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A Study on the Profitability Trend of Selected Banks: Pro- Subprime Crisis Period

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Abstract:
The Indian banking sector has been the backbone of the economy over the past few decades. It helps the economy to survive various economic shocks and meltdowns. Indian banking sector is one of the healthiest performer in the world and it has been improved in competitiveness, efficiency, profitability and soundness, especially in the recent years. Hence various aspects of Indian banking sector have been highlighted in recent studies. Many of these are seen to study the convergence and soundness of banking sector. There has been a lot of literature covering these aspects and, to a great extent, establishing different relationships between these and key macroeconomic and financial variables. So the present study is focusing on finding the profitability trend of Indian banks which is very important to maintain the stability and competency.
Main Objective of the paper is to make a modest attempt to study the various components of the financial statement in relation to the profitability of the bank. To analyze the performance of banks in terms of profitability highly ranked six major banks will be selected from public and private sector, three from each sector. For getting complete and broad idea about the objectives of the study analysis will be based on financial data between the periods of 2010- 2015.

Keywords : *Profitability, Subprime*

1. Introduction
Finance is the life blood of trade, commerce and industry. Now-a-days, banking sector acts as the backbone of modern business. Development of any country mainly depends upon the banking system. As per Section 5(c) of Banking Regulation Act, 1949 a "Banking Company" means any company which transacts the business of banking in India. As per Section 5(b) of Banking Regulation Act, 1949, banking means the accepting, for the purpose of lending or investment, of deposits of money from the public, repayable on demand or otherwise, and withdraw able by cheque, draft, order or otherwise. Apart from above mentioned primary functions, they are also allowed to do utility Services for their customers (Banking Regulation Act, 1949). The role of commercial banks in a developing county is vast one. Commercial banks help in mobilizing the savings of large public through established network of branch banking. Banks induce the people to save many through introducing variety of deposit schemes. By mobilizing savings, the banks channelize them into productive investments. Thus they help in the capital formation of a nation. Banks finance the industrial sector by providing short-term, medium-term and long-term loans. During the last decade banking sector has seen many positive developments. The policy makers, which comprise the Reserve Bank of India (RBI), Ministry of Finance and related government and financial sector regulatory entities, have made several notable efforts to improve the timely regulation in the sector. In 1991 when government of India initialized the implementation of reforms policies, the Indian banking sector has gained momentum in diversified areas of development.

2. Review of Literature

A.V. ArunaKumari (2002) evaluates the performance of Banking Sectors in India and states that a stable and efficient banking sector is an essential precondition to increase the economic level of a country.

Many studies have been reported in literature regarding performance of Indian commercial banks**.** Shanmugam and Das (2004) studied the performance of Indian scheduled commercial banks during the period 1992-1999 and concluded that foreign banks in India and the state bank group and are performing well than any other banks.

Usumet, al (2008) have studied the efficiency of nationalized banks, SBI and Foreign banks in India. According to their conclusion foreign banks were performing more efficiently than nationalized banks.

Uppal (2009) analyzed various performance parameters of Indian commercial banks and studied the factors influencing the banks relative share during 2003-2008. Conclusion of this study stated that during the period of study public sector banks are having a significant share with respect to the total assets in all commercial banks.

Singla HK (2008) has examined the role of financial management in the growth of banking. The study reveals that the profitability position was reasonable during the period of study when compared with the previous years. Strong capital position and balance sheet place, Banks in better position to deal with and absorb the economic constant over a period of time.

Dangwal and Kapoor (2010) evaluated the financial performance of nationalized banks in India and assessed the growth index value of various parameters through overall profitability indices. They found that while four banks had excellent performance, five achieved good performance, four attained fair performance, and six had poor performance.

Jha and Sarangi (2011) studied the performance of various seven public sector and private sector banks by taking the data of 2009-10 years. They used operating performance ratios, financial ratios, and efficiency ratios for comparing the performance level and found that Axis Bank took the first position, followed ICICI Bank, BOI, PNB, SBI, IDBI, and HDFC, in that order.

Puneet Varma and Sonali Adki (2012) studied the banking performance by using credit deposit ratio and non-performing assets during the period of 2006 to 2010. They concluded that SBI group, nationalized banks and private sector banks were performing similarly with respect to Cash Deposit ratio and NPA.

