# 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 2007-08 to 2016-17. Financial ratio analysis (FRA) method has been used to draw an overview about financial performance of private sector banks. This paper provides important seed of knowledge and is very useful for bankers, practitioners and new researchers.*

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

## 1. Introduction

### *1.1 Overview of Banking*

Bank is defined in many ways by various authors in the books on economics and commerce. It is very difficult to define a bank; because a bank performs multifarious functions in many ways according to their functions. The evolution of different types of banks, each specialising in a particular field, gives emphasis on each and every kind of bank. A general and comprehensive definition to cover all types of banking institutions would be unscientific and probably impossible. Each type of bank should have its own definition, explaining its specialised functions. Legislators have understood this difficulty and that is why the bill of exchange Act 1882 (England) defines. "A bank includes a body of persons, whether incorporated or not, who carry on the business of banking"

### *1.2 Market Size*

The Indian banking sector is fragmented, with more than 40 commercial banks pushing for business with dozens of foreign banks as well as rural and co-operative lenders. Public sector banks banks control 80 percent of the market, leaving relatively small shares for private rivals.

At the end of February, 2018, 13.7 crore accounts had been opened under Pradhanmantri Jan Dhan Yojna (PMJDY) and 12.2 crore RuPay debit cards were issued. These new accounts have mobilised deposits of Rs 12,694 crore (US$ 2.01 billion).

## 2. Literature Review

Farmer's Mayuri (2009) study was primarily based on the secondary data relating to the financial performance of 27 nationalized banks of India during 1989 to 1998. A regression analysis has been attempted to identify the quantifiable variables and to judge how far the changes in profitability are influenced by each of these variables. A detailed study has also been undertaken by selecting a very profitable bank and a highly loss making bank to identify the variables affecting the profitability of each of them. The application of the concept of Break Even Analysis has been attempted to differentiate between a profit earning bank and a losing bank and to help in suggestions how margin of safety can be improved.

Gulati Rachita and Kumar Sunil (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.

Mitra Roma, Ravi Shankar (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.

Kumar Satish (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.

Vradi, Vijay, Mauluri, Nagarjuna (2006), in his study on Measurement of efficiency of bank in India concluded that in modern world performance of banking is more important to stable the economy .in order to see the efficiency of Indian banks we have seen the fore indicators i.e. profitability, productivity, assets, quality and financial management for all banks includes public sector, private sector banks in India for the period 2000 and 1999 to 2002-2003. For measuring efficiency of banks the researchers have adopted development envelopment analysis and found that public sectors banks are more efficient than other banks in India.

Koeva Petya (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.

**3. Research Objectives**

Following are the research objective of this study

1.To analyses profitability of selected private banks of India

2.To study the impact of financial reform on banking industry

## 4. Research Methodology

### *4.1 Sources of Data*

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

Secondary data have been collected from Banks' Annual Reports.

## 5. Universe

This research study has selected 3 private banks.

## 6. Period of Data Coverage

Ten years of financial statements has been analysed for private banks taken under study for the year 2007-08 to 2016-17

## 7. Analysis of Data

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

### *7.1 Data Analysis*

### *7.1.1 Net Profit Margin Ratio*

Net profit margin is the ratio of net profits to revenues for a company or business segment. Typically expressed as a percentage, net profit margins show how much of each dollar collected by a bank as revenue translates into profit. The equation to calculate net profit margin is: net margin = net profit / revenue.

Table 1 : Net Profit Margin Ratio

| NET PROFIT MARGIN | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| **Bank** | **2017** | **2016** | **2015** | **2014** | **2013** | **2012** | **2011** | **2010** | **2009** | **2008** |
| Axis Bank | 20.73 | 16.34 | 15.35 | 15.47 | 17.12 | 16.1 | 13.31 | 12.22 | 12.01 | 13.47 |
| HDFC Bank | 21.07 | 17.28 | 16.04 | 15.88 | 16.18 | 14.76 | 11.35 | 12.82 | 13.57 | 15.55 |
| ICICI Bank | 22.76 | 17.96 | 17.19 | 15.75 | 15.79 | 12.17 | 9.74 | 10.51 | 10.81 | 14.12 |

| **BANK** | **Average** | | | **Standard deviation** | | | **Coefficient of Variation** | | |
|---|---|---|---|---|---|---|---|---|---|
| | **2012-13 to 2016-17** | **2007-08 to 2011-12** | **2007-08 to 2016-17** | **2012-13 to 2016-17** | **2007-08 to 2011-12** | **2007-08 to 2016-17** | **2012-13 to 2016-17** | **2007-08 to 2011-12** | **2007-08 to 2016-17** |
| Axis Bank | 17.00 | 13.42 | 15.21 | 2.20 | 1.63 | 2.63 | 12.96 | 12.14 | 17.27 |
| HDFC Bank | 17.29 | 13.61 | 15.45 | 2.18 | 1.64 | 2.66 | 12.63 | 12.08 | 17.23 |
| ICICI Bank | 17.89 | 11.47 | 14.68 | 2.88 | 1.72 | 4.06 | 16.10 | 15.01 | 27.63 |

