A STUDY ON FACTORS INFLUENCES THE PROFITABILITY ANALYSIS OF THE SELECTED PRIVATE SECTOR BANK

Dr. A. PRIYA, Assistant Professor, Department of Commerce (IB), Hindusthan College of Arts and Science, Coimbatore – 641 028, Tamil Nadu, India.

NAZAR M H, Research Scholar, Kongunadu Arts and Sciences College, Coimbatore – 641 029, Tamil Nadu, India.

Abstract: Banks are generally viewed as institutions that provide basic banking services such as accepting deposits and making loans. This paper attempts to analyze the factors that influence the profitability of private banks in India. Since private banks are an important part of the overall banking system in India, it is necessary to assess the profitability of these banks. The article considers the return on assets (ROA) and the return on equity (ROE) as proxy for measurement of banks' profitability. This article attempts to explore and understand the factors that influence the profitability of selected private banks. Various statistical tools such as mean and standard deviation analysis are used to freely derive results from the information collected through secondary data. The scope of this paper is limited to the data period of selected private banks from 2018 to 2023.

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

1.INTRODUCTION

Over the past three decades, major banking reforms have been implemented by the Reserve Bank of India (RBI) to improve the strength, health, performance and profitability of the banking sector. These reforms and changes were aimed at improving the quality of regulation, creating healthy competition and efficient functioning of the banking sector. Reform and liberalization of the financial and banking sector has led to intense competition, improved technology, global integration, and the development of new banking products. The all India Rural Credit Commission has recommended the establishment of a single strong, integrated, state-sponsored and state-cooperative commercial banking institution with effective branches across the country.

Private banks are an important group of financial institutions in our economy and act as the backbone of economic growth and prosperity. Therefore, these banks are treated as vehicles for converting static credit into dynamic credit. Regarding the role of private sector banks in planned economies, private banks can be distinguished from other financial institutions in that they support the implementation of government plans by providing development muscle. The purpose of this study is to identify the factors affecting the profitability of private banks

1.2 OBJECTIVES OF THE STUDY

The purpose of the research is;
- ➢ To analyze the profitability of selected private banks within the study area.
- ➢ Study the impact of financial factors on the banking sector.

1.3 STATEMENT OF THE PROBLEM

Profitability is an important parameter in the banking sector and reflects the efficient use of all resources within an organization. Banks are currently faced with frequent changes in technology required for modern banking, stringent supervisory standards, increased competition, rising customer expectations, investment pressures on profitability, asset liability management, liquidity and credit risk management, and operational the banks are facing many challenges, including increased expenses. such as reducing spread size. This study attempts to analyze the factors influence the profitability of selected private banks

2. REVIEW OF LITERATURE

- ❖ S. Angamuthu and P. Singaravel (2019) This paper attempts to analyze the profitability and liquidity of private banks in Tamilnadu. This article is mainly based on secondary data. This paper attempts to investigate and understand the factors affecting the liquidity and profitability of private banks and various statistical tools such as mean and standard deviation are completed. The scope of this document is limited to the data period of selected private sector banks from 2018 to 2023.
- ❖ Janki Ganpatbhai Kathiriya (2018), This study primarily aims to measure the profitability of selected large private sector banks in India. The profitability of these banks was analyzed for the period 2007-08 to 2016-17. The Financial Ratio Analysis (FRA) technique is used to create an overview of the financial performance of private banks. This paper provides important seeds of knowledge and will be very useful to bankers.
- ❖ Brahmaiah, B. and Ranajee (2018) This paper examined the factors affecting the profitability of commercial banks in India in the face of increasing globalization, increasing competition and increasing concentration. The sample is a balanced panel data set of 89 banks operating in India during the period 2005-2015. In this paper, we consider (ROA) and (ROE) as proxies for measuring bank profitability. The results showed that the profitability of Indian banks is affected by both internal and external factors. Capital strength, operational efficiency, banking sector deposits to GDP ratio have a significant positive impact on bank profitability, while credit risk, NPA ratio and (CPI) inflation have a significant positive impact on bank profitability. impact. Bank size and the ratio of senior loans to total loans do not affect profitability.

3. RESEARCH METHODOLOGY

The study is based on secondary data covering the period from 2018 to 2023. This study is relevant to private sector banks on the basis of the profitability. The private banks are ICICI, HDFC, KVB Bank, City Union Bank, Yes Bank, IndusInd Bank and Axis Bank. Data was collected from various banks annual reports RBI website and Indian Bankers Association website.

