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## EVALUATION ON FINANCIAL PERFORMANCE OF INDIAN OVERSEAS BANK

### Article Particulars

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### Abstract

*Banks play an imperative role in the economic development of all nations. The present study was conducted by selecting one of the leading commercial banks in India. Indian Overseas Bank was selected purposely and ten years financial progress of the bank was chosen. The study was confined to the past ten years from 2007-08 to 2016-2017. In order to have a fairly long, cyclical well balanced period, for which, reasonably homogeneous, reliable and up to-date financial data were available. The study was based mainly on secondary data. The tools used for the analysis are Ratio Analysis, Trend Indices, Chi-Square Analysis, Descriptive statistics and Correlation. The Researcher suggested that, the banks should take special attention to improve their financial efficiency. More resources / funds to be deployed in high yielding advances to maximize interest income to total assets.*

**Keywords:** *Performance Analysis, Interest Earnings, Deposits and Operating Expenses.*

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### Introduction

The banking system of India is featured by a large network of bank branches, serving many kinds of financial needs of the people. Sound financial health of a bank is the guarantee not only to its depositors but is equally significant for the shareholders, employees and whole economy as well. As a sequel to this maxim, efforts have been made from time to time, to measure the financial position of each bank and manage it efficiently and effectively.

Today, banks have diversified their activities and are getting into new products and services that include opportunities in credit cards, customer finance, wealth management, life and general insurance, investment banking, mutual funds, pension fund regulation, stock broking services, custodian services, private equity,

etc. Further, most of the leading Indian banks are going global, setting up offices in foreign countries, by themselves or through subsidiaries

### **Review of Literature**

#### **Dr. Veena K. P., Prof. S. N. Pathi (2017)**

The Banking sector has played a top performance compared to the other sectors in India. Banks opted for mergers and acquisitions (M&A) as tactical means of one or two more banks become one single restructuring. The study is based on secondary sources and to determine the reliability of data applied descriptive statistics and also T-test has been applied. To conclude, after merger there is positive improvement in net profit, operating profit, total income, earning per share, deposits, loans and advances, borrowings, investments, total assets.

#### **Han Chen (2017)**

The intention of this study sought to examine the overall performance of India International Bank Malaysia with specific risk factors and macroeconomic factor on profitability performance. Our purpose search India International bank Malaysia focus from 2011-2015. The research that is liquidity ratio and operating ratio used to see the overall performance of India International Bank Malaysia in 5 years. The additional measurement is the asset size, this variable has a negative and no significant relationship with liquidity risk. To see the relationship of risks factors to the profitability, this paper is utilizing liquidity (current ratio), GDP and operating ratio. Data was analyzed by utilizing regression and bivariate correlation. The regression analysis and bivariate correlation shows only one factor of profitability is significant to operating ratio which is ROA with the highest impact to the profitability. However, the liquidity and GDP is not significant to profitability with low impact to the profitability.

#### **Mukesh Kumar Et Al., (2016)**

The purpose of the study is to examine the performance of Indian banking sector in terms of efficiency, returns to scale, and total factor productivity change. The technique of data envelopment analysis is applied due to its flexibility to incorporate multiple inputs and multiple outputs without any underlying assumption on the functional form. There is growing tendency of public sector banks operating under increasing returns to scale, implying that substantial gains could be obtained from altering scale via either internal growth or consolidation in the sector. In terms of productivity, the results show a positive change in both the sectors due to technological change, possibly as a result of adoption of latest technology and new business practices in post reform period. However, there is an evidence of shrink in the market and negative growth in productivity in both the sectors during the period of global financial crisis. The main contribution of the paper is to empirically provide the evidences to resolve the debate if the global financial crisis had any impact on the performance of banking sector in India.

