



A STUDY ON THE FINANCIAL PERFORMANCE EVALUATION OF PUNJAB NATIONAL BANK

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ABSTRACT:

An advanced banking system is a necessary precondition for the modern economy to flourish economically. This also applies to the Indian economy, where the banking sector is essential to the country's economic progress. Many obstacles currently confront the Indian financial system, especially with regard to the public sector banks. Almost 78% of the entire banking industry is made up of these public sector banks. Because of this, analyzing public sector banks' financial performance is crucial to forecasting their future success. The primary metrics used to assess a bank's performance are its credit performance, liquidity situation, and financial efficiency. The goal of this study is to evaluate Punjab National Bank's financial performance.

KEYWORDS: Public Sector Banks, Financial Performance, Punjab National Bank.

INTRODUCTION

The financial industry is one of the economic sectors which have recently garnered great attention. Within the wide range of the financial industry, academics and policy makers focused on the banking sector. Concerns regarding financial stabilize are widely recognized that supporting strong financial institutions, particularly banks, is essential for fast and inclusive economic development, with central banks globally confronting policy difficulties. Banking is one of the key contributors to a country's economic development.

It is the primary conduit for all business operations. After independence, the Indian banking sector underwent significant transformations. It may be said that since colonial times the profit was a major concern for the banking sector, the sea was changing.

It then evolved towards the socialist period of 1970 and 1980 when the only aim was to serve the underprivileged in the furthest reaches of India. During this time, nationalised banks worked to provide as many individuals as possible access to organised banking.

PUNJAB NATIONAL BANK

Punjab National Bank is an Indian Public Sector Undertaking (PSU) operating under the Government of India and governed by the Reserve Bank of India Act, 1934 and the Banking Regulation Act, 1949.

The PNB is a global financial services and banking company based in India. Located in New Delhi, India, it is a public enterprise. The bank was founded in 1894. By March 31, 2020, the Bank will have operations in 764 cities, 80 million consumers, 6937 associated businesses, and 10681 automobiles.

It has a presence across the country and offers a wide range of banking services that include corporate and private banking, industrial finance, agricultural finance, trade finance and international banking.

The bank's clients include multinationals, Indian conglomerates, medium and small industrial units, exporters and non-resident Indians. The bank's strength lies in business confidence in growth and stability.

PNB's main business is to provide commercial and retail banking services to different segments of customers, with a focus on the Asian community within the UK.

This includes accepting deposits from both retail and corporate clients; lending to retail, SME's and corporate clients; transaction banking services such as currency remittances; and treasury operations to support its funds management.

The main functions of the treasury operations continue to be to maintain a reasonable liquidity position throughout the financial year and provide guidance on the pricing of assets and liabilities to Asset and Liability Committee ('ALCO') for approval of pricing for deposits and loans.

REVIEW OF LITERATURE

- **Kumbirai and Webb (2010)** investigated the performance of commercial banking sector of South Africa for the period of 2005- 2009. Financial ratios were employed to examine the profitability, liquidity and credit quality performance of five South African based commercial banks. The study concluded that overall bank performance increased considerably in the first two years and a significant change in trend was noticed at the onset of the global financial crisis in 2007, reaching its peak during 2008-2009. This resulted in falling profitability, low liquidity and deteriorating credit quality in the South African Banking sector.
- **AlkhatibA. (2012)** examined the financial performance of five Palestinian commercial banks listed on Palestine securities exchange (PEX). Performance had been measured by using three indicators; Internal-based performance measured by Return on Assets, Market-based performance measured by Price / Book value of Equity (Tobin's Q model) and Economic-based performance measured by Economic Value add. The study found that there existed statistically significant impact of bank size, credit risk, operational efficiency and asset management on financial performance of Palestinian commercial banks.
- **Das (2013)** carried out the study with the objective to compare the financial performance of four state- owned commercial banks in Bangladesh for the period 2000 to 2010 and identified the determinants of performance exposed by the financial ratios. Econometric model by formulating a regression model was used to estimate the impact of loan to asset ratio, non-performing loan ratio, credit to deposit ratio and percentage of classified loan on the financial profitability namely returns on assets of these banks. The results show that the same bank had different ranks under the different financial ratios and the estimation results reveal that return on assets was significantly influenced by capital adequacy ratio and percentage of classified loan.
- **Hassan M. (2014)** investigated the financial performance of Erbil Bank Kurdistan Region of Iraq during the period of 2009-2013. They used several financial performance parameters such as liquidity ratios, assets quality ratios or credit performance, profitability ratios (NPM, ROA, ROE). The findings of the study shows the positive behavior of the financial position for Erbil Bank and some of their financial factors variables influence the financial performance for the bank. It was found that the overall financial performance of Erbil Bank improved in the study period. The study suggested a set of recommendations regarding the development and enhancing of banking operations which will boost the bank's profitability and improve the financial performance for the bank.
- **Almumani (2014)** conducted the study with the purpose to analyze and compare the performance of Saudi listed in stocks market for the period 2007-2011. The financial performance of banks is studied on the basis of financial ratios and variables derived from secondary data.

