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Profitability performance of private sector banks

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ABSTRACT: Banking plays a crucial role in enriching the economic and social life of nations all over the world.. Their ability to make a positive contribution in igniting the process of growth depends on the effective banking system. Private banking in India was practiced since the beginning of banking system in India. Technique. It represents the efficiency with which the operations of the banks are carried on. The analysis of the profitability performance is extremely useful to various interested parties Profitability performance analysis is one of them. In the present study, an attempt has been made to appraise the financial position of the bank through the application of profitability performance analysis technique.

Key words: Profitability, Performance , Spread and burden ratios

1.0 INTRODUCTION :

Profitability performance analysis technique is an important criterion to evaluate the overall efficiency of an organization. It is concerned with the total earnings or the income generated and the total expenditure or the investments incurred by a bank. Thus, profitability performance analysis may be defined as the ability of a given investment, to earn a return on it. It helps in understanding the profitability and the financial health of a bank through the application of two set of ratios i.e. spread ratios and burden ratios.

Banking sector plays a vital role in the economic development of a country. It has a crucial role in enriching the economic and social life of nations all over the world. It is also an integral part of the financial system of a modern industrial economy, and plays an important role in the economy by financing the requirements of trade industry and agriculture in the country. In the modern economy, bankers are considered not merely as dealers in money, but more realistically the _leaders in investments‘. Similarly, banks are not just the storehouse of the country‘s wealth, but are reservoirs of resources necessary for economic development. Banking, when properly organized aids and facilitates the growth of trade and industry and hence contributes in the development of the national economy.Profitability performance analysis is one of them. In the present study, an attempt has been made to appraise the financial position of the bank through the application of profitability performance analysis technique.

Profitability Performance Analysis to make an assessment of the financial position of a bank, profitability performance analysis is a reliable technique. It represents the efficiency with which the operations of the banks are carried on. The analysis of the profitability performance is extremely useful to various interested parties like the management, shareholders and the long-term creditors. Profitability performance analysis of the bank has been performed using two sets of ratios. They are as under

(1) Spread as percentage of Working Funds

(2) Burden as percentage of Working Funds

2.0 REVIEW LITERATURE :

1. Kajal Chaudhary and monika Sharma(2011) published a article — *performance of Indian public sector banks and private sector banks :* A comparative study –focused on the combative study of performance of various public sector banks2. Mabwe Kumbirai and Robert Webb(2010) published d an article *" A financial raio analysis of commercial bank performance in south Africa "*investigates the performance of south africa's commercial banking.3. Jaccob A. Bikker(2010) published an article Measuring performance of banks : An assessment focuses on performance of banks towards its consumers and business 4. Tanbir Ahmed Chowdhury and Kashfia Ahmed (2009) published an article *Performance evaluation of selected commercial banks in Bnagladesh* analyzed the development and growth of selected private commercial. 5. Famil SAMILOGLU(2006) published an article — *The performance analysis of the Turkish banks through VAIC and MV/BV ratio* — determine if there is a meaningful relationship between the VAIC and MV/BVratios of turkish banks.6.Ugur yavas and mohamoud M. Yasin (2001) published an article — *enhancing organizational performance in banks : a systematic approach"* presents a frame work, which integrates root cause analysis with benchmarking, process reengineering and continuous improvement .

3.0 RESEARCH METHODOLOGY

3.1 RESEARCH DESIGN

Based on the objectives of the study, descriptive research has been adopted. It is designed to gather descriptive information and provides information for formulating more sophisticated studies. It involves formulation of more specific hypotheses and testing them through statistical inference.

3.2 NEED FOR THE STUDY

Along with this the global players have also brought in many foreign banks into India to full fill the requirements of WTO accord. They offer new range of products and services like ATMS, EFTS, Credit cards, portfolio management etc. Hence a study was conducted to know whether

these new private sector banks adopt in retaining market shares and profit margins, reliability and overall performance

3.3 OBJECTIVE OF STUDY:

- To assess the profitability performance of selected private banks through Spread ratios, Spread Related ratios, Burden Ratios, Burden related ratios and Profitability ratios

3.4 SOURCES OF DATA

The study is based on **SECONDARY DATA.** The data was collected from the selected banks websites.

