



Study of Profitability Ratios of Nationalized Banks and Private Banks Operating in India

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ABSTRACT

The major role of banks is to collect money from the public in the form of deposits and then along with its own funds to serve the demands of the customers quickly, paying interest for the deposits and to meet out the expenses to carry out its activities. For this purpose, banks maintain adequate liquidity and earn profits from its activities. Profit is the main reason for the continued existence of every commercial organization and profitability depicts the relationship of the absolute amount of profit with various other factors. This paper is aimed at examining the profitability of Indian banks in relation to each other. The objective is to study the profitability of nationalized banks and private sector banks with special reference to selected two banks in India during the period 2013-2014 to 2017-2018. The samples are selected through random sampling technique and data collected from secondary sources.

Keyword: Profitability, Nationalized banks, Private Banks

INTRODUCTION

Banking sector in India is broadly classified into three categories namely Nationalized Banks and SBI and associates, Private Sector Banks and Foreign Banks. All these banks and bank groups are doing banking operations for different objectives to achieve. These banks always compete with each other on different grounds and parameters. Their competition has two fold advantages to the economy and to these banks themselves. As it is a well-known fact that only with competition, productivity and efficiency increases which is also true in case of the banking industry which is considered as the backbone of the economy. We have seen in the era of nationalized banks dominated banking industry where all the banking

operations are done by the nationalized banks only with the sole objective of social banking where people's welfare occupies the major place. But it was also true that at that time efficiency of the banks in their operations was also not so appreciable than in today. In modern era of cut throat competition, every bank and banking group is striving to attract more and more customers towards itself, so that it can make its name in the banking industry and gets fame by their operations and working, so that their customer's loyalty can be increased towards them and they are able to utilize this in their future policies.

REVIEW OF LITERATURE:

1. Jaimin P. & Kishor B.(2017), 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 of nationalized banks and private sector banks with special reference to selected three 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. This study examines the relationship among the profitability of Indian commercial banks both public and private sector banks. Analyzing the banks overall profitability reveal that both nationalized and private sector banks are profitable.
2. Ch. Balaji & Pravin K. (2016), banks form a fundamental component of the financial system and are also active players in financial markets. An efficient banking system capable of mobilizing the savings and channeling them to productive purposes are essential for the development of any economy. The objective of the study is to analyze and compare the overall financial performance of

selected public and private sector banks in India. The study is based on secondary data that has been collected from annual reports of the respective banks, Reserve Bank of India website. This research study covers a period of five years i.e. from financial year 2011-2012 to 2015-2016. A quota sample method is used for to select ten banks i.e. five from public sector and five from private sector has been selected and the criteria is based on highest market capitalization generated by banks during 2015-2016. T Test, mean and graphs are used to analyze the data. Although there was increase in profitability for both sector banks the rate of growth is higher for private sector banks.

3. Samuel E., Joseph A. & Matey J., (2016), the study seeks to make a comparative analysis of the profitability of foreign and local banks in Ghana. The study uses a sample of six banks of which three are foreign banks. Financial statements of the selected banks from 2008 to 2014 are used for the analysis employing profitability ratios such as Return on Assets (ROA), Capital Adequacy (CA), Return on Equity (ROE) and Management Efficiency (ME). We find wide fluctuations in the profitability ratios of the banks. Again, the foreign banks are found to have outperformed the local banks in ROA, CA and ROE. The local banks however, performed better than the foreign banks in ME, except in 2009. We conclude that, the foreign banks are more profitable than their local counterparts during the period under study.
4. Seema M.U. (2016), the banks which came in operation after 1991 with the introduction of economic reforms and financial sector reforms are called "new private sector banks". Since liberalization in government banking policy new private sector banks have re-emerged. They have grown faster & bigger over the two decades since liberalization. This study measures the profitability and management efficiency of three new private sector banks in India (AXIS BANK, HDFC BANK, INDUSLAND BANK). Banks were selected on the basis that these banks came into operation on the same year: 1994. Various ratios were taken while analyzing the performance of banks. Overall result shows that all the banks are performing almost similar. No more difference is found in their performance.
5. Zawadi A. (2013), this paper analyzed the financial performance of commercial banking sector in Tanzania for the period of 7 years from

2006 to 2012. Financial ratios were employed to measure the profitability and liquidity of banks; in addition Analysis of Variance (ANOVA) was used to test the significance differences of profitability means among peer banks groups. The study found that overall bank financial performance increased considerably in the first two years of the analysis. A significant change in trend is noticed at the onset of the global financial crisis from 2008 to 2009. However, Tanzania banking sector remained stable; banks are adequately capitalized and profitable and remained in a sound position. The study found that, there is no a significant means difference of profitability among of peer banks groups in term of ROA, however, a significance differences among banks group is existed in term of ROE and NIM.

6. Kajal C. & Monika S. (2011) the economic reforms in India started in early nineties, but their outcome is visible now. Major changes took place in the functioning of Banks in India only after liberalization, globalization and privatization. It has become very mandatory to study and to make a comparative analysis of services of Public sector Banks and Private Sector banks. Increased competition, new information technologies and thereby declining processing costs, the erosion of product and geographic boundaries, and less restrictive governmental regulations have all played a major role for Public Sector Banks in India to forcefully compete with Private and Foreign Banks. This paper an attempt to analyze how efficiently Public and Private sector banks have been managing NPA. We have used statistical tools for projection of trend.

