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A STUDY ON VALUE CREATION AND PROFITABILITY OF SELECT PRIVATE SECTOR BANKS IN INDIA

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Abstract:

Maintenance of liquidity and profitability are contradictory in nature. The maintenance of liquidity is necessary to prove the fact that the bank is able to meet its commitments without fail and is paying the day to day expenses. Thus liquidity refers to the ability of the concern to fulfill its obligations promptly. Whereas, profitability is primarily the measure of the overall success of business and so, it is the ability to earn profit. Profitability is the most powerful motivational factor in any business. The larger the profit, the more efficient and profitable a business is deemed to be. It is the engine that drives a business concern. It also enables a concern to discharge its obligations to the various segments of the society. The researcher select the five Private sector banks and found out the value creation through profitability analysis using ratios, coefficient of variation and standard deviation.

Key Words: Profitability, Liquidity & Value Creation

Introduction:

Banking system is an important constituent of overall economic system. It plays an important role in mobilizing the nation's savings and in channelizing them into high investment priorities and better utilization of available resources. Hence, banking can better be described as the kingpin of the chariot of economic progress. Banks play an important role in the economic development of a country. Their ability to make a positive contribution in igniting the process of growth depends on the effective banking system. These banks mostly deal with money collected in the form of deposits along with their own funds in the form of share capital and resources constituting around 5% of the total resources or the bank. So the banks have the obligation of meeting the demand of the customers promptly, paying interest for the amount and meeting the expenses to carry out its activities. Profitability is the most powerful motivational factor in any business. The larger the profit, the more efficient and profitable a business is deemed to be. It is the engine that drives a business concern. It also enables a concern to discharge its obligations to the various segments of the society. In this research papers, the researcher mainly study the profitability position of select private sector banks.

Statement of the Problem: The private sector banks are lacking in branch network and market coverage, they have competitive strengths in regular innovations. They are providing better services to customers. They are under effective management and control. The other good points towards private sector banks are low cost of operation, higher profitability ratio, low accumulation of un-remunerative and low yielding assets, smaller in size leading to effective supervision etc. How this research work is an attempt to provide insights with respect to their profitability and will also map the efficiency and value creation level in post – liberalized regime.

Objectives of the Study:

- ✓ To analyze the profitability of selected private sector banks in India.
- ✓ To offer suitable suggestion based on the findings of the study.

Period of the Study: The study is intended to cover the period of 10 years ranging from 2005 to 2014. A ten years period has been selected in order, that the study would be meaningful in focusing the attention of profitability of banks. Further the ten years period is considered to be reasonably long enough to identity the problems and trends in the management of financial performance.

Scope of the Study: The study of financial performance of banks is based on tools like different profitability ratios and average of the ratios. Further the study is based on 10 years Annual Reports of the major private banking sectors such as Axis Bank, Kotak Mahindra Bank, HDFC Bank, ICICI Bank and Karur Vysya Bank.

Framework of Analysis: This study aims to find out the profitability position of the bank. To ascertain the financial position of the bank "Ratio Analysis" technique has been used. In order to fulfill the above objectives and to make various statistical tools are used in this study.

Research Methodology: To achieve the above mentioned objectives of the study, the following methodology have been adopted.

Data Source: The selected Indian Banking Sector are used for the study, only Secondary data are those data which is already collected and stored are. The data were collected from capital line database. Other data are getting from the Annual Reports, Journals etc. The Secondary data also made available through trade magazines, books, Internet etc. The aim of data collection is to gain familiarity and to achieve new insights into the financial performance of the banks.

Sample and Selection: For the purpose of depth analysis, various aspects of financial performance of the banks and their implications on managerial efficiencies, 5 major banks have been selected among 128 private banks in India. The companies have been selected based on their performance. The sample size is restricted to five banks with ten years of data. The five private banking sector is

- ✓ AXIS Bank
- ✓ Kotak Mahindra Bank
- ✓ HDFC Bank
- ✓ ICICI Bank
- ✓ Karur Vysya Bank

Tools and Techniques of the Study: Tools used for this study are:

- ✓ Ratio Analysis

Ratio Analysis: Ratio analysis is a fundamental means of examining the health of a company by studying the relationships of key financial variables. Many analysts believe ratio analysis is the most important aspect of the analysis process.

Limitations of the Study:

- ✓ The present study is only for a period of 10 years. The result of the study cannot be generalized.
- ✓ Data were collected from financial statements. The inherited limitations of financial statements cannot be avoided.
- ✓ Ratio analysis cherishes the limitation of financial accounting statements.
- ✓ It excludes the study if other financial problems like working capital, capital expenditure, fund flows and cash flows etc.

Review of Literature:

Anil Kumar Soni and Abhay Kapre (2005) [1]had analysed the performance of Regional Rural Banks in India. The study is based on secondary data and the period of study was from 2006 – 2007 to 2010 – 2011. Statistical tool like growth rate was considered for the analysis purposes. The study has concluded that Regional Rural Banks have to concentrate on speedy, qualitative and secure banking services to retain existing customers and to attract potential customers.

