FINANCIAL PERFORMANCE ANALYSIS OF SELECTED COMMERCIAL BANKS

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Abstract

Commercial banks are playing an important role in the financial system of a country. This study evaluates the financial performance of commercial banks in Tiruchirappalli. The data are collected for this study is obtained from the annual reports and websites of the respective banks, and from other sources like investor’s guide, newspaper, newsletters of the banks of Tiruchirappalli. The results of this study indicate that the profitability and its impact on capital adequacy and financial leverage, whereas the study did not ratify the association between the profitability and efficiency of the banks. The impact of financial and oil crisis might have disposed of the financial leverage of the banks thereby resulted in an adverse effect on the profitability of the commercial banks.

Keywords: Financial Performance, Rations, Performance Analysis.

Introduction

The banking institution is indispensable in modern society. It plays a vital role in the economic development of a country and forms money marketing in an advanced country. In a stable economic system, banking activities hold a remarkable role by enhancing financial resources for industrial activities which intern generate employment opportunities and overall development of the country. A robust banking sector is very significant for a healthy economy. One in every of the foremost vital and major roles contend by the banking sector is that of loaning business. It’s usually inspired as a result of it's the result of funds being transferred from the system to productive functions that conjointly result in the economic process. As there are a unit execs and cons of everything, constant is with loaning business that carries credit risk, that arises from the failure of the receiver to satisfy its written agreement obligations either throughout the course of dealing or on a future obligation. The failure of the banking sector could have Associate in a nursing adverse impact on different sectors. Now- playing assets area unit one in each of the main considerations for banks in India. NPAs mirror the performance of banks.
Review of Literature

Dhruv Sharma (2019) examined that the two Banking system of an economy is of predominant importance two for its monetary and financial development. It types the core of the monetary region and plays a necessary position in transmitting monetary coverage impulses to the whole economic machine. NPAs have turned to be a principal stumbling block affecting the profitability of Indian Banks before 1992, Banks did no longer divulge the horrific debts sustained through them and provision made by using them fearing that it may additionally have an adverse.

Jyotirmoy Koley (2019) investigated that the Indian banking sector is an important component of the Indian financial system. It has a strong impact on the economic development and growth of the nation. The present study is made to measure the financial position, performance and efficiency of the largest public sector bank (SBI) and private sector bank (HDFC). The objective of the study is to identify the financial position and performance of the selected banks and to examine whether any significant difference exists in their performance. The study is based on secondary data which has been collected from annual reports of the selected banks covering a period of five years from 2013-14 to 201718. The CAMEL model has been used to assess the financial strength of the selected banks. T-test has been used on the important parameters like capital adequacy, asset quality, management efficiency, earnings ability and liquidity to draw the conclusion to the study.

Adel Sarea et al., (2017) identified that this study evaluates the financial performance of commercial banks in Bahrain. The data worn in this study are obtained from available annual information and websites of the relevant banks, investor’s guide, and newspaper, newsletters of the banks and from the Central Bank website. We use regression, correlation analysis & t-tests to resolve the relationship between dissimilar financial parameters. The results of the study indicate that productivity has an impact on capital adequacy and financial leverage, while the study did not confirm the relationship between the profitability and efficiency of the banks. This study also reveals that the enforcement of a higher capital adequacy ratio will adversely affect the profitability of the banks. The impact of finance might have influenced the financial leverage of the banks thereby resulted in a difficult achieve on the profitability of the banks.

Scope of the Study

The scope of the study is as the banks can improve their financial position or can increase their income from credits with the help of this study. This study can be used for comparing the performance of the bank with other banks.

Objectives of the Study

1. To estimate the financial performances of commercial banks.
2. To analysis predetermined hypotheses related to the financial performance of the commercial banks.

Hypothesis of the Study

- H1: There is a significant relationship between capital adequacy ratio and banks profitability.
H2: There is no significant impact of leverage ratio on profitability (ROA and ROE) of the banks.

**Analysis and Interpretation**

**Table. No. 1 REGRESSION MODEL FOR ROE (PROFITABILITY) ON COST TO INCOME (EFFICIENCY)**

<table>
<thead>
<tr>
<th>R</th>
<th>R²</th>
<th>Adjusted R²</th>
<th>Standard Error</th>
<th>F- Value</th>
<th>F-Critical value</th>
</tr>
</thead>
<tbody>
<tr>
<td>0.165</td>
<td>0.027</td>
<td>-0.135</td>
<td>14.95</td>
<td>0.169</td>
<td>5.987</td>
</tr>
</tbody>
</table>

a. Predictors: (Constant), cost to income

The above table provides the R and R2 value. The R-value is 0.165, indicate a low degree of association between profitability and efficiency of the banks. In this case, the coefficient of resolve (R2:0.027) value indicate that ROE is not dishonesty around the mean of cost to income ratio. This result is also supported by the result of F test, where 0.169(F value) is less than 5.987(F Critical value) indicates high significance of regression model. Therefore, it is evident that there is no significant relationship between the cost to income ratio and the profitability.

**Table. No.2 REGRESSION COEFFICIENTS**

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Unstandardized Coefficient</th>
<th>Standard Error</th>
<th>Standardized Coefficient</th>
<th>t-value</th>
<th>p-value</th>
<th>t-Critical value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Constant</td>
<td>-13.849</td>
<td>46.184</td>
<td>0.165</td>
<td>-0.300</td>
<td>0.774</td>
<td>6.313</td>
</tr>
<tr>
<td>COI</td>
<td>0.280</td>
<td>0.683</td>
<td>0.411</td>
<td>0.696</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

a. Dependent Variable: ROE (profitability).

Table. No. 2, reveals the information of each predictor variable. It is clear from the Table that both are stable and ROE does not contribute significantly to the model as the sig. The value is higher than 0.05. Since two tests provide contradictory results, it is not possible to confirm the relationship between the profitability and efficiency of the banks (Paleckova, 2014). Therefore, we reject the hypothesis and can be concluded that there is no significant relationship between CIR and the profitability of the banks.

**Conclusion**

After examining the results of regression, t-test, and p-value, it is not possible to confirm the relationship between the profitability and efficiency of the banks (Paleckova, 2014). The test for determining the impact of capital adequacy ratio on profitability (ROA and ROE) ensured the relationship between the variables. The t-test values of profitability parameters are -1.310 & -2.702 respectively. Our results contradict the result of (Altunbas et. al., 2007), (Aspal and Nazneen, 2014). The R-value indicates weak relationship efficiency on leverage ratio 0.220 & 0.490 for ETA and LTA respectively. The p-value for ETA and LTA is 0.66 & 0.217 respectively, which indicates an insignificant relationship between efficiency and leverage ratio.
However the t-test value for LTA is -1.376, this indicates a negative association between efficiency and leverage ratio of the banks (Javed, et. al., 2015). The correlation analysis of customer deposits, profitability, efficiency, financial strength and leverages of the banks of Tiruchirappalli were not positively correlated.

Reference

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