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Financial performance analysis of banking sector in India

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ABSTRACT
The banking industry is important to a country's economic growth. With a large network of branches and a diverse range of financial services, India's banking system is large. The aim of this research is to study the financial results of India's two largest private and two public banks. The financial performance of banks was analyzed using net profit, assets, liabilities, income, expense, margin ratio, and return on equity ratio. After evaluating financial data from 2015 to 2019, the study concluded that the private banks performed better than public banks. The results of this study will benefit bank, shareholders and customers, as well as bank management.
Key Word: Financial Performance, public banks, private banks, covid-19, ratio analysis

INTRODUCTION

The banking sector is the economy's backbone and a prerequisite for the country's survival. It offers a wide range of financial services, including a savings account, a current account, an ATM, a deposit, a debit card, a credit card, internet banking, investment, financial advice, and other financial services. The banking industry's growth is dependent on the public's traditional services, such as deposits and loans. The banking sector's primary purpose is to collect money from depositors and lend it to those who are in need. Banks are the most prominent participants in the financial and stock markets. The fund is provided for the investment and economic development which contributes in the overall performance.It developed into a division of our society which included corporations as well as individual customers. The banking sector, as we all know, is the economy's backbone and has a direct impact on economic development. Customer service, deposit and loan facilities, and financial results are all factors that affect the bank's ability to grow. Following the privatisation of India's banking industry, the sector has experienced rapid growth, with public banks expanding their services and earnings. In terms of financial performance, private sector banks are thought to be better planned or structured than public or old private sector banks (Babu 2015).

Public and private sector banks each have their own set of advantages and disadvantages, so before making any financial decisions about a bank, it is vital to determine its financial efficiency, regardless of whether it is public or private. Due to Covid-19 pandemic the public sector banks and private sector banks are affected badly. As a result, financial performance review of public and private sector banks is recommended. The objective of this study is to analyze the financial performance of two public banks and two private banks like Bank of Baroda, State Bank of India, HDFC bank and ICICI bank.

REVIEW OF LITERATURE

(Kumar & Kumar, 2016) studied and compared the output of four public sector banks from 2011 to 2015. They compared SBI to other public banks using a variety of financial ratios and came to the conclusion that SBI is superior. (Karri et al., 2015) used the CAMEL model and T-test to evaluate the financial strength of Bank of Baroda and Punjab National Bank. Based on 14 financial ratios, they discovered that Bank of Baroda outperformed Punjab National Bank on average.

(Chintala & Kumar, 2016) studied public and private bank’s financial performance. SBI, BoB, PNB, CBI, IDBI, HDFC, ICICI, Kotak, and IndusInd bank's total income, interest income, and service income were analyzed for the five years i.e. from 2011 to 2016. They came to the conclusion that private sector banks were the most profitable and experienced the fastest growth. Similarly, (Koley, n.d.) analyzed the financial performance of State Bank of India and HDFC Bank from 2013 to 2018. After considering annual income, net interest income, operating profit, net profit, and the CAMEL model, it was concluded that HDFC outperformed the rest. The findings were supported when the financial performance of public and private sector banks in India was compared and evaluated from 2009 to 2012 (Goel and Rekhi 2013). The ratio analysis and correlation coefficient matrix showed that HDFC bank performed well when compared to SBI, BOB, PNB, ICICI, and Axis bank. (Nathwani 2011) examined into the financial performance of all commercial banks of India over a five-year period, from 1997-1998 to 2001-2002. The ANOVA table was applied to Interest Income to Average Working Funds Ratio, Non-Interest Income to Average Working Funds Ratio, and Capital Adequacy Ratio. He discovered that banks that adapt to change, evolve, and adopt new technology to meet the needs of their customers are more likely to succeed. Banks that have introduced new and creative business models will be well positioned to face the demands and perform successfully in the marketplace. These are the banks that will hit greater heights of success in the future.

(C. Vanlalzawna 2018)used ratio analysis, ANOVA, and the CAMEL model to evaluate the financial performance of two public and two private Indian banks from 2008 and 2013. When comparing public and private sector banks, it was found that private sector banks perform better in all of the selected parameters compared to public sector banks.

