The Five-Year Financial Journey of Indian Overseas Bank

Ignatius Joseph[1] and Ms. Emaldarani[2]
[1]Student, Department of Commerce, Loyola College, INDIA
[2]Assistant Professor, Department of Commerce, Loyola College, INDIA

[1]Corresponding Author: ignatiusjoseph2111@gmail.com

ABSTRACT

The banking industry has been a stronghold for India for a long time. It thrives on loans and deposits made by the citizens and companies. But as strong as the industry is, it is hardly invulnerable. It is liable to face the consequences of economic disasters in huge ways. The COVID pandemic is no exception. In the following study we will see its effect on the banking industry before, during and after by taking Indian Overseas Bank as a model. It is found that the bank did well in subscribing loans but has been running at a loss for the past five years.

Keywords-- Financial Position, Ratio, Profit, Pandemic, Trend

I. INTRODUCTION

A bank is a financial institution licensed to receive deposits and make loans. Banks may also provide financial services such as wealth management, currency exchange, and safe deposit boxes. There are several different kinds of banks including retail banks, commercial or corporate banks, and investment banks. In most countries, banks are regulated by the national government or central bank.

Commercial Bank

A commercial bank is a kind of financial institution that carries all the operations related to deposit and withdrawal of money for the general public, providing loans for investment, and other such activities. They are banks that are profit-making institutions and do business only to make a profit. The two primary characteristics of a commercial bank are lending and borrowing. The bank receives the deposits and gives money to various projects to earn interest. This provides them with profit. The rate of interest that a bank offers to the depositors is known as the borrowing rate, while the rate at which a bank lends money is known as the lending rate. Commercial banks have different types. These include private banks, public bank and foreign bank. Private Banks are a type of commercial banks where private individuals and businesses own a majority of the share capital. All private banks are recorded as companies with limited liability. Such as the Housing Development Finance Corporation (HDFC) Bank, Industrial Credit and Investment Corporation of India (ICICI) Bank, Yes Bank, and more such banks. Public Banks are a type of bank that is nationalised, and the government holds a significant stake. For example, Bank of Baroda, State Bank of India (SBI), Dena Bank, Corporation Bank, and Punjab National Bank. Foreign banks are established in foreign countries and have branches in other countries. For instance, American Express Bank, Hong Kong and Shanghai Banking Corporation (HSBC), Standard & Chartered Bank, Citibank, and more such banks.

Background of Indian Overseas Bank

Indian Overseas Bank (IOB) is a major Indian nationalised bank. It was founded with twin objectives of specializing in foreign exchange business and overseas banking. It is under the ownership of Ministry of Finance, Government of India based in Tamil Nadu, India, with about 3,400 domestic branches, about 6 foreign branches and representative office. Founded in February 1937 by M. Ct. M. Chidambaram Chettyar with twin objectives of specialising in foreign exchange business and overseas banking, it has created various milestones in Indian Banking Sector. During the nationalisation, IOB was one of the 14 major banks taken over by the government of India. On 5 December 2021, IOB got Degidhan Award 2020-21 by Ministry of Electronics & Information Technology for achieving second highest percentage of digital payment transaction among public sector banks. It was ranked no.1 among public sector banks by Business Today–PMG survey and Financial Express–Ernst & Young survey in 2011. As on 31 March 2021, IOB's total business stands at ₹379,885 crore (US$50 billion). In 2000, IOB engaged in an initial public offering (IPO) that brought the government's share in the bank's equity down to 75%. In 2001 IOB acquired the Mumbai-based Adarsha Janata Sahakari Bank, which gave it a branch in Mumbai. Then in 2009 IOB took over Shree Suvarna Sahakari Bank, which was founded in 1969 and had its head office in Pune. Shree SuvarnaSahakari Bank had been in administration since 2006.

II. STATEMENT OF PROBLEM

The past five years have been rather tumultuous and essentially a roller-coaster thanks in no part due to the global pandemic. The entire world was put on hold. Families were separated. Everyone was indoors. Jobs were done online from home. Entire industries were affected to varying degrees. The banking sector is no exception. People were in deep financial trouble, especially those whose work couldn't be done offline or people who had been laid off. This provided banks the

e-ISSN: 2250-0758 | p-ISSN: 2394-6962
Volume-12, Issue-3 (June 2022)
www.ijemr.net
https://doi.org/10.31033/ijemr.12.3.1

opportunity to give loans and get business flowing. There have incredible lows and highs just as incredible. This article aims at analysing the liquidity and the financial situation of Indian Overseas Bank before, during and after the pandemic. This shall be taken as the base for the entire banking industry in India.

