CHAPTER V

CONCEPT OF PROFITABILITY AND ITS MEASUREMENT

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5.1 RATIONALE OF PROFIT

Profit is the centre of all economic activities, the very cause of existence of capitalism and effective instrument of whole economic system. Prof. Knight wrote, "Perhaps no term and concept in economic discussion is used with a more bewildering variety of well established meaning than profit". A group of economists have defined it as the rate of Return on Investments (ROI) while the other have called it the reward of ownership. Some economists have defined it as the reward for risk taking while other have called it as the reward of entrepreneurship. There are still others who have defined profit as the residual income which results after all the factors of production have been paid off. All commercial organisations aim at earning more and more profits as profit alone is the convening parameter of their economic success and financial prudence.

Banking basically is a commercial activity necessitating excess of income over expenditure in the form of operational surplus. Depositors deposit their money and expect earning of interest at higher rates on their bank deposits. The banking organisation keeps a sizable number of work-force in the form of operating staff, supervisory and administrative staff and others. Banks have to pay the interest on banks deposits and salaries to staff coupled with supervision, administration and other operating expenses. So this is obligatory on the banks to earn enough to cover the cost of maintenance and to give sound financial base to the organisation. This calls for earning more and more effectively and enormously both. Hence, the profitability in banking industry is an important phenomenon. Profitability measurement is an important tool to judge the propriety and effectiveness of management in any commercial organisation.

5.2 MEANING AND DEFINITION OF PROFITABILITY

Profitability can be defined as capacity of earning profits. The term profitability can be divided into two parts- Profit Ability. Thus the profitability means the
profit earning ability of a business enterprise. The excess of gross total income over total expenditures is known as profit but the ability shows the power to which extent an enterprise can earn the profit.

Profitability in banks means the capacity to earn profit by a bank. Since banking is a special type of business venture the profitability has got a special meaning in this context. To sum up this can be said that profitability is the ability of widening the gap of banking income over its expenditure. Thus, profitability strictly relates to operational profit rearing capability. Public sector banks are, in no way, an exception to this general conclusion. However, this word 'profit' has been highly disregarded by the academicians in reference of public enterprises. Public undertakings are run on service basis rather than profit basis. This fallacy has caused severe loss to economics of public enterprises. Truly speaking, this is the only cause of failure of state entrepreneurship in India. So this can be safely said that banking being a commercial unit has all right to earn profit. The definition of profitability in public sector banks can be presented as under.

"Profitability in banks is the ability of banks earning more through their business operations than the amount required to maintain operating expenditure. Thus profitability is the ability of raising operating income over and above the operating expenditure".

5.3 DISTINCTION BETWEEN PROFIT AND PROFITABILITY

In accountancy, profit is the difference between the sales and both the costs-direct and indirect. The volume of profit depends upon the gap between the sales and its total cost. So wider the gap, greater the profit and minor the gap, lesser the profit. Every entrepreneur, therefore, tries to keep this gap as wide as possible for stability and substantial growth of enterprise. It is imperative not only for self reliance but also for surviving against throat cutting competition.
Economists are of the view that there is distinction between profit and profitability. Profit is basically proprietor oriented concept however profitability bears efficiency oriented concept. Profit is the main factor to fulfil the expectations of people who invest their funds in an enterprise. At the other side the term 'profitability' shows the optimum and effective utilisation of resources employed in an enterprise and to create new dimensions of earning. Profitability concept has the object to enhance economic efficiency. Economic efficiency is consciously and unconsciously associated with profit earned.

Technically speaking, profit is an absolute measure and profitability is a relative measure. Profit is the operating result but profitability is a ratio of profit either to total income or total assets/working funds.

5.4 PROFITABILITY VIS-A-VIS PRODUCTIVITY

Productivity is ability to produce goods and services. Though production and productivity are two different words but have the same lineage because production is the result of productivity and productivity is the power to produce. Productivity is the very basis of profitability. Productivity is defined in so many manner but the common definition being the ratio of output, physical and non-physical, to the input of factors responsible for it. Thus the stress is on the efficient use of all resources or factors of production to improve productivity. Productivity can be measured in term of per acre, per unit of capital or per employee etc.. In the context of India, with rapidly increasing population, unemployment and very low per capita income, the importance of increasing productivity can hardly be over emphasised particularly when the capital output ratio has gone up very high during the plan periods. Productivity and profitability are the two sides of one coin and have a direct positive correlation and also inter-influencing potency.
5.5 CONSTITUENTS OF BANK PROFIT AND LOSS ACCOUNT

Profit in relative term is defined as profitability. Profit as it is known is the excess of income over expenditure, the main financial statement showing operating result is termed as profit and loss a/c. Hence a brief discussion of P/L a/c is being presented here. P/L a/c is the summary of all incomes and expenditure incurred during the specific period. The detail of items of bank's P & L a/c in the form set out in the third schedule to the Banking Regulation Act have been classified as under for the purpose of study.

