A Study on the Profitability Performance of Private Sector Banks with Reference to J&K Bank And HDFC Bank Ltd.

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ABSTRACT
A powerful banking industry is essential in every country and can have a significant influence in supporting economic development through efficient financial services. Reliability of the banking sector is indistinguishable with success, effectiveness, profitability, constancy and a shock free environment. While as Profitability reflects the ultimate results of a business process. In the present study main aim is to compare the performance of profitability on the bases of selected profitability parameters for the period from 2007-08 to 2016-17. Like ROA, ROE, Ratio of spread to total deposits, Ratio of net Interest margin, Ratio of net profit to the total income ratio, burden to total expenditure and Ratio of spread to total income. Further statistical tools were used like standard deviation, mean and coefficient of variance during period of study It has been concluded from the analysis of studies that profitability performance of J&K Bank is not outperforming and shows declined performance in terms of selected profitability ratios than HDFC Bank Which means Bank has to keep much more attention to other diverse sources of incomes so that stay away from negative signs in order to improve profitability performance

***Keywords:* Economic Development, Financial services, HDFC Bank, J&K Bank, Stability,**

I.INTRODUCTION PROFITABILITY

The word profitability is together of two words, i.e profit and ability. The term profit has been explained above and term ability indicates the supremacy of a business entity to earn profits. In the words of Lord Keynes, *"profit is the engine that divers the business enterprise".* A business needs profit not only for its survival, but also for expansion and diversification and a business enterprise can execute its accountability to the various segments of the society only through the earning of profits. Profits are, thus, a positive measure of overall efficiency of a business. The investors desire a sufficient return on their investments, workers want higher wages, creditors want higher security for their interest and loan and so on.

Profitability reflects the ultimate results of a business process. Profitability ratios are employed by management in order to assess how efficiently they carry on business operations. Profitability is the main base of liquidity as well as solvency.

Profitability is defined as an income generated in the business which is calculated by subtracting the expenses from the revenue, the author went on by indicating that the word profitability derives from the word "profit" denoted by the Greek letter "n". This is defined as the difference between the total revenue of a business and the total cost of a business.

Profitability is the mainly aim of all business ventures. Without profitability the business will not continue to exist in the long run. Therefore, measuring current and past profitability and projecting future profitability is very important. It can be measured with incomes and expenses. Profitability is the profit earning capacity of a product, plant, process or an undertaking by relating profit to acceptable factors such as income, assets etc.

The term 'profit' and 'profitability' are used interchangeably infrequently. But in actual sense, there is a difference between the two. Profit is an absolute term, whereas, the profitability is a relative concept. However, they are confidentially related and equally interdependent, having diverse roles in business.

Profit refers to the total income earned by the business enterprise during the specified period of time, while profitability refers to the operating efficiency of the enterprise during the specified period of time. It is the ability of the enterprise to make profit on sales. It is the ability of the enterprise to get an adequate return on the capital and employees used in the business operation.

