Dr. Rajesh Kumar(September 2022). Financial Performance Analysis of Punjab National Bank: A Study based on Profitability and Asset Quality Ratios
International Journal of Economic Perspectives,*16*(9),70-84
Retrieved fromhttps://ijeponline.org/index.php/journal

Financial Performance Analysis of Punjab National Bank: A Study based on Profitability and Asset Quality Ratios

Dr. Rajesh Kumar, Associate Professor,

Dept. of Commerce, DAV College Pundri

E-mail: rajeshturan1401@gmail.com

Abstract

The banks pool deposits and convert them into investments which results into economic growth of the countries.They contribute to national development by giving loans to farmers, small businesses, and self-employed persons, as well as to huge corporations, resulting in the country's economic development being balanced. The banks raise the general population's quality of life by providing loans for the purchase of durable consumer goods, houses, automobiles, and other items. The present paper is an attempt to analyse the performance of PNB during recent decade. The study is based on data collected from secondary source. The data has been collected and examined from 2011-12 to 2020-21. The study found that PNB has not performed satisfactorily during last eight years in so far as the operating profit margin is concerned as it remained negative in each of these years. CASA ratio does not reveal a specific pattern, although it has increased from 35.33% in the year 2012 to 44.54% in the year 2021. The net profit per share go along to that of EPS and DPS of Punjab national bank during the study period.The trend about %age of Gross NPA and Net NPA steep upward during the year 2012 to 2018. However, during the recent three years the %age of Gross NPA and Net NPA has shown declining trend, which can be considered as good indication.

Key Words: - Financial Performance, ROCE, CASA, EPS, DPS, NPA

Introduction

The banking activities involve taking and safeguarding client funds before lending to the appropriate customers with the goal of making a profit after weighing various risks. The banking sector plays an important role to a country's financial stability and

Corresponding author: **Dr. Rajesh Kumar**

Submitted: 27 July 2022, Revised: 09 August 2022, Accepted: 18 August 2022, Published: September 2022

economy. The well-functioning banking system of a country is mainly responsible for its healthy economy, since it accumulates their savings and turn them into investments, as well as help create fresh demand deposits and support trading systems both within the country and abroad. Banking institutions in our country have been entrusted with a key role in financing the anticipated economic growth process. They contribute to national development by giving loans to farmers, small businesses, and self-employed persons, as well as to huge corporations, resulting in the country's economic development. Banking services, without a question, play a silent but vital role in everyone's lives. The strength of any economy is determined by the efficiency and competitiveness of the financial sector. Nowadays, a bank's job includes a wide range of services such as debit and credit cards, insurance, safety deposit boxes, ATMs, online fund transfers between nations, and so on.A sound banking system effectively deploys mobilised savings in the productive sector, while a solvent banking system maintains the bank's ability to satisfy its depositors' obligations. Any country's economy is largely dependent on the strength and effectiveness of its financial system, which is dependent on a healthy and solvent banking sector. Banking has provided new avenues for global economic growth, while banks' involvement in economic development and growth has constantly expanded.

Profile of Punjab National Bank

The Punjab National Bank (PNB), India's first Swadeshi bank, began operations on April 12, 1895, in Lahore, with Rs. 2 lac authorised capital and Rs. 20,000 working capital. The bank was founded in the spirit of nationalism, and it was the first bank entirely managed by Indians and funded entirely by Indian capital. PNB has merged/ amalgamated with 9 other banks during the course of its long existence. PNB has increased its footprint across India following the merger of OBC and UBI on April 1, 2020. Bank had a total of 36,514 delivery channels as of September 30, 2021, with a network of 10,528 domestic branches, 2 international branches, 13,506 ATMs, and 12,478 Business Correspondents. With a global gross business of Rs. 18,51,097 crores, PNB is the country's second largest public sector bank (PSB). The bank has been concentrating on qualitative business growth, recovery, and halting new slippages.

Corresponding author: **Dr. Rajesh Kumar**
Submitted: 27 July 2022, Revised: 09 August 2022, Accepted: 18 August 2022, Published: September 2022

Review of Literature

Singh and Tandon (2012) analysed the financial performance of SBI and ICICI bank for the timeline from 2007 – 2012. The study found that SBI is performing well and financially sounder than ICICI bank but in context of deposits and expenditure ICICI bank has better managing efficiency than SBI. The study found that the customers have more trust on the public sector banks as compared to private sector banks. Karim and Alam (2013) used financial ratios to assess the performance of selected private sector banks in Bangladesh, focusing on risk-based capital, credit growth, credit concentration, non-performing loan position, liquidity gap analysis, liquidity ratio, return on assets (ROA), return on equity (ROE), net interest margin (NIM), and liquidity gap analysis. Multiple regression analysis was used to determine the influence on credit risk, operational efficiency, and asset management, and a good-fit regression model was developed to forecast these banks' future financial performance. According to Biswal and Gopalakrishna (2014), Indian banks are unable to mobilise deposits at the same pace as they provide loans. This is due to the fact the real returns on deposits are mostly negative. Households choose to put their money into gold and real estate.

Pandya (2015) investigated the influence of priority sector advances on the profitability of scheduled commercial banks in India. For this objective, the author considered all of India's scheduled commercial banks. Return on Assets (ROA), Return on Investment (ROI), Return on Equity (ROE), Ratio of Operating Profit to Total Assets (OPTA), and Ratio of Interest Income to Total Assets (INTTA) were used as dependent variables, while ratios of Priority sector advances to total advances (PSATA) of all commercial banks taken as an independent variable The relationship between independent and dependent variables was investigated using linear regression models.PSATA has a statistically significant association with ROI, ROA, OPTA, and INTTA, according to the study. As a result of the findings, priority sector advances appear to have an impact on bank profitability. Furthermore, the study reveals that priority sector advances have an impact on banks' ROA and ROI.

