

# **An Analysis of Profitability Position of Private Sector Banks In India**

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**ABSTRACT :** Profit is a measure of success of business and the means of its survival and growth. Profitability is the ability of a business to earn profit for its owners. The objective of this study was profitability ratios show a company's overall efficiency and performance of different private sectors banks in India .The various profitability ratios like interest spread, net profit margin, return on long term loan, return on net worth , return on asset & adjusted cash margin. Profitability ratios provide different useful insights into the financial health and performance of a company.

**KEYWORDS:** Profitability, Interest spread, Net profit, long term loan, Net worth, Asset, Cash margin.

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## **I. INTRODUCTION**

Banking business in india is largely governed by the banking regulation act 1949 section 5 (b) “A bank is a financial institutions 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 customers with capital surpluses”. Without a sound and effective banking system in india it cannot have a 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.Private Banking is all about personal service and a relationship built around you. It is about delivering sophisticated solutions to complex financial problems, seeing your 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 as such, his main business must be that of banking, from which generally he should be able to earn his living”

### **1.1 Impact of Private Sector Banks**

Today, they have a market share of 20 per cent in deposits and advances. This has been achieved in a growing market, indicating that private sector banks have successfully capitalized on the growth of the Indian economy. But more than acquiring market share, the real contribution of private sector banks has been to transform the way banking is done in India. In the late 1990s, there would have been maybe a few hundred ATMs. But we at ICICI bank decided to set up 2,000 ATMs in two years. In those days it seemed like a big innovation, but today, every bank has a large network of ATMs. The expansion of ATM networks has transformed customer experience. We went on to encompass Internet banking, phone banking and mobile banking. The new banks developed the concept of direct selling agents who reached out to customers with credit products, taking loans to the customer's doorstep. Not only did the private sector banks expand in this manner, their example forced public sector banks to also adopt similar strategies. It was banks like ours which made sure that housing loans and other kinds of loans were made available in hundreds of cities and towns in India.

## **II. REVIEW OF THE STUDY**

Some of the important studies on the related topics have been reviewed here. The present studies is based on “Chaudhary and Sharma (2011) performed comparative analysis of services of public sector banks and private sector banks and stated that the increased competition and information technologies reduce processing costs, the erosion of product and geographic boundaries, and less restrictive governmental regulations have all played a major role for public sector banks in India to forcefully compete with private and foreign banks”.

## **III.OBJECTIVES OF THE STUDY**

- [1] To view the profitability position of some selected private sectors banks (i.e.,) AXIS, ICICI. Karur vysya bank (KVB), South india bank (SIB).
- [2] To highlight the overall profitability of banks (i.e.,)Interest spread, Net profit margin, Return on Long term fund , Return on Net worth, & Return on asset, Adjusted cash margin.

### III. SCOPE OF STUDY

The study shows the role of profitability position of private sectors banks in india. It is the process of comparing income to output and determining how much profit was made during a specific time period. A properly conducted profitability analysis provides invaluable evidence concerning the earnings potential of a company and the effectiveness of management.

### V. PERIOD OF STUDY

The study covers a period of 10 years from 2002- 2003 to 2011-2012 is taken for the study.

### VI. METHODOLOGY

#### 6.1 Source of Data

The study is based on secondary data. Information required for the study has been collected from the annual report of AXIS,ICICI,KVB,SIB & different books, journals ,magazines & data collected from various bank websites.

