Financial Performance of Banking Industry in India: A Study of Selected Banks

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Abstract: *Banking sector plays pivotal role in the development of Indian economy. In the present scenario, major changes have been seen in the banking sector which enhances the level of competition among different banking sector. The present research paper highlights the performance of banking industry in India on the basis of selected performance indicators such as Return on Assets, Net Interest Margin and Profit per employee. For the purpose of study, one bank from each sector i.e. State Bank of India from Public sector, HDFC from Indian private sector and CITI Bank from foreign sector has been selected. The period of study is from 2012-13 to 2014-15.*

Key Words: Banking Industry, Public Sector, Private, Foreign, Performance.

1. INTRODUCTION:

The banking business in India was operated through different modes in the past era. Hundis were the most popular instruments of banks for remittance of money. The Reserve Bank of India which was established in 1935 under RBI Act acquires regulatory and supervisory powers in the banking system in India after the implementation of Banking Regulation Act, 1949. In the 1950 the banking system in India comprises of Reserve Bank of India, the Imperial Bank of India, Cooperative banks, Exchange banks and Indian Joint Stock banks.

To regulate the banking sector in India, Banking Regulation Act, 1949 comes into existence and it defines banking "the accepting for the purpose of lending and investment of deposits of money from the public, repayable on demand or otherwise, and withdraw able by cheque, draft or otherwise." After the 1991 economic policy, the banking sector shows tremendous growth and large number of financial institutions entered into the banking sector. Banking sector witnessed five phases form the very beginning of its establishment.

2. OBJECTIVES OF STUDY:

- To compare the financial performance of different sector banks.
- To analyze the financial performance of different sector banks.

3. PERIOD OF STUDY:

- The study covers the period from 2012-13 to 2014-15.

4. SAMPLE OF STUDY:

One bank from each sector i.e. State Bank of India from Public sector, HDFC from Indian private sector and CITI Bank from foreign sector has been selected.

5. DATA COLLECTION:

The study is based upon secondary data. The data of selected banks are collected through the annual accounts of banks and from the database of Reserve Bank of India.

6. REVIEW OF LITERATURE:

Sangmi and Nazir (2010) in their paper 'Analyzing Financial Performance of Commercial Banks in India: Application of CAMEL Model' analysed the present position of selected banks for study. They found that their position at present is sound and they also show satisfactory level regarding maintaining of capital adequacy ratio. Their asset quality, liquidity position and efficiency of management were also satisfactory.

Sankharaj Roy, Biplab Kumar De (2013), in their research paper 'An analysis of Financial Performance of Indian Commercial Banks' analysed the various aspects of financial performance of banks in India. The study was conducted to know the importance of financial performance of the commercial banks during the period of 2000 to 2011. Key profitability ratios were used for assessing the financial performance of the banks. The study reveals that the Return on Assets for the last five years of banks shows increasing trends which indicates the proper utilization of assets by the banks. Return on Net Worth also shows an increasing trend from 2007 onwards.

7. DATA ANALYSIS AND INTERPRETATION:

To analyze the financial performance of selected banks, selected indicators showing performance such as Return on Asset, Net Interest Margin and Profit per employee have been studied.

1. **Return on Assets:** It is an indicator of how profitable a bank is relative to its total assets. . It is calculated by dividing net income of bank with its total assets. It is shown as a percentage. Higher percentage of return indicates the better performance of banks. The following table shows the return on assets of selected banks relating to period of study:

Table 1: Return on Assets of selected banks (in %age)

Year/Bank	2012-13	2013-14	2014-15
State Bank of India	0.97	0.65	0.68
HDFC Bank	1.90	2.00	2.00
CITI Bank	2.12	2.07	2.43

(Source: Reserve Bank of India database and annual accounts of banks)

The abovesaid table shows that the return on assets of foreign sector bank has been increased. The Indian private sector bank also maintains their return in a stable rate. The state bank of India form public sector banks shows decreasing return on assets in 2013-14 and it show slightly increase in 2014-15 but relatively low level of return on assets as compare to other sector banks. The reason behind the lower rate of return on assets of SBI is increasing rate of their non-performing assets.

2. **Net Interest Margin:** It refers to a bank that would invest depositors money, allowing for an interest margin between what is paid to the bank's client and what is made from the borrower of the funds. A positive *net interest margin* means the investment strategy pays more interest than it better performance of banks. The following table highlights the Net Interest Margin of the banks selected for the study:

Table2: Net Interest Margin of selected banks (in %age)

Year/Bank	2012-13	2013-14	2014-15
State Bank of India	3.06	2.93	2.86
HDFC Bank	4.28	4.14	4.14
CITI Bank	4.03	3.99	4.13

(Source: Reserve Bank of India database and annual accounts of banks)

The above table depicts that the net interest margin is highest in case of HDFC Bank (from Indian private sector bank) during the study period. The net interest margin shows decreasing trends in case of State Bank of India and slightly decreasing but stable trend in case of HDFC bank. However, CITI bank from foreign sector bank records marginal increase in their net interest margin during the period of study. Almost all the selected banks showed positive net interest margin which indicates their good performance to the larger extent.

3. **Profit per employee: -** It indicates the profitability position of bank's employees. Higher the profit per employee indicates the better position of the bank in terms of earning profit. It also shows productivity of employee. It is calculated by dividing total profit of a bank to the number of employees working in a bank. The following table shows the profit per employee of banks selected for study:-

Table3: Profit per employee of selected banks (in lakhs)

Year/Bank	2012-13	2013-14	2014-15
State Bank of India	6.50	4.85	6.00
HDFC Bank	10.00	12.00	10.00
CITI Bank	50.20	51.00	59.00

(Source: Reserve Bank of India database and annual accounts of banks)

The figures show in the above table indicates that CITI bank records highest rate of profit per employee as compare to other selected banks. HDFC bank shows decreasing trend their profit per employee during the study period and State bank of India also shows decreasing profit per employee during the study period but slightly improved their profit in 2014-15 as compared to previous year.

8. FINDINGS AND CONCLUSION:

The analysis of data relating to performance of different sector banks clearly revealed that foreign sector banks almost maintained lead in terms of various indicators of performance. However the Indian private sector bank also shows good results but the public sector bank shows not enough satisfactory results. The reasons behind the lower rate of growth in public sector banks include inadequate management of their assets and increase in their non-performing assets also. However the branch expansion in rural areas under the instructions of Reserve Bank of India is also a major factor for declining their employee productivity and profitability because most of their branches in rural areas have not generated sufficient amount of business which result in lower the rate of profit and further declines the profit per employee. The number of branches of foreign sector banks operated in India is quite few. Although they generate sufficient businesses because of adoption of technology based services by them. To increase in the level of performance, banking sector in India (public as well as Indian private sector banks) improves their delivery channels for providing services to different categories of customers. However, both the sector also provides diversified services in the market to cater the needs of various aspects of society. Further they also concentrate to cut their operating costs so that they can maximize their profit.

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