Analysis of Financial Statement of Axis Bank

Divya Mohan Joshi

Uttaranchal Institute of Management, Uttaranchal University

ABSTRACT

In today's financial world, financial performance is a requirements amongst the perspective of various stakeholders, be it in the management, lenders, owners and investors' perspective. And it is out of analysis of financial statements. Financial performance is crucial for taking financial decisions related to planning and control. Hence, it forms the basis as one of the importance for taking financial decisions effectively. Banking Sector plays an important role in economic development of a country. The banking system of India is featured by a large network of bank branches, serving many kinds of financial services of the people Axis Bank today is a leading player in Indian banking industry and is deeply engaged in human and economic development at the national level. The Bank works closely with although it is private. bank emerged as a pioneer venture on the horizon of offering an expanded range of banking products and financial services for corporate and retail customers through its diverse delivery channels and specialized subsidiaries in the areas of investment banking, asset management, venture capital and insurance. In the light of its strategic importance in the nation interest, it is crucial to evaluate the financial performance of the Axis Bank. And the present study focused on operational control of the asset, profitability and solvency etc. This research paper is aimed to analyze and compare the Financial Performance of Axis Bank in five years period and offer suggestions for the improvement of efficiency in the Bank.

INTRODUCTION

The banking sector is one of the most important instrument of the national development, occupies a unique place in a nation's economy. Economic development of the country is evident through the soundness of the banking system. deregulation in the financial market, market liberalization, economic reforms have witnessed important changes in banking industry leading to incredible competitiveness and technological sophistication leading to a new era of in banking. Since then, every bank is relentless in their endeavor to become financial strong and operationally efficient and effective. Indian banks are the dominant financial intermediaries in India and have made good progress during the global financial crisis; it is evident from its annual credit growth and profitability. the growth is possible in two ways, organic or inorganic. Organic growth is also referred as internal growth, occurs when the company grows from its own business activity using funds from one year to expand the company the following year. Such growth is a gradual process spread over a few years but firms want to grow faster. Inorganic growth is referred as external growth and considered as a faster way to grow which is most preferred Inorganic growth occurs when the company grows by merger or acquisition of another business. The main motive behind the

Merger is to create synergy, that is one plus one is more than two and this rationale beguile the companies for merger at tough times. Merger and Acquisitions help the companies in getting the benefits of greater market share and cost efficiency. For expanding the operations and cutting costs, Banks are using Merger and Acquisitions as a strategy for achieving larger size, increased market share, faster growth, and synergy for becoming more competitive through economies of scale. Today a large section of people, who have minimal financial literacy, are need to know the financial performance status of the banks where their deposits are vested. They may be as an investor, manager, employee, owner, lender, customer, government and public at large. Financial performance is not available from the records and files in any organisation. It has to be derived by the usage of financial statement analysis techniques. The selection and usage of technique is subject to the option of the user. Some of the important and commonly used techniques are: Ratio Analysis, Cross section analysis Comparative statement analysis, Time series analysis, Common size analysis. The usefulness of ratios depends on skillful interpretation and intelligence of the user. The present study is devoted to analysis the financial ratios of Axis Bank by using ratio analysis with a view to give meaningful interpretations for the users Financial Ratios are used in the evaluation of the financial condition and profitability of a company. The ratios are calculated from the financial information provided in the balance sheet and income statements. While analyzing the financial statements you should keep in mind the principles/practices that accountants use in preparing statements to examine at the financial condition and preference of a company. Ratio Analysis is one of the techniques of financial analysis where ratios are used to evaluating the financial condition and performance of a firm. Analysis and interpretation of various accounting ratios gives a skilled and experienced analyst a better understanding of the financial condition and performance of the firm.

1.2 PROBLEM STATEMENT

Generally banking System is the backbone of every country's economy. It is generally agreed that a strong and healthy banking system is a prerequisite for sustainable economic growth The banking system of India is featured by a large network of banks, serving many kinds of financial needs of the people The Axis Bank popularly is one of the leading banks in India with number of branches and variety of products. the investigation in this study is the financial performance of the bank. The study will mainly explore the financial tools to measure and interpret a performance. The main objective of any company is the creation of wealth for its stakeholders although this mostly applies market facts This means that progress needs to be measured to show the bank return in total by highlighting the major strengths and opportunities of the bank and on the other hand, weaknesses and threats facing the bank. also An analysis indicates the level of efficiency, liquidity, debt management and adequate cash flow. No research is completed until it has formulated a specific problem. The problem of the study is to analyze the financial status of Axis Bank

1.3 OBJECTIVE OF THE STUDY

- To know the liquidity position and solvency
- To study the profitability of axis bank
- To find financial performance and efficiency use of capital employed .

