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An Emprical Analysis Of Profitability Position Of Selected Private Banks In India

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Abstract: ***Profitability is a class of financial metrics that are used to assess a business's ability to generate earnings as compared to its expenses and other relevant costs incurred during a specific period of time. This study focuses on overall profitability analysis of different private sector banks in India based on the performance of profitability ratio like Interest spread, Net profit margin, Return on long term funds, Return on net worth, Return on assets. Profitability is a measure of efficiency and control the efficiency or effectiveness with which the operations of the business are carried on. For this analytical study, the Ratio Analysis has been used for analysis and to test hypothesis, Single Factor ANOVA (F-test) has been applied find out the significant difference between the banks and between the years.This study is just a small step in considerate the relative performance of selected Private Sector Bank based on Market Capitalisation. These potential changes can be analyzed with a support of Income statement and Balance sheet.***

Keywords: ***Private Banking Sector, Profitability Analysis, Interest spread, Net profit margin, Return on long term funds, Return on net worth, Return on assets.***

I. INTRODUCTION

The present research was aimed at studying the financial performance of private sector banks. Private sector banks an important role in the development of Indian economy. After introduction of new generation private sector banks, the banking industry underwent major changes. The Indian banking industry was dominated by public sector banks. But now the situation has changed private sector banks with use of technology and professional management has gained a reasonable position in the banking industry. Banking constitutes an important link in several socio-economic activities. Therefore, the banking industry must be on a sound footing, while in India, there is stress on the social responsibility of banks, the significance of liquidity and profitability is not to be neglected. The financial viability of the banking system is certainly essential; not only to instil public confidence but also to make banks capable of discharging their social responsibilities. The banking system in India should not only be hassle free but it should be able to meet new challenges posed by technology and any other external and internal factors. After the great depression, the government gave permission for private entrepreneurs to set up private sector banks on a massive scale. The private sector banks are always trying to innovate new products avenues new schemes, services and make the industries to achieve expertise in their respective fields by offering quality service and guidance. They introduce new technology in the banking service.

A FEW THINGS ABOUT NEW PRIVATE SECTOR BANKS

The new private sector banks are those that have come into operation very recently. The banks, which came in operation after1991, with the introduction of economic

reforms and financial sector reforms are called as new private sector banks. The Reserve Bank of India has announced the draft guidelines for new banking licenses.

The criteria include:

- ✓ Promoters / promoter groups with diversified ownership, sound credentials and integrity, with a successful track record for at least 10 years in running their businesses will be eligible to promote banks.
- ✓ The initial minimum paid-up capital for a new bank will be Rs 500 crore.
- ✓ Entities / groups having significant (10 per cent or more) income or assets or both from real estate construction and/or broking activities individually or taken together in the last three years will not be eligible.
- ✓ New banks can only be set up through a wholly owned Non-Operative Holding Company (NOHC) to be registered with the Reserve Bank as a non-banking finance company (NBFC), which will hold the bank as well as all the other financial companies in the promoter group.
- ✓ The aggregate non-resident shareholding from FDI (foreign direct investment), NRIs (non-resident Indians) and FIIs (foreign institutional investors) in the new private sector banks shall not exceed 49 percent for the first five years from the date of licensing of the bank. No non-resident shareholder, directly or indirectly, individually or in groups, will be permitted to hold 5 percent or more of the paid up capital of the bank. After the expiry of 5 years from the date of licensing of the bank, the foreign shareholding would be as per the extant policy. Currently, foreign shareholding in private sector banks is allowed up to a ceiling of 74 percent of the paid up capital.
- ✓ The Reserve Bank has announced its new draft licensing norms for private sector promoters to set up new banks. The norms require promoters to bring in a minimum capital of Rs 500 crore and limit foreign holdings to 49 percent.

II. REVIEW OF LITERATURE

The researcher and economists have recognized that the measurement of profitability in banking is necessary to improve the financial soundness of banks. A large number of studies have been conducted in the field of profitability and financial performance of banks. A brief review of some of these studies has been presented.