#### 6.2 Tools Applied

In this study various statistical tools are used (i.e.,) Mean, Standard deviation, Coefficient of variation & Chi-Square test have been used for data analysis.

$$\text{Mean} = \frac{\sum X}{N}$$

$$\text{Standard deviation} = \sqrt{\sum X^2 / N - (\sum X / N)^2}$$

$$\text{Coefficient of Variation} = \frac{SD}{MEAN} \times 100$$

#### 6.3Hypotheses

A chi-square test is statistical hypothesis in which the sampling distribution of test statistic when null hypothesis is true. Null hypotheses have been set and adopted for the analysis of data. Tentative assumption that the chance alone determines the outcome of an experiment or investigation is taken as null hypothesis. The null hypotheses are represented by  $H_0$  .It is a negative statement which avoids personal bias of investigator during data collection as well as the time of drawing conclusion.

$$\text{Chi-square Test } (\chi^2) = \sum \frac{(O - E)^2}{E}$$

$$\text{Degree of Freedom} = (R-1) (C-1)$$

Where, O–Observed Frequency  
E – Expected Frequency  
R –Number of Rows  
C– Number of Columns

### VII. LIMITATION OF THE STUDY

- (i) The study is related to a period of 10 years.
- (ii) As the data are only secondary, i.e., they are collected from the published annual reports.
- (iii) Only profitability ratio is taken for the study.

### VIII. A BRIEF ACCOUNT OF PROFITABILITY

Every firm is most concerned with its profitability. One of the most frequently used tools of financial ratio analysis is profitability ratios which are used to determine the company's bottom line and its return to its investors .Profitability ratios are typically based on net earnings, but variations will occasionally use cash flow or operating earnings . Profitability is a measure of efficiency and control. Profitability ratios are employed by management in order to assess how efficiently they carry on business operation. Profitability is the main base for liquidity as well as solvency. Creditors, banks and financial institutions are interested in profitability ratios

since they indicate liquidity or capacity of the business to meet interest obligations, and regular and improved profit to enhance the long term solvency position of the business. The following profitability ratios are.

### 8.1 Interest Spread

Interest spread is the difference between the average lending rate and the average borrowing rate for a bank or other financial institution. This is the excess of total interest earned over total interest expended. The ratio of interest spread to AWF shows the efficiency of bank in managing and matching interest expenditure and interest income effectively. Interest spread is critical to a bank's success as it exerts a strong influence on its bottom line.

$$\text{Interest Spread \%} = \frac{\text{Total interest income minus total interest expenses}}{\text{Average working fund}}$$

**Table 8.1 Mean, standard deviation & coefficient of variation**

INTEREST SPREAD				
YEAR	AXIS	ICICI	KVB	SIB
2002-2003	6.28	2.77	4.88	5.33
2003-2004	5.66	3.76	4.16	4.32
2004-2005	4.09	3.56	4.28	4.02
2005-2006	3.14	2.67	4.13	5.18
2006-2007	3.27	3.43	4.24	5.37
2007-2008	3.77	3.51	4.05	4.91
2008-2009	4.24	3.66	5.34	6.73
2009-2010	3.95	5.66	4.81	6.35
2010-2011	3.73	4.01	4.30	6.01
2011-2012	3.91	4.44	4.37	5.32
MEAN	4.204	3.747	4.46556	5.354
SD	0.949339	0.807639	0.41452	0.799615
CV	22.5818	21.55429	9.28255	14.93491

Table 8.1 exhibits that bank wise mean standard deviation & coefficient of variation of interest spread of selected banks. SIB has highest mean value & ICICI has lowest value when compare to other banks. Standard deviation of total interest incomes & expenses to average working fund of AXIS has 0.949 with highest coefficient of variation of 22.581 % and KVB has 0.4145 low standard deviation with low coefficient of variation is 9.28255%.

#### Hypothesis:

$H_0: \mu_1 = \mu_2 = \mu_3 = \mu_4$  (There is no significant relationship between interest spread among different private sector banks in india)

$H_1: \mu_1 \neq \mu_2 \neq \mu_3 \neq \mu_4$  (There is a significant relationship between interest spread among different private sector banks in india)

**Table: 8.1(b) Projects the result of Chi-Square Test.**

Profitability	Degrees of freedom	Calculated value ( $\chi^2$ )	Table value (at 5 % level of significance)	$H_0$ :Null hypothesis Accepted / Rejected
Interest spread	27	5.24440785	40.113	ACCEPTED

Since the calculated value of Chi-square (5.2440) is less than the table value (40.113) as shown in table 8.1(b), null hypothesis is accepted. It is therefore, concluded that there is no significant relationship between the interest spread of (AXIS, ICICI, KVB, SIB) private sectors banks in india.

