COMPARISON OF FINANCIAL PERFORMANCE OF COMMERCIAL BANKS: A CASE STUDY IN THE CONTEXT OF INDIA (2009-2013)

Dr. Ansarul Haque

Department of Business Studies, Ibri College of Technology, Post Box No. 466, Postal Code- 516, Al Aqder,Ibri, Sultanate of Oman

ABSTRACT

In This Era, the banking sector is one of the fastest growing sectors, and a lot of funds are channelized through banks thereby making the banking system more and more complex wherein lies the importance to examine and evaluate concurrent performance of the banks: hence the researcher tries to present a case study of India in this context. To evaluate the performance of the Indian banks, the researcher has opted to compare the financial performance of different Scheduled Commercial Banks (SCBs) applying the parameters─ Return on Asset, Return on Equity and Net Interest Margin. Furthermore, his study proves if any significant difference of profitability means among different banking groups really exists. For this purpose, he has chosen the parameter of quantitative research using Analysis of Variance (ANOVA) from 2009 to 2013 following the global financial slump of 2008. To state, ROA for Public Sector Banks was recorded 0.97%in 2010 from 1.02% of 2009. For the State Bank of India group (SBI), it was a notch lower at 0.91% (2010) than 1.02% in 2009. ROE for all banks saw a decrease during 2009-2013: but the OPSBs and the NPSBs recorded increase in ROE from 14.6 % and 10.6 % in 2009 to 16.22% and 16.51% in 2013 respectively. For all the banks, NIM shows a significant rise during 2011-12 excluding the FBs. Furthermore, the result indicates that there is no significant means in difference of profitability among various banking groups in respect of ROA and NIM, yet a significant means of difference is seen among the peer groups in terms of ROE.

KEYWORDS

Financial Performance, Return on Asset, Return on Equity, Net Interest Margin, Commercial Banks, etc.

1. INTRODUCTION

The growth of the banking industry is closely linked with the growth of the overall economy. India being of the fastest growing economies in the world is set to remain on that path for many years to ensue. Sound financial health of a bank is a guarantee not only for its depositors, but also it is equally significant for the shareholders, employees and entire economy. In this direction, progressive efforts have been continually made to evaluate the performance of different banks measuring their financial position and effective management (Din Sangmi, 2010).

In the last decade of the 20th century and the first fourteen years of the 21st century, the banking sector in India has undergone many changes. In 1991 the Indian banking sector has experienced a remarkable transformation on account of financial sector reform and economic development. Banks have faced severe competition and rise of cost as a result of regulatory requirements, financial and technological innovations, advent of foreign banks, and also challenges posed by the financial crisis of 2008. These changes have notably affected the performance of the Indian commercial banks and have also resulted into expectation of boosting corporate credit growth in the economy providing opportunities to banks for lending in order to fulfil these future requirements.

The slowdown in domestic economy has influenced the performance of Indian banking sector during 2011-12. Consequently, balance sheet expansion of banks was lower and major profitability indicators, i.e. Return on Assets (ROA) and Return on Equity (ROE) dipped marginally. However, cost to income ratio of banks improved during 2011-12 reflecting marginal gains in efficiency. Though Indian banks remained well-capitalized, concerns about the growing Non-Performing Assets (NPAs) loomed large. As progress has been made in expanding banking coverage, greater efforts are needed to achieve meaningful financial inclusion (Report on Trend and Progress of Banking in India, 2011-2012).

1.1 PANORAMIC VIEW OF BANKING SECTOR IN INDIA

The origin of banking system in India can be noticed during last decades of the 18th century. Modern banking in India dates as far back to 1786 with the establishment of General Bank of India. In the early nineteenth-century, three Presidency Banks were established in Bengal, Bombay and Madras and in 1921 they were merged into the newly formed Imperial Bank of India. The Imperial Bank of India was converted into State Bank of India under the State Bank of India Act, 1955. The Swadeshi Movement witnessed the birth of several indigenous banks such as Punjab National Bank, Bank of Baroda and Canara Bank.