Gilbert, A. T. (2013) studied about the financial risk management in banks focusing the liquidity, credit and capital risk in South African banks. The study found out that ownership structure of the banks is not an influencing factor on financial risk management. In addition, the size of the banks is the major factor influencing financial risk system in South Africa.

Scholtens, B., & Kang, F. C. (2013) conducted a study on corporate social responsibility and earnings management of banks in Asian economies. Study found that the there is an inverse relationship between banks corporate social responsibility to earnings management and the banks that perform better on CSR are engaged significantly less in earnings management. The study suggested different ways of measuring earnings management.

Casu, B., Ferrari, A., & Zhao, T. (2013) examined the impact of regulatory reform on productivity growth and its components for Indian banks. Study concluded that the bank shows a sustained productivity growth driven mainly by technological progress. Furthermore, results indicate that different ownership types react differently to changes in the operating in the banking environment. The position of foreign banks becomes increasingly dominant, and their production technology becomes the best practice in the industry during the study period.

Dutta, S., Gupta, N., & Rao, P. H. (2013) conducted an empirical study to find the determinants of return on assets of public sector banks in India. Study is conducted by taking the data for three years covering time period from 2009-10 to 2011-12. It is found that the most significant factors influencing Return on Asset of public sector banks are spread, operating expenses, provisions & contingencies and non-interest income.

Swaranjeet Arora (2013) made an attempt to identify the factors that contribute to Credit Risk analysis in Indian banks and to compare Credit Risk analysis practices followed by Indian public and private sector banks. The study concluded that the Indian banks have been efficiently managing the credit risk. The results also indicated that there is significant difference between the Indian Public and Private sector banks in Analyzing Credit Risk.

Rao, P. T., & Reddy, D. H. (2013) made an attempt to evaluate the efficiency of State Bank of India Associate Banks. The efficiencies of State Bank of India group were calculated through an Operational Research Tool namely Data Envelopment Analysis (DEA).The study concluded that the average slack nesses among the Output variables are significantly differed between the banks among the SBI Group

Jayaraman, A., & Srinivasan, M. (2014) conducted a study on the Performance Evaluation of Banks in India–A Shannon-DEA Approach. It is observed that banks which are efficient under one model need not necessarily be efficient under the other models. In general, the efficiency scores of the banks are different under three different DEA models and any ranking based on a particular model, would lead to incorrect ranking of banks.

Annapooranan, S. (2014) has studied on the Performance evaluation of the Tirunelveli district central Cooperative bank. . The study has analyzed the functioning of the bank with regard to deposit mobilization, issue of loans and advances, recovery of loans and financial aspects .It is found that the functioning of the study unit has been quite impressive in terms of deposit mobilization and credit deployment. But the bank has failed to arrest the overdue position and strengthen the share capital base.

Chaeck, K., & Cihák, M. (2014) studied about the completion efficiency and stability in banking. Study concluded that the banks with strong performance pass a market test and survive, while weak banks shrink, sell out, and exit the market. It suggested that the competition contributes to stability and that regulators must condition policy on the health of existing banks.

Mujahid .ed (2014) conducted a study on Impact of Capital Structure on Banking Performance. The empirical study conducted to know the capital structure determinants of banks within country and foreign country. The study concluded with a result that there is a valid positive relationship between factors of capital structure and performance of banking industry.

Deb, J., & Purkayastha, M. D. (2014) studied about the profitability and operational efficiency of public and private sector banks with the help of accounting ratios. Study attempted to make a comparative analysis banks. They stated that the performance of private sector banks is better compared to the public sector banks in most of parameters during the period of study.

3. Objectives of the Study

1. To study the growth in Indian banking sector
2. To compare the performance based on the profitability of Indian public and private banks

4. Hypothesis of the Study

- Null Hypothesis: There is no significant difference between the profitability variables of public sector and private sector banks
- Alternative Hypothesis: There is a significant difference between the profitability variables of public sector and private sector banks

5. Research Methodology

The present study is descriptive in nature. To make an analysis of profitability of banks six samples of major banks where utilized, three public sector banks and three major private sector banks on the basis of total assets and maximum turnover as of 31 March 2015, are: State Bank of India (SBI), Punjab National Bank (PNB), Bank of Baroda (BoB), ICICI Bank, HDFC Bank and Axis Bank .Samples are taken based on the judgmental sampling technique. Statics and data for the study are primarily based on the annual reports published by respective banks, Reserve bank of India and on other data base of banks, besides that analyst presentation and press releases also used. Suitable statistical techniques like mean and slandered deviations are used for analyzing collected data. SPSS is used for testing the hypothesis of the study.

