ABSTRACT

Shareholder value maximization is currently the most important comprehensive management tool in use. For a bank, the shareholder value approach is not only an important strategic management tool; its overarching objective of shareholder value maximization is vital for banks to exist. Unlike non–banks, banks are required to secure their business with equity capital. Consequently, the provision of equity capital is conditional for the growth of banks’ business volume and therefore is a highly critical function for banks. As higher shareholder value eases access to equity capital, a shareholder value orientation is especially important for banks. Despite its relevance to banks, the shareholder value approach has only recently gained importance in the banking industry.

The Indian banking sector witnessed a sweeping change after the implementation of Narsimham Committee recommendations which called for deregulation of the banking sector and stressed the more participation by private players. Adoption of Basel II norms required Indian banks to monitor their capital adequacy norms in alignment with the risk weighted assets. This required banks to strictly monitor their credit risks regularly. Banks, being highly levered entities are required to earn higher returns over and above their cost of capital in order to raise capital from the market which in other words calls for creating higher value for shareholders.
Banking sector in India is one of the dominant players in the financial market. Therefore the present study is undertaken to analyze the shareholder value creation of selected sectors of the banking industry in India. The analysis of the shareholder value creation of selected banks has been done through the tools of Created Shareholder Value (CSV) and Market Value Added (MVA). These measures have been used to analyze the shareholder value creation of selected Indian banks because they measure performance of Indian banks in terms of wealth created for shareholder after incorporating the opportunity cost of capital in the calculation of wealth creation and hence truly reflect the economic performance of the selected Banks.

In this context, the researcher has studied the following.

1. The trends of Created shareholder Value of Indian public and private sector banks during the period 2001 to 2010
2. The trends of Market Value Added by Indian public and private sector banks during the period 2001 to 2010
3. Correlation between CSV and MVA
4. Overall ranking of selected banks in terms of average CSV and MVA
5. Sector wise ranking of selected banks in terms of average CSV and MVA
6. The relationship between MVA and performance measures lie ROCE, RONW, PAT, EPS, and Interest spread

The study found that selected Indian banks recorded statistically significantly positive CSV and MVA during the study period. It was found that there was no statistically significant difference between the average CSV of public and private sector banks. On the other hand, the study found that the average MVA of private sector banks was
statistically significantly higher than that of public sector banks. The correlation between CSV and MVA was also found to be statistically significantly positive. The study highlighted that Profit after tax was the most significant predictor of change in MVA followed by earnings per share.