FINANCIAL PERFORMANCE OF HDFC AND PUNJAB NATIONAL BANK -A STUDY

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Abstract

Bank is back bone of an economy's financial system. Financial inclusion is the main need of an economy. Banks and others financial institutions play paramount role in financial inclusion of an economy of country. Today's globalised economies; banks are safe source of finance to individual and corporations. The knowledge of financial performance helps, to decision makers, in predicting, comparing, and evaluating the earning ability of company. Company provides financial information through annual reports and financial bulletin. A company's financial performance can be determined by evaluating and analyzing the data provided in its annual reports and financial bulletin. This research study is descriptive and analytical in nature. The data use for this study is completely secondary in nature. In this study, financial performance of PNB and HDFC Bank is evaluates and contrast. The study identifies the PNB face the problems to generate the income and NPAs of PNB is increasing. The study shows that the financial performance of HDFC Bank is better than PNB.

Keywords: *Capital Adequacy Ratio, Credit Deposit Ratio, Net Advance Ratio, HDFC, PNB*

1. Introduction

Bank is back bone of an economy's financial system. Banks accepts deposits from public and provides credit facility to productive firms and business entity in form of loans. The Indian banking system is featured by a large network of bank branches and its ATMs, serving many types of financial needs of community. A strong banking system helps in rapid growth of economy through credit facility and mobilizes of saving to fund seeking entity. In recent years, Government of India and Reserve Bank of India, has given more focus on financial inclusion through strong financial institution like Banks. Today, in India every corner of country has accessible to banking facilities.

2. Literature review

Dharmendra S. et.all (2015)[1] has tried to analyze the financial performance of privet sector banks on the basis of Return on Assets and Interest Income Size. They used Correlations and Analysis of Variance (ANOVA) for testing hypothesis. The study found that Return on Assets and Interest Income size have negative correlation with operational efficiency, whereas positive

correlation with Assets Utilization and Assets size. It is also revealed from the study that there exists an impact of operational efficiency, assets management and bank size on financial performance of the Indian Private Sector Banks.

K. V. Bhanumurthy (2015)[2] People have misconception or the myth that the main banking business is accepting deposits and lending loans. The profitability of banks is reducing because of high level of non-performing assets. However the reality is that the banks are aggressively involving in off balance sheet business, particularly the foreign banks that can at any time threaten and destroy the stability of banks.

Jeevan Jayant Nagarkar (2015)[3] his study on "Analysis of Financial Performance of Banks in India" wanted to know the effect of recession 2008 in banking sector. In his study, he took 15 banks sample for study purpose and classified in three categories Public, Private and Foreign banks 5 banks in each category. In his paper, he attempt to find out how banks have performed on financial parameters during last year 5 years compared to high growth year. He divided financial performance of banks is compared in two period of time before recession 2008 and after. He compared financial performance of banks High growth years of 2004-08 with Low growth period years of 2009-2013. In his study, he found banks are better if they depend on deposit rather than borrowed money for disbursing advances. He found that large national level banks are able to withstand business cycles better than region banks.

A Chandani, et.all (2014)[4] in his research paper on "Women CEOs and Financial Performance of Banks: An empirical research of Indian Private Sector Banks" tried to measure and analyze the influence of two successful women (Chanda Kochhar and Shikha Sharma) to their performance. They took the sample of ICICI Bank and Axis Bank. They used the secondary data of both banks in his study; they used the CAMEL rating system for performance analysis. The t-test was also used to measure the impact of female leadership on the net profit of the banks, which proved that there was a significant difference between the two leaders i.e. the net profit of the banks improved when the women assumed the leadership role in the banks.

Cheenu Goel and C B Rekhi (2013)[5] had analyzed the performance of three major public sector banks (SBI, PNB, BOB) and three private sector banks (ICICI, HDFC, AXIS) year 2009 to 2012. To analysis the data ratios and coefficient correlation techniques were employed. The foregoing analysis for SBI had revealed that the overall profitability is not that high because they there NIM is less and need to increase NIM. For PNB return on equity was very high as compared to other banks and they have good association with deposits. In case of BOB bank doesn't have good association with deposits so there CDR is also very less and NIM is also need to gear up. For ICICI bank it has good association with CAR and deposits in banks are very high and NIM is less which needs to be increased which will impact the profitability. For HDFC it has very high CDR which is great sign for increase in profitability and in this case NIM and deposits are high which has drastically impacted the NP. For AXIS ROA is quite high as compared to other banks and is negative associated with CAR. Profitability is positive associated with NIM and CDR.

