Research Paper | **Commerce**

A Comparative Study of Profitability of Scheduled Commercial Banks of India

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ABSTRACT

Financial Industry is going through turbulent time in the recent years due to various changing constituents in financial business environment. Bank is an institution of modern economic world. If we can say bank is the trustee of public money i.e. the best definition of bank. We trust banks and bank trust us. Now-a-days Bank is the friend, philosopher and guide in all sense; we cannot think a society without bank. It provides loan and bad debts, provisions for bad debts are the part of bank life. This paper attempts to study the profitability of scheduled commercial banks of India.

Introduction

Bank is an institution of modern economic world. If we can say bank is the trustee of public money i.e. the best definition of bank. We trust banks and bank trust us. Now-a-days Bank is the friend, philosopher and guide in all sense; we cannot think a society without bank. It provides loan and bad debts, provisions for bad debts are the part of bank life.

With over a billion people, India is fast becoming a global economic power. With a relatively youthful population, India becomes an attractive banking market over the next decades. The Indian economy is the world's tenth-largest by nominal GDP and third-largest by purchasing power parity (PPP) and had the 20th largest banking market in the world in 2010. Strong economic growth in the last decade combined with a population of over a billion makes it one of the potentially largest banking markets today. Banking in India has gone through two radical transformations. Before 1949, banking was private with minimal government intervention. Government of India issued an ordinance ('Banking Companies (Acquisition and Transfer of Undertakings) Ordinance, 1969')) and nationalized the 14 largest commercial banks with effect from the midnight of July 19, 1969. This move of government has created 85% monopoly of Indian Government in banking sector. A second dose of nationalization of 6 more commercial banks followed in 1980. With the second dose of nationalization, the Government of India controlled around 91% of the banking business of India. After this, until the 1990s, the nationalized banks grew at a pace of around 4%, closer to the average growth rate of the Indian economy.

As a part of the general opening up of the economy in the early 1990s, the then Narasimha Rao government embarked on a policy of liberalization, licensing a small number of private banks. These came to be known as New Generation tech-savvy banks, and included Global Trust Bank (the first of such new generation banks to be set up), which later amalgamated with Oriental Bank of Commerce, UTI Bank (since renamed Axis Bank), ICICI Bank and HDFC Bank. This move, along with the rapid growth in the economy of India, revitalized the banking sector in India, which has seen rapid growth with strong contribution from all the three sectors of banks, namely, government banks, private banks and foreign banks.

The next stage for the Indian banking has been set up with the proposed relaxation in the norms for Foreign Direct Investment, where all Foreign Investors in banks may be given voting rights which could exceed the present cap of 10%, at present it has gone up to 74% with some restrictions.

The new policy shook the Banking sector in India completely. Bankers, till this time, were used to the 4-6-4 method (Borrow at 4%; Lend at 6%; Go home at 4) of functioning. The new wave ushered in a modern outlook and tech-savvy methods of working for traditional banks. All this led to the retail boom in India. Customers not just demanded more from their banks but also received more. (www.wikipedia.com)

In the present study, the researcher examined the Indian banking sector in India through profitability. A totally regulation free regime ended in 1949 with the introduction of following major steps to regulate Indian banking sector viz. nationalization of RBI on January 1st 1949, Banking Regulation Act was enacted.

Despite the provisions, control and regulations of Reserve Bank of India, banks in India except the State Bank of India or SBI, continued to be owned and operated by private persons. By the 1960s, the Indian banking industry had become an important tool to facilitate the development of the Indian economy. At the same time, it had emerged as a large employer, and a debate had ensued about the nationalization of the banking industry. Indira Gandhi, then Prime Minister of India, expressed the intention of the Government of India in the annual conference of the All India Congress Meeting in a paper entitled "Stray thoughts on Bank Nationalisation."[Austin, Granville (1999). Working a Democratic Constitution - A History of the Indian Experience. New Delhi: Oxford University Press. pp. 215. ISBN 0-19-565610-5.] Thereafter, in 1969 nationalization of Indian banking sector took place. But, the Insurance Act of 1938 became relevant again in 2000 with deregulation. With a strong hint of sustained growth of the economy in the recent past, the Indian market is likely to grow substantially over the next few decades.