During latest 5 years of the study all three banks taken under study maintained high net profit margin ratio compare to the beginning 5 years of the study period, so based on this it can be concluded that companies have maintained good amount of profit over gross income. In latest 5 years all banks performing most efficient way. ICICI bank has highest average net profit margin ratio followed by HDFC bank and Axis bank. Sudden hike in ratio value can be observed in latest year 2017 from its previous year 2016.

Vol. 6, Issue: 5, May: 2018
(IJRSML) ISSN: 2321 - 2853

### *7.1.2 Return on Assets*

Return on assets (ROA) is an indicator of how profitable a company is relative to its total assets. ROA gives a manager, investor, or analyst an idea as to how efficient a company's management is at using its assets to generate earnings. Return on assets is displayed as a percentage and its calculated as:

ROA = Net Income / Total Assets

**Table 2 : Return on Assets**

| RETURN ON ASSETS | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| **BANK** | **2017** | **2016** | **2015** | **2014** | **2013** | **2012** | **2011** | **2010** | **2009** | **2008** |
| Axis Bank | 188.47 | 813.47 | 707.5 | 551.99 | 462.77 | 395.99 | 284.5 | 245.13 | 120.8 | 103.06 |
| HDFC Bank | 247.39 | 181.23 | 152.2 | 127.52 | 545.46 | 470.19 | 344.44 | 324.38 | 201.42 | 169.24 |
| ICICI Bank | 138.72 | 633.92 | 578.21 | 524.01 | 478.31 | 463.01 | 444.94 | 417.64 | 270.37 | 249.55 |

| **BANK** | **Average** | | | **Standard deviation** | | | **Coefficient of Variation** | | |
|---|---|---|---|---|---|---|---|---|---|
| | **2012-13 to 2016-17** | **2007-08 to 2011-12** | **2007-08 to 2016-17** | **2012-13 to 2016-17** | **2007-08 to 2011-12** | **2007-08 to 2016-17** | **2012-13 to 2016-17** | **2007-08 to 2011-12** | **2007-08 to 2016-17** |
| **Axis Bank** | 544.84 | 229.90 | 387.37 | 241.04 | 121.23 | 244.76 | 44.24 | 52.73 | 63.19 |
| **HDFC Bank** | 250.76 | 301.93 | 276.35 | 170.73 | 120.76 | 142.00 | 68.09 | 40.00 | 51.38 |
| **ICICI Bank** | 470.63 | 369.10 | 419.87 | 194.49 | 101.20 | 155.65 | 41.33 | 27.42 | 37.07 |

During latest 5 years of the study all three banks taken under study maintained high return on assets ratio except HDFC bank compare to the beginning 5 years of the study period, so based on this it can be concluded that banks have utilised their assets most efficient way to generate revenue and earned profit . ICICI bank has highest average net return on assets ratio value followed by Axis bank and HDFC bank. From all these three banks ICICI bank has utilised its assets most efficient way throughout way around last 10 years of study, while HDFC bank has utilised its assets least efficient way. Sudden drop in ratio value can be observed in latest year 2017 from previous year 2016.

### *7.1.3 Return on Long Term Fund*

This ratio establishes the relationship between net profit and the long term funds. The term long-term funds refer to the total investment made in business for long term. It is calculated by dividing Earnings before Interest & Tax (EBIT) by the total long-term funds.