Gopal and Dev (2006) empirically analyzed the productivity and profitability of selected public and private sector banks in India. They evaluated the effect of globalization and liberalization on the productivity and profitability of Indian banks during the period 1996-97 to 2003-04. Interest spread emerged as the only strong factor influencing the profitability. A high degree of positive association between productivity and profitability during the study period speaks about the efficiency of the banks in utilizing their resources.

Thakarshibhai (2011) done study on the profitability analysis of few public and private sector banks and found that three key factors which are mean, standard deviation and anova model affect the profitability analysis of Indian banking sector. He found that in public sector banks return on capital employed found poor in contrast to private sector banks and suggested that it is essential for the public sector banks to apply their capital employed very efficiently to yield enough return. So, as they can contest with private sector banks.

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.

III. OBJECTIVES OF THE STUDY

- ✓ To identify the various profitability analysis of some selected private sectors banks (i.e.,) HDFC, ICICI, AXIS, KMB, INDUSIND.
- ✓ To analyze the overall profitability of banks by applying Interest spread, Net profit margin, Return on Long term fund, Return on Net worth, & Return on asset.

IV. SCOPE OF STUDY

The study is about the role of profitability analysis of private sectors banks in India. It is mainly dealt with the Profitability ratios show a company's overall efficiency and performance. A variety of Profitability Ratios (Decision Tool) can be used to assess the financial health of a business.

V. PERIOD OF STUDY

The study covers a period of 5 years from 20011- 2012 to 2015-2016 is taken for the study.

VI. METHODOLOGY

A. DATA COLLECTION

The study is based on secondary data. Information required for the study has been collected from the annual report of HDFC, ICICI, AXIS, KMB, INDUSIND & different books, journals ,magazines & data collected from various bank websites and Moneycontrol.com

B. STATISTICAL TOOLS

In this study various statistical tools are used (i.e.,) Mean, Standard deviation, Coefficient of variation & ANOVA test have been used for data analysis.

C. HYPOTHESES

Keeping the above objectives and the data collected for this study, the following hypotheses were framed and tested.

- ✓ H0: μ1= μ2= μ3= μ4= μ5 (There is no difference relationship between interest spread among different private sector banks in India)
- ✓ H0: μ1= μ2= μ3= μ4= μ5 (There is no difference relationship between Net profit margin among different private sector banks in India)
- ✓ H0: μ1= μ2= μ3= μ4= μ5 (There is no difference relationship between Return on Long term fund among different private sector banks in India)
- ✓ H0: μ1= μ2= μ3= μ4= μ5 (There is no difference relationship between Return on Net worth among different private sector banks in India)
- ✓ H0: μ1= μ2= μ3= μ4= μ5 (There is no significant difference between Return on Asset among different private sector banks in India)

VII. LIMITATION OF THE STUDY

- ✓ The study is related to a period of 5 years only
- ✓ Due to limited span of time only profitability ratio is taken for the study.
- ✓ The reliability and accuracy is purely confined to published data.

VIII. OVERVIEW OF PROFITABILITY

Profitability is the primary goal of all business ventures. Without profitability the business will not survive in the long run. So measuring current and past profitability and projecting future profitability is very important. Profitability is measured with income and expenses. The ability to earn a profit. Infact, efficiency of business is measured in terms of profits. Profitability ratios are calculated to measure the efficiency of a business. The following profitability ratios are.

A. INTEREST SPREAD

Interest spread is the difference between the average lending rate and the average borrowing rate for a bank or other financial institution.

