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PROFITABILITY ANALYSIS

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Abstract
Commercial banks play an important and active role in the economic development of a country. If the banking system in a country is effective, efficient and disciplined it brings about a rapid growth in the various sectors of the economy. Commercial banks are also an important element in implementing the monetary and fiscal policy by the central bank. When a central bank decides to introduce concretionary monetary policy, commercial banks have to increase their interest rates to comply with the central bank. Thus commercial banks play an important in bringing economic development in a country. Therefore continuous assessment of the performance of commercial bank is essential to make our economy a flourishing economy.

The main aim of this paper is to analyse the profitability of commercial banks. Return on Asset is one of the measures used to evaluate banks profitability.

Key Words: Profitability, ROA, PSBs.

Introduction
Profitability refers to amount of profit earned in relation to the amount invested. Smooth functioning of any business depends on its profit earning capacity which is known as profitability. In other words profitability is the ability or power to generate profit. The apt measure for profitability is Return on Asset. The objective of a profitability analysis is to gain an understanding of a bank's financial situation.

Since the process of liberalization and reform of the financial sector were set in motion in 1991, banking has undergone significant changes. The underlying objective has been to make the system more competitive, efficient and profitable. As a result, improvement is seen in the profitability of commercial banks in India. Banking sector reforms stressed the need to improve the profitability of commercial banks. A very good composition of income generating assets plays a vital role of efficient management. Profitability is the most important and reliable indicator as it gives a broad indication of the capability of a bank to increase its earnings.

An essential prerequisite for the effective management of a commercial bank is profitability. Information gained through analysis is useful not only to bank's management but also for potential investors and clients. Hence the present study logically focuses on measuring profitability of selected public sector banks in India.

Objectives of the Study
The efficiency of management is measured through financial analysis. Financial analysis helps identify how profitably the assets of the company are used. Hence this study focuses on the profitability of selected public sector banks. The specific objective of the study is given below.

- To analyze the trend in ROA values of the selected public sector banks in India.

Research Methodology
The study is conducted for a period of 16 years, i.e., from 1998-99 to 2013-14. For the purpose of study 10 public sector banks were identified as sample. The banks occupied top 5 positions and bottom 5 positions on the basis of total assets were selected as sample. This study attempts to analyze profitability of selected banks only.

Table 1 , Return on Asset of Selected PSBs (as on 31st March) 1998-99 to 2013-14 (In percent)

Year	SBI	PNB	BOB	BOI	CAN	UBI	VIJ	BOM	DENA	P&S
98-99	0.46	0.80	0.81	0.37	0.47	0.09	0.27	0.43	0.74	0.53
99-2000	0.78	0.75	0.86	0.31	0.43	0.16	0.41	0.59	0.37	0.52
2000-01	0.51	0.73	0.43	0.42	0.43	0.09	0.50	0.24	-1.49	0.10
2001-02	0.70	0.77	0.77	0.73	1.03	0.52	0.81	0.68	0.06	0.17
2002-03	0.83	0.98	1.01	1.12	1.24	1.26	1.03	0.89	0.57	0.03
2003-04	0.90	1.08	1.14	1.19	1.34	1.22	1.71	0.95	1.04	0.06
2004-05	0.90	1.10	0.70	0.40	1.00	1.00	1.30	0.50	0.30	-0.50
2005-06	0.90	1.00	0.70	0.60	1.00	0.60	0.40	0.20	0.30	0.60
2006-07	0.80	0.90	0.70	0.80	0.90	0.60	0.80	0.70	0.60	1.00
2007-08	0.90	1.00	0.80	1.10	0.90	0.60	0.60	0.70	0.90	1.20
2008-09	0.90	1.30	1.00	1.30	0.90	0.30	0.40	0.60	0.90	1.10
2009-10	0.88	1.44	1.21	0.70	1.30	0.45	0.76	0.70	1.01	1.05
2010-11	0.71	1.34	1.33	0.79	1.42	0.66	0.72	0.47	1.00	0.90
2011-12	0.88	1.19	1.24	0.72	0.95	0.70	0.66	0.55	1.08	0.65
2012-13	0.97	1.00	0.90	0.65	0.77	0.38	0.59	0.74	0.86	0.44
2013-14	0.65	0.64	0.75	0.51	0.54	-0.99	0.35	0.30	0.51	0.35
Total	12.67	16.02	14.35	11.71	14.62	7.64	11.36	9.24	8.75	8.20
Average	0.79	1.00	0.90	0.73	0.91	0.48	0.71	0.58	0.55	0.51
Rank	4	1	3	5	2	10	6	9	7	8

Source: Statistical Tables relating to Banks in India, published by the Reserve Bank of India

The analysis in Table 1 reveals the Return on Assets of Public Sector Banks for the period 1998-99 to 2013-14. Punjab National Bank was at top most position with highest average of 1.00% followed by Canara Bank (0.91%), Bank of Baroda (0.90%), SBI (0.79%), Bank of India (0.73%), Vijaya Bank (0.71%), two banks Bank of Maharashtra (0.58%), Dena Bank (0.55%), Punjab and Sindh Bank(0.51%) and United Bank of India (0.48%).

Conclusion

The key to succeed in any business enterprise is profitability in the competitive environment. The better evaluation of a bank's profitability is revealed by the return on asset. Increase in profitability will help bank to overcome its problems and may contribute for the rapid development in future. So every bank should focus on different ways to increase business and operating profit.

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