OBJECTIVES OF THE STUDY:

- To study the profitability of nationalized banks and private banks with reference to selected four banks in India.
- To offer suggestions to improve its profitability.

RESEARCH METHODOLOGY:

"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. The data has been collected from secondary sources. This study was conducted for a period of five years from 2013-2014 to 2017-2018.

HDFC					
Parameters	2017-18	2016-17	2015-16	2014-15	2013-14
Net Profit Margin	21.79	20.99	20.41	21.07	20.61
Return on Long Term Fund (%)	62.88	65.17	70.54	66.77	81.47
Return on Net Worth (%)	16.45	16.26	16.91	16.47	19.5
Return on Assets	409.6	349.12	287.47	247.39	181.23

Source: www.moneycontrol.com, www.hdfc.com

ICICI					
Parameters	2017-18	2016-17	2015-16	2014-15	2013-14
Net Profit Margin	12.33	18.09	18.44	22.76	22.2
Return on Long Term Fund (%)	38.54	46.54	50.29	57.03	56.92
Return on Net Worth (%)	6.63	10.11	11.19	13.89	13.4
Return on Assets	175.38	166.37	149.47	138.72	634.6

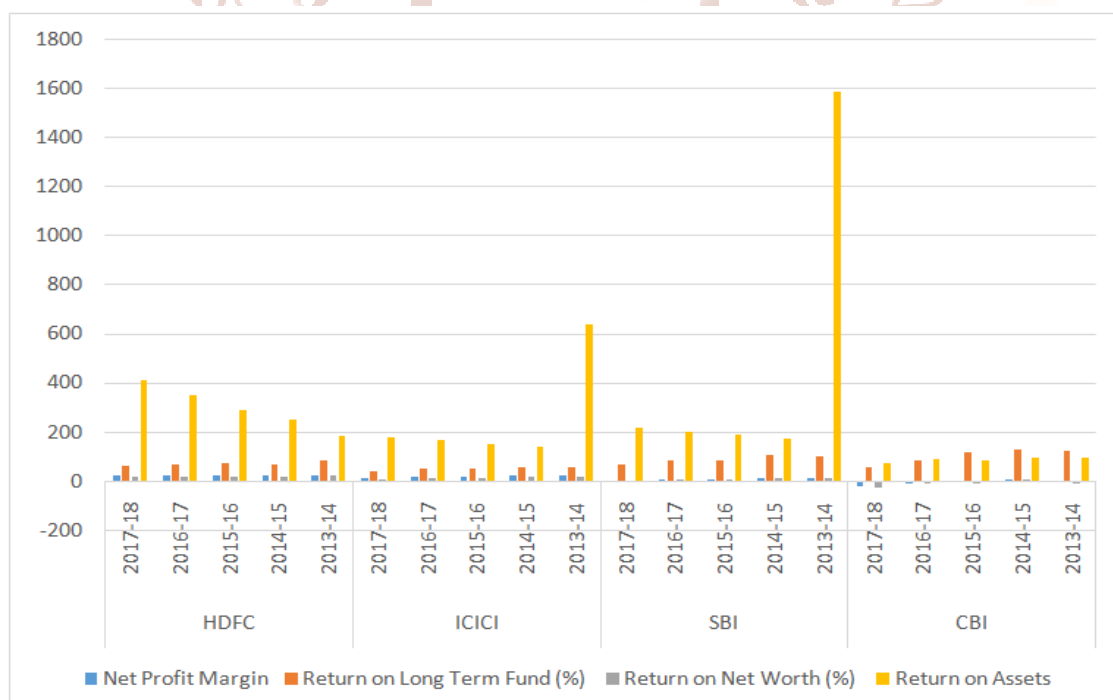
Source: www.moneycontrol.com, www.icici.com

SBI					
Parameters	2017-18	2016-17	2015-16	2014-15	2013-14
Net Profit Margin	-2.96	5.97	6.07	8.59	7.98
Return on Long Term Fund (%)	66.97	82.01	83.57	105.75	100.85
Return on Net Worth (%)	-3.37	6.69	6.89	10.2	9.2
Return on Assets	217.69	196.53	185.85	172.04	1,584.34

Source: www.moneycontrol.com, www.sbi.com

CBI					
Parameters	2017-18	2016-17	2015-16	2014-15	2013-14
Net Profit Margin	-21.23	-9.89	-5.47	2.29	-5.16
Return on Long Term Fund (%)	53.5	84.3	114.36	128.18	121.43
Return on Net Worth (%)	-28.38	-14.12	-9.85	3.87	-10.24
Return on Assets	68.7	90.78	85.14	94.33	91.31

Source: www.moneycontrol.com, www.cbi.com



From the above graph we can see that the return on asset of SBI is higher in 2013-14 but it decreases gradually. Return on asset of the private banks is increase from 2013-14 to 2017-18. Where in case of nationalized banks it is decreases. Net profit margin of the private banks is the same in all the years but in case of nationalized banks it is reduced and in CBI it is negative. Return on long term fund is reduced in both nationalized and private banks. Return on net worth is almost same in HDFC bank and in case of remaining bank it is reduced. From the above discussion it is said that the profitability of private banks is comparatively higher than the nationalized banks.

CONCLUSION:

This study examines the relationship among the profitability of Indian nationalized banks and private sector banks. Analyzing the banks overall profitability reveal that both nationalized and private sector banks are profitable. With the increasing competition in the banking sector, profitability 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 utilized in a more efficient manner. From the above study we can say that the profitability of nationalized banks is lower in comparison to private banks.

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