COMPARATIVE EMPIRICAL ANALYSIS OF PROFITABILITY PERFORMANCE WITH THE PERSPECTIVE OF PUBLIC, PRIVATE, AND FOREIGN BANKS

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Abstracts:

In the last two decades, the performance of the service sector catch the attention of economists and trade specialists. The reason of this attention is service sector contributes almost 55%in of the Indian GDP. Banking is one of the key sectors I the areas of financial services. The current study focuses on a comparison of public, private, and foreign banks' financial performance. Three popular banks from each category were selected on the basis of their financial performance over the last five years. A descriptive longitudinal design was applied to compare the financial performance of the nine banks. Outcomes of ratio analysis found that Bank of America has the lowest debt-equity ratio, while the standard chartered bank has the highest. All nine banks were compared with ranks over performances of financial performance.

Keywords: *Service sector, Financial Performance, Public banks, Private banks, foreign banks*

Introduction:

Banks use customer deposits to lend to other customers. Banks support economic growth and expansion. RBI says India's banking sector is adequately capitalized and regulated (Aggarwal, 2022). The country's finances are remarkable. Despite the global recession, Indian banks are strong, according to studies (Christian, 2021; Malek & Bhatt, 2022). Indian banks have included small lending and payment banks. Recent RBI recommendations may make bank restructuring easier. Indian Immediate Payment Service is the only FPII level-5 system (IMPS) (Renu Singh, 2021; Malek, Bhatt, & Patel, 2020). India's financial system includes 1485 urban cooperative banks, 96,000 rural cooperative banks, 12 public sector banks, 22 private sector banks, 46 foreign banks, and 56 regional rural cooperative banks. 2021 will bring India 213,145 ATMs (Abdulkareem, 2020; Malek & Gundaliya, 2020). Between FY18 and FY21, bank assets increased across all sectors. Public and private bank assets totalled $2.48 trillion in FY21. In FY21, public banks owned $1,602.6 billion and private banks $878.56 billion. Bank credit grew 0.29 percent annually between FY16 and FY21. FY21 credit totalled $1,487.5 billion. Over 2016-2021, deposits grew at a 12.38 percent CAGR to $2.06 trillion. On September 24, 2021, bank credit was Rs. 110.46 trillion (US$ 1.47 trillion), and non-food sector credit was Rs. 109.82 trillion (US$ 1.46 trillion) (Farouq Altahtamouni, 2022; Malek & Zala, 2021).

Keywords: Profitability, Financial performance, Ratio Analysis, Public Private and Foreign banks

Literature Review:

1. The RBI and Finance Ministry regulate India's public and private banks. Indian banks must be efficient and profitable due to competition and demanding customers. This research focuses on India's public sector banks' financial performance. Financial performance was reviewed from 2015-16 through 2019-20. FRA (Financial Ratio Analysis) evaluates public sector bank financial performance using ratios (Aggarwal, 2022; Malek & Gundaliya, 2020).

2. Although reforms have benefited commercial banks in India, practically all bank types are changing. It's also noticed that public sector bank profitability seems to be increasing, but foreign and private sector banks still take a major slice. Our public sector banks are behind other banks in financial metrics. They face several internal and external hurdles that hamper their success. Consider the following topics for additional bank reform to meet new and open competition criteria (Almaskati, 2022; Malek, Bhatt, & Patel, 2021).

3. This is the first research to assess bank risk and profitability factors using random forest's relative value important metric. Profitability is generally driven by bank-specific characteristics, whereas risk is influenced by country-level ones. The findings also imply that market strength and size proxy affect bank profitability and risk profile. The investigation reveals that a country's financial development and regulatory quality affect a bank's riskiness. The investigation reveals a limited number of key predictors of a bank's profitability but not its riskiness (Rakshit, 2021).

