

Financial Performance Appraisal of Selected Private and Public Sector Banks in India with regards to Gross NPAs to Total Advances

¹Dr. Sunil Lohiya and ²Dr. Dipesh Nathwani

^{1,2}Assistant Professor, Shri M. P. Shah Municipal Commerce College- Jamnagar, Gujarat (India)

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*Corresponding Author

Email: [sunilsir005\[at\]gmail.com](mailto:sunilsir005[at]gmail.com)

ABSTRACT

Banking system occupies an important role in the economy of a nation. In fact, banking system of any country is the lifeblood of an economy. A banking institution is indispensable in the modern society. It plays important role in the economic development of a country and forms the core of the money market for the country. The banking sector performs three primary functions in an economy; first, the operation of the payment system, second, the mobilization of savings and finally, the allocation of savings to investment projects. The banking system which constitutes the core of the financial sector plays a critical role in transmitting monetary policy impulses to the entire economic system. An efficient banking structure can promote greater amount of investment which can further help to achieve a faster growth rate of economy. Worldwide experience confirms that countries with well-developed and market oriented free banking system grow faster and very consistently. This research paper deals with Financial Performance Appraisal of Selected Private and Public Sector Banks in India with regards to Gross NPAs to Total Advances.

1. Introduction

The banking system is an integral part of any economy. It is one of the many institutions that impinges on the economy and affect its performance. Economists have expressed various opinions on the effectiveness of the banking systems in promoting or facilitating economic development. As an economic institution, the bank is expected to be more directly and more positively related to the performance of the economy than most non-economic institutions. Banks are considered to be the mart of the world, the nerve center of economies and finance of a nation and the barometer of its economic perspective. They are not just dealers in money but are in fact dealers in development. The role of banks in accelerating the economic development of a country like India has been increasingly recognized following the nationalization of fourteen major commercial banks in July 1969 and six more banks in April 1980. With nationalization, the concept of banking has undergone significant changes. Banks are no longer viewed as mere lending institutions. They are to serve the society in a much bigger way with a socio-economic Development oriented outlook. They are specially called up onto use their resources to attain social upliftment and speedier economic development. Indian banking sector has emerged as one of the strongest drivers for India's economic growth. The Indian banking system is among the healthier performers in the world, when compared with top three banks in total assets and in terms of return on assets. A diverse range of studies have been conducted by the researchers for measuring the performance of the banks, which present different perspective with regards to the performance of the banks in different countries. Traditional systems of performance evaluation of banks mostly use the factors like ROA and ROI for measuring the financial 4 performance of the banks. However, nowadays intellectuals and managers of organization find that traditional systems of performance evaluation have been typically based on financial views which

are incomplete in evaluating overall performance of the organization and presenting an effective feedback. Excessive financial measurements may increase organization's short term profit, but bring about losing competitive situation and threatens long-term profit. Non-financial criteria like customer's satisfaction, employee's satisfaction and corporate social responsibility can be necessary for strategic success of any bank. Customer satisfaction is the key to the profitability of retail banking, which is having a long term financial impact on the business of the banks. Performance of the banks depends upon the efficiency and level of satisfaction of its human resources. High level of human capital efficiency and employee satisfaction leads to the high performance of the banks. It has also been found by the researchers that the banks which adhere to be socially responsible in their routine activities, outperform in their financial performance. There is a positive relationship between the corporate social responsibility and the financial performance of the banks both in short and long run. Thus there are two main aspects from which one can measure the overall performance of the banks namely, financial aspects and human aspects. The dimensions of performance of a bank under human aspect are namely, customer satisfaction, employee satisfaction and Corporate Social Responsibility (CSR).

2. The Concept of Performance

The word 'Performance' means 'the performing of an activity, keeping, in view the achievement made by it'. In other words, 'Performance' means 'the role Played by an arrangement keeping in view the achievement made by it'. In the context of the banks, it takes into account the way of their progress.

The opinion of Robert Albans about performance is... "The word 'performance' is used to mean the efforts extended to achieve the targets efficiently and effectively. The achievement

of targets involves the integrated use of human, financial and natural resources.”

