



EXAMINING THE PERFORMANCE OF NEW PRIVATE SECTOR BANKS: A COMPARATIVE STUDY BETWEEN INDUSIND BANK AND YES BANK

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Abstract

A sound and stable banking sector is a prerequisite for the economic development of a country. Modern Indian banking is characterised by increased competition, extensive use of new information technologies, declining processing costs, erosion of product and geographic boundaries, and relatively less restrictive governmental regulations. Private sector banks are major players in the banking sector of India. The banks, which came into existence after 1991, with the introduction of financial sector reforms, are called "new private-sector banks". The primary objective of the study is to study the performance of two new private sector banks, namely, IndusInd Bank and Yes Bank on the basis of different parameters. The study is based on secondary data which have been collected from the website of Reserve Bank of India (RBI), IndusInd Bank and Yes Bank, journals, reports, and web materials. The period of study is five years from 2012-13 to 2016-17. The main aim of the study is to judge the performance of the chosen banks with respect to parameters like capital adequacy, asset quality, management efficiency, profitability, and earnings. The findings of the study have revealed that both the banks have been able to increase their deposits, advances, net interest income (NII) and net profits continuously during the period of study (2012-13 to 2016-17). Yes Bank has better capital adequacy, business per employee, profit per employee, return on equity than IndusInd Bank during the entire study period. That apart, Yes Bank has succeeded in garnering more deposits and advances and earning more net profits than IndusInd Bank during the entire study period. However, IndusInd Bank has been successful in generating more returns on assets (ROA) than Yes Bank throughout the period of study. In terms of asset quality, IndusInd Bank has exhibited a steady and consistent performance whereas the net NPA ratio of Yes Bank has increased continuously during the study period.

(Keywords: Asset Quality, Banking Sector, Capital Adequacy, Earnings, Management Efficiency)

I. Introduction

The outcome of the banking sector reform, as a part of the economic reform of the country, which started in the early 1990s, has become visible now. Modern Indian banking is characterised by increased competition, extensive use of new information technologies, declining processing costs, erosion of product and geographic boundaries, and relatively less restrictive governmental regulations.

A sound and stable banking sector is a prerequisite for the economic development of a country. Private sector banks are major players in the banking sector of India. These banks are well equipped with all kinds of innovations, monetary tools and techniques to handle the complexities. They possess a sound organisational structure and they are professionally managed. They have become stronger over the past few years. The banks, which came into existence after 1991, with the introduction of financial sector reforms, are called "new private-sector banks". The Indian Banking Sector has remained the backbone of the Indian economy over the past few decades. It has made robust progress in the last few years both in terms of quantity and quality. Riding on economic development and financial sector liberalization, the Indian banking sector has witnessed a significant transformation over the past two decades. Information and Communication Technology (ICT) plays the role of a catalyst in this process of transformation. During this period, the Indian banking industry has moved gradually from a regulated environment to a deregulated market economy. The Indian banking sector is a mixture of public, private and foreign ownership. It is true that Indian banks have done reasonably well in adjusting to the new market dynamics. It has been able to come through various national and worldwide economic shocks and meltdowns. But at the same time, greater challenges lie ahead.

II. Objective of the Study

The primary objective of the study is to study the performance of two new private sector banks, namely, IndusInd Bank and Yes Bank on the basis of different parameters.

III. Literature Review

Many studies have been conducted by Indian researchers and many scholarly articles have been published in journals, dailies, and magazines on different aspects of the Indian banking system.

Uppal and Kaur (2007) have analysed the efficiency of all the bank groups in the post-banking sector reform era. Time period of study is from 1999-2000 to 2004-05. The study concludes that the efficiency of all the bank groups has increased in the study period, but banking sector reforms are more beneficial for new private sector banks and foreign banks. **Laxman et al. (2008)** has pointed out that the banking industry is undergoing a paradigm shift in scope, content, structure, functions and

