Profitability Analysis of Selected Public and Private Banks in India

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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 and to evaluate the productivity of commercial banks with special reference to selected five banks in India during the period 2010-2011 to 2014-2015. The samples are selected through random sampling technique and data collected from secondary sources. The tools are Correlation and t test. This study examines the relationship among the profitability and productivity of Indian commercial banks both public and private sector banks. Analysing the banks overall profitability and productivity indices reveal that both public and private sector banks are profitable. With the increasing competition in the banking sector, profitability and productivity has become a greatest challenge to Indian commercial banks. Banks should explore every possibility for improvement and increase the profitability.

Key Words: Correlation, t test.

INTRODUCTION

Commercial Banks are an integral part of the financial system of any country. Banks play an important role in mobilizing savings of individuals into productive investments. The performance of the financial institution is a major concern for both, the regulators and the policy makers, since it has a strong linkage with the performance of the economy. The financial sector is reasonably well developed in India. Though small in comparison to, say, USA, it has a strong banking system, a set of large and small stock and commodity exchanges, strong equity culture, large number of mutual funds, development institutions like Industrial Development Bank of India, non-banking finance companies, other specialized financial institutions, besides a large informal sector. India, since 1950s chose the mixed economy model, with strong emphasis on public sector. The banking sector comprises three major segments: Scheduled Commercial banks, State Cooperative banks, and other banks like NABARD. The scheduled commercial banks include all major banks and account for more

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than 98% of all the assets in the banking sector. In India, prior to nationalisation, banking was restricted mainly to the urban areas. After nationalisation, the Indian banking system registered tremendous growth in volume. Banks enjoyed little autonomy as both lending and deposit rates were controlled until the end of the 1980s. Although, nationalisation of banks helped in spreading of banking to the rural and uncovered areas, the monopoly granted to the public sector and lack of competition led to overall inefficiency and low productivity on the other side. By 1991, the country's financial system had an inefficient and financially unsound banking sector. Based on recommendations of Narasimham committee report (1991), the RBI introduced several reforms that included reduction of reserve requirements, deregulation of interest rates, introduction of prudential norms, strengthening of bank supervision and improving the competitiveness of the system by allowing entry of private banks. The RBI also introduced Basel II norms of minimum capital requirements for banks to address the issues relating to health. By mid-1997, the RBI reported that the reform process had started showing results. It was found that the changes were only able to arrest the deterioration of the earlier system and there was still scope for considerable reforms. The period 1992-97 laid the foundations for reform in the banking system (Rengarajan, 1998). The second Narasimham Committee Report (1998) focussed on issues like strengthening of the banking system, upgrading of technology and human resource development. The report laid emphasis on two aspects of banking regulation, viz., capital adequacy and asset classification and resolution of NPA-related problems. At present, banks in India are venturing into non-traditional areas and generating income through diversified activities other than the core banking activities. Strategic mergers and acquisitions are being explored and implemented. With this, the banking sector is currently on the threshold of an exciting phase. The Banks are now facing a number of challenges such as frequent changes in technology, stringent prudential norms, increasing competition, worrying level of NPA's, rising customer expectations, increasing pressure on Profitability, asset-liability management, liquidity and credit risk management, rising operating expenditure and so on. This paper is aimed at examining the profitability and productivity of Indian banks in relation to each other.

STATEMENT OF THE PROBLEM

Banks are the critical part of financial system. It plays an important role in contributing to a country's economic development. If the banking industry does not perform well, the effect of the economy could be huge and broad. Efficient banking system reflects a sound

intermediation process and hence the banks due contribution to economic growth. So productivity and profitability analysis is essential for evaluating the bank's performance.

OBJECTIVES OF THE STUDY

- To study the profitability of commercial banks with special reference to selected five banks in India.
- To evaluate the productivity of selected commercial banks in India.
- To measure and compare the relative profitability of selected banks with respect to selected parameters during the study period 2010-2011 to 2014-2015.
- To offer suggestions to improve its profitability and productivity.

RESEARCH METHODOLOGY

Research Design

"Research design is the arrangement of activities for the collection and analysis of the data in a manner that aims to combine relevance to the purpose with economy in procedure. The study carried out here is an Analytical Research.

Data Collection Method

The data has been collected from secondary sources.

Secondary Data

- Collected from the annual publications of RBI and from other relevant documents.
- Through websites, text books & journals.

Period of study

This study was conducted for a period of five years from 2010-2011 to 2014-2015

Tools used for study

- Correlation
- Students t test

DATA SET & SAMPLE

The samples are selected by the researcher through random sampling technique. In this study five banks are being taken as samples, such as Bank of Baroda, Allahabad Bank, Central Bank of India, Union Bank of India and Axis Bank. The data used in this study was acquired from annual publications of RBI and from the websites, text books and journals for a period of last five years from 2010-2011 to 2014-2015.