J. Kaur et al. (2015) used the CAMEL Model to assess and analyse the financial performance of India's top five public sector banks on a total assets and consolidated

Corresponding author: **Dr. Rajesh Kumar**
Submitted: 27 July 2022, Revised: 09 August 2022, Accepted: 18 August 2022, Published: September 2022

basis during a five-year period from 2009 to 2014. Bank of Baroda, State Bank of India, Punjab National Bank, Bank of India, and Canara Bank are among the banks. The information was gathered from these banks' annual reports, and various ratios have been calculated measuring the aspects of CAMEL which includes capital adequacy, asset quality, management efficiency, earning quality and liquidity.When these ratios are calculated, it is discovered that Bank of Baroda leads in all elements of CAMEL, followed by Punjab National Bank in Capital Adequacy, Management Efficiency, and Earning Capacity, and Bank of India in Asset Quality.

Balaji, C., & Kumar, G. P. (2016) found that the banking industry has improved as a result of financial sector reforms. The service levels have been redefined along with the expansion of bank activities. Although both public and private sector banks increased their profitability, private sector banks grew at a faster rate. In many financial aspects, public sector banks lag behind, and they face numerous challenges. However, their social contributions are also on the larger side, which has an impact on the parameters. Public sector banks must redefine their strategies in light of their strengths and weaknesses, as well as the type of market they serve, whereas private sector banks must consider priority sector lending in its entirety, as well as meeting societal needs, in order to achieve balanced growth for the industry and the country.

Sharifi and Akhter (2016) considered the credit deposit ratio as a barometer of progress of a financial institution like commercial banks. According to them, it indicates the level credit deployment of banks in relation to deposits mobilized by them. A high credit deposit ratio indicates that banks are generating more credit from its deposits and vice-versa. Further, they say that the outcome of this ratio reflects the ability of the bank to make optimal use of the available resources.

The credit deposit ratio was used by Sharifi and Akhter (2016) as a barometer of a financial institution's growth, such as commercial banks. It represents, according to them, the level of credit deployed by banks in relation to deposits mobilised by them. A high credit deposit ratio means that banks generate more credit from their deposits, and vice versa. They also claim that the result of this ratio represents the bank's capacity to make the best use of its resources.They conducted research with the goal of

Corresponding author: **Dr. Rajesh Kumar**
Submitted: 27 July 2022, Revised: 09 August 2022, Accepted: 18 August 2022, Published: September 2022

presenting public sector bank performance through the credit-deposit ratio based on secondary data collected from 26 public sector banks over a seven-year period (2008-2015). A descriptive statistics and panel data regression model were used to analyse the data. Their findings and analyses show that the CDR has a favourable impact on the financial performance of public sector banks.

Kanhaiya Singh et. al (2020) conducted a study on "Impact of Capital Requirement on Banks performance – A Comparative Analysis among commercial Bank Groups in India" The empirical results of the study indicate that all the variables impacting capital adequacy of banks in India are significant and impact the operational performance of banks. However, the results differ when we analyse bank group wise performance where the extent of impact varies from one group to other. The analysis reveals that level of non- performing assets (credit risk), net interest margin, (interest rate risk) and credit–deposit ratio plays significant role while determining the capital adequacy level of commercial banks in India. Further, capital determinant variables have more impact on capital adequacy level in case of public sector banks as compared to private banks. The foreign banks operating in India are smaller in size and have moderate impact of capital determinant variables as their business handling practices and processes differ. ROA is also an important variable that impacts capital adequacy of a bank. This is found more significant in case of PSU banks and foreign banks but insignificant in case of private sector banks. Non- performing assets to total assets ratio has negative impact on capital adequacy of banks in India. However, it is found more significant in case of public sector banks as the ratio of NPAs is much higher in their case as compared to private and foreign banks. The study suggests the need for strengthening financial risk management strategies more so in case of public sector banks to minimize the impact on capital adequacy.

Amita, SumitBodla, and B. S. Bodla (2020) investigated the 'Financial performance of Yes Bank' and discovered that, till the financial year 2018, the Yes Bank performed admirably in terms of all performance metrics except one, namely NPA. According to the findings, Yes bank's loan book rose abnormally during the study period, particularly in the financial years 2017 and 2019. In the financial year 2017, the loans increased from Rs. 1,32,000 Crore to Rs. 2,41,000 Crore in the following year. That's

Corresponding author: **Dr. Rajesh Kumar**

Submitted: 27 July 2022, Revised: 09 August 2022, Accepted: 18 August 2022, Published: September 2022

an 80 percent rise in just two years, when most banks were having trouble lending. Yes Bank virtually doubled its loan book in just two years, compared to the preceding 17 years of its existence.

Objectives of the Study

The present paper is aimed to achieve the following objectives:

1) To access the Financial Performance of Punjab National Bank during the period 2012-2021.

2) To examine the dividend practices of Punjab National Bank; and

3) To analyse the NPAs of Punjab National Bank to know the solvency position.

Research Methodology

A descriptive approach was used to achieve the above stated aims, with secondary sources of data being used.Data regarding the important variables like earnings, capital adequacy and NPAs was collected from the secondary source including moneycontrol.com, annual reports of the Punjab National Bank and articles available on various websites. The data has been collected for 10 years from 2011-12 to 2020-21. The tools of data analysis include ratio analysis, percentage and graphic analysis. The results are presented through tables, graphs and charts.

