

# A Comparative Analysis of Financial Performance of Selected Foreign Bank in India

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**Abstract:** India's banking industry has a positive role to play in the country's economic development as people's savings are a source of reserves and credit, especially since the success of economic growth depends properly on resource mobilization and investment. The main factors affecting the profitability and efficiency of banks are direct investment, direct lending, growth in assets, growth in advances and other major share of total bank revenue. It caters to the needs of all sectors of the economy. In addition to the role of mediator, it also plays an important role for the balanced economic development of the country.

**Key Words:** Debt Coverage Ratio, Balance Sheet Parameters Ratio, Management efficiency parameters, Profitability parameters

## 1. INTRODUCTION:

### • History of Indian Banking System

The first banks were Bank of Hindustan (1770-1829) and The General Bank of India, established 1786 and since defunct.

- Three presidency banks **Bank of Bengal(1806)**, **Bank of Bombay(1840)** and **Bank of Madras(1843)** merged into Imperial Bank of India in 1921.
- The Imperial Bank of India subsequently named the State Bank of India in 1955.
- The Imperial bank works as a central bank till 1935.
- The central Bank of India, RBI establish in 1935 on the recommendation of **Hilton-Young Commission**.

In 1969 the Indian government nationalized all the major banks that it did not already own and these have remained under government ownership. They are run under a structure known as 'profit-making public sector undertaking' (PSU) and are allowed to compete and operate as commercial banks. The Indian banking sector is made up of four types of banks, as well as the PSUs and the state banks; they have been joined since the 1990s by new private commercial banks and a number of foreign banks.

### 1.1. Bank groups are:

- State Bank of India and its Associates
- Nationalized Banks
- Private Sector Banks
- Foreign Banks
- Regional Rural Banks.
- Scheduled Co-operative Banks consist of Scheduled State Co-operative Banks and Scheduled Urban Cooperative Banks.

### 1.2. New Bank Model:

**1.2.1. Payment Bank:** Payments bank is a new model of banks conceptualized by the Reserve Bank of India (RBI). These banks can accept a restricted deposit, which is currently limited to ₹1 lakh per customer. These banks may not issue loans or credit cards, but may offer both current and savings accounts. Payments banks may issue ATM and debit cards, and offer net-banking and mobile-banking. The banks will be licensed as payments banks under Section 22 of the Banking Regulation Act, 1949, and will be registered as public limited company under the Companies Act, 2013.

As of February 2020, there are six active payments banks

- Airtel Payments Banks Ltd.
- Fino Payments Bank Ltd.
- India Post Payments Bank Ltd.
- Jio Payments Bank Ltd.
- NSDL Payments Bank Ltd.
- PayTm Payments Bank Ltd.

**1.2.2. Small finance banks** To further the objective of financial inclusion, the RBI granted approval in 2016 to ten entities to set up small finance banks. Since then, all ten have received the necessary licenses.

- AU Small Finance Bank Ltd.
- Capital Small Finance Bank Ltd.
- Equitas Small Finance Bank Ltd.
- ESAF Small Finance Bank Ltd.
- Fincare Small Finance Bank Ltd.
- Jana Small Finance Bank Ltd.
- North East Small Finance Bank Ltd.
- Suryoday Small Finance Bank Ltd.
- Ujjivan Small Finance Bank Ltd.
- Utkarsh Small Finance Bank Ltd.

### **1.3. Foreign Bank in India:**

British-owned foreign banking is believed to be the foundation of the existing Indian banking system in India. These foreign banks have been operating in India for more than two centuries and during this period they have become important internal modules of India. The role of the financial and banking system in the economic development of the country cannot be underestimated. In the financial and banking landscape that fills the emerging of openness, economic liberalization and globalization, and the promotion of "greater economic efficiency", the expanded role of foreign banks in India and the need for operations have gained further momentum. India has pledged to allow 12 branches of foreign banking to the World Trade Organization (WTO) per year (RBI Guideline Line Feb. 2005), however, to introduce or increase their presence in India, given the prevailing rationale.

#### **1.3.1. The World Bank (2002) has summarized the benefits as follows:**

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- The entry of foreign bank has positive impact on the efficiency of the domestic banking sector.
- Enhanced competition increases profits and reduces costs.
- Credits' allocation to the private sector may be improved since it is expected the evaluation and pricing of credit risks to be more sophisticated. This can help foster higher growth.
- The entry of foreign banks also helps in building the domestic banks' legal and supervisory framework and increases the overall transparency.
- Foreign banks provide stable credit sources just because they can get additional funding from their parent banks which have easier access to the international markets. Thus domestic shocks have less impact on the financial markets.
- Foreign banks may reduce the costs associated with recapitalizing and restructuring banks in the post-crisis period.