3.5 TOOS OF ANALYSIS:

SPREAD RATIOS

Spread is difference between interests earned to interest paid

[1] Ratio of interest income to working fund (X_1):

$$= \frac{Interst\ income}{Working\ fund}$$

[2] Ratio of interest expenses to working fund (X_2)

$$= \frac{Interst\ expenses}{Working\ fund}$$

[3] Spread to working fund (X_3)

$$= \frac{Spread}{Working\ fund}$$

SPREAD RELATED RATIOS

[4] Ratio of interest income to total income (X_4)

$$= \frac{Interst\ income}{total\ income}$$

[5] Ratio of interest expenses to Total expenses (X_5)

$$= \frac{Interest\ expenses}{Total\ expenses}$$

BURDEN RATIOS

Burden is difference between non – interest expenditure to non – interest income.

[6] Ration of Non-interest expenditure to working funds (X_6)

$$= \frac{\boldsymbol{Non - Interest\ expenditure}}{\boldsymbol{Working\ fund}}$$

[7] Ratio of non-interest income to working fund (X_7)

$$= \frac{\boldsymbol{Non - Interest\ income}}{\boldsymbol{Working\ fund}}$$

[8] Ratio of burden to working fund (X_8)

$$= \frac{\boldsymbol{Burden}}{\boldsymbol{Working\ fund}}$$

BURDEN RELATED RATIOS

[9] Ratio of non-interest income to total income (X_9)

$$= \frac{\boldsymbol{Non - Interest\ income}}{\boldsymbol{Total\ income}}$$

[10] Ratio of establishment expenses to total expenses (X_{10})

$$= \frac{\boldsymbol{Establishment\ expenses}}{\boldsymbol{Total\ expenses}}$$

[11] Ratio of operating expenses to total expenses (X_{11})

$$= \frac{\boldsymbol{Operating\ expenses}}{\boldsymbol{Total\ expenses}}$$

[12] Ratio of Burden to total income (X_{12})

$$= \frac{\boldsymbol{Burden}}{\boldsymbol{Total\ income}}$$

PROFITABILITY RATIOS

[13] Ratio of Gross profit to working fund (X_{13})

$$= \frac{\boldsymbol{Gross\ profit}}{\boldsymbol{Working\ fund}}$$

[14] Ratio of Gross profit to Total deposit (X_{14})

$$= \frac{\boldsymbol{Gross\ profit}}{\boldsymbol{Total\ deposit}}$$

[15] Ratio of Net profit / loss to Total Income (X_{15})

$$= \frac{\boldsymbol{Net\ profit}}{\boldsymbol{Total\ income}}$$

[16] Ratio of Net profit/loss to Total deposit (X_{16})

$$= \frac{Net\ profit}{Total\ deposit}$$

[17] Ratio of net profit to Working fund (X_{17})

$$= \frac{Net\ profit}{Working\ fund}$$

4.0 ANALYSIS AND INTERPRETATION

4.1 SPREAD RATIOS

SPREAD RATIOS									
Banks	**Interest income to working fund (X_1)**			**Interest Expenses to Working fund(X_2)**			**Spread to working fund (X_3)**		
	Mean	**S.D**	**C.V**	**Mean**	**S.D**	**C.V**	**Mean**	**S.D**	**C.V**
ICICI BANK	0.066	0.019	28.93	**0.048**	0.016	33.43	0.017	0.005	29.08
AXIS BANK	0.068	0.010	15.02	**0.048**	0.014	29.90	0.020	0.006	27.75
HDFC BANK	0.072	0.010	13.44	**0.037**	0.009	23.22	0.035	0.005	14.86
DHANLAXMI	0.081	0.012	15.20	**0.056**	0.013	23.40	0.025	0.004	15.05
INDUSIND	0.076	0.007	9.01	**0.057**	0.009	15.34	0.019	0.004	23.16
OVERALL	**0.073**	**0.012**	**16.320**	**0.049**	**0.012**	**25.058**	**0.023**	**0.005**	**21.981**

Interpretation: The above table reveals that the mean ratio X_1 of the sample banks is ranging from 0.066 to 0.081 with the overall ratio of 0.073 and SD of 0.012. The ratio of Dhanlaxmi Bank and Indusind bank is higher than the overall ratio and all the remaining banks are less than the overall ratios. It is also revealed that the mean ratio of X_2 ranging from 0.037 to 0.057 with the overall ratio of 0.049 and SD of 0.012 and CV of 25.058. The ratio of Dhanlaxmi Bank and Indusind bank is higher than the overall ratio and the remaining banks are less than the overall ratio.