Mohiud Din Sangmi and Tabassum Nazir (2005) [2]have analysed the financial performance of commercial banks in India by applying CAMEL model. The study is based on secondary data and the period of study was from 2000 – 2001 to 2004 – 2005. 2 banks form the sample. Statistical tools like mean and standard deviation were used. The study revealed that the position of banks was sound and satisfactory as far as their capital adequacy, asset quality, management, capability and liquidity was concerned.

Subhayu Majumdar and Shan Prabhakaran (2006)[3] have analysed the efficiency levels of private and public sector banks in the post recession period. The study is based on secondary data and the period of study was from 2008 – 2009 to 2010 – 2011. 41 banks form the sample. Descriptive and exploratory research techniques were used. t – test was also used. The study has revealed that Bank of Baroda and Axis bank had a constant benchmark and no banks have shown full efficiency level.

Analysis and Interpretations:

Ratio analysis is an accounting tool, which can be used to measure the solvency, the profitability, and the overall financial strength of a business, by analyzing its financial accounts (specifically the balance sheet and the profit and loss account). Accounting ratios are very easy to calculate and they enable a business to highlight which areas of its finances are weak and therefore require immediate attention.

Different types of ratios use to analyze the banks Performances are,

Table 1: Current Ratio

Banks	2005	2006	2007	2008	2009	2010
Axis Bank	0.06	0.04	0.03	0.03	0.03	0.03
Kotak Mahindra	0.03	0.04	0.05	0.06	0.09	0.05
HDFC	0.03	0.04	0.04	0.04	0.04	0.03
ICICI	0.09	0.08	0.09	0.11	0.13	0.14
Karur Vysya	0.04	0.03	0.03	0.03	0.03	0.03
Mean	0.05	0.046	0.048	0.054	0.064	0.056
SD	0.0255	0.01949	0.0249	0.0336	0.044497	0.0477493

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3. SubhayuMajumdar and Shan Prabhakaran, A Comparison of Cost, Efficiency Levels of Private & Public Sector Banks in the Post Recession Period: An Application of Data Envelopment Analysis.

CV	50.9902	42.3774	51.8746	62.251	69.52686	85.266688

Banks	2011	2012	2013	2014	Mean	SD	CV
Axis Bank	0.02	0.03	0.03	0.03	0.033	0.01059	32.1015
Kotak Mahindra	0.05	0.05	0.04	0.03	0.049	0.01729	35.2825
HDFC	0.6	0.08	0.06	0.06	0.102	0.17568	172.232
ICICI	0.07	0.12	0.09	0.09	0.101	0.02283	22.6018
Karur Vysya	0.03	0.03	0.03	0.03	0.031	0.00316	10.2009
Mean	0.154	0.062	0.05	0.048			
SD	0.25005999	0.03834	0.0255	0.02683			
CV	162.376619	61.8396	50.9902	55.9017			

Table 1 Exhibits the amount of Current Ratio charged by the select sample bank for 10 years ranging from 2005 to 2014.The amount of Current ratio is low 0.02 in the case of Axis Bank in the year 2011 and it is very high 0.14 in the case of ICICI Bank in the year 2010. With regard to the period of study, the mean Current Ratio is low in the year 2006 (0.046) and it is very high (0.056) in the year 2010. The analysis of co– efficient of variation reveals that it is highly consistent (42.3774) in the year 2006 and it highly fluctuating (162.376619) in the year 2011. In relation to the sample select banks, the mean Current Ratio is low (0.031) is in the case of Karur Vysya bank, and it is very high (0.102) in the case of HDFC Bank. The results of co- efficient of variation disclose that it is highly stable (10.2009) in the case of Karur Vysya Bank, and it is highly fluctuating (172.232) in the case of HDFC Bank.

Table 4: Prediction of Future Trend Values for Operating Profit per Share Ratio

Banks	2015	2016	2017	2018	2019
Axis Bank	91.6493	97.3232	102.997	108.671	114.3
Kotak Mahindra	17.4893	18.2799	19.0705	19.8612	20.65
HDFC	39.9647	35.6015	31.2384	26.8752	22.51
ICICI	45.462	46.0896	46.7173	47.3449	47.97
Karur Vysya	37.2933	32.7696	28.2458	23.7221	19.2
Bank Wise	46.37173	46.01278	45.65382	45.29486	44.936

Banks	2020	2021	2022	2023	2024
Axis Bank	120.019	125.693	131.366	137.04	142.714
Kotak Mahindra	21.4424	22.233	23.0236	23.8142	24.6048
HDFC	18.1489	13.7858	9.42261	5.05945	0.6963
ICICI	48.6002	49.2278	49.8555	50.4831	51.1107
Karur Vysya	14.6745	10.1508	5.62703	1.10327	-3.4205
Bank Wise	44.57695	44.21799	43.85903	43.50007	43.14112

