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An Appraisal of Financial Performance of Commercial Banks

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ABSTRACT

This paper presents a comprehensive analysis of the financial performance of commercial banks in India over the past decade. Using key financial ratios and performance indicators, we assess the profitability, liquidity, asset quality, and efficiency of a sample of major commercial banks in the country. The study employs a mix of quantitative and qualitative methodologies to provide a holistic view of the banking sector's performance, taking into account the regulatory environment and economic conditions. The findings suggest that while the Indian banking sector has shown resilience in the face of challenges, there are areas for improvement, particularly in enhancing asset quality and operational efficiency. The implications of these findings for bank management, regulators, and policymakers are discussed, highlighting the need for strategic interventions to sustain and enhance the financial health of commercial banks in India.

Keywords: Comprehensive analysis, commercial banks, financial performance, performance indicators, arithmetic mean, compare, ROE, ROA, operating expense ratio, balance sheet.

1. INTRODUCTION

This study examines the financial performance of commercial banks, focusing on metrics like profitability, liquidity, asset quality, and capital adequacy. It aims to identify factors driving financial execution in the banking industry and evaluate the impact of external factors like the economy, regulations, and technology. The research also explores implications for bank management, investors, and regulators, and proposes strategies to enhance future viability and performance.

India's banking industry, involving diverse organizations, is overseen by the Reserve Bank of India (RBI), which controls bank notes and maintains financial stability. The literature review explores the impact of macroeconomic factors on India's commercial banks' performance.

Sarkar & Rakshit (2021) investigates the factors affecting India's commercial banks' performance using metrics like Return on Equity (ROE), Return on Assets (ROA), and net interest margin. Alam et al. (2021) examines the long-term connection between bank performance and economic growth in emerging India, finding a positive correlation between economic growth and bank-related variables. Khan et al. (2021) examine the scale effect and pattern of systemic risk in the Indian banking sector, revealing that profitability is negatively impacted by state variables and market volatility. Private banks play a larger role in shifting systemic risk than public banks, with smaller banks becoming significant transmitters and recipients of risk. Mubarak (2021) argues that the banking industry could have a significant economic impact if not operating as it should. The Eagles method was used to assess financial soundness in five Indian public and private sector banks between 2012 and 2020. HDFC is the top bank, followed by AXIS, ICICI, CSB, State Bank of India, and Karnataka banks. Meraj Banu. & Sudha Vepa (2021) highlights the reasons behind the Indian banking system's rapid development compared to other governing sectors. Divyang Joshi Samir Thakkar & et al. (2021) emphasize the importance of the banking sector for a nation's economic prosperity. Pandey and Singh (2015) empirically assessed India's bank productivity from 2008 to 2013. They found that internet technology significantly impacts bank TFP growth and recommended scaling up operations and using internet technologies to increase client base.

2. Objective of study

The study aims to evaluate the financial performance of commercial banks over time, focusing on metrics like efficiency, liquidity, asset quality, capital adequacy, and profitability. This research could benefit investors, regulators, and policymakers in making informed decisions in banking and finance.

- To assess the overall financial health of commercial banks through the evaluation of important financial metrics including efficiency, liquidity, solvency, and profitability.
- The study aims to analyse the financial performance of various commercial banks to identify industry trends, patterns, and best practices.
- The study aims to understand the factors that influence the financial performance of commercial banks, including economic conditions, regulatory environment, management practices, and market competition.

3. RESEARCH METHODOLOGY

Research methodology involves a systematic approach to study a subject, guiding the research process, utilizing appropriate tools, and analysing data from selected banks. This research is explained as under:

3.1 Sources of data (Secondary)

The study used secondary data from moneycontrol.com to analyse financial growth of public and private sector banks in India, including State Bank of India, Punjab National Bank, Union Bank of India, Canara Bank, and Bank of Baroda.

3.2 Sample of Study

This study compares top five public sector Indian banks (SBI, PNB, Canara Bank, Union Bank, Bank of Baroda) and top five private sector banks (HDFC, ICICI, YES Bank, IDBI, AXIS Bank)

3.3 Methods of processing the collected data

Data processing aids in identifying actionable ideas and transforming unprocessed data into useful formats, enabling analysis of commercial bank performance based on ROA, ROE, EPS, and operating expenses.

