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PERFORMANCE EVALUATION OF BANK OF BARODA AND ITS ASSOCIATES IN INDIA

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Abstract

Bank of Baroda is one of the most prominent banks in India, having its total assets as Rs. 1,43,146 Crores as on 31st of March 2007. The bank was founded by Maharaja Sayajirao Gaekwad III (also known as Shrimant Gopalrao Gaekwad), the then Maharaja of Baroda on 20th of July 1908 with a paid capital of Rs. 10 Lacs. It is a small building of Baroda, the bank has come a long way to achieve its current position as one of the most important banks in India. On 19th of July 1969, Bank of Baroda was nationalized by the Government of India along with 13 other commercial banks. The bank offers a wide array of customized and specialized services to meet the diverse needs of its customers, and these services have been categorized into Personal Banking, Business Banking, Corporate Banking, International Banking, Treasury Banking and Rural Banking services

Keywords: *Banking, Deposits, Interest, Assets*

INTRODUCTION

A financial institution that is licensed to deal with money and its substitutes by accepting time and demand deposits, making loans, investing in securities. The bank generates profits from the difference in the interest rates charged and paid. A bank is a financial institution licensed by a government. Its primary activities include borrowing and lending money. Many other financial activities were allowed over time. For example, banks are important players in financial markets and offer financial services such as investment funds. In some countries such as Germany, banks have historically owned major stakes in industrial corporations while in other countries such as the United States banks are prohibited from owning non-financial companies. In Japan, banks are usually the nexus of a cross-share holding entity known as the zaibatsu. In France, banc assurance is prevalent, as most banks offer insurance services (and now real estate services) to their clients.

COMPANY PROFILE

Bank of Baroda (BoB), a state-owned company that provides banking and financial services to individuals, business, and corporate customers in India and internationally. The company offers fixed, current, and savings deposits; and home loans, mortgage loans, advance against securities, education loans, auto loans, term finance, small scale industries and SME loans, traders loans, working capital, export and import finance, bill finance, bridge loans, project finance, and infrastructure finance. It has been a long and eventful journey of

almost a century across 25 Countries. Starting in 1908 from a small building in Baroda to its new hi-rise and hi-tech Baroda Corporate Centre in Mumbai, is a saga of vision, enterprise, financial prudence and corporate governance.

OPERATIONS

Bank of Baroda, one of the major public sector banks in India having a strong global presence with a wide network of 101 overseas offices, including those of subsidiaries, spread over 24 countries, is considered as a market leader in foreign exchange operations in India.

DOMESTIC PRESENCE

Bank of Baroda has set up dedicated desks at the SITB, headed by experienced professionals, for undertaking various types of treasury activities in different financial markets. Apart from activities pertaining to management of funds and liquidity, the domestic treasury also handles financial instruments like:

- Commercial Papers (CP)
- Certificate of Deposits (CD)
- Government Securities
- Treasury Bills (TB)
- Bonds and Debentures
- Equities and various other derivatives.

The products and services offered by SITB cater to the inter-bank market as well as to the Corporate customers of the bank. The Bank is an active participant both in the inter-bank market and the corporates for all the products.

Names of Subsidiaries	Country of Incorporation	Proportion of Ownership
Banking:		
The Nainital Bank Ltd	India	98.39%
Non Banking:		
BOB Asset Management Co. Ltd.	India	100.00%
BOB Capital Market Ltd.	India	100.00%
BOB Cards Ltd.	India	100.00%

INTERNATIONAL PRESENCE

The forex dealing desk at the SITB is provided with all modern communication facilities, all its authorized branches via Reuters Automated Dealing System, to provide on-line quotes for foreign exchange transactions.

Through its large network of authorized branches, the bank caters to the foreign exchange needs of its clientele engaged in export and import trade and the SITB provides rates for conversion of all major world currencies like U S Dollar(\$), Sterling Pounds($\text{i}_i^{\frac{1}{2}}$), Euro($\text{i}_i^{\frac{1}{2}}$), Swiss Francs(CHF), Japanese Yen($\text{i}_i^{\frac{1}{2}}$) and other exotic currencies. The services to the customers of the Bank include hedging of foreign currency risks by providing forward covers and various derivatives product.

Since most of its overseas branches are strategically situated at places where sizeable Non-resident Indians are residing, the Bank is in a position to deliver its products promptly and efficiently to its NRI customers. The range of products include remittance facilities and acceptance of deposits in Indian Rupees (NRE / NRO) as well as in designated foreign currencies (FCNR). Resident as well as Returning Indians can avail of benefits like Resident Foreign Currency Accounts (RFC).

