

# FINANCIAL PERFORMANCE OF PRIVATE SECTOR BANKS WITH REFERENCE TO DEBT RECOVERY – A STUDY

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## **ABSTRACT**

According to the RBI, terms loans on which interest or installment of principal remain overdue more than 90 days from the end of a particular quarter is called Non-performing Asset (NPA)<sup>1</sup> NPA in the Public Sector Banks rose by Rs 8.97 lakh crore & private sector banks surged by Rs 1.28 lakh crore as on march 2018 which shows the increasing trend of NPAs in India compared to December 2017's figures which stood at 1.19 lakh crore & 1.09 lakh crore for the public and private sector banks respectively<sup>2</sup>. The Debt recovery is also very important for a bank which is linked to the credit score. The NPA growth and debt recovery directly impact the financial performance of banks. Hence an attempt is made to study the debt recovery patterns & financial performance of selected banks with reference to liquidity, Profitability & Solvency keeping in view the changing trends of NPAs over the years. To analyze the same, top five Private Sector Banks in India based on their market capitalization have been selected. The period of the study is limited to five years data i.e., 01-04-2014 to 31-03-2018.

*Keywords: Private Sector Banks, Loans, Debt Recovery, Financial performance, Non Performing Assets.*

## **INTRODUCTION**

Basically loan is a term used to describe lending money that is expected to be paid back with interest. The loans are funded by both nationalized and private sector banks to the borrowers who are in need. **Loans are given for a particular period with varied interest rates, for which specific repayment tenure is given.** If customers do not pay either interest or part of principal or both, the loan turns into bad loan; and according to RBI, terms loans on which interest or installment of principal remain overdue for a period of more than 90 days from the end of a particular quarter is called Non-Performing Asset (NPA). There is a rapid growth of NPA in India even after the stringent norms & procedure followed by the banks to provide loans for each type. According to the electronic news, Indian banks' Gross Non-Performing Assets (NPAs), or bad loans, stood at Rs 10.25 lakh crore as on 31 March 2018. On quarter, it has been grown by Rs 1.39 lakh crore or 16 percent from Rs 8.86 lakh crore as on 31 December 2017.

Asset quality has seen sustained pressure due to continued economic slowdown. The levels of Gross Non-Performing Assets (GNPAs) and Net NPAs (NNPAs) for the system have been elevated. As per data available at

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<sup>1</sup><https://rbi.org.in/home.aspx>

<sup>2</sup>[https://rbi.org.in/scripts/FS\\_PDS.aspx](https://rbi.org.in/scripts/FS_PDS.aspx)

RBI till March 15, while the GNPA's have increased to 4.45% for the system as a whole, the NNPA's have also climbed up to 2.36 (speech by S. S. Mundra 2015)

It is found that the current NPA's are standing due to industrial frauds & SME's have negatively affected the banks both Public Sector & Private Sector.

- The RBI said in the report, in the last five years, the volume of bank fraud has increased by 19.6% to 5,064 cases (Savita Sindhu 2018)
- Micro and small businesses continue to struggle in the wake of demonetisation and implementation of the Goods and Services Tax (GST), with the latest RBI figures showing that their loan default margin doubled over the last year, from Rs 8,249 crore by March 2017 to Rs 16,118 crore by March 2018.(Indianexpress)

Banking regulators are also concerned with the increased number of fraudulent transactions in banks and banks are often seen unwilling to report these cases. Thus, the current status of NPA's has become a major problem in banks to deal with. Hence, Loan scams in India have highlighted the issue of loans in present scenario which will have an effect in future as well. This can result in Liquidity crises, in which otherwise solvent banks lose access to short-term funding.

## **REVIEW OF LITERATURE**

**Vivek Rajbahadur singh (2016)** made an attempt to understand NPA's trend & recovery of NPA's in Indian scheduled Commercial for the period of 2000 to 2014 based on secondary data including Public sector banks, private sector banks and foreign banks which are listed in the second schedule of the reserve bank of India act, 1934. The analysis was summarized using Gross & Net NPA's with graphical presentation & it reveals that the money locked up in NPA's had a direct impact on profitability of the bank & it is comparatively very high in public sectors banks.

**Ahamed Lebbe et al (2015)**, in their paper titled "Influence of Credit Risk Management on Loan Performance: Special Reference from Commercial Banks of Ampara District in Sri Lanka" studied credit risk management and its impact on loan performance in 2015. Data were collected using questionnaires. Their study concluded that impacts of credit risk management significantly not influenced on loan performance of Commercial Banks in Ampara District & recommended that adoption of a more stringent policy on credit risk management so as to improve their loan performance.

**Sufi Faizan Ahmed & Qaisar Ali Malik (2015)** stressed some important variables: credit terms and policy (CTP), client appraisal, collection policy (CP) and credit risk control (CRC) as the dimensions of the credit risk management practices. Their study reveals that the credit terms and client appraisal have positive and significant impact on the LP, while the CP and CRC have positive but insignificant impact on LP. They suggested the banks to focus on these explanatory variables to enhance the performance.

