An Analytical study of Selected Listed Private Sector Bank in Indian Stock Market

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Abstract: No country can have a healthy economy without a sound and effective banking system. The Banks always remain the main participants of the financial system in any country. The Banking sector offers several facilities and opportunities to their customers and, therefore, it should be able to meet the new challenges posed by technology and other internal and external factors. As banks rely increasing on information technology and the internet to carry on their work and interact with the market, technology risk will increase, both for the financial industry at large and individual banks. Bank plays an important role in the economic development of developing countries. In last one decade the focus is going on private sector banks. All the major banks are listed in Indian stock exchange's BSE & NSE. This study is aid to analyzing the growth and performance of the selected top four listed private sector bank and also find the best opportunity for the investment in banking sector share.

Key Words **- Private sector bank, Indian stock market, BSE, NSE, NPA, Indian economy.**

I. INTRODUCTION

Banks receive deposits from public and also borrow money from other sources for increasing working capital funds. They have to pay cost by way of interest on the funds raised. The symptoms of the banking activities are found from Vedic era to till date. Indian banking sector has undergone rapidly major changes during the period. These changes not only functioning of the banks but it also impacted highly on the efficiency, effectiveness and the productivity of all the Indian banks. Banking sector is treated as to be the back bone of the economy. Government provide many facilities to nationalized bank for the development of public sector bank. But still there are many limitations. That's why private banking sector emerge. Because of the presence of public sector and private sector bank, both are getting a healthy competition.

It is believed that private ownership helps to improve efficiency and performance of bank and accordingly, the Indian government started diluting its equity in PSBs from early 1990s in a phased manner. The privatization of Indian banks really helped to improve their efficiency and performance. Liberalization and Globalization ushered in by the government in the early 90s have thrown open many challenges to the Indian financial sector. Banks, amongst other things, were set on a path to align their accounting standards with the International standards and by global players. They had to have a fresh look into their balance sheet and analyse them critically. In this background, this article is designed to give an outline of profile of ban group wise in Indian banking industry. Banks that employ IT solutions are perceived to be 'futuristic' and proactive players capable of meeting the multifarious requirements of the large customer's base. Private Banks have been fast on the uptake and are reorienting their strategies using the internet as a medium The Indian banking has finally worked up to the competitive dynamics of the 'new' Indian market and is addressing the relevant issues to take on the multifarious challenges of globalization.

II. NEED FOR THE STUDY

Banking business has done wonders for the world economy. The intensifying competitive environment in the banking sector forcing the banks to focus in their operations. The profile of the banks plays an important role in the performance of the banks and measuring the relative profile of bank group wise has gained academic attentions over the years. Various parameters have been used to determine the profile of the banks. Evaluating the profile of the private banks is important to depositors, owners, shareholders, managers, regulators etc.

III. OBJECTIVES

1. To analyse the comparison of performance of selected private sector banks.
2. To take better decision for the investment.

IV. REVIEW OF LITERATURE

Dipasha Sharma, Anil K Sharma, Mukesh K Barua in their study discussed that both the frontier approaches, parametric and non-parametric, are gaining an edge over the traditional financial performance measures. In the non-parametric approach, data envelopment analysis (DEA) is widely applied to measure a bank's efficiency and productivity [1].

Siraj and Sudarsanan Pillai, in their paper determined that asset quality and efficiency of bank is highly correlated. Against this backdrop, this paper investigates the growth of selected NPA variables and compares it with banking performance indicators. Variables that impact NPA of banks is assessed and based on its growth rate, inference is generated. The analysis focused on identifying relative efficiency of different bank groups in managing their NPA. [2].

Singh analysed the profitability management of banks under the deregulated environment with some financial parameters of the major four bank groups i.e. public sector banks, old private sector banks, new private sector banks and foreign banks, He emphasized to make the banking sector competitive in deregulated environment and prefer non-interest income sources [3].

Souza, in his study evaluated the performance of public sector banks, private sector banks and foreign banks during the period 1990-1991 to 1999-2000. The efficiency of the banking system was measured in terms of spread/working fund ratio and turnover/employees ratio [4].

