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## A COMPARATIVE EVALUATION OF PRIVATE SECTOR BANKS LENDING IN INDIA

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### ABSTRACT

*This paper studies the Lending Performance of selected private sector banks within and outside India. In the last decade's various developments have been witnessed in the Private Banking Sector. Banks mainly make profit from the difference of interest received and loans paid. Private Banks generally perform two main functions lending & accepting deposits. But nowadays banks are performing the number of functions in addition to its two main function lending and accepting deposits. Banks grant loans in order to satisfy the growing credit needs of the different sections of the society but since the private banks are profit making organization thus they have profit making dimension added to the advances granted by them.*

### KEYWORDS

Private Banks, Loan Performance, Lending.

### INTRODUCTION

**T**his paper studies the Lending Performance of selected private sector banks. In the last decade's various developments have been witnessed in the Private Banking Sector. Private Banks generally perform two main functions lending & accepting deposits. It facilitates business activities providing money and services that helps in exchange of goods. Lending is the most profitable because interest rates realized on loan is more than those realized on investment. Interest receive on loans are the main source of income for banks. The banking industry has undergone a sea change after the first phase of economic liberalization in 1991 and hence credit management. Asset quality was not prime concern in Indian banking sector till 1991, but was mainly focused on performance objectives such as opening wide networks/branches, development of rural areas, priority sector lending, higher employment generation, etc. While the primary function of banks is to lend funds as loans to various sectors such as agriculture, industry, personal loans, housing loans etc., but in recent times the banks have become very cautious in extending loans. The reason behind this is Non-Performing Assets (NPAs) and nowadays these are one of the major concerns for banks in India. When bank or finance company is unable to recover its lent money from borrower in 90 days than that amount which have not been recovered will be treated as NPA. It represents bad loans, the borrowers of which failed to satisfy their repayment obligations.

### REVIEW OF LITERATURE

- 1) The paper studies the relationship between the banking industry and selected private banks in addition to this it also studies the performance of loans, net profit and NPA. Last decade has witnessed many changes in the banking industry. In this paper we are trying to throw light on the effect of the loans and advances on the Indian Economy. Banks mainly make profit from the difference of interest received and loans paid. Nowadays banks are performing the number of functions in addition to its two main function lending and accepting deposits. Banks grant loans in order to satisfy the growing credit needs of the different sections of the society but since the private banks are profit making organization thus they have profit making dimension added to the advances granted by them. In this paper we have focused on the movement of NPA, Loans, and Net Profit of the private banking industry by analyzing the data from the year 2007 to 2011. Wherever the data for the years to the year 2007 could be taken have been taken for analysis.
- 2) 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.
- 3) 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 Narasimha 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.
- 4) Brijesh K. Saho, Ananddeep Singh (2007), this paper attempts to examine, the performance trends of the Indian commercial banks for the period: 1997-98 - 2004-05. Our broad empirical findings are indicative in many ways. First, the increasing average annual trends in technical efficiency for all ownership groups indicate an affirmative gesture about the effect of the reform process on the performance of the Indian banking sector. Second, the higher cost efficiency accrual of private banks over nationalized banks indicate that nationalized banks, though old, do not reflect their learning experience in their cost minimizing behavior due to X-inefficiency factors arising from government ownership. This finding also highlights the possible stronger disciplining role played by the capital market indicating a strong link between market for corporate control and efficiency of private enterprise assumed by property right hypothesis. And, finally, concerning the scale elasticity behavior, the technology and market-based results differ significantly supporting the empirical distinction between returns to scale and economies of scale, often used interchangeably in the literature.
- 5) 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 see 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 then other banks in India
- 6) 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 behavior 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.

### TYPES OF LENDING

#### NON-FUND BASED LENDING AND FUND BASED LENDING

In Non-fund based lending, bank does not make any funds outlay but only gives assurance. The "letter of credit" and "bank guarantees" fall into the category of non-funding loans. The non-funding loan can be converted to a fund-based advance if the client fails to fulfil the term of contract with the counterparty. In banking language, the non-funding advances are called Contingent Liability of the banks.



The Fund based lending is direct form of loans on which actual cash is given to the borrower by the bank. Such loan is backed by primary and / or a collateral security.

#### **SECURED LOANS AND UNSECURED LOANS**

In the secured loans, the borrower has to pledge some assets (such as property) as collateral. Most common secured loan is Mortgage loan in which people mortgage their property or asset to get loans. Other example is Gold Loan, Car Loan, Housing loan etc.

