

An Analysis of Profitability and Liquidity Position of Tamilnadu Based Private Sector Banks

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ABSTRACT

A bank is generally understood as an institution which provides fundamental banking services such as accepting deposits and providing loans. This paper attempts to analyze profitability and liquidity of private sector banks in Tamilnadu. Private sector banks form major part of total banking system in India so there is a need to evaluate the liquidity and profitability of these banks. This paper is primarily based on secondary data. The present paper will make an attempt to probe and understand the factors influencing the liquidity and profitability of private sector banks. In order to derive the open handed results from the information collected through secondary data, various statistical tools like mean, standard deviation and F value analysis have been accomplished. The scope of the paper is confined to selected private sector banks data period from 2008-09 to 2018-19

Keywords: Profitability, Gross Non-Performing Assets, Total Income, Spread, Interest income

1. INTRODUCTION

The All India Rural Credit Survey committee recommended the creation of one strong integrated, state sponsored, state partnered commercial banking institution with effective branches spread over the whole country. In pursuance of its recommendations, the imperial bank was nationalized and renamed as a State Bank of India from July 1, 1955. Nationalized of the Imperial Bank of India heralded the entry of Public sector into commercial banking. To further strengthen the public sector banking structure, eight state associated banks were taken over by the State Bank of India as its subsidiaries with the passing of the State Bank of India (subsidiary banks) Act 1959.

Private Sector Banks being an important group of financial organizations of our economy, act as the back-bone of economic growth and prosperity. These banks are, therefore, treated as the instruments for conversion of static credit into dynamic credit. In terms of the role of private sector banks in a planned economy, they may be distinguished from other financial institutions in as much as the former assist in the implementation of Government plans by providing the sinews of development. Primarily, the banks perform functions of a technical nature including the fulfillment of credit requirements as per Government's economic plans and controlling the utilization of these credits according to planned priorities.

2. STATEMENT OF THE PROBLEM

Liquidity and profitability are key performance parameter in banking sector, which reflects efficient utilization of all resources in an organization. The banks are now facing a number of challenges such as frequent changes in technology required for modern banking, stringent prudential norms, increasing competition, worrying level of non-performing assets, raising customer expectations, investing pressure on profitability, asset-liability management, liquidity and credit risk management, raising operating expenditure, shrinking size of spread and so on. The present study attempts to analyze the overall performance, profitability of selected private sector banks in India.

3. REVIEW OF LITERATURE

Petar Kasavica and Zoran Jović (2015). In their studies titled “Impact of Assets Quality on Bank Profitability – Case study” found that maturity affects the profitability margins, primarily the CMI margin, which is conditioned primarily by the fact that, as a rule, long-term loans on annual level dictate slightly lower interest rates, while short-term loans dictate a slightly higher interest rate. A higher level of NPLs increases the provisions towards the NBS and reduces the level of profitability.

Kumar.J and Dr. R. Thamil selvan (2016). In their studies titled “Performance evaluation of selected public and private banking sectors through Camel model in India” Found that that on the basis of group averages sub parameters of capital adequacy, Assets Quality and Liquidity Ratio of public sectors banks was at the top position compared with private sector banks. In terms of Management Efficiency and Earning quality private sector bank was better than that the selected public sector banks.

Lucky Anyike Lucky and Nwosi Anele Andrew (2015) In their studies titled “Assets Quality and Profitability of Commercial Banks : Evidence from Negeria” found that there is significant relationship between asset quality and the profitability of the commercial banks. It recommends that bank lending environment should be well examined before and after credit and the regulatory authorities should ensure sound bank lending environment to avoid the incidence of non-performing loans to enhance the profitability of commercial banks in Nigeria.

Vighneswara Swamy (2012) In his study titled “Determinants of Bank Asset Quality and Profitability -An Empirical Assessment” found that Priority sector credit has been found to be not significant in affecting the NPAs contrary to the general perception and similar is the case with that of rural branch sampling that aversion to rural credit is a falsely founded perception. Public sector banks have shown significant performance in containing bad debts private banks have continued to be stable in containing the bad debts as they have better risk management procedures and technology, which definitely allows them to finish up with lower levels of NPAs.

Khalid Ashraf Chisti (2012) -In his study titled “The impact of Asset Quality on Profitability of Private Banks in India” found that his study when a bank’s asset quality becomes worse, it takes more resources for a bank to conduct non- value-added credit receiving activities, which leads to poor performance. The asset quality and profitability are negatively correlated in the banking industry.

J. Kumar and Dr. R .Thamil Selvan (2014). In their studies titled “Capital Adequacy determinants and profitability of selected Indian commercial banks” found that ICICI bank has the most favorable capital adequacy ratio compared to other various banks. The Bank of India and Bank of Baroda are expanding their business much more. The advance of assets in State Bank of India is better profitability, Satisfactory. Total assets of HDFC bank higher spread indicates better earning capacity of the banks. The non-interest income of Total income an Axis banks are higher in percentage ratio. It helps to determine the liability of the bank to earn revenue from other than the core activities of banks.

4. OBJECTIVES OF THE STUDY

The objectives of the study are

- To analyze the Liquidity and profitability of selected private sector Banks in the study area
- To make a comparison of various selected private banks.

5. RESEARCH METHODOLOGY

The study is based upon secondary data covering period from 1st April 2019 to 31st March 2019. The study is related to public sector banks, on the basis of their Liquidity and profitability. The private banks are ICICI, HDFC, KVB Banks, City Union Bank, Yes bank, IndusInd Bank, Axis Bank, The data has been collected from the various banks annual reports RBI website and Indian Banking Association website.