- Bank of Baroda (Botswana) Ltd.
- Bank of Baroda (Kenya) Ltd.
- Bank of Baroda (Uganda) Ltd.
- Bank of Baroda (hong Kong) Ltd.
- Bank of Baroda (Guyana) Inc.
- Bank of Baroda (Tanzania) Ltd
- Bank of Baroda Trinidad & Tobago ltd.
- Bank of Baroda (Ghana) Ltd.

ASSOCIATE BANKS

The financial statements of the subsidiaries and associates have been drawn upto the same reporting date as that of the Parent i.e. 31st March 2008 except for Bank of Baroda (uganda) Ltd., Bank of Baroda (Kenya) Ltd. and Bank of Baroda (Tanzania) Ltd., which have been drawn upto 31st December 2007. There are no significant transactions or other events during 1st January 2008 to 31st March 2008 requiring adjustment therein. CFS for the year 2007-08 includes audited accounts of Baroda Capital Markets (uganda) Ltd, a wholly owned subsidiary of Bank of Baroda (uganda) Ltd, which is subsidiary of parent.

CFS for the year 2007-08 of the parent also includes figures of unaudited CFS of an associate, UTI Asset Management Company Private Ltd, which includes the accounts of two of its subsidiaries namely UTI Venture Funds Management Company Pvt Ltd and UTI International Ltd.

Investment, Goodwill and resultant profit / loss from Associates viz. uTI Asset Management Co. Ltd., UTI Trustee Co. Pvt. Ltd., have been accounted on the basis of unaudited financial statements as of 31st March 2008. The management does not expect any material change in the same.

Further, the said Associates policies on Fixed Assets and Provision of Depreciation, amortizations of Software is different from Parent. Impact of the same is not given in the Consolidated Financial Statement, as the same is not ascertainable.

The accounts of the following domestic subsidiaries for the year ended 31.3.2008 are subject to the comments of Comptroller & Auditor General of India under Section 619(4) of the Companies Act, 1956:

1. BOB Asset Management Co. Ltd.
2. BOB Capital Markets Ltd.
3. BOB Cards Ltd.

During the current financial year, Parent has revalued its 218 Domestic immovable properties. The amount of appreciation on such revaluation is Rs. 1377.74 crores which is shown as an addition to Fixed Assets and credited to Revaluation Reserve Account under Capital Reserves as part of Reserves and Surplus.

During the year, the Parent has annulled the forfeiture of 400 equity shares (previous year 500 equity shares).

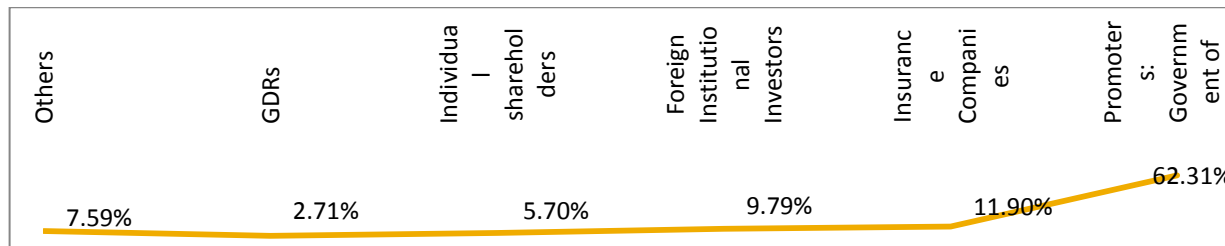
During the year, Tier II Bonds amounting to Rs. 2703.62 crores have been raised, including Rs.1203.62 crores (USD 300 million) issued by way of Medium Term Notes, by the Parent. Certain properties (premises) of the Parent are stated at revalued amounts. The gross amount of the revaluation included in premises as at the year-end is Rs. 1765.99 crores (Previous Year Rs.388.25 crores) and net of depreciation the revaluation amounts to Rs. 1519.09 crores (Previous year Rs. 213.86 crores).

The Parent (Bank of Baroda) has commenced operations at hongkong w.e.f. 1st April 2007 by taking over the business of subsidiary, Bank of Baroda (hongkong) Ltd. The subsidiary company will be wound up in course. Considering this, accounts of the subsidiary, consolidated herein, has been compiled on going concern basis.

Name	Parent's ownership Interest (%)
Indo Zambia Bank Limited	20%
UTI Asset Management Company Ltd.	25%
UTI Trustee Company Pvt Ltd.	25%
Regional Rural Banks	
Baroda uttar Pradesh Gramin Bank	35%
Nainital Almora Kshetriya Gramin Bank	35%
Baroda Rajasthan Gramin Bank	35%
BBaroda Gujarat Gramin Bank	35%
Jhabua-Dhar Kshetriya Gramin Bank	35%

LISTINGS AND SHAREHOLDING

As on 30 June 2013, Government of India held around 62% equity shares in BoB. Over 800,000 individual shareholders hold approx. 5.7% of its shares. Life Insurance Corporation of India is the largest non-promoter shareholder in the company with 10.9% shareholding.



