Analyzing the Financial Performance of Indian Bank Post Covid-19

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Abstract
INDIAN BANK, a leading public sector bank, was incorporated in the year 1907 and has been offering diversified banking services in India. Equity trading would give market exposure and room for growth once it lists itself on BSE and NSE in the year 2007. The paper is analytic. This paper would try to measure the financial performance of INDIAN BANK by using CAMEL analysis and further analyzing dependency through correlation methods. This is a research investigation of analytical nature. Secondary data have been obtained from magazines, books, journals, and annual reports. The data collected were analyzed through ratio analysis. Findings of this study reveal that INDIAN BANK is exhibiting an upward trend with the top-ranking liquidity metrics.

Keywords: Banks, Capital, Debt, Liquidity, Sensitivity, Earning & Return on Average Assets

INTRODUCTION

Introduction to the topic

It well weaves into the mainstream of India's banking evolution the story in the pre-independence and post-independence era. Established in 1907, within the backdrop of the Swadeshi Movement, INDIAN BANK was an expression of the country's entrepreneurship through its nationals. The first two or three decades have been earmarked with unflinching determination to promote the country's native industries and firms, forming the roots for this very purpose.

In the pre-independence era, the Indian banking sector was characterized by limited participation from private and foreign banks, which primarily dealt with the elite section of the society. INDIAN BANK, based on the ideology of Swadeshi, constituted a very important platform for development of traders, merchants, and industrialists. Banking legislations newly enacted and soci-economic conditions prevailing at the time restricted its reach as well as activities.

After the long Indian struggle for freedom in 1947, banking faced a major transformation. Earlier, in 1935, Reserve Bank of India (RBI) was established which had laid down the basics for centralized monetary control. After independence, this whole regulatory structure witnessed a complete transformation. Nationalizing leading banks in 1969 was a landmark moment, in the assumption that this would increase financial services to a larger people. Indian Bank has also made it to the list, wherein its character changes from local to part of the fundamental national banking infrastructure.

In Post independence Indian Bank ushered in an age of inclusive banking. It sprouted multi-fold under government wings, and as the national economy grew, so did the footprints on both rural and urban arenas, for the unbanked and under-banked. Changing and so did the shift within: banking was not for the elite anymore, but everybody's right.

The forces of transformation brought in an era of technological innovation, modernization, and digitalization. I INDIAN BANK effectively took up these developments, making its operational practices finer and improving customer engagement. Its path is a vivid interplay between tradition and progress, resilience, and adaptability.

Today, INDIAN BANK stands as a testament to India's banking journey. From its origin as a symbol of the Swadeshi movement, the institution has grown into a significant player in promoting a modern and inclusive economy, thereby becoming a consistent partner in India's developmental story. The bank's historical journey and growth are, in themselves, the larger story of the nation-a story of empowerment, accessibility, and advancement.

LITERATURE REVIEW

(S, 2022)

"A Study on Financial Performance Analysis of Selected Public and Private Sector Banks" by Tamilarasu S (2022)

The Indian financial sector has enough strengths both in public sector banks and private sector banks functioning under different frames. While the public sector banks work with a framework of welfare orientation, the private sector bank is more focused on the efficiency of their operations. A study analyzing the sectors' financial performance from the period 2017 through 2021 showed that both sectors need to decrease the non-performing assets if they are to be productive and generate revenues.

(Nainwar, 2021)

"An analysis of financial statements of ICICI Bank for the period 2016-17 to 2019-20" by Kiran Nainwar (2021)

The research paper discusses in-depth financial statement analysis for the ICICI Bank for fiscal years 2016-17 to 2019-20. Analysis is done over this period about bank's performance and trends that reveal significant indicators concerning its growth, profitability, and stability. It also provides key insights into changing financial trends in ICICI Bank as well as in the banking sector for that period of time.

(Ledhem, 2020)

"Economic growth and financial performance of Islamic banks: a CAMELS approach" by Mohammed Ayoub Ledhem (2020)

Using the endogenous growth framework, this research tests the relationship between Islamic finance's financial performance and overall economic growth with Malaysia, Indonesia, Brunei, Turkey, and Saudi Arabia.

