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FINANCIAL PERFORMANCE OF STATE BANK OF INDIA AND HDFC

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ABSTRACT

A bank is a financial Institution licensed to receive deposit and make loans. Banks may also provide financial services such as wealth management, currency, exchange and safe deposit boxes. There are two types of central bank, scheduled bank and non-scheduled bank. There are two types of Scheduled bank, commercial and co-operative and commercial bank are four types bank, private sector bank, public sector bank, foreign bank and regional bank. Then SBI are public sector bank. The global growth continued to remain sluggish in every year. Weaken business environment near stagnation in growth dynamics. The RBI pressures on banks profitability and suggest various methods to reduce the unsecured loans and advances, with changes in the social and economic objective of Indian commercial banks profitability of SBI group. It becomes extremely over and finds remedial measures to reduce the profitability in the and HDFC value of current banking philosophy. The approach of policy makers towards profitability has changed, with the result that low profits have become a fact of life. Therefore, it is a time to concentrate on analyses of the profitability performance. The research presented was conducted at the SBI and HDFC bank. The objectives of the paper are to study the profitability position and profitability performance of SBI. Five years of data were obtained in the presented research. Statistical tables, graphs and analyses ratios were used to analyses the information received. It was finally found that the SBI bank financial performance was good and the dividend payout ratio for the last two years has been seen in Nil. In-depth information in this regard is presented in the present research paper.

INTRODUCTION

The banking sector is the life blood of any modern economy. It is one of the important financial basements of the financial sector, which plays a vital role in the functioning of an economy. It is very important for economic development of a country that it's financing requirements of trade, industry and agriculture are met with higher degree of commitment and responsibility. The Indian banking sector is broadly classified into scheduled banks and non-scheduled banks. The scheduled banks are those included under the 2nd Schedule of the Reserve Bank of India Act, 1934. The scheduled banks are further classified into: nationalized banks SBI and HDFC its associates; Regional Rural Banks foreign banks and other Indian private sector banks. The term commercial banks refers to both scheduled and non-scheduled commercial banks regulated under the Banking Regulation Act, 1949 Thus integrally linked in banking industry in gradually increasing. They role of mobilization of deposits and disbursement of credit to various sector of banking industry. This will also reflect health of the country .The efficiency of financial system is strength of economy. A sound banking system efficiently mobilized saving in productive sector and solvent system ensures the capabilities to meet the depositor obligation .The banking sector is playing crucial role in socio-economic progress of the country after independence. It is dominant in India as it accounts for more than half the assets of financial sector For an economy, an efficient banking system considered as the basic need for its development. The main function of a bank is to mobilize the community savings to the different industrial channels. In India, the banking system featured with large network of its branches throughout the country serving the financial need of the population. A measuring process by which it calculated that how a company from its primary mode consumes the assets to raise its own income and to determine the financial health in a given time known as financial performance. Financial performance of a bank deals with its financial weakness and strength by finding the relation between its balance sheet and the income statement. This process is use to understand the clear short term and long-term growth of the particular bank. The present work has conducted to compare the financial performance of India's largest private and national banks: HDFC and SBI based on the ratio analysis to determine which one is better between the financial years 2015-16 to 2019-20.

State Bank of India

State Bank of India (SBI) is an Indian multinational, sector banking and financial service company It is a government-owned corporation with its headquarters in Mumbai, Maharashtra. As of 2014-15, it had asset of 20.480 trillion (US$300 billion) and more then 14,000 branches, including 191 foreign offices spread across 36 countries, making it the largest banking and financial services company in India by assets. The company is ranked 232nd on the Fortune Global 500 list of the world's biggest corporations as of 2016 The Bank's management is responsible for the preparation of these financial statements that give a true and fair view of the financial position financial performance and cash flows of the Bank in accordance with the requirements of the Reserve Bank of India the provision of the Banking Regulation Act, 1949, the State Bank of India Act, 1955 and recognized accounting policies and practices, including the

