RESEARCH PAPER ON PERFORMANCE APPRAISAL OF SELECTED BANKS IN INDIA

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ABSTRACT

Strengthening financial systems has been one of the central issues facing emerging markets and developing economies because it serves as important channels to achieve the economic growth. Indian banks are playing imperative role in Indian financial system with broad network in all areas. Since 1991 with the introduction of financial reforms in terms of LPG Indian banking severed the Indian public with the achievement of overall financial goals. But not all banks are performing well because the most dominating factor that is technology is affecting the whole banking business. There is the lot of difference between the banks who adopted the technology in full and those who are at the edge. So there is a need to evaluate the performance of Indian banks in this emerging era. In this light the paper will analysis the performance of some selected banks in terms of credit deposit ratio, return on assets, and return on equity, net profit/total assets ratio, and net non performing asset/net advance ratio. The paper will also suggest some measures for their better performance.
**Key words:** Commercial banks, Efficiency, Financial performance, Non-Performing Assets, Profitability, Suggestions.

**INTRODUCTION**

Banking services is one sector where a great degree of attention is being paid to Performance Appraisal Systems. Several of the public sector banks (PSB's) have changed their PAS or are in the process of changing them. State Bank of India has recently adopted an open system of Appraisal. Its associate banks are likely to follow the same after detailed experiences of State Bank of India is available. Several banks also have self-appraisal as a part of Performance Appraisal. Although, such self-appraisal, mostly, is more of a communication of achievements.

Studies of the operating system of the successful organizations, in general, reveal that a good PAS is the corner stone to navigate an organization successfully in this globalize environment of uncertainty and continuous change. They have, therefore, developed and employed such system and harnessing maximum benefits. But, like many fields of organizational development, the PSB’s are lagging behind in this area too.

Before financial reforms, Indian Banks were enjoying, in a protected environment with a strong cushion of the government and their banks. This had made them operationally inefficient and commercially almost wreck, as they had cumulated as much as Rs.37,000 Crores as Non-performing advances. However, with the RBI taking strong measures based on the recommendations of the Narasimham Committee, the landscape of Indian banking changed altogether. All the banks were directed to follow the norms of capital adequacy,
asset quality, provisioning for NPA’s, prudential norms, disclosure requirements, acceleration of pace and reach of latest technology, streamlining the procedures and complying with accounting standards and making financial statements transparent. Towards this end, they re-defined their objectives, strategies, policies, processes, methods and technologies which have a direct bearing on the financial health and performance of these banks. In this way, these banks were not only required to take the above steps but always evaluate their financial position from period to period. Because of this factor, the interest of the analysts and researchers got developed to analyze, evaluate, measure and finally manage the financial performance of the Indian banks. Hence, the paper analyses the performance of Indian Banks at group level in terms of some selected indicators.

REVIEW OF LITERATURE

There are numerous empirical studies conducted on the issue of profitability of commercial banks in India. Present review deals with the empirical studies conducted in Indian context on profitability of banking sector. Present section deals with some of the notable studies in this field.

Luther (1976) chaired the committee appointed by RBI to study the productivity, efficiency and profitability of commercial banks. The committee analyzed the various issues related to the planning, budgeting and marketing in commercial banks.

Vashisht (1987) evaluated the performance of public sector banks with regard to six indicators, viz. branch expansion, deposit, credit, priority sector advances, DRI advances, and net profit over the period 1971-83. The researcher has used composite weighted growth index to rank the banks as excellent, good, fair and poor. In order to improve the
performance, he has suggested developing marketing strategies for deposit mobilization, profit planning and swot analysis.

Bansal (2005), attempted to find out the impact of liberalization on productivity and profitability of public sector banks in India. While measuring profitability of all the PSB.s, the trend analysis results showed that net profits in absolute terms have increased for majority of the PSBs but profitability has witnessed a decline. But a few banks have improved their profitability over the period of study. The main reason for the declining trend in profitability is due to increased competition which has been resulting in a narrowing spread.

Ved Pal and Malik (2007) in the study examined the difference in financial characteristics of public, private and foreign sector banks based on factors such as profitability, liquidity, risk and efficiency. Most of the studies were concerned of commercial banks as a whole and were covering very limited number of years. PSB’s maintained its dominance in the banking system. Keeping into consideration the research gaps an endeavor is made in the present study to examine the performance of PSB’s by calculating various ratios and their compound annual growth (CAGR’s) and coefficient of variation (CV).