5.5 (I) CLASSIFICATION OF BANK'S INCOME

Banks' income in a composite form can be classified into two categories viz-operating and non-operating.

5.5 (I) (a) OPERATING INCOME

Income from banking activities like interest & discount, commission, exchange and brokerage and other service charges are the items of operational income of a bank.

5.5 (I) (a) (i) INTEREST AND DISCOUNT

Lending of money is the main employment of bank's fund and the most important activity by which bank earns interest. Advancing to needy persons and discounting their bills of exchange are two important functions of bank's lending. RBI regulates the rate of interest and gives other directives to the banks on the basis of government economic policies. This head of income shows the effectiveness of fund activity. The level of Interest income depends upon the volume of advances in various schemes. Interest rates vary and are influenced by many factors like purpose of loan, size of loan, type of loan, maturity and security offered in addition to habits, customs and competition between banks loan rate etc.
Banking institutions as a service industry have to provide so many services to the customers for instance: remittance of cash, purchase of Bills and foreign exchange services etc. Bank earn commission exchange and brokerage for these ancillary services.

5.5 (i) (a) (iii) LOCKER'S RENT

Bank also facilitate lockers to the customers for their valuable. In this type of service they are custodian of customers and charge rent for the same.

5.5 (i) (a) (iv) DIVIDEND AND MISCELLANEOUS INCOME

Banks deploy their surplus fund in gold, premises, shares, stocks and other securities on which they receive profit/dividend. It is also a fund activity and the level of income depends upon the volume of funds invested for this purpose.

5.5 (i) (b) NON OPERATING INCOMES

Income from non banking assets, profit from sale of such assets, bad debts recovered, profit on sale or redemption of loan securities are some illustrations of non operating incomes.

5.5 (ii) CLASSIFICATION OF BANK'S EXPENSES

During banking operations there are many expenses incurred. Banks don't produce any item physically. Therefore, Sale proceeds in their case are income from different activities and the total cost is the summation of operational and organisational expenses. Therefore, it is quite impossible for the bank to reduce expenses in short run. But it does not mean, that they are uncontrollable. In long run, they can be reduced relatively by effective management. A traditional classification of expenses can be classified as under:-
5.5 (l) (a) INTEREST COST

Banks accept deposits, the chief source of fund, on which they have to pay interest. Beside this, banks can require more fund from Reserve Bank and other Financial Institutions in the form of refinance and/or borrowings, so they have also to pay interest thereon. The level of this element of cost depends upon the terms and conditions of deposits and borrowings and also upon the volume. It is necessary to mention that interest rates are determined on the basic theory of demand and supply and on the competition of capital market also. Like the interest rate on advances, RBI regulates the interest rate payable on deposits & borrowings.

5.5 (l) (b) ESTABLISHMENT COST

Service industries require highly qualified and trained staff for better performance. Banking being a service industry also needs the same. Salaries, allowances & other perquisites to the managerial, administrative and other personnel-attached directly or indirectly to the banking activities, are the second largest cost component. It is seen that establishment cost has been increasing rapidly during last two decades. Reasons of increase in establishment cost are inflationary conditions and branch expansions, resulting in increase in number of employees.

5.5 (l) (c) OTHER OPERATING COST

In this category of costing, expenses consist of rent, taxes, insurance, law charges, auditor’s fees, postage, telegrams, stamps, depreciation, repairs, stationary, printing, advertisement etc. Operating expenses excluding intt. cost & establishment expenses are treated as semivariable expenses and are not measurable directly while the cost of a particular service is being computed.
5.5 (l) (d) NON-OPERATING COST

There are numerous activities other than banking which banks perform such as dealing with non banking assets, securities, land, premises and gold & silver. Expenses and losses incurred on these kind of transactions are included in this category.

