



## A Study of Profitability Analysis of Selected Public Sector And Private Sector Banks of India

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### ABSTRACT

*The banking sector performs three primary functions in an economy: the operation of the payment system, the mobilization of savings and the allocation of savings to investment projects. By allocating capital to the highest value use while limiting the risks and costs involved, the banking sector can positively influence the overall economy. On behalf of these the main purpose of the banking sector is to generate profit. Profitability is the primary goal of all business ventures. So these study an attempt to analyze profitability of selected public and private sector banks in India.*

*This study which looks into three key factors which affect the profitability analysis of Indian banking sector using mean, standard deviation and ANOVA model.*

### KEYWORDS :

### INTRODUCTION

Banks play a very useful and dynamic role in the economic life of the country. An efficient banking system is recognized as basic requirement for the economic development of any economy. Bank is very old institution that is contributing toward the development of any economy and it's treated as an important service industry in modern world. India currently is one of the fastest growing economies in the world. One sector of Indian economy that has played a critical role in transforming the Indian economy has been its banking sector. But this sector of Indian economy has also gone through a major transition that is still in progress. Many events and policies have contributed in this transition. One pivotal variable has been the growing profitability of this sector in the recent years. But profitability in banking sector is affected by numerous factors. In this research we shall try to examine the three ratios which are affected to profitability of Indian banking sector.

### REVIEW OF LITERATURE

**Jha and Sarangi (2011)** analyzed the performance of seven public sector and private sector banks for the year 2009-10. They used three sets of ratios, operating performance ratios, financial ratios, and efficiency ratios. In all eleven ratios were used. They found that Axis Bank took the first position, followed ICICI Bank, BOI, PNB, SBI, IDBI, and HDFC, in that order.

**Dangwal and Kapoor (2010)** evaluated the financial performance of nationalized banks in India and assessed the growth index value of various parameters through overall profitability indices. The data for 19 nationalized banks, for the post-reform period from 2002-03 to 2006-07, was used to calculate the index of spread ratios, burden ratios, and profitability ratios. They found that while four banks had excellent performance, five achieved good performance, four attained fair performance, and six had poor performance.

**Ved Pal and N S Malik(2007)** This study investigates the differences in the financial characteristics of public sector banks, private sector banks and foreign banks in India based on factors, such as profitability, liquidity, risk, and efficiency. To identify the differences, the multinomial regression analysis was used on the sample of 74 Indian commercial banks comprising 27 public sector banks, 24 private sector banks and 23 foreign banks for the period 2000-05. The findings suggest that foreign banks were better performers, as compared with the other two categories of banks, in general and in terms of utilization of resources in particular during the period chosen for the study.

### TITLE OF THE STUDY

This topic has been selected after considering the availability of time, information existing literature, tools and techniques and other related sources. The title of the study for this research has been selected as under:

### OBJECTIVES OF THE STUDY

To compare the profitability performance of public sector and private sector banks of India.

### SAMPLE OF THE STUDY

For the present study researcher has selected Indian public sector banks and private sector banks are as under:

**Public Sector Banks:** State Bank of India, Central Bank of India, Bank of India, Indian Bank, IDBI Bank, Dena Bank, Bank of Baroda, Corporation Bank, Allahabad Bank, Punjab National Bank.

**Private Sector Banks:** ICICI Bank, HDFC Bank , Axis Bank, Kotak Mahindra Bank , IndusInd Bank, Yes Bank, Jammu and Kashmir Bank, South Indian Bank, DCB Bank, ING Vysya Bank.

### DATA COLLECTION

The study is based on secondary data that has been collected from annual reports of the respective banks. The study covers the period of 5 years i.e. from year 2009-10 to year 2013-14.

### TOOL OF ANALYSIS

F-test or ANOVA (Analysis of Variances)

F-test is also known as ANOVA, means analysis of variances. Where the sample is subdivided amongst more than two groups at that time ANOVA used.

### HYPOTHESIS TESTING AND RESULTS:

Return on Equity Ratio:

**Table No. 5.1**  
**Return on Equity Ratio in Selected Banks**

Name of Bank	2010	2011	2012	2013	2014	Average
State Bank of India	13.89	12.71	13.94	14.26	9.20	12.80
Central Bank of India	23.03	21.45	4.52	6.31	-8.91	9.28
Bank of India	13.06	15.58	13.57	11.49	9.12	12.67
Indian Bank	22.79	21.11	18.47	13.34	8.16	16.77
IDBI Bank	12.53	13.02	11.56	8.86	4.74	10.14
Dena Bank	21.36	17.68	18.71	14.05	7.72	15.90
Bank of Baroda	20.24	20.15	18.22	14.01	12.61	17.05
Corporation Bank	20.26	19.79	18.19	14.99	5.56	15.76
Allahabad Bank	20.50	18.61	19.35	10.44	9.93	15.77
Punjab National Bank	24.06	20.61	17.55	14.52	9.31	17.21

