

Profitability and Efficiency Analysis of Public Sector Banks in India – A Study of Select Banks

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Abstract

Profitability is considered a very important test for measuring efficiency of banks as it is a means to measure the ability of the banks to earn profits. Banks have to take care of profitability while granting advances along with the other two aspects i.e. funds remain fairly liquid, safe and give a reasonable return. Liquidity in a bank's investment would mean that a bank is able to acquire cash as and when required, i.e., in a short period of time. Solvency of a bank means that the advances granted by the bank are safe enough and the borrowers are able to repay them in time so that the bank is in a position to fulfill its obligations.

An important component of the mechanism of banks is profit management systems and methods for its analysis. The purpose of the analysis of profit and profitability is to increase the absolute value of profits and profitability of a bank based on the effective management of revenue and expenditure.

This paper attempts to analyze the profitability and efficiency of Public Sector Banks in India – A study of select Banks for the study period from 2012-13 to 2016-2017. The study examines the impact of liquidity, solvency and efficiency on the profitability of the selected Banks. The empirical results from the panel data estimations revealed that the liquidity ratio, solvency ratio and efficiency ratio, the solvency ratio are found to have positive and significant impact on the profitability of selected public sector banks. The banks considered for the study are State Bank of India and Punjab National Bank. The present study is based on secondary data collected from Annual Reports of selected banks. The data has been suitably arranged and tabulated for analyzing the data techniques like ratios, averages and growth rate have been used.

Keywords: *performance, efficiency, spread, burden, profit earning capacity, profitability*

1. Introduction

Banking sector is one of the fastest growing sectors in India. Recently, digital revolution makes the advancements in banking sector like electronic payments, easier transactions makes the bank to be more efficient and productive. Banks play a vital role in the operation of most of the countries in the world. The banking sector is the backbone of the Indian economy and plays an important financial intermediary role. It is generally agreed that a strong and healthy banking system is a prerequisite for sustainable economic growth. Banks are in a business to receive deposits or liabilities and to issue debt securities on the one hand and create or invest in assets on the other hand.

A commercial bank is said to be standing on the three main pillars namely profitability, solvency and liquidity. Profitability is considered a very important test for measuring efficiency of the Bank as it is a means to measure the ability of the bank to earn profits. The banks has to take care of profitability while granting advances along with the other two aspects i.e. funds remain fairly liquid, safe and give a reasonable return. Liquidity in bank's investment would mean that a bank is able to acquire cash as and when required, i.e., in a short period of time. Solvency of a bank means that the advances granted by the bank are safe enough and the borrowers are able to repay them in time so that bank is in the position to fulfill its obligations.

An important component of the mechanism of a bank is profit management systems and methods for its analysis. Profit analysis is the process of investigation of the conditions and results of its formation and use of reserves in order to identify further efficiency management. The purpose of the analysis of profit and profitability is to increase the absolute value of profits and profitability of the bank based on the effective management of revenue and expenditure. Profit is the main reason for the continued existence of every commercial organization and profitability depicts the relationship of the absolute amount of profit with various other factors.

To study the efficiency of the banks, Financial Statements - Balance Sheet and Profit and Loss account –are the basis. The financial statements are indicators of two important factors of the bank which are profitability and financial soundness. As stated earlier, profitability is an indication of the operational efficiency of the Bank. The general health of a bank is determined by health of its earnings. Earnings are considered the most sensitive of all financial indicators to change in a firm's financial health.

Review of Literature

As the present study is concerned with the “Profitability and efficiency analysis of Public Sector Banks – A Study of Selected Banks”, an attempt is made to review in brief the earlier studies relating to banking activities so as to gain greater insight into the subject. Some of the relevant studies which are concerned with the Performance of Public Sector Banks are presented briefly.

