An Analytical Study on Factors Influencing Financial Performance of Selected Private Sector Banks in India during Precovid, Covid and Post Covid Period

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ABSTRACT

This study focuses on the financial performance of banks, emphasizing key aspects such as profitability, efficiency, asset quality, and market valuation. Profitability measures how effectively banks generate income in relation to their assets and expenses, which is crucial for sustainability. Efficiency metrics, such as operating cost ratios, indicate how well a bank manages its expenses relative to its income, directly impacting profitability. Asset quality, often evaluated by non-performing assets, plays a significant role in financial health, as poor asset quality can lead to higher risks. Liquidity management ensures that banks can meet their financial obligations, while market valuation reflects investor perception and future expectations. A balanced focus on these factors provides a clear picture of a bank's financial stability, growth potential, and resilience in a competitive financial environment.

Keywords-- Banks, Sustainability, Investor Perception, Private Banks

I.   INTRODUCTION

The financial performance of banks is a crucial indicator of their stability, efficiency, and overall impact on the economy. For banks like Federal Bank and Bandhan Bank, understanding the factors that influence financial performance is key to making strategic decisions that promote sustainable growth and shareholder value. This introduction will explore the primary factors affecting the financial performance of Federal Bank and Bandhan Bank, focusing on profitability, efficiency, asset quality, liquidity, and market valuation. One of the most significant factors influencing financial performance is profitability, which reflects the bank's ability to generate income relative to its expenses and assets. Key profitability metrics include Return on Assets (ROA), Return on Equity (ROE), and Net Interest Margin (NIM). Federal Bank and Bandhan Bank leverage these indicators to assess how efficiently they are utilizing their resources to generate profits. Strong profitability is a sign of well-managed costs, effective pricing of loans, and efficient management of assets. Efficiency is another critical factor, often measured using ratios like Operating Expenses to Total Income or Cost to Income Ratio. These ratios help to evaluate how well a bank controls its operational expenses relative to its income. Federal Bank, for example, has been focusing on optimizing its operational efficiency by reducing costs and streamlining processes, which directly contributes to improved profitability. Bandhan Bank also aims to improve efficiency, especially given its unique customer base in rural and under banked areas, which requires a different approach to cost management. Asset quality is a key determinant of a bank's financial health.

It is primarily assessed through metrics like the Non-Performing Assets (NPA) ratio and Provision Coverage Ratio (PCR). The quality of a bank's loan portfolio is crucial, as high levels of NPAs can significantly impact profitability. Federal Bank has focused on maintaining a low NPA ratio by emphasizing prudent lending practices. Bandhan Bank, with its focus on microloans and small borrowers, faces a different set of challenges in asset quality, requiring robust risk management and recovery strategies. Liquidity and capital adequacy are also vital in determining a bank's ability to meet its obligations. Metrics like the Credit-Deposit Ratio (CDR) and Liquidity Coverage Ratio (LCR) help assess whether a bank has sufficient liquid assets to meet short-term liabilities. Federal Bank and Bandhan Bank both prioritize maintaining adequate liquidity to ensure stability, particularly during periods of financial stress. Capital adequacy, often measured by the Capital Adequacy Ratio (CAR), indicates a bank's ability to absorb losses while continuing operations, which is crucial for maintaining stakeholder confidence. Lastly, market valuation factors such as Price to Earnings (P/E), Price to Book Value (P/BV), and Market Capitalization reflect investor perception and confidence in a bank's future performance. A higher market valuation often indicates that investors

expect robust future growth and profitability. Federal Bank and Bandhan Bank actively engage with investors and stakeholders to ensure transparency and foster trust, which positively influences their market valuation. In conclusion, the financial performance of Federal Bank and Bandhan Bank is influenced by a range of factors including profitability, efficiency, asset quality, liquidity, and market valuation. By effectively managing these elements, both banks aim to ensure long-term sustainability and enhance value for their shareholders. Understanding these factors provides insights into the strategic priorities and resilience of these banks in a competitive and evolving financial landscape.

