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A PROFITABILITY ANALYSIS OF SELECTED PUBLIC SECTOR BANKS OF INDIA

Ms.Kathiriya Janki Ganpatbhai
(B.com, M.com), Research scholar, Rai University, saroda. Mail Id :- jazz.patel5268@gmail.com
Mobile :- 9925076141

Prof (Dr.) : Paresh shah
(FCMA. Ph.D (finance), Alumni of IIM, Ahmedabad) Principal and professor, Rai Business school, Rai university, saroda (Ahmedabad) Mail Id :- profpareshshah@yahoo.co.in, Pareshshah@rbc.Raiuniversity.edu

ABSTRACT: Banking Sector Reforms have changed the face of Indian banking industry. The reforms have led to the increase in resource productivity, increasing level of deposits, credits and profitability and decrease in non-performing assets. However, the profitability, which is an important criteria to measure the performance of banks in addition to productivity, financial and operational efficiency, has come under pressure because of changing environment of banking. An efficient management of banking operations aimed at ensuring growth in profits and efficiency requires up-to-date knowledge of all those factors on which the bank's profit depends. Accordingly, in this paper researcher have made an attempt to identify the key determinants of profitability of Public Sector Banks in India. The analysis is based on ratio analysis and ANOVA testing used on data from 2008-09 to 2017-18.

KEYWORDS : Bank, India, Profitability, Public sector

INTRODUCTION

Banks are essential instruments of accelerated growth in a developing economy. In fact banks are nerve centers of the economy. The primary task of banking institutions is to mobilize the diffused and thinly scattered savings of a poor and populous community and to direct them into productive investment. The existing saving potential of under developed nations has to be transformed into saving that can be accessible and beneficial to the community. New saving habits have to be developed, from economic point of view the major task of banks and other financial institutions is to act, as intermediaries channelling savings to investments and consumption and through them the investment requirements of savers are reconciled with the credit needs of investors by banks.

Financial intermediation by banks plays a catalytic role in promoting economic development by spreading banking and saving habits and by helping to fund productive, employment and income. As a general rule, the banking should respond to the demands of a dynamic economy both through structural and financial adaptation taking into account the special conditions of each country.

Bank as a development agency are the source of hope and aspirations of the masses. Then banks help the agricultural sector in a number of ways. They provide directly to agriculturists for marketing their produce, for modernisation and mechanisation of forms, for developing land etc. Banks also play an important role in development of the industrial sector by providing short term and long term loans to industries. Banks grant loans to small-scale industrial units for expansion, modernisation and renovation and also provide them with working capital finance.

LITERATURE REVIEW

Chandan and Rajput (2002) evaluated the performance of banks on the basis of profitability analysis. The researchers analyzed the factors determining the profitability of banks in India with the help of multiple regression technique. They found that spread i.e. net interest income is the major source of income for banks. The study found public sector banks at weaker position in relation to foreign banks and public sector banks. The authors suggested that public sector banks should concentrate on non-performing asset management and also make investment in technology up gradation for better data management and quicker flow of information.

Sangmi, M. (2002) analyzed the profitability of ten selected commercial banks in India. Five best performing banks were taken in class-1 and five poor performing banks were taken in class-2 categories. The study revealed that operating cost was higher in the case of class-2 banks and in these banks the profitability was affected due to low level of spread. These banks required more scientific attempts for the investment of funds. The researcher suggested that the position of operating cost can be improve with the introduction of high level technology as well as by improving the per employee productivity.

Kumari (2003) the researcher found that in terms of deposit mobilization branch expansion credit deployment and employment generation both public and private sector banks have shown increasing trend. Banks wise analysis revealed that private sector banks have shown higher growth as compared to public sector banks. The researcher suggested that public sector banks should their profitability and productivity performance by adopting innovation modern technological changes and by fixing responsibility of officers for recovery etc.

Arora and Kaur (2006) Financial performance of banks was analyzed on the basis of Return on assets Capital assets risk weighted, Non- performing assets to Net advances, Business per employee, Net profitability ratio, Non-performing assets level and off balance sheet Operation. The researcher recommended that for enhancing financial viability of public sector banks efforts should be made to reduce the non-performing assets and upgrade the technology. For enhancing business per employee continuous and compulsory training and development programmers should be introduced in the banks.

Shukla (2009) the study analyzed that in the post reform period Indian banking system has become more competitive more developed and financially viable due to several structural changes. The study evidenced that banks should focus on high operating cost and diversification of activities to remain competitive and profitable. The study evidence that use of technology based services to intensify competition and to reduce operating cost and achieve higher profitability. The researcher recommended that some critical factors like security and integrity of system should be addressed and greater emphasis should be given on banking and financial policies to strengthen the banking sector

RESEARCH OBJECTIVES

1. To analyses profitability of selected public sector banks of India
2. To study the impact of financial reform on banking industry

RESEARCH METHODOLOGY

SOURCES OF DATA

Secondary sources of data has been utilised for this proposed research study

Secondary data have been collected from Banks' Annual Reports.

