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CONTENTS

Sr. No.	TITLE & NAME OF THE AUTHOR (S)	Page No.
1.	EVALUATION OF INVESTMENT PERFORMANCE OF SELECT MUTUAL FUNDS: A CASE OF WILLIAM SHARPE, TREYNOR AND JENSEN PARAMETERS <i>Dr. RAMESH.O.OLEKAR & MAHESH. AGASARA</i>	1
2.	PROFITABILITY DETERMINANTS OF SCHEDULED COMMERCIAL BANKS IN INDIA <i>A. R. RIHANA BANU & Dr. G. SANTHIYAVALLI</i>	7
3.	PERSONAL EFFECTIVENESS OF SALES MANAGERS IN PHARMACEUTICAL INDUSTRY: A STUDY <i>ZEB O. WATURUOCHA</i>	11
4.	A STUDY ON CUSTOMER PERCEPTION TOWARDS E-BANKING WITH SPECIAL REFERENCE TO VALANCHERRY TOWN <i>VIJAYAKUMARI.P & Dr. D.MAHILA VASANTHI THANKAM</i>	16
5.	AN ANALYSIS OF PROFITABILITY POSITION OF THE SELECT PRIVATE SECTOR BANKS IN INDIA <i>Dr. V. MOHANRAJ & S.SUJITHA</i>	19
6.	A STUDY ON EMPLOYEES GRIEVANCE MANAGEMENT PROCEDURE FOLLOWED IN BMT, SOUTH DIVISION, BENGALURU <i>KAVYASHREE.M.B & RENUKACHARYA.H.S</i>	22
7.	EXAMINING THE INFLUENCE OF HUMAN RESOURCE PRACTICES ON EMPLOYEE LOYALTY <i>KEERTHANA. K & Dr. V. KRISHNAMOORTHY</i>	26
8.	PRINT MEDIA STRATEGIES AND CONSUMER BEHAVIOUR: A STUDY ON FMCG PRODUCTS <i>RAMBABU LAVURI</i>	34
	REQUEST FOR FEEDBACK & DISCLAIMER	39

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AN ANALYSIS OF PROFITABILITY POSITION OF THE SELECT PRIVATE SECTOR BANKS IN INDIA

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ABSTRACT

The profitability is the only measures to assess the financial soundness of the firm. The existence of the firm depends on the earning capacity of the firms. This paper examines the profitability position of the select private sector banks in India with a data of 10 years from 2005-06 to 2014-15 and for major private sector banks have been considered as sample unit. For this study ratio technique has been used for analysis purpose the ratio analysis has been used and descriptive statistics and annual compound growth rate has been applied. This study reveals that Tamilnad Mercantile bank performed well when compared with other banks in terms of profitability.

KEYWORDS

private banks, profitability analysis.

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INTRODUCTION

Banking business in India is largely governed by the banking regulation act 1949 section 5(b) "a bank is a financial institution and a financial intermediary that accepts deposits and channels those deposits into lending activities either directly by loaning or indirectly through capital markets. A bank links together customers that have capital deficits and customer with capital surplus." Without a sound and effective banking system in India it cannot have healthy economy. The banking system in India should not only be hassle free but it should be able to meet new challenges posed by technology and any other external and internal factors. Banking plays a significant role in financing the economic needs of the country. To compete effectively in present day competitive world banks have been permitted to undertake new activities such as investment, banking securities trading and insurance business etc. Private banking is all about personal service and relationship built around us. It is about delivering sophisticated solutions to complex financial problems seeing affairs in totality and offering individual advice and tailored solutions. "One claiming to be a banker must profess himself to be one and the public must accept him ". Profitability is a measure of efficiency and control it indicates the efficiency or effectiveness with which the operations of the business are carried on. Profitability ratios provide different useful insights into the financial health and performance of a company. A business that is not profitable cannot survive. Conversely, a business that is highly profitable has the ability to reward its owners with a large return on their investment. Increasing profitability is one of the most important tasks of the business managers. Managers constantly look for ways to change the business to improve profitability. These potential changes can be analyzed with a support of income statement and balance sheet.

LITERATURE REVIEW

Dangwal and Kapoor (2010) evaluated the financial performance of nationalized banks in India and assessed the growth index value of various parameters through overall profitability indices.

Thakarshibhai (2011) done study on the profitability analysis of few public and private sector banks and found that three key factors which are mean, standard deviation and anova model affect the profitability analysis of Indian banking sector. He found that in public sector banks return on capital employed found poor in contrast to private sector banks and suggested that it is essential for the public sector banks to apply their capital employed very efficiently to yield enough return. So, as they can contest with private sector banks.

Cheryl shais pelliserry and koshy (2015) has made an attempt to study the financial performance of public sector banks and non-banking financial companies in India for the period of 5 years from 2006-2007 to 2010-2011. They found that the companies differ significantly in terms of their financial performance and also found that the NBFS^s have performed well than the public sector banks.

