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A COMPARATIVE APPRAISAL OF FINANCIAL PERFORMANCE OF INDIAN PUBLIC SECTOR BANKS

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ABSTRACT

The public sector banks are the most important financial institutions driving the Indian economy in the forward direction. Thus, studying the financial performances of these banks is imperative to the healthy economic growth of the country. In the present study the financial performance of the three Indian banks namely state bank of India, Punjab national bank (PNB) and Canara bank (CNB) were comparatively analyzed for the financial year 2016-17. For this primary data such as balance sheet (BS) and profit loss statement (PLS) for these banks were obtained. The financial analysis explored using various ratio analyses such as Return on Asset (ROA), Return on Equity (ROE) and Net Interest Margin (NIM), Return to Deposit (ROD), NPA ratios. Similarly, the liquidity status of the banks was analyzed using Credit Deposit Ratio (CDR). The results of the study sho that in most of the parameters SBI is found to be outperformed the PNB and Canara bank. The results of the present study will also help all the stakeholders to understand the financial status of the bank and to take prudent decision for the invested/deposited money.

KEYWORDS: Public Sector Bank, Financial Performance, Balance Sheet, Profit-Loss Statement, Ratio Analysis.

INTRODUCTION

Indian money market is characterized by the presence of both organized and unorganized financial institutions. The organized sector includes Commercial banks, Co-operative banks and Regional Rural banks while the unorganized sector includes indigenous bankers and private money lenders. Among the banks in the organized sector, the commercial public sectors banks are the oldest institutions having a wide network of branches, commanding utmost public confidence and having the greatest share. Public sector banks serve as the backbone of the financial institutions that fuels the growth of other sectors such as agricultural, industry, personal and governments [1].

Public sector 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 and growing nonperforming assets (NPA) [2].

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These changes have notably affected the performance of the Indian commercial banks. The performance analysis of these institutions are not only key to growth of other sectors but also directly effects the profit loss of the all the stake holders [3].

Keeping good asset and liability behavior is required by the banks to maximize their earnings and also satisfy their social objectives. At present, when most of the public sector banks are reeling under the pressure of growing NPA, focus should be given on aspects of Assets and Liability behavior, cut down in risk exposure and expenditure.

As a result, balance sheets expansion of the banks has lowered and major profitability indicators, i.e. Return on Asset (ROA) and Return on Equity (ROE) dipped marginally [4]. Many studies have undertaken by researchers on the performance of Indian commercial banking. The studies have focused on ratio analysis, CAMEL rankings, liquidity, and profitability and so on [5, 6].

In the context, this study attempts to analyze the comparative financial performances of State Bank of India (SBI), Panjab National Bank (PNB) and Canara bank (CAN) and to identify the major grey area where attention for possible corrective measures should be given.

OBJECTIVES

The main objective of the study undertaken is to evaluate and compare the financial performance of SBI, PNB and Canara Banks for the financial year 2016-17 using financial analysis ratios. However, the specific objectives of the study are as below:

- To study the financial position of banks using their balance sheets
- To study the earning and expenditure source and patterns of the studies banks
- To perform a comparative financial analysis of the banks suing ratio analysis.
- To offer suitable suggestions to strengthen the financial position of the banks

This analysis will give an overall assessment/ estimate of the present financial position and performance of the studied banks for the year 2016-17. It will help in identifying the specific area where the banks are either performing or not performing well. The final aim of this study is to establish if there is really any significant variability in financial positions of the studied banks.

MATERIALS METHODS

The study is based on secondary data. The secondary data relating to the branch spread; deposits; advances and nonperforming assets have been collected from their official website Financial Reports of the studied banks. In order to analyze the financial position of three banks their balance sheets and profit loss statements for the financial year 2016-17 were obtained.

The obtained data were analyzed and interpreted for their earning and expenditure pattern using profit-loss statement and financial position by interpreting their balance sheet. The deeper sights of their financial status were further explored using ratio analysis. In the present study, as 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 to Deposit (ROD), NPA ratios. Similarly, the liquidity status of the banks was analyzed using Credit Deposit Ratio (CDR).

RESULTS AND DISCUSSION

The results of the various data interpretation, their analysis and inference regarding financial status were presented and discussed in the following sections.

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INTERPRETATION OF BALANCE SHEET

A balance sheet, also known as a statement of financial position, reveals a company's assets, liabilities and owners' equity (net worth) [7]. The balance sheets of the studied banks for the financial year 2016-17 are presented in Table 1. Some additional information is also presented in the extension of Table 1 which will be used for comparative performance of the banks.

