

# A Study on Factors Influencing the Financial Performance Analysis Selected Private Sector Banks in India

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## ABSTRACT

The growth of a country's banking sector has a significant impact on its economic development. The banking sector plays a crucial role in determining a country's economic future. A well-planned, structured, efficient, and viable banking system is an essential component of an economy's economic and social infrastructure. In modern society, a strong banking system is required because it meets the financial needs of the modern society. In a country's economy, the banking system plays a crucial role. Because it connects surplus and deficit economic agents, the bank is the most important financial intermediary in the economy. The banking system is regarded as the economy's lifeline. It meets the financial needs of commerce, industry, and agriculture. As a result, the country's development and the banking system are intertwined. They are critical in the mobilisation of savings and the distribution of credit to various sectors of the economy. India's private sector banks play a critical role in the country's economic development. So The financial performance of private sector banks must be evaluated carefully.

**Keywords--** Economic Development, Banking System, Private Sector Banks, Financial Performance

## I. INTRODUCTION

Finance is regarded as the lifeblood of the modern economy, and it plays a critical role in any economy. A sound financial system aids in the faster growth of an economy. A good and sound financial system aids in the organisation of savings surpluses and their transmission to financial deficit sectors. Means that a good financial system encourages people to save by providing a diverse range of assets to those who live in the country. Savings are typically taken from the household sector and distributed to various sectors of the economy. This can assist in determining the financial system's primary goals, such as development and growth. Following India's independence, financial reforms laid the groundwork for a strong and healthy banking system. And significant progress has been made in implementing the reforms, and the banking system is now moving into the second phase. Nonetheless, India's banking sector has faced numerous challenges, necessitating the development of new standards and strategies by Indian banks. The purpose of this study is

to look into the key factors that influence the financial performance of a few private sector banks in India.

## II. REVIEW OF LITERATURE

In his article Ratio Analysis: An Effective Tool for Performance Analysis in Banks, Jain (2006) discussed various ratios relating to bank profitability. Costing Ratio, Returns / Yield Ratio, and Spread Ratios are the three categories in which the author classified the various ratios. These ratios can be used to understand a bank's financial situation, operations, and investment appeal. Such a ratio analysis, he explained, can be used to make an inter-branch comparison to investigate the strengths and weaknesses of individual banks, allowing them to make strategic decisions and take necessary corrective actions. The author advocated for calculating average cost of deposits, average cost of borrowings, average cost of interest-bearing liabilities, average cost of funds, and operating expenses to average working funds as part of the costing ratio. Similarly, he calculated yield on advances, yield on investment, average return on interest earnings, average return on funds, and non-interest income to average working funds and total income in the yield/return category. He divided the ratios into categories such as interest spread, net interest margin, and burden ratios under the spread category. The importance of ratio analysis as a tool for evaluating the performance of different banks / bank branches was discussed by the author. Aside from profitability ratios, the author mentioned the following categories of ratios for comparing bank performance: Productivity Ratios, Nonperforming Asset Ratios, Efficiency Ratios, and Shareholder Ratios (Shareholders .front)

In his article titled "Indian Bank: Banking on Growth," Bharathi (2007) stated that as the banking sector approaches exponential growth, consolidation, reforms, and compliance remain the most important factors on the boardroom agenda of Indian banks. He stated that India has the world's second fastest growing economy, and that a strong banking system would be critical in boosting the economy's levels of activity. The author stated that the Indian banking sector is growing at a steady pace as a result of liberalisation, improving economic conditions, changing consumer demographics, and expanding market opportunities, and that it is currently ranked among the most preferred banking

destinations in the world. This industry has emerged as a critical enabler for the Indian economy's continued growth. SBI topped the league chart, maintaining its 6th place from the previous year, according to The analyst 500 ranking based on net sales. ICICI Bank, India's largest private sector bank, has risen three places to ninth place. PNB and CANARA Bank, meanwhile, have climbed one position each to occupy the 24th and 27th positions, respectively. The author stated that banks are preparing for a number of challenges that the IBS will face in providing financial services to all segments of society, including financial inclusion, capital adequacy (Basel-I and Basel-II) standard requirements, effective competition with foreign banks, and consolidation movement to achieve global competitiveness.