1.4 SCOPE OF THE STUDY

The current study choose one private sector bank to evaluate the financial performance The main scope of the study was to put into practical the aspect of the study into real life work experience. The study applies Ratio analysis based on last 5 years Annual financial reports of axis bank in India

1.5 SIGNIFICANCE OF THE STUDY

Government regulation, in most of the countries shielded the banks from the forces of competition. India is no exception for this. With the nationalization of the most of the major commercial banks in 1969, restrictions on entry and expansion of private and foreign banks were gradually increased. The Reserve Bank of India also began enforcing uniform interest rates, spreads and service changes among nationalized banks. This cause of lack free market competition either among public and private banks. gradually the force of competition from the banking sector is still remain. In addition some areas of concern in the form of increasing non-performing assets, declining profitability and efficiency, which were threatening the viability of commercial banks. Commercial banks have played a vital role in giving direction to economic development by catering the financial requirement of trade and industry in the country. By encouraging saving among the people, commercial banks have fastened the process of capital formation. Banks draw the community savings into the organized sector which can then be allotted among the different economic activities according to the priorities laid down by planning authorities in the country. ‘The banks are not only the safe deposit vaults for these savings, but taking the banking system as a whole, they also create deposits in the process of their lending operations. However, the important function of a banker is the provision of convenient machinery by which people can make payments to each other without having to walk round each other’s house with bags of coins. Banks also exercise influence on the level of economic activities through the creation of manufacturing of money. Through their lending policies, they divert the economic activity to the needs of the country. In view of this, the role of commercial banks in underdeveloped countries and planned economies like India becomes particularly important. the present study seeks to examine the trends in the financial performances of one of the leading banking sector of the country (Axis Bank)

1.6 LIMITATION OF THE STUDY

Due to constraints of time and resources, the study is likely to suffer from certain limitations. Some of these are mentioned here under so that the findings of the study may be understood in a proper perspective. The limitations of the study are:

- The study is based on the secondary data and the limitation of using secondary data may affect the results.
- The secondary data was taken from the five years annual reports of the Axis Bank. It may be possible that the data shown in the annual reports may be limited period of time which does not effectively show the actual fluctuation of the bank profitability.

Financial analysis is mainly done to compare the growth, profitability and financial soundness of bank by diagnosing the information contained in the financial statements. Financial ratio analysis is done to identify the financial strengths and weaknesses of the bank by properly establishing relationship between the items of Balance Sheet and Profit & Loss Account for period of five years. It helps in better understanding of bank financial position, growth and performance by analyzing the financial statements with various tools and evaluating the relationship between various elements of financial statements

1.7 RESEARCH DESIGN

In the present descriptive study is employed. an attempt has been made to measure, evaluate and compare the financial performance of the Bank. the analysis partitioned two side aspect of stakeholders. the shareholders wealth and other external stakeholders. The study is based on secondary data that has been collected from annual reports of the bank website, magazines, journals, documents and other published information. The study covers the period of 5 years from year 2010-11 to year 2014-15. Ratio Analysis was applied to analyze and compare the trends in banking business and financial performance.

1.8 STATISTICAL TOOLS

the Researcher has used the following tools to present and analysis data

Data presentation

I. Tables

II. Diagrams

Data analysis

I. Microsoft excel 2007

1.9 PERIOD OF THE STUDY

this study of financial ratio analysis is limited to five years from 2013 to 2018. the accounting year starts from 1 April to 31 march.

LITERATURE REVIEW

This Section Covers the review of Literature of some of the important studies , research papers, various national as well as international journals, published articles in various official standard books & referring to various websites on the internet on Analysis of Financial statement of Company.

Kılıç, (2017) investigated the influence of firm characteristics on voluntary disclosure of financial ratios in the annual reports of Turkish listed companies. The sample consists of industrial firms listed in the Istanbul Stock Exchange. The firms' annual reports were downloaded from their corporate websites. As methodology, content analysis was utilized to determine the financial ratio disclosure level of the firms. The findings revealed that Turkish listed firms disclose, on the average, 5.37 financial ratios in their annual reports. Count data regression models (Poisson and Negative binomial) were used to test the hypotheses. The results of multivariate analyses indicate that firm size, auditor size, profitability and ownership diffusion have significant positive associationwith voluntary disclosure level of financial ratios, while leverage does not.

The researchers, Al-tamimi and Hussain (2016) discussed the problem of changing the value of monetary unit and its effects on the financial statements, because the accountants preparing these statements under the monetary unit stability assumption without taking into consideration the changing of prices due to the inflation phenomena. Their paper conclude that the continuity of using the historical cost principle under the changing of prices level will lead to misleading financial statements and then the results of financial analysis will not represents the real position of the company.

