

Operational Performance of Nationalized banks

- A Case Study of Bank of Baroda

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Abstract

This paper makes an attempt to analyze the operational performance of nationalized banks in India. The Indian financial system consists of different types of financial institutions which are responsible for the development of the country's economy. Nationalized banks are the major financial institutions and are the most active sector of the Indian money market. Nationalized banks play an important role in the mobilization and allocation of resources in an economy. The performance of the nationalized banks in a larger perspective affects the growth of the economy. The present paper attempts to study the working and operational performance of the Nationalized banks with reference Bank of Baroda.

Keywords: Nationalized banks, Credit-Deposits, ROA, ROE, Profit Per Employee, Profit Per Branch etc.

[1] Introduction

The Indian financial system comprises a vast network of different banks. The banking sector is the core segment in deciding the progress of the entire economy of the country. Activities of a modern economy are significantly influenced by the functions and services of banks and became an indispensable part of socio-economic life of the people. The banking sectors become an important segment of Indian economy for money market dynamics. Financial sector controlled and managed by banking industry works as a source for generating money supply. The commercial banks play a dominant role in the economic development of the country. It is well known that the rapid growth in the various sectors of the economy can be brought through efficient, effective, disciplined banking system (RBI report (2010)). The banking sector in India has played a pivotal role in the Indian economy. Financial institutions in India can broadly be classified into banking and non-banking institutions. Banking institutions are of three types: Commercial Banks, Industrial or Investment Banks and Rural Banks. Most active sector of the Indian money market is the commercial banking sector. The commercial banking structure in India consists of Scheduled Commercial Banks and Non- Scheduled Commercial Banks. Scheduled Commercial Banks constitute those banks which have been included in the second schedule of the Reserve Bank of India

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(RBI) Act, 1934.

This study intended to analyze the working and operations of Nationalized banks. The indicators selected to study, credits and investments made by the schedule commercial banks, Credit-Deposits Ratios, Investment-Deposits Ratios, and the Share of Nationalized Banks in the Priority Sector Lending. This study covers the working performance of entire commercial banks which are operating in the country. The factors leading to the deterioration of profitability are highlighted.

[2] Review of literature

Hawast and John (1977) in their study concluded that profitability of banks is significantly determined by the cost control methods adopted by a particular bank. They concluded that the high profit earning banks recorded lower operating costs.

Shah (1979) in his study analyzed that bank profitability is linked with bank management, customer service and financial performance etc.

Srivastava (1981) analyzed an important reason of low profitability is because of low productivity, and low productivity could be the result of inefficient methods of operation, bad layouts, excessive product variety, not up to par working conditions, power breakdowns and poor maintenance of records.

Joshi (1986) in his study discussed the trends in profits and profitability of commercial banks since nationalization. The factors leading to the deterioration of profitability are highlighted.

Minakshi and Kaur (1990) in their study concluded that the bank rate and reserve requirements ratios have played a significant role in having a negative impact on the profitability of the banks in India.

Mishra (1993) in his study has analyzed various factors, which have a bearing on a bank's profitability.

Raut, Kishore and Das Santosh (1996) attempted to examine and measure the profitability trend of the Indian commercial banks.

Tarapore (1999) reviewed the policy of Reserve Bank of India and its possible effect on banking sector reforms.

Shanmugam and Das (2004) studied the performance of Indian scheduled commercial banks with different categories during the period 1992-1999. They also established that the state bank group and foreign banks are performing effectively than the other banks.

Sharad kumar and Sreeramulu (2007) have compared the Foreign and new sector banks with respect to their performance during the period 1997-2008.

Usum et,al (2008) have studied the efficiency of nationalized banks, SBI and Foreign banks. According to their index foreign banks were performing more efficiently than nationalized banks.

Uppal (2009) analyzed change in performance parameters and indicators of different categories of Indian commercial banks. They studied the factors influencing the banks relative share during 2003-2008. They concluded that period the public sector banks are having a significant share with respect to the total assets in all commercial banks.

Sangmi and Nair (2010) in their research study, analyzed through the CAMEL Parameters, which looks into Capital adequacy, Asset quality, Management capability, Earnings capacity and Liquidity found that both the Punjab National Bank and Jammu & Kashmir Bank have adopted prudent policies of financial management and both banks have shown significant performance as far as asset quality is concerned.

