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A STUDY TO ANALYZE THE FINANCIAL PERFORMANCE OF THE BANKING SECTOR IN INDIA

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ABSTRACT

In India, both public and private banks have long histories of working together for the greater good of the economy. Both the public and private sectors work together on government initiatives, but their missions and focuses are distinct. Banking plays an integral role in every facet of India's economy. Using the CAMEL assessment system, the study's principal goal is to compare and analyze the financial health of various banks. ICICI Bank, HDFC Bank, YES Bank, AXIS Bank, and FEDERAL Bank will all be investigated as part of this investigation. The selected financial institutions are analyzed for the years 2017 through 2021. According to CAMEL, HDFC Bank and AXIS Bank are the best two banks in the industry.

KEYWORDS Private bank, Public Bank, CAMEL analysis, Banking Sector, financial, performance

INTRODUCTION

Deposits from the public allow banks to make loans to consumers. Banks are monetary financial institutions. As a corollary of this expansion and diversification, financial institutions are also growing and changing. Banks not only facilitate currency conversion, but also provide credit to its customers. Their interests are diversifying and growing. Therefore, it is difficult to offer a definition of bank that would satisfy everyone. Trade publications provide a unique platform for professionals in a certain industry to share news and information with one another. The banking industry is essential to the functioning of our economy. If executed properly, it may facilitate the economy's overall advancement. It's a way to grow the economy and make people's lives better. It also aids in immobilizing the nation's savings, which may then be used toward higher-priority investment opportunities and better utilization of current infrastructure. Therefore, banking may be seen as the "horse" behind the "chariot" of economic growth. The origins of the term bank are cloaked in mystery. One interpretation of banchi bancheri is that they were prehistoric Italian businesses. There's also the possibility that "bank" originates from the German word "Branck," which meaning heap or pile. In English, the process of printing paper money by the government was referred to as "raising a bank." In its purest form, it may be traced all the way back to the dawn of time. Banking was developed as a safer place to store money as people realized the importance of money as a medium of exchange. A direct descendent of such a refuge are today's commercial banks, which accept deposits and provide loans. Financial resources are essential for companies to compete in today's global market. Having enough money is essential to running a successful business. In this sense, it might be compared to the "lifeblood" of a business. A steady flow of cash is essential for the success of any business, no matter its size. It's possible to see finance as both an art and a science. Financial industry services and resources are provided. Financial institutions make available funds at the precise moment they are needed. The finance team's job is to make smart investments and purchases on behalf of the company.

LITERATURE REVIEW

Vernimmen, P, Le Fur, Y. Dallochio, M., Salvi, A. and Quiry, P. (2017) shown that the large quantity of working capital may be attributed to a financial arbitrage between profit margins and operational expenditures. Working capital management is no different from managing any other kind of investment. The elimination of working capital should not be the objective of effective working capital management. A company's working capital is a function of both its liquidity and its profit margins. This chapter lays out all the tools and strategies you may use to keep your working capital under control. Managers in charge of money will have an opportunity to demonstrate their skills as educators and negotiators, but within the confines of their own organization. A single-minded obsession with reducing working capital is not part of effective working capital management. The management of working capital is influenced by cultural factors as well. While working capital management is always a difficulty, it becomes more apparent in certain settings than others. Less of an impact on profit margins. When things are going well, the focus

of the firm shifts from cutting costs to growing the top and bottom lines.

Resti, A. and Sironi, A. (2015) noted that the term "capital management" refers to the direct administration of a bank's funds. This chapter explores how a bank's capitalization determines its risk-taking capacity. Several different kinds of capital are defined, and a procedure for determining the optimal amount of capitalization is outlined. Exogenous constraints imposed by capital regulation are studied in terms of their effect on the bank's interest rates and the risk-adjusted performance of its loans. The technical features of the significant financial instruments that may be quantified as regulatory capital and their usage by the top global banks are reviewed, along with the capital quality of a bank and the challenge of finding the best capital mix. Unique types of capital such as insurance capital and contingent capital are specified to meet a part of a bank's capital demand without needing any investment, but they are not permitted among the instruments examined for regulatory capital except to a very restricted degree.

