

# A STUDY ON FINANCIAL PERFORMANCE ANALYSIS OF SELECTED PUBLIC SECTOR BANKS IN INDIA

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## Abstract:

Banks are the backbone of an economy. Sound financial health of banks is important for shareholders, depositors, employees and whole economy as well. The present study attempts to evaluate the financial performance of top four Public sector banks selected on basis of market capitalization (State Bank of India, Bank of Baroda, PNB & Bank of India) using ratio analysis for the year 2014-2018. The findings of study revealed that State Bank of India is the largest public sector bank with highest managerial efficiency and control. Bank of Baroda is the second largest bank. This study is based entirely on secondary datum which have been collected from the annual report of selected banks covering a period of five years .This study found that SBI, PNB and BOB are financially sound other than BOI.

**KEYWORDS:** *Public Sector Bank, Return on Assets, Return on equity, Earning per share, Net Interest Margin, Cost income ratio.*

## Introduction

A bank is a financial institution that provides banking and other financial services to their customers. A bank is generally understood as an institution which provides fundamental banking services such as accepting deposits and providing loans. There are also non-banking institutions that provide certain banking services without meeting the legal definition of a bank. Banks are a subset of the financial services industry. The Banks are the main participates of the financial system in India. The Banking sector offers several facilities and provides loans, credit, and payment services, such as checking accounts, money orders, and cashier's cheques. The banks also offer investment and insurance products. As a variety of models for corporation and integration among finance industries have emerged, some of the traditional distinctions between banks, insurance companies, and securities firm have diminished. In spite of these changes, banks continue to maintain and perform their primary role-accepting deposits and lending money from the deposits.

## Company Profile

### STATE BANK OF INDIA

State Bank of India is the largest public sector bank in India. It has its headquarters in Mumbai, Maharashtra and after its merger with five of its associate's banks it now operates through a network of more than 24000 branches and 59000 ATMs across the country.SBI has 20% market share in deposit and loans in the Indian Commercial banksarena. SBI presents a wide range of products and services for its customers which includes savings account, credit cards, fixed deposits, home loan and more.

### BANK OF BARODA

Bank of Baroda is the second largest Indian bank owned by the state founded on 20<sup>th</sup> July 1908 and is headquarter in Vadodara, Gujarat, India. It offers banking products to meet the banking needs of individuals. It has a global network of a total 5326 bank-branches and over 8000 ATMs. It has been classified as a profit-making public sector institution.

## PUNJAB NATIONAL BANK

Punjab National Bank was incorporated under Act VI of the Indian Companies act and began its operations on 12<sup>th</sup> April 1895 from Lahore. It started its operations with a working capital of Rs 20,000 and Rs 2 lakhs of authorized capital. The main objective of formation of PNB was to provide the country with a true national bank which would dedicate itself to the working of towards the economic interest of the country and play a pivotal role in ensuring the country's growth and prosperity. Lala Lajpat Rai played a key role in forming the establishment of PNB from the establishment of PNB in its formative years.

## BANK OF INDIA

Bank of India is a financial service provider commercial bank founded in the year 1906 on September 7<sup>th</sup>. It has its headquarters in Mumbai, Maharashtra, India. It is a type of public company providing retail as well as commercial banking facility to the consumers. It has a total of above 45454 bank-branches controlled through 50 Zonal offices.

## REVIEW OF LITERATURE

**Taqi and Mustafa (2018)**, analyzed the growth and performance of Punjab National Bank and HDFC bank for the period 2006-07 to 2015-16. They made quantitative analysis and found that PNB is more financially sound than HDFC but in context of deposits and expenditure HDFC has better managing efficiency

**Rao and Ibrahim (2017)**, in their study on comparative financial performance of IDBI bank with industry's average on basis of financial ratios for the period 2011- 2012 to 2015- 2016 . It was found that solvency position of IDBI bank and employment of asset was in refrain with the industry averages. Net profit margin of IDBI bank indicates that the profit of bank is falling and is below the industry averages which show that the operations of bank are needed to be enhanced. Further, the return on asset of IDBI bank is showing a declining trend as compared to industry average.

**Balaji and Kumar (2016)**, their study on comparative financial performance of selected public and private sector banks in India during the period 2011-12 to 2015-16 by using mean and T-test. They concluded up that public sector banks must redefine their strategies by considering their strength, weakness and operating market.

