

CHAPTER IV

PROFIT MARGIN

The average degree of Asset Utilisation, as indicated by the analysis based on the AUI model, has increased over a period of ten years i.e. during 1972-82 in the case of the nationalised banks in India. Still, we find from that the profitability of these banks has declined during the period. This calls for an analysis of the expenditure aspect of banks' operations, for the simple reason that inspite of an increase in the earnings, if the profits have declined in relation to total working funds, it must be on account of a more than proportionate increase in the expenditure side. We have, therefore, preferred to examine this problem of declining bank profitability through an analysis of the 'profit margin' in the operations of these banks and have based our approach on the logic that 'a decline in the profit margin results a simultaneous decline in the profitability'. Accordingly, a Profit Margin (PM) identity has been developed and used to analyse the behaviour of PM in the case of nationalised banks during the period covered by the study.

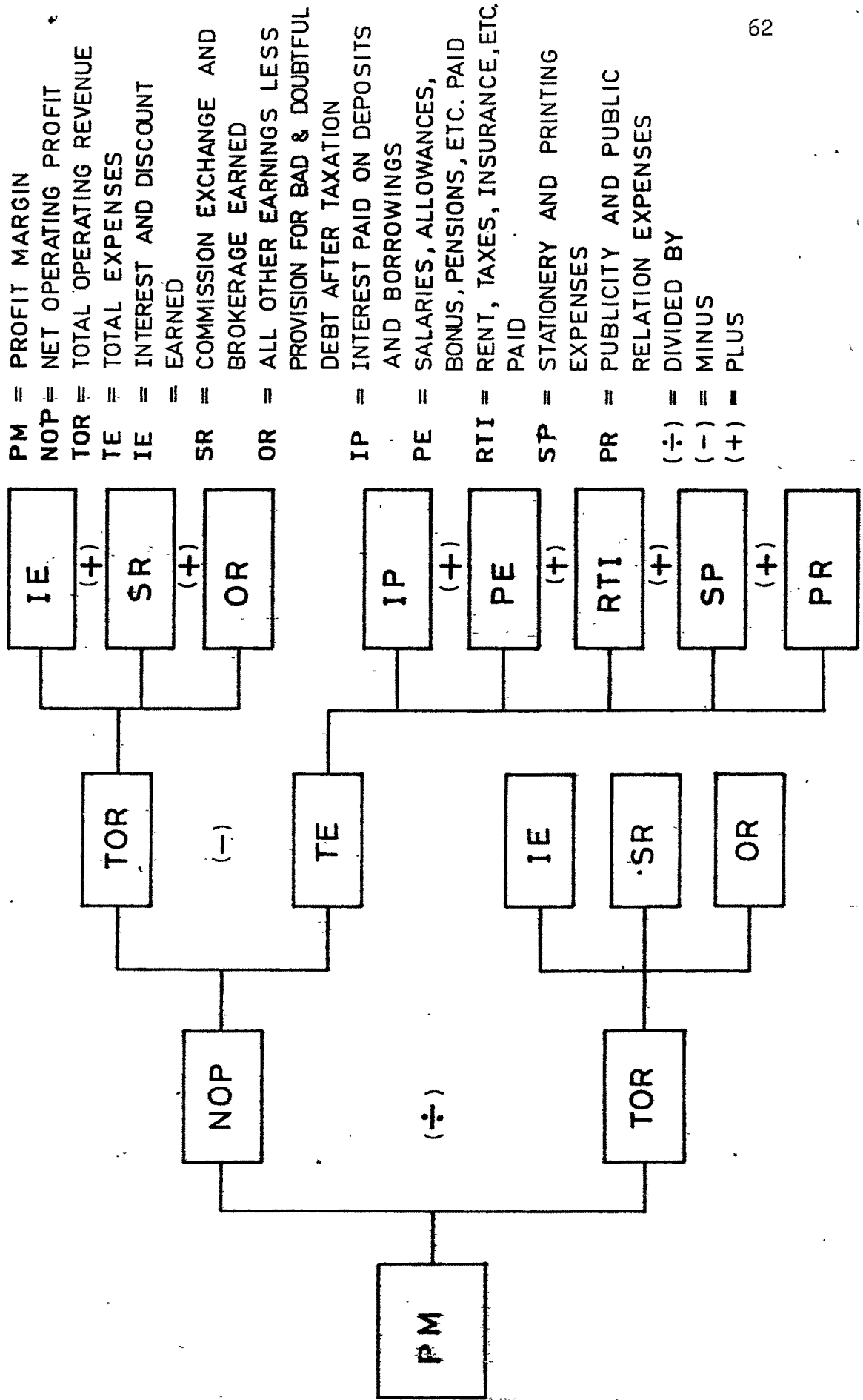
At the outset, it must be clearly understood that the concept of profit margin is different from the

concept of profit. In a number of studies such a conceptual mistake has been done by the scholars, where they have used the concept of profit margin wrongly and have analysed profit data, for profit margin analysis.¹ Profit is the excess of revenue over expenditure and the various concepts of profit such as profit before interest and taxes, profit after taxes, profit before depreciation, etc. are being used for various purposes by analysts according to the specific purpose of analysis. Profit Margin (PM) on the other hand is the relationship of profit with operating revenue. Thus, profit margin shows the cost incurred by a bank per ~~per~~ unit of its gross revenue. It may be possible that for a given period of time the profit of a bank may increase but its profit margin may fall. For example, the net profit of Indian bank has increased from Rs.128 lakhs in 1972 to Rs.135 lakhs in 1982 but its profit margin recorded a fall from 0.91 per cent to 0.87 per cent respectively.

