

Profitability Analysis of Scheduled Commercial Banks in India

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Abstract: *Measurement of profitability in banking is necessary to improve the financial soundness of banks. The present paper attempts to measure profitability trends of Scheduled commercial banks. In this paper profitability is analyzed under parameters of productivity that is net profit as percentage of working funds, operating profit as percentage of working fund, net profit as percentage of total deposit, net profit as percentage of total income. The time period of the study is from 2001-02 to 2014-15. The paper concludes that that net profit to working fund is better than of operating profit to working fund as far as net profit as percentage of total income is better than of net profit to total deposits.*

KEYWORDS: *Profitability, Performance, Commercial banks.*

Introduction:

Profitability is an important criterion to evaluate the overall efficiency of the bank. The objective of profitability ratio is to evaluate the performance of banks on the basis of the degree of relationship existing between the profits and fund on one hand and between the profit and total income of banks on the other. Increase in the ratio implies increase in the profitability of banks. Profitability ratios are a class of financial metrics that are used to assess a business's ability to generate earnings compared to its expenses and other relevant costs incurred during a specific period of time. For most of these ratios, having a higher value relative to a competitor's ratio or relative to the same ratio from a previous period indicates that the company is doing well.

Objectives of the Study:

- To analyse the profitability of scheduled commercial banks.
- To study trends of profitability of scheduled commercial banks.

Database and Methodology:

The present paper study trends in productivity of SBI and its Associates. The study is secondary based and analytical in nature. The time period of the study is from 2010-11 to 2014-15. The various sources of data were: Statistical Tables Relating to Banks in India, Trend and Progress of Banking in India published by RBI. Statistical tools such as mean, standard deviation, coefficient of variation, correlation coefficient and growth rate both simple growth rate and compound growth rate are used to provide analytical results of the data.

Analysis & Interpretation:**Net Profit as percentage of working funds:**

Net profit is obtained by deducting provisions and contingencies from operating profits. Working funds refer to the total resources or total assets of the bank. This ratio indicates the net profit per unit of working funds. This ratio is an indicator of profitability of the bank. Higher value of this ratio indicates better profitability and lower ratio shows lower profitability of the bank.

Operating Profit as percentage of working funds:

Operating profit denotes the difference between the interest spread and burden. Net profit is obtained by deducting provisions and contingencies from operating profit. This ratio indicates the operating profit per unit of working funds. Higher value of this ratio indicates better profitability and lower ratio shows lower profitability of the bank.

Table 1: Net profit and operating profit as percentage of working funds

Year	OPWF	GR	NPWF	GR
2010-11	0.28	0.47	0.57	0.39
2011-12	0.25	-0.11	0.54	-0.05
2012-13	0.92	2.68	1.93	2.57
2013-14	0.16	-0.83	0.23	-0.88
2014-15	0.21	0.31	0.32	0.39

This table shows that operating profit to working funds is 0.28 in 2010-11 and it falls down in 0.21 in 2014-15. where as in net profit to working funds is 0.57 in 2010-11 and 0.32 in 2014-15.

