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ANALYZING SOUNDNESS IN INDIAN NEW PRIVATE SECTOR BANKS

Abstract :

This research article explores the soundness of new private sector banks in India. The study covers the evaluation of financial performance and credit worthiness of selected new private sector banks in India during the last 12 years starting from 2001 to 2012. The main objective of this research articles is to study the creditworthiness, to analyse the financial performance and investor can take investment decision after studying risk involved in the same. Here in this research study tool for the financial appraisal is ratio analysis and for the fulfilment of the objectives, we have taken total 5 key ratios for the study for the fulfilment of the objectives. Hear bank wise analysis is require so for the justification of this objective we have used one way ANOVA test as it is very suitable for my research article.

Keywords: *Soundness, Worthiness, Fulfillment, Financial, investment decision.*

Introduction:

Banking sector is known as back bone of any country's economy because it plays a very key role in the development of any sector in the country. This sector has been growing very fast during the last decades. Means in the last decade there has been many positive developments in the Indian banking sector. In India we have mixture of three banking sector industry like public, private and foreign ownerships.

In this study we have taken 7 new private sector out of total 25 private sector banks in India. Here in this study we have tried to measure the financial performance of new private sector banks working in India. And also we tried to find out credit worthiness and soundness of the banks by applying the different parameter. This study is for the duration of 12 years starting from 2001 to 2012.

SIGNIFICANCE OF THE STUDY:

Indian Banking sector plays a very crucial role in the development of economics stability and trading activities in India. We can say that Indian banking sector is a vibrant sector of Indian economy. Due to the global explosion, Indian private sector bank has boasted the growth. Private sector banks have been performing well since they have to compete with the public sector banks and foreign banks.

In this study, we have taken total 7 new private sector banks for the research study. With the help of the research one can know about the credit worthiness of the banks. And one can know the profit ability of selected new private sector banks working in India. And also with the help of the study investor can take investment decision after studying the risk involved in the same. So for the investment purpose this study will be very much helpful as we have taken the parameter which reflect the credit worthiness of the business, management efficiency, and earning per share and dividend per share.

REVIEW OF LITERATURE

A literature review is a part of scientific process in which critical and in depth evaluation of previous research is to be done. The aim of literature review is to to review the current knowledge which

includes substantive findings.

"Comparative Analysis of Financial Performance of Private Sector Banks in India: Application of CAMEL Model" this research article was written by Sumeet Gupta and Renu Verma. In this article he has taken 10 major private sector banks in India for the period of 2003 to 2007. The main objective of the study is to study the overall performance of major Private Sector Banks applying CAMEL Model. And on the basis of result study suggest performance of the banks in future.

"Analyzing Soundness in Indian Banking: A CAMEL Approach" this research paper was written by Mishra Aswini Kumar, G. Sri Harsha, Shivi Anand and Neil Rajesh Dhruva. The objective of this paper is to analyse the financial performance of 12public and private sector banks for the period of eleven years starting from 2000 to 2011. In this articles author has used CAMEL approach and tried to find out the soundness of the banks in his study. In his study he found at the looking at the trend that Private Banks are growing at a faster than public sector banks.

Mr mabwe Kumbirai and Robert web has written a research articles named "A financial Ratio Analysis of Commercial Bank Performance in South Africa". This research paper tried to find out the performance of South Africa's commercial banking sector for the period of 2005-2009. Financial ratios are used here to measure the profitability, liquidity and credit quality performance of five large banks in South Africa. This research study found that overall performance of banks has increased considerably in the first two years. And there is significant change in trend is noticed at the onset of the global financial crisis in 2007.

Mr Cheenu Goel and Chitwan Bhutani Rekhi has written a research articles named "A Comparative Study on the Performance of Selected Public Sector and Private Sector Banks in India" In their research study they attempts to measure the relative performance of Indian banks. For this study they have used public sector banks and private sector banks. The main aim of the study is to compare the profit earning capacity and to investigate the factor affecting the profit earning capacity of selected banks during the period.

