A Comparative Financial Analysis of State Bank of India and HDFC Bank

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ABSTRACT

This financial analysis compares State Bank of India (SBI) and HDFC Bank, two prominent banks in India. The study examines key financial indicators such as profitability, asset quality, liquidity, and capital adequacy. By analyzing financial statements and performance ratios, insights into each bank's financial health and operational efficiency are gained. Factors influencing their market positions and potential risks are also considered. The study aims to provide stakeholders, investors, and analysts with a comprehensive understanding of the comparative financial strengths and weaknesses of SBI and HDFC Bank, aiding in informed decision-making in the dynamic banking sector.

Keywords: Indian Banking Sector, Financial Performance, Bank Profitability, HDFC Bank, Public vs Private Bank, State Bank of India.

I. INTRODUCTION

Rationale of the Study A thorough examination of a bank's financial statements will reveal important factors to consider before making an investment decision. Investors should be aware of the market cycle and interest rates, as these can have a direct effect on a bank's financial results. • Reasons to choose Ratio Analysis for SBI and HDFC:

➢ It provides clear understanding about the Profitability, Liquidity and Long term Solvency of the firm.

➢ Ratio Analysis is an efficient way to evaluate the company’s performance and compare it with other similar companies to measure financial stability.

➢ It is useful to analyze firm’s performance across the period of time. It is time and cost effective.

➢ A comprehensive method to compare the NPA ratios of both the firms.

- Reasons to choose SBI and HDFC bank:

➢ In the current scenario in June, 2020 if we think about the two largest of banks of India one from the private segment and other from the public sector segment, there is no doubt about it being HDFC Bank from the Private sector and SBI from the Public sector looking at their balance sheet, reach and customer base.

➢ The study will assist in contrasting the public and private sectors in addition to SBI and HDFC..

II. LITRATURE REVIEW

PROF. SIRAJ. K. K & SIRAJ. K. K (DR). NPA, according to P. SUDARSANAN PILLAI (February 2014), is a virus that has infected the banking sector. It has an effect on liquidity and profitability, as well as posing a challenge to asset quality and bank survival. The study concluded that nonperforming assets (NPAs) continue to be a major danger, and the incremental aspect explained by NPA additions raises serious doubts about the efficiency of

Indian banks' credit risk management. (PILLAI & K.K, 2012) In their paper titled "NPAs Reduction Strategies for Commercial Banks in India," Prasad and Veena (2011) reported that NPAs have a negative effect on the ROA because they do not produce any net interest income. As a result, bank profits are reduced, and recycling of waste is limited. ~~(Bhavani, G.V., Veena, & D, 2011) The NPAs study comparing public and private sector banks was conducted~~ by Kajal Chaudhari and Monika Sharma in June 2011. To detect any diversion of funds, effective and regular followup of the end usage of the funds sanctioned is needed. This procedure can be repeated every quarter to ensure that any accounts that become NPA are properly accounted for. (Chaudhari & Sharma, 2011) RESEARCH METHODOLOGY .

III. CASE STUDY

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Background

The Indian banking sector is vital to the country's economic growth, with both public and private banks playing key roles. State Bank of India (SBI), the largest public sector bank, focuses on
financial inclusion and national priorities. HDFC Bank, a leading private sector bank, is known for efficiency, innovation, and strong financial performance. This case study compares the financial
performance of SBI and HDFC Bank from 2019 to 2024, examining profitability, efficiency, asset quality, and risk management. The study highlights the contrast between public and private sector banking, offering insights into their operational strategies and impact on the Indian economy.

Comparison

Parameter	SBI	HDFC
Ownership	Public Sector(govt. owned)	Private Sector
Net Profit (FY 2023)	Rs.55,648 crore	Rs.45,997 crore
Return on Equity	15%	17%
Gross NPA Ratio	2.8%	1.2%

Lessons Learned

- Operational Efficiency Matters: HDFC Bank's consistent focus on cost control, digital innovation, and streamlined operations has contributed to superior profitability compared to SBI.
- Asset Quality Impacts Performance: Lower NPAs at HDFC Bank highlight the importance of robust credit appraisal and risk management systems. SBI's higher NPAs underscore the challenges faced by public sector banks in managing large and diverse loan portfolios.
- Technology Drives Growth: Adoption of advanced technology platforms has enabled HDFC Bank to enhance customer experience and operational scalability. SBI, while progressing, lags behind in digital

IV. CONCLUSION

After the above study on the comparative analysis of SBI and HDFC it was discovered that both the banks are managing their ratios to the best of their abilities within the specified parameters.
However, when we compare the two banks, it appears that HDFC Bank has an edge over SBI,
reason being HDFC Bank have lower NPAs than the SBI. HDFC Bank having average Gross NPAs less than 1.5% while SBI having the GNPAs near about 8.1% as per the annual report of both banks over the last three years. HDFC Bank has managed their NPA and profitability ratios in a very
efficient manner and are playing an important role as a profitable commercial bank, while SBI is controlling its ratios particularly the current assets ratio but is not as competitive in terms of net profit and Non Performing Assets (NPAs). SBI needs to be more focused on managing the net profits and NPAs part to be a commercially successful bank.

International Journal of Scientific Research in Engineering and Management (IJSREM)
Volume: 09 Issue: 05 | May - 2025 SJIF Rating: 8.586 ISSN: 2582-3930

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