It is also revealed that the mean ratio of X3 ranging from 0.017 to 0.035 with the overall ratio of 0.023, SD of 0.005 and CV of 21.981. The HDFC and Dhanlaxmi banks are higher than the overall ratio and the remaining banks are less than the overall ratio.

4.2 SPREAD RELATED RATIOS

Spread Related Ratios are used to analyze the changes in the contents of interest earned and interest paid. So the following ratios are used to analyze the spread.

SPREAD RELATED RATIOS						
Banks	**Interest income to Total income (X_4)**			**Interest Expenses to Total Expenses(X_5)**		
	Mean	**S.D**	**C.V**	**Mean**	**S.D**	**C.V**
ICICI BANK	0.771	0.035	4.55	0.638	0.036	5.63
AXIS BANK	0.790	0.036	4.60	0.619	0.087	13.98
HDFC BANK	0.825	0.022	2.71	0.506	0.071	14.12
DHANLAXMI BANK	0.839	0.066	7.87	0.600	0.064	10.65
INDUSIND BANK	0.829	0.051	6.18	0.666	0.054	8.15
OVERALL	**0.811**	**0.042**	**5.180**	**0.606**	**0.062**	**10.505**

Interpretation:

From the above table it is revealed that the mean ratio X4 of sample banks is ranging from 0.771 to 0.839 with the overall ratio of 0.811 and SD of 0.042 and CV of 5.180. The HDFC, Dhanlaxmi and Indusind Banks are higher than overall ratio and the remaining banks are less than overall ratio.

It is also observed that the mean ratio of X_5 of sample banks is ranging from 0.506 to 0.666 with the overall ratio of 0.606 and SD of 0.062 and CV of 10.505. The ICICI, Axis and Indusind Banks are higher than overall ratio and the remaining banks are less than overall ratio.

4.3 BURDEN RATIOS

BURDEN RATIOS									
Banks	**Non-Interest expenditure to working fund (X_6)**			**Non-Interest Income to Working fund(X_7)**			**Burden to working fund (X_8)**		
	Mean	**S.D**	**C.V**	**Mean**	**S.D**	**C.V**	**Mean**	**S.D**	**C.V**
ICICI BANK	0.027	0.007	26.66	0.020	0.007	34.15	0.007	0.004	56.51
AXIS BANK	0.028	0.006	21.60	0.018	0.005	29.40	0.010	0.004	43.65
HDFC BANK	0.036	0.007	20.52	0.015	0.003	16.60	0.021	0.006	26.44
DHANLAXMI	0.037	0.009	25.07	0.017	0.010	58.27	0.021	0.007	33.26
INDUSIND	0.028	0.007	22.92	0.016	0.005	34.11	0.013	0.004	30.10
OVERALL	**0.031**	**0.007**	**23.353**	**0.017**	**0.006**	**34.507**	**0.014**	**0.005**	**37.992**

Interpretation: From the above table it is revealed that the mean ratio X6 of sample banks is ranging from 0.027 to 0.037 with the overall ratio of 0.031 and SD of 0.007 and CV of 23.353. The HDFC and Dhanlaxmi banks are higher than the overall ratio and the remaining banks are less than the overall ratios.It is also revealed that the mean ratio X7 of sample banks is ranging from 0.15 to 0.020 with the overall ratio of 0.017 and SD of 0.006 and CV of 34.507. The ICICI, AXIS and Dhanlaxmi banks are higher than the overall ratio and the remaining banks are less than overall ratio.The HDFC and Dhanlaxmi banks are higher than the overall ratio and the remaining banks are less than overall ratio.

4.5 **PROFITABILITY RATIOS ;** It is revealed that the mean ratio X13 of sample banks is ranging from 0.085 to 0.098 with the overall ratio of 0.090 and SD of 0.016 and CV of 17.538. The Dhanlaxmi and Indusind banks are higher than the overall ratio and the remaining banks are less than the overall ratio.

It is also revealed that the mean ratio X14 of sample banks is ranging from 0.104 to 0.149 with the overall ratio of 0.118 and SD of 0.023 and CV of 18.381. Except ICICI Bank the remaining banks are less than the overall ratio.