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## 2. LITERATURE REVIEW:

- **Mohan (2005)** examined the efficacy of the reform process in the Indian economy. He pointed out that the reform process had been implemented in two phases- first phase aimed at creating an efficient, productive and profitable financial sector whereas in the second phase emphasis had been given to strengthen the financial system. He threw light on the different policy reforms like Reforms in Government Securities Market, Debt Market Reforms, Reforms in Forex Market, Reforms in Monetary Policy Framework, etc.
- **Gopinath (2007)** showed that reforms in banking sector strengthened the profitability, asset quality and capital position of Indian Banking industry as a whole. Reforms ensured financial stability as well as enhanced the efficiency of the banking sector. One of the important features of the reforms process was gradualism while another aspect was that the rules were framed by taking into consideration the domestic and global economic environment.
- **Chantpong (2003)** tried to compare the performance of Domestic and Foreign Banks in Thailand using Regression Analysis in terms of profitability and other characteristics in post-financial crisis period of 1997. The study had been performed taking data of 6 years from 1996 to 2000. The study was based on a micro bank level panel data. The study revealed that all banks improved their profitability in the post-crisis period and the gap between the profitability of Foreign and Domestic Banks came closer. However, Foreign Banks' profitability was higher than the average profitability of the Domestic Banks.

## 3. RESEARCH OBJECTIVE:

- To analyse the performance of select Foreign Bank in last 5 year
- To identify the parameters in which foreign sector banks are performing better/poor.
- To study the difference in performance of select Foreign Banks.

## 4. METHOD:

The present research study is a combination of both theoretical as well as analytical works. In the research work, the procured data have been analysed in as many ways as possible by using various financial performance parameters with a view to evaluating the comparative financial performance.

### 4.1. Financial performance Parameters:

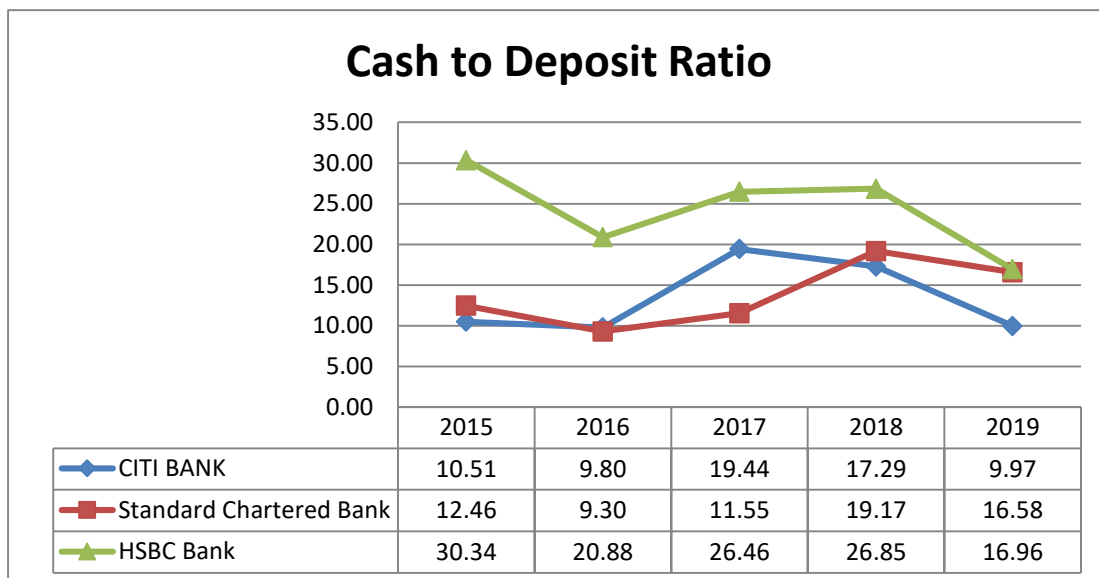
- Debt Coverage Ratio
- Balance Sheet Parameters Ratio
- Management efficiency parameters
- Profitability parameters

## 5. DATA ANALYSIS:

**5.1. Debt coverage parameters:** It is very important for any financial system to have adequate liquidity in economy. Banks has to play a vital role for maintaining the same.

**5.2. Cash Deposit Ratio** Cash Deposit ratio (CDR) is the ratio of how much a bank lends out of the deposits it has mobilized. It indicates how much of a bank's core funds are being used for lending, the main banking activity.

