

# **Financial Performance of Commercial Bank in India :A Comparative Study of Selected Banks**

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## **ABSTRACT**

This study examines the financial performance of commercial banks in India, focusing on key indicators such as profitability, asset quality, liquidity, and efficiency. Using data from the past decade, the research assesses the impact of various internal and external factors on the banking sector's performance. Through statistical analysis and financial modeling techniques, the study aims to provide insights into the overall health and stability of Indian commercial banks, contributing to a better understanding of the country's banking industry and its role in the economy. The financial performance of commercial banks in India has experienced significant transformation over recent decades. With the advent of economic reforms, liberalization, and technological advancements, the banking sector has evolved to become mature and considerably stable. This paper evaluates the financial performance of Indian commercial banks with a focus on key performance indicators like asset quality, capital adequacy, profitability, and non-performing assets. By employing a combination of quantitative analysis of financial data and review of existing literature, we assess how Indian banks have adapted to regulatory changes, technology integration, and market demands. We consider the impact of diversification of income sources away from traditional interest-based revenue streams, the challenges of rural reach for private and foreign banks, and the implications of service quality on customer satisfaction. The paper aims to provide a comprehensive understanding of the factors influencing the financial health of commercial banks in India and offers insights into the opportunities and challenges facing the sector in today's dynamic economic environment.

## **OBJECTIVES OF THE STUDY**

1. to evaluate and compare the performance of particular commercial banks in terms of capital resources and capital adequacy;
2. Evaluating the asset quality of commercial banks is a crucial aspect of analyzing their financial performance.
3. Assessments of financial health evaluate the overall financial health and stability of commercial banks operating in India by analyzing key performance indicators such as profitability, asset quality, liquidity, and solvency.

## INTRODUCTION

The banking sector forms the backbone of India's economy, playing a crucial role in the nation's financial stability and growth. As the world's sixth-largest economy, India has witnessed substantial changes in its banking industry since its independence, notably post-economic reforms of the 1990s which welcomed the entry of private and foreign players alongside the existing strongholds of public sector banks. Today, commercial banks in India constitute a critical segment, characterized by a diverse range of services, products, and a wide spectrum of customers.

The introduction of digital banking has revolutionized the way services are delivered, though the reach in rural areas still represents a challenge, especially for private and foreign institutions. This paper examines the financial performance of Indian commercial banks, analyzing factors such as asset quality measures, profitability ratios, capital adequacy norms, and the approaches taken to manage non-performing assets. Furthermore, the paper takes into account how banks have keenly focused on improving customer satisfaction and service delivery to tap into India's large and growing consumer base, maintaining clean and transparent balance sheets, and complying with the vigilant regulatory framework set by the Reserve Bank of India. Given the turbulent global financial climate, this analysis aims to shed light on how Indian commercial banks maintain their performance, ensure sustainable growth, and overcome the challenges imposed by both internal and external environments

To evaluate and compare the performance of specific commercial banks in terms of capital resources and capital adequacy, the following steps can be taken:

1. **\*Gather Financial Data\*:** Collect financial statements, including balance sheets, income statements, and cash flow statements, for the selected commercial banks. Ensure the data covers a consistent period for meaningful comparisons.
2. **\*Calculate Key Ratios\*:** Calculate key ratios related to capital resources and capital adequacy. These may include:
  - Capital Adequacy Ratio (CAR): Measure of a bank's capital to its risk-weighted assets.
  - A bank's core equity capital divided by its total risk-weighted assets is known as the Tier 1 Capital Ratio.
  - Tier 2 Capital Ratio: Ratio of a bank's supplementary capital to its total risk-weighted assets.
  - Leverage Ratio: Measure of a bank's core capital to its total assets.
  - Return on Equity (ROE): Indicator of how effectively a bank is using its equity to generate profits.
3. **\*Analyze Trends\*:** Examine trends in these ratios over time for each bank. Identify any significant changes or patterns that may indicate shifts in capital resources or capital adequacy.
4. **\*Benchmarking\*:** Compare the calculated ratios of the selected banks with industry benchmarks or peer group averages. This provides context for understanding performance relative to industry standards.
5. **\*Qualitative Assessment\*:** Consider qualitative factors such as management strategies, risk management practices, regulatory compliance, and market conditions that may influence capital resources and adequacy.
6. **\*Risk Assessment\*:** Evaluate the risk profiles of the banks, including credit risk, market risk, and operational risk, and assess how these factors impact their capital adequacy.

**7. \*Draw Conclusions\*:** Based on the analysis, draw conclusions about the relative performance of the selected banks in terms of capital resources and capital adequacy. Identify strengths, weaknesses, and areas for improvement for each bank.

