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A COMPARATIVE STUDY OF PROFITABILITY OF PUBLIC AND PRIVATE SECTOR BANKS

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ABSTRACT

Banks play important role in economy of any country. So we can say that banks are basic premise of Indian economy. There has been a lot of change in banking structure for the past few years. Due to these changes, there has been a difference in the profitability of banks. With the increasing competition in the banking sector, profitability and productivity has become a greatest challenge to Indian commercial banks. The objective is to study of profitability of public and private sector banks with reference of selected public sector banks (State Bank of India & Punjab National Bank) and private sector banks (ICICI & AXIS bank). Therefore, in this study we will compare public and private banks.

KEYWORDS

private sector banks, profitability, public sector banks.

INTRODUCTION

In India, the banking sector is divided into three parts - the first, the public sector bank (These commercial banks can also say) which include nationalized banks and State Bank of India and its subsidiaries banks, second private sector banks which include new private sector banks and old private sector banks and third foreign banks. Apart from these almost 80 regional rural banks are also operating in India. RBI is a central bank of India and regulates all banks. Therefore, all banks work under the Reserve Bank of India.

After nationalization, the Indian banking system listed incredible growth in volume. Banks enjoyed little conventionality as both lending and deposit rates were controlled until the end of the 1980s. Although, nationalization of banks helped in spreading of banking to the rural and uncovered areas, the monopoly granted to the public sector and lack of competition led to overall inadequacy and low productivity on the other side. By 1991, banking sector was inefficient and financially unsound. Based on recommendations of Narasimham committee report (1991), the RBI introduced several reforms that included deregulation of interest rates, introduction of prudential norms, reduction of reserve requirements, strengthening of bank administration and improving the competitiveness of the system by allowing entry of private banks. The RBI also introduced Basel II norms of minimum capital requirements for banks. It was found that only changes were able to incarceration the deterioration of the system. Narasimham Committee 1998 was presented for improving the banks. It focused on issues like strengthening of the banking system, upgrading of technology and human resource development. The report put emphasis proceeding two aspects of banking regulation, viz., assets classification and capital adequacy and resolution of NPA-related problems and this committee have resulted in significant improvements, as reflected in various parameters relating to capital adequacy, asset quality, profitability and operational efficiency of the Indian banking sector. The current study is undertaken to analysis the profitability of public and private sector commercial banks in India during the period of 2012-2013 to 2015-2016.

REVIEW OF LITERATURE

Chand Suresh (1986) studies the cost and profitability of Indian commercial banks from 1970 to 1982. The study provides broad pattern of cost of different services in relation to total cost, the cost per unit of monetary output, cost per physical transaction, and cost per account for each of the services rendered by the banks. The comparison of services costs reveals some interesting variations mainly due to hike in export credit interest rate, fall in establishment expenditure etc. and concludes that monetary policy measures have significant impact on profitability of all the banks. Secondly, study analyzes the profitability of bank groups and observes a declining trend. Foreign banks fare better than the Indian banks in terms of most profitability ratios. Their performance, particularly in 1977 are much better than various Indian bank groups. The study suggests the banks to evolve a profit planning machinery so as to ensure efficient management of funds through financial produce and appropriate methods.

Vyas (1992) made an attempt to measure, compare and analyze the profitability of public sector banks, private sector banks and foreign sector banks operating in India. The study evidenced that public sector banks had low profitability as compared to private sector banks and foreign banks. Public sector banks suffered from poor asset management and low exposure on non-fund based activities. The study evaluated that non-interest income was very high in the case of foreign banks as compared to Indian public sector banks and private sector banks.

Garg M. (1994) compares the profitability of Indian scheduled commercial banks with foreign banks for the period of 1970 to 1990. The study reveals that Indian scheduled commercial banks have achieved remarkable progress in last two decades under study, particularly in branch expansion in rural areas, deposits mobilization and credit deployment to priority sector and small borrowers but their profits have not kept pace with their growth and hence, their share in profits have come down, whereas foreign banks with a much smaller geographical spread and resources base, earn almost as much as by way of profits as the 20 nationalized banks put together. It is concluded that there is a lot of difference in the pattern of advances and investments and even lending rates of Indian and foreign banks. The study suggests giving more autonomy to Indian commercial banks in their functioning.

