



## TREND ANALYSIS WITH REFERENCE TO COMMERCIAL BANKS IN INDIA

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**Article History:** Received: 09.05.2023

Revised: 14.06.2023

Accepted: 24.07.2023

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### Abstract

Bank is essential to the growth of the Indian economy. In developing nations, a strong and effective banking system provides the economy with the essential financial inputs. The act of evaluating and analyzing a company's financial statements in order to make wiser financial decisions that would increase future revenue is known as financial statement analysis. Analyzing financial statements can reveal whether a company is making profits or losses. Financial statement analysis helps in identifying the trend of the business. One crucial technique for deciphering and analyzing financial information is trend analysis. The present study focused in identifying the trend of commercial banks in India. In this study it is concluded that the performance of commercial banks is in increasing trend. It is also found that the financial position of commercial banks is good as reserves and surplus, deposits and investments are increasing year by year and borrowings are decreased in the last two year which indicates proper repayment is done to the borrowers within the time period by collecting NPAs during the period 2017-18 to 2021-2022.

**Keywords:** Performance, Trend, Commercial Banks, Financial Statements.

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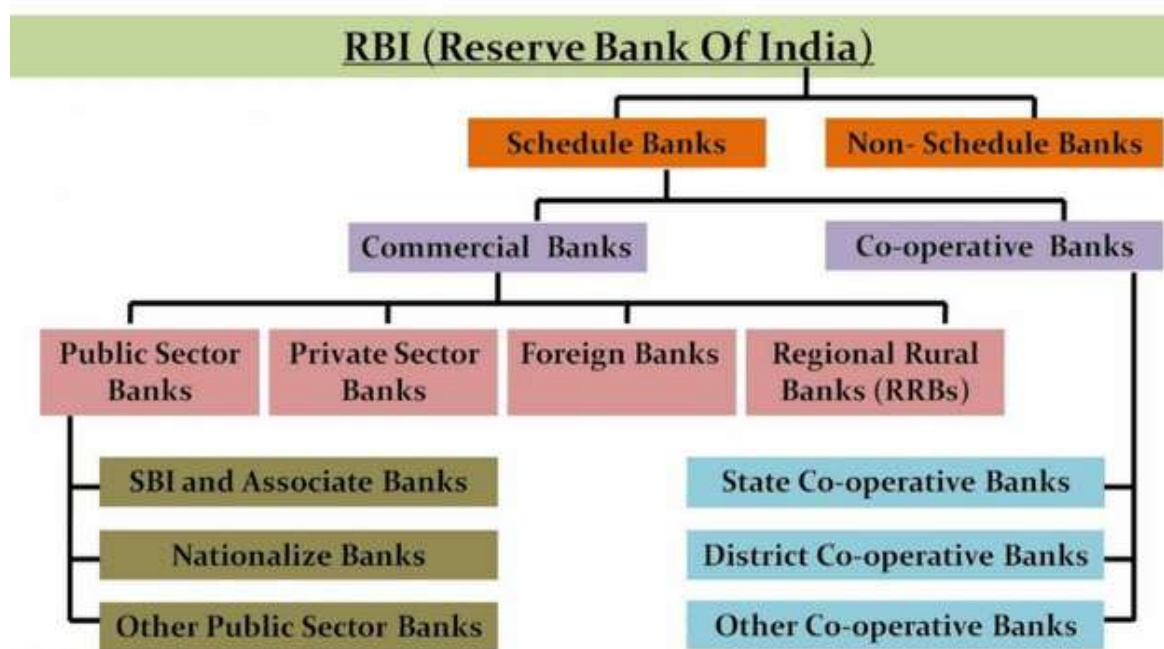
**DOI: 10.31838/ecb/2023.12.6.289**

## 1. Introduction

Banking sector is the back bone of every country. People's savings are mobilized by banks, where they are then directed toward investments and improved resource usage. Banks are one of the important financial pillars in the financial system. In India which is a developing economy the role of banks is more formative and purposeful. The banks play a crucial role in acting as a bridge between those who lack of money and those who have. Banks provide the financial inputs for the production of goods and services. Banks act as a catalyst for the economic growth of the country. The oldest, largest, and fastest-growing financial intermediaries in India are commercial banks. They also hold the largest amount of public savings and serve as the main loan providers. A bank is a type of financial institution that offers its clients banking and other financial services. Generally speaking, a bank is a business that offers basic banking services like receiving deposits and disbursing loans. According to Crowther, a bank is defined as "one that collects money from those who have to spare or who are saving it out of their income and lends the money so collected to those who require it." According to Section 5(1) (b), "Banking means accepting for the purpose of lending or investment of deposits of money from the public, repayable on demand or

