



## Profitability Performance of Select Private Sector Banks

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### ABSTRACT

*The role of private sector banks in the economic development of a country like India has been increasing day by day. They render services to the urban as well as customers with modern technologies like retail banking, internet banking, mobile banking etc. The customers have been enjoying the benefits of technologically advanced services rendered by these banks. These banks have to compete with the banking giants – public sector banks who have large capital base and customer base. In the advent of liberalization, globalization and privatization, new private sector banks and foreign banks have been given an opportunity to enter into the banking sector. The profitability performance of the new private sector banks has to be monitored not only to understand the results of their activities during the past but also for future planning, AXIS Bank, ICICI Bank, HDFC Bank and YES Bank have been the leading private sector banks. Their performance could be measured in terms of net profit margin, operating profit margin, return on assets, return on equity, etc. In this paper, an attempt has been made to analyze the profitability performance of the select private sector banks.*

**KEYWORDS :** – Private sector banks; profitability; performance; net profit margin; operating profit margin

### INTRODUCTION

The role of private sector banks in the economic development of a country like India has been increasing day by day. They render services to the urban as well as customers with modern technologies like retail banking, internet banking, mobile banking etc. The customers have been enjoying the benefits of technologically advanced services rendered by these banks. These banks have to compete with the banking giants – public sector banks who have large capital base and customer base. In the advent of liberalization, globalization and privatization, new private sector banks and foreign banks have been given an opportunity to enter into the banking sector. The profitability performance of the new private sector banks has to be monitored not only to understand the results of their activities during the past but also for future planning, AXIS Bank, ICICI Bank, HDFC Bank and YES Bank have been the leading private sector banks. Their performance could be measured in terms of net profit margin, operating profit margin, return on assets, return on equity, etc.

### REVIEW OF LITERATURE

Alpa Joshi (2013) in his paper entitled 'A Study on Profitability Analysis of Selected Private Sector Banks' has evaluated the profitability of the selected private sector banks. He has selected ICICI Bank, HDFC Bank, AXIS Bank, YES Bank and Kotak Mahindra Bank. He has analyzed the profit before tax and profit after tax with total income and capital employed for a period of 5 years from 2007-08 to 2011-12. The results of the study showed that there is no significant difference between the ratio of PBT to total income of the selected banks.

Amit Kumar Singh (2015) has analyzed the profitability position of private banks in India. He has evaluated the performance of the selected banks using interest spread, net profit margin, return on long term funds, return on net worth, return on assets and adjusted cash margin of AXIS Bank, ICICI Bank, Karur Vysya Bank and YES Bank for a period of 5 years from 2010-11 to 2014-15. He has found that there is no significant relationship among net profit margins of private sector banks in India.

Mahila Vasanthi Thangam and Salini K.T. (2016) in their study on 'Profitability Analysis of Selected Public and Private Banks in India' have examined the profitability of Bank of Baroda, Allahabad Bank, Central Bank of India, Union Bank of India and AXIS Bank for a period of 5 years from 2010-11 to 2014-15. The authors have analyzed the association between return on assets and profit per employee; return on equity and profit per employee; return on assets and business per employee; return on equity and business per employee; return on assets and credit-deposit ratio; return on equity and credit-deposit

ratio, etc. They have observed that there is a significant association between return on assets and profit per employee of Central Bank.

### STATEMENT OF THE PROBLEM

The Indian Banking sector has become very competitive with the entry of new private sector banks and foreign banks. The private sector banks are already facing challenges with the competition of public sector banks. In order to be successful, the private sector banks have been introducing innovative products to the customers. It increases the cost of services rendered by the private sector banks. Under these circumstances, it is deemed necessary to understand the profitability performance of the private sector banks.

### OBJECTIVES OF THE STUDY

The present study is undertaken with the objective of analyzing the profitability performance of the selected private sector banks. The core objective of the study has been divided into sub objectives as follows:

To examine the net profit and operating profit margins of the selected private sector banks.

To analyze the return on assets and return on equity of the selected private sector banks and

To offer suggestions to enhance the profitability of the selected private sector banks.

### PERIOD OF STUDY

The period of study denotes the period for which the profitability and productivity of the selected private sector banks have been analyzed. It covers a period of ten financial years starting from 2006-07 to 2015-16.