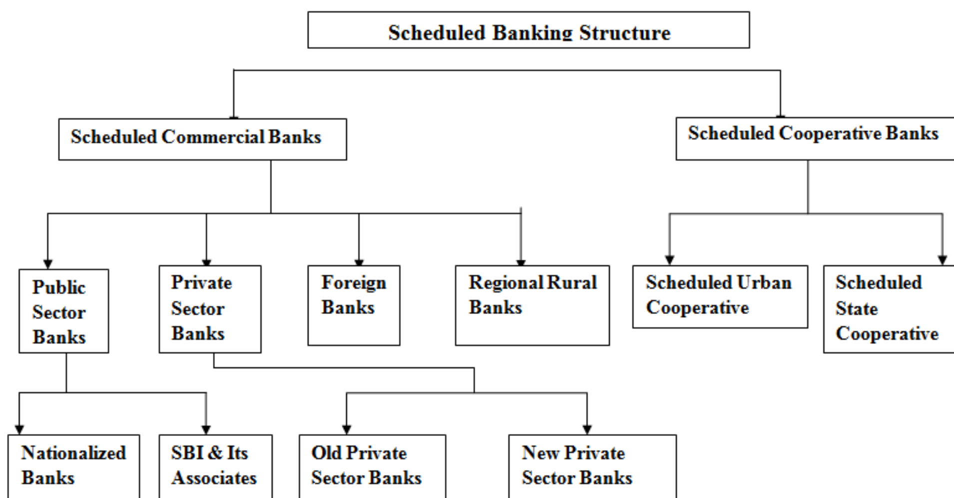
In order to increase its control over the banking sector, the Government of India nationalized 14 major private sector banks with deposits exceeding Rs.500 million in 1969. This has raised the number of scheduled bank branches under government control to 84% from 31% (Chakraborty, 2006).

The following are the steps taken by the Government of India to regulate banking institutions in the country:

- 1949: Enactment of Banking Regulation Act.
- 1955: Nationalization of State Bank of India.
- 1959: Nationalization of SBI subsidiaries.
- 1961: Insurance cover extended to deposits.
- 1969: Nationalization of 14 major banks.
- 1971: Creation of Credit Guarantee Corporation.
- 1975: Creation of Regional Rural Banks.
- 1980: Nationalization of seven banks with deposits over 200 crore.

After the nationalization of banks, the branches of the public sector banks rose approximately to 800% in deposits and advances took a massive leap by 11,000%. Banking under the reviving and protective canopy of the Government ownership induced productive public faith bolstering further sustainability to these institutions.

The present banking system can be classified into following categories: (i) Public Sector Banks
(ii) Private Sector Banks
(iii) Foreign Banks
(iv) Regional Rural Banks
(v) Co-operative Sector Banks
(vi) Development Banks



(**Source:** Report on Trend and Progress of Banking India, RBI Publication, 2007-2008.

2. REVIEW OF LITERATURE

In the analysis regarding financial performance of State Bank of India for the year 2000-2012 based on parameters of different ratios like Capital Adequacy Ratios, Asset Quality Ratios, Capability Ratios, Profitability Ratios and Liquidity Ratios, the researcher has investigated that the bank's financial performance has been almost progressive over the operational periods considered for the study. The study emphasized on relevant areas where the bank has to concentrate on improving its financial performance (Aravind & Nagamani, 2013).

The study on financial performance of commercial banks in Tanzania has found that overall performance of the banks has increased during the first two years of study. Despite the global financial crisis of 2008 and 2009, banking system in the country remained stable and adequately capitalized (Zawadi Ally, 2013). The performance of Public Sector Banks as compared to its peer groups is less satisfactory. However, the efficiency of domestic private banks is equally at par

with foreign-owned banks which are joint venture in nature. Moreover, the result shows that Capital Adequacy Ratio, interest expenses to total loan and net interest margin have a considerable impact on Return on Assets. More particularly Capital Adequacy Ratio has

influenced Return on Equity greatly (Jha and XiaofengHui, 2012). In the study of Comparative Performance of Different Bank Groups from the Era of Global Recession for the period 2006-2010, the performance of banking groups has been compared as based on their Credit Deposit Ratio and NPA. The result reveals that prior to global recession, Foreign Bank group had an achieving edge over other banking sectors. Hitherto performance of private, nationalized and SBI bank groups was recorded as satisfactory (Puneet & Sonali, 2011). In the paper on financial performance of commercial banks, the financial performance of the two major banks namely J&K Bank and Punjab National Bank operating in northern India has been evaluated by using CAMEL model. The result reveals that the position of the banks under study is sound and commendable so far their capital adequacy, asset quality, management capability and liquidity are concerned (Sangmi and Tabasum, 2010). In the study made on financial performance of Islamic and conventional banks in Pakistan from 2006 to 2009 in order to determine the significance of mean differences of financial ratios between and among the banks, the researcher has estimated 18 financial ratios to measure the performance in terms of profitability, liquidity, capital adequacy, and the likes. The result shows that Islamic banks proved to be more liquid, less risky and operationally efficient than conventional banks (Sanaullah, 2009).

