A STUDY ON FINANCIAL ANALYSIS OF PUBLIC SECTORBANKS IN INDIA

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ABSTRACT

Public sector banks have been merged by the government in the last few years. This is the rationale behind conducting this study. The purpose of this article is to determine the factors affecting the performance of public sector banks in India and the interrelationship between bank-specific determinants and performance of public sector banks. The following research covers the financial performance analysis of the public sector banks .The financial analysis of selected public sector banks State Bank of India, Bank of India, Bank of Baroda , Union Bank of India ,Canara Bank in the year 2018 to 2022.The banking sector is considered to be an important source of financing for most businesses. They play a very important role in the effort to attain stable prices, high level of employment and sound economic growth . Bank play important role in the Economic Development of all the Nations of the World. Banking is the life blood of Modern Commerce. The growth of such banks is not possible unless they witness some success in the context of customer satisfaction or may it be the net assets held by these banks, efficiency of their management or the networks of the public sector bank. Financial performance of the bank is studied with the ratio like financial current ratio, liquid ratio, operating profit ratio, gross profit ratio, net profit ratio etc. The financial performance can be influenced by the operational and financial efficiency of the Banks

Key words: Financial Analysis, Public Sector Banks , Performance Analysis

I.INTRODUCTION

1.1 Introduction

Bank is a financial intermediary that accepts deposits and lend money to the people and an institution providing the service of transferring money and generating income. The word 'Bank' basically means 'bench or counter' and comes from the middle French word named bank. Due to the significance of banks in the financial system and national economies, they are highly regulated in most countries and now become the part and parcel of everybody's life.Banking has played a very important role in the Economic Development of all the Nations of the world. In fact, Banking is the life blood of Modern Commerce. It may truly be said that Modern Commerce is so dependent upon banking. The banking sector is considered to be an important source of financing for most businesses. They play a very important role in the effort to attain stable prices, high level of employment and sound economic growth. They make funds available to meet the needs of individuals, businesses and the government. In doing this, they facilitate the flow of goods and services and the activities of governments. The commercial Banking system provides a large portion of the medium of exchange of a given country, and is the primary instrument through which Monitory policy is conducted, through their deposit mobilization and lending operations. Commercial banks make the productive utilization of ideal funds, thus assists the society to produce wealth. Commercial Banks are the institutions specifically designed to further the capital formation process through the attraction of deposits and extension of credit.

A well planned, organized, efficient and viable banking system is a necessary concomitant for the economic development of a nation. Banking occupies a crucial place in undertaking the development effort and acts as a vehicle for socio-economic transformation. In a modern economy, income is partly spent for consumption and partly saved and much of the saving is channelized into investment via a variety of financial intermediaries. In India, the commercial banks constitute the heart of the financial structure since they have the ability to add to the money supply and thus create additional purchasing power. As an important segment of the tertiary sector of our economy, commercial banks act as the back-bone of economic growth and prosperity by playing an all pervasive role as a catalyst of development. Hence, the PSBs had to be the prime-movers and leaders for the achievement of the socio-economic objectives of our economy. In the post-nationalisation period, there has been a perceptible change in the structure, composition and direction of Public Sector Banking in India. Its progress in

quantitative and qualitative terms has been phenomenal.

1.2 Statementoftheproblem

Analyzing financial performance is the process of evaluating the common parts of financial statements to obtain a better understanding of company's position and performance. Financial performance analysis enables the investors and creditors toevaluate past and currentperformance and financial position, and to predict the future performance. It is the process of identifying the financial strength and weakness of the available accounting data and financial statement. The analysis is done by properly establishing the relationship between the items of balance sheet and profit and loss account. The task of financial analyst is to determine the information relevant to the decision under consideration from the total information contained in the financial statement. The second step is to arrange information in a way to highlight significant relationship. The final step is interpretation and drawing of inference and conclusion. Thus financial analysis is the process of selection relating and the evaluation of the accounting data.

1.3 Objectivesofthestudy

- To examine the financial performance of the selected public sector banks
- To study the profitability analysis of the Banks
- To Compare the Banks and their Performance of past 5 years

1.4 Researchmethodology

This research is quantitative in nature as it is studying the current financial status of the selected banks. The yearly financial data of SBI, Bank of Baroda, Union Bank, Bank of India and Canara bank from 2017 to 2022 were collected from the financial website . (https://money.rediff.com) For the data analysis purpose the total net profit, total assets, total income, total expense, net profit ratio, and return to net-worth ratio was calculated and compared.