## 8.2 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. The net profit margin is a number which indicates the efficiency of a company at its cost control. A higher net profit margin shows more efficiency of the company at converting its revenue into actual profit.

Net profit margin % = Net Profit / Revenue

**Table 8.2 Mean, standard deviation & coefficient of variation.**

NET PROFIT MARGIN				
YEAR	AXIS	ICICI	KVB	SIB
2002-2003	10.27	9.86	19.23	8.64
2003-2004	13.14	13.67	22.12	9.21
2004-2005	14.33	16.32	16.28	1.25
2005-2006	13.47	14.12	17.67	6.15
2006-2007	12.01	10.81	16.47	9.71
2007-2008	12.22	10.51	16.12	10.66
2008-2009	13.31	9.74	14.35	10.66
2009-2010	16.10	12.17	16.82	10.69
2010-2011	17.20	15.91	16.87	11.10
2011-2012	15.51	16.14	14.01	10.52
MEAN	13.756	12.925	16.994	8.859
SD	1.974377	2.513353	2.218591	2.893988
CV	14.35284	19.44567	13.05514	32.66721

As per table 8.2 it has been found that bank wise mean standard deviation & coefficient of variation of net profit margin of selected banks. KVB & AXIS has highest mean value & SIB has lowest value when compare to other banks. Standard deviation of net profit to revenue of SIB has 2.893 with highest coefficient of variation of 32.657 % and AXIS has 1.9743 low standard deviation & high coefficient of variation is 14.352% and compare to KVB is low coefficient of variation of 13.055 % .

### Hypothesis:

$H_0: \mu_1 = \mu_2 = \mu_3 = \mu_4$  (There is no significant relationship between Net profit margin among different private sector banks in india)

$H_1: \mu_1 \neq \mu_2 \neq \mu_3 \neq \mu_4$  (There is a significant relationship between Net profit margin among different private sector banks in india)

**Table: 8.2(b) Projects the result of Chi-Square Test.**

Profitability	Degrees of freedom	Calculated value ( $\chi^2$ )	Table value (at 5 % level of significance)	$H_0$ :Null hypothesis Accepted / Rejected
Net profit margin	27	16.720582	40.113	ACCEPTED

Since the calculated value of Chi-Square (16.7205) is less than the table value (40.113) as shown in table 8.2(b), null hypothesis is accepted. It is therefore, concluded that there is no significant relationship between the net profit margin of (AXIS, ICICI, KVB, SIB) private sectors banks in india.

## 8.3 Return on Long Term Loan

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

Return on Long term fund % = Net profit / Long term fund

**Table 8.3 Mean, standard deviation & coefficient of variation.**

RETURN ON LONG TERM LOAN				
YEAR	AXIS	ICICI	KVB	SIB
2002-2003	157.32	119.87	93.09	186.55
2003-2004	129.51	106.69	77.01	155.32
2004-2005	70.55	70.54	60.43	102.59
2005-2006	88.56	56.24	63.05	82.83
2006-2007	119.74	82.46	70.10	102.54
2007-2008	71.17	62.34	90.21	97.58
2008-2009	97.35	56.72	101.19	112.64
2009-2010	66.34	44.72	99.90	118.87
2010-2011	72.29	42.97	95.12	123.92
2011-2012	88.75	52.09	110.47	155.98
MEAN	96.158	69.464	85.27555556	123.882
SD	28.74413	24.699559	17.10444914	30.63217909
CV	29.892604	35.557352	20.05785717	24.72690067