On the basis of the above definitions, it can be said that the word 'Performance' not only refers to the presentation of something but it also exhibits the quality and results achieved by the management of an enterprise. It takes into account the accomplishment of objectives and goals set for an enterprise keeping in view the comparison of the present success with the past. However, in the context of the present study, it covers financial, cost, personnel and social aspects. Thus we can say that the overall conclusion of the activities of an enterprise is called 'Performance'.

3. The Concept of Appraisal

'Appraisal' is just an intelligent application of techniques to examine, to measure, to interpret, and then to draw some conclusions. Appraisal is mostly done by the researchers or experts, who evaluate the problem with their viewpoint.

When we correlate appraisal with performance, we mean to say 'Performance Appraisal'. The performance appraisal of any bank is depended upon the final accounts prepared and published by the bank. Performance appraisal is a close and critical study of various measures observed in the operations of a bank.

Performance appraisal as a concept is purely a developmental tool for a bank. As a developmental tool, it is not as much the final product or the final assessment that is important as the whole process of appraisal. The learning opportunity for the appraiser and the appraise starts with setting of tasks and targets and manifests in the whole appraisal procedure such as self-appraisal, appraisal interviews, final appraisal and grading, developmental planning etc.

However, the performance appraisal may not give a correct answer to every question of doubt it may bring to light, but it can and will point to the direction in which further

enquiries should be made. Hence, no single attempt can give firm results of appraising banking performance. Banking conditions may differ by way of location, type of facilities, product and services, capital structure, capacity, accounting policies, levels of efficiency and the caliber of bank's management. Banking conditions have become more complicated in the advent of multi-product and multi-banks. An analyst should keep in mind all these differences at the time of appraising the performance of various banks.

4. Research Statement

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5. The Period of Study

The study is covered for ten years from the year 2004-05 to 2013-14. This period is selected by the researcher for the study because it is a period after the submission of The Narsimham committee report II. The second phase of reforms process can be covered during this time period.

6. Hypothesis

- 1) There is no significant difference in Gross NPS to Total Advances among banks.
- 2) There is no significant difference in Gross NPS to Total Advances of private and public sector.

7. Sample Design:

In this study, selected banks from the public sector and private sector in Indian banking sector are covered. Three banks selected for the research purpose in each sector are the largest three banks in their respective sector. The selected banks in Indian banking sector are divided in following two groups from the year 2004-05 to 2013-2014:

Sr. No	Public Sector Bank	Private Sector Bank
1	State Bank Of India	ICICI Bank
2	Bank Of Baroda	Axis Bank
3	Punjab National Bank	HDFC Bank

GROSS NPAs TO TOTAL ADVANCES RATIO OF THE SELECTED BANKS

	Axis	ICICI	HDFC	SBI	BOB	PNB
2014	1.37	3.1	0.99	5.09	2.99	5.41
2013	1.21	3.31	0.97	4.9	2.43	4.36
2012	1.06	3.73	1.02	4.57	1.55	2.97
2011	1.12	4.64	1.06	3.35	1.38	1.81
2010	1.26	5.23	1.44	3.09	1.37	1.72
2009	1.1	4.42	2.01	2.9	1.29	1.62
2008	0.83	3.36	1.43	3.08	1.86	2.78
2007	1.14	2.11	1.4	2.96	2.5	3.51
2006	1.69	1.52	1.45	3.68	3.99	4.2
2005	1.99	3.03	1.72	6.15	7.65	6.19

SOURCE: Computed and obtained from IBA bulletins and www.capitaline.com

H2 (A): There is a significance difference of Gross NPA to Total Advances Ratio among various banks.

