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Comparison between HDFC bank and axis bank

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ABSTRACT

The objective of this study was comparison of HDFC and AXIS banks in India based on the performances of profitability ratios like interest spread, net profit margin, and return on long term fund, return on net worth & return on asset. Profitability is a measure of proficiency and control it shows the proficiency or adequacy with which the operations of the business are gone ahead. Recording profitability for the past period or anticipating profitability for the coming time frame, measuring benefit is the most essential measure of the achievement of the business. For this study past 5 years data used for ratio calculation and analysis done with the help of ANOVA. The findings revealed that in every aspects performance of HDFC bank was better than Axis bank. A solid financial framework advances venture by financing gainful business opportunities, activating reserve funds, effectively distributing assets and makes simple the exchange of merchandise and services and if we compare both bank HDFC bank have little strong financial system.

Keyword: Profitability, Interest spread, Net profit margin, financial system.

INTRODUCTION

An incorporated monetary foundation is especially fundamental in fortifying and maintaining monetary development for any nation. A well working monetary division encourages proficient intermediation of money related assets. 'The more effective a money related framework is, in asset era and in its portion, the more noteworthy is its commitment to monetary development. 'The exchange of assets by acquiring and loaning is critical to any economy. Without these exchanges the level of monetary movement cannot be supported; work and salary cannot be created.

Many individuals are having buying power now and need the utilization to be delayed to future which is conceivable through savings .Other individuals who hope to have buying power in future need it to be progressed which is conceivable through borrowings. To begin with classification expects some reward for such deferments and the second classification is set up to pay some cost for such headway. Here emerges the budgetary market to satisfy the requirements of both the classifications. In this way, money related market assumes a noteworthy part in the preparation and portion of investment funds.

Banks are the most important service institutions in the economy of any country. Especially, in the Indian economy it plays catalytic role in the socio-economic development since independence. It includes not only public sector but also private sector banks. After banks nationalisation (1969 and 1980) banks have changed from class banking to mass banking. Before nationalisation of commercial banking in India, all private sector banks were dealing with banking business based on business approach and opened their most of branches were opened in the urban areas. But now their approach has been changed and many banks are opening their branches were opened in the rural areas. According to RBI3, there are all Scheduled Commercial Banks (SCB) in India are providing banking services through 71,998 offices (61301 offices of public sector banks, and 10387 offices of private sector banks) and their 9,44,620 employees as on March 2010. Deposits of all SCB were increased from ` 21,64,682 to ` 47,52,456 crore, Advances and advances have increased from ` 15,16,811 to ` 34,97,054 crore, Business per employee has increased from ` 419.80 lakh to ` 873.32 lakh and Profit per employee has increased from ` 2.80 lakh to ` 6.05 lakh in year 2005-06 to 2009-10. It is evidenced that, Indian banking sector is growing significantly during post reform period with novelties and inclusiveness.

The historical backdrop of Indian Banking demonstrates that seeds of keeping money in India were sown back in the eighteenth century when endeavors were made to build up the General Bank of India and Bank of Hindustan in 1786 and 1790 individually. Later some more banks like Bank of Bengal, Bank of Bombay and the Bank of Madras were set up under the contract of British East India Company. These three banks were converged in 1921 and it shaped the Imperial Bank of India, which later turned into the State Bank of India. The period in the vicinity of 1906 and 1911 seen the foundation of banks, for example, Bank of India, Bank of Baroda, Canara Bank, Corporation Bank, Indian Bank and Central Bank of India; these banks have made due to the present.

PRIVATE BANKING SECTOR

Private Sector Banks are those Banks which are owned by the private players. The private sector played a strategic role in the development of joint sector bank's reforms in India. In 1951, there were in all 556 private sector banks, of which 474 were nonscheduled and 92 were scheduled. Since then, the number of public sector banks is increasing while those of private sector banks are decreasing. Private sector banks include Indian and foreign banks

The private-sector banks in India speak to some portion of the Indian banking area that is comprised of both private and open area banks. The "private-division banks" are banks where larger parts of stake or value are held by the private investors what's more, not by government. Managing an account in India has been ruled by open division banks since the 1969 when every single real bank were nationalized by the Indian government. However since progression in government managing an account approach in 1990s, old and new private division banks have re-developed. They have become speedier and greater over the two decades since advancement utilizing the most recent innovation, giving contemporary developments and financial instruments and systems. The private banks are part into two gatherings by monetary controllers in India, old what's more, new. The old private part banks existed preceding the nationalization in 1969 what's more, kept their autonomy since they were either too little or master to be incorporated into nationalization. The new private part banks are those that have picked up their keeping money permit since the advancement in the 1990s.

