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Financial Performance of Public Sector Banks in India – A Study with Reference to Select Financial Variables

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Abstract:
Banking Sector in India is considered an important component of the economy in any country. It is also considered as backbone of the growing economy and the growth of nations depend on the strength of its financial institutions. Banking industry's role is very vital in this regard. Economies of the nations are said to prosper due to its banking sector with a major contribution from Public Sector. Therefore financial performances of banks play a significant role in this regard. For measuring the financial performance of banks, selected models and measures are developed. In this paper, three banks from public sector are considered for the study and the financial performance is measured using Capital adequacy ratio, which is a measure of available capital of any banking institution to its risk weighted assets; liquidity performance, which shows its ability to utilize readily available cash to meet all regular expenses and help in effective routine functioning; and Non-Performing Assets (NPAs), which are those advances which are unpaid with interest for 90 days. Data for this study has been analyzed for a period of five years.

Keywords: *Public Sector Banks, Financial Performance, Capital Adequacy Ratio, Non Performing Assets.*

INTRODUCTION

2018 was the year of high NPAs where banks were backed by the quantum of bad loans. The public sector banks had recorded high level of NPAs than the private sector banks. According to RBI report on March 2019, Dena Bank was restricted from lending. Out of 21 banks, 11 banks (public sector) were on the RBI's watch list and set under the Prompt Corrective Action (PCA) mechanism due to worsening asset quality[1]. Later 3 banks were removed by Reserve Bank of India from Prompt Corrective Action (PCA) framework and lifted various restrictions on lending and expansion[2]. In order to avoid bankruptcy BASEL committee has introduced minimum Capital adequacy ratio (CAR) to be maintained by banks.

REVIEW OF LITERATURE

Princika Bothra &Ashwinpurohit(2018) measured the financial position of banks in India including two banks from public & two from private sector. The study period was limited to five years viz., 2012-13 to 2016-17 using CAMEL model. The findings of the study show that SBI performed well in terms of Capital adequacy Ratio & Asset quality. ICICI bank was found good in management efficiency. It was suggested that SBI need to improve its position with regard to Management efficiency, Earning Capability & Liquidity. Meanwhile ICICI was suggested to improve their Capital Adequacy and Asset Management. **Anas Khan (2018)** analyzed financial performance of public & private sector banks. The period of study was limited to five years 2013 to 2018 with the sample of seven public & private sector banks. It was found that there was a significant difference in financial performance of the selected banks under study. It was also found that the performance of private sector banks is better in all aspects than public sector banks.

[1] https://economictimes.indiatimes.com

[2] https://www.businesstoday.in

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Prakash Pinto & et al (2017) evaluated the financial performance of commercial banks in Bahrain based on capital adequacy & liquidity. In this study, eight banks were analyzed for a period of 10 years. The results of the study indicated that there was no significant relationship between the profitability & efficiency of the banks. It was also found that higher capital adequacy ratio would adversely affect the profitability of banks.

Bhanwar Singh et al (2016) made an effort to assess and compare the financial performance of PNB and HDFC Bank respectively. The study was based on secondary data & covers the period of five years. To check the trends in banking business profitability Annual Growth Rate (AGR) and Compound Annual Growth Rate (CAGR) was used. It is concluded from the study that the total number of branches of both banks increase year on year but total number of branches in HDFC Bank is more than PNB. HDFC bank had more profits. The Net NPAs to Net Assets ratio of HDFC Bank was found to be lower than PNB. **S. Radhika (2016)** in the paper Financial Performance with respect To Loans and Advances, has analyzed loans & advances in SreeCharanSouharbha co-operative bank ltd. & found that total loans and Advance shows the increase in the amount of lending & the impact of loans on deposits is positive. It is suggested that the bank should timely visit, reach and contact the Borrowers for strengthening recovery position of loans. **Vivek Rajbahadur Singh (2016)** made an attempt to understand NPAs trend & the recovered NPAs of scheduled Commercial for the period of 2000 to 2014 based on secondary data including Public sector banks, private sector banks and foreign banks. The study reveals that the NPAs had a straight impact on profit of the bank & it is weigh up very high in Public sectors banks. The problem of recovery is not with small business borrowers but with the large amount borrowers who are involved in big business world. It was suggested to banks that following strict policy would be better in solving this problem. **Krishna Murari (2011)** has tried to study the financial performance of banks in post liberalization era. The study had selected a public and a private sector banks Viz., SBI and ICICI bank. The study had applied CAMEL model (Capital, Asset, Management, Earning, &Liquidity) to analyze the data. The ratios applied were Capital Adequacy Ratio (CAR) & Asset Quality Ratio (AQR). The finding of this study reveals that public sector banks performed poor compared to private sector banks.