Table 8.3 shows the details about bank wise mean, standard deviation & coefficient of variation of return on long term fund of selected banks. SIB & AXIS has highest mean value & ICICI has lowest value when compare to other banks. Standard deviation of net profit to long term fund of SIB has 30.632 with coefficient of variation of 24.726 % and KVB has 17.1044 low standard deviation with lowest coefficient of variation of 20.0578%

**Hypothesis:**

$H_0: \mu_1 = \mu_2 = \mu_3 = \mu_4$  (There is no significant relationship between Return on Long term fund among different private sector banks in india)

$H_1: \mu_1 \neq \mu_2 \neq \mu_3 \neq \mu_4$  (There is a significant relationship between Return on Long term fund among different private sector banks in india)

**Table: 8.3(b) Projects the result of Chi-Square Test**

Profitability	Degrees of freedom	Calculated value ( $\chi^2$ )	Table value (at 5 % level of significance)	$H_0$ : Null hypothesis Accepted / Rejected
Return On Long Term Loan	27	143.45064	40.113	REJECTED

Since the calculated value of Chi-Square (143.4506) is greater than the table value (40.113) as shown in table 8.3(b), null hypothesis is rejected. It is therefore, concluded that there is a significant relationship between the return on long term fund of (AXIS, ICICI, KVB, SIB) private sectors banks in india.

**8.4 Return on Net Worth**

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. Companies can increase their return on equity percentage by buying back their stock, increasing earnings, or using more debt to fund operations.

$$\text{Return on Net worth \%} = \text{Net profit after tax} / \text{Equity share holder fund}$$

**Table 8.4 Mean, standard deviation & coefficient of variation.**

RETURN ON NET WORTH				
YEAR	AXIS	ICICI	KVB	SIB
2002-2003	25.22	17.38	25.28	24.29
2003-2004	26.39	20.93	25.35	23.56
2004-2005	18.19	18.86	14.3	2.05
2005-2006	18.28	14.33	16.58	9.29
2006-2007	19.37	13.17	16.54	15.26
2007-2008	12.21	8.94	17.5	13.27
2008-2009	17.77	7.58	17.46	15.14
2009-2010	15.67	7.79	20.74	15.93
2010-2011	17.83	9.35	19.65	17.25
2011-2012	18.59	10.7	18.52	19.82
MEAN	18.952	12.903	19.192	15.586
SD	3.934867	4.57962	3.488443	6.234503
CV	20.76228	35.49268	18.17655	40.00066

The above table 8.4 which depicts that bank wise mean, standard deviation & coefficient of variation of return on net worth of selected banks. KVB & AXIS has highest mean value & ICICI has lowest value when compare to other banks. Standard deviation of profit after tax to equity shareholder fund of SIB has 6.2345 with highest coefficient of variation of 40 % and KVB has 3.488 low standard deviation with lowest coefficient of variation of 18.176%

#### Hypothesis:

$H_0: \mu_1 = \mu_2 = \mu_3 = \mu_4$  (There is no significant relationship between Return on Net worth among different private sector banks in india)

$H_1: \mu_1 \neq \mu_2 \neq \mu_3 \neq \mu_4$  (There is a significant relationship between among Return on Net worth different private sector banks in india)

**Table: 8.4(b) Projects the result of Chi-Square Test**

Profitability	Degrees of freedom	Calculated value ( $\chi^2$ )	Table value (at 5 % level of significance)	$H_0$ : Null hypothesis Accepted / Rejected
Return On Net Worth	27	27.75983	40.113	ACCEPTED

Since the calculated value of Chi-Square (27.7598) is less than the table value (40.113) as shown in table 8.4(b), null hypothesis is accepted. It is therefore, concluded that there is no significant relationship between the return on net worth of (AXIS, ICICI, KVB, SIB) private sectors banks in india.

