

Performance of Indian Commercial Banks: An Analytical Study

B. Krishnaiah * Prof. T. Umamaheswara Rao

Research Scholar, Acharya Nagarjuna University, Guntur, Andhra Pradesh,

**Registrar, KLU deemed to be University, Vaddeswaram, Andhra Pradesh.

Corresponding Author: *B. Krishnaiah*

Abstract:- The Indian financial system consists of different types of financial institutions. These are responsible for the development of the nation's economy. Commercial banks are the major financial institutions and are the most important sector of the Indian money market. Commercial banks play a wider role in the mobilization and allocation of resources in an economy. The performance of the commercial banks will affect the growth of the economy. The present study attempts the operational performance of the Indian commercial banks. In this regards the researcher selected to study the number of commercial banks started, deposits mobilized by commercial banks in India, composition of NPA's of Indian banks and NPA's of commercial banks recovered through various channels. This study covers the performance of commercial banks which are operating in the country for a period of five years i.e., from 2012-13 to 2016-17. The study concludes the commercial banks of India have been significantly performing satisfactory and contributing to the national growth of the country.

Keywords:- Commercial banks, mobilization of deposits, NPA's, national growth, debt recovery channels.

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I. Introduction

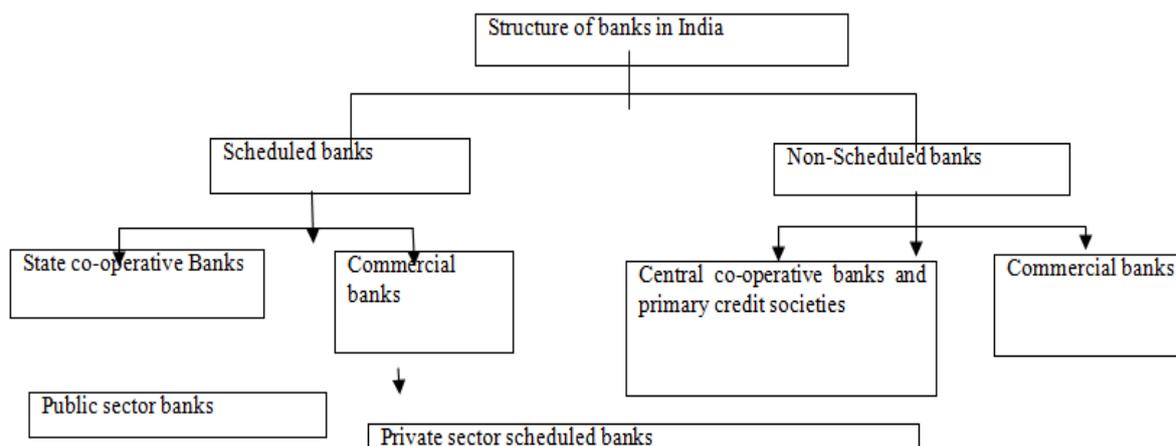
The financial system in India at the time of Independence in 1947 was semi-organized and presented a restricted narrow structure. It was marked by the absence of issuing institutions and non-participation of intermediary financial institutions. The industrial sector showed a lack of growth as it had no access to saving of the community and no supportive or responsive financial intermediaries to depend upon.

The development of the financial system in India began with the inception of planning in the country. Wedded to the theory of mixed economy, the government evolved the financial system in such a way that there was social and economic justice with a consideration of India's political requirements.

The year 1948 was significant for beginning the process of transfer by nationalizing the Reserve Bank of India (RBI) and bringing it under government control. The imperial banks were the next to be transferred. Its name was changed and it was renamed State bank of India. A further development took place in 1969 when fourteen commercial banks were nationalized. Ten banks were nationalized in 1980.

Structure of banks in India

The banking sector in India has played an important role in the Indian economy. Financial institutions in India can be broadly classified into banking and non-banking institutions. Structure of banks in India are of two types. These are shown in the following diagram.



