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A study on Profitability and Liquidity Analysis of the Selected Indian Private Sector Banks

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Abstract:

The Indian banking system is an Indian financial system's backbone. It plays a very crucial role for the economic development of the country. Therefore, smooth functioning of banking sector is required for the economy as well as for the people of the country. This paper makes an attempt to measure the profitability and liquidity performance of the selected Indian Private Sector Banks. Five private sector banks namely Axis, ICICI, HDFC, Indusind and Yes bank have been selected. The study is based on the secondary sources of the data. Data from the year 2014-15 to 2018-19 have been analyzed through ratio analysis, descriptive statistics such as mean and standard deviation and one way ANOVA. The study reveals that the overall profitability position of the HDFC bank is better as compared to other selected banks. In case of liquidity position, of the ICICI & Axis bank is comparatively superior. HDFC bank performs poor in respect of liquidity aspects. Moreover, it is advisable to the management of all the banks to take necessary steps to improve the liquidity position as the current ratio of all the sampled banks is below the standard norm.

Keywords: *financial performance, Profitability and Liquidity Analysis, Private Sector Banks etc.*

1. Introduction:

The Indian banking system is an Indian financial system's backbone. Either the capital market or the money market, the Indian banking system always plays a catalyst role in ensuring its smooth operation. Since public sector banks have played a central role in the evolution of Indian economy, alongside private sector banks, foreign banks and the Small Finance Bank have progressively developed to strengthen India's economic context(Misara & Babu, 2015).Following the liberalization policy, the Indian banking sector has seen significant growth and expansion, all while supporting the other major industries. The importance of an efficient banking system can be seen at both the micro and macro levels (Tabash, Al-Homaidi, Farhan, & Almaqtari, 2018). In a highly competitive market, banks strive to earn more profits in order to survive, and a profitable banking sector helps the economy absorb global financial crises and provide stability in the system.It reflects the financial sector's brighter and glorious side, but the recent events of a financial crisis and bank failures that have emerged in India have also confirmed the performance of the banks both nationally and internationally. It creates a situation for thinking and the performance of financial institutions is urgently required to supervise and understand because it has an influence on the economy of the country ((Barth, Caprio, & Levine, 2006)).

2. Review of Literature:

Profitability study of the State bank of India: Analysis- (Adhikari, Barman, & Kashyap, 2014)The paper aims to analyze for seven years the profitability of India's State Bank. The bank's performance has been analyzed using such parameters as OPTWF, ROA, ROE, ROI, and EPS, in addition to examining the trends of different components both of income and of expenditure. Not only do the income components but also the expense components differ significantly. The paper concludes that the SBI's profitability performance during the study period is not consistent.

(Nathwani, 2004) evaluated the financial performance of all commercial banks in the country for a five-year period from 1997-1998 to 2001-2002 in his doctoral work entitled "The Study of Finance Performance for the Banking Sector of India." The study included assessing the financial performance of banks using ten financial ratios with respect to profitability, credit efficiency, operational efficiency, and productivity. The study showed that the operating efficiency of all banking groups during the study period was considerably different. There have been significant performance changes in all bank groups with regard to the overall profitability of the Indian banking sector over the study period.

(Goyal & Kaur, 2008) examined seven new private-sector banks between 2001 and 2007. Various tools, such as SD, One Way ANOVA, and T-testing have been implemented. For data analysis, different ratios were also used. The study results show an average debt-to-equity ratio at the most elevated level in Axis Bank, Kotak and Mahindra Bank. The progress ratio to total assets showed an increasing trend for all banks studied, indicating an increase in lending operations. The study also showed significant differences in the average ratios of all parameters except liquid assets, total liquid assets, and average net profit and percentage changes in NPA.

The performance and profitability of public and private sector banks were examined by(Chavali & Rao, 2012). To analyze the performance and profitability of the banks, six parameters were chosen: Interest Income, Interest Expenditure, Spread, Net Profit/Loss, Operating Profit/Loss, and Gross NPA as a percentage of total assets. SD, Coefficient of Variation, and Trend Analysis were used to analyze the data. From 2001 to 2008, the research was conducted. The study's main findings show that public sector banks are more profitable. It has also been discovered that high lending rates deter new and creditworthy borrowers from approaching banks for loans.

