

AN EMPIRICAL STUDY ON THE PERFORMANCE EVALUATION OF PUBLIC SECTOR BANKS IN INDIA

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ABSTRACT

Banks play an active role in the economic development of country. Their ability to make a positive contribution in igniting the process of growth depends on the effective banking system. Banking system is an important constituent of the overall economic system. It plays a major role in mobilizing the nation's savings and in channelizing them into high investment priorities and better utilization of available resources. Hence, banking can better be described as the kingpin of the chariot of economic progress.

Banking, if equated with money lending, is perhaps as old as the civilization itself. However modern banking is something really different from mere lending. It is far more sophisticated and complicated. In a developing economy, the role of banks is more formative and purposeful than in the developed one. In a developing country, where the banking habits of the people are not developed, the task of creating and spreading the banking habits and of mobilising the country's resources becomes a challenging one. It is here that banks play a crucial role because they act as a bridge between those who require finance and those who have finance. Banks mostly deal with money collected in the form of deposits along with their own funds in the form of share capital and resources constituting around 5% of the total resources of the banks. So banks have the obligation of meeting the demand of the customers promptly, paying maintain adequate liquidity and earn required profits from their activities. Banks thus are an important instrument in making more efficient use of available savings.

In India, banking is an important segment of the tertiary sector. It acts as the backbone of our economic progress and prosperity. It plays the all pervasive role of a catalyst in development. Indian banking has undergone major transformation during the past three decades and has been made more socially relevant and development oriented. Nationalization of fourteen major banks in 1969 and of another six banks in 1980 marked a significant step towards this transformation. Financial sector reforms following the Narasimham Committee Report further transformed our banking system.

Banking in the India is highly fragmented with 30 banking units contributing to almost 50 percent of deposits and 60 percent of advances. Public sector commercial banks (PSCB's) comprise of State Bank of India, its seven subsidiaries and nineteen other nationalized banks. These PSCB's in India continue to be the major lenders in the economy due of their sheer size and penetrative networks which assure them high deposit mobilization and control of 80 percent of banking business in India. This study concentrates on the profitability analysis of Public Sector Banks in India.

KEYWORDS:

INTRODUCTION

Finance is regarded as the life blood of a business. It is one of the foundations of all kinds of economic activities. The Organization is deemed to be financially sound if it is in a position to carry on its business smoothly. Normally; the main objective of any business is to earn profit. Profit determines the financial position, liquidity and solvency of the company. It serves as a yardstick for judging the competence and efficiency of the management. Profit planning is, therefore, a fundamental part of the overall management functions and is an important part of the total budgeting process.

In recent years, there have been considerable pressures on the profitability of banks. Profitability is considered to be an index of financial health. The term profitability refers to an indication of the efficiency with which the operation of the business is carried on. Poor operational performance may indicate poor selling of bank products and hence poor profits. A lower profitability may rise due to lack of control over the expenses.

Banks are urged to generate sufficient revenue to meet the rising cost of funds. Profitability is a key result area where performance and results directly and virtually affect the survival. Therefore, this study analyze the profitability performance of public sector commercial banks (PSCBs) in India.

REVIEW OF LITERATURE:

Jain vibha (2007) examined the status of NPAs in commercial banks. The study found that the problem of gross and net NPA's is more acute in Public Sector Banks. The new Private sector banks and foreign banks have also registered an increase in the amount of gross and net NPA's during the period 1997-2003. It concluded that new private sector banks and foreign banks failed to prevent the fresh generation of NPAs in the period whereas, PSB's and old private sector banks were able to reduce it.

* Rajaraman, India and G.Vasistha (2002) analysed the problem of Non-performing Loans of Public Sector Bank in the Indian Context. The study found an evidence of significant bi-variate relationship between an operating inefficiency indicator and the problem loans of public sector banks.

* K. Kothai (2003) conducted a study on "Non performing Assets of Scheduled commercial Banks in India: An Analysis". The research observed a decreasing trend in the NPA's of SCB's over the period of study. It revealed that the level of NPA's has declined mainly due to write off of bad debts and expansion of the total advances over the period of study

* Singla (2008) studied the financial performance of banks in India in view of increasing globalization and increased competition in the banking industry. He concluded that the financial position of banks is reasonable, debt equity ratio is maintained at an adequate level and NPA's also witnessed a decline during the study period.

