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A STUDY ON FINANCIAL PERFORMANCE OF SOUTH INDIAN BANK LTD.

JIBIN MATHEW

M.Phil Scholar,

Sree Narayana Guru College, Coimbatore.

PSG College of Arts & Science, Coimbatore. Tamil Nadu, India.

Dr. M.GEETHA

Asst. Professor,

Sree Narayana Guru College, Coimbatore.

PSG College of Arts & Science, Coimbatore. Tamil Nadu, India.

Abstract : South Indian Bank is one of the major private sector banks in India. It was incepted in 1929 and became a scheduled bank in 1946 has recorded rapid growth with 852 branches, 4 service branches, 56 extension counters and 20 regional offices. This study is an attempt to analyze the financial performance of "SOUTH INDIAN BANK LTD".

Key words :

Private Sector Bank : Private sector banks are a part of our banking sector. Its major share is owned by private individuals and worked under the directions of RBI. It may be a scheduled bank or licensed bank.

Trend Analysis : Trend analysis is a financial management tool used to find the quantum of change in a particular data in different years. It is normally used to predict the future changes in the data.

Ratio Analysis : Ratio analysis is a financial management tool used to evaluate various aspects of a company's operating and financial performance such as liquidity, profitability and solvency. A ratio states numerical relationship between different figures in a financial statement.

Credit- Deposit Ratio : Credit deposit ratio shows the proportion of loans issued by bank and deposits received by the bank.

Investment- Deposit Ratio : Investment deposit ratio states the relationship between the amount invested by bank in different securities and the amount of deposits accepted from customers.

Cash- Deposit Ratio : Cash-deposit ratio states the relationship between cash and cash equivalents with total deposits. It is an important measure of banking liquidity.

Cost Income Ratio : Cost-income ratio is the measure of the costs of running a company in relation to its operating income. In case of a banking company, it states the relationship between interest income and interest expense.

Deposit- Cost Ratio : Deposit-cost ratio of a bank states the relationship between interest on deposits and total deposits. This ratio measures the cost of getting bank's funds.

Yield on Advance Ratio : Yield on advance ratio states the relationship between interest on advance and advances. It gives the average lending rate of the portfolio.

Yield on Investment Ratio : yield on investment ratio shows the relationship between investments and income from investments.

Fixed Assets to Net-worth Ratio : Fixed assets to net-worth ratio indicates how much portion of owner's cash invested in fixed assets. It measures solvency of the bank.

Earning Per Share : Earning per share is the portion of company's profit allocated to each outstanding share of common stock. It is an important measure of a company's profitability.

Return On Investment : Return on investment measures the gain or loss generated on total money invested in the business. It measures the efficiency of a company's investments.

Solvency Ratio : Solvency ratio is a measure of company's ability to meet its long term debts. It states the relationship between total assets and total outside liabilities.

Debt- Equity Ratio : Debt- equity ratio is used to measure a company's financial leverage. It indicates how much debt a company is using to finance its assets relative to the value of shareholders' equity.

Proprietary Ratio : The proprietary ratio is used to evaluate the soundness of the capital structure of a company. It is computed by dividing shareholder's equity by total assets. It is a measure of long term solvency.

Liquid Assets to Demand Deposits Ratio : Liquid assets to demand deposits ratio is a measure of banking liquidity. It is arrived at by dividing the liquid assets by total demand deposits. Liquid assets include cash in hand, balance with RBI, balance with other banks and money at call and short notice.

INTRODUCTION

SOUTH INDIAN BANK is a major private sector bank incorporated in 1929 and its headquarters at Thrissur. Its main objective was to serve the merchant community of Thrissur and freeing them from money lenders who charged exorbitant rate of interest. It has become a scheduled bank in 1946. SIB was the first scheduled bank in the private sector of Kerala. Now it has 852 branches, 4 service branches, 56 extension counters and 20 regional offices spread across more than 27 states and 3 union territories in India. The bank has set up 1320 ATMs and 17 Cash Deposit Machines all over India. Malayalam film actor 'Mamootty' is the global brand ambassador of the bank.

Financial statements are the mirrors which reflect the financial position and operating strength or weakness of the concern. Every business firm should perform well to have a good financial structure to attract customers, bankers and the general public. A firm enjoys a good position, reputation and goodwill, if it has a good financial status. Every business try to acquire a good financial position.

