

Financial Performance of Kotak Mahindra Bank

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ABSTRACT

This study has been carried out to evaluate the financial performance of Kotak Mahindra Bank, India's second largest private sector bank in terms of market share, over the past three financial years, i.e., 2016, 2017 and 2018. The financial performance of the above mentioned bank has been evaluated giving consideration to primarily ratio analysis, wherein under liquidity ratios, current ratio and quick asset ratio, under profitability ratio, net profit ratio, and under activity ratio, asset turnover ratio has been calculated with an interpretation to each of the above mentioned. This has been done with a view to obtain an understanding of the financial position of the bank and how it has been performing for the past three financial years.

1. Introduction

Financial performance is the process of measuring how efficiently a company uses its assets from primary mode of business to generate revenues, it also measures an organisation's total financial health over a certain period of time which is used for inter-company as well as inter-industry comparison. Financial performance analysis is the process of recognizing the financial strengths and weaknesses of entities by accurately establishing a relationship between the items of balance sheet and profit and loss account. This process identifies the growth of the organisation. It helps in forecasting, both long term and short term. By establishing a relationship between the financial elements of the organisation, this analysis helps in understanding the firm's position in a better way. The profit and loss accounts and the balance sheet are completely organised in a different form and then significant relationship is established between the components of these accounts. There are several ways of financial analysis, such as ratio analysis, Common size balance sheet, trend analysis and comparative balance sheet. Just like assessing the overall position of the company, financial analysis can be used to find out the position of the individual divisions and departments of the company. The analysis can be done periodically as well as when needed, to ensure financial decision and informed investing. It also assists in reward systems and personnel policies. This analysis is also helpful in determining the credit worthiness of a new customer and to evaluate the market position of the competitors.

Kotak Mahindra Bank is an Indian private sector bank with its headquarters at Mumbai, Maharashtra. Kotak Mahindra Finance Ltd, the flagship company was granted the license to carry on banking business by Reserve Bank of India in February, 2003. A wide range of banking products and financial services for corporate and retail customers are provided by Kotak. These services are provided through a variety of delivery channels and specialized subsidiaries such as:

- Personnel finance
- Investment banking
- General Insurance
- Life insurance

- Wealth management.
- Kotak Mahindra Bank has a network of 1,369 branches across 689 locations and 2,163 ATMs in the country (as of 31 March 2017). As of 2018 it is the second largest private bank in India by market capitalization after HDFC Bank.

2. Review Of Literature

- A.** Grundy(1992) in the article discusses about the competitive and financial analysis, which is required by a firm for strategic and operational decision-making. The research mentioned in the required financial managers to careful thinking of the linkages between competitive and financial analysis. The success factors depend on the ability to manage behavioural variables effectively. Conclusion can be made that competitive and financial business analysis helps the firm for making better strategic decision.
- B.** McMahon & Davies(1994) in the article talks about the small enterprises and importance of developing skills regarding financial statements analysis and interpretation. Article points out that because of growth financial stress is created in such firms, which can be improved through upgrading of financial analysis and reporting systems. The article aims to find out possible relation between the historical financial reporting and analysis and achieved growth rate and financial performance.
- C.** Zuckerman(1995) presents the article, which is about the financial statements that are very important as when analysed they, reveal financial condition, health, operating trends and future prospects of the firm. Article has tried to find and suggest ways to provide framework to automate the customizing of analysis according to the firm's customer or industry needs. The article aims for standard automated comparative spreadsheet that will provide detailed summary of most significant line items and also few analytical ratios. An appropriate analytical methodology suggested in the article is key components of balance sheet, income statement and cash flows. The article suggests certain approaches to interpret ratios like trend analysis, general

standards, industry specific standard ratios and combination of few ratios to forecast the possibility of business failure.

the performance of Kotak Mahindra Bank over the past three financial years.

