

# A Study On Financial Performance of Indian Commercial Banks

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**Abstract-** Bank plays a crucial role in the development of Indian economy. A sound and an efficient banking system in developing countries provide the necessary financial inputs to the economy. Banking industry is one of the integral parts of the financial system. Commercial banks form a eminent part of the country's Financial System. Commercial Banks are profit making financial institutions which accept deposits from general public and provides loan to individuals like household, entrepreneurs, businessmen etc. The prime objective of commercial banks is to earn profit in the form of interest, commission etc. Reserve Bank of India is the statutory body which regulates the operations of the commercial banks. Performance of banking sector is an effective measure to check the performance of any economy. Public sector banks are the prime-movers and leaders in achieving the social objectives of our economy. This study focused on the profitability of public sector banks in India and attempted to found which bank is performing better in terms of profitability. The study is totally based on the secondary data. The study found that the average amount of net profit is observed in case of SBI and lowest is observed in Andhra Bank. Negative mean is also observed in many of the banks. And it is also found that the highest variation is in SBI and lowest for Indian Bank. Compared to all the other public sector banks SBI is performing better in terms of profitability.

**Index Terms-** Growth, Public sector Banks, Profitability, Mean, Standard deviation

## I. INTRODUCTION

Bank plays a crucial role in the development of Indian economy. A sound and an efficient banking system in developing countries provide the necessary financial inputs to the economy. The Indian banking industry has gone through various phases and progress over the past decades - Nationalization, Reforms, Deregulation, Consolidation, Technology Up-gradation and Digitalization. After the nationalization of commercial banks, the public sector banks continued to dominate the banking scenario for nearly two decades. Since then, the entire banking sector has undergone massive transformation. Particularly, the nineties there are many radical changes in the banking industry due to economic and financial liberalization with the entry of private and foreign banks into the industry. The new entrants in the banking industry dominated the entire banking system in the country with their performance exceeding that of the government

banks. In India, although there is too much stress on the social responsibility of banks, the significance of banks' profitability cannot be ignored. Financial viability of banks is important not only for retaining public confidence but also for long-run sustainability of firms and for enabling firms to discharge their duties towards fulfilling the social objective of the nation.

## II. BANKING

According to Section 5(1) (b), "Banking means accepting for the purpose of lending or investment of deposits of money from the public, repayable on demand or otherwise and withdrawal by cheque, draft, order or otherwise."

According to Crowther, a bank is defined as "one that collects money from those who have to spare or who are saving it out of their income and lends the money so collected to those who require it."

A bank is a financial institution which mobilizes savings from the people as deposits and provides loans. The banking system of a country plays a vital role in the economic development of any country. In the Indian banking structure central bank in the name of the Reserve Bank of India regulates, directs and controls the banking institutions. Reserve Bank of India is the Central Bank of our country which was established on 1st April 1935 under the RBI Act of 1934. It holds the top position in the banking structure. RBI executes various developmental and promotional functions. Indian Banks are classified into commercial banks and Co-operative banks. Commercial banks comprise: (1) Schedule Commercial Banks (SCBs) and non-scheduled commercial banks. SCBs are further classified into private, public, foreign banks and Regional Rural Banks (RRBs); and (2) Co-operative banks which include urban and rural Co-operative banks.

**Scheduled and Non-Scheduled Banks:** The scheduled banks are those banks which are enshrined in the second schedule of the RBI Act, 1934. The scheduled banks have a paid-up capital and reserves of gross value of not less than Rs. 5 lakhs, they have to persuade the RBI that their affairs are carried out in the interest of their depositors.

All commercial banks including Indian and foreign, regional rural banks, and state cooperative banks are scheduled banks. Non-scheduled banks are those banks which are not included in the second schedule of the RBI Act, 1934.

