

## **Chapter 6**

### **Findings, Suggestions and Conclusion**

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## **Introduction:**

Now a day's banks play a very important role in the Indian Economy. The bank of Venice established in 1157 in Italy is supposed to be the most ancient bank. During 1401 a public bank was established in Barcelona. In 1407 Bank of Genoa was established. In India during the 1786 the "General Bank of India" was established. Then two other Presidency Bank in Bombay and Madras in the year 1840 and 1843 respectively were established. The RBI first introduced in January 1927 and in 1949 RBI was nationalized.

From 1960 to 1987 the share of public sector banks has progressively increased from around 2% in 1960 to 80% in 1987. The Banking Companies Act was renamed as the Banking Regulation Act 1949. Within the banking sector, increasing competition and growing risks remain important challenges. The competition for market share is increasing the pressure on profitability and forcing banks to trim costs, particularly transaction costs and improve overall efficiency. As an effect of liberalization, privatization and globalization policy there have not only been rapid expansion in the number of banking institutions in the country, but the banking horizon of the country has also changed significantly.

The present study has been undertaken for critical evaluation of Indian banking sector [with reference to 5 private sector and 5 public sector banks]. The study period is of five years from 2007-08 to 2011-12.

In this study, the financial performance of selected banks has been evaluated. The selection of banks has been divided in to two groups,-public and private banks. The researcher has taken five banks from public sector banks and five banks from private sector banks randomly. And for each bank and each group, different types of parameters have been used with the help of ratios to evaluate the financial performance for the period of study. The research work has been divided in to six chapters with two major parameters like capital structure and profitability with different ratios.

## **Summery:**

The entire research study has been present in the following chapters which are as under.

### **Chapter: 1**

In chapter number one the brief history, organisation and structure of Indian banking before and after nationalisation, reforms of banking, types of banking, role and function of RBI, problem and prospect of banking and future of Indian banking has been discussed.

### **Chapter: 2**

The title of the present study is “An Analytical Study of Capital Structure Vis – A – Vis Profitability of Indian Banking Industry in India”. The present study is mainly intended to examine the profitability and capital structure of Indian banking industry. This study is mainly based on secondary data published by the selected banks in its annual reports, various websites, other publishing materials, journals have been referred. The main objective of the present research is to find out the profitability performance and capital structure of the selected banks. Various statistic techniques like average, F test (ANOVA) and regression has been applied to test the validity of two hypothesis namely first null hypothesis and second alternative hypothesis. And finally the limitations of the present research have been present. In this chapter also existing review of literature have been included.

### **Chapter: 3**

The word profitability is a modulation of two words profit and ability. It means the profit making ability of the organization profit is the soul of the business without which it can not survive longer period. A lower profitability may arise due to the lack of control over expenses. In this chapter include concept of profit and profitability, significance of profitability, factor affecting profitability, techniques of measuring profitability and step in ratio analysis has been discussed. The concept of capital structure is generally described as the combination of debt and equity that make the total capital of firms. The

proportion of debt to equity is a strategic choice of corporate managers. The term capital structure of an enterprise is actually a combination of equity shares, preference shares and long term debts. In capital structure Devid Durand's approach, M. M. Approach and factor affecting capital structure has been discussed.

#### **Chapter: 4**

This chapter includes the individual information of the each bank undertaken for the present study. This chapter gives history, vision, mission, aim, policy etc. of each selected banks.

#### **Chapter: 5**

In this chapter the financial performances of selected banks have been evaluated. The researcher has taken 10 banks from five public sectors and five private sectors bank randomly. For each bank different types of parameters have been used with the help of ratio to evaluate the profitability ratio like return on equity, net profit margin, interest spread, return on long term fund, earning per share, net profit to total fund and total income to capital employed capital structure ratio like debt to total assets and debt to owners fund ratio for the period of study. Here various ratios of profitability and capital structure have been tested with the help of F test (ANOVA) and correlation.