Kaur (2015) written an article entitled “Performance Analysis: A Study Of Public Sector & Private Sector Banks In India”, The main objective of this article is to make an evaluation of the financial performance of Indian Banks .The financial performance of a bank is measured by a number of key indicators with reference to Deposits, Advances, Total Income, Investment and Net Profit etc. Recommendations and suggestions have been given for improving the performance of Banks in India.

Ruchi Gupta, CA. (2014) written an article entitled “An Analysis of Indian Public Sector Banks Using Camel Approach”, this paper an attempt is made to discuss the progression of an economy is significantly dependent upon deployment as well as optimum utilization of resources and most importantly operational efficiency of the various sectors, of which banking sector plays a very vital role. The banking sector helps in stimulation of capital formation, innovation and monetization in addition to facilitation of monetary policy. It is imperative to carefully evaluate and analyze the performance of banks to ensure a healthy financial system and an efficient economy.

Shobhana (2010) examined “Operational Efficiency of Public Sector Banks in India”. The study revealed that out of 27 public sector banks in India, only 9 banks have achieved high level of efficiency in its operations with the oriental bank of commerce at the top. It is found that factors such as size of assets, network of branches and staff strength do not have significant influence over operational efficiency of banks.

Kanjana (2007) “Efficiency, Profitability and Growth of Scheduled Commercial Banks in India” tested (1) whether the establishment expense was a major expense, and (2) out of total expense which is met by scheduled commercial banks is more due to more number of employees. In her empirical study, the earning factor and expense factor are controllable and non-controllable by the bank.

2. Objectives

1. To analyse the parameters like business performance and efficiency of selected banks
2. To evaluate the parameters like profit earning capacity and profitability of selected banks

3. Materials and Methods

The study is based on secondary data collected mainly from annual reports of State Bank of India and Punjab National Bank, RBI and Trends and Progress reports published by RBI. The data has been suitably arranged, classified, analyzed and tabulated the data the techniques like trends, ratios, averages and overall growth rate have been used. For evaluating the Business Performance, Efficiency, Profit earning capacity and Profitability ratios are used. The relevant data of the selected banks for the purpose of the study was collected for a period of five years from 2012-13 to 2016-17.

Limitations of the Study:

The study is mainly based on the secondary data only and the number of the employees per bank may differ due to their transfer or retirement which could affect the productivity and profit earning capacity of individual banks.

4. Results and Discussion

Four parameters were considered for the study. Each parameter consists of different variables. They are 1) Business Performance, 2) Efficiency 3) Profit Earning Capacity and 4) Profitability.

Key parameters of selected public sector banks in India

Business Performance	Efficiency	Profit Earning Capacity	Profitability
Number of Branches	Deposit per employee = Total Deposits / Total employee	Interest Income	Interest earned ratio = Total interest earned / Volume of business
Number of Employees	Advances per employee = Total Advances / Total employees	Other Income	Interest paid ratio = Total interest paid / Volume of business
Deposits	Business per employee = Total Business / Total employees	Interest Expended	Non-interest income ratio = Total income-interest income / Volume of business
Advances	Deposit per Branch = Total Deposits / No. of Branches	Operating Expenses	Operating expenses ratio = Total expenses-interest expenses / Volume of business
Total business (deposits + advances).	Advances per Branch = Total Advances / No. of Branches	Total Income	Spread ratio = Interest earned ratio - Interest paid ratio
	Business per Branch = Total Business / No. of Branches	Total Expenditure	Burden ratio = Operating expenses ratio - Non interest income ratio
		Net Profit	Profitability ratio = Spread ratio - Burden ratio

List of Abbreviations

IE = Interest Earned

IP = Interest Paid

NII = Non Interest Income

OE = Operating Expense

SP = Spread

BD = Burden

PR = Profitability

BPB = Business per Branch

BPE = Business per Employee

DPE = Deposit per Employee

DPB = Deposit per Branch

APE = Advances per Employee

APB = Advances per Branch

Business Performance:

The business performance of Punjab National Bank in relation to expansion of branches, recruitment of employees, deposits, advances and total business carried out by the bank during the study period from 2012-13 to 2016-17 are considered for the study.

