COMPARATIVE STUDY OF PROFITABILITY OF PUBLIC AND PRIVATE SECTOR BANKS IN INDIA

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ABSTRACT
These days banking sector has a very important place in our Indian economic system. The profit indicates the organizational efficiency means the larger the profit higher the growth rate of banks profitability. However, the profitability depends on the effective fund’s utilization to procure maximum profit for growth. The present research article is an effort to make a comparative study between the profitability among private & public sector banks in India. 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. Analysing the banks overall profitability reveal that both nationalised & private sector banks are profitable. Due to cut throat competition in the banking sector, these days profitability has become a greatest & important challenge to Indian commercial banks. Banks need to explore every possibility for improving system & increase the profitability.

Keywords:- Profitability, Banks, ROE, ROA ,ROCE
INTRODUCTION
Indian banking sector is broadly classified into 03 categories i.e. Nationalized Banks, Private Sector Banks & Foreign Banks. Each bank or bank groups are doing banking operations for different aims to achieve. All banks have huge competition with each other on different grounds and parameters. Their competition has two fold benefits to the economy & also to these banks themselves. However, it’s a fact that only with the help of competition - productivity & efficiency can be increased which is equally true as in the case of the banking industry which in turn considered as economy’s backbone. Banking sector has a very important place in our Indian economy. The amount of the profit indicates the efficiency of the organization the larger the profit higher the growth rate. The profitability depends on the effective utilization of funds to procure maximum profit and growth. As known that the era of nationalized banks generally dominates banking industry where all the banking operations are completed by the nationalized banks only with the sole objective of social banking where welfare of people occupies the major place. But it was also fact that at that time bank’s efficiency in their operations was also not so appreciable than in today. In modern era of there is a cut throat competition, every bank & banking group is doing lot of efforts to attract more & more customers towards itself, so that it can make its name in the banking industry & simultaneously gets fame by their operations & their working style, so that their loyalty of customers can be maintained towards them so that they are able to utilize this in their future policies. The competition among banks (both private & public) has also make them quality oriented. But as a fact that these days, banks are not only highly concerned about providing their customers with lots of sound facilities, but the quality of those services are also their major concern issue. In a current scenario banking is a single industry incorporating a dozen of businesses, like corporate banking, investment banking, small business banking, wealth management, fund management, capital markets, micro finance etc. Additionally one of these is retail banking, which is featured by huge numbers of customers, bank accounts & numerous transactions, a variety of products & services, a high level of dependency on technological advancement and terrific levels of cooperation between consumers, banks, businesses & retailers.

All banks whether it’s a public or private have more capacity than they can use; for utilizing government’s benefits consumers need a bank account and banks continue consolidating into a small number of large banks. This consolidation, we can say can be a good thing, or it may be a bad thing with different perceptions. Certainly, there is a need to smaller banks that they will have to develop successful strategies to compete with large banks & such competition will benefit customers. After passing of nationalization the Indian banking system has considerably developed with a large network of branches and number of financial instruments. As banking industry is growing day by day with a rapid speed & competition it has more than 11,75,150 employee and
has a 1,09,811 branches across India and 171 branches in abroad and have managed deposits of Rs. 67504.54 billion and bank credit of Rs. 52604.59 billion. The net profit of banks operating in India was Rs. 1027.51 billion against Rs. 9148.60 billion turn over during 2012-13.

REVIEW LITERATURE

1. Alamelu (2008) observed that inspite of similar social obligations; almost all the private sector banks have been registering both high profits and high growth rate with respect to deposits, advances and reserves as compared to the public sector banks. Alamelu also discussed various problems which is related to receding profit margins in the Public Sector Banks of India as comparing with private sector counterparts.

2. Razor (2009), he examined that profitability is generally measured under the deregulated environment with some specific financial parameters of the major four bank groups i.e. public sector banks, old private sector banks, new private sector banks & foreign banks found. Razor observed that profitability of the banks has declined in the deregulated environment. Further he also emphasized to make the banking sector competitive in the deregulated environment.

3. Bansal (2010) observed the impact of liberalization on productivity & profitability of public sector banks in India. Bansal researched the trend analysis results of public sector banks that showed that net profits in absolute terms have increased for majority of the public sector banks but the trend of profitability has witnessed a decline. However, there are many banks who have improved their profitability over the period of study.

4. Guruswamy (2012) found that associate banks have shown outstanding performance in respect of profits earning in relation to working fund compared to State Bank of India. Further, there is no significant difference in profit after tax (PAT) in relation to working fund ratio between the years & banks as per the ANOVA. On the basis of Guruswamy analysis the profit in relation to working funds shows fluctuating unit of trend during the study period in all the banks.

5. Uppal, R. K., & Juneja, A. (2012) examined impact on the performance of all the selected bank groups & compare their relative position of various bank groups in Indian banking industry.


7. Bhatia et al (2015), examined that PSBs are facing drastic challenges as compared to private sector banks because PSUs are not at par as related to facilities provided to customers. His
study was aimed at comparing public sector & private sector on the criteria of public perception, basic amenities customer centric services & there bench strength. He selected fifty public & private sector banks from Indore district The study concluded that people are more satisfied from the private sector banks due to their better services provided by them in terms of speedy transactions, fully computerized facilities, more working hours, good investment advisory services, efficient and co-operative staff, and better approach to customer relationship management.