(Al-Kaseasbah, 2018) compared SBI and ICICI bank's financial results between 2012 and 2016. Financial ratio analyses and hypothesis testing were conducted, and it was concluded that the SBI registered a fluctuating trend while the ICICI bank struggled to handle an increasing trend. Similarly, (Mishra, 2015) analysed the financial data of private Indian banks over a nine-year period. Based on the standard deviation and variance analyses, it was calculated that three private banks, namely HDFC Bank, Kotak Mahindra Bank, and Yes Bank, performed well as compared to all other private banks. In terms of profitability, the other private banks had fallen short of expectations. It was suggested that banks could improve their profitability in a competitive market by converting branches from transactional centres to relationship centres. (2018, Ns et al.) They used multiple regression analysis to analyse the financial performance of private commercial banks in India (HDFC, ICICI, and AXIS), and discovered that bank size, credit risk, operating quality, asset management, and debt ratio all have a major effect on internal performance, market performance, and bank profits, which illustrates the financial performance of the three selected private commercial banks.

According to the literature review, the performance of private banks and public banks differ significantly in terms of time, profitability, credit risk, asset quality, return generating capability, and other factors. The financial output of banks was greatly influenced during this Covid-19. A comparison of private and public banks' financial results from 2016 to 2020 will aid in a deeper understanding of the effect of Covid-19 on financial performance and how it affected the overall baking industry.

RESEARCH OBJECTIVE

The Covid-19 pandemic has caused havoc on the economy and financial sector. The financial reports of private and public banks during the pandemic were analysed to shed light on the banks' current financial condition. As a result, the study's primary goal is to look at India's banking sector's financial success over the last five years, from 2016 to 2020. The study also aims to identify the key factors that affect bank performance, as well as to identify the best banks based on their financial results over a fixed period of time.

RESEARCH METHODOLOGY

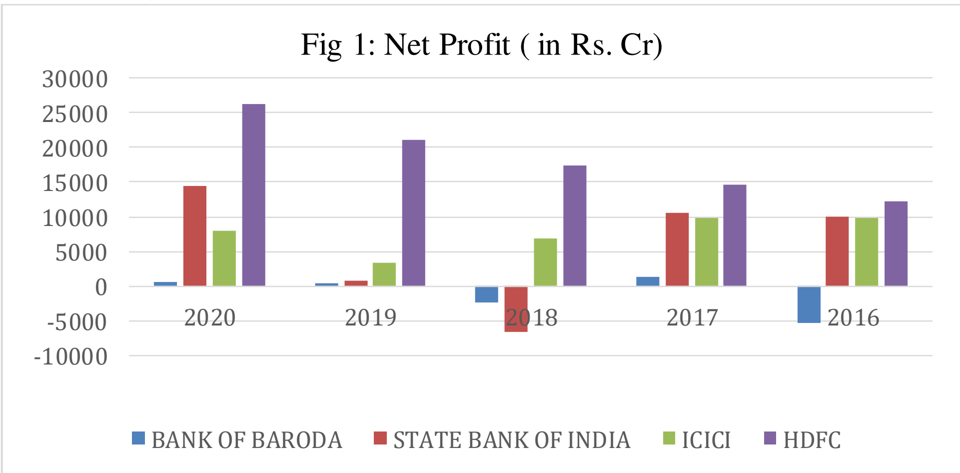
This research is descriptive and quantitative in nature as it is studying the current financial status of the selected banks. The yearly financial data of SBI, BoB, ICICI bank, and HDFC bank from 2016 to 2020 were collected from the financial websites. For the data analysis purpose the total net profit, total assets, total income, total expense, net profit ratio, and return to net-worth ratio was calculated and compared.

