



## Profitability Analysis of Saurashtra Gramin Bank

Dr. Sandip A. Vadher  
Associate Professor,  
Shardapeeth College,  
Dwarka, Gujarat (India)

### I. INTRODUCTION

Finance is the life blood of trade, commerce and industry. Now-a-days, banking sector acts as the backbone of modern business. Development of any country mainly depends upon the banking system.

Organized banking was active in India since the establishment of the General Bank of India in 1786. After independence, the Reserve Bank of India (RBI) was established as the central bank and in 1955, the Imperial Bank of India, the biggest bank at the time, was taken over by the government to form state-owned State Bank of India (SBI). RBI had undertaken an exercise to merge weak banks to strong banks and the total number of banks thus reduced from 566 in 1951 to 85 in 1969.

With the objective of reaching out to masses and meeting the credit needs of all sections of people, the government nationalized 14 large banks in 1969 followed by another 6 banks in 1980. This period saw enormous growth in the number of branches and the banks' branch network became wide enough to reach the weakest sections of the society in a vast country like India. Sib's network of 9033 domestic branches and 48 overseas offices is considered to be one of the largest for any bank in the world.

### II. STRUCTURE OF INDIAN BANKING INDUSTRY

Organized banking was active in India since the establishment of the General Bank of India in 1786. After independence, the Reserve Bank of India (RBI) was established as the central bank and in 1955, the Imperial Bank of India, the biggest bank at the time, was taken over by the government to form state-owned State Bank of India (SBI). RBI had undertaken an exercise to merge weak banks to strong banks and the total number of banks thus reduced from 566 in 1951 to 85 in 1969.

With the objective of reaching out to masses and meeting the credit needs of all sections of people, the government nationalized 14 large banks in 1969 followed by another 6 banks in 1980. This period saw enormous growth in the number of branches and the banks' branch network became wide enough to reach the weakest sections of the society in a vast country like India. Sib's network of 9033 domestic branches and 48 overseas offices is considered to be one of the largest for any bank in the world.

The economic reforms unleashed by the government in early nineties included banking sector too, to a significant extent. Entry of new private sector banks was permitted under specific guidelines issued by RBI. A number of liberalization and de-regulation measures aimed at consolidation, efficiency, productivity, asset quality, capital adequacy and profitability have been introduced by the RBI to bring Indian banks in line with International best practices. With a view to giving the state-owned banks operational flexibility and functional autonomy, partial privatization has been authorized as a first step, enabling them to dilute the stake of the government to 51 per cent. The government further proposed, in the Union Budget for the financial year 2000-01, to reduce its holding in nationalized banks to a minimum of 33 per cent on a case by case basis.

The banking system can be broadly classified as organized and unorganized banking system. The unorganized banking system comprises of moneylenders, indigenous bankers, lending pawnbrokers, landlords, traders, etc. Whereas the organized banking system comprises of Scheduled Banks and Non-Scheduled Banks that are permitted by RBI to undertake banking business.

### III. TYPES OF BANKS

#### A. Scheduled Banks:

Scheduled commercial banks are those that come under the purview of the Second Schedule of Reserve Bank of India (RBI) Act, 1934. The banks that are included under this schedule are those that satisfy the criteria laid down vide section 42 (6 of the Act).

1. The bank is dealing in banking business in India only.
2. The paid up capital and total funds of the bank should not be less than five lacks rupees.



3. It should convince RBI that its activities would not be against the interest of investors.
4. The bank must be:
  - a) State cooperative bank, or
  - b) A company according to the definition of the companies Act 1956, or
  - c) An institution notified by the central government, or
  - d) A corporation or a company incorporated by or under any law in force in any place outside India.

Thus,

(I) Indian Commercial Banks

(II) Foreign Commercial Banks, and

(III) State Cooperative Banks fulfilling the above condition are considered as scheduled banks.

Moreover under the RBI Act section 42, the Central Government has declared the following banks as scheduled banks.

- i. State Bank of India and its seven subsidiary banks,
- ii. Twenty nationalized banks, and
- iii. Urban Banks.

In June 1980 there were 149 scheduled banks which included

- i. Public Sector Banks
- ii. Private sector Banks,
- iii. Foreign Exchange Banks and
- iv. State Cooperative Banks.

A bank which wants to register its name as scheduled bank has to apply to the Central Government. On receiving such application, the central government orders RBI to investigate the banks' accounts. If RBI gives favorable reports, the central government sanctions its proposal, and the bank is listed under schedule annexure II and is considered as a scheduled bank.