4. This research examines the connection between bank profitability and intellectual capital during COVID-19. OLS is used in this inquiry to look at the interactions between 34 Chinese and 39 Pakistani banks during the Pandemic. After determining ROA, ROE, and IC, profitability is assessed using the VAIC model. Banks in China and Pakistan saw a rise in profits from IC even when the epidemic was still ongoing. According to our analysis, regulators should focus more on IC resources in times of crisis since they have the potential to boost bank profitability (Rai, 2020).

5. The study's findings indicate that banks are using technology more and more often each year.

Thanks to technological improvements, banks are able to handle a rising client base and a rise in transaction volume more effectively and quickly. This research set out to discover how technology has affected both public and private Indian banks' financial results. Secondary sources were explored to investigate how technology has affected financial performance. The financial performance of a few nationalised and private sector banks in the nation showed considerable differences in the cash deposit ratio, the deposits to that even ratio, the bridge loan to total advancements ratio, and the profitability ratios (Zala, 2020).

Hypotheses

H1: There is Indian banks are less profitable than foreign banks in India

Research Gap:

The bulk of researchers were only concerned with the public and private sector profitability findings, and CAMEL analysis was essentially the only method used in those studies. Additionally, the great majority of researchers conducted their studies using ROA, ROE, and other financial metrics from banks. The measures that were used were standard, and they did not account for all aspects of the company's financial performance. Additionally, the overwhelming majority of researchers focused on financial performance and conducted their study using widely used ratios including the current ratio, NPA, interest income/total assets, and many other ratios. A very small number of academics conducted research studies that simultaneously examined the profitability of international financial organizations. Although not all of the ratios were extensively explored in each of the studies, they all looked at profitability and came to what might be considered generally satisfactory conclusions. These ratios take into account not only the debt rate ratio but also the operational profit margin, the net profit margin, the return on investment, the return on assets, the return on equity, and the capital gain ratio. In addition to taking into consideration all of the data that are relevant to bank earnings, the researchers may have also taken into account the more abstract factors that have an effect on how well a business is profitable. As a consequence of this, the investigation would have been more rational and pertinent.

The objective of the research:

To use ratios to evaluate the profitability of the banks.

To evaluate the profitability potential of banks in the public, private, and foreign sectors based on net profit.

To comprehend both the qualitative and the quantitative data to assess these banks' performance.

Comparative analysis of the financial results of a few chosen commercials, state, and international banks in India.

To examine and contrast the financial results of a few banks from the public, private, and international sectors using various metrics, including income, assets, and growth.

To examine the bank-specific factors that have an impact on the profitability of Indian banks in the private, public, and international sectors.

Research process

Within the context of this investigation of the profitability of banks, a contrast is drawn between

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the profitability of local Indian banks and that of multinational banks. Secondary data were acquired via the use of dependable and relevant sources such as the annual reports of the banks that were mentioned before, publications, magazines, journals, research papers, articles, and websites. When gathering information from a broad range of websites and other secondary sources, a strategy that is known as secondary research is often used. Given that we are doing secondary research; we have settled on using data from the five years before to the current one in order to establish the appropriate size of the sample that will be used in the research study. The research was carried out for six Indian and international financial institutions during the academic years 2016–2017 and 2020–21. These financial institutions included Axis Bank, ICICI Bank, HDFC Bank, State Bank of India, Bank of India, Bank of Baroda, Standard Chartered Bank, Bank of America, and CITI Bank. Other financial institutions included Standard Chartered Bank, Bank of America, and CITI Bank.

Results of the Analysis

Return On Asset:

Return on Asset gauges how a corporation turns invested assets into net income. These two funds are utilized to run the company: liabilities and shareholder equity. ROA is net income/average assets. ROA compares same-industry businesses. ROA compares comparable firms or a company's past performance. ROA measures investment earnings. ROA assesses a company's performance. ROA shows how a corporation converts investment money into net income.