II.REVIEW OF LITERATURE

(Kumbari & Webb, 2010), Conduct study on the titled paper *"A Financial Ratio analysis of Commercial Bank performance in South Africa"* analyzed that the performance of South Africa's commercial banking sector for the period 2005-2009. The study was based on secondary data and various financial ratios are used to measure the liquidity, profitability and credit quality performance of five largest commercial banks in South Africa. During 2005-2009 they found that through applying ratios on financial data and the results of the study indicates significant difference was found among the banks in terms of profitability, liquidity and capital adequacy ***(Brindadevi, 2013),*** In their research paper *"A Study on Profitability Analysis of private sector Banks in India"* stated that overall profitability analysis of different sector banks in India based on the performance of profitability ratios like interest spread, net profit margin, return on long term fund, return on net worth and return on asset. He concluded in the study that there is difference between the mean value of interest spread, net profit margin, return on long term fund and return on net worth and there is no difference between the mean value of return on assets of private banks, i.e., AXIS, ICICI, KVB, SIB and also suggested that selected banks have to take proper steps to improve the operating efficiency of the business. (Gupta & Sikarwar, 2013), in their research paper *"A Comparative study of profitability Management of PNB and HDFC Bank Ltd"* studied the profitability management of selected banks. A comparative study is made 11 years of financial data from 2000-2011. On the basis of profitability management researcher selected the parameters for comparison like total expenditure, total income, Net profits and operating expenses. The study concluded that for the last 11 years 2000-2011 HDFC Bank has performed much better than the Punjab National Bank and all the banks refer the suggestions in the study to improve their performance. Pinkumani, 2014), in his paper *"profitability of the State Bank of India: An Analysis"* stated that the profitability of SBI has been analyzed for the period of seven years 2006-07 to 2012-13 with the help of selected parameters like OPTWF, ROA, ROE, ROI and EPS. Analysis of the study reveals that the profitable performance of SBI based on various measurements is statistically significant and not consistent during the study. Further the bank has no control over peripheral factors having experience of highest volatility in earning interest income and incurring interest expenditure. In order to have enhanced profitability, performance SBI has to focus more on earning other income and curtailing operating expenses. (Mishra, 2016), conducted study titled on research paper *"Efficiency and Performance: A study of private Banks"* investigated to facilitate impact of bank performance on profitability and efficiency. Different parameters are employed on data to know the impact, i.e., Return on Assets, Return on equity, Net interest margin, Profit per employee, Business per employee, etc., and statistical tools mean, standard deviation, coefficient of correlation are used to test the significance for the period from 2011-2015. The researcher selected three private banks Axis, HDFC and Indusind. It was found that ROA and NIM is highest in HDFC bank followed by Axis bank and Indusind bank show low ratio and in other ratios performances of selected banks remain similar. He further recommended improving in the operating efficiency Indusind bank has to take efficient steps for growth and performance of business in ROA and NIM.

Objectives of the study

1. To know the profitability position of selected private sector banks i.e, J&K Bank and HDFC Bank Ltd.
2. To compare and analyze the overall profitability, performance of both banks with the selected variables.

Period of the study

The study covers a period of ten years from 2007-08 to 2016-17

Methodology of the study

The main and important aspect of the study is to find a deepness imminent and full knowledge regarding the profitability performance of selected private sector banks under study. The selected present study mainly based on secondary data. i,e, Annual reports and accounts prepared by both banks and also RBI data related to them during the period of ten years of the study from 2007-08 to 2016-17. J&K Bank and HDFC bank have been selected private sector for the study. Analysis of Profitability performance has been taken and with the help of ratio analysis and various ratios have been calculated for inference of result.

Tools used for the study

The statistical tool used in the present study, i.e., Mean, standard deviation, coefficient of variation and statistical t- test are used for data analysis

Mean = $\sum X / N$

Standard deviation = $\sqrt{\sum X2 /N-(\sum X/N)^{2}}$

Coefficient of Variation = $\dfrac{SD}{MEAN} \times 100$

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III.ANALYSIS OF DATA

The analysis of data has been summarized collected, tabulated and interpreted on the basis of statistical analysis. The processing of data and analysis of data has been done manually and also using excel sheets for the betterment of results ratio analysis and statistical tools are used during the study for the Collection, examination, summarization, manipulation, and interpretation of quantitative data to discover its underlying causes, patterns, relationships, and trends.

Variables of the study

The variables have been selected for analysis for determining the profitable performance of J&K Bank and HDFC Bank Ltd are as under.

