A COMPARATIVE ANALYSIS OF THE PERFORMANCE OF KERALA BASED BANKS

By

DEVIKA MANGSATABAM

THESIS

Submitted in partial fulfilment of the requirement for the degree of

Master of Science in Co-operation & Banking

(RURAL BANKING AND FINANCE MANAGEMENT)

Faculty of Agriculture

Department of Rural Banking and Finance Management
COLLEGE OF CO-OPERATION, BANKING & MANAGEMENT
KERALA AGRICULTURAL UNIVERSITY
VELLANIKKARA, THRISSUR - 680 656
KERALA, INDIA

2002

Declaration

DECLARATION

I hereby declare that the thesis entitled **"A COMPARATIVE ANALYSIS OF THE PERFORMANCE OF KERALA BASED BANKS"**, is a bonafide record of research work done by me during the course of research and that the thesis has not previously formed the basis for the award to me for any degree, diploma, associateship, fellowship or other similar title, of any other University or Society.

Vellanikkara, **DEVIKA MANGSATABAM**

Certificate

Dr. MOLLY JOSEPH
Associate Professor and Head
Department of Rural Banking and Finance Management

CERTIFICATE

Certified that the thesis, entitled "**A COMPARATIVE ANALYSIS OF THE PERFORMANCE OF KERALA BASED BANKS**" is a record of research work done independently by **Miss. Devika Mangsatabam**, under my guidance and supervision and that it has not previously formed the basis for the award of any degree, fellowship or associateship for her.

21/01/02

Vellanikkara

Dr. MOLLY JOSEPH
(Chairperson)
Advisory Committee

CERTIFICATE

We, the undersigned members of the Advisory Committee of **Miss. Devika Mangsatabam,** a candidate for the degree of M.Sc. (Co-operation and Banking) with specialisation in Rural Banking and Finance Management, agree that the thesis entitled **"A COMPARATIVE ANALYSIS OF THE PERFORMANCE OF KERALA BASED BANKS"** may be submitted by Miss Devika Mangsatabam, in partial fulfilment of the requirement for the degree.

21/04/2002

Dr. Molly Joseph
Associate Professor and Head,
Department of Rural Banking and Finance Management
(Chairperson)

Dr. E.V.K. Padmini
Associate Professor,
Department of Rural Banking
and Finance Management

21/11/02

Sri. M. Mohanan
Assistant Professor
(Selection Grade),
Department of Rural
Marketing Management

Sri. P.J. Boniface,
Assistant Professor
Computer Science

21/11/02

26/2/2002

External Examiner
Dr. Mary Joseph,
Professor
School of Management Studies
Cochin University of Science
and Technology
Cochin – 682 022

Acknowledgement

ACKNOWLEDGEMENT

This thesis has been carried out with the co-operation of innumerable individuals and institutions, that a comprehensive acknowledgement is almost impossible. However, I would like to mention a few whom I have been fortunate enough to interact through out the course of my academic career.

Any volume of work will not suffice to express my deepest sense of gratitude to my Major Advisor, ***Dr. Molly Joseph****. Her wholehearted enthusiasm and unstinted support despite her busy academic schedule gave me the inspiration and confidence to proceed and complete the thesis. It was her meticulous guidance, wise counsel and technical criticism that enabled me to complete this piece of work in its present form.*

I am highly indebted to ***Dr. E.V.K. Padmini****, Advisory Committee member for extending her kind help and constructive criticism as a member of the viva board. She was also a constant source of support during my academic career.*

I am extremely thankful to ***Shri. M. Mohanan****, Advisory Committee member who has spared no pains and put every effort to ensure perfection and quality from the formulation of proposal till its completion in the present shape.*

I gratefully acknowledge my indebtedness to ***Mr. P.J. Boniface****, member of the Advisory Committee for his valuable suggestions and advice.*

I wish to express my gratefulness to ***Dr. M. Mohandas,*** *the Associate Dean for his timely help and encouragement throughout my academic career.*

I am also highly indebted to all the faculty members of the college and in particular to ***Dr. K.P. Mani, Dr. K.M. George, Dr. K.A. Suresh, Dr. N. Ravindranathan, Mr. E.G. Ranjith Kumar, Dr. Phillip Thomas*** *and* ***Mr. Phillip Sabu*** *for their constant support during my CCBM life.*

My profound gratitude to the officials of South Indian Bank Ltd., Dhanalakshmi Bank Ltd., Catholic Syrian Bank Ltd., South Malabar Gramin Bank Ltd., State Bank of Travancore and Kerala State Co-operative Bank whom I have been fortunate enough to meet and interact during the course of the study. I am extremely grateful for the kind co-operation extended by them inspite of their busy schedule.

I have benefited immensely from the rich library of the College of Co-Operation, Banking and Management. I owe my thanks to the librarian ***C.K. Shylaja*** *for the help extended by her.*

I would like to acknowledge the assistance and support received from my present and former classmates and juniors, ***E.M. Reji, Giby Mathew, Pradeep I.S., Remesh K.A, Suvi Vijayan, Neetha Babu, Seena*** *and* ***Hariprasad.***

I reckon with love and affection the support extended by ***Shijimol E.A., Sindhu S.N., Mercy kutty, Leena M.K., Sindhu V.K., Soumia S., Simmi G. Nair*** *and* ***Vineetha Kumaran*** *in all my*

activities. Without their inspiration, this work would have been difficult.

The award of Junior fellowship of Kerala Agricultural University is duly acknowledged.

I also express my heartfelt thanks to ***Mr. Sumesh T.S.,*** *and* ***Aswathy Asokan*** *of M/s Delta Computers, Mannuthy for their tireless efforts in converting my often ineligible hand written manuscript into the present typed version.*

Last but not the least, I would like to express my heartfelt gratitude to my ***Parents, Sisters*** *and* ***Brothers*** *who had the patience to cope with my various idiosyncrasies and have been a pillar of strength in all my life.*

I would like to pay my respects to the almighty for the blessings and grace conferred on me.

Devika Mangsatabam

Dedicated to
My beloved parents

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Introduction

CHAPTER 1
INTRODUCTION

Finance today, holds the key to all human activity. It consists of raising, providing and managing of all the money, capital or fund of any type to be used in connection with the business. Banks being money-transacting enterprises require finance as 'raw material' for manufacturing the finished goods i.e. credit.

It has been aptly stated that the success of all business enterprises and especially the banking organisation depends on how finances are planned and effectively utilised so as to maximise the utility and profitability.

A well developed, diversified and efficient financial sector is essential for achieving a faster rate of economic growth. An effective, vibrant, sound and innovative banking system stimulates economic growth by mobilising savings on a massive scale and effectively and efficiently allocating these resources. This is particularly applicable to developing countries like India where banks, in addition to their economic objective of generating profits have to achieve the social objective of contributing to economic development. However in these countries, banks face the problems of poor performance, low profitability and even insolvency while

undertaking their roles as agents of economic development and as profit oriented service organisations.

Since nationalisation of commercial banks in 1969, Indian banks have acquired a prominent place in the financial sector of the economy and have achieved phenomenal and unparalleled progress in expanding their geographical coverage. This has been achieved through a wide network of branches especially in the rural and semi urban areas. Besides these, banks have helped in mobilising savings, providing funds for investments with emphasis on the priority sectors like Small Scale Industries (SSI) and agriculture which hitherto had been neglected. However such progress was achieved under heavy restriction. Many studies conducted over the years found that a large number of these banks were plagued with poor profitability, under capitalisation and a higher proportion of Non-Performing Assets (NPAs). Nayan (1991) in his study on the commercial performance of Public Sector Banks for the period 1971-83 observed that while commercial banks did very well in respect of branch expansion, deposit mobilisation, credit disbursement and priority sector advances, there was profit erosion in these banks. One of the reasons attributed by the author was the limited discretion in the matter of credit deployment by commercial banks as they were forced to meet the priority sector targets without applying the sound banking principles. It was at this juncture, that

the Government of India appointed the 'Committee on Financial System' under the chairmanship of Shri M. Narasimham, the former Governor of the Reserve Bank of India, to look into all aspects relating to the structure, organisation and functioning of the Indian banking system. The Committee's recommendations constituted a landmark to the development of the banking policy of the country. It recommended for the transformation of the Indian banking system from a highly regulated environment to a more market oriented system. Many of the recommendations made by the Committee were in line with the banking policy reforms implemented by many developing countries since the seventies.

The acceptance of majority of the recommendations by the Government and their subsequent implementation have altered the structure of Indian banking. The reforms like deregulation of interest rates, introduction of capital adequacy and international income recognition norms, streamlining of credit system and procedures, and dilution of the distinction between developmental financial institutions and banks have expanded the portfolio of banks and introduced new risks and uncertainties for them. It has also increased competition among banks and made them extremely conscious of their efficiency. This has assumed added significance in the light of the present financial sector reforms as part of the liberalisation of the Indian economy.

1.1 Significance of the Study

As the Indian economy gets integrated with the world economy, the Indian financial system faces the pressure of complying with internationally acceptable norms and standards. They need to improve their capital as well as labour productivity in order to become internally and internationally competitive. In this changed scenario, profitability and productivity have become the twin indicators of the competitive edge that a commercial entity like a bank commands in the market. Besides, macro-level profitability and productivity of banks and financial institutions reflect the strength and stability of a vibrant financial system. Hence banks should have a thorough insight into the factors affecting profitability and productivity in order to enhance their efficiency. A study on the performance of Kerala based banks with respect to their profitability and productivity would facilitate an introspection of their relative strengths and weaknesses which will, in turn enable them to meet the challenges of the competition.

1.2 Statement of the Problem

The liberalisation of the 1990s has shaken the complacent attitude of Indian commercial banks and ushered in an era of competitive efficiency. The old order of regulated market with administered interest rate structure and evaluation standards

with emphasis on large scale deposit mobilisation and social banking have given way to a market-oriented and commercially driven banking system. Banks have now become conscious of profitability and productivity levels. The dictum 'survival of the fittest' aptly suits the present banking scenario.

As a result of the change in banking environment, there has been a shift in focus from expansion (volume) to efficiency (margin). Efficiency may be defined as the ability of firms to convert input resources into output. An efficient bank can be considered to have a fair growth in the volume of business, doing its business at a competitive level of spread/margin and ultimately earning a fair profit. The traditional performance indicators such as deposits and advances, number of branches, priority sector credit and investment in government securities have taken a back seat and internationally recognised indicators like Return on Equity (ROE), Return on Assets (ROA), Return on Net Worth (RONW), labour productivity and capital productivity have come into focus. An evaluation of the performance of banks at the macro level and micro level based on these efficiency indicators will give a true picture about the profitability and productivity of the concerned banks.

Hence, the basic problem of the present study is to compare and analyse the performance of Kerala based public,

private and co-operative banks in terms of productivity and profitability on the basis of three models viz., Return On Equity (ROE) Decomposition Analysis, Weighted Productivity Index and Market Share Concept. Since the agricultural sector has attracted much controversy in the aftermath of the Narasimham Committee recommendations and the present World Trade Organisation (WTO) Agreement on Agriculture, the trends in priority sector and agricultural lending of the selected banks are also analysed.

1.3 Objectives of the Study

The objectives of the study are:

1. To analyse the performance of Kerala based public, private and co-operative sector banks.
2. To compare the relative efficiency of these banks and
3. To examine the role of these banks in agricultural lending.

1.4 Scope and Limitations of the Study

The study has been conducted in six of the ten Kerala based banks by employing three models viz., Return On Equity (ROE) Decomposition Analysis, Weighted Productivity Index and the Market Share Concept. The data were collected from the annual reports of the selected banks and other published sources. Wherever there had been discrepancies in the data in the balance

sheets and profit and loss accounts of these banks for various years, figures of the latest reports have been taken.

It may be noted that the actual market share of the banking industry encompasses the business of Kerala based banks and non Kerala based banks. But due to the unavailability of certain category of data, the study has been confined to the market share of Kerala based banks only.

Another limitation is that equal weights have been assigned to all the input and output factors in the Market Share Concept which has affected the performance of some banks. For instance, South Malabar Gramin Bank had a good performance in ROE Decomposition Analysis and Weighted Productivities Index but performed below average on the basis of the Market Share Concept.

The study has also attempted to study the performance of the Kerala based banks in agricultural lending for which data on agricultural lending were obtained from the headquarters of the selected banks for the same period. However, agricultural data collected from these banks pertains to advances made directly by these banks. It does not include investments made by the banks in the form of subscription of Small Industries Development Bank of India (SIDBI), Rural Infrastructure Development Fund (RIDF) and

Rural Electrification Corporation (REC) bonds in order to achieve the stipulated target fixed by the Reserve Bank of India (RBI). Hence there is a variation in the figures of priority sector and agricultural advances as given under the respective heads by the bank and the actual figures used for the analysis.

The scope of the study is limited to a period of six years, 1994-95 to 1999-2000.

1.5 Practical Utility

The present study is an endeavour to evaluate the performance of the Kerala based banks for the six year period (1994-1995 to 1999-2000) with the help of new efficiency indicators like Return Of Equity (ROE), Return on Assets (ROA), Market Share Concept, labour productivity, capital productivity and weighted productivity. This is to facilitate easy comparison of the overall performance of banks and help the planners, managers and others to know where they stand, to plan where they want to go and also to make correction wherever appropriate. In other words it would help these banks to assess their relative efficiency.

An examination of the role of these banks in agricultural lending assumes relevance in the light of the Narasimham Committee's recommendation to drastically reduce priority sector lending from the present 40 per cent to 10 per cent.

Any reduction in priority sector lending will adversely affect agricultural lending as it forms 45 per cent of priority sector advances. Hence the study will bring to light whether banks with lesser agricultural and priority sector advances are performing better compared to those with higher such advances.

The present study will help the individual banks in their self analysis and in identifying the areas of their relative weaknesses affecting profitability. The inferences drawn from the study will enable them to evolve suitable strategies to sharpen their competitive spirit and hence their overall efficiency.

1.6 Organisation of the Report

The report is organised in five chapters. The first chapter deals with the significance of the study, statement of the problem, objectives of the study, scope and limitations and practical utility. The second chapter delves into the review of literature relevant to the topic of the study. The third chapter gives a description about the methodology adopted for the study and makes a detailed assessment of the progress made by the banking industry in general and in financing agriculture in particular. The fourth chapter is earmarked for results and discussion besides presenting brief profiles of the organisations under study. The last chapter highlights the summary of findings and conclusion of the study.

Review of Literature

CHAPTER 2
REVIEW OF LITERATURE

Financial sector reforms as part of economic liberalisation have instilled a competitive environment in the banking system. It has transformed the banking system from a seller's market to a buyer's market. This transformation has been triggered by deregulation, competition, technology, prudential norms for capital adequacy and provisioning, and entry of new players. Besides the integration of the hitherto watertight roles amongst commercial banks, financial institutions and non-banking finance companies implies that banks have to compete in a financial market rather than being confined to the banking industry.

The reform process has compelled banks to improve their performance including quality and content of their business, besides creating a conducive atmosphere for them to be more competent and efficient. In other words, the reforms have unfolded excellent opportunities to banks to improve their productivity and performance, and to achieve their growth as sound financial institutions.

There is considerable debate on agriculture and related issues in the wake of financial sector reforms and the World Trade Organisation (WTO) Agreement on Agriculture. As agriculture contributes more than one-fifth (24.7 per cent in 1998-99 at 1993-94 prices) of the Gross Domestic product (GDP) of the country, its role in the economic development of the country cannot be ignored. Hence new methods should be adopted by banks to make agricultural lending more effective and efficient.

In this chapter, an attempt has been made to review the available literature in the area of performance of banks in general and agricultural lending in particular, which would be beneficial to the study. The literature is organised under four heads.

2.1 Concepts of profitability and productivity

2.2 Studies on performance evaluation

2.3 Future strategies of banks

2.4 Trends in agricultural lending

2.1 Concepts of Profitability and Productivity

Productivity, in its simplest form, is defined as output generated per unit of input used. In banking parlance, productivity was measured by the ratio of business generated

(deposits mobilised and credit created) to number of employees. However, in the changed banking scenario, a consensus has emerged that the definition of 'productivity' should also incorporate the aspects of profitability.

Bhattacharya (1965) has suggested that productivity of banking can be judged by the quality and cost of the services rendered by them to their respective clientele and their effectiveness in mobilising deposits and utilisation of funds.

According to Shah (1979) profitability is an important criterion of efficiency. Comparison in terms of profitability ratios instead of profit as such, is preferable since the former is obtained after eliminating the effect of size variable on the absolute level of profits. He pointed out that the traditional method of measuring performance of banks on the basis of total income (including interest income) and total expenses (including interest expenses) does not reveal significant aspects of banks' performance. Since both interest earned and interest paid move in the same direction, such an approach distorts the perspective on the importance of other expenses. So it is better to calculate spread and measure all other expenses and net profit against the net return from the funds available to banks. This will also reveal many significant relationships which would otherwise have remained concealed.

Rao (1989) suggested that productivity is something more than mere hard work by labour. He hypothesised that productivity is a multi dimensional vector comprising of several but a manageable number of mutually inter-dependent components. These ingredients include the quantum of traditional deposits, advances, social credit (for removal of inter-regional, inter-sectoral and inter-class disparities) and customer satisfaction.

Munshi (1990) had criticised the traditional definition of productivity as the relationship between the size of the working funds deployed and profits generated. According to him, this definition failed to emphasise the role of the management and the human factor. He suggested that labour cost should be included in the cost of productivity taking cost of salary as a proxy for labour unit employed.

Vinayakam (1993) suggested that the traditional parameters like total assets per employer, total credit/ deposit per employee, net operating profit per employee and ratio of working funds to establishment expenses were not sufficient to measure productivity of banks. He proposed that more realistic parameters like quality of customer service, percentage of bad debts written off in relation to total advances and priority sector advances should be included.

Garg (1996) stated that productivity and profitability are inter-related. By way of increasing deposits and advances at a pace higher than that of the number of employees and by increasing income and/or decreasing expenditure, productivity and profitability can be improved. He suggested to reduce costs, increase the revenue and improve the efficiency so as to optimise the productivity and profitability.

The attempt of Satyamurthy (1996) clarified the concepts of profits, profitability and productivity applicable to the banking industry. According to him overall profitability and productivity performance of a bank is the resultant effect of both 'economic efficiency' and 'operational efficiency'. He opined that attempts should be made to improve the spread performance through better funds and cash management, recycling of funds, exploring new awareness for increasing non-fund business income and above all cost-effectiveness and control.

Chatterjee (1998) pointed out that higher capital productivity along with lower staff productivity of a bank would indicate potentiality of a bank to increase its non-fund and interest income while low capital productivity would mean bad quality assets and large share of NPAs. So a weighted productivity index assigning appropriate weights to these parameters should be adopted by banks. This would enable banks to find out the areas

of their relative weaknesses affecting profitability and formulate adequate policies thereof.

According to Ramakrishnan (1999) productivity is a measure of contribution by an employee and is expressed in terms of business per employee, profit per employee, earnings per employee and deposits per employee. Hence, in order to facilitate congenial work atmosphere and improve employee productivity there should be provision of appropriate infrastructural facility at the branch/ office, adequate competent staff, identification and placement of suitable employees at the right place for the right job, merit based promotions and employees welfare schemes in tune with changing needs.

Tiruttani (2000) identified a number of strategies to increase spread in banks. These include timely recovery of interest and instalments on loans and advances, recovery of interest on substandard, doubtful and loss assets, acceleration of the flow of credit to high yielding advances of good quality, cost consciousness while mobilising high cost Certificate of Deposits (CDs) and term deposits and increase in the share of current and saving bank deposits. According to him, the problem of burden in banks can be tackled by focussing attention on loss making branches to turn them into profit making ones, improving the clientele base in commercial pockets like metro/urban branches, improving the staff

productivity by maintaining 'trim' staff strength and aiming at compact branches after computerisation especially in metro/urban centres where the rentals are very high.

The above review makes it apparent that the traditional yardstick of measuring profitability and productivity are not at all suitable in the present context. According to many authors it is high time that the definition of the terms of 'profitability and productivity' be enlarged to include the management and human factor, cost effectiveness and efficiency in operation.

2.2 Studies on Performance Evaluation

After nationalisation of 1969 and 1980, the Indian banking system has become one of the largest in the world. Despite this impressive widening and deepening of the financial system, it has been felt that banks have not grown into sound financial institutions. By the beginning of the 90's there was serious concern about the poor financial condition of public sector banks most of which had become unprofitable and burdened with unsustainable level of NPAs.

The implementation of the recommendations of the Committee on Financial System (1991) has subsequently sought to

rectify these defects. Though much progress has been made there is no time for relaxation and much more need to be done to ensure that the banking system performs its role to its fullest potential. Hence a review of the available literature on the performance of banks in the public, private and co-operative sectors and the factors promoting or preventing their profitability and productivity has been made.

Singh (1974) had pointed out that there were variations in profit earning exhibited by Indian public sector banks despite having a similar external environment. The input and output prices of these banks had been set by the Central Bank, and investments in government securities and priority sector loans were governed by regulations and therefore exogenously determined by monetary authorities. He suggested that factors such as economies of scale in banking, efficiency in management, human skills, training, and institutional structures as well as culture cannot be ignored while explaining variations in profits.

Varde and Singh (1981) tried to identify the reasons responsible for the declining trend in profitability of commercial banks in India. They opined that the overall profitability of bank would improve if and only if operational units, namely, the branches improve their profitability. According to them, in

addition to the common ratios affecting branch profitability like profit/ total business, spread/ total business, interest income/ advances, interest expenses/ total business and establishment expenses/ total business, profitability would also be affected by the ratios of manpower expenses and volume of business to the average number of employees.

Kangasabai (1983) after exploring the factors affecting profitability concluded that an increase in the ratio of short term agricultural loans to total loans, borrowings to owned fund and time deposits to total deposits will result in increased profitability.

In his study on the performance evaluation of two nationalised commercial banks, viz., Punjab National Bank and Allahabad Bank, for the period 1970-79, Nayan (1985) concluded that profitability (net profits as percentage of deposits, advances and working funds) of both the banks was better than the industry average. He was of the view that the size of the bank did not appear to have a direct bearing on profitability. He found that between the two sample banks, profit performance of Punjab National Bank was better than that of Allahabad Bank, despite its lower spread ratios and attributed it to lower establishment expenses or better wage productivity.

Chopra (1987) in her study on the overall trends in profitability management in public sector banks in India during the period 1969-81, suggested that many expenses can be reduced if genuine efforts are made in that direction. She suggested that strict control should be exercised on variable expenses like cost of stationery, telephones, telegrams, travelling expenses and similar expenses. She argued that, while quantum of investible funds was the function of Central Banking Policy, bank could increase their profitability by vigorous and intensive mobilisation of deposits by undertaking improved customer service, introduction of teller system and designing various deposit mobilisation schemes corresponding to diverse customer preferences.

In a study conducted by Shah (1987) in 141 rural and 80 urban branches from six lead districts of Bank of Baroda for the years 1978 and 1979, it was proved that there is negative relationship between size and operating cost and positive relationship between size and earnings. This implies that branches which increase their volume of business can reduce their unit operating cost and increase their earnings. Comparing rural and urban branches, he found that rural branches were more efficient than urban branches in relation to social objectives like provision of agricultural advances. He however suggested that these rural branches need to increase their operational efficiency either by

controlling their operating cost or by increasing the volume of business per employee.

Ojha (1987) conducted a study on profitability and productivity of public sector banks in India and revealed that in spite of the growth in bank productivity, profitability of these banks had not been rising i.e., the growth in productivity was not large enough to offset the declining trend in profitability.

Narayanaswamy and Ramachandran (1987) in their analysis of profitability performance of a District Co-operative Bank revealed that fall in profitability ratio of the bank was due to higher rate of decline in the spread ratio than that of the burden ratio. They suggested to give more attention on areas like recovery, deposit mobilisation, branch expansion and reduction in manpower and operating expenses.

Madhukar (1988) in his study 'Evaluation of Performance of Commercial Banks' stated that there was not enough evidence to suggest that size had anything much to do with operational efficiency and profitability. Some very large public sector banks as well as those that were very much smaller had registered satisfactory level of performance.

A study conducted by Dhanrajan (1989) in a selected District Co-operative Bank showed that the profitability of a bank

was adversely affected due to improper handling of interest income and interest expenses. Unless and otherwise the bank took immediate and necessary steps for effective management of funds, the position of the bank would become worse or even uncontrollable within a short time.

Alagappan (1989) conducted a study on the factors influencing the profitability of a State Co-operative Bank and concluded that the interest rate, spread, salary and other expenses of the bank together accounted for ninety-nine per cent of the variations in its annual net profit.

Nagarajan *et al.* (1990) conducted a comparative study on cost and profitability of Primary Agricultural Credit Societies (PACs) and Regional Rural Banks. Profitwise, the PACs were in a very disadvantageous position mainly because of increasing costs, poor recovery performance and high borrowings. They recommended curtailing the cost of operations, increasing the volume of deposits, reducing the overdues and bringing down the level of borrowings as feasible remedial measures.

Sukumaran and Shaheena (1991) in their study on spread, burden and profitability showed that lack of effective management of spread and burden led to unfavourable trends in

profitability. According to them the increase in burden ratio could be attributed to the increase in non-interest expenditure ratio.

A study conducted by Shanavas (1991) in a selected Service Co-operative Bank found that declining profitability of the bank was due to low increase in interest earned ratio, insufficient non-interest income and necessity of maintaining increased amount of reserves due to mounting overdues. He recommended that the management efficiency be enhanced in order to increase the profitability of the bank.

Murugesan and Rao (1991) in their evaluation of the public sector commercial banks in India (1973-86) found that the progress of banks in respect of indicators like opening of branches, mobilisation of deposits and deployment of advances was noteworthy. However, the gross and net profits of the banks were on the decline during the period. They concluded that the declining profitability was due to low internal productivity, lowering 'spread' from operations, rigid interest structure on lending and borrowing activities and cash reserve requirements.

Mathur (1991) in her study on the declining profitability of RRBs attributed the falling profitability of RRBs to mounting overdues, priority sector advances and the longer time taken by remote branches to reach break even point. She

suggested that the banks should take appropriate measures to improve profitability through better cash and funds management, reducing cost of their operations, improving quality of lending and recovery, increasing the non/interest income and raising the productivity of the staff.

Noorudeen (1992) while evaluating the performance of Kandla Service Co-operative Bank, in his study "Management of Spread, Burden and Profitability" found that the performance of the Bank was not effective owing to low non-interest income and higher rate of burden ratio. He suggested that the Bank should be a little more cautious regarding the management of spread, burden of profitability.

Rajeendran (1993) conducted a comparative study of public sector banks and private sector banks during the year 1990-91, taking nine private sector banks, State Bank of India (SBI) and three other public sector banks. He found that a much lower percentage of income of public sector banks went to meet the administrative expenses compared to private sector banks. He attributed it to the economies of scale employed by the large scale operations of public sector banks. He also found that the amount of interest paid on deposits and other borrowings was comparatively lower in the case of private sector banks due to a greater share of 'Current Deposits' in the deposit portfolio of these banks.

Girdhari (1993) in his comparative study of the public and private sector banks during the period 1989-91 revealed that there was not much difference in the performance between these two types of banks, particularly relating to deposit per employee, advances, investment, number of employees and the percentage share of priority sector advances to total advances. However he found that there was much difference in the profit earned per employee, with that of private banks doing much better than the public sector banks, during this period. He observed that despite the various constraints faced by them, the private sector banks have done a commendable job by not only being a catalyst in the banking sector but as an innovator and initiator in production and distribution activities.

Guruswamy (1993) analysed the portfolios of 28 nationalised banks over a ten year period from 1980-90 by comparing the published Profit and Loss Accounts of the banks with the expected income as suggested by a model developed by him. Accordingly, Dena Bank was adjudged to be the most efficiently managed bank for the period of study, as the reported income was consistently higher than expected income. He found that, size and managerial efficiency of Indian banks are unrelated, banks face a problem of lack of motivation among managers in exercising their competence in spite of sufficient freedom and banks tend to avoid taking risks as a good part of their income comes from risk-free statutory assets.

In a study conducted by Robert (1993), covering six private sector banks, SBI and Associates and other nationalised banks, he proved that private sector banks were more efficient than nationalised banks. According to him, the factors responsible were higher interest spread as percentage of total earning and favourable brand mix of private commercial banks. Favourable interest spread was due to proper administration of advances in the form of timely granting of loans, monitoring of advances and low-cost deposits in the form of larger share of saving and current deposits. He also noted that private banks had higher percentage of urban and metro branches compared to rural and semi-urban areas thereby implying lesser money spent on unremunerative branches.

According to a study conducted by Indian Banks Association (1996) in five East Asian countries viz., South Korea, Republic of China (Taiwan), Indonesia, Malaysia and Thailand, it was found that deregulation provided banks with enhanced range of business opportunities and potential for income generation. They observed that the banks lost the privilege of the protected deposit market with the new entrants giving a stiff competition in resource mobilisation thereby leading to a steady erosion of the market share of banks in deposits. They also noted that due to disintermediation, commercial banks in the emerging economies of Asia as a whole, lost their market share of deposits to stock markets.

Ramamoorthy (1997) attempted to discuss the key determinants of profitability, analyse the profitability of Indian Commercial Banks segment-wise, assess their performance vis-à-vis international banks and gauge the level of productivity of Indian Banks. According to him, the various macro level determinants of profitability were allocational efficiency of funds, level of disintermediation, interest rate movements, volume of credit and provisioning for loan losses. He added that the micro level factors were banking structure, bank size and branch network.

Babu (1997) in his study of three Urban Co-operative Banks in Thrissur district, evaluated resource management efficiency of the banks with regard to their liquidity and profitability performance. Using the various ratios related to profitability, liquidity and business efficiency he proved that one of the banks was vastly superior to the other two as it had higher spreads, higher credit-deposit ratio and higher owned fund/ borrowed fund ratio compared to the other two.

Sharatchandra (1997) analysed the profitability of various commercial banks in West Bengal. He attributed the reasons for low profitability to low credit-deposit ratio, poor recovery, priority sector advances and industrial sickness. He suggested that in order to improve the profitability, an increase in

Credit Deposit (CD) ratio, better recovery position, enhancement of viability of rural branches, reduction in industrial sickness and overall development of infrastructure in the State was necessary.

Hossain and Mainuddin (1998) in their study "Operational Performance of Grameen Banks in Bangladesh" observed that the economic health of the Grameen Bank was weak during the period of study 1983-94 even though its social contribution was high. They attributed the poor performance of the Bank due to its failure to control the non-interest expenses effectively and efficiently. They recommended control of non-interest expenditure and suggested that Grameen Bank's profitability can be effectively enhanced if there is efficient use of its productive resources like manpower and earning assets. They opined that giving top most priority to productivity of capital resources and manpower resources would improve the profitability of Grameen Banks.

