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**A COMPARATIVE STUDY OF PRIORITY SECTOR LENDING AND SHARE  
PRICES OF SBI AND BOB FOR THE PERIOD 2005-06 TO 2014-15**

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**Abstract**

The Indian banking sector is going through a transition. Both public sector banks and private sector





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banks are facing different set of challenges. While public sector banks are plagued with asset quality issues leading to higher credit costs and losses. Private sector banks on the other hand face challenges of increasing competitive intensity because of weak credit demand. Besides, the buoyant debt markets pose challenges of balancing growth and profitability.

**Key Words:** Priority Sector Lending, Stock Prices



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## Introduction

Priority sector was first properly defined in 1972; after the National Credit Council emphasized that there should be a larger involvement of the commercial banks in the priority sector. The sector was then defined by Dr. K S Krishnaswamy Committee. The priority sectors include those sectors which may not get adequate institutional credit due to social, cultural and economic reasons. Common priority sectors include Agriculture Finance, Small Enterprises, Retail Trade, Micro Credit, Education Loans and housing loans.

## Objective of the study

To study the priority sector lending by State Bank of India and Bank of Baroda from the period 2005-06 to 2014-15

## RESEARCH DESIGN

- (i) **SAMPLE DESIGN:** For the present study researcher has selected top performing NIFTY 50 base two public sector banks State Bank of India and Bank of Baroda as a sample.
- (ii) **DATA COLLECTION:** The present study is mainly based on secondary data and the required data is collected from Annual Published Report of selected units, various Magazines, Periodicals related to banking industries, related websites and subject matter is also used.
- (iii) **PERIOD OF STUDY:** The study period is to be converted 10 years; from 2005-06 to 2014-15.
- (iv) **TOOLS & TECHNIQUES:** For the present study, Ratio-Analysis as an Accounting tools and linear correlation as well as regression model has been used as tools of Statistics.
- (v) **HYPOTHESIS:**
  - $H_0$ : There is no significant relation between priority sector lending by banks and stock prices of the bank
  - $H_1$ : There is significant relation between priority sector lending by banks and stock prices of the bank



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Table :1

Ratio of Priority Sector Advances To Total Advances and Average Stock prices of State

Bank of India and Bank of Baroda for the period from 2005-06 to 2014-15

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
<b>Ratio SBI</b>	30.56	30.24	28.61	26.48	26.99	30.61	28.84	25.28	23.21	22.23
<b>Stock Price</b>	81.262	99.877	178.086	132.611	190.959	266.654	213.881	216.830	180.499	166.428
<b>Ratio BOB</b>	31.50	29.81	28.41	26.27	25.48	25.76	22.56	22.45	20.88	21.16
<b>Stock Price</b>	22.678	23.968	322.15	261.71	475.43	836.70	810.41	741.39	602.10	777.16

Formula : (Priority Sector Advances/Total Advances) x 100

Source: rbi.gov.in



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Table : 2

**Regression Statistics for Ratio of Priority Sector Advances To Total****Advances and Average Stock prices of State Bank of India and Bank of****Baroda for the period from 2005-06 to 2014-15**

	SBI	BOB
<b>Multiple R</b>	0.1273	0.795766
<b>R Square</b>	0.01621	0.633244
<b>Adjusted R Square</b>	-0.10677	0.587399
<b>Standard Error</b>	588.9532	162.7888
<b>Observations</b>	10	10
<b>Fc</b>	0.1318	13.81
<b>Ft</b>	0.7259	0.0059
<b>Regression ANOVA</b>	Fc < Ft	Fc>Ft

- (i) **Multiple R:** This is the Correlation Coefficient. It shows how strong the linear relationship is. For the ratio of Priority Sector Advances to total assets and average stock prices of State Bank of India the value for it shows 0.1273 that means 12.73% and 0.795766 that means 79.58% relationship exist For the ratio of Priority Sector Advances to total assets and average stock prices of State Bank of India and Bank of Baroda for the period from 2005-06 to 2014-15.



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- (ii) **R Square:** This is  $r^2$ , the Co efficient of Determination which shows that how many points fall on the regression model that means how well the regression line approximates the real data. For the ratio of Priority Sector Advances to total assets and average stock prices of State Bank of India the value of it shows 0.01621 that means 01.621% and 0.633244 that means 63.32% for Bank of Baroda variation of y-values around the mean is explained by the x-values. In other words, 01.621% of the values fit the model for SBI and 63.32% for BOB.
- (iii) **Adjusted R Square:** This is quoted most often when explaining the accuracy of the regression equation. Adjusted R Square is more conservative the R Square because it is always less than R Square. For the ratio of Priority Sector Advances to total assets and average stock prices of State Bank of India the value of it shows - 0.10677 that means - 10.677% and 0.587399 that means 58.74%.
- (iv) **Standard Error of the Regression:** An estimate of the standard deviation of the error for population mean. This is not the same as the Standard Error in Descriptive statistics! The Standard Error of the regression is the precision that the regression coefficient is measured which is shown as 588.9532 for SBI and 162.7888 for BOB. For the ratio of Priority Sector Advances to total assets and average stock prices of State Bank of India.
- (v) **Observation:** Number of observations in the sample is 10 for both the research unit under study.
- (vi) **Regression ANOVA:** From the above table it is clear that  $F_c < F_t$  for SBI that means null Hypothesis is accepted that there is no significant relationship between priority sector lending and stock prices of SBI while  $F_c > F_t$  for BOB that means null hypothesis is rejected that there is significant relationship between priority sector lending and stock prices of BOB during research period.

## Conclusion

From the above study it is concluded that priority sector lending activity of banks and stock prices the banks depends upon the respective bank lending policy towards priority sector.



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