Monika Sharma and Kajal Chaudhary (2011), India's economic reforms began in the early 1990s, but the results are now visible. Only after liberalisation, globalisation, and privatisation did India's banking system undergo significant changes. It has become essential to research and compare the services of public and private sector banks. Increased competition, new information technologies and, as a result, lower processing costs, the eroding of product and geographic boundaries, and less restrictive government regulations have all helped Public Sector Banks in India compete more effectively with Private and Foreign Banks. This paper attempted to assess how well public and private sector banks have managed nonperforming assets (NPAs). For trend projection, they used statistical tools.

Numerous studies have considered the implications of corporate governance structures on

company performance, according to Pandya Hemal (2017). Although the existing literature does not all come to the same conclusion, the overwhelming consensus is that there is a link between governance structures and firm performance. The goal of this study is to see if corporate governance structures, specifically board structure and CEO duality, have any impact on the performance of selected Indian banks. Using statistical techniques, this study examines the relationship between CEO duality and the proportion of independent directors on firm performance as measured by return on assets (ROA) and return on equity (ROE) using samples of public and private banks operating in India. The findings reveal that there is no significant link between corporate governance structures and bank financial performance.

### III. RESEARCH METHODOLOGY

According to the RBI and the CMIE (Centre for Monitoring Indian Economy) corporate database, there are 20 public sector banks (including state bank group) and 22 private sector banks operating in India, all of which are listed on the Bombay Stock Exchange (BSE) and the National Stock Exchange (NSE) (NSE). The top three private sector banks based on total assets were chosen for the study, and data for all ten banks is available for the past ten years. As a result, they were chosen as the study's sample units. The following are the sample banks that were taken into consideration for this study.

List of Private Sector Banks Selected for the Study

Sl.No	BANK NAME	Total Assets in crores
1	ICICI Bank Ltd(ICBL)	1127929
2	HDFC Bank Ltd(HDBL)	1103233
3	Axis Bank Ltd(AXBL)	703842.6

Source: RBI and CMIE

Table 1: Factor Loading of ICICI Bank Ltd(ICBL)  
Measurement Scale Items on Extracted Factors

FACTORS	Component			
	1	2	3	4
Non Interest Income / Total Funds (%)	<b>-0.965</b>	-0.061	-0.139	-0.024
Net Assets/Net Worth	<b>0.938</b>	-0.129	0.170	0.098
Investment / Deposit (%)	<b>0.922</b>	0.027	0.129	0.353
Other Income / Total Income (%)	<b>-0.912</b>	-0.216	0.212	-0.166
Sales/Net Assets	<b>-0.823</b>	0.246	-0.459	-0.041
PBIDT/Sales(%)	<b>0.842</b>	0.083	-0.213	0.476
Profit before Provisions / Total Funds (%)	<b>-0.722</b>	0.598	0.019	-0.069
PAT/PBIDT(%)	0.173	<b>0.912</b>	0.185	0.159
ROE(%)	0.281	<b>0.885</b>	-0.196	0.255
Net Interest Income / Total Funds (%)	-0.393	<b>0.863</b>	-0.068	-0.236
Net Profit / Total funds (%)	0.362	<b>0.845</b>	-0.087	0.318

Credit-Deposit(%)	-0.187	<b>0.795</b>	-0.382	0.354
RONW (%)	0.471	<b>-0.742</b>	0.098	0.377
Cash / Deposit (%)	0.346	<b>-0.709</b>	0.235	0.432
Interest Expended / Interest Earned (%)	0.498	<b>-0.660</b>	-0.315	0.459
Price/Cash EPS (P/CEPS)	-0.037	-0.190	<b>0.954</b>	-0.184
Price Earning (P/E)	-0.048	-0.281	<b>0.935</b>	-0.148
Market Cap/Sales	0.300	0.229	<b>0.893</b>	0.105
Interest Income / Total Funds (%)	0.168	0.398	<b>-0.827</b>	0.335
Price to Book Value ( P/BV)	0.202	0.493	<b>0.815</b>	0.109
Interest Expended / Total Funds (%)	0.427	-0.223	<b>-0.730</b>	0.475
PBDIT/Net Assets	-0.547	0.342	<b>-0.713</b>	0.185
Operating Expenses / Total Funds (%)	-0.470	0.163	<b>-0.664</b>	-0.470
Operating Expenses / Total Income (%)	-0.134	-0.165	0.138	<b>-0.910</b>
EV/EBIDTA	-0.513	-0.070	0.458	<b>-0.718</b>

"Extraction Method: Principal Component Analysis.

Rotation Method: Varimax with Kaiser Normalization."

a. Rotation Converged in 7 Iterations.

