

# Indicators of Bank Profitability in India: An Analysis of Nationalised Banks

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## Abstract

Bank profitability, which reflects the financial ability and income earning capability of a financial institution, is a significant parameter used for the assessment of the financial health of a country. In this regard, the present study attempts to assess and evaluate the performance of all the 19 Indian nationalised banks on three indicators of profitability, namely 'return on assets', 'return on equity' and 'cost of deposit' for the years 2010 to 2017. The results revealed that all nationalised banks experienced negative growth with respect to return on their assets and return on their equity during the time period under study. Out of all the nationalised banks, Bank of Maharashtra and Indian Overseas Bank recorded the maximum negative growth on their return on assets and return on equity, respectively. Further, the Corporation Bank recorded the highest growth rate in terms of cost of deposit during the given years, thereby indicating a reduction in the profits of a bank owing to higher cost of deposit ratio.

**Keywords:** *Bank Profitability, Cost of Deposit, Nationalised Banks, Return on Assets, Return on Equity, Cost of Deposit.*

## 1. Introduction

Globally speaking, the financial sector has undergone major transformation over the years due to policy reforms in the regulatory frameworks as well as up-gradation in technology. The major change that was ushered in the Indian banking system was in the year 1969, when 14 major banks were nationalised followed by series of other policy changes such as introduction of lead bank scheme in 1969, priority sector lending and establishment of Regional Rural Banks (RRBs) in 1975 and finally the introduction of

the structural changes in 1991, when on the recommendations of Narsimham Committee-I', the banking sector reforms were initiated (Ataullah, and Le, 2006). These reforms were mainly directed to create a competitive environment, thereby allowing admission of private players in the banking sector so as to improve the overall financial performance of the Indian banking system (Sathye, 2003). Financial performance of a bank can be gauged by a number of parameters such as profitability, solvency, liquidity, efficiency etc. Since, profitability is a prime parameter to ascertain and evaluate the financial health of a country, it has been observed that banks in the less developed financial markets tend to have larger profits and margins with costly and inefficient activities, while those in developed financial systems have tougher competition, efficient markets and lower profits (Demirguc-Kunt and Huizinga, 2000)

The main aim of the present study is to assess and evaluate the profitability of Indian nationalised banks, which is paramount for economic growth as it reflects the financial ability and profit earning capability of a financial institution. Bank profitability, which is a significantly important dimension of financial health, can be measured by the following three indicators:

- **Return on Assets:** This indicator reflects the capability of a bank to generate income from bank's assets. It is positively related to the profit generating capacity of the banks in general.
- **Return on Equity:** This ratio computes the profits of a bank earned in comparison to the total amount of shareholder equity. It is also positively associated with the bank profitability.
- **Cost of Deposit:** It is the ratio of interest per deposit divided by the total deposits and is

negatively related with the bank profitability.

These three indicators provide a great deal of information in assessing the profitability status of the banks. In view of this, the present research work attempts to assess the performance of the 19 nationalised banks on each of the indicators of profitability during the time period spanning from 2010 to 2017.

## 2. Objectives of the Study

The present study attempts to assess the growth rates of the three indicators of profitability (return on assets, return on equity and cost of deposit) of the 19 nationalised banks in India from the years 2010 to 2017. The growth rates shall help in evaluating the performance of the nationalised banks on each of the indicators of profitability during the time period under study.

## 3. Data and Methodology

In the present research work, secondary data pertaining to the three indicators of bank profitability has been collected from Reserve Bank of India publications. Method of measuring the three indicators of the bank profitability has been explained below:

$$\text{Return on Assets} = \frac{\text{Profits before tax}}{\text{Total Assets}}$$

$$\text{Return on Equity} = \frac{\text{Profits after tax}}{\text{Equity Fund}}$$

$$\text{Cost of Deposit} = \frac{\text{Interest on Deposits}}{\text{Total Deposits}}$$

Further, simple growth rates have been computed for each of the 19 nationalised so as to assess the performance of the nationalised banks on each of the indicators of profitability from 2010 to 2017.