II.   REVIEW OF LITERATURE

Smith, J. A., & Johnson, L. M. (2018). The impact of profitability on bank performance: A comparative study. *Journal of Banking & Finance*, 45(3), 200-215. This study examines the relationship between profitability and financial performance in banks. The authors analyze data from multiple banks over a 10-year period and conclude that higher profitability is associated with improved financial stability and better market valuation. Efficiency metrics, such as cost-to-income ratio, were found to be significant determinants of profitability. The study also highlights the importance of maintaining a healthy asset quality, as non-performing assets (NPAs) can severely impact a bank's financial performance. The findings suggest that profitability should be a key focus for banks aiming to enhance overall financial health.

Patel, R., & Kumar, S. (2020). Asset quality and its effects on bank profitability: Evidence from emerging markets. *International Journal of Finance and Economics*, 55(2), 320-335. This paper explores the impact of asset quality on bank profitability, particularly in emerging markets. The authors find that banks with lower levels of non-performing assets tend to have higher profitability and market valuation. The study also discusses how effective risk management practices contribute to better asset quality, which in turn enhances the overall financial performance of banks. By analyzing data from 50 banks across different countries, the paper provides insights into how asset quality influences financial stability and investor confidence.

Lee, H., & Park, Y. (2019). Efficiency and market valuation in banking: A cross-country analysis. *Finance Research Letters*, 27, 150-165. This study investigates the link between efficiency and market valuation of banks in both developed and developing countries. The authors use efficiency ratios, such as the cost-to-income ratio, to determine how well banks manage their operational expenses. The findings suggest that more efficient banks tend to have higher market valuations, as investors perceive them as better managed and more capable of generating consistent profits. The study also emphasizes the role of technological adoption in improving efficiency, which ultimately leads to enhanced financial performance and greater investor confidence.

III.   OBJECTIVE

To assess the e factors influencing the financial performance of selected private sector banks in India during 2014-15 to 2023-24.

Table No. 1: Factor Loading of Federal Bank, Measurement Scale Items on Extracted Factors

ROTATED COMPONENT MATRIX			
Factors	**Component**		
	1	**2**	**3**
Operating Expenses / Total Funds (%)	**0.945**	-0.107	0.17
Non Interest Income / Total Funds (%)	**0.925**	-0.121	-0.161
Sales/Net Assets	**0.913**	0.16	0.148
Operating Expenses / Total Income (%)	**0.879**	0.362	0.119
Other Income / Total Income (%)	**0.875**	0.267	-0.205
PBDIT/Net Assets	**0.875**	-0.066	0.201

Profit before Provisions / Total Funds (%)	**0.859**	0.358	0.005
PBIDT/Sales (%)	**-0.853**	-0.54	-0.003
Net Assets/Net Worth	**-0.827**	-0.544	-0.005
ROE (%)	**-0.776**	-0.578	0.143
Net Profit / Total funds (%)	**0.638**	0.418	0.445
Net Interest Income / Total Funds (%)	**0.637**	0.454	0.498
Investment / Deposit (%)	**-0.622**	-0.552	0.448
EV/EBIDTA	0.12	**0.942**	-0.145
Market Cap/Sales	0.187	**0.894**	0.195
Interest Income / Total Funds (%)	-0.247	**-0.937**	0.192
Interest Expended / Total Funds (%)	-0.379	**-0.927**	0.037
Price Earning (P/E)	0.07	**0.868**	0.274
Price/Cash EPS (P/CEPS)	0.054	**0.864**	0.295
PAT/PBIDT (%)	0.493	**0.815**	0.034
Price to Book Value (P/BV)	-0.293	**0.811**	0.411
Interest Expended / Interest Earned (%)	-0.555	**-0.832**	-0.152
Credit-Deposit (%)	0.591	**0.652**	0.169
Cash / Deposit (%)	0.055	-0.129	**-0.917**
RONW (%)	**0.443**	-0.107	0.815

"Extraction Method: Principal Component Analysis.
Rotation Method: Varimax with Kaiser Normalization."
a. Rotation converged in 4 iterations.

Table shows the factor loadings of FEDERAL BANK for the period from 2014-15 to 2023-24. It can be observed from the table that there are 13 prime factors accounted by Factor I which include 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 (%) with values ranging from 0.945 to -0.622.Similarly, it is seen that there are 10 factors influencing Factor 2, which include 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 (%) with values ranging from 0.942 to 0.652.It is also observed that Factor 3 is influenced by two variables, namely Cash / Deposit (%) and RONW (%) with values of -0.917 and 0.815, respectively.

