A Study of Profitability Performance of Public Sector Banks in India

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INTRODUCTION

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

STATEMENT OF THE PROBLEM

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 analyses the profitability performance of public sector commercial banks in India.

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.

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3. To analyze the Non- Performing Assets of PSCBs in India.
4. To compare the growth of income, expenditure and profit of PSCBs with SCBs in India.
5. To offer suitable suggestions based on the findings 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 of India, government publications, books and web sites.

PERIOD OF THE STUDY

This study covers a period of ten years from 1996-1997 to 2005-2006.

PLAN OF ANALYSIS

The researcher has used the following tools for analyzing the profitability 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 and
6. Mann – Whitney 'U' Test (MWU – Test)

HYPOTHESES OF THE STUDY

In this study, the following hypotheses 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 AND EXPENSES

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 80 per cent 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
1997	53900.34(87.99)	7360.18(12.01)	61260.52
1998	59076.83(87.25)	8635.22(12.75)	67712.05
1999	69474.31(88.09)	9392.76(11.91)	78867.07
2000	79413.68(87.35)	11497.33(12.65)	90911.01
2001	91129.44(88.05)	12369.92(11.95)	103499.36
2002	100710.96(85.89)	16541.4(14.11)	117252.36
2003	107192.81(83.44)	21271.56(16.56)	128464.37
2004	109547.35(79.62)	28039.96(20.38)	137587.31
2005	146630.53(82.75)	30569.02(17.25)	177199.55
2006	172274.60(84.13)	32498.84(15.87)	204773.44

Source: Annual Reports of Trend and Progress of Banking in India
Note: The figures in the Bracket are per cent to total

The growth rate of total income of PSCBs has shown a fluctuating trend during the period under study. In 1997, the total income of PSCBs amounted to Rs. 61,260.52 crores which increased to Rs. 2,04,773.44 crores in the year 2006. The compound growth rate of total income of PSCBs was 13.95 per cent. (Table 1)

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. 58,108.35 crores in 1997 to Rs. 1, 83,249.57 crores in 2006, which nearly shows a threefold increase. Interest paid constitutes more than 50 per cent of the total expenses. The proportion of interest paid to the total expenditure of the PSCBs shows a fluctuating trend which varied between 62.54 per cent in 1997 and 55.54 per cent in 2006.

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

Year	Interest Paid	Operating Expenses	Provision and Contingencies	Total
1997	36338.62 (62.54)	16034.72 (27.59)	5735.01 (9.87)	58108.35
1998	40164.62 (64.08)	17273.88 (57.56)	5236.49 (8.36)	62674.99
1999	47839.75 (63.27)	20449.82 (27.05)	7319.41 (9.68)	75608.98
2000	55374.47 (64.54)	22494.25 (26.22)	7926.11 (9.24)	85794.83
2001	61693.19 (62.20)	28004.49 (28.24)	9484.74 (9.56)	99182.42
2002	69153.77 (63.47)	26422.05 (24.25)	13371.69 (12.28)	108947.51
2003	69852.59 (60.13)	28896.54 (24.87)	17419.78 (15)	116168.91
2004	65764.53 (54.33)	32532.68 (26.88)	22743.72 (18.79)	121040.93
2005	85037.71 (53.75)	45715.93 (28.89)	27470.11 (17.36)	158223.75
2006	101769.62 (55.54)	53104.47 (28.98)	28375.48 (15.48)	183249.57

Source: Annual Reports of Trend and Progress of Banking in India
Note: The figures in the Bracket are per cent to total

The proportion of operating expenses to the total expenditure varied between 27.59 per cent and 28.98 per cent. The proportion of provisions and contingencies in the total expenditure of the bank varied between 9.87 per cent and 15.48 per cent.

The growth rate of total expenditure of PSCBs in India varied between 4.19 per cent and 30.72 per cent. The compound growth rate of total expenses of PSCBs during the study period was 13.01 per cent. (Table 2)

PROFITS OF PSCBs IN INDIA

The performance of the banks is decided on the basis of the profit earning capacity. Table 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 7.44 per cent and 57.06 per cent during the period under study. In 1997, the growth rate of operating profit of PSCBs amounted to Rs 8,887.18 crores which increased to Rs. 49,899.35 crores in the year 2006. The compound growth rate of operating profit of PSCBs for the period under study was 24.06 per cent. The growth rate of net profit of PSCBs fluctuated during the period of study. The highest growth rate of 92.38 per cent was registered in 2002 and the lowest growth rate of -35.19 per cent was registered in the year 1999. The compound growth rate of net profit for the study period was 11.04 per cent.

