# A COMPARATIVE STUDY OF INDIAN PUBLIC SECTOR BANKS DURING 2008 – 2013

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## ABSTRACT

*The growth and performance of banks are the asset of every country. The main aim of the bank is to accepting deposit and lending money to the general public. To capture the moment of public banks in India a comparative analysis is done in the paper. The paper aims to compare the Indian public sector banks during 2009 – 2013. For this study seven banks has been taken into account and six ratios have been contributed to compare the banks.*

**Key words:** Banks, Performance, Ratios.

## Introduction

Banking institutions have always played a significant role in the economic development of the nations through their financial services. The main aim of the banking industry is to accepting deposit and lending money to the general public, who are in need off. Banking in India was defined under Section 5(A) as "any company which transacts banking, business" and the purpose of banking business defined under Section 5(B),"accepting deposits of money from public for the purpose of lending or investing, repayable on demand through cheque/draft or otherwise". To ensure the capital formation, the mobilization of capital amount is a important thing it can be endure through accepting deposit so the amount which has been lend through loan so that interest which is generated out of the loan amount can be treated as interest income to the bank. But then the banks has to pay interest to the deposit holders it is called to be as an interest expenses to the banks.

In olden days there is no regular guidelines regarding deposits and lending but many private players had done the financial service to the public. But there has no fixed interest rate and all that. After Reserve Bank of India started its operation they have given many policy in followed as per regulations and guidelines given by the Reserve Bank of India.

In India the banks are running under Public sector banks, Old private sector banks and new private sector banks. After 1980's, the foreign banks also started entering into India to run their business. Many corporation banks and rural banks are also involving themselves in the banking activity to serve the people who are in rural areas.

There are many banks are functioning in our country among them public sector banks are playing a major role in the progress of the economy. So here the paper provides the performance of banks among the selected ratios during 2009 -2013.

**Review of literature**

There are many given many reviews which were all given by many authors about the functions of banking industry their improvement, growth, sustainability, performance etc.

Siems and Barr's (1998), evaluated the productive efficiency of US commercial banks 1984-1998 by using data envelopment analysis (DEA) model. The input and output measures used and relates bank performance measures to efficiency. Describes the CAMELS rating system used by bank examiners and regulators; and finds that banks with high efficiency scores also have strong CAMELS ratings. Summarizes the other relationship identified and recommends the use of DEA to help analysts and policy makers understand organizations in greater depth, regulators and examiners to develop monitoring tools and banks to benchmark their processes.

Narasimham Committee. This committee, which submitted its report in 1991, suggested various measures to improve the efficiency and health of banking sector by making it more competitive and vibrant (Ahluwalia, 2002). It affected the productivity, profitability and efficiency of the banks to a large extent (Mohan, 2005). Now more than two decade has elapsed after banking sector reforms, hence it is high time to analyze that how the new banking policy have affected the banking operations of the different banks.

DR.M.Dhanabhakyam, M.Kavitha (2012), to see the financial performance of the selected public sector banks with the different norms like ratio analysis, correlation and regression. For this study six Public Sector Banks are selected. The result shows that public sector banks performing well in the way of growth rate and efficiency in the way of finance. The old private sector banks and new private sector banks play a vital role in marketing of new type of deposits and advances schemes.

Eken and Kele (2011) measure bank branch performance using Data Envelopment Analysis (DEA) in Turkish bank branches and conclude that branch size and scale efficiency are related to each other. With the help of Data Envelopment Analysis and Tobit Model San, Theng and Heng (2011) compare the efficiency of domestic and foreign banks in Malaysia and find that Domestic banks have a higher efficiency level than foreign banks.

Sanjeev Kumar Srivastaw (2013), to analyze the selected foreign and new private sector banks operating in India by using financial ratios. The Performance has been compared by dividing the total study period into two parts viz. Supra and Umbra periods. They analyzed the asset qualities have an improvised strategy for both the foreign and new privates sector banks operating in India. It has also been found that both Foreign Banks and New Private Sector Banks improved the quantum of priority sector lending in the Supra period by taking advantages of the existing provisions.