It can be observed from table that there are 7 prime factors are accounted by Factor I which includes Non Interest Income / Total Funds (%), Net Assets/Net Worth, Investment / Deposit (%), Other Income / Total Income (%), Sales/Net Assets, PBIDT/Sales(%) and Profit before Provisions / Total Funds (%).

Similarly, it is seen that there are eight factors influencing factor 2 which includes PAT/PBIDT(%), ROE(%), Net Interest Income / Total Funds (%), Net Profit / Total funds (%), Credit-Deposit(%) RONW (%),

Cash / Deposit (%) and Interest Expended / Interest Earned (%)

It is also observed that Factor 3 is influenced by eight variables namely Price/Cash EPS (P/CEPS), Price Earning (P/E), Market Cap/Sales Interest Income / Total Funds (%), Price to Book Value ( P/BV), Interest Expended / Total Funds (%) PBDIT/Net Assets and Operating Expenses / Total Funds (%).

Factor 4 is primarily influenced by Operating Expenses / Total Income (%) and EV/EBIDTA

Table 2: Factor Loading of HDFC Bank Ltd(HDBL)  
Measurement Scale Items on Extracted Factors

FACTORS	Component			
	1	2	3	4
Price Earning (P/E)	<b>-0.936</b>	-0.142	-0.222	0.073
Profit before Provisions / Total Funds (%)	<b>0.934</b>	-0.167	-0.071	0.181
Price/Cash EPS (P/CEPS)	<b>-0.913</b>	-0.185	-0.234	0.237
PAT/PBIDT(%)	<b>0.902</b>	0.271	0.059	0.245
Net Profit / Total funds (%)	<b>0.840</b>	0.238	0.314	0.278
ROE(%)	<b>0.798</b>	0.460	0.293	0.130
EV/EBIDTA	<b>-0.696</b>	-0.124	-0.678	-0.131
PBIDT/Sales(%)	<b>0.666</b>	0.196	0.660	0.189
RONW (%)	0.222	<b>0.938</b>	-0.125	-0.211
Sales/Net Assets	-0.189	<b>-0.922</b>	-0.047	-0.103
Credit-Deposit(%)	-0.391	<b>-0.897</b>	-0.156	-0.029
Operating Expenses / Total Funds (%)	0.001	<b>0.894</b>	-0.033	0.063
Net Assets/Net Worth	0.201	<b>0.890</b>	0.287	-0.182
PBDIT/Net Assets	0.344	<b>-0.824</b>	0.400	-0.032
Non Interest Income / Total Funds (%)	0.567	<b>0.709</b>	-0.124	-0.111
Net Interest Income / Total Funds (%)	0.601	<b>-0.669</b>	0.005	0.409
Interest Expended / Total Funds (%)	0.162	0.017	<b>0.975</b>	-0.029
Interest Expended / Interest Earned (%)	-0.114	0.258	<b>0.921</b>	-0.196
Interest Income / Total Funds (%)	0.324	-0.174	<b>0.918</b>	0.095
Operating Expenses / Total Income (%)	-0.478	0.375	<b>-0.756</b>	-0.003

Other Income / Total Income (%)	0.267	0.653	<b>-0.658</b>	-0.130
Investment / Deposit (%)	0.481	0.487	<b>0.542</b>	0.451
Cash / Deposit (%)	-0.362	0.339	<b>-0.503</b>	-0.422
Market Cap/Sales	0.070	-0.079	-0.037	<b>0.952</b>
Price to Book Value ( P/BV)	0.094	-0.030	0.005	<b>0.944</b>

"Extraction Method: Principal Component Analysis.

Rotation Method: Varimax with Kaiser Normalization."

a. Rotation converged in 5 iterations.

It can be observed from table that there are 8 prime factors are accounted by Factor I which includes Price Earning (P/E), Profit before Provisions / Total Funds (%), Price/Cash EPS (P/CEPS), PAT/PBIDT(%), Net Profit / Total funds (%), ROE(%), EV/EBIDTA and PBIDT/Sales(%)

Similarly, it is seen that there are eight factors influencing factor 2 which includes RONW (%), Sales/Net Assets, Credit-Deposit(%), Operating Expenses / Total Funds (%), Net Assets/Net Worth,

PBDIT/Net Assets, Non Interest Income / Total Funds (%) and Net Interest Income / Total Funds (%)

It is also observed that Factor 3 is influenced by 7 variables namely Interest Expended / Total Funds (%), Interest Expended / Interest Earned (%), Interest Income / Total Funds (%), Operating Expenses / Total Income (%), Other Income / Total Income (%), Investment / Deposit (%) and Cash / Deposit (%).

