



PROFITABILITY ANALYSIS OF SELECTED PRIVATE SECTOR BANKS IN INDIA.

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ABSTRACT:

Financial analysis is also known as analysis and interpretation of financial statements. It refers to the establishing meaningful relationship between various items of the two financial statements i.e. Income statement and position statement. It determines financial strength and weaknesses of the firm. Analysis of financial statements is an attempt to assess the efficiency and performance of an enterprise. Thus, the analysis and interpretation of financial statements is very essential to measure the efficiency, profitability, financial soundness and future prospects of the business units. Profitability is a measure of the overall success of the company. Profitability is frequently used as the ultimate test of investment operating efficiency. Profit earning is essential for the survival and growth of the business. A business needs profit not only for its existence but also expansion and diversification. The greater the volume of profit generated, the higher is the efficiency of the company. In this study the researcher selected four private sector banks such as HDFC, ICICI, Axis bank and Kotak Mahindra bank. For analyzing profitability position ratio analysis has been used in addition to that statistical tools such as Mean, Standard Deviation, Variance, skewness, kurtosis and ANOVA were also applied. In this study concluded that ICICI, Axis bank and Kotak Mahindra should improve its profitability position.

Key words: Ratio analysis, Profitability, Financial analysis.

INTRODUCTION:

The banking industry is one of the oldest in the world. Banking originated about 4000 years ago in places such as Babylon, Mesopotamia and Egypt where grain and other valuable commodities were stored and receipts given as proof of sale on purchase. The emergence of paper currency as a medium of exchange has revolutionaries' the banking industry. By 1600 AD use of cheques became widespread and by mid-1900's, banks started using the telegraph technology to "wire" money from one location to another in a matter of seconds. Banking today had become more complex with different products and services which stem from reliance on automation and technological change which have shaped it from a manual-intensive industry into one highly automated and technology dependent.

REVIEW OF PREVIOUS STUDIES:

M. Keshari, in his research paper "Analyzing Financial Strength of Selected Banks", has taken two banks namely, J & K Bank, South Indian Bank for the period of 2005-2014. CAMEL model is used along with Average, SD and One Way ANOVA. The study revealed that South Indian Bank is performing less than that of J & K Bank. Panboli and Kiran Birda, [13] The study was mainly aimed to compare the performance of selected public private sector banks using CAMEL model. The period of study was 2012- 2017. The banks selected are SBI, PNB, BOB, UBI, CB, HDFC, ICICI, KMB, AXIS and Yes bank. The study revealed that HDFC bank stood in first place, ICICI in second and the least rank is given to Canara bank.

Dr A Vini Infanta & R. Ashwini in their study on performance analysis of selected private sector banks. The researchers had taken 3 private banks namely, ICICI, AXIS and South Indian bank. The period of study was from 2016 to 2020. The various indicators like Net Profit Margin, Return On Assets, return on equity, Earnings per Share, Net Interest Margin are used to analyze the performance. It was found that the performance of ICICI and Axis banks are good in most of the aspects whereas the performance of South Indian Bank was very poor and needs to be improved a lot. Similar kind of financial variables are used to assess the performance in this study. The averages

of these variables were taken for each bank for the last 5 years and the overall average of each parameter decides the performance of best and poor banks.

STATEMENT OF THE PROBLEM:

Profitability analysis plays an important role in running the business smoothly and there should be a balance between financial and operational efficiency. Thus, there is a need to study the profitability of growing industry for the sake of investment decisions to be taken by potential investors as well as by the management. If the company tries to get a marginal profit, then company can easily expand its business and achieve huge amount of sales resulted there will be huge amount of profit. Without profits a business cannot run smoothly and also it would make it difficult to compete in the global market. Apart from profits a company would also enjoy goodwill reputation and credibility. The study is based on the working and growth of private sector banks through its financial statements. The aim of the study is to assess its financial statements and find the profitability of the selected private sector banks.

SCOPE OF THE STUDY

The study finds out the profitability position of selected private sector banks in India. The study covers profitability indicators such as Operating Profit Ratio, Net Profit Ratio, Return On Equity Ratio, Return On Capital Employed Ratio and Return On Assets.

OBJECTIVES OF THE STUDY

- 1 To analyze the profitability position of selected private sector banks in India.
2. To offer suitable suggestions for future growth of private sector banks in India.

RESEARCH METHODOLOGY:

Sources of data:

The study is mainly based on secondary data which is collected from the published financial statements viz., Trading and profit and loss account and balance sheet of the selected banks.

Sampling technique:

The researcher has used purposive sampling technique for selecting banks. The banks were selected on the basis of Market Capitalization. In this research 4 private sector banks were selected such as HDFC, ICICI, Axis bank and Kotak Mahindra bank.

Period of the study:

The study period covers 5 years for 2018-2019 to 2022-2023

TOOLS FOR ANALYSIS:

MEAN, SD, VARIANCE, SKEWNESS, KOURTOSIS and ANOVA.