**Gayathri (2014)** in her study entitled "An Assay on the Incitements of Non-Performing Assets with Allusion to Indian Overseas Bank" indicated that loans and advances are the most profitable of all the assets of the banks universally. These assets constitute primary source of income to banks. As business institutions, banks aim at making huge profits and are willing to lend loans and advances for a certain predetermined fixed period or maturity period. While lending loans advances the bank has to be careful about the safety of such loans. The borrowers must repay the loans by the maturity periods or expiry date but there is no certainty that all the loans are recovered by the maturity date. Loans that cannot be recovered even after its maturity remain as non performing assets of the bank. Indian Overseas Bank is one of the premium nationalized banks which has a major lag in financial performance due to its undying and ever increasing non- performing assets. This study aims to bring out the significant internal and external factors that have a major impact on the performance of the Bank and also to determine the trend of NPA's impacts on the profits of the Bank. The project was carried on at Indian Overseas Bank, Coimbatore Main.

**Sai and Sultana (2013)** in their study entitled "Financial Performance Analysis in Banking Sector - A Pre and Post Merger Perspective" evaluates the performance of the selected two banks based on the financial ratios from the perspective of pre and post merger. To analyze the impact of merger paired t-test was applied to the various financial ratios for before and after merger data. Based on the analysis of Indian overseas bank data, it can be concluded that Net profit margin, Operating profit margin, Return on capital employed, Return on equity and Debt- Equity ratio there is significant difference but no significant difference with respect to Gross profit margin. Based on the analysis of HDFC bank data it can be concluded that Net profit margin, Operating profit margin, Return on capital employed, Return on equity and Debt- Equity ratio there is no significant difference in these ratios before after merger. But significant difference with respect to Gross profit margin.

### **Research Methodology**

The study was based on secondary data. The data required for the study were collected from the official Directory of Bank. The research is based on Analytical design. The data collected for this study is collected for the Past ten years from the Balance sheet. The analysis was conducted through the Ms Excel ,SPSS version 17.0. The following tools have been used for the analysis of the financial performance of Indian Overseas Bank are Ratio Analysis, Trend Indices, Chi-Square, Descriptive statistics and Correlation.

### **Objectives of the Study**

1. To study the overall growth and financial performance of Indian Overseas Bank.
2. To identify the Profitability position of Indian Overseas Bank

3. To measure the Solvency position of Indian Overseas Bank
4. To evaluate the Liquidity position of Indian Overseas Bank
5. To suggest suitable measures to enhance the financial performance and efficiency of Indian overseas Bank.

**Data Analysis and Interpretation**

**Interest Earned**

Interest Earned includes interest and discount on all types of loans and advances like cash credit, demand loans, overdraft, export loans, term loans, overdue, interest and also interest subsidy. Income derived from the investment portfolio by way of interest and dividend. Interest on balances with RBI and other banks, any other interest. The trend of interest earned by IOB has been presented under the table.

**Table – 1 Trend of Interest Earned by Indian Overseas Bank**

Years	Trend of Interest Earned			
	Actual value (Rs. in Crores)	Indices	Trend value (yc)	Deviation
2007-08	5832.07	100	6149.2	-317.13
2008-09	7968.25	136.6281612	8305.7	-337.45
2009-10	9641.4	165.3169458	10462.2	-820.8
2010-11	10245.77	175.6798187	12618.6	-2372.83
2011-12	12101.47	207.4987097	14775.1	-2673.63
2012-13	17897.08	306.8735458	16931.5	965.58
2013-14	20676.72	354.5348393	19088	1588.72
2014-15	22683.73	388.9481779	21244.5	1439.23
2015-16	23938.33	410.4602654	25147.89538	-1209.565378
2016-17	23517.29	403.2408733	23785.75454	-268.4645431
Mean	16838.86			
SD	6233.522			
CV (%)	37.01866			
	<b>Yt = -320.161+2156.46*t</b>			
CGR (%)	<b>15.68%</b>			
Chi-Square Analysis	Calculated value	Table Value	D.F	S/NS
	<b>3787.5</b>	<b>16.919</b>	<b>9</b>	<b>S</b>

