

A Study on Profitability Analysis of Selected Private Sector Banks



Commerce

KEYWORDS :

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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 private 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 Private 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 Private Sector Banks in India to forcefully fight with Private and Foreign Banks. This paper is an attempt to analyze how efficiently Private 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

ICICI Bank Ltd (ICICI Bank) was promoted in 1994 by ICICI Ltd, an Indian financial institution. In 1999, the bank got listed on NYSE. In 2002, ICICI Ltd and its subsidiaries which were engaged in retail finance were merged with ICICI Bank. In Apr 2007, the bank acquired The Sangli Bank Ltd. The bank operates primarily in three segments viz

retail banking, wholesale banking and treasury. In FY11, The Bank of Rajasthan Ltd was amalgamated with ICICI Bank.

HDFC Bank Ltd (HDFC Bank) was incorporated in 1994 as a private sector bank promoted by Housing Development Finance Corporation. HDFC Bank commenced operations as a SCB in 1995. In 2008, Centurion Bank of Punjab was merged with HDFC Bank.

Axis Bank Ltd (Axis Bank) commenced operations in 1994 and was promoted by UTI, LIC, GIC, National Insurance, New India Assurance, Oriental Insurance and United India Insurance. The bank changed its name w.e.f July 30, 2007 from UTI Bank Ltd to its current name. The bank offers end to end banking solutions to retail as well as corporate clients.

Kotak Mahindra Bank Ltd (KMBL) was established in 1985 as KotakMahindra Finance Ltd. It primarily undertook bills discounting activities and entered the lease and hire purchase market in 1987. In 2003, it was granted license for executing banking business by the RBI, thereby acquiring its current name.

Net Operating Profit Ratio =PBT/Sales *100

Table-1 PBT to Sales

year	2007-08	2008-	2009-	2010-	2011-	TOTAL	MEAN	COMBINED
Bank		9	10	11	12			MEAN
ICICI	12.46	12.79	16.11	20.44	21.24	83.04	16.608	
HDFC	17.98	16.63	21.28	23.76	22.75	102.4	20.48	
AXIS	18.68	20.17	24.67	25.95	22.92	112.39	22.478	19.7668
KOTAK	12.68	11.71	21.02	23.54	22.12	91.07	18.214	
YES	18.34	18.94	24.62	23.14	20.23	105.27	21.054	

YES Bank Ltd (Yes Bank), a private sector bank, was established in 2004 and commenced operations in the same year. The banks business includes corporate & institutional banking services, financial markets, investment banking, corporate finance, branch banking, business & transaction banking and wealth management.

Objective of the study

The prime object of the study is to evaluate the profitability of the selected private 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 Axis Bank, HDFC Bank, ICICI Bank, Kotak Mahindra Bank and Yes Bank through proweas database from 2008-09 to 2011-2012 to find out the profitability of private sector banks. For more information different magazines, journals, News papers and related Websites are also referred as and when required for the study.

• Hypothesis of the study

- The volume of profitability Trend value of PBT as % of total income is the same.
- The volume of profitability Trend value of PAT as % of total income is the same.
- The volume of profitability Trend value of PBT as % of capital employed is the same.
- The volume of profitability Trend value of PAT as % of capital employed 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.

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.

Table -2 One Way ANOVA result of selected Banks

Sources of variance	SS	D.F.	M.S.	F value	F table value
BSS	109.5267	4	27.38168	1.846329	2.87
ESS	296.6066	20	14.83033		
TSS	406.1333	24			

**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
ICICI	10.25	9.4	12.13	15.57	15.6	62.95	12.59	
HDFC	12.53	11.32	14.63	16.03	15.65	70.16	14.032	
AXIS	12.15	13.14	16.11	17.12	15.46	73.98	14.796	13.5612
KOTAK	9.37	7.59	14.22	16.22	15	62.4	12.48	
YES	11.96	12.35	16.19	15.41	13.63	69.54	13.908	

Table -4 One Way ANOVA result of selected Banks

Sources of variance	SS	D.F.	M.S.	F value	F table value
BSS	19.89438	4	4.973595		
ESS	138.4071	20	6.920355	0.718691	2.87
TSS	158.3015	24			

At 95% confidence level, the critical value obtained from F table is 2.87. The calculated value is 0.71 which is less than the tabular value and falls in the acceptance region. From the above analysis we can say that Net Operating Profit Ratio for selected banks is similar.

Profit before Tax (PBT) to capital employed Ratio

This ratio is a very effective measure of the profitability of any firm. This ratio measures the return on the total capital employed. This ratio is one of the important tools in financial statement analysis.

Table-5 PBT as % of capital employed

year	2007-08	2008-9	2009-10	2010-11	2011-12	TOTAL	MEAN	COMBINED
Bank								MEAN
ICICI	4.43	3.71	3.7	4.35	4.82	21.01	4.202	
HDFC	14.31	15.15	14.63	15.68	16.06	75.83	15.166	
AXIS	11	12.79	13.07	13.09	12.31	62.26	12.452	9.89
KOTAK	4.71	4.23	7.8	8.12	7.42	32.28	6.456	
YES	11.87	11.15	11.04	11.92	9.89	55.87	11.174	

Table -6 One Way ANOVA result of selected Banks

Sources of variance	SS	D.F.	M.S.	F value	F table value
BSS	400.9719	4	100.243		
ESS	22.28152	20	1.114076	89.97858	2.87
TSS	423.2534	24			

At 95% confidence level, the critical value obtained from F table

is 2.87. The calculated value is 1.84 which is less than the tabular value and falls in the acceptance region. From the above analysis we can say that Net Operating Profit Ratio for selected banks is 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.

is 2.87. The calculated value is 89.97 which is greater than the tabular value and falls in the rejection region. From the above analysis we can say that PBT to capital employed Ratio for selected banks is not similar.

Profit after Tax (PAT) to capital employed

This ratio is effective tool to measure of the profitability after tax. This ratio measures the after tax return on the total capital employed. This ratio is also one of the important tools in analysis of shareholders return.

Table-7 PAT as % of capital employed

year	2007-08	2008-	2009-	2010-	2011-	TOTAL	MEAN	COMBINED
Bank		9	10	11	12			MEAN
ICICI	3.64	2.72	2.79	3.32	3.54	16.01	3.202	
HDFC	9.98	10.31	10.05	10.58	11.05	51.97	10.394	
AXIS	7.16	8.34	8.53	8.64	8.31	40.98	8.196	6.7184
KOTAK	3.48	2.74	5.28	5.6	5.03	22.13	4.426	
YES	7.74	7.27	7.26	7.94	6.66	36.87	7.374	

Table -8 One Way ANOVA result of selected Banks

Sources of variance	SS	D.F.	M.S.	F value	F table value
BSS	168.7166	4	42.17915		
ESS	10.09736	20	0.504868	83.54491	2.87
TSS	178.814	24			

At 95% confidence level, the critical value obtained from F table is 2.87. The calculated value is 83.54 which is greater than the tabular value and falls in the rejection region. From the above analysis we can say that PAT to capital employed Ratio for selected banks is not similar.

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

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