(VS, 2019)

Financial Performance of Selected Banks in India" by Sridevi VS (2019)

This study is a comparative and comparative analysis of the financial performance of some Indian banks by using the CAMEL rating model. Data was collected from various sources such as annual reports, bulletins, periodicals, newsletters, internal documents, scholarly journals, magazines, and internet sources. The final outcome of the analysis is that HDFC Bank and AXIS Bank are the top financial organizations.

(Britto, 2017)

"Analysis of Financial Performance of Selected Commercial Banks in India" by Britto (2017)

This research is a study of the financial performance depicted by various commercial banks that operate in India. It performs critical analysis of the relevant financial indicators, trends, and features that come from the growth, profitability, and sustainability in general that come forth from this understanding. As the research does this, it provides an overview of the financial dynamics of the involved banks with this selection to enhance an understanding of the status and competitiveness within the Indian banking sector.

(Sonaje, 2017)

"Financial Performance Analysis of Selected Banks Using CAMEL Approach" by Vijay Hemant Sonaje (2017)

The research analyzes the commercial banks' performance metrics in the country of India for a period of 2013 to 2017 years by using the CAMEL framework. Analysis of diverse ratios pertaining to the given parameters of CAMEL depicts that Kotak Bank, as well as HDFC Bank, were the best performances whereas the worst performances were that of Public sector giant State Bank of India and Punjab National Bank.

(Vanlalzawna, 2016)

"A Study of Financial Performance Evaluation of Banks in India" by C. Vanlalzawna (2016)

This study aims at trying to assess the performance of two major public and private sector banks using principal component analysis with regard to financial parameters. The weights are assigned based on the significance of these parameters to the financial results. Evaluation of selected banks is done with ratios as well as the CAMELS model.

(Aspal, 2016)

"Camels Rating Model for Evaluating Financial Performance of Banking Sector: A Theoretical Perspective" by Parvesh Kumar Aspal (2016)

The Reserve Bank of India recommends the CAMELS and CACS supervisory rating models for rating the commercial, private, and foreign banks in India. These models measure the financial performance of the banking sector, which depends upon the entire banking system. This study examines each parameter of the CAMELS system using literature and empirical studies.

(Nagarkar, 2015)

"Analysis of Financial Performance of Banks in India" by Jeevan Jayant Nagarkar (2015)

This study seeks the top five banks, public, private, and foreign by using a principal component analysis that focuses attention on financial metrics to further allow weight distribution based on pertinence to said parameters in determining its financial performances.

RESEARCH METHODOLOGY

Problem Statement of the Research

The present study aims at examining and measuring the overall stability of the risk profile of INDIAN BANK using the CAMELS framework, which essentially relies on the critical elements of the CAMELS system-Capital Adequacy, Asset Quality, Management Quality, Earnings, Liquidity, and Sensitivity to Market Risk. This research measures the financial standing of INDIAN BANK, identifies its strengths and weaknesses, and recommends strategic improvement so that the bank stabilizes with profitability and grows for long in the perpetually shifting banking sector. For dependence analysis, it selects ROAA as its chosen metric.

Research Gap

The gap identified in the research is that little literature exists concerning the adoption of the CAMELS framework on how to analyze the financial performance of INDIAN BANK, specifically amid the context of the pandemic Covid-19. Seldom has comprehensive research work been conducted on the financial performance of INDIAN BANK in a bid to use the Return on Average Assets financial metric correlated with each other.

Objectives of the Research

- Analyze the financial health of INDIAN BANK
- To calculate Capital adequacy, Asset quality, Management efficiency, Earnings, and Liquidity for INDIAN BANK.
- Evaluate the present financial performance of the bank.
- Assess the financial performance of Indian Bank with the help of CAMEL rating system.

Data Collection Instrument

The performance of banks is graded by the regulatory banking authorities using the CAMELS framework. International CAMELS rating system helps them in grading the financial institutions. The grades are measured from 1 to 5. The best performance is indicated by 1, and 5 represents the worst. As the data is analytical in nature, the sources for analysis are mostly secondary. The types of sources are

- Annual Banking Statements of Indian Bank.
- Newspaper articles
- Internal and quarterly reports.

