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RATIO REVEALATIONS FOR THE BANKING SECTOR; A REVIEW

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ABSTRACT

This paper investigates the performance of the public and private sector banks of India. Financial ratios are employed to measure the viability of the banks in the past few decades. Much analysis has been done in the banking sectors to stabilize the economy. This review paper focusses on drawing attention towards the ratio analysis steps formulated in the past decades.

Introduction

It is inferred from various studies that monitory policies in India has a direct effect on economic development of the country. These studies use different econometric methodologies, which offer different results regarding the existence and direction of causality between banking sector and economic growth.Banks play a very significant role in the economic development of our country. Banks have control over a major part of the supply of money in circulation. If the banking system in a country is effective, efficient and disciplined it brings about a rapid growth in the various sectors of the economy. In India like many other developing countries, the banking sector has been the dominant player in the country's financial system. The question whether economic growth of a country depends on the banking system of that country has been an extensive subject of empirical research since last few decades.

In recent past the scams in banking sector, failure and closure of unviable branches, imposition of penalty by the regulators and payment of heavy money claims due to bankruptcy of cooperative banks are few significant reasons which persuade to enquire into the financial affairs of these institutions. Many banks became insolvent and others are on the brink of mergers or acquisition.

Ratio analysis is a useful management tool that will improve your understanding of financial results and trends over time, and provide key indicators of organizational performance. Bankers will use ratio analysis to pinpoint strengths and weaknesses from which strategies and initiatives can be formed. Funders may use ratio analysis to measure your results against other organizations or make judgments concerning management effectiveness and mission impact.

Ratio analysis as a tool will be used to conduct a quantitative analysis of information detailed in the financial statements of the banks. In the present study, ratio analysis will be used to interpret the information contained in the financial statements. As, one of the limitation of ratio analysis is that it relates only one input to one output at a time and does not indicate the scope for improvements for the firms to become efficient, Data envelopment analysis (DEA) will also be used in this study to evaluate the efficiency of the bank.

Reviews

UrvashiShrivastava, Bobby Brahme Pandey and Daljeet Singh Wadhwa (September 2011) in their paper “Financial Soundness and Performance of AXIS Bank of India”. The analysis was done with the help of Capital Adequacy ratio, Debt-Equity ratio and Advances to Assets ratio.

Nutan N. Thoke and Parikshit K. Pachorkar in their paper titled “How financial indicators are correlated to private and public sector banks in India”(March 2012). Using parameters like Return on Assets and Interest Income size to Bank size, Assets Utilization ratio and Operating Efficiency ratio, they concluded that private sector banks are earning more than public sector banks.

Khalid Ashraf Chisti (2012) in their case study “The Impact of Asset Quality on Profitability of Private Banks in India” have analyzed the quality of loan on a bank’s performance. On the basis of Profitability and Return on Assets ratios, he analysed that higher quality of the loan processing activities (before loan approval) and lower non-value-added activities (that is required to process problematic loans) will lead to improvement in banking operating performance.

Dr. N. Kavitha during April 2012 has performed “An assessment- Asset and Liability Management of Scheduled Commercial Banks in India” to know the optimal mix of assets and liabilities of the commercial banks. Using Profitability ratios, she illustrated that SBI and its subsidiaries are better performers than other private and nationalized group of banks.

Shipra Gupta (2012) in the paper “Analysis of Leverage Ratio in selected Indian Public Sector and Private Sector banks”uses Leverage Ratio to illustrate a clear scenario of leverage in a specific bank as well as in the whole financial system .

Esha Sharma (September 2012) through the paper “Financial Analysis of ICICI Bank: Growth with the Subsequent Years” has emphasised on the financial performance of the ICICI bank with the help of different research and statistical tools. Ratio analysis of ICICI has illustrated the financial soundness of the banks for last 5 years.

Dr. VirendraKoundal (September 2012) in the paper “Performance of Indian banks in Indian Financial System” found that new banks are having better efficiency than old ones. He also stated that efficiency and profitability are interrelated.

To compare the performance of private and public sector banks, Mishra Aswini Kumar, G. Sri Harsha, ShiviAnand and Neil Rajesh Dhruva (October 2012) in their paper “Financial performance of public and private sector bank during the period 2000-2011” opined that private sector banks are heading towards convergence, not in the short, but in the long run. Many such banks like ICICI, Axis, and HDFC lie in a similar rank region.