OBJECTIVES OF THE STUDY

The main objectives of this project are the following:-

- To study about Punjab National Bank and its related aspects like its history, organizational structure, subsidiary companies etc.
- To analyze the financial statement i.e. P&L account and Balance sheet of Punjab National Bank
- To understand the meaning and need of Balance Sheet and profit and loss account.
- The purpose is to portray the financial position of Punjab National Bank with the help of Balance sheet and profit and loss account.
- To evaluate the financial soundness, stability of Punjab National Bank

LIMITATIONS OF THE STUDY

The study is subject to certain constraints, and a few of these are outlined below to ensure a comprehensive understanding of the study's findings.

- The present study is limited to only one public sector bank of India. Hence, the results are not applied to the entire banking sector.
- This study is limited to only five years' time period (2018-19 to 2022-23).
- The study is based only on secondary data which has been collected from published annual reports of banks and various relevant internet sources. The data obtained through reports is subject to window dressing and may not show the actual position of the Bank.

SCOPE OF THE STUDY

This study is undertaken to measure the financial performance of Punjab National Bank. The study will provide details about the growth of deposits, advances, and profitability analysis of Punjab National Bank. It is hoped that the result of this study will propose policy measures for the better performance of this bank in order to achieve the financial goals along with customer satisfaction.

STATEMENT OF PROBLEM

One of the primary challenges faced by banking sectors is fractional reserve banking, where banks are required to lend money to customers even if they do not have sufficient funds available. This practice has led some economists to warn that the economy could become over stimulated and eventually collapse if there are inadequate reserves. In the event that a large number of individuals withdraw their funds simultaneously, the bank may struggle to meet the demand due to insufficient reserves.

TOOLS OF FINANCIAL ANALYSIS

In the analysis of financial statements, the analyst has a variety of tools available to choose the best that suits his specific purpose. In this report we will confine ourselves to Ratio Analysis based on information provided from financial statements such as Balance Sheet and Profit & Loss Account.

RATIO ANALYSIS

Ratio analysis is the study of different financial data points seen in a company's financial statements. They are mostly utilized by outside analysts to assess a company's profitability, liquidity, and solvency, among other factors.

CURRENT RATIO

One of the most significant kinds of liquidity ratios is the current ratio. It is not only an essential financial indicator, but it also helps investors and companies make wise investment decisions. Current ratio formula is given by

$$\text{Current Ratio} = \text{Current Assets} / \text{Current Liabilities}$$

TABLE SHOWING CURRENT RATIO

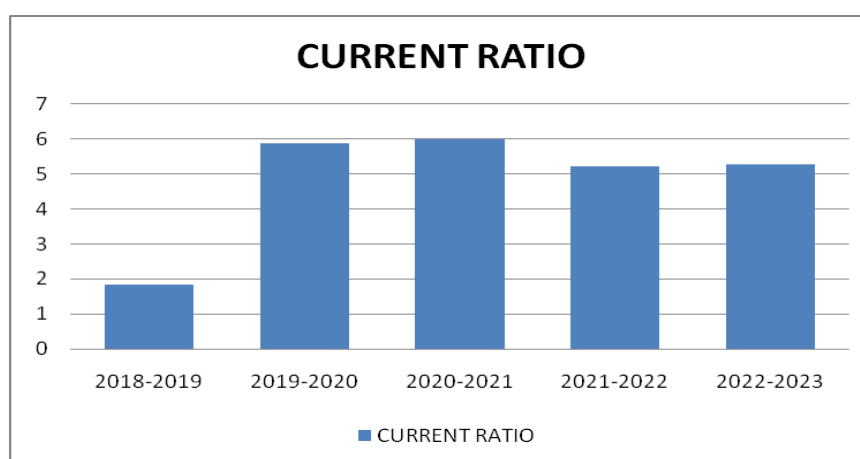
YEAR	CURRENT ASSETS	CURRENT LIABILITIES	CURRENT RATIO
2018-2019	83,542.19 Cr	15,045.52Cr	1.85
2019-2020	85,017.73 Cr	14,453.42Cr	5.88
2020-2021	1,24,383Cr	20,688.94Cr	6.01
2021-2022	1,44,890Cr	27,693.61 Cr	5.23
2022-2023	1,57,328Cr	29,813.37 Cr	5.27

SOURCE: SECONDARY DATA

INTERPRETATION:

- A current ratio of more than 1 is generally a green flag. It could indicate that a company has high capacity to pay off its debts.
- The average current ratio over the five years is 5 times over its current liabilities
- The current ratio for the year 2018-2019 is less than the ideal current ratio 2:1 which is a matter of concern caused due to the Nirav Modi's scam in the year 2018.

