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Parineeta Deshpande

Ambarish Khare

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COMPRATIVE STUDY TO CHOSE BETTER OPTION FOR INVESTMENT BETWEEN HDFC BANK, ICICI BANK AND KOTAK MAHINDRA BANK

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Abstract

The banking industry helps or we can say gives fuel for the growth of various sectors by providing M Vitamin, i.e. financial assistance. Their fore its contribution of the Indian Banking sector in the economic development of the country is much more and significant. But over the past few years, the banking sector is also facing variouš challenges in the form of deteriorating asset quality, corporate governance issues and economic slowdown, in addition to the pandemic over the last few years. Performance of the banks directly impact because to these factors which are required to be measured.

An attempt has been made to study the performance of the banks on the basis of various parameters like ROCE %, Net profit margin, Gross NPA, Net NPA, Basic EPS, CASA Ratio, etc. A comparative study of ICICI Bank, Kotak Mahindra Bank and HDFC Bank has been done by applying the various parameters. It shows results that HDFC Bank has outperformed on the specification of 1) Management, 2) Capital Adequacy, and 3) Asset Quality.

Introduction

The development of any economy depends on the development of the financial sector of the economy. The banking sector or we can say industry helps and forms an important part of the financial system by providing financial aid or assistance to various sectors of the economy. This includes household sectors, corporate sector and agriculture. Actually, the banking sector's performance is seen as a replica of the Indian economic activities of the nation as healthy banking system acts as the solid economic growth of the nation. For the economic development of the country Indian Banking sector/Industry has contributed significantly.

Banks in India are segregated into different groups such as Scheduled Banks, Unscheduled Banks, Commercial Banks, Public Sector Banks, Private Banks, Foreign Banks and Co-operative Banks. In india, indian banks and foreign banks those are operated into India are regulated by the Reserve Bank of India (RBI). The Banking sector/industry is a remarkable contributor to the GDP, works under a regulated environment and has government support. The Indian Banking Industry has also gone through various developments in the recent past. For long, the competition in the banking industry has been limited largely due to the fact that the competition largely came from a small number of similar entities with the Reserve Bank of India ensuring that only the institutions meeting stringent requirements are provided with the licenses ensuring the least number of banks entered the market to compete with them.

But as it happens in any business, technological innovation and the regulator's delay in waking up to developments have allowed a new set of companies to play the role of financial intermediaries with a different name (The Economic Times).

Despite of all these challenges there are various growth triggers ahead that present huge opportunities for the banking sector. This includes, internet and mobile banking supported by the increased internet penetration, lower penetration level of banking services among Indians, increased savings and investments along with financialization of savings etc.

Analysis of the financial performance of the public and private sector banks will help us in identifying those pockets in the banking sector that have strong financials and are well placed to grow once the difficult times are behind us and make a good investment bet in the current environment.

Objectives of the study

To study the financial performance of the ICICI Bank, Kotak Mahindra Bank and HDFC Bank with respect to various parameters like like ROC %, Net profit margin, Gross NPA, Net NPA, Basic EPS, CASA Ratio, etc.

- 1) To examine whether there is significant difference in the performance of ICICI Bank, Kotak Mahindra Bank and HDFC Bank

Primary and secondary data

The present study is based on the primary as well as on secondary data. The secondary data is collected from Websites, Annual Reports of the banks, Newspaper Articles and Magazines and primary data is collected on questionnaire.

Data analysis

Roce %

Return on capital employed is a financial ratio.

It measures a company's profitability i.e. income earning capacity in terms of all of its capital. A more or high Return on capital employed (ROCE) value indicates that a larger profits can be invested back into the company for the benefit of shareholders.

Thus, this implies that HDFC bank has a higher ROCE %. Followed by KOTAK bank and last rank is ICICI bank.

Table 1 – ROCE %

YEAR	Mar-22	Mar-21	Mar-20	Mar-19	Mar-18	Average	Rank
ICICI	2.58	2.86	2.6	2.39	3.1	2.71	3
KOTAK	3.25	3.62	3.29	3.08	3.15	3.28	2
HDFC	3.38	3.57	3.43	3.45	3.32	3.43	1

Gross npa

YEAR	Mar-22	Mar-21	Mar-20	Mar-19	Mar-18	Average	Rank
ICICI	3.6	4.96	5.53	6.7	8.84	5.926	3
KOTAK	2.34	3.25	2.25	2.14	2.22	2.44	2
HDFC	1.17	1.32	1.26	1.36	1.3	1.282	1

NPA expands to non-performing assets (NPA).

Reserve Bank of India has defines NPA as under for any advance or loan that is overdue or pending for more than 90 days. "An asset becomes non-performing when it ceases to generate income for the bank," said RBI in a circular form 2007. To be more attuned to international practices, RBI implemented the 90 days overdue norm for identifying NPAs has been made applicable from the year ended March 31, 2004. It also depends on how long the assets have been an NPA, there are different types of non-performing assets as well.

A very high gross NPA ratio means the bank's asset quality is in very poor shape. We can see ICICI Bank Gross NPA is poor compare to Kotak Mahindra and HDFC Bank. That means ICICI Bank loans overdue is more than Kotak Mahindra and HDFC Bank. HDFC Bank doing very well in this manner. Thus, this implies that HDFC bank has a lower Gross NPA%. Followed by KOTAK bank and last one is ICICI bank.

YEAR	Mar-22	Mar-21	Mar-20	Mar-19	Mar-18	Average	Rank
ICICI	0.76	1.14	1.41	2.06	4.77	2.028	3
KOTAK	0.64	1.21	0.71	0.75	0.98	0.858	2
HDFC	0.32	0.4	0.36	0.39	0.4	0.374	1

Gross NPA shows the total of all loan assets that haven't been repaid by the borrowers within the 90-day period. Net NPA shows the amount remaining after deducting the doubtful and unpaid debts from the Gross NPA.