Kannan and Aditya Narain made an attempt to identify the factors influencing spreads of scheduled commercial banks in India and concluded that nonperforming asset effect bank spread. Centric to the ratio analysis, these studies have customized and blended financial ratios in a model form to examine and predict the financial health. Similarly, comparative performance, recovery performance, cost reduction, productivity and efficiency are vital areas which have been considered by various analysts. With inquisitiveness the present study has been undertaken with specific objectives as envisaged in the objectives of the study [5].

Malyadri P and Sirisha S, This paper uses the Compound Annual Growth Rate (CAGR) Method and Ranking method to analyse the profile of Public sector banks, private sector banks; and Foreign banks. The study covers for the period of 8 years data from 2005-06 to 2012-13 [6].

V. DATA COLLECTION AND RESEARCH METHODOLOGY

The study is based on secondary data. The secondary data collected from various books, journals, magazines, company's website and annual reports. Some financial data collected from various website such as www.screener.in , www.bseindia.com , www.tijorifinance.com .

The current study adopts an analytical and descriptive research design. Top four private banks are selected on the basis of the market capitalization, listed on Indian stock market BSE & NSE as on 31st March, 2018. Name wise four bank is HDFC bank, Kotak Mahindra bank, ICICI bank, Axis bank. The data is collected from the last five financial year i.e. April 2013 to March 2018. The banking business is different from other businesses. So, we need to look at different parameters to perform basic banking stock analysis. But, the basics will remain same i.e., we will study the quality of the business through its numbers and other non-number parameters. The various variable and ratio like Net Interest Margin (NIM), gross NPA, net NPA, Current Account – Saving Account Ratio (CASA Ratio), Credit deposit ratio, Capital Adequacy Ratio (CAR) are used for the analyse the financial health and performance of the top four listed private sector banks.

VI. ANALYSIS AND INTERPRETATION

1. **Net Interest Margin :** Net Interest Margin is calculated by dividing Net Interest Income to Interest bearing assets such as loans and advances. It is to be compared over the years to assess the business of the banks.
   Net Interest Margin = (Net Interest Income/ Interest bearing Assets)*100
   It is expressed in terms of percentage.

Table 1 : Net Interest Margin (%)

Year	HDFC Bank	Kotak Mahindra	ICICI Bank	Axis Bank
Mar-14	4.4	4.9	3.35	3.89
Mar-15	4.4	4.87	3.57	3.81
Mar-16	4.3	4.35	3.37	3.97
Mar-17	4.3	4.6	3.57	3.83
Mar-18	4.4	4.35	3.24	3.59

Source : Author's calculation based on data.

Figure 1 : Net Interest Margin (%)

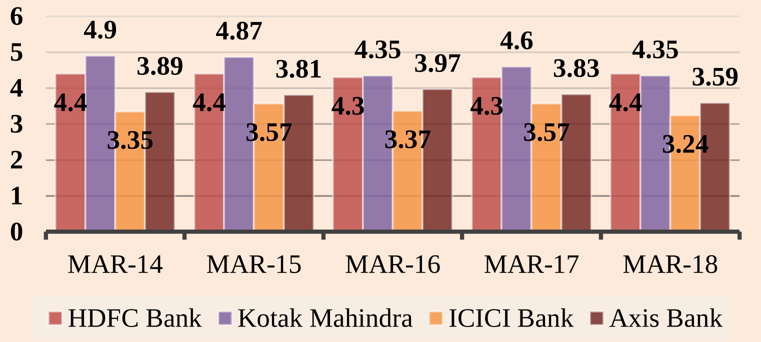
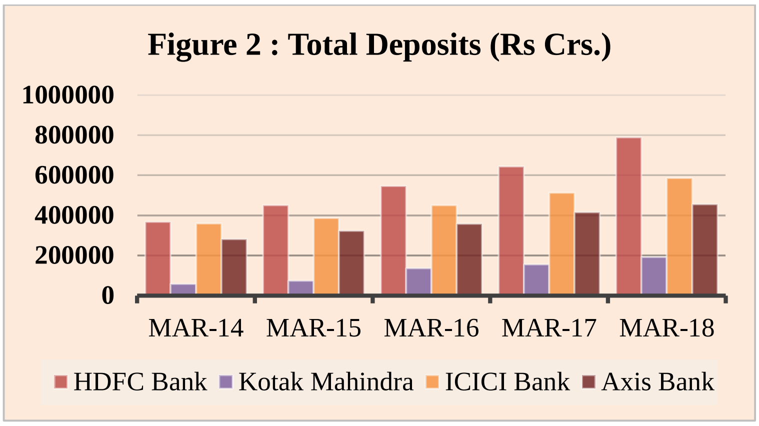


Table 1 and figure 1 shows HDFC bank and kotak Mahindra bank both are able to generate high net interest margin. HDFC bank also shown the stability of the margin, which is shown a positive sign.