Prediction of Future Trend Values for Operating Profit per Share Ratio: The result of trend analysis in relation to Operating Profit Per share Ratio is exhibited in the Table 4. The trend analysis for Operating Profit Per share Ratio is computed based on the data for 10 years ranging from 2005 to 2014. The projection has been made for 10 years with an intention to know about its trend for a period ranging from 2015 to 2024. The overall results of the trend analysis in relation to Operating Profit Per share Ratio reveals that the volume of future amount towards Operating Profit Per share Ratio may move from -3.4205 to 142.714. The future amount of Operating Profit Per share Ratio may increase continuously in the case of three banks namely Axis Bank, Kotak Mahindra Bank and ICICI Bank. The volume of liquidity is at the fluctuating trend in the case of remaining two banks namely HDFC Bank and Karur Vysya Bank. The Bank wise combined volume of Operating Profit Per share ratio is the decreasing trend. The volume of Operating Profit Per share ratio is ranging from 43`14112 to 46.37173.

Table 10: Prediction of Future Trend Values for Net Profit Ratio

Banks	2015	2016	2017	2018	2019
Axis Bank	1.844	1.92673	2.00945	2.09218	2.175
Kotak Mahindra	1.948	2.03055	2.11309	2.19564	2.278
HDFC	1.702	1.71055	1.71909	1.72764	1.736
ICICI	1.58733	1.64121	1.69509	1.74897	1.803
Karur Vysya	1.33	1.29927	1.26855	1.23782	1.207
Bank Wise	1.682267	1.721661	1.761055	1.800448	1.8398

Banks	2020	2021	2022	2023	2024
Axis Bank	2.25764	2.34036	2.42309	2.50582	2.58855
Kotak Mahindra	2.36073	2.44327	2.52582	2.60836	2.69091
HDFC	1.74473	1.75327	1.76182	1.77036	1.77891
ICICI	1.85673	1.91061	1.96448	2.01836	2.07224
Karur Vysya	1.17636	1.14564	1.11491	1.08418	1.05345
Bank Wise	1.879236	1.91863	1.958024	1.997418	2.036812

Prediction of Future Trend Values for Net Profit Ratio: The result of trend analysis in relation to Net Profit Ratio is exhibited in the Table 10 The trend analysis for Net Profit Ratio is computed based on the data for 10 years ranging from 2005 to 2014. The projection has been made for 10 years with an intention to know about its trend for a period ranging from 2015 to 2024. The overall results of the trend analysis in relation to Net Profit Ratio reveals that the volume of future amount towards Net Profit Ratio may move from 1.05345 to 2.69091. The future amount of Net Profit Ratio may increase continuously in the case of four banks namely Axis Bank, Kotak Mahindra Bank, HDFC Bank and ICICI Bank. The volume of liquidity is at the fluctuating trend in the case of remaining only one bank namely Karur Vysya bank. The Bank wise combined volume of Net Profit ratio is the increasing trend. The volume of Net Profit ratio is ranging from 1.682267 to 2.036812.

Findings, Suggestions and Conclusion:

Findings:

- ✓ It is found that in the case of Current ratio, Axis bank obtain lower range in the year 2011and higher range obtained by ICICI in the year 2010.
- ✓ It is found that in the case of Net profit ratio, ICICI bank obtain lower range in the year 2009 and higher range obtained by Kotak Mahindra in the year 2012.

Suggestions:

- ✓ The management of ICICI has to look upon the current debt to owners' funds ratio. Since the banking sector reforms have been set in motion, the profitability became the buzzword, and the prime mover of the financial strength and performance of banks. Introducing Modern Marketing Strategies.
- ✓ Improving Credit-Deposit Proportion.
- ✓ Generating Non-Interest Income.
- ✓ Introducing Innovative Branch Administration.
- ✓ Monitoring the Controlling Mechanism on Important Ratios.
- ✓ Prudential Disclosure of Financial Information.
- ✓ Banks should increase the rate of saving account.

Conclusion:

Banking Sector Reforms have changed the face of Indian banking industry. The reforms have led to the increase in resource productivity, increasing level of deposits, credits and profitability. However, the profitability, which is an important criteria to measure the performance of banks in addition to productivity, financial and operational efficiency has come under pressure because of changing environment of banking. An efficient management of banking operations aimed at ensuring growth in profits and efficiency requires up-to-date knowledge of all those factors on the bank's profit. In recent year, there have been considerable pressures on the profitability of banks. A lower profitability may rise due to lack of control over the expenses. Banks are urged to generate sufficient revenue to meet the rising cost of fund. Profitability is a key result area where performance and results directly and virtually affect the survival. Therefore, every bank should aim at increasing their performance for earning profits by rendering best and quality products and services to the customers and for their survival as well.

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