**Source:** Compiled from Annual Reports of the Bank

The above Table indicates the trend of Interest Earned by Indian Overseas Bank. The actual values of interest earned and its indices showed an increasing trend in all the years. The highest interest earned was incurred in the year 2015-2016 (25147.89538crores) and the lowest in the year 2007-2008 (6149.2crores). Negative

deviation was recorded from the year 2007-2008 to 2011-2012 and 2015-2017. It is also revealed that the Mean, SD and CV of Interest Earned were 16838.86, 6233.522 and 37.01866 per cent with the compound growth rate of 15.68 percentage. The significant difference between the actual values and the trend values of Interest Earned of the Indian Overseas Bank also analyzed by applying the statistical Chi-square test. The calculated value of (3787.5) is more than the table value (16.919) and it is significant at 1% level with 9 degrees of freedom, which implies that the difference between the actual values and trend values of interest earned are significant in Indian Overseas Bank.

### Operating Expenses

Operating Expenses are staff salaries/wages, allowances, bonus, provident fund, pension, gratuity, staff welfare, medical allowance to staff. Rent, taxes, electricity, advertisement, depreciation, legal expenses, insurance charges, printing and stationery, etc. The trend of Operating Expenses of IOB are presented under the table.

**Table 2 Trend of Operating Expenses of Indian Overseas Bank**

Years	Trend of Operating Expenses			
	Actual Value		Trend value	
2007-08	1604.61	110.39	1864.77	-260.16
2008-09	1610.73	110.82	2207.4	-596.67
2009-10	2307.2	158.73	2550.03	-242.83
2010-11	3385.96	232.95	2892.66	493.3
2011-12	3606.12	248.10	3235.29	370.83
2012-13	4633.23	318.77	3577.93	1055.3
2013-14	3407.84	234.46	3920.56	-512.72
2014-15	3748.92	257.93	4263.19	-514.27
2015-16	1,438.62	89.65543029	1311.295304	127.32
2016-17	1,401.67	87.35269006	1351.901214	49.77
Mean	<b>2504.48</b>			
SD	<b>338.130088</b>			
CV (%)	<b>13.50</b>			
Trend Equation	<b><math>Y_t = 836.872 + 342.632 * t</math></b> Where origin of x is 2005-06 X represents years, Y= Rupees in crores			
CGR (%)	<b>8.22 %</b>			
Chi-Square Analysis	Calculated value	Table Value	D.F	S/NS
	<b>854.24</b>	<b>16.919</b>	<b>9</b>	<b>S</b>

Source: Compiled from Annual Reports of the Bank

The above Table brings forth that the trend of operating expenses of Indian Overseas Bank. The actual values of operating expenses and its indices also mounting up almost the years except 2015-2016 and 2016-2017. The highest operating expenses were incurred in the year 2014-2015(4263.19crores) and the lowest in the year 20015-20016 (1311.295304crores). Negative Deviation was recorded from year 2007-2008 to 2009-2010 and 2013-2014 to 2014-2015. It is also revealed that the Mean, SD and CV of operating expenses were 2504.48, 338.130088 and 13.50 per cent with the compound growth rate of 8.22 percentage. The significant difference between the actual values and the trend values of operating expenses of Indian Overseas Bank also examined by applying the statistical Chi-square ( 2) test. The calculated value of 2 (854.24) is more than the table value (16.919) and it is significant at 1% level with 9 degrees of freedom, which implies that the difference between the actual values and the trend values of operating expenses are significant in Indian Overseas Bank.

**Descriptive Statistics**

The Profitability analysis of Indian Overseas Bank was examined by employing different variables to determine the profitability position and the results are presented in the table 3

**Table 3 Descriptive Statistics Profitability Analysis of Indian Overseas Bank**

Ratios	Range	Minimum	Maximum	Mean	SD	Variance	Skewness	Kurtosis
NPTF	1.20	.23	1.43	.8970	.49160	.242	-.222	-1.912
INTS	2.31	3.81	6.12	4.6360	.83252	.693	1.125	.161
CRTD	26.04	53.08	79.12	71.1360	7.99940	63.990	-1.397	2.010
NITT	.72	.13	.85	.3270	.27693	.077	1.658	1.162
OPET	1.49	1.39	2.88	2.1260	.50654	.257	-.230	-1.019
PBPT	1.23	.84	2.07	1.5690	.43155	.186	-.759	-.882
OTIN	7.26	1.47	8.73	3.4480	2.81971	7.951	1.653	1.152
TATO	.02	.08	.10	.0910	.00568	.000	.091	1.498
INTF	1.39	8.46	9.85	9.0040	.45451	.207	.690	-.260
INIE	22.37	53.04	75.41	65.5120	8.54270	72.978	-.569	-1.278
INEX	2.40	4.26	6.66	5.5580	.93591	.876	-.288	-1.559