5.6 MEASUREMENT OF PROFITABILITY

Profitability is the major task of every commercial organisation because profit alone is the evidence of successful operation of a business house. Profitability may mean one thing to one and another to other. But this is agreeable that profitability is the tendency of earning thereby. Banks accept deposits and pay interest. Apart from these two basic operations banks provide many other services and realise the service charges. Keeping in view the entire frame work of banking business, certain parameter can be used to judge the profitability or otherwise of the banking industry operating in public sector. The classification of ratios for profitability test can be made as per exhibit No. 5.1

Profitability of banks in public sector depends upon the factors both internal and external. Internal factors are related to the resources of bank such as manual power, structure of fund and other equipment while the external factors are related to interest rate, SLR, CRR, economic policy of government and control of RBI. The operational efficiency of individual bank is directly connected only to the internal factors. Profitability, hence, is a measure of operational efficiency and control of management. Apart from the above mentioned chart and diagnosis of indices of profitability and productivity, the measurement of variables for the same are presented in exhibit no. 5.2
### Exhibit No. 5.1

**RATIOS FOR PROFITABILITY TEST**

<table>
<thead>
<tr>
<th>Ratios Showing Profitability</th>
<th>Ratios Showing Productivity</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Based on Earning</strong></td>
<td><strong>Based on Expenditure</strong></td>
</tr>
<tr>
<td>i. Gross Profit/Total Assets</td>
<td>i. Interest Exp. / Total Assets</td>
</tr>
<tr>
<td>ii. Net Profit/Total Assets</td>
<td>ii. Operating Exp. / Total Assets</td>
</tr>
<tr>
<td>iii. Interest Income/Total Assets</td>
<td>iii. Operating Exp./Operating Income</td>
</tr>
<tr>
<td>iv. Spread / Total Assets</td>
<td>iv. Spread Ratio</td>
</tr>
<tr>
<td>v. Intt. &amp; Dis. / Total Income</td>
<td>v. Interest paid/Total Income</td>
</tr>
<tr>
<td>vi. Com. Exch. &amp; Brok/Total Income</td>
<td>vi. Total Exp./Total Income</td>
</tr>
<tr>
<td>viii. Net Profit/Total Income</td>
<td>viii. Interest Coverage Ratio</td>
</tr>
<tr>
<td>x. Net Profit/Wroking fund (Roi)</td>
<td>x. Establishment Exp./Total Exp.</td>
</tr>
<tr>
<td>xi. Net Profit/Capital Funds</td>
<td>xi. Other Exp./Total Exp.</td>
</tr>
<tr>
<td>xii. Net Profit per Emp.</td>
<td>xii. Intt. Paid/Working Fund</td>
</tr>
<tr>
<td>xiii. Net profit per Branch</td>
<td>xiii. Total Exp./Working Fund</td>
</tr>
<tr>
<td>xv. Spread/Working Fund</td>
<td>xv. Expenses Per Branch</td>
</tr>
<tr>
<td>xvi. Total Income Per Emp.</td>
<td></td>
</tr>
<tr>
<td>xvii. Total Income Per Branch</td>
<td></td>
</tr>
</tbody>
</table>
Exhibit no. 5.2
Technique of Measurement of Profitability

- Measurement of Profitability
  - Absolute Increase
  - Relative Increase
    - Profitability Ratios
      - Net Profit
      - Total Income
      - Operating Profit
        - % change in Net Profit
        - % change in Operating Profit
        - % change in Total Income
  - Total Income
- Measurement of Productivity
  - Absolute Increase
  - Relative Increase
    - Productivity Ratios
      - Deposits
      - Advances
      - Total Business
    - Total Assets
      - Indices of Deposits
      - Indices of Advances
      - Indices of Total Business
      - S.D. & C.V. of Return on Assets
      - S.D. & C.V. of ROI
5.7 THEORETICAL CONCEPT OF PROFITABILITY BASED RATIO

Profitability as a common denominator of effectiveness could be analysed by applying many quantitative techniques like ratio analysis, comparative study, trend analysis, construction of index and many other accounting & statistical techniques. The term 'Ratio' refers to the numerical relationship between two variables. A Ratio can be expressed in percentage, fraction, times or any numerical figure. A figure in absolute term has no meaning but when expressed in relative term it has significant inferences. Ratios are mechanical tools of accounting for management. Various Ratios related positively or contrastly, to incomes and expenses could be parameter of measuring profitability.

