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A COMPARATIVE STUDY OF PROFITABILITY ANALYSIS OF SELECTED PUBLIC AND PRIVATE SECTOR BANKS

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ABSTRACT

The banking sector plays three prior functions in an economy: the payment system, the militarilization of savings and the proper allocation of savings. By allocating capital to the more value use while minimize the risks and cost involved, the banking industry can positively affect an economy. On behalf of these the main purpose of the banking industry is to generate revenue. Profitability is one of the most important goals of all business. So this study is an effort to examine profitability study of selected public and private banks in India. This study covers two key factors which affect the profitability analysis by using mean, Standard Deviation and ANOVA.

***KEYWORDS**: Profitability, Economic Development, Service Industry, Operating Performance Ratios.*

Introduction

Banking plays a very useful and dynamic role in the economic life of the country. An efficient banking system is recognized as primary requirement for the economic development of any economy. Bank is old body that contributes toward the development of an economy and it's treated as an important service industry in modern world. Currently India is the fastest growing economy in the world. One of the industries in Indian economy that has played a crucial role in transforming the Indian economy has been its banking industry. But banking industry of economy has also gone through a transition that's still going on. Many programs and policies have contributed in this transition. In this research I will try to analyses the two ratios which affect profitability of Indian banking sector.

Review of Literature

- **C. Jha and S. Sarangi (2011)** analyzed the performance of 7 public 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, Bank Of India, Punjab National Bank, State Bank of India, IDBI, and HDFC, in that order.
- **R. C. Dangwal and R. Kapoor (2010)** examined the financial performance of nationalized banks in India and assessed the growth index value of various parameters through overall profitability index. The data for 19 nationalized banks, for the post-reform period from 2002-03 to 2006-07, was used to calculate the index of profitability ratios, burden ratios, and spread ratios. They found that while 4 banks had excellent performance, 5 banks achieved good performance, 4 banks attained fair performance, and 6 banks had poor performance.
- **Ved Pal and N.S. Malik (2007):** The study investigated the differences in the financial characteristics of public sector, private sector and foreign banks in India based on factors, such as

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profitability, liquidity, risk, and efficiency. To examine the differences, the multinomial regression analysis used on 74 Indian commercial banks comprising 27 public sector, 24 private sector and 23 foreign banks for the period 2000-05. The analysis suggests foreign banks were better performers, as compared with the private and public sector banks during the period chosen for the study.

Title of the Study

This topic has been selected after considering the availability of time, information existing literature, tools and techniques and other related sources. The title of the study for this research has been selected as under: "A Comparative Study of Profitability Analysis of Selected Public and Private Sector Banks".

Objectives of the Study

To compare the profitability analysis of selected public sector and private sector banks of India.

Sample of the Study

For this study researcher has selected Indian five public sector and five private sector banks are as under:

- **Public Sector Banks**: State Bank of India, Central Bank of India, Bank of India, Dena Bank, Bank of Baroda.
- **Private Sector Banks**: ICICI Bank, HDFC Bank, Axis Bank, Kotak Mahindra Bank, IndusInd Bank.

Data Collection

This study is totally based on secondary data which was collected from annual reports of the respective banks. The study covers the period of five years i.e. from year 2012-13 to year 2016-17.

Tool of Analysis

F-test or ANOVA (Analysis of Variances)

F-test is also known as ANOVA, means analysis of variances. Where the sample is divided into two groups at that time ANOVA used.

Hypothesis Testing and Results

Table 1: Return on Equity Ratio in Selected Banks

Name of Bank	2013	2014	2015	2016	2017	Average
State Bank of India	14.33	9.62	10.53	6.76	0.11	**8.27**
Central Bank of India	6.87	-7.57	3.76	-7.54	-13.5	**-3.60**
Bank of India	11.49	9.12	5.43	-18.84	79.74	**17.39**
Dena Bank	14.05	7.72	3.57	-13.09	-11.23	**0.20**
Bank of Baroda	14.01	12.61	8.53	64.49	74.6	**34.85**
ICICI Bank	12.48	13.4	51.25	46.47	42.24	**33.17**
HDFC Bank	13.19	14.91	13.22	13.56	13.69	**13.71**
Axis Bank	15.78	16.43	16.56	15.58	7.01	**14.27**
Kotak Mahindra Bank	14.33	12.91	13.74	10.36	12.83	**12.83**
IndusInd Bank	13.9	15.57	16.85	12.92	54.3	**22.71**

