

## **FINANCIAL ANALYSIS: A STUDY OF J & K BANK LIMITED**

**Aijaz Ahmad Baba**

Lecturer Commerce, Govt. Hr. Sec. School, Unisoo, Kupwara, India

Email: dam.ajaz@gmail.com

### **ABSTRACT**

*Financial statement information is used by both external and internal users, including investors, creditors, managers, and executives. Financial analysis refers to an assessment of the financial position and profitability of a business. This paper attempts to document the general understanding of Financial analysis in the banking organization and to give a brief overview of Jammu and Kashmir Bank Ltd.*

**Keywords:** Reserves, Earnings per Share, Deposits

### **INTRODUCTION**

Financial analysis (also referred to as financial statement analysis or accounting analysis) refers to an assessment of the viability, stability and profitability of a business. It is performed by professionals who prepare reports using ratios and other analysis devices that make use of information taken from financial statements. These users must analyze the information in order to make business decisions, so understanding financial statements is of great importance. There are two important financial statements which investors analyze. They are the balance sheet and income statement; some analysts rely also on cash flow statement. The balance sheet is a snapshot in time. It shows all the assets owned and liabilities owed for a company. It also shows the amount of equity or ownership that is paid for by investors. The income statement looks at the entire year. It starts with revenues and then deducts expenses for net income. The cash flow statement shows where the cash is really coming by breaking down cash flow into cash from operations, investing and financing.

### **Profile of The Bank**

#### **The Jammu And Kashmir Bank Ltd:**

The Jammu and Kashmir Bank was formally incorporated on 1<sup>st</sup> October 1938 and commenced business from 4<sup>th</sup> July 1939 at registered office at Residency Road, Srinagar, Kashmir. The Jammu & Kashmir Bank Limited has been the first of its nature and composition as a state owned bank in the country. The state government besides contributing half of the issued capital also appointed it as its bankers for general banking and treasury business. In its formative years, the bank had to encounter several serious problems, particularly around the time of independence, when out of its total of ten branches two branches of Muzaffarabad and Mirpur fell to the other side of the line of control (now Pak Administered Kashmir) along with cash and other assets, in 1947. However the state government came to its rescue with the assistance of Rs.6.00 lacs to meet the claims, this

enabled the bank to overcome its difficulties and keep growing. Following the extension of central laws to the state of Jammu & Kashmir, the bank was defined as a government company as per the provisions of Indian Companies Act 1956. The bank has its first full time chairman in 1971, following social central measures in banks. The year 1971 was a turning point for the bank on conferment of scheduled bank status and witnessed remarkable progress in all the vital fields of operations. The Reserve Bank of India declared the bank as "A" Class Bank in 1976. In recognition of dominant role and exalted performance, RBI appointed the bank as its agent for performing the general banking business of the central government especially in maintaining currency chests and collection of taxes.

The customer faith in the bank can be judged by millions of customers doing their banking operations through this bank having a large network of branches spread all over the country. A significant contributing factor for this fact is the growing trust of people towards the bank and the bank's reciprocation to serve them better and coming to their expectations in every activity.

### RESEARCH OBJECTIVES

The study will be undertaken to focus on the following objectives:

1. To develop an understanding of financial analysis in the banking organization.
2. To give a brief overview of Jammu and Kashmir Bank Ltd.
3. To analyze financial performance of Jammu and Kashmir Bank.
4. To offer suggestions for further improvement.

### METHODOLOGY

The study will be carried out with the help of secondary data published by the bank from time to time. Appropriate ways will be used to analyze and interpret such data for the purpose of the study.

### DATA INTERPRETATION AND ANALYSIS

**Table 1.** Statement of Financial Position

CAPITAL AND LIABILITIES	Schedule	As at 31.03.2012 (Rs '000' Omitted)	As at 31.03.2011 (Rs '000' Omitted)
Capital	1	484,922	484,922
Reserves and Surplus	2	40,446,869	34,301,946
Deposits	3	533,469,016	446,759,350
Borrowings	4	12,409,572	11,046,502
Other Liabilities and Provisions	5	15,881,824	12,488,814
Total		602,692,203	505,081,534
ASSETS			
Cash and Balance with Reserve Bank of India	6	27,836,539	29,749,638
Balance with Banks & Money at Call & Short notice	7	16,702,140	5,738,477

**Table 1.** Statement of Financial Position (Contd....)

CAPITAL AND LIABILITIES	Schedule	As at 31.03.2012 (Rs '000' Omitted)	As at 31.03.2011 (Rs'000' Omitted)
Investments	8	216,243,188	196957679
Advances	9	330,774,215	261,936,350
Fixed Assets	10	4,202,704	3,937,702
Other Assets	11	6933417	6761688
Total		602,692,203	505,081,534
Contingent Liabilities	12	150,660,768	255,176,641
Bills for Collection		9,203,354	14,616,755

**Source:** Corporate annual reports of the bank for the years 2011-12

**Table 2.** Statement of income

	Schedule	Year ended 31-03-2012 (Rs.'000'omitted)	Year ended 31-03-2011 (Rs.'000'omitted)
<b>I. INCOME</b>			
Interest Earned	13	48,355,773	37,131,322
Other Income	14	3341232	3,647,562
Total		51,697,005	40,778,884
<b>II. EXPENDIURE</b>			
Interest Expended	15	29972224	21,694685
Operating Expenses	16	8021519	7,589318
Provisions and contingencies		5,670,757	5,342862
Total		43664500	34,626865
<b>III. NET PROFIT FOR THE YEAR</b>		<b>8032505</b>	<b>6152019</b>
Total		51697005	40,778,884
Earnings per Share (Basic/Diluted)	18	165.66	126.93