D. Eberl & Schwaiger (2005) in the article aims to research the impact of the corporate's reputation on their future financial performance while taking the past financial performance's influence on the present reputation into account. A firm's reputation depends on the stakeholders' interactions and the transactions with the firm. Two distinct reputational components, organizational competence and sympathy are hypothesized as affecting the financial performance differently. Organization's performance is measured on the perception of financial performance in the eyes of the stakeholders' or measures reported by the company itself.

E. Mautz & Angell (2006) in the article has talked about the financial statements, which help the creditors and the investors to get the financial history, current performance, future cash flows, trends and price appreciations. The article aims to introduce and illustrates techniques to make financial analyses. The article provides an overview of the financial statement analysis, financial performance and analytical tools. It also discusses about financial ratios and its implications and also DuPont analysis. The article concludes that the results from these methods can be connected to the management actions, which will help to improve performance and use their time efficiently and effectively. The financial statement analysis helps to assess the creditworthiness of the potential borrowers and also provides opportunity for the lenders to protect value of their loans.

3. Research Design

A) Methodology

This study is quantitative in nature, meaning it primarily deals with financial statements of Kotak Mahindra over the past three years. This study is based on secondary data which is mainly taken from the bank's website and the annual reports published by Reserve Bank of India. This study considers the data which have been collected from the above mentioned sources to identify and explain the progress or deterioration of

B) Objectives of the Study

- To evaluate the financial efficiency of Kotak Mahindra Bank.
- To analyse the liquidity and solvency position of the bank.
- To find changes in the trends of the company using trend analysis.

C) Limitation of Study:

- The study is restricted to only three financial years, i.e., 2016, 2017, 2018.
- The study is completely based on secondary data and the accuracy of the analysis depends vastly upon the accuracy of the data obtained.
- This study may not be extensive enough to cover all the ratios to be considered in evaluating the financial health of a bank accurately.

4. Data Analysis

Some of the major ratios have been evaluated and interpreted for the purpose of understanding the financial performance of the company.

1) Liquidity Ratio

It measures capability of company to meet the short-term obligations, i.e., the capacity of the company to pay the current liabilities as and when they are due. So, liquidity ratios find the short-term financial solvency of the company. Short term is a period of less than one year.

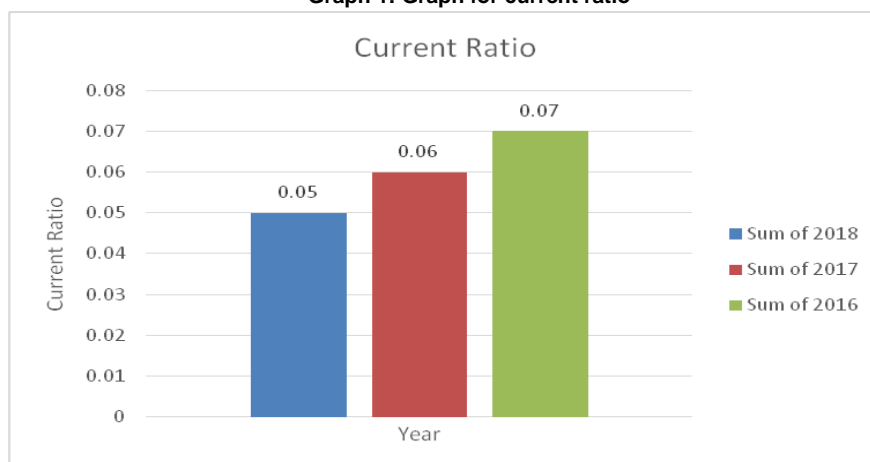
Current Ratio

$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liability}}$$

Table 1: Current Ratio

Year	2018	2017	2016
Current Ratio	0.05	0.06	0.07

Graph 1: Graph for current ratio



This ratio is also called working capital ratio. It expresses relationship between the current liabilities and the current assets of the firm. The rule of the thumb for current ratio is 2:1. It is an indicator for a firm's ability to promptly meet its short-term liabilities. A relatively high current ratio indicates that the company is liquid and has the capability to meet its current liabilities. On the other hand, a relatively lower current ratio indicates that the firm is finding it difficult to pay its bills.

