

# AN ANALYSIS OF SHAREHOLDERS VALUE OF THE SELECT PUBLIC SECTOR BANKS IN INDIA

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**ABSTRACT:** Indian banking sector has been placed under a growing to implement financial strategies that create value for its shareholders, although maximizing shareholders wealth has become a public sector banks also to generate value for shareholders and value based management systems have been developed. In this study an attempt has been made to identify the shareholder value of the select public sector banks in India for the period of 2010-2016 through the technique of EVA. Economic Value Added (EVA) is the financial performance measure that comes closer than any other to capture the true economic profit of banks. From the analysis, it is observed that all the select public sector banks have achieved a positive and significant growth in shareholder value addition (EVA) and Net Operating Profit after Tax (NOPAT) is the most significant factor in determining shareholder value of the sample firms.

**Key Words:** : Earnings per share, Net operating profit after tax, Invested capital, Return on invested capital.

## INTRODUCTION

Nowadays, customers are keeping finding the banks in terms of value creation. The purpose behind this is to take decisions regarding stock selection, and risk control. The shareholders are always the residual claimants who need to be satisfied with suitable returns. To help public sector banks to generate value for their shareholders, value based management systems have been developed. The value measurement system, aims at bridging the gap between value creation principles and management practices or decision-making. In the past, the return for the investment was measured in terms of return on investment, earnings per share, growth in EPS, etc. However, the new performance metrics based on value based measures look at maximizing long term yields on shareholders' investment. EVA is one such measure. EVA is conceptually simple as it starts with operating profit and simply deducts a charge for the capital invested in the company. EVA thus, represents the amount by which earnings exceed or fall short of the required minimum rate of return that the investors could get by investing in securities of comparable risks. EVA measures performance in terms of change in value. Maximizing value in the EVA context means maximizing long-term yield on shareholder's investment. This article has made an earnest effort in determining such value of the selected public sector banks.

## REVIEW OF LITERATURE

**S.S.Rao (2009)** Economic Value Added in Indian Banks on the basis of survey report. Indian Banks listed on the Mumbai Stock Exchange BSE were analyzed. It is further divided into sub-parts which include awareness and use of value-based financial performance, adaptability to Economic Value Added in select Indian Banks, ownership pattern-wise Economic Value Added, and discussion on such time-honored statistical propensities. The Study concludes that Economic Value Added is slowly gaining an increased attention as a financial measure of business performance of banks. It holds up the researcher's view that the concept of Economic Value Added has been emerging in the brains of the top brass of the corporate world in India and has nurtured a remarkably excellent time ahead.

**Ashok Thampy (2000)** Economic Value Added (EVA) has become a popular and powerful tool for managers to measure performance and for guiding investment decisions. Several leading companies have adopted EVA as the metric for evaluating performance and they have also been successful in enhancing the wealth of their shareholders. In India also, EVA is gaining acceptance. EVA is operating profit after adjusting for taxes minus a charge for the capital that is used. Alternatively, EVA can be seen as a performance measure where the returns earned are benchmarked against the cost of capital. In this paper, we measure the performance of both public and private sector banks in India using the EVA yardstick. The results of the study reveal that most banks in the public and private sector, as well as the development financial

institutions in India are not earning positive EVA. This means that the return on capital employed by these financial firms are less than the cost of capital. In other words the return on investors' capital is less than the opportunity cost of capital which means that investor's wealth is being destroyed to the extent to which the returns are lower than what would have been required.

### OBJECTIVES OF THE STUDY

The following are the main objectives:

- To measure the Shareholders value of the selected public sector banks in India through Net operating profit after tax (NOPAT).
- To identify the factors determining Shareholders value of Select Public Sector in India.

### METHODOLOGY OF THE STUDY

The study covers a period of seven years from 2010-2016. It was decided to include only those banks having continuous and uniform data throughout the period of 7 years from 2012-2016 and the selected public sector banks in India.

S/No	Name of the Bank
1	Allahabad Bank
2	Bank of Baroda
3	Indian Bank
4	Indian Overseas Bank
5	State bank of India

### HYPOTHESES OF THE STUDY

- There is no significant difference in the EVA and its components among the select Public Sector Banks in India.
- There is no significant relationship between NOPAT, EPS and Economic Value Added of the Select Public Sector banks.

