Profitability of Private and Public Sector Banks: An analysis

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Abstract

The main objective of this paper has to analysis the pre and post-performance of public and private banks. The study based on profitability, investment, and liquidity and cash indicator ratios. It observed that the private banks are increasing profit as compared to the public banks. The public and private banks for measured the performance with the help of T Paired Test. The study period is ranges from March, 2009 to March 2014. The study found that the almost banks improved their performance during the study period. The results clearly indicate the t value almost banks are positive but not statistically significant at 5 percent.

Key Word: Banking Sector, Performance, Ratios, Industrial Credit and Investment Corporation of India (ICICI),

Introduction

A bank is a financial intermediary and money creator that create money by lending money to a borrower, thereby creating a corresponding deposit on the bank's balance sheet. Lending activities can be performed directly by loaning or indirectly through capital. Due to their importance in the financial system and influence on national economies, banks are highly regulated in most countries. Most nations have institutionalized a system known as fractional reserve banking, central banking, under which banks hold liquid assets equal to only a portion of their current liabilities. Banks are dividend two parts Public and Private Banks. A public bank is a bank, a financial institution, in which a state or public actors are the owners. It is a company under state control. Private Banks are banks owned by either an individual or a general partner(s) with limited partner(s). Private Banks are not incorporated. In any such case, the creditors can look to both the "entirety of the bank's assets" as well as the entirety of the sole-proprietor's/general-partners' assets.

Review of Literature

Jhamb& Prasad (2012) focused on the achievement and performance of Nationalized Banks vis-à-vis Private Sector Banks. The parameters selected for evaluation of performance of various categories of banks are Profitability and Productivity. **Tetsush& Yoshiro (2012)** proposes a new test of the efficient structure hypothesis by directly examining the relation between firm efficiency and firm growth.

This is also a test of the so-called quiet-life hypothesis. Applying this test to large banks in Japan, we find that more efficient banks become larger, which is consistent with the efficient structure hypothesis. We also find that market concentration reduces banks' cost efficiency, which is consistent with the quiet-life hypothesis.**Singla (2013)**The present article discusses the productivity and the reasons thereof with respect to the two largest public and private sector banks of India. It takes into account deposits and advances of the three banks as the measure of productivity. Considering the differences in individual performances and the environmental differences, the study proposes to base its conclusion on employee and branch based averages. The methodology involves calculation of three per employee and three per branch ratios so as to reflect the inherent operational differences of the three selected private banks.**Chaudhary and Sharma(2011)** analyzed the Performance of Indian Public Sector Banks and Private Sector Banks. **Priya (2014)** examined the 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**. Nandi(2013)** an attempt has been made in this study to evaluate the relative performance of selected public and private sector banks (DMUs) in India through Data Envelopment Analysis DEA) for the period 2011-12. DEA is typically used to measure the technical efficiency (TE) between 0 to 1 ranges.

Research Methodology

Research methodology can be defined as a way to systematically solve the research problem by logically adopting various steps .For finding and exploring research question, a Researcher faces lot of problems that can be effectively resolved with using correct research methodology. The proposed study has been analytical study nature.

Study Period

The period of the study had been taken from March, 2009 to March 2014. Six Banks are selected for measured post and pre performance of Public and Private Bank during the study period.

Data Collection

The study has been based on secondary data. The data are collected from official website of money control, yahoo finance, Annual report of Selected Public and Private Banks.

Methods for data Analysis

The assessing the performance of the public and private banks has during the study period. The study based on statistical tools such as ratio analysisT Paired Test, Wilcoxon Sign Test and correlation had been used.

Objective of the study

1. To analysis the pre and post performance of Public and Private Bank.
2. To study the comparative analysis of profitability of public and private sector Bank.

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Methods and Tools Analysis

For analysis the post and pre performance of public and private banks various ratios are taken like profitability, investment, and liquidity and cash indicator ratios. The study based on three public and private banks. The profitability ratios are used to measure, how well a business is performing in terms of profit? The profitability ratios are considered to be the basic banks financial ratios. In other words, the profitability ratios give the various scales to measure the success of the any firm.

Net Profit Margin Ratio:

Net profit margin is one of the most important indicators of a company's financial health. By tracking increases and decreases in its net profit margin, a company can evaluate whether current practices are working and forecast profits based on revenues. Because companies express net profit margin as a percentage rather than a dollar amount, it is possible to compare the profitability of two or more businesses regardless of size. The below table indicates the post and pre changes in the Net Profit Margin.