Gupta and Verma (2008) studied the changing paradigm in Indian banking and revealed that banking sector has been serving the crucial needs of the society even after undergoing various changes. The study concluded that Indian banking industry is recognized as one of the important pillars of the economy. The recently released draft approach paper of 11th Five-Year Plan observed that it would be efficiency of the banking sector in mobilization of savings and allocation of investment that would play crucial role in determining the future growth of the country.
Singla (2008) examined how financial management plays a crucial role in the growth of Banking. The study revealed that with the increasing level of globalization of Indian banking industry and the evolution of universal banks, competition in the banking industry would intensify further. Though the potential and ability exist, Indian banks have to be faster now to sustain the growth. The study concluded that financial position of banks is reasonable as Debt-Equity ratio is maintaining an adequate level throughout and NPA also witnessed a decline. The ROI remains at a very low position, which is a worrying factor. The banking sector system, which is going through major reforms is one of the emerging sector and will grow at a sustained rate over a period of time.

OBJECTIVES

(i) To analyze the financial performance of the bank groups under study;
(ii) To suggest measures, on the basis of the study results, to improve further the financial performance of the banks under study.

RESEARCH METHODOLOGY

The universe of the study in Indian Banking Industry is further divided into seven groups to address the objectives i.e. G-I (SBI and group), G-II (New Private Sector Banks), G-III (Public Sector Banks), G-IV (Old Private Sector Banks), G-V (New Private Sector Banks), G-VI (Foreign Banks), G-VII (All Scheduled Commercial Banks). The study is mainly based on secondary data. The database and publications of RBI have been used. This data is related to 5 years from the year 2006 to 2011. For analysis of the data, two important statistical tools viz. mean average and growth rate have been used to arrive at conclusions in a
scientific way based on the ratios which are Credit/Deposit Ratio, Net Non Performing Asset versus Advances Ratio and Return on Assets Ratio.

RESULTS AND DISCUSSIONS

*CREDIT/DEPOSIT RATIO ANALYSIS

The Credit Deposit Ratio indicates how much of the advances lent by banks are done through deposits. It is the proportion of loan-assets created by banks from the deposits received. The higher the ratio, the higher the loan-assets created from deposits. The outcome of this ratio reflects the ability of the bank to make optimal use of the available resources.

**TABLE 1: TRENDS IN CREDIT/ DEPOSIT RATIO (In percent)**

<table>
<thead>
<tr>
<th>YEAR</th>
<th>SBI</th>
<th>NB</th>
<th>PSB</th>
<th>OPSB</th>
<th>NPSB</th>
<th>FB</th>
<th>ASCB</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006-07</td>
<td>76.1</td>
<td>68</td>
<td>75.1</td>
<td>67.2</td>
<td>77.8</td>
<td>83.8</td>
<td>73.5</td>
</tr>
<tr>
<td>2007-08</td>
<td>76.7</td>
<td>69.8</td>
<td>76.8</td>
<td>67.4</td>
<td>79.8</td>
<td>84.3</td>
<td>74.6</td>
</tr>
<tr>
<td>2008-09</td>
<td>73.4</td>
<td>71.1</td>
<td>78.3</td>
<td>64.5</td>
<td>83.2</td>
<td>77.3</td>
<td>73.9</td>
</tr>
<tr>
<td>2009-10</td>
<td>77.43</td>
<td>71.33</td>
<td>73.16</td>
<td>67.02</td>
<td>80.68</td>
<td>70.34</td>
<td>73.66</td>
</tr>
<tr>
<td>2010-11</td>
<td>79.80</td>
<td>73.92</td>
<td>75.59</td>
<td>69.90</td>
<td>82.98</td>
<td>81.24</td>
<td>76.54</td>
</tr>
<tr>
<td>Average</td>
<td>76.686</td>
<td>70.83</td>
<td>75.79</td>
<td>67.204</td>
<td>80.892</td>
<td>79.396</td>
<td>74.44</td>
</tr>
<tr>
<td>Growth %</td>
<td>4.86</td>
<td>8.70</td>
<td>0.65</td>
<td>4.017</td>
<td>6.658</td>
<td>-3.05</td>
<td>4.136</td>
</tr>
</tbody>
</table>

In the above chart, we can see the credit/deposit ratio of bank group G-I, and various other categories made which are G-II, G-III, G-IV, G-V, G-VI and G-VII. In the chart it can be clearly seen that there is a tremendous growth in this ratio which means that G-II is able to make best optimal use of the available resources to them. Further G-V and G-I have seen their ratios increase gradually over years. The credit deposit ratio of G-IV on the other hand, has been fairly stable, whereas there has been a decline in the growth of G-VI.