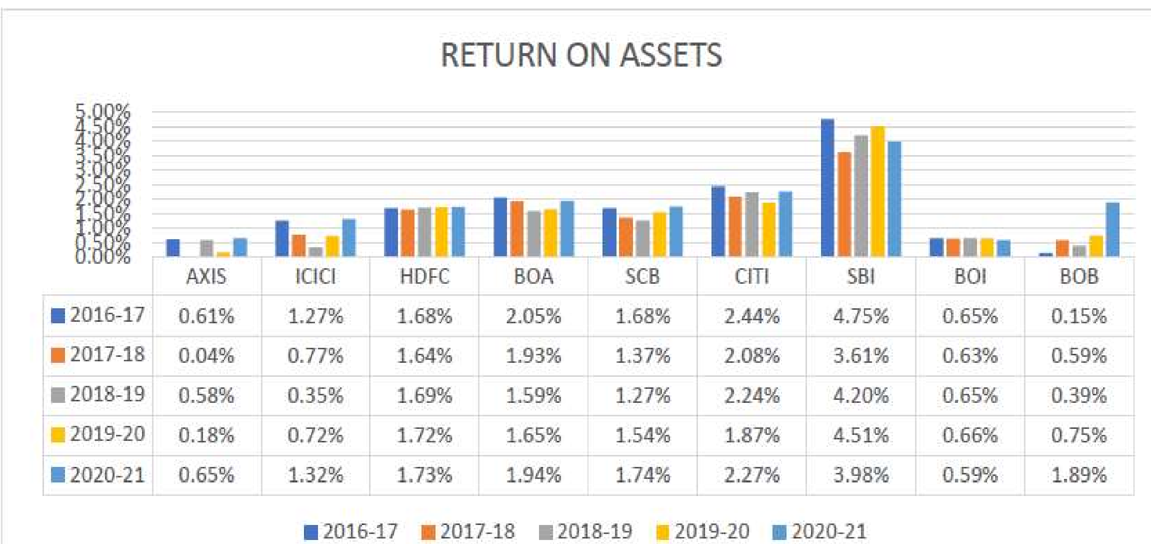


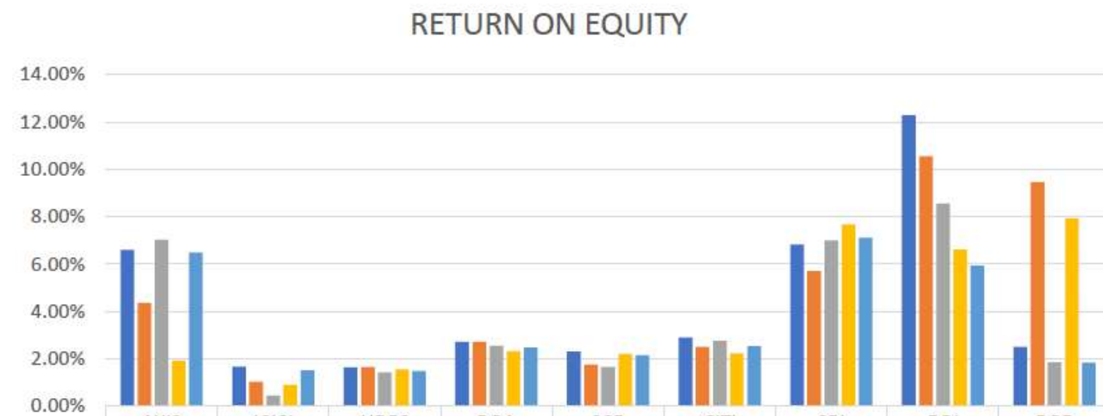
Figure 1

	AXIS	ICICI	HDFC	BOA	SCB	CITI	SBI	BOI	BOB
MEAN	0.41	0.89	1.69	1.83	1.52	2.18	4.21	0.64	0.75
RANK	9	6	4	3	5	2	1	8	7

Table 1

The aforementioned parameter displays the return on assets for local, government-owned, and international banks. The SBI now holds the top spot, with the CITI Bank coming in at number two with a mean of (2.18 percent) Axis Bank has the lowest ranking with a negative return on asset ratio, whereas Bank of America, HDFC Bank, and Standard Chartered Banks have close to a return on asset. SBI does a better job of generating returns on its investments. The allocation of money is important in ROA since it helps SBI use its resources and outperform the other nine banks in terms of return.

