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REVIEW ARTICLE

Selected Public Sector Banks Performance in Stock Market–Risk Analysis

Dr. Chilumuri Srinivasa Rao

Associate Professor, Dept. of Commerce, Vikram Simhapuri University PG Centre, Kavali, Nellore District A.P.

*Corresponding Author E-mail: **drchrao_btc@rediffmail.com**

ABSTRACT:

Banks play an important role in the economic development of a nation. They have control over a large part of the supply of money in circulation. Banks are a fundamental component of the financial system, and are also active players in the financial markets. In this article an attempt is made to study the performance of the public sector banks in the stock market based on ratio analysis. For this study ten public sector banks are selected.

The share market is often considered as the main engine driving the economy. Equity market is the only liquid financial market in many emerging countries and hence its role in economic development cannot be overemphasized. The investment in stock involves many risks. The investors have to carry and an analysis before investing in any stocks. Most of the investors are unaware about the analysis to be carried out before investing. This study involves analysis of earnings per share, price to earnings ratio, book value and DPS, ROA, Current Ratio and Quick Ratio of the banks. The technical analysis helps the investor to know whether the stock is in over sold region or over bought region and to find any trend reversals. Based on these analyses investors can make decisions to buy or sell stocks.

KEYWORDS: Public Sector Banks, Stock Market, Market Value Ratios, Ratio Analysis.

INTRODUCTION:

Banks are a fundamental component of the financial system and active players in financial markets. The essential role of a bank is to connect those who have capital, with those who seek capital. Public sector banks play an important role in the economic development of India. Banks are the main stay of economic progress of a country, because the development greatly depends upon the extent of mobilization of resources and investment and on the operational efficiency of the various segments of the economy. Thus, in the modern economy, banks have become a part and parcel of all economic activities in India.

Financial sector reforms, rising foreign investment, favorable regulatory climate has led to India becoming one of the fastest growing banking markets in the world. The total assets of Indian banking sector was 34,579 billion in 2007, it increased to 95,733 billion (176 %) in 2013. The total deposits of Indian banking sector was 26,969 billion and it was 74,275 billion in 2013. The growth was 175% between 2007 and 2013.The total loans and advances issued by the Indian banking sector in 2007 was 19,812 billion and in 2013 it was 58,797 billion with a growth of 196% in 2013. The total profits of the Indian banking sector was 817 crores in 2012 and 912 crores in 2013. The total ATMs established by the Indian banking sector in 2012 was 95,686 and they increased to 1,14,014 ATMs in 2013.

Development of Public Sector Banks in India

Public sector in the banking industry emerged with the nationalization of Imperial Bank of India in 1921 and the creation of the State Bank of India in 1955. The State Bank of India is unique in several respects and it enjoys a position of preeminence as the agent of RBI wherever RBI has no branches. The public sector in the Indian banking was widened with two rounds of nationalization-first in July 1969 of 14 major private sector banks and thereafter in April 1980 with 6 more banks.

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The term public sector banks are used commonly in India. This refers to banks that have their shares listed in the stock exchanges NSE and BSE and also the Government of India holds majority stake in these banks. They can also be termed as government owned banks. The following public sector banks i.e., Andhra Bank, Syndicate Bank, Indian bank, State bank of India, Bank of Baroda, Dena Bank, Canara Bank, Central Bank of India and Indian Overseas Banks are selected for the study.

The high CAGR exhibited by India's Bankex demonstrates the industry's resilience to recession and economic instability. This resilience primarily stems from two factors. First, the highly regulated Indian banking sector restricts exposure to high risk assets and excessive leveraging. Second, the Indian economy's overall growth rate has been much higher than other economies worldwide.

The growth of Indian banks, especially in the public sector, can be optimised through increasing productivity and efficient human resource management. Sustained government support and a careful re-evaluation of existing business strategies can set the stage for Indian banks to become bigger and stronger, thereby setting the stage for expansions into a global consumer base.

