Abstract

The study entitled as an analytical study to identify the leadership position in profit with reference to selected public sector banks based on their past three years financial performance is carried out with the basic objectives as study about banking functions and analyze their financial performance. The importance of profit is defined to be Profitability is the ability of a business to earn a profit. A profit is what is left of the revenue a business generates after it pays all expenses directly related to the generation of the revenue, such as producing a product, and other expenses related to the conduct of the business activities. For this research, public sector banks such as State Bank of India, Indian Overseas Bank, Indian Bank, Central bank of India and Bank of India financial statements were used secondary alone. Financial tools such as ratio analysis like gross profit ratio, net profit ratio, operating profit ratio, Return on Investment ratio, Return on asset ratio, Capital employed ratio were used for data analysis and interpretation.

1. INTRODUCTION

The word 'profitability' is composed of two words, namely; profit and ability. The term profit has already been discussed at length in detail. The term ability indicates the power of a firm to earn profits. The ability of an enterprise also denotes its earning power or operating performance. Also, that the business ability points towards the financial and operational
ability of the business. So, on this basis profitability may be defined as —the ability of a
given instrument to earn a return from its use”. Weston and Brigham define profitability as
"the net surplus of a large number of policies and decisions. Profit being an absolute figure
fails to indicate the adequacy of income or changes in efficiency resulting from financial
and operational performance of an enterprise. Much difficulty and confusion comes home
while interpreting the absolute figures of profit in case of historical or inter-firm
comparisons due to variation in the size of investment or volume of sales etc. Such
problems are handled by relating figures of profit either with the volume of sales or with the
level of investment. A quantitative relationship is thereof established either in the form of
ratios or percentages. Such ratios are names as profitability ratios. Thus, profitability may be
regarded as a relative term measurable in terms of profit and its relation with other elements
that can directly influence the profit. Profit is the positive gain remaining for a business after
all costs and expenses have been deducted from total sales. Profit is also referred to as
the bottom line, net profit or net earnings.

1.1 Profitability Analysis Indicator

- **Effective Tax Rate**: A company's tax rate which is calculated by comparing its income tax
  expense to its pretax income. This amount will often differ from the company's stated
  jurisdictional rate due to many accounting factors, including foreign exchange provisions.
  This effective tax rate gives a good understanding of the tax rate the company faces.

- **Profit Margin Analysis**: In the income statement, there are four levels of profit or profit
  margins - gross profit, operating profit, pretax profit and net profit. The term "margin" can
  apply to the absolute number for a given profit level and/or the number as a percentage of
  net sales/revenues. Profit margin analysis uses the percentage calculation to provide a
  comprehensive measure of a company's profitability on a historical basis (3-5 years) and in
  comparison to peer companies and industry benchmarks.

- **Return On Assets**: The return on assets (ROA) ratio illustrates how well management is
  employing the company's total assets to make a profit. The higher the return, the more
  efficient management is in utilizing its asset base. The ROA ratio is calculated by
  comparing net income to average total assets, and is expressed as a percentage.

- **Return On Capital Employed**: The return on capital employed (ROCE) ratio, expressed as
  a percentage, complements the return on equity (ROE) ratio by adding a company's debt
  liabilities, or funded debt, to equity to reflect a company's total "capital employed". This
  measure narrows the focus to gain a better understanding of a company's ability to generate
  returns from its available capital base. The return on capital employed is an important
  measure of a company's profitability. Many investment analysts think that factoring debt
  into a company's total capital provides a more comprehensive evaluation of how well
  management is using the debt and equity it has at its disposal. Investors would be well
  served by focusing on ROCE as a key, if not the key, factor to gauge a company's
  profitability. An ROCE ratio, as a very general rule of thumb, should be at or above a
  company's average borrowing rate. Unfortunately, there are a number of similar ratios to
  ROCE, as defined herein, that are similar in nature but calculated differently, resulting in
dissimilar results. First, the acronym ROCE is sometimes used to identify return on common equity, which can be confusing because that relationship is best known as the return on equity or ROE. Second, the concept behind the terms return on invested capital (ROIC) and return on investment (ROI) portends to represent "invested capital" as the source for supporting a company's assets. However, there is no consistency to what components are included in the formula for invested capital, and it is a measurement that is not commonly used in investment research reporting.