otherwise and withdrawal by cheque, draft, order or otherwise." Before the establishment of banks, the financial activities were handled by money lenders and individuals. Interest rates were relatively high at that time. Once more, there was no uniformity in the treatment of loans or security for public savings. The government fully regulated the newly formed organized banking sector, which was created to deal with these problems. In order to offer loans, take deposits, and provide other services to their clients, the organized sector collaborates with the financial system. A sound banking system is essential for the future growth of any economy. In India, among the banking institutions in the organized sector, the commercial banks are the oldest institutions having a wide network of branches, commanding utmost public confidence and having the lion's share in the total banking operations. The banking sector has been growing rapidly in India not only in the terms of its size but also in terms of the services being provided. Banks are also reaching the remote areas in the country that provides financial assistance to the farmers in the form of loans. The number of banks has also increased in the private sector. The job of HR in banking sector is to develop strategies that help banks in gaining competitive advantage and encourage innovation in its products and services.

### Structure of Indian banking industry



### Financial statement:

A financial statement is a systematic collection of data that is used to disclose financial information based on accounting standards and conventions.

Typically, financial statements are divided into two categories.:

1. Income statement
2. Balance sheet

According to the American Institute of Certified Public Accountants “financial statement reflects a combination of recorded facts, accounting conventions and personal judgments and conventions applied which affect them materially.” It is therefore, nature and exactness of the data included in the financial statements which are influenced by the following factors:

- Recorded facts
- Generally accepted accounting principles
- Personal judgments
- Accounting conventions

#### **Objectives of financial statements:**

- To provide enough information about the source of finance and obligations of the finance firm.
- To furnish reliable information about the financial performance and financial soundness of the concern.
- To provide enough information about results of operations of business over a period of time.
- To produce useful information about the financial conditions of the business and movement of resources in and out of business.
- To provide necessary information to enable the users to assess the earning performance or resources or managerial performance in predicting the earning potentials of business.

#### **Financial statement analysis**

The act of evaluating and analyzing a company's financial statements in order to make wiser financial decisions that would increase future revenue is known as financial statement analysis.

According to Metcalf and Tigar financial statement analysis is defined as “a process of evaluating the relationship between component parts of a financial statement to obtain a better understanding of a firm’s position and performance.”

The analysis and interpretation of financial statement can be classified into two categories depending upon

1. The Materials used
2. Modus Operandi

#### **Based on the material used:**

Based on the materials used the financial statements may be classified into

- a. External analysis: This analysis meant for the outsiders of the firm. The term "outsiders" might refer to owners, creditors, suppliers, government organizations, and more. These external individuals must base their decisions solely on these published financial statements. Due to the lack of specific information, this analysis only serves a few purposes.
- b. Internal analysis: Internal analysis is carried out by individuals who are already a part of the

organization. These internal personnel are the ones who have access to the company's books of accounts and other pertinent data. Such analysis can be performed to aid managerial staff in taking the essential actions and wise decisions.

#### **Based on Modus Operandi:**

Based on Modus Operandi the financial statements may be classified into

- a. Vertical analysis: Vertical analysis is also known as static analysis. In this analysis, a number of ratios are used for measuring the meaningful quantitative relationship between the items of financial statements during the particular period. This analysis is beneficial in comparing the performance, efficiency and profitability of various companies in the same group or divisions in the same company.
- b. Horizontal analysis: It is also known as Dynamic analysis. This analysis helps in comparing the trend of each item in the financial statements over the number of years are reviewed or analyzed. This type of comparison helps in identifying the trend in various indicators of performance. In this type of analysis current year data is compared with base year figures which are presented horizontally over a number of columns.

#### **Advantages of financial statement analysis:**

- Helps in measuring the profitability: Financial statement analysis aids in determining if a company is making a profit or a loss. It aids in determining shifts in the company's profits or losses. Understanding a company's capacity to pay dividends to its shareholders as well as interest on borrowed money is helpful.
- Helps in measure financial strength: It is useful in determining the overall financial health of the company. It aids in decision-making regarding the money available for the purchase of assets, the settlement of liabilities, etc. Knowing whether internal resources are adequate or whether a loan is necessary is also helpful.
- Helps to know the efficiency of management: Financial statement analysis help to know the efficiency of management in running the business. It also helps to know the changes required in financial policies followed by management.
- Helps in identifying the trend of business: Financial statement analysis help in identifying the trend of the business by comparing various types of data such as net profit, sales, purchases, etc. for two or more years. It also helps to know the progress of the business.

