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ANALYSIS OF FINANCIAL PERFORMANCE OF PUBLIC AND PRIVATE SECTOR BANKS IN ANDHRA PRADESH

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Abstract

Bank expansions are widely observed from the technical phenomena of merger and acquisitions, specifically for those banks that approach commanding heights in international financial markets. An appealing change is developed by bank mergers in the structure of banking industry. Thereby, Indian banks are establishing more branches and subsidiaries to acquire local banks and expand their operations throughout the country. It is understood that bidder banks in post-merger phase acquire vulnerable banks to compete in the market, and maintain their stability in terms of profitability and liquidity using mergers and acquisitions. Indian banking sector is an important component of Indian financial system. It has a strong impact on the economic development and growth of the nation. The present study is made to measure the financial position, performance and efficiency of the largest public sector bank and private sector bank. The objective of the study is to identify financial position and performance of the selected banks and to examine whether any significant difference exists in their performance.

Key Words: Financial, Position, Performance, Bank, Commanding, Economic, Development.

Introduction

The improvement financial system is the key to the economic development of a nation. The Banking sector is one of the vital components of the financial system. The sector provides financial services not only to the industry but also to the agriculture and household sectors. It also plays important role in formation of capital in the economy. India Banking sector has a great contribution in the economic growth of the nation. Reserve Bank of India (RBI) is the apex body of the Indian Banking sector. It ensures the stability in the monetary system of the country. Since independence, RBI has initiated several measures to improve more access to financial services through financial education, awareness and technological up gradations in an affordable manner. The performance of the banking sector is supposed to be a crucial economic active of Indian economy. So, the reforms in banking sector are intended to make the banks more efficient. However, the Banking sector is facing alarming challenges like rising in competition, level of Non-Performing Assets and weakening asset quality. These may have a negative impact on the economy of the nation.[1]

THE OBJECTIVE OF THE STUDY

The objective of the study is to analyze and compare the financial position and performance of public sector bank and private sector bank in Andhra Pradesh. For the purpose of this study, public sector banks and private sector banks have the largest market capitalization at present.

REVIEW OF LITERATURE

Mistry, D.S. and Savani,V. (2015) classified Indian private sector banks on the basis of their financial characteristics and analyzed their financial performance. They found that return on assets and interest income have a negative correlation with operational efficiency whereas, positive correlation with asset utilization and asset size. They also revealed that operational efficiency, asset management and bank size have an impact on the financial performance of the Indian private sector banks.[2]

Sodhi,A.K. and Waraich, S. (2016) made a fundamental analysis with the help of key financial ratios to identify the value of stocks of the selected banks and their investment opportunities. They found that private and foreign banks are trying to improve their performance due to increasing completion in the banking sector.[3]

Majumder, T.H. and Rahaman, M.M. (2016) measured the financial performance of the fifteen selected banks in Bangladesh and identified the significant difference in their performances for the period 2009-2013. The suggested that the lower ranking banks should take necessary steps to improve their weaknesses.[4]

Balaji, C. and Kumar, G.P. (2017) examined and compared the overall financial performance of selected public and private sector banks in India during the period 2011-12 to 2015-16 with help of mean and T-Test . They concluded that public sector banks must redefine their strategies by considering their strengths, weakness and operating market.[5]

Taqi, M and Mustafa, M.S.M. (2018) analyzed the growth and performance of Punjab National Bank and HDFC bank for the period 2006-07 to 2015-16. They made quantitative analysis and found that PNB is more financially sound that HDFC but in context of deposits and expenditure HDFC has better managing efficiency.[6]

Analysis of Financial Performance in Andhra Pradesh

Finance may be defined, as the provision of money at the time is wanted. However, as management function it has a special meaning of funds and their effective utilization. Finance is concerned with everything that takes place in the conduct business

IMPORTANCE OF FINANCE

Finance is regarded as the life blood of a business enterprise. This is because in the modern money oriented economy, finance is one of the basis foundations of all kinds of economic activities. It has been rightly been said that “Business needs money to make money”. It is also true that money be gets more, only when it is properly managed. It has rightly been said that business needs money to make more money. However, it is also true that money can earn more money only when it is property manages.

NATURE OF FINANCIAL ANALYSIS

The financial statements are prepared on the basis of recorded facts. The recorded facts are these that can be expressed in monitory terms. The accounting records and financial statements are from those records are based on historical costs. The financial statements are prepared periodically for the accounting period.

