

COMPARATIVE FINANCIAL ANALYSIS OF STATE BANK OF INDIA AND HDFC BANK

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ABSTRACT

India's banking sector has come under scrutiny. The cost of finances for banks has increased significantly as the Reserve Bank of India (RBI) raised interest rates to help the falling Indian currency, the Rupee. This may show up as a rise in non-performing assets (NPAs) and a drop in profitability. Internal and external factors have an effect on bank profitability. The end of this paper is to compare and estimate the fiscal performance of India's largest public and private sector banks and also to understand their trends of NPAs through secondary data analysis. Both banks' earnings were guided by bank-specific criteria and threat factors. Influence fiscal rates of SBI were set up at advanced delinquency threat than HDFC. Productivity measures were the crucial motorists of gains at India's largest private sector bank HDFC but not at SBI. Asset operation effectiveness measures were nearly same of both the banks. NPA rates were much advanced at India's largest public sector bank SBI. The single most important determinant of SBI proved to be the liquidity rates. Two sample T test assuming equal variances was also conducted to check if there was significant difference between the NPA rate of SBI and HDFC bank over the last 3 times.

INTRODUCTION

Rationale of the study

A thorough examination of a bank's fiscal statements will reveal important factors to consider before making an investment decision. Investors should be apprehensive of the request cycle and interest rates, as these can have a direct effect on a bank's fiscal results.

Reasons to choose rate Analysis for SBI and HDFC

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

- Rate Analysis is an effective way to estimate the company's performance and compare it with other analogous companies to measure fiscal stability.
- It's useful to dissect establishment's performance across the period of time. It's time and cost effective.
- A comprehensive system to compare the NPA rates of both the enterprises.

Reasons to choose SBI and HDFC bank

In the current script in June, 2020 if we suppose about the two largest of banks of India one from the private member and other from the public sector member, there's no

mistrustfulness about it being HDFC Bank from the Private sector and SBI from the Public sector looking at their balance distance, reach and client base. The study will help in differing the public and private sectors in addition to SBI and HDFC.

Introduction of Banking Sector

India isn't only the world's largest independent republic, but it's also a fleetly growing profitable hustler. No country can have a stable frugality without a sound and effective banking system. Banks play a critical part in a country's profitable growth. They collect people's unused savings and make them eligible for investment. They are in the process of granting loans and coping

investment securities, new demand deposits are also established. Accepting and blinking bills of exchange allows for trade both within and outside the country. Banks also help to ameliorate capital mobility. India's banking system has a long list of notable accomplishments over the last three decades. It's no longer limited to the metropolises, but has spread to indeed the most remote corridor of the world. This is one of the factors behind India's development. The banking assiduity is now one of India's most important service diligence. The vacuity of high-quality services is critical to the frugality's success. Banks' attention has turned down from client accession to client retention. The preface of Information Technology into the banking sector has changed the way people work. The banking sector's policy has experienced radical metamorphoses, colorful client-acquainted products, similar as internet banking, are available. client's workload has been reduced substantially because of ATM providers, telebanking, and electronic payments. The internet's convenience Banking allows a client to pierce and manage his bank account without 7 having to go to the bank. The client's options have been revolutionized by the vacuity of ATMs and credit/disbenefit cards.

Public sector banks

Public Sector Banks (PSBs) are a major form of bank in India, in which the Indian government or state governments enjoy a maturity stake (i.e. further than 50). The shares of these banks are traded on stock exchanges. Public sector banks in India include State Bank of India, Bank of Baroda, Bank of Maharashtra, Bank of India and others. (types of banks, 2020)

Private sector banks

Private sector banks are those in which maturity of the stake is possessed by the bank's shareholders rather than the government. Private sector banks in India include RBL Bank, HDFC Bank, ICICI Bank, Yes Bank, and others. (Private sector Banks).

Non performing assets of bank

A non performing asset (NPA) is a loan or advance for which the star or interest payment remained overdue for a period of 90 days. (description of NPAs)

Types of NPAs:

Standard assets: This is a type of performing asset that generates a steady sluice of income and disbursements as they come due. These means have a normal threat profile and aren't NPAs in the traditional sense. As a result, standard parcels don't need any special conditions.

