
IMPACT OF PUBLIC ISSUE ON THE PROFIT OF NATIONALISED BANKS

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Abstract: In an economy the banking sector constitutes a predominant component of the financial services industry and to a large extent contributes to its growth. The banking sector's performance is seen as the replica of economic activities of the nation as a healthy banking system acts as the bedrock of social, economic and industrial growth of a nation. In countries like India, public sector banks are dominant players in accelerating the growth of the economy. The profitability analysis of public sector banks after public issue for a period of 5 years from the date of public issue was studied.

Keywords: Partial Privatization, Profitability, Public Sector Banks.

Introduction: Privatization of public enterprises has generated much debate in developing countries which had previously opted for planning as a strategy of development. Under the Five Year Plans, the Indian state took upon itself the responsibility to undertake investments in basic and strategic economic activities and control and direct the private sector through a network of regulatory institutions. After pursuance of planned development for nearly half a century, a stage was reached when questions were raised about the relevance of the planned development strategy (Kochhare et al, 2006). After a period of debate and discussion, the process was reflected in a gradual lowering of the share of the government in state-owned enterprises, although the state retained ownership control, a process alternately referred to as 'divestment' or 'partial privatization' (Gupta, 2005).

Privatization of Banks: Widespread privatization in recent decades has generated a large empirical literature concerning the effect of ownership on firm performance. The higher state-ownership of banks is associated with higher spread, lower lendable resources and reduced stock market activity.

Partial Privatization: Partial privatization may lead to improvements in firm performance if the managerial view of privatization holds. This view emphasizes the monitoring and disciplining roles of stock markets and the consequent benefits of improved managerial incentives even when the privatization is only partial.

Effectiveness of Privatization: According to Gupta (2005), most studies on ownership and performance that find performance of firms improving after privatization consider cases where management control is transferred to private owners, but not much is known about the effectiveness of partial privatization.

Political influence in Public Sector Banks: However the public sector banks have been considered as a single group in these studies and no distinction was made between those banks that were partially privatized and those that remained fully state-owned. India is an emerging economy where a shift from government control to a more liberalized economy in the 1990s meant that private participation in the economy has become significant.

Profitability in Nationalized Banks Before and After Public Issue: It is no doubt that the future of Public sector bank's would be based on their capability to continuously build good quality assets in an increasingly competitive environment and stringent prudential norms.

Table 1: Year of Public Issue of Selected Public Sector Banks

Sl. No.	Nationalised Banks	Public Issue Year
1.	Allahabad Bank	2002
2.	Andhra Bank	1999
3.	Bank of Baroda	1995
4.	Bank of India	1996
5.	Bank of Maharashtra(BOM)	1999
6.	Canara Bank	2002
7.	Central Bank of India(CBI)	2006
8.	Corporation Bank	1996
9.	Dena Bank	1996
10.	Indian Overseas Bank(IOB)	2000

Allahabad Bank: The performance of Allahabad Bank after the public issue was found as impressive. Expect interest income, the gross profit, net profit and net interest income have shown a significant improvement after profit issue. While the standard deviation was high in case of interest income with 1.06 per cent which implies that it had a more impact after public issue. As the CV shows a high variance after public issue for gross profit.

Table 2: Statistical Indicators of Profit of Allahabad Bank before and after Public Issue

Variables	Mean		SD		CV	
	Before Public Issue	After Public Issue	Before Public Issue	After Public Issue	Before Public Issue	After Public Issue
Gross Profit	1.28	2.15	0.07	0.34	5.10	15.93
Net Profit	0.43	1.04	0.30	0.40	70.08	38.22
Interest Income	9.30	7.98	0.13	1.06	1.41	13.29
Net Interest Income	2.93	3.12	0.15	0.12	5.17	3.85

Andhra Bank: In the case of Andhra Bank both gross profit and net profit were improved after the public issue. At the same time not much variations were found in interest income in the back drop of a lower net interest income. The standard deviation was high in case of gross profit with 0.92 per cent which implies that it had a more impact after public issue. Covariance of all variables was high after public issue.