Using the above concept of PM for the nationalised banks a profit margin (PM) identity is given in Exhibit 1.

¹"Income Expenditure and profits of the scheduled commercial banks for the year 1973", Reserve Bank of India Bulletin, October 1974, pp.1913-14.

EXHIBIT IV.1
PROFIT MARGIN IDENTITY



From the above self explanatory exhibit, we can frame the following equation (identity) for analysing the strong and weak operational elements affecting the profit margin (PM) of the banks. A high profit margin (PM) indicates a low cost per unit of total revenue, whereas a low profit margin reflects that the institution has incurred more than proportionate expenditure in relation to its total revenue.

$$PM = \frac{NP}{OR} \times 100, \quad \text{or}$$

$$PM = \frac{OR - OE}{OR} \times 100, \quad \text{or}$$

$$PM = \frac{(IE+SR+GR)-(IP+PE+RTI+SP+SR)}{(IE+SR+GR)} \times 100$$

$$NP = OR - OE$$

$$OR = IE + SR + GR \quad \text{and}$$

$$OE = IP + PE + RTI + SP + SR.$$

Where,

IE = Interest and discount earned

SR = Commission, Exchange and Brokerage earned.

OR = All other earnings less provision for bad and doubtful debt after taxation.

IP = Interest paid on deposits and borrowings.

PE = Salaries, allowances, bonus, pensions etc. paid.

RTI = Rent, taxes, insurance etc. paid.

SB = Stationery and printing expenses.

PR = Publicity and public relation expenses.

In the subsequent part of this chapter, firstly, we shall examine the behaviour of PM in the nationalised banks during 1972-82 by using the PM model given above and subsequently, an attempt will be made to analyse the PM behaviour in relation to various factors influencing the PM of banks during different temporal spans.

PM Behaviour

Table 1 reveals inconsistency in the behaviour of PM. However, the average PM of the fourteen nationalised banks has declined during the period 1972 to 1982. In order to understand the PM behaviour in finer details, the period 1972-82 has been divided into five temporal spans depicting more or less a homogeneous behaviour pattern of PM during each span. On the basis of the data available in table 1, we have divided the time series into the following temporal strata.

| <u>Temporal stratum</u> | <u>Period covered</u> |
|-------------------------|-----------------------|
| I | 1972-1973 |
| II | 1974-1975 |
| III | 1975-1977 |
| IV | 1977-1978 |
| V | 1979-1982. |

Thus, the average net profit of the fourteen nationalised banks has increased but the average Profit Margin (PM) has recorded a fall. Therefore, it is imperative to analyse the data of incomes and expenditures of the fourteen nationalised banks. The analysis of data will explain the factors responsible for fall in Profit Margin (PM) of the nationalised banks during each temporal span.

A close observation of table 1 indicates that in 1972-73 the net profits of the Central Bank of India, Bank of India, Syndicate Bank, Union Bank of India, Indian Bank, Indian Overseas Bank, Bank of Maharashtra and the net profit of all the fourteen nationalised banks taken together have increased. But the Profit Margin (PM) of the Bank of India, Bank of Baroda, Punjab National Bank, United Commercial Bank, United Bank of India, Syndicate Bank, Union Bank of India, Indian Bank, Dena Bank, Allahabad Bank, and the Profit Margin (PM) of all the banks taken together have declined for the same period.

In 1974-75, the net profit of each and every individual bank and the net profit of all the banks taken together have increased. The Profit Margin (PM) at micro and macro levels have also recorded a rise.