Some co-operative banks come under the category of scheduled commercial banks though not all co-operative banks.

#### **Public Sector Banks:**

Public sector banks are those in which the Government of India or the RBI is a majority shareholder. These banks include the State Bank of India (SBI) and its subsidiaries, other nationalized banks, and Regional Rural Banks (RRBs). Over 70% of the aggregate branches in India are those of the public sector banks. Some of the leading banks in this segment include Allahabad Bank, Canara Bank, Bank of Maharashtra, Central Bank of India, Indian Overseas Bank, State Bank of India, State Bank of Patiala, State Bank of Bikaner and Jaipur, State Bank of Travancore, Bank of Baroda, Bank of India, Oriental Bank of Commerce, UCO Bank, Union Bank of India, Dena Bank and Corporation Bank.

#### **Private Sector Banks:**

Private Banks are essentially comprised of two types:

##### ➤ **Old banks and new banks**

The old private sector banks comprise those, which were operating before Banking Nationalization Act was passed in 1969. On account of their small size, and regional operations, these banks were not nationalized. These banks face intense rivalry from the new private banks and the foreign banks. The banks that are included in this segment include: Bank of Madura Ltd. (now a part of ICICI Bank), Bharat Overseas Bank Ltd., Bank of Rajasthan, Karnataka Bank Ltd., Lord Krishna Bank Ltd., The Catholic Syrian Bank Ltd., The Dhanalakshmi Bank Ltd., The Federal Bank Ltd., The Jammu & Kashmir Bank Ltd., The Karur Vysya Bank Ltd., The Lakshmi Vilas Bank Ltd., The Nedungadi Bank Ltd. and Vysya Bank.

The new private sector banks were established when the Banking Regulation Act was amended in 1993. Financial institutions promoted several of these banks. After the initial licenses, the RBI has granted no more licenses. These banks are gearing up to face the foreign banks by focusing on service and technology. Currently, these banks are on an expansion spree, spreading into semi-urban areas and satellite towns. The leading banks that are included in this segment include Bank of Punjab Ltd., Centurion Bank Ltd., Global Trust Bank Ltd., HDFC Bank Ltd., ICICI Banking Corporation Ltd., IDBI Bank Ltd., IndusInd Bank Ltd. and UTI Bank Ltd.

##### ➤ **Co-operative Banks:**

Co-operative banks act as substitutes for moneylenders, and offer timely and adequate short-term and long-term institutional credit at reasonable rates of interest. Co-operative banks are relatively similar in terms of functions to the other banks except for the following:

- a) They are organized and managed on the principal of co-operation, self-help, and mutual help.



- b) They operate under the rule of "one member, one vote".
- c) Operate on "no profit, no loss" basis.
- d) Co-operative bank conducts all the main banking functions of deposit mobilization, supply of credit and provision of remittance facilities. Co-operative banks offer limited banking products and are functionally specialists in agriculture-related products, and even in providing housing loans of late. Urban Co-operative Banks offer working capital loans and term loans as well.
- e) Co-operative banks primarily operate in the agriculture and rural sector. However, UCBs, SCBs, and CCBs function in semi urban, urban, and metropolitan areas too
- f) Co-operative banks are probably the first government sponsored, government-supported, and government-subsidized financial agency in India. They get financial and other aid from the Reserve Bank of India NABARD, central government and state governments. They are the "most favored" banking sector with risk of nationalization.
- g) Co-operative banks normally concentrate on "high revenue" niche retail segments.

#### ➤ **Development Banks**

Development banks are primarily intended to encourage industrial development by providing adequate flow of funds to industrial projects. In other words, these institutions undertake the responsibility of aiding all-round development in the country's economy by promoting new industrial projects, and providing financial assistance for the expansion, diversification, and up gradation of the existing units. Development Banks may be classified as All India development banks and Regional development banks. While All India development banks include Industrial Development Bank of India and Industrial Finance Corporation of India, examples of Regional development banks include State Financial Corporation and State Industrial Development Corporation.

#### **B. Non-scheduled Banks:**

The banks, which are not included in the second schedule of RBI Act, 1934, are known as non-scheduled banks. Such banks total share capital is less than five lack. These banks are not governed according to the RBI Act and they receive no benefits from the RBI. These banks have no place in the list of recognized banks of the RBI. These banks are not much trusted by the people and they do not get handsome deposits. Since 1951 the numbers of such banks have been gradually decreasing. In 1979 there were only five non-scheduled banks.

