

ANALYTICAL STUDY ON THE GROWTH ASPECTS OF PUNJAB NATIONAL BANK

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ABSTRACT

The banking industry occupies a unique place in a nation's economy. A well developed banking system. Banks is considered as the backbone of an economy. After the liberalization, privatization and globalization of Indian economy, there is a upward shift in entire country in a positive way.

The present study is attempted to analyse the growth rate, financial performance of five years, productivity & profitability of PNB. In a macro-prudential analysis of the Indian economy it seems as the Indian banking industry has come a long way and entered in its ever challenging growth phase in a very prominent time. It also shows, suggest and conclude the growth analysis of PNB.

KEYWORDS: PNB Growth and analysis, measuring the financial performance of PNB, Profitability, productivity and credit schemes.

INTRODUCTION: Punjab National Bank is one of the leading bank in India and offers a wide variety of banking services, which include corporate and personal banking, industrial finance, financing of trade and international banking. Punjab National Bank was incorporated in the year 1895. Since its humble beginning over hundred years ago, the bank has growth in stature to become one of the leading banking in india. The banking Industry in India has a huge canvas of history, Which covers the traditional banking practices from the time of britishers to the reform period, nationalization to privatization of bank and now increasing numbers of foreign banks in India. Banking in India originated in the last decade of 18th century. PNB is the third largest bank in India opened for business on 12th April, 1895.

Since its humble beginning in 1895 with the distinction of being the first Indian Bank to have been started with Indian capital, PNB has achieved significant growth in business which at the end of March 2011 amounted to 5,55,005 crore. PNB is ranked as the 2nd largest bank in the country after SBI in terms of branch network, business and many other parameters.

With over 60 million satisfied customers and more than 5100 offices including 5 overseas branches, PNB has continued to retain its leadership position amongst the nationalized banks. The bank enjoys strong fundamentals, large franchise value and good brand image. Apart from offering banking products, the bank has also entered the credit card, debit card; bullion business; life and non-life insurance; Gold coins & asset management business, etc. PNB has earned many awards and accolades during the year in appreciation of excellence in services, Corporate Social Responsibility (CSR) practices, transparent governance structure, best use of technology and good human resource management.

LITERATURE REVIEW: PNB has the distinction of being the first Indian bank to have been started solely with Indian capital that has survived to the present .With over 72 million satisfied customers and 5697 domestic branches; PNB has continued to retain its leadership position among the nationalized banks .The banks enjoys strong fundamentals, large franchise value and good brand image. Over the years PNB has remained fully committed to its guiding principles of sound and prudent banking

irrespective of conditions. PNB is one of the leading global bank with pan India footprints and become a household brand in the Indo-Gangetic Plains providing entire range of financial products and services under one roof.

Several other studies conducted on profitability and productivity of the Indian banking sector. V. Brinda Devi (2013) suggest that profitability ratios are employed by the management in order to access how efficiently they carry on their business operations and also it is suggested for the entire bank to take effective to improve the operating efficiency of the business.

Some of the major awards won by the bank are the best bank award. Most socially responsive bank by business world, most productive public sector bank, Golden Peacock Awards by Institute of Directors etc. The PNB is an Indian multinational banking and financial services company. It is a state-owned corporation based in New Delhi, India the bank has over 6,300 branches and over 7900 ATMs across 764 cities. It serves over 80 million customers and also the PNB is one of the Big four banks of Baroda. ICICI and state bank of India.

OBJECTIVES OF PUNJAB NATIONAL BANK

PNB or Punjab National Bank always looks forward for the betterment of customer service and guarantee the members of bank for the finest services. Its main aim is to increased productivity and profitability ratios. It also offering internet banking service to the customers to pay the utility bills, using e-commerce facilities.