**Table 3 : Return on Long Term Fund**

| RETURN ON LONG TERM FUND | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| **BANK** | **2017** | **2016** | **2015** | **2014** | **2013** | **2012** | **2011** | **2010** | **2009** | **2008** |
| Axis Bank | 72.32 | 73.36 | 75.72 | 88.84 | 72.25 | 66.34 | 97.35 | 71.17 | 119.74 | 88.56 |
| HDFC Bank | 66.77 | 81.47 | 80.09 | 75.2 | 59.91 | 56.08 | 83.31 | 62.34 | 74.91 | 60.06 |
| ICICI Bank | 57.03 | 56.48 | 56.37 | 52.33 | 43.05 | 44.72 | 56.72 | 62.34 | 82.46 | 56.24 |

| BANK | Average | | | Standard deviation | | | Coefficient of Variation | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2012-13 to 2016-17 | 2007-08 to 2011-12 | 2007-08 to 2016-17 | 2012-13 to 2016-17 | 2007-08 to 2011-12 | 2007-08 to2016-17 | 2012-13 to 2016-17 | 2007-08 to 2011-12 | 2007-08 to 2016-17 |
| Axis Bank | 76.50 | 88.63 | 82.57 | 7.04 | 21.48 | 16.37 | 9.20 | 24.24 | 19.83 |
| HDFC Bank | 72.69 | 67.34 | 70.01 | 9.17 | 11.37 | 10.14 | 12.62 | 16.88 | 14.48 |
| ICICI Bank | 53.05 | 60.50 | 56.77 | 5.90 | 13.85 | 10.77 | 11.12 | 22.89 | 18.98 |

No major ups and down can be observed in throughout last ten years. Banks have maintained high return on long term fund in earlier 5 years except HDFC bank. All banks have utilised their long term fund most efficient way to generate revenue and net profit

Axis bank has highest average return on long term ratio value followed by HDFC bank and ICICI bank. From all these three banks ICICI bank has utilised its long term fund least efficient way throughout last 10 years of study, while Axis bank has utilised its assets most efficient way. No sudden drop or jump can be observed from all three banks throughout last ten years.

### *7.1.4 Return on Net Worth*

Return on equity (ROE) is a measure of profitability that calculates how many dollars of profit a company generates with each dollar of shareholders' equity. The formula for ROE is: ROE = Net Income/Shareholders' Equity. ROE is sometimes called "return on net worth."

**Table 4 : Return on Net worth**

| RETURN ON NET WORTH | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| **BANK** | **2017** | **2016** | **2015** | **2014** | **2013** | **2012** | **2011** | **2010** | **2009** | **2008** |
| Axis Bank | 16.46 | 16.26 | 15.64 | 18.59 | 17.83 | 15.67 | 17.77 | 12.21 | 19.37 | 18.28 |
| HDFC Bank | 16.47 | 19.5 | 18.57 | 17.26 | 15.47 | 13.7 | 15.32 | 13.83 | 23.57 | 22.73 |
| ICICI Bank | 13.89 | 13.4 | 12.48 | 10.7 | 9.35 | 7.79 | 7.58 | 8.94 | 13.17 | 14.33 |

| BANK | Average | | | Standard deviation | | | Coefficient of Variation | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2012-13 to 2016-17 | 2007-08 to 2011-12 | 2007-08 to 2016-17 | 2012-13 to 2016-17 | 2007-08 to 2011-12 | 2007-08 to 2016-17 | 2012-13 to 2016-17 | 2007-08 to 2011-12 | 2007-08 to 2016-17 |
| Axis Bank | 16.96 | 16.66 | 16.81 | 1.21 | 2.83 | 2.06 | 7.16 | 16.97 | 12.24 |
| HDFC Bank | 17.45 | 17.83 | 17.64 | 1.61 | 4.91 | 3.45 | 9.23 | 27.52 | 19.55 |
| ICICI Bank | 11.96 | 10.36 | 11.16 | 1.90 | 3.16 | 2.60 | 15.90 | 30.52 | 23.30 |

During year 2009 and 2008 banks have highest return on net worth ratio value, then sudden drop can be observed in all banks in year 2010. So it can be concluded that during year 2008 and 2009 banks have utilised their equity more efficient way than any other time periods. From year 2010 to 2017 no major hike or decline can be observed for all 3 banks.

HDFC bank has highest average return on net worth ratio value followed by Axis bank and ICICI bank. From all these three banks HDFC bank has utilised its shareholder's equity most efficient way throughout last 10 years of study, while ICICI bank has utilised its assets least efficient way. No sudden drop or jump can be observed from all three banks throughout latest eight years.

## 8. Conclusion

Based on the ratio analysis of private sector banks, it can be concluded that higher net profit margin ratio can be seen in earlier years i.e. in earlier years banks keeping higher amount of their revenue as net income. 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 3 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 3 selected banking companies. Difference is seen in Return on Net Worth (%) Ratio of 3 selected banking companies.

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