Generally now days we found many cooperative banks which are belongs to the non-schedule co-operative banks. Following are the types of non-schedule banks they are work like the schedule banks but here difference in its status and it not having the status of the schedule banks.

- a. Deposits Banks
- b. Cooperative Banks
- c. Central Banks
- d. Exchange Banks
- e. Investment or Industrial Banks
- f. Land Development Banks
- g. Savings Banks

#### **a. Deposits Banks:**

Generally, banks which provide short-term loans to business and industrial units and which mobilize savings of people as deposits are called deposit banks. Deposit banks accept deposits from people, and provide short-term advances. They provide overdraft and cash credit facilities to merchants. To meet the long-term requirement of industrial units is not possible for these banks. They accept three types of deposits- saving bank deposits, fixed deposits and current account deposits. They accept these deposits which are payable on demand or on short notice, and provide funds to trading and commercial units for short durations.

#### **b. Cooperative Banks:**

Cooperative banks meet the short-term financial needs of farmers. Agriculturists, petty farmers and artisans organize themselves on cooperative principles and form cooperative societies and banks. Cooperative banks raise funds through various means, besides receiving all kinds of deposits to make them available as lendable funds to its members. In India developed cooperative banks supply finance for agriculture and non-agriculture activities.

#### **c. Central Banks:**

A central bank is a special institution which controls and regulates the entire banking structure of country. It also strives to maintain monetary stability of the country. Central bank is also known as the apex bank of a country. Since it functions in the best interest of the country and making profits is unknown to it, it is entrusted the right it issue currency notes. No other bank is allowed this right. It operates in close cooperation with the government of implementing economic policies, thereby promoting economic development.

**d. Exchange Banks:**

There is a difference in financing of foreign trade and financing of internal trade. Generally a person carrying on international trade requires foreign currencies to meet his obligation. It is here that exchange banks play the role of financing the dealer for setting transactions involved in foreign trade, there are specialized banks for exchange business. In India, there is an Export-Import Bank (EXIM).

**e. Investment or Industrial Banks:**

Investment banks provide long-term credit to industries. They raise their funds by way of share capital, debentures, and long-term deposits from the public. They also raise funds by the issue of bonds for business operations and government agencies. Usually they underwrite fresh issue of shares and debentures of companies. Such banks also buy the entire issue of new securities of public limited companies and try to get them subscribed at a higher price by the public.

**f. Land Development Banks:**

Land development banks were earlier known as land mortgage banks. In India, there is limited number of such banks. There are special institutions providing long-term loans to agricultures and farmers. They provide loans on security of land and other immovable properties. They supply long-term funds for periods exceeding six years. Agriculturists and farmers need such funds for making permanent improvements to land and for buying farming machinery and equipment.

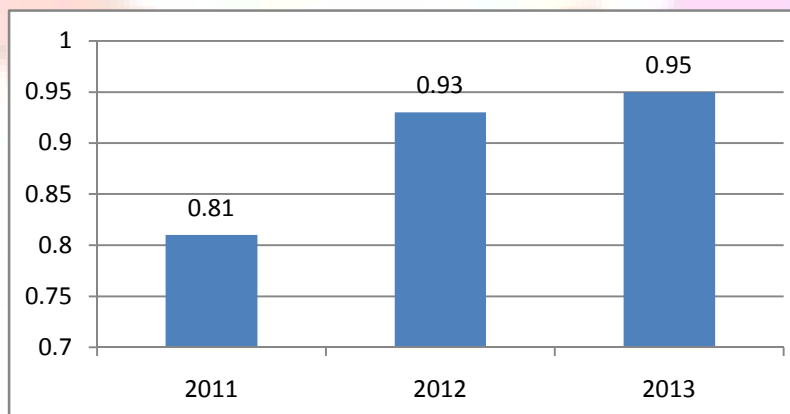
**g. Savings Banks:**

Savings Banks are specialized institutions, which encourage general public to save something from their earnings. In other words such banks pool the small savings of middle and lower income sections of society. They are the banks in the true sense of the term and their main aim is to promote and collect of the public. Not only the depositors are given interest, but also they are allowed to withdraw in times of need. The numbers of withdrawal are, however, restricted. Separate savings banks are organized in various nations. The government can also run a savings bank. In India the postal department runs the postal saving bank all over the country. It is very popular in rural areas where no branches where no branches of established commercial bank operate. In urban areas, commercial bank handles savings business.