**The return on equity ratio:** The return on equity ratio (ROE) measures how much the shareholders earned for their investment in the company. The higher the ratio percentage, the more efficient management is in utilizing its equity base and the better return is to investors. The ROE ratio is an important measure of a company's earnings performance. The ROE tells common shareholders how effectively their money is being employed. Peer Company, industry and overall market comparisons are appropriate; however, it should be recognized that there are variations in ROEs among some types of businesses. While highly regarded as a profitability indicator; the ROE metric does have a recognized weakness. Investors need to be aware that a disproportionate amount of debt in a company's capital structure would translate into a smaller equity base. Thus, a small amount of net income (the numerator) could still produce a high ROE off a modest equity base (the denominator).

### 1.2 Concept Of Profitability

**Accounting Profitability:** Profitability is a measure of evaluating the overall efficiency of the business. The best possible course for evaluation of business efficiency may be input-output analysis. Profitability can be measured by relating output as a proportion of input or matching it with the results of other firms of the same industry or results attained in the different periods of operations. Profitability of a firm can be evaluated by comparing the amount of capital employed i.e. the input with income earned i.e. the output. This is popularly known as return on investment or return on capital employed. It is regarded as the overall profitability ratio and has two components; net profit ratio and turnover ratio. It is accepted as an indicator of performance and capability. This is the reason for viewing operational and financial performance in relation to the scale of resources of funds required in production. That is, "a given amount of profit return should be evaluated in terms of the percentage profit return on the investment of funds." Moreover, "the return on capital used depicts the effectiveness of all the operating decisions from the routine to the critical, made by the management at all levels of the organization from shop foreman to President.

**Social Profitability:** Along with the economic objective of earning profits, a business is also required to perform a large number of social objectives. Besides providing better quality of goods and services, it provides big employment opportunities to the people, better condition of work, fulfill community needs, conserves resources etc.

**Value Added Profitability:** Wealth generation is essential for every enterprise. Value added profitability indicates the wealth generated (net value earned) as a result of manufacturing process during a specified period. Wealth generation is the very essence for survival or growth of a business. An enterprise may survive without making profit but...
would cease to do so without adding value. "The enterprise, not making profit, is bound to become sick but not adding value may cause its death over a period of time." Profit forms a part of value added. Thus, value added is a broader concept. "Value added at particular level of operating capacity and claims should be determined as value added can expose the efficiency and inefficiency of a business."™ The concept of value added can be related to the concept of social profitability of an enterprise. The investment of an enterprise comprises of the investment of shareholders, debenture holders, creditors, financial institutions etc. If an enterprise fails to generate growth or add anything as value added, it would simply mean that the enterprise is misusing public funds. This concept represents the wealth distribution in a proper manner besides suggesting how productivity can be increased when reducing the consumption of resources produces same or better outputs.

**Measurement of Profitability:** The measurement of profitability for a concern is as important as the earning of profits. The importance of measuring profitability has been stated by Hingorani, Ramanathan rand Grewal, "A measure of profitability is the overall measure of efficiency."™ Since, profitability is the outcome of many business activities. Therefore, its measurement is a multistage concept. As stated before profitability is a relative concept based on profits. But profits alone cannot express the concept of profitability. Thus, there arises a need to established relationship between profit and other variables.

### 1.3 Purpose Of Profitability Analysis

Two forms of Profitability Analysis are supported: costing-based and account-based.

- **Costing-based Profitability Analysis:** Costing-based Profitability Analysis is the form of profitability analysis that groups costs and revenues according to value fields and costing-based valuation approaches, both of which you can define yourself. It guarantees you access at all times to a complete, short-term profitability report.

