



A Study on The Profitability Position of The Jammu And Kashmir Bank Ltd.

KEYWORDS

Total Asset, Total income, Net profit, Deposit, Spread, Burden and Profitabilit.

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ABSTRACT Profit is the most crucial parameter of judging the health of a bank. Profit is essential to satisfy the shareholder expectations and expansion of the existing business. In the words of Lord Keynes, "profit is the engine that divers the business enterprise". The objective of present study is to study and analyze the profitability position of J&K Bank Ltd. This study is based on secondary data collected from J&K Bank Ltd., annual report during the period from 2004-2005 to 2011-2012. Ratio Analysis, Growth rate and Trend Analysis are used for the analysis of profitability position of the J & K Bank Ltd., Profitability is definitely a challenge in J & K bank Ltd. Bank has to work hard with all seriousness to maintain or increase the spread, increase the interest income and non interest income and at the same time decrease the burden

INTRODUCTION

Profitability is an important indicator of the efficient management of a commercial bank. The primary objective of a business undertaking is to earn profits. Profitability indicates the efficiency or effectiveness with which the operations of the business are carried on. Profit earning is considered essential for the survival of the business. In the words of Lord Keynes, "profit is the engine that divers the business enterprise". A business needs profit not only for its existence but also for expansion and diversification. The investors want an adequate return on their investments, workers want higher wages, creditors want higher security for their interest and loan and so on. A business enterprise can discharge its obligation to the various segments of the society only through the earning of profits. Profits are, thus, a useful measure of overall efficiency of a business. Profit to the management are the test of efficiency and a measurement of control ; to owners a measure of worth of their investment ; to creditors, the margin of safety ; to employees, a source of fringe benefits ; to government, a measure of tax- paying capacity and the basis of legislative action ; to customers, a hint to demand for better quality and price cuts ; to an enterprise, less cumbersome source of finance for growth and existence and finally to the country, profits are an index of economic progress¹.

Profit is the most crucial parameter of judging the health of a bank. Profit is essential to satisfy the shareholder expectations and expansion of the existing business. The most direct result of profitability changes in increasing competition and narrowing of spreads and its impact on the profitability of banks. Profitability depends on managing the banks' portfolios so that the interest income generated by assets exceeds the interest expenses of funding. As interest income exceeds interest expenses, the greater will be the bank's profitability.

Profitability indicates the efficiency or effectiveness with which the operations of the business are carried on. It is the main base for liquidity as well as solvency. Bankers, financial institutions and other creditors look at the profitability ratio as an indicator whether or not the banks earns substantially more than it pays as interest for the use

of borrowed funds and whether the ultimate repayment of their debt appears reasonably certain. Owners are interested to know the profitability as it indicates the return which they can get for their investment.

Profitability is the ability of the firm to generate earnings. In the case of banking industry profits provide a cushion for loans, losses and risks arising from rule of interest changes. Profitability is an important indicator of the efficient management of a commercial bank. Profitability serves as a common denominator of the business effectiveness of the different activities of a bank. It is also a broad gauge of the capability of a bank to increase its earnings. For these reasons, profitability is perhaps the most important single indicator of performance of banks².

Statement of the Problem

Finance is regarded as the life blood of a business. It is one of the foundations of all kinds of economic activities. The organization is deemed to be financially sound if it is in a position to carry on its business smoothly. In recent years, there has been considerable pressure on the profitability of banks. Profitability is considered to be an index of financial health. The term profitability refers to an indication of the efficiency and effectiveness with which operations of the business is carried on. Poor operational performance may indicate poor selling of bank products and hence poor profits. A lower profitability may arise due to lack of control over expenses. Profitability is a key result area where performance and results directly and virtually affect the survival³. The financial health of any bank depends on its profitability, liquidity and solvency position. To understand the financial health, it is essential to determine the profitability. Keeping in view this problems a study has been attempted to make the analysis the Profitability Position of the Jammu and Kashmir Bank Ltd.

