An Analysis of Stock Price Return of Listed Public Sector Banks in India

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ABSTRACT: *The present study aims to analyze the stock price return of public sector banks (PSBs) operating in India in the year 2018-19. Public Sector Banks are those where more than 50% shares are held by a government. The shares of these banks are listed on Indian stock exchanges like National Stock Exchange (NSE) and Bombay Stock Exchange (BSE). There are total of 22 Public Sector Banks in the year 2018-19. Details attached – Annexure "A".Generally, People do investment in Public Sector Bank shares to earn hefty return. Return on the amount invested in Public Sector Bank stocks comes through dividend declared by the Public Sector Banks and capital appreciation of share value. These returns are called stock returns and influenced by many calculated and unknown risks. Stock returns is an important area of study wherein many research scholars have analyzed for past several years. The factors analyzed in the study are such as reasons of increase/decrease of stock returns, prediction of stock returns in future, factors affecting stock returns, financial position/health of banks etc.*

Key Words*: Public Sector Banks, Stock return*

Introduction

Investors invest their savings in public sector bank shares with an expectation of earning income more than fixed deposit earnings. This income from public sector banks will be termed as "stock returns" which may be in the form of dividend received from these banking shares or profits earned from trading of these banking shares. These dividend can be paid to the shareholders out of the profits earned or reserves accumulated by the banks during previous years. The stock returns of public sector banks are affected by various risks/factors occurring on daily basis within a country and important event affecting share prices occurring across the world. Public Sector Banks stock returns are sensitive due to increase/decrease of Non-performing assets (NPA), natural disasters like cyclones, earthquakes,floods, movements in dollar prices, economic crises,shortage of capital, political changes in the country, war like situation across the world, changes in interest rates,changes in Government policies and so on. It is not easy to predict or forecast the share prices and future returns on these shares. The present study is based on some of these studies. Since stock prices and return on these shares are depending on many factors, it requires to study the volatility of share prices/stock returns.

Literature Review

1. Chaudhary and Sharma (2011), NPA and Banks **-** Loans and advances given by banks to its customers is an asset to the bank. But, when repayment of interest and Principal is overdue, such asset is classified as NPA in the financial reports of banks. NPA is nothing but NON- PERFORMANCE ASSETS. Simply it's a Bad Debt to Bank. It is right time to take suitable and stringent measures to get rid of NPA problem. An efficient management information system should be developed. The bank staff involved in sanctioning the advances should be trained about the proper documentation and charge of securities and motivated to take measures in preventing advances turning into NPA. Public banks must pay attention on their functioning to compete private banks. Banks should be well versed in proper selection of borrower/project and in analyzing the financial statement
2. Vradi, et.al (2006), in his study on´ Measurement of efficiency of bank in India summarized that performance of public sector banks is more important to stable the economy of the country. To verify the efficiency of Indian public sector banks we must check the four indicators like profitability, productivity, assets quality and financial management. For measuring efficiency of banks,they have adopted development envelopment analysis and found that public sector banks are more efficient than other banks in India.

Objectives of the Research

1. To study stock returns of Indian listed Public sector banks.
2. To analyze factors affecting stock return.

3. To reasons of increase/decrease of share prices of listed public sector banks.
4. To forecast/predict share prices of Indian listed Public sector banks.

Research_Methodology

To investigate the stock return of public sector banks, this study proposes to use the data and Sample of two major public sector banks operating in India i.e.State bank of India and Bank of India.

Sample of study of banks has been done which are listed on national stock exchange (NSE) and Bombay stock exchange (BSE). The data for study has been collected from audited financial statements of banks from website of Money control, Bombay stock exchange (BSE) and National Stock exchange (NSE).

Following method is used to compare the stock return of banks –

1. **Return on Assets: -** It measures the profitability of the banks. It is calculated by the formula:-

Return on assets=Operating Income/Total Assets

2. **Return on Equity: -** It is used to calculate a bank's profitability by analyzing how much profit a bank earns with money invested by shareholders. It is calculated by the formula:-

   Return on equity=net profit attributed to shareholders/total shareholders
3. **Earnings per share**:- It measure shareholders profitability by analyzing how much profit a share earned with shareholders invested money and it is calculated by the formula:-