Dr, D. Maheshwara Reddy and K. V. N. Prasad (2011) written an article entitled "Evaluating performance of Regional Rural Banks-An Application of CAMEL Model", In this paper an attempt is made to discuss the financial performance of selected regional rural banks (Andhra Pragathi Grameena Bank and Saptagiri Grameena Bank) during post reorganization period. To measure the financial soundness of selected sample banks, the CAMEL Model which is an appropriate technique is adopted. Finally it was concluded that APGVB rated top on the basis of overall performance.

Dang-Thanh (2012) in his study applied a modified Data Envelopment Analysis to analyze the performance changes through time of the Vietnamese banking system in the 1990-2010 periods. Based on

the literature, it is evident that Banks in all the sectors increase their performance, in line with that, this study will try to evaluate those banks pertaining to their operating growth and performance.

Uppal, R. K., & Juneja, A. (2012) study and examine the trends on selected parameters and their impact on the performance of all the bank groups and compare the relative position of various banks, bank groups in Indian banking industry.

Pandia, T. D., & Vellingirib, P. (2014) Study identify the financial performance of PSBs with respect to CRAMEL and factors determining the profitability and present the findings and offer suitable to improve the profitability of the public sector banks.

Mahila Vasanthi, PSalini. K. T (2016) on the basis of the profitability of commercial banks with special reference to selected five banks in India and evaluates the productivity of selected commercial banks in India. They measure and compare the relative profitability of selected banks with respect to selected parameters during the study period 2010-2011 to 2014-15

K. Prasad, Dr. P. Amaraveni (2016) study the impact of reforms on performance of public sector banks has observed that the CAGR of the operating profit and net profit were low when compared to pre reforms.

[3] Objectives of the study

1. To present the profile of Bank of Baroda Bank.
2. To evaluate the operational performance of Bank of Baroda Bank.
3. To examine the Profitability of Bank of Baroda Bank.
4. To draw conclusion and offer suggestion in the light of the conclusions emerging out of the study.

[4] Scope of the study

Though the study aims to examine the operational performance of nationalized banks, the study is confined to evaluate the operational performance of Bank of Baroda.

[5] Research Methodology

The methodology to be adopted for collection of the data and analysis of data and interpretation of data is discussed below.

The study is based on secondary data. Secondary data was also collected from the annual reports of Bank of Baroda, RBI bulletin, various reports on Indian banks, publications of Indian Bank Association, Indian Institute of Bankers, National Institute of Bank Management, various journals on Banking etc. In addition to this, necessary literature and data collected from the published and unpublished sources and journals.

[6] Data Processing

The collected data has been analyzed with the help of computer packages namely MS Excel. Tools of averages, ratio analysis, percentages and compound annual growth rate along with various statistical techniques for the purpose of meaningful comparison and analysis of the performance of the bank to derive a concrete conclusion

[7] Method of Presentation

While presenting the data, tables and charts are used at relevant places. Abbreviations are used for the terms which are repeated a number of times.

[8] Period of the Study

The period of study is considered for 10 years from 2007-08 to 2016-17. The period of study is based on the availability of data from 10 years annual reports of Bank of Baroda.

[9] Bank of Baroda

Among Nationalized Banks in India, Bank of Baroda stands in the first position. The history of Bank of Baroda dates back to the year 1908. It was founded by a group of businessmen and in the year 1969, the bank was nationalized. At present, Bank of Baroda has more than 5,000 branches and over 8,000 ATMs across the country, which provides quality and prompt services to customers.

Apart from India, Bank of Baroda has more than 100 branches in over 20 countries across the globe. Some of the services offered by Bank of Baroda include Wealth Management, Credit Cards, Debit Cards and Loans. Bank of Baroda also offers internet banking service under the name of Baroda Connect.

