

# **QUALITY MANAGEMENT OF INVESTMENT PORTFOLIO IN PUBLIC SECTOR BANKS OF INDIA**

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## **ABSTRACT**

*The banking sector is major constituent of total financial system in India. It provides various facilities and options to its customers. Banks provide ample services like providing loans, credits, safeguarding money, accepting deposits, checking accounts, money orders and cashier's cheque. Undeniably success or failure of any economy depends majorly on banking system. Soundness and profitability of bank depends upon the quality of assets it embodies. After loans and advances, second major assets in banking sector is always investments. Surplus funds of a bank are usually invested in various securities. Furthermore liquid assets of the bank, which are mandatory as per banking laws, are invested in RBI approved securities. This paper examines the quality management of investment portfolio of selected banks by evaluating and analyzing gross value of investments, provisions made during the year for depreciation and non performing investment, percentage of provisions to gross investments and net value of investments in the selected public sector banks.*

**Keywords:** Public Sector Banks, gross and net value of investment, provisions, asset quality

## **INTRODUCTION:**

A sound and effective banking system is an essential need of a healthy economy. “A combination of developments arising from technological advancements and a liberalized marketplace—, disappearing of traditional roles and boundaries, has led to the transformation of the banking sector. The ongoing developments and growth of industrial sector and government and India’s integration with the global economy also offer myriad opportunities to banking sector” (Kamath 2003)

### **Assets of Banking Company:**

Major components of assets in banking sector entails fixed assets, loans and advances, Investments, money at call and short notice, cash and balance with RBI, cash and balance with other banks and other assets.

### **Concept of Investment:**

“Investments in Indian banks are categorized as -“Held for Trading” or “Available for Sale” and “Held to Maturity”. “Held for Trading” or “Available for Sale” securities are to generate profit by investing in these securities whereas “Held to Maturity” securities are kept in a bank till their maturity date and interest earned on these securities is earning of the bank from these securities”.(IOB Report,2015)

## **REVIEW OF LITERATURE:**

Various studies have been conducted on asset quality and non performing assets of bank. Dhawan Annu(2017) in her study ,”Financial Performance of District Cooperative Banks in Punjab: Application of CAMAL Model,” observed that more than half of DCCBs did not have the required percentage of capital. The researcher suggested that RBI should develop monitoring parameters for those banks according to their working conditions. She further suggested the merger of all DCCBs in the state to form a strong bank. Narula and Singla (2014) attempted to find out the NPAs of Punjab National Bank and its impact on its profitability & to evaluate the relationship between total advances, Net Profits, GrossNPA and Net NPA. The study was based on secondary data which was collected from annual reports of Punjab National Bank for the period of six years from (2007-2012) This paper concluded that there was a positive relation between Net Profit & NPA of Punjab National Bank. It was due to mismanagement in the conduct of banking system. Malhotra.M (2014) analyzed that NPAs pose a notable threat for the Banks in India. Non-performing assets must be managed properly and certain curative measures should be taken for the healthy and stable environment of banks in India. They further explained the positive impact of priority sector lending’s on NPAs. Recession had been considered another major reason for rising NPAs in Indian banks. Satpal (2014) conducted study on the topic , “A Comparative study of Non Performing Assets in Public and Private Sector Banks in the New Age of Technology”. The study aimed at showing the past five year’s trend of NPAs in banks and to conduct comparative study of NPAs in public and private sector banks. The study revealed that NPAs were very much higher in public sector banks as compare to private banks. And NPAs in Indian banks were higher than foreign banks. The study suggested government to make more provisions for quick settlement of cases and the level of compulsory lending to priority sector should be diminished. Prof Ganeshan. D. and Prof Santhanakishnan. R. (2013) had made an attempt to analyze the sector-wise NPAs, category-wise priority sector NPAs and impact of spread on Gross and Net NPAs. They also analyzed the reasons for an assets becoming NPA and remedial measures to be taken and concluded that due to various steps taken by the Government of India, NPAs had been reduced to considerable level. A review of available literature evinces that though a lot of studies have been conducted on non-performing assets and its management in banks but management of investment portfolio of banks has not got due importance. Hence we decided to conduct this study i.e. “Quality management of investment portfolio in public sector banks”

## **RESEARCH METHODOLOGY**

### **Objective of the study:**

To examine the quality management of investment portfolio in selected public sector banks.

