Indian Public Sector Banks In The Widening Horizon : A Study Vis-A-Vis Their Performance Indicators

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INTRODUCTION

In this era of global competition, 'performance' is the catchword for any subject to remain viable in the business arena, especially in banking. The Indian banking scene is made up of the Indian Public Sector Banks and Private Sector Banks which are further subdivided into the Old and New Generation Banks and the Foreign Banks. In addition, we find various investment institutions vying with the banks to capture their markets. India, which is on the threshold of becoming a super power, is found throwing open its economic frontiers in recent times. At the same time, it is found consolidating its economic scene to face the challenges that it is likely to confront due to its liberalization strategies.

Key Performance Indicators are used as benchmarks to evaluate the performance of any organization. These are financial and non-financial metrics that gauge the performance of business organizations and they differ depending on the nature and strategy of a business concern. The acronym SMART (Specific, Measurable, Achievable, Result oriented, Time based) is generally applied while selecting the performance indicators for evaluation. Such data needs to be consistent and correct and should be timely available.

Generally, the financial performance of any bank is evaluated by working out a number of ratios depending on the type of data needed at any given time. The ratios make the data comparable over the various players present in the industry. This study has made use of the five financial parameters, i.e., Capital to Risk-Weighted Assets Ratio (CRAR), Return On Assets (ROA), Net Interest Margine (NIM), Net Non-Performing Asset (NPA) and Profit Per Employee (PPE) as these are the generally accepted ratios to evaluate the performance of banks, in the order of their importance.

DEFINITION OF THE CONCEPTS

The indicators selected for the study can be categorized under two heads:

a) Soundness Indicators: The following two performance measures are chosen to evaluate the soundness of the banks. They are:

1. Capital to Risk Weighted Assets Ratio or Capital Adequacy Ratio (CRAR): Is the aggregate of the capital and reserves divided by the aggregate of the risk weighted assets. Risk weights are predetermined weights for each type of asset depending upon the degree of risk involved.

2. Non-Performing Assets (NPA): This denotes the asset quality of a bank and is taken as a ratio of net NPAs to net advances.

b) Efficiency Indicators: The following three indicators depend on the financial performance and efficiency of managing various assets of the bank. They are:

3. Return on Assets (ROA): is defined as the ratio of net profits to total assets and reflects the efficiency with which banks deploy their assets.

4. Net Interest Margin (NIM): Is defined as the difference between interest income and interest expenses.

5. Profit Per Employee (PPE): Is obtained by dividing the net profits by the no. of employees of the bank.

NEED FOR THE STUDY

With the opening of the Indian economy to global Banks, a question to ask would be: How strong and financially viable are the Indian Banks, especially the Public Sector Banks (PSBs), to stand to the ensuing competition? Indian economy has just woken up to a competitive scene after a stupor of almost fifty years when it leaned more towards socialism. Indian Banks, especially in the public sector, have been the backbone of the economy.

This study tries to evaluate the financial performance of the different groups of commercial banks with a view to know the strength of performance of the Indian Banks, especially those in the Public Sector, in order to answer the above question.

SAMPLE GROUP

In total, nine banks are selected for this study from the four groups of banks, i.e., three from among the PSBs, two

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each from the Old Generation Banks, New Generation Banks and Foreign Banks. Samples are selected on the basis of their consistent record of performance as the comparison among the best players would be reasonable and their results can be easily applied to judge the low performers.

Further, the groups by themselves are not highly comparable due to a number of confounding variables, especially the size of the bank (by branches), type of orientation that they have with regard to social responsibilities and profit motive, ownership of funds, etc. The samples selected are as follows:

• **Public Sector Banks**: **SBI (Code PS1)** has been chosen as it is the largest Bank in India, **Corporation Bank (Code PS2)** as a consistent performer and one of the best performers for the financial year 2006-07 among the PSBs and has also the smallest branch network among PSBs just before Punjab and Sind Bank. The third bank chosen for the study is the **Pubjab National Bank (Code PS3)** which has the highest branch network among the Nationalised Banks.

• **Old Generation Banks: Karnataka Bank Limited (Code OG1)** is a bank with reasonably large branch network among the old generation banks and is a stable and consistent performer over the years. **Federal Bank Limited (Code OG2)** has the highest branch network among the Old generation Banks.

