



# FUNDAMENTAL ANALYSIS OF SOME PUBLIC SECTOR BANKS (A Study focused on STATE BANK OF INDIA, PUNJAB NATIONAL BANK & CANARA BANK)

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## ABSTRACT

Fundamental analysis is a very famous security analysis technique used by successful investors. This study is an endeavor to know the fundamental strength of public sector banks. It is a process of evaluating a security that helps to measure its intrinsic value of SBI, PNB, CANARA BANK, by examining related economic, financial and other qualitative and quantitative factors. The main feature of the fundamental analysis is the knowledge helpful to make good investment decision. Based on findings investment in Canara bank is not viable and other two banks are good for investors, among these two banks Punjab National bank showing highest P/E ratio and intrinsic value and it would be profitable for investors if they invest in Punjab National bank.

**Key words:** Fundamental Analysis, Risk Return, Industry Analysis, Company Analysis Economy Analysis.

## INTRODUCTION

Fundamental analysis is defined as an evaluation of a company's internal and external forces to forecast the earnings, profit and loss with respect to the movement of the company's stock price. Fundamental analysis is one of the most common tools to analyze whether one should invest in a stock or not (Pandian, 2006). When speaking of actions, fundamental analysis is a technique that tries to determine the value of the company, focusing on the factors affecting the current business of the company and its future prospects. Thus it is an analysis of the economic well-being of the financial institution as opposed to the simple movement of prices. This analysis is considered to be opposite to studying technical analysis reading market trends. Fundamental analysis of a company is done to predict the future growth of a business; there are various methods used to analyze the price movement across the financial market. Six ways or methods used to predict the future price may also differ from person to person. For example, an individual may prefer fundamental analysis of stocks based on financial statements whereas for fundamental analysis of a company an individual may consider various ratios for evaluation. For fundamental analysis of Indian stocks an individual may use some other analysis strategies.



## II. OBJECTIVE OF THE STUDY

1. To study the role of public sectors banks to Indian economy
2. To analyze fundamental of SBI, PNB, & CANARA Bank
3. To make suggestion for investment decision by using fundamental analysis

## III. IMPORTANCE OF PUBLIC SECTOR BANKS

The sectorial organization of business can be broadly divided into two groups, private sector organization and public sector organization, public sector banks plays an important role in the economic development of India. The role and importance of public sector can be briefly explained as follows.

1. **Employment:** Public sector provides employment to large number of people in the country for instance the Indian railways provide employment to about 15.5 lac people perhaps the largest employer in the world.
2. **Rural development:** Public sector units facilitate rural development. Infrastructure development both economic and social infrastructure. Locating projects in rural areas like the Bokharasteel plant the Raurkela steel plant etc....
3. **National income:** Public sector units contribute to the national income of the country. The public sector has grown in size over the years both in terms of number of units as well as in production.
4. **Capital formation:** The public sector contributes to capital formation by mobilization of savings through public sector banks. The all India financial institutes like IDBI, ICICI etc., played an important role in industrial investment and capital formation by providing medium terms and long terms funds to industry and service sector.
5. **Foreign exchange earnings:** The public sector enterprises have contributed to the export earnings of the country. The public sector units export a number of products like engineering goods, chemicals, minerals, metals etc. They also providing export services.
6. **Social Order:** The public sector units contribute to the social order by providing employment to a large number of people in the country. The employment generation reduces the possibility of anti-social activities.
7. **Government revenue:** Public Sector Units bring revenue to the government. The revenue is in form of Direct Taxes, Indirect Taxes & Profits Plus.
8. **Infrastructure development:** Public sector units play an important role in the development of the infrastructure of the nations. The public sector has developed roadways, railways, airways, power and so on.

## IV. REVIEW OF LITERATURE

Ken Little, (1994) defined fundamental analysis is the process of looking at a business at the basic or fundamental financial level. This type of analysis examines key ratios of a business to determine its financial health and gives you an idea of the value its stock. The goal is to determine the current worth and more importantly, how the market values the stock. In this article he is also saying that return on equity (ROE) is one measure of how efficiently a company uses its asset to produce earnings.



Financial statement analysis has traditionally been seen as part of the fundamental analysis required for equity valuation (Stephen H. Penman, 1996). But the analysis has typically been ad hoc. Drawing on recent research on accounting based valuation; this paper outlines a financial statement analysis for use in equity valuation.

Anthony C. Greig (1989) in his paper, stated fundamental analysis identifies equity values not currently reflected in stock prices and thus systematically predicts abnormal returns. Their fundamental summary measures Profitability Ratio, the estimated probability of an earnings increase, also proxies for firm size and CAPM risk. After controlling cross sectional differences in CAPM beta and firm size, no significant incremental predictive ability is attributable to profitability ratio. The profitability measure is interpreted as a proxy for expected return differences rather than as new evidence of a systematic market under reaction to the future earnings signal inherent in current financial statements.

