Navajyoti, International Journal of Multi-Disciplinary Research
Volume 3, Issue 1, August 2018

"A STUDY ON OPERATIONAL EFFICACY OF NATIONALISED BANKS"

Anu Devi M.Com (IB), S. Heena Sharma M.Com (IB), Govinda Gowda

PG Dept. of Commerce, Mount Carmel College Autonomous, Bangalore

ABSTRACT:

Post-independence, India has witnessed significant changes in the Indian Banking System. The development of the country is reflected by the growth of banking industry. Evolution of nationalised banks were a result of the planned economic development of the country. The capability and profitability of the banking sector in India is the primary concern because of the changed banking reforms. For the present study, eight nationalized banks operating in India were selected. The objective of the study is to analyse the operational efficiency of nationalised banks with respect to comparative performance of banks and their profitability position. Nationalised banks should prospect every opportunity to increase the profitability and progress. From the study it can be concluded that the banks are doing their best to maintain their profit standards and adhere to the government regulations.

Key Words: Efficiency Nationalized Banks and Profitability.

INTRODUCTION:

The most indispensable part of any economy is the banking system. Economists have articulated that economic development is facilitated by effectiveness of the banking system. The Indian banking industry has facilitated the nation to persist several economic shock and meltdowns of both national and international and hence it is said to be the backbone of the country's economy. Solidity of the banking sector is equivalent with efficiency, stability, profitability, and productivity. It is vital to measure the performance of the banking sector through a performance measurement system to assess the performance. The three categories of Indian banking sector are classified into:

- **Public Sectors Banks**: Includes Nationalized Banks and SBI (State Bank of India and Associates)
- **Private Sector Banks**: Includes Old Private Sector Banks and New Private Sector Banks
- **Foreign Banks**.

Evolution of the nationalized banks was a result of the planned economic development of the country. It is due to nationalization, the concept of banking has experienced substantial changes. In this era of development, Banks are no longer viewed as just lending institutions. They are perceived as the institutions to serve the society in a much superior way - socio-economic development oriented. All the banking operations of nationalized banks are done only with the sole objective of social banking wherein the welfare of the people occupies the major place. The nationalized banks also try to expand bank credit towards priority zones which have been rather ignored. Nationalization of banks generate great curiosity among the several sections of society. Many expectations were raised among the different classes of the society i.e. middle class and the poor people with regard to financial support. The nationalized banks came up with number of schemes to focus on intensive development. So, there is a necessity for efficiency of nationalized banks to maintain the economic development.

REVIEW OF LITERATURE:

The continued prosperity and sustained growth of nation confined critically on global financial services covering everyone. Further, empirical evidence shows that inclusive financial system significantly raises growth, alleviates poverty and expands economic opportunity (Dr. Joji Chandran, 2008).

Financial inclusion is discharging the banking services at reasonable cost to the large sections of disadvantaged and low income groups. Unrestrained access to public goods and services is the sine qua of an open and efficient society. As banking services are in the nature of public good, it is important that availability of banking and payment services to the entire population without discrimination is the prime objective of the public policy (Leeladhar, 2006).

Usum et.al., (2008) has carefully analysed the efficacy of nationalized banks, SBI and Foreign banks. As per their research it was found that foreign banks were performing more effectively than nationalized banks.

Shah (1977), expressed his view on banks profitability and productivity. He gave his concerned about increased expenses and overheads. The unnecessary and wasteful work of the banks lead to slow growth in productivity and efficiency. He concludes that higher profitability can be a result of wide spread and innovation has limited role to play. Shah has emphasised minimisation of cost, building team spirit, improvement in the management for enhancing banks' profitability and productivity.

RESEARCH METHODOLOGY:

The main aim of the research is to ascertain the financial performance of Indian nationalized banks to determine the operational efficiency of these banks. Therefore the nature of the study is descriptive based on the research approach. Quantitative analysis has been chosen for this study to analyze the data.

Objectives of the Study:

- To compare and analyze the financial performance of nationalised banks in India.
- To study the profitability position of the nationalized banks.
- To check whether the banks adhere to the guidelines prescribed by the various committees.

Need for the Study:

Banking systems have done marvelous changes for the world economy. To withstand the competition in the banking environment the banks were compelled to concentrate on their operations. The bank profile plays a crucial role in the performance of the banks. A number of criteria have been set to ascertain the profile of the banks. Evaluation of the profiles of the nationalised banks is essential for the different stakeholders like: Depositors, Owners, Potential investors, Managers and Regulators.