DATA ANALYSIS

Table.1.NET PROFIT (Amount is in Rs. Crore)

BANK'S NAME	2020	2019	2018	2017	2016
BANK OF BARODA	546	434	-2,432	1,383	-5,396
STATE BANK OF INDIA	14,488	862	-6,547	10,484	9,951
ICICI	7,932	3,363	6,777	9,801	9,745
HDFC	26,257	21,078	17,487	14,550	12,296

(Source:www.moneycontrol.com)

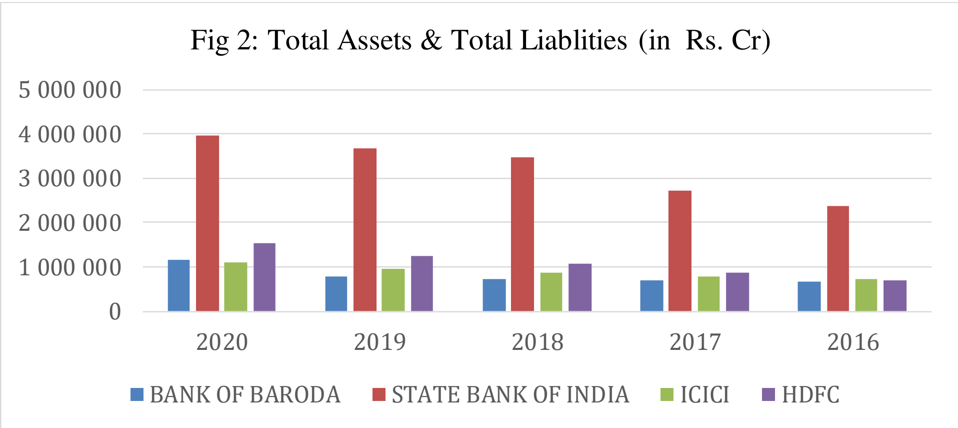


The zig-zag pattern of BoB's net profit can be seen in table No.1. As compared to 2016, it decreased by 4.45 times in 2018, increased in 2019, and decreased by 9.88 times in 2020. SBI bank, on the other hand, controlled its profit after 2018 and raised its profit in 2019 and 2020. ICICI Bank performed well in the private banking sector as compared to the other two banks. Its profit has steadily increased over the last five years, while HDFC Bank's profit has remained stagnant.

Table.2. TOTAL ASSETS / TOTAL LIABILITIES (Amount is in Rs. Crore)

BANK'S NAME	2020	2019	2018	2017	2016
BANK OF BARODA	11,57,915	7,80,987	7,19,999	6,94,875	6,71,376
STATE BANK OF INDIA	39,51,393	36,80,914	34,54,752	27,05,966	23,57,617
ICICI	10,98,365	9,64,459	8,79,189	7,71,791	7,20,695
HDFC	15,30,511	12,44,540	10,63,934	8,63,840	7,08,845

(Source:www.moneycontrol.com)

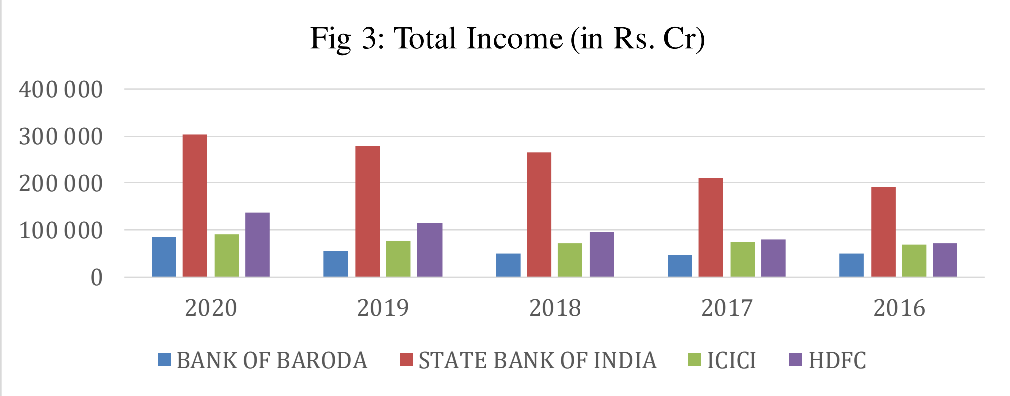


According to table 2, assets of all four banks increased over a five-year period from 2016 to 2020. In comparison to all banks, HDFC bank's assets increased 2.12 times, BoB's 1.72 times, SBI's 1.6 times, and ICICI bank's 1.50 times.

