

Operational performance of select public and private sector banks in India

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Abstract

Banks are the strength and character of the economy of the nation because they engage in recreation noteworthy role in the exertion to attain constant prices, giant level of employment and resonance fiscal growth. The objective of the present study profitability analysis of different public and private sector banks in India based on the performance of profitability ratios like net profit margin, interest spread, return on net worth, return on long term funds and adjusted cash margin. The period of the study is from 2005- 2006 to 2014- 2015. The major finding of study indicates that private sector banks have higher profit than public sector banks during the study period.

Keywords: profitability, interest spread, net profit margin, return on long term debt, return on net worth, adjusted cash margin, mean standard deviation, co efficient of variation, CAGR and regression

Introduction

The Indian monetary system has been keeping up mainly by interest regulations, credit restrictions, share market controls and foreign exchange reserve controls. Banking sector in India has separated hooked on four categories (public sector banks, private sector banks, foreign banks in India and scheduled commercial banks). Banks are precise to be very noteworthy financial mediators because they sever as well as investors. Finance facilities the flow of goods and services and the activities of the government. Banks also provides a huge part of the medium of exchange to the country. Banks are the strength of character of the economy of the country because they play major role in the effort to achieve stable prices, prominent level of employment and noise economy growth.

Statement of the Problem

The growth of industries depends on numerous factors such as technology, financial, personnel, quality of the product and marketing. Out of these, monetary and working aspects assume a major role in influential the growth of industries. Each and every one of the business operations almost affect it's require for cash. The majority of the data covering equipped areas are however outside the direct liability of the financial executive. Unless the top administration appreciates the value of a good monetary and operating analysis, here will be enduring problem for the monetary executives to find the profitability position. The firms whose present operations are naturally difficult should try to make their financial analysis to allow their management to stay on top of its operational point. Hence, the researcher wants to know the answers for the following research question.

- What is the profitability position of select public and private banks in India?

Objective of the Study

- To analyze the profitability position of the select public and private banks in India

Research Methodology

Sources of data

The data collected for the study is secondary one. The necessary data for the study were collected from Banks websites, journals and money control wed site.

Period of study

The study covers a phase of ten years from 2005-2006 to 2014-2015.

Tools used for analysis

The following tools are used for the performance evaluation of the companies. They are:

- Descriptive statistics, Ratio Analysis and Regression

Sample size

Following is the list of five public sector banks (State Bank of India, Bank of Baroda, Punjab National Bank, Central Bank of India and Bank of India) and five private sector banks (ICICI Bank, HDFC Bank, Axis Bank, Kodak Mahindra Bank and Indusind Bank) which are chosen from as sample size for the study.

Table 1 shows the interest spread ratio of selected public and private sector banks in India. The Kodak Mahindra bank has the highest Interest spread ratio with mean value of 7.85 followed by HDFC bank with 7.21. Canara bank has the lowest Interest spread ratio of 4.83. Interest spread ratio is found to be consistent in bank of India. The compound annual growth rate of Interest spread ratio is highest in the ICICI bank by 0.10 followed by AXIS bank by 0.09. Bank of India shows lowest annual growth rate.

Profitability analysis of select public and private banks in India**Table 1:** Interest Spread Ratio of Select Public and Private Banks in India (Rs in crores)

Year	Sbi	Bob	Pnb	Cb	Boi	Icici	Hdfc	Axis	Kmb	I ind
2005-2006	4.31	3.71	3.94	3.47	4.13	2.67	5.25	3.14	4.66	4.25
2006-2007	4.20	4.31	4.40	3.57	4.60	3.43	5.47	3.27	5.38	3.64
2007-2008	4.32	4.21	4.18	3.47	4.80	3.51	7.08	3.77	6.01	4.12
2008-2009	4.34	4.02	4.18	3.47	4.96	3.66	6.98	4.24	8.31	4.97
2009-2010	3.82	4.15	4.46	3.32	4.57	5.66	5.89	3.95	8.11	6.07
2010-2011	6.12	5.58	6.74	5.90	5.86	6.95	8.25	6.66	9.18	8.17
2011-2012	6.87	5.59	6.87	6.50	5.69	7.45	8.42	7.46	9.16	8.12
2012-2013	5.95	5.95	7.29	7.11	5.54	7.82	8.78	7.90	9.82	8.28
2013-2014	5.76	5.35	6.95	6.30	5.07	7.35	8.01	7.67	9.52	7.85
2014-2015	6.26	5.47	6.73	6.43	5.20	7.04	8.01	7.34	3.38	7.47
MEAN	5.20	4.83	5.57	4.95	5.04	5.55	7.21	5.54	7.85	6.29
SD	1.10	0.82	1.43	1.60	5.55	2.02	1.29	2.02	1.84	1.90
CV	21.13	17.03	25.64	32.35	10.82	36.37	17.88	36.38	23.29	30.12
CAGR	0.04	0.04	0.05	0.06	0.02	0.10	0.04	0.09	0.06	0.06

