

## Banking Industry

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### Abstract

The banking industry serves an important part in the nation's economic development. The banking industry is the backbone of an economy's financial system. The stability of banking sector has become a dominant policy initiative worldwide. The matter of financial stability is inevitably connected with banking stability.

In the present study, evaluation of two major banks i.e. scheduled public and private sector banks. PNB (Punjab National Bank) being the scheduled public sector bank and KMB (Kotak Mahindra Bank) being the scheduled private sector bank and present a comparative analysis of selected banks using accounting tools of ratio analysis.

The data used for this study is completely secondary in nature. Data for the study has been collected for a period of 5 financial years from 2016-17 to 2020-21, from respective annual reports of banks and RBI annual reports. In addition to that, various publications were referred related to banking industry.

The study incorporates ratios like liquidity ratio, profitability ratio, leverage ratio, and turnover ratio. As a result, it may be claimed that KMB outperformed PNB in a variety of ways. The study also finds that the PNB is having difficulty generating revenue and that its nonperforming assets (NPAs) are rising.

In conclusion the study provides recommendation to both banks in order to enhance their financial performance, To grow the number of branches, reduce unnecessary operating expenses through automation, channel optimization, and staff productivity, review capital requirements and relative capital costs, and sell ideal assets to improve the bank's profitability and financial position, all of which could unquestionably aid the bank in implementing the same and reaping profits in the

future.

## **Introduction**

### **Banking Structure in India**

Large and miniature banks, public and private, prehistoric and new, healthy and non-viable, make up India's banking system. Their sizes, organizational structures, geographic presence, and functional specialty vary greatly. The Reserve Bank of India (RBI) is in charge of the banking industry's policy formulation and implementation in India. Apart from calculating currency reserves, the main goal of the Reserve Bank of India (RBI) is to circulate currency in the economy.

### **Functions of Banking**

The banking industry is regarded as the modern economy's lifeblood. It is one of the most fundamental foundations of the financial system, and it plays a critical part in an economy's performance. Banks are among the world's oldest financial intermediaries. Monetary system, they play a crucial role in deposit mobilization and credit disbursement to various areas of the economy of the country. The capability of any country's economy is largely dependent on the strength and effectiveness of its financial system, which is reliant on a healthy and viable financial system.

### **Problems and Prospects in Banking Sector**

India's economy was opened in 1991. LPG (Liberalization, Privatization, and Globalization) was offered as a concept. The Indian financial sector, particularly public sector banks, is still grappling with some of the LPG's consequences.

### **Challenges in Indian Banking Sector**

The Indian banking sector is confronted with a variety of challenging difficulties, many of which are internal and others which are external. The banking sector's significance and importance in the nation's economy, as well as increased liberalization and rapid developments in the sphere of banking and finance development at the national and international levels, have an impact on and generate issues for the Indian banking system.

### **Current Scenario of Banking in India**

All institutions listed in the Second Schedule of the Reserve Bank of India Act, 1934 are considered Scheduled institutions. These institutions are divided into two types: Reserved Commercial institutions and Regular Co-operative Banks. In India, scheduled commercial banks are divided into five separate classifications based on their ownership or the character of the way they operate.

### **Adoption & Impact of technology in banking sector**

Development of expertise and information technology has impacted our economy in great measures, The widespread utilization of computers and digital gadgets has led to the advent of internet connectivity. or internet banking to the extent of it leading to mobile banking and related systems. Banking, as the foundation of any economic system, plays an important role in economic development. Banks these days are doing everything possible to retain customers. Commercial Banks in India are now becoming just a Retailer.

### **Review of literature**

**According to theoretical literature, an overall profit shows how strong its ability to capitalise on** all of the efforts invested in achieving that profit. Profitability, on the other hand, denotes the earning capacity or earning power of a specific source to which it is influenced. Many profitability-based studies in the field of banking have been undertaken over time, and some of them have been discussed below:

In contrast to Punjab national bank and Kotak Mahindra bank , D'suza (2002) found that the

profitability of public sector banks in the late 1990s increased. In this context, Mathur (2002) and Nayak (2001) suggested that private banks outperform public banks solely because the private sector banking has a legal foundation, frees them from outside pressures, and involves them the least in government socio-economic policies.

