CHAPTER I
INTRODUCTION AND DESIGN OF THE STUDY

1.1 INTRODUCTION

Money or finance is a crucial factor for economic development. Though it is true that money or finance cannot be a substitute of the real resources, without that, we cannot think about the functioning of any economy today in the world. Money is important because it can be used for purchasing the resources which are in need for any economic activity. But this money as a resource may be available with some people who do not have the entrepreneurial talents or interest and those who possess the entrepreneurial talents or interests may not have money for their enterprising activities. Therefore there is a need for money flow from the haves to the needed entrepreneurs for economic development. The role of bridging the gap from the haves to the needed entrepreneurs is done by financial institutions. A sound financial structure with diverse financial institutions spreading across the country is normally a prerequisite for economic development. In India there are several financial institutions in the money market and as well in the capital market.

The capital market institutions are mainly meant for long term financing. Whereas the money market institutions are meant for short term financing. Among the financial institutions functioning in India, the commercial banks are commonly known as institutions which serve the needs of mainly short term and medium term financial requirements. They collect money from those who have it and lend the money to those who require it. However it is pertinent to say that they are not
restricting their services to savings and lending, they also do the work of credit
creation, and other fee based services like agency services, collection services and
so on. Thus they are acting as an important driving force of economic
development by channelizing the savings into investment and influencing
economic activities by providing additional financial services. Therefore it can be
stated that in a country like India, the commercial banks have important role to
play in the economic development and reduction of regional disparities. As they
are to play an important role in the nation building, they need to be economically
sound that means, they should be able to run the business profitably. Therefore
studying the important factors that would influence the profitability of the banks
and the extent of their influence would help to make the banks more profitable
which in turn would help the development of the nation. Hence in the present
study the profitability of the Indian commercial banking institutions are studied.

1.2 PROFIT: MEANING AND THEORIES

Profits are residual income left after the payment of the contractual reward
to other factors of production. This profit is a non-contractual income and
therefore it may be positive or negative, whereas the contractual income of other
factors such as wages, rent and interest can never be negative. On this profit,
several theories have been propounded on this profit. It was Clark J.B who first
propounded that profit is a dynamic surplus. He stated that in stationary state
where no changes in conditions of demand and supply are occurring, the prices
paid to the factors on the basis of their marginal productivity would exhaust the
total value of product and no profits would accrue the entrepreneur. He further stated that in the dynamic economy, five changes that occur give rise to profits. The five changes are changes in the quantity and quality of human wants, changes in the methods or techniques of production, changes in the amount of capital, changes in the forms of business organization and the growth of population.

Schumpeter stated that the main function of the entrepreneur is to introduce innovations in the economy and profits are reward for performing this function. This theory of profit is called as innovation theory of profit. Another theory on profit is Uncertainty theory of profit propounded by F.H Knight. According to him profit is the reward for uncertainty. He stated that there are two types of changes which are responsible for conditions of uncertainty. They are innovations, which are created by entrepreneurs themselves and other type is external to the firms and industries. Among these risks only those risks which are non-insurable makes the entrepreneur to earn profit. Thus there are several theories of profits propounded by several economists.

1.3 **NEED FOR THE STUDY**

In the post independence period the development of the nation relied on both private and public sector enterprises. In the immediate two and half decades following the independence of the nation, the stress was on the public sector as the chosen means of socio-economic development\(^1\). Among these public sector enterprises majority of the companies belong to basic and infrastructure industries.