The paper “Indian Overseas Bank – An Analysis of the Financial Position” by S. Benon, M. Suresh and J. Arunkumar (October 2012) deals with comparative analysis of all scheduled commercial banks on the basis of key financial factors. The research also dealt with the comparison of total deposits and advances of the banks with the corresponding profitability ratios.

Dr. Anurag. B. Singh and Ms. PriyankaTandon in their paper “A Study of Financial performance of SBI and ICICI Bank”, (November 2012) used ratios such as Credit Deposit and Net Profit margin to analyze and compare the financial performance of SBI and ICICI Bank. They explained that SBI is growing well and financially sound than ICICI Bank. But, in context of deposits and expenditures, ICICI bank has better managing effectiveness than SBI.

In the same period (November 2012), Avneet Kaur through her paper “An Empirical Study on the Performance Evaluation of Public Sector Banks in India” focused on the key variables such as Income & Expenditure, Profitability Performance and Non-Performing Assets. She also suggested that Public sector banks should decrease their operating expenses by improving their subsidiaries.

Dr. V.R. Nedunchezhain and M.S.K. Premalatha in their paper “Analysis and Impact of Commercial Banks after Merger in India” (March 2013) have used parameters like Capital Adequacy Ratio, Management Efficiency Ratio, Earnings & Profitability Ratio and Leverage Ratio to compare the performance of local banks during the pre-merger period (2003-2006) and post-merger period (2008-2011). They opined that overall performance of all commercial banks have shown better performance after merger.

V. Radha Naga Sai and Dr. Syed TabassumSultana during April 2013 in their paper “Financial Performance in Banking- A Pre & Post Merger Perspective” have applied t-test to various financial ratios and commented that ratios like Net profit margin, Operating profit margin, Return on equity and Debt-Equity ratio gives significantly different results as compared to Gross profit margin ratio which yields the same outcome.

To know the financial strength of public sector banks, Parvesh Kumar Aspal and Naresh Malhotra have undergone a research during May 2013. Henceforth, through their paper titled "Performance Appraisal of Indian Public Sector Banks" they opined that Bank of Baroda is at first position due to its better performance in liquidity and asset quality. They also suggested ways for United Bank of India and Bank of Maharashtra to improve their management efficiency, assets and earning quality.

On the similar lines, Anita Makkar and Shveta Singh during May 2013 in their paper "Analysis of the Financial Performance of Indian Commercial Banks: A Comparative Study" have used CAMEL ratings and t-test methodology for the period from 2006-07 to 2010-11. They suggested that there is need for overall improvement in public sector banks and also established a difference in the capital adequacy, asset quality and earning capacity of public and private sector banks in India.

Sankharaj Roy and Biplab Kumar De (June 2013) have used Profitability ratios in their paper titled "Assessing the Financial Performance of Commercial Banks". They explained that from 2000 to 2011, important ratios like Return on Assets and Return on Net worth has shown an increasing trends. Whereas, Capital Adequacy ratio has a negative relationship with Return on Net Worth ratio.

Vinod R.R. during July 2013, for assessing the efficiency of old private sector banks in Kerala, has used ratio analysis as a tool in his paper "Operational, Profitability & Productivity Efficiency in Public Sector, Old Private Sector, New Private Sector and Foreign Banks". In the Study it was found that Federal Bank Ltd. &Dhanalaxmi Bank were highly competent than South Indian Bank & Catholic Syrian Bank in terms of competence.

Dr. K. Srinivas and L. Saroja (July 2013) in the paper "Comparative Financial Performance of HDFC and ICICI Bank" have used CAMEL model and illustrated that both the banks are positive with respect to capital adequacy as per the Basel norms.

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GoelShobhit and BajpaiAvinash (2013) in their paper "Impact Analysis of Global Recession on the Indian Banking Sector", have used financial indicators like Liquidity, Capital Adequacy, and Profitability ratios to explain that there is no such great impact on Indian banks due to global recession for the time period 2006-2009.

A report by K. C. Chakrabarty (August 2013) titled "Productivity Trends in Indian Banking in the Post Reform Period – Experience, Issues and Future Challenges" shows that public sector banks have perceived significant productivity and gained operational efficiency during the last two decades.

Conclusion

This review paper exhibits the studies conducted and review of literature available in the area of ratio analysis in the banking sector. Several of them focused on performance appraisal of the banks for financial soundness of the banking sector. Less attempts have been made to utilize all the comprehensive ratios available. Therefore, after finding the gap of research the analysis has been undertaken on the mentioned subject. In all the mentioned papers and reviews, several researchers and authors have made evaluation of performance of the banks analyzed on different ratios.

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