Research Paper Commerce

A Profitability Analysis of Banks in India

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ABSTRACT

Banking sector in India has grown fast as one of the major drivers and has witnessed enormous growth in the recent past. The banks in India have over 67,000 branches located across the country. All these are classified into two major categories, non-scheduled banks and scheduled banks. Scheduled banks include commercial banks and the co-operative banks. This study attempts to measure the relative profitability of Indian banks. For this study, we have used public sector banks and private sector banks. It is very essential to analyze how their profitability is influenced by number of factors which will further suggest them where they need to concentrate more. In this article we have analyzed of mean, standard deviation and ANOVA test have been used.

KEYWORDS Attitude Towards Mathematics, XI Standard Students.

INTRODUCTION

Nowadays the function of bank is not limited to within the same geographical limit of any country. It is an important source of financing for most businesses. The common assumption, which underpins much of the financial performance research and discussions, is that increasing profits will lead to improved functions and activities of the organizations. So measurement the profits of banks is an interesting area for the researcher.

REVIEW OF LITERATURE

D. K. Dash (2000) attempted to evaluate the financial performance of Nawanagar co- operative bank by wing operational ratios, profitability ratios, productivity ratios and solvency ratio. He concluded that despite satisfactory financial performance, there are certain grey areas which need immediate attention. Effective steps are required to improve profitability and capital base activities.

M.N. Mishra (1992) in his paper evaluated the profitability of scheduled commercial banks taking into account the interest and non - interest income and interest expenditure, manpower expenses and other expenses. The Author has identified that the growing pre emption of funds in the form of statutory liquidity ratio, cash reserve ratio, faster increase of expenses as compared to the income, advances, and total investment than interest income and few more factors have contributed to the declining profitability of Indian commercial banks.

V.K. Bhatasana (1999) studied the appraisal of financial performance of State Bank of India (1980 – 1995) particularly productivity and profitability of State Bank of India during the study period, he observed adequacy of capital fund, growth in deposits, branch expansion in rural area and less borrowing from Reserve Bank of India in this study period of State Bank of India improved the productivity & profitability of State Bank of India among public sector banks.

TITLE OF THE STUDY

This topic has been selected after considering the availability of time, information existing literature, tools and techniques and other related sources. The title of the study for this research has been selected as under:

"A PROFITABILITY ANALYSIS OF BANKS IN INDIA"

SAMPLE OF THE STUDY

For the present study researcher has selected Indian public sector banks and private sector bank

Public Sector Banks: State Bank of India, Central Bank of India, Bank of India, Indian Bank, IDBI Bank, Dena Bank, Bank of Baroda, Corporation Bank, Allahabad Bank, Punjab National Bank

Private Sector Banks: ICICI Bank, HDFC Bank , Axis Bank, Kotak Mahindra Bank , IndusInd Bank, Yes Bank, Jammu and Kashmir Bank, South Indian Bank, DCB Bank, ING Vysya Bank

DATA COLLECTION

The data collection is very important task for the researcher for the research study. The study is mainly based on secondary data obtained from the annual report of various banks. The secondary data shall be collected from the records, documents, related subject matter and related websites. Besides, the researcher shall collect and analyze published data as per the requirement.

As such the universe of this research study is restricted with the reference to selected banks, which are providing services in India. So, researcher has selected 10 public sector banks and 10 private sector banks. The data regarding selected banks have been obtained and collected from the annual report of the banks and related websites.

SCOPE OF THE STUDY

The scope of this research study is as under.

Functional Scope:

Functional scope of this study is to analyze profitability of Indian banking industry.

Geographical Scope:

In this study researcher selected 20 banks, which are providing services in India. So, whole India is geographical criteria for this research study.

PERIOD OF THE STUDY

This research study covered the data of last five years of the functioning of the selected banks. A longer period could have been still better but due to time and resource constraints, the last five years not very short period has been taken for analyzing the data of research program. The study period is 5 years, starting from year 2009-10 to 2013-14.

OBJECTIVES OF THE STUDY

Objective is a base for any work. The objectives determine the future and outcome of the research. No one work is started without any objectives. The present research work has also some objectives.

To examine the overall profitability of public sector banks and private sector banks under study.

To evaluate the efficiency of public sector banks and private sector banks under study.

To determine average compound growth of various performance indicators of public sector banks and private sector banks under study.

To evaluate the best bank regarding profitability of public sector banks and private sector banks under study.

To suggest an appropriate strategy of public sector banks and private sector banks under study.

TOOL OF ANALYSIS

F-test OR ANOVA (Analysis of Variances)

F-test is also known as ANOVA, means analysis of variances. Where the sample is subdivided amongst more than two groups at that time ANOVA used.