Interest Spread % =Total interest income minus total interest expenses / Average working fund

INTEREST SPREAD RATIO					
YEAR	HDFC	ICICI	KMB	AXIS	INDUSIND
2011-2012	8.42	7.45	9.16	6.75	8.12
2012-2013	8.78	7.82	9.82	7.32	8.28
2013-2014	8.01	7.35	9.52	7.61	7.85
2014-2015	8.01	7.04	8.38	7.89	7.47
2015-2016	7.52	6.83	7.86	7.46	6.69
MEAN	8.148	7.298	8.948	7.406	7.682
SD	0.475889	0.38206	0.812231	0.423238	0.633774
CV	0.058406	0.052351	0.090772	0.057148	0.082501

Table 8.1: Analysis of mean, standard deviation & coefficient of variation

Table (8.1) shows the detail about bank wise mean, standard deviation & coefficient of variation of Interest Spread Ratio of selected banks. KMB & HDFC have highest mean value & ICICI bank has lowest mean value when compare to the rest of selected banks. Standard deviation of Interest Spread Ratio of ICICI bank has low 0.38206 with coefficient of variation as 0.058406 but KMB has highest standard deviation of 0.812231 with 0.090772 as coefficient of variation.

HYPOTHESIS: H0: μ1= μ2= μ3= μ4= μ5 (There is no significant difference between interest spread among different private sector banks in India)

Source of Variation	*SS*	*df*	*MS*	*F*	*P-value*	*F crit*
Between Groups	9.068536	4	2.267134	7.027868019	0.001054531	1.6543
Within Groups	6.45184	20	0.322592			
Total	15.520376	24				

Table 8.1(a): Projects the result of ANOVA (one way) test

As per the table 8.1(a) it is found that calculated ANOVA one way test (7.027868019) is greater than the table value (1.6543) so null hypothesis is rejected. Therefore it is concluded that there is significant difference between Interest Spread Ratio among different private sector bank in India.

B. NET PROFIT MARGIN

Net profit margin is the percentage of revenue remaining after all operating expenses, interest, taxes and preferred stock dividends (but not common stock dividends) have been deducted from a company's total revenue.

Net profit margin % = Net Profit / Revenue

NETPROFIT MARGIN %					
YEAR	HDFC	ICICI	KMB	AXIS	INDUSIND
2011-2012	18.93	19.27	17.55	19.18	14.97
2012-2013	19.18	20.77	16.91	19.24	15.19
2013-2014	20.61	22.2	17.13	20.53	17.05
2014-2015	21.07	22.76	19.19	20.84	18.5
2015-2016	20.41	18.44	12.75	20.16	19.74
MEAN	20.04	20.688	16.706	20.16	17.09
SD	0.934666	1.847314	2.385053	0.751931	2.068611
CV	0.04664	0.089294	0.142766	0.037298	0.121042

Table 8.2: Analysis of mean, standard deviation & coefficient of variation

Table (8.2) shows the detail about bank wise mean, standard deviation & coefficient of variation of Net Profit Margin of selected banks. ICICI & AXIS have highest mean value & KMB has lowest mean value when compare to rest of selected banks. Standard deviation of Net Profit Margin of Axis bank has 0.751931 with low coefficient of variation of 0.037298 but Indusind has highest standard deviation of 2.068611 with 0.121042 as coefficient of variation.

HYPOTHESIS: H0: μ1= μ2= μ3= μ4= μ5 (There is no significant difference between Net profit margin among different private sector banks in India)

Source of Variation	*SS*	*df*	*MS*	*F*	*P-value*	*F crit*
Between Groups	68.871704	4	17.217926	5.809330463	0.002858572	1.6543
Within Groups	59.2768	20	2.96384			
Total	128.148504	24				

Table 8.2(a): Projects the result of ANOVA (one way) test

Above analysis calculated value of ANOVA one way test (5.809330463) is greater than the table value (1.6543) as

shown in the above table, null hypothesis is accepted. Therefore it is concluded that there is a no significant difference between the Net profit Margin of (HDFC, ICICI, AXIS, KMB, INDUSIND) private sector banks in India.

C. RETURN ON LONG TERM FUND

This ratio establishes the relationship between net profit and the long term fund. The term long term fund refers to total investment made in the business of long run.

