

# **A Comprehensive Analysis of Financial Performance:** **Insights from a Leading Banks**

## **INTRODUCTION**

The massive amount of numbers in a company's financial statements can be bewildering and intimidating to many investors. On the other hand, if you know how to analyze them, the financial statements are a gold mine of information. Financial statements are the medium by which a company discloses information concerning its financial performance. Followers of fundamental analysis use the information taken from financial statements to make investment decisions.

A recent article provides convincing evidence that data items stored in large databases have significant rates of errors (Klein, Goodhue and Davis, 1997). The problem is exemplified by the COMPUSTAT and CRSP Monthly Return Tape which are mistakenly thought to be accurate because they report information for publicly owned companies. However, both of these databases have significant error rates that distort analysis unless corrected (Kim, 1997; Courtney and Keller, 1994; Kinny and Swanson, 1993; Bennin, 1980; Beedles and Simkowitz, 1978; and, Rosenberg and Houglet, 1974). Yusuf and Hakan, (2011) the short term creditors of a company like suppliers of goods of credit and commercial banks providing short-term loans are primarily interested in knowing the company's ability to meet its current or short-term obligation as and when these become due. Ohlso (1980) concluded from his research that firm size was directly related to firm financial performance with smaller firms more likely to fail than larger ones. Following the preceding studies, many additional research projects were undertaken in an attempt to validate the use of financial ratios for predicting financial performance of a firm. Some of the better known studies include Altman, Haldeman and Narayanan (1977), Norton and Smith (1979), and Mensah (1983). These studies, like their predecessors, fail to demonstrate that normality of distribution or those necessary sample assumptions have been met prior to analysis.

The paper proceeds as follows. In section 2, we explain the literature review detailed about the accounting and financial performance of banking sector. Section 3 applies the research problem, objectives and detailed methodology. Section 4 concludes the insights and result for all financial ratios has been applied to measure the performance of banks.

## **INDIAN BANKING SECTOR**

### **AXIS BANK LIMITED**

Axis bank limited (formerly UTI Bank) is the third largest private sector bank in India. It offers financial services to customer segments covering Large and Mid-Corporate, MSME, agriculture and retail business. Axis bank has its headquarters in Mumbai, Maharashtra. Axis bank began its operations in 1994, after the Government of India allowed new private banks to be established. The bank was promoted in 1993 jointly by the administrator of the Unit Trust India (UTI), Life Insurance Corporation of India (LIC), General Insurance Corporation Ltd (GICL), National Insurance Company Ltd (NICL), The New India Assurance Company (TNIAC), The Oriental Insurance Corporation (TOIC), and United India Insurance Company (UIIC). The Unit Trust of India holds a special position in the Indian capital markets and has promoted many leading financial institutions in the country. Products: credit cards, consumer banking, corporate banking, finance and insurance, investment banking, mortgage loans, private banking, private equity and wealth management. Axis bank opened its registered office in Ahmedabad and corporate office in Mumbai in December 1993. The first branch was inaugurated on 2nd April 1994 in Ahmedabad by Dr. Manmohan Singh, the then finance minister of India. As on 31-Mar-2014, the bank had a network of 2402 branches and extension counters and 12,922 ATMs. Axis bank operates in four segments: Treasury operations, retail banking, corporate/wholesale banking and other banking business.

## **HOUSING DEVELOPMENT FINANCING CORPORATION (HDFC) BANK**

HDFC bank is the fifth largest bank in India by assets, incorporated in 1994. It's the largest bank in India by market capitalization as of 24th February 2014. As on 2nd Jan 2014, the market cap value of HDFC was around USD 26.88B, as compared to credit suisse group with USD 47.63B. Its headquarters are in Mumbai, Maharashtra. The bank was promoted by the Housing Development Finance Corporation, a premier housing finance company (set up in 1977) of India.

**Products:** credit Cards, consumer banking, corporate banking, finance and insurance, investment banking, mortgage loans, private banking, private equity and wealth management. It operates in three segments: wholesale banking services, retail banking services and treasury operations. The bank has overseas branch operations in Bahrain and Hong Kong. As of 30th September 2013, HDFC bank has 3,251 branches and 11,177 ATMs, in 2,022 cities in India, and all branches of the bank are linked on an online real-time basis.

## **FEDERAL BANK LIMITED (FBL)**

Federal bank limited is a major Indian commercial bank in the private sector. It began its operations in 1945. Though initially it was known as the Travancore federal bank, it gradually transformed into a full-fledged bank under the leadership of its founder, Mr. K P Hormis. The name federal bank limited was officially announced in the year 1947 with its headquarters nestled on the banks of the river Periyar. Since then there has been no looking back and the bank has become one of the strongest and most stable banks in the country. Its headquarters are at Aluva, Kochi and Kerala. It is the fourth largest bank in India in terms of capital base. As of 30th June 2014, federal bank has 1203 branches spread across 24 states and 1392 ATMs across the country.

**Products:**

loans, savings, debit cards, internet banking, travel cards, life insurance, general insurance etc. As government of India has decided to introduce 'Direct Cash Transfer' (DCT) of various welfare schemes directly to beneficiaries' bank account which is linked with Aaddhaar number w.e .f 1st January 2013, federal bank customers can link their Aaddhaar account.

**INDUSTRIAL CREDIT AND INVESTMENT CORPORATION OF INDIA (ICICI) BANK**

ICICI bank was established by the Industrial Credit and Investment Corporation of India (ICICI), an Indian financial institution, as a wholly owned subsidiary in 1994. The parent company was formed in 1955 as a jointventure of the World Bank, India's public-sector banks and public-sector insurance companies to provide project financing to Indian industry. The bank was initially known as the Industrial Credit and Investment Corporation of India Bank, before it changed its name to the abbreviated ICICI Bank. The parent company was later merged with the bank. ICICI Bank launched internet banking operations in 1998. ICICI bank is an Indian multinational banking and financial services company. It headquarter is in Vadodara. As of 2014, it the second largest bank in India in terms of assets and market capitalization.

The bank has a network of 3,800 branches and 11,162 ATMs in India, and has a presence in 19 countries. ICICI Bank is one of the big four banks of India, along with state bank of India, Punjab national bank and bank of Baroda. The bank has subsidiaries in the United Kingdom, Russia, and Canada; branches in United States, Singapore, Bahrain, Hong Kong, Sri Lanka, Qatar and Dubai international finance centre; and representative offices in United Arab Emirates, China, South Africa, Bangladesh, Thailand, Malaysia and Indonesia. The company's UK subsidiary has also established branches in Belgium and Germany.

## **Conclusion**

After conducting a comprehensive financial ratio analysis of the above four banks, the following conclusions are made: If liquidity ratios of all the companies are compared then it is found that only Federal bank has the ideal current ratio of 2:1. However by comparing the Profitability ratio, Activity turnover ratio, Assets turnover ratio, Leverage ratio and DuPont analysis of all the companies, it is seen that HDFC and Federal has fairly stable asset turnover ratio which indicates its efficient utilization of resources in revenue generation. Also, Federal has the best price earning ratio among other banks. The total assets turnover ratio of Federal bank shows that it keeps significantly highly assets to meet the debts. Therefore it is inferred that overall Federal bank is the most financially stable company in comparison to others.