(Source: Annual Reports of Banks and moneycontrol.com, Economic times, morning star)

Calculation of 'F' (ANOVA) Test

Table 1 (A): Analysis of 'F' Test in Selected Banks under the Study Return on Equity Ratio

Source of Variation	SS	Df	MS	F	P-value	F crit
Between Groups	7022.923	9	780.3248	2.35771	0.0305126	2.124029
Within Groups	13238.69	40	330.9673			
Total	20261.61	49				

Hypothesis

H_0 = There is no significant difference between Return on Equity Ratio in selected banks under the study.

H_1 = There is significant difference between Return on Equity Ratio in selected banks under the study.

5 % level of significance table value is 1.7180.

The calculated value of 'F' is 2.35771 and table value is 2.124029. Hence, Fc > Ft.

The calculated value of 'F' is greater than the table value. The Null Hypothesis is rejected and Alternative Hypothesis is accepted.

Table 2: Return on Capital Employed in Selected Banks

Name of Bank	2013	2014	2015	2016	2017	Average
State Bank of India	7.73	7.45	7.68	7.73	6.86	**7.49**
Central Bank of India	7.68	7.95	7.94	7.62	6.74	**7.59**
Bank of India	7.06	6.61	6.73	6.19	6.23	**6.56**
Dena Bank	7.55	7.72	7.80	7.09	7.40	**7.51**
Bank of Baroda	6.35	5.81	5.92	6.43	6.10	**6.12**
ICICI Bank	8.34	8.44	8.54	8.50	8.38	**8.44**
HDFC Bank	9.28	9.05	8.27	8.49	8.25	**8.67**
Axis Bank	8.41	8.48	8.02	8.13	8.02	**8.21**
Kotak Mahindra Bank	8.95	9.42	8.82	7.73	7.87	**8.56**
IndusInd Bank	9.54	9.75	9.22	8.92	8.58	**9.20**

(Source: Annual Reports of Banks and moneycontrol.com, Economic times, morning star)

Table 2 (A): Analysis of 'F' Test in Selected Banks under the Study Return on Capital Employed

Source of Variation	SS	Df	MS	F	P-value	F crit
Between Groups	42.138733	9	4.6820815	27.625663	1.85291E-14	2.1240293
Within Groups	6.7793217	40	0.169483			
Total	48.918055	49				

Hypothesis

H_0 = There is no significant difference between Return on Capital Employed Ratio in selected banks under the study.

H_1 = There is significant difference between Return on Capital Employed Ratio in selected banks under the study.

5 % level of significance table value is 1.718.

The calculated value of 'F' is 27.625663 and table value is 2.1240293. Hence, Fc > Ft.

The calculated value of 'F' is greater than the table value. The Null Hypothesis is rejected and Alternative Hypothesis is accepted.

Findings, Conclusion & Suggestions

Return on equity of selected banks under banking industry shows calculations of ROE of last 5 years. Bank of Baroda having highest average ROE indicates that the bank uses its investors fund effectively in last 5 years. ICICI Bank stood at the second position with highest ROE of 33.16 %. Bank of India & IndusInd Bank suddenly showed hike in ROE in year 2016-17 with 79.74% and 54.3 % respectively. State Bank of India, Central Bank of India & Dena Bank gradually in downward graph from last 3-4 years where banks needs to focus more on using shareholders fund accurately. Central Bank of India has smallest average of return on equity among group of selected banks. Return on capital employed of selected 10 banks for last 5 years shows that IndusInd Bank stood first with highest average ROCE. Though ratio gradually decreases during last 4 years but overall average with top bank with highest average ROCE. HDFC Bank stood at second highest ROCE with same observations as IndusInd Bank. Bank of Baroda has low average ROCE and ROCE in respective years. Year wise analysis of ROCE showed that private sector banks are more powerful than that public sector banks. In public banks ROCE found poor as compared to private banks. It is necessary for the public sector banks to utilize their capital employed very effectively to generate enough return. So, as they can compete to private sector banks.

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