
PROFITABILITY ANALYSIS OF COMMERCIAL BANKS

V.SWAPNA

Research scholar
Chaitanya deemed to be university
Kishanpura
Hanamkonda
Telangana
Mail id :swapnabachi02@gmail.com

Prof. G.USHA SREE

Professor
Chaitanya deemed to be university
Kishanpura
Hanamkonda
Mail id :usha.prasad72@gmail.com

How to cite this article: V.SWAPNA, Prof. G.USHA SREE (2023) Profitability analysis of Commercial Banks. Library Progress International, 43(2), 574-581

ABSTRACT

Profit is the main goal of every business. It is a barometer to measure the success of the business. Every organization works to earn profits. Profitability position shows the market value of the company. Commercial banks play a vital role in the world by providing financial services to the people. Profitability position of banks shows the efficiency of the banks in providing their services. There are many indicators which show the flow of profits in an organization. Banks earn profits by collecting interests from advances. The interests charged by the banks vary from Public Sector Bank to Private Sector Banks. Public Sector Banks focus on service motive so interests are low , bur Private Sector Banks work for profits, so Interest rates are more The present paper focuses on understanding and analyzing the profitability of Union and HDFC bank. Through various indicators, a comparative study undertaken between Union and HDFC bank.

Keywords: Profit, Profitability, Commercial Banks, Measuring Efficiency,

INTRODUCTION:

Profit:

Profit is the major indicator to measure the efficiency of any business profitability refers to profits earned by a business after spending earned money on required expenditure. Profitability analysis is the process of analyzing the profits by taking various indicators. it helps business to identify the opportunities for carrying out further activities of the business and to implement various strategies in the business.

Profitability analysis of commercial banks is analyzed through the following indicators.

- 1) Interest earned
- 2) Other income
- 3) Operating expenses
- 4) Net profit

Interest earned:

Interest earned is the amount of interest earned from investments that pay the holder a regular series of mandated payments. For example, interest earned can be generated from funds invested in a certificate deposit or an interest-bearing bank account.

Other income:

Other income refers to those sources of income of an individual or business which arise out of activities besides the main activity to be recorded separately in Schedule 1 of Form 1040 or on the income statement.

Operating income:

Operating expenses, often called are the ongoing costs that a business faces to keep things running. In essence, they constitute the essential payments required to facilitate the functioning of your business. Operating expenses are usually repetitive in nature and represent the resources needed to make sure the business keeps running smoothly.

Net profit:

A company's net profit is also known as its net income, net earnings or bottom line. It represents the financial standing of a company after all its expenses have been paid off from its total revenue.

Review of Literature

1. A study on liquidity and profitability position with Reference to ITL Pvt Ltd by ¹P. Chitti babu, P. Rajitha, in the year 2015, published in International Journal of Business Management, volume-3, Issue-8, the study focused on the evaluating the liquidity and

¹ P. Chitti babu and P. Rajitha, A study on liquidity and profitability position with Reference to ITL Pvt Ltd in International Journal of Business Management, volume-3, Issue-8, 2015.

profitability position of the company using financial ratios, and revealed that the liquidity and profitability position of ITL pvt ltd is satisfactory.

2. ²Bassey& Moses (2015), Effect of Liquidity Management on Bank profitability, ISSN236-6957, Iravestiya Journal of varua university of economics, asserted that higher liquidity negatively affects the performance of banks, where they further implies that profitability is reduced by higher liquidity. Trade-off theory supported the assertion and implied that the risk of bank is eradicated through higher liquidity; therefore, the compensation premium is required to compensate the costs of bankruptcy for investors.
3. ³Conventional corporate finance theories signified that optimal level of banking is desired by a bank in an equilibrium condition that exclusively ascertains costs and incentives by implementing a zero margin relationship. However, capital requirement enforces banks to possess liquidity for exceeding their private optimal level, if they are bonded and imposed by monetary authorities (Agbada &Osuji, 2013).
4. A study of the profitability analysis of selected bank by ⁴Damor Kailshben. P. Saurashtra university in the year 2015, the study is to compare the profitability trends between various banks and applied ratio analysis of used for the different tools for the measuring the performance of various banks. It is indicated that there is difference between the profitability in public sector and private sector banks during the period of study.
5. An evaluate the study of operational efficiency and service quality of commercial banks in India by ⁵Sreeleela Krishnan 2014 from university mahatma Gandhi university. He studied the profitability of Indian commercial banks by applying ratio analysis to interpret the relationship between the different specific relationship in profitability , productivity assets and capital associated with the operations. The study concluded that the profitability is in increasing trend only for state bank in operating profit Ratio.
6. A study by Avinash lingam deemed university for women efficiency profitability and financial soundness of scheduled commercial banks in India an application of CRAMEL and bankometer model. ⁶LALITHADEVI in the year 2014, to examine the determination of profitability of scheduled commercial banks in India. She has applied different tools and analysed various banks. The study reveals that the foreign banks is higher than the Indian commercial banks.
7. A study by Impact of liquidity management on the growth and performance of selected commercial banks in India by ⁷Rabindra Kumar swain in the year 2021, the objective is to study the factors influencing the liquidity management of commercial banks to analyse the liquidity position of the banking sector tends to stimulate the economic prosperity and growth, and it is found that liquidity management leads to increase the financial performance.
8. Impact of asset liability management and the liquidity and profitability of selected commercial banks in India by ⁸Sumantha Behera. S in the year 2021, the objective of