**IV. DATA ANALYSIS****1. Current Ratio= Current Assets/Current Liabilities:**

Year	2011	2012	2013
Current assets	116,195.07	147,895.1	178,790.5
Current liabilities	142,985.64	157,601.58	187,408.05
Ratio	0.81	0.93	0.95

Chart-1

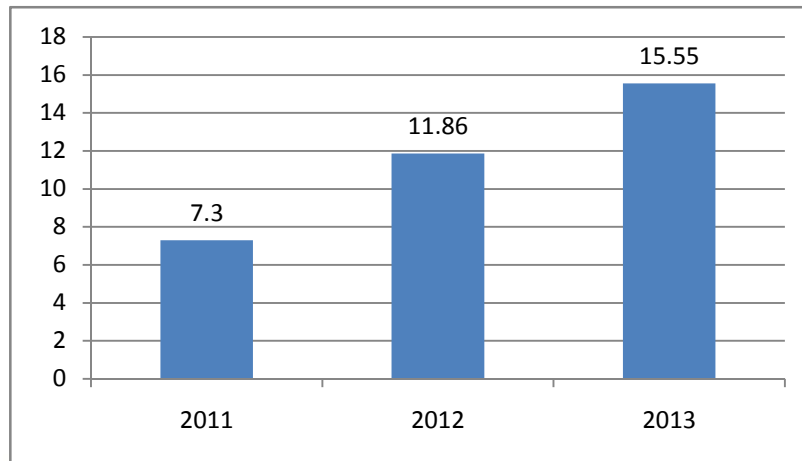
**Interpretation:**

An ideal current ratio is 2:1 consider as a safe margin of solvency 2:1. Here, bank current ratio is quite satisfactory.

**2. Return On Capital Employed = EBIT/Capital Employed × 100**

Year	2011	2012	2013
EBIT	1268.24	3954.11	5972.39
Capital Employed	17365.37	33349.68	38418.18
Ratio	7.30	11.86	15.55

**Chart-2**



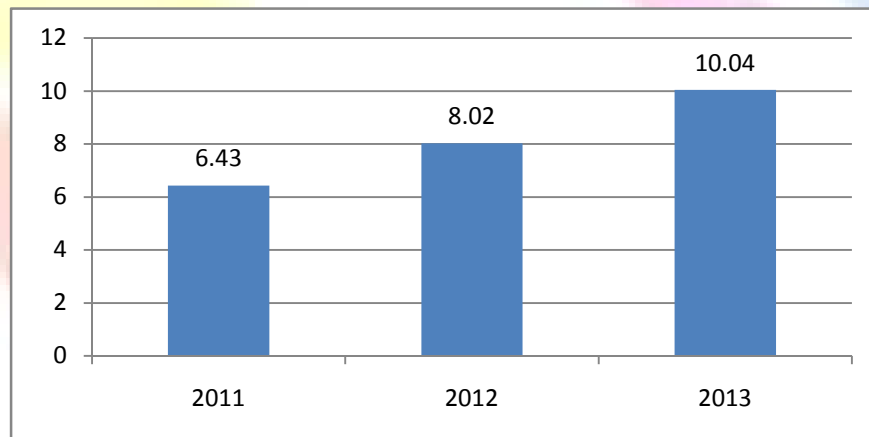
**Interpretation:**

Banks return on capital employed is very good and it shows banks profitability, here banks ROCE increasing and share holders wealth maintain also.

**3. Return On Equity = Net Income/Shareholder's Equity**

Year	2011	2012	2013
Income	13862.74	17281.93	21639.51
Share holders equity	2153.43	2153.43	2153.43
Ratio	6.43	8.02	10.04

**Chart-3**



**Interpretation:**

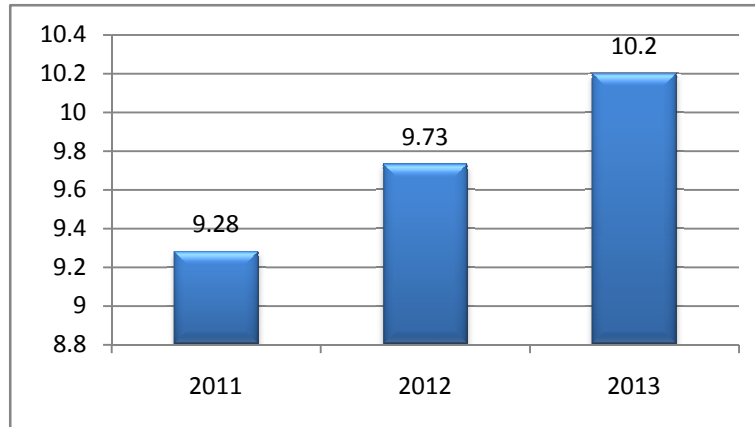
Banks ROE is very good and year to year increase because bank income increase. Ratio also shows share holders return. Share holders return increasing from 6.43% to 10.04% per share.