The equity shares of BoB are listed on the Bombay Stock Exchange, where it is a constituent of the BSE SENSEX index, and the National Stock Exchange of India, where it is a constituent of the S&P CNX Nifty. Its Global Depository Receipts (GDRs) are listed on the London Stock Exchange.

OBJECTIVES OF THE STUDY

1. To analyze the financial performance of Bank of Baroda and Its Associates.

Scope of the Study

The scope of the present paper is confined to all the banks of Bank of Baroda group for a data period from 2008-13, i.e., application of financial deregulation measures to 2012-2013. The paper includes the analysis of financial performance of Bank of Baroda and its associates.

RESEARCH METHODOLOGY

The study is based upon secondary data covering the period from 2008-2013. The study is related to Bank of Baroda and its associates. The proposed study will aim at examining the performance of Bank of Baroda in India. The data on the variables selected like Business per employee, Profit Per employee, Net Interest Margin, Cost of funds, Return on advance, Wages to total expenses, Return on equity, Return on assets, CRAR and Net NPA Ratio. for analysis from RBI website www.rbi.org.in and website of Indian Banker Association www.iba.org.in.

Ratio analysis is a technique used for evaluating the financial performance of an organization. There are number of ratios for measuring the performance of banks but in the present study the most popular ratios have been used. We have computed Net Interest Margin, CRAR, Return on Equity, Return on Assets, and NPA Ratio.

ANALYSIS AND INTERPRETATION:

Return on Asset

An indicator of how profitable a company is relative to its total assets. ROA gives an idea as to how efficient management is at using its assets to generate earnings. Calculated by dividing a company's annual earnings by its total assets, ROA is displayed as a percentage. Sometimes this is referred to as "return on investment".

The formula for return on assets is:

$$= \frac{\text{Net Income}}{\text{Total Assets}}$$

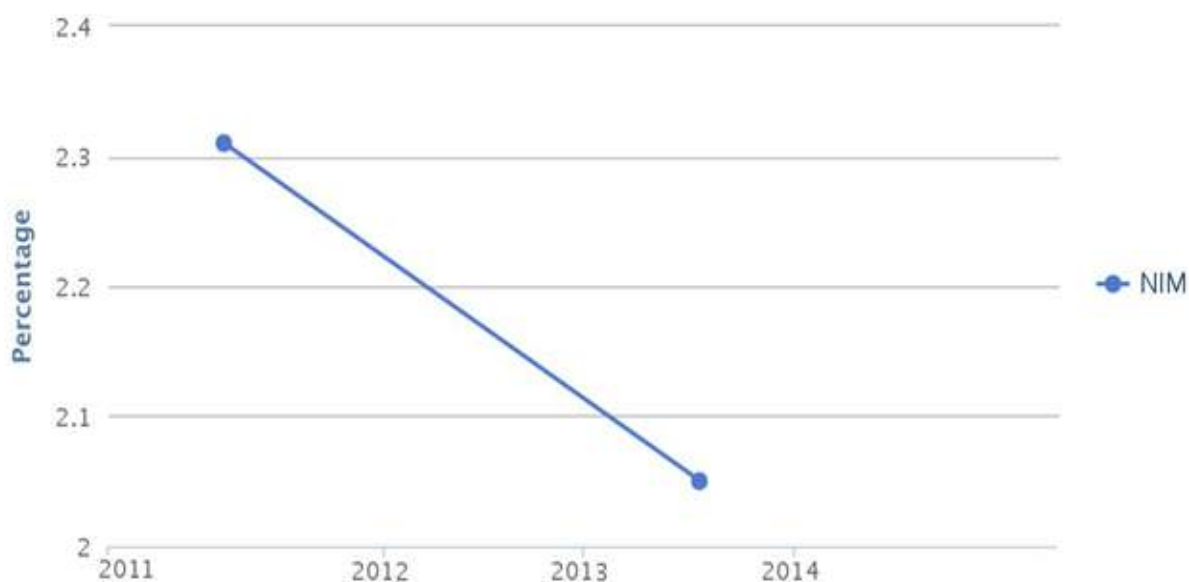
Note: Some investors add interest expense back into net income when performing this calculation because they'd like to use operating returns before cost of borrowing

A performance metric that examines how successful a firm's investment decisions are compared to its debt situations. A negative value denotes that the firm did not make an optimal decision, because interest expenses were greater than the amount of returns generated by investments.

$$\text{Net Interest Margin} = \frac{(\text{Investment Returns} - \text{Interest Expenses})}{\text{Average Earning Assets}} \quad \text{Rs in Crore}$$

Particulars	FY13	FY12
Return on Average Assets (ROAA) (%)	0.75	0.90
Average Cost of Funds (%)	5.37	5.75
Average Yield (%)	7.68	8.29
Average Interest Earning Assets (Rs crore)	5,07,082.68	4,24,761.33
Average Interest Bearing Liabilities (Rs crore)	5,02,176.05	4,15,246.10
Net Interest Margin (%)	2.36	2.66
Cost-Income Ratio (%)	43.44	39.79
Book Value per Share (Rs)	813.50	729.11
EPS (Rs)	107.38	108.84

Net Interest Margin



The most important ratio when it comes to banks and financial companies is the is Net Interest Margin. It is the difference between the interest income generated and the amount of interest paid out to their lenders (deposits), divided by total assets.

