Comparative analysis of the profitability and management efficiency of new private sector banks in India

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Abstract

The banks which came in operation after 1991 with the introduction of economic reforms and financial sector reforms are called “new private sector banks”.Since liberalisation in government banking policy new private sector banks have re-emerged. They have grown faster & bigger over the two decades since liberalisation. This study measures the profitability and management efficiency of three new private sector banks in India (AXIS BANK,HDFC BANK,INDUSLAND BANK) .Banks were selected on the basis that these banks came into operation on the same year :1994.Various ratios were taken while analysing the performance of banks. Overall result shows that all the banks are performing almost similar. No more difference is found in their performance.

Key words: Profitability , Management Efficiency, Liberalisation, Economic Reforms

I Introduction

The basis for banking reforms was provided by the committee on financial system (Narsimham Committee) which made recommendations in November 1991, and these recommendations are a landmark in the evolution of banking policy in the country, as
these transformed the Indian Banking System from a highly regulated to a more market oriented system.The progress of banking reforms in the last ten years has been] impressive. The RBI made substantial progress in modifying the policy framework for reforms. The proportion of banks' resources pre-empted has been brought down.

The **private-sector banks in India** represent part of the indian banking sector that is made up of both private and public sector banks. The "private-sector banks" are banks where greater parts of stake or equity are held by the private shareholders and not by government.. However The private sector banks are split into two groups by financial regulators in India, old and new. The old private sector banks existed prior to the nationalisation in 1969 and kept their independence because they were either too small or specialist to be included in nationalisation. The new private sector banks are those that have gained their banking license since the liberalisation in the 1990s.

II. Literature Review

Usman et al (2009) conduct a study on banking efficiency dynamic with financial sector reforms effect. They took the data set of 20 commercial banks of Pakistan and measure the efficiency using Data Envelopment Analysis Malmquist productivity index of total factor productivity (TFP) from 1990-2005.**Jahangir,Shill and Haque (2007)** Stated that the traditional measure of profitability through stockholders equity is quite different in banking industry from any other sector of business where loan–to-deposit ratio works as very good indicator of banks profitability as it depicts the status of assts-liability management of banks. **Tarawneh(2006)** found that the bank with higher total capital, deposits, credits, or total assets does not always means that has better profitability performance. **Fadxlan Sufian (2006)** applied DEA window analysis approach to examine the long term trend in the efficiency of 29 Singapore banking group during the period of 1993-2000.**X.Chen et all (2005)** applies frontier analysis (X-efficiency) using DEA to examine the cost, technical and locative efficiency of 43 Chinese banks over the period 1993-2000.**Chien-Ta(Bruce)(2004)** Used a new approach of performance evaluation,grey relation analysis(GRA),which is a concept borrowed from the study of industry and is increasingly applied to commerce.GRA is used to evaluate the realative performance of three of Australia's major banks.**Maghyereh (2003)** Jordian undertook major financial sector liberalization starting in the early of 1990's.The effect of these reform on the efficiency of the banking sector is evaluated.

Choudhary (2002) observed that the banking industry of Bangladesh is a mixed one comprising nationalized, private and foreign commercial banks many efforts have been made to explain the performance of these banks. **Bassett and Brady's (2002)** study found that small banks grew more rapidly than large banks from 1985-2001 with profitability remains at a higher level. **Siddique and Islam (2001)** pointed out that the commercial banks, as a whole, are performing well in contributing to the economical development of the country. **N.Ganeshan** Examine the performance (operational efficiency of 30 state cooperative banks SCB's in India for the financial year 2002-2003 and 2003-2004.The DEA is used to find the efficiency of SCB's. **Singh (1990)**, in his research study titled, "Productivity in Indian Banking Industry", discussed the trends and changes in the productivity with particular attention on employee and branch productivity in the Indian banking industry.**Ramamurthy (1998)**, in his technical paper on the profitability and productivity in Indian banking stated that the banking structure and profitability structure of the banking system across the country have a bearing on the profitability of the banks. When banks are considered as groups in terms of big, medium and small, bigger banks have greater scope for economies of scale. **Malhotra (1999)** in her study, "Banking Sector Reforms: Experience of PSBs", has analyzed the performance of PSBs as a result of banking sector reforms. The study is divided into two parts. In the first part, a brief review of banking reforms has been made. In the second part, the researcher has discussed the impact of banking sector reforms on PSBs, after dividing the reform period of 1992-98 into two phases.

III. Statement of the problem:

It is a comparative study of 3 private sector commercial banks in the system of their profitability and management efficiency measured with ratios.

IV. Objectives:

1. To analyze the efficiency of selected Private commercial banks in India
2. To compare the profitability in terms of return on equity and return on assets of selected banks.
3. To know the management efficiency of the banks over the study period from 2011-15.

V. Reserch Methodology

V.1 Research Design: In view of the above objectives of the study, descriptive research design was adopted for the present study which largely interprets the already available information, and it lays particular emphasis on analysis and interpretation of available information and it make use of secondary data.

V.II. Source of Data: The study is based on secondary data consists of the annual reports of banks and Reserve bank of India statistical table relating to banks for 5 years.

V.III. Tools of analysis: The data collected for the study was analyzed logically and meaningfully to arrive at conclusions. Statistical tools like, averages are used.

V.IV Accounting Measures: Profitability ratios like Net profit margin, interest spread, ROA are used . Management efficiency ratios like net profit/total funds, loans turnover, total assets turnover etc are used.

