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

Dr. Ravi Kant Modi[*]

ABSTRACT

For ensuring a dynamic, solid and stable banking sector, the evaluation and analysis of bank profitability is essential so that possible weak points and problems can be corrected and disposed. In recent times the Indian economy has witnessed the emergence of many banks in the private sector. This study is just a small step in considerate the relative performance of selected Private Sector Banks and public sector banks based in India. The banking industry like many other financial service industries is facing a hastily changing Market, new technologies, economic fears, ferocious competition, and especially more Demanding customers; and the changing climate has presented an unparalleled set of Challenges. Major changes took place in the functioning of Banks in India only after liberalization, globalization and privatization. It has turn out to be very obligatory to study and to make a comparative analysis of Private Sector banks and public sector banks to face competition and improve their performance.

KEYWORDS: *Bank Profitability, Economic Fears, Ferocious Competition, Globalization, Privatization.*

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Introduction

Banks are key financial intermediaries or institutions that serve as "middle man" in the transfer of fund from servers to those who invest in real assets as house, equipment and factories. In performing this function financial intermediaries improve the well being of both saver and investor. By improving economic efficiency they raise living standard of the society. The banking sector is considered to be an important source of financing for most businesses. They play a very important role in the effort to attain stable prices, high level of employment and sound economic growth. They make funds available to meet the needs of individuals, businesses and the government. In doing this, they facilitate the flow of goods and services and the activities of governments.

The commercial Banking system provides a large portion of the medium of exchange of a given country, and is the primary instrument through which Monitory policy is conducted, through their deposit mobilization and lending operations. Commercial banks make the productive utilization of ideal funds, thus assists the society to produce wealth. Commercial Banks are the institutions specifically designed to further the capital formation process through the attraction of deposits and extension of credit.

Review of Literature

Qamar (2013) Banks for the study purpose were categorized into public sector banks, old private banks, new private banks, and foreign sector banks. The study indicated that all the selected scheduled commercial banks were found to be different in terms of total assets, share capital, capitalization ratio and efficiency factors. Much difference in the profitability performance of banks was found due to human resources efficiency as measured in terms of business per employee.

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[*] Assistant Professor, Department of Economic Administration and Financial Management (EAFM), Faculty of Commerce, LBS PG College, Jaipur, Rajasthan, India.

Shannugam and Das (2014) for analyzing the efficiency of banks four outputs i.e. interest margin, Non interest income Investment and credit and four inputs i.e. deposits borrowings labour and Fixed assets have been used. The results revealed that there has been dominance of deposits in producing all the outputs the study period and an improvement I banking industry has been found in raising non-interest income investment and credits. The study indicated that state bank group and private owned foreign group performed better than their counterparts.

Reddy and Rao (2015) made an attempt to identify factors in context of financial sector reforms which could lead to changes the position of different bank groups i.e. public sector banks private sector banks and foreign sector banks in term of their overall banking industry. The authors found that the share of public sector banks has declined in total assets of banking sector due to new competitive environment. The researcher further suggested the adoption of customer oriented banking practices with new technologies for public sector banks to face stiff competition.

Arora and Kaur (2016) Financial performance of banks was analyzed on the basis of Return on assets Capital assets risk weighted, Non- performing assets to Net advances, Business per employee, Net profitability ratio, Non performing assets level and off balance sheet Operation. The researcher recommended that for enhancing financial viability of public sector banks efforts should be made to reduce the non-performing assets and upgrade the technology. For enhancing business per employee continuous and compulsory training and development programmers should be introduced in the banks.

Shukla (2009) the study analyzed that in the post reform period Indian banking system has become more competitive more developed and financially viable due to several structural changes. The study evidenced that banks should focus on high operating cost and diversification of activities to remain competitive and profitable. The study evidence that use of technology based services to intensify competition and to reduce operating cost and achieve higher profitability. The researcher recommended that some critical factors like security and integrity of system should be addressed and greater emphasis should be given on banking and financial policies to strengthen the banking sector.

