Research Paper Commerce

# Profitability Performance of Saptagiri Grameena Bank

**Dr.A.Padmavathi** UGC Post Doctoral Fellow, Dept. of Commerce, S.V. University, Tirupati-517502

**Prof.B. Bhagavan Reddy** Principal and Dean, Faculty of Commerce and Management, S.V. University, Tirupati-517502

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**1. Introduction:**

The success of a bank depends only on the mobilisation of resources but also in utlising them efficiently and effectively. Any concern needs to earn some amount of profit for its sustainability. Saptagiri Grameena Bank (SGB) was formed with the merger of Sri Venkateswara and Kanakadurga Grameena Banks with effect from 01.07.2006. The operational area of SGB is spread over Chittoor and Krishna districts in Andhra Pradesh (AP). The bank is with 157 branches. Of which, 102 branches are in Chittoor district, 55 in Krishna district and one satellite office. An attempt is made in this article to analysethe financial profitability of SGB after merger during 8 years. The focus is made on percentage of operating profit; spread; burden; profitability performance; and margin on loans.

**2. Spread and burden:**

The trend of spread gives better idea to judge the profitability of intermediation of banks.Spread (S) is the difference between interest and discounts received (R) and interest paid on deposits and borrowings (K). In other words, the variation between what the banks pay for funds and what they get for funds is 'spread'. It plays a major role in determining the profitability of a bank. The spread has increased from Rs. 3,517.85 lakhs in 2007 to Rs. 13,587.43lakhs in 2014 except a decline in 2009 (see Table-1).

Burden (B) is the excess of manpower (M) and other expenses (O) over non – interest income or other receipts (C). In other words, the difference between non – interest expenses and non – interest income is defined as 'burden' for a bank. Non – interest expenses of bank comprise establishment expenses/ other operating expenses and provisions and contingencies. On the other hand, non- interest income of a bank consists of income from sources other than interest earned, i.e., commission, exchange and brokerage and other miscellaneous receipts. It is assumed that interest paid and interest earned is purely the price of funds hired and lent by bank. A bank incurs man – power and all other expenses to provide related and other services to different customers including depositors and borrowers. In other words, conceptually a borrower pays interest only as the price of funds put at his disposal. Lending involves many other activities. For example, processing of proposals, payment and collection of cheques, follow – up accounts – all involving cost to the bank. The difference between spread and burden determines the profit/loss of a bank. Hence, in order to enhance the profitability, each and every bank must endeavour to reduce its burden to the minimum extent possible by exercising effective control over it. However, it is quite difficult on the part of a bank to control the non – interest expenses. This is so because operations are essentially of a service nature and so a substantial element of non – interest expenses are for personnel, owning and maintenance of buildings, computer equipmentand soon. These costs are relatively fixed because it is necessary to maintain the capacity to handle some part of peak activity workloads.A close perusal of Table 1 shows that the burden was Rs. 1,839.59 lakhs in 2007vis – à – vis Rs. 3,897.11lakhs in 2014. In the meantime, there are fluctuations.

**Table-1: Spread and Burden in the SGB during 2007-14 (Rs. lakhs)**

| Year (1) | Interest income (2) | Interest paid (3) | Spread (2-3) (4) | Operating expenses (5) | Non- interest income (6) | Burden (5-6) **(7)** |
|---|---|---|---|---|---|---|
| 2007 | 7,538.15 | 4,020.30 | 3,517.85 | 2,198.12 | 358.53 | 1,839.59 |
| 2008 | 9,423.68 | 5,647.07 | 3,776.61 | 2,127.74 | 458.05 | 1,669.69 |
| 2009 | 12,008.29 | 8,269.32 | 3,738.97 | 2,298.24 | 569.22 | 1,729.02 |
| 2010 | 16,346.42 | 10,612.48 | 5,733.94 | 3,001.49 | 562.58 | 2,438.91 |
| 2011 | 20,744.88 | 13,011.24 | 7,733.64 | 4,595.12 | 990.09 | 3,605.03 |
| 2012 | 27,282.36 | 17,748.70 | 9,533.66 | 4,150.31 | 1,054.31 | 3,096.00 |
| 2013 | 34,350.00 | 22,824.57 | 11,525.43 | 4,652.80 | 1,457.35 | 3,195.45 |
| 2014 | 40,173.62 | 26,586.19 | 13,587.43 | 5,366.39 | 1,469.28 | 3,897.11 |

**Source:** Relevant issues of the SGB, Annual Reports, Chittoor.

**3. Profitability performance:**

Profitability is the difference between spread and burden. The ratio of spread to volume of business was 2.76 per cent in 2007 as compared to 2.34 per cent in 2014(see Table 2). This reflects that the interest paid ratio grew faster than interest earned ratio. The ratio of burden to volume of business has declined from 1.44 per cent in 2007 as against the lowest at 0.67 per cent in 2014. In the meantime, there are variations in it. This reflects that the operating-expenses ratio declined faster than other incomes ratio. The man – power expenses and other expenses ratios have declined on account of increase in the volume of business. The other incomes ratio also declined slowly.

**Table-2: Profitability Performance of the SGB during 2007-14 (%)**

| Year (1) | Spread ratio (2) | Burden ratio (3) | Profitability ratio (2-3) (4) |
|---|---|---|---|
| 2007 | 2.76 | 1.44 | 1.32 |
| 2008 | 2.34 | 1.03 | 1.31 |
| 2009 | 1.79 | 0.83 | 0.96 |
| 2010 | 2.18 | 0.93 | 1.25 |
| 2011 | 2.34 | 1.09 | 1.25 |
| 2012 | 2.34 | 0.76 | 1.58 |
| 2013 | 2.38 | 0.66 | 1.72 |
| 2014 | 2.34 | 0.67 | 1.67 |

**Source:** As in Table-1.

Hence burden ratio has receded. This was due to the fact that other incomes ratio had decreased marginally while man-power and other expenses ratios increased considerably. The profitability performance ratio was 1.32 per cent in 2007 as against 1.67 per cent in 2014. There are marked fluctuations in the intervening period. It was less than one per cent in one year while 1.25-1.72 per cent in the remaining period. During the entire period, there is a profitability performance since the spread ratio was higher than that of burden ratio.

