

Empirical Study: Evaluated the Performance of Selected Private Banks of India

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Abstract

The empirical Study evaluated the performance of top three Private sector Banks in India namely, H.D.F.C Bank, I.C.I.C.I Bank and Axis Bank with three aspects - financial perspective, Internal Business process perspective and Profitability analysis. Financial perspective evaluates using Credit deposit ratio (CDR), Net Interest Margin (NIM), Capital Adequacy Ratio (CAR) and Net Non-Performing assets to total advances ratio (NNPAR). Internal Business Process perspective evaluate using Cost to income ratio (CIR), Business per Employee (BPE) and Profit per Employee (PPE). Further, profitability of these banks during the period from 2010-11 to 2016-17 was measured in terms of return on assets (RoA) and Return on Equity (RoE). The outcomes of the present study that ICICI Bank performance with respect financial perspective and internal business perspective but in the last year of study period in these two aspects HDFC bank performance is good in compare of another two selected banks. HDFC bank performance during the study period 2010-11 to 2016-17 was good with respect to Profitability analysis.

Keyword: Private Bank, Performance, Profitability Analysis

Introduction

Private sector banks play an important role in development of Indian economy. Performance management of commercial banks is of crucial significance owing to the opening of Indian economy post reforms in the year 1991. With the entry of many new players who have received banking licenses from RBI recently, the competitive challenge is set to increase remarkably. The Indian banking industry was dominated by public sector banks. But now the situations have changed new generation banks with used of technology and professional management has gained a reasonable position in the banking industry. Unquestionably, the private sector as well as public sector banks need to manage costs better, expand relationships with customers, increase the market share, improve profitability, adopt new latest technology.

Review of Literature

Sunita & Vinitha (2013) developed and applied BSC for evaluating the performance of Standard Chartered Bank (SCB), a foreign bank in India. Using the concepts of Kaplan and Norton a BSC was developed for the bank to measure the performance during 2009-2012. The study revealed that the performance of Standard Chartered Bank was average in the study period.

Prasad and Ravinder (2011) analyzed the profitability of four major banks in India i.e. SBI, PNB, ICICI bank and HDFC bank for the period 2005-06 to 2009-2010. Statistical tools like arithmetic mean, one way

ANOVA Tukey HSD test have been employed for the purpose of study. The profitability of these banks have been evaluated by using various parameters like operating profit margin gross Profit margin Net profit margin Earning per share Return on Equity Return on assets Prices earnings Ratio and Dividend payout Ratio. The study revealed that SBI performed better in terms of earning per share and dividend payout ratio while PNB performed in terms of operating profit margin and return on equity. The study found that HDFC bank outperformed in terms of gross profit margin, net profit margin, return on assets and price earnings ratio. The study evidenced that ICICI Bank paid highest portion of earning as dividends to shareholders. Analysis ranked HDFC Bank on the top position followed by PNB SBI and ICICI Bank.

Performance measurement of Indian commercial banks with special reference to Bank of Baroda is done by Sagar (2008) using Balanced Scorecard. The significance of intangible indicators as a tool for measuring the performance of Bank of Baroda was evaluated for a panel data spread over ten years period i.e., 1997-2006. The author concluded that execution of the BSC is difficult due to the problems in measurement of the features related with the intangible

Kumari(2003) the researcher found that in terms of deposit mobilization branch expansion credit deployment and employment generation both public and private sector banks have shown increasing trend. Banks wise analysis revealed that private sector banks have shown higher growth as compared to public sector banks. The researcher suggested that public sector banks should their profitability and productivity performance by adopting innovation modern technological changes and by fixing responsibility of officers for recovery etc.

Kaplan and Norton (1996) revealed that the balanced score card provides executives with a comprehensive framework that can convert a company's vision and strategy into a coherent and linked set of performance measures. These performance measures should include both outcome measures and performance drivers of those outcome measures.

Objective of the Study

The following objectives are formulated keeping in view the importance of the study.

1. To measure the performance of selected Private sector banks in terms of financial perspective.
2. To measure the performance of selected Private sector banks in terms of Internal Business process perspective.
3. To evaluate the Profitability of selected Private Sector banks in terms of RoA and RoE.

