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Profitability Scenario in Selected Indian Public Sector Banks: From F.Y. 2011-12 to 2015-16

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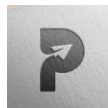
Abstract

Banking in growing economy has seen major transformations during the last two decades. In fact, it is not easy to judge the scale of the changes that have taken place. Banking sector reforms were introduced by the government of India in order to maintain the quality of operations, financial stability and soundness of banks as per international standard in the globalised competitive environment. Public sector banks can only survive through sound financial performance against private and foreign Banks. And financial position is depended on profitability scenario of Banks. To analyse the performance of bank, ratios are observed over a period of time. An analysis of changes of various ratios over time reflects changes in bank policies and strategies and/or in its business environment. The researcher tried to observe the profitability scenario of selected public sector banks with help of selected ratios for the period of 2011-12 to 2015-16. The sample banks are State Bank of India, State bank of Mysore, State Bank of Travancore, State Bank of Bikaner & Jaipur, Bank of Baroda, Bank of India, Canara Bank and Punjab National Bank. The study concluded that profitability scenario in State Bank of India and Punjab National Bank is very pretty during the study period. And State Bank of Mysore and Canara Bank are having weakest performance in particular ratio. High profitability scenario leads to very beautiful picture of public sector banks and which help to survive against competitive environment.

Keywords: *Bank's Performance, Financial Performance, Profitability, Public sector banks in India, Ratio analysis.*

Introduction

Banking in growing economy has seen major transformations during the last two decades. In fact, it is not easy to judge the scale of the changes that have taken place. Banking sector reforms were introduced by the government of India in order to maintain the quality of operations, financial stability and soundness of banks as per international standard in the globalised competitive environment. There is a high stress on Public Sector Banks Viz. competition regarding product, pricing and services and also in term of proliferation of innovation, cross selling, specialized markets etc. All these factors have affected profitability of Indian public sector banks (PSBs) for a somewhat



long period of time. Thus, public sector banks' financial performance is dependent on profitability. Profit is the most important and reliable marker as it gives a broad sign of the ability of a bank to elevate its income level. Profitability ratio analysis can be used to study profitability of bank. So, stakeholders of the bank can get an overview of business from Profitability Scene. The aim of the research paper is to study the profitability (with the help of concern ratio) of Public Sector Banks working in India.

Literature Review

Bhatia, Chauhan & Joshi (2015), said that public sector banks are facing hard challenges from the private sector banks and are under terrific pressure to cope up with the facilities provided by the foreign banks. The study was focused at comparing public sector and private sector on the criteria of public views, basic facilities to customer and their bench strength. The study concluded that people are more fulfilled from the private sector banks due to their superior services provided by them in terms of quick transactions, entirely computerized facilities, additional working hours, high-quality investment advisory services, well-organized and supportive staff, and improved approach to customer relationship management.

Singh and Tandon (2012), stated that banking Sector plays a chief role in economic development of a country. Indian banking system is featured by a huge system of bank branches, serving various kinds of financial services to the people. This study analyze and compares the financial performance of SBI and ICICI Bank with respect to ratios such as credit deposit, net profit margin etc. Conclusion of the research work is that SBI is performing sound and financially strong than ICICI Bank but in matter of deposits and expenditure ICICI bank has superior managing efficiency than SBI.

Guruswamy (2012), studied the factors of profitability of SBI and Its Associates. The paper is based upon secondary data. The attitude of policy planners for profitability has changed, with the result that small profits have become a truth of life. Therefore, it is time to focus on analysis of the profitability scenario.

Prasad and Ravinder (2011), studied the profitability of four chief banks in India i.e. SBI, PNB, ICICI bank and HDFC bank for the duration of 2005-06 to 2009-2010. The profitability of selected banks have been analyzed by using different parameters like operating profit margin, gross Profit margin, Earning per share, Return on Equity, Net profit margin, Return on assets, Dividend payout Ratio and Prices earnings Ratio. Study ranked HDFC Bank on the top place followed by PNB SBI and ICICI Bank.