ICICI Bank	7.79	9.35	10.70	12.48	13.40	10.74
HDFC Bank	13.70	15.47	17.26	18.57	19.50	16.90
Axis Bank	15.67	17.83	18.59	15.64	16.26	16.80
Kotak Mahindra Bank	12.35	12.03	13.65	14.40	12.24	12.93
IndusInd Bank	16.19	15.12	17.79	13.92	15.58	15.72
Yes Bank	15.46	19.16	20.89	22.39	22.71	20.12
Jammu and Kashmir Bank	17.01	17.68	19.62	21.68	20.65	19.33
South Indian Bank	15.93	17.25	19.82	16.72	15.06	16.96
DCB Bank	-14.51	3.80	6.85	10.20	13.15	3.90
ING Vysya Bank	10.91	12.65	11.77	13.25	9.30	11.58

Source: Annual Reports of Selected Banks and moneycontrol.com

**Calculation of 'F' (ANOVA) Test**

**Table No. 1 (A)**  
**Analysis of 'F' Test in Selected Banks under the Study Return on Equity Ratio**

Source of Variation	SS	df	MS	F <sub>c</sub>	F <sub>t</sub>	Result
Between Groups	1437.379	19	75.65155	2.905966	1.718026	H <sub>0</sub>
Within Groups	2082.655	80	26.03319			Rejected
Total	3520.034	99				

**Hypothesis:**

H<sub>0</sub>= There is no significant difference between Return on Equity Ratio in selected banks under the study

H<sub>1</sub>= There is significant difference between Return on Equity Ratio in selected banks under the study

5 % level of significance table value is 1.7180

The calculated value of 'F' is 2.906 and table value is 1.7180. Hence,

$$F_c > F_t$$

The calculated value of 'F' is greater than the table value. The Null Hypothesis is rejected and Alternative Hypothesis is accepted.

Interest Spread Ratio

**Table No. 2**  
**Interest Spread Ratio in Selected Banks**

Name of Bank	2010	2011	2012	2013	2014	Average
State Bank of India	3.82	6.12	6.87	5.95	5.76	5.70
Central Bank of India	2.80	3.82	3.51	-	6.93	4.27
Bank of India	4.57	5.06	4.43	5.54	5.07	4.93
Indian Bank	4.54	4.81	4.51	-	5.96	4.96
IDBI Bank	2.14	2.77	3.03	6.04	6.50	4.10
Dena Bank	3.35	3.79	3.83	-	6.38	4.34
Bank of Baroda	4.15	5.58	5.59	5.95	5.35	5.32
Corporation Bank	3.51	3.37	3.62	-	6.24	4.19
Allahabad Bank	4.13	4.28	4.75	-	6.97	5.03
Punjab National Bank	4.46	6.74	6.87	-	6.83	6.23
ICICI Bank	5.66	-	-	-	7.35	6.51
HDFC Bank	5.89	8.25	8.42	-	8.01	7.64
Axis Bank	3.95	6.66	7.46	7.90	7.67	6.73
Kotak Mahindra Bank	8.11	9.18	9.16	9.82	9.52	9.16

IndusInd Bank	6.07	6.42	5.34	-	7.85	6.42
Yes Bank	3.21	3.60	4.53	-	-	3.78
Jammu and Kashmir Bank	5.31	5.60	5.24	9.80	8.84	6.96
South Indian Bank	6.35	6.01	5.32	-	6.64	6.08
DCB Bank	5.85	4.48	4.40	7.52	7.07	5.86
ING Vysya Bank	5.01	3.99	3.97	-	7.74	5.18

Source: Annual Reports of Selected Banks and moneycontrol.com

**Table No. 2 (A)**  
**Analysis of 'F' Test in Selected Banks under the Study Interest Spread Ratio**

Source of Variation	SS	df	MS	F <sub>c</sub>	F <sub>t</sub>	Result
Between Groups	150.754	19	7.934419	4.440377	1.748805	H <sub>0</sub>
Within Groups	116.1472	65	1.78688			Rejected
Total	266.9012	84				

**Hypothesis:**

H<sub>0</sub>= There is no significant difference between Interest Spread Ratio in selected banks under the study

H<sub>1</sub>= There is significant difference between Interest Spread Ratio in selected banks under the study

5 % level of significance table value is 1.7488

The calculated value of 'F' is 4.4404 and table value is 1.7488. Hence,

$$F_c > F_t$$

The calculated value of 'F' is greater than the table value. The Null Hypothesis is rejected and Alternative Hypothesis is accepted.

