



Growth and Trend Analysis of Key Profitability Factors in Indian Scheduled Commercial Banks

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ABSTRACT

The Banking sector reforms initiated during the 1990s has resulted in creating a competitive environment for the Indian commercial Banks. The private sector Banks are expanding their services and products into various part of the country and are posing a real competition to the public sector Banks. A study was carried out to analyse the growth and trend of certain financial parameters of public and private sector Banks. The compound growth rate is comparatively higher for private sector Banks than that of the public sector Banks. The trend analysis also shows that the private sector Banks are making aggressive attempts to compete with the public sector Banks in certain financial parameters. The study suggests that at the current rate of growth the private sector Banks can pose a challenge in the market place and may even overtake the public sector Banks in the longer period of time.

Keywords : Banks, Trend, Growth, Financial Parameters, Compound Growth Rate

1.1.INTRODUCTION:

Strengthening financial systems has been one of the central issues facing emerging markets and developing economies. This is because sound financial systems serve as an important channel for achieving economic growth through the mobilization of financial savings. India has a long history of both public and private Banking. After nationalization in the 1969, the breadth and scope of the Indian Banking sector expanded at a rate perhaps unmatched by any other country. Indian Banking has been remarkably successful at achieving mass participation. Between the time of the 1969 nationalizations and 2003, over 58,000 Bank branches were opened in India. Between the year 1969 and 1980, the number of private branches grew more quickly than public Banks, and on April 1, 1980, they accounted for approximately 17.5 percent of Bank branches in India. The share of private Bank branches stayed fairly constant between the year 1980 to 2000. Since 1980, has been no further nationalization, and indeed the trend appears to be reversing itself, as nationalized Banks are issuing shares to the public, in what amounts to a step towards privatization. Recently, the Indian Banking sector has witnessed the introduction of several "New Private Banks," either newly founded, or created by previously extant financial institutions.

1.2.STATEMENT OF THE PROBLEM

The Indian government when nationalizing all the larger Indian Banks in 1969, argued that Banking was "inspired by a larger social purpose" and must "subserve national priorities and objectives such as rapid growth in agriculture, small industry and exports (Burgess and Pande, 2003). The cross-country evidence on the impact of Bank nationalization is not very encouraging.

With respect to privatizing Banks, moreover, the World Bank (2001) takes the view that privatization can yield real benefits to economies provided that an appropriate accounting, legal and regulatory infrastructure is in place. It should be noted that premature privatization may give rise to Banking crises. Clarke and Cull (1998) have demonstrated that Argentina promoted the privatization of public-sector Banks in a reasonably developed regulatory and infrastructure environment, and thus privatized Banks improved productivity remarkably.

Considering the implications derived from the above studies, this research examines whether private sector Banks can overtake the public-sector Banks in the near future? The hypothesis is that with current growth rate of certain financial parameters, the private sector Banks can overtake the performance of public-sector Banks in a few decades.

1.3 OBJECTIVES OF THE STUDY

The following are the main objectives of the study

- (i) To measure the contribution of select financial variables towards the profitability.
- (ii) To analyse the trend and progress of selected financial variables.
- (iii) To offer suitable suggestions for better management the profitability of scheduled commercial Banks.

1.4.METHODOLOGY

THE BANKS CHOSEN FOR THE STUDY

All the public and private sector Indian scheduled commercial Banks functioning in India for the financial period from 2000-01 to 2009-10 that were listed in Bombay Stock Exchange as of March 2010 and had data for the entire period of study. The Banks were grouped into two categories: i.e., Public Sector Banks Group (22 Banks) and Private Banks Group (15 Banks).

DATA

The data for the study have been collected mainly from the secondary sources comprising various audited reports and publications of the Reserve Bank of India, Mumbai.

GROWTH AND TREND ANALYSIS OF SELECTED FINANCIAL VARIABLES

The following variables were considered to assess the growth position of the public and private sector Banks during the period of study.

- i) Deposits ii) Expenditure
- iii) Interest income iv) Loans and Advances
- v) Net Profit, vi) Net Worth
- vi) Operating Expenses, Total Assets

The growth pattern of the Bank has been analysed by adopting the following techniques: a) Compound Growth Rate Technique (CGR) and b) Linear Trend Method.

COMPOUND GROWTH RATE:

Table No 1 summarises the compound annual growth rate for various variables which indicates the performance of private sector Bank leading public Banks. The analyses clears that the total deposits of private sector Bank (25.35 per cent) which is only (16.96 per cent) for public sector Banks. In the case of total expenditure the private sector spends (26.84 per cent) where as public sector Banks spends (14.45 per cent). It is revealed that the private sector Banks have a higher growth rate compared to their public sector counterparts. In some cases the compound annual growth rate for certain variables such as the total interest income was three times higher for private sector Banks (37.3 per cent) than the public sector Banks (13.32 per cent). However certain variable show almost similar growth rate for the two sectors such as net profit. The interest income had the highest growth of 37.3 percent for the private sector Banks and the Net worth had a growth rate of 36.8 percent for the private sector Banks. The overall trend shows that the private sector Banks posted more an-

nual growth than the public sector Banks during the ten years period from 2000-01 to 2009-10.