New Generation Banks: ICICI bank (Code NG1) has the highest branches well spread over the rural-urban-metropolitan areas among the NGBs and **HDFC (Code NG2)** is next to it among the number of branches. Both are considered to be very good performers among the NGBs.

• **Foreign Banks:** Two banks, with a long association/presence in India and the highest branch network have been selected for the study. **They are Standard Chartered Bank (Code FO1) and Citibank N.A. (Code FO2)**. The Standard Chartered Bank has the highest number of branches in India and Citibank has its presence in highest number of places through its third highest number of branches and highest network of ATMs among the foreign banks. It is important to note that many of the foreign banks operate with a single branch in India or with only a representative office as a result of which their performance is not comparable to that of the Indian Banks and hence, they are not chosen for this study though the data speaks volumes about their exemplary performance. Table 1 gives a brief profile of the banks selected for the study:

Table 1: A Profile of Banks Selected For The Study

Bank Code	Year of Estt./ Presence in India*	Credit–Deposit ratio		Capital and Reserves (Crs)	Operational Network		No. of Employees 2006-07
		2006	2007		Branches	ATMs	
PS1	1806/1921/1955	68.9	77.5	31,299	9,556	4,407	1,85,388
PS2	1906	72.9	70.7	3,765	922	929	11,880
PS3	1895	62.4	69.1	10,435	4,156	1,009	57,316
OG1	1994	58.8	68.1	1,239	426	106	4,456
OG2	1994	65.6	69.0	1,502	548	391	6,029
NG1	1924	88.5	85.0	6,433	638	3,335	33,321
NG2	1931	62.8	68.7	24,663	713	1,605	21,477
FO1	1902*	84.6	88.1	5,801	87	191	7,321
FO2	1853*	87.6	86.8	6,603	39	452	5,194

Table constructed by the authors from various sources.

RESEARCH QUESTIONS

The principal intent of this study is to evaluate the financial performance of the commercial banks in India. This is done with a view to address the following questions:

1. Which among the four groups of banks has been the best performer for the past five years?
2. Can Indian Banks stand the onslaught of competition from foreign banks?
3. Which among the five parameters do the Indian PSBs need to address in order to counter the future competitive pressures?

METHODOLOGY

This study uses data from the available secondary sources on banks. The data is mainly derived from the 'Report on Trend and Progress of Banking in India 2006-07', Profile of Banks 2006-07 published by the RBI, the annual report of the RBI, and the data available on the banks from various sites including banks' own sites. In addition, a few hard and soft copies of news items, research and other general articles have been browsed to arrive at a

consensus. The parameters are analysed according to the type of the indicator. The study involves a trend analysis of the parameters over a period of five years.

DATAANALYSIS

• **Risk Indicators:** A bank is a financial intermediary and is in the business of collecting the surplus funds from individuals and groups in order to make it available to the needy individuals and groups. Unlike other business organizations, they need capital for two purposes: to run their business operations and to safeguard against the losses that may arise, as it involves the funds of the public who have no say whatsoever in their management. Therefore, it is imperative that a bank takes sufficient care to guard the amount entrusted to its care and it forms the bounden duty of a regulatory body to see that the public funds are protected to avoid economic repercussions. There are two important risk indicators used to evaluate the strength of a bank's risk bearing ability, i.e., CRAR and NPA. However, a point to be noted is that holding risk capital is to prevent bank failures and also to meet the capital requirements of the regulatory authority. Holding too much of it is likely to lower the returns.

• **Capital to Risk-Weighted Assets Ratio (CRAR):** The concept of CRAR has been developed so that the banks can absorb a reasonable level of losses. This is the reason why the regulatory authority, the Reserve Bank of India (RBI), specifies minimum CRAR in order to ensure the soundness of banks.CRAR can be taken as a measure of a bank's capital expressed as a percentage of bank's risk weighted credit exposure. It denotes the protection afforded to the depositor and the stability and efficiency of the bank.

There are two measures of CRAR, i.e, **tier I** capital, which is of a permanent nature. It is a readily available support to absorb unexpected losses. The capital items used for its computation are-**Sum of** net amount of the paid up equity capital, statutory reserves, capital reserves, other disclosed free reserves; **Less** equity investments in subsidiaries, intangible assets, current and accumulated losses, if any. Thus the tier I capital is the first line of defense for the depositor as it is intended to absorb losses without the bank being required to cease trading.