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

Year	Operating Profit	Growth Rate
1997	8887.18	
1998	10273.72	15.60
1999	10577.75	2.96
2000	13042.29	23.30
2001	13801.68	5.82
2002	21676.54	57.06
2003	29715.24	37.08
2004	39290.10	32.22
2005	46445.92	18.21
2006	49899.35	7.44
Compound Growth Rate = 24.06 %		

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.556296.03 crores in 1997 to Rs.2586305.94 crores in 2006. The other notable factor of the study is that the net profit to total assets ratio was less than 1 per cent except in 2004 (1.12 percent). (Table 5)

Table 4 : Growth of Net Profit of PSCBs in India
(Rs. in Crores)

Year	Net Profit	Growth Rate
1997	3152.17	
1998	5027.06	59.48
1999	3258.09	-35.19
2000	5116.18	57.03
2001	4316.94	-15.62
2002	8304.85	92.38
2003	12295.46	48.05
2004	16546.38	34.57
2005	18975.81	14.68
2006	21523.87	13.43
Compound Growth Rate =11.04 %		

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

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 the years was less than the interest earned. The amount of interest spread shows an increasing trend during the study period. It was Rs.17561.72 crores in 1997 which increased to Rs.70504.98 crores in 2006.The growth rate of spread was in a fluctuating trend. Besides, there was no negative growth rate during the period under study.

Table 5 : Net Profit / Loss as Percentage of Total Assets of PSCBs in India
(Rs. In Crores)

Year	Net Profit	Total Assets	% to Total Assets
1997	3152.17	556296.02	0.57
1998	5027.06	795412.48	0.63
1999	3258.09	950897.97	0.34
2000	5116.18	890600.05	0.57
2001	4316.94	1029972.19	0.42
2002	8304.85	1155397.68	0.72
2003	12295.46	1285235.70	0.96
2004	16546.38	1471077.38	1.12
2005	18975.81	2201872.94	0.86
2006	21523.87	2586305.94	0.83

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

Table 6 : Interest Rate Spread Income of PSCBs
(Rs. In Crores)

Year	Interest Received	Interest Paid	Interest Spread
1997	53900.34	36338.62	17561.72
1998	59076.83	40164.62	18912.21
1999	69474.31	47839.75	21634.56
2000	79413.68	55374.47	24039.21
2001	91129.44	61693.19	29436.25
2002	100710.96	69153.77	31557.19
2003	107192.81	69852.59	37340.22
2004	109547.35	65764.53	43782.82
2005	146630.53	85037.71	61592.82
2006	172274.60	101769.62	70504.98

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 cautious 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 15.57 per cent to 22.07 percent during the period under study. The highest yield on advances ratio of PSCBs in India was 23.33 per cent in 1999. (Table 7)

CREDIT DEPOSIT RATIO

The credit deposits 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 purposes.

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

Year	Interest Received	Advances	Yield
1997	53900.34	244214	22.07
1998	59076.83	260459	22.68
1999	69474.31	297789	23.33
2000	79413.68	352714	22.52
2001	91129.44	415207	21.95
2002	100710.96	480681	20.95
2003	107192.81	549351	19.51
2004	109547.35	631383	17.35
2005	146630.53	848912	17.27
2006	172274.60	1106128	15.57

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

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

Year	Credit (Advance)	Deposits	Credit Deposit Ratio
1997	244214	N.A	N.A
1998	260459	531723.09	48.98
1999	297789	636860.16	46.76
2000	352714	737280.53	47.84
2001	415207	859461.95	48.10
2002	480681	968623.57	49.63
2003	549351	1079393.81	50.89
2004	631383	1229462.52	51.35
2005	848912	1436540.52	59.09
2006	1106128	1622481.09	68.18

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.244214 crores in 1997 to Rs.1106128 crores in 2006. The credit deposit ratio of PSCBs ranged from 49.98 per cent to 68.18 per cent during the period under study. The higher credit deposit ratio of 68.18 per cent was in the year 2006 and the lowest ratio of 46.76 per cent was in 1999.

COST OF DEPOSIT

Deposits 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 6.27 per cent to 7.55 per cent.