### EMPIRICAL ANALYSIS

#### Net Operating Profit after Tax -(NOPAT)

Net Operating Profit after Tax (NOPAT) is a company's after-tax operating profit for all investors, including shareholders and debt holders. It is a measure of profit that excludes the costs and tax benefits of debt financing. NOPAT is earnings before interest and taxes (EBIT) adjusted for the impact of taxes. The Net Operating Profit after Tax (NOPAT) of the select public sector banks in India for the period from 2010 to 2016 is presented in the following Table.

**Table .1**  
**Net Operating Profit after Tax of the Select public sector Banks**

Year	Allahabad Bank	Bank of Baroda	Indian Bank	Indian Overseas Bank	State bank of India
2010	20474.0	40693.6	19784.6	18555.2	156163.7
2011	24839.4	57418.6	24383.7	28005.4	216781.4
2012	30713.9	71166.3	26711.5	36209.2	274116.8
2013	27344.8	73,044	23,850	37,582	272601
2014	32203.5	77,312	22,196	39,868	287380.8
2015	35508.9	84,601	22,360	32,416	334394.2
2016	33764.5	76,558	22,977	33,414	358374.1

**From the Table 1** it is found that the NOPAT of selected public sector banks showed an upward trend during the study period. The other firms show a fluctuating trend from 2010 to 2016 and thereafter it records an increasing trend. It is also observed that all the selected public sector banks achieved a positive and significant trend in Net Operating Profit after Tax.

#### Invested capital- (IC)

Invested capital is the total amount of money raised by a company issuing securities to equity share holders and debt to bondholders, where invested is calculated by adding the total debt and capital lease obligations to the amount of equity issued to investors. Invested capital is not a line item in the company's financial statements because debt, capital lease and lease and shareholder's equity are each listed separately in the

balance sheet. The Invested capital (IC) of the select public sector banks in India for the period from 2010 to 2016 is presented in the following Table.

**Table-2**  
**Calculating the Invested Capital**

Year	Allahabad Bank	Bank of Baroda	Indian Bank	Indian Overseas Bank	State bank of India
2010	121884	284565	92295	165068	1689608
2011	154256	433514	116215	286803	1845550
2012	196011	510499	156743	355415	2109568
2013	214501	585487	148351	367803	2680664
2014	239315	727986	188349	406759	3014132
2015	269587	750996	177416	237920	3335886
2016	327711	736707	197691	428491	4676191

**From the Table 2** It is found that the Invested capital (IC) of selected public sector banks showed an upward trend during the study period. The other firms show a fluctuating trend from 2010 to 2016 and thereafter it records an increasing trend. It is also observed that all the selected public sector banks achieved a positive and significant trend in invested capital.

#### **Return on Invested Capital -(ROIC)**

The Return on invested Capital (ROIC) measure the profitability and value creating the potential of companies after taking into account the amount of initial capital invested. The ratio of calculated by dividing the tax after operating income by the book value of both debt and equity capital less cash equivalents. The Return on Invested capital (ROIC) of the select public sector banks in India for the period from 2010 to 2016 is presented in the following Table.

**Table-3**  
**Return on Invested Capital**

Year	Allahabad Bank	Bank of Baroda	Indian Bank	Indian Overseas Bank	State bank of India
2010	16.80	14.30	11.49	11.24	21.44
2011	16.10	13.24	12.73	9.76	20.98
2012	15.67	13.94	11.74	10.19	17.04
2013	12.75	12.48	11.93	10.22	16.08
2014	13.46	10.62	21.46	9.80	11.78
2015	13.17	11.27	12.38	13.62	12.60
2016	10.30	10.39	7.83	7.80	11.62

**From the Table 3** it is found that the ROIC of selected public sector banks showed an upward trend during the study period. It is also observed that all the selected public sector banks achieved a positive and significant trend in return on invested capital

#### **CONCLUSION**

In view of the recent literature and financial valuation model, the shareholders value has been defined in terms of Economic Value Added, which has become the most fashionable measurement for determining the ability of a company to generate an appropriate rate of return. This article examined the Shareholders Value Creation of the selected public sector banks in India during the period from 2010 to 2016. From the analysis, it is observed that all the selected public sector banks in India have achieved a positive and significant growth in shareholder value addition (EVA) through the net operating profit after tax (NOPAT) over the period of study except which shows a negative result bank of Baroda from 2010 to 2016. But there exists significant difference in the EVA among the sample companies. That the Net Operating Profit after Tax (NOPAT) is the most significant factor in determining EVA of the sample firms. But the other variable, Earnings per Share does not have significant impact on EVA in most of the selected Public sector banks in India.

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