International Journal of Applied Research 2020; 6(6): 231-234

ISSN Print: 2394-7500
ISSN Online: 2394-5869
Impact Factor: 5.2
IJAR 2020; 6(6): 231-234
www.allresearchjournal.com
Received: 22-04-2020
Accepted: 26-05-2020

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An analytical study of profitability and management efficiency of selected private sector banks in India

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Abstract
The bank is most crucial institution of any countries' economy. It is play significant role of flow of money. In general bank can be defined as mediator which is play role as accepting the deposits from public, for the purpose of lending to who has required to funds. There mainly two type of bank exists in the economy in which first considered as public sector banks and second one considered as private sector bank in former bank government play significant role to manage it and latter has also govern by RBI but up to certain limit. In modern time banking activities are going on rapid way and role of bank in economy as important as oxygen for human body so, in this study attempt is made for identification of profitability and management efficiency for selected private sector banks with the help of profitability ratios like Interest spread ratio, net profit margin ratio, return on net worth ratio and management efficiency ratios like net interest income to total fund ratio and non interest income to total fund ratio. From 2014-15 to 2018-19 considered as time period of the study. As accounting tool ratios analysis and as statistical tool one way anova have been used for the identification of results. The major findings of the study was except net interest income to total fund ratio all ratio have no significant in rotation with performance between banks.

Keywords: Private Sector Banks, Public Sector Banks, ROA = Return on Assets, ROE = Return on Equity CAMEL model C= Capital Adequacy, A= Assets Quality, M= Management, E= Earnings, L= Liquidity and sensitivity

Introduction
The banking sector in the economy play significant role to expansion and growth of trade with its subsidiary activities. After the merger and acquisition of banks are done, this leads to economy wider expansion of banking facilities. In recent time there are number of reforms are made in respect of expansion and modernization of banking sector. India banking sector mainly deviated in three branches like public sector banks, private sectors banks and co-operative banks. In the country private sector banks possess as important as or more important than public sectors banks. There are number of services provided by private sector banks which services not available to the public sector banks and co-operative banks so, there is wider popularity of private sector banks here attempt is made to identification of profitability and management efficiency. For this ratio analysis and one way Anova technique have been used for these purposes.

Literature review
(Aparna Bhatiya, 2012) [1] have analyzed determinants of profitability of private sector banks in India. For this study time period should be considered from 2006-07 to 2009-10. For the study total of 23 banks were taken to examination. As statistical tool backward stepwise regression analysis has been used to identification of impact for selected determinants. In regression analysis ROA (Return on Assets) has been taken as dependent variable and independent variables like spread ratio, provisions and contingencies, non-interest income, credit/deposit ratio, operating expense ratio, profit per employee ratio etc. were considered. The major finding indicated that spread ratio, Non-interest income ratio, operating expense ratio, investment deposit ratio are significant impacted on profitability.
(Gazia Jamil Sayd, 2013) [2] have analyzed comparative analysis of four private sector banks as per CAMEL rating. In this study researcher emphasized on the banking sector and said that it is more complex due to globalization.

In context with Indian baking sector it is considered as fastest growing sectors and after the process of liberalization the process it has been working more open in economic environment. As per researcher there are various models which can be helpful to analyzed the performance of banking sector so out of that models researcher selected CAMEL model for analysis of selected banks. CAMEL model has been used in rates the performance of banks in five point scale. The major findings of the study indicated an average of Kotak Mahindra bank stands at the top position.

(Muhammad Faizan Malik, 2014)have interest rate and its effect on bank's profitability in public and private sector banks. In this study samples were divided into two categories like public sector's bank which were nationalized bank and private sectors banks in Pakistan. As proxy rate bank lending rates were taken and as profitability rate return on assets and return on equity were taken. As statistical tool regression model has been used for the identification of effect of interest rate on profitability. The major findings of the study indicated that interest has more effect on both return on assets and return on equity in private banks as compared to public sector banks.

Research methodology
For this study following research methodology should be followed. The type of the study considered as analytical study and based on that findings obtained.

Objectives of the study
- To analyze profitability of selected private sector banks
- To identify management efficiency of selected private sector banks
- To know difference in relation with profitability and management efficiency in selected private sector banks

Period of the study
The period of study has been considered from 2014-15 to 2018-19. During study period various sources of secondary data were observed and mainly annual reports of selected banks were used for collection of data.