3.4 Financial Tools

This study examines financial ratios, a mathematical expression of a firm's long-term financial efficiency and position relative to other companies or the company itself, to provide qualitative insights.

a) Return on Assets (ROA)

The productivity of the assets is measured by return on total assets. This ratio evaluates how well the whole amount provided by the creditors and owners was used. A greater ratio demonstrates a higher return on the assets utilized in the company, demonstrating efficient utilization of the available resources, and vice versa.

Return on Assets (ROA) = Net Income/ Total Assets

b) Return on Equity (ROE)

ROE represents the relationship between net income and shareholders' equity, indicating the company's ability to generate net income for every rupee invested. It is crucial for management to optimize shareholder welfare and is calculated using a specific formula.

Return on Equity (ROE) = Net Income/ Shareholder’s equity *100%

3.5 Statistical Tools

In light of the financial facts at hand, a number of statistical techniques relevant to this investigation are employed to increase the conclusion’s dependability. The statistical instruments listed below are used for this:

Arithmetic Mean

The average value, a measure of the data's range, represents every value in a series. It is often calculated using the arithmetic mean, which is calculated by dividing the total number of observations by the total number of objects.

$X = \sum x / n$

where,

X = Arithmetic Mean

$\sum x$ = Summation for total observation

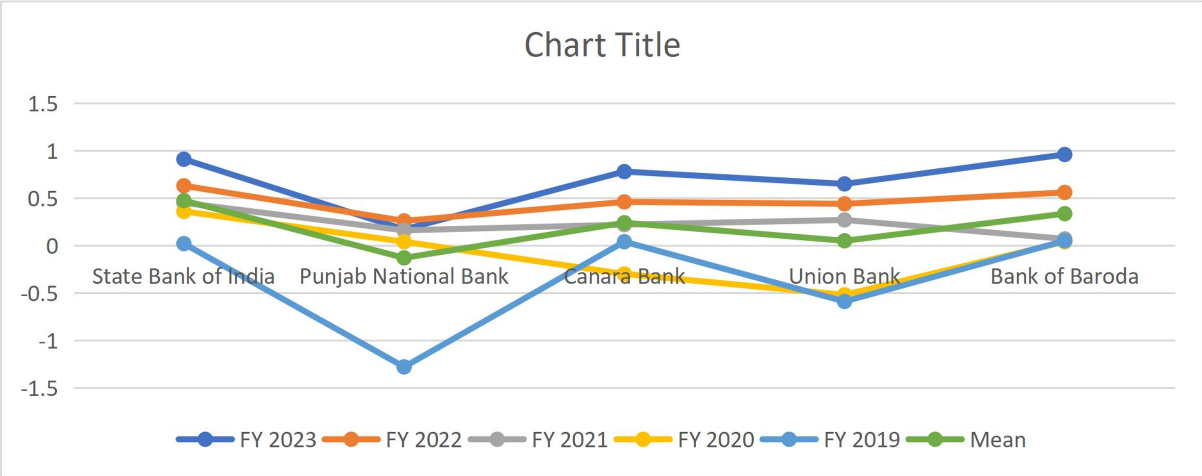
n = Number of items

4. DATA ANALYSIS AND INTERPRTATIONS

Table 4.1: Private Sector Banks – Return on Assets (%)

Public Sector Banks	FY 2023	FY 2022	FY 2021	FY 2020	FY 2019	Mean
State Bank of India	0.91	0.63	0.45	0.36	0.02	0.474
Punjab National Bank	0.17	0.26	0.16	0.04	-1.28	-0.13
Canara Bank	0.78	0.46	0.22	-0.30	0.04	0.24
Union Bank	0.65	0.44	0.27	-0.52	-0.59	0.05
Bank of Baroda	0.96	0.56	0.07	0.04	0.05	0.336

Sources: *Assembled using financial ratios that are accessible on Moneycontrol.com*