ICICI
HDFC
KVB Bank
CUB
Yes bank,
IndusInd Bank
Axis Bank

ASSETS QUALITY RATIOS OF SELECTED PRIVATE SECTOR BANKS

RATIOS	BANKS	MEAN	STD. DEVIATION	F.VALUE	SIGNIFICANCE
GNPAs	ICICI	4.9780	0.89284	10.795	0.003
	HDFC	3.0440	1.19463		
	KVB Bank	6.3800	3.87849		
	CUB	3.9020	1.50598		
	Yes bank,	4.0240	3.12573		
	IndusInd Bank	4.7460	2.35881		
	Axis Bank	5.4940	3.34638		
NNPAs	ICICI	2.4840	0.78844	8.972	0.001
	HDFC	2.0580	1.74923		

	KVB Bank	3.8720	2.80287		
	CUB	3.3360	2.58523		
	Yes bank,	2.9380	1.99274		
	IndusInd Bank	2.7200	1.48540		
	Axis Bank	3.0660	2.15058		
TITA	ICICI	22.6600	1.16471	35.277	0.002
	HDFC	18.6900	2.02999		
	KVB Bank	25.9560	1.35979		
	CUB	20.4460	1.32713		
	Yes bank,	26.9400	1.50260		
	IndusInd Bank	24.5780	1.77071		
	Axis Bank	30.2340	2.86984		
NNPs/TA	ICICI	0.1620	0.05263	0.669	0.001
	HDFC	0.4880	0.34179		
	KVB Bank	1.0140	0.64586		
	CUB	2.1300	1.44846		
	Yes bank,	1.5520	1.32929		
	IndusInd Bank	1.8040	0.97646		
	Axis Bank	1.8080	1.21531		

Sources: Annual report of Banks and results generated with the help of SPSS

TABLE NO 1

The above table shows that detail of assets quality ratios of selected private sector banks. The highest mean 6.3800 and the F value 10.795 reveal that GNPA is higher in KVB Banks than other banks. The highest mean value of 3.8720 and the S.D. show that NNPA is high in KVB than other private sector banks. The highest mean value of 30.2340 and the S.D. explains that Axis Bank TITA is high than other private sector banks. The highest mean value of 2.1300 and the S.D. value 1.44846 show that CUB is higher in CUB than other private sector banks. The above table demonstrates that there is a significant relation between quality ratio and selected sector banks.

PROFITABILITY RATIOS OF SELECTED PUBLIC SECTOR BANKS

RATIOS	BANKS	MEAN	STD. DEVIATION	F.VALUE	SIGNIFICANCE
OP/AWCF	ICICI	2.0060	0.22512	28.996	0.001
	HDFC	1.6940	0.35458		
	KVB Bank	1.4560	0.38292		
	CUB	2.2040	0.26651		
	Yes bank,	1.5040	0.15209		
	IndusInd Bank	1.8140	0.36212		
	Axis Bank	1.8640	0.23298		
SPTA	ICICI	2.8060	0.26801	27.763	0.003
	HDFC	1.9860	0.20720		

	KVB Bank	2.7980	0.31124		
	CUB	1.9580	0.12677		
	Yes bank,	1.8640	0.12462		
	IndusInd Bank	2.3080	0.22276		
	Axis Bank	1.6580	0.10281		
NPAA	ICICI	0.6620	0.22298	4.692	0.001
	HDFC	0.4620	0.74264		
	KVB Bank	0.5160	0.66819		
	CUB	0.2400	0.64479		
	Yes bank,	0.3960	0.57413		
	IndusInd Bank	0.5680	0.21441		
	Axis Bank	0.1780	0.67203		
IITI	ICICI	87.3500	1.21754	36.078	0.002
	HDFC	90.1100	0.52350		
	KVB Bank	89.4020	1.41121		
	CUB	90.3820	1.10708		
	Yes bank,	90.8860	0.60077		
	IndusInd Bank	90.4100	0.57389		
	Axis Bank	89.3880	1.55321		
NITI	ICICI	12.6500	1.21754	41.409	0.000
	HDFC	9.8900	0.52350		
	KVB Bank	10.5980	1.41121		
	CUB	9.6180	1.10708		
	Yes bank,	9.1140	0.60077		
	IndusInd Bank	9.5900	0.57389		
	Axis Bank	10.6120	1.55321		

Sources: Annual report of Banks and results generated with the help of SPSS

TABLE NO 2

The above table shows that detail about profitability ratios of selected private sector banks. The highest mean value of 2.2040 and S.D. value 0.26651 shows that AWCF in CUB in higher than other private sector banks. The highest mean value of 2.8060 and the S.D. 0.26801 in SPTA is higher than other private sector banks. The highest mean value of 0.6620 and the S.D. value 0.22298 shows that NPAA is higher in ICICI than other private sector banks. The highest mean value of 90.8860 and the S.D. value 0.60077 show that IITI is high in Yes bank than other private sector banks. The highest mean value of 12.6500 and the S.D. value 1.21754 demonstrate that NITI is higher in ICICI than other private sector banks. The above table reveals that there is significant relationship between profit ratio and selected private sector banks.

6. CONCLUSION

The researcher has applied different ratios and found significant of debt to equity, other assets to total assets, fixed assets to total assets, fixed assets to Net worth and other liabilities to total assets. Ranking the banks is difficult to the extent that any type of ranking is subjected to lot of criticism as the ratio used for the purpose of ranking can be interpreted in the way one likes. The profitability ratio shows that CUB is the highest place in AWCF. In SP / TA and NPAAS /

ICICI has a higher rank. In terms of profitability, Majority of the banks has registered above the benchmark (more than one per cent) on ROA, equity paid up network, return on capital employed and deposits to total assets. It has been observed that the banking sector in India as responded very positively in the field of enhancing the role of market forces regarding measures of prudential regulations of accounting and income recognition. All the banks have to take necessary steps to improve the overall performance of the banking sector.

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