Mehta (1998) in his study, 'Future of RRBs – Some Concerns' noted that though the objectives, organisational set up, operating principles and facilitating mechanism of Regional Rural Banks (RRBs) were designed to be 'low cost banking profiles' their very soul has been thrown to the winds because of the removal of their low cost character and change in their focus and objectives. He criticised the changes being made in RRB functioning arguing

that lending to non-target group would not improve their efficiency and reduce their incompetence.

Parmanand (1998) reported that as per the Return on Equity (ROE) Decomposition Model of Dupont system, Old Private Sector Banks secured the highest ranking closely followed by SBI, foreign banks, SBI's Associates and nationalised banks respectively. However, he observed that the interest expenses, cost of deposits and cost of funds were the highest among the Old Private Sector Banks although they fared quite well on yield on advances and investments.

Sankaraiah and Reddy (1998) in their study 'Recovery performance of Rayalseema Grameen Bank' observed that though the Bank has spread far and wide in its operational area and showed good progress in credit deployment along with branch expansion, the problem of mounting overdues could not be ignored. They noted that the inadequacy or non recovery of loans inhibited the ability of Rayalaseem Grameen Bank (RGB) to recycle the funds thereby crippling its capacity to draw refinance from apex institutions. They suggested that RGB should be very careful while sanctioning credit and take suitable precautions so as to ensure timely recovery of advances.

Das (1999) in his study to estimate and compare the various frontier efficiency measures of public sector banks found

that both Non-Performing Assets (NPAs) and the size (measured in terms of deposits and staff strength) of the bank had established a significant negative relation with the efficiency estimates like Return on Equity (ROE), Return On Net Worth (RONW), Net Interest Margin (NIM), and 'burden'.

Ramakrishnan (1999) observed that NPAs which adversely affect the profitability of banks could be due to causes attributable to borrowers, banks or even outside factors. Deliberate defaults, improper planning, fraudulent diversion of funds, ineffective management and disposal of assets financed are among the reasons attributed by him for mounting NPAs. According to him floods, cyclone, communal riots and loss of crops due to pest attack are among the causes for borrowers losing their assets and not being able to repay the loans due to denial of income there from. He suggested a number of strategies to tackle this problem and they included correct identification of beneficiary, proper credit appraisal, deputation of skilled officials, rephasement of loans, compromise settlements and strengthening of staff at deficit branches to facilitate recovery of loans.

Padmini and Jaish (1999) made an indepth study of the operational efficiency of the North Malabar Gramin Bank for the period 1986-1996. They found that the Bank had earned profit in all years except during 1991-92 and that the profit had

increased considerably during the last three years. They suggested that the Bank could improve its efficiency by increasing the paid up capital and reserves, since such a measure would decrease its high dependence on borrowings from other financial institutions. They proposed that, like the co-operative banks, RRBs could also start evening branches in places where it was found profitable.

In an assessment of banks' performance before and after the banking sector reforms, Prasad (2000) found that domestic private sector banks were able to make rapid strides in business and market share. He observed that despite increase in costs, domestic private sector banks were able to generate higher revenues through sizeable increase in non-interest income, credit growth and lower levels of NPAs. He suggested that strengthening the private sector banks should assume equal importance as that of privatising the public sector banks since this would pave the way for a sustainable domestic banking industry.

In a study conducted by www.strategicnewspapers.com (2000) on the performance of Kerala based banks for the year ended March 31, 1999, it was found that there was a steep decline in the performance of the banks in the areas of deposit and profitability. It suggested that these banks should undertake an indepth study on their cost of operations, product mix and asset portfolio. It warned that, in case these banks did not change their

business strategy and came out with better product mix and innovative banking ideas, including technological upgradation they would find it difficult to withstand competition from public sector banks which were intrinsically stronger and from the technologically advanced new generation private sector banks.

An evaluation of the performance with respect to productivity and profitability reveals that there has been a mixed trend in banking, with the private sector banks doing much better than the public sector banks. Many of the authors pointed out that profitability is not directly related to size and that profitability is favourably determined by management efficiency, branch profitability, wage productivity, better training of staff and higher spread. They also found that profitability was adversely affected by lower spread, higher burden, higher administrative expenses and lower non-interest income. Among the macro level factors affecting a bank's performance the important ones were deregulation of the financial market and interest rate movements. Hence banks need to adopt new business strategies, which would enable them to strengthen themselves and withstand competition.

2.3 Future Strategies of Banks

The process of globalisation of the Indian economy has become irreversible and will be further intensified in future. In

such an environment, Indian commercial banks will have to equip themselves to meet the challenges of competition from within the country as well as from outside. Banks need to evolve new strategies in order to enhance their profitability, productivity and ultimately their efficiency.

Shah (1979) noted that profitability of banks will not improve merely by increasing the margin between lending and borrowing rates or by increasing minimum service charges for all banks. He observed that the declining spread in banks was not due to squeezing of interest margins but due to the inefficient staffing and working patterns and poor investment management. So banks need to work in these areas in order to ensure effective utilisation of their resources.

According to Robert (1993) the viability of private sector banks was due to their cost effectiveness, quick decision making process, effective implementation and ease of operations. In spite of this, the market share of private sector banks was only two per cent compared to 90 per cent of that of the public sector banks. Since government funds were available only to public sector banks, he opined that private sector banks were discriminated. He suggested that government funds should be made available to private sector banks also and that they should be treated on par with other nationalised banks. According to him,

such a step would improve the market share of private sector banks, their profitability and efficiency.

Subrahmanya (1997) had questioned the sanctity of the Government of India's clearance of the proposal to set up a National Co-operative Bank of India. She expressed the view that this new institution will not be able to infuse life into the weak co-operative banking sector. She observed that the three-tier structure of these banks has led to increase in overheads and suggested elimination of one or more tiers in order to lower the cost of credit to the ultimate borrower. The intermediate level (central co-operative banks) may be eliminated and replaced by branches of the state co-operative banks.

Ammannya (1997) proposed that concern for results and performance should be developed among personnel. He lauded the insistence on the part of Reserve Bank of India (RBI) to sign Memorandum of Understandings (MOUs) with banks in order to obtain definite commitment from the banks for performance. Though such commitment is presently confined to the chairman and top management of banks, he suggested that the same should percolate to the grassroot level of branches and all employees. He proposed that all the staff working in a bank should be involved in performance budgeting exercise in order to win the commitment of the entire work force. This will increase staff performance and productivity.

Saratchandra (1997) had opined that since banks are expected to handle people's money in a competitive environment they have to train the manpower in order to meet the high expectations. It is therefore necessary that every officer should have all round knowledge of the job expected of him. The strategies suggested by him to increase the efficiency and profitability of banks include formulation of strategic corporate plans, change in the attitude of management, freedom in the recruitment of staff and determination of their salaries, development of a market oriented approach in selling their services and promotion of profit oriented strategies in favour of income maximisation.

Fish (1998) suggested that risk assessment and risk management skills need to be improved in all banks worldwide as had been revealed by failures of lending in South East Asia. According to him, marketing management skills and Human Resource Management will also assume importance increasingly. He opined that nowadays since banking is about the use of appropriate technology to provide services to customers, those banks that use their technologies effectively would gain significant competitive advantage.

Toor (1998) had lauded the new scheme of National Bank for Agriculture and Rural Development (NABARD) known as Memorandum of Understanding (MOU) to be signed by RRBs,

sponsoring bank and NABARD. According to him the new style of management through MOUs, would create considerable awareness amongst the staff at all levels and the fixation of targets for time bound performance will force mangers to be result oriented and analytical for achievement of the goals, particularly the profits.

The editorial of the Journal of Indian institute of Bankers (JIIB) (1998) observed that in order to meet the challengers of competition from new entrants effectively, Indian commercial banks need to possess matching financial muscle, as fair competition is possible only among equals. It further suggested that, since a bank's size is determined by the size of its balance sheet, banks should opt for mergers and acquisition in order to acquire a competitive size. This will reduce the cost of product development and delivery.

Ramakrishnan (1999) suggested that banks would have to price their products (deposits and advances) at competitive rates by orienting themselves to the market conditions and adopt an aggressive market approach in order to deliver their products and services to customers. He proposed that banks need to implement quick adjustment in the interest rates depending upon changes in the market conditions. He proposed that in the new competitive environment, public sector banks need to adopt suitable strategies for registering a significant growth in business and attaining

higher market share, making respectable profit through reduction in the level of NPAs and faster recycling of funds and for boosting the employee morale and productivity.

Raju (1999) in his article 'Looming Challenges to Indian Banking' opined that in the new millennium the areas of challenges that lie ahead for Indian banks would be to restructure and reorganise the existing banks so that they become thinner and have leaner administrative offices, close down/merge unviable branches and forge strategic alliance to take advantage of the geographical spread of a bank's branch network. He suggested that bank should concentrate on particular markets to develop new products and services so as to meet emerging consumer needs and professionalise the management structures. According to him, as productivity holds the key for growth of the banking sector, productivity measurement should deserve the attention of the managements as well as the trade unions since only the fittest banks would survive in this century.

Madhukar (1999) opined that the real challenge before banks in the new millennium would be to rationalise branch network and bring about cost reduction by way of mergers of branches, setting up of satellite offices, mobile branches and one man offices without curtailing the present reach. He observed that since interest rate deposits are likely to come down and become

less attractive, banks as well as other institutions would have to bring in additional features like flexibility, convenience and loan linked and insurance linked facilities. He also picturised that in the new millennium, banks will continue to dominate the rural financial scene and the conventional brick and mortar banking will be on the decline with hardly any addition of rural branches. He also suggested that the rural branches would be evaluated by cost and yield factors along with the volume of business.

The Verma working group on weak banks (1999) recommended that the three weak banks, viz., Indian Bank, United Commercial Bank (UCO) and United Bank of India (UBI) should launch a Voluntary Retirement Scheme (VRS) aimed at cutting down 25 per cent of their total work force. Though the Group favoured strict tackling of NPAs it warned against a soft approach such as financial restructuring, merger of banks and narrow banking. The Committee suggested that to tackle NPAs the State and Central Governments should settle all loans that have been guaranteed by them and are in default. For other NPAs, the Committee called for a government owned Asset Reconstruction Fund (ARF) to be set up which would be managed by private asset management companies.

Satyanarayana (2000) proposed that banks should move away from the approach centred on increasing the volume of

business and should go for asset centred approach. He suggested that burden management should emphasise on a two point strategy of planning. Firstly, the banks should strive for enhancement in non-interest income through various services including ancillary and diversified services which were essentially non-fund based. Secondly, they should be operating efficiently by improving the productivity of manpower and other infrastructure.

Pal (2000) observed that if the banking industry was to survive and grow it had to be operationally efficient, financially strong and free from the shackles of bureaucracy. He proposed that the consumers should be given more choice, better services and at lower prices. He further suggested removal of political interference in credit decision, decrease in fiscal deficit and public sector borrowing on the part of the government, attraction of foreign investment, reduction of operating cost and creation of consciousness on profitability/ productivity and motivation to the employees to be more competitive, operationally efficient and financially strong. He also appealed for privatisation of public sector banks as they were becoming more and more ineffective day by day. He opined that the work culture at all levels in most of the banks was highly unsatisfactory for the simple reason that they were suffering from 'public sector virus'. According to him, at the lowest level the name of the disease was 'inefficiency' whereas at

the middle level, it was 'indifference' and at the highest level it could be called 'indecisiveness'.

While studying the changes in structure and performance of Indian banks consequent upon the banking reforms that have taken place in 1991-92, Vaikunthe (2000) made a case in favour of privatisation. According to him though the public sector banks dominate the banking sector in India, both in the matter of deposits and advances; they are inefficient and involved in heavy losses. He opined that prevalence/existence of large scale private banks to provide more meaningful competition, could help to improve the performance of public sector banks. However as this solution would lead to far greater problems, he favoured the privatisation of at least some of the public sector banks as a more acceptable alternative.

In the new scenario, banks which are more technologically driven and are more attuned to the demands of the customers and market can survive and grow. Though Indian banks have done a commendable job in trying to catch up with the new trends, there is still scope for improvement. Many of the authors appealed for privatisation of public sector banks since they were of the opinion that public sector banks were inefficient and unproductive. The public sector banks will have to introduce more customer friendly products and services, ensure cost effectiveness,

rationalise branches and motivate employees in order to increase their performance and productivity.

2.4 Trends in Agricultural Lending by Banks

Agricultural credit assumes significance in view of agriculture becoming increasingly capital intensive. The fact that agriculture contributes a sizable portion of the National Income also cannot be ignored. Highlighting the importance of agriculture in the economy Godse (2001) stated that "better growth rates in GDP can be directly related to better performance of the agricultural sector even during the post reform period, notwithstanding the apparent neglect of the sector". An overview of the trends in agricultural lending which is part of directed credit assumes importance particularly after the debate triggered by the recommendations of the Narasimham Committee to gradually phase out such lending and the implications of WTO Agreement on Agriculture to phase out subsidies to the sector.

In his study 'Commercial Banking Development in India', Chippa (1987) noted that one of the factors affecting agricultural development in a state was bank credit. He found that the share of agricultural credit to total bank credit increased from a mere 0.60 per cent in 1960 to 12.49 per cent in 1979. He pointed out that although the share of bank credit going to agriculture was

increasing over the years, it was still insignificant when compared to its contribution to Gross National Product (GNP). He concluded that there was a very weak relation between banking and agricultural development in the initial period which might increase in the subsequent years.

According to Mitra (1990) productivity in rural lending cannot be achieved if the government remained a mere spectator giving all the responsibility to banks. Infrastructural supports like marketing, inputs, extension services and proper environment for recovery avoiding petty political interests should the created. He suggested for the reduction of delays in the recovery of bank loans and taking up appropriate action to enable better productivity in rural lending.

Narasimham Committee (1991) agreed that directed credit programmes had made an impact on the growth of agriculture and small scale industry. They however felt the need for a re-examination of the relevance of these sectors so as to find out which borrowers could stand on their own feet and which could not. The Committee proposed to redefine priority sector to comprise small and marginal farmers, tiny and cottage industries, rural artisans and other weaker sections. It further suggested phasing out of these lendings through a gradual process of

redefinition and reduction in the percentage of aggregate credit flowing to these sectors.

Vyas (1991) had refuted the allegation that RRBs have an inbuilt non viability because of their obligation to give small loans to weaker sections, lower interest rates chargeable on borrowers, high cost of servicing large number of small accounts resulting in low net return on advances and the unprofitable nature of large number RRB branches. According to him, even though RRBs charged a low rate of interest on loans they could get refinance facility on such loans and so it did not affect their profit margin. Similarly, even though RRBs serviced small loans to weaker sections, their number of accounts was larger than those of a commercial bank. So in these circumstances, servicing a large number of small accounts or a small number of large accounts would not make a substantial difference as far as servicing cost per rupee is concerned since they could avail refinance facilities.

Binswanger and Khandker (1992) in their study "The Impact of Formal Finance on the Rural Economy of India" provided empirical evidence on the relationship between credit and output in the agricultural sector. They found that rural credit led to modest increases in the use of fertilisers and investments in physical capital like tractors, pumps and animal stock. Further

they found that the expansion of the rural financial system had a positive effect on rural non-farm employment and output.

Rangarajan (1992) in his article "Banking and Profitability" attributed the extent of NPAs of a bank as one of the main factors responsible for the erosion in bank profitability. According to him, banking institutions have the responsibility of maintaining the quality of their credit portfolio. He opined that directed credit per se does not lead to NPAs as banks have a choice of borrowers. Hence banks should adopt rigorous credit appraisal techniques in order to detect incipient/developing sickness and employ the health code system for monitoring accounts and improving the quality of loan assets.

Agarwal (1992) pointed out that banks, in positive response to the call for discharging social obligations, had undertaken the financing of the priority and neglected sectors. However, he noted that the banks experienced certain unique and newer problems during the course of managing their lending operations to these sectors. These included incompatibility of the ideology of priority sector lending with that of sound commercial banking principles, negative external influences from politicians and government officials, poor credit risk and non remunerative interest rates, mounting over dues and lack of adequate & skilled personnel.

A study conducted by Kumar and Gaur (1993) in Himachal Pradesh on the role of financial institutions in agricultural development revealed that commercial banks recorded significant progress in the sphere of agricultural credit while they faced organisational, legal, procedural, environmental, political and social problems. Besides, there were some problems in direct financing to agriculture like difficulties in getting certificates and documents from revenue departments, imbalance in the position of commercial banks vis-à-vis co-operative banks in implementing credit schemes due to government patronage of co-operatives, lack of physical infrastructure and market arrangements in rural areas, lack of trained staff and difficulties in recovery of loans.

Renu (1997) observed that there was no clear cut evidence linking directed credit programme in India to the low profits exhibited by Indian public sector banks. She disagreed with the general view taken in the Narasimham Committee Report that directed credit programme leads to shrinking of credit to other sectors like trade and industry. According to her, the large scale increase in bank assets during the post nationalisation and pre liberalisation period made it clear that there was no contraction in the supply of loanable funds to trade and the large industry. She also refuted the allegation that directed credit policy had adversely affected the profitability and loan portfolio quality of the banking system. She pointed out that even though the transaction costs

were high for small loans and interest rates on priority sector loans were subsidised, the sectoral differentials in interest rates had not been very high. Thus the idea that profits were sensitive to interest rates was not true in the Indian context.

Majumdar (1997) pointed out that there had been a shrinkage in the flow of credit to the rural sector. He attributed it to the gradual decline of public sector banks as a result of the financial sector reforms. According to him, there had been a mushrooming growth of NBFCs which focussed exclusively on the urban sector. Hence funds moving from the rural sector to urban sector were adversely affecting priority sector lending. If funds had been mobilised by the public sector banks, it would have in the normal course, found its way to the rural sector through priority sector lending.

Ahmad (1997) attempted to analyse the business performance of Aligar Gramin Bank for a period of three years (1994-96). According to him, the main problems preventing RRBs viability, profitability and efficiency were low business, high operating costs, and limited area of operation. He recommended that RRBs should devote more of their time in visiting the service areas of their branches, making regular contacts with the residents of that locality, educating the residents about the advantages of thrift and savings and encouraging them to undertake income

generating activities which the bank could finance on easy terms. Besides, RRBs could finance to non-target groups and invest in securities where returns are higher rather than depositing in sponsoring banks.

In view of the declining Gross Capital Formation (GCF) in agriculture, Patel (1997) suggested some remedies like stepping up of investment in agriculture through a deliberate policy by Government of India so as to reach 20 per cent GCF as envisaged in the Ninth Five Year Plan. He further recommended for creating a climate for prompt repayment of bank loans both by publicly elected leaders and bureaucrats occupying commanding positions at the local level. He suggested for modifying the asset classification norms under prudential accounting standards for agriculture taking into consideration the peculiarities of agriculture.

Reddy *et al.* (1997) pointed out that though co-operative banks have the prime objective of financing agriculture through promoting thrift and self help among the farmers, they were not able to solve the problems of agriculture. They suggested that this gap could be bridged by introducing new policies and providing new directions to the present co-operative credit system. According to them the hope of rural India lies in providing a stable income to the agriculturists and this could be achieved by

revamping the entire agricultural credit system in the era of New Economic Policy.

The Gupta Committee on Agricultural Credit (1998) reported that the agricultural community placed more importance on timely availability of credit rather than lower interest rates. According to the Committee, banks should have self-set targets for lending to the agricultural sector, prepare special credit plans aimed at increasing credit flow to it and improve quality of lending as well.

Shajahan (1999) observed that the basic approach followed by RBI regarding priority sector lending during post liberalisation period was to broaden the scope of priority sector lending by adding new areas and thereby encourage diversion from direct priority sector lending. Hence banks could fulfil the targets of 40 per cent of their total advances to priority sector without lending much more to the previously defined priority sector areas.

A report in The Hindu (2000) observed that both the public sector and private sector banks had been consistently falling short of their target of lending to the agricultural sector for the past few years. It pointed out that private sector banks were unable to meet their targets because the number of branches in rural areas were few. As far as public sector banks were concerned

it was observed that their agricultural lending in absolute terms had registered an increase though there was a shortfall in percentage terms.

While evaluating the progress of banking in the light of the financial sector reforms with respect to the two objectives of improved profitability and efficiency, Vaikunthe (2000) pointed out that there had been a change in the scope of private bank operations. He observed that there was appreciable reduction in the proportion of bank credit to priority sector. This was in spite of the fact that credit to priority sector had increased in absolute terms.

Sinha (2001) argued that commercial banks are not equipped to be efficient micro credit lenders and hence the current policy of Government of India (GOI) to lend 40 per cent of their total advances to priority sector was not effective. He suggested that RBI could ask banks to put the entire amount of their micro credit lending requirement into specified bonds of Small Industrial Development Bank of India (SIDBI) and Rural Infrastructure Development Fund (RIDF). The funds so collected could be directed through a refinance agency to organisations better equipped to grant such loans.

Godse (2001) reported that the approach towards lending continues to be target-oriented with little regard towards

asset quality. He observed that the 1990s has seen only the Kisan Credit Card and attributed it to inadequacy of Research and Development (R&D) efforts at the Agricultural Universities. Credit operations continue to be faced with the problems of lack of supervisory skills resulting in mounting overdues, bankers' hesitation in lending and rigid legal framework and procedures. He advocated a complete evaluation of the various programmes and polices and the adoption of a co-ordinated approach towards lending.

Many authors have pointed out the declining trend in agricultural lending, especially in the aftermath of liberalisation, privatisation and globalisation. Considering its importance in the economy, urgent steps need to be carried out to arrest this decline. The authors have suggested various alternatives like revamping of the co-operative credit societies and RRBs, preparation of special credit plans to revitalise the credit sector and creation of a climate for prompt repayment by eliminating the unwanted role of politicians and bureaucrats.

2.5 Conclusion

The need for revamping of the definition of productivity and profitability beyond the traditionally accepted ones has been highlighted by many experts. This will enable banks

to measure their efficiency more accurately besides bringing out certain relationships which would otherwise have been over looked. Many experts were of the view that size of banks and profitability were not directly related. They pointed out that since profitability is affected by factors like spread, cost of funds, timely recovery of advances and efficient management they have to be given due consideration to increase the efficiency of banks. In the present scenario, as banks are also affected by marco level factors like deregulation and fluctuating interest rate movements, they can strive to reduce cost by opting for mergers and acquisitions, rationalisation of branch network and improvement of their fee based income. Since the new environment has led to competition among banks, they should adopt new strategies to recruit competent personnel and ensure commitment from them in order to increase efficiency. Privatisation may even be adopted as a measure to increase productivity and efficiency of banks.

Though experts have varied opinions as to whether directed credit leads to low profitability, they have agreed that the ideology of priority sector with emphasis on factors like non remunerative targets has adversely affected profitability. The experts pointed out that banking in the post liberalised era has seen an absolute increase in priority sector lending. But this has to be treated with caution because the increase has not been marked by sharp increase in the share of banks credit going to

priority sector. Hence the increase may have been achieved by widening of the definition of priority sector and not due to any perceptible change in the banks' attitude towards priority sector lending.

To sum up, the review of literature reveals that with the possible exception of a few, the studies were centred on traditional performance indicators and hence not reflective of the true state of efficiency of a bank. Systematic efforts to review the performance of banks in relation to various performance criteria like capital productivity, staff productivity and Return on Equity will give true and better picture about the financial strength, competitiveness and relative standing of banks concerned. The present study is an attempt in this direction of assessing the performance of Kerala based banks on the basis of the new efficiency indicators drawing useful inferences compiled from the studies reviewed.

Materials and Methods

CHAPTER 3
MATERIALS AND METHODS

The adoption of new prudential norms requiring banks to consider all possible risks and to adhere to the international accounting norms have pressurised banks to improve their performance. It has therefore been felt that the definition of productivity and profitability need to be reconceptualised in order to reflect the changing environment. Chatterjee (1998) remarked that the old measurement of profitability which relied on the ratio of business generated (sum of deposits and advances) to the number of employees was becoming irrelevant because the era of development banks had ended. In this context, new efficiency indicators of profitability and productivity for measuring the performance of banks have become a necessity. The focus of this chapter is to explain these new terms/ concepts and to detail the methodology adopted for analysing the performance of banks in the light of the new efficiency indicators. The chapter is divided into three parts, the first part dealing with the conceptual framework, second giving an overview of banks in India in the backdrop of the social objectives entrusted upon banks and the banking sector reforms since 1991 and the third discussing in detail the methodology adopted for the study.

3.1 Conceptual Framework

The terms and concepts used for analysing the profitability and productivity of Kerala based banks with the help of new efficiency indicators are discussed below.

3.1.1 Profitability

Profitability is the effectiveness or efficiency with which the operations of a business are carried on. Basically it is a concept based on profits. Since it is a relative concept, profits are expressed as a rate or as a percentage of total assets or sales or any other variable to represent assets or sales. Profitability is different from profit because it does not reveal how much is earned (gained) rather it deals with how efficiently earning is done.

3.1.2 Total Revenue/ Total Income

Total Revenue or total income of a bank is the sum total of the 'interest earned' and 'other income' or 'non interest income'. 'Interest earned' includes interest/discount on advances/ bills, income from investments, interest on balances with RBI and other inter bank funds. 'Other income' or 'non-interest income' earned by the bank includes commission, exchange and brokerage, profit on sale of investments, profit on revaluation of investments,

profit on sale of land, buildings and other assets, net profit from exchange transactions, income earned by way of dividends from subsidiaries/companies and/or joint ventures abroad/in India and miscellaneous income.

3.1.3 Interest Expended

Interest expended is the sum total of the interest spent on deposits, interest on RBI/inter bank borrowings and others.

3.1.4 Operating expenses/ Non-interest expenses

Operating expenses is the sum of the operating expenses incurred by a bank like payments and provisions for employees, rent, taxes and lighting, printing and stationery, advertisement and publicity, depreciation on bank's property, directors' fees, allowances and expenses, auditors' fees and expenses, law charges, postage, telegrams and telephones, repairs and maintenance insurance and other expenditure.

3.1.5 Net Income

Net income is the net profit of the Bank. From the accounting point of view, it is the positive difference between total income or total revenue and expenditure of the financial

institutions. It may be noted that expenditure is the sum total of interest expended, operating expenses and provisions and contingencies.

3.1.6 Net Interest Margin or Spread

Net interest margin or spread is the excess of 'interest income' (interest earned) over interest expenses (interest expended) by a bank.

3.1.7 Burden

Burden is the difference between non interest expenses and non interest income (other income).

3.1.8 Average Equity

It is the average of the paid up capital of the bank of two consecutive years. In common parlance equity includes the paid up share capital and reserves and surplus. But for the models used for analysis, reserves and surplus have been excluded from the purview of calculation.

3.1.9 Average Assets

It is the average of the assets of a bank for two consecutive years. It includes cash and balance with RBI, balance

with banks, money at call and short notice, investments, advances, fixed assets and other assets of the bank.

3.1.10 Total Advances

Total Advances is the sum total of all advances made by the bank in a particular year. It is classified into three ways based on facility, security and advances in and outside India. The total of each individual section gives the total advances of the bank. Facility-wise advances are by way of cash credit, overdraft and loans repayable on demand, bills purchased and discounted and term loans. Based on type of security, advances are divided into those secured by tangible assets, covered by bank/government guarantee and which are unsecured. The advances in India consist of lending to priority sector, public sector, banks and others. The advances outside India comprise of those advances which are due from banks, due from others, bills purchased/discounted, syndicated loans and others.

3.1.11 Return on Equity (ROE)

ROE is defined as 'net income' divided by 'average equity' and measures net profit of a bank per rupee of equity capital. This ratio indicates the percentage of profits earned and will give an idea as to whether the capital is effectively used or not.

3.1.12 Return on Assets (ROA)

Return on Assets is defined as 'net income' divided by 'average assets' and measures net profit per rupee of assets. This ratio is computed to find out the 'profitability' of assets.

3.1.13 Equity Multiplier (EM)

EM is defined as 'average assets' divided by the 'average equity'. It measures a bank's leverage or the rupee amount of assets pyramided on the bank's base of equity capital (Das, 1999).

3.1.14 Profit Margin (PM)

Profit Margin is defined as 'Net income' divided by 'total revenue' (both interest and non-interest revenue). It measures net profit per rupee of total revenue.

3.1.15 Asset Utilisation

Asset Utilisation is defined as 'total revenue' divided by the 'average assets' and measures total revenue per rupee of assets.

3.1.16 Return on Net Worth (RONW)

RONW is defined as 'net income' divided by the 'average net worth'. Average net worth is defined as the average

of the sum of equity capital and reserves and surplus for two consecutive years. RONW calculates the return on shareholders' total equity. It indicates the return on the funds invested by shareholders either directly or through retained earnings.

The above-discussed yardsticks form the basis for assessing the efficiency of individual banks and for comparing their relative efficiency which is done under Results and Discussion in the following chapter.

3.2 Indian Banking – Retrospects and Prospects

It has been aptly said that a banking system will nourish the development process of a country. The process of sustained development demands the emergence of a dynamic banking system operating on sound lines. Indian banking has gone through different phases to emerge as one of the world's largest banking industries. The growth of Indian banking can be broadly divided into two phases – one dealing with the state of affairs before and after nationalisation titled as pre-reform phase and the other after the commencement of privatisation adopted in the 1990s i.e., the post-reform phase.

3.2.1 Pre-Reform Phase

In the 1950s the banking sector was geared to serve the objective of socially oriented programmes. To this end, the

Imperial Bank of India was nationalised in 1955 and thereafter came to be known as the State Bank of India. A bill was introduced in Lok Sabha on 23rd December 1967, to amend the Banking Regulation Act, 1949 so as to provide for extension of social control over banks in order to achieve the objective of wider spread of bank credit and direct a large volume of credit to priority sector. The Bill was passed in 1968 and came into force in February 1969. This was followed by the nationalisation of 14 major commercial banks on 19th July, 1969. This enabled the banks to expand their geographical and functional coverage to remote rural areas. Besides, it revolutionised the concept of 'mass banking' which had been confined to 'class banking'. During this period, the Government policy encouraged the banks to finance the priority sectors of the economy viz., agriculture and Small Scale Industries (SSI). In 1975, the Government of India promoted the Regional Rural Banks (RRBs) under the sponsorship of nationalised banks in order to cater to the specific needs of the rural economy.

In 1980, the second phase of nationalisation took place with six more banks having time and demand liabilities of Rs. 200 crores and above being nationalised. Thus the banking industry in the 1970s and 1980s was simply a replica of the various Government polices and programmes. The flow of credit to priority sectors, poverty alleviation programmes and various

other rural development programmes were in tune with these policies.

It was during this period that various anti poverty programmes like Integrated Rural Development Programme (IRDP), Scheme for Providing Self Employment to Educated Unemployed Youth (SEEUY), Small Farmers Development Agency (SFDA), Marginal Farmers and Agricultural Labour Agency (MFAL), Minimum Needs Programme (MNP) and Training of Rural Youth for Self Employment (TRYSEM) were launched. Besides the RBI launched various programmes for rural and semi-urban financing by commercial banks and RRBs like Lead Bank Scheme (LBS), Village Adoption Scheme and Service Area Approach. Even though these polices led to unprecedented increase in the number of branches and personnel there were negative effects also. Social banking being a less profitable business, was believed to be responsible for pushing down banks' overall profitability in the eighties.

