FINANCIAL PERFORMANCE OF PUBLIC SECTOR BANKS IN INDIA – AN EVALUATION

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Abstract
Today, we are having a fairly well developed banking system with different classes of banks – public sector banks, foreign banks, private sector banks – both old and new generation, regional rural banks and co-operative banks with the Reserve Bank of India as the fountain Head of the system. All banks play an important role in development of Indian economy. After liberalization the banking industry underwent major changes. The economic reforms totally have changed the banking sector. The Indian banking industry was dominated by public sector banks. But now the situations have changed new generation banks with use of technology and professional management have gained a reasonable position in the banking industry. The main idea of this paper is to make an evaluation of the financial performance of Indian Public sector banks. In this study Ratio analysis is used to evaluate the liquidity, and profitability and also the priority sector advances given by the various public sector banks.

Keywords: Liquidity, Profitability, Performance Evaluation, Priority Sector Advances.

1. Introduction

Today, we are having a fairly well developed banking system with different classes of banks – public sector banks, foreign banks, private sector banks – both old and new generation, regional rural banks and co-operative banks with the Reserve Bank of India as the fountain Head of the system. In the banking field, there has been an unprecedented growth and diversification of banking industry has been so stupendous that it has no parallel in the annals of banking anywhere in the world. During the last 41 years since 1969, tremendous changes have taken place in the banking industry. The banks have shed their traditional functions and have been innovating, improving and coming out with new types of the services to cater to the emerging needs of their customers. Massive branch expansion in the rural and underdeveloped areas, mobilisation of savings and diversification of credit facilities to the either to neglected areas like small scale industrial sector, agricultural and other preferred areas like export sector etc. have resulted in the widening and deepening of the financial infrastructure and transferred the fundamental character of class banking into mass banking. The major challenges faced by banks today are as to how to cope with competitive forces and strengthen their balance sheet.

2. Literature Review

Previous research with regard to this topic has been analysed to understand the research gap.Generally, the financial performance of banks and other financial institutions has been measured using a combination of financial ratios analysis, benchmarking, measuring performance against budget or a mix of these methodologies (Avkiran,1995). Much of the current bank performance literature describes the objective of financial organizations as that of earning acceptable returns and minimizing the risks taken to earn this return (Coleman,1986). There is a generally accepted relationship between risk and return, that is, the higher the risk the higher the expected return. Therefore, traditional measures of bank performance have measured both risks and returns. Ho, and Zhu,(2004) showed that most previous studies concerning company performance evaluation focus merely on operational efficiency and operational effectiveness which might directly influence the survival of a company. By using an innovative two-stage data envelopment analysis model in their study, the empirical result of this study is that a company with better efficiency does not always mean that it has better effectiveness. A paper in the title of efficiency, customer service and financing performance among Australian financial institutions Duncan, and Elliott,(2004) showed that all financial performance measures as interest margin, return on assets, and capital adequacy are positively correlated with customer service quality scores. Bolt and. Tieman (2004) argued that in a dynamic framework, commercial banks compete for customers by setting acceptance criteria for granting loans, while taking into account regulatory requirements. By easing its acceptance criteria a bank faces a trade-off between attracting more demand for loans, thus making higher per-period profits, and deterioration in the quality of its loan portfolio, thus tolerating a higher risk of failure. Our main results state that more stringent capital adequacy requirements lead banks to set stricter acceptance criteria, and that increased competition in the banking industry leads to riskier bank behaviour. It is shown that risk-adjusted regulation is effective. In an extension of our basic model, we show that it may be beneficial for a bank to hold more equity than prescribed by the regulator, even though issuing equity is more expensive than attracting deposits.

Based on the above literature, the main contribution of this study is to make financial comparison based on return on assets, return on equity, return on deposits, and other financial banking activities as credits and deposits to determine the performance and classifications of commercial banks. Banks have moved from traditional banking to modern banking where

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information technology plays a significant role. The Banks are able to reach the poor and needy. They are able to understand the current requirement of different categories of people. All banks are competing each other by highlighting their performance and efficiency in banking business.

3. Methodology

This paper attempts to study the financial performance through liquidity, profitability and analysis of Priority sector loans of Indian Public sector banks. Financial ratio analysis is used to study the above objective. Financial analysis helps to identifying the financial strengths and weaknesses of the firm. Financial ratio analysis is the calculation and comparison of ratios which are derived from the information in a company's financial statements. Data are collected from secondary sources like Prowess Data base and other web sites relating to banking industry. Data were collected for a period of ten years (2002-2014) from all Indian Public sector banks.

