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Financial Performance Analysis of Old and New Generation Banks – A Comparative Study

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Abstract
Banks play an important and diverse role in the growth of the economy. Banks mobilize the country's idle resources for productive purposes. Now, the Indian banking industry is undergoing significant change as a result of global developments such as increased competition, rising consumer preferences, declining spreads, increased disintermediation, and dynamic pricing, among others. Profitability, competitiveness, and financial stability have all been important goals to pursue. The fundamental intention of the study is to do the comparative have a look at of the performance of the old and new generation banks in India largest in terms of general property calculated for remaining five years from 2016- 2020. To this research paper the researcher used camel model for her analysis purpose. For this take a look at, personal area banks old and new generation banks were taken. A result shows that the performances of new generation banks are better than old generation banks.

Keywords: Private sector banks, new generation, old generation banks, financial performance, comparative study.

Introduction

As of right now, banking plays a significant role in both the economy and society. The banking sector, which was heavily regulated prior to the reform, is reorienting itself to meet new challenges that are emerging in the global financial quarter. Tight regulations, a botched recovery effort, and most importantly, a lack of competition, were the foundational elements that were held accountable for the performance of public sector banks. When you go back to 1991, the banking sector has undergone a thorough and intricate restructuring aimed at improving its soundness and efficiency while also strengthening its ties to the real economy to promote growth, investment, and savings. Indian banks are now able to confidently compete with global modern banks.

India is celebrating its 77th anniversary and has seen remarkable growth, ranking second in the world economy to China. The banking industry has unquestionably been crucial in preventing the country's economy from collapsing. Because a strong banking sector system serves as the cornerstone of a country's stable industrial and economic growth, the banking sector's performance is seen as an exact replica of the country's economic activities. Because of the Narasimham Committee's recommendations, the entire banking landscape has altered in the very recent past. To further standardize procedures and increase the banking industry's adaptability to delicate market threats, more Basel II Norms have been added globally.

Private Sector Banks in India

In India, the banking sector consists of both public and private sector banks, with the private sector accounting for a portion of it. These banks are referred to as "private-sector banks" because private investors, rather than the government, own a larger portion of their state or equity. From the Indian government's nationalization of all major banks in 1969, public sector banks have dominated the banking industry in that country. Old and new private sector banks have resurfaced, though, since government banking regulations were liberalized in the 1990s. Financial authorities in India have divided the private sector banks into two categories: old and new. The old private sector banks continued to operate independently before being nationalized in 1969 because they were either too small or too specialized to be taken over by the government. The banks that have obtained their banking licenses since the 1990s liberalization are the new private sector banks.

The private sector's significant contribution to the Indian economy in terms of job creation and the eventual eradication of poverty is highly praiseworthy.

Financial regulators in India have divided the private sector banks into two categories: old and new generation banks.

Old Generation Banks

Banks operating in the private sector prior to the Great Depression are referred to as old private sector banks. Private sector banks that date back to before 1991 are known as old banks because they have been in operation for a considerable amount of time. The age of these banks exceeds fifty years. It is well known that the banks are the older private sector banks that were spared from nationalization during the bank nationalization events of 1969 and 1980. South India is home to the majority of these tiny banks.

Currently, India has twelve old generation private sector banks. The banks that fall under this category are the following: Karnataka Bank, Karur Vysya Bank, Lakshmi Vilas Bank, Ratnakar Bank, South Indian Bank, Federal Bank, City Union Bank, Dhanalaxmi Bank, and Tamilnad Mercantile Bank. Of the aforementioned, Bank of Baroda owns a 98.57% stake in Nainital Bank, which is one of its subsidiaries.

New Generation Banks

"New Generation Banks" are the banks that opened for business following the implementation of financial sector and economic reforms in 1991. The Banking Regulation Act was subsequently modified in 1993, allowing New Generation Banks to open for business in India. The Narsimham Rao government started a liberalization and licensing program for a select group of private banks at the beginning of the 1990s. In 1993, the Banking Regulation Act was modified based on the recommendations of the Narsimham Committee, paving the way for the emergence of new generation banks. Even before independence, there were numerous other banks that are currently operated by the private sector. The government of India has approved the establishment of private banks by foreign corporations and non-resident individuals, in compliance with the recommendations made by the Narsimham committee. The Reserve Bank of India received 140 applications for the establishment of new generation banks by the end of February 1994. Of those, only 19 applications met all the requirements and were submitted in the official RBI forms. After processing the applications, the RBI only approved 10 applicants, and these new banks are referred to as "New Generation Banks (NGBs)."