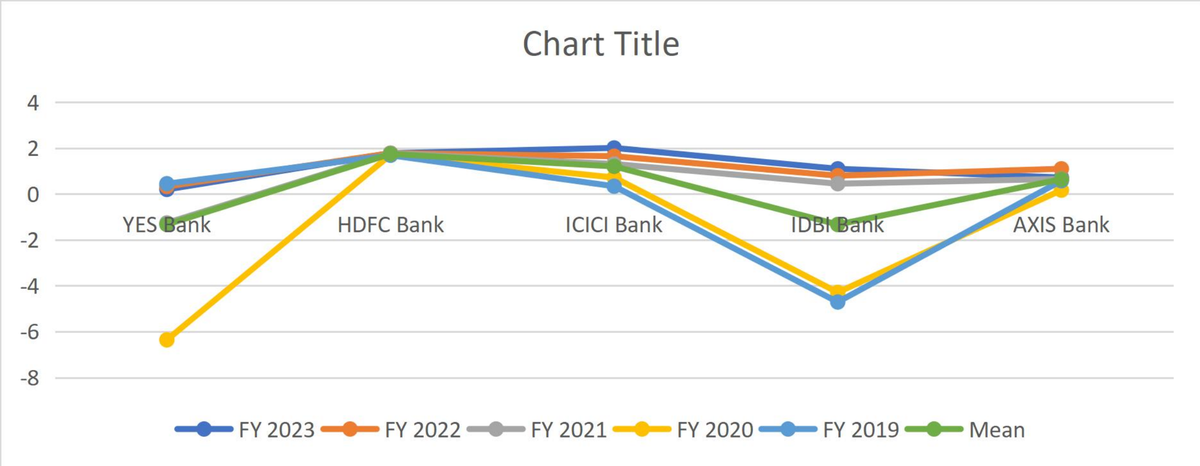
INTERPRETATION:

Table No. 4.1 The report examines return on asset ratios from FY2019 to FY2023, revealing a drop in State Bank of India's ROA after mergers, but a sharp recovery. Punjab National Bank recorded the lowest ROA, -1.28% in FY2019, but SBI outperformed PNB with a mean ROA of 0.474.

Table 4.2: Private Sector Banks – Return on Assets (%)

Private Sector Banks	FY 2023	FY 2022	FY 2021	FY 2020	FY 2019	Mean
YES Bank	0.20	0.33	-1.26	-6.36	0.45	-1.328
HDFC Bank	1.78	1.78	1.78	1.71	1.69	1.748
ICICI Bank	2.01	1.65	1.31	0.72	0.34	1.206
IDBI Bank	1.10	0.80	0.45	-4.29	-4.71	-1.33
AXIS Bank	0.72	1.10	0.66	0.17	0.58	0.646

Sources: *Assembled using financial ratios that are accessible on Moneycontrol.com*



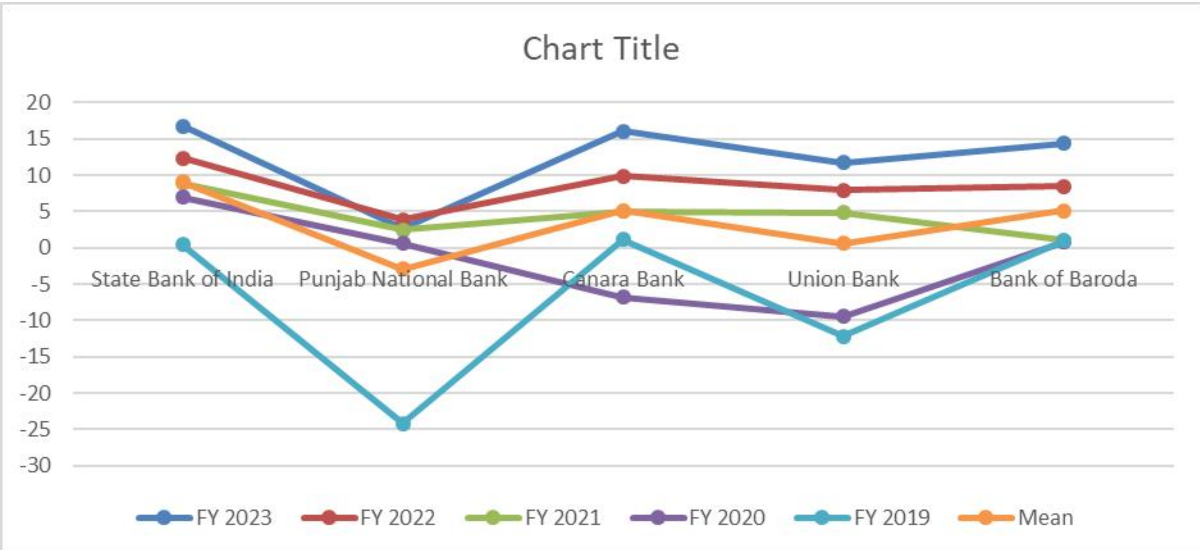
INTERPRETATION:

Table No. 4.2 The report reveals that HDFC has consistently high return on assets (ROA) from FY2019 to FY2023, with a mean of 1.748, similar to ICICI bank's 1.206. YES Bank, on the other hand, has the lowest mean ROA of -1.328, possibly due to the 2018 Yes Bank scandal and its 2020 restructuring, which involved insider trading, illicit lending, evergreening loans, higher interest rates, inflation, and breaking RBI regulations.