**Source:** Corporate annual reports of the bank for the years 2011-12.

**Table 3.** Key Financial Indicators

S. No.	Particulars	March 2012 Rs. In crores	March 2011 Rs. In crores
1.	Reserves	4044.68	3430.19
2.	Profit	803.250	615.20
3.	Income	51,69.70	40,77.88
4.	Net Interest Income	1838.35	1543.66
5.	Deposits	53346.90	44675.93
6.	Advances	33077.42	26193.63
7.	Investments	21624.31	19695.76
8	Borrowings	1240.95	1104.65
9	Earnings Per Share	165.69 ('000)	126.90 ('000)

**Source:** Corporate Annual Report of the Bank for the year 2011-12.

The above indicators are interpreted as below:

**Reserves:** The reserves of the bank increased to Rs. 4044.68 crore as on 31<sup>st</sup> March 2012 from Rs. 3430.19 crore of the previous year.

**Profit:** The bank posted a net profit of Rs.803.25 crore for the financial year ending March 2012 against a figure of Rs.615.20 crore as on March 2011 registering robust increase of 30.56%.

**Income:** The bank continued to register an impressive year-on-year improvement in earnings. The total income rose to Rs 51,69.70 crore from Rs. 40,77.88 crore in 2011-12. During the year the income has grown by 26.77 percentage points.

**Net Interest Income:** The net interest income of the bank continued to record a consistent growth year-on-year. It rose to Rs. 1838.35 crore from Rs. 1543.66 crore in 2011-12 and recorded a growth of 19.09%.

**Deposits:** The aggregate deposits of the bank increased to an amount of Rs. 53346.90 crore as on March 2012 from Rs. 44675.93 crore existing at the end of financial year 2011, thus recorded an absolute growth by RS. 8670.97 crore, this can be also put in the percentage points which is approximately 19.40.

**Advances:** The focus on credit growth helped the bank to record an impressive growth of 26.28% from the year ending March 2011 to the year ending March 2012.

**Investments:** The total investments of the bank stood at Rs. 21624.31 crore as on 31<sup>st</sup> March 2012 against Rs. 19695.76 crore of the previous year The increase in portfolio has been made by Rs 1928.55 crore, which is almost 9.79 percents.

**Earnings Per Share:** The bank under study is currently earning Rs 165.69 ('000) per share at an average, a year before i.e., as on March 2011 it was Rs. 126.90 ('000) . It has been increased by 30.56 percents. This uptrend clearly signifies healthy financial performance and best profitability of the bank.

**CONCLUSIONS**

1. The Jammu & Kashmir Bank is a growing and profit-making Bank in India. The profits of the Bank have tremendously increased during the period under study and are likely to grow further as the trend is soaring upward.
2. The financial position of the bank is not enough sound, from the stand point of data relating to the financial year 2011-12, the total advances are less than the deposits, If the position will remain same in future years the health of the organization is likely to get adversely effected. Despite above the total amount of investment during the period under study exceeds borrowings, thus signaling the efforts of better financial management.
3. The Jammu & Kashmir Bank is working towards building trust with customers, shareholders, employees and other diverse stakeholders. Because of increase in deposits year after year, it indicates that the account holders have trust on the organization; shareholders also get satisfied by the increased amount of Earnings Per Share year after year.
4. Lack of incentives to customers has also resulted into customers' dissatisfaction. Many of its customer base have shifted their loyalty and have started purchase of the products offered by other banking organization, it is obvious from the fact that almost all other banks have stretched and expanded in J and K state and are, in other words, occupying the market of J and K bank.

**SUGGESTIONS**

1. The bank under study should go for sales promotion activities in order to create awareness among the people about its product and services. The most people are not aware about the products, services and other facilities being provided by the bank. This would definitely strengthenise the profitability of the bank. Because the rival banks from outside, functioning in India especially in the state of Jammu & Kashmir, have strengthened their roots by adopting modern approaches of publicity / advertising of their products and services.
2. The bank must change its strategy in the field of sales. It should shift its attitude from sales oriented job to relationship oriented job, which means that at present moment of time the operations of the bank are confined only to the four walls of their premises. They do not go outside their premises in order to sell their products and services. If it will not resort to relationship oriented operations, it is likely to face the problem of poor functioning in future. This is evident from the meager increase in profits during the year 2011-12, which is around 30%. This percentage is considered as meager because the company has kept large amount of assets at its disposal and has been, to some extent, exercising monopoly in the state from decades together. By the time its monopoly, which is a property of a bank, has eroded to a considerable extent.
3. The bank should provide various attractions by adopting motivation-oriented activities to retain the existing customers and attract new customers. This would definitely have an affirmative impact on the financial position and profitability side of the bank.

4. There is large scope for the bank to grow further and boost its operating and financial position positively. As there are many areas in the country in general and in J and K state in particular, which are un-banked. So in order to grab this opportunity the bank must open its branches in those areas where banking facilities are not available. If it will not take into account such kinds of opportunities, the rival banks can take the position to get availed of these benefits and will become a type of threat to it for increasing its market share. These are the golden moments for Jammu & Kashmir Bank to reach at the remote areas. because; foreign aswell as domestic banks are expanding their area of operation in India and are thirsty of unoccupied market.
5. The bank should participate in exhibitions wherever possible. The exhibitions will help it to exhibit its products and services. While carrying out the exhibitions a care should be taken to reduce the intangibility of products and services so that the customers can understand them, their use and importance easily. It is, in-fact, the need of the hour to grow further and maintain pace with the other banks in the industry.

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