Objectives of the paper

1. To study the financial performance of HDFC
2. To study the financial performance of Punjab National Bank

Hypothesis

H0: There is no significant difference between financial performance of HDFC and PNB bank.

Research Methodology

The present study based on purely secondary data that has been collected from annual reports of both banks, magazines, articles published in journals, other published documents and websites have been chosen when found relevant. The study covers the period of 5 years i.e. year 2013-14 to year 2017-18.

Analysis and Interpretation of data

1. Return on Average Assets Ratio

Return on Average Ratio is an indicator used to assess the profitability of a bank's assets and it is calculated by taking net income and divided by average total assets. The ratio helps to measure how efficiently a bank is utilizing its assets. The higher the ROAA of a bank indicate more the profitability of bank.

2. Capital Adequacy Ratio

Capital adequacy ratio is an instrument to measure the financial health of banks. This ratio is used to protect the interest of depositors and promote the stability and financial efficiency system. Reserve Bank of India (RBI) presently directed to commercial banks to maintain a minimum capital of 9% of risk-weighted assets.

3. Net NPA to Net Advance Ratio

NPA is a disorder resulting in non-performance of a portion of loan portfolio leading to no recovery or less recovery / income to the lender. NPAs are an inevitable burden on the banking sector. The success of a bank depends upon the methods of managing NPAs and keeping them within tolerance level (Misra & Yadav, 2015).

4. Cost to Income Ratio

Cost to income ratio represents the ability of management to income generate at low level of cost. CI ratio measure the income generated per rupee cost. If a bank produced more income per rupee cost compare to other bank then performance banks would be better. Low level of cost to income ratio indicates better performance of bank and better management of bank.

5. Credit Deposit Ratio

Credit-Deposit Ratio is the proportion of loan-assets created by a bank from the deposits received. Credits are the loans and advances granted by the bank. In other words it is the amount

lent by the bank to a person or an organization which is recovered later on. Interest is charged from the borrower. Deposit is the amount accepted by bank from the savers and interest is paid to them. (B. Singh & Tandon, 2012).   Credit Deposit Ratio = Credit / Deposit.

6. Profit per Employee

Profit per Employee represents the profit per employee. It shows the operating performance of banks. Higher the ratio indicates better operating performance of bank. Profit per Employee ratio= Revenue/ Number of employee.

Table-1

Mann- Whitney U-test for Return on Average Assets Ratio (%) of PNB and HDFC Bank

Financial Year	PNB		HDFC	
	Value	Rank	Value	Rank
2013-14	1.34	05	1.58	06
2014-15	1.19	04	1.77	07
2015-16	1.00	03	1.90	08
2016-17	0.64	02	2.00	09
2017-18	0.53	01	2.02	10
Sum of Rank order	15		40	
No. of years data	5		5	
Z-value	2.61**			

Source: Annual reports of PNB and HDFC Bank

Table-1 shows the calculating value of U-statistics is 0 which is equal to table value of U-statistics (0) at level of significant 0.01, so it can be said that difference between Return on Average Assets of PNB and HDFC Bank is significant at level of p=0.01. It is further confirmed by calculating z-value (2.61) is more than table value of z-statistics (2.58) at level of p=0.01. So, the null hypothesis H_0. "There is no significant difference between Return on Average Assets ratio of PNB and HDFC bank" is rejected.

Table-2

Mann- Whitney U-test for Capital Adequacy Ratio of PNB and HDFC Bank

Financial Year	PNB		HDFC	
	Value	Rank	Value	Rank
2013-14	12.42	03	16.22	07
2014-15	12.63	04	16.52	08
2015-16	12.72	05	16.80	10
2016-17	11.52	01	16.07	06

2017-18	12.21	02	16.79	09
Sum of Rank order	15		40	
No. of years data	5		5	
Z-value	2.611**			

Source: Annual reports of PNB and HDFC Bank

Table-2 reveals the calculating value of U-statistics is 0 which is equal to table value of U-statistics (0) at level of significant 0.01, so it can be said that difference between Capital Adequacy Ratio of PNB and HDFC Bank is significant at level of p=0.01. It is further confirmed by calculating z-value (2.61) is more than table value of z-statistics (2.58) at level of p=0.01. So, the null hypothesis H_0. "There is significant difference between Capital Adequacy Ratio of PNB and HDFC bank" is rejected.

