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Ajaz Ahmed Khan
Associate Professor,
Government R.C. College of Commerce and Management
Race Course Road, Bangalore, Karnataka, India

A study of the financial indicators of the Indian banking sector

Ajaz Ahmed Khan

Abstract
The Public Sector Banks are experiencing the higher levels of NPAs. The commercial banks in India are under scanner as far as the operational performance is concerned. The banking data provides that there is an exponential increase in the number of banks, branches, deposits and the advances of the banks. The Reserve Bank of India is responsible for prudential supervision of banks, non-banks and for performing other central banking functions. The weaker Public sector banks have to move towards consolidation. The fundamental analysis and the individual bank assessment would bring the situation under the control. The present study is an overview of the financial indicators of the Indian banks.

Keywords: Banking, ratios, performance

Introduction
The banking sector is the core segment of the Indian financial system which decides the progress of the country. Banks play an important role in the mobilization and allocation of resources in an economy. The sound financial position of a bank is the guarantee not only to its depositors but equally important for the whole economy of the nation. Several committees have emphasized the need to improve the performance of the commercial banks. In India, the priorities in banking operations underwent far reaching changes since the banking sector reforms have been set in motion.

An overview of the Indian Banking Sector
It is important to take stock of the special features of the banking sector in India, in order to put the efficiency issues in perspective. India is the largest country in South Asia with a huge financial system characterized by many and varied financial institutions and instruments. Indian banking sector was well developed even prior to its political independence in 1947. ‘There was significant presence of both foreign and domestic banks and well developed stock market’ (Bery, 1996, p. 245) [1]. The system expanded rapidly after nationalization of major commercial banks in late 1969 and ‘now ranks in the top quarter among developing countries’ (Khanna, 1995, p. 265) [2].
Table 1 below presents important banking indicators of commercial banks in India as at the end of June 1998.

Table 1: Banking Data Commercial Banks in India as of June 1998

	Number	Branches	Deposit (Rs. Billion)	Advances (Rs. Billion)
Public Sector Banks	27	45,293	5,317	2,599
Private Sector Banks	34	4,664	695	354
Foreign Banks	42	182	429	292

(***Source***: Indian Bank’s Association)

Besides the above, as at the end of June 1998, there were 196 Regional Rural Banks with 14,517 branches, 28 State Cooperative banks with 651 branches, 351 District Central Cooperative Banks with 10,775 branches, 88,341 Primary Agricultural Cooperative Credit Societies, 20 State Agricultural and Rural Development Banks with 1,488 branches, and 706 Primary Land Development Banks with 646 branches (Sathye, 1997) [3]. There also are several Urban Cooperative Banks and 22,000 non-bank financial institutions (Khanna, 1995, p. 294) [2].

Correspondence
Ajaz Ahmed Khan
Associate Professor,
Government R.C. College of Commerce and Management
Race Course Road, Bangalore, Karnataka, India

At the top of the banking system is the Reserve Bank of India, which is responsible for prudential supervision of banks, non-banks and for performing other central banking functions. There were two successive nationalization's of banks in India, one in 1969 and the other in 1980 and as a result public sector banks occupy a predominant role in Indian financial system. Despite a phenomenal expansion of number of branches, the population served per branch stood at 13,000 (RTPB, 1996, p. 126) [4]. This is due to the fact that population of the country has been growing unabated (crossed 1 billion mark recently) and branch network cannot keep pace with it due to the costs involved.

In the year 1997-98, the aggregate deposits of the public sector banks were of the order of Rs. 5,317 billion (51 per cent of GDP), that of private sector commercial banks were Rs. 695 billion (7 percent of GDP) and foreign banks were Rs. 429 billion (4 per cent of GDP). The advances were Rs. 2599 billion (25 percent of GDP), Rs. 354 billion (3 percent of GDP), and Rs. 292 billion (3 percent of GDP) respectively. The public sector banks control over 80 percent of banking business. The banking system has developed well over the years in terms of its geographical coverage, deposit mobilization and credit expansion. With regard to technology, it is underdeveloped. Foreign banks have started a few ATMs in metropolitan centers in recent years.