Statement of the Problem:

Profitability is one major criteria for determining the performance of banks and banking sectors which reflects optimum utilisation of all available resources in a bank. The banks are facing many difficulties such as frequent changes in technology to get along with modern banking, stringent prudential norms, increasing competition, worrying level of NPA (Non Performing Assets), raising customer's expectations, increasing pressure on profitability, difficulty in managing Asset-Liability management, liquidity and credit risk management and increasing operation expenditure.

The present study tries to evaluate the overall profitability of nationalised banks which reflects their operational efficacy.

Limitations of the Study:

Due to time and resource constraints, the study faces certain limitations. The limitations of the study are:

- The present research was carried out on basis of secondary data and hence the limitation of using secondary data may affect the results.
- The secondary data was collected from bank's annual reports. It may be possible that the data shown in the annual reports does not show the actual position of the banks.

Data and Variables:

The sample for the present study consists of eight Indian nationalized banks namely - Bank of Baroda, Bank of India, Union Bank of India, Indian Overseas Bank and Canara Bank.

The data has been gathered for the period of 5 years (2012-2017) for all the selected banks.

Techniques/Tools used for Financial Performance Analysis: Accounting Techniques using Ratio analysis and Camel model

<u>Accounting Techniques</u>

The accounting technique is also called as financial techniques. There are number of accounting techniques that can be used for evaluation of financial performance such as Comparative Financial Analysis, Value Added Analysis, Trend Analysis, Fund Flow Analysis, Common-size Financial Analysis, Cash Flow Analysis, Ratio Analysis and Cost Volume Profit (CVP) Analysis etc., The financial performance of the banks can be analyzed through some important techniques like:

1. **Ratio Analysis**

In order to determine the performance and financial condition of a bank, the analysts require some tools to be applied on different financial aspects. One of the commonly used tools is ratio or index. Ratio defines the numerical relationship between two or more things. This relationship can be expressed as fraction (one-fourth of revenue), percentages (25% of revenue), or proportion of numbers (1:4). Accounting Ratio Analysis plays a vital role in determining the financial strengths and weaknesses of a company relative to that of other companies in the same industry. The analysis also reveals whether the company's financial position has been improving or deteriorating over time.

2. **CAMEL Model**

CAMEL model tool is used to evaluate the performance of the banks over years. This tool measures the financial performance of the banks by taking into consideration the five important attributes like- asset quality, capital adequacy, management, earnings and liquidity.

DATA ANALYSIS

1. **Capital Adequacy Ratio**

BANKS	CAPITAL ADEQUACY	STANDARD	CAPITAL-STANDARD	RANK
Bank of Baroda	12.5	8	4.5	2
Bank of India	12.1	8	4.1	3
Union Bank	18.64	8	10.64	1
Indian Overseas Bank	10.5	8	2.5	7
Canara Bank	11.1	8	3.1	5
Syndicate Bank	10.9	8	2.9	6
UCO Bank	11.5	8	3.5	4
Allahabad Bank	10.3	8	2.3	8

Analysis & Interpretations: To meet unexpected contingencies all banks are required to maintain a minimum capitalization, this is referred as capital adequacy. The banks should possess enough capital to pay off its obligations without any difficulties. Capital adequacy ratio is the most important parameter of trust to the customers of the banks. It is that measure which balances the risk and does not disturb the earnings of the banks.

2. Capital / Total Risk Weighted Risk (CRAR) Exposure

The RBI has proposed 9% CRAR as obligatory percentage of capital to be retained by the banks as against 8 % which is suggested by the BASEL committee. Higher CRAR represents greater ability of the bank to pay its obligations and safety against insolvency. A bank is regarded as sound in comparison to other banks when it has the highest CRAR.

All the banks have retained the minimum percentage given by BASEL committee i.e., 8%. The bank that has maintained highest capital adequacy is Union bank with 18.64% and the lowest is maintained by Allahabad bank with10.3%. Majority of the banks have sustained their CRAR between 10%- 12%

3. Asset Quality Ratio

BANKS	ASSET QUALITY RATIO	STANDARD	RESULT
Bank of Baroda	2.3	1.5-2.5	YES
Bank of India	2.8	1.5-2.6	NO
Union Bank	2.1	1.5-2.7	YES

Indian Overseas Bank	4.5	1.5-2.8	NO
Canara Bank	2.3	1.5-2.9	YES
Syndicate Bank	1.5	1.5-2.10	YES
UCO Bank	3.5	1.5-2.11	NO
Allahabad Bank	3.3	1.5-2.12	NO

Analysis & Interpretations: Asset quality displays the strength of the banks against the loss in the value of assets due to several causes. The capacity and profitability of banks are affected because losses are written off against capital due to falling value of assets which is the commonly incurred problem with many financial institutions. The firm's total non-performing assets and their ratios to net advances used as a measure to test asset quality.