Chart 1.1 Net profit and operating profit as percentage of working funds

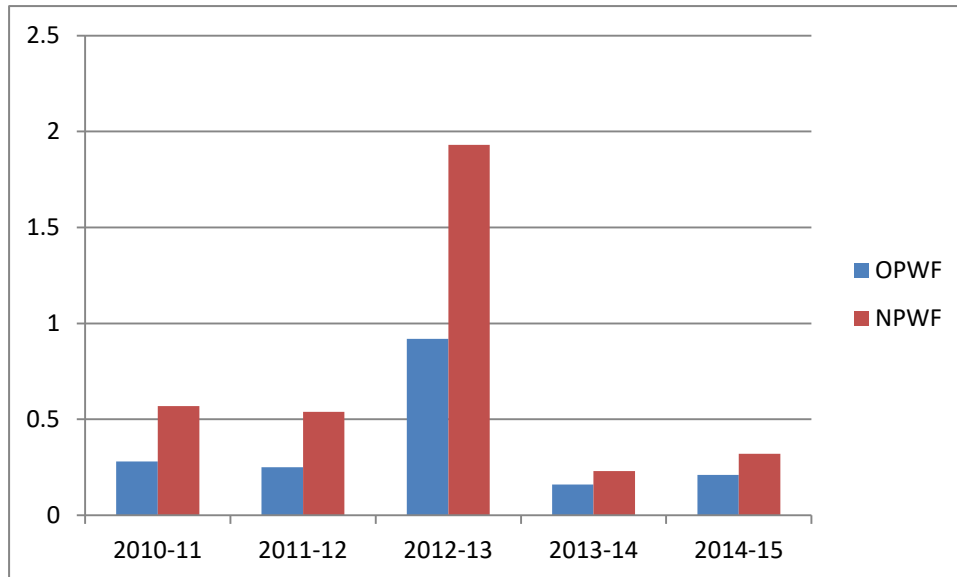


Chart 1.2 Growth rate of operating profit as percentage of working funds

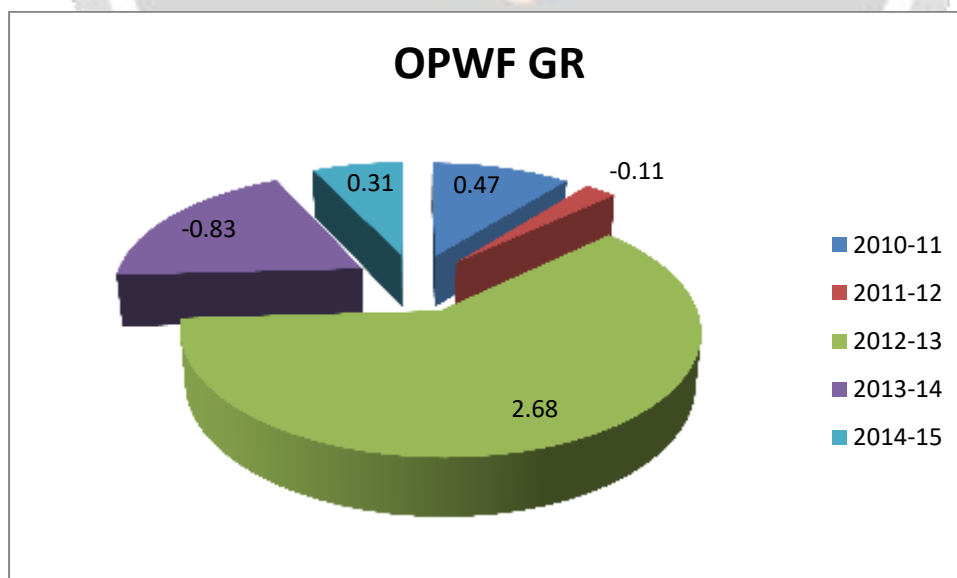
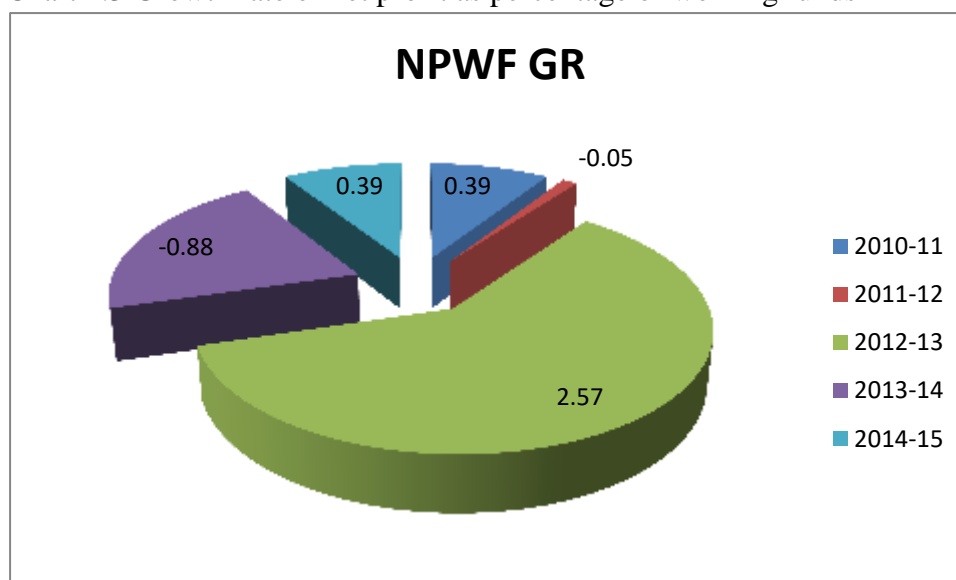