**Sample size:**

The universe of our study consists of all public sector banks operating in India. Four public sector banks have been selected on the basis of average gross NPAs. Last three years average of gross NPAs to loan outstanding ratio was calculated. Two banks with highest average ratio and two with lowest ratio was selected as a sample for this study.

**Data Collection and Analysis:**

Study is based upon secondary data collected from annual reports of selected banks and RBI reports for a period of ten years i.e. 2007-08 to 2015-16. Suitable mathematical and statistical tools such as Coefficient of variation, compound growth rates, T-test had been used to analyze the data and draw the conclusions.

## **QUALITY MANAGEMENT OF INVESTMENT PORTFOLIO IN FOUR SELECTED PUBLIC SECTOR BANKS:**

This article incorporates quality management of investment portfolio of selected banks by analyzing gross value of investments, provisions made during the year, percentage of provisions to gross investments and net value of investments in the selected public sector banks for a period of ten years i.e. from 2006-07 to 2015-16.

**Investment Portfolio of Four Selected Public Sector Banks:**

In this paper attempt has been made to analyze the investment portfolio of four selected public sector banks i.e Indian Overseas Bank, Syndicate Bank, United Bank of India and Vijaya Bank. For this purpose gross and net value of investments and provisions made in these banks has been studied.

## **RESULTS AND DISCUSSIONS:**

**Value of Investment of Indian Overseas Bank:**

Table 1 depicts value of investment of Indian Overseas Bank. It shows that gross value of investments in India had ascended persistently and continuously from Rs.23571.27 cr in the year 2007 to Rs. 76183.97 cr in the year 2015 and then it slightly slipped to Rs.76155.64cr in the terminal year of study, registering compound growth rate at 15.18 %, significant at 1% level. On an average gross value of investment was Rs. 50132.84 cr. Net value of investments had also recorded its trend in consonance with gross value of investment. It had consistently escalated from Rs. 23417.99 cr in the year 2007 to Rs. 75761.52 cr in the year 2015; afterwards it dropped slightly to Rs. 75718.9cr registering CGR at 15.18 %, significant at 1% level of significance

Provisions made for depreciation and non performing investments had remained fluctuated throughout the study. In absolute terms provisions had increased from Rs. 153.28 cr in the year 2007 to Rs. 293.25 cr in the year 2009, afterwards it slipped to Rs. 174.01 cr in the year 2010. Again it started soaring and reached to Rs.993.92 cr in the year 2014, then it dropped to Rs.422.45cr in next year and eventually it marginally rose to Rs.436.74cr in the last year i.e.2016 registering a significant CGR at 14.91%. In the percentage terms, it remained fluctuated. Initially it rose from 0.65% in 2007 to 1.07% in the next year, and then it dropped consistently to 0.42% in the year 2011 later on it climbed to 1.46 % in the year 2014. Then it slipped to 0.55% in 2015 and eventually increased to 0.57% in the terminal year of study. Substantial decrease in the percentage of provisions to gross investments demonstrates fine quality of investment portfolio of Indian Overseas Bank and reveals praiseworthy management of bank.

**Value of Investment of Syndicate Bank:**

Table 2 shows investments in India had ascended continuously and consistently from Rs.25076.05 cr in the year 2007 to Rs. 69260.99 cr in the year 2015, afterwards dropped slightly to Rs.68285.58cr registering compound growth rate at 12.59 %, significant at 1% level. On an average gross value of investment was Rs. 43016.07 cr. Net value of investment had revealed its trend parallel to the gross value of investment. It had consistently elevated from Rs. 24926.26 cr in the year 2007 to Rs. 69042.79

cr in the year 2015; afterwards it slipped slightly to Rs. 67846.49cr in the last year of study registering CGR at 12.58 % significant at 1% level of significance

