

IMPACT OF MANAGEMENT EFFICIENCY PERFORMANCE ON PROFITABILITY - WITH SPECIAL REFERENCE TO FEDERAL BANK

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ABSTRACT

Management efficiency is very vital aspect for enhancing the profitability of any bank and provides roadmap for sustaining long term and increasing large market share in this competitive era. Strong management efficiency and expected profitability is required for getting customer's support and enhancing the business of any bank. Strong management efficiency creates better profitability for each and every bank, and it is significant for every person related to this bank like shareholders, depositors, employees and for whole economy. In this paper, an effort has been made to analysis the management efficiency and profitability aspect of Federal Bank (which is tenth largest private sector bank as per market capitalization, operating in India). In the area of banking it is considered that sound management efficiency and profitability helps in getting more and more customers and large market share in any particular region. It also helps in supporting present and future operations of banking for any bank. The assessment of management efficiency and profitability of Federal Bank has been done by using various accounting ratios.

Keywords: Management Efficiency, Employees, and Profitability.

I. INTRODUCTION

Federal Bank is a leading scheduled private commercial bank in India. It is tenth biggest private sector banks right now as per market capitalization headquartered at Aluva, Kochi. This bank is listed in BSE, NSE and London Stock Exchange and this bank has a branch in India's first International Financial Services Centre (IFSC) at GIFT City in Gujrat, which is akin to a foreign branch of the bank. Federal Bank aims to be the "Most Admired Bank" which is digitally enabled with a sharp focus on Micro, Medium and Middle market enterprises.

In March 2019 Federal Bas has announced a partnership with Ripple, a leading Blockchain company based in San Francisco to use XRP, a digital asset to accelerate Cross-Border

remittances. In the year 2018, this bank was the award winner of BFSI Innovative Technology awards.

II. OBJECTIVES

The main objective of the study is to know effect of management efficiency performance on profitability of Federal Bank.

III. RESEARCH METHODOLOGY

- **Scope of the Study:-**This study will provide wider scope to management efficiency and profitability performance of Federal Bank. This will be helpful for its strength and development in future for this bank.
- **Period of the Study:-**This research paper is an attempt of investigative research on management efficiency and profitability of Federal Bank covering the period of last 6 years i.e. 2012-13 to 2017-18, based on the secondary data sourced from journals, magazines, articles, media reports and annual reports of this bank.
- **Data Collection-** Secondary Data.
- **Statistical Techniques:-**In accordance with the analysis and interpretation averages and various accounting ratios has been used with the help of MS- Excel.

IV. DATA ANALYSIS AND INTERPRETATION

Table-1: Management Efficiency and Profitability Analysis of Federal Bank

Federal Bank							
Management Efficiency or Productivity							
	2013	2014	2015	2016	2017	2018	Average
Interest Income (Rs. In Crore)	6168	6946	7419	7748	8677	9753	7785.17
Other Income (Rs. In Crore)	664	694	878	808	1082	1159	880.83
Total Income (Rs. In Crore)	6832	7640	8297	8556	9759	10912	8666.00
Interest Expenses (Rs. In Crore)	4193	4717	5039	5240	5625	6170	5164.00
Advances (Rs. In Crore)	44097	43436	51285	58090	73336	91957	60366.83
Deposits (Rs. In Crore)	57615	59731	70825	79172	97665	111992	79500.00
Total Business (Rs. In Crore)	101712	103167	122110	137262	171001	203949	139866.83
Spread (Rs. In Crore)	1975	2229	2380	2508	3052	3583	2621.17
Total Expenses (Rs. In Crore)	5378	6159	6670	7132	7835	8621	6965.83
Other Operating Expenses (Rs.	1185	1442	1631	1892	2210	2451	1801.83