Banks in the private sector are those that are owned by businesses or non-governmental organizations. But these banks are subject to Reserve Bank of India regulation. After the organization of private sector banking, this high-tech, fiercely competitive private sector banks exist today. As part of the liberalization process, new generation banks have received licenses from RBI. Many banks are operating profitably in the consumer and retail markets, but they have not yet expanded to offer services to the industrial, retail trade, small business, or agricultural finance sectors. Private sector banks have transformed banking by introducing a plethora of new services and making it more "customer friendly." These services include credit cards, ATMs, mobile and internet banking, easy loans such as home, auto, and education loans, as well as 12 online trading platforms. Payments for utilities, phone bills, insurance premiums, and other expenses can be made directly from a bank account with standard instructions.

Private sector banks are better equipped to handle the needs of India's rapidly expanding corporate sector. These banks were the go-to choice for the corporate sector because of their sophisticated infrastructure, skilled workforce, and cutting edge technology.

Review of Literature

Cheenu Goel and Chitwan Bhutani Rekhi (2013) in their study try to degree the relative overall performance of Indian banks. For the have a look at, they used public sector banks and private area banks. Overall, the evaluation supports the belief that new banks are greater green that antique ones. The public sector banks aren't as worthwhile as other sectors are. It means that efficiency and profitability are interrelated. The key to increase performance relies upon ROA, ROE and NIM.

Dr. N. Kavitha (2012) in his study the profitability of banks for the period 2000-2010. To check the profitability of banking region in India, discriminate evaluation and discriminate function analysis which measures the profitability of banks from every crucial parameter like the variations among the mean profitability of two intervals.

Bodla and Richa (2006) in their study on “Evaluating Performance of Banks through CAMEL Model: A Case Study of SBI and ICICI” made an attempt to study the performance of SBI and ICICI through CAMEL Model for the period 2000-01 to 2004-05. The study revealed that in earning quality, measured in terms of the ratio of

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operating profit to average working funds, net profit to average assets, etc., ICICI Bank had outperformed SBI. The same was true of assets quality, 39 earning quality and management quality ratios. The liquidity position of both the banks was sound and did not differ significantly.

Gupta Sumeet and Verma Renu (2008) examinations the general monetary performance of significant private division banks in India through use of CAMEL Model. Ten noteworthy private sector banks has been taken-Axis Bank, Bank of Rajasthan, City Union Bank, HDFC Bank, ICICI Bank, Kotak Mahindra Bank, Karnataka Bank, Karur Vysya Bank, South Indian Bank, Yes Bank. The calculating so as to position of these banks has been finished the normal of various fiscal proportions of 5 years from 2003 to 2007 at the rating size of 1-10. For similar examination of general performance, Composite Ranking technique has been connected on the premise of gathering performance. Examination demonstrates that Karur Vysya Bank has the top position in general performance took after by City Union Bank and Kotak Mahindra Bank, Bank of Rajasthan has the most reducedComposite Rank among every one of the banks under study. It can be reasoned that straightforwardness and greatservice would fill in as central controlling power in present situation.

Need of the Study
Performance evaluation is important in a corporation, for sustainable increase and development, for this first measures and evaluates the overall performance, and then brings out the strengths and weaknesses of the employer for the motive of similarly improvement. Every industry, that understands significance of assessment, can adopt many strategies to assess the performance. It show to be better for overall performance measurement, assessment and strategic planning for destiny boom and development of the Indian banks inside the light of changing requirements of this quarter so to investigate the comparative profitability overall performance of banks for the monetary periods 2016-2020.

Objective of the Study
- To analyze the financial performance of selected New Generation Banks and Old Generation banks on different parameters of CAMEL rating system.
- To provide suitable recommendations/Suggestions to improve the performance of old and new generation banks.

Research Methodology

Data Source
The data collected for the study includes secondary data.

Data Collection
Data was collected through Re- serve Bank of India monthly bulletins, annual reports, money rediff, money control , banks websites etc.,

Method
The research methodology of the proposed research paper comprises the Camel model analysis.

Sampling Technique
Judgmental samplings were used to collect the secondary data.

Limitations of the Study
- Research is restricted to old and new generation banks so; analyzing overall performance is very difficult.
- Results of this research are confined and limited to selected banks.