2. **Total Deposits :** Deposits forms major source of funds for the banks. Banks accept deposits in the form of term deposits, savings and current account. Banks lend out of the deposits it receives. Hence, analysing deposits numbers will tell us how comfortably the banks are able to acquire funds to lend.

Table 2 : Total Deposits (Rs Crs.)				
Year	HDFC Bank	Kotak Mahindra	ICICI Bank	Axis Bank
Mar-14	367080	56930	359513	280541
Mar-15	450284	72843	385955	322244
Mar-16	545873	135949	451077	358302
Mar-17	643134	155540	512587	414983
Mar-18	788375	191236	585796	455658

Source : Author's calculation based on data.



All banks are shown the continuous growth in deposits. Meanwhile HDFC bank have a highest amount of Deposits.

3. **Total Advances :** Total Advances is an important metric to look at because the bank's primary earning comes from this asset. Advances are loans given out to customers and hence it is considered as assets in business and one of the key part of banking stock analysis. The rise in assets and rate of rise will tell us how the bank is growing its business.

Table 3 : Total Advances				
Year	HDFC Bank	Kotak Mahindra	ICICI Bank	Axis Bank
Mar-14	315419	71693	397342	232382
Mar-15	383408	88632	438490	284449
Mar-16	487290	144793	493729	344663
Mar-17	585481	167125	515317	381165
Mar-18	700034	205997	566854	449844

Source : Author's calculation based on data.

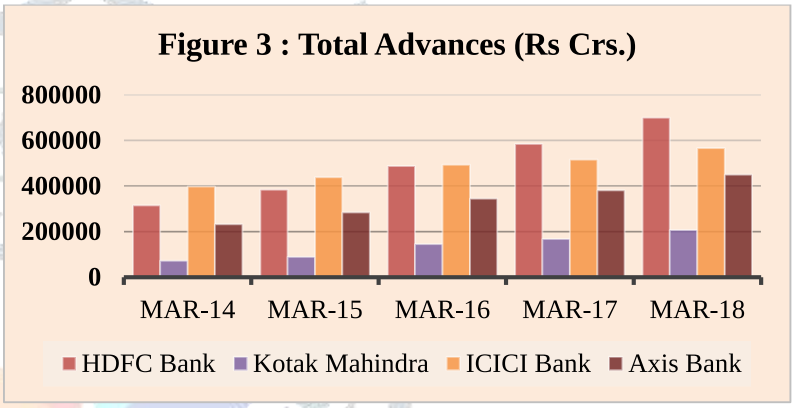
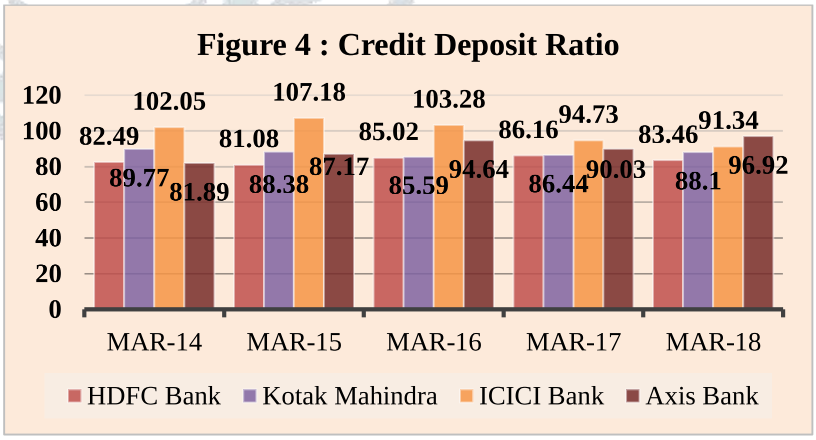


Table 3 and figure 3 shows the continuous increase the lending amount. It's indicate, stable growth of bank.