The financial soundness of the three banks, SBI, ICICI, and Standard Bank, was investigated by(Malhotra, 2015). In terms of asset growth, ICICI had higher rates, according to the study. In comparison to the other banks, SBI shows growth in advances and deposits, while Standard Charted Bank efficiently controls both expenditure and income. According to the study, SBI needs to strengthen its financial position in order to compete with these two banks.

3. Research Methodology:

- **Objectives of the study:**
  - To analyze the profitability and liquidity position of the selected Indian private sector banks.
  - To examine whether there is significant difference between profitability ratios as well as liquidity ratios of the sampled banks.
- **Research Design:**

  The present study is based on the ***Descriptive Research Design.***
- **Sampling Method & Sample Size:**

  A Convenience non-probability sampling method is used for the purpose of the study. Five Private Sector Banks have been selected namely Axis bank, HDFC bank, ICICI bank, Indusind bank and Yes bank.
- **Time Period of the Study:**

  The study covers the time period of five years i.e. from the year 2014-15 to 2018-19.
- **Sources of Data:**

  The present study is based on the secondary sources of the Data. That means data have been collected from the various journals, articles, websites and annual reports of the selected banks.
- **Tools & Techniques:**
  - Ratio Analysis
  - Descriptive Statistics such as Mean & SD
  - One Way ANOVA
- **Null Hypothesis of the study:**

H_{01}: There is no significant difference in ROA ratio of the selected banks.

H_{02}: There is no significant difference in ROE ratio of the selected banks.

H_{03}: There is no significant difference between ROCE ratios of the selected banks.

H_{04}: There is no significant difference in Net Profit Margin ratio of the selected banks.

H_{05}: There is no significant difference between Current ratios of the selected banks.

H_{06}: There is no significant difference in Quick ratio of the selected banks.

4. Data Analysis:

A. Profitability Ratios:

Table 1: Return on Equity Ratios of the selected Private Banks

YEAR	ICICI	YES	HDFC	AXIS	INDUSIND
2014-15	13.89	19.00	16.47	18.57	17.49
2015-16	11.19	19.90	16.91	17.49	13.20
2016-17	10.11	21.50	16.26	7.22	14.14
2017-18	6.63	17.70	16.45	0.53	15.35
2018-19	3.19	6.50	16.30	8.09	12.52
Mean	**9.00**	**16.92**	**16.48**	**10.38**	**14.54**
SD	4.16	5.99	0.26	7.58	1.96
Rank	**5**	**1**	**2**	**4**	**3**

(Source: Compiled from the Annual Reports of the sampled banks)