3.2.2 Post-Reform Phase

The impressive widening and deepening of the banking system in the decades following nationalisation was achieved at a huge cost with the competitive efficiency of Indian banks declining.

By 1990, there was serious concern on account of poor financial condition of commercial banks, most of which were in the public sector. Some of these had already become unprofitable and undercapitalised with high level of NPAs. Recognising the need to revamp the system, the Government of India appointed the Narasimham Committee to address the problems and suggest remedial measures. The Committee's main aim was to create a competitive and efficient banking system and its recommendations were a significant departure from the existing banking regulations. The Committee's main recommendations comprised the following:

1. Deregulation of the entry of the new private sector banks' both domestic and foreign.

2. Liberalisation of branch licensing policy giving banks more freedom to plan branch expansion.

3. Phase wise deregulation of interest rates on deposits and advances.

4. Introduction of Capital Adequacy norms in line with that set up by the Bank for International Settlement (BIS), Basle.

5. Introduction of new norms of income recognition, asset classification and provisioning.

6. Gradual reduction of Cash Reserve Ratio (CRR) and Statutory Liquidity Ratio (SLR).

7. Need for redefining the concept of priority sector and for gradually reducing priority sector lending to ten per cent of the net bank credit.

The Government accepted most of the recommendations of the Committee and implemented them as part of the ongoing economic reforms. Thus the 1990s have seen many changes like complete deregulation of interest rates both for deposits and advances of commercial banks except for very small loans, entry of new generation private sector banks which has increased the standards of technology in banking industry and blurring of distinction between banks and financial institutions. These reforms undertaken over the past few years were indeed epoch making and provided the foundation for an efficient and well functioning financial system.

Table 3.1 presents a comparison of performance of the Indian Commercial Banks during the pre-reforms and post reforms phase.

Table 3.1 Performance of Indian Commercial Banks for the period 1969-2000

(Amount in Rs. crores)

Year	1969				2000				
Parameters	Rural	Semi urban	Urban and Metro-politan	Total	Rural	Semi Urban	Urban & Metro-politan	Total	Growth rates (1969-2000)
No. of scheduled commercial banks	NA	Na	Na	73	-	-	-	281	284.93
No. of branches	1832 (22.17)	3322 (40.21)	3108 (37.62)	8262 (100.00)	32798 (48.71)	14536 (21.59)	20005 (29.71)	67339 (100)	722.51
Deposits	145 (3.11)	1024 (21.95)	3496 (74.99)	4665 (100.00)	120447 (14.65)	160060 (19.47)	541626 (65.88)	822133 (100)	17523.43
Advances	54 (1.50)	407 (11.27)	3148 (87.23)	3609 (100.00)	47396 (10.11)	55020 (11.73)	366616 (78.16)	469032 (100)	12896.18
Credit deposit ratio (%)	37.25	39.74	90.05	77.36	39.35	34.38	67.69	57.05	-
Deposits per branch (Rs in lakhs)	10.05	30.82	112.48	56.46	367.24	1100.13	2707.45	1220.89	-
Advances per branch (Rs. in lakhs)	2.95	12.25	101.29	43.68	144.51	378.52	1832.62	696.52	-

Source: 1. Compiled from *IBA Bulletin,* 2001, XXXIII (4&5); 14

2. Statistics-Progress of Commercial Banking India, 2001, *Banking Finance* XIV (7): 40

Table 3.1 depicts the performance of banks for the period 1969-2000. The banking business as a whole has witnessed wide sweeping changes in the last few decades. One of the main reasons for the nearly four fold increase in the number of banks may be setting up RRBs since 1975.

The rate of growth of advance in general has been lower than that of deposits during the period. Hence it may be inferred that credit deployment was not in tune with the increase in deposit mobilisation. This is reflected in the decline in the credit deposit ratio of the banks also.

The share of rural branches have increased from 22.17 per cent to 48.71 per cent in 2000 mobilising 19.65 per cent of the deposits. In spite of this increase in rural branches, its share in advances is only 10.11 per cent. With 29.71 per cent of branches, Urban and Metropolitan branches are mobilising 65.88 per cent of the deposits and deploying 78.16 per cent of advances. This may be due to the fact that industrial units are centred around urban areas with modern infrastructural facilities and hence bankers prefer to lend to these areas compared to the rural sector. This reluctance of the commercial banks to lend to the rural community has resulted in the rural branches functioning more as deposit mobilisers rather than lenders.

3.2.3 Banking Scenario in Future

In the new liberalised environment, the areas of challenge for banks would be risk management, rural credit delivery system, customer satisfaction, profitability, human resource development and participative and strategic planning. Since these banks have to compete with both the new generation private sector banks and foreign banks they need to acquire a

competitive size by either opting for mergers and acquisition or strengthening of their balance sheets through asset securitisation and recovery of NPAs.

The near future is likely to witness an increase in disintermediation and competition among banks putting a pressure on spreads of banks. Banks, therefore, have to be on the constant lookout for new avenues for earning income. Banks need to introduce innovative new banking products and also suitably reposition themselves in the market so as to succeed in the future. Banks in the new scenario, will have to chalk out suitable strategies to meet the needs of both the clients in rural and semi-urban areas and the urban sophisticated elite. A successful and profitable bank will be one which is able to provide services which are simple and have low cost delivery for the rural and semi urban customer while at the same time being in a position to provide the latest sophisticated technology to its elite customers. Last but not the least, banks must give top priority to Human Resource Development since these challenges are to be faced through their staff. These measures, if adequately followed, would ensure that banks become strong, healthy and sound financial institutions.

3.3 Methodology

The methodology of the study is divided into two parts i.e., data collection and analysis.

3.3.1 Collection of Data

For conducting the study on the performance of Kerala based banks, six banks from the total ten Kerala based banks have been selected. A Kerala based bank is considered as one which is having head office in Kerala. Of the ten Kerala based banks, three viz., State Bank of Travancore (SBT), South Malabar Gramin Bank (SMGB) and North Malabar Gramin Bank (NMGB) are in the public sector, the last two being Regional Rural Banks (RRBs). There are six banks in the private sector comprising of the South Indian Bank Ltd (SIB), Dhanalakshmi Bank Ltd (DB), Catholic Syrian Bank Ltd (CSB), Nedungadi Bank Ltd (NB), Federal Bank Ltd. (FB) and Lord Krishna Bank Ltd. (LKB). The Kerala State Co-operative Bank (KSCB) is the lone bank in the co-operative sector. Of these ten banks, six have been selected for detailed study consisting of SBT, SMGB (public sector) SIB, CSB, DB (private sector) and KSCB (co-operative sector). The SBT, which is the only public sector bank in the State in the State Bank Group and KSCB, have been selected for the study. Along with this, one of the Regional Rural Banks (RRBs) viz., SMGB has been included in order to represent 50 per cent of RRBs in the State. SIB, CSB and DB representing half of the private sector bank population have been incorporated in the study through random sampling.

The study is based on data for a period of six years from 1994-95 to 1999-2000. Secondary data has been mainly used

which was made available from the Annual Reports of the Banks concerned, collected from the respective head offices. These include data on

i) Net income
ii) Average equity
iii) Average assets
iv) Total revenue
v) Interest expended on deposits
vi) Interest expended on non deposits
vii) Provisions and Contingencies
viii) Wages and salaries
ix) Total operating expenses
x) Interest/discount income from loans/bills
xi) Interest income from investments
xii) Commission exchange
xiii) Brokerage income
xiv) Net profit from exchange transaction
xv) Net Interest Margin
xvi) Burden
xvii) Total advances
xviii) Priority sector advances
xix) Agricultural advances
xx) Trends in agricultural lending by Kerala based banks
xxi) Share of Kerala based banks in agricultural lending.

Data have also been collected from journals like RBI bulletin, IBA Bulletin, Banking Finance, Southern Economist and Economic and Political Weekly. Primary data used for the study relates to agricultural advances disbursed by the selected banks during the study period of six years which has been collected from the head offices of the concerned banks. The first and second objectives of the study i.e., analysing the performance of Kerala based public, private and co-operative sector banks and comparison of the relative efficiency of these banks have been analysed by using secondary data alone. This has been achieved by employing three models viz., Return On Equity (ROE) Decomposition Analysis, Weighted Productivity Index and the Market Share Concept. For assessing the efficiency of each bank using the Market Share Concept, data were collected from all the ten Kerala based banks since the market for the purpose is considered as the total business of all these ten banks in and outside Kerala. The third objective of examining the role of these banks in agricultural lending has been carried out by collecting data for six years from the concerned banks' headquarters.

3.3.2 Analysis of Data

The three models used for ascertaining the comparative performance and relative efficiency of the Kerala based banks and the method of analysis of data are discussed below:

i) Return On Equity (ROE) Decomposition Analysis

Return on Equity (ROE) model consists of three stages. In the first stage Return On Equity (ROE) and its two components – Return on Assets (ROA) and Equity Multiplier (EM) are calculated. In the second stage of the analysis (also referred as the Du Pont Analysis), ROA is further split up into Profit Margin (PM) and Asset Utilisation (AU). In the last stage both the Profit Margin and Asset Utilisation are further decomposed. Each of these components are in turn analysed with respect to a bank's 'total income' or 'total assets'.

The theoretical paradigm of the ROE Decomposition Analysis is presented in Exhibit 3.1.

Exhibit 3.1. Return On Equity (ROE) model

Stage I

ROE = Net Income/ Average Equity ...(1)

ROE = Return on Assets (ROA) X Equity Multiplier(EM)... (2)

Stage II

ROA = Net Income/ Average Assets ... (3)

or ROA = Profit Margin (PM) X Asset Utilisation (AU) ... (4)

Stage III

Stage III further decomposes both PM and AU with respect to 'total income' or 'total assets'.

Source: Das, M.R. 1999. *SBI Monthly Review,* XXXVIII (2): 761.

It may be noted that ROA and ROE found out under the study differ from the corresponding figures published in the balance sheet of the banks concerned due to methodological differences in computation. In the balance sheet, banks have computed the ROE and ROA on the basis of equity and total assets outstanding at the end of each financial year. However the study has used moving averages of the relative figures over two years. This has been done to maintain stock-flow compatibility. Such a measure is necessary since certain variables like net income is a "flow" variable whereas assets and equities are "stock" variables.

Besides the study has taken into account only the equity capital and not reserves and surpluses for the calculation of ROE.

ii) Weighted Productivity Index

In the Weighted Productivity Index model, the staff/employee, capital and weighted productivities are developed. Staff/employee productivity has been measured by income generated per unit of wage bill expended. Capital productivity has been measured by the ratio of interest earned to interest expended. This is also called as the rate of return on capital since interest earning is the output of capital whereas interest expended is the cost of capital. The Weighted Productivity Index has been

formulated by combining both staff/employee productivity and capital productivity. Out of the total weightage of one, the capital productivity has been given a weightage based on the contribution of interest income to the total income, the remaining being assigned to employee/staff productivity. A theoretical pattern of the Weighted Productivity Index model is presented in Exhibit 3.2.

Exhibit 3.2 Weighted Productivity Index

$EP_i = TI_i / WB_i$ ... (1)

Where EP_i = Staff/employee productivity of the i^{th} bank

TI_i = Total Income of the i^{th} bank

WB_i = Wage Bill of the i^{th} bank

$CP_i = II_i / IE_i$ ... (ii)

Where CP_i = Capital Productivity of the i^{th} bank

II_i = Interest Income of the i^{th} bank

IE_i = Interest Expenditure of the i^{th} bank

$WP_i = 0.11 * EPi + 0.89 * CPi$

Where WP_i = Weighted Productivity Index of the i^{th} bank

EP_i = Staff/ Employee Productivity of the i^{th} bank

CP_i = Capital Productivity of the i^{th} bank

Source: Chatterjee, S. 1998. *IBA Bulletin,* XX (2): 39-41

In this hypothetical example, capital productivity has been given a weight of 0.89, the rational being, in the total income of the bank, it is assumed that interest income formed about 89 per cent. Similarly staff/ employee has been given a weightage of 0.11, since the remaining 11 per cent is contributed by non-interest income.

iii) Market Share Concept

In the Market Share Concept, the market share of each bank in various input factors has been ascertained in order to gauge the efficiency level. The network of branches, the number of staff, wage bill and non wage operating expenses are taken under input while deposits, non-deposit working funds, advances, investments, interest spread, non-interest income and net profit are considered under output. In order to facilitate comparison of one bank with the other irrespective of size or location, the market share of each factor in percentage terms has been taken into account instead of the absolute levels. The productivity of the bank is in turn assessed by the ratio of the average market share of the output factors to the average market share of all input factors.

A brief picture of the model is presented in Exhibit 3.3.

Exhibit 3.3 Market Share Concept

Input factors

a) Net work of branches

b) Number of staff

c) Wage bill

d) Non-wage operating expenses

Output factors

a) Deposits

b) Non-deposit working funds

c) Advances

d) Investments

e) Interest spread

f) Non-interest income

g) Net-profit

$$\text{Productivity of bank}(\%) = \frac{\text{Average Market Share of all the Output factors}}{\text{Average Market Share of all the Input factors}} \times 100$$

Source: Satyanarayana, K.1996. *IBA Bulletin* XVII (4):8-11

The efficiency indicators worked out for each bank are compared for finding the relative efficiency by using bi-variate and multi-variate tables. The analysis of the performance of these banks in agricultural lending has been done by means of percentages. Growth rates, have been also worked out in the case of selected indicators while presenting the profile of the organisations selected for the study.

3.4 Composite Index

In order to obtain an integrated view of the overall performance of a bank, a Composite Index has been developed. Finally, based on the scores obtained by the banks, they have been ranked.

3.4.1 Conceptual Framework

The following parameters have been selected from the three models discussed, and the study of the trends in agricultural lending by Kerala based banks for the construction of the Composite Index.

1. Return on Equity (ROE)
2. Return on Assets (ROA)
3. Equity Multiplier (EM)
4. Return on Net Worth (RONW)
5. Assets Utilisation (AU)
6. Profit Margin (PM)
7. Operating expenses/Total revenue
8. Net Interest Margin (NIM)/Average assets
9. Burden/Average assets
10. Employees Productivity Index (EPi)
11. Capital Productivity Index (CPi)
12. Weighted Productivity Index (WPi)
13. Efficiency of the bank when the market consists of six banks

14. Efficiency of the bank when the market consists of 10 banks.
15. Percentage share of agricultural advances to total advances.

These parameters have, in turn, been converted into an index in order to facilitate comparison. In the absence of a universal standard, the highest value obtained by the banks in each indicator had been selected as the ideal value. Based on this, these indicators have been converted into a comparable index. The total of these indices for each bank has been calculated for all the six years. Then based on the grand total obtained by a particular bank during the six year period of study, they have been ranked.

The performance of the Kerala based banks has also been evaluated sector–wise. For this purpose the total indices obtained by the public, private and co-operative banks has been calculated separately for each sector. Since there are two banks in the public sector, three in the private sector and only one is the co-operative sector the average performance has been taken in order to obtain a true picture.

The analysis, presentation and interpretation of data collected from the Kerala based banks by applying the concepts and models discussed above are dealt in the next chapter.

Results and Discussion

CHAPTER 4
RESULTS AND DISCUSSION

Profitability is a key factor which has emerged in the era of economic liberalisation and the ensuing competitive environment in India in the aftermath of financial sector reforms. Besides this, productivity, which is associated with profitability has gained prominence due to banks' desire to be more efficient. As the old performance indicators like profits, advances and volume of business per employee have become outdated, banks are relying on internationally accepted indicators which are more comprehensive and highlight a truer picture. Similarly productivity which used to be merely per employee business calculation assumes more meaning and depth when variables like wage bills, non wage operating expenses and capital productivity are given due weightage.

The present chapter discusses the competitive efficiency of the Kerala based banks by analysing their productivity and profitability based on the new efficiency indicators. The chapter is divided into three broad sections viz.,

4.1 Profile of the organisations under study

4.2 Profitability and productivity of Kerala based banks.

4.3 Trends in agricultural lending of Kerala based banks

Out of the ten Kerala based banks, six comprising of two from public, three from private and one from co-operative sector are taken for detailed study. A profile of these six organisations forms the first part of the chapter. The second section discusses the first and second objectives of the study i.e., analysing the performance of the Kerala based banks and comparing their relative efficiency. The role of these banks in agricultural lending which is the third objective of the study is analysed in the last section of the chapter. This assumes significance in the light of opinion among experts that directed credit is one of the factors leading to erosion of banks' profitability.

4.1 Profile of the Organisations Under Study

Six Kerala based banks have been selected for the study comprising of the State Bank of Travancore (SBT) and South Malabar Gramin Bank (SMGB) in the public sector, Catholic Syrian Bank (CSB), Dhanalakshmi Bank (DB) and South Indian Bank(SIB) in the private sector and the Kerala State Co-operative

Bank(KSCB) in the co-operative sector. The profile of these organisations is given in the ensuing paragraphs.

4.1.1 State Bank of Travancore (SBT)

The State Bank of Travancore (SBT), which is the largest bank in the State was incorporated on January 1, 1960 under the State Bank of India (Subsidiary Banks) Act, 1959. The Bank's origin can be traced back to 1945 with the incorporation of the Travancore Bank Ltd., in the erstwhile state of Travancore. The Travancore Bank Ltd became a scheduled bank in 1946 and obtained a licence to deal in foreign exchange business in 1947. The paid up capital of the Bank was Rs. one crore, of which 30 per cent was contributed by the Government of Travancore, the balance being subscribed by over 4000 shareholders.

In 1959, the Travancore Bank entered into a tripartite agreement with the Indo Merchantile Bank Ltd and the Government of Kerala, whereby the Bank took over a portion of the assets and liabilities of the Indo-Merchantile Bank Ltd. In terms of section 10(1) of the SBI (Subsidiary Banks) Act, 1959 when SBI was constituted, the corresponding Bank i.e., the Travancore Bank Ltd stood transferred and vested in it. Subsequently, at the

instance of Reserve Bank of India (RBI) and SBI, SBT acquired nine banks, which are given in Exhibit 4.1.

Exhibit 4.1 Banks acquired by the State Bank of Travancore

Sl. No.	Name of the Bank	Date of acquisition
1.	Travancore Forward Bank Ltd	14.05.1961
2.	Kottayam Orient Bank Ltd.	17.06.1961
3.	The Bank of New India Ltd.	17.06.1961
4.	The Vasudeva Vilasom Bank Ltd.	01.02.1963
5.	The Cochin Nair Bank Ltd.	08.02.1964
6.	The Latin Christian Bank Ltd.	17.08.1964
7.	The Champakulam Catholic Bank Ltd.	17.08.1964
8.	The Bank of Alwaye Ltd.	01.10.1964
9.	The Chaldean Syrian Bank Ltd.	01.10.1965

4.1.1.1 Progress of the Bank

Since inception, the Bank has considerably shown growth in its operations. Table 4.1 gives a brief picture of the progress made by the Bank during the period of six years (1994-2000) on the basis of selected indicators viz., number of branches, staff, advances, deposits, net worth and net profits.

Table 4.1 Progress of the State Bank of Travancore: Selected Indicators, 1994-95 to 1999-2000

(Amount in Rs. lakhs)

Parameters	1994-95	1995-96	1996-97	1997-98	1998-99	1999-00
No. of branches	646 (-)	651 (0.77)	654 (0.46)	660 (0.92)	664 (0.61)	667 (0.45)
Staff	12730 (-)	12855 (0.98)	12990 (1.05)	13049 (0.45)	13234 (1.42)	12953 (-2.12)
Advances (Rs)	312640.90 (-)	334916.29 (7.12)	365930.49 (9.26)	400082.48 (9.33)	425189.58 (6.28)	513120.62 (20.68)
Deposits (Rs.)	478984.42 (-)	542414.82 (13.24)	646368.63 (19.17)	746806.29 (15.54)	865030.30 (15.83)	1018260.49 (17.71)
CD ratio	65.27 (-)	61.75 (-5.39)	56.61 (-8.32)	53.67 (-5.37)	49.15 (-8.25)	50.39 (2.52)
Business/ Employee	62.19 (-)	68.25 (9.74)	77.93 (14.18)	87.89 (12.78)	97.49 (10.92)	118.23 (21.27)
Networth	9629.67	20,032.63 (108.03)	20,883.95 (4.24)	35,158.55 (68.35)	38,110.09 (8.39)	43,367.07 (13.79)
i) Capital	2000 (-)	3500 (75)	3500 (-)	5000 (42.86)	5000 (-)	5000 (-)
ii)Reserves and Surplus	7629.67 (-)	16532.63 (116.69)	17383.95 (4.90)	30158.55 (73.49)	33110.09 (9.80)	38367.07 (15.88)
Net profits (Rs.)	2,070.2	2,620 (26.56)	4,025 (53.63)	6,330 (57.27)	4,327 (-46.29)	6,644 (53.55)

Source: i) Annual report of SBT 1994-95 to 1999-2000

ii) Data collected from the Head office of the Bank.

Note: i) Figures in parenthesis represent percentage growth over the previous year.

ii) Positive figures indicate percentage increase whereas negative figures indicate percentage decrease.

The number of branches, staff, advances, deposits, business/ employee, net worth and net profit have shown an increasing trend as per Table 4.1. A deviation from this overall increasing trend is found in the case of staff of the Bank which registered a decline of 2.12 per cent in 1999-2000 and that of net profit in 1998-99. The CD ratio has been steadily declining during the study period. The decline in staff might be due to increasing tendency of the Bank to opt for computerisation leading to less recruitment. Again the general slow down in industrial production scenario which led to a lower credit off take from the banking system in 1998-99 together with fall in income from advances due to reduction in Prime Lending Rate might have contributed to lower profits. One of the reasons for the decline in CD ratio may be the increase in the investments made by the Bank.

Another notable feature has been the sharp increase in net worth in 1995-96 showing a growth rate of 108.03 per cent over the previous year. This might be attributed to the capital augmentation exercise carried out by the Bank in 1996 which included a Rights Issue of equity shares and issue of bonds by private placement as part of the Bank's drive to achieve Capital Adequacy Ratio (CAR) of eight per cent by March 31st, 1996(Annual Report, 1995-1996).

4.1.2 South Malabar Gramin Bank (SMGB)

The South Malabar Gramin Bank, one of the two Regional Rural Banks in Kerala, is sponsored by the Canara Bank. It was established in 1976 with Head Office in Malappuram and area of operation covering Calicut and Malappuram district. Later, when Wynad district was formed by carving out areas from Calicut and Cannanore districts, the Bank was given jurisdiction over South Wynad. Gradually the Bank was allowed to extend its area of operation and to lend to the Non-Target Group. In 1999-2000, the area of operation of the Bank was extended to the neighbouring districts of Palakkad and Thrissur. In the same year, the Bank achieved the distinction of being number one among all the Regional Rural Banks in the country.

As on 31st March 2001, the Bank had a total of 170 branches with an employee strength of 1596. The Bank is the forerunner in the rural banking scene having issued 63,921 Kisan Credit Cards for Rs. 330 crores as on 31st March 2001. In the same year the Bank attained another feather in its cap when the Washington based Micro Credit Summit recognised the Bank as one among the fifty largest Micro Credit Institutions in the World and the eight largest in Asia. The performance of the Bank based on selected indicators is given in Table 4.2.

Table 4.2 Progress of South Malabar Gramin Bank; Selected Indicators, 1994-95 to 1999-2000

(Amount in Rs. lakhs)

Parameters	1994-95	1995-96	1996-97	1997-98	1998-99	1999-00
No. of branches	147	147 (-)	150 (2.04)	150 (-)	154 (2.67)	170 (10.39)
Staff	1617	1623 (0.31)	1614 (-0.49)	1605 (-0.56)	1601 (-0.25)	1596 (-0.31)
Advances (Rs.)	18181.84	18998.14 (4.49)	22867.66 (20.37)	27343.70 (19.57)	32755.93 (19.79)	39752.47 (21.36)
Deposits (Rs.)	16198.80	14347.71 (-11.43)	18626.58 (29.82)	22923.59 (23.07)	28007.02 (22.18)	35353.42 (26.23)
CD ratio	112.24 (-)	132.41 (17.97)	122.77 (7.28)	119.28 (-2.84)	116.96 (-1.95)	112.44 (-3.86)
Business/ Employee	21.26 (-)	20.55 (-3.34)	25.71 (25.11)	31.32 (21.82)	37.95 (21.17)	47.06 (24.01)
Networth	470.41	529.12 (12.48)	124.25 (-76.52)	1012.41 (714.82)	1922.06 (89.85)	3200.55 (66.52)
i) Capital	100 (-)	100 (-)	100 (-)	100 (-)	100 (-)	100 (-)
ii) Reserves and Surplus	370.41 (-)	329.12 (-11.15)	24.25 (-92.63)	912.41 (3662.52)	1822.06 (99.70)	3100.55 (70.17)
Net profits (Rs.)	210.50 (-)	51.82 (-75.38)	-219.57 (-523.72)	888.16 (504.50)	906.66 (2.42)	1,278.47 (40.53)

Source: i) Annual report of SMGB, 1994-95 to 1999-2000

ii) Data collected from the head office of the Bank.

Note: i) Figures in parenthesis represent percentage growth over the previous year.

ii) Positive figures indicate percentage increase whereas negative figures indicate percentage decrease.

It is to be observed from Table 4.2 that even with negative growth rate in the staff strength, the business of the Bank is showing a positive growth in terms of advances and deposits since 1995-96. The CD ratio of the Bank has been above 100 per cent during the entire period of study. It implies that other than deposits, the Bank had other sources of funds like refinance from its sponsoring institution, National Bank for Agriculture and Rural Development (NABARD) etc. However it may be noted that the net worth and net profits declined sharply in 1996-97. This is due to the implementation of Income Recognition and Asset Classification Norms, which resulted in the Bank's Balance Sheet depicting a loss of Rs. 220 lakhs when it made a working profit of Rs. 391 lakhs during the same year (Annual Report, 1994-95 to 1999-2000). This is reflected in the sharp decline in the reserves and surplus in 1996-97.

4.1.3 Dhanalakshmi Bank Limited

The Dhanalakshmi Bank Ltd. was incorporated as a limited company on 14th November 1927, with registered office at Thrissur. Till 1937, the operations were localised in Thrissur district, after which the Bank opened branches in Ernakulam and Palakkad districts. In 1964, three banks, namely, the Lakshmi Prasad Bank Ltd., Sree Radhakrishna Bank Ltd., and the Parli Bank Ltd were amalgamated with Dhanalakshmi Bank Ltd.

During 1970s, the Bank recorded a spectacular growth and was subsequently included in the Second Schedule of the RBI Act, 1934. Thereafter, it opened branches beyond the State of Kerala.

In 1991, it ventured into the field of Merchant banking as per Securities and Exchange Board of India(SEBI) norms. The RBI granted permission for doing NRI business in 1992. It started computerisation of its Head Office and selected branches from 1993 onwards. The Bank underwent a major restructuring in September 1996 when three more fully computerised zonal offices were opened. At present it has six zonal offices situated at Thrissur, Ernakulam, Coimbatore, Thiruvananthapuram, Madras and Bombay. In 1997, the Bank obtained licence to function as an authorised dealer in foreign exchange and opened its first International Banking Division at Kochi.

Present Status

As on 31st March 2000, the Bank had a branch network of 150 besides nineteen Extension Counters with a total of 1368 employees. The Bank added 17 branches to its list of fully automated branches in 1999-2000 thereby taking the list to a total of 56. The Bank has chartered plans to increase the number of computerised branches to 100 by March 2001. This was aimed at increasing the coverage of business through computerised branches to 85 per cent from the present level of 73 per cent.

The progress achieved by the Bank during the period 1994-95 to 1999-2000 has been highlighted in Table 4.3

Table 4.3 Progress of Dhanalakshmi Bank Ltd.: Selected Indicators, 1994-1995 to 1999-2000

(Amount in Rs. lakhs)

Parameters	1994-95	1995-96	1996-97	1997-98	1998-99	1999-00
No. of branches	135 (-)	140 (3.70)	145 (3.57)	147 (1.38)	149 (1.34)	150 (0.67)
Staff	1141 (-)	1139 (-0.18)	1225 (7.55)	1252 (2.20)	1370 (9.42)	1368 (-0.15)
Advances (Rs.)	28589.46 (-)	44858.66 (56.91)	56240.63 (25.97)	57606.12 (2.43)	60523.32 (5.06)	77631.44 (28.27)
Deposits (Rs.)	45846.58 (-)	70673.20 (54.15)	107633.01 (52.30)	104028.73 (-3.35)	123594.09 (18.81)	140066.64 (13.33)
CD ratio	62.36 (-)	63.47 (1.78)	52.25 (-17.68)	55.38 (5.99)	48.97 (-11.57)	55.42 (13.17)
Business/ Employee	65.24 (-)	101.43 (55.47)	133.77 (31.88)	129.10 (-3.49)	134.39 (4.10)	159.14 (18.42)
Networth	2065.72 (-)	4552.47 (163.47)	5382.52 (18.23)	6403.28 (18.76)	6645.6 (3.78)	7388.62 (11.18)
i) Capital	803.66 (-)	2251.20 (180.12)	1374.43 (-38.95)	1450.96 (5.57)	1466.23 (1.05)	1466.44 (0.01)
ii) Reserve and Surplus	1262.06 (-)	2301.27 (82.34)	4008.09 (74.17)	4952.32 (23.56)	5179.37 (4.58)	5922.18 (14.34)
Net profits (Rs.)	441.78 (-)	471.91 (6.82)	791.43 (67.71)	840.07 (6.15)	387.33 (-53.89)	1128.40 (191.33)

Source: i) Annual reports of Dhanalakshmi Bank Ltd., 1994-95 to 1999-2000

ii) Data collected from the head office of the Bank

Note: i) Figures in parenthesis represent percentage growth over the previous year

ii) Positive figures indicate percentage increase whereas negative figures indicate percentage decrease.

It is seen from Table 4.3 that staff strength has been steadily increasing since 1996-1997 when the Bank made recruitment for specialised posts including chartered accountants for increasing operational efficiency and professionalism. Deposits had a negative growth rate of 3.35 per cent in 1997-1998 over that of the previous year due to reduction in inter bank deposits as part of the Bank's decision not to depend on inter bank deposits. This decision was taken as part of the Bank's policy to reduce reliance on high cost deposits and concentrate on core deposits.

4.1.4 South Indian Bank Ltd.

The South Indian Bank Limited was founded on 25th January 1929 by a group of like minded people at Thrissur, a major town in the erstwhile State of Cochin, to free the business community from the clutches of usurious money lenders and also provide to the society a safe and reliable repository of their savings at a time when the regulatory framework covering the banks was weak and bank failures were not uncommon.