4. Analysis

Liquidity ratio: It is extremely essential for the firm to be able to meet its obligations as they become due. Liquidity Ratios measures the ability of the firm to meet its current liabilities. The most common ratio's which indicates the extent of liquidity or lack of it are, Current ratio and quick ratio. The following table shows the liquidity position of various Indian public sector banks

Table 1: Liquidity Ratio's

S.NO	NAME OF THE BANK	AVERAGE	CURRENT RATIO	QUICK RATIO
1	Allahabad Bank	2002-2014	3.347	3.228
2	Andhra Bank	2002-2014	3.501	3.303
3	Bank Of Baroda	2002-2014	3.945	3.742
4	Bank Of India	2002-2014	3.451	3.187
5	Bank Of Maharashtra	2002-2014	2.968	2.87
6	Canara Bank	2002-2014	3.261	3.191
7	Central Bank Of India	2002-2014	3.967	3.645
8	Corporation Bank	2002-2014	2.551	2.346
90	Dena Bank	2002-2014	3.45	3.226
10	Indian Bank	2002-2014	2.636	2.565
11	Indian Overseas Bank	2002-2014	2.945	2.827
12	Jammu & Kashmir Bank Ltd.	2002-2014	5.088	5.014
13	Oriental Bank Of Commerce	2002-2014	4.041	3.877
14	Punjab & Sind Bank	2002-2014	3.806	3.512
15	Punjab National Bank	2002-2014	2.795	2.69
16	State Bank Of Bikaner & Jaipur	2002-2014	1.71	1.694
17	State Bank Of Hyderabad	2002-2014	1.637	1.53
18	State Bank Of India	2002-2014	1.659	1.612
19	State Bank Of Mysore	2002-2014	2.132	2.057
20	State Bank Of Patiala	2002-2014	2.348	2.252
21	State Bank Of Travancore	2002-2014	1.617	1.563
22	Syndicate Bank	2002-2014	3.289	3.173
23	Uco Bank	2002-2014	4.136	4.001
24	Union Bank Of India	2002-2014	3.126	2.928
25	United Bank Of India	2002-2014	3.644	3.534
26	Vijaya Bank	2002-2014	3.948	3.733

Source: Calculated from financial statements of the banks (2002 -2014)

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The current ratio is a measure of the firm's short term solvency. It indicates the availability of current assets in rupees for every one rupee of current liability. From the above table it is clear that State bank of India and its associates are having ideal current ratio, whereas all other banks Bank have higher value of ratio which shows that they have higher margin of safety as they have more ability to meet the current obligations. It is also observed that all banks are maintained the ideal current ratio.

Quick ratio establishes the relationship between quick assets and current liabilities. The ideal ratio is 1:1. The quick ratio is more conservative than the current ratio. It is very clear from the above table that all banks except State Bank Of India and its associates have higher quick ratio value, so they can suffer from the shortage of funds if it has slow paying, doubtful and long term outstanding debtors.

Profitability ratios

Profitability ratios are calculated on the basis of total income. A class of financial metrics that are used to assess a business's ability to generate earnings as compared to its expenses and other relevant costs incurred during a specific period of time. For most of these ratios, having a higher value relative to a competitor's ratio or the same ratio from a previous period is indicative that the company is doing well. Profitability ratios measure the bank's use of its assets and control of its expenses to generate an acceptable rate of return. The following table shows the profitability ratios of Indian Public Sector banks.

