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Fiscal performance of commercial banks in India- with respect to selected private sector banks

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Abstract
Banking Sector plays an important role in economic development of a country. The banking system of India is featured by a large network of bank branches, serving many kinds of financial services of the people. A bank is a financial intermediary that accepts deposits and channels those deposits into lending activities. This study investigates Profitability and Liquidity of top five leading private banks in India for the period of ten years from 2006 to 2015. Financial statements of HDFC bank, ICICI bank, Axis bank, Kotak Mahindra bank and Indusind bank for the indicated periods were obtained from database such as CMIE, money control and yahoo finance. Necessary information derived from these financial statements were summarized and used to compute the financial ratios for the ten-year period. Financial ratios and statistical tools are used to measure the profitability, and liquidity performance of five major banks.

Keywords: Bank, Economic development, financial performance, Profitability, Liquidity.

Introduction

An efficient banking system is recognized as basic requirement for the economic development of any economy. Banks mobilize the savings of community into productive channels. The banking system of India is featured by a large network of bank branches, serving many kinds of financial needs of the people. A good bank is not only the financial heart of the community, but also one with an obligation of helping in every possible manner to improve the economic conditions of the common people. The banking system in India should not only be hassle free but it should be able to meet new challenges posed by technology and any other external and internal factors. Private Financial statements are the medium by which a company discloses information concerning its financial performance. Banks play an important role in the economic development of every nation. They have control over a large part of the supply of money in circulation. Through their influence over the volume of bank money, they can influence in nature and character of production in any country. Thus, in the modern economy, banks have become a part and parcel of all economic activities in India.

Today, private sector commercial banks have a market share of 20 per cent in deposits and advances. This has been achieved in a growing market, indicating that private sector banks have successfully capitalized on the growth of the Indian economy. But more than acquiring market share, the real contribution of private sector banks has been to transform the way banking is done in India. In the late 1990s, there would have been a few hundred ATMs. But now the situation has changed that ICICI bank decided to set up 2,000 ATMs in two years. In those days it seemed like a big innovation, but today, every bank has a large network of ATMs. The expansion of ATM networks has transformed customer experience. These banks went on to encompass Internet banking, phone banking and mobile banking. It was private banks which made sure that housing loans and other kinds of loans were made available in hundreds of cities and towns in India.

Review of Literature

Foster, (2007) [1] in his study " *Analyzing Financial Performance of Commercial Banks in India*" the author analyzed the methods and theories for evaluating and predicting financial performance reveals that although methods have become increasingly complex, few researchers adequately address the problems associated with the sample used. For example,

most ratio analysis studies use multivariate analysis that is based on the assumption of a normal distribution of the financial ratios. The study concluded that by considering the distribution of financial ratios in any database, the normality of the distribution can be skewed by data recording errors, negative denominators and denominators approaching zero.
Brigham and Ehrhardt (2010) [2] in his study "*A Comparative Analysis of the Financial Ratios of Selected Banks in India*" the researcher analyzed that the financial ratios are designed to help evaluate financial statements. Financial ratios are used as a planning and control tool. Financial ratios analysis is used to evaluate the performance of an organization: and the study aims to determine the strong and weak points and it offers solutions by providing appropriate plans.
Tiwari and Parray (2012) [3] in his study "*A Study of Financial Performance: A Comparative Analysis of SBI and ICICI Bank* **"**the researcher explained in detail the analysis of financial statements of Ranbaxy ltd. It provides insights into two widely used financial tools, ratio analysis and common size statements analysis. The objective of this paper is to help the reader understand how these tools should be used to analyze the financial position of a firm. A financial statement is a collection of data organized according to logical and consistent accounting procedures. The purpose of the study is to convey an understanding of some financial aspect of business firm. Financial analysis (also referred to as financial statement analysis or accounting analysis) refers to an assessment of the viability, stability and profitability of a business, sub business or project.

Statement of the problem

Banking Sector Reforms have changed the face of Indian banking industry. These reforms have led to an increase in resource productivity, increasing level of deposits, credits and profitability and decrease in non-performing assets. However, the profitability and liquidity, which is an important criteria to measure the performance of banks in addition to productivity, financial and operational efficiency, has come under pressure because of changing environment of banking. An efficient management of banking operations aimed at ensuring growth in profits and efficiency requires up-to-date knowledge of all those factors on which the banks profit depends. Profitability is a rate expressing profit as a percentage of total assets or sales or any other variable to represent the relationship. In fact, there may be various dimensions of profitability and liquidity analysis. The profitability of a bank denotes the efficiency with which a bank deploys its total resources to optimize its net profits and thus serve as an index to the degree of asset utilization and managerial effectiveness. Hence the present study makes an attempt to see the profitability and liquidity performance of the select private sector commercial banks with the different norms.