### RESEARCH METHODOLOGY

The present study is mainly based on the secondary data obtained from the annual reports of the selected private sector banks for the study period, i.e., from 2006-07 to 2015-16. In addition to the data obtained from the annual reports of the selected banks, more data have been obtained from the Bulletins of Reserve Bank of India for the study period.

For the purpose of the present study, four leading private sector banks, namely AXIS Bank, ICICI Bank, HDFC Bank and YES Bank have been included as the sample units.

The data obtained from the secondary sources have been put through analysis using statistical tools like mean, standard deviation, co efficient of variation, compound annual growth rate and ANOVA.

### ANALYSIS AND INTERPRETATION

The profitability performance of the selected private sector banks has been measured in terms of net profit margin, operating profit margin, return on assets and return on equity.

**Table 1: Net Profit Margin and Operating Profit Margin**

Years	Net Profit Margin (%)				Operating Profit Margin (%)			
	AXIS	ICICI	YES	HDFC	AXIS	ICICI	YES	HDFC
2006-07	11.60	10.76	13.29	14.07	10.19	10.79	3.10	10.39
2007-08	12.52	10.54	12.69	13.25	10.19	10.10	6.96	9.88
2008-09	13.65	9.67	12.77	11.68	11.20	10.32	9.39	8.69
2009-10	16.85	12.79	16.77	15.23	12.24	7.28	13.88	11.98
2010-11	19.28	19.83	17.99	19.70	-5.35	-5.76	2.56	-2.05
2011-12	22.35	19.27	15.48	18.93	-8.20	-3.09	1.90	-0.28
2012-13	19.05	20.77	15.68	19.18	-5.04	-0.05	0.52	-0.36
2013-14	20.29	22.20	16.20	20.61	-3.87	-1.39	-1.03	1.35
2014-15	20.73	22.76	17.32	21.07	-2.83	-2.03	-0.35	2.51
2015-16	20.06	18.44	18.76	20.41	-2.80	-10.61	-1.27	2.56
Mean	17.64	16.70	15.70	17.41	1.57	1.56	3.57	4.47
SD	3.78	5.17	2.16	3.49	8.23	7.57	5.00	5.21
CV	21.43	30.97	13.78	20.02	523.50	486.19	140.20	116.60
CAGR	6.27	6.17	3.90	4.22	-186.63	-199.81	-190.56	-14.41
Min	11.60	9.67	12.69	11.68	-8.20	-10.61	-1.27	-2.05
Max	22.35	22.76	18.76	21.07	12.24	10.79	13.88	11.98

Table 1 evinces that the net profit margin of AXIS Bank ranged between 11.60 per cent and 22.35 per cent with a mean and standard deviation of 17.64 per cent and 3.78 respectively. The coefficient of variation of net profit margin of AXIS Bank was found to be 6.27 per cent. The compound average growth rate of net profit margin of AXIS Bank was ascertained to be 6.27 per cent. However, in the case of ICICI Bank, the minimum and the maximum net profit margin during the period of study were 9.67 per cent and 22.76 per cent whose mean was 16.70 per cent and the standard deviation of 5.17 per cent with a coefficient of variation was 30.97. The net profit margin of ICICI Bank had a compound annual growth rate was 6.17 per cent.

The net profit margin of YES Bank ranged between 12.69 per cent and 18.76 per cent with a mean and standard deviation of 15.70 per cent and 2.16 respectively. The coefficient of variation of net profit margin of YES Bank was found to be 13.78 per cent. The compound average growth rate of net profit margin of YES Bank was ascertained to be 3.90 per cent. However, in the case of HDFC Bank, the minimum and the maximum net profit margin during the period of study were 11.68 per cent and 21.07 per cent whose mean was 17.41 per cent and the standard deviation of 3.49 per cent with a coefficient of variation was 20.02. The net profit margin of HDFC Bank had a compound annual growth rate was 4.22 per cent.

According to Table 1 the operating profit margin of AXIS Bank ranged between -8.20 per cent and 12.24 per cent with a mean and standard deviation of 1.57 per cent and 8.23 respectively. The coefficient of variation of operating profit margin of AXIS Bank was found to be 523.50 per cent. The compound average growth rate of operating profit margin of AXIS Bank was ascertained to be -186.63 per cent. However, in the case of ICICI Bank, the minimum and the maximum operating profit margin during the period of study were -10.61 per cent and 10.79 per cent whose mean was 1.56 per cent and the standard deviation of 7.7 per cent with a coefficient of variation was 486.19. The operating profit margin of ICICI Bank had a compound annual growth rate was -199.81 per cent.