Then from the early 1990s, RBI's liberalisation policy came in picture and with this the government gave licenses to a few private banks, which came to be known as new private-sector banks. The financial liberalization literature assume that the removal of repressions policies will allow the banking sector to better perform its functions of mobilizing savings and allocating capital what ultimately results in higher growth rate. If India wants to achieve its ambitious growth targets of 7-8% per year as lined out in the common minimum programmer of the current government, a successful management of the systematic changes in the banking sector is a necessary pre-condition. The year 1991 marked a decisive changing point in India’s economic policy since independence in 1947. Following the 1991 balance of payment crisis, structural reforms were initiated that fundamentals changed the prevailing economic policy in which the state was supposed to take the commanding heights of the economy. After decades of far reaching 74 government involvement in the business world, known as ‘The mixed Economy’ approach, the private sector started to play a more prominent role.

There are two categories of the private-sector banks: "old" and "new".

The old private-area banks have been working since quite a while and might be alluded to those banks, which are in operation from before 1991 and each one of those banks that have initiated their business after 1991 are called as new private division banks. Housing Development Finance Corporation Limited was the main private bank in India to get permit from RBI as a piece of the RBI's advancement strategy of the keeping money division, to set up a bank in the private-segment banks in India.

PERFORMANCE EVALUATION OF PRIVATE SECTOR BANKS

The execution of 16 Old Private Banks (OPBs) and 8 New Private Banks (NPBs) is assessed amid the change time frame. The 8 new private banks as has just been expressed, appeared after 1992-93 and the budgetary consequences of these banks are distributed from 1995-96. Thus, their execution examination discounts to the period 1995-96 to 2002-03. Just 16 old private area banks are considered for the investigation, leaving those banks, which are converged with others, Bank of Mathura Ltd. (2001), Bareily, The Nedungadi Bank Ltd. (2003) and those banks whose aggregate resources are not as much as Rs. 100 Crore. The New Private Banks which are incorporated for assessment are Bank of Punjab Ltd., Centurion Bank Ltd., Global Trust Bank Ltd., HOFC Bank Ltd., ICICI Bank Ltd., OBI Bank Ltd., Industrial Bank Ltd' and UTI Bank Ltd.(now AXIS Bank Ltd).

As of March 31, 2009, the Indian banking system comprised 27 public sector banks, 7 new private sector banks, 15 old private sector banks, 31 foreign banks, 86 Regional Rural Banks (RRBs), 4 Local Area Banks (LABs), 1,721 urban cooperative banks, 31 state co-operative banks and 371 district central co-operative banks. The average population coverage by a commercial bank branch in urban areas improved from 12,300 as on June 30, 2005 to 9,400 as on June 30, 2010 and in rural and semi urban areas from 17,200 as on June 30, 2005 to 15,900 as on June 30, 2010. The all India weighted average during the same period improved from 15,500 to 13,400. Though the Indian financial system has made impressive strides in resource mobilization, geographical and functional reach, financial viability, profitability and competitiveness, vast segments of the population, especially the underprivileged sections of the society, have still no access to formal banking services.

EVOLUTION OF HDFC BANK

The HDFC Bank was consolidated on August 1994 by the name of 'HDFC Bank Limited', with its enlisted office in Mumbai, India. HDFC Bank initiated operations as a Scheduled Commercial Bank in January 1995. The Housing Development Finance Corporation (HDFC) was among the first to get an 'on a basic level' endorsement from the Reserve Bank of India (RBI) to set up a bank in the private segment, as a component of the RBI's progression of the Indian Banking Industry in 1994. HDFC Bank is headquartered in Mumbai. The Bank at present has an enviable network of over 1416 branches spread over 550 cities across India. All branches are linked on an online real–time basis. Customers in over 500 locations are also serviced through Telephone Banking. The Bank also has a network of about over 3382 networked ATMs across these cities.

On May 23, 2008, the amalgamation of Centurion Bank of Punjab with HDFC Bank was formally endorsed by Reserve Bank of India to finish the statutory and administrative endorsement process. The merged entity now holds a strong deposit base of around Rs. 1,22,000 crore and net advances of around Rs. 89,000 crore

EVOLUTION OF AXIS BANK

AXIS Bank set up in 1993 was the first of the new private banks to have started operations in 1994 after the Government of India enabled new private banks to be established. Axis Bank Ltd. has been advanced by the biggest and the best Financial Institution of the nation, UTI. The Bank was set up with a capital of Rs. 115 crore, with UTI contributing Rs. 100 crore, LIC – Rs. 7.5 crore and GIC and its four backups contributing Rs. 1.5 crore each. Axis Bank is one of the principal new age private division banks to have started operations in 1994.