Source:-

Investment Management by Preeti Singh, 14th revised edition HPH 2006, New Delhi.

Concept of NPA:-

A non-performing assets (NPA) refers to a classification for loans on the books of financial institutions that are in default or in arrears on scheduled payments of principle or interest.

It had been defined as per the master circular of Reserve Bank of India (RBI) as the asset including leased assets, when leases to generate income for the banks became NPA's. These are loans and advances, where

- Interest and / or installment of principle remain over due for more than 90 days in respect of term loan.
- The amount remains out order for more than 90 days in respect of an overdraft or cash credit.
- The installment of principle or interest remains over due for two crop seasons for short duration crop and one crop season for long duration crops.

NPA's recovery channels in India:-

In India commercial banks employ various tools to recover their dues. Some of these mechanisms drive their structure from laws, policies and regulations made at different points in time, while the others are non-statutory in nature. Two distinct approaches of restructuring are observed across the world.

1. The centralized approach.
2. The decentralized approach.

The centralized approach has a large role for the government typically in the form of establishing asset recovery/reconstruction companies that would dispose of the assets of non-viable firms.

The decentralized approach on the other hand, aspects banks to resolve the issue of high debt with the firms individually on a one to one basis.

Review of literature:-

1. Dang-Thanh (2012) in his study applied a modified data envelopment analysis to analyze the performance changes through time of the Vietnamese banking system in the 1990-2010 periods. Based on the literature, it is evident that banks in all the sectors increase their performance, in live with that this study will try to evaluate those banks pertaining to their operating growth and performance.
2. Datta chaudhuri (2005) examined the Resolution strategies for maximizing value of non-performing assets (NPA's). The article indicates that declining capital adequacy adversely affects shareholders value and restricts the ability of the bank to access the capital market for additional equity to enhance capital adequacy. So, if a resolution strategy for recovery of dues from NPA's is not put in place quickly and efficiently. These assets would be realized at the end, except may be its scrap value. The purpose of this paper is to indicate the various considerations that one has to bear in mind before zeroing on a resolution strategy and provides a state resolution – mapping (SRM) framework. However, the paper has not specifically discussed about the various resolution strategies that could be put in place for recovery from NPA's and in particular, in which situation which type of strategy should be adopted.
3. Uppal (2009) analyzed change in performance parameters and indicators of different categories of Indian commercial banks they studied the factors influencing the banks relative share during 2003-08. They concluded that period the public sector banks are having a significant share with respect to the total assets in all commercial banks.

Research methodology:-

The present study makes the use of secondary data. The relevant secondary data has been collected from the data bases of Reserve Bank of India (RBI), reports and other studies. The study attempts to examine performance of the commercial banks in India for a period of five years (2012-13 to 2016-17). The study is confined to only the specific areas such as number of commercial banks in India, deposits mobilized by commercial banks in India, composition of NPA's of commercial banks recovered through various channels. In order to analyze the data and draw conclusions various statistical tools like F -test, one way ANOVA has been done using through Excel and SPSS software.

Objectives of the study :-

- To study the growth and performance of commercial banks in India.
- To evaluate the NPA recovery channels performance in India.

Data analysis and interpretation:-

Table-1: Number of commercial banks

Year	Number of commercial banks	Percentage (%) of growth
2012-13	1,78,392	-
2013-14	1,54,294	86.49
2014-15	1,50,995	97.86
2015-16	1,51,927	100.62
2016-17	1,52,897	100.64

Source:- Commercial banks at a glance -RBI different issues 2012-13 to 2016-17.

Table no-1 reveals the number of commercial banks in India with their growth rate, which has been significantly increased during the study period. The number of commercial banks has increased from 86.49% to 100.64% through 2012-13 to 2016-17.