In Crore)							
Burden (Rs. In Crore)	521	748	753	1084	1128	1292	921.00
Net Profit (Rs. In Crore)	838	839	1006	476	831	879	811.50
Number of Employees	10059	10467	10981	11735	11593	12112	11157.83
Number of Branches	1103	1174	1247	1252	1252	1252	1213.33
Advances Per Branches (Rs. In Crore)	39.98	37.00	41.13	46.40	58.58	73.45	49.42
Deposits Per Branch (Rs. In Crore)	52.23	50.88	56.80	63.24	78.01	89.45	65.10
Business Per Branch (Rs. In Crore)	92.21	87.88	97.92	109.63	136.58	162.90	114.52
Income Per Branch (Rs. In Crore)	6.19	6.51	6.65	6.83	7.79	8.72	7.12
Expenses Per Branch (Rs. In Crore)	4.88	5.25	5.35	5.70	6.26	6.89	5.72
Spread Per Branch (Rs. In Crore)	1.79	1.90	1.91	2.00	2.44	2.86	2.15
Burden Per Branch (Rs. In Crore)	0.47	0.64	0.60	0.87	0.90	1.03	0.75
Net Profit Per Branch (Rs. In Crore)	0.76	0.71	0.81	0.38	0.66	0.70	0.67
Advances Per Employee (Rs. In Crore)	4.38	4.15	4.67	4.95	6.33	7.59	5.35
Deposits Per Employee (Rs. In Crore)	5.73	5.71	6.45	6.75	8.42	9.25	7.05
Business Per Employee (Rs. In Crore)	10.11	9.86	11.12	11.70	14.75	16.84	12.40
Income Per Employee (Rs. In Crore)	0.68	0.73	0.76	0.73	0.84	0.90	0.77
Expenses Per Employee (Rs. In Crore)	0.53	0.59	0.61	0.61	0.68	0.71	0.62
Spread Per Employee (Rs. In Crore)	0.20	0.21	0.22	0.21	0.26	0.30	0.23
Burden Per Employee (Rs. In Crore)	0.05	0.07	0.07	0.09	0.10	0.11	0.08
Net Profit Per Employee (Rs. In Crore)	0.08	0.08	0.09	0.04	0.07	0.07	0.07
Profitability							
Interest Earned Ratio (in %)	6.06	6.73	6.08	5.64	5.07	4.78	5.73
Interest Paid Ratio (in %)	4.12	4.57	4.13	3.82	3.29	3.03	3.83
Non-Interest Income Ratio (in %)	0.65	0.67	0.72	0.59	0.63	0.57	0.64
Other Operating Expenses Ratio (in %)	1.17	1.40	1.34	1.38	1.29	1.20	1.30
Spread Ratio (in %)	1.94	2.16	1.95	1.83	1.78	1.76	1.90
Burden Ratio (in %)	0.51	0.73	0.62	0.79	0.66	0.63	0.66
Profitability (in %)	1.43	1.44	1.33	1.04	1.13	1.12	1.25

Source: Compiled and Computed from Various Annual Reports of Federal Bank.

In the year 2012-13, interest income was Rs. 6168 crore which increased every year and reached to Rs. 9753 crore in the year 2017-18 with average interest income of Rs. 7785.17 crore during the study period. Other income has been increased every year except in the year 2015-16 with average other income of Rs. 880.83 crore, it shows that other than lending this bank is focused on earning through other income. Due to this, this bank secured average total income of Rs. 8666 crore during the study period.

Interest expenses and other expenses are also increasing every year with average interest expenses and average other expenses of Rs. 5164 crore and 1801.83 crore respectively. Due to this increasing trend of expenses this bank secured average total expenses of Rs. 6965.83 crore every year during the study period which is not too much less than average total income. This bank should try to reduce its expenses for increasing profit.

Advances and deposits are also increasing, it shows that this bank performing its duties with better efficiency. Due to this total business of bank has been secured 139866.83 crore during the study period.

Spread and burden are also increasing every year; it shows that one side income is increasing but parallel side expenses are also increasing. Average net profit has been secured by this bank of Rs. 811.50 crore during the study period.

Number of employees and branches are also increasing it shows that banking operations and market share are increasing in this bank.

Average advances per branches, deposits per branches and total business per branches has been secured by this bank of Rs. 49.42 crore, Rs. 65.10 crore and 114.52 crore during the study period. It shows that per branch business is effective in this bank

Average total income per branch has been secured by this bank of Rs. 7.12 crore and average total expenses per branch has been secured by this bank of Rs. 5.72 crore. It clears that this bank expanding too much in comparison for income generation.

Spread per branch increasing as well as burden per branch is also increasing during the same period of time. That is why profitability of bank is decreasing. Due to this, this bank secured only per branch net profit of Rs. 0.67 crore.

Average advances per employee, deposits per employee and total business per employee has been secured by this bank of Rs. 5.35 crore, Rs. 7.05 crore and Rs. 12.40 crore respectively during the study period.

Income and expenses per employee are increasing with average income per employee and average expenses per employee of Rs. 0.77 crore and 0.62 crore respectively during the study period.

With increasing spread and burden per employee, this bank has been secured average net profit per employee of Rs. 0.07 crore during the study period.

Interest earned ratio is decreasing; this situation is not good for this bank. But interest paid ratio is decreasing during the study period this is good news for this bank because it will be helpful for increasing profitability.

After all with analyzing non-interest income ratio, other operating expenses ratio, spread ratio and burden ratio, it has been found that this bank secured 1.25 percent of profitability from his total effort during the study period.

V. FINDINGS and SUGGESTIONS

It has been found that expenses for earning further income is too much bank should try to reduce it by considering which expenses are appropriate or not for any work. Spread and burden are also increasing every year; it shows that one side income is increasing but parallel side expenses are also increasing. Spread per branch increasing as well as burden per branch is also increasing during the same period of time. That is why profitability of bank is decreasing; bank should give proper attention on it for better results in future. Income and expenses per employee are also increasing; bank should try to decrease expenses. Interest earned ratio is decreasing, bank should try to increase it and it can be possible through effective management efficiency performance.

After removing above issues, profitability of this bank can be improved.

VI. CONCLUSION

Finally, it is concluded that this bank is performing its duties with proper management efficiency but not as much it can do in this competitive era. And there is a need to work on effective management efficiency performance because it can increase the average profitability percentage from 1.25 percent to some more extent.

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