Table 2: Profitability Ratio's

S. NO	NAME OF THE BANK	AVERAGE	PBDIT/ Total income	PBDT/Total income	PBIT/Total income	PBT/ Total income	PAT/ Total income	Cash profit/ Total income
1	Allahabad Bank	2002-2014	69.812	15.604	68.073	13.868	11.023	12.09
2	Andhra Bank	2002-2014	73.92	21.132	71.65	18.861	13.429	15.564
3	Bank Of Baroda	2002-2014	69.622	18.014	68.203	16.598	11.33	14.346
4	Bank Of India	2002-2014	69.23	15.576	67.851	14.196	10.405	11.61
5	Bank Of Maharashtra	2002-2014	70.731	13.88	67.415	10.565	7.232	9.439
6	Canara Bank	2002-2014	71.66444	15.91	70.38667	14.63667	11.83111	12.66889
7	Central Bank Of India	2002-2014	67.729	9.984	66.792	9.049	6.223	6.481
8	Corporation Bank	2002-2014	75.614	23.34	73.433	21.161	14.222	14.437
9	Dena Bank	2002-2014	64.742	10.405	63.28	8.943	6.224	5.715
10	Indian Bank	2002-2014	67.769	17.322	66.027	15.583	12.274	12.755
11	Indian Overseas Bank	2002-2014	70.984	16.899	69.311	15.224	11.117	12.525
12	Jammu & Kashmir Bank Ltd.	2002-2014	78.636	22.932	76.747	21.045	14.357	16.125
13	Oriental Bank Of Commerce	2002-2014	77.749	19.877	74.562	16.689	11.173	12.796
14	Punjab & Sind Bank	2002-2014	64.894	9.75	64.006	8.862	6.406	6.796
15	Punjab National Bank	2002-2014	68.041	19.312	66.755	18.029	12.184	13.022
16	State Bank Of Bikaner & Jaipur	2002-2014	68.171	17.311	66.503	15.644	9.947	10.596

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17	State Bank Of Hyderabad	2002-2014	74.532	19.485	71.866	16.819	11.338	13.238
18	State Bank Of India	2002-2014	69.307	16.827	67.806	15.324	9.855	10.475
19	State Bank Of Mysore	2002-2014	68.044	16.953	66.348	15.259	10.462	10.908
20	State Bank Of Patiala	2002-2014	72.48	15.3	71.85	14.67	9.01	9.43
21	State Bank Of Travancore	2002-2014	72.521	16.96	70.68	15.12	10.576	10.889
22	Syndicate Bank	2002-2014	67.793	12.617	66.773	11.596	9.428	10.59
23	Uco Bank	2002-2014	68.855	8.556	67.638	7.336	6.942	7.87
24	Union Bank Of India	2002-2014	71.7	16.261	70.673	15.229	11.357	12.285
25	United Bank Of India	2002-2014	66.78444	11.1511	65.851	10.2155	8.06	7.81111
26	Vijaya Bank	2002-2014	68.58222	12.731	66.96	11.1088	9.41222	9.93777

Source: Calculated from financial statements of the banks (2002 -2014). PBDIT: Profit Before Depreciation Interest And Tax; PBDT: Profit Before Depreciation And Tax; PBIT: Profit Before Interest and Tax; PBT: Profit Before Tax; PAT : Profit After Tax.

Every bank is most concerned with its profitability. One of the most frequently used tools of financial ratio analysis is profitability ratios which are used to determine the company's bottom line. In this study PBDIT, PBDT, PBT, PAT and cash profits are analysed to know the strength of each banks in generating the profits. From the table it is observed that each bank is having the good profitability and competing each other to show their strength in terms of profits. But the banks like Dena bank and Punjab Sind Bank are not having the good profitability. They have to improve their strategy to accelerate in the industry.

Priority Sector

Banks were assigned a special role in the economic development of the country, besides ensuring the growth of the financial sector. The banking regulator, the Reserve Bank of India, has hence prescribed that a portion of bank lending should be for developmental activities, which it calls the priority sector. The following table shows the lending of various public sector banks to the priority sector as a whole and agricultural lending in particular.

Table No. 3: Priority sector loans /total advances and agricultural loan /total advances

S.No	Name Of The Bank	Priority Sector Loans /Total Advances	Agricultural Loan /Total Advances
1	Allahabad Bank	37.42	17.09
2	Andhra Bank	36.63	16.88
3	Bank of Baroda	28.92	12.03
4	Bank of India	30.94	11.89
5	Bank of Maharashtra	37.85	15.30
6	Canara Bank	37.48	15.23
7	Central Bank of India	37.72	17.066
8	Corporation Bank	33.94	9.031
9	Dena Bank	36.57	14.40
10	Indian Bank	38.81	16.13
11	Indian Overseas Bank	34.99	15.34
12	Oriental Bank of Commerce	35.417	12.89
14	Punjab National Bank	36.90	17.09
15	Punjab & Sind Bank	35.33	15.36

