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Author: Princika Bothra

GLS University, India

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Author: - Princika Bothra
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AN ANALYSIS OF FINANCIAL PERFORMANCE OF SELECTED PUBLIC AND PRIVATE SECTOR BANKS-A SPECIAL REFERENCE TO PROFITABILITY ANALYSIS

Princika Bothra

Department of Commerce, GLS University, Ahmedabad princikabothra93@gmail.com

ABSTRACT

Indian Banking Sector plays an important role in economic growth and development of a country. The banking system of India is featured by a large network of bank branches, serving many kinds of financial services to the people. Now, financial services can be easily assessable in every corner of country by private and public sector banks. In the changing economic environment of financial sector reforms, profitability is assuming greater importance. The financial viability of banks largely depends on the adequacy of Profitability. The main aim of the study is to identify the determinants of profitability of selected Public and private sector banks in India through ratio and percentages analysis. Data collected for study purpose is purely secondary in nature and collected mainly from accounting data of selected banks, which were collected from balance sheet and profit and loss account extracted from annual reports of concerned banks, journals, thesis, published documents and relevant websites. The study was made for a period of seven years from 2010-11 to 2016-17. Financial indicators such as Net Profit Margin, Earnings Per Share and Return on Equity are used to find out the determinants of profitability of the selected banks.

Keywords: Earning per share, Return on Equity, Net Profit Margin.

INTRODUCTION

Indian Banks plays a pivotal role in economic growth and development of country. After the privatization of bank, Indian bank, country shows the high growth in economy activities. Now, financial services can be easily assessable in every corner of country by private and public sector banks. Today, bank means not only deposit-withdrawal of money but more beyond deposit-withdrawal. Financial performance of a bank is not only important to management of bank but also important for many stakeholders and investors. With the help of fundamental analysis, investors can track the past performance, recent changes and future prospects of the banking sector. Until few decades ago public sector banks were leading banks in India, now private sector banks are becoming tough competitors to public sector banks. They bring innovative banking services to people and attract more customers. This has resulted in profitability improvements and increase in the funds. Indian banks are broadly categorized into public sector banks (those banks in which the Government of India holds), private banks (government does not have a stake in these banks; they may be publicly listed and traded on stock exchanges). Private sector banks are classified as old private sector banks and new private sector banks. This paper deals with public sector and private sector banks in India. Because of increasing competition in the banking sector, public sector and private sector banks are trying their best to improve their performance. Profit is the main motive of any business organisation. Hence it is important to study the determinants of profitability of public and private sector banks in India through ratio and percentages analysis.

REVIEW OF LITERATURE

Das and Ghose (2006) used non-parametric DEA to estimate the efficiency of Indian commercial banks in the post –reform period, 1992-2002. K, Walia (2012) examined the impact of reforms on credit deposit ratio, credit to GDP ratio, investment in government securities, share of business of public sector banks and proportion of various types of advances. He also examined the differences in various aspects of working results of public sector and private sector banks in comparison to foreign banks. Malaya Ranjan Mohapatra, Avizeet Lenka, Subrat Kumar Pradhan (2015) analysed the operational efficiency of commercial banks in India and challenges faced by public sector banks. The parameters considered for study are labour productivity, branch expansion and profitability ratios. The study concluded that internal management and employee efficiency of foreign banks are far better than other sectors of commercial banks. Public sector banks are lagging behind in various financial parameters. Mariappan (2006) analyzed that the IT revolution has brought a stunning change in the business environment, with the maximum impact on the banking and finance sector; as a result, the banking sector sports a new look today. R.K, UPPAL (2011) examined the efficiency of all the bank groups in the post-banking sector reforms era for the time period between 1999 and 2006. The main implication of this study is that although public sector banks have improved their financial position, they still need to make many changes. On the basis of some important parameters of efficiency, the paper concludes that among the Indian banks, efficiency of new private sector banks is quite high, but foreign banks have an edge over new private sector banks. Sathye (2003), using DEA to estimate efficiency, found that private banks are less efficient than public and foreign banks. S, Malik (2014) analysed the effect of technology on transformation of banking in India and also studied the benefits and challenges of changing banking trends. Technology and financial innovations have led to tremendous improvement in banking services and operations over the past decade. Survival, growth and profitability of banks depend upon the organizational effectiveness and operational efficiency in today's competitive scenario where customers' needs are changing every day and technology is touching new highs. S, Samreen (2014) analysed the overall banking industry with the help of Porter's five forces model. The study also concentrated on the various developments, challenges and opportunities in the banking industry. The author emphasized upon the need to act both decisively and quickly to build an enabling, rather than a limiting, banking sector in India.

OBJECTIVE OF THE STUDY

Fundamental analysis of public and private sector banks in India has been done with the objective of comparing the profitability of the selected public and private sector banks which is helpful in taking investment decisions from the year 2010-11 to 2016-17.