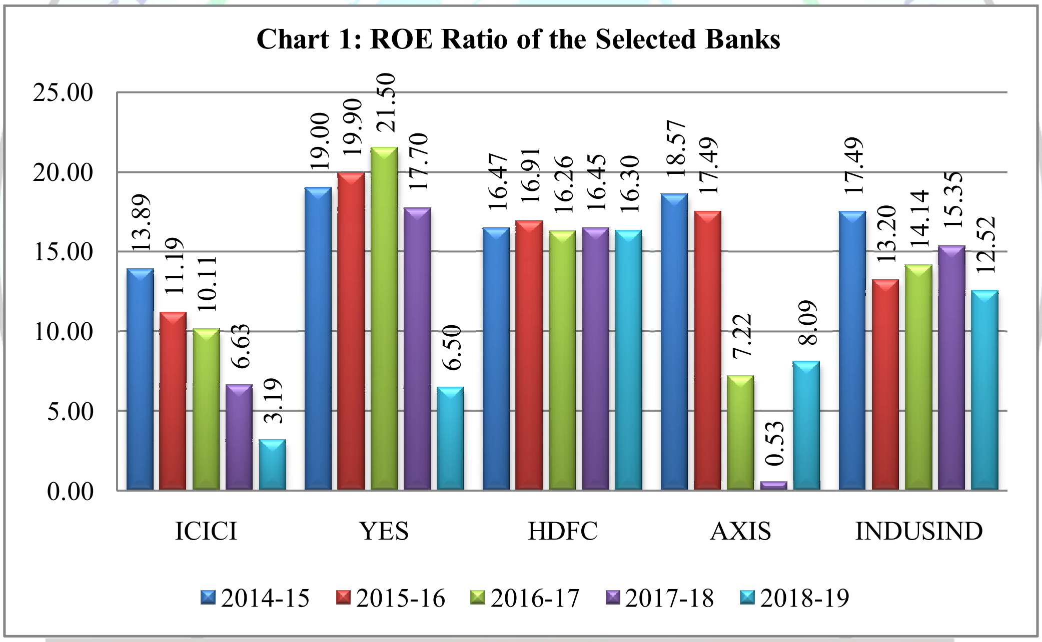


Table 2: Return on Assets Ratio of the Selected Banks

YEAR	ICICI	YES	HDFC	AXIS	INDUSIND
2014-15	1.86	1.60	2.02	1.83	1.64
2015-16	1.49	1.70	1.92	1.72	1.63
2016-17	1.35	1.80	1.88	0.65	1.60
2017-18	0.87	1.60	1.64	0.04	1.62
2018-19	0.39	0.50	1.90	0.63	1.18
Mean	**1.19**	**1.44**	**1.87**	**0.97**	**1.53**
SD	0.57	0.53	0.14	0.77	0.20

Rank	**4**	**3**	**1**	**5**	**2**

(Source: Compiled from the Annual Reports of the sampled banks)

Chart 4.2: ROA of the Selected Banks

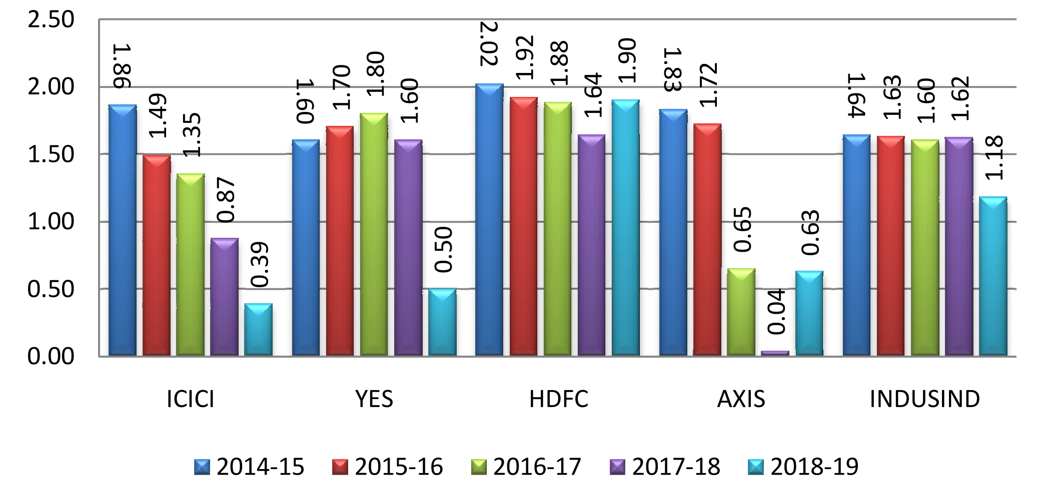


Table 4.3: Return on Capital Employed of the Selected Banks

YEAR	ICICI	YES	HDFC	AXIS	INDUSIND
2014-15	3.20	2.51	3.11	2.99	2.93
2015-16	3.47	2.73	3.17	3.15	3.11
2016-17	3.59	2.86	3.18	3.05	3.21
2017-18	2.91	2.57	3.20	2.34	3.11
2018-19	2.52	2.24	3.34	2.47	3.00
Mean	**3.14**	**2.58**	**3.20**	**2.80**	**3.07**
SD	0.43	0.24	0.09	0.37	0.11
Rank	**2**	**5**	**1**	**4**	**3**

