A Study on the Impact of Priority Sector Lending on Financial Performance in Indian Banking Industry- A Comparative Study Between SBI and HDFC

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Abstract :

Priority Sector Lending (PSL) is a vital component of the Indian banking industry, aimed at promoting economic growth and financial inclusion. This study examines the impact of PSL on the financial performance of two prominent Indian banks, State Bank of India (SBI) and Housing Development Finance Corporation (HDFC), over a period of five years (2017-2022). Using a comparative analysis approach, this research investigates the relationship between PSL and key financial indicators such as return on assets (ROA), return on equity (ROE), net interest margin (NIM), and credit deposit ratio.

The findings reveal that while both banks have complied with the regulatory requirements of PSL, SBI's financial performance has been more significantly influenced by its PSL portfolio. The study also highlights the differences in PSL strategies employed by the two banks, with SBI focusing on agricultural and microfinance lending, whereas HDFC has concentrated on housing finance and small-scale industries. The results have important implications for policymakers, bankers, and stakeholders, underscoring the need for targeted interventions to enhance the efficacy of PSL and promote sustainable financial inclusion.

Keywords : Priority Sector Lending, Financial Performance, Indian Banking Industry, State Bank of India, HDFC, Comparative Study.

INTRODUCTION

As per the Reserve Bank of India (RBI), India's banking sector is sufficiently capitalized and well- regulated. The financial and economic conditions in the country are far superior to any other country in the world. Credit, market and liquidity risk studies suggest that Indian banks are generally resilient and have withstood the global downturn well. Indian banking industry has recently witnessed the roll out of innovative banking models like payments and small finance banks. RBI's new measures may go a long way in helping the restructuring of the domestic banking industry.

The Indian banking system consists of 27 public sector banks, 21 private sector banks, 49 foreign banks, 56 regional rural banks, 1,562 urban cooperative banks and 94,384 rural cooperative banks, in addition to cooperative credit institutions. In FY07-18, total lending increased at a CAGR of 10.94 per cent and total deposits increased at a CAGR of 11.66 per cent. India's retail credit market is the fourth largest in the emerging countries. It increased to US$ 281 billion on December 2017 from US$ 181 billion on December 2014.

REVIEW OF LITERATURE

STATEMENT OF PROBLEM

In the fast-changing economic scenario world over, the management of any bank has to play a dynamic role in managing its finances. To make rational decisions in tune with the objectives of the firm, the management must analyze the funds needs, the financial status and profitability and the business risk of the bank (Van Horne 2000).

As there is an increasing competition from other global players, the management has to initiate appropriate steps to lower the cost of production and generation of additional revenues through cost competitiveness. For this purpose, certain production areas have been identified for cost reduction. The management can aim at increasing the profit through the following methods:

In the light of the above, proper analysis of the financial statements of the bank is necessary to assess the financial health of the bank, as it provides valuable insights into its financial performance. Financial appraisal provides a method for accessing the financial strengths and weakness of a bank. There are two views of the financial strength of every organization based on the period of lending i.e., the short term and long term. Short term financial strength relates to the technical solvency of an organization in the near future, while the long term financial strength depends on the structure that has been imposed in financing more permanent asset requirements.

To analyze the financial strength of Banking we chose the topic of research study as “Financial Appraisal of Banking Industry in India analyzed the financial performance of selected banking banks namely Housing Development Finance Corporation and State bank of India Ltd.

SIGNIFICANCE OF THE STUDY

In India, the banking industry is one of the largest industries. It is one of the key sectors of the economy. The industry has shown great progress since de-licensing and opening up of the sector to Foreign Direct Investment (FDI) in 1991-92. It has both forward and backward linkages with the rest of the economy, and hence has a strong multiplier effect. The banking industry including manufacturing of component is estimated to provide employment directly to approximately five lakhs of people and indirectly to around 50 million people. It is expected that by the year 2016, the turnover of the Indian banking sector could grow to $145 billion Department of Industrial Policy and Promotion (DIPP). Today, this sector has emerged as a sunrise sector. However, the overcapacity problem is haunting many of the players as demand may not go up significantly. Hence, many players are looking for an external market for Indian banking. The prospect of component industry is quite positive. The leading local firms have established over 200 technical cooperation agreements with foreign firms to be able to reach international standards in cost and manufacturing.

SCOPE OF THE STUDY

Financial Appraisal is of special importance in industries and banking industry is one of such industry. From the point of view of the socio-economic development of the country, banking is significant enough in terms of investment and employment. The sales and profitability function in banking industry differs from that of other industries.

a) The study will be helpful in understanding the pattern and the structure of financial variables of selected bank apart from identifying the financial relationship with other major banking banks in India.

b) The study will be helpful in checking current performance against predetermined standards contained in the plans and will be helpful in evaluation of standards.

c) The study will be helpful in forming the policies of the management within the scheduled time and approve cost.

d) The study will be helpful in ensuring maximum economy in expenditure.

e) The study will be helpful to the management, the financiers the investors and the government at large, to take valuable decisions on their own

f) The study will be helpful to shareholders, investors and investment analysts to identify the determinants of financial appraisal of selected banking industry.

g) The study will also be helpful to academic researchers, researchers in securities, industries and banks by providing different perspectives**.**

OBJECTIVES OF THE STUDY

- To examine the solvency, liquidity, profitability position of the banks taken for the study based on the ratios.
- To analyze the performance of selected banks in future period of time.
- To compare the relationship between performance of bank.
- To compare the performance of banks to find out the relationship.

RESEARCH METHODOLOGY

Research methodology deals with research design, method of data collection, period of the study, sampling design, statistical tools employed and of data. The following make up the framework of analysis as applied by the researcher, to identify the solutions to realize the objectives of the study**.**

Research design

The design of the study is analytical. It is the procedure of condition and analysis of data in a manner that aims to combine reference to the research purpose. The research is conducted within the conceptual structure.