A. Return on Assets
B. Return on equity
C. Ratio of spread to total deposits
D. Ratio of net Interest margin
E. Ratio of net profit to total income
F. Ratio of burden to total expenditure
G. Ratio of spread to total income

A. Return on Assets

Return on assets is an important indicator that measures how profitable a company is relative to its total assets. It gives an idea of the efficiency of the management in using its assets to generate earnings. A high ROA indicates that management is effectively utilizing the company's assets to generate profit. ROA is used by companies and banks to furnish them with a valuable tool for their progress, including use of resources and financial strength and to produce a greater amount of net income

Table 1: ***Return on Assets (in %) Analysis of Mean, Standard dev. and coefficient of variance***

Years	*J&K Bank*	*HDFC Bank*
2007-08	*1.09*	*1.19*
2008-09	*1.08*	*1.22*
2009-10	*1.20*	*1.32*
2010-11	*1.21*	*1.41*
2011-12	*1.33*	*1.52*
2012-13	*1.47*	*1.68*
2013-14	*1.50*	*1.72*
2014-15	*0.64*	*1.73*
2015-16	*0.51*	*1.73*
2016-17	*-1.99*	*1.68*
Total	*8.04*	*15.2*
Mean	*0.80*	*1.52*
St.dev.	*1.033*	*0.2174*

C.V	*122.282*	*13.648*

Source: Calculated personally from Annual Reports of respective banks (2007-08 to 2016-17)

Table 1 exhibits the position ratio of return on assets of both banks. In J&K Bank the ratio shows silently increasing trend from a minimum 1.08 percent to a maximum of 1.50 percent during the period of study and fall down 0.64% and 0.51% due to stoppage nature's flood in the year 2014-15 and disturbance in 2015-16 with the mean value of 0.80, standard dev 1.033 and CV 122.282. On the other hand, in HDFC Bank ratio shows an increasing trend between a low of 1.19% and a high of 1.73%, which signs the efficiency of utilization of assets with achieving a mean of 1.52, standard dev. 0.2174 and CV 13.648. It reveals that comparing with the J&K Bank, HDFC Bank shows better consistent performance in terms of ratio ROA.

B. Return on Equity

Return on equity (ROE) indicates how well a bank uses shareholder's investment fund to generate profit it examines and undermines the efficiency level of a company. Therefore, the more is ROE, the better the growth ratio of benefit with least investment of capital. Such profitability ratios measure the financial performance and the managerial efficiency of the bank.

Table 2: ***Return on Equity (in %) Analysis of Mean, Standard dev. and coefficient of variance***

Years	*J&K Bank*	*HDFC Bank*
2007-08	*15.59*	*13.83*
2008-09	*15.62*	*14.91*
2009-10	*17.01*	*13.70*
2010-11	*17.68*	*15.47*
2011-12	*19.62*	*17.26*
2012-13	*21.76*	*18.57*
2013-14	*20.65*	*19.50*
2014-15	*8.32*	*16.47*
2015-16	*6.47*	*16.91*
2016-17	*-28.75*	*16.26*
Total	*113.97*	*162.88*
Mean	*11.397*	*16.288*
St.dev.	*14.934*	*1.7933*
C.V	*131.63*	*11.00*

Source: Calculated personally from Annual Reports of respective banks (2007-08 to 2016-17)

Table 2 reveals the performance based on the ratio ROE. The J&K Bank shows fluctuating trend during the period of ten years, particularly last few years, it shows declining trend and reaches two -28.75% in 2016-17 because of loss of bank in the year 2016-17 and the mean value of ratio 11.397, and calculation of st.dev.14.93% and c.v percentage 131.63% that is too high than HDFC Bank. While at HDFC Bank the ROE ratio shows consistent performance than J&K Bank it lies between 13.83% to 19.50% with an average of 16.288

which is more than J&K Bank and standard dev. was 1.7933 and c.v 11.00% that is less than J&K Bank, which showed the effectiveness of the bank which is better signs for shareholder returns.

C. Spread to total deposits

Spread as a percentage of total deposits is one of the indicators to assess the performance of banks. Spread refers to the difference in borrowing and lending rates of financial institutions (such as banks) in normal terms, i.e., interest earned (on loans and advances) and interest paid (on deposit and borrowing). It is the net amount available to the banks for meeting their operating and managerial expenses. Deposits form the basis for core banking activities, namely lending and advancing. Ratio of spread to total deposit of the bank suggests that the amount of the bank to effectively utilize its deposits and in the end making profits.

