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A Study on Profitability of Selected Private Banks of India

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ABSTRACT

The banking sector in India has a very big canvas of history. Private banking was started since starting of banking system in India. New private sector banks is one of the fastest growing sector in India. They promoted a world class institution in India having latest technology, new system, new standards of service and efficiency. The PSB have been the dominant role in the country's financial system. Efficiency and profitability of the banking sector in India has assumed primal importance due to intense competition, greater customer demands and changing banking reforms.

This study attempts primarily to measure the profitability of selected leading private banks of India. Profitability performance of these banks have been analysed for the period 2012-13 to 2016-17. Analyse the ratio here used financial ratio analysis (FRA) method which help to draw an overview about financial performance of private sector banks. This article provides important seed of knowledge and is very useful for bankers and new researchers.

Keywords :Private Sector Banks, Profitability, India, Ratio Analysis

INTRODUCTION

The importance of private sector in Indian economy over the last 15 years has been tremendous. The opening up of Indian economy has led to free inflow of foreign direct investment (FDI) along with modern cutting edge technology, which increased the importance of private sector in Indian economy considerably.

Previously, the Indian market were ruled by the government enterprises but the scene in Indian market changed as soon as the markets were opened for investments. This saw the rise of the Indian private sector companies, which prioritized customer's need and speedy service. This further fueled competition amongst same industry players and even in government organizations.

The post 1990 era witnessed total investment in favor of Indian private sector. The investment quantum grew from 56% in the first half of 1990 to 71 % in the second half of 1990. This trend of investment continued for over a considerable period of time. These investments were especially made in sector like financial services, transport and social services.

The late 1990s and the period thereafter witnessed investments in sector like manufacturing, infrastructure, agriculture products and most importantly in Information technology and telecommunication. The present trend shows a marked increase in investment in areas covering pharmaceutical, biotechnology, semiconductor, contract research and product research and development.

The importance of private sector in Indian economy has been very commendable in generating employment and thus eliminating poverty. Further, it also effected the following -

- Increased quality of life
- Increased access to essential items
- Increased production opportunities
- Lowered prices of essential items
- Increased value of human capital
- Improved social life of the middle class Indian
- Decreased the percentage of people living below the poverty line in India
- Changed the age old perception of poor agriculture based country to a rising manufacturing based country
- Effected increased research and development activity and spending
- Effected better higher education facilities especially in technical fields
- Ensured fair competition amongst market players
- Dissolved the concept of monopoly and thus neutralized market manipulation practices

LITERATURE REVIEW

B.Satish Kumar (2008), in his article on an evaluation of the financial performance of Indian private sector banks wrote Private sector banks play an important role in development of Indian economy. After liberalization the banking industry underwent major changes. The economic reforms totally have changed the banking sector. RBI permitted new banks to be started in the private sector as per the recommendation of Narashiman committee. The Indian banking industry was dominated by public sector banks. But now the situations have changed new generation banks with used of technology and professional management has gained a reasonable position in the banking industry.

PetyaKoeva (July 2003) in his study on The Performance of Indian Banks. During Financial Liberalization states that new empirical evidence on the impact of financial liberalization on the performance of Indian commercial banks. The analysis focuses on examining the behaviour and determinants of bank intermediation costs and profitability during the liberalization period. The empirical results suggest that ownership type has a significant effect on some performance indicators and that the observed increase in competition during financial liberalization has been associated with lower intermediation costs and profitability of the Indian banks.

Rachita Gulati and Sunil Kumar (2009) endeavour to explore the relationship between efficiency and profitability in 51 Indian domestic banks operating in the financial year 2006-2007.The empirical results show that de novo private sector banks dominate in the formation of the efficient frontier for Indian domestic banking industry. The efficient- profitability matrix reveals that the resource utilization process in 22 banks that fall in the “Question Mark” and “Sleeper quadrants is not functioning well and featuring the presence of considerable wastage of inputs. Further, Tamil Nadu Mercantile Bank and Yes Bank may be considered as an ideal bench mark for the poor performing banks on the efficiency and profitability dimensions of performance evaluation.

