



A STUDY ON THE DETERMINANTS OF PROFIT OF DENA BANK

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ABSTRACT

In the competitive era, every bank has been taking various steps to earn more profits by rendering value added services to the customers. Government of India has also taken policy initiatives recently to bring every transaction into the banknet. The efforts of the Government towards cashless economy have signaled positive results in the past few months. However, it is a million dollar question before the bankers whether the efforts have reaped the positive results. With the objective of analyzing the profit and the determinants of profit relating to Dena Bank, the present study has been undertaken. The study has covered the period of ten years from 2006-07 to 2015-16. In this regard, Interest Earned (IE), Other Income (OI), Interest Expended (IEX) and Operating Expenses (OE) have been considered as determinants of profit. The growth of net profit and determinants of profit and the relationship between them have been analyzed in this study.

KEYWORDS : Net Profit, Determinants, Interest, Operating expenses

INTRODUCTION

Dena Bank was founded on 26th May, 1938 by the family of Devkar Nanjee under the name Devkar Nanjee Banking Company Ltd. It became a Public Ltd. Company in December 1939 and later the name was changed to Dena Bank Ltd. In July 1969 Dena Bank Ltd. along with 13 other major banks was nationalized and is now a Public Sector Bank constituted under the Banking Companies (Acquisition & Transfer of Undertakings) Act, 1970. Under the provisions of the Banking Regulations Act 1949, in addition to the business of banking, the Bank can undertake other business as specified in Section 6 of the Banking Regulations Act, 1949.

The affairs of any organization have been evaluated at the end of a specific period, a year in order to understand the results of the operations. In the case of banks, the major source of revenue is the interest earned by the banks from the loans and advances sanctioned. The loans and advances are issued to the customers out of the deposits accepted by the banks. The interest paid on such deposits has been the major expenditure. However, the banks earn certain other incomes and incur operating expenses.

STATEMENT OF THE PROBLEM

In the globalized era, new generation banks and foreign banks have entered into the banking sector with ultra modern technology. The older banks like Dena Bank have been facing the challenges of competing with these new entrants as well as in updating their existing technologies. Updating the existing technologies has been essential but expensive. Under these circumstances, how a nationalized bank proactively puts the efforts in retaining the existing customers with satisfaction and augmenting the new customers by offering value added services at par with the new entrant-counter parts has been the problem to be addressed by the researchers. Hence, the present study has been undertaken to analyze the determinants of profit of Dena Bank.

OBJECTIVES OF THE STUDY

The present study has been undertaken with the following objectives:

1. To analyze the growth of selected indicators of profitability of Dena Bank,
2. To examine the impact of determinants of profit on the net profit of Dena bank and
3. To offer suggestions for improving the net profit of Dena Bank.

PERIOD OF STUDY

The study has been conducted for a period of ten years from 2006-

07 to 2015-16.

DETERMINANTS OF PROFIT

The researcher has considered Interest Earned (IE), Other Income (OI), Interest Expended (IEX) and Operating Expenses (OE) as the factors influencing the net profit of the bank. In this context, the data relating to interest earned, other income, interest expended, operating expenses and net profit have been collected for the period of ten years from 2006-07 to 2015-16. Descriptive statistics like mean, standard deviation, coefficient of variation and compound annual growth rate have been computed to understand the growth and trend of these factors during the period of study. Further, multiple regression analysis has been conducted with a view to understand the impact of these independent variables on the dependent variable – net profit.

TABLE 1: DETERMINANTS OF NET PROFIT

Years	Interest Earned	Other Income	Interest expended	Operating Expenses	Net Profit	R2
2006-07	2118.52	422.24	1263.16	899.42	201.56	0.974
2007-08	2710.05	478.13	1817.14	914.45	359.79	
2008-09	3447.50	430.13	2383.07	967.63	422.66	
2009-10	4010.36	588.63	2910.33	944.80	511.25	
2010-11	5033.53	533.84	3270.16	1073.42	611.63	
2011-12	6794.13	582.17	4693.13	1154.75	803.14	
2012-13	8899.39	655.46	6516.29	1299.70	810.38	
2013-14	9978.48	916.73	7473.40	1647.78	551.66	
2014-15	10763.49	721.33	8315.62	1838.92	265.48	
2015-16	10645.73	716.80	8168.99	2268.25	-935.32	
Mean	6440.12	604.55	4681.13	1300.91	360.22	
SD	3407.50	153.36	2725.03	467.51	498.66	
CV	52.91	25.37	58.21	35.94	138.43	
CAGR	19.65%	6.06%	23.05%	10.82%	-218.59%	
F				46.413		
P				0.000**		