**Source:** Computed from Annual Reports of the Bank

**NPTF (Y1) = Net Profit / Total Funds INTS (X1) = Interest Spread CRTD(X2) = Credit Deposit Ratio**

**NITT (X3) = Non-Interest Income/Total Funds OPET (X4) = Operating Expenses/Total Funds PBPT (X5) = Profit before Provisions/Total Funds OTIN (X6) = Other Income/Total Income**

**TATO (X7) = Total Assets Turnover Ratio**

**INTF (X8) = Interest Income/Total Funds**

**INIE (X9) = Interest Expended/Interest Earned**

**INEX (X10) = Interest Expended/Capital Employed**

It is divulged from the table that the Profitability analysis of Indian Overseas Bank highlighted its Net Profit to Total Funds gained from .23 to 1.43 with an average of .8970. The standard deviation of the Bank was .49160 and the variance showed .242. And the skewness showed negatively.

Interest Spread of Indian Overseas Bank ranged from 3.81 to 6.12 with an average of 4.6360. The standard deviation of the Bank was .83252 and the variance showed .693. Further, the skewness of the Bank was identified as positive.

Credit Deposit Ratio of Indian Overseas Bank ranged from 53.08 to 79.12 with an average of 71.1360. The standard deviation of the Bank was 7.99940 and the variance showed 63.990. Further, it is noted that the skewness highlighted negatively.

Non-Interest Income to Total Funds of Indian Overseas Bank ranged from .13 to .85 with an average of .3270. The standard deviation of the Bank was .27693 and the variance showed .077. Further, it is noted that the skewness was identified as positive. Operating Expenses to Total Funds of Indian Overseas Bank ranged from 1.39 to 2.88 with an average of 2.1260. The standard deviation of the Bank was .50654 and the variance showed .257. Further, the skewness of the Bank was showed as negative. Profit before Provisions to Total Funds of Indian Overseas Bank ranged from .84 to 2.07 with an average of 1.5690. The standard deviation of the Bank was .43155 and the variance showed .186. Further, it is noted that the skewness showed negatively.

Other Income to Total Income of Indian Overseas Bank ranges from 1.47 to 8.73 with an average of 3.4480. The standard deviation of the Bank was 2.81971 and the variance showed 7.951. Further, the skewness of the Bank was highlighted as positive. Total Assets Turnover Ratio of Indian Overseas Bank ranges from .08 to .10 with an average of .0910. The standard deviation of the Bank was .00568 and the variance showed .000. Further, it is noted that the skewness highlighted positively.

Interest Income to Total Funds of Indian Overseas Bank ranges from 8.46 to 9.85 with an average of 9.0040. The standard deviation of the Bank was .45451 and the variance showed .207. Further, the skewness of the Bank was showed as positive. Interest Expended to Interest Earned of Indian Overseas Bank ranges from 53.04 to 75.41 with an average of 65.5120. The standard deviation of the Bank was 8.54270 and the variance showed 72.978. Further, it is noted that the skewness showed negatively. Interest Expended to Capital Employed of Indian Overseas Bank ranges from 4.26 to 6.66 with an average of 5.5580. The standard deviation of the Bank was 0.93591 and the variance showed .876. Further, the skewness of the Bank was highlighted as negative.