Table 1 Business performance of Punjab national bank (Rs. in Crore)

Year	No. of Branches	No. of Employees	Deposits	Advances	Total Business
2012-13	5874	63292	391560	308725	700285
2013-14	6201	65541	451397	352689	800666
2014-15	6560	68290	501379	380534	881913
2015-16	6760	70801	553051	412326	965377
2016-17	6938	73919	621704	419493	1041197
Average	6466	68368	503818	374753	877888
Growth	1.18	1.08	1.28	1.21	1.48

Source: Annual reports of Punjab national bank from 2012-13 to 2016-17

It is observed from table 1 that the Business Performance of Punjab National Bank during the period from 2012-13 to 2016-17. The number of branches of Punjab National Bank increased from 5874 in 2012-13 to 6938 in 2016-17. The registered growth rate is 1.18 times, with an average of 6466 branches functioning every year. Similarly the number of employees of Punjab National Bank increased from 63292 in 2012-13 to 73919 in 2016-17. It registered growth rate of 1.08 times with an average of 68368 employees

working every year. The deposits of Punjab National Bank increased from Rs. 391560 crores in 2012-13 to Rs. 621704 crores in 2016-17. The growth rate is 1.28 times, with an average of Rs. 503818 crores deposits every year. The advances of Punjab National Bank increased from Rs. 308725 crores in 2012-13 to Rs. 419493 crores in 2016-17. The growth rate is 1.21 times, with an average of Rs. 374753 crores advances every year. The total business of Punjab National Bank increased from Rs. 700285 crores in 2012-13 to Rs. 1041197 crores in 2016-17. It registered growth rate of 1.48 times, with an average of Rs. 877888 crores business every year.

Right from the second phase of economic liberalization the public sector banks in India aimed at reduction of manpower and improving their operation feasibility. At a glance it is evidenced that the growth rate of deposits, advances and total business is more than the growth rate of branch expansion and employee recruitment.

Table 2 Business performance of State Bank of India (Rs. in Crore)

Year	No. of Branches	No. of Employees	Deposits	Advances	Total Business
2012-13	14816	228296	1202740	1045617	2248357
2013-14	15869	222809	1394408	1209829	2604237
2014-15	16333	213239	1576793	1300206	2876999
2015-16	16784	207739	1730722	1463700	3194422
2016-17	17170	209567	2044751	1571078	3615829
Average	16194	216330	1589883	1318086	2907969
Growth	1.15	0.91	1.70	1.50	1.60

Source: Annual reports of state bank of India from 2012-13 to 2016-17

The table 2 indicates that the Business Performance of State Bank of India during the period from 2012-13 to 2016-17. The number of branches of State Bank of India increased from 14816 in 2012-13 to 17170 in 2016-17. The registered growth rate is 1.15 times, with an average of 16194 branches functioning every year. Similarly the number of employees of bank increased from 228296 in 2012-13 to 209567 in 2016-17. It is registered growth rate of 0.91 times with an average of 216330 employees working every year. The deposits of Bank increased from Rs. 1202740 crores in 2012-13 to Rs. 2044751 crores in 2016-17. The growth rate is 1.70 times, with an average of Rs. 1589883 crores deposits every year. The advances of State Bank of India increased from Rs. 1045617 crores in 2012-13 to Rs. 1571078 crores in 2016-17. The growth rate is 1.50 times, with an average of Rs. 1318086 crores advances every year. The total business of State Bank of India increased from Rs. 2248357 crores in 2012-13 to Rs. 3615829 crores in 2016-17. It is registered growth rate of 1.60 times, with an average of Rs. 2907969 crores business every year.

