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A Comparative Study on Profitability Analysis of Selected Indian Public Sector Banks

*[1]Virenkumar M. Chavda and [2]Dr. Amit S. Mehta

[1]*Research scholar, Gujarat university, Navrangpura, Ahmedabad*
[2]*Research Guide, N.C. Bodiwala and Prin. M.C. Desai Commerce College, Tankshal, Kalupur, Ahmedabad*

ABSTRACT

Profitability is the main intention of all business ventures. The financial strength of any business can be measured through its profitability and business organizations cannot carry on without profits. In view of the significance of getting better profitability of the banking sector in recent years, the present study is aimed at examining the profitability of public sector banks of India using four ratios as Return on Long Term ratio, Return on Assets ratio, Net profit Margin Ratio, Return on Net Worth. For this research researcher used ratio analysis and ANOVA tools. The result of the analysis carried out for the period 2014-2015 to 2018-2019 shows that private sector banks are in better profitable positions than the public sector banks.

Keywords: *Bank, India, Profitability, Public Sector, ANOVA, Comparison*

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***Author's Correspondence**

Virenkumar M. Chavda

Research scholar, Gujarat university, Navrangpura, Ahmedabad

virenchavda84[at]gmail.com

1. Introduction

Bank is not only the financial sector of the community, but also one with a responsibility of helping in every possible manner to improve the economic situation of the common people. The Banks form the backbone in the development of any economy Indian Banking history can be traced to nineteenth century. During the initial times numerous Indian banks were established either by the States or by affluent people. The essential point of the vast majority of the banks was to provide monetary needs of exchange and industry in that area. During this period the financial administrations turned into the benefit of huge business firms and affluent individuals. Masses were denied simple credit and banking administration. Horticulture and small scale provincial businesses didn't approach credit offices and banking administration. They relied upon own cash banks and other private lenders to support their exercises. These money lenders related brokers abused the rustic populace by charging huge interest rates and unforgiving reimbursement conditions. Nationalization of banks in India by then Indian Prime Minister Indira Gandhi comprises of another part in Indian Banking history. The nationalized banks in India were compelled to concentrate on provincial and agrarian areas as a part of their social obligation. Their assets were used to enable ranchers and horticultural workers so as to liberate them from the grasp of money lenders. Nationalization of banks in India was done in two stages. The main period of nationalization began in 1955 when the Imperial Bank of India became State Bank of India with an Act of parliament. During 1959, seven auxiliaries were nationalized and connected with State Bank of India individually. This heralded a fresh start in Indian financial framework. The State Bank turned into the biggest bank in India serving 90 million clients with a system of more than 9000 branches in all the nooks and corners of the nation. The second stage of nationalization began in 1969 with the nationalization of 14 significant business banks in India. In 1980, 6 progressive business banks were nationalized and became public sector banks. After this period the Public Sector Undertaking banks extended their range and were developed by a wide margin. The nationalized banks in India extended their branches and spread their financial services all over the nation. The PSU banks introduced new plans and projects which would provide money in all areas of business and agriculture to the general public. Therefore, the nationalization of Banks in India helped the majority to benefit from the banking administration/services at reasonable expense.

2. Literature Review

Chandan and Rajput (2002) on the base of profitability analysis they calculated the banks performance. The researchers studied profitability of banks in India with the help of multiple regression technique. They found that spread i.e. net interest income is the key source of income for banks. The study found public sector banks at lower position in relation to foreign banks and public sector banks. The authors suggested that public sector banks should concentrate on non-performing asset management and also make investment in equipment up gradation for better data management and faster flow of information.

Sangmi, M. (2002) broke down the benefit of ten chosen business banks in India. Five higher performing banks were taken in class-1 and five lower performing banks were taken in class-2 classifications. The investigation discovered that working expense was higher on account of class-2 banks and in these banks the productivity was influenced because of low degree of circulation of money. These banks required increasingly progressive endeavours for the utilisation of assets. The specialist proposed that the situation of working expense can be improved with the presentation of elevated level innovation just as by improving the per worker profitability.

Arora and Kaur (2006) examined financial performance of banks on the base of Return on assets, Capital assets risk weighted, Non- performing assets to Net advances, Business per employee, Net profitability ratio, Non performing assets level and off balance sheet operation. The researcher advised that for enhancing financial solvency of public sector banks efforts should be made to decrease the non-performing assets and improve the technology.

