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EFFECTS OF LOANS AND ADVANCES ON PROFITABILITY: AN ANALYTICAL STUDY ON BANKING INDUSTRIES

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Abstract

This study explores the impact of loans and advances on the profitability of banks. Its aim is to analyze the relationship between the lending activities of banks and their overall financial performance. The study employs a mixed-methods approach, combining quantitative analysis of financial data with qualitative insights from interviews with bank executives. The literature review examines existing theories and empirical studies on the subject, shedding light on the potential effects of loans and advances on bank profitability. It delves into various types of loans and advances given by banks, such as commercial loans, personal loans, and overdraft facilities, considering their implications for profitability. To empirically assess the impact, the study gathers financial data from a sample of banks over a specific period. Key profitability indicators, such as Net profit, Gross profit, Operating profit ratio are analyzed to measure bank profitability.

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1. Introduction

Loans and advances are essential components of a bank's lending activities, playing a vital part in enhancing growth of economy by providing financial resources to businesses and individuals and other entities. As banks engage in lending, it becomes imperative to assess the impact of these loans and advances on their overall profitability. Understanding this relationship is essential for banks to make informed decisions regarding their lending strategies, risk management practices, and financial performance.

The profitability of banks is a critical indicator of their financial health and sustainability. It determines their ability to generate earnings, attract investors, and maintain long-term viability. Consequently, studying the impact of loans and advances on profitability is of great significance to both banks and the broader financial industry. This study aims to delve into the relationship between loans and advances and bank profitability, providing insights into how lending activities influence the financial performance of banks. By examining various financial indicators and loan-related metrics,

Review of Literature

P Geetha Rani (2014): dsicussed in their article entitled “The study on loans and its improvements in education, and the effectiveness of instruction”:Since its beginning, the training credit programme has grown both in terms the quantity of students who have taken instruction credits in order to pursue higher education and the amount of instruction credits distributed. However, as evidenced by data national sample survey Organisation and Bank, these aspects of the higher learning financing don't appear to increase access or worth in the context of advanced education.

M.D.Imad Kutum(2018) dsicussed in their article entitled “The Effect of Credit Risk on the Profitability of Palestinian “Exchange-Listed Banks. In respect to the Palestine Exchange, the goal of this study is to investigate the connection between financial success and credit risk of five banks. The ratio of net charge-offs to all loans and advances, the percentage of non-performing loans to all loans and advances, and the percentage of pre-provision profit to all loans and advances were used to measure credit risk. Return on equity and return on assets were used to determine profitability. Other factors, such as bank size, leverage, and net income growth, were introduced to account for their effects.

Ahmad, (2014). in their article entitled**”** Impact of Loan Loss Provision on Bank Profitability in Pakistan” Volume: 03, Number: 12, This study looked at how Loan Loss Provision impacted the efficiency and stability of Pakistani banks. My research indicates that a reputable bank ought to be more profitable and have lower loan loss provisions. The stability and profitability of banks are also heavily influenced by bank deposits and advances.

Anthony Siaw, Emmanuel Oteng, Beatrice Opoku, and Evans Brako(2014) in their article entitled “Loan Default Rate and its effect on Profitability in Financial Institutions” This study sought to measure the rate of default of loan, its effect on profitability, and measures to lower loan defaults in microfinance firms.

Kavitha and Dhanabhakya (2012) dsicussed in their article entitled “**”**A comparative analysis on financial performance :A study on selected private banks” The Indian financial system is now experiencing several problematic issues. During the testing period, the chosen Banking in the open sector conducted research the factors influencing growth rate and financial competence. The old along with fresh private sector banks, significant role in presenting novel forms of stores and advancement strategies.

Background of the Study:

A crucial component of a bank's financial performance and sustainability is its profitability. Banks function as financial intermediaries, lending money to people, companies, and other entities in the form of loans and advances. By encouraging investment, consumption, and entrepreneurship, these loan activities are essential for promoting economic growth. Therefore, it is essential for the prosperity and stability of financial institutions to comprehend how loans and advances influence bank profitability.

Objectives

- To scrutinise the total amount of loan and advances issused in the bank.
- To study the effect of loans and advances on gross profit and net profit using profitability ratio.

