International Research Journal of Commerce and Law
Volume 5 Issue 10, October 2018 ISSN: 2349-705X Impact Factor: 4.616
Journal Homepage: http://ijmr.net.in, Email: irjmss@gmail.com
Double-Blind Peer Reviewed Refereed Open Access International Journal

FINANCIAL PERFORMANCE EVALUATION OF TOP INDIAN PRIVATE BANKS: A STUDY OF FOUR MAJOR BANKS

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ABSTRACT

This research paper analyses the financial performance of four major Indian private sector banks. The period of study is taken five years from 2011 to 2015. The study examines key financial indicators and ratios to evaluate operational efficiency, profitability, asset quality, and growth metrics. Comparative analysis reveals significant variations in performance strategies among these banks despite operating in the same regulatory environment. The findings indicate that while all banks demonstrated positive growth paths during this period, their approaches to risk management, operational costs and expansion strategies differed substantially, resulting in varying levels of financial success and stability.

INTRODUCTION

The Indian banking sector underwent significant transformation following the liberalization policies introduced in the early 1990s. The emergence of private sector banks revolutionized the financial landscape previously dominated by public sector institutions. By the 2010s, private banks had established themselves as crucial players in the Indian financial system, often outperforming their public counterparts in multiple performance parameters.

This study focuses on four major private sector banks in India during the period 2011-2015, a phase characterised by economic fluctuations, regulatory changes and technological advancements in the banking sector. This timeframe is particularly significant as it captures the recovery period following the global financial crisis as well as the initial impacts of domestic policy reforms.

OBJECTIVES OF THE STUDY

The primary objectives of this research are:

1. To analyse and compare the financial performance of four major Indian private banks.
2. To identify key factors influencing their profitability and operational efficiency.
3. To examine asset quality and growth patterns.
4. To provide insights into successful strategies and potential areas of concern.

SELECTED BANKS FOR ANALYSIS

This study examines the following four major private sector banks in India:

1. HDFC Bank
2. ICICI Bank
3. Axis Bank
4. Kotak Mahindra Bank

These institutions were selected based on their market capitalization, deposit base and significant presence across India during the period under study.

LITERATURE REVIEW

Research on banking performance evaluation has evolved significantly, with various methodologies and parameters being employed to assess financial health and operational efficiency.

Das and Ghosh (2006) examined the relationship between efficiency and bank characteristics in India, identifying size, ownership and market power as significant determinants of performance. Their findings suggested that private banks were often better positioned to capitalize on market opportunities due to their flexible operational structures.

Kumbirai and Webb (2010) emphasized the importance of financial ratio analysis as a tool for evaluating bank performance, highlighting profitability, liquidity and credit quality as crucial indicators.

Sharma and Bal (2010) specifically analysed the performance of private sector banks in India, noting their technological advantages and customer-centric approaches as key drivers of growth. Their study highlighted the importance of innovation in product offerings and service delivery in determining market share and profitability.

Kaur and Kaur (2013) investigated the impact of global financial turbulence on Indian banks, concluding that private banks showed greater flexibility to external impact compared to their public counterparts due to more strong risk management frameworks.

Srinivasan and Saminathan (2016) conducted a comparative study of Indian private and public banks, noting that private banks generally highlighted superior efficiency in resource utilization during the post-reform period.

RESEARCH METHODOLOGY

DATA COLLECTION

This study makes the use of secondary data collected from different sources, including annual reports of the selected banks from 2011 to 2015, Reserve Bank of India publications and databases, reports from the Indian Banks' Association, financial statements filed with the Securities and Exchange Board of India and relevant academic and industry journals.

ANALYTICAL FRAMEWORK

The following key ratios and indicators were used to analysis the financial performance of the selected banks:-

1. Profitability Ratios: These includes Return on Assets Ratio, Return on Equity Ratio, Net Interest Margin Ratio and Cost-to-Income Ratio.

1.1 Return on Assets (ROA)

Table 1.1: Return on Assets

Bank	2011	2012	2013	2014	2015	Average
HDFC Bank	1.58%	1.77%	1.90%	2.02%	2.03%	1.86%
ICICI Bank	1.35%	1.50%	1.66%	1.78%	1.86%	1.63%
Axis Bank	1.68%	1.71%	1.76%	1.83%	1.87%	1.77%
Kotak Mahindra Bank	1.95%	1.89%	1.82%	1.98%	2.04%	1.94%

HDFC Bank and Kotak Mahindra Bank demonstrated consistently strong ROA throughout the period, with both exceeding 2% by 2015. This indicates superior efficiency in utilizing assets to generate profits. ICICI Bank, while starting from a lower base of 1.35% in 2011, showed steady improvement, achieving 1.86% by 2015. Axis Bank maintained relatively stable performance with gradual improvements.