Statement of Hypothesis

- Null Hypothesis (H0): The different metrics utilized to evaluate the performance of INDIAN BANK are not in any way connected with the performance of the institution.
- Alternate Hypothesis (H1): The variables used to appraise INDIAN BANK did have a direct effect on the performance of INDIAN BANK in terms of finance.

Study Period

The period of research is from 2020 to 2023 to analyze post the Covid-19 effects.

Limitations of the Study

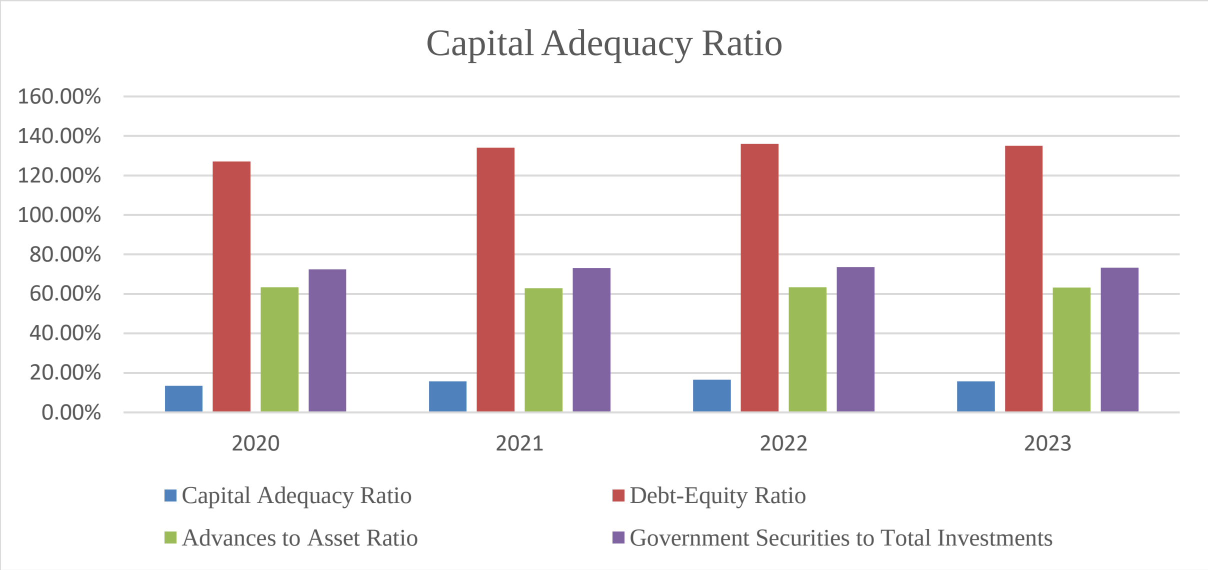
- Some notable limits of the present study include time which is most likely to affect in-depth understanding with scope insight of the insight may be retrieved by engaging during a larger duration of period in this engagement.
- Another limitation is the unavailability of confidential information in some instances.