Objectives of the study

The following are the objectives of the study:
- ❖ To analyze the profitability performance of private sector banks in India.
- ❖ To examine the liquidity position of private sector banks in India.

Scope of the study

The present study aims to analyze the profitability and liquidity of top five leading private sector commercial banks in India namely HDFC, ICICI, AXIS, Kotak Mahindra and Indusind bank. The study does not cover other banks.

Applied Research Design

To accomplish the objectives of the study, secondary data were used. It has been collected from bank records, published and unpublished financial reports, journals, magazines and websites. Financial performances of the selected banks were analyzed for the period of five years with the help of the following tools and techniques, Ratio Analysis, Correlation, and Regression. The study is chronological and covers a period from 2005-06 to 2014-15.

Analysis and Interpretation

The profitability performance of select private sector commercial banks is depicted in table 1.

Table 1: Profitability Ratios of Select Private Sector Commercial Banks

Bank	Profit Margin	Net Profit	Return on Shareholders Equity	Return on Asset
HDFC	0.33	0.15	20.79	5.49
ICICI	0.34	0.14	18.6	5.62
Axis	0.27	0.14	18.29	5.48
Kotak Mahindra	0.12	0.12	14.57	4.76
Indusind	0.33	0.14	19.41	5.26

It is inferred from table 1 that among the profitability ratios of select private sector commercial banks, the Kotak Mahindra bank has a low in profit margin of 0.12, net profit of 0.12 and also return on asset with 4.76 whereas ICICI shows high profitability ratios when compared to other banks.
The liquidity performance of select private sector commercial banks is presented in table 2.

Table 2: Liquidity Ratios of Select Private Sector Commercial Banks

Bank	Current Ratio	Quick Ratio	Current Debt To Inventory	Current Debt To Networth
HDFC	0.12	0.017	2.92	1.30
ICICI	0.12	0.7	1.56	2.82
Axis	0.02	0.034	1.95	0.76
Kotak Mahindra	0.03	0.05	2.28	0.69
Indusind	0.11	0.032	1.30	0.92

Table 2 reveals that among the quick ratios of select private sector commercial banks; the current ratio for ICICI is high with 0.12 while Kotak Mahindra bank has a low ratio of 0.03 and the quick ratio of ICICI is highest with 0.76 whereas Kotak Mahindra shows low ratio when compared to other banks. Current debt to inventory ratio indicates reliance on the available inventory for payment of debt, among the banks Indusind shows a low ratio whereas HDFC shows a high ratio.

Table 3: Correlation analysis for select banks from 2005-2006 to 2014-2015

			Profit margin	Net profit	RSE	ROA
HDFC	Profit margin	Pearson Correlation	1			
	Net profit	Pearson Correlation	.572	1		
	RSE	Pearson Correlation	.890**	.672*	1	
	ROA	Pearson Correlation	.811**	.744*	.855**	1
ICICI	Profit margin	Pearson Correlation	1			
	Net profit	Pearson Correlation	.406	1		
	RSE	Pearson Correlation	.670*	.862**	1	
	ROA	Pearson Correlation	.543	.944**	.967**	1
Axis	Profit margin	Pearson Correlation	1			
	Net profit	Pearson Correlation	.065	1		
	RSE	Pearson Correlation	.818**	.364	1	
	ROA	Pearson Correlation	.695*	.479	.968**	1
Kotak Mahindra	Profit margin	Pearson Correlation	1			
	Net profit	Pearson Correlation	-.228	1		
	RSE	Pearson Correlation	.377	-.583	1	
	ROA	Pearson Correlation	.830**	-.270	.236	1
Indusind Bank	Profit margin	Pearson Correlation	1			
	Net profit	Pearson Correlation	.206	1		
	RSE	Pearson Correlation	.346	.758*	1	
	ROA	Pearson Correlation	.520	.707*	.847**	1

*1 percent significant
** 5 percent significant

From the table 3 it can be inferred that Return on Shareholders' Equity has a significant relation on profit margin for HDFC bank and AXIS bank. ICICI bank shows a highly significant relation between Return on assets on Net profit and Return on shareholder's Equity whereas Axis bank illustrate a high significant relation between Return on asset and Return on shareholder's equity only. HDFC bank and Kotak Mahindra exhibit a significant correlation between Return on asset and Profit margin.