F = MSB/MSW

MSB = Mean Square between Groups

MSW = Mean Square within Groups

The concept of profitability and research into its measurement is well advanced within finance and management fields. Recently a well-judged technique named ANOVA Test is widely used for evaluating performance of financial institutions, especially to banks. Profitability of the banking sector under ANOVA Test involves analysis and evaluation of various dimensions of banking operations. Thus ANOVA consists of a set of performance measures that give a comprehensive view of the banks.

HYPOTHESIS TESTING AND RESULTS:

Net Profit Margin:

Table No. 1

Net Profit Margin (%)

Name of Bank	2010	2011	2012	2013	2014	Average
State Bank of India	10.54	7.58	9.68	10.39	7.03	9.04
Central Bank of India	7.70	7.66	2.61	4.31	-4.79	3.50
Bank of India	8.59	10.25	8.53	7.70	6.46	8.31
Indian Bank	17.03	16.35	13.14	10.41	6.97	12.78
IDBI Bank	5.95	8.12	7.99	6.65	3.79	6.50
Dena Bank	11.17	11.07	11.04	8.48	5.06	9.36
Bank of Baroda	15.37	17.17	15.12	11.54	10.46	13.93
Corporation Bank	14.05	13.89	10.43	8.46	2.86	9.94
Allahabad Bank	12.07	11.61	11.24	6.26	5.60	9.36
Punjab National Bank	15.64	14.48	12.02	10.29	6.99	11.88
ICICI Bank	12.17	15.79	15.75	17.19	17.96	15.77
HDFC Bank	14.76	16.18	15.88	16.04	17.28	16.03
Axis Bank	16.10	17.12	15.47	15.35	16.34	16.08
Kotak Mahindra Bank	15.23	16.46	15.15	14.78	14.77	15.28
IndusInd Bank	10.63	13.43	12.59	12.71	13.88	12.65
Yes Bank	16.30	15.56	13.66	13.61	13.82	14.59
Jammu and Kashmir Bank	14.58	15.23	15.57	15.93	16.52	15.57
South Indian Bank	10.69	11.10	10.52	10.53	9.42	10.45
DCB Bank	-13.88	3.31	6.70	9.87	11.94	3.59
ING Vysya Bank	8.48	9.56	10.08	10.96	10.83	9.98

Source: Annual Reports of Selected Banks and moneycontrol.com

Table No. 1 (A)

Analysis of 'F' Test in Selected Banks under the Study

Net Profit Margin Ratio

Source of Variation	SS	df	MS	F_c	F_t	Result
Between Groups	1452.32	19	76.43788	6.72145	1.718026	H_0
Within Groups	909.7784	80	11.37223			Rejected
Total	2362.098	99				

Hypothesis:

H_0= There is no significant difference between Net Profit Margin Ratio in selected banks under the study

H_1= There is significant difference between Net Profit Margin Ratio in selected banks under the study

5 % level of significance table value is 1.7180

The calculated value of 'F' is 6.7215 and table value is 1.7180. Hence,

$F_c > F_t$

The calculated value of 'F' is greater than the table value. The Null Hypothesis is rejected and Alternative Hypothesis is accepted.

Return on Long Term Fund

Table No. 2

Return on Long Term Fund Ratio in Selected Banks

Name of Bank	2010	2011	2012	2013	2014	Average
State Bank of India	95.02	98.20	97.36	96.35	87.28	94.84
Central Bank of India	188.21	166.98	138.59	113.91	107.28	142.99
Bank of India	114.17	109.17	120.36	108.25	102.34	110.86
Indian Bank	97.98	95.57	104.69	93.50	89.13	96.17
IDBI Bank	174.83	131.48	124.19	105.07	94.40	125.99
Dena Bank	150.33	120.51	130.47	130.96	108.24	128.10
Bank of Baroda	99.27	89.02	92.37	89.81	90.23	92.14
Corporation Bank	115.17	110.99	142.31	142.11	142.94	130.70
Allahabad Bank	127.11	116.06	130.00	121.78	127.71	124.53
Punjab National Bank	116.11	101.08	108.02	97.26	88.50	102.19
ICICI Bank	44.72	43.05	52.33	56.37	56.48	50.59
HDFC Bank	56.08	59.91	75.20	80.09	81.47	70.55
Axis Bank	66.34	72.25	88.84	75.72	73.36	75.30
Kotak Mahindra Bank	48.71	48.25	66.29	72.07	59.62	58.99
IndusInd Bank	110.36	81.10	107.43	83.03	82.94	92.97
Yes Bank	74.73	102.46	131.35	137.76	134.67	116.19
Jammu and Kashmir Bank	90.69	89.52	102.62	109.92	101.93	98.94
South Indian Bank	118.87	123.92	155.98	126.82	129.01	130.92
DCB Bank	45.32	66.72	68.09	73.37	79.32	66.56
ING Vysya Bank	79.93	85.63	85.21	91.32	62.00	80.82

Source: Annual Reports of Selected Banks and moneycontrol.com

Table No. 2 (A)