Hypothesis

$H_{0:}$ There is no association between loans and advances and gross profit of the firm.

$H_{1:}$ There is association between loans and advances and gross profit of the firm.

2. Research Methodology

Research Design: This study will employ a quantitative research design to gather data and samples for the study are collected from SBI Bank Turuvekere branch.

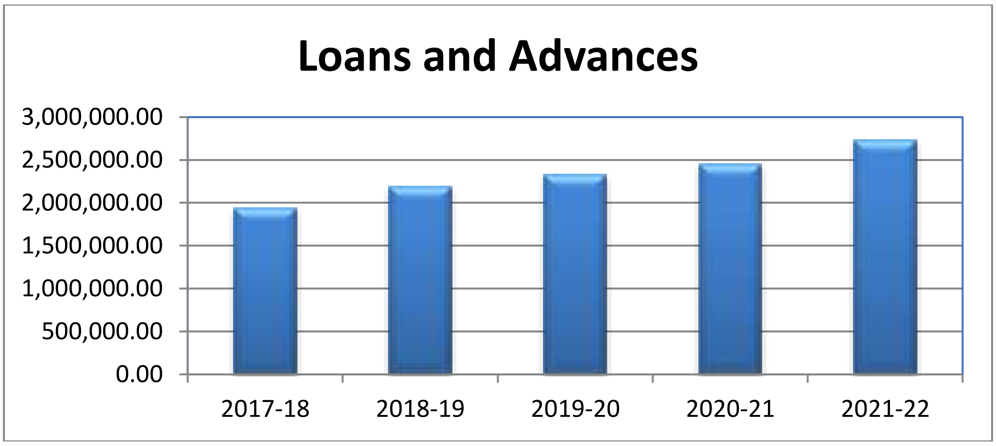
- Primary Data: Primary data collected for this study specifically from Finance executive, Branch manager of SBI bank for five years and from various departments of the concern, in order to understand the operation system and various methods adopted at different levels.
- Secondary Data: Basically secondary data includes books, websites, balance sheets,published materials and records. Secondary data is data that has been gathered from sources besides the original source, such as annual reports, cost sheets, etc.

The credit option provided by banks is referred to as an advance. These loans are frequently issued for urgent needs, such as buying supplies to cover other urgent obligations. Similar to loans, these advances were also repaid. These are also repayable in yearly installments. Individuals, businesses, and other entities all stand to gain greatly from the loans and advances provided by commercial banks.

Lending of Money
(a) Direct Loans.
(b) Cash Credit.
(c) Overdraft.
(d) Discounting of bills.

State Bank of India-approved Advances and Loans

Year	Loans and Advances
2017-18	19,34,880.19
2018-19	21,85,876.92
2019-20	23,25,289.56
2020-21	24,49,497.79
2021-22	27,33,966.59



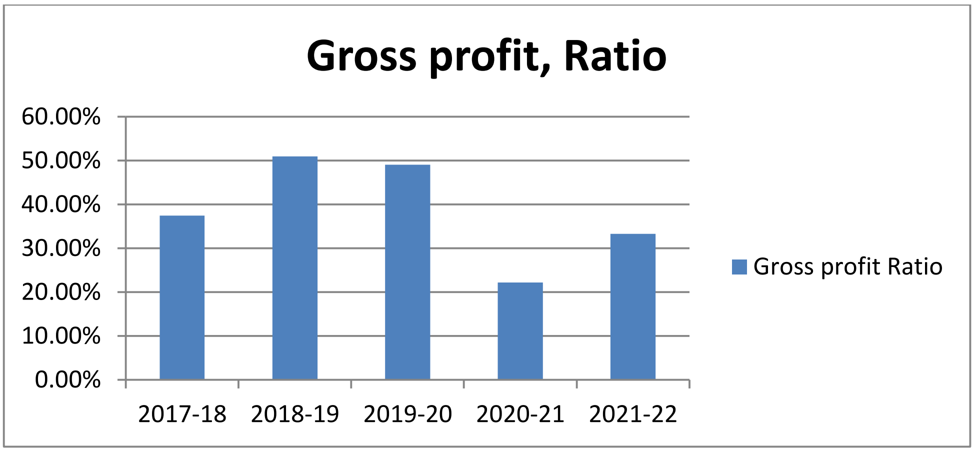
Interpretation: From the above mentioned graph is clear that,the SBI is providing more loans and advances to their consumers.From the period 2017–18. The sum borrowed is □ 19,34,880.19 followed by 2018-19 □ 21,85,876.92.In the year 2020-21 the credit is increased to □24,49,497.79 ,because the loan intrest rate is low.In the year 2021-22 year The sum borrowed is more than compare to other years amounted to □ 27,33,966.59. because the intrest rate is low to their customers.