OBJECTIVES OF THE STUDY

The following are the objectives of the study:

1. To study the income and expenditure pattern of PSCBs in India.
2. To analyze the profitability performance of PSCBs in India.
3. To analyze the Non- Performing Assets of PSCBs in India.
4. To offer suitable suggestions based on the finding of the study.

METHODOLOGY OF THE STUDY

The study is based on secondary data. The data required for the study has been collected from RBI annual reports, journals, reports on trend and progress of banking in India, publications, books and websites.

PERIOD OF TH STUDY

This study covers a period of ten years from 2000 - 01 to 2009 - 10

PLAN OF ANALYSIS

The researcher has used the following tools for analyzing the profitability performance of public sector commercial banks in India.

1. Growth Rate
2. Compound Growth Rate.
3. Co-efficient of correlation.
4. Ratio analysis
5. Median Test

HYPOTHESIS OF THE STUDY

In this study, the following hypothesis were framed.

1. There is no significant difference between the growth rate of total income of PSCBs in India and that of SCBs in India.
2. There is no significant difference between the growth rate of total expenditure of PSCBs in India and that of SCBs in India.
3. There is no significant difference between the growth rate of net profit of PSCBs in India and that of SCBs in India.

INCOME OF PSCBs in INDIA:

The income and expenses of PSCBs has been studied by the analysis of composition and growth of income and expenses. The interest income was around 83 percent except in the year

2004 in all the years of study. It is also inferred that the PSCBs in India were concentrating on interest income rather than on other incomes.

**Table 1 : Composition of the Total Income of PSCBs in India.
 (Rs. In Crores)**

Year	Interest income	Other Income	Total Income
2001	91,129. (88)	12,370 (12)	103,499
2002	1,00,710 (86)	16,541 (14)	1,17,252
2003	1,07,192 (83)	21,271 (17)	1,28,464
2004	109,547 (79)	28,040 (21)	1,37,587
2005	1,46,630 (83)	30,569 (17)	1,77,199
2006	1,72,275 (84)	32,498 9 (16)	2,04,773
2007	2,31,675 (84)	43,041 (16)	274,716
2008	3,09,570 (84)	59,315 (16)	3,68,885
2009	3,88,816 (84)	75,021 (16)	4,63,837
2010	4,15,179 (84)	79,267 (16)	4,94,446

Source : Annual Reports of Trend and Progress of Banking in India

The growth rate of total income of PSCBs has shown a fluctuating trend upto 2005 during the period under study. In 2001 the total income of PSCBs amounted to Rs. 103,499 crores which increased to Rs. 494,446 Crores in the year 2010. The compound growth rate of total income of PSCBs was 16.1 percent (Table 1)

TOTAL EXPENSES OF PSCBs IN INDIA:

The total expenses of PSCBs are grouped as interest paid, other operating expenses, and provisions and contingencies. The total expenditure of the bank steadily increased from Rs. 99,182 IN 2001 crores to Rs. 437337 crores in 2010, which nearly shows a threefold increase. Interest paid constitutes more than to 54% percent of the total expenses. The proportion of interest paid to the total expenditure of the PSCBs shows a fluctuating trend which varied between 54 percent to 64 percent under the period of study.

Table 2: Composition of Total Expenses of PSCBs in India.
(Rs. In Crores)

Year	Interest Paid	Operating Expenses	Provision and contingencies	Total
2001	6,1693 (62)	28, 004 (28)	9,485 (10)	99,182
2002	69,154 (64)	26,422 (24)	13,372 (12)	1,08,948
2003	69,853 (60)	28,897 (25)	17420 (15)	1,16,170
2004	65,765 (54)	32533 (27)	22,743 (19)	1,21,041
2005	85,038 (54)	45716 (29)	27,470 (17)	1,58,224
2006	1,01,770 (56)	53104 (29)	28,375 (15)	1,83,249
2007	1,42,420 (58)	66319 (27)	36,148 (15)	2,44,887
2008	2,08,001 (64)	77,283 (24)	39,806 (12)	3,25,090
2009	2,63,221 (64)	89268 (22)	58578 (14)	4,11,067
2010	2,72,083 (62)	100,028 (23)	65226 (15)	437337

Source : Annual Reports of Trend and Progress of Banking in India

The proportion of operating expenses to the total expenditure varied between 22 percent and 29 percent. The proportion of provisions and contingencies in the total expenditure of the bank varied between 10 percent and 19 percent.