**Pawan, Gorav and Bhanwar Singh (2016)**, conducted a study to compare the financial performance of ICICI bank, Axis bank, HDFC bank, Yes bank and Indusland bank through ratio analysis. The study analysed that the capital adequacy ratio of ICICI bank, HDFC bank and Yes bank are high compared to Axis and Indusland bank. Yes bank and HDFC bank asset management is very smart to manage the assets than ICICI, Axis and Indusland bank.

## RESEARCH METHODOLOGY

### Objective of study

- To examine the financial performance of selected public sector banks (SBI, BOB, PNB, BOI)

### Sources of Data

The present study compares the financial analysis of selected public sector banks. To attain the objectives of the study, the researcher has to depend on secondary data from RBI bulletin, Annual report of bank from banks official websites and through net surfing.

**ANALYSIS TOOLS****RETURN ON ASSET**

Return on Assets = net profit ÷ total assets

**RETURN ON EQUITY**

Return on Equity = Average shareholders' equity ÷ Net income

**EARNING PER SHARE**

Earnings per share = Net income – Preferred dividend / Weighted average shares outstanding

**COST INCOME RATIO**

Cost Income Ratio = Operating expense ÷ Operating income

**NET INTEREST MARGIN**

Net interest margin = investment return – investment expense / average earning assets

**Limitation of study**

- The study is limited to four public sector banks (SBI, BOB, PNB, BOI) on the basis of secondary data from Annual reports of bank and RBI reports and various websites.
- The study period is limited to only five years only.

**ANALYSIS & INTERPRETATION**

This study deals with the empirical analysis and interpretation of the collected data. The data is collected of four banks (SBI, BOB, PNB AND BOI) for the period of five years (2014-2018)

**COMPARTAIVE ANALYSIS OF SELECTED PUBLIC SECTOR BANKS**

**Table 1 RETURN ON ASSET (ROA) (As On 31<sup>st</sup> March)**

Rs. in Crore

Year	SBI	BOB	PNB	BOI
2014	.65	.75	.64	.51
2015	.68	.49	.53	.27
2016	.46	.78	.61	.94
2017	.41	.20	.19	.24
2018	.19	.34	1.60	.19
MEAN	.478	.512	.714	.43

The Table 1 shows Return on Asset Ratio of four selected public sector banks (SBI, BOB, PNB, and BOI). The Return on Assets represents the percentage of how profitable company's assets are in generating revenue. Higher the ROA, better the management. The ROA was highest in the year 2015 (.68) and lowest at 2018 (.19). BOB had highest RON in the year 2014 (.75) & lowest in 2017 (.20). The ROA was highest in 2018 (1.60) and lowest in 2017 (.19). The ROA highest was in 2016 (.94) and lowest in 2018 (.19). As shown in the table ROA was highest in case of PNB (.714) followed by BOB (.512) and variation is more in case of BOI (.43) and least in case of SBI (.478). This return is related with overall profitability.

**Table1.2 RETURN ON EQUITY (ROE)(As On 31<sup>st</sup> March)**

**Rs. in Crore**

Year	SBI	BOB	PNB	BOI
2014	10.49	13.21	9.69	11.82
2015	11.17	9.3	8.12	6.70
2016	7.74	-17.64	-9.2	-25.39
2017	7.25	4.53	2	-7.78
2018	3.78	-7.64	-29.7	-31.07
MEAN	8.086	.352	-3.818	-9.142

Table1.2 shows ROE was highest in 2015 (11.17) of SBI and lowest in 2018 (3.78). The ROE was highest in 2014 (13.21) of BOB and lowest in 2016 (-17.64). The ROE was highest in 2014 (9.69) of PNB and lowest in 2018 (-29.7). Whereas ROE was highest in 2014 (11.82) of BOI and lowest was in 2016 (-25.39). As shown in table SBI has highest ROE (8.086) followed by BOB (.352) whereas ROE is negative for BOI (-9.142) and PNB (-3.818).

**Table1.3 EARNINGS PER SHARE (As On 31<sup>st</sup> March)**

**Rs. in Crore**

Year	SBI	BOB	PNB	BOI
2014	15.68	107.38	93.91	44.74
2015	17.55	15.83	17.7	26.57
2016	12.98	-23.89	-19.6	-33.01
2017	13.43	6	4	-15.72
2018	-7.67	-10.53	-45.7	-52.55
MEAN	10.394	18.958	10.062	-5.994

The table1.3 shows the EPS of four selected public sector bank. The EPS was highest in 2015 (17.55) of SBI and lowest in 2018 (-7.67). The EPS was highest in 2014 (107.38) of BOB and lowest in 2016 (-23.89). The highest was in 2014 (93.91) of PNB and lowest in 2018 (-45.7). The EPS was highest in 2014 (44.74) of BOI and lowest in 2018 (-52.5). BOB has the highest EPS (18.958) followed by SBI (10.934) and PNB (10.062) whereas variation is most in case of BOI (-3.818).