**Research Methodology**

Indian public sector banks have been selected for the study, among nineteen public sector banks in India seven are selected for this study. Data used for the study was secondary data it was collected from RBI statistics, Prowess and Capitoline database during 2009 – 2013. The main aim of this paper is to compare them according to various ratios that are given below.

Ratios selected for the analysis were:

- CRAR – Capital to Risk weighted Asset Ratio
- Interest Spread
- Non-performing assets
- Net interest margin
- Return on assets
- Return on equity

**Analysis and Interpretation**

To compare the performance of banks ratio has been selected and their rate has been provided in the following table.

**CRAR – Capital to Risk weighted Asset Ratio**

This capital to risk weighted asset ratio is used to protect depositors and promote the stability and efficiency of financial systems around the bank and world. e.g. a capital adequacy ratio of 8 percent means that a bank's capital is 8 percent of the size of its credit exposures.

| Banks/Year | 2009 | 2010 | 2011 | 2012 | 2013 |
|---|---|---|---|---|---|
| Andhra Bank | 13.22 | 13.93 | 14.38 | 13.18 | 11.76 |
| Bank of Maharashtra | 12.05 | 12.78 | 13.35 | 12.43 | 12.59 |
| Corporation bank | 13.61 | 15.37 | 14.11 | 13.00 | 12.33 |
| Dena bank | 12.07 | 12.77 | 13.41 | 11.51 | 11.03 |
| Indian bank | 12.07 | 12.77 | 13.41 | 11.51 | 11.03 |
| Indian overseas bank | 13.20 | 14.78 | 14.55 | 13.32 | 11.85 |
| Oriental bank of commerce | 12.98 | 12.54 | 14.23 | 12.69 | 12.04 |

Capital Adequacy Ratio = (Tier 1 Capital + Tier 2 Capital) / Risk-weighted Exposures

The higher the capital adequacy ratio tends to the higher the level of protection available to depositors. Under BIS (Bank for International Settlements) rules, banks are required to maintain a certain level of capital against their risk-adjusted assets. Analyzing the bank's capital adequacy ratio Indian overseas bank shows the consecutive process while compare to other banks all the other selected banks also shows the higher the level of capital adequacy ratio.

**NPA – Nonperforming assets**

| Banks/Year | 2009 | 2010 | 2011 | 2012 | 2013 |
|---|---|---|---|---|---|
| Andhra Bank | 0.18 | 0.17 | 0.38 | 0.91 | 2.45 |
| Bank of Maharashtra | 0.79 | 1.64 | 1.32 | 0.84 | 0.52 |
| Corporation bank | 0.29 | 0.31 | 0.46 | 0.87 | 1.19 |
| Dena bank | 1.09 | 1.21 | 1.22 | 1.01 | 1.39 |
| Indian bank | 0.18 | 0.23 | 0.53 | 1.33 | 2.26 |
| Indian overseas bank | 1.33 | 2.52 | 1.19 | 1.35 | 2.50 |
| Oriental bank of commerce | 0.65 | 0.87 | 0.98 | 2.21 | 2.27 |

A loan or lease that is not meeting its principal and payments. Banks classify the non performing assets as nonperforming assets any commercial loans which are more than 90 days overdue and any consumer loans which are more than 180 days overdue. The higher the amount of NPA it implies to the weaker the bank revenue. Here we can see the many of the banks NPA shows lower during 2009 and started to increased during 2013 so the banks have to concentrate to reduce their NPA by collecting the unpaid loans from the loan holders.

**NIM – Net interest margin**

| Banks/Year | 2009 | 2010 | 2011 | 2012 | 2013 |
|---|---|---|---|---|---|
| Andhra Bank | 2.60 | 2.76 | 3.23 | 3.22 | 2.77 |
| Bank of Maharashtra | 2.34 | 1.99 | 2.67 | 3.00 | 2.92 |
| Corporation bank | 2.20 | 1.92 | 2.30 | 2.05 | 1.92 |
| Dena bank | 2.44 | 2.07 | 2.75 | 2.66 | 2.37 |
| Indian bank | 3.38 | 3.41 | 3.62 | 3.36 | 2.97 |
| Indian overseas bank | 2.57 | 2.51 | 2.72 | 2.52 | 2.26 |
| Oriental bank of commerce | 1.96 | 2.33 | 2.80 | 2.49 | 2.49 |

The net interest margin can be used to track the profitability of a bank's investing and lending activities over a time period.

