



A STUDY ON RATIO ANALYSIS IN INDIAN OVERSEAS BANK

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ABSTRACT

Financial ratios are an important technique of the financial analysis of a business organization. Effective financial management is the key to running a financially successful business. Ratio analysis is critical for helping you understand financial statements, for identifying trends over time, and for measuring the overall financial health of your business. Lenders and potential investors often rely on ratio analysis for making lending and investing decisions. This book aims to not only develop an understanding of the concepts of financial ratios but also to provide the students a practical insight into the application of financial ratios for decision making and control. It analyzes the financial statements of corporate enterprises.

Introduction

Financial is board term that describe activities associate with banking, leverage, credit a system of money, capital market, investment and financial instruments. Finance defined as the science and art managing money to achieve an appropriate objective. Banking in India in the modern sense originate in the last decades of the 18th century. The first banks of were “Hindustan” (1770-1829) and the general bank of India.

By 2013, banking in India was generally fairly nature in the terms of supply product range and even its reach in rural India, remains a challenges for the private sector banks, in terms of quality and assets and capital adequacy. Maidavolu Narasimham is considered to be the father of Indian Banking.

A system of trading money which provides a safe place to save excess cash known as deposits, supplies liquidity to the economy by loaning this money out to help businesses grow and to allow consumers to purchase consumer products, homes, cars, etc...

Section 5(b) of the Banking Regulation Act 1949 defines, “as accepting for the purpose of lending and investment, deposits of money from the public repayable on demand or otherwise and withdrawable by cheque, draft, order or otherwise No definition of banking can be comprehensive enough in the present context.

A bank is a financial intermediary for the safe guarding transferring / exchanging or lending. A primary role of banks is connection those with funds / such as investors and depositors to those seeking funds such as individually or business needing loans.

Banks cater to the needs of agriculturists, industrialists, traders and to all the other sections of the society. Banking system has evolved from bar basic banking where commodities were loaned to modern day banking system, which caters to range of financial services. The evolution of banking system was gradual with growth in each and every aspect of banking.

- Better system replaced by money which mode transaction uniform.
- Uniform laws were setup to increase public trust.
- Centralized banks were setup to govern other banks.
- Book keeping was evolved from papers to digital format with the introduction of computer.
- ATM were setup for easier withdrawal of funds.

Banking History

Banking in India has a very long history starting from the late 18th Century. The origin of modern banking started from 1770 in the name of “Bank of Hindustan” English agency ‘House of Alexander & Co’ in Kolkatto however it was closed in 1832. Further in 1786 “General Bank of India” was started and it failed in 1791.

Oldest Bank

“Banca Monte Dei Paschi Di Siena” is the oldest surviving bank in the world. It was founded in 1472 in the Tuscan city of Siena which at the time was republic.

Presidency Banks in Indian

The presidency Banks were the Bank of Bengal, established on 2nd June 1806, the bank of Bombay (in corporate on 15th April 1804), and the bank of Madras (in corporate on 1st July 1843).

Meaning of Ratio Analysis

Analysis of financial statements with the help of ratio can be termed as ratio analysis. Ratio analysis is referred to as the study or analysis of the line items present in the financial statements of the banks.

Ratio Analysis is a quantitative procedure of obtaining a look into a firm’s Functional efficiency, liquidity, revenues and profitability by analyzing its financial records and statements. Ratio analysis is a very important factor that will help in doing an analysis of the fundamentals of equity.

Definition Ratio Analysis

The term “ratio analysis” refers to the financial statements in conjunction with the interpretations of financial results of a particular period of operations, derived with the help of ‘ratio’. Ratio analysis is used to determine the financial soundness of a business.

Nature of Ratio Analysis

Ratio analysis is a powerful tool of financial analysis. A ratio is defined as “the indicated quotient of two mathematical expression” and as “the relationship between two or more things” . In financial analysis a ratio is used as an index or yardstick for evaluating relationship between component parts of financial statements to obtain a better understanding of the firm’s position and performance.

Financial analysis is used as a device to analysis and interpret the financial health of enterprise. The absolute accounting figures reported in the financial statement do not provide a meaningful understanding of the performance and financial performance of a firm.