- It has more than 3700 ATMs all over the country and has the wide ATM network.
- It struggle for spreading the branches all over the world, including sub-continent, Europe and USA.
- PNB fulfill the requirement of every state
- It also aims to offer mobile banking facilities to the mobile users those who are not satisfied with these services.
- It struggle for spreading the branches all over the world including sub-continent, Europe and USA.
- Punjab National Bank will fulfill the requirement of every state.
- It gives suggestions and recommendations for the improvement in the growth, productivity and profitability of Indian banks.
- Analyzing what is relevant to a successful banking relationship, so that Punjab National Bank can achieve and maintain customer satisfaction in the new climate
- Identifying and commenting on what we see as the key actions that bank must take to retain and expand their customer base in this challenging and increasingly sophisticated market.

CONCEPT OF GROWTH : Growth in relation to a banking organization relates to increase in the business over a period of time. Year to year growth is calculated and targets are fixed to evaluate the performance and standing of the bank in relation to industry, in relation to competitors, in relation to branch. Growth means the increase in advances and deposits of a bank in current year in comparison to previous year, Growth also means the increase in revenue profits, earning of the Bank in Comparison to previous year. It also evaluates the increase in business per employee of the bank in comparison to the previous year. Operating profits, net profits, earning per share, dividend per share, return on capital employed, return on equity. Interest coverage ratios are the other yardsticks to measure the growth of a business entity

over a period of time. Profit maximization and wealth maximization are the ultimate goals of an organization because it leads to the growth of the organization to a large extent. As regards Growth, it can be studied from various angles like in terms of sales, net profit, reserve and surplus, earning per share, internal growth & sustainable growth. As a matter of fact, the desired growth rate and the debt financing both are interrelated. The higher the growth rate, the greater would be the need for external financing if other things remaining the same or vice-versa. Balanced Debt equity mix and its relationship with growth may better be studied in terms of net assets growth, fixed assets growth, net profit growth, revenue growth, reserves & surplus growth and earnings per share growth.

Profitability

The term profitability is related measure where profit is expressed as a percentage of total business. There are several measures to calculate profitability ratios. Some researchers take ROA, ROE and Cost to Income to evaluate the profitability of the banks and some take spread and burden as profitability measure. In this study profitability is taken as the difference of spread ratio and burden ratio i.e difference of income and expenditure. No doubt profitability is the most important and reliable indicator as it gives a broad indication of a bank to raise its income level. The improved profitability is the good indicator of performance of the bank. Higher the profitability leads to higher satisfaction to shareholders, managers, customers as well in the terms of better services and high technology. Now these days' banks spending are more as compared to previous era. To come up with high tech, banks are spending heavily on upcoming new technologies to make Indian banking world class. And this is the reason of high operating expenditure in banks. This expense may costs in short run but definitely it proves fruitful and indispensable in long run.

Productivity

Investopedia defines productivity as an economic measure of output per unit of input. The concept of productivity is more easily applied to industrial settings while it is more difficult to define and measure in the context of services sector, including the banking industry. In the present study deposits per employee and total expense are taken as input, advances per employee and total income, are taken as output for measuring productivity of banks.

Calculation of Profitability Ratios

Profitability ratio can be calculated as the difference between spread ratio and burden ratio. Spread ratio is the difference of Interest earned and Interest paid to total volume of business of the bank, whereas burden ratio is the difference of non operating expense and non operating income to total volume of business of the bank. The profitability ratios can be calculated as follows:

Profitability Ratio= Spread Ratio(S) – Burden Ratio (B)

Spread Ratio (S) = Interest Earned Ratio (E) – Interest Paid Ratio (P)

Burden Ratio (B) = Non – operating Expense Ratio (O) – Non Operating Income Ratio (N)

The above variable can be defined as follows:

NET ASSETS GROWTH Net assets is the sum total of asset side of the balance sheet excluding any provision for depreciation fund or the assets shown at book value less depreciation charges or if the market value of the asset is to be disposed off less any expected loss or provision against that asset. This total of the asset side exclude the fictitious assets if there is any shown in the asset side of the balance sheet like preliminary expenses, discounts on issue of shares or debenture, interest paid out of capital

etc. Net assets include both types of assets i.e. fixed asset as well as the current asset possessed by the business entity owned by the concerned. This asset provides the base for making the concern capable for carrying out its business activities for earning revenue and consolidates its position in the years to come. These assets are possessed by the business from various sources shown in the liability side of the concern i.e. owners funds and borrowed funds or the internal resources of the business created out of profits. As regards Net Assets of Punjab National Bank have been computed by deducting all liabilities from total assets and shown in Table 1

