

## FINANCIAL PERFORMANCE ANALYSIS OF SELECT NATIONALIZED COMMERCIAL BANKS IN INDIA THROUGH LEVERAGE RATIOS.

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**Abstract:** *Financial leverage is an important determinant of profitability. Apart from spread and burden and their components, profitability is also affected by the degree of financial leverage in the banks' capital structure.*

*Key words: Working Fund, Earning Assets, Shareholders Equity*

### Introduction

The past five decades witnessed cataclysmic change in the sphere of commercial banking all over the world. Indian banking system has also followed the same trend to match the global standards. Indian banking was evolved basically to meet the financial need of the industry. The constituents of the present banking system in India have been varying origin and sizes. As the apex is the Reserve Bank of India, the Central Bank of the country followed by State Bank of India, major Nationalized Scheduled Banks, other Joint Stock Banks, Co-operative Banks, Regional Rural Banks. Thus, the banking sector in India comprises the Public Sector Commercial Banks, Private Sector Banks, Co-operative Banks and Regional Rural Banks.

As the banking institutions expand and become increasingly complex under the impact of deregulation, innovation and technological upgradation, it is crucial to maintain balance between efficiency and stability. During the last 30 years since nationalization tremendous changes have taken place in the financial markets as well as in the banking industry due to financial sector reforms. The banks have shed their traditional functions and have been innovating, improving and coming out with new types of services to cater emerging needs of their customers. Banks have been given greater freedom to frame their own policies. Rapid advancement of technology has contributed to significant reduction in

transaction costs, facilitated greater diversification of portfolio and improvements in credit delivery of banks. Prudential norms, in line with international standards, have been put in place for promoting and enhancing the efficiency of banks. The process of institution building has been strengthened with several measures in the areas of debt recovery, asset reconstruction and securitization, consolidation, convergence, mass banking etc.

Despite this commendable progress, serious problem have emerged reflecting in a decline in productivity and efficiency, and erosion of the profitability of the banking sector. There has been deterioration in the quality of loan portfolio which, in turn, has come in the way of banks' income generation and enhancement of their capital funds.

### **Objectives of the Study**

To study the relationship between Working Fund, Earning Assets and Shareholders Equity.

### **Selection of Banks for the Study**

All the 20 Nationalised Commercial Banks were considered to construct the sample companies. The study covers a period of ten years from 2001-2002 to 2010-2011.

### **Descriptive Statistics**

The descriptive statistics like mean, standard deviation, co-efficient of variation, skewness and range are employed to arrive at a single value that describes the characteristics of the entire group.

### **Leverage Ratio**

The following leverage ratios have been computed.

#### **1. Ratio of Working Fund to Shareholders Equity**

This ratio shows the relationship between working fund and shareholders' equity. The ratio of working fund to shareholders equity over the period of ten years from 2001-2002 to 2010-2011 of the select Nationalised Commercial Banks is given in Table 1.

**TABLE NO.1**  
**RATIO OF WORKING FUND TO SHAREHOLDERS EQUITY**

(times)