Parameters of Performance Evaluation: The 'Ratio Analysis Method' was used to do the financial analysis. The following indicators were used to evaluate Punjab National Bank's performance:

- ROCE(%)
- Net Profit Margin(%)
- Return on Assets (%)
- Return on Equity (%)
- Net Interest Margin (X)
- Operating Profit/Total Assets (%)
- CASA Ratio
- Net NPA to Net Advances
- Gross NPA to Gross Advances

Corresponding author: Dr. Rajesh Kumar
Submitted: 27 July 2022, Revised: 09 August 2022, Accepted: 18 August 2022, Published: September 2022

Results and Discussion

Table 1 presents the profitability and operating ratios of Punjab National Bank during 2012 to 2021. It reveals downward trend about ROCE during the year 2012 (2.38%)to 2018 (1.38%). However,ROCE of this bank shows an upward trend from the F Y 2019 to FY 2021.Table further shows that ROE of PNB declined to 1.38 percent in FY 2017-18 from 2.38 per cent in FY 2011-12. But this ratio has been rising during the last three years and increased to 1.85 per cent in FY 2020-21. Net profit margin of PNB was as high as 13.40% in year 2011-12, but it kept on declining till the year 2015-16 when it stood at -8.38%. The margin turned positive in FY 2016-17 but declined drastically in the next two years when the same was observed -25.59 % and -19.44% during FY 2017-18 and FY 2018-19, respectively. However, the Net profit margin increased to 2.5 in FY 2020-21 despite Covid-19 pandemic. There has been very poor performance of PNB during last eight years in so far as the operating profit margin is concerned. The operating profit margin remained negative in each of the last 8 years. ROE to Net worth ratio of the bank has also declined considerably during the study period. ROA indicates an almost similar trend as was observed in case of ROE because the former stood at 1.06 in FY 2011-12 but declined to -1.60 in FY 2017-18. However, this ratio remained positive and increasing during last two years. It is also evident from the table that PNB has always performed better in terms of 'net interest margin' because this margin has remained above 2% in every year of study period except in the FY 2018 where it is slightly less (1.94%). No specific trend is observed so far as cost to income ratio is concerned, however it ranges between 31.06% to 48.18% during eight years out of ten years. Similarly, the interest income to total assets has been ranging between 6% to 8% during nine years out of 10 years under reference. Non-interest income to total assets ratio is another financial parameter where the bank can claim appreciable performance as this ratio remains between 0.83% to 1.11% during the study period and remained above 1% in five years of study period. Operating profit to total assets ratio remained positive only in the initial two years thereafter it turned negative after FY 2018 the same shows improvement trend. The operating expenses to total assets ratio remained between 1.30% to 1.76% during the study period.The interest expenses total asset ratio remained above 4% during the last ten years. CASA (current account

Corresponding author: **Dr. Rajesh Kumar**
Submitted: 27 July 2022, Revised: 09 August 2022, Accepted: 18 August 2022, Published: September 2022

savings account ratio) does not reveal a specific pattern, although it has increased from 35.33% in the year 2012 to 44.54% in the year 2021. Some of the important ratios are also depicted by the figures 1 to 5.

Table-1: Profitability and Operational Performance Ratios of Punjab National Bank during 2012-2021

Ratios	Mar-21	Mar-20	Mar-19	Mar-18	Mar-17	Mar-16	Mar-15	Mar-14	Mar-13	Mar-12
ROCE	1.85	1.80	1.70	1.38	2.06	1.87	2.03	2.12	2.35	2.38
Net Profit Margin	2.50	0.62	-19.44	-25.59	2.80	-8.38	6.61	7.73	11.33	13.40
Op. Profit Margin	-13.36	-16.61	-33.81	-44.09	-16.13	-22.88	-6.10	-2.85	1.26	1.87
Return on Assets	0.16	0.04	-1.28	-1.60	0.18	-0.59	0.50	0.60	0.99	1.06
ROE/Net Worth	2.41	0.58	-24.20	-32.85	3.47	-11.20	8.12	9.69	15.19	18.52
Net Interest Margin	2.41	2.09	2.21	1.94	2.08	2.29	2.74	2.93	3.10	2.92
Cost to Income	44.10	41.81	58.80	63.44	40.22	48.18	37.13	36.36	31.06	31.33
Interest Income/Total Assets	6.40	6.67	6.62	6.26	6.56	7.10	7.67	7.85	8.74	7.95
Non-Interest Income/Total Assets	1.01	1.11	0.95	1.15	1.24	1.03	0.97	0.83	0.88	0.91
Operating Profit/ Total Assets	-0.85	-1.07	-2.23	-2.76	-1.05	-1.62	-0.46	-0.22	0.11	0.14
Operating expenses/Total Assets	1.61	1.44	1.48	1.76	1.30	1.49	1.73	1.69	1.70	1.52
Interest Expense/Total Assets	3.98	4.37	4.40	4.31	4.48	4.81	4.93	4.91	5.64	5.02
CASA	44.54	42.97	42.16	40.98	41.82	37.17	36.65	38.29	39.16	35.33

Corresponding author: **Dr. Rajesh Kumar**
Submitted: 27 July 2022, Revised: 09 August 2022, Accepted: 18 August 2022, Published: September 2022