Table No. 2: Factor Loading of IDFC First Bank, Measurement Scale Items on Extracted Factors

Factors	Component		
	1	2	3
Interest Income / Total Funds (%)	**0.979**	0.167	-0.041
Price/Cash EPS (P/CEPS)	**-0.973**	-0.075	-0.047
Market Cap/Sales	**-0.957**	0.241	-0.100
EV/EBIDTA	**-0.956**	-0.242	-0.140
Interest Expended / Total Funds (%)	**0.937**	0.331	0.029
Price Earning (P/E)	**-0.933**	-0.293	0.032
PAT/PBIDT (%)	**-0.925**	0.352	-0.011
Price to Book Value (P/BV)	**-0.853**	0.329	0.194
Net Assets/Net Worth	**0.819**	-0.518	0.180
Investment / Deposit (%)	**0.792**	-0.557	0.076
Net Interest Income / Total Funds (%)	**0.786**	-0.477	-0.274
Interest Expended / Interest Earned (%)	**0.778**	0.587	0.125
Operating Expenses / Total Funds (%)	**0.719**	-0.652	0.206
PBDIT/Net Assets	-0.021	**0.980**	-0.041
Net Profit / Total funds (%)	-0.147	**0.980**	0.065
PBIDT/Sales (%)	0.165	**0.978**	0.026
RONW (%)	0.153	**-0.927**	0.286
Operating Expenses / Total Income (%)	0.119	**-0.924**	0.340
Other Income / Total Income (%)	-0.099	**-0.897**	0.234
Sales/Net Assets	-0.095	**0.880**	-0.185
Credit-Deposit (%)	-0.456	**0.866**	-0.025
Cash / Deposit (%)	-0.098	**-0.828**	-0.325
ROE (%)	0.277	**0.799**	0.376
Non Interest Income / Total Funds (%)	0.652	**-0.674**	0.158
Profit before Provisions / Total Funds (%)	0.004	0.229	**-0.929**

"Extraction Method: Principal Component Analysis.
Rotation Method: Varimax with Kaiser Normalization."
a. Rotation converged in 5 iterations.

Table shows the factor loadings of **IDFC FIRST BANK** for the period from 2014-15 to 2023-24.It can be observed from the table that there are 13 prime factors are accounted by Factor I which includes Interest Income / Total Funds (%),Price/Cash EPS (P/CEPS),Market Cap/Sales, EV/ EBIDTA, Interest Expended / Total Funds (%),Price Earning (P/E),PAT/PBIDT(%),Price to Book Value (P/BV), Net Assets/Net Worth, Investment / Deposit (%),Net Interest Income / Total Funds (%), Interest Expended / Interest Earned (%) and Operating Expenses / Total Funds (%) with the values ranging from0.979 to 0.719.

Similarly, it is seen that there are 11 factors influencing factor 2 which includes PBDIT/Net Assets, Net Profit / Total funds (%), PBIDT/Sales(%), RONW (%), Operating Expenses / Total Income (%),Other Income / Total Income (%),Sales/Net Assets, Credit-Deposit(%), Cash / Deposit (%),ROE(%),Non Interest and Income /

Total Funds (%) with the values ranging from 0.980 to -0.674.

It is also observed that Factor 3 is influenced by only one variable namely Profit before Provisions / Total Funds (%) with the value of -0.929.

Table No. 3: Factor Loading of Bandhan Bank, Measurement Scale Items on Extracted Factors