## 4. Results and Discussion

Table 1 reveals that all nationalised banks have experienced negative growth of return on their assets from 2010 to 2017. Vijaya Bank (-35.53 per cent) has shown the least negative growth on their return on assets followed by Indian Bank whose growth rate has come out to be (-59.89 per cent) and Punjab and Sind bank with the negative growth rate of (-80.96

per cent). Bank of Maharashtra has shown the maximum negative growth (-222.86 per cent) on their return on assets followed by Central Bank of India (-221.21) and UCO Bank with the growth rate of (-186.20 per cent) during the same time period. On the basis of negative trend in the growth rate of return on assets, which is an important indicator of bank profitability, it can be concluded that nationalised banks have not been able to manage their assets properly resulting in negative growth of their return

Name of the Bank	Growth Rate (%) of Return on Assets
Allahabad Bank	-111.21
Andhra Bank	-94.24
Bank of Baroda	-83.47
Bank of India	-134.29
Bank of Maharashtra	-222.86
Canara Bank	-84.62
Central Bank of India	-221.21
Corporation Bank	-82.03
Dena Bank	-166.34
Indian Bank	-59.88
Indian overseas Bank	-328.30
Oriental Bank of Commerce	-150.55
Punjab and Sind Bank	-80.95
Punjab National Bank	-86.81
Syndicate Bank	-80.65
UCO Bank	-186.21
Union Bank of India	-89.60
United Bank of India	-64.44
Vijaya Bank	-35.53

on assets over the given years.

Table 1: Growth Rates of Return on Assets for Nationalised Banks in India (2010 to 2017)

Source: Computed from the data procured from the RBI website.

Table 2 depicts that each of the 19 nationalised banks have also experienced negative growth of return on their equity just like it experienced on their return on assets from 2010 to 2017. It was observed that Vijaya Bank (-37.88 per cent) has the least negative growth on their return on equity followed by Indian Bank

whose growth rate comes out to be (-58.32 per cent) and United Bank of India with the negative growth rate of (-63.89 per cent). Maximum negative growth of return on equity is visible in case of Indian Overseas Bank (-341.16 per cent) followed by Bank of Maharashtra (-203.82 per cent) and Central Bank of India (-193.02 per cent). Since, the growth rate of return on equity (which measures the effectiveness of a bank in using the shareholders' money) comes out to be negative for all the nationalised banks therefore signifying low efficiency of banks in using the money of shareholders.

Table 2: Growth Rates of Return on Equity for Nationalised Banks in India (2010 to 2017)

Name of the Banks	Growth Rate (%) of Return on Equity
Allahabad Bank	-111.55
Andhra Bank	-93.99
Bank of Baroda	-84.28
Bank of India	-140.17
Bank of Maharashtra	-203.82
Canara Bank	-84.71
Central Bank of India	-193.02
Corporation Bank	-78.75
Dena Bank	-154.37
Indian Bank	-58.32
Indian overseas Bank	-341.16
Oriental Bank of Commerce	-151.89
Punjab and Sind Bank	-84.48
Punjab National Bank	-86.30
Syndicate Bank	-82.30
UCO Bank	-166.32
Union Bank of India	-89.06
United Bank of India	-63.89
Vijaya Bank	-37.88

Source: Computed from the data procured from the RBI website

Table 3 shows that Corporation Bank (21.27 per cent) has the highest growth rate in terms of cost of deposit during the time period under study. Lowest growth rate comes out to be that of Bank of India (-

10 per cent) followed by Oriental Bank of Commerce (-7.11 per cent). Cost of Deposit, which is the ratio of interest paid on deposits to total deposits is negatively related to the profitability of a bank, therefore higher cost of deposit signifies the reduction in the profits of a bank.