² Bassey& Moses (2015), Effect of Liquidity Management on Bank profitability, ISSN236-6957

³ Agbada &Osuji, 2013 Conventional corporate finance theories

⁴ Damor Kailshben, P. Saurashtra university in the year 2015, A study of the profitability analysis of selected bank

⁵ Sreeleela Krishnan 2014 from university mahatma Gandhi university. An evaluate the study of operational efficiency and service quality of commercial banks

⁶ LALITHADEVI in the year 2014 A study by Avinash lingam deemed university for women efficiency profitability and financial soundness

⁷ Rabindra Kumar swain in the year 2021 A study by Impact of liquidity management on the growth and performance of selected commercial banks in India

⁸ Sumantha Behera Impact of asset liability management and the liquidity and profitability of selected commercial banks in India

the study the procedure and techniques involved in managing the assets and liabilities. and concluded that the select banks had wide varieties in the quantum of capital.

9. A study on operational efficiency and service quality of commercial banks in India by ⁹Sreela Krishnan in the year 2014 from mahatma Gandhi university. The objective is to study the profitability of Indian commercial banks, the researcher analysed the data using trend analysis and observed that operational efficiency is depended on service quality.
10. An analysis of liquidity management a case study of the Titan industries limited by ¹⁰Jain Aditi in the year 2008 from university Maharaja ganga Singh university. The objective of the study

Objectives of the study:

- 1) To study the indicators of profits of UBI
- 2) To study the indicators of profits of HDFC bank
- 3) To compare the profitability position of UBI and HDFC bank

Scope of the study:

The study focuses on the concept of profitability analysis of commercial banks. For the purpose of the study public bank and private bank is chosen it is confined to union bank of India and HDFC.

Research methodology:

Collection of Data: Data is collected through secondary sources

Secondary Sources: The data is collected from annual reports of the banks , books, journals and related websites.

Tools of data analysis: Ratios and Anova tests are used to analyse the data.

Limitations of the Study:

- 1) The study is confined to two banks only
- 2) The time period is limited 10 years

TABLE-1 PROFITABILITY ANALYSIS OF UNION BANK OF INDIA

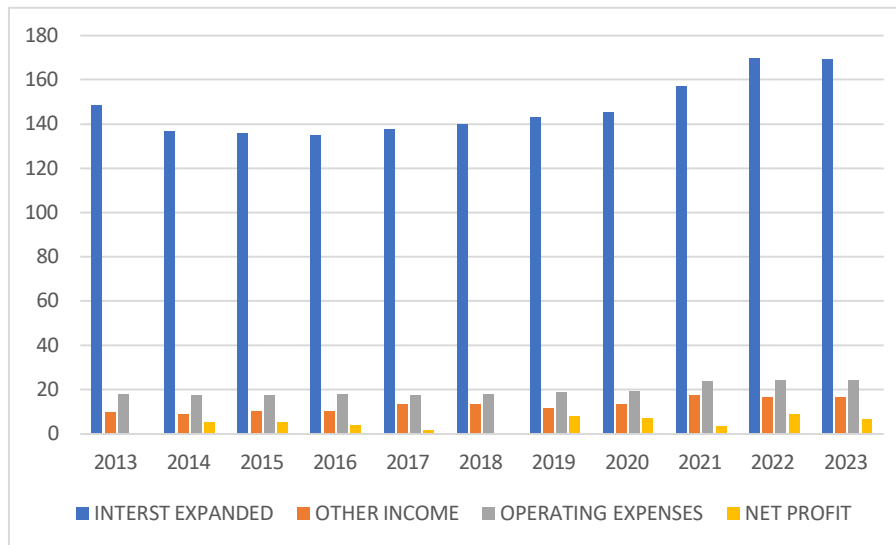
YEAR	INTERST EXPANDED	OTHER INCOME	OPERATING EXPENSES	NET PROFIT
2013	148.40	9.61	17.77	7.79
2014	136.69	8.77	17.04	5.27
2015	135.71	9.89	17.25	5.10
2016	134.80	10.13	17.58	3.77
2017	137.47	13.19	17.11	1.47

⁹ Sreela Krishnan in the year 2014 from mahatma Gandhi university. A study on operational efficiency and service quality of commercial banks in India.