## V. FUNDAMENTAL ANALYSES OF STATE BANK OF INDIA - Three Tier Analysis

This study uses three tier analyses of State Bank India as part of fundamental analysis,

- Economic analysis
- Industry analysis
- Company analysis

### Economic Analysis:

India's economy is in "a gradual recovery mode", State Bank of India report (January, 2018). According to the SBI Ecwrap report, the 8.4 per cent Index of Industrial Production Growth in November "is possibly no flash in the pan and a 6 per cent growth in December as per SBI Index may not be ruled out". In January 2018, the IIP may continue to grow in excess of 4 per cent, indicating a marginal moderation in month-to-month. This news augurs well for the state of Indian economy. Public sector banks play important role in economic activity of the economy.

**State Bank of India (SBI)** is an Indian multinational, public sector banking and financial services company. It is a government-owned corporation with its headquarters in Mumbai, Maharashtra. On 1st April, 2017, the State Bank of India, which was India's largest bank, merged with five of its associate banks viz., State Bank of Bikaner & Jaipur, State Bank of Hyderabad, State Bank of Mysore, State Bank of Patiala and State Bank of Travancore, and with the Bharatiya Manila Bank. This was the first ever large scale consolidation in the Indian banking industry. With the merger, SBI became one of the 50 largest banks in the world (balance sheet size of ₹33 trillion, 278,000 employees, 420 million customers, and more than 24,000 branches and 59,000 ATMs). SBI's market share was projected to increase to 22 per cent from 17 per cent. Has 198 offices in 37 countries; 301 correspondents in 72 countries. The company is ranked 232 on the *Fortune Global 500* list of the world's biggest corporations as of 2016.

The bank descends from the Bank of Calcutta, founded in 1806, via the Imperial Bank of India, making it the oldest commercial bank in the Indian subcontinent. The Bank of Madras merged into the other two "presidency banks" in British India, the Bank of Calcutta and the Bank of Bombay, to form the Imperial Bank of India,



which in turn became the State Bank of India in 1955. Government of India owned the Imperial Bank of India in 1955, with Reserve Bank of India (India's Central Bank) taking a 60% stake, and renamed it the State Bank of India. In 2008, the government took over the stake held by the Reserve Bank of India.

State Bank of India has 20% market share in deposits and loans among Indian commercial banks

#### **Import Export:**

Export goods petroleum products, precious stones, machinery, iron and steel, chemicals, vehicles, apparel import goods, crude oil, precious stones, machinery, fertilizer, iron and steel, chemicals. Main export partners US, UAE, China, and Hong Kong. Import partners China, UAE, Saudi Arabia, US, Australia.

#### **Company Analysis:**

Chairman Rajneesh Kumar founded on 02-june-1806. More than 16000 branches, provides a wide range of banking products through its vast network of branches in India and the overseas headquarter of SBI is at Mumbai. SBI has 14 local head offices 57 zonal offices. It also has around 130 branches out of the country.

#### **Industry Analysis:**

##### **Industry concentration in private sector**

The Herfindahl-Hirschman index (HHI) for the all banks is 518.53, indicates banking sector is highly fragmented and diffused. The index score shows the falling over in India (RBI, 2016).

##### **Porter's Five Force Model**

Threat of substitutes is low as banking is more convenient and state investment. Bargaining power of customers, loan receivers is high due to possibility of multiple banking. Bargaining power of suppliers, account holders is high due to strong competition. Threat of substitutes is low as banking is more convenient and safe investment. Competitive rivalry is higher as there are many private players with the state of the art technology

#### **CANARA BANK**

##### **Founder of Canara bank:**

Sri Ammembai Subbarao Pai (1852-1905) "a good bank is not only the financial heart of the community, but also one with an obligation of helping in every possible manner to improve the economic conditions of the common people."

##### **History:**

Sri A.S. Pai, established the Canara Hindu parliament fund in Mangalore, in 1906. Bank changed its name to Canara bank Ltd in 1910. It was nationalized in 1969. Canara bank inaugurated its 1000<sup>th</sup> branch in 1971. In 1996 Canara bank became the 1<sup>st</sup> Indian bank to get ISO certificate for total branch banking for its Seshadripuram branch in Bangalore.

##### **Vision and mission:**

Vision: to emerge as a best practices bank by efficiency pursuing global benchmarks in profitability, operational efficiency, asset quality, risk management and expanding the global reach.



Mission: to provide quality banking services with enhance customer orientation higher value creation for stake holders and to continue as responsive corporate social citizen by effectively blending commercial pursuits with social banking.

Foreign branches of Canara bank:

United Kingdom, China, Hong Kong, Bahrain, United Arab Emirates, Russia.

Interest rates:

Base rate of the bank 9.65%, bench mark prime lending rate 15%, bank posted a net profit of Rs 2702.62 core in 2014-2015 against Rs2438.19 core in the previous year in increase of 10.81%, total income increased by 11.09% to Rs48.300 core from Rs43.480 core.