4. **Credit Deposit Ratio :** Loan to Deposits is used for measuring the bank's liquidity. An optimum level of liquidity is considered good. High ratio may indicate possible liquidity crunch and low ratio indicates under-utilization of funds.

Table 4 : Credit Deposit Ratio				
Year	HDFC Bank	Kotak Mahindra	ICICI Bank	Axis Bank
Mar-14	82.49	89.77	102.05	81.89
Mar-15	81.08	88.38	107.1	87.17
Mar-16	85.02	85.59	103.2	94.64
Mar-17	86.16	86.44	94.73	90.03
Mar-18	83.46	88.1	91.34	96.92

Source : Author's calculation based on data.



Liquidity condition of all four bank are totally different. HDFC bank have a lower credit deposit ratio, which shows under-utilization of funds. While in financial year 2013-14 to 2015-16 ICICI bank lending more than deposits amount. So it may became an issue of liquidity crunch.

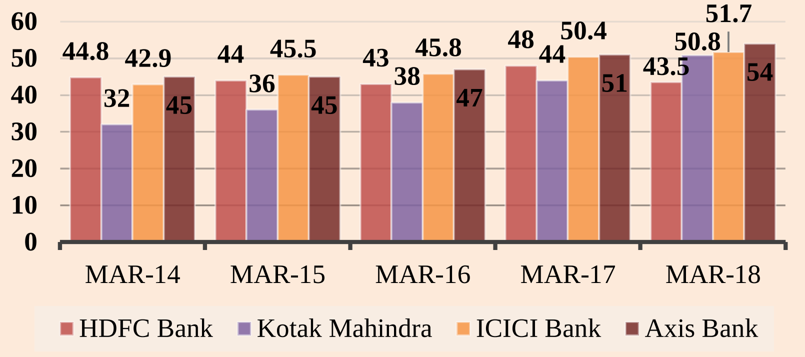
5. **CASA Ratio :** CASA ratio of a bank is the ratio of deposits in current and savings account to total deposits. A higher CASA ratio is desired because banks give low rate of interest in savings account (3-4%) deposits and no interest in current account deposits. High CASA ratio indicates lower cost of funds.

Table 5 : CASA Ratio

Year	HDFC Bank	Kotak Mahindra	ICICI Bank	Axis Bank
Mar-14	44.8	32	42.9	45
Mar-15	44	36	45.5	45
Mar-16	43	38	45.8	47
Mar-17	48	44	50.4	51
Mar-18	43.5	50.8	51.7	54

Source : Author's calculation based on data.

Figure 5 : CASA Ratio



Except the HDFC bank, all other three bank getting success to increase the CASA ratio in last five financial years. So there are getting the benefits of lower cost funds.

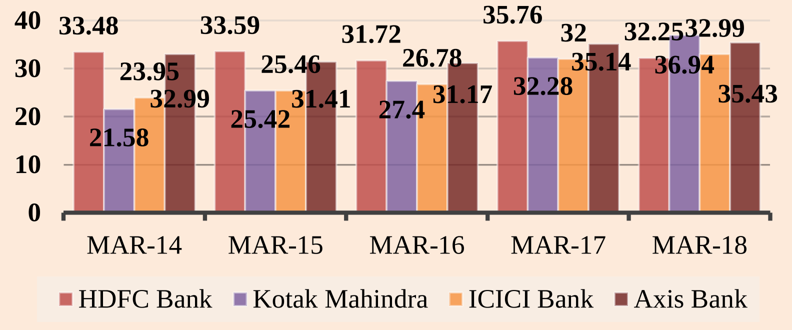
6. **CASA vs Liabilities :** It is the ratio of current and Savings account deposits to total sources of funds. A higher percentage indicates cheaper overall source of funds.

Table 6 : CASA vs Liabilities

Year	HDFC Bank	Kotak Mahindra	ICICI Bank	Axis Bank
Mar-14	33.48	21.58	23.95	32.99
Mar-15	33.59	25.42	25.46	31.41
Mar-16	31.72	27.4	26.78	31.17
Mar-17	35.76	32.28	32	35.14
Mar-18	32.25	36.94	32.99	35.43

Source : Author's calculation based on data.

Figure 6 : CASA vs Liabilities (%)



CASA vs Liabilities ratio give more clarity about the cost of fund. Here Kotak Mahindra Bank reaches the lowest level of fund in financial year 2017-18.