The total assets of public sector banks in 2007 was 24,402 billion, they increased to 69,619 billion in 2013. Their share in Indian banking sector was 70.57% in 2007 and it was 72.72% in 2013. The growth of the total assets was 185% between 2007 and 2013.

The total deposits of public sector banks was 19,942 billion in 2007 and it increased to 52,469 billion (163%) in 2013.They play a key role and have major part in Indian banking sector. The share was 73.94% in 2007 and it was 70.62% in 2013.The loans and advances of public sector banks was 14.401 billion in 2007 and it increased to 40,540 billion (181.50%) in 2013.

The public sector banks loans share in the Indian banking sector was 72.69% in 2007 and it was 68.95% in 2013. The public sector banks have been operating 52,880 branches in 2008, the branches increased to 72,903. The growth between 2008 and 2013 was 37.86%. Among total branches in 2013, 24,126 are in rural, 19,554 are in semiurban, 15,080 branches are in urban and 13,903 were in metropolitan areas. Besides operating branches, they had 21,788 ATMs in 2008 and it increased to 69,652 ATMs in 2013. The growth was 219.68%.

The Indian Stock Market

Share market in India started functioning in 1875. The name of the first share trading association in India was Native Share and Stock Broker's Association, which later came to known as Bombay Stock Exchange (BSE). This association kicked off with 318 members. The Indian share market mainly consists of two stock exchanges namely Bombay Stock Exchange (BSE) and National Stock Exchange (NSE)

With over 25 million shareholders, India has the third largest investor base in the world after USA and Japan. The Indian capital market is significant in terms of the degree of development, volume of trading, transparency and its tremendous growth potential.

The capital mobilisation of Indian stock markets in 2007 was 33,508 crores for 124 industries. Among them 122 are private industries with 31,728 crores of capital and 2 are public sector industries with 1,779 crores of capital. The capital mobalisation in 2013 was 48,468 crores for 71 industries. Among them 62 are private industries with 19,874 crores and 9 are public sector industries with 28,594 crores. The total trading value of shares by the Indian stock market was 8,41,343 crores in 2007 and it was 9,69,086 crores in 2012.

OBJECTIVE AND METHODOLOGY:

The objective of the research paper is to assess the status of public sector banks in stock market with the help of Earning Per Share, Price to Earning Ratio, Book Value, Dividend Per Share, ROA, Current Ratio and Quick Ratio. For the purpose of analysis, this research paper is divided into two parts. The introduction, development of public sector banks and Indian stock market in India has been discussed in the first part. In the second part, the data analysis and interpretation was done. The period for the analysis of data has been taken from 2007 to 2013.

To accomplish the objectives of the study, secondary data was used. It has been collected from financial reports published by banks, journals and websites. Financial performance of the selected public sector banks were analyzed for the period of seven years with the help of Ratio analysis.

Data Analysis and Interpretation

The data analysis and interpretation of the performance of public sector banks was done with the help of the parameters like Earning Per Share, Price to Earning Ratio, Book Value per share, Dividend per share, Return on Asset, Current ratio and Quick ratio.

Earnings per Share (EPS)

Growth in earnings is often monitored with Earnings Per Share (EPS). The EPS expresses the earnings of a company on a per share basis. A high Earning Per Share in comparison to other competing firms is desirable. Earnings Per Share are generally considered to be the single most important variable in determining a share's price.

Comparative Analysis of Earnings Per Share do so with less investment that company would be more efficient at using its capital to generate income and, all other things being equal would be a better company. Investors also need to be aware of earnings manipulation that will affect the quality of the earnings number.

Table 1 shows the Earning Per Share of public sector banks during 2007-2013. Andhra Bank, Indian Bank, State Bank of India and Bank of Baroda show a continuous increasing trend except 2012.