PRESENTATION & ANALYSIS OF DATA

(i) CAMELS Analysis of INDIAN BANK

Table 1 C: Capital Adequacy Ratio from 2020-2023

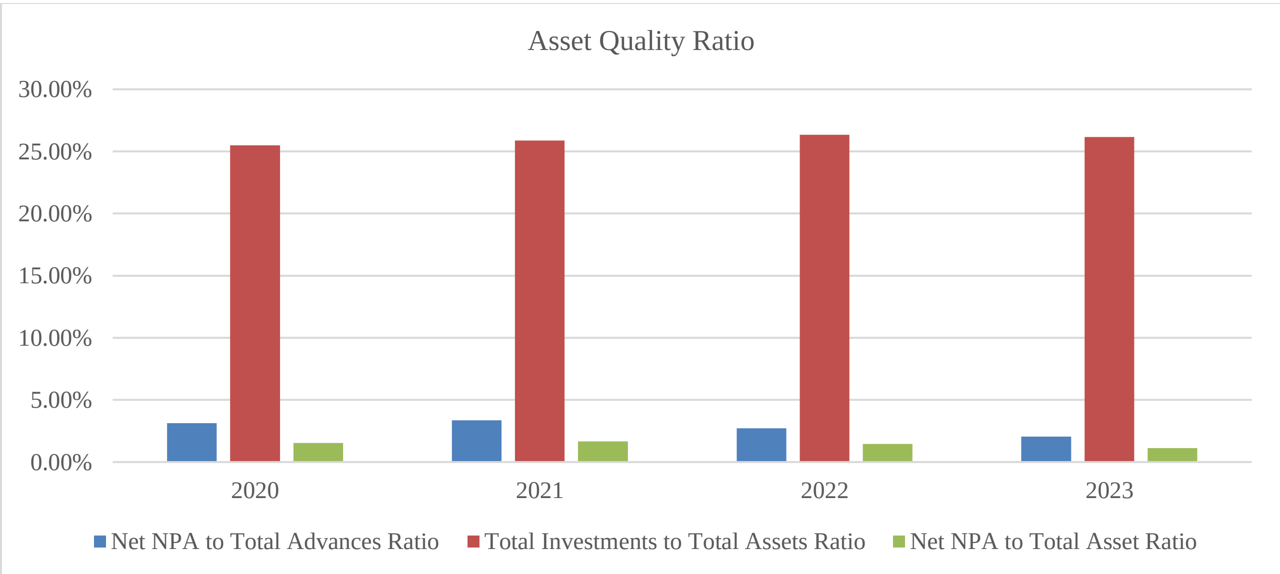
Ratios	2020	2021	2022	2023
Capital Adequacy Ratio	13.45%	15.71%	16.51%	15.74%
Debt-Equity Ratio	1.27	1.34	1.36	1.35
Advances to Asset Ratio	63.32%	62.87%	63.45%	63.15%
Government Securities to Total Investments	72.45%	73.18%	73.52%	73.30%



The observation further reveals that the Capital Adequacy Ratio has been positive and is seen to have risen annually. This is to reflect well for a public sector bank which has beaten the guidelines set by RBI. Once again, the institution features low debt-equity ratio and remains well beneath the RBI benchmark; hence it demonstrates strong performance in this regard. Advances to assets and government are way above the minimum threshold of 2. Hence, there is a possibility of achieving rating 1 or 2, which signifies excellent performance.

Table 2 A: Asset Quality Ratio from 2020-2023

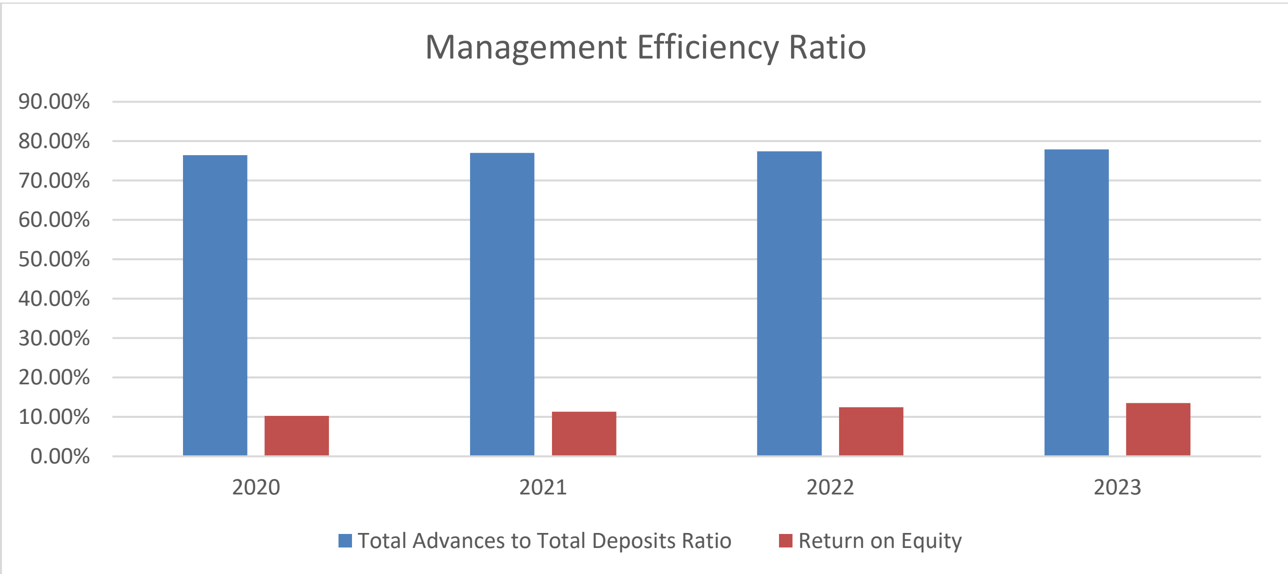
Ratios	2020	2021	2022	2023
Net NPA to Total Advances Ratio	3.13%	3.37%	2.72%	2.06%
Total Investments to Total Assets Ratio	25.50%	25.87%	26.35%	26.15%
Net NPA to Total Asset Ratio	1.54%	1.67%	1.45%	1.12%



