

# Comparative Performance Analysis of New Private Sector Banks in India

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## 1. Introduction

The private sector banks in India represent a part of the Indian banking sector that consists of each private and public sector banks. The "private sector banks" are those banks wherever larger elements of stake or equity are controlled by the private shareholders and not by government. Since the year 1980 about eightieth of the banking phase in India was beneath Government possession. within the early Nineties the then Narasimha Rao government commenced a policy of easing and gave licenses to a little range of private banks, that came to be referred to as New Generation tech-savvy banks, including banks like UTI Bank (now re-named as Axis Bank) (the 1st of such new generation banks to be set up), ICICI Bank and HDFC Bank. By the suggestion of Narasimha Committee Banking Regulation Act was amended in 1993 and so the gates for brand spanking new private sector banks were opened. Subsequently private sector banks came into existence to supplement the performance of public sector bank and serve the requirements of the economy better.

AXIS Bank is that the third largest private sector bank in India. AXIS bank offers monetary services to customer segments covering massive and mid-sized companies, MSME, agriculture and retail business. AXIS operates in four segments: treasury operations, retail banking, corporate/wholesale banking and alternative banking business.

ICICI Bank was incorporated in 1954 and is that the largest private sector bank in India. ICICI bank provides monetary services of investment banking, life and non-life insurance, working capital and quality management to company and retail customers.

HDFC Bank facilitates services of client banking, credit cards, company banking, investment banking, private banking, wealth management etc. HDFC bank is additionally a member of thirty stocks sensx and fifty stocks nifty.

## 2. Objectives of study

1. To Make Comparative analysis on the performance of AXIS, ICICI and HDFC banks.
2. To find the liquidity, solvency and profitability position of the bank for 5 years.
3. To enable the investors to take investments decision on the basis of return& risk.
4. To give suggestions for different measures to improve the future performance of the Banks.

## 3. Literature Review

To make the study more fruitful the main focus is done on the unexplored area. The review of literature is as under:

**Joe Zhu (2002)** made an attempt to evaluate the performance of 49 Indian commercial banks for the period from 2006-07 to 2010-11 which is a variant of the popular Banker-Charnes-Cooper (BCC) model. The results showed that new private sector commercial banks performed the best in comparison of old private sector banks, nationalized banks and SBI Group.

**Sarangi (2011)** analyzed the performance of private sector banks and seven public sector banks for the year 2009-10. They used three sets of ratios, financial ratios, efficiency ratios and operating performance ratios. Overall eleven ratios were used in the study. They found that Axis Bank took the first position, followed ICICI Bank, BOI, PNB, SBI, IDBI, and HDFC, in that order.

**Sudha et.al (2013)** made an attempt to analyze the performance and growth of different categories of Indian commercial banks during the period 2009 to 2012. They found that during the global economic crisis the Indian commercial banks have shown a positive trend for development. They observed that, during this period the SBI performed very well in comparison of other public sector banks.

## 4. Privatization of Banks in India

Banking in India has been dominated by using public sector banks because the 1969 while all main banks have been nationalized through the Indian authorities. After the reform became initiated, the Governments stake turned into authorized to be decreased to 51 percent consistently. The decrease in government stake in public sector banks amounted to partial privatization of banks. The private sector banks are split into organizations by way of economic regulators in India, old and new. The old non-public sector banks existed previous to the nationalization in 1969 and saved their independence because they had been both too small and professional to be included in nationalization. The banks, which were included in operation after 1991, with the introduction of monetary reforms and economic sector reforms, are called "New Private Sector Banks". Banking law act was then amended in 1993, which permitted the entry of recent private sector banks in the Indian banking sector.