1. Financial statements as composed of data, which are the results.
2. Recorded facts concerning business transaction.
3. Convention adopted to facilitate the accounting technique.
4. Postulates or assumptions made to personal judgment.
5. Application of correction and postulates.

FINANCIAL PERFORMANCE ANALYSIS

The financial statement provides the basic data for financial performance analysis. Basic limitation of the financial statement comprising the balance sheet and the profit and loss account is that they do not give all the information regarding the financial operations of firm. Nevertheless, they provide some useful information to the extent the balance sheet mirrors the financial position on a particular date in terms of the structure of asset, liabilities and owners equity, and so on.

The profit and loss account shows the result of operation during a certain period of time in terms of the revenues obtained a summarized view of the financial position and operation of firm. Therefore, much can be learn about a firm from a careful examination of its financial statement as invaluable document / performance reports. The analysis of financial statements is, thus, an important aid to financial analysis.

The word ‘Performance is derived from the word ‘performed’, which means ‘to do’, ‘to carry out’ or ‘to render’. It refers the act of performing; execution, accomplishment, fulfilment, etc. In border sense, performance refers to the accomplishment of a given task measured against preset standards of accuracy, completeness, cost, and speed. In other words, it refers to the degree to which an achievement is being or has been accomplished. In the words of Frich Kohlar “The performance is a general term applied to a part or to all the conducts of activities of an organization over a period of time often with reference to past or projected cost efficiency, management responsibility or accountability or the like. Thus, not just the presentation, but the quality of results achieved refers to the performance. Performance is used to indicate firm’s success, conditions, and compliance.

Financial performance refers to the act of performing financial activity. In broader sense, financial performance refers to the degree to which financial objectives being or has been accomplished. It is the process of measuring the results of a firm's policies and operations in monetary terms. It is used to measure firm's overall financial health over a given period of time and can also be used to compare similar firms across the same industry or to compare industries or sectors in aggregation.[7]

AREAS OF FINANCIAL CONCERT

Financial analysts often assess firm's production and productivity performance, profitability performance, liquidity performance, working capital performance, fixed assets performance, fund flow performance and social performance. However in the present study financial health of GSRTC is measured from the following perspectives:

1. Working capital Analysis
2. Financial structure Analysis
3. Activity Analysis
4. Profitability Analysis

FINANCIAL PERFORMANCE OF PUBLIC AND PRIVATE SECTOR BANKS IN ANDHRA PRADESH

Banking in India was originated from the last decades of the 18th century. The prime banks are Bank of Hindustan (1770-1829) and The General Bank of India, established 1786. The largest bank, and the oldest one since in existence, is the State Bank of India, which originated in the Bank of Calcutta in June 1806, which is collectively the Bank of Bengal. Typically this was one of the three presidency banks, the remaining two are being the Bank of Bombay and the Bank of Madras, all three of which were established under charters from the British government East India Company. Those three banks merged in 1921 to form the Imperial Bank of India, which, after the India's independence, became the State Bank of India in 1955. For many years these banks acted as quasi-central banks just following, as did their successors, until the Reserve Bank of India was established in 1935. In 1969 the Indian government nationalized all the major banks and these have remained under government ownership. Every bank maintained under a structure known as 'profit-making public sector undertaking' (PSU) and those are commercialized are allowed to compete and operate as commercial banks. The Indian banking sector is made up of 4 types of banks, as well as the PSUs and the state banks; they have been joined since the 1990s. After that many new private commercial banks and a number of foreign banks.

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Banks in World

There are different types of banks being present in the world. Some of the types are: Commercial Banks, Community Development Banks, Cooperative Bank, Credit Unions, Ethical Banks, Exchange Bank, Federal or National Banks, Indigenous Bank, Industrial Development Bank, Internet Banking, Investment Bank, Islamic Banks, Land Development Bank, Merchant Banks, Mortgage Banks, Postal Savings Bank, Private Bank, Savings Banks.