Current ratio was 0.07% in 2016 and 0.06 in 2017. In the year 2018 the ratio decreased to 0.05 %. Since 2016 the ratio has decreased by 0.02%. This means that with decrease in the

company's ratio the company is in a bad position to pay its current liabilities. It has become weak in its ability to pay off its obligations when they become due.

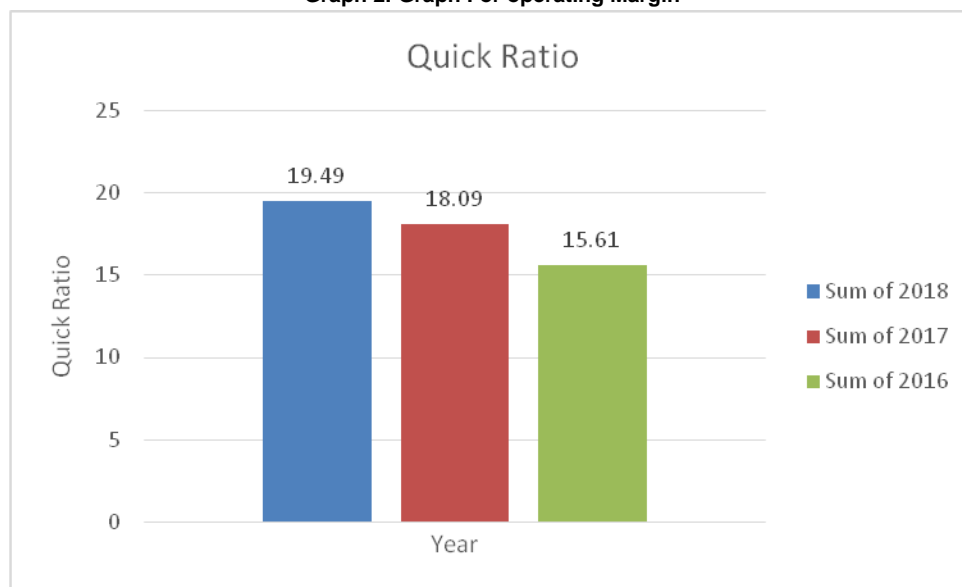
Quick Ratio

$$\text{Quick Ratio} = \frac{\text{Quick Assets}}{\text{Current liabilities}}$$

Table 2: Quick Ratio

Year	2018	2017	2016
Quick Ratio	19.49	18.09	15.61

Graph 2: Graph For operating Margin



This ratio is also known as acid test or liquid ratio; it shows ability of the company to meet its immediate financial commitments. When quick ratio is used along with current ratio, it gives a better picture of the company's capability to meet the short-term liabilities out of the short-term assets. This ratio is important for banks and financial institutions. The ideal quick ratio is 1:1. If the quick ratio is below one it is not at all satisfactory because lesser the quick ratio the business may find itself in serious financial difficulties.

Quick ratio in the year 2016 is 15.615 %, which has been increased to 18.09 % in the year 2017. It increased to 19.49 % in 2018. It means that the company is concentrating in decreasing its quick assets. The ideal quick ratio is 1:1, but the company has a high quick ratio due to its industry. A bank has

very less inventory or stock, and if that is removed from the assets, all that remain is cash and cash equivalents.