Pazarskis et al (2011) empirically, examine the impact of merger and acquisitions on the post-mergerperformance of Greek merger-involved firms in the long-run perspective. The post-merger performance of anextensive sample of acquiring listed firms is investigated with accounting data analysis. For the purpose of thestudy, an explanatory set of 24 financial ratios (divided into five main groups) is employed, in order to measure firms' post-merger performance. The results revealed that six out of all the examined ratios had decreased andshowed, in general, deterioration in several business functions of merger-involved firms' performance in thepost-merger period.

Akbas&Caliskan (2011) have tried to shed light on the empirical relationship between efficiency of working capital management and corporate profitability of selected companies in the Istanbul Stock Exchange for the period of 20052009. The companies should focus on working capital management in order to increase their profitability by seriously and professionally considering the issues on their cash conversion cycle which was derived from the number of days accounts payable, the number of day's accounts receivable and the number of days of inventories. The findings suggested that it may be possible to increase profitability by improving efficiency of working capital.

Yaseen (2011) investigates the effects of accounting principles and accounting assumptions of the financialanalysis, since the financial analysis process comes after the disclosure of accounting system output. Theresearch reveals that there are both positive and negative effects of accounting principles and assumptions on theaccounting measurement process. So the research seeks how to remove the negative effects of these principlesand make the results of the financial analysis more accurate and realistic. The study concludes that the historical cost principle was inconvenient and the organization must use the methods such as the fair value, and to work fordeveloping the approaches of financial management and analysis to make a compromise between the accountingand economics concepts of the organization’s value.

Malhotra, et al (2009) investigated the credit crisis in the financial markets had led to tremendous turmoil in thefinancial services industry. As a result, a substantial decline in the profitability and liquidity of the financialservices companies was seen. They analyzed the financial performance of thirteen leading financial servicesfirms to evaluate their relative standing in the industry. They illustrate the use of data envelopment analysis(DEA), an operations research technique, to evaluate the relative financial strength of thirteen financial servicesfirms by benchmarking the financial ratios of a firm against its peers. DEA clearly brings out the firms that areoperating more efficiently in comparison to other firms in the industry, and points out the areas in which poorlyperforming firms need to improve.

Maggina (2008) used the financial ratios so as to investigate the distributional properties of financial ratios.Distributions presented in both theory and practice such as Cauchy, chi-square, Erlang, exponential, extremevalue, Gamma, Laplace, logistic, lognormal, Student t, triangular, uniform and Weibull have been tested in thestudy. Panel data of financial ratios for the time period 19742006 for Greek listed companies indicate that noneof the financial ratios selected in the study follows a normal distribution. The value of test statistic (Kolmogorov-Smirnov) is relatively large and the p-value of the test is lower than 1%. This is merely inconsistent with theliterature.

Gangadevi (2008) studied the leverage and financing decision for the selected 30 electronic companies for the five years period ranging from1998 to 2003. In his study he found that the company has a high operating leverage should kept low financial leverage and vice-versa. So, it is desirable that a company has low operating leverage and a high financial leverage.

The study that has been done by Al-Aameri and Alrikabi (2007) was focusing on one of the important techniquesin financial analysis, namely, the financial ratios, for the purpose evaluating the performance of petroleumprojects company, and to find out the main strength and weakness points, so as to suggest the remedial actionsfor treatment of negative points and enhance the positive one. The paper's contains detail study for the dataincluded in financial statements to explain the financial performance of the company, and that will help themanagement for planning the future according to the previous performance, and also contain the convertingprocess of the data of financial statements to meaningful information through several techniques, the financialstatement analysis among them.

The study of Laitinen (2006) presents a framework for the financial statement analysis of a network of small andmedium-sized enterprises. The objective is to make an approach towards a systematic network financialstatement analysis. The data for the study are drawn from the public financial statements of the partner firms.The proportion of income statement items and balance sheet items is traced by a simple estimation to theresources used by the network and identified by each firm. Virtual network income statement and balance sheetare made up of the allocated proportions. The paper is focused on eight measurement objects that are causally related to form a strategic map: resources; growth; concentration; productivity; profitability; mutual flows; riskand value; and, several measures for each object are suggested.

Nissim and Penman (2003) stated that the financial statement analysis distinguishes leverage in financing activities from leverage in operations.

Hull (2002) found that the industry debt to equity norms are significantly more negative than returns for the firms‟ moving closer to these norms.