   Earnings per share=net earnings/number of shares
4. **Gross NPA Ratio: -** Gross NPA stands for Gross Non-Performing Assets.Non-performing asset (**NPA**) is defined as a credit facility in respect of which the interest and/or installment of principal has remained unpaid for a specified period. It is calculated by the formula =Gross NPA/ Gross advances of the bank.
5. **Net NPA Ratio**: **-** Net NPAs are calculated by deducting provisions from Gross NPAs. Purpose of net NPAs to advances ratio is to measure the overall quality of the bank's loan book. It is calculated by the formula =Net NPA/advances of the bank.
6. **Contingent Liabilities amount: -** A Contingent Liability is a potential liability that may occur depending on the outcome of an uncertain future event. This figure has been taken from audited financial statements of banks.
7. **Book value of shares**: -Book value per share indicates the book value of each share of stock. Book value is a company's net asset value, which is calculated by total assets minus intangible assets and liabilities. This figure has been taken from audited financial statements of banks.
8. **Borrowings to Capital Ratio: -** long term debt to capital is a measure of capital structure and it is calculated by the formula: -

Borrowings to capital= Borrowings/capital

9. **Price to book Value ratio: -** This ratio represents market value of share against book value of shares. It is calculated by formula: -

   Price to book Value ratio = Share price Market/book value of share
10. **Dividend Yield: -** Dividend yield is the percentage of dividend per share declared by the bank and market price of the share. It is calculated by the formula: -

    Dividend Yield = Dividend per share declared by the bank/ market price of the share

Based on above-mentioned methodology, Data of State bank of India has been analyzed for last five year as detailed below: -

STATE BANK OF INDIA						
Sr. no.	Particulars	2017-2018	2016-2017	2015-2016	2014-2015	2013-2014
1	Capital (Thousand Crores)	1	1	1	1	1
2	Reserves (Thousand Crores)	218	187	144	128	118
3	Net worth (Thousand Crores)	219	188	144	128	118
4	Deposits (Thousand Crores)	2706	2044	1730	1577	1394
5	Borrowings (Thousand Crores)	362	318	323	205	183
6	Total income (Thousand Crores)	265	211	192	175	155
7	Total Assets(Thousand Crores)	3455	2706	2358	2048	1793

8	Net profit(Thousand Crores)	-13	10	10	13	11
9	Return on Assets %	-0.38	0.37	0.42	0.63	0.61
10	Return on equity %	-5.94	5.32	6.94	10.16	9.32
11	EPS	-8	13	13	18	16
12	Gross NPA %	11	7	7	4	5
13	Net NPA %	6	4	4	2	3
14	Contingent Liability (Thousand Crores)	1162	1046	972	972	1017
15	Book value per share	245	236	185	172	158
16	Share price on ¼	250	293	198	268	190
17	Debt Equity ratio	1.65	1.69	2.24	1.60	1.55
18	Price to book value X	1.02	1.24	1.07	1.56	1.20
19	Dividend p/share	0	2.6	2.6	3.5	3
20	Dividend yield %	0	0.89	1.31	1.31	1.58

Above five-year data analysis shows: -

Positive Factors

1. Deposits increased from 1394 thousand crores to 2706 thousand crores.
2. Total income increased from 155 thousand crores to 265 thousand crores.
3. Book value of shares increased from 158 to 245.
4. Debt equity ratio remains stagnant.
5. Net worth increased from 118 thousand crores to 218 thousand crores.

Negative Factors

1. Dividend yield reduced from 1.58 to 0.
2. Return on assets reduced from 0.61% to -o.38% .
3. Return on equity reduced from 9.32% to -5.94%.
4. Gross NPA increased from 5% to 11%.
5. Net NPA increased from 3% to 6%.
6. No reduction in contingent Liabilities.
7. EPS reduced from 16 to -8.

Stock return of SBI

Example: - A has purchased 1 share of SBI on 1/4/13 @ Rs. 190 and sold the same on 1/4/18 @ Rs.250 then his stock return will be Rs. 71.70 (Rs. 60 capital appreciation + Dividend of Rs. 11.70 declared during last five years). Stock return % will be 71.70/190*100 = 37.7% i.e. A has gained 37.7% on each share during last years.

Prospects of SBI

It is very difficult to predict share market but as per financial strength/data of SBI, negative factors mentioned above shows that share price will not give stock return as given in the previous years. For improving financial strength of Balance sheet, SBI must reduce NPA and Contingent Liability. In addition to that SBI must act to increase profitability of the bank.