**Commercial Banks:** Commercial bank is a financial institution that accepts deposits, provides loans and offer related

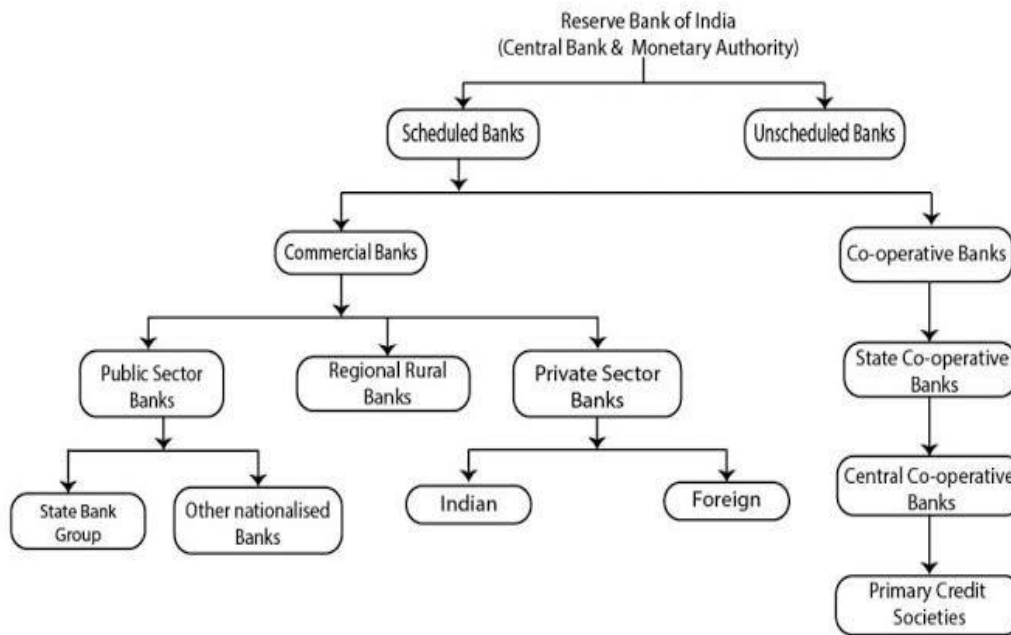
services to various like accepting deposits and lending loans and advances to general customers and business man. These institutions run to earn profit. They meet the financial requirements of industries and various sectors like agriculture, rural development, etc. It is a profit making institution owned by government or private or of both. Commercial banks include public sector, private sector, foreign banks and regional rural banks:

**Public Sector Banks:** Public Sector Banks are the financial institutions in which the majority stake is with the central government, which should be more than 50% in our country. In the month of August, 2019 the Finance Minister of India MS. Nirmala Sitharaman announced to merge 10 Public Sector Banks into four entities. The basic login behind this merger is to increase

the global competitiveness of the Indian banks. Now the number of Public Sector Banks reduced to 12 from 27 in 2019 in India.

**Private Sector Banks:** The private-sector banks are those banks where greater portion of stake or equity are held by the private shareholders and not by government. At present there are 22 private sector banks in India.

**Foreign Banks:** A foreign bank is a financial institution runs with the obligation of following the regulations of both its home and its host countries. These banks have loan limits are based on the capital of the parent bank, thus allowing foreign banks to provide more loans than other subsidiary banks. Foreign banks are those banks which have their head offices abroad. For example, CITI bank, HSBC, Standard Chartered etc. are foreign banks in India.



**Fig: Structure of Indian Banking System**

**Regional Rural Bank (RRB):** Regional Rural Banks (RRBs) established on October 2, 1975 in India. These banks provide credit to the weaker sections of the rural areas, particularly the small and marginal farmers, agricultural labourer, and small entrepreneurs. At present there are 45 RRBs in the country. NABARD holds the top position in the agricultural and rural development.

**Co-operative Bank:** Co-operative bank was established under the co-operative credit societies act, 1904. These banks are organized and managed on the principal of co-operation and mutual help. The objective of co-operative banks is to provide rural credit. The cooperative banks in India play a vital role even today in rural co-operative financing.

**Local Area Banks:** Local Area Banks (LABs) are small private banks, established as low cost structures which would render efficient and competitive financial intermediation services in a limited area of operation, i.e., primarily in rural and semi-urban areas, comprising three contiguous districts.

**Small finance banks:** Small finance banks are a type of [niche banks in India](#). Banks with a small finance bank license can provide basic banking service of acceptance of [deposits](#) and [lending](#). The aim behind these to provide [financial inclusion](#) to sections of the economy not being served by other banks, such as small business units, small and marginal farmers, micro and small industries and unorganised sector entities.