Data collection

The data collected from Centre for monitoring Indian economy. Secondary data used in this study. The other relevant data were collected from Journals, Magazines, Websites and Dailies.

Sample size and design

Banks taken for the study

A total of 2 banks were taken for the study towards comparison. The banks are, SBI and HDFC. As the study is to compare the performance of public sector bank (SBI) for comparison HDFC has been used as comparison bank from private sector.

FRAMEWORK OF ANALYSIS

Financial ratios provide a quick and relatively simple means of examining the financial condition of a business. Ratios can be very helpful when comparing the financial health of different businesses. The financial performance of Banking industries can be measured by a number of indicators.

In this study, the predictive variables are the financial ratios of Banking, which are defined in the following Table,

S. No	**Code**	**Ratios**	Growth and trend variables
1	X1	Current Ratio	i. Sales
2	X2	Quick Ratio	ii. Net Income
3	X3	Inventory to Total Assets Ratio	iii. Current Assets
4	X4	Quick Assets to Total Assets Ratio	iv. Working Capital
5	X5	Current Assets to Total Assets Ratio	v. Fixed assets

STATISTICAL ANALYSIS

In order to identify the prominent factors responsible for the profitability of Banking industries and also to measure the extent of influence of the independent variables on the dependent variable, the following tools were applied by the researcher:

1. Paired sample t-test
2. Factor Analysis
3. Multiple Regression Analysis
4. Trend Analysis

SOLVENCY, LIQUIDITY, PROFITABILITY POSITIONS OF THE BANKS TAKEN FOR THE STUDY BASED ON THE RATIOS.

TABLE 1.1 CURRENT RATIO

	Particulars	**Mar '17**	**Mar '18**	**Mar '19**	**Mar '20**	**Mar '21**
HDFC	Current assets	5,815.00	4,693.70	4,475.20	4,496.50	3,703.10
	Current liabilities	15,976.80	16,915.50	13,865.00	11,564.70	8,013.60
	Current ratio	0.36	0.28	0.32	0.39	0.46
SBI	Current assets	6,861.31	7,951.92	8,007.62	9,945.36	9,219.25
	Current liabilities	12,282.33	17,958.05	17,501.71	20,913.14	18,779.30
	Current ratio	0.56	0.44	0.46	0.48	0.49
T value				-4.157		
Df				4		
Sig				0.014		

The above table shows about the current ratio of HDFC and SBI for the past five years were the ratio was high at 0.46 with HDFC n the year 2021 and was low at 0.44 in the year 2018. The ratio was high at 0.56 in the year 2017 and was low at 0.44 in the year 2018 with SBI. It reveals that the ratio was not up to the prescribed formula at 2:1 and the banks have to show a good performance to reach the prescribed level and for this the current assets of HDFC and SBI has to be increased in future period of time. The level of significance towards comparison between performances of two banks based on current ratio is at 0.014 with a T value of -4.157. It reveals that there is a significant relationship between the performance of HDFC and SBI based on current ratio.

CHART 1.1 CURRENT RATIO

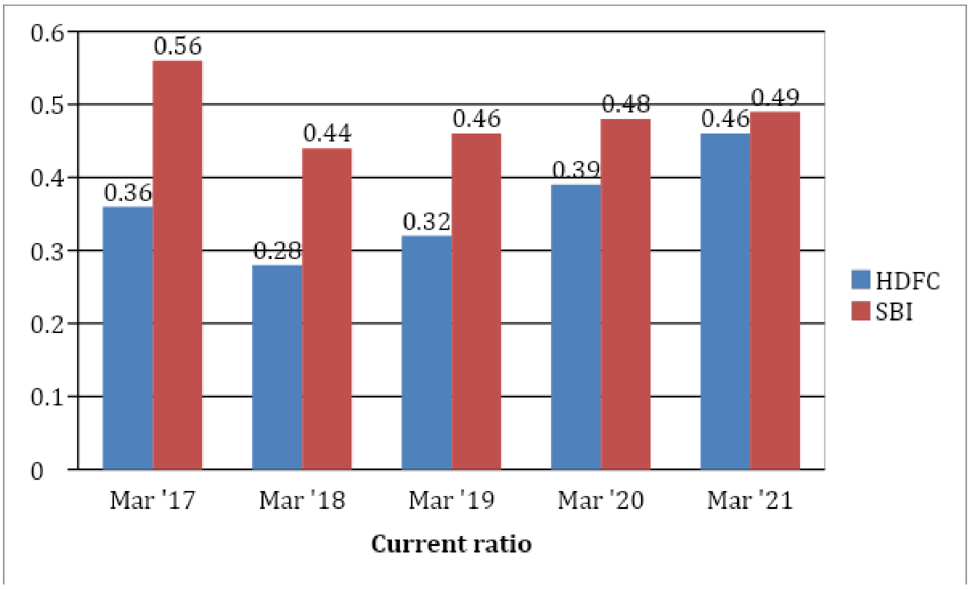


TABLE 1.2 QUICK RATIO

	Particulars	Mar '17	Mar '18	Mar '19	Mar '20	Mar '21
HDFC	Current assets	5,815.00	4,693.70	4,475.20	4,496.50	3,703.10
	Inventory	2,615.00	3,132.10	3,262.20	3,160.80	3,325.70
	Prepaid expenses	273	374	433	578	770
	Quick assets	2,927.00	1,187.60	780.00	757.70	-392.60
	Current liabilities	15,976.80	16,915.50	13,865.00	11,564.70	8,013.60
	Current ratio	0.18	0.07	0.06	0.07	-0.05
SBI	Current assets	6,861.31	7,951.92	8,007.62	9,945.36	9,219.25
	Inventory	4,802.08	5,117.92	5,553.01	5,670.13	4,662.00
	Prepaid expenses	127	112	111	144	121
	Quick assets	1,932.69	2,722.26	2,343.99	4,131.19	4,436.18
	Current liabilities	12,282.33	17,958.05	17,501.71	20,913.14	18,779.30
	Current ratio	0.16	0.15	0.13	0.20	0.24
T value				-2.169		
Df				4		
Sig				.096		