*LOSS ASSET/ ADVANCE OR NET NON-PERFORMING ASSETS VERSUS PERCENTAGE OF ADVANCES

Loss assets are the ones where loss has been identified but the amount has not been written off wholly or partly. Such an asset is uncollectable/unrecoverable and of such little value that its continuance as a bankable asset is not warranted although there may be some salvages value. Since the loss assets are to be written off, 100pc provision needs to be
made for loss assets. The NPA ratio is one of the most important ratios in the banking sector. It helps identify the quality of assets that a bank possesses.

TABLE 2: TRENDS IN NET NON PERFORMING ASSETS AS PERCENTAGE OF NET ADVANCES (In percent)

<table>
<thead>
<tr>
<th>YEARS</th>
<th>SBI</th>
<th>NB</th>
<th>PSB</th>
<th>OPSB</th>
<th>NPSB</th>
<th>FB</th>
<th>ASCB</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006-07</td>
<td>1.32</td>
<td>0.94</td>
<td>1.06</td>
<td>0.96</td>
<td>0.97</td>
<td>0.73</td>
<td>1.02</td>
</tr>
<tr>
<td>2007-08</td>
<td>1.43</td>
<td>0.77</td>
<td>0.99</td>
<td>0.66</td>
<td>1.21</td>
<td>0.77</td>
<td>100</td>
</tr>
<tr>
<td>2008-09</td>
<td>1.47</td>
<td>0.68</td>
<td>0.94</td>
<td>0.90</td>
<td>1.40</td>
<td>1.81</td>
<td>1.05</td>
</tr>
<tr>
<td>2009-10</td>
<td>1.50</td>
<td>0.91</td>
<td>1.10</td>
<td>0.82</td>
<td>1.09</td>
<td>1.82</td>
<td>1.12</td>
</tr>
<tr>
<td>2010-11</td>
<td>1.49</td>
<td>0.92</td>
<td>1.09</td>
<td>0.53</td>
<td>0.56</td>
<td>0.67</td>
<td>0.97</td>
</tr>
<tr>
<td>Average</td>
<td>1.442</td>
<td>0.844</td>
<td>1.036</td>
<td>0.774</td>
<td>1.046</td>
<td>1.16</td>
<td>1.032</td>
</tr>
<tr>
<td>Growth %</td>
<td>12.878</td>
<td>-2.127</td>
<td>2.83</td>
<td>-44.79</td>
<td>-42.26</td>
<td>-8.22</td>
<td>-4.90</td>
</tr>
</tbody>
</table>

Source: RBI Database and Publications for the year 2006-2011

Chart 2:
The data of table 2 reveals that in the case of G-IV and G-V it can be clearly seen that these sectors are successfully able to manage their NPAs except G-I and G-III in which it can be noticed that NPAs have gradually increased over the time. The net NPAs of G-IV which were 0.96pc in the year 2006-07 have come down to 0.53pc in the year 2010-11 and in the case of G-V net non performing assets were 0.97pc in the year 2006-07 which came down to 0.56pc in the year 2010-11. G-VII also showed a downfall in net non performing assets from 1.02pc in the year 2006-07 to 0.97pc in the year 2010-11. G-VI have done well to keep its net non performing assets level low.