Provisions made for depreciation and non performing investments remained fluctuated throughout the period of study. In absolute terms provisions had contracted from Rs. 149.79 cr in the year 2007 to Rs. 65.64 cr in the year 2009, afterwards it rose to Rs. 115.55 cr in the year 2009, later on it started falling and reached to Rs.17.68 cr in the year 2011, it again surged and reached to Rs.232.12 cr in 2014, then it dropped slightly to Rs.218.2cr in the next year and lastly it climbed to Rs. 439.09cr in the terminal year of study, registering a significant CGR at 13.95%. In the percentage terms, it remained fluctuated. Initially it shrank from 0.60% in 2007 to 0.24% in the next year, then it it rose to 0.38% in 2009. Afterwards it contacted to 0.05% in 2011. In the next year, it increased to 0.10%.It remained swinging, and eventually it reached to 0.64% in the year 2016. So, in percentage terms, provisions to gross investments had not shown any notable trend which exhibits the good quality of investment portfolio and effective management of investment portfolio of Syndicate bank.

#### **Value of Investment of United Bank of India:**

Value of investment of United Bank of India has been depicted in Table 3. It demonstrates that gross value of investments in India remained fluctuated during the period of study. Initially it increased from Rs.15135.47cr in the year 2007 to Rs.19084.6cr in the next year, then it declined to Rs.18593.31cr in 2009 .Afterwards it rose to Rs.26602.23cr in 2010 and slipped slightly to Rs.26408.86cr in 2011. Then it ascended in the next three years and reached to Rs.45127.5cr in 2014, but dropped to Rs.43440.34 in the next year and finally reached to Rs.44934.03cr in the terminal year of study registering compound growth rate at 13.43%, significant at 1% level. On an average gross value of investment was Rs. 30223.17 cr. Net value of investment had also shown fluctuation during the period of study. Initially it rose from Rs.14601.81cr in 2007 to Rs.18514.64cr in the next year. Then it dived to Rs.17924.21cr in 2009 and afterwards it started soaring and reached to Rs.44876.34cr in 2014. Then it dropped slightly to Rs.43245.49cr and eventually up surged to Rs.44723.38cr in the terminal year of study. It registered CGR at 13.88 % at 1%

Provisions made for depreciation and non performing investments had registered fluctuations throughout the period of study. In absolute terms provisions had increased from Rs. 533cr in the year 2007 to Rs. 669.1 cr in the year 2009, afterwards it slipped to Rs.149.91cr in the year 2011, later on it climbed to Rs.251.16cr, but slipped slightly to Rs.194.55cr in 2015 and eventually it climbed to Rs.210.64 cr in the terminal year of study, registering negative CGR at -13.32 %. In the percentage terms, it remained fluctuated. Initially it contracted from 3.52% in 2007 to 2.99% in the next year, and then it ascended to 3.60% in the year 2009 later on it dropped to 0.57% in the year 2011.In the next year it rose to 0.64% then it decreased continuously to 0.45% and eventually in last year of study it ascended to 0.47% .In percentage terms, provisions declined substantially exhibiting the positive performance of bank and improving quality of investment portfolio.

#### **Value of Investment of Vijaya Bank:**

Table 4 depicts that gross value of investments had elevated persistently in initial eight years from Rs.12140.94 cr in the year 2007 to Rs. 42833.78 cr in the year 2014,then dropped to Rs.40934.36cr in the year 2015 and later it climbed to Rs.42178.12cr in 2016 registering compound growth rate at 14.96%, significant at 1% level. On an average gross value of investment was Rs.28116.97 cr.Net value of investments has registered its trend precisely parallel to gross value of investment. It had consistently escalated from Rs. 12018.41 cr in the year 2007 to Rs. 42585.38 cr in the year 2014, and then it dropped to Rs. 41842.49cr in the terminal year of study registering CGR at 15.14 % at 1% level of significance.