Datoo, A. (2019) provided an overview of over-the-counter derivatives in terms of products and documentation. This section looks at a real-world example of an interest rate swap exchange for illustrative purposes, since interest rate swaps are among the easier financial products to define. This chapter integrates contract law and derivatives by analyzing paperwork for OTC derivatives. It is often held that a master trade agreement's primary purpose is to facilitate close-out netting. Close-out netting is a useful method for reducing exposure to a counterparty's credit risk when there are both in-the-money and out-of-the-money contracts. Under the rules of each International Swaps and Derivatives Association Master Agreement, each transaction confirmation, including any applicable definitional content, is considered to be part of the same agreement.

Copelovitch, M, Singer, DA. (2017) said that there is widespread consensus among experts and policymakers that inflows of foreign capital play a significant role in industrialized nations' financial crises. While this may be the conventional wisdom, we argue that external imbalances are only a cause for concern when financial intermediaries like banks are subjected to intense competition from the securities markets. They look at data on banking crises in high-income industrialized countries between 1976 and 2011, and they find some indication that the availability of capital inflows or a robust securities market, or both, is connected to the likelihood of banking crises. Indicators like capital adequacy and bankruptcy risk are used to examine the connection between capital inflows and the real risk assumed by banks. According to their findings, declining prudential capital reserves are a consequence of active securities markets and an increase in the supply of money. They conclude with suggestions for future action and focus on the political choices that are made at the commencement of a country's financial development and how they alter the balance of power between banks and non-bank financial institutions.

Singh, A., & Sharma, A. K. (2016) looked at how institutions and macroeconomic variables together affect Indian banks' liquidity. Using information gathered from 59 banks between 2000 and 2013, they use OLS, fixed effect, and random effect estimates to probe the connection. The size, profitability, lending costs, capital adequacy, and deposit sizes of several banks were analyzed. The gross domestic product, inflation, and unemployment rates are all examples of macroeconomic indicators. They also analyze the movement of money in Indian financial institutions depending on who owns the institutions. The findings indicate that bank ownership influences bank liquidity. Using panel data analysis, they come to the conclusion that factors outside of the control of the bank, such as the cost of borrowing, have a significant impact on the liquidity of the institution. Take into account things like GDP, inflation, bank savings, and profits. It was also shown that bank size and GDP had a detrimental effect on liquidity. Bank deposits and liquidity, as well as profitability, capital adequacy, and inflation, were positively correlated. Bank liquidity was not significantly affected by either the cost of borrowing or the unemployment rate. Their new information significantly expands our understanding of the liquidity situation in emerging nations like India.

METHODS

Research methodology is the process through which a research issue is addressed. All the many approaches and justifications a researcher may use to investigate a subject are covered here. This research looked at the financial stability of certain banks, both private and public. Financial ratios and balance sheets of selected public and private sector banks were mined for secondary data for this study. Beginning in 2017, and continuing through 2021, the company's yearly reports were prepared.

SOURCES OF DATA

For the study, researchers looked at State Bank of India (SBI), Punjab National Bank, Union Bank of India, Canara Bank, and Bank of Baroda's financial performance for the fiscal years 2017 to 2021 using only secondary data from

the website moneycontrol.com. The financial statements of private sector bank such ICICI Bank, HDFC Bank, AXIS Bank, IDBI Bank, and YES Bank from 2017 to 2021 are also provided.

Nature and source of data:

This effort is fundamentally an analytical study. This investigation relied entirely on secondary sources of data. The sources of secondary information include-

- Annual reports of the banks
- Bulletins
- Periodicals
- News letters
- Internal reports of the bank
- Journals
- Magazines
- Websites

CAMEL FRAMEWORK

Period of study

This research uses secondary data from certain financial institutions for the years 2017–2021.

