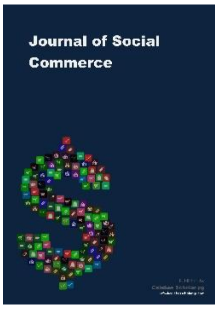

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The Comparative Study of Key Performance Ratios of Selected Indian Private Banks

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Article History

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Keywords

Net profit Margin ratio (NPM),
Operating Profit Margin ratio (OPM),
Current Account Saving account (CASA),
Return on capital employed (ROCE)

Abstract

This article is mainly based on the comparative study of India's private banks during the study period of 2017-18 to 2021-22. For the perspective of comparative study Key performing ratios are selected and hypothesis testing is done by one way ANOVA test. The testing hypothesis is Ho hypothesis is rejected in NPM , OPM, ROCE ratio that means there is no significant difference between selected sample units, while Ho is accepted only in CASA ratio that means there is significant difference between selected sample units. And the findings of study are HDFC Bank and KMB generate a more profit from their services with low operating cost. It shows good operating efficiency. The performance of ICICI Bank is average during the study period, but Axis Bank's performance is not good compared with other banks.

Introduction

What is a private bank? In simple words, private sector banks are those financial institutions which are owned by private individuals and are controlled and operated by private individuals as per the law of the Reserve Bank of India. A private sector bank is conducted through a specific individual or a large institution (Kannabiran & Narayan, 2005; Arunkumar & Kotreshwar, 2006). And these banks are called private because most of the shares (more than 50%) of these banks are in the hands of private individuals (Firth et al., 2009). Like you, it is known that private sector banks are such banks in which more than half of the shareholders are held by any one private owner of a private institute/company. Despite this, these banks are bound to follow the Central bank of India, as well as they can create independent financial policies for their customers (Eichengreen et al., 2011). At present, 21 private sector banks, i.e. private banks, provide banking facilities to people whose history is very old. Nowadays, most people want to get maximum interest on their money, so a private bank is a better option (Karnani, 2007). Perhaps we must have come to know what private banks are now let us know their financial performance, revenue, profit generated, operating efficiency and services.

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Literatures Review

Dr. Seema Mishra Upadhyay, feb 2016 This study was conducted in India. It is mainly based on comparative analysis of two largest private sector banks, HDFC and ICICI. The main objectives of this study are to analyze the role time management, identify strengths and weaknesses. The findings of this study are that returns on assets and equity and investments are high to ICICI Bank. But credit deposit ratio, investment deposit ratio CAR,CDR,BPR are very high. So, overall, ICICI performs well compared to HDFC Bank. Dr. Divyang Joshi, Mr. Samir thakkar, Ravina Macchi, Devyesh chauhan March 2021 case study is conducted in India. The study is mainly based on a financial performance analysis of the banking sector of India. The main objectives of this study are to identify the key factors that affect bank performance as well as identify the best bank based on their financial results over the fixed period. The findings of this study are that the private sector bank, HDFC Bank, outperformed ICICI Bank among the public sector banks. SBI was very stable and offered a consistent return to investors.

Raghavendra Rao & Srinivasa Rao, May 2022. This study is mainly based on the performance and efficiency analysis of HDFC, ICICI and KMB. The objective of this study is to analyze the average annual growth rate, mean and net profit, key indicators. The findings of this study were that all banks should concentrate on growth of their deposits, which will increase the customer base and the scope for more lending. It also increases the interest income and enhances the profitability. over all bank performance walls with regard to all parameters

Methods

Objective of study; (1) To analyze key performance ratios of selected banks Indian private banks; (2) To compare the selected banks. For the purpose of the study, samples have been selected based on higher market capitalization during the study period. In which HDFC, ICICI, Axis and KMB are selected.

Sample Profile

HDFC Bank was founded as Housing Development Finance Corporation Bank in 1994. HDFC bank provides multinational banking and financial services like credit cards, consumer banking, finance and insurance, investment banking, mortgage loans, private banking, private equity and wealth management. ICICI was formed in 1955 at the initiative of representatives of the World Bank, Government of India and Indian industries. According to Parameswar et al. (2017) ICICI Bank is India’s second multinational banking and financial services company. This bank provides loans, foreign exchange services, Demat accounts, retail banking, corporate banking, wealth management, finance and insurance (Karthikeyan & Gowri, 2017). Axis Bank is the first new generation private sector bank to have begun operations in 1994 (Jain, 2017). This bank provides the entire spectrum of financial services, MSME, Agriculture and Retail businesses. Kotak Mahindra Bank is India's first non-financial company to convert into a commercial Bank. This bank was formed in 1985. It offers a wide range of financial services to corporate and retail customers. The study has been carried out for the time period of 2017-18 to 2021-22.

Hypothesis of study

HO-There is no significant difference between the selected key performance ratio of selected Indian private banks.

H1- There is a significant difference between the selected key performance ratio of selected Indian private banks.

Data Collection

This study is mainly based on secondary data and this data is collected from the bank's annual reports and authentic website of Money control.

Data Analysis

For the purpose of analyzing data and fulfillment of objectives, two major two tools are used. First is Key performance ratios and second is ANOVA one way factor.