(Source: Compiled from the Annual Reports of the sampled banks)

Chart 4.3: ROCE of the Sampled Banks

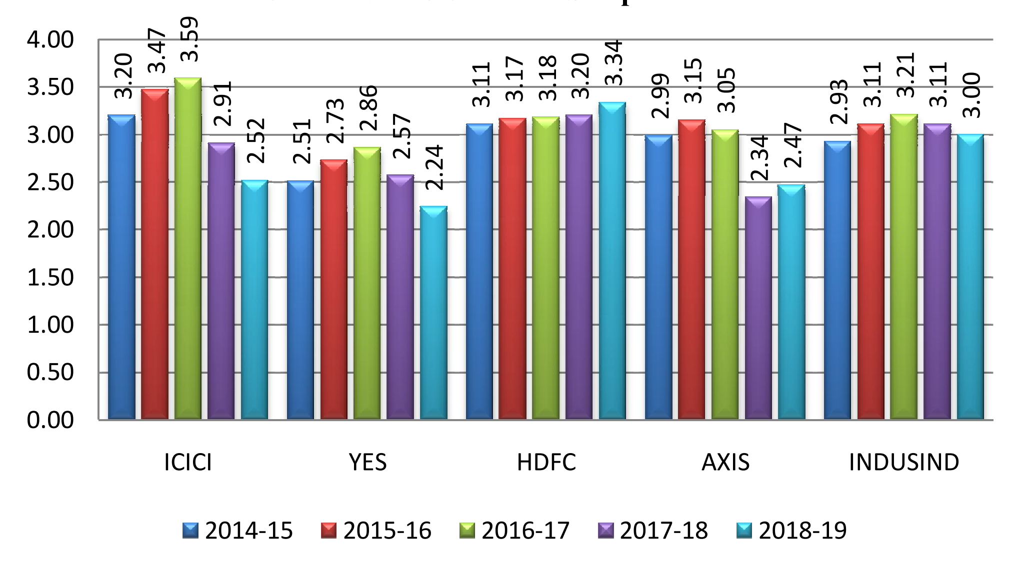
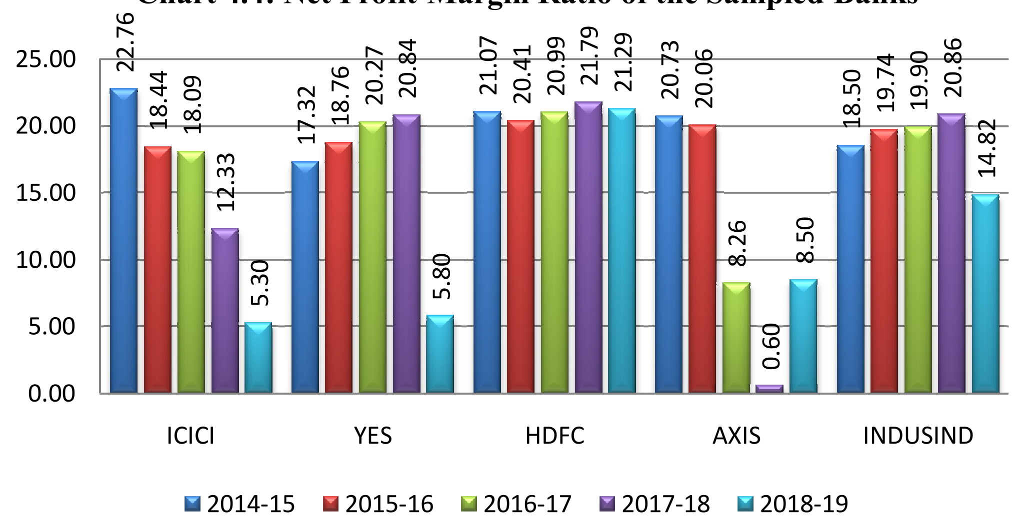


