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Analyzing financial performance of selected commercial banks in India

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Abstract

Bank's main task in the financial sector is to carry out financial intermediation transactions between fund suppliers and fund demanders, have an important share in the financial sector. 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. Comparing and evaluating the Financial Performance of financial institutions is a very important task. Financial Performance has become a critical factor in evaluating a bank's earning ability and overall standing in the banking sector. This paper aims to conduct a Financial Performance analysis of Selected Public (Bank of India and Punjab National bank) and private Sector Bank (Axis bank and IDBI bank) during the Periods of 5 Financial year (2019 to 2023). This study based on entirely on secondary data and tools used to Ratio analysis selected public sector banks. Based on the data review the study found that private banks outperformed public sector banks.

Keywords: Financial performance, commercial banks, ratio analysis, net profit ratio, capital adequacy ratio

Introduction

Banking is one of the oldest financial institutions and it is as old as human civilization. The origin can be traced in ancient times. Banking system occupies an important role in the economic development of a country. Banking institution is indispensable in modern society. It plays a vital role in the economic development of a country. The comparative study, on the basis of financial performances between public and private sector banks in India. The financial performance defines potential of business, economic interest of the company management and reliability of present or future contractors. Therefore, financial performance analysis and identification of their weakness and strength using financial performance indicators can contribute to management, shareholders, the public and the regulator as a whole. The rationale of financial analysis is to diagnose the information contained in the financial statement so as to judge the future earning, ability to pay interest, profitability and dividend of the banks.

Research Objective

1. To analyse the financial performance of the banks under study.
2. To analyse the significant difference between the banks under study.
3. To suggest measures on the basis of the study results to improve their financial performance.

Research Methodology

This research is descriptive and experimental in nature as it is studying the current financial status of the selected 4 banks that is Bank of India, Punjab National Bank, Axis bank, and IDBI bank. The method used for selecting these banks is simple random sampling The yearly financial data of Banks from 2019 to 2023 were collected from the financial websites, books, M. Phil, journal articles and thesis. Therefore, the quality of this research paper depends on quality and reliability of data published in the annual reports of the selected banks. For the data analysis purpose, the total net profit, total assets, total income, total expense, net profit

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margin ratio, return to net-worth ratio, earning per share ratio, CASA ratio, Capital Adequacy ratio and Net NPA is calculated and compared.

Review of Literature

Prof. Sangmi and Dr. Nazir T. 2010 [6] in research paper Analyzing Financial Performance of Commercial Banks in India: Application of Camel Model The analysis that the banks are financially viable as both have adopted prudent policies of financial management. Both the banks have managed their capital adequacy ratio well above the minimum standard of 10% fixed by RBI.

Rao M. 2014 [7] had done a study on analysis on the performance of private and public sector banks. The purpose of the study was to examine the financial performance of SBI and HDFC Banks both public and private sector respectively and to make a comparison of profitability between SBI and HDFC Bank. The study found that HDFC Bank is performing well and financially sounder than SBI Bank but in the context of deposits and expenditure SBI Bank has better managing efficiency. The study also found that overall financial performance of HDFC Bank is better than SBI Bank.

Misra P. and Yadav A. (2015) [8] in research paper A comparative study of financial performance of SBI and ICICI Banks in India, Ratio analysis was applied to analyze and compare the trends in banking business profitability. Six key financial ratios were used for comparative analysis of financial performance of SBI and ICICI Banks. It was also observed that the growth in percentage of rural branches for both banks is marginal. The study revealed that ICICI Bank has performed better than SBI bank.

Vithalbhai V. S. 2020 [10] in article Financial Performance of Banks in India: A Study of Selected Private Sector Banks he finds that the results of the study reveal that there is a significant difference of Net Profit of the selected banks. The financial performance of HDFC Bank is continuously in good condition due to profit and proper management. The

results indicate that Yes Bank is in deteriorating financial position because of governance issue, false assurance to customers, non-serious investors, non-market-led revival in sight, outflow of liquidity, and non-Disclosure practices. Axis Bank and ICICI Bank are slowly declining within the market. Jammu and Kashmir Bank suffered losses in the year 2016-17 due to the tune of Rs 16,000 crore during the five months long unrest in the Kashmir valley.

Tamilarasu and K Srinivasan 2022 [9] in the article A study on Financial Performance analysis of selected public and private sector banks they concluded and find that the financial ratios reveal that public sector banks have a better outreach among both the urban and rural populace but private sector banks, though well embedded in urban regions, are still stretched thin in rural regions. This reveals that the public sector banks have heavy assets and employ a huge work force compared to private sector banks. In terms of financial performance, public sector banks lag in profitability in comparison to private sector banks but enjoy the stability due to the support of the Union government.

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.

Data Analysis

(1) Net Profit

Table 1: Net Profit (Am. in Crore rs.)

