INDIAN PUBLIC SECTOR BANKS: PERFORMANCE STABILITY ANALYSIS

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ABSTRACT

Indian financial system has been very eminently and strongly influenced by the banking industry in the country. The hasty spread of covid virus, repeated announcements of lockdown have pulled various sectors down in the business environment. This unfavourable business climate in the market made an intent to analysis the banking sector in the country. The study is an effort to look at the financial position of select Indian public banks on the application of bankometer model. The model has been functionally used to assess the financial distress of the select banks, namely, State Bank of India, Bank of Baroda, Canara Bank, Punjab National Bank and Indian Overseas Bank for the financial year 2021-2022.To examine the performance of the select banks, data have been collected from moneycontrol.com and annual reports of the select banks.

Key Words: Indian Public banks, financial distress, Bankometer.

INTRODUCTION

The economic growth and stability can be maximised by the banking system in the country as banks have crucial role in gearing the growth of various business sectors. The well-built banking services in the country encourage more commercial activities which has its own impact for the economic development. Therefore, such a backdrop industry of the economic has to be frequently monitored to analyse financial risk in it's own sector as globalisation has brought in tough competition in environment. One of the financial models developed by the experts is the bankometer model to find the financial risk and distress in the performance of the bank. The Bankometer model is a multivariate discriminant analysis created taking into consideration of IMF's recommendations of banks to raise their solvency. The study is an attempt to analyse the solvency of top five banks based on the Market capitalisation on 4th August 2022 by the application of bankometer model.

LITERATURE REVIEW

Parveen Chauhan and Sushil Kumar (2019) has analysed the soundness of Indian commercial banks with the framework of bankometer model. To study the financial strength of the Indian banking sector, 62 banks have been taken into account and the data have been collected from the prowess database and the annual reports of the select banks for a period of ten years (2009-2018). The results of the study reveals that foreign banks and new private banks are best performers compared with the public and old private sector banks. **Laely Aghe Africa (2018)** has made an attempt to identify the bankruptcy of Indonesia banking sector. The sample for the research have been taken from the Indonesia Stock Exchange (111 banks) from the year 2014 to 2016. The select banks include 60 foreign exchange banks and 51 non-foreign exchange banks. The author has revealed from the analyses that foreign exchange banks have performed well and have suggested that bankometer model can be used as the tool to predict the financial distress for any decision making. **Felita Bella and Wirawan ED Radianto (2020)** have examined the bankruptcy predictions of Indonesian banking sector with the bankometer model. The study aims to compare the large, medium and small banks on the basis of market captialisation. The study has adopted a purposive sampling technique which has focused on 45 banks listed in the IDX (Indonesian Stock Exchange). The data of the banks have been collected from the financial reports of the select banks from the year 2010 to 2018. The results reveal that differences in bankruptcy predictions between large and small banks and between medium and small banks. It is interesting that there is no difference between large and medium banks. **Onyema JI, Okey N, Precious O and Amadi SN (2018)** have investigated the soundness of commercial banks of Nigeria. The study has been conducted for fifteen years from 2000 to 2015. Among the ten banks, two banks have been found with the S-score greater than 70 which states that the banks are sound and other eight banks the score has been less than 50 which shows the banks are at the high risk. The study reveals that the bankometer model is an apt tool to test the performance based on the solvency of the banking industry. The study also states that the model is highly helpful for the internal management to avoid insolvency. **Laila and Widihadnanto (2017)** have made an effort to predict the financial distress of Islamic and conventional banks by the application of bankometer model. The research is based on purposive sampling and the data of four Isalmic banks and ten conventional banks have been taken into account for the study from the year 2011 to 2014 with the support of the annual reports of the select banks. The select banks for the study are: Islamic Banks - BNI Syariah, Bnak Muamalat, Bank Mega Syariah, Bank Syariah Mandiri and Conventional Banks - Bank Artha Graha, Bank Bumiputera, Bank Ekonomi Raharja, Bank Nusantara Parahyangan, Bank ICBC Indonesia, Bank Mutiara, Bank Bumi Arta, Bank Sinarmas, Bank UOB Buana and Bank Mayapada. The results reveal that both the Islamic and Conventional Banks are found safer beside the financial distress. **Moses O. Ouma and Gabriel N. Kirori, (2019)** have analysed the financial health of small and medium sized commercial banks in Kenya from the year 2014 to 2017 using the bankometer model. The secondary data of twelve medium sized and sixteen small banks have been considered for the study. The results reveal that there is no significant difference in the financial soundness of the select two categories of banks and the banks have poor score towards loans and operations.

OBJECTIVES

The study focus on the following objectives:

1. To observe the financial health of select public sector banks in India
2. To measure up the select public sector banks of India on the basis of S-score.

METHODOLOGY

Bankometer model has been originated from CAMEL and CLSA stress test to measure the performance of the banks. The model is highly useful tool applied in the study that predicts the financial health and distress of the select public sector banks for the financial year 2021-2022. The following are the ratios of the bankometer model prescribed by IMF (2000) for the measurement of the financial performance of the banks.