This study is an attempt to analyze the financial performance of "SOUTH INDIAN BANK LTD" and to know the factors affecting its operations.

1.1. STATEMENT OF PROBLEM

South Indian bank is a major private sector bank in India and its role is very big in our banking sector. It is a rapidly growing bank. Therefore, this study is an attempt to analyze the financial performance of SOUTH INDIAN BANK LTD for the recent years.

In this study, an attempt is made to calculate the necessary ratios and preparing statements which will help in the analysis and interpretation of the financial performance. These interpretations will help the firm to find out the changes and also take better decisions to improve in the future.

The study examined the financial performance of “South Indian Bank Ltd. For a period of 5 years starting from 2012-13 to 2016-17.

1.2. REVIEW OF LITRATURE

Furkan Y Kamdar's review (2008) the analysis of financial statements is a process of evaluating the relationship between component parts of financial statements to obtain a better understanding of the firm's position and performance.

Ratio analysis has a major significance in analyzing the financial performance of a company over a period of time. Decisions affecting product prices, per unit costs, volume or efficiency have an impact on the profit margin or turnover ratios of a company.

Befekadu B Kereta's review (2007) the paper examines the performance of MFIs in relation to outreach and financial sustainability. It reviews literatures on core performance indicators of MFIs. The literatures noted that MFIs could be examined through three main polar; outreach to the poor, financial sustainability and welfare impact. The welfare impact assessment is not covered in this paper due to time and money limitations.

J I Bogen (2004) has considered that, performance analysis is the total of assets of an enterprise which circulates from one form to another, for instance, from cash to inventories to receivables to back into cash. Thus, the capital that circulates, equal to the assets of an enterprise. Hence, performance of the firm and current assets are interchangeable terms.

Jonas Elmerraji (2005) tries to say that ratios can be an invaluable tool for making an investment decision. Even, so many new investors would rather leave their decisions to fate than try to deal with the intimidation of financial ratios. The truth is that, ratios aren't that intimidating, even if you don't have a degree in business or finance. Using ratios to make informed decisions about an investment makes a lot sense, once you know how use them.

Elizabeth Duncan and Elliot (2004) had stated that the paper titled efficiency, customer service and financing performance among Australian financial institutions showed that all financial performance measures as interest margin, return on assets and capital adequacy are positively correlated with customer service quality scores.

The International Accounting Standards (IFRS, 2006) indicates the fact that, liquidity refers to the available cash for the near future, after taking in to account the financial obligations corresponding to that period. Liquidity risk consist the in the probability that the organization should not be able to make its payments to creditors, as a result of changes in the proportion of long term credits and short term credits and the uncorrelation with the structure of organization's liabilities.

Kennedy and Muller (1999) explained that, the analysis and interpretation of financial statements are an attempt to determine the significance and meaning of financial statement's data, so that the forecast may be made of the prospects for future earnings, ability to pay interest and debt maturities (both current and long term) and profitability and sound dividend policy.

Jae K Shim & Joel G Siegel (1999) had explained that, the financial statement of an enterprise present the raw data of its assets, liabilities and equities in the balance sheet and its revenue and expenses in the income statement. Without subjecting these to data analysis, many fallacious conclusions might be drawn concerning the financial condition of the enterprise. Financial statement analysis is undertaken by creditors, investors and other users of financial statement in order to determine the credit worthiness and earning potential of an entity.

Anderson Reddy & Somaeswar Rao (1996) conducted a study in Hindusthan Cables Ltd. for the period of 1989-90, they did a detailed study on the company on the basis of ratio analysis. The study recommended for efficient utilization of current assets. In 1995, **A Wajid** on the “management of working capital of public Iron and Steel Industry” in India under Rohilkhand University makes the relevant research work. It mainly focuses on the performance of working capital components, specially the management of inventories, receivables and cash. However, it does not much attention as to observe the trend of working capital and its components.

Greninger et al.(1996) identified and refined financial ratios using a Delphi study in the areas of liquidity, savings, asset allocation, inflation protection, tax burden, housing expenses and insolvency. Based on the Deiphi findings, they proposed a profile of financial well-being for the typical family and individual.