T. Padamasai (2000) evaluates the profitability, productivity and efficiency of Indian five big public sector banks i.e. SBI, PNB, BOB, BOI, Canara Bank as these are big five banks among the Indian nationalized commercial banks and have places in world's top 40 banks also. Six parameters such as deposits, advances, investments, profits, net NPAs and CAR of five banks have been analyzed separately for all the selected countries and the various parameters of productivity, profitability and efficiency are compared by naming it as B-Efficiency Model. The study concludes that productivity and profitability of five big banks has increased throughout the post-reforms period in terms of selected ratios of each parameter, but on account of efficiency, the performance of the top five banks is very dismissal as inefficiency has increased during the study period. It suggests that if the government sells its share in the profit making banks, it will be able to bail out the weak banks.

Swamy B.N.A. (2001) analyzes the comparative performance of different bank groups in India over the period 1995 to 2000 and studies the impact of deregulation and competition in a liberalized economy. The study concludes that share of public sector banks in assets of all scheduled commercial banks is the highest but recorded steady decline whereas new private sector banks have succeeded to enhance their share in assets witnessed deterioration in the profit performance.

Singh I. and P. Kumar (2005) analyze the efficiency of Indian banking sector from 1991 to 2003 in terms of technical and allocation efficiency with the use of Data Envelopment Analysis (DEA). The study concludes that relative efficiency is the highest in SBI group followed by nationalized banks and foreign banks whereas lower level of labour efficiency is associated with private sector banks. Technical efficiency is also better in public sector banks than the private sector banks and is comparable to foreign banks.

Singh B. and Malhotra P. (2005) investigates the profile of commercial banks that offer Internet banking by employing univariate statistical analysis, relative to other commercial banks with respect to profitability, cost efficiency, and other characteristics. The study finds that among all banks, 51.6 pc are transactional internet banks with 75.4 pc assets and 73.3 pc deposits share. Foreign banks are providing all services followed by Indian private sector banks whereas public sector banks provide only 30.8 pc services through internet banking. It is also found that internet banking has significant impact on profitability of private sector banks while insignificant in public and foreign banks. It also suggests some measures to enhance and improve internet banking in India.

Chakrabarti R. and Chawla G. (2005) employ DEA approach to evaluate relative efficiency of Indian banks during 1990-2002. The study concludes that efficiency in terms of ROA, operating profits, net interest margin, turnover per rupee of employee expense is higher and NPAs are lower in foreign banks. It also reveals that foreign banks are considerably more efficient on value basis than all other bank groups followed by Indian private sector banks but from quantity perspective, Indian private banks seem to be doing the best while foreign banks are the worst performers while the public sector banks are the laggards.

Uppal R.K. and Kaur R. (2007) analyze the efficiency of all the bank groups in the post banking sector reforms era. Time period of study is related to second post banking sector reforms (1999-2000 to 2004-05). The study concludes that the efficiency of all the bank groups has increased in the second post banking sector reforms period but these banking sector reforms are more beneficial for new private sector banks and foreign banks. This study also suggests some measures for the improvement of efficiency of Indian nationalized banks.

Sunil Kumar (2008) analyzes efficiency–profitability relationship in Indian Public sector banks and argued that the experience of the Asian financial crisis of 1997–98 has confirmed the fact that a sound and well-regulated financial system, of which the banking system is the most crucial part, is a sine qua non for macroeconomic stability and sustainable economic growth.