Table 4.4: Net Profit Margin Ratio of the Selected Banks

YEAR	ICICI	YES	HDFC	AXIS	INDUSIND
2014-15	22.76	17.32	21.07	20.73	18.50
2015-16	18.44	18.76	20.41	20.06	19.74
2016-17	18.09	20.27	20.99	8.26	19.90
2017-18	12.33	20.84	21.79	0.60	20.86
2018-19	5.30	5.80	21.29	8.50	14.82
Mean	15.38	16.60	21.11	11.63	18.76
SD	6.75	6.19	0.50	8.61	2.36
Rank	4	3	1	5	2

(Source: Compiled from the Annual Reports of the sampled banks)

Chart 4.4: Net Profit Margin Ratio of the Sampled Banks



B. Liquidity Ratios:

Table 4.5: Current Ratio of the Selected Banks

YEAR	ICICI	YES	HDFC	AXIS	INDUSIND
2014-15	0.78	0.08	0.06	0.10	0.08
2015-16	1.66	0.08	0.07	0.08	0.09
2016-17	0.12	0.08	0.06	0.11	0.07
2017-18	0.12	0.07	0.05	0.11	0.08
2018-19	0.12	0.09	0.05	0.10	0.08
Mean	0.56	0.08	0.06	0.10	0.08
SD	0.68	0.01	0.01	0.01	0.01
Rank	1	3	5	2	3

(Source: Compiled from the Annual Reports of the sampled banks)

Chart 4.5: Current Ratio of the Selected Banks

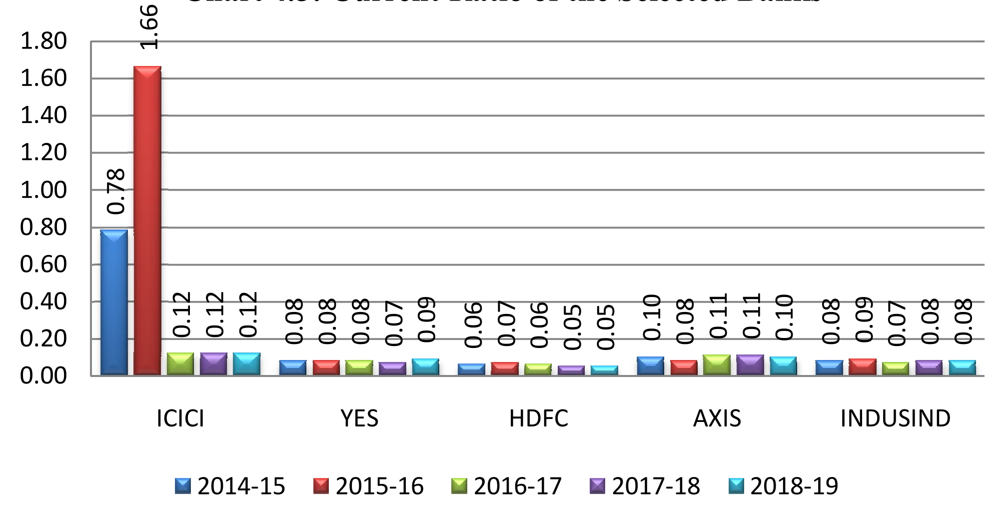
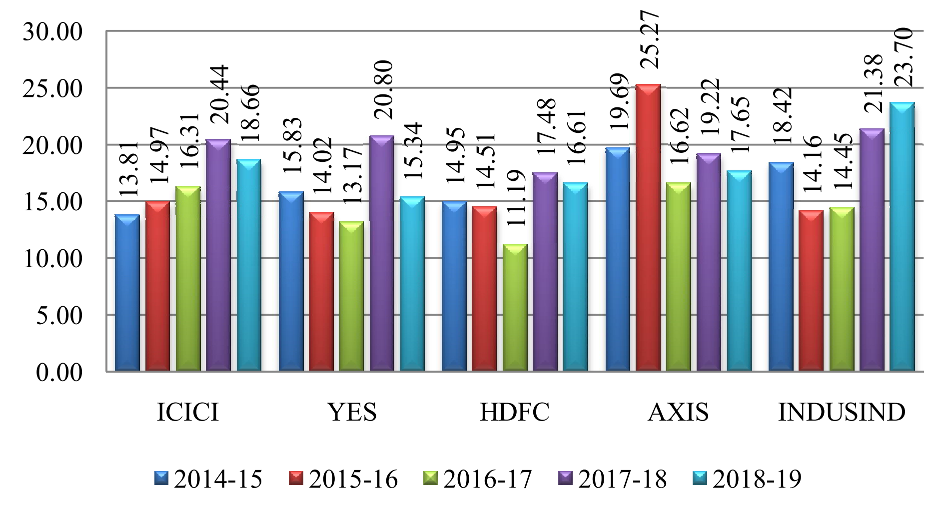


