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A STUDY ON PROFITABILITY OF SELECTED PRIVATE BANKS OF INDIA

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ABSTRACT :

The banking sector in India has a very big canvas of history. Private banking was started since starting of banking system in India. New private sector banks is one of the fastest growing sector in India. They promoted a world class institution in India having latest technology, new system, new standards of service and efficiency. The PSB have been the dominant role in the country's financial system. Efficiency and profitability of the banking sector in India has assumed primal importance due to intense competition, greater customer demands and changing banking reforms.This study attempts primarily to measure the profitability of selected leading private banks of India. Profitability performance of these banks have been analysed for the period 2008-09 to 2017-18. Analyse the ratio here used financial ratio analysis (FRA) method which help to draw an overview about financial performance of private sector banks. This article provides important seed of knowledge and is very useful for bankers and new researchers.

KEYWORDS : *Private Sector Banks, Profitability, India, Ratio Analysis.*

INTRODUCTION

OVERVIEW OF BANKING

Bank is defined in many ways by various authors in the book son economics and commerce. It is very difficult to define a bank; because a bank performs multifarious functions may be defined in many ways according to their functions. The evolution of different types of banks, each specializing in a particular field, gives emphasis on each and every kind of bank. A general and comprehensive definition to cover all types of banking institutions would be unscientific and probably impossible. Each type of bank should have its own definition, explaining its specialized functions. Legislators have understood this difficulty and that is why the bill of exchange Act 1882 (England) defines

"A bank includes a body of persons, whether incorporated or not, who carry on the business of banking"

MARKET SIZE

The Indian banking sector is fragmented, with 46 commercial banks jostling for business with dozens of foreign banks as well as rural and co-operative lenders. State banks control 80 percent of the market, leaving relatively small shares for private rivals.

At the end of February, 13.7 crore accounts had been opened under Pradhanmantri Jan DhanYojna (PMJDY) and 12.2 croreRuPay debit cards were issued. These new accounts have mobilised deposits of Rs 12,694 crore (US$ 2.01 billion).

Standard & Poor's estimates that credit growth in India's banking sector would improve to 12-13 per cent in FY16 from less than 10% in the second half of CY14.

INVESTMENTS/DEVELOPMENTS

Since last few months, many investments done in the Indian banking sector.

- The United Economic Forum (UEF), an organisation that works to improve socio-economic status of the minority community in India has signed a memorandum of understanding (MoU) with Indian Overseas Bank (IOB) for financing entrepreneurs from backward communities to set up businesses in Tamil Nadu
- The RBI has allowed third-party white label automated teller machines (ATM) to accept international cards, including international prepaid cards, and said white label ATMs can now tie up with any commercial bank for cash supply.
- With the objective of increasing investment opportunities for Indian alternative investment funds (AIFs), the RBI has allowed these funds to invest overseas.
- In a major boost for the infrastructure sector, as well as for banks financing long gestation projects, the RBI has extended its flexible refinancing and repayment option for long-term infrastructure projects to existing ones where the total exposure of lenders is more than Rs 500 crore (US$ 78.98 million).
- Syndicate Bank is planning to open 300-500 branches in the next financial year
- RBI governor Mr RaghuramRajan and European Central Bank President Mr Mario Draghi have signed anMoU on cooperation in central banking. “The memorandum of understanding provides a framework for regular exchange of information, policy dialogue and technical cooperation between the two institutions. Technical cooperation may take the form of joint seminars and workshops in areas of mutual interest in the field of central banking,” RBI said on its website.
- RBL Bank has announced that it would be the anchor investor in Trifecta Capital’s Venture Debt Fund, the first alternative investment fund (AIF) of its kind in India with a commitment of Rs 50 crore (US$ 7.89 million). This move provides RBL Bank the opportunity to support the emerging venture debt market in India.
- The RBI has allowed banks to become insurance brokers, permitting them to sell policies of different insurance firms subject to certain conditions.
- Bandhan Financial Services Pvt. Ltd has raised Rs 1,600 crore (US$ 252.69 million) from two international institutional investors to help convert its microfinance business into a full service bank. Bandhan was one of the two entities to get a banking licence in April 2016 along with infrastructure finance company IDFC Ltd.
- Yes Bank Ltd has signed a MoU with the US government’s development finance institution Overseas Private Investment Corp (OPIC) to explore US$ 220 million of financing to lend to micro, small and medium enterprises (MSMEs) in India.
- Reliance Industries Limited (RIL) has said that it has applied for a Payments Bank licence, where the company will be the promoter and State Bank of India will be its joint venture partner with an equity investment of up to 30 per cent.
- The RBI has allowed bonds issued by multilateral financial institutions like World Bank Group, the Asian Development Bank and the African Development Bank in India as eligible securities for interbank borrowing. The move will further develop the corporate bonds market, RBI said in a notification.
- The Competition Commission of India (CCI) has cleared the merger of ING Vysya Bank with Kotak Mahindra Bank, which would create the country's fourth largest private sector lender. The proposed Rs 15,000 crore (US$ 2.36 billion) deal is not likely to have any appreciable adverse effect on competition in India, as per the competition "The share of both entities in various relevant markets is insignificant," the CCI said.
- Tata Consultancy Services Ltd (TCS), India’s largest software services exporter, has announced that it has expanded its presence in Singapore with the opening of a new 1,000-seat TCS Singapore banking and financial services (BFS) centre. The new centre replaces a 500-seat centre opened in 2013 and will offer a broader range of services to global banks in the Asia-Pacific region, with a major focus on digital offerings.

