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Factors Influencing the Profitability of Selected Nationalised Banks in India

S. Rajendran — Department of Management, Ph.D Part time Research Scholar, Karpagam University, Coimbatore-21

Dr. R. Saravan — Department of Management Studies, Sri Krishna College of Technology, Coimbatore

ABSTRACT

The banking industry is slated for growth in future with a more qualitative rather than quantitative approach. Objectives of this study, 1. To analyse the factors which determine the financial position of the banks. 2. To analyse the Profitability position on selected variables of the Nationalised banks in India and . To present the findings and offer suitable suggestions to improve the financial position of the Nationalised banks in India. Methodology of this study, The data for the study have been collected mainly from the secondary sources comprising various books, periodicals, journals, etc. Further, for the purpose of analysis, detailed information is collected mainly from the various volumes of the "Statistical Tables Relating to Banks in India" covering the period from 2001 to 2011. Findings of this study,). From the above factor matrix it is found that coefficients for factor-I have high absolute correlations with variable R2 (Other Assets to total Asset) ,A3(NPA to Advances), C1 (Ratio of Advances to Total Assets), A2(Return on Advances)R1 (Investment to Assets) and E3 (Operating Profit to total Assets)that is, .964, .948, .944, 0.939, .907 and 0.906 respectively. Similarly factor-II has high absolute correlation with variable L1(Deposits to total assets) and C3 (Govt.Secu. To Investment)).Conclude this study To conclude, no single factor greatly influence the financial performance in the case of Nationalisation bank in India.

KEYWORDS: BAP, Kn, Cytokinin, Auxin, Shoot proliferation

INTRODUCTION

Economic growth depends on the mobilization of resources, men and material and their utilisation in a planned manner. Financial institutions provide maximum financial convenience to the public. Financial institutions promote overall saving of the economy by deepening and widening the financial structure. They also distribute the available savings in a more efficient manner. They also create credit and deposit money, production and distribution in furtherance of the economy. Banks are essential instruments of accelerated growth in a developing economy. In fact banks are nerve centers of the economy. The primary task of banking institutions is to mobilize the diffused and thinly scattered savings of a poor and populous community and to direct them into productive investment.

The existing saving potential of under developed nations has to be transformed into saving that can be accessible and beneficial to the community. New saving habits have to be developed, from economic point of view the major task of banks and other financial institutions is to act, as intermediaries channeling savings to investments and consumption and through them the investment requirements of savers are reconciled with the credit needs of investors by banks.

Financial intermediation by banks plays a catalytic role in promoting economic development by spreading banking and saving habits and by helping to fund productive, employment and income. As a general rule, the banking should respond to the demands of a dynamic economy both through structural and financial adaptation taking into account the special conditions of each country.

Bank as a development agency are the source of hope and aspirations of the masses. Then banks help the agricultural sector in a number of ways. They provide directly to agriculturists for marketing their produce, for modernization and mechanization of forms, for developing land etc. Banks also play an important role in development of the industrial sector by providing short term and long term loans to industries. Banks grant loans to small-scale industrial units for expansion, modernization and renovation and also provide them with working capital finance.

The experience of Indian banking system since nationalization has brought to the fore front the immense potential of banking as a level of socio- economic development. Since bankingdevelopmentand economic development are closely associated with each other, it would be pertinent to have a comprehensive study of the activities of the public sector banks and private sector banks in the field of socio-economic development in India. It is necessary to examine the extent to which the banks have moved towards their social goal. The present study is an attempts to study the functional and operational efficiency and profitability and productivity measurement for selected unit of public sector banks and private sector banks for particular period. The purpose of this study is, thus to make an in-depth study of what the public sector banks and private sector banks in India have done during the period of last five year.

STATEMENT OF THE PROBLEM

The banking industry is slated for growth in future with a more qualitative rather than quantitative approach. The total assets of all scheduled commercial banks by end-March 2010 is projected to touch Rs 40,90,000 crore. This is going to comprise around 65% of GDP at current market prices as compared to 67% in 2002-03. The bank's assets are estimated to grow at an annual composite rate of growth of 13.4% during the rest of the decade as against 16.7% between 1994-95 and 2002-03.