Sub-Standard assets- These include loans and advances that have been classified as nonperforming means for

further than a time.

Doubtful assets- these are means that have been supposed non-performing for a duration of further than 12 months.

Loss assets- these are the means that the lending institutions are unfit to recover.(

What's NPA and Types of NPA, 2020)

Road Ahead Increased structure investment, briskly design delivery, and the durability of reforms are anticipated to give the banking sector a boost. All of these factors point to a strong future for India's banking sector, as fleetly expanding companies will turn to banks for credit. In addition, technological advancements have pushed mobile and internet banking to the van. The banking assiduity is putting a lesser focus on delivering better services to guests and perfecting their technology structure in order to boost the overall client experience and offer banks a competitive advantage.

Introduction to the SBI and HDFC bank

About HDFC The Housing Development Finance Corporation Limited (HDFC) Bank is an Indian banking and fiscal services company, headquartered in Mumbai, Maharashtra.

HDFC Bank is India's largest private sector bank by means and by request capitalization as of April 2021. It's the third largest company by request capitalization on the Indian stock exchanges.

Market Reach

The Bank's distribution network had 5,500 branches in 2,764 metropolises as of 30 June 2019. In financial time 2017, the bank also constructed 430,000 point-of-trade outstations and issued disbenefit cards and 12 million credit cards. As of March 21, 2020, it had endless staff.

Products and Services Offered

Noncommercial banking, retail banking, storeroom, bus loans, two-wheeler loans, particular loans, loans against land, consumer durable loan, life loan, and credit cards are among the products and services offered by HDFC Bank. Payzapp and SmartBUY are two other digital products available. (HDFC Bank)

SBI Bank

About SBI STATE BANK OF INDIA is a nonsupervisory body for public sector banking and fiscal services in India, grounded in Mumbai, Maharashtra. SBI is world's 43rd largest bank and the only Indian bank on the Fortune Global 500 list of the world's largest companies for 2020, ranking 221st. (eight) It's India's largest public sector bank, with a 23 percent asset request share and a 25 percent share of the overall loan and deposit request.

Market Reach

SBI is one of the largest employers in the country with 209,567 workers as on 31 March 2017, out of which 23 were womanish workers and 3,179 (1.5) were workers with disabilities. On the same date, SBI had 37,875 slated gentries (18), 17,069 slated lines (8.1) and 39,709 Other Backward Classes (18.9) workers.

National

In India, SBI has over 24,000 branches. Its profit in the fiscal time 2012 – 13 was 2.005 trillion (US\$ 28 billion), with domestic operations counting for 95.35 percent of profit. In the same fiscal time, domestic conditioning reckoned

for 88.37 percent of overall earnings. SBI organized 11,300 camps and opened over 3 million accounts by September under the Pradhan Mantri Jan Dhan Yojana, which was launched by the government in August 2014 and included 2.1 million accounts in pastoral areas and 1.57 million accounts in civic areas.

International

As of 2014-15, the bank had 191 overseas services in 36 countries making it the Indian bank with the loftiest presence in transnational requests. (State Bank of India)

Products and Services Offered

SBI offers a plethora of products and services similar as savings regard, credit cards, fixed deposits, particular loan, home loan, business loan, disbenefit card, loan against property, auto loan, gold loan, mudra loan and further. (State Bank of India, 2020)

REVIEW OF LITERATURE

Then are several factors that impact the profitability of banks (Sufian & Habibullah, 2010); (Dietrich & Wanzenried, 2011). These factors can be astronomically classified as either internal determinants that appear within the establishment similar as bank size, capital, threat operation, charges operation, and diversification (Molyneux & Thornton, 1992); (BODLA & VERMA, 2006)

Or external determinants that are outside the establishment like request attention, assiduity size and power, affectation, interest rates, plutocrat force and Gross Domestic Product (GDP) (Athanasoglou, Brissimis, & Delis, 2008); (Chirwa, 2003).