#### **Limitations of financial statement analysis:**

- The financial statement provides historical data, or information from the past.
- The information presented by these financial statements is of a quantitative character and does not predict the future. It doesn't take into account the qualitative factors like labor conditions and working circumstances.
- The decisions of financial statements and its conclusions are based on personal opinion. The reliability of financial statements depends upon the ability, honesty and experience of an accountant.
- Financial statement analysis is a tool and not a solution. It does not provide any solution to overcome the problems of business.

#### Tools of financial statement analysis:

The following are the various tools and techniques used to analyze the financial statements:

- Comparative Statement
- Common Size Statements
- Trend Analysis
- Fund Flow Analysis
- Cash Flow Analysis
- Ratio Analysis

#### Trend analysis:

Trend analysis is one of the important tools in analyzing and interpreting financial statements. While applying this method it is necessary to select a period for a number of years in order to ascertain the percentage relationship of various items in the financial statements comparing with the items in base year. The related items in the base year are taken as hundred and based on this trend percentage of corresponding figures of financial statements in the other years or concluded. This analysis is useful in framing suitable policies and forecasting in future also.

Accountants can determine the growth rate, trend line, and trend ratio of numerous financial variables, such as revenue, expenses, assets, liabilities, and equity, by comparing historical data from various time periods. These measures can assist accountants in evaluating a company's profitability, efficiency, liquidity, solvency, and stability and in comparing it to its rivals, industry standards or objectives.

#### Review of Literature:

**K. Suresh and Subhendu Kumar Pradhan (2023)** evaluated the commercial banks' performance in their study "Evaluation of financial performance of banking sector in India- a CAMEL approach". The study examined the efficiency of the banks through various financial parameters such as liquidity, stability and profitability. Total eighteen ratios were computed in this paper. The study found that PSBs showed better performance than PSUBs.

**Sunaina Dubey and Yogesh Puri (2021)** examined and contrasted the total financial performance of India's PSUB and PSB. They found that Kotak Mahindra Bank outperformed all other banks and took the top spot, while Punjab National Bank came in last. The top five positions are held by PSB.

**Ravi kumar Jain, Bhimaraya Metri and K.P.Venugopala Rao (2019)** in their study "Determinants of profitability of Indian commercial banks" evaluated the influence of factors influencing the performance of commercial banks. The data for this study was gathered between 2010 and 2016. Both macroeconomic and bank-specific factors were taken into account in this analysis. Return on Equity, Capital Adequacy, Asset Quality, Management Efficiency, Earnings Quality, and Liquidity are characteristics that comprise bank-specific factors. Gross Domestic Product, Industrial Production, and Inflation are taken into account under macroeconomic considerations. The study's findings indicated that private sector banks outperformed public sector banks in terms of bank-specific metrics such non-performing assets (NPAs), profit per employee, operating profit to total assets, and capital adequacy ratio, which were all negligible. The macroeconomic indicators, such as the GDP, IIP, and WP.

**Dr.Shradha H.Budhedeo (2018)** published a paper titled "Performance analysis of commercial bank groups in India" in which they made an effort to analyze the performance of commercial banks. In the current study, the author looked at the productivity, profitability, and liquidity of commercial banks to determine how they performed. To gauge performance, various ratios were computed. Based on productivity, the survey concluded that international banks are leading the sector. Both the private sector and international banks displayed remarkable success in terms of profitability. The ratio of liquid assets to total assets and deposits is still high for foreign banks.

## 2. Research Methodology

#### Objectives of the study

- To identify the trend of commercial banks in India during the period 2017-18 to 2021-2022.
- To determine the growth of commercial banks

#### Period of the Study:

The study covers a period of five years i.e from 2017-18 to 2021-2022.

**Methodology of the study:** The study is totally based on secondary data. The data were collected from secondary sources- website of Reserve Bank of India and finance journals etc. In this study the trend of commercial banks is identified with the help of trend analysis.