**Mbucho. C & Senaji. T (2015)** studied the Credit Management on the Loan Performance among Microfinance Institutions in Kenya by using primary data. The aim of their study was to establish the influence of risk

management and the effect of interest rates, on loan performance of microfinance institutions. Their findings conclude that the interest rates charged on the loans affect the loan performance on the highest scale among all the variables.

**Ratnaparkhe Gajanan (2015)** in his research paper titled “The financial performance of loans and advances of Godavari co-operative bank ltd” this study attempted to re-evaluate the functioning of Growth of Cooperative banking in India. The study has analyzed the performance of the bank for the period of 2009-2014. He found there is a very slow increment in lending behavior.

**S. Radhika (2014)** in her research article “ A study on financial performance with respect to loans & advances, studied co-operative banks found that the comparison of total loans & advances shows the increase in the amount of lending over 2012-14 (2012 as base year) and , deposits also increased yr-on-yr. but the advances on bills discounting is constant.

**Felicia Omowunmi Olokoyo (2011)** studied determinants of commercial banks lending behavior in Nigeria with the aim to test & confirm the effectiveness of the common determinants of commercial banks lending behavior & how it affects the lending behavior from 1980 to 2005. The study found volume of deposits, investment portfolio & GDP have significant influence on the lending behavior and lending is not pronounced due to high interest rates.

### **STATEMENT OF THE PROBLEM**

NPAs in banks have tremendously increased from the past few years in both the banking industry in public & private sector. It may be noted that NPA will eventually impact not only to the banking sectors but also the economy level of India which may result in negative effect on normal life of people. So, there is a need to study the trend of debt recovery in banks & their financial performance.

### **OBJECTIVES**

1. To evaluate the liquidity performance of select banks
2. To evaluate the profitability performance of select banks
3. To evaluate the solvency performance of the select banks
4. To study the debt recovery pattern with reference to select banks

### **RESEARCH METHODOLOGY:**

This research study is based on secondary data. The data is collected from various Journals & Financial Statements published by moneycontrol.com exclusively. For the analysis of this study carried out taking top 05 private sector banks (as per market capitalization on 2018) for the period of five years i.e., 01-04-2014 to 31-03-2018. To evaluate the financial performance of banks, the following type of ratios are used

- Liquidity ratios: Current Ratio
- Profitability ratios: Net Profit Ratio
- Solvency ratios: Debt to equity Ratio

To analyze the Debt Recovery Pattern, Re Return on Advances ratio is used.

- Return on Advances = Total Advances / Interest Earned on Advances

### **FINANCIAL PERFORMANCE OF SELECT BANKS**

**I. LIQUIDITY****Table 1: Current Ratio of Select Banks for the period of 01-04-2014to31-03-2018**

Banks Year	HDFC	ICICI	Kotak Mahindra	Yes Bank	Axis Bank
2014	1.57	0.04	0.60	1.98	3.23
2015	2.23	0.05	0.60	2.59	3.88
2016	2.21	0.05	0.87	2.32	2.56
2017	1.55	0.04	1.23	2.91	3.06
2018	3.42	0.04	1.04	3.81	2.62

Source: [www.moneycontrol.com](http://www.moneycontrol.com)

The Current Ratio indicates whether the bank has enough cash or cash-equivalents to cover its short-term liabilities. The standard of current ratio is 2:1<sup>3</sup>.

The liquidity performance of HDFC bank is doing well for the overall study period as their ratio is maintained at 2 and reached to 3.42 in 2018 which indicates that the bank will be able to meet its obligations. The ICICI bank ratio is below the standard for all years which is a matter of concern for the bank and it has shown a poor liquidity performance among the selected banks. It is also observed that kotak Mahindra bank's performance was same as ICICI for the initial 3 yrs (2014-16) but for the next two yrs the ratio of the bank is as per the standard. Yes bank also has shown a good performance throughout the study period. The liquidity performance of Axis bank is very well for overall period of study where the bank maintains the ratio as per the standard.

**II. PROFITABILITY****Table 2: Net Profit Ratio of Select Banks for the period of 01-04-2014to31-03-2018**

Banks Year	HDFC	ICICI	Kotak Mahindra	Yes Bank	Axis Bank
2014	20.59	22.20	24.67	16.14	20.54
2015	21.09	22.76	22.13	17.26	20.84
2016	20.26	18.44	16.95	18.69	20.16
2017	20.81	18.09	22.86	20.33	8.75
2018	21.70	12.33	20.56	20.88	0.97

Source: [www.moneycontrol.com](http://www.moneycontrol.com)

The Net profit ratio of HDFC has the highest ratio among other banks & the bank maintains stability in the overall period of study. ICICI bank was making a good profit in the early 4 yrs of the study

<sup>3</sup>Dr. Prashanta Athma – Financial Accounting and Analysis

period but in the yr 2018 the ratio of bank is decreased and reached to 12.33. The profitability of Kotak Mahindra bank is lower in the yr 2016 otherwise the performance is stable for the study period. The earning capacity of Yes bank is increasing yr-on-yr and reached to 20.88(2018) from 16.14(2014). Hence, earning capacity of this bank is well-being throughout the study period. Axis bank was performing well & stable for 2014-16 then it was drop down to a great extent and reach to 0.97 in 2018 from 20.54 in 2014.