OBJECTIVES OF THE STUDY:

The following are the objectives of the study.

1. To study the creditworthiness of the selected new private sector banks in India.
2. To analyze financial performance of selected new private sector banks in India.
3. To take investment decisions after studying risks involved in the same.

HYPOTHESIS:

This specific hypothesis is tested while analyzing and interpreting the results. The following hypotheses have been taken to put on test:

H0: There would be no significant difference in Capital Adequacy Ratio (CAR) of all the sampled banks during period of study.
H1: There would be significant difference in Capital Adequacy Ratio (CAR) of all the sampled banks during period of study.
H0: There would be no significant difference in Net Profit Margin (NPM) of all the sampled banks during period of study.
H1: There would be significant difference in Net Profit Margin (NPM) of all the sampled banks during period of study.
H0: There would be no significant difference in Dividend per share (DPS) of all the sampled banks during period of study.
H1: There would be significant difference in Dividend per share (DPS) of all the sampled banks during period of study.
H0: There would be no significant difference in Current Ratio (CR) of all the sampled banks during period of study.
H1: There would be significant difference in Current Ratio (CR) of all the sampled banks during period of study.
H0: There would be no significant difference in Earning Per Share (EPS) of all the sampled banks during period of study.

H1: There would be significant difference in Earning Per Share (EPS) of all the sampled banks during period of study.

METHODOLOGY:

The present study adopts an analytical and descriptive research design. The data of the sample companies for a period of ten years 2001 to 2012 has been collected from the annual reports and the websites of the banks.

A fix sample size of seven banks listed on the National Stock Exchange (NSE) has been selected for the purpose of the study out of total 25 banks in India. The variables used in the analysis of the data are Capital adequacy ratio, current ratio, Earning Per Share, Net Profit Margin and Dividend Per Share. While interpreting the results, the statistical tool of one way Analysis of Variance **(ANOVA)** has been used.

SAMPLE DESIGN

Sampling Technique:
This study is based on secondary data collected through various web sites, The present study will be in the nature of empirical study. There are total 25 private sector banks in India out of it I have taken only 7 new private sector banks in my study.

Sample Size:
In this study, we have taken total 7 new private sector Banks in India.

1. HOUSING DEVELOPMENT FINANCE CORPORATION LTD. (HDFC)
2. AXIS BANK
3. INDUSTRIAL CREDIT AND INVESTMENT CORPO. OF INDIA (ICICI)
4. YES BANK
5. KOTAK MAHINDRA BANK
6. INDUSIND BANK
7. DEVELOPMENT CREDIT BANK (DCB)

TIME PERIOD OF THE STUDY:
The study has been conducted from 2000-01 to 2011-12

DATA COLLECTION:

I have collected the raw data from various websites such as www.capitaline.com, www. moneycontrol.com, www.rbi.org and other Banks websites and annual reports.

TOOLS USED FOR ANALYSIS:

- ***Ratio analysis:*** Ratios have been calculated for the past 12 years for the purpose of analysis.
- ***Analysis of Variance:*** The statistical tool that is used for testing hypothesis is one way analysis variance (ANOVA).

FINANCIAL ANALYSIS

In this research study we have selected the following ratios which fulfill the objectives of the study. The ratios are being calculated by the data available on the concerned website. As research study require the banks wise analysis so for the fulfilment of this objective we have used one way ANOVA test.

1. Capital adequacy ratio (CAR)
2. Current ratio (CR)
3. Earning per share (EPS)
4. Net profit margin (NPM)
5. Dividend per share (DPS)

CAPITAL ADEQUACY RATIO:

Capital adequacy ratio (CAR) is also known as capital to risk assets ratio. CAR is the ratio of a bank's capital to its risk. Capital adequacy ratio is the ratio which determined the bank's capacity to meet the time liability and other risk such as credit risk, operational risk etc.