In unsecured loans, the borrower assets are not pledged as collateral. Examples of such loans are personal loans, education loans, credit cards etc. They are given out on the basis of credit worthiness of the borrowers.

The interest rates on unsecured loans are higher than the secured loans. This is mainly because the options for recourse for lender in case of unsecured loans are limited.

#### **TERM LOANS AND DEMAND LOANS**

The commercial banks provide loans of both short term (short term credit), Medium and long term. Short term loans are those loans whose tenure is less than one year. Medium term tenure is between 1 to 3 years and long term is above 3 years. However, In case of agriculture loans, there are three types of loans viz. Short term (tenure <15 months), medium term (tenure 15 months to 5 years) and long terms (tenure > 5 years).

The demand loans are the loans which can be recalled by bank on demand at any time.

#### **PERSONAL LOANS AND COMMERCIAL LOANS**

If the debtor is an individual person (consumer) or a business; it is called personal loan or consumer loan. Common examples of personal loans are mortgage loans, car loans, credit cards, educational loan etc. The credit worthiness (or credit score) of the debtor is major criteria for banks to impart such loan facility. Commercial loans include commercial mortgages and corporate bonds. The credit rating of commercial organizations is one criterion for availing such loans.

Commercial loans are available for practically any kind of activity and also for both long and short tenures. Based on customer profile, these loans are of two types:

##### **- CORPORATE LOANS**

These loans are meant for corporate bodies (and bigger ones among other entities like proprietorships, partnerships and HUFs) engaged in any legal activity with the object of making profit. Banks lend to such entities on the strength of their balance sheet, the length of cash cycle and depending upon the products available with individual banks.

##### **- RETAIL LOANS**

This type of lending is meant for very small entrepreneurs as well as individuals who are engaged in gainful commercial activity and have the capacity to repay the loan. Loans are given on the strength of the means of the borrower with an eye on the repaying capacity. The latter is judged through the cash streams (income) available with the borrower for repayment of the loan.

#### **LOANS FOR PURCHASE OF AUTOMOBILES/CONSUMER DURABLE ITEMS**

Most banks nowadays have a product for financing the purchase of automobiles and other consumer durable items. The quantum of loan is generally determined by the repayment capacity of the prospective borrower. This in turn, depends upon the monthly income. Most Banks have their own method to calculate the maximum monthly repayment capacity of a person. Thereafter, a loan for which Equated Monthly Installment (EMI) is within this capacity is considered the outer limit for a person.

#### **WORKING CAPITAL FINANCE AND PROJECT FINANCE**

If the loan amount is used for operating purposes of the business, and its utilization results in the creation of the current assets; it is called Working Capital finance. To provide such loans, the lending banks carry out detailed analysis of the borrowers' working capital requirements and then fix the credit limits. Normally, this loan is a secured loan and the working capital finance is primarily secured by the inventories and receivables of the business. The common examples of Working capital finance include Cash Credit Facility and Bill Discounting.

On the other hand, project finance mainly refers to extending the medium-term and long-term rupee and foreign currency loans to the manufacturing and infrastructure sectors. Various tools of project finance include Share capital, Term loan, Debenture capital etc.

#### **PRIORITY SECTOR LENDING**

The overall objective of priority sector lending program is to ensure that adequate institutional credit flows into some of the vulnerable sectors of the economy, which may not be attractive for the banks from the point of view of profitability.

##### **- MSME CREDIT**

Banks grant a substantial amount of loans to the micro, small and medium enterprises (SMEs) as a part of Priority sector. Banks usually follow the cluster based approach while sanctioning such loans. This sector plays very important role in the economy and given its importance, RBI has taken several measures to increase flow of institutional credit to this segment. The Small Industries Development Bank of India (SIDBI) also facilitates the flow of credit to MSME sector at reasonable rates.

##### **- RURAL AND AGRICULTURAL LOANS**

Banks extend term loans to farmers for their agricultural inputs. Regional Rural Banks and Lead Bank Scheme have played important role in this.

#### **OBJECTIVES OF THE STUDY**

This study mainly focuses on the lending performance of the selected private banks and comparative analysis of the lending performance of eight private banks. The main objectives for the study were:

- 1) To analyze the growth of lending in different private banks.
- 2) To analysis lending portfolio of private banks.
- 3) To find the sources or causes that promoted or weakened the credit programme of private banks.