governance. The information and communication technology revolution is radically and perceptibly changing the operational environment of the banks. **Makesh (2008)**, while evaluating the performance of Federal Bank, Dhanalakshmi Bank, and the SBI, for the financial year 2006-2007, has found that all the three banks maintained capital in excess of the norms stipulated by the RBI. Federal Bank exhibited the lowest net NPA Ratio and the maximum return on equity. Dhanalakshmi Bank was able to maintain a high liquidity. Further, Federal Bank performed well in cost management, as compared to the SBI and Dhanalakshmi Bank. **Chaudhary and Sharma (2011)**, in an attempt to analyse the efficiency of public and private sector banks in managing NPA, have felt that it is the right time to take suitable and stringent measures to get rid of NPA problem. In their opinion, development of an efficient management information system is the need of the hour. Further, public sector banks must pay attention to their functioning to compete with private banks. **Jha and Sarangi (2011)** have analysed the performance of seven public sector and private sector banks for the year 2009-10. They have used three sets of ratios, namely, operating performance ratios, financial ratios, and efficiency ratios. In all, they have used eleven ratios. Their findings have revealed that Axis Bank took the first position, followed ICICI Bank, BOI, PNB, SBI, IDBI, and HDFC, in that order. **Uppal and Juneja (2012)** have studied the performance of Indian banks on the basis of balance sheet items for the period from 2008 to 2011. For the purpose of the study, the authors have divided Indian banking industry into four parts, namely, public sector banks, old private sector banks, new private sector banks and foreign banks. The study has taken into consideration every parameter of the balance sheet of these four bank groups. The survey has revealed that public sector banks and foreign banks are doing better on these sides of the balance sheet as compared to the other two bank groups. The performance of old private sector banks is most disappointing among the four bank groups. **Pradhan (2012)**, in his study on NPA management in commercial banks in Odisha, has found that large borrowers are the principal defaulters. Mismanagement or diversion of fund, wilful default and flaws in the legal system are the major causes of NPA. Further, the majority of bank officers prefers out-of-court settlement than taking legal actions against defaulters, as the matter takes a long time and NPA grows further than getting resolved. The author feels that solutions for checking NPA lie in caution and care during loan processing, strengthening of recovery efforts, monitoring of performing assets, out of court settlement etc. **Lohani and Bhatia (2012)** have collected data from 410 customers of Lucknow of public and private sector banks using Questionnaire. The results show that dimensions of service quality such as Tangibility, Reliability, Responsiveness, Empathy and Assurance significantly predict customer trust and loyalty. It has been observed that customers of private banks are more committed and satisfied since they receive better quality of service. It implies that public sector banks should come forward and try to provide quality service like their private counterparts to win back their customers. **Mishra et al. (2013)** have tried to (a) analyse the soundness, and (b) measure the efficiency of 12 public and private sector banks on the basis of market cap. They have used CAMEL approach for

analysing the soundness over a period of twelve years (2000-2011), and it is noticed that private sector banks are at the top of the list. Public sector banks like Union Bank and SBI have taken a backseat and displayed low economic soundness. On the other hand, in order to measure the efficiency change of these selected banks operating in India during 2010-2012, Data Envelopment Analysis (DEA) has been employed. DEA results exhibit that among the public sector banks, the performance of Bank of India, Canara Bank and Punjab National Bank got dampened in the last two years under study. In case of private sector banks, barring Axis Bank, the remaining private sector banks show marked consistency in their efficiency level during the period under study. **Devanadhen (2013)** has studied the performance of 14 public sector and 3 private sector banks under the CAMELS model for the period between April 1, 2000 and March 31, 2011. The author is of the opinion that in liberalized environment, the private sector banks give a tough competition to their public counterparts in terms of Earning Capacity, Management Efficiency and Asset Quality. The findings reveal that the Andhra Bank has secured the first place, followed by Corporation Bank and HDFC Bank. Axis Bank and ICICI Bank are ranked 6th and 14th respectively. Central Bank of India has secured the last position in the overall performance; and SBI (largest public sector bank) has exhibited better performance than ICICI Bank (largest private sector bank). **Goel and Rekhi (2013)** have concluded that new banks are more efficient than old ones. Moreover, the public sector banks are not as profitable as other sectors are. It means that efficiency and profitability are interrelated. The key to increase performance depends upon Return on Assets (ROA), Return on Equity (ROE) and Net Interest Margin (NIM). **Vinod (2013)** has tried to find out the efficiency of the old private sector banks having their registered office in Kerala. The objective is to evaluate the operational efficiency, profitability & productivity of the four banks chosen for the study. Ratio analysis is used to decipher the information contained in the financial statements. In order to overcome the limitations associated with ratio analysis, Data Envelopment Analysis (DEA) is used in the study to evaluate the efficiency of the banks. The results reveal that Federal Bank and Dhanalaxmi Bank were highly efficient than South Indian Bank and Catholic Syrian Bank in terms of overall efficiency. **Srivastava et al. (2015)** observed that old and new private sector banks were really doing well from the past several years. Also, nationalized banks were performing satisfactorily. So far as the performance of foreign banks and SBI Associates are concerned, it is seen that these banks are facing extreme decline in their overall profitability. **Mouneswari et. al (2016)** concluded that four factors, namely, profit per employee, debt-equity ratio, total assets-to-total deposits ratio, and net NPAs-to-total advances ratio are the major independent factors impacting the financial performance of the banks taking return on assets as dependent variable. **Tanwar (2017)** opined that mergers and acquisitions were successful in the Indian banking sector to some extent. Further, in the opinion of the author, the Government should not promote merger between strong and distressed banks as a way to promote the interest of the depositors of distressed banks because it will have adverse effect upon the asset quality of the stronger banks.