III. OBJECTIVES OF STUDY

- Analysing the financial position of Indian Overseas bank over the course of five years.
- To study the impact of the pandemic on the banking sector.
- To study the profitability of IOB.
- To study liquidity and solvency position.

IV. REVIEW OF LITERATURE

1. **A Study On Financial Performance Using The Ratio Analysis At Kaleeswarar Mills B Unit of National Textile Corporation Ltd (by PROF. Mr.S.SABARINATHAN, Ms.V.JENIFER Faculty Department of Management Studies, Erode Sengunthar Engineering College, Erode 638057, Tamil Nadu, India)**:- This is study is essentially the ratio analysis of Kaleeswarar Mills B Unit of National Textile Corporation Ltd for 5 years. The data was taken from the balance sheet and profit and loss account of the firm. The objective of the study included the profitability, cost of goods sold and other experience company overall financial performance of the company. The study found that concentrate the financial performance of the company, that it should control the ratio to earn more profit and suggested to improve the absolute liquid assets.
2. **A Comparative Study of National Petrochemicals Co. and Sahara Petrochemicals Co. of Saudi Arabia (by Anis Ali and Mohammad Imdadul Haque of Prince Sattam bin Abdulaziz University)**:- This was the comparative study of two companies, National Petrochemicals Co. and Sahara Petrochemicals Co. of Saudi Arabia. They are joint stock companies who indulge in manufacturing of the same petrochemical products. The study found that operational performances of both the companies are different due to their operational efficiency and better utilization of resources. It was also found that the operational and financial position of National Petrochemicals was not satisfactory when compared to Sahara Petrochemicals. It was also found that National Petrochemicals could improve its operational performance from reducing its administrative expenses by increasing other revenues and that the shareholders equity in National petrochemicals needs to be increased to improve its financial position.
3. **Ratio Analysis of Indian Cement Industry (by Dr. Sagar Sanwariya(Lecturer BN Girls College,Udaipur) and Hemant Bhanawat (Student M.Com))**:- This study was done on five players in the industry for four years. The companies taken were ACC, Ultra Tech Cement, Ambuja Cement, Shree Cement and India Cement. The researcher used Debt equity ratio, current ratio, turnover ratios, PBDITM %, ROCE %, RONW%. The study found that Indian Cement outdid all the other companies.
4. **Financial Ratios Analysis of Nestle(by Lara Fadel Alkadmani, Abu Dhabi University)**:- This study aims at understanding the liquidity and financial position for four years through the usage of ratio analysis. It was found that the company was strong in both fronts due to efficient management and a good reputation in the food and beverage industry.
5. **Financial Ratio Analysis of ITC Limited (by Sugandha Sharma and Dr. Navneet Joshi)**:- This study uses Liquidity Ratios, Turnover Ratios, Profitability Ratios and Leverage & Valuation Ratios to study the financial health of the ITC Limited for 10 years. The study aims at studying the financial soundness of the company. The relevant data was collected from annual reports of the company, magazines and website of the company. It came to the conclusion that ITC was the leading FMCG marketer in India as of 2015.
6. **Ratio Analysis of Apple (by Rashed Al Mheiri et al others)**:- This study used aimed at finding the financial health of Apple for four years (2016-2020) using financial ratios. The data was collected from Yahoo Finance. The research found that Apple is a financially stable company that does not rely heavily on debts.
7. **Financial Analysis of Aramco (by Aisha Sultan Al Ali et al others)**:- This study was conducted on Aramco for five years using Liquidity ratio, financial leverage ratio, asset management ratio, profitability ratio, and market value measures. The data was collected from Yahoo Finance, WSJ Market and Official website of ARAMCO. The study found that ARAMCO had consistently had high profit margins.
8. **Ratio Analysis of PepsiCo (by Mosammat Fatim)** :- The aim of his study was to understand the financial performance of PepsiCo from 2016-19. The types of ratios used for the study were liquidity, activity, efficiency, and profitability. The study found that PepsiCo was financially strong enough to cover all its debts.

e-ISSN: 2250-0758 | p-ISSN: 2394-6962
Volume-12, Issue-3 (June 2022)
https://doi.org/10.31033/ijemr.12.3.1

V. RESEARCH METHODOLOGY

Research Design

The objectives of this study are accomplished by collecting the financial data of IOB. The ratio analysis is used to ascertain state of affairs over the past five years. Items required for each ratio are taken from the financial statements and complied into tabular form for ease of calculation. Once the ratios are computed, they are put into a table so as to observe trends and make deductions.

Data Collection

The financial statements of IOB for the past five years (2017-2021) were downloaded and analysed from the BSE website.

Tools Used

Ratio analysis is used to ascertain the financial situation of the company from 2017-2021. Microsoft Excel was used the compute the ratios.