Accounting Standards issued by the Institute of Chartered Accountants of India (ICAI). This responsibility of the management includes the design, implementation and maintenance of internal controls and risk management systems relevant to the preparation of the financial statements that are free from material misstatement, whether due to fraud or error. In making those risk assessments, the management has implemented such internal controls that are relevant to the preparation of the financial statements and designed procedures that are appropriate in the circumstances so that the internal control with regard to all the activities of the Bank is effective. The State Bank of India (SBI) considered as one of the leading bank of the country. SBI first established on the first decade of 19th century. On 2nd June 1806, Bank of Calcutta renamed as the Bank of Bengal was recognized. other such as Bank of Bombay (included on 15th April 1840) and Bank of Madras (included on 1st July 1843) were known for the 3 presidency banks were merged together as joined stock company for issuing paper currency under the act of Paper Currency Act, 1861. These presidency banks were amalgamated on 27th January 1921 and named as Imperial bank of India. This bank retained all the rights till the creation of Reserve bank of India (RBI). On 1st July 1955under SBI Act, 1955, State bank of India was constituted for joining hands of state centered partners and sponsored bank by integrating them with the Imperial Bank of India. The SBI subsidiary bank Act passed on 1959 making enable eight state associate banks as subsidiaries. SBI headquarter is situated in Mumbai. It has 14 local Head offices and 57 Zonal offices situated in different cities of India. Additionally it has around 130 branches throughout the country. Its market share is about 20% (both in deposit and in loans) among the Indian commercial banks. The Largest Nation bank "The State bank of India" has approximately 9000 branches throughout the country and 54 offices in international level. Apart from these, its associate banks have a domestic network of about 4000 branches. It also has joint ventures and subsidiaries worldwide. In India, it is the largest base for retail banking customer.

HDFC Bank

This is the second largest private sector bank in India having 2,552 branches. It is among the top commercial banks of India providing a wide range of banking services through varied delivery channels. Besides offering high-end banking facilities such as Internet banking, Tele Banking, and Mobile Banking, HDFC also plays a pivotal role in the domains of investment banking, venture capital and asset management, and life and non-life insurance HDFC Bank, a subsidiary of the Housing Development Finance Corporation, was founded in 1994 and is headquartered in Mumbai, Maharashtra, India. Manmohan Singh, the then Union Finance Minister, launched the company's first corporate headquarters and a full-service branch at Sandoz House in Worli. The bank's distribution network had 5,500 branches in 2,764 cities as of 30 June 2019. In fiscal year 2017, it installed 430,000 point - of - sale terminals and issued 23,570,000 debit cards and 12 million credit cards. As of March 21, 2020, it had 1,16,971 permanent employees. The goal of HDFC Bank is to become a world - class Indian bank. It aims to accomplish two things: First and foremost, to be the preferred banking service provider for the target retail and wholesale customer categories. The second goal is to generate profitable growth that is in line with the bank's risk appetites. The bank is dedicated to upholding the highest ethical standards, professional integrity, corporate governance, and regulatory compliance possible HDFC Bank (Housing Development Finance Corporation) introduced on August 1994. Its registered office also situated in Mumbai. In 1995, only HDFC Bank came into action as a scheduled commercial Bank. In 1994, under RBI liberalization of Indian banking Industry, HDFC declared to receive in principle approval from RBI to set a bank in the private sector. At Sandoz house, its first corporate office and service the Union Finance Minister Dr. Manmohan Singh inaugurated bank. HDFC is known as the India’s top premium housing finance company which keeps an impeccable track record throughout the both national and international market. Since its first inspection in the year 1997, it maintained a consistent growth for its work and operation and became the market leader for mortgage. It han an outstanding portfolio for house loan which covers

Financial Performance

1 Profit

The Operating Profit of the Bank for 2008-09 stood at Rs. 17,915.23 crores as compared to Rs. 13,107.55 crores in 2007-08 registering a growth of 36.68%. The Bank has posted a Net Profit of Rs. 9,121.23 crores for 2008-09 as compared to Rs. 6,729.12 crores in 2007-08 registering a growth of 35.55%. While Net Interest Income recorded a growth of 22.63% and Other Income increased by 45.96%, Operating Expenses increased by 24.11% attributable to higher staff cost and other overhead expenses.

2 Dividend

The Bank has increased dividend to Rs. 29.00 per share (290%) from Rs. 21.50 per share (215%) in the last year.