Provisions made for depreciation and non performing investments remained fluctuated during the period of study. In absolute terms provisions had increased from Rs. 122.53 cr in the year 2007 to Rs. 456.68 cr in the year 2009, afterwards it slipped to Rs. 218.89 cr in the year 2010. It started soaring and eventually reached to Rs.295.37cr cr in the year 2012, then it dropped to Rs.219.06cr in 2013, but in the next year it rose to Rs.248.39cr. It again slipped to Rs.176.24cr in 2015 but at last it climbed to Rs.335.63cr in the terminal year of study registering CGR at 0.64%. It remained fluctuating within the

period of study, but eventually it had up surged. However in the percentage terms, it remained fluctuated. Initially it rose from 1.01% in 2007 to 2.56 % in 2009, and then it dropped to 0.92% in the year 2011 later on it again climbed to 1.02 % in 2012, then it descended to 0.43% in 2015 and eventually it rose to 0.80% in the terminal year of study. So, in percentage terms, provisions for depreciation and NPI had overall declined marginally from 1.01% in 2007 to 0.80% in 2016 revealing the improving quality of investment portfolio of bank and appreciable management by Vijaya bank

#### **Management of Investment Portfolio by Public Sector Banks:**

On the basis of data of selected public sector banks, Table 5 has been formulated which demonstrates value of investment of Public Sector Banks collectively. It evinces that gross value of investments had elevated substantially from Rs.75923.73 cr in the year 2007 to Rs. 231553.37 cr in the year 2016, registering compound growth rate at 14%, significant at 1% level. On an average gross value of investment was Rs.151489.05 cr. Net value of investments had depicted its movement in consonance with the gross value of investments. It consistently ascended from Rs. 74964.47 cr in the year 2007 to Rs. 230131.3 cr in the year 2016 registering CGR at 14.12 % at 1% level of significance exhibiting the affirmative management of investment portfolio by the public sector banks.

In absolute terms provisions made for depreciation and non performing investments had persistently fluctuated in the period of study. It initially increased from Rs. 958.6 cr in the year 2007 to Rs.1496.54 cr in 2009, later on it starting diving and reached to Rs. 612.14 cr in 2011, and then it climbed to Rs. 1725.59 cr in 2014, afterwards it dropped to Rs.1011.44cr and eventually rose to Rs.1422.1cr the terminal year of study registering CGR at 1.84 % significant at 1 % level of significance. However if provisions are analyzed in the percentage terms, it remained fluctuating. Initially it increased from 1.26 % in 2007 to 1.54% in 2009, and then it slightly dropped to 0.45% in the year 2011, afterwards it elevated to 0.82% in 2014 and then it dropped to 0.44% in 2015 but eventually it climbed to 0.61% in the terminal year of study. In percentage terms, provisions declined substantially exhibiting the positive performance of public sector bank and improving quality of investment portfolio.

#### **CONCLUSION:**

Analysis of provisions to gross investments shows that public sector banks had improved quality of their investment to some extent. Three banks named Indian Overseas Bank, United Bank of India and Vijaya Bank had improved the investment quality whereas Syndicate Bank had been able to maintain the same standard of quality.

#### **RECOMMENDATION:**

All public sector banks should focus on improving the quality management of investment portfolio so that provisions made for depreciation and non performing investment shall decline. It is less risky portfolio as compared to the loan portfolio and can contribute to bank's profitability.

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### **TABLES AND FIGURES**

**Table 1: showing value and provisions made for depreciation of Investment of Indian Overseas Bank**

Year	Gross value of investment	Provisions Made during the year	% of provisions to gross investment	Net value of Investment (Rs. in crores)
2016	76155.64	436.74	0.57	75718.9
2015	76183.97	422.45	0.55	75761.52
2014	68005.85	993.92	1.46	67011.93
2013	60194.85	570.22	0.95	59624.63
2012	54736.13	362.78	0.66	54373.35
2011	47720.54	200.14	0.42	47520.4
2010	36795.09	174.01	0.47	36621.08
2009	30497.19	255.21	0.84	30241.98
2008	27467.85	293.25	1.07	27174.6
2007	23571.27	153.28	0.65	23417.99
Average	50132.84	386.20	0.76	49746.64
C.V.	39.82	65.01	41.91	39.80
C.G.R.	15.18	14.91	-	15.18
t-value	15.31**	2.82*	-	15.32**

