

A COMPARATIVE STUDY ON FINANCIAL PERFORMANCE OF STATE BANK OF INDIA AND ICICI BANK

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ABSTRACT

Banking Sector plays an important role in economic development of a country. The banking system of India is featured by a large network of bank branches, serving many kinds of financial services of the people. 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. ICICI Bank is second largest and leading bank of private sector in India. The Bank has 2,533 branches and 6,800 ATMs in India. The purpose of the study is to examine the financial performance of SBI and ICICI Bank, public sector and private sector respectively. The research is descriptive and analytical in nature. The data used for the study was entirely secondary in nature. The present study is conducted to compare the financial performance of SBI and ICICI Bank on the basis of ratios such as credit deposit, net profit margin etc. The period of study taken is from the year 2009-10 to 2013-14. The study found that SBI is performing well and financially sound than ICICI Bank but in context of deposits and expenditure ICICI bank has better managing efficiency than SBI.

KEYWORDS: Financial Performance, Managing Efficiency

INTRODUCTION

The bulk of the banking business in the country is in the public sector comprising the State Bank of India and its seven associate banks and twenty nationalized commercial banks. Till 1991, the Indian banking was operating in a highly regulated and protected regime. But with the acceptance of Narsimham Committee recommendations, competition has been injected into the banking industry in two forms. First, with the amendment of the banking Companies Act, public sector banks are now allowed to access the capital market to raise funds, leading to a dilution in the current provisions of the Banking Regulation Act, barriers to entry have been relaxed. New private sector banks and foreign banks have been granted licenses with a resultant.

STATEMENT OF THE PROBLEM

Even through the private sector banks are lacking in branch network and market coverage, they have competitive strengths in automation and technology, product innovation, risk management, speedy decision making, personalized