Efficiency of Punjab National Bank

To study the efficiency of the bank a few ratios are relating to Business per Branch, Business per Employee, Deposit per Branch, Deposit per Employee, Advances per Branch, Advances per Employee, Profit per Branch and Profit per Employee ratios were taken into consideration.

Table 3 Efficiency of Punjab National Bank (Rs. in Crore)

Year	BPB	BPE	DPB	DPE	APB	APE
2012-13	119.22	11.06	66.66	6.19	52.56	4.88
2013-14	129.12	12.22	72.79	6.89	56.88	5.38
2014-15	134.44	12.91	76.43	7.34	58.01	5.57
2015-16	142.81	13.64	81.81	7.81	60.99	5.82
2016-17	150.07	14.09	89.61	8.41	60.46	5.68
Average	135.13	12.78	77.46	7.33	57.78	5.47
Growth	1.25	1.27	1.34	1.35	1.15	1.16

Source: Annual reports of Punjab national bank calculated values from 2012-13 to 2016-17

The table 3 shows the efficiency of Punjab National Bank during the study period from 2012-13 to 2016-17. The business per branch of Punjab National Bank increased from Rs. 119.2 crores in 2012-13 to Rs. 150.07 crores in 2016-17. It registered growth rate of 1.25 times, with an average of Rs. 135.13 crores. The business per employee of Punjab National Bank increased from Rs. 11.06 crores in 2012-13 to Rs. 14.09 crores in 2016-17. It registered growth rate of 1.27 times, with an average of Rs. 12.78 crores. The deposits per branch of Punjab National Bank increased from Rs. 66.66 crores in 2012-13 to Rs. 89.61 crores in 2016-17. It registered growth rate of 1.34 times, with an average of Rs. 77.46 crores. The deposits per employee of Punjab National Bank increased from Rs. 6.19 crores in 2012-13 to Rs. 8.41 crores in 2016-17. It registered growth rate of 1.35 times, with an average of Rs. 7.33 crores. The advances per branch of Punjab National Bank increased from Rs. 52.56 crores in 2012-13 to Rs. 60.46 crores in 2016-17. It registered growth rate of 1.15 times, with an average of Rs. 57.78 crores. The advances per employee of Punjab National Bank increased from Rs. 4.88 crores in 2012-13 to Rs. 5.68 crores in 2016-17. It registered growth rate of 1.16 times, with an average of Rs. 5.47 crores. Overall efficiency of the Punjab National Bank improved during the study period.

Table 4 Efficiency of State Bank of India (Rs. in Crore)

Year	BPB	BPE	DPB	DPE	APB	APE
2012-13	151.75	9.85	81.18	5.27	70.57	4.58
2013-14	164.11	11.69	87.87	6.26	76.24	5.43
2014-15	176.15	13.49	96.54	7.39	79.61	6.10
2015-16	190.33	15.38	103.12	8.33	87.21	7.05
2016-17	210.59	17.25	119.09	9.76	91.50	7.50
Average	178.58	13.53	97.56	7.40	81.03	6.13
Growth	1.38	1.75	1.46	1.85	1.29	1.63

Source: Annual reports of State Bank of India calculated values from 2012-13 to 2016-17

The table 4 indicates that the efficiency of State Bank of India during the study period from 2012-13 to 2016-17. The business per branch of Bank increased from Rs. 151.75 crores in 2012-13 to Rs. 210.59 crores in 2016-17. It registered growth rate of 1.38 times, with an average of Rs. 178.58 crores. The business per employee of Bank increased from Rs. 9.85 crores in 2012-13 to Rs. 17.25 crores in 2016-17. It registered growth rate of 1.75 times, with an average of Rs. 13.53 crores. The deposits per branch of Bank increased from Rs. 81.18 crores in 2012-13 to Rs. 119.09 crores in 2016-17. It registered growth rate of 1.46 times, with an average of Rs. 97.56 crores. The deposits per employee of Bank increased from Rs. 5.27 crores in 2012-13 to Rs. 9.76 crores in 2016-17. It registered growth rate of 1.85 times, with an average of Rs. 7.40 crores. The advances per branch of Bank increased from Rs. 70.57 crores in 2012-13 to Rs. 91.50 crores in 2016-17. It registered growth rate of 1.29 times, with an average of Rs. 81.03 crores. The advances per employee of Bank increased from Rs. 4.58 crores in 2012-13 to Rs. 7.50 crores in 2016-17. It registered growth rate of 1.63 times, with an average of Rs. 6.13 crores. Overall efficiency of the State Bank of India improved during the study period.