Review of literature

Iftekhar Hasan - Katherin Marton (2000) [5] analyze the experience and development of Hungarian banking sector during the transitional process from a centralized economy to a market-oriented system. The paper identifies that early reorganization initiatives, flexible approaches to privatization and liberal policies towards foreign banks' involvement with the domestic institution helped to build a relatively strong and increasingly efficient banking system. Banks with higher foreign bank ownership involvement were associated with lower inefficiency.

Odunga RM, Nyangweso PM and Nkobe DK (2013) [6] adopted an explanatory research design and analysed the data using Fixed Effects Regression. From the regression results, the overall R2 of 0.4108 was derived meaning that 41.08% of banks operational efficiency is as a result of the study variables. This implies that the history of a firm's performance will definitely influence how a firm moves forward in an effort to streamline its operational strategies. Therefore, banks should seek on mechanisms to improve their liquid assets to deposits ratio and total capital ratio in readiness to improve operating efficiency and remain competitive in the market. This study aimed at examining the effect of liquidity and capital adequacy on the operating efficiency of commercial banks in Kenya. Specifically, we sought to establish the effect of bank specific liquidity ratios (Interbank ratio, loan ratio, net loans to total deposits, liquid assets to short term liabilities ratio) and capital adequacy ratios (core capital ratio, risk based capital ratio, total capital ratio, equity capital to total asset ratio) on their operating efficiency.

Dr. M Syed Ibrahim (2011) [7] opines that the banking sector is the core segment of the Indian financial system which decides the progress of the country. Banks play an important role in the mobilization and allocation of resources in an economy. The sound financial position of a bank is the guarantee not only to its depositors but equally important for the whole economy of the nation. Several committees have emphasized the need to improve the performance of the commercial banks. In India, the priorities in banking operations underwent far reaching changes since the banking sector reforms have been set in motion.

Sangmi, *et al.* (2010) [8] contends that sound financial health of a bank is the guarantee not only to its depositors but is equally significant for the shareholders, employees and whole economy as well. As a sequel to this maxim, efforts have been made from time to time, to measure the financial position of each bank and manage it efficiently and effectively. In this paper, an effort has been made to evaluate the financial performance of the two major banks operating in northern India. This evaluation has been done by using CAMEL Parameters, the latest model of financial analysis. Through this model, it is highlighted that the position of the banks under study is sound and satisfactory so far as their capital adequacy, asset quality, Management capability and liquidity is concerned.

Harsh Vineet Kaur (2010) [9] opines that Indian banking system has transformed in recent years due to globalization in the world market, which has resulted in fierce competition. In this article, an attempt has been made to rank the various commercial banks operating in India. The banks in India have been categorized into Public sector, Private sector and foreign banks. For the purpose of profitability analysis 28 Public Sector, 26 Private Sector and 28 foreign banks have been taken into consideration For the purpose of ranking, CAMEL analysis technique has been used. Each parameter of CAMEL - Capital Adequacy, Asset Quality, Management Quality, Earning Quality and Liquidity has been evaluated taking two ratios, and a final composite index has been developed. Among the public sector banks, the best bank ranking has been shared by Andhra Bank and State Bank of Patiala. Among the private sector banks, Jammu And Kashmir Bank has bagged the first rank followed by HDFC Bank. In the category of foreign sector banks, Antwerp Bank has been ranked the best followed by JP Morgan Chase Bank.

N Seshadri, Dr. D Pradeep Kumar and Dr. T Narayana Reddy (2014) [10] finds that financial accuracy of the banking sector is the back bone of a country's economy. Commercial banks generally are simple business concerns which provide various types of financial services to customers in one form or another, such as interest income is in the form on advances and income on investments and another non-interest income component is discount, fee, commissions, and to evaluate the difference between the interest earned and interest paid and so on. This paper studies the productivity and efficiency of two public and two private sector commercial banks under accounting measures for the period from 1999-2000 to 2012-2013.

PSBS in India

Notably, while PSBs consolidation will be largely driven by regulations, larger banks would not want to buy banks having low capital adequacy as well as poor asset quality, unless they prove to be of strategic importance. A key factor that will aid consolidation will be a bank's branch network. Historically, banks having larger presence in one region have bought smaller banks having stronger presence in another region. This ensures there is minimal overlap and the businesses are complementary in nature. The key hurdle and integration challenge, though, will be the employee unions in some of the PSBs that might resist such mergers and acquisitions. Nevertheless, with the advent of digital banking, the attraction of a branch network might not be enough.