Net NPA is a better indicator of the health of the bank. Thus, this implies that ICICI bank has a higher Net NPA %. Which shows funds are not properly loaned. It will affect profitability of the bank. HDFC Bank here does very good work.

Return on Assets (%)

YEAR	Mar-22	Mar-21	Mar-20	Mar-19	Mar-18	Average	Rank
ICICI	1.43	1.16	0.69	0.34	0.68	0.86	3
KOTAK	2.21	2.08	1.93	1.82	1.83	1.97	1
HDFC	1.79	1.76	1.72	1.72	1.67	1.73	2

The term return on assets (ROA) refers to a financial ratio that indicates how profitable a company is in relation to its total assets. A lower ROA means that bank is not able to utilize assets efficiently. Negative ROA implies the bank's assets are yielding negative return.

Thus, this implies that Kotak Mahindra Bank has a higher ROA %. Followed by HDFC bank and last rank is ICICI bank.

Casa ratio

YEAR	Mar-22	Mar-21	Mar-20	Mar-19	Mar-18	Average	Rank
ICICI	48.6	46.16	44.83	48.77	51.32	47.94	2
KOTAK	60.62	60.47	56.35	52.46	50.84	56.15	1
HDFC	48.13	46.07	42.18	42.35	43.48	44.44	3

CASA ratio stands for current and savings account ratio. CASA ratio of a bank is the ratio of deposits in current and saving accounts to total deposits. A low CASA ratio means the bank relies heavily on costlier wholesale funding, which can hurt its margins.

Thus, this implies that KOTAK bank has a higher CASA %. Followed by ICICI bank and last rank is HDFC bank.

Net profit margin

YEAR	Mar-22	Mar-21	Mar-20	Mar-19	Mar-18	Average	Rank
ICICI	27.02	22.67	13.23	7.9	14.63	17.09	3
KOTAK	35.36	30.17	25.71	23.78	24.46	27.90	1
HDFC	28.06	24.78	22.33	21.34	21.76	23.65	2

The net profit margin, or simply net margin, measures how much net income or profit is generated as a percentage of revenue. It is the ratio of net profits to revenues for a bank. A high net profit margin means that a bank is able to effectively control its costs. Therefore, a high ratio can result from: Efficient management.

Thus, this implies that Kotak bank has a higher Net Profit Margin Followed by HDFC bank and last rank is ICICI bank

Basic eps

YEAR	Mar-22	Mar-21	Mar-20	Mar-19	Mar-18	Average	Rank
ICICI	36.21	27.26	14.81	6.61	12.02	19.38	3
KOTAK	60.76	50.53	44.73	37.78	32.7	45.30	2
HDFC	68.77	57.88	49.84	83.33	71.73	66.31	1

Earnings per share or EPS is an important financial measure, which indicates the profitability of a company. It is calculated by dividing the company's net income with its total number of outstanding shares. The result is assigned a rating of 1 to 99, with 99 being best.

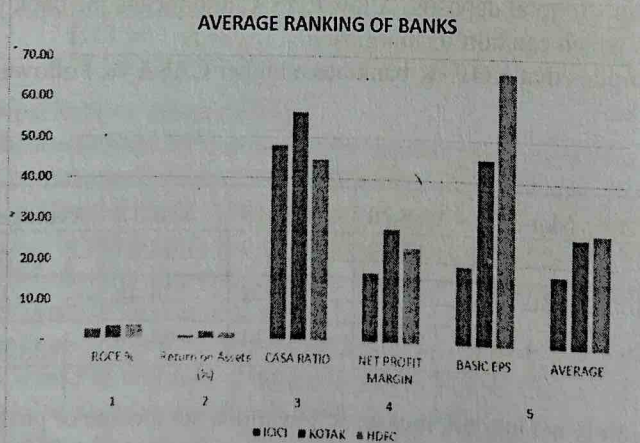
Thus, this implies that HDFC bank has a higher Basic EPS Followed by KOTAK bank and last rank is ICICI bank.

Conclusions

On the basis of the various ratios calculated for both the banks, overall ranks are given. The overall ranking is done for each parameter namely- ROCE %, Eet profit margin,ROA, Gross NPA, Net NPA, Basic EPS, CASA Ratio. The following table presents the ranking of banks parameters.

Average ranking of banks

SR NO.	PARAMETERS	ICICI	KOTAK	HDFC
1	ROCE %	2.71	3.28	3.43
2	Return on Assets (%)	0.86	1.97	1.73
3	CASA RATIO	47.94	56.15	44.44
4	NET PROFIT MARGIN	17.09	27.90	23.65
5	BASIC EPS	19.38	45.30	66.31
	AVERAGE	17.59	26.92	27.91



HDFC bank has performed better than the ICICI Bank and Kotak Bank. The overall ranking of HDFC bank is 27.91 while that of Kotak Bank is 26.92 and ICICI Bank is 17.59. Hence it can be concluded that HDFC has outperformed on parameters.

Limitations

- a. The present research is limited to only three banks and the data of only five years is considered which may or may not give correct trend of the results.
- b. Financial analysis is mainly done to compare the growth, profitability and financial soundness of respective banks by recognizing the information available from the secondary sources. Hence the results of the study may be affected by the reliability and accuracy of data sources.
- c. The research consists of only the quantitative performance and not the qualitative performance of selected banks such as corporate governance, exposure to various high-risk projects, competitive advantage etc.

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