Talking about performance in the financial year 2014-2015, Bank of Baroda generated a total income of more than Rs 47,000 Crore. Bank of Baroda also generated net profit of more than Rs 3,300 Crore. Market Capitalization is Rs 29,123 Crore as on 16th January 2016

**Table – 1: Growth rate of Net Profit
(2008 to 2017)**

Year	Number of Employees	Business Per Employee (Rs. Crores)	Average Business Per Employee (Rs. Crores)
2008	36774	5.48	4.64
2009	36838	8.63	7.57
2010	38960	9.89	8.94
2011	40046	12.29	11.26
2012	42175	14.66	13.15
2013	43108	16.89	15.71
2014	46001	18.65	17.48
2015	49378	18.89	18.48
2016	52021	16.80	18.90
2017	52420	17.49	19.91
SUM	437721	139.67	136.04
AVERAGE	43772.1	13.96	13.60
STDVE	5928.38	4.66	5.32
CAGR	4.01	13.76	17.56

Source: Collected from the annual reports of Bank of Baroda

Table – 1 Shows the number of employee, Business per employee and average business per employee. The business per employee during the study period increased except in 2016. The average business per employee is Rs. 13.96 crores and the deviation of the business is per employee is Rs. 4.66 crores and Compound Annual Growth Rate is 13.76 percent. The average business per employee during the study period increased. The grand average business per employee is Rs. 13.04 crores and the deviation of the business is per employee is Rs. 5.32 crores and Compound Annual Growth Rate is 17.56 percent.

**Table – 2: Gross Profit Per Employee & Net profit Per Employee
(2008 to 2017)**

Year	Gross Profit Per Employee (Rs. Lakhs)	Net profit Per Employee (Rs. Lakhs)
2008	6.34	2.70
2009	11.69	6.05
2010	12.67	7.85
2011	17.43	10.59
2012	20.35	11.87
2013	20.88	10.39
2014	20.20	9.87
2015	20.08	6.88
2016	16.95	6.10
2017	20.94	2.64
SUM	167.53	74.94
AVERAGE	16.75	7.49
STDVE	4.96	3.22
CAGR	14.19	-0.24

Source: Collected from the annual reports of Bank of Baroda

From the **Table – 2** It can be understood that the gross profit per employee during the study period has been fluctuating. The average gross profit per employee is Rs. 16.65 crores and the deviation of the business is per employee is Rs. 4.96 crores and Compound Annual Growth Rate is 4.96 percent. It can be understood that the net profit per employee during the study period has been fluctuating. The average net profit per employee is Rs. 7.49 crores and the deviation of the business is per employee is Rs. 3.22 crores and Compound Annual Growth Rate is -0.24 percent.

**Table – 3: Number of Branches, Business Per Branch and Profit Per Branch
(2008 to 2017)**

Year	No. of Branches	Business Per Branch (Rs. Crores)	Profit Per Branch (Rs. Crores)
2008	2772	75.23	0.34
2009	2974	112.86	0.75
2010	3148	132.24	0.97
2011	3418	156.27	1.24
2012	3959	169.8	1.26
2013	4336	184.98	1.03
2014	4934	195.76	0.92
2015	5250	199.17	0.65
2016	5390	177.70	0.51
2017	5481	179.76	0.25
SUM	41662	1583.77	7.92
AVERAGE	4166.2	158.37	0.79
STDVE	1055.35	40.01	0.35
CAGR	7.86	10.16	-3.36

Source: Collected from the annual reports of Bank of Baroda

From the Table – 3 It can be understood that the business per branch increased from Rs.75.23 crores to Rs. 199.17 crores during the study period. The average business per branch is Rs. 158.377 crores and the deviation of the business is per branch is Rs. 40.01 crores and Compound Annual Growth Rate is 10.16 percent. It can be understood that the profit per branch during the study period has been fluctuating. The

average profit per branch is Rs. 0.79 crores and the deviation of the business is per employee is Rs. 0.35 crores and Compound Annual Growth Rate is -3.36 percent.

**Table – 4: EPS and Book Value Per Share
(2008 to 2017)**

Year	EPS (Rs.)	Book Value Per Share (Rs.)
2008	28.18	231.59
2009	61.14	313.82
2010	83.96	378.44
2011	116.37	505.71
2012	127.84	637.37
2013	108.84	729.11
2014	107.38	813.50
2015	15.83	166.83
2016	15.10	132.74
2017	6.00	132.46
SUM	645.1	3827.47
AVERAGE	64.51	382.74
STDVE	50.50	277.97
CAGR	-29.47	-27.44

Source: Collected from the annual reports of Bank of Baroda

Table 4 Presents the (EPS) Earning Per Share and Book value per share of the bank. The EPS of the bank in 2008 was Rs.28.18 and showing highest EPS Rs.127.84 in 2012, showing lowest Rs.6.00 in 2017 and average EPS is the Rs.64.41, Standard deviation 50.50 with CAGR of -29.47 per cent.

