

Comparison of Financial Performance of Commercial Banks: A Case Study in the Context of India (2009-2013)

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Abstract

In the modern era, the banking sector has proved its striking eminence, for it holds a big support to the economy of any nation chiefly because of the transactions of huge, ever-proliferating wherewithal in faith of the investors as well as the government or owners. Banks cycle funds into different sectors for further fructifications to enrich and fortify all round economy. Banking however, is a complex system undoubtedly wherein the vested interest of any researcher may lie profusely. Therefore this study examines and evaluates the concurrent performance of chosen few major Indian banks during 2009-2013 following the global financial slump of 2008. In order to judge their performance, the present study compares the financial position of various indigenous and foreign Scheduled Commercial Banks (SCBs). And to prove his viability, he has used the parameters— Return on Asset, Return on Equity and Net Interest Margin. Furthermore, his study ascertains through quantitative research using Analysis of Variance (ANOVA) if any significant difference of profitability means among different banking groups really exists. The result indicates that there is no significant means in difference of profitability among various banking groups in respect to 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

The growth of the banking industry is closely linked with the blossoming of the overall economy. The Indian soil has insatiable potential for economic growth and the studies confirm its veracity in every respect. Being a large economy, this nation always may step ahead on the path of progress for the years yet to be born.

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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 the 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).

The Indian banking sector has witnessed prolific changes if we consider the last and the first decades of the previous as well as this century till now. In 1991 the Indian banking scenario 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 the expectation of boosting corporate credit growth of 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 Asset (ROA) and Return on Equity (ROE) dipped marginally. During 2011-12, the cost to income ratio of banks exhibits its rise in growth having some noteworthy 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).

Panoramic View of Banking Sector in India

The genesis of the 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. Namely, three Presidency Banks were established in Bengal, Bombay and Madras in the early nineteenth-century. In 1921, they were unified and renamed the Imperial Bank of India.

Under the tutelage of the State Bank of India Act 1955, the Imperial Bank got converted into the current State Bank of India. It was the Swadeshi Movement prior to the Indian independence which gave birth to many native progeny in the banking sector such as Punjab National Bank, Canara Bank, Bank of Baroda, Central Bank of India, Allahabad Bank, etc.

For a sound management of the banking sector, the Government of India nationalized 14 major banks in the year 1969. Further in the series, six more banks were nationalized and recognized in the year 1980. They had deposits exceeding Rs.500 million respectively placing the control of the banks in the hand of government from 31% to 84% (Chakraborty, 2006).

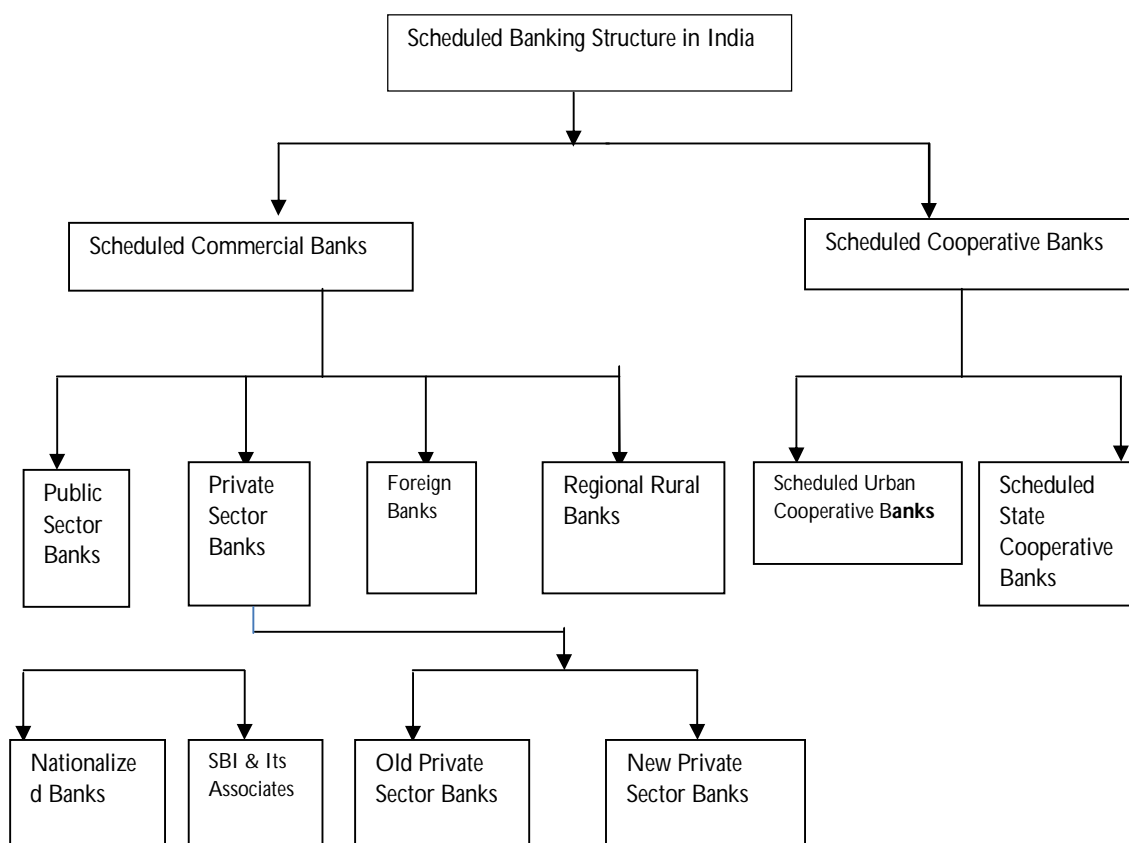
The information below enlists how the Indian Government regularized its banking system in course of time:

- 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 six more banks

After these banks became recognized by the government, their branches as the Public Sector Banks touched the horizon to embrace the proximity of 800% in deposits. More so, the ever-thriving speed of its prosperity took a gigantic leap by 11,000% too. Banking under the reviving and protective canopy of the Government-ownership induced productive public faith bolstering further sustainability for these institutions.

Present banking system can be classified into the following categories:

- Public Sector Banks
- Private Sector Banks
 - Old Private Sector Banks
 - New Private Sector Banks
- Foreign Banks/ Exchange Banks
- Regional Rural Banks
- Co-operative Sector Banks
- Development Banks/ Industrial Banks



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

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.

So the study highlights the points where the banks need to proliferate and sustain that development in the realm of financial performance (Aravind & Nagamani, 2013).

The study on financial performance of commercial banks in Tanzania has found that the overall performance of the banks has increased during the first two years of the study. Looking back at the performance monetarily despite the financial crisis globally in 2008-09, one may see how the banking system in the country remained steady and amply financed as well as supported (Zawadi Ally, 2013). The performance of the Public Sector Banks 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 Xiaofeng Hui, 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 the 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. Its 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).

To ascertain the significance of mean differences of financial ratios between and among the banks in a similar study conducted in Pakistan during 2006-2009 which was founded on the performance of the Islamic and conventional banks, the researcher has used 18 financial ratios to gauge their performance. These performances should be rated in terms of profitability, liquidity, capital adequacy, and the likes. The outcome establishes the fact that the Islamic banks were found more liquid, less insecure and productively methodical as well as manageable than their conventional counterparts (Sanallah, 2009).

Objectives of the Study

The first objective of the study undertaken 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.

The final aim of this study is to establish if there is really any significant variability in the range of income/gains among various banking groups. For the proposed study, the researcher has used the tool of Analysis of Variance (ANOVA).

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 Asset 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 Net Interest Margin of the different banks for the study is equal"

Methodology

Research Design

The researcher has used quantitative technique of research to define the present study. A quantitative research shows quantifying connection between variables by using different statistical tools for descriptive data analysis and the establishment of the proposed hypotheses (Creswell, 2008).

Sources of Data

This research is grounded on the secondary data gathered from many 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 in relevance of this study.

Research Tools

This study is facilitated and supported by a descriptive financial analysis to explain, gauge, compare and categorize the financial situation of Indian commercial banks. It looks back to the period of five years during 2009 to 2013 employing different financial ratios. To evaluate and describe the financial performance of the chosen banking groups of India here, the scholar has used the analysis of variance (ANOVA) to examine the truth/ likeliness of the proposed hypotheses.

Empirical Results and Discussion

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 bears 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 with an assured goal 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).