DATA ANALYSIS

TABLE 1: PUBLIC SECTOR BANKS - RETURN ON ASSETS (%)

Public Sector Banks	FY2021	FY 2020	FY 2019	FY 2018	FY 2017	Mean Value
State Bank of India (SBI)	0.45	0.38	0.02	-0.19	0.41	0.091
Punjab National Bank	0.16	0.04	-1.28	-1.6	0.18	-0.500
Union Bank of India	0.27	-0.52	-0.59	-1.07	0.12	-0.358
Canara Bank	0.22	-0.3	0.04	-0.68	0.19	-0.106
Bank of Baroda	0.07	0.04	0.05	-0.33	0.19	0.004

INTERPRETATION:

Return on investment (ROI) ratios for fiscal years 2017 through 2021 are shown in Table 1. Return on assets (ROA) for State Bank of India dropped when it merged with other banks, but it rebounded significantly in FY2017 to surpass its ROA before the merger. Bank of Baroda had the worst performance among public sector banks, with a ROA of 0.07% in FY2021 compared to a ROA of 0.19% in FY2017. Although PNB has the lowest ROA, at -0.50, SBI has the highest, with an average of 0.091 over the last five years. There is a possibility that PNB's sudden decrease in FY2018 and FY2019 is linked to the fraud that occurred in that year.

TABLE 2: PRIVATE SECTOR BANKS - RETURN ON ASSETS (%)

Private Sector Banks	FY2021	FY 2020	FY 2019	FY 2018	FY 2017	Mean
ICICI bank	1.31	0.72	0.34	0.77	1.26	0.880
HDFC bank	1.78	1.71	1.69	1.64	1.68	1.700
AXIS bank	0.66	0.17	0.58	0.03	0.61	0.410
IDBI bank	0.45	-4.29	-4.71	-2.35	-1.42	0.45
YES bank	-1.26	-6.36	0.45	1.35	1.54	-0.856

INTERPRETATION:

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Table 2 displays, by fiscal year, the return on assets of private sector banks from FY2017 through FY2021. HDFC's return on equity over the last five years has been very impressive, averaging 1.70, more than twice that of ICICI Bank's return on equity (0.880). In reality, the bank has had the industry's lowest mean ROA during the last five years. This relates to the fraud that occurred in 2018 at Yes business and the subsequent restructuring of the business in 2020.

Yes Bank was found guilty not just of insider trading but also of unlawful lending practices such evergreening loans and charging consumers interest rates that were greater than the bank's norm. Additionally, it lied about its financial results and breached regulations imposed by the Reserve Bank of India. Business Crime, According to IP Industry Leaders (Yes Bank Scam, 2021).

Capital Adequacy Ratios

TABLE 3 Capital Adequacy Ratios

BANK	2021	2020	2019	2018	2017	AVG	RANK
ICICI	17.02	17.70	18.74	18.52	19.54	18.30	1
HDFC	16.8	16.1	16.8	16.5	16.2	16.48	3
YES	15.6	14.4	18.3	17.9	16.5	16.54	2
AXIS	15.09	16.07	17.00	13.66	12.65	14.90	5
FEDERAL	15.46	15.14	14.73	15.39	13.83	14.91	4

ICIC Bank has maintained a healthy buffer for the last five years, exceeding expectations. The greater the ratio, the more risk the bank can afford to absorb. With a CAR of 18.30, ICICI outpaces the competition, which includes YES Bank (16.54), HDFC Bank (14.90), and HDFC Bank (16.48). The AXIS Bank ranked dead bottom.

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Assets Quality Ratios

TABLE 2 Net NPA to total advances ratio

BANK	2021	2020	2019	2018	2017	AVG	RANK
ICICI	1.61	0.97	0.77	0.73	1.11	1.04	5
HDFC	0.25	0.27	0.20	0.18	0.18	0.22	2
YES	0.12	0.05	0.01	0.05	0.03	0.05	1
AXIS	0.44	0.40	0.32	0.25	0.26	0.33	3
FEDERAL	0.73	0.74	0.98	0.53	0.60	0.72	4

According to the data table and graph up top, YES Bank is in a stronger position than both HDFC Bank (0.22) and AXIS Bank (0.33). With a total score of 1.04, ICICI Bank ranked dead last.

CONCLUSION

Statistical evidence from the banking industry suggests that public sector banks serve a wider population base, both in urban and rural regions, than their private sector counterparts do. This illustrates that government-sanctioned banks have substantially more resources and employ a significantly bigger work force compared to private banks. The CAMEL ratio analysis of the selected banks showed that the institutions were rated differently. The study discovered that HDFC Bank had the best capital adequacy ratio, while YES Bank had the weakest. On this metric, HDFC Bank fared better than its rival, ICICI Bank. This was shown by the excessively high ratios of ICICI's nonperforming loans to its total advances, total investments to its assets, and nonperforming loans to its whole assets.

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