

Earning and Liquidity Performance of select Commercial banks in India

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ABSTRACT

The study is an effort to analyse the performance among Public sector banks in India from 2014 to 2018 on the basis of Earning and liquidity parameters. In the current scenario it has aimed to analyse earning and liquidity performance of select commercial bank in India. The relationships of the parameter are also taken into consideration. The study covers top five public sector banks in India. The data were collected from the proweess database and statistical tool of Mean and correlation was applied to analyse the performance of the select Public banks.

1. Introduction

Banking is the heart of India's financial services sector. The main business of banks are accepting deposits and lending loans to the customers. In the present trend banking industry had adopted numerous changes over the past few years due to financial sector reforms in world economy. Apart from the traditional functions, banks had innovated new products and services according to the customers need. The present study is an analysis on the performance of the select public sector banks. The paper evaluates Earning and Liquidity performances of top five public sector banks.

2. Literature Review

CheenuGoel, etal (2013) focused the performance of select banks from the year 2009-2012. A set of financial and efficiency ratios were used in the study to analyse performance of the select banks. Correlation co-efficient matrix was used as a statistical tool to find the association between ratios. The select banks showed positive growth in the performance.

Avneet Kaur (2012) had conducted a study on performance evaluation of the public sector banks in India during 2001-2010. Financial parameters-total income, total expenses, profit, advances, interest rate spread, credit deposit ratio, cost of deposit; non-performing assets were taken into account for the analysis and significantly proved with statistical measure of correlation and median test.

Garima Chaudhary (2014) had compared performance of select private and public banks in India for the period of five years from 2009-2013. The factors like network, productivity, capital adequacy ratio, asset quality, efficiency of management, earnings, liquidity have been taken for comparison. Finally proved private sector banks are leading than public sector banks.

3. Methodology and Data

The objective has been to analyse the Earning and Liquidity performance of the five public sector banks selected for the period 2014-2018 (Indian Bank, Vijaya Bank, Punjab and Sind Bank, Bank of Maharashtra and United Bank of India). The financial indicators taken into consideration were Interest spread, Operating Profit to total assets and return on assets for the letter E. For Letter L Provision and Contingencies To total Assets Term Deposit to Total Deposit and Cash Deposit. The letter E and L has been derived from the CRAMEL Model. Correlation was used to find the relationship in the performance of select banks. The study was based on the secondary data collected from the proweess database.

Following abbreviations has been given

OP to TA - Operating Profit to Total Assets

P&C to TA – Provision and Contingencies to Total Assets

TD to TD – Term Deposits to Total Deposits

4. Formula for Calculation

E- Earning Management

Interest Spread Ratio

Interest Spread is the difference between the average lending rate and the average borrowing rate for a bank and other financial institution.

Interest Spread = (interest income /interest earning assets)-(interest expenses/interest bearing liabilities).

Operating Profit to Total Assets

This ratio reflects how much a bank can earn profit from its operations for every rupee invested in its total asset. In this ratio operating profit are expressed as percentage of total assets.

Operating Profit to Total Assets = $\frac{\text{operating profit}}{\text{Total assets}}$

Return on Assets

Return on Assets ratio is the net income (profits) generated by the bank on its total assets (including fixed assets). The higher the proportion of average earnings, the better would be the resulting returns on total assets.

$$\text{Return on Asset} = \frac{\text{Net profit}}{\text{Total assets}}$$

L- Liquidity**Provisions and Contingencies to Total Asset**

The ratio explains the proposition of provisions and contingencies to total assets of the bank.

$$\text{Provisions and Contingencies to total Asset} = \frac{\text{Provisions and contingencies}}{\text{Total assets}}$$

Term Deposits to Total Deposits

Deposits form a major source of bank funds which is followed by borrowings. This term deposit is the important constituent of the entire deposits.

$$\text{Term Deposit to total Deposit} = \frac{\text{Term deposits}}{\text{Total deposits}}$$

Cash Deposit Ratio

Cash Deposit ratio (CDR) is the ratio of how much a bank lends out of the deposits it has mobilized. It indicates how much of a bank's core funds are being used for lending.

$$\text{Cash Deposit Ratio} = \frac{\text{cash in hand+balances with RBI}}{\text{Total deposits}}$$

5. Results and Discussion

Table-1
Ratio of Earning Management

Banks	Interest spread	Rank	OP to TA	Rank	Return on Assets	Rank
Indian Bank	6.24	3	1.39	1	0.54	1
Vijaya Bank	4.49	5	0.81	4	0.38	2
Punjab &Sind Bank	6.56	2	0.82	3	0.07	3
Bank of Maharashtra	6.07	4	1.34	2	-0.19	5
United Bank of India	8.50	1	0.81	4	-0.38	4

Source: Computed

It is observed from Table 1, united bank of India Bank is the best performer among all other select banks regarding interest spread ratio. Indian bank stood first in the ratio of Operating profit to total assets and return on assets. Next to Indian Bank Vijaya bank and United bank of India in operating profit to total assets. Bank of Maharashtra stood last in return on assets.

Table-2
Ratio of Liquidity

Banks	P&C to TA	Rank	TD to TD	Rank	Cash Deposit	Rank
Indian Bank	0.18	1	6.78	3	4.59	4
Vijaya Bank	0.11	4	7.69	1	4.46	5
Punjab &Sind Bank	0.12	3	7.67	2	4.95	3
Bank of Maharashtra	0.16	2	5.95	4	7.21	2
United Bank of India	0.07	5	5.67	5	5.59	1

Source: Computed

It is observed from Table 2, India Bank is the best performer among all other select banks regarding ratio of Provision and contingencies to total assets. United bank of India stood last in the ratio of Term deposit to total assets. Bank of Maharashtra stood first in cash deposit ratio.

Correlation between Earning Efficiency Ratios-Public Sector

Table-3
Correlation between Earning Efficiency Ratios - Public Sector

Ratios	Interest Spread	OP to TA	Return on Assets
Interest Spread	1.00	-.041	-.769**
OP to TA		1.00	.265*
Return on Assets			1.00

Source: computed

**Significant at the 1% level

*Significant at the 5% level

The above table displays that Earning Efficiency ratios have low to moderate level of correlation. Interest spread ratio shows negative significant relationship with Return on Assets at 1% level. There is a positive significant relationship between operating profit to total assets and return on assets at 5% level.

Correlation between Liquidity Ratios- Public Sector

Table no: 4
Correlation between Liquidity Ratios - Public Sector

Ratios	P&C to TA	TD to TD	Cash Deposit
P & C to TA	1.00	.073	.254*
TD to TD		1.00	-.591**
Cash Deposit			1.00

Source: computed

**Significant at the 1% level

Significant at the 5% level

The above table displays that liquidity ratios have low to moderate level of correlation. Ratio of Provision and Contingencies to Total Assets shows positive significant relationship with cash deposit at 5% level. There is a negative significant relationship between term deposit to total deposit and cash deposit at 1% level.

6. Conclusion

Earning and liquidity is considered as one of the important measures of efficient management. The potential of banks in utilizing the resource effectively is reflected in their growth. The

study is an effort to analyse the financial parameters of the select banks to identify the best performer in the banking industry. The results exhibit united bank of India stood first in Interest spread ratio and Indian bank stood first in the ratio of Operating profit to total assets and return on assets for the letter. United bank of India has been found to be the last in the ratio of Provision and contingencies to total assets and term deposit to total asset. Bank of Maharashtra stood first in cash deposit ratio during 2014-2018.

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