**4. Return On Assets =Net Income/ Average Total Assets\*100**

Year	2011	2012	2013
Income	13862.74	17281.93	21639.51
Avg. Total Assets	149,258.41	177,476.66	212,246.29
Ratio	9.28	9.73	10.20



Chart-4

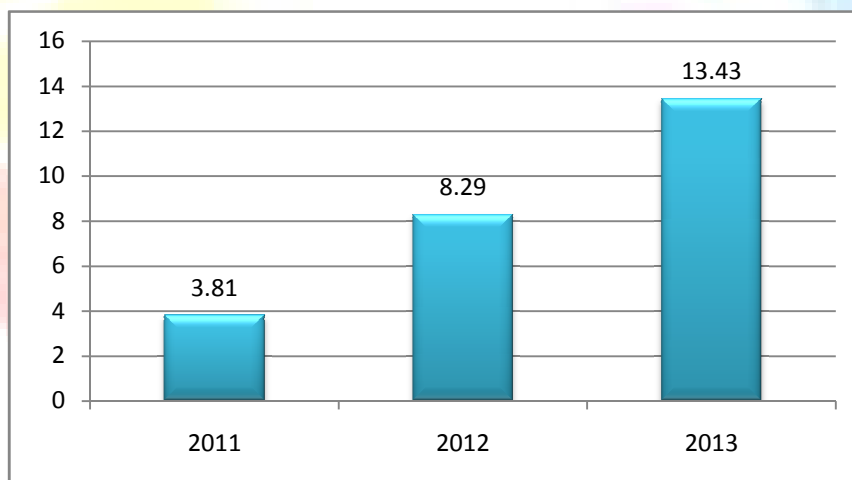
**Interpretation:**

The only common rule is that the higher return on assets is, the better, because the company is earning more money on its assets. A low return on assets compared with the industry average indicates inefficient use of company's assets.

**5. Net Profit Margin = Net Profit / Total Income \*100**

Year	2011	2012	2013
NET PROFIT	537.68	1490	3093.33
TOTAL INCOME	14112.74	17971.93	23039.51
Ratio	3.81	8.29	13.43

Chart-5

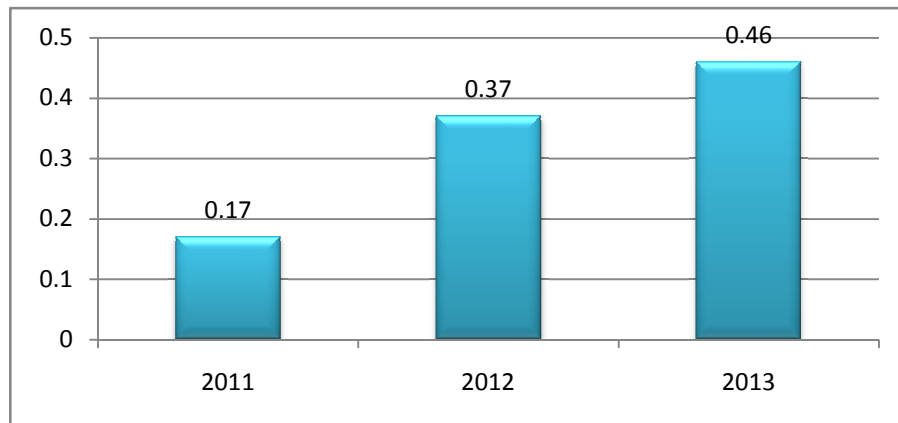
**Interpretation:**

Net profit margin is an indicator of how efficient a company is and how well it controls its costs. The higher the margin is, the more effective the company is in converting revenue into actual profit, and by this chart we can say that bank has higher profit margin and year to year increasing that a positive sign for bank.