VI. ANALYSIS & INTERPRETATION

The following table shows the ratios of Indian Overseas Bank from 2017-21.

Particulars	2017	2018	2019	2020	2021
Current Ratio	4.290206	3.354391	6.7242732	1.68124747	3.155251
Price Earnings Ratio	4.6782282	3.3018197	0.7423774	44.84607	23.07577
Return on Investment	-0.5229417	-0.3422563	-0.5878275	-1.55593453	-1.28595683
Net Profit Ratio	-20.53851856	-16.534732	-45.3331092	-802.476006	-348.11419
Earnings per Share	0.43902344	0.50077635	6.10647779	1.789403686	1.50857177
Efficiency Ratio	30.45551868	36.09235861	38.5011535	268.6061	149.8782
Operating Profit Ratio	2.661867729	2.488023236	1.78751853	-0.884452297	-0.48305774
Cash Ratio	1.922222128	1.3411214	2.0716137	0.1947638	1.12299865
Operating Ratio	0.011657081	0.014051313	0.011190702	0.0140902	0.014515327
Return on Total Asset Ratio	1239.495195	925.987369	558.21234	-228.8393	-128.97732
Return on Shareholders	-1.525559066	-1.0435794	-2.2334374	-6.5279594	-5.27762117
Interest Coverage Ratio	-0.58518274	-0.644793	-0.8517269	-1.70412705	-1.7002245
Debt Ratio	35.27869052	33.7963792	27.3194099	24.8349296	25.36622089
Debt Equity Ratio	1.029172643	1.03049117	1.03799477	1.04195523	1.04104042
Net Interest Margin Ratio	81.9262185	73.138623	59.204738	53.847389	58.718651

1) **Current Ratio (Current Assets/ Current Liabilities)**:- As far as the current ratio goes, it seems that 2019 was the high point with 2020 quickly following as the lowest point and 2021 being a somewhat resurgent period. In all the years, the current assets outweighed the current liability. We can see that for every year other than 2020 has a current ratio more than 2:1 (which is the ideal ratio) which is a nice trend to keep up.
2) **Price Earning Ratio (Share price/ Earnings per Share)** :- For the price earnings ratio every year save for 2020 and 2021 goes over the ideal ratio (i.e. 20). This indicates that 2020 and 2021 were the worst years for this ratio since the ideal ratio is anything below 20. In all the cases the share price is higher than the earnings per share.
3) **Return on Investment (Net Income/ Total Assets)**:- The returns on investment ratios for all five years are negative since the net income is negative. The losses steadily increase during 2020 and 2021.
4) **Net Profit Ratio ((Total Revenue-Total Expenses)/Total Revenue)**:-Similar to return on investment ratio, the net profit ratio for all five years is negative since the bank is experiencing net loss for all five years to varying degrees. The net profit ratio is lowest at 2020 and 2021.
5) **Earnings per Share ((Net Income-Preferred Dividends)/ Weighted Average Shares Outstanding)**:-The earnings per share ratio for the bank fail to come anywhere close to the ideal ratio any of the five years. All the values are negative.