Year	ALB	AB	BOB	BOI	BM	CB	CBI	COB	DB	IB	IOB	OBC	PNB	PSB	SBI	SB	UCO	UBI	UtBI	VB
2002	3.22	1.90	2.41	2.22	3.76	3.57	7.18	1.37	2.09	4.62	3.89	1.80	1.80	4.85	1.93	2.57	14.02	3.27	6.72	3.95
2003	1.94	1.14	1.30	1.47	2.48	1.64	4.75	0.73	0.16	1.29	2.36	1.08	1.84	5.77	0.69	1.73	4.59	1.56	3.05	1.93
2004	1.84	1.48	0.98	1.84	1.85	1.84	2.46	0.57	0.20	0.86	2.19	1.03	1.22	3.95	0.32	4.13	2.47	1.15	2.00	0.61
2005	1.66	1.36	1.41	1.24	2.47	1.02	2.20	0.75	1.12	0.66	1.60	2.42	0.49	3.28	0.38	0.92	3.19	1.57	1.32	0.94
2006	1.72	1.46	1.43	1.80	1.06	1.38	1.35	0.88	1.81	1.55	0.68	1.04	2.24	1.95	0.57	1.50	1.20	1.01	1.14	1.25
2007	1.29	0.99	1.91	2.46	1.60	1.68	2.49	1.18	1.55	0.71	1.26	1.20	1.22	1.99	1.01	2.43	2.38	1.27	1.62	2.09
2008	1.38	1.39	1.69	1.54	2.05	1.60	2.80	1.26	1.84	1.09	1.16	1.35	1.21	1.68	0.96	2.55	2.88	1.56	2.14	2.15
2009	0.97	1.18	1.48	1.61	1.55	1.40	2.21	1.82	2.33	0.78	1.55	1.50	1.14	1.43	0.99	2.83	2.86	1.99	1.99	2.17
2010	1.17	2.23	1.98	2.05	2.47	1.24	2.96	1.43	1.50	0.77	1.27	1.67	1.08	1.94	0.52	1.94	1.36	1.50	1.46	1.22
2011	1.19	1.50	2.28	2.16	0.83	1.58	1.69	1.21	1.49	0.69	1.35	0.87	1.25	1.36	0.84	1.33	2.07	1.51	1.47	1.13
Mean	1.64	1.46	1.69	1.84	2.01	1.69	3.01	1.12	1.34	0.38	1.73	1.40	1.35	2.82	0.82	2.19	3.70	1.64	2.29	1.74
SD	0.64	0.37	0.45	0.38	0.84	0.70	1.73	0.38	0.87	1.78	0.90	0.47	0.49	1.56	0.46	0.92	3.75	0.63	1.65	0.95
CV	0.39	0.25	0.27	0.21	0.42	0.41	0.57	0.34	0.65	4.73	0.52	0.34	0.36	0.55	0.56	0.42	1.01	0.39	0.72	0.55

**Source:** Data compiled and collected from Database of Indian Banking, Bank's Annual Reports and Issues of relevant years.

It could be observed from Table 1 that among the select Nationalised Commercial Banks, the ratio of working fund to shareholders equity of UCO bank on an average stood at the maximum of 3.7 times. It is followed by Central Bank of India (3.01 times ), Punjab and Sind Bank (2.82 times), United Bank of India (2.29 times), Bank of India (1.84 times) and Vijaya Bank (1.74 times). This ratio was the lowest in Indian Bank (0.38 times).

The ratio was consistent in Bank of India (0.21 percent) and Andhra Bank (0.25 percent) and it is inconsistent for Indian Bank (4.73 percent). Wide fluctuations were noted during the study period.

## **2. Ratio of Earning Assets to Shareholders Equity**

It indicates the relationship between earning assets and shareholders fund of the bank. Shareholders' funds consist of share capital, reserves and surplus and retained earnings. The major portion of the assets owned by the banks is not only liquid but also income earnings.

Earning assets of the bank includes cash balance with Reserve bank of India and also with other banks, money at call and short notice, investments and advances. The ratio of earning assets to shareholders equity of the select Nationalised Commercial Banks under study is shown in Table No. 2.

**TABLE NO.2**  
**RATIO OF EARNING ASSETS TO SHAREHOLDERS EQUITY**

(times)