Roma Mitra, Shankar Ravi (2008), A stable and efficient banking sector is an essential precondition to increase the economic level of a country. This paper tries to model and evaluate the efficiency of 50 Indian banks. The Inefficiency can be analyzed and quantified for every evaluated unit. The aim of this paper is to estimate and compare efficiency of the banking sector in India. The analysis is supposed to verify or reject the hypothesis whether the banking sector fulfils its intermediation function sufficiently to compete with the global players. The results are insightful to the financial policy planner as it identifies priority areas for different banks, which can improve the performance. This paper evaluates the performance of Banking Sectors in India.

RESEARCH OBJECTIVE

1. To analyse profitability of selected private sector of India
2. To identify any relationship in-between banking companies in the various measures of profitability

RESEARCH METHODOLOGY

<u>SOURCES OF DATA</u>
Secondary sources of data will be utilised for this proposed research study

Secondary data have been collected from Company Annual Reports.
<u>UNIVERSE</u>

In the research study selected 5private banks.

<u>PERIOD OF DATA COVERAGE</u>

Five years of financial statements will be analysed for private banks taken under study.

<u>ANALYSIS OF DATA</u>

The proposed statistical tools for the analysis of data are ratio analysis and ANOVA test.

DATA ANALYSIS

1. NET PROFIT MARGIN

Table 1 : Net Profit Margin Ratio

NET PROFIT MARGIN					
COMPANY	**2012-13**	**2013-14**	**2014-15**	**2015-16**	**2016-17**
HDFC Bank	14.76	16.18	15.88	16.04	17.28
ICICI Bank	12.17	15.79	15.75	17.19	17.96
Axis Bank	16.1	17.12	15.47	15.35	16.34
DCB Bank	-13.88	3.3	6.73	9.87	11.94
Kotak Mahindra Bank	15.23	16.46	15.15	14.78	14.77

From the above table No.-1 it can be seen that, In latest 5 years all banks maintained high Net Profit Margin compare -to earlier 5 years, which gives very positive sign for investor since Net Profit Margin is at its peak stage in latest 5 years, In earlier stage we can see value of this ratio was low compare to latest five years, which gives us direction that all banks doing their business more efficient way in current 5 years.

ANOVA

Source of Variation	SS	df	MS	F	P-value	F crit
Between Groups	3206.33764	4	801.58441	10.93126622	2.80935E-06	2.578739184
Within Groups	3299.82801	45	73.32951133			
Total	6506.16565	49				

Fcal>Ftab and p-value is less than specified α of 0.05.

So, null hypothesis is rejected and it is concluded that the difference is seen in Net Profit Margin Ratio of five selected banking companies.

2. RETURN ON ASSETS

Table 2 : Return on Assets

RETURN ON ASSETS					
COMPANY	**2012-13**	**2013-14**	**2014-15**	**2015-16**	**2016-17**
HDFC Bank	470.19	545.46	127.52	152.2	181.23
ICICI Bank	463.01	478.31	524.01	578.21	633.92
Axis Bank	395.99	462.77	551.99	707.5	813.47
DCB Bank	27.02	28.1	33.39	37.83	43.88
Kotak Mahindra Bank	130.4	92.23	107.28	126.53	159.35

From the above table No.-2 it can be concluded that it can see all banks are utilizing their asset in more profitable way in current years than earlier years. ICICI Bank has highest ratio value which is because of its consistence performance throughout the last 10 years. During latest 3 years Axis bank has utilizing its asset more efficient way than any other banks taken under study. DCB Bank not utilizing its asset that efficient way which its peer banks utilizing. Major hike in ratio value can be observed in latest 3 years.