Source: Money control**Table 2:** Net Profit Ratio of Select Public and Private Banks in India (Rs in crores)

Year	SBI	BOB	PNB	CB	BOI	ICICI	HDFC	AXIS	KMB	I IND
2005-2006	11.21	3.71	14.5	13.82	9.04	14.12	15.55	13.47	12.29	2.85
2006-2007	10.12	4.31	12.53	11.60	10.48	10.81	13.57	12.01	8.84	3.79
2007-2008	11.84	4.21	12.86	10.08	14.63	10.51	12.87	12.22	10.37	3.45
2008-2009	12.03	4.02	14.1	10.89	15.89	9.74	11.35	13.31	8.35	5.29
2009-2010	10.54	4.15	15.92	13.77	8.59	12.29	14.77	16.10	15.23	11.30
2010-2011	09.05	3.71	16.42	17.54	11.44	22.35	19.70	22.35	19.52	16.08
2011-2012	10.99	4.31	13.4	10.64	9.40	19.28	18.93	19.28	17.55	14.97
2012-2013	11.78	4.21	11.33	8.42	8.61	19.05	19.18	19.05	16.91	15.19
2013-2014	07.98	4.02	7.73	6.16	7.19	20.29	20.61	20.29	17.13	17.05
2014-2015	08.59	4.15	6.61	6.17	3.93	20.73	21.07	20.73	19.19	18.50
MEAN	10.41	4.08	12.54	10.91	9.92	15.92	16.76	16.88	14.54	10.85
SD	1.44	0.22	3.22	3.54	3.47	4.88	3.54	3.91	4.24	6.32
CV	13.84	5.36	25.68	32.49	34.97	3.68	21.11	23.13	29.14	58.29
CAGR	-0.03	0.01	-0.08	-0.08	-0.08	0.04	0.03	0.04	0.05	0.21

Source: Money control

Table 2 shows the net profit ratio of selected public and private sector banks in India. The Axis bank has the highest net profit ratio with mean value of 16.88 followed by HDFC bank with 16.76. Bank of Baroda has the lowest net profit ratio of 4.08. Net profit ratio is found to be consistent in bank

of India. The compound annual growth rate of Net profit ratio is highest in the Indusind bank by 0.21 followed by Kodak Mahindra bank by 0.05. Canara bank and bank of India shows lowest annual growth rate.

Table 3: Return on Net worth Ratio of Select Public and Private Banks in India (Rs in crores)

Year	SBI	BOB	PNB	CB	BOI	ICICI	HDFC	AXIS	KMB	I IND
2005-2006	15.94	10.54	17.01	20.65	14.53	14.33	22.73	18.28	14.58	4.34
2006-2007	14.50	11.86	16.03	18.78	21.25	13.17	23.57	19.37	11.19	7.10
2007-2008	13.72	12.99	19.00	18.86	22.76	8.94	13.83	12.21	8.17	6.76
2008-2009	15.74	17.35	23.52	20.64	25.51	7.58	15.32	17.77	7.06	10.39
2009-2010	13.89	20.24	24.06	24.09	13.60	7.79	13.70	15.67	12.35	16.19
2010-2011	11.34	20.15	22.12	22.43	15.58	9.35	15.47	17.83	12.03	15.12
2011-2012	13.94	18.22	18.52	19.91	13.57	10.70	17.26	18.59	13.65	17.79
2012-2013	14.26	14.01	15.19	12.57	11.49	12.48	18.57	15.64	14.40	14.32
2013-2014	9.20	12.61	9.69	10.10	9.12	13.40	19.5	16.26	12.24	16.3
2014-2015	10.20	8.53	8.12	10.21	5.43	13.89	16.47	16.46	13.19	17.51
MEAN	13.27	14.65	17.33	17.82	15.28	11.16	17.64	16.81	11.89	12.58
SD	2.27	4.10	5.38	5.03	6.25	2.60	3.45	2.06	2.50	4.99
CV	17.12	27.96	31.04	28.24	40.92	23.30	19.55	12.24	21.05	39.69
CAGR	-0.04	-0.02	-0.07	-0.07	-0.09	0.01	-0.03	-0.01	-0.01	0.15

Source: Money control

Table 3 reveals the Canara bank has the highest Return on net worth ratio with mean value of 17.82 followed by HDFC bank with 17.64. ICICI bank has the lowest Return on net worth ratio of 11.16. Return on net worth ratio is found to be

consistent in Axis Bank. The compound annual growth rate of Return on net worth ratio is highest in the Indusind bank by 0.15 followed by ICICI bank by 0.01. Bank of India shows lowest annual growth rate.

