AN APPRAISAL OF FINANCIAL PERFORMANCE OF COMMERCIAL BANKS IN INDIA

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Abstract –
There are 88 scheduled commercial banks (SCBs) in India, including 26 public sector banks, 22 private banks (which are not owned by the government but are listed and traded on stock markets), and 31 foreign banks. They have almost 53,000 branches and 17,000 ATMs between them. According to the ICRA rating agency, public sector banks account for nearly 75% of total banking assets, while foreign and private banks account for 18.2% and 6.5 percent, respectively. The goal of this research is to use the CAMEL model to evaluate the efficiency of banking institutions.

CAMEL Appraisal: A CAMEL rating is a supervisor's assessment of an India 's banking bank's overall condition. The abbreviation "CAMEL" stands for "Bank Capital, Capital Adequacy, Management, Earning, and Liquidity." In 1997, the institution's sensitivity to market volatility was introduced as a sixth component. Auditors obtain confidential information, such as loan quality, during the on bank exam to analyze a bank's financial position and verify its compliance with current regulatory standards. The CAMEL model is a ratio-based methodology for analysing performance of banks. The many ratios that make up this model are described below.

C refers for Capital Adequacy, which means that financial managers must maintain enough capital to cover hazardous assets. Furthermore, it implies that the organisation will continue to uphold its responsibilities, in addition to absorbing unforeseen shocks. The capital to risk-weighted total asset ratio is the most extensively used metric of capital adequacy (CRAR). A minimum of 8% CRAR is required worldwide, according to the Basle criteria defined by the Bank for International, but India, being more conservative, has maintained it at a minimum of 9%.

A indicates for Asset Quality: The soundness of banking firms is determined by asset quality. The deterioration of asset value is a major source of banking concerns since losses are eventually written off against capital, exposing the institution's earning potential. With this in mind, asset quality is measured in terms of the number and intensity of non-performing assets, as well as the efficiency of provisions, recoveries, and asset distribution. Non-performing loans to loans, loan failure to total loans and advances, and recovered to loan default ratios are the major indications of this.

1.INTRODUCTION

The financial institution is critical in today's society. It is critical to a country's economic growth and serves as the foundation for money marketing in industrialised nations. Banking operations contribute to a stable economic system by boosting financial resources for industrial activities, which create employment and contribute to the general growth of the country. The monetary results of a firm's policies, performance, efficiency, and effectiveness are analysed using bank financial performance as a reference. The company's return on investment, return on assets, and profit margin all reflect these results. It also looks at how a bank makes the best use of its financial and other resources to make money. It aids in the expansion of financial resources for industrial activity.

Montek Singh Ahluvaliya, Deputy Chairman of the Planning Commission of the Republic of India, emphasises the importance of banks. In a country's economy, the banking system is extremely important. The financial system of a country is, in fact, the lifeblood of its economy. A banking institution is necessary in today's environment. It is vital to a country's economic development and acts as the backbone of its money market. The banking sector performs three main responsibilities in an economy: it manages the payment system, mobilises deposits, and allocates funds to investment projects. The financial sector's performance is dependent on the banking system, which is at its core.

Commercial banks' performance in terms of credit (loan), liquidity, and profitability was examined, and it was determined that commercial banks are less profitable, have less liquidity, and are more risky. Operational efficiency, asset management, and bank size all have a favourable impact on Omani commercial banks' financial success.

2. 1 OBJECTIVES OF THE STUDY

- Based on the literature research and the gaps revealed during the literature review, the following objectives have been developed:

- Examine the link between financial indicators and the performance of India's commercial banks.

- To figure out if there's a link between customer pleasure and bank performance.

3. To figure out if there's a link between staff happiness and bank performance.

4. Investigate and assess the link between corporate social responsibility and financial success.

5. Conduct a comparative examination of the overall performance of India's public, private, and international banks.

RESEARCH METHODOLOGY

Secondary and primary data variables, population and sampling, creation of tools/instruments, scientific standardisation, validity and reliability, conceptual model, statistical techniques used for quantitative and qualitative analysis, and conceptual model are all covered in this part.