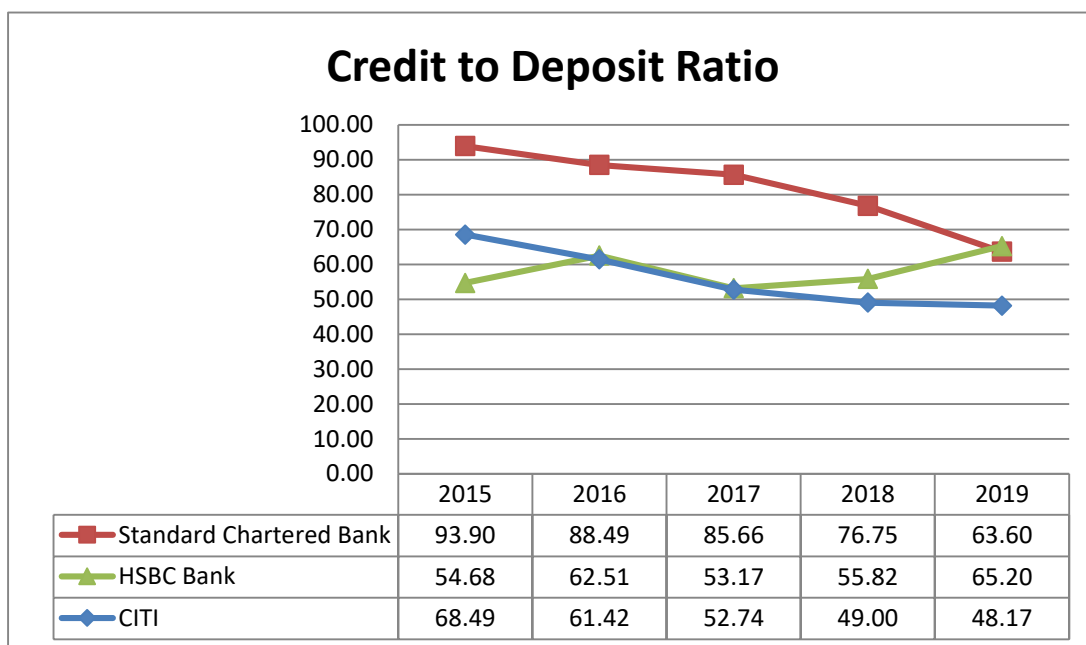
$$CDR = \frac{\text{Cash in hand} + \text{Balance in RBI}}{\text{Total deposit}} * 100$$



**Interpretation:** As above data and graphical representation we can say that HSBC Bank maintaining good Cash deposit ratio as compared to Standard chartered bank and CITI Bank. An ideal CDR by RBI 0.75 of total de posits.

**5.3. Credit to deposit:** It indicates how much of a bank's core funds are being used for lending, the main banking activity. A higher ratio indicates more reliance on deposits for lending and vice-versa. The formula to calculate credit to deposit ratio is as under. Total Advances includes bills purchased & discounted (short term), cash credits, overdrafts & loans (short term) and term loans.

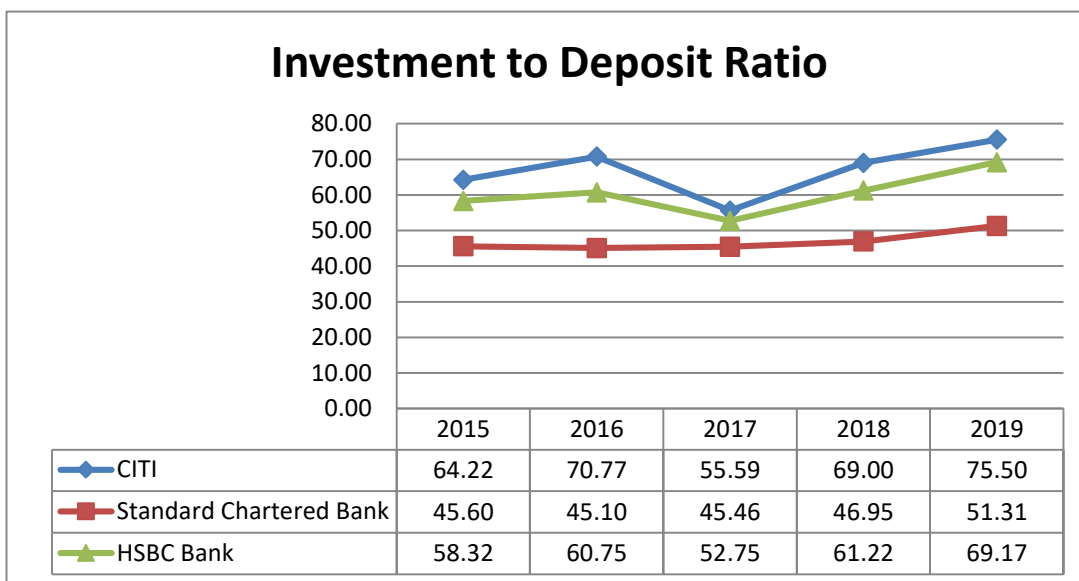
$$\text{Credit to Deposit Ratio} = \frac{\text{Total Advances}}{\text{Total deposit}} * 100$$