Table No. 4.3 Public Sector Banks ROE/Net Worth (%)

Public Sector Banks	**FY 2023**	**FY 2022**	**FY 2021**	**FY 2020**	**FY 2019**	**Mean**
State Bank of India	16.75	12.33	8.86	6.95	0.39	9.056
Punjab National Bank	2.74	3.90	2.41	0.58	-24.20	-2.914
Canara Bank	16.03	9.85	5.05	-6.78	1.16	5.062
Union Bank	11.68	7.94	4.87	-9.46	-12.15	0.576
Bank of Baroda	14.36	8.46	1.07	0.76	0.94	5.118

Sources: *Assembled using financial ratios that are accessible on Moneycontrol.com*



INTERPRETATION:

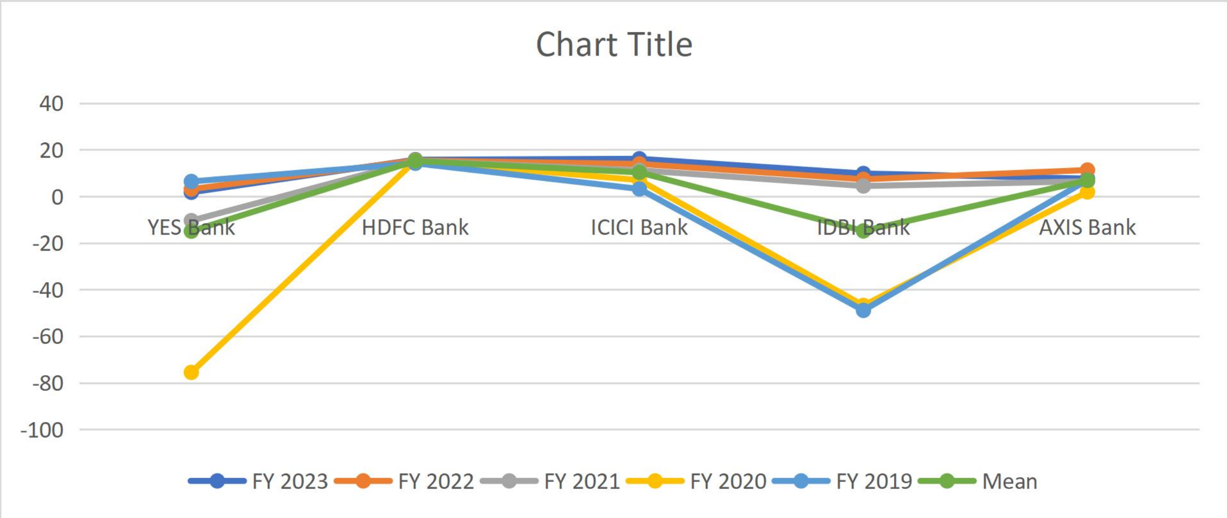
Table 4.3 The study examines the ROE/Net worth ratio of public sector banks from FY2019 to FY2023, revealing that SBI experienced a drop in ROI after mergers but recovered to achieve a 16.75 ratio in FY2023, while PNB recorded the worst performance with a mean of -2.914.

Table No. 4.4 Private Sector Banks ROE/Net Worth (%)

Private Sector Banks	**FY 2023**	**FY 2022**	**FY 2021**	**FY 2020**	**FY 2019**	**Mean**

YES Bank	1.76	3.15	-10.42	-75.56	6.39	-14.936
HDFC Bank	15.74	15.39	15.27	15.35	14.21	15.192
ICICI Bank	16.13	13.94	11.21	6.99	3.19	10.292
IDBI Bank	9.82	7.34	4.45	-46.82	-48.94	-14.83
AXIS Bank	7.63	11.30	6.48	1.91	7.01	6.866

Sources: *Assembled using financial ratios that are accessible on Moneycontrol.com*