HYPOTHESES OF STUDY

Hypothesis 1:

H0: There is no significant difference in the NPM of selected banks.

H1: There is a significant difference in the NPM of selected banks.

Hypothesis 2:

H0: There is no significant difference in the EPS of selected banks.

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H1: There is a significant difference in the EPS of selected banks.

Hypothesis 3:

H0: There is no significant difference in the ROE of selected banks.

H1: There is a significant difference in the ROE of selected banks.

RESEARCH METHODOLOGY

Data Collections: The study is purely based on secondary in nature. The data were collected mainly from accounting data of selected banks, which were collected from balance sheet and profit and loss account extracted from annual reports of concerned banks, journals, thesis, published documents and relevant websites. Period of the Study: The study covered a period of seven financial years from 2010-11 to 2016-17. Statistical Tools Used: Ratio Analysis, Average, Standard Deviation, Percentage, Statistical Techniques Used: One-way Analysis of Variance (ANOVA) by using SPSS Software. Sampling: To analyse the profitability of bank, two selected banks from each public and private sector has been taken as samples.

PUBLIC SECTOR BANKS	PRIVATE SECTOR BANKS
➢ Bank of Baroda	➢ HDFC Bank
➢ Punjab National Bank	➢ ICICI Bank

FINANCIAL ANALYSIS

This section of study embodies the calculation and analysis of selected variables taken into reflection for the study purpose. The ratios are being calculated by the aid of raw data available on the concerned website. The raw data encompasses yearly results and balance sheet of the sample companies. After calculation of ratios, analysis individual ratio is being done. The statistical tool used for analysis is one-way analysis of variance (ANOVA). The ratios being calculated for the purpose of analysis of financial performance are:

1) Net Profit Margin (NPM)

2) Earnings Per Share (EPS)

3) Return on Equity (ROE)

Meaning: This ratio measures the relationship between net profit and net sales. Objective: The main objective of computing this ratio is to determine the overall profitability due to various factors such as operational efficiency, trading on equity, etc. Components: There are two components of this ratio which are as under:

1. Net Profit
2. Net Sales

1) NET PROFIT MARGIN (NPM)

Net profit margin is the percentage of revenue remaining after all operating expenses, interest, taxes and preferred stock dividends (but not common stock dividends) have been deducted from a company's total revenue

Table: 1 Net Profit Margin (NPM)

BANKS	PUBLIC SECTOR BANKS		PRIVATE SECTOR BANKS	
YEAR	BOB	PNB	ICICI	HDFC
2010-2011	19.38	16.42	15.79	16.18
2011-2012	16.87	13.40	15.75	15.88
2012-2013	11.54	11.33	17.19	16.04
2013-2014	11.66	7.73	22.20	20.61
2014-2015	7.91	6.61	22.76	21.07
2015-2016	(-12.24)	(-8.38)	18.44	20.41
2016-2017	3.27	2.80	18.09	20.99

Source: Author's compilation from Bank Markets Performance, http://moneycontrol.com

Descriptive

NET PROFIT MARGIN (NPM)

	N	Mean	Std. Deviation	Std. Error
BOB	7	8.3414	10.53036	3.98010
PNB	7	7.1300	8.19752	3.09837
ICICI	7	18.6029	2.84482	1.07524
HDFC	7	18.7400	2.54298	.96116
Total	28	13.2036	8.60279	1.62577

Interpretation:

From Table 1, it can be seen that HDFC Bank has earned the highest NPM of Rs.18.74 among all the four banks. Punjab National Bank has the lowest NPM. Bank of Baroda has the highest degree of variability in NPM with a standard deviation of 10.53.

Hypothesis 1:

H0: There is no significant difference in the NPM of selected banks.

H1: There is a significant difference in the NPM of selected banks.

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Table: 2 One Way ANOVA for NPM

ANOVA					
NET PROFIT MARGIN (NPM)					
	Sum of Squares	Df	Mean Square	F	Sig.
Between Groups	842.331	3	280.777	5.830	.004
Within Groups	1155.886	24	48.162		
Total	1998.217	27			

Interpretation: In Table 02, As the calculated significant value 0.004 is lower than 0.05, the null hypothesis is rejected. Thus, there is a significant difference in the Net Profit Margin of selected banks.

2) EARNINGS PER SHARE (EPS):

Meaning: This ratio measures the earnings available to an equity shareholder on a per share basis.

Objective: The objective of computing this ratio is to measure the profitability of the firm on per equity share basis.