**Interpretation:** As above data and graphical representation we can say that Standard Chartered Bank having comparatively high Credit to Deposit Ratio as compared to HSBC and CITI bank. For an Instance in year 2015 standard chartered bank lends 93.8 against every 100 Rs. Deposits. High ratio can be victim of high risk.

**5.4. Investment to deposit:** This ratio indicates the total investment as percentage of total deposit. The formula to calculate investment to deposit ratio is as under.

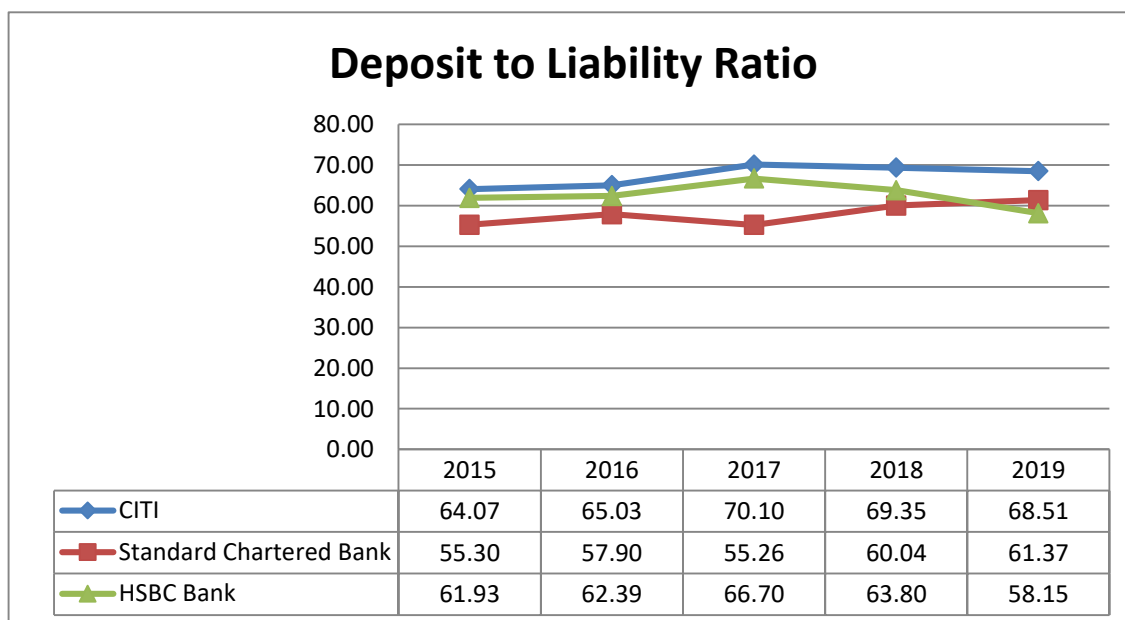
$$\text{Investment to Deposit Ratio} = \frac{\text{Total Investment}}{\text{Total deposit}} * 100$$



**Interpretation:** As per above mention table and graphical representation we can conclude that CITI bank having good investment ration against the total deposit comparing to HSBC and Standard chartered bank. CITI bank highly investing their funds in government securities and other approved securities against to their total deposits. It also suggests that CITI bank having growth in investment.