Year	ALB	AB	BOB	BOI	BM	CB	CBI	COB	DB	IB	IOB	OBC	PNB	PSB	SBI	SB	UCO	UBI	UtBI	VB
2002	36.96	25.60	16.10	30.13	36.55	20.62	57.92	11.12	109.20	132.64	46.75	20.01	25.74	31.02	23.50	24.89	158.83	29.21	56.86	35.22
2003	31.37	22.83	13.55	24.23	27.25	19.57	42.89	10.77	51.35	34.92	35.12	15.98	23.79	42.63	21.63	33.70	58.91	26.32	28.75	24.63
2004	26.44	18.29	11.69	22.30	22.88	18.81	26.80	10.12	32.74	24.69	25.03	15.10	21.57	37.34	19.61	30.99	32.75	22.65	21.04	18.10
2005	25.49	17.33	12.07	21.61	20.80	17.98	24.55	10.70	23.37	20.77	20.47	15.46	15.61	41.74	18.31	26.32	31.30	22.62	18.28	18.35
2006	16.96	13.45	10.98	22.80	19.65	18.53	24.59	11.61	23.90	20.48	18.89	12.69	15.56	18.96	16.97	22.50	30.48	21.23	19.19	19.09
2007	18.12	14.74	13.23	24.30	21.96	19.80	27.12	13.69	24.58	15.15	20.81	14.07	15.59	17.97	17.27	27.29	33.00	21.14	21.60	22.50
2008	18.53	16.99	12.86	19.75	26.06	21.10	30.61	15.43	24.04	13.88	21.01	15.43	17.95	19.19	13.79	27.01	35.32	21.15	24.21	26.08
2009	19.16	18.35	14.49	18.62	27.59	21.20	32.52	17.38	24.27	13.79	19.82	17.03	18.31	24.72	15.99	27.63	31.31	22.08	23.05	21.62
2010	20.30	20.14	15.43	21.06	28.61	20.66	31.02	19.06	23.59	13.99	20.65	18.35	17.82	26.12	15.44	26.18	28.30	21.56	21.79	21.62
2011	21.05	17.88	15.27	21.24	23.70	18.27	26.02	19.83	20.05	14.24	23.86	15.43	21.17	21.79	18.29	23.22	22.94	20.51	21.85	19.75
Mean	23.44	18.56	13.57	22.60	25.51	19.65	32.40	13.97	35.71	3.93	25.24	15.96	19.31	28.15	18.08	26.97	46.31	22.85	25.66	22.70
SD	6.56	3.58	1.72	3.19	4.93	1.21	10.48	3.71	27.35	48.45	8.90	2.08	3.60	9.50	2.91	3.36	40.65	2.76	11.33	5.12
CV	0.28	0.19	0.13	0.14	0.19	0.06	0.32	0.27	0.77	12.34	0.35	0.13	0.19	0.34	0.16	0.12	0.88	0.12	0.44	0.23

**Source:** Data compiled and collected from Database of Indian Banking, Bank's Annual Reports and Issues of relevant years.

It is divulged from Table No. 2 that the average ratio of earning assets to shareholders fund of UCO Bank was the highest at 46.31 times among the select Nationalised Commercial Banks. It is followed by Dena Bank (35.71 times), Central Bank of India (32.40 times), Punjab and Sind Bank (28.15 times) and United Banks of India (25.66 times). The ratio was the lowest in Indian Bank (3.93 times) and it shows negative ratio during the year 2001-2002.

A rising trend in the ratio of earning assets to shareholders fund was found in most of the select Nationalised Commercial Banks. The dispersion results showed that variability in the ratio was more consistent in Canara Bank (0.06 percent) followed by Union Bank of India (0.12 percent) and Syndicate Bank (0.12 percent). It is inconsistent in Indian Bank (12.34 percent).

### **3. Ratio of Earning Assets to Working Fund**

This ratio shows the relationship between earning assets and working funds of the bank. Working funds are the total resources available in the bank to carry on its operations. The ratio of earning assets to working fund of the banks during the period from 2001-2002 to 2010-2011 is exhibited in Tables No. 3.

**TABLE NO.3**  
**RATIO OF EARNING ASSETS TO WORKING FUND**

(Percentage)

