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An Analytical Study On The Financial Performance Of Selected Private Sector - A Special Reference To Hdfc And Icici Banks

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ABSTRACT

The foundation of any nation's economy is its banking system. With the use of monetary intermediation, it acts as a catalyst for attaining powerful economic growth. The nation's economic growth is critically impacted by the banks' financial health. One of the key factors that fund providers use to assess the success of the institutions is banking profitability. Financial performance is influenced by a number of variables. Two private sector bankshave been chosen as a sample to study the factors affecting financial performance throughout the years 2011–12 to 2021–22. Data have been obtained from the Reserve Bank of India and CMIE for the relevant years, and factor analysis has been used to determine the most important variables affecting each bank's financial performance.

Keywords: Indian Economy, Economic Growth, Indian Banking, Banking Performance, Reserve Bank of India, Factor Analysis, HDFC, ICICI

INTRODUCTION

A banking institution is crucial to contemporary society. Finance has a significant role in economic growth. Every economy's blood vessels are in the banking sector. The economy's growth and banks' performance are inextricably intertwined, while the financial system determines the type and pace of growth. A nation's economic progress is greatly influenced by banks. The majority of the available money supply is under the hands of banks. The nature and character of the nation's production can be affected by the banks. In actuality, banks are seen as the cornerstone of a nation's economic growth. The Indian banking system has

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evolved over time, especially since it was nationalized, and it is now highly intricate and diverse. Banking has changed from being only a method of financial intermediation to becoming a technology for providing a variety of financial services.

In a growing nation like India, banking is the primary gauge of economic growth. The banking system plays a crucial part in a nation's economic development and serves as the hub of the money market in developing nations, hence it is crucial to the process of constructing a nation. A banking institution is crucial to contemporary society. The entire study team has acknowledged the significance of commercial banks in the process of economic development. When it comes to planned or developing nations like India, this function becomes more crucial. The economy's growth is directly correlated with bank performance, and the type and pace of that growth are correlated with bank loan availability.

1. REVIEW OF LITERATURE

Reddy and Rao (2005) The author of this essay made an effort to identify factors that are connected to banking sector reforms that are now occurring in the Indian banking system. Due to the new aggressive, competitive, and challenging environment present in the current financial market structure, which will result in fierce competition between the banks, the author and researcher discovered that the share of public sector banks in the total assets of the banking sector has decreased in the Indian financial system. On the other hand, the author went on to discuss the numerous issues public sector banks confront as a result of structural changes to the Indian financial market. Additionally, the author/researcher advised public sector banks to implement customer-based banking procedures and offer customer-oriented services that meet the needs of the target market. In order to compete with private and foreign banks, public sector banks must accept and adapt to a fast changing environment. This is why banks also adopted new and innovative technology for their development and expansion.

In this study, Shukla et al. (2009) sought to investigate the present developments in the Indian banking sector and to determine the effects on the costs and profitability of all public, private, and international banks. 27 public sector banks, 27 private sector banks, and 29 foreign banks operating in India between 1991 and 2006 were examined for the purposes of this research and analysis. Secondary data and data have been gathered for research purposes from bank annual reports and other materials like trend and progress reports published by the RBI. According to the study's analysis, the Indian banking system has improved in both competitiveness and development since the time of the reforms. After examining the various variables, the author concludes that in order to maintain profitability and competitiveness in the current competitive environment, a focus on high operational costs is necessary. The study goes on to advise using technology-based services to help banks save operating costs and outperform their rivals in terms of profitability. In this study, the researcher also made the following recommendations in order to strengthen the banking sector currently operating in India: Some

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critical factors, such as system security and dependability, should be maintained; additionally, more emphasis needs to be placed on banking and financial policies.

Ramji Gautam(2018) examined the determinants of financial performance of commercial bank in Nepal. In order to investigate the determinants of financial performance, 10 commercial banks have been taken as sample covering the period of time 2006/07 to 2016/17. Data are collected from annual report of the respective banks. Multiple linear regression models have been employed for the analysis of data. The result shows a positive relationship of return on assets with capital adequacy ratio, management efficiency and gross domestic product whereas negative with assets quality and liquidity management. It is evident from the findings that financial performance of commercial banks are strongly affected by capital adequacy ratio, management efficiency, gross domestic product, liquidity management and assets quality.

Muhammad Haris, Gulzara Tariq, and Hongxing Yao (May 2018) This study's primary objective was to examine the effects of various macroeconomic, industry-specific, and bank-specific variables on the profitability of banks in Pakistan. Using our two-step generalized method of momentum (GMM) system estimator, 28 banks were part of an unbalanced dynamic panel from 2007 to 2016 for a total of 10 years. After thorough study of the data, it became clear that the bank's profitability in Pakistan may be attributed to its size, higher solvency, financial structure, operating costs, labor productivity, market dominance, and economic expansion. Additionally, a link in the shape of an inverted U was discovered between bank profitability and size. Further analysis revealed that the profitability of banks is inversely correlated with credit quality, operational effectiveness, banking sector development, inflation, and industry concentration. Further analysis of this study revealed that bank profitability is lower during times of political transition. The specialized banks in Pakistan are producing larger net interest margins (NIM) than all commercial banks operating in Pakistan, according to the dispersion like mean comparison of bank profitability.