On the other hand, **tier II** is neither of a permanent nature nor is readily available as the items used for its computation are undisclosed reserves and cumulative perpetual preference shares (Cumulative preference shares should be fully paid and should not contain clauses which permit redemption from shareholders), Revaluation Reserves (45% of RR is only taken in the calculation of tier II capital), General Provisions and Loss Reserves (Actual GPLR or 1.25% of Risk Weighted Assets, whichever is lower, is taken), Hybrid Debt Capital Instruments (these combine characteristics of both equity and debt. As they are more or less similar to equity, they are included in the Tier II capital), Subordinated Debts (These must be fully paid up, unsecured, subordinated to the claims of other creditors, also there should be no such clause which permits redemption. The amount of subordinate debts to be taken as Tier II capital depends upon the maturity of debt. Subordinate Debt Instruments will be limited to 50% of Tier I capital). It is important to note here that the Tier II capital cannot be more than Tier I capital.

To calculate CRAR, in addition to the computation of the above two types of capitals, **Risk Weighted Assests (RWA)** are to be found. The assets of the banks are assigned certain weights depending upon the risk involved in carrying them. The high risk assets are weighted 100% whereas the very low risk assets may not invoke any weights. The risk weights, which are computed as per the guidelines of the RBI, generally depend upon the target of investment, guarantor/security involved and the term of repayment. Investment of funds in approved Govt. securities (0% RWA), and those backed by Govt. guarantee (2.5% RWA) are considered low risk and those that are granted without guarantee including those backed by defaulting governments are considered high risk (100% RWA). In between come the others with approved/backed securities and advances and the other risk assets which are given varying weights. (The risk weights to banks' exposure to commercial real estate and on credit risk on capital market were raised to 125% from 100% in July 2005 and to 150% in April 2006). Further, the short-term assets invoke low RWA (i.e., below 1 year of maturity are given zero weight) whereas the long-term ones (i.e., above 5 years are given 100% weights) are given high risk weights. The total RWA is calculated by adding: adjusted value of funded risk assets on Balance Sheet items and adjusted value of non-funded and off-Balance Sheet items. Finally, the CRAR is calculated by dividing the sum of tier I and tier II capital by the RWA.According to the present norm, CRAR of a bank (as defined above) should be at least 10%**.** Table 2 presents the profile of CRAR of the banks selected for the study over a period of 5 years.

Table 2: CRAR of Select Banks Showing The Best and The Least Performer Under The Parameter

(Amount in rupees Crore)

Year / Bk Code	2002-03	2003-04	2004-05	2005-06	2006-07	Group Average	Rank 2002-07
PS1	12.02	13.10	14.78	11.95	12.29	12.50	2

PS2	**18.50**	**20.12**	**16.23**	**13.92**	12.76	12.50	**1**
PS3	13.50	13.53	12.45	11.88	12.34	12.30	3
OG1	13.44	13.03	14.16	11.78	11.03	12.10	4
OG2	11.23	11.48	11.27	13.75	**13.43**	12.10	5
NG1	11.10	*10.36*	11.78	13.35	11.69	12.10	7
NG2	11.12	11.66	12.16	11.41	13.08	12.10	6
FO1	***10.56***	10.87	***10.46***	***9.93***	***10.44***	12.00	***9***
FO2	11.30	11.11	10.78	11.33	11.06	12.00	8
Least	***10.56***	***10.36***	***10.46***	***9.93***	***10.44***	12.00	***FO1 9***
Best	**18.50**	**20.12**	**16.23**	**13.92**	**13.43**	12.50	**PS2 1**

Table computed by the authors using data from 'A Profile of Banks 2006-07'.

It can be deduced from Table 2 that the CRAR of the PSBs for the past five years has been consistently higher than that of the other groups of banks and Corporation Bank, consistent best performer under this parameter, has seen a steep decline in the CRAR in the past five years. The banks seem to make a concerted effort at maintaining their CRAR just above the required minimum. Foreign banks have remained at the lowest rung. All the banks fulfill the basic minimum level prescribed by the RBI.

NON-PERFORMING ASSETS (NPAs)

Non-performing assets may be defined as an advance for which interest or repayment of principal or both remain outstanding. A loan asset was taken as an NPA if it remained outstanding for a period of more than two quarters prior to March 31, 2004. But since then, a 90 day delinquency norm has been brought into effect. The NPA level of a bank denotes the credit risk and the efficiency of its resource allocation.