**6. Interest Coverage Ratio = EBIT / Interest Expenses**

Year	2011	2012	2013
EBIT	1268.24	3954.11	5972.39
INTEREST EXPENSES	7612.42	10827.28	12958.59
Ratio	0.17	0.37	0.46

Chart-6

**Interpretation:**

Interest Coverage ratio is very important from the creditors view point. A high ratio ensures a periodical interest income for lenders. The companies with weak ratio may have to face difficulties in raising funds for their operations. Bank has good interest coverage ratio.

**V. LIMITATION OF RATIO****Limited Use of Single Ratio:**

Sometime, we cannot compare our ratios with others. For example, we have started new business and our financial results are not still normal. At that time, our profitability ratio will have limited use because there is not any past data of profitability ratios.

**Lack of Adequate Standards:**

We could not make standards of all ratios. For example, we cannot tell what is rule of them of our net profit ratio because there are lots of factors affect it. In the lack of adequate standards of ratios, we cannot give exact comment on the basis of ratio analysis.

**Changes of Accounting Procedures:**

If accounting procedures will change; our accounting ratio will be changed. At that time, we cannot compare our current year ratios with our past year ratios. For example, in past year, we had used LIFO but current year; we are using FIFO for inventory valuation. Due to this, figures of closing stock will be different. On this basis, if we have calculated current ratio, it will not be comparable with past current ratio.

**Matchless:**

Different organizations uses different accounting policies so, we cannot compare their ratios.

**Ratios are not Substitute of Financial Statements:**

Ratio analysis is important part of financial statements analysis. It can never become a substitute of financial statements. We just use it with cash flow analysis, fund flow analysis and other analysis.

**Wrong Interpretation:**

We can interpret wrongly. For explaining the effect on company's position with ratios, there is big need of experience. Wrong interpretation will be helpful for wrong decisions. So, it is limitation of ratio analysis that it does not explain all the facts, it has to explain. For a new accounts manager, it may be difficult.

**VI. FINDINGS**

- Current ratio of the bank is not much good, because ideal ratio is 2:1 and over here bank near to 1:1, but with the help of graph we can say that bank performance increasing year to year.
- In SGB Interest Coverage Ratio is high and ensures a periodical interest income for lenders, and also give a positive sign to lenders for safety investment.
- Net Profit Margin Ratio of the SGB is year to year increasing that shows how company efficient and how well controls its costs.
- Banks ROCE increasing year to year that good signs for banks as well as shareholders. It also shows that bank uses more efficient of capital. Higher ROCE indicates banks generating shareholders value.
- Banks ROE is increasing year to year that shows banks profitability increase, and banks generate good enough profit and attract shareholders for more investment.



- Banks getting higher return on its assets, banks earning more money from its assets. Banks ROA is better and continuous increasing year to year.
- SGB network is very wide.
- SGB staff very enthusiastic and loyal
- SGB maintain and day to day increase customer relationship by various activities
- Peoples are most like to transaction with SGB

#### VII. SUGGESTION

- Bank should try to reducing its operating expenses and increasing its income.
- Bank must held marketing activity, now a day's marketing is first and must for every sector that help to increase more customer and more income.
- Bank should try to increase awareness in people mind and as per make a design its campaign and select right source of media.
- Banks should try to increase share capital deposit.
- Banks should control over borrowings.
- Banks also control over cash on hand balance because more cash on hand balance reduce investment opportunity and also miss higher benefit from investment.
- Bank must do SWOT(Strength, Weakness, Opportunity, and Threat) analysis
- In this competition area bank should give facility of following:
  - Internet banking
  - Mobile banking
- From the research study banks financial position affected by several factors like economic and social.
- By this project, we can get the information regarding bank's liquidity and profitability.
- Bank financial position is very good but still tries to increase.

#### VIII. CONCLUSION

The Bank has undertaken bolder initiatives that would help it, achieve its wide aspirations. It is important to have a wide network, strong stricture, strong knowledge base excellence official skills, sound regulatory policy with its passion for innovations, commitment for the new services and corporate philosophy to build healthier communication.

Finally, I can say that under the guidance of efficient management and extremely dedicated human resources. I wish and predict all great success in its endeavors to "Saurashtra Gramin Bank".

#### REFERENCES

1. I. M. Pandey –Finance management 9th edition of vikas publication
2. Financial mgt. by prasanna Chandra-7th edition, Tata McGraw hill
3. Business research method-Donald R cooper and Pamela s chandler 9thedition, Tata McGraw hill
4. Ambries gupta- Financial account for manager- an analytical perceptive-3rd edition, Pearson
5. www.rbi.org.com
6. www.sgbrb.org