Research Gap

The literature Review shows that a small number of studies have been conducted from the period from F.Y. 2011-12 to 2015-16 in context of mentioned objective.

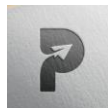
Research Methodology

Objective of the Study

The prime objective is to describe the Profitability scenario of selected Public Sector Banks in India.

Universe of the Study

It consists of all Public Sector Banks (25) working in India during the study period.



Selection of bank

The researcher has considered selected eight public sector banks. The sample Banks of the study are State Bank of India, State bank of Bikaner & Jaipur, State Bank of Travancore, State Bank of Mysore, Bank of Baroda, Bank of India, Punjab National Bank and Canara Bank. The selected banks have an average market capitalization of 5 billion rupees or more during the last six months (prior to FY: 2011-12)

Research Technique

The researcher has applied profitability ratios to justify the objectives of the study. The profitability ratios used in the study are Credit -Deposit Ratio, Interest Expended- Interest Earned Ratio, Other Income- Total Income Ratio, Operating Expense -Total Income Ratio, Net Profit -Total funds Ratio and RONW Ratio. With the help of these ratio researcher made an attempt to justify the scenario of profitability of selected PSBs for the period of 2011-12 to 2015-16. The average value of ratio and SD are also consider for study. Here, study is dependent on the secondary data, which is collected from annual reports of sample banks.

Data Analysis and Interpretation

The below mentioned tables shows the percentage of different selected profitability ratios of selected banks with an average and S.D. for the study period from 2011-12 to 2015-16.

1. Profitability Analysis of State Bank of India

Table: 1 SBI

State Bank of India	2011-12	2012-13	2013-14	2014-15	2015-16	Average	S.D.
Credit/Deposit (%)	82.14	85.17	86.84	84.47	83.56	84.44	1.76
Interest Expended/ Interest Earned (%)	59.36	62.95	63.86	63.9	65.25	63.06	2.23
Other Income/Total Income (%)	11.87	11.82	11.98	12.9	14.68	12.65	1.22
Operating Expense/Total Income (%)	20.73	20.74	22.2	21.47	20.89	21.21	0.63
Net Profit/Total Funds (%)	0.91	0.97	0.65	0.68	0.46	0.73	0.21
RONW (%)	13.94	14.26	9.2	10.2	6.89	10.90	3.16

Inference:

The maximum value of Credit to Deposit Ratio is 86.84 % for the year 2013-14 and a minimum value is 82.14 % for the year 2011-12. The maximum value of Interest Expended to Interest Earned Ratio is 65.25 % for the year 2015-16 and a minimum value is 59.36 % for the year 2011-12. The maximum value of Other Income to Total Income Ratio is 14.68 % for the year 2015-16 and a minimum value is 11.82 % for the year 2012-13. The maximum value of Operating Expense to Total Income ratio is 22.2 % for the year 2013-14 and a minimum value is 20.73 % for the year 2011-12. The maximum value of Net Profit to Total Funds ratio is 0.97 % for the year 2012-13 and a minimum value is 0.46 % for the year 2015-16. The maximum value of RONW ratio is 14.26 % for the year 2012-13 and a minimum value is 6.89 % for the year 2015-16.



2. Profitability Analysis of State bank of Bikaner & Jaipur

Table: 2 SBBJ

State Bank of Bikaner & Jaipur	2011-12	2012-13	2013-14	2014-15	2015-16	Average	S.D.
Credit/Deposit (%)	78.36	79.87	83.37	84.57	79.93	81.22	2.62
Interest Expended/Interest Earned (%)	64.69	65.78	65.43	67.34	65.55	65.758	0.97
Other Income/Total Income (%)	8.69	8.83	9.69	9.33	9.93	9.294	0.53
Operating Expense/Total Income (%)	18.53	18.51	21.34	17.38	18.4	18.832	1.48
Net Profit/Total Funds (%)	0.96	0.92	0.83	0.8	0.8	0.862	0.07
RONW (%)	15.65	15.32	13.66	12.92	12.61	14.032	1.39