It is also revealed that the mean ratio X15 of sample banks is ranging from 0.044 to 0.164 with the overall ratio of 0.103 and SD of 0.040 and CV of 55.550. The ICICI, Axis and HDFC banks are higher than the overall ratio and the remaining banks are less than the overall ratio. It is also revealed that the mean ratio X16 of sample banks is ranging from 0.005 to 0.019 with the overall ratio of 0.012 and SD of 0.005 and CV of 52.519. The ICICI, AXIS and HDFC banks are higher than the overall ratio and the remaining banks are less than the overall ratio. It is also revealed that the mean ratio X17 of sample banks is ranging from 0.005 to 0.014 with the overall ratio of 0.009 and SD of 0.003 and CV of 50.473. The ICICI, AXIS and HDFC banks are higher than the overall ratio and the remaining banks are less than the overall ratio.

KARLPEARSON CORRELATION

Regression fitted X16 = -0.063 + 0.409 x X_{10} + 0.368 x X_1 – 0.010 x X_{11} + 0.017 x X_{13}

Variables Entered/Removed[a]

Model	Variables Entered	Variables Removed	Method
1	x10	.	Stepwise (Criteria: Probability-of-F-to-enter <= .050, Probability-of-F-to-remove >= .100).
2	x1	.	Stepwise (Criteria: Probability-of-F-to-enter <= .050, Probability-of-F-to-remove >= .100).
3	x11	.	Stepwise (Criteria: Probability-of-F-to-enter <= .050, Probability-of-F-to-remove >= .100).
4	x13	.	Stepwise (Criteria: Probability-of-F-to-enter <= .050, Probability-of-F-to-remove >= .100).

a. Dependent Variable: x16

The below table describes the results of multiple regression analysis in terms of regression coefficient, the standard error, coefficient of determination of (R^2 and t value), when variable is introduced.

The coefficient of determination of R^2 value shows that the variable X_{10} (Establishment expenses to total expenses) alone explains the variation in dependent variable to the extent of 97.4%. The coefficient of determination of R^2 value shows that the variable X_{10} and X_1 (Interest income to working fund) together explains the variation in dependent variable to the extent of 99.6%.

The coefficient of determination of R^2 value shows that the variable X_{10}, X_1, X_11, and X_{13}(Gross profit to working fund) together explains the variation in dependent variable to the extent of 100%.

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.990[a]	.981	.974	.000944
2	.999[b]	.998	.996	.000360
3	1.000[c]	1.000	1.000	.000022
4	1.000[d]	1.000	.	.

ANOVA[e]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.000	1	.000	152.850	.001[a]
	Residual	.000	3	.000		
	Total	.000	4			
2	Regression	.000	2	.000	535.874	.002[b]
	Residual	.000	2	.000		
	Total	.000	4			
3	Regression	.000	3	.000	91786.871	.002[c]
	Residual	.000	1	.000		
	Total	.000	4			
4	Regression	.000	4	.000	.	.[d]
	Residual	.000	0	.		
	Total	.000	4			

The P value of Anova is 0.000<0.05 it indicates the overall significance of the model fitted.The beta coefficient of X_10 is 0.409 and it is significant (0.000<0.05), the beta coefficient of X_1 is 0.368 and its significant (0.000<0.05). the beta coefficient of X_{11} is (-0.010) and negatively effecting the dependent variable and the beta coefficient of X_13 is (0.017) to its significant is (0.000<0.05).

Excluded Variables[e]