Various studies reveal that Public Sector Banks are found highly influenced by NPAs than Private Sector Banks. In such a condition, the government has planned infusion of capital for better performance in future. In this paper an attempt has been made to analyze the performance of selected public sector banks with in India. In the year 2018, banking sector made the headline of all the news (offline & online) in India with many bad news for each commercial bank especially about Public Sector Banks. So, there is a dire need to evaluate the financial performance of banks in terms of finance.

OBJECTIVES OF THE STUDY

This paper is an attempt to study the Capital Adequacy, liquidity performance and Non-Performing Assets of select public sector banks.

METHODOLOGY OF THE STUDY

The present study is based on secondary data with the sample of three (3) banks viz., State Bank of India (SBI), Bank of Baroda (BOB) & Punjab National Bank (PNB). The data has been collected and analyzed for five years i.e. 2014-15 to 2018-19. The data is collected from online databases. The variables considered are Capital Adequacy, Liquidity and Non Performing Assets.

Selected Financial Measures

1 Capital Adequacy: Capital Adequacy is measured through two selected ratios.

- Capital to risk weighted assets ratio.
- Debt to Equity

"The Capital Adequacy Ratio set standards for banks by looking at a bank's ability to pay its liabilities & respond to credit risks and operational risks" (corporatefinanceinstitute.com). It is one of the components of CAMELS model and act as an indicator of bank leverage. It helps in specifying whether the bank has adequate capital to take effective control on unanticipated losses. "As per BASEL III norms, the banks should have minimum CRAR of 8%". (corporatefinanceinstitute.com, moneycontrol.com & investopedia.com).

2. Liquidity Performance: Liquidity performance in this study is measured through the following ratios

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- Government securities to Total Assets and
- Cash to Total Deposits

Govt. securities are considered as most liquid & safe investment for a bank which can be converted into cash easily. It measures the total assets of the bank which is invested in government securities. Higher ratio is preferable for the good liquidity of the bank.

3. Non-Performing Assets: The assets quality in terms of NPAs' in this study is measured using the below ratios

- GNPA (Gross Non-Performing Assets) Ratio
- NNPA (Net Non-Performing Assets) Ratio

GNPA is the total amount/summation of loans which are classified by the bank as per RBI guidelines. "This GNPA term is used by financial institutions which refer to the total of all unpaid loans which are classified as Nonperforming loans" (www.differencebetween.net) the lower ratio signifies good performance of the bank.

Net Non Performing Assets describes the real financial burden of a bank. NPAs come into picture when the given loans and interest on it, is not paid for more than 90 days. The RBI defines it as "An asset, including a leased asset, becomes Non performing when it ceases to generate income for the bank." Higher ratio results in rising bad quality of loans into the bank

Measuring Financial Performance through Selected Indicators (Capital Adequacy, Liquidity and Non Performing Assets) Of Public Sector Banks In India (SBI, BOB & PNB)

The capital adequacy ratios of all banks viz., SBI, BOB, PNB is being observed more than the prescribed ratio by RBI. The minimum capital adequacy is set to 9% by RBI. Among selected banks, Punjab National Bank is found to be on exact minimum ratio in the year 2018-19. The standard for Debt to Equity ratio is "1" which indicates the balance between creditors and investors in terms of the company's assets".[3] Debt to equity ratio is more than 1 for all of the banks which are fluctuating between 13 to 17 percent. The highest ratio of this is found with PNB.

It is observed that SBI has increased their liquidity ratio (govt. sec to total assets) from 13 to 15 percent. BOB has been decreased with their liquidity from 16 percent (2014-15) to 15 percent (2018-19). PNB has increased their ratio from 14 percent to 17 percent during the study period. Under cash to deposit ratio SBI has got highest ratio of 7 percent in 2015-16 but in 2018-19 the ratio is decreased to 1 percent. Bank of Baroda has got the ratio of 3% in all years and reduced to 0.13 in 2018-19. The Punjab National Bank is found to be same for all years i.e. 4%

The Gross NPA ratio of SBI found highest in the year 2015-16 i.e. 11 percent later it has accounted 7 percent for the next two years. BOB has got a tremendous increase in 2015-16 with 10% which was 4% in 2014-15 and carried the same for the three years of study except in 2017-18 which was increased by 2%. The Net NPA of SBI has variation in the ratio & it is highest in 2016-17 (6%) but the NNPA is found to be less compared to Gross NPA from the previous table. Bank of Baroda NNPAs increased from 3 percent 2014-15 to 5 percent. The 5 percent is found stable for the 3 yrs (2016-17 to 2018-19).