FORMULA:

Capital adequacy ratios (CARs) are a measure of the amount of a bank's core capital expressed as a percentage of its risk weighted assets.

TIER 1 CAPITAL =
Paid up capital + statutory reserve + free reserve – (intangible assets + current losses + investment in subsidiary)

TIER 2 CAPITAL =
Undisclosed reserve + general loss reserves + cap. Investment

RISK WEIGHTED ASSETS =
Fund based assets such as cash, loans, investments and other assets and also it include non fund based assets.

Table no. 1

Capital Adequacy Ratio in % for selected new private sector banks in India

YEARS	ICICI	AXIS	HDFC	INDUSIND	DCB	YES	KOTAK
2001	11.57	9.00	11.09	15.00	11.28		
2002	11.44	10.65	13.93	12.51	11.49		30.47
2003	11.10	10.90	11.12	12.13	10.08		25.70
2004	10.36	11.21	11.66	12.75	14.26		15.25
2005	11.78	12.66	12.16	11.62	9.88	18.81	12.80
2006	13.35	11.08	11.41	10.54	9.66	16.43	11.27
2007	11.69	11.57	13.08	12.54	11.34	13.60	13.46
2008	13.97	13.73	13.60	11.91	13.38	13.60	18.65
2009	15.53	13.69	15.09	12.33	13.30	16.60	20.01
2010	19.41	15.80	16.45	13.40	14.85	20.60	18.35
2011	17.63	12.65	15.32	14.39	13.25	16.50	18.73
2012	16.26	13.66	15.71	11.87	15.41	17.90	16.51
AVG.	13.674	**12.216**	13.385	12.582	12.348	16.755	**18.290**

http://www.capitaline.com

The CAR of KOTAK banks is substantially higher than that of ICICI, AXIS, HDFC, INDUSIND, DCB, YES bank during the last twelve years i.e. 2001 to 2012. On an average CAR of KOTAK bank has kept 18.290, highest among all, followed by ICICI (13.674), AXIS (12.216), HDFC (13.385), INDUSIND (12.582), DCB (12.348), YES BANK (16.755). And the lowest among the seven banks is AXIS (12.216). Generally CAR is maintained as specified by RBI from time to time the analysis reveals that KOTAK Bank ensures high safety and AXIS bank ensures low safety against bankruptcy.

The CAR position of sample Banks is compared and tested using the following hypothesis. The details are shown in below table.

Hypothesis Testing

H0 : There would be no significant difference in CAR of all the sampled units during period of study.
H1 : There would be significant difference in CAR of all the sampled units during period of study.

ANOVA TABLE
For Capital Adequacy Ratio

Source of Variation	*SS*	*df*	*MS*	*F*	*F crit*
Between Groups	364.0739	6	60.67898	7.369778	2.227404
Within Groups	592.8111	72	8.233488		
Total	956.885	78			

Since the calculated value of F is 2.2274 which is greater than the table value of 2.21 at 5% significance level, the null hypothesis is rejected and the alternative hypothesis is accepted hence, it is concluded that the CAR position of ICICI, AXIS, HDFC, INDUSIND, DCB, YES and KOTAK differ significantly.

CURRENT RATIO:

Current ratio is an indicator of short term debt-paying ability of a bank. Current ratio used primarily to ascertain a bank's ability to pay back its short-term liability. The higher the current ratio, the better the bank's ability to pay its obligations. The higher the ratio, the more liquid the bank is. A ratio under 1 suggests that the bank would be unable to pay off its obligations if they came due at that point. Although this may indicate that the bank is not in good financial health, it does not necessarily mean that it will go bankrupt. But it is not good sign. The current ratio can give a sense of the efficiency of a bank's operating cycle. The current ratio is calculated by dividing current assets by current liabilities.

