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Measurement of profitability of private sector banks in India

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Abstract:

Banking system plays an important role in a nation's economy. Contribution of banking institution is highly remarkable and is indispensable in a modern society. An efficient banking practice plays a crucial role in the economic development of a country and forms the core of the money market in an advanced country as well as developing country like India.
A business that is not profitable cannot survive. Profitability is a measure of efficiency and control it indicates the efficiency or effectiveness with which the operations of the business are carried on. Recording profitability for the past period or projecting profitability for the coming period, measuring profitability is the most important measure of the success of the business The objective of this study was overall profitability analysis of four private sectors banks in India based on the performances of profitability ratios like return on net worth & return on assets return on advances, return on investments, Business per employee, profit per employee .for the period from 2011-2015.

Keywords: *AXIS, ICICI, HDFC, KOTAK MAHINDRA BANK*

I. Introduction

Private-sector banks have been functioning in India since the very beginning of the banking system. Initially, during 1921, the private banks like bank of Bengal, bank of Bombay and bank of Madras were in service, which all together formed Imperial Bank of India. All those banks where greater parts of stake or equity are held by the private shareholders and not by government are called "private-sector banks".
From the early 1990s, RBI's liberalization policy came in picture and with this the government gave licences to a few private banks, which came to be known as new private-sector banks. The present private-sector banks equipped with all kinds of contemporary innovations, monetary tools and techniques to handle the complexities are a result of the evolutionary process over two centuries They have a highly developed organsational structure and are professionally managed. Thus they have grown faster and stronger since past few years. These are the major players in the banking sector as well as in expansion of the business activities India.. The banks, which came in operation after 1991, with the introduction of economic reforms and financial sector reforms are called "new private-sector banks". Banking regulation act was then amended in 1993, which permitted the entry of new private-sector banks in the Indian banking sector.

II. Review Of Literature

Dr. N. Kavitha (2012) in his study examine the profitability of banks during the period 2000-2010. To assess the profitability of banking sector in India, discriminate analysis
and discriminate function analysis which measures the profitability of banks from each important parameter like the differences between the mean profitability of two periods.

Jha and Sarangi (2011) analyzed the performance of seven public sector and private sector banks for the year 2009-10. They used three sets of ratios, operating performance
ratios, financial ratios, and efficiency ratios. In all eleven ratios were used. They found that Axis Bank took the first position, followed ICICI Bank, BOI, PNB, SBI, IDBI, and HDFC, in that order.

Kumar Ashish (2011) studied the efficiency of private banks, public banks and foreign banks in India using DEA. For analysing data he used interest income & other income as outputs and interest expenses & operating expenses as inputs. Major finding of the study was that the mean efficiency scores of public, private and foreign category banks did not show any significant difference.

Sisodiya and Pemmaraju (2009), in their article said that the Indian banking has shown remarkable resilience even amidst the worst ever financial catastrophe that hit the global economy about a year ago and caused the collapse of several financial giants
They have ranked the banks on the basis of CAMEL rating. Banks have been classified into three categories based on their ownership group, viz. public sector banks (PSBs), private sector banks and foreign banks. They analyzed 66 banks for the year 2008-09.

Roma Mitra, Shankar Ravi (2008), A stable and efficient banking sector is an essential precondition to incr.ease 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.

Sanjeev (2006) studied the efficiency of private banks, public banks, and foreign banks in India during 1997-2001 using DEA. He also extended his study to uncover the possibility of any relationship between the efficiency and NPA of the banks and found that efficiency has increased post-reforms and that NPA and efficiency are negatively related.

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Kumbhakar and Sarkar (2003) found that private sector banks in India have improved their performance when compared with public sector banks in India after the deregulation measures.

III. Objectives Of The Study

a)To highlight the various profitability analysis of some selected private sectors banks (i.e.,) AXIS, ICICI. HDFC,KOTAK MAHINDRA BANK.
b) To analyze the overall profitability of banks (i.e.,) 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 2011-2015 is taken for the study.

VI. Methodology

6.1 Data Collection The study is based on secondary data. Information required for the study has been collected from the annual report of AXIS, ICICI, HDFC, KOTAK MAHINDRA BANK & different books, journals ,magazines & data collected from various bank websites.

6.2 Statistical Tools In this study various statistical tools are used (i.e.,) Mean, Standard deviation, is used.

VII. Limitation Of The Study

a) The study is related to a period of 5 years.

b) As the data are only secondary, i.e., they are collected from the published annual reports

c) This study is related to only private sector banks only.