Table 4: Correlation analysis for select banks from 2005-2006 to 2014-2015

			Current Ratio	Quick ratio	CDI	CDN
HDFC	Current Ratio	Pearson Correlation	1			
	Quick ratio	Pearson Correlation	.446	1		
	CDI	Pearson Correlation	-.002	-.579	1	
	CDN	Pearson Correlation	-.211	-.558	.552	1
ICICI	Current Ratio	Pearson Correlation	1			
	Quick ratio	Pearson Correlation	.263	1		
	CDI	Pearson Correlation	-.725*	-.149	1	
	CDN	Pearson Correlation	-.832**	-.239	.954**	1
Axis	Current Ratio	Pearson Correlation	1			
	Quick ratio	Pearson Correlation	.714*	1		
	CDI	Pearson Correlation	-.184	-.335	1	
	CDN	Pearson Correlation	-.429	-.336	.763*	1
Kotak Mahindra	Current Ratio	Pearson Correlation	1			
	Quick ratio	Pearson Correlation	.713*	1		
	CDI	Pearson Correlation	-.537	-.499	1	
	CDN	Pearson Correlation	-.485	-.710*	.869**	1
Indusind Bank	Current Ratio	Pearson Correlation	1			
	Quick ratio	Pearson Correlation	-.028	1		
	CDI	Pearson Correlation	.230	-.483	1	
	CDN	Pearson Correlation	-.095	-.543	.553	1

Table 4 reveals the correlation analysis of liquidity of select banks during the period from 2006 to 2015. In case of ICICI, AXIS, and KOTAK MAHINDRA bank, the Current debt to Net worth displays significant relation with Current Debt to Inventory. All the select banks shows a negative correlation between Current debt to Net worth and Current debt to Inventory with current ratio and also Quick ratio.

H0: There is no significant relationship between Net profit ratios with other profitability ratios.

Table 5: Regression analysis of profitability of select banks from 2005-06 to 2014-15

	Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	F	Sig.
HDFC	1	.758	.575	.363	.00657	2.707	.138
ICICI	1	.965	.930	.896	.00661	26.723	.001
AXIS	1	.631	.398	.097	.01603	1.321	.352
Kotak Mahindra	1	.626	.392	.088	.00900	1.290	.361
Indusind Bank	1	.778	.606	.408	.01776	3.070	.112

Table 5 reveals the regression analysis of Profitability of select banks during the period from 2006 to 2015.Among the five select banks, ICICI bank shows a significant relationship between the net profit ratio and profit margin, return on shareholder's equity and return on assets at 5 per cent age. About 93 percent age of variations of dependent variable is due to the independent variables.

H0: There is no significant relationship between current ratio with quick ratio, current debt to Inventory and Current debt to Net worth.

Table 6: Regression analysis of liquidity of select banks from 2005-06 to 2014-15

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	F	Sig.
1	.550	.302	-.047	.01529	.866	.508
1	.864	.746	.619	.00432	5.865	.032
1	.801	.642	.463	.01656	3.589	.086
1	.836	.699	.548	.02430	4.641	.053
1	.353	.124	-.314	.02636	.284	.836

Table 6 shows the regression analysis of Liquidity of select banks during the period from 2006 to 2015. Among the five select banks, ICICI bank shows a significant relationship between the current ratio and quick ratio, current debt to inventory and current debt to net worth at 5 percent. About 74 per cent age of variations of dependent variable is due to the independent variables.

Findings & Suggestions

This study had attempted to investigate the profitability and liquidity position of select private commercial banks in India. Among the select five commercial banks, ICICI showed a better liquidity position whereas Kotak Mahindra's position was poor.

Based on the finding it is suggested that instead of keeping excessive liquidity as a provision for unexpected withdrawal demands of the customers, the Kotak Mahindra bank should find it reasonable to adopt other measures such as include borrowing and discounting bills.

Conclusion

The present study reveals that ICICI bank showed a better performance during the study period. ICICI is able to use their asset to earn maximum profit and also the current assets are available in order to meet the debt obligation. Since other bank showed a low performance, these banks should utilize the resources at the minimum effort.

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