Table No.1
Net Profit Margin

Banks	Post	Pre	Difference
State Bank of India	8.67	11.25	-2.58
Punjab National Bank	11.16	13.37	-2.20
Oriental Bank of Commerce	7.94	12.15	-4.21
ICICI	16.67	11.30	5.38
HDFC	16.35	13.32	3.02
AXIS Bank	16.07	12.75	3.32

Net profit margin is a ratio of profitability calculated as after-tax net income (net profits) divided by sales (revenue).The table clearly indicates that net operating profit margin of ICICI bank has been increasing at faster rate during the study period.The comparative analysis of public and private banks it leads to observed that the private banks higher net profit margin as compared to public banks.

All the public banks net profit margin has been negative during the study period. The ICICI bank increased higher net profit margin as compared to other private banks. The HDFC bank has been decreased maximum net profit margin during the study period. It leads to conclude above table that the public banks net profit margin not improved during study period.

Return on Long-term Funds:

The benefits of long-term and short-term financing can be best determined by how they support with different needs. Banks typically exploit short-term, asset-based financing when they're first getting off the ground, and in general, this type of financing is used more for working capital. At the position when a banks starts to grow scale and establish a good track record, they may access either cash-flow or asset-based, long-term financing, which has several considered benefits.

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Table No. 2
Return on Long-term Funds

Banks	Post	Pre	Difference
State Bank of India	94.80	96.07	-1.27
Punjab National Bank	11.16	13.37	-2.20
Oriental Bank of Commerce	7.94	12.15	-4.21
ICICI	16.67	11.30	5.38
HDFC	16.35	13.32	3.02
AXIS Bank	16.07	12.75	3.32

This table results also Cleary indicates that the public bank has decreasing Return on Long-term Funds during the study period. The sample of selected private banks has improved their return on long term funds as compared to public bank. The above table highlighted that the ICICI banks has highest long-term funding during the study period.

Table No.3
Return on Net Worth

Banks	Post	Pre	Difference
State Bank of India	12.19	14.98	-2.79
Punjab National Bank	15.50	18.89	-3.39
Oriental Bank of Commerce	10.97	13.12	-2.15
ICICI	11.48	11.01	0.48
HDFC	17.70	18.86	-1.16
AXIS Bank	17.08	16.91	0.17

The return on equity ratio reveals the amount of return earned on an investment in a bank. The net worth of HDFC bank has decreased after the event period as compared to other private bank but the all the public banks also have showing negative net worth of investors. The study found that the after the event period almost banks performance are not improved at faster rate.

Table No.4
Dividend per share

Banks	Post	Pre	Difference
State Bank of India	34.13	19.63	14.50
Punjab National Bank	20.25	12.25	8.00
Oriental Bank of Commerce	8.78	5.30	3.48
ICICI	18.38	10.13	8.25
HDFC	8.29	7.75	0.54
AXIS Bank	17.00	6.00	11.00

The dividend per share private and public banks improved after the event year. The dividend per share calculated as total dividend paid during entire year dividend by outstanding shares. This indicates that the performance of selected banks improved after the event period. The State Bank of India has been highest distributers dividend their employees during the study period. The study proved that the

selected public banks improved dividend per share as compared to private banks during study period.

Table No.4
Operating Profit per Share

Banks	Post	Pre	Difference
State Bank of India	218.28	169.04	49.24
Punjab National Bank	193.40	98.21	95.20
Oriental Bank of Commerce	71.37	45.86	25.51
ICICI	38.78	44.70	-5.92
HDFC	38.32	84.61	-46.29
AXIS Bank	66.93	54.23	12.70

The operating profit per share of public sector is higher as compared to private banks. The ICICI bank has maximum decreased Operating Profit per share during the study period. The study also discussed the performance of public sectors banks are increasing as compared to private banks.

Table No.5
Current Ratio

Banks	Post	Pre	Difference
State Bank of India	0.04	0.05	-0.01
Punjab National Bank	0.02	0.03	0.00
Oriental Bank of Commerce	0.02	0.03	-0.01
ICICI	0.09	0.10	-0.01
HDFC	0.07	0.04	0.03
AXIS Bank	0.03	0.03	-0.01

Current ratio is measured as ratio between current and current liabilities. The comparative analysis of selected public and private banks has declined their current ratio but it is not benefit able for the banks. The HDFC Bank of current ratio has positive as compared to other banks. The study also found the ICICI bank has negative current ratio as compared to State Bank of India and Oriental Bank of Commerce. The table clearly indicates that the there are same position of public and private banks.