Model		Beta In	T	Sig.	Partial Correlation	Collinearity Statistics
						Tolerance
1	x1	.247[a]	4.321	.050	.950	.285
	x2	-.154[a]	-.930	.451	-.549	.245
	x3	.109[a]	1.679	.235	.765	.949
	x4	.163[a]	2.879	.102	.898	.585
	x5	-.101[a]	-1.219	.347	-.653	.809
	x6	.100[a]	1.394	.298	.702	.947
	x7	-.105[a]	-1.572	.257	-.743	.956
	x8	.117[a]	1.932	.193	.807	.912
	x9	-.163[a]	-2.879	.102	-.898	.585
	x11	.095[a]	1.235	.342	.658	.927
	x12	.110[a]	1.728	.226	.774	.953
	x13	.290[a]	1.631	.244	.756	.131
	x14	-.003[a]	-.025	.982	-.018	.706
	x15	.109[a]	.399	.728	.272	.121
	x17	.162[a]	.681	.566	.434	.138
2	x2	.108[b]	1.409	.393	.815	.106
	x3	-.083[b]	-1.223	.436	-.774	.163
	x4	.019[b]	.125	.921	.124	.080
	x5	.086[b]	2.876	.213	.945	.225
	x6	-.094[b]	-5.352	.118	-.983	.202
	x7	-.009[b]	-.137	.914	-.135	.414
	x8	-.126[b]	-2.139	.278	-.906	.097
	x9	-.019[b]	-.125	.921	-.124	.080
	x11	-.088[b]	-22.625	.028	-.999	.242
	x12	-.110[b]	-2.479	.244	-.927	.133
	x13	-.165[b]	-.814	.565	-.631	.027
	x14	.023[b]	.493	.708	.442	.687

	x15	-.049[b]	-.393	.762	-.365	.102
	x17	-.089[b]	-.756	.588	-.603	.086
3	x2	.010[c]	.	.	1.000	.040
	x3	-.007[c]	.	.	-1.000	.073
	x4	-.007[c]	.	.	-1.000	.077
	x5	.011[c]	.	.	1.000	.031
	x6	.030[c]	.	.	1.000	.004
	x7	.003[c]	.	.	1.000	.401
	x8	-.013[c]	.	.	-1.000	.021
	x9	.007[c]	.	.	1.000	.077
	x12	-.013[c]	.	.	-1.000	.023
	x13	.015[c]	.	.	1.000	.015
	x14	.003[c]	.	.	1.000	.576
	x15	-.006[c]	.	.	-1.000	.091
	x17	-.008[c]	.	.	-1.000	.059
4	x2	.[d]	.	.	.	.000
	x3	.[d]	.	.	.	.000
	x4	.[d]	.	.	.	.000
	x5	.[d]	.	.	.	.000
	x6	.[d]	.	.	.	.000
	x7	.[d]	.	.	.	.000
	x8	.[d]	.	.	.	.000
	x9	.[d]	.	.	.	.000
	x12	.[d]	.	.	.	.000
	x14	.[d]	.	.	.	.000
	x15	.[d]	.	.	.	.000
	x17	.[d]	.	.	.	.000

FINDINGS: From the spread ratios it is revealed that HDFC and Dhanlaxmi banks are balancing their interest income and interest expenses and the remaining are below the average (0.023) of their profitability. By which we know that HDFC and Dhanlaxmi banks are maintaining good profitability among selected banks.From the spread related ratios it is revealed that the Dhanlaxmi, HDFC, and Indusind banks are balancing their interest income to total income (overall 0.811). And it is revealed that the Dhanlaxmi and HDFC are spending less in interest expenses to total expenses. (overall 0.06.From the burden related ratios it is revealed that HDFC and Dhanlaxmi banks are spending more expenses on operating and establishment expenses.

Non - interest expenses is consistent and burden to total income is not consistent other than HDFC and Dhanlaxmi banks.The step wise multiple regression indicates that out of 17 ratios X_{10}, X_1, X_{11} and X_{13} ratios are only significantly contributing to X16(dependent variable).

SUGGESTIONS: The average interest income of ICICI bank is low when compared to other banks so it has to concentrate on improving interest income like Interest on loans and borrowings.The operating expenses of the ICICI bank are more than the average expenses of remaining banks. So ICICI bank has to take steps to reduce these expenses.
Interest expenditure of ICICI bank is high when compared with other banks so it has to decrease its interest expenditure.

The non interest expenditure and non interest income of ICICI bank is less than the average so this bank has to concentrate to increase the non interest income also. Non interest expenditure includes Salaries, rental of equipment, leases of buildings and equipment, and taxes and other related expenses, including the Loan Loss Provision for anticipated bad debt.

CONCLUSION : The study reveals that the profitability performances of the selected banks were maintaining consistent level. Among five selected banks HDFC Bank ranks first followed by ICICI bank, AXIS, Dhanlaxmi, and Indusind bank.

By this comparative study, ICICI Bank profitability performance is good, by increasing its deposits and decreasing its interest expenditure it may be in first position in banking sector.

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