IV. Data and Methodology

The study is based on secondary data which have been collected from the website of Reserve Bank of India (RBI), IndusInd Bank and Yes Bank, journals, reports, and web materials. The period of study is five years from 2012-13 to 2016-17. The main aim of the study is to judge the performance of the chosen banks with respect to parameters like capital adequacy, asset quality, management efficiency, profitability, and earnings. For this purpose, measures like capital adequacy ratio, net non-performing asset (NPA) ratio, business per employee, profit per employee, return on equity, return on assets, net interest income, non-interest income and net profit have been used.

V. Discussion

(a) Number of Offices and Number of Employees

Table 1 and Table 2 show the number of Branches and the number of employees of IndusInd Bank (IIB) and Yes Bank (YB).

Table 1: Number of Branches

	2012-13	2013-14	2014-15	2015-16	2016-17
IndusInd Bank	500	602	801	1,000	1,200
Yes Bank	430	560	631	860	1,000

Source: Websites IndusInd Bank and Yes Bank

Table 2: Number of Employees

	2012-13	2013-14	2014-15	2015-16	2016-17
IndusInd Bank	11,502	15,590	19,121	23,060	25,314
Yes Bank	7,024	8,789	10,810	15,000	20,125

Source: Websites IndusInd Bank and Yes Bank

It is observed from Table 1 and Table 2 that there is a continuous increasing trend during the period between 2012-13 and 2016-17 for both the banks [IndusInd Bank (IB) and Yes Bank (YB)] so far as the number of branches and the number of employees are concerned.

(b) Capital Adequacy

Capital adequacy ratio represents capital to risk-weighted assets ratio (CRAR). The higher ratio is always desirable. Table 3 depicts the capital adequacy ratio of IndusInd Bank (IIB) and Yes Bank (YB).

Table 3: Capital Adequacy Ratio

	2012-13	2013-14	2014-15	2015-16	2016-17
IndusInd Bank	15.36	13.83	12.09	15.50	15.31
Yes Bank	18.30	14.4	15.6	16.5	17.0

Source: Websites IndusInd Bank and Yes Bank

Table 3 reveals that YB has done better than IIB throughout the period of study. In other words, Capital adequacy ratio of Yes Bank is persistently higher than that of the IndusInd Bank during the period from 2012-13 to 2016-17.

(c) Asset Quality

The net NPA ratio is the ratio between net non-performing assets (NPAs) and net advances. Asset quality is represented by this ratio. The lower the ratio the better is the asset quality of a bank and vice versa. The asset quality of a bank is an important indicator of its financial health. It also reflects the efficacy of banks’ credit risk management and the recovery environment. Table 4 exhibits the net NPA ratio of IndusInd Bank (IIB) and Yes Bank (YB).