Naceur, S., & Goaid, (2001) set up that banks with fairly high capital and outflow charges have advanced net-interest perimeters and profitability situations in a study of Tunisian banks from 1980 to 2000. They also discovered that the size of a bank has a negative impact on profitability, also the stock exchange. Bank profitability increased as a result of the expansion. Likewise, private banks were discovered to be comparatively more profitable. They're more successful than their government-possessed counterparts.

National Reviews

Avani Ojha and Hemchandra Jha- has conducted studies on the effect of NPAs on the operations of the SBI and PNB using colorful exploration styles and anatomized the thesis grounded on the entire study that NPAs play a significant part. Non-performing means have a significant effect on bank profitability because they're nearly linked to effectiveness. The profitability and asset liability operation of Indian banks. NPAs are the product of advances not being recovered or not being recovered within a certain time frame for a given type of lending. They suggest that banks dissect NPAs on a regular base, by intent, borrower, country, and so on. Before sanctioning, there should be styles and proper examinations of the creditors. (Ojha & Jha, 2018)

Dr. Ganesan and R. Santhanakrishnan has conducted a report on NPAs at the State Bank of India from 2002-03 to 2011-12 with the end of planting capital, assaying gross NPAs, probing the goods of NPAs, and recommending way to cover NPAs. They calculated the pars and standard diversions to test the thesis, and the results were grounded on the asked issues. They put the thesis to the test by estimating pars and standard diversions, and also comparing the results to the asked issues. They discovered that the banking assiduity has changed dramatically since the first phase of profitable liberalization, and that credit operation has come decreasingly important as a result.

NPA's has increased with profitable growth and aggressive lending practices. (Santhakrishnan & Ganesan, 2013)

RESEARCH METHODOLOGY

Objects of the Study

- To compare and estimate the fiscal performance of SBI and HDFC Bank.
- To understand and compare the trends of NPA of both the banks over the last threetimes.
- To ascertain monthly oscillations in terms of profitability, liquidity and effectiveness of SBI and HDFC Bank.

Research Hypothesis

Ho1 = there's no significant relationship between the gross NPA rate of SBI and HDFC over the last three times.

Ho2 = there's no significant relationship between the net NPA rate of SBI and HDFC over the last three times.

Scope of the Study

In the present study, an attempt has been made to measure, estimate and compare the fiscal performance of SBI and HDFC. The study is grounded on secondary data that has been collected through periodic reports of the admired banks, websites, journals, documents and other published information. The study covers the period of 3 times i.e. is from time 2017- 18, 2018- 19 and 2019-20. rate analysis was applied to dissect and compare the trends in fiscal performance. Mean and t test have also been stationed to dissect the trends in banking profitability.

Research Design

DURATION OF STUDY- The period of this study will cover last 3 times of the fiscal data- 2017- 18, 2018- 19, 2019-20.

DATA COLLECTION PROCEDURE-Secondary Data will be used in this study to compare the fiscal statements of both the banks over the last three times.

DATA COLLECTION styles- Data has been collected through rate Analysis.

STATISTICAL TOOLS AND TESTS USED- The statistical tool used in the study is Mean and deducible statistic T- test has been conducted to know the significant relation between the NPA rates of both the banks.

Limitations of the Study

The study is confined only to the named and confined pointers and the study is confined only for a period of three times. As the analysis is entirely grounded on secondary data, it has its downsides, enterprises can cheat and window dress their fiscal statements. rate analysis criteria don't inescapably represent unborn performance of the company.

Major Findings

FINDINGS

1. NPA rates- From graph 1 and graph 2 it's clear that over the last three times, NPAs of SBI are far further than that of HDFC which easily shows that asset quality and overall fiscal health of SBI is in poor shape. Among the last three times 2017- 18 has been proved to be the worst time for SBI with loftiest NPA rates and HDFC had loftiest gross and net NPA rates in 2018- 19 and 2017- 18 independently.