From the definition of NPA, one can conclude that high levels of NPA would be very dangerous for a bank due to various reasons. Firstly, it endangers the investment of both the shareholders and depositors as consistently high NPA levels eventually lead to bank failures. It may even affect the good debtors. Secondly, the Spill Over Effect channelised through illiquidity and insolvency crisis caused by the unhealthy NPA levels - often leading to run on banks, may result in economic contraction due to contraction in money stock. This has been a signal cause for the fall of a number of banks world over and of many past banking storms.

Most of the Indian banks suffered from a very high level of default-lending up to the beginning of the present decade, a major concern for the regulator, the RBI. The blame for the same has been placed on a number of shoulders, especially the indiscriminate recommendations of the Indian politicians; the priority sector lending, weaker section lending, loan waivers and other social lending norms of the RBI; the carelessness, lethargy and avarice of the bank officials in the post nationalization period; inefficiency in the management circles, etc. Whatever may be cause, the efforts from all quarters has lead to a dramatic reduction in the NPA levels in the past 4 to 5 years and the statistics depict a healthy level of NPA in majority of the banks over all the groups. The steps that were taken in this regard include: One-time Settlement/compromise Scheme, Lok Adalats, setting up of Debt Recovery Tribunals, Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest Act 2002, availability of credit information on defaulters and role of CIBIL (Credit Information Bureaus), the setting up of the Asset Reconstruction Company (India) Limited (ARCIL).

In addition to the regulatory measures, a number of other factors gave boost to the drive of NPA reduction, i.e., around 9% economic growth registered in the past two years, rise in the aspirations of middle income individuals due to increased income levels; thereby an increase in housing and retail spending, the remarkable growth in interest income of Scheduled Commercial Banks in the wake of huge credit disbursements, reschedulement of NPA, etc. Even then, as the RBI had expressed concern over the unprecedented boost in housing loans recently, housing loans have put the banks in the red these days. As per the guidelines of the RBI issued in July 2005 and with the constitution of ACRIL, the banks are now permitted to sell their NPAs. Once these assets are sold by these banks to the asset reconstruction organizations, they cease to be the assets of the banks and revoke all rights or responsibilities whatsoever in their recovery in favour of the company.

For the purpose of classification of NPA, the prior RBI guidelines stated that the assets be divided into four types, i.e., Standard Assets (These are loans which do not have any problem and are least risky), Substandard Assets

(These are assets which come under the category of NPA for a period of less than 12 months), Doubtful Assets (These are NPA exceeding 12 months) Loss Assets (These NPA which are identified as unreliable by internal inspector of bank or auditors or by RBI). The provision against such asset classification ranges from 10% to 100% respectively depending upon the security component of the loan. In May 2008, the RBI issued fresh guidelines for grading the NPA on the basis of 'recovery risk' rather than the earlier basis of 'default' i.e., the focus is on how much of the loan can be recovered rather than its timely payment. This is done in support of the Asset Reconstruction Companies that purchase the debts from the banks. The recovery rating would take into account any other relevant obligations and not just the original debt obligation. These factors would include extent of debt acquired, composition of lenders, collaterals available, security and seniority of debt, individual lenders vis-à-vis institutional lenders, estimated cash flows, and uncertainty in realizing expected cash flows in initial period, management, business risk and financial risk among other things.

Unlike the opinions expressed by majority over the role of priority sector lending in the rising NPA, the recent appraisals point out that it is the non-priority sector lending that accounts for the bulk of the NPAs. The NPAs of the small scale and agriculture sector have in fact declined, with an increase in other priority sector NPAs to coincide with the proportionate rise in lending to other priority sectors to the total of priority sector advances.

Complete elimination of NPAs is not a possibility. The reasons for the same can be categorized into two major ones, i.e., the overhang component mainly caused by environment and business cycles, and the incremental component which may be due to internal bank management, credit policy, terms of credit etc.Table 3 depicts the NPA component of the banks selected for the study in the past five years.