Table 4: Adjusted Cash Margin Ratio of Select Public and Private Banks in India (Rs in crores)

Year	SBI	BOB	PNB	CB	BOI	ICICI	HDFC	AXIS	KMB	I IND
2005-2006	13.06	15.12	16.35	15.31	9.82	17.65	23.11	16.07	16.18	5.99
2006-2007	11.43	12.03	14.10	12.81	11.23	12.30	19.07	14.11	10.98	7.34
2007-2008	12.81	12.06	13.72	10.65	14.47	11.81	15.01	14.19	12.12	5.32
2008-2009	13.04	14.19	14.60	11.80	16.25	11.45	13.15	14.76	10.45	7.97
2009-2010	11.62	16.54	16.52	14.46	9.09	13.64	16.71	17.63	17.76	13.03
2010-2011	9.51	18.16	15.32	16.22	10.77	17.51	18.23	6.66	18.43	14.82
2011-2012	10.51	15.96	12.74	10.18	8.94	17.02	17.55	7.46	16.79	13.77
2012-2013	11.23	12.31	10.98	8.22	8.22	18.20	17.60	7.90	16.22	13.59
2013-2014	7.89	11.25	7.73	6.13	7.10	19.02	18.65	7.67	16.40	14.84
2014-2015	8.12	7.89	6.57	6.47	4.18	19.31	18.91	7.34	17.52	15.87
MEAN	10.92	13.55	12.86	11.23	10.01	15.79	17.80	11.38	15.29	11.25
SD	1.91	3.02	3.44	3.56	3.47	3.13	2.64	4.32	2.95	4.09
CV	17.44	22.31	26.73	31.70	34.71	19.81	14.82	37.93	19.28	36.38
CAGR	-0.05	-0.06	-0.09	-0.08	-0.08	0.01	-0.02	-0.08	0.02	0.10

Source: Money control

Table 4 exhibits the adjusted cash margin ratio of selected public and private sector banks in India. HDFC bank has the highest adjusted cash margin ratio with mean value of 17.80 followed by ICICI bank with 15.74. Bank of India has the lowest adjusted cash margin ratio of 10.01. Adjusted cash

margin ratio is found to be consistent in Axis Bank. The compound annual growth rate of Return on net worth ratio is highest in the Indusind bank by 0.15 followed by Kodak Mahindra bank by 0.02. Punjab national bank shows lowest annual growth rate.

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Table 5: Return on Long Term Debt Ratio of Select Public and Private Banks in India (Rs in crores)

Year	SBI	BOB	PNB	CB	BOI	ICICI	HDFC	AXIS	KMB	I IND
2005-2006	97.89	66.45	74.57	95.07	109.76	56.24	60.06	88.56	59.26	108.15
2006-2007	99.20	81.71	80.76	111.1	126.61	82.46	74.91	119.74	54.27	129.05
2007-2008	86.83	91.52	111.52	151.5	122.57	62.34	62.34	71.17	47.47	152.76
2008-2009	100.35	103.7	129.83	149.1	127.39	56.72	83.31	97.35	50.5	147.69
2009-2010	95.02	99.27	116.11	134.7	114.17	44.72	56.08	66.34	48.71	110.36
2010-2011	98.2	89.02	108.5	113	109.17	43.05	59.91	72.25	48.25	81.02
2011-2012	97.36	92.37	113.96	132.1	120.37	52.33	75.20	88.84	66.29	107.45
2012-2013	96.35	89.81	101.71	130.8	108.25	56.37	80.09	75.72	72.07	85.41
2013-2014	87.28	90.23	92.11	139.6	102.34	56.92	81.47	73.36	59.62	86.75
2014-2015	90.85	88.35	89.45	142.1	107.74	57.03	66.77	72.32	58.89	87.70
MEAN	94.93	89.24	101.85	129.88	114.84	56.82	70.01	82.57	56.53	109.63
SD	4.90	10.02	17.35	18.14	8.79	10.77	10.14	16.37	8.25	26.04
CV	5.16	11.22	17.03	13.97	7.65	18.96	14.48	19.83	14.59	23.75
CAGR	-0.007	0.029	0.018	0.041	-0.002	0.001	0.011	-0.020	-0.001	-0.021

Source: Money control

Table 5 exhibits return on Long term debt ratio of selected public and private sector banks in India. Canara bank has the highest return on Long term debt ratio with mean value of 129.88 followed by Indusind bank with 109.63. Kodak Mahindra bank has the lowest return on Long term debt ratio

of 56.53. Return on Long term debt ratio is found to be consistent in State Bank of India. The compound annual growth rate of return on Long term debt ratio is highest in the Canara bank by 0.041 followed by Bank of Baroda by 0.029. Indusind bank shows lowest annual growth rate.

