

# ANALYSIS OF PROFITABILITY OF INDIAN BANKS: A COMPARATIVE STUDY OF PRIVATE SECTOR & CO-OPERATIVE SECTOR BANKS

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**Abstract:** This paper is aimed at examining the profitability and productivity of Indian banks in relation to each other. The objective is to study the profitability of special reference to private sector and co-operative sector banks in Udaipur. For analysis of profitability, data were collected for different banks for last ten years i.e. from 1<sup>st</sup> April, 2006 to 31<sup>st</sup> March, 2016. Data consisted of net profit, total income and total expenditure in absolute figures. Data related to some profitability ratios like net profit margin, return on net worth and return on assets were also collected. However, data regarding these ratios were available for only 5 years. These data were collected from the annual reports of the respective banks. Collected data have been analyzed using graphs, t test and ANOVA.

**KEYWORDS:** *Banking, Profitability, Private Banks.*

**Introduction:** A Bank plays an important role in the process of economic development. It is the life blood of trade, commerce and industry. Bank acts as the backbone of modern businesses. The functions of a bank indicate the monetary pulse of the economy and volume of their activity shows the economic strides in the country. A bank plays a very crucial role in the development process of underdeveloped country. A bank provides many saving plans, access to funding and financial services to both businesses and citizens to give shape for economic development across the entire country or a geographic region.

**Objectives of the Study:** (1) To Study the profitability of private sector and co-operative sector Banks.  
(2) To offer suggestions to improve its profitability.

**Research Methodology:** For analysis of profitability, data were collected for different banks for last ten years i.e. from 1<sup>st</sup> April, 2006 to 31<sup>st</sup> March, 2016. Data consisted of net profit, total income and total expenditure in absolute figures. These data were collected from annual reports of sample banks. After collection of data, for the purpose of this study the data were analyzed by Chi square test, ANOVA.

## HYPOTHESIS TESTING

### Comparison of profitability of private banks

**Hypothesis :** There is no significant difference between profitability of ICICI and HDFC over the years.

To test the above hypothesis, t test was used at 5% level of significance. Obtained results have been presented below:

Net Profit Margin			Return on Net Worth		
	ICICI	HDFC		ICICI	HDFC
Mean	20.688	20.04	Mean	12.332	17.742
Variance	3.41257	0.8736	Variance	1.88937	1.57967
Df	8		df	8	
t-Statistic	0.699883		t-Statistic	6.49498	
P-value	0.50384		P-value	0.000189	
Critical Value	2.306004		Critical Value	2.306004	

Results showed that the average net profit margin was higher in ICICI than HDFC but the variance in ICICI was also higher than HDFC. The calculated value of t-statistic was 0.70 whereas the critical value at 8 degrees of freedom was 2.306, which is higher than the calculated t-statistic. Therefore, there is no significant difference between the net profit margin of ICICI and HDFC. As far as return on net worth is concerned, it seemed to be very high in case of HDFC with a slightly lower variance as compared to ICICI. The t-statistic came to be 6.49, which was higher than the critical value of 2.306 at 8 degrees of freedom. Therefore, there is significant difference between return on net worth of ICICI and HDFC. Hence hypothesis was rejected at 5% level of significance.

### Comparison of profitability of co-operative banks

**Hypothesis:** There is no significant difference between profitability of UUCB and UMSUCB over the years.

To test the above hypothesis, t test was used at 5% level of significance. Obtained results have been presented below:

Net Profit Margin			Return on Net Worth		
	UUCB	UMSUCB		UUCB	UMSUCB
Mean	12.13346	5.214607	Mean	8.968	5.556
Variance	6.110705	1.332008	Variance	0.05157	0.34888
Df	8		df	8	
t-Statistic	5.670917		t-Statistic	12.05646	
P-value	0.00047		P-value	0.000	
Critical Value	2.306004		Critical Value	2.306004	

Results showed that the both average net profit margin and average return on net worth were higher in UUCB than UMSUCB but the variance for both the ratios in UUCB was also higher than UMSUCB. For comparison of net profit margin, the calculated value of t-statistic was 5.67 whereas the critical value at 8 degrees of freedom was 2.306, which is higher than the calculated t-statistic. Therefore, there is significant difference between the net profit margin of UUCB and UMSUCB. In case of return on net worth also, the t-

statistic came to be 12.06, which was higher than the critical value of 2.306 at 8 degrees of freedom. Therefore, there is significant difference between return on net worth of UUCB and UMSUCB. Hence hypothesis 2 was rejected at 5% level of significance.

### Hypothesis: There is no significant difference between profitability of private and co operative banks.

In order to test this hypothesis, average net profit margin and return on net worth for all four banks were compared using One-way ANOVA test at 5% level of significance. The results have been presented below:

#### ANOVA Results for Profitability Comparison of Different Banks

Net Profit Margin				Return on Net Worth			
Groups	Average	Variance		Groups	Average	Variance	
ICICI	20.688	3.413		ICICI	12.332	1.88937	
HDFC	20.04	0.874		HDFC	17.742	1.57967	
UUCB	12.13	6.110		UUCB	8.968	0.05157	
UMSUCB	5.21	1.332		UMSUCB	5.556	0.34888	
ANOVA				ANOVA			
Source of Variation	SS	MS	F	Source of Variation	SS	MS	F
Between Groups	993.2356 (df 5)	198.647	67.672 (Crit 2.620)	Between Groups	440.619 (df 5)	88.124	33.495 (Crit 2.620)
Within Groups	70.45073 (df 24)	2.935		Within Groups	63.143 (df 24)	2.631	
Total	1063.686 (df 29)			Total	503.762 (df 29)		

ANOVA results revealed that both average net profit margin and average return on net worth were the higher for private banks. F-statistic for both ratios came to be 67.672 and 33.495 respectively while the critical value was 2.620 in both of the cases. Therefore, there is significant difference between profitability of all two sector banks. Hypothesis 3 is rejected at 5% level of significance.

## RESULTS

- Then profits of ICICI and HDFC were compared, results showed that the average net profit margin was higher in ICICI than HDFC but return on net worth seemed to be very high in case of HDFC. Results of t test showed that there is no significant difference between the net profit margin of ICICI and HDFC but there is significant difference between return on net worth of ICICI and HDFC.
- Then profitability of UUCB and UMSUCB compared it was found that both average net profit margin and average return on net worth were higher in UUCB than UMSUCB. It was concluded from t test that there is significant difference between both net profit margin and return on net worth of UUCB and UMSUCB.

3. While comparing profitability of all four banks altogether, it was found that both average net profit margin and average return on net worth were the higher for private banks.

**Conclusion:** With the increasing competition in the banking sector, profitability has become a greatest challenge to Indian commercial banks. Banks should explore every possibility for improvement and increase the profitability. Attempts should be made to control over expenses and also the resources should be utilized in a more efficient manner.

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