Objectives

- To study the profitability performance of private and public sector banks.
- To compare the profitability ratios of selected public and private sector banks.

Hypothesis

H_0:   There is no significant difference between profitability performance among private sector and public sector banks

H_1 :   There is no significant difference between profitability performance among private sector and public sector banks

Data collection: Secondary data has been used for analysis and interpretation

Data Analysis: Suitable techniques are used for data analysis like Profitability ratios and chi square test and Anova has been used.

Analysis and Interpretation of Private Sector Banks

The analysis and interpretation of private sector banks is explained as follows:

Table 1: Analysis of Net Profit Margin

For the period of 2013-14 to 2017-18

	HDFC	IndusInd	Karur Vysya	ICICI	AXIS	Maximum	Minimum	Range
2013-14	20.61	17.05	12.97	20.77	20.29	20.77	12.97	7.8
2014-15	21.07	18.5	8.39	22.2	20.73	22.2	8.39	13.81
2015-16	20.41	19.74	8.6	22.76	20.06	22.76	8.6	14.16
2016-17	20.99	19.9	10.42	18.44	8.26	20.99	8.26	12.73
2017-18	21.79	20.86	10.77	18.09	0.6	21.79	0.6	21.19
Maximum	21.79	20.86	12.97	22.76	20.73			
Minimum	20.41	17.05	8.39	18.09	0.6			
Range	1.38	3.81	4.58	4.67	20.13			

It is clear from the above table that the AXIS bank is marked highest range at 20.13 in net profit margin basis during the period of study.

Table 2: Analysis of Operating Profit Margin

For the period of 2013-14 to 2017-18

	HDFC	IndusInd	Karur Vysya	ICICI	AXIS	Maximum	Minimum	Range
2013-14	1.35	-5.84	2.3	-0.05	-3.87	2.3	-5.84	8.14
2014-15	2.51	-6.29	-2.63	-1.39	-2.83	2.51	-6.29	8.8
2015-16	2.56	-8.72	-2.16	-2.03	-2.8	2.56	-8.72	11.28
2016-17	3.25	-9.04	-2.55	-10.61	-17.98	3.25	-17.98	21.23
2017-18	2.82	-6.62	-3.13	-17.91	-23.35	2.82	-23.35	26.17
Maximum	3.25	-5.84	2.3	-0.05	-2.8			
Minimum	1.35	-9.04	-3.13	-17.91	-23.35			
Range	1.9	3.2	5.43	17.86	20.55			

It is clear from the above table that the HDFC bank is marked highest range at 1.90 in operating profit margin basis during the period of study.

Table 3: Analysis of Return Equity to Net Worth

For the period of 2013-14 to 2017-18

	HDFC	IndusInd	Karur Vysya	ICICI	AXIS	Maximum	Minimum	Range
2013-14	19.5	16.28	17.83	12.48	16.26	19.5	12.48	7.02
2014-15	16.47	17.49	12.91	13.39	16.46	17.49	12.91	4.58
2015-16	16.91	13.2	10.93	13.89	15.46	16.91	10.93	5.98
2016-17	16.26	14.14	12.41	11.19	6.59	16.26	6.59	9.67
2017-18	16.45	15.35	12.03	10.11	0.43	16.45	0.43	16.02
Maximum	19.5	17.49	17.83	13.89	16.46			
Minimum	16.26	13.2	10.93	10.11	0.43			
Range	3.24	4.29	6.9	3.78	16.03			

It is clear from the above table that the AXIS bank is marked highest range at 16.03 in equity to net worth basis during the period of study.