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\(^1\) Elango R, Coroprat Profitability – A Study with special reference to selected industries/ companies in India, unpublished Ph.D thesis submitted to Alagappa University, Kraikudi, p.2.
Banking institutions had not been given much preference and several banking institutions had been working in the hands of the private sector in India. In the organized sector of the banking industry commercial banks are the oldest institutions. Among the commercial banks the public sector banks has emerged to its present position in three stages. At First stage there was the conversion of the then Imperial Bank of India into the State Bank of India in 1955 followed by the seven associate banks as its subsidiary banks. The Second stage witnessed in the year 1969, the nationalization of 14 major commercial banks and in the third stage six more banks in the year 1980 have been nationalized. Among these six banks New Bank of India has merged with Punjab National Bank. After the nationalization process in the year 1992 India started to adopt New Economic Policy in which the thrust has been encouraging the liberalisation, adopting privatisation and accepting the globalisation of the industrial sector. The Narashimam committee on financial sector reforms recommended the establishment of new banks in India and thereafter the Reserve Bank of India issued guidelines for the setting up of new private sector banks in India in January 1993 and issued rules for licensing new banks in private sector in January 2001². In line with these developments several changes have taken place in the Indian Commercial banking sector. The nationalized banks have been allowed to issue share capital to the public, universal banking concept came into Existence, automation and computerization of branches and adoption of new technology took

² Varshney P.N and Mittal D.K, Indian Financial System, Sultan Chand & Sons, New Delhi, p.2.11.
place. Banks have been permitted to enter into insurance business also if they fulfill certain conditions. Thus the banking industry noticed metamorphic changes in the recent years after 2000 AD. Permission of the new generation private sector banks made the industry to become more competition oriented and the profit has become one of the important goals of the commercial banks even for the public sector undertakings. In this scenario an inquiry into the trend in the profitability and the determinants of profitability of the commercial banks in India thought by the researcher as a topic of contemporary significance. Therefore the present study is undertaken. Adding to the analysis of trend and determinants of profitability, the researcher also felt that the performance of the banks in the liberalized environment must be measured not only using the traditional measures such as Return on Assets, Return on Equity but also using the value based performance measure, that is, Economic Value Added (EVA). This would help identify the efficiency of the banks to make profit after making necessary deductions for the capital charge for all the sources of capital. Therefore the present study has been undertaken to analyse the performance of the banks using the value based metric EVA.

1.4 OBJECTIVES OF THE STUDY

The study has been carried out to fulfill the following objectives.

1. To analyse the trend in the Net Profit of the commercial banks of the selected groups in India and make a comparison among the net profit of the banks in each group.
2. To study the trend in the other selected profitability measures such as Return on Assets, Return on Equity and Profit per Employee of the banks in each selected group and make comparison among the values of the banks in each group separately.

3. To investigate the Economic Value Addition or Destruction recorded by the selected commercial banks during the recent years of analysis with view to rank their performance in each group based on EVA values.

4. To make a comparison among the EVA values calculated as a percentage of capital employed of the banks in each group to find out whether the banks in a group are performing in similar manner or not and

5. To examine the relationship between profitability and selected financial variables of the banks during the study period.

1.5 SCOPE OF THE STUDY

The study covers commercial banking institutions operating in India which are classified into three groups such as group of SBI and its associate banks, group of Nationalized banks and the group of private sector commercial banks operating in India. The foreign commercial banks have not been included since their data such as share prices are not made available as they are not listed in the stock exchanges operating in India. Hence they have been excluded.

As the study analyses the profitability aspects of the commercial banks which operate in India, only selected profitability measures have been considered in the analysis. The profitability measures used in the study are Net Profit, Return
on Assets, Return on Equity and Profit per Employee. In addition to this, the Economic Vale Addition / Destruction of the banks have also been used to analyse the performance of the banks considered in the study.

The study also measures the relationship between the profitability and chosen financial variables likely to influence the profitability. All these analysis have been executed during the new Economic Policy Regime. In the analysis of trend in the profitability of the banks, the study has covered a period of ten years from 1999-00 to 2008-09 only. In the case of analysis of EVA the study has considered only the recent five years in the study period starting from 2004-05 to 2008-09.