Table 6: Regression Analysis

State Bank OF India				
Model	R	R Squire	Adjusted R Squire	Standard Error
1	.972 ^a	.945	.900	.45544
Bank of Baroda				
Model	R	R Squire	Adjusted R Squire	Standard Error
1	.716 ^a	.513	.123	.20475
Punjab National Bank				
Model	R	R Squire	Adjusted R Squire	Standard Error
1	.998 ^a	.997	.994	.24740
Canara bank				
Model	R	R Squire	Adjusted R Squire	Standard Error
1	.999 ^a	.997	.995	.23480
Bank of India				
Model	R	R Squire	Adjusted R Squire	Standard Error
1	.999 ^a	.997	.995	.23480
ICICI bank				
Model	R	R Squire	Adjusted R Squire	Standard Error
1	.985 ^a	.970	.946	1.13369
HDFC bank				
Model	R	R Squire	Adjusted R Squire	Standard Error
1	.998 ^a	.996	.995	.23470
Axis bank				
Model	R	R Squire	Adjusted R Squire	Standard Error
1	.961 ^a	.923	.861	1.31733
Kodak Mahindra Bank				
Model	R	R Squire	Adjusted R Squire	Standard Error
1	.964 ^a	.929	.872	1.51523
Indusind Bank				
Model	R	R Squire	Adjusted R Squire	Standard Error
1	.992 ^a	.984	.971	1.07856

a. Dependent Variable: Net Profit Margin

b. Predictors: (constant), return on long term debt, interest spread ratio, adjusted cash margin, return on net worth

Source: Computed data

The above table 6 represents the statistical significance model of select public and private sector banks in India. Punjab national bank and bank of India have highest R squire value at 0.997 states that all the four independent variables such as return on long term debt, interest spread ratio, adjusted cash margin, return on net worth which have 99.7 percent influence on the Net Profit Margin followed by Canara bank with 99.5 percent significant. Bank of Baroda has the lowest R squire value by 51.2 percent significant.

Findings

- The Axis bank has the highest net profit ratio with mean value of 16.88 followed by HDFC bank with 16.76. Bank of Baroda has the lowest net profit ratio of 4.08. net profit ratio is found to be consistent of bank of India. The compound annual growth rate of Net profit ratio is highest in the indusind bank by 0.21 percentage followed by Kodak Mahindra bank by 0.05. Canara bank and bank of India shows lowest annual growth rate.
- The Kodak Mahindra bank has the highest Interest spread ratio with mean value of 7.85 followed by HDFC bank with 7.21. canara bank has the lowest Interest spread ratio of 4.83. Interest spread ratio is found to be consistent of bank of India

- Canara bank has the highest Return on net worth ratio with mean value of 17.82 followed by HDFC bank with 17.64. ICICI bank has the lowest Return on net worth ratio of 11.16.
- HDFC bank has the highest adjusted cash margin ratio with mean value of 17.80 followed by ICICI bank with 15.74. Bank of India has the lowest adjusted cash margin ratio of 10.01. Adjusted cash margin ratio is found to be consistent of Axis Bank
- Canara bank has the highest return on Long term debt ratio with mean value of 129.88 followed by Indusind bank with 109.63. Kodak Mahindra bank has the lowest return on Long term debt ratio of 56.53.

Suggestions

- Timely actions should be taken to gather the over dues from the borrowers. This will facilitate the banks to make return in upcoming.
- The banks should conduct attentiveness programs among the rural poor about the reimbursement of loans and saving practice.
- The banks should obtain efforts to decrease the operating expenses by means of civilizing the good organization of the non-viable branches by utilizing some specialist

services like professional administration, personal supervision and the like.

- The banks should have strategic secure awake with the rural regional banks for attainment the fantastic areas instead of opening branches themselves in the areas which cannot offer them break smooth business.
- They should embrace latest technology and make it operational intensively. The public sector banks have a inimitable benefit over their competitors in terms of their division network and the huge client base, but it is the concentrated use of the technology that will allow public sector banks to construct on their strengths. New Private sector and Foreign banks have embraced expertise correct from their setting up and they have better modified themselves to the changes in equipment. The Public sector banks and Old Private banks have been rather slow in keeping speed with the changing technology, which is regarded as one of the most important reasons moving their profitability and efficiency.

Conclusion

The present study is attempted to know the profitability analysis of select public and private sector banks in India during the study period. The major finding of study indicates that private sector banks have higher profit than public sector banks during the study period. The study also found that four independent variables that is return on long term debt, interest spread ratio, adjusted cash margin, return on net worth influence more than 95 percent influence on the dependent variable (Net Profit Margin). The study suggested that banks should try to retain the talented workforce to improve the operational efficiency of the banks. The management should further try to control the over the expenses and disbursement cost in order to increase the profits.

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