VI. Data Analysis and Interpretation

TABLE-1

PROFITABILITY		**1**	**2**	**3**
RATIOS	**YEAR**	**AXIS BANK**	**HDFC BANK**	**INDUSLAND**
1				
NET PFOFIT MARGIN	2011	22.35	19.70	16.08
	2012	19.28	18.93	14.97
	2013	19.05	19.18	15.19
	2014	20.29	20.61	17.05
	2015	20.73	21.07	18.50
AVERAGE		**20.34**	**19.89**	**16.35**
2	2011	6.66	8.25	8.17
INTEREST SPREAD	2012	7.46	8.42	8.12
	2013	7.90	8.28	8.28
	2014	7.67	8.01	7.85
	2015	7.34	8.01	7.49
AVERAGE		**7.40**	**8.19**	**7.98**
3	2011	17.83	15.47	15.12
RETURN ON NET	2012	18.59	17.26	17.79
WORTH	2013	15.64	18.57	14.32
	2014	16.26	19.50	16.30
	2015	16.46	16.47	17.51
AVERAGE		**16.95**	**17.45**	**16.20**
4	2011	462.77	545.46	81.95
RETURN ON ASSETS	2012	551.99	127.52	96.50
	2013	707.50	152.20	141.71
	2014	813.47	181.23	164.33
	2015	188.47	247.39	193.40
AVERAGE		**544.84**	**250.76**	**135.57**
5	2011	72.25	59.91	81.02
RETURN ON LONG	2012	88.84	75.20	107.45
TERM FUNDS	2013	75.72	80.09	85.41
	2014	73.36	81.47	86.75
	2015	72.32	66.77	87.70
AVERAGE		**76.49**	**72.68**	**89.66**

Table 1 shows the profitability ratios Axis bank, Hdfc bank and Indusland bank. Calculated for five years from 2011-2015.First profitability ratio is net profit margin which is highest in Axis bank, followed by Hdfc bank and Indusland bank. Second ratio is interest spread which is high in Hdfc bank. similarly return on net worth is more in Hdfc bank with little low in Axis bank but ROA is highest in case of Axis bank . As in case of Indusland bank it shows highest ratio of return on long term assets.

TABLE-2

MANAGEMENT EFFICIENCY RATIOS	YEAR	1 AXIS BANK	2 HDFC BANK	3 INDUSLAND
INTERST INCOME/	2011	7.16	7.97	8.91
TOTAL FUNDS	2012	8.33	8.87	10.43
	2013	8.68	9.50	10.70
	2014	8.47	9.22	10.32
	2015	8.40	8.96	9.92
AVERAGE		**8.20**	**8.90**	**10.05**
	2011	1.60	1.57	1.43
NET PROFIT/TOTAL	2012	1.61	1.68	1.56
FUNDS	2013	1.65	1.82	1.63
	2014	1.72	1.90	1.76
	2015	1.74	1.89	1.84
AVERAGE		**1.66**	**1.77**	**1.64**
	2011	4.06	3.76	8.49
INTEREST EXPENDE	2012	5.29	4.87	7.11
D/TOTAL FUNDS	2013	5.59	5.22	7.28
	2014	5.16	5.08	6.71
	2015	5.03	4.82	6.42
AVERAGE		**5.02**	**4.75**	**7.20**
	2011	0.12	0.14	0.15
LOANS TURNOVER	2012	0.14	0.15	0.18
	2013	0.15	0.16	0.18
	2014	0.14	0.15	0.17
	2015	0.14	0.15	0.16
AVERAGE		**0.13**	**0.15**	**0.16**
	2011	0.07	0.08	0.09
TOTAL ASSETS	2012	0.08	0.09	0.10
TURNOVER	2013	0.09	0.10	0.11
	2014	0.08	0.09	0.10
	2015	0.08	0.09	0.10
AVERAGE		**0.08**	**0.09**	**0.10**

Management efficiency ratio shows the efficiency of banks management in managing their overall business .For analysing this efficiency we have taken 5 ratios is interest income/total funds this ratio is highest in Indusland bank .Second ratio is net profit/total funds this ratio is highest in Hdfc bank showing there best management followed by Axis bank.Third ratio taken is interest expended/total funds it is highest in Indusland bank and does not shows more difference between other two banks. Other two ratios like loans turnover and total assets turnover are high in Indusland bank followed by Hdfc bank and Axis bank.

VII. Findings

a) AXIS BANK- NPM and ROA found to be highest in comparison to other two banks.
b) HDFC BANK- NET Profit / T.Funds, Interest spread and return on net worth is found to be maximum.
c) INDUSLAND BANK – Return on long term funds as a measure of profitability is maximum in this bank.Loans turnover ratio ,Total assets turnover ratio is also highest .,interest expanded /total funds is also maximum. This shows good management capability of this bank.

VIII. Conclusion

Profitability ratios are employed by the management in order to assess how efficiently they carry on their business operations and also it is suggested for the entire bank to take effective steps to improve the operating efficiency of the business. In terms of profitability difference is not more in all the three banks .Management efficiency ratio predicts the capability of banks in managing their resources with competitive environment .In management also three of bank does not show very strong difference. Thus the conclusion is that all the three banks under study perform on the same way there is no huge difference between their performances.

IX. Suggestions:

1.Profitability of bank could be achieved through increasing services in the form of non-interest income sources like fee, commission and discounts.

2.Private sector banks are significantly increasing in the return on equity and return on assets, it is good for the industry and environment, stake holders and shareholders getting other benefits and business

3.A strong financial system promotes investment by financing productive business opportunities, mobilizing savings, efficiently allocating resources and makes easy the trade of goods and services.

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