Formula:

Table no. 2

Current Ratio in % for selected new private sector banks in India

YEARS	ICICI	AXIS	HDFC	INDUSIND	DCB	YES	KOTAK
2001	0.03	0.03	0.07	0.06	0.03		0.20
2002	0.10	0.03	0.06	0.06	0.03		0.12
2003	0.13	0.04	0.06	0.08	0.04		0.10
2004	0.11	0.04	0.03	0.06	0.04		0.02
2005	0.09	0.06	0.03	0.08	0.05	0.07	0.03
2006	0.08	0.04	0.04	0.07	0.05	0.05	0.04
2007	0.09	0.03	0.04	0.05	0.04	0.04	0.05
2008	0.11	0.03	0.04	0.05	0.03	0.05	0.06
2009	0.13	0.03	0.04	0.05	0.05	0.07	0.09
2010	0.14	0.03	0.03	0.04	0.04	0.04	0.05
2011	0.11	0.02	0.06	0.04	0.03	0.05	0.05
2012	0.13	0.03	0.08	0.04	0.03	0.08	0.05
AVG.	**0.104**	**0.034**	0.048	0.056	0.038	0.056	0.071

Source: Dion Global Solutions Limited

From the above table we can conclude that the current ratio position of ICICI Bank is very high than remaining 6 new private sector banks during the study period. It is 0.104 and AXIX Bank is the lowest that is 0.034 which saws poor liquidity management and also it doew not saws the good financial health compare to the remaining new private sector banks during the study period. YES Bank, KOTAK Bank and INDUSIND bank is having relatively medium ratio.
The Current ratio position of sample Banks is compared and tested using the following hypothesis. The details are shown in below table.

Hypothesis Testing

H0 : There would be no significant difference in Current ratio of all the sampled units during period of study.
H1 : There would be significant difference in Current ratio of all the sampled units during period of study.

ANOVA TABLE

For Current Ratio

Source of Variation	*SS*	*Df*	*MS*	*F*	*F crit*
Between Groups	0.0404	6	0.0067	10.657	2.2256
Within Groups	0.0461	73	0.0006		
Total	0.0865	79			

In the above table the calculated value of F is 2.256 which is greater than the table value of 2.21 at 5% significance level, the null hypothesis is rejected and the alternative hypothesis is accepted hence, it is concluded that the Current ratio position of ICICI, AXIS, HDFC, INDUSIND, DCB, YES and KOTAK differ significantly.

EARNING PER SHARE (EPS)

Earning per share is the measure of a company's ability to generate after tax profits per share held by the investors. Earning per share is generally considered to be the single most important variable in determining a share's price. This ratio is computed with the help of the following formula as expressed in rupee terms. This ratio help investors to take investment decision as this ratio provides net earning per share.

The earnings per share position of the sample companies is summarized in below table and discussed for the last 12 years i.e. year 2001 to 2012 for selected new private sector banks in India.

Table no. 3

Earning Per Share for selected new private sector banks in India

YEARS	ICICI	AXIS	HDFC	INDUSIND	DCB	YES	KOTAK
2001	8.72	6.53	8.63	2.56	13.07		10.80
2002	12.14	6.99	10.56	3.17	14.82		9.21
2003	19.68	8.40	15.53	-0.17	-30.36		7.58
2004	26.71	11.72	21.16	10.50	1.22		13.22
2005	27.22	11.83	27.55	7.24	-25.23	-0.19	6.88
2006	28.55	17.41	35.64	1.27	-11.20	2.05	3.82
2007	34.59	23.40	43.29	2.13	0.50	3.37	4.33
2008	37.37	29.94	44.87	4.18	1.92	6.76	8.53
2009	33.76	50.57	52.77	8.53	-5.05	10.23	7.99
2010	36.10	62.06	64.42	12.39	-3.92	14.06	16.12
2011	44.73	82.54	84.40	17.17	1.07	20.95	11.10
2012	56.09	102.67	22.02	20.30	2.29	27.68	14.65
AVG.	30.471	34.505	**35.90**	7.43	**-3.40**	10.61	9.51