3 Net Interest Income

The Net Interest Income of the Bank registered a growth of 22.63% from Rs. 17,021.23 crores in 2007-08 to Rs. 20,873.14 crores in 2008-09. This was due to growth in interest income on advances. The gross interest income from global operations rose from Rs. 48,950.31 crores to Rs. 63,788.43 crores during the year. This was mainly due to higher interest income on advances. Interest income on advances in India registered an increase from Rs. 32,162.68 crores in 2007-08 to Rs. 42,989.36 crores in 2008-09 due to higher volumes. Also average yield on advances in India increased from 9.90% in 2007-08 to 10.15% in 2008-09. Interest income on advances at foreign offices also increased due to higher volumes.

OBJECTIVE OF THE STUDY

- To study the financial performance of State Bank of India and HDFC Bank
- To know the profitability position of State Bank of India
- To study the managerial efficiency of State Bank of India
- To offer findings and suggestions to enhance the financial performance of State Bank of India

SCOPE OF THE STUDY

The research paper will also help to understand the financial performance SBI and HDFC . This study will throw light on the different aspects where the State Bank of India stand out and how the banks will provide an opportunity in corresponding its activities to achieve the best performance.

STATEMENT OF THE PROBLEM

Liquidity is the ability of an organisation to meet its financial obligations during the short-term and to maintain long-term debt-paying ability. The long-term survival depends on satisfactory income earned by it. A sound liquidity leads to better profitability, and it turn reduces the probability of default risk in the future. Further, risk and return are very important aspects to be considered while making any decision regarding a company's finances. Therefore, a study of liquidity, profitability, leverage, turnover, market based and their association with risk, assessing the financial position very much necessary to evaluate the financial strength of the bank.

RESEARCH METHODOLOGY

The study has been conducted with reference to the data related to SBI. The study examines the financial performance of some variables and compares the performance of SBI for the period of 2003-04 to 2015-16. A. The study is an exploratory and analytical in nature with an attempt to explore the financial performance of SBI and HDFC

Source of Data Collection

The Data collection is secondary source was used in the form of reports through internet.

Tools for Data Collection

- The data required for the study will be collected from
- Annual reports of respective banks
- Journals and reports on trends
- Progress of Banking of India
- Books and websites

Tools for Data Analysis

- The data tool using R Mean, Standard Deviation, Covariance, P-value Df
- Hypothesis
- Lower Correlation

Sampling Variables

To apply Regression technique with following variables are required Independent variable are Deposits, Borrowings

- Investments, Advances, Return on Average Assets(%),Return on Equity(%),Dividend Payout Ratio(%),Net NPA to Net Advances
- Dependent variables are Net Profit

REVIEW OF LITERATURE

Abhay Jaiswal and Chanchala Jain (2016), A Comparative Study of Financial Performance of SBI and HDFC, The study is an attempt to analyze the financial performance of SBI and HDFC banks. The State Bank of India, popularly known as SBI is one of the leading bank of public sector in India. SBI has 14 Local Head Offices and 57 Zonal Offices located at important cities throughout the country. HDFC bank is the second largest, leading bank of private sector in India The Bank has 2,533 branches and 6,800 ATMs in India. The study is descriptive and analytical in nature. The collected data was secondary in nature and collected from various reports issued by these banks through internet. The comparison of financial performance of these two banks was made on the basis of ratio analysis. The results indicated that the SBI is performing well and financially sound than HDFC Bank. Also the market position of SBI is better than HDFC in terms to earning per share, price ratio per share and dividend payout ratio, but on the other hand HDFC bank is performing well in terms of NPA and provision for NPA in comparison of SBI bank.

DR.D.GURUSWAMY, (2012), Describe ANALYSIS OF PROFITABILITY PERFORMNCE OF SBI AND ITS ASSOCIATES, the paper an attempt has been made to analyze the profitability performance of SBI and its associates. The objectives of the paper are to study the profitability of SBI and Its Associates and to

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analyze the profitability performance of SBI and Its Associates. This paper is primarily based on secondary data. In order to derive the open handed results from the information collected through secondary data, various statistical tools like mean, S.D, variance, CAGR, and ANOVA have been accomplished. The scope of the paper is confined to all the banks of SBI group for a data period from 1996-97 to 2007-08. In the present paper, for the purpose of evaluating the performance of SBI and its associates, five profitability ratios have been considered. On the basis of analysis of profitability ratios it is printout that all the five ratios shows fluctuating trend during the study period in all the banks.