** Significant @ 1 per cent

Source: Annual reports of the bank

It could be understood from the Table 1 that the average interest earned during the study period was Rs. 6440.12 crores while the standard deviation was Rs.3407.50 crores and the coefficient of variation was found to be 52.91 per cent. It denotes that the interest earned has witnessed greater and positive variations during the period of study. The CAGR relating to interest earned was found to be 19.65 per cent. It reveals that there has been a great growth in

the interest earned by the bank. However, the average other income earned by the bank during the study period was found to be Rs.604.55 crores whereas the standard deviation and coefficient of variation were Rs.153.36 crores and 6.06 per cent respectively. It implies that there was a consistent performance of the bank in respect of other income. The CAGR of other income has been measured to be 6.06 per cent. It reveals that the growth of other income was less than the growth of interest earned.

The average interest expended for the period of ten years of study was found to be Rs.4681.13 crores. The standard deviation of interest expended was Rs.2725.03 crores and the coefficient of variation was 58.21 per cent. It shows that there has been a greater variability in the interest expended. It is well backed by the compound annual growth rate of 23.05 per cent. The operating expenses have showed an average of Rs. crores during the period of study while the standard deviation was Rs. 467.51 crores and the coefficient of variation was 35.94 per cent. The CAGR of operating expenses was found to be 10.82 per cent. It reveals that the operating expenses have registered an inconsistent performance.

It is noted from the analysis that the net profit has recorded an increasing trend during the period from 2006-07 to 2012-13. However, the net profit started declining thereafter and ended with a net loss of Rs.935.32.

Table 2: DETERMINANTS OF NET PROFIT – REGRESSION ANALYSIS

	Coefficients	Standard Error	t	P-value
Intercept	1547.282	311.482	4.967	0.004 NS
Interest Earned (IE)	0.301	0.185	1.626	0.165 NS
Other Income (OI)	0.457	0.507	0.902	0.408 NS
Interest expended (IEX)	-0.099	0.253	-0.393	0.711 NS
Operating Expenses (OE)	-2.256	0.221	-10.190	0.000**

**Significant @ 1 per cent

NS – Not Significant

According to the Table 2, out of the four variables considered as the determinants of profit, the operating expenses had significant influence on the net profit earned by the bank. It had a negative impact of 2.245 times on the net profit of the bank while the other variables – interest earned, other income and interest expended had no significant influence on the net profit. However, interest earned had influenced the net profit positively by 30.1 per cent and other income had influenced positively by 45.7 per cent. The interest expended by the bank had negative impact on the net profit to the extent of 9.9 per cent. Thus it could be concluded that the operating expenses have been the crucial factor in determining the net profit of Dena Bank.

FINDINGS

It is found from the analysis that the interest earned by Dena Bank has been increasing during the period of study rapidly while the other income has increased gradually over the years of the study. However, the interest expended by the bank has increased at a higher rate than the interest earned by the bank. Even though the operating expenses have been found to be consistent during the period of study, they have also increased to a considerable extent.

Interest earned and other income had positive but insignificant relationship with the net profit while the interest expended had negative and insignificant relationship with the net profit. On the other hand, the operating expenses had showed a negative but significant influence on the net profit of the Bank.

SUGGESTIONS

On the basis of findings of the study, it has been suggested that the bank has to increase the interest earned by sanctioning more loans to the needy but creditworthy customers.

At the same time, the bank has to increase the other income such as commission, exchange, etc. by providing more value added services.

It is the necessity for the bank to control the interest expended, i.e., interest on deposits by way of restructuring the interest rates according to the norms of the Reserve Bank of India from time to time.

It is the immense responsibility of the bank to control the operating expenses with a view to increase the net profit earned. Since the operating expenses had negative and significant impact on the net profit of the bank, it is strongly recommended that the bank has to control the operating expenses.

CONCLUSION

Dena Bank is one of the major nationalized banks in India. It has been rendering services in India as well as in abroad. The profit earned by the banks has been monitored by various stakeholders for their purposes. In the circumstances where the private banks and foreign banks have been posing stiff competition, the profitability of Dena Bank id considered as important by the stakeholders. The present study has analyzed the profit of the bank and the determinants of the bank. The profit of the bank has been constantly decreasing since the year 2013-14 and has turned into net loss during the year 2015-16. It has been viewed seriously and it is found that the enormous increase in operating expenses has been the root cause of such negative trend in the net profit. The bank has the scope of controlling the operating expenses and increasing the other income in order to get more profits in the years to come.

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