2. SCOPE OF THE STUDY

The scope of the study is wide in nature. It covers the two private commercial banks that operate in India.

3. RESEARCH METHODOLOGY

The study covered a period of 10 financial years from 2011-12to 2021-22The financial year starts from 1st day of April of a year and ends on 31st day of March of the following year.

The financial data and relevant information required for the study are drawn from the various secondary source. The Prowess' corporate databases developed by CMIE (Centre for

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Monitoring Indian Economy) and CLP (Capital Line Plus) have been used as principal sources. The other relevant data are collected from Journals, Magazines, Dailies namely The Financial Express and The Economic Times.According to the RBI and prowess corporate database developed by CMIE, (Centre for Monitoring Indian Economy) there are 12 public sector banks (including and 21 private sector banks are operating India and listed in both Bombay Stock Exchange (BSE) and National Stock Exchange (NSE). Out of these ICICI bank and HDFC Bank have been selected and 10 years data are available for both the banks.

4. DATA ANALYSIS AND INTERPRETATION

- **FACTOR ANALYSIS**

Factor analysis is a statistical method used to describe variability among observed, correlated variables in terms of a potentially lower number of unobserved variables called factors. The information gained about the interdependencies between observed variables can be used later to reduce the set of variables in a dataset. Computationally this technique is equivalent to low rank approximation of the matrix of observed variables. Factor analysis originated in psychometrics, and is used in behavioral sciences, social sciences, marketing, product management, operations research, and other applied sciences that deal with large quantities of data. Factor analysis is related to principal component analysis (PCA),. Latent variable models, including factor analysis, use regression modelling techniques to test hypotheses producing error terms. In the present study factor analysis is employed to group related financial variables of selected banking sector.

TABLE No.1: FACTOR LOADING OF STATEBANK OF HDFC BANK MEASUREMENT SCALE ITEMS ON EXTRACTED FACTORS

FACTORS	**Component**		
	1	**2**	**3**
PBDIT/Net Assets	**0.969**	-0.104	-0.154
Sales/Net Assets	**0.965**	-0.058	-0.059
PBIDT/Sales(%)	**0.931**	-0.150	-0.169
Interest Income / Total Funds (%)	**0.902**	0.331	0.081
EV/EBIDTA	**0.886**	-0.227	-0.289
Interest Expended / Total Funds (%)	**0.844**	-0.425	-0.235
Net Assets/Net Worth	**0.805**	0.215	0.279
Price Earning (P/E)	**0.725**	-0.271	-0.575
Price/Cash EPS (P/CEPS)	**0.735**	-0.172	-0.615
Investment / Deposit (%)	**-0.730**	0.405	0.288
Net Interest Income / Total Funds (%)	0.096	**0.905**	0.379
Price to Book Value (P/BV)	-0.388	**0.904**	-0.122

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Profit before Provisions / Total Funds (%)	-0.113	**0.887**	0.434
PAT/PBIDT(%)	0.032	**0.858**	0.505
Interest Expended / Interest Earned (%)	0.318	**-0.851**	-0.377
RONW (%)	0.184	**0.837**	0.513
ROE(%)	0.184	**0.837**	0.513
Net Profit / Total funds (%)	0.180	**0.835**	0.517
Market Cap/Sales	-0.526	**0.827**	-0.137
Operating Expenses / Total Funds (%)	0.230	0.381	**0.869**
Operating Expenses / Total Income (%)	-0.436	0.084	**0.853**
Non Interest Income / Total Funds (%)	-0.295	0.409	**0.827**
Cash / Deposit (%)	0.237	0.519	**0.776**
Credit-Deposit(%)	0.353	-0.403	**-0.770**
Other Income / Total Income (%)	-0.571	0.294	**0.725**

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

Table shows the factor loadings of **HDFCB** for the period from 2011-12 to 2021-22.It can be observed from table that there are 10 prime factors PBDIT/Net Assets, Sales/Net Assets, PBIDT/Sales(%),Interest Income / Total Funds (%),EV/EBIDTA, Interest Expended / Total Funds (%), Net Assets/Net Worth, Price Earning (P/E),Price/Cash EPS (P/CEPS),Investment / Deposit (%) are accounted by Factor I with the values ranging from 0.969 to 0.730.