3. OBJECTIVES OF THE STUDY

1. The first objective of the present study is to evaluate and compare the financial performance of commercial banks from 2009 to 2013 based on financial analysis ratios. This analysis will give an overall assessment/estimate of the present financial position and performance of various bank groups that will help identifying the well performing groups and specific banks with performance.

2. The second objective of the study is to establish if there is any significant difference of profitability means among various banking groups. For this purpose, the researcher has used the tool of Analysis of Variance (ANOVA).

3.1 HYPOTHESES OF THE STUDY

In order to find the desired results about second objective of the study, the researcher has proposed following null hypotheses:

H_0: "The Return on Assets of the different banks for the study is equal" **H_0:** "The Return on Equity of the different banks for the study is equal" **H_0:** "The Return on Equity of the different banks for the study is equal"

4. METHODOLOGY

4.1 Research Design

The researcher has used quantitative technique of research in the present study. Quantitative research is all about quantifying relationships between variables by employing different statistical tools for descriptive data analysis and hypothesis testing (Creswell, 2008).

4.2 Sources of Data

The study is based on the secondary data which has been collected from various sources such as Report on Trend and Progress of Banking in India (various issues), Publication of Reserve Bank of India Bulletin (various issues), Financial Reports of different banks and other publications of the Government of India.

4.3 Research Tools

This study uses a descriptive financial analysis to describe, measure, compare and classify the financial positions of Indian commercial banks for the period of five years from 2009 to 2013 founded on different financial ratios. Further to examine if there is any difference in financial performance of different banking groups, the scholar has used analysis of variance (ANOVA) to test the validity of the proposed hypotheses.

5. EMPIRICAL RESULTS AND DISCUSSION

5.1 Banking Sector Profitability Performance

Profitability is the guiding factor for performance of banking sector. It strengthens the financial position of banks and averts unexpected loss accrued. An institution that consistently encounters loss will ultimately deplete its capital base which will finally put the debt as well as debt-holders at risk. Hence the banking sector designs its strategies of operations and performance in order to achieve profit maximization objective.
The researcher in the present study has used different ratios or indicators to measure the profitability position of commercial banks, namely— Return on Asset (ROA), Return on Equity (ROE) and Net Interest Margin (NIM).

5.1.1 Return on Asset

Return on Assets (ROA) is a financial ratio displaying the percentage of profit which a firm earns in relation to its overall resources. It is rather known as net income (or pretax profit)/ total assets. ROA stands for Profitability Ratio in relation to management's performance in using the assets of the business to generate income. ROA is used by companies and banks to furnish them with a valuable tool for evaluating their progress including use of resources and financial strength. The financial position of different banking groups has been analyzed in the table below:

TABLE 1 – RETURN ON ASSETS (ROA) - BANK GROUP-WISE (2009-2013) (In Percent)

Bank Group	**2009**	**2010**	**2011**	**2012**	**2013**
Scheduled Commercial Banks (SCBs)	1.05	1.1	1.1	1.08	1.03
Public Sector Banks	1.02	0.97	0.96	0.88	0.78
Nationalized Banks	1.03	1	1.03	0.88	0.74
State Bank of India & Group (SBI Group)	1.02	0.91	0.79	0.89	0.88
Old Private Sector Banks	1.15	0.95	1.12	1.2	1.26
New Private Sector Banks	1.12	1.38	1.51	1.63	1.74
Foreign Banks	1.99	1.26	1.75	1.76	1.94

(Source: Report on Trend and Progress of Banking India- Various Issues)

The statistical data in Table 1 indicates the increasing trend in ROA of new private banks which is 1.12% in 2009 and 1.74% in 2013 followed by Old Private Banks as 1.15% in 2009 and 1.26% in 2013. However, it records a low figure of 0.95 in 2010. Foreign Banks record 1.99% ROA in 2009 which is the highest among the peer groups but it decreases to 1.26% in 2010 due to slump in the domestic economy. Again it registers a gain of 1.94% in 2013. The other peer groups such as the SBI group, Nationalized Banks, and Public Sector Banks have seen a down trend in ROA. A figure of 1.02% was recorded for SBI group, 1.03% for nationalized banks, and 1.02% for Public Sector Banks in 2009, but it came to witness a decrease of 0.88%, 0.74%, and 0.78% for all banking groups in 2013 respectively.

