



## A COMPARATIVE STUDY ON PROFITABILITY POSITION IN SOME SELECTED PRIVATE BANKS IN INDIA – AN ANALYSIS

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### ABSTRACT

The term profitability is the primary motivating force for any economic activity. The concept of profitability in banks means how well bank utilize its financial products and services to generate revenue over its expenses. The profitability, productivity and liquidity have given prime importance in the banking sector due to change in banking reforms. The present study emphasize on only profitability in the banking sector. The last five financial years spanning from 2014-15 to 2018-19 have been taken for the profitability analysis. Researcher has tried to attend profitability ratios i.e. Interest spread, net profit margin, return on long term funds, return on net worth for five selected Indian private banks i.e. HDFC Bank, Kotak Mahindra Bank, ICICI Bank, Axis Bank And Federal Bank.

**KEYWORDS :** HDFC, ICICI, NPM, RONW, Profitability, ANOVA

### INTRODUCTION:

The banking sector has undergone tremendous changes in terms of business process, market orientation and management sophistication with financial sector reforms. There is need of time to understand the challenges faced by banking industry in ever changing environment. The changes have been witnessed in political, economic, policy and regulatory areas and have dramatically altered banking business strategies and critical management areas. Thus, the main aim of bank management in the new environment would be to take such measures as would result in a high level of sustained profitability, so that the expectations of the various stakeholders and in particular, the shareholders are adequately met. The management's focus on the bank's profitability has quite a few implications like identifying factors enhancing profitability as also those eroding profitability, measuring profitability and comparing these parameters with other banking organizations.

### Conceptual Framework:

The term profitability refers to the capabilities of any business entity of generating profit from its operations. It acts as a yardstick to measure efficiency and effectiveness of any business entity. It also acts as a tool to measure efforts of any business entity for the growth and survival of the business.

The concept profitability in banks refers to how effectively and efficiently a bank utilize it resources i.e. financial products and services to generate revenues over its operations. The greater profitability indicates stability, greater efficiency as well as greater safety and soundness.

The profitability of the banks can be judged by using some of the selected profitability ratios. The following ratios have been used for the profitability analysis of the private banks.

- Interest Spread Ratio
- Net Profit Margin Ratio
- Return on Long Term Fund Ratio
- Return on Net Worth Ratio

### Review of Literature:

**Tabassum S. Chowdhury (2019)** conducted a study on a comparative profitability analysis in banking sector of Bangladesh. The main objective of the study was to compare the Trends of profitability ratios of four types of banks in Bangladesh in terms of ROA and ROE that indicates the performance developments over the period the 2009 to 2016 as well as to find out some glaring reasons for lower efficiency in SCB & DFI banks and to suggest ways and means to improve the efficiency of these two banks and also suggest the future prospect of these four banks. The study concluded that a substantial increase in collection of loans in a particular bank adversely affect ROA and ROE in the banking industry and a reduction in credit supply by an individual Bank would reduce its income, profit and market share. This will impact on banks profitability and on their ability to retain earnings in future.

**Chirag T. Loriya (2014)** presented a paper on profitability analysis of banks in India. The objectives of the study was to examine the overall

profitability, to evaluate the efficiency, to evaluate the best bank regarding profitability, to determine average compound growth of various performance indicators and to suggest an appropriate strategy to public sector banks and private sector banks. The study shows that the reduction in operating expenses was only experienced by the public sector banks but since, a reduction in their core operating expenses contributes significantly in improving the profitability of the entire Indian banking industry since this reduction in operating expenses seems suitable, it indicates a brighter future for the banking sector, private sector banks, profitability improvement was mainly because of the increase in treasury income but not due to any material reduction in operating expenses.

**Kavita S. Vadrle and Dr. V.P. Katti (2018)** study on profitability position of commercial India- comparative study. The study leads to the conclusion that profitability position of private sector banks was better than public sector banks. Considering the ranking of banks, private sector banks were more profitable and public sector banks were more stable during the study period. Thus, it can be said that overall performance of private sector banks are more satisfactory than the public sector banks.

### Research Methodology

#### Objectives of the Study:

The main objective of the present study is to analyse and compare the profitability with the help of ratios i.e. Interest spread, net profit margin, return on long term fund return on net worth in selected private banks namely HDFC Bank, Kotak Mahindra Bank, ICICI Bank, Axis Bank And Federal Bank. That will indicate the profitability performance over the period the 2014-15 to 2018-2019

#### Period of the Study:

The period of the present study is limited to last five financial years spanning from 2014-15 to 2018-2019.

#### Data Collection:

The present study is mainly based on secondary data which is collected from various books relating to subject, journals, published annual reports of the selected private banks and RBI website.

#### Sample Size:

The sample size of the present study is five private banks from Indian banking sector. Universe of the study indicates all the banks working in India. But for the purpose of present study, researcher has randomly selected five private banks out of all the banks working in India.

#### Tools and Techniques of Analysis:

Accounting techniques and Statistical Techniques have been used for the purpose of analysis and evaluation of profitability in some selected private banks in India.

Accounting techniques i.e. Ratio analysis and Statistical Techniques i.e. F-test one way ANOVA table to test hypothesis at 5% level of significance have been used.