The above table shows about the quick ratio of HDFC and SBI for the past five years were the ratio was high at 0.18 with HDFC n the year 2017 and was low at -0.05 in the year 2021. The ratio was high at 0.24 in the year 2021 and was low at 0.13 in the year 2019 with SBI. It reveals that the performance of SBI was higher than HDFC based on quick ratio as the ratio was decreasing with HDFC and it was increasing with SBI and this may be due to the difference with quick assets of the banks. The level of significance towards comparison between performance of two banks based on current ratio is at 0.096 with a T value of -2.169. It reveals that there is no significant relationship between the performance of HDFC and SBI based on quick ratio.

CHART 1.2 QUICK RATIO

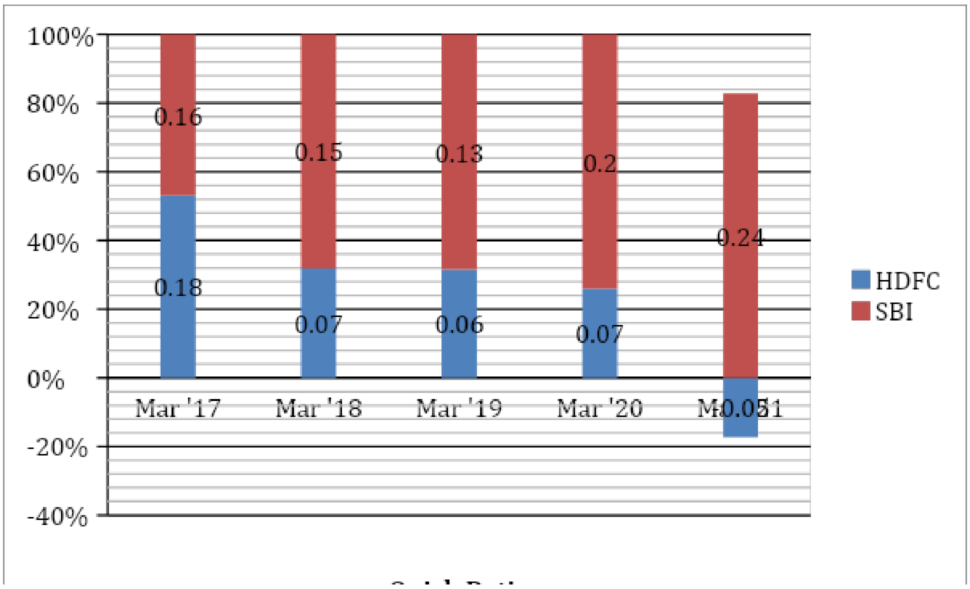


TABLE 1.3 OPERATING RATIO

	Particulars	Mar '17	Mar '18	Mar '19	Mar '20	Mar '21
HDFC	Operating expenses	43713.60	48646.8	58063.2	67660.5	74810.2
	Cost of goods sold	55,133.60	65,054.60	77,266.20	81,994.40	86,020.30
	Net sales	49,970.60	57,538.10	68,034.80	79,762.70	86,020.30
	Operating ratio	1.98	1.98	1.99	1.88	1.87
SBI	Operating expenses	38,411.04	39,888.86	42,957.97	54,680.90	64,118.52
	Cost of goods sold	39,524.34	47,383.61	49,054.49	59,624.69	69,202.76
	Net sales	36,294.74	42,845.47	44,316.34	58,831.41	69,202.76
	Operating ratio	2.15	2.04	2.08	1.94	1.93
T value				-4.212		
Df				4		
Sig				.014		

The above table shows about operating ratio of HDFC and SBI for the past five years were the ratio was high at 1.98 with HDFC in the year 2019 and was low at 1.87 in the year 2021. The ratio was high at 2.15 in the year 2017 and was low at 1.94 in the year 2020 with SBI. It reveals that the operating ratio was higher with SBI when compared to HDFC though the ratio was declining in the last five years. The level of significance towards comparison between performance of two banks based on capital employed is at 0.014 with a T value of -4.212. It reveals that there is a significant relationship between the performance of HDFC and SBI based on the operating ratio.