The Dena Bank shows an upward trend and the Syndicate Bank, Bank of Maharashtra, Canara Bank, Central Bank of India and Indian Overseas Bank are fluctuating throughout the years taken under analysis i.e. 2007-2013. Among all the banks, the Bank of Baroda moved to a high extent which beyonds expectations from Rs. 28.18 to Rs.106.37.

Price to Earnings Ratio (P/E Ratio)

The P/E ratio of a stock is a measure of the price paid for a share relative to the annual income or profit earned by the firm per share. A higher P/E ratio means that investors are paying more for each unit of income.

By comparing price and earnings per share for a company, one can analyze the market's stock valuation of a company and its shares relative to the income the company is actually generating. Investors can use the P/E Ratio to compare the value of stocks.

Table 2 shows the Price to Earning Ratio of the public sector banks from 2007-2013. Among ten banks 9 banks show a fluctuating trend and Indian Overseas Bank showed the upward trend except 2009.

Regarding the highest P/E Ratio recording the State Bank of India stands from 2007-2011, the Central Bank of India stands from in 2012 and Indian Overseas Bank record highest P/E Ratio in 2013 among all the banks.

Book Value of the Banks

Book Value shows the historic cost of the assets as reduced by the depreciation. Stocks of companies holding large blocks of land and other hidden assets are evaluated on this basis. It does not make sense to look at book value for companies in high growth businesses. Book Value of the share expresses the total net assets of a business on a per share basis. This allows us to compare the book values of a business to the stock price and gauge differences in valuations.

Table 1: Earning Per Share of PS Banks 2007-2013 (in Rs.)

Year	Andhra Bank	Syndicate Bank	Indian Bank	SBI	Bank of Baroda	Dena Bank	Bank of Maharashtra	Canara Bank	Central Bank of India	Indian Overseas Bank
2007	11.09	13.72	16.93	86.29	28.18	7.03	5.30	32.76	15.36	18.51
2008	11.87	16.25	22.66	106.56	39.41	12.54	7.56	34.65	11.88	22.07
2009	13.46	17.49	28.10	106.56	61.14	14.74	8.71	50.55	12.45	24.34
2010	21.56	15.58	35.25	143.67	83.96	17.82	10.21	73.69	24.87	12.98
2011	22.64	18.28	38.95	144.37	108.33	18.35	6.24	90.88	28.15	17.33
2012	24.03	21.82	39.72	130.15	121.79	22.94	6.36	74.10	5.49	13.18
2013	23.04	33.30	35.94	174.46	106.37	23.15	10.73	64.83	8.28	6.14

Source: www.moneycontrol.com and Annual Reports

Table 2 : Price to Earnings of PS Banks 2007-2013 (in Rs.)

Year	Andhra Bank	Syndicate Bank	Indian Bank	SBI	Bank of Baroda	Dena Bank	Bank of Maharashtra	Canara Bank	Central Bank of India	Indian Overseas Bank
2007	6.9	4.7	--	11.5	7.6	5.0	6.2	5.6	--	5.6
2008	6.1	4.6	7.0	10.1	6.7	5.4	6.6	5.1	6.2	6.1
2009	3.3	2.7	2.8	6.2	3.6	2.9	2.4	3.3	2.4	1.9
2010	5.0	5.9	4.9	11.2	7.3	5.8	4.9	5.6	5.3	7.1
2011	5.8	6.1	5.9	16.4	8.5	4.9	7.7	6.4	5.4	7.3
2012	5.0	3.6	6.1	8.7	5.9	3.7	6.1	6.3	13.4	5.6
2013	4.1	3.0	4.8	7.8	5.8	3.9	4.0	5.7	5.4	9.2

Source: www.moneycontrol.com and Annual Reports

Table 3 : Book Value of PS Banks 2007-2013 (in Rs.)

