



Profitability Analysis of Dena Gujarat Gramin Bank

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I. INTRODUCTION

Finance is the life blood of trade, commerce and industry. Now-a-days, banking sector acts as the backbone of modern business. Development of any country mainly depends upon the banking system.

Organized banking was active in India since the establishment of the General Bank of India in 1786. After independence, the Reserve Bank of India (RBI) was established as the central bank and in 1955, the Imperial Bank of India, the biggest bank at the time, was taken over by the government to form state-owned State Bank of India (SBI). RBI had undertaken an exercise to merge weak banks to strong banks and the total number of banks thus reduced from 566 in 1951 to 85 in 1969.

With the objective of reaching out to masses and meeting the credit needs of all sections of people, the government nationalized 14 large banks in 1969 followed by another 6 banks in 1980. This period saw enormous growth in the number of branches and the banks' branch network became wide enough to reach the weakest sections of the society in a vast country like India. SBI's network of 9033 domestic branches and 48 overseas offices is considered to be one of the largest for any bank in the world.

II. STRUCTURE OF INDIAN BANKING INDUSTRY

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The economic reforms unleashed by the government in early nineties included banking sector too, to a significant extent. Entry of new private sector banks was permitted under specific guidelines issued by RBI. A number of liberalization and de-regulation measures aimed at consolidation, efficiency, productivity, asset quality, capital adequacy and profitability have been introduced by the RBI to bring Indian banks in line with International best practices. With a view to giving the state-owned banks operational flexibility and functional autonomy, partial privatization has been authorized as a first step, enabling them to dilute the stake of the government to 51 per cent. The government further proposed, in the Union Budget for the financial year 2000-01, to reduce its holding in nationalized banks to a minimum of 33 per cent on a case by case basis.

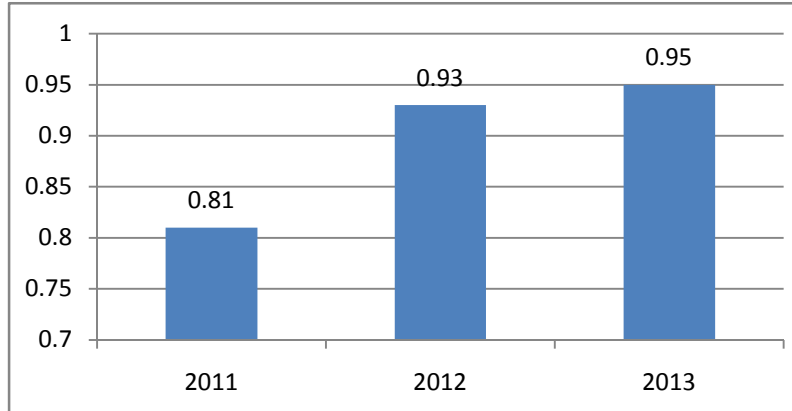
The banking system can be broadly classified as organized and unorganized banking system. The unorganized banking system comprises of moneylenders, indigenous bankers, lending pawnbrokers, landlords, traders, etc. Whereas the organized banking system comprises of Scheduled Banks and Non-Scheduled Banks that are permitted by RBI to undertake banking business.

III. DATA ANALYSIS

1. Current Ratio= Current Assets/Current Liabilities:

Year	2011	2012	2013
Current assets	116,195.07	147,895.1	178,790.5
Current liabilities	142,985.64	157,601.58	187,408.05
Ratio	0.81	0.93	0.95