Profit Earning Capacity

The profit earning capacity of Punjab National Bank during the study period from 2012-13 to 2016-17 is shown in following table. The profit earning capacity is examined in terms of interest earned, other income, interest expended, operating expenses, provisions and contingencies, total income, total expenditure net profit and operating profits are taken for the study.

Table 5 Profit Earning Capacity of Punjab National Bank (Rs. in Crore)

Year	Interest Earned	Other Income	Interest Expended	Operating expenses	Provisions and contingencies	Total Expenditure	Total Income	Net Profit	Operating Profit
2012-13	41893	4216	27036	8165	6160	41361	46109	4748	10908
2013-14	43223	4576	27077	9338	8042	44457	47799	3343	11385
2014-15	46315	5890	29759	10491	8863	49144	52206	3062	11925
2015-16	47424	6000	32112	9973	15313	57398	53424	-3974	11339
2016-17	47275	8951	32282	9380	13240	54901	56277	1324	14565
Average	45226	5926	29653	9469	10323	49452	51163	1700	12024
Growth	1.12	2.12	1.19	1.14	2.14	1.32	1.22	0.27	1.33

Source: Annual reports of Punjab National Bank from 2012-13 to 2016-17

It is observed from the above table 5 that the profit earning capacity of Punjab National Bank during the period 2012-13 to 2016-17. The interest income of Punjab National Bank increased from Rs. 41893 crores in 2012-13 to Rs. 47275 crores in 2016-17. It registered growth rate of 1.12 times, with an average of Rs. 45226 crores every year. The other income of Punjab National Bank increased from Rs. 4216 crores in 2012-13 to Rs. 8951 crores in 2016-17. It registered growth rate of 2.12 times, with an average of Rs. 5926 crores every year. The interest expenditure of Punjab National Bank increased from Rs. 27036 crores in 2012-13 to Rs. 32282 crores in 2016-17. It registered growth rate of 1.19 times, with an average of Rs. 29653 crores every year. The operating expenses of Punjab National Bank increased from Rs. 8165 crores in 2012-13 to Rs. 9380 crores in 2016-17. It registered growth rate of 1.14 times, with an average of Rs. 9469 crores every year. The Provisions and contingencies of Punjab National Bank increased from Rs. 6160 crores in 2012-13 to Rs. 13240 crores in 2016-17. It registered growth rate of 2.14 times, with an average of Rs. 10323 crores every year. The total expenditure of Punjab National Bank increased from Rs. 41361 crores in 2012-13 to Rs. 54901 crores in 2016-17. It registered growth rate of 1.32 times, with an average of Rs. 49452 crores every year. The total income of Punjab National Bank increased from Rs. 46109 crores in 2012-13 to Rs. 56277 crores in 2016-17. It registered growth rate of 1.22 times, with an average of Rs. 51163 crores every year. The net profit of Punjab National Bank decreased from Rs. 4748 crores in 2012-13 to Rs. 1324 crores in 2016-17. With an average of Rs. 1700 crores every year.

To sum up the growth rate of interest income and other income is less than the proportionate growth of interest expenses, operating expenses and provisions and contingencies. It creates pressure on profit earnings of Punjab National Bank. Interest income of Punjab National Bank constantly increased throughout the study period due to increase in granting loans and advances. Similarly the interest expenses too. Non-interest income was highly volatile, and also operating expenses was highly volatile throughout the study period. In general the proportionate growth rate of total income (1.22 times) was less than the growth rate of total expenditure (1.32 times). Due to this reason the net profit of Punjab National Bank remains under stress. It can be concluded that net profit earning of the Punjab National Bank was directly influenced by operational and interest expenses.