Ahmad Aref Almazari (2014) aimed to examine the internal factors that affect profitability of Saudi and Jordanian banks. They found that the profitability of Saudi banks has a positive and significant relationship with total investment to total assets ratio, total equity to assets ratio and liquidity risk and there was a negative and significant correlation with net credit facilities to total assets ratio, net credit facilities to total deposits ratio and cost-to-income ratio.

Indrani Ghosh and Debdas Rakshit (2014) attempted to gauge the relative financial performance of 10 select commercial banks in India during the period from 1998-99 to 2012-13. The CAMEL Approach was used for the purpose of analysis. The authors concluded that Lakshmi Vilas Bank Ltd was found to be the best among all the sample banks, based on its overall performance.

Shrimal Perera et al. (2013) investigated the bank-specific and other determinants of commercial bank profitability in selected South Asian countries over the period 1992-2007. The single-equation, dynamic panel data procedure employed accommodated explicit measures of production efficiency, industry competition, profit persistence and country-specific differences in governance. It was found from the study that the increasing competition exerts negative pressure on bank profitability, high industry concentration still allowed these banks to earn higher profits.

Srinivash.K and Saroja.L. (2013) made an attempt to analyze and compare the Financial Performance of LVB and DLB Bank for the period 2002-2011. They found that both the banks were good with respect capital adequacy because it was above the Basel norms.

STATEMENT OF THE PROBLEM

Profitability is the important variable in banking industry which reflects effective utilization of funds available in the organization. The Indian banking sector are now facing various challenges such as changes in technology, requirement of modern banking, prudential norms, increasing competition, increasing level of non-performing asset, raising customer expectation, assets and liquidity management, risk management, increasing operating expenses, low spread and so on. Therefore, it is necessary to assess the profitability of Indian banking industry. Hence, this present study focused on the analysis of profitability of selected private sector bank in India.

OBJECTIVES OF THE STUDY

1. To know the profitability position of the select private sector banking companies in India.
2. To assess the growth performance of select private sector banking companies in India.

METHODOLOGY

This study covers a period of ten years from 2005-06 to 2014-15. The study is based mainly on secondary data. The data relating to the study was obtained from CAPITALINE database. In addition, the annual report of the sample banks was also scanned to collect data. Various Journals, Magazine, Newspaper also have been used to collect the relevant information. There are 22 private sector banks operating in India, among the 22 banks 4 banks were selected as sample for the present study. viz

- 1) Lakshmi Vilas Bank
- 2) Dhanalakshmi Bank
- 3) Tamilnad Mercantile Bank and
- 4) Federal Bank

For analyzing the data in addition to financial ratios, Statistical Technique Mean, Standard Deviation, Co-efficient of Variation, Skewness, Kurtosis and Annual Compound Growth Rate were used.

RESULTS AND DISCUSSION

In order to test the profitability of the selected private sector banks Net Profit Margin Ratio, Return on Long Term Fund, Return on Net Worth Ratio and Return on Total Asset Ratio have been analyzed.

1. NET PROFIT MARGIN RATIO

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

TABLE 1: NET PROFIT MARGIN RATIO – DESCRIPTIVE STATISTICS (Ratio in %)

Name of the Bank	Mean	SD	CV(%)	Skewness	Kurtosis	Min	Max	Range	Growth
LVB	15.05	1.98	13.14	-0.57	-0.04	11.32	17.76	6.44	3.09**
DB	13.99	3.32	23.74	-0.07	-1.84	9.54	23.74	14.2	6.9
TMB	12.85	3.31	25.74	-0.67	-1.38	7.58	25.74	18.16	7.01*
FB	14.82	1.91	12.91	-0.36	-1.65	12.07	17.15	5.08	3.58*

Source: Calculated from the Annual Reports of the Banks

Net profit margin ratio is most important indicator for the profitability of the banks. The average profit of Lakshmi Vilas Bank stood at 15.05% and this has experienced a positive growth rate of 3.09%. Dhanalakshmi Bank has growth rate of 6.90 per cent which is. The average net profit of Federal Bank was 14.82 %, which has the positive growth of 3.58 per cent. The test of normality reveals that the distribution was negatively skewed and the moment is less peaked than normal. Tamilnad Mercantile Bank achieved a maximum growth of 7.01 per cent.

2. RETURN ON LONG TERM FUND

This ratio establishes the relationship between net profit and the long term fund. The term of long term funds refer to total investment made in the business of long run.