Table 4: Net NPA Ratio (%)

	2012-13	2013-14	2014-15	2015-16	2016-17
IndusInd Bank	0.31	0.33	0.31	0.36	0.39
Yes Bank	0.01	0.05	0.12	0.29	0.81

Source: Websites IndusInd Bank and Yes Bank

From Table 4 it is absolutely clear that YB has shown a spectacular performance in terms of NPA management in comparison to IIB during the period from 2012-2013 to 2014-2015. But the performance of YB in this regard is not satisfactory during 2016-2017 in the sense that it has underperformed IIB during this period. The net NPA ration of YB has shown a continuous increase during the period under study. Further, an intra-bank analysis shows that IIB has been successful in maintaining consistency in the net NPA ratio which is hovering between 0.31% in 2012-2013 and 2014-15 (lowest) and 0.39% in 2016-2017 (highest). However, YB experienced a sudden increase in its net NPA ratio from 0.01% to 0.81% during the same period.

(d) Management Efficiency / Soundness

Business Per Employee (BPE) and Profit Per Employee (PPE) are the parameters which determine the Efficiency / Soundness of the management of a bank. In calculating Business per employee business is defined as deposits plus advances. Here, the higher figure indicates better management efficiency and vice versa. Table 5 and Table 6 show BPE and PPE figures respectively of IndusInd Bank (IIB) and Yes Bank (YB).

Table 5: Business per Employee (INR Million)

	2012-13	2013-14	2014-15	2015-16	2016-17
IndusInd Bank	84.05	71.71	71.92	76.45	91.63
Yes Bank	177.42	155.81	168.60	173.29	159.55

Source: Websites IndusInd Bank and Yes Bank

Table 6: Profit per Employee (INR Million)

	2012-13	2013-14	2014-15	2015-16	2016-17
IndusInd Bank	0.92	0.90	0.94	1.00	1.13
Yes Bank	2.10	2.04	2.10	2.10	2.00

Source: Websites IndusInd Bank and Yes Bank

So far as BPE figures are concerned, it is observed from Table 5 that YB has outperformed the IIB by a huge margin during the entire study period (2012-13 to 2016-17). It is evident from Table 6 that YB has been able to maintain similar performance in case of PPE as that of BPE. Here also, YB has outperformed IB during the entire study period by a large margin. However, there are some similarities between both banks in case of intra-bank analysis of the trend of BPE and PPE over the study period. Both of them experienced “ups and downs” of these figures during the entire period of study instead of persistent increase/decrease.

(e) Profitability

Return on Equity (ROE) and Return on Assets (ROA) are taken as profitability measures. ROE is computed as the ratio (in %) of Net Profit to total of Capital and Reserves & Surplus. The higher figures are desirable for both the ratios. Table 7 and Table 8 exhibit ROEs and ROA figures respectively of IndusInd Bank (IIB) and Yes Bank (YB).

Table 7: Return on Equity

	2012-13	2013-14	2014-15	2015-16	2016-17
IndusInd Bank	18.45	17.48	18.59	16.78	15.26
Yes Bank	24.81	25.0	19.0	19.9	21.5

Source: Websites IndusInd Bank and Yes Bank

Table 8: Return on Assets

	2012-13	2013-14	2014-15	2015-16	2016-17
IndusInd Bank	1.63	1.81	1.90	1.91	1.86
Yes Bank	1.57	1.6	1.6	1.7	1.8

Source: Websites IndusInd Bank and Yes Bank

Table 7 reveals that YB has outperformed IIB during the entire period of study (2012-13 to 2016-17) in terms of ROE. However, this picture is reversed when the performance of these two banks has been analysed in terms of ROA. Table 8 shows that IIB has outperformed YB throughout the period of study in terms of ROA. However, YB has been successful in enhancing its ROA continuously during the study period.

(f) Earnings

In order to measure the performance of the chosen banks with respect to earnings, net interest income (NII) and non-interest income (NI) are taken into consideration. Table 9 and Table 10 reveal the NII and NI of IndusInd Bank (IB) and Yes Bank (YB).