Data Analysis and Interpretation

Composite Ranking (Overall Performance) of Selected Old Generation Banks and New Generation banks

BANK	C	A	M	E	L	Average	Rank
Federal bank	5.92	2.636	97.465	1.1285	1.8186	21.79	**9**
Tamilnad Mercantile bank	15.74	0.267	53.856	2.031	0.2805	14.43	**3**
Karur Vysya bank	6.58	1.739	90.126	1.179	1.7071	20.27	**8**

Lakshmi Vilas bank	5.69	2.231	75.59	1.238	0.5729	17.06	**6**
South Indian bank	6.02	3.315	124.761	1.209	0.3646	27.13	**10**
AIXS bank	12.67	1.656	67.073	1.983	0.687	16.81	**4**
HDFC bank	7.41	0.288	39.425	2.021	0.4393	9.92	**1**
ICICI bank	17.19	1.502	44.397	2.034	0.5196	13.13	**2**
KOTAK MAHINDRA bank	11.67	3.042	67.598	1.459	0.9365	16.94	**5**
YES bank	15.35	0.618	69.012	1.1165	0.3269	17.28	**7**

Interpretation

The overall ranking analysis has been made by computing composite mean rank of all parameters of CAMEL model and overall rank of the banks. Here mean rank has been computed as the average of final ranks obtained by each bank on the basis of ratios under different measures of CAMEL Rating Model and then overall rank has been assigned to the banks based on their mean ranks on the basis of assigning highest overall rank based on least mean rank. The above table shows composite mean rank and overall rank of the selected banks as a whole on the basis of different ratios of five indicators under CAMEL Model. It is clearly evident from the table that on the basis of mean rank of 5 selected new generation banks and 5 selected old generation banks have been taken into consideration for study. The table depicts the group ranking of the new and old generation banks for the period of 2016 to 2020. It is found that HDFC bank from the new generation bank is given the 1st overall rank position for the lowest mean rank score of 9.92, due to its better performance in areas of, Assets management and increasing the profitability, followed by ICICI bank is given the 2nd overall rank position for the second lowest mean rank of 13.13, because of its good assets management. However the, 3rd, 4th, 5th, 6th, 7th, 8th, 9th overall rank positions for the next lowest values of mean rank scores (i.e. 14.43, 16.81, 16.94, 17.06, 17.28, 20.27 and 21.79 respectively) computed on final ranks under the different measures of CAMEL Ratings are achieved by Tamilnad Mercantile Bank, AXIS Bank, Kotak Mahindra bank, Lakshmi Vilas Bank, Yes bank, Karur Vysya bank and Federal Bank. Whereas South Indian bank holds the bottom most rank with 10th overall composite ranking average of 27.13 due to poor Capital Adequacy, Asset management and Management Quality of the bank. If we see the overall performance analysis of the selected banks, it has been found that most of the new generation banks especially HDFC bank and ICICI bank are the better performer than the selected old generation banks due to its better assets quality, management competency and earnings ability. On the other hand old generation banks (except Tamilnad Mercantile bank) are not performing better ever after sufficient capital adequacy and better liquidity. South Indian Bank needs to improve its assets quality.

Findings of Overall Analysis based on CAMEL Model

The overall ranking analysis has been made by computing composite mean rank of all parameters of CAMEL model and overall rank of the banks. It is found that HDFC bank from the new generation bank is given the 1st overall rank position for the lowest mean rank score of 9.92, due to its better performance in areas of, Assets management and increasing the profitability, followed by ICICI bank is given the 2nd overall rank position for the second lowest mean rank of 13.13, because of its good assets management. Whereas South Indian bank holds the bottom most rank with 10th overall composite ranking average of 27.13 due to poor Capital Adequacy, Asset management and Management Quality of the bank. It has been found that most of the new generation banks especially HDFC bank and ICICI bank are the better performer than the selected old generation banks due to its better assets quality, management competency and earnings ability. On the other hand old generation banks (except Tamilnad Mercantile bank) are not performing better ever after sufficient capital adequacy and better liquidity. South Indian Bank needs to improve its assets quality.

Suggestions

- New and old generation banks' management departments should develop good financial practices and policies. They should first consult with financial advisors to see what they think about exacting practices and what their opinions are on practices that are linked to the bank's financial progress. The bank's growth will be aided by this presence.
- Both new and old generation banks offer services to customers; technology is civilizing itself every day, and now technology is driving workers to better themselves in order to serve customers; much of this can be accomplished by management strategies and employee fulfillment. Customers can get up-to-date technology-based offerings from the banks.

Conclusion

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CAMEL rating model plays a crucial role in the supervisory process and in identify the weakened banks. In the present study I have examined the performance of the selected New & Old Generation Banks on the basis of CAMEL model for the period 2016 to 2020. The results show that new generation banks outperform of old generation banks get first, second, fourth and fifth ranks goes to the credit of all the selected new generation banks. In the case of old generation bank Tamilnad Mercantile bank got third rank. Thus, it is concluded by considering the estimated ratios, the new generation banks have been enjoying a better financial health than the old generation banks during the study period. Hence, it could be inferred that the old generation banks have to pay attention to improve the financial performance in the future.

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