NON-PERFORMING ASSETS

Non-performing assets (NPAs) refer to the credit facility in respect of which the interest or installment of principal 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 principal is that the income of NPAs should not be recognized

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

Year	Interest Paid	Total Deposits	Cost of Deposits (%)
1997	36338.62	NA	NA
1998	40164.62	531723.09	7.55
1999	47839.75	636860.16	7.51
2000	55374.47	737280.53	7.51
2001	61693.19	859461.95	7.18
2002	69153.77	968623.57	7.14
2003	69852.59	1079393.81	6.47
2004	65764.53	1229462.52	5.35
2005	85037.72	1436540.52	5.92
2006	101769.62	1622481.09	6.27

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

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.20285 crores in 1997 to Rs.27977 crores in 2001 and after that, it decreased to Rs.27, 958 crores in 2002 to Rs.14561 crores in 2006. The NPA ratio of PSCBs in India ranged from 8.31 per cent to 1.32 per cent during the period under study. It is inferred that the NPA was less than 10 per cent of the advance. It shows that the PSCBs had taken right steps to recover the loans properly.

QUANTITATIVE VARIABLES AND PROFITABILITY OF THE PSCBs IN INDIA

In the present study, an attempt has been made to analyse 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

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

Correlation technique is used by the researcher in this study to ascertain the relationship between the following:
1. Interest earned and profits.
2. Other income and profits.

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	0.93
2.	Other income and profitability	0.99

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.

Table 10 : Non-Performing Assets of PSCBs in India
(Rs. In Crores)

Year	NPA	Total Advances	Percent of NPA(%)
1997	20285	244214	8.31
1998	21232	260459	8.15
1999	24211	297789	8.13
2000	26187	352714	7.42
2001	27977	415207	6.74
2002	27958	480681	5.82
2003	24877	549351	4.53
2004	19335	631383	3.06
2005	16904	848912	1.99
2006	14561	1106128	1.32

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

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 1997 to March 2006. 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:

H_o: *There is no significant difference between the profitability of PSCBs and SCBs in India.*

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

Net Profit/Loss as Percentage of Total Assets of PSCBs and SCBs in India

Year	Net Profit/Loss as Percentage of Total Assets	
	FCBs Ratio	*SCBs Ratio*
1997	0.57	0.67
1998	0.77	0.82
1999	0.42	0.49
2000	0.57	0.66
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

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:

0.42, 0.42, 0.49, 0.49, 0.57, 0.57, 0.66, 0.67, 0.72, 0.77, 0.77, 0.81, 0.82, 0.88, 0.89, 0.96, 1.01, 1.12 and 1.13.

$$\text{Median} = (n+1)/2 = 20 + 1 = 2\ \tfrac{1}{2} = 10.5^{th}\ \text{item.}$$

$$= (0.75+0.77)\ /\ 2$$

$$\text{Median} = 0.76$$

The next step is that each percentage in the combined data is classified according to two criteria: the number of percentages which is less than the median and the number of percentages 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.

Expected frequency in each cell $= (RT \times CT)/N$

Here   N   =   Total number of all the observations

RT   =   Row Total

CT   =   Column Total

The observed and expected frequencies are presented below.

Observed Frequencies and Expected Frequencies for PSCBs in India

FCBs in India	Number of Percentages More than the Median		Number of Percentages Less than the Median	
	Observed	*Expected*	*Observed*	*Expected*
FCBs 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 and 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
$\chi^2 = \Sigma(O – E)^2/E$				0

Result

The calculated value of chi-square (0) is less than the table value both at 5 per cent (3.84) and 1 per cent (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.

COMPARISON OF GROWTH OF INCOME, EXPENDITURE AND PROFIT OF PSCBs WITH SCBs IN INDIA - MANN-WHITNEY 'U' – TEST

Mann – Whitney U – Test is a non- parametric method in statistical work. This test makes it possible to work with very small samples. It requires less assumption concerning the level of data measurement. It is used to

determine whether there is a significant difference between two independent samples and one from each population is used.

The first step in the Mann- Whitney U-Test is to rank the combined data from low to high (combined ranking for the growth rate of PSCBs in India and SCBs in India). The next step is to sum up the ranks of either sample. In this study, the sum of the ranks of the growth rates of PSCBs in India is used and it is denoted as S_1. The Mann-Whitney U Test statistic is given below

$$U = n_1 n_2 + \frac{n_1(n_1+1)}{2} - S_1$$

N_1 = Number of samples from first population

N_2 = number of samples from second population

S_1 = Sum of ranks of samples from first population.