Table -2: Performance indicator of commercial banks in India (Amount in Billions)

Year	Aggregate deposits	Percentage of growth	Demand deposits	Percentage growth	Time Deposits	Percentage growth
2012-13	58,061	-	67,504.54	-	60,881	-
2013-14	69,251	119.27	72,239.61	107.01	64,983	106.73
2014-15	79,235	114.42	74,342	102.91	69,274	106.60
2015-16	87,921	110.96	75,437	101.47	71,387	103.05
2016-17	98,634	112.18	83,567	110.78	74,327	104.11

Source: - Database from Reserve Bank of India -2016-17.

From the above table no-2, it was found that the aggregate deposits of the commercial banks with their growth rate, which has been significantly decreased from 119.27% to 112.18% during the study period. Similarly in the case of demand deposits the growth rate in the year 2013-14 was 107.01% which has increased to 110.78% in the year 2016-17. For time deposits it has decreased from 106.73% in 2013-14 to 104.11% in the year 2016-17.

Testing of hypothesis:-

A, F – Test three sample for variance was performed to determine whether the aggregate deposits, demand deposits and time deposits of commercial banks significantly differ of the commercial banks in India. The hypothesis framed are as follows.

Ho: - There is no significant difference in performance between aggregate deposits, demand deposits and time deposits.

HA: - There is significant difference in performance between aggregate deposits, demand deposits and time deposits.

Table -3: Result of F – Test three – sample for variance of aggregate deposits, demand deposits and time deposits.

Particulars	Aggregate deposits	Demand deposits	Time deposits
Mean	78620.4	74618.03	68170.4
Standard deviation	15794.7591	5854.2632	5309.4976
\sum^2	31903734144	27976341595	562348780224
Variance	20.089	7.845	7.788

Source:- Composed from the Table-2data

Table-4:- Result details (one way ANOVA).

Source	SS	Df	MSS	F-value
Between treatments	277988997.0563	2	138994498.5282	F – 1.33675
Within -treatments	1247750296.5592	12	103979191.3799	
Total	1525739293.6155	14		

Source:- Composed from the Table-2data

The above table no. 4 reveals the F-test three samples for variances result of aggregate deposits, demand deposits and time deposits. Looking at the data of F value of (1.33675) was greater than the critical value P (0.299147) that leads to the conclusion that Ho is accepted; hence there is no significant difference in performance between aggregate deposits demand deposits and time deposits.

Table-5: Composition of non-performing assets.

Year	Priority sector		Non-priority sector	
	Amount	Growth	Amount	Growth
2012-13	33291	-	32387	-
2013-14	41587	124	56321	173
2014-15	66568	160	76431	135
2015-16	142640	214	424600	555
2016-17	168929	118	561240	132

Source: - Commercial banks at a glance -RBI different issues 2012-13 to 2016-17.

From the above table no. 5, it was found that the non-performing assets of priority sector with their growth rate, which has been significantly increased from 12.4% in 2013-14 to 214% in the year 2015-16 and it was decreased to 118% in the year 2016-17. Similarly in the case of Non-priority sector the growth rate of non-performing assets was increased from 173% in 2013-14 to 555% in 2015-16, then it was decreased to 132% in 2016-17.

Testing of hypothesis :-

A, F-test two sample variance was performed to determine whether the composition of non-performing assets of priority sector and Non-priority sector significantly differ of commercial banks in India. The hypotheses framed are as follows.

Ho: - There is no significant difference in NPA's composition of priority sector and Non-priority sector in India.

HA: - There is significant difference in NPA's composition of priority sector and Non-priority sector in India.

Table -6: Result of F-test two sample for variance of composition of NPA's in priority sector and Non-priority sector in India.