Classification by Relative Importance

1) Primary Ratio

- Return on Capital Employed
- Assets Turnover
- Profit Ratio
- 2) Secondary Performance Ratio**
- Working Capital Turnover
- Stock to Current Assets
- Stock to Fixed Assets
- 3) Secondary Credit Ratios**
- Creditor Turnover
- Liquid Ratio
- Current Ratio
- 4) Growth Ratio**
- Growth Rate in Sales
- Growth Rate in Net Assets

Principles of Ratio Selection

The following principles should be considered before selecting the ratio ;

- ❖ Ratio should be logically inter-related
- ❖ Ratio must measure a material factor of business
- ❖ Cost of obtaining information should be borne in mind
- ❖ Ratio should be in minimum numbers
- ❖ Ratio should be facilities comparable

Bank

Bank is an institution, which received funds from the public and gives loans and advances to those who need them :-

The word “Bank” is derived from

French word	-	Bancus	-	A Bench
German	-	Back	-	Joint stock fund
Italian word	-	Banco	-	Desk / Bench

Banker

A person who is doing banking business is called a “Banker”.

It is not easy to define the term ‘banker’ precisely because a banker performs multifarious functions.

- (i) Be a man of wisdom
- (ii) Not only acting as a depository

Banking

India cannot have a healthy economy without a sound and effective banking system. The banking system should be hassle free and able to meet the new challenges posed by technology and other factors, both internal and external.

Customers

A customer is a person or entity receiving or benefiting from the bank and who uses a company or banking institution to change currency. The customer is one who has a bank account.

Relationship between Banker and Customer

Type of Transaction	Bank	Customer
Deposits in bank	Debtor	Creditor
Loan from bank	Creditor	Debtor
Safe deposit vault (SDV)	Lessor	Lessee
Safe custody	Bailee	Bailor
Issue of draft	Debtor	Creditor
Payee of a draft	Trustee	Beneficiary
Collection of cheque	Agent	Principal

Advantages of Ratio Analysis

- ❖ Assists in comparative studies
- ❖ Simplifies complex figures

- ❖ Supports financial analysis
- ❖ Helpful in forecasting
- ❖ Helpful in judging the operating efficiency of business

Type of Ratio used for Financial Analysis

I Investment Valuation Ratio

- ◆ Dividend per share
- ◆ Opening profit per share
- ◆ Net operating profit per share
- ◆ Return on equity ratio

II Profitability Ratio

- ◆ Net profit margin
- ◆ Return on long term funds
- ◆ Operating margin
- ◆ Return on Average Assets (ROAA)
- ◆ Return on Average Equity (ROAE)
- ◆ Return on Earning Assets (ROEA)

III Leverage Ratio

- ◆ Debt equity ratio
- ◆ Fixed asset turnover ratio

IV Liquidity ratio

- ◆ Current ratio
- ◆ Quick ratio
- ◆ Loan to deposit ratio

V Payout ratio

- ◆ Dividend payout ratio (Net profit)

- ◆ Dividend payout ratio (Cash profit)

VI Coverage ratio

- ◆ Financial change coverage ratio

VIII Asset quality indicator

- ◆ Non-Performing Loans (NPL)
- ◆ Loan loss reserves to total loans ratio
- ◆ Over due loans to total loans ratio

VIII Key ratio for examining capital adequacy :

- ◆ Equity capital ratio
- ◆ Tier 1 leverage ratio
- ◆ Tier 1 risk based capital ratio

Fixed Deposits

A fixed deposit (FD) is a tenured deposit account provided by banks or non-bank financial institution which provides investors a higher rate of interest than a regular savings account, until the given maturity date. It may or may not required the creation of a separate account. The term fixed deposit it most commonly used in India and the united states.

Current Account

One of the most important features of a current account is the fact that it bears no interest at all. The funds in a current account are always made available to the account holder whenever needed, and to compensate for this extra liquidity that the bank provides there is no interest charged on current accounts.

Scope of the Study

- The scope of this project covers a brief financial ratio analysis of Indian Overseas Bank.
- IOB from the years of 2018-2019 to 2022-2023 by using the annual report of the five years.
- Significance and objectives.

- Tools such as accounting tools, statistical tools, comparative balance sheet analysis, ratio analysis.
- Limitations of financial ratio analysis.