LIMITATION OF THE STUDY:

1. This study is mainly depending on secondary data collected from the financial statements of the selected private sector banks. Hence this study is not applicable to other banks.
2. The study is based on monetary information only, non-monetary factors fully ignored.
3. The study has been done for a period of 5 years only.

ANALYSIS AND INTERPRETATION OF THE DATA

TABLE 1

OPERATING PROFIT MARGIN RATIO

BANK Year	HDFC	ICICI	AXIS	KOTAK MAHINDRA
2018-19	3.48	-17.58	-15.37	1.09
2019-20	2.60	-11.38	-22.20	2.13
2020-21	4.89	-5.30	-12.96	5.60
2021-22	5.83	5.58	-3.25	8.20
2022-23	7.97	11.04	-8.12	11.25
MEAN	4.954	-3.528	-12.38	5.654
SD	2.09653	11.80503	7.19745	4.21453
Variance	4.395	139.359	51.803	17.762

Skewness	0.536	0.148	-0.151	0.295
kurtosis	-0.316	-1.903	-0.241	-1.618

Source: Author's Calculation from Annual report of the respective Banks.

The table 1 shows the Operating Profit Margin Ratio of selected private sector banks in India. The operating profit ratio of ICICI and Axis bank was not satisfactory during the study period and it showed the negative mean value of -3.528 and -12.38. ICICI had highest variance of 139.359. The operation profit ratio of selected banks was not satisfactory.

OPERATING PROFIT MARGIN RATIO (ANOVA Test)

Hypothesis:

There is no significant difference in Operating Profit Margin Ratio of selected Private sector banks in India under study.

TABLE 2
OPERATING PROFIT MARGIN RATIO
(ANOVA Test)

Sources of variation	Sum of Squares	df	Mean Square	F	F Critical value
Between Groups	1075.993	3	358.664	6.725	3.24.
Within Groups	853.279	16	53.330		
Total	1929.271	19			

Source: Authors calculation

The table 2 indicates that the calculated value of F is >F Critical value (at 5% level of significance). The hypothesis is rejected. Hence it is concluded that the Operating Profit Margin Ratio of selected Private sector banks differ significantly.

TABLE 3
NET PROFIT MARGIN RATIO

BANK Year	HDFC	ICICI	AXIS	KOTAK MAHINDRA
2018-19	21.29	5.30	8.50	20.32
2019-20	22.86	10.60	2.59	22.08
2020-21	25.74	20.46	10.35	25.94
2021-22	28.93	27.02	19.33	31.70
2022-23	27.29	29.20	11.24	31.93
MEAN	25.222	18.516	10.402	26.394
SD	3.13584	10.33889	6.02202	5.35049
Variance	9.833	106.893	36.265	28.628
Skewness	-0.189	-0.363	0.436	0.04
kurtosis	-1.827	-2.234	1.592	-2.754

Source: Author's Calculation from Annual report of the respective Banks.

The table 3 shows the Net Profit Margin Ratio of selected Private sector banks in India. ICICI registered the highest variation, and HDFC registered the lowest variation. HDFC and ICICI had negative skewness and Axis bank and Kotak Mahindra had positive skewness. The HDFC had good net profit during the study period,

NET PROFIT MARGIN RATIO (ANOVA Test)**Hypothesis:**

There is no significant difference in quick ratio of selected private sector banks in India under study.

TABLE 4**NET PROFIT MARGIN RATIO (ANOVA Test)**

Sources of variation	Sum of Squares	Df	Mean Square	F	F Critical value
Between Groups	812.025	3	270.675	5.961	3.24
Within Groups	726.475	16	45.405		
Total	1538.500	19			

Source: Authors calculation.

The table 4 indicates that the calculated value of F is > F Critical value (at 5% level of significance). The hypothesis is rejected. Hence it is concluded that the net profit ratio of selected Private sector banks differ significantly.

TABLE 5**RETURN ON EQUITY RATIO**

BANK Year	HDFC	ICICI	AXIS	KOTAK MAHINDRA
2018-19	14.12	3.19	7.01	11.47
2019-20	15.35	6.99	1.91	12.25
2020-21	15.27	11.21	6.48	11.01
2021-22	15.39	13.94	11.30	11.90
2022-23	15.74	15.89	7.83	13.17
MEAN	15.174	10.244	6.906	11.96
SD	0.61606	5.16765	3.36576	0.82073
Variance	0.38	26.705	11.328	0.674
Skewness	-1.734	-1.734	-1.734	-1.734
kurtosis	3.628	-1.354	1.707	0.328

Source: Author's Calculation from Annual report of the respective Banks.

The table 5 shows the Return On Equity Ratio of selected private sector banks in India. ICICI., registered the highest variation and HDFC., registered the lowest variation. Highest mean value registered in HDFC. The HDFC earned good return on assets during the study period except 2018-19.

