"A COMPARATIVE STUDY ON PROFITABILITY ANALYSIS OF SELECTED PUBLIC SECTOR BANKS OF INDIA"

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ABSTRACT

Profit is the determinant factor of success of business and means of its survival and growth. This paper focuses on the performance of selected public sector banks in terms of ratios. The study covers a period of five years and applied various profitability ratios like net profit margin, operating profit margin, return on assets, return on equity and net interest margin. Profitability is a measure of efficiency and control; it indicates effectiveness of business operations. Profitability ratios provide useful insights into the financial health and performance of a company. It was found out that performance of SBI was satisfactory except in the year of 2017-18, though net interest margin ratio was positive in that year also. In case of BOB, net interest margin ratio was satisfactory in all the years but other ratios were negative in the year of 2015-16 and 2017-18.

Keywords: Profitability, SBI BOB

1.00 INTRODUCTION

The Indian banking system comprises of 27 public sector banks, 21 private sector banks, 49 foreign banks, 56 regional rural banks, 1562 urban co-operative banks and 94,384 rural co-operative banks in addition to co-operative credit institutions.

India's GDP growth has been the subject matter of much debate, and most commentators see the worst as being over for India in terms of GDP growth. India is said to be poised to regain its position as the world's fastest growing nation, with a growth rate of 7.2% in 2018 and 7.4% in 2019. The Reserve Bank of India's latest Financial Stability Report, however paints a dispirited scenario of credit growth- the key determinant of bank profitability.

The prescriptions to improve India's financial resilience led by banking sector profitability are fairly clear. While India's GDP growth rates may improve slowly, its relevance to overall bank profitability is relatively lower under normal conditions. It is only when GDP growth becomes strongly negative, does it affect return on assets (ROA) of banks significantly or not. More important is that under present Indian conditions, credit off take will need to be strongly induced. Investment demand will need to be significantly boosted to improve such credit growth.

The RBI will need to maintain a conducive interest rate environment, as also ensure effective monetary policy transmission to maintain overall bank profitability.

1.1 State bank of India (SBI):

State Bank of India (SBI) is an Indian multinational, public sector banking and financial services company. It is a government-owned corporation headquartered in Mumbai, Maharashtra. The company is ranked 216th on the Fortune Global 500 list of the world's biggest corporations as of 2017. It is the largest bank in India with a 23% market share in assets, besides a share of one-fourth of the total loan and deposits market.

1.2 Bank of Baroda(BOB):

Bank of Baroda (BOB) is an Indian multinational, public sector banking and financial services company. It is owned by Government of India and headquartered in Vadodara, Gujarat. It has a corporate office in Mumbai, Maharashtra. The bank was founded by the Maharaja of Baroda, Maharaja SayajiraoGaekwad III on 20 July 1908 in the State of Baroda, in Gujarat. The bank, along with 13 other major commercial banks of India, was nationalized on 19 July 1969, by the Government of India and has been designated as a profit-making public sector undertaking (PSU).Based on 2017 data; it is ranked 1145 on Forbes Global 2000 list. BOB has total assets in excess of ₹ 3.58 trillion (making it India's 2nd biggest bank by assets), a network of 5538 branches in India and abroad, and 10441 ATMs as of July, 2017.

2.00 REVIEW OF LITERATURE

2.1 AmitKumar Singh, (2015) in their research article on 'An analysis of profitability position of private banks in India' has selected four private sector banks- Axis, ICICI, Karurvysya & YES bank. The study covers period of five years ending on 2014-2015. Data collection source for the study was based on secondary data. Mean, standard deviation and coefficient of variation for percentage of interest spread, net profit margin, return on long term fund, return on net worth, return on assets and adjusted cash margin was found out by researcher and then ANOVA test was applied to it. It was concluded that there was no significant relationship between interest spread, net profit margin and adjusted cash margin of selected private sector banks and there was significant relationship between return on long term funds, return on net worth and return on assets of selected private sector banks in India.