Bankometer ratios and IMF preferable limits

- Capital to Assets Ratio (CA): ≥4%
- Equity to total Asset (EA): ≥2%
- Capital Adequacy Ratio (CAR): 8% - 40%
- NPLs to Loans (NPL): ≤15%
- Cost to Income ratio (CI): ≤40%
- Loans to Assets ratio (LA): ≤65%

S =1.5*CA +1.2*EA +3.5*CAR +0.6*NPL +0.3*CI +0.4*LA

S-score (S) represents the solvency score and with the help of the score the select banks are rated for its economic stability. As stated by Altman (1968), banks found with S-score are classified as:

- S > 70 % , the banks are solvent and super sound
- S < 50% , the banks are not solvent and
- S < 50% >70%, the banks are in gray area which are solvent but not super sound.

The following table presents the bankometer ratios and its impact on the financial status of the select banks:

Table 1: Ratios of Bankometer model

Ratios	Measuring Factors	Ratio status	Impact
Capital to Assets ratio (CA)	Assets financed by equity or long term debt	High	Bank is more secure
Equity to Assets ratio (EA)	Assets financed by equity capital	High	Bank is more secure
Capital Adequacy ratio (CAR)	Capital position	High	Bank is more secure
Non performing loans to loans ratio (NPL)	NPL to Total loans	Low	Highly productive lendings
Cost to Income Ratio (CI)	Operating expenses and income	Low	More Profit
Loans to Assets (LA)	Assets invested by long-term credit	Low	Good liquidity position

RESULTS AND DISCUSSION

The soundness of the select banks in the study have been analysed with the bearing on the bankometer model. The following table reveals the S-score of the select banks for the financial year 2021-2022.

Table 2 S-score of the select public sector banks

Banks	C/A (%)	E/A(%)	CAR(%)	NPL/L(%)	C/I (%)	L/A(%)	S-score
SBI	89.79	0.02	13.85	1.02	78.52	54.81	229.28
BOB	90.05	0.08	15.84	1.72	72.48	60.81	237.72
CAN	92.46	0.14	14.90	2.65	73.12	57.34	237.49
PNB	90.82	0.17	14.50	4.79	76.19	55.38	235.07
IOB	94.91	6.31	13.83	2.65	73.36	48.18	241.21

Source: moneycontrol.com

- The prescribed limit of IMF, the capital to assets ratio must be ≥ 4 per cent. It is interesting to find that all the select public banks for the study have been found satisfactory as all the banks have more than 4 per cent of the CA ratio. Among the select banks, IOB has taken the first position with 94.91 per cent followed by CAN (92.46), PNB (90.82), BOB (90.05) and SBI (89.79) per cent during the study period.

- The ratio of equity to assets must be ≥ 2 per cent, the results reveal that IOB is the only bank found above 2 per cent among the select banks at 6.31 per cent. The PNB, CAN, BOB and SBI are not found with adequate level of E/A ratio.

- Capital Adequacy Ratio of BOB bank (15.84) has been found highest among the other select banks in the study, followed by CAN (14.90), PNB (14.50), SBI (13.85) and IOB (13.83) per cent. All the select banks in the study are found between 8 – 40 per cent which extensively proves the banks are extremely secure as to capital.

- The Non Performing Loans ratio as per the IMF limit should be below 15 per cent, while the SBI bank has found with the least per cent of 1.02. The results reveal that all the select banks are safe in terms of NPL which shows the creditability of their customers are good that supports for the sustainable growth of the banks.

- The analysis shows that the cost to income ratio for the select banks are more than 70 per cent which is higher than the IMF limit of below 40 per cent. SBI (78.52) per cent, PNB (76.19), IOB (73.36), CAN (73.12) and BOB (72.48) which shows the banks have to reduce their expenses to be more efficient in its business operation.

- The loans to assets ratio should be below 65 per cent as per the IMF limit, it is found that BOB (60.81) has the highest ratio but less than the stated limit of IMF. IOB (48.18) has been found with the least value of LA ratio. Less the ratio more the positive impact on the liquidity of the bank and vice versa.

- S-score for the select banks have been found to be more than 70 per cent (IMF limit) which states the banks are extremely solvent and financially sound. Among the select banks IOB (241.21) has the highest value of S-score followed by BOB (237.72), CAN (237.49), PNB (235.07) and SBI (229.28).

CONCLUSION

The banks are the economic booster of a country and banking sector plays a big central task in the developing nations like India. Such crucial sector has to be analysed periodical to find the financial soundness and distress position to avoid the insolvency of the banks. The financial performances of the banks express the real position of the banking sector and the key performance indicators could be assessed through the put in of most effective financial tool bankometer. The results of the financial measurements in the study reveals that Indian Overseas Bank has been the best performer in respect to Capital to Assets ratio, Equity to Assets ratio, Non performing Loans to Loans ratio and Loans to Assets Ratio and the S-score also have been found to the highest among the select banks in the study. The other banks are also said to be highly solvent and super sound with respect to their S-score but may focus on equity capital utilisation on assets, collecting the loans at the due period, reducing the expenses and following the right liquidity position in the banks to be the leading market players in the Indian banking sector.

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