The Bank commenced its business as a private limited company with an equity of Rs. 22,000 contributed by 44 shareholders. When the Bank finalised its accounts on 31st December 1929, it had one branch, three employees and a total business of Rs. 4.73 lakhs. The Bank was converted into a public

limited company on 11th August 1939. Its growth during the 18 years of pre-independent existence was steady and measured. It had successfully tide over the banking crisis of 1933 when the Travancore – Quilon National Bank failed. It not only emerged unscathed from the Kerala banking crisis of 1960 but became stronger by taking within its fold 15 small private sector banks in 1964. Though in the initial years, the Bank operated in and around Thrissur it could not confine it operations to Kerala for long. In 1941, the Bank's first branch outside Kerala was opened.

4.1.4.1 Present Status

The Bank ventured into the world of electronic banking when it launched the first Automated Teller Machine (ATM) at its administrative office in Thrissur in 1998. By 1999 the Bank had 24 fully computerised branches, 25 partially mechanised branches, Local Area Networks (LAN) at Head Office, Foreign Exchange Department at Ernakulam and eight Regional Offices.

At present the Bank has 369 branches and 49 extension counters employing a total of 3742 personnel. As on 31st March 2000, the Bank's Capital Adequacy Ratio stood at 10.41 per cent (Annual Report, 1999-2000).

The performance of the Bank for the past six years (1994-95 to 1999-2000) has been indicated in Table 4.4.

Table 4.4 Progress of South Indian Bank: Selected Indicators, 1994-95 to 1999-2000.

(Amount in Rs. lakhs)

Parameters	1994-95	1995-96	1996-97	1997-98	1998-99	1999-00
No. of branches	333	350	350	354	361	369
	(-)	(5.11)	(-)	(1.14)	(1.98)	(2.22)
Staff	3813	3901	3841	3770	3785	3742
	(-)	(2.31)	(-1.54)	(-1.85)	(0.40)	(-1.14)
Advances (Rs.)	74277.38	102839.73	115435.51	146322.63	166465.56	202107.93
	(-)	(38.45)	(12.25)	(26.76)	(13.77)	(21.41)
Deposits (Rs.)	151553.46	172387.89	209658.61	273826.76	312256.13	388535.86
	(-)	(13.75)	(21.62)	(30.61)	(14.03)	(24.43)
CD ratio	49.01	59.66	55.06	53.44	53.31	52.02
	(-)	(21.73)	(-7.71)	(-2.94)	(-0.24)	(-2.42)
Business/ Employee	59.23	70.55	84.64	111.45	126.48	157.84
	(-)	(19.11)	(19.97)	(31.68)	(13.49)	(24.79)
Networth	6522.23	7851.38	8167.4	11262	16350.44	18686.64
	(-)	(20.38)	(4.03)	(37.89)	(45.18)	(14.29)
i) Capital	1415.09	1416.18	1418.43	1928.16	3548.48	3552.57
	(-)	(0.08)	(0.16)	(35.94)	(84.03)	(0.12)
ii) Reserves and Surplus	5107.14	6435.20	6748.97	9333.84	12801.96	15134.07
	(-)	(26.03)	(4.88)	(38.30)	(37.16)	(18.22)
Net profits (Rs.)	1480.20	462.26	777.30	2074.16	608.43	2589.10
	(-)	(-68.77)	(68.15)	(166.84)	(-70.67)	(325.54)

Source: i) Annual reports of South Indian Bank, 1994-95 to 1999-2000

ii) Data collected from the head office of the Bank

Note: i) Figures in parenthesis represent percentage growth over the previous year.

ii) Positive figures indicate percentage increase whereas negative figures indicate percentage decrease.

It is observed from Table 4.4 that the increase in staff strength of the Bank has not been proportionate to the increase in the number of branches. Computerisation of branches which leads to less recruitment may be the factor behind this.

Advances, deposits Net Worth, Capital and Resaves and surplus of the Bank have increased significantly during the period of study i.e., 1994-95 to 1999-2000. However the net profit of the Bank showed wide variations during the reference period. One of the major reasons for the drastic decline in the profits of the Bank in 1995-96 and 1998-99 may be the high provisioning for NPAs.

4.1.5 Catholic Syrian Bank

The Bank was incorporated as a public limited company on 26th November 1920. Since its inception the Bank has performed admirably and recorded significant growth in business with emphasis on specialisation and greater focus on automation.

In 1994-95, one NRI branch, three SSI branches and three Industrial Finance branches were opened. In the same year, the Bank's Merchant Banking, Leasing and Hire Purchase divisions started functioning in Madras. The first fully computerised branch at Thrissur was also inaugurated in 1994-95. By 1996, the Bank embarked plans for interconnectivity of potential branches as part of its 'anywhere banking' policy.

In 1999, the Bank had set up an Asset Liability Management Committee to start an effective Asset Liability Management system as per the RBI guidelines of 1998. As on 31st March 2000, the Bank had 283 branches with a total strength of

3143 employees. Table 4.5 depicts the progress made by the Bank during the last six years.

Table 4.5 Progress of Catholic Syrian Bank: Selected Indicators, 1994-95 to 1999-2000

(Amount in Rs.Lakhs)

Parameters	1994-95	1995-96	1996-97	1997-98	1998-99	1999-00
No. of branches	267 (-)	275 (3.00)	282 (2.55)	283 (0.35)	283 (-)	283 (-)
Staff	3234 (-)	3259 (0.77)	3247 (-0.37)	3199 (-1.43)	3190 (-0.28)	3143 (-1.47)
Advances (Rs.)	63125.01 (-)	83361.17 (32.06)	95507.25 (14.57)	101035.57 (5.79)	94997.55 (-5.98)	106070. 97 (11.66)
Deposits (Rs.)	109,818.8 (-)	138071.74 (25.83)	152772.15 (10.65)	184865.40 (21.01)	213915.65 (15.71)	245777.63 (14.89)
CD ratio	57.48 (-)	60.38 (5.05)	62.52 (3.54)	54.65 (-12.59)	44.41 (-18.74)	43.16 (-2.81)
Business/ Employee	53.48 (-)	67.95 (27.06)	76.46 (12.52)	89.37 (16.88)	96.84 (8.36)	111.95 (15.60)
Networth (Rs.)	2669.27 (-)	2558.15 (-4.16)	2941.81 (15.00)	3574.95 (21.25)	5018.75 (40.39)	5814.61 (15.86)
i) Capital	535.47 (-)	539.85 (0.82)	541.32 (0.27)	541.32 (-)	999.81 (84.70)	1052.02 (5.22)
ii) Reserves and Surplus	2133.80 (-)	2018.30 (-5.41)	2400.49 (18.94)	3033.63 (26.38)	4018.94 (32.48)	4762.59 (18.50)
Net profits (Rs.)	447.10 (-)	37.15 (-91.69)	400.08 (976.93)	709.01 (77.22)	38.13 (-94.62)	1124.99 (2850.41)

Source:i) Annual reports of Catholic Syrian Bank, 1994-95 to 1999-2000

ii)Data collected from the head office of the Bank.

Note: i) Figures in parenthesis represent percentage growth over the previous year.

ii)Positive figures indicate percentage increase whereas negative figures indicate percentage decrease.

As in the case of other banks discussed earlier, increase in computerisation has reduced the need for recruitment in CSB, thereby leading to negative growth rate in staff strength. The net profits dipped to a very low level in 1995-96 due to high provisioning for NPAs. High interest payments on deposits and the resultant lower margin on advances and the incidence of NPAs have led to drastic decline in profits in the year 1998-1999.

4.1.6 State Co-operative Bank Ltd

The Kerala State Co-operative Bank Ltd., was registered in the year 1915 as the Trivandrum Central Co-operative Bank, which was the first co-operative society to be formed in the former princely State of Travancore (The KSCB Ltd. – A profile). In 1943, it was converted into the Travancore Central Co-operative Bank, giving it a federal character of the central financing agency of co-operative societies of the Travancore State. In the wake of independence and the reorganisation of the states, the Bank was reconstituted as a State Co-operative Bank for the Travancore Cochin state in 1954. In 1956, after the reorganisation of the Indian states the Bank was elevated to the position of a State Co-operative Bank for the state of Kerala and

the name was changed to 'The Kerala State Co-operative Bank Ltd.'

4.1.6.1Status

As in most of the other states in the country, Kerala also has a three tier co-operative credit structure, with 1626 Primary Agricultural Credit Societies at the village level, 14 District Co-operative Banks at the district level and the State Co-operative Bank at the apex level as on 30th June 2000 (KSCB- A profile). All the 14 District Co-operative Banks are affiliated to the State Co-operative Bank. The Bank is the chief financing agency and the balancing centre of resources of the entire agricultural short-term credit structure in the State. In July 1966, the Bank was included in the Second Schedule of the Reserve Bank of India Act, 1934 and later in April 1972 it was issued a licence to carry on the business of Banking under section 22 of the Banking Regulation Act, 1949. As per the Kerala Co-operative Societies Act, 1969, it is a co-operative society having as its members only other co-operative societies, with the main object of raising money and lending the same to its members. As a co-operative organisation, the main object of the Bank is the promotion of economic interests of its members and of the public in accordance with the co-operative principles. To fall in line with the above

objective, the Bank is doing the business of banking and lending to affiliated institutions within the framework of rules and regulations stipulated by RBI and NABARD.

4.1.6.2 Progress of the Bank

The Bank operates through a network of 20 branches covering all the 12 districts except Kottayam and Kasargod. It is actively involved in directly financing the apex co-operative institutions and various government sponsored programmes including procurement of copra, cashew and rubber. The achievements of the Bank include holding the distinction of being the first Co-operative Bank in the country to introduce credit card styled 'Cobank Card' in 1994 and the launching of Kisan credit card scheme in 1999-2000.

The progress made by the Bank during the last six years (1994-95 to 1999-2000) is depicted in Table 4.6.

Table 4.6 Progress of Kerala State Co-operative Bank Ltd, Selected Indicators, 1994-95 to 1999-2000

(Amount in Rs. lakhs)

Parameters	1994-95	1995-96	1996-97	1997-98	1998-99	1999-00
No. of branches	18 (-)	19 (5.56)	19 (-)	20 (5.26)	20 (-)	20 (-)
Staff	398 (-)	415 (4.27)	417 (0.48)	406 (-2.64)	405 (-0.25)	441 (8.89)
Advances (Rs.)	49361.15 (-)	53566.01 (8.52)	52219.64 (-2.51)	51809.69 (-0.79)	40811.19 (-21.23)	101905.94 (149.70)
Deposits (Rs.)	50159.21 (-)	47461.65 (-5.38)	57915.93 (22.03)	77522.27 (33.85)	123614.46 (59.46)	153972.09 (24.56)
CD ratio	98.41 (-)	112.86 (14.68)	90.16 (-20.11)	66.83 (-25.88)	33.01 (-50.61)	66.18 (100.48)
Business/ Employee	250.05 (-)	243.44 (-2.64)	264.11 (8.49)	318.55 (20.61)	405.99 (27.45)	580.22 (42.91)
Net worth	3732.2 (-)	4301.79 (15.26)	4507.53 (4.78)	4910.7 (8.94)	5155.03 (4.98)	5761.10 (11.76)
i) Capital	1500.00 (-)	1801.46 (20.10)	1851.46 (2.78)	2073.53 (11.99)	2073.53 (-)	2127.85 (2.62)
ii) Reserves and Surplus	2232.20 (-)	2500.33 (12.01)	3189.11 (27.55)	2848.92 (-10.67)	3081.50 (8.16)	3633.26 (17.91)
Net profits (Rs.)	194.23 (-)	136.90 (-29.52)	69.55 (-49.20)	81.38 (14.38)	126.13 (54.99)	25.06 (-80.13)

Source: i) Annual reports of KSCB, 1994-95 to 1999-2000
ii) Data collected from the head office of the Bank

Note: i) Figures in parenthesis represent percentage growth over the previous year.

ii) Positive figures indicate percentage increase whereas negative figures indicate percentage decrease.

Among the indicators given in Table 4.6, only deposits and networth have shown an increasing trend. The number of branches remained stagnant at 20 for the last three years. This may be due to policy limitation as well as moral restriction on opening a large number of branches as it would lead to direct competition with affiliated DCBs. Majority of the Bank's branches (nine) are located in Thiruvananthapuram District and the remaining are spread over 11 districts.

Advances which had been showing a negative growth rate from 1996-97 to 1998-99 rose sharply by 149.70 per cent in 1999-2000. This might be due to the 'Cash Credit Loan Scheme' to District Co-operative Banks introduced by the Bank in that year. The sharp decline in net profits in 1999-2000 might be due to higher provisioning made by the Bank for the amount of NPAs accumulated in that year.

An overview of the profile of all the six Kerala based banks reveal that the profits have eroded due to provisioning. It was observed that there was widespread fluctuations in profits especially in the private sector banks and the State Co-operative Bank. The number of branches for all the banks have shown an increasing trend but due to computerisation of banks, less recruitment of staff have taken place. However the volume of business for all the banks have shown an increasing trend during the period of study. Another trend which has been observed is that

the increase in advances has not been as high as the increase in deposits which is reflected in the declining CD ratio of all the banks except SMGB. This may be due to the diversion of deposits mobilised by banks, investments in government, other approved securities, shares and debentures. Lower staff strength has given very high business/ employee ratio for KSCB whereas a comparatively higher staff strength for SMGB has led to lower business / employee ratio.

4.2 Profitability and Productivity of Kerala Based Banks

As already stated, the traditional performance indicators which focussed more on volume of business have been replaced by new efficiency indicators which give importance to efficiency. The analysis of the productivity and profitability of the six Kerala based banks comprising of public, private and co-operative sectors using new efficiency indicators are discussed in this section. These indicators include three models viz., ROE Decomposition Analysis, Weighted Productivity Index and Market Share Concept.

4.2.1 Return on Equity (ROE) Decomposition Analysis

4.2.1.1 Stage I

The ROE Decomposition Analysis is done in three stages which are detailed in the ensuing sections.

The first stage of ROE Decomposition Analysis is concerned with the decomposition of ROE into its two main components namely, Return On Assets (ROA) and Equity Multiplier (EM) and further analysis of each of these components through various ratios. This is done in order to ascertain the factors affecting ROE.

The calculation of ROE is important to the present and prospective shareholders as well as the management of any bank. This ratio reveals how well the resources of a firm are being utilised. Higher the ratio, better are the results. Sinkey (1997) had suggested that in today's highly competitive environment, high performance banks need to have at least a ROE of 16-20 per cent and a ROA of one per cent.

Return On Equity (ROE)

The ROE Decomposition Analysis for the six Kerala based banks selected for the study have been worked out in three stages. The first stage of the Model consists of the computation of the ROE of the banks and also the break up of the components of ROE i.e., ROA and EM which are presented in Table 4.7.

Table 4.7 ROE Decomposition Analysis (Stage I)

Bank / Year	State Bank of Travancore			South Malabar Gramin Bank			Dhanalakshmi Bank			South Indian Bank			Catholic Syrian Bank			State Co-operative Bank		
	ROE* (%)	ROA** (%)	EM***	ROE* (%)	ROA** (%)	EM***	ROE* (%)	ROA** (%)	EM***	ROE* (%)	ROA** (%)	EM***	ROE* (%)	ROA** (%)	EM***	ROE* (%)	ROA** (%)	EM***
94-95	103.5	0.38	270.56	210.5	0.76	278.91	65.82	1.01	65.24	122.39	0.95	128.89	84.16	0.38	219.28	13.99	0.23	62.13
95-96	95.27	0.42	229.56	51.82	0.18	1273.59	30.90	0.69	44.53	32.65	0.24	133.90	6.91	0.03	261.44	8.29	0.16	52.48
96-97	115	0.56	206.23	-219.57	- 0.73	301.77	43.66	0.77	56.64	54.84	0.35	156.02	74.01	0.25	299.04	3.81	0.08	25.61
97-98	148.94	0.75	199.10	888.16	2.39	372.12	59.47	0.69	86.00	123.96	0.76	162.31	130.98	0.38	344.05	4.15	0.08	52.80
98-99	86.54	0.43	200.47	909.66	1.99	457.31	26.56	0.30	88.85	22.22	0.18	121.35	4.95	0.02	279.94	6.08	0.10	63.12
99-00	132.88	0.57	232.80	1278.47	2.32	550.15	76.95	0.76	101.44	72.92	0.65	112.96	106.81	0.40	269.61	1.19	0.02	79.71

Source: Annual reports of the concerned banks for the period 1994-95 to 1999-2000

Note: * Return on Equity = $\frac{\text{Net Income}}{\text{Average equity}}$

** Return on Assets = $\frac{\text{Net Income}}{\text{Average Assets}}$

*** Equity Multiplier = $\frac{\text{Average Assets}}{\text{Average Equity}}$

A comparison of the Kerala based banks with their counterparts in the public and the private sector and the industry average with respect to these components are also given in Table 4.8.

Of the six banks, KSCB is the only bank which does not satisfy the norms of 16-20 per cent ROE suggested by Sinkey (1997) in all the years under study. The lower performance of KSCB is mainly due to its peculiar orientation and function as an apex institution formed for the purpose of furthering the economic interests of its members. CSB is also falling short of the norms in two years i.e., 1995-96 and 1998-99. The reason for this may be attributed to the sharp decline in net profits due to increase in provisioning for NPAs and interest expended on deposits of these two years respectively. SMGB has performed excellently showing a continuous increase in ROE from 210.5 per cent in 1994-95 to 1278.47 per cent in 1999-2000 except in 1996-97 when its ROE was negative. The negative ROE of 219.57 per cent in 1996-97 may be attributed to the loss of Rs. 220 crores suffered by the Bank during the year. Even though the Bank had made a working profit of Rs. 391 crores, due to the implementation of income recognition and asset classification norms from 1996-97, the Bank had incurred this loss. In the case of SBT, DB, SIB and CSB also, ROE declined to a large extent in the year 1998-99 which can be attributed to a higher provisioning for NPAs during that year.

Return on Assets (ROA)

A popular method of profitability measurement is to relate profitability to the assets of a bank. A low ratio may be the result of conservative lending and investment polices or excessive operating expenses since these will adversely affect the income and hence the net profits of the bank. A high rate of Return on Assets on the other hand may be the result of efficient operations, of a low ratio of time and saving deposits to total deposits or of high yield earned on the assets. The bank earning a high yield on assets face a double edged weapon since the bank may be assuming a high level of risk for higher returns yielded by assets.

As seen in Table 4.7, SMGB had performed well with its ROA far above the one per cent mark being envisaged by the Capital Account Convertibility (CAC) Committee headed by Shri S.S. Tarapore and as suggested by Sinkey (1997). Among the other Kerala based banks, SBT and CSB could increase their ROA. SBT registered an increase of ROA from 0.38 per cent in 1994-95 to 0.57 per cent in 1999-2000 while for CSB it increased from 0.38 per cent to 0.40 per cent. Higher ROA achieved by SMGB and SBT may be due to higher level of spread achieved by them and comparatively lower operating expenses when compared to other banks. The rest of the Kerala based banks' ROA showed a declining trend. The most acute decline can be observed in the case of KSCB where its ROA declined to 0.02 per cent in 1999-2000 from 0.23 per cent in 1994-95.

Equity Multiplier (EM)

Equity Multiplier (EM) indicates the risk exposure of portfolio in potential terms (Sinkey, 1975). EM represents the relationship of owner's fund to total assets and is an important ratio for determining long term solvency of an organisation. Higher the ratio or higher the share of equity of total funds (or total assets) of the organisation, better is the long term solvency of the organisation. In other words it indicates the extent to which the assets of the organisation can be lost without affecting the interest of the creditors of the organisation. As shown in Table 4.7, of the six Kerala based banks, the EM of KSCB, SMGB and DB have increased during the six year period of study. The highest increase of EM can be observed in the case of SMGB which recorded an increase from 278.91 in 1994-95 to 550.15 in 1999-2000. This may be attributed to the fact that the equity capital of SMGB has remained at Rs. 100 lakhs with the Bank, never opting for fresh issue of shares on the one hand and its assets including loans and advances and investments increasing on the other hand. However EM of SBT, SIB and CSB recorded a declining trend during the period of study. The decline in EM in the case of SBT may be due to the fact that SBT had made issue of shares in 1995-96 and 1997-98 as part of the exercise undertaken to achieve the stipulated Capital Adequacy norms. The decline in EM of SIB from 128.89 in 1994-95 to 112.96 in 1999-2000 may be due to the increase in share capital of the Bank. Similarly the EM of CSB declined from a high of 344.05 in 1997-98 to 269.61 in

1999-2000 since the Bank raised its share capital to bolster the Tier I capital in 1998-99.

ROE and its components for the various group of banks in India for two years 1996-97 and 1997-98 depicted in Table 4.8 reveals the position of Kerala based banks vis-à-vis their counterparts.

Table 4.8 Comparison of Kerala based banks with other banks in India, 1996-97 to 1997-98

Bank category	ROE (%)		ROA (%)		EM	
	1996-97	1997-98	1996-97	1997-98	1996-97	1997-98
State Bank of India	265.72	363.60	0.88	1.11	300.85	319.35
Associate Banks (7)	66.53	111.13	0.71	1.09	93.68	101.94
State Bank Group(8)	168.07	236.06	0.84	1.10	199.29	213.95
Nationalised Banks (19)	13.80	19.78	0.54	0.72	25.76	27.95
All Public Sector Banks (27)	24.61	34.54	0.65	0.86	37.92	40.26
Private Banks (34)	47.31	55.47	1.30	1.20	36.53	46.12
Foreign Banks (42)	49.70	31.46	1.28	1.04	38.73	30.35
Scheduled Commercial Banks (103)	28.58	35.94	0.75	0.91	37.87	39.68
State Bank of Travancore	115	148.99	0.56	0.75	206.23	199.10
South Malabar Gramin Bank	- 219.57	888.16	- 0.73	2.39	301.77	372.12
Dhanalakshmi Bank	43.66	59.47	0.77	0.69	56.64	86.00
South Indian Bank	54.84	123.96	0.35	0.76	156.02	162.31
Catholic Syrian Bank	74.01	130.98	0.25	0.38	299.04	344.05
Kerala State Co-operative Bank	3.81	4.15	0.08	0.08	25.61	52.80

Source: Das, M.R. 1999 *SBI Monthly Review* XXXVIII (2): 762.

A specifically notable point is that the Kerala based RRB – SMGB is having the best performance considering the three indicators except for ROA and ROE in the year 1996-97 for which there is a specific reason of the starting of the implementation of NPA norms. The indicators are much higher for SMGB compared to the industry average i.e., of all scheduled commercial banks. Compared to the other groups, SBI is performing well in all the indicators in all the years. It is to be noted also that Foreign Banks is the only category which has shown a declining trend in all the indicators in both the years. Except for KSCB, the ROE and EM of all the other Kerala based banks were higher than those exhibited by the Nationalised Banks, all Public Sector Banks, Foreign Banks and Scheduled Commercial Banks. However, they fared significantly lower when the ROA was taken into account.

But all the Kerala based banks have shown improved performance except DB for ROA in 1997-98. Hence it can be inferred that the performance of Kerala based banks in general are better compared to other banks in India.

Return on Net Worth (RONW)

As previously stated for the purpose of the study, equity includes only paid up equity capital. Since net worth comprises of both equity and reserves and surplus, return on Net Worth (RONW) will represent a clearer picture of the return on

shareholders' equity. RONW calculates the Return on shareholders' total equity. Anthony and Reece (1975) have opined that this ratio reflects how much the firm has earned on the funds invested by the shareholders either directly or through retained earnings.

A low ratio of return on owners' equity may indicate that the business is not very successful because of inefficient and ineffective management and over investment in assets. A high ratio may be the result of efficient management policies.

Table 4.9 Return on Net Worth (RONW) of Kerala based banks, 1994-95 to 1999-2000

Year	State Bank of Travancore	South Malabar Gramin Bank	Dhanalakshmi Bank	South Indian Bank	Catholic Syrian Bank	Kerala State Co-operative Bank
1994-95	23.54	44.75	30.18	30.89	17.73	5.07
1995-96	17.67	0.18	14.26	6.43	1.42	3:28
1996-97	19.67	-36.12	15.93	9.70	14.55	1.49
1997-98	22.59	80.28	14.26	21.35	21.76	1.63
1998-99	11.81	43.14	5.94	4.41	0.89	2.52
1999-00	16.31	39.92	16.08	7.39	20.77	0.46

Source: Annual report of the concerned banks for the period 1994-95 to 1999-2000

Note: Return on Net Worth $= \frac{\text{Net income}}{\text{Average net worth}}$

Where

Net Worth = Equity capital and reserves and surplus

From Table 4.9 which depicts the RONW of the six Kerala based banks it can be observed that SMGB was able to increase its net worth to a substantial 80.28 per cent from –36.12 per cent in 1996-97. This was possible due to the sharp increase in profits achieved by the Bank in that year. The sharp decline in the RONW of SIB from 30.89 per cent in 1994-95 to 6.43 per cent in 1995-96 and 4.41 per cent in 1998-99 can be attributed to the drastic decline in Net profit and the increase in share capital from public issue during these two years respectively. The significant decline of more than 25 times from 21.76 per cent in 1997-98 to 0.89 per cent in 1998-99 in the case of CSB may be due to the subsequent calling up of partly paid shares of the Bank in 1998-99 leading to increase in networth.

The decline in SBT's RONW from 23.54 per cent in 1994-95 to 17.67 per cent in 1995-96 inspite of an increase in net profits from Rs. 2070 crores in 1994-95 to Rs. 2620 crores in 1995-96 may be attributed to capital augmentation through rights issue of equity shares. This was done with the objective of achieving the Capital Adequacy Ratio (CAR) of eight per cent by 31st March 1996.

RONW has declined in general with a few exceptions in certain years. All the private sector banks and SBT have improved

in the last year of study compared to the previous year. As in the case of other indicators, SMGB is performing the best in this respect also. KSCB is showing a very poor performance. Compared to the industry average (Scheduled Commercial Banks) of RONW of 11.86 per cent and 13.59 per cent in 1996-97 and 1997-98 respectively SMGB, SIB and KSCB are having a very low RONW in 1996-97.

4.2.1.2. Stage II

In the second stage of the ROE Decomposition Analysis, Return on Assets (ROA) is further split up into profit Margin (PM) and Asset Utilisation (AU). The analysis of the second stage of ROE Decomposition analysis consisting of AU, PM, ratio of interest income to average assets and non-interest income to average assets are given in Table 4.10.

Asset Utilisation (AU)

The turnover of assets (Asset Utilisation) can provide a good indicator for judging the efficiency with which fixed assets are utilised in an organisation. It enables the analyst to assess the number of times the assets are utilised in comparison with operating revenue in a financial year.

Table 4.10 ROE Decomposition Analysis (Stage II)

Bank / Year	State Bank of Travancore				South Malabar Gramin Bank				Dhanalakshmi Bank				South Indian Bank				Catholic Syrian Bank				State Co-operative Bank			
	AU* (%)	PM** (%)	Int. Income/ Av. Assets	Non. Int. Income/ Av. Assets	AU* (%)	PM** (%)	Int. Income/ Av. Assets	Non. Int. Income/ Av. Assets	AU* (%)	PM** (%)	Int. Income/ Av. Assets	Non. Int. Income/ Av. Assets	AU* (%)	PM** (%)	Int. Income/ Av. Assets	Non. Int. Income/ Av. Assets	AU* (%)	PM** (%)	Int. Income/ Av. Assets	Non. Int. Income/ Av. Assets	AU* (%)	PM** (%)	Int. Income/ Av. Assets	Non. Int. Income/ Av. Assets
94-95	12.67	3.02	10.85	1.82	11.11	6.79	10.29	0.82	13.93	7.24	11.94	1.98	12.90	7.36	11.32	1.58	11.75	3.27	10.83	0.81	9.35	2.41	8.25	1.10
95-96	13.96	2.97	12.12	1.85	11.90	1.59	2.39	0.16	13.42	5.17	12.39	1.03	13.72	1.78	12.74	1.25	13.48	0.20	11.37	1.52	10.36	1.53	9.34	1.02
96-97	14.31	3.90	12.59	1.72	13.18	-5.52	12.03	1.16	13.34	5.78	12.14	1.20	13.64	2.58	12.64	1.00	14.61	1.69	13.38	1.22	10.82	0.72	9.73	1.09
97-98	13.36	5.60	11.60	1.76	13.53	17.64	12.63	0.90	12.19	5.67	10.99	1.20	13.43	5.69	12.47	0.96	14.45	2.61	12.82	1.63	13.09	0.6	11.61	1.47
98-99	11.69	3.69	10.17	1.52	13.12	15.16	12.15	0.98	12.02	2.49	10.99	1.04	13.17	1.39	6.02	0.56	12.94	0.14	11.81	1.13	13.20	0.73	15.25	1.26
99-00	11.63	0.57	9.96	1.67	13.11	17.72	12.14	0.97	12.63	6.01	10.97	1.66	13.55	4.76	11.69	1.86	11.47	3.45	9.98	1.49	13.06	0.11	9.34	1.14

Source: Annual reports of the concerned banks for the period 1994-95 to 1999-2000

Note: Asset Utilisation (AU*) = $\frac{\text{Total revenue}}{\text{Average total assets}}$

Profit Margin (PM**) = $\frac{\text{Net income}}{\text{Total revenue}}$

A high assets turnover ratio indicates efficient utilisation of fixed assets in generating operating revenue. A low ratio signifies idle capacity, inefficient utilisation and management of assets.

All the six Kerala based banks had a comparable Asset Utilisation ratio ranging from 11 per cent to 20 per cent. KSCB, SMGB and SIB recorded an increasing trend whereas SBT and CSB registered a declining trend.

Profit Margin (PM)

Profit Margin (PM) represents the capacity of the bank to generate residual income and the extent of cost control management exercised by it.

It is observed from Table 4.10 that PM on an average has been declining for all Kerala based banks except SMGB. This decline may be due to higher rate of increase in expenses compared to that of income. Of the total expenditure incurred the Kerala based banks, the lion's share is occupied by the interest expended on deposits. This may be the reason for the decline in PM.

Interest income/Average Assets

The ratio of interest income to average assets indicates the contribution of assets to the interest income of the bank.

The ratio of interest income to average assets of SMGB despite its negative PM, in 1996-97 have remained stable at around 12 per cent during the period of study. SBT and CSB are showing a consistent decline since 1996-97. This may be because of the increasing tendency of the banks to concentrate more on fee based business. As far as KSCB is concerned, the ratio which had shown an increasing trend declined sharply from 15.25 per cent in 1998-99 to 9.34 per cent in 1999-2000 leading to drastic fall in net profits in that year.

Non-interest income/Average Assets

The ratio of non-interest income to average assets has increased for almost all the banks due to the increasing concentration of fee based business by the banks.