1.2 Return on Equity (ROE)

Table 1.2: Return on Equity

Bank	2011	2012	2013	2014	2015	Average
HDFC Bank	16.52%	18.37%	19.50%	20.39%	19.74%	18.90%
ICICI Bank	11.19%	12.48%	13.89%	14.97%	15.39%	13.58%
Axis Bank	17.83%	18.20%	18.59%	18.33%	18.57%	18.30%
Kotak Mahindra Bank	14.84%	15.32%	14.91%	15.69%	15.89%	15.33%

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HDFC Bank exhibited the most impressive ROE trends, peaking at 20.39% in 2014 before a slight moderation in 2015. Axis Bank maintained consistently high ROE throughout the period. ICICI Bank, despite having the lowest ROE among the four banks, reflected the most significant improvement, increasing from 11.19% to 15.39% over the five years. Kotak Mahindra Bank showed relatively stable performance with modest growth.

1.3 Net Interest Margin (NIM)

Table 1.3: Net Interest Margin

Bank	2011	2012	2013	2014	2015	Average
HDFC Bank	4.20%	4.30%	4.45%	4.40%	4.30%	4.33%
ICICI Bank	2.73%	2.98%	3.11%	3.23%	3.46%	3.10%
Axis Bank	3.52%	3.48%	3.53%	3.69%	3.82%	3.61%
Kotak Mahindra Bank	4.83%	4.67%	4.85% |	4.90%	4.98%	4.85%

Kotak Mahindra Bank consistently maintained the highest NIM among the four banks reflecting superior interest spread management. HDFC Bank also performed strongly with NIM consistently above 4%. ICICI Bank, while having the lowest NIM showed steady improvement throughout the period. Axis Bank showed moderate but consistent growth in its NIM.

1.4 Cost-to-Income Ratio

Table 1.4: Cost-to-Income Ratio

Bank	2011	2012	2013	2014	2015	Average
HDFC Bank	47.68%	45.90%	44.92%	44.15%	43.82%	45.29%
ICICI Bank	44.59%	42.17%	39.62%	38.78%	38.23%	40.68%
Axis Bank	43.26%	42.38%	41.97%	40.51%	41.13%	41.85%
Kotak Mahindra Bank	56.12%	54.89%	52.48%	51.85%	50.19%	53.11%

All four banks showed improving efficiency with declining cost-to-income ratios. ICICI Bank achieved the most significant reduction from 44.59% to 38.23%, demonstrating superior cost management. Despite strong performance in other metrics, Kotak Mahindra Bank had the highest cost-to-income ratio suggesting potential for operational efficiency improvements. HDFC Bank and Axis Bank maintained relatively stable middle positions.

2. Asset Quality Indicators: Under these indicators Net Non-Performing Assets (NPA) Ratio and Provision Coverage Ratio are used for analysis purpose.

2.1 Net NPA Ratio

Table 2.1: Net NPA Ratio

Bank	2011	2012	2013	2014	2015	Average
HDFC Bank	0.19%	0.18%	0.20%	0.27%	0.25%	0.22%
ICICI Bank	1.11%	0.73%	0.77%	0.97%	1.61%	1.04%
Axis Bank	0.29%	0.25%	0.32%	0.44%	0.70%	0.40%
Kotak Mahindra Bank	0.65%	0.61%	0.64%	0.92%	0.86%	0.74%

HDFC Bank showed exceptional asset quality with consistently low Net NPA ratios. All banks depicted deterioration in asset quality from 2013 onwards with ICICI Bank experiencing the most significant increase particularly in 2015. This trend correlates with broader economic slowdown and stress in certain sectors like infrastructure and manufacturing during this period. Axis Bank, while maintaining better asset quality than ICICI and Kotak Mahindra, highlighted a concerning upward trend in NPAs.

2.2 Provision Coverage Ratio

Table 2.2: Provision Coverage Ratio

HDFC Bank	82.1%	| 83.2%	80.9%	78.3%	79.1%	80.7%
ICICI Bank	76.7%	78.5%	77.9%	69.4%	63.7%	73.2%
Axis Bank	80.9%	82.1%	77.8%	72.5%	67.2%	76.1%
Kotak Mahindra Bank	75.8%	77.2%	76.5%	68.3%	67.4%	73.0%

HDFC Bank maintained the highest provision coverage ratio among the four banks reflecting conservative risk management. All banks showed declining provision coverage from 2013 onwards, simultaneously with the increase in NPAs. ICICI Bank's provision coverage dropped most significantly from 77.9% to 63.7% from 2013 to 2015 raising concerns about potential under provisioning against deteriorating assets.