5.7 (I) RATIOS BASED ON EARNING

The main object of comparing these ratios is to analyse trend and structural change in income for judgement of the efficient utilisation of assets. Some important ratios are presented as under:

5.7(I) (i) GROSS PROFIT/LOSS AS PERCENTAGE OF TOTAL ASSETS

Gross profit is one of the most important indicators of earning of any concern. This ratio reflects capacity of any bank to earn gross profits given the total assets and is equal to

\[
\text{Gross profit} \times \frac{100}{\text{Total Assets}}
\]

5.7(I) (ii) NET PROFIT/LOSS AS PERCENTAGE OF TOTAL ASSETS

Net profit is derived after deducting all operating expenses from Gross Profit. The ratio is determined as under
Net Profit \[ \frac{\text{Net Profit}}{\text{Total Assets}} \times 100 \]

5.7 (i) (iii) INTEREST INCOME AS PERCENTAGE OF TOTAL ASSETS

Interest Income is one of the major source of earning of any bank. The ratio of interest income to total assets is calculated as under:

\[ \frac{\text{Interest Income}}{\text{Total Assets}} \times 100 \]

5.7 (i) (iv) NET INTEREST INCOME (SPREAD) AS PERCENTAGE OF TOTAL ASSETS

Net Interest Income or Spread is calculated after deducting Interest expended from Interest Income. The ratio is calculated as under:

\[ \frac{\text{Net Profit Income (Spread)}}{\text{Total Assets}} \times 100 \]

5.7 (i) (v) INTEREST & DISCOUNT EARNED (IE) TO TOTAL INCOME (TI)

Interest and discount earned is the chief source of income (Like sales proceed of unit produced) and a return on fund activity. It is a percentage determined with total income.

\[ \frac{\text{IE}}{\text{TI}} \times 100 \]

5.7 (i) (vi) COMMISSION, EXCHANGE & BROKERAGE (Com. etc.) TO TOTAL INCOME (TI)

The second important head of bank's income is commission exchange and brokerage earned from rendering other banking services. This ratio indicates the share of non fund income in total income.
Com.etc.
Com.etc/TI = \frac{\text{Com.etc}}{\text{TI}} \times 100

5.7 (i) (vii) OPERATING PROFIT (OP) TO OPERATING INCOME (OI)

This ratio is an index of operational efficiency and its reflection on net profit cannot be ignored.

\[
\text{OP/OI Ratio} = \frac{\text{OP}}{\text{OI}} \times 100
\]

5.7 (i) (viii) NET PROFIT (NP) TO TOTAL INCOME (TI)

This ratio is known as profit margin ratio. It shows bank's capacity to generate residual income and extent of cost control exercised by management.

\[
\text{NP/TI Ratio} = \frac{\text{NP}}{\text{IT}} \times 100
\]

5.7 (i) (ix) NET PROFIT (NP) TO INTEREST & DISCOUNT EARNED (IE)

Is there any significant correlation between net profit and interest income. It can be measured on the basis of this ratio.

\[
\text{NP/IE Ratio} = \frac{\text{NP}}{\text{IE}} \times 100
\]

5.7 (i) (x) OPERATING PROFIT (OP) TO WORKING FUND (WF)

The relationship of profit to the fund used is a parameter of managerial effectiveness. The most popular name of this ratio is 'Return on Investment' abbreviatedly known as 'ROI'.

\[
\text{OP/WF Ratio or ROI} = \frac{\text{OP}}{\text{TI}} \times \frac{\text{TI}}{\text{Assets/WF}} \times 100 \quad \text{or} \quad \frac{\text{OP}}{\text{WF}} \times 100
\]
5.7 (i) (xi) NET PROFIT (NP) TO CAPITAL FUND (CF)

Net profit to capital fund shows earning capacity of an enterprises. Therefore, it is an important indicator of profitability from the point of view of shareholders. Capital fund consists of paid up share capital, reserves and surplus, referred to as 'net worth. This ratio reveals how effectively proprietary fund are being utilised.

\[
\text{NP/CF Ratio} = \frac{\text{NP}}{\text{CF}} \times 100
\]

5.7 (i) (xii) NET PROFIT (NP) PER EMPLOYEE

Net profit per employee is commonly an attempt to estimate employees' contribution in net earning.

\[
\text{NP per employee} = \frac{\text{NP}}{\text{No. of employee}}
\]

5.7 (i) (xiii) NET PROFIT (NP) PER BRANCH

It is an average profitability of each branch at bank level. The ratio is calculated by dividing net profit to the number of branches.