#### **SCOPE OF THE STUDY**

For the present study, 8 banks have been considered. The period covered under the present Study is 5 years, beginning from 2010-2011 to 2014-2015. The banks taken in the study are Axis Bank, ICICI Bank, HDFC Bank, Kotak Mahindra Bank, Yes Bank, City Union Bank, The Federal Bank and Dhanlaxmi Bank. The present studies have been undertaken to analysis the lending performance of private banks from 2010-2015 to 2014-2015. The present studies have also been undertaken to analysis lending performance and return on it of private banks with and outside India. Trend analysis method is used taking base year 2010-2011 as 100.

#### **METHODOLOGY OF THE STUDY**

The data for the present study has been collected from the annual reports and accounts, which was obtained from the related sites. All the data related to the study have been given in crores (rupees). The items given in the Balance Sheet under the head of loans and advances have been bifurcated into two loans and advances inside India and loans and advances outside India. Figure of total loans and advances is plotted on Bar chart. For interpretation of the data trend analysis method has been used taking base year 2010-2011 as 100. Yield on advances is also calculated using trend analysis method taking base year 2010-2011.

TABLE 1: LOAN PERFORMANCE OF ICICI BANK LTD.

Particular	2010-2011	2011-2012	2012-2013	2013-2014	2014-2015
Loan and Advances inside India	432,731.82	507,455.31	580,498.87	677,405.30	775,044.16
Loan and Advances outside India	55,096.67	69,402.92	73,357.03	89,696.01	94,120.05
<b>Total</b>	<b>487,828.49</b>	<b>576,858.23</b>	<b>653,855.90</b>	<b>767,101.31</b>	<b>869,164.21</b>

Source: www.acekp.com

TABLE 2: LOAN PERFORMANCE OF HDFC BANK LTD.

Particular	2010-2011	2011-2012	2012-2013	2013-2014	2014-2015
Loan and Advances inside India	3199653.31	3908400.58	4794412.87	6060005.42	7309900.63
Loan and Advances outside India	46535.42	59215.7	95958.49	232935.51	288412.94
<b>Total</b>	<b>3246188.73</b>	<b>3967616.28</b>	<b>4890371.36</b>	<b>6292940.93</b>	<b>7598313.57</b>

Source: www.acekp.com

TABLE 3: LOAN PERFORMANCE OF AXIS BANK LTD.

Particular	2010-2011	2011-2012	2012-2013	2013-2014	2014-2015
Loan and Advances inside India	2848156.58	3395190.77	3939319.14	4601335.18	5621660.59
Loan and Advances outside India	195775.9	253021.67	301328.11	357327.78	458228.17
<b>Total</b>	<b>3043932.48</b>	<b>3648212.44</b>	<b>4240647.25</b>	<b>4958662.96</b>	<b>6079888.76</b>

Source: www.acekp.com

TABLE 4: LOAN PERFORMANCE OF YES BANK LTD.

Particular	2010-2011	2011-2012	2012-2013	2013-2014	2014-2015
Loan and Advances inside India	687272.77	759772.84	939991.33	1112659.25	1510996.33
Loan and Advances outside India	0	0	0	0	0
<b>Total</b>	<b>687272.77</b>	<b>759772.84</b>	<b>939991.33</b>	<b>1112659.25</b>	<b>1510996.33</b>

Source: www.acekp.com

TABLE 5: LOAN PERFORMANCE OF KOTAK MAHINDRA BANK LTD.

Particular	2010-2011	2011-2012	2012-2013	2013-2014	2014-2015
Loan and Advances inside India	586586.14	781584.66	969379.66	1060552.65	1323214.26
Loan and Advances outside India	0	0	0	0	0
<b>Total</b>	<b>586586.14</b>	<b>781584.66</b>	<b>969379.66</b>	<b>1060552.65</b>	<b>1323214.26</b>

Source: www.acekp.com

TABLE 6: LOAN PERFORMANCE OF CITY UNION BANK LTD.

Particular	2010-2011	2011-2012	2012-2013	2013-2014	2014-2015
Loan and Advances inside India	185109.2	242749.21	304921.15	321936.76	359310.02
Loan and Advances outside India	0	0	0	0	0
<b>Total</b>	<b>185109.2</b>	<b>242749.21</b>	<b>304921.15</b>	<b>321936.76</b>	<b>359310.02</b>

Source: www.acekp.com

TABLE 7: LOAN PERFORMANCE OF DHANLAXMI BANK LTD.