Research Methodology

This section described the methodological tools adopted in order to fulfill the research objectives of the present research. Properly conducted research reduces the uncertainty level for the top management in making critical decisions. Hence, it is extremely important to describe the research methodology here.

Research methodology of the present study is as follows: -

Statement of Problem
Objectives of the Study
1. To study the Profitability of public sector banks in India.
2. To study the Profitability of private sector banks in India.
3. To study the Profitability of foreign banks in India.

4. To study the Profitability of scheduled commercial banks in India.

Research Design

Research design is purely and simply the framework or plan for a study that guides the collection and analysis of the data. The research design indicates the methods of research i.e. the method of gathering information and the method of sampling.

Research design of the present study is exploratory cum descriptive in nature, as the study aims at achieving insights into a relatively new phenomena of profitability of scheduled commercial banks in India.

Data collection

The researcher collected information from secondary sources. The secondary data was collected by referring guidelines issued by Reserve Bank of India on the subject as well as the directives, instructions, strategy conveyed by the corporate office of the bank to the branches under study. Apart from this the researcher collected information through text books, articles, research papers published in various journals/magazines or seminar particularly Indian Bank Association, RBI, IIB journals and seminar proceedings.

Use of Tools and Techniques

Researcher used tabular and functional analysis for data analysis and interpretation.

Scope of the Research

The scope of the study is as follow:-

Present a picture of the direction of profitability in scheduled commercial banks in India.

Data Analysis and Interpretation

Return on Assets (ROA): It is the most commonly used indicator of profitability.

Table 1
Return on Assets (ROA) of Scheduled Commercial Banks- Bank Group Wise

(Per cent)

Year	Public Sector Banks (PSBs)	Old Private Sector Banks (OPRSBs)	New Private Sector Banks (NPRSBs)	Foreign Banks (FBs)	All Scheduled Commercial Banks (SCBs)
1996-97	0.49	1.34	1.49	1.14	1.28
1997-98	0.61	1.37	1.57	0.86	1.56
1998-99	0.37	0.95	1.11	0.77	0.94
1999-00	0.43	1.28	1.10	0.94	1.28
2000-01	0.33	0.81	0.75	0.77	0.97
2001-02	0.38	0.89	0.14	0.79	1.45
2002-03	0.98	1.17	0.88	0.88	1.94
2003-04	1.20	1.16	0.84	0.89	2.18
2004-05	0.90	0.20	1.17	1.29	1.72
2005-06	0.84	0.52	1.00	1.54	1.01
2006-07	0.84	0.92	0.91	1.67	1.05
2007-08	0.91	1.02	1.06	1.68	1.16
2008-09	0.94	1.02	1.06	1.68	1.13
2009-10	0.90	0.86	1.22	1.09	1.05
2010-11	0.83	1.00	1.34	1.56	1.10
2011-12	0.88	1.20	1.63	1.76	1.08
2012-13	0.78	1.26	1.74	1.94	1.03
2013-14	0.50	1.02 #	1.83 #	1.54	0.81
2014-15	0.46	0.83 #	1.89 #	1.87	0.81

*Source: Report on Trends and Progress of Banking in India, Various Issues.

These ratios are calculated by the researcher on the basis of data obtained from Statistical Tables relating to Banks in India

Table 1 depicts the Return on Assets (ROA) of scheduled commercial banks in India since 1996-97 to 2014-15.

Return on Equity: It is the most commonly used indicator of profitability.