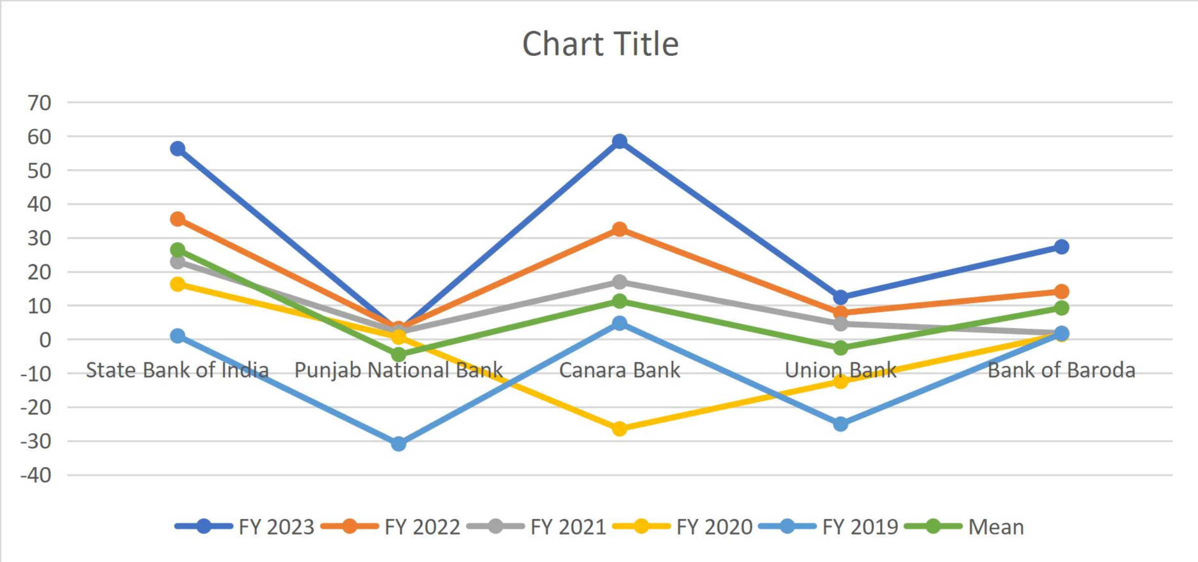
INTERPRETATION:

Table 4.4 The study examines the ROE/Net worth ratio of private sector banks from FY2019 to FY2023. HDFC Bank has the highest mean ROE/Net worth at 15.192, followed by ICICI Bank at 10.292. YES Bank and IDBI Bank have the worst performance, with HDFC showing consistency and ICICI and Axis Bank showing notable improvement.

Table No. 4.5 Public Sector Bank Earning Per Share (EPS) (%)

Public Sector Banks	**FY 2023**	**FY 2022**	**FY 2021**	**FY 2020**	**FY 2019**	**Mean**
State Bank of India	56.29	35.49	22.87	16.23	0.97	26.37
Punjab National Bank	2.28	3.16	2.08	0.62	-30.94	-4.56
Canara Bank	58.45	32.49	16.91	-26.50	4.71	11.254
Union Bank	12.34	7.73	4.54	-12.49	-25.08	-2.592
Bank of Baroda	27.28	14.06	1.78	1.36	1.64	9.224

Sources: *Assembled using financial ratios that are accessible on Moneycontrol.com*