A. ResearchDesign

Research design is systematic planning of research , usually including the formulation of

strategy to resolve a particular questions , the collection and recording the evidence , the processing and analysis of these data and their interpretation and the publication of results

B. Samplesize

5 public sector banks

- State Bank of India
- Bank of India
- Bank of Baroda
- Union Bank of India
- Canara Bank

C. Samplingmethod

Simple Random Sampling

1.5 Methodofdatacollection

The study is based on secondary data. Data of selected banks has been collected from their annual reports of Selected Public Sector Bank with the annual report with the help of internet (https://moneycontrol.com/ , https://money.rediff.com)

1.6 Toolsused foranalysis

Thefollowing ratios areused foranalysis

- Current ratio
- Liquid Ratio
- Fixed Asset
- Operating ratio
- Gross profit ratio
- Net profit ratio
- Earning per ratio
- Dividend payout ratio
- Return on equity

1.7 Scopeofthestudy

Study aims to analyze the liquidity, profitability of the public sector banks and efficiency

which it converts its resources into service. The study aims to find out the ratios between the services and net profit of the public sector banks . Liquidity ratio like current ratio, quick ratio etc, are prepared to analyze the financial performance of the company. Profitability of the company is found out using ratios like gross profit ratio, net profit ratio etc.

The analysis of financial statements helped to judge the financial strength of the five selected public sector banks This study further gives valuable suggestions to the union to increase its performance by making a comparison with a company in the same industry. The study will help the company to know whether the performance creates value there by looking for the opportunities to increase the investment**.**

1.8   Limitationsofthestudy

 The reliability of the data depends on the accuracy of data collected.The present study is based on the published secondary data, hence the limitations of the published financial statement limitations may be applicable to the study as well. The period considered for the study is only last five year's financial statement. So it is not possible to find out the life time performance of the company.Most of the information is collected from the financial statements. So the limitations of the financial statements may affect the study. Non-monetary factors like human behaviour, their relationship extra are not considered.

IIREVIEWOFLITERATURE

➢ (Matkar, 2018)has conducted a study on MSC banks by using camel model. From his study he concluded that there has been an increase in the profits and business per employee and capital adequacy ratio is also enhanced. Due to the increase in the net non-interest income and decrease in operating expenses, staff level cost for the last few years, the banks have displayed a good growth. Retail banking and its products has also shown a progress in MSC banks.

➢ (Aspal, 2017)did the study on whole state bank group by using camel model approach and applying the tests like Anova, kolmogorov-smirnov, and shapirowilk and found out that though state bank of India is bigger entity than its other associates It got the lowest rank in every aspect whether the liquidity or the asset quality while state bank of Bikaner and Jaipur and state bank of Patiala is at the top position. The reason for getting lowest

rank for SBI is that SBI has not been able to perform well in debt-equity, government securities to total investment ratios, advances to assets etc.

➢ (Chaudhary, 2017)conducted a study to measure the right performance of public and private sector banks by the use of secondary data collected from annual reports, periodicals, website etc. for the year 2009-2011 and found out that in every aspect private sector bank has performed better than public sector banks and they are growing at faster pace.

➢ (Alshiqi, 2017)need to analyze the financial performance of the banking system in Kosovo from 2006-2012 using camel model and by calculating return on investment. They concluded that they did not find any significance difference in the overall performance of the banks and this thing can only happen in the times of global financial crisis which was earlier faced by Kosovo, letting less sensitive effect.

➢ (Nazir, 2016)have taken two major banks of north India namely, Punjab national bank and Jammu and Kashmir Bank on the basis of their role and participation in influencing the financial condition of North India. They applied the Camel Model on these two banks by taking the annual report data from 2005- 20010, and found out that both the banks were financially sound and suitable as far as their capital adequacy, asset quality, management capability and liquidity is concerned

➢ (Kumari, 2016)selected 12 public and private sector banks on the basis of market capture and measured the efficiency and soundness by Camel Model. From the analysis they ranked the banks. They said that HDFC takes the lead followed by ICICI and Axis Bank. Bank of Baroda and Punjab National Bank follows the fourth position holded by IDBI and Kotak Mahindra Bank. Public Sector Banks like SBI and Union Bank takes the back seat. It donates that Private Sector Banks are performing better than Public Sector Bank.

➢ (Hui, 2016) tried to find out the factors affecting the performance of Nepalese Commercial Banks By using various camel ratios such as return on asset (ROA), return on equity (ROE), capital adequacy ratio (CAR) etc. As Public sector banks have higher total assets compared to joint venture or domestic private banks, thus ROA was found higher whereas overall performance of public sector was unsound because ROE and CAR of joint venture and private banks was found superior. The financial performance of public sector banks is being eroded by other factors such as poor management, high overhead cost, political intervention, low quality of collateral etc.

➢ (Kumar, 2014)has given a definition to camel rating system, according to him it is a mean to categorize bank based on the overall health, financial status, managerial and

operational performance. In his study he has chosen the SBI and its associates for checking the performance and concludes that State Bank of India is always in the lead than its associates in every aspect of camel.

