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An Analysis of the Profitability of Selected Indian Public, Private, and Foreign Banks

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Abstract

A "commercial bank" is a type of financial institution that offers checking account services, disburses different loans, takes deposits, and sells certificates of deposit (CDs) and savings accounts to individuals and small businesses. The majority of people do their financial transactions with commercial banks. To earn income, commercial banks issue and collect interest on loans such as mortgages, business loans, auto loans, and personal loans. Deposits from customers provide banks with the funding they need to make these loans. Basic banking services are provided by commercial banks to the general public, including both small and medium-sized enterprises and individual customers. Commercial banks have historically been situated in structures where clients come to conduct ordinary banking transactions using ATMs and teller window services. Most banks now enable their clients to do the majority of in-person transactions-including transfers, deposits, and bill payments online, thanks to advancements in technology.

Keywords: Profitability, Indian public banks, private banks, foreign banks, commercial bank

INTRODUCTION

The profitability performance of India's scheduled commercial banks has emerged as a hot subject in recent years. There is plenty of data to support the idea that the banking sector is becoming less profitable. It is crucial to evaluate the profitability of commercial banks given the shift in their social and economic goals, particularly for the scheduled commercial banks in India. However, "profit" has been employed as one of the numerous indications of their performance evaluation in the majority of research spanning the most recent time period. This greatly diminishes the significance of earnings [1–4]. In order to maintain the public's confidence in the soundness of the banking system and to prevent banks' social objectives from becoming less important, it is imperative that efforts be focused on analysing the profits and profitability position of scheduled commercial banks. Profitability is a crucial performance metric in the banking industry because it shows how effectively an organisation uses all of its resources. The banks are now opposite a number of challenges such as everyday changes in skill obligatory for modern banking, stringent prudential norms, increasing opposition, upsetting level of nonperforming assets, raising customer prospect, growing heaviness on profitability, asset-liability administration, liquidity and acknowledgment risk management, raising in service spending, decrease size of spread and so on. The goal of the current study is to evaluate the total profitability of a few Indian banks [5–8].

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OBJECTIVES OF THE STUDY

The study's primary goals are to identify the top bank group and uncover the critical variables influencing the profitability of a chosen group of Indian commercial banks.

1. To assess the financial factors that affect the profitability of the Indian commercial banks that were chosen.

2. To identify the variables affecting the bank's profitability as measured by the return on total assets ratio.

Scope of the Study

The study's scope is more expansive in nature. It applies to all the chosen Indian commercial banks that are governed by the Reserve Bank of India.

Sampling Design

The researcher has chosen to include both public and private sector banks following the merger and acquisition in 1999, keeping in mind the issue and the study's scope. The majority of the secondary sources used to gather the study's data included a variety of books, magazines, journals, etc. Additionally, specific data are mostly gathered for analytical purposes from the several volumes of "Statistical Tables Relating to Banks in India" issued by the Statistical Department of Reserve Bank of India, Mumbai, for the years 2001–2010. Concepts and definitions for specific variables were taken from the Report on “Trend and Progress of Banks in India” and other publications from the Statistical Department of RBI, Mumbai, including the RBI Bulletins (Monthly), Bombay Stock Exchange Official Directory, and others, covering the years 2001 through 2010 [9, 10].

Table 1 shows that the cost of borrowings in case of private sector banks is very high, i.e., 6.806, compared to foreign banks (4.05) and public sector banks (5.59), while the overall mean value of scheduled commercial banks moderated to 6.046. The degree of variation is very high in case of public sector banks, i.e., 0.7877, followed by foreign banks (0.6811) and private sector banks (0.5693). However, the overall variation of scheduled commercial bank is lower than the public sector banks, i.e., 0.6928 but it can be inferred from the above facts that foreign banks have outperformed both private and public sector banks in terms of cost of borrowings.

Table 2 shows that the interest income in case of public sector bank is high, i.e., 6.066 compared to foreign banks (4.412) and private sector bank (6.002). While the overall value of scheduled commercial banks moderated to 5.982. The degree of variation is high in case of private sector banks (0.7417) followed by public sector banks (0.6483) and foreign banks (0.4069). However, the overall variation of scheduled banks is moderated to 0.6629. Even on this parameter, foreign banks have been successful in minimizing the cost compared to others.

Table 3 shows that foreign banks have outperformed both public and private sector banks since the operating expenses and consistency (overall variation in Operating Expenses) of foreign bank is 4.126 and 0.359 respectively; the operating expenses and variation in public sector banks is 5.9 and 0.539; and private sector bank is 5.874 and 0.4435.

Table 1. Cost of Borrowings.

Years	**Public sector banks**	**Private sector banks**	**Foreign banks**
2021–2022	4.7	6.2	3.0
2020–2021	4.8	6.6	4.3
2019–2020	5.90	6.41	4.88
2018–2019	6.40	7.40	4.01
2017–2016	6.15	7.42	4.06
Descriptive statistics (95% confidence interval for mean)			
Mean	5.59	6.806	4.05
Standard deviation	0.7877	0.5693	0.6811
Standard error	0.3523	0.2546	0.3046

Table 4 shows that the return on investment in terms of mean value is highest for public sector bank, i.e., 7.518, followed by foreign bank (7.322) and private sector bank (7.26). Consistency wise, private sector bank (0.2195) emerged as most consistent since its degree of variation is lowest. It was closely followed by public sector banks (0.2472) and foreign banks (0.6367), the overall variation of all scheduled banks is 0.2551.

Table 2. Interest income.