The growth rate of total expenditure of PSCBs in India varied between 9.85 percent and 6.39 percent. The compound growth rate of total expenses of PSCBs during the study period was 7.52 percent. (Table 2)

PROFITS OF PSCBs IN INDIA

The performance of the banks is decided on the basis of the profit earning capacity. Table 4, 5 and 6 exhibit the growth of operating profit and net profit of PSCBs in India during the study period respectively.

The growth rate of operating profit of PSCBs varied between 0.03 percent and 57.06 percent during the period under study. In 2001, the growth rate of operating profit of PSCBs amounted to Rs 13802 crores which increased to Rs. 100028 crores in the year 2010. The compound growth rate of operating profit of PSCBs for the period under study was 22.46 percent. The growth rate operating profit of PSCBs fluctuated during the period of study. The highest growth rate of 57.06 percent was registered in 2002 and the lowest growth rate of 0.03 percent was registered in the year 2007. The compound growth rate of net profit for the study period was 10.94 percent.

**Table 3: Growth of Operating Profit of PSCBs in India
 (in Crores)**

Year	Operating Profit	Growth rate
2001	13802	5.82
2002	21677	57.06
2003	29,715	37.08
2004	39,290	32.22
2005	46,446	18.21
2006	49,899	7.44
2007	50,034	.03
2008	50,307	.54
2009	6,6972	33.13
2010	1,00,028	49.35

**Source : Annual Reports of Trend and Progress of Banking in India
 NET PROFIT ON TOTAL ASSETS**

It is observed that the total assets of PSCBs in India increased from Rs. 10,29,972 crores in 2001 to Rs.52,93,817 crores in 2010. The other notable factor of the study is that the net profit to total assets ratio was less than 1 percent except in 2010, 2004, 2008 (1.12 percent) (Table 4)

**Table 4 : Net Profit / Loss as percentage of Total Assets of PSCBs in India
 (in crores)**

Year	Net Profit	Total Assts	% to Total Assets
2001	4,317	10,29972	.42
2002	8305	11,55398	.72
2003	12,295	12,85,236	.96
2004	16,546	14,71,077	1.12
2005	18,976	22,01,873	.86
2006	21,524	25,86,306	.83
2007	23,302	25,89,111	.90
2008	26,592	26,59,200	1.00
2009	34,394	35,45,773	.97
2010	57109	52,93,817	1.08

Source : Annual Reports of Trend and Progress of Banking in India

NET PROFITS OF PSCBs IN INDIA

Table 5: Growth of Net Profit of PSCBs in India (in crores)

Year	Net profit	Growth Rate
2001	4,317	-15.62
2002	8,304	92.38
2003	12,295	48.05
2004	16,546	35
2005	18,976	14.68
2006	21,524	13.43
2007	23,302	8.26
2008	26,592	14.12
2009	34,394	29.34
2010	57,109	66.04

Source : Annual Reports of Trend and Progress of Banking in India

It has been observed that N.P. of PSCBs shows fluctuating trends. It fluctuate between Rs. 4317crores to 57,109 crores. & growth rate of N.P. very between – 15.62% to 66.4%. the highest growth rate was 92.38 percent in 2002. (table 5)

INTEREST RATE SPREAD

The interest rate spread refers to the difference between the rates of income and expenditure. Spread can be defined as the gap between the interest earned and interest paid.

(Table 6) shows that the interest paid in all years was less than the interest earned. The amount of interest spread shows an increasing trend during the study period. It was Rs. 29,436 cores in 2001 which increased to Rs. 143096 crores in 2010. The growth rate of spread was in a fluctuating trend. Besides, there was no negative growth rate during the period under study.

**Table 6 : Interest Rate Spread Income of PSCBs
(in crores)**

Year	Interest Received	Interest Paid	Interest Spread
2001	91,129	61,693	29,436
2002	100,711	69,154	31,557
2003	107,193	69,853	37,340
2004	1,09,547	65,764	43,783
2005	146,631	85,038	61,593
2006	172,275	101,770	70,505
2007	231,675	142,420	89,255
2008	3,09,570	2,08,001	1,01,569
2009	3,88,816	2,63,221	1,25,595
2010	4,15,179	272,083	1,43,096

Source : Annual Reports of Trend and Progress of Banking in India

YIELD ON ADVANCES

Banks extends loans and advances to traders, businessmen, industrialists against the security of some assets or on the basis of the personal security of the borrowers. Therefore, banks have to follow a cautions policy and sound lending principles in the matter of lending. Banks in India have to consider the national interest along with their own interest while determining the lending policy. The yield on advances is calculated by

$$\text{Yield on Advance} = \frac{\text{Interest Received}}{\text{Total Advance}} \times 100$$