Objectives of the Study

1. To study and analyze the profitability position of the J&K Bank Ltd.

Need for the Study

J & K Bank is a part and parcel of J & K's history, culture

and economy. It is an asset of the people, by the people and for the people of J & K. Committed to play a pivotal role in the economic empowerment of the people and overall economic prosperity of the state. J & K Bank being a J & K centric institution with a national presence has a greater role in the economic and social transformation of the state which in turn will help the bank grow and prosperity. The Bank has customized its products and services to suit the local population and sectors which are instrumental in driving the economy of the State.³ Financial analysis is the process of identifying the financial strengths and weaknesses of the financial institutions as well as development of banks. It is found to be the only way to measure profitability. Profitability is considered to be an index of financial health. The profitability refers to an indication of the efficiency or effectiveness with which the operations of the business are carried on. It is the main base for liquidity as well as solvency.

Methodology

The study is based on secondary data. Secondary data collected from the annual reports, journals, magazines, websites, and official records of the J&K Bank Ltd. The collected data have been arranged in a proper manner for analysis. Ratio Analysis, Growth rate and Trend Analysis are used for the analysis of profitability position.

Net Profit and its Trend of the J&K Bank Ltd.

Profit is the motive for any business. The most important function of profit is the establishment of viability of operations and continued stability of the organization. Net profit is a function of income over expenditure. The components of the total income are two, namely interest income and non interest income. Expenses are also classified as expenses on banking operation and other non-banking activities.

Table 1
Net Profit and its Trend (2004-2005 to 2011-2012)
(in lakhs)

Year	Net Profit	Growth rate (%)	Trend Percentage
2004-05	11,506.90	---	100
2005-06	17,684.34	53.68	153.68
2006-07	27,448.63	55.21	238.54
2007-08	36,000.42	31.15	312.85
2008-09	40,983.55	13.84	356.16
2009-10	51,237.88	25.02	445.27
2010-11	61,520.19	20.06	534.63
2011-12	80,325.05	30.56	698.05

Source: Computed From Annual Reports of Jammu and Kashmir Bank Ltd.

From the table 1 the amount of net profit has shown increasing fluctuation during the study period of 2004-05 to 2011-2012. It lies between a minimum of ` 11,506.09 lakhs in 2004-2005 and a maximum of 80,325.05 lakhs in 2011-2012 in between these two financial years the bank

shows increase growth of net profit in every year. As a result the trend percentage has fluctuated in between a low 153.68 per cent in 2005-2006 and a high of 698.05 per cent in 2011-2012. The growth rate of net profit over the period of analysis is fluctuating between a minimum of 13.84 percent in 2008-2009 and a maximum of 55.21 percent in 2006-2007 during the study period. In the year 2005-2006, 2006-2007 growth rate highly increased 53.68 and 55.21 due to the back of improved liability management, high margin lending and reduction in MTM losses (mark to market).

Ratio of Net Profit to Total Income of the J&K Bank Ltd.

Profitability of the bank can be evaluated by studying the proportion of net profit as a percentage of total income earned by the bank. Net profit is the balance profit calculated as the excess of income over expenditure of the bank. Total income comprises of interest income and non-interest income of the bank. Total expenditure includes interest expenditure and non interest expenditure. The ratio of net profit to total income is calculated in table 2.

Table 2
Ratio of Net Profit to Total Income (2004-2005 to 2011-2012)
(in lakhs)

Year	Net profit	Total Income	Ratio
2004-05	11,506.90	1,63,125.77	7.05
2005-06	17,684.34	1,83,942.96	9.61
2006-07	27,448.63	2,05,953.69	13.32
2007-08	36,000.42	2,67,924.37	13.43
2008-09	40,983.55	3,23,317.36	12.67
2009-10	51,237.88	3,47,311.48	14.75
2010-11	61,520.19	4,07,788.84	15.08
2011-12	80,325.05	5,16,970.05	15.53

Source: Computed from Annual Reports of Jammu and Kashmir Bank Ltd.

The ratio of net profit to total income of J&K Bank Ltd., for the period from 2004-2005 to 2011-2012 is calculated and is given in the table 2. It has been shown that the total income of the bank has fluctuated during the study period between a low of ` 1, 16,312.77 lakhs in 2004-2005 and a high of ` 5,16,970.05 lakhs in 2011-2012. The total income of the bank shows increasing trend every year due to the wide fluctuation in net profit as was seen above in the table, the ratio of net profit to total income has shown a very wide fluctuation over the period of the study. The percentage of net profit to total income lies between a low of 7.05 per cent in the year 2004-2005 and a high of 15.53 per cent in 2011-2012 respectively.

