STUDY ON APPROPRIATION OF PROFITS OF PUBLIC SECTOR BANKS WITH SPECIAL REFERENCE TO CANARA BANK

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ABSTRACT

Public sector banks play a pivotal role in the financial stability and economic development of a nation. The appropriation of profits in these banks is crucial for their sustainability, growth, and ability to support public welfare. This abstract examines the appropriation of profits in public sector banks, with a specific focus on canara bank, one of india's leading public sector banks.

Canara bank, like other public sector banks, generates profits through various financial services, including lending, investments, and fee-based services. These profits are subject to appropriation in different ways to ensure the bank's ongoing operations, compliance with regulatory requirements, shareholder value, and social obligations.

The key aspects of profit appropriation in canara bank are as follows:

Reserves and surplus:

A significant portion of profits is allocated to reserves and surplus, providing a buffer for contingencies and ensuring compliance with regulatory capital requirements. This allocation enhances the bank's financial strength and risk management capabilities.

Dividend distribution:

As a public sector bank, canara bank is obligated to distribute dividends to its shareholders, including the government of india. The distribution of dividends is a critical component of profit appropriation, reflecting the bank's commitment to returning value to its stakeholders.

Provisions for non-performing assets (npas):

Given the risk associated with lending activities, canara bank sets aside a portion of its profits for provisions against non-performing assets. This prudent approach ensures that the bank can absorb potential losses arising from defaulted loans, thereby maintaining financial stability.

Investments in infrastructure and technology:

To remain competitive and meet customer expectations, canara bank invests a portion of its profits in technology, infrastructure, and human capital. These investments contribute to operational efficiency and improved customer experiences.

Corporate social responsibility (csr):

Public sector banks are mandated to allocate a certain percentage of their profits to corporate social responsibility activities. Canara bank's csr initiatives focus on education, healthcare, rural development, and environmental sustainability, contributing to the broader societal good.

Employee welfare and benefits:

A share of profits is used to provide employee benefits, such as bonuses, healthcare, and pension schemes. This allocation supports employee morale and retention, contributing to the bank's overall productivity.

In summary, the appropriation of profits in public sector banks like canara bank involves a multifaceted approach, balancing financial stability, shareholder value, regulatory compliance, and social responsibility. Understanding these dynamics is essential for analyzing the bank's financial health and its role in contributing to economic development and societal welfare.

INTRODUCTION

Public sector banks (psbs) are foundational to a nation's economy, providing a range of financial services that support businesses, individuals, and government operations. One key aspect of managing these institutions is the appropriation of profits, which determines how the surplus generated by the bank's operations is allocated among various stakeholders and for specific purposes. This introduction explores the concept of profit appropriation within psbs, with a focus on canara bank, a major public sector bank in india.

Understanding public sector banks

Public sector banks are owned and operated by the government, with the primary objective of serving the public interest. They differ from private banks in that their operations often align with broader government policies and objectives, such as promoting financial inclusion, supporting priority sectors, and fostering economic growth. Because of their public ownership, the way they allocate profits can impact a wide range of stakeholders, from individual shareholders to the government itself.

What is profit appropriation?

Profit appropriation refers to the process of allocating the profits earned by a bank to various accounts and uses. This can include reserving a portion for future contingencies, distributing dividends to shareholders, funding corporate social responsibility (csr) initiatives, reinvesting in the bank's infrastructure, and more. The way these profits are appropriated can significantly influence a bank's financial stability, growth potential, and public perception.

NEED FOR THE STUDY

Profit appropriation is crucial for public sector banks because it balances the financial health of the bank with its broader public responsibilities. For canara bank, this process determines how the bank can grow, adapt to changing market conditions, and contribute to the public good. It also impacts the bank's relationship with its stakeholders, including the government, shareholders, employees, and customers.

This introduction sets the stage for a deeper exploration of how canara bank and other public sector banks manage their profits and what implications this has for their operations and broader societal goals.

RESEARCH APPROACH AND DESIGN

Research means search for knowledge. It aims at discovering the truth. It is an essential and powerful tool in leading men towards progress. It is an original contribution to the existing stock of knowledge. It is undertaken to discover answers to questions by applying scientific method. It is the search for knowledge through objective and systematic method of finding solution to problems. Therefore research is a process of systematic and in depth study of search of any particular topic, subject or area of investigation backed by collection, computation, presentation and interpretation of relevant data. For any research assignment, a proper planning is required and the same holds true in case of present study.