The total interest received by PSCBs in India increased in all the years of the study. The ratio of yield on advances of PSCBs in India shows a fluctuating trend ranging from 12.56 percent to 21.95 percent during the period under study. The highest yield on advances ratio of PSCBs in India was 21.95 percent 2001 (Table 7)

**Table 7: Computation of Yield on Advance
 (Rs. In Crores)**

Year	Interest Received	Advances	Yield
2001	91,129	4,15,207	21.95
2002	1,00,711	4,80,681	20.95
2003	1,7,193	5,49,351	19.51
2004	1,09,547	6,31,383	17.35
2005	1,46,631	8,48,912	17.27
2006	1,72,275	11,,128	15.57
2007	2,31,675	14,40,146	16.09
2008	3,09,570	17,97,504	17.22
2009	3,88,816	22,60,156	17.20
2010	4,15,179	33,05,632	12.56

Source: Annual Reports of Trend and Progress of Banking in India

CREDIT DEPOSIT RATIO:

The credit deposit ratio is the ratio of credit to deposits. Credit refers to loans which have been advanced by the bank to members. Deposit refers to money entrusted with the bank for safe keeping and investment purpose.

**Table 8: Credit Deposit Ratio of PSCBs in India
 (Rs. In Crores)**

Year	Credit (Advance)	Deposits	Credit Deposit Ratio
2001	4,15,207	859462	48.10
2002	4,80,681	9,68,624	49.63
2003	5,49,351	10,79,394	50.89
2004	6,31,383	12,29,463	51.35
2005	8,48,912	14,36,540	59.09
2006	11,06,128	16,22,481	68.18
2007	14,40,146	20,46,534	70.37
2008	17,97,504	24,32,346	73.9
2009	22,60,156	29,50,595	76.6
2010	33,05,632	43,72,985	75.6

Source : Annual Reports of Trend and Progress of Banking in India

It could be seen from the Table 8 that the loans and advances of PSCBs steadily increased from Rs. 415207 crores in 2001 to Rs. 3305632 crores in 2010. The credit deposit ratio of PSCBs ranged from 48.10 percent to 75.6 percent during the period under study. The higher credit deposit ratio of 76.16 percent was in the year 2009 and the lowest ratio of 48.10 percent was in 2001.

COST OF DEPOSIT

Deposit refer to money entrusted by the customers with the banks. It is the savings of the customers. Moreover, the bankers collect the amount from customers and utilize the fund for providing advances. The term- cost of deposit is the minimum amount to be paid in the form of interest against deposits.

The ratio of interest paid to total deposits of PSCBs in India is inferred from the Table 9. The cost of deposit of this bank was in a fluctuating trend. It is inferred that the cost of deposit varied from 7.18 percent to 6.22 percent during the study period. The highest lost of deposit was 8.92% in 2009 and lowest was 5.35% in the year 2004.

**Table 9: The Cost of Deposits of PSCBs in India
 (Rs. In Crores)**

Year	Interest Paid	Total Deposits	Cost of Deposits
2001	61,693	8,59,462	7.18
2002	69,154	9,68,624	7.14
2003	69,853	10,79,394	6.47
2004	65,765	12,29,463	5.35
2005	85,038	14,36,541	5.92
2006	10,17,70	16,22,481	6.27

2007	1,42,420	20,46,543	6.96
2008	2,08,001	24,32,346	8.55
2009	2,63,221	29,50,595	8.92
2010	2,72,083	43,72,985	6.22

Source : Annual Reports of Trend and Progress of Banking in India

NON – PERFORMING ASSETS

Non – performing assets (NPAs) refer to the credit facility in respect of which the interest or installment of principle has remained overdue for a period exceeding 180 days. Thus, an asset becomes non-performing, when it ceases to generate income for the bank. The guiding principle is that the income of NPAs should not be recognized on accrual basis and should be treated as income only when actually received. Moreover, the banks have been instructed that the interest on NPAs should not be taken as the income.

Table 10 explicates that the NPAs of PSCBs increased from Rs. 26,187 crores in 2001 to Rs. 28187 crores in 2010 and with the lowest of Rs. 14561 Rs. Crores in 2006. The NPA ratio of PSCBs in India ranged from 7.42 percent to 0.85 percent during the period under study. It is inferred that the NPA was less than 7.5 percent of the advance. It also shows down ward trend under study period. It shows that the PSCBs had taken right steps to recover the loans properly.