Table 3: Statistical Indicators of Profit of Andhra Bank before and after Public Issue

Variables	Mean		SD		CV	
	Before Public Issue	After Public Issue	Before Public Issue	After Public Issue	Before Public Issue	After Public Issue
Gross Profit	1.36	2.10	0.31	0.92	22.75	43.84
Net Profit	0.68	1.06	0.21	0.53	31.71	49.49
Interest Income	9.52	9.26	0.41	0.40	4.26	4.36
Net Interest Income	3.09	2.75	0.25	0.30	8.03	10.91

Bank of Baroda: After the public issue a significant improvement was found in gross profit, net profit, interest income and net interest income of Bank of Baroda. A negative net profit (-1.88%) was turned into positive and (0.47%) after the public issue. The standard deviation was high in case of gross profit with 0.42 per cent which implies that it had a more impact after public issue. A high CV was found after public issue of the indicators.

Table 4: Statistical Indicators of Profit of Bank of Baroda before and after Public Issue

Variables	Mean		SD		CV	
	Before Public Issue	After Public Issue	Before Public Issue	After Public Issue	Before Public Issue	After Public Issue
Gross Profit	-0.18	1.21	0.63	0.42	-349.21	34.36
Net Profit	-1.88	0.47	1.80	0.33	-95.39	70.60
Interest Income	8.91	9.63	0.63	0.25	7.08	2.61
Net Interest Income	1.84	3.13	0.59	0.21	32.01	6.79

Bank of India: The gross profit of Bank of India was doubled after public issue. Similarly an impressive improvement was found in net profit even though the value was (0.70%) very low. For other parameters a mixed response was found. The standard deviation was high in case of interest income with 0.44 per cent which implies that it had a more impact after public issue. Net profit had a highest CV after public issue (42.59 %).

Table 5: Statistical Indicators of Profit of Bank of India before and after Public Issue

Variables	Mean		SD		CV	
	Before Public Issue	After Public Issue	Before Public Issue	After Public Issue	Before Public Issue	After Public Issue
Gross Profit	0.77	1.45	0.29	0.12	37.62	8.25
Net Profit	-1.84	0.70	2.25	0.30	-121.99	42.59
Interest Income	8.19	8.75	0.70	0.44	8.61	5.01
Net Interest Income	2.16	2.79	0.39	0.20	18.19	7.02

Bank of Maharashtra: Expect a slight improvement in the gross profit and net profit earned Bank of Maharashtra has not shown any significant improvement in post-public issue period. In fact net interest income declined from 3.59 per cent to 2.91 per cent. The standard deviation was high in case of interest income with 1.06 per cent which implies that it had a more impact after public issue. Net profit had a highest CV after public issue (50.37 %).

Table 6: Statistical Indicators of Profit of BOM before and after Public Issue

Variables	Mean		SD		CV	
	Before Public Issue	After Public Issue	Before Public Issue	After Public Issue	Before Public Issue	After Public Issue
Gross Profit	1.06	1.57	0.34	0.37	21.52	22.19
Net Profit	0.41	0.50	0.23	0.29	46.18	50.37
Interest Income	9.53	9.30	0.34	1.06	3.66	12.76
Net Interest Income	3.59	2.91	0.17	0.25	5.87	8.73

Canara Bank: As a major player among public sector banks Canara bank had shown a better promise in increasing its gross profit from 1.80 per cent to 20.53 per cent and its net profit from 0.44 per cent to 1.19 per cent after public issue even though it registered a decline in interest income earned. The standard deviation was high in case of interest income with 0.69 per cent which implies that it had a more impact after public issue. Covariance of all variables was high after public issue expect net interest income.