¹⁰ An analysis of liquidity management a case study of the Titan industries limited in Maharaja ganga Sing university by Jain Aditi in the year 2008.

2018	139.69	13.22	17.63	----
2019	142.82	11.60	18.59	7.64
2020	145.06	13.37	18.92	7.02
2021	157.12	17.10	23.62	3.38
2022	169.81	16.39	24.09	8.68
2023	168.97	16.54	24.19	6.37

SOURCE: Computed from Annual Reports



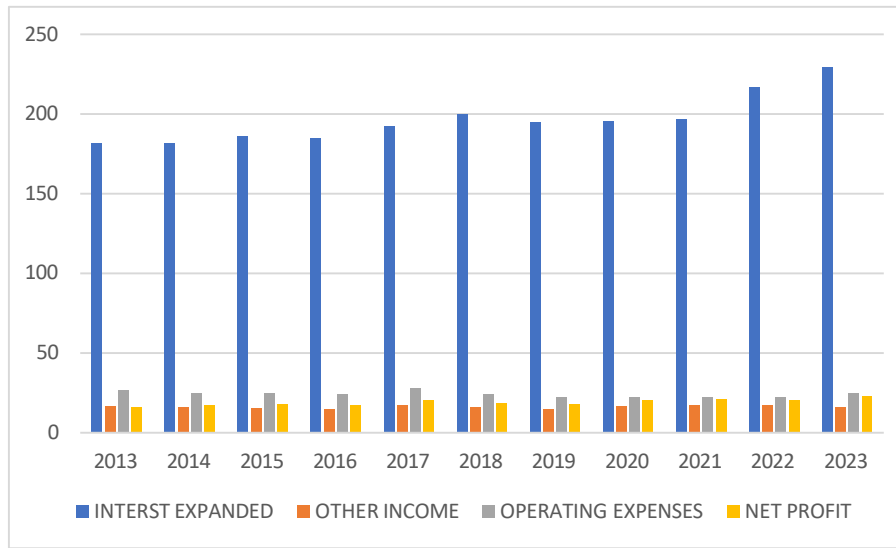
The above table shows the profitability analysis of UBI through some ratios as, interest earned, operating expenses ratio and net profit ratio from the calculated values it is clear that the interest earned ratio of UBI is more than the year 2023, other income ratio is more in 16.54 and operating expenses ratio is more in 2023. It is showing the profitability position is fluctuating from year to year but slowly profitability increasing in the year 2023. But the net profit ratio is slightly decreased in 2023 and high in 2022. So, profitability is fluctuating. When compared with the year 2013 interest expanded ratio 19 percentage increased similarly other income ratio is increased to 7 percentage. The operating expenses ratio as increased up to 6.42 percentage through this when net profit ratio is calculated it is found that it is 7.79 in 2013 but increased in 2018 and slowly started decreasing and reached to 6.37 in 2023.

TABLE-2 PROFITABILITY ANALYSIS OF HDFC BANK OF INDIA

YEAR	INTERST EXPANDED	OTHER INCOME	OPERATING EXPENSES	NET PROFIT
2013	182.07	16.59	26.86	16.04
2014	181.50	16.31	24.52	17.23
2015	185.89	15.65	24.34	17.77
2016	184.55	15.14	23.92	17.32
2017	192.60	17.31	27.90	20.55
2018	199.87	15.94	23.76	18.31
2019	195.10	15.11	22.40	18.07
2020	195.83	16.84	22.23	20.46

2021	196.64	17.25	22.40	21.30
2022	216.97	17.38	22.25	20.25
2023	229.18	16.19	24.71	22.87