[3] https://www.investopedia.com

Table: Performance of Three Public Sector Banks in India using Selected Financial Measures

S.No	Public Sector Bank	Financial Measure	Year 2014-15	2015-16	2016-17	2017-18	2018-19
1.	**Capital Adequacy**						
	State Bank of India	Capital to Risk Weighted Assets Ratio	12.96	12.00	13.12	13.11	12.60
	Bank of Baroda		12.28	12.60	13.17	12.13	13.42
	Punjab National Bank		12.11	12.89	11.28	11.66	NA
	State Bank of India	Debt to Equity Ratio	13.34	13.87	14.24	15.08	15.79
	Bank of Baroda		16.83	16.39	15.11	15.69	15.07
	Punjab National Bank		14.48	14.51	17.28	17.39	NA
	Liquidity Performance						
	State Bank of India	Govt. Securities to Total Assets	13.34	13.87	14.24	15.08	15.79
	Bank of Baroda		16.83	16.39	15.11	15.69	15.07
	Punjab National Bank		14.48	14.51	17.28	17.39	NA
	State Bank of India	Cash to Total Deposit Ratio	6.76	7.42	6.82	5.86	1.17
	Bank of Baroda		3.08	3.47	3.71	3.78	0.13
	Punjab National Bank		4.76	4.88	4.81	4.40	NA
3.	**Non - Performing Assets (NPAs) and Asset Quality**						
	State Bank of India	Gross NPA ratio	4.25	8.00	11.00	7.00	7.00
	Bank of Baroda		4.00	10.00	12.00	10.00	10.00
	Punjab National Bank		6.55	7.00	13.00	13.00	18.00
	State Bank of India	Net NPA ratio	2.12	3.00	6.00	4.00	4.00
	Bank of Baroda		3.00	4.00	5.00	5.00	5.00
	Punjab National Bank		3.00	4.00	9.00	8.00	11.00

Source: data analyzed has been collected from financial database of www. moneycontrol.com

RESULTS AND FINDINGS

The following are the key findings of the study.

- The capital adequacy ratio of State Bank of India & Bank of Baroda are found more than the minimum CAR i.e., 8% in all years which means bank is maintaining the ratio more than minimum prescribed ratio by the RBI (BASEL III). Punjab National Bank is found to be poor among other select banks; however the ratio is up to the standard.
- Debt equity ratio of State bank of India & Bank of Baroda found to be increasing year on year which may result in not equal balance in debt and equity of the banks. However, the SBI has tried to lower their ratio in the last three years of the study. Punjab National Bank again found with poor performance in terms of debt equity ratio and accounted with 17%.
- The liquidity performance of SBI is good in terms of government sec to total assets for the first four yr of study which means they are maintaining stability. But the cash to deposit ratio is found to be poor in the yr 2018-19.
- The same trend as SBI is followed by Bank of Baroda in terms of govt. securities to total assets whereas the cash to deposit ratio is stable for four years of the study. Punjab National Bank performed well in terms of liquidity related to govt. securities but cash to deposit ratio is found stable (4%) for all years.
- Gross NPA ratio of State bank of India rose from 4.25% to 11% in just four years (2014-15-2016-17) but the bank has shown a major response to it and comes to 7% in the last two years of the study. The same case is found for NNPA. So, one can assume that the bank is able to lend money in the future.
- Though the Bank of Baroda has good performance in managing Gross NPAs at the very first year of the study but later found with 10% till the end. The Net NPAs of the bank found to be on increasing trend with 1% growth rate
- Gross NPA of Punjab National Bank is found on increasing trend and reached to 18% from 7% the same is the case for Net NPA which have been increased from 4% to 11%. Overall

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performance of NPA's is poor among other selected banks.

SUGGESTIONS AND RECOMMENDATIONS

- SBI need to focus more on liquidity performance and capital adequacy.
- In the last year of the study (2018-19) BOB have come with an unexpected financial performance compared to previous yrs. So, they have to put efforts for maintaining liquidity in future.
- The financial performance of PNB is poor among other selected banks. It has to settle their capital adequacy as well as Asset Quality in future which may become a major cause for their poor performance.

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