Return on asset. A financial ratio, the role of Return on Asset (ROA) is to display the percentage of profit which any company/ organization gains against its entire capital investment. It is rather known as net income (or pretax profit)/ total assets. ROA is a Profitability Ratio. It is seen in relation to management's performance in manipulating the properties of the business to create benefits. 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 Asset (ROA) - Bank Group -Wise (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 Sector Banks which is 1.12% in 2009 and 1.74% in 2013 followed by Old Private Sector 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% is 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.

Return on equity. The function of ROE is to indicate the profitability of a firm/institution. It is obtained by comparing its net profit to its average shareholders' investment. Thus, ROE examines and undermines the efficiency level of a company. The more is ROE, the better the growth ratio of benefit with least investment of capital.

Further, it accentuates over the well management of the organization in order to channelize the capital of the shareholders in right direction to achieve the desired goals. So, it can be assumed that a higher degree of ROE is always favourable for a company. And, its decrease may land a company into unwelcome conditions. The ROE ratio of the select banks is exhibited in the table below:

Table 2: Return on Equity (ROE) - Bank Group-Wise (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
Foreign Banks	13.75	7.34	10.28	10.79	11.52

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 Sector Banks record an increasing trend from 14.69% in 2009 to 16.22% in 2013 followed by New Private Sector Banks from 10.69% to 16.51% for the same year. Thus the performance of Private Sector 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.

Net interest margin. Net Interest Margin (NIM) is defined as the balance of the interest income that the banks create and the amount of interest received by the depositors. NIM is calculated by dividing the difference between the earning on loans in a period of time and the rate of interest paid on the funds borrowed by the average earning assets. NIM has been depicted bank group-wise in the table below:

Table 3: Net Interest Margin (NIM)- Bank- Group-wise (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

The data displayed in Table 3 signifies the decline in NIM in the year 2010 for the different banking groups chosen for the study. 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 performs well as it records 3.24 % followed by the 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.

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.

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

Hypothesis: 1

H_0 : "The Return on Asset of the different banks for the study is equal"

Table 4: Analysis of Variance for Return on Asset

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				

Source: Researcher

The ANOVA table incorporates the outcome of this analysis. It contains columns labelled "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 where 'Between Groups' is mentioned, has become more important for the purpose of interpretation depending on probability value (P- value) in the table. The other rows such as 'Within Groups' and 'Total' carry least importance at this time. Thus major interest of the researcher is to focus on P- value located in the ANOVA table. To know the level of significance, the experimenter sets critical value (α). The value is generally set at 0.05 of significance level. If the calculated P- value is less than 0.05, then the result becomes significant. On the other hand, if P- value is more than 0.05, the result is proved to be insignificant.

The ANOVA table exhibits that 'P'-value (8.92) is greater than $0.05(\alpha)$. It displays the result not to be significant. It means that there is no marked difference in the performance of the banks chosen for study. Based on the findings, the above mentioned null hypothesis is accepted. It implies that the performance of the different banking groups during the study period has been more or less the same in the context of ROA.

Return on equity. 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: 2

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				

Source: Researcher

The ANOVA table shows that P-value (0.001053) is less than 0.05 (α) exhibiting the result as significant. It means that various banking groups have recorded the different financial performance levels when we consider the Return on Equity (ROE). As P-value is <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.

Net interest margin. 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: 3

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				

Source: Researcher

The ANOVA table displays verily how the 'P'-value (2.49) is greater to 0.05 (α). The outcome here is established as insignificant. The banks chosen for the study do not show any varied performance so far. 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, the above proposed null hypothesis is accepted implying that the performance of all the banks in terms of NIM is the same.

Conclusion

The present study proposes to judge the financial performance and achievements of the Indian commercial banking sector over a period of five years (2009-2013). The 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 the 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 improvement upon their performance. The decline in ROE is witnessed during 2009-2013 for all banks mentioned here. Still for Old Private Sector Banks and New Private Sector banks the NIM is trending high ranging between 14.69% and 10.69% in 2009 to 16.22% and 16.51% in 2013 for both of the banking groups consequently.

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. In addition, the ANOVA table shows the outcome that the profitability position of various banking groups chosen to be studied here has been more or less the same in terms of ROA and NIM. 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 states that the financial performance of the select banks differs from each-other in terms of ROE. Despite the financial crunch in the world market and slump in domestic economy, the performance of the Indian banking sector has been remarkably sound and stable observed in the light of their contemporary world scenario. 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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