Methodology

The present study evaluates the performance of Private Banks in India using selected ratio. The sample consists of top three banks in the private sector namely HDFC Bank, ICICI Bank and Axis Bank. Secondary data related selected three private bank were collected from the annual reports of the respective banks and from statistical tables relating to the banking sector in India for from the study period from 2010-11 to 2016-

17. In addition, profitability of selected Private sector bank is measured in terms of RoA and RoE. The relative performance is studied using mean values and standard deviation. Variance in the performance is analyzed using ANOVA analysis.

Analysis and Results

1. Financial Perspective

The Performance of HDFC Bank in Credit deposit ratio (CDR) in Table 1 shows a rising trend during the study period 2010-11 to 2016-17. The performance of ICICI Bank and Axis bank are also rising trend during the study period except 2016-17. The performance of ICICI Bank is good in two out of four variables considered for the study period during 2010-11 to 2016-17. Capital adequacy ratio is higher in ICICI bank in compare of other HDFC bank and Axis bank, which indicates asset quality is good in ICICI bank. Other side in ICICI Bank NNPAR is higher than other selected Private Banks. Consistency in the performance of ICICI Bank is observed CDR, CAR and HDFC Bank is NIM and NNPAR. ANOVA analysis in Table 2 reveals that there is a significant different in the performance of the banks in all four variable because p- value is less than 0.05.

Table 1 Performance of Selected Private Banks with Respect of Financial Perspective

Year	CDR (In %)			NIM (In %)			CAR (In %)			NNPAR (In %)		
	HDFC	ICICI	AXIS	HDFC	ICICI	AXIS	HDFC	ICICI	AXIS	HDFC	ICICI	AXIS
2010-11	76.70	95.91	75.25	3.80	2.21	2.70	16	20	13	0	1	0
2011-12	79.21	99.31	77.13	3.63	2.26	2.80	17	19	14	0	1	0
2012-13	80.92	99.19	77.97	3.94	2.58	2.83	17	19	17	0	1	0
2013-14	82.49	102.05	81.89	3.75	2.77	3.11	16	18	16	0	1	0
2014-15	81.08	107.18	87.17	3.79	2.94	3.07	17	17	15	0	2	0
2015-16	85.02	103.28	94.64	3.89	2.94	3.20	16	17	15	0	3	1
2016-17	86.16	94.73	90.03	3.83	2.81	3.00	15	17	15	0	5	2
Mean	81.65	100.24	83.44	3.80	2.64	2.96	16.29	18.14	15.00	0.00	2.00	0.43
Std. dev	3.26	4.32	7.33	0.10	0.31	0.18	0.76	1.21	1.29	0.00	1.53	0.79

Source: Annual reports of the banks and statistical tables relating to banks in India during 2010-11 to 2016-17

Table 2 Result of ANOVA

		Sum of Squares	df	Mean Square	F	Sig.
Credit Deposit Ratio (CDR)	Between Groups	1471.293	2	735.647	26.618	.000
	Within Groups	497.471	18	27.637		
	Total	1968.764	20			
Net Interest Ratio (NIR)	Between Groups	5.039	2	2.520	55.144	.000
	Within Groups	.822	18	.046		
	Total	5.862	20			
Capital adequacy ratio (CAR)	Between Groups	34.952	2	17.476	14.115	.000
	Within Groups	22.286	18	1.238		
	Total	57.238	20			
Net Non-performing assets to total advances ratio (NNPR)	Between Groups	15.524	2	7.762	7.887	.003
	Within Groups	17.714	18	.984		
	Total	33.238	20			

2. Internal Business perspective

The performance of ICICI Bank in Table 3 in variable CIR is boosting when compared to HDFC Bank and Axis Bank. With a lowest mean value of CIR, ICICI Bank is able to earn RoE compared to HDFC Bank and Axis Bank. ICICI Bank is exhibiting consistent performance in all three variables. Axis bank performance in BPE and PPE is higher than HDFC bank and ICICI Bank except 2016-17. After demonetization Axis bank performance is down in compare of other selected two banks. ANOVA analysis in Table 4 reveals that the variance in the performance of the banks is significant in BPE as the p – value is less than 0.05. No

significant difference in the performance of the banks in CIR and PPE are observed as the p-value is more than 0.05.