2) Profitability Ratio

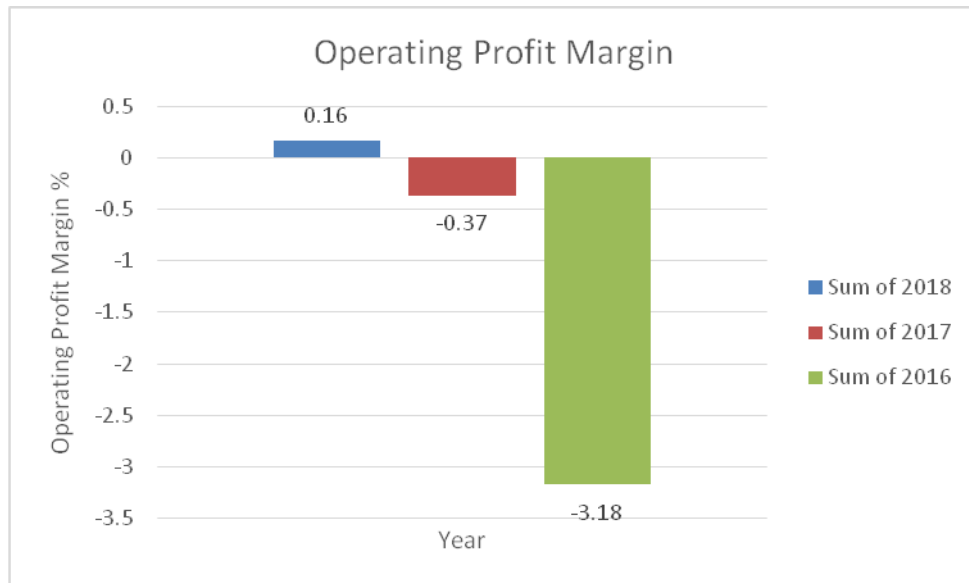
These ratios find out the capacity of the company to generate profits. These ratios are for investors who would like to invest in the most profitable companies around.

Operating Margin

$$\text{Operating Margin} = \frac{\text{Operating net profit ratio}}{\text{Net sales}} \times 100$$

Table 3: Operating Profit Margin

Year	2018	2017	2016
Operating Profit Margin %	0.16	-0.37	-3.18



This ratio establishes the relationship between the total operating expenses to sales. It shows the operating performance and efficiency of the firm. When the operating ratio is less it indicates higher operating profit and when the operating ratio is high it indicates lesser operating profit.

In the year 2016 the ratio was (-3.18), which decreased to(-0.37) in 2017. In the current year i.e. 2018 the operating profit margin has increased to 0.16. The operating profit margin ratio indicates how much profit a company makes after paying for variable costs of production such as wages, raw materials,

etc. Operating margin. Operating income margin. Return on sales (ROS) Operating profit margin.

3) Solvency Ratio

This ratio finds out long-term solvency of the company by its ability to assure long term creditors in regard to the payment of interests and loan repayment of principal on maturity at due dates.

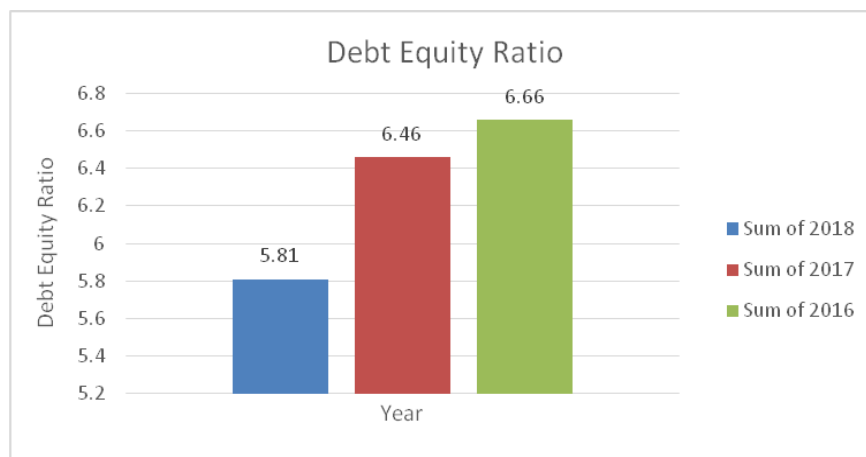
Debt Equity Ratio

$$\text{Debt Equity Ratio} = \frac{\text{Outsider Funds}}{\text{Shareholder Funds}}$$

Table 4: Debt Equity Ratio

Year	2018	2017	2016
Debt Equity Ratio	5.81	6.46	6.66

Graph No. 4: Graph For Debt Equity Ratio



It shows the relative claims of creditors and owners against the assets of the firm .It also indicates the relative proportions of debt and equity in financial the firm’s assets.From a pure risk perspective, lower ratios are considered better debt ratios. The companies’ debt equity ratio is 5.81 which is high as compared to industry standards, this implies that the debt factor is greater in the balance sheet of the company.