TABLE IV.1

Profit Margin, Net Profit and Total Earnings

| Banks | Profit Margin | | | | | | | | | | | (In percentage) | | | |
|-----------|---------------|------|------|------|------|------|------|------|------|------|------|-----------------|--|--|--|
| | 1972 | 1973 | 1974 | 1975 | 1976 | 1977 | 1978 | 1979 | 1980 | 1981 | 1982 | | | | |
| Central | 0.67 | 0.99 | 1.06 | 1.07 | 0.96 | 0.92 | 0.78 | 0.68 | 1.46 | 1.26 | 1.14 | | | | |
| India | 2.96 | 2.63 | 2.23 | 2.99 | 2.46 | 2.20 | 1.98 | 1.91 | 1.55 | 1.52 | 1.27 | | | | |
| Baroda | 2.27 | 1.76 | 1.55 | 3.14 | 2.78 | 2.58 | 1.89 | 1.97 | 2.06 | 1.77 | 1.98 | | | | |
| PNB | 2.44 | 1.89 | 1.94 | 3.70 | 3.15 | 2.76 | 2.49 | 2.08 | 1.85 | 1.60 | 2.16 | | | | |
| Canara | 1.25 | 1.50 | 1.35 | 2.81 | 2.54 | 2.46 | 2.65 | 2.49 | 2.31 | 1.99 | 1.70 | | | | |
| UCO | 3.10 | 2.30 | 1.77 | 3.36 | 2.94 | 2.20 | 2.04 | 1.78 | 1.44 | 1.14 | 1.49 | | | | |
| United | 1.72 | 0.27 | 2.02 | 2.54 | 1.85 | 1.30 | 1.31 | 1.33 | 1.03 | 1.01 | 0.86 | | | | |
| Syndicate | 2.25 | 1.75 | 1.74 | 2.86 | 2.65 | 2.44 | 2.25 | 2.13 | 0.95 | 1.76 | 1.64 | | | | |
| Union | 1.98 | 1.49 | 1.49 | 2.74 | 2.23 | 2.01 | 1.98 | 1.79 | 1.86 | 1.55 | 1.53 | | | | |
| Indian | 1.84 | 1.57 | 1.79 | 3.76 | 5.18 | 2.31 | 2.41 | 1.94 | 1.45 | 0.91 | 0.87 | | | | |
| Dena | 1.81 | 0.57 | 0.62 | 1.58 | 1.53 | 1.36 | 1.19 | 1.04 | 1.00 | 0.78 | 0.93 | | | | |
| IOB | 0.72 | 1.48 | 4.61 | 5.07 | 6.89 | 6.21 | 5.07 | 3.91 | 3.10 | 2.33 | 2.04 | | | | |
| Allahabad | 1.16 | 0.61 | 0.91 | 2.72 | 2.51 | 1.62 | 1.87 | 2.45 | 2.00 | 1.57 | 1.46 | | | | |
| MAHA | 0.53 | 1.21 | 0.83 | 0.66 | 0.65 | 0.50 | 0.47 | 0.95 | 1.47 | 1.38 | 2.03 | | | | |
| Total | 1.95 | 1.56 | 1.67 | 2.73 | 2.56 | 2.19 | 2.00 | 1.87 | 1.66 | 1.53 | 1.57 | | | | |

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TABLE IV.1 (contd.)

| Banks | Net Profit | | | | | | | | | | | |
|-----------|------------|--------|---------|---------|---------|------|------|------|------|------|------|--|
| | 1972 | 1973 | 1974 | 1975 | 1976 | 1977 | 1978 | 1979 | 1980 | 1981 | 1982 | |
| Central | 41.42 | 74.90 | 106.60 | 129.56 | 140.45 | 143 | 130 | 140 | 360 | 373 | 388 | |
| India | 142.84 | 158.95 | 198.35 | 320.14 | 324.60 | 328 | 330 | 410 | 412 | 505 | 506 | |
| Baroda | 103.51 | 100.57 | 119.03 | 290.16 | 325.04 | 375 | 328 | 430 | 591 | 625 | 805 | |
| PNB | 111.23 | 102.55 | 139.36 | 316.41 | 340.38 | 341 | 340 | 350 | 400 | 451 | 799 | |
| Canara | 57.01 | 54.61 | 72.71 | 193.80 | 232.89 | 281 | 321 | 376 | 426 | 447 | 457 | |
| UCO | 91.28 | 84.68 | 91.51 | 205.47 | 209.76 | 193 | 212 | 222 | 228 | 241 | 349 | |
| United | 36.38 | 7.04 | 76.16 | 129.37 | 114.08 | 99 | 113 | 136 | 123 | 137 | 135 | |
| Syndicate | 47.04 | 47.15 | 66.53 | 155.22 | 182.86 | 192 | 210 | 257 | 150 | 355 | 403 | |
| Union | 39.16 | 41.15 | 55.97 | 140.47 | 146.50 | 156 | 176 | 191 | 232 | 236 | 280 | |
| Indian | 22.75 | 27.72 | 44.87 | 124.09 | 228.71 | 130 | 164 | 164 | 160 | 128 | 135 | |
| Dena | 32.70 | 12.82 | 20.01 | 60.11 | 67.61 | 69 | 70 | 72 | 83 | 75 | 101 | |
| IOB | 8.69 | 23.54 | 111.05 | 162.11 | 306.75 | 361 | 378 | 399 | 446 | 449 | 462 | |
| Allahabad | 17.36 | 10.55 | 20.75 | 80.10 | 89.56 | 69 | 93 | 144 | 152 | 161 | 165 | |
| MAHA | 5.85 | 16.80 | 17.00 | 18.00 | 22.92 | 23 | 25 | 60 | 113 | 124 | 210 | |
| Total | 757.22 | 763.03 | 1139.90 | 2325.51 | 2732.11 | 2760 | 2890 | 3351 | 3741 | 4307 | 5195 | |

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TABLE IV.1 (contd.)