Ratio of Return on Total Assets of the J&K Bank Ltd.

The performance of banks is measured through return on assets (ROA). It reflects the ability of the bank to generate profit from the bank's assets and also measures the ability

of the management to convert the assets of the bank into net earnings. Return on assets as the key ratio for the evaluation of bank's profitability.

Table 3
Ratio of Net Profit to Total Assets (2004-2005 to 2011-2012)

(` in lakhs)

Year	Net profit	Total Assets	Ratio
2004-05	11,506.90	23,62,016.07	0.48
2005-06	17,684.34	26,19,000.68	0.67
2006-07	27,448.63	27,54,920.44	0.99
2007-08	36,000.42	31,64,924.19	1.13
2008-09	40,983.55	35,17,104.99	1.16
2009-10	51,237.88	40,72,967.86	1.25
2010-11	61,520.19	50,34,930.29	1.22
2011-12	80,325.05	59,13,505.71	1.35

Source: Computed from Annual Reports of Jammu and Kashmir Bank Ltd.

From table 3 the total assets of the bank have been considered to find out the return on assets. The assets of the bank have been found ` 23,62,016.07 lakhs in 2004-2005 increased to ` 59,13,505.71 lakhs in 2011-2012. The ratio of return on assets has varied from 0.48 percent in 2004-2005 to a maximum of 1.35 percent in 2011-2012. It has been found from the table the total assets and net profit of the bank shows an increasing trend throughout the period of study which means the bank utilizes the assets efficiently and makes the investment in profitable securities and lends the loans at high margins.

Ratio of Net Profit to Total Deposits of the J&K Bank Ltd.

Deposits constitute a key factor among the parameters of growth and it also forms the basis for the lending operations and hence it bears in indirect relationship to the Net profit.

Table 4
Ratio of Net Profit to Total Deposit (2004-2005 to 2011-2012)

(` in lakhs)

Year	Net Profit	Total Deposit	Ratio (%)
2004-05	11,506.90	21,64,497.27	0.531
2005-06	17,684.34	23,48,463.71	0.753
2006-07	27,448.63	25,19,429.47	1.089
2007-08	36,000.42	28,59,326.30	1.259
2008-09	40,983.55	33,00,410.36	1.241
2009-10	51,237.88	37,23,716.04	1.146
2010-11	61,520.19	44,67,593.50	1.377

2011-12	80,325.05	53,34,690.16	1.505
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Source: Computed from Annual Reports of Jammu and Kashmir Bank Ltd.

Table 4 shows the net profit to total deposits and the ratio of net profit to total deposits of the J&k Bank Ltd., for the period 2004-2005 to 2011-2012. It has been found from the table that there is an increasing trend in total deposits the study period between a minimum of ` 21,64,497.27 lakhs in throughout 2004-2005 and a maximum of ` 53,34,690.16 lakhs in 2011-12. The net profit of the bank during the period of study shows continuously increasing growth from ` 11,506.90 lakhs in 2004-2005 to ` 80,325.05 lakhs in 2011-2012. As a result the percentage of net profit to total deposit is seen to be fluctuating in between a low of 0.531 per cent in 2004-2005 and a high of 1.505 per cent in 2011-2012.

Spread and its Trend of the J&K Bank Ltd.

Banks should keep their interest high on advances and low on deposits for a greater spread. When the interest income is compared to interest expenditure, the spread of the bank should show an increasing trend which is a positive sign for the management efficiency of the bank and it would determine the earning capacity of the bank. Therefore the gap between the interest income and interest expenditure refers as a spread.

Table 5
Spread and its Trend (2004-2005 to 2011-2012)

(` in lakhs)

Year	Interest Income	Interest Expenditure	Spread (A-B)	Trend Percentage
2004-05	1,54,922.61	95,299.46	59,623.15	100
2005-06	1,70,625.24	1,04,252.71	66,372.15	111.31
2006-07	1,89,932.52	1,13,148.91	76,784.33	128.78
2007-08	2,43,423.04	1,62,379.17	81,043.87	135.92
2008-09	2,98,811.97	1,98,786.12	1,00,025.85	167.76
2009-10	3,05,667.91	1,93,754.30	1,11,933.61	187.73
2010-11	3,71,313.22	2,16,946.85	1,54,366.37	258.90
2011-12	4,83,557.73	2,99,722.24	1,83,835.49	308.32

Source: Computed From Annual Reports of Jammu and Kashmir Bank Ltd.