Scope of the study
Functional Scope: Functional scope for the study is identify profitability and management efficiency with the help of interest spread ratio, Net profit margin ratio, return on net worth ratio, net interest income to total fund ratio and non interest income to total fund ratio.

Geographical Scope: Geographical scope of the study is whole India because selected banks provide their products and services to India.

Hypotheses of the study
- **Ho** = There is no significant difference between profitability ratios and selected banks
- **Ho** = There is no significant difference between management efficiency ratios and selected banks

Selection of samples
Non Probability sampling technique has been used for this study in which judgement samples were considered with the help of market capitalization. Higher capitalized banks were selected for the study and further analysis.

Data collection
For This study secondary sources of data have been used and for data collection, mostly dependent on published annual reports of the banks and after that banks websites, magazines, News papers and related sources are considered.

Data analysis and interpretation
Net Interest Spread Ratio = Interest Income Rate – Interest Expense Rate
Net Profit Margin Ratio = (Total Revenue – Total Expenses) / Total Revenue × 100
Return on net worth = Net Income / Shareholder's Revenue × 100
Net IITFR= Net Interest Income / Total Fund
Non IITFR = Non Interest Income / Total Fund

Table 1: Net Interest Spread Ratio

Years	HDFC	Kotak	ICICI	Axis Bank	Yes Bank
2014-15	8.01	8.38	7.04	7.34	8.43
2015-16	7.52	7.86	6.89	6.81	7.53
2016-17	7.46	7.64	6.58	6.84	6.56
2017-18	7.78	6.94	6.43	5.9	5.41
2018-19	7.2	6.73	6.36	6.37	6.37
Minimum	7.2	6.73	6.36	5.9	5.41
Maximum	8.01	8.38	7.04	7.34	8.43

***Source*:** Calculated from annual reports of selected banks

Above table No.1 indicated interest spread ratios of selected banks during study period. The interest spread ratio reveals different between interest income rate which is earned by lending money to borrowers and interest expense rate which is paid to money lenders to the bank. Here, selected five private sector banks indicated near about similar result in concern of interest spread ratio. In relation with HDFC bank shows in the year 2014-15 ratio as 8.01% and after that it decreased up to 7.20% in the year 2018-19 means significant decreasing trend seen during the study period. From 2014-15 to 2018-19 ratio revealed fluctuating trend like 8.01%, 7.52%, 7.46%, 7.78% and 7.20% respectively. In respect of Kotak Mahindra bank also indicated decreasing trend during study period like from 2014-15 ratio was 8.38% and in the year 2018-19 ratio was 6.73% means net decrease after five year was 1.65%. During the study period from 2014-15 to 2018-19 ratio was 8.38%, 7.86%, 7.64%, 6.94% and 6.73% respectively. ICICI indicated constant decreasing trend during time span of study. In the year 2014-15 higher ratio was 7.04% and decrease up to6.36% in the year 2018-19. Axis bank and yes bank reveals fluctuating and in concern with Axis bank from 2014-15 to 2018-19 ratio was 7.34%, 6.81%, 6.84%, 5.90% and 6.37% respectively where as Yes bank indicated 8.43%, 7.53%, 6.56%, 5.41% and 6.37% in the year from 2014-15 to 2018-19. From selected bank highest ratio 8.43% and lowest ratio 5.41% both possessed by Yes bank in the year 2014-15 and 2017-18 respectively.

Table 2: Net Profit Margin Ratio

Years	HDFC	Kotak	ICICI	Axis Bank	Yes Bank
2014-15	21.07	19.19	22.76	20.73	17.32
2015-16	20.41	12.75	18.44	20.06	18.76
2016-17	20.99	19.27	18.09	8.26	20.27
2017-18	21.79	20.68	12.33	0.6	20.84
2018-19	21.29	20.32	5.3	8.5	5.8
Minimum	20.41	12.75	5.3	0.6	5.8
Maximum	21.79	20.68	22.76	20.73	20.84