DATA ANALYSIS

Various statistical procedures such as Factor Analysis, Multiple Linear Regression Analysis, ANOVA, Chi-square test, and Multiple Dichotomy Test were used to analyse primary data for questionnaires A and B. The AHP Model was used to analyse the data from Questionnaire C.The approach of multiple regression analysis was used to analyse secondary

Table : Variables used for the secondary study

Serial No	Variable	Formula	Description	Expected Relationship with Performance
1	Liquidity (LQ)	Mean value of L1 + L2 + L3	L1 = Consumer & Short term funds to Total Assets, L2 = Credit Deposit Ratio L3 = Total Loans to Total Assets	Positive
2	Profitability (PR)	Mean value of P1 + P2 + P3	P1 = Interest income to total asset ratio, P2 = Noninterest income to total asset ratio, P3 = Net interest margin (NIM)	Positive
3	Efficiency (EFF)	Mean value of E1+E2+E3	E1 = Human capital efficiency (HCE) ratio E2 = Structural capital efficiency (SCE) ratio E3 = Capital employed efficiency (CEE) ratio	Positive
4	Asset Quality (AQ)	Mean value of A1 + A2 +A3	A1 = Net non-performing asset to net advances A2 = Gross non-performing asset to gross advances A3 = Loan loss provisions to total loans	Negative
5	Capital Adequacy Ratio (CAR)	CAR = Capital (Tier I and Tier II) / Risk Weighted Assets	Capital Tier I = Equity Capital and Free reserves. Capital Tier II = Debts	Positive

Research Question 1;

Is there any correlation between financial metrics such as liquidity, profitability, efficiency, asset quality, and capital adequacy ratio and bank performance?

	Dependent Variable: ROA (Return on Asset), R Square = 0.781			
Model		Beta	t-value	Sig.
	Liquidity	.021	.011	1.962**
	Profitability	.245	.116	2.1060*
	Efficiency	.119	.139	0.854
	Asset Quality	-.356	.101	-3.537*
	Capital Adequacy	.082	.023	3.532*
Predictors: (Constant), LQ, PR, EFF, AQ, CA, ANOVA RESULTS: (F-Test = 13.220 which is significant at 0.01 level)				

Table : Regression Results

*Significant at 1% level of significance.

**Significant at 5% level of significance

It can be interpreted from the regression analysis that Return on Asset (ROA) which has been used for measuring the financial performance of the bank, is positively related to the liquidity, profitability and capital adequacy while ROA is negatively related to the asset quality indicator. The relationship between ROA and efficiency is found to be insignificant.

FINDINGS

The following are the empirical findings from the data analysis chapter.

1. The return on assets ratio is positively associated to liquidity, profitability, and capital adequacy ratio in the study, but it is negatively related to asset quality.

2. According to a study of customer satisfaction in Indian commercial banks, convenience and excellence, bank workforce, and bank physical environment are the three main factors that lead to customer satisfaction. These variables influence overall consumer satisfaction in a good and meaningful way.

3. Job-specific characteristics, managerial conduct, working environment, training & development opportunities, interpersonal relationship, and salary & other perks are the six elements that lead to employee satisfaction in commercial banks, according to an analysis of employee satisfaction in banks. In Indian commercial banks, all of these criteria show a positive and significant link with overall staff satisfaction.

According to the findings of the study, there is no variation in customer and employee satisfaction levels based on the location of bank branches in different geographical locations.

CONCLUSION

Globalization boosted management's demand for performance measurement in the financial service sector, notably in banking activities. This paper proposes a complete methodology for evaluating the banking system's effective and productive performance utilizing financial and non-financial performance criteria in this context. The established model was used to determine the performance criteria, and the model's scope was expanded to include the performance of Indian commercial banks. In banks, the human factor clearly outweighs the financial aspect, according to the analysis. Overall, banks that perform well in three dimensions of the human component, namely corporate social responsibility, customer happiness, and employee satisfaction, are considered to be good performers

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