Table 3: Spread to total deposits (in %) Analysis of Mean, Standard dev. and coefficient of variance

Years	*J&K Bank*	*HDFC Bank*
2007-08	*2.83*	*5.18*
2008-09	*3.03*	*5.19*
2009-10	*3.00*	*5.00*
2010-11	*3.45*	*5.05*
2011-12	*3.44*	*5.22*
2012-13	*3.60*	*5.33*
2013-14	*3.87*	*5.03*
2014-15	*4.03*	*4.96*
2015-16	*3.90*	*5.04*
2016-17	*3.46*	*5.14*
Total	*34.61*	*51.14*
Mean	*3.461*	*5.114*
St.dev.	*0.4242*	*0.1109*
C.V	*12.25*	*2.16*

Source: Calculated personally from Annual Reports of respective banks (2007-08 to 2016-17)

Table 3 exhibits the performance of selected banks in terms of the ratio of spread to the total deposits J&K Bank has shown a fluctuation without any perceivable trend between a minimum of 2.83 percent in 2007-08 and a high of 4.03 percent in 2014-15. While as in Hdfc Bank ratio lies between a low of 4.96 percent in 2014-15 and a high of 5.22 percent in 2011-12. Based on the comparison of the descriptive statistics J&k Bank shows a low consistency than HDFC Bank with a mean value of 3.461, standard dev. 0.4242 and CV 12.25% and in HDFC Bank mean value are 5.114, standard dev. 0.1109 and CV 2.16%which clearly indicates the profitability, performance of HDFC Bank is more by utilization of deposits.

D. Net interest margin

Net interest margin is a measure of the difference between the weighted average of yields on interest revenue and interest expense i.e, (interest income- interest expenses = spread). The difference amount shows the profitability of banks. This ratio indicates the earning capacity through core banking business by utilizing all assets. If the bank is able to raise funds with liabilities that have lower interest costs and is able to acquire assets with higher interest income, the net interest margin will be high and the bank is likely to be highly profitable. The higher the ratio, the more will be the profitability.

Table 4: ***Ratio of NIM (Spread) to Total Assets (in %) Analysis of Mean, Standard dev. and coefficient of variance***

Years	*J&K Bank*	*HDFC Bank*
2007-08	*2.47*	*3.92*
2008-09	*2.65*	*4.04*
2009-10	*2.63*	*3.76*
2010-11	*3.05*	*3.80*
2011-12	*3.05*	*3.81*
2012-13	*3.22*	*3.94*
2013-14	*3.41*	*3.75*
2014-15	*3.38*	*3.79*
2015-16	*3.34*	*3.89*
2016-17	*3.06*	*3.84*
Total	*30.26*	*38.54*
Mean	*3.026*	*3.854*
St.dev.	*0.31304*	*0.06324*
C.V	*10.34*	*1.64*

Source: Calculated personally from Annual Reports of respective banks (2007-08 to 2016-17)

From the table 6.4 it revealed the performance of both banks on the bases of ratio NIM (spread to total assets) from the period of ten years 2007-08 to 2016-17. The ratio spread of both banks almost in same trend which is a good sign for J&K Bank and HDFC Bank. In J&K Bank between a low of 2.47% and a high of 3.41%, while as in HDFC Bank it is between a minimum of 3.75% to a maximum of 4.04%. The mean value of both banks is above 3 % and the st.dev was also same in position, but only variation was found in CV 10.34% in J&K Bank and 1.64% in HDFC Bank during the period of study. Overall comparison the ratio spread of total assets it is being revealed from the study position of both banks are reasonable, but variation was found between them only in CV during the period of study, respectively.

E. Ratio of Net Profit to Total Income

Profitability of the bank can be evaluated or examined by studying the proportion of net profit as a percentage of total income earned by the bank. Net profit is the balance profit calculated as the excess of income over expenditure of the bank. Total expenditure includes interest expenditure and non interest expenditure. The total income of the bank is the balance amount which attained from the returns of investment portfolios.