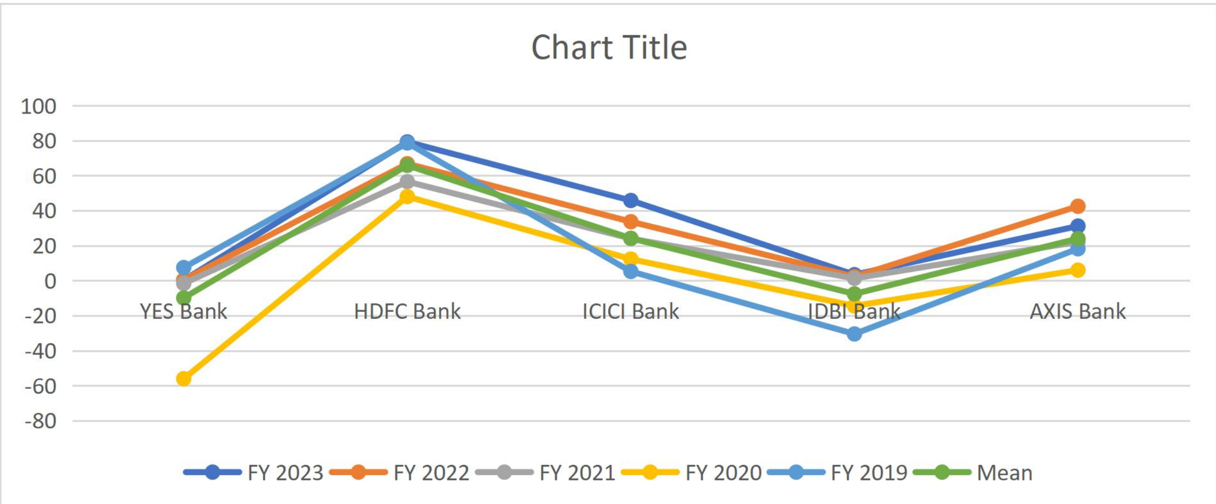
INTERPRETATION:

Table 4.5 The report examines the earnings per share (EPS) of public sector banks from FY2019 to FY2023. Canara Bank recorded the highest EPS of 58.45 INR in FY2023, followed by State Bank of India with 56.29 INR. SBI had the highest mean value of 26.37 INR, while UBI had the least mean value of -4.56.

Table No. 4.6 Private Sector Bank Earning Per Share (EPS) (%)

Private Sector Banks	FY 2023	FY 2022	FY 2021	FY 2020	FY 2019	Mean
YES Bank	0.27	0.43	-1.63	-56.07	7.45	-9.91
HDFC Bank	79.25	66.80	56.58	48.01	78.65	65.858
ICICI Bank	45.79	33.66	24.01	12.28	5.23	24.194
IDBI Bank	3.39	2.27	1.30	-14.48	-30.48	-7.6
AXIS Bank	31.17	42.48	22.15	5.99	18.20	23.998

Sources: *Assembled using financial ratios that are accessible on Moneycontrol.com*



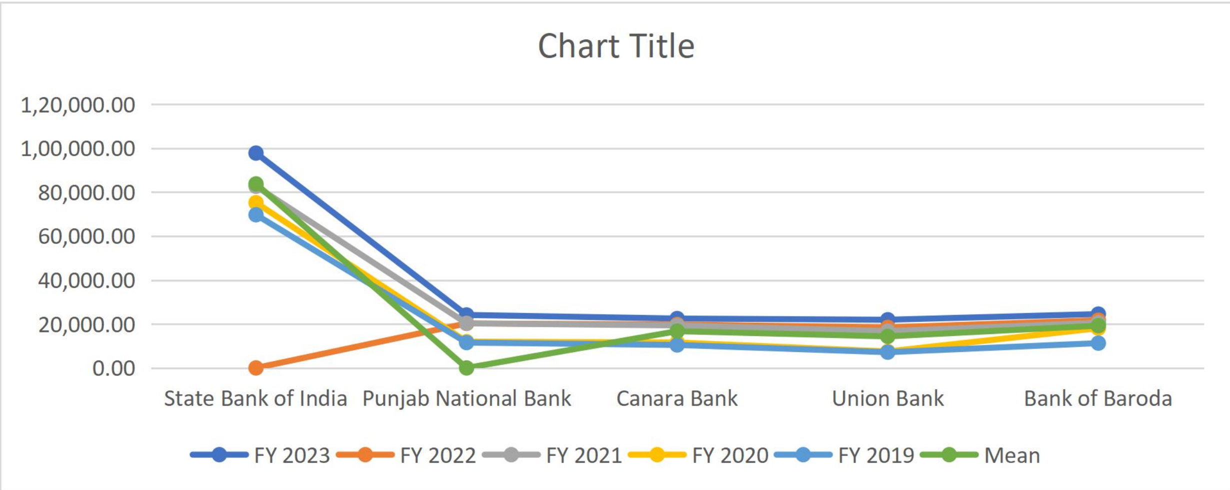
INTERPRETATION:

Table 4.6 The report compares the earnings per share (EPS) of private sector banks from FY2019 to FY2023, with HDFC Bank achieving the highest mean value of 79.25 INR, followed by ICICI Bank at 24.194 INR and Axis Bank at 23.998 INR.