Name of Bank	2019	2020	2021	2022	2023
Bank of India	-5497	-2929	2199	3406	3882
Punjab National Bank	-	10026	363	2152	3676
Axis Bank	5047	1879	7252	14164	23342
IDBI Bank	-	15013	-	12847	1449

Source: Compiled from financial data available in moneycontrol.com as on 15.11.2023



Source- Compiled from financial data available in moneycontrol.com as on 15.11.2023

The table-1 show that the of Bank of India, PNB and IDBI Bank's net profit is decreased in 2019 and profit also decreased in 2020 namely BoI and IDBI Bank. It Increased in 2021, 2022 and 2023 of all banks. On the other hand, PNB controlled its profit after 2019 and raised its profit. Axis 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. Making a profit is very important in order to sustain the existence of banks, increase their market value and meet the expectations of their shareholders.

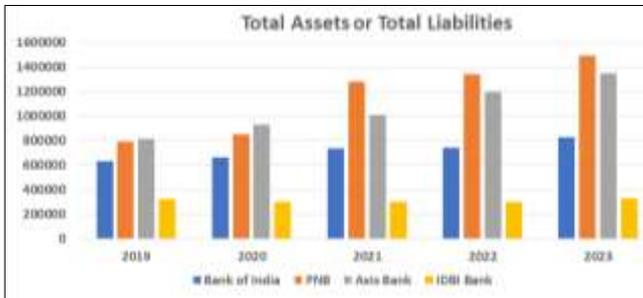
(2) Total Assets or Total Liabilities

According to table 2 assets of all four banks increased over a five-year period from 2019 to 2023. In comparison to all banks, Bank of India's assets increased 1.3 times, PNBs 1.89 times, Axis Bank's 1.65 times, and IDBI bank's assets fluctuated. Asset size is the first key factor that can affect the profitability of banks in India. Asset size fluctuations tended to increase. Asset size is associated with bank size, meaning that the bank has greater resources and is more flexible in innovating or expanding.

Table 2: Total Assets or Total Liabilities (Am. in Crore rs.)

Name of Bank	2019	2020	2021	2022	2023
Bank of India	630883	663018	732790	743131	826035
Punjab National Bank	789265	851457	1279725	1339301	1493648
Axis Bank	814045	927871	1010325	1195528	1344417
IDBI Bank	321111	300713	298652	302356	331497

Source: Compiled from financial data available in moneycontrol.com as on 15.11.2023



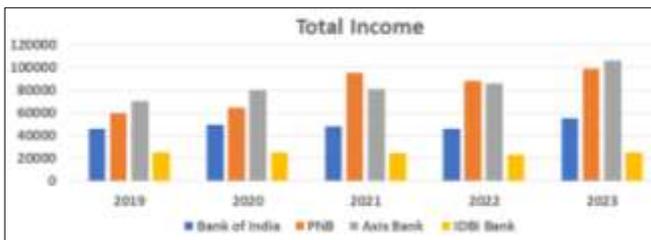
Source- Compiled from financial data available in moneycontrol.com as on 15.11.2023

(3) Total Income

Table 3: Total Income (Am. in Crore rs.)

Name of Bank	2019	2020	2021	2022	2023
Bank of India	46268	49399	48350	46291	55142
Punjab National Bank	59514	64306	94990	88339	99084
Axis Bank	70232	80057	80847	86114	106154
IDBI Bank	25637	25485	24803	23025	25166

Source: Compiled from financial data available in moneycontrol.com as on 15.11.2023



Source: Compiled from financial data available in moneycontrol.com as on 15.11.2023

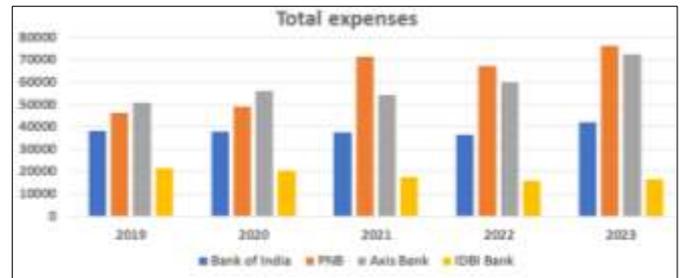
According to table 3 total income of all three banks increased over a five-year period from 2019 to 2023. In comparison to all banks, Bank of India's total income increased 1.19 times, PNB's 1.66 times, Axis Bank's 1.51 times, and IDBI bank's total income fluctuated. Its total income is decreasing from 2019 to 2022 and its total income increased in 2023.

(4) Total Expenses

Table 4: Total Expenses (Am. in Crore rs.)

