IMPACT: International Journal of Research in Humanities, Arts and Literature (IMPACT: IJRHAL)
ISSN (P): 2347–4564; ISSN (E): 2321–8878
Vol. 4, Issue 12, Dec 2016, 85–90
© Impact Journals

EVALUATION OF PROFITABILITY OF PRIVATE SECTOR COMMERCIAL BANKS AFTER ECONOMIC REFORMS

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ABSTRACT

The banking sector in India plays an important role in the development of economy. India has a well-established banking system which includes pubic commercial banks, private commercial banks, foreign banks, scheduled banks, regional rural bank and cooperative banks. These banks are controlled and regulated by Reserve Bank of India. After the adoption of new economic policy new private commercial banks started their operations in India. The entry of new private sector commercial banks and modern technology has drastically changed the Indian banking sector. Today the new private sector banks provide all types of banking services like, loans and advances, accepting deposits, offer insurance and investment products. The banks like ICICI, HDFC. Axis bank, yes bank and Kodak Mahindra bank are operating in India This study is an attempt to evaluate the performance of these banks.

KEYWORDS: Private Commercial Banks, Recent Trends, Financial Performance, New Economic Policy, Trend Analysis

INTRODUCTION

After the adoption of new economic policy in 1991, Indian banking sector undergone changes. In the first sixteen years new millennium the banking sector, in addition to their traditional role, offer facilities and opportunities like ATM, Net Banking, Chip cards, mobile banking, electronic fund transfer etc. to their customers. The private sector commercial banks can be classified in to two categories, they are old private sector banks and new private sector banks. Old private sector banks are those banks which are in operation before 1991.These banks were not nationalized during the bank nationalization period. The new private sector banks are those banks which started operation in the post reforms period. These banks were allowed to function after the recommendation of Narasimha Committee. There were three important criteria which the new banks to fulfill to start their operation, they are (a) A minimum net worth of ₹200crores(b)Within three years of establishment, the banks should offer shares to public and their net worth is to be increased to ₹300crores. (c)The promoters holding should be a minimum of 25%of paid up capital. There are seven new private commercial banks in India in 2015, and there are more on the pipeline

REVIEW OF LITERATURE

Kumar & Raju (2015) Studied banking services of new generation banks. They examined the product and services of new generation banks in detail. It also covered the technological development and recent trends in Indian banking industry.

Tandon, Anjun & Juleee (2014) have done a study on financial performance of five Public Commercial Banks which, includes SBI, Bank of Baroda, Canara Bank, PNB and Bank of India.

Nishit.V. Davada & Dr. A.H. Solanki (2014) prepared a review article on new private sector banks in India. They tried to identify the Challenges and opportunities for the new private sector commercial banks. They found that one of the big challenges is rural outreach and risk management.

STATEMENT OF THE PROBLEM

The Indian banking industry was dominated by private banks up to the bank nationalization. But after the nationalization process the private sector banks were not allowed to operate in India. With the new economic policy and financial sector reforms, restrictions on private commercial banks were lifted. Since then, the new private commercial banks always tried to introduce new products, services and technology. Thus, this study seeks to analyze the performance of selected new private commercial banks.

OBJECTIVE

To analyze the profitability of selected private commercial banks after 1991 reforms

RESEARCH METHODOLOGY

Source of Data

The data are collected from secondary source like website, journals and magazines, RBI etc.

Research Design

The study is on new private commercial banks registered in India as on 31-03-2016.

Table 1: New Private Commercial Banks Registered in India

Sl. No.	Name of the Bank	Year of Establishment	Head Quarters
1	HDFC Bank	1994	Maharashtra
2	Indus land Bank	1994	Maharashtra
3	Development Credit Bank	1995	Maharashtra
4	AXIS Bank	1995	Andhra Pradesh
5	ICICI Bank	1996	Maharashtra
6	Kotak Mahindra Bank	2003	Maharashtra
7	Yes Bank	2005	Maharashtra
8	IDFC Bank	2015	Maharashtra
9	Bandhan Bank	2015	West Bengal

Source: RBI Data

Out of these nine banks researcher selected four banks, they are ICICI Bank, HDFC Bank, AXIS Bank and Yes Bank based on their market capitalization.

Period of Study

The secondary date is collected for the period of ten years from 2006-07bto 2015-16.

DATA ANALYSIS

In the era of globalization, profitability and operational efficiency have become important for banks in India for their growth. The profitability is an important criterion for measuring their performance. The ratio analysis is the powerful tool of profitability measurement. In order to analyze the profitability of selected banks following ratios were used.