Table 1.Balance Sheet of Banks for FY: 2016-17 (all figures in crores)

EQUITIES AND LIABILITIES			
SHAREHOLDER'S FUNDS	**SBI**	PNB	CANARA
Equity Share Capital	797.35	392.72	597.29
Total Share Capital	**797.35**	**392.72**	**597.29**
Revaluation Reserve	31,585.65	2,844.78	5,373.15
Reserves and Surplus	1,55,903.06	35,072.64	27,715.10
Total Reserves and Surplus	1,87,488.71	37,917.42	33,088.25
Total ShareHolders Funds	**1,88,286.06**	**38,310.14**	**33,685.54**
Deposits	20,44,751.39	5,53,051.13	4,95,275.24
Borrowings	3,17,693.66	59,755.24	39,503.56
Other Liabilities and Provisions	1,55,235.19	16,273.94	15,055.10
Total Capital and Liabilities	**27,05,966.30**	**6,67,390.46**	**5,83,519.44**
ASSETS			
Cash and Balances with Reserve Bank of India	1,27,997.62	26,479.07	19,922.50
Balances with Banks Money at Call and Short Notice	43,974.03	47,144.02	38,902.96
Investments	7,65,989.63	1,57,845.89	1,50,265.89
Advances	15,71,078.38	4,12,325.80	3,42,008.76
Fixed Assets	42,918.92	5,222.73	7,168.32
Other Assets	1,54,007.72	18,372.94	25,251.02
Total Assets	**27,05,966.30**	**6,67,390.46**	**5,83,519.44**
OTHER ADDITIONAL INFORMATION (All figures in crores)			
	SBI	**PNB**	**CANARA**
Number of Branches	17,170.00	6,760.00	6,083.00
Number of Employees	2,09,567.00	70,801.00	55,717.00
ASSETS QUALITY			
Gross NPA	1,12,342.99	55,818.33	34,202.04
Net NPA	58,277.38	35,422.56	21,648.98

The balance sheet is comprised of assets, liabilities and equity. The relationship of these items is expressed in the fundamental balance sheet equation: Assets = Liabilities + Equity.

The working capital can be determined as current assets minus current liabilities [8]. The Table 1 indicates that SBI has very large assets, large number of branches and employees as compared to PNB and Canara bank.

INTERPRETATION OF PROFIT-LOSS STATEMENT

Table 2 presents the profit and loss statement (PLS) of the three banks under study. PLS is one of the three primary financial statements used to assess a company's performance and financial position (the two others being the balance sheet and the cash flow statement). The profit & loss statement is also known as the income

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statement, statement of earnings, statement of operations, or statement of income [9]. It also known as an income statement, measures your business' financial performance over a specified booking period, interpreting this data is essential to making informed business decisions. The basic equation on which a profit & loss statement is based is Revenues – Expenses = Profit.

Table 2.Profit & Loss account of Banks (FY: 2016-17) in Rs. Cr.

INCOME	SBI	PNB	CANARA
Interest / Discount on Advances / Bills	1,19,510.00	32,958.82	29,585.67
Income from Investments	48,205.31	12,577.17	10,711.29
Interest on Balance with RBI and Other Inter-Bank funds	1,753.47	1,354.20	768.2
Others	6,049.46	385.8	322.49
Total Interest Earned	**1,75,518.24**	**47,275.99**	**41,387.64**
Other Income	35,460.93	8,951.37	7,554.40
Total Income	**2,10,979.17**	**56,227.36**	**48,942.04**
EXPENDITURE			
Interest Expended	1,13,658.50	32,282.82	31,515.87
Payments to and Provisions for Employees	26,489.28	5,420.72	4,915.09
Depreciation	2,293.31	425.04	327.54
Operating Expenses (excludes Employee Cost & Depreciation)	17,690.18	3,533.63	3,269.65
Total Operating Expenses	**46,472.77**	**9,379.38**	**8,512.28**
Provision Towards Income Tax	4,033.29	0	520
Provision Towards Deferred Tax	337.78	0	0
Other Provisions and Contingencies	35,992.72	13,240.36	7,271.97
Total Provisions and Contingencies	**40,363.79**	**13,240.36**	**7,791.97**
Total Expenditure	**2,00,495.07**	**54,902.56**	**47,820.12**
Net Profit / Loss for The Year	**10,484.10**	**1,324.80**	**1,121.92**
Net Profit / Loss After EI & Prior Year Items	**10,484.10**	**1,324.80**	**1,121.92**
Profit / Loss Brought Forward	0.32	**0.00**	**0.00**
Total Profit / Loss available for Appropriations	**10,484.42**	**1,324.80**	**1,121.92**
APPROPRIATIONS			
Transfer To / From Statutory Reserve	3,145.23	331.2	281
Transfer To / From Capital Reserve	1,493.39	270	777
Transfer To / From Revenue And Other Reserves	3,430.55	513.7	0
Dividend and Dividend Tax for The Previous Year	0	209.9	0
Equity Share Dividend	2,108.56	0	0
Tax On Dividend	306.38	0	0
Balance Carried Over To Balance Sheet	0.32	0	63.92
Total Appropriations	**10,484.42**	**1,324.80**	**1,121.92**
OTHER INFORMATION			
EARNINGS PER SHARE			
Basic EPS (Rs.)	13.43	6.45	20.63
Diluted EPS (Rs.)	13.43	6.45	20.63
DIVIDEND PERCENTAGE			
Equity Dividend Rate (%)	260	0	10

