raised by the banks as borrowing. Normally banks raise borrowing in order to meet working capital requirements. ICICI bank has collected highest amount of borrowings from the outsiders over the period of last five years. South India bank raised least amount of borrowings when compared to other banks under study. The growth rate of South India bank in raising the borrowing is comparatively high and that of J&K bank is low.

TABLE 4: GROWTH RATE OF THE NET PROFIT OF THE SELECTED BANKS (Rs. In crores)

BANK/YEAR	2008	2009	2010	2011	2012	AVERAGE GROWTH(%)
AXIS	1,071.03	1,815.36	2,514.53	3,388.49	4,242.21	42.00
FED BANK	368.05	500.49	464.55	587.08	776.8	21.87
HDFC	1,590.18	2,244.94	2,948.70	3,926.40	5,167.09	34.32
ICICI	4,157.73	3,758.13	4,024.98	5,151.38	6,465.26	12.75
INDUS	75.05	148.34	350.31	577.33	802.61	84.41
ING	154.95	188.78	242.22	318.65	456.3	31.22
J&K BANK	360	409.84	512.38	615.2	803.25	22.37
KOTAK	293.93	276.1	561.11	818.18	1,085.05	43.90
SOUTH IND	151.62	194.75	233.76	292.56	401.66	27.73
YES BANK	200.02	303.84	477.74	727.14	977	48.93

Source: Annual reports of the banks under study

It is understood from Table 3 that the net profit of all the banks under study have increased over the period of last five years under consideration. ICICI has posted highest profit among the selected banks. The average growth in the net profit of the Indus Land bank is highest (84.41%) and UBI is lowest (12.71%) when compare to other banks under study.

TABLE 5: GROWTH RATE OF THE INTEREST EARNED OF THE SELECTED BANKS (Rs. In crores)

BANK/YEAR	2008	2009	2010	2011	2012	AVERAGE GROWTH(%)
AXIS	7,005.32	10,835.49	11,638.02	15,154.81	21,994.65	34.36
FED BANK	2,515.44	3,315.38	3,673.24	4,052.03	5,558.39	22.52
HDFC	10,115.00	16,332.26	16,172.90	19,928.21	27,286.35	30.16
ICICI	30,788.34	31,092.55	25,706.93	25,974.05	33,542.65	3.46
INDUS	1,920.23	2,309.47	2,706.99	3,589.36	5,359.19	29.85
ING	1,680.44	2,239.89	2,232.89	2,694.06	3,856.81	24.19
J&K BANK	2,434.23	2,988.12	3,056.88	3,713.13	4,835.58	19.19
KOTAK	2,535.36	3,065.14	3,255.62	4,303.56	6,180.24	25.73
SOUTH IND	1,309.24	1,686.92	1,935.72	2,446.02	3,583.43	29.11
YES BANK	1,310.83	2,003.32	2,369.71	4,041.75	6,307.36	49.43

Source: Annual reports of the banks under study

Table 5 shows the amount of interest collected by the banks on advances and investments. No doubt, interests earned by the banks comprise 80% of the total revenue. Here all the banks posted considerable increase in their performance in collecting interest. ICICI bank stands at top followed by Axis bank in collection of interest. Yes bank's average growth rate of interest earning is high i.e. 49.43%. The average growth of ICICI in earning interest is very low when compared to other banks under study i.e. 3.46%.

TABLE 6: OVERALL GROWTH RATE OF SELECTED BANKS

BANK	Average growth rate of Net worth (%)	Average growth rate of deposits (%)	Average growth rate of borrowing (%)	Average growth rate of net profit (%)	Overall average interest earned (%)	Overall growth rate (%)
AXIS	28.00056	26.14253	58.09364	41.99047	34.35822	37.71708
FED BANK	9.809284	17.32559	61.94213	21.8738	22.52068	26.6943
HDFC	27.4338	25.45463	104.4908	34.3199	30.15825	44.37148
ICICI	6.598576	1.694264	21.6824	12.74506	3.461248	9.23631
INDUS	38.34306	22.21846	76.093	84.4087	29.84669	50.18198
ING	28.00203	14.66109	48.27731	31.22319	24.19816	29.27236
J&K BANK	15.39799	16.90934	13.92596	22.3746	19.18813	17.5592
KOTAK	23.05714	25.5342	37.95393	43.89827	25.72658	31.23402
SOUTH IND	17.02083	24.63253	237.6539	27.73061	29.11469	67.23051
YES BANK	39.85758	41.4933	97.84488	48.92626	49.43288	55.51098

It is crystal clear from Table 5 that the overall average growth rate of South India bank is highest (67.23.70%) among the banks under study. ICICI bank has the lowest overall growth rate (9%) compared to all other banks under study.