Return on Equity:



	AXIS	ICICI	HDFC	BOA	SCB	CITI	SBI	BOI	BOB
2016-17	6.60%	1.66%	1.63%	2.71%	2.29%	3%	7%	12%	2%
2017-18	4.35%	1.02%	1.65%	2.72%	1.74%	2%	6%	11%	9%
2018-19	7.01%	0.44%	1.41%	2.55%	1.64%	3%	7%	9%	2%
2019-20	1.92%	0.89%	1.54%	2.31%	2.19%	2%	8%	7%	8%
2020-21	6.48%	1.50%	1.48%	2.47%	2.15%	3%	7%	6%	2%

Figure 2

	AXIS	ICICI	HDFC	BOA	SCB	CITI	SBI	BOI	BOB
MEAN	5.27%	1.10%	1.54%	2.55%	2.00%	2.58%	6.86%	8.78%	4.71%
RANK	3	9	8	6	7	5	2	1	4

Table 2

The data reveals that BOI (8.78) is the company with the highest ROE, followed by SBI (6.86) and Axis Bank (5.27). While CITI bank (2.58) and Bank of America have the lowest ROEs, BOB (4.71) has the best (2.55). The return on equity that HDFC Bank continuously offers to its investors is favorable.

Operating Profit Margin:

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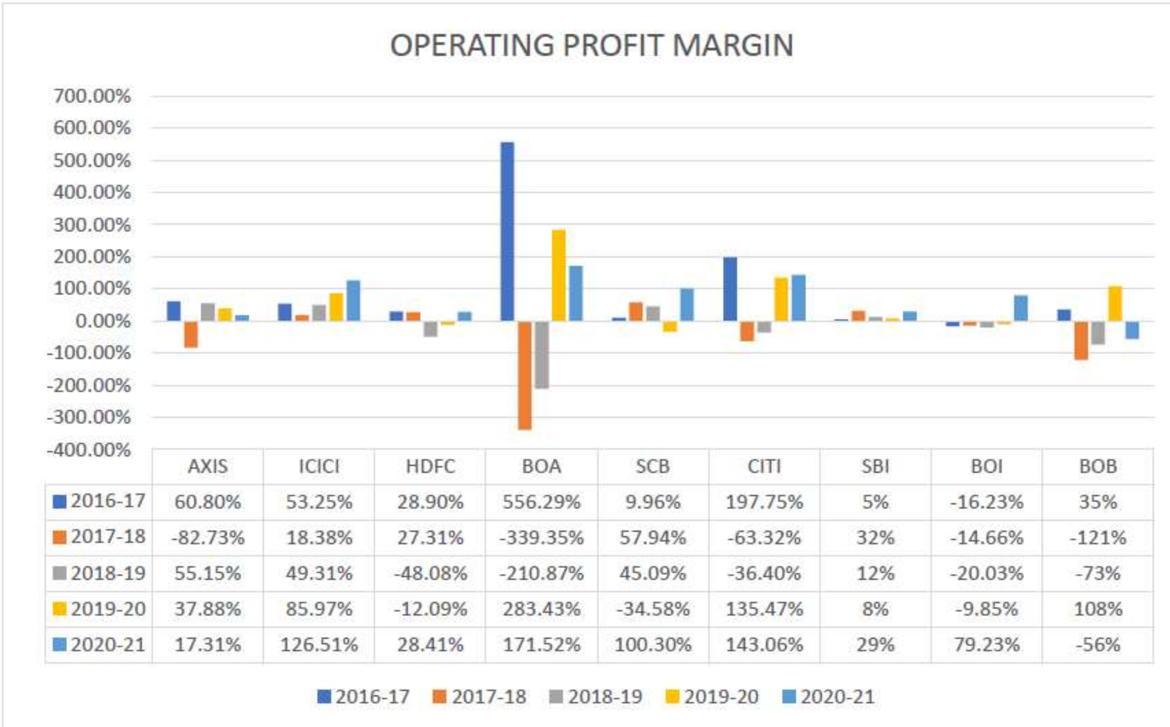

