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# A Study on Profitability Analysis of Selected Public Sector Banks

KEYWORDS

**Alpa Joshi**

Asst. Professor, GYCSM,Yogidham Gurukul, Kalavad Road, Rajkot

**ABSTRACT** *Mostly every firm is most concerned with its profitability. One of the most commonly used tools of financial ratio analysis is profitability ratios which are used to determine the company's bottom line and its return to its investors. Profitability measures are significant to company promoters and owners similarly. If a small business has outside investors who have put their own money into the company, the promoters certainly have to show profitability to those investors.*

*Profitability ratios are considered to evaluate the firm's ability to generate income. Analysis of profit is of essential concern to investors since they gain revenue in the form of dividends. Profits are also vital to creditors because profit is one source of funds for liability. Furthermore Management uses profit as a performance appraisal.*

**Banking sector in India**

The economic reforms in India started earlier but the result is visible now. Major structural changes were implemented in the functioning of public and private sector Banks in India only after LPG policies. It would be very useful to study and to make a comparative analysis of services of Public sector Banks. Greater than before competition, innovation in technologies and thereby declining processing fees, the attrition of product and geographic limits and liberal governmental regulations have all played a key role for Public Sector Banks in India to forcefully fight with Private and Foreign Banks. This paper is an attempt to analyze how efficiently Public sector banks have been managing profitability. Dr. Sanjay Bhayani has conducted study in 2004 on working capital and profitability of Cement companies and cited that profitability is highly influenced by assets.

**Profile of Selected banks for the study**

State Bank of India (SBI) was incorporated in 1806 as Bank of Calcutta, which was redesigned as Bank of Bengal in 1809. In 1921, the Bank of Madras, Bank of Bombay and Bank of Bengal were combined to form Imperial Bank. In 1955, all the state united and state sponsored banks were integrated with Imperial bank to form SBI and subsequently in 1959; the SBI Act enabled the bank to formulate the former eight state associated banks as its subsidiaries. In Aug 2010, it acquired State Bank of Indore. In July 2011, the bank acquired SBICI.

Punjab National Bank (PNB) commenced in 1895 in Lahore. In 1951, the bank took over Bharat Bank Ltd and later in 1962 merged the Indo-Commercial bank with itself. In 1969, the bank was nationalized. PNB functions through various services like personal, social, MSME, agriculture and corporate banking.

Canara Bank (Canara Bank) was established in 1906 as Canara Bank Hindu Permanent Fund Ltd and was nationalized in 1969. In 1983, it started its overseas branch at London. In 1984, the bank merged with Lakshmi Co mercial Bank Ltd. During 1989, the bank initiated venture capital financing and factoring business. In 2002-03, Canara Bank came out with its IPO.

Bank of Baroda (BoB) was established in 1908 by the then Maharaja of Baroda. It started its first domestic branch in 1910, while its first overseas branch became active in 1953. In 1969, it was nationalized by GoI, thereby getting status of a Public Sector Bank. In 1996, the Bank came up with its first IPO.

Bank of India (BoI) was founded on Sep 7, 1906 as private ownership by famous citizens and businessmen of Mumbai. It is one of the primary banks of the country with a affluent record of success of more than 105 years of Banking Services. The Bank has more than 54 million strong customer bases. Government of India is a primary shareholder.

The Bank is the former Bank to set up a branch outside India when it started its London branch in July 1946. The second abroad branch was opened in Japan in 1950 followed by starting Paris branch in 1974.BOI was nationalized in July 1969 with other banks. In the year 1997, the bank came out with IPO and follow on QIP in Feb 2008. The banking services include wholesale & international banking and national banking cluster. The bank has global existence across all continents.

**Objective of the study**

The main intention of the study is to evaluate the profitability of the selected public sector banks of India.

**Methodology of the study**

- **Source of the data**

The study is based on the secondary data which are taken from the financial statements of SBI,PNB,BOB,BOI and CANARA BANK through prowess from 2008-09 to 2011-2012 to find out the profitability of public sector banks..for more information different journals, News papers and related Websites are also taken into consideration as and when required for the study.