- **Account-based Profitability Analysis:** Account-based Profitability Analysis is a form of profitability analysis organized in accounts and using an account-based valuation approach. The distinguishing characteristic of this form is its use of cost and revenue elements. It provides you with a profitability report that is permanently reconciled with financial accounting.

### 1.4 Company Profile

- **State bank of India:** State Bank of India is an Indian multinational, public sector banking and financial services company. It is government with its headquarters in Mumbai, Maharashtra. As of 2014-15, it has assets of INR 20, 48,080crores and 16,333 branches, including 191 foreign offices spread across 36 countries, making it the largest banking and financial services company in India by assets. State Bank of India is one of the Big Four banks of India, along with ICICI Bank, Bank of Baroda and Punjab National Bank. The bank traces its ancestry to British India, through the Imperial Bank of India, to the founding, in 1806, of the Bank of Calcutta, making it the oldest commercial bank in the Indian Subcontinent. Bank of Madras merged into the other two "presidency banks" in British India, Bank of Calcutta and Bank of Bombay, to form the Imperial Bank of India,
which in turn became the State Bank of India. Government of India owned the Imperial Bank of India in 1955, with Reserve Bank of India (India's Central Bank) taking a 60% stake, and renamed it the State Bank of India. In 2008, the government took over the stake held by the Reserve Bank of India. State Bank of India is a regional banking behemoth and has 20% market share in deposits and loans among Indian commercial banks.

**IOB:** Indian Overseas Bank (IOB) was founded on February 10th 1937, by Shri. M. Ct. M. Chidambaram Chettyar. M.Ct. as he was popularly known was pioneer in many fields – Banking, Insurance and Industry. IOB was founded with the twin objectives of specializing in foreign exchange business and overseas banking. Beginning with United India Life Insurance, he ventured into general insurance in the form of United India Fire and General Insurance Company Ltd., and then the successful bank — the Indian Overseas Bank. He also set up Travancore Rayon’s, India’s first synthetic fiber unit, in Kerala.

**Indian Overseas Bank (IOB):** It is a major public sector bank based in Chennai (Madras), with about 3700 domestic branches, including 1150 branches in Tamil Nadu, 3 extension counters, and eight branches and offices overseas as of 30 September 2014. Indian Overseas Bank has an ISO certified in-house Information Technology department, which has developed the software that its branches use to provide online banking to customers; the bank has achieved 100% networking status as well as 100% CBS status for its branches. IOB also has a network of about 3300 ATMs all over India. IOB has branches in Singapore, Hong Kong, Colombo, Seoul, and Bangkok. It has representative offices in Guangzhou, Vietnam, and Dubai. IOB also is part-owner of a joint-venture bank in Malaysia.

**Indian Bank:** Indian Bank is one of the indigenous banks of India that emerged as a result of the Swadeshi Movement during the British Raj. The bank was established on 15th of August, 1907. One of the prime figures associated with the establishment of the bank was V. Krishnaswamy Iyer, a lawyer from Madras (Now Chennai). The bank soon spread its wings outside India too, and opened its branch in Colombo, Sri Lanka in the year 1932 and Rangoon, Burma in 1940. The bank was further nationalized by the Government of India in the year 1969.