GOVERNMENT INITIATIVES

There have been a lot of developments in the Indian banking sector.

- The Government has announced a capital infusion of Rs 6,990 crore (US$ 1.1 billion) in nine state run banks, including State Bank of India (SBI) and Punjab National Bank (PNB), but based on new efficiency parameters such as return on assets and return on equity. In a statement, the finance ministry said, "This year, the Government of India has adopted new criteria in which the banks which are more efficient would only be rewarded with extra capital for their equity so that they can further strengthen their position."
- The Union cabinet has approved the establishment of the US$ 100 billion New Development Bank (NDB) envisaged by the five-member BRICS group as well as the BRICS "contingent reserve arrangement" (CRA).
- The RBI has decided to allow nominated banks to import gold, including coins, on a consignment basis, extending its clarification issued in November 2016, which had eased certain categories of gold imports.
- To help Micro Small and Medium Enterprises (MSME), RBI has permitted setting up of an exchange-based trading platform to facilitate financing of bills raised by such small entities to corporate and other buyers, including government departments and PSUs.

ROAD AHEAD

The Indian economy is now on the threshold of a major transformation, with expectations of policy initiatives being implemented. Positive business sentiments, improved consumer confidence and more controlled inflation should help boost the economic growth. Higher spending on infrastructure, speedy implementation of projects and continuation of reforms will provide further impetus to growth. All this translates into a strong growth for the banking sector too, as rapidly growing business turn to banks for their credit needs, thus helping them grow.

Also, with the advancements in technology, mobile and internet banking services have come to the fore. Banks in India are focusing more and more to provide better services to their clients and have also started upgrading their technology infrastructure, which can help improve customer experience as well as give banks a competitive edge.

Many banks, including HDFC, ICICI and AXIS are exploring the option to launch contact-less credit and debit cards in the market soon. The cards, which use near field communication (NFC) mechanism, will allow customers to transact without having to insert or swipe.

Exchange Rate Used: INR 1 = US$ 0.0157 as on April 28, 2017

LITERATURE REVIEW

Mayuri, J. Farmer's (2011) study was primarily based on the secondary data relating to the financial performance of 27 nationalized banks of India during 1989 to 1998. A regression analysis has been attempted to identify the quantifiable variables and to judge how far the changes in profitability are influenced by each of these variables. A detailed study has also been undertaken by selecting a very profitable bank and a highly loss making bank to identify the variables affecting the profitability of each of them. The application of the concept of Break Even Analysis has been attempted to differentiate between a profit earning bank and a losing bank and to help in suggestions how margin of safety can be improved.