**Table 10: Non – performing Assets of PSCBs in India
(Rs. In Crores)**

Year	NPA	Total Advances	Present of NPA (%)
2000	26,187	3,52,714	7.42
2001	27,977	4,15,207	6.74
2002	27,958	4,80,681	5.82
2003	24,877	5,49,351	4.53
2004	19,335	6,31,383	3.06
2005	16,904	8,48,912	1.99
2006	14,561	11,06,128	1.32
2007	15,145	14,40,146	1.05
2008	17,836	17,97,504	.99
2009	21,033	22,60,156	.93
2010	28,187	33,05,632	.85

Source : Annual Reports of Trend and Progress of Banking in India

QUANTITATIVE VARIABLES AND PROFITABILITY OF THE PSCBs IN INDIA

In the present study, an attempt has been made to analysis the extent of influence of the interest income and other income on the profitability of PSCBs in India by using the technique of co-efficient of correlation.

Correlation

Correlation is the relationship between the two variables. The economic quantitative variables presented in Table 4 are compared to the profitability of the PSCBs in India over the years under study. The formula for the technique of correlation co-efficient is

$$r = \frac{\sum dx dy - \frac{(\sum dx)(\sum dy)}{n}}{\sqrt{\sum dx^2 - \frac{(\sum dx)^2}{n}} \times \sqrt{\sum dy^2 - \frac{(\sum dy)^2}{n}}}$$

Correlation technique is used by the researcher in this study to ascertain the relationship between the following

1. Interest earned and profits. (from Table 5 & 6)
2. Other income and profits. (from Table 1 & 5)

The following table shows the correlation of quantitative variables and profitability of public sector banks in India.

S.No.	Quantitative Variables	Correlation
1	Interest earned and profitability	.928
2.	Other income and profitability	.989

There is a high degree of positive correlation between interest earned and profitability and other incomes and the profitability. Comparing other income with interest earned, it has more influence on profitability of the PSCBs in India during the period of study.

COMPARISON OF PROFITABILITY OF PSCBs IN INDIA WITH SCBs IN INDIA.

The researcher analyzed and compared the profitability of PSCBs operating in India. For the purpose of this analysis, the net profit/loss as percentages of total assets of PSCBs in India is used.

The study covers a period of ten years from March 2001 to March 2010. In this analysis, the term profitability refers to net profit/loss as a percentage to total assets. To analyze the profitability of PSCBs in India during the period under study , Median Test has been used.

MEDIAN TEST

Median Test is a non – parametric test requiring less restrictive assumptions concerning the level of data measurement and does not require the assumptions of normality and equal variance. For the purpose of comparison of profitability of PSCBs in India, the following null hypothesis is framed.

H₀: There is no significant difference between the profitability of PSCBs in India.

The net profit / loss as percentage of total assets is given in below:

Table 11 : Net Profit / Loss as percentage of Total Assets of PSCBs and SCBs in India

Year	Net Profit / Loss as percentage of Total Assets	
	PSCBs Ratio	SCBs Ratio
2001	0.42	0.49
2002	0.72	0.75
2003	0.96	1.01
2004	1.12	1.13
2005	0.81	0.89
2006	0.77	0.88
2007	0.9	0.94
2008	1.0	1.01
2009	.97	.98
2010	1.08	1.1

Source : Annual Reports of Trend and Progress of Banking in India

HYPOTHESIS TESTING PROCEDURE

A test criterion is used which is sufficiently accurate for n as small as 25 and no individual sample is of the size less than 5. The first step in the Median Test procedure is to arrange the combined data in ascending order to calculate the median value for the combined data available: .42, .49, .72, .77, .81, .88, .89, .90, .94, .96, .97, .98, 1, 1.01, 1.01, 1.08, 1.1, 1.12, 1.13

$$\begin{aligned}
 \text{Median} &= (n+1)/2 = 20 + 1 = 21\text{th term} = 10.5^{\text{th}} \text{ term} \\
 &= 10^{\text{th}} \text{ term} + .5 (11^{\text{th}} - 10^{\text{th}}) \text{ term} \\
 \text{Median} &= .94 + .5 (.96 - .94) \\
 &= .94 + .5 (.02) \\
 &= .94 + .010 = .95
 \end{aligned}$$