Table No. 6
Quick Ratio

Banks	Post	Pre	Difference
State Bank of India	11.65	5.98	5.67
Punjab National Bank	23.41	10.24	13.18
Oriental Bank of Commerce	26.17	13.44	12.73
ICICI	11.77	6.26	5.51
HDFC	7.37	4.84	2.53
AXIS Bank	19.98	8.17	11.81

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The comparative analysis of selected public and private banks has improved their quick ratio but it is not benefit able for the banks. The HDFC quick ratio has less as compared to other banks. The study also found the ICICI bank has less quick ratio as compared to State Bank of India. The table clearly indicates that the private banks liquidity position strong as compared to public banks

Table No.7
Earnings per share

Banks	Post	Pre	Difference
State Bank of India	160.65	105.06	55.59
Punjab National Bank	139.42	64.38	75.04
Oriental Bank of Commerce	45.38	23.92	21.47
ICICI	64.49	33.57	30.92
HDFC	42.51	44.14	-1.64
AXIS Bank	98.63	30.33	68.30

Table No. 7 also has been discovered that Punjab National Bank investors higher the earning received from BankThe wealth maximization principle cannot be ignored while evaluating any financial decision. The results supported that the minimum returns to HDFC investors because this bank has been earned minimum profit. The change in ratio return on employment, net worth and long-term funds ratio before and after calculated and tested for insignificant of these changes. The financial ratio earning per share has been good measured effect of profitability ratio on private and public banks.

Table No.8
Book Ratio

ICICI	Post	Pre	Difference
State Bank of India	1326.10	702.29	623.81
Punjab National Bank	807.83	342.04	465.79
Oriental Bank of Commerce	389.26	229.50	159.76
ICICI	553.61	345.63	207.99
HDFC	251.60	259.87	-8.27
AXIS Bank	574.09	188.37	385.71

The table indicates the almost the banks are increasing book to market ratio, except the HDFC bank. The State Bank of India has maximum increased the book to market ratio as compared to public banks. The ICICI bank has also maximum growing as compared to private bank. The HDFC bank showing the minimum increased of book ratio during the study period.

The study tested all ratios with T Paired test and also calculated mean. Standard deviation, Coefficient of Variation, Standard Error indicated by the Table No. 9.

Table No. 9
Results with T paired Test

Ratio	Mean	Standard Deviation	Coefficient of Variation	Standard Error	T Value	Degree of freedom	p value
Net Profit Margin	0.45333	3.92611	866.06	1.60283	0.283	5	0.789
Return on Longterm Funds	0.67167	3.75645	559.27	1.53356	0.438	5	0.68
Return on Net Worth	-1.475	1.57736	-106.94	0.64396	-2.291	5	0.071
Dividend per share	7.62833	5.03122	65.95	2.05399	3.714	5	0.014
Operating profit per Share	21.73833	48.24986	221.96	19.69792	1.104	5	0.32
Current ratio	-0.00167	0.01602	-959.28	0.00654	-0.255	5	0.809
Quick Ratio	8.57	4.54353	53.02	1.85489	4.62	5	0.006
Earning per share	41.61333	29.71652	71.41	12.13172	3.43	5	0.019
Book Value Ratio	305.79833	229.19457	74.95	93.56829	3.268	5	0.022

Table No.9 has been represented the all company's financial ratio, average mean, standard deviation, Coefficient of Variation and T Value at 5 per cent level of significance. The average mean of the all six banks parameters have been positive except Return on Current Ratio, return on net worth. The T value of all ratios are positive expect the two ratio that is current ratio and net worth, but not statistically not significant at 5 percent level of significance. The quick ration t value nearest to significance value .The book value has highest variation in during study period.

WilcoxonTest Result

	Z Value	p value
Ratio		
Net Profit Margin	-.524a	0.6
Return on Longterm Funds	-.524a	0.6
Return on Net Worth	-1.572b	0.116
Dividend per share	-2.201b	0.028
Operating profit per Share	-2.201a	0.028
Current ratio	-2.201b	0.028
Quick Ratio	-2.201b	0.028
Earning per share	-1.992a	0.046
Book Value Ratio	-1.992a	0.046

A based positive Signs

B based negative Signs

Results Finding & Discussion

The net profit margin, return on long term funds has lowCoefficient of variation it is clearly indicates that lower consistency in performance of banks during the study period. Comparative analysis of data indicates the Return on net worth ratio and quick ratio has been negative compared to other profitability ratio of banks. The T Value has been not statistically significant at 5% level in respect of the entire ratio, so it may concluded that the effect of per centage change in profitability ratio has insignificant effect on performance of Banks. The results through Wilxocon test has Cleary indicates almost value of p are positive but not statistically significant at 5 percent level of significance.

Conclusion

The net profit margin, Return on Long term Funds and Current ratio has been showing negative positive but almost ratios are positive during this period. Thus the above table gives an idea about the higher the profitability banks earn higher the earning. For arrive at first objective of the study also necessary analyzed pre and post performance of banks. The table revels that the post private and public banks profitability ratio improved during the study period. Looking at operating profit margin, the main indicator of operational efficiency of an organization, public and private banks in India has been showing normal levels of performance during the study period. The study concluded that the performance of public and private banks is improved during the study period.

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