- **Hypothesis of the study**

Ø The amount of profitability Trend value of PBT as % of total income is the same.
Ø The amount of profitability Trend value of PAT as % of total income is the same.
Ø The amount of profitability Trend value of PBT as % of net worth is the same.
Ø The amount of profitability Trend value of PAT as % of net worth is the same.

**Techniques of Analysis**

For the analysis of data various ratios relating to Profitability is considered. Moreover the simple statistical measures like mean and ANOVA Test is also applied for hypothesis testing. For that SS=Sum Of squares, D.F=Degree Of Freedom, MSS=Mean Sum of Squares, F cal=Calculated Value of F. and Ft =critical value of F ratio at 5% level, are calculated and mentioned in the table to draw outcome.

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**Net Operating Profit Ratio/PBT to Sales**

This ratio measures the efficiency of operations of the company. This ratio is designed to give attention on the net profit margin arising from the business process before tax is deducted. This convention is to express (PBT) Profit before tax (PBT) as a percentage of sales.

**Net Operating Profit Ratio =PBT/Sales *100**

**Table-1 PBT to Sales**

| year | 2007-08 | 2008- | 2009- | 2010- | 2011- | Total | Mean | Combined |
|---|---|---|---|---|---|---|---|---|
| Bank | | 09 | 10 | 11 | 12 | | | Mean |
| Sbi | 17.9 | 18.5 | 16 | 15.2 | 15.2 | 82.8 | 16.56 | |
| Pnb | 20.23 | 20.76 | 21.84 | 23.6 | 19.21 | 105.64 | 21.128 | |
| Canara | 11.54 | 13.16 | 16.8 | 17.73 | 6.6 | 65.83 | 13.166 | 17.2496 |
| Bob | 15.89 | 18.7 | 21.84 | 23.6 | 19.21 | 99.24 | 19.848 | |
| Boi | 18.55 | 21.43 | 12.17 | 14.33 | 11.25 | 77.73 | 15.546 | |

**Table -2 One Way ANOVA result of selected Banks**

| Sources of variance | SS | D.F. | M.S. | F value | F table value |
|---|---|---|---|---|---|
| BSS | 209.236 | 4 | 52.309 | 4.97 | 2.87 |
| ESS | 211.016 | 20 | 10.5508 | | |
| TSS | 420.252 | 24 | | | |

At 95% confidence level, the critical value obtained from F table is 2.87.The calculated value is 4.97 which is greater than the tabular value and falls in the rejection region. From the above analysis we can say that Net Operating Profit Ratio for selected banks is not the similar.

**Net Profit Margin Ratio**

This ratio shows the relationship between net profits to sales. The net profit is overall measures of a firm's ability to turn each rupee of sales into profit. It indicates the efficiency with which a business is managed.

**Table-3**
**Net Profit Margin**
**Ratio =PAT/Sales×100**

| year | 2007-08 | 2008- | 2009- | 2010- | 2011- | TOTAL | MEAN | COMBINED |
|---|---|---|---|---|---|---|---|---|
| Bank | | 9 | 10 | 11 | 12 | | | MEAN |
| SBI | 11.5 | 11.9 | 10.5 | 8.4 | 9.6 | 51.9 | 10.38 | |
| PNB | 12.58 | 13.7 | 15.56 | 14.45 | 12.02 | 68.31 | 13.662 | |
| CANARA | 9.48 | 10.6 | 13.29 | 14.2 | 5.31 | 52.88 | 10.576 | 11.98 |
| BOB | 10.33 | 12.46 | 15.25 | 16.98 | 14.91 | 69.93 | 13.986 | |
| BOI | 13.88 | 15.48 | 8.5 | 10.2 | 8.42 | 56.48 | 11.296 | |

**Table -4 One Way ANOVA result of selected Banks**

| Sources of variance | SS | D.F. | M.S. | F value | F table value |
|---|---|---|---|---|---|
| BSS | 59.26116 | 4 | 14.81529 | | |
| ESS | 134.215 | 20 | 6.71075 | 2.21 | 2.87 |
| TSS | 193.4762 | 24 | | | |

At 95% confidence level, the critical value obtained from F table is 2.87.The calculated value is 2.21 which is lesser than the tabular value and falls in the acceptance region. From the above analysis we can say that Net profit margin Ratio for selected banks is similar.