SMGB which is leading in many indicators has shown a very low percentage of non-interest income to average assets. This may be due to the peculiar functioning of the Bank concentrating in the rural sector where the people prefer deposits and loans facility only limiting the scope for other activities.

Table 4.11 Comparison of Kerala based banks with other banks in India (ROE Decomposition Analysis-Stage II), 1996-97 to 1997-98

Bank category	AU (%)		PM (%)		Interest income/ Average assets		Non- interest income/ Average assets	
	1996-97	1997-98	1996-97	1997-98	1996-97	1997-98	1996-97	1997-98
State Bank of India	11.69	11.13	7.55	9.95	9.94	9.45	1.76	1.68
Associate Banks	12.62	12.23	5.63	8.92	11.04	10.56	1.58	1.67
State Bank Group	11.91	11.38	7.08	9.70	10.19	9.70	1.72	1.68
Nationalised banks	11.32	11.15	4.73	6.44	10.13	9.85	1.19	1.29
All Public Sector Banks	11.54	11.23	5.63	7.64	10.15	9.80	1.39	1.43
Private Sectors Banks	13.78	13.34	9.40	9.02	11.96	11.13	1.82	2.21
Foreign Banks	14.70	14.33	8.73	7.23	12.00	11.18	2.70	3.15
Scheduled commercial Bank	11.98	11.69	6.30	7.75	10.45	10.04	1.53	1.65
SBT	14.31	13.36	3.90	5.60	12.59	11.60	1.72	1.76
SMGB	13.18	13.53	-5.52	17.64	12.03	12.63	1.16	0.90
DB	13.34	12.19	5.78	5.67	12.14	10.09	1.20	1.20
SIB	13.64	13.43	2.58	5.69	12.64	12.47	1.00	0.96
CSB	14.61	14.45	1.69	2.61	13.38	12.82	1.22	1.63
KSCB	10.82	13.09	0.72	0.60	9.73	11.61	1.09	1.47

Source: i) Das, M.R. 1999. ***SBI Monthly Review***. XXXVIII (2): 762

ii) Annual reports of the Kerala Based Banks, 1996-97 to 1997-98

Table 4.11 depicts the position of Kerala based banks vis-à-vis various group of banks in India for the second stage of the Decomposition Analysis.

It can be observed that all the Kerala based banks except for KSCB (which had an AU of 10.82 per cent in 1996-97) are in a better position than the industry average. Even though the highest AU was found in the case of foreign banks, CSB exceeded them with an AU of 14.45 per cent in 1997-98. Except for KSCB in 1996-97, the ratio of interest income to average assets of Kerala based banks have exceeded the national average of 1996-97 and 1997-98. Again other than SBT, none of the Kerala based banks non-interest income to average assets ratio was above the national average for both the years.

4.2.1.3 Stage III

i) Decomposition of PM (Ratio to the total income)

In the third stage of ROE Decomposition Analysis, both the PM and AU were split into their components. In the analysis of PM, the ratio of the expenses which influence net income like interest expended on deposits, interest expended on non deposits, provisions and contingencies, wages and salaries and total operating expenses to the total revenue is calculated as depicted in Table 4.12.

Table 4.12 Decomposition of Profit Margin (PM). Stage III

Bank / Year	State Bank of Travancore					South Malabar Gramin Bank					Dhanalakshmi Bank					South Indian Bank					Catholic Syrian Bank					State Co-operative Bank			
	A	B	C	D	E	A	B	C	D	E	A	B	C	D	E	A	B	C	D	E	A	B	C	D	E	A&B	C	D	E
94-95	57.84	4.90	12.01	15.81	22.23	28.32	21.55	1.86	35.01	41.48	51.27	5.85	12.41	16.58	23.22	57.95	3.72	6.15	17.82	24.81	58.82	5.96	2.53	19.08	28.44	79.79	2.01	3.99	5.81
95-96	55.36	6.59	12.67	15.58	22.42	30.09	21.85	1.02	39.43	45.45	58.78	5.28	8.19	16.05	22.57	57.40	4.05	12.67	18.00	24.10	59.30	4.77	10.23	18.19	25.50	78.23	4.96	3.58	5.51
96-97	58.50	5.52	10.68	16.17	21.40	27.57	20.06	15.36	36.36	42.53	65.00	6.59	6.24	10.84	17.76	66.61	4.53	4.68	15.60	21.31	66.73	3.12	4.24	15.20	24.22	83.02	0.31	3.69	5.41
97-98	58.30	4.82	12.09	13.40	19.20	25.97	17.59	0.07	33.10	38.73	62.51	5.87	7.10	11.40	18.84	68.27	3.41	2.51	14.80	20.12	67.69	2.72	4.54	14.54	22.41	84.33	0.15	2.90	4.39
98-99	61.81	4.84	9.15	14.79	20.52	28.15	16.73	0.17	34.39	39.79	69.29	2.95	6.06	12.31	19.23	67.61	3.77	6.67	14.60	20.57	72.61	2.33	1.67	16.00	23.26	84.26	0.38	2.52	4.24
99-00	60.75	4.05	8.55	16.35	21.74	29.17	16.85	2.23	28.34	34.03	63.00	2.69	10.02	11.95	18.26	61.06	3.47	10.01	15.88	20.70	64.86	2.79	5.81	18.12	24.50	84.56	1.63	2.85	4.20

Source: Annual reports of the concerned banks, 1994-95 to 1999-2000

A - Interest expended on deposits

B - Interest expended on non-deposits

C - Provisions and Contingencies (P&C)

D - Wages and salaries

E - Total operating expenses

Interest expended on deposits

The ratio of interest expended on deposits to the total revenue is an indication of the composition of the deposits of the bank. In case a bank has a high proportion of time and saving deposit accounts comprising of an unusually large proportion of total deposits, interest expended may be higher than average. This will adversely affect total revenue earned by the bank.

It can be observed from Table 4.12 that interest expended for all banks has been rising and the only difference has been the variations in the rise. For all the Kerala based banks except SMGB the ratio of interest expended on deposits to the total revenue is more than 60 per cent. This shows the exceptionally high share of deposits in the total working funds of these banks. The high ratio of interest expended on deposits to total revenue can be related to the large share of term deposits of these banks as revealed in Annexure I. The share of demand deposits, which do not invite any interest expense on the part of the Bank is however very low. The only exception is SMGB which has 60 per cent term deposits during the entire period of study. This can be attributed to the other sources of funds available to the Bank.

A peculiar feature to be noted is that, while 78 to 84 per cent of the total expenses are contributed by interest on deposits for KSCB, only 25 to 30 per cent of it is in the case of SMGB which is very low when compared to other banks. Such a small share of interest expended on deposits for SMGB may be due to the fact that the Bank has other sources of funds viz., borrowings from NABARD, SIDBI and Canara Bank which is its sponsoring bank as refinance. This view is substantiated by the fact that interest expended on non-deposits is far higher compared to other Kerala based banks.

The calculation of interest expended on deposits and non-deposits separately for KSCB has not been possible since the annual reports do not classify them accordingly. However it can be observed from Table 4.12 that interest expended on deposits and on RBI, NABARD and inter-bank borrowings to the total revenue which is around 78 to 84 per cent is significantly higher when compared to other banks. This implies that interest expended on deposits and non-deposits constitute a lion's share of the total expenditure made by the Bank.

A uniform pattern is noticed with respect to the percentage share of Provision and Contingencies (P & C) to the total revenue of all commercial banks. Wide difference from this pattern is noticed in the case of KSCB and SMGB. An interesting observation is the high ratio of P & C to the total income in 1996-97 for SMGB when the ratio increased to 15.36 per cent from just

1.02 per cent in the previous year which is maximum compared to all banks and all the years under study. This was due to the implementation of NPA norms. Basically the increase in the ratio of P&C does not bode well for banks because the provisions for NPAs constitute a major share of P&C. So banks with higher P&C have higher NPAs. This is evident from the fact that SBT which is having the highest P&C among the six banks has a provision of 72.97 per cent for NPAs while SMGB which is having the lowest P&C (Rs. 160.84 lakhs) has only 14.39 per cent provision for the year 1999-2000 (Annual Report, 1999-2000).

Efficiency in utilising manpower resources is an important indicator of productivity in the banking sector. As the wages and salaries constitute an important part of establishment expenses, its ratio to the total revenue would indicate the cost associated with the mobilisation of deposits and deployment of credit. An outstanding feature noticed in Table 4.12 is the heavy expenditure incurred by SMGB by way of wages and salaries. The percentage share of wages and salaries is ranging from two to four per cent for KSCB which is the lowest and from 10 to 19 per cent for commercial banks while it is 28 to 40 per cent for SMGB. Since the Bank is concentrating on the rural sector, their loans and advances fall in the category of micro finance. So, a lion's share of expenses is contributed by wages and salaries to its employees. There is a decline in the share of this expense in the recent years due to lending to Non Target Group and less recruitment of manpower. The reduction in the case of other Kerala based banks

in certain years may be due to decline in employees as part of the computerisation drive.

The most popularly used indicators of efficiency for measuring productivity is the ratio of operating expenses to total income. A decline in operating expenses to total income ratio would indicate efficient management of banking activities. As wages and salaries constitute an important item of operating expenses, the declining share of wages and salaries to total income is reflected in the declining share of operating expenses to total income. For all the Kerala based banks the fact that wages and salaries constituted 75-85 per cent of the total operating expenses in 1999-2000 (Annual report, 1999-2000) highlight its importance as a major operating expense. A decrease in the share of total operating expenses noticed in general among the banks under study signifies an increase in their productivity. The expenditure of all the commercial banks with regard to all variables highlighted in Table 4.12 is more or less the same irrespective of whether they belong to public or private sector.

ii) Decomposition of Asset Utilisation

When the income obtained from various assets are analysed it would reveal whether the assets are being utilised efficiently and give an indication of the contribution of assets to the income. This stage basically deals with the calculation of the ratio of interest income from loans and investments, commission,

exchange and brokerage income and net profit from exchange transactions to the average assets. Analysis of the ratio of interest income from loans and investments to average assets would indicate the economic productivity of the borrowed funds in the total assets besides representing an overall measure of efficiency of the business.

A perusal of Table 4.13 reveals while the percentage share of interest income from loans declined, its share from investments increased generally in the case of all banks. Since the annual reports of KSCB do not provide the break up of interest income from loans and interest income from investments, the consolidated interest income from loans and investments has been worked out. This decline in the share of interest income from loans and increase in the share of interest income from investment may be due to the increasing reliance of the banks on other sources of income like interest on investments and inter bank deposits. It may be noted that in spite of decline in Statutory Liquidity Ratio (SLR), banks find it more convenient to invest in bonds and debentures as they presume these to be safer than advances. Besides banks have preferred to invest in Rural Infrastructure Development Fund (RIDF) of National Bank for Agriculture and Rural Development (NABARD), Rural Electrification Corporation (REC) bonds and Small Industries Development Bank of India (SIDBI) bonds for achieving the stipulated priority sector lending targets.

Table 4.13 ROE Decomposition Analysis Stage III – Decomposition of AU (ratio to Average Assets)

Bank / Year	State Bank of Travancore				South Malabar Gramin Bank				Dhanalakshmi Bank				South Indian Bank				Catholic Syrian Bank				State Co-operative Bank		
	A	B	C	D	A	B	C	D	A	B	C	D	A	B	C	D	A	B	C	D	A&B	C	D
94-95	6.43	3.75	1.16	0.47	7.21	0.80	0.75	Nil	7.61	3.49	0.89	Nil	6.3	4.57	0.54	0.21	6.56	3.71	0.44	0.14	8.26	0.02	Nil
95-96	8.07	3.53	1.28	0.63	1.73	0.28	0.16	Nil	8.83	3.15	0.78	Nil	7.0	4.69	0.50	0.23	7.87	3.64	0.40	0.25	9.34	0.01	Nil
96-97	8.31	3.73	1.22	0.45	9.22	1.44	1.08	Nil	8.39	2.94	0.88	Nil	8.36	3.89	0.57	0.20	9.56	3.48	0.40	0.10	18.67	0.05	Nil
97-98	6.54	4.39	1.10	0.40	9.71	1.56	0.89	Nil	7.13	3.45	0.90	0.01	7.52	4.64	0.43	0.19	8.52	3.93	0.34	0.27	11.61	0.03	Nil
98-99	4.74	4.69	1.11	0.25	9.01	1.45	0.93	Nil	6.50	3.87	0.62	0.03	3.56	2.23	0.23	0.12	6.74	4.30	0.35	0.23	11.95	0.09	Nil
99-00	4.42	4.81	1.11	0.24	8.81	1.20	0.97	Nil	6.29	4.07	0.71	0.06	6.57	4.68	0.49	0.21	5.04	4.32	0.36	0.14	11.92	0.02	Nil

Source: Annual reports of the concerned banks, 1994-95 to 1999-2000

A - Interest income from loan/average assets

B - Interest income from investments/ average assets

C - Commission, exchange and brokerage income/ average assets

D - Net profit from exchange transaction/ average assets

The ratio of commission, exchange and brokerage income to average assets indicates the influence of assets in the generation of non-interest income on fee-based income. A higher share would signify the capacity of the bank's income to be less affected by interest rate fluctuations and hence would augur well for the bank. The ratio of commission, exchange and brokerage income to average assets has not witnessed much change for all the Kerala based banks but the share of it in KSCB is the lowest since KSCB's business does not pertain to non-banking or fee based business. Though the volume of commission, exchange and brokerage has increased for all the banks, it has not increased in percentage terms because of increase in income from other sources.

Besides this, the net profit from exchange transactions to the average assets ratio has declined for all banks except DB. It may be noted that DB entered the exchange transaction business only in 1997-98 when it became an authorised dealer. KSCB and SMGB do not have any exchange transaction business so far.

Table 4.14 depicts the position of Kerala based banks in 1996-97 and 1997-98 when compared to various group of banks for the third stage of ROE Decomposition Analysis.

Table 4.14 Comparison of Kerala based banks with other banks in India (ROE Decomposition Analysis – Stage III), 1996-97 to 1997-98

Bank / Category	Interest expended on deposits (%) A		Interest expended on non-deposits (%) B		Provision and contingence (%) C		Wages (%) D		Total operating expenses (%) E		Interest/ Discount income from loans/ bills (%) F		Interest income from investments (%) G		Commission exchange, Brokerage income (%) H		Net profit from exchange transactions (%) I	
	1996-97	1997-98	1996-97	1997-98	1996-97	1997-98	1996-97	1997-98	1996-97	1997-98	1996-97	1997-98	1996-97	1997-98	1996-97	1997-98	1996-97	1997-98
State Bank of India	47.18	51.27	7.34	4.74	11.64	8.79	18.89	19.03	26.17	25.25	5.41	4.66	3.67	3.8	1.2	1.21	0.46	0.30
Associate Banks	53.88	52.74	2.91	2.84	12.98	10.95	18.12	18.11	24.54	24.53	6.81	5.9	3.6	4.07	1.22	1.21	0.32	0.29
State Bank Group	48.82	51.63	6.26	4.27	11.97	9.13	18.70	18.8	25.78	25.07	5.73	4.95	3.65	3.86	1.2	1.2	0.43	0.30
Nationalised Banks	58.08	58.57	3.83	2.74	7.86	6.92	19.16	18.57	26.43	25.78	5.52	4.89	3.99	4.35	0.66	0.60	0.20	0.24
All public sector banks	54.56	56.02	4.75	3.31	9.42	7.30	18.99	18.65	26.18	25.52	5.60	4.91	3.87	4.17	0.86	0.82	0.29	0.26
Private Banks	57.23	58.32	5.48	4.18	8.60	10.46	9.92	8.95	19.24	18.00	7.97	6.54	3.42	4.01	0.83	0.75	0.31	0.31
Foreign Banks	41.53	38.33	9.61	10.15	17.93	22.01	7.86	7.17	22.11	22.24	8.22	7.02	2.98	3.27	1.63	1.69	0.82	0.87
Scheduled Commercial Banks	53.52	54.48	5.31	4.10	10.19	9.53	17.00	16.42	25.10	24.36	6.01	5.24	3.76	4.08	0.92	0.89	0.33	0.31
SBT	58.50	58.30	5.52	4.82	10.68	12.09	16.17	13.40	21.40	19.20	8.31	6.54	3.73	4.39	1.22	1.10	0.45	0.40
SMGB	27.57	25.97	20.06	17.59	15.36	0.07	36.36	33.10	42.53	38.73	9.22	9.71	1.44	1.56	1.08	0.89	Nil	Nil
DB	65.00	62.51	6.59	5.87	6.24	7.10	10.84	11.40	17.76	18.84	8.39	7.13	2.94	3.45	0.88	0.90	Nil	0.01
SIB	66.61	68.27	4.53	3.41	4.68	2.51	15.60	14.80	21.31	20.12	8.36	7.52	3.89	4.64	0.57	0.43	0.20	0.19
CSB	66.73	67.69	3.12	2.72	4.24	4.54	15.20	14.54	24.22	22.44	9.56	8.52	3.48	3.93	0.40	0.34	0.10	0.27
KSCB			83.02 (A&B)	84.33 (A&B)	0.31	0.15	3.69	2.90	5.41	4.39			18.67 (A&B)	11.61 (A&B)	0.05	0.03	Nil	Nil

An examination of the Table reveals that the ratios of interest expended on non-deposits to total revenue, wages and salaries to total revenue and the operating expenses to total revenue for SMGB were higher than the industry average. The private sector commercial banks viz., DB, SIB and CSB achieved lower ratios of P&C to total revenue, wages and salaries to total revenue, and total operating expenses to total revenue. A notable point is the higher interest income from loans to average assets ratio achieved by all the Kerala based banks compared to the national average. However, other than SBT, all Kerala based banks had lower commission exchange, brokerage income to average assets ratio and lower net profit from exchange transactions to average assets ratio.

4.2.1.2 Computation of Net Interest Margin (NIM) and Burden

Analysis of Net Interest Margin (NIM) ratio reveals whether the average assets are being utilised efficiently and what contribution is being made for the revenue of the concern. This ratio is supposed to reveal the earning ability of the banks and represents an overall measure of efficiency. In other words it indicates the overall economic productivity of the borrowed funds and the owners' equity invested in the assets.

Basically a NIM above three per cent is considered quite good internationally (Ramamoorthy, 1997). An examination of Table 4.15, which depicts the NIM and Burden reveals that, of the six Kerala based banks, only SMBS fulfils this criteria at present. Although, all the four commercial banks had a NIM of more than three per cent in some of the previous years, it has declined in the recent years. KSCB has a very low NIM and ranks last among the banks.

Burden is the difference between operating expenses and non interest income. Operating expenses comprise of payments and provisions for employees, rent, taxes and lighting, printing and stationery, advertisement and publicity, depreciation on banks property, directors' fee, allowances and expenses, auditors' fees and expenses, law charges, postages, telegrams and telephones, repairs and maintenance, insurance and other expenditure. Non interest income consist of commission, exchange and brokerage, profit on sale of investments, profit on revaluation of investments, profit on sale of land, building and other assets, net profit from exchange transactions, income earned by way of dividends from subsidiaries/ companies and/or joint ventures abroad/ in India and miscellaneous income. Control of burden should follow a planning for enhancement in non-interest income through various services. These services may include ancillary and diversified services which are essentially non fund based.

Table 4.15 Net Interest Margin (NIM) and Burden of Kerala based banks for the period of 1994-95 to 1999-2000

Banks / Year	State Bank of Travancore		South Malabar Gramin Bank		Dhanalakshmi Bank		South Indian Bank		Catholic Syrian Bank		Kerala State Co-operative Bank	
	NIM*	Burden**	NIM*	Burden**	NIM*	Burden**	NIM*	Burden**	NIM*	Burden**	NIM*	Burden**
1994-95	2.91	1.00	4.75	3.79	3.99	1.25	3.37	1.62	3.22	2.53	0.85	0.57
1995-96	3.47	1.28	1.06	1.00	3.79	2.00	4.04	2.06	3.33	1.92	1.24	1.08
1996-97	3.43	1.34	5.75	4.45	2.77	1.17	2.89	1.90	3.18	2.31	1.56	1.30
1997-98	3.17	0.81	6.73	4.34	2.65	1.10	2.84	1.74	2.64	1.62	0.64	0.50
1998-99	2.38	0.88	6.26	4.24	2.30	1.28	1.33	0.87	2.11	1.88	0.87	0.72
1999-00	2.42	0.86	6.10	3.49	2.67	0.65	2.95	0.95	2.22	1.32	0.91	0.85

Source: Annual reports of the concerned banks, 1994-95 to 1999-2000

Note: Net Interest Margin (NIM*) $= \frac{\text{Interest Income} - \text{Interest expended}}{\text{Average Assets}}$

Burden** $= \frac{\text{Non interest income} - \text{Non interest expenses}}{\text{Average Assets}}$

Table 4.15 shows that the burden has reduced for all banks. The high burden of SMGB requires special attention which is mainly due to the high wage and salaries contributing an important item of non-interest expenses. It reinforces the finding of Table 4.10 where SMGB obtained the lowest non-interest income to average assets ratio. This also follows the findings of Table 4.12 where the ratio of wages and salaries to total income was the highest for SMGB during the period of study. It is also to be noted that as the percentage of wages and salaries decreased, (Table 4.12) the burden has also decreased for the banks in the recent years. The decline in burden underlines the efforts of the banks to decrease their non-interest expenditure. This may have been achieved by controlling the non-interest expenditure and increasing the non-interest income by giving increased weightage on fee based service.

Table 4.16 shows the comparison of Kerala based banks with various group of banks in India for NIM and Burden in 1996-97 and 1992-98.

As revealed in the Table, the performance of SMGB in NIM is far better than the industry average. However the Bank needs to reduce its burden substantially. The performance of KSCB and CSB is also below the national average for both these years.

Table 4.16 Comparison of Kerala based banks with other banks in India (NIM & Burden), 1996-97 to 1997-98.

Bank category	Net Interest Margin (NIM) (%)		Burden (%)	
	1996-97	1997-98	1996-97	1997-98
State Bank of India	3.56	3.22	1.3	1.13
Associate Banks	3.87	3.76	1.52	1.33
State Bank Group	3.63	3.34	1.35	1.18
Nationalised Banks	3.12	3.02	1.80	1.58
All Public Sector Banks	3.31	3.14	1.63	1.45
Private Sector Banks	3.32	2.80	0.83	0.19
Foreign Banks	4.48	4.23	0.55	0.04
Scheduled Commercial Banks	3.40	3.19	1.48	1.20
SBT	3.43	3.17	1.34	0.81
SMGB	5.75	6.73	4.45	4.34
DB	2.77	2.65	1.17	1.10
SIB	2.89	2.84	1.90	1.74
CSB	3.18	2.64	2.31	1.62
KSCB	1.56	0.64	1.30	0.50

Source: i) Das, M.R. 1999. ***SBI Monthly Review***. XXXVIII (2): 762

ii) Annual reports of the Kerala Based Banks, 1996-97 to 1997-98

4.2.2 Weighted Productivity Index – A Measurement Linking Profitability

The old method of assessing productivity solely on the business generated per employee is highly inappropriate and inaccurate in the liberalised scenario. If the old method is employed, a bank can have high business with sizeable high cost deposits and larger share of NPAs in advances, making productivity measured by business per employee high. However such a situation would prove highly detrimental to the health of the bank. In this context, the Weighted Productivity Index may be used as the suitable tool for measurement of productivity.

In order to assess the productivity of the selected banks, first the staff/employee productivity and capital productivity are developed. Staff/ Employee productivity denoted by EPi is measured by income generated per unit of wage bill expended. Income is taken as the representative variable indicating output of banks while wage bill is the proxy variable for the inputs of banks. Similarly, capital productivity indicated by CPi is measured by the ratio of interest earned to interest expended. Interest earning is the output of capital whereas interest expended is the cost of it. Thus capital productivity implies the quality of assets of a bank. The Weighted Productivity Index or WPi is formulated by combining both staff/employee productivity and capital productivity. Out of a total weight of one, capital productivity is assigned a particular weight depending upon the

percentage share of interest income to the total income of the bank. Hence the weights for each bank varies corresponding to the contribution of interest income to the total income. The remaining portion of the weight is contributed by EPi.

It can be observed from Table 4.17 that a change in EPi or CPi is reflected in WPi. Any decline in EPi and CPi leads to decrease in WPi. When EPi of all the six Kerala based banks is taken into account, it can be seen that KSCB could achieve the highest performance with its EPi increasing from 25.37 in 1994-95 to 35.09 in 1999-00. This may be because as KSCB has lesser number of branches, it has comparatively lower volume of business. Since a major part of its business pertains to DCBs and other apex institutions, they require lesser personnel leading to lower wage bill. Coupled with this, KSCB has been successful in increasing its income more than two fold during the period of study. (Annual reports, 1994-95 to 1999-2000). The performance of SMGB has not been satisfactory with the least staff productivity (EPi) ranging between 2.54 per cent and 3.53 during the six year period. This may be due to the fact that Award of National Industrial Tribunal (NIT) giving pay parity to RRBs with the sponsoring bank has led to increase in wage bill. This supports the findings of Table 4.12 where percentage of wages and salaries of total income was abnormally higher than other Kerala based banks. This has happened in spite of a general decrease in the number of employees of the Bank. The EPi of other Kerala based banks – SBT, DB, SIB and CSB averaged between 5.00 and 8.00 during the period of study.

Table 4.17 Productivity of Kerala based banks for the period 1994-95 to 1999-2000

Bank / Year	State Bank of Travancore			South Malabar Gramin Bank			Dhanalakshmi Bank			South Indian Bank			Catholic Syrian Bank			Kerala State Co-operative Bank		
	EPi*	CPi**	WPi***	EPi*	CPi**	WPi***	EPi*	CPi**	WPi***	EPi*	CPi**	WPi***	EPi*	CPi**	WPi***	EPi*	CPi**	WPi***
1994-95	6.33	1.37	2.07	2.86	1.86	1.93	6.03	1.50	2.18	5.61	1.42	1.92	5.19	1.42	1.68	25.37	1.11	4.02
1995-96	6.42	1.35	2.00	2.54	1.80	1.84	6.23	1.44	1.82	5.56	1.48	1.85	5.50	1.39	1.85	27.94	1.15	3.83
1996-97	6.18	1.37	1.95	2.75	1.92	2.00	9.23	1.30	1.25	6.41	1.30	1.66	6.58	1.31	1.74	27.10	1.08	3.68
1997-98	7.46	1.38	2.17	3.02	2.14	2.2	8.77	1.32	2.07	6.76	1.30	1.68	6.88	1.26	1.88	34.48	1.05	4.72
1998-99	6.76	1.31	2.02	2.91	2.06	2.15	8.12	1.27	1.89	6.85	1.28	1.73	6.25	1.22	1.67	30.73	1.07	4.93
199-00	6.11	1.32	2.00	3.53	2.01	2.12	8.36	1.32	2.24	6.30	1.34	1.99	5.52	1.29	1.84	35.09	1.37	4.41

Source: i) Annual reports of the concerned banks, 1994-95 to 1999-2000

ii) Data collected from the head office of the concerned banks

Note: EPi* – Employee/ Staff productivity

CPi** – Capital Productivity

WPi*** – Weighted Productivity Index

As per a study conducted by Chatterjee (1998), the industry average (Nationalised banks) of staff productivity (EPi) was 4.98 and 4.85 in 1994-95 and 1995-96 respectively. The best performing bank was the Oriental Bank of Commerce (OBC) with 8.02 and 7.94 for the two years.

The Capital Productivity (CPi) of SMGB showed an increase during the period of study. The higher CPi of the Bank implies an increase in interest income. In other words, it means a reduction in Non-Performing Assets (NPAs) of the bank. SBT also registered an increase in CPi. However, the banks like DB,SIB and CSB showed declining trend in CPi.

As previously stated, Weighted Productivity Index (WPi) is dependent on the value of EPi and CPi. Rise in EPi or CPi or both would boost the WPi. Again WPi is effected by the weights assigned to EPi and CPi. A situtation of this nature can be seen in the case of KSCB in 1995-96 where inspite of an increase in both EPi and CPi, there was a decline in WPi. This is because the weight assigned to EPi declined as there was an increase in contribution of interest income to total income or CPi.

It may be noted that a lower capital productivity would be more detrimental to bank than a lower staff productivity. This

is because if a bank has lower staff productivity and higher capital productivity, it would indicate potentiality of the bank to increase its non-interest and interest income (Since staff productivity includes both interest income and non interest income). However low capital productivity and high staff productivity would mean bad quality of assets and larger share of NPAs. Of the six Kerala based banks, only SMGB has a CPi higher than that of EPi implying that there is much scope for improvement in its non interest and interest income. As far as the five other banks are concerned, they should improve their capital productivity by reducing their NPAs.

4.2.3 Efficiency of Kerala Based Banks Based on Market Share Concept

Efficiency generally implies output in relation to the resources employed and means output – input ratio. In banking parlance, productivity is measured as a pool of deposits mobilised and advances made by the bank. Although employees constitute on important resource in a bank, they are not the only resource employed. In the increasingly market oriented and competitive situation that has emerged now, an overhaul of the old productivity concept is needed. Banks need to analyse the various input factors that go into making an output so that the efficiency level at which, such factors are utilised are known. The Market

Share Concept is a method that can be employed to measure the productivity of banks. This is done at two levels – one, efficiency of the six banks among themselves taking the market of six banks. Second, efficiency of the six banks taking the market of all the Kerala based banks.

Before the level of efficiency has been worked out, the Market Share Concept is explained and the market share of all the input and output factors are computed.

4.2.3.1 Market Share Concept Model

This model will help the banks to compare their bank's performance with that of others by assessing the influence of various input and output factors. The network of branches, number of staff, wages and non-wage operating expenses, represent the input factors. Deposits, advances, non-deposit working funds, interest spread, non-interest income and net profit constitute the basket of output. The market share of each factor is taken into account instead of the absolute value. Then the productivity is ascertained by the ratio of the market share of all the output factors to the market share of all the input factors. The market for the purpose is considered as the total business in and outside Kerala of all the ten Kerala based banks.

Adoption of market share concept will eliminate limitations of comparing the banks of different sizes. Besides the movement of efficiency ratio for each bank will help to trace performance of the respective managements.

I. Input factors

a. Network of branches

The market share of the branches of each of the six Kerala based banks selected for detailed study to the total of the six and to that of the ten Kerala based banks are given in the Table 4.18.

An assessment of the Table reveals that the number of branches in absolute terms of all the banks have been increasing. However, the percentage share of each of the bank to the total of six banks as well as to the total of ten banks are not showing much variation in general which implies that they are retaining their present level of market share. SBT is the only bank which has been consistently losing its market share from 28.80 per cent in 1994-95 to 27.2 per cent in 1999-2000. This highlights its declining prominence as the premier bank in the State. However it still has the highest rank in the State with an average number of branches of 657 during the six year period of study. KSCB with average of 19.33 branches has the least rank.