Rao& Rao (2001) undertook a similar type of study where ten ratios relating to working capital management were selected. Out of these indicators, positive association was noticed only in three. CHEAKRABORTY (2008) evaluated the relationship between working capital and profitability of 25 selected companies in the Indian pharmaceutical industry during the period 1996-97 to 2007-08.Inadequacy of working capital may lead to the firm to insolvency, whereas excessive working capital implies idle funds which earns no profits.

MallickAnd Sur (2000) made an attempt to analyze the impact of working capital management on profitability in Indian Tea industry with the help of some statistical tools and techniques. The study revealed that, out of the nine ratios relating to working capital management five ratios registered positive association and the remaining four ratios showed negative correlation with the profitability indicator.

Alam And Hossain (2000) found that the capital structure management of Khulne Shipyard Ltd. (KSL) was in a poor shape because the interest coverage ratio was negative, as there is the possibility of nonpayment of interest charges to creditors.

FINDINGS, SUGGESTIONS, AND CONCLUSION

6.1 Findings

After the study of the components of current assets & current liabilities and the trends of working capital, it was found that:

- The liquidity position of the bank is not good. The current ratio is below 1(current liabilities exceed current assets) for the study period, then the bank may have problems paying its bills on time. However, low values do not indicate a critical problem but should concern the management.

- The debt of the bank is quite high as it indicates debt ratio. there is leverage risk. to address this concern, bank can also analyze the firm's interest coverage ratio, which is the company's operating income divided by debt service payments. A high operating income will allow even a debt-burdened firm to meets its obligations

- Asset turnover ratio should be improved together with the bank's financing mix and its profit margin for a better analysis. A lower turnover ratio means that the bank is not using its assets optimally. Total asset turnover ratio is a key driver of return on equity which is quite constant according to axis bank ratios

- year after year from 2010 to 2015 is the indication of continuous improvement in the earning power of the bank. This increasing EPS is the sign of favorable earnings, health financial position and, therefore, a reliable firm to invest money.

6.2 Suggestions

It is recommended that bank to use more ratios, especially those in the study which are so significant as improvement of their financial performance measures. axis bank should probably consider the use of the fund to invest other opportunities to get a profit, since they seem to be paying or expending more interest not only for the majority of participants, but for businesses in general.

It is also recommended that axis bank owners/ managers request more research study and financial analysis to their financial staff and also external examiner on bankruptcy prediction models at relevant institutions such as universities. The few models presented in this study may be used by axis bank as well, since they are simple and important to know financial health of the bank, The axis bank should have increased its current assets than its current liabilities to make positive working capital. The bank should have decreased its current liabilities by paying through the profit which is being made. The debt should been minimized to keep debt ratio and debt-equity ratio to a minimum value

efficiency use of asset good as liquidity measures of Asset accounts such us total asset turnover of the bank are significant increase in positive account side but decreases some accounts the point is that there is no proper efficiency use of asset so axis bank executive have to consider best asset position use

6.2 Conclusion

The conclusion chapter is directly connected to the purpose. The analysis will be summarized in order fulfill the purpose of the study Since the start of the financial institutions in the financial sector were introduced in India, banking sector has undergone major transformation. The underlying objectives of the study were to know financial health make the banking system more competitive, productive and profitable. Since 2008 world Financial Crisis and meltdown which may institutions in Banking Industry there Liquidated and drop out of market. the greater presence of international financial players in the Indian Financial system and some of the Indian banks would become international players in the recent years. The key to success in the competitive environment is increased productivity. This research has analyzed the productivity of selected private sector bank (axis bank) in India during 2010-15 This Study concludes that though the per ratio of the bank financial productivity of axis bank is far better than other improving. This study is based on three main research objectives. First, we analysis of liquidity measures indicates that current ratio is bed condition for the bank. Quick and asset measures is found that the same position of previous ratio and cash ratio measures the bank is little bit better than the previous years. So we notice that the bank is better condition of liquidity position compare that 2010 and 2011.

Second the study analysis's profitability measures indicates the different kind of ratio. The bank compare are more profitable recent years in net profit margin, return on assets (ROA), return on equity (ROE), and Overall, net profit margin is found rising for bank and falling of debt ratio for bank during 2012-2015. net profit margin of bank is found to increase than it return of asset to increase. Whereas, the opposite debt is decrease year by year. Return in Equity is also found increase during that years in bank. On the other, study ensure that the Axis bank is better condition for profitable. Third, study analysis is all efficiency measures of Asset accounts. Current assets turnover.

fixed assets turnover, total asset turnover . the bank are significant increase in asset account side also increases some measure and decreases some measures but increasing point is so significant and betters then decreasing parts so study ensure that the axis bank is standards position for asset management measure.