Barring the asset side, on the liability perspective, there will be huge additions to the capital base and reserves. People will rely more on borrowed funds, pace of deposit growth slowing down side by side. However, advances and investments would not see a healthy growth rate. Indian banks association vision is to evolve into a strong, sound and globally competitive financial system, providing integrated services to customers from all segments, leveraging on technology and human resources, adopting the best accounting and ethical practices and fulfilling corporate and social responsibilities towards all stakeholders.

OBJECTIVES OF THE STUDY

The main objectives of the study are to identify the best bank and to find out the crucial factors responsible for the profitability of financial position in India. The study has been undertaken with the following objectives:

1. To analyse the factors which determine the financial position of the banks.
2. To analyse the Profitability position on selected variables of the Nationalised banks in India and
3. To present the findings and offer suitable suggestions to improve the financial position of the Nationalised banks in India.

SCOPE OF THE STUDY

The scope of the study is wider in nature. It covers ten banks in India, which were under the control of the Reserve Bank of India.

METHODOLOGY

SOURCE OF DATA

The data for the study have been collected mainly from the secondary sources comprising various books, periodicals, journals, etc. Further, for the purpose of analysis, detailed information is collected mainly from the various volumes of the "Statistical Tables Relating to Banks in India" covering the period from 2001 to 2011 which was published by the Statistical Department of Reserve Bank of India, Mumbai. The concepts and definitions of certain variables were gathered from the Report on "Trend and Progress of Banks in India" various issues covering the period from 2001 to 2011. which were published by the Statistical Department of RBI, Mumbai, RBI Bulletins (Monthly), Bombay Stock Exchange Official Directory, etc.

TOOLS USED FOR ANALYSIS OF DATA

Analysis of data is made using certain tools and techniques such as percentages, and factor analysis.

PERIOD OF STUDY

The study covered a period of 10 financial years from 2001to 2011. The financial year starts from 1st day of April of a year and ends on 31st day of March of next year.

SAMPLING DESIGN

Keeping in view the problem and the scope of the study, the researcher has decided to include banks functioning in India for the financial period from 2001 to 2011 **The detailed list of banks selected as follows:**

LIMITATIONS OF THE STUDY

Taking into consideration the objectives of the study and its coverage both in terms of time span and the number of banks, the study is prone to many limitations. Some of the major unavoidable limitations of the present work are as follows:

i. Financial information collected for the present study is entirely secondary in nature. In such a case, the study carries all the limitations inherent with the secondary data and financial information.
ii. While computing the data for the purpose of analysis, the approximation of decimal places leads to minor variations in ratios as well as percentage analysis are bound to exist in the present study.
iii. Various accounting and statistical tools extensively used for the present study have their own limitations.

Thus, the findings of the present study should be used judiciously and carefully taking into account the various limitations

DIMENSIONALITY OF THE MULTI-SCALE ITEMS (FACTOR ANALYSIS)

Factor Analysis is a set of technique which by analyzing correlations between variables reduces their numbers into fewer factors which explain much of the original data, more economically. Even though a subjective interpretation can result from a factor analysis output, the procedure often provides an insight into relevant psychographic variables, and results in economic use of data collection efforts. The subjective element of factor analysis is reduced by splitting the sample randomly into two and extracting factors separately from both parts. If similar factors result, the analysis is assumed as reliable or stable[1].