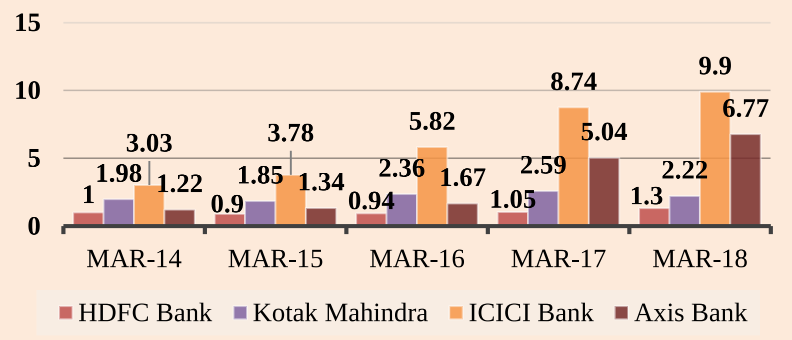
7. **Gross NPA :** A loan asset becomes non-performing when it ceases to generate any income for the bank. Gross NPAs are the total loans classified by the banks as non-performing. Higher NPAs is adverse for the banks. This should be checked to determine the asset quality of the banks.Gross NPA ratio is the ratio of gross non-performing assets to gross advances.

Table 7 : Gross NPA

Year	HDFC Bank	Kotak Mahindra	ICICI Bank	Axis Bank
Mar-14	1	1.98	3.03	1.22
Mar-15	0.9	1.85	3.78	1.34
Mar-16	0.94	2.36	5.82	1.67
Mar-17	1.05	2.59	8.74	5.04
Mar-18	1.3	2.22	9.9	6.77

Source : Author's calculation based on data.

Figure 7 : Gross NPA (Non Performing Asset) (%)



The main factor of reduce the profit of bank is NPA. Here the HDFC bank have a healthy position in terms of gross NPA. ICICI and Axis bank have a worst situation among the all four private banks.

8. **Net NPA :** Net NPA is Gross NPA – (Balance in Interest Suspense account DICGC/ECGC claims received and held pending adjustment + Part payment received and kept in suspense account + Total provisions held). Net NPA ratio is the ratio of net non-performing assets to net advances.

Table 8 : Net NPA

Year	HDFC Bank	Kotak Mahindra	ICICI Bank	Axis Bank
Mar-14	0.3	1.8	0.8	0.4
Mar-15	0.3	0.92	1.4	0.44
Mar-16	0.3	1.06	2.7	0.7
Mar-17	0.3	1.26	4.9	2.11
Mar-18	0.4	0.9	4.77	3.4

Source : Author's calculation based on data.

Figure 8 : Net NPA (Non Performing Asset) (%)

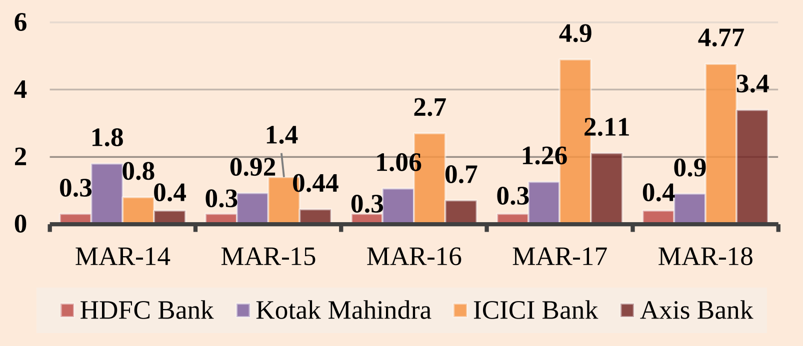


Table 8 and figure 8 shows, ICICI bank is in a critical situation as it have a highest net NPA. Above data shows HDFC bank is in a healthy financial condition in terms of net NPA.