| Banks | Total Earnings | | | | | | | | | | |
|-----------|----------------|----------|----------|----------|-----------|--------|--------|--------|--------|--------|--------|
| | 1972 | 1973 | 1974 | 1975 | 1976 | 1977 | 1978 | 1979 | 1980 | 1981 | 1982 |
| Central | 6198.38 | 7579.00 | 10031.36 | 12160.75 | 14663.47 | 15525 | 16743 | 20517 | 24627 | 29597 | 34047 |
| India | 4820.08 | 6035.42 | 8900.50 | 10700.60 | 13218.13 | 14912 | 16665 | 21483 | 26631 | 33331 | 39816 |
| Baroda | 4552.20 | 5724.58 | 7697.42 | 9248.37 | 11711.97 | 14524 | 17347 | 21817 | 28747 | 35371 | 40729 |
| PNB | 4556.26 | 5427.70 | 7172.85 | 8540.96 | 10815.16 | 12345 | 13665 | 16863 | 21646 | 28261 | 37065 |
| Canara | 2767.28 | 3630.43 | 5369.26 | 6823.75 | 9168.81 | 11408 | 12107 | 15093 | 18475 | 22421 | 26887 |
| UCO | 2955.90 | 3673.80 | 5169.58 | 6106.98 | 7144.22 | 8783 | 10369 | 12498 | 15819 | 21053 | 23435 |
| United | 2112.97 | 2615.91 | 3773.16 | 5096.71 | 6173.06 | 7622 | 8609 | 10241 | 11935 | 13616 | 15780 |
| Syndicate | 2093.27 | 2699.25 | 3824.31 | 5426.00 | 6908.13 | 7872 | 9336 | 12051 | 15707 | 20194 | 24563 |
| Union | 1975.61 | 2754.65 | 3747.08 | 5120.88 | 6578.88 | 7760 | 8889 | 10663 | 12472 | 15239 | 18271 |
| Indian | 1237.03 | 1761.52 | 2512.22 | 3299.02 | 4411.71 | 5639 | 6808 | 8449 | 11032 | 13990 | 15564 |
| Dena | 1803.27 | 2256.43 | 3251.14 | 3805.19 | 4432.80 | 5086 | 5906 | 6947 | 8337 | 9616 | 10916 |
| IOB | 1214.35 | 1590.79 | 2409.02 | 3208.86 | 4453.09 | 5814 | 7457 | 10202 | 14364 | 19254 | 22609 |
| Allahabad | 1490.94 | 1725.81 | 2283.69 | 2943.95 | 3568.99 | 4261 | 4965 | 5869 | 7585 | 10229 | 11317 |
| MAHA. | 112.85 | 1390.52 | 2047.54 | 2745.03 | 3499.53 | 4571 | 5342 | 6317 | 7682 | 8996 | 10324 |
| Total | 38880.38 | 48865.81 | 68124.13 | 85227.05 | 106747.95 | 126182 | 144208 | 179010 | 225059 | 281168 | 331323 |

Source: Data analysed is based on the published Annual Financial Statements of the nationalised banks.

NP = Total Earnings - Total Expenses

Where,

EP = IB+SR+OR

TEX = IP+PE+RTI+SP+FR

PM = $\frac{NP}{TEX} \times 100$

During the years 1975-77, the net profits of the Central Bank of India, Bank of India, Bank of Baroda, Punjab National Bank, Canara Bank, Syndicate Bank, Union Bank of India, Dena Bank, Indian Overseas Bank, Bank of Maharashtra and the net profit of all the banks taken together have moved up. But the profit margin (PM) in case of an every individual bank as well as the profit margin (PM) of all the banks taken together have declined.

Also, in 1977-78, the net profits of the Bank of India, Canara Bank, United Commercial Bank, United Bank of India, Syndicate Bank, Indian Bank, Dena Bank, Indian Overseas Bank, Allahabad Bank, Bank of Maharashtra and the net profit of all the banks taken together have increased. But the Profit Margin (PM) of the Central Bank of India, Bank of India, Bank of Baroda, Punjab National Bank, United Commercial Bank, Syndicate Bank, Union Bank of India, Dena Bank, Indian Overseas Bank, Bank of Maharashtra as well as the Profit Margin (PM) of all the banks taken together have recorded a fall.

Again, 1979 to 1982, the net profits of Central Bank, Bank of India, Bank of Baroda, Punjab National Bank, Canara Bank, United Commercial Bank, Syndicate Bank, Union Bank of India, Dena Bank, Indian Overseas Bank, Allahabad Bank, Bank of Maharashtra and the net

profit of all the banks taken together for the same period have increased. As against this, the Profit Margin (PM) each and every individual bank as well as all the fourteen nationalised banks taken together have declined.

The above analysis of profit margin, reveals that the average net profit of the banks during 1972-82 has increased but the profit margin of all the banks taken together for the same period has declined.

Expenditure as Percentage to Total Income

The above empirical findings call for an analysis of the various components of expenditure responsible for the reduction in the Profit Margin (PM). Let us, therefore, further analyse the expenditure of nationalised banks. For the sake of simplicity the total expenditure of the fourteen nationalised banks has been divided into three categories, viz. interest paid on deposits and borrowings, establishment expenses, and other expenses and for analysis, each category of expenditure has been related to the total income.