#### **Awards and achievements:**

Golden peacock business award 2015, by the institute of directors India MSME banking excellence award 2014. Awarded 'NiryatBandhu' institution of federation of India export organisation. Conferred with reserve bank rajabdhasha shield for effective implementation of official language in region B&C for 2013-14. CSR leadership award 2016 for best CSR practices by world CSR congress. FICCI CSR social responsible bank award under women empowerment for 25016. corporate vigilance excellence award 2016-17 in banking sector consecutively for the fourth year instituted by m/s institute of public enterprise. MSME excellence award 2017 by federation of industrial trade and services.

#### **PUNJAB NATIONAL BANK:**

Bad credits (non-performing assets) in banking industry. For the training undergone at Punjab national bank.

#### **2<sup>nd</sup> largest government owned commercial bank in India**

Registered on 19<sup>th</sup> may 1894 (baisakhi). 6543 branches across the 3404 cities. Branches in Hong Kong & 641

Vision: "To be a leading global bank with pan India foot prints & become a house hold brand in the indo-genetic plains providing entire range of financial products & services under one roof".

Mission: "Banking for the unbanked"

#### **Growth history of PNB:**

In 190 the bank absorbed BhagwanDass bank PNB acquired- 39 branches of Bharath in 1951 universal bank of India in 1961. Hindustan commercial bank with its 142 branches in 1986. New bank of India in 1993. Kozhikode-based Nedungali bank ltd (NBL) in 2003.

**Punjab National Bank (PNB)** is an Indian multinational banking and financial services company. It is a state-owned corporation based in New Delhi, India. The bank was founded in 1894. As of 31 March 2017 the bank has over 80 million customers, 6,937 branches, and 10681 ATMs across 764 cities. PNB has a banking subsidiary in the UK - PNB International Bank, with seven branches in the UK, as well as branches in Hong Kong, Kowloon, Dubai, and Kabul. It has representative office in Almaty (Kazakhstan), Dubai (United Arab



Emirates). Shanghai (China), Oslo (Norway), and Sydney (Australia). In Bhutan it owns 51% of Drunk PNB Bank, which has five branches. In Nepal PNB owns 20% of Everest Bank Limited, which has 50 branches. Lastly, PNB owns 84% of JSC (SB) PNB Bank in Kazakhstan, which has four branches.

## VI. DATA ANALYSIS

### Comparative Study of Selected Public Sector Bank for the Year 2016-2017

RATIO	SBI	PNB	CANARA BANK
Earnings per share	13.15	6.23	18.78
Price to earnings ratio	23.04	26.67	18.75
Price to sales ratio	1.33	0.68	1.39
Price to book ratio	1.49	0.84	0.64
Dividend yield ratio	1.1	0	0.27
Book value per share	196.53	202.8	542.61
Return on equity	0.1	2	4.05
Liquidity ratio	7.9	28.98	25.72
Non-performing asset	3.7	7.8	6
Dividend per share	2.6	0	1
Debt equity ratio	13.5	15.6	18.89

**Source: Data analysis of respective sample banks financial statements**

## VII. DATA INTERPRETATION

The above table indicate that Economy analysis of Three banks i.e. State Bank of India, Punjab National bank & Canara Bank. Economy analysis shows that To forecast future stock prices, fundamental analysis combine economic, industry, and company analysis to derive a stock's current fair value and forecast future value.

The above table shows EPS is highest in CANARA BANK (18.78) than the PNB and SBI. Price to earnings is highest in PNB (26) than the SBI and CANARA BANK. Price to sales ratio is highest in Canara Bank (1.39) than SBI and PNB. Price to book ratio is highest SBI (1.49) than PNB & Canara Bank. Dividend Yield Ratio is Highest SBI (1.1) than PNB & Canara Bank. Book value Per share is Highest Canara Bank (542.61) than SBI & PNB. ROI also Highest Canara Bank (4.05) Than SBI & PNB. Liquidity ratio is highest PNB ( 7.8) than SBI & Canara Bank. NPA is Lowest SBI (3.7) Than PNB & Canara bank. Dividend per share is Highest SBI (2.6) than PNB & Canara Bank. Debt Equity Ratio is Lowest SBI (13.5) than PNB & Canara Bank

## VIII. SUGGESTIONS

Long-term investment in banking sector is good option for investors, important ratios are increased in long term like DPS, Price earnings ratio etc. Non-monetary factors also should consider while investing. Current trend of



market also should consider while marketing investment. DPS will relieve the dividend of the bank if dividend is high the investors will be ready to invest more and it result increase market capitalization.

P/E ratio reflects the price the investors are willing to pay for every one rupee earnings. The lower cost to income ratio will be good for banks; it will increase profitability and return ratios. Higher the dividend payout ratio will increase demand for security and lower will decrease the demand.

## IX. CONCLUSION

Fundamental analysis argued that no investment decision should take without processing and analyzing all relevant information. The analysis is based on industry as well as bank. For analysis of three banks are selected. Intrinsic value of all banks except, Canara bank is under prized and P/E ratio of all banks except Canara bank showing increasing trend. It indicates that investment in Canara Bank is not viable and other two banks are good for investors, among these two banks PNB showing highest P/E ratio and intrinsic value and it would be profitable for investors to invest in PNB.

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