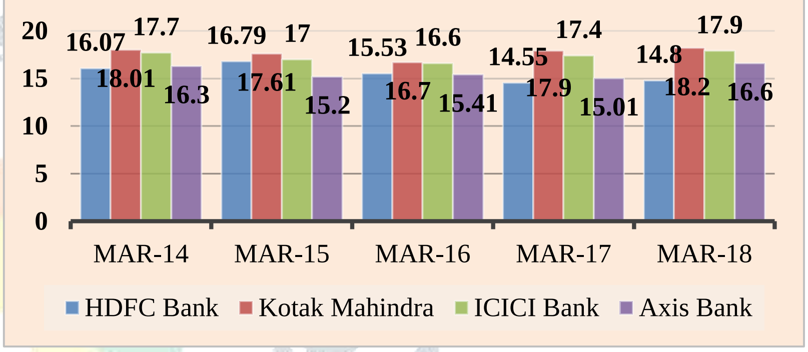
9. **Capital Adequacy Ratio :** Capital Adequacy Ratio is the ratio of bank's capital to aggregated risk-weighted assets. It is also known as capital to risk weighted assets ratio (CRAR). It is decided by central banks to prevent commercial banks from taking excess leverage.
The Basel III norms stipulated a capital to risk weighted assets of 8%. However, as per RBI norms, Indian scheduled commercial banks are required to maintain a CAR of 9% while Indian public and private sector banks are emphasized to maintain a CAR of 12%.
CAR = (Tier-I capital + Tier-II capital)/ Risk-weighted Assets

Table 9 : Capital Adequacy Ratio

Year	HDFC Bank	Kotak Mahindra	ICICI Bank	Axis Bank
Mar-14	16.07	18.01	17.7	16.3
Mar-15	16.79	17.61	17	15.2
Mar-16	15.53	16.7	16.6	15.41
Mar-17	14.55	17.9	17.4	15.01
Mar-18	14.8	18.2	17.9	16.6

Source : Author's calculation based on data.

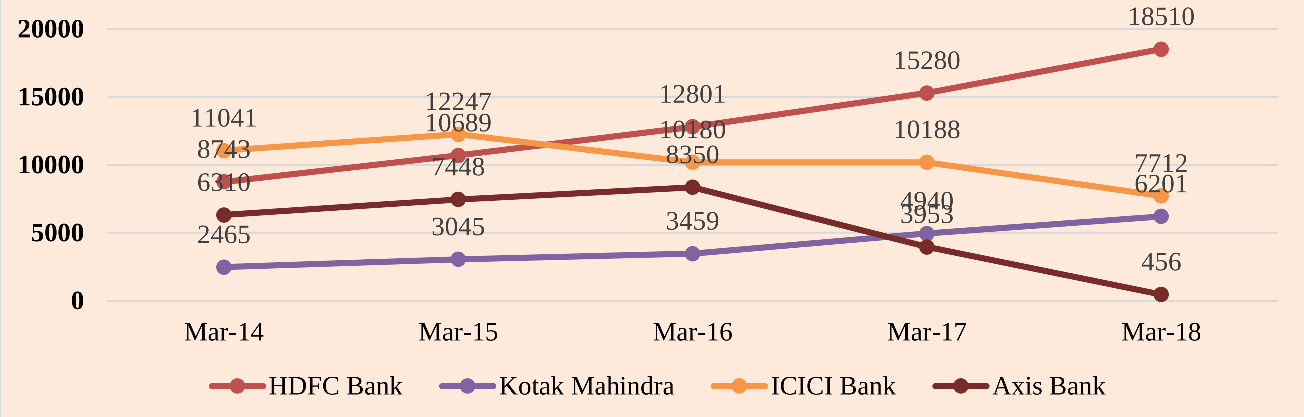
Figure 9 : Capital Adequacy Ratio



All four private bank are follows the Basel III norms as per the guidelines of the RBI. Kotak Mahindra and ICICI bank both are maintain more than 16% capital adequacy ratio in last five financial year i.e. 2013-14 to 2017-18.

10. **Net Profit :** Like every business, we must check the net profit and compare it with previous years to understand the trend in profitability of the business.

Figure 10 : Net Profit (Rs Crs.)