Table.3. TOTAL INCOME (Amount is in Rs. Crore)

BANK'S NAME	2020	2019	2018	2017	2016
BANK OF BARODA	86,300	56,065	50,305	48,957	49,060
STATE BANK OF INDIA	3,02,545	2,79,643	2,65,100	2,10,979	1,91,843
ICICI	91,246	77,913	72,385	73,660	68,062
HDFC	1,38,073	1,16,597	95,461	81,602	70,973

(Source:www.moneycontrol.com)

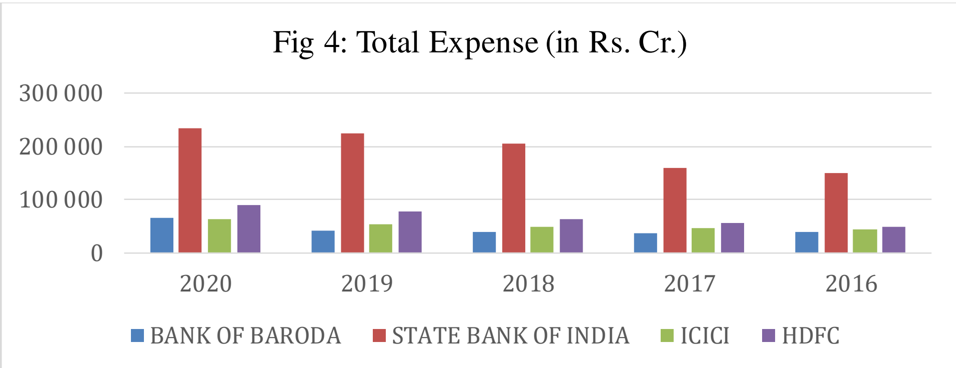


According to table 3, total income of all four banks increased over a five-year period from 2016 to 2020. In comparison to all banks, HDFC bank's total income increased 1.94 times, BoB's 1.75 times, SBI's 1.57 times, and ICICI bank's 1.34 times.

Table.4. TOTAL EXPENSE (Amount is in Rs. Cr.)

BANK'S NAME	2020	2019	2018	2017	2016
BANK OF BARODA	66,609	42,578	38,300	37,982	40,244
STATE BANK OF INDIA	2,34,412	2,24,207	2,05,589	1,60,131	1,48,585
ICICI	63,144	54,475	47,643	47,174	44,179
HDFC	89,323	76,848	62,836	55,870	49,609

(Source:www.moneycontrol.com)



Total expenditures for all four banks rose over a five-year period from 2016 to 2020, according to table 4. The ICIC bank was found to be effective in its cost management. In contrast to other banks, HDFC bank's overall expenditures were 1.80 times higher, BoB's 1.65 times higher, SBI's 1.57 times higher, and ICICI bank's 1.42 times higher. In absolute terms, SBI had the highest overall expenses, but in relative terms, HDFC bank had the highest expenses.

Table.5.NET PROFIT MARGIN RATIO (Values is in percentage)

BANK'S NAME	2020	2019	2018	2017	2016
BANK OF BARODA	0.71	0.87	-5.57	3.27	-12.24
STATE BANK OF INDIA	5.63	0.35	-2.96	5.97	6.06
ICICI	10.6	5.3	12.33	18.09	18.44
HDFC	22.86	21.29	21.79	20.99	20.41

(Source:www.moneycontrol.com)

The higher the net profit ratio, the more effective the company. This ratio measures the efficiency in which assets are used to produce revenue. Table 5 shows that HDFC Bank performed well in comparison to the other three banks. The performance of SBI banks was observed to be stable, while the performance of ICICI banks was observed to be decreasing.

Table.6. RETURN ON NET WORTH / EQUITY (Values is in percentage)

BANK'S NAME	2020	2019	2018	2017	2016
BANK OF BARODA	0.76	0.94	-5.6	3.43	-13.42
STATE BANK OF INDIA	6.95	0.39	-3.37	6.69	6.89
ICICI	6.99	3.19	6.63	10.11	11.19
HDFC	15.35	14.12	16.45	16.26	16.91

(Source:www.moneycontrol.com)

This ratio calculates the rate of return on net worth investments. This is regarded as the most critical financial ratio because it relates to the return on shareholder equity. As a general rulethe higher the RONW, the better the financial performance of the company(Bansal 2014). Table-6 shows that the HDFC bank outperformed the other four banks over the course of five years. However, it performed especially well in 2016 and 2018. ICICI banks' output has dropped by nearly 45 percent. In 2018, both public-sector banks performed very poorly.