Year	Andhra Bank	Syndicate Bank	Indian Bank	SBI	Bank of Baroda	Dena Bank	Bank of Maharashtra	Canara Bank	Central Bank of India	IOB
2007	65.08	61.02	74.95	594.69	237.46	43.24	39.85	171.19	77.25	71.08
2008	67.00	74.05	106.93	776.48	303.18	54.62	41.01	197.83	76.81	87.05
2009	75.20	88.03	127.52	776.48	353.55	67.95	47.97	244.87	86.26	96.16
2010	90.93	100.06	154.67	912.73	414.67	83.43	55.84	305.83	107.96	101.02
2011	116.02	116.12	184.44	1038.76	505.68	103.76	61.02	405.00	131.20	118.25
2012	133.66	133.50	214.94	1023.40	639.76	122.59	63.77	465.57	121.42	135.34
2013	150.85	158.91	242.89	1251.05	732.66	140.25	70.88	515.68	113.24	133.21

Source: www.moneycontrol.com and Annual Reports

Table 3 denotes that the Book Value growth of public sector banks shares during 2007 to 2013. The Book Value of Andhra Bank in 2007 was Rs. 65.08 and it increased to Rs. 150.85 in 2013. The growth was Rs.85.77 during the assessment period. The growth difference of Syndicate Bank was Rs.97.89, Indian Bank was Rs. 167.94, State Bank of India was Rs.656.36, Bank of Baroda was Rs. 495.20, Dena Bank was Rs. 97.01, Bank of Maharashtra was Rs. 31.03, Canara Bank was Rs. 344.49, Central Bank of India was Rs. 35.99 and Indian Overseas Bank was Rs. 62.13 between 2007 and 2013.

Dividend Per Share (DPS)

Dividend is a percentage of the face value of a share that a company returns to its shareholders from its annual profits. Compared to most other forms of investments, investing in equity shares offers the highest rate of return, if invested over a longer duration.

Table 4 shows the comparative analysis of the dividend per share of the selective public sector banks during 2007 to 2013. Andhra Bank and Syndicate Bank are moving in an upward trend except in 2012 and 2010 respectively during the assessment period. The Indian Bank, State Bank of India, Bank of Baroda, Dena Bank and Canara Banks are showing an upward trend during 2007-2013. The Central Bank of India and Indian Overseas Banks are showing a decline. The Bank of Maharashtra DPS growth during 2007-2013 was stable and the increase was small.

Return On Assets (ROA)

Return On Assets (ROA) is a financial ratio that shows the percentage of profit that a company earns in relation to its overall resources (total assets). Return On Assets is a key profitability ratio which measures the amount of profit made by a company per rupee of its assets. ROA gives an idea as to how efficiently managements use company assets to generate profits.

Table 5 reveals that the selected public sector banks' Return on Assets (ROA) during the assessment period 2007-2013. The ROA of all banks was low. The Andhra Bank, Indian Bank, Dena Bank, Bank of Maharashtra, Canara Bank, Central Bank of India and Indian Overseas Bank have a decreasing trend between 2007 and 2013. The Syndicate Bank, State Bank of India and Bank of Baroda have an increasing trend. Among all the banks and in all the years, the Indian Bank showed the highest ROA i.e, in 2007 it was 1.46 and in 2013 it was 1.04.

Table 4 : Dividend Per Share of PS Banks 2007-2013 (in Rs.)

Year	Andhra Bank	Syndicate Bank	Indian Bank	SBI	Bank of Baroda	Dena Bank	Bank of Maharashtra	Canara Bank	Central Bank of India	IOB
2007	3.80	2.80	3.00	14.00	6.00	0.80	2.00	6.60	3.00	3.00
2008	2.00	2.80	3.00	21.50	8.00	1.00	2.00	7.00	2.00	3.50
2009	4.50	3.00	5.00	21.50	9.00	1.20	1.50	8.00	2.00	4.50
2010	5.00	3.00	6.50	29.00	15.00	2.00	2.00	10.00	2.20	3.50
2011	5.50	3.70	7.50	30.00	16.50	2.20	2.00	11.00	2.50	5.00
2012	5.50	3.80	7.50	30.00	17.00	3.00	2.20	11.00	2.00	4.50
2013	5.00	6.70	6.60	35.00	21.50	4.70	2.30	13.00	2.50	2.00