**Return on Capital Employed**

**Table No. 3**  
**Return on Capital Employed in Selected Banks**

Name of Bank	2010	2011	2012	2013	2014	Average
State Bank of India	8.62	8.54	9.45	9.35	9.22	9.04
Central Bank of India	8.42	8.41	9.36	9.49	9.45	9.03
Bank of India	8.14	7.78	8.56	8.54	8.23	8.25
Indian Bank	9.97	9.50	10.19	10.02	9.49	9.83
IDBI Bank	8.61	8.41	9.40	9.25	9.08	8.95
Dena Bank	8.66	8.62	9.21	9.52	9.14	9.03
Bank of Baroda	7.86	7.76	8.22	7.81	7.19	7.77
Corporation Bank	8.38	7.97	9.40	9.49	9.44	8.94
Allahabad Bank	9.18	9.04	9.99	9.79	9.85	9.57
Punjab National Bank	9.24	9.09	9.71	9.86	9.29	9.44
ICICI Bank	8.90	8.48	9.17	9.44	9.65	9.13
HDFC Bank	9.85	9.71	10.57	11.36	11.00	10.50
Axis Bank	9.51	9.35	10.38	10.77	10.51	10.10
Kotak Mahindra Bank	11.13	11.26	12.29	12.32	11.87	11.77
IndusInd Bank	10.54	10.67	12.40	12.77	12.65	11.81
Yes Bank	9.89	9.80	10.78	11.06	11.25	10.56
Jammu and Kashmir Bank	8.75	8.68	9.31	10.03	9.52	9.26
South Indian Bank	9.53	9.06	10.47	10.60	10.28	9.99
DCB Bank	9.45	9.66	10.31	10.38	10.47	10.05
ING Vysya Bank	8.71	9.17	10.55	10.99	10.54	9.99

Source: Annual Reports of Selected Banks and moneycontrol.com

**Table No. 3 (A)**  
**Analysis of 'F' Test in Selected Banks under the Study**  
**Return on Capital Employed**

Source of Variation	SS	df	MS	F <sub>c</sub>	F <sub>t</sub>	Result
Between Groups	97.3202	19	5.12211	14.588	1.71803	H <sub>0</sub>
Within Groups	28.0894	80	0.35112			Rejected
Total	125.41	99				

**Hypothesis:**

H<sub>0</sub>=There is no significant difference between Return on Capital Employed Ratio in selected banks under the study

H<sub>1</sub>=There is significant difference between Return on Capital Employed Ratio in selected banks under the study

5 % level of significance table value is 1.718

The calculated value of 'F' is 14.588 and table value is 1.718. Hence,

$$F_c > F_t$$

The calculated value of 'F' is greater than the table value. The Null Hypothesis is rejected and Alternative Hypothesis is accepted.

**FINDINGS, CONCLUSION & SUGGESTIONS**

This Return on Equity ratio was highest in Yes Bank, if we considered average of the last five years that is financial year 2009-2010 to 2013-2014. Average of this ratio was lowest in DCB Bank i.e. 3.90 percent. Different banks achieved highest return on equity during 2009-10 to 2013-14 year wise Punjab national bank 24.06 percent in 2009-10, Central bank of India 21.45 percent in 2010-11, Yes bank with 20.89 percent, 22.39 percent and 22.71 percent in the year 2011-12, 2012-13 and 2013-14 respectively. The Return on Equity Ratio in every bank it is very poor so they must have to think about to get more return on it.

Overall result of study period showed that the KMB stood at first position with 9.16 percent interest spread while during the same period Yes Bank stood at last with 3.78 percent interest spread. Year wise interest spread showing better position in private sector banks only. During 2009-10 KMB bank stood at a first position at 8.11 percent, and also for rest of the year KMB secured and maintained highest that is 9.18 percent, 9.16 percent, 9.82 percent and 9.52 percent respectively during 2010-11 to 2013-14.

The Return on Capital Employed ratio was highest in IndusInd Bank if we considered average of the last five years that is financial year 2009-10 to 2013-14. Average of this ratio was lowest in BOB i.e. 7.77 percent. In 2009-10 KMB and IndusInd Bank secured first position with best return on capital employed while BOB listed at last because of that continues poor performance. Year wise analysis of return on capital employed showed that private sector banks are more powerful than that public sector banks. During 2009-10 and 2010-11 KMB secured highest return it was 11.13 percent and 11.26 percent respectively. ROCE for rest of the year IndusInd Bank secured and maintained highest that is 12.40 percent, 12.77 percent and 12.65 percent during 2011-12 to 2013-14 respectively. In public sector banks return on capital employed found poor as compared to private sector banks. It is necessary for the public sector banks to utilize their capital employed very effectively to generate enough return. So, as they can compete to private sector banks.

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