Rachita Gulati and Sunil Kumar (2011) endeavour to explore the relationship between efficiency and profitability in 51 Indian domestic banks operating in the financial year 2006-2009.The empirical results show that de novo private sector banks dominate in the formation of the efficient frontier for Indian domestic banking industry. The efficient- profitability matrix reveals that the resource utilization process in 22 banks that fall in the "Question Mark" and "Sleeper quadrants is not functioning well and featuring the presence of considerable wastage of inputs. Further, Tamil Nadu Mercantile Bank and Yes Bank may be considered as an ideal bench mark for the poor performing banks on the efficiency and profitability dimensions of performance evaluation.

Roma Mitra, Shankar Ravi (2010), A stable and efficient banking sector is an essential precondition to increase the economic level of a country. This paper tries to model and evaluate the efficiency of 50 Indian banks. The Inefficiency can be analyzed and quantified for every evaluated unit. The aim of this paper is to estimate and compare efficiency of the banking sector in India. The analysis is supposed to verify or reject the hypothesis whether the banking sector fulfils its intermediation function sufficiently to compete with the global players. The results are insightful to the financial policy planner as it identifies priority areas for different banks, which can improve the performance. This paper evaluates the performance of Banking Sectors in India.

B.Satish Kumar (2010), in his article on an evaluation of the financial performance of Indian private sector banks wrote Private sector banks play an important role in development of Indian economy. After liberalization the banking industry underwent major changes. The economic reforms totally have changed the banking sector. RBI permitted new banks to be started in the private sector as per the recommendation of Narashiman committee. The Indian banking industry was dominated by public sector banks. But now the situations have changed new generation banks with used of technology and professional management has gained a reasonable position in the banking industry.

Vradi, Vijay, Mauluri, Nagarjuna (2006), in his study on´ Measurement of efficiency of bank in India concluded that in modern world performance of banking is more important to stable the economy .in order to see the efficiency of Indian banks we have seen the fore indicators i.e. profitability, productivity, assets, quality and financial management for all banks includes public sector, private sector banks in India for the period 2000 and 1999 to 2002-2003. For measuring efficiency of banks we have adopted development envelopment analysis and found that public sectors banks are more efficient than other banks in India.

PetyaKoeva (July 2003) in his study on The Performance of Indian Banks. During Financial Liberalization states that new empirical evidence on the impact of financial liberalization on the performance of Indian commercial banks. The analysis focuses on examining the behaviour and determinants of bank intermediation costs and profitability during the liberalization period. The empirical results suggest that ownership type has a significant effect on some performance indicators and that the observed increase in competition during financial liberalization has been associated with lower intermediation costs and profitability of the Indian banks.

RESEARCH OBJECTIVE

1. To analyses profitability of selected private banks of India
2. To study the impact of financial reform on banking industry

RESEARCH METHODOLOGY

SOURCES OF DATA

Secondary sources of data has been utilised for this proposed research study
Secondary data have been collected from Company Annual Reports.

UNIVERSE

In the research study selected 3 private banks.

PERIOD OF DATA COVERAGE

Ten years of financial statements has been analysed for private banks taken under study.

ANALYSIS OF DATA

The proposed statistical tools for the analysis of data are ratio analysis

DATA ANALYSIS

NET PROFIT MARGIN										
BANK	**2018**	**2017**	**2016**	**2015**	**2014**	**2013**	**2012**	**2011**	**2010**	**2009**
Axis Bank	20.73	16.34	15.35	15.47	17.12	16.1	13.31	12.22	12.01	13.47
HDFC Bank	21.07	17.28	16.04	15.88	16.18	14.76	11.35	12.82	13.57	15.55
ICICI Bank	22.76	17.96	17.19	15.75	15.79	12.17	9.74	10.51	10.81	14.12

During latest 5 years of the study all three banks taken under study maintained high net profit margin ratio compare to the beginning 5 years of the study period, so based on this it can be concluded that companies have maintained good amount of profit over gross income. In latest 5 years all banks performing most efficient way.

ICICI bank has highest average net profit margin ratio followed by HDFC bank and Axis bank. Sudden hike in ratio value can be observed in latest year 2018 from its previous year 2017.