Table 7: Statistical Indicators of Profit of Canara Bank before and after Public Issue

Variables	Mean		SD		CV	
	Before Public Issue	After Public Issue	Before Public Issue	After Public Issue	Before Public Issue	After Public Issue
Gross Profit	1.80	2.53	0.17	0.30	9.32	11.79
Net Profit	0.44	1.19	0.02	0.17	5.21	14.64
Interest Income	9.04	7.37	0.66	0.69	7.29	9.37
Net Interest Income	2.90	2.78	0.31	0.11	10.56	3.84

Central Bank of India: In spite of its position Central Bank of India has not shown any improvement after the public issue. A reduction in gross profit, net profit, interest income and net interest income after the bank went for public issue is a cause of concern. The standard deviation was high in case of net interest income with 0.64 per cent which implies that it had a more impact after public issue. Covariance of all variables was low after public issue expect net interest income.

Table 8: Statistical Indicators of Profit of CBI before and after Public Issue

Variables	Mean		SD		CV	
	Before Public Issue	After Public Issue	Before Public Issue	After Public Issue	Before Public Issue	After Public Issue
Gross Profit	2.14	1.13	0.45	0.23	21.15	20.38
Net Profit	0.67	0.43	0.27	0.06	39.55	13.32
Interest Income	8.16	6.73	0.66	0.35	8.04	5.22
Net Interest Income	3.39	1.97	0.10	0.64	2.84	32.69

Corporation Bank: Corporation bank boasted a good performance after the public issue. The four prominent parameters namely gross profit, net profit, interest income and net interest income were found improved during the post-public issue period. The standard deviation was high in case of net interest income with 0.69 per cent which implies that it had a more impact after public issue. A low covariance was shown after public issue expect net interest income.

Table 9: Statistical Indicators of Profit of Corporation Bank before and after Public Issue

Variables	Mean		SD		CV	
	Before Public Issue	After Public Issue	Before Public Issue	After Public Issue	Before Public Issue	After Public Issue
Gross Profit	2.07	2.58	0.49	0.49	23.45	19.04
Net Profit	0.58	1.43	0.45	0.13	77.17	9.37
Interest Income	8.29	9.44	1.08	0.58	12.97	6.17
Net Interest Income	2.86	3.28	0.09	0.69	3.05	21.08

Dena Bank: A fairly good performance was shown by Dena Bank after the public issue. A negative net profit (-0.84%) before the public issue was turned with positive (0.78%) after the public issue even though the rate of net profit was lower. In case of other three parameters namely gross profit, interest income and net interest income, also Dena bank has shown an improvement. The standard deviation was high in case of net interest income with 0.44 per cent which implies that it had a more impact after public issue. A low covariance was shown after public issue expect net profit.

Table 10: Statistical Indicators of Profit of Dena Bank before and after Public Issue

Variables	Mean		SD		CV	
	Before Public Issue	After Public Issue	Before Public Issue	After Public Issue	Before Public Issue	After Public Issue
Gross Profit	0.68	1.90	0.60	0.40	87.73	20.84
Net Profit	-0.84	0.78	1.13	0.07	-134.56	8.50
Interest Income	8.94	10.14	0.09	0.27	0.95	2.67
Net Interest Income	2.67	3.43	0.51	0.44	19.01	12.87

Indian Overseas Bank: Earnings of Indian Overseas Bank after the public issue were not at all impressive. Only a modest improvement in gross profit, net profit and net interest income was found and in fact there was a decline in interest income. As a major stake holder among the public sector banks Indian Overseas Bank requires a course correction in its functioning. The standard deviation was high in case of gross profit with 0.49 per cent which implies that it had a more impact after public issue. Covariance of all variables was high after public issue expect interest income.

Table 11: Statistical Indicators of Profit of Indian Overseas Bank before and after Public Issue

Variables	Mean		SD		CV	
	Before Public Issue	After Public Issue	Before Public Issue	After Public Issue	Before Public Issue	After Public Issue
Gross Profit	0.67	1.56	0.08	0.49	12.00	31.13
Net Profit	0.45	0.68	0.19	0.32	42.38	46.48
Interest Income	9.68	8.88	0.60	0.38	6.25	4.28
Net Interest Income	2.33	2.87	0.04	0.12	1.73	4.15

It has been felt that there is a need to increase the performance of the banks in relation to profitability.

References:

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