6. Profitability Measurement of Banks

The performance of the banking sector is more closely linked to the economy than any other sector. Hence the economic slowdown and the global changes in finance have affected on the banking sectors' performance and especially on the profitability of banks. It resulted in to a moderate business growth. Economic slowdown has forced banks to consolidate their operations, re-adjust their focus and strive to strengthen their balance sheets. Over all banking sector faces the problems of strengthening capital ratios, enhancing liquidity and expanding while increasing the level of profitability

Financial ratio analysis is useful diagnostic tool that can be used to access the performance of different ownership groups (Saunders and Cornett 2004). In financial analysis, ratios are generally used as benchmarks for evaluating a firm's position or performance and it helps to make qualitative judgments about the performance of banks. In banking literature there are many measures of banks profitability, among that widely used measures are Net Interest Margin, Return on Asset (ROA) and Return on Equity (ROE).

6.1. Rate on Asset (ROA)

It's defined as the ratio of net income to total asset. It shows the percentage of rupee amount net income generated per each rupee of assets. ROA indicates how the performance of banks are strong in generating net income by using the available asset of banks. Therefore higher the ROA is a sign of higher efficiency of banks.

6.2. Rate on Equity (ROE)

It is defined as the rate of net income to book value of common equity .it is considered as a most comprehensive indicator of profitability. ROE shows the financing and tax related decisions as well as the banks operating and investment decisions.

6.3. Net Interest Margin (NIM)

It is a measure of the difference between the interest income generated by banks and the amount of interest paid out to their lenders. It is a performance metric that examines how successful a firm's investment decisions are compared to its debt situations. It indicates how successful the bank has been in borrowing funds from the cheapest sources and in maintaining an adequate spread between its returns on loans and security investments and the cost of its borrowed funds. A declining NIM is undesirable because the bank's interest spread is being squeezed, usually because of rising interest costs on deposits and other borrowings.

7. Data Analysis and Interpretation

7.1. D-Net Interest Margin

Net Interest Margin (NIM) is a measure of return on investment relative to interest expenses. It can be expressed as a performance metric that determine the ability of a firm to take successful investment decisions as contrasted to its debt situations. A negative Net Interest Margin indicates that the institution is unable to make an efficient decision, as interest expenses were higher than the amount of returns produced by investments. Thus, Net Interest Margin will show how the financial stability of firm as well as profitability of a bank's investment and lending activities over a specific course of time.

Descriptive statics of Net Interest Margin						
	SBI	**PNB**	**BOB**	**ICICI**	**HDFC**	**AXIS**
Mean	3.3680	3.5820	2.6840	3.0580	4.4200	3.7000
Std. Deviation	.28190	.32407	.35962	.36643	.04472	.16125