List of Old Private Sector and New Private Sector Banks in India

Table-1

Old Private Sector Banks in India		New Private Sector Banks in India	
Name of Bank	Year established	Name of Bank	Year established
1. City Union Bank	1904	1. Axis Bank	1993
2. Karur Vysya Bank	1916	2. HDFC Bank	1994
3. Catholic Syrian Bank	1920	3. DCB Bank	1930
4. Tamilnad Mercantile Bank	1921	4. ICICI Bank	1990
5. Nainital Bank (Wholly owned subsidiary of Bank of Baroda)	1922	5. IndusInd Bank	1994
6. Karnataka Bank	1924	6. Yes Bank	2004
7. Lakshmi Vilas Bank	1926	7. Kotak Mahindra Bank	2001
8. Dhanlaxmi Bank	1927	8. IDFC Bank	2015
9. South Indian Bank	1929	9. Bandhan Bank	2015
10. Federal Bank	1931		
11. Jammu and Kashmir Bank	1938		
12. RBL Bank	1943		

Source: Annual Report of Banks

## 5. Research Methodology

This study is exploratory and analytical in nature. This study is based on secondary data. An attempt has been made in the study to make a proper analysis of changes in the size and structure of Indian retail market over last few years. This study is helpful to analyze the expected future changes in the Indian retail market and the implications of recent policy changes adopted by Government of India. The relevant data are collected from text books, case studies, government publications, trade journals, reputed journals and magazines, newspapers, online databases and websites. The present

study has been conducted to make comparative analysis of financial performance of new private sector banks i.e. AXIS, ICICI and HDFC Bank on the basis of different types of ratios:

### Current Ratio:

This Ratio establishes the relationship between the Current Assets and Current Liabilities. This Ratio is used to measure the ability of the business concern to meet its short term obligation as and when they become due. Usually, A Current Ratio of 2:1 is considered Ideal/Satisfactory Ratio.

Table-2

Bank	2013	2014	2015	2016	2017	MEAN	S.D.	C.V.
AXIS	0.03	0.02	0.03	0.03	0.03	0.028	0.0045	0.15
ICICI	0.14	0.07	0.12	0.98	0.09	0.28	0.39	1.40
HDFC	0.03	0.06	0.08	0.78	0.06	0.202	0.3236	1.60

Source: Annual Report of Banks

HDFC bank has increasing current ratio from 2013 to 2015 from 0.03 to 0.08 decrease in 2016 and 2017 by 0.78 and 0.06 MEAN is 0.202, S.D. is 0.3236 and C.V. is 1.60. ICICI bank has higher current ratio than the other two bank (HDFC and AXIS) mean is 0.28, S.D. is .39 and C.V. is 1.40. Its current ratio is 0.14 in 2010 then drastically decreased to 0.07 in 2017 and remains 0.12 in 2015, increased up to 0.98 in 2016 and decreased up to 0.09 in 2017. AXIS bank has similar current ratio in 2013-2017, 0.03 except in 2014 which is 0.02. If current ratio is less than 1 it is taken as an indicator of potential future liquidity problems. Current ratio more than 2 is also not considered good because it indicates that bank is not doing a good job of employing its assets to generate maximum possible revenue. HDFC, ICICI and AXIS all the three banks are not able to maintain ideal current ratio which is 2:1 and not able to pay its current liability from its current assets because of increasing current liabilities and money at call amount. ICICI

bank has higher current ratio than the other two banks. HDFC, ICICI and AXIS banks should try to maintain its current ratio at ideal level so that they can pay its current liabilities when required to pay it otherwise they can face a serious problem while need to pay its current liabilities that can be a very critical situation for the banks.

### Liquid Ratio:

This Ratio is used to explain the relationship between Liquid Assets and Current Liabilities. This Ratio measures the ability of the firm to meet its short term obligations within a month or immediately or as and when they become mature at immediate basis without depending upon the realization of stock. Usually, Liquid Ratio of 1:1 is considered Ideal/Satisfactory Ratio.

Table-3

Bank	2013	2014	2015	2016	2017	MEAN	S.D.	C.V.
AXIS	19.19	19.60	21.63	20.10	18.57	19.8	1.15	0.05
ICICI	14.70	15.86	9.37	10.53	11.31	12.35	2.78	0.22
HDFC	7.14	6.89	6.20	7.84	8.55	7.324	12.354	19.8