CHART 1.3 OPERATING RATIO

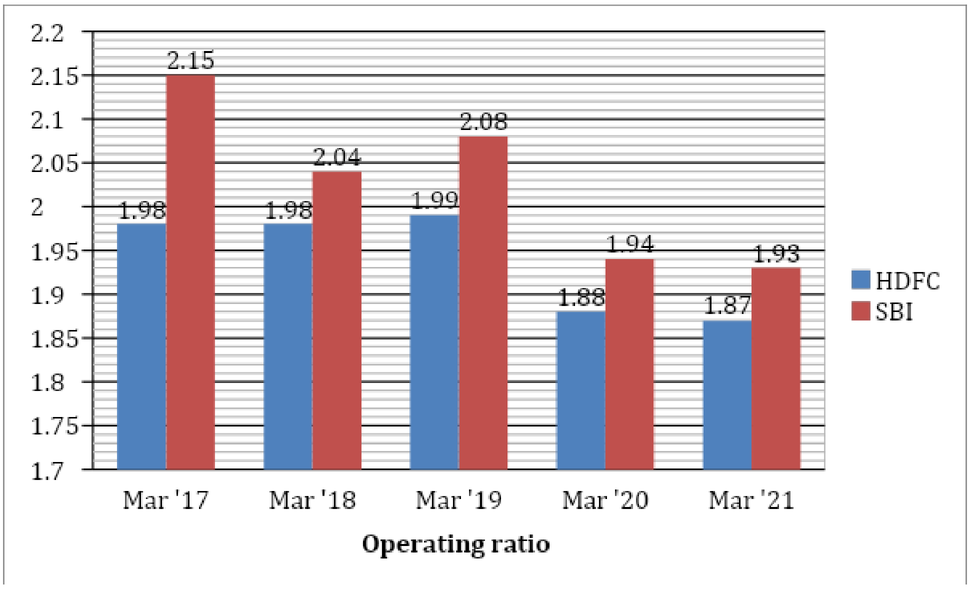
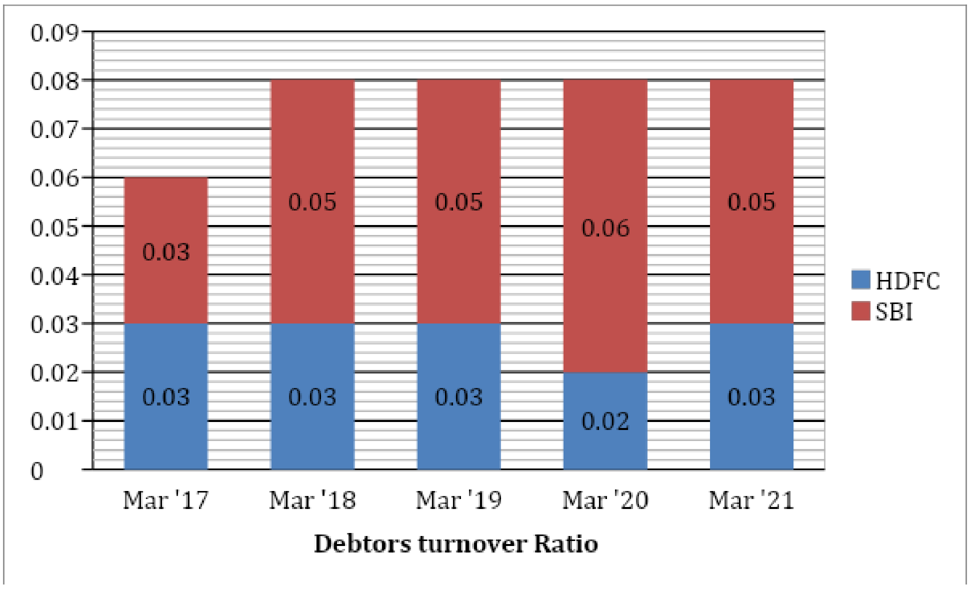


TABLE 1.4 DEBTORS TURNOVER RATIO

	Particulars	Mar '17	Mar '18	Mar '19	Mar '20	Mar '21
HDFC	Sundry Debtors	1,069.80	1,322.20	1,199.20	1,461.80	2,310.40
	Net sales	36294.74	42845.47	44316.34	58831.41	69202.76
	Debtors turnover Ratio	0.03	0.03	0.03	0.02	0.03
SBI	Sundry Debtors	1,114.48	2,045.58	2,128.00	3,479.81	3,250.64
	Net sales	36,294.74	42,845.47	44,316.34	58,831.41	69,202.76
	Debtors turnover Ratio	0.03	0.05	0.05	0.06	0.05
T value				-3.245		
Df				4		
Sig				.032		

The above table shows about debtors turnover ratio of HDFC and SBI for the past five years were the ratio was constant at 0.03 for the past 5 year but it was at 0.02. The ratio was high at 0.06 in the year 2020 and was low at 0.03 in the year 2017 with SBI. It reveals that the debtors ratio towards net sales was the same with both the banks. The level of significance towards comparison between performance of two banks based on capital employed is at 0.032 with a T value of -3.245. It reveals that there is a significant relationship between the performance of HDFC and SBI based on debtors turnover ratio.

CHART 1.4 DEBTORS TURNOVER RATIO



RELATIONSHIP BETWEEN PERFORMANCE OF BANK TREND ANALYSIS HDFC

TABLE 1.5 TREND ANALYIS OF NET SALES

Month	Sales	X	X^2	XY
2014-15	55,133.60	-2	4	-110267
2017-16	65,054.60	-1	1	-65054.6
2018-17	77,266.20	0	0	0
2019-18	81,994.40	1	1	81994.4
2020-19	86,020.30	2	4	172040.6
	365469.10		10	78713.2
	A	73093.82		
	B	7871.32		
	YEAR (X)	Predicted Net sales (Y)		
3	2021-20	96707.78		
4	2020-21	104579.10		
5	2021-22	112450.42		
6	2022-23	120321.74		
7	2023-24	128193.06		

The above table depicts that the sales of HDFC will be increasing from 96707.78 in the year 2021-20 to 128193.06 in the year 2023-24. It shows that it is a good sign for the bank which also will replicate with the profit of the bank.