3.2 Theoretical framework

FACTORS INFLUENCING PROFITABILITY OF PRIVATE SECTOR BANKS

- ❖ **Dependent Factors**: In this paper, return on assets (ROA) and return on equity (ROE) are used to measure profitability. ROA reflects the ability of a bank's management to generate profits from the bank's assets, whereas ROE indicates the return to shareholders on equity and is equal to ROA multiplied by the ratio of total assets to equity. Become. ROE ignores the risks associated with high leverage, financial leverage is often determined by regulation, and ROA emerges as an important number for assessing a bank's profitability.

- ❖ **Explanatory Factors**: Factors affecting bank profitability are generally divided into two categories: internal (bank-specific) factors and external factors. This study uses the following internal factors: Bank Size, Bank Ownership, Capital Adequacy to Total Assets, Credit Risk, (Loss Provisions to Total Loans), NPA Ratio (Total NPA to Total Assets), Cost of Funds, Operational Efficiency (Operating Costs in relation to total assets), priority sectors. of loans to total assets, labour productivity (internal factors), ratio of total bank deposits to GDP, GDP growth (external factors).

- ❖ **Bank size**: refers to the bank's total assets (logarithm). In general, the impact of increasing scale on profitability has been shown to be moderately positive. However, for very large banks, the size effect may be negative for bureaucratic and other reasons. The effect is not clear. On the other hand, larger banks can reduce costs through economies of scale. On the other hand, some argue that small banks can achieve economies of scale by increasing their size to a certain extent, and that by increasing their size further, they can obtain economies of scale. Therefore, there is no a priori prediction about the impact of this variable on bank profitability.

- ❖ **Bank ownership**: There is no clear empirical evidence to support the positive relationship between ownership and profitability that characterizes the Indian banking sector. To understand this relationship

- ❖ **Equity to Total Assets** (EC TA): The ratio of equity to total assets as a proxy for equity to total assets.

- ❖ **Operating Efficiency** (OE): Operating costs relative to a bank's total assets as a proxy for operating efficiency. This measurement is widely used.

- ❖ **Credit Risk** (CR): The ratio of total loss provisions to the bank's total loans (TL). Indicates the probability of loss due to a debtor not fulfilling its obligations to the bank.

- ❖ **NPA Ratio**: Substituted as the ratio of non-performing assets to total assets. This relationship directly affects bank profitability.

- ❖ **PSL Ratio**: The ratio between the progress of priority sectors and the progress of the banking sector as a whole. In Coimbatore, banks are required to allocate a certain percentage of loans to priority sectors such as agriculture, housing, education, small and medium enterprises, and export-oriented sectors.

- ❖ **Interest Income Ratio** (RII): A measure of this variable using the ratio of interest income to total income. In addition, banks with more diversified activities can reduce costs through economies of scale. However, competition in the business sector that generates fee income is increasing and banks' profitability is decreasing.

- ❖ **Labour Productivity** (LP): The ratio of total revenue to total number of employees. This variable is widely used to examine its impact on bank profitability. Improving labour productivity not only reflects effective bank management, but also increases bank efficiency and further promotes bank profitability. To investigate whether the observed improvement in productivity growth is contributing to banks' profits.

- ❖ **Cost of Funds** (KF): This ratio is calculated as the total cost of funds, i.e. the interest on bank deposits and other loans. This ratio is used as a proxy for the cost of funds. The cost of funds will increase and banks' profitability will decrease.

4. **RESULTS AND DISCUSSION**

Shown Here to Measure the Asset Quality and Profitability of Selected Private Banks

4.1 ASSETS QUALITY RATIOS OF SELECTED PRIVATE SECTOR BANKS

TABLE NO 1

RATIOS	BANKS	MEAN	STD. DEVIATION
GNPAs	ICICI	3.7820	0.78246
	HDFC	3.0440	1.00964
	KVB Bank	5.6820	2.98820
	CUB	3.6240	1.49289
	Yes bank,	4.0240	2.89456
	IndusInd Bank	4.0020	2.00210
	Axis Bank	5.0930	2.92634
NNPAs	ICICI	2.2480	0.68242
	HDFC	1.9850	1.39544
	KVB Bank	3.1270	2.35084
	CUB	2.8740	2.45982
	Yes bank,	2.3480	1.24569
	IndusInd Bank	2.3080	1.02864
	Axis Bank	3.4590	2.25746

Sources: Annual report of Banks and results

The table above shows the asset quality ratio details of selected private banks. The highest average value is 5.6820, which shows that KVB Bank's GNPA is higher than other banks. The highest mean value is 2.98820, S.D. indicates that NNPA's KVB is higher than other private banks. The above table shows that there is a significant correlation between quality conditions and selected sector banks.