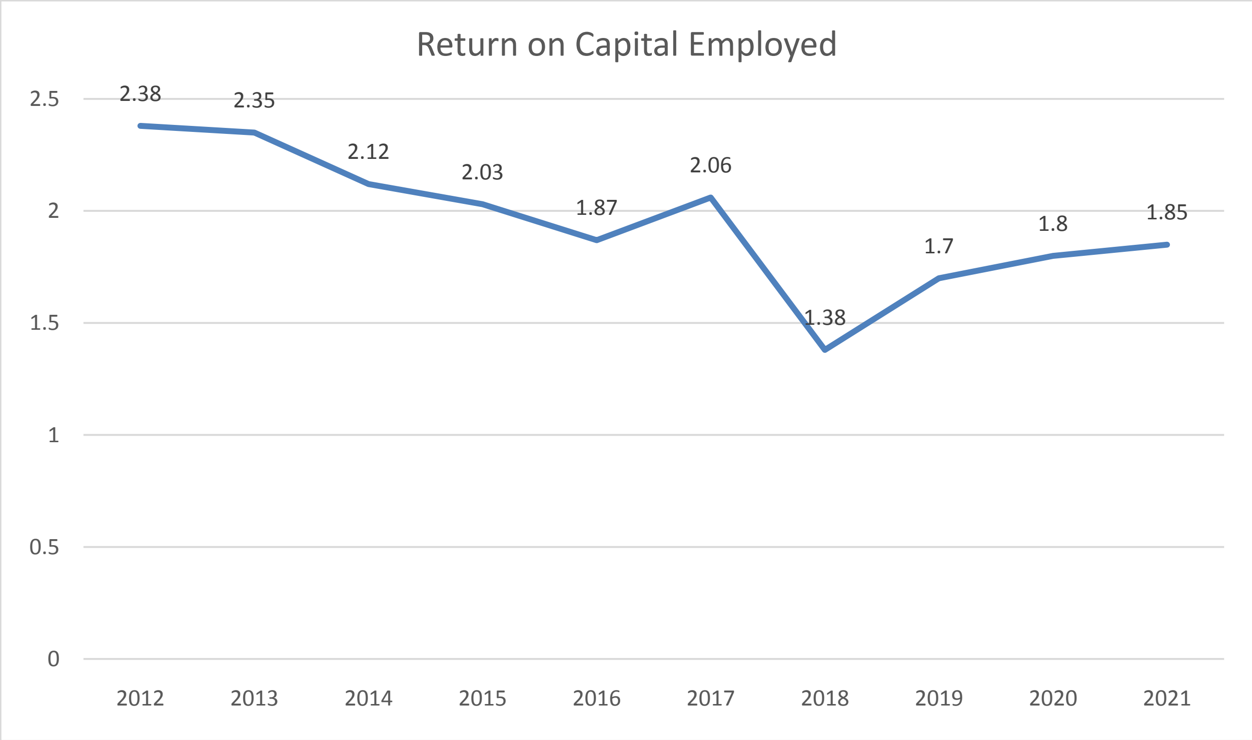

Figure 1

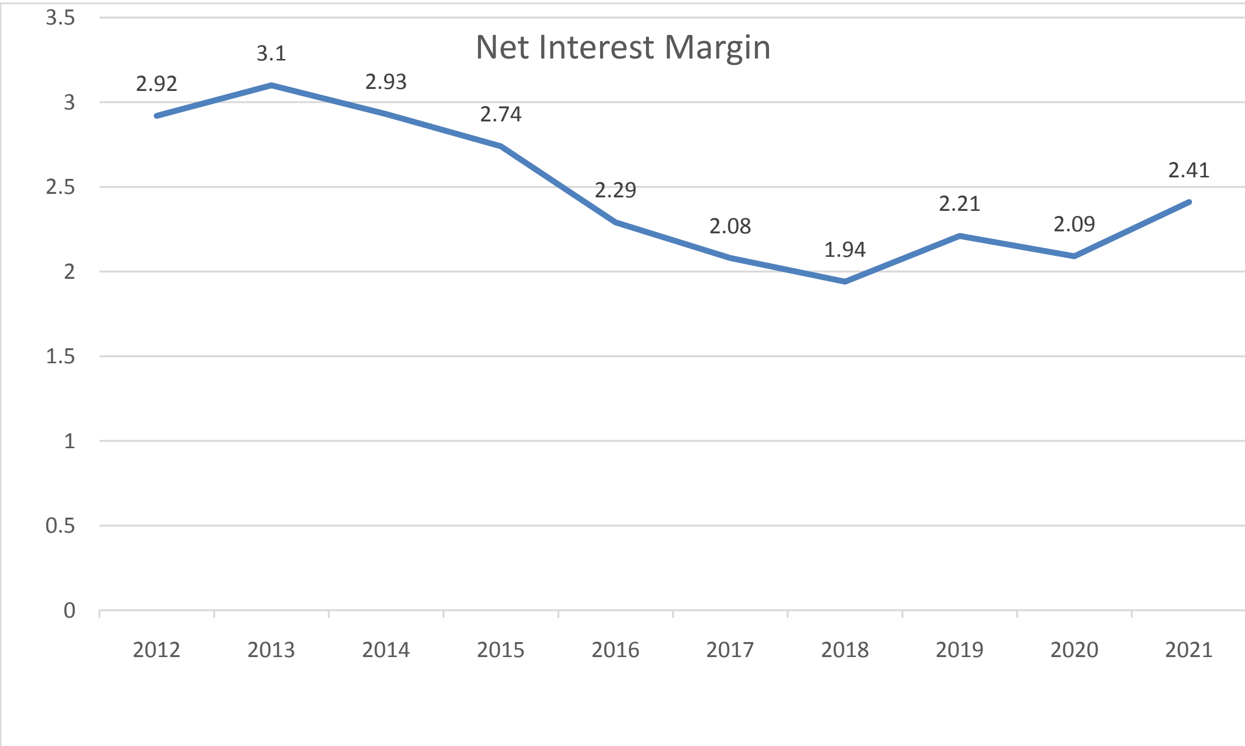

Figure 2

Corresponding author: **Dr. Rajesh Kumar**
Submitted: 27 July 2022, Revised: 09 August 2022, Accepted: 18 August 2022, Published: September 2022

