

PROFITABILITY ANALYSIS OF BANKS IN INDIA (2005-15)

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ABSTRACT

As the banking sector constitutes a major component of the financial service sector, the soundness of the banking sector is necessary for financial stability and also to foster growth for a dynamic and healthy economy. This paper identifies the key determinants of profitability of Indian banks. It integrates the macroeconomic environment and industry level variables for understanding their profitability. We have considered a panel data model for eleven years between 2005-2015 encompassing all the schedule commercial banks in India-private, nationalized and foreign. The model has been formulated to derive the estimates of impact of external and internal factors on the return on equity and return on assets of banks in India. The external variables are interest rate, inflation, growth rate of the manufacturing sector of the economy while the internal variables are the capital of a bank, non-performing assets, total expenses and the assets under management of the banks. Also we have developed a model which studies the impact of the global financial crisis of 2008 on the banking sector.