Source:- www.moneycontrol.com

As shown in above table, the EPS of ICICI, HDFC, AXIS, KOTAK INDUSIND BANK AND YES BANK AND DCB mostly showed an increasing trend. The EPS of AXIS AND HDFC is substantially higher than that of ICICI, KOTAK INDUSIND BANK AND YES BANK AND DCB during the last twelve years i.e 2001

to 2012. On an average HDFC BANK has generated EPS of Rs 35.90, highest among all, followed by ICICI (30.47), AXIX (34.505), KOTAK (9.51), INDUSIND BANK (7.43) and then YES BANK (10.61). And the lowest among the SEVEN sample Banks is DCB (-.3.40). The analysis reveals that AXIS is the most efficient bank in the terms of generating earning per share.

The Earning per share position of sample Banks is compared and tested using the following hypothesis. The details are shown in below table.

Hypothesis Testing

H0 : There would be no significant difference in Earning per share of all the sampled units during period of study.
H1 : There would be significant difference in Earning per share of all the sampled units during period of study.

ANOVA TABLE

For Earning per share

ANOVA

Source of Variation	*SS*	*df*	*MS*	*F*	*F crit*
Between Groups	17114.2	6	2852.36	9.15791	2.22559
Within Groups	22736.9	73	311.465		
Total	39851.1	79			

In the above table the calculated value of F is 2.225 which is greater than the table value of 2.21 at 5% significance level, the null hypothesis is rejected and the alternative hypothesis is accepted hence, it is concluded that the Earning Per share ratio position of ICICI, AXIS, HDFC, INDUSIND, DCB, YES and KOTAK differ significantly.

NET PROFIT MARGIN (NPM)

Net profit margin indicates how much a company is able to earn after accounting for all the direct and indirect expenses to every rupee of revenue. This ratio is calculated by using the following formula and is expressed in percentage terms.

The net profit margin position of the sample companies is depicted in below table and discussed

Table No. 4 NET PROFIT MARGIN (NPM)

YEAR	ICICI	HDFC	AXIS	KOTAK	INDUSIND	YES	DCB
2001	11.01	14.53	8.18	19.52	4.79		6.86
2002	9.47	14.58	8.40	29.92	5.67		7.27
2003	9.86	15.53	10.27	18.63	9.05		8.07
2004	13.67	16.81	13.14	20.57	19.87		3.93
2005	16.32	17.77	14.33	15.35	16.98	-7.80	-46.62
2006	14.12	15.55	13.47	12.97	2.85	19.08	-23.95
2007	10.81	13.57	12.01	8.84	3.79	12.06	1.75
2008	10.51	12.82	12.22	10.37	3.45	12.01	5.29
2009	9.74	11.35	13.31	8.35	5.29	12.35	-11.63
2010	12.17	14.76	16.10	15.23	10.63	16.30	-13.88
2011	15.91	16.09	17.20	17.19	13.43	15.56	3.31
2012	16.14	15.93	15.51	15.39	12.59	13.66	6.70
Average	12.47	14.94	12.84	**16.02**	9.03	**11.65**	**-4.40**

Source:- www.moneycontrol.com

The above table reveals that KOTAK Bank outperformed than other banks in terms of net profit margin. Also, there is stagnation in the NPM position of DCB Bank. The highest NPM of KOTAK Bank is 29.92% in 2002, which of ICICI, HDFC, AXIS, INDUSIND and DCB are 9.47%, 14.58%, 8.4%, 5.67% AND -4.40% respectively. On an aggregate basis, the mean NPM of KOTAK Bank is 16.02%, the highest, thus, it can be conclude that KOTAK Bank is the most efficient bank in controlling operating expenses in comparison with remaining selected private sector banks in India.

Hypothesis Testing

H0 : There would be no significant difference in Net profit margin of all the sampled units during period of study.
H1 : There would be significant difference in Net profit margin of all the sampled units during period of study.