Table 5: Ratio of Net Profit to Total Income (in %) Analysis of Mean, Standard dev. and coefficient of variance

Years	*J&K Bank*	*HDFC Bank*
2007-08	*13.43*	*12.82*
2008-09	*12.67*	*11.44*
2009-10	*14.75*	*14.62*
2010-11	*15.08*	*16.18*
2011-12	*15.53*	*15.35*
2012-13	*15.93*	*16.04*
2013-14	*16.52*	*17.28*
2014-15	*6.64*	*17.77*
2015-16	*5.66*	*17.32*
2016-17	*-22.73*	*17.83*
Total	*93.48*	*156.65*
Mean	*9.348*	*15.665*
St.dev.	*11.2809*	*2.0486*
C.V	*121.066*	*13.077*

Source: Calculated personally from Annual Reports of respective banks (2007-08 to 2016-17)

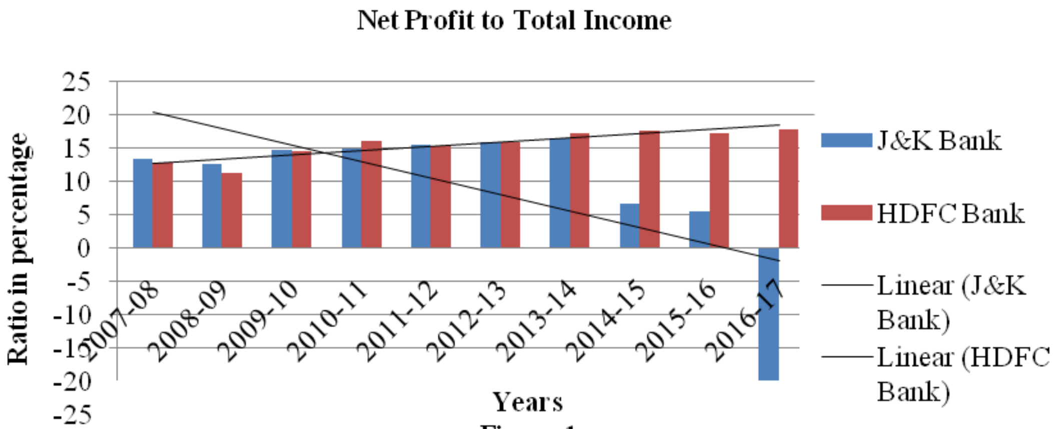


Figure 1
Ratio of Net Profit to Total Income of J&K Bank and HDFC Bank Ltd

The above table 5 and figure 1draws the reflection on the net profit to total income of J&K Bank and HDFC Bank for the period from 2007-08 to 2016-17. The ratio shows declining trend in the J&K Bank during the last three years of the study ratio was not in improved trend. In the year 2007-08 it was 13.43 %, and after ten years -22.73 in 2016-17 because of unfavorable conditions for earning income from the trading of Kashmir. On the other hand, in HDFC Bank the ratio also shown better trend which is the positive sign for the bank it was 12.82 percent in 2007-08 and high 17.83percent in 2016-17 during the study period. It is being from the study that the ratio of net profit to total income of J&K Bank was not good enough than an HDFC bank, based on mean, std.dev and c.v J&K Bank comparison performance is low. Which means J&K Bank has to keep much more attention on other sources of incomes so that stay away from negative signs in ratio and profit will increase.

F. Ratio of Burden to Total Expenditure

The Non interest Expenditure is one of the components of burden which is predominately fixed in nature. An important constitutes of the non interest expenditure is administrative expenses which include salary and allowances which are fixed in nature. In other words, these expenses do not have any direct relationship with the operating income of the bank. Hence, they are considered non controllable. One of the ways to manage burden is to increase non interest income. If a bank is capable to cover the non- interest expenses with the help of non-interest income the bank is supposed to have better performance and as such have no burden on interest income on account of non- interest expenditure. The scope for increasing the income through an increase in individual customer base would help to improve the situation.