5.7 (i) (xiv) TOTAL INCOME (TI) TO WORKING FUND (WF)

It is an inter-statement ratio and indicates the efficiency of working fund used.

\[
\text{TI/WF Ratio} = \frac{\text{TI}}{\text{WF}} \times 100
\]

5.7 (i) (xv) SPREAD (Sd.) TO WORKING FUND (WF)

Spread is the excess of interest & discount earned on loans & advances over interest paid on deposit & borrowings.
Sd/WF Ratio = \( \frac{Sd}{WF} \) x 100

5.7 (II) RATIOS BASED ON EXPENDITURE

For increasing profitability it is necessary that incomes should be raised but sometime it is not a easy task. Therefore, option is to reduce the expenditure and to check leakage in cost through different managerial strategies. A few expenses ratios are being furnished below:

5.7 (II) (i) INTEREST EXPENDED AS A PERCENTAGE OF TOTAL ASSETS

Interest expended forms a largest chunk of expenditure of any bank. This ratio is calculated as below-

\[
\text{Interest expended} \quad \frac{\text{Interest expended}}{\text{Total Assets}} \times 100
\]

5.7 (II) (ii) OPERATING EXPENSES AS PERCENTAGE OF TOTAL ASSETS

Besides Interest expended, operating expenses are another major contributors in expenditure lits. This ratio is calculated as below-

\[
\text{Operating expenses} \quad \frac{\text{Operating expenses}}{\text{Total Assets}} \times 100
\]

5.7 (II) (iii) OPERATING EXPENSES (OE) TO OPERATING INCOME (OI)

This ratio is reciprocal of operating profit margin ratio. It can be found out by deducting operating profit/operating income ratio from 100.

\[
\frac{OE}{OI} \text{ Ratio} = \frac{OE}{OI} \times 100
\]
5.7 (II) (iv) ESTABLISHMENT EXPENSES (EE) TO OPERATING INCOME (OI)

This ratio represents what the percentage share of establishment exp. bears with operating income.

\[
\text{EE/OI Ratio} = \frac{\text{EE}}{\text{OI}} \times 100
\]

5.7 (II) (v) INTEREST PAID (IP) TO TOTAL INCOME (T.I.)

IP to TI Ratio shows what percentage share is consumed to meet interest cost. For analysing profitability of banks high ratio is unfavourable because it indicates a small percentage share of income for meeting establishment and other expenses while the low one is by and large a test of operational efficiency.

\[
\text{IP/TI Ratio} = \frac{\text{IP}}{\text{TI}} \times 100
\]

5.7 (II) (vi) TOTAL EXPENSES (TE) TOTAL INCOME (T.I)

It is a key index representing overall profitability of any commercial enterprise by setting a comparison of total input to total output. Total expenses ratio is the reciprocal of profit margin ratio. If the profit margin is deducted from 100 the resultant is the TE Ratio. Thus it can be calculated in two ways:

1. \[
\text{(a) TE/TI Ratio} = \frac{\text{TE}}{\text{TI}} \times 100
\]
2. \[
\text{(b) TE Ratio} = 100 - \text{Profit Margin}
\]

5.7 (II) (vii) SPREAD RATIO

The most important and logical indicator in view of bank's profitability
measurement is to find out variance between interest paid and interest earned. A positive variance is called 'Spread'. These two factors effect directly the volume of profit.

\[
\text{Spread Ratio} = \frac{\text{IP}}{\text{IE}} \times 100
\]

Where IP stands for Intt. paid on Deposits & Borrowings. IE stands for Intt. & Discount Earned.

5.7 (ii) (viii) INTEREST COVERAGE RATIO

IC Ratio indicates how many times Interest expenses on deposits and borrowings are covered by operating profit. Combined effect of operating profit margin ratio and interest paid to operating profit ratio is the Interest Coverage Ratio'. This is expressed in times.

\[
\text{IC Ratio} = \frac{\text{OP}}{\text{OI}} + \frac{\text{IP}}{\text{OI}} \text{ or } \frac{\text{OP}}{\text{IP}}
\]

5.7 (ii) (xi) INTEREST PAID (IP) TO TOTAL EXPENSES (T.E.)