4. Net Non Performing Assets/ Net Advances

This ratio measures the banks' lending quality. It shows the non-performing loans out of the total advances that are given to the public. Non-performing loans refers to those advances which are outstanding of interest or installments for more than 90 days. The lower the ratio, the better the bank is able to manage its loans and advances.

The Indian Overseas bank has the highest asset quality ratio of 4.50 and the lowest ratio is maintained by the Union bank of 2.1. Majority of the nationalized banks have their asset quality ratio ranging between 2.50- 3.50

5. Management Efficiency Ratio

BANKS	BUSINESS PER EMPLOYEE	PROFIT PER EMPLOYEE	BUSINESS PROFIT
Bank of Baroda	800	4.12	804.12
Bank of India	630	2.83	632.83
Union Bank	1143	3.99	1146.99
Indian Overseas Bank	1060	-0.25	1059.75
Canara Bank	748	2.2	750.2
Syndicate Bank	1184	3.58	1187.58
UCO Bank	1352	1.41	1353.41
Allahabad Bank	1361	3.32	1364.32

Analysis & Interpretations: Management is the most essential aspect to gain operational efficiency. Capital adequacy, earnings, asset quality and liquidity of the bank is dependent on the management of its assets and liabilities. There are no parameters to measure the management efficiency however the camel model proposes a few ratios that can indicate the management efficiency of the banks.

5.1. Business per Employee

TOTAL REVENUE/ TOTAL NUMBER OF EMPLOYEES

The Business per employee is ascertained by total revenue earned divided by the total number of employees in the bank. This ratio determines the efficacy of the bank in consuming the potentialities of its employees. The productivity of the bank is indicated by the revenue earned by the employees. The greater ratio indicates better productivity of the banks.

Allahabad bank has the highest business per employee of Rs.1361 and Bank of India has lowest business per employee of Rs.630.

5.2. Profit per Employee

NET PROFIT/ TOTAL NUMBER OF EMPLOYEES

The profit per employee is ascertained by net profit divided by the total number of employees in the bank. Profit earning capacity of each employee can be determined by using this ratio. Corrective measures to increase the sales and revenues of banks can be taken by this ratio. The greater ratio indicates better productivity of the banks.

Bank of Baroda has the highest profit per employee with Rs 4.12 and the Indian overseas bank has lowest profit per employee with Rs. 0.25.

6. **Earnings Ratio**

BANKS	PROFIT MARGIN	ADEQUATE	EXCEEDING/PAR/BELOW
Bank of Baroda	7	4 to 6	Exceeding Margin
Bank of India	8	4 to 6	Exceeding Margin
Union Bank	6.52	4 to 6	Par with Margin
Indian Overseas Bank	-0.59	4 to 6	Below Margin
Canara Bank	5	4 to 6	Within the range
Syndicate Bank	5.89	4 to 6	Within the range
UCO Bank	2.07	4 to 6	Below Margin
Allahabad Bank	4.85	4 to 6	Par with Margin

Analysis & Interpretations: Profitability is the main aim of any business. Earning maximum profit as well as maintaining the quality is the crucial function and task of the day in this competitive world.

7. **Net Profit Margin:**

PROFIT (AFTER TAX) / REVENUE

The profitability position of a company is measured by using Net profit ratio. This ratio is the most important key performance ratio. Greater the Net Profit Margin better the performance of the banks.

The highest net profit margin is maintained by Bank of India with 8.00 and the lowest net profit margin is by Indian overseas bank of 0.25. Majority of the nationalized banks have maintained a margin of 4.00-6.00 percent.

8. Liquidity Ratio

BANKS	LIQUIDITY ASSET RATIO
Bank of Baroda	17.5
Bank of India	12.4
Union Bank	18.5
Indian Overseas Bank	9.5
Canara Bank	8.1
Syndicate Bank	8
UCO Bank	7.4
Allahabad Bank	7.6

Analysis & Interpretation: 'L' stands for assets/liability management; liquidity management is to manage the finances to meet day to day obligation of the financial institutions. Managing the rate sensitive assets and liabilities is the most crucial function of assets and liability management. Bank of Baroda maintaining highest liquidity ratio of 17.5 and lowest ratio is by Allahabad Bank.