Name of Bank	2019	2020	2021	2022	2023
Bank of India	38074	37803	37427	36253	41814
Punjab National Bank	46344	49147	71320	67313	76152
Axis Bank	50603	56061	54101	59746	72358
IDBI Bank	21420	20288	17583	15644	16363

Source: Compiled from financial data available in moneycontrol.com as on 15.11.2023



Source: Compiled from financial data available in moneycontrol.com as on 15.11.2023

Total expenditures for all four banks rose over a five-year period from 2019 to 2023 according to table 4. The IDBI bank was found to be effective control in its cost management. Bank of India's overall expenditures were 1.098 times higher, PNB's 1.64 times higher, Axis Bank's 1.43 times higher, and IDBI bank's 0.76 times lower. PNB had the highest overall expenses. IDBI bank's total expenditure is decreasing from 2019 to 2022 and total expenditures increased in 2023.

(5) Net Profit Margin Ratio

Table 5: Net Profit Margin Ratio (Values in percentage)

Name of Bank	2019	2020	2021	2022	2023
Bank of India	-13.40	-6.87	5.38	8.89	8.09
Punjab National Bank	-19.22	0.66	2.62	4.82	3.53
Axis Bank	9	2.94	11.20	20.57	12.41
IDBI Bank	-67.92	-61.60	7.25	13.74	17.90

Source: Compiled from financial data available in moneycontrol.com as on 15.11.2023



Source: Compiled from financial data available in moneycontrol.com as on 15.11.2023

The higher the net profit margin ratio, the more effective the company. This ratio measures the efficiency in which assets are used to produce revenue. Table- 5 shows that Axis Bank performed well in comparison to the other three banks. The performance of Bank of India, PNB and Axis Bank was observed to be increasing the Net profit margin ratio from 2019 to 2022. But in year 2023, the performance of Bank of India, PNB and Axis Bank was observed to be decreasing Net profit margin ratio only IDBI Bank maintained its profit ratio.

(6) Return on Net Worth / Equity

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 rule the higher Return on Net Worth / Equity, the better the financial performance of the Bank and company. Table -6 shows that Axis Bank outperformed the

other three banks over the course of five years. Return on equity shows the degree of financial performance of the capital in the bank, it is a performance criterion that measures the return on the investment they make, in other words, maximizing the profit, which is the main goal of the bank's shareholders

Table 6: Return on Net Worth / Equity (Values in percentage)

Name of Bank	2019	2020	2021	2022	2023
Bank of India	-14.79	-7.88	5.12	7.04	7.17
Punjab National Bank	-22.51	0.74	3.00	4.26	3.54
Axis Bank	7.43	2.14	6.94	11.93	8.33
IDBI Bank	-47.39	-45.30	4.82	7.42	9.72

Source: Compiled from financial data available in moneycontrol.com as on 15.11.2023



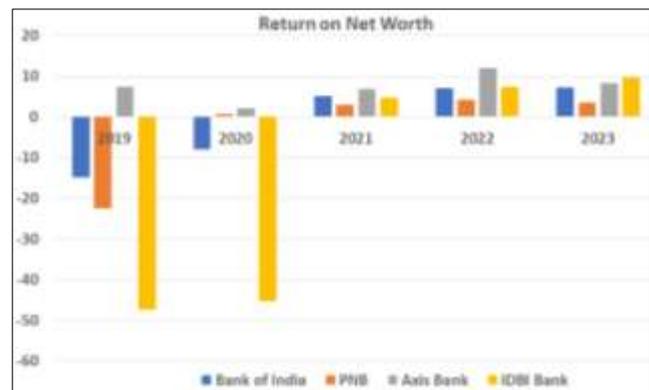
Source: Compiled from financial data available in moneycontrol.com as on 15.11.2023

(7) Earning Per Share Ratio

Table 7: Earning Per Share Ratio (Values in Rs.)

Name of Bank	2019	2020	2021	2022	2023
Bank of India	-29.14	-9.39	6.36	9.07	9.35
Punjab National Bank	-29.68	0.80	2.64	3.53	3.04
Axis Bank	19.61	6.83	24.19	46.04	35.20
IDBI Bank	-1.54	-1.56	26.77	18.14	13.04

Source: Compiled from financial data available in moneycontrol.com as on 15.11.2023



Source: Compiled from financial data available in moneycontrol.com as on 15.11.2023

Earnings per share (EPS) is a measure of how much money is made per share. Table-7 shows that the Bank of India has changed from -29.14 to 9.35 rupees per share from 2019 to 2023, and PNB has also changed from -29.68 to 3.04 rupees per share from 2019 to 2023. Axis Bank and IDBI Bank's

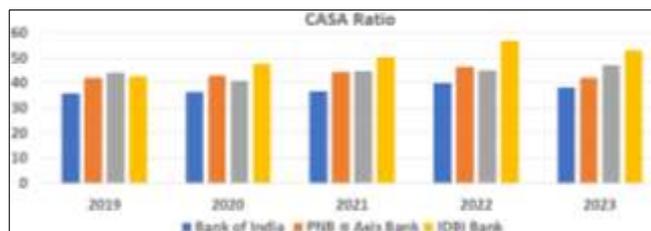
earnings per share (EPS) fluctuated. In terms of EPS volatility, Axis Bank was found to be less volatile than other banks.