**Central Bank Of India:** Central Bank of India was established in the year 1911. The bank was the vision of Sir Sorabji Pochkhanawala. Out of 29 states, CBI has presence in 27 states and in 4 union territories. It has a network of 3656 branches and 178 extension counters. Established in 1911, Central Bank of India was the first Indian commercial bank which was wholly owned and managed by Indians. The establishment of the Bank was the ultimate realization of the dream of Sir Sorabji Pochkhanawala, founder of the Bank. Sir Pherozesha Mehta was the first Chairman of a truly 'Swadeshi Bank'. In fact, such was the extent of pride felt by Sir Sorabji Pochkhanawala that he proclaimed Central Bank of India as the 'property of the nation and the country's asset'. He also added that 'Central Bank of India lives on people's faith and regards itself as the people's own bank'. In 2008 Central Bank of India entered into distribution tie up with Kodak Mahindra Asset Management Company. Under this agreement it will offer entire products of Kodak Mutual Fund products from the bank's branches. Central Bank of India has signed a Memorandum of Understanding with
WMG, an Academic Department, and University of Warwick. The MOU provides for several areas of cooperation including provision of fast-track loans for Indian students studying at WMG and the building of cooperative relationships between UK and Indian business and also the development of a low cost housing project. Among the Public Sector Banks, Central Bank of India can be truly described as an All India Bank, due to distribution of its large network in 27 out of 29 States as also in 3 out of 7 Union Territories in India. Central Bank of India holds a very prominent place among the Public Sector Banks on account of its network of 3656 branches and 178 extension counters at various centers throughout the length and breadth of the country.

**Bank of India:** Bank of India was founded on 7th September, 1906 by a group of eminent businessmen from Mumbai. The Bank was under private ownership and control till July 1969 when it was nationalized along with 13 other banks. Presently Bank has overseas presence in 22 foreign countries spread over 5 continents – with 60 offices including 5 Subsidiaries, 5 Representative Offices and 1 Joint Venture, at key banking and financial centers viz., Tokyo, Singapore, Hong Kong, London, Jersey, Paris and New York.

### 2. REVIEW OF LITERATURE

**Krishna (1996)** in his article titled, “Profitability Analysis: An Overview”, has defined the profitability analysis in detail. According to the researcher, it is a rate expressing profit as a percentage of total aspects or sales or any other variable to represent assets or sales. What should be used in the numerator and the denominator to compute the profit rate depends upon the objective for which it is being measured. Profit margin ratios measures company performance.

**Kewaljeet (1999)** in his article, “Profitability Performance of Nationalised Banks: Some Issues”, made an attempt to analyze the profitability performance of State Bank of Patiala keeping in mind the changing economic reward. According to the author, percentage in growth in gross income after the reform process started in 1991-92 decreased from a growth of 201.92 per cent during 1985-86 to 1989-90 to a growth of 74.80 per cent during 1990-91 to 1994-95 (the period of liberalization). As a result of liberalization, there is continuous decline in the profits of commercial banks.

**Singh R (2003),** in his paper Profitability management in banks under deregulate environment, IBA bulletin, No25, has analyzed profitability management of banks under the deregulated environment with some financial parameters of the major four bank groups i.e. public sector banks, old private sector banks, new private sector banks and foreign banks, profitability has declined in the deregulated environment. He emphasized to make the banking sector competitive in the deregulated environment. They should prefer noninterest income sources.

**Asha (1987)** of reserve bank of India had worked out the required norms and techniques for evaluating the performance of public sectors banks. She has reinvented the different techniques adopted by different agencies and criteria for evaluating the banking performance. Such as margin ratios, return on investment. The empirical findings of her
study shows a positive trend in terms of opening new branches deposits mobilization and advances over a period.

3. RESEARCH METHODOLOGY

3.1 Research Design
Research design adopted for this study is analytical design in nature. Analytical design means analyzing the financial statements by using various financial tools.

3.2 Objectives Of The Study
- To study the basic concept of profitability analysis.
- To know the basic functions of banks.
- To analyze the level of profitability of selected banks with their financial statements.
- To find leadership position in profitability position.
- To find and give suggestion for further improvement in profitability level of banks.

3.3 Scope Of The Study
A profitability analysis is a measure of profit which is a way to measure the company performance. This company performance analyzes the company strength and weakness. The main scope for this present study is to analyze whether the firm capable to run their business or not and analysis wheerto the firm has ability to pay its short and long term solvency or not.

