



## **PERFORMANCE OF SELECT PRIVATE BANKS IN KARUR DISTRICT**

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### **ABSTRACT**

*Banking system has a significant place in the nation and it is indispensable in a modern society. It is comparable to a “heart” of the economic organism “pumping in” the “savings” and “pumping out” the “investible funds” in diverse channels. It forms the core of the financial system of a country. Although the financial system of India is still characterized by the existence of both the organized and unorganized segments, institutions in the organized financial system have grown significantly and are playing an increasingly important role. The unorganized sector comprises of the moneylenders and indigenous bankers catering to the credit needs of a large number of persons especially in the country side. Organized financial sector has a wide mixture which comprised of commercial banks, co-operative banks and the other institutions. Amongst the institutions in the organized sector, commercial banks are the oldest institutions having a wide network of branches, commanding utmost public confidence and having the lion’s share in total banking system. Present study explained the performance of select private banks in karur district.*

**KEYWORDS:** *financial performance, asset valuation, expenses, invisible funds*

### **INTRODUCTION**

Banking sector plays a pivotal role in the development of an economy. The development role it undertakes determines the pace of development of the economy. The recent global financial crisis has triggered fall of many economies, contributed by financial losses and large non performance assets in banking sector. The impact of financial crisis on different economies varies and depends on the stability of the banking sector. The Asian financial crisis that began in July 1997 impacted the major Asian economies, but proved little impact on countries which had a strong banking sector. A notable feature in the banking sector regulations after Asian financial crisis was the thrust given to balancing financial liberalization with adequate regulatory and supervisory framework.<sup>1</sup>

Many authors view financial crisis as a natural event to correct the flaws in the economy. They viewed financial crisis as a tool to examine how capital affects the competitive positions of banks. The way in which it counteracts in financial crisis situation determines the stability and

competitiveness of bank. Authors who carry this view consider financial crisis as a necessary tool to excavate the problems faced by banks, which otherwise remains unnoticed and leads to liquidity problems and closure of banks. The financial crisis elevates the riskiness and highlight the risk absorption capacity of capital provides valid insight into the quality of assets the bank carries.

The stability of financial institution is determined mainly based on its quality of assets and performance indicators. Quality of assets determines the survival and existence of business. Performance is judged on the basis of profitability. The financial institutions were considered stable during crisis period if the profitability and quality of assets is not affected. The stability of banking sector is vital for economic growth. In a report of Financial Stability (2010), the Reserve Bank of India (RBI) stressed the importance of banking sector in Indian economy. It is noted that “Banks have traditionally been the most important financial intermediaries in India, accounting for approximately 70 Per cent of the total assets in 2009.<sup>2</sup> The commercial banks dominate the

sector, comprising more than three-fifths of the financial system assets. The financial intermediation by banks in India has played a central role in supporting the growth process, by mobilizing savings". So any issues in banking sector directly impact the well being of the economy.

The emphasis during post-liberalization era in Indian banking sector is focused on improving the transparency and to integrate best practices in banking sector. The various committees' including Dr. Narasimham Committee and Verma Committee emphasized the need to maintain quality of assets as a prerequisite for a vibrant and strong banking sector. The increased presence of Non Performing Assets posed a strategic threat to the existence of banking sector.<sup>3</sup> The question is whether the prudential measures that were taken after the financial liberalization enabled the bank to shun the impacts of Global Financial Crisis. For banking sector, this can be studied only by addressing the trends of movement of certain financial indicators that affect the asset quality and performance of banks.

Banking system soundness is more important because it gives some indication of how likely it is that financial problems would be transmitted to the real economy (for example) a reduction in the supply of loans. The stability of banking sector hence determines the extent to which the crisis affects the whole economy. The regulators hence concentrated their attention on implementing Basel III accord, which according to them improves the quality of assets, hence enable the bank to withhold the impacts of any financial crisis.<sup>4</sup> Remarkd that Basel III was developed expressly to reduce both the frequency and intensity of financial crisis. According to him, the results of various studies indicate that the accord will lower the very significant economic costs of crisis. Such benefits will not materialize, however, unless we fully and consistently implement it. Any weakening of the standards or delay in implementing them will only hinder efforts to restore confidence in the financial system.

### **NEED AND IMPORTANCE OF THE STUDY**

Since the era of economic reforms, banking sector has been witnessing numerous changes. The new private sector banks introduced number of new innovative products. These banks are also offerings their services through new age distribution channels like ATM, internet banking, mobile banking, etc. All these factors have affected the performance of both the public sector banks and private sector banks. A large no of studies have already been conducted in banking sector in order to analyse the financial performance of Public sector banks, comparative study on the financial performance of both Public sector banks and Private sector banks. So the present

study is an attempt to analyse the performance of select private sector banks in Karur District.