Type of Banks in India

1. Public Sector Banks
2. Private Sector Banks

Public Sector Banks

A Public Sector bank is one in which, the Government of India holds a majority stake. It is as good as the government running the bank. Since the public decide on whom runs the government, these banks that are fully are partially owned by the government are called public sector banks. Public Sector bank means any Government Sector Bank is Institute that goes public... means that issues it share to general public. It also has a greater share of government (more than 50 per cent) so that the main motto of social welfare other than Maximizing Profit remains. Whereas Private Sector Banks are those Banks where the management is controlled by Private individuals and Government does not have any say in the management of these banks. Maximizing profit is the basic motto. Liberalization (or liberalization) refers to a relaxation of previous government restrictions, usually in areas of social or economic policy. In some contexts this process or concept is often, but not always, referred to as deregulation. In the arena of social policy it may refer to a relaxation of laws restricting. Most often, the term is used to refer to economic liberalization, especially trade liberalization or capital market liberalization.

NPA is a banking jargon for bad loans. The management of NPAs by Indian banks has improved substantially post liberalization. Various reasons can be attributed to the same, like the establishment of the Debt Recovery Tribunals (DRTs), the adoption of the Corporate Debt Restructuring (CDR) mechanism etc. A significant event in NPA management is the passage of the Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest Act, (SARFESI) in 2002. This act of SARFESI has helped allows banks and financial institutions manage their NPAs better. The lenders can now auction properties (residential and commercial) after giving sufficient notice, when the borrowers fail to repay their loans. Though the SARFAESI Act was challenged in the courts, the Supreme Court upheld the Act (Maria Chemicals v/s ICICI Bank) in 2004 tilting the balance for the banks. The RBI also has also been encouraging banks to use the provisions of the SARFAESI Act. The ratio of Gross NPAs as a percentage of Total Assets has fallen from 12 per cent in 2000 to about 2.5 per cent as on March 31, 2019. Thus, post liberalization, banks have reduced their NPAs. However with the current slow-down in the Indian economy, there is a worry that NPAs will rise again.

Private Sector Banks

The private-sector banks in India represent part of the Indian banking sector that is made up of both private and public sector banks. The "private-sector banks" are banks where greater parts of stake or equity are held by the private shareholders and not by government. Banking in India has been dominated by public sector banks since the 1969 when all major banks were nationalised by the Indian government. However since liberalisation in government banking policy in 1990s, old and new private sector banks have re-emerged. They have grown faster and bigger over the two decades since liberalisation using the latest technology, providing contemporary innovations and monetary tools and techniques. The private sector banks are split into two groups by financial regulators in India, old and new. The old private sector banks existed prior to the nationalisation in 1969 and kept their independence because they were either too small or specialist to be included in nationalisation. The new private sector banks are those that have gained their banking license since the liberalisation in the 1990s.

At present, there are 32 private banks comprising of 24 old banks, which existed prior to 1993-94 and eight new private banks, which were established during 1993- 94 and onwards after the RBI announced guidelines in January 1993 for establishment of new banks in private sector following the recommendations of Narasimham Committee-I (1991). Compared to New private sector banks, the old banks are smaller in size. For example, at end March 2000, the average net worth of the 24 Old Private Banks (OPBs) was Rs.179.67 Crore per OPB compared to that of the New Private Bank (NPB) at Rs. 479.88 Crore per NPB. The OPBs are essentially regional in character although some of them have scattered presence in areas other than in and around the areas of their origin. The number of branches of the NPBs was 999 at end March 2003, while those of OPBs 3491. The NPBs are extremely cautious in expanding their branch network and business because their managers, mostly drawn from the public sector banks know very well the ills of unbridled expansion of branches by public sector banks in the post-nationalization era.[8]

CONCLUSION

Financial sector reforms have made favourable changes in the banking industry. The service levels have been redefined along with the extension of activities performed by banks. Although there was increase in profitability for both sector banks the rate of growth is higher for private sector banks. Public sector banks are lagging in many financial parameters and they are facing many challenges also. But their contributions to social aspects are also on the higher side which has an impact in the parameters. Public sector banks must redefine their strategies by considering their strengths and weakness and the type of market they are operating with whereas private sector banks must also consider priority sector lending in its fullest form along with meeting of societal aspects so that there exists a balanced growth for the industry and for the nation. Public sector banks must enhance their performance by implementing professionalised management scenario and better customer service. The rate of growth for almost all the parameters is high for private sector even though magnitude is high for public sector banks. Net profit and its growth rate must be considered seriously reviewed by public sector banks. Operating expenses must be reduced by implementing cost control measures. Employee wise performance must also be checked for ensuring adequate performance.

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