### III. REVIEW OF LITERATURE

**Dr.Sirisha and Dr. P.Malyadri (2018)** attempted to examine the performance of the public sector, private sector and foreign banks in their paper entitled “A study on financial performance of scheduled commercial banks”. In this study the researcher compared the financial performance of the banks on the basis of different types of ratios. The study concluded that the private sector banks are performing well than the other bank groups. They are also financially sound when compared to other groups.

**Dr.Shradha H.Budhedeo (2018)** made an attempt to study the performance of commercial banks in the article titled “Performance analysis of commercial bank groups in India”. In the present study the author examined the performance of commercial banks based on the parameters- productivity, profitability and liquidity. Different ratios were calculated for measuring the performance. The study found that the foreign banks are leading the industry based on productivity. In case of profitability, private sector as well as the foreign banks showed outstanding performance. Foreign banks are maintaining high proportion of liquid assets to total assets and to total deposits.

**Ravi kumar Jain, Bhimaraya Metri and K.P.Venugopala Rao (2019)** examined the effects of factors influencing the performance of commercial banks in their study “Determinants of profitability of Indian commercial banks”. In this study the data is collected during 2010-2016. The factors considered in this study are bank specific factors and macroeconomic factors. Factors which include bank specific factors are Return on Equity, Capital Adequacy, Asset quality, Management Efficiency, Earnings quality and Liquidity. Under macroeconomic factors Gross Domestic product, Industrial Production and inflation are considered. The results of this study suggested that the private sector banks performed better than the public sector banks in case of bank specific factors like NPAs, profit per employee, operating profit to total assets and capital adequacy ratio remained insignificant. The macro economic factors like GDP, IIP and WP

were significant in explaining the profitability of commercial banks in India.

#### IV. RESEARCH METHODOLOGY

##### Objectives of the study:

- To find out the profitability performance of public sector banks in India.
- To analyze the growth of public sector banks in India.

**Period of the study:** The study covered a period of 10 years i.e from 2009-10 to 2018-19.

**Methodology of the study:** The study is totally based on secondary data. The data were collected from secondary sources- website of Reserve Bank of India and finance journals etc. In this study the profitability position of different public sector banks are analyzed by considering net profit. The tools used for this study are Mean and Standard Deviation.

#### V. ANALYSIS OF THE STUDY

The net profit of all the public sector banks are collected in this study and the growth of these banks were analyzed with the help of statistical tools like mean and standard deviation.

**Table-1 Net profit of Public Sector Banks in India**

NAME OF THE BANK	NET PROFIT (Rs.cores)									
	2009-2010	2010-2011	2011-2012	2012-2013	2013-2014	2014-2015	2015-2016	2016-2017	2017-2018	2018-2019
SBI	9,166	2,651	11,707	14,105	10,891	13,102	11589.36	-1382.68	-6547.45	862.23
ALLAHABAD BANK	1,206.30	1,423.10	1,866.80	1,185.20	1,172	621	-743.31	-313.52	-4674.37	-8333.96
ANDHRA BANK	1,045.80	1,267.10	1,344.70	1,289.10	435.6	638	539.84	174.33	-3412.53	-2786.13
BANK OF BARODA	3,058.30	4,241.70	5,007.00	4,480.70	4,541.10	3,398	-5359.54	1383.14	-2431.81	433.52
BANK OF INDIA	1,741.10	2,488.70	2,677.50	2,749.30	2,729.30	1,708.90	-6089.21	-1558.31	-6043.71	-5546.9
BANK OF MAHARASHTRA	440	330.4	430.8	7,595	386	450.7	100.68	-1372.51	-1145.65	-4783.88
CANARA BANK	3,021.40	4,025.90	3,282.70	2,872.10	2,438.20	2,702.60	-2812.82	1121.92	-4222.24	347.02
CENTRAL BANK OF INDIA	1,058.20	1,252.40	533	1,015.00	-1262.8	606.4	-1418.19	-2439.1	-5104.9	-5641.48
CORPORATION BANK	1,170.30	1,413.30	1,506.00	1,434.70	561.7	584	-506.48	561.21	-4053.94	-6332.98
DENA BANK	511.3	611.6	803.1	810.4	551.7	265.5	-935.32	-863.62	-1923.15	-6338.68
INDIAN BANK	1,555.00	1,714.10	1,747.00	1,581.10	1,158.90	1,005.20	711.38	1405.68	1258.99	321.95
INDIAN OVERSEAS BANK	707	10,725	1,050.10	567.2	601.7	-454.3	-2897.33	-3416.74	-6299.49	-3737.88
ORIENTAL BANK OF COMMERCE	1,134.70	1,502.90	1,141.60	1,327.90	1,139.40	497.1	156.08	-1094.07	-5871.74	54.99
PUNJAB & SIND BANK	5,088	526.20	451.3	339.2	300.6	121.3	335.97	201.08	-743.8	-543.48