Source: Annual Report of Banks

HDFC bank's Quick ratio remain between 6.20 and 8.55 .Mean is 7.324,S.D. is 12.354 and C.V. is 19.8. ICICI bank has higher quick ratio in 2013 and 2014.Quick ratio decreased in 2015 up to 9.37 and started to increase in 2016 and 2017 up to 11.31. MEAN is 12.35, S.D. is 2.78 and C.V. is 0.22. Quick ratio of AXIS bank is higher in 2015 (21.63) than started to decrease and remained 18.54 in 2017. MEAN is 19.8,S.D. is 1.15 and C.V. is 0.05. AXIS bank has higher quick ratio than the other two banks. All the three banks are able to give the payments for current liabilities. Quick ratio helps in measuring that a bank is able to meet its short term obligations with its most liquid assets. Quick ratio is higher it indicates the better

liquidity position of banks. HDFC, ICICI and AXIS all the three banks are having high quick ratio than the standard ratio because of higher bills receivable amount and lower bills payable amount so they should reduce the investment in debtors and should make efficient use of cash balance.

#### **Net Operating Profit per Share:**

This ratio gives valuable input to assess the real strength of a bank's branch network. It is arrived at by dividing the net profit earned by the bank by total number of branches. Higher the ratio, higher will be efficiency of management.

**Table-4**

Bank	2013	2014	2015	2016	2017	MEAN	S.D.	C.V.
AXIS	380.27	369.14	532.30	580.88	652.16	502.95	124.65	0.247
ICICI	293.74	225.51	290.99	347.40	382.55	308.03	60.01	0.194
HDFC	436.03	428.36	116.28	147.37	171.47	259.90	158.51	0.609

Source: Annual Report of Banks

HDFC bank net operating profit per share is highest in 2013 is 436.03 then started to decrease,428.36 in 2014 and 116.28 in 2015 and started to increase in 2016 and 2017 (from 147.37 to 171.47).MEAN is 259.90, S.D. is 158.51 and C.V. is 0.609. ICICI bank net operating profit per share is lowest in 2014 (225.51) and highest in 2017 (382.55) MEAN is 308.03, S.D.is 60.01and C.V is 0.194. AXIS bank net operating profit per share is lowest in 2014 (369.14) than continuously increased from 2015, 2016 and 2017 (532.30,580.88 and 652.16).MEAN is 502.95, S.D. is 124.65 and C.V. is 0.246. AXIS bank's earnings per share is highest than HDFC and ICICI because of higher income than expenses. Net operating profit per share tells the lenders and investors whether a bank's income covers its operating expenses and debt payments and can be increased by reducing unnecessary operating

expenses. Decision of investment can be made by comparing different banks net operating profit per share. Banks should increase net operating profit per share by increasing income decreasing debt payment and operating expenses to attract more investment from investors and lenders.

#### **Total Assets Turnover Ratio:**

This Ratio is used to establish the relationship between Cost of goods sold and Total Assets. With the help of this Ratio, We can certain about the overall financial position of business. A Higher Ratio indicates the overall sound financial position of business. A Lower Ratio indicates the dissatisfactory financial position of any business concern.

**Table-5**

Bank	2013	2014	2015	2016	2017	MEAN	S.D.	C.V.
AXIS	0.09	0.07	0.08	0.09	0.08	0.082	0.0084	0.102
ICICI	0.09	0.07	0.07	0.08	0.08	0.078	0.0084	0.107
HDFC	0.10	0.08	0.09	0.10	0.09	0.092	0.0084	0.09

Source: Annual Report of Banks

HDFC bank's total asset turnover ratio remained between equal between 0.09 and 0.10 in 2013 to 2017 except 2014 in which it is 0.08. MEAN is 0.092, S.D.is 0.0084 and C.V. is 0.09. ICICI bank's total asset turnover ratio is highest in 2013(0.09) than decreased in 2014 and 2015 (0.07) and increased in 2016 (0.08) remains equal in 2017(0.08).MEAN is 0.078, S.D. is 0.0084 C.V is 0.107. AXIS bank's total asset turnover ratio is highest in 2013 and 2016(0.09) and lowest in 2014(0.07). MEAN is 0.082, S.D. is 0.0084 and C.V. is 0.102. Total assets turnover ratio is a measure of a bank's ability to use its assets to generate sales or revenue. Higher Total asset turnover ratio is preferable because it indicates that the bank is using its assets efficiently to make money and lower number may

convince a bank to try other methods to maximize the efficiency of its assets. HDFC bank is using its assets efficiently by increasing advances and investment and less capital work in progress. ICICI and AXIS Bank should increase its turnover by optimum utilization of working capital resources.