**5.5. Ratio of deposit to total liabilities:** This ratio indicates the total deposit as percentage of total liabilities. The formula to calculate ratio of deposit to total liabilities is as under. Total liabilities include capital, reserves & surplus, deposits, borrowings, and other liabilities & provisions.

$$\text{Deposit to Total Liability} = \frac{\text{Total Deposit}}{\text{Total Liability}} * 100$$

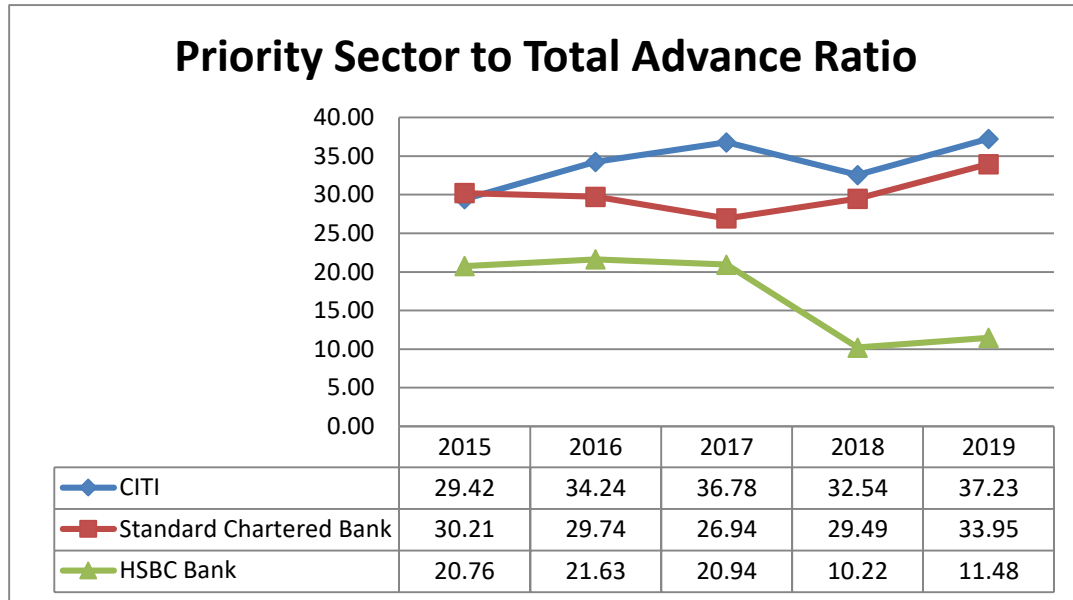


**Interpretation:** The ratio shows percentage of deposit in total liabilities. As above mention data CITI bank has higher percentage of deposit to their total liabilities comparing to Standard chartered and HSBC bank. This ratio suggest bank having high deposit liability than other liabilities.

**5.6. Balance sheet Parameters :** This set of parameters helps analyst to judge about strength of balance sheet of banks. Strength of balance sheet not only in terms of their assets and liabilities but also in terms of following guideline of RBI in terms of priority sector advance, secured advance, term loan, investment etc also.

**5.7. Ratio of priority sector advance to total advance:** To boost the priority sector RBI has specified certain rules and regulation for banks. As per RBI guideline it is mandatory for all commercial banks to follow. The formula to calculate the ratio of priority sector advance to total advance is as under.

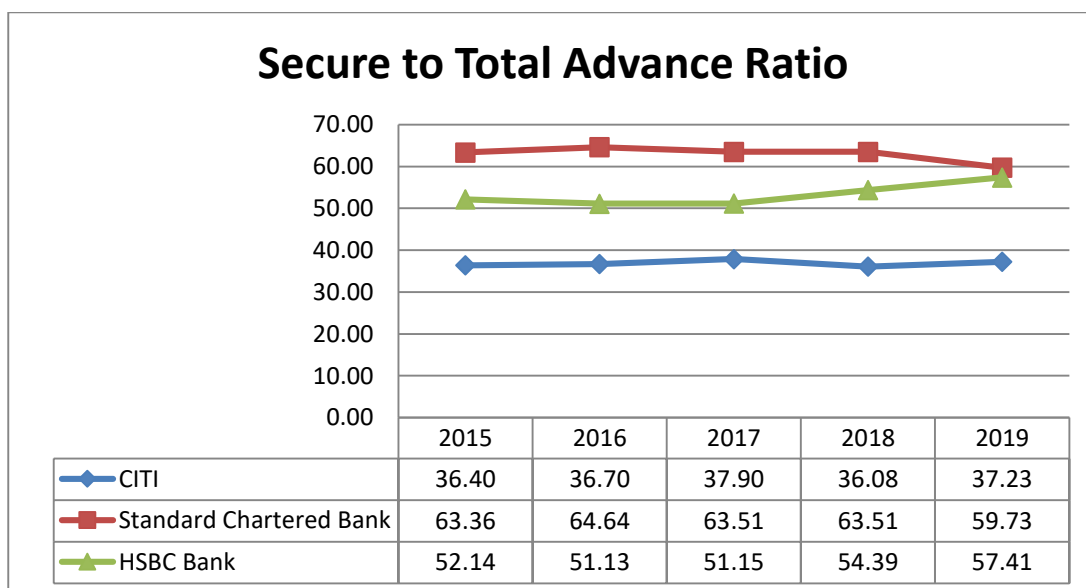
$$\text{Priority Sector Adv. Ratio} = \frac{\text{Priority Sector Advance}}{\text{Total Advance}} * 100$$



**Interpretation:** In analysis of above data reveals that CITI bank maintain high PSL ratio comparing to HSBC and Standard chartered bank during 2015-2019. CITY banks ratio range from 29% to 37% that shows yearly average increment in PSL ratio.