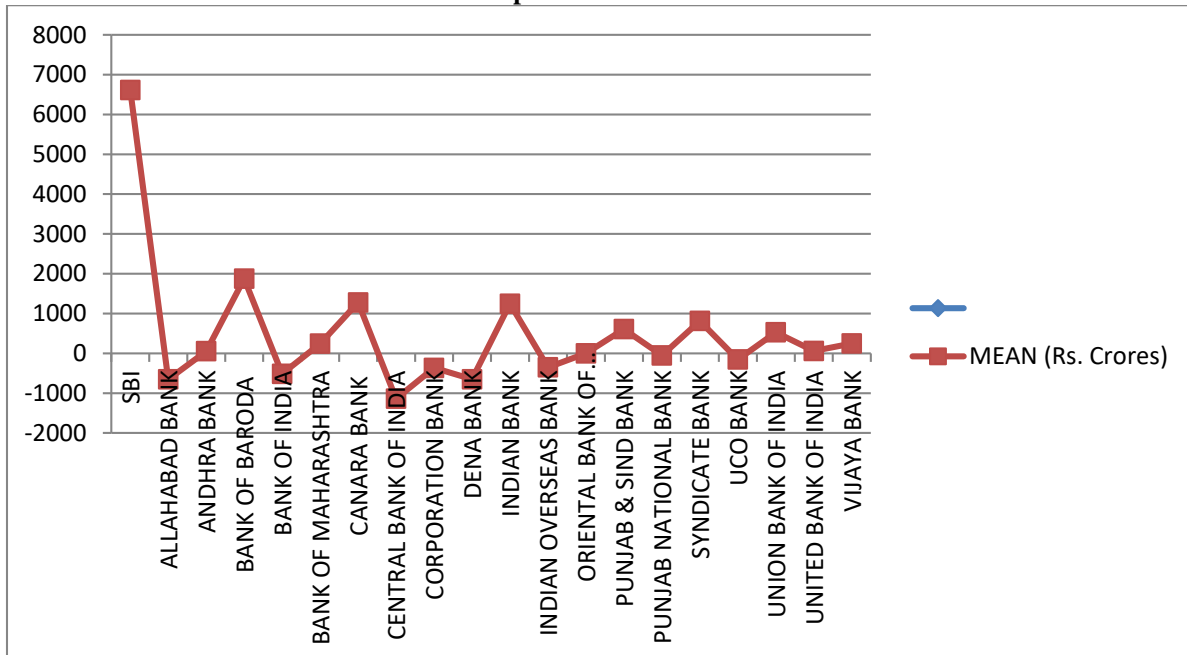
PUNJAB NATIONAL BANK	3,905.40	4,433.50	4,884.20	4,747.70	3,342.60	3,061.60	-3974.4	1324.8	-12282.8	-9975.49
SYNDICATE BANK	8,133	1,047.90	1,313.4	2,004.40	1,711.50	1,522.90	-1643.49	358.95	-3222.84	-2588.29
UCO BANK	1,012.20	906.5	1,108.70	6,182	1,510.50	1,137.80	-2799.26	-1850.67	-4436.37	-4321.08
UNION BANK OF INDIA	2,074.90	2,081.90	1,787.10	2,158	1,696.20	1,781.60	1351.6	555.21	-5247.37	-2947.45
UNITED BANK OF INDIA	322.4	524	632.5	3,919	-1,213.40	256	-281.96	219.51	-1454.45	-2315.93
VIJAYA BANK	507.3	523.8	581	586	415.9	439.4	381.8	750.49	727.02	-2434.11

Table-1 shows the net profit of all the public sector banks and table-2 is the analysis of net profit of all the public sector banks with the help of statistical tools.