SCOPE OF THE STUDY

The present study is restricted to the analysis and interpretation of the published financial data through the use of commonly used tools and techniques such as Correlation and students t - Test.

LIMITATIONS OF THE STUDY

- Due to time constrain, only five years' data were collected and analysed.
- The study was focussed on selected five banks only. So it cannot be generalized and applicable to all other commercial banks.
- Since only secondary data have been used, the drawback of this will in turn the limitation of the study.
- The inflation in the economy is not taken into consideration.

ANALYSIS AND INTERPRETATION

TABLE-1

TABLE SHOWING CORRELATION BETWEEN RETURN ON ASSETS AND PROFIT PER EMPLOYEE

NULL HYPOTHESIS: There is no association between return on assets and profit per employee.

Bank Name	Correlation Value	Calculated t Value	Table t Value	Null Hypothesis

Bank of Baroda	-0.603	-1.308	2.353	Accepted
Allahabad Bank	0.085	0.146	2.353	Accepted
Central Bank of India	0.936	4.605	2.353	Rejected
Union Bank of India	0.300	0.546	2.353	Accepted
Axis Bank	-0.270	-0.486	2.353	Accepted

TABLE-2

TABLE SHOWING CORRELATION BETWEEN RETURN ON EQUITY AND PROFIT PER EMPLOYEE

NULL HYPOTHESIS: There is no association between return on equity and profit per employee.

Bank Name	Correlation Value	Calculated t Value	Table t Value	Null Hypothesis
Bank of Baroda	0.855	2.85	2.353	Rejected
Allahabad Bank	0.475	0.934	2.353	Accepted
Central Bank of India	0.945	5.005	2.353	Rejected
Union Bank of India	0.417	0.794	2.353	Accepted
Axis Bank	-0.223	-0.396	2.353	Accepted

TABLE-3

TABLE SHOWING CORRELATION BETWEEN RETURN ON ASSETS AND BUSINESS PER EMPLOYEE

NULL HYPOTHESIS: There is no association between return on assets and business per employee.

Bank Name	Correlation Value	Calculated t Value	Table t Value	Null Hypothesis
Bank of Baroda	-0.623	-1.379	2.353	Accepted

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Allahabad Bank	0.076	0.135	2.353	Accepted
Central Bank of India	0.885	3.29	2.353	Rejected
Union Bank of India	0.368	0.685	2.353	Accepted
Axis Bank	-0.346	-0.638	2.353	Accepted

TABLE-4

TABLE SHOWING CORRELATION BETWEEN RETURN ON EQUITY AND BUSINESS PER EMPLOYEE

NULL HYPOTHESIS: There is no association between return on equity and business per employee.

Bank Name	Correlation Value	Calculated t Value	Table t Value	Null Hypothesis
Bank of Baroda	0.865	2.990	2.353	Rejected
Allahabad Bank	0.373	0.696	2.353	Accepted
Central Bank of India	0.914	3.95	2.353	Rejected
Union Bank of India	0.512	1.03	2.353	Accepted
Axis Bank	-0.298	-0.541	2.353	Accepted

TABLE-5

TABLE SHOWING CORRELATION BETWEEN RETURN ON ASSETS AND CREDIT DEPOSIT RATIO

NULL HYPOTHESIS: There is no association between return on assets and credit deposit ratio.

Bank Name	Correlation	Calculated t	Table t Value	Null

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	Value	Value		Hypothesis
Bank of Baroda	0.804	2.34	2.353	Accepted
Allahabad Bank	-0.083	-0.144	2.353	Accepted
Central Bank of India	-0.439	0.846	2.353	Rejected
Union Bank of India	0.631	1.41	2.353	Accepted
Axis Bank	0.913	3.875	2.353	Rejected

TABLE-6

TABLE SHOWING CORRELATION BETWEEN RETURN ON EQUITY AND CREDIT DEPOSIT RATIO

NULL HYPOTHESIS: There is no association between return on equity and credit deposit ratio.

Bank Name	Correlation Value	Calculated t Value	Table t Value	Null Hypothesis
State Bank of Baroda	-0.899	-3.554	2.353	Accepted
Allahabad Bank	-0.598	-1.293	2.353	Accepted
Central Bank of India	-0.619	-1.365	2.353	Accepted
Union Bank of India	0.466	0.913	2.353	Accepted
Axis Bank	0.866	2.999	2.353	Rejected

TABLE-7

TABLE SHOWING CORRELATION BETWEEN RETURN ON ASSETS AND CAPITAL ADEQUACY RATIO

NULL HYPOTHESIS: There is no association between return on assets and capital adequacy ratio.