ANOVA TABLE

For Net profit margin

ANOVA

Source of Variation	*SS*	*df*	*MS*	*F*	*F crit*
Between Groups	3416.7	6	569.44	9.1837	2.2256
Within Groups	4526.4	73	62.006		
Total	7943.1	79			

In the above table the calculated value of F is 2.225 which is greater than the table value of 2.21 at 5% significance level, the null hypothesis is rejected and the alternative hypothesis is accepted hence, it is concluded that the Net profit margin ratio position of ICICI, AXIS, HDFC, INDUSIND, DCB, YES and KOTAK differ significantly.

DIVIDEND PER SHARE:

Dividend per share is the total dividends paid out over an entire year for every ordinary share issued. DPS can be find out when profit for dividend is divided by the number of outstanding ordinary shares issued.

DPS can be calculated by using the following formula:

D – Sum of dividends over a period (usually 1 year)
SD – Special, one time dividends
S – Shares outstanding for the period

Table no. 5 Dividend Per Share for selected new private sector banks in India

YEARS	ICICI	AXIS	HDFC	INDUSIND	DCB	YES	KOTAK
2001	2.00	1.50	2.00	1.30	3.00		1.80
2002	2.00	2.00	2.50	1.40	3.00		4.10
2003	7.50	2.20	3.00	1.40	3.00		2.10
2004	7.50	2.50	3.50	2.25	0		2.40
2005	8.50	2.80	4.50	1.80	0	0	1.25
2006	8.50	3.50	5.50	0	0	0	0.60
2007	10.00	4.50	7.00	0.60	0	0	0.70
2008	11.00	6.00	8.50	0.60	0	0	0.75
2009	11.00	10.00	10.00	1.20	0	0	0.75
2010	12.00	12.00	12.00	1.80	0	1.50	0.85
2011	14.00	14.00	16.50	2.00	0	2.50	0.50
2012	16.50	16.00	4.30	2.20	0	4.00	0.60
AVG.	**9.208**	6.416	6.608	1.379	**0.750**	1	1.366

Source: Dion Global Solutions Limited

From the above table we can say that ICICI bank give highest dividend per share than the remaining six banks and DCB give the lowest dividend per share during the study period. On an average ICICI Banks give 9.208 and AXIX (6.416), HDFC (6.608), INDUSIND (1.379), DCB (0.75), YES (1), KOTAK (1.366) during the study period. Which state that ICICI banks try to maintain their credit on the investors by giving high dividend and DCB fails to maintain their credit on the investor as it gives the lowest among the all 7 new private sector banks.

Hypothesis Testing

H0 : There would be no significant difference in Dividend per share of all the sampled units during period of study.
H1 : There would be significant difference in Dividend per share of all the sampled units during period of study.

ANOVA TABLE- For Dividend per share

ANOVA

Source of Variation	*SS*	*df*	*MS*	*F*	*F crit*
Between Groups	841.5	6	140.25	13.365	2.2256
Within Groups	766.03	73	10.494		
Total	1607.5	79			

In the above table the calculated value of F is 2.225 which is greater than the table value of 2.21 at 5% significance level, the null hypothesis is rejected and the alternative hypothesis is accepted hence, it is concluded that the Dividend per share ratio position of ICICI, AXIS, HDFC, INDUSIND, DCB, YES and KOTAK differ significantly.

CONCLUSION:

The first basis objective of the study is that any investor is see the return on investments while take investment decision. And this study helps in investment decision. For every investor analysis of financial performance and creditworthiness is very important in taking investment decisions. Thus present study has been conducted to study and evaluation of the financial performance of the seven major new private sector banks in India that is ICICI, HDFC, AXIS, INDUSIND, KOTAK YES BANK AND DCB BANK.

The study reveals that ICICI Bank has performed better in terms of DPS and Current ratio position and AXIS BANK and HDFC Bans has performed better in terms of Earning per Share and in terms of net profit margin than ICICI, AXIS, KOTAK INDUSIND BANK YES BANK AND DCB BANK during the last twelve years i.e 2001 to 2012. The CAR of KOTAK banks is substantially higher than that of all the banks.

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