Similarly, Data of Bank of India has been analyzed for last five year as detailed below: -

		BANK OF INDIA				
Sr. no.	Particulars	2017	2016	2015	2014	2013
		2018	2017	2016	2015	2014

1	Capital (Thousand Crores)	2	1	1	1	1
2	Reserves (Thousand Crores)	34	30	30	31	29
3	Net worth (Thousand Crores)	36	31	31	31	30
4	Deposits (Thousand Crores)	521	540	513	532	477
5	Borrowings (Thousand Crores)	44	39	51	40	48
6	Total income (Thousand Crores)	43	46	45	48	42
7	Total Assets (Thousand Crores)	610	626	610	619	573
8	Net profit (Thousand Crores)	-14	-8	-6	2	3
9	Return on Assets %	-2.30	-1.28	-0.98	0.32	0.52
10	Return on equity %	-38.89	-25.81	-19.35	6.45	10.00
11	EPS	-52	-16	-83	27	45
12	Gross NPA %	17	13	13	5	3
13	Net NPA %	8	7	8	3	2
14	Contingent Liability (Thousand Crores)	343	360	332	135	222
15	Book value per share	204	291	379	472	465
16	Share price on ¼	104	139	100	196	224
17	Debt Equity ratio	1.22	1.26	1.65	1.29	1.60
18	Price to book value X	0.51	0.48	0.26	0.42	0.48
19	Dividend p/share	0	0	0	5	5
20	Dividend yield %	0	0	0.00	2.55	2.2

Above five-year data analysis shows: -

Positive Factors

1. Deposits increased from 477 thousand crores to 521 thousand crores.
2. Total income remains stagnant.
3. Debt equity ratio reduced from 1.60 to 1.22.
4. Net worth increased from 30 thousand crores to 36 thousand crores.
5. Gross NPA increased from 3% to 17%.
6. Net NPA increased from 2% to 8%.
7. Contingent Liabilities increased from 222 thousand crores to 343 thousand crores.
8. EPS reduced from 45 to -52.
9. Book value of shares decreased from 465 to 204.
10. .Market value of share reduced from 224 to 104.

Negative Factors

1. Dividend yield reduced from 2.2 to 0.
2. Return on assets reduced from 0.52% to -2.30%.
3. Return on equity reduced from 10% to -38.89%.

Stock return of BOI

Example: - A has purchased 1 share of BOI on 1/4/13 @ Rs. 465 and sold the same on 1/4/18 @ Rs.204 then his stock return will be Rs. -251 (-Rs.261 capital depreciation + Dividend of Rs. 10 declared during last five years). Stock return % will be -251/465*100 = -54% i.e. A has lost 54% on each share during last years.

Prospects of BOI

It is very difficult to predict share market but as per financial strength/data of BOI, negative factors mentioned above shows that share price will not give positive stock return till action has been taken by bank on above mentioned negative factors. For improving financial strength of Balance sheet, BOI must reduce NPA and Contingent Liability. In addition to that BOI must act to improve operating profit.

Comparison of Stock return of SBI and BOI

After analyzing the data of both the banks, SBI is giving better stock return in comparison to Bank of India i.e. SBI has given 37.7% stock return whereas BOI has given negative 54% stock return during last 5 years. Financial strength of SBI is much better than BOI like NPA % in SBI is less than BOI, EPS of SBI is better than BOI,returnon equity ratio of SBI is better than BOI etc.

CONCLUSION

This paper evaluates the extent of technical and fundamental efficiencies of Indian Public Sector banking industry using cross sectional data for two banks – State Bank of India and Bank of India. To analyze the research objectives, important/main ratios has been applied to compare the fundamental positions of the banks. The result indicates that the fundamental efficiency in Indian public sector banks has been deteriorated during the last five years. Concluded Bank of India is worst performer in comparison to State Bank of India.

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ANNEXURE "A"

1. **Andhra Bank**
2. **Allahabad Bank**
3. **Bank of India**
4. **Bank of Baroda**
5. **Bank of Maharashtra**
6. **Corporation Bank**
7. **Central Bank of India**.
8. **Canara Bank.**
9. **Dena Bank**
10. **Indian Overseas Bank**
11. **Indian Bank**
12. **IDBI Bank**
13. **Oriental Bank of Commerce**
14. **Punjab National Bank**
15. **Punjab & Sind Bank**
16. **Syndicate Bank**
17. **State Bank of India**
18. **United Bank of India**
19. **Union Bank of India**
20. **UCO Bank**
21. **Vijaya Bank**
22. **Indian post payments Bank**