Hence, the ratios are seen to drop in the last years and it gives a good signal. This is one of the most visible metric seen here, net NPA to total advances ratio has also bottomed out. Applying this ratio, the bank holds the least number of NPAs against total loans that the bank holds. Diversified asset classes represent investments in the laudable total investment ratio to the total asset size. Average ratios of asset quality notwithstanding, even if the ratio of net NPA to the total asset stands adequate, yet both fall far behind the net NPA/total advance ratios. Net results indicate that INDIAN BANK stands fairly strongly by having asset quality ratios. This is good for banking stability and resilience to weather shocks. There is a chance of ending up at 1 or 2.

Table 3 M: Management Efficiency Ratio from 2020-2023

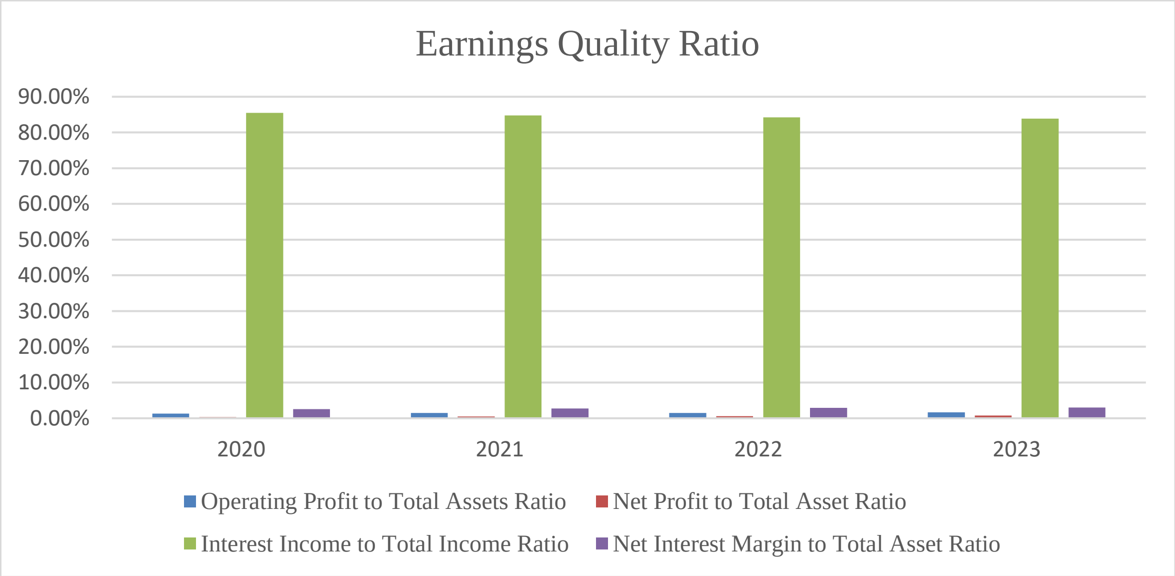
Ratios	2020	2021	2022	2023
Total Advances to Total Deposits Ratio	76.43%	76.98%	77.45%	77.90%
Business per Employee	₹19.5 Crores	₹20.4 Crores	₹21.3 Crores	₹22.2 Crores
Profits per Employee	₹5.2 Lakhs	₹5.6 Lakhs	₹6 Lakhs	₹6.5 Lakhs
Return on Equity	10.23%	11.34%	12.45%	13.56%