Table 1: Net Assets

	Punjab	National	Bank
Year	Net Assets in lac	Total Assets in lac	% of Net Assets to Total Assets
2000-01	266920	6351922	4.20
2001-02	338068	7291466	4.64
2002-03	403299	8822180	4.57
2003-04	501181	10233174	4.90
2004-05	816130	12624128	6.46
2005-06	937636	14526738	6.45
2006-07	1043546	16242249	6.42
2007-08	1231835	19902036	6.19
2008-09	1465363	24691862	5.93
2009-10	1772292	29663277	5.97

Table 1 reveals that Net Assets of Punjab National Bank indicated an annual compound growth rate of 20.50 percent; whereas that of HDFC Bank indicated an annual compound growth rate of 37 percent. All this indicated that net assets of HDFC Bank Limited increased quicker than that of Punjab National Bank Limited. Growth rate of Net Assets of Punjab National Bank and HDFC Bank has been computed by way of annual compound growth rate with the help of the following formula:

$$r = \sqrt[n]{\frac{P_n}{P_0}} - 1$$

Where r = Average rate of Growth

pn = value at the end of the period

p0 = value at the beginning of the period

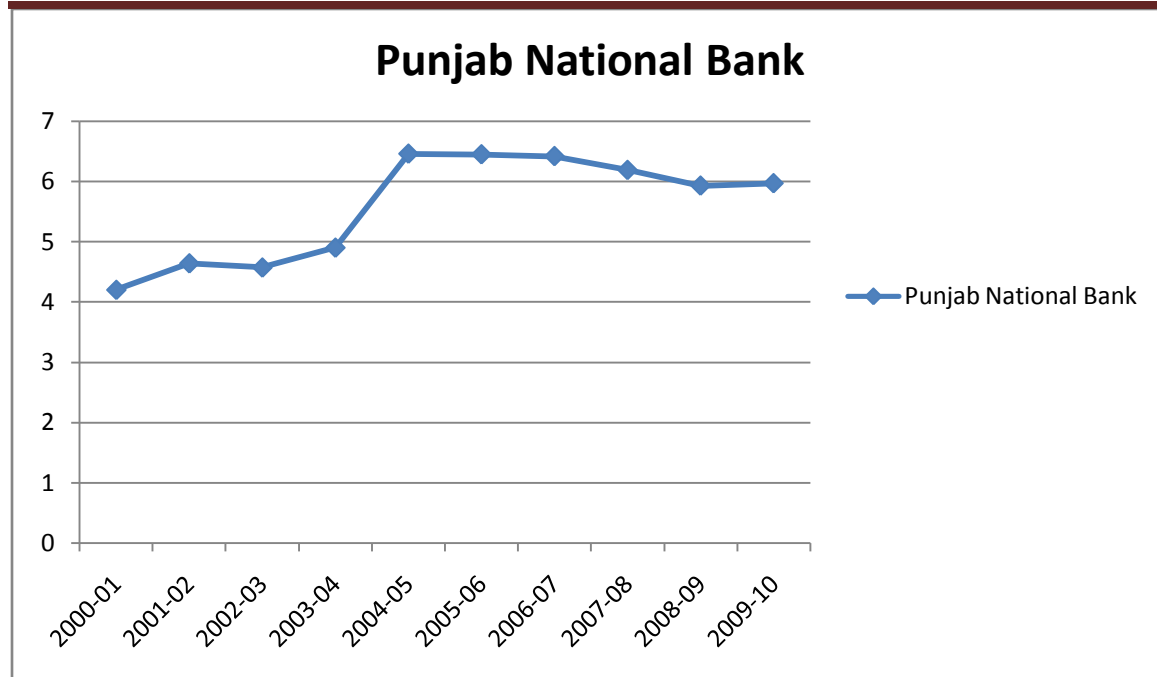
n = Number of years

Using

logarithms Growth rate is calculated as

Growth rate of Punjab National Bank = 20.50%

As regards Net Assets Growth of Punjab National Bank has been computed with the help of geometric mean and has been shown in Graph