1.6 HYPOTHESES OF THE STUDY

With the broad objective of analyzing the trend and determinants of profitability the study has framed the following hypotheses. The hypotheses are:

i. There is no statistically significant difference among the Return on Assets (ROA) values of the banks in the selected banking groups.

ii. There is no statistically significant difference among the Return on Equity (ROE) values of the banks in the selected banking groups.

iii. There is no statistically significant difference among the Profit per Employee (PPE) values of the banks in the selected banking groups.

iv. There is no significant difference among the EVA values of the banks in the each banking group.
v. There is no statistically significant influence of Credit Deposit Ratio, Deposit Composition Ratio, Ratio of Priority Sector Advances to Total Advances, Ratio of Net Interest Margin to Total Assets and Ratio of Burden to Total Assets on the profitability measure Return on Assets of the banks.

1.7 RESEARCH DESIGN

The research design of the study is presented below, in terms of sample design, data source and analytical methods with the application of accounting and statistical tools.

1.7.1 Type of Research

The present study is descriptive and analytical in nature. As it describes the trends in the profitability measures and other performance measures to evaluate the banks performance in the study period, it is descriptive in nature. However, the study also intends to analyse the influence selected financial and accounting ratios on the profit earned by the banks and hence it is analytical too. The design of the study includes sampling method adopted, sources of data, calculation of various financial tools and the statistical tools employed in the present study. The epigrammatic explanation of the research design is reported below.

1.7.2 Sample Design

The present study intends to use a sample of commercial banks operating in India. Though it would be advisable to use all the commercial banks operating in India in the analysis, due to the difficulties in the availability of data such as ROA,
ROE and PPE, from the reliable sources, it has been decided to use the commercial banking institutions operating in India for which data are available. Thus the availability of data and the aim of the study have been used as the criteria for inclusion of the banks in the study. Using these criteria to analyse the trend in the profitability the 19 nationalized banks, SBI and its presently available six associate banks, 14 private sector banks have been included in the study. Other banks are excluded from the analysis.

While analyzing the EVA of the banks, the availability of the details of Net Operating Profit and the daily adjusted share prices for the recent five years of the study period have been kept as the criteria. In the SBI and its associate banks group four banks satisfy these criteria. Among the nationalized banks, 15 banks satisfy these criteria and among the private sector banks nine banks satisfy these criteria and therefore they have been included in the analysis for analyzing their Economic Value Addition / Destruction.

While analyzing the influence of the selected financial variables on the profitability of the banks based on the availability of the data for the entire study period, the banks are included in the analysis. Thus all the banks in the SBI and its associate banks group, all the nineteen nationalized banks and seventeen private sector banks have been included in the analysis for which data are available continuously for the entire study period.
1.7.3 **Data Source**

The present study has been carried out using the secondary data only. The prime source of data for this study has been the Reserve Bank of India publication, ‘Statistical Tables Relating to Banks of India’ and ‘Trend and progress of Banking in India’. However, for the purpose of collecting the share prices of the banking concerns and BSE – 100 Index the database of the Centre for Monitoring Indian Economy namely PROWES has been used. For the purpose of cross reference the official websites and the annual reports of the banks have also been used in the study.

1.7.4 **Financial Tools used in the Study**

For analyzing the trend in profit made by the banks, the year-wise Net profit values of the banks have been considered for analysis. To analyse the trend in the profitability of the banks the study used three ratios measuring the profitability. They are Return on Assets, Return on Equity and Profit per Employee. These values have been collected from RBI sources.

To analyse the trend in the EVA of the banks the study has considered only the recent five years in the study period. The calculation of year-wise EVA values of each bank has been carried out. While analyzing the determinants of the profitability of the banks the ROA has been kept as the dependent variable and the Credit-deposit ratio, Ratio of Term Deposits to Total Deposits, Ratio of Priority Sector Advances to Total Advances, Ratio of Net Interest Margin to Total Assets and Ratio of Burden to Total Assets have been kept as independent variables.
These dependent and independent variables values have been obtained from the RBI annual publication ‘Statistical Tables Relating to Banks of India. However the EVA values of the banks have been calculated by the researcher using the collected data from the secondary sources.