The Book Value Per Share of the bank in 2008 was Rs.231.59 and showing highest Book Value Per Share Rs. 813.50 in 2014, showing lowest Rs132.46 in 2017 and average Book Value Per Share is the Rs. 382.74, Standard deviation 277.97 with CAGR of -27.44 per cent.

**Table – 5: Interest Income to Average Working Funds and Interest Expenses to Average Working Funds
(2008 to 2017)**

Year	Interest Income to Average Working Funds (%)	Interest Expenses to Average Working Funds (%)
2008	7.63	4.81
2009	7.78	5.14
2010	6.86	4.42
2011	6.97	4.16
2012	7.58	4.95
2013	7.34	2.91
2014	6.76	4.69
2015	6.62	4.59
2016	6.31	4.49
2017	6.27	4.26
SUM	65.13	44.42
AVERAGE	6.51	4.44
STDVE	1.45	6.17
CAGR	-11.31	-1.34

Source: Collected from the annual reports of Bank of Baroda

Table 5 shows the Interest Income to Average Working Funds and Interest Expenses to Average Working Funds of the banks. The Interest Income to Average Working Funds is decreased from 7.78 per cent 6.27

per cent during the study period, average Interest Income to Average Working Funds is 6.51 per cent, with Standard deviation of 1.45 and CAGR of -11.31 per cent. The Interest expenses to Average Working Funds is 4.81 per cent in 2008, highest 5.14 per cent in 2009, lowest 2.91 per cent in 2013. The average Interest expenses to Average Working Funds are 4.44 per cent, standard deviation 6.17 with CAGR of -1.34 per cent.

Table – 6: Net Interest Margin, Interest Spread to Average Working Funds & Gross Profit to Average Working Funds (2008 to 2017)

Year	NIM (Net Interest Margin)	Interest Spread to Average Working Funds (%)	Gross Profit to Average Working Funds (%)
2008	2.90	2.53	3.89
2009	2.91	2.64	2.22
2010	2.74	2.44	2.03
2011	3.12	2.80	2.32
2012	2.97	2.64	2.19
2013	2.66	2.36	1.88
2014	2.36	2.08	1.61
2015	2.31	2.03	1.53
2016	2.65	1.83	1.26
2017	2.19	2.01	1.63
SUM	24.11	23.36	23.94
AVERAGE	2.41	2.33	2.39
STDVE	0.83	32.84	1.74
CAGR	-25.73	-2.52	14.08

Source: Collected from the annual reports of Bank of Baroda

Table 5 shows the Net Interest Margin, Interest Spread to Average Working Funds & Gross Profit to Average Working Funds. The Net Interest Margin in 2008 is 2.90 per cent, reported highest 3.12 per Cent in 2011, lowest 2.19 per cent in 2017. The average Net Interest Margin is 2.41 per cent, standard deviation of 0.83 and CAGR with -25.73 per cent. Interest Spread to Average Working Funds is 2.80 highest in 2011 and lowest in 2016 i.e.,1.83 per cent, its average is 2.33 per cent with CAGR of -2.52 per cent.

Gross profit to Average Working Funds is 3.89 highest in 2011 and lowest in 2016 i.e.,1.26 per cent, its average is 2.39 per cent with CAGR of 14.08 per cent.

[10] Conclusion

It can be concluded that the business per employee of the nationalized bank is increasing with reasonable growth rate. It can also understand that the net profit per employee during the study period has been fluctuating. The business per branch increased. It can be understood that the profit per branch during the study period has been fluctuating. It can be concluded that the Interest Income to Average Working Funds is decreased because the Interest Income to Average Working Funds is decreased from. It found that the Net Interest Margin of the bank is decreasing during the study period.

It is also conclude that the Indian financial system consists of different types of financial institutions which are responsible for the development of the country's economy. Nationalized banks are the major financial institutions and are the most active sector of the Indian money market. Nationalized banks play an important role in the mobilization and allocation of resources in an economy. The performance of the Nationalized banks in a larger prospective affects the growth of the economy. The present paper attempts to study the working and operational performance of the Nationalized banks.

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