**Analysis of the Study:**The trend of commercial banks in India is identified and analyzed with the help of trend analysis as follows:

Table-1 – Trend analysis of Commercial Banks during the period 2017-18 to 2021-22

PARTICULARS	2017-2018	2018-2019	2019-2020	2020-2021	2021-2022
<b>LIABILITIES</b>					
CAPITAL	100	132.99	164.31	161.99	184.66
RESERVES AND SURPLUS	100	108.97	118.75	138.49	156.51
		<b>241.96</b>	<b>283.06</b>	<b>300.48</b>	<b>341.17</b>
DEPOSITS	100	109.27	118.5	132.2	145.7
BORROWINGS	100	101.63	100.83	87.68	98.87
		<b>694.82</b>	<b>785.45</b>	<b>820.84</b>	<b>926.91</b>
OTHER LIABILITIES AND PROVISIONS	100	115.54	149.32	145.11	157.4
TOTAL LIABILITIES	100	108.83	118.09	128.45	142.04
<b>ASSETS</b>					
INVESTMENTS	100	104.71	113.66	131.27	140.06
FIXED ASSETS	100	105.12	106.28	107.77	113.89
		<b>209.83</b>	<b>219.94</b>	<b>239.04</b>	<b>253.95</b>
CASH AND BALANCES WITH RBI	100	95.66	105.37	129.74	160.16
BALANCES WITH BANKS AND MONEY AT CALL AND SHORT NOTICE	100	111.55	131.77	165.03	186.19
LOANS AND ADVANCES	100	111.03	117.79	123.72	139.59
OTHER ASSETS	100	119.42	143.99	138.91	135.63
		<b>437.66</b>	<b>498.92</b>	<b>557.4</b>	<b>621.57</b>
TOTAL ASSETS	100	108.83	118.09	128.45	142.04