Table 4.18 Market Share Network of Branches of Kerala Based Banks for the Period of 1994-95 to 1999-2000

Banks	1994-95		1995-96		1996-97		1997-98		1998-99		1999-2000		Average Market Share of Branches (1994-2000)	Rank
	No. of branches	% to total of 10 banks	No. of branches	% to total of 10 banks	No. of branches	% to total of 10 banks	No. of branches	% to total of 10 banks	No. of branches	% to total of 10 banks	No. of branches	% to total of 10 banks		
SBT	646 (41.79)	28.80	651 (41.15)	28.47	654 (40.88)	28.14	660 (40.89)	27.93	664 (40.71)	27.72	667 (40.20)	27.2	657	I
SMGB	147 (9.51)	6.55	147 (9.29)	6.43	150 (9.38)	6.45	150 (9.29)	6.35	154 (9.44)	6.43	170 (10.25)	6.94	153	IV
DB	135 (8.73)	6.02	140 (8.85)	6.12	145 (9.07)	6.24	147 (9.11)	6.22	149 (9.14)	6.22	150 (9.04)	6.12	144.33	V
SIB	333 (21.54)	14.85	350 (22.12)	15.30	350 (21.88)	15.06	354 (21.93)	14.98	361 (22.13)	15.07	369 (22.24)	15.06	352.83	II
CSB	267 (17.27)	11.90	275 (17.38)	12.02	282 (17.63)	12.13	283 (17.53)	11.98	283 (17.35)	11.82	283 (17.06)	11.55	326	III
KSCB	18 (1.16)	0.80	19 (1.20)	0.83	19 (1.19)	0.82	20 (1.24)	0.85	20 (1.23)	0.84	20 (1.21)	0.82	19.33	VI
Total	1546 (100.00)		1582 (100.00)		1600 (100.00)		1614 (100.00)		1631 (100.00)		1659 (100.00)			
Total of all 10 Kerala based banks	2243		2287		2324		2363		2395		2451			
Percent of total of 6 banks to 10 banks	68.93		69.17		68.85		68.30		68.10		67.69			

Source: 1. Annual reports of Kerala based banks, 1994-95 to 1999-2000
2. Data collected from the head offices of the banks concerned

Note: SBT - State Bank of Travancore DB - Dhanalakshmi Bank
KSCB - Kerala State Co-operative Bank SIB - South Indian Bank
SMGB- South Malabar Gramin Bank CSB - Catholic Syrian Bank
Figures in parenthesis represent percentage share to total

The slight decline in the percentage share of total of the six Kerala based banks to the total of the ten banks may be due to the fact that other Kerala based banks not included in the study like Federal Bank and Lord Krishna Bank expanded their network of branches during the study period.

b. Number of Staff/ Manpower

Table 4.19 depicts the market share of the manpower of the Kerala based banks. One notable feature of the staff of Kerala based banks is that except for KSCB, all the banks reduced their staff in 1999-2000 compared to the previous year. SMGB, SIB and CSB are having the lowest staff during the entire study period in 1999-2000. The increased computerisation of branches might have led to the reduction of intake of manpower in these banks. In keeping with its role as the premier bank in the State, SBT has the highest average number of manpower during the period of study.

The percentage share of the total of six banks to the total of ten banks declined from 72.35 per cent to 69.60 per cent. This may be due to the high increase in staff of Federal Bank and Nedungadi Bank. Federal Bank's staff increased from 5560 in 1994-95 to 6693 in 1999-2000 while Nedungadi Bank's staff increased to 1739 in 1999-2000 from 1657 in 1994-95 (Annual reports, 1994-95 to 1999-2000).

Table 4.19 Market Share of Staff of Kerala Based Banks for the Period 1994-95 to 1999-2000

Banks	1994-95		1995-96		1996-97		1997-98		1998-99		1999-2000		Average Market Share of Staff (1994-2000)	Rank
	No. of staff	% to total of 10 banks	No. of staff	% to total of 10 banks	No. of staff	% to total of 10 banks	No. of staff	% to total of 10 banks	No. of staff	% to total of 10 banks	No. of staff	% to total of 10 banks		
SBT	12730 (55.51)	40.16	12855 (55.43)	39.91	12990 (55.67)	39.63	13049 (56.05)	39.76	13234 (56.11)	39.56	12953 (55.73)	38.82	12968.5	I
SMGB	1617 (7.05)	5.10	1622 (6.99)	5.04	1614 (6.92)	4.92	1605 (6.89)	4.89	1601 (6.79)	4.79	1596 (6.87)	4.78	1609.17	IV
DB	1141 (4.98)	3.60	1139 (4.91)	3.54	1225 (5.25)	3.74	1252 (5.38)	3.82	1370 (5.81)	4.10	1368 (5.89)	4.10	1249.17	V
SIB	3813 (16.63)	12.03	3901 (16.82)	12.11	3841 (16.46)	11.72	3770 (16.19)	11.49	3785 (16.05)	11.32	3742 (16.10)	11.22	3808.67	II
CSB	3234 (14.10)	10.20	3259 (14.05)	10.12	3247 (13.92)	9.91	3199 (13.74)	9.75	3190 (13.53)	9.54	3143 (13.52)	9.42	3212	III
KSCB	398 (1.74)	1.26	415 (1.79)	1.29	417 (1.79)	1.27	406 (1.74)	1.24	405 (1.72)	1.21	441 (1.90)	1.32	413.67	VI
Total	22933 (100.0)		23191 (100.0)		23334 (100.0)		23281 (100.0)		23585 (100.0)		23243 (100.0)			
Total of all 10 Kerala base banks	31699		32208		32778		32817		33499		33366			
Percent of total of 6 banks to 10 banks	72.35		72.00		71.19		70.94		70.51		69.66			

Source: 1. Annual reports of Kerala based banks, 1994-95 to 1999-2000
2. Data collected from the head offices of the banks concerned

Note: SBT - State Bank of Travancore DB - Dhanalakshmi Bank
KSCB - Kerala State Co-operative Bank SIB - South Indian Bank
SMGB - South Malabar Gramin Bank CSB - Catholic Syrian Bank
Figures in parenthesis represent percentage share to total

c. Wages

A perusal of Table 4.20 reveals that the wages of all the Kerala based banks have increased more than two fold during the period 1994-95 to 1999-2000. In spite of the tremendous increase in wage bill in absolute terms, their percentage share to the total market is remaining stable at around 70 per cent. SIB which has the second largest number of employee among the Kerala based banks had retained its position in terms of wage bill.

This may be due to the present policy of reducing the staff strength and thereby the wage bill being followed by all banks.

d. Non-Wage Operating Expenses

Non wage operating expenses of banks include expenses for rent, taxes, lighting, printing and stationery, advertisement and publicity, depreciation on bank's property, directors' fees, allowance and expenses, auditors' fees and expenses, postages, telegrams, telephone repairs and maintenance, insurance etc.

Table 4.20 Market Share of Wage Bill of Kerala Based Banks for the Period 1994-95 to 1999-2000

(Amount in Rs. Lakhs)

Banks	1994-95		1995-96		1996-97		1997-98		1998-99		1999-2000		Average Market Share of Wage Bill (1994-20000	Rank
	Amount paid as wages	% to total of 10 banks	Amount paid as wages	% to total of 10 banks	Amount paid as wages	% to total of 10 banks	Amount paid as wages	% to total of 10 banks	Amount paid as wages	% to total of 10 banks	Amount paid as wages	% to total of 10 banks		
SBT	10833.25 (55.73)	39.95	13734.95 (55.09)	39.48	16707.24 (59.05)	43.60	15154.38 (53.72)	38.11	17330.40 (53.17)	37.47	22147.93 (53.25)	37.76	15984.69	I
SMGB	1085.1 (5.58)	4.00	1284.29 (5.15)	3.69	1446.5 (5.11)	3.77	1666.77 (5.91)	4.19	2063.9 (6.33)	4.46	2044.13 (4.91)	3.49	1598.45	V
DB	1010.84 (5.20)	3.73	1465.6 (5.88)	4.21	1484.78 (5.25)	3.87	1689.06 (5.99)	4.25	1918.03 (5.89)	4.15	2245.9 (5.40)	3.83	1635.70	IV
SIB	3583.73 (18.43)	13.22	4679.39 (18.77)	13.45	4704.55 (16.63)	12.28	5396.35 (19.13)	13.57	6378.23 (19.57)	13.79	8632.84 (20.75)	14.72	5562.52	II
CSB	2612.21 (13.43)	9.63	3447.66 (13.83)	9.91	3589.90 (12.69)	9.37	3912.57 (13.87)	9.84	4465.98 (13.70)	9.66	5900.65 (14.19)	10.06	3988.16	III
KSCB	318.04 (1.64)	1.17	321.11 (1.29)	0.92	358.11 (1.27)	0.93	393.27 (1.39)	0.99	435.03 (1.33)	0.94	623.13 (1.50)	1.06	408.12	VI
Total	1944817 (100.0)		24933.00 (100.0)		28291.08 (100.0)		28212.4 (100.0)		32591.58 (100.0)		41594.58 (100.0)			
Total of all 10 Kerala base banks	27114.4		34786.39		38318.19		39762.75		46248.28		58651.22			
Percent of total of 6 banks to 10 banks	71.73		71.67		73.83		70.95		70.47		70.92			

Source: Annual reports of Kerala based banks, 1994-95 to 1999-2000

Note: Figures in parenthesis represent percentage share to total

Table 4.21 Market Share of Non Wage Operating Expenses for the Period 1994-95 to 1999-2000

(Amount in Rs. Lakhs)

Banks	1994-95		1995-96		1996-97		1997-98		1998-99		1999-2000		Average Market Share of Non Wage Operating Expenses (1994-2000)	Rank
	Amount of non wage op. expenses	% to total of 10 banks	Amount of non wage op. expenses	% to total of 10 banks	Amount of non wage op. expenses	% to total of 10 banks	Amount of non wage op. expenses	% to total of 10 banks	Amount of non wage op. expenses	% to total of 10 banks	Amount of non wage op. expenses	% to total of 10 banks		
SBT	4402.09 (56.09)	39.36	6026.33 (60.48)	39.96	5394.43 (50.87)	32.22	6547.37 (53.69)	32.32	6715.25 (51.48)	31.14	7291.12 (52.54)	32.12	6062.77	I
SMGB	200.3 (2.55)	1.79	195.82 (1.97)	1.30	245.42 (2.31)	1.47	283.55 (2.33)	1.40	324.4 (2.49)	1.50	410.9 (2.96)	1.81	276.73	V
DB	405.38 (5.17)	3.62	595.28 (5.97)	3.95	948.48 (8.94)	5.67	1102.14 (9.04)	5.44	1077.49 (8.26)	5.00	1185.78 (8.55)	5.22	885.76	IV
SIB	1407.16 (17.93)	12.58	1587.89 (15.94)	10.53	1719.69 (16.22)	10.27	1940.99 (15.92)	9.58	2604.955 (19.97)	12.08	2617.34 (18.86)	11.53	1979.67	II
CSB	1282.02 (16.34)	11.46	1385.99 (13.91)	9.19	2128.61 (20.07)	12.71	2117.57 (12.37)	10.54	2025.35 (15.53)	9.39	2076.71 (14.97)	9.15	1836.04	III
KSCB	151 (1.92)	1.35	173.2 (1.74)	1.15	167.23 (1.58)	1.00	202.25 (1.66)	1.50	297.55 (2.28)	1.38	294.89 (2.13)	1.30	214.35	VI
Total	7847.95 (100.0)		9964.51 (100.0)		10603.86 (100.0)		12193.87(100.0)		13077.99 (100.0)		13876.74 (100.0)			
Total of all 10 Kerala based banks	11183.15		15078.89		16742.61		20258.11		21562.6		22700.73			
Percent of total of 6 banks to 10 banks	70.18		66.08		63.33		60.19		60.50		61.13			

Source: Annual reports of Kerala based banks, 1994-95 to 1999-2000

Note: Figures in parenthesis represent percentage share to total

It may be observed from Table 4.21 that even though SBT still accounts for a lion's share of the total non wage operating expenses, its share has been slightly declining over the period. Similarly CSB is the only other bank which also showed a declining trend. All other banks have more or less maintained their share with slight variations.

II. Output Factors

a. Deposits

The market share of deposits depicted in Table 4.22 reveals the declining market share of SBT. This implies a gradual deterioration of its position as the premier bank of Kerala as also revealed by Table 4.18 in terms of its network of branches. A notable increase in the market share of deposits is seen in the case of KSCB, SIB and DB. It may be noted that the amount of deposits obtained by KSCB and DB increased more than three times during the period of study. The market share of the six Kerala based banks to the total of ten banks declined from 70.74 per cent in 1994-95 to 68.21 per cent in 1999-2000. It is interesting to note that SMGB had the lowest rank in the average deposits mobilised by the Kerala based banks during the entire period of study. This implies that the Bank's dependence on deposits as a source of working fund was very low.

Table 4.22 Market Share of Deposits of Kerala Based Banks for the Period 1994-95 to 1999-2000

(Amount in Rs. Lakhs)

Banks	1994-95		1995-96		1996-97		1997-98		1998-99		1999-2000		Average Market Share of Deposits (1994-2000)	Rank
	Amount of deposits	% to total of 10 banks	Amount of deposits	% to total of 10 banks	Amount of deposits	% to total of 10 banks	Amount of deposits	% to total of 10 banks	Amount of deposits	% to total of 10 banks	Amount of deposits	% to total of 10 banks		
SBT	478984.42 (56.18)	39.97	542414.82 (55.05)	37.33	646368.63 (54.18)	36.17	746806.29 (52.97)	33.63	865030.30 (51.91)	33.88	1018260.49 (51.37)	35.04	716310.78	I
SMGB	16198.80 (1.90)	1.34	14347.71 (1.46)	0.99	18626.58 (1.56)	1.04	22923.59 (1.63)	1.03	28077.01 (1.68)	1.03	35353.42 (1.78)	1.22	22587.55	VI
DB	45846.58 (5.38)	3.81	70673.20 (7.17)	4.86	107633.01 (9.02)	6.02	104028.73 (7.38)	4.68	123594.09 (7.42)	4.84	140066.64 (7.07)	4.82	98640.38	IV
SIB	151553.46 (17.78)	12.58	172387.89 (17.49)	11.86	209658.61 (17.57)	11.73	273826.76 (19.42)	12.33	312256.13 (18.74)	12.23	388535.86 (19.60)	13.37	251369.76	II
CSB	109818.81 (12.88)	9.12	138071.74 (14.01)	9.5	152772.15 (12.81)	8.55	184865.4 (13.11)	8.32	213915.65 (12.84)	8.38	245777.63 (12.40)	8.46	174203.53	III
KSCB	50159.21 (5.88)	4.16	47461.65 (4.82)	3.27	57915.93 (4.85)	3.24	77522.29 (5.50)	3.49	123616.97 (7.42)	4.84	154178.96 (7.78)	5.31	85142.50	V
Total	852561.28 (100.0)		985357.07 (100.0)		1192974.8 (100.0)		1409973 (100.0)		1666419.9 (100.0)		1982172.7 (100.0)			
Total of all 10 Kerala based banks	1204416.50		1453101.9		1787114.00		2220899.3		2552968.6		2905952.9			
Percent of total of 6 banks to 10 banks	70.79		67.81		66.75		63.49		65.27		68.21			

Source: Annual reports of Kerala based banks, 1994-95 to 1999-2000

Note: Figures in parenthesis represent percentage share to total

b. Non Deposit Working Funds

Non-Deposit Working Funds include capital, reserves and surplus and borrowings including refinance of a bank. An analysis of Table 4.23 reveals that the market share of non-deposit working funds of the six Kerala based banks have registered a decline from 67.30 per cent in 1994-95 to 55.02 per cent in 1999-2000. This may be due to the increase in the Non-Deposit Working Funds of the Federal Bank which is the premier private bank in the State but not included in the study. SMGB is the only bank which has shown a consistent increase in its market share of Non-Deposit Working Funds during the entire study period as is reflected in the increase in its rank. This is because the Bank has been increasingly making use of the refinance facility from its sponsoring bank and other apex institutions. The drastic decline in the market share of KSCB may be attributed to the decreasing use of borrowings as a source of working fund for that Bank (Annexure II).

Table 4.23 Market Share of Non Deposit Working Funds of Kerala Based Banks for the Period 1994-95 to 1999-2000

(Amount in Rs. Lakhs)

Banks	1994-95		1995-96		1996-97		1997-98		1998-99		1999-2000		Average Market Share of Non Deposit Working Funds (1994-2000)	Rank
	Amount of Non Deposit Working Funds	% to total of 10 banks	Amount of Non Deposit Working Funds	% to total of 10 banks	Amount of Non Deposit Working Funds	% to total of 10 banks	Amount of Non Deposit Working Funds	% to total of 10 banks	Amount of Non Deposit Working Funds	% to total of 10 banks	Amount of Non Deposit Working Funds	% to total of 10 banks		
SBT	33498.28 (34.34)	23.11	29633.91 (28.91)	17.56	30047.61 (29.47)	16.00	47758.58 (39.92)	23.04	44235.33 (35.33)	18.56	49514.963 (36.22)	19.93	39114.78	I
SMGB	10342.72 (10.60)	7.13	10952.05 (10.69)	6.49	12204.91 (11.97)	6.50	15478.45 (12.94)	7.47	18921.94 (15.11)	7.94	20790.85 (15.21)	8.37	14781.82	IV
DB	3354.37 (3.44)	2.31	8470.6 (8.26)	5.02	9188.13 (9.01)	4.89	8822.07 (7.37)	4.26	9041.57 (7.22)	3.79	11346.78 (8.30)	4.57	8370.59	VI
SIB	14108.04 (14.46)	9.73	18182.58 (17.74)	10.77	12349.25 (12.11)	6.58	14255.22 (11.92)	6.88	27104.68 (21.65)	11.37	28242.42 (20.66)	11.37	19040.37	III
CSB	10917.65 (11.19)	7.53	10976.99 (10.71)	6.50	10687.33 (10.48)	5.69	8419.66 (7.04)	4.06	11400.72 (9.11)	4.78	12559.33 (9.19)	5.06	10826.95	V
KSCB	25339.38 (25.97)	17.48	24275.18 (23.69)	14.38	27468.19 (26.94)	14.62	24905.26 (20.82)	12.02	14506.2 (11.59)	6.09	14201.46 (10.39)	5.72	21782.6	II
Total	97560.44 (100.0)		102491.31 (100.0)		101945.42 (100.0)		119639.16 (100.0)		125210.44 (100.0)		136695.77 (100.0)			
Total of all 10 Kerala based banks	144968.42		168797.32		187819.78		207246.09		238283.81		248428.12			
Percent of total of 6 banks to 10 banks	67.30		60.72		54.28		57.73		52.55		55.02			

Source: Annual reports of Kerala based banks, 1994-95 to 1999-2000

Note: Figures in parenthesis represent percentage share to total

c. Advances

It can be inferred from Table 4.24 that though the advances made by the six Kerala based banks has increased in absolute terms their relative market share has declined from 72.21 per cent to 64.72 per cent. This may be because of the more than three fold increase in advances made by the Federal Bank and Lord Krishna Bank and four fold increase in advances by Nedungadi Bank during the same study period (Annual reports, 1994-95 to 1999-2000). This increasing trend is not seen in the case of the six selected banks. A comparatively better picture is exhibited by SIB. The most drastic fall in the market share can be observed in the case of SBT. Hence it is not only in terms of network of branches, (Table 4.18) and deposits (Table 4.22) but also in terms of advances that SBT is losing its prominence.

d. Investment

As revealed from Table 4.25 although the investments in general of the Kerala based banks have increased, their market share is fluctuating within a band of 65 to 72 per cent over the period. The increase in investments of banks may be seen in the light of the increasing use of this method to boost their revenue from non-interest income besides investing in approved securities to meet their target of priority sector lending.

Table 4.24 Market Share of Advances Made by Kerala Based Banks for the Period 1994-95 to 1999-2000

(Amount in Rs. Lakhs)

Bank	1994-95		1995-96		1996-97		1997-98		1998-99		1999-2000		Average Market Share of Advances (1994-2000)	Rank
	Amount of advances	% to total of 10 banks	Amount of advances	% to total of 10 banks	Amount of advances	% to total of 10 banks	Amount of advances	% to total of 10 banks	Amount of advances	% to total of 10 banks	Amount of advances	% to total of 10 banks		
SBT	312640.90 (57.21)	41.31	334916.29 (52.45)	36.06	365930.49 (51.67)	33.19	400082.48 (51.25)	31.18	425189.58 (51.43)	30.88	513120.62 (49.31)	31.91	391980.01	I
SMGB	18181.84 (3.33)	2.40	18998.14 (2.98)	2.05	22867.66 (3.23)	2.07	27343.7 (3.50)	2.13	32755.93 (3.96)	2.38	39752.47 (3.82)	2.47	26649.96	VI
DB	28589.46 (5.23)	3.78	44858.66 (7.03)	4.83	56240.63 (7.94)	5.10	57606.12 (7.38)	4.49	60523.32 (7.32)	4.40	77631.44 (7.46)	4.83	54241.61	V
SIB	74277.38 (13.59)	9.81	102839.73 (16.11)	11.07	115435.51 (16.30)	10.47	146322.63 (18.74)	11.40	166465.56 (20.14)	12.09	202107.93 (19.42)	12.57	134574.79	II
CSB	63125.01 (11.56)	8.34	83361.17 (13.05)	8.98	95507.25 (13.49)	8.66	97434.42 (12.48)	7.59	94997.55 (11.49)	6.90	106070.97 (10.19)	6.60	90082.73	III
KSCB	49661.15 (9.08)	6.56	53566.01 (8.39)	5.77	52219.64 (7.37)	4.74	51809.68 (6.63)	4.04	46811.19 (5.66)	3.40	101905.99 (9.79)	6.34	59328.9	IV
Total	546475.74 (100.0)		638540 (100.0)		708201.18 (100.0)		780599.03 (100.0)		826743.13 (100.0)		1040589.4 (100.0)			
Total of all 10 Kerala based banks	756834.84		928813.27		1102636.7		1283286.9		1377016.6		1607863.7			
Percent of total of 6 banks to 10 banks	72.21		68.75		64.23		60.83		60.04		64.72			

Source: Annual reports of Kerala based banks, 1994-95 to 1999-2000

Note: Figures in parenthesis represent percentage share to total

Table 4.25 Market Share of Investments Made by Kerala Based Banks During the Period 1994-95 to 1999-2000

(Amount in Rs. Lakhs)

Banks	1994-95		1995-96		1996-97		1997-98		1998-99		1999-2000		Average Market Share of Investments (1994-2000)	Rank
	Amount of invest ment	% to total of 10 banks	Amount of invest ment	% to total of 10 banks	Amount of invest ment	% to total of 10 banks	Amount of invest ment	% to total of 10 banks	Amount of invest ment	% to total of 10 banks	Amount of invest ment	% to total of 10 banks		
SBT	180993.69 (56.07)	40.30	187962.71 (56.16)	39.59	262620.91 (58.87)	41.58	330078.41 (59.47)	38.90	438401.09 (60.20)	41.06	487158.05 (56.05)	39.45	314535.8	I
SMGB	2380.21 (0.74)	0.53	3186.81 (0.95)	0.67	3872.53 (0.87)	0.61	4563.65 (0.82)	0.54	47604.97 (0.65)	0.44	5662.44 (0.65)	0.46	11211.77	VI
DB	14809.72 (4.59)	3.30	19910.20 (5.95)	4.19	30069.94 (6.74)	4.76	35452.75 (6.39)	4.18	42723.49 (5.87)	4.00	56370.48 (6.49)	4.56	33222.76	IV
SIB	66771.44 (20.68)	14.87	63195.50 (18.88)	13.31	82326.89 (18.45)	13.03	100613.45 (18.13)	11.86	119976.72 (16.47)	11.24	174882.58 (20.12)	14.16	101294.43	II
CSB	38988.80 (12.08)	8.68	41617.33 (12.43)	8.77	48144.33 (10.79)	7.62	60742.61 (10.94)	7.16	80716.06 (11.08)	7.56	99476.4 (11.45)	8.06	61614.26	III
KSCB	18847.36 (5.84)	4.20	18832.96 (5.63)	3.97	19093.64 (4.28)	3.02	23549.84 (4.24)	2.78	41738.7 (5.73)	3.91	45581.24 (5.24)	3.69	27940.7	V
Total	322791.22 (100.0)		334705.51 (100.0)		446128.24 (100.0)		555000.71 (100.0)		728255.03 (100.0)		869131.19 (100.0)			
Total of all 10 Kerala based banks	449077.94		474717.12		631627.17		848500.77		1067789.1		1234915.9			
Percent of total of 6 banks to 10 banks	71.88		70.51		70.63		65.41		68.2		70.38			

Source: Annual reports of Kerala based banks, 1994-95 to 1999-2000

Note: Figures in parenthesis represent percentage share to total

e. Interest spread

A noteworthy feature as observed from Table 4.26 is that SMGB is the only bank which has a consistent increase in the interest spread in absolute terms in all the years. SBT has lost its market share by more than four per cent by 1999-2000 when compared with that of 1994-95. This has been one of the reasons behind the decline in the market share of these six banks to the total of the ten Kerala based banks. The increase in the total interest spread of six banks from Rs. 44,119.7 lakhs in 1998-99 to Rs. 55,108.84 lakhs in 1999-2000 has not been commensurate with the sharp increase in that of the ten banks together i.e., from Rs. 59,846.7 lakhs to Rs. 87,017.33 lakhs. The main beneficiary of this increase is the Federal Bank Ltd., with its interest spread increasing from Rs. 8,787.12 lakhs in 1998-99 to Rs. 18,034.23 lakhs in 1999-2000 (Annual Reports 1998-99 and 1999-2000). This is another reason for the decrease in the market share of these banks from 73.72 per cent in 1998-99 to 63.33 per cent in 1999-2000.

Table 4.26 Market Share of Interest Spread of Kerala Based Banks for the Period 1994-95 to 1999-2000

(Amount in Rs. Lakhs)

Banks	1994-95		1995-96		1996-97		1997-98		1998-99		1999-2000		Average Market Share of Interest Spread (1994-2000)	Rank
	Interest spread	% to total of 10 banks	Interest spread	% to total of 10 banks	Interest spread	% to total of 10 banks	Interest spread	% to total of 10 banks	Interest spread	% to total of 10 banks	Interest spread	% to total of 10 banks		
SBT	15720.36 (55.22)	36.68	21890.56 (55.79)	39.93	24740.92 (59.57)	42.03	26819.27 (60.14)	41.21	23828.25 (54.01)	39.82	28192.84 (51.16)	32.40	23532.03	I
SMGB	1325.25 (4.66)	3.09	1355.28 (3.45)	2.47	1734.22 (4.18)	2.95	2505.32 (5.62)	3.85	2860.99 (6.48)	4.78	3358.4 (6.09)	3.86	2189.91	V
DB	1746.78 (6.14)	4.08	2578.84 (6.57)	4.70	2845.62 (6.85)	4.83	3224.78 (7.23)	4.95	2983.72 (6.76)	4.99	3973.98 (7.21)	4.57	2892.29	IV
SIB	5247.97 (18.42)	12.24	7664.14 (19.53)	13.98	6399.46 (15.41)	10.87	7723.76 (17.32)	11.87	8811.32 (10.34)	14.72	11820.95 (21.45)	13.58	7944.6	II
CSB	3745.31 (13.61)	8.74	4679.87 (11.93)	8.54	5140.68 (12.38)	8.73	4920.38 (11.03)	7.56	4561.75 (10.34)	7.62	6309.29 (11.45)	7.25	4892.88	III
KSCB	681.81 (2.40)	1.59	1070.95 (2.73)	1.95	670.57 (1.61)	1.14	599.99 (1.35)	0.92	1073.67 (2.43)	1.79	1453.38 (2.64)	1.67	925.06	VI
Total	28467.45 (100.00)		39239.64 (100.0)		41531.47 (100.0)		44593.52 (100.0)		44119.7 (100.0)		55108.84 (100.0)			
Total of all 10 Kerala based banks	42862.32		54819.22		58860.55		65085.09		59846.7		87017.33			
Percent of total of 6 banks to 10 banks	66.42		71.58		70.56		68.52		73.72		63.33			

Source: Annual reports of Kerala based banks, 1994-95 to 1999-2000

Note: Figures in parenthesis represent percentage share to total

f. Non-interest Income

Non Interest Income comprises of income obtained from commission, exchange and brokerage, net profit from sale of investments or revaluation of investments, net profit from sale of land, buildings and other assets, net profit from exchange transactions and income earned by way of dividend from subsidiaries/ companies and/ or joint ventures abroad or in India.

Table 4.27 depicts the market share of non interest income of Kerala based banks for the period 1994-95 to 1999-2000. It can be observed from the Table that the market share of the six Kerala based banks to the total has declined from 70.75 per cent in 1994-95 to 66.62 per cent in 1999-2000. The increase in the market share of DB, SIB and CSB has not been able to offset the declining share of SBT, KSCB and SMGB. The steepest fall in the market share of non-interest income can be observed in the case of SBT with its share to the total of the six banks declining from 64.32 per cent to 54.00 per cent. Similarly its percentage share to the total of the ten banks declined from 45.51 per cent to 35.97 per cent.