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All companies need to generate revenue to stay in business. Revenues are used to pay expenses, interest payments on debt, and taxes owed to the government. After the costs of doing business are paid, the amount left over is called net income. Net income is theoretically available to shareholders, though instead of paying out dividends, the firm's management often chooses to retain earnings for future investment in the business.

INTERPRETATION USING RATIO ANALYSIS

Table 3 presents various ratios pertaining to equity, human resource management and financial performance of the studied bank for the year 2016-17.

Table 3.Key Financial Ratios of Banks (FY:2016-17)

Per Share Ratios	SBI	PNB	CANARA
Basic EPS (Rs.)	13.43	6.45	20.63
Operating Revenue / Share (Rs.)	220.13	222.16	692.92
Net Profit/Share (Rs.)	13.15	6.23	18.78
Per Employee Ratios			
Interest Income/ Employee (Rs.)	83,75,280.48	63,95,648.26	74,28,189.76
Net Profit/ Employee (Rs.)	5,00,274.50	1,79,223.45	2,01,360.84
Business/ Employee (Rs.)	17,25,38,127.46	14,08,56,500.49	15,02,74,423.07
Per Branch Ratios			
Interest Income/ Branch (Rs.)	10,22,23,785.91	6,81,40,663.59	6,80,38,212.89
Net Profit/ Branches (Rs.)	61,06,058.59	19,09,486.60	18,44,356.73
Business/ Branches (Rs.)	210,58,99,694.70	150,07,16,584.03	137,64,32,686.17
Key Performance Ratios			
Return on deposit (%)	0.51	0.24	0.22
Return on Assets (%)	0.38	0.18	0.19
Return on Equity / Networth (%)	6.69	3.47	3.96
Net Interest Margin (%)	2.28	2.08	1.69
Credit Deposit Ratio(%)	76.8	74.5	69.0
Cost to Income (%)	41.15	40.22	33.31
Operating Expenses/Total Assets (%)	1.71	1.3	1.45
Gross NPA (%)	7	13	10
Net NPA To Advances (%)	4	9	6
Capital Adequacy Ratios (%)	13	11	13

Table 3 indicates that Canara bank performed best in all the three per equity share ratio namely, earning per share, operating revenue per share and net profit per share. In net profit per share and earnings per share ratio, PNB's performance is poorest among all. In all the ratios related to per employee and per branch the performances are found to be in the order of SBI >Canara > PNB. Since all the six ratios presented in Table 3 under this category are directly and positively related to financial performance of the banks, it can be inferred that the financial position of SBI is most sound and least for PNB.

RETURN ON ASSET (ROA)

It is financial ratio, often described as the primary ratio, to display the percentage of profit which a bank gains against its entire capital investment. It is rather known as net income (or pretax profit)/ total assets. ROA is a Profitability Ratio. It

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provides information about management's performance in using the assets of the business to generate income[8,9]. The return of asset (ROA) was found to be highest for SBI (0.38) followed by Canara bank (0.19) and it is lowest for PNB (0.18). The results reveal that SBI management completely outperformed (almost double as compared to PNB and Canara bank) their counter parts in PNB and Canara bank in generating the net income. However, there is only little difference in ROA of PNB and Canara bank indicating equal performance by their management in term of net income generation. It implies a better financial position of SBI as it involve profit before tax avoiding any implication or trends due to changes in the rates of taxation.