***Source*:** Calculated from annual reports of selected banks

Above table No.2 indicated net profit margin ratios of selected banks during the study period. Net profit margin ratio indicated excess of revenue over the total expenses in particular time span and in the form of percentage. HDFC indicated slightly fluctuating trend in concern with net profit ratio. In the year 2014-15, 21.07% and decrease up to 20.41% in the year 2015-16 then slightly increased as 0.58% and stood at 20.99% in the year 2016-17. For 2017-18 and 2018-19 ratio was 21.79% and 21.29% respectively. Kotak Mahindra bank reveals fluctuating trend during selected time span. In the year 2014-15 ratio was 19.19% and decreased by 6.44%, for next year it was 12.75%. From 2016-17 to 2018-19 ratio was 20.99%, 21.79% and 21.29% respectively. The minimum and maximum ratio of Kotak were 12.75% and 20.68% respectively. During study period ICICI indicated significant decreasing trend like from 2014-15 to 2018-19 the ratio was 22.76%, 18.44%, 18.09%, 12.33% and 5.30% respectively. From 2014-15 to 2016-18 slightly decreasing found in the ratio but in the year 2017-18 it was decreased up to 12.33% and next year decreased by 7.03%, it indicated significant decrease in ratio. In contact with Axis bank, it indicated significant fluctuating trend during the study period like in the year 2014-15 and 2015-16 ratio was 20.73% and 20.06% respectively after fall up to 8.26% means 11.8% net decrease found and further also decrease up to 0.60% which Lowe's ratio of the study but in the year 2018-19 it was increased up to 8.50%. Yes Bank Indicated from 2014-15 to 2017-18 increasing trend like 17.32%, 18.76%, 20.27% and 20.84% but in the year 2018-19 it was decreased up to 5.80% which and significant change in net profit margin ratio.

Table 3: Return on Net worth Ratio

Years	HDFC	Kotak	ICICI	Axis Bank	Yes Bank
2014-15	16.47	13.19	13.89	16.46	17.16
2015-16	16.91	8.72	11.19	15.46	18.41
2016-17	16.26	12.35	10.11	6.59	15.09
2017-18	16.45	10.89	6.63	0.43	16.4
2018-19	14.12	11.47	3.19	7.01	6.39
Minimum	14.12	8.72	3.19	0.43	6.39
Maximum	16.91	13.19	13.89	16.46	18.41

***Source*:** Calculated from annual reports of selected banks

Above table No. 3 reveals Return on Net worth or Return on equity. It indicated relationships between net profit after all the expenses and shareholders fund in particular time span. From 2014-15 to 2018-19 ratio was indicated more or less constant trend except the year 2018-19. Up to 2017-18 ratio was average 16.45% but it is decreased by 2.33% and stood at 14.12%. It was also revealed that return on equity in HDFC was constant except the year 2018-19 means good operational management by it. Kotak Bank indicated Zigzag trend during the study period. In the year 2014-15 ratio was 13.19% which is decreased up to 8.75%, further in the year 2016-17 ratio was 12.35% and it increased up to 10.86% in the year 2017-18. 11.47% recorded in the year 2018-19. ICICI reveals decreasing trend during study period in which 2014-15 ratio 13.89%, 2015-16 ratio 11.19%, 2016-17 ratio was 10.11%, 2017-18 ratio was 6.63% and in the year 2018-19 ratio was 3.19% shows downward slope. Axis Bank reveals decreasing trend in selected time span. From 2014-15 to 2018-19 return on net worth ratio was 16.46%, 15.46%, 6.59%, 0.43% and 7.01% respectively, first three years of the study Indicated minor decreased in ratio but in the year 2017-18 ratio was stood at 0.43% means 100 of shareholders equity they got just only 0.43 rupees and after that it increased up to 7.01%. From 2014-15 to 2018-19 Yes Bank reveals first four year Zigzag trend and then after on fifth year it decreased up to 6.39%. First four years of the study demonstrated ratio like 17.16%, 18.41%, 15.09% and 16.40% respectively.

Management efficiency ratios

Table 4: Net Interest Income to Total Fund Ratio

Years	HDFC	Kotak	ICICI	Axis Bank	Yes Bank
2014-15	4.14	4.36	3.07	3.37	2.85
2015-16	4.25	4.63	3.11	3.41	3.03
2016-17	4.21	3.99	2.92	3.21	3.05
2017-18	4.16	3.98	2.8	2.88	2.93
2018-19	4.18	3.9	2.94	2.91	2.83
Minimum	4.14	3.9	2.8	2.88	2.83
Maximum	4.25	4.63	3.11	3.41	3.05