Table 4.27 Market Share of Non-interest Income of Kerala Based Banks for the Period 1994-95 to 1999-2000

(Amount in Rs. Lakhs)

Banks	1994-95		1995-96		1996-97		1997-98		1998-99		1999-2000		Average Market Share of Non Deposit Working Funds (1994-2000)	Rank
	Non-interest Income	% to total of 10 banks	Non-interest Income	% to total of 10 banks	Non-interest Income	% to total of 10 banks	Non-interest Income	% to total of 10 banks	Non-interest Income	% to total of 10 banks	Non-interest Income	% to total of 10 banks		
SBT	9822.19 (64.32)	45.51	11657.12 (64.97)	44.29	12418.63 (64.78)	43.17	14874.71 (62.39)	40.88	15265.02 (61.49)	38.60	19466.32 (54.00)	35.97	13917.33	I
SMGB	228.44 (1.49)	1.06	209.97 (1.17)	0.80	349.30 (1.82)	1.21	336.59 (1.41)	0.93	447.43 (1.80)	1.13	535.94 (1.49)	0.99	351.28	VI
DB	868.27 (5.69)	4.02	702.01 (3.91)	2.67	1234.57 (6.44)	4.29	1458.84 (6.12)	4.01	1342.63 (5.41)	3.39	2469.27 (6.85)	4.56	1345.93	IV
SIB	2459.38 (16.11)	11.39	2360.92 (13.16)	8.97	2211.82 (11.54)	7.69	2603.97 (10.92)	7.16	3689.91 (14.86)	9.33	7455.51 (20.68)	13.78	3463.59	II
CSB	942.97 (6.18)	4.37	2130.19 (11.87)	8.09	1978.15 (10.32)	6.88	3041.08 (12.76)	8.36	2433.80 (9.80)	6.15	4223.08 (11.71)	7.80	2458.21	III
KSCB	949.24 (6.21)	4.40	882.19 (4.92)	3.35	977.59 (5.10)	3.40	1524.71 (6.40)	4.19	1646.05 (6.63)	4.16	1901.26 (5.27)	3.51	1313.51	V
Total	15270.49 (100.0)		17942.4 (100.0)		19170.06 (100.0)		23839.9 (100.0)		24824.84 (100.0)		36051.38 (100.0)			
Total of all 10 Kerala based banks	21583.35		26322.92		28766.51		36386.49		39551.72		54115.91			
Percent of total of 6 banks to 10 banks	70.75		68.16		66.64		65.52		62.77		66.22			

Source: Annual reports of Kerala based banks, 1994-95 to 1999-2000

Note: Figures in parenthesis represent percentage share to total

g. Net profit

Table 4.28 depicts the market share of the net profits of Kerala based banks. It can be seen that the market share of the net profits of the six Kerala based banks to the total of ten banks increased from 48.78 per cent in 1994-95 to 60.66 per cent in 1999-2000. The highest increase in the share of profits can be observed in the case of SBT which increased its market share from 20.85 per cent to 31.51 per cent during the six year period when its share to all the ten banks is considered. But it is to be noted that from the market share of 69.31 per cent in 1995-96 among the six banks, the share of SBT has decreased to 51.95 per cent. The share of SMGB which was only 1.37 per cent at that time increased to 10 per cent at present. KSCB has put in a very poor performance in the year 1999-2000. Hence it can be implied that but for the better performance of SMGB, SIB and CSB the market share of these six banks would have been much lower.

4.2.3.2 Efficiency level of Kerala based (when market is six banks)

Based on the market share concept of the input factors and output factors of each bank, it is possible to compare the performance of these banks. Table 4.29 depicts the efficiency level of each of the six Kerala based banks when all the six banks is taken as one market. Efficiency level is arrived at by using the formula.

Efficiency or productivity of the bank (%) =

$$\frac{\text{Average market share of all the output factors}}{\text{Average market share of all the input factors}}$$

Table 4.28 Market Share of Net Profit of Kerala Based Banks for the Period 1994-95 to 1999-2000

(Amount in Rs. Lakhs)

Banks	1994-95		1995-96		1996-97		1997-98		1998-99		1999-2000		Average Market Share of Net Profit (1994-2000)	Rank
	Net Profit	% to total of 10 banks	Net Profit	% to total of 10 banks	Net Profit	% to total of 10 banks	Net Profit	% to total of 10 banks	Net Profit	% to total of 10 banks	Net Profit	% to total of 10 banks		
SBT	2070 (42.73)	2085	2620 (69.31)	27.80	4025 (68.88)	32.88	6330 (57.95)	34.89	4327 (67.64)	49.23	6644 (51.95)	31.51	4336	I
SMGB	210.50 (4.35)	2.12	51.82 (1.37)	0.55	- 219.57 (3.76)	- 1.79	888.16 (8.13)	4.90	909.66 (14.22)	10.35	1278.47 (10.00)	6.06	593.03	IV
DB	441.78 (9.12)	4.45	471.91 (12.48)	5.01	791.43 (13.54)	6.47	840.07 (7.69)	4.63	387.33 (6.06)	4.41	1128.40 (8.82)	5.35	676.82	III
SIB	1480.2 (30.56)	14.91	462.26 (12.23)	4.90	777.30 (13.30)	6.35	2074.16 (18.99)	11.43	608.43 (9.51)	6.92	2589.10 (20.24)	12.28	1331.9	II
CSB	447.10 (9.23)	4.50	37.15 (0.98)	0.39	400.08 (6.85)	3.27	709.01 (6.49)	3.91	38.13 (0.60)	0.43	1124.99 (8.80)	5.34	459.41	V
KSCB	194.23 (4.01)	1.96	136.90 (3.62)	1.45	69.55 (1.19)	0.57	81.38 (0.75)	0.45	126.13 (1.97)	1.43	25.06 (0.20)	0.12	105.54	VI
Total	4843.81 (100.0)		3780.04 (100.0)		5843.79 (100.0)		10922.78 (100.0)		6396.68 (100.0)		12790.02 (100.0)			
Total of all 10 Kerala based banks	9929.63		9425.44		12239.84		18142.41		8790.21		21084.05			
Percent of total of 6 banks to 10 banks	48.78		40.10		47.74		60.21		72.77		60.66			

Source: Annual reports of Kerala based banks, 1994-95 to 1999-2000

Note: Figures in parenthesis represent percentage share to total

Efficiency level of the individual banks for each year and for the entire study period has been worked out.

Table 4.29 Efficiency level of each of the six Kerala based banks (when market is six banks)

Year / Bank	1994-95	1995-96	1996-97	1997-98	1998-99	1999-2000	1994-2000	Rank
SBT	100.84	103.07	107.23	107.39	108.34	99.17	104.21	II
SMGB	62.72	53.85	65.94	79.54	100.16	89.28	75.25	V
DB	94.02	114.69	119.35	95.93	90.38	103.32	102.95	III
SIB	100.91	89.35	83.99	90.16	82.19	104.21	91.79	IV
CSB	71.29	72.41	68.53	73.37	62.01	71.89	69.02	VI
KSCB	524.07	509.27	502.05	432.45	360.98	349.11	446.32	I

Source: Compiled from Tables 4.18 to 4.28

Note: All figures are in percentages

KSCB has maintained a long-term trend of efficiency of around 444.01 per cent. This high level of efficiency may be attributed to the low number of branches of the Bank resulting is lower staff requirements, lesser wages and non-wage operating expenses thereby reducing the input cost of the Bank. SBT and DB also had efficiency levels exceeding 100 per cent. The least performing Bank was the CSB with an efficiency level of 69.51. Even though the three Kerala based banks viz., CSB, SMGB and SIB have shown consistent track record of profitability, their lower

efficiency reveals that higher profitability does not automatically translate into higher efficiency.

4.2.3.3 Efficiency level of Kerala Based Banks (When Market is Ten Banks)

When all the ten Kerala based banks were taken as the market, KSCB retained its position as the highest performing bank as is evident in Table 4.30. The same trend as of Table 4.29 can be seen except for the small variation in the efficiency level of SMGB which has lowered it to the last position.

Table 4.30 Efficiency level of the six Kerala based banks (when market is 10 banks)

Year / Bank	1994-95	1995-96	1996-97	1997-98	1998-99	1999-00	Consolidated figure 1994-00	Rank
SBT	95.39	93.75	97.49	100.84	105.95	95.11	98.09	II
SMGB	57.80	48.54	43.37	70.95	93.49	78.64	65.47	VI
DB	86.79	100.22	106.32	90.47	87.47	98.55	94.98	III
SIB	92.79	83.19	77.29	83.96	85.16	99.16	86.93	IV
CSB	67.87	70.32	64.01	63.84	59.11	69.05	65.70	V
KSCB	500.87	464.76	434.65	390.20	335.78	333.63	409.98	I
Total of the six Kerala based banks	94.46	91.71	90.88	93.34	96.38	95.25	93.67	

Source: Compiled from Tables to 4.29

Note: All figures are in percentages

SMGB, CSB and SIB are having efficiency level lower than that of the average of the six Kerala based banks. In the case of SMGB, the branches and staff constitute a high share of the input factor thereby increasing the input costs. In the case of SIB, high share of branches and wage bill in the total input have lowered efficiency level of the Bank. For CSB, all the input factors have higher values and have thereby adversely affected the efficiency of the Bank. Besides it has witnessed decline in almost all the output factors viz., deposits, non-deposit working funds, advances, investment and interest spread. In other words, lower efficiency level of these banks indicate that there is a lot of scope for them for utilising their input factors more productively than done before.

A comparison of the efficiency levels worked with the industry average provides a better picture about the efficiency of Kerala based banks. Table 4.31 gives the efficiency of different groups based on a study by Satyanarayana (1996). Although the study relates to different years, it will give some idea about how the Kerala based banks fare when compared to the other banks in India. It is to be remembered that this study of Kerala based banks relates to data of the second half of the decade of liberalisation while the study by Satyanarayana deals with data from nationalisation and ends with the first half of this decade.

Table 4.31 Efficiency level of different Bank Groups

Sl. No	Name of the group	1969	1975	1980	1985	1990	1991	1992	1993	1994	Consolidated figure 1969-94
1	State Bank of India (SBI)	105	100	106	109	101	101	108	105	93	103
2	SBI Associates	75	73	73	73	88	90	84	80	78	79
3	SBI Group	98	94	99	99	98	98	102	99	89	97
4	Nationalised Banks	99	104	102	97	92	90	85	43	28	82
5	Public Sector Banks	98	100	101	94	93	93	91	62	49	87
6	Private Indian Banks	73	67	57	71	72	78	81	74	90	74
7	Foreign Banks	133	115	138	187	264	233	314	36	214	181

Source: Satyanarayana, K. 1996. Productivity beyond per employee business. *IBA Bulletin*. XVIII (4):11

Note: All figures are in percentages

The efficiency level of SBT is at par with SBI and better compared to SBI Associates, SBI group, nationalised banks and public and private sector banks. It has fallen short of the foreign banks only. KSCB has exceeded the highest efficiency level of the foreign banks which was 181. CSB is the only Bank which is below the efficiency levels of all the banks as indicated in the Table 4.29 and 4.30.

4.3 Agricultural Credit- Performance and Prospects

It is a widely accepted fact that success of planning in our country to usher in a self sustained economy depends on the economy's ability to effectively cope with the ever increasing demand for feeding millions of citizens. In other words, an efficient and viable agriculture base becomes a major factor in accelerating the pace of economic development. Samuelson and Solon (1983) have observed that if agriculture stagnates, it will act as a brake on industrial expansion and halt real growth.

Inspite of its prime role in the development of the country, traditionally, agriculture along with other equally prominent sectors like SSI and small industries could not easily access finance. The organised financial system were reluctant to lend to these sectors due to the higher risk involved. The Government however, acknowledging the importance of these sectors to the national economy, evolved the concept of priority sector(or directed credit) in early 1970s. The purpose of directed credit programmes is to channel credit to priority sectors, groups or regions to support activities that are either considered to be socially beneficial or inherently riskier. Besides it aims to lend to borrower groups that are likely to be marginalised in the credit markets. It is argued that provision of credit to these targets will

enable exploitation of investment opportunities, contributing not only to the economy's GDP but also meet other welfare objectives such as employment and income redistribution. Another objective has been to reduce the dependency of a certain class of borrowers on the informal credit market with its high rates of interest. This is particularly true in India where replacing informal intermediaries with organised credit has been envisaged as one of the desirable aims of financial policy.

Even though there had been changes in the definition and composition of priority sector, the concept of priority sector has more or less remained the same. The introduction of financial sector reforms in 1991-1996 however seriously eroded the flow of resources to this important sector since banks in a bid to make more profit began focussing on more lucrative sectors. The post liberalisation period of late 1990s witnessed a shift in the basic approach followed by RBI regarding priority sector lending. There has been broadening of the scope of priority sector lending by public sector banks, addition of completely new areas under priority sector and diversion by banks from direct priority sector lending to other investments. This broadening of the scope of priority sector lending has allowed banks to fulfil the stipulated target of 40 per cent of their total advances as priority sector without having to lend directly much more to those

areas included in the priority sector as defined before (Shajahan, 1999).

This view is reinforced in Table 4.32 which depicts the priority sector lending by commercial banks in India. It can be observed that the credit to priority sector has increased in absolute terms. However there has been an appreciable change in the proportion of bank credit going to the priority sector between 1991-92 and 1995-96. With the reduction in SLR and CRR there was an increase in the availability of funds, but the percentage of credit went below 40 per cent to priority sector between 1991 and 1996 from 40.20 per cent to 37.75per cent. In the years 1997, 1998 and 1999, the target of 40 per cent was crossed by the banks.

It is seen that in 1991, at the time of the initation of the financial sector reforms, the target of priority sector was achieved by the banks (40.26 per cent). But immediately after that due to the efforts of the banks to adjust to the financial sector reforms, the priority sectors were neglected and as a result the achievement was below the target. With the liberalisation of priority sector by including new areas and investments under its purview in 1997-98 and 1998-99, the term was widened which enabled the banks to achieve the targets easily which is reflected in the achievement in the subsequent years.

Table 4.32 Priority Sector Advances by Banks in India for the period 1991-1999

(Amount in Rs. crores)

Particulars \ Year	March 1991	March 1992	March 1993	March 1994	March 1995	March 1996	March 1997	March 1998	March 1999
Net Bank Credit	105632	112160	132782	140914	169038	184391	189684	218219	246206
Total Priority Sector (PS) Advances	42276	44581	48563	53197	61794	69609	79131	91319	107200
Percentage of P.S. Advances to Net Bank Credit (Target 40 per cent)	4020	39.75	36.64	37.75	36.56	37.75	41.72	41.85	43.54
Total Agricultural Advances	15857	18265	20020	21204	23513	26351	31012	34304	36897
Percentage of total agricultural advances to Net Bank Credit (Target 18 per cent)	15.01	16.28	15.07	15.05	13.91	14.29	16.35	15.72	14.99

Source: i) Shahjahan, K.M. 1999 Priority sector lending: How useful? *EPW.* XXXIV (51): 3572-3573

ii) Trend and Progress of Banking in India, RBI, November 15, 2000

A similar trend can be observed in the case of agricultural lending. The term 'Agricultural finance' was broadened in 1997-98 by even classifying finance extended to State Electricity Boards and subscription of Rural Electrification Corporation's bonds under indirect finance to agriculture. This has led to a steady increase in the percentage share of agricultural advances to Net Bank Credit from 13.91 per cent in 1995 to 14.99 per cent in 1999. However it has not yet crossed the 18 per cent mark stipulated by RBI.

4.3.1 Priority Sector Lending by Kerala Based Banks

It was in 1972 that the Reserve Bank of India in consultation with the government directed all banks to divert at least one third (33.33 per cent) of the total amount of credit extended by them to priority sector by 1979. The target was revised on March 6, 1980 when RBI impressed upon all the commercial banks to step up the proportion of their advances to priority sector from 33.33 per cent to 40 per cent from 1985 onwards.

In compliance with RBI norms, all Kerala based banks have increased their priority sector lending over the years. However the fact that the percentage of actual priority sector advances to total advances has never crossed 40 per cent is revealed in Table 4.33. The Table shows the actual disbursement of credit to priority sector.

Table 4.33 Priority Sector Lending by Kerala based banks for the period 1994-95 to 1999-2000

(Amount in Rs. Lakhs)

Bank / Year	State Bank of Travancore		Kerala State Co-operative Bank		South Malabar Gramin Bank		Dhanalakshmi Bank		South Indian Bank		Catholic Syrian Bank	
	Priority Sector Advances	Total Advances	Priority Sector Advances	Total Advances	Priority Sector Advances	Total Advances	Priority Sector Advances	Total Advances	Priority Sector Advances	Total Advances	Priority Sector Advances	Total Advances
1994-95	103705.22 (33.17)	312640.90	NA*	49661.15	14964.31 (82.30)	18181.84	5467.04 (19.12)	28589.46	17391.18 (23.41)	74277.38	24280.82 (38.46)	63125.01
1995-96	112855.92 (33.70)	334916.29	NA*	53566.01	15683.14 (82.55)	18998.14	8452.52 (18.84)	44858.66	24887.76 (24.20)	102839.73	25979.50 (31.17)	83361.17
1996-97	120942.75 (33.05)	365930.40	NA*	52219.64	18105.36 (79.17)	22867.66	18676.78 (33.21)	56240.63	31847.86 (27.59)	115435.51	28016.38 (29.33)	95507.25
1997-98	130245.97 (32.55)	400082.48	NA*	51809.68	23286.96 (85.16)	27343.70	19665.67 (34.14)	57606.12	38845.80 (26.55)	146322.63	28993.31 (29.76)	97434.42
1998-99	140243.97 (33.13)	425189.58	NA*	46811.19	29405.90 (89.77)	32755.93	17419.10 (28.78)	60523.32	47316.25 (28.42)	166465.56	30045.41 (31.63)	94997.55
1999-2000	140855.25 (33.23)	513120.62	NA*	101905.99	35397.43 (89.04)	39752.47	23960.77 (30.86)	77631.44	64621.81 (31.97)	202107.93	30642.14 (28.89)	106070.97

Source: Annual reports of the concerned banks, 1994-95 to 1999-00

Note: Figures in parenthesis indicate the percentage share of Priority Sector Advances to Total Advances

NA* – Priority Sector Lending of KSCB could not be calculated since they do not provide for priority sector lending separately in their balance sheet.

Many of the banks claim to have achieved the target in priority sector lending by investing the deficit amount in specified bonds of NABARD and SIDBI as part of RBI guidelines. As a result, there is a variation in the priority sector lending claimed by the banks and the actual disbursement. It may be noted that the priority sector advances of SMGB was very high with 89.04 per cent of the total advances going to this sector in 1999-2000. This may be because of the peculiar character of RRBs being set up primarily for financing the Target Group. Besides the fact that the Bank can avail substantial amount of refinance from NABARD, SIDBI and Canara Bank may be responsible for its ability to finance to priority sector on such a large scale. Even though figures for priority sector lending are not available for KSCB, by nature majority of its lending comprises of loans to the agricultural and allied sectors.

4.3.2 Share of Agricultural Advances to Total Advances

The rise in disbursement of agricultural credit by commercial banks in India has been due to the implementation of a deliberate policy by RBI and Government of India for promoting agricultural credit. Accordingly, RBI guidelines specify that commercial banks must lend at least 18 per cent of their net bank credit to agriculture.

In keeping with this stipulation the Kerala based banks have shown considerable increase in lending to agricultural sector over the years. However the value in percentage terms have declined as is evident from Table 4.34.

None of the commercial banks have achieved the target of 18 per cent which is primarly meant for the rural rector. SMGB has been increasing its share of agricultural advances inspite of its increased lending to Non-Target Group.

In the case of KSCB, even though the absolute amount of agricultural lending increased from 15,991.62 lakhs in 1994-95 to Rs. 17,492.38 lakhs in 1999-2000, the value in percentage terms decreased from 32.20 per cent to 19.17 per cent during the same period. Similarly the percentage of agricultural lending to total lending declined for SBT, DB and CSB during the period of study. It is to the noted that the decline in agricultural lending had been very consistent in the case of SBT. The declining percentage of agricultural lending to total advance may be attributed to diversion of funds to other constituents of priority sector.

Hence much need to be done to increase the share of agricultural lending to total advances since agriculture is one of the core priority sector areas.

Table 4.34 Share of Agricultural Advances to Total Advances of Kerala based banks for the period 1994-95 to 1999-2000

(Amount in Rs. Lakhs)

Bank / Year	State Bank of Travancore		Kerala State Co-operative Bank		South Malabar Gramin Bank		Dhanalakshmi Bank		South Indian Bank		Catholic Syrian Bank	
	Total Agricultural lending	Total Advances	Total Agricultural lending	Total Advances	Total Agricultural lending	Total Advances	Total Agricultural lending	Total Advances	Total Agricultural lending	Total Advances	Total Agricultural lending	Total Advances
1994-95	44386 (14.20)	312640.90	15991.62 (32.20)	49661.15	8375 (46.06)	18181.84	1987.65 (6.95)	28589.46	2132 (2.87)	74277.38	1123.67 (1.78)	63125.01
1995-96	47386 (14.08)	334916.29	13396.01 (25.01)	53566.01	9206 (48.45)	18998.14	2018.32 (4.50)	44858.66	2580 (2.51)	102839.73	1210.02 (1.45)	83361.17
1996-97	49984 (13.66)	365930.40	15048.65 (29.04)	52219.64	11210 (49.02)	22867.66	2937.97 (5.22)	56240.63	4589 (3.98)	115435.51	1711.12 (1.79)	95507.25
1997-98	50270 (12.56)	400082.48	15164.25 (29.27)	51809.68	14478 (52.93)	27343.70	4249.36 (7.38)	57606.12	4480 (3.06)	146322.63	1188.88 (1.22)	97434.42
1998-99	49171 (11.56)	425189.58	15118.39 (32.80)	46811.19	16499.71 (50.37)	32755.93	2876.1 (4.75)	60523.32	6356 (3.82)	166465.56	1381.19 (1.45)	94997.55
1999-00	53057 (10.34)	513120.62	17492.38 (19.17)	101905.99	21505.57 (54.10)	39752.47	2864.33 (3.69)	77631.44	9241 (4.57)	202107.93	1309.65 (1.23)	106070.97

Source: i) Annual reports of the concerned banks, 1994-95 to 1999-00
ii) Data collected from the head office of the concerned banks

Note: Figures in parenthesis represent the percentage share of agricultural lending to total advances

4.3.3 Share of Direct Agricultural Lending and Indirect Agricultural Lending to Total Advances

In order to ensure that the agricultural sector gets its due share of the bank credit, RBI has directed all domestic commercial banks to lend at least 18 per cent of their net bank credit to agriculture. Besides this, it has further specified that indirect agricultural finance should not exceed one-fourth of the sub target of 18 per cent i.e., 4.5 per of the net bank credit. The direct finance by banks to agriculture will include direct finance to farmers. This would comprise of short term loans for raising crops for allied activities such a dairying and poultry and medium term and long term loans for purchase of agricultural implements and machinery, reclamation and land development, construction of farm building etc. On the other hand, indirect finance to agriculture would encompass advances made by banks to agencies and organisations engaged in supply of inputs and services to farmers. Hence it would consist of loans granted to distributors of fertilizers, pesticides and advances to state sponsored corporations for lending to weaker sections.

Table 4.35 depicts the break up of agricultural advance of Kerala based commercial banks and the percentage share of each bank to the total advances. The segmentation of agricultural

Table 4.35 Share of Direct Agricultural Lending and Indirect Agricultural Lending to Total Advances of Kerala based banks for the period 1994-95 to 1999-2000

(Amount in Rs. Lakhs)

Bank / Year	State Bank of Travancore			Dhanalakshmi Bank			South Indian Bank			Catholic Syrian Bank		
	Direct Agrl. Lending	Indirect Agrl. lending	Total advances	Direct Agrl. Lending	Indirect Agrl. lending	Total advances	Direct Agrl. Lending	Indirect Agrl. lending	Total advances	Direct Agrl. Lending	Indirect Agrl. lending	Total advances
1994-95	38741 (12.39)	5645 (1.81)	312640.90	998.63 (3.46)	989.02 (3.46)	28589.46	1995 (2.69)	137 (0.18)	74277.38	1097.94 (1.74)	25.73 (0.04)	63125.01
1995-96	39278 (11.73)	7874 (2.35)	334916.29	961.21 (2.14)	1057.11 (2.36)	44858.66	2294 (2.23)	286 (0.28)	102839.73	1180.82 (1.42)	29.20 (0.04)	83361.17
1996-97	40238 (11.00)	9746 (2.66)	365930.40	1535.73 (2.73)	1402.24 (2.49)	56240.63	2768 (2.40)	1821 (1.58)	115435.51	1696.40 (1.78)	14.72 (0.02)	95507.25
1997-98	40911 (10.23)	9359 (2.34)	400082.48	794.12 (1.38)	34455.24 (6.00)	57606.12	3557 (2.43)	923 (0.63)	146322.63	1160.98 (1.19)	27.90 (0.03)	97434.42
1998-99	38659 (9.09)	10512 (2.47)	425189.58	1039.02 (1.72)	1837.08 (3.04)	60523.32	4977 (2.99)	1379 (0.83)	166465.56	1354.09 (1.43)	27.10 (0.03)	94997.55
1999-00	41657 (8.12)	11400 (2.22)	513120.62	1057.73 (1.36)	1806.60 (2.33)	77631.44	7812 (3.87)	1429 (0.71)	202107.93	1265.29 (1.19)	44.36 (0.04)	106070.97

Source: i) Annual reports of the Kerala based banks, 1994-95 to 1999-2000
ii) Data collected from the head office of the concerned banks

Note: Figures in parenthesis represent the percentage share of direct and indirect agricultural lending to total advances

advance into direct and indirect for SMGB and KSCB was not possible because SMGB provides only direct finance to agriculture whereas KSCB provides only indirect finance. It is evident from the Table that Bank lending to one of the core sectors - agriculture has consistently has consistently fallen short of target. This has happened in spite of an overall increase in the advances being made to the priority sectors. Venugopal (2001) stated quoting the State Level Bankers' Committee that the overall increase in advances to the priority sector had been on account of the widening of the definition of what constitutes priority sector.

The percentage share of direct lending to agriculture has shown a declining trend for SBT, DB and CSB. The rate of decline in indirect lending has not been as much as in the case of direct lending for SBT. DB is concentrating more on indirect financing.

4.4 Overall Performance of Kerala Based Banks

The analyses attempted with the help of the three models viz., ROE Decomposition Analysis, Weighted Productivity Index and Market Share Concept and the trends in agricultural lending by Kerala based banks to evaluate their performance based on the new efficiency indicators have provided an insight into their performance. Such an analysis, however, suffers from several limitations. Though it facilitates a detailed comparative study and

evaluation of performance in different areas of banking operations, individually it fails to give in a nut-shell, an integrated view of the overall performance of the bank. This type of analysis cannot therefore be conveniently used for ranking the banks in terms of their total performance. It is therefore necessary to convert these indicators to an index for measuring the performance of the banks in comparison with another.

Thus a Composite Index has been developed in order to evaluate the total performance of selected banks and thereby rank them. In this, different parameters selected from the three models are discussed and the study of the trends in agricultural lending by Kerala based banks have been converted into an index in order to facilitate comparison. In the absence of a universal standard, the highest value obtained by the banks in each indicator has been selected as the ideal value. Based on this, these indicators have been converted into a comparable index. The total of these indices for each bank has been calculated for all the six years. Then based on the grand total obtained by a particular bank during the six year period of study, they have been ranked. Similarly, the performance of the Kerala based banks has also been evaluated sector-wise by calculating the total indices obtained by the public, private and co-operative banks separately. Then the average performance has been taken in order to obtain a true picture.

4.4.1 Performance Ranking Based on Composite Index

Table 4.36 shows the performance of Kerala based banks based on Composite Index of the period 1994-95 to 1999-2000.

Table 4.36 Composite Index of the Performance of Kerala Based Banks for the Period 1994-95 to 1999-2000

Year	SBT	SMGB	DB	SIB	CSB	KSCB
1994-95	590.74	714.58	644.77	620.64	526.91	775.69
1995-96	595.56	612.68	581.45	533.66	492.08	758.88
1996-97	611.68	482.07	576.32	526.44	536.41	745.44
1997-98	634.65	1031.44	575.7	582.97	550.6	769.74
1998-99	558.69	950.64	505.99	478.86	458.81	753.16
1999-00	549.68	1016.02	588.24	565.71	524.27	733.14
Grand Total	3541	4807.43	3472.47	3308.28	3089.08	4536.05
Rank	III	I	IV	V	VI	II

Source: Compiled from Tables 4.7 to 4.35

The performance of KSCB and SMGB has been consistently better than all the Kerala based banks. It may be pointed out that of the 15 indicators selected for the computation of Composite Index, SMGB has the highest or ideal value for eight indicators viz., ROE, ROA, EM, RONW, PM, NIM/average assets,

CPi and percentage share of agricultural advances to total advances. KSCB obtained the highest value for six indicators i.e., ratio of operating expenses to total revenue, burden/average assets, EPi, WPi and efficiency based on Market Share Concept when the market was taken as comprising of both of six selected banks and 10 banks. It is therefore not surprising that SMGB and KSCB have fared better than the rest. The high score obtained by KSCB may be due to advantages like low network of branches resulting in lower staff and lesser wage bill and the refinance facility availed by the Bank from other apex level institutions for lending to the agricultural and related sectors. However the Bank needs to improve its performance with respect to other indicators like ROE and ROA which are very low when compared to both national and international standards. Besides the Bank needs to increase its EM, RONW, PM and the NIM/average assets ratio.

SMGB's performance would have been even better but for the provisioning for the NPAs introduced in 1996-97 which pushed down its Composite Index for that year. The efficiency of the Bank based on Market Share Concept was also very low which might have been due to the fact that equal weights were assigned to all inputs and outputs. Besides the Bank's performance in certain factors like investments was very low when compared to

other banks. The Bank needs to give stress in areas where it has obtained low scores like EPi and WPi.

Lower performance of SBT which ranks third may be attributed to lower ROE, EPi, CPi and ultimately WPi, lower efficiency based on market share and low share of agricultural advances to total advances.

Regarding the three private sector banks viz., DB, SIB and CSB their scores in ROE, ROA, EM, RONW, PM, EPi, percentage share of agricultural advances to total advances and efficiency based on market share were low. The low scores obtained in these indicators resulted in their poor general performance even though they had performed well in other indicators like ratio of operating expenses/total revenue, burden/average assets and CPi.

Composite Index of the sector–wise performance of Kerala based banks have also been developed. This has been done in order to facilitate easy comparison among the three sectors viz., public, private and co-operative. As per Table 4.37, which indicates the sector-wise performance of Kerala based banks, it is revealed the co-operative sector was better compared to the other two.

Table 4.37 Composite Index of the Sector-wise Performance of Kerala Based Banks for the period 1994-95 to 1999-00

Year	Kerala based banks in the public sector (2)	Kerala based banks in the private sector (3)	Kerala based banks in the co-operative sector (1)
1994-95	1305.32	1792.32	775.69
1995-96	1208.24	1607.19	758.88
1996-97	1093.75	1639.17	745.44
1997-98	1666.09	1709.27	769.74
1998-99	1509.33	1443.66	753.16
1999-2000	1565.7	1678.22	733.14
Grand Total	8345.99	9867.11	4531.68
Average	4172.99	3289.04	4531.68
Rank	II	III	I

Source: Compiled from Table 4.36

The lower scores obtained by SBT pulled down the Composite Index of public sector banks even though individually SMGB performed well. Though DB was comparatively better than SIB and CSB, when the average performance of all these three banks were taken it was lower than that of public and co-operative banks.

Summary of Findings and Conclusion

CHAPTER 5
SUMMARY AND CONCLUSION

The banking sector reforms introduced in the early 1990s with the objective of stimulating competition and strengthening banking operations have changed the banking environment. It has introduced competition in their hitherto protected environment and has in turn made them aware of the need of improving their profitability and their overall efficiency.