Rao N. and Tiwari S. (2009) study the efficiency of 5 public sector banks selected on the basis of deposits size in 2005. The study concludes that all employee efficiency factors have insignificant influence on deposits, assets and advances, from branch efficiency, only operating profits per branch and from operating efficiency, cost of deposits have significant and positive impact. Liquidity influencing factors and ultimate profit factors do not influence deposits, assets and advances significantly although all profit factors have negative effect. The study also suggests some measures to improve efficiency.

Bansal (2010) studied the impact of liberalization on productivity and profitability of public sector banks in India. The study has been conducted on the basis of primary as well as secondary data for the period 1996-07. The study concluded that the ability of banks to face competition was dependent on their determined efforts at technological up gradation and improvement in operational and managerial efficiency, improvement in customer service, internal control and augmenting productivity and profitability. The study found that public sector banks have to pay great attention to strategic management, strategic planning and to greater specialization in the technical aspect of lending and credit evaluation.

Goel and Chitwan Bhutani Rekhi (2013) Efficiency and profitability of the banking sector in India has assumed primal importance due to intense competition, greater customer demands and changing banking reforms. Since competition cannot be observed directly, various indirect measures in the form of simple indicators or complex models have been devised and used both in theory and in practice. This study attempts to measure the relative performance of Indian banks. For this study, he has used public sector banks and private sector banks. We know that in the service sector, it is difficult to quantify the output because it is intangible. Hence different proxy indicators are used for measuring productivity of banking sector. Segmentation of the banking sector in India was done on bank assets size. Overall, the analysis supports the conclusion that new banks are more efficient than old ones. The public sector banks are not as profitable as other sectors. It means that efficiency and profitability are interrelated. The key to increase performance depends upon ROA, ROE and NIM.

Malaya Ranjan Mohapatra, Avizeet Lenka, Subrat Kumar Pradhan (2015) have analyzed the operational efficiency of commercial banks in India and challenges faced by public sector banks. The parameters considered for study are labour productivity, branch expansion and profitability ratios. The study concluded that internal management and employee efficiency of foreign banks are far better than other sectors of commercial banks. Public sector banks are lagging behind in various financial parameters.

OBJECTIVES OF THE STUDY

1. To Analysis the profitability of public and private sector banks.
2. To compare the profitability performance of banks (which are selected).

SAMPLE OF THE STUDY

In this paper some selected public sector banks and private sector banks have been taken for study:

Public sector banks: State Bank of India**,** Punjab National Bank.

Private sector banks: ICICI bank, Axis bank.

HYPOTHESIS

H1: There is significance difference between profitability of public sector banks and private sector banks.

H0: There is no significance difference between profitability of public sector banks and private sector banks.

DATA COLLECTION

The study is based on secondary data and data has been collected from various bank's websites and from annual reports of banks. The study period is 2012-2013 to 2016-2017.

LIMITATIONS OF STUDY

1. The study is related with selected public sector banks and private sector banks.
2. The study is based on secondary data and data collected from various bank's websites and annual reports.
3. The study is related to period of 2012-13 to 2016-17.
4. Some limited variable used (ROE, ROA, NPM, Operating margin) for study.

DATA ANALYSIS

1) RETURN ON EQUITY

Return on assets is the ratio of annual net income to average total assets of a business during a financial year. It measures efficiency of the business in using its assets to generate net income.

ROE= Net Income/ Shareholders Fund

TABLE 1

YEAR	SBI	PNB	ICICI	AXIS
2016-17	6.69	3.47	10.11	7.19
2015-16	6.89	-11.20	11.19	15.46
2014-15	10.20	8.12	13.89	16.46
2013-14	9.20	9.69	13.40	16.26
2012-13	14.26	15.19	12.48	15.64
Average	9.45	9.53	12.21	14.20
SD	3.08	4.29	1.56	3.94
CV	0.18	0.40	0.11	0.25

Source: Annual reports of banks and moneycontrol.com

As shown in table that ROE is maximum of AXIS bank (14.20). PNB has more variation and ICICI has least variation.

2) RETURN ON ASSETS

Return on assets is the ratio of annual net income to average total assets of a business during a financial year. It measures efficiency of the business in using its assets to generate net income.