#### **Findings:**

Ratio analysis is one of the most important techniques to measure the profitability and capital structure. The findings of this study have been narrated as under:

##### **(1) Return on Equity:**

This ratio was highest in Dena Bank, if we considered average of the last five years that is financial year 2007-2008 to 2011-2012. Average of this ratio was lowest in KMB i.e. 10.63 percent. Different banks achieved highest return on equity during 2007-08 to 2011-12 year wise dena bank 22.96 percent in 2007-08, in BOI 25.51 percent 2008-09, Canara bank with 24.09

percent and 22.43 percent 2009-10 and 2010-11 and during 2011-12 the private sector bank yes bank achieve 20.89 percent. From the analysis of data it is clear that the public sector banks achieved higher ROE during 2007-08 to 2010-11 and 2011-12.

The result shown by 'F' test ANOVA reveals that there is significant different in Return on Equity ratio is found among the selected banks under the study.

## **(2) Net Profit Margin:**

During the period of study average highest NPM found in axis bank i.e. 14.87 percent and lowest average NPM in IV Bank it was 8.47 percent. During the period of study NPM showing different tendency during first two years it was found highest in BOI i.e. 13.96 percent and 15.89 percent and there after it is found highest in private sector banks for remaining year Viz. 16.1 percent and 15.51 percent in axis bank during the 2009-10 and 2011-12 respectively and 17.19 percent in KMB during 2010-11.

The result shown by 'F' test ANOVA reveals that there is significant different in Net Profit Margin ratio is found among the selected banks under the study.

## **(3) Interest Spread Ratio:**

Overall result of study period showed that the KMB stood at first position with 7.12 percent interest spread while during the same period canara bank stood at last with 3.51 percent interest spread. Year wise interest spread showing better position in private sector banks only. During 2007-08 HDFC bank stood at a first position at 7.08 is 8.31percent interest spread for rest of the year KMB secured and maintained highest that is 8.31 percent, 8.11 percent, 6.83 percent and 6.36 percent respectively during 2008-09 to 2011-12.

The result shown by 'F' test ANOVA reveals that there is significant different in interest spread ratio is found among the selected banks under the study.

#### **(4) Return on Long Term Fund:**

Among sample units canara bank secured first position with best return on long term fund while KMB listed at last because of that continues poor performance. Year wise analysis of ROLTF showed that public sector banks are more powerful than that private sector banks. During 2007-08 and 2011-12 canara bank secured highest statistics that is 151.48 percent and 132.08 percent respectively. During 2008-09 to 2010-11 dena bank secured first position as far as ROLTF is concern with 156.65 percent, 150.33 percent and 120.51 percent respectively.

The result shown by 'F' test ANOVA reveals that there is significant different in Return on Long Term Fund ratio is found among the selected banks under the study.

#### **(5) Earning Per Share:**

During the study period average highest EPS in SBI it was 136.96 percent and lower EPS in KMB it was 11.68 percent. Year wise EPS showing better position in SBI only. It was highest in 174.15 percent in 2011-12 and lowest in 116.07 percent in 2010-11, SBI secured and maintained highest that is 106.56 percent, 143.67 percent, 144.37 percent, 116.07 percent and 174.15 percent during 2008-09 to 2011-12 respectively. This ratio is lowest in 2008-09, 2010-11 and 2011-12 it was 7.99 percent, 11.1 percent and 14.65 percent in KMB only. In yes bank this ratio was 6.76 percent and 14.06 percent in the year of 2007-08 and 2009-10 respectively. From the analysis of data it is clear that the public sector banks achieved higher EPS and private sector banks achieved lowest EPS during the study period.

The result shown by 'F' test ANOVA reveals that there is significant different in Earning Per Share ratio is found among the selected banks under the study.

#### **(6) Net Profit to Total Fund:**

During the study period average highest net profit to total fund in KMB i.e. 1.52 percent and lowest average net profit to total fund in IVB it was 0.81 percent. Year wise analysis of NP to TF showed that private sector banks are

more powerful than that public sector banks. During 2007-08 to 2009-10 Yes bank secured highest statistic that is 1.42 percent, 1.52 percent and 1.61 percent respectively and also 1.42 percent highest 2007-08 in HDFC bank. During 2010-11 and 2011-12 KMB secured first position as far as NP to TF is concern with 1.85 percent and 1.86 percent respectively. This ratio is lowest in IVB it was 0.69 percent in 2007-08 and 0.66 percent in 2008-09. Than after 2010, 2011 and 2012 it was lowest in public sector banks.