Return on Equity

Return on equity measures the ability of a firm to generate profit from its shareholders investment in the company. Return on Equity is a profitability ratio from the investor's point of view. It measures the quantity of money gained from the investor's investment in the company.

$$\text{Return of Equity} = \frac{\text{Net income}}{\text{Shareholders' equity}}$$

Table 2: Return on Equity of the Selected Bank

Return on Assets (%)				
Year	**ICICI Bank**	**YES Bank**	**HDFC Bank**	**AXIS Bank**
2011-2012	10.7	20.89	17.25	18.54
2012-2013	12.49	22.38	18.58	15.64
2013-2014	13.38	22.72	19.48	16.31
2014-2015	13.90	17.14	16.49	16.46
2015-2016	11.18	18.43	16.91	15.46
Total	61.65	101.56	88.71	82.41
CV	11.13	12.05	7.08	7.58
SD	1.37	2.45	1.26	1.25
Mean	12.33	20.312	17.42	16.482

Source: Calculated Data from RBI Reports

From the above table it is clear that YES bank has the return on equity (mean), which indicates that management of YES bank is using leverage to increase profit and profit margin and is a sign of effective management. Return on equity is lowest for ICICI bank, but the coefficient of variation is comparatively high. Return on AXIS bank indicates declining trend. HDFC and YES bank show increasing trend except in the year 2014-15.

Capital Adequacy Ratio

Capital adequacy ratio is the ratio of bank capital to risk. It is also known as Capital to Risk (weighted) Asset ratio (CRAR). It determines the banks capability to meet the time liability and other risk such as credit risk and operational risk.

$$\text{Capital adequacy ratio} = \frac{\text{Tier 1 Capital Tier 2 Capital}}{\text{Risk Weighted Assets}}$$

Tier one capital is obtained by deducting sum total of equity investment in subsidiary, in tangible asset + current and brought forward losses from the sum total of paid-up capital, statutory reserve and disclosed free reserves.

Tier two capital is the sum total of undisclosed reserves, general loss reserves and hybrid debt capital instruments and subordinate debts.

Table 3: Capital Adequacy Ratio of Selected Banks

Return on Assets (%)				
Year	**ICICI Bank**	**YES Bank**	**HDFC Bank**	**AXIS Bank**
2011-2012	19.6	17.9	16.4	13.7
2012-2013	18.7	18.2	16.8	17
2013-2014	17.7	14.5	16.2	16
2014-2015	17.1	15.7	16.7	15.2
2015-2016	16.5	16.4	15.6	15.3
Total	89.6	82.7	81.7	77.2
CV	6.87	9.75	3.37	7.95
SD	1.23	1.61	0.55	1.23
Mean	17.92	16.54	16.34	15.44

Source: Calculated Data from RBI Reports

From the above table it is clear that capital adequacy ratio of ICICI bank is gradually declining from 2011 inwards. But at the same time, it shows highest mean as compared to other banks, which indicates high degree of safety of depositors' money. Both HDFC bank and AXIS banks show a fluctuating trend, but the coefficient of variation is low for HDFC bank. YES, bank is having highest standard deviation and coefficient of variation, is an indication of unstable capital adequacy ratio of that bank.

Return on Assets

Return on asset shows company's productivity to total assets. ROA indicates managerial efficiency in generating earnings from its assets. It measures profitability of the company's assets.

$$\text{Return on assets} = \frac{\text{Net Income}}{\text{Total Assets}}$$

Table 4: Return on Assets of Selected Banks

Return on Assets (%)				
Year	**ICICI Bank**	**YES Bank**	**HDFC Bank**	**AXIS Bank**
2011-2012	1.36	1.33	1.52	1.47
2012-2013	1.55	1.31	1.68	1.52
2013-2014	1.63	1.49	1.72	1.62
2014-2015	1.72	1.46	1.73	1.60
2015-2016	1.35	1.54	1.73	1.56
Total	7.64	7.11	8.38	7.77
CV	11.06	7.06	5.35	3.57
SD	0.17	0.10	0.09	0.06
Mean	1.52	1.42	1.68	1.55

Source: Calculated Data from RBI Reports

From the table it is clear that HDFC bank is showing an increasing trend in return of assets. It has the highest mean, which is sign of managerial efficiency in using assets to increase the earning capacity.ROA of ICICI bank had an increasing trend till 2014-15 and it declined in the next year, it has highest coefficient of variation. Coefficient of variation of AXIS bank is less.ROA of YES bank is fluctuating every year and are not stable.

CONCLUSIONS

Indian banking sector has experienced several changes with the establishment of new private commercial banks. Main focus of the study was on profitability of new private commercial banks in India. From the study it is clear that YES bank is growing rapidly as compared to other new private commercial banks. Return on equity and capital adequacy ratio of YES is comparatively high at the same time return on asset is lowest, which need urgent attention from the management. HDFC bank is on the top in terms of market capitalization. It is having high return on assets and low coefficient of variation on return on equity and capital adequacy ratio, which is a favorable sign. With the new technology and new products new private sector commercial banks have gained their own position in Indian banking industry.

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