Statement of the Problem

To assess the financial performance of Indian Overseas Bank from 2018-2019 to 2022-2023.

Objectives of the Study

- To analysis of annual report in the study.
- To study the various facilities provided by Indian Overseas Bank.
- To study and evaluate the key financial ratio of the Indian Overseas Bank.
- To find out the solvency, profitability and liquidity position of the bank for the period of 2018-2019 to 2022-2023.
- To make suggestion and recommendations to improve the financial position of the study unit.

Research Methodology

Research methodology means provides valuable guidelines to the projects systematically, in order words its indicates way to collecting analyzing and interpreting the data.

Data collected from the annual reports, the secondary data derived from the magazines, websites and the annual reports of Indian Overseas Bank.

Research Design

The study is descriptive in nature and is an attempt to evaluate the financial performance of the bank through the financial data disclosed to the public annually.

Tools and Techniques

- (i) Accounting Tools
- (ii) Statistical Tools
- (iii) Comparative Balance Sheet Analysis
- (iv) Comparative Profit and Loss Analysis
- (v) Ratio Analysis

Sources of Data

Secondary Data

Study is purely carried out on the basis of the financial statement revealed annually from the bank. Data has collected for the financial year 2018-2019 to 2022-2023.

Sampling Design

The sample size taken for the study is of five financial years from 2018-2019 to 2022-2023.

Limitation of the Study

- ✓ The study in limitation of Indian Overseas Bank.
- ✓ The study is limited only to five years from 2018-2019 to 2022-2023 the data of this study has been collected from published annual reports and internet.
- ✓ The study considers only financial data of IOB and doesn't include qualitative factors.

Review of Literature

Johson (2009) Financial Ratio pattern on which found that the properties and characteristics of financial ratios have received considerable attention in recent years with interest primarily focused on determining the predictive ability of financial ratio and related financial data. Principal areas of investigation have included the prediction of corporate bond rating, and the anticipation of financial impairment. Related studies have examined the characteristics of merged firms the differences in financial ratio average among industries whether firms seek to adjust their financial ratios toward industry average the relationship between accounting-determined and market-determine risk measure, and the influence of financial ratios on analysis judgments about impending bankruptcy. The general conclusion to emerge from these various research efforts is that a number of financial ratios have predictive and descriptive utility when properly employed.

Verdi Ali (2010) Identifies whether this company has a strong financial fundamentals and whether investment in the company will be a long term nature. Its financial statements had been analyzed during 5 years period (2004-2008). Financial analysis has been measured by various ratios. The study concludes that current ratio has declined in the last 4 years. However, it is still well above the industry level, and it maintains good level of liquidity.

Uppal (2011) In the study states that as e-channels provide time and cost utility, customers prefer them. The stance is that public sector banks have least growth in terms of number of customers. The financial productivity index has decreased in new private sector banks. The productivity index of employees, branch and bank is increased in all bank groups.

Hassan Mobeen Alam, Ali Raza And Muhammad Akram (2011) Financial performance of leasing companies sine 2008-2010. Ratio analysis technique has been used to evaluate financial performance of leasing companies . All data has been retrieved from securities & exchange commission of Prkistan, Asian financial service associate, Leasing Associate of Prkistan, State Bank of Prkistan and leasing company's websites. Nine companies are selected for analysis of fifteen and this study covers three period (2008, 2009, 2010). The researcher used ratios as statistical tools. This study concludes that in 2010 the financial ratios are showing the positive change but there is a decline in financial performance of leasing companies in 2009 when compared to 2008.

Profile of the Study

Ratio Analysis of India Overseas Bank

A ratio shows the relationship between two numbers. Accounting ratio shows the relationship between two accounting figures. Ratio analysis is process of computing and presenting the relationships between the items in the financial statement. It is an important tool of financial analysis, because it helps to study the financial performance and position of concern. Ratios show strength and weaknesses of the business.

Classification of Ratios

Classification According to Statement

- I. Accounting Tools
- II. Statistical Tools
- III. Profit and Loss Account Ratio
- IV. Balance Sheet
- V. Ratio Analysis

I Accounting Tools

Accounting is the process of summarizing, analyzing and reporting the financial transaction in a manner that adheres to certain accepted standard formats, helping to evaluate a past performance, present condition, and future prospects as well.