Chart-1



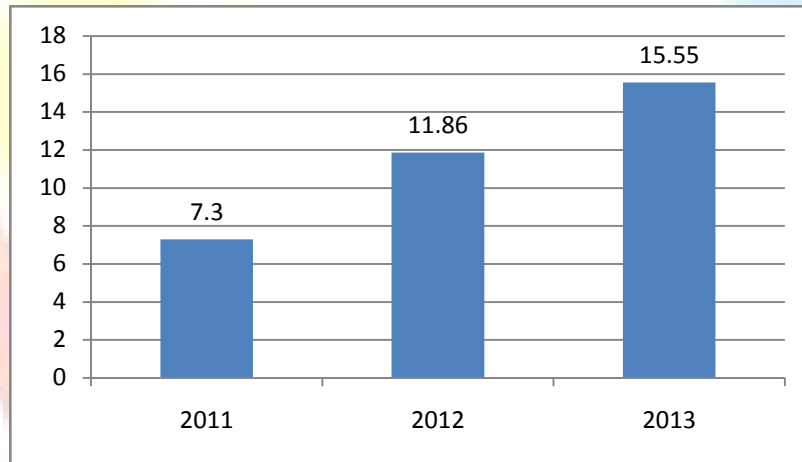
Interpretation:

An ideal current ratio is 2:1 consider as a safe margin of solvency 2:1. Here, bank current ratio is quite satisfactory.

2. Return On Capital Employed = EBIT/Capital Employed × 100

Year	2011	2012	2013
EBIT	1268.24	3954.11	5972.39
Capital Employed	17365.37	33349.68	38418.18
Ratio	7.30	11.86	15.55

Chart-2



Interpretation:

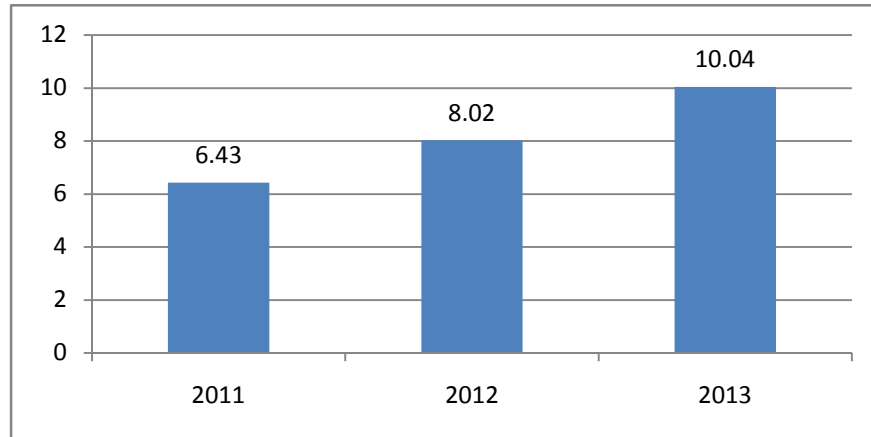
Banks return on capital employed is very good and it shows banks profitability, here banks ROCE increasing and share holders wealth maintain also.

3. Return On Equity = Net Income/Shareholder's Equity

Year	2011	2012	2013
Income	13862.74	17281.93	21639.51
Share holders equity	2153.43	2153.43	2153.43
Ratio	6.43	8.02	10.04



Chart-3



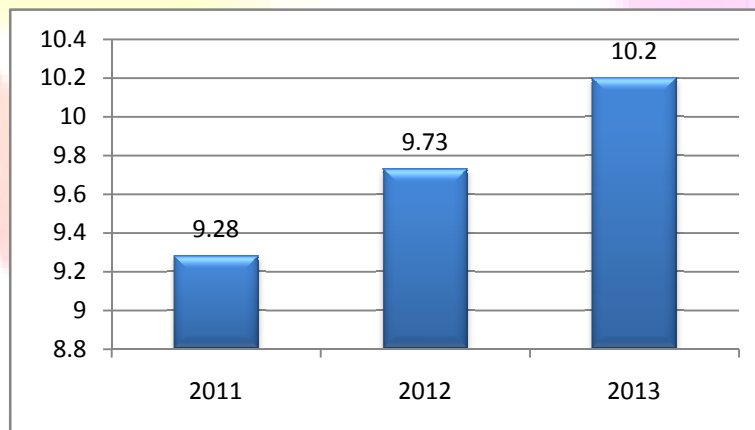
Interpretation:

Banks ROE is very good and year to year increase because bank income increase. Ratio also shows share holders return. Share holders return increasing from 6.43% to 10.04% per share.

