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Original Research Paper

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"STUDY ON PROFITABILITY OF SELECTED PUBLIC SECTOR BANKS IN INDIA"

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ABSTRACT Profitability is the main goal of all business ventures. The financial health of any business can be measured through its profitability positions and business organizations cannot survive without profits. In view of the significance of improving profitability of the banking sector in recent years, the present study is aimed at examining the profitability of public sector banks of India using Return on Assets ratio. The result of the analysis carried out for the period 2010-11 to 2019-2020 shows financial performance and positions of public sector banks. Public sector banks with increasing non-performing assets are experiencing negative return on their assets in recent years which is deteriorating their profit.

KEYWORDS : Profitability, Public Sector Banks, and Return on Assets

1. INTRODUCTION

Banking sector had played a revolutionary change towards the growth of our economy and henceforth it is the key indicator to analyze the level of development of any country. If the banking sector does not perform well agriculture, industry, trade activities all will be affected. Efficient banking system reflects a sound intermediation process and banks contribution towards economic growth. Profitability analysis of banks is essential for evaluating banks business life. Profitability is the capacity of an organization or firm to have benefits from their business activities. Profit is usually the reward of the entrepreneur. It acts as the performance measure of a business. Increasing profits attracts investors, expands the market and also enable a business to survive for a long period of time. Profit maximization is the main goal for business ventures and they spend countless hours and efforts to find out ways of reducing cost and increasing sales (Schreibfedar, 2006). Like all business banks receives profits by earning more than their expenses. Banks profits comes mainly from the interest charged on loans and the fees charged for the services it renders. Likewise, the main item of expense for banks is the interest they have to pay on liabilities. Deposits, money borrowed from other banks and financial institutions, commercial papers form the liabilities of a bank and the loans and the securities are the major assets for a bank. Profits are earned by using leverage which is measured through return on assets and return on equity. It is Important to note here that not all assets earn return for a bank. To meet cash withdrawal banks keep cash with them which earns no interest. Moreover, the loan loss reserves kept to cover losses when borrowers don't pay `manage its business to earn significant number of profits while maintaining a decent liquidity level. More profitability can absorb the shocks and avert risks that banks can face. Profitability is a prerequisite for innovation, diversification and efficiency of commercial banks (Hempell, 2002). The stability of commercial banks to a great extent depends on profitability

1.1 RETURN ON ASSETS

"Return on Asset (ROA) is **a profitability ratio.** Return on assets is a profitability ratio that provides how much profit a company is able to generate from its assets. In other words, return on assets (ROA) measures how efficient a company's management is in generating earnings from their economic resources or assets on their balance sheet.

$$\text{ROA ratio} = \frac{\text{Net Profit}}{\text{Total Assets}} \times 100$$

Return on assets (ROA) is an indicator of how profitable a company is relative to its total assets. ROA gives a manager, investor, or analyst an idea as to how efficient a company's management is at using its assets to generate earnings.

2. REVIEW OF LITERATURE

Cheema & Agarwal (2002), analyzed the profitability of ten selected commercial banks in India. Five best performing banks were taken in class-1 and five poor performing banks were taken in class-2 categories. The study revealed that operating cost was higher in the case of class-2 banks and in these banks the profitability was affected due to low level of spread. The study prescribed that operating cost can be improve with the introduction of high-level technology as well as by improving the per employee productivity.

Kumari (2003), found that both public and private sector banks have shown increasing trend in terms of deposit mobilization, branch expansion, credit deployment and employment generation. Banks wise analysis revealed that private sector banks have shown higher growth as compared to public sector banks. Public sector banks by adopting innovation modern technological changes and fixing responsibility of officers for recovery can improve their productivity.

Gopal and Dev (2006), empirically analyzed the productivity and profitability of selected public and private sector banks in India. They evaluated the effect of globalization and liberalization on the productivity and profitability of Indian banks during the period 1996-97 to 2003-04. Interest spread was found to be the only strong factor influencing the profitability. A high degree of positive association between productivity and profitability during the study period was witnessed which shows efficiency of the banks in utilizing their resources.

Jha and Sarangi (2011), evaluated seven public sector and private banks for the year 2009-10 and their performance. They used various ratios like financial ratios, efficiency ratios, operating performance ratios etc. The study found that Axis Bank is the best performer followed by HDFC Bank, PNB, IDBI, BOI, SBI and ICICI bank.