Research methodology is a way to systematically solve the research problem. It may be understood as a science of studying how research is done scientifically. In it we study the various steps that are generally adopted by a researcher in studying his/her research problem along with the logic behind them. It is necessary for the researcher to know not only the research methods/techniques but also the methodology. Researchers not only need to know how to develop certain indices or tests, how to calculate the correlation, ratios, trend indices how to apply particular research techniques, but they also need to know which of these methods or techniques, are relevant and which are not, and what would they mean and indicate and why.

Researchers also need to understand the assumptions underlying various techniques and they need to know the criteria by which they can decide that certain techniques and procedures will be applicable to certain problems and others will not. All this means that it is necessary for the researcher to design his methodology for his problem as the same may differ from problem to problem. For example, an architect, who designs a building, has to consciously evaluate the basis of his decisions, i.e., he has to evaluate why and on what basis he selects particular size, number and location of doors, windows and ventilators, uses particular materials and not others and the like. Similarly, in research the scientist has to expose the research decisions to evaluation before they are implemented. He/she has to specify very clearly and precisely what decisions he/she selects and why he/she selects them so that they can be evaluated by others also. The methodology used in the study involves the collection of secondary data.

Research design

A research design is a plan that specifies the source and type of information relevant to the research problem. It is a strategy specifying which approach will be used for gathering and analysing data.

Sources of online data

As soon as a researcher defines a research problem and checks out research design, he starts collecting data. Researcher can collect his required information from the two sources namely primary and secondary. Thus he is provided with two types of data known as primary and secondary data.

When the researcher himself is trying to collect the data for his particular purpose from the sources available, it becomes primary data. Secondary data are those which have been collected by some other person for his purpose and then published. For example: when the agriculture department collects data for the study of yield obtained in respect of various agricultural products in a locality, it is primary data for them. When they publish such data in their journals and if a researcher makes use of that information for his purpose, he can be said to be using secondary data.

LIMITATIONS OF THE STUDY

The findings of this study are limited from the following aspects:

- ➤   this study investigated only for five year period
- ➤ Data mismatch in some records due to data entry errors
- ➤   unavailability of full-fledged data from the firm

REVIEW OF LITERATURE

Syed tahir hijazi and yasir bin tariq (2006) made an attempt to determine the capital structure of listed firms in the cement industry of pakistan. The study finds that a specific industry's capital structure exhibits unique attributes which are usually not apparent in the combined analysis of many sectors as done by shah and hijazi (2005). The study took 16 out of 22 firms in the cement sector listed at the karachi stock exchange for the period 1997-2001 and analyzed the data by using pooled regression in a panel data analysis. Among the four independent variables i.e. Firm size (measured by natural log of sales), tangibility of assets, profitability and growth, the firm size is found to be highly significant.

Huang and song (2006) studied the determinants of capital structure of chinese companies for the periods of 1995 to 2004. They have applied regression analysis to study the relationship between leverage and profitability. They found that there was a negative correlation between leverage and profitability of chinese listed companies during the study period.

Martin hovey (2007) studied liquidity, profitability and ownership structure of listed firms in china. Regression analysis was used to find the relationship between the variables like liquidity, profitability and ownership structure during the periods 1997 to 2005. The study concluded that leverage has a significant relationship with profitability.

Joshua abor (2007) investigated the relationship between capital structure and profitability of listed firms on the ghana stock exchange (gse). The results revealed a significantly positive relationship between the ratio of short-term debt to total assets and roe. However a negative relationship between the ratio of long-term debt to total assets and roe was found .with regard to the relationship between total debt and return rates, the results

showed a significantly positive association between the ratio of total assets and return on equity. Further, profitability, collateral value of assets, growth, size, tax rate and uniqueness do not have significant co-efficient and therefore, are not the significant determinants of the capital structure of companies. The co- efficient of the variables, debt service capacity, non-debt tax shield, and liquidity and business risk are significant and therefore, these variables are the important determinants of the capital structure of pharmaceutical companies in india.

   Attaullah shah and safiullah khan (2007) made an attempt to find the determinants of capital structure of kse listed non-financial firms for the period 1994-2001. Pooled regression analysis was applied with the assumption that there is no industry or time effect. They used six explanatory variables to measure their effect on leverage ratio. Three of the variables were significantly related to leverage ratio whereas the remaining three variables were not statistically significant in having relationship with the debt ratio. The results approved the prediction of trade-off theory in case of tangibility variable whereas the earning volatility and depreciation variables fail to confirm to trade-off theory. The growth variable confirms the agency theory hypothesis whereas profitability approves the predictions of pecking order theory. Size variable neither confirms to the prediction of trade-off theory or asymmetry of information theory.