#### Hypothesis of the Study:

- H0: There is no significant difference in interest spread of selected private banks.
- H0: There is no significant difference in net profit margin of selected private banks.
- H0: There is no significant difference in return on long term fund of private banks.
- H0: No significant difference in return on net worth of selected private banks.

**Limitations of the study:**

- The present study is mainly based on secondary data which have their own limitations.
- The present study focuses on only profitability of selected private banks.
- The present study consist only five selected private banks working in India and study and analyze last five financial years.
- The present study is largely based on accounting and Statistical Techniques with their limitations and it might affect the present study

**Table : 1 Interest Spread Ratio (Figures in %)**

Banks	2018-19	2017-18	2016-17	2015-16	2014-15
HDFC	7.20	7.78	7.46	7.52	8.01
Kotak	6.73	6.94	7.64	7.86	8.38
ICICI	6.36	6.43	6.58	6.83	7.04
Axis	6.37	5.90	6.84	6.81	7.34
Fedral	5.28	5.61	6.40	6.89	7.57
Sum	31.58	32.66	34.92	35.91	38.34
Mean	6.316	6.532	6.984	7.182	7.668

(Sources: Compiled from Annual Reports of Banks)

**Table : 2 A Table Showing Analysis of Variance (ANOVA) of Interest Spread Ratio**

Sources of Variation	SS	Dof	MS	Fcal	Fcrit
Between Banks	5.731296	4	1.432824	3.544278	2.866081
Within Banks	8.08528	20	0.404264		
Total	13.81658	24			

**Table : 3 Net Profit Margin Ratio (Figures in %)**

Banks	2018-19	2017-18	2016-17	2015-16	2014-15
HDFC	21.29	21.79	20.99	20.41	21.07
Kotak	20.32	20.68	19.27	12.75	19.19
ICICI	5.30	12.33	18.09	18.44	22.76
Axis	8.50	0.60	8.26	20.06	20.73
Fedral	10.89	9.01	9.57	6.14	13.55
Sum	66.3	64.41	76.18	77.8	97.3
Mean	13.26	12.882	15.236	15.56	19.46

(Sources: Compiled from Annual Reports of Banks)

**Table : 4 A Table Showing Analysis of Variance (ANOVA) of Net Profit Margin Ratio**

Sources of Variation	SS	Dof	MS	Fcal	Fcrit
Between Banks	136.9177	4	34.22942	0.806008	2.866081
Within Banks	849.357	20	42.46785		
Total	986.2747	24			

**Table : 5 Return on Long Term Fund Ratio (Figures in %)**

Banks	2018-19	2017-18	2016-17	2015-16	2014-15
HDFC	55.57	62.88	65.17	70.54	66.77
Kotak	46.78	43.84	53.30	52.62	58.89
ICICI	38.13	38.54	45.09	50.29	57.03
Axis	60.36	43.00	57.23	68.74	72.32
Fedral	68.96	61.56	77.55	73.66	84.77
Sum	269.8	249.82	298.34	315.85	339.78
Mean	53.96	49.964	59.668	63.17	67.956

(Sources: Compiled from Annual Reports of Banks)

**Table : 6 A Table Showing Analysis of Variance (ANOVA) of Return on Long Term Fund Ratio**

Sources of Variation	SS	Dof	MS	Fcal	Fcrit
Between Banks	1025.4	4	256.3501	1.916741	2.866081
Within Banks	2674.854	20	133.7427		
Total	3700.254	24			

**Table : 7 Return on Net Worth Ratio (Figures in %)**

Banks	2018-19	2017-18	2016-17	2015-16	2014-15
HDFC	14.12	16.45	16.26	16.91	16.47
Kotak	11.47	10.89	12.35	8.72	13.19
ICICI	3.19	6.63	10.11	11.19	13.89
Axis	7.01	0.43	6.59	15.46	16.46
Fedral	9.37	7.20	9.29	5.87	12.99
Sum	45.16	41.60	54.60	58.15	73.00
Mean	9.032	8.32	10.92	11.63	14.6

(Sources: Compiled from Annual Reports of Banks)

**Table : 8 A Table Showing Analysis of Variance (ANOVA) of Return on Net Worth Ratio**

Sources of Variation	SS	Dof	MS	Fcal	Fcrit
Between Banks	121.8456	4	30.4614	1.700436	2.866081
Within Banks	358.2775	20	17.91387		
Total	480.1231	24			

**Findings of the Study:**

The above table shows the Profitability Ratios and F-test One-way Analysis. The following are the findings of the present study.

Profitability Ratios	F cal and F tab Value	Conclusion	Findings
Interest Spread Ratio	F cal 3.544278 F tab 2.866081	H0: Rejected H1: Accepted	It is concluded that there is significant difference in Interest Spread Ratio among the selected Private Banks.
Net Profit Margin	F cal 0.806008 F tab 2.866081	H0: Accepted H1: Rejected	It is concluded that there is no significant difference in Net Profit Margin Ratio among the selected Private Banks.
Return on Long Term Fund	F cal 1.916741 F tab 2.866081	H0: Accepted H1: Rejected	It is concluded that there is no significant difference in Return on Long Term Fund Ratio among the selected Private Banks.
Return on Net Worth	F cal 1.700436 F tab 2.866081	H0: Accepted H1: Rejected	It is concluded that there is no significant difference in Return on Net Worth Ratio among the selected Private Banks.

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