6) **Efficiency Ratio (Non-Interest Expense/Revenue)**:- The efficiency ratio shows a trend of increasing with 2020 having the sharpest rise followed by a steady fall in 2021. This shows the operating expenses increasing drastically more than the total revenue in the years 2020 and 2021.
7) **Operating Profit Ratio (Operating Profit/Net Sales*100):-** One can observe a steady decline in operating profit over the course of five years. This indicates the operating expenses overcoming the total revenue of the bank. Net Sales has its lowest point in 2020 as several other items but the operating expenses only seem to be increasing even 2021. None of the years reach anywhere nears the ideal ratio.
8) **Cash Ratio ((Cash+Marketable Securities)/Current Liabilities):-** The cash ratio indicates that the bank has the highest amount of cash and cash equivalents in 2019 and subsequently its lowest in 2020. The years 2017 and 2019 have cash ratios much higher than the ideal ratio (0.5-1) and 2020 is the only year where cash ratio is lower than the ideal ratio. However 2019 and 2021 have cash ratio close enough to the upper limit of ideal ratio.
9) **Operating Ratio (Operating Expenses/Net Sales*100):-** The operating ratio stays relatively the same throughout all five years with negligible difference between the values. All of them stay in the ideal ratio which is lesser than 0.80. This is since operating expenses only measure up to a very small fraction of net sales.
10) **Return on Total Asset Ratio (operating profit/average total assets):-** There is steady decline in the return on total assets ratio with it reaching negative figures by 2020. The first three years 2017-19 indicate good returns but things turn sour in 2020-21 as the operating profit turns negative. This shows the bank is at a loss.
11) **Return on Shareholders (Income after interest and tax/ Total Average Stockholder's Equity):-** The values for all five years for the return on shareholders fund are negative with it reaching the lowest in 2020 and it slowly coming up again in 2021. None of the years reach anywhere close to the ideal ratio of 15%. This is largely in part since the income after interest and tax are negative figures indicating the bank is at a loss with its peak being in 2020.
12) **Interest Coverage Ratio (Earnings before interest and tax/ Interest expense):-** The interest coverage ratio also has negative figures throughout all five years. It is at its highest in 2020 and more or less stays the same in 2021. This is because the earnings before interest and tax are getting lower and lower to the point where the values are negative and also because the interest expense is increasing as the years go by. None of the ratios reach anywhere nears the ideal ratio of 1.5.
13) **Debt Ratio (Total Liabilities/Total Assets):-** There is steady decline in debt ratio for the first four years with a slight rise in 2021. This means the liabilities of the bank were decreasing until 2020 with it slightly increasing in 2021. The ratios for all five years are quite unfavourably much higher than the ideal ratio of 0.3-0.6.
14) **Debt Equity Ratio (Total Liabilities/Total Shareholder's Equity):-** There is barely any difference in the debt equity ratio of the bank for the five years. This indicates stability between the liabilities and shareholders' equity. The ratios always fail to reach the ideal ratio of 2.
15) **Net Interest Margin Ratio ((Interest Income-Interest Expense)/Total Assets):-** The net interest margin has its highest in 2017 and lowest in 2020 with a slight improvement in 2021. For all the years the income from interest exceeds the interest expense, which is a good sign. However the ratio was seemingly following a declining trend till 2020. The ratios for all the years exceed the ideal ratio of 10-15%.

VII. CONCLUSION

Some ratios like operating ratio and debt equity ratio stay more or less the same during all these periods. This is because the value of operating expenses only measure up to a fraction of net sales and because there is a sense of equilibrium between the total liabilities and total shareholders' fund. Another optimistic observation is that the income from interest always exceeds the interest expended. On the contrary, figures like net income, net profit and earnings per share are all negative indicating the company is running at a loss for all five years and that the pandemic just dug the hole deeper. The share price is always more than the earnings per share. Net Sales is considered as Loans and Advances since that is the business of the bank. Again, the net sales reaches its lowest in 2020 with it resurging in 2021. IOB does well in keeping its cash assets since 2020 is the only year where it doesn't meet the ideal ratio. Shareholders Fund seems to have a wavy up-down trend but not in a huge way. The lowest in its case is in 2017 and its highest immediately after in 2018. The total liabilities exceed the total assets. The is sharp increase in the value of total assets over the course of five years whereas total liabilities similar to total shareholder's equity has a wavy up-down trend with its lowest 2017 and highest in 2021. There is sharp decrease in total revenue in the years of 2020 and 2021 most definitely brought on by the pandemic. From the above analysis, we can confidently say that the worst year for IOB was 2020. This is evidently due to the pandemic and the mishaps it brought. The banking sector is not the only sector affected adversely by the pandemic. Several of the profitability ratios display a declining trend up till 2020 with seeing slight resurgence in 2021. This indicates that business is getting better as the pandemic eases.

LIMITATIONS OF STUDY

- Only basis of reference is financial reports of IOB obtained from the BSE website.
- Limited knowledge of ratio analysis
- Limited ability to interpret data effectively

REFERENCES

[1] Vernekar, M. (2016). *Financial performance analysis: A study of Indian Overseas Bank.* Available at: https://www.ijemr.net/DOC/FinancialPerformanceAnalysisAStudyOfIndianOverseasBank.

[2] Kagan, J. (2022, Feb). *Understanding commercial banks*. Available at: https://www.investopedia.com/terms/c/commercialbank.asp.

[3] Wikimedia Foundation. (2022, Apr.). *Indian Overseas Bank*. Wikipedia. Retrieved May 7, 2022, from https://en.wikipedia.org/wiki/Indian_Overseas_Bank.

[4] Sabarinathan, S. (n.d.). *A study on financial performance using the ratio ... - IOSR journals*. Iosrjournals. Available at: https://iosrjournals.org/iosr-jbm/papers/ncibppte-volume-3/13.pdf

[5] Ali, A. (2014, Dec.). *Ratio analysis: A comparative study of national petrochemicals co. and ...*. Available at: https://www.researchgate.net/publication/314507152_Ratio_Analysis_A_Comparative_Study_of_National_Petrochemicals_Co_and_Sahara_Petrochemicals_Co_of_Saudi_Arabia.