Analysis and Interpretation of Public Sector Banks

The analysis of public sector banks is as follows:

Table 4: Analysis of Net Profit Margin

For the period of 2013-14 to 2017-18

	SBI	BOB	OBC	UBOI	CBOI	Maximum	Minimum	Range
2013-14	7.98	11.66	5.99	5.77	-5.16	11.66	-5.16	16.82
2014-15	8.59	7.91	2.49	5.55	2.29	8.59	2.29	6.3
2015-16	6.07	-12.24	0.77	4.19	-5.47	6.07	-12.24	18.31
2016-17	5.97	3.27	-5.93	1.69	-9.89	5.97	-9.89	15.86
2017-18	-2.96	-5.57	-33.74	-16.02	-21.23	-2.96	-33.74	30.78
Maximum	8.59	11.66	5.99	5.77	2.29			
Minimum	-2.96	-12.24	-33.74	-16.02	-21.23			
Range	11.55	23.9	39.73	21.79	23.52			

It is clear from the above table that the OBC bank is marked highest range at 39.73 in net profit margin basis during the period of study.

Table 5: Analysis of Operating Profit Margin

For the period of 2013-14 to 2017-18

	SBI	BOB	OBC	UBOI	CBOI	Maximum	Minimum	Range
2013-14	-5.61	0.2	-4.23	-3.83	-13.04	0.2	-13.04	13.24
2014-15	-6.21	-2.33	-8.13	-5.42	-4.87	-2.33	-8.13	5.8
2015-16	-11.12	-23.59	-8.02	-7.08	-12.96	-7.08	-23.59	16.51
2016-17	-14.23	-12.73	-20.95	-13.5	-21.55	-12.73	-21.55	8.82
2017-18	-23.19	-20.82	-49.73	-31.26	-32.14	-20.82	-49.73	28.91
Maximum	-5.61	0.2	-4.23	-3.83	-4.87			
Minimum	-23.19	-23.59	-49.73	-31.26	-32.14			
Range	17.58	23.79	45.5	27.43	27.27			

It is clear from the above table that the UBOI bank is marked highest range at 27.43 in operating profit margin basis during the period of study.

Table 6: Analysis of Return on Equity to Net worth Ratio

For the period of 2013-14 to 2017-18

	SBI	BOB	OBC	UBOI	CBOI	BOB	OBC	Maximum	Minimum	Range
2013-14	9.2	12.61	8.91	10.03	-10.24	12.61	8.91	12.61	-10.24	22.85
2014-15	10.2	8.53	3.77	9.71	3.87	8.53	3.77	10.2	3.77	6.43
2015-16	6.89	-13.42	1.16	6.65	-9.85	-13.42	1.16	6.89	-13.42	20.31
2016-17	6.69	3.43	-8.63	2.36	-14.12	3.43	-8.63	6.69	-14.12	20.81
2017-18	-3.37	-5.6	-56.55	-20.9	-28.38	-5.6	-56.55	-3.37	-56.55	53.18
Maximum	10.2	12.61	8.91	10.03	3.87	12.61	8.91			
Minimum	-3.37	-13.42	-56.55	-20.9	-28.38	-13.42	-56.55			
Range	13.57	26.03	65.46	30.93	32.25	26.03	65.46			

It is clear from the above table that the CBOI bank is marked highest range at 32.93 in return on equity to net worth margin basis during the period of study.

Application of Statistical Tools

To test the validity of the data, SPSS has been used.

Table 7: Application of Anova Test on Private Sector Banks

ANOVA							
		Sum of Squares	df	Mean Square	F	Sig.	Decision
NPM	Between Groups	437.469	4	109.367	5.820	.003	
	Within Groups	375.851	20	18.793			Rejected
	Total	813.320	24				
OPM	Between Groups	503.464	4	125.866	3.886	.017	
	Within Groups	647.786	20	32.389			Rejected
	Total	1151.249	24				
ROA	Between Groups	2.175	4	.544	4.654	.008	
	Within Groups	2.336	20	.117			Rejected
	Total	4.511	24				
ROE	Between Groups	118.530	4	29.632	2.230	.102	
	Within Groups	265.772	20	13.289			Accepted
	Total	384.302	24				
	Total	24.843	24				

It is also clear from the above table that there is an association in ROE in the selected private sector banks.