II Statistical Tools

The most well known statistical tools are the mean, the arithmetical average of numbers, median and mode, range, dispersion, standard deviation, inter quartile range, coefficient of variation.

III Profit and Loss Account Ratio

Ratio calculated on the basis of the item of the profit and loss account only. Eg. Gross profit, Expenses ratio, Net profit ratio.

IV Balance Sheet

Ratio calculated on the basis of the figures of the balance sheet only. Eg. Current ratio, Proprietary ratio, etc...

V Ratio Analysis

Ratio analysis is the comparison of line items in the financial statements of a business. Ratio analysis is used to evaluate a number of issues with an entity, such as its liquidity, efficiency of operations, and profitability.

Data and Analysis

Current Ratio

It is one of the popular financial ratios. It measure the firm's ability to meet its short term obligations. This is achieved by comparing the current assets of a business with its current liabilities.

The formula for Current Ratio is :

Current Assets

Current Liabilities

TABLE NO. 4.1
CURRENT RATIO

Rs.in Lakhs

Years	Current Assets	Current Liabilities	Ratio
2018-2019	1125857815	2275835849	0.50
2019-2020	1104738244	2294809710	0.49
2020-2021	1362660816	2406619649	0.57
2021-2022	1433709213	2539004662	0.57
2022-2023	15176874778	2734901354	0.56

Source :

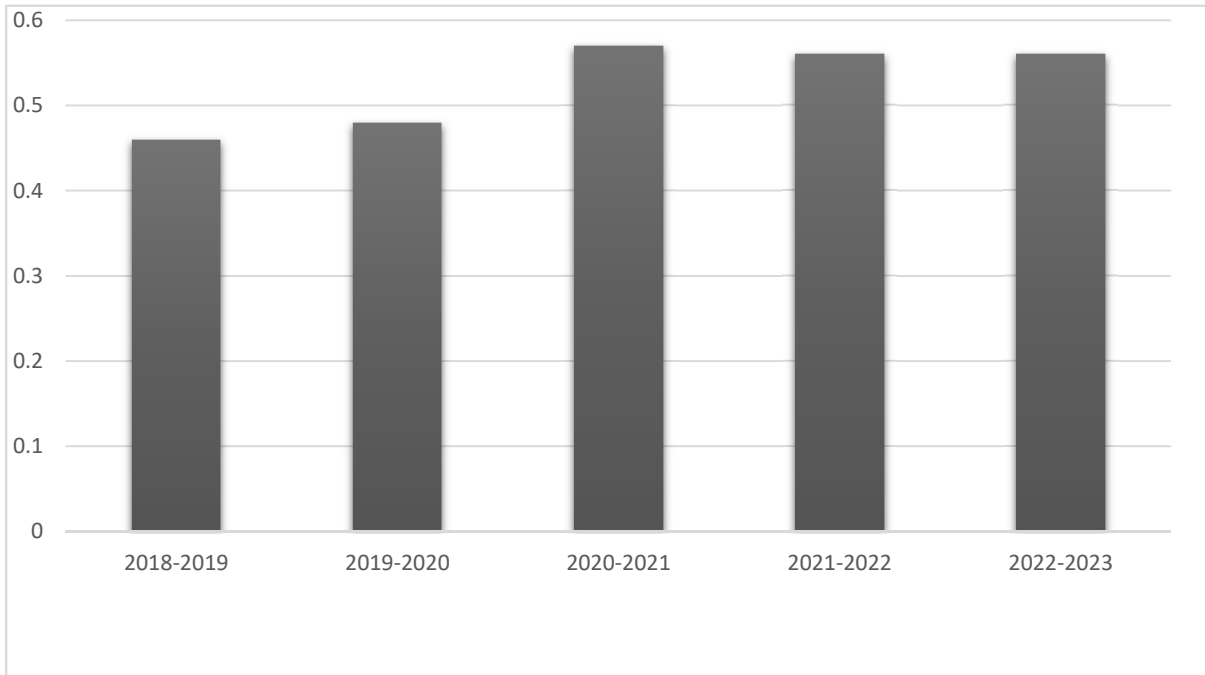
Annual Report of Indian Overseas Bank.