In the pre-reform period, public sector banks' gross profit ratios showed a deteriorating trend, which indicated that the money was not being spent profitably, according to Vijayakumar (2002). Nonetheless, the banking sector reforms had a favourable influence on the profitability of the public sector banks, according to Bhide, Prasad, and Gosh (2002) and Ketkar and Ketkar (2009), although the RBI mandate of lending to key sectors, poor risk management methods, etc. continue to harm both productivity and profitability. The public sector banks in India, according to Chauduri (2002), are neither particularly powerful nor very weak, but they lack the potential to continue bearing the weight of governmental policy.

According to Patnaik and Patnaik's 2005 analysis, PNB is more profitable than other public sector bank groups. The relative efficiency of nationalised banks, in contrast, was higher than that of the State Bank of India and its affiliates, according to Kaur and Kapoor's 2007 research. According to Guruswamy's (2012) assessment of State Bank of India's profitability record, State Bank of Patiala, State Bank of Hyderabad In terms of profit-making, State Bank of Bikaner and State Bank of Indore have shown to be the most dynamic.

Bank of India, State. According to Badola and Verma (2006), operating expenses, non-interest income, provisions for contingencies, and spread all have strong explanatory power, whereas credit deposit ratios, non-performing assets as a proportion of net loans, and company per employee have poor explanatory power. The financial results of several ownership-structured commercial banks in Nepal were compared by Jha and Hui in 2012. The findings revealed that domestic private banks are equally efficient to foreign-owned (joint venture) banks, whereas public sector banks are much less efficient than their counterparts.

Bhatia, Ekta (2010), The performance review or assessment is essentially a chance for the person and those who are worried about their performance in the bank - typically their line manager - to meet and have a discussion about the person's performance, growth, and the manager's necessary support. The procedure shouldn't be top-down or a chance for one person to raise a question and the other to respond. A variety of opinions should be discussed in an open-ended manner.

K. P. VENUGOPALA RAO AND ETAL (2017), the authors have studied on "Financial Performance Analysis of Banks: A Study of IDBI Bank" using shareholders' funds, leverage, CASA, profitability and activity ratios with an object to examine and compare the financial performance and overall profitability of the IDBI bank with the industry averages. After analysing, they suggested that the IDBI bank should improve its deposits by providing cheaper funds. The solvency position of the bank is in tune with the industry averages. The shareholders fund and CASA is relatively declining. Net profit margin indicates that the profit of IDBI bank is declining so that the operation of the bank has to improve.

C. BALI SASIKUMAR AND ETAL (2021), the authors have made the study in the topic "A comparative study on Financial Wealth and Performance of HDFC Bank and Kotak Mahindra Bank", RBI is the head to rule the banking sectors in India. HDFC and Kotak Mahindra Bank are the two major player in private sector banks in India. Due to pandemic situation banking sectors faced big challenge. This study is used to analyze the financial wealth and performance of HDFC and Kotak Mahindra Bank and to compare it. Ratio analysis for comparative balance sheet analysis

and common size balance sheet analysis are used to interpret the financial statement of these two banks.

DR. G. LAKSHMI AND ETAL (2021), the authors have worked on the paper, “Financial Analysis of City Union Bank” stating that the banking sector is always deemed to be the vital sector of the economy. It is the lifeblood of all economic activities, in collecting deposits and providing credits to people and businesses. The main purpose of this study is to study the financial performance of the City Union Bank. This study is analytical in nature. Secondary data has been used in this study. Secondary data is collected from annual reports of City Union Bank, journals and books. The collected data has been analysed using common-size balance sheet and trend analysis. The study concludes that the CUB’s financial performance is strong during the study period.

## **Research Design**

### **Review of literature**

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The primary goal or objective of every commercial or retail bank is to generate and maximize revenues. To achieve these goals and objectives banks perform certain activities which act as a source of revenue for these banks and Banks' success in business is compromised.

Presently occurring investigations is a work undertaken to analyses and understand the relation between the factors affecting financial performance and the ratios derived of PNB and KMB Fundamentally a fact-finding approach has been used in this research, it aims to explain a group of characteristics and to determine the frequency to a few incidents that occurs. This research uses descriptive method.