Table 1

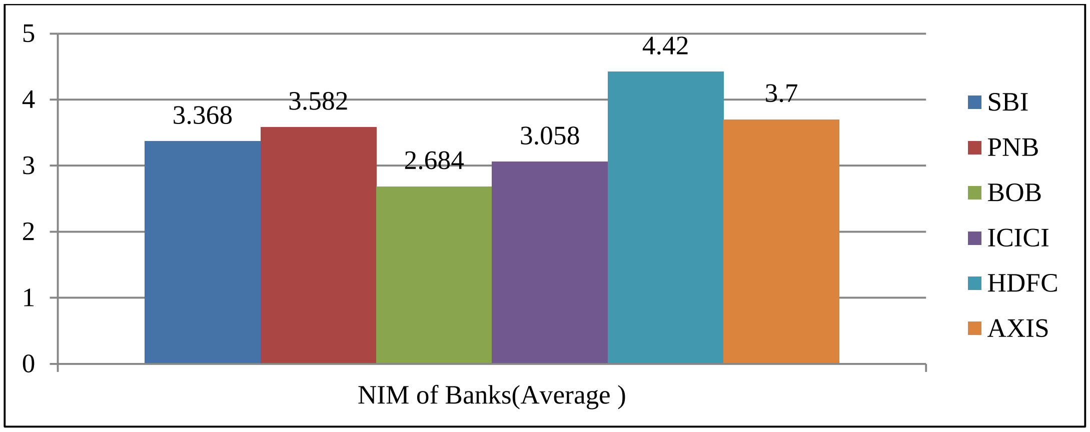

Figure 1: Mean NIM of Public and Private sector banks

As illustrated in Fig.1 NIM of HDFC (4.42) from private sector is more than others followed by the 3.7 of AXIS Bank in public sector. This result shows that interest earned by the HDFC bank is much better than other banks. Fig.1 also shows that all other banks except the BOB (2.684) are earning almost same level of interest margin like 3.36 of SBI, 3.58 of BOB, and 3.05 of ICICI. SD of NIM is below one for all banks hence it can be analyzed that all banks have a consistent tendency of keeping NIM in a good way and the performance of banks are better .Even though, when comparing the SD of both sector banks private sector banks are keeping more constituent level of performance in earning through interest. During the period of 2011-15 NIM of many banks are showing higher rates. It states that the economy continues to strengthen tend to have an increase NIM and several factors raised due to the economic crisis, like reduction in demand for loans, reduction in mutual fund and lack of public confidence impacting the overall securities industry have slowly overcome by the Indian banks

8. Return on Equity

Report STATICS OF ROE						
	SBI	PNB	BOB	ICICI	HDFC	AXIS
Mean	12.9600	14.7300	15.4640	12.3200	19.2600	19.7320
Std. Deviation	2.24498	5.88280	4.87154	1.93959	1.80638	1.28297

Table 2

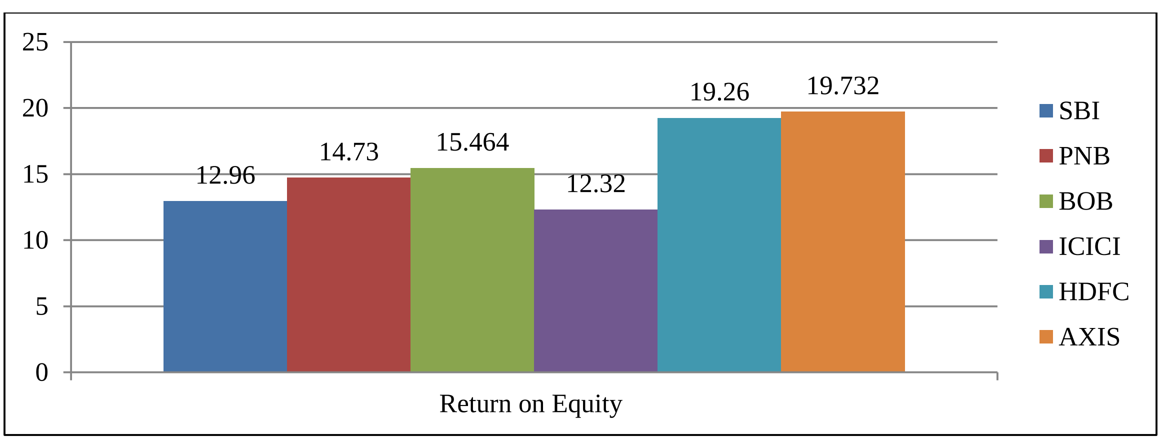

Figure 2: Mean ROE of Public and Private sector banks

Fig.2 shows that the Return on Equity of AXIS (19.72) is high among private sector banks followed by the 19.26 of HDFC Bank. Among the private sector banks ROE of BOB is high among the public sector banks. Fig.2 shows that the among the selected samples banks two private sector banks are having high return during the study period so it can be stated that the private sector banks are performing better in creating return out of equity. Standard Deviation of all public sector banks are above one and very high. But in the case of private banks it is very less. Hence, it can be stated that the investors rely more on the private banks for productive investment and private sector banks are giving more constant return on the equity to the investors.

