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FINANCIAL PERFORMANCE EVALUATION OF SELECTED BANKS IN PRE CONSOLIDATION & PRE PANDEMIC PERIOD

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ABSTRACT

Banking sector saw a commendable stability in 2019 from 2018. The year has seen the biggest consolidation of banks that was ever seen in the banking industry for the Public sector banks followed by tremendous increase in capitals by Private banks, peak increase in bad loan provisioning, deterioration of asset quality and return to higher operating profits. The consolidation is a good sign for the private sector banks to gain more market share. In the last decade, the private banks have been quick to grab the opportunities and so managed to double the market share to 39% in deposits and 34% in advances. With major consolidation, the PSBs will now have more time for revamping of technology integration, branch rationalization, re-branding, redrawing of strategy. Evaluating the performance of any bank is always a challenging task because of the different dimensions of products and services and being an organization coupled with service but not profit, it is always a job – open for debates. Usually experts use techniques like Accounting ratios or CAMEL (Capital Adequacy, Asset Quality, Management Efficiency, Earnings Quality & Liquidity) approaches but one cannot give a definite evaluation procedure so as to compare the performance of banks to rank the best one. In this paper, an attempt is made with GSS approach (Growth, Size & Strength) for evaluating the banks to rank the best banks and accordingly the results are noted.

Keywords: Indian Banking Sector, Consolidation of Banks, Accounting Ratios, CAMEL, GSS Approach.

1.0 Introduction

The lifeline for any economy for its prosperous growth lies in Financial System. Banking is one of the key elements in Financial System. They are the oldest financial intermediaries which plays a vital role in accessing and pooling up of deposits from corporates and public and turning them into loans and advances to the needy sectors. The Economy, which is in major ups and downs can be recovered by the banking system which is the fuel injection system which spurs economic efficiency by mobilizing savings and allocating them to high return investment. Developed countries such as japan and Germany and developing economies like India ,had proved that efficient and sound banking system was the main reason for their overall development. In India, which is an emerging economy, Banks are very special for three reasons: Firstly, the lead to develop other financial intermediaries and markets. Secondly, huge dependence of Corporate sector on banks due to lack of well developed and highly volatile equity and bond markets. Third, in emerging markets such as India, banks cater to the needs of a vast number of savers from the household sector, which prefers assured income and liquidity and safety of funds, because of their inadequate capacity to manage financial risks. The structure and forms of banking have been changed over a period of years with a parallel intervention and development of technology, Globalization, resources and regulatory systems but the core idea and concept remains same for the banking. Thus, banks are not only competing with themselves but also with many financial players in the market who arise due to deregulation and globalization. Perhaps, this competition has pushed the banks to innovate new and customer centric products with lot of by products added in that.

In India, if the banking development is graphed since Independence, in the last 75 years, there was a huge and large changes took place. From the basic object of accepting deposits to the recent Digital banking, banking has seen a wonderful transmission stage across these years. Nationalization of banks took place first in 1969 followed by second phase in 1980 till the recent Mergers among Public sector banks took in 2019-2020.

Indian Banking in Pre Consolidation Year (FY 2019)

Union Finance Minister Nirmala Sitharaman on 30th August 2019 had announced the consolidation of state-owned banks (PSBs) in which 10 PSBs being merged to form 4 bigger lenders to strengthen the Banking sector struggling with a bad-loan. The move was aimed at clean up of the Bank Balance Sheets and creating lenders of global scale that can support the economy's surge to $5 trillion by 2024.

Mega Mergers that had taken place w.e.f 1.4.2020 are -

1. Punjab National Bank (PNB) will take over Oriental Bank of Commerce (OBC) and United Bank of India (UBI) to become the country's largest lender after State Bank of India (SBI) in terms of business.
2. Canara Bank will subsume Syndicate Bank;
3. Andhra Bank and Corporation Bank will merge with Union Bank of India; and
4. Allahabad Bank will become part of the Indian Bank.
1. With this, the number of public sector banks in India will come down to 12.
1. SBI (State Bank of India),
2. Bank of Baroda,
3. Punjab National Bank (PNB),
4. Canara Bank,
5. Union Bank of India,
6. Indian Bank
7. Indian Overseas Bank,
8. UCO Bank,

9. Bank of Maharashtra,
10. Punjab and Sind Bank,
11. Bank of India,
12. Central Bank of India.

This is an important development for the stressed and ailing Banking Sector of the country.