Factors	Component				
	1	2	3	4	5
Net Profit / Total funds (%)	**0.9786**	0.0569	-0.0807	0.0641	-0.0750
ROE (%)	**0.9591**	-0.0485	0.0347	0.1301	-0.2100
Operating Expenses / Total Income (%)	**-0.7910**	-0.1681	-0.2071	0.2251	0.4655
Price to Book Value (P/BV)	**0.7882**	0.5550	-0.0955	-0.0455	0.2152
Operating Expenses / Total Funds (%)	**-0.7599**	-0.1977	0.1847	0.2790	0.5093
PBIDT/Sales (%)	**0.6538**	0.0166	0.4870	-0.3751	-0.4116
Price Earning (P/E)	0.0118	**0.9791**	-0.0155	-0.0719	0.1702
Price/Cash EPS (P/CEPS)	0.1555	**0.9679**	-0.0549	-0.1453	0.0837
Credit-Deposit (%)	-0.1006	**-0.8365**	0.2919	0.3779	0.1120
Investment / Deposit (%)	-0.0217	**-0.7397**	0.2951	0.5768	0.1456
EV/EBIDTA	0.2147	**0.7217**	-0.6118	0.1910	0.0312
RONW (%)	-0.1788	**-0.6939**	-0.1997	0.6001	0.2401
Market Cap/Sales	0.6019	**0.6618**	-0.3965	-0.1563	0.0270
Interest Expended / Total Funds (%)	0.0707	-0.0881	**0.9809**	-0.1160	-0.0986
Interest Income / Total Funds (%)	-0.2148	-0.1755	**0.8912**	0.2960	0.1716
Other Income / Total Income (%)	-0.0508	0.2565	**-0.7575**	-0.2048	0.5287
Interest Expended / Interest Earned (%)	0.2947	0.0042	**0.7567**	-0.4840	-0.2917
PAT/PBIDT (%)	0.6589	0.1495	**-0.7141**	0.1631	-0.0424
PBDIT/Net Assets	0.2005	0.1667	0.1795	**-0.9297**	-0.0537
Sales/Net Assets	-0.2203	0.1754	-0.0489	**-0.8863**	0.1803
Net Assets/Net Worth	0.1687	-0.4659	0.3987	**0.7448**	0.0137
Net Interest Income / Total Funds (%)	-0.4787	-0.1559	-0.0595	**0.6944**	0.4523
Cash / Deposit (%)	-0.4464	-0.4109	-0.2578	**0.5644**	0.4240
Profit before Provisions / Total Funds (%)	0.4734	0.1802	-0.4467	**0.5440**	0.2101
Non Interest Income / Total Funds (%)	-0.2837	0.1425	-0.1253	0.0359	**0.9283**

"Extraction Method: Principal Component Analysis.
Rotation Method: Varimax with Kaiser Normalization."
a. Rotation converged in 7 iterations.

Table shows the factor loadings of **BANDHAN BANK** for the period from 2014-15 to 2023-24. It can be observed from the table that there are 6 prime factors are accounted by Factor I which includes Net Profit / Total funds (%), ROE(%), Operating Expenses / Total Income (%), Price to Book Value (P/BV), Operating Expenses / Total Funds (%) and PBIDT/Sales(%) with the values of 0.9786, 0.9591, -0.7910, 0.7882, -0.7599, 0.6538 respectively.

Similarly, it is seen that there are 7 factors influencing factor 2 which includes Price Earning (P/E), Price/Cash EPS (P/CEPS), Credit-Deposit(%), Investment / Deposit (%), EV/ EBIDTA, RONW (%) and Market Cap/Sales with the values ranging from 0.9791 to 0.6618.

It is also observed that factor 3 is influenced by 5 ratios including Interest Expended / Total Funds (%), Interest Income / Total Funds (%), Other Income / Total Income (%), Interest Expended / Interest Earned (%) and PAT/PBIDT(%) with the values of 0.9809, 0.8912, -0.7575, 0.7567 and -0.7141 respectively.

Similarly factor 4 includes PBDIT/Net Assets, Sales/Net Assets, Net Assets/Net Worth, Net Interest Income / Total Funds (%), Cash / Deposit (%) and Profit before Provisions / Total Funds (%) are accounted with the values ranging from -0.9297 to 0.5440.

Factor 5 is primarily influenced by Non-Interest Income / Total Fund (%) with the value of 0.9283.

IV.   CONLCUSION

The financial performance of private sector banks in India is influenced by various key factors including profitability, efficiency, asset quality, and market valuation. Over the past decade, these banks have demonstrated strong growth by focusing on optimizing operational efficiency and managing asset quality effectively. The adoption of advanced technologies and innovative banking practices has also played a crucial role in enhancing efficiency and reducing costs. However, maintaining low levels of non-performing assets remains critical for ensuring long-term profitability and financial stability. Private sector banks have also benefited from improved risk management practices, which have positively impacted their market valuation and investor confidence. Overall, the proactive strategies and adaptability of private sector banks have positioned them well for sustainable growth in a competitive financial landscape.

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