2.2 Dr.MonicaTulsian (2014) in their research paper on 'Profitability analysis (a comparative study of SAIL & TATA steel)' has studied profitability of two steel companies. Five yearly period ending on 2011-12 has been taken for study based on secondary data. Through ratio analysis, profitability of selected companies was analyzed. For interpretation of data, statistical tools like average, standard deviation and coefficient of variation has been used. The conclusion found out was that in case of gross profit ratio, TATA steel performed better and so as in case of operating profit ratio. But in case of return on capital employed, SAIL was better.

2.3B.Sudha (2015) in their research study on 'Profitability of commercial banks in India' studied profitability of twenty banks (ten private and ten public) selected on the basis of net assets, fourteen years ending on 2011-2012. As a dependent variable, Return on asset and as independent variable 1. Capital adequacy ratio, 2.Government securities to Total investment, 3. Profit per employee, 4. Operating profit to Total Assets 5. Liquid Assets to Total assets were taken. Profitability of commercial banks was analyzed by CAMEL model, in which parameters like Capital adequacy, Asset quality, Management capability, earning capacity, Liquidity. Accounting and statistical tools like correlation, t-test, CAMEL rating model, EVA, simple regression and multiple regressions were used to analyze the profitability of selected units.

3.00 RESEARCH METHODOLOGY

3.1 objectives of the study

- To analyse the profitability position of SBI & BOB during the period of study.
- To compare the profitability of SBI & BOB during the period of study.

3.2 Period of the study

The period of the study covers data of five years commencing on 2013-14 to 2017-18.

3.3 Sampling

Two largest public sector banks are selected by the researcher i.e., STATE BANK OF INDIA (SBI) & BANK OF BARODA (BOB), considering financial aspects like its market capitalization, net sales and other aspects like its size and expansion of banks.

3.4 Sources of data

The study is based on secondary data. Information required for the study is collected from the annual reports of the selected companies, various books, reports and internet sources.

3.5 Framework of analysis

For the purpose of profitability analysis of the selected banks, various accounting ratios for measuring profitability and statistical techniques like t-test have been applied.

3.6 Significance of the study

- The study is significant for the fact that it is conducted to analyse profitability of the selected banks in India.
- The study will throw some light on the growth of the banking industry.
- The study is useful for banking authorities, government, academicians and other relevant parties.

3.7 Limitation of the study

- There are various kinds of banks engaged in industry but this research work is limited to only two of them and period of the study is limited to five years only.
- All the data is acquired from secondary source of information, which has its own limitations, which apply for this research work.
- Limitations associated with accounting tools and statistical techniques apply for this research work.

4.00 DATA ANALYSIS AND INTERPRETATION

4.1 NET PROFIT MARGIN RATIO

It measures the relationship between net profit and net sales. It is calculated by dividing the net profit after tax by the amount of sales.

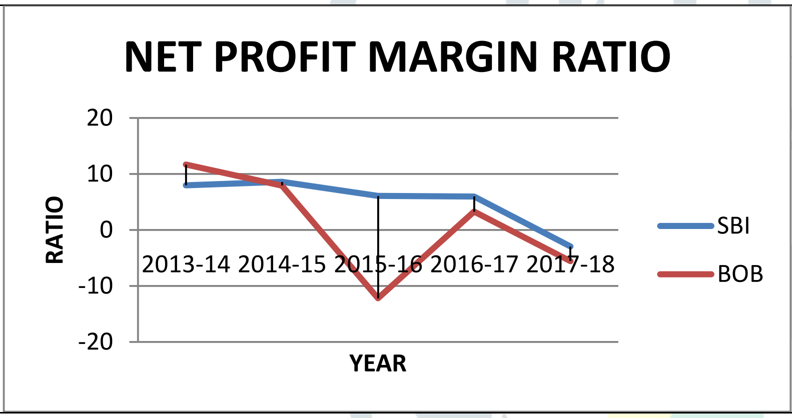
TABLE 4.1.1:NET PROFIT MARGIN RATIO

YEAR	SBI	BOB
2013-14	7.98	11.66
2014-15	8.59	7.91
2015-16	6.06	-12.24
2016-17	5.97	3.27
2017-18	-2.96	-5.57

(SOURCE:www.moneycontrol.com)

The above table indicates the net profit margin ratio of SBI & BOB. In case of SBI, it was highest in 2013-14(7.98) and lowest in 2017-18(-2.96).While in case of BOB, it was highest in 2013-14(11.66) and lowest in 2015-16(-12.24).