Yanmin qian (2007) examined the determinants of the capital structure. They used static panel data models for the analysis of the firms' capital structure with both unobserved cross-sectional and time effects as well as industry effects. The results showed that in the publicly listed chinese firms the adjustment process was very slow. It is also found that firm size, tangibility and ownership structure are positively associated with firm's leverage ratio, while profitability, non- debt tax shields, growth and volatility are negatively related to firm's leverage ratio. Lastly, they found that lagged profitability has a negligibly small and positive impact on firm's leverage ratio.

Boopen seetanal, kesseven padachi and rishi ronoowah (2007) made an attempt to investigate the determinants of capital structure for the small island developing state of mauritius, using firms listed on the stock exchange of mauritius over the years 1994-2004. The results of the study revealed that certain firm- specific factors which explain capital structure in developed countries, are also relevant to a small island economy like mauritius. The analysis showed that most important firm-specific factors that influence capital structure choice are profitability, size, tangibility and liquidity. Other factors like business risk, non-debt tax shield effects and growth opportunities do not seem to affect the capital structure decision of corporate firms. The result also showed that, there was an inverse relationship between pre-tax weighted average cost of capital and the capital structure of a firm. In case of cost of capital the irrelevancy theorem of modigliani and miller does not seem to hold good For indian industries.

Christina (2008) conducted a research to determine the nature of capital structure across non- finance industries in indonesia, whether they prefer to use debt or equity as their source of financing. He findings of the study confirm that, first of all capital structure varies across industries. Each industry would have different decisions regarding its optimal capital structure depends on several factors. This leads to the second findings in which it proves that there is negative significant relationship between profitability and leverage, positive significant relationship between company's size and leverage and negative relationship between dividend payout and

leverage. Finally, this research also verified that there was no relationship between leverage and company's growth of share price, which means that the growth of share price was not influenced by the company's capital structure decision.

Gunasekaran (2008) in his article studied the major factors influencing the capital structure of indian industries. He found that collateral value of assets and liquid assets in aluminum industry; corporate size, liquid assets and business risk in automobile industry; growth rate and liquid assets in cement industry; profitability and trading on equity in chemical industry; business risk and debt service capacity

In electronics industry; trading on equity in engineering industry; trading on equity, asset structure and corporate size in it industry; collateral value of assets in leather industry; liquid assets and asset structure in paper industry have affected the capital structure. The collateral value of assets has maximum influence on the capital structure among the public sector companies and asset structure has similar influence on capital structure among the private sector companies.

Ayesha mazhar and mohamed nasr (2008) discussed the determinants of capital structure of pakistani firms. They have selected a sample from pakistani companies registered on islamabad stock exchange. They divided the samples into two sub-samples of private and government owned companies to make companies between both sectors. The sample comprise of 91 pakistani companies out of which 80 companies are private and 11 are government owned covering the period of 1999-2006. Tangibility, size, growth rate, tax provision, return on assets and profitability are used as independent variables, while leverage is the dependent variable. The results imply that government owned companies employed more leverage than private companies.

Yuanxin liu and jing ren (2009) identified the determinants of corporate financial structure for the it industry in china which is a promising service industry but is facing challenges and risk in the global

Financial turmoil. They analyzed the determinants of the capital structure for a panel of 92 it companies listed in the china stock exchange. Six traditional explanatory variables were adopted in the study including size, profitability, tangibility, liquidity, growth rate and growth opportunity. It was found that the size of companies is positively related to leverage, while growth, profitability, liquidity, profit growth rate and opportunity are negatively associated with leverage. The sign of these relations suggest that both the pecking order theory and trade-off hypothesis are at worth in explaining the capital structure of it companies in china.

Shilpa peswani (2011) compared high and low leveraged fmcg companies in india. The study found that there was substantial difference in the capital structure of bil and marico. The difference was due to the source of financing of these two companies for their expansion project. Bil has low degree of leverage and mil has comparatively higher degree of leverage. Though profitability of the company is not entirely dependent on the sources of financing but the return to equity holders vary according to the sources of capital funding adopted by the company.

DATA ANALYSIS AND INTERPRETATION

The data collection and analysis are as followed-

Table 1 Gross NPA of Selected Public Sector Banks for the year 2018-19 to 2022-23

Banks/ Year	GROSS NPA					Mean	Rank
	2018-19	2019-20	2020-21	2021-22	2022-23		
SBI BANK	8	6	5	4	3	5.2	4
CANARA BANK	9	8	9	8	5	7.8	3
PUNJAB NATIONAL BANK	11.78	11.27	10.48	9.76	8.74	10.4	2
BANK OF INDIA	16	15	14	10	7	12.4	1

Source: Annual Reports and website of selected Public Sector Banks.