It is similar to the gross margin of non-financial companies. An ideal financial company should have NIM above 3%

$$\text{Net Interest Margin} = (\text{Interest Earned} - \text{Interest Expended}) / \text{Total Assets}$$

RETURN ON TOTAL EQUITY

The amount of net income returned as a percentage of shareholders equity. Return on equity measures a corporation's profitability by revealing how much profit a company generates with the money shareholders have invested. ROE is expressed as a percentage and calculated as:

$$\text{RETURN ON EQUITY} = \text{NET INCOME} / \text{SHAREHOLDER'S EQUITY}$$

Net income is for the full fiscal year (before dividends paid to common stock holders but after dividends to preferred stock.) Shareholder's equity does not include preferred shares also known as "return on net worth" (RONW).

Rs in Crore

Results Consolidated	2009	2010	2011	2012	2013
High	1,007	899	759	225	216
Low	630	606	430	156	109
Income per share (Unadj.)	741.6	865.1	942.3	201.9	197.6
Earnings per share (Unadj.)	127.7	114.0	116.5	17.6	-21.9
Diluted earnings per share	23.7	21.7	22.6	17.7	-22.9
Cash flow per share (Unadj.)	211.3	156.4	205.7	42.4	-52.8

NET NPA RATIO:

A classification used by financial institutions that refer to loans that are in jeopardy of default. Once the borrower has failed to make interest or principal payments for 90 days the loan is considered to be a non-performing asset also known as "non-performing loan".

Rs in Crore

Net NPA Ratio of Bank of Baroda and its Associates					
Year	Bank Of Baroda			Group Aggregates	All Bank Aggregates
	Gujarat	Tamil Nadu	Maharashtra		
2008-2009	1.79	0.85	0.42	1.47	1.05
2009-2010	1.72	0.78	3.55	1.5	1.12
2010-2011	1.63	0.83	9.88	1.49	0.97
2011-2012	1.82	1.92	5.2	1.76	1.28
2012-2013	2.1	2.27	12.67	2.04	1.68

CRAR

A measure of a bank's capital. It is expressed as a percentage of a bank's risk weighted credit exposures.

$$CAR = \frac{\text{Tier One Capital} + \text{Tier Two Capital}}{\text{Risk Weighted Assets}}$$

Also known as "Capital to Risk Weighted Assets Ratio (CRAR)."

Rs in Crore

CRAR of Bank of Baroda and its Associates					
Year	Bank Of Baroda			Group Aggregates	All Bank Aggregates
	Gujarat	Tamil Nadu	Maharashtra		
2008-2009	14.25	14.52	11.53	13.96	13.97
2009-2010	13.39	13.3	14.9	13.46	14.54
2010-2011	11.98	11.68	14.25	12.25	14.19
2011-2012	13.86	13.76	13.56	13.7	14.24
2012-2013	12.92	12.16	12.36	12.67	13.88

CONCLUSION

- I learned about the total business (Deposit+Advances) increased to Rs 9,65,900 crore reflecting a growth of 20.43% (y-o-y).
- I learned about the gross Profit and net Profit were Rs 9,291 crore and Rs 4,541 crore respectively. Net Profit registered a growth of 1.35% over the previous year.
- I learned about the credit deposit ratio stood at 86.15% as against 82.03% last year.
- I learned about the retail credit posted a growth of 20.96% constituting 16.6% of your Bank's Gross Domestic Credit in FY13.
- I learned about the MSME credit posted a growth of 21.21% constituting 20.3% of your Bank's Gross Domestic Credit in FY13.
- I learned about the Net Interest Margin (NIM) as per cent of interest earning assets in global operations was at the level of 2.36% and in domestic operations at 2.87% during FY13.

- I learned about the net NPAs to net advances stood at 1.52% this year against 1.28% last year.
- I learned about the Capital Adequacy Ratio (CAR) as per Basel II stood at 12.87%.
- I learned about the net worth improved to Rs 34,933 crore registering a rise of 13.7%.
- I learned about the book value improved from Rs 729.11 to Rs 813.50 on year.
- I learned about the business per employee moved up from Rs 1,689 lakh to Rs1,865 lakh on year.

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