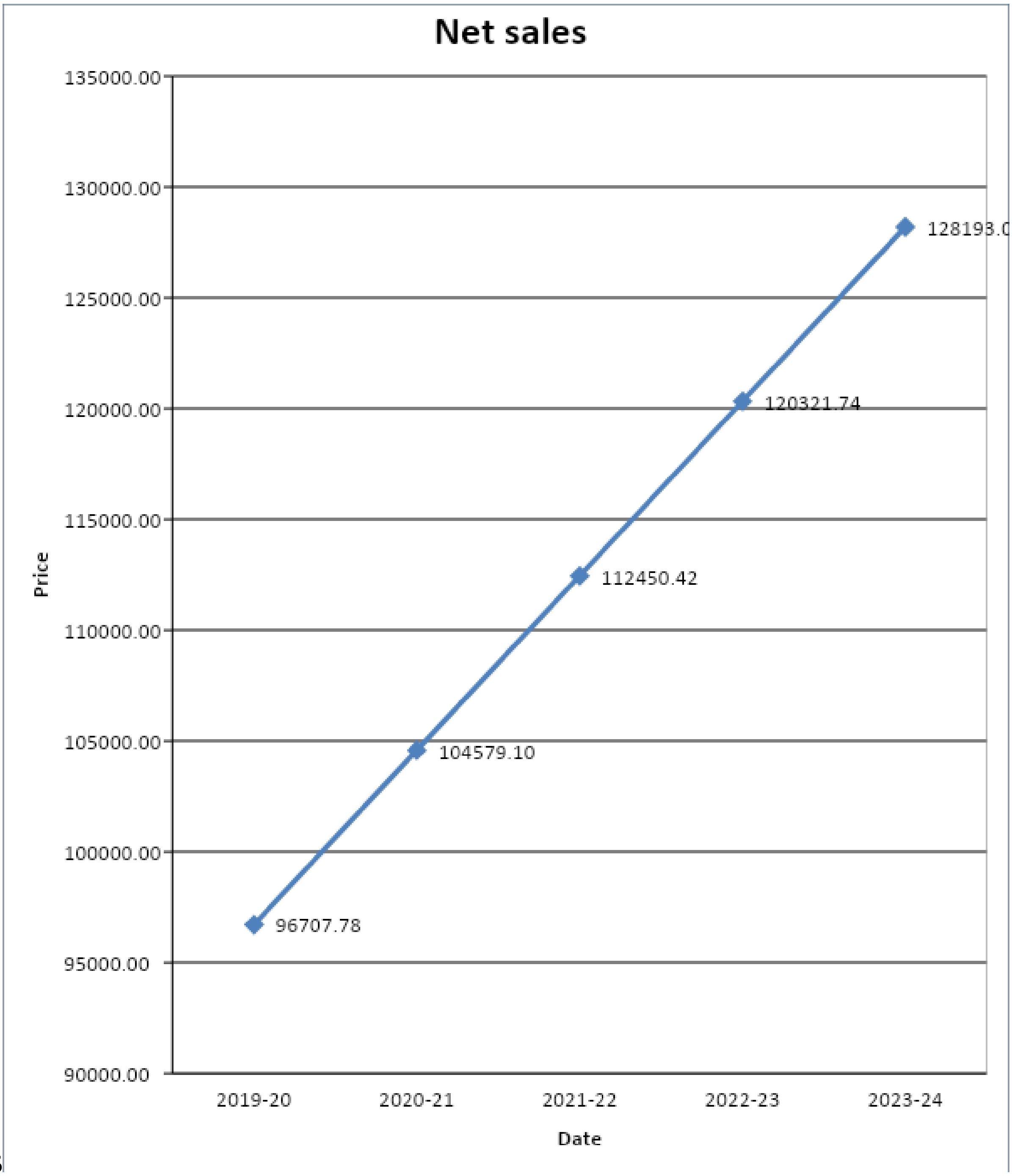

Net sales
135000.00
130000.00
125000.00
120000.00
115000.00
110000.00
105000.00
100000.00
95000.00
90000.00
Price
96707.78
104579.10
112450.42
120321.74
2019-20
2020-21
2021-22
2022-23
2023-24
Date

CHART 1.5

TABLE 1.6 TREND ANALYSIS OF NET INCOME

Month	Net income	X	X^2	XY
2014-15	3,711.20	-2	4	-7422.4
2017-16	5,364.30	-1	1	-5364.3
2018-17	7,350.20	0	0	0
2019-18	7,721.80	1	1	7721.8
2020-19	7,500.60	2	4	15001.2
	31648.10		10	9936.3
	A	6329.62		
	B	993.63		
	YEAR (X)	Predicted income (Y)		
3	2021-20	9310.51		
4	2020-21	10304.14		
5	2021-22	11297.77		
6	2022-23	12291.40		
7	2023-24	13285.03		

The above table depicts that the sales of HDFC will be increasing from 9310.51 in the year 2021-20 to 13285.03 in the year 2023-24. It shows that it is a good sign for the bank, which also will replicate with the earnings per share distributed to shareholders.