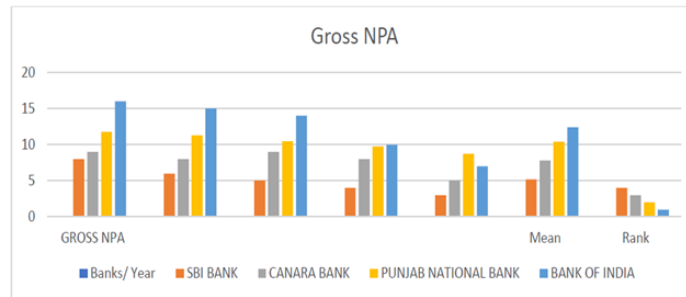Source: Annual Reports and website of selected Public Sector Banks.

FIGURE 1
**GROSS NPA OF SELECTED PUBLIC SECTOR BANKS FOR THE YEAR 2018-19
TO 2022-23**

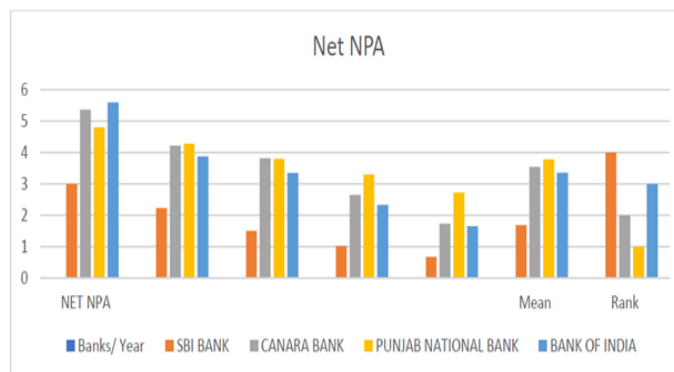**Figure 1** Gross NPA of Selected Public Sector Banks for the year 2018-19 to 2022-23

FIGURE 2
NET NPA OF SELECTED PUBLIC SECTOR BANKS

Figure 2 Net NPA of Selected Public Sector Banks for the year 2018-19 to 2022-23
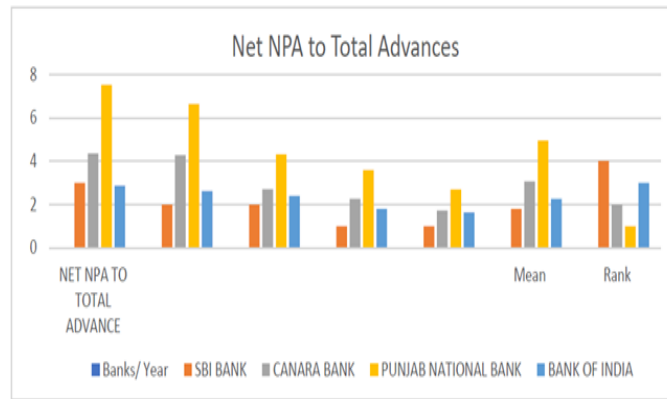
FIGURE 3
NET NPA TO TOTAL ADVANCES OF SELECTED PUBLIC SECTOR BANKS
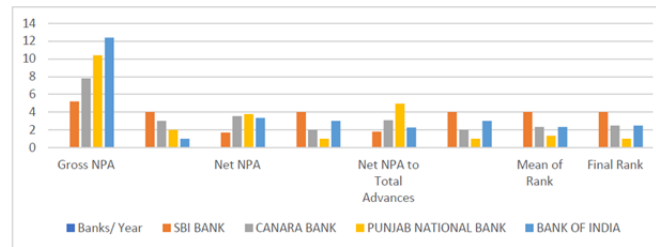**FOR THE YEAR 2018-19 TO 2022-23**

Figure 3 Net NPA to Total Advances of Selected Public Sector Banks for the year 2018-19 to 2022-23

FIGURE 4
COMPOSITE RANKING OF SELECTED PUBLIC SECTOR BANKS ON THE
BASIS OF SELECTED RATIOS
**FOR THE YEAR 2018-19 TO 2022-23**
Figure 4 Composite Ranking of Selected Public Sector Banks on the Basis of Selected Ratios for the year 2018-19 to 2022-23

Interpretation

The above **table 1** exhibits the gross npa of public sector banks. As per the figure shown in the table the average of selected banks is sbi bank 5.2, canara bank 7.8, punjab national bank 10.4 and bank of india 12.4. Rank has allotted on the basis of their mean i.e., sbi bank on 4th, canara bank 3rd, punjab national bank 2nd and bank of india is on 1st rank **figures 1-4**. Public sector banks continued their impressive performance in the september quarter. This was primarily due to an increase in the net interest income, significant growth in advances, expanded net interest margins, and a decrease in provisions.