**5.8. Ratio of secured advance to total advances:** This parameter indicates the secured advance as a percentage of total advances. Higher percentage of this ratio indicates more weight age of secure advance in total advance. The formula to calculate ratio of secured advance to total advance is as under.

$$\text{Secure Advance to Total Advance Ratio} = \frac{\text{Secure Advance}}{\text{Total Advance}} * 100$$

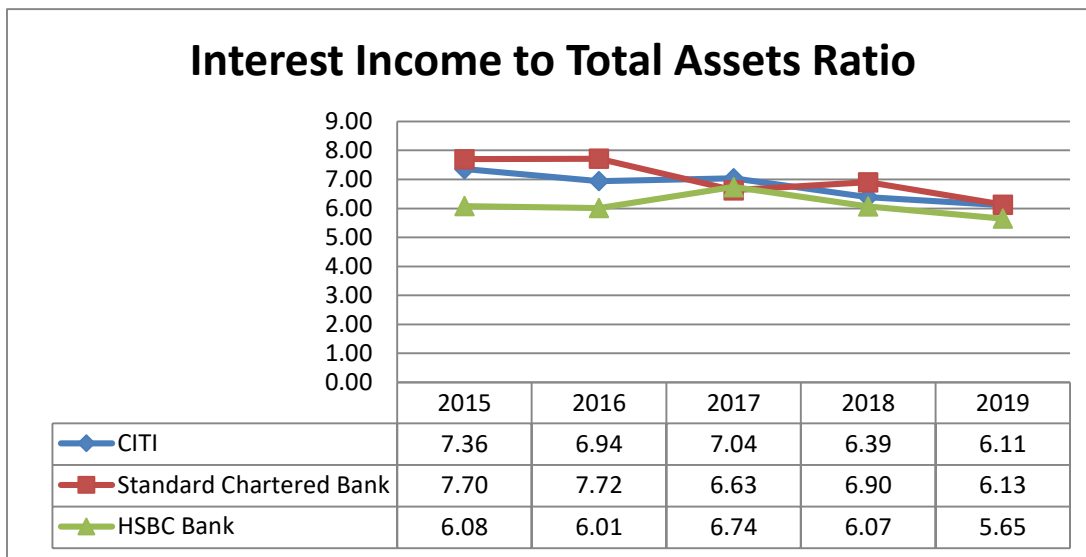


**Interpretation:** In analysis of above data reveals that Standard chartered bank having good position in secure advance to Total advance that shows bank giving advance more to secure rather than unsecure advances. Ratio also shows the risk meter for their advances.

**5.9. Management efficiency parameters** These set of ratios evaluate the management’s ability to utilize their assets for generating revenue in form of interest income, non interest income and operating profit.

**5.10. Ratio of interest income to total assets:** The ratio of interest income to total assets indicates interest income as percentage of total assets. It is also known as net interest margin. Total Assets includes cash in hand, balances with RBI, balances with banks inside/outside India, money at call, investments, advances, fixed Assets and other Assets.

$$\text{Interest Income to Total Assets Ratio} = \frac{\text{Interest Income}}{\text{Total Assets}} * 100$$