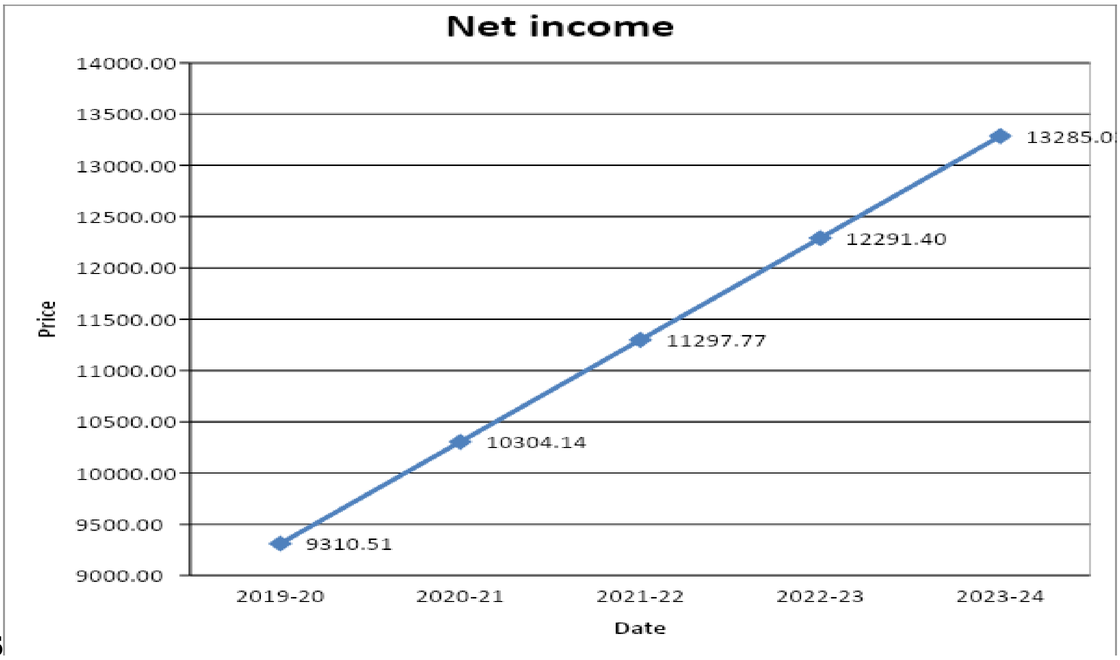


CHART 1.6

SBI

TABLE 1.7 TREND ANALYSES OF SALES

Month	Sales	X	X^2	XY
2014-15	36,294.74	-2	4	-72589.5
2017-16	42,845.47	-1	1	-42845.5
2018-17	44,316.34	0	0	0
2019-18	58,831.41	1	1	58831.41
2020-19	69,202.76	2	4	138405.5
	251490.72		10	81801.98
	A	50298.144		
	B	8180.198		
	YEAR (X)	Predicted Net sales (Y)		
3	2021-20	74838.74		
4	2020-21	83018.94		
5	2021-22	91199.13		
6	2022-23	99379.33		
7	2023-24	107559.53		

The above table depicts that the sales of SBI will be increasing from 74838.74in the year 2021-20 to 107559.53in the year 2023-24. It shows that it is a good sign for the bank which also will replicate with the profit of the bank.

CHART 1.7

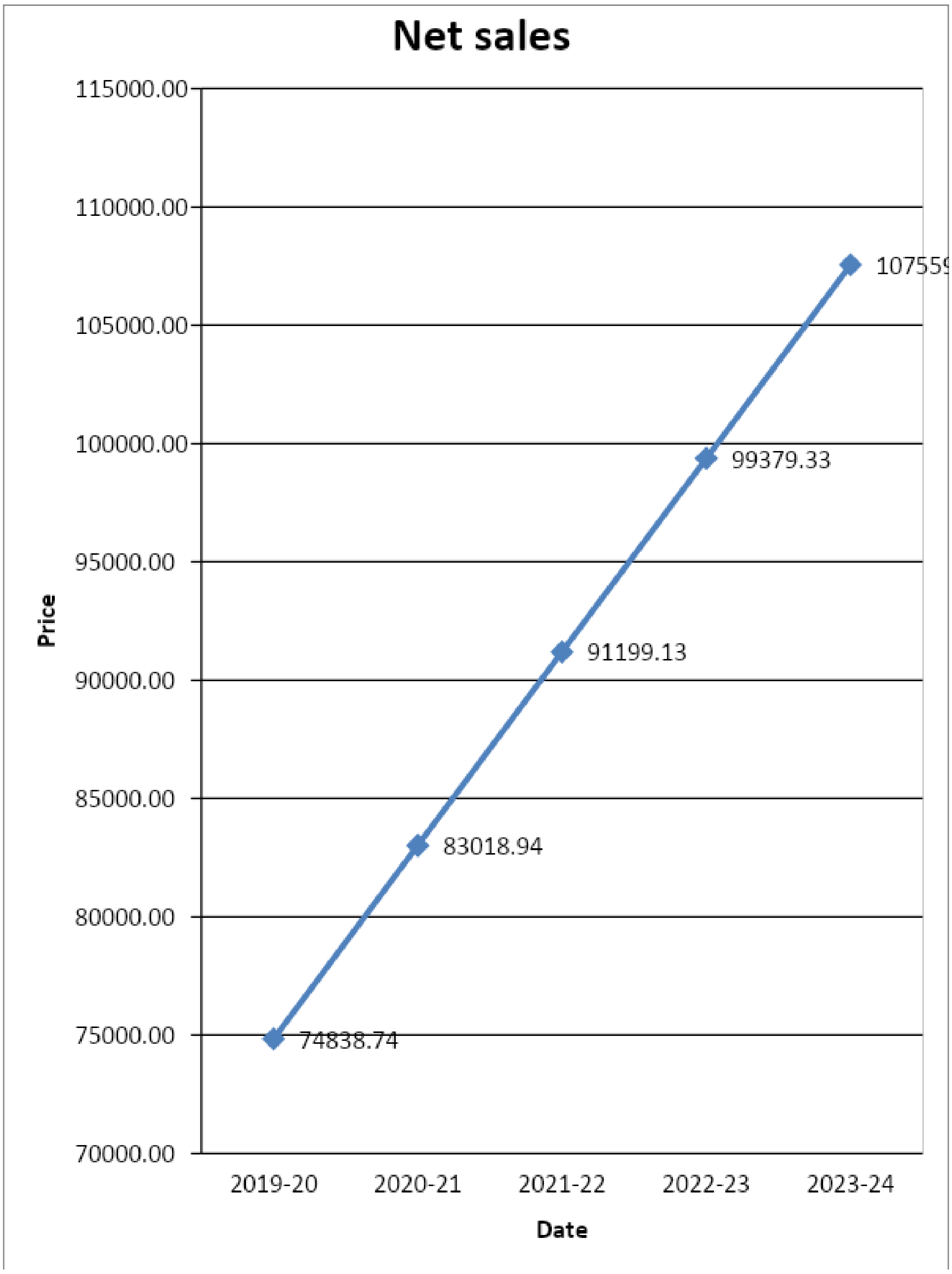

Net sales
Price
Date
115000.00
110000.00
105000.00
100000.00
95000.00
90000.00
85000.00
80000.00
75000.00
70000.00
2019-20
2020-21
2021-22
2022-23
2023-24
74838.74
83018.94
91199.13
99379.33

TABLE 1.8 TREND ANALYSIS OF NET INCOME

Month	Net income	X	X^2	XY
2014-15	-4,738.95	-2	4	9477.9
2017-16	-62.30	-1	1	62.3
2018-17	-2,429.60	0	0	0
2019-18	-1,034.85	1	1	-1034.85
2020-19	2,020.60	2	4	4041.2
	-6245.10		10	12546.55
	A	-1249.02		
	B	1254.655		
	YEAR (X)	Predicted income (Y)		
3	2021-20	2514.95		
4	2020-21	3769.60		
5	2021-22	5024.26		
6	2022-23	6278.91		
7	2023-24	7533.57		

The above table depicts that the sales of SBI will be increasing from 2514.95 in the year 2021-20 to 7533.57 in the year 2023-24. It shows that it is a good sign for the bank which also will replicate with the earnings per share distributed to shareholders.