TABLE –1. EIGEN VALUES AND PROPORTION OF TOTAL VARIANCE OF EACH UNDERLYING FACTORS INFLUENCING THE PROFITABILITY OF SELECTED NATIONALISED BANKS IN INDIA

component	Initial Eigen values			Extraction Sums of Squared Loadings			Rotation Sums of Squared loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	10.064	52.967	52.967	10.064	52.967	52.967	9.302	48.957	48.957
2	3.984	20.967	73.934	3.984	20.967	73.934	4.404	23.177	72.134
3	2.172	11.432	85.367	2.172	11.432	85.367	2.083	10.962	83.097
4	1.547	8.140	93.507	1.547	8.140	93.507	1.978	10.410	93.507
5	10.064	52.967	52.967	10.064	52.967	52.967	9.302	48.957	48.957
6	3.984	20.967	73.934	3.984	20.967	73.934	4.404	23.177	72.134

Extraction Method: Principal Component Analysis

The results of the factor analysis presented in the table – 2 regarding factors influencing the job satisfaction of present working condition, have revealed that there are nineteen factors that had Eigen value exceeding "one". Among those four factors, the first factor accounted for 26.49 percent of the variance, the second 13.1 percent, the third factor 9.01 percent and the fourth factor 7.97 per cent of the variance in the data set. The first four factors are the final factors solution and they all together represent 56.58 percent of the total variance in the scale items measuring the factors influencing the job satisfaction of present working condition**.** Hence from the above results, it is certain that are factors influencing the profitability position of nationalized banks in India.

TABLE ---3
COMMUNALITIES FOR FACTORS RELATED TO FACTORS INFLUENCING FACTORS INFLUENCING THE PROFITABILITY OF SELECTED NATIONALISED BANKS IN INDIA

S.NO.	ITEMS	Initial	Extraction(h^2)
C1	Ratio of Advances to Total Assets	1.000	.986
C2	Govt.Secur. To Total Assets	1.000	.973
C3	Govt.Secu. To Investment	1.000	.987
R1	Investment to Assets	1.000	.981
R2	Other Assets to total Assets	1.000	.985
R3	Credit Deposit Ratio	1.000	.962
A1	Return on Advances	1.000	.714
A2	Return on Investment	1.000	.927
A3	NPA to Advances	1.000	.919
M1	Profit per Employee	1.000	.971
M2	Business per Employee	1.000	.990
M3	Intermediation cost	1.000	.996
E1	Net Interest Income to Total Assets	1.000	.926
E2	Burden to Total Assets	1.000	.937
E3	Operating Profit to total Assets	1.000	.900
Y	Return on total assets	1.000	.847
L1	Deposits to Total Assets	1.000	.989
L2	Term Depsits to Total Deposits	1.000	.935
L3	Liquid Assets to Total Assets	1.000	.841

The above table (Communalities) represents the application of the Factor Extraction Process, it was performed by Principal Component Analysis to identify the number of factors to be extracted from the data and by specifying the most commonly used Varimax rotation method. In the principal component analysis, total variance in the data is considered. The proportion of the variance is explained by the fourteen factors in each variable. The proportion of variance is explained by the common factors called communalities of the variance. Principal Component Analysis works on initial assumption that all the variance is common. Therefore, before extraction the communalities are all 1.000. Then the most common approach for determining the number of factors to retain i.e., examining Eigen values was done.

TABLE 4
ROTATED COMPONENT MATRIX FOR FACTORS INFLUENCING THE FACTORS INFLUENCING THE PROFITABILITY OF SELECTED NATIONALISED BANKS IN INDIA

Variable code	Component			
	I	II	III	IV
R2	.964	.078	.084	-.206
A3	.948	.001	-.126	.064
C1	-.944	.256	.052	.164
A2	.939	-.101	-.119	-.145
R1	.907	.369	.048	-.138
E3	.906	-.155	-.232	.022
E1	.904	-.187	.256	.085
M3	.900	-.396	.119	-.123
R3	-.862	.229	.407	.021
M2	-.665	.613	-.053	.411
M1	-.640	.567	-.125	.474

L1	-.037	.984	.025	-.138
C3	-.210	.957	.107	-.125
C2	.618	.741	.103	-.178
A1	-.162	.649	-.499	.136
E2	.068	-.134	.956	.036
Y	.447	-.330	-.733	.032
L2	-.336	.011	-.016	.906
L3	-.249	.489	-.041	-.734

Extraction Method: Principal Component Analysis.
Rotation Method: Varimax with Kaiser Normalization.
Rotation converged in 12 iterations.