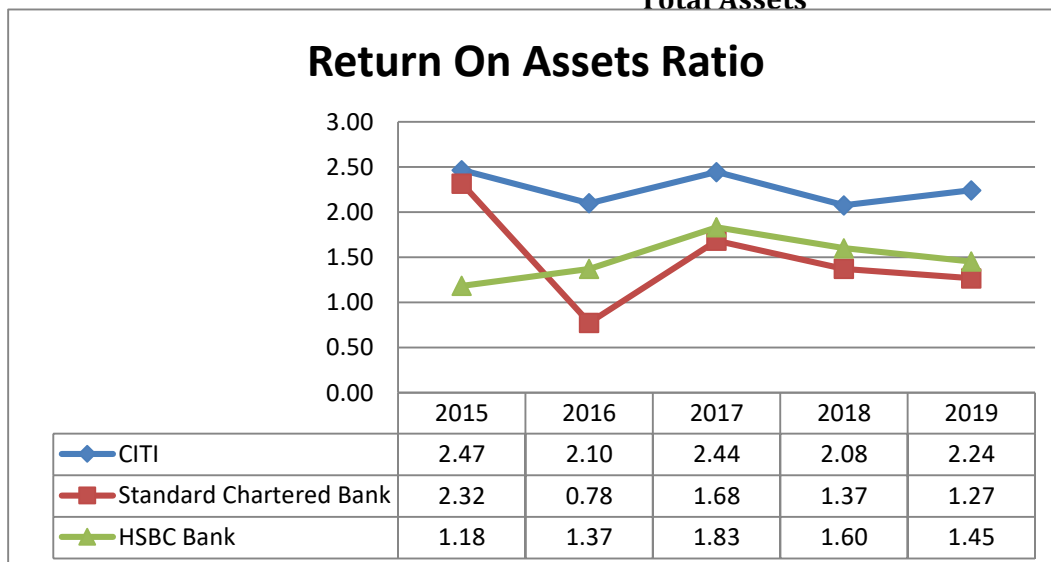


**Interpretation:** In analysis of above data reveals that Standard Chartered bank having comparatively good enough interest income from their assets with respect to CITI and HSBC bank.

**5.11. Profitability parameters:** These set of parameters is for measuring the profitability of banks. There is vast difference between a term “profit” and “profitability”. Profit is a quantitative term which deals with numbers while profitability is a term which relates profit with other term such as assets, equity, advance, investment etc because of which meaningful conclusion can be drawn.

**5.12. Return on assets:** Returns on asset ratio is the net income (profits) generated by the bank on its total assets (including fixed assets). The higher the proportion of average earnings assets, the better would be the resulting returns on total assets.

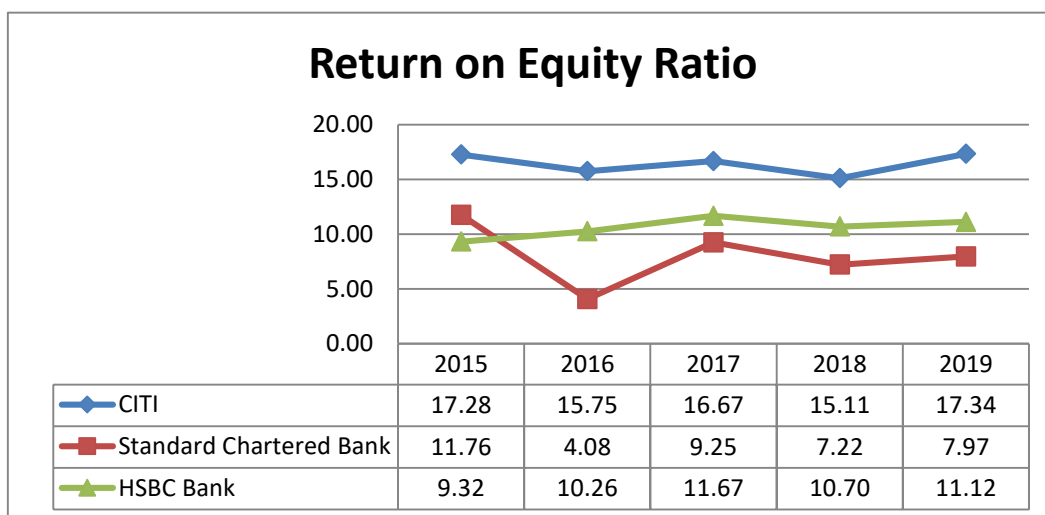
$$\text{Return on Assets Ratio} = \frac{\text{Net Income or Profit}}{\text{Total Assets}} * 100$$



**Interpretation:** As above mention data reveals that CITI bank having comparatively high return on assets comparing with Standard chartered and HSBC bank. Currently, the larger banks average ROA is 1.20 approximately. In above data we can say that all three bank doing good in ROA in last three years.