RETURN ON ASSETS										
BANK	**2018**	**2017**	**2016**	**2015**	**2014**	**2013**	**2012**	**2011**	**2010**	**2009**
Axis Bank	188.47	813.47	707.5	551.99	462.77	395.99	284.5	245.13	120.8	103.06
HDFC Bank	247.39	181.23	152.2	127.52	545.46	470.19	344.44	324.38	201.42	169.24
ICICI Bank	138.72	633.92	578.21	524.01	478.31	463.01	444.94	417.64	270.37	249.55

During latest 5 years of the study all three banks taken under study maintained high return on assets ratio except HDFC bank compare to the beginning 5 years of the study period, so based on this it can be concluded that banks have utilised their assets most efficient way to generate revenue and earned profit .
ICICI bank has highest average net return on assets ratio value followed by Axis bank and HDFC bank. From all these three banks ICICI bank has utilised its assets most efficient way throughout way around last 10 years of study, while HDFC bank has utilised its assets least efficient way. Sudden drop in ratio value can be observed in latest year 2018 from previous year 2017.

RETURN ON LONG TERM FUND										
BANK	**2018**	**2017**	**2016**	**2015**	**2014**	**2013**	**2012**	**2011**	**2010**	**2009**
Axis Bank	72.32	73.36	75.72	88.84	72.25	66.34	97.35	71.17	119.74	88.56
HDFC Bank	66.77	81.47	80.09	75.2	59.91	56.08	83.31	62.34	74.91	60.06
ICICI Bank	57.03	56.48	56.37	52.33	43.05	44.72	56.72	62.34	82.46	56.24

No major ups and down can be observed in throughout last ten years. Banks have maintained high return on long term fund in earlier 5 years except HDFC bank. All banks have utilised their long term fund most efficient way to generate revenue and net profit

Axis bank has highest average return on long term ratio value followed by HDFC bank and ICICI bank. From all these three banks ICICI bank has utilised its long term fund least efficient way throughout last 10 years of study, while Axis bank has utilised its assets most efficient way. No sudden drop or jump can be observed from all three banks throughout last ten years.

RETURN ON NET WORTH										
BANK	**2018**	**2017**	**2016**	**2015**	**2014**	**2013**	**2012**	**2011**	**2010**	**2009**
Axis Bank	16.46	16.26	15.64	18.59	17.83	15.67	17.77	12.21	19.37	18.28
HDFC Bank	16.47	19.5	18.57	17.26	15.47	13.7	15.32	13.83	23.57	22.73
ICICI Bank	13.89	13.4	12.48	10.7	9.35	7.79	7.58	8.94	13.17	14.33

During year 2010 and 2009 banks have highest return on net worth ratio value, then sudden drop can be observed in all banks in year 2011. So it can be concluded that during year 2009 and 2010 banks have utilised their equity more efficient way than any other time periods. From year 2011 to 2018 no major hike or decline can be observed for all 3 banks.

HDFC bank has highest average return on net worth ratio value followed by Axis bank and ICICI bank. From all these three banks HDFC bank has utilised its shareholder's equity most efficient way throughout last 10 years of study, while ICICI bank has utilised its assets least efficient way. No sudden drop or jump can be observed from all three banks throughout latest eight years.

CONCLUSION

Based on the ratio analysis of private sector banks, it can be concluded that higher net profit margin ratio can be seen in earlier years i.e. in earlier years banks keeping higher amount of their revenue as net income. In earlier stage we can see value of this ratio was low compare to latest five years, which gives us direction that all banks doing their business more efficient way in current 5 years. It can see all banks are utilizing their asset in more profitable way in current years than earlier years. ICICI Bank has highest ratio value which is because of its consistence performance throughout the last 10 years.Difference is seen in Net Profit Margin Ratio of 3 selected banking companies.Difference is seen in Return on Assets Ratio of five selected banking companies.Difference is seen in Return on Long Term Fund(%) Ratio of 3 selected banking companies.Difference is seen in Return on Net Worth(%) Ratio of 3 selected banking companies.

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