Dr. Kingshuk Adhikari, Nitashree Barman, Pinkumoni Kashyap(2014), study on Profitability of State Bank of India: An Analysis-The paper attempts to analyze the profitability of State bank of India for the period of seven years. Apart from studying the trend of different components of both income and expenditure, performance of the bank has been analysed with the parameters like OPTWF, ROA, ROE, ROI and EPS. There is a significant difference not only between the components of income but also across the components of expenditure. The paper concludes that the profitability performance of the SBI is not consistent during the study period. The bank should focus more on diversification of income and should also curtail operating expenses in order to improve profitability performance.

Urmila Bharti, Surender Singh (2014), describes a study on Liquidity and Profitability Analysis of Commercial Banks in India – A Comparative Study,- Liquidity is required to meet out the prompt demands of customers and profitability is required to meet out the expenses of banks. But both the terms are on tradictory in nature. If banks maintain more liquidity, their profitability decrease and if they increase their profitability they will have to reduce their liquidity. In this way, banks act as an engine for a business organization. So in the present study an attempt has been made to evaluate the performance of different categories of banks viz. public, private and foreign bank groups in India. For evaluating the performance, eleven financial ratios have been used. These ratios further have been categorized into two categories viz. liquidity and profitability. The period of study cover the years 2005-06 to 2011-12. From the results, it has been found that during the study period the liquidity and profitability position of public sector bank group declined while it has improved in other two groups.

Ms. Shikha Gupta (2014), AN EMPIRICAL STUDY OF FINANCIAL PERFORMANCE OF HDFC BANK- A COMPARATIVE ANALYSIS,-The Bank works closely with HDFC Foundation across diverse sectors and programs. As of 2014 it is the second largest bank in India in terms of assets and market capitalization. HDFC bank emerged as a pioneer venture on the horizon of offering an expanded range of banking products and financial services for corporate and retail customers through its diverse delivery channels and specialized subsidiaries in the areas of investment banking, asset management, venture capital and insurance. In the light of its strategic importance in the nation interest, it is crucial to evaluate the financial performance of the HDFC Bank. And the present study focused on operational control, profitability and solvency etc. This research paper is aimed to analyze and compare the Financial Performance of HDFC Bank and offer suggestions for the improvement of efficiency in the bank. Loriya Chirag, Thakarshibhai (2014), study on A Profitability Analysis of Banks in India- banks include commercial banks

S. Subalakshmi1 , S. Grahalakshmi and M. Manikandan (2018) SBI and HDFC is the India's largest commercial bank in terms of assets, deposits and employees. SBI is the preferred banker for most of public sector corporations. It occupies a unique place in the Indian money market as it commands more than one third of India's bank resources. Public has enormous faith in State bank of India because of its dedicated services. This study aims at analyzing the Financial Ratio analysis of State Bank of India. The main objective for commercial bank is to maximize the value of profit. To do so, banks concentrate on their financial performance analysis and attempt to structure their portfolios in order to maximize their return. The most popular tool/technique for analyzing the Financial Statement of Bank is Ratio Analysis. Ratio analysis enables the management of banks to identify the causes of the changes in their advances, income, deposits, expenditure, profits and profitability over the period of time and thus helps in pinpointing the direction of action required for increasing the deposits, income, advances and reducing the expenditure and for altering the profitability prospects of the banks in future. Therefore the study was undertaken to analyze financial status of public sector bank especially to SBI (State Bank of India)

Vaghela Manish in "Difference between housing loans provided by SBI and HDFC bank (2013) [1]" investigated the difference in home loan services in the banks. She also studied consumer perception towards the different types of home loan scheme for both the SBI and HDFC banks. She concluded her findings in terms of interest payments by the consumers toward different home loan scheme. In this regard, she concluded that HDFC housing loan scheme are more preferred than SBI. SBI also scores more over HDFC in terms of total interest paid, the effective interest rate for SBI calculated to 9.69% as compared HDFC with 9.78%. With the conclusion, it concluded that HDFC borrowers have to pay more Rs. 70,348 than SBI borrowers do. She also stated with her findings that financial institutions and banks do not support the floating rate benefit of interest for new borrowers; it is either SBI or HDFC.