Table-3

Mann- Whitney U-test for Net NPA to Net Advance Ratio of PNB and HDFC Bank

Financial Year	PNB		HDFC	
	Value	Rank	Value	Rank
2013-14	0.85	06	0.19	02
2014-15	1.52	07	0.18	01
2015-16	2.35	08	0.20	03
2016-17	2.85	09	0.27	05
2017-18	4.06	10	0.25	04
Sum of Rank order	40		15	
No. of years data	5		5	
Z-value	2.611**			

Source: Annual reports of PNB and HDFC Bank

Table-3 show the calculating value of U-statistics is 0 which is equal to table value of U-statistics (0) at level of significant 0.01, so it can be said that difference between Net NPA to Net Advance Ratio of PNB and HDFC Bank is significant at level of p=0.01. It is further confirmed by calculating z-value (2.61) is more than table value of z-statistics (2.58) at level of p=0.01. So, the null hypothesis H_0. "There is no significant difference between Capital Adequacy Ratio of PNB and HDFC bank" is rejected.

Table-4
Mann- Whitney U-test for Cost to Income Ratio of PNB and HDFC Bank

Financial Year	PNB		HDFC	
	Value	Rank	Value	Rank
2013-14	41.27	02	48.08	08
2014-15	39.75	01	49.68	10
2015-16	42.81	03	49.58	09

2016-17	45.06	05	45.61	06
2017-18	46.74	07	44.56	04
Sum of Rank order	18		37	
No. of years data	5		5	
Z-value	1.98			

Source: Annual reports of PNB and HDFC Bank

About the table-4 interpret calculating value of U-statistics is 3 which is more than table value of U-statistics (2) at level of significant 0.05, so it can be said that difference between Cost to Income Ratio of PNB and HDFC Bank is not significant at level of p=0.05. It is further confirmed by calculating z-value which is lies on acceptance region z-statistics at level of p=0.05. So, the null hypothesis H_0. "There is no significant difference between Cost to Income Ratio of PNB and HDFC bank" is accepted.

Table-5

Mann- Whitney U-test for Credit Deposit Ratio of PNB and HDFC Bank

Financial Year	PNB		HDFC	
	Value	Rank	Value	Rank
2013-14	77.38	3.5	76.7	02
2014-15	77.39	05	79.2	07
2015-16	78.86	06	80.9	08
2016-17	77.38	3.5	81.79	10
2017-18	75.90	01	81.71	09
Sum of Rank order	19		36	
No. of years data	5		5	
Z-value	1.78			

Source: Annual reports of PNB and HDFC Bank

Table-5 shows the calculating value of U-statistics is 4 which is more than table value of U-statistics (2) at level of significant 0.05, so it can be said that difference between Net NPA to Net Advance Ratio of PNB and HDFC Bank is not significant at level of p=0.01. It is further confirmed by calculating z-value (1.78) is less than table value of z-statistics (1.96) at level of p=0.05. So, the null hypothesis H_0. "There is no significant difference between Credit Deposit Ratio of PNB and HDFC bank" is accepted.

Conclusion

Bank works in dynamic environment which affected by many uncontrollable factors i.e. level of inflation, government and RBI policies, economic conditions and many more factors. It is very difficult to measure the financial performance of banks in presence of these uncontrolled factors. It shows that HDFC Bank generating more profits to its rival. Annual

growth rate in Net profit of HDFC Bank is positive all year which indicate bank performing well but annual growth rate in Net profit of PNB after year 2013-14 is negative which indicate PNB facing huge problems in generating profits.

Return on average assets ratio show that financial performance of HDFC Bank is better than PNB which indicate HDFC Bank invested its assets in more profitable hands. Capital adequacy ratio of HDFC Bank is also higher than PNB which indicate HDFC Bank is more financially healthy to PNB. Net NPAs to Net Assets ratio of HDFC Bank is lower than PNB which shows that HDFC Bank is better to recover its advance but NPAs in case of PNB is increasing year on year which indicates PNB should appraise credit policy to manage the NPAs. Cost to income ratio of PNB is less than HDFC Banks. Credit deposit ratio of PNB and HDFC Bank both have well.

Both banks full utilize its deposits to disburse advances. Profit per employee of HDFC is increasing and PNB is decreasing but during sample period both bank profit per employee is not significant. It is concluded from parameters of financial performance of both banks that HDFC Bank performing better than PNB.

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