VII. Data Analysis And Interpretation

TABLE-1 RATIOS OF AXIS BANK

YEARS	ROA	ROE	ROADS	ROI	BPE	PPE
2011	1.67	19.15	8.59	6.70	111.10	1.20
2012	1.68	19.34	8.43	6.94	136.60	1.40
2013	1.68	20.29	9.85	7.74	127.60	1.40
2014	1.70	18.53	10.45	7.49	121.50	1.50
2015	1.78	17.43	10.28	7.34	123.00	1.50
AVG	1.70	18.98	9.52	7.24	123.96	1.4
STD DEV	0.04	0.94	0.84	0.37	8.31	0.10

TABLE-1 RATIOS OF HDFC BANK

YEARS	ROA	ROE	INT.SPD	NPM	BPE	PPE
2011	1.53	16.30	10.77	6.78	59.00	0.60
2012	1.58	16.74	10.56	7.22	65.30	0.74
2013	1.90	20.34	12.33	7.48	75.00	1.00
2014	2.00	21.28	11.68	7.77	89.00	1.20
2015	2.02	19.37	11.12	7.45	101.00	0.90
AVG	1.80	18.80	11.29	7.34	77.86	0.88
STD DEV	0.20	1.96	0.64	0.33	15.37	0.20

TABLE-1 RATIOS OF ICICI BANK

YEARS	ROA	ROE	ROADS	ROI	BPE	PPE
2011	1.13	7.96	8.70	5.77	76.50	0.90
2012	1.35	9.65	8.26	6.19	73.50	1.00
2013	1.70	13.10	10.05	6.65	73.50	1.40
2014	1.70	14.02	9.99	6.63	74.70	1.40
2015	1.86	14.15	9.81	6.57	74.70	1.00
AVG	1.54	11.77	9.36	6.36	74.58	1.14
STD DEV	0.26	2.51	0.73	0.34	1.09	0.21

TABLE-1 RATIOS OF KOTAK MAHINDRA BANK

YEARS	ROA	ROE	ROADS	ROI	BPE	PPE
2011	1.77	14.39	12.83	6.46	53.50	0.80
2012	1.83	14.65	14.23	6.75	61.30	0.90
2013	1.83	14.65	14.23	6.65	61.30	0.90
2014	1.81	15.60	14.04	7.41	68.60	1.00
2015	1.98	14.12	12.53	7.93	70.50	1.10
AVG	1.84	14.68	13.57	7.04	63.04	0.94
STD DEV	0.07	0.49	0.73	0.54	6.06	0.10

IX. Findings

1. ***Return on Assets***

Measures the company's ability to utilize its assets to create profit.Return on assets is maximum in KMBANK that is 1.84 followed by HDFC 1.80 bank as compare to other two banks this shows that this bank is managing its assets more efficiently then other two banks.

2.Return on Investment

Measures the income earned on the invested capital. This ratio is almost similar in AXIS bank7.34 and HDFC 7.24 bank showing minor difference in these ratios as compare to ICICI BANK and KMBANK showing less return on investment.

3.Return on Equity

Measures the income earned on the shareholder's investment in the business. This ratio is highest in AXIS 18.98 bank as compare to other two bank ICICI bank 18.80 and KM BANK show comparatively low ratio.

4.Return on advances

Measures the income earned on the advances. This ratio is highest inKM BANK 13.57 followed by HDFC 11.29 bank as compare to other two banks.

5.Business per employee-It is the total business done by each employee each year. This ratio is maximum in AXIS bank 123.96 followed by other two banks they does not have much difference in this ratio.KM BANK shows comparatively less .

6.Profit per employee-It is the total profit earned by per employee over the year. This ratio is highest in ICICI bank 1.14followed by AXIS bank 1.4 and HDFC bank and KM BANK.

X. Conclusion

A strong financial system promotes investment by financing productive business opportunities, mobilizing savings, efficiently allocating resources and makes easy the trade of goods and services. Profitability of private sector banks in India plays major role in banking sector without profit the investors cannot invest in this business So profitability ratios are employed by the management in order to assess how efficiently they carry on their business operations and also it is suggested for the entire bank to take effective steps to improve the operating efficiency of the business.

XI. Suggestions:

1.Profitability of bank could be achieved through increasing services in the form of non-interest income sources like fee, commission and discounts.

2.Private sector banks are significantly increasing in the return on equity and return on assets, it is good for the industry and environment, stake holders and shareholders getting other benefits and business

3.A strong financial system promotes investment by financing productive business opportunities, mobilizing savings, efficiently allocating resources and makes easy the trade of goods and services

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