

FINANCIAL PERFORMANCE OF INDIAN PUBLIC SECTOR BANKS

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Abstract

Banks are a basic component of the financial system for the development of the economy and are also active players in the financial markets. An efficient banking system capable of mobilizing savings and directing them to productive purposes is essential for the development of any economy. Banks play a major role in the circulation of money in the economy. It is mostly about lending and borrowing money from the public and provides loans mostly for productive purposes. The objective of this study is to examine the financial performance of selected Indian public sector banks. Secondary data was used in this study which used Reserve Banks of India website and official websites of the banks. The ratio analysis technique used to analyze the financial performance of selected public sector banks. The top ten banks were selected on the basis of the highest market capitalization for the period of ten years from 2013 to 2022. Although there has been an increase in the efficiency and profitability of public sector banks, the growth rate of private sector banks is more compared to public sector banks. Public sector banks are faltering on many financial parameters and also facing many challenges.

Key words: Public sector banks, financial performance, Net Profit Margin, and Operating Profit Margin

1. Introduction

Banking is the lifeblood of the economy as an integral part of the financial sector. It plays an important role in accelerating economic growth. The importance of commercial banks in the process of economic development has been emphasized from time to time by the country's economic thinkers and progressive bankers. Banks are at the heart of our financial structure. As custodians and lenders of community savings, banks play an active role in the economic development of the country. Indian banks have effectively supported economic development over the past 73 years (1949-2022). The banking sector has shown remarkable resilience to the needs of a planned economy. The public sector banks play an important role in government participation. The financial sector reform has brought many new policies and remedies to the changes in banking with the help of advanced technology, and the professional administration has reached a tough position to increase the efficiency of India's public sector banks. Recently, the role of the public sector in collecting and investing savings has played a role in facilitating rapid economic development through the creation and expansion of infrastructure in productive areas.

2. Statement of the problem

In the era of globalization, the banking sector plays an important role in the development of each country's economy. In fact, banks have long contributed to economic stability as financial institutions. A bank is a financial institution that receives funds from the public and invests them in financial assets such as deposits and loans. In today's world, the banking sector's sphere of activity is not confined to any particular region. The transaction is cross-border. Therefore, it is very important for stakeholders to know about the bank's financial performance and financial condition. To this end, this study focuses on the analysis of the financial performance of selected Indian public sector banks.

3. Significance of the Study

The study helps bank executives, bank customers, and other potential investors to gain knowledge about the bank's financial performance and status. In addition, the research paper provides a detailed assessment of bank performance in terms of profitability. Furthermore, this paper is intended to draw the attention of researchers and provoke their discussion of the financial performance of India's public sector banks and their impact on the country's economic growth and stability. The study also discusses the factors that influence bank performance, which can be actively used by bank management to make the bank's activities work better and more efficiently. This research can also be seen as a guide and motivation for budding researchers.

4. Objectives of the study

The following are the main objectives of the present study

- i. To know about the financial performance of selected Indian public sector banks.
- ii. To find the net profit margin and operating profit margin of selected Indian public sector banks.

5. Methodology

The following Research Methodology has been used by the researcher in the present study.

5.1 Secondary Data

The research is based on secondary data collected from each bank's annual reports, Reserve Bank of India data, Bankers Association of India publications, journals, documents and other published available information.

5.2 Period of the Study

This research study covers a period of ten years i.e. from financial year March 2013 to March 2022.

5.3 Sample

The present study adopts an analytical and descriptive research design. A sample of ten banks i.e. ten from Indian public sector banks has been selected and the criteria are based on highest market capitalization generated by banks during the study period. The banks matched under this criterion are State Bank of India, Bank of Baroda, Canara Bank, Punjab National Bank, Indian Overseas Bank, Union Bank, Indian Bank, Bank of India, Central Bank and UCO Bank from public sector.

6. Tools of Analysis

1. Ratio analysis: Profitability ratios have been calculated for the past ten years for the purpose of analysis. Ratios being designed are named as:
 - i. Net Profit Margin
 - ii. Operating Profit Margin (OPM)
2. Mean
3. Standard deviation
4. Co-efficient of Variation
5. ANOVA

7. Limitation of this study

The present study is partial due to taken only ten selected public sector banks in India. It is made with using secondary data like financial statements of the banks but which might have been through window dressing. The study is covered for the period of ten years.