Table 4 represents the Rotated Component Matrix, which is an important output of principal component analysis. The coefficients are the factor loadings which represents the correlation between the factors and the nineteen variables (C_1 to L3). From the above factor matrix it is found that coefficients for factor-I have high absolute correlations with variable R_2 (Other Assets to total Asset) ,A_3(NPA to Advances), C_1 (Ratio of Advances to Total Assets), A_2(Return on Advances)R_1 (Investment to Assets) and E_3 (Operating Profit to total Assets)that is, **.964**, **.948**, **.944**, 0.939, .907 and 0.906 respectively. Similarly factor-II has high absolute correlation with variable L_1(Deposits to total assets), C_3 (Govt.Secu. To Investment) and C_2 (Govt.Secur. To Total Assets that is, 0.984, 0.957 and 0.741 respectively. Next, factor III has high absolute correlation with variable E_2(Return on total assets) and Y(Return on total assets) that is, 0.956 and 0.753 respectively. Factor-IV has high absolute correlation with variable L_2

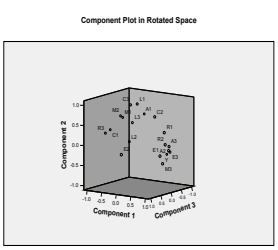
(Term Depsits to Total Deposits) and L_3(Liquid Assets to Total Assets) that is, 0.906 and 0.734 respectively. For example in this study, factor one is at least somewhat correlated with twelve variable out of the fourteen variables with absolute value of factor loading greater than or equal to 0.5. In such a complex matrix it is difficult to interpret the factor. So we proceed to compute the rotated factor matrix.

TABLE 5
Component Transformation Matrix

Component	1	2	3	4
1	.945	-.285	-.042	-.155
2	.246	.943	-.055	-.219
3	.039	.034	-.907	.419
4	.212	.171	.416	.867

The above table reveals the factor correlation matrix. If the factors are uncorrelated among themselves, then in the factor correlation matrix, the diagonal elements will be 1's and off diagonal elements will be 0's. Since matrix was rotated with Varimax, barring some variables all other variables are found to have, even if not zero correlations but fairly low correlation.

CHART -1



CONCLUSION

Thus the fourteen variables in the data were reduced to four Component factor and each factor may identified with the corresponding variables as follows:

SUGGESTION

1. Banks will have to adopt global standards in capital adequacy, income recognition and provisioning norms.
2. Risk management setup in Banks will need to be strengthened. Benchmark standards could be evolved.
3. Payment and settlement system will have to be strengthened to ensure transfer of funds on real time basis eliminating risks associated with transactions and settlement process.
4. Regulatory set-up will have to be strengthened, in line with the requirements of a market-led integrated financial system
5. Banks will have to adopt best global practices, systems and procedures.
6. Banks may have to evaluate on an ongoing basis, internally, the need to effect structural changes in the organisation. This will include capital restructuring through mergers / acquisitions and other measures in the best business interests
7. There should be constant and continual upgradation of technology in the Banks, benefiting both the customer and the bank. Banks may enter into partnership among themselves for reaping maximum benefits, through consultations and coordination with reputed IT companies.
8. The skills of bank staff should be upgraded continuously through training. In this regard, the banks may have to relook at the existing training modules and effect necessary changes, wherever required. Seminars and conferences on all relevant and emerging issues should be encouraged.
9. Banks will have to set up Research and Market Intelligence units within the organization, so as to remain innovative, to ensure customer satisfaction and to keep abreast of market developments. Banks will have to interact constantly with the industry bodies, trade associations, farming community, academic / research institutions and initiate studies, pilot projects, etc. for evolving better financial models.
10. Industry level initiatives will have to be taken, may be at IBA level, to speed up reform measures in legal and regulatory environment.

CONCLUSION

Nationalised Banks in India always brought an explanation about the prompt services to customers. After the set up Nationalization of banks in India, the banking sector in India also become competitive and accretive. India is expected to find a place in the strategy of these banks given the country's growth prospects. To conclude, no single factor greatly influence the financial performance in the case of Nationalisation bank in India.

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