Figure 3

	AXIS	ICICI	HDFC	BOA	SCB	CITI	SBI	BOI	BOB
MEAN	17.68%	66.69%	4.89%	92.20%	35.74%	75.31%	17.20%	3.69%	-21.54%
RANK	5	3	7	1	4	2	6	8	9

Table 3

The table above displays the operating margin for banks. In the research, CITI Bank comes second with a 75.31 percent operating profit margin, followed by ICICI Bank (92.20%). (66.69 percent). Axis (17.68 percent) and the State Bank of India have the lowest OPMs, while Standard Chartered Bank (35.74 percent) has the highest (17.20 percent). In comparison to other national banks, HDFC Bank has an excellent operating profit.

Net Profit Margin:

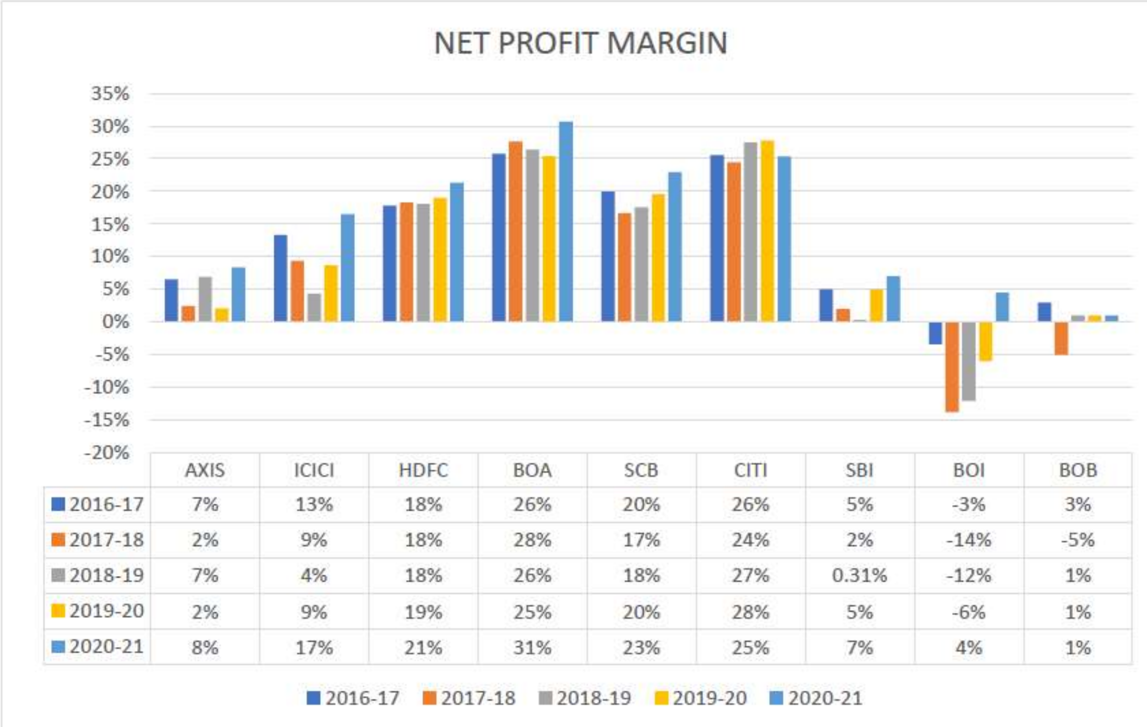

Figure 4

	AXIS	ICICI	HDFC	BOA	SCB	CITI	SBI	BOI	BOB
MEAN	5.27%	10.44%	18.91%	27.18%	19.35%	26.12%	3.86%	-6.16%	0.20%
RANK	6	5	4	1	3	2	7	9	8

Table 4

The banks' net profit margin is shown in the above table. The table displays the excellent profit made by international banks in India. Private banks came next, and then government banks came last. In the research, the Bank of India has a negative profit (-6.16%) and Bank of America has the greatest net profit (27.18%). Compared to axis and icici bank, hdfc bank does well among private banks.