Net Interest Margin = (Investment Returns – Interest Expenses) / Average Earning Assets.

Here in the net interest margin table shows that all the selected banks shows the positive net interest margin and it denotes that the net investment is higher than the interest expenses because the negative net interest margin shows that interest expenses are higher than the investment return.

**Interest spread**

| Banks/Year | 2009 | 2010 | 2011 | 2012 | 2013 |
|---|---|---|---|---|---|
| Andhra Bank | 16269.05 | 21947.37 | 32209.7 | 37593.22 | 37570 |
| Bank of Maharashtra | 12565.23 | 12962.55 | 19683.99 | 25170.89 | 30333 |
| Corporation bank | 16909.77 | 19033.41 | 29397.43 | 31468.99 | 34259 |
| Dena bank | 10644.24 | 11000.22 | 17633.62 | 21010.03 | 23831 |
| Indian bank | 26085.12 | 31611.86 | 40361.12 | 44180.02 | 45242 |
| Indian overseas bank | 28695.9 | 31678.64 | 42080.26 | 50162 | 52519 |
| Oriental bank of commerce | 19964.97 | 29074.37 | 41775.49 | 42157.91 | 47012 |

Interest spread is calculated as Interest income – interest expenses. Interest spread is the difference between the interest earned in the loans, securities and other income earnings and the interest expenses line deposits and other interest paying liabilities. Here interest spread for all the selected banks are showing positive and increased way of spread it implies that interest income is higher than the interest expenses.

**Return on equity**

| Banks/Year | 2009 | 2010 | 2011 | 2012 | 2013 |
|---|---|---|---|---|---|
| Andhra Bank | 18.94 | 25.96 | 23.24 | 19.25 | 16.19 |
| Bank of Maharashtra | 17.46 | 16.35 | 9.68 | 9.91 | 13.66 |
| Corporation bank | 19.57 | 21.93 | 21.89 | 19.54 | 16.08 |
| Dena bank | 21.29 | 21.43 | 19.55 | 19.75 | 15.83 |
| Indian bank | 20.26 | 20.18 | 19.27 | 17.19 | 13.89 |
| Indian overseas bank | 22.07 | 9.63 | 12.73 | 9.88 | 4.47 |
| Oriental bank of commerce | 13.51 | 14.51 | 15.55 | 9.91 | 10.74 |

ROE = Net income / Average share holder equity

Return on equity shows the effective utilizing of investors money in the banks. The selected banks are efficiently utilizing the investors money.

**Return on assets**

| Banks/Year | 2009 | 2010 | 2011 | 2012 | 2013 |
|---|---|---|---|---|---|
| Andhra Bank | 1.09 | 1.39 | 1.36 | 1.19 | 0.99 |
| Bank of Maharashtra | 0.72 | 0.70 | 0.47 | 0.55 | 0.74 |
| Corporation bank | 1.24 | 1.28 | 1.21 | 1.06 | 0.88 |
| Dena bank | 1.02 | 1.01 | 1.00 | 1.08 | 0.86 |
| Indian bank | 1.62 | 1.67 | 1.53 | 1.31 | 1.02 |
| Indian overseas bank | 1.17 | 0.53 | 0.71 | 0.52 | 0.24 |
| Oriental bank of commerce | 0.88 | 0.91 | 1.03 | 0.67 | 0.71 |

ROA = Annual net income / total assets

The higher the return on assets shows the better earnings in money on less investment. The higher in term return on asset here Indian bank shows greater return on assets while compare to other banks for all the selected years.

**Findings and conclusion**

This paper studies about the comparative study of public sector banks in India. It covers around seven banks with the respective ratios. Capital adequacy ratio of the banks shows a good one over all the selected period of time and it also shows more than 12.5% for all the banks. The banks shall concentrate in nonperforming assets even though they have minimum percentage of NPA but then they have a fluctuation during the cores of time the banks shall concentrate on collecting the loans from loan holders. Return on equity and return on assets are prevailing in good manner. Interest income is higher than the interest expenses that have shown in the spread.

To conclude all the banks performing in a better one they are working in a competitive manner in improvising the strength of the banks in India.

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