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Financial Performance Analysis of Banking Sector in Mumbai

Hiamnshu Vaishnav[1] and Prof. Parinaz Masalwala[2]

Research Scholar[1] and Assistant Professor[2]

The Byramjee Jeejeebhoy College of Commerce, Mumbai, Maharashtra, India

Abstract: *Banking sector is one of the fastest growing sectors. The aim of the banking sector is to improve the productivity and profitability at the level of foreign and the global market. financial performance in banking sector is show the overall economic growth and financial health. It's finds out the positive or negative impact as well as strength and weakness about the banking in financial area. The main functions of bank are to accept deposits form the public allow the credit facility to those who needs some money for short term as well as long term requirement. Financial performance is the most Important element of the economic growth and economic development of a country. Research in financial area it's becomes helpful taking any decision about the bank. The aim of the study financial performance of banking sector on basis of liquidity, solvency and profitability. This study is based on the secondary data. The RBI is the highest banking regulatory body in India. According to the "Reserve Bank of India" there are two major rating model to find out the financial performance which are CASA (Current account and Saving account) CAMEL (Capital Adequacy, Asset quality, Management, Earnings, Liquidity, and sensitivity). In India camel model is one of the most important measures and compare the financial performance. CAMEL model is the based on the secondary data.*

Keywords: CASA, CAMEL, Profitability, Solvency, Capital Adequacy, Asset quality, Management, Earnings, Liquidity, and sensitivity

I. INTRODUCTION

The bank word is origin form the Italian word "banco". The Bank of Bombay and two other Presidency banks - the Bank of Calcutta and the Bank of Madras - were amalgamated and the reorganized banking entity was named the imperial bank of India on 27 January 1921. The reserve bank of India which is the central banking organization of India, in the year 1955, acquired a controlling interest in the Imperial Bank of India and the Imperial Bank of India was renamed on 30 April 1955 to the State Bank of India. Banking system is one of the oldest financial institutions.Banking sector plays an important role in economic development of a country.Banking is a system that handle cash, credit and other financial transaction. The bank is taking fund raise from loans or deposit this fund transfer to those who need fund.

Financial performance defines as the achievement of the objective which are set by firm. it's shown the financial health about the firm.Financialperformance is a complete evaluation overall company such as assets, labilities, expenses and overall profits. A financial performance also known as statement of profit and loss. Financial performance is shown the financial information about the firm. it's also help in investment and financial decision. Financial performance analysis firm is specific period in time and most recent fiscal quarter or year. It's a combination of quantitative and qualitative factor for a get financial reports evaluation. Data are provided that compare the performance of small bank to the large bank and difference between the high and low performance.The objective of financial performance to provide better information, analysis, investor regarding the market etc.

There are some common measures used in financial performance

1. Return on Assets (ROA): Return is profitability ratio which means how much profit generated by firm from its assets. ROA is compares between income and assets. In simple term ROA is earning a profit from their assets on their balance sheet. ROA is generally isconsidered over 5%.

$$\text{ROA} = \frac{\text{Net In}}{\text{Total}}$$

Return on Equity (ROE): Return on equity means how company is using its shareholders equity to generate profits. ROA is percentage show the profit which is firm investing in its equity share. A higher ROE generally indicates better financial performance.

$$\text{ROE} = \frac{\text{Net}}{\text{Sharehol}}$$

Net Interest Margin(NIM): NIM is defines difference between how much money a bank make form the interest on its loans and investment and what it pays in interest on deposits and borrowings dividing to earning assets. it helps to calculated profitability of a bank.

$$\text{Net Interest Margin} = \frac{\text{Interest Revenue} - \text{Interest Expenses}}{\text{Average Earning Assets}}$$

Capital Adequacy Ratio (CAR):CAR is ratio also known as risks weighted assets ratio. In this ratio bank has cover the losses and risks as well as protects bank deposits. It has less risk becoming the insolvent.Two types of capital are measuring,in first tier system assessing the overall capital of bank like; statutory reserves. In second tier system consider specific type of capital like; General loss reserve.

$$\text{CAR} = \frac{\text{Tier 1 Capital} + \text{Tier 2 Capital}}{\text{Risk Weighted Assets}}$$

Efficiency Ratio: Efficiency ratio is measuring how well a bank manages its money.in simple word a bank shown the percentage how much money spend on the operating expenses. A lower rate of efficiency ratio is better because it means bank is more effective at controlling its cost making most earnings.

Efficiency Ratio = Non-Interest Expenses / NetRevenue*100

Loan to Deposit Ratio (LDR):In this ratio bank cover itsloan with the help of holding its deposit. Bank to a maintain the balanced loan to deposit ratio. It gives idea of how well a bank managing its money.

$$\text{LDR} = \frac{\text{Total Loans}}{\text{Total Deposits}}$$

II. REVIEW OF LITERATURE

V Radha Naga Sai, Dr Syed Tabassum Sultan International monthly refereed journal of research in management & technology 2,56-66,2013: The banking sector is one of the most important instruments of the national development. Economic development of the country is evident through the soundness of the banking system. Based on the analysis of Indian overseas bank data in can be conclude that net profit margin, operating profit margin, return on equity and debt - equity ratio etc.