CHART SHOWING CURRENT RATIO



CASH RESERVE RATIO

The Cash Reserve Ratio (CRR) is the percentage of a bank's total deposits that it must keep as liquid cash to operate risk-free. The Reserve Bank of India (RBI) decides the amount and keeps it for financial security. Banks cannot use this amount for lending and investments, and they do not receive interest from the RBI. The RBI uses the CRR to remove too much money from the system. If the central bank increases the CRR, the amount available with the banks for disbursement decreases.

$$\text{CASH RESERVE RATIO} = \frac{\text{Reserves maintained with central bank}}{\text{Bank deposits}} * 100$$

TABLE SHOWING CASH RESERVE RATIO

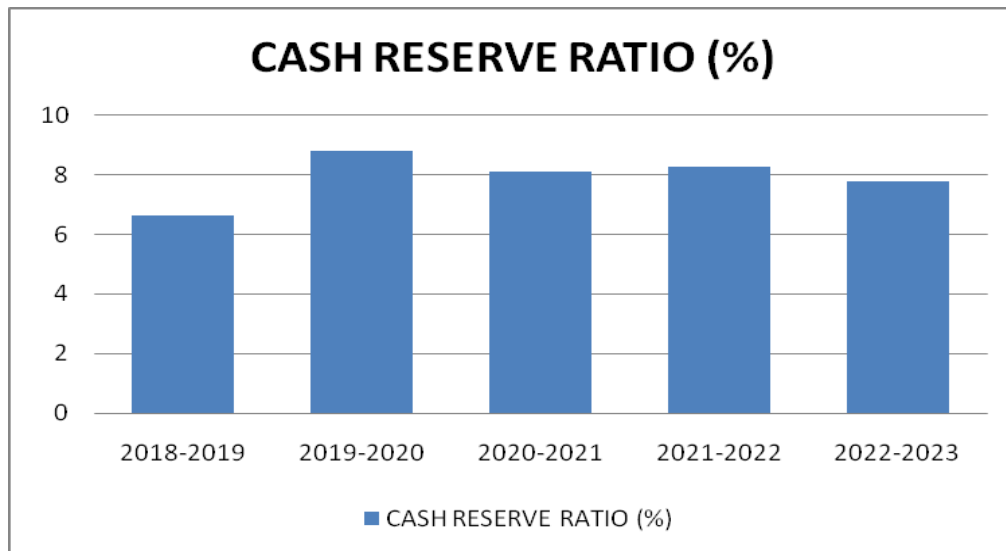
YEAR	RESERVES (IN CR)	DEPOSITS (IN CR)	CASH RESERVE RATIO (%)
2018-2019	44597.32	681,874.18	6.54
2019-2020	62528.85	710,254.37	8.80
2020-2021	90438.80	1,113,716.86	8.12
2021-2022	95379.72	1,154,234.46	8.26
2022-2023	100678.30	1,290,347.07	7.80

SOURCE: SECONDARY DATA

INTERPRETATION

- In accordance with the RBI rule the cash reserve ratio of 4.5% is good
- And as per the above table Punjab National Bank fulfilled that requirement over the period of 5 years (2019-2023).

CHART SHOWING CASH RESERVE RATIO



NET PROFIT RATIO

- The net profit ratio reveals the remaining profit after deducting production costs, financing and administration from sales and income taxes. You can use the net profit ratio to determine the financial value of a company and its overall performance.
- The net profit ratio, also known as the net profit margin or net income ratio, is a financial metric that indicates how profitable a company is. It's a percentage of a company's profit over a specific period.
- Net Profit Ratio = Net income / Revenue