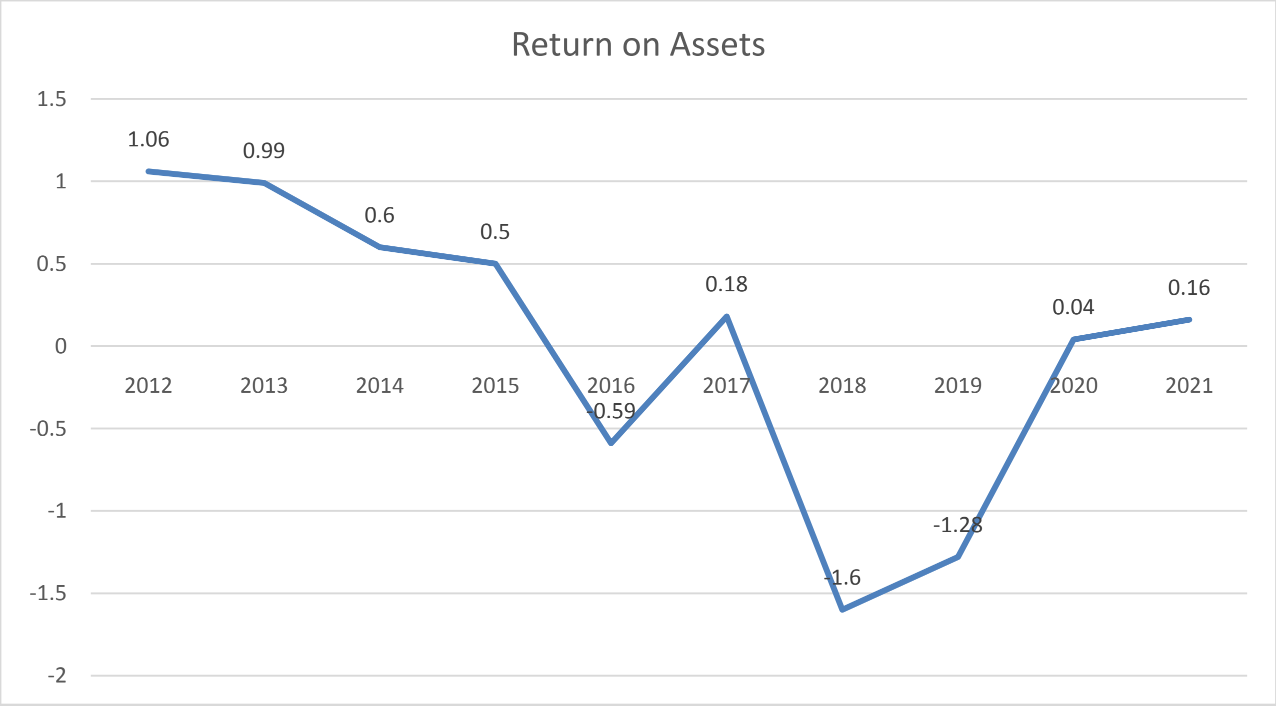

Figure 3

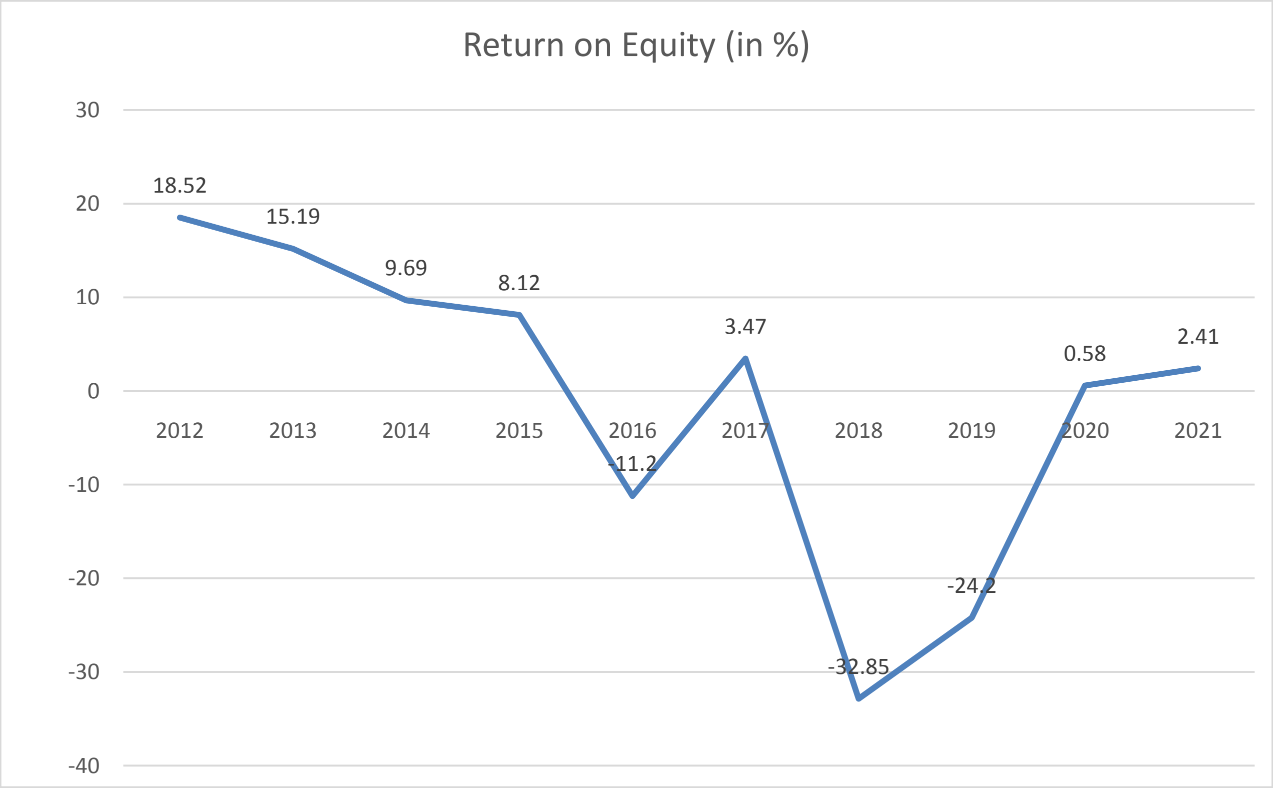

Figure 4

Corresponding author: **Dr. Rajesh Kumar**

Submitted: 27 July 2022, Revised: 09 August 2022, Accepted: 18 August 2022, Published: September 2022

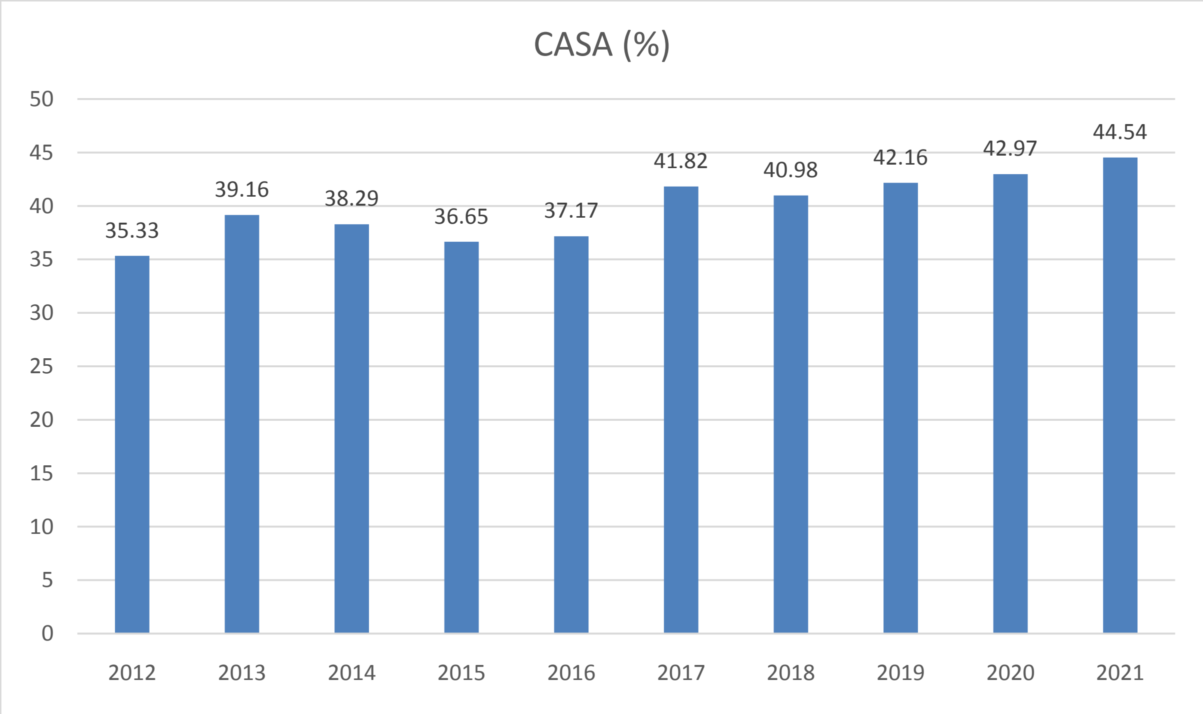

Figure 5

The position of EPS, DPS and net profit per share is shown by the data shown in Table 2. The EPS has shown declining trend during the year 2012 to 2015 and in 2016 it turned negative, but in the year 2017 it again turned positive Rs.6.45. After 2017 it again revolves negative in the year 2018 and 2019,although the same became positive Rs. 0.62 and Rs.2.08 in the year 2020 and 2021 respectively. Similarly, dividend per share has registered declining trend till 2015 and during the last six years no dividend has been paid. The trend regarding net profit per share go along to that of EPS and DPS of Punjab national bank.

Table2: EPS, Dividend per share and Net Profit per share during 2012-2021(in Rs.)

Ratios	Mar-21	Mar-20	Mar-19	Mar-18	Mar-17	Mar-16	Mar-15	Mar-14	Mar-13	Mar-12
Basic EPS	2.08	0.62	-30.94	-55.39	6.45	-20.82	16.91	93.91	139.52	154.02
Dividend/Share	0.00	0.00	0.00	0.00	0.00	0.00	3.30	10.00	27.00	22.00
Net Profit/Share	1.93	0.50	-21.67	-44.49	6.23	-20.24	16.51	92.32	134.31	144.00

Corresponding author: **Dr. Rajesh Kumar**
Submitted: 27 July 2022, Revised: 09 August 2022, Accepted: 18 August 2022, Published: September 2022

In order to examine the assets quality of Punjab national bank, the data related to two parameters namely gross NPA and net NPA has been analysed. Table 3 depicts the position of non-performing assets of PNB. Table shows that the amount of gross NPA has increased from Rs. 8720 crore in the FY 2012 to Rs. 104423 crore in FY 2021, thus registering a growth of 1097.51 percent during the last ten years. The amount of Net NPA has increased from Rs. 4454 crore to Rs. 38576 crore (766.10 percent) in the corresponding period. The trend about % Gross NPA Net NPA steep upward during the year 2012 to 2018. More precisely, the %age of Gross NPA and Net NPA has moved upward to 18.38 and 11.24 in the FY 2018. However, during the recent three years the %age of Gross NPA and Net NPA has shown declining trend, which can be considered as good indication. Gross NPAs and Net NPAs in absolute figures and in percentage is also shown by figure 6 and 7 respectively.