### III. SOLVENCY

**Table 3: Debt to Equity (D/E) Ratio of Select Banks for the period of 01-04-2014to31-03-2018**

Banks Year	HDFC	ICICI	Kotak Mahindra	Yes Bank	Axis Bank
2014	1.43	2.13	1.16	2.91	2.43
2015	1.07	1.85	1.29	1.75	1.99
2016	0.97	2.41	1.31	2.30	1.95
2017	0.94	2.49	1.42	2.25	1.88
2018	1.12	2.40	1.52	3.00	1.37

Source: www.moneycontrol.com

The acceptable debt-to-equity ratio is 1& it is considered to be quite satisfactory<sup>4</sup>. However one cannot assume that a lower debt-to-equity ratio is better because many companies are able to benefit from borrowing money, however, by putting the cash raise to good uses in their business<sup>5</sup>. According to the standard the HDFC bank is having a good ratio throughout the years of study. ICICI bank has the ratio of 2 in all yrs which indicates that the bank is borrowing more. The ratio of kotak Mahindra bank shows a greater effort in maintaining the ratio 1 for the overall study period. Again the Yes bank's performance is same as ICICI bank and in 2018 it has reached to 3.00 which is not considered satisfactory as per the standard. Axis bank was having a ratio 2 in the beginning yr (2014) but later it has maintained very well for the next four yrs (2015-18).

### DEBT RECOVERY PATTERN

**Table 4. Return on Advances ratio (%) for the period of 01-04-2013to31-03-2018.**

Bank Year	HDFC	Kotak Mahindra	ICICI	Axis	yes
2014	7.41	4.42	7.83	9.25	5.57

<sup>4</sup> Dr. S.N Maheshwari – Principles of Management Accounting

<sup>5</sup> Gary A. Porter, Curtis L. Norton – Financial Accounting 6E

2015	7.57	4.97	7.98	7.96	6.53
2016	7.71	5.82	8.33	8.32	7.26
2017	7.99	6.10	8.46	8.44	8.05
2018	8.21	6.75	9.12	9.65	10.04

Source: www.moneycontrol.com

From the above table & figure it is observed that HDFC bank consistently having the same trend till 2013-2017, but it is increased by 0.22 in 2017-18 and reached to 8.21 from 7.41(2014). Kotak Mahindra & ICICI banks also have an increasing trend but in terms of ratio ICICI is highest. Axis bank has shown a good recovery pattern for the entire study period (2013-14 to 2017-18) whose ratio is leading in between 8 & 9 among the selected banks. Last but not the least Yes bank has shown an increasing trend pattern continuously and reached to 10.04 which is the highest ratio among the other banks.

## **FINDINGS**

### **HDFC**

- The Liquidity of the bank is very good for the study period & it is able to meet its current obligations efficiently
- The profitability of this bank is good & highest among all banks.
- The performance of bank is also good in terms solvency throughout the study period
- Debt recovery pattern of HDFC bank is satisfactory for the study period. So, it can be considered as a financially healthy bank.

### **ICICI**

- It is clear from the study that ICICI bank is struggling for liquidity & has the least ratio compare to other banks which may result in bad credit ratings & lack of creditor's confidence.
- The Profitability margin of the bank is found to be good but in 2018 the ratio is decreased.
- The bank is also found to have an aggressive ratio of debt to equity as it crossed the standard of 1.5.
- The bank has an increasing trend in terms of debt recovery yr-on-yr.

### **Kotak Mahindra Bank**

- The liquidity performance is presently good but it has a poor liquidity in the previous years.
- The bank has the stability in terms of profitability performance.
- Solvency ratio is also found good where the bank maintain the ratio as per standard.

- Debt recovery trend is stable for the study period but the ratio is found least compare to the other banks.

### **Yes Bank**

- The liquidity performance of the bank is well & it has the capability to meet current obligations.
- Profitability performance of the bank is on an increasing trend.
- The bank has an aggressive ratio in terms of debt to equity.
- The debt recovery trend of this bank shows an increasing trend.

### **Axis bank**

- The bank has enough liquidity to meet their current liabilities.
- The bank is suffering for profitability in recent year where the ratio is tremendously declining from 20 to 0.9 (2014-18).
- It is observed that the bank is doing well during the past four years in terms of solvency performance.
- The debt recovery pattern is potential for the overall study period.

### **SUGGESTIONS**

According to the analysis the following suggestions are made.

- HDFC bank is suggested to improve their solvency performance & debt recovery pattern.
- ICICI bank is recommended to take major efforts for improving liquidity otherwise it will affect their business badly in future & also needs to maintain their D/E ratio.
- Kotak Mahindra bank is advised to improve their liquidity & profit margin.
- Yes Bank is advisable to maintain D/E ratio as per the standards.
- Axis bank is advised to maintain liquidity and profitability margin. It also needs to revise its existing policies related to enhancing the earning ability.

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**Notes:**

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