Similarly, it is seen that there are nine factors influencing factor 2 which includes Net Interest Income / Total Funds (%),Price to Book Value (P/BV),Profit before Provisions / Total Funds (%), PAT/PBIDT(%),Interest Expended / Interest Earned (%),RONW (%),ROE(%),Net Profit / Total funds (%) and Market Cap/Sales .

Finally Factor three has six ratios which includes Operating Expenses / Total Funds (%),Operating Expenses / Total Income (%),Non Interest Income / Total Funds (%) Cash / Deposit (%), Credit-Deposit(%) and Other Income / Total Income (%) respectively.

TABLE No.2
FACTOR LOADING OF ICICI BANK
MEASUREMENT SCALE ITEMS ON EXTRACTED FACTORS

FACTORS	Component				
	1	2	3	4	5
Non Interest Income / Total Funds (%)	**-0.983**	-0.044	0.090	-0.134	-0.019
Other Income / Total Income (%)	**-0.956**	-0.126	0.162	-0.181	0.099
Investment / Deposit (%)	**-0.951**	-0.185	0.081	-0.080	-0.182

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Sales/Net Assets	**0.925**	0.309	0.097	0.152	0.047
Credit-Deposit(%)	**0.920**	0.046	-0.060	-0.042	0.372
Net Assets/Net Worth	**-0.886**	-0.425	-0.008	0.037	-0.094
Interest Income / Total Funds (%)	**0.828**	0.278	-0.253	0.252	-0.323
PBDIT/Net Assets	**0.818**	0.558	0.014	0.091	-0.041
Net Interest Income / Total Funds (%)	**0.780**	0.156	0.095	0.589	-0.083
Operating Expenses / Total Funds (%)	**0.664**	0.073	0.630	-0.049	-0.359
Interest Expended / Total Funds (%)	**0.567**	0.309	-0.546	-0.221	-0.469
Cash / Deposit (%)	**-0.535**	0.411	0.226	0.385	0.363
Net Profit / Total funds (%)	0.176	**0.969**	0.047	0.123	0.089
RONW (%)	0.129	**0.960**	0.095	0.214	-0.003
ROE(%)	0.129	**0.960**	0.095	0.214	-0.003
PAT/PBIDT(%)	0.159	**0.944**	0.126	0.133	0.215
PBIDT/Sales(%)	0.185	**0.940**	-0.179	-0.219	0.004
EV/EBIDTA	-0.407	**-0.897**	0.094	-0.025	-0.123
Operating Expenses / Total Income (%)	-0.019	-0.265	**0.907**	-0.295	0.062
Market Cap/Sales	-0.196	0.281	**0.856**	0.212	0.265
Price to Book Value (P/BV)	-0.161	0.226	**0.844**	0.331	0.265
Profit before Provisions / Total Funds (%)	0.205	0.218	-0.052	**0.951**	-0.002
Interest Expended / Interest Earned (%)	-0.511	0.002	-0.409	**-0.730**	-0.182
Price Earning (P/E)	0.085	0.161	0.327	0.036	**0.917**
Price/Cash EPS (P/CEPS)	0.275	0.644	0.101	0.011	**0.702**

a. Rotation converged in 7 iterations.

Table shows the factor loadings of **ICICIB**for the period from 2011-12 to 2021-22 .It can be observed from table that there are 12 prime factors are accounted by Factor INon Interest Income / Total Funds (%),Other Income / Total Income (%),Investment / Deposit (%),Sales/Net Assets,Credit-Deposit(%), Net Assets/Net Worth,Interest Income / Total Funds (%)PBDIT/Net Assets,Net Interest Income / Total Funds (%),Operating Expenses / Total Funds (%),Interest Expended / Total Funds (%) and Cash / Deposit (%).Similarly, it is seen that there are six factors influencing factor 2 which includes Net Profit / Total funds (%),RONW (%), ROE(%) ,PAT/PBIDT(%), PBIDT/Sales(%),and EV/EBIDTArespectively .

It is also observed that Factor 3 is influenced by Operating Expenses / Total Income (%),Market Cap/Sales and Price to Book Value (P/BV).Factor 4 and 5 is primarily influenced by two variables each namely Profit before Provisions / Total Funds (%), Interest Expended / Interest Earned (%) and Price Earning (P/E), Price/Cash EPS (P/CEPS)ratio with the values of 0.951,-0.730,0.917 and 0.702respectively.

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5. CONCLUSION

The profitability ratios, which are greater for the private sector banks, have an impact on financial performance. In light of the challenges they faced in obtaining business growth, the private banks' performance has been impressive. Despite the public sector banks' inherent advantages, the private sector banks have successfully competed with them by bringing banking services to several locations. The analysis shows that each bank has a unique set of financial ratios that have a bigger impact on their performance. For banks to become more profitable over the long run, banking management should place more emphasis on these financial aspects.

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