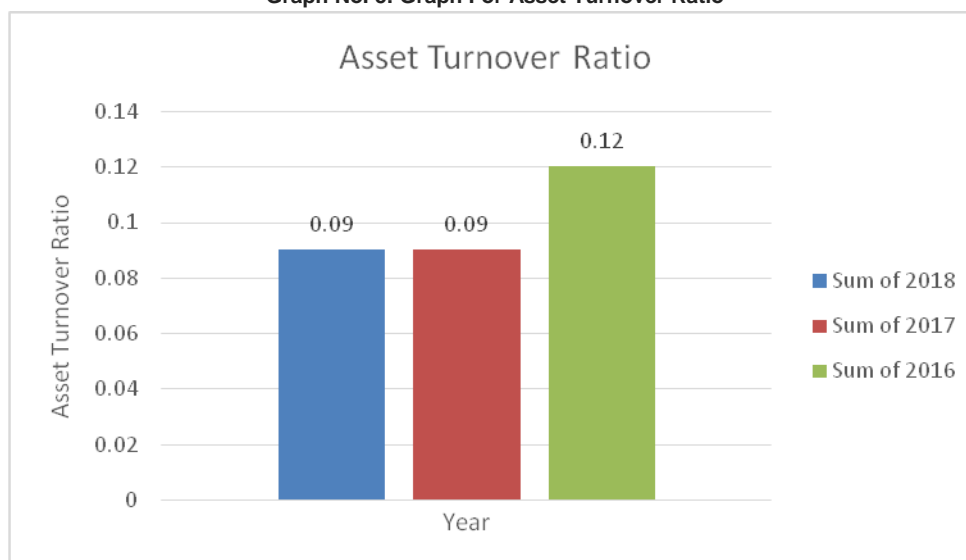
**4) Activity Ratio
Asset Turnover Ratio**

$$\text{Assets Turnover Ratio} = \frac{\text{Sales}}{\text{Assets}}$$

Table 5: Asset Turnover Ratio

Year	2018	2017	2016
Asset Turnover Ratio	0.09	0.09	0.12

Graph No. 5: Graph For Asset Turnover Ratio



The asset turnover ratio is an efficiency ratio that measures a company's ability to generate sales from its assets by comparing net sales with average total assets. In the current instance, a ratio of **0.09** means that each rupee of assets generates **0.09 Paisa** of sales

5. Findings

- The downward trend of the current ratio shows the bank's inability to meet its short-term liabilities.
- The increase in the trend of quick ratio in the current year implies that the bank is highly capable of liquidating its funds.
- The increase in the trend of operating profit margin in the year 2018, as compared to 2016 and 2017 shows that the bank has generated a higher profit margin on its revenues. This can occur either as a result of lower expenses and generating the same amount of revenue, or increase in the expenses at a rate which is smaller than the increase in the revenue generated.

- The downward trend in the debt equity ratio shows a favourable position of the bank as it implies that there are more owned funds than borrowed funds in the current year. However, in the current year, the debt equity ratio is 5.81, which is higher as compared to the industry standard. Typically, a ratio of 1.5 is considered favourable whereas anything above 2 are considered unfavourable.
- In case of asset turnover ratio, the higher the better as it implies that the company is efficiently using its assets in generating sales. Conversely, if the ratio is low, it means the company's utilisation of assets is not optimum. Although the ratio has decreased from 2016, it has remained constant in 2017 and 2018. This implies that the company's efficiency has remained stagnant in the past two years, its performance has neither improved nor deteriorated.

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