3. Growth Indicators: Under these indicators, the Compound Annual Growth Rate (CAGR) of Total Assets, Deposit Growth Rate and Credit Growth Rate were computed to know the financial performance of the banks.

3.1 Compound Annual Growth Rate of Total Assets (CAGR)

Table 3.1: Compound Annual Growth Rate of Total Assets (CAGR)

Bank	CAGR (2011-2015)
HDFC Bank	19.8%
ICICI Bank	15.3%
Axis Bank	18.6%
Kotak Mahindra Bank	23.7%

Kotak Mahindra Bank highlighted the most aggressive expansion with a CAGR of 23.7% in total assets, partly influenced by its merger with ING Vysya Bank in 2015. HDFC Bank and Axis Bank also achieved strong growth rates of 19.8% and 18.6% respectively. ICICI Bank, while still growing at a healthy 15.3%, expanded more conservatively as compared to its counterparts.

3.2 Deposit Growth Rate

Table 3.2: Deposit Growth Rate

Bank	2011-12	2012-13	2013-14	2014-15	CAGR
HDFC Bank	18.3%	20.1%	21.1%	19.5%	19.7%
ICICI Bank	13.8%	14.5%	15.2%	15.9%	14.9%
Axis Bank	16.9%	17.8%	19.2%	20.1%	18.5%
Kotak Mahindra Bank	15.3%	16.7%	19.4%	31.9%	20.6%

All banks showed steady deposit growth with HDFC Bank maintaining the most consistent performance year-on-year. Kotak Mahindra Bank's significant jump in 2014-15 reflected the impact of its merger with ING Vysya Bank. Axis Bank depicted accelerating deposit growth throughout the period, while ICICI Bank showed more modest but steadily improving growth rates.

3.3 Credit Growth Rate

Table 3.3: Credit Growth Rate

Bank	2011-12	2012-13	2013-14	2014-15	CAGR
HDFC Bank	22.4%	23.1%	24.5%	20.6%	22.6%
ICICI Bank	17.0%	14.5%	16.7%	13.2%	15.3%
Axis Bank	20.3%	21.2%	19.8%	18.4%	19.9%
Kotak Mahindra Bank	18.6%	17.9%	24.2%	28.9%	22.3%

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HDFC Bank and Kotak Mahindra Bank demonstrated the strongest credit growth with CAGRs of 22.6% and 22.3% respectively. ICICI Bank showed more conservative lending growth, particularly in 2014-15 when its growth rate declined to 13.2%, reflecting increasing caution due to asset quality concerns. Axis Bank maintained relatively strong growth but showed a gradual deceleration over the period.

4. Efficiency Measures: Under efficiency measures, the volume of business per employee and profit per employee was analysed for purpose of financial performance.

4.1 Business per Employee

Table 4.1: Business per Employee (₹ Million)

Bank	2011	2012	2013	2014	2015	CAGR
HDFC Bank	97.4	107.6	122.9	138.7	152.3	11.8%
ICICI Bank	112.3	125.8	142.1	157.9	170.4	11.0%
Axis Bank	110.7	120.5	133.2	145.7	159.8	9.6%
Kotak Mahindra Bank	87.5	98.2	107.9	122.4	130.1	10.5%

ICICI Bank maintained the highest business per employee throughout the period, reflecting its focus on operational efficiency despite challenges in other performance areas. HDFC Bank demonstrated the strongest growth rate in this parameter at 11.8% CAGR, highlighting continuous improvement in employee's productivity. Kotak Mahindra Bank, while starting from a lower base showed solid improvement over the period.

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4.2 Profit per Employee

Table 4.2: Profit per Employee (₹ Million)

Bank	2011	2012	2013	2014	2015	CAGR
HDFC Bank	1.02	1.19	1.47	1.68	1.85	16.0%
ICICI Bank	0.96	1.15	1.34	1.45	1.50	11.8%
Axis Bank	1.08	1.20	1.33	1.45	1.54	9.3%
Kotak Mahindra Bank	0.97	1.07	1.19	1.36	1.49	11.3%

HDFC Bank revealed superior performance in profit per employee with the highest growth rate (16.0% CAGR) and absolute value by 2015. All banks showed steady improvement in this metric, with Axis Bank's growth being the most modest at 9.3% CAGR. This analysis correlates strongly with overall profitability performance with HDFC Bank leading in both areas.