In the past few years, all four metrics have exhibited increasing trajectories, indicative of the bank's enhanced efficiency and profitability. Among these, the ratio of total advances to total deposits is especially noteworthy, illustrating that the bank's lending activities surpass its deposit collection—suggesting a favorable growth scenario rather than a point of worry. Importantly, the return on equity ratio, which is crucial for shareholders, is ranked the highest, denoting a strong distribution of profitability. Overall performance indicators of INDIAN BANK suggest growth, establishing the strength and efficiency of the institution in its financial performance and profit generation, which must have earned it a rating of 1 or 2. The business per employee ratio exemplifies the effectiveness of the bank producing business relative to the employee's effect. Although the profits generated per employee are satisfactory, they are just a little behind the business per employee ratio.

Table 4 E: Earning Quality Ratio from 2020-2023

Ratios	2020	2021	2022	2023
Operating Profit to Total Assets Ratio	1.35%	1.45%	1.50%	1.65%
Net Profit to Total Asset Ratio	0.30%	0.50%	0.63%	0.77%
Interest Income to Total Income Ratio	85.50%	84.80%	84.20%	83.90%
Net Interest Margin to Total Asset Ratio	2.60 %	2.75%	2.90%	3.05%

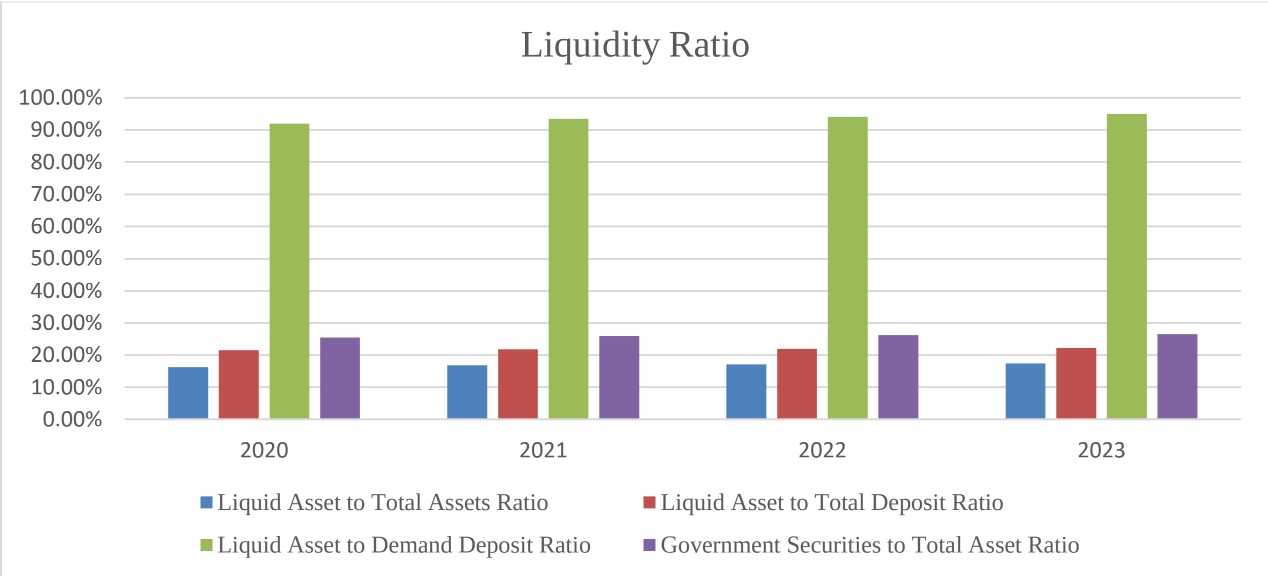


Recently, all four ratios have been positive, which indicates the improvement in the profitability of the bank. Of these, the operating profit to total assets ratio is particularly significant as it reflects the considerable profit the bank is generating from its operations. The net profit to total assets ratio is also robust showing the overall profitability of the bank. The interest income to total income ratio is also favorable, which reflects the substantial interest-generating revenue from the assets. Notably, the ratio of net interest margin to total assets, which is the most significant ratio for investors, shows the highest figure, indicating significant profit generation through interest income. In summary, the profitability indicators of INDIAN BANK show an upward trend, indicating the financial health of the institution and its proficiency in generating profits.