Table 2
Return on Equity (ROE) of Scheduled Commercial Banks- Bank Group Wise

(Per cent)

Year	Public Sector Banks (PSBs)	Old Private Sector Banks (OPRSBs)	New Private Sector Banks (NPRSBs)	Foreign Banks (FBs)	All Scheduled Commercial Banks (SCBs)
1996-97	8.23	15.51	19.50	12.67	20.01
1997-98	11.43	13.88	19.15	9.86	23.44
1998-99	7.35	8.41	16.66	10.55	16.37
1999-00	9.67	15.19	14.23	12.63	22.58
2000-01	7.53	11.49	14.79	11.44	18.27
2001-02	14.13	18.56	7.19	10.91	25.92
2002-03	19.17	19.56	13.93	10.80	32.72
2003-04	22.14	19.26	13.52	12.01	36.53
2004-05	16.05	3.18	14.66	7.97	26.89
2005-06	15.30	8.13	12.39	14.18	14.77
2006-07	16.07	10.32	13.57	15.98	15.51
2007-08	17.12	9.23	13.91	16.05	15.98
2008-09	17.96	14.69	10.69	13.75	15.44
2009-10	17.47	12.29	11.87	7.35	14.31
2010-11	16.90	14.11	13.62	10.28	14.96
2011-12	15.33	15.18	15.27	10.79	14.60
2012-13	13.24	16.22	16.51	11.52	13.84
2013-14	8.48	12.74 #	16.95 #	9.03	10.69
2014-15	7.76	9.99 #	16.89 #	10.24	10.42

*Source: Report on Trends and Progress of Banking in India, Various Issues.
These ratios are calculated by the researcher on the basis of data obtained from Statistical Tables relating to Banks in India

Table 2 depicts the Return on Equity (ROE) of scheduled commercial banks in India since 1996-97 to 2014-15.

Return on Advances
Table 3
Return on Advances (ROA) of Scheduled Commercial Banks- Bank Group Wise

(Per cent)

Year	Public Sector Banks (PSBs)	Old Private Sector Banks (OPRSBs)	New Private Sector Banks (NPRSBs)	Foreign Banks (FBs)	All Scheduled Commercial Banks (SCBs)
1996-97	6.54	3.75	3.57	14.11	9.87
1997-98	5.67	5.14	5.7	15.24	10.94
1998-99	5.28	4.69	4.7	13.17	9.50
1999-00	5.08	3.41	3.7	12.19	9.11
2000-01	4.95	4.58	4.1	9.33	8.13
2001-02	4.34	4.33	4.5	9.28	8.02
2002-03	3.75	4.35	4.7	6.46	6.82
2003-04	3.31	3.73	3.6	5.68	6.77

Year	Public Sector Banks (PSBs)	Old Private Sector Banks (OPRSBs)	New Private Sector Banks (NPRSBs)	Foreign Banks (FBs)	All Scheduled Commercial Banks (SCBs)
2004-05	3.22	5.58	7.4	4.37	5.88
2005-06	4.28	5.17	8.5	3.73	5.15
2006-07	7.7	8.6	8.3	8.7	7.9
2007-08	8.6	9.6	10	9.8	8.9
2008-09	10.08	11.82	11.29	12.61	10.50
2009-10	9.10	10.95	9.56	9.99	9.29
2010-11	9.09	10.42	9.41	8.75	9.18
2011-12	10.31	11.98	10.77	9.61	10.42
2012-13	10.08	12.15	11.33	9.55	10.33
2013-14	9.69	11.92 #	11.04 #	9.38	9.98
2014-15	9.50	11.64 #	10.70 #	9.27	9.78

Source: Compiled from Statistical Tables relating to Banks in India Various issues

These ratios are calculated by the researcher on the basis of data obtained from Statistical Tables relating to Banks in India

Table 3 depicts the Return on Advances (ROA) of scheduled commercial banks in India since 1996-97 to 2014-15.

Conclusion
The objective of present study is to assess the profitability of Scheduled Commercial Banks in India. This study is intended to observe and describe the dimensions explaining the profitability of Scheduled Commercial Banks in India.

References
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