AXIS Bank entered an arrangement in November 2010 to purchase the venture keeping money and values units of Enam Securities for $456 million. Pivot Securities, the values arm of Axis Bank, will converge with the venture managing an account business of Enam Securities.As per the arrangement, Enam will demerge its speculation keeping money, institutional values, retail values and dispersion of budgetary items, and non– saving money back organizations and union them with Axis Securities.

LITRETUTE REVIEW

Constantinos Alexiou and Voyazas Sofoklis(2009), DETERMINANTS OF BANK PROFITABILITY: EVIDENCE FROM THE GREEK BANKING SECTOR. As profitability back bone of any firm we know so same they try to investigate the find profitability of selected 6 banks from Greek from the duration of 2000-2007. For study panel data method adopted by them. In result they found the methods used for approving loans and monitoring troubled loans in the past depended heavily on collateral and did not focus on the cash flow of the borrower, leading to relatively high levels of default, this reason profitability for Greek banks decrease. For improvement of this revising the structure of banks' assets and liabilities as well as introducing cost-efficiency measures can enhance the quality of the sector, making it thus more profitable.

Medhat Tarawneh, (2006) this paper study Comparison of Financial Performance in the Banking Sector: Some Evidence from Omani Commercial Banks. For this study total 5 Omani banks are taken with more than 260 branches were financially analyzed. In his findings suggest that the bank with higher total capital, deposits, credits, or total assets does not always mean that has better profitability performance. The regression analysis results showed that financial performance of the banks was strongly and positively influenced by the operational efficiency, and asset management, in addition to the bank size.

Velnampy.T (2006) examined the financial position of the companies and the relationship between financial position and profitability with the sample of 25 public quoted companies in Sri Lanka by using the Altman Original Bankruptcy Forecasting Model. His findings suggest that, out of 25 companies only 4 companies are in the condition of going to bankrupt in the near future. He also found that, earning/total assets ratio, market value of total equity/book value of debt ratio and sales/total assets in times are the most significant ratios in determining the financial position of the quoted companies

JOHN GODDARD, PHIL MOLYNEUX, JOHN O.S. WILSON (2004) Dynamics of Growth and Profitability in Banking. Dynamic panel and cross-sectional regressions are used to estimate growth and profit equations for 583 European commercial bank, the sample includes all commercial, savings, and co-operative banks from five major European Union countries for time period of 1992-1998. one hand, current profit is an important pre-requisite for future growth, because profit is the ultimate source of finance for expansion. But on the other hand, excessive current growth can have damaging implications for future profit, due to a managerial constraint on the rate at which a bank can grow without causing its profitability to deteriora

OBJECTIVES OF THE STUDY

- Comparison between HDFC and Axis bank.
- Profitability analysis of HDFC and Axis bank (i.e.,) Interest spread, Net profit margin, Return on Long term fund , Return on Net worth, & Return on asset.

METHODOLOGY

Data Collection: The study is based on secondary data. Information required for the study has been collected from the annual report of AXIS and HDFC bank & different books, journals, magazines & data collected from various bank websites.

Period of study

The study covers a period of 5 years from 2010- 2011 to 2015-2016 is taken for the study.

OVERVIEW OF PROFITABILITY

According to Aburime ; profit means the difference between the revenue generated from the sale of output and the full opportunity cost of factor used in the production of that output. Included within costs are the premium charged for risk taking and the costs of using the owners capital. These are not included as cost in the accountant's measure of project which therefore does not correspond to this economic definition of profit.

The parameters selected for evaluation of PROFITABILITY PERFORMANCE analysis are:-

1. Return on Assets (ROA)

is a ratio indication of how profitable a company is relative to its total assets. It is calculated by dividing a company's annual earnings by its total assets, and is represented as a percentage. The formula for return on assets is:

$$\text{Formula: Return on Assets} = \frac{\text{NetProfit}}{\text{TotalAssets}} \times 100$$

2. Return on Equity (ROE)

ROE is an Indicator of the Profitability of Banks from equity shareholders point of view. The price of equity shares in the capital market largely depends upon ROE, but for speculation. Generally, the ability of the Banking Company to attract fresh equity in the market depends upon this indicator to a large extent.

$$\text{Formula: Return on Assets} = \frac{\text{NetProfit}}{\text{Networth}} \times 100$$

3. Return on Investment (ROI)

is an Indicator of the Profitability of Banks from bank's point of view. The interest earning capacity from the various investment made by bank in various SLR and non-SLR investments.

$$\text{Formula: Return on Investment} = \frac{\text{Net profit}}{\text{Total Investments}} \times 100$$

4. Net Interest Margin (NIM)

NIM, being the difference between the interest income and the interest expended as a percentage of total assets, shows the ability of the bank to keep the interest on deposits low and interest on advance high.