Return on Long term fund % = EBIT / Long term fund

RETURN ON LONG TERM FUND %					
YEAR	**HDFC**	**ICICI**	**KMB**	**AXIS**	**INDUSIND**
2011-2012	75.2	52.33	66.29	113.42	107.45
2012-2013	80.09	56.37	72.07	96.41	85.41
2013-2014	81.47	56.92	59.62	93.62	86.75
2014-2015	66.77	94.4	58.89	92.04	87.7
2015-2016	70.54	86.55	92.2	87.73	60.88
MEAN	74.814	69.314	69.814	96.644	85.638
SD	6.230179	19.59593	13.61885	9.890522	16.53982
CV	0.083276	0.282712	0.195073	0.10234	0.193136

Table 8.3: Analysis of mean, standard deviation & coefficient of variation

Table (8.3) depicts the detail about bank wise mean, standard deviation & coefficient of variation of return on long term fund of selected banks. Axis & Indusind have highest mean value & ICICI bank has lowest mean value when compare to rest of selected banks. Standard deviation of return on long term fund of ICICI bank has 19.59593 with coefficient of variation of 0.282712 and HDFCI bank has 6.230179 low standard deviation & low coefficient of variation 0.083276

HYPOTHESIS: H0: μ1= μ2= μ3= μ4= μ5 (There is no significant difference between Return on Long term fund among different private sector banks in India)

Source of Variation	*SS*	*df*	*MS*	*F*	*P-value*	*F crit*
Between Groups	2753.9894	4	688.4976	3.51390113	0.025020652	1.6543
Within Groups	3918.7066	20	195.9358			
Total	6672.6964	24				

Table 8.3(a): Projects the result of ANOVA (one way) test

Since the calculated value of F(3.51390113) is greater than the table value (1.6543) as shown in table 8.3(a) ANOVA, null hypothesis is rejected .It is therefore ,concluded that there is a significant relationship between the return on long term fund of (HDFC, ICICI, AXIS, KMB, INDUSIND) private sectors banks in India.

D. RETURN ON NET WORTH

The return on equity ratio which is also known as the return on net worth is used by investors to determine the amount of return they are receiving from their capital investment in a company. Companies can increase their return on equity percentage by buying back their stock, increasing earnings, or using more debt to fund operations.

Return on Net worth % = Profit after tax / Equity share holder fund

RETURN ON NETWORTH %					
YEAR	**HDFC**	**ICICI**	**KMB**	**AXIS**	**INDUSIND**
2011-2012	17.26	10.7	13.65	18.6	17.79
2012-2013	18.57	12.48	41.4	15.78	14.32
2013-2014	19.5	13.4	12.24	16.43	16.3
2014-2015	16.47	13.89	13.19	16.56	17.51
2015-2016	16.91	11.19	8.72	15.58	13.21
MEAN	17.742	12.332	17.84	16.59	15.826
SD	1.256849	1.374544	13.31152	1.198207	2.001832
CV	0.07084	0.111462	0.746162	0.072225	0.12649

Table 8.4: Analysis of mean, standard deviation & coefficient of variation

Table (8.4) shows the detail about bank wise mean, standard deviation & coefficient of variation of Return on Net Worth of selected banks. KMB & HDFC have highest mean value & ICICI bank has lowest mean value when compare to rest of selected banks. Standard deviation of Return on Net Worth of ICICI bank has 1.374544 with coefficient of variation of 0.746162 but KMB has highest standard deviation 13.31152 with 0.746162 as coefficient of variation. HDFC Bank showing low coefficient of variation while compared to other banks.