8. D.Mahila Vasanthi, P.Salini. K. T (2016) evaluated 05 selected banks productivity. They measure & compare the relative profitability of selected sample banks with respect to selected parameters during the period of study starting from 2010-2011 to 2014-2015.

RESEARCH METHODOLOGY
Profitability is a key performance parameter in banking sector, which reflects efficient utilization of all resources in an organization. The banks are now facing a number of challenges such as frequent changes in technology required for modern banking, stringent prudential norms, increasing competition, worrying level of nonperforming assets, raising customer expectations, increasing pressure on profitability, asset-liability management, liquidity and credit risk management, raising operating expenditure, shrinking size of spread and so on. The present study attempts to analyze the overall profitability of selected nationalised and private sector banks in India. The present study is secondary data based collected from various journals, reports of RBI and banks annual reports, banks websites, unpublished thesis etc. The study period is limited, from 2012 to 2017. All of these mostly depend upon the factor which is very important in the recent scenario is the customer satisfaction and prompt services of banks. The technology factor also affects the profit very hardly. The bank which gives the prompt services to the customers they grow rapidly on every parameter of profitability.

OBJECTIVES OF THE STUDY
- To review the profitability rate of both kind of selected banks under study
- To analyze the overall profitability of selected public and private sector banks in India

RETURN ON ASSETS
Return on Assets (ROA) shows the rate of return (after tax) being earned on all of the firm's assets regardless of financing structure (debt vs. equity). It is a measure of how efficiently the company is using all stakeholders’ assets to earn returns. Because ROA can differ significantly across firms, ROA is often used to compare a company over time or against companies that have similar financing structures. A bank’s ROA is typically well under 2%. This ratio measures the return on
assets employed or efficiency in utilization of the assets. It is arrived at by dividing net profit by total assets.

Return on Assets = Net Profit / Total Assets × 100

**Return on Equity (ROE)**

In corporate finance, the **return on equity** (ROE) is a measure of the **profitability** of a business in relation to the book value of **shareholder equity**, also known as net assets or assets minus liabilities. ROE is a measure of how well a company uses investments to generate earnings growth.

**How is ROE calculated?**

\[
\text{ROE} = \frac{\text{Net Income}}{\text{Shareholders' Equity}}
\]

ROE is sometimes called "return on net worth."

**ROCE (Return on Capital Employed)**

ROCE stands for **Return on Capital Employed**; it is a financial ratio that determines a company's profitability and the efficiency the capital is applied. A higher ROCE implies a more economical use of capital; the ROCE should be higher than the capital cost.

**How is ROCE calculated?**

Return on capital employed formula is calculated by dividing net operating profit or EBIT by the employed capital. If employed capital is not given in a problem or in the financial statement notes, you can calculate it by subtracting current liabilities from total assets.

**LIMITATIONS OF THE STUDY**

- The present study is limited to the analysis & interpretation of the published financial data through the use of commonly used tools and techniques.
- All numerical data collected from various websites or internet.
- The present study is concerned with public sector and private sector bank which cannot be represent the entire banking sector and results of the study are limited to these 05 particular banks only.
- The results are not applicable to the entire banking sector.
- This study is limited to the period of only (2012 to 2017).
- This research is based only on secondary data which has been collected from published & available annual reports of banks (online) and various relevant internet sources.
- The data obtained through reports is subject to window dressing & may not predict the actual position of the banks.

### ANALYSIS & INTERPRETATION

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FINDINGS OF THE STUDY

- The study found & help decision makers to pay more attention on the major banking activities that will help in increasing the financial performance position and ranking of the public and private sector banks.
- The financial information of this study found that the management must focus more in setting up plans and financial strategies.
- From an academic point of view, this research provides a new perspective in evaluating the financial performance of leading commercial banks as well as the finding of this study can be added to the present literature and it can help researchers in their future studies.

CONCLUSION

Bank works in dynamic environment which is affected by many uncontrollable factors. It is difficult to measure the financial performance of bank in the presence of these factors. There is an attempt made to evaluate and compare the financial performance of the selected public & private sector Bank by using different parameters. It is concluded that both public sector banks & private sector banks are in profit. With collected data analysed that overall profitability of the banks increased and in turn it’s a sign of growth. With increasing competition amongst all sectors banks, increasing profitability is a big challenge. So to sustain, both sector banks need efficient use of available resources, providing best services to customers, control over expenses and search more ways to increase profitability so that ultimately consumers can get maximum benefits to be associated with these banks. ROA, ROE, ROCE shows the true picture of banks profitability since 2012 to 2017. Every year targets are fixed by the banks to achieve it, various types of scheme are launched, and interest on deposits and loans are adjusted. The increase in business per employee of the bank in comparison to the previous year must also be evaluated for getting appropriate figure of profitability. Operating profits, net profits, earning per share, dividend per share, return on capital employed, return on equity, interest coverage ratios are the other yardsticks to measure the profit of a business entity over a period of time. Profitability also means to compare the net profit of current year to the previous year’s profit. As a researcher, I studied only 05 banks, but there is lot more scope to analyse taking maximum sample banks so that exact profitability of public & private sector banks can be measured.

REFERENCE