Ratio Analysis:
A. Gross profit Ratio
B. Net profit ratio

A. Gross Profit Ratio:
Gross profit ratio=Gross Profit/Net sales*100
Gross profit is the quantity of money a company keeps after deducting all of the expenses incurred in producing and offering its goods or services. By deducting the price of the items sold from your total sales will arrive gross profit.

Year	Gross profit/Netsales*100	Gross profit Ratio
2017-18	37,070/99,020*100	37.43%
2018-19	10,200/20,000*100	51%

2019-20	27,000/55,000*100	49.09%
2020-21	1,22,200/5,50,400*100	22.20%
2021-22	14,000/42,000*100	33.33%



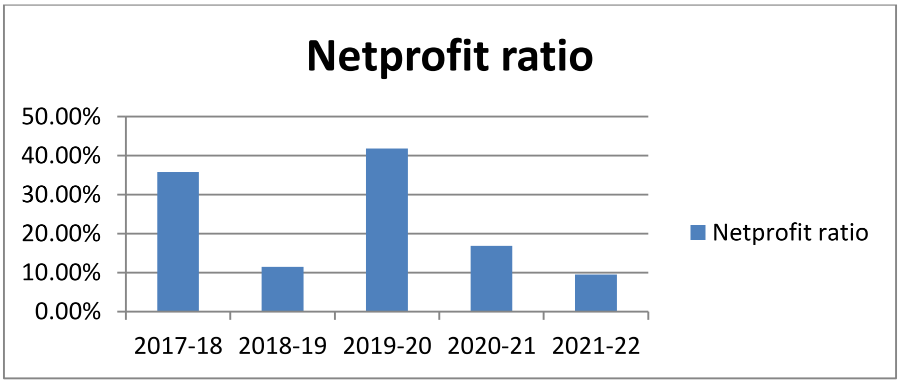
From the above graph,X-axies shows that years and Y-axies shows that percentage of ratios,The gross profit is 37.43% in the year 2017-18 and 51% in the 2018-19 is consider as the positive value.and 49.09% is in the 2019-20 and 2020-21 there is a ratio 22.02% it cosidered as the lowest value.Any amount of the net income margin that falls within the 50–70% range is regarded as a healthy GP margin. When production expenses surpass total sales, the netincome margin may become negative. A corporation maybe unable to control costs if its margin is negative.

2.Net profit Ratio:

Net profit is the quantity of money your company makes during a specific time period after subtracting all operational, interest, and tax costs.

Net profit = Netprofit /Netsales*100

Year	**Netprofit/Netsales*100**	**Netprofit ratio**
2017-18	35,490/99,020*100	35.84%
2018-19	2,300/20,000*100	11.5%
2019-20	23,000/55,000*100	41.81%
2020-21	92,850/5,50,400*100	16.86%
2021-22	4,000/42,000*100	9.52%



Interpretation: From the above graph,X-axies shows that years and Y-axies shows that percentage of ratios.The net profit is 35.48% for the year 2017-18,it is considered as the moderate value.The next year the value is decreased to 11.5% and in the next year the ratio has been increased to 41.81% which is highest ratio compared to five years due to reduction in the interest rate on loans .The next year there is a reduction in ratio to 16.86% and the ratio is predicted to be quite low in 2021–2022 at 9.52%.

3. Conculsion

The analysis component has revealed that there is an increase in the total loans and advances in last five years in an increasing rate. Gross profit and net profit ratios are calculated for the five years but as the loans and advances increases at an increasing rate but gross profit and net profit are fluctuating in both increasing an decreasing trend.It is concluded that there is no association between loans and advances and gross profit of the firm ,Hence null hypothesis is rejected.

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