4.2 PROFITABILITY RATIOS OF SELECTED PRIVATE SECTOR BANKS

TABLE NO 2

RATIOS	BANKS	MEAN	STD. DEVIATION
OP/AWCF	ICICI	1.6800	0.02851
	HDFC	1.0450	0.14582
	KVB Bank	1.0030	0.14671
	CUB	1.7820	0.16532
	Yes bank,	1.0570	0.09827
	IndusInd Bank	1.0210	0.17840
	Axis Bank	1.0570	0.01325
SPTA	ICICI	2.6720	0.25302
	HDFC	1.8460	0.20231
	KVB Bank	2.1400	0.30145
	CUB	1.5890	0.12157
	Yes bank,	1.6480	0.12145
	IndusInd Bank	2.0830	0.22567
	Axis Bank	1.5860	0.10218
	ICICI	0.4430	0.22241

NPAA	HDFC	0.2460	0.72418
	KVB Bank	0.3980	0.61971
	CUB	0.1280	0.63420
	Yes bank,	0.1740	0.51271
	IndusInd Bank	0.2970	0.19832
	Axis Bank	0.0970	0.62785
IITI	ICICI	87.1310	1.95474
	HDFC	89.9790	0.23501
	KVB Bank	89.2140	1.37116
	CUB	90.1450	1.01578
	Yes bank,	90.6840	0.59770
	IndusInd Bank	90.2410	0.53471
	Axis Bank	89.1830	1.51986
NITI	ICICI	12.4300	1.97243
	HDFC	9.6700	0.51143
	KVB Bank	10.3200	1.39742
	CUB	9.6570	1.09623
	Yes bank,	9.0080	0.59123
	IndusInd Bank	9.1390	0.52398
	Axis Bank	10.120	1.50145

Sources: Annual report of Banks and results

The table above provides details of the profitability of selected private banks. The highest mean value is 1.7820 and S.D. value is 0.16532 which shows that CUB's AWCF is higher than other private banks. The highest mean value was 2.6720 and the S.D. was 2.6720. SPTA's 0.25302 is higher than other private banks. The highest mean value was 0.4430 and the S.D. was 0.4430. The value 0.22241 indicates that NPAA of ICICI is higher than other private banks. The highest mean value was 90.6840 and the S.D. was 90.6840. The value 0.59770 indicates that Yes Bank's IITI is higher than other private banks. The highest mean value was 12.4300 and the S.D. was 12.4300. The value of 1.97243 indicates that NITI is higher in ICICI than in other private banks. The table above shows that there is a significant correlation between the profit margin and selected private banks.

5. CONCLUSION

Our sample data includes cross-sectional data for banks from 2018 to 2023. Regression models were used to establish the relationship between endogenous (ROA, ROE) variables of bank performance and bank-specific, industry-specific, and bank-specific exogenous variables. Table 2 shows the estimation results considering ROA and ROE respectively.

Due to the extensive competition in the banking industry, bank size has no effect on bank profitability in ROE and is small and weak in the case of ROA. Regarding the relationship between bank size and profitability for the banks , we find negative signs across all types of banks in both measures of profitability. Capital relative to total assets appears to be the most important factor determining a bank's profitability. The operating efficiency ratio is very important and positively correlated to it.

Looking at the return, we can see that CUB has the highest return among AWCFs. Ranked high in SP/TA and NPAAS/ICICI. In terms of profitability, the majority of banks exceed the criteria of ROA, paid-in capital network, return on invested capital and deposits in relation to total assets. All banks should take necessary steps to improve the overall performance of their banking sector.

References

[1] S. Angamuthu and P. Singaravel (2019), An Analysis of Profitability and Liquidity Position of Tamilnadu Based Private Sector Banks, INDIA JOURNAL ISSN:0971-1260, Vol-22, Issue-10 November-2019

[2] Janki ganpatbhai kathiriya (2018), A Study on Profitability of Selected Private Banks of India, International Journal of Research in all Subjects in Multi Languages, Vol. 6, Issue: 5, May: 2018 (IJRSML) ISSN: 2321 - 2853

[3] Brahmaiah, B. and Ranajee (2018) Factors Influencing Profitability of Banks in India. Theoretical Economics Letters, issue 8, page 3046-3061, http://www.scirp.org/journal/tel , ISSN Online: 2162-2086

[4] Reserve Bank of India (2023) Financial Stability Report.

[5] Basic Statistical Returns of Scheduled Commercial Banks in India. Vol. 52