Table 3: NPAs of Select Banks and The Best and Least Performer Under the Parameter

(Amount in rupees Crore)

Year / Bk Code	2002-03	2003-04	2004-05	2005-06	2006-07	Group Average	Rank 2002-07
PS1	4.50	3.48	***2.65***	***1.88***	***1.56***	1.10	**9**
PS2	1.65	1.80	1.12	.64	.47	1.00	4
PS3	3.86	.98	**.20**	**.29**	.76	1.00	5
OG1	***7.36***	***4.98***	2.29	1.18	1.22	1.00	8
OG2	4.95	2.89	2.21	.95	.44	1.00	7
NG1	5.21	2.21	1.65	.72	1.02	1.00	6
NG2	.37	**.16**	.24	.44	**.43**	1.00	**1**
FO1	**.31**	.52	1.12	1.57	1.43	.80	2
FO2	1.17	1.40	1.00	.95	1.02	.80	3
Least	***7.36***	***4.98***	***2.65***	***1.88***	***1.56***		***PS1 9***
Best	**.31**	**.16**	**.20**	**.29**	**.43**		**NG2 1**

Table constructed by authors using data from 'A Profile of Banks 2006-07'

It is seen from the Table 3 that the Indian Banks, other than Corporation Bank and HDFC, had to grapple with very high NPAs in the early years but have successfully managed to bring them down to reasonable levels. Corporation Bank again stands as the best and consistent performer among the PSBs and it is gradually found to reduce its NPAs to very low levels on par with Federal Bank and HDFC. HDFC Bank has been the best performer among all the banks selected all through the years. A cursive glance at the data on foreign banks prompts to opine that they have hardly done anything to reduce their NPA levels which are rising and are above the industry average of 1%. But a point to note here is that their NPA levels have never been unhealthy.

EFFICIENCY AND PROFITABILITY INDICATORS

Any business organization, whether a bank or otherwise, whether in the public or private sector, works with the main objective of earning profits. None can survive without a reasonable profit performance. A number of indicators are used to gauge the profitability of banks. This study takes into account three efficiency and profitability indicators for evaluation, i.e., ROA, NIM and PPE.

- **Return on Assets (ROA):** ROA is a very important indicator of profitability and measures the operational efficiency. It indicates how profitably the bank has utilized every rupee of the investment of its share holders and

its depositors. It also indicates how far above the rate of borrowing of funds is the earning derived from the investment and finds how profitably and judiciously the bank has utilized the total assets held by it, thus making it a stringent and extensive test of returns. Often ROA is equated to Return in Investment (ROI). It happens when the company has no debts. But this cannot be so for a bank as its main business is dealing in others funds.

An ROA figure mainly tells two stories: firstly, as discussed above, it tells how efficiently the management has invested the funds of its owners and depositors and how much it has earned for every rupee. Thus higher the ROA figure, the better is the investment story as the bank is earning more from a lower investment. Secondly, it also depicts how capital intensive a company is and how high the maintenance cost of the assets is. Thus, a company which is required to spend heavily on fixed assets, i.e., rail roads, power plants etc., earns a much lower return on assets since it invests large amounts in high cost assets and spends more on their maintenance. Thus ROA as an indicator can be only used to compare the results of organizations in competing industries whose capital needs are on par.

ROA can be calculated in two ways: Method I: ROA = Net Profit Margin X Asset Turnover, or Method II: ROA = Net Income/Average asset for the period. The Table 4 depicts the ROA of the selected banks calculated according to the second method.

Table 4: ROA of Select Banks With The Best and The Least Performer of The Parameter

(Amount in rupees crore)

Year / Bk Code	2002-03	2003-04	2004-05	2005-06	2006-07	Group avg	Rank 2002-07
PS1	***.86***	.94	.99	***.89***	***.84***	***.86***	***9***
PS2	1.88	1.96	1.12	1.24	1.17	.94	3
PS3	.98	1.08	1.17	1.09	1.03	.94	7
OG1	1.29	1.34	1.27	1.28	1.15	1.03	5
OG2	.86	***.90***	**.62**	1.28	1.38	1.03	8
NG1	1.13	1.31	1.48	1.30	1.09	1.03	6
NG2	1.52	1.45	1.47	1.38	1.33	1.03	4
FO1	**2.92**	1.74	1.97	2.49	**3.06**	2.27	2
FO2	2.88	**3.55**	**2.84**	**3.07**	2.79	2.27	**1**
Least	***.86***	***.90***	***.62***	***.89***	***.84***	***.86***	***PS1 9***
Best	**2.92**	**3.55**	**2.84**	**3.07**	**3.06**	**2.27**	**FO2 1**

Table computed by the authors using data from 'A Profile of Banks 2006-07'.