FIGURE4.1.1: NET PROFIT MARGIN RATIO



The graph is showing the trend of net profit margin ratio of SBI & BOB, during the period of study. Trend of SBI was downward and BOB was showing fluctuating trend.

HYPOTHESIS TESTING

Null hypothesis (H_0): There is no significant difference in mean of net profit margin ratio between the companies during the study period.

Alternate hypothesis (H_0):There is significant difference in mean of net profit margin ratio between the companies during the study period.

TABLE 4.1.2: Analysis For Net Profit Margin For T-Test: Two-Sample Assuming Equal Variances

	SBI	*BOB*		
Mean	5.128	1.006	t Stat	0.848
Variance	21.78	96.25	P(T<=t) one-tail	0.21
Observations	5	5	t Critical one-tail	1.86
Pooled Variance	59.01		P(T<=t) two-tail	0.421
Hypothesized Mean Difference	0		t Critical two-tail	2.306
df	8			

As per the calculation of‘t’ statistics, the mean of net profit margin ratio of SBI was 5.128 and BOB was 1.006. The calculated value of‘t’ was 0.848 and table value is 2.306 at 8 degree of freedom. Here, the calculated value is less than the table value. So, null hypothesis will be accepted and can be concluded that there is no significant difference in mean of net profit margin ratio of the companies during the study period.

4.2 RETURN ON ASSETS RATIO

It indicates how profitable a company is compared to its total assets.

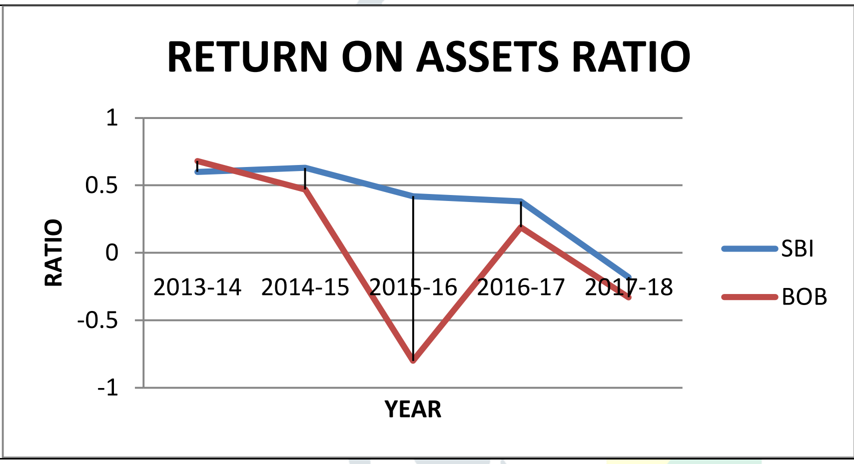
TABLE 4.2.1: RETURN ON ASSETS RATIO

YEAR	SBI	BOB
2013-14	0.6	0.68
2014-15	0.63	0.47
2015-16	0.42	-0.8
2016-17	0.38	0.19
2017-18	-0.18	-0.33

(SOURCE: www.moneycontrol.com)

The given table indicates the return on assets ratio of SBI & BOB. In case of SBI, it was highest in 2014-15(0.63) and lowest in 2017-18(-0.18).While in case of BOB, it was highest in 2013-14(0.68) and lowest in 2015-16(0.8).

FIGURE 4.2.1: RETURN ON ASSETS RATIO



The graph is showing the trend of return on assets ratio of SBI & BOB, during the period of study. Both SBI and BOB was showing fluctuating trend.

HYPOTHESIS TESTING

Null hypothesis (H_0): There is no significant difference in mean of return on assets ratio between the companies during the study period.

Alternate hypothesis (H_0):There is significant difference in mean of return on assets ratio between the companies during the study period.