(8) CASA Ratio

Table 8: CASA Ratio (Value in Percentage)

Name of Bank	2019	2020	2021	2022	2023
Bank of India	35.84	36.45	36.63	39.99	38.32
Punjab National Bank	42.14	42.86	44.44	46.45	41.92
Axis Bank	44.18	41.00	44.84	44.96	47.12
IDBI Bank	42.53	47.75	50.47	56.79	53.03

Source: Compiled from financial data available in moneycontrol.com as on 15.11.2023



Source: Compiled from financial data available in moneycontrol.com as on 15.11.2023

The CASA ratio describes total bank deposits in current and savings accounts in Table 8. The higher ratio is beneficial since the bulk of funds come from the cheapest sources of funds, namely current and savings accounts. In Table 8, the IDBI bank was found to be the best, followed by PNB and Axis Bank. In 2019, the Bank of India had a lower ratio, which improved by 1.07 times from 2019 to 2023.

(9) Capital Adequacy Ratio

Table 9: Capital Adequacy Ratio (Value in Percentage)

Name of Bank	2019	2020	2021	2022	2023
Bank of India	15	13	15.55	17.65	16.91
Punjab National Bank	10	14.14	14.32	14.50	15.50
Axis Bank	15.84	17.53	19.12	18.54	17.64
IDBI Bank	11.58	13.31	15.59	19.06	20.44

Source: Compiled from financial data available in moneycontrol.com as on 15.11.2023



Source: Compiled from financial data available in moneycontrol.com as on 15.11.2023

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 Axis Bank doing the highest of the four banks in 2019, 2020 and 2021 but in overall IDBI bank did best. The capital adequacy ratio in the banking sector must be efficient, meaning that there is a balance between assets and liabilities owned. Furthermore, the capital adequacy ratio is

related to the proportion of capital to the bank's risk-weighted assets, this will measure the extent to which the capital owned by the bank is able to mitigate risks that may occur.

(10) Valuation Ratio or Price Earning Ratio

Table 10: Valuation Ratio or Price Earnings Ratio (Value in Percentage)

Name of Bank	2019	2020	2021	2022	2023
Bank of India	-3.58	-3.43	10.67	5.06	7.98
Punjab National Bank	-3.22	40.44	13.88	9.93	15.33
Axis Bank	39.64	55.49	28.83	16.53	24.39
IDBI Bank	-30.22	-12.36	1.44	2.36	3.45

Source: Compiled from financial data available in moneycontrol.com as on 15.11.2023



Source: Compiled from financial data available in moneycontrol.com as on 15.11.2023

The Price Earnings Ratio is simply the stock price divided by the earnings per share. High PE Ratio stocks are considered expensive and growth stocks, whereas low PE Ratio stocks are considered inexpensive and value stocks. Bank of India had excellent returns in 2021 and PNB had excellent returns in 2020 but were very expensive, while Axis Bank was very safe and ICICI's Price Earnings Ratio is increasing after 2019.

(11) Net NPA Ratio

Table 11: Net NPA Ratio (Value in Percentage)

Name of Bank	2019	2020	2021	2022	2023
Bank of India	2.34	2.21	1.92	1.61	1.66
Punjab National Bank	4.80	4.28	3.80	3.30	2.72
Axis Bank	0.73	0.64	0.51	0.47	0.39
IDBI Bank	1.36	1.25	1.15	1.08	0.92

Source: Compiled from financial data available in moneycontrol.com as on 15.11.2023



Source: Compiled from financial data available in moneycontrol.com as on 15.11.2023

Table 11 shows that the magnitude of Net NPAs of all the banks has consistently decreased during the years of study in the case of all Banks. In the case of the Bank of India, Net NPAs were 2.34% in the year 2019 and 1.66% in 2023. In

the case of PNB Net NPAs were 4.80% in the year 2019 and 2.72% in 2023. In the case of Axis Bank Net NPAs were 0.73% in the year 2019 and 0.39% in 2023. In the case of IDBI, Net NPAs were 1.36% in the year 2019 and 0.92% in 2023. The data shows that Net NPAs are the maximum in the year 2019 in PNB which is 4.80% and Net NPAs are the lowest in the year 2023 in Axis Bank which is 0.39%.

Conclusion

The financial performance of India's banking sector over the last five years from 2019 to 2023. The study 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. Based on the data review the study found that private banks outperformed public sector banks. In the private sector, Axis Bank outperformed compair IDBI Bank. Among public sector banks, the Bank of India was observed to be very stable and to offer consistnt returns to investors.

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