Interpretation :

The above table shows the current ratio of Indian Overseas Bank during the study period of the five years 2018-2019 to 2022-2023. The result fluctuated the 0.50 times in 2018-2019 and decreased to 0.49 times in 2019-2020 and increased to 0.57 times in 2020-2022 and decreased to 0.56 times in 2022-2023.

DIAGRAM NO. 4.1
CURRENT RATIO

Liquidity Assets to Total Assets



A liquid asset is a type of asset that can be rapidly converted into cash while keeping its market value. An asset that can easily be converted into cash, such as heavily-traded shares, money market instrument, and funds held in checking accounts.

The formula for Liquidity Assets to Total Assets is :

$$\frac{\text{Liquid Assets}}{\text{Total Assets}} \quad 100$$

TABLE NO. 4.2
LIQUID ASSETS

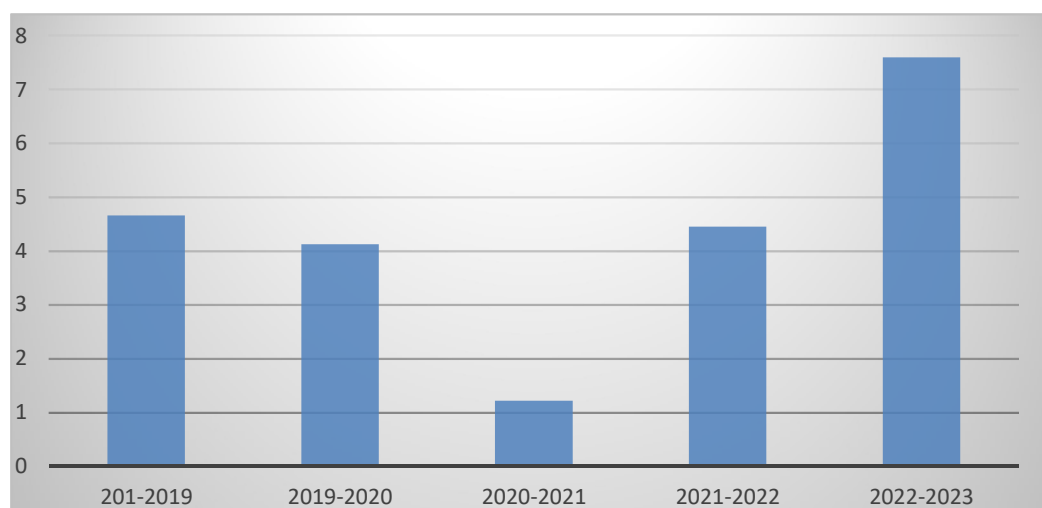
Years	Liquidity Assets	Total Assets	Ratio
2018-2019	115794504	2479680302	4.66
2019-2020	102925322	2500083577	4.12
2020-2021	31552213	2607268306	1.21
2021-2022	121882539	2740103535	4.45
2022-2023	227489935	2993771689	7.60

Source : Annual Report of Indian Overseas Bank.

Interpretation:

The above table shows the liquidity assets to total assets of Indian Overseas Bank during the study period of the five years 2018-2019 to 2022-2023. The results fluctuated the 4.66 times in 2018-2019 and decreased to 4.12 times in 2019-2020 and decreased to 1.21 times in 2020-2021 and increased to 4.45 times in 2021-2022 and increased to 7.60 times in 2022-2023. In the year 2022-2023 the bank has attained good position.

DIAGRAM NO. 4.2
LIQUIDITY ASSETS TO TOTAL ASSETS



Proprietary Ratio

Proprietary ratio is the relationship between proprietor’s fund and total tangible assets. Shareholder’s fund consist of performance share capital, equity share and reserves and surplus. A high proprietary ratio indicates less danger and risk to creditors in the event of winding up.

