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Performance of selected Indian private banks

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Abstract
Banks play an important role in the economic development of India and is the most dominant segment of the financial sector. It has brought about a significant progress in deposit mobilization and has accelerated the growth of deposits. Banks help to channelize savings to investments and capital formation. The economic stability and development of the country depends largely on the performance of the banking sector. This paper throws a light on the performance of seven private banks in India.

Keywords: private banks, performance, ratio, finance

Introduction
The performance of the banking sector plays a significant role in the economic growth of India. This role of the banking sector essentially stems from the fact that financial intermediation has a prominent role in augmenting the total size of investable resources in the economy. There has been a long debate regarding the direction of relationship between financial development and economic growth. The efficient and well-functioning banks are able to identify innovative entrepreneurs who allowed funds being channelized to the most promising investment projects.

The global financial crisis of 2007 was one of the shocking economic disasters of the last one hundred years. Large number of banks in the advanced countries failed causing irreparable damage to the financial system and to the global economy as a whole. Therefore, banks that are healthy and profitable are essential for both domestic and international economic and financial stability. Against this back drop, this paper is an attempt to analyse the financial performance of seven selected private banks in India.

Review of Literature
Sarangarajan and Karthik (2013) [2] made an interfirm comparison on selected private sector banks in India. Ratios like Net profit ratio, return of total assets, return on shareholders fund, return on capital employed, Asset turn-over ratio, current ratio and operating expenses ratio for analysis. It was found that the performance of Karur Vysya Bank and City Union Bank were better than the other selected private sector banks.

Golam Mohiuddin (2014) [1] studied the financial performance of selected commercial banks in Bangladesh by administering the CAMEL Model. The rating of individual banks was done using five parameters namely Capital adequacy, Asset quality, Management capability, Earnings capacity and Liquidity. It was found that the overall index was more in the case of Sonali Bank Ltd. as compared to that of AB Bank Ltd.

Methodology
Seven private banks, namely, City Union Bank, Karur Vysya Bank, Lakshmi Vilas Bank, South Indian Bank, Axis Bank, ICICI Bank and HDFC bank were selected for the study. The study is purely based on Secondary data. The required secondary data were collected from the Annual reports of the selected banks, official website of RBI and website of Indian Bankers' Association for the past ten years, during 2006-07 to 2015-17. In order to analyse the financial performance of the selected private banks, ratios like Credit Deposit Ratio, Capital Adequacy ratio, Business per employee, Profit per employee and Net NPA ratio were used for the study.

Credit-Deposit Ratio
Credit-Deposit ratio, popularly known as CD ratio, is the ratio of how much a bank lends out of the deposits it has mobilized. CD ratio helps in assessing a bank's liquidity and indicates its health. It is expressed as follows:

$$\text{Credit-Deposit Ratio} = (\text{Total Advances} \div \text{Total Deposits}) \times 100$$

The CD ratio is presented in table 1 as under.

Table 1: Credit Deposit Ratio of Banks (in Percentage)

S. No.	YEAR	ICICI	HDFC	AXIS	CUB	KVB	LVB	SIB
1	2015-16	103.28	85.02	94.64	77.53	78.05	77.24	73.74
2	2014-15	107.18	81.08	87.17	74.62	80.80	74.45	72.03
3	2013-14	102.05	82.49	81.89	73.11	77.68	69.40	76.29
4	2012-13	99.25	80.92	77.58	73.73	75.5	72.63	73.17
5	2011-12	97.71	78.06	76.26	73.13	73.48	72.37	72.14
6	2010-11	90.45	76.02	74.65	69.35	71.17	71.06	68.86
7	2009-10	90.04	72.44	71.87	67.48	69.55	70.11	67.33
8	2008-09	91.44	66.64	68.89	69.59	71.72	70.15	67.09

9	2007-08	84.99	65.28	65.94	70.71	75.2	70.23	67.06
10	2006-07	83.83	66.08	59.85	71.54	74.46	70.17	65.49
	MEAN	95.02	74.40	75.87	72.08	74.76	71.78	70.32
	CAGR	2.3	2.8	5.2	0.8	0.5	1.1	1.3

***Source*:** www.rbi., www.iba. [3-4]

Table 1 depicts that during the study period, the mean CD Ratio (95.02) of ICICI is higher than the other banks taken for study. The CAGR (5.2) of Axis bank is higher when compared to other banks. The CAGR of all the banks show positive growth rate. It is found that all the banks have created loan assets from the deposits they mobilized.