OVERALL PERFORMANCE ANALYSIS

Based on a composite evaluation of profitability, asset quality, growth rate and efficiency metrics, the overall performance analysis of the four banks during the study period is as follows:

1**. HDFC Bank –** This bank showed consistent excellence across all parameters with industry-leading profitability, superior asset quality, strong growth and improving efficiency benchmarks.

2. **ICICI Bank -** ICICI Bank has demonstrated significant improvements in profitability and efficiency but faced more pronounced asset quality challenges compared to counterparts.

3. Axis Bank - Axis Bank maintained strong performance in profitability and growth with moderate asset quality concerns emerging toward the end of the period.

4. **Kotak Mahindra Bank** - Kotak Mahindra Bank showed aggressive growth and strong profitability metrics but with higher operational costs and moderate asset quality.

KEY SUCCESS FACTORS

1. HDFC Bank's Consistent Excellence

HDFC Bank's superior performance stems from its disciplined credit underwriting practices that have delivered industry-leading asset quality, coupled with a strategic focus on retail lending with higher margins and better risk distribution. The bank has maintained consistent investment in technology to enhance operational efficiency, while simultaneously pursuing strategic branch expansion in high-potential markets. Additionally, its conservative provisioning policies have created effective buffers against economic cycles, further strengthening its financial flexibility.

2. ICICI Bank's Recovery Journey

ICICI Bank demonstrated significant improvement in profitability parameters from a lower base, coupled with superior operational efficiency as evidenced by stronger business per employee figures. The bank effectively managed costs, resulting in a declining cost-to-income ratio that enhanced overall financial performance. However, despite these positive developments, persistent asset quality challenges remained a concern for the institution. Additionally, ICICI Bank adopted a more conservative growth approach as compared to its industry competitors, potentially affecting its competitive positioning in the market.

3. Axis Bank's Balanced Growth Approach

Axis Bank showcased notable strengths through its diversified lending portfolio spanning both retail and corporate segments, coupled with strong fee income generation that effectively complemented its interest income. The bank maintained efficient cost management practices while achieving consistent deposit growth characterized by a favourable Current Account, Savings Account ratio. Despite these positive attributes, emerging asset quality concerns were evident by 2015, signalling potential challenges that could impact the bank's performance in subsequent periods.

4. Kotak Mahindra Bank's Transformation

Kotak Mahindra Bank has demonstrated the most aggressive growth steps among its counterparts, strategically expanding its presence through the ING Vysya merger while maintaining strong profitability despite a higher cost structure. The bank has successfully focused on developing fee-based income streams as a key revenue driver, though it continues to face challenges in maintaining cost efficiency during its rapid expansion phase.

FINDINGS AND CONCLUSION

This comprehensive analysis of four major Indian private banks during the period of study reveals several important insights:

1. Private Banks demonstrated strong overall performance during this period, with all four institutions showing improvements in profitability parameters despite an increasingly challenging economic environment.

2. Significant performance variations existed among these institutions, with HDFC Bank consistently outperforming counterparts across most parameters.

3. Asset quality emerged as a key differentiator with early signs of stress visible by 2015 that would later develop into a more pronounced banking sector NPA crisis.

4. Growth strategies varied considerably with Kotak Mahindra Bank pursuing the most aggressive expansion, while ICICI Bank adopted a more conservative approach.

5. Operational efficiency improved across all institutions though with different ways and starting points.

RECOMMENDATIONS FOR BANKS

1. HDFC Bank should maintain disciplined credit underwriting approach that has resulted superior asset quality and also continuing to invest in digital transformation initiatives to enhance operational efficiency. Simultaneously, the bank must explore further diversification into underserved market segments while maintaining risk standards.

2. ICICI Bank should strengthen risk management frameworks to address persistent asset quality challenges while simultaneously accelerating the resolution of existing stressed assets to prevent further deterioration. By using strong operational efficiency to improve overall returns and considering more aggressive provisioning strategies, organisations can build greater flexibility against potential economic headwinds, ultimately creating a more strong financial foundation capable of withstanding market fluctuations.

3. The Axis Bank should aim to address emerging asset quality concerns through enhanced monitoring and early intervention and should also maintain balanced growth across retail and corporate lending segments. Simultaneously, efforts should focus on improving cost efficiency to enhance overall profitability, alongside a thorough review of credit policies specifically targeting susceptible sectors that display early signs of stress.

4. The Kotak Mahindra Bank should focus on post-merger integration to realise synergies from the ING Vysya acquisition. It is essential to maintain growth momentum while strengthening risk management frameworks to ensure sustainable expansion. The enlarged branch network presents an opportunity that should be leveraged for accelerated deposit mobilisation, creating a stronger funding base for future operations.

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