During 2002-03, SBI's NPAs increased by Rs. 4,688.57 cores; in 2003-04, the incremental accretion to NPAs amounted to Rs. 5,721.34 cores. Despite this, SBI's net NPA fell from 4.50 per cent to 3.48 per cent. This was made possible because the bank managed to increase "provisioning" for its NPAs by allocating funds from its balance sheet. Provisioning for NPAs consequently increased from Rs. 2,959 cores to Rs. 3,825 cores. The increase in profits from treasury operations - Rs. 3,073 cores in 2003-04, from Rs. 1,696 cores in 2002-03 - provided a cushion, which the bank could fall back on to handle its increased exposure to bad loans[1].

Stressed account management and financial stability [2]

The Banking industry in India is going through challenging times. The global financial crisis with its origins in the US in 2007-08 has since engulfed the whole world and India is no exception. Banking sector has been one of the major casualties of the crisis. As per RBI’s basic statistical returns, overall credit growth of the scheduled commercial banks declined from a high of 22.30% during 2007-08 to a meager 5.88% during 2014-15. This reflects the lower risk appetite of Banks in lending to the industrial sector. In fact, the somber state of lack of trust and confidence was so mutual between the banks and the industry that neither the banks were willing to lend to large corporates nor the industry demonstrated any inclination to tap bank’s resources. The same becomes conspicuously evident when growth became hostage to the mutual hostility. Bank credit as a percentage of Net National Product was on an upswing during 2007-08 as it grew from 58.41% to 62.06% from 2007 to 2008 but remained constant or rather fell in the later years from 62.06% in 2007-08 to 58.43% in 2014-15.

Similarly, the deposit growth reduced from 22.40% during 2007-08 to 12.45% during 2014-15 which indicates the loss of confidence in the erstwhile time tested notion of banks being safe custodians of public money. Here again the rate of growth of time deposits fell from 22.47% during 2007-08 to 14.57% during 2014-15. This declining growth of long term funds with banks further exacerbated the situation as it made them even more vulnerable to the Asset Liability Mismatches on account of exposure to infrastructure sector with large gestation periods. This further fueled the reticence of banks to lend to the industrial sector and made them more risk averse.

Dimensions of operational efficiency in Banking Sector

The aim of every institution is to grow. A growth in number of variables in the right direction is required for overall growth and sound performance of the banks. During the post nationalization period, the banks have grown functionally, geographically and multi-dimensionally in various business parameters. With an increase in branch offices, the banks attracted a lot of deposits. Whatever be the type of deposits, an increase in the quantity of deposits of banks is an index of their growth. The growth in deposits naturally tempts the banker to increase his advances and investment portfolio.

The growth in advances or investment is really an index of bank's growth. Banks cannot survive without balanced growth in these variables: the growth of one variable affects other variables too. The growth in deposits and advances if managed properly will contribute to the growth of profits, and if not cared, may lead to the growth in negative. Growth in profits can lead to growth in reserves and consequently to equity. A growth in number of variables in the right direction is hence required for an all-round growth and sound performance of the banks.

'Growth' is generally considered as the most important parameter of operational efficiency. 'Growth' is the outcome of a bank's general management function. Of course the policies and priorities of the Reserve Bank of India and the Government of India play an important role in this respect. The general economic environment, prudential funds management etc. also have its bearing on 'growth' of the banks.

Suggestions

Advances provided by banks need to be done pre-sanctioning evaluation and post disbursement control so that NPA can decrease. Good management needed on the side of banks to decrease the level of NPA. Proper selection of borrowers & follow ups required to get timely payment. Non-performing assets are a drain to the banks. The banks in India are adopting various strategies to reduce the non-performing assets in their banks and they are also adopting various methodologies by which further addition to NPA portfolio is minimized In the real sense, in case there is a recovery in principal and installments due in respect of the loans granted to the banks are received 100%, the question of non-performing assets do not arise. However, there is no such ideal bank where the NPA is nil. Except banks which were originated recently, all banks are prone to have some portion of their loans and advances as non performing advances.

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