Results and Discussion

Table 1. Net profit Margin ratio (NPM)

Year	HDFC	ICICI	AXIS	KMB
2017-18	21.79	12.33	0.60	20.68
2018-19	21.29	5.30	8.50	20.32
2019-20	22.86	10.60	2.59	20.08
2020-21	25.74	20.46	10.35	25.94
2021-22	28.93	27.02	19.33	31.70
Mean	24.122	15.142	8.274	23.744
Maxi	28.93	27.02	19.33	31.70
Mini	21.29	5.30	0.60	20.08

Sources :https://www.Moneycontrol.com

The Above table shows net profit margin ratios Of selected private banks in India. NPM ratio indicates how much profit the company makes on its revenue (Heikal et al., 2014). That's why the NPA ratio is based on net income and revenue Here, net income means net profit and revenue means a service provided by a bank to its customers. During the study period, the average performance of HDFC Bank is 24.122 it is the highest mean compared to other banks. The second position is held by KMB with an average mean of 23.744. The average performance of ICICI Bank was 15.142 during the study period. The average of AXIS Bank is 8.274. it show very poor performance compared with other banks.

Table 2. Operating

Year	HDFC	ICICI	AXIS	KMB
2017-18	2.82	-19.36	-23.35	0.16
2018-19	3.48	-17.58	-15.37	1.09
2019-20	2.60	-11.38	-22.20	2.13
2020-21	4.89	-3.50	-12.96	5.60
2021-22	5.83	5.58	-3.25	8.20
Mean	3.92	-9.25	-15.41	3.44
Maxi	5.83	5.58	-23.75	8.20
Mini	2.60	-3.50	-3.25	0.16

Profit Margin ratio(OPM)

Sources :https://www.Moneycontrol.com

The Above table shows the operating profit margin ratio of selected Indian private banks in India. OPM ratio is based on operating profit and sales (Bustani et al., 2021; Choiriyah et al., 2020). OPM ratio indicates how much profit can be generated by banks from their services and how well banks operate their operations effectively (Zarrouk et al., 2016). In this study, the average performance of HDFC Bank is 3.92 %. It's high compared with other banks. The second position is held by KMB with an average Performance of 3.44%. The average performance of ICICI and AXIS Bank is not good. It causes loss during the study period.

Table 3. Current Account Saving account (CASA)

Year	HDFC	ICICI	AXIS	KMB
2017-18	43.49	51.68	53.75	50.75
2018-19	42.37	49.61	44.37	52.49
2019-20	42.23	45.11	41.19	56.16
2020-21	46.11	46.28	44.92	60.44
2021-22	48.16	48.69	44.99	60.68
Mean	44.47	48.27	45.84	56.10
Maxi	48.16	51.68	53.75	60.68
Mini	42.23	45.11	41.19	50.75

Sources :https://www.Moneycontrol.com

The above table shows the current account or saving account (CASA) ratio. It is a ratio of deposits in savings and current accounts to total deposits. During the study period, CASA ratios of all banks were high and close to each other. KMB achieved 56.10%. It's too high to compare with the other three banks. In this ratio, the performance of ICICI is good, but Axis and HDFC Bank achieve 48.27% and 44.47% respectively.

Table 4. Return on capital employed(ROCE)

Year	HDFC	ICICI	AXIS	KMB
2017-18	3.20	2.91	2.34	2.80
2018-19	3.34	2.52	2.47	2.77
2019-20	3.33	2.67	2.68	2.86
2020-21	3.42	3.10	2.70	3.32
2021-22	3.22	2.92	2.20	2.93
Mean	3.30	2.82	2.48	2.94
Maxi	3.42	3.10	2.70	3.32
Mini	3.20	2.52	2.20	2.86

Sources :https://www.Moneycontrol.com

The last table shows the ROCE ratio. It's known as Return on Capital employed ratio. This ratio indicates how much return and profit are being generated from banks from their capital and investment. In this study, the average performance of HDFC Bank is 3.30% , KMB is 2.94% and ICICI Bank is 2.82% . It shows very high trends. The average performance of Axis Bank is only 2.48%. It shows a very low trend compared with the other three banks.

Table 5. Hypothesis testing

Name of ratio	F value	P value	F-crit value
NPM ratio	6.67059	0.0039	3.2388
OPM ratio	9.8674	0.0006	3.2388
CASA ratio	0.2024	0.8931	3.2388
ROCE ratio	14.6861	0.0000	3.2388

In the NPM ratio, the F value is greater than F- crit value. That's why the Ho hypothesis is rejected and the H1 hypothesis is accepted. The second ratio is OPM ratio. In this case again F value is greater than F-crit value. So, the Ho hypothesis is rejected and the H1 hypothesis is accepted. The result of the CASA ratio is reversed to compare the other three ratios. Here F value is less than F-crit value for this reason Ho is accepted and H1 is rejected.

The last ratio is ROCE ratio. It revere's first two results. F value is greater than F-crit value. As par congratulations Ho is rejected and H1 is accepted.

Conclusion

The NPM ratio of HDFC Bank and KMB is high. This indicates the banks can generate more profit from their revenue. It means the banks provide more expensive services or else the expenses of banks are very low compared with other banks (Guibourg & Segendorff, 2007). According to Bansal & Mohanty (2013) while performance of ICICI Bank and AXIS Bank is very low, that shows banks cannot generate a good profit from their revenue and extend expenses. It may be high compared to the above two banks.

In the OPM ratio, operating cost is an important element. A high OPM ratio shows banks can maintain their operating cost. That means HDFC and KMB maintain their operating cost. That's why both banks generate more profit from services. But the OPM ratio of ICICI and AXIS Bank is negative. It shows both banks are not maintaining their operating cost and the bank can't generate a good profit from their services.

In the CASA ratio, the performance of all banks is high. That means the cost of deposits of all banks are low and additionally it indicates better operating efficiency of all banks and it also indicates high interest margins. But KMB performed good CASA ratios compared with other three banks during the study period.

Generally, more than 15% ROCE ratio is good for investment according to investors point of view (Richardson, 2006). But during the study period, banks did not achieve the accepted percentage. It shows at present all banks are not utilizing its capital effectively and not provide good returns on long term investments.

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