Inference:

The maximum value of Credit to Deposit ratio is 84.57 % for the year 2014-15 and a minimum value is 78.36 % for the year 2011-12. The maximum value of Interest Expended to Interest Earned ratio is 67.34 % for the year 2014-15 and a minimum value is 64.69 % for the year 2011-12. The maximum value of Other Income to Total Income ratio is 9.93 % for the year 2015-16 and a minimum value is 8.69 % for the year 2011-12. The maximum value of Operating Expense to Total Income ratio is 21.34 % for the year 2013-14 and a minimum value is 17.38 % for the year 2014-15. The maximum value of Net Profit to Total Funds ratio is 0.96 % for the year 2011-12 and a minimum value is 0.8 % for the year 2014-15. The maximum value of RONW ratio is 15.65 % for the year 2011-12 and a minimum value is 12.61 % for the year 2015-16.

3. Profitability Analysis of State Bank of Travancore

Table: 3 SBT

State Bank of Travancore	2011-12	2012-13	2013-14	2014-15	2015-16	Average	S.D.
Credit/Deposit (%)	78.22	78.69	78.69	76.56	69.82	76.396	3.78
Interest Expended/Interest Earned (%)	73.2	75.35	75.45	76.14	73.42	74.712	1.32
Other Income/Total Income (%)	8.67	7.03	8.07	9.59	10.67	8.806	1.40
Operating Expense/Total Income (%)	15.78	14.77	16.91	17.4	16.82	16.336	1.06
Net Profit/Total Funds (%)	0.65	0.66	0.29	0.32	0.31	0.446	0.19
RONW (%)	13.2	14.09	6.65	6.38	5.6	9.184	4.10

Inference:

The maximum value of Credit to Deposit ratio is 78.69 % for the year 2012-13 and a minimum value is 69.82 % for the year 2015-16. The maximum value of Interest Expended to Interest Earned ratio is 76.14 % for the year 2014-15 and a minimum value is 73.2 % for the year 2011-12. The maximum value



of Other Income to Total Income ratio is 10.67 % for the year 2015-16 and a minimum value is 7.03 % for the year 2012-13. The maximum value of Operating Expense to Total Income ratio is 17.4 % for the year 2014-15 and a minimum value is 14.77 % for the year 2012-13. The maximum value of Net Profit to Total Funds ratio is 0.66 % for the year 2012-13 and a minimum value is 0.29 % for the year 2013-14. The maximum value of RONW ratio is 14.09 % for the year 2012-13 and a minimum value is 5.6 % for the year 2015-16.

4. Profitability Analysis of State Bank of Mysore

Table: 4 SBM

State Bank of Mysore	2011-12	2012-13	2013-14	2014-15	2015-16	Average	S.D.
Credit/Deposit (%)	79.07	79.11	79.66	79.54	77.57	78.99	0.83
Interest Expended/Interest Earned (%)	68.8	69.15	69.53	69.93	70.32	69.546	0.60
Other Income/Total Income (%)	9.23	9.08	8.3	9.96	10.21	9.356	0.76
Operating Expense/Total Income (%)	17.71	16.12	18.46	18.92	20.15	18.272	1.49
Net Profit/Total Funds (%)	0.66	0.65	0.29	0.54	0.44	0.516	0.16
RONW (%)	9.26	9.61	6.87	9.37	7.66	8.554	1.22

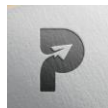
Inference:

The maximum value of Credit to Deposit ratio is 79.66 % for the year 2013-14 and a minimum value is 77.57 % for the year 2015-16. The maximum value of Interest Expended to Interest Earned ratio is 70.32 % for the year 2015-16 and a minimum value is 68.8 % for the year 2011-12. The maximum value of Other Income to Total Income ratio is 10.21 % for the year 2015-16 and a minimum value is 8.3 % for the year 2013-14. The maximum value of Operating Expense to Total Income ratio is 20.15 % for the year 2015-16 and a minimum value is 16.12 % for the year 2012-13. The maximum value of Net Profit to Total Funds ratio is 0.66 % for the year 2011-12 and a minimum value is 0.29 % for the year 2013-14. The maximum value of RONW ratio is 9.61 % for the year 2012-13 and a minimum value is 6.87 % for the year 2013-14.