EVA is the invention of Stern Stewart & Co., a global consulting firm. As developed by Stern Stewart & Co., EVA of a firm in a year is calculated as a firm’s “Net Operating Profit After Taxes” (NOPAT) minus Cost for the Capital Employed by the Company in the year. The Cost of Capital Employed is the weighted average cost of equity and debt capital multiplied by the initial investment in that year. Thus the EVA is expressed in a formula as:

\[
EVA_{it} = NOPAT_{it} - (WACC_{it} \times Initial\ Capital\ Employed_{it})
\]

Where:
- \( EVA_{it} \) is the Economic Value Added of the \( i^{th} \) bank in the year ‘\( t \)’,
- \( NOPAT_{it} \) is the Net Operating Profit after Tax of the \( i^{th} \) bank in the year ‘\( t \)’,
- \( WACC_{it} \) is the Weighted Average Cost of Capital of the \( i^{th} \) bank in the year ‘\( t \)’,
- \( Initial\ Capital\ Employed_{it} \) is the Initial total Capital Employed of the \( i^{th} \) bank in the year ‘\( t \)’.

The calculation process adopted to arrive the EVA value in the year ‘\( t \)’ for the \( i^{th} \) bank is explained in the following steps. For the purpose of calculating \( i^{th} \)
bank’s EVA of the \( t^{\text{th}} \) year, first the NOPAT of the bank in the year ‘t’ is calculated. Then WACC of the bank in the year ‘t’ is calculated. Then the total capital employed in the year ‘t’ of the bank is found out. Then using these values the EVA value of the bank in the year ‘t’ has been arrived at using the above stated formula.

**Step 1: Calculating NOPAT**

The first step in calculating EVA is to make adjustments to a bank’s net income in order to arrive its NOPAT. While the term “net” as used in “Net Operating Profit After Taxes” may seem redundant as the word “net” generally means “after tax” in familiar accounting and finance nomenclature, Stern Stewart & Co.’s use of the word “net” refers to adjustments needed to make a company’s after tax net income. Stern Stewart & Co. has identified more than 160 potential adjustments that a company should make to its net income. These relate to things like intangible assets, strategic investments, market promotion outlays, goodwill, timing of expenses and revenue recognition, off-balance sheet financing, bad-debt recognition, inventory valuation, foreign currency translation, depreciation, taxes and non-interest bearing liabilities, non-recurring items etc. However, “most companies require no more than about ten adjustments to produce a sufficiently accurate EVA figure. The general rules for deciding on what adjustments is to be made to a company’s net income include: 1) the materiality of the adjustments, 2) the effect they will have on management’s behavior, 3) how easily they are
understood and 4) the degree to which they will impact the bank’s market value”\(^3\).

Here, the net income is adjusted with non-recurring items, depreciation and provision for taxes. By considering these adjustments NOPAT is calculated as follows in this study. It is expressed by a formula.

\[
\text{NOPAT} = [\text{PBDIT (nnrt)} - (\text{Dep})] * (1 - T)
\]

where,

- \(\text{PBDIT (nnrt)}\) is the Profit Before Depreciation, financial Interest and Taxes net of non-recurring transactions,
- ‘Dep’ is the Depreciation in the year,
- ‘T’ is the Effective Tax Rate which is calculated as Provision for Tax/Profit Before Tax.

The formula is based on two principles. (1) Separate the investments and financing items of a firm. This refers that financing charges like interest and dividends are not considered. (2) All analysis is in the post tax terms. For a banking concern, the interest includes two aspects. One is interest on debt funds and another one interest on deposits from the customers and loans to the customers. Since, the major function of banking concern is the borrowing and lending activities, the interest is divided into financial interest and operating interest. For calculation of NOPAT, the operating interest is to be considered and

financial interest is not considered as financial charges will be reflected in the cost of capital.