Table 2 shows the percentage of each category of expenditure of the banks to total income during 1972-82. The share of establishment expenses in the total income of all the banks taken together has declined from 35.51

TABLE IV.2

Expenses as Percentage to Total Income

| Banks | Interest on Deposits and Borrowings | | | | | | | | | | | |
|-----------|-------------------------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|--|
| | 1972 | 1973 | 1974 | 1975 | 1976 | 1977 | 1978 | 1979 | 1980 | 1981 | 1982 | |
| Central | 49.33 | 50.69 | 54.89 | 55.77 | 64.22 | 65.26 | 64.12 | 65.38 | 65.31 | 65.93 | 67.08 | |
| India | 56.19 | 58.04 | 62.33 | 61.62 | 67.34 | 68.33 | 67.42 | 69.72 | 71.02 | 72.28 | 73.22 | |
| Baroda | 52.32 | 54.42 | 58.76 | 59.53 | 64.79 | 67.08 | 66.43 | 67.82 | 71.05 | 72.17 | 72.41 | |
| PNB | 53.79 | 55.83 | 59.27 | 60.41 | 67.82 | 68.23 | 67.20 | 67.16 | 67.84 | 69.84 | 72.31 | |
| Canara | 46.69 | 49.10 | 55.11 | 57.08 | 64.37 | 65.50 | 62.39 | 62.00 | 63.65 | 63.36 | 64.08 | |
| UOO | 49.29 | 52.13 | 56.82 | 56.55 | 62.52 | 65.21 | 65.52 | 65.47 | 67.73 | 69.82 | 68.35 | |
| United | 49.52 | 51.51 | 57.46 | 61.33 | 65.75 | 68.18 | 68.74 | 69.71 | 68.76 | 67.27 | 69.65 | |
| Syndicate | 49.49 | 50.02 | 51.75 | 57.11 | 62.16 | 60.75 | 60.36 | 60.37 | 62.69 | 65.22 | 67.08 | |
| Union | 41.96 | 49.88 | 51.13 | 54.08 | 61.15 | 61.25 | 60.18 | 58.30 | 60.37 | 60.38 | 63.31 | |
| Indian | 51.24 | 52.11 | 55.14 | 58.36 | 62.54 | 65.74 | 65.67 | 67.06 | 68.20 | 70.74 | 68.63 | |
| Dena | 47.05 | 49.97 | 56.90 | 56.22 | 60.94 | 62.50 | 64.18 | 65.12 | 64.80 | 64.41 | 65.01 | |
| IOB | 50.31 | 51.16 | 56.27 | 56.70 | 61.15 | 62.76 | 64.48 | 67.12 | 70.66 | 73.31 | 73.05 | |
| Allahabad | 51.27 | 52.01 | 53.14 | 53.54 | 58.45 | 64.26 | 61.16 | 57.88 | 63.12 | 65.68 | 65.31 | |
| MAHA | 53.93 | 54.78 | 59.35 | 63.68 | 68.93 | 71.14 | 70.83 | 70.30 | 68.88 | 68.93 | 68.34 | |
| Total | 50.70 | 52.75 | 56.91 | 58.19 | 64.33 | 65.76 | 65.06 | 65.76 | 67.23 | 68.44 | 69.21 | |

TABLE IV.2 (contd.)

| Banks | Establishment Expenses* | | | | | | | | | | |
|-----------|-------------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| | 1972 | 1973 | 1974 | 1975 | 1976 | 1977 | 1978 | 1979 | 1980 | 1981 | 1982 |
| Central | 38.95 | 38.71 | 35.69 | 35.27 | 27.39 | 25.92 | 26.91 | 26.37 | 25.60 | 24.89 | 23.81 |
| India | 30.02 | 29.19 | 26.62 | 26.39 | 21.58 | 21.37 | 22.25 | 20.97 | 20.43 | 19.28 | 18.44 |
| Baroda | 32.51 | 32.55 | 29.68 | 28.02 | 22.86 | 20.68 | 21.38 | 20.80 | 18.61 | 17.84 | 17.65 |
| PNB | 35.31 | 34.85 | 31.78 | 28.64 | 21.63 | 21.37 | 22.10 | 22.57 | 21.65 | 19.93 | 17.60 |
| Canara | 37.20 | 36.46 | 31.68 | 29.81 | 22.90 | 21.81 | 24.04 | 24.39 | 23.89 | 24.27 | 23.80 |
| UCO | 35.16 | 34.28 | 32.11 | 31.05 | 25.14 | 23.52 | 24.07 | 24.63 | 22.85 | 21.19 | 21.83 |
| United | 38.07 | 37.53 | 30.79 | 27.28 | 22.83 | 21.49 | 21.57 | 21.75 | 22.82 | 23.41 | 22.32 |
| Syndicate | 35.41 | 35.84 | 34.87 | 29.91 | 24.62 | 25.83 | 25.97 | 25.84 | 25.89 | 22.89 | 21.73 |
| Union | 41.21 | 37.00 | 34.50 | 30.90 | 25.38 | 25.63 | 26.72 | 29.30 | 27.39 | 27.40 | 25.63 |
| Indian | 34.84 | 34.15 | 31.03 | 27.18 | 21.01 | 21.07 | 21.26 | 20.71 | 20.58 | 19.06 | 19.83 |
| Dena | 37.98 | 35.55 | 33.00 | 33.17 | 28.98 | 28.10 | 26.80 | 26.23 | 26.57 | 27.26 | 26.75 |
| IOB | 34.69 | 32.17 | 27.43 | 26.30 | 20.57 | 19.78 | 20.03 | 19.40 | 17.35 | 16.07 | 16.18 |
| Allahabad | 35.38 | 35.75 | 31.74 | 30.25 | 24.88 | 24.55 | 23.88 | 25.28 | 23.73 | 21.17 | 21.78 |
| MAHA | 32.93 | 35.35 | 30.54 | 26.54 | 21.67 | 20.24 | 20.32 | 20.88 | 21.95 | 22.27 | 21.93 |
| Total | 35.51 | 34.86 | 31.57 | 29.71 | 23.73 | 22.84 | 23.44 | 23.37 | 22.43 | 21.40 | 20.71 |