**RETURN ON ASSETS RATIO ANALYSIS**

Return on assets ratio: Returns on asset (ROA) ratio is the net income (profits) generated by the bank on its total assets (including fixed assets). The higher the proportion of average earnings assets, the better would be the resulting returns on total assets. The return on assets (ROA) percentage shows how profitable a company's assets are in generating revenue. ROA can be computed as:

\[
\text{ROA} = \frac{\text{NET INCOME}}{\text{MODE OF TOTAL ASSETS}}.
\]

This number tells you what the company can do with what it has, i.e. how many dollars of earnings they derive from each dollar of assets they control. It's a useful number for comparing competing companies in the same industry. The number will vary widely across different industries. Return on assets gives an indication of the capital intensity of the company, which will depend on the industry; companies that require large initial investments will generally have lower return on assets.
### Table 3: Trends in Return on Assets (In percent)

<table>
<thead>
<tr>
<th>YEARS</th>
<th>SBI</th>
<th>NB</th>
<th>PSB</th>
<th>OPSB</th>
<th>NPSB</th>
<th>FB</th>
<th>ASCB</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006-07</td>
<td>0.86</td>
<td>0.94</td>
<td>0.92</td>
<td>0.78</td>
<td>1.09</td>
<td>2.28</td>
<td>1.05</td>
</tr>
<tr>
<td>2007-08</td>
<td>0.97</td>
<td>1.01</td>
<td>1.00</td>
<td>1.14</td>
<td>1.13</td>
<td>2.09</td>
<td>1.12</td>
</tr>
<tr>
<td>2008-09</td>
<td>1.02</td>
<td>1.03</td>
<td>1.02</td>
<td>1.15</td>
<td>1.12</td>
<td>1.99</td>
<td>1.13</td>
</tr>
<tr>
<td>2009-10</td>
<td>0.91</td>
<td>1.00</td>
<td>0.97</td>
<td>0.95</td>
<td>1.38</td>
<td>1.26</td>
<td>1.05</td>
</tr>
<tr>
<td>2010-11</td>
<td>0.79</td>
<td>1.03</td>
<td>0.96</td>
<td>1.12</td>
<td>1.51</td>
<td>1.74</td>
<td>1.10</td>
</tr>
<tr>
<td>Average</td>
<td>0.91</td>
<td>1.002</td>
<td>0.974</td>
<td>1.028</td>
<td>1.246</td>
<td>1.872</td>
<td>1.09</td>
</tr>
<tr>
<td>Growth %</td>
<td>-8.14</td>
<td>9.57</td>
<td>4.347</td>
<td>43.58</td>
<td>38.53</td>
<td>-23.68</td>
<td>4.76</td>
</tr>
</tbody>
</table>

**Source:** RBI Database and Publications for the year 2006-2011

**Chart 3:**

![Growth/Decline in Return on Assets](image)

Table 3 shows that G-IV have done gradually well to maintain its ROI over the past few years with the growth rate of 43.58pc, that of G-I has been gradually on a decline with a
downfall in ROI with -8.14pc in the last five years along with a noticeable downfall in G-VI of -23.68pc. G-V has shown a tremendous increase in their ROI with a growth rate of 38.53pc. The other banks such as G-II, G-III and G-VII are also following the same track as that of G-IV and G-V by showing a rapid growth in their ROIs.

CONCLUSION AND SUGGESTIONS

From the above analysis, one can chalk out where all the groups are lacking and in which field they are doing pretty well. Some suggestions can be drawn for groups which are far beyond the path of success in different fields. Mainly private sector is the one which has shown outstanding growth in all the spheres. It can be concluded that in terms of Credit Deposit Ratios Nationalized Banks are showing maximum growth which means that this group has managed its resources available by making best optimal use of it. And the Credit Deposit Ratio of Foreign Banks has gone down depicting its poor management of resources. It can be noticed that the non performing assets of State Bank of India has gone up which is harmful for the growth of this sector, which shows a decrease in return on assets of this group. The non performing assets of Old Private Sector Banks and New Private Sector Banks have been decreased gradually over the time which in result can be observed in the growth of these sectors in terms of return on assets which have gone up in the past few years. Nationalized Banks, Foreign Banks and All Scheduled Commercial Banks are also on the right track proving to be the followers of Old Private Sector Banks and New Private Sector Banks in case of managing their non performing assets.

All the groups have shown an overall growth in almost all the spheres discussed above except for State Banks of India and Foreign banks which call for a need of big change in the policies and management techniques which are being used in these groups for a long time. The groups Old Private Sector Banks and New Private Sector Banks are doing excel in all the
fields discussed above showing an overall growth, while State Bank Of India and Foreign Banks are lacking for behind of these sectors. One can also suggest that the recommendations given by the Narasimham Committee should be properly followed by the Public Sector Banks for decreasing their Non Performing Assets which in turn would increase their return on assets placing them on the path of growth.

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