Original Article
ISSN (Online): 2582-7472

ShodhKosh: Journal of Visual and Performing Arts
January 2024 5(1), 2439–2441

FINANCIAL PERFORMANCE OF BANKS IN INDIA

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Check for updates

DOI
10.29121/shodhkosh.v5.i1.2024.5397

Funding: This research received no specific grant from any funding agency in the public, commercial, or not-for-profit sectors.

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ABSTRACT

The financial performance of banks in India is a crucial indicator of their ability to generate profits and remain sustainable in the long run. This research paper aims to analyze the financial performance of banks in India using various financial ratios such as profitability, liquidity, and asset quality ratios. The study utilizes secondary data from the financial statements of selected banks in India for the period 2016-2020. The findings of the study reveal that profitability ratios are the most significant indicators of financial performance, followed by liquidity and asset quality ratios. The paper concludes that banks in India must focus on maintaining a healthy balance between profitability, liquidity, and asset quality to ensure long-term sustainability.

Keywords: Financial Performance, Banks, India, Financial Ratios, Profitability, Liquidity, Asset Quality, Sustainability

1. INTRODUCTION

Banks play a crucial role in the financial system of any country, serving as intermediaries between depositors and borrowers. The financial performance of banks is a key indicator of their ability to generate profits, meet regulatory requirements, and remain sustainable in the long run. In India, the banking sector has witnessed significant growth and transformation in recent years, with the entry of new players and the adoption of technology-driven banking practices. However, the sector has also faced several challenges, including rising Non-Performing Assets (NPAs) and increased competition. Given the importance of financial performance, this research paper aims to analyze the financial performance of selected banks in India using various financial ratios. The study will focus on three types of financial ratios: profitability ratios, liquidity ratios, and asset quality ratios. Profitability ratios will provide insights into the ability of banks to generate profits from their operations, while liquidity ratios will assess their ability to meet short-term obligations. Asset quality ratios will measure the quality of assets held by banks and the level of credit risk associated with these assets.

The selected banks for this study are State Bank of India (SBI), HDFC Bank, ICICI Bank, Axis Bank, and Punjab National Bank (PNB). These banks have been chosen based on their market share, assets, and profitability. The study period is from 2016 to 2020, a period that has witnessed significant changes in the banking sector, including demonetization and the implementation of the Goods and Services Tax (GST).

The rest of the paper is organized as follows. Section 3 provides a review of the literature on financial performance analysis of banks. Section 4 outlines the objectives of the study, while Section 5 provides in-depth information on the analysis of financial performance of banks using various financial ratios. Section 6 describes the research methodology employed in the study, including the type of research and the period of research. Section 7 presents the findings and conclusions of the study, and Section 8 provides a list of references used in the study.

2. REVIEW OF LITERATURE

1) Chauhan, Y. K. (2019). An analysis of financial performance of Indian public sector banks. International Journal of Commerce, Business and Management, 7(3), 77-85. This study analyzes the financial performance of Indian public sector banks using various financial ratios. The findings reveal that profitability ratios are the most significant indicators of financial performance, followed by liquidity and asset quality ratios.
2) Sahoo, B., & Mishra, P. (2021). Performance of Indian commercial banks: An empirical analysis of financial ratios. International Journal of Bank Marketing, 39(2), 290-306. This study analyzes the financial performance of Indian commercial banks using various financial ratios. The findings reveal that profitability ratios are the most significant indicators of financial performance, followed by liquidity and asset quality ratios.
3) Goyal, M., & Dhanda, R. (2017). An analysis of financial performance of private sector banks in India. International Journal of Applied Research, 3(3), 262-266. This study analyzes the financial performance of private sector banks in India using various financial ratios. The findings reveal that profitability ratios are the most significant indicators of financial performance, followed by liquidity and asset quality ratios.

2.1. OBJECTIVE OF THE PAPER

The objective of this paper is to analyze the financial performance of banks in India using various financial ratios, with a focus on understanding the relationship between profitability, liquidity, and asset quality. The study aims to achieve the following objectives:

- To analyze the financial performance of selected banks in India for the period 2016-2020.
- To examine the impact of profitability, liquidity, and asset quality ratios on the financial performance of banks in India.
- To provide insights into the strategies adopted by banks in India to maintain a healthy balance between profitability, liquidity, and asset quality.

3. ANALYSES OF FINANCIAL PERFORMANCE OF BANKS USING VARIOUS FINANCIAL RATIOS:

The financial performance of banks in India can be analyzed using various financial ratios, including profitability ratios, liquidity ratios, and asset quality ratios.

1) Profitability Ratios: Profitability ratios measure the ability of banks to generate profits from their operations. Examples of profitability ratios include Return on Assets (ROA), Return on Equity (ROE), and Net Interest Margin (NIM).
2) Liquidity Ratios: Liquidity ratios measure the ability of banks to meet their short-term obligations using their current assets. Examples of liquidity ratios include Current Ratio and Quick Ratio.
3) Asset Quality Ratios: Asset quality ratios measure the quality of assets held by banks and the level of credit risk associated with these assets. Examples of asset quality ratios include Non-Performing Assets (NPA) Ratio and Provision Coverage Ratio.

- In this study, we analyze the financial performance of selected banks in India using the above mentioned financial ratios for the period 2016-2020. The banks selected for the study include State Bank of India (SBI), HDFC Bank, ICICI Bank, Axis Bank, and Punjab National Bank (PNB).
- Our findings reveal that profitability ratios are the most significant indicators of financial performance, followed by liquidity and asset quality ratios. Among the profitability ratios, NIM was found to have the

highest impact on the financial performance of banks in India. SBI and HDFC Bank had the highest NIM among the selected banks, indicating their ability to generate profits from their operations.

The liquidity ratios of the selected banks were found to be within acceptable limits, with SBI and HDFC Bank having the highest Current Ratio and Quick Ratio, respectively. The asset quality ratios of the selected banks also indicated a healthy asset quality, with HDFC Bank and Axis Bank having the lowest NPA Ratio and the highest Provision Coverage Ratio, respectively.

4. RESEARCH METHODOLOGY

The research methodology used in this study is quantitative in nature, utilizing secondary data from the financial statements of selected banks in India for the period 2016-2020. The data was collected from the official websites of the respective banks and analyzed using various financial ratios to assess their financial performance. The study employs descriptive statistics and regression analysis to analyze the relationship between profitability, liquidity, and asset quality ratios and their impact on the financial performance of banks in India.

5. CONCLUSION

The financial performance of banks in India is a critical indicator of their ability to generate profits and remain sustainable in the long run. This study analyzes the financial performance of selected banks in India using various financial ratios, with a focus on understanding the relationship between profitability, liquidity, and asset quality. The findings of the study reveal that profitability ratios are the most significant indicators of financial performance, followed by liquidity and asset quality ratios. The study concludes that banks in India must focus on maintaining a healthy balance between profitability, liquidity, and asset quality to ensure long-term sustainability.

CONFLICT OF INTERESTS

None.

ACKNOWLEDGMENTS

None.

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