Table 3: Asset Quality of Punjab National Bank during 2012-2021(Amt. in Rs. Crore)

Ratios	Mar-21	Mar-20	Mar-19	Mar-18	Mar-17	Mar-16	Mar-15	Mar-14	Mar-13	Mar-12
Gross NPA	104423	73479	78473	86620	55370	55818	25695	18880	13466	8720
Net NPA	38576	27219	30038	48684	32702	35423	15397	9917	7237	4454
% of Gross NPA	14.12	14.21	15.50	18.38	12.53	12.90	6.55	5.25	4.27	3.15
% of Net NPA	5.73	5.78	6.56	11.24	7.81	8.61	4.06	2.85	2.35	1.52

Corresponding author: **Dr. Rajesh Kumar**
Submitted: 27 July 2022, Revised: 09 August 2022, Accepted: 18 August 2022, Published: September 2022

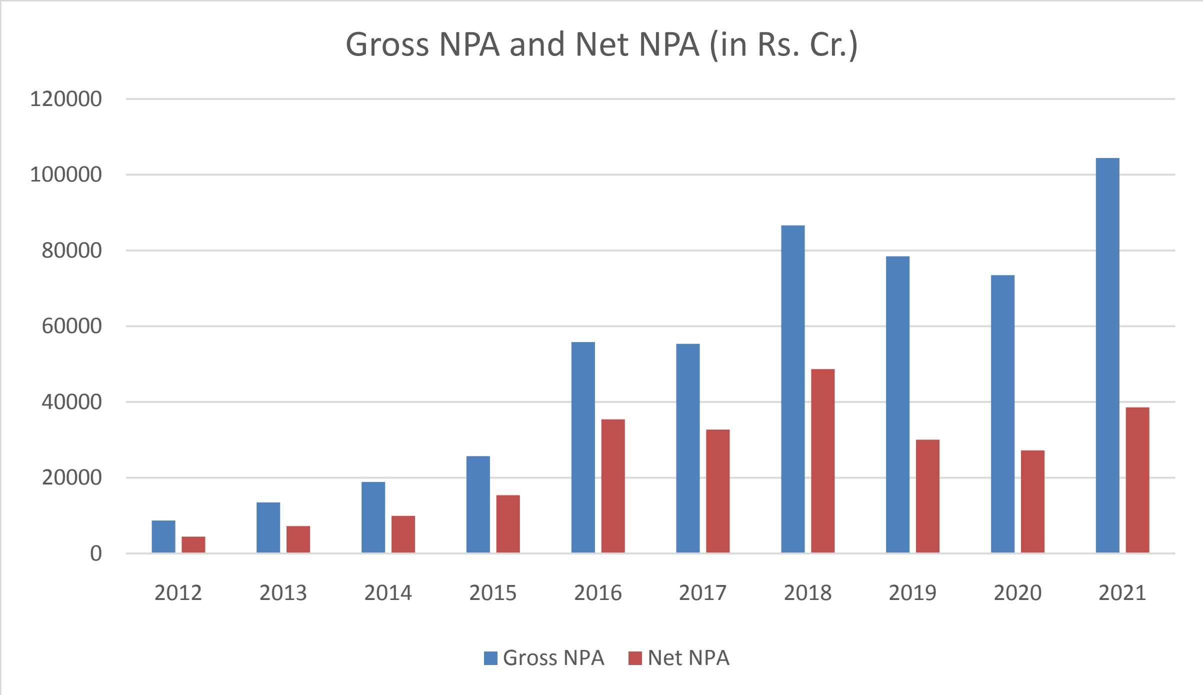

Figure 6

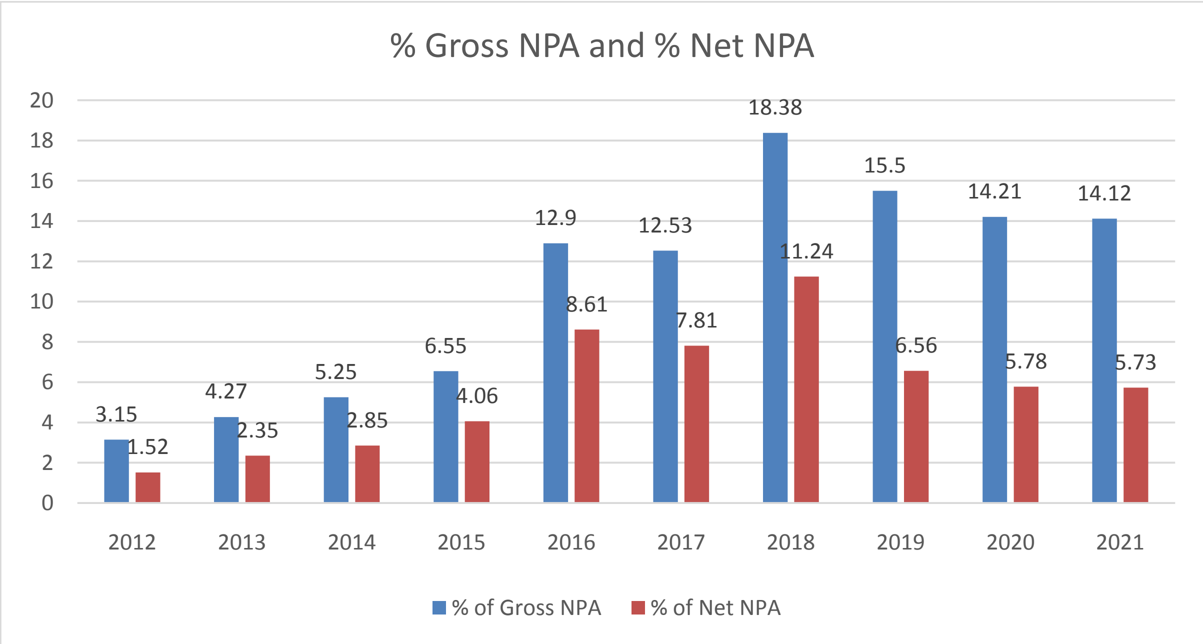

Figure 7

Corresponding author: **Dr. Rajesh Kumar**
Submitted: 27 July 2022, Revised: 09 August 2022, Accepted: 18 August 2022, Published: September 2022

Conclusion

The ROCE of PNB indicated a downward trend during the year 2012 (2.38%) to 2018 (1.38%). However, the ROCE of the bank obtained an upward trend in the FY 2019 which continued till the FY 2021.ROE to Net worth ratio of this bank has also declined considerably during the study period. ROE declined to 1.38 percent in FY 2017-18 from 2.38 per cent in FY 2011-12. But this ratio has been rising during the last three years and increased to 1.85 per cent in FY 2020-21. ROA indicates an almost similar trend as was observed in case of ROE. The Net profit margin increased to 2.5 in FY 2020-21 despite Covid-19 pandemic. There has been very poor performance of PNB during last eight years in so far as the operating profit margin is concerned. The operating profit margin remained negative in each of the last 8 years. It is also evident that PNB has always performed better in terms of 'net interest margin' because this margin has remained above 2% in every year of study period except in the FY 2018 where it is slightly less (1.94%). CASA (current account to savings account ratio) does not reveal a specific pattern, although it has increased from 35.33% in the year 2012 to 44.54% in the year 2021.The trend regarding net profit per share go along to that of EPS and DPS of Punjab national bank. The amount of gross NPA has increased from Rs. 8720 crore in the FY 2012 to Rs. 104423 crore in FY 2021, thus registering a growth of 1097.51 percent during the last ten years. The amount of Net NPA has increased from Rs. 4454 crore to Rs. 38576 crore (766.10 percent) in the corresponding period. The trend about % Gross NPA and Net NPA steep upward during the year 2012 to 2018. However, during the recent three years the %age of Gross NPA and Net NPA has shown declining trend, which can be considered as good indication.