2. effectiveness Ratios

Fixed Assets turnover ratio- From table and graph no. 3 it's set up that the average fixed asset development rates of SBI and HDFC were nearly same during the last 3 times which shows that both the banks were inefficiently using their fixed means.

3. Leverage rates

Debt to equity rate- It's used to estimate a company's debt position which isn't satisfactory of both the banks. The average debt equity of SBI stood at 16.59 and that of HDFC stood at 7.70 which shows that SBI is at advanced dereliction threat than HDFC. Among the last three times it's observed that SBI had loftiest debt in 2019- 20 whereas HDFC had the loftiest in 2017- 18.

4. Profitability Ratios

Operating Profit rate- Farther in graph 5 it's clear that the operating profit rate of SBI is veritably less while that of HDFC is fully satisfactory which shows that the company is making enough plutocrat from its ongoing operations to pay for its variable costs as well as its fixed costs.

Gross Profit rate- Graph 6 shows that gross profit rate of SBI is again veritably lower than that of HDFC over the last three times. SBI had a negative gross profit rate of -7.93 in the time 2019- 20 issues that the deals and not enough to cover the cost incurred in manufacturing conditioning. But in the same time HDFC's GP rate was loftiest which shows the company has further cash to pay for circular and other costs similar as interest. Graph 7 shows that the net profit rate of SBI is lower than that of HDFC over the last 3 times which shows that HDFC's overall effectiveness is better.

Net Profit rate- Graph 8 shows that current rate of SBI is better than that of HDFC which shows that SBI is more able in paying its short term scores. Among the last 3 times 2018- 19 has proved to be the stylish time for both the banks with loftiest current rate of SBI at 1.83 and that of HDFC stood at 0.89.

5. Incipiently a two sample t test assuming equal dissonances was conducted to check if there was significant difference between the NPA rates of SBI and HDFC bank over the last 3 times.

- In the test the null thesis was rejected and thus it was proved that there was significant difference between the NPA rates of SBI and HDFC.

Discussions and Suggestions

- As we see, the debt equity rate of SBI is advanced than HDFC so it should try to restructure its debt and NPAs. The borrowings should be reduced to the position that it isn't further than 4- 5 times of equity. It'll drop their NPAs. Also this will affect in better fiscal health of the companies.

- Banks should limit its huge lending to trusted companies or individualities so that recovery becomes comparatively briskly and lightly which would accordingly affect in lower NPAs.
- We can increase the gross profit rate of SBI by generating further profit by managing the costs of company efficiently. Working on the products and services of the bank and making different changes in little time will increase the profit.
- Reducing redundant operating charges and direct outflow charges will increase the profit periphery of the Banks.

The current rate of HDFC Bank can be bettered by

1. Delaying any capital purchases that would bear any cash payments.
2. Looking to see if any term loans can be re-amortized.
3. Dealing any capital means that aren't generating a return to the business(use cash to reduce current debt).

CONCLUSION

After the below study on the comparative analysis of SBI and HDFC it was discovered that both the banks are managing their rates to the stylish of their capacities within the specified parameters. still, 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 GNPA's near about 8.1 as per the periodic report of both banks over the last three years.

HDFC Bank has managed their NPA and profitability rates in a veritably effective manner and are playing an important part as a profitable marketable bank, while SBI is controlling its rates particularly the current means rate but isn't as competitive in terms of net profit and Non Performing means (NPAs).

SBI needs to be more focused on managing the net gains and NPAs part to be a commercially successful bank.

During the relative study of SBI v/s HDFC Bank it's set up that HDFC Bank has now gone over 2 in net NPAs during the study period while SBI has now gone below 6 during the study period.

This is an eye-opening comparison that demonstrates SBI's need to concentrate on acquiring high quality means, else they will be compromising guests' hard-earned plutocrat in the future.

In order to study the trends of NPA, t-Test has been used, the results of which have been shown in the applicable tables. The relative analysis of the profitability of the two banks easily reveals that there's no significant relation between the NPA rates of both the Banks.

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