Years	Public sector banks	Private sector banks	Foreign banks
2021–2022	5.1	4.9	3.8
2020–2021	5.7	5.6	4.2
2019–2020	6.43	6.39	4.61
2018–2019	6.47	6.40	4.78
2017–2016	6.63	6.72	4.67
Descriptive statistics (95% confidence interval for mean)			
Mean	6.066	6.002	4.412
Standard deviation	0.6483	0.7417	0.9064
Standard error	0.2899	0.3317	0.1818

Table 3. Operating expenses.

Years	Public sector banks	Private sector banks	Foreign banks
2021–2022	5.6	5.2	3.7
2020–2021	5.1	5.8	4.2
2019–2020	6.39	6.39	4.68
2018–2019	6.14	5.86	4.00
2017–2016	6.27	6.12	4.05
Descriptive statistics (95% confidence interval for mean)			
Mean	5.9	5.874	4.126
Standard deviation	0.5396	0.4435	0.359
Standard error	0.2413	0.1983	0.1605

Table 4. Return on Investment.

Years	Public sector banks	Private sector banks	Foreign banks
2021–2022	7.1	6.9	6.6
2020–2021	7.5	7.5	6.8
2019–2020	7.70	7.30	7.74
2018–2019	7.69	7.32	7.34
2017–2016	7.60	7.28	8.13
Descriptive statistics (95% confidence interval for mean)			
Mean	7.518	7.26	7.322
Standard deviation	0.2472	0.2195	0.6367
Standard error	0.1106	0.0982	0.2848

Table 5. Return on advances.

Years	Public sector banks	Private sector banks	Foreign banks
2021–2022	7.8	9.5	8.1
2020–2021	8.4	10.0	8.8
2019–2020	9.50	10.90	9.20
2018–2019	9.69	11.24	9.38
2017–2016	10.08	11.52	9.55
Descriptive statistics (95% confidence interval for mean)			
Mean	9.094	10.632	9.006
Standard deviation	0.955	0.8531	0.5781
Standard error	0.4271	0.3815	0.2585

Table 5 shows that private sector banks have attained the highest returns on advance (10.632); next are public sector banks (9.094) and foreign banks (9.006). The overall return on advance is 9.458. In terms of consistency, foreign banks are more consistent with lowest standard deviation, i.e., 0.5781, followed by private sector banks (0.8531) and public sector banks (0.955). The overall variations of all banks are moderated to 0.835.

Table 6 shows that private sector banks have the highest return on fund (9.176), followed by public sector banks (8.366) and foreign banks (8.194). The overall return on fund of all scheduled commercial banks is moderated to 8.544. The highest consistency is also attained by private sector banks with 0.2364, followed by public sector banks (0.539) and foreign banks (0.5563). The overall variation is 0.4115. Table 7 shows the Hypothesis Testing (ANOVA).

Table 6. Return on fund.

Years	Public sector banks	Private sector banks	Foreign banks
2021–2022	7.5	8.8	7.4
2020–2021	8.2	9.3	7.9
2019–2020	8.60	9.10	8.47
2018–2019	8.69	9.28	8.36
2017–2016	8.84	9.40	8.84
Descriptive statistics (95% confidence interval for mean)			
Mean	8.366	9.176	8.194
Standard deviation	0.539	0.2364	0.5563
Standard error	0.241	0.1057	0.2488

Table 7. Hypothesis testing (ANOVA).

Parameters	Banks	Sum of squares	Df	Mean square	F	Sig.	Null
Cost of Borrowings (COB)	Between groups	20.2692	3	6.7564	14.311	0.0001	Rejected
	Within groups	7.5538	16	0.4721			
	Total	27.823	19				
Interest Income (INI)	Between groups	9.6753	3	3.2251	8.1907	0.0016	Rejected
	Within groups	6.3	16	0.3938			
	Total	15.9754	19				
Operating Expenses (OPEX)	Between groups	11.345	3	3.7817	17.9188	00	Rejected
	Within groups	3.3767	16	0.211			
	Total	14.7217	19				
Return on Investment (ROI)	Between groups	0.1974	3	0.0658	0.4539	0.7181	Accepted
	Within groups	2.319	16	0.1449			
	Total	2.5164	19				
Return on Advances (ROA)	Between groups	8.4152	3	2.8051	4.2004	0.0227	Accepted
	Within groups	10.6849	16	0.6678			
	Total	19.1001	19				
Return on Fund (ROF)	Between groups	2.7545	3	0.9182	4.4506	0.0187	Accepted
	Within groups	3.3008	16	0.2063			
	Total	6.0554	19				

CONCLUSION

Out of the three categories of banks, the most efficient banking institution are foreign banks as they outperformed the public sector banks and private sector banks in terms of costs. In terms of efficiency, public sector banks stand in second place, followed by private sector banks. In terms of return on investment, public sector banks emerged to be best, then come foreign banks and private banks. Where in terms of return on advance, the private banks are best, which shows their efficient management of loan portfolio. In terms of cost-efficiency, the foreign banks outperformed public and private sector banks as they attained highest net interest income, followed by private and public sector banks.

The framed hypothesis is accepted in case of all parameters of revenues, which suggests that there is insignificant difference amongst the revenues. The hypothesis is rejected for all the parameters of costs, which shows the significant difference amongst the costs. Significant difference was also seen in net interest income, which focused on substantial variation in operating performance of all three categories of scheduled commercial banks in India.

Eight public sector banks were examined in the current study utilizing the major profitability indicators, and the path analysis determined the positive and negative contributions of certain variables during the course of the investigation. Therefore, the bankers should focus on the factors that are negatively affecting, since this would increase profitability in the worldwide competitiveness.

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