RETURN ON EQUITY RATIO (ANOVA Test)**Hypothesis:**

There is no significant difference in Return On Equity Ratio of selected private sector banks in India under study.

TABLE 6**RETURN ON EQUITY RATIO (ANOVA Test)**

Sources of variation	Sum of Squares	Df	Mean Square	F	F Critical value
Between Groups	178.280	3	59.427	6.082	3.24
Within Groups	156.344	16	9.772		
Total	334.625	19			

Source: Authors calculation

The table 6 indicates that the calculated value of F is > F Critical value (at 5% level of significance). The hypothesis is rejected. Hence it is concluded that the Return On Equity Ratio of selected Private sector banks differ significantly.

TABLE 7

RETURN ON CAPITAL EMPLOYED RATIO

BANK Year	HDFC	ICICI	AXIS	KOTAK MAHINDRA
2018-19	3.34	2.52	2.47	2.77
2019-20	3.33	2.67	2.68	2.86
2020-21	3.42	3.10	2.70	3.32
2021-22	3.22	2.92	2.20	2.93
2022-23	2.97	3.27	1.57	3.15
MEAN	3.256	2.896	2.324	3.006
SD	0.17501	0.30599	0.46726	0.22479
Variance	0.031	0.094	0.218	0.051
Skewness	-1.402	-0.056	-1.344	0.633
kurtosis	1.986	-1.741	1.439	-1.273

Source: Author's Calculation from Annual report of the respective Banks.

The table 7 shows the Return On Capital Employed Ratio ratio of selected Private sector banks in India. The HDFC had the high mean value of 3. 256.The Kotak Mahindra had positive skewness and all other banks had negative skewness. The Return On Capital Employed Ratio position of selected banks was not satisfactory during the study period.

Return On Capital Employed Ratio (ANOVA Test)

Hypothesis:

There is no significant difference in Return On Capital Employed Ratio ratio of selected Private sector banks in India under study.

TABLE 8

RETURN ON CAPITAL EMPLOYED RATIO (ANOVA TEST)

Sources of variation	Sum of Squares	Df	Mean Square	F	F Critical value
Between Groups	2.331	3	.777	7.907	3.24
Within Groups	1.572	16	.098		
Total	3.904	19			

Source: Authors calculation

The table 8 indicates that the calculated value of F is > F Critical value (at 5% level of significance). The hypothesis is rejected. Hence it is concluded that the in Return On Capital Employed Ratio ratio of selected private sector banks differ significantly.

TABLE 9

RETURN ON ASSETS

BANK Year	HDFC	ICICI	AXIS	KOTAK MAHINDRA
2018-19	1.69	.34	.58	1.55
2019-20	1.71	.72	.17	1.65
2020-21	1.78	1.31	.66	1.81
2021-22	1.78	1.65	1.10	1.99
2022-23	1.78	2.01.	.72	2.23
MEAN	1.748	1.206	0.646	1.846
SD	0.04438	0.67833	0.33269	0.27181

Variance	0.002	0.46	0.111	0.074
Skewness	-0.723	-0.208	-0.16	0.542
kurtosis	-2.67	-1.653	1.578	-0.826

Source: Author's Calculation from Annual report of the respective Banks.

The table 9 shows the Return On Assets Ratio of selected private sector banks in India Kotak Mahindra had the high mean value of 1.846 and Axis bank had the low mean value of.646. The Kotak Mahindra had positive skewness and all other banks had negative skewness.

RETURN ON ASSETS (ANOVA Test)

Hypothesis:

There is no significant difference in return on Return On Assets Ratio of selected Private sector banks in India under study.

TABLE 10

RETURN ON ASSETS (ANOVA TEST)

Sources of variation	Sum of Squares	Df	Mean Square	F	F Critical value
Between Groups	4.601	3	1.534	9.487	3.24
Within Groups	2.587	16	.162		
Total	7.188	19			

Source: Author's calculation

The table 10 indicates that the calculated value of F is > F Critical value (at 5% level of significance). The hypothesis is rejected. Hence it is concluded that the Return On Assets Ratio of selected Private sector banks differ significantly.

FINDINGS:

1. The operation profit ratio of selected banks was not satisfactory.
2. The HDFC had good net profit during the study period,
3. The HDFC earned good return on equity during the study period except 2018-19.
4. The Return On Assets Ratio of selected banks was not satisfactory.
5. The Return On Capital Employed Ratio position of selected banks was not satisfactory during the study period.

SUGGESTIONS:

1. The selected banks may take certain steps to improve the operating profit position, return on assets and Return On Capital Employed Ratio so as to get better profitability.
2. The selected banks except HDFC should improve net profit and return on equity in order to improve the profitability position.

CONCLUSION:

The study mainly concentrates on profitability analysis of the selected Private sector banks in India. profitability position of HDFC is satisfactory. It can be concluded that ICICI, Axis bank and Kotak Mahindra should improve its profitability position.

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