9. Return on Asset

Descriptive statics of ROA						
	SBI	PNB	BOB	ICICI	HDFC	AXIS
Mean	.7760	.9400	.8580	1.6280	1.8540	1.7340
Std. Deviation	.14082	.34792	.29363	.21052	.18243	.06768

Table 3

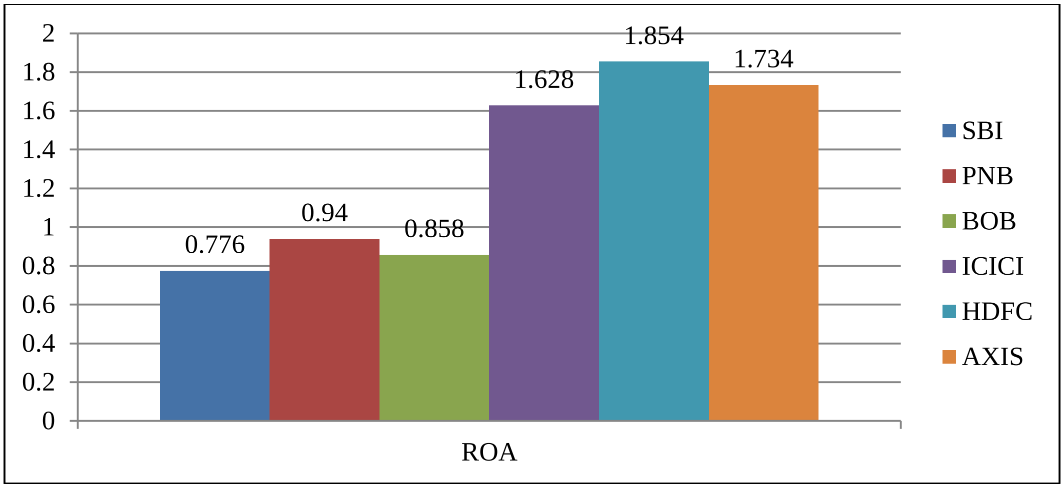

Figure 3: Mean ROA of Public and Private sector banks

Fig.3 shows the returns on asset [ROA] of all three private banks are above that of public sector banks during the period of study. Among the public sector banks HDFC [1.85] banks has highest ROE followed by the AXIS [1.73] and ICICI [1.62] bank. Graph shows that ROA of all public sector banks below one and among them the earning of PNB [0.94] is comparatively good. When comparing the SD of both sector banks it shows that private sector banks have a consistent earning capacity than the public sector banks.

10. Hypothesis Testing

Independent Samples Test						
		Levene's Test for Equality of Variances		t-test for Equality of Means		
		F	Sig.	t	df	Sig. (2-tailed)
NIM	Equal variances assumed	.213	.669	-1.078	4	.342
ROA	Equal variances assumed	.241	.649	-10.921	4	.002
ROE	Equal variances assumed	6.649	.061	-1.085	4	.339

Table 4

According to Independent T Test it's observed that the calculated P value of NIM (.342) is greater than the tabulated value at 5% level of significance so we accept the null hypothesis. Therefore, we conclude that there is no significant difference in earning of both public and private sector banks during the period of study

Independent T Test for ROA reveals that the calculated P value of Return on Assets (.002) is less than the tabulated value (0.05) at 5% level of significance. Hence we reject the null hypothesis in support of alternative hypothesis and concluded that there is a significant difference between the public and private sector banks in earning capacity by using the available assets of banks.

According to Independent T Test it's observed that the calculated P value of ROE (.339) is more than the tabulated value at 5% level of significance so we accept the null hypothesis and concluded that there is no significant difference in the Return on Equity of the public sector and private sector banks during the period of study.

11. Findings and Conclusion

For analyzing the profitability variables, mean and standard deviation are used. While observing the mean of two groups of banks for measuring the profitability variable NIM it is found that both public sector and private sector bank has almost same mean except the mean of BOB and HDFC. In case of the profitability variable ROE mean of private sector banks are highest among the selected banks except mean of ICICI bank. Mean value of ROA of all private sector banks are highest than all other selected public sector banks. The foregoing analysis of both public and private sector banks based on the profitability variables revealed that the overall profitability of public sector bank is not that high because of all three selected variables are performed less and need to gear up. So it can be concluded that the public sector banks need to optionally leverage technology to increase penetration, to increase profitability, to improve their productivity and efficiency, and thereby contribute to the overall growth and development of the public sector banks. Hypothesis testing by using the Independent sample T- test reveals that there is no significant difference among the public sector and private sector banks in the earning capacity of banks except the Return on Asset. Hence the public sector banks have to concentrate more in utilizing the available assets for profit making .then only the performance of banks become satisfactory one for its stakeholders.

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