The table 5 shows that the interest expenditure of the bank in all the years is less than the interest income. Therefore spread was found to be highly fluctuating between a high of ` 1,83,835.49 lakhs in 2011-2012 and a low of ` 59,623.75 lakhs in 2004-2005. Taking 2004-2005 as the base year the last column of the table is showing the trend reveals that the trend has been fluctuating during the study period. During the study period the trend per cent was substantially more than the base year. Interest income has shown fluctuation throughout the period it has increased from ` 1,54,922.61 lakhs in 2004-2005 to ` 4,83,557.73 lakhs in 2011-2012. Interest expenditure of the bank shows fluctuating trend it was ` 95,299.46 lakhs in 2004-2005 and increased to ` 2,99,722.24 lakhs in 2011-2012 and the trend percentage of bank increase from 111.31 per cent in 2004-2005 to 308.32 in 2011-2012 due to increase in interest on deposits and advances.

Burden and its Trend of the J&K Bank Ltd.

Burden is defined as the difference between non – interest expenditure and non – interest income of the bank. It represents a non-interest expenditure that is covered by non-interest income .It is an important factor in determining the profitability of the bank. The profit of the bank is the difference between the spread and a burden. If the burden is more, it adversely affects on profit and vice-versa.

Table 6 Burden and Its Trend (2004-2005 to 2011-2012) (in lakhs)

Year	Non interest expenditure	Non interest Income	Burden (A-B)	Trend Percentage
2004-05	32,279.71	8,203.16	24,076.55	100
2005-06	34,525.44	13,317.72	21,207.72	88.08
2006-07	37,244.03	16,021.17	21,222.86	88.14
2007-08	40,361.41	24,501.33	15,860.08	65.87
2008-09	47,086.07	24,505.39	22,580.68	93.78
2009-10	57,736.72	41,623.57	16,113.15	66.92
2010-11	75,893.18	36,475.62	39,417.56	163.71
2011-12	80,215.19	33,412.32	46,802.87	194.39

Source: Computed from Annual Reports of Jammu and Kashmir Bank Ltd.

Table 6 shows burden of the J&K bank Ltd., and its trend it has shown an increasing trend throughout the period of study except two years which are 2007-2008 and 2009-2010 and the amount of burden was ` 15,860.08 lakhs and ` 16,113.15 lakhs respectively. And the non interest income of the bank fluctuates between a low of ` 8,203.16 lakhs in 2004-2005 and a high of ` 41,623.57 lakhs in 2009-2010 and the rest of years from 2005-2006 to 2008-2009 non interest income of bank steadily increases in these years and the very next financial year bank's non interest income heavily increases as compared other years. The trend in burden has shown increasing trend it was 88.08 per cent in 2005-2006 and increased to 194.39 per cent in 2011-12, except two years which are 2007-2008 and 2009-2010 where the burden of the bank shows decreasing trend of 65.87 per cent and 66.92 per cent during the period of study.

Burden as a Percentage to Total Income of the J&K Bank Ltd.

Burden as a percentage to total income reveals as to what extent the bank is in a position to cover the non-interest expenditure through non-interest income. If a bank is able to cover the non- interest expenses with the help of non- interest income the bank is said to have fine performance and as such have no burden on interest income on account of non interest expenditure. Burden denotes a bank's ability to earn from non conventional sources. A bank with a low burden ratio is better off and an increasing trend would show lack of burden bearing capacity of the bank.

Table 7 Burden as a Percentage to Total Income (2004-2005 to 2011-2012) (in lakhs)

Year	Burden	Total Income	Ratio
2004-05	24,076.55	1,63,125.77	14.75
2005-06	21,207.72	1,83,942.96	11.52
2006-07	21,222.86	2,05,953.69	10.30
2007-08	15,860.08	2,67,924.37	5.91
2008-09	22,580.68	3,23,317.36	6.98
2009-10	16,113.15	3,47,311.48	4.63

2010-11	39,417.56	4,07,788.84	9.66
2011-12	46,802.87	5,16,970.05	9.05

Source: Computed from Annual Reports of Jammu and Kashmir Bank Ltd.