3.4 Statement Of The Problem
Profit is the primary objective and important factor for all business. All business needs a regular and consistent implement in profit to survive and prosper. And also profit is important factor for opening new branches. A business that getting continuous losses cannot survive in business and also in competitive market. So this project emphasis in analyzing five public sectors banks and finding the consistent improvement in last five dictates.

3.5 Tools Used
- Gross profit margin ratio
- Net profit margin ratio
- Operating ratio
- Return of assets ratio
- Return on investment ratio
- Return on capital employee ratio

4. DATA ANALYSIS AND INTERPRETATION

4.1 Gross Profit Ratio

<table>
<thead>
<tr>
<th>Year</th>
<th>IOB</th>
<th>IB</th>
<th>CBI</th>
<th>BOI</th>
<th>SBI</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012-13</td>
<td>57.7</td>
<td>20.2</td>
<td>12.6</td>
<td>20.9</td>
<td>22.9</td>
</tr>
<tr>
<td>2013-14</td>
<td>55.3</td>
<td>17.5</td>
<td>12.3</td>
<td>20</td>
<td>207</td>
</tr>
</tbody>
</table>
Interpretation

From the above given table it is found to be that gross profit ratio of state bank of India was high in 2014. Central bank of India gross profit very low in all the three financial year than other banks.

### 4.2 Net Profit Ratio

<table>
<thead>
<tr>
<th>Year</th>
<th>IOB</th>
<th>IB</th>
<th>CBI</th>
<th>BOI</th>
<th>SBI</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012-13</td>
<td>28.8</td>
<td>10.4</td>
<td>4.3</td>
<td>7.7</td>
<td>10.4</td>
</tr>
<tr>
<td>2013-14</td>
<td>27.2</td>
<td>0.1</td>
<td>-4.8</td>
<td>6.5</td>
<td>70.3</td>
</tr>
<tr>
<td>2014-15</td>
<td>-21.2</td>
<td>5.8</td>
<td>2.1</td>
<td>3.6</td>
<td>7.5</td>
</tr>
</tbody>
</table>

Interpretation:

It can be inferred from above table that net profit ratio of INDIAN OVERSEAS BANK has net loss in 2015. STATE BANK OF INDIA net profit is very high in 2014 than other public sector banks.
4.3 Operating Ratio

Table 3: Operating Ratio

<table>
<thead>
<tr>
<th>Year</th>
<th>IOB</th>
<th>IB</th>
<th>CBI</th>
<th>BOI</th>
<th>SBI</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012-13</td>
<td>28.8</td>
<td>12</td>
<td>5.6</td>
<td>8.4</td>
<td>11.8</td>
</tr>
<tr>
<td>2013-14</td>
<td>27.2</td>
<td>8.9</td>
<td>-3.8</td>
<td>8.4</td>
<td>-12</td>
</tr>
<tr>
<td>2014-15</td>
<td>-21.2</td>
<td>8.5</td>
<td>3.1</td>
<td>3.8</td>
<td>12.9</td>
</tr>
</tbody>
</table>

Figure 3: Operating Ratio

Interpretation:

It can be inferred from above table that, in 2014-2015 Indian overseas banks has operating loss with 21.2%. In 2013-2014 state bank of India has operating loss with 12%. But Indian bank has operating profit in last three years.

4.4 Return On Assets

Table 4: Return On Assets

<table>
<thead>
<tr>
<th>Year</th>
<th>IOB</th>
<th>IB</th>
<th>CBI</th>
<th>BOI</th>
<th>SBI</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012-13</td>
<td>28.8</td>
<td>9.89</td>
<td>8.8</td>
<td>7.9</td>
<td>11.8</td>
</tr>
<tr>
<td>2013-14</td>
<td>27.2</td>
<td>8.98</td>
<td>9.2</td>
<td>0.1</td>
<td>8.6</td>
</tr>
</tbody>
</table>

Figure 4: Return On Assets
Interpretation
From the above table it shows that, in 2014-2015 Indian overseas bank has negative return of assets. In 2012-13 and 2013-14 Indian overseas bank has high return from its assets than other banks.