9. Current Ratio/Quick Ratio

CURRENT ASSETS/ CURRENT LIABILITIES

The current assets and liabilities show the liquidity position of the financial institutions. The ability of the bank to pay the short term obligations on time depends upon the liquidity position of the bank.

10. Liquid Assets to Total Assets

LIQUID ASSETS/ TOTAL ASSETS

The liquid assets show the capacity of the bank in meeting its financial obligation when they fall due. The liquid assets divided by total assets shows the value of assets that is readily available for immediate disposal in case of any obligations due.

Union bank is maintaining the highest Liquid assets to Total Assets ratio at 18.5 and UCO bank has maintained its Liquid assets to total assets at its lowest of 7.4.

CONSOLIDATED CAMEL MODEL

BANKS	CAPITAL ADEQUACY RATIO	ASSET QUALITY RATIO	BUSINESS & PROFIT PER EMPLOYEE	PROFIT MARGIN	LIQUIDITY ASSET RATIO
Bank of Baroda	12.5	2.3	14.8	7	17.5
Bank of India	12.1	2.8	14.9	8	12.4
Union Bank	18.64	2.1	20.74	6.52	18.5
Indian Overseas Bank	10.5	4.5	15	-0.59	9.5
Canara Bank	11.1	2.3	13.4	5	8.1
Syndicate Bank	10.9	1.5	12.4	5.89	8
UCO Bank	11.5	3.5	15	2.07	7.4
Allahabad Bank	10.3	3.3	13.6	4.85	7.6

Ranks Allocation Based on Highest Ratios						
BANKS	CAPITAL ADEQUACY RATIO	ASSET QUALITY RATIO	BUSINESS & PROFIT PER EMPLOYEE	PROFIT MARGIN	LIQUIDITY ASSET RATIO	TOTAL
Bank of Baroda	7	6	3	7	7	30
Bank of India	6	4	1	8	6	25
Union Bank	8	7	5	6	8	34
Indian Overseas Bank	2	1	4	1	5	13
Canara Bank	4	6	2	4	4	20
Syndicate Bank	3	8	6	5	3	25
UCO Bank	5	2	7	2	1	17
Allahabad Bank	1	3	8	3	2	17

FINDINGS

- CAMEL model considers all the elements which play vital role in the performance of the banks. Union Bank secures the first rank as it is proper mix of all elements of the model.
- Performance of the Indian Overseas Bank is less efficient when compared to other nationalised banks.
- The Union Bank maintains higher capital adequacy and management efficiency of Indian Overseas Bank is very low, hence the financial performance of the Indian Overseas Bank requires improvement.

SUGGESTIONS

- To improve profitability in the competitive environment, banks should focus towards changing branches from transaction dispense to relationship centers.
- Proper utilization of manpower and technology can increase the profitability of banks. Banks can develop knowledge, special skills and management capabilities in their staff in undertaking non-fund businesses.
- The need for popularizing concept of profit planning at all levels seems to be necessary especially, in branches to create awareness on the need of profitability.
- To strengthen the position further, the nationalised banks must strive to enhance efficiency through maintaining capital adequacy ratio, liquidity ratio, profit margin etc.

CONCLUSION

From the above study it can be concluded that the performance of nationalised banks specially banks like UCO bank and Allahabad bank leaves scope for improvement. The study reveals that among all the selected banks for the study, Union Bank is doing well in maintaining the profit standards. All the other nationalised banks taken for this study are also striving to do well in the competitive environment. Through the maintained efficiency of nationalised banks, the economic development of the country is also getting upgraded.

REFERENCES

1. Abhrajit Sarkar, "Financial Inclusion – A Driver for Poverty Alleviations, *Research Scholar in Management,* Vol. XIII, Issue. II, 2017
2. Jagadish R Raiyani, *Financial Ratios and Financial Statements Analysis,* New Century Publications, 2011.
3. Shardha Malhotra Banga, *Efficiency Analysis of Public Sector Banks in India: With reference to CAMEL Model Paperback*, LAP Lambert Academic Publishing, 2012
4. Singla, H. K. (2008): Financial Performance of Banks in India, The ICFAI Journal of Bank Management, 7 (1): 50-62
5. Varun Kesavan, "Financial Inclusion in India – A Road Map towards Growth of Initiatives and Achievements", *IOSR Journal of Economics and Finance,* Vol. 6, Issue. 3, 2015
6. www.bis.org/review/r051214e.pdf