The formula for Proprietary Ratio is :

$$\frac{\text{Shareholders Funds}}{\text{Total Tangible Assets}}$$

TABLE NO. 4.3
PROPRIETERY RATIO

Years	Shareholders Funds	Total Tangible Assets	Ratio
2018-2019	48907699	28934338	1.70
2019-2020	91416482	33369047	2.74
2020-2021	164369883	31273426	5.26
2021-2022	164369883	29187796	5.63
2022-2023	189024123	33648966	5.62

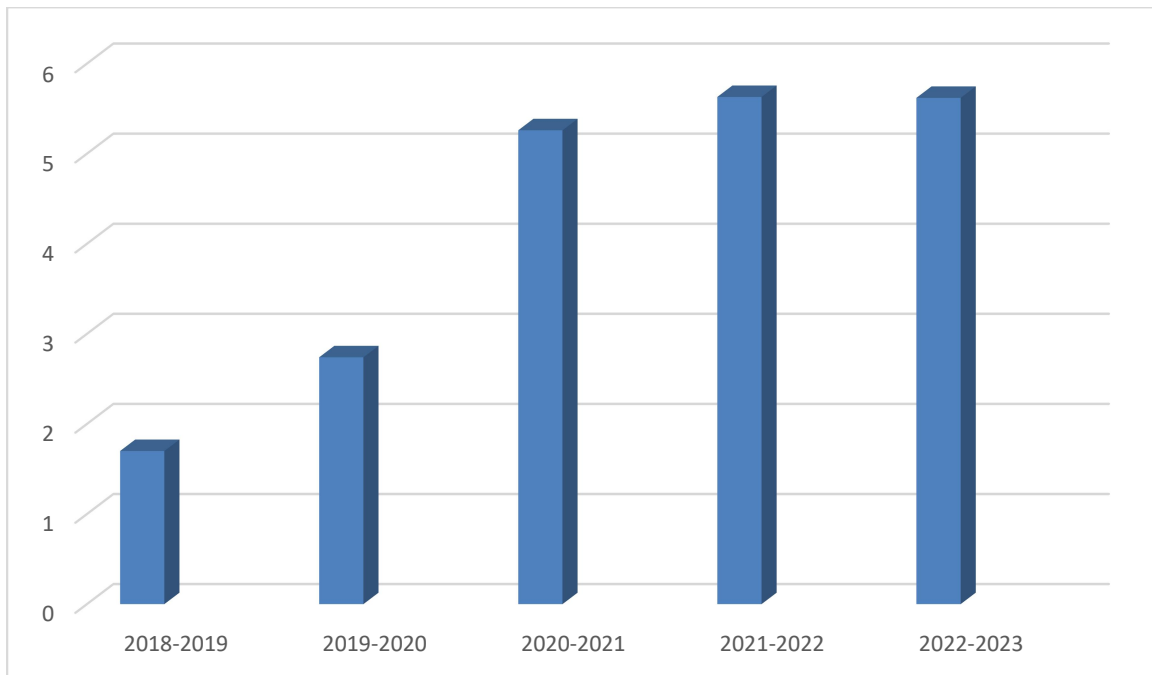
Source : Annual Report of Indian Overseas Bank.

Interpretation :

The above table shows the proprietary ratio of Indian Overseas Bank during the study period of the five years 2018-2019 to 2022-2023. The results fluctuated the 1.70 times in 2018-2019 and increased to 2.74 in 2019-2020 and increased to 5.26 times in 2020-2021 and increased to 5.63 times in 2021-2022 and decreased to 5.62 times in 2022-2023. In the year of 2021-2022 the bank has attain good position.

DIAGRAM NO. 4.3

PROPRIETARY RATIO



Findings

Current ratio of IOB, has fluctuating trend. The standard current ratio 2:1 IOB, is having having less than 2:1. But the current assets is more than the current liabilities.

The liquidity assets to total assets of IOB was fluctuating during the study period from 4.12 to 7.60 it is satisfactory position.

The proprietor ratio of IOB was fluctuating. The proprietor ratio range as from 01.70 to 5.62 so the study gives proprietary ratio is in good position during the study period.

Suggestions

Indian Overseas Bank current ratio is a satisfactory position. Current ratio only 0.57 as maximum in 2020-2022 it is the good position.

Indian Overseas Bank may take appropriate measure to increase shareholders funds to achieve a good enough proprietor ratio.

Indian Overseas Bank is required to improved the fixed assets to reach a defined and stable total asset ratio.

Conclusion

Indian Overseas Bank is the most trusted and preferred bank by public. It is one of the leading banks in India with largest customer services network and numerous branches throughout the country. The Indian Overseas Bank takes valuable steps to provide better services to its customer and to survive the competitive banking industry.

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