The present paper wants to study the performance of the banks before mega merger using the financial metrics of Size, Strength and Growth of banks and would like to draw a note whether the merger has fulfilled the purpose for which it is done or not.

Review of Literature

1. **Athma and Bhavani (2017)** studied the phase-wise, sector-wise and time-wise mergers and performance of mergers in the Banking system of India. Secondary data is collected for the study. Simple percentages F-test, and two tail t-test are used for the analysis done in the study.
2. **Patel (2017)** studied the comparison between pre-merger and post-merger of long-term plans and profitability with respect to Indian banks for the period of 2003-04 to 2013-14. Bank of Baroda, Oriental Bank, Bank of India and IDBI Bank are taken for this purpose. It was found that there was a negative impact on equity returns, return on assets, net profit ratio, advance, and investment yield
3. **Jayadev et al., (2017)** described the innovation done in the Indian Banking structure that laid the foundation of new banking institutions that were small finance banks (SFBs). These banks provided basic banking services and credit services that could support a large population by implementing different banking models.
4. **Kant (2016)** in his paper identified that the process of the merger had been described that all the assets, liabilities and stocks of the companies are transferred to the transferee company and the payments are done of purchasing considerations.

Research Gap:

There were many researchers conducted on evaluation of pre and post-merger of banks from 2000 to 2016. All these researches were carried with the help of ratios or CAMEL approach to evaluate the performance of the banks. A new approach that takes the Size, Strength and Growth metrics are used to evaluate the banks as it is understood that banks do not involve in any trading activities and they are to be evaluated using a standardized approach. Usage a new technique and evaluating the performances of banks in category wise (Anchored and Targeted) formulates the research problem.

2.0 Objectives of Study

The present paper has the objective of –

❖ Evaluating the best banks in India by using Financial Metrics such as Size of bank, Strength(Efficiency) & growth of bank before the banks go into consolidation phase (1.4.2020)

3.0 Research Methodology

Sources of Data: The data collected for the purpose of analysis is from Secondary sources like bank websites, RBI portal, various journals, books etc.

Sample Size: A total of 20 Scheduled Commercial banks were taken (Public and Private) for the analysis. The survey covered on these banks which had put annual reports in public domain.

Sample Description: All the banks were classified into 2 Categories.

Category 1 (Anchor Banks) :.The banks selected are SBI, HDFC, ICICI, Axis, Punjab National Bank, Kotak Mahindra Bank, Yes Bank, Canara Bank, Bank of India, Union Bank of India.

Category 2 (Target Banks) : The banks selected are Indusind bank, Syndicate Bank, Andhra Bank, Oriental Bank of Commerce, Indian Bank, Indian Overseas Bank, United bank of India, UCO Bank, Allahabad bank, Corporation bank, Bank of Maharashtra.

Research Analysis tools : For the purpose of evaluation, a new methodology is compiled which is referred as GSS Metrics Approach (Growth, Size & Strength) that will evaluate the performance of the sample banks.

Period of Study: The study was conducted based on the Annual reports gathered from 31/3/2016 to 31/3/2019

Scope of the study: The study has taken only the scheduled commercial banks that are anchored and targeted for merger but did not consider the foreign banks.

4.0 Understanding GSS Approach & Analysis of Components of Size, Growth and Strength.

Growth, Size and Strength of the banks approach is a tool to analyse and evaluate the performances of banks based on very key parameters. Earlier, we have approaches like accounting ratios such as solvency, Debt equity, Current, Liquidity etc to understand the short term and long term sustainability of the banks. A standard evaluation system named as CAMELS (Capital Adequacy, Asset Quality, Management Efficiency , Earnings Quality, Liquidity& Sensitivity) is also mainly used by the research experts and scholars for evaluating the performances of banks. An advanced version of CAMEL-VS with Value added Service is also used by some of the experts.

The present approach is mainly concentrating on three financial metrics of bank namely-

Growth Metric : The growth of any bank can be seen in terms of increase in % of total deposits, total advances and loans , Interest Income and Operating profit. So, Growth tool will analyse the following.

1.   % Growth in Total Deposits.

2.   % Growth in Total Loans & Advances

3.   % Growth in Interest Income

4.   % Growth in Operating Profit.