#### 8.5 Return on Asset

ROA is a financial ratio that shows the percentage of profit that a company earns in relation to its overall resources (total assets). The return on assets ratio is also known as return on investment relates to the firm's asset base and what kind of return they are getting on their investment in their assets. A high ROA indicates that management is effectively utilizing the company's assets to generate profit.

Return on asset % = Net profit / Total asset

**Table 8.5 Mean, standard deviation & coefficient of variation**

RETURN ON ASSET				
YEAR	AXIS	ICICI	KVB	SIB
2002-2003	0.99	1.13	2.02	0.95
2003-2004	1.12	1.31	2.27	0.91
2004-2005	0.86	1.20	1.34	0.09
2005-2006	0.98	1.01	1.50	0.47
2006-2007	120.8	270.37	196.88	102.83
2007-2008	245.13	417.64	220.61	126.34
2008-2009	284.5	444.94	250.26	113.76

2009-2010	395.99	463.01	297.6	129.83
2010-2011	462.77	478.31	198.23	15.00
2011-2012	551.99	524.01	252.68	17.87
MEAN	206.513	260.293	142.339	50.805
SD	201.1980275	220.390767	117.973734	55.7384851
CV	97.42632547	84.6702627	82.8822276	109.710629

Table 8.5 reveals that bank wise mean standard deviation & coefficient of variation of return on asset of selected banks. ICICI & AXIS has highest mean value & SIB has lowest value when compare to other banks. Standard deviation of net profit to total asset of ICICI has 220.390 with coefficient of variation of 84.670 % and SIB has 55.738 low standard deviation with highest coefficient of variation of 109.710%.

**Hypothesis:**

$H_0: \mu_1 = \mu_2 = \mu_3 = \mu_4$  (There is no significant relationship between Return on asset among different private sector banks in india)

$H_1: \mu_1 \neq \mu_2 \neq \mu_3 \neq \mu_4$  (There is a significant relationship between Return on asset among different private sector banks in india)

**Table: 8.5(b) Projects the result of Chi-Square Test.**

Profitability	Degrees of freedom	Calculated value ( $\chi^2$ )	Table value (at 5 % level of significance)	$H_0$ :Null hypothesis Accepted / Rejected
Return On Asset	27	411.2016	40.113	REJECTED

Since the calculated value of Chi-Square (411.2016) is greater than the table value (40.113) as shown in table 8.5(b), null hypothesis is rejected. It is therefore, concluded that there is a significant relationship between the return on asset of (AXIS, ICICI, KVB, SIB) private sectors banks in india.

**8.6 Adjusted Cash Margin**

Adjusted cash margin also known as operating cash flow margin and margin ratio, the cash flow margin measures how well a company's daily operations can transform sales of their products and services into cash. A key profitability ratio, relating cash flow from operations to net sales provides powerful view into the inner workings of a company using two crucial measures of company performance. The cash flow margin ratio measures the ability of a firm to translate sales into cash.

Adjusted cash margin = Cash Flow from Operations / Net sales

**Table 8.6 Mean, standard deviation & coefficient of variation.**

ADJUSTED CASH MARGIN				
YEAR	AXIS	ICICI	KVB	SIB
2002-2003	13.03	14.05	20.92	9.47
2003-2004	15.81	18.20	24.13	10.48
2004-2005	17.47	21.14	19.29	3.20
2005-2006	16.07	17.55	20.65	7.72
2006-2007	14.11	12.30	18.73	11.10
2007-2008	14.19	11.81	17.63	11.50
2008-2009	14.76	11.45	15.58	11.37
2009-2010	17.63	13.64	17.93	11.46
2010-2011	18.71	17.52	18.07	12.00
2011-2012	16.69	17.45	15.08	11.32
MEAN	15.847	15.511	18.801	9.962
SD	1.721964	3.114554	2.518656	2.552375
CV	10.86618	20.07965	13.39639	25.62111

As per table 8.6 it has been observed that bank wise mean standard deviation & coefficient of variation of adjusted cash margin of selected banks. KVB has highest mean value & SIB has lowest value when compare to other banks. Standard deviation of cash flow from operations to net sales of ICICI has 3.1145 with coefficient of variation of 20.079 % and AXIS has 1.7219 low standard deviation with low coefficient of variation of 10.866%.