The operating profit margin of YES Bank ranged between -1.27 per cent and 13.88 per cent with a mean and standard deviation of 3.57 per cent and 5.00 respectively. The coefficient of variation of operating profit margin of YES Bank was found to be 140.20 per cent. The compound average growth rate of operating profit margin of YES Bank was ascertained to be -190.56 per cent. However, in the case of HDFC Bank, the minimum and the maximum operating profit margin during the period of study were -2.05 per cent and 11.98 per cent whose mean was 4.47 per cent and the standard deviation of 5.21 per cent with a coefficient of variation was 116.60. The operating profit margin of HDFC Bank had a compound annual growth rate was -14.41 per cent.

**Table 2: Return on Assets and Return on Equity**

Years	Return on Assets (%)				Return on Equity (%)			
	AXIS	ICICI	YES	HDFC	AXIS	ICICI	YES	HDFC
2006-07	0.85	0.90	0.84	1.25	18.43	12.79	11.98	17.73
2007-08	0.97	1.03	1.17	1.19	12.21	8.94	15.16	13.83
2008-09	1.22	0.99	1.32	1.22	17.77	7.58	18.70	15.31

2009-10	1.39	1.10	1.31	1.32	15.67	7.79	15.46	13.69
2010-11	1.48	1.26	1.23	1.41	18.59	9.35	19.16	15.47
2011-12	1.39	1.36	1.32	1.52	17.83	10.70	20.89	17.26
2012-13	1.52	1.55	1.31	1.68	15.64	12.48	22.39	18.57
2013-14	1.62	1.64	1.48	1.72	16.26	13.39	22.71	19.50
2014-15	1.59	1.72	1.47	1.73	16.46	13.89	17.16	16.47
2015-26	1.56	1.34	1.53	1.73	15.46	11.19	18.41	16.91
Mean	1.36	1.29	1.30	1.48	16.43	10.81	18.20	16.47
SD	0.27	0.28	0.20	0.23	1.90	2.31	3.38	1.92
CV	19.53	22.08	15.16	15.29	11.55	21.41	18.57	11.63
CAGR	6.98	4.52	6.89	3.68	-1.93	-1.47	4.89	-0.52

Table 2 elucidates that the return on assets of AXIS Bank ranged between 0.85 per cent and 1.62 per cent with a mean and standard deviation of 1.36 per cent and 0.27 respectively. The coefficient of variation of return on assets of AXIS Bank was found to be 19.53 per cent. The compound average growth rate of return on assets of AXIS Bank was ascertained to be 6.98 per cent. However, in the case of ICICI Bank, the minimum and the maximum return on assets during the period of study were 0.90 per cent and 1.72 per cent whose mean was 1.29 per cent and the standard deviation of 0.28 per cent with a coefficient of variation was 22.08. The return on assets of ICICI Bank had a compound annual growth rate was 4.52 per cent.

The return on assets of YES Bank ranged between 0.84 per cent and 1.53 per cent with a mean and standard deviation of 1.30 per cent and 0.20 respectively. The coefficient of variation of return on assets of YES Bank was found to be 15.16 per cent. The compound average growth rate of return on assets of YES Bank was ascertained to be 6.89 per cent. However, in the case of HDFC Bank, the minimum and the maximum return on assets during the period of study were 1.19 per cent and 1.73 per cent whose mean was 1.48 per cent and the standard deviation of 0.23 per cent with a coefficient of variation was 15.29. The return on assets of HDFC Bank had a compound annual growth rate was 3.68 per cent.

According to Table 2 the return on equity of AXIS Bank ranged between 12.21 per cent and 18.59 per cent with a mean and standard deviation of 16.43 per cent and 1.90 respectively. The coefficient of variation of return on equity of AXIS Bank was found to be 11.55 per cent. The compound average growth rate of return on equity of AXIS Bank was ascertained to be -1.93 per cent. However, in the case of ICICI Bank, the minimum and the maximum return on equity during the period of study were 7.58 per cent and 13.89 per cent whose mean was 10.81 per cent and the standard deviation of 2.31 per cent with a coefficient of variation was 21.41. The return on equity of ICICI Bank had a compound annual growth rate was -1.47 per cent.