Bank Name	Q2FY24 net profit (₹in Crores)	YoY Growth
Punjab National Bank	1,756	327%
Central Bank of India	605	90.25%
Union Bank of India	3,511	90%
Bank of Maharashtra	920	72%
Indian Bank	1,988	62.20%
Bank of India	1,458	52%
Canara Bank	3,606	43%
Bank of Baroda	4,253	28.37%
Indian Overseas Bank	625	24.75%
State Bank of India	14,330	8.02%
Total	33,643	
Source: Bank's earnings report		
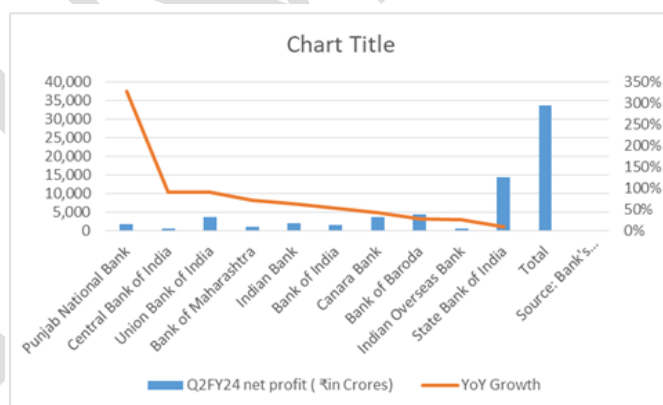
Interpretation

Rising profitability: the overall yoy growth trend across these public sector banks is positive, indicating improved profitability. This could be attributed to better asset quality, increased lending, reduction in bad loans, or other efficiency measures.

Differentiated performance: while some banks exhibit exceptional yoy growth (like pnb), others, like sbi, have lower growth rates despite high absolute profits. This suggests that different banks may have varying strategies or challenges.

Implications: the strong growth rates for most banks could indicate a recovering economy or effective reforms in the banking sector. Lower yoy growth rates may point to challenges or stabilization after a period of significant growth.

FINDINGS, SUGGESTIONS AND CONCLUSION

FINDINGS

Income

- Interest earned showed a consistent upward trend, indicating growth in interest-related activities. In 2019, it was 46,810.34, which increased to 48,934.99 in 2020, 69,239.78 in 2021, 69,410.24 in 2022, and 84,424.78 in 2023.
- Other income also followed a similar pattern, showing an upward trend from 6,942.85 in 2018 to 18,762.20 in 2023.
- Total income also showed a steady increase, growing from 48,194.94 in 2018 to 103,186.98 in 2023.

Expenses

- Interest expended increased from 29,088.76 in 2018 to 52,989.49 in 2023, indicating higher borrowing costs.
- Employee cost increased significantly, suggesting growth in the workforce or salary increases.
- Selling, admin & misc expenses also showed an upward trend, indicating rising operational costs.
- Provisions & contingencies saw an overall increase, indicating more funds set aside for potential risks or losses.
- Total expenses showed a steady rise from 50,078.57 in 2018 to 106,126.24 in 2023.

SUGGESTIONS

- Expense management: given the steady increase in expenses, especially in interest expended and employee cost, efforts should focus on cost-control measures to improve profitability.
- Income diversification: although other income increased, finding new revenue streams could further strengthen the financial position.
- Provisions and contingencies: continued focus on building reserves and managing risks could help maintain financial stability.

CONCLUSIONS

The overall trend from 2018 to 2023 indicates a steady increase in income and a more pronounced increase in expenses, leading to deeper losses. However, there are signs of improvement, with a significant reduction in net profit for the year, an increase in book value, and a growing balance carried forward to the balance sheet. To build on this progress, the focus should be on effective expense management and diversifying income sources. Further efforts to reduce borrowing costs and optimize operational expenses could lead to improved

profitability. Additionally, the positive trend in statutory reserves and dividends suggests that the organization is making strides toward financial stability and shareholder value.

The data suggests an encouraging trend for public sector banks, with most experiencing considerable yoy growth in net profits. These trends can be useful for investors, stakeholders, and policymakers to understand the financial health and dynamics of india's public sector banking industry.

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