Table No. 4.7 Public Sector Bank Operating Expenses (In Rs. Crores)

Public Sector Banks	FY 2023	FY 2022	FY 2021	FY 2020	FY 2019	Mean
State Bank of India	97,743.14	93.397.52	82,652.22	75,173.69	69,687.74	83,730.86
Punjab National Bank	24,105.41	20,252.60	20,308.75	11,973.37	11,538.47	17.635.72
Canara Bank	22,481.48	19,791.91	19,338.18	11,577.23	10,462.21	16,730.20
Union Bank	21,931.33	18,438.07	16,765.99	7,516.41	7,167.63	14,363.88
Bank of Baroda	24,518.31	21,716.44	20,543.66	18,077.19	11,287.98	19,228.71

Source: *Assembled using financial ratios that are accessible on Moneycontrol.com*



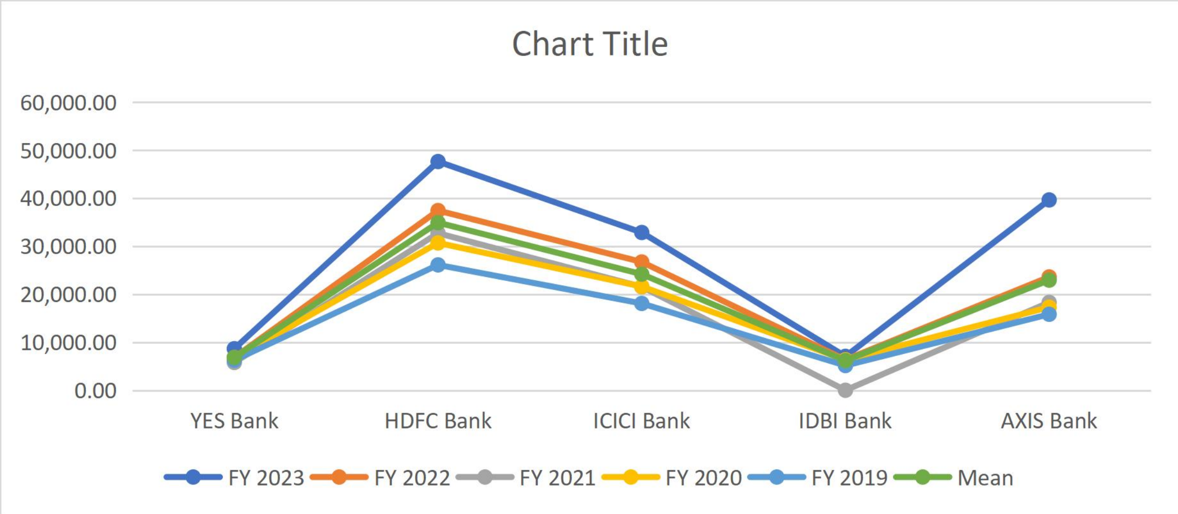
INTERPRETATION:

Table 4.7 The State Bank of India (SBI) has the highest operational costs in India, with a mean of Rs 66,785.97 crores, compared to the Bank of Baroda's Rs 24,518.31 crores. This explains the lower return on assets compared to private sector banks. Union Bank of India has the least operating expenses, indicating a leaner management compared to SBI. Banks need to cut expenses to improve efficiency.

Table No. 4.8 Private Sector Bank Operating Expenses (In Rs. Crores)

Private Sector Banks	FY 2023	FY 2022	FY 2021	FY 2020	FY 2019	Mean
YES Bank	8,661.46	6,844.39	5,792.02	6,729.21	6,264.28	6,858.27
HDFC Bank	47,652.08	37,442.19	32,722.63	30,697.53	26,119.37	34,926.36
ICICI Bank	32,873.24	26,733.32	21,560.83	21,614.41	18,089.06	24,192.17
IDBI Bank	7,066.70	6,357.23	6.051.95	6,336.16	5,153.79	6,196.76
AXIS Bank	39,655.99	23,610.75	18,315.15	17,304.62	15,833.41	22,943.98

Source: *Assembled using financial ratios that are accessible on Moneycontrol.com*



INTERPRETATION:

Table 4.8 The study reveals that HDFC bank, with consistent financial performance, has the highest operating expense among private sector banks from FY2019-FY2023. AXIS bank has the lowest, at Rs. 39,655.99 crores. IDBI and YES bank have lower operational expenditures. The research suggests a balance between operating expenses and profitability is needed for healthy efficiency in banks.