1.3. OBJECTIVES OF THE STUDY

1. To study the profitability position of South Indian Bank.
2. To study the short term and long term solvency of South Indian Bank.
3. To study the working capital position of South Indian Bank.
4. To study the overall efficiency of South Indian Bank.

2. RESEARCH METHODOLOGY

This is purely an analytical study. It is completely based on secondary data. For this study, data has been collected from annual reports of South Indian Bank.

2.1 DATA COLLECTION

For this study, data for 10 years has been collected from annual reports of South Indian Bank Ltd from the year 2012- 13 to 2016-17.

2.2 TOOLS USED

In this study, financial analysis tools like trend analysis and ratio analysis were used for analyzing the data.

3. RESULTS

To analyze the financial performance of South Indian Bank Ltd for the last 5 years, trend analysis tools like trends in deposits, trend in advance, trend in interest on deposits and trend in interest on advances and ratio analysis tools like Credit- deposit ratio, Investment- deposit ratio, Cash- deposit ratio, Cost- income ratio, Deposit- cost ratio, Yield on advance ratio, Yield on investments ratio, Fixed assets to net-worth ratio, Earning per share, Return on investment ratio, Solvency ratio, Debt-equity ratio, Proprietary ratio and Liquid assets to demand deposits ratio are used.

3.1. TABLES**A. TREND IN DEPOSITS**

Year	Deposits (Rs. in crores)	% change (base year 2012-13)
2012-13	44262	100.00 %
2013-14	47491	107.30 %
2014-15	51912	117.28 %
2015-16	55721	125.89 %
2016-17	66117	149.38 %

B. TREND IN ADVANCES

Year	Advances (Rs. in crores)	% change (base year 2012-13)
2012-13	31816	100.00 %
2013-14	36230	113.87 %
2014-15	37392	117.53 %
2015-16	41086	129.14 %
2016-17	46389	145.80 %

C. TREND IN INTEREST ON DEPOSITS

Year	Interest on deposits (Rs. in crores)	Trend percentage of interest on deposits (base year 2012-13)
2012-13	3079	100.00 %
2013-14	3452	112.11 %
2014-15	3662	118.93 %
2015-16	3828	124.33 %
2016-17	3952	128.35 %

D. TREND IN INTEREST ON ADVANCES

Year	Interest on advances (Rs. in crores)	Trend percentage of interest on advances (base year 2012-13)
2012-13	3575	100.00 %
2013-14	3950	110.49 %
2014-15	4153	116.17 %
2015-16	4364	122.07 %
2016-17	4447	124.39 %

E. DEPOSIT MIX

Year	Demand Deposits (Rs. in crores)	Savings Deposits (Rs. in crores)	Term Deposits (Rs. in crores)	Total Deposits (Rs. in crores)	% of demand deposit to total deposits	% of savings deposit to total deposits	% of term deposit to total deposits
2012-13	1547.35	6685.47	36029.47	44262.29	03.50 %	15.10 %	81.40 %
2013-14	1888.27	7936.63	37666.19	47491.09	03.98 %	16.71 %	79.31 %
2014-15	1817.85	8868.45	41226.19	51912.49	03.50 %	17.08 %	79.42 %
2015-16	1983.13	10475.84	43261.76	55720.73	03.56 %	18.80 %	77.64 %
2016-17	2752.57	12993.77	50371.15	66117.49	04.16 %	19.65 %	76.19 %

F. CREDIT DEPOSIT RATIO

Credit deposit ratio = $\frac{\text{Advances}}{\text{Deposits}} * 100$

Year	Advances (Rs. in crores)	Deposits (Rs. in crores)	Ratio
2012-13	31816	44262	71.88 %
2013-14	36230	47491	76.29 %
2014-15	37392	51912	72.03 %
2015-16	41086	55721	77.74 %
2016-17	46389	66117	70.16 %

G. INVESTMENT DEPOSIT RATIO

Investment Deposit Ratio = $\frac{\text{Investment}}{\text{Deposits}} * 100$

Year	Investments (Rs. in crores)	Deposits (Rs. in crores)	Ratio
2012-13	12523	44262	28.29 %