Kheechee (2011) examine the reason for differences in profitability of different sectors of commercial banks. He fined that the return on fund is less for the private sector banks as compared to public and foreign sector banks due to unproductive management of securities. The public sector banks are inefficient in managing their loan resulting less return on advances. Overall in managing banking business, foreign banks and private banks are better than the public sector banks.

3. Research Objectives

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

4. Research Methodology

Sources of data

Secondary data have been collected from Banks' Annual Reports, books, web side and these sources of data has been utilised for this proposed research study.

Universe

Five public sector banks have been selected for this research study.

Period of data collection

Five years of financial statements has been analysed for public banks taken under study for the year 2014-15 to 2018-19.

Analysis of data

The financial ratio analysis and ANOVA testing are used for the justified of this study.

5. Data Analysis

1. Return on long term fund ratio

Ho: "There is no significant difference in profitability of selected public sector banks in Return on Long Term ratio." ($\mu1 = \mu2 = ... \mu5$)

H1: "There is significant difference in profitability of selected public sector banks Return on Long Term ratio" ($\mu1 \neq \mu2 \neq ... \mu5$)

Return on Long Term ratio					
Year	Union bank	Bank of India	Bank of Baroda	Uco bank	Punjab and Sindh bank
2014-15	310.81	472.42	180.13	116.67	139.76
2015-16	332.99	379.47	174.46	107.73	149.10
2016-17	340.90	291.70	174.92	74.39	153.40
2017-18	214.76	203.91	163.64	42.57	109.45
2018-19	150.24	151.06	173.66	25.43	100.93
AVG	269.94	299.71	173.36	73.36	130.53
STD	74.91	116.21	5.37	35.51	21.32
CV	27.75	38.78	3.10	48.40	16.34

SUMMARY				
Groups	*Count*	*Sum*	*Average*	*Variance*
Union bank	5	1349.7	269.94	7013.476
Bank of India	5	1498.56	299.712	16882.26
Bank of Baroda	5	866.81	173.362	36.01122
Uco bank	5	366.79	73.358	1575.856
Punjab and Sindh bank	5	652.64	130.528	568.4003

ANOVA						
Source of Variation	*SS*	*df*	*MS*	*F*	*P-value*	*F crit*
Between Groups	179221.513	4	44805.38	8.591306	0.000332406	2.866081
Within Groups	104303.997	20	5215.2			
Total	283525.509	24				

From the above calculation F value (8.591306) is higher than F critical value (2.86608) and it indicate that null hypothesis is rejected so there is significant difference in profitability of selected public sector banks in Return on Long Term ratio.

2. Net profit margin ratio

Ho: "There is no significant difference in profitability of selected public sector banks in Net Profit Margin ratio." (µ1 = µ2=… µ5)

H1: "There is significant difference in profitability of selected public sector banks Net Profit Margin ratio" (µ1 ≠ µ2≠… µ5)

Net profit Margin Ratio					
Year	Union bank	Bank of India	Bank of Baroda	Uco bank	Punjab and Sindh bank
2014-15	5.55	3.93	7.91	5.87	1.41
2015-16	4.19	-14.56	-12.24	-15.08	3.84

2016-17	1.69	-3.96	3.27	-11.33	2.46
2017-18	-16.02	-15.87	-5.57	-31.64	-9.35
2018-19	-8.65	-13.60	0.86	-30.15	-6.35
AVG	-2.65	-8.81	-1.15	-16.47	-1.60
STD	8.34	7.64	7.05	13.75	5.25
CV	-314.88	-86.68	-610.52	-83.48	-328.48

SUMMARY				
Groups	*Count*	*Sum*	*Average*	*Variance*
Union bank	5	-13.24	-2.648	86.90452
Bank of India	5	-44.06	-8.812	72.92007
Bank of Baroda	5	-5.77	-1.154	62.04613
Uco bank	5	-82.33	-16.466	236.1746
Punjab and Sindh bank	5	-7.99	-1.598	34.44057

ANOVA						
Source of Variation	*SS*	*df*	*MS*	*F*	*P-value*	*F crit*
Between Groups	857.248936	4	214.3122	2.175821	0.108773088	2.866081
Within Groups	1969.94368	20	98.49718			
Total	2827.19262	24				

From the above calculation F value (2.175821) is lower than F critical value (2.86608) and it indicate that null hypothesis is accepted so there is significant difference in profitability of selected public sector banks in Net Profit Margin ratio.