CHART 1.8

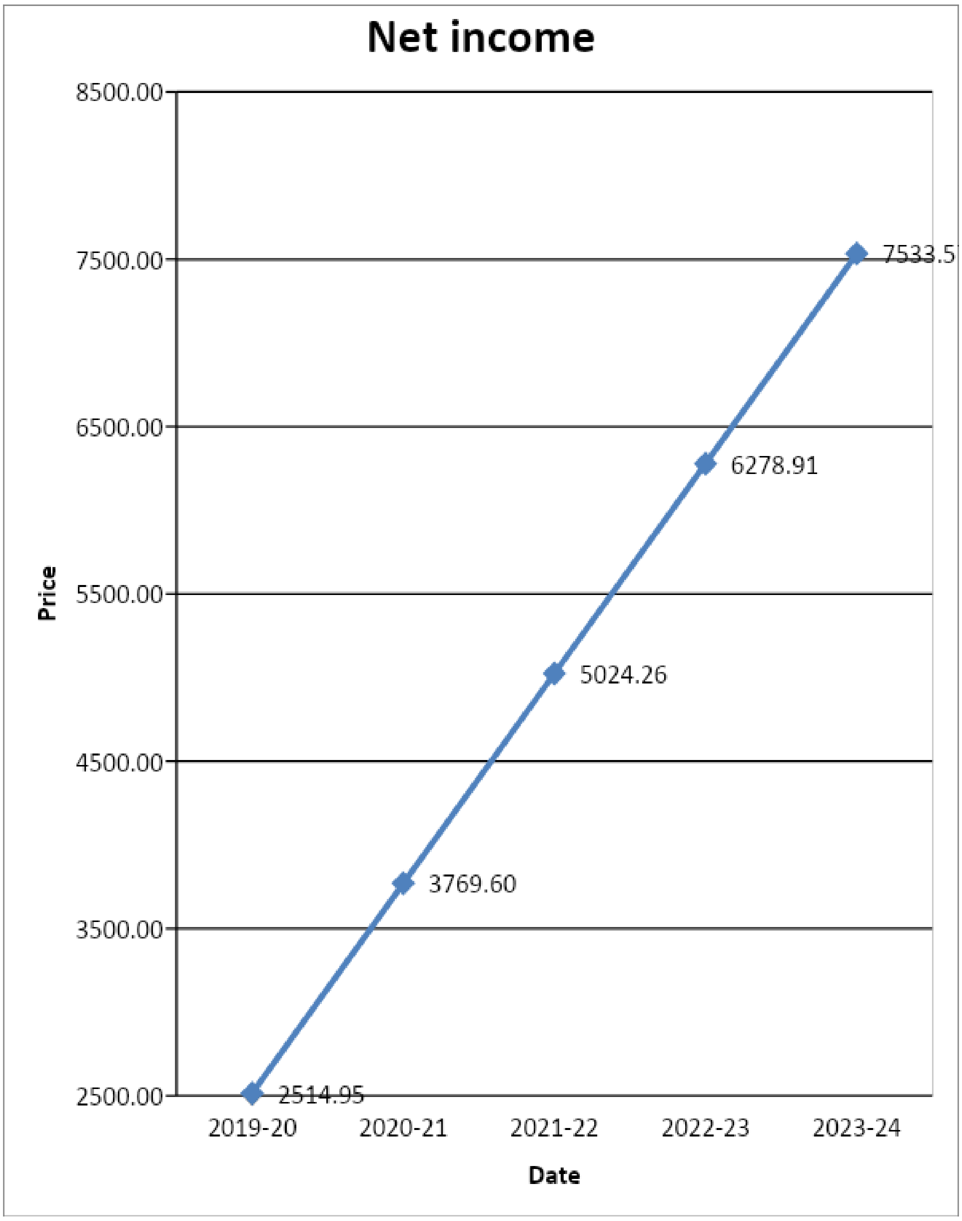
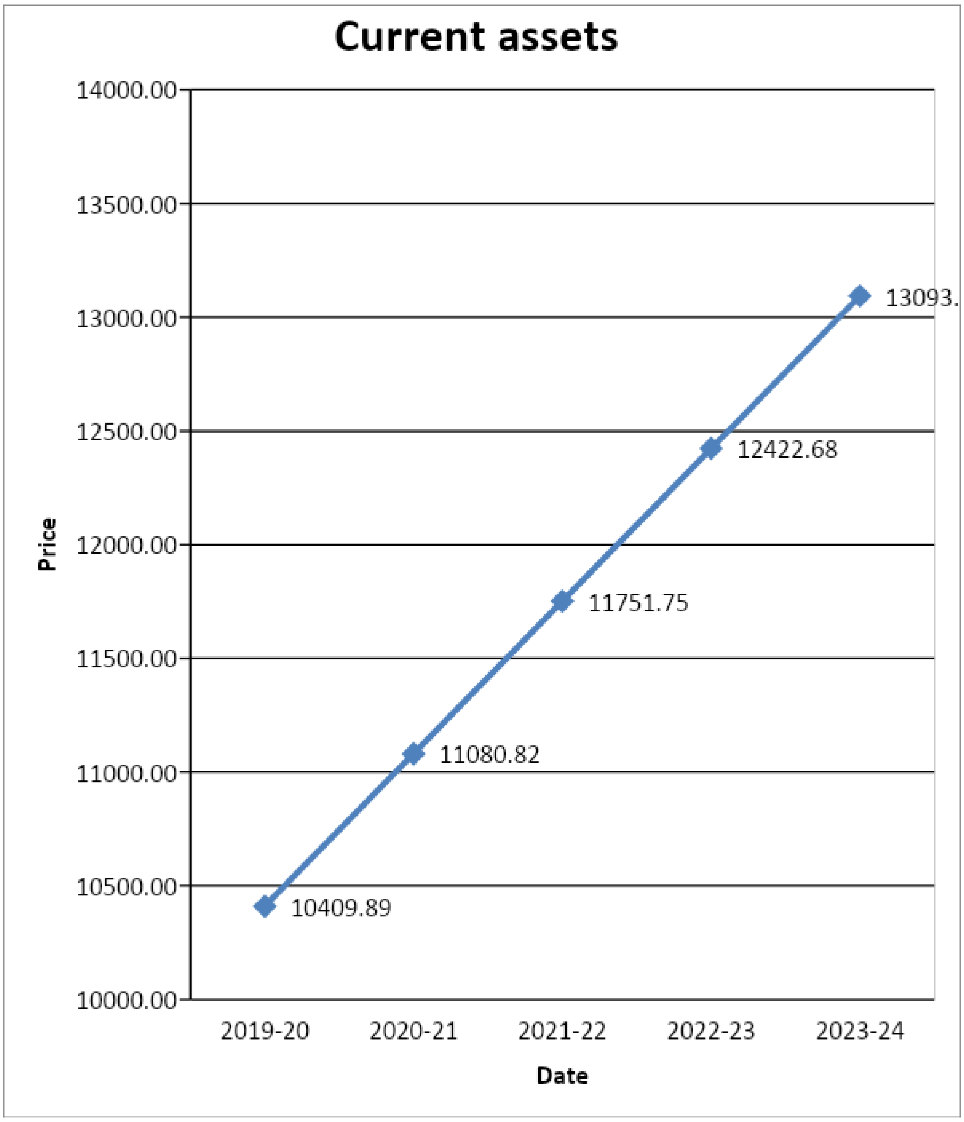