From the Table 4 it can be seen that both the foreign banks' ROA stands far more than double the industry average of 1.05 and stand well above their group average of 2.27. The PSBs stand at the lower end with even the two consistent good performers of the risk indicators among Indian banks, performing just above the industry average of 1.05.The SBI with its large network of branches seems to be trudging to attain even its group average of 0.86, a fact which is indicative of its very high investment in the large branch network and the highest number of ATMs which are not optimally used by its customers. The foreign banks branches, though small in number but very appealing and cozy and the ATMs comparatively super-high tech with a higher investment, seem to be far better deployed to receive a very high return.

NET INTEREST MARGINE (NIM)

Net interest margin/income (NIM/NII) is defined as the total interest earned *less* total interest paid. The net interest margin thus depends upon firstly, the Net interest spread, which is the average difference between borrowing and lending rates; and secondly, liquidity, the amount of funds which have to be kept in non-interest bearing accounts. Net interest margin (interest earned minus interest paid on borrowed funds) is expressed as a percentage of earning assets (any asset, such as a loan, that generates interest income). Thus NIM = (Interest earned - Interest paid) / Total assets.

Net interest margin is similar to *net interest spread; net interest spread* expresses the nominal average difference between borrowing and lending rates, without compensating for the fact that the amount of earning assets and borrowed funds may be different. It is generally higher than NIM as banks need to keep a certain amount of assets

in non-interest bearing assets (such as cash balances held at branches for customers or liquid reserves, as determined by banking regulators).

By looking at the actual behaviour of interest income and expense, as well as NIM, one can see whether sharp movements in market rates or atypical configurations of long and short-term interest rates have had large effects on banks' NII. Moreover, this evaluation implicitly takes note of the way that banks have chosen to adjust the pricing of their assets and liabilities, as well as the actual behaviour of bank customers with regard to prepayments and early withdrawals. Government regulation of loan or deposit pricing may, at times, limit the extent to which changes in market interest rates were passed through to the pricing of bank assets and liabilities. Thus one can conclude that NIM is a performance metric that examines how successful a firm's investment decisions are compared to its debt situations. A negative value denotes that the firm did not make an optimal decision, because interest expenses were greater than the amount of returns generated by investments.

Though marked importance is given to non-interest or fee based income of banks these days, it forms only a very small percentage of a bank's earnings. Therefore, despite diversification in earnings, NII remains the key determinant of profitability for most of the banks. The degree to which the bank can change the portfolio mix and/or hedge in the short term would determine the magnitude of the effect of interest-rate changes and other shocks on bank profitability. Without advantageous changes in interest rates or changes in the composition of assets and liabilities relative to earning assets, growth in earning assets will have little effect on NIM.

A rise in net interest margin at any given period of time would be due to a number of reasons, i.e., less competition between banks, lower liquidity ratio, increased use of credit cards and bank transfers, low percentage of loan defaulters, increased spread of interest rates between loans and deposits, a high risk premium on borrowings, etc. The recent report of the RBI on 'Trend and Progress of Banking in India 2006-07' states that the NIM of the banks in India have come under pressure due to increased competition and slow growth of banks.

Table 5: NIM of Select Banks With The Best and The Least Performer Under The Parameter

(Amount in rupees crore)

Year / Bk Code	2002-03	2003-04	2004-05	2005-06	2006-07	Rank 2002-07
PS1	2.65	2.74	3.03	3.16	2.83	6
PS2	3.02	3.31	3.33	3.03	2.61	5
PS3	3.62	3.54	3.17	3.21	3.40	3
OG1	1.67	2.02	2.53	2.45	2.59	8
OG2	2.78	2.79	2.99	2.91	2.92	7
NG1	***1.33***	***1.59***	***1.69***	***1.87***	***1.93***	***9***
NG2	2.70	3.16	3.46	3.46	**4.07**	4
FO1	**3.87**	4.23	3.72	4.06	4.06	2
FO2	3.76	**4.58**	**4.29**	**4.53**	4.05	**1**
Least	***1.33***	***1.59***	***1.69***	***1.87***	***1.93***	***NG1 9***
Best	**3.87**	**4.58**	**4.29**	**4.53**	**4.07**	**FO2 1**

Table computed by authors by using data from 'A Profile of Banks 2006-07'

Glimpse of Table 5 confirms that the foreign banks place great emphasis on their profitability indicators, where their ratios measure up to double that of some of the Indian Banks and are consistently higher than that of the Indian Banks. But HDFC bank is seen giving them a very strong competition here. It has steadily improved its performance to come out with a better position than that of the foreign banks this year. Strangely, ICICI bank manifests the right opposite and is the consistent lowest performer under this parameter. It is often heard of the competitive interest rates of ICICI bank, its aggressive lending and recovery policies which may well be used to explain the scenario.