Factor 4 is primarily influenced by Market Cap/Sales Price to Book Value (P/BV).

Table 3: Factor Loading of Axis Bank Ltd (AXBL)  
Measurement Scale Items on Extracted Factors

Rotated Component Matrix			
FACTORS	Component		
	1	2	3
Operating Expenses / Total Funds (%)	<b>0.968</b>	-0.084	0.193
Non Interest Income / Total Funds (%)	<b>0.948</b>	-0.098	-0.138
Sales/Net Assets	<b>0.936</b>	0.183	0.171
Operating Expenses / Total Income (%)	<b>0.902</b>	0.385	0.142
Other Income / Total Income (%)	<b>0.898</b>	0.290	-0.182
PBDIT/Net Assets	<b>0.898</b>	-0.043	0.224
Profit before Provisions / Total Funds (%)	<b>0.882</b>	0.381	0.028
PBIDT/Sales(%)	<b>-0.830</b>	-0.517	0.020
Net Assets/Net Worth	<b>-0.804</b>	-0.521	0.018
ROE(%)	<b>-0.753</b>	-0.555	0.166
Net Profit / Total funds (%)	<b>0.661</b>	0.441	0.468
Net Interest Income / Total Funds (%)	<b>0.660</b>	0.477	0.521
Investment / Deposit (%)	<b>-0.599</b>	-0.529	0.471
EV/EBIDTA	0.143	<b>0.965</b>	-0.122
Market Cap/Sales	0.210	<b>0.917</b>	0.218
Interest Income / Total Funds (%)	-0.224	<b>-0.914</b>	0.215
Interest Expended / Total Funds (%)	-0.356	<b>-0.904</b>	0.060
Price Earning (P/E)	0.093	<b>0.891</b>	0.297
Price/Cash EPS (P/CEPS)	0.077	<b>0.887</b>	0.318
PAT/PBIDT(%)	0.516	<b>0.838</b>	0.057
Price to Book Value ( P/BV)	-0.270	<b>0.834</b>	0.434
Interest Expended / Interest Earned (%)	-0.532	<b>-0.809</b>	-0.129
Credit-Deposit(%)	0.614	<b>0.675</b>	0.192
Cash / Deposit (%)	0.078	-0.106	<b>-0.894</b>
RONW (%)	-0.304	-0.129	<b>-0.873</b>

"Extraction Method: Principal Component Analysis.

Rotation Method: Varimax with Kaiser Normalization."

a. Rotation converged in 4 iterations.

It can be observed from table that there are 13 prime factors are accounted by Factor I which includes Operating Expenses / Total Funds (%), Non Interest Income / Total Funds (%), Sales/Net Assets, Operating Expenses / Total Income (%), Other Income / Total Income (%), PBDIT/Net Assets, Profit before Provisions / Total Funds (%), PBIDT/Sales(%), Net Assets/Net Worth, ROE(%), Net Profit / Total funds (%), Net Interest Income / Total Funds (%) and Investment / Deposit (%)

Similarly, it is seen that there are 10 factors influencing factor 2 which includes EV/EBIDTA, Market Cap/Sales, Interest Income / Total Funds (%), Interest Expended / Total Funds (%), Price Earning (P/E), Price/Cash EPS (P/CEPS), PAT/PBIDT(%), Price to Book Value (P/BV), Interest Expended / Interest Earned (%) and Credit-Deposit(%)

It is also observed that Factor 3 is influenced by two variables namely Cash / Deposit (%) and RONW (%).

#### IV. CONCLUSION

Any banking institution's performance is measured by its long-term viability, efficiency in managing funds, and ability to earn returns through proper application of available resources. Simultaneously, banks must have sufficient liquid assets to meet the needs of their customers and the economy. Furthermore, in order to avoid adverse loan impairment, bank disbursements must be secured. As a result, the bank's strategies must be able to balance the risks in business operations. The findings of this study, which used a multiple criteria decision making approach, took into account the major components of financial performance in order to understand the managerial ability of banks, and it was discovered that banks that effectively reduce their risks earn more profit and maintain consistency in their business. The selected private sector banks have to focus the given factors which influences the financial performance.

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