The result shown by 'F' test ANOVA reveals that there is significant different in Net Profit to Total Fund ratio is found among the selected banks under the study.

### **(7) Total Income to Capital Employed:**

This ratio was highest in KMB if we considered average of the last five years that is financial year 2007-08 to 2011-12. Average of this ratio was lowest in BOB i.e. 8.17 percent. Among sample units Yes bank and KMB secured first position with best total income to capital employed while BOB listed at last because of that continues poor performance. Year wise analysis of total income to capital employed showed that private sector banks are more powerful than that public sector banks. During 2008 and 2009 Yes bank secured highest return it was 11.86 percent and 12.33 percent respectively. TI to CE for rest of the year KMB secured and maintained highest that is 11.13 percent, 10.78 percent and 12.09 percent during 2009-10 to 2011-12 respectively.

The result shown by 'F' test ANOVA reveals that there is significant different in Total Income to Capital Employed ratio is found among the selected banks under the study.

### **(8) Debt to Total Assets:**

Debt to Total Assets ratio showing proportion of borrowed capital applied by the company for the acquisition of the total assets. Overall position of last five year shown KMB is strong with minimum debt to total assets ratio 79.18 percent and dena bank as standing at last position with 91.09 percent. During the year 2007-08 to 2009-10 KMB secured top position with minimum

debt to total assets ratio i.e. 76.09 percent, 75.05 percent and 80.21 percent while for the years 2010-11 and 2011-12 HDFC bank stood at peak with minimum debt to total assets ratio i.e. 80.4 percent and 86.07 percent. From the analysis it is clear that the private sector banks leads as far as debt to total assets as concern during the entire period.

The result shown by 'F' test ANOVA reveals that there is significant different in Debt to total assets ratio is found among the selected banks under the study.

### **(9) Debt to Owners Fund:**

Overall position of last five years shown KMB is strong with minimum average debt to owners fund ratio it was 4.59 percent and dena bank as standing last position of last five years average it was 20.35 percent. During the year 2007-08 to 2011-12 KMB secured top position with minimum debt to owners fund ratio. From the analysis it is clear that the private sector banks leads as far as debt to owners fund as concern during the entire period.

The result shown by 'F' test ANOVA reveals that there is significant different in Debt to Owners Fund ratio is found among the selected banks under the study.

### **(10) Correlation Analysis:**

The  $R^2$  values were found to be significant for the major impact of debt to total assets on return on long term fund, total fund to capital employed and interest spread for 73.52 percent, 67.54 percent and 67.47 percent respectively. But no significant impact was found on the remaining dependent variables. The least amount of impact was found on earning per share ( $R^2=1.15$  percent) by debt to total assets. This reveals that remaining 98.85 percent is influenced by factors other than debt to total assets.

The  $R^2$  values were found to be significant for the major impact of debt to owners fund on return on equity, return on long term fund and total fund to capital employed for 59.04 percent, 88.04 percent and 67.18 percent

respectively. But no significant impact was found on the remaining dependent variables. The least amount of impact was found on earning per share ( $R^2=1.48$  percent) by debt to owners fund. This reveals that remaining 98.52 percent is influenced by factors other than debt to owners fund.

### **Suggestions:**

There are some suggestions derived from the doing the analytical study of the financial performance of the selected banks. As such this chapter offer new suggestions for the increasing profitability and proper capital structure decision of banking industry in India.