Descriptive								
Gross NPA to Total Advances Ratio								
	N	Mean	Std. Deviation	Std. Error	95% Confidence Interval for Mean		Minimum	Maximum
					Lower Bound	Upper Bound		
Axis	10	1.2770	.33566	.10615	1.0369	1.5171	.83	1.99
ICICI	10	3.4450	1.12796	.35669	2.6381	4.2519	1.52	5.23
HDFC	10	1.3490	.34424	.10886	1.1027	1.5953	.97	2.01
SBI	10	3.9770	1.12700	.35639	3.1708	4.7832	2.90	6.15
BOB	10	2.7010	1.94054	.61365	1.3128	4.0892	1.29	7.65
PNB	10	3.4570	1.57951	.49948	2.3271	4.5869	1.62	6.19
Total	60	2.7010	1.58058	.20405	2.2927	3.1093	.83	7.65

Test of Homogeneity of Variances			
Gross NPA to Total Advances Ratio			
Levene Statistic	df1	df2	Sig.
3.925	5	54	.004

Significance value is $0.004 < 0.10$, So Levene test does not accept the assumption of equal variance of **Gross NPA to Total Advances** among various banks. Henceforth for testing hypothesis non parametric test should be used.

Kruskal-Wallis Test:

Ranks			
	Bank	N	Mean Rank
Gross NPA to Total Advances Ratio	Axis	10	11.60
	ICICI	10	42.20
	HDFC	10	13.80
	SBI	10	45.60
	BOB	10	29.65
	PNB	10	40.15
	Total	60	

Test Statistics ^{a,b}	
Gross NPA to Total Advances Ratio	
Chi-Square	35.900
df	5
Asymp. Sig.	.000
a. Kruskal Wallis Test	
b. Grouping Variable: Bank	

Here, at 5 % level of significance the value of **Kruskal-Wallis Test** is less than 0.05 ($0.00 < 0.05$) it is concluded that There is a significance difference of **Gross NPA to Total Advances** among various banks.

H2 (B): There is a significance difference of Gross NPA to Total Advances Ratio between public and private sector banks.

Descriptive								
Gross NPA to Total Advances Ratio								
	N	Mean	Std. Deviation	Std. Error	95% Confidence Interval for Mean		Minimum	Maximum
					Lower Bound	Upper Bound		
Private sector Bank	30	2.0237	1.22980	.22453	1.5645	2.4829	.83	5.23
Public sector Bank	30	3.3783	1.61896	.29558	2.7738	3.9829	1.29	7.65
Total	60	2.7010	1.58058	.20405	2.2927	3.1093	.83	7.65

Test of Homogeneity of Variances			
Gross NPA to Total Advances Ratio			
Levene Statistic	df1	df2	Sig.
1.815	1	58	.183

Significance value is $0.183 > 0.10$, So Levene test accept the assumption of equal variance of **between public and private sector banks Gross NPA to Total Advances**. Henceforth for testing hypothesis parametric test should be used.

So T test as a parametric test should be used to identify the significant differences of **Gross NPA to Total Advances Ratio between public and private sector banks**.

T Test:

Group Statistics					
	Bank Type	N	Mean	Std. Deviation	Std. Error Mean
Gross NPA to Total Advances Ratio	Private sector Bank	30	2.0237	1.22980	.22453
	Public sector Bank	30	3.3783	1.61896	.29558

Independent Samples Test										
		Levene's Test for Equality of Variances		t-test for Equality of Means						
		F	Sig.	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	95% Confidence Interval of the Difference	
								Lower		Upper
Gross NPA to Total Advances Ratio	Equal variances assumed	1.815	.183	-3.650	58	.001	-1.35467	.37119	-2.09768	-.61165
	Equal variances not assumed			-3.650	54.108	.001	-1.35467	.37119	-2.09882	-.61051

From the above table, significance value $0.001 < 0.05$ henceforth it is concluded that there is significance difference of **Gross NPA to Total Advances Ratio between public and private sector banks**.

8. Conclusion

Gross NPA to Total Advances as shown by private sector banks is lower as compared to public sector banks. The

highest ratio is shown by PNB i.e. 5.41 followed by SBI 5.09 and the lowest ratio is shown by HDFC bank which is 0.99 in 2013-14. All the public sector banks have shown increasing trend and private sector banks have shown decreasing trend of gross NPA to total advances over a period of last 10 years.

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