A variety of ideas of value have been put forward in the accounting literature, including the value at which an asset is carried on a balance sheet, the price at which buyers and sellers trade in an open market, and the present value of future cash flows. Shareholder value creation is a vital research area to be explored further in Indian perspective. Several studies have been found in the literature at national and international level which supports EVA as the best measure of firm’s performance and its shareholder value creation. Several other studies are in contradiction with these results which are rather in favour of the value based measures as better determinants of Shareholder value. Thus, these results are controversial and indicate the need of identifying the determinants of shareholder value and searching out for the best ones. Shareholder value creation in banks is found to be interested area of research in international studies. Recent financial crisis have adversely affected the shareholder value of banks in many countries. Very few studies are found on shareholder value creation in Indian Banking sector, which is the major upcoming sector of Indian economy: this signifies the need of the hour to explore this sector as regards its shareholder value creation and identify the major determinants of shareholder value and measure their interrelationships.

The measures for shareholder creation can be classified into three broad categories. The first category includes The Value Creation Measures which rely mainly on the financial statements produced by the firm, but require an estimation of the cost of capital and a variety of other adjustments to traditional income statements and balance sheets to reflect operating cash flows and an appropriate capital base. The second category of measures includes wealth-creation measures that rely exclusively on stock market data and, thus, are mainly applicable to exchange listed companies. They concentrate on the impact on shareholder wealth and use that as an indirect measure of annual (or periodic) performance. The third set of measures is hybrid value/wealth-creation measures and requires both financial statement and stock market data.

This study aims at identifying and analysing the determinants of shareholder value creation in Indian banking sector using various financial measures from each of these categories. This study mainly relies upon the Descriptive and Causal Research
Designs. The major statistical techniques such as Descriptive Measures, Correlation Analysis, Multiple Regression Analysis, Probit Regression Analysis, Factor Analysis, Discriminant Analysis and various Inferential Techniques are applied for the analysis of the relevant data for a period of ten years.

The results of this study indicate that ROA, GROWTH, DIVIDEND PAYOUT AGE and SIZE (LnTA) are found to be the major determinants of Future Shareholder Value Creation. The analysis of the value based measures indicates that EVA is the highest contributing variable to shareholder value creation as compared to MVA and CVA. Amongst Public Sector Banks, State Bank of India is a better performer as regards four out of seven value creation measures, whereas, amongst the private sector banks, HDFC Bank, ICICI Bank and IndusInd Bank are relatively better performers as regards their Shareholder Value Creation.

The major observations about the behaviour of Banks in India as regards their value creation reveal that they still rely more upon accounting based measures rather than value based measures for their shareholder value creation. Profitability of the banks is the most important matter of concern as compared to Dividend Policy and Financial Policy. They have a better scope of applying value based measures to generate economic profit rather than accounting profit in order to create higher shareholder value. The new private sector banks are found to be better performers in the Indian banking sector as regards their shareholder value creation since they rely more upon value based measures. Public sector banks have more stringent constraints related to higher interest on borrowings and government norms whereas, private sector banks face severe tax policy which hinder their value creation process. Since, there is a wide scope of future growth and development of banking sector in India; the banks need to revive their strategies, in favour of modern value creation measures in order to attract the investors by providing them higher worth of their investments. The study concludes by suggesting some strategies to the banks for enhancing their future value creation and thereby increasing shareholder’s wealth. Some limitations of the present study and the scope of further research in this area are stated at the end. This study will help thereby the banks to revive their strategies to enhance shareholder value creation and frame appropriate policies so as to create banking sector as one of the most attractive sector for investments by shareholders.