Chart 1.3 Growth rate of net profit as percentage of working funds

**Net Profit as percentage of Total Income:**

The ratio of net profit as percentage of total income reflects the income generating capacity of the banks. This ratio indicates as to what percentage of total income is being earned by a bank as net profit. Total income includes both interest and non-interest income. Higher ratio indicates higher profitability and lower ratio indicated lower profitability.

Net Profit as percentage of Total Deposits:

It is an important measure of profitability of banks. It measures profit per hundred rupees of total deposits. Total deposits of a bank consist of fixed deposits, saving deposits, and current deposits both from public as well as other banks. This ratio provides information relating to the profit derived by banks as percentage of total deposits over a period of time. Higher value of this ratio indicates better profitability and lower value indicates lower profitability.

Table 2: Net profit as percentage of total income and net profit as percentage of total deposits

YEAR	NPTI	GR	NPTD	GR
2010-11	0.12	-0.88	0.01	0.00
2011-12	0.11	-0.89	0.01	0.00
2012-13	0.10	-0.90	0.01	0.00

2013-14	0.12	-0.88	0.32	31.00
2014-15	0.15	-0.85	0.02	-0.94

This table show that net profit to total income is 2010-11 in 0.12 and it increases 2014-15 is 0.15.net profit to total deposit is 0.01 in 2010-11 and -0.94 in 2014-15.

Chart 2.1 Net profit as percentage of total income and net profit as percentage of total deposits