Table 1: Growth Ratios of Category-1 Banks in FY 2019

SL. NO	BANK	Total Deposits	Loans & Advances	Interest Income	Operating Profit	COMPONENT AVERAGE
			GROWTH (%)			
1	HDFC	17.04	24.47	22.16	21.84	
	RANK	3	1	4	3	11
2	SBI	7.58	12.97	13.23	-6.85	
	RANK	7	5	9	10	31
3	ICICI	16.39	14.49	16.4	-5.27	
	RANK	4	4	8	9	25
4	KOTAK	17.25	21.2	17.65	16.62	
	RANK	2	2	6	4	14
5	AXIS	20.91	12.54	35.16	21.87	
	RANK	1	6	1	2	10
6	YES	13.39	18.65	-8.14	4.99	
	RANK	6	3	10	7	26
7	PNB	5.26	5.65	19.94	26.24	
	RANK	8	8	5	1	22
8	CANARA	14.15	12.06	23.92	10.92	
	RANK	5	7	3	6	21
9	UBI	1.81	2.83	17.36	-1.55	
	RANK	9	9	7	8	33
10	BOI	0	-0.11	34.96	13.35	
	RANK	10	10	2	5	27

Source: Annual Reports of Selected banks in FY 18 & FY 19

Table 2: Growth Ratios of Category-II Banks in FY 2019

SL. NO	BANK	Total Deposits	GROWTH (%)			COMPONENT AVERAGE
			Loans & Advances	Interest Income	Operating Profit	
1	INDUS IND	28.51	28.59	20.72	21.52	
	RANK	1	1	5	4	11
2	SYNDICATE	20.5	19.86	15.66	20.61	
	RANK	2	2	6	5	15
3	ANDHRA BANK	5.65	6.55	8.94	-6.3	
	RANK	6	7	7	9	29
4	OBC	12.2	16.81	56.06	1.37	
	RANK	4	3	1	6	14
5	INDIAN BANK	16.22	15.77	2.65	-2.41	
	RANK	3	4	10	8	25
6	IOB	2.63	0.08	5.52	38.71	
	RANK	8	8	8	2	26
7	UNITED BANK	4.37	7.14	52.56	37.84	
	RANK	7	5	2	3	17
8	UCO	8.83	-7.59	49.76	106.88	
	RANK	5	10	3	1	19
9	ALLAHABAD	0.34	-6.48	3.03	-19.52	
	RANK	10	9	9	10	38
10	CORPORATION	0.68	1.15	31.35	-1.42	
	RANK	9	6	4	7	26

Source: Annual Reports of Selected banks in FY 18 & FY 19

Analysis: From Table 1 , it is very clear that in Category-I banks, Axis bank, HDFC & Kotak Mahindra banks have shown a positive growth in FY2019 from FY2018.Surprisingly, the country's largest bank, SBI stood in 9th position and the least position is occupied by Union bank of India.

From Table 2, it can be seen that in Category-II Banks, Indus-Ind Bank, Oriental Bank of Commerce & Syndicate bank have shown good growth in various components in FY2019 from FY2018. The least positions are occupied by Andhra bank & Allahabad bank at 9th& 10th positions respectively.

Size Metric : The size of a bank usually determined with the following parameters.

- Size of Total Deposits
- Size of Operating Profit
- Size of Balance Sheet

Analysis: From Table 3, it is clear that among Category-I banks, SBI, HDFC & ICICI have been performing outstanding with regard to size of the banks, where as Union Bank of India and Punjab National bank were at the least positions.

From table 4, it is evident that among Category-II banks, Indian Bank, Indusind Bank & OBC have been performing well whereas UCO bank & Syndicate banks are in the least positions with regard to Size of the banks.

Strength Metric : The strength of any bank can be evaluated in 5 components namely-

- Capital Adequacy (%)
- Return on Assets (%)
- Net Interest Margin (%)
- Net NPA/ Net Advances (%)
- Cost/Income (%)