TABLE 4.2.2: Analysis For Return On Assets For T-Test: Two-Sample Assuming Equal Variances

	SBI	***BOB***		
Mean	0.37	0.04	t Stat	1.068
Variance	0.106	0.36	P(T<=t) one-tail	0.158
Observations	5	5	t Critical one-tail	1.86
Pooled Variance	0.236		P(T<=t) two-tail	0.317
Hypothesized Mean Difference	0		t Critical two-tail	2.306
df	8			

As per the calculation of‘t’ statistics, the mean of net profit margin of SBI was 0.37 and BOB was 0.04. The calculated value of‘t’ was 1.068 and table value is 2.306 at 8 degree of freedom. Here, the calculated value is less than the table value. So, null hypothesis will be accepted and can be concluded that there is no significant difference in mean of return on assets ratio of the companies during the study period.

4.3 RETURN ON EQUITY/ NETWORTH RATIO

This ratio measures relationship between net profit after interest and tax and shareholders' fund.

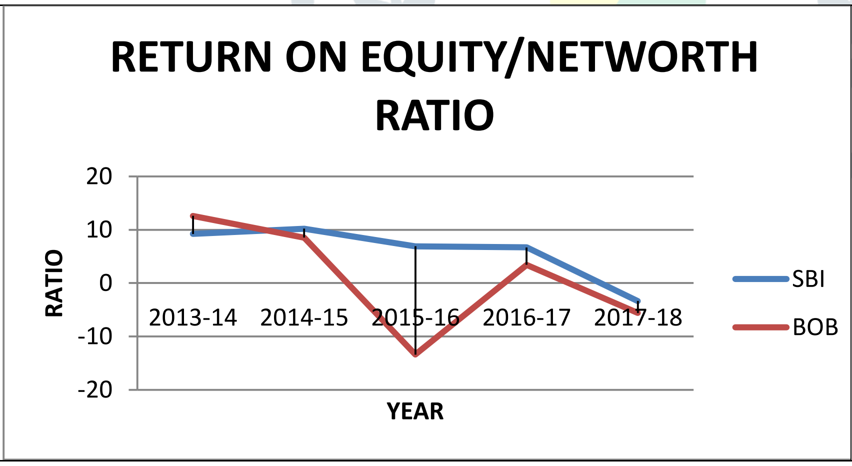
TABLE 4.3.1: RETURN ON EQUITY/NETWORTH RATIO

YEAR	SBI	BOB
2013-14	9.2	12.61
2014-15	10.2	8.53
2015-16	6.89	-13.42
2016-17	6.69	3.43
2017-18	-3.37	-5.6

(SOURCE: www.moneycontrol.com)

The above table indicates the return on equity/net worth ratio of SBI & BOB. In case of SBI, it was highest in 2014-15(10.2) and lowest in 2015-16 & 2016-17(6.89).While in case of BOB, it was highest in 2013-14(12.61) and lowest in 2015-16(-13.42).

FIGURE 4.3.1: RETURN ON EQUITY/NETWORTH RATIO



This graph is showing the trend of return on equity/net worth ratio of SBI & BOB, during the period of study. Both SBI and BOB was showing fluctuating trend.

HYPOTHESIS TESTING

Null hypothesis (H_0): There is no significant difference in mean of return on equity/net worth ratio between the companies during the study period.

Alternate hypothesis (H_0): There is significant difference in mean of return on equity/net worth ratio between the companies during the study period.

TABLE 4.3.2: Analysis For Return On Equity/Net Worth For T-Test: Two-Sample Assuming Equal Variances

	SBI	*BOB*		
Mean	5.922	1.11	t Stat	0.905
Variance	29.23	112.208	P(T<=t) one-tail	0.196
Observations	5	5	t Critical one-tail	1.86
Pooled Variance	70.72		P(T<=t) two-tail	0.392
Hypothesized Mean Difference	0		t Critical two-tail	2.306
df	8			

As per the calculation of't' statistics, the mean of return on equity/net worth ratio of SBI was 5.922 and BOB was 1.11. The calculated value of 't' was 0.905 and table value is 2.306 at 8 degree of freedom. Here, the calculated value is less than the table value. So, null hypothesis will be accepted and can be concluded that there is no significant difference in mean of return on equity/net worth ratio of the companies during the study period.