### **STATEMENT OF THE PROBLEM**

Competitive pressure is building up for Indian banks both from within and from outside. Competition is likely to intensify in the coming years within the industry, from non banking financial corporation and from foreign entities. Competition is not just in terms of number of competitor's specialised markets, cross-border trade in financial services and capital flows. Indian banking sector reforms have made progress but Indian banks' not become competitive internationally. These banks cannot lag behind other countries and we have to transform the Indian banking system from being a largely domestic one to a truly international one, and this should enable India to emerge as an international banking center. In this juncture the researcher has focused to analyze the performance of selected private banks towards customer services as well as the performance of financial services in Karur District.

### **OBJECTIVES OF THE STUDY**

To present an overview of banking sector in India,  
To evaluate the variables of Profit and Loss A/c and Balance sheet of Select private sector banks.

### **ANALYSIS AND INTERPRETATION**

The income statement is one of the four basic financial statements that a company prepares each accounting cycle. The income statement reflects a company's operating performance. The income statement also shows changes in the company's assets and obligations. The important thing to remember about an income statement is that it represents a period of time. This contrasts with the balance sheet, which represents a single moment in time. The income statement is prepared on an accrual basis. The income statement displays the revenues recognized for a specific period, and the cost and expenses charged against these revenues, including write offs (e.g., depreciation and amortization of various assets) and taxes. The income statement is also referred to as a "profit and loss statement", revenue statement, statement of financial performance, earnings statement, operating statement and statement of operations.

### **TOTAL INCOME**

The sum of all money received by an individual or organization, including income from employment or providing services, revenue from sales, payments from pension plans, income from dividends, or other sources. Total income may be calculated for purposes of assessing taxes, evaluating the net worth of a company, or determining an individual or organization's ability to make payments on a debt. The details of growth status on total income of the sample banks given in the following table.

**Table 1**  
**Details of Growth Percentage on Total Income**

S.No	Name of the Bank	Min.Value	Max.Value	Mean	SD	CV(%)	CAGR(%)
1	Axis Bank Ltd.	10.65	61.03	34.24	20.08	58.65	9%
2	City Union Bank Ltd.	-3.51	49.17	22.80	15.42	67.62	18%
3	Dhanlaxmi Bank Ltd.	-14.45	67.66	22.56	24.20	107.27	21%
4	Federal Bank Ltd.	-5.25	38.02	17.77	14.16	79.65	19%
5	H D F C Bank Ltd.	1.61	56.38	33.19	17.44	<b>52.54</b>	5%
6	I C I C I Bank Ltd.	-17.01	353.73	<b>50.35</b>	109.27	<b>217.02</b>	-25%
7	Karnataka Bank Ltd.	-5.14	29.47	<b>13.85</b>	11.15	80.53	18%
8	KVB Ltd.	-3.31	46.5	20.73	13.89	66.99	18%
9	LVB Ltd.	-9.8	39.62	17.65	15.29	86.62	<b>46%</b>
10	TMB Ltd.	-4.71	34.06	16.67	11.75	70.47	17%

Source: Annual Reports

The above table implied that the mean amount of growth per cent in total income ranges from 13.85 to Rs. 50.35 during the study period among the private banks. The ICICI Bank Ltd. had higher mean amount of growth per cent in Total Income and Karnataka Bank Ltd. had least mean amount of growth per cent in total income during the period of study. The HDFC Bank Ltd. showed least coefficient of variation indicating the consistent performance in the growth per cent in total income and the ICICI Bank Ltd. showed highest coefficient of variation indicating the inconsistent performance in the growth per cent in total income. Among the private banks the LVB Ltd. had higher compound

growth rate than all other private banks during the study period.

