A COMPARATIVE STUDY ON PROFITABILITY OF SELECTED PRIVATE BANKS IN INDIA

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Abstract: The banking sector in India features a terribly huge canvas of history. Private banking was started since beginning of banking industry in India. New Private sector banks are one in the entire quickest growing sector in India. They promoted a world category establishment in India having latest technology, new system, new standards of service and potency. The private sector banks are the dominant role within the country's financial set-up. Potency and gain of the banking sector in India has assumed primal importance because of intense competition, bigger client demands and ever-changing banking reforms. This study tries to find out profitability in private banks of India. Profitability performances of banks are analyzed by three financial ratios like Net profit margin ratio, Return on Assets and Return on Equity from 2012-13 to 2018-19. This study found that HDFC bank has overall financial performance is better than other two banks. This paper provides vital seed of knowledge and is extremely helpful for bankers, practitioners and new researchers.

Keywords **- Private Sector Banks, Profitability, Ratio Analysis.**

1. Introduction

The private sector banks in India are banks where the most of the shares or equity are not held by the government but by private shareholders. In 1969 all major banks were nationalized by the Indian government. However, since an amendment in government policy within the 1990s, old and new private sector banks have re-emerged. The private sector banks are split into two groups by financial regulators in India, old and new. The previous private sector banks existed before nationalization in 1968 and unbroken their independence as a result of they were either too little or specialist to be included in nationalization. The new private sector banks are those that have gained their banking license since the amendment of policy in the 1990s.

The Nedungadi Bank was the first private sector bank in India, founded in 1899 by Rao Bahadur T.M. Appu Nedungadi in Kozhikode, Kerala.

Table 1: Private-sector banks established before 1968

Name	Year Established
City Union Bank	1904
Karur Vysya Bank	1916
Catholic Syrian Bank	1920
Tamilnad Mercantile Bank	1921
Nainital Bank	1922
Karnataka Bank	1924
Lakshmi Vilas Bank	1926
Dhanlaxmi Bank	1927
South Indian Bank	1929
DCB Bank	1930
Federal Bank	1931
Jammu and Kashmir Bank	1938
RBL Bank	1943

Table 2: Private-sector banks established after 1968

Name	Year established
ICICI Bank	1994
Axis Bank	1993
HDFC Bank	1994
Kotak Mahindra Bank	2003
Yes Bank	2004
IndusInd Bank	1994
IDFC First Bank	2015
Bandhan Bank	2015
IDBI Bank	2004

2. Literature Review

Faruque & Rahman (2014) analyzed trend of the private commercial banks and given an overview of the performance of private commercial bank of Bangladesh. They took 10 private commercial banks during from 2013 to 2017. They used comparative research design. They concluded that banking system of Bangladesh was not running at a pace. And also found that there is limitation in controlling of PCBs by the authorities.

Mukherjee (2018) examined profitability of leading private sector banks in India. The researcher took two private banks which name are HDFC bank and Kotak Mahindra Bank. The researcher used financial ratio like net profit margin, return to net worth for analysis. Also he used secondary data. He found that Private sector banks should increase their profitability and productivity performance by adopting modern technology and utilized resources in a more efficient manner.

Mohanty & Krishnankutty (2018) study on determinants of Profitability in Indian Banks. They took sample 46 Indian banks over a period of 17 years through panel generalized method of movement estimation. They found that ROA, solvency ratio, capital adequacy ratio are positively significant and GDP growth , Loan to Deposit ratio , expense ratio have significant negative effect.

Nataraja (2018) examined on financial performance of private commercial banks in India. He used statistical tolls like financial ratio i.e. Return on Assets, Tobin's Q model and Return on equity. He found that internal performance, market based performance and bank's return on Equity shareholders. The researcher concluded that significant impact on internal performance, market performance and bank's income.

Taqi & Mustafa (2018) analysed on financial growth and financial performance of HDFC bank and PNB from 2006-07 to 2015-16. They took statistical tools like credit deposit ratio, capital to deposit ratio, profit per employee, Return on equity and Return on Assets. They concluded that PNB is more financial sound other than HDFC bank.

Swadia (2016) examined on profitability of selected private banks in India. He analysed by financial ratios like Return on Assets, Return on Equity , Net profit margin ratio and statistical tool like ANOVA. The researcher concluded that latest five year performance is better compare to previous five year.