Net Interest Margin:

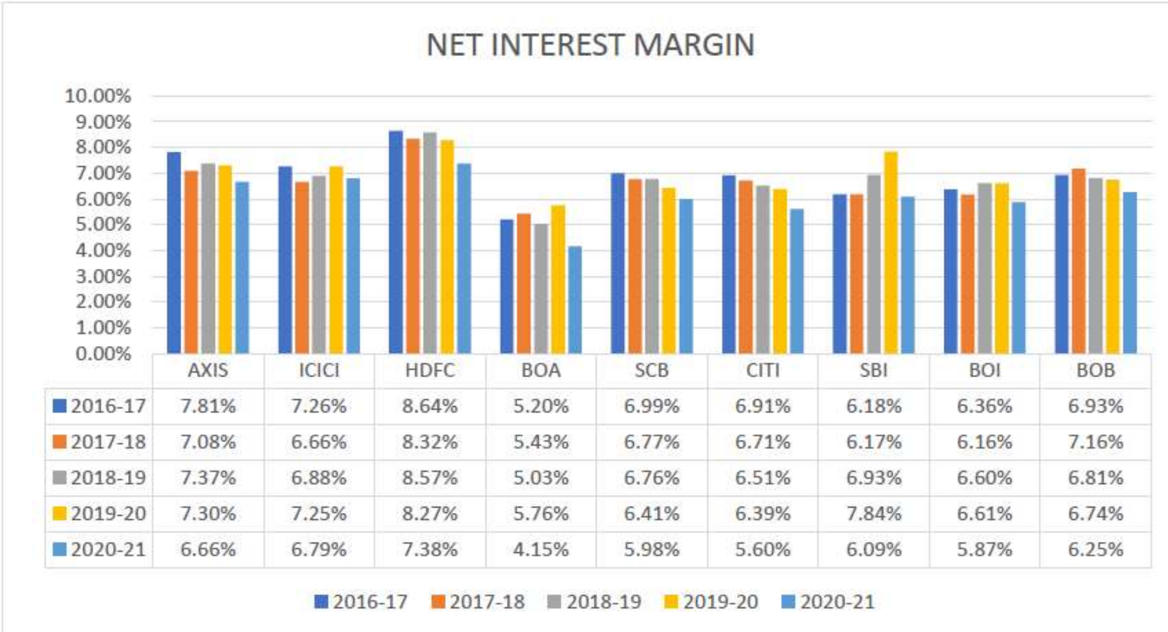

Figure 5

	AXIS	ICICI	HDFC	BOA	SCB	CITI	SBI	BOI	BOB
MEAN	7.24%	6.97%	8.24%	5.11%	6.58%	6.42%	6.64%	6.32%	6.78%
RANK	2	3	1	9	6	7	5	8	4

Table 5

The Net Interest Margin for all banks is shown in the above table. The Indian private bank has a healthy net interest margin. In the table, HDFC Bank has the greatest net interest margin (8.24%) compared to AXIS Bank (7.24%) and ICICI Bank (7.24%). (6.97 percent). While SBI BANK (6.64 percent) and SCB BANK have the lowest interest margins, bank of Baroda (6.78 percent) has the greatest (6.58 percent). The interest margin is the lowest for Bank of America.