2013-14	14352	47491	30.22 %
2014-15	16717	51912	32.20 %
2015-16	14619	55721	26.24 %
2016-17	19430	66117	29.39 %

H. CASH DEPOSIT RATIO

Cash Deposit Ratio = $\frac{\text{Cash and balances with RBI}}{\text{Total Deposits}} * 100$

Year	Cash & balances with RBI (Rs. in crores)	Total Deposits (Rs. in crores)	Cash Deposit Ratio
2012-13	1697	44262	3.83 %
2013-14	2201	47491	4.63 %
2014-15	2442	51912	4.70 %
2015-16	2476	55721	4.44 %
2016-17	3078	66117	4.66 %

I. COST INCOME RATIO

Cost Income Ratio = $\frac{\text{Interest Expended}}{\text{Interest Income}} * 100$

Year	Interest Expended (Rs. in crores)	Interest Income (Rs. in crores)	Cost Income Ratio
2012-13	3153	4434	71.11 %
2013-14	3616	5015	72.11 %
2014-15	3920	5286	74.16 %
2015-16	4047	5557	72.83 %
2016-17	4172	5847	71.35 %

J. DEPOSIT COST RATIO

Deposit Cost Ratio = $\frac{\text{Interest on deposits}}{\text{Deposits}} * 100$

Year	Interest on Deposits (Rs. in crores)	Deposits (Rs. in crores)	Deposit Cost Ratio
2012-13	3079	44262	6.96 %
2013-14	3452	47491	7.27 %
2014-15	3662	51912	7.05 %
2015-16	3828	55721	6.87 %
2016-17	3952	66117	5.98 %

K. YIELD ON ADVANCE RATIO

Yield on Advance = $\frac{\text{Interest on Advances}}{\text{Advances}} * 100$

Year	Interest on Advances (Rs. in crores)	Advances (Rs. in crores)	Yield on Advance Ratio
2012-13	3575	31816	11.24 %
2013-14	3950	36230	10.90 %
2014-15	4153	37392	11.11 %
2015-16	4364	41086	10.62 %
2016-17	4447	46389	09.59 %

L. YIELD ON INVESTMENTS RATIO

Yield on Investments = $\frac{\text{Income from Investments}}{\text{Investments}}$

Year	Income from Investment (Rs. in crores)	Investment (Rs. in crores)	Yield on Investment Ratio
2012-13	746	12523	5.96 %
2013-14	954	14352	6.65 %
2014-15	1054	16717	6.30 %
2015-16	1008	14619	6.90 %
2016-17	1233	19430	6.35 %

M. FIXED ASSET TO NET WORTH RATIO

Fixed Asset to Net-worth Ratio = $\frac{\text{Fixed Assets}}{\text{Shareholders Fund}}$

Year	Fixed Assets (Rs. in crores)	Shareholders Fund (Rs. in crores)	Fixed Asset to Net-worth Ratio
2012-13	396	3003.61	0.13
2013-14	412	3368.05	0.12
2014-15	479	3589.40	0.13
2015-16	487	3841.93	0.13
2016-17	656	4845.47	0.14

N. EARNINGS PER SHARE

EPS = $\frac{\text{Net profit} - \text{Preference Dividend}}{\text{No. of Equity shares}}$

Year	Net profit after tax and preference dividend (Rs. in crores)	No. of Equity shares	EPS
2012-13	502.27	13.385	37.52
2013-14	507.50	13.439	37.76
2014-15	307.20	13.502	22.75
2015-16	333.27	13.503	24.68
2016-17	392.50	18.028	21.77

O. RETURN ON INVESTMENT

Return on Investment = $\frac{\text{Net profit after interest and tax}}{\text{Shareholders fund}} * 100$

Year	Net profit after interest and tax (Rs. in crores)	Shareholders fund (Rs. in crores)	ROI
2012-13	502.27	3003.61	16.72 %
2013-14	507.50	3368.05	15.07 %
2014-15	307.20	3589.40	08.56 %
2015-16	333.27	3841.93	08.67 %
2016-17	392.50	4845.47	08.10 %

P. SOLVENCY RATIO

Solvency Ratio = $\frac{\text{Total Assets}}{\text{Total Outside liabilities}} * 100$