#### **4.2 Sampling Frame:**

The database of RBI includes the list of banks currently operating in India, which consists of the following:

1. List of Scheduled Public Sector Banks
2. List of Scheduled Private Sector Banks
3. List of Scheduled Small Finance Banks
4. List of Scheduled Payments Banks
5. List of Scheduled Regional Rural Banks
6. List of Scheduled Foreign Banks in India

From this list, with an intention to draw a comparison of financial performance among two banks from two different sectors using techniques of ratio analysis, the authors selected PNB from the list of scheduled public sector bank and KMB from the list of scheduled private sector bank.



### 4.3 Sampling techniques:

Purposive sampling method has been used for this study, wherein we will deliberately select particular units that will represent the population.

### 4.4 Data Collection:

The data has been collected through annual filings from secondary sources such as bank financial records, the internet, periodicals, e-books, and journals.

i. Secondary Description: information collected in secondary sources will be from the bank's financial statements, internet, bank official websites, books, magazines, etc.

studying period: The present investigation spans a time frame of four financial years from 2016-17 to 2020-21.

Tools applied: The data that was collected was moderated for the study according to the requirements,

utilizing tools like ratios, percentages, to analyse the data.

Statistical tools and analytical tools: Statistical tools used in this study will be accounting ratios and financial statements of the bank. The analytical tools applied for this study will be statistical techniques to calculate ratios.

### Conceptual analysis

In the following data interpretation Punjab National Bank is considered as Bank A and Kotak Mahindra Bank is considered as Bank B.

1. Liquidity Ratio: Liquidity ratios are a type of financial metric that assesses a debtor's capacity to repay present debt commitments without raising external capital.

1.1 Current Ratio: For the aforementioned years, Bank A displays numbers that are near to the ideal ratio, whereas Bank B has a ratio that is less than the ideal ratio in 2017.

1.2 Quick Ratio: Both banks can satisfy all present demands as of 2021.

2. Revenue ratios are financial metrics used by investors, analysts, and others to assess a company's ability to generate revenue (profit) in relation to profits, assets on the balance sheet, operating expenses, and shareholder equity over a particular time period.

2.1 Gross Profit Margin Ratio: The gross profit margin ratio of Bank A has been increasing over the years, whereas Bank B shows a slight trend decline in 2019 that recovered in 2020 and 2021.

2.2 Operating Profit Margin Ratio: Bank A observed a trend decline from 2017 to 2019 and a trend incline in 2020 and 2021. Bank B had a trend incline in 2018, a decline in 2019, and an incline in 2020 and 2021.

2.3 Net Profit Margin Ratio: Bank A had a decline in NPR from 2017 to 2018, a further decline in 2019, and an increase in 2020 and 2021. Bank B had an increase from 2017 to 2018, a slight decline in 2019 and 2020, and an increase in 2021.

3. Leverage Ratio: A leverage ratio is any of several financial measurements that assess a company's capacity to fulfil its financial commitments.

3.1 Debt-to-Equity Ratio: Bank A shows an increasing trend from 2017 to 2019, a decline in 2020, and an increase in 2021. Bank B shows a slight decreasing trend from 2017 to 2018, an increase in 2020, and a slight decrease in 2021.

3.2 Proprietary Ratio: Bank A has observed both an increase and a decrease in proprietary ratio over the years, while Bank B has observed a consistent increase.

**4. Turnover Ratio:**

4.1 Fixed Asset Turnover Ratio: Bank A observed a trend decline from 2017 to 2018, an increase in 2020 and finally an increase in 2021. Bank B had a constant trend incline although in small amounts as compared to Bank A.

4.2 Inventory Turnover Ratio: Bank A has been observing a constant incline in the trend starting from 2017, whereas Bank B has observed a constant trend decline over the years.

**Conclusions**

This study takes into consideration a planned state sector bank and a planned bank in the private industry to analyse and compare their financial performance utilizing the ratio analysis. The period of study selected was from financial year 2016-17 up-to financial year 2020-21 which counts exactly as 5 years. The two banks chosen here were from one sector each, Punjab National Bank (scheduled public sector bank) and Kotak Mahindra Bank (scheduled private sector bank).

In conclusion the study provides recommendation to both banks in order to enhance their financial performance, To expand the number of branches, cut unnecessary operating expenses through automation, channel optimization, and productivity among staff members, review the need for capital and in comparison capital costs, and sell ideal assets to improve the bank's profitability and financial position, each of which could undoubtedly assist the bank in implementing the same and reaping profits in the future.

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