After calculating the NOPAT, WACC is computed to find out the value of EVA. The description regarding the calculation of WACC is given as under.

**Step 2: Calculating WACC**

WACC (Weighted Average Cost of Capital) is an expression to specify the overall cost of capital when the firm invests different sources of funds in the capital projects. The various sources of long term funds may include equity, preference share capital and debt finance. Therefore WACC is a combined representative value of cost of equity, cost of presence share capital and cost of debt funds.

The financial structure of the sample banks consists of equity capital and of debt capital only. Therefore, while calculating the weighted average cost of capital, the following formula has been used.

\[
WACC_{it} = Ke_{it} \ast \frac{E_{it}}{V_{it}} + Kd_{it} \ast (1 - T_c) \ast \frac{D_{it}}{V_{it}}
\]

where,

- \( WACC_{it} \) is the weighted average cost of Capital of the \( i^{th} \) bank in the financial year ‘t’,
- \( Ke_{it} \) is the firm's cost of equity of the \( i^{th} \) bank in the financial year ‘t’
- \( Kd_{it} \) is firm's cost of debt of the \( i^{th} \) bank in the financial year ‘t’
- \( V_{it} \) is the Total Capital Employed, that is it the sum of Equity and Debt capital of the \( i^{th} \) bank in the financial year ‘t’,
- $E_{it}$ is the amount of equity financing in the $i^{th}$ bank in the financial year ‘t’,
- $D_{it}$ is the amount of Debt financing in the $i^{th}$ bank in the financial year ‘t’,
- $T_{it}$ is the corporate tax rate for the $i^{th}$ bank in the financial year ‘t’.

In the above formula for calculating the WACC, the cost of each source of capital is to be determined. That is, the Cost of Equity and Cost of Debt finance are to be calculated. The computation procedures of each source of capital are explained in the following sections.

**Cost of Equity (Ke)**

In this study the Security Market Line equation presented in the Capital Asset Pricing Model (CAPM) is used to calculate the cost of equity. Because, in the Security Market Line Equation the equilibrium rate of return from a risky asset is stated as:

$$R_e = R_f + \beta (R_m - R_f)$$

This equation provides the required rate of return from a risky asset which has the ‘$\beta$’ level of market risk. In the equation market the return is ‘$R_m$’ and the risk free assets provide a return of ‘$R_f$’. As this is the required rate of return from an asset this SML equation can be used to calculate the cost of equity. Therefore the cost of equity of $i^{th}$ bank in the $t^{th}$ year is calculated using the Security Market Line equation and is given as:
\[ Ke_{it} = Rf_t + \beta_{it} (Rm_t - Rf_t) \]

where,
- \( Ke_{it} \) is the Cost equity of \( i^{th} \) bank in the year ‘t’,
- \( Rf_t \) is the Risk free rate of return for the year ‘t’,
- \( Rm_t \) is the return from the market for the year ‘t’,
- \( \beta_{it} \) is the Beta value of the \( i^{th} \) bank in the year ‘t’ which represents the market risk of the bank’s equity share.

It can be understood from the above equation, that the Cost of Equity is equal to the sum of risk free rate of return and risk premium which is equivalent to \( \beta (Rm - Rf) \). The risk free rate of return is the rate of return from risk free asset.

In this study, the interest rate provided by State Bank of India (SBI) for one year term deposit accepted on April 1 of a year is taken as the risk free rate of return for that year. The reason for taking SBI’s interest rate is that SBI the largest public sector bank in India and it is the largest bank in terms of branches spread across the country. So the bank can be approached even by rural people in any part of the country. Hence SBI interest rate is taken as the proxy of risk free rate of return.