8. Discussion Result

To analysis the financial performance of the Indian public sector banks by using ratio analysis of profitability ratios. The chosen banks were listed as follows:

Table 1

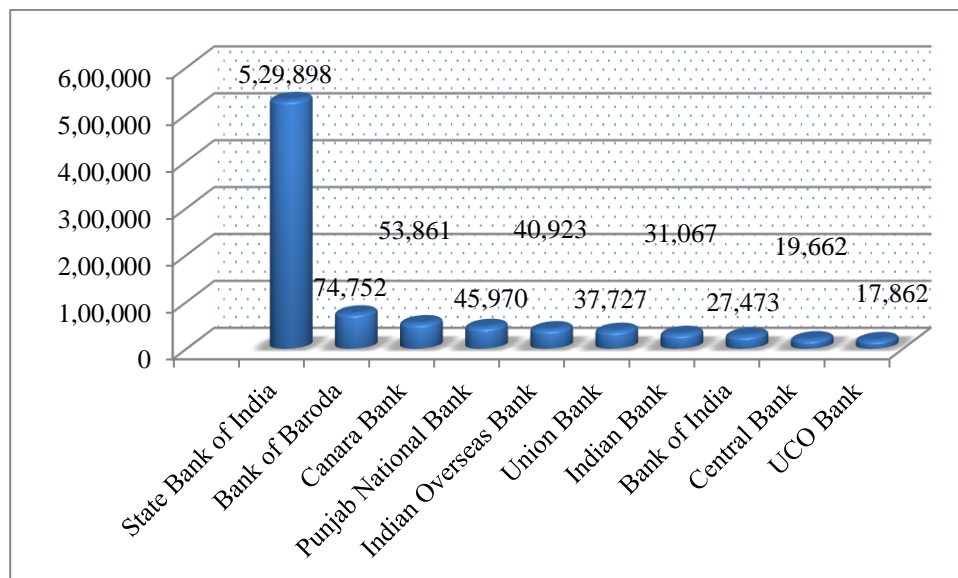
Top ten Public Sector Banks on the basis of market capitalisation

SL. No.	Public Sector Banks	Market Capitalisation in Cr. As on report of 4th November 2022
1.	State Bank of India	Rs.529,898
2.	Bank of Baroda	Rs.74,752
3.	Canara Bank	Rs.53,861
4.	Punjab National Bank	Rs.45,970
5.	Indian Overseas Bank	Rs.40,923
6.	Union Bank	Rs.37,727
7.	Indian Bank	Rs.31,067
8.	Bank of India	Rs.27,473
9.	Central Bank	Rs.19,662
10.	UCO Bank	Rs.17,862

Source: Money control

Chart 1

Top ten Public Sector Banks on the basis of market captalisation



9. Earning Ability

The quality of income determines the capability of a bank to earn consistently. It in particular determines the profitability and productiveness of the bank, which explains the growth and sustainability of future earnings capacity. The ratios given as an explanation for the capacity of income creation are:

9.1. Net Profit Margin

Net Profit Margin shows how much of the profit remaining after all operating expenses, interest, tax is deducted from the total income of the bank. The absolute value of a profit level expressed as a percentage is examined by NPM.

$$\text{Net Profit Margin} = \frac{\text{Total Revenue} - \text{Total Expenses}}{\text{Total Revenue}} = \frac{\text{Net Profit}}{\text{Total Revenue}}$$

Table 2
Net Profit Margin

Year	State Bank of India	Bank of Baroda	Canara Bank	Punjab National Bank	Indian Overseas Bank	Union Bank	Indian Bank	Bank of India	Central Bank	UCO Bank
2022	11.49	10.40	8.18	4.61	10.21	7.70	10.15	8.94	4.58	6.20
2021	7.69	1.17	3.69	2.50	4.90	4.22	7.68	5.32	-3.90	1.15
2020	5.63	0.71	-4.56	0.62	-48.99	-7.78	3.51	-6.98	-4.75	-16.10
2019	0.35	0.87	0.74	-19.44	-21.20	-8.65	1.67	-13.60	-24.91	-30.15

2018	-2.96	-5.57	-10.23	-25.59	-35.16	-16.02	7.35	-15.87	-21.23	-31.64
2017	5.97	3.27	2.71	2.80	-17.32	1.69	8.76	-3.96	-9.89	-11.33
2016	6.06	-12.24	-6.38	-8.38	-12.31	4.19	4.37	-14.56	-5.47	-15.08
2015	8.59	7.91	6.17	6.61	-1.89	5.55	6.34	3.93	2.29	5.87
2014	7.98	11.66	6.16	7.73	2.65	5.77	7.60	7.19	-5.16	8.28
2013	11.78	12.73	8.42	11.33	2.74	8.58	11.38	8.61	4.64	3.69
Mean	6.26	3.091	1.49	-1.72	-11.64	0.52	6.88	-2.09	-6.38	-7.91
SD	4.58	7.94	6.50	12.21	19.23	8.33	2.99	10.10	10.02	15.11
CV	73.16	256.87	436.24	-709.88	-165.21	1601.92	43.46	-483.25	-157.05	-191.02

It is inferred from Table 2 states that selected public sector banks have a ratio of at least -48.99 for Indian Overseas Bank during 2020 and a maximum ratio of 12.73 for Bank of Baroda during 2013. The average minimum ratio of -11.64 for Indian Overseas Bank and maximum ratio of 6.88 for Indian Bank. The minimum ratio indicates that Indian Overseas Bank have highest negative profitability during the study period. The maximum ratio of Indian Bank indicates that the bank has a good profitability compared to other nine public sector banks. Indian Overseas Bank has the highest level of standard deviation and Indian Bank has a below level.