Table 3 Performance of Selected Private Banks with Respect to Internal Business Process Perspective

Year	CIR (In %)			BPE (Rs. In Cr.)			PPE (Rs. In Cr.)		
	HDFC	ICICI	AXIS	HDFC	ICICI	AXIS	HDFC	ICICI	AXIS
2010-11	45.13	32.22	39.45	6.61	7.76	12.55	0.07	0.09	0.13
2011-12	38.03	28.67	33.54	6.69	8.74	12.28	0.08	0.11	0.13
2012-13	38.02	28.67	32.72	7.76	9.39	11.86	0.10	0.13	0.14
2013-14	36.53	31.30	34.53	9.83	9.28	12.05	0.12	0.14	0.15
2014-15	36.84	32.70	34.74	10.70	11.29	14.29	0.13	0.17	0.17
2015-16	36.69	39.40	35.70	11.55	11.87	13.90	0.14	0.13	0.16
2016-17	37.84	42.68	46.42	14.21	11.76	13.91	0.17	0.12	0.06
Mean	38.44	33.66	36.73	9.62	10.01	12.98	0.12	0.13	0.14
Std. dev	3.02	5.36	4.79	2.80	1.62	1.02	0.04	0.02	0.04

Source: Annual reports of the banks and statistical tables relating to banks in India during 2010-11 to 2016-17

Table 4 Result of ANOVA

		Sum of Squares	df	Mean Square	F	Sig.
Cost to Income Ratio (CIR)	Between Groups	82.014	2	41.007	2.023	.161
	Within Groups	364.816	18	20.268		
	Total	446.829	20			
Business per Employee (BPE)	Between Groups	47.136	2	23.568	6.141	.009
	Within Groups	69.083	18	3.838		
	Total	116.218	20			
Profit per Employee (PPE)	Between Groups	.001	2	.001	.585	.567
	Within Groups	.019	18	.001		
	Total	.020	20			

3. Profitability Analysis

Table 5 shows that the overall performance expressed in term of profitability of HDFC Bank, ICICI Bank and Axis Bank during the study period is assessed using Return on Assets (RoA) and Return on equity (RoE). Mean score of HDFC bank's performance in all two variables are higher than the mean scores of ICICI Bank and Axis Bank. Axis Bank's performance is much better before 2016-17 but after demonetization Axis Bank's RoA and RoE registered lowest during the study period. ANOVA analysis in table 4 reveals that the performance of banks is significant in RoE as the p-value is less than 0.05. No significant difference in performance of banks in RoA as the p-value is more than 0.05.

Table 5 Profitability Analysis of Selected Private Banks (in Percentages)

Year	ROA			ROE		
	HDFC	ICICI	AXIS	HDFC	ICICI	AXIS
2010-11	1.41	1.26	1.39	15.47	9.35	17.83
2011-12	1.52	1.36	1.48	17.26	10.7	18.59
2012-13	1.68	1.55	1.52	18.57	12.48	15.64
2013-14	1.72	1.64	1.62	19.5	13.39	16.26
2014-15	1.73	1.72	1.59	16.47	13.89	16.46
2015-16	1.73	1.34	1.56	16.91	11.19	15.46
2016-17	1.68	1.26	0.61	16.26	10.11	6.59
Mean	1.64	1.45	1.40	17.21	11.59	15.26
Std. dev	0.12	0.19	0.35	1.39	1.71	3.99

Source: Annual reports of the banks and statistical tables relating to banks in India during 2010-11 to 2016-17

Table 6 Result of ANOVA

		Sum of Squares	df	Mean Square	F	Sig.
Return on Assets	Between Groups	.229	2	.115	1.948	.171
	Within Groups	1.059	18	.059		
	Total	1.289	20			
Return on Equity	Between Groups	113.981	2	56.990	8.231	.003
	Within Groups	124.633	18	6.924		
	Total	238.614	20			

Discussion and conclusion

The present study reports that the performance of ICICI Bank during the study period 2010-11 to 2016-17 was impressive with respect to financial performance and internal business prospective. And HDFC bank performance during the study period 2010-11 to 2016-17 was good with respect to Profitability analysis. During the study period 2010-11 to 2016-17 observed that HDFC bank performance with respect to financial performance, internal business prospective and profitability analysis is good in last study period 2016-17 in compare of another bank. Axis Bank performance is good till 2015-16 but after demonization axis bank performance is down.

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