**5.13. Return on equity:** Return on equity is also one of the important parameters for measuring profitability of the banks. Return on assets measures profit as percentage of total assets while return on equity measures profit as percentage of equity capital of banks. **Net worth includes capital and reserve & surplus.**

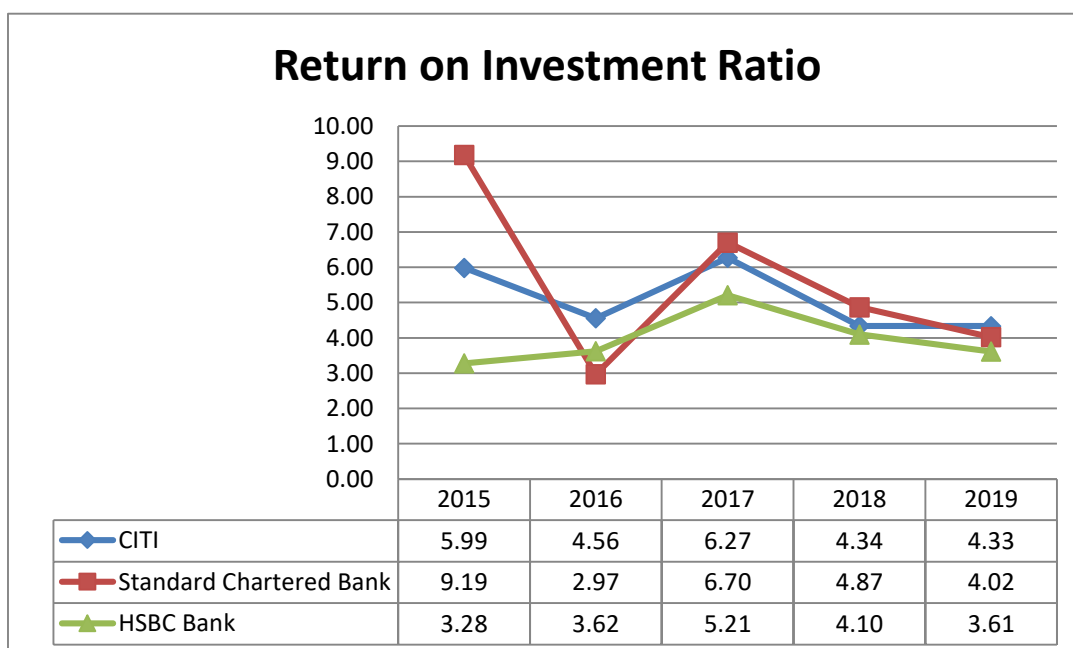
$$\text{Return on Equity Ratio} = \frac{\text{Net Income or Profit}}{\text{Net Worth}} * 100$$



**Interpretation:** ROE measures profitability of the firm. So, in above mention data reveals that CITI bank having Good return on equity. **Industry average ROE is 7.80 approximately.** ROE attract equity share holders and bank will receive fruitful response from investors. The HSBC bank’s line shows consistency and sign for incremental growth in ROE.

**5.14. Return on investment:** Ratio of return on investment indicates profit as percentage of total investment. It shows the investment efficiency of banks. The formula to calculate the return on investment is as under.

$$\text{Return on Investment Ratio} = \frac{\text{Net Income or Profit}}{\text{Total Investment}} * 100$$



**Interpretation:** ROI suggest profit over investment. Above mention data reveals that in last three year Standard chartered bank having good ROI as compared to other two banks.



## 6. FINDINGS & SUGGESTION:

- HSBC bank CDR ratio is quite good compared to Standard chartered and CITI bank
- In Advances to Deposit ratio Standard chartered banks performing well but Deposits. High ratio can be victim of high risk.
- CITI banks having good enough investment to deposit that shows higher investment from its deposits compare to other two banks. As higher the ratio of investment more chances to get high investment return as income.
- The CITI bank holds higher deposit to liability ratio it shows that banks having more deposit liability compare to other liability.
- The CITI bank lends comparatively more to Priority Sector. In India PSL ratio defined 40% by RBI. HSBC bank should try to increase PSL ratio.
- Standard Chartered banks having good ratio in Secure advancing to total advance, it shows list chances to NPA.
- CITI bank and Standard Chartered bank having good income from investment as both having up to close amount of interest income to total assets.
- CITI banks quite good at ROA.
- CITI banks also good at ROE

## 7. CONCLUSION / SUMMARY:

In the present research work, necessary analyses have been made to compare the financial performance of select Private Sector Banks and Foreign Banks operating in our country, with the help of some secondary financial data for a particular Study Period. The study conducted to finding out performance analysis and to know about factors on which particular selected foreign banks working well and some point where the banks lacking behind as comparing with its peer foreign banks. The study might help to researcher and top management to know about future action and define well so banks will contribute more in Indian financial system and bank will be able to take some benefit from it. One of the most important aspects of continuity of FBs in India is their higher profitability ratio vis-a-vis the banking system. Though liberalizing entry policies for foreign banks offers many potential benefits, the entry process must be managed over time in tandem with internal reform.

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