**8. \*Recommendations\*:** Provide recommendations for enhancing capital management practices and improving capital adequacy levels, tailored to the specific needs and circumstances of each bank.

By following these steps, you can effectively evaluate and compare the performance of particular commercial banks in terms of capital resources and capital adequacy, helping stakeholders make informed decisions and assess risks.

## METHODOLOGY

### Capital Risk Weighted Assets Ratio (CRAR):

The capital adequacy ratio, which is a percentage of a bank's risk-weighted credit exposures, is a measure of the capital of the bank. It is necessary to regulate this at standard levels in order to lessen the possibility and threat of bank failures and to support the stability, safety, and soundness of the financial system. The bank's capacity to withstand a fair amount of operating losses and other risks that arise during the course of conducting business as a bank is reflected in its CRAR. It establishes how well the bank can absorb these risks and losses. Here's how CRAR is determined:

$$\text{CRAR} = \frac{(\text{Tier I capital} + \text{Tier II capital})}{\text{Risk weighted Assets}} \times 100$$

### Debt-Equity Ratio:

We have determined the debt-equity ratio in order to expand our research of the capital and capital adequacy of the chosen institutions. This ratio shows how much leverage a bank has. Higher debt-to-equity ratios are generally associated with increased risk and decreased protection for depositors and creditors within the banking sector. The ratio is computed by taking the entire "Outside liability" of a bank and dividing it by its "net worth." The term "outside liability" refers to all debt, deposits, and other obligations. Equity capital, reserves, and surplus are all included in "net worth."

$$\text{Debt - Equity Ratio} = \frac{(\text{Total Borrowings} + \text{Total Deposits})}{\text{Net Worth}} \times 100$$

### Ratio of Loans and Advances to Assets:

A bank's advances and loans are assets that produce revenue. It would be relevant to view the ratio of loans and advances to PSB and PvtSB total assets at this point. The ratio shows what percentage of total assets are used to generate income. A greater ratio denotes an active lending policy by the bank, which eventually leads to a higher percentage of income-producing assets in the bank's total assets. More income-producing assets as a percentage of

total assets eventually translate into increased profitability. On the other hand, low profitability is eventually the outcome of a smaller percentage of income-generating assets in total assets. Using the ratio provided below, we have examined the performance of particular PSBs and PvtSBs on this count:

$$\text{Advances to Assets Ratio} = \frac{\text{Total Loans and Advances}}{\text{Total Assets}} \times 100$$

**Return on Assets (ROA):**

The return on asset ratio, a gauge of efficiency, displays a bank's profit on its whole asset base. Generally speaking, the better the managerial effectiveness in overseeing and employing the bank's assets, the higher the ROA. The aforementioned observation suggests that the bank is optimizing its asset utilization, leading to increased returns per rupee of asset investment. Here is how we calculated the ROA.

$$\text{ROA} = \frac{\text{Net Profit (loss)}}{\text{Total Assets}} \times 100$$

To evaluate the financial performance of commercial banks in India, we can calculate and interpret several important financial ratios across different dimensions:

**REVIEW OF LITERATURE**

The literature generally examines a number of factors when analyzing the financial performance of commercial banks in India, including profitability, asset quality, capital sufficiency, efficiency, and liquidity. To evaluate the performance and stability of commercial banks, academics frequently examine financial ratios, regulatory frameworks, macroeconomic indicators, and banking sector reforms. The effects of deregulation, technology development, globalization, and financial inclusion programs on the banking industry are important topics. Research may also examine how corporate governance, risk management procedures, competitiveness, and regulatory compliance affect bank performance. In general, the literature provides information about the opportunities and difficulties that Indian commercial banks face in the context of changing legislative and economic landscapes.

Existing research on bank performance analysis encompasses various methodologies and metrics to evaluate productivity, profitability, and technological utilization. Productivity measures often include assessing inputs such as labor and capital against outputs like loans and deposits. Profitability analysis involves examining metrics like return on assets (ROA) and return on equity (ROE) to gauge the bank's ability to generate earnings relative to its assets and shareholder equity. Additionally, studies delve into the impact of technology adoption on bank performance, particularly concerning efficiency and customer service. Advancements in digital banking, such as online platforms and mobile applications, have reshaped the industry's landscape, influencing factors like operational efficiency and customer satisfaction.

Moreover, research explores the relationship between bank performance and various macroeconomic factors, regulatory environments, and market conditions. Understanding these dynamics is crucial for policymakers, investors, and banking professionals to navigate the complexities of the financial landscape and ensure sustainable growth and stability.