Table 6 Profit Earning Capacity of State Bank of India (Rs. in Crore)

Year	Interest Earned	Other Income	Interest Expended	Operating expenses	Provisions and contingencies	Total Expenditure	Total Income	Net Profit	Operating Profit
2012-13	119657	16037	75326	29284	16977	121587	135691	14105	31574
2013-14	189062	18553	121479	63368	27607	212455	226944	10891	32109
2014-15	207974	22576	133178	73848	32745	239772	257289	13102	39537
2015-16	163998	28158	106803	41782	33307	181893	191843	9951	43258
2016-17	175518	35460	113658	46472	40363	200495	210979	10484	50848
Average	171241	24156	110088	50950	30199	191240	204549.2	11706	39465
Growth	1.46	2.15	1.50	1.58	2.37	1.64	1.55	0.74	1.61

Source: Annual reports of State Bank of India from 2012-13 to 2016-17

It is observed from table 6 that the profit earning capacity of State Bank of India during the period 2012-13 to 2016-17. The interest income of bank increased from Rs. 119657 crores in 2012-13 to Rs. 175518 crores in 2016-17. It registered growth rate of 1.46 times, with an average of Rs. 171241 crores every year. The other income of the Bank increased from Rs. 16037 crores in 2012-13 to Rs. 35460 crores in 2016-17. It registered growth rate of 2.15 times, with an average of Rs. 24156 crores every year. The interest expenditure of Bank increased from Rs. 75326 crores in 2012-13 to Rs. 113658 crores in 2016-17. It registered growth rate of 1.50 times, with an average of Rs. 110088 crores every year. The operating expenses of Bank increased from Rs. 29284 crores in 2012-13 to Rs. 46472 crores in 2016-17. It registered growth rate of 1.58 times, with an average of Rs. 50950 crores every year.

The Provisions and contingencies of Punjab National Bank increased from Rs. 16977 crores in 2012-13 to Rs. 40363 crores in 2016-17. It is registered growth rate of 2.37 times, with an average of Rs. 30199 crores every year. The total expenditure of Bank increased from Rs. 121587 crores in 2012-13 to Rs. 200495 crores in 2016-17. It registered growth rate of 1.64 times, with an average of Rs. 191240 crores every year. The total income of Bank increased from Rs. 135691 crores in 2012-13 to Rs. 210979 crores in 2016-17. It registered growth rate of 1.55 times, with an average of Rs. 204549.2 crores every year. The net profit of Bank decreased from Rs. 14105 crores in 2012-13 to Rs. 10484 crores in 2016-17. The net profit was highly volatile during the study period.

To sum up the growth rate of interest income and other income is less than the proportionate growth of interest expenses, operating expenses and provisions and contingencies. It creates pressure on profit earnings of State Bank of India. Interest income of State Bank of India constantly increased throughout the study period due to increase in granting loans and advances. Similarly the interest expenses too. Non-interest income was highly volatile, and also operating expenses was highly volatile throughout the study period. In general the proportionate growth rate of total income (1.55 times) was less than the growth rate of total expenditure (1.64 times). Due to this reason the net profit of State Bank of India remains under stress. It can be concluded that net profit of the State Bank of India was directly influenced by operational and interest expenses.

Profitability

Profitability is considered a very important test for measuring efficiency of the bank as it is a means to measure the ability of the bank to earn profits. The details of interest earned ratio, interest paid ratio, non – interest cost ratio, non – interest income ratio, spread ratio, burden ratio and profitability ratios are show in following table.