#### **Net Profit/Total Fund:**

This ratio is measured in terms of relationship between profit and fund. Net Profit Ratio is used for measuring the overall efficiency of a firm. This ratio establishes the relationship between net profit and the total funds.

**Table-6**

Bank	2013	2014	2015	2016	2017	MEAN	S.D.	C.V.
AXIS	1.53	1.60	1.61	1.65	1.72	1.62	0.0698	0.0430
ICICI	1.73	1.62	1.44	1.34	1.08	1.442	0.253	0.1754

HDFC	1.45	1.57	1.68	1.82	1.90	1.68	0.182	0.1082
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Source: Annual Report of Banks

HDFC bank's net profit ratio on investment on total funds has an increasing trend during the study time period; it increased from 1.45 to 1.90 in 2013-2017. MEAN is 1.68, S.D. is 0.182 and C.V. is 0.1082. ICICI bank has a decreasing trend through the study time period. It has been decreased from 1.73 to 1.08 in 2013-2017. MEAN is 1.442, S.D. is 0.253 and C.V. is 0.1754. AXIS bank also has an increasing trend during the study time period, it increased from 1.53 to 1.72 from 2013-2017. MEAN is 1.62, S.D. is 0.0698 and C.V. is 0.0430. HDFC bank has highest profit rate on investment. Managers, Analyst and Investors use this ratio to determine the solvency of a company or the ability of the company to meet the long term obligations. Profit is the best measure of a company because of increasing profits are the best indicator of a company of

paying capacity of dividends and that the share price will trend upward and profitable company can use leverage to increase stockholder's equity even more. HDFC bank's higher net profit/total funds ratio indicates that the bank is earning more money on less investment by choosing such investment which has less time, less risk, less time to take their money back and more profit. ICICI and AXIS bank should try to give more return on its net worth to attract more customers.

#### Cash Deposit Ratio:

Cash Deposit is the amount accepted by bank from the savers in the form of current deposits, savings deposits and fixed deposits and interest is paid to them.

Table-7

Bank	2013	2014	2015	2016	2017	MEAN	S.D.	C.V.
AXIS	7.30	7.07	6.01	5.39	5.97	6.34	0.80	0.12
ICICI	10.72	11.32	8.60	7.21	6.54	8.87	2.10	0.23
HDFC	9.35	10.79	8.81	5.46	6.02	8.08	2.26	0.28

Source: Annual Report of Banks

HDFC bank has least cash deposit ratio in 2016 (5.46) and highest in 2014 (10.79). MEAN is 8.08, S.D. is 2.26 and C.V. is 0.28. ICICI bank's cash deposit ratio is (10.72) in 2013 and then increased in 2014 i.e. (11.32) and is decreasing from 2015 to 2017 (from 8.60 to 6.54). MEAN is 8.87, S.D. is 2.10 and C.V. is 0.23. AXIS bank has decreasing trend in cash deposit ratio from 2013 to 2016 (from 7.30 to 5.39) and increased in 2017 (6.34). MEAN is 6.34, S.D. is 0.80 and C.V. is 0.12. Cash deposit ratio is the amount of money a bank should have available as a percentage of the total amount of money its customers have paid into the bank so that customers can be sure that they will be able to take their money out of the bank if they want to have. RBI had set the minimum fraction of customer deposits and notes that each commercial bank must

hold as reserves (rather than lend out). ICICI bank's cash deposit ratio is more than the other two because of creating ideal reserves. HDFC and AXIS bank should also have minimum reserves to make sure their customer to be paid on demand.

#### Credit Deposit Ratio:

Credit Deposit Ratio is the proportion of loan-assets created by a bank from the deposits received. Credits are the loans and advances granted by the bank. Interest is charged from the borrower. Deposit is the amount accepted by bank from the savers and interest is paid to them.