4. Return On Assets = Net Income/ Average Total Assets*100

Year	2011	2012	2013
Income	13862.74	17281.93	21639.51
Avg. Total Assets	149,258.41	177,476.66	212,246.29
Ratio	9.28	9.73	10.20

Chart-4



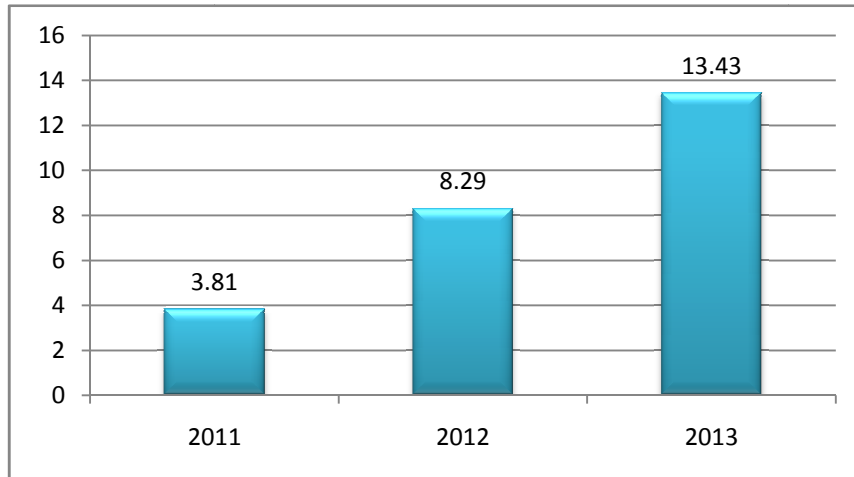
Interpretation:

The only common rule is that the higher return on assets is, the better, because the company is earning more money on its assets. A low return on assets compared with the industry average indicates inefficient use of company's assets.

5. Net Profit Margin = Net Profit / Total Income *100

Year	2011	2012	2013
NET PROFIT	537.68	1490	3093.33
TOTAL INCOME	14112.74	17971.93	23039.51
Ratio	3.81	8.29	13.43

Chart-5



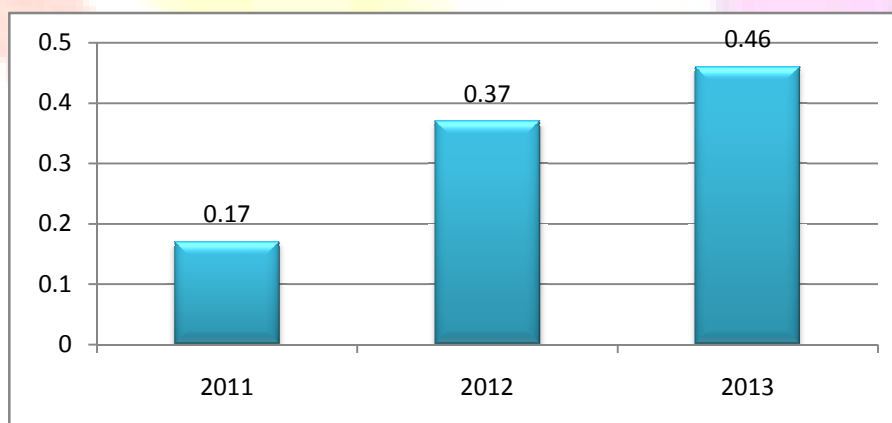
Interpretation:

Net profit margin is an indicator of how efficient a company is and how well it controls its costs. The higher the margin is, the more effective the company is in converting revenue into actual profit, and by this chart we can say that bank has higher profit margin and year to year increasing that a positive sign for bank.

6. Interest Coverage Ratio = EBIT / Interest Expenses

Year	2011	2012	2013
EBIT	1268.24	3954.11	5972.39
INTEREST EXPENSES	7612.42	10827.28	12958.59
Ratio	0.17	0.37	0.46

Chart-6



Interpretation:

Interest Coverage ratio is very important from the creditors view point. A high ratio ensures a periodical interest income for lenders. The companies with weak ratio may have to face difficulties in raising funds for their operations. Bank has good interest coverage ratio.