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Bank Name	Correlation Value	Calculated t Value	Table t Value	Null Hypothesis
Bank of Baroda	0.649	1.479	2.353	Accepted
Allahabad Bank	0.066	0.144	2.353	Accepted
Central Bank of India	0.099	0.172	2.353	Accepted
Union Bank of India	0.683	1.620	2.353	Accepted
Axis Bank	0.843	2.713	2.353	Rejected

TABLE-8

TABLE SHOWING CORRELATION BETWEEN RETURN ON EQUITY AND CAPITAL ADEQUACY RATIO

NULL HYPOTHESIS: There is no association between return on equity and capital adequacy ratio.

Bank Name	Correlation Value	Calculated t Value	Table t Value	Null Hypothesis
Bank of Baroda	-0.479	-0.944	2.353	Accepted
Allahabad Bank	0.702	1.707	2.353	Accepted
Central Bank of India	0.063	0.109	2.353	Accepted
Union Bank of India	0.742	1.918	2.353	Accepted
Axis Bank	0.758	2.013	2.353	Accepted

TABLE-9

TABLE SHOWING CORRELATION BETWEEN RETURN ON EQUITY AND WAGE BILLS TO TOTAL EXPENSES

NULL HYPOTHESIS: There is no association between return on equity and wage bills to total expenses.

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Bank Name	Correlation Value	Calculated t Value	Table t Value	Null Hypothesis
Bank of Baroda	0.028	0.048	2.353	Accepted
Allahabad Bank	0.605	1.316	2.353	Accepted
Central Bank of India	0.349	0.645	2.353	Accepted
Union Bank of India	0.029	0.050	2.353	Accepted
Axis Bank	0.439	0.846	2.353	Accepted

FINDINGS AND SUGGESTIONS

Findings from correlation analysis and students t test

1. Since the null hypothesis is accepted, there is no association between return on assets and profit per employee of Bank of Baroda, Allahabad Bank, Union Bank of India and Axis Bank.

2. Since the null hypothesis is rejected, there is an association between return on assets and profit per employee of Central Bank of India.

3. Since the null hypothesis is rejected, there is an association between return on equity and profit per employee of Bank of Baroda and Central Bank of India.

4. Since the null hypothesis is accepted, there is no association between return on equity and profit per employee of Allahabad Bank, Union Bank of India and Axis Bank.

5. Since the null hypothesis is accepted, there is no association between return on assets and business per employee of Bank of Baroda, Allahabad Bank, Union Bank of India and Axis Bank.

6. Since the null hypothesis is rejected, there is an association between return on assets and business per employee of Central Bank of India.

7. Since the null hypothesis is rejected, there is an association between return on equity and business per employee of Bank of Baroda, Central Bank of India.

8. Since the null hypothesis is accepted, there is no association between return on equity and business per employee of Allahabad Bank, Union Bank of India and Axis Bank.

9. Since the null hypothesis is accepted there is no association between return on assets and credit deposit ratio of Bank of Baroda, Allahabad Bank and Union Bank of India.

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10. Since the null hypothesis is rejected there is an association between return on assets and credit deposit ratio of Central Bank of India and Axis Bank.

11. Since the null hypothesis is accepted there is no association between return on equity and credit deposit ratio of Bank of Baroda, Allahabad Bank, Central Bank of India and Union Bank of India.

12. Since the null hypothesis is rejected there is an association between return on equity and credit deposit ratio of Axis Bank.

13. Since the null hypothesis is accepted there is no association between return on assets and capital adequacy ratio of Bank of Baroda, Allahabad Bank, Central Bank of India, Union Bank of India.

14. Since the null hypothesis is rejected there is an association between return on assets and capital adequacy ratio of Axis Bank.

15. Since the null hypothesis is accepted there is no association between return on equity and wage bills to total expenses of Bank of Baroda, Allahabad Bank, Central Bank of India, Union Bank of India and Axis Bank.

Suggestions

1. Union Bank of India should increase its credit deposit ratio and thereby improve its liquidity position.

2. Central bank of India should take steps to increase its net interest margin.

3. Bank of Baroda should increase its business per employee ratio which in turn will help in improving the productivity of the bank.

4. Axis Bank should increase its wage bills to total expenses ratio and thereby improve its employee's productivity in the bank.

CONCLUSION

This study examines the relationship among the profitability and productivity of Indian commercial banks both public and private sector banks. Analysing the banks overall profitability and productivity indices reveal that both public and private sector banks are profitable. With the increasing competition in the banking sector, profitability and

productivity 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 utilised in a more efficient manner.

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