HYPOTHESIS: H0: μ1= μ2= μ3= μ4= μ5 (There is no significant difference between Return on Net worth among different private sector banks in India)

Source of Variation	*SS*	*df*	*MS*	*F*	*P-value*	*F crit*
Between Groups	101.15492	4	25.28873	0.679407445	0.614263137	1.6543
Within Groups	744.43488	20	37.221744			
Total	845.5898	24				

Table 8.4(a): Projects the result of ANOVA (one way) test

As per the table 8.4(a) it is found that calculated ANOVA one way test (0.679407445) is less than the table value (1.6543) so null hypothesis is accepted. Therefore it is concluded that there is no significant difference between return on net worth among different private sector bank in India.

E. RETURN ON ASSET

(ROA) is a financial ratio that shows the percentage of profit that a company earns in relation to its overall resources (total assets).

Return on asset %= Net profit / Total asset

RETURN ON ASSET%					
YEAR	**HDFC**	**ICICI**	**KMB**	**AXIS**	**INDUSIND**
2011-2012	127.52	524.43	107.28	548.92	101.19
2012-2013	152.2	578.65	126.53	708.58	107.28
2013-2014	181.23	634.6	159.35	817.21	462.77
2014-2015	247.39	138.72	183.09	189.62	524.43
2015-2016	287.47	154.31	130.61	224.77	127.52
MEAN	199.162	406.142	141.372	497.82	264.638
SD	66.67797	240.2488	29.84112	282.2165	210.3725
CV	0.334793	0.591539	0.211082	0.566905	0.794944

Table 8.5: Analysis of mean, standard deviation & coefficient of variation

As per table 8.5 it has been found that bank wise mean standard deviation & coefficient of variation of return on asset of selected banks. AXIS & ICICI has highest mean value & KMB has lowest value when compare to other banks. Standard deviation of net profit to total asset of AXIS has 282.2165 with coefficient of variation of 0.566905 and KMB has 66.67797 low standard deviation with coefficient of variation as 0.334793.

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HYPOTHESIS: H0: μ1= μ2= μ3= μ4= μ5 (There is no significant difference between Return on Asset among different private sector banks in India)

Source of Variation	*SS*	*df*	*MS*	*F*	*P-value*	*F crit*
Between Groups	434819.032	4	108704.7578	2.907187227	0.047798433	1.6543
Within Groups	747834.589	20	37391.7293			
Total	1182653.617	24				

Table 8.5(a): Projects the result of ANOVA (one way) test

As per the table 8.5(a) it is found that calculated ANOVA one way test (2.907187227) is greater than the table value (1.6543) so null hypothesis is rejected. Therefore it is concluded that there is a significant difference between Return on Asset among different private sector bank in India

IX. FINDING

- ✓ Interest spread of all selected banks KMB has high percent of 9.82 at the end of March 2013 and ICICI has low percent of 6.83 at the end of March 2016.
- ✓ Net profit margin of different banks shows that net increasing the period of March 2015 ICICI has highest percent of 22.76 and compare to other banks INDUSIND has low percent of 14.97.
- ✓ Return on long term fund reveals that 113.42 percent over all private sectors banks AXIS has highest in the period of March 2012 and ICICI at the end of March 2012 decreasing to 52.33 percent.
- ✓ Return on net worth shows that high percent of AXIS has 18.6 at the end of March 2011 and compare to all other remaining banks KMB has low percent of 8.72 at the end of March 2016.
- ✓ Return on asset gives the clear picture of 817 percent has highest in the period of March 2014 and INDUSIND has very low percent of 101.19 at the end of March 2012.

X. CONCLUSION

Private bank in India are performing very well and more and more private banks are coming up with high quality standards since globalization. Globalization has given way to many foreign banks to set up their business unit in a developing country like India. Ratio Analysis is helpful for any shareholder, investor, creditor, banker or any other party who is concerned with the financial performance of the company. Single factor ANOVA technique helps in analyzing the significance of empirical study by comparing different ratios over a period of time which provides a good sense to the management of the company as well as to the relevant shareholders. Profitability measure a company's ability to generate earnings related to sales, assets and equity. These ratios assess the ability of a bank 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 acts 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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