Source: www.moneycontrol.com and Annual Reports

Table 5 : Return On Assets of PS Banks 2007-2013 (in %)

Year	Andhra Bank	Syndicate Bank	Indian Bank	SBI	Bank of Baroda	Dena Bank	Bank of Maharashtra	Canara Bank	Central Bank of India	IOB
2007	1.31	0.91	1.46	0.84	0.80	1.31	0.76	0.98	0.62	1.36
2008	1.16	0.88	1.64	1.01	0.89	1.16	0.75	0.92	0.54	1.30
2009	1.04	0.77	1.61	1.04	1.10	0.97	0.70	1.04	0.42	1.19
2010	1.32	0.60	1.68	1.08	1.21	0.96	0.68	1.25	0.64	0.56
2011	1.27	0.71	1.54	0.91	1.33	0.95	0.45	1.34	0.64	0.69
2012	1.15	0.77	1.33	0.73	1.24	1.02	0.51	0.92	0.24	0.53
2013	0.95	1.01	1.04	0.91	0.90	0.81	0.73	0.73	0.41	0.24

Source: www.moneycontrol.com and Annual Reports

Table 6 : Current Ratio of PS Banks 2007-2013 (in %)

Year	Andhra Bank	Syndicate Bank	Indian Bank	SBI	Bank of Baroda	Dena Bank	Bank of Maharashtra	Canara Bank	Central Bank of India	IOB
2007	0.03	0.02	0.02	0.05	0.04	0.02	0.03	0.02	0.04	0.02
2008	0.03	0.03	0.02	0.07	0.03	0.02	0.05	0.02	0.04	0.02
2009	0.28	0.26	0.31	0.35	0.27	0.29	0.35	0.31	0.33	0.31
2010	0.27	0.28	0.32	0.37	0.25	0.31	0.34	0.3	0.31	0.34
2011	0.26	0.26	0.33	0.37	0.23	0.29	0.34	0.29	0.3	0.33
2012	0.28	0.26	0.31	0.32	0.22	0.3	0.34	0.31	0.3	0.31
2013	0.3	0.25	0.29	0.3	0.26	0.35	0.33	0.34	0.32	0.3
Avg	0.21	0.19	0.23	0.26	0.19	0.23	0.25	0.23	0.23	0.23

Source: www.moneycontrol.com and Annual Reports

Table 7 : Quick Ratio of PS Banks 2007-2013 (in %)

Year	Andhra Bank	Syndicate Bank	Indian Bank	SBI	Bank of Baroda	Dena Bank	Bank of Maharashtra	Canara Bank	Central Bank of India	IOB
2007	14.55	10.69	10.25	6.52	11.29	11.53	8.4	10.19	10.81	8.07
2008	12.27	12.1	16.08	6.15	9.56	10.96	8.0	9.49	12.27	11.32
2009	5.64	4.67	1.14	9.63	6.64	3.35	4.32	7.49	0.61	10.48
2010	7.53	10.40	1.09	11.33	5.53	3.04	4.42	3.6	4.52	8.11
2011	8.29	7.03	1.99	12.81	7.30	2.63	4.60	4.86	7.19	13.33
2012	7.79	6.70	4.03	12.8	6.12	5.03	9.01	4.75	6.59	13.23
2013	8.98	6.91	2.02	12.17	5.61	8.66	13.65	5.70	8.1	11.54
Avg	9.29	8.36	5.23	10.20	7.44	6.46	7.49	6.58	7.16	10.87

Source: www.moneycontrol.com and Annual Reports

Current Ratio

The Current Ratio indicates a company's ability to meet short-term debt obligations. The current ratio measures whether or not a firm has enough resources to pay its debts over the next 12 months. If the current ratio is too low, the firm may have difficulty in meeting short run commitment as they measure. If the ratio is too high the firm may have an excessive investment in current assets or may be under utilizing short term credit. Some authors indicate consider 2:1 as the standard norm for current ratio.