**Profit before Tax (PBT) to Net Worth Ratio**

This ratio is a very effective measure of the profitability of any firm. This ratio measures the return on the total equity

of shareholders Net Worth. This ratio is one of the important tool in financial statement analysis.

**Table-5 PBT as % of net worth**

| year | 2007-08 | 2008- | 2009- | 2010- | 2011- | TOTAL | MEAN | COMBINED |
|---|---|---|---|---|---|---|---|---|
| Bank | | 9 | 10 | 11 | 12 | | | MEAN |
| SBI | 26 | 26.5 | 22.5 | 22.8 | 24.8 | 122.6 | 24.52 | |
| PNB | 31.5 | 39.14 | 39.49 | 39.32 | 33.75 | 183.2 | 36.64 | |
| CANARA | 23.22 | 28.06 | 33.85 | 32.98 | 21.17 | 139.28 | 27.856 | 29.34 |
| BOB | 22.41 | 27.95 | 31.29 | 35.25 | 29.63 | 146.53 | 29.306 | |
| BOI | 36.85 | 40.41 | 20.29 | 24.3 | 20.04 | 141.89 | 28.378 | |

**Table -6 One Way ANOVA result of selected Banks**

| Sources of variance | SS | D.F. | M.S. | F value | F table value |
|---|---|---|---|---|---|
| BSS | 398.2563 | 4 | 99.56408 | | |
| ESS | 654.8525 | 20 | 32.74263 | 3.040809 | 2.87 |
| TSS | 1053.109 | 24 | | | |

At 95% confidence level,the critical value obtained from F table is 2.87.The calculated value is 3.04 which is greater than the tabular value and falls in the rejection region. From the above analysis we can say that PBT to net worth Ratio for selected banks is not the similar.

**Profit after Tax (PAT) to Net Worth Ratio**

This ratio is effective tool to measure of the profitability after tax. This ratio measures the after tax return on the total equity of shareholders Net Worth.This ratio is also one of the important tool in analysis of shareholders return.

**Table-7 PAT as % of net worth**

| year | 2007-08 | 2008- | 2009- | 2010- | 2011- | TOTAL | MEAN | COMBINED |
|---|---|---|---|---|---|---|---|---|
| Bank | | 9 | 10 | 11 | 12 | | | MEAN |
| SBI | 16.8 | 17.1 | 14.8 | 12.6 | 15.7 | 77 | 15.4 | |
| PNB | 19.58 | 25.84 | 26.59 | 26.38 | 23.43 | 121.82 | 24.364 | |
| CANARA | 19.08 | 22.61 | 26.76 | 26.42 | 17.02 | 111.89 | 22.378 | 20.6944 |
| BOB | 14.58 | 18.62 | 21.86 | 25.37 | 23 | 103.43 | 20.686 | |
| BOI | 27.58 | 29.18 | 14.16 | 17.3 | 15 | 103.22 | 20.644 | |

**Table -8 One Way ANOVA result of selected Banks**

| Sources of variance | SS | D.F. | M.S. | F value | F table value |
|---|---|---|---|---|---|
| BSS | 221.6688 | 4 | 55.4172 | | |
| ESS | 399.5504 | 20 | 19.97752 | 2.773978 | 2.87 |
| TSS | 621.2192 | 24 | | | |

At 95% confidence level, the critical value obtained from F table is 2.87.The calculated value is 2.77 which is lesser than the tabular value and falls in the acceptance region. From the above analysis we can say that PAT to net worth Ratio for selected banks is similar.

From the above analysis we can say that PBT to income and PBT to net worth ratio for different selected banks is different i.e. not similar but PAT to net income and PAT to net worth is similar for different selected banks.

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