5. Profitability Analysis of Punjab National Bank

Table: 5 PNB

Punjab National Bank	2011-12	2012-13	2013-14	2014-15	2015-16	Average	S.D.
Credit/Deposit (%)	77.39	78.13	78.06	76.6	75.19	77.074	1.22
Interest Expended/ Interest Earned (%)	63.18	64.54	62.65	64.25	67.71	64.466	1.97
Other Income/Total Income (%)	10.34	9.14	9.57	11.28	12.66	10.598	1.41
Operating Expense/Total Income (%)	16.52	17.02	18.8	19.39	17.64	17.874	1.20
Net Profit/Total Funds (%)	1.17	1.02	0.65	0.53	-0.63	0.548	0.71
RONW (%)	18.52	15.19	9.69	8.12	-11.2	8.064	11.55

**Inference:**

The maximum value of Credit to Deposit ratio is 78.13 % for the year 2012-13 and a minimum value is 75.19 % for the year 2015-16. The maximum value of Interest Expended to Interest Earned ratio is 67.71 % for the year 2015-16 and a minimum value is 62.65 % for the year 2013-14. The maximum value of Other Income to Total Income ratio is 12.66 % for the year 2015-16 and a minimum value is 9.14 % for the year 2012-13. The maximum value of Operating Expense to Total Income ratio is 19.39 % for the year 2014-15 and a minimum value is 16.52 % for the year 2011-12. The maximum value of Net Profit to Total Funds ratio is 1.17 % for the year 2011-12 and a minimum value is -0.63 % for the year 2015-16. The maximum value of RONW ratio is 18.52 % for the year 2011-12 and a minimum value is -11.2 % for the year 2015-16.

6. Profitability Analysis of Bank of Baroda**Table: 6 BOB**

Bank of Baroda	2011-12	2012-13	2013-14	2014-15	2015-16	Average	S.D.
Credit/Deposit (%)	74.76	71.68	69.54	69.54	68.13	70.73	2.59
Interest Expended/ Interest Earned (%)	65.23	67.85	69.27	69.31	71.09	68.55	2.18
Other Income/Total Income (%)	10.34	9.35	10.28	9.29	10.19	9.89	0.52
Operating Expense/Total Income (%)	14.75	14.54	15.65	15.48	17.17	15.518	1.04
Net Profit/Total Funds (%)	1.24	0.9	0.75	0.49	-0.78	0.52	0.78
RONW (%)	18.22	14.01	12.61	8.53	-13.4	7.99	12.46

Inference:

The maximum value of Credit to Deposit ratio is 74.76 % for the year 2011-12 and a minimum value is 68.13 % for the year 2015-16. The maximum value of Interest Expended to Interest Earned ratio is 71.09 % for the year 2015-16 and a minimum value is 65.23 % for the year 2011-12. The maximum value of Other Income to Total Income ratio is 10.34 % for the year 2011-12 and a minimum value is 9.29 % for the year 2014-15. The maximum value of Operating Expense to Total Income ratio is 17.17 % for the year 2015-16 and a minimum value is 14.54 % for the year 2012-13. The maximum value of Net Profit to Total Funds ratio is 1.24 % for the year 2011-12 and a minimum value is -0.78 % for the year 2015-16. The maximum value of RONW ratio is 18.22 % for the year 2011-12 and a minimum value is -13.42 % for the year 2015-16.