Table 6 reveals that the Current Ratio of public sector banks from 2007 to 2013. The Current Ratio of public sector banks showed an increasing trend. The average current ratio of Andhra Bank was 0.21, Syndicate Bank 0.19, State Bank of India 0.26, Bank of Baroda 0.19, Bank of Maharashtra was 0.25 and Indian Bank, Dena Bank, Canara Bank, Central Bank of India and Indian Overseas Bank showed a current ratio of 0.23 during 2007 to 2013.

Quick Ratio

Quick Ratio measures our ability to meet current obligations based on the most liquid assets. Liquid assets include cash, marketable securities, and accounts receivable. The Quick Ratio is calculated by dividing the sum of our liquid assets by current liabilities, the standard norm is 1:1. The quick ratio is a measure of a company's ability to meet its short-term obligations using its most liquid assets.

Table 7 analyses the Quick Ratio of public sector banks during the assessment period. When compare from 2007-2013 Andhra Bank, Syndicate Bank, Indian Bank, Bank of Baroda, Dena Bank, Canara Bank and Central Bank of India show a decreasing trend.

The State Bank of India, Bank of Maharashtra and Indian Overseas Bank are showing increasing trend during 2007-2013. In between 2007 and 2013, the average Quick Ratio of Andhra Bank is 9.29, Syndicate Bank is 8.36, Indian Bank is 5.23, State Bank of India is 10.20, Bank of Baroda is 7.44, Dena Bank is 7.46, Bank of Maharashtra 7.49, Canara Bank is 6.58, Central Bank of India is 7.12 and Indian Overseas Bank is 10.87.

FINDINGS:

According to EPS among selected banks, the Indian Bank, SBI, Syndicate Bank, Bank of Baroda and Andhra Banks are good, it is suggested that the purchase of equity shares in the above said banks are recommended to investors.

According to P/E Ratio the State Bank of India, Indian Overseas Bank and Central Bank of India banks are found good and have recorded highest P/E Ratio.

Based on Book Value growth analysis it is suggested that the shares of the State Bank of India, Bank of Baroda, Canara Bank Indian Bank and Syndicate Banks shares can be purchased.

Dividend Per Share is most important to any investor. According DPS analysis the State Bank of India, Canara Bank, Bank of Baroda, Dena Bank, Indian Bank, Syndicate Bank and Andhra Bank are very good. It is recommended that investors purchase the shares of the above banks.

As per ROA, among all the banks the Indian Bank, Indian Overseas Bank, Canara Bank and Andhra Bank are good. Based on this it is recommended that investors invest in Indian Bank.

According to Current Ratio analysis in 2007 all the banks are showing low Current Ratio. But all the banks have increased their Current Ratio in 2013. It is suggested that the public sector banks should concentrate to increase current ratio to reach the minimum standard.

Based on Quick Ratio analysis, the State Bank of India, Bank of Maharashtra and Indian Overseas Bank should concentrate to decrease quick ratio. All the public sector banks showed a high quick ratio during the assessment period. It is suggested that, all the banks concentrate to reduce quick ratio to a minimum level.

CONCLUSION:

It is concluded that, if an investor's investment should be profitable, he should analyse public sector banks performance in share market with the key parameters like Earnings Per Share, Price to Earnings Ratio, Book Value, DPS, Current Ratio and Quick Ratio. By analyzing all the above, the investor will get a clear knowledge of the state of the script. So the investor's investment will not be a loss. Surely the investor will get profitable returns.

By analyzing the above banks in this research paper the results help the investor to know the position of public sector banks stock, whether it is in over sold region or over bought region and to find any trend reversals. Based on these analyses an investor can make buy or sell decision. It is concluded that in all aspects the State Bank of India, Indian Bank, Syndicate Bank and Andhra Bank were found good for investment or to purchase shares when compared to the others banks analysed.

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