\*significant at 5%\*

\*\*significant at 1%

Source: Annual reports of Indian Overseas bank & statistical tables of RBI

**Table 2: showing value and provisions made for depreciation of Investment of Syndicate Bank  
(Rs in crores)**

Year	Gross value of investment	Provisions Made	% of provisions to gross investment	Net value of Investment
2016	68285.58	439.09	0.64	67846.49
2015	69260.99	218.2	0.32	69042.79
2014	55462.03	232.12	0.42	55229.91
2013	45574.21	42.92	0.09	45531.29
2012	40641.46	42.3	0.10	40599.16
2011	34954.25	17.68	0.05	34936.57
2010	32778.36	58	0.18	32720.36
2009	30293.1	115.55	0.38	30177.55
2008	27834.69	65.64	0.24	27769.05
2007	25076.05	149.79	0.60	24926.26
Average	43016.07	138.13	0.30	42877.94
C.V.	37.79	93.74	68.93	37.69
C.G.R.	12.59	13.95	-	12.58
t-value	15.27**	1.18	-	15.54**

\*significant at 5%

\*\*significant at 1%

Source: Annual reports of Syndicate bank & statistical tables of RBI

**Table 3: showing value and provisions made for depreciation of Investment of United Bank of India (Rs in crores)**

Year	Gross value of investment	Provisions made	% of provisions to gross investment	Net value of Investment
2016	44934.03	210.64	0.47	44723.38
2015	43440.34	194.55	0.45	43245.49
2014	45127.5	251.16	0.56	44876.34
2013	33658.68	195.27	0.58	33463.4
2012	29246.7	187.9	0.64	29058.8
2011	26408.86	149.91	0.57	26258.95
2010	26602.23	535.49	2.01	26067.74
2009	18593.31	669.1	3.60	17924.21
2008	19084.6	570.03	2.99	18514.64
2007	15135.47	533	3.52	14601.81
Average	30223.17	349.71	1.54	29873.48
C.V.	37.25	57.33	87.91	38.18
C.G.R.	13.43	-13.32	-	13.88
t-value	11.65**	3.51**	-	11.65**

\*significant at 5%

\*\*significant at 1%

**Source:** Annual reports of united bank of India & statistical tables of RBI

**Table 4: Showing value and provisions made for depreciation of Investment of Vijaya Bank (Rs in crores)**

Year	Gross value of investment	Provisions Made during the year	% of provisions to gross investment	Net value of Investment
2016	42178.12	335.63	0.80	41842.49
2015	40934.36	176.24	0.43	40758.12
2014	42833.78	248.39	0.58	42585.38
2013	31504.02	219.06	0.70	31284.96
2012	28939.17	295.37	1.02	28643.8
2011	26482.99	244.41	0.92	26238.5
2010	21326.34	218.89	1.03	21107.45
2009	17844.38	456.68	2.56	17387.7
2008	16985.61	368.28	2.17	16617.33
2007	12140.94	122.53	1.01	12018.41
Average	28116.97	268.55	1.12	27848.41
C.V.	39.75	36.46	61.62	40.17
C.G.R.	14.96	0.64	-	15.14
t-value	12.07**	0.14	-	12.20**

\*significant at 5%

\*\*significant at 1%

**Source:** Annual reports of vijaya bank & statistical tables of RBI

**Table 5: showing value and provisions made for depreciation of Investment of Public Sector Bank**  
**(Rs in crores)**

<b>Year</b>	<b>Gross value of investment</b>	<b>Provisions Made during the year</b>	<b>% of provisions to gross investment</b>	<b>Net value of Investment</b>
2016	231553.37	1422.1	0.61	230131.26
2015	229819.66	1011.44	0.44	228807.92
2014	211429.16	1725.59	0.82	209703.56
2013	170931.76	1027.47	0.60	169904.28
2012	153563.46	888.35	0.58	152675.11
2011	135566.64	612.14	0.45	134954.42
2010	117502.02	986.39	0.84	116516.63
2009	97227.98	1496.54	1.54	95731.44
2008	91372.75	1297.2	1.42	90075.62
2007	75923.73	958.6	1.26	74964.47
Average	151489.05	1142.58	0.86	150346.47
C.V.	38.24	29.20	47.50	38.47
C.G.R.	14.00	1.84	-	14.12
t-value	22.12**	0.52	-	21.06**

\*significant at 5%

\*\*significant at 1%

**Source:** Annual reports of public sector banks & statistical tables of RBI

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