Jeevan Jayant Nagarkar (2015) on his study "Analysis of Financial Performance of Banks in India" worked to analyze the effect of recession in banking sector for the financial year 2008. Under his consideration, 15 banks samples classified in three categories Public, Private and Foreign banks, 5 banks in each category. In his paper, he attempted to find the performance of banks on different financial parameters during last year 5 years. He divided financial performance of banks sampled into two periods, one before recession 2008 and another later the recession. Then financial performance compared between high growth years of 2004-08 verses low growth years of 2009- 2013. On his finding, he concluded that the financial performances of banks are better when they depend on deposit rather than borrowing for disbursing advances. He also found that the National level banks are able to withstand business cycles much better as compared to Regional banks.

M. Dhanabhakyam and M. Kavitha (2012) in their study on “Financial Performance of Selected Public Sector Banks in India” explained nicely how the banks have to re-orient their strategies of their strengths and the of market type on which they are likely to operate time to time. The Banking sector has to find out a perfect path for their domestic as well as international development.

Faisal Abbas, Muhammad Tahir and Mutee-ur-Rahman (2012) in their article on “ A comparison of Financial Performance in Banking Sector: Some Evidence from Pakistani Commercial Banks” rank top five Pakistani commercial Banks based on their total average assets, total operating fixed assets, total average equity and return on respective variable.

FINDINGS

The following findings drawn from the above data analysis SBI Bank compare to HDFC Bank. SBI NPAs Ratio are high than HDFC. High NPAs Ratio of SBI shows low credit portfolio of the Bank.

- On analysis, HDFC profile has low risk as compare to SBI based on NPAs. Study also indicated that the major NPA increases due to government recommended priority sectors. Study also concluded HDFC has better capital adequacy ratio than SBI.
- The Banker must ensure that the business for which a loan sought is a sound one and the borrower has the capacity of carrying it out successfully, the person should be of high integrity, credibility and good character. The Banks, either than providing loans to small farmers, should make provisions to grant them insurance policies for crop protection and income security
- The balance sheet of the consumer should be studied thoroughly by the bankers to obtain the actual scenario of the business will be revealed on analysis of profit/loss a/c and balance sheet .While extending loans, Banks should also examine the main purpose of the loan
- At very early stage, the problem must be identified so that company could try their best to stop an asset or A/C becoming NPA and Bank should try their best to recover NPAs. The responsibility of the banks to evaluate the SWOT analysis of the borrowing companies that are how they would tackle with the environmental threats and opportunities with the use of their strength and weakness, and based on their financial and operational performance, what will be their possible future growth. Each Bank should develop their own independent credit rating agency, which would be responsible for evaluating the financial capacity of the borrowers before providing the credit facility

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.

During, the comparative study of SBI v/s HDFC Bank it is found that HDFC Banks has never gone above 2% in net NPAs during the study period while SBI has never gone below 6% during the study period.

This is an eye-opening comparison that demonstrates SBI's need to concentrate on acquiring high-quality assets, otherwise they will be compromising customers' hard-earned money 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 relevant tables. The comparative analysis of the profitability of the two banks clearly reveals that there is no significant relation between the NPA ratios of both the Banks The present study investigate and compare the growth financial performance of SBI and HDFC bank for the period from 2015-16-2019-20 using descriptive, correlation and multiple regression statistical methods. The empirical results of descriptive statistic illustrates that the growth performance of HDFC bank is very satisfying in India during the period under study than SBI bank which may indicates that growth performance of private sector bank than public sector are more updated and attractive in India during the period under study. HDFC also shows the better performance in the case of management of growth performance in the area of Reserve, Advance, Investment, Equity Dividend, Net Profit and EPS, C.V. because of its low variability. But in case of Interest Earned and Operating Expenses, low variability was seen in case of SBI. This is an indication of satisfactory management of performance.

Correlation test result is unbelievably powerful in case of SBI than HDFC bank. However, it does not explain about the grounds and shock.

- The total advances show an upward trend for both SBI and HDFC Bank. Net profit for SBI has been fluctuating over the years whereas for HDFC Bank consistent to around 10,000 Cr.
- Under percentage Gross NPA, financial performance of HDFC (Private sector Bank) doing better than SBI Bank (Public sector Bank). Under the case of percentage net NPA, performance of
- HDFC observed to be improving year after year and thus creation of less non -performing assets when compared to SBI Bank. Percentage net NPA for SBI Bank observed to be continuously rising.

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