PROFIT PER EMPLOYEE (PPE)

There are three types of measures used to evaluate the performance of a bank employee, i.e., Business Per Employee, Profit Per Employee and the number of accounts per employee. While the first two go hand in hand and complement each other, the third measure may or may not may act contradictorily sometimes, as it depends on the

credit-deposit ratio of the bank. The measure used to evaluate the employee performance for the purpose of this study is Profit Per Employee (PPE). PPE = Net Profits/No. of Employees.

Wage bill of the employees forms an important part of the overhead expenses of the banks. The Foreign and New Generation banks have invested heavily in technology to take care of their operations, have a well paid, small but highly efficient workforce and lower disbursements than that of the PSBs, which are often found to be over staffed. While the wage payments are higher in case of PSBs, the quality of the work is often marginal. The past few years have found many PSBs curtailing their workforce through Voluntary Retirement Schemes (VRS) which has resulted in a fractional rise in the PPE of some of the banks, whereas a number of foreign and new generation banks are found recruiting new staff without any sacrifice in their PPE and in some cases, with a fair increase.

Table 6: PPE of Select Banks With The Best and The Least Performer Under The Parameter

(Rupees in Lakhs)

Year / Bk Code	2002-03	2003-04	2004-05	2005-06	2006-07	Group Average	Rank 2002-07
PS1	1.47	***1.77***	2.08	***2.17***	***2.37***	***2.56***	9
PS2	4.06	4.98	3.95	4.13	4.79	2.87	5
PS3	***1.43***	1.88	2.42	2.48	2.68	2.87	8
OG1	2.55	3.10	3.35	4.05	3.97	4.69	6
OG2	1.69	2.14	***1.39***	3.54	4.43	4.69	7
NG1	11.00	12.00	11.00	10.00	9.00	4.69	3
NG2	10.09	9.39	8.80	7.39	6.13	4.69	4
FO1	**25.15**	13.40	11.50	14.50	**19.62**	**16.46**	2
FO2	24.26	**28.33**	**21.75**	**21.71**	17.33	**16.46**	1
Least	***1.43***	***1.77***	***1.39***	***2.17***	***2.37***	***2.56***	**PS1 *9***
Best	**25.15**	**28.33**	**21.75**	**21.71**	**19.62**	**16.46**	**FO2 1**

Table computed by authors by using data from 'A Profile of Banks 2006-07'.

"... In the years to come, the `human bias' is likely to get stronger and the quality of human resource would become the cutting edge of competitiveness..." **V. Pitre**

These words seem to be very true when one goes through Table 6. Among many other reasons that might have contributed to the buoyancy of profitability indicators of foreign banks, it may be noted that their well empowered and efficient workforce takes the fore. There is no doubt that the metropolitan set up is one of the causes for the high PPE of these banks. But even then, the structural imbalance caused by high expenses on the marginally empowered employee workforce of PSBs, around 10-20% of which is said to be redundant, is another cause for bogging down their profits. A point to be noted is that metropolitan cities offer the maximum competition to banks and only those banks with right orientation can show good margins.

SUMMARY AND CONCLUSIONS

The data from the above discussion is recapitulated in Table 7:

Table 7: Ranks Under Parameters With The Overall Best and The Least Performer

Parameter / Bank Code	I CRAR	II NPA	III ROA	IV NIM	V PPE
PS1	2	***9***	***9***	6	***9***
PS2	**1**	4	3	5	5
PS3	3	5	7	3	8
OG1	4	8	5	8	6
OG2	5	7	8	7	7
NG1	7	6	6	**9**	3
NG2	6	**1**	4	4	4

FO1	***9***	2	2	2	2
FO2	8	3	**1**	**1**	**1**

Table computed by the authors.

Table 7 can be referred to answer the three questions posed at the beginning of this study:

1. Which among the four groups of banks has been the best performer for the past five years?

The Indian PSBs are the best performers when it comes to CRAR and the foreign banks, when it comes to all the other indicators, especially the profitability indicators.