Analysis and Interpretation of Public Sector Banks

The analysis and interpretation of public sector banks is as follows:

Table 8: Analysis of Descriptive Statistics of Public Sector Banks

Descriptive								
		N	Mean	Std. Deviation	Std. Error	95% Confidence Interval for Mean		Minimum	Maximum
						Lower Bound	Upper Bound		
NPM	SBI	5.00	5.13	4.67	2.09	-0.67	10.93	-2.96	8.59
	UBOI	5.00	0.24	9.23	4.13	-11.23	11.70	-16.02	5.77
	CBOI	5.00	-7.89	8.64	3.87	-18.63	2.84	-21.23	2.29
	BOB	5.00	1.01	9.81	4.39	-11.18	13.19	-12.24	11.66
	OBC	5.00	-6.08	16.06	7.18	-26.02	13.85	-33.74	5.99
	Total	25.00	-1.52	10.64	2.13	-5.91	2.87	-33.74	11.66
OPM	SBI	5.00	-12.07	7.16	3.20	-20.97	-3.18	-23.19	-5.61
	UBOI	5.00	-12.22	11.26	5.04	-26.20	1.76	-31.26	-3.83
	CBOI	5.00	-16.91	10.36	4.63	-29.77	-4.05	-32.14	-4.87
	BOB	5.00	-11.85	10.66	4.77	-25.10	1.39	-23.59	0.20
	OBC	5.00	-18.21	18.72	8.37	-41.46	5.03	-49.73	-4.23
	Total	25.00	-14.25	11.52	2.30	-19.01	-9.50	-49.73	0.20
ROA	SBI	5.00	0.37	0.33	0.15	-0.03	0.78	-0.18	0.63
	UBOI	5.00	0.06	0.65	0.29	-0.74	0.87	-1.07	0.47
	CBOI	5.00	-0.60	0.63	0.28	-1.39	0.19	-1.56	0.19
	BOB	5.00	0.04	0.60	0.27	-0.71	0.79	-0.80	0.68

	OBC	5.00	-0.43	1.21	0.54	-1.93	1.07	-2.51	0.51
	Total	25.00	-0.11	0.77	0.15	-0.43	0.21	-2.51	0.68
ROE	SBI	5.00	5.92	5.41	2.42	-0.79	12.63	-3.37	10.20
	UBOI	5.00	1.57	12.93	5.78	-14.49	17.63	-20.90	10.03
	CBOI	5.00	-11.74	11.53	5.16	-26.06	2.58	-28.38	3.87
	BOB	5.00	1.11	10.59	4.74	-12.04	14.26	-13.42	12.61
	OBC	5.00	-10.27	26.65	11.92	-43.35	22.82	-56.55	8.91
	Total	25.00	-2.68	15.60	3.12	-9.12	3.76	-56.55	12.61

On the basis of the above table, OBC is marked as the highest profitable bank among all the selected public sector banks during the period of study.

Table 9: Application of Anova Test on Private Sector Banks

		Sum of Squares	df	Mean Square	F	Sig.	Decision
NPM	Between Groups	575.60	4.00	143.90			
	Within Groups	2143.05	20.00	107.15	1.34	0.29	Accepted
	Total	2718.64	24.00				
OPM	Between Groups	186.99	4.00	46.75			
	Within Groups	2998.33	20.00	149.92	0.31	0.87	Accepted
	Total	3185.31	24.00				
ROA	Between Groups	3.14	4.00	0.79			
	Within Groups	11.04	20.00	0.55	1.42	0.26	Accepted
	Total	14.18	24.00				
ROE	Between Groups	1230.77	4.00	307.69			
	Within Groups	4607.13	20.00	230.36	1.34	0.29	Accepted
	Total	5837.90	24.00				

It is clear from the above table that the null hypothesis is rejected i.e. there is an association among the selected public sector banks during the period of study.

Conclusion

On the basis of the above analysis, it can be concluded that the profitability in AXIS bank (Private sector) and OBC (Public sector) is marked good position during the period of study. it may be due to lower NPA and effective credit policies and customer satisfaction.

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