5.1.2 Return on Equity

ROE indicates how profitable a company is by comparing its net income to its average shareholders' equity. ROE is a measure of efficiency. A rising ROE suggests that a company is increasing its ability to generate profit without much capital. It also demonstrates how well a company's management is deploying the shareholders' capital. In other words, the higher ROE is always the better and its fall is usually a problem. This is exhibited in the table below:

TABLE 2– RETURN ON EQUITY (ROE) - BANK GROUP-WISE (2009-2013) (In Percent)

Bank Group	**2009**	**2010**	**2011**	**2012**	**2013**
Scheduled Commercial Banks (SCBs)	15.44	14.31	14.96	14.6	13.84
Public Sector Banks	17.94	17.47	16.9	15.33	13.24
Nationalized Banks	18.05	18.3	18.2	15.05	12.34
State Bank of India &Group (SBI Group)	17.74	15.92	14.11	16	15.29
Old Private Sector Banks	14.69	12.29	14.11	15.18	16.22
New Private Sector Banks	10.69	11.87	13.62	15.27	16.51

(Source: Report on Trend and Progress of Banking India- Various Issues)

The data on ROE in table 2 for all banks shows a decreasing trend during the period of 2009 to 2013. However, Old Private Banks record an increasing trend from 14.69% in 2009 to 16.22% in 2013 followed by New Private Banks from10.69% to 16.51% for the same year. Thus the performance of private banks group is strengthened. In 2009, the SBI group performs better as it records 17.74% ROE. However, a moderate decrease in performance can be seen after 2009. Nationalized Banks also do not enjoy sound performance as their ROE decreases from 18.05% in 2009 to 12.34% in 2013 followed by Public Sector Banks from 17.94% to 13.24% for the same year. Foreign Banks could not perform well as they record 13.75% in 2009 and 11.52% in 2013 respectively.

5.1.3 Net Interest Margin

Net Interest Margin (NIM) is the difference between the interest income generated by banks and the amount of interest paid out to their lenders (for example─ deposits) relatively to the amount of their (interest earning) assets. It is usually expressed as a percentage of what the financial institution earns on loans in a time period and other assets minus the interest paid on borrowed funds divided by the average amount of the assets on which it earned income in that time period (the average earning assets). NIM has been depicted bank group-wise in the table below:

TABLE 3 – NET INTEREST MARGIN (NIM) - BANK GROUP-WISE (2009-2013) (In Percent)

Bank group	**2009**	**2010**	**2011**	**2012**	**2013**
Scheduled Commercial Banks (SCBs)	2.62	2.54	2.92	2.9	2.79
Public Sector Banks	2.35	2.3	2.78	2.76	2.57
Nationalized Banks	2.32	2.26	2.75	2.55	2.39
State Bank of India &Group (SBI Group)	2.39	2.36	2.84	3.24	2.98
Old Private Sector Banks	2.79	2.56	2.95	2.95	2.94
New Private Sector Banks	2.88	3	3.16	3.1	3.3
Foreign Banks	4.33	3.96	3.86	3.96	3.89

(Source: Report on Trend and Progress of Banking India- Various Issues)

It is clear from Table 3 that there has been a down trend in NIM for all the banks during the year 2010. The factors responsible for this decline are increasing trends of non-performing loans for banks, high operating costs, and the likes. However, an increase in trend for all banking groups has been recorded during 2011 except Foreign Banks which register growth of 3.86% in 2011 against 3.96% in 2010 and 4.33% in 2009 which is the highest. During 2012, the SBI group performed well as it records 3.24 % followed by Foreign Banks. Though in 2013 most of the banks have faced a decline in their financial position, New Private Sector Banks register an increase of 3.3% indicating their strengthened position.

5.2 Data Analysis and Results

The second objective of the study is to find out if there is any significant difference of profitability of different banking groups based on different profitability ratios such as ROA, ROE and NIM during 2009 and 2013 for which the researcher has tested the proposed null hypotheses.

5.2.1 Return on Assets (ROA)

With a view to find the degree of association between the Return on Assets of selected banks, Analysis of Variance has been applied and the result is exhibited in Table 4.

Hypothesis

H0: "The return on assets of the different banks for the study is equal"

TABLE 4- ANALYSIS OF VARIANCE FOR RETURN ON ASSETS

Source of Variation	SS	Df	MS	F	P- value	F crit
Between Groups	3.097629	6	0.516271	19.32567	8.92	2.445259
Within Groups	0.748	28	0.026714			
Total	3.845629	34				

The results of the ANOVA are presented in an ANOVA table. This table contains columns labeled "Source"; "SS or Sum of Squares"; "Df - for degrees of freedom"; "MS - for mean square"; "F or F-ratio"; and "P- probability, sig. of F", and F crit – the critical value of the ANOVA test procedure. The row labelled "Between Groups", having a probability value associated with it, is of great importance at this time. The other rows are used mainly for computational purposes. Of all the information presented in the ANOVA table, the major interest of the researcher will most likely be focused on the value located in the "P-value column. If the number (or numbers) found in this column is (are) less than the critical value (α) set by the experimenter, then the effect is said to be significant. Since this value is usually set at 0.05 of significance level, any value less than this will result in significant effects, while any value greater than this value will result in non-significant effects.