Parvesh Kumar Aspal, Sanjeev Dhawal the business & management review 5(3),196,2014: The performance of banking sector is consideredas an effective measure to examine the financial health of an economy. In India there are

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two model which are Casa (Current account and saving account) and CAMEL (Capital Adequacy, Asset quality, Management, Earnings, Liquidity, and sensitivity).

Prabhjot Kaur IUP Journal of bank management 14(4),19,2015: One of the major measures of economic development and financial growth of a country has been sound performance of its banks. In Indian banking used the camel model to identify the financial performance.

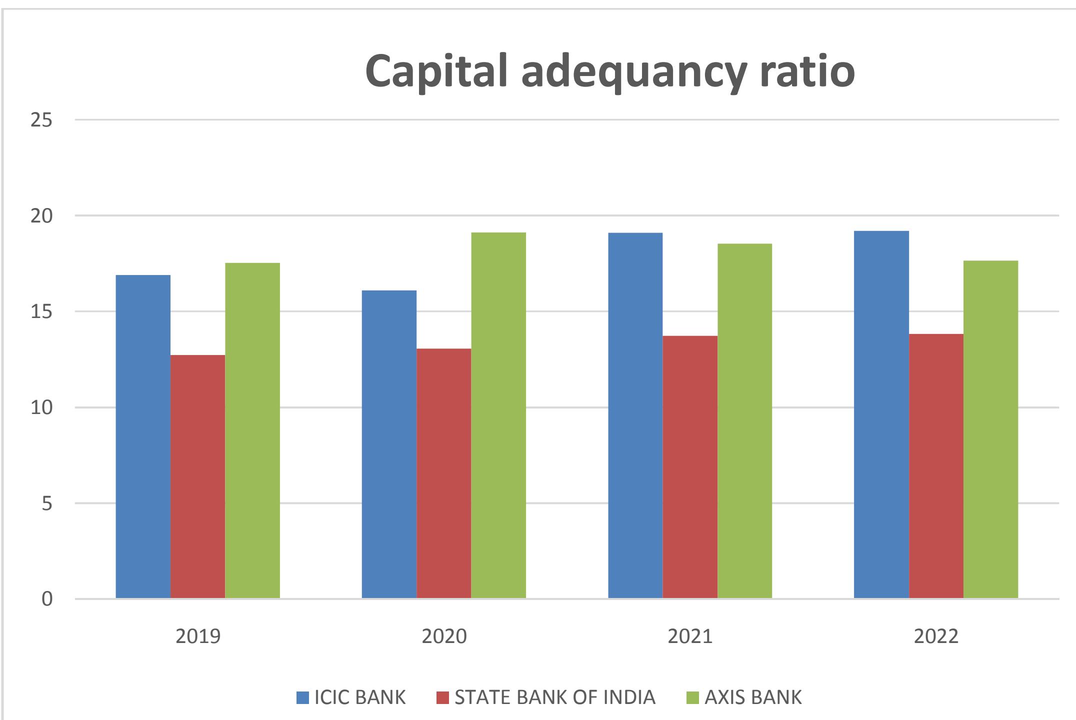
Honey Gupta ZENITH International journal of multidisciplinary research 6(10),1-8,2016: In globalization of the economic increased competition from both foreign and domestic bank there has been repaid change in the business environment of banking industry. Overcome these challenges successfully, most of the banks have adopted a corporate restructuring strategy like merger and acquisition.

Vijay Kumar Sharma International journal of research in commerce & management 8(3),2017: The economic development of any country depends on healthy financial system of that country. Banks as a financial institution played very important role in capital formation in the economy.

III. METHODOLOGY

This study is mainly based on the secondary dataThe CAMEL model is an international rating system used by the banking authorities. In India CAMEL model is most common method to use by the banking system. In CAMEL model there six key which are (Capital Adequacy, Asset quality, Management, Earnings, Liquidity, and sensitivity). The CAMEL model is based on the secondary data. A rating of 1 is considered the best and a rating of 5 is considered the worst.

IV. FINDING AND RESULTS



This data is based on the 4 years. Of ICIC bank, State bank of India and Axis bank According to the chart the capital adequacy ratio in 2019 is ICIC bank 16.9%, State bank of India 12.72%, AXIC bank 17.53%. in the year of 2019 the highest CAR ratio is 17.53 %. In the year of 2020 ICIC bank 16.1%, State bank of India 13.06%, AXIC bank 19.12%. in the year of 2020 the highest CAR ratio is 19.12%. In the year of 2021 ICIC BANK 19.1%, State bank of India 13.74, AXIC bank 18.54%. In the year of 2021 the highest CAR ratio is 19.1%. In the year 2022 ICIC bank 19.2%,State bank of India 13.83%, AXIC BANK 17.64%. The highest CAR ratio is 19.2%

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V. CONCLUSION

Banking system is plays important role of our economic. In banking system financial performance analysing the financial condition about the bank. Financial performance is shown the strength and weakness about the bank in financial aera. There are some ratios to analysis the financial performance which are Return of assets, Net interest margin, effective ratio, c etc.Financial performance is the achieving the goal which set by the firm. it is help while the investor regarding the investment. Financial performance is comparing the firm to evaluating maximization of profitability. CAMELS model is widely used in banking sector in camel mode there are six components which include capital adequacy, assets, management, capabilities, earning sufficiency and market risk. CAMEL model is based on the secondary data

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