RETURN ON DEPOSIT (ROD)

To most financial analysts, ROD is one of the best measures of bank profitability performance. It is calculated through dividing net profits by total deposits. This ratio reflects the bank management ability to utilize the customers' deposits in order to generate profits [9,10]. The ROD for SBI , PNB and Canara bank are found to be 0.51%, 0.24% and 0.22% , respectively. It substantiate the facts that SBI is more efficient in generating net profit out of its depositors money and Canara bank is least efficient in terms of ROD.

RETURN ON EQUITY (ROE).

It is ratio used to indicate the profitability of a bank and is obtained by comparing its net profit (income after taxes) to its average shareholders' investment (Equity Capital).

Thus, ROE examines and undermines the efficiency level of a company [11]. The more is ROE, the better the growth ratio of benefit with least investment of capital.

Return on Equity Ratio = Net income/Total Equity Capital

The ROE of SBI, PNB and Canara bank are found to be 6.69%, 3.34% and 3.96 % respectively. It points that SBI management is more efficient in utilizing its share holders' investment. It also reveals that SBI has performed 100% better than SBI and 80% better than Canara Bank. PNB is again the lowest performer in terms of ROE. However, profitability ratios are only part of bank performance story. The results could go further in favor of SBI as it will able to gain more faith of investors of equity market.

NET INTEREST MARGIN (NIM)

It is defined as the balance of the interest income that the banks create and the amount of interest received by the depositors. NIM is one of the most important ratio when it comes to banks financial health. Net Interest Margin is the difference between the interest income generated and the amount of interest paid out to their lenders deposit divided by total assets [12]. The Net Interest Margin is calculated by using the formula,

Net Interest Margin = Interest Earned-Interest Expended / Total Assets

The NIM ratio of SBI is found to be 2.28 % which is far better than other bank under study. The NIM of Canara Bank is found to be lowest (1.69%) while for PNB it is 2.08%. Thus, it can be inferred that not everything is going wrong against PNB.

Liquidity ratios in a bank demonstrate the ability to pay its current obligations. Credit Deposit Ratio (CDR) is a commonly used statistic for assessing a bank's liquidity by dividing the banks total loans by its total deposits [11,12]. The formula used to calculate the credit deposit ratio is, Credit Deposit Ratio = Credit/Deposits

The CDR ratios of the three studied banks are found in the order of SBI (76.8%) followed by PNB (74.5%) and Canara bank (69%). It deciphers the fact that SBI is possesses most safety to cover

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short-term obligations while Canara bank is least safe for the same.

NPA RATIO

Non-Performing Assets (NPA) is defined as a credit facility in respect of which the interest and/ or installment of principal has remained past due for a specified period of time. In simple terms, asset is tagged as non- performing when it ceases to generate income for the lender. The net NPA to loans (advance) ratio is used as a measure of the overall quality of the bank's loan. An NPA are those assets for which interest is overdue for more than 90 days (or 3 months). NPA Ratio = (Non-Performing Assets)/Loans

Both gross and net NPA ratios are found to be in the order of PNB (9%) > Canara (6%) > SBI (4%). It shows that the magnitude of bad loans is highest in PNB and lowest for SBI. Since NPA are not good for the financial health of Bank, PNB management should take every care disbursing the loan else it will have severe implications on the financial position of the bank in future too.

The cost to income ratio which defines the operating cost (administrative, salary, rent etc) incurred to operating income. It determines the profitability of the bank with a clear picture how efficiently the bank is being run [13]. The performance in respect to cost to income ratio is best for Canara bank (33.315) followed by PNB (40.22%) and SBI (41.15%). The same trend is also observed foe operating expenses to total assets across the three banks. However, the higher value of the ratio for SBI may be due to its larger number of branches, employees and fixed asset [8].

Finally, capital adequacy ratio- CAR (banks risk weighted credit exposure) which is used to protect the depositors and promote the stability and efficiency of financial system were analyzed. It is found that CAR is equal for SBI and Canara bank (13%) while it less for PNB (11%). It depict that depositors money is at more risk in PNB as compared to SBI and Canara bank

CONCLUSION

Commercial banks depend on deposits received from all types of depositors. They also collect money from equity market for lending and investment purpose. But they have certain liquidity liability too. That why lending and borrowing amount, their overall financial position must be monitored periodically. In the present study the balance sheet and Profit loss statements of three public sector banks namely SBI, PNB and Canara bank were put into ratio analysis for evaluating their financial health for the year 2016-17. Although all the three banks are performing well, in most of the parameters SBI is found to be outperformed the PNB and Canara bank. The results of the present study will help all the stake holder to take prudent decision for the invested/deposited money. The results will also help bank administration in achieving and maintaining faith of depositors by taking required corrective measurements, if any.

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