ANOVA

Source of Variation	SS	df	MS	F	P-value	F crit
Between Groups	1170139.845	4	292534.9612	13.15173681	3.56552E-07	2.578739184
Within Groups	1000938.009	45	22243.06686			
Total	2171077.854	49				

Fcal>Ftab and p-value is less than specified α of 0.05.

So, null hypothesis is rejected and it is concluded that the difference is seen in Return on Assets Ratio of five selected banking companies.

3. RETURN ON LONG TERM FUND

Table 3 : Return on Long term Fund

RETURN ON LONG TERM FUND					
COMPANY	**2012-13**	**2013-14**	**2014-15**	**2015-16**	**2016-17**
HDFC Bank	56.08	59.91	75.2	80.09	81.47
ICICI Bank	44.72	43.05	52.33	56.37	56.48
Axis Bank	66.34	72.25	88.84	75.72	73.36
DCB Bank	45.32	66.9	67.74	77.54	83.12
Kotak Mahindra Bank	48.71	48.25	66.29	72.07	59.62

From the above table No.- 3 it can be observed that there is no major up and down can be observed except sudden hike in ratio value of Axis bank in earlier years taken under study. On an average almost all banks' ratio value falls under range of 55 to 82.

ANOVA

Source of Variation	SS	df	MS	F	P-value	F crit
Between Groups	4632.011172	4	1158.002793	6.89827214	0.000202885	2.578739184
Within Groups	7554.08378	45	167.8685284			
Total	12186.09495	49				

Fcal>Ftab and p-value is less than specified α of 0.05.

So, null hypothesis is rejected and it is concluded that the difference is seen in Return on Long Term Fund(%) Ratio of five selected banking companies.

4. RETURN ON NET WORTH

Table 4 : Return on Net Worth

RETURN ON NET WORTH					
COMPANY	**2012-13**	**2013-14**	**2014-15**	**2015-16**	**2016-17**
HDFC Bank	13.7	15.47	17.26	18.57	19.5
ICICI Bank	7.79	9.35	10.7	12.48	13.4
Axis Bank	15.67	17.83	18.59	15.64	16.26
DCB Bank	-14.51	3.8	6.85	10.2	13.15
Kotak Mahindra Bank	12.35	12.03	13.65	14.4	12.24

This ratio reveals how much profit a company generates with the money that the equity shareholders have invested.

From the table No-4 it can be seen that, there was good start in beginning years for almost all banks DCB bank and Kotak Mahindra bank. Due to loss in earlier years and middle age of latest 10 years we can see that ratio values of DCB bank fluctuate drastically year over year compare to any other banks taken under study. Except DCB bank no significant changes in ratio values in earlier and latest 5 years can be observed.

ANOVA

Source of Variation	SS	df	MS	F	P-value	F crit
Between Groups	5294.482092	4	1323.620523	8.753197767	2.57902E-05	2.578739184
Within Groups	6804.70442	45	151.2156538			
Total	12099.18651	49				

Fcal>Ftab and p-value is less than specified α of 0.05.

So, null hypothesis is rejected and it is concluded that the difference is seen in Return on Net Worth(%) Ratio of five selected banking companies.

CONCLUSION

Based on the ratio analysis of private sector banks, in latest 5 years all banks maintained high Net Profit Margin compare to earlier 5 years, which gives very positive sign for investor since Net Profit Margin is at its peak stage in latest 5 years, In earlier stage we can see value of this ratio was low compare to latest five years, which gives us direction that all banks doing their business more efficient way in current 5 years. It can see all banks are utilizing their asset in more profitable way in current years than earlier years. ICICI Bank has highest ratio value which is because of its consistence performance throughout the last 10 years.Difference is seen in Net Profit Margin Ratio of five selected banking companies.Difference is seen in Return on Assets Ratio of five selected banking companies.Difference is seen in Return on Long Term Fund(%) Ratio of five selected banking companies.Difference is seen in Return on Net Worth(%) Ratio of five selected banking companies.

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