7. Profitability Analysis of Bank of India**Table: 7 BOI**

Bank of India	2011-12	2012-13	2013-14	2014-15	2015-16	Average	S.D.
Credit/Deposit (%)	74.85	76.88	76.86	76.6	72.85	75.608	1.76
Interest Expended/ Interest Earned (%)	70.81	71.72	71.43	73.88	71.95	71.958	1.16
Other Income/Total Income (%)	10.44	10.56	10.17	8.88	8.04	9.618	1.11



Operating Expense/Total Income (%)	15.01	14.43	15.33	16.37	19.92	16.212	2.19
Net Profit/Total Funds (%)	0.73	0.66	0.53	0.29	-0.99	0.244	0.71
RONW (%)	13.57	11.49	9.12	5.43	-19.63	3.996	13.55

Inference:

The maximum value of Credit to Deposit ratio is 76.88 % for the year 2012-13 and a minimum value is 72.85 % for the year 2015-16. The maximum value of Interest Expended to Interest Earned ratio is 73.88 % for the year 2014-15 and a minimum value is 70.81 % for the year 2011-12. The maximum value of Other Income to Total Income ratio is 10.56 % for the year 2012-13 and a minimum value is 8.04 % for the year 2015-16. The maximum value of Operating Expense to Total Income ratio is 19.92 % for the year 2015-16 and a minimum value is 14.43 % for the year 2012-13. The maximum value of Net Profit to Total Funds ratio is 0.73 % for the year 2011-12 and a minimum value is -0.99 % for the year 2015-16. The maximum value of RONW ratio is 13.57 % for the year 2011-12 and a minimum value is -19.63 % for the year 2015-16.

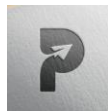
8. Profitability Analysis of Canara Bank

Table: 8 CANB

Canara Bank	2011-12	2012-13	2013-14	2014-15	2015-16	Mean	S.D.
Credit/Deposit (%)	71.52	69.51	69.95	70.55	68.66	70.038	1.08
Interest Expended/ Interest Earned (%)	75.08	76.88	77.38	77.91	77.82	77.014	1.16
Other Income/Total Income (%)	8.67	8.47	9.04	9.42	9.97	9.114	0.60
Operating Expense/Total Income (%)	13.37	13.3	13.46	14.15	14.97	13.85	0.71
Net Profit/Total Funds (%)	0.93	0.73	0.54	0.53	-0.52	0.442	0.56
RONW (%)	15.91	12.57	10.1	10.21	-10.75	7.608	10.53

Inference:

The maximum value of Credit to Deposit ratio is 71.52 % for the year 2011-12 and a minimum value is 68.66 % for the year 2015-16. The maximum value of Interest Expended to Interest Earned ratio is 77.91 % for the year 2014-15 and a minimum value is 75.08 % for the year 2011-12. The maximum value of Other Income to Total Income ratio is 9.97 % for the year 2015-16 and a minimum value is 8.47 % for the year 2012-13. The maximum value of Operating Expense to Total Income ratio is 14.97 % for the year 2015-16 and a minimum value is 13.3 % for the year 2012-13. The maximum value of Net Profit to Total Funds ratio is 0.93 % for the year 2011-12 and a minimum value is -0.52 % for the year 2015-16. The maximum value of RONW ratio is 15.91 % for the year 2011-12 and a minimum value is -10.75 % for the year 2015-16.



Conclusion

As per RBI if credit to deposit ratio is 60 percent, then it is an ideal business mix. The results show that all the banks having more than 60 percent of Credit to Deposit Ratio, so all the banks are performing very well during the study period. The performance of SBI in case of profit margin is great, whereas Canara bank has to get better its profit margin. The performance of SBI is excellent in case of income from other sources compare to other public sector banks in India. In matter of operating Expenses to Total Income, performance of Canara bank is having marvellous saving by reducing cost of operating expenses compare to other public sector banks in India. State Bank of Bikaner Jaipur has having high Net profit against total funds, whereas Bank of India has to its performance in case of net profit. State Bank of Bikaner Jaipur is giving good returns to their shareholders compare to other Public sector banks. Thus, profitability scenario in State Bank of India and Punjab National Bank are very pretty during the study period. And State Bank of Mysore and Canara Bank are having weakest performance in particular ratio. High profitability scenario leads to very beautiful picture of public sector banks and which help to survive against competitive environment.

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