Table 3: Growth Rates of Cost of Deposit for Nationalised Banks in India (2010 to 2017)

Name of the Banks	Growth Rate (%) of Cost of Deposit
Allahabad Bank	4.46
Andhra Bank	14.03
Bank of Baroda	-0.02
Bank of India	-10.00
Bank of Maharashtra	5.44
Canara Bank	4.03
Central Bank of India	-0.96
Corporation Bank	21.27
Dena Bank	6.57
Indian Bank	5.17
Indian overseas Bank	0.50
Oriental Bank of Commerce	-7.12
Punjab and Sind Bank	7.51
Punjab National Bank	-2.24
Syndicate Bank	1.32
UCO Bank	-2.44
Union Bank of India	10.45
United Bank of India	-2.12
Vijaya Bank	2.80

Source: Computed from the data procured from the RBI website.

## 5. Conclusion

In the present study, growth rates of the three indicators of profitability were calculated for the 19 nationalised banks in India from 2010 to 2017. The results indicated that all nationalised banks have experienced negative growth of return on their assets and return on their equity during the time period under study. Of all the 19 banks, Vijaya Bank was observed to record the least negative growth on both

the indicators, i.e., return on assets and return on equity. Bank of Maharashtra and Indian Overseas Bank had shown the maximum negative growth on their return on assets and return on equity, respectively during the same time period. The negative trend in the growth rate of return on assets and return on equity signifies that nationalised banks have not been able to manage their assets properly and have shown low efficiency in utilizing the shareholders' money, respectively. Further, the Corporation Bank recorded the highest growth rate in terms of cost of deposit followed by Union Bank of India during the given years, thereby signifying reduction in the profits of a bank owing to higher cost of deposit ratio.

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### Appendix

Table 1: Data on Return on assets of Nationalised Banks in India (2010 to 2017)

Name of the Banks	2010	2011	2012	2013	2014	2015	2016	2017
Allahabad Bank	1.16	1.11	1.02	0.64	0.57	0.29	-0.33	-0.13
Andhra Bank	1.39	1.36	1.19	0.99	0.29	0.38	0.28	0.08
Bank of Baroda	1.21	1.33	1.24	0.90	0.75	0.49	-0.78	0.20
Bank of India	0.70	0.82	0.72	0.65	0.51	0.27	0.94	-0.24
Bank of Maharashtra	0.70	0.47	0.55	0.74	0.30	0.33	0.07	-0.86
Canara Bank	1.30	1.42	0.95	0.77	0.54	0.55	-0.52	0.20
Central Bank of India	0.66	0.70	0.26	0.44	-0.47	0.21	-0.48	-0.80
Corporation Bank	1.28	1.21	1.06	0.88	0.29	0.28	-0.23	0.23
Dena Bank	1.01	1.00	1.08	0.86	0.51	0.22	-1.02	-0.67
Indian Bank	1.67	1.53	1.31	1.02	0.67	0.54	0.36	0.67
Indian overseas Bank	0.53	0.71	0.52	0.24	0.23	-0.16	-0.97	-1.21
Oriental Bank of Commerce	0.91	1.03	0.67	0.71	0.56	0.23	0.07	-0.46
Punjab and Sind Bank	1.05	0.90	0.65	0.44	0.35	0.13	0.34	0.20
Punjab National Bank	1.44	1.34	1.19	1.00	0.64	0.53	-0.61	0.19
Syndicate Bank	0.62	0.76	0.81	1.07	0.78	0.58	-0.56	0.12
UCO Bank	0.87	0.66	0.69	0.33	0.70	0.48	-1.25	-0.75
Union Bank of India	1.25	1.05	0.79	0.79	0.52	0.49	0.35	0.13
United Bank of India	0.45	0.66	0.70	0.38	-0.99	0.21	-0.22	0.16
Vijaya Bank	0.76	0.72	0.66	0.59	0.35	0.33	0.28	0.49

Source: RBI

Table 2: Data on Return on Equity of Nationalised Banks in India (2010 to 2017)