Intt. paid on deposits and borrowings is a direct cost of fund and necessarily effects profits. Therefore, it is meaning-ful to find its proportion as percentage to total expenses.

\[
\text{IP/TE Ratio} = \frac{\text{IP}}{\text{TE}}
\]

5.7 (ii) (x) ESTABLISHMENT EXPENSES (EE) TO TOTAL EXPENSES (TE)

Establishment Expenses is the second important head of banks expenses. It is a percentage of establishment expenses with total expenses.
5.7 (ii) (xi) OTHER EXPENSES (OE) TO TOTAL EXPENSES (TE)

Other operating expenses include variable and semi-variable overheads which are also an important component of cost from the view of controlling. For making comparative study of cost structure, this ratio facilitates.

\[
\frac{OE}{TE} \times 100
\]

5.7 (ii) (xii) INTEREST PAID (IP) TO WORKING FUND (WF)

As interest paid on deposits and borrowings is direct cost of fund, this ratio shows the average cost of working fund used. Thus ratio is computed as -

\[
\frac{IP}{WP} \times 100
\]

5.7 (ii) (xiii) TOTAL EXPENSES (TE) TO WORKING FUND (WF)

It is a comparison of total cost, establishment cost & other expenses with the amount of total fund employed and also an indicator for management of total cost.

\[
\frac{TE}{WF} \times 100
\]

5.7 (ii) (xiv) TOTAL EXPENSES (TE) PER EMPLOYEE

The average expenses per employee presents a base for comparative analysis of expenses incurred in different years and for inter-bank profitability.
5.7 (ii) (xv) TOTAL EXPENSES PER BRANCH

This is also a parameter of measurement of profitability just as a comparison of total income per branch

\[ \frac{\text{Total Expenses per branch}}{\text{No. of Branches}} = \frac{\text{TE}}{\text{No. of Branches}} \]

The researcher has used a combination of several profitability based ratios in coming chapters, depending upon the availability of data which at several times is quite difficult to analyse profitability of different bank groups.

5.8 THEORETICAL CONCEPT OF PRODUCTIVITY BASED RATIOS

Productivity is the best lever of profitability. Measurement of productivity is not an easy task because banking is a service industry and the traditional yardsticks of measurement of productivity may not deliver the desired results. The term 'productivity' is directly related to efficiency of personnel. Higher productivity could be judged in which manner the funds are being utilized. Even though there are no fixed or perfect parameter to analyse the productivity, however, the followings could be used as indicators for testing the level of productivity:

i. Deposits per Employee
ii. Advances per Employee
iii. Deposits per Branch
iv. Advances per Branch
v. Profit per employee
vi. Total Business per Employee
vii. Total Business per Branch
The researcher has used either or a combination of any of the above ratios (depending upon availability of data) to analyse productivity of different bank groups in further chapters.

### 5.9 NORMS TO INTERPRET RATIOS

It is difficult to say that a particular ratio is satisfactory because there are differences of opinion regarding various concepts used to compute the ratios. Therefore, reliance on a single ratio for a particular purpose may not be conclusive indicator. Some guidelines, given below, are furnished for interpreting ratios by trade development authorities, the India Investment Centre and the Institute of Chartered Accountant. These could be taken with some changes for measurement of profitability and productivity of banks.

<table>
<thead>
<tr>
<th>Ratio</th>
<th>Usual Range</th>
<th>Problem Indicated</th>
</tr>
</thead>
<tbody>
<tr>
<td>i. Net Sales to total Assets</td>
<td>1.5-2.0</td>
<td>Below 1.25</td>
</tr>
<tr>
<td>ii. Net Sales to Net working Capital</td>
<td>4-6</td>
<td>Below 3</td>
</tr>
<tr>
<td>iii. Net Sales per Rs. to Net Worth</td>
<td>2-4</td>
<td>Below 2</td>
</tr>
<tr>
<td>iv. Net Profit to Net Sales</td>
<td>4-6%</td>
<td>Below 4%</td>
</tr>
<tr>
<td>v. Net Profit After Tax to Networth</td>
<td>12-15%</td>
<td>Below 8%</td>
</tr>
<tr>
<td>vi. Current Assets to Current Liabilities.</td>
<td>2-1</td>
<td>Below 2-1</td>
</tr>
<tr>
<td>vii. Current Liab. to Net worth</td>
<td>30-40%</td>
<td>Over 50%</td>
</tr>
<tr>
<td>viii. Sales at Cost of Investory</td>
<td>5-8</td>
<td>Below 4</td>
</tr>
</tbody>
</table>
ix  Inventory to Working Capital  60-80%  Over 85%

x  Cash, Receivables to Current Liab. .75-1  Below .6-1

xi. Net Sales to fixed assets  3.5-5  Below 3

(Depreciated)

xii B.E.P. % Capacity  50-75%  Over 90%

It should emphatically be noted that ratios are only a post-mortem of what has happened in past because financial statements show historical information. Therefore, reliability and significance of ratios will largely depend upon the quality of data on which they are based. The measurement of profitability in the substance of our present study, no doubt, and the succeeding chapters have complete view of the profitability of public sector banks and private sector banks of the country.