Note: *Establishment expenses include salaries, allowances, bonus, pension etc.

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TABLE IV.2 (contd.)

| | Other Expenses* | | | | | | | | | | |
|-----------|-----------------|-------|-------|-------|-------|------|-------|-------|-------|-------|-------|
| Banks | 1972 | 1973 | 1974 | 1975 | 1976 | 1977 | 1978 | 1979 | 1980 | 1981 | 1982 |
| Central | 5.91 | 8.81 | 7.50 | 7.14 | 6.73 | 7.21 | 7.47 | 6.95 | 6.94 | 7.32 | 7.33 |
| India | 7.45 | 8.72 | 7.58 | 7.72 | 7.44 | 6.98 | 7.16 | 6.40 | 6.09 | 6.01 | 6.07 |
| Baroda | 7.54 | 10.46 | 8.80 | 8.16 | 8.54 | 8.65 | 9.20 | 8.44 | 7.44 | 7.45 | 7.31 |
| PNB | 5.01 | 7.07 | 6.20 | 6.46 | 6.63 | 6.84 | 7.37 | 7.38 | 7.79 | 7.70 | 7.01 |
| Canara | 7.32 | 12.06 | 9.91 | 9.20 | 9.22 | 9.19 | 9.91 | 9.20 | 9.33 | 9.46 | 9.44 |
| UCO | 7.67 | 9.93 | 8.16 | 7.92 | 8.21 | 8.04 | 7.45 | 7.29 | 7.25 | 7.18 | 7.60 |
| United | 6.91 | 8.86 | 8.48 | 7.69 | 8.43 | 8.00 | 7.49 | 6.46 | 6.74 | 7.68 | 6.57 |
| Syndicate | 6.69 | 10.98 | 9.92 | 9.07 | 9.52 | 9.90 | 10.36 | 10.70 | 9.58 | 9.20 | 8.63 |
| Union | 9.85 | 10.55 | 10.26 | 10.93 | 9.87 | 9.83 | 9.91 | 9.26 | 9.28 | 9.73 | 8.58 |
| Indian | 6.72 | 10.44 | 10.07 | 9.46 | 10.02 | 9.68 | 9.37 | 9.26 | 8.91 | 8.47 | 9.81 |
| Dena | 8.22 | 10.12 | 8.13 | 7.50 | 7.77 | 7.31 | 7.00 | 6.84 | 6.82 | 6.83 | 6.57 |
| IOB | 9.35 | 11.66 | 9.85 | 10.12 | 9.67 | 9.44 | 8.66 | 8.00 | 7.54 | 6.78 | 7.43 |
| Allahabad | 7.75 | 10.62 | 11.31 | 12.77 | 13.37 | 8.85 | 12.30 | 13.68 | 10.47 | 10.97 | 10.86 |
| MAHA | 8.32 | 9.01 | 7.97 | 7.87 | 7.72 | 7.33 | 7.50 | 7.07 | 6.98 | 6.71 | 6.95 |
| Total | 7.03 | 9.63 | 8.45 | 8.30 | 8.35 | 8.20 | 8.47 | 8.08 | 7.76 | 7.79 | 7.67 |

Note: * Other expenses include, rent, tax, insurance, stationery, printing, publicity, depreciation, and repair.

Source: The analysis is based on the data available in the published Annual Financial Statements of the nationalised banks.

per cent in 1972 to 20.17 per cent in 1982. The 'other expenses' of the banks have more or less remained constant during 1972-82. The 'interest expenses' as percentage to total income of the fourteen nationalised banks taken together have recorded an increase from 50.70 in 1972 to 69.21 in 1982. Thus the decline in the profit margin has been due to more than proportionate increase in the expenditure item 'interest paid on deposits and borrowings'.

Expenditure Analysis

An expenditure analysis should further help us to know the relative importance of each item of expenditure in total expenditure of the banks.