Table 9: Net Interest Income (INR Crore)

	2012-13	2013-14	2014-15	2015-16	2016-17
IndusInd Bank	2,233	2,891	3,420	4,516	6,063
Yes Bank	2,219	2,716	3,488	4,567	5,797

Source: Websites IndusInd Bank and Yes Bank

Table 10: Non-Interest Income (INR Crore)

	2012-13	2013-14	2014-15	2015-16	2016-17
IndusInd Bank	1,363	1,891	1,794	3,297	4,171
Yes Bank	1,257	1,722	2,046	2,712	4,157

Source: Websites IndusInd Bank and Yes Bank

Table 9 and Table 10 point out that the banks have been able to increase their NII continuously during the study period. However, in case of NI, there is only one exception. In the year 2014-15, IIB has failed to register increases in its NII. Further, it is clear from Table 9 and Table 10 that NII comprises the major part of total income and NI constitutes a minor part. In terms of NII, the performance of IIB is better than that of YB in three years (2012-13, 2013-14 and 2016-2017). However, during 2014-15 and 2015-16 YB has outperformed IIB in respect of its NII. In case of NI, IIB has been able to generate more NI than YB in four out of five years (2012-13, 2013-14, 2015-16 and 2016-17).

Table 11 throws light on the net profit scenario of YB and IIB.

Table 11: Net Profit (INR Crore)

	2012-13	2013-14	2014-15	2015-16	2016-17
IndusInd Bank	1,061	1,408	1,794	2,286	2,868
Yes Bank	1,301	1,618	2,005	2,539	3,330

Source: Websites IndusInd Bank and Yes Bank

It is apparent from Table 11 that both the banks have been able to increase their net profits continuously during the study period. YB has generated more net profits than IIB persistently throughout the study period.

(g) Deposits and Advances

Table 12 and Table 13 show the figures of Deposits and Advances of IndusInd Bank (IIB) and Yes Bank (YB).

Table 12: Deposits (INR Crore)

	2012-13	2013-14	2014-15	2015-16	2016-17
IndusInd Bank	54,117	60,502	74,134	93,000	126,572
Yes Bank	66,956	74,192	91,176	111,720	142,874

Source: Websites IndusInd Bank and Yes Bank

Table 13: Advances (INR Crore)

	2012-13	2013-14	2014-15	2015-16	2016-17
IndusInd Bank	44,321	55,102	68,788	88,419	113,081
Yes Bank	47,000	55,633	75,550	98,210	132,263

Source: Websites IndusInd Bank and Yes Bank

Table 12 and Table 13 reveal that YB and IIB have been able to increase their deposits and advances throughout the period of study consistently. However, it is understood from Table 12 that YB has garnered more deposits than IIB throughout the study period. Table 13 shows the same dominating performance of YB over that of IIB in respect of advances.

VI. Conclusion

The findings of the study have revealed that both the banks have been able to increase their deposits, advances, net interest income (NII) and net profits continuously during the period of study (2012-13 to 2016-17). Yes Bank has better capital adequacy, business per employee, profit per employee, return on equity than IndusInd Bank during the entire study period. That apart, Yes Bank has succeeded in garnering more deposits and advances and earning more net profits than IndusInd Bank during the entire study period. However, IndusInd Bank has been successful in generating more returns on assets (ROA) than Yes Bank throughout the period of study. In terms of asset quality, IndusInd Bank has exhibited a steady and consistent performance whereas the net NPA ratio of Yes Bank has increased continuously during the study period. Nevertheless, the overall performance of Yes Bank is better than IndusInd Bank.

The financial market is the barometer of an economy, and the banking system is an integral part of the financial market. Indian economy is one of the fastest growing economies in the world. New private sector banks are very smart in the sense that they

have customer-centric policies, high-quality services, new attractive schemes and computerized branches, which attract more and more customers to their banks.

VII. Limitations of the Study

The present study has certain limitations which are enumerated below:

(1) The study considers only two new private sector banks whereas there are seven banks under this category.

(2) The time frame of the study is for five years from 2012-13 to 2016-17. A study period of around ten years or more may reveal the more meaningful result.

(3) The study considers certain ratios in analysing the performance of the chosen banks. As such, it is not free from the limitations of ratio analysis.

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