Net income
8500.00
7500.00
6500.00
5500.00
4500.00
3500.00
2500.00
Price
7533.5
6278.91
5024.26
3769.60
2514.95
2019-20
2020-21
2021-22
2022-23
2023-24
Date

TABLE 1.9 TREND ANALYSIS OF CURRENT ASSETS

Month	Current assets	X	X^2	XY
2014-15	6,861.31	-2	4	-13722.6
2017-16	7,951.92	-1	1	-7951.92
2018-17	8,007.62	0	0	0
2019-18	9,945.36	1	1	9945.36
2020-19	9,219.25	2	4	18438.5
	41985.46		10	6709.32
	A	8397.092		
	B	670.932		
	YEAR (X)	Predicted Current assets (Y)		
3	2021-20	10409.89		
4	2020-21	11080.82		
5	2021-22	11751.75		
6	2022-23	12422.68		
7	2023-24	13093.62		

The above table depicts that the current assets of SBI will be increasing from 10409.89 in the year 2021-20 to 13093.62 in the year 2023-24, which is a good sign for the bank, and there is chance of stabilizing the current ratio of the bank in future period of time.

CHART 1.9


Current assets
14000.00
13500.00
13000.00
12500.00
12000.00
11500.00
11000.00
10500.00
10000.00
Price
13093.
12422.68
11751.75
11080.82
10409.89
2019-20
2020-21
2021-22
2022-23
2023-24
Date

LIMITATIONS OF THE STUDY

Some of the unavoidable limitations of the present work are as follows:
1. Financial information collected for the present study is secondary in nature. In such a case, the study carries all the limitations inherent with the secondary data and financial information.
2. The study is restricted to 2 banks out of 48 banks operating in the Banking.
3. While computing the data for the purpose of analysis, the approximation of decimal places leads to minor variations in ratios as well as percentage analysis and hence these are bound to exist in the present study.

SUGGESTIONS

While taking decision towards HDFC with factors related to Current ratio, Inventory to total assets ratio, Return on sales ratio, Return on equity ratio, Return on total assets, Return on capital employed, Operating ratio, Net income to total debts ratio, Inventory turnover ratio, debtors turnover ratio, fixed asset turnover ratio, total debt to total assets ratio, debt – equity ratio, total assets to equity ratio the performance of SBI should be taken in to consideration for decision making process.

The factors quick ratio, inventory to total assets ratio, quick assets to total assets ratio, current assets to total assets ratio, operating ratio, Cash flow Ratio and net fixed assets to equity ratio can be given more importance towards decision making process with HDFC.

The factors return on sales, return on equity, return on total assets, return on capital employed and net income to total debts ratio can be given more importance towards decision making process with SBI.

CONCLUSION

Financial statement reports are prepared by a bank's management to present the financial performance and position at a point in time. A general-purpose set of financial statement usually includes a balance sheet, Income statement, statement of owns equity and statement of cash flow. These statements are prepared to give users outside of the bank, like Investors, and creditors more information about the bank's financial positions. The main objective of the study is to compare the performance of HDFC with SBI for the last five years. The secondary data collected from various sources were analyzed with the help of suitable statistical tools and techniques as ratio analysis and also other tools used for analysis. The conclusion is that when compare to the performance of SBI the performance of HDFC is higher and both the banks has to concentrate more towards working capital of the bank.

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