IV. LIMITATION OF RATIO

Limited Use of Single Ratio:

Sometime, we cannot compare our ratios with others. For example, we have started new business and our financial results are not still normal. At that time, our profitability ratio will have limited use because there is not any past data of profitability ratios.

Lack of Adequate Standards:



We could not make standards of all ratios. For example, we cannot tell what is rule of them of our net profit ratio because there are lots of factors affect it. In the lack of adequate standards of ratios, we cannot give exact comment on the basis of ratio analysis.

Changes of Accounting Procedures:

If accounting procedures will change; our accounting ratio will be changed. At that time, we cannot compare our current year ratios with our past year ratios. For example, in past year, we had used LIFO but current year; we are using FIFO for inventory valuation. Due to this, figures of closing stock will be different. On this basis, if we have calculated current ratio, it will not be comparable with past current ratio.

Matchless:

Different organizations uses different accounting policies so, we cannot compare their ratios.

Ratios are not Substitute of Financial Statements:

Ratio analysis is important part of financial statements analysis. It can never become a substitute of financial statements. We just use it with cash flow analysis, fund flow analysis and other analysis.

Wrong Interpretation:

We can interpret wrongly. For explaining the effect on company's position with ratios, there is big need of experience. Wrong interpretation will be helpful for wrong decisions. So, it is limitation of ratio analysis that it does not explain all the facts, it has to explain. For a new accounts manager, it may be difficult.

V. FINDINGS

- Current ratio of the bank is not much good, because ideal ratio is 2:1 and over here bank near to 1:1, but with the help of graph we can say that bank performance increasing year to year.
- In DENA GUJARAT GRAMIN BANK Interest Coverage Ratio is high and ensures a periodical interest income for lenders, and also give a positive sign to lenders for safety investment.
- Net Profit Margin Ratio of the DENA GUJARAT GRAMIN BANK is year to year increasing that shows how company efficient and how well controls its costs.
- Banks ROCE increasing year to year that good signs for banks as well as shareholders. It also shows that bank uses more efficient of capital. Higher ROCE indicates banks generating shareholders value.
- Banks ROE is increasing year to year that shows banks profitability increase, and banks generate good enough profit and attract shareholders for more investment.
- Banks getting higher return on its assets, banks earning more money from its assets. Banks ROA is better and continuous increasing year to year.
- DENA GUJARAT GRAMIN BANK network is very wide.
- DENA GUJARAT GRAMIN BANK staff very enthusiastic and loyal
- DENA GUJARAT GRAMIN BANK maintain and day to day increase customer relationship by various activities
- Peoples are most like to transaction with DENA GUJARAT GRAMIN BANK

VI. SUGGESTION

- Bank should try to reducing its operating expenses and increasing its income.
- Bank must held marketing activity, now a day's marketing is first and must for every sector that help to increase more customer and more income.
- Bank should try to increase awareness in people mind and as per make a design its campaign and select right source of media.
- Banks should try to increase share capital deposit.
- Banks should control over borrowings.
- Banks also control over cash on hand balance because more cash on hand balance reduce investment opportunity and also miss higher benefit from investment.
- Bank must do SWOT(Strength, Weakness, Opportunity, and Threat) analysis
- In this competition area bank should give facility of following:
 - Internet banking
 - Mobile banking
- From the research study banks financial position affected by several factors like economic and social.
- By this project, we can get the information regarding bank's liquidity and profitability.
- Bank financial position is very good but still tries to increase.



VII. CONCLUSION

The Bank has undertaken bolder initiatives that would help it, achieve its wide aspirations. It is important to have a wide network, strong structure, strong knowledge base excellence official skills, sound regulatory policy with its passion for innovations, commitment for the new services and corporate philosophy to build healthier communication.

Finally, I can say that under the guidance of efficient management and extremely dedicated human resources. I wish and predict all great success in its endeavors to “Dena Gujarat Gramin Bank”.

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