The next step is that each percentage in the combined data is classified according to two criteria: the number of percentage which is less than the median and the number of percentage more than the median. This test statistics is approximately chi-square. The observed frequencies, expected frequencies and chi- square value are calculated to test the above framed hypothesis.

$$\begin{aligned}
 \text{Expected frequency in each cell} &= (RT \times CT) / N \\
 \text{HERE } N &= \text{Total number of all the observations} \\
 RT &= \text{Row Total} \\
 CT &= \text{Column Total}
 \end{aligned}$$

The observed and expected frequencies are presented below:

Observed Frequencies and Expected Frequencies for PSCBs in India

PSCBs in India	Number of Percentage More than the Median		Number of Percentage Less than the Median	
	Observed	Expected	Observed	Expected
PSCBs Ratio	5	5	5	5
SCBs Ratio	5	5	5	5

The calculation of chi- square value to test the hypothesis that there is no significant difference between the profitability of PSCBs in India an SCBs in India is given below

Chi- square Test to Compare the Profitability of PSCBs in India

O	E	O - E	(O-E) ²	(O-E) ² / E
5	5	0	0	0
5	5	0	0	0
5	5	0	0	0
5	5	0	0	0
				$\chi^2 = \sum (O - E)^2 / E =$
				0

$$\chi^2 = \frac{\sum (O - E)^2}{E}$$

Result

The calculated value of chi-square (0) is less than the table value both at 5 percent (3.84) and 1 percent (6.63) level of significance. Hence, the null hypothesis framed for this study is accepted. Therefore, it is concluded that there is no significant difference in the profitability of PSCBs and SCBs operating in India during the period under study. From this hypothesis testing, it is clearly shown that the contribution of public sector commercial banks to the profitability of the SCBs in India is more.

FINDINGS OF THE STUDY

The finding of the study are summarized below:

- ❖ Interest income shows a fluctuating trend. The growth rate of interest income of PSCBs in India was varying between 88 percent and 84 percent. The compound growth rate of interest income of PSCBs was 85 percent.
- ❖ The growth of total income of PSCBs in India was varying between Rs. 1,03,499 crores to Rs. 4,94,446 crores. The compound growth rate of total income of PSCBs in India was 16.1 percent.
- ❖ The growth rate of total income expenditure of PSCBs in India was varying between 9.85 percent and 6.4 percent. The compound growth rate of total expenditure of PSCBs was 7.52 percent.

- ❖ The growth rate of net profit of PSCBs fluctuated during the period under study. The highest growth rate 59.48 percent was registered in 1998. The compound growth rate for the study period was
- ❖ The ratio of net profit to total assets varied between .42 percent and 1.08 percent during the study period.
- ❖ The difference between the interest received and the interest paid is spread. The interest spread showed an increasing trend in all the years of the study period.
- ❖ According to the Median Test, there is no significant difference between the profitability of PSCBs in India and SCBs in India.
- ❖ The growth rate of net profit of PSCBs fluctuated between – 15.62 to 66.04 percent during the period under study. The highest growth rate percent was registered at 92.38 percent in the year 2002.
- ❖ There is a high positive correlation between the profitability and interest earned: profitability and interest paid. Profitability and operating expense and profitability and other income of PSCBs in India.
- ❖ There is no significant difference between the growth rates, total income, total expenditure and net profit of PSCBs in India and SCB in India.

SUGGESTIONS

On the basis of the research findings, the following suggestions are offered to improve the profitability of the public sector commercial banks in India.

- Prompt measures should be taken to collect the over dues from the borrowers. This will help the banks to earn profit in future.
- For improving operational efficiency, new technology should be introduced. Computerization and automation will help in reducing unproductive and costly operations.
- The banks should take necessary steps to increase the non interest income, which only constitutes less than 20 percent of the total income, by way of collection of cheques and bills, giving guarantees, locker facilities, acting as agent providing merchant banking services and so on.
- The banks should conduct awareness programmes among the rural poor about the repayment of loans and saving habits.
- With regards to deposits, the current deposits carry zero rate of interest. Therefore, the banks have to concentrate on mobilizing current deposits.
- To maintain a steady growth rate of deposits, it is recommended that the banks should come forward to offer some subsidiary services like marketing assistance, technological assistance, insurance facilities, export facilities and so on.
- The banks should take efforts to reduce the operating expenses by means of improving the efficiency of the non viable branches by utilizing some expert services like professional management, private management and the like.

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