**Table 1.4 COST INCOME RATIO (As On 31<sup>st</sup> March)**

Rs. in Crore

Year	SBI	BOB	PNB	BOI
2014	52.67	43.44	45.06	44.30
2015	49.85	43.63	46.74	51.93
2016	49.13	50.30	44.94	55.72
2017	47.75	45.86	41.57	47.67
2018	50.18	45.87	43.81	56.04
MEAN	49.922	45.82	44.424	51.132

Table 1.4 and Diagram shows the Cost Income Ratio of selected public sector banks. Lower the Cost income ratio means the company is managing its costs well and is not overspending to generate revenue. PNB has the lowest cost income ratio (44.424) which means PNB is managing its cost well and not overspending to generate revenue, followed by BOB (45.82) and SBI (49.922). Whereas BOIs cost income ratio is (51.132) which is more than ideal percentage.

**Table 1.5 NET INTEREST MARGIN (As On 31<sup>st</sup> March)**

Rs. in Crore

Year	SBI	BOB	PNB	BOI
2014	3.17	2.36	3.44	2.34
2015	3.16	2.31	3.15	2.11
2016	2.96	2.05	2.60	2.11
2017	2.84	2.19	2.38	2.20
2018	2.16	2.43	2.16	1.92
MEAN	2.858	2.268	2.746	2.136

The table 1.5 represents Net Interest Margin of selected public sector banks for the time period 2014 to 2018. The Net interest margin was highest in 2014 (3.17) of SBI and lowest was in 2018 (2.16). The Net interest margin was highest in 2018 (2.43) of BOB and lowest in 2016 (2.05). The Net interest margin was highest in 2014 (3.44) of PNB whereas lowest in 2018 (2.16). The net interest margin was highest in 2014 (2.34) of BOI and lowest was in 2018 (1.92). SBI has the highest Net interest margin (2.858) followed by PND (2.746) BOB (2.268) and BOI (2.136).

## FINDINGS

## FINDINGS AND SUGGESTION

- In this Return on Assets value of PNB (.714) is higher than other public sector banks followed by BOB (.512) and variation is more in case of BOI (.43) and least in case of SBI (.478). Which indicates that PNB is effectively using its assets to generate earnings. Whereas BOB is having low Return on assets which means BOB is not making enough income from its assets. So, the bank can improve its performance by either increasing its profits or decrease its total assets.

- In this Return on Equity mean value of SBI (8.086) is highest in comparison with BOB (.352). It shows that SBI is efficiently handling the money that shareholders have contributed to it. Whereas BOI (-9.144) and PNB (-3.818) are showing negative figures which means shareholders are losing value. So, these banks need to finance themselves with debt and equity capital to improve its return on equity.
- In this Ratio Earning per Share Mean value of BOB (18.958) is higher than SBI (10.394) and PNB (10.062) which means BOB has good profit available for its shareholders on per share basis. Whereas the EPS mean value of BOI (-5.994) is in negative figure which means BOI is losing money. So the bank needs to increase its sales volume by employing new strategies.
- In this Cost Income Ratio Mean value of PNB (44.424) is good which means PNB is not overspending to generate revenue than other banks followed by BOB (45.82) and SBI (49.922) whereas BOI Cost income ratio (51.132) is more than the ideal figure which means BOI is overspending its cost to generate revenue which requires proper managerial control and decision.
- In this Net Interest Margin Mean value of SBI (2.858) is higher than other public sector bank followed by PNB (2.746) and variation is more in case of BOI (2.136) and least in case of BOB (2.268) which means SBI is investing its fund efficiently in comparison with other banks.

## CONCLUSION

The overall study concludes that SBI is the largest public sector bank. BOB is the second largest public sector bank. PNB is the third largest Public sector bank. SBI is good performing bank in respect of Return on Equity which shows the management is effectively using its assets to generate profit, Net interest margin by earning good profit on its investments with good management decisions. BOB is good performing bank in respect of Earning per share provide better earnings per share showing the bank is earning good profit. PNB is good performing in respect of Return on assets helping investors to measure how effectively bank is converting its investment into net income, Cost income ratio by controlling its cost efficiently to generate revenue. PNB needs to use more financial leverage and increase its profit margin to raise return on equity. BOI the fourth largest public sector bank lacks proper managerial decisions and control.

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