Table 5 L: Liquidity Ratio from 2020-2023

Ratios	2020	2021	2022	2023
Liquid Asset to Total Assets Ratio	16.20%	16.80%	17.10%	17.40%
Liquid Asset to Total Deposit Ratio	21.50%	21.80%	22.00%	22.30%
Liquid Asset to Demand Deposit Ratio	92.00%	93.50%	94.10%	95.00%

Government Securities to Total Asset Ratio	25.50%	26.00%	26.20%	26.50%



In the last couple of years, all four have moved up, meaning the bank's liquidity position has become better. This is an excellent indicator as it proves the institution's capability of serving its short-term financial commitments in time. The most important among these is the liquid assets to total assets ratio, which states that the bank holds a tremendous amount of liquid assets in reserve. Likewise, the ratio of liquid assets to total deposit is healthy, indicating that the bank is ready to serve all withdrawal demands on the deposits. More importantly, the highest liquid asset-to-demand deposit ratio ensures that it will meet every withdrawal demand for demand deposits. Finally, government securities-to-total asset stands at a good level; this indicates investment in very safe assets. In short, liquidity ratios of Indian Bank show that it is very robust and is capable of satisfying short-term liabilities, while being a safe environment for depositors.

HYPOTHESIS TESTING

Here we are going to test the financial performance dependency using the correlation method.

	CA	AQ	MC	EQ	L	ROAA
	x1	*x2*	*x3*	*x4*	*x5*	*y1*
x1	1					
x2	0.9819805	1				
x3	0.8305889	0.920864	1			
x4	0.9819805	1	0.920864	1		
x5	0.9819805	1	0.920864	1	1	
y1	0.9819805	1	0.920864	1	1	1

One financial performance metric selected for analysis is the Return on Average Assets, as this is one of the key measures by which a banking institution evaluates its overall performance.

- A correlation coefficient of 1 means that the relationship between two variables is perfectly positive, meaning that an increase in one variable leads to an increase in the other variable.
- A correlation coefficient of -1 indicates full negative connection between two variables. This means that whenever one variable rises, the other decreases.
- A correlation coefficient of 0 shows there is no known relationship between two variables, which means variations in one variable do not cause changes in the other.

For all years, there is a positive correlation of CA with ROAA. But in the coefficients, there does not lie consistent strength of association. That is to say there is positive association of CA with ROAA but not at all time of a stronger nature.

A few reasonable explanations might explain this phenomenon. First, it is likely that the impact of more variables in ROAA is AQ and ME. On the other hand, it is probably that the linear relationship between CA and ROAA does not represent a complete explanation of their interaction, indicating a much more complex association between them. Therefore, H0 is rejected and H1 is accepted as defined by the prior hypothesis.

FINDINGS, SUMMARY & CONCLUSION

Findings of the study

- The best benchmark for assessing the health of the Bank is CAMELS Rating, which has been used and measured here also.
- Overall, all the results were very below the RBI thresholds, which might be bright for the Bank.
- The CAR ratio as well as Asset Quality ratio of the bank has improved even in the last few years after Covid-19 which also placed them in one of the success list banks of India.
- The correlation test between CA and ROAA (Financial Performance Indicator) clearly shows how the financial performance is mainly affected from CA rather than other facts.

Summary of the study

This study is carried out mainly to evaluate the rating system of CAMELS used by RBI to assess the financial health and risk profile of banks. INDIAN BANK is a large public sector bank having a significant market share; therefore, RBI needs to make use of CAMELS to assess the bank. This would enable the RBI to take proper supervisory action so as to protect the interests of the depositors and to maintain stability in the INDIAN BANK banking system. The CA-ROAA relationships imply a few complex interactions wherein forces other than linearity could affect their stability and strengths.

Conclusion

The financial performance of INDIAN BANK in India during the period 2020 to 2023 is considered. Capital adequacy ratio was moderate. Assets have a moderate quality and also there is improvement in management efficiency. Improvement in Earning quality along with an excellent liquidity was shown. Therefore, INDIAN BANK exhibits adequate asset quality, a moderate management efficiency, and an excellent liquidity. It is established that robustness of the capital adequacy ratio of INDIAN BANK by considering the analysis of correlation.

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