Table 3: Size (Rs in Cr) Comparison of Category-I Banks

SL. NO	BANK	SIZE(Rs in Cr)			COMPONENT AVERAGE
		Total Deposits	Operating Profit	Balance Sheet Size	
1	HDFC	9,23,140.00	39,749.00	12,44,540.00	
	RANK	2	2	2	2
2	SBI	29,11,386.00	55,436.00	36,80,914.00	
	RANK	1	1	1	1
3	ICICI	6,52,919.00	23,437.00	9,64,459.00	
	RANK	4	3	3	3
4	KOTAK	2,25,880.00	8,348.00	3,12,172.00	
	RANK	10	7	10	9
5	AXIS	5,48,471.00	19,005.00	8,00,996.00	
	RANK	6	4	4	5
6	YES	2,27,610.00	8,134.00	3,80,826.00	
	RANK	9	8	9	9
7	PNB	6,76,030.00	12,995.00	7,74,949.00	
	RANK	3	5	5	4
8	CANARA	5,99,033.00	10,590.00	6,94,786.00	
	RANK	5	6	6	6
9	UBI	4,15,915.00	7,521.00	4,94,038.00	
	RANK	8	10	8	9
10	BOI	5,20,862.00	8,092.00	6,25,222.00	
	RANK	7	9	7	8

Source: Annual Reports of Selected banks in FY 18 & FY 19

Table 4: Size (Rs in Cr) Comparison of Category-II Banks

SL. NO	BANK	Size (in Rs Cr)			COMPONENT AVERAGE
		Size of Deposits	Size of Operating Profit	Size of Balance Sheet	
1	INDUS IND	1,94,867.91	8,088.22	2,77,819.00	
	RANK	6	1.00	2.00	3
2	SYNDICATE	1,34,954.34	2,763.00	1,59,339.00	
	RANK	9	8.00	9.00	9
3	ANDHRA BANK	2,19,821.00	5,023.00	2,49,311.00	
	RANK	3.00	3.00	5.00	4
4	OBC	2,32,645.88	3,753.00	2,71,909.00	
	RANK	2.00	6.00	3.00	4
5	INDIAN BANK	2,42,075.95	4,880.00	2,80,065.00	
	RANK	1.00	4.00	1.00	2
6	IOB	22,534.08	5,033.00	2,50,008.00	
	RANK	10.00	2.00	4.00	5
7	UNITED BANK	1,34,983.29	1,411.00	1,51,529.00	
	RANK	8.00	10.00	10.00	9
8	UCO	1,97,906.78	2,760.00	2,30,484.00	
	RANK	5.00	9.00	7.00	7
9	ALLAHABAD	2,14,334.07	2,767.00	2,48,575.00	
	RANK	4.00	7.00	6.00	6
10	CORPORATION	1,84,567.84	3,894.00	2,13,577.00	
	RANK	7	5	8	7

Source: Annual Reports of Selected banks in FY 18 & FY 19

Table 5: Strength (%) Comparison of Category-I banks

SL. NO	BANK	Net NPA/Advances	Cost/Income	Return on Assets	NIM	Capital Adequacy	COMPONENT AVERAGE
				STRENGTH (%)			
1	HDFC	0.39	39.65	1.83	4.39	17.11	
	RANK	1	1	1	1	2	1
2	SBI	3.01	55.70	0.02	2.71	12.72	
	RANK	6	9	7	6	7	7
3	ICICI	2.29	43.56	0.36	3.26	16.89	
	RANK	5	3	5	3	3	4
4	KOTAK	0.75	47.37	1.69	4.07	17.45	
	RANK	2	6	2	2	1	3
5	AXIS	2.28	45.45	0.63	3.18	15.84	
	RANK	4	4	3	4	5	4
6	YES	1.86	43.50	0.50	3.00	16.50	
	RANK	3	2	4	5	4	4
7	PNB	6.55	47.03	-1.29	2.35	9.73	
	RANK	9	5	10	9	10	9
8	CANARA	5.37	49.69	0.05	2.38	11.90	
	RANK	7	8	6	7	8	7
9	UBI	6.85	48.80	-0.60	2.21	11.78	
	RANK	10	7	8	10	9	9
10	BOI	5.61	56.93	-0.90	2.37	14.19	
	RANK	8	10	9	8	6	8