Capital Adequacy Ratio

Capital Adequacy Ratio (CAR) is the ratio of a bank's capital in relation to its risk weighted assets and current liabilities. It is measured as follows:

$$\text{CAR} = \frac{(\text{Tier I capital} + \text{Tier II capital})}{\text{Risk weighted assets}} \times 100$$

The CAR is presented in Table 2 as under.

Table 2: Capital adequacy ratio of private banks (in Percentage)

S. No.	YEAR	ICICI	HDFC	AXIS	CUB	KVB	LVB	SIB
1	2015-16	16.64	15.53	15.29	15.58	12.17	10.67	11.82
2	2014-15	17.02	16.79	15.09	16.52	14.62	11.34	12.01
3	2013-14	17.70	16.07	16.07	15.01	12.60	10.90	12.42
4	2012-13	18.74	16.80	17.00	13.98	14.41	12.32	13.91
5	2011-12	18.52	16.52	13.66	12.57	14.33	13.10	14.00
6	2010-11	19.54	16.22	12.65	12.75	14.41	13.19	14.01
7	2009-10	19.41	17.44	15.80	13.46	14.49	14.82	15.39
8	2008-09	15.53	15.69	13.69	12.69	14.92	10.29	14.76
9	2007-08	13.97	15.69	13.73	12.48	12.58	12.73	13.80
10	2006-07	11.69	13.08	11.57	12.58	14.51	12.43	11.08
	MEAN	16.88	15.98	14.46	13.76	13.90	12.18	13.32
	CAGR	4	1.9	3.1	2.4	- 1.9	-1.6	0.7

***Source*:** www.rbi.org, www.iba.org [3-4]

Table 2 shows that during the study period, the mean of Capital Adequacy Ratio of ICICI is higher (16.88) than other banks taken for study. The LVB (12.18) has lowest mean of CAR. The Compounded Annual Growth Rate ICICI bank is higher when compared to other banks. The CAGR of KVB and LVB shows negative growth rate. During the study period, all the banks have shown CAR of more than 9%, the stipulated rate prescribed by RBI which implies that all the banks are in safer position to cover up the risks.

Business per Employee

Business per employee measures the quality of the banks' employees in generating business. It is presented in table 3 as under:

Table 3: Business per Employee (In Rupees millions)

S. No.	YEAR	ICICI	HDFC	AXIS	CUB	KVB	LVB	SIB
1	2015-16	94.30	113.9	148.4	106.9	124.1	109.9	125.5
2	2014-15	82.2	101.0	137.1	96.5	113.0	95.5	115.4
3	2013-14	74.7	89.00	123.00	90.60	105.50	92.30	119.90
4	2012-13	73.5	75.00	121.50	93.80	101.40	86.30	120.10
5	2011-12	70.8	65.40	127.60	84.70	98.40	78.70	107.90
6	2010-11	73.50	65.30	136.60	78.10	92.60	71.90	91.80
7	2009-10	76.50	59.00	111.10	65.10	78.90	56.00	77.10
8	2008-09	115.40	44.60	106.00	56.52	63.80	51.00	64.50
9	2007-08	100.80	50.60	111.70	49.90	60.40	45.30	60.04
10	2006-07	102.70	60.70	102.40	35.00	48.90	43.00	50.80
	MEAN	86.44	72.45	122.54	75.71	88.7	73.0	93.3
	CAGR	-0.94	7.24	4.21	13.21	10.90	10.9	10.6

***Source*:** www.rbi.org., www.iba.org. [3-4]

Table 3 depicts that the mean Business per employee of AXIS is higher than the other banks taken for study. The CAGR of CUB is higher (13.21) when compared to other banks. The CAGR of all the banks show positive growth rate except ICICI. It is found that the management efficiency of all the above banks are good.