For the values of n_1 and n_2, Mann-Whitney U test table values provide the probability associated with the calculated values of U. If the tabulated probability is greater than the values of significant level (if the significant level is of 5%, the value is 0.05), the null hypothesis is accepted. If the probability is less than the significant level, the null hypothesis is rejected.

If the probability for the calculated value is not provided in the table, the value of U for the other group can be calculated as follows:

$$U' = n_1 n_2 - U$$

The value of U' will be the same if 'U' is calculated by using the sum of the ranks of the sample of the second population as follows:

$$U = n_1 n_2 + \frac{n_2(n_2+1)}{2} - S_2$$

n_1 = Number of samples from first population

n_2 = Number of samples from second population

S_2 = Sum of ranks of samples from second population

If the size of any one sample is greater than 8, the Mann-Whitney-U Test table does not exist. Then the Mann-Whitney U-Test compares the calculated U value and the critical table values of U. If the calculated U value is less than or equal to the tabulated value of U, H_O is rejected; otherwise H_O is accepted.

For the purpose of this study, the following null hypotheses were framed

❖ *There is no significant difference between the total income of PSCBs and SCBs in India during the period under study.*

❖ *There is no significant difference between the total expenditure of PSCBs and SCBs in India during the period under study.*

❖ *There is no significant difference between the net profits of PSCBs and SCBs in India during the period under study.*

The test results of Mann – Whitney U Test are presented in the Table

Table : Mann – Whitney 'U' – Test Result

S.No.	Hypotheses	Calculated Value	Table Value	Result
1.	Total income of PSCBs and SCBs	43	17	Not Significant
2.	Total expenses of PSCBs and SCBs	38	17	Not Significant
3.	Net profit of PSCBs and SCBs	37	17	Not Significant

Result

There is no significant difference between the growth rates of total income, total expenses and net profit of PSCBs and SCBs in India.

FINDINGS OF THE STUDY

The findings 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 2.20 per cent and 33.85 per cent. The compound growth rate of interest income of PSCBs was 12.95 per cent.

❖ The growth of total income of PSCBs in India was varying between 7.10 per cent and Rs.28.79 per cent. The compound growth rate of total income of PSCBs in India was 13.95 per cent.

❖ The growth rate of total expenditure of PSCBs in India was varying between 4.19 per cent and 30.72 per cent. The compound growth rate of total expenditure of PSCBs was 13.01 per cent.

❖ The growth rate of net profit of PSCBs fluctuated during the period under study. The highest growth rate 59.48 per cent was registered in 1998. The compound growth rate for the study period was 11.04 per cent.

❖ The ratio of net profit to total assets varied between 0.34 per cent and 1.12 per cent 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. The growth rate of spread was 7.69 per cent in 1998 and 14.47 per cent in 2006.

❖ There is a high positive correlation between the profitability and interest earned; profitability and interest paid, profitability and operating expenses and profitability and other income of PSCBs in India.

❖ According to the Median Test, there is no significant difference between the profitability of PSCBs in India and SCBs in India.

❖ There is no significant difference between the growth rates, total income, total expenditure and net profit of PSCBs in India and SCBs 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 overdues 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 per cent 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.

effort to reach as many farmers as possible entered into agreement with IOCL in March 2008 to disseminate price information of commodities among farmers. Then the banks, especially the public sector banks which are deep rooted in various parts of India through wide network of branches in small villages can definitely reach to farmers by a long way. State Bank of India, Punjab National Bank, Canara Bank, etc. are having their presence in almost every corner of India. If these banks start providing the service of commodity trading, then Indian farmers would be rich farmers and will surely receive the adequate value of their labour.

Banks are involved since the inception of commodity market. Their role and responsibilities need to be enhanced by providing them more autonomy and facilitating and equipping those (especially public sector banks) with recent technological innovations. Ensuring stable conditions in the market is the responsibility of policymakers, regulators as well as market participants like banks. This may call for the banking sector to broaden the geographical outreach and may stimulate their participation in development of commodity markets in India.

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❖ New attractive and innovative schemes should be introduced according to the requirements of different types of clients.

❖ PSCBs should prepare a model scheme for granting loans. This scheme should include each and every aspect, which the bank is normally expected to look into while processing loan applications.

CONCLUSION

The pubic sector commercial banks in India play an important role in deposit mobilization and lending to needed people. From this analysis, one can easily understand that the functions of PSCBs are efficient and profitability is good.

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