In the calculation of the cost of Equity (Ke), \( \beta \) is the value to be used in the SML equation. It represents that sensitivity of the returns of a given security with respect to the changes in the market return. Therefore the \( \beta \) value of the \( i^{th} \) bank’s equity share in the year ‘t’ is calculated as:
\[
\beta_{it} = \frac{\text{Cov}(R_{it}, R_{mt})}{\text{Var}(R_{mt})} \times 100
\]

- Where, the term \(\beta_{it}\) denotes the beta of \(i^{th}\) bank’s equity share in the year ‘t’,
- \(\text{Var}(R_{mt})\) represents the Variance of market return in the year ‘t’,
- \(\text{Cov}(R_{it}, R_{mt})\) represents covariance of returns of the \(i^{th}\) bank’s equity share with market portfolio at time ‘t’.

To calculate the beta value of the \(i^{th}\) bank’s equity share, the monthly return from the \(i^{th}\) bank’s equity share and the return from the market have been used. The return from the \(i^{th}\) bank’s equity share of a month in the year ‘t’ is calculated as:

\[
R_{itM} = \frac{P_{itM} - P_{itM-1}}{P_{itM-1}} \times 100
\]

where,
- \(R_{itM}\) is the return of the \(i^{th}\) bank’s equity share in the month ‘M’ of the year ‘t’
- \(P_{itM}\) is the average of daily prices of the \(i^{th}\) bank’s equity share in the month \(M\) of the year ‘t’,
- \(P_{itM-1}\) is the average of daily prices of the \(i^{th}\) bank’s equity share in the month \(m-1\) of the year ‘t’.

After calculating the monthly returns from the individual banks equity share, the monthly returns from the market are calculated. The return from the market is calculated by using BSE – 100 index as the proxy of market price
movement. Percentage of change in the monthly average of BSE – 100 index is taken as the return from the market. The market return for the month ‘M’ of the year ‘t’ is calculated as,

\[ R_{mM} = \left( \frac{I_{tM} - I_{tM-1}}{I_{tM-1}} \right) \times 100 \]

where,
- \( R_{mM} \) is the market return for the month ‘M’ in the year ‘t’,
- \( I_{tM} \) is the average of daily index values of a month ‘M’ in the year ‘t’,
- \( I_{tM-1} \) is the average of daily index values of the month ‘M-1’ in the year ‘t’.

Using these monthly returns calculated for twelve months in the year ‘t’, the beta values of the individual equity share in the year ‘t’ has been calculated. Thus for the recent five years of the study period beta values of the equity shares of the banks have been calculated.

After obtaining the beta value of the \( i^{th} \) bank in the year ‘t’ the annual market return (\( R_m \)) of the year ‘t’ has been calculated. It is the yearly return that has been computed as:

\[ R_m = \left( \frac{X}{\text{(Difference between the average of daily Index values of the first and last month in the financial year)}} \text{ X 100} \right) \text{ (Monthly average of daily Index values of the first month in the financial year)} \]

Another capital source is the debt funds. Its cost calculation procedure is presented in the next section.
**Cost of Debt Funds (Kd)**

The cost of debt fund is an explicit cost. It is the rate of interest expended on the borrowed capital, that is, outsiders’ fund. Therefore, dividing the interest expended on external borrowings by the total debt funds, the cost of debt fund is arrived. But this is called as before tax cost of fund. This can be given as,

\[
Kdb_{it} = \frac{I_{it}}{D_{i(t-1)}} \times 100
\]

where,

- \(Kdb_{it}\) is the cost of debt fund before tax for the \(i^{th}\) bank in the financial year ‘t’.
- \(I_{it}\) is the interest expended by the \(i^{th}\) bank in the financial year ‘t’,
- \(D_{i(t-1)}\) is the total borrowed funds by the \(i^{th}\) bank at the end of the financial year ‘t-1’, that is, debt funds in the beginning of the financial year ‘t’.

While calculating the debt funds at the beginning of a year, all short term and long term external funds have to be taken since all debt funds are interest bearing in nature. Therefore, interest expended on outsider’s fund in the financial year has been taken as the total interest expenses.