Table 3 shows the percentage of each category of expenditure of the banks to total expenditure during 1972-82. The interest paid on deposits and borrowings of the fourteen nationalised banks taken together has increased from 51.70 per cent in 1972 to 70.31 per cent in 1982. The establishment expenses of the banks have declined from 36.21 per cent in 1972 to 21.04 per cent in 1982. The rents, taxes, insurance, etc. paid by the banks have declined from 3.82 per cent in 1972 to 2.78 per cent in 1982. Thus, the expenditure analysis reveals that the increase in the expenditure of the nationalised banks has been basically due to an increase.

TABLE IV.2

Expenses as Percentage to Total Expenses

| | | Interest on Deposits and Borrowings | | | | | | | | | | |
|-----------|-------|-------------------------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|--|
| Banks | 1972 | 1973 | 1974 | 1975 | 1976 | 1977 | 1978 | 1979 | 1980 | 1981 | 1982 | |
| Central | 49.66 | 51.05 | 55.48 | 56.37 | 64.84 | 65.86 | 64.62 | 65.38 | 66.28 | 66.78 | 67.85 | |
| India | 57.90 | 59.61 | 63.75 | 63.52 | 69.04 | 69.87 | 68.79 | 69.72 | 72.14 | 73.40 | 74.16 | |
| Baroda | 55.53 | 55.01 | 59.68 | 61.46 | 66.64 | 68.85 | 67.72 | 67.82 | 72.54 | 73.47 | 73.87 | |
| PNB | 55.14 | 56.60 | 60.44 | 62.73 | 70.02 | 70.17 | 68.91 | 67.16 | 69.11 | 70.97 | 73.90 | |
| Canara | 47.67 | 49.55 | 56.40 | 58.75 | 66.04 | 67.15 | 64.09 | 63.00 | 65.05 | 64.64 | 65.19 | |
| UCO | 50.87 | 53.24 | 57.84 | 58.52 | 64.41 | 66.67 | 66.89 | 65.47 | 68.72 | 70.63 | 69.38 | |
| United | 50.39 | 51.72 | 58.64 | 62.92 | 66.99 | 69.08 | 69.65 | 69.71 | 69.48 | 67.96 | 70.25 | |
| Syndicate | 50.63 | 50.93 | 52.96 | 58.80 | 63.85 | 62.27 | 61.75 | 60.37 | 63.29 | 67.39 | 68.20 | |
| Union | 42.81 | 50.37 | 52.46 | 55.61 | 62.54 | 62.51 | 61.40 | 58.30 | 61.51 | 61.33 | 64.30 | |
| Indian | 52.20 | 53.10 | 56.52 | 60.59 | 65.96 | 67.29 | 67.28 | 66.06 | 69.21 | 71.39 | 69.23 | |
| Dena | 47.92 | 51.47 | 57.45 | 57.12 | 61.89 | 63.36 | 64.96 | 65.12 | 65.45 | 64.92 | 65.62 | |
| IOB | 50.67 | 52.26 | 58.99 | 59.72 | 65.67 | 66.92 | 67.93 | 67.12 | 72.92 | 75.07 | 74.57 | |
| Allahabad | 51.87 | 52.35 | 54.82 | 55.03 | 59.95 | 65.31 | 62.34 | 57.88 | 62.42 | 67.73 | 66.28 | |
| MAHA | 54.21 | 54.31 | 59.85 | 64.30 | 69.39 | 71.50 | 71.17 | 70.30 | 69.90 | 69.89 | 69.75 | |
| Total | 51.70 | 53.49 | 58.04 | 59.82 | 66.02 | 67.23 | 66.38 | 67.01 | 68.40 | 69.51 | 70.31 | |

contd...76

TABLE IV.3 (contd.)