TABLE SHOWING NET PROFIT RATIO

YEAR	NET INCOME (IN CR)	REVENUE (IN CR)	NET PROFIT RATIO (%)
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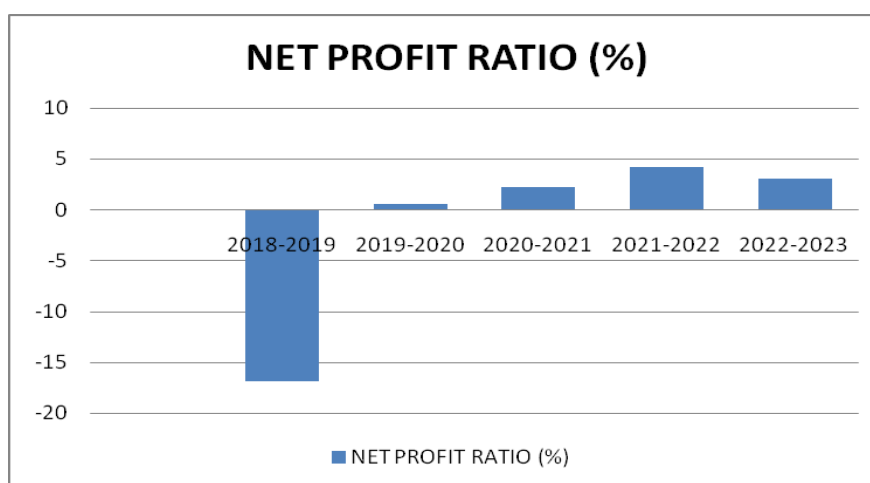
2018-2019	-10,026.4	59,515.51	-16.84
2019-2020	363.34	64,306.13	0.56
2020-2021	2,152.43	94,990.85	2.26
2021-2022	3,675.96	88,339.49	4.16
2022-2023	3,069.34	99,084.88	3.09

SOURCE: SECONDARY DATA

INTERPRETATION

- A negative net profit ratio indicates that a company or business unit was unprofitable during a reporting period.
- A zero net profit indicates that a firm's total revenue is equal to the sum of its explicit and implicit costs.
- It is assumed that the reason for negative net profit ratio is because Nirav Modi's scam in the year 2018-2019.
- Net profit ratio above 10% is considered average and above 20% is considered good and below 5% is considered bad.

CHART SHOWING NET PROFIT RATIO



FINDINGS:

1. LIQUIDITY RATIO

- As per the above table the net working capital of Punjab National Bank has positive figures over the period of 5 years.
- A favorable net working capital ratio has the potential to enhance a company's credit rating. This is due to the fact that creditors and investors are inclined to provide financial assistance to a business that demonstrates the ability to meet its financial obligations.
- A business with a cash ratio of 5:1 has enough liquid assets to cover its debts five times over. An organization is better able to settle short-term obligations with its short-term assets if it has a greater cash ratio.
- Even though in the year 2021-2022, Punjab National Bank has little less cash ration compared to the other year it still is more capable of paying its short-term liabilities with its short-term assets. In, accordance with the RBI rule the cash reserve ratio of 4.5% is good.

2. PROFITABILITY RATIO

- A negative net profit ratio indicates that a company or business unit was unprofitable during a reporting period.
- A zero net profit indicates that a firm's total revenue is equal to the sum of its explicit and implicit costs.
- It is assumed that the reason for negative net profit ratio is because Nirav Modi's scam in the year 2018-2019.
- Net profit ratio above 10% is considered average and above 20% is considered good and below 5% is considered bad.
- Generally, a good operating profit ratio varies between 10-20% In most industries operating profit ratio more than 30% is considered good.

3. CASH RESERVE RATIO

- The lesser the CRR ratio it is good for the banks, because when banks have higher CRR ratio the excess amount will be retained by the RBI which results in higher interest rates for loans.
- But on the other side a higher cash reserve ratio also assures that the bank customers to feel safe regarding their deposit amount, because when the bank get bankrupted the reserve amount can be used to settle their customers amount.

SUGGESTIONS

- Punjab national bank should increase its CASA (Current Account Savings Account) share and credit off take, particularly in the retail, agriculture, and MSME segment.

- Punjab national bank should increase the rate of recoveries and minimize slippages to improve asset quality.
- Punjab National Bank should try to bring their new product and services to the attention of potential early adopters.
- Due to the intense competition in the financial market, Punjab National Bank should adopt better strategies to attract more customers.
- Return on investment company reputation and premium outflow are most preferred attributes that are expected by the respondents. Hence greater focus should be given to these attributes.

CONCLUSION

The financial situation and overall performance of Punjab National Bank is good based on the many approaches used for the financial analysis of the bank. Over time, the bank's revenue has grown, but not at the same rate as its expenses. However, the bank has managed to keep itself in a respectable profitable position. Punjab National Bank's cash reserve ratio is also good which assures their customers, investors, shareholders a sense of safety. Overall, the bank runs in a good manner and the overall performance of the bank is satisfactory.

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