Return on Capital Employed:

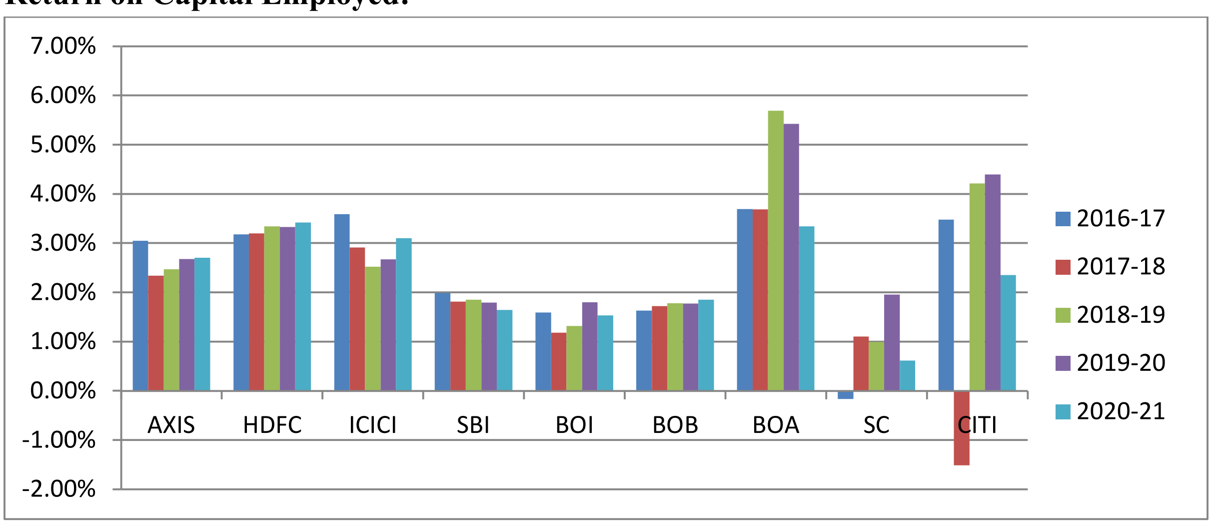

Figure 6

FY	AXIS	HDFC	ICICI	SBI	BOI	BOB	BOA	SC	CITI

2016-17	3.05%	3.18%	3.59%	1.99%	1.59%	1.63%	3.69%	-0.17%	3.48%
2017-18	2.34%	3.20%	2.91%	1.81%	1.18%	1.72%	3.69%	1.10%	-1.51%
2018-19	2.47%	3.34%	2.52%	1.85%	1.32%	1.78%	5.69%	0.99%	4.22%
2019-20	2.68%	3.33%	2.67%	1.79%	1.80%	1.77%	5.42%	1.95%	4.40%
2020-21	2.70%	3.42%	3.10%	1.64%	1.53%	1.85%	3.34%	0.61%	2.35%

Table 6

Bank	AXIS	HDFC	ICICI	SBI	BOI	BOB	BOA	SC	CITI
Mean	13.24%	16.47%	14.79%	9.08%	7.42%	8.75%	21.83%	4.49%	12.93%
Rank	4	2	3	6	8	7	1	9	5

Table 7

It is found from the table that BOA (21.83%) is the first in ROI followed by HDFC (16.47%) and ICICI Bank (14.79%). Whereas Axis (13.24%) has the highest ROI among CITI banks (12.93%) and SBI (9.08%).

Debt to Equity Ratio:

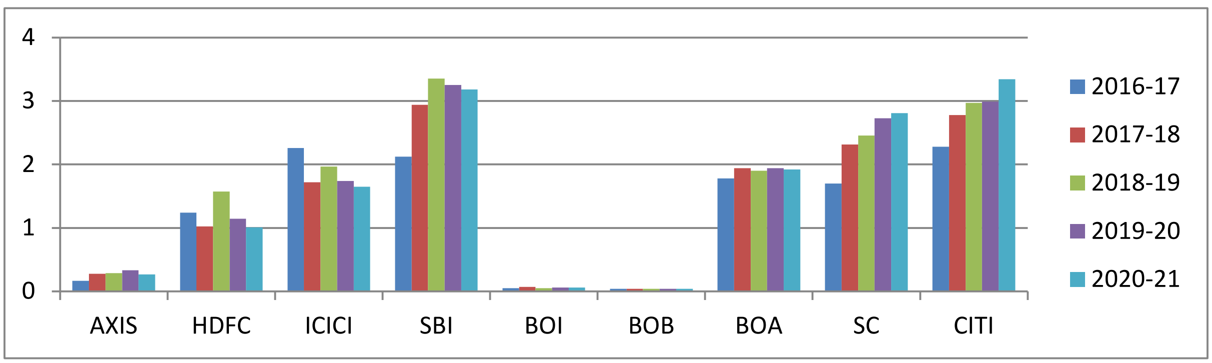

Figure 7

FY	AXIS	HDFC	ICICI	SBI	BOI	BOB	BOA	SC	CITI
2016-17	0.16	1.24	2.26	2.12	0.05	0.04	1.78	1.7	2.28
2017-18	0.27	1.02	1.71	2.94	0.07	0.04	1.93	2.31	2.78
2018-19	0.28	1.57	1.96	3.35	0.05	0.04	1.90	2.45	2.97
2019-20	0.33	1.14	1.74	3.25	0.06	0.04	1.93	2.72	2.99
2020-21	0.27	1.00	1.64	3.18	0.06	0.04	1.91	2.80	3.34

Table 8

	AXIS	HDFC	ICICI	SBI	BOI	BOB	BOA	SC	CITI

Mean	2.07	1.08	1.57	3.05	4.04	3.54	0.61	4.52	2.56
Rank	4	2	3	6	8	7	1	9	5

Table 9

The table and the graph make it quite clear that the Debt to Equity Ratio for Bank of America is the lowest, while the Debt to Equity Ratio for Standard Chartered Bank is the highest. However, the debt-to-equity ratio is rather high for all of the aforementioned public sector banks, despite the fact that HDFC and ICICI have a debt-to-equity ratio that is in a decent position overall.

Findings

The table above shows India's domestic, public sector, and international banks' overall financial performance and rankings from 2017 to 2021. Research findings:

SBI bank has the highest return on assets among all banks, allowing it to maximize its returns. It shows the bank's good management. CITI bank is more efficient than HDFC bank in return on assets among international banks and private banks. Axis bank has the lowest return on assets, thus it lacks the resources to fulfill its aim and earn more.

BOI Bank ranks best in Return on Equity, suggesting it is adept at using shareholder equity to create a return. Investors love this bank because of its high ROE. ICICI Bank has the lowest ROE; hence it mismanages shareholder equity. CITI bank and Axis bank are more efficient than two international banks.

Bank of America's operating profit margin is 92.20 percent, whereas bank of Baroda's is -21.54 percent. The biggest operating margins are at SBI (17.20%), ICICI (66.69%), and international banks.

Bank of America's net profit margin is 27.18 percent, while India's is -6.16 percent. In public banks SBI (3.84%), HDFC (18.91 percent) HDFC bank (8.24%) has the greatest net interest margin, while Bank of America (5.11%) has the lowest. The largest net interest margins are in state banks BOB (6.78%), foreign banks SCB (6.58%), and private banks. BOA (21.83%) leads ROI, followed by HDFC (16.47%) and ICICI Bank (14.79 percent). Axis has the greatest ROI among CITI (12.93%) and SBI (13.24%). (9.08 percent).

Bank of America has the lowest Debt to Equity Ratio, while Standard Chartered has the highest. HDFC and ICICI have strong debt-to-equity ratios, but all the public sector banks do.

Conclusion:

The operation and expansion of the banking industry in an economy have a substantial impact on economic growth. Ratio analysis is a crucial technique for determining the relative financial strength of every bank in a nation and for recommending the required actions to strengthen the banks that are too weak. In this study, the profitability of nine Indian banks—private, public, and foreign—has been evaluated using a profitability ratio for the years 2017 to 2021. Considering Net profit margin, net operating margin, return on equity, return on asset, and net interest margin

Only nine Indian banks—private, public sector, and foreign—are included in the current analysis. The management of the chosen banks may use this study's insights and recommendations to create policies and take the required actions to enhance their overall performance. The report identifies certain areas in which banks may make improvements and guarantee their long-term expansion.

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