Year	Total Assets (Rs. in crores)	Total Outside Liabilities (Rs. in crores)	Solvency Ratio
2012-13	49795	46787	106.43 %
2013-14	54985	51615	106.53 %
2014-15	59116	55523	106.47 %
2015-16	63174	59327	106.48 %
2016-17	74312	69463	106.98 %

Q. DEBT EQUITY RATIO

Debt Equity Ratio = $\frac{\text{Outsiders fund}}{\text{Shareholders fund}}$

Year	Outsiders fund (Rs. in crores)	Shareholders fund (Rs. in crores)	Debt-Equity Ratio
2012-13	46787	3003.61	15.58
2013-14	51615	3368.05	15.32
2014-15	55523	3589.40	15.47
2015-16	59327	3841.93	15.44
2016-17	69463	4845.47	14.34

R. PROPRIETARY RATIO

Proprietary or Equity Ratio = $\frac{\text{Shareholders fund}}{\text{Total Assets}} * 100$

Year	Shareholders fund (Rs. in crores)	Total Assets (Rs. in crores)	Proprietary Ratio
2012-13	3003.61	49795	06.03 %
2013-14	3368.05	54985	06.13 %

2014-15	3589.40	59116	06.07 %
2015-16	3841.93	63174	06.08 %
2016-17	4845.47	74312	06.52 %

S. LIQUID ASSETS TO DEMAND DEPOSITS

Liquid Assets to Demand Deposits = $\frac{\text{Liquid Assets}}{\text{Demand Deposits}} * 100$

Year	Liquid Assets (Rs. in crores)	Demand Deposits (Rs. in crores)	Liquid Asset to Demand Deposit Ratio
2012-13	4336	1547.35	280.22 %
2013-14	3218	1888.27	170.42 %
2014-15	3595	1817.85	197.76 %
2015-16	3099	1983.13	156.27 %
2016-17	3888	2752.57	141.25 %

4. DISCUSSION

The table trend in deposits shows that, there is a high growth in the deposits of bank year after year. The increase in deposits in the year 2016-17 is around 150 % as compared to the deposits in 2012-13. The advances made by bank is also increasing. The increase in advances in the last year is around 146 % when it is compared to advances in 2012-13.

Interest on deposit is increasing in proportion to increase in deposits and the same was 128 % as compared to base year. Interest on advances is also increasing due to increase in advances and the trend ratio in the last year is 124 %.

The deposit mix of the bank shows that, the proportion of term deposit to total deposits shows a decreasing tendency and the proportion of savings deposit to total deposit shows an increasing tendency. The increase in the amount of savings deposit denotes an increase in the savings habit of the public. It may be due to some government policies like, issuing government subsidies through bank account, demonetization etc. The proportion of demand deposit shows a fluctuating trend.

The cash deposit ratio of SIB shows an increasing trend in the first 3 years. Then in the fourth year it was decreased and in the last year it was increased.

Cost income ratio of SIB is 71.11 % in the first year 2012-13 and it increases to 72.11% in the year 2013-14 and then it increased to 74.16 % in the next year. Then it reduced to 72.83 % in 2015-16 and 71.35 % in 2016-17.

Deposit cost ratio of the bank is showing a fluctuating trend. Even though, it was reduced in 2016-17 as compared to the base year.

The yield on advance ratio is showing a fluctuating trend. The deposit cost ratio is higher than yield on advance ratio, so we can say that, the bank is in a profitable position.

The yield on investment ratio shows a fluctuating trend. In 2016-17 it was increased to 6.35% but in the base year it was 5.96%. In order to increase the income from investment, the bank should try to make investments in high profit return projects. In 2015-16, it seems a considerable increase in yield on investment.

Except in the year 2013-14 bank's fixed asset to net worth ratio shows an increasing trend.

From the above table showing EPS of SIB in the last 5 years, it is clear that 'earning per share' is decreasing due to the decrease in income.

The shareholder's fund of the bank has been increasing year after year whereas, net profit of the bank has decreased last 3 years. From the above table, it is clear that the 'return on investment of the bank is decreasing in the last 3 years.

Return on Investment ratio is showing a decreasing trend whereas Solvency ratio is more or less similar in all the five years. In the last year the ROI was 8.1% and the base year it was 16.7 %.