2. Can Indian Banks stand the onslaught of competition from foreign banks?

When it comes to competition, profitability is a very important factor. In case of Banks, ability to face risk is also an important factor as bank failure is an extremely devastating phenomenon. Customer orientation is likely to play a very important role in improving the profitability prospects of Indian banks. The Indian customer has almost overcome his 'loyalty' phase and is looking out for convenience and delight. The foreign banks and most of the New Generation banks have a lot to offer these customers in this regard. Indian PSBs need to overhaul their customer orientation in order to brave the competition. It is important to note that they are already losing their business to other banks.

3. Which among the five parameters do the Indian PSBs need to address in order to counter the future competitive pressures?

It can be seen from the data presented above that the profitability indicators in general and Profit Per Employee in particular need to be addressed on a war footing by the PSBs in order meet the competition.

A general evaluation of the risk and the profitability indicators presented above can be summarized as:

The data clearly points that the Indian PSBs were not very efficient even with regard to their risk indicators at the beginning but have managed to pull themselves out of the red and now stand well tuned to the regulatory provisions both with regard to CRAR and NPA. Some banks which held a very high CRAR are now in the process of reducing the margin as higher the risk provisions, lower will be the amount available for profitable investment though the stronger it will be to face market risks. The foreign banks have remained nonchalant in maintaining their risk indicators which have never been outrageous. The opinion expressed regarding the Indian PSBs being very safe for the depositors, holds good at present even without taking into consideration the Government backing enjoyed by them. When it comes to the Indian private sector banks, though their risk indicators are above the regulatory minimum, those standing at the lower rung should note that their depositors have no such Govt. backing as enjoyed by the PSBs.

CONCLUSION

The performance of all the Indian PSBs with regard to profitability indicators is very lean compared to the foreign banks due to a number of reasons, i.e., the technology, the products, management policies, investment avenues, management of portfolio, orientation towards profitability and social responsibility and the most important, the mediocre workforce. If these are narrowed down to three most important ones-inferior technology, the workforce and the customer oriented strategies can be fairly isolated. Corporation bank, which stands out among the PSBs, is the most technology savvy among them and is the first to migrate fully to Core Banking. This conclusion calls on the Indian PSBs to ponder over the question: *Will Customer Relationship Management help the Indian PSBs to confront the ensuing competitive pressures as it has the means to address technology, workforce and customer orientation issues single-handedly.*

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(Contd. from page 11)

significant difference between the Issue Price and the Mean Price of the stock for 15 days. The statistical rule says that the Test of Significance should be greater than or equal to the value of 2.58 to conclude that there is a significant difference. The above calculated figures enforce the fact that in all the cases, there is a significant difference because all the figures are greater than 2.58 and the issue is either over or under priced. The value for the test of significance is relatively higher in case of the companies which have a high level of over subscription by the QIBs as can be seen in the case of Koutons, Info Edge, Allied Computers and Educomp Solutions. This only goes to show that the companies in which the QIBs have confidence tend to outperform their own expectations which cause the issue price and mean price to differ significantly.

The last part of our analysis is about the Beta, which in this case signifies the movement of the stock vis-a -vis the entire market. A stock with a high Beta denotes that the stock has been included in the list of stocks being traded by the market participants in routine. This helps us to understand one fact that all the companies that have a high beta in our analysis (be it Cinemax or Koutons or Info Edge or Omaxe or Educomp Solutions) represent a stock that is popular among the players. If one looks at the figures of oversubscription, it is clearly indicated that the above stocks are mostly oversubscribed in large quantities by the Qualified Institutional Buyers and have relatively been the best performers if looked at from the perspective of long term investment. Thus, a stock with a Beta of approximately 1 or greater than 1 represents a safe investment option as indicated by the holding of the Qualified Institutional Buyers of the same.

All this analysis along with the analysis of the chart of each individual company has come to reveal one major fact and conclusion that the Subscription pattern is in fact one of the ways to judge the performance of the stock. The QIBs represent those set of people who do not gamble in the market but look at it as an investment opportunity which has the capability of being assessed and forecasted. However, it cannot be regarded as a rule, as there are always some exceptions to the rule in the real world. But it provides a parameter to the investors in securities market that will help them safeguard their investments and long term interests in the best possible manner.

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