1. The return on equity for private sector banks is less than that of public sector banks. So, researcher may suggest to private sector banks to improve their profitability. Thus private sector banks are required to increase their profit after tax to satisfy the share holders with adequate return.
2. The public sector banks are moving back in the sequence of earning per share ratio. It is necessary for public sector banks to reduce their operating expenses and NPA to increase the profit. So, as they can increase earning per share up to the mark.
3. In private sector banks return on long term fund found poor as compared to public sector banks. It is necessary for the private sector banks to utilize their long term fund very effectively to generate enough return. So, as they can compete to public sector banks.
4. An appropriate mix of capital structure should be adopted in order to increase the profitability of banks.
5. In the case of higher debt, profitability will tend to decline. The reason behind this may be due to the high interest bearing securities engaged in the total debt.
6. Banks should concern much on internal sources of financing in order to increase their profitability.

7. The structure of the working capital (gross) be evenly constructed taking into consideration the operational requirements so as to reduce the cost and take optimum utilisation of the different sources.
8. The reduction in operating expenses would go a long way to help the public enterprises increase profitability. This would be more pertinent in the context that most of the public enterprises earn gross profit, but that is siphoned off by the heavy operating expenses resulting in net losses. This is possible by committing the employees to the success of the enterprises like the scheme of Memorandum of understanding reached between the Government of India and the employees of the Central Public sector enterprises. This may help to build up high morale which is essential for the success of any organisation.
9. The banks required hiring right kind of people, with adequate knowledge of banking especially at banks call centers.
10. Develop service oriented internal processes.
11. Include employees in the banks vision.
12. Right kind of reward to be provided to strong service provider.

### **Limitations:**

- (1) This study is related to selected Public Sector Banks and Private Sector Banks only.
- (2) The secondary data, which used for this study is based on annual reports of the bank. The quality of this research depends on quality and reliability of data published in annual reports of banks.
- (3) There are different methods to measure the profitability of the banks. View of expert can be different in this matter from one another.
- (4) The present study is largely based on ratio analysis; such analysis has its own limitations, which also applies to the study.

- (5) This study is in the nature of a positive empirical research. It is not being proposed to enter in the normative aspect and offer suggestion for improvement in the working.
- (6) Financial performance has been analysed in aggregate and segmental analysis is left for future research efforts. Since this study is in the nature of a positive empirical research, it is not proposed to enter in the normative aspect and offer suggestion for improvement in the working.
- (7) The researcher does not have first hand experience of working in banking industry and, therefore, it is not felt proper to offer suggestions for improvement in financial performance. Since this study is related to selected Public Sector Banks and Private Sector Banks only, it is not proposed to make any generalization for universal application.

## **Conclusions:**

To conclude, it can be said that

- 1) Private Sector Banks profitability is much higher than that of Public Sector Banks.
- 2) The economic liberalization measures introduced by the Indian government coupled with trends towards globalization have substantially altered the banking sector and the profitability of public sector banks has declined to a large extent. So Public Sector Banks will have to introduce new financial instruments and innovations in order to remain in business.
- 3) It is clear from the analysis that the public sector banks are less profitable than the private sector banks in terms of overall profitability.
- 4) All these developments in Indian banking are says that, the Indian banks are moving towards modern banking changing a face of traditional banking of Indian economy .It is grate change of banking industry. They having a installing an information technology for

banking business and they trying to provide technology based banking products and services to their customers.

- 5) Indian banks also trying to Universalization of banking products and services to one top banking shop for customer delight, but comparatively private and foreign banks existing in Indian economy are having a higher level of modernization and those providing numbers of modern services to their customers.
- 6) For a long term success of banking institution to require effective management of credit risk and diversified into fee based activities. Non-traditional activities of banks are more sophisticated and versatile instrument for risk assessment.

### **Scope for future research:**

The present study deals with the **An Analytical Study of Capital Structure Vis-A-Vis Profitability of the Banking Industry in India**. This study is limited only to the selected public sector and private sector banks in India. The researcher is quite aware of the fact that there are several other aspects of the bank computerisation that could be studied such as cost benefit analysis of computerised transactions, management related issues regarding bank computerisation, comparative study between banks utilizing computerisation and banks yet to utilize computerisation. Our study is limited only to the An Analytical Study of Capital Structure Vis-A-Vis Profitability of the Banking Industry in India. But there is still scope for the study Capital Structure Vis-A-Vis Profitability of the Foreign Banks working in as well.