The return on equity of YES Bank ranged between 11.98 per cent and 22.71 per cent with a mean and standard deviation of 18.20 per cent and 3.38 respectively. The coefficient of variation of return on equity of YES Bank was found to be 18.57 per cent. The compound average growth rate of return on equity of YES Bank was ascertained to be 4.89 per cent. However, in the case of HDFC Bank, the minimum and the maximum return on equity during the period of study were 13.69 per cent and 19.50 per cent whose mean was 16.47 per cent and the standard deviation of 1.92 per cent with a coefficient of variation was 11.63. The return on equity of HDFC Bank had a compound annual growth rate was -0.52 per cent.

In order to understand the relationship between profitability ratios of one bank and other banks selected for the study, the following hypotheses have been framed and tested by performing ANOVA:

Null Hypothesis  $H_0$ : There is no significant difference between profitability ratios of one bank and the other banks selected for the study.

Alternative Hypothesis  $H_1$ : There is a significant difference between

profitability ratios of one bank and the other banks selected for the study.

**Table 3: Relationship among the Profitability ratios of the selected banks - ANOVA**

Profitability Ratios	F value	P value	Result	Significance
Net Profit Margin	0.528	0.666	Accepted	Not Significant
Operating Profit Margin	0.483	0.696	Accepted	Not Significant
Return on Assets	1.244	0.308	Accepted	Not Significant
Return on Equity	17.245	0.000	Rejected	Significant @ 1%

From the Table 3, it is evident that there is no significant difference between the net profit margin of one bank and the other banks under the study. Since the p value is 0.666 which is greater than 0.05, the null hypothesis is accepted. It is also understood that the difference between operating profit margin of one bank and the other banks selected for the study as indicated by the p value 0.696 which is found to be greater than 0.05 and hence the null hypothesis is accepted. There was an insignificant difference between the return on assets of one bank and the other banks under the study since the p value is found to be 0.308 (>0.05). However, the difference between the return on equity of one bank and that of other banks considered for the study is significant at 1% level of significance as denoted by the p value of 0.000.

### FINDINGS

The following are the key findings of the present study:

The average net profit margin of AXIS Bank (17.64 per cent) was the highest among the private sector banks under study which is closely followed by the average net profit margin of HDFC Bank (17.41 per cent). The highest compound annual growth rate relating to net profit margin was also recorded by AXIS Bank (6.24 per cent). The net profit margin of YES Bank was found to be more consistent than that of the other banks. The highest average operating profit margin (4.47 per cent) was registered by HDFC Bank among the private sector banks considered for the study. The operating profit margin of all the banks under the study was found to be inconsistent.

The average return on assets of HDFC Bank (1.48 per cent) was the highest among the private sector banks under study which is followed by the average return on assets of AXIS Bank (1.36 per cent). The highest compound annual growth rate relating to return on assets was also recorded by AXIS Bank (6.98 per cent). The return on assets of YES Bank was found to be more consistent than that of the other banks. The highest average return on equity (18.20 per cent) was registered by YES Bank among the private sector banks considered for the study. The return on equity of AXIS bank was found to be more consistent than any other banks.

The difference in the return on equity among the selected private sector banks was found to be significant.

## SUGGESTIONS

The following suggestions have been offered for enhancing the profitability performance of the selected private sector banks:

Since the net profit margin of the banks was higher than the operating profit margin of these banks, it is suggested that the banks have to earn more income through interest on advances. The interest rate is subject to the sanction of the RBI and therefore, interest earned could be earned by issuing more loans and advances.

It is also suggested the banks have to minimize the non performing assets in order to earn more operating profits.

## CONCLUSION

The profitability performance of the selected private sector banks – AXIS Bank, ICICI Bank, YES Bank and HDFC Bank has been analyzed in terms of net profit margin, operating profit margin, return on assets and return on equity. It is observed from the analysis that the net profit margin of the banks has been consistent throughout the period of study. Among the private sector banks considered for the study, the profitability performance of AXIS Bank has been found to be greater than the performance of the other banks under study.

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