| Establishment Expenses | | 1972 | 1973 | 1974 | 1975 | 1976 | 1977 | 1978 | 1979 | 1980 | 1981 | 1982 |
|------------------------|--|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Barks | | | | | | | | | | | | |
| Central | | 39.21 | 39.41 | 36.08 | 35.65 | 27.66 | 26.16 | 27.17 | 26.37 | 25.98 | 25.21 | 24.08 |
| India | | 30.93 | 30.42 | 27.23 | 27.20 | 22.12 | 21.85 | 22.70 | 20.97 | 20.76 | 19.58 | 18.68 |
| Baroda | | 33.26 | 33.40 | 30.15 | 28.93 | 23.52 | 21.22 | 21.79 | 20.79 | 19.00 | 18.16 | 18.00 |
| PNB | | 36.18 | 35.64 | 32.41 | 29.99 | 22.33 | 21.98 | 22.66 | 22.57 | 22.06 | 20.26 | 17.98 |
| Canara | | 37.97 | 37.34 | 32.38 | 30.68 | 25.50 | 22.36 | 24.69 | 24.39 | 24.45 | 21.76 | 24.21 |
| UGO | | 46.28 | 35.58 | 32.69 | 32.13 | 25.91 | 24.05 | 24.57 | 24.63 | 23.18 | 21.44 | 22.16 |
| United | | 38.73 | 38.33 | 31.42 | 27.99 | 23.26 | 21.77 | 21.85 | 21.75 | 23.05 | 23.64 | 22.51 |
| Syndicate | | 26.21 | 37.01 | 35.69 | 30.79 | 25.29 | 26.47 | 26.56 | 25.84 | 26.14 | 23.30 | 22.09 |
| Union | | 42.04 | 37.17 | 35.40 | 31.77 | 25.97 | 26.16 | 27.26 | 29.30 | 27.91 | 26.83 | 26.02 |
| Indian | | 35.49 | 35.31 | 31.80 | 28.22 | 22.17 | 21.56 | 21.79 | 20.71 | 20.88 | 19.23 | 20.01 |
| Dena | | 38.57 | 37.16 | 33.32 | 34.32 | 29.43 | 28.48 | 27.12 | 26.23 | 26.84 | 27.47 | 27.00 |
| IOB | | 34.94 | 34.28 | 28.76 | 27.70 | 22.10 | 21.09 | 21.10 | 19.40 | 17.90 | 16.45 | 16.52 |
| Allahabad | | 35.79 | 36.33 | 32.74 | 31.09 | 25.52 | 24.95 | 24.34 | 25.28 | 24.22 | 21.50 | 22.38 |
| MAHA | | 33.10 | 25.15 | 30.79 | 26.72 | 21.81 | 20.34 | 20.42 | 20.88 | 22.28 | 22.58 | 22.38 |
| Total | | 36.21 | 35.85 | 32.19 | 30.54 | 24.36 | 23.35 | 23.92 | 23.82 | 22.82 | 21.73 | 21.04 |

contd... 77

TABLE IV.3 (contd.)

| Banks | 1972 | 1973 | 1974 | 1975 | 1976 | 1977 | 1978 | 1979 | 1980 | 1981 | 1982 |
|-----------|------|------|------|------|------|------|------|------|------|------|------|
| Central | 3.23 | 3.00 | 2.73 | 2.52 | 2.44 | 2.66 | 2.91 | 2.53 | 2.36 | 2.33 | 2.38 |
| India | 4.07 | 3.97 | 3.24 | 3.32 | 3.20 | 3.17 | 3.25 | 2.80 | 2.64 | 2.62 | 2.85 |
| Baroda | 4.09 | 3.85 | 3.46 | 3.37 | 3.38 | 3.70 | 3.94 | 3.67 | 3.30 | 3.09 | 2.68 |
| PNB | 3.08 | 3.00 | 2.54 | 2.48 | 2.30 | 2.52 | 2.81 | 2.71 | 2.27 | 2.14 | 2.00 |
| Canara | 3.81 | 3.94 | 3.25 | 3.17 | 3.07 | 3.22 | 3.67 | 3.34 | 3.10 | 3.04 | 3.09 |
| UCO | 3.93 | 3.87 | 3.27 | 3.11 | 3.32 | 2.99 | 3.07 | 2.71 | 2.44 | 2.47 | 2.85 |
| United | 3.11 | 3.40 | 3.41 | 2.90 | 3.11 | 3.32 | 3.42 | 2.96 | 2.70 | 2.63 | 2.58 |
| Syndicate | 3.28 | 3.31 | 3.10 | 2.83 | 3.01 | 3.37 | 3.44 | 3.03 | 3.00 | 2.89 | 2.64 |
| Union | 5.17 | 4.35 | 3.94 | 3.32 | 3.47 | 3.55 | 3.53 | 3.93 | 4.19 | 4.50 | 3.31 |
| Indian | 3.46 | 3.34 | 3.13 | 3.22 | 3.31 | 3.19 | 3.17 | 3.12 | 2.70 | 2.62 | 2.63 |
| Dena | 4.12 | 4.16 | 3.08 | 3.08 | 2.94 | 3.03 | 3.12 | 2.99 | 2.99 | 2.85 | 2.78 |
| IOB | 5.22 | 5.42 | 4.43 | 4.23 | 4.21 | 4.03 | 3.69 | 3.13 | 2.89 | 2.65 | 2.96 |
| Allahabad | 5.71 | 4.62 | 5.77 | 7.68 | 7.93 | 3.67 | 6.73 | 8.20 | 5.53 | 5.95 | 5.39 |
| MAHA | 3.63 | 3.80 | 3.07 | 3.01 | 3.09 | 3.10 | 3.05 | 2.91 | 2.92 | 2.58 | 2.72 |
| Total | 3.82 | 3.69 | 3.26 | 3.20 | 3.21 | 3.18 | 3.43 | 3.28 | 2.90 | 2.87 | 2.78 |

Source: The analysis is based on the data available in the published Annual Financial Statements of the nationalised banks.

in the 'interest expenses' incurred by these banks.

Conclusion

To conclude, it can be said that the profit margin of the nationalised banks has declined during 1972-82. The decline in the profit margin of the nationalised banks has been due to a more than proportionate increase in the expenditure of these banks and the item 'interest paid on deposits and borrowings' has been mainly responsible for growth in the expenditure of the banks. Thus, the profit margin of the banks has declined due to an increase in the ratio of 'interest paid' to 'total income' and 'interest paid' to 'total expenditure' during 1972-82.

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