Consolidated Balance sheet of Five leading Private Sector Banks of (AY- 2023-24)

Items	**2023-24**
Capital	19,073.48
Equity Share Capital	19,073.48
Reserve and surplus 2	6,74,499.73
Employee Stock Option	426.09
Share Application money	1,709,28
Net Worth	**6,95,708.58**
Deposits	44,82,033.02
Borrowing	6,72,479.45
Total Debt	**51,54,512.47**
Minority Interest	1392.13
Other Liabilities & Provisions	2,82,882.27
Total Liabilities	**61,34,495.45**
Assets	
Cash and cash balance with RBI	2,81,336.58
Balance with Bank and money at call and short notice	1,92,665.39
Advance	**39,15,757.54**
Investment	**13,39,164.26**
Gross Block	34,785.36
Revaluation Reserve	11,263.44
Net Block	**23,521.92**
Capital Work in Progress	619.54
Other Assets	3,81,429.95
Total Assets	**61,34,495.18**
Contingent Liabilities	85,70,894.73
Book Value (Rs)	1270.4

Sources: *Assembled using financial ratios that are accessible on Moneycontrol.com*

(b) Consolidated Balance sheet of Five leading Public Sector Banks of (AY- 2023-24)

Items	**2023-24**
Capital	12,883.07
Equity Share Capital	12,779.07
Preference Share Capital	104.00
Reserve and Surplus	6,61,007.69
Net Worth	**6,73,994.76**
Deposits	92,92,972.98
Borrowing	8,00,020.49
Total Debt	**1,00,92,993.47**
Minority Interest	15194.38
Other Liabilities & Provisions	8,11,421.25
Total Liabilities	**1,15,93,603.86**
Assets	
Cash and cash balance with RBI	4,87,534.18
Balance with Bank and money at call and short notice	3,44,781.29
Advance	**66,64,218.80**
Investment	**34,24,128.54**
Gross Block	85,135.12
Revaluation Reserve	49,833.04
Net Block	**35,302.08**
Capital Work in Progress	405.73
Other Assets	6,37,129.24
Total Assets	**1,15,93,499.86**
Contingent Liabilities	41,96,531.77
Book Value (Rs)	1155.13

Sources: *Assembled using financial ratios that are accessible on Moneycontrol.com*

CONCLUSION

The research examines the financial performance of commercial banks in India from 2019 to 2023 using a regression model. Banking is crucial for a nation's progress, as it gathers money and mobilizes it into profitable industries. The study found that factors influencing bank size, Return on Assets, Return on Equity, Earning Per Share, and Operating Expenses significantly influence commercial banks' financial performance in India.

The study analySed the financial efficiency of commercial banks using various financial ratios and metrics. HDFC Bank had the highest mean ROA score (1.748), followed by ICICI Bank (1.206). SBI and Bank of Baroda had mean scores of 0.474 and 0.336, respectively. HDFC was ranked first in Return on Assets (ROA) and first in Return on Equity/Net Worth (ROE). HDFC also ranked first in Earning Per Share (EPS) with a mean score of 65.85, followed by SBI at 26.37. SBI, ICICI, and AXIS Bank had mean scores of 24.19 and 23.99, respectively. SBI had the highest mean score (83,730.86) in Operating Expenses (In Rs. Crores), followed by HDFC (34,926.36). ICICI and AXIS had typical scores of 24,192.17 and 22,943.98, respectively.

The study highlights the importance of understanding key factors influencing financial success in the banking industry to improve monetary stability and resilience. Future research should focus on areas such as digital transformation and sustainability practices to provide more insights into the changing banking scene.

SUGGESTIONS

Profitability and productivity are interconnected, with productivity determining profitability. Public sector banks struggle with low productivity and high burden ratios. Designing productivity-boosting programs can overcome these obstacles. Our recommendations for the public sector banks are as follows:

- To generate break-even revenue, it is recommended that they partner with rural regional banks instead of building branches in remote areas.
- India's public sector banks, leveraging their extensive customer base and branch network, can gain a competitive edge through technology.
- Any bank group, but particularly the SBI group, needs to be mindful of striking a balance between deposits and advances.
- Banks can boost business and revenue by focusing on specialized markets, launching innovative products, and utilizing product-branding strategies, while increasing auxiliary financial services.

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