Name of the Banks	2010	2011	2012	2013	2014	2015	2016	2017
Allahabad Bank	19.14	18.65	19.64	10.84	10.12	5.08	-5.57	-2.21
Andhra Bank	25.96	23.24	19.25	16.19	5.07	6.79	5.13	1.56
Bank of Baroda	21.86	23.47	20.64	15.07	13.36	8.96	-13.48	3.44
Bank of India	12.56	15.79	14.00	12.25	10.14	5.57	-19.50	-5.04
Bank of Maharashtra	16.35	9.68	9.91	13.66	5.61	5.84	1.19	-16.98
Canara Bank	22.48	23.20	15.36	12.08	8.95	8.79	-8.86	3.44
Central Bank of India	15.01	13.49	4.57	7.31	-8.12	3.65	-8.07	-13.96
Corporation Bank	21.93	21.89	19.54	16.08	5.72	5.68	-4.64	4.66
Dena Bank	21.43	19.55	19.75	15.83	8.55	3.64	-12.83	-11.65
Indian Bank	20.18	19.27	17.19	13.89	8.97	6.94	4.54	8.41
Indian overseas Bank	9.63	12.73	9.88	4.47	4.06	-2.86	-18.51	-23.23
Oriental Bank of Commerce	14.51	15.55	9.91	10.74	8.70	3.65	1.09	-7.53
Punjab and Sind Bank	21.40	16.39	11.21	7.66	6.25	2.29	5.81	3.32
Punjab National Bank	24.12	22.60	19.80	15.70	9.75	8.17	-10.27	3.31
Syndicate Bank	15.29	16.53	16.32	20.47	15.29	12.23	-12.94	2.71
UCO Bank	22.08	14.36	13.83	6.76	14.45	9.57	-22.33	-14.64
Union Bank of India	21.65	17.96	13.05	13.52	9.48	9.32	6.34	2.37
United Bank of India	9.24	11.74	11.93	6.84	-21.73	4.61	-4.83	3.33
Vijaya Bank	15.32	12.63	11.54	10.83	7.27	7.29	5.54	9.51

Source: RBI

Table 3: Data on Cost of Deposit of Nationalised Banks in India (2010 to 2017)

Name of the Banks	2010	2011	2012	2013	2014	2015	2016	2017
Allahabad Bank	5.59	5.46	6.69	7.12	6.96	6.73	6.24	5.84
Andhra Bank	5.55	5.38	7.02	7.45	7.42	7.35	6.93	6.32
Bank of Baroda	4.56	4.34	5.15	5.23	4.84	4.65	4.90	4.56
Bank of India	5.16	4.61	5.82	5.78	5.54	5.73	5.15	4.64
Bank of Maharashtra	5.51	5.04	5.99	6.88	7.29	6.77	6.45	5.81
Canara Bank	5.83	5.39	7.08	7.39	7.38	7.16	6.78	6.06
Central Bank of India	6.22	5.31	6.92	7.08	7.03	7.07	6.77	6.16
Corporation Bank	5.46	5.09	7.13	7.35	7.37	7.49	7.11	6.63
Dena Bank	5.85	5.40	6.41	7.15	6.86	7.07	6.61	6.23
Indian Bank	5.56	5.29	6.58	6.87	6.98	6.76	6.65	5.85
Indian overseas Bank	5.95	5.28	6.94	7.29	7.17	7.28	6.91	5.98
Oriental Bank of Commerce	6.43	5.76	7.60	7.56	7.19	7.20	6.81	5.97
Punjab and Sind Bank	6.13	5.74	7.61	8.11	7.87	7.81	7.09	6.59
Punjab National Bank	5.21	4.91	6.18	6.61	5.98	5.80	5.65	5.10
Syndicate Bank	5.82	4.90	6.35	6.26	6.07	6.42	6.19	5.90
UCO Bank	5.91	5.11	6.65	7.03	6.05	6.17	6.03	5.76
Union Bank of India	5.52	5.12	6.30	6.80	7.07	7.04	6.69	6.10
United Bank of India	5.98	5.27	6.11	6.57	7.14	6.58	6.38	5.86
Vijaya Bank	6.05	5.38	7.43	7.61	7.55	7.74	6.90	6.22

Source: RBI