### TOTAL EXPENSES

Expenses are costs spent on operations, such as the purchase of goods, advertising, rent and employees' salaries. Expenses are different from expenditures because they are recorded on an income statement according to the actual period in which they expired. For example, a payroll expense is considered immediately applicable to the period in which it was issued, because it was spent on manpower that was already used. The particulars of total expenses and growth per cent of ten banks are depicted in table 2

**Table 2**  
**Growth Percentage on Total Expenses**

S.No	Name of the Bank	Min.Value	Max.Value	Mean	SD	CV(%)	CAGR(%)
1	Axis Bank Ltd.	-4.88	69.72	24.20	26.30	108.69	<b>29%</b>
2	City Union Bank Ltd.	-0.46	50.56	22.32	16.14	72.34	20%
3	Dhanlaxmi Bank Ltd.	-4.88	69.72	24.20	26.30	108.69	<b>29%</b>
4	Federal Bank Ltd.	-2.36	39.98	16.99	14.56	85.71	22%
5	H D F C Bank Ltd.	-2.18	58.55	33.34	19.83	<b>59.47</b>	6%
6	I C I C I Bank Ltd.	-19.51	352.37	<b>49.93</b>	109.57	<b>219.44</b>	-25%
7	Karnataka Bank Ltd.	-7.25	30.24	<b>14.20</b>	12.03	84.72	21%
8	KVB Ltd.	5.58	50.83	21.39	14.72	68.84	20%
9	LVB Ltd.	-0.06	42.69	17.88	15.51	86.74	#
10	TMB Ltd.	-5.74	35.7	16.38	12.96	79.12	19%

Source: Annual Reports

The above table expressed that the mean amount of growth per cent in total expenses ranges from 14.20 to Rs. 49.93 during the study period among the private banks. The ICICI Bank Ltd. had higher mean amount of growth per cent in total expenses and Karnataka Bank Ltd. had least mean amount of growth per cent in total expenses during the period of study. The HDFC Bank Ltd. showed

least coefficient of variation indicating the consistent performance in the growth per cent in total expenses and the ICICI Bank Ltd. showed highest coefficient of variation indicating the inconsistent performance in the growth per cent in total expenses. Among the private banks the Axis Bank Ltd. and Dhanlakshmi Bank Ltd. had higher compound growth rate than all other private banks during the study period.

## FINDINGS

- It is found that ICICI bank Ltd. showed 217.02 Per cent highest coefficient of variation indicating the inconsistent performance in the growth per cent in total income. The LVB Ltd. had 46 Per cent higher compound growth rate than all other private banks during the study period.
- It is shown from the analysis that ICICI bank Ltd. showed 219.44 Per cent highest coefficient of variation indicating the inconsistent performance in the growth per cent in total expenses. The Axis Bank Ltd. and Dhanlakshmi bank Ltd. had 29 Per cent higher compound growth rate than all other private sector banks.

## RECOMMENDATIONS

- Demographic factors are the most significant as well as the independent factors of the respondents in determining the utility of enabled banking services offered by banks. So it is necessary for every bank to pay much attention on these factors this study reveals and provides much more opportunity to banks to extend the facilities to various segments of people.
- The bank can make strategy to cover the uncovered areas, the strategy may be varies from group to group. Already some of the Indian banks are adopted and offered some of the strategy oriented facilities to cover a particular segment.
- It can be further improved like designing discriminated services like specialized Personal banking services to old age people, local and remote language in ATM and other day to day transactions with banks to encourage illiterate, plan some new type of accounts and deposits for women empowerment and development like "Shakthi Account", easy and quick fund transfer and fast track cash delivery option, to save time and effort of the employee segment
- The bank can have a tie up to arrange the payment services like telephone bill, electricity bill, insurance bill, e-tax filing, etc., it is very much essential for all the banks to establish very tighten security for all range of banking transactions. Nevertheless of the category, all the peoples are expecting the security aspects, since hot currency is involved in all the transactions.

## CONCLUSION

After opening up the financial sector to the global player, Indian banking sector faces enormous challenges of attracting and retaining customers. The present study revealed that the Private Sector Banks are offering more value added services for special

group of customers. The overall scenario for banking behaviour of customers is almost similar for public sector banks and private sector banks. Developing a product for the customers without knowing what the customer expects is in vain as regards to the expectations and perception of the customers regarding service quality with respect to different types of services. The financial performance of the selected ten private sector banks is analysed using different parameters. The selected private sector banks have performed well on the sources of growth rate and financial efficiency during the study period. The private sector banks play a vital role in marketing of new type of deposits and advances schemes. However these banks, by earning at least a nominal profit, have to serve the economy through extension of advances and safeguard the interest of their investors by providing the expected return on their investment in banks. These forces the private sector banks not only to increase their earnings but also to create surplus out of their banking activities. The Indian banking system faces several difficult challenges. Therefore, the banks have to reorient their strategies in the light of their own strengths and the kind of market in which they are likely to operate on. In this perspective of this domestic and international development, the banking sector has to chart out a perfect path for the development in its own.

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