Table 7 Profitability of Punjab National Bank (Per cent)

Year	IE	IP	NII	OE	SP	BD	PR
2012-13	5.98	3.86	0.60	1.17	2.12	0.56	1.56
2013-14	5.40	3.38	0.57	1.17	2.02	0.59	1.42
2014-15	5.25	3.37	0.67	1.19	1.88	0.52	1.36
2015-16	4.91	3.33	0.62	1.03	1.59	0.41	1.17
2016-17	4.54	3.10	0.86	0.90	1.44	0.40	1.40
Average	5.22	3.41	0.66	1.09	1.81	0.43	1.38
Growth	0.75	0.83	1.43	0.76	0.67	0.71	0.89

Source: Annual reports of Punjab National Bank calculated values from 2012-13 to 2016-17

The table 7 shows that the Profitability of Punjab National Bank during the study period from 2012-13 to 2016-17. The interest earned ratio of Punjab National Bank is continuously decreased during the study period with an average of 5.22 per cent. The interest paid ratio of Punjab National Bank is volatile with increase and decrease, with an average of 3.41 per cent. Non-Interest income ratio and operating expenditure ratio also volatile, with an average of 0.66 per cent and 1.09 percent respectively. Spread ratio is also highly volatile, burden and profitability ratios are decreased during the study period. To sum up the profitability ratios remains under pressure due to the fact that the burden ratio is more than the spread ratio.

Table 8 Profitability of State Bank of India (Per cent)

Year	IE	IP	NII	OE	SP	BD	PR
2012-13	5.32	3.35	0.71	1.30	1.97	0.59	1.38
2013-14	7.26	4.66	0.71	2.43	2.60	1.72	0.87
2014-15	7.23	4.63	0.78	2.57	2.60	1.78	0.82
2015-16	5.13	3.34	0.88	1.31	1.79	0.43	1.36
2016-17	4.85	3.14	0.98	1.29	1.71	0.60	1.41
Average	5.96	3.83	0.81	1.78	2.13	0.96	1.17
Growth	0.91	0.93	1.38	0.99	0.89	1.1	1.02

Source: Annual reports of State Bank of India calculated values from 2012-13 to 2016-17

The table 8 shows that the Profitability of State Bank of India during the period 2012-13 to 2016-17. The interest earned ratio of State Bank of India is fluctuating during the study period with an average of 5.96 per cent. The interest paid ratio of State Bank of India is volatile with increase and decrease, with an average of 3.83 per cent. Non-Interest income ratio is continuously increased and operating expenditure ratio is volatile, with an average of 0.81 per cent and 1.78 percent respectively. Spread ratio is also highly volatile. Burden and profitability ratios are decreased during the study period. To sum up the profitability remains under pressure due to increase of interest paid and decrease in earned ratio.

5. Conclusion

In view of the foregoing issues, it may be meaningful to suggest the following strategies for the Punjab National bank and State Bank of India for enhancing operational efficiency and profitability. Business expansion through setup branches paves way bringing out large geographical area customer coverage by the banks. Thereby exploring the unexplored of clients is possible. Even though efficiency of banks improved over the period of study, Indian banks are far behind the performance of global banks. Banks have to take steps to improve the efficiency by adopting new technologies. Added thrust is required for enhancing the non-interest income. This can significantly improve profitability. Non-interest income can be improved through undertaking more of fee-based activities, besides the traditional fund-based activities like providing credit. In this regard, it may be pointed out that higher investments in technology would help to improve the non-interest income of banks. The profitability of the Punjab National Bank and State Bank of India is expected to remain under pressure due to increased cost of borrowings, declining interest spreads and lower fee income due to slowdown in retail lending. It has been concluded that the number of offices and number of employees did not directly influence the business performance. It shows that the business performance and efficiency of Punjab National Bank is improved during the study period. However profit earning capacity and profitability ratios remain under pressure due to increase non-performing assets, burden ratio and decrease in spread ratio of both the selected banks.

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