TABLE 2: RETURN ON LONG TERM FUND RATIO – DESCRIPTIVE STATISTICS (Ratio in %)

Name of the Bank	Mean	SD	CV(%)	Skewness	Kurtosis	Min	Max	Range	Growth
LVB	6.58	1.05	15.95	-0.29	-1.25	4.78	15.95	11.17	4.69*
DB	7.09	0.78	10.94	-0.63	-0.57	5.67	10.94	5.27	-1.98
TMB	7.22	1.36	18.89	-0.41	-1.08	4.91	18.89	13.98	5.93**
FB	6.64	0.85	12.86	0.03	-2.15	5.55	12.86	7.31	-3.59

Source: Calculated from the Annual Reports of the Banks

The average net profit of Tamilnad Mercantile Bank Was 7.22 % which is followed by DB 7.09%, Lakshmi Vilas Bank was 6.58% and Federal Bank 6.64 %. The maximum growth in return on long term fund was found in Tamilnad Mercantile Bank at 5.93%, which is followed by Lakshmi Vilas Bank 4.69%, Federal Bank and Dhanalakshmi Bank has a negative growth of 3.59 and 1.98% respectively. The standard deviation and co-efficient of variation signifies that the variation in the return on long term fund more consistent with high degree of uniformity. The co-efficient of skewness and kurtosis indicates that the distribution is negatively skewed and the distributions are platykurtic.

3. RETURN ON NET WORTH RATIO

The return on equity ratio which is also known as the return on net worth is used by investors to determine the amount of return they are receiving from their capital investment in a company.

TABLE 3: THE RETURN ON NET WORTH RATIO – DESCRIPTIVE STATISTICS (Ratio in %)

Name of the Bank	Mean	SD	CV(%)	Skewness	Kurtosis	Min	Max	Range	Growth
LVB	16.39	1.94	11.86	0.06	-0.94	13.69	19.5	5.81	1.66**
DB	10.75	2.31	21.5	-0.18	-1.5	7.56	21.5	13.93	3.18*
TMB	11.54	2.61	22.62	-0.81	-0.96	7.07	22.62	15.55	4.15*
FB	16.7	1.98	11.86	-1.01	2.01	12.31	19.47	7.16	-0.03

Source: Calculated from the Annual Reports of the Banks

The average return on net worth ratio of Federal Bank was 16.70 % followed by Lakshmi Vilas Bank 16.39 %, Tamilnad Mercantile Bank 11.54 % and Dhanalakshmi Bank 10.75% respectively. The standard deviation and co-efficient of variation in the Return on net worth ratio was more consistent with low degree of uniformity. From the above analysis it is concluded that the sample firms are able to generate adequate returns for their shareholders/owners on the funds invested by them. Based on the study, the Lakshmi Vilas Bank, Dhanalakshmi Bank and Tamilnad Mercantile Bank had recorded positive and significant growth in terms of return on net worth.

4. RETURN ON TOTAL ASSET RATIO

Return on total asset is a financial ratio that shows the percentage of profits that a company of profit that a company earns in relation to its overall resources (total asset).

TABLE 4: RETURN ON TOTAL ASSET RATIO – DESCRIPTIVE STATISTICS (Ratio in %)

Name of the Bank	Mean	SD	CV(%)	Skewness	Kurtosis	Min	Max	Range	Growth
LVB	1.43	0.22	15.71	0.39	-1.75	1.18	15.71	14.53	5.04
DB	1.25	0.3	24.02	0.5	-1.32	0.88	24.02	23.14	7.71**
TMB	1.37	0.37	27.1	-0.7	-1.08	0.71	27.1	26.39	8.75*
FB	1.31	0.27	20.63	-0.5	-1.45	0.9	20.63	19.73	7.06

Source: Calculated from the Annual Reports of the Banks

It can be seen from the analysis that the Return on Total asset Ratio of private sector banks was Lakshmi Vilas Bank 1.43%, followed by Tamilnad Mercantile Bank 1.37%, Federal Bank 1.31% and Dhanalakshmi Bank 1.25% respectively. The standard deviation and co-efficient of variation signifies that the variation on the return on total asset ratio was more consistent with high degree of uniformity. The measures of skewness and kurtosis indicate an asymmetrical distribution of data in all the sample banks. The select Private sector banks have earned less than 2 per cent of profit on the total assets. It shows that the performance of the selected banks, in terms of utilization of Total Assets not up to the expectations of shareholders.

FINDINGS AND CONCLUSION

The present study focused on the profitability analysis of select private sector banks in India. In order to analyze the profitability net profit margin ratio, return on long fund, return on net worth ratio and return on total asset ratio were assessed. It can be concluded from the study that all the select private sector banks grown significantly in terms of their profitability except Federal Bank. Company has created significant wealth for its stakeholders and provided handsome return on investment. However, there has been significant decline in the profitability of the select private sector banks from 2008-09 due to global recession, but the Indian banking companies were able to absorb the shocks of global financial crisis. It is found that among the select private sector banks Tamil Nadu Mercantile Bank were performed well when compared with other banks. The operational profit margin is good in all the banks, however these banks should try to control the administration expenses and it should try to improve its profit through optimum capital gearing.

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