3. Research Methodology

3.1 Objective of the study

i) The main objective of the study is analyses profitability of selected private banks of India

ii) The secondary objective of the study is that growth of banking sector

3.2 Significance of the research

This analysis through Investor of the banks can take decision about investment based on profitability.

3.3 Sampling Design

Three banks have been taken for this study. Convenience sampling method of non-probability has been taken for this research. Name of the selected banks as follows:

1) ICICI
2) HDFC
3) AXIS

3.4 Period of the study

Six years of data from 2012-13 to 2018-19 are included in this study.

3.5 Source of the data

The research is mainly based on the secondary data. Secondary data have been taken from annual reports of respected banks under the study.

3.6 Research tool

Accounting ratios used for this research as research tools.

3.7 Limitation of the study

1) The entire research is based on secondary data.
2) Three banks have been selected for the research. So these two banks are not representing particular banking sector.

4. Data Analysis

4.1 Net Profit Margin Ratio

Net profit margin is that the ratio of net profits to revenues for an organization or business. Generally expressed as a percentage, net profits margins show what proportion of every rupees collected by a bank as revenue interprets into profit. The equation to calculate net profits margin = (Net profit / Revenue)*100.

Table 3: Net Profit Margin Ratio

NET PROFIT MARGIN										
BANK	2013	2014	2015	2016	2017	2018	2019	Average	Standard deviation	Coefficient of Variation
HDFC	16.05	17.28	17.78	17.33	17.83	18.32	18.08	17.52	0.75	0.04
ICICI	17.19	17.97	18.24	14.29	13.31	9.36	4.32	13.53	5.13	0.38
AXIS	15.35	16.34	16.78	16.33	6.54	0.49	6.87	11.24	6.54	0.58

During the seven years of the study, we find out Average net profit margin and its standard deviation. HDFC bank has 17.52% average net profit margin and Standard deviation is 0.75 and AXIS bank has 11.24% average net profit and standard deviation is 6.54. So HDFC is doing best performance in net profit margin ratio.

4.2 Return on Assets

Return on assets (ROA) is an indicator of how many rupees return to its total assets. ROA through manager, investor, or analyst analyzed about how many return acquire to investment of assets. Return on assets = (Net Income / Total Assets)*100.

Table 4: Return on Assets

RETURN ON ASSETS										
BANK	2013	2014	2015	2016	2017	2018	2019	Average	Standard Deviation	Coefficient of Variation
HDFC	1.68	1.72	1.73	1.66	1.68	1.64	1.69	1.69	0.03	0.02
ICICI	1.55	1.65	1.73	1.35	1.27	0.77	0.35	1.24	0.51	0.41
AXIS	1.52	1.62	1.59	1.57	0.61	0.04	0.58	1.08	0.65	0.60

During the seven years of the study, we find that average Return on Assets of HDFC is 1.69% and its standard deviation is 0.03. ICICI bank has 1.24% average Return on Assets and Standard deviation is 0.51 and AXIS bank has 1.08% average Return on Assets and standard deviation is 0.65. In this analysis HDFC is doing best performance as Return on Assets.

4.3 Return on Equity

Return on Equity (ROE) is a measure of profitability that calculates how many profit a company generates with each shareholders' equity. The formula for ROE = Net Income/Shareholders' Equity. Also ROE is known as "Return on Net worth."

Table 4: Return on Net worth

RETURN ON EQUITY										
BANK	2013	2014	2015	2016	2017	2018	2019	Average	Standard Deviation	Coefficient of Variation
HDFC	18.57	19.50	16.47	16.92	16.26	16.45	14.13	16.90	1.73	0.10
ICICI	12.48	13.40	13.90	10.84	9.81	6.45	3.10	10.00	3.96	0.40
AXIS	15.64	16.27	16.47	15.47	6.60	0.43	7.01	11.13	6.40	0.58

During the seven years of the study, we find that average Return on Equity of HDFC is 16.90% and its standard deviation is 1.73. ICICI bank has 10% average Return on Equity and Standard deviation is 3.96 and AXIS bank has 11.13% average Return on Equity and standard deviation is 6.40. In this analysis HDFC is doing best performance as Return on Equity.

5. Conclusion

Profitability of private sector in Indian banks plays important role in banking sector, without margin the investors can't run and growth in the business. The study analyzed on profitability of selected private banks of India from 2012-13 to 2018-19. It is concluded that profitability performance of HDFC bank is higher than other two private banks. Than after AXIS bank is second best performance in profitability. And last performance in profitability is ICICI bank based on financial ratios.

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