However as the interest payments are tax-deductible, that is, cost of debt funds has the tax advantage, while calculating weighted average cost of capital, the after tax cost of debt only need to be considered. So, the cost of debt is calculated by multiplying pre-tax cost of debt with \((1-T_{it})\) where \(T_{it}\) is the tax rate.
applicable for the $i^{th}$ bank in the year ‘t’. This is given in the calculation of WACC as $K_d(1-T_d)$.

**Step 3: Calculating of Total Capital Employed (V)**

The total capital employed is the combination of all sources of capital. Here, the capital sources are equity and debt funds. The summation of both the capital is considered as the total capital employed. In this study the total capital employed in the beginning of the financial year is taken as the capital employed of the financial year. This is followed by researchers in general. “The logic for taking the beginning invested capital for calculating EVA is that a company would at least take a year’s time to earn the return on investment”

In order to make a comparison among the banks’ EVA values the researcher has converted the EVA values as a percentage of capital employed. This would help in comparing the relative efficiency of the banks in the study period.

**1.7.5 Statistical Tools used in the Analysis**

In the present study the researcher has used simple statistical tools like percentage and Arithmetic Mean for describing the factual details of the selected banks. The Arithmetic mean is used to calculate the mean Net Profit, Mean EVA values of the banks in each banking group. While analyzing the growth in the ROA, ROE and PPE the simple percentage has been used. Also to calculate the

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average growth rate of net profit of the banks the arithmetic mean has been used. In order to make a comparison among the banks’ profitability in each selected group the researcher has used one-way ANOVA.

While analyzing the influence of the selected financial variables on the profitability measure ROA the study has used correlation coefficient, R squared and multiple regression technique. In the analysis of testing the significance of the selected independent financial variables’ influence on the profitability measure ROA the Students t-distribution test is used. Thus the study has used percentage, arithmetic mean, One way ANOVA, Karl Pearson’s coefficient of correlation, multiple linear regression and students t- distribution test in the study.

1.8 LIMITATIONS OF THE STUDY

The study covers three groups of commercial banks namely State Bank of India and its associate banks, nationalized banks and private sector commercial banks. In that the banks such as Industrial Development Bank of India which does not fall under the three groups, foreign banks which are mainly having the base in the urban areas have been omitted. However the selected commercial banks covered the business of more than 80 per cent of the industry. Therefore the study can be relied upon to view the general trend in the profitability.

In the selected banking groups namely State Bank of India and its associate banks group, nationalized banks group and private sector commercial banks group for some of the banks the data are not available from the Reserve Bank of India publications for the entire study period hence those banks have been neglected in
the analysis. But they are very minimal in number. Hence the results of the study can be relied upon.

1.9 CHAPTER DESIGN

The thesis is divided into six chapters including the present chapter.

Chapter I, “Introduction and Design of the Study” presents an introduction about the study, need of the study, objectives of the study, hypotheses of the study and the methodology adopted in the study.

Chapter II, “Review of Literature” deals with the important earlier studies carried out in India and foreign lands relating to the present study.

Chapter III titled as “Trend in Profitability of Commercial Banks in India” examines the trend in the Net Profit of the banks. In addition to Net Profit the trend in the profitability of the selected banks, using the three profitability measures such as Return on Assets, Return on Equity and Profit Per Employee also been examined in the chapter. Further a comparison among the banks in each selected group has also been done to find out whether the profitability of the banks in each group exists more or less at the same level or not.

Chapter IV “Economic Value Added Analysis of the Selected Banks” studies whether the selected banks have been added or destroyed their Economic Value during the recent study period. This chapter also analyses whether the EVA values of the banks are differing in each selected group or not.
The Chapter V, titled as “Relationship between Profitability and Selected Financial Variable” analyses the influence of the selected financial variables on the profitability of the banks measured by the ROA of the banks and tested the validity of the stated regression model.

Chapter VI presents the Summary of Findings and provides the concluding remarks of the study.