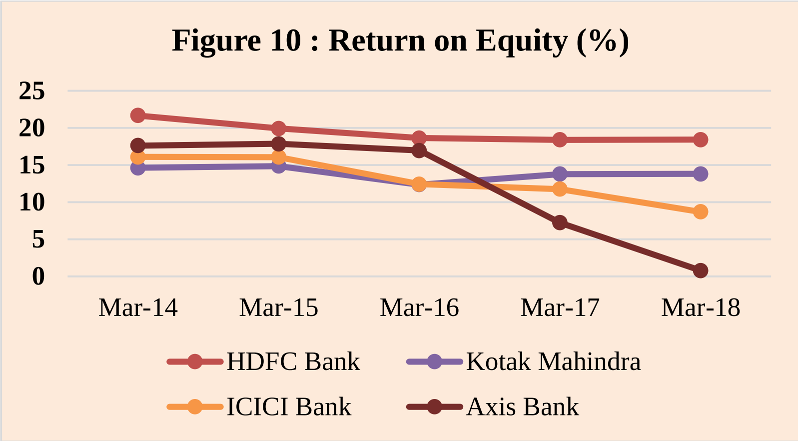
HDFC and Kotak Mahindra bank shown continues profit in the last five financial years. HDFC is a highest profit making bank. The profit of ICICI bank and Axis bank is declined in last two financial years. The main reason behind the decline profit is net NPA.

11. **Return on Equity (ROE) :** This ratio is used by the shareholders to measure their return on investment. ROE is calculated by dividing Net Profit by Net Worth (Capital + Reserves & Surplus).

Table 11 : ROE (%)

Year	HDFC Bank	Kotak Mahindra	ICICI Bank	Axis Bank
Mar-14	21.69	14.63	16.09	17.63
Mar-15	19.94	14.87	16.07	17.87
Mar-16	18.65	12.36	12.42	16.97
Mar-17	18.41	13.78	11.76	7.22
Mar-18	18.43	13.82	8.7	0.77

Source : Author's calculation based on data.



ROE was continues decline of all four banks. NPA is one of the main factor for the decline ROE. ICICI bank shown a worst performance.

12. **Return on Assets :** Return on Assets shows how profitable a bank is relative to its total assets. It also indicates how efficiently it is using its assets to generate earnings. It is calculated by dividing Net Profit by Total Assets.

Table 12 : Return on Assets

Year	HDFC Bank	Kotak Mahindra	ICICI Bank	Axis Bank
Mar-14	1.92	2.11	1.64	1.74
Mar-15	1.93	2.26	1.64	1.75
Mar-16	1.87	1.76	1.25	1.65
Mar-17	1.85	1.91	1.19	0.69
Mar-18	1.86	2	0.86	0.07

Source : Author's calculation based on data.

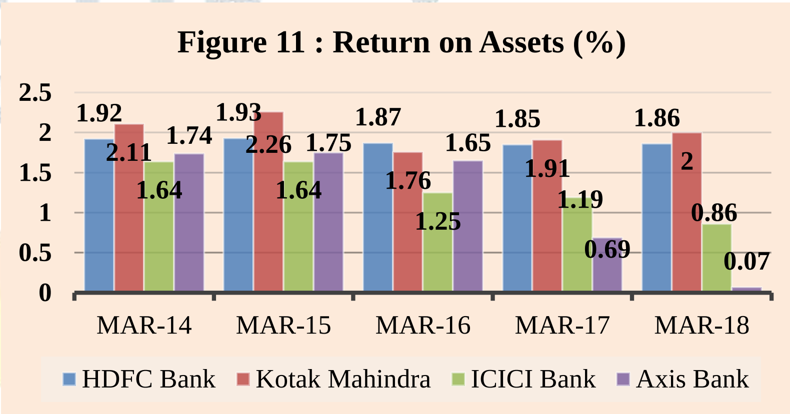


Table 12 and figure 11 shows that HDFC and Kotak Mahindra bank are using their asset with very efficiently, while ICICI and Axis banks failed to use the asset with efficiently.

VII. CONCLUSION

Today the banking sector in India is fairly mature in terms of supply, product range and reach. As far as private sector and foreign banks are concerned, the reach in rural India still remains a challenge.
Present study trying to evaluate the financial performance of top four private sector bank and also trying to find best investment idea in the private sector bank. After the analysed of different variable and ratio, it is found that HDFC bank and Kotak Mahindra bank are efficiently doing good work. Net NPA below 1% shows the efficiency of top level of the management of HDFC bank. The average of borrowing and lending in last 5 year, HDFC bank is on top. Because of highest borrowing and lending with below 1% Net NPA, Highest Return on Equity (ROE), Stable Net Interest Margin in last 5 financial year, HDFC is looking good for the investment perspective.

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