3. RESEARCH METHODOLOGY

This research is descriptive and quantitative in nature as it is studying the current financial status of the selected banks. The yearly financial data of SBI, BOB, PNB, Allahabad Bank, Andhra bank, Bank of Maharashtra, Central bank of India and Union Bank of India, Canara Bank, and bank of India from 2010-11 to 2019-2020 were collected from the financial websites. For the data analysis purpose, the Return on Assets ratio has been calculated and compare their financial performance

3.1 RESEARCH OBJECTIVE

The financial reports of public banks during the pandemic were analyzed to shed light on the banks' current financial condition. As a result, the study's primary goal is to look at

India's banking sector's financial success over the last ten years, from 2010-11 to 2019-20. The study also aims to identify profitability of public sector banks and their performance.

3.2 STATISTICAL TOOLS:

In this study statistical tools like arithmetic mean have been used to calculate the average of Return on Assets ratios. Also, Analysis of variance test has been used to compare the profitability of selected public sector banks in India.

4. DATA ANALYSIS AND INTERPRETATION

Table 4.1 The Return on Assets ratio of selected banks (%) from 2010-11 to 2019-20

Year	SBI	ALLAHABAD	BOB	BOI	BANK OF MHN	PNB	CANARA	ANDHRA	CBI	UBI
2010-11	0.64	0.95	1.21	0.72	0.43	1.18	1.18	1.14	0.55	0.93
2011-12	0.83	1.01	1.14	0.70	0.49	1.06	0.88	1.06	0.26	0.67
2012-13	0.83	0.59	0.85	0.61	0.65	0.99	0.70	0.87	0.39	0.68
2013-13	0.59	0.53	0.73	0.51	0.29	0.62	0.52	0.25	-0.41	0.47
2014-15	0.62	0.28	0.53	0.32	0.31	0.53	0.51	0.34	0.21	0.45
2015-16	0.39	-0.30	-0.73	-1.00	0.07	-0.51	-0.46	0.27	-0.45	0.33
2016-17	0.00	-0.11	0.25	-0.23	-0.85	0.16	0.22	0.09	-0.73	0.12
2017-18	-0.12	-1.80	-0.25	-0.96	-0.71	0.00	-0.62	-1.36	-1.57	-1.06
2018-19	0.05	-3.38	0.13	-0.86	0.00	-1.21	0.08	-1.07	-1.69	-0.58
2019-20	0.47	0.00	0.07	-0.46	0.23	0.05	-0.26	0.00	-0.35	-0.56
Average	0.43	-0.25	0.39	-0.07	0.09	0.29	0.28	0.18	-0.38	0.15

(Source: moneycontrol.com)

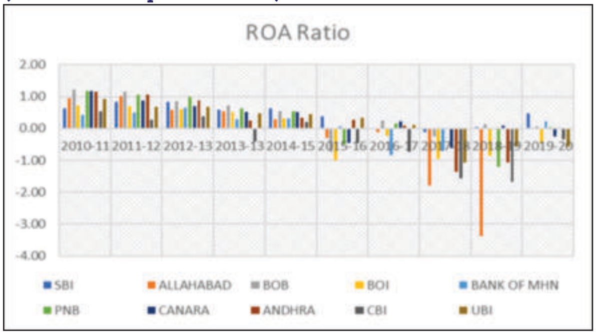

Table 4.1 shows the year- wise Return on Assets ratios of selected public sector banks from financial year 2010-11 to financial year 2019-20. It was observed that Return on Assets ratios of State Bank of India, Bank of Baroda and Punjab National Bank are having positive and higher return on assets whereas Allahabad Bank, Bank of India and Central Bank of India have negative return on assets.

HYPOTHESIS TESTING

H0: There is no significance difference among return on Assets of selected public sector banks in India.

H1: There is significance difference among return on Assets of selected public sector banks in India.

The ANOVA test of there is no statistically significant difference in profitability ratios of the select public sector banks the p-value (0.30351) is higher than the significance value (0.05). So, the H0 is Accepted. The return on Assets among all public sector banks is not significant.

CONCLUSION

The profitability of Indian public sector banks are clearly reflected in the analysis. Public sector banks with increasing non-performing assets are experiencing negative return on their assets in recent years which is deteriorating their profits. But Today's situation these banks are efficiently managing their assets and equities. In the present scenario, there has been an increased focus on profitability, although other social objectives continue to be important. Moreover, the setting up a new competitive environment has resulted in new challenges for the public sector banks to retain their position.

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