4.5 Return On Investment

Table 5: Return On Investment ratio

<table>
<thead>
<tr>
<th>Year</th>
<th>IOB</th>
<th>IB</th>
<th>CBI</th>
<th>BOI</th>
<th>SBI</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012-13</td>
<td>3.7</td>
<td>3.8</td>
<td>2.6</td>
<td>2.3</td>
<td>0.59</td>
</tr>
<tr>
<td>2013-14</td>
<td>2.6</td>
<td>3.1</td>
<td>2.5</td>
<td>2.1</td>
<td>0.57</td>
</tr>
<tr>
<td>2014-15</td>
<td>1.8</td>
<td>2.4</td>
<td>2.8</td>
<td>2</td>
<td>0.56</td>
</tr>
</tbody>
</table>

Interpretation
From the above table it is found to be that state bank of India has low return on investment than other banks in last three financial years. In 2012-2013 Indian bank has high return on investment by comparing with other banks with 3.8.

4.6 Return On Capital Employed Ratio

Table 6: Return On Capital Employed Ratio

<table>
<thead>
<tr>
<th>Year</th>
<th>IOB</th>
<th>IB</th>
<th>CBI</th>
<th>BOI</th>
<th>SBI</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012-13</td>
<td>0.03</td>
<td>0.02</td>
<td>0.01</td>
<td>0.01</td>
<td>0.02</td>
</tr>
<tr>
<td>2013-14</td>
<td>0.01</td>
<td>0.02</td>
<td>0.01</td>
<td>0.02</td>
<td>0.02</td>
</tr>
<tr>
<td>2014-15</td>
<td>0.01</td>
<td>0.02</td>
<td>0.01</td>
<td>0.02</td>
<td>0.02</td>
</tr>
</tbody>
</table>

Interpretation
From the above table it is found that state bank of India has low return on investment than other banks in last three financial years. In 2012-2013 Indian bank has high return on investment by comparing with other banks with 0.02.
Interpretation

Form the above table, it is interpreted that, state bank of India and Indian bank have been maintaining the same level of return on capital employed in last three decades. In 2012-2013 Indian overseas bank has high return on capital employed with 0.03.

5. Findings

- Central bank of India has high gross profit ration in 2014-2015 financial years.
- State bank of India has high net profit in 2013-2014 financial years.
- IOB has high operating profit ratio in both 2013 and 2014 financial year than other bank.
- In 2013 and 2014 financial year Indian overseas bank has high return from its assets or investment.
- In 2012-2013 financial years IOB has high return on capital employed ratio.

6. Suggestion

- Gross profit ratio is the important factor for banking function without high Gross profit bank can’t get net profit. Therefore central bank must concentrate and take necessary step to improve the gross profit ratio.
- Net profit is a factor which determines company strength and weakness. In terms of net profit Indian overseas bank has high gross loss so Indian overseas bank must improve the net profit by improving deposit, advances and savings of customer.
- Operating income mostly comes from ongoing operation of banking sectors. In terms of that state bank of India, central bank of India and Indian overseas bank has operating loss. So these three banks must concentrate on operating and non operating income such as generation amount from service charges, interest on loans, and interest on securities and services charges on deposit.
- A basic measure of bank profitability ascertained from return on assets. In that point of view Indian overseas bank has negative return hence Indian overseas bank must concentrate on cash and balances and opening branches at many plans.

7. Conclusion

In today’s, competitive scenario our business strive for earning profit. Thus the way of making profit needs to be optimized. Thus the bank basic functions as circulating the money among the people by the way of saving & loan. Proper mechanism should be made in way of recovering loan & also interest rate for saving account. Though it is a service oriented sector to survive for a longer period of time & also to develop the market related activities bank should develop its profitability position further more.

8. References

[1] Financial management, Dr. R. Srinivasan, sriram publications, tennur, trichy. (first edition)