4.4: NET INTEREST MARGIN RATIO

It is a measure of the difference between the interest income generated by banks or other financial institutions and the amount of interest paid out to their lenders (for example, deposits), relative to the amount of their (interest-earning) assets. It is calculated by dividing net interest income to invested assets.

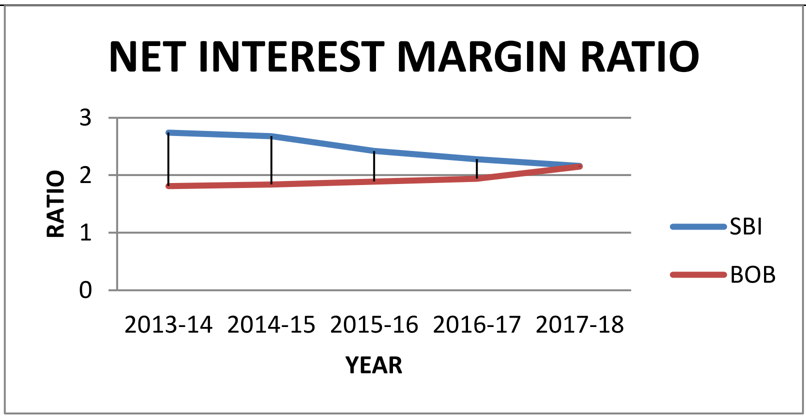
TABLE 4.4.1:NET INTEREST MARGIN RATIO

YEAR	SBI	BOB
2013-14	2.74	1.81
2014-15	2.68	1.84
2015-16	2.42	1.89
2016-17	2.28	1.94
2017-18	2.16	2.15

(SOURCE: www.moneycontrol.com)

The above table indicates the net interest margin ratio of SBI & BOB. In case of SBI, it was highest in 2013-14(2.74) and lowest in 2017-18(2.16).While in case of BOB, it was highest in 2017-18(2.15) and lowest in 2013-14(1.81).

FIGURE 4.4.1: NET INTEREST MARGIN RATIO



The graph is showing the trend of net interest margin ratio of SBI & BOB, during the period of study. Trend of SBI was downward and BOB was showing upward trend.

HYPOTHESIS TESTING

Null hypothesis (H_0): There is no significant difference in mean of net interest margin ratio between the companies during the study period.

Alternate hypothesis (H_0): There is significant difference mean of net interest margin ratio between the companies during the study period.

TABLE 4.4.2: Analysis For Net Interest Margin For T-Test: Two-Sample Assuming Equal Variances

	SBI	***BOB***		
Mean	2.456	1.926	t Stat	4.169
Variance	0.0627	0.018	P(T<=t) one-tail	0.0016
Observations	5	5	t Critical one-tail	1.8595
Pooled Variance	0.0404		P(T<=t) two-tail	0.0031
Hypothesized Mean Difference	0		t Critical two-tail	2.306
df	8			

As per the calculation of 't' statistics, the mean of net interest margin of SBI was 2.456 and BOB was 1.926. The calculated value of 't' was 4.169 and table value is 2.306 at 8 degree of freedom. Here, the calculated value is more than the table value. So, null hypothesis cannot be accepted and alternative will be accepted. It can be concluded that there is significant difference in mean of net interest margin ratio of the companies during the study period.

5.00 CONCLUSION

The banking sector plays a central role in the operation of the economy. The concept of profitability is more important for financial institutions and banks are the part of them. Competition, concentration, efficiency, productivity, and profitability are the various terms of expressed by the performance of banks. Firms with better performance help to continue the stability of the financial system. In the financial environment, the profitability of the banking system is one of the hot issues. The banking sector fulfills an important economic function in providing financial intermediation by converting deposits into productive investments. Banks are the providers of funds needed for investment. Stability is of most important to the financial system. Therefore profitability of the banking sector is most important the economy of the country. High profits in banking sector always leads to financial stability

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