Table 6: Ratio of Burden to Total Expenditure (in %) Analysis of Mean, Standard dev. and coefficient of variance

Years	*J&K Bank*	*HDFC Bank*
2007-08	*6.80*	*13.53*
2008-09	*8.00*	*12.90*
2009-10	*5.44*	*11.37*
2010-11	*11.38*	*13.85*
2011-12	*10.71*	*12.26*
2012-13	*9.07*	*12.45*
2013-14	*13.13*	*10.15*
2014-15	*11.40*	*10.56*
2015-16	*8.15*	*10.61*
2016-17	*13.81*	*11.04*
Total	*97.89*	*118.72*
Mean	*9.789*	*11.872*
St.dev.	*3.0346*	*1.2409*
C.V	*31.00*	*10.45*

Source: Calculated personally from Annual Reports of respective banks (2007-08 to 2016-17)

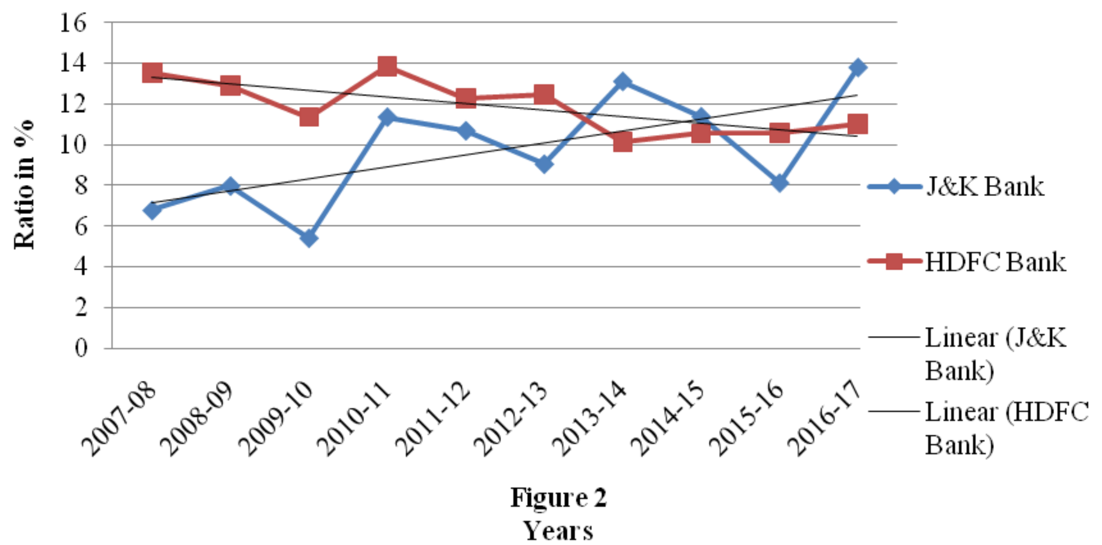


Figure 2

Ratio of Burden to Total Expenditure of J&K Bank and HDFC Bank Ltd

From the table 6 and figure 2 exhibits performance of burden of total expenditure of J&k Bank and HDFC Bank over the period of study from 2007-08 to 2016 -17. The J&K Banks ratio shows wide fluctuation trend between a low of 5.44% to high of 13.81% during the period of study with an average value of 9.789, st .Dev 3.0346 and CV 31.00%. During the period of study HDFC Bank ratio fluctuates in between 13.85% in 2010-11 to a low of 10.15% 2013-14 with a mean value of 11.872 which is more than J&K Bank and st.dev 1.2409 with c.v 10.45. From the analysis based on comparison performance it is revealed that because of the wide difference between a burden and total expenditure over the period of study