3. Return on assets ratio

Ho: "There is no significant difference in profitability of selected private sector banks in Return on Assets ratio." (µ1 = µ2=… µ5)

H1: "There is significant difference in profitability of selected private sector banks Return on Assets ratio" (µ1 ≠ µ2≠…µ5)

Return on Assets ratio					
Year	Union bank	Bank of India	Bank of Baroda	Uco bank	Punjab and Sindh bank
2014-15	310.81	472.42	180.13	116.67	139.76
2015-16	332.99	379.47	174.46	107.73	149.10
2016-17	340.90	291.70	174.92	74.39	153.40
2017-18	214.76	203.91	163.64	42.57	109.45
2018-19	150.24	151.06	173.66	25.43	100.93
AVG	269.94	299.71	173.36	73.36	130.53
STD	74.91	116.21	5.37	35.51	21.32

CV	27.75	38.78	3.10	48.40	16.34

SUMMARY				
Groups	*Count*	*Sum*	*Average*	*Variance*
Union bank	5	1349.7	269.94	7013.476
Bank of India	5	1498.56	299.712	16882.26
Bank of Baroda	5	866.81	173.362	36.01122
Uco bank	5	366.79	73.358	1575.856
Punjab and Sindh bank	5	652.64	130.528	568.4003

ANOVA						
Source of Variation	*SS*	*df*	*MS*	*F*	*P-value*	*F crit*
Between Groups	179221.513	4	44805.38	8.591306	0.000332406	2.866081
Within Groups	104303.997	20	5215.2			
Total	283525.509	24				

From the above calculation F value (8.591306) is higher than F critical value (2.86608) and it indicate that null hypothesis is rejected so there is significant difference in profitability of selected public sector banks in Return on Assets ratio.

4. Return on net worth ratio

Ho: “There is no significant difference in profitability of selected private sector banks in Return on Net Worth ratio.” ($\mu 1 = \mu 2 = \ldots \mu 5$)

H1: “There is significant difference in profitability of selected private sector banks Return on Net Worth ratio” ($\mu 1 \neq \mu 2 \neq \ldots \mu 5$)

Return on Net Worth					
Year	Union bank	Bank of India	Bank of Baroda	Uco bank	Punjab and Sindh bank
2014-15	9.68	5.43	8.53	9.52	2.16
2015-16	6.65	-19.63	-13.42	-30.35	5.62
2016-17	2.36	-5.06	3.43	-19.94	3.27
2017-18	-20.90	-20.15	-5.60	-59.36	-12.03
2018-19	-12.15	-13.30	0.94	-37.75	-9.53
AVG	-2.87	-10.54	-1.22	-27.58	-2.10
STD	11.72	9.67	7.61	22.61	7.22
CV	-408.05	-91.74	-621.53	-81.99	-343.32

SUMMARY				
Groups	*Count*	*Sum*	*Average*	*Variance*
Union bank	5	-14.36	-2.872	171.6713
Bank of India	5	-52.71	-10.542	116.9173
Bank of Baroda	5	-6.12	-1.224	72.34373
Uco bank	5	-137.88	-27.576	638.9624
Punjab and Sindh bank	5	-10.51	-2.102	65.09817

ANOVA						
Source of Variation	*SS*	*df*	*MS*	*F*	*P-value*	*F crit*
Between Groups	2464.76466	4	616.1912	2.892936	0.048549715	2.866081
Within Groups	4259.97148	20	212.9986			
Total	6724.73614	24				

From the above calculation F value (2.892936) is higher than F critical value (2.86608) and it indicate that null hypothesis is rejected so there is significant difference in profitability of selected public sector banks in Return on Net Worth ratio.

6. Conclusion

Based on the data analysis it can be seen that, Net profit margin Ratio values describe that during study period banks doing their business more effective way, as per as per above calculation it can be said that Uco Bank is better than other selected public sector bank. Return on Assets Ratio values explains that during study period banks have utilised their assets more efficient way to generate profit, as per as per above calculation it can be said that Bank of Baroda is better than other selected public sector bank. Return on long term fund Ratio values explain that during study period banks have utilised their long term fund more efficient way to generate profit, as per as per above calculation it can be said that Bank of Baroda is better than other selected public sector bank. Return on net worth ratio values explain that study period banks have generated more profit from the money invested by shareholders compare, as per as per above calculation it can be said that Uco Bank is better than other selected public sector bank. During this study it is found that Bank of Baroda and Uco Bank are good in profitability compare to other selected public sector bank.

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