Growth Rate of Fixed Assets Any business entity needs for its smooth functioning two types of assets i.e. fixed assets as well as current assets. Fixed assets are those which are purchased once for the business and remains with it for a long time to come. They are also known as dead investment as once the money invested in these assets cannot be used for any other purpose very easily. As for example land, building, plant and machinery, patents, trade mark, furniture, vehicle etc. the building once constructed for the business cannot be constructed or carried to any other place. Such assets help the organization to carry on its production related operations. These are generally shown in the assets side of the balance sheet as follows:

Gross Block

Less Depreciation

Net Block

Gross Block refers to the total cost of acquisition of all the, fixed assets. Out of this actual acquisition cost, accumulated depreciation up to date is deducted. The resultant net block indicated the net fixed assets. Intangible assets of the organization are also of permanent nature. Growth Rate of Net Block can be worked out by dividing the net block assets of the current year by the net fixed assets of the base year as shown below:

Formula of growth index of net fixed assets

$$\text{Growth Index of net fixed assets} = \frac{\text{Net fixed assets at the end of current year}}{\text{Net fixed assets at the end of base year}}$$

As regards Net Block of Punjab National Bank it has been worked out and shown in Table 2

Table 2: Fixed Assets to Total Assets

	Punjab	National	Bank
Year	Fixed Assets in lac	Total Assets in lac	% of Net Assets to Total Assets
2000-01	72392	6351922	1.14
2001-02	75854	7291466	1.04
2002-03	88470	8822180	1.00
2003-04	89984	10233174	0.88
2004-05	96523	12624128	0.76
2005-06	103023	14526738	0.71
2006-07	100983	16242249	0.62
2007-08	231552	19902036	1.16
2008-09	239711	24691862	0.97
2009-10	251347	29663277	0.85

(Source: Punjab National Bank; Annual Report on various issues.)

Table 2 reveals that fixed assets of Punjab National Bank increased from `72392 lac in 2000-01 to 251347 lac in 2009-10 indicating an increase of 2.47 times over the corresponding period. The entire situation can be reflected at a glance with the help of the Graph-2

NET PROFIT/(LOSS)GROWTH

In order to study whether the net profit of an organization has been witnessing growth or not, net profit growth is calculated with the help of Growth rate