G. Ratio of Spread to total Income

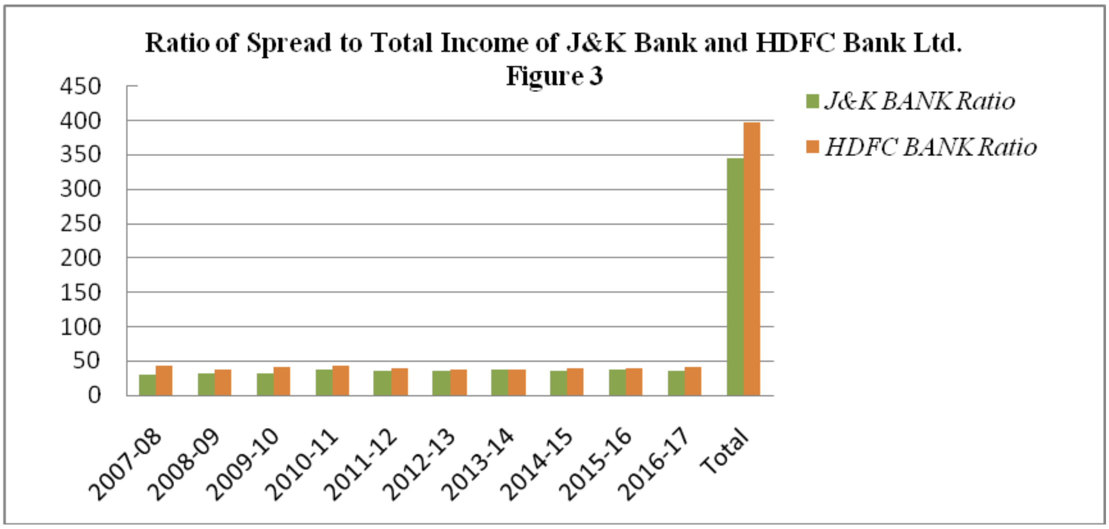
Spread as a percentage to total income reveals the relationship between the net income from banking operations and the total income of the bank

Table 7 : Ratio of Spread to Income (in %) Analysis of Mean, Standard dev. and coefficient of variance

Years	*J&K Bank*	*HDFC Bank*
2007-08	*30.23*	*42.16*
2008-09	*30.93*	*37.81*
2009-10	*32.22*	*41.60*
2010-11	*37.85*	*43.45*
2011-12	*35.56*	*38.28*
2012-13	*34.98*	*37.71*
2013-14	*37.50*	*37.67*
2014-15	*34.62*	*38.97*

2015-16	*36.88*	*38.87*
2016-17	*34.99*	*40.61*
Total	*345.76*	*397.13*
Mean	*34.576*	*39.713*
St.dev.	*2.5217*	*1.9849*
C.V	*7.2732*	*4.9982*

Source: Calculated personally from Annual Reports of respective banks (2007-08 to 2016-17)



The above table no. 7 and figure 3 reveals the position of the Spread to total income of J&K Bank and HDFC Bank during the period of ten years. J&K Bank shows silently up and down trend in between a low 30.23% in 2007-08 and high of 37.85% in 2010-11 with the mean value of 34.57, st.dev 2.52 and CV 7.27. While in HDFC Bank its spread The ratio of spread to total income of HDFC Bank compared to J&K bank is much better during the last ten years, it registered a level between a minimum of 37.67% in 2012-13 and high of 43.45% in 2010-11 with the average value of 39.71, st.dev 1.98 and c.v 4.99. So it was found from J&K Bank and HDFC Bank that there is a difference between spread to total income ratio during a ten year study period respectively.

IV.CONCLUSION

Profitability of the bank can be evaluated or examined by studying the different parameters. It is the most important base of liquidity as well as solvency. While during the present study a number of ratios such as ROA, ROE, Ratio of spread to total deposits, Ratio of net Interest margin, Ratio of net profit to the total income ratio, burden to total expenditure and Ratio of spread to total income were analyzed to arrive the conclusion of the study. It has been concluded from the analysis of study overall that comparative profitability performance of J&K Bank is not outperforming and shows declined performance in terms of selected profitability ratios than HDFC Bank from the financial year 2007-08 to 2016-17. because of the wide difference between a burden and total expenditure over the period of study Which means Bank has to keep much more attention to other diverse sources of incomes so that stay away from negative signs in order to improve profitability performance and to development the banks business in a efficient way.

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