***Source*:** Calculated from annual reports of selected banks

Above Table No. 4 indicate Net interest income to total fund ratio during the study period for selected banks. This ratio indicate per one rupee how many net interest earned by banking institutions. During the study period from 2014-15 to 2018-19 HDFC' ratio shows more or less constant result in respect of earning net interest income with the help of total fund. Kotak bank indicated first two year slightly increasing trend like 4.36:1 and 4.63:1 in the year of 2014-15 and 2015-16. In the year 2016-17 to 2018-19 ratio shows minor decreasing trend like 3.99, 3.98 and 3.90 respectively that means year by year it shows downward trend with this bank. ICICI also indicated downward during study period, from 2014-15 to 2018-19 ratio indicated 3.07, 3.11, 2.91, 2.80 and 2.94 respectively. It is also called there are other factors affected on it for the results. Further axis bank and yes bank also indicated downward slop of net interest income to total fund ratio and for axis bank ratio like 3.31, 3.41, 3.21, 2.88 and 2.91 for the study period, further yes bank reveals from 2014-15 to 2018-19 ratio like 2.85, 3.03, 3.05, 2.93 and 2.83 respectively. Overall selected bank indicated downward performance in concern with net interest income to total fund ratio.

Table 5: Non Interest Income to Total Fund Ratio

Years	HDFC	Kotak	ICICI	Axis Bank	Yes Bank
2014-15	1.66	2.1	1.96	1.98	1.67
2015-16	1.65	1.75	2.25	1.9	1.8
2016-17	1.56	1.71	2.62	2.07	2.19
2017-18	1.58	1.69	2.12	1.7	1.98
2018-19	1.53	1.6	1.58	1.76	1.32
Minimum	1.53	1.6	1.58	1.7	1.32
Maximum	1.66	2.1	2.62	2.07	2.19

***Source*:** Calculated from annual reports of selected banks

Above table No. 5 indicated Non-interest income to total fund ratio for selected banks during study period. This ratio reveals in proportion of one rupee total fund how much Non-interest income should be generated by banking institutions. From 2014-15 to 2018-19 this ratio indicated for HDFC like 1.66, 1.65, 1.56, 1.58 and 1.53 respectively and it showed minor constant trend means in five years there is less changes in concern with non interest income in the bank. Kotak bank indicated decreasing trend in relation with non interest income to total fund ratio. During study period that is 2014-15 to 2018-19 the ratios was 2.10, 1.75, 1.71, 1.69 and 1.60 respectively. ICICI reveals first three years which was 2014-15 to 2016-17 increasing trend then after it was decreased up to 1.58:1 in the year 2018-19 means it was ball shape ratio look like. In relation with average ICICI possessed highest out of all selected banks. Axis bank shows increasing trend up to 2016-17 then after it was decreased. 2014-15 ratio was 1.98 and it was increased up to 2.07 in the year 2016-17 then after it decreased up to 1.76 in the year 2018-19. Yes Bank also reveals first three years of study period increasing trend and ratio was 1.67, 1.80, 2.19 then it decreased remaining two years and ratio was 1.98 and 1.32 respectively. Overall selected banks indicated decreasing trend during study period.

Table 6: Hypothesis testing using one way Anova

Particulars	P- Value	Accept/ Reject H_0
Profitability Ratios		
Interest spread Ratio	0.08914	Accepted
Net Profit Margin Ratio	0.159293	Accepted
Return on Net Worth Ratio	0.050544	Accepted
Management Efficiency Ratios		
Net interest income to total fund ratio	1.7E-10	Rejected
Non-interest income to total fund ratio	0.057969	Accepted

Above Table No. 6 indicated hypothesis testing for identification of difference between banks in ration with profitability's ratios and management efficiency's ratio during the study period. One way anova test performed at the 5% level o significant and result of it indicated that *Interest Spread Ratio, Net Profit Margin Ratio, Return on Net Worth Ratio and Non-interest income to total fund ratio* have *Fail to reject,* means there is no significant difference between banks in concern with performance of selected ratios or it can also said *there is no statistical evidence which reject null hypothesis.*

Findings

- Interest Spread ratio is considered as significant important for any banking institutions which is indicated in short earning and expense interest rate. For the study selected banks reveals more or less similar interest spread ratio during study period.
- Net profit margin ratio indicated profitability of selected banks. During the study period HDFC and Kotak Mahindra Bank indicated fluctuating trend where as ICICI, Axis and Yes bank reveals decreasing trend and due to net profit results, return on net worth also indicated more or less similar types of results.
- Management efficiency is crucial aspects for banking sector for this net interest income to total fund ratio revealed significant difference between banks which is obtained by one way anova test.
- Non Interest income to total fund ratio of banks indicated no significant difference between banks or other sense it looks likes similar performance in selected banks.

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