**4. Financial ratios:**

It can be observed from the Table-3 that the financial return in 2007 was 8.97 percentas compared to 10.47 per cent in 2014. There are marked fluctuations in the intervening period.Similarly, the financial cost was 4.78 per cent and 6.93 per cent in the aforesaid period sequentially. The financial margin has declined from 4.19 per cent in 2007 to 3.54 per cent in 2014. This is due to the fact that the financial return has declined faster than financial cost. The operating margin and miscellaneous incomes have also declined. The operating profit was 1.99 per cent in 2007as against 1.25 per cent in 2014. The financial margin ratio was adequate in all the 8 years. In none

**Table-3: Financial Ratios of the SGB for the period 2007-14(%)**

| Year | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 |
|---|---|---|---|---|---|---|---|---|
| Financial return | 8.97 | 9.00 | 9.42 | 10.11 | 10.66 | 10.10 | 9.87 | 10.47 |
| Financial cost | 4.78 | 5.19 | 6.37 | 6.61 | 6.86 | 6.57 | 6.56 | 6.93 |
| Financial Margin | 4.19 | 3.81 | 3.05 | 3.50 | 3.80 | 3.53 | 3.31 | 3.54 |
| Operating margin | 2.61 | 1.81 | 1.80 | 1.85 | 2.14 | 2.38 | 2.39 | 2.52 |
| Misc. income | 0.43 | 0.40 | 0.43 | 0.44 | 0.46 | 0.39 | 0.42 | 0.38 |
| Operating profit | 1.99 | 2.40 | 1.68 | 2.03 | 1.92 | 1.41 | 1.38 | 1.25 |

**Source:** As in Table-1.

ofthe years, it was inadequate. There is a decline in all the ratios except financial return and financial cost in 2014 over 2007. The reasons are not far to seek. This shows that the SGB has earned profits.

**5. Margin on loans business:**

A new dimension to profit analysis and financial ratios is given by margin on loan business.A group of five related ratios are employed to examine the adequacy/ inadequacy of margin on loan business to meet the establishment charges. Gross income to outstanding loans ratio (G) is ascertained by dividing gross income by outstanding loans and expressed in percentage terms. The ratio of interest paid to outstanding loans (I) is computed by dividing interest paid by outstanding loans in percentage terms. The difference between G and I ratios is known as gross margin ratio (N). The ratio of establishment expenses to outstanding loans(E) is calculated by dividing establishment expenses by outstanding loans and shown in percentage

**Table-4: Margin onLoans Business in the SGB during 2007-14 (%)**

| Year | Gross income to outstanding loans ratio (G) | Interest paid to outstanding loans ratio (I) | Gross margin ratio (N) (G-I) | Establishment expenses to outstanding loans ratio (E) | Net margin ratio ($N_1$) ($N^1$-E) |
|---|---|---|---|---|---|
| 2007 | 12.04 | 6.13 | 5.91 | 2.39 | 3.52 |
| 2008 | 11.81 | 6.75 | 5.06 | 2.41 | 2.66 |
| 2009 | 11.29 | 7.42 | 3.87 | 1.94 | 1.93 |
| 2010 | 12.21 | 7.66 | 4.55 | 1.99 | 2.56 |
| 2011 | 12.39 | 7.41 | 4.97 | 2.54 | 2.43 |
| 2012 | 12.80 | 8.02 | 4.78 | 1.77 | 3.02 |
| 2013 | 13.23 | 8.43 | 4.80 | 1.59 | 3.21 |
| 2014 | 12.73 | 8.13 | 4.60 | 1.54 | 3.07 |

**Source:** As in Table-1.

terms. The excess of E over N is referred to as net - margin ratio ($N_1$). Thepercentage of gross incometo outstanding loans ratio has gradually increased from 12.04 per cent in 2007 to 12.73 per cent in 2014 (see Table 4). In the intermediate period, there are to and fro changes. The percentage of interest paid to outstanding advances has declined from 6.13 to 8.13 during the former and latter respectively. The year 2013 registered the highest at 8.43 per cent while the least at 6.13 per cent during 2007. The gross margin ratio showed a declining trend. It was 5.91 per cent during 2007 as compared to 4.60 per cent during 2014. The establishment expenses to outstanding loans ratio was 2.39 per cent in 2007 and exhibited a downward trend with relative ups and downs to register 1.54 per cent in 2014.There is a mixed trend throughout the period. The net margin ratio was 3.52 per cent in 2007 as against 3.07 per cent in 2014. In the meantime, there are to and fro changes. The year 2009 reported the lowest at 1.93 per cent while highest at 3.52 per cent in 2007. This is low in 2009 due to the fact than the N has declined while E rose. Whereas in 2007, the latter has decreased faster than the former.

**6. Conclusion:**

The decline in burden ratio was higher than the decline in spread ratio. Therefore, there was a growing trend in the profitability performancein the recent past as compared to that of middle of the period.The financial ratios indicated a fluctuating trend in the efficiency of the bank. The financial margin ratio was adequate in8 years. The $N_1$ was favourable in the initial period relative to recent one. There is an obvious need to raise $N_1$ in the years to come so as to strengthen the SGB. It can build strong reserves and surplus by increasing the existing small gap between income earned and expenditure incurred.

It can go a long way.

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