**Pearson Correlation**

**Table 4 Inter Correlation Co-Efficient Matrix – Profitability analysis of Indian Overseas Bank**

	NPTF (Y1)	INTS (X1)	CRTD (X2)	NITT (X3)	OPET (X4)	PBPT (X5)	OTIN (X6)	TATO (X7)	INTF (X8)	INIE (X9)	INEX (X10)
NPTF(Y1)	1										
INTS(X1)	-0.596	1									
CRTD(X2)	-.757*	0.368	1								
NITT(X3)	-.700*	.903**	0.568	1							
OPET(X4)	0.472	-.656*	-.694*	-.844**	1						
PBPT(X5)	.648*	0.114	-0.562	0.047	-0.131	1					
OTIN(X6)	-.697*	.903**	0.565	.999**	-.844**	0.048	1				
TATO(X7)	0.053	-0.072	0.14	-0.069	-0.053	0.037	-0.098	1			
INTF(X8)	0.007	-0.159	0.088	-0.154	0.027	-0.019	-0.187	.851**	1		
INIE(X9)	-.828**	0.493	.892**	.653*	-.698*	-0.488	.640*	0.263	0.346	1	
INEX(X10)	-.774**	0.506	.861**	.673*	-.734*	-0.391	.657*	0.402	0.431	.979**	1

\*. Correlation is significant at the 0.05 level (2-tailed).

\*\*. Correlation is significant at the 0.01 level (2-tailed).

**NPTF (Y1) = Net Profit / Total Funds INTS (X1) = Interest Spread CRTD(X2) = Credit Deposit Ratio**

**NITT (X3) = Non-Interest Income / Total Funds OPET (X4) = Operating Expenses / Total Funds PBPT (X5) = Profit Before Provisions / Total Funds OTIN (X6) = Other Income / Total Income**

**TATO (X7) = Total Assets Turnover Ratio**

**INTF (X8) = Interest Income/Total Funds**

**INIE (X9) = Interest Expended/Interest Earned**

**INEX (X10) = Interest Expended/Capital Employed**

Table 4 reveals that the profitability analysis of Indian Overseas Bank. It is understood from the table that there is significant negative correlation between Y1 (Net Profit/Total Funds) and X2 and X3 and X6 at 5% level and X9 and X10 at 1% level and X5 is positively correlated at 5% level. There exists a significant and close relationship between X1 (Interest Spread) and X3 and X6 is positively correlated at 1% level and X4 is negatively correlated at 5% level. There exists a negative correlation between X2 (Credit Deposit Ratio) and X4 at 5% level and X9 and X10 is positively correlated at 1% level. There is a significant positive correlation between X3 (Non- Interest Income/Total Funds) and X9 and X10 at 5% level and X6 at 1% level and X4 is negatively correlated at 1% level. A close observation of the table reveals that there is a negative correlation X4 (Operating Expenses/Total Funds) and X6 at 1% level and X9 and X10 at 5% level. There is a significant positive correlation between X6 (Other Income/Total Income) and X9 and X10 at 5% level. There is a close and positive correlation between X7 (Total Assets Turnover Ratio) and X8 at 1% level. There exists a close and significant relationship between X9 (Interest Expended/Interest Earned) and X10 is positively correlated at 1% level.

### Managerial Implication and Conclusion

While analyzing the trends of interest earned the actual values and the indices of interest earned showed an increasing trend in all the years. The highest interest earned was incurred in the year 2015-2016 (25147.89 crores) and the lowest in the year 2007-2008 (6149.2 crores). Negative deviation was recorded from the year 2007-2008 to 2011-2012 and 2015 -2017. It is identified that the actual values of operating expenses and its indices also mounting up almost the years except 2013-2014 and 2014-2015. The highest operating expenses were incurred in the year 2014-2015 (4263.19 crores) and the lowest in the year 2015-2016 (1311.295 crores). Negative Deviation was recorded from the year 2007-2008 to 2009-2010 and 2013-2014 to 2014-2015.

Vital ratios such as Cash- Deposit, Credit-Deposit and Investment Deposit should be kept at the optimum level to avoid any decrease in profit. Hence, it is suggested that the bank should take special attention to improve as a strong variable for increasing their financial efficiency. More resources / funds to be deployed in high yielding advances to maximize interest income to total assets.

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