Table 4.6: Quick Ratio of the Selected Banks

YEAR	ICICI	YES	HDFC	AXIS	INDUSIND
2014-15	13.81	15.83	14.95	19.69	18.42
2015-16	14.97	14.02	14.51	25.27	14.16
2016-17	16.31	13.17	11.19	16.62	14.45
2017-18	20.44	20.80	17.48	19.22	21.38
2018-19	18.66	15.34	16.61	17.65	23.70
Mean	16.84	15.83	14.95	19.69	18.42
SD	2.70	2.97	2.42	3.35	4.20
Rank	3	4	5	1	2

(Source: Compiled from the Annual Reports of the sampled banks)

Chart 4.6: QuickRatio of the Selected Banks



C. Results of One Way ANOVA:

Table 4.8: Output of One Way ANOVA Test

Sr. No.	Null Hypothesis [H_0]	F value	P value	Remarks
1.	There is no significant difference between ROE ratios of the selected banks.	2.82	0.06	H_0 is Accepted
2.	There is no significant difference between ROA ratios of the selected banks.	2.31	0.09	H_0 is Accepted
3.	There is no significant difference between ROCE ratios of the selected banks.	**4.25**	**0.01**	**H_0 is Rejected**
4.	There is no significant difference between Net Profit Margin ratios of the selected banks.	1.95	0.14	H_0 is Accepted
5.	There is no significant difference between Current ratios of the selected banks.	2.52	0.07	H_0 is Accepted
6.	There is no significant difference between Quick ratios of the selected banks.	1.81	0.17	H_0 is Accepted

(Source: Computed by the Researcher in Excel)

5. Findings of the Study:

- ROE of all the selected banks except HDFC bank is decreasing during the study period. The ratio for HDFC bank has remained almost constant throughout the study period.
- ROA of all the sampled banks shows the downward trends for the selected period of the study.
- In respect of ROCE ratio, all the selected banks show the mix trends during the study period.
- In case of Net profit margin ratio, the ratio for the ICICI bank and Axis bank has been declined in majority years of the study. For the Yes bank & Indusind bank, NPM ratio is increasing during 2014-15 to 2017-18. However, in 2018-19 ratio is declined for the both banks. The NPM ratio for the HDFC bank is constant throughout the study period.
- The current ratio has remained lower than the conventional norm during the study period.
- The quick ratio of all the sampled banks depicts the mix trends over the study period and also is above the standard norm.
- The result of ANOVA indicates that there is significant difference in mean values of ROCE of the selected Indian Private Sector Banks. In rest of all the cases the null hypothesis accepted.

Conclusion:

The present is undertaken to analyze the profitability and the liquidity position of the selected Indian private sector banks for the time period of 2014-15 to 2018-19. The data of the selected has been analyzed through ratio analysis, descriptive statistics and One Way ANOVA. The study reveals that the profitability position of HDFC bank is better as compared other selected banks. While, the profitability position of the Axis bank is comparatively weak. It is also observed the current ratio of all the banks is lower than the standard ratio of 2:1 over the study period which indicates that banks might be facing problems in discharging their short term obligations. However, the quick ratio of all the sampled bank is quite good. It is also concluded that the liquidity position of the ICICI & Axis bank is comparatively superior. The HDFC bank performs poor in terms of liquidity criteria. It is suggested that the management of these banks should take corrective measures to improve liquidity position.

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