SOURCE: Computed from Annual Reports



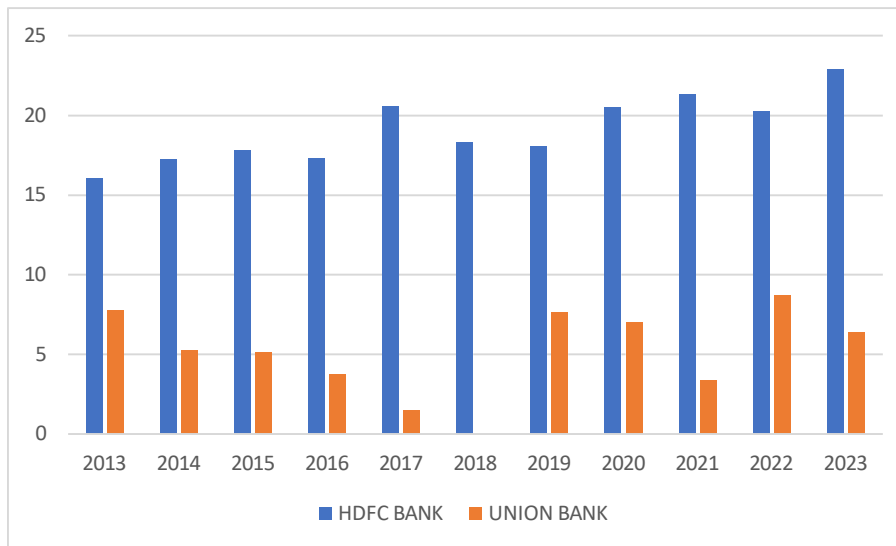
The above table shows the profitability analysis of HDFC bank through ratios like interest earned, operating expenses ratio and net profit ratio from the calculated values it is clear that the interest earned ratio of HDFC is more than the year 2023, other income ratio is more in 2022. It is observed that profitability position is fluctuating from year to year but slowly profitability is increasing every year and reached to 22.87 in the year 2023. operating expenses ratios is decreased in the year 2023 to 24.11 percentage.

COMPARITION OF NET PROFIT OF HDFC & UNION BANK

Year	HDFC BANK	UNION BANK	VARIANCE
2013	16.04	7.79	8.25
2014	17.23	5.27	11.96
2015	17.77	5.1	12.67
2016	17.32	3.77	13.55
2017	20.55	1.47	19.08
2018	18.31	----	18.31
2019	18.07	7.64	10.43
2020	20.46	7.02	13.44
2021	21.3	3.38	17.92
2022	20.25	8.68	11.57

2023	22.87	6.37	16.5
------	-------	------	------

SOURCE: Computed from Annual Reports



The above table shows is related to the comparison of profitability analysis of HDFC & UNION bank, it is observed that HDFC bank is showing more profits than Union bank. The difference between the profits of both bank is very high in the year 2017 and very low in the year 2013. All the differences figures reveal that next to 2013,2014,2015,2016 are showing less variation are same into 2022 also. Therefore the comparison table shows the clear information that union bank profits are very low compared with HDFC bank. The mean value of HDFC profits is very high when compared with union bank. As HDFC is a private bank there are variations in the interest rate therefore the profits are also high. Whereas Union bank is a public sector bank and the interest charged by the bank is less, profits earned less.

Source of Variation	SS	df	MS	F	P-value	F crit
Rows	57.58203	11	5.23473	0.925847	0.247692	2.81793
Columns	1163.991	1	1163.991	205.8707	1.82E-08	4.844336
Error	62.19388	11	5.653989			
Total	1283.767	23				

The above ANOVA table shows that the calculated P value is 0.24, which is less than the 5% level of significant. Hence the null hypothesis stands rejected, Alternative hypothesis is rejected. It means that there would be significant difference in net profit ratio of Union Bank and HDFC Bank.

Conclusion:

In the data analysis of the study, the profitability analysis of HDFC and Union bank is analysed and observed that there is positive trend of profits in both banks. But the comparative study between both banks shows that HDFC has incurred more profits than Union bank. Union bank

has suffered with loss in the year 2018. The comparative analysis reveals that in HDFC interest rates are more and earnings are high. The maintenance cost and charges are high and income is high. Union bank interest rates are reasonable and earnings are less, maintenance cost is less. Charges are also less on services. Therefore profits earned are less. From this it can be clear that, public sector banks are working to provide loans at less interest rates and they earn less revenues.. Private Banks provide loans at high interest and earn more earnings.

REFERENCES

1. P. Chitti babu and P. Rajitha, A study on liquidity and profitability position with Reference to ITL Pvt ltd in International Journal of Business Management, volume-3, Issue-8, 2015. Bassey & Moses (2015), Effect of Liquidity Management on Bank profitability, ISSN 236-6957
2. Agbada & Osuji, 2013 Conventional corporate finance theories Damor Kailshben, P. Saurashtra university in the year 2015, A study of the profitability analysis of selected bank.
3. Sreeleela Krishnan 2014 from university mahatma Gandhi university. An evaluate the study of operational efficiency and service quality of commercial banks.
4. LALITHADEVI in the year 2014 A study by Avinash lingam deemed university for women efficiency profitability and financial soundness.
5. RabindraKumar swain in the year 2021 A study by Impact of liquidity management on the growth and performance of selected commercial banks in India.
6. Sumantha Behera Impact of asset liability management and the liquidity and profitability of selected commercial banks in India.
7. Sreela Krishnan in the year 2014 from mahatma Gandhi university. A study on operational efficiency and service quality of commercial banks in India.
8. An analysis of liquidity management a case study of the Titan industries limited in Maharaja Ganga Sing University by Jain Aditi in the year 2008.