Table No.1
Compound Annual Growth Rate of Select Variables for Public and Private Sector Banks during the year 2000-01 to 2009-10

S. No.	Particulars	Bank Group	
		Public sector (in %)	Private sector (in %)
1	Total deposits	16.96	25.35
2	Total expenditure	14.45	26.84
3	Interest income	13.32	37.30
4	Total loans and advances	22.47	31.33
5	Net profit	27.97	31.29
6	Net Worth	20.85	36.84
7	Operating expenses	10.74	29.03
8	Total assets	16.94	27.62

Source: Data computed and RBI

Table No.2

Trend analysis of Loans and Advances, Net Profit, Network, Operating Expenses For Public and Private Sector Banks from 2000-01 to 2009-10 and 2014-15 (Rs.Cr)

Source: Data computed and RBI

Year	DEPOSITS		EXPENDITURE		INTEREST INCOME		TOTAL ASSETS	
	PUBLIC SECTOR BANKS	PRIVATE SECTOR BANKS	PUBLIC SECTOR BANKS	PUBLIC SECTOR BANKS	PUBLIC SECTOR BANKS	PRIVATE SECTOR BANKS	PUBLIC SECTOR BANKS	PRIVATE SECTOR BANKS
2000-01	482342	29368	57412	573834	279402	30412	573834	48240
2001-02	749191	107399	77170	894819	332339	60834	894819	155840
2002-03	1016040	185429	96928	1215805	385276	91256	1215805	263441
2003-04	1282889	263460	116687	1536791	438213	121678	1536791	371041
2004-05	1549738	341491	136445	1857776	491150	152101	1857776	478642
2005-06	1816588	419522	156203	2178762	544087	182523	2178762	586243
2006-07	2083437	497553	175961	2499748	597024	212945	2499748	693843
2007-08	2350286	575584	195720	2820733	649961	243367	2820733	801444
2008-09	2617135	653615	215478	3141719	702898	273789	3141719	909045
2009-10	2883984	731646	235236	3462704	755835	304211	3462704	1016645
2014-15	4218230	1121800	334028	5067633	1020520	456322	5067633	1554649
MAPE	1.50770E+01	17	16	1.49741E+01	10	12	1.49741E+01	17
MAD	2.21230E+05	35145	20896	2.60734E+05	53438	14540	2.60734E+05	52435
Fitted Trend Equation	$Y_t = 215492 + 266849t$	$Y_t = -48663.1 + 78030.9t$	$Y_t = 37653.4 + 19758.3t$	$Y_t = 252848 + 320986t$	$Y_t = 226465 + 52937.0t$	$Y_t = -10.0507 + 30422.1t$	$Y_t = 252848 + 320986t$	$Y_t = -59361.1 + 107601t$

TREND ANALYSIS:

Trend Analysis by Least Squares Methods for the prediction actual growth of various variables for both public and private sector Banks are given in the following tables, figures and passages. The amounts quoted in the trend analysis results are in Rs. Crores.

Table No.3

Trend analysis of Deposits , Expenditure, Interest income and Investments foPublic and Private Sector Banks from 2000-01 to 2009-10 and 2014-15 (Rs.Cr)

Year	DEPOSITS		EXPENDITURE		INTEREST INCOME		TOTAL ASSETS	
	PUBLIC SECTOR BANKS	PRIVATE SECTOR BANKS	PUBLIC SECTOR BANKS	PUBLIC SECTOR BANKS	PUBLIC SECTOR BANKS	PRIVATE SECTOR BANKS	PUBLIC SECTOR BANKS	PRIVATE SECTOR BANKS
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It is revealed from the Table No 2 that the trend movement for the year 2009-10 for the loans and advances was highest in public sector Banks with 2131432 crores and with the MAPE and MAD are 2.40340E+01 and 1.86738E+05 re-

spectively. The trend movement of the loans and advances for the year 2014-15 is expected to be 3273590 crores for public sectors Banks and for private sector Banks it is likely to be 877269 crores. The trend movement for the net profit for

the year 2014-15 is likely to be higher in public sector Banks with 48000.3 crores whereas the private sector Banks is expected to have only 16750.4 crores. The trend movement for the net worth for the year 2014-15 likely to be at 296079 crores for public sector Banks and 155119 crores for private sector Banks. Although the private sector Banks started this decade with a very little net worth, it should be noted that the private sector Banks are making a remarkable progress in this regard. The trend movement for operating expenses for the year 2014-15 is likely to be 75466 crores for public sector Banks and 31858.8 crores for private sector Banks

From the Table No 3 ,the deposits for the year 2014-15 is likely to be at 4218230 crores for public sector Banks and 1121800 crores for private sector Banks. The trend movement for expenditure for the year 2014-15 is likely to be 323970 crores for public sector Banks and 122960 crores for private sector Banks. The analysis also reveals that the trend movement of

interest income for the year 2014-15 is likely to be higher in public sector Banks with 334028 crores whereas the private sector Banks will have only 177185 crores. It also estimates that the total assets for the year 2014-15 is likely to be higher in public sector Banks with 5067633 crores whereas the private sector Banks will have only 1554649 crores

CONCLUSION:

From the study the compound growth rate is comparatively higher for private sector Banks than that of the public sector Banks. The trend analysis also showed that the private sector Banks are making aggressive attempts to compete with the public sector Banks. The study identified that at the current rate of growth of the private sector Banks can pose a challenge in the market place and may even overtake the public sector Banks in the fore coming years, even though the public sector Banks are dominating the Banking sector in the present and near future.

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