TESTING OF HYPOTHESES

TABLE 7: CORRELATION COEFFICIENT, COEFFICIENT OF DETERMINATION AND T-VALUE BETWEEN INTEREST EXPENDED AND DEPOSITS AND INTEREST EXPENDED AND BORROWINGS (Data of 5 years from 2008 to 2012)

Bank	Between interest expended and deposits			Between interest expended and borrowing		
	r-value	r ²	t-value	r-value	r ²	t-value
AXIS	0.917265	0.841375	3.984335	0.916401	0.839791	3.960845
FED BANK	0.906543	0.82182	3.71539	0.981733	0.9638	8.926639
HDFC	0.911837	0.831446	3.842325	0.820559	0.673317	2.483662
ICICI	0.649241	0.421514	1.476745	-0.24071	0.05794	-0.42904
INDUS	0.91934	0.845187	4.042207	0.884353	0.782081	3.277358
ING	0.927113	0.859539	4.279581	0.852948	0.72752	2.826843
J&K BANK	0.943093	0.889424	4.906479	0.842377	0.7096	2.704296
KOTAK	0.902076	0.81374	3.61601	0.962408	0.926229	6.130013
SOUTH IND	0.966655	0.934422	6.530358	0.931696	0.868058	4.437403
YES BANK	0.902563	0.814621	3.626546	0.984023	0.9683	9.561467

(Critical value of 't' for d. f. of 3 at 5% level of significance is 2.353)

Hypothesis 1: There is no significant correlation between interest expended and deposits collected over the years

From table 7 it is clear that there is a high positive correlation (r) between interest expended and deposits among all the banks. The coefficient of determinant (r²) shows that except in the case of ICICI in all other banks more than 80% of the variance in interest expended is depending upon variance in deposits. Among the calculated t values except the t-value in ICICI all other values are more than critical value. There for null hypothesis is rejected and it is concluded here that there is significant correlation between interest expended and deposits.

Hypothesis 2: There is no significant correlation between interest expended and borrowings over the years

From the above table it is clear that there is high positive correlation (r) between interest expended and borrowing among all the banks except ICICI. The coefficient of determinant shows that except in the case of ICICI in all other banks more than 67% of the variance in interest expended is depending upon variance in borrowings. Among the calculated t values except the t-value in ICICI all other values are more than critical value. There for null hypothesis is rejected and it is concluded here that there is significant correlation between interest expended and borrowings

TABLE 8: CORRELATION COEFFICIENT, COEFFICIENT OF DETERMINATION AND T-VALUE BETWEEN INTEREST EARNED AND ADVANCES AND INTEREST EARNED AND INVESTMENT (Data of 5 years from 2008 to 2012)

Bank	Between interest earned and advances			Between interest earned and investment		
	r-value	r ²	t-value	r-value	r ²	t-value
AXIS	0.967214	0.967214	6.588735	0.98928	0.978675	11.7199
FED BANK	0.970138	0.970138	6.919486	0.993072	0.986192	14.62046
HDFC	0.965355	0.965355	6.400212	0.976845	0.954227	7.898867
ICICI	0.842827	0.842827	2.70928	0.226597	0.051346	0.402481
INDUS	0.988202	0.988202	11.1622	0.918225	0.843137	4.010835
ING	0.9701	0.9701	6.914899	0.854345	0.729905	2.843945
J&K BANK	0.993477	0.993477	15.07156	0.933718	0.871829	4.511979
KOTAK	0.986418	0.986418	10.38923	0.967591	0.936232	6.628804
SOUTH IND	0.987555	0.987555	10.86299	0.908927	0.826149	3.771256
YES BANK	0.930772	0.930772	4.404379	0.996029	0.992073	19.35389

(Critical value of 't' for d. f. of 3 at 5% level of significance is 2.353)

Hypothesis 3: There is no significant correlation between interest earned and advances years

From table 8 it is clear that there is positive correlation(r) exists between interests earned and advances among all the banks. The coefficient of determinant (r²) shows that more than 80% of the variance in interest earned is depending upon variance in advances. All the calculated t values are more than critical value. Therefore null hypothesis is rejected and it is concluded here that there is significant correlation between interest earned and advances.

Hypothesis 4: There is no significant correlation between interest earned and investment over the years

From the above table it is clear that there is high positive correlation(r) between interest earned and investment among all the banks. The coefficient of determinant (r²) shows that except ICICI in all other bank more than 80% of the variance in interest earned is depending upon variance in investment. All the calculated t values are more than critical value except in the case of ICICI bank. Therefore null hypothesis is rejected and it is concluded here that there is significant correlation between interest earned and investment.

FINDINGS AND CONCLUSION

After analyzing the financial performance of banks under study, the authors have drawn the following findings: Even though ICICI bank has highest amount of net worth, its growth rate of net worth is comparatively low. Yes bank has posted highest growth rate in net worth. Even in collecting deposits from the public ICICI bank stands at top, but its average growth in collecting deposits is not optimum. South India bank has less amount of borrowing but posted good rate of growth over the last five years. ICICI bank has earned highest amount of profit when compared to other banks. Indus Land bank has recorded considerable high growth rate in net profit. ICICI bank has highest amount of earning and SOUTH INDIA bank has least amount of earning through interest on advances given to customers as loan. The growth rate of ICICI bank by way of earning through interest is very low i.e. only 3%. In the entire four hypotheses null hypothesis is rejected and alternative hypothesis is accepted. Among the selected banks SOUTH INDIA bank has highest growth rate and ICICI has the least growth rate in key financial indicators selected for present study.

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