Hypothesis:

H0: There is no significant relationship between Net Profit Margin among different public sector banks in India.

H1: There is a significant relationship between Net Profit Margin among different public sector banks in India.

Table 3

ANOVA Summary

Source of Variation	DF	SS	MS	F	P-Value
Between Groups	9	3314.0267	368.2252	F = 3.1898	0.002
Within Groups	90	10389.4076	115.4379		
Total	99	13703.4342			

As per table 3 of ANOVA show that relationship between Net Profit Margin among different public sector banks in India. They have positive relation as the ANOVA is 3.1898. The significant level is 0.002, which is less than 0.05, so that ANOVA is statistically significant. So that we reject null

hypothesis H_0 , and accept alternate hypothesis H_1 that is significant relationship between Net Profit Margin among different public sector banks in India.

9.2. Operating Profit Margin (OPM)

This shows how much cash is thrown after most of the expenses are completed. High operating profit margin means that the bank has good cost control. Operating Profit Margin = Operating Earnings/Revenue. This computes the earnings from operations of a bank for each rupee spent as a working fund per share.

Table 4
Operating Profit Margin

SL. No.	State Bank of India	Bank of Baroda	Canara Bank	Punjab National Bank	Indian Overseas Bank	Union Bank	Indian Bank	Bank of India	Central Bank	UCO Bank
2022	-3.22	-6.02	-15.58	-11.83	-19.08	-10.73	-7.64	-11.75	-8.43	-14.49
2021	-8.70	-16.36	-18.38	-13.36	-27.86	-12.26	-7.86	-13.00	-17.83	-24.59
2020	-11.94	-12.85	-20.53	-16.61	-68.29	-21.91	-11.95	-22.83	-20.19	-35.07
2019	-14.14	-11.77	-13.30	-33.81	-45.05	-21.78	-8.13	-26.19	-35.57	-40.71
2018	-23.19	-20.82	-27.06	-44.09	-56.07	-31.26	-6.70	-30.93	-32.14	-39.63
2017	-14.23	-12.73	-15.54	-16.13	-34.43	-13.50	5.02	-21.20	-21.55	-24.28
2016	-10.91	-23.59	-17.46	-22.88	-23.07	-7.08	-6.58	-23.30	-12.96	-23.68
2015	-6.21	-2.33	-4.22	-6.10	-10.83	-5.42	-2.25	-5.81	-4.87	-4.47
2014	-5.61	0.20	-3.77	-2.85	-6.91	-3.83	-1.39	-4.12	-13.04	1.04
2013	-1.61	2.41	-0.82	1.26	-6.79	-1.56	2.11	-3.18	-2.98	-1.99
Mean	-9.98	-10.39	-13.67	-16.64	-29.84	-12.93	-4.54	-16.24	-16.96	-20.79
SD	6.37	8.77	8.32	13.92	21.09	9.45	5.25	9.95	10.83	15.37
CV	-63.83	-84.41	-60.86	-83.65	-70.68	-73.09	-115.64	-61.27	-63.86	-73.93

Table 4 shows that selected public sector banks have a range of at least -68.29 for Indian Overseas Bank during 2020 and a maximum of 2.41 for Bank of Baroda during 2013. The minimum average ratio of -29.84 for Indian Overseas Bank and maximum ratio of -4.54 for Indian Bank. The minimum ratio of Indian Overseas Bank indicates that there is less cost control capacity than other banks. The maximum ratio of Indian Bank indicates that there is better cost control capacity than other public sector banks. Indian Overseas Bank has the highest standard deviation and Indian Bank has the lowest standard deviation.

Hypothesis:

H0: There is no significant relationship between Operating Profit Margin among different public sector banks in India.

H1: There is a significant relationship between Operating Profit Margin among different public sector banks in India.

Table 5**ANOVA Summary**

Source of Variation	DF	SS	MS	F	P-Value
BetweenGroups	9	4233.6225	470.4025	F = 3.3739	0.0013
WithinGroups	90	12548.2537	139.425		
Total	99	16781.8762			

As per table 5 of ANOVA show that relationship between Operating Profit Margin among different public sector banks in India. They have positive relation as the ANOVA is 3.3739. The significant level is 0.001, which is less than 0.05, so that ANOVA is statistically significant. So that we reject null hypothesis Ho, and accept alternate hypothesis H₁ that is significant relationship between Operating Profit Margin among different public sector banks in India.

10. Conclusion

The banking industry is important to the economic growth of the country. The Indian banking system is large, with an extensive branch network and diverse financial services. The Profitability ratios of metrics provide a measurement of financial performance of banks' and financial institutions' current and overall financial, operational and managerial performance. Each bank must monitor the policies and regulations established by the Reserve Bank to ensure that cash can circulate freely without disruption or prohibition to the public or banks. Furthermore, for a bank to perform efficiently there should be least requirements to be upheld such as having net profits with ease of loans and deposits i.e. having balance between loans and deposits. It is therefore, the results of this study will benefit bank, shareholders and customers, as well as bank management.

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