Profit per Employee

Profit Per employee measures and evaluates the performance of a banks employee's efficiency and productivity. It is presented in table 4 as under.

Table 4: Profit per employee (in rupees millions)

S. No.	YEAR	ICICI	HDFC	AXIS	CUB	KVB	LVB	SIB
1	2015-16	1.40	1.50	1.78	1.00	0.78	0.40	0.40
2	2014-15	1.60	1.00	1.70	0.90	0.64	0.30	0.40
3	2013-14	1.40	1.20	1.50	0.80	0.58	0.18	0.70
4	2012-13	1.40	1.00	1.50	0.90	0.82	0.29	0.80
5	2011-12	1.10	0.80	1.40	0.80	0.88	0.35	0.70
6	2010-11	1.00	0.74	1.40	0.80	0.91	0.39	0.50
7	2009-10	0.90	0.60	1.20	0.60	0.81	0.11	0.50
8	2008-09	1.10	0.42	1.00	0.50	0.60	0.21	0.40
9	2007-08	1.00	0.49	0.84	0.47	0.58	0.12	0.40
10	2006-07	0.90	0.61	0.76	0.38	0.49	0.09	0.27
	MEAN	1.18	0.84	1.31	0.72	0.71	0.24	0.51
	CAGR	5.03	10.5	9.9	11.4	5.3	18.0	4.5

***Source*:** www.rbi.org., www.iba.org. [3-4]

The above table shows that all the profit per employee of ICICI bank is the highest. All the banks show a positive CAGR. The employees of the banks are efficient and productive.

Net NPA Ratio

The net NPA ratio is used as a measure of the overall quality of the bank's loan book. It is calculated as follows:

Net NPA ratio = Net non-performing assets / Loans given.

Table 5: Net NPA Ratios

S. No.	YEAR	ICICI	HDFC	AXIS	CUB	KVB	LVB	SIB
1	2015-16	2.98	0.28	0.74	1.53	0.55	1.18	2.89
2	2014-15	1.61	0.25	0.46	1.30	0.78	1.85	0.96
3	2013-14	0.97	0.27	0.44	1.23	0.41	3.44	0.78
4	2012-13	0.77	0.20	0.36	0.63	0.37	2.43	0.78
5	2011-12	0.73	0.18	0.27	0.44	0.33	1.74	0.28
6	2010-11	1.11	0.19	0.29	0.52	0.07	0.90	0.29
7	2009-10	2.12	0.31	0.40	0.58	0.23	4.11	0.39
8	2008-09	2.09	0.63	0.40	1.08	0.25	1.24	1.13
9	2007-08	1.55	0.47	0.42	0.98	0.18	1.55	0.33
10	2006-07	1.02	0.43	0.72	1.09	0.23	1.58	0.98
	MEAN	1.5	0.3	0.45	0.94	0.34	2.00	0.88
	CAGR	0.13	-0.05	0.003	0.04	0.10	-0.03	0.13

***Source*:** www.rbi.org, www.iba.org [3-4]

The above table shows that the NPA ratio of the banks show an increasing growth except HDFC and LVB. The LVB has the highest NPA ratio while HDFC has the lowest mean of NPA.

Findings and Suggestions

- All the banks have created loan assets from the deposits they mobilized. The CD ratio is satisfactory.
- The banks have shown CAR of more than 9%, the stipulated rate prescribed by RBI which implies that all the banks are in safer position to cover up the risks.
- The business per employee and Profit per employee ratios show that the employee of the banks are efficient and productive.
- NPA ratio of the banks show an increasing growth except HDFC and LVB. The LVB has the highest NPA ratio while HDFC has the lowest mean of NPA. So the banks have to decrease the NPAs by following suitable collection strategies.

Conclusion

Even though the banking sector is facing significant challenges, the financial position of the private banks are healthy and sound. The healthy banking sector is very essential for the economic stability of not only the particular country but also for the global financial stability. Therefore, banks should follow the regulations of RBI and maintain their financial health.

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