Particulars	NPA's in priority sector	NPA's in Non-priority sector
Mean	90603	230195.8
Standard deviation	61456.1459	245146.7094
Σ^2	56152244515	505338168171
Variance	67.83	106.49

Source:- Composed from the Table-5data

Table-7: Result details (one way ANOVA)

Source	SS	df	MSS	F-value
Between treatments	48715374529.6	1	48715374529.6	F-1.52536
Within -treatments	255495362952.8	8	31936920369.1	
Total	304210737482.4	9		

Source:- Composed from the Table-5data

The above table no.7 reveals the F-test two sample for variance result of composition of NPA's of priority sector and Non-priority sector. Looks at the data of F-value of (1.52536) was greater than the P value (0.25185) that leads to the conclusion that Ho is accepted; hence there is no significant difference in NPA's composition of priority sector and Non-priority sector in India.

Table-8:- NPA's of commercial banks recovered through various debt recovery channels in India (Amount in billions)

Year	PARTICULARS	LOK ADALATS	DRT's	SARFAESI ACT	TOTAL
2012-13	Amount involved	65	315	679	1059
	Amount recovered	4.9	47	182	233.9
2013-14	Amount involved	229	549	978	1756
	Amount recovered	10	55	258	323
2014-15	Amount involved	312	599	1579	2490
	Amount recovered	10.5	46	269	325.5
2015-16	Amount involved	716	687	798	2201
	Amount recovered	31	58	139	228
2016-17	Amount involved	1102	689	1153	2944
	Amount recovered	36	176	81	293

Source: - Commercial banks at glance RBI different issues 2016-17

It is inferred that the above table NPA's of commercial banks recovered through various debt recovery channels in India. In case of lok adalats the amount recovered has been significantly increased from Rs 4.9 billions to Rs 36 billions, during the study period. Similarly in the case of DRT's the amount recovered has been significantly increased from RS 47 billions in the year 2012-13 to Rs 176 billions in the year 2016-17. In the case of SARFAESI Act the amount recovered has been increased from Rs182 billions in 2012-13 to Rs 269 billions in the year 2014-15, then it was decreased to Rs 81 billions in the year 2016-17.

Testing of hypothesis:-

A, F-test three sample for variances was performed to determine whether the NPA's recovered through various debt recovery channels in India significantly differ. The hypothesis framed is as follows

Ho: - There is no significant difference in amount recovered from lok Adalats, DRT's and SARFAESI Act in India.

HA: - There is significant difference in amount recovered from lok Adalats, DRT's and SARFAESI Act in India.

Table-9:

Particulars	Lok Adalats	DRT's	SARFAESI
Mean	18.48	76.4	185.8
Standard deviation	13.9974	55.9133	79.5657
Σ *2	2491.26	41690	197931
Variance	75.743	73.184	42.823

Source: Composed from Table-8 data.

Table-10: Result details (one way ANOVA)

Source	SS	df	MSS	F-value
Between treatments	72198.448	2	36099.224	F-11.21915
Within treatments	38611.708	12	3217.6423	-
Total	110810.156	14	-	-

Source: Composed from Table-8 data.

From the above table it reveals that the F-test three sample variance result of amount recovered from lok Adalats DRT's, SARFAESI Act. Looking at the data of F-value of (11.21915) was greater than the critical value of P (0.00179). The result is significant at P<0.5.

II. Findings and conclusion

The study reflects that the growth in number of commercial banks has been significantly increased from 86.49% in the year 2013-14 to 100.64% in the year 2016-17. It was found that significant growth in aggregate deposits, demand deposits and time deposits of the commercial banks in India. Moreover there is no significant difference in the performance of aggregate deposits, demand deposits and time deposits. It was observed that composition of NPA's of commercial banks in India has been significantly increased both priority sector and Non-priority sector during the study period. The share of NPA's of Non-priority sector was highest in the year 2015-16 i.e., (555%). Moreover there is a significant difference in amount recovered from various debt recovery channels in India. The share of amount recovered from SARFAESI Act was highest in the year 2013-14 i.e., Rs 258 billion. The overall operational performance of the commercial banks of India was satisfactory during the study period and it is growing contributing to the national growth.

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