Table-8

Bank	2013	2014	2015	2016	2017	MEAN	S.D.	C.V.
AXIS	71.87	74.65	76.26	77.58	80.03	76.07	3.06	0.04
ICICI	90.04	90.45	97.71	-	54.23	83.10	19.57	0.23
HDFC	72.44	76.02	78.06	-	46.66	68.04	15.10	0.22

Source: Annual Report of Banks

HDFC bank's Credit deposit ratio increased from 2013 to 2015 (72.44 to 78.06). 2016 data is not available. Then decreased in 2017 (46.66). MEAN is 68.04, S.D. is 15.10 and C.V. is 0.22. ICICI bank also has an increasing trend from 2013 to 2015 but decreased in 2017 at 54.23. MEAN is 83.10 S.D. is 19.57 and C.V. is 0.23. AXIS bank has also an increasing trend in credit deposit ratio during the study time period. Increasing from 71.87 to 80.03 from 2013-2017. MEAN is 76.07, S.D. is 3.06 and C.V. is 0.04. Credit deposit ratio is the first indicator of the health of a bank because by this one can measure how much of a bank lends out of the deposits the main banking activity. High ratio indicates pressure on resources, more reliance on deposits for lending, capital adequacy issues,

forcing bank to raise more capital and Low ratio indicates that banks are not making full use of their resources. ICICI bank is using its resources (finances available) fully and creating more loan assets from its deposit. HDFC and AXIS bank should also use their resources fully and creates more loan assets from their deposits.

#### Earnings per Share:

This Ratio is used to show the profitability of any business concern on per share basis. This Ratio explains the relationship between Net Profit after Interest, Tax and Preference Share Dividend and Number of Equity Shares.

Table-9

Bank	2013	2014	2015	2016	2017	MEAN	S.D.	C.V.
AXIS	62.06	82.54	102.67	110.68	-	89.48	21.28	0.29
ICICI	36.10	44.73	56.09	72.17	84.95	58.80	19.89	0.33
HDFC	64.42	84.40	22.02	28.27	35.34	46.89	26.51	0.56

Source: Annual Report of Banks

HDFC bank has higher earnings per share in 2014(84.40) and lower in 2015 (22.02). MEAN is 46.89, S.D. is 26.51 and C.V. is 0.56. ICICI bank's earnings per share have an increasing trend from 2013-2017 (from 36.10 to 84.95). MEAN is 58.80, S.D. is 19.89 and C.V. is 0.33. AXIS bank's earnings per share also show an increasing trend from 2013-2016 (from 62.06 to 110.68). 2017 year data is not available. Mean is 89.48, S.D. is 21.28 and C.V. is 0.29. Most of organizations could generate the same EPS number, but one could do so with less equity (investment) that would be more efficient at using its capital to generate more income. Person (investor) before making any investment wants to be aware of earnings manipulation that will affect the quality of the earnings number so used earning per share to calculate the price to earning valuation ratio that is considered to be the single most variable in finding share's price. AXIS bank earnings per share is higher than HDFC and ICICI bank so, investors want to make investment in it and use earning per share in conjunction with statement analysis and other measures. HDFC and ICICI bank should also create ideal earning per share to attract more investment.

## 6. Recommendations

Today Indian banking is at a cross road. Private Bank has the challenge to face stiff competition from foreign banks in time to come. The following steps must be taken into the consideration to improve the financial performance of banks:

- Effective financial performance such as capital, liquidity, earning, risk, and management soundness of the bank is much needed for every bank.

- Even though ICICI bank has to maintain certain category of deposits which gives more returns. Thus, it helps to attain a better profit margin when compared with other private limited company.
- Private Banks should take necessary steps to avoid over staffs and try to reduce personnel cost which is the major cost in private banks.
- The banks have to re-orient their strategies in the light of their own strengths and the kind of market in which they are likely to operate on.
- Banks should expand their business in unbanked areas particularly rural and remote areas.
- In the case of the capital adequacy of the banks, state banks should avoid further more debt capital in the future any capital needed if the bank go debt fund, it will definitely deficient in the case of capital adequacy.
- Banks should try to reduce its operating cost through avoid over staffs, unnecessary promotion and advertisement activities.
- The private sector banks are moving back in the sequence of earning per share ratio. It is necessary for private sector banks to reduce their operating expenses
- The structure of the working capital (gross) be evenly constructed taking into consideration the operational requirements so as to reduce the cost and take optimum utilization of the different sources.

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