Year	ALB	AB	BOB	BOI	BM	CB	CBI	COB	DB	IB	IOB	OBC	PNB	PSB	SBI	SB	UCO	UBI	UtBI	VB
2002	11.49	13.48	6.69	13.55	9.73	5.77	8.07	8.11	52.18	28.71	12.02	11.11	14.28	6.40	12.19	9.69	11.32	8.93	8.46	8.93
2003	16.19	19.99	10.44	16.45	10.98	11.94	9.02	14.67	-314.11	27.08	14.87	14.85	12.95	7.38	31.34	19.52	12.84	16.87	9.43	12.76
2004	14.35	12.33	11.98	12.10	12.39	10.24	10.89	17.70	-163.30	28.82	11.41	14.69	17.67	9.46	61.92	7.51	13.24	19.68	10.54	29.67
2005	15.35	12.77	8.54	17.38	8.42	17.70	11.16	14.22	20.94	31.57	12.83	6.39	31.63	12.74	48.15	28.52	9.83	14.45	13.81	19.43
2006	9.88	9.21	7.67	12.67	18.61	13.43	18.25	13.20	13.19	13.21	27.69	12.24	6.96	9.73	29.78	15.04	25.46	21.01	16.89	15.23
2007	14.04	14.91	6.94	9.88	13.76	11.81	10.88	11.57	15.88	21.49	16.46	11.73	12.80	9.02	17.04	11.22	13.89	16.60	13.30	10.77
2008	13.45	12.18	7.61	12.82	12.70	13.21	10.94	12.23	13.09	12.78	18.18	11.39	14.79	11.42	14.30	10.61	12.24	13.54	11.30	12.12
2009	19.85	15.55	9.79	11.57	17.84	15.13	14.70	9.55	10.40	17.79	12.82	11.34	16.09	17.27	16.22	9.78	10.93	11.12	11.58	9.98
2010	17.36	9.04	7.79	10.26	11.57	16.70	10.47	13.31	15.78	18.15	16.32	10.96	16.47	13.49	29.90	13.53	20.86	14.39	14.97	17.70
2011	17.67	11.92	6.71	9.86	28.72	11.54	15.36	16.45	13.50	20.50	17.64	17.70	16.93	16.06	21.88	17.49	11.09	13.58	14.90	17.44
Mean	14.96	13.14	8.42	12.65	14.47	12.75	11.97	13.10	-32.25	22.01	16.02	12.24	16.06	11.30	28.27	14.29	14.17	15.02	12.52	15.40
SD	2.98	3.19	1.77	2.59	5.95	3.41	3.14	2.92	115.10	6.72	4.75	3.01	6.27	3.59	16.01	6.25	5.01	3.66	2.69	6.15
CV	0.20	0.24	0.21	0.20	0.41	0.27	0.26	0.22	3.57	0.31	0.30	0.25	0.39	0.32	0.57	0.44	0.35	0.24	0.22	0.40

**Source:** Data compiled and collected from Database of Indian Banking, Bank's Annual Reports and Issues of relevant years.

It could be observed from Table No.3 that earning assets to working fund ratio of State Bank of India stood at the highest of 28.27 percent (on an average) among the select Nationalised Commercial Banks. It is followed by Indian Bank (22.01 percent), Punjab National Bank (16.06 percent), Indian Overseas Bank (16.02 percent) and Vijaya Bank (15.40 percent). The ratio was the lowest for Dena Bank (-32.25 percent) and it shows negative ratios during the year 2002-2003 and 2003-2004 at -314.11 percent and -163.30 percent respectively. For the remaining banks, the ratio varied between 8 percent to 15 percent.

In terms of dispersion, the consistent variation was noted in Allahabad Bank (0.2 percent) and Bank of India (0.2 percent). Variation of Dena Bank shows 3.57 percent and it is inconsistent for State Bank of India (0.57 percent) followed by syndicate Bank (0.44 percent) and Bank of Maharashtra (0.14 percent).

### **Findings and Conclusion**

The ratio of working fund to shareholders' equity of the Nationalised Commercial Banks indicated that UCO Bank, Central Bank of India and Punjab and Sind Bank were efficient in managing the shareholders' equity in a better way to maintain greater working fund.

The results of analysis of ratio of earning assets to shareholders' equity showed that UCO Bank was efficient in managing the shareholders' equity in maintaining higher earning assets whereas Indian Bank is found lacking in maintaining better ratio of earning assets to shareholders' equity. The ratio of earning assets to shareholders' equity was found to be consistent as against the highly inconsistent ratio maintained by Indian Bank.

It is observed from the analysis that Dena Bank and State Bank of India have maintained higher average ratio of earning assets to working fund. It implies that these banks have efficiently utilized the working fund in maintaining earning assets. However, the State Bank of India has maintained this ratio more consistent than Dena Bank.

All the Nationalised Commercial Banks except State Bank of India and Dena Bank have utilized the working fund efficiently to maintain more earning assets. Hence, the State Bank of India and Dena Bank should carefully plan and control the working fund for efficient management.

The selected ratios explaining their relationship with working fund, total income and shareholders' funds disclosed the fact that interest income being the major source of income

for the Nationalised Commercial Banks plays a vital role in determining dividend. Now, an urge to increase their earning assets to raise it's shareholders value.

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