A decade has passed since these reforms were first initiated. Therefore it is high time that the progress of banking in terms of profitability and efficiency be evaluated in order to assess their efficacy in adapting to the new environment. Hence a study about the performance of Kerala based banks in the public, private and co-operative sector was taken up with the following objectives:

1. To analyse the performance of Kerala based public, private and co-operative sector banks.

2. To compare the relative efficiency of these banks and

3. To examine the role of these banks in agricultural lending

The study was conducted in six out of the 10 Kerala based banks viz., State Bank of Travancore (SBT), South Malabar Gramin Bank (SMGB), North Malabar Gramin Bank (NMGB), Dhanalakshmi Bank (DB), South Indian Bank (SIB), Catholic Syrian Bank (CSB), Federal Bank (FB), Lord Krishna Bank (LKB), Nedungadi Bank (NB) and Kerala State Co-operative Bank (KSCB). The selected banks included SBT and SMGB in the public sector, DB, SIB and CSB in the private sector and KSCB in the co-operative sector.

The study was conducted for a period of six years from 1994-1995 to 1999-2000 using mainly secondary data made available from the Annual reports of the Banks concerned which were collected from the respective head offices. The first and second objectives of analysing the performance of Kerala based public, private and co-operative sector banks and comparison of the relative efficiency of these banks have been achieved by using three models viz., Return On Equity (ROE) Decomposition Analysis, Weighted Productivity Index and Market Share Concept. It may be noted that for assessing the efficiency of each bank using the Market Share Concept, data were collected from all the 10 banks. Data pertaining to agricultural lending were also collected from the concerned banks' head office for analysing the third objective. Based on the above indicators, individual performance

of the banks were assessed and a Composite Index was developed to rank these banks.

Mostly bivariate and multi-variate tables were used for analysis. Percentages, averages and indices were also worked out.

5.1 The Major Findings

The major findings are summarised under four heads viz.,

5.1.1 Profile of Kerala based banks

5.1.2 Profitability and productivity of Kerala based banks

5.1.3 Performance of Kerala based banks in agricultural lending

5.1.4 Performance of Kerala based banks based on Composite Index

5.1.1 Profile of Kerala based banks

The CD ratio has been declining for all the Kerala based banks except for SMGB (Table 4.1 – Table 4.6). The high CD ratio of SMGB is due to its access to other source of funds like refinance from its sponsoring institution and other apex lending institutions.

The profits of all the Kerala based banks have eroded due to provisioning for NPAs. There has been wide spread

fluctuations in profits especially in the private sector banks and KSCB (Table 4.1 – Table 4.6).

All the Kerala based banks have shown an increasing trend in the number of branches but the rate of increase has been less. Due to computerisation of banks, there has been a decline in staff strength over the years.

There has been an increase in the volume of business for all the Kerala based banks. This is reflected in the more than double fold increase in the business/ employee ratio of these banks.

The rate of increase in advances has not been as high as that of deposits which may be due to diversion of deposits by banks like investment in government and other approved securities, shares and debentures. This may be related to the low CD ratio achieved by these banks.

The Net Worth of SBT, SIB and CSB has increased sharply since these banks opted for capital augmentation exercise in order to enhance their Capital Adequacy Ratio.

5.1.2 Profitability and Productivity of Kerala Based Banks

The profitability and productivity of Kerala based banks which have been assessed by employing three models are summarised below.

5.1.2.1 Return On Equity Decomposition Analysis

The ROE of SBT, DB, SIB and CSB has shown a fluctuating trend during the six year period of study (Table 4.7) which may be attributed to higher provisioning for NPAs. SMGB performed well showing a continuous increase in ROE except in 1996-97 when its ROE was negative due to implementation of NPA norms. Of the six banks selected for the study only KSCB could not satisfy the norm of 16-20 per cent ROE as suggested by Sinkey (1997) in all the years under study.

Among the six Kerala based banks, only SMGB showed a ROA far above the one per cent standard suggested by Sinkey (1997). This may be due to higher level of spread achieved by the Bank. KSCB was the only bank, which performed below the internationally recognised norm of 16 per cent ROE and one per cent ROA.

The decline in EM of SBT, SIB and CSB may be attributed to the share capital augmentation exercise carried out by these banks during the period of study. The highest increase in EM among the Kerala based banks has been observed in the case of SMGB. This may be due to the fact that the equity capital of SMGB has remained at Rs. 100 lakhs during the entire period of

study. However its assets including loans and advances, and investments have increased during the same period.

The performance of Kerala based banks with respect to the three indicators viz., ROE, ROA and EM in general has been better compared to other banks in India. However, in the case of KSCB, the value of these indicators have been far below the industry average. Compared to other groups like nationalised banks, all public sector banks and foreign banks the performance of SBI has been better in these three indicators (Table 4.8).

Along with the decline in ROE, there has been a decline in RONW for all the Kerala based banks with the exception of SMGB (Table 4.8). As previously stated the increase in net worth has contributed to a decline in RONW.

The computation of AU in the second stage of ROE Decomposition Analysis has revealed that CSB has achieved the best performance. Only KSCB's performance of 10.82 per cent in 1996-97 has been below the industry average of 11.98 per cent in the same year (Table 4.11).

PM of the Kerala based banks except SMGB are lower the industry average of 6.30 per cent and 7.75 per cent in 1996-97 and 1997-98 respectively. This may be due to the fact that interest

expended on deposits account for a lion's share of the total expenditure thereby affecting their income. In 1997-98, SMGB had a PM of 17.64 per cent, which exceeded even the best PM of 9.95 in the industry in the case of the State Bank of India.

Except SMGB, which had a stable interest income to average assets ratio of around 12 per cent during the period of study, other Kerala based banks have shown a fluctuation in PM. The PM of SBT and CSB has shown a consistent decline after 1996-97 which might have been due to concentration on fee-based business.

The percentage contribution of non-interest income to average assets of has been very low in the case of SMGB. This highlights its peculiar character as a bank concentrating in the rural sector where the people prefer loans and deposits facility only limiting the scope for other activities (Table 4.10).

Interest expended on deposits for SMGB has been very low (25 to 30 per cent) when compared to that of the other Kerala based banks (60 per cent), since the Bank had other sources of funds. This follows the findings of Table 4.2 where its CD ratio is higher than that of other Kerala based banks. So the interest expended on non-deposits of the Bank was far higher compared to other Kerala based banks (Table 4.12).

The percentage share of P&C to the total revenue followed a uniform pattern for all banks except KSCB and SMGB with the P&C for these two banks being very low. The low P&C points to the lower NPAs in these two banks (Table 4.12). An interesting point is that when compared to the national average of 10.19 per cent in 1996-97, the P&C for SMGB has been very high with a value of 15.39 per cent. This may be due to the introduction of NPA norms in that year. The highest P&C maintained by SBT may be attributed to high provision for NPAS (72.97 of the total P&C in 1999-2000).

SMGB's share of wages and salaries to total revenue was far higher (28 to 39 per cent) when compared to KSCB (two to four per cent) and other commercial banks (10 to 19 per cent). The decline in this ratio in the case of other Kerala based banks may be due to the computerisation drive undertaken by these banks leading to less recruitment.

Decline in the operating expenses to total income ratio in all the Kerala based banks signifies an increase in productivity. This may be due to declining importance of wages and salaries which constitute an important item of operating expenses (Table 4.12). However, the operating expenses to total income ratio of SMGB of 42.53 per cent and 38.73 per cent in 1996-97 and 1997-98

respectively have been far higher than the industry average of 6.01 per cent and 5.24 per cent for these two years.

Interest income from loans has shown a declining trend for all Kerala based banks while interest income from investments has increased pointing to the increasing reliance of banks on other sources of income like interest on investment and inter-bank deposits (Table 4.13).

The ratio of commission, exchange and brokerage income to average assets has been very low for KSCB (Table 4.13) when compared to other banks since much of the Bank's income came from other sources viz., interest from loans. However, for SBT this ratio has been higher than the industry average in 1996-97 and 1997-98 implying the increasing importance of fee based income in the Bank's business.

Among the Kerala based banks, only SMGB could achieve the internationally accepted criteria of having a NIM of three per cent and above (Table 4.15). However, the burden of the Bank has been very high when compared to other Kerala based banks. This follows the finding of Table 4.10 where SMGB has obtained the lowest non interest income to average assets ratio and that of Table 4.12 where the ratios of both wages and salaries and

total operating expenses to total income have been the highest for SMGB.

Weighted Productivity Index

KSCB has achieved the highest performance in EPi which might be due to the sharp increase in income during the period of study. Besides it has relatively lesser number of branches and comparatively lower volume of business implying lower wage bill (Table 4.17).

The lowest staff productivity of SMGB has been due to drastic increase in wage bill, as the implementation of the Award of the National Industrial Tribunal (NIT) gave pay parity in RRBs. The EPi of other Kerala based banks – SBT, DB, SIB and CSB has averaged between 5.00 and 8.00 during the period of study.

The high CPi of SMGB implies an increase in interest income and reduction in NPAs. The private sector banks – DB, SIB and CSB have however, registered a decline in CPi which may be attributed decline in interest income due to higher provisioning for NPAs.

The Weighted Productivity Index which is derived from EPi and CPi is influenced by changes in EPi and CPi as well

as changes in the weights assigned to them. The influence of weights in WPi can be seen in the case of KSCB in 1995-96 when an increase in EPi and CPi did not lead to an increase in WPi due to decline in the weights assigned to EPi. Again inspite of a decline in EPi, an increase in the weights assigned to EPi for DB led to an increase in WPi in 1997-98.

5.1.2.2 Market Share Concept Model

Market share of branches of SBT showed a declining trend highlighting its declining prominence as the premier bank in the State. The percentage share of total of the six Kerala based banks to the total of 10 Kerala based banks declined due to increase in branches of Federal Bank and Lord Krishna Bank which were two of the four banks not included in the study (Table 4.18).

Along with decline in market share of branches, the market share of the staff of the banks to the total of 10 banks has also registered a decline due to increase in staff of Kerala based banks not included in the study like Federal Bank and Nedungadi Bank (Table 4.19). The increased computerisation of branches might have led to the reduction of intake of manpower in these banks.

Inspite of tremendous increase in wage bill in absolute terms, the percentage share of the banks under study the total of the Kerala based banks has remained at around 70 per cent (Table 4.20). This may be due to the present policy of reducing staff strength and thereby the wage bill which is being followed by all banks.

Though SBT still accounts for a lion's share of the total non-wage operating expenses, its share has been declining over the period of study. This finding is in line with that of declining share of branches (Table 4.18) and deposits (Table 4.22). It is interesting to note that SMGB has the lowest rank as far as the average deposits of Kerala based banks is concerned during the entire period of study. This implies that the Bank's dependence on deposits as a source of working fund is very low.

The market share of the Non-Deposit Working Funds of the six banks has declined during the period of study which may be due to the increase in Non-Deposit Working Funds of Federal Bank. KSCB's Non-Deposit Working Funds have declined pointing to the decreasing use of borrowings as a source of working fund for the Bank (Table 4.23).

The percentage share of advances made by the six Kerala based banks to the total has declined during the period of

study (Table 4.24). This may be due to the very large increase in advances by other Kerala based banks which have not been included for the study viz., Federal Bank, Lord Krishna Bank and Nedungadi Bank during the same period.

The increase in the volume of investments by the six Kerala based banks point to the use of this method to boost their revenue from non-interest income besides investing in approved securities to meet their target of priority sector lending (Table 4.25).

SMGB is the only Kerala based bank which has a consistent increase in the interest spread in absolute terms in all years (Table 4.26). The high increase in the interest spread of all the 10 Kerala based banks has been due to the very high increase in the case of Federal Bank.

Besides the highest fall in the percentage share of the interest spread, there has been a declining trend in the market share of non-interest income of SBT (Table 4.27). The increase in the market share of DB, SIB and CSB has not been able to offset the declining share of SBT, KSCB and SMGB.

The market share of the net profits of the six Kerala based banks to the total of 10 banks increased from 48.78 per cent

in 1994-95 to 60.66 per cent in 1999-2000 (Table 4.28). The increase in the share of net profits has been mainly due to increase in the share of SBT and SMGB.

In the estimation of the efficiency level of Kerala based banks based on the Market Share Concept, it has been found that of KSCB has the highest score when the total market consists of six banks (Table 4.29). This high level of efficiency may be attributed to the low number of branches of the Bank resulting in lower staff requirement, lesser wages and non-wage operating expenses thereby reducing the input costs of the Bank. Inspite of widespread fluctuation in output factors like non-deposits working funds, advances, interest spread, non-interest income and net profit of KSCB, it has emerged as the most efficient bank as per the Market Share Concept. SBT and DB also have efficiency level exceeding 100 per cent.

SMGB, which had performed well in the other two models, performed the lowest when the market share of all the ten banks were taken into account. The branches and staff constitute a high share of the input factors thereby increasing the overall cost of the Bank. Among its output factors, fluctuation in non-interest income and the negative net profits for two years in 1996-97 have adversely affected the Bank's performance. CSB and SIB have

been other two banks which have been having efficiency levels lower than that of the average of the six Kerala based banks.

5.1.2.3. Agricultural Credit Performance

Initiation of financial sector reforms has led the decline in priority sector lending but liberalisation of the term 'priority sector' since 1997 enabled banks to achieve the target of 40 per cent by the Indian banks (Table 4.32).

As far as priority sector lending by Kerala based banks was concerned, it has been observed that even though the priority sector lending has increased over the years it has never crossed the 40 per cent target except for SMGB (Table 4.33). As banks claim to have achieved the stipulated 40 per cent target by investing in bonds and government securities, a variation has been observed between the priority sector lending claimed by banks and the actual disbursement of credit to priority sector.

The very high priority sector lending of 80 per cent and above of SMGB may be due to its peculiar character of primarily financing target groups as well as the substantial refinance availed by the Bank from NABARD, SIDBI and Canara Bank which is its sponsoring Bank (Table 4.33).

Even though there has been a considerable increase in the volume of lending to agriculture by Kerala based banks over the years, the value in percentage terms have declined (Table 4.34). The performance of SMGB is commendable as it has been increasing its share in agricultural advances inspite of increased lending to the Non-Target Group.

KSCB, SBT, DB and CSB have exhibited declining share of agricultural lending to total advances pointing to diversion of funds to other constituents of priority sector (Table 4.34).

The break up of agricultural advances of Kerala based commercial banks have also revealed that banks' lending to agriculture has consistently fallen short of target with direct lending to agriculture showing a declining trend for SBT, DB and CSB (Table 4.35).

5.1.2.4 Composite Index

The performance of Kerala based banks on the basis of Composite Index have revealed that SMGB had the highest score followed by KSCB. Between the two of them, they could achieve the highest value in 14 out of 15 selected indicators(Table 4.36).

SMGB had the highest value for eight indicators followed by KSCB with six indicators.

KSCB, however needs to improve its performance with respect to other indicators like ROE, ROA and NIM which are very low when compared to national and international standards.

SMGB's performance would have been better but for the introduction of NPA provisioning norms in 1996-97 which pushed down its composite index for that year. The assigning of equal weights to the inputs and outputs adversely affected its performance in the Market Share Concept Model.

Lower performance of SBT which ranked third (Table 4.36) can be attributed to lower ROE, EPi, CPi and ultimately WPi, lower efficiency based on market share and low share of agricultural advances to total advances.

The private sector banks viz., DB, SIB and CSB obtained very low scores in ROE, ROA, EM RONW, PM EPi, percentage share of agricultural advances to total advances and efficiency based on Market Share Concept. These affected their performance even though they had performed well in indicators like operating expenses/ total revenue, burden/ average assets and CPi.

Composite Index of the sector-wise performance of Kerala based banks has revealed that co-operative sector performed better compared to the public and private sector banks. The lower scores obtained by SBT and those by SIB and CSB have pulled down the performance of public sector banks and private sector banks (Table 4.37).

The analysis of the six Kerala based banks on the basis of new efficiency indicators relevant in the present environment in which the banks are functioning have brought to light the strength and weakness of these organisations. The Banks therefore need to give stress in the areas affecting the weakness so as to improve their competitive spirit and efficiency.

5.2 Suggestions

The following suggestions may be incorporated by the banks as a means of improving their functioning.

KSCB needs to improve both ROE and ROA as it is falling short of internationally accepted norms. This can be done by consistently increasing its net profit, which has shown a tendency to fluctuate widely during the last six years. As part of its aim of increasing its profits the Bank can also try to improve its

margin which is very low when compared to others. An increase in income could also lead to an improvement in AU and RONW.

SMGB, the only RRB selected for the study, was set up with an objective of being cost effective and being more inclined to the needs of rural areas. But the implementation of National Industrial Tribunal (NIT) Award has compelled the Bank to increase its pay scale which has eroded its natural cost advantage. It is not surprising that the ratios of wages and salaries and operating expenses to total income are very high for this Bank. Hence the Bank should take steps to increase its non-interest income and interest income in order to counter the weight of the huge operating expenses.

The increase in equity capital due to implementation of Capital Adequacy Norms and higher provisioning for NPAs has led to decline in the ROE and RONW of SBT, DB, SIB and CSB. Since provisioning for NPAs has adversely affected the net profits of these banks, they need to take urgent steps to reduce the level of NPAs. This would in turn lead to an increase in capital productivity as there would be increase in interest income.

The decline in NIM, which measures the earning ability of a bank, has to be seriously considered by the Kerala based commercial banks. Efforts need to be made by them to

increase the yield on loans which has been declining during the period of study.

The very low efficiency levels of SIB and CSB have shown that merely achieving a particular level of profitability does not automatically translate into higher efficiency. Therefore these banks need to reduce cost like non-wage operating expense and increase their advances and deposits.

Higher priority sector lending and agricultural lending of SMGB have not adversely affected its performance. As a bank which lends more than 80 per cent of its advances to priority sector and 30 per cent to agriculture, its performance based on the new efficiency indicators was indeed impressive. So the other Kerala based banks can increase their advances to agriculture without affecting their performance.

5.3 Conclusion

Based on the new efficiency indicators, the study has attempted to assess the performance of the Kerala based banks on the basis of three models viz., ROE Decomposition Analysis, Weighted Productivity Index and Market Share Concept and the role of banks in agricultural lending. The analysis has revealed that SMGB is the top performing bank inspite of below par

performance in certain indicators. The performance of SMGB is commendable because inspite of being a banks set up to serve the rural areas it has out performed other conventional banks. It has performed the best in two of the three models selected for the study. However, another side of the argument is that SMGBs performance would not have been so good but for the huge refinance facility available from its sponsoring bank and its apex institutions. The other Kerala based banks viz., SBT, DB, SIB, CSB and KSCB need to increase their efficiency in many of the internationally accepted indicators in order to improve their performance.

High profits, though important do not essentially lead to increase in productivity. It has been observed that banks which have come to the forefront are basically agricultural financiers. Hence agricultural finance as such does not affect performance as is generally believed.

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Annexure

ANNEXURE I

Break down of deposits of the Kerala based banks, 1994-95 to 1999-00

(Amount in Rs. lakhs)

Bank / Year	State Bank of Travancore			South Malabar Gramin Bank			Dhanalakshmi bank			South Indian Bank			Catholic Syrian Bank			Kerala State Co-operative Bank		
	Demand Deposits	Savings Bank Deposits	Term Deposits	Demand Deposits	Savings Bank Deposits	Term Deposits	Demand Deposits	Savings Bank Deposits	Term Deposits	Demand Deposits	Savings Bank Deposits	Term Deposits	Demand Deposits	Savings Bank Deposits	Term Deposits	Demand Deposits	Savings Bank Deposits	Term Deposits
94-95	53321.43 (11.13)	117397.93 (24.51)	308265.06 (64.36)	930.18 (5.74)	7155.43 (44.17)	8113.19 (50.09)	4016.60 (8.76)	7598.56 (16.57)	34231.42 (74.67)	12713.3 (8.39)	27779.10 (18.33)	111061.06 (73.28)	12397.90 (11.29)	21501.26 (19.58)	75919.65 (69.13)	2702.38 (5.39)	1146.65 (2.29)	45207.29 (90.13)
95-96	53019.09 (9.77)	122784.48 (22.64)	366611.25 (67.59)	950.72 (6.63)	5676.01 (39.06)	7720.98 (53.81)	5580.87 (7.90)	8231.98 (11.65)	56860.35 (80.46)	12385.4 (7.18)	28535.38 (16.55)	131467.11 (76.26)	14037.16 (10.17)	22382.25 (16.21)	101652.33 (73.62)	2660.58 (5.61)	1106.46 (2.33)	41826.72 (88.13)
96-97	73201.13 (11.33)	131264.71 (20.31)	441902.79 (68.37)	1336.45 (7.17)	7646.83 (41.05)	9643.3 (51.77)	7698.84 (7.15)	8640.00 (8.03)	91294.17 (84.82)	14130.9 (6.74)	32801.64 (15.64)	162726.07 (77.61)	12417.30 (8.13)	24393.55 (15.97)	115961.30 (75.90)	6367.34 (8.21)	1363.62 (2.39)	47591.33 (82.17)
97-98	96867.59 (12.97)	158238.44 (21.19)	491700.26 (65.84)	1063.92 (4.64)	8801.37 (38.39)	13058.30 (56.96)	6776.75 (6.52)	9676.25 (9.30)	87575.73 (84.18)	16881.89 (6.17)	37060.33 (13.53)	219884.54 (80.30)	12845.65 (6.95)	26345.78 (14.25)	145673.97 (78.80)	7015.37 (9.05)	3470.10 (4.48)	67033.93 (86.47)
98-99	93838.66 (10.83)	199479.08 (23.04)	572489.36 (66.13)	2347.64 (8.38)	10498.84 (37.49)	15160.53 (54.13)	8462.97 (6.85)	12968.29 (10.49)	102162.83 (82.66)	19284.45 (6.18)	48269.54 (15.46)	244702.14 (78.37)	17195.22 (8.04)	32668.83 (15.27)	164051.60 (76.69)	7698.26 (6.23)	2360.90(1.92)	113554.92 (91.85)
99-00	104689.94 (10.28)	232761.58 (22.86)	680808.97 (66.86)	8864.31 (25.07)	12574.37 (35.57)	19914.74 (56.33)	13116.4 (9.36)	15999.91 (11.42)	110950.33 (79.21)	23807.97 (6.13)	61280.54 (15.77)	303447.35 (78.10)	23176.12 (9.43)	38824.31 (15.80)	183777.20 (74.77)	9736.79 (6.10)	2574.59(1.67)	141864.69 (92.14)

ANNEXURE II

Breakdown of Non-Deposit Working Funds of Kerala Based Banks, 1994-95 to 1999-2000

(Amount in Rs. Lakhs)

Bank / Year	State Bank of Travancore			South Malabar Gramin Bank			Dhanalakshmi Bank			South Indian Bank			Catholic Syrian bank			Kerala State Co-operative Bank		
	C	R&S	B	C	R&S	B	C	R&S	B	C	R&S	B	C	R&S	B	C	R&S	B
1994-95	2000 (-)	7629.67 (-)	23868.61 (-)	100 (-)	370.41 (-)	9872.31 (-)	803.66 (-)	1262.06 (-)	1288.65 (-)	1415.09 (-)	5107.14 (-)	7935.86 (-)	535.47 (-)	2133.80 (-)	8248.38 (-)	1500.00 (-)	2232.20 (-)	21607.13 (-)
1995-96	3500 (75)	16532.63(116.69)	20027.28 (-16.09)	100 (-)	329.12 (-11.15)	10295.17 (4.28)	2251.20 (180.1)	2301.27 (82.34)	3918.13 (204.05)	1416.18 (0.08)	6405.20 (26.03)	11440.06 (44.16)	539.85 (0.82)	2018.30 (-5.41)	8418.84 (2.07)	1801.46 (20.10)	2500.33 (12.01)	19973.72 (-7.56)
1996-97	3500 (-)	17383.95 (4.90)	7460.38 (-62.75)	100 (-)	24.25 (-92.63)	12080.66 (17.34)	1374.43 (-3.9)	4008.09 (74.17)	3805.61 (-2.87)	1418.43 (0.16)	6748.97 (4.88)	4181.85 (-63.45)	541.32 (0.27)	2400.49 (18.94)	7745.52 (-8.00)	1851.46 (2.78)	3189.11 (27.55)	22960.66 (14.95)
1997-98	5000 (42.86)	30158.55 (73.49)	7049.41 (5.51)	100 (-)	912.41 (3662.5)	14466.04 (19.75)	1450.96 (5.57)	4952.32 (23.56)	2418.79 (-36.44)	1928.16 (35.94)	9333.84 (38.30)	2993.22 (-28.42)	541.32 (-)	3033.63 (26.38)	4844.71 (37.45)	2073.53 (11.99)	2848.92 (-10.67)	19984.82 (-12.96)
1998-99	5000 (-)	33110.09 (9.80)	6125.24 (13.11)	100 (-)	1822.06 (99.70)	16999.88(17.52)	1466.23 (1.05)	5179.37 (4.58)	2395.97 (-0.94)	3548.48 (84.03)	12801.96 (37.16)	10754.2 (259.29)	999.81 (84.7)	4018.94 (32.48)	6381.87 (31.73)	2073.53 (-)	3081.50 (8.16)	9351.17 (-53.21)
1999-2000	5000 (-)	38367.07 (15.88)	6147.86 (0.37)	100 (-)	3100.55 (70.17)	17590.30 (3.47)	1466.44 (0.01)	5922.18 (14.34)	3958.16 (65.20)	3552.57 (0.12)	15134.07 (18.22)	9555.78 (-11.14)	1052.02 (5.22)	4762.59 (18.50)	6744.72 (5.69)	2127.85 (2.62)	3633.26 (17.91)	8440.35 (-9.74)

Source: Annual reports of the Kerala based banks, 1994-95 to 1999-2000

Note: i) Figures in parenthesis represent the percentage share of direct and indirect agricultural lending to total advances

ii) Positive figures indicate percentage increase whereas negative figures indicate percentage decrease.

iii) C – Capital, R & S – Reserves and Surplus, B – Borrowings

A COMPARATIVE ANALYSIS OF THE PERFORMANCE OF KERALA BASED BANKS

By

DEVIKA MANGSATABAM

ABSTRACT OF THE THESIS

Submitted in partial fulfilment of the requirement for the degree of

Master of Science in Co-operation & Banking

(RURAL BANKING AND FINANCE MANAGEMENT)

Faculty of Agriculture

Department of Rural Banking and Finance Management

COLLEGE OF CO-OPERATION, BANKING & MANAGEMENT

KERALA AGRICULTURAL UNIVERSITY

VELLANIKKARA, THRISSUR - 680 656

KERALA, INDIA

2002

ABSTRACT

The study entitled "**A COMPARATIVE ANALYSIS OF THE PERFORMANCE OF KERALA BASED BANKS**" was conducted with the following objectives.

i) To analyse the performance of Kerala based public, private and co-operative sector banks.

ii) To compare the relative efficiency of these banks and

iii) To examine the role of these banks in agricultural lending.

The study was conducted in six out of the 10 Kerala based banks comprising of the State Bank of Tranvancore (SBT) and South Malabar Gramin Bank (SMBG) in the public sector, South Indian Bank (SIB), Dhanalakshmi Bank (DB) and Catholic Syrian Bank (CSB) in the private sector, and Kerala State Co-operative Bank (KSCB) in the co-operative sector.

The study was conducted for a period of six years from 1994-95 to 1999-00 using mainly secondary data made available from the Annual Reports of the banks concerned. The first and second objectives of analysing the performance of Kerala based public private and co-operative sector banks and comparison of the relative efficiency of these banks have been done by using three models viz., Return On Equity (ROE) Decomposition Analysis, Weighted Productivity Index and Market Share Concept. For

assessing the efficiency of each bank using the Market Share Concept, data were collected from all the 10 banks. Data pertaining to agricultural lending were also collected from the concerned banks' head office for analysing the third objective. Based on the above indicators, individual performance of the banks were assessed and a Composite Index was developed to rank these banks.

The study has revealed that CD ratio has been declining for all the Kerala based banks except SMGB. For all these banks, the rate of increase in advances has not been as high as that of deposits which might be due to diversion of deposits by banks like investment in government and other approved securities, shares and debentures.

The analysis of the profitability and productivity of Kerala based banks on the basis of ROE Decomposition Analysis has revealed that KSCB is the only bank which could not achieve the 16-20 per cent internationally accepted ROE and one per cent ROA. SMGB has performed well showing a continuous increase in ROE and ROA except in 1996-97 when these values were negative due to implementation of NPA norms.

When compared to the national average, it was found that the performance of all the Kerala based banks except KSCB

was better with respect to the three indicators viz., ROE, ROA and Equity Multiplier (EM).

The Profit Margin (PM) of the Kerala based banks except for SMGB has been lower than the industry average which might be due to the fact that their income has been adversely affected by the high interest expended on deposits.

The study has also revealed that interest expended on deposits for SMGB has been very low when compared to the other Kerala based banks since the Bank had other sources of funds like refinance from sponsoring bank and other institutions. The percentage share of Provisions and Contingencies (P&C) to the total revenue has been found to be very low in the case of KSCB and SMGB pointing to the lower NPAs in these two banks.

Among the Kerala based banks, only SMGB could achieve the internationally accepted criteria of having a Net Interest Margin (NIM) of three per cent and above. However, the burden of this particular bank has been observed to be very high since its non-interest income is negligible.

Analysis based on the Weighted Productivity Index (WPi) has revealed that KSCB achieved the highest performance in Employee Productivity (EPi), while SMGB had the lowest

Employee Productivity (EPi). The low staff productivity of SMGB might be due to drastic increase in wage bill as the implementation of the Award of the National Industrial Tribunal (NIT) gave pay parity in RRBs.

The high Capital Productivity (CPi) of SMGB may be attributed to an increase in interest income and reduction in NPAs. There has been a general decline in CPi of the private sector banks – DB, SIB and CSB due to the higher provisioning for NPAs.

The market share of the branches, staff, non-deposit working funds and advances of the six Kerala based banks to the total of 10 banks has declined during the period of study. This may be attributed to the increase in the share of other Kerala based banks not included in the study like Federal Bank, Lord Krishna Bank and Nedungadi Bank.

The market share of SBT in branches, deposits, non-wage operating expenses and interest spread has declined consistently during the study period reflecting its declining prominence as the premier bank in the State.

In the estimation of the efficiency level of Kerala based banks on Market Share Concept, it has been found that KSCB obtained the highest score followed by SBT and DB. SMGB, which

had performed well in the other two models, performed the lowest as per this model. This may be attributed to the high share of branches and staff among its inputs factors. Besides fluctuation in output factors like non-interest income and the negative net profits in the 1996-97 have adversely affected its performance.

Although the introduction of financial sector reforms has led to decline in priority sector lending in general, the liberalisation of the term 'priority sector' since 1997 has enabled banks to achieve the target of 40 per cent. The actual disbursement of credit to priority by Kerala based banks has never crossed the target of 40 per cent except in the case of SMGB.

SMGB is the only bank, which has been increasing its percentage share of lending to the priority sector and agriculture in spite of its increased lending to the Non-Target Group over the years.

The computation of the Composite Index to assess the overall performance of Kerala based banks has revealed that SMGB obtained the highest score followed by KSCB. The lower performance of SBT and private sector banks may be attributed to lower ROE, EPi, CPi, and ultimately WPi, lower efficiency based on market share and low share of agricultural advances to total advances.