Burden as a percentage to total income of J&K bank Ltd., for the period from 2004-2005 to 2011-2012 is given in table 7.It is seen from the above table the burden has shown continuous increase, through out the period of study except two which are 2007-2008 and 2009-2010 and the amount of burden in these two years was ` 15,860.08 lakhs and ` 16,113.15 lakhs respectively. Because of wide difference between burden and total income. The ratio of burden to total income has shown a wide fluctuation that it has been fluctuating between a low of 4.63 per cent in 2009-2010 and a high of 11.45 per cent in 2004-2005.

Burden as a Percentage to Total Expenditure of the J&K Bank Ltd.

The Non Interest Expenditure is one of the components of burden which is predominantly fixed in nature. An important constitutes of the non interest expenditure is administrative expenses which include salary and allowances, which are fixed in nature. In other words, these expenses do not have any direct relationship with the operating income of the bank. Hence they are considered non controllable. One of the ways to manage burden is to increase non interest income. The scope for increasing the income through an increase in individual customer base would help to improve the situation.

Table 8 Burden as a Percentage to Total Expenditure (2004-2005 to 2011-2012) (in lakhs)

Year	Burden	Total Expenditure	Ratio
2004-05	24,076.55	1,51,618.87	15.87
2005-06	21,207.72	1,66,258.62	12.75
2006-07	21,222.86	1,78,505.06	11.88
2007-08	15,860.08	2,31,923.95	6.83
2008-09	22,580.68	2,82,333.81	8.00
2009-10	16,113.15	2,96,073.60	5.44
2010-11	39,417.56	3,46,268.25	11.38
2011-12	46,802.87	4,36,645.00	10.37

Source: Computed from Annual Reports of Jammu and Kashmir Bank Ltd.

Burden as a percentage to total expenditure of the J&K bank Ltd., for the period from 2004-2005 to 2011-2012 is given in table 8. The burden has shown an increasing growth throughout the period of the study. Except for a marginal fall in 2007-2008 and 2009-2010 and lies between a minimum of ` 15,860.08 lakhs in 2007-2008 to ` 46,802.87 lakhs in 2011-2012. The total expenditure of the bank has been continuously increasing from 2004-2005 to 2011-2012 of ` 1,51,618.87 lakhs to ` 4,36,645.00 respectively. The ratio of burden to total expenditure of the bank had shown wide fluctuation which fluctuates between minimum to maximum i.e., 5.44 per cent in 2009-2010 to 15.87 per cent in 2004-2005 because of the wide difference between a burden and total expenditure over the period of study.

Profitability Ratio of the J&K Bank Ltd.

Profitability ratio has two components namely Spread ratio and Burden ratio. Profitability ratio indicates the efficiency with which a bank deploys its total resources to maximize its profit. Profitability ratio is calculated with the help of spread ratio minus burden ratio.

Table 9
Profitability Ratio (2004-2005 to 2011-2012)
(in Lakhs)

Year	Spread Ratio (A)	Burden Ratio (B)	Profitability Ratio (A-B)
2004-05	36.55	14.75	21.8
2005-06	36.08	11.52	24.56
2006-07	37.28	10.30	26.98
2007-08	30.24	5.91	24.33
2008-09	30.93	6.98	23.95
2009-10	32.22	4.63	27.59
2010-11	37.85	9.66	28.19
2011-12	35.56	9.05	26.51

Source: Computed from Annual Reports of Jammu and Kashmir Bank Ltd.

The table 9 shows the profitability ratio of the bank. The spread ratio of bank fluctuates between a low of 30.24 in 2007-2008 and high of 37.85 in 2010-2011 and burden ratio of the bank also shows fluctuation trend over the period of analysis. As per the table bank shows an increasing profitability ratio up to 2007-2008, after that the table shows a lesser amount of profitability ratio from 2007-2008 to 2009-2010 and again in 2011-2012. therefore the bank must have to take more steps in order to increase the profitability of banks.

Conclusion

Profitability is definitely a challenge in J & K bank Ltd. Bank has to work hard with all seriousness to maintain or increase the spread, increase the interest income and non interest income and at the same time decrease the burden.

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