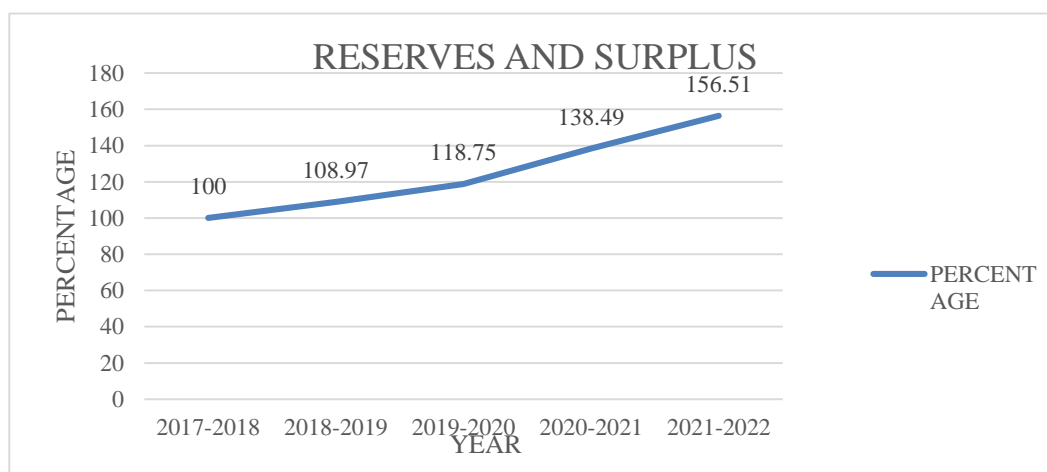


Figure-1 – Trend analysis of Reserves and Surplus during the period

2017-18 to 2021-22

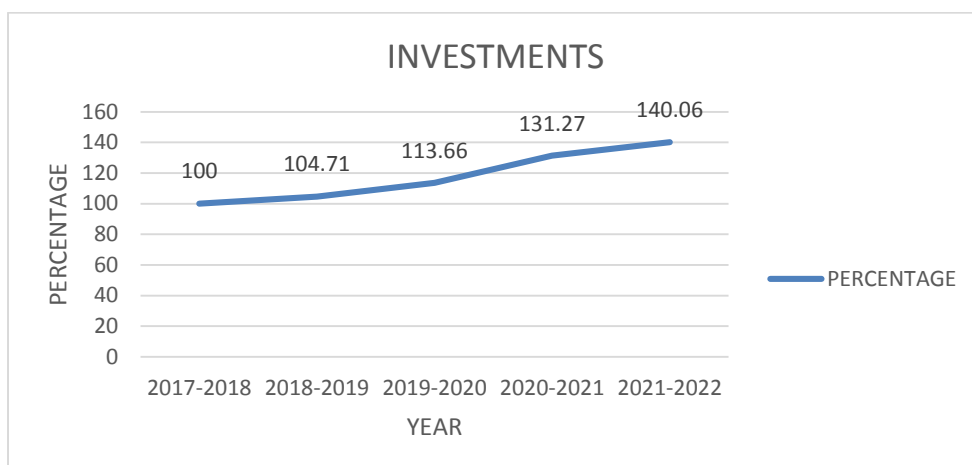


Figure -2 – Trend analysis of Investments during the period 2017-18 to 2021-22

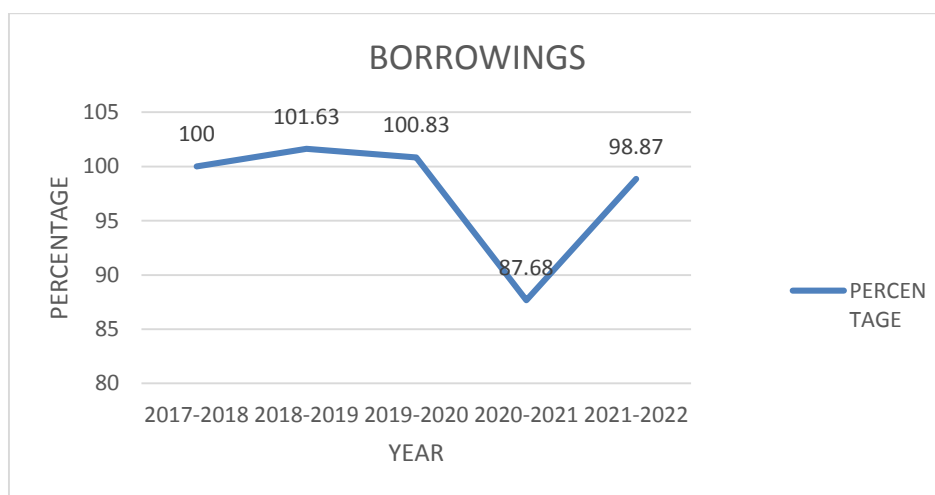


Figure -3 – Trend analysis of Borrowings during the period 2017-18 to 2021-22

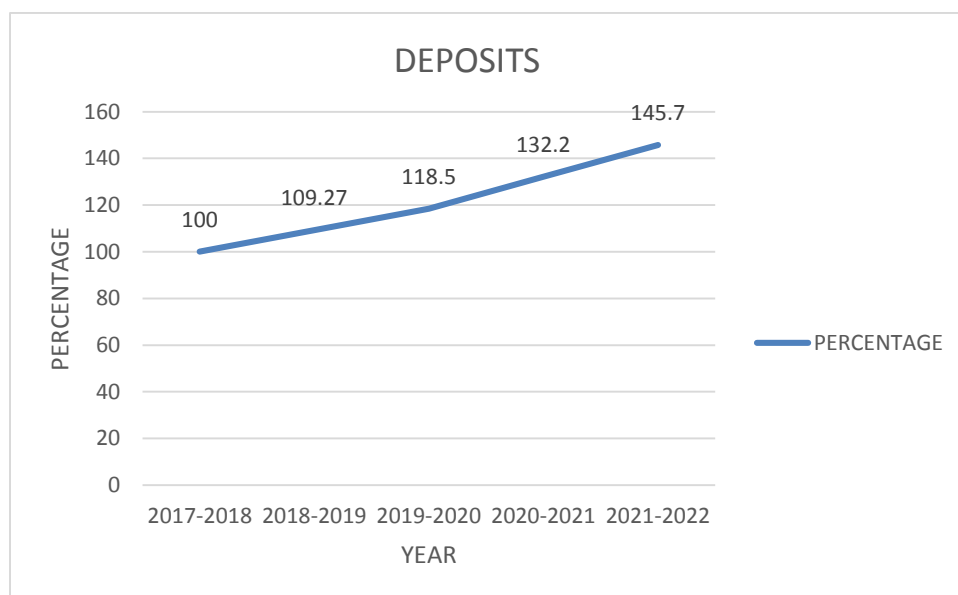


Figure -4 – Trend analysis of Deposits during the period 2017-18 to 2021-22

### 3. Conclusion

- Reserves and surplus of commercial banks is also in increasing trend during the period 2017-2022. They are not diversified.
  - Deposits and investments are increased in the same trend year by year.
  - Borrowings decreased in the last two years it indicates that proper repayment is done to the borrowers within the time period by collecting NPAs.
  - Commercial banks performed well in the pandemic period also.
- From the above analysis it is concluded that the financial performance of commercial banks good during the period 2017-18 to 2021-2022.

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