Components: There are two components of this ratio which are as under:

1. Net profit after interest, tax and preference dividend.
2. No. of equity shares

Table: 3 Earning Per Share (EPS)

BANKS	PUBLIC SECTOR BANKS		PRIVATE SECTOR BANKS	
YEAR	BOB	PNB	ICICI	HDFC
2010-2011	108.33	139.94	44.73	84.40
2011-2012	121.79	144	56.09	22.02
2012-2013	106.37	134.31	72.17	28.27
2013-2014	105.75	92.32	85.04	35.34
2014-2015	15.37	16.51	19.28	40.76
2015-2016	(-23.42)	(-20.24)	16.73	48.64
2016-2017	6	6.23	16.83	56.78

Source: Author's compilation from Bank Markets Performance, http://moneycontrol.com

Descriptive				
EARNINGS PER SHARE (EPS)				
	N	Mean	Std. Deviation	Std. Error
BOB	7	62.8843	60.83520	22.99355
PNB	7	73.2957	70.70665	26.72460
ICICI	7	44.4100	28.03657	10.59683
HDFC	7	45.1729	20.91027	7.90334
Total	28	56.4407	48.58099	9.18094

Interpretation:

Table 3 shows the earnings per share of the selected banks. It can be seen that Punjab National Bank tops in terms of EPS with a highest average value of Rs. 73.30. Also, the degree of variability of EPS is lowest in case of HDFC Bank with a standard deviation of 20.91.

Hypothesis 2:

H0: There is no significant difference in the EPS of selected banks.

H1: There is a significant difference in the EPS of selected banks.

Table: 4 One Way ANOVA for EPS

ANOVA					
EARNINGS PER SHARE (EPS)					
	Sum of Squares	Df	Mean Square	F	Sig.
Between Groups	4181.193	3	1393.731	.562	.645
Within Groups	59541.843	24	2480.910		
Total	63723.036	27			

Interpretation:

In Table 04, As the calculated significant value 0.645 is higher than 0.05, the null hypothesis is accepted. Thus, there is no significant difference in the ROE of selected banks.

RETURN ON EQUITY (ROE)

Meaning: This ratio measures a relationship between net profit after interest, tax and preference dividend, and equity shareholder's funds.

Objective: The objective of computing this ratio is to find out how efficiently the funds supplied by the equity shareholders have been used. Interpretation: This ratio indicates the firm's ability of generating profit per rupee of equity shareholders' funds. Higher the ratio, the more efficient the management and utilization of equity shareholders' funds.

Table: 5 RETURN ON EQUITY (ROE)

BANKS	PUBLIC SECTOR BANKS		PRIVATE SECTOR BANKS	
YEAR	BOB	PNB	ICICI	HDFC
2010-2011	24.30	24.45	9.66	16.75
2011-2012	21.72	21.05	11.20	18.69
2012-2013	15.68	16.48	13.10	20.34
2013-2014	13.00	9.69	12.94	20.60
2014-2015	9.21	8.12	13.73	16.47
2015-2016	(-17.64)	17.08	14.32	16.91
2016-2017	4.53	3.52	11.32	16.26

Source: Author's compilation from Bank Markets Performance, http://moneycontrol.com

Descriptive				
RETURN ON EQUITY (ROE)				
	N	Mean	Std. Deviation	Std. Error
BOB	7	10.1143	14.00913	5.29495
PNB	7	14.3414	7.49118	2.83140
ICICI	7	12.3243	1.64878	.62318
HDFC	7	18.0029	1.86327	.70425
Total	28	13.6957	8.13569	1.53750

Interpretation:

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In Table 5, it can be clearly seen that HDFC Bank is highest in average ROE at 18.00%. Lowest Standard deviation in ICICI Bank is 1.65.

Hypothesis 3:

H0: There is no significant difference in the ROE of selected banks.

H1: There is a significant difference in the ROE of selected banks.

Table: 6 One Way ANOVA for ROE

ANOVA					
RETURN ON EQUITY (ROE)					
	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	235.731	3	78.577	1.216	.326
Within Groups	1551.382	24	64.641		
Total	1787.113	27			

Interpretation: In Table 06, As the calculated significant value 0.326 is higher than 0.05, the null hypothesis is accepted. Thus, there is no significant difference in the profitability of selected banks measured by ROE.

DISCUSSION AND CONCLUSION

The first basic objective of any investor is the return or yield on investments. The fundamental analysis helps in developing an insight into the economic performance of above selected four banks. For every investor analysis of economic performance is very vital in taking investment decisions. Thus, the present study has been conducted to study and examine the profitability of the total four major banks selected from public sector and private sector by using three different ratios such as NPM, EPS and ROE. For testing the hypothesis, ANOVA has been used for NPM which indicated that Null Hypothesis is rejected and interpreted that there is a significant difference in the Profitability of selected banks measured by NPM. Hence, it means NPM differs across the banks. For testing the hypothesis, ANOVA has been used for EPS and ROE which indicated that Null Hypothesis is accepted and interpreted that there is no significant difference in the Profitability of selected banks measured by EPS and ROE. Hence, it means all the banks EPS and ROE is equal. From the above calculations, HDFC is the best stock from private sector banks for investment purpose & PNB is the best stock from Public Sector banks for investment purpose.

ABBREVIATIONS

NPM- Net Profit Margin

EPS – Earning Per Share

ROE- Return on Equity

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