➢ (Malhotra, 2014) measured the financial performance of Indian public sector banks' asset by camel model and applying the tests like Anova, f test and arithmetic test for the data collected for the year 2007-2011. They concluded that the top two performing banks are bank of Baroda and Andhra bank because of high capital adequacy and asset quality and the worst performer is united bank of India because of management inefficiency, low capital adequacy and poor assets and earning quality. Central bank of India is at last position followed by UCO bank and bank of Maharashtraks were found with health balance sheet with a small level of reserves for loans

III.FINDINGSOFTHESTUDY

➢ Bank of India has the high current ratio 2.81 in the year 2018 and it indicate the firm had the ability to pay current obligations , also indicate that too much money is blocked in current asset. The lowest current ratio 0.99 for the State bank of India in the year 2018 compared to the other four banks , low current ratio indicates that the liquidity position is not good.

➢ Bank of Baroda has high liquid ratio 2.94 in the year 2022, it means that company is in good financial health less like to face financial hardships . State Bank of India has low liquid ratio 1.05 in the year this means that current asset heavily depend on inventories

➢ State bank of India has fixed asset turnover ratio to 2018-2021 of the value 0.07 compare to other banks . It means ratio implies that management is using its fixed asset more effectively

  Bank of India has less Fixed asset ratio 0.05 in the year 2022 , compare to other years it indicates that business is over invested in fixed assets, also indicates that a business need to issue new products to revive of sales

➢ Union Bank has the operating profit ratio 34.4% in the year 2018. Shows that the company is earning enough money from business operations higher operating profit shows that a company has the less financial risk. State Bank of India had lowest operating ratio 9.53% in the year 2018, It indicate that profit generated from operation are not enough as compared to the total revenue generated from sales

- Union Bank of India has highest Gross profit ratio 25.51% in the year 2018, It shows that the Bank is successfully producing profit over and above its cost. Bank of Baroda has lowest value 3% compared to other 5 Banks , loss gross profit margin means ratio percentage is below Industry norms and potentially down from your companies prior periods

- Union Bank of the India has high net profit 16.02% in the year 2018 thus the company is able to effectively control its cost and provide goods or services . State bank of India has low net profit 9.53% means that the bank uses a ineffective cost structure or [poor pricing strategies

- Canara Bank has high EPSs ratio 57.58 in the year 2018 . It shows that with a high earnings per share ratio is capable of generating a significant dividend for investors . State Bank of India has lowest EPSs value of 0.96 in the year 2020 , It shows that the company may currently be undervalued.

- Union Bank of India has highest dividend payout ratio of 27.8% in the year 2018 the company reinvesting less money back into its business. State Bank of India has the lowest value of 15.3% in the year 2021 . Shows that a company is reinvesting the bulk of its earnings into expanding operations.

- Bank of India has the highest return on equity 20.15% in the year 2018. It also indicates how well a company's management deploys shareholders capital . State Bank of India has lower return on equity ratio 0.39% in the year 2019. It means that the company earns relatively littile compared to the shareholders equity.

IVSUGGESTIONS

- State Bank of India has lowest current ratio of 0.99 in the year 2018. The bank have to improve current asset by rising share holders fund .

- Here the state bank of India has low liquid ratio of 1.05. The bank can improve sales of high margin products and also the company to improve the liquid ratio is by increase sales and inventory turnover.

- Bank of India has less fixed asset turnover ratio in the year 0.05 by increasing revenue of the company improving management can improve fixed asset turnover ratio

- Operating profit ratio is low in state bank of India 9.33% the bank has reduce the cost of goods improve inventory management

- Bank of Baroda has lowest gross profit ratio should be increase sales revenue by selling more products or decrease the cost of production.
- State Bank of India has the lowest net profit value 9.53 % companies can increase their net margin by increasing revenue
- State bank of India has lowest EPSs Value of 0.96. bank can raise their earnings per share by simply buying bank their own share ,thus the amount of out standing stock.
- State bank of India has the lowest value of dividend payout value of 15.3% the better approaches is to buy stocks with a lower payout ratio it means scarifying potential yield
- State Bank of India has lower return on equity ratio 0.39%. company can use more financial leverage companies and can finance caption.

V.CONCLUSION

The researchers focused at the financial performance of India's banking sector over the last five years, from 2018 to 2022. The study also aimed to identify the main factors influencing bank success, as well as the best banks based on their financial results over a set period of time. The Current ratio , liquid ratio, fixed asset ratio, operation ratio, gross profit ratio, net profit ratio , EPS, dividend payout ratio were used to analyse the data. Based on the data review, it is possible to conclude that private banks outperformed public sector banks

However the management needs to focus more on the net profit and go for increase its revenue. Based on this study the major findings are that from the overall finance point of view, banks are performing to a very high degree level of achievement. This study indicates that in order to improve further the overall performance of bank must take all possible steps to review and modify various policies, cash budgets, financial status by using sound information management system. This will enable the management to have a close control over the various operations.

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