Particular	2010-2011	2011-2012	2012-2013	2013-2014	2014-2015
Loan and Advances inside India	181303.04	175161.05	155541.17	158719.25	153396.28
Loan and Advances outside India	0	0	0	0	0
<b>Total</b>	<b>181303.04</b>	<b>175161.05</b>	<b>155541.17</b>	<b>158719.25</b>	<b>153396.28</b>

Source: www.acekp.com

TABLE 8: LOAN PERFORMANCE OF THE FEDERAL BANK LTD.

Particular	2010-2011	2011-2012	2012-2013	2013-2014	2014-2015
Loan and Advances inside India	639064.68	755119.72	881934.05	868722.08	1025699.84
Loan and Advances outside India	0	0	0	0	0
<b>Total</b>	<b>639064.68</b>	<b>755119.72</b>	<b>881934.05</b>	<b>868722.08</b>	<b>1025699.84</b>

Source: www.acekp.com

TABLE 9: LOAN PERFORMANCE OF INDIAN PRIVATE BANKS 2010-11 TO 2014-15 (IN CRORE)

BANKS	2010-'11	2011-'12	2012-'13	2013-'14	2014-'15	TOTAL	RANK
ICICI BANK LTD.	487828.49	576858.23	653855.9	767101.31	869164.21	3354808.14	6
%	100	118.250213	134.033972	157.248157	178.170039		
HDFC BANK LTD.	3246188.7	3967616.28	4890371.36	6292940.93	7598313.57	25995430.9	1
%	100	122.223833	150.649632	193.856287	234.068756		
AXIS BANK LTD.	3043932.5	3648212.44	4240647.25	4958662.96	6079888.76	21971343.9	2
%	100	119.85195	139.314761	162.903185	199.737964		
KOTAK MAHINDRA BANK LTD.	586586.14	781584.66	969379.66	1060552.65	1323214.26	4721317.37	4
%	100	133.242947	165.257853	180.800837	225.578848		
YES BANK LTD.	687272.77	759772.84	939991.33	1112659.25	1510996.33	5010692.52	3
%	100	110.548951	136.771217	161.894854	219.85395		
CITY UNION BANK LTD.	185109.2	242749.21	304921.15	321936.76	359310.02	1414026.34	7
%	100	131.138382	164.725011	173.917212	194.107057		
DHANLAXMI BANK LTD.	181303.04	175161.05	155541.17	158719.25	153396.28	824120.79	8
%	100	96.6123072	85.7907126	87.5436231	84.6076712		
THE FEDERAL BANK LTD.	639064.68	755119.72	881934.05	868722.08	1025699.84	4170540.37	5
%	100	118.16014	138.003879	135.936488	160.500161		
TOTAL	9057285.5	10907074.4	13036641.9	15541295.2	18919983.3	67462280.3	
AVERAGE	1132160.7	1363384.3	1629580.23	1942661.9	2364997.91		