It is evident from the ANOVA table that 'P'-value (8.92) is greater than 0.05(α), exhibiting an insignificant result implying that there is not any significant difference in the performance of select banks. Since the evidence is not sufficient for accepting the hypothesis that there is a significant means difference of ROA among the different banking groups, hence the above proposed null hypothesis is accepted. It shows that the performance of all the banks in terms of ROA is the same.

5.2.2 Return on Equity (ROE)

With a view to find the degree of association between the Return on Equity of the selected banks, Analysis of Variance has been applied exhibiting its outcome in Table 5.

Hypothesis

H0: "The return on equity of the different banks for the study is equal"

TABLE 5- ANALYSIS OF VARIANCE FOR RETURN ON EQUITY

Source of Variation	SS	Df	MS	F	P-value	F crit
Between Groups	115.4409	6	19.24015	5.199862	0.001053	2.445259
Within Groups	103.6036	28	3.700127			
Total	219.0445	34				

The ANOVA table shows that P-value (0.001053) is less than 0.05 (α) exhibiting the result as significant. This implies that financial performance of different banking groups differs from each other in terms of Return on Equity (ROE). As P-value <0.05, hence the above proposed hypothesis is rejected and alternate hypothesis could be accepted that the return on equity of different banks is different.

5.2.3 Net Interest Margin (NIM)

With a view to find the degree of association between the net interest margins of the selected banks, Analysis of Variance has been applied and the result is depicted in Table 6.

Hypothesis

H_0: "The net interest margin of the different banks for the study is equal"

TABLE 6- ANALYSIS OF VARIANCE FOR NET INTEREST MARGIN

Source of Variation	SS	Df	MS	F	P-value	F crit
Between Groups	8.032194	6	1.338699	26.53592	2.49	2.445259
Within Groups	1.41256	28	0.050449			
Total	9.444754	34				

It is evident from the ANOVA table that 'P' value (2.49) is greater than 0.05 (α). It is exhibiting that the result was found to be insignificant. There is not any significant difference in the performance of select banks. Since the evidence is not sufficient for accepting the hypothesis that there is a significant means difference of Net Interest Margin (NIM) among the different banking groups, hence the above proposed null hypothesis is accepted implying that the performance of all the banks in terms of NIM is the same.

6. CONCLUSION

In the present research paper, the researcher has analyzed the financial performance of Indian commercial banking sector over five years from 2009 to 2013. The financial performance of different banking groups in terms of profitability has been evaluated and appraised based on different ratios like ROA, ROE and NIM. The outcomes demonstrate that most of the banking groups have witnessed a downturn performance in terms of ROA from 2009 to 2010. For Public Sector Banks it is recorded 0.97% in 2010 against 1.02% in 2009. ROA of the SBI group is also a notch lower at 0.91% 2010 than 1.02% during the previous year. During 2013, the position of SCBs, Old Private Sector Banks, New Private Sector banks and Foreign Banks has improved, but the other peer groups require improving upon their performance. Return on Equity (ROE) for all banks has decreased during 2009-2013: however, an increasing trend has been registered by the Old Private Sector Banks and New Private Sector Banks from 14.69% and 10.69% in 2009 to 16.22% and 16.51% in 2013 for both groups respectively. All the banks have recorded growth in NIM from 2009 to 2013 displaying their robust financial position with the exception of Foreign Banks which displays a robust growth in 2009 of 4.33% over the progressive years. Furthermore, the study establishes that there is no significant means difference of profitability among different banking groups in terms of ROA and NIM based on the result shown in the ANOVA table. This implies that the financial performance of different banking groups has remained same in terms of Return on Asset and Net Interest Margin. However, a significant means difference is found among different banking groups in terms of ROE which means the financial performance of select banks differs from each other in terms of ROE. Apart from the turmoil experienced in international financial markets and the domestic cyclical economic developments during the crisis period, compared to other countries, bank performance of Indian banking sector has been found in a sound position. Hence to sum up, the performance of the Indian banking system cannot be underestimated, albeit it needs to extend a more encouraging and outstanding support to the process of economic recovery to prove its efficiency vibrantly ensuring greater sustainability and growth.

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