Solvency ratio of the bank more or less similar in all the five years. In every years it was above 106 %.

Except the last year the debt equity ratio is more or less same. In the last year it shows a 1% decrease. In the base year it was 15.58 %. Both shareholder's fund and total assets are showing an increasing trend. Proprietary ratio is more or less similar in all years.

'Liquid asset to demand deposit ratio' is showing a decreasing trend. In the base year the ratio was 280% and in the year 2016-17 it was reduced to 141%.

4.1. IMPLICATIONS

1. This study helps the people especially the stakeholders of the bank to know about its financial performance.
2. Some of the people have a misconception that, only nationalized banks have adequate profitability and financial strength. This study will change this misconception.
3. Now a days, the policies of some nationalized banks unfavourable to ordinary people. They are charging comparably higher amounts in different names and insisting higher minimum balance in accounts. Most of the people suffering this injustice only because, they are unaware of the performance and financial strength of private sector banks. This study helps them to understand SIB is a rapidly growing private bank with a high financial performance.
4. In recent days, nationalized banks are suffering more problems due to increase in bad debts and the top officials of those banks are criticized on the ground of their inefficiency and their extreme support to big corporates in granting loans without adequate security. So people have a fear of loss in investing in nationalized banks.
5. I strongly believed that, a movement of customers from nationalized banks to private sector banks is happening in these days and it will cause a change in attitude of nationalized banks towards their customers and it leads to correction of their wrong policies.

4.2. CONCLUSIONS

The business of SIB is increasing year after year. The overall performance of the bank is good and they are in a safe position. But the bank can improve its position by correcting all problems analyzed here. The bank should improve its interest income and should concentrate on EPS and ROI. They should try to reduce its NPAs and it leads to increase in profit. The bank should try to maintain a constant credit deposit ratio, investment deposit ratio, cash deposit ratio, deposit cost ratio etc. Fluctuations in ratios may affect the decisions of stakeholders.

4.3. RECOMMENDATIONS

- ✓ The percentage increase in interest on advances is less than the percentage increase in interest on deposits. It is not good for the bank.
- ✓ Deposit mix shows a decrease in fixed deposit. Bank should analyze the reasons and take corrective actions.
- ✓ The Credit-deposit ratio shows a fluctuating trend. If the ratio is too high, the bank could be vulnerable to any sudden adverse changes in its deposit base. If the ratio is too low, the bank is holding on to unproductive capital and earning less it should. Here, in every year bank's credit deposit ratio is more than 70%. It is good for the bank.
- ✓ Investment-deposit ratio and cash-deposit ratio shows small fluctuations in the last five years. It will not create any problem to the bank. Here, cost-income ratio of SIB shows only small fluctuations. It will not affect the bank.
- ✓ SIB's deposit-cost ratio shows a fluctuating trend. The last year ratio was less than the base year ratio. It is good for the bank.
- ✓ The Yield on advance ratio shows a fluctuating trend. But in the past 3 years, it was decreased from the base year figure. It is not good for the bank. The bank should concentrate more on interest income.
- ✓ The Yield on investments ratio shows small fluctuations, but it was increased from the base year ratio. So it is good for the bank.
- ✓ Except in the year 2013-14, fixed asset to net worth ratio shows an increasing trend. Generally, banking firms doesn't require a large quantity of fixed assets. So this ratio is enough.
- ✓ Earnings per share and return on investment ratio of bank shows a huge decrease in the year. It is harmful to the bank.
- ✓ In 2013-14 the net profit was 507.5 crores, but in 2014-15 it was reduced to 307.20. The main reason for that reduction is increase in non-performing assets. Reduction in profits led to decrease in Earning per share and Return on investment.
- ✓ In the past 5 years the solvency ratio of SIB was constant.
- ✓ Debt-equity ratio of the bank showing a small decrease in the last year. It will not affect the bank's financial condition. The ratio indicates how much debt a company is using to finance its assets relative to the amount of value represented in shareholders' equity.
- ✓ The proprietary ratio of SIB is more or less same in the last 5 years.
- ✓ Liquid asset to demand deposit ratio shows a decreasing trend. A high ratio may affect the profitability of the bank. In the last year the ratio was 141% and it is sufficient .

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