Padma D., Arulmathi V. (2013) mentioned that the foundation of a nation's financial system is its commercial banks' performance and efficiency. To assess SBI and ICICI Bank's efficiency and solvency condition in light of this, the study used profitability, solvency, and management efficiency ratios to the banks. 2018 saw Ritesh Patel. mentioned that a number of variables are used to evaluate financial performance. It has been noted that all banks' assets, equity, investments, and advances increased following the merger, but that each bank's yield fell as a result of underutilization. Mishu Tripathi and Mani Govil (2014) proposed that there had been a significant decline in the banking industry's profitability, asset quality, liquidity, and short-term increase in demand for bank loans. This article uses trend analysis of key financial variables to investigate how the global crisis has affected a sample of the top ten ranking banks

### The asset quality of Commercial banks

**Non-Performing Assets:** Calculate and analyze the NPA ratio, which measures the proportion of assets that have stopped generating income. Higher NPA ratios typically reflect poorer asset quality and greater credit risk (Kadioğlu et al., 2017).

**Provision Coverage Ratio:** PCR indicates the extent to which a bank has set aside capital to cover potential losses from non-performing assets. It's an important metric to assess the bank's preparedness for absorbing bad debts.

**Substandard, Doubtful, and Loss Assets:** Review the classification of NPAs into substandard, doubtful, and loss assets, which indicates the varying levels of risk and recoverability of these assets.

**Gross and Net NPA:** Distinguish between gross NPA (total NPAs before provisions) and net NPA. Having a low net NPA in relation to gross NPA shows good provisioning practices by the bank.

**Loan Loss Provisions:** Analyze the bank's loan loss provisions, which are funds set aside to cover loan losses, and how this affects the bank's earnings and capital (Kavitha et al., 2018).

**Asset Deterioration Rate:** Calculate the rate at which performing assets are turning into NPAs. A higher deterioration rate can indicate potential problems with the bank's credit appraisal and monitoring systems.

**Comparison with Industry Averages:** Compare individual banks' asset quality indicators with industry averages to place their performance in context and highlight potential issues or success stories.

**Regulatory Compliance:** Evaluate how well banks comply with the regulatory requirements regarding asset classification and provisioning, as mandated by the Reserve Bank of India or other supervisory bodies.

### Assessments of financial health Of Commercial Banks

Here's a breakdown of the key performance indicators typically considered:

- \*Profitability\*:** This indicator assesses the bank's ability to generate profits from its operations. Key metrics include net interest margin (NIM), return on assets (ROA), and return on equity (ROE).
- \*Asset Quality\*:** Asset quality measures the quality of the bank's loan portfolio and its ability to manage credit risk. Metrics such as non-performing loans (NPLs), loan loss provisions, and the ratio of NPLs to total loans are used to gauge asset quality.

3. **\*Liquidity\***: Liquidity measures the bank's ability to meet its short-term obligations and fund its operations. Key metrics include the liquidity coverage ratio (LCR), the net stable funding ratio (NSFR), and the loan-to-deposit ratio.

4. **\*Solvency\***: Solvency indicates the bank's ability to meet its long-term obligations and maintain a healthy capital position. Metrics such as the capital adequacy ratio (CAR), tier 1 capital ratio, and leverage ratio are used to assess solvency.

By analyzing these key performance indicators, stakeholders can gain insights into the financial health and stability of commercial banks, identify areas of strength and weakness, and make informed decisions regarding investments, lending, and risk management.

## CONCLUSION

In conclusion, the financial performance of commercial banks in India is influenced by various factors, including economic conditions, regulatory environment, technological advancements, and competitive pressures. While the sector has demonstrated resilience and growth potential, there are challenges such as asset quality concerns, margin pressures, and the need for continuous innovation and adaptation.

To improve financial performance, Indian commercial banks should focus on diversifying revenue streams, enhancing cost efficiency, strengthening risk management practices, and embracing technology to meet evolving customer expectations. Additionally, maintaining regulatory compliance, ensuring capital adequacy, and fostering a customer-centric approach are essential for sustainable growth and profitability.

By implementing these strategies and staying agile in response to market dynamics, Indian commercial banks can navigate challenges, capitalize on opportunities, and contribute to the growth and stability of the financial sector in India. In a comprehensive examination of the financial performance of commercial banks in India, it becomes evident that the landscape is shaped by a multitude of factors, ranging from macroeconomic trends to regulatory frameworks and technological innovations. This intricate interplay underscores the need for a nuanced and strategic approach in understanding and improving the sector's performance.

## REFERENCE

[https://www.researchgate.net/publication/365184065\\_FINANCIAL\\_PERFORMANCE\\_OF\\_COMMERCIAL\\_BANKS\\_IN\\_INDIA](https://www.researchgate.net/publication/365184065_FINANCIAL_PERFORMANCE_OF_COMMERCIAL_BANKS_IN_INDIA)

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