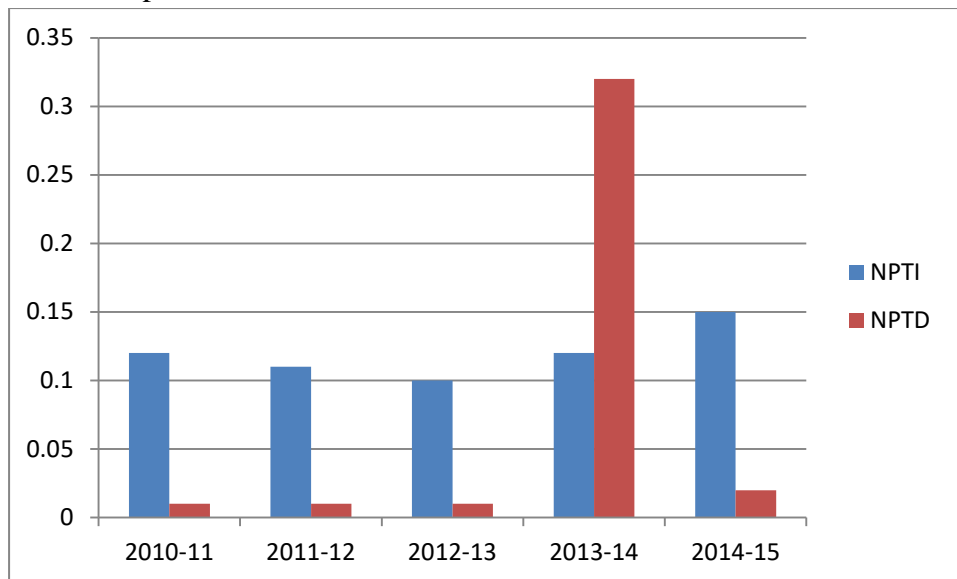


Chart 2.2 Growth rate of net profit of total income

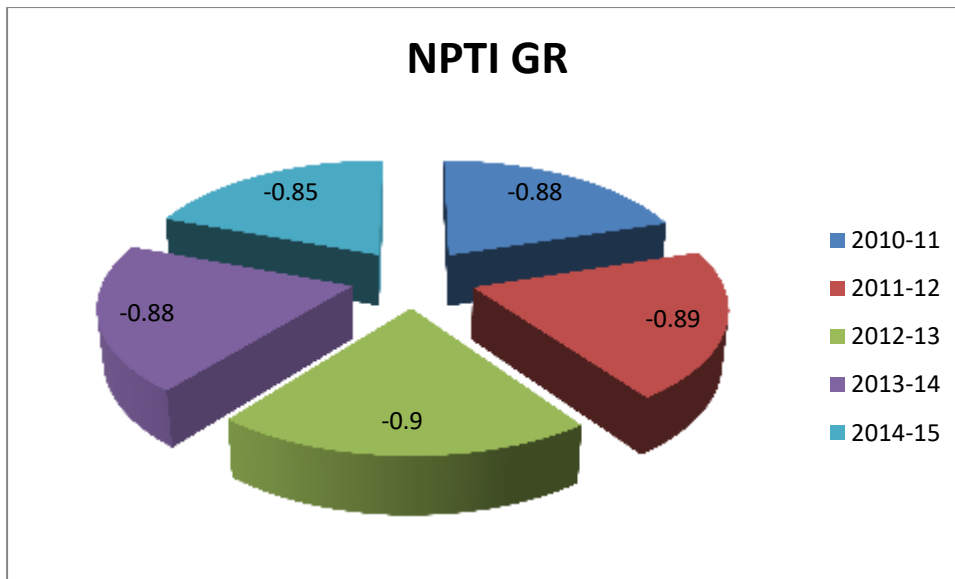
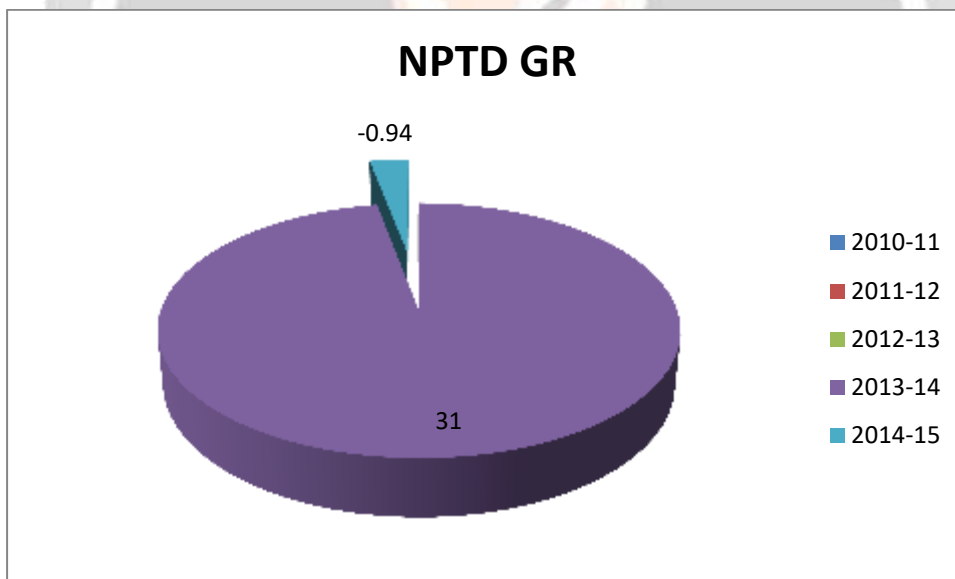


Chart 2.3 Growth rate of net profit of total deposits



Conclusions:

It can be concluded that net profit to working fund is better than of operating profit to working fund as far as net profit as percentage of total income is better than of net profit to total deposits.

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