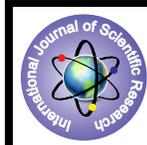


Profitability of Public Sector Banks From Shareholders' Point of View



Commerce

KEYWORDS :

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Shareholders are the actual owners of a firm. The profit or loss earned by the firm is distributed between them according to their share percentage in the firm. To know about the profitability condition of shareholders of a firm, return on shareholders' fund ratio has to be calculated. This ratio is one of the most important ratios used for measuring the overall efficiency of a firm. As the primary objective of business is to maximize its earnings, this ratio indicates the extent to which this primary objective of businesses being achieved. This ratio is of great importance to the present and prospective shareholders as well as the management of the company. As the ratio reveals how well the resources of the firm are being used, higher the ratio, better are the results. The inter-firm comparison of this ratio determines whether the investments in the firms are attractive or not as the investors would like to invest only where the return is higher.

Components : The two basic components of this ratio are net profit and shareholders' fund. Shareholders' fund includes equity share capital, preference share capital and all reserves and surplus belonging to shareholders. Net profit means net income after payment of interest and income tax because those will be the only profits available for shareholders.

Formula of return on shareholders' investment or net worth Ratio:

$$[\text{Return on share holder's investment} = \{ \text{Net profit (after interest and tax)} / \text{Share holder's fund} \} * 100]$$

In the present paper, an attempt has been made to analyze the return on shareholders' fund of selected public sector banks. Following five public sector banks have been taken under study:

1. State Bank of India Punjab National Bank
2. Bank of Baroda Union Bank of India
3. UCO Bank

The time period selected is from 2004-05 to 2010-11. The return on shareholders' fund of selected banks during this period has been given in Table 1.

Table 1
Return on Shareholders' Fund of Selected Public Sector Banks (From 2004-05 to 2010-11) (Ratio in Percentage)

Year	SBI	PNB	BOB	UBI	UCO
2004-05	18.19	17.59	12.53	17.41	15.34
2005-06	18.10	15.03	12.12	20.08	14.67
2006-07	15.47	15.83	13.39	23.00	16.07
2007-08	14.24	16.03	11.71	19.50	17.32
2008-09	17.82	19.00	12.99	16.20	18.91
2009-10	15.73	23.52	17.35	19.30	18.27
2010-11	16.80	24.06	20.24	21.05	20.69
Average (\bar{x})	16.62	18.72	14.33	19.51	17.32
Standard deviation (σ)	1.33	3.03	2.92	2.98	2.17
Coefficient of variation ($\frac{\sigma}{\bar{x}} \times 100$)	8.03	16.59	21.77	16.62	13.22

Source : Annual Reports and Accounts of selected Public Sector Banks for the period from the year 2004-05 to 2010-11.

SBI = State Bank of India UBI = Union Bank of India
 PNB = Punjab National Bank UCO = United Commercial Bank
 BOB = Bank of Baroda

The above Table shows that for State Bank of India (SBI), the Return on Shareholders' Fund had a fluctuating trend during the period under study. Initially in the year 2004-05, it was 18.19 percent that decreased to 18.10 percent in 2005-06, 5.47 percent in 2006-07 and further came down to 14.24 percent in 2007-08. Then it increased to 17.82 percent in 2008-09 but came down to 15.73 percent in 2009-10. Finally, it inclined and reached up to 16.80 percent in the year 2010-11.

For Punjab National Bank (PNB), the Return on Shareholders' Fund had an increasing trend during the period under study except in the year 2005-06, as shown in Table 1. In the year 2004-05, it was 17.59 percent in 2004-05 that came down to 15.03 percent in 2005-06. Then it increased continuously and reached to 24.06 percent in the final year 2010-11.

Table 1 shows that for Bank of Baroda (BOB), the Return on Shareholders' Fund had a fluctuating trend during the period under study. Initially in the year 2004-05, it was 12.53 percent which decreased to 12.12 percent in 2005-06 but rose to 13.39 percent in 2006-07. Then it came down to 11.71 percent in 2007-08 but inclined to 12.99 percent in 2008-09, 17.35 percent in 2009-10 and reached up to 20.24 percent in the final year 2010-11.

For Union Bank of India, the Return on Shareholders' Fund ratio had a fluctuating trend during the period under study. In the year 2004-05, it was 17.41 percent that increased to 20.08 percent in 2005-06 and reached to 23.00 percent in 2006-07. Then it decreased to 19.50 percent in 2007-08 and further came down to 16.20 percent in 2008-09. After that it increased to 19.30 percent in 2009-10 and reached up to 21.05 percent in the final year 2010-11.

Table 1 shows that for UCO Bank, the Return on Shareholders' Fund ratio had a fluctuating trend during the period under study. In the year 2004-05, it was 15.34 percent that after many fluctuations finally reached to 20.69 percent in the year 2010-11.

Conclusions

From this analysis, following conclusions can be drawn:

1. The average Return on Shareholders' Fund ratio was highest for UBI at 19.51 percent followed by 18.72 percent of PNB, 17.32 percent of UCO Bank, 16.62 percent of SBI and 14.33 percent of BOB.
2. According to above result, UBI management's performance was best among selected public sector banks and due to highest profitability, their shareholders' profit earning was highest.
3. The other banks namely PNB, UCO and SBI were also not far behind from UBI for this ratio but the performance of Bank of Baroda was lowest and indicate that its management should improve the performance and profitability taking necessary steps early.
4. Standard deviation and coefficient of variation showed that BOB had maximum fluctuations among selected banks during the period under study hence it is suggested that management of Bank of Baroda should manage to improve the Return on Shareholders' Fund with consistency.