Analysis of 'F' Test in Selected Banks under the Study Return on Long Term Fund Ratio

Source of Variation	SS	*df*	MS	F_c	F_t	Result
Between Groups	67174.51	19	3535.5	14.73318	1.718026	H_0
Within Groups	19197.49	80	239.9686			Rejected
Total	86371.99	99				

Hypothesis:

H_0= There is no significant difference between Return on Long Term Fund Ratio in selected banks under the study

H_1= There is significant difference between Return on Long Term Fund Ratio in selected banks under the study

5 % level of significance table value is 1.7180

The calculated value of 'F' is 14.7332 and table value is 1.7180. Hence,

$F_c > F_t$

The calculated value of 'F' is greater than the table value. The Null Hypothesis is rejected and Alternative Hypothesis is accepted.

Return on Assets Ratio

Table No. 3

Return on Assets Ratio in Selected Banks

Name of Bank	2010	2011	2012	2013	2014	Average
State Bank of India	1038.76	1023.40	1251.05	1445.6	1584.34	1268.63
Central Bank of India	156.51	178.92	147.19	131.11	104.94	143.73
Bank of India	270.96	316.40	365.33	401.38	465.37	363.89
Indian Bank	183.17	212.23	242.02	269.27	298.40	241.02
IDBI Bank	140.23	147.95	151.97	159.33	147.38	149.37
Dena Bank	90.71	109.66	127.9	164.66	132.81	125.15
Bank of Baroda	414.71	537.45	668.34	758.91	838.02	643.49
Corporation Bank	402.6	481.85	558.7	625.56	601.95	534.13
Allahabad Bank	151.17	178.65	210.12	227.04	216.68	196.73
Punjab National Bank	562.09	678.91	820.13	924.45	991.39	795.39
ICICI Bank	463.01	478.31	524.01	578.21	634.60	535.63
HDFC Bank	470.19	545.46	127.52	152.20	181.23	295.32
Axis Bank	395.99	462.77	551.99	707.50	813.47	586.34
Kotak Mahindra Bank	130.40	92.23	107.28	126.53	159.35	123.16
IndusInd Bank	58.35	86.79	101.19	145.78	171.89	112.80
Yes Bank	90.96	109.29	132.49	161.94	197.48	138.43
Jammu and Kashmir Bank	621.00	717.58	844.34	1003.49	1180.67	873.42
South Indian Bank	131.43	16.35	19.14	22.44	25.06	42.88
DCB Bank	29.95	30.91	35.67	39.98	45.98	36.50
ING Vysya Bank	194.05	216.75	265.00	298.73	374.84	269.87

Source: Annual Reports of Selected Banks and moneycontrol.com

Table No. 3 (A)

Analysis of 'F' Test in Selected Banks under the Study Return on Assets Ratio

Source of Variation	SS	*df*	MS	F_c	F_t	Result
Between Groups	10193326	19	536490.9	38.98848	1.718026	H_0
Within Groups	1100819	80	13760.24			Rejected
Total	11294146	99				

Hypothesis:

H_0= There is no significant difference between Return on Assets Ratio in selected banks under the study

H_1= There is significant difference between Return on Assets Ratio in selected banks under the study

5 % level of significance table value is 1.718

The calculated value of 'F' is 38.9885 and table value is 1.718. Hence,

Fc > Ft

The calculated value of 'F' is greater than the table value. The Null Hypothesis is rejected and Alternative Hypothesis is accepted.

CONCLUSION

The banking sector's overall profitability as measured by the net profit margin, return on long term fund and return on assets has been improved. An analysis of the public sector banks and private sector banks shows that the reduction in operating expenses was only experienced by the public sector banks. But since public sector banks, a reduction in their core operating expenses contributes significantly in improving the profitability of the entire Indian banking sector. Since this reduction in operating expenses seems sustainable, it promises a brighter future for the banking sector. Private bank in India has a got a great response in terms of service and quality banking. Globalization has encouraged multinationals and foreign banks to set up their business unit in a developing country like India the private banking is all about delivering sophisticated service to customers. Profitability of private sector banks in India plays major role in banking sector without profit the investors cannot run the business. For private sector banks, the profitability improvement was mainly because of the increase in treasury income and not due to any material reduction in operating expenses. Profitability measure a company's ability to generate earnings related to sales, assets and equity. These ratios assess the ability of a company to generate earnings, profits and cash flows relative to relative to some metric, often the amount of money investment. Profitability ratios provide a definitive evaluation of the overall effectiveness of management based on the returns generated on sales and investment. Profitability is the primary motivating force for any economic activity. Business enterprise is essentially being an economic organization; it has to maximize the welfare or the investment of its stakeholders. To this end, the business undertaking has to earn profit from operations. Profitability act as a yardstick to measure the effectiveness and efficiency of business effort for the growth and success of any business entities

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