**Hypothesis:**

H<sub>0</sub>:  $\mu_1 = \mu_2 = \mu_3 = \mu_4$  (There is no significant relationship between Adjusted cash margin among different private sector banks in india)

H<sub>1</sub>:  $\mu_1 \neq \mu_2 \neq \mu_3 \neq \mu_4$  (There is a significant relationship between Adjusted cash margin among different private sector banks in india)

**Table: 8.6(b) Projects the result of Chi-Square Test.**

Profitability	Degrees of freedom	Calculated value ( $\chi^2$ )	Table value (at 5 % level of significance)	H <sub>0</sub> :Null hypothesis Accepted / Rejected
Adjusted Cash Margin	27	14.54286	40.113	ACCEPTED

Since the calculated value of Chi-Square (14.5428) is less than the table value (40.113) as shown in table 8.6(b), null hypothesis is accepted. It is therefore, concluded that there is no significant relationship between the adjusted cash margin of (AXIS, ICICI, KVB, SIB) private sectors banks in india.

**IX. FINDINGS**

- Interest spread shows that SIB has 6.73 percent at the end of March 2009 and ICICI has 2.77 low percent at the end of March 2003. To conclude the hypothesis there is no significant relationship between the interest spread of (AXIS, ICICI, KVB, SIB) private sectors banks in india.
- Net profit margin reveals that KVB has highest percent of 22.12 at the end of March 2004 and compare to all other banks SIB has low percent of 1.25 at the end of March 2005. To conclude the hypothesis there is no significant relationship between the net profit margin of (AXIS, ICICI, KVB, SIB) private sectors banks in india.
- Return on long term loan of selected banks overall percent of SIB has 186.55 at the end of March 2003 and ICICI has 42.97 low percent at the end of March 2011. To conclude the hypothesis there is a significant relationship between the return on long term fund of (AXIS, ICICI, KVB, SIB) private sectors banks in india.
- Return on net worth gives the clear picture of 26.39 percent at the end of March 2004 and SIB has 2.05 low percent at the end of March 2005. To conclude the hypothesis there is no significant relationship between the return on net worth of (AXIS, ICICI, KVB, SIB) private sectors banks in india.
- Return on asset shows the details of all private sectors banks AXIS has highest increasing 551.99 percent at the end of March 2012 and SIB has very low percent of 0.09 in the period of March 2005. To conclude the hypothesis there is a significant relationship between the return on asset of (AXIS, ICICI, KVB, SIB) private sectors banks in india.
- Adjusted cash margin of different banks KVB has 24.13 percent at the end of March 2004 and SIB has 3.2 percent at the end of March 2005. To conclude the hypothesis there is no significant relationship between the adjusted cash margin of (AXIS, ICICI, KVB, SIB) private sectors banks in india.

**X. CONCLUSION**

Private bank in India has a got a great response in terms of service and quality banking. Globalization has encouraged multinationals and foreign banks to set up their business unit in a developing country like india the private banking is all about delivering sophisticated service to customers. Profitability of private sector



banks in India plays major role in banking sector without profit the investors cannot run the business. Profitability measure a company's ability to generate earnings related to sales, assets and equity. These ratios assess the ability of a company to generate earnings, profits and cash flows relative to some metric, often the amount of money investment. Profitability ratios provide a definitive evaluation of the overall effectiveness of management based on the returns generated on sales and investment. Profitability is the primary motivating force for any economic activity. Business enterprise is essentially being an economic organization; it has to maximize the welfare or the investment of its stakeholders. To this end, the business undertaking has to earn profit from operations. Profitability act as a yardstick to measure the effectiveness and efficiency of business effort for the growth and success of any business entities.

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