$$\text{Formula: Net Interest Margin} = \frac{\text{Net Interest Income}}{\text{Average Assets}} \times 100$$

Table 1: Showing different ratios for the period of year 2011 to 2015

YEARS	ROA		ROE		ROI		NIM	
	ROA		ROE		ROI		NIM	
	HDFC BANK	AXIX BANK	HDFC BANK	AXIS BANK	HDFC BANK	AXIS BANK	HDFC BANK	AXIS BANK
2011	1.58	1.68	16.74	19.34	7.22	6.94	4.22	3.1
2012	1.7	1.68	18.69	20.29	7.72	7.74	4.19	3.04
2013	1.9	1.7	20.34	18.53	7.48	7.49	4.28	3.09
2014	2	1.78	21.18	17.43	7.77	7.34	4.14	3.3
2015	1.7	1.59	16.47	16.47	6.13	5.55	4	3.1

Source: Computed from Data Collected from RBI bank profile and Annual Report of Respective

DATA ANLYSIS

Return on assets

ANOVA

ROA

	Sum of Squares	Df	Mean Square	F	Sig.
Between Groups	.020	1	.020	1.210	.303
Within Groups	.134	8	.017		
Total	.154	9			

It is being watched that there is a little distinction to the extent the ROI is worry among the HDFC bank and AXIS bank. The ANOVA significant difference is 0.303 which is not as much as the basic district esteems 0.05 that demonstrates there is critical distinction in (ROI) of chose banks. The distinction is made on the grounds that the HDFC Banks execution is most astounding though the AXIS Banks execution is least in ROI examination.

Return on equity

ANOVA

ROE

	Sum of Squares	Df	Mean Square	F	Sig.
Between Groups	.185	1	.185	.055	.820
Within Groups	26.791	8	3.349		
Total	26.976	9			

It is being watched that there is a little refinement to the degree the ROE is stress among the HDFC bank and AXIS bank. The ANOVA significant difference is 0.820 which is greater than 0.05 that demonstrates there is critical distinction in (ROE) of chose banks. The distinction is made on the grounds that the HDFC Banks execution is most astounding though the AXIS Banks execution is least in ROE examination.

Return on investment

ANOVA

ROI

	Sum of Squares	Df	Mean Square	F	Sig.
Between Groups	.159	1	.159	.264	.621
Within Groups	4.807	8	.601		
Total	4.966	9			

It is being watched that there is a little capability to the degree the ROE is worry among the HDFC bank and AXIS bank. The ANOVA significant is 0.621 which is greater than 0.05 that demonstrates there is critical distinction in (ROI) of chose banks. The refinement is made in light of the fact that the HDFC Banks execution is most surprising however the AXIS Banks execution is slightest in ROI examination.

Net interest margin

ANOVA

NIM

	Sum of Squares	Df	Mean Square	F	Sig.
Between Groups	2.704	1	2.704	254.374	.000
Within Groups	.085	8	.011		
Total	2.789	9			

It observed that there is almost no change in NIM among the HFDC and AXIS bank. The ANOVA significant is 000 which show that probability is almost equal. Depend on the ANOVA result it’s hard to say which bank is better in NIM ratio.

Table 2: Comparison of HDFC and Axis bank based on their banking structure

No	Particulars	HDFC BANK	AXIS BANK
1	Time of emergence	In 1994 HDFC Bank was incorporated	Founded in 1993(as UTI Bank) than rename as Axis bank
2	Branches	the Bank’s distribution network was at 4,727 branches and 12,220 ATMs across 2,666 cities / towns	It has 3304 branches, 14,003 ATMs
3	Employees	In 2017 It has 84,325 employees	The bank employs over 50,000 people
4	Turnover(approx)	74,373 crore (US$12 billion) (2016)	414.0925 billion(US$6.5 billion) (2016)
5	Products	Credit cards, consumer banking, corporate banking, finance and insurance, investment banking, mortgage loans, private banking, private equity, wealth management	Credit cards, consumer banking, corporate banking, finance and insurance, investment banking, mortgage loans, private banking, private equity, wealth management

LIMITATION OF THE STUDY

a) The study is related to a period of 10 years.

b) As the data are only secondary, i.e., they are collected from the published annual reports.

c) Due to limited span of time only profitability ratio is taken for the study.

CONCLUSION

After liberalization private banks play important role in Indian economy where as new private banks are doing their work and contribution outstanding. HDFC and AXIS banks are top private banks as we the last five years data and compared HDFC bank take a lead. In every aspects ROI, ROE and ROI etc. HDFC bank is better than AIXS bank. But there is little difference between them, so it is suggestion for the AXIS bank if they increase their investments ROI will increase same ROA will also increase. To concluded that NIM average almost equal in both bank so there is no mean value and p value.

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