Source: Annual Reports of Selected banks in FY 2019

Table 6: Strength (%) Comparison of Category-II banks

SL. NO	BANK	Net NPA/Advances	Cost/Income	Return on Assets	NIM	Capital Adequacy	COMPONENT AVERAGE
				STRENGTH (%)			
1	INDUS IND	1.21	44.19	1.32	3.79	14.16	
	RANK	1	2	1	1	1	1
2	SYNDICATE	1.48	50.01	0.84	2.96	14.14	
	RANK	2	5	2	2	2	3
3	ANDHRA BANK	5.72	42.61	-1.13	2.89	13.68	
	RANK	6	1	6	3	3	4
4	OBC	5.93	54.04	0.02	2.32	12.73	
	RANK	7	7	5	5	6	6
5	INDIAN BANK	3.75	45.17	0.12	2.78	13.21	
	RANK	3	3	4	4	4	4
6	IOB	10.84	46.93	-1.50	2.32	10.21	
	RANK	10	4	7	5	10	7
7	UNITED BANK	8.64	67.62	-1.56	1.47	13.00	
	RANK	8	10	8	7	5	8
8	UCO	9.72	52.61	-1.94	2.17	10.70	
	RANK	9	6	9	6	9	8
9	ALLAHABAD	5.22	61.63	-3.33	2.32	12.51	
	RANK	5	9	10	5	7	7
10	CORPORATION	4.89	59.06	0.49	3.79	12.46	
	RANK	4	8	3	1	8	5

Source: Annual Reports of Selected banks in FY 2019

Analysis: From Table 5, it is clear that with regard to strength of the banks, HDFC, Kotak & ICICI stood in top with respect to NPA, Cost , Return on Assets, Interest Margin and Capital adequacies in %. The least positions are secured by Union Bank & Punjab National bank From Table 6, it is evident that IndusInd, Syndicate & Indian banks are in top position with regard to strength of the bank where as Allahabad bank, UCO bank and United banks are in the least positions.

5.0 Findings of Study and over all Comparison:

Table 7: Overall Analysis of Financial Metrics Ranks of Category-I Banks

SL.NO	BANK	GROWTH	SIZE	STRENGTH	GRAND AVERAGE	OVER ALL RANK
			RANKS			
1	HDFC	3	2	1	2	1
2	SBI	8	1	7	5	4
3	ICICI	6	3	4	4	3
4	KOTAK	4	9	3	5	4
5	AXIS	2	5	4	4	2
6	YES	6	9	4	6	6
7	PNB	5	4	9	6	5
8	CANARA	5	6	7	6	5
9	UBI	8	9	9	9	8
10	BOI	7	8	8	8	7

Table 8 : Overall Analysis of Financial Metrics Ranks of Category-II Banks

SL.NO	BANK	GROWTH	SIZE	STRENGTH	GRAND AVERAGE	OVER ALL RANK
			RANKS			
1	INDUS IND	3	3	1	2	1
2	SYNDICATE	4	9	3	5	4
3	ANDHRA	7	4	4	5	5
4	OBC	3	4	6	4	2
5	INDIAN	6	2	4	4	3
6	IOB	6	5	7	6	6
7	UNITED	4	9	8	7	8
8	UCO	5	7	8	7	9
9	ALLAHABAD	9	6	7	7	10
10	CORP BANK	6	7	5	6	7

From the above table 7 & 8, it is very clear that –

- In Category-I Banks, HDFC stood in First Rank which is followed by Axis & ICICI banks in 2nd and 3rd Ranks respectively.
- In Category-II Banks, IndusInd bank stood in First Rank which is followed by Oriental Bank of Commerce and Indian bank which are in 2nd and 3rd ranks respectively.
- In Category-I banks, Yes bank stood in 6th position, followed by Bank of India and Union Bank of India in 7th& 8th ranks respectively.
- In Category-II Banks, Corporation bank stood in 7th position followed by United bank, UCO bank in 8th and 9th positions respectively. The least position is occupied by Allahabad bank.
- It is to be noted that all Private banks performed very well in Category-I and even the largest public sector bank SBI is after them only. Even Canara bank secured 5th place.
- The amalgamated banks like Oriental bank of Commerce, Syndicate bank, Corporation bank, Andhra Bank have shown a decent performance in this approach than the banks with whom they got amalgamated like Union Bank of India, Canara bank and PNB.

6.0 Conclusion &Scope for further study:

This study emphasizes on the performance of various banks based on balance sheet size and then categorized based on consolidation of banks (Consolidated and Consolidating banks). The GSS approach is used a new technique that covers the main parameters of a bank to check whether the bank can sustain in the market for a longer period. The approach has given a conclusion that the consolidated banks have outperformed than the consolidating banks in this approach during the year 2019. This research can be extended to know whether the consolidation has brought any increase in the performance of the consolidating banks

(Post Consolidation GSS approach). Research is open on this so as to understand the pre-merger and post-merger effects on the profitability and growth of the selected banks.

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