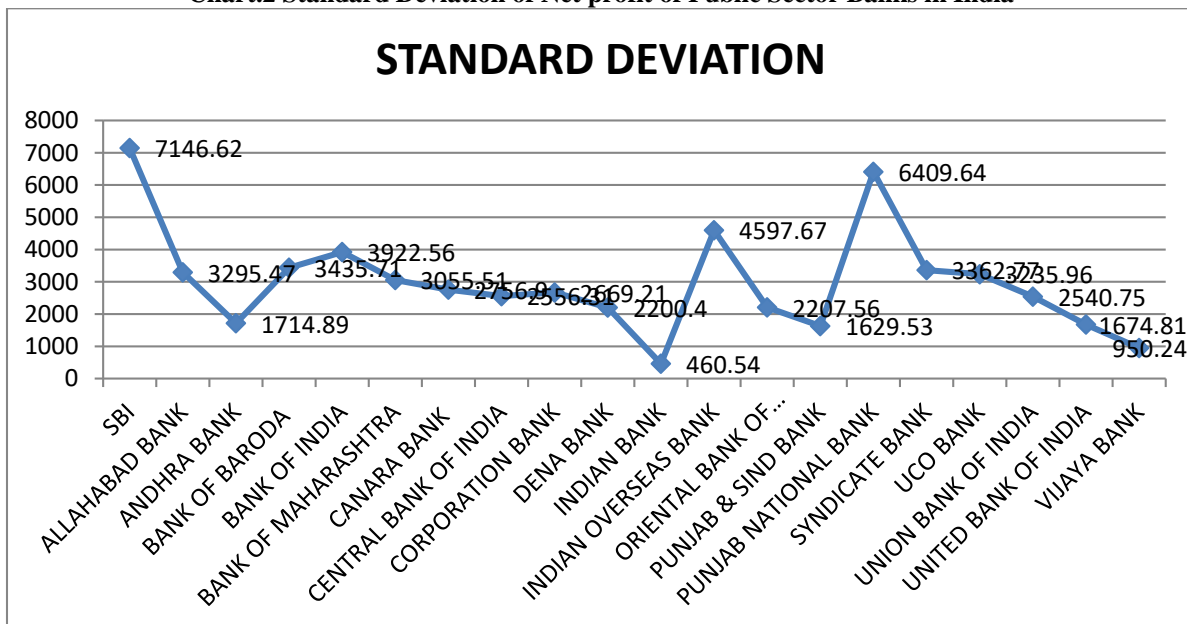
**Table-2 Mean and Standard Deviation of Net profit of Public Sector Banks in India**

NAME OF THE BANK	MEAN (Rs. Crores)	STANDARD DEVIATION (Rs. Crores)
SBI	6614	7146.62
ALLAHABAD BANK	-654	3295.47
ANDHRA BANK	54	1714.89
BANK OF BARODA	1875	3435.71
BANK OF INDIA	-514	3922.56
BANK OF MAHARASHTRA	243	3055.51
CANARA BANK	1278	2756.9
CENTRAL BANK OF INDIA	-1140	2556.31
CORPORATION BANK	-366	2669.21
DENA BANK	-651	2200.4
INDIAN BANK	1246	460.54
INDIAN OVERSEAS BANK	-351	4597.67
ORIENTAL BANK OF COMMERCE	-1	2207.56
PUNJAB & SIND BANK	608	1629.53
PUNJAB NATIONAL BANK	-53	6409.64
SYNDICATE BANK	814	3362.77
UCO BANK	-155	3235.96
UNION BANK OF INDIA	529	2540.75
UNITED BANK OF INDIA	61	1674.81
VIJAYA BANK	248	950.24

**Chart.1: Mean of Net profit of Public Sector Banks in India**



**Chart.2 Standard Deviation of Net profit of Public Sector Banks in India**



**VI. SUMMARY**

- The average amount of net profit is highest in case of SBI i.e. Rs.6614crores and next to SBI Bank of Baroda stood second i.e Rs.1875 crores.
- The lowest average amount of net profit is found in Andhra Bank i.e. Rs.54 crores.
- The negative mean is observed in case of Central Bank of India i.e Rs.-1140 crores and next to it Allahabad bank showed negative average amount of net profit i.e. Rs.-654 crores.

- More deviation is observed in SBI when compared to other banks i.e 7146.62 crores and next to that Punjab National Bank.
- Lower variation in net profit is found in Indian Bank i.e 460.54crores.

**VII. CONCLUSION**

This is concluded from the above analysis the SBI is performing better when compared to all the other public sector banks in terms of profitability.

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