References

Amita, BodlaSumit and Bodla B. S. (2020). Financial Performance of Yes Bank- A Relook at the Decade before the RBI's Rescue Plan. *TSME Journal of Management*, 10(1& 2), 16-26.

Balaji, C., & Kumar, G. P. (2016). A Comparative Study on Financial Performance of Selected Public & Private Sector Banks in India. *Journal of Commerce and Trade*, 11(2), 89-96.

Corresponding author: **Dr. Rajesh Kumar**
Submitted: 27 July 2022, Revised: 09 August 2022, Accepted: 18 August 2022, Published: September 2022

Bibhu, Prasad Biswal &Gopalakrishna, Ravikiran (2014). CD Ratio and Bank Profitability: An Empirical Study. *International Journal of Financial Management*, 4(2), 1-10.

Kanhaiya Singh, Poonam Singh and Anurag Agnihotri (2020) Impact of Capital Requirement on Banks performance – A Comparative Analysis among commercial Bank Groups in India. *Palarch's Journal of Archaeology of Egypt/Egyptology* 17(7)

Karim, A.R. &Alam, T. (2013). An evaluation of financial performance of private commercial banks in Bangladesh: Ratio analysis. *Journal of Business Studies*, 5(2).

Kaur, J., Kaur, M., & Singh, S. (2015). Financial performance analysis of selected public sector banks: A CAMEL model approach. *International Journal of Applied Business and Economic Research,* 13(6), 4327-4348.

Kulkarni, S. (2020, June 25). COVID-19 and its Impact on India's banking sector. Retrieved from www.cxotoday.com: https://www.cxotoday.com/news-analysis/covid-19-and-its-impact-on-indias-banking-sector/

Lele, A. (2021, March 8). Business Standard. Retrieved from www.business-standard.com: https://www.business-standard.com/article/finance/covid-19-pandemic-impact-will-pose-challenge-to-indian-banks-in-fy22-fitch-121030800404_1.html

Pandya, B. (2015). Impact of priority sector advances on bank profitability: Evidence from scheduled commercial banks of India. *BVIMSR's. Journal of Management Research*, 7(2).

Sharifi, O. & Akhter, J. (2016). Performance of banking through credit deposit ratio in public sector banks in India. *International Journal of Research in Management &Technology*, 6(4).

Singh, A. B., & Tandon, P. (2012). A study of financial performance: A comparative analysis of SBI and ICICI Bank. *International Journal of Marketing, Financial Services & Management Research,*1(11).

Punjab National Bank Key Financial Ratios, Punjab National Bank Financial Statement & Accounts (moneycontrol.com)

Annual Reports of Punjab National Bank

Corresponding author: **Dr. Rajesh Kumar**

Submitted: 27 July 2022, Revised: 09 August 2022, Accepted: 18 August 2022, Published: September 2022