Table.7. EARNING PER SHARE RATIO (Value in Rs.)

BANK'S NAME	2020	2019	2018	2017	2016
BANK OF BARODA	1.36	1.64	-10.53	6	-23.89
STATE BANK OF INDIA	16.23	0.97	-7.67	13.43	12.98
ICICI	12.28	5.23	10.56	15.31	16.75
HDFC	48.01	78.65	67.76	57.18	48.84

(Source:www.moneycontrol.com)

Earnings per share (EPS) is a measure of how much money is made per share. Table-7 shows that BoB's lot has changed from -23.89 to 1.36 rupees per share. From 2016 to 2019, HDFC Bank's earnings per share (EPS) increased, while ICICI Bank's EPS decreased. In terms of EPS volatility, SBI was found to be less volatile than other banks.

Table.8. CASA RATIO (Value in Percentage)

BANK'S NAME	2020	2019	2018	2017	2016
BANK OF BARODA	35.28	35.03	35.81	32.15	26.36
STATE BANK OF INDIA	44.22	NA	44.48	44.57	42.61
ICICI	45.11	49.61	51.68	50.36	45.82
HDFC	42.23	42.37	43.49	48.03	43.24

(Source:www.moneycontrol.com)

The CASA ratio describes total bank deposits in current and savings accounts. The higher ratio is beneficial since the bulk of funds come from the cheapest sources of funds, namely current and savings accounts (Rasool 2018). In table 8, the ICICI bank was found to be the best, followed by SBI and HDFC bank. In 2016, the BoB had a lower ratio, which improved by 1.34 times.

Table.9. CAPITAL ADEQUACY RATIO (Value in Percentage)

BANK'S NAME	2020	2019	2018	2017	2016
BANK OF BARODA	13	13	12	13	13
STATE BANK OF INDIA	13	13	13	13	13
ICICI	16	17	18	17	17

HDFC	19	17	15	15	16

(Source:www.moneycontrol.com)

Capital adequacy ratios compare the sum of a bank's capital to the amount of its risk-weighted credit exposures. The higher a bank's capital adequacy levels, the more unexpected losses it will take before going bankrupt. Table 9 shows that private banks performed better than public banks, with HDFC doing the highest of the four banks.

Table.10. VALUATION RATIO (PRICE EARNING RATIO)

BANK'S NAME	2020	2019	2018	2017	2016
BANK OF BARODA	39.37	78.45	-13.51	28.82	-6.15
STATE BANK OF INDIA	12.13	330.67	-32.58	21.85	14.97
ICICI	26.36	76.58	26.36	16.44	12.84
HDFC	17.95	17.74	13.92	12.61	10.97

(Source:www.moneycontrol.com)

The Price Earnings Ratio (P/E Ratio) is simply the stock price divided by the earnings per share (EPS). High PE Ratio stocks are considered expensive and growth stocks, whereas low PE Ratio stocks are considered inexpensive and value stocks (Anon n.d.). Table 10 reveals that in 2016, the PE ratios of stocks were near to 10. If capital was invested in 2016, it will almost certainly provide a very large return to the investors. SBI and BOB had excellent returns in 2019 but were very expensive, while HDFC was a very safe and inexpensive stock over the entire five-year period.

CONCLUSION

The researchers focused at the financial performance of India's banking sector over the last five years, from 2016 to 2020. The study also aimed to identify the main factors influencing bank success, as well as the best banks based on their financial results over a set period of time. The net profit, total assets, total net income, total expenses, net-profit margin ratio, return on net-worth ratio, EPS ratio, CASA ratio, capital adequacy ratio, and P/E ratio were used to analyse the data. Based on the data review, it is possible to conclude that private banks outperformed public sector banks. In the private sector, HDFC Bank outperformed ICICI Bank. Among public sector banks, SBI was observed to be very stable and to offer consistent returns to investors, while BoB was observed to be very volatile and to offer fluctuating returns to investors over a five-year period. In the year 2018, all four banks saw significant changes.

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