Growth rate of Punjab National Bank =23.7%

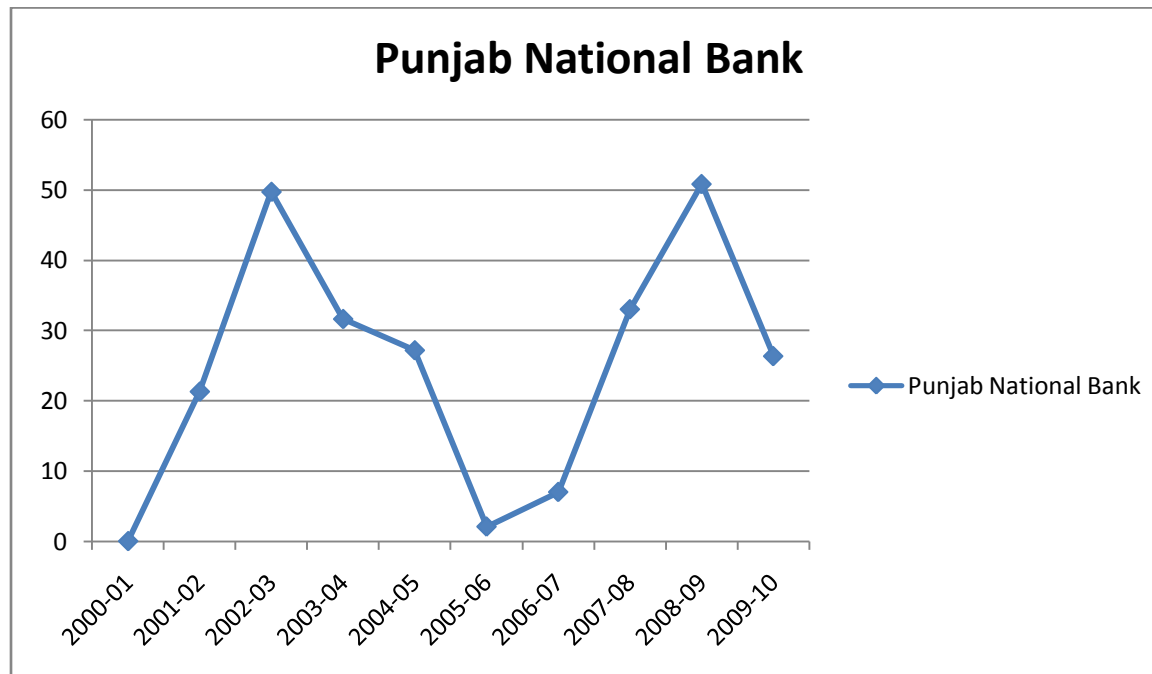
Relevant formulas have been explained in Chapter II; Techniques of Analysis. Net profit growth in respect of Punjab National Bank has been calculated by taking Net Profit after Tax so as to adjudge the absolute growth of net profit after tax as shown in Table 3.

Table 3: Net Profit / (Loss) Growth

Punjab	National	Bank
Year	Net Profit in lac	% increase over previous year
2000-01	46364
2001-02	56239	21.30
2002-03	84220	49.75
2003-04	110869	31.64
2004-05	141012	27.18
2005-06	143931	2.07
2006-07	154008	7.00
2007-08	204876	33.03
2008-09	309088	50.86
2009-10	390536	26.35

(Source: Punjab National Bank; Annual Report-various issues.)

Table 3 reveals that the Net Profit of Punjab National Bank increased from `46364 lac in 2001-02 to ` 390536 lac in 2009-10 indicating an increase of 7.42 times over the corresponding period. Net profit growth rate of Punjab National Bank is 23.7%. Hence the hypothesis The Growth rate of net profits of Punjab National Bank. The entire situation can be reflected at a glance with the help of the Graph-3



ANALYSIS and FINDINGS

Growth analysis, financial performance, productivity & profitability ratios analysis has been used in this paper as it is considered as a powerful tool to analyze the productivity and profitability of the various categories of banks. The common denominator used for developing various profitability ratios is business

volume (deposits+ advances). Productivity is measured in terms of the output per unit of input where output is taken as volume of the business and input is taken as employee per bank during the year. Various tables show the calculation of productivity and profitability of the selected banks. With reference to the following tables and graphs, growth of PNB is summarized that volume of both the public as well as private sector banks is increasing. When profitability is concerned, the profitability of both the sector bank is increasing barring few years because of high expenditure on non Interest income. SBI and associates shows increasing trend till 2011-12 but there is decline in the year 2012-13, the reason may be low Interest. Income and high Interest paid. In case of PNB profitability is not much affected with the same reason but because of high non Interest expenditure there profitability declines. Both private sector banks shows increasing trend profitability ratio. These ratios are much higher than the ratios of public sector bank.

Net Assets of Punjab National Bank indicated an annual compound growth rate of 20.50 percent. As regards fixed assets, there is an increase of 2.47 times in case of Punjab National Bank. Net profit growth rate of Punjab National Bank is 23.7% .An earnings per share of Punjab National Bank indicates an increase of 4.67 times. Reserve and Surplus growth rate of Punjab National Bank is 21.6% of Punjab National Bank. As regards Capital Adequacy, it is found that Punjab national bank is the banks achieved capital adequacy greater than 9% in all the years under study. .

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