Source: www.acekp.com

FIGURE 1: LOAN PERFORMANCE OF PRIVATE BANKS

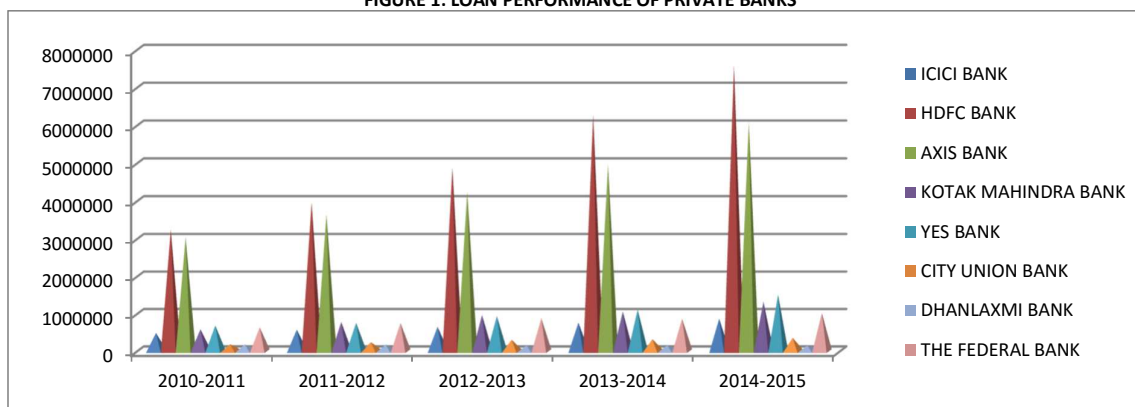
**INTERPRETATION**

Table 1 to 8 shows the loan performance of Indian Private Banks within and outside India during 2010-2011 to 2014-2015. Here, 2010-2011 is taken as base year. Loan performance of HDFC Bank Ltd., Axis Bank Ltd., Yes Bank Ltd. and ICICI Bank Ltd. is constantly increasing compare to base year. There is marginal increase in loan performance of Kotak Mahindra Bank Ltd. and City Union Bank Ltd. compare to base year as well as loan performance of all these banks during 2010-'11 to 2014-'2015. During the period of 5 years' loan performance of Dhanlaxmi Bank Ltd. is showing decreasing trend compared to base year 2010-2011. These may be due to decrease in borrowed fund as well as payment of liabilities. Profit and Loss Account of Dhanlaxmi Bank shows continuous loss from 2011-2012. The Federal Bank Ltd. is also showing marginal increase trend till 2012-2013 but in 2014-2015 it gradually increases compare to 2010-2011. Out of eight selected banks the loan performance of HDFC Bank Ltd. and Axis Bank Ltd. is very good. In some banks the amount of loans had increased but the overall performance was not good. People will not prefer loans from these banks because of high interest rates.

TABLE 10: YIELD ON ADVANCES (In Percentage)

BANKS	2010-'11	2011-'12	2012-'13	2013-'14	2014-'15
ICICI BANK LTD.	12	13.22	13.81	13.04	12.67
% difference	100	1.10	1.15	1.09	1.06
HDFC BANK LTD.	12.46	14.26	14.63	13.58	13.26
% difference	100	1.14	1.17	1.09	1.06
AXIS BANK LTD.	10.64	12.96	13.8	13.32	12.62
% difference	100	1.22	1.30	1.25	1.19
KOTAK MAHINDRA BANK LTD.	11.76	16.6	17.65	17.94	15.32
% difference	100	1.41	1.50	1.53	1.30
YES BANK LTD.	14.29	15.81	16.59	16.53	14.69
% difference	100	1.11	1.16	1.16	1.03
CITY UNION BANK LTD.	14	13.16	13.98	14.36	15.82
% difference	100	0.94	1.00	1.03	1.13
DHANLAXMI BANK LTD.	10	15.91	16.82	16.28	16.74
% difference	100	1.59	1.68	1.63	1.67
THE FEDERAL BANK LTD.	12.68	14.72	13.99	15.99	14.47
% difference	100	1.16	1.10	1.26	1.14

Source: annual report of banks

**INTERPRETATION**

The above table show yield on advances in percentage. Trend analysis method is being applied. HDFC Bank Ltd. in 2011-2012 and 2012-2013 is increasing compare to base year 2010-2011. In 2013-2014 and 2014-2015 return on advances show marginal increase compare to base year. In Axis Bank Ltd., Yes Bank Ltd. and Kotak Mahindra Bank Ltd. return on advances is constantly increasing compare to 2010-2011 till 2013-2014. But in 2014-2015 it decreases compared to other years and marginal increase as compare to base year. Return on Advances of The Federal Bank Ltd. is constantly increasing than 2010-2011 but showing increasing and decreasing trend compared to other years. City Union Bank Ltd. in the year 2011-2012 is 0.94 which is less than base year. In 2012-2013 return on advances is similar to base year. Marginal increase in last two years. Dhanlaxmi Bank Ltd. return on advances is increasing compare to 2010-2011.

**RECOMMENDATIONS AND SUGGESTIONS**

After having studied the Loan Performance of the selected Private Banks, the following Suggestions could improve the operational efficiency of the Private Banking Sector. They are as follows:

- It was observed that the lending policies of the various Banks were not proper due to improper management of funds.
- Banks should provide detailed information to the customer about their lending policy.
- Various Private Banks are not granting Loans outside India, so they could do so to expand their business.
- Instead of focusing on urban areas only, the Banks should set up branches in the rural regions also which could improve their profitability.

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