ROA= Net income / Total assets

TABLE 2

YEAR	SBI	PNB	ICICI	AXIS
2016-17	0.43	0.19	1.32	0.69
2015-16	0.46	0.63	1.43	1.67
2014-15	0.68	0.53	1.80	1.74
2013-14	0.65	0.65	1.73	1.72
2012-13	0.97	1.02	1.65	1.65
Average	0.64	0.60	1.59	1.50
SD	0.22	0.30	0.20	0.45
CV	0.30	0.44	0.11	0.27

Source: Annual Reports of banks and moneycontrol.com

In this table as shown ROA is highest of ICICI (1.59) and lowest of PNB. This return is related with overall profitability.

3) NET PROFIT MARGIN

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

Net Profit Margin = Net Profit/Total Revenue

TABLE 3

YEAR	SBI	PNB	ICICI	AXIS
2016-17	5.97	2.80	18.09	12.88
2015-16	6.07	8.38	18.44	20.06
2014-15	8.59	6.51	22.76	20.73
2013-14	7.98	7.73	22.20	20.29
2012-13	11.78	11.33	20.77	19.05
Average	8.08	7.35	20.45	18.60
SD	2.37	3.10	2.13	3.26
CV	0.27	0.38	0.10	0.16

Source: Annual Reports of banks and moneycontrol.com

There is highest Net Profit Margin of ICICI bank - 20.45, after that AXIS bank, SBI and then PNB and variation is also least in case of ICICI bank and much higher variation in PNB.

4) OPERATING MARGIN RATIO

Operating margin ratio or return on sales ratio is the ratio of operating income of a business to its revenue. It is profitability ratio showing operating income as a percentage of revenue.

Operating margin = Operating Profit/ Total Revenue

TABLE 4

YEAR	SBI	PNB	ICICI	AXIS
2016-17	10.07	12.77	13.33	19.33
2015-16	10.26	12.09	15.26	17.50
2014-15	11.45	13.89	16.70	15.29
2013-14	10.92	16.56	17.51	14.40
2012-13	13.52	16.73	14.29	11.41
Average	11.24	14.41	15.42	15.59
SD	1.39	2.14	1.71	3.03
CV	0.11	0.13	0.10	0.17

Source: Annual Reports of banks and moneycontrol.com

As shown in table operating margin of AXIS is maximum 15.59 followed by ICICI 24.81 operating margin is directly concerned with profitability. ICICI least variable and AXIS is more variable which states that ICICI bank's profitability doesn't change much.

CONCLUSION AND FINDINGS

We considered in study of 2012-13 to 2016-17 that Return On Equity was highest of AXIS bank. Average of this ratio was lowest of SBI i.e. 9.45%. Return On Assets is highest of ICICI bank and this ratio is lowest of PNB. In case of Net Profit Margin ICICI bank is on high position (at 20.45%) and PNB is on lowest position (7.35%). Now we discuss about Operating Margin, so it would be right to say that operating margin is highest of AXIS bank and lowest of SBI bank. Overall study comes out that the private sector banks are better than the public sector banks, where ICICI Bank is at 1st position and AXIS bank is also high profile bank. Study time period 2012-13 to 2016-17 indicates that the private sector banks are better than public sector banks in profitability. Which is not suitable for the public sector banks. Therefore, public sector banks should improve their condition so that they can prove themselves better.

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In this age of Commerce, Economics, Computer, I.T. & Management and cut throat competition, a group of intellectuals felt the need to have some platform, where young and budding managers and academicians could express their views and discuss the problems among their peers. This journal was conceived with this noble intention in view. This journal has been introduced to give an opportunity for expressing refined and innovative ideas in this field. It is our humble endeavour to provide a springboard to the upcoming specialists and give a chance to know about the latest in the sphere of research and knowledge. We have taken a small step and we hope that with the active co-operation of like-minded scholars, we shall be able to serve the society with our humble efforts.

Our Other Journals