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16	Syndicate Bank	35.81	14.62
17	Union Bank of India	39.48	15.08
18	United Bank of India	37.08	11.93
19	UCO Bank	35.99	14.92
20	Vijaya Bank	38.48	12.95
21	State Bank of India	51.394	10.68
22	State Bank of Bikaner & Jaipur	41.91	17.37
23	State Bank of Hyderabad	33.541	14.13
24	State Bank of Indore	51.15	19.52
25	State Bank of Mysore	39.73	16.70
26	State Bank of Patiala	31.41	12.97
27	State Bank of Travancore	40.01	10.71

Source: Calculated from financial statements of the banks (2005 - 2014)

In India, where the formal financial system is predominantly bank-oriented, banks play an important role in financing the needs of agricultural sector. From the above table it is clear that every banks are giving importance in lending to the Priority sector especially the agricultural sector. The state Bank of India and its subsidiaries are leading in lending the loan to the priority sectors and agriculture when compare to other banks. It is also clear that all banks are playing a vital role in strengthening the rural India through Agricultural lending.

Lending to the Sensitive Sectors

Lending to the sensitive sector includes the lending to the capital market, real estates and commodities. According to the RBI guidelines all the banks started to lend to these sector with the intension of overall economic development. The following table shows the lending of public sector banks towards the sensitive sector from 2003 to 2010.

Table No 4 : Public sector banks Lending to the Sensitive Sectors

	2003-04	**2004-05**	**2005-06**	**2006-07**	**2007-08**	**2008-09**	**2009-10**
Capital Market	1185.37	1722.12	13470.0	19092.8	31,002	33,202	23,569
Real Estates	9936.62	15240.47	1,58,0333	2,17,9792	2,83,425	3,34,35	1,47,584
Commodities	6053.51	6502.10	1227.5	1695.4	734	–	911
Total Advances to Sensitive Sectors	17175.50	23464.69	**1,72,7305**	**2,38,7671**	3,15,161	3,67,57	1,72,064

Source: RBI Bulletin

From the above table it is clear that there is a steeper growth in advances to the sensitive sectors from 2003 to 2009. But in 2010 there was a decline in lending to this particular sector by all the public sector banks. This is mainly because of financial crisis which happened in the previous years. As the spurt in interest rates causes a surge in non-performing assets, banks have decided to cut loans to sensitive sectors such as commercial real estate and residential property besides micro, small and medium enterprises to prevent bad loan growth.

5. Conclusions

The current ratio can give a sense of the efficiency of a company's operating cycle or its ability to turn its product into cash. From this study it is clear that State bank of India and its associates are having ideal current ratio, whereas all other banks Bank have higher value of ratio which shows that they have higher margin of safety as they have more ability to meet the current obligations. It can be concluded that all banks except State Bank of India and its associates have higher quick ratio value, so they can suffer from the shortage of funds if it has slow paying, doubtful and long term outstanding debtors. Profitability ratios show a company's overall efficiency and performance. In this study it is observed that each bank is having the good profitability. SBI and its associates are having the stability in profitability. RBI has identified priority sectors like small scale industries, agriculture as important sector to finance and issue more credits for their development. In this study it is observed that banks are lending sufficiently good amount to agriculture. But at the same time there is outstanding agricultural credit which leads to NPA and having a direct effect on its profitability. Inspite of this the banks should support Indian agriculture to achieve the rural growth and food sufficiency. Public sector banks are exposure to the sensitive sector,

including capital market, real estate and It is observed Banks credit to the sensitive sector constitute about 19.6 % of the total bank credit at the end of March 2010.

To conclude, there is an improvements in terms of liquidity and profitability witnessed by the public sector banks during 2002-2011. In spite of this Banking sector needs to support the growth momentum in the economy while giving due attention to the priority sector especially agriculture which leads to the overall growth especially the rural areas. Further, banks need to step up efforts towards sensitive lending. So the banks were assigned a special role in the economic development of the country, besides ensuring the growth of the financial sector. The banking regulator, the Reserve Bank of India, has hence prescribed that a portion of bank lending should be for developmental activities, which it calls the priority sector. The limits are prescribed according to the ownership pattern of banks. While for local banks, both the public and private sectors have to lend 40 % of their net bank credit, or NBC, to the priority sector as defined by RBI, foreign banks have to lend 32% of their NBC to the priority sector.

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