UNIVERSE

This research study has selected 10 public sector banks.

PERIOD OF DATA COVERAGE

Ten years of financial statements has been analysed for public banks taken under study for the year 2008-09 to 2017-18

ANALYSIS OF DATA

The financial ratio analysis and ANOVA testing are used for the purpose of this study

DATA ANALYSIS

1. NET PROFIT MARGIN RATIO

COMPANY	2017-18	2016-17	2015-16	2014-15	2013-14	2012-13	2011-12	2010-11	2009-10	2008-09
Bank of Baroda	10.46	11.54	15.12	17.17	15.37	12.86	10.38	10.22	10.76	9.77
Bank of India	6.46	7.7	9.4	11.44	8.59	15.89	13.96	10.48	8.63	5.08
Bank of Maharashtra	3	7.21	5.97	5.93	8.16	7.88	8.65	9.36	2.18	6.97
Canara Bank	5.6	7.71	9.71	15.63	13.77	10.89	9.61	11.6	13.82	12.81
Central Bank of India	-4.79	4.64	2.59	7.59	7.7	4.99	6.31	7.69	4.92	6.21
Corporation Bank	2.86	9.35	10.43	13.89	14.05	12.88	14.41	14.01	14.9	16.37
Dena Bank	5.06	8.48	10.88	12.15	11.17	10.95	11.61	8.3	3.85	3.11
Indian Bank	6.97	11.38	14.28	18.31	17.03	16.25	16.52	15.45	13.4	12.36
Punjab National Bank	6.99	11.33	12.02	14.48	15.64	13.76	12.68	12.53	14.5	13.84
State Bank of India	7.03	10.39	9.68	7.58	10.54	12.03	11.65	10.12	11.21	11.56

Table 1 - Net profit margin

COMPANY	AVERAGE 10 YEARS	AVERAGE LATEST 5 YEARS	AVERAGE FIRST 5 YEARS
Bank of Baroda	12.37	13.93	10.80
Bank of India	9.76	8.72	10.81

Bank of Maharashtra	6.53	6.05	7.01
Canara Bank	11.12	10.48	11.75
Central Bank of India	4.79	3.55	6.02
Corporation Bank	12.32	10.12	14.51
Dena Bank	8.56	9.55	7.56
Indian Bank	14.20	13.59	14.80
Punjab National Bank	12.78	12.09	13.46
State Bank of India	10.18	9.04	11.31

Table 2 - Net profit margin 5 years average

INTERPRETATION

From the above table 1 it can be concluded that with 14.20 average Net profit margin ratio Indian Bank stood at number one position followed by Bank of Baroda with 12.37 average ratio value. With 4.79 average Net profit margin ratio Central Bank of India stood at last position which indicates that Central Bank of India doing their business least efficient way. During year 2014-15 banks have highest average Net profit margin ratio value whereas during year 2017-18 banks have lowest average net profit margin ratio value.

ANOVA TESTING

ANOVA

Source of Variation	SS	df	MS	F	P-value	F crit
Between Groups	782.428049	9	86.9364	9.30712	7.3E-10	1.98559
Within Groups	840.67669	90	9.34085			
Total	1623.10474	99				

INTERPRETATION

Ho= There is no significant difference in Net profit margin Ratio between ten selected public banks.

H1 = There is significant difference in Net profit margin Ratio between ten selected public banks.

From above table for 9 and 90 degree of freedom.

Fcal is 9.30 and Ftab is 1.98.

Thus, 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 between ten selected public banks.

2. *RETURN ON ASSETS RATIO*

COMPANY	2017-18	2016-17	2015-16	2014-15	2013-14	2012-13	2011-12	2010-11	2009-10	2008-09
Bank of Baroda	838.02	758.91	668.34	537.45	414.71	352.37	303.18	237.46	215.35	191.90
Bank of India	465.37	401.38	343.79	292.26	243.75	224.39	168.06	117.89	99.03	88.21
Bank of Maharashtra	68.10	70.88	63.77	61.02	55.84	47.97	41.01	39.85	35.88	35.15
Canara Bank	522.96	515.68	465.57	405.00	305.83	244.87	202.33	197.83	171.19	146.15
Central Bank of India	91.31	113.24	121.42	131.20	107.96	86.26	76.81	77.25	26.10	24.39
Corporation Bank	601.95	625.56	558.70	481.85	402.60	341.36	294.79	262.51	235.28	212.98
Dena Bank	132.81	164.66	122.59	103.76	83.43	67.95	54.62	43.24	37.15	34.61
Indian Bank	248.16	242.89	214.94	184.44	154.66	127.52	106.93	74.95	30.49	4.11
Punjab National Bank	991.39	924.45	777.39	632.48	514.77	416.74	341.98	321.65	287.79	248.93
State Bank of India	1584.34	1445.60	1251.05	1023.40	1038.76	912.73	776.48	594.69	525.25	457.39

Table 3 - Return on assets

COMPANY	AVERAGE 10 YEARS	AVERAGE LATEST 5 YEARS	AVERAGE FIRST 5 YEARS
Bank of Baroda	451.77	643.49	260.05
Bank of India	244.41	349.31	139.52
Bank of Maharashtra	51.95	63.92	39.97
Canara Bank	317.74	443.01	192.47
Central Bank of India	85.59	113.03	58.16
Corporation Bank	401.76	534.13	269.38
Dena Bank	84.48	121.45	47.51
Indian Bank	138.91	209.02	68.80
Punjab National Bank	545.76	768.10	323.42
State Bank of India	960.97	1268.63	653.31

Table 4 - Return on assets 5 years average

INTERPRETATION

From the above table 3 it can be concluded that State Bank of India has highest average Return on Assets ratio value compare to all banks taken under study which indicates that State Bank of India has utilised its assets most efficient way to generate profit. Bank of Maharashtra has lowest average Return on Assets ratio value compare to all banks taken under study which indicates that Bank of Maharashtra has utilised its assets least efficient way to generate profit. During year 2017-18 all banks have utilised their assets most efficient way to generate profit whereas during year 2008-09 banks have utilised their assets least efficient way to generate way to generate profit

ANOVA TESTING

ANOVA

Source of Variation	SS	df	MS	F	P-value	F crit
Between Groups	7059401.43	9	784378	22.3088	2.1E-19	1.98559
Within Groups	3164406.05	90	35160.1			
Total	10223807.5	99				

INTERPRETATION

Ho= There is no significant difference in Return on assets Ratio between ten selected public banks.

H1 = There is significant difference in Return on assets Ratio between ten selected public banks.

From above table for 9 and 90 degree of freedom.

Fcal is 22.30 and Ftab is 1.98.

Thus, 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 between ten selected public banks.

3. RETURN ON LONG TERM FUND RATIO

COMPANY	2017-18	2016-17	2015-16	2014-15	2013-14	2012-13	2011-12	2010-11	2009-10	2008-09
Bank of Baroda	90.23	89.81	92.37	89.02	99.27	103.70	91.52	81.71	66.45	76.67
Bank of India	102.34	108.25	120.37	109.17	114.17	127.39	122.57	126.61	109.76	98.98
Bank of Maharashtra	146.29	150.26	123.18	116.48	166.73	171.63	160.40	114.45	103.74	115.17
Canara Bank	139.56	130.75	132.09	112.95	134.69	149.13	151.48	111.05	95.07	95.13
Central Bank of India	121.43	129.73	138.58	166.98	188.21	207.85	169.69	130.33	115.45	130.11
Corporation Bank	142.94	142.11	142.31	110.99	115.17	115.83	94.80	73.21	59.37	54.38
Dena Bank	108.24	130.96	131.86	120.49	150.33	156.65	134.54	115.45	96.51	111.51
Indian Bank	107.18	103.28	104.60	95.59	97.98	102.16	87.96	91.06	106.55	130.33
Punjab National Bank	88.50	97.26	113.96	108.50	116.11	129.83	111.52	80.76	74.57	81.00
State Bank of India	87.28	96.35	97.36	98.20	95.02	100.35	86.83	99.20	97.89	105.35

Table 5 - Return on long term fund

COMPANY	AVERAGE 10 YEARS	AVERAGE LATEST 5 YEARS	AVERAGE FIRST 5 YEARS
Bank of Baroda	88.08	92.14	84.01
Bank of India	113.96	110.86	117.06
Bank of Maharashtra	136.83	140.59	133.08
Canara Bank	125.19	130.01	120.37
Central Bank of India	149.84	148.99	150.69
Corporation Bank	105.11	130.70	79.52
Dena Bank	125.65	128.38	122.93
Indian Bank	102.67	101.73	103.61
Punjab National Bank	100.20	104.87	95.54
State Bank of India	96.38	94.84	97.92

Table 6 - Return on long term fund 5 years average

INTERPRETATION

From the above table 5 it can be concluded that Central Bank of India has highest average Return on long term fund ratio value, Bank of Baroda has lowest average Return on long term fund ratio value. During year 2009-10 banks have lowest average Return on long term fund ratio value whereas during year 2012-13 bank have highest average Return on long term fund ratio value

ANOVA TESTING

ANOVA

Source of Variation	SS	df	MS	F	P-value	F crit
Between Groups	34453.4956	9	3828.17	9.03081	1.3E-09	1.98559
Within Groups	38151.0675	90	423.901			
Total	72604.5631	99				

INTERPRETATION

Ho= There is no significant difference in Return on long term fund Ratio between ten selected public banks.

H1 = There is significant difference in Return on long term fund Ratio between ten selected public banks.

From above table for 9 and 90 degree of freedom.

Fcal is 9.03 and Ftab is 1.98.

Thus, 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 between ten selected public banks.

4. *RETURN ON NET WORTH RATIO*

COMPANY	2017-18	2016-17	2015-16	2014-15	2013-14	2012-13	2011-12	2010-11	2009-10	2008-09
Bank of Baroda	12.61	14.01	18.22	20.15	20.24	17.35	12.99	11.86	10.54	12.58
Bank of India	9.12	11.49	13.57	15.58	13.60	25.51	22.76	21.25	14.53	8.36
Bank of Maharashtra	4.91	12.21	9.97	10.23	18.28	18.16	18.60	14.00	4.08	8.82
Canara Bank	8.23	11.54	15.91	22.43	24.09	20.64	18.86	18.78	20.65	19.95
Central Bank of India	-8.91	6.31	4.52	21.45	23.03	14.43	15.46	19.88	8.77	13.03
Corporation Bank	5.56	14.99	18.19	19.79	20.26	18.23	17.38	11.79	11.54	11.54
Dena Bank	7.72	14.05	18.71	17.68	21.36	21.68	22.96	17.48	9.03	7.43
Indian Bank	8.16	13.34	18.47	21.11	22.79	22.03	21.18	25.80	22.24	21.74
Punjab National Bank	9.31	14.52	17.55	20.61	24.06	23.52	19.00	16.03	17.01	17.96
State Bank of India	9.20	14.26	13.94	11.34	13.89	15.74	13.72	14.50	15.94	19.43

Table 7 - Return on net worth

COMPANY	AVERAGE 10 YEARS	AVERAGE LATEST 5 YEARS	AVERAGE FIRST 5 YEARS
Bank of Baroda	15.06	17.05	13.06
Bank of India	15.58	12.67	18.48
Bank of Maharashtra	11.93	11.12	12.73
Canara Bank	18.11	16.44	19.78
Central Bank of India	11.80	9.28	14.31
Corporation Bank	14.93	15.76	14.10
Dena Bank	15.81	15.90	15.72
Indian Bank	19.69	16.77	22.60
Punjab National Bank	17.96	17.21	18.70
State Bank of India	14.20	12.53	15.87

Table 8 - Return on net worth 5 years average

INTERPRETATION

From the above table 7 it can be concluded that with 19.69 average Return on net worth ratio value Indian Bank stood at number one position which indicates that bank has generated more profit from the money invested by shareholders. With 11.80 average Return on net worth ratio value Central Bank of India stood at last position which indicates that bank has generated lowest profit from the money invested by shareholders. During year 2017-18 all banks have lowest Return on net worth ratio value whereas during year 2013-14 banks have highest Return on net worth ratio value.

ANOVA TESTING

ANOVA

Source of Variation	SS	df	MS	F	P-value	F crit
Between Groups	591.754409	9	65.7505	2.18318	0.03034	1.98559
Within Groups	2710.51237	90	30.1168			
Total	3302.26678	99				

INTERPRETATION

Ho= There is no significant difference in Return on net worth Ratio between ten selected public banks.

H1 = There is significant difference in Return on net worth Ratio between ten selected public banks.

From above table for 9 and 90 degree of freedom.

Fcal is 2.18 and Ftab is 1.98.

Thus, 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 between ten selected public banks.

CONCLUSION: Based on the data analysis table it can be seen that, in latest five years all banks have lower average Net profit Ratio values compare to earlier 5 years which indicates that in earlier 5 years of study period banks doing their business more efficient way than the current 5 years of study. In latest five years all banks have higher average Return on Assets Ratio values compare to earlier 5 years which indicates that in latest 5 years of study period banks have utilised their assets more efficient way to generate profit. In latest five years all banks have higher average Return on long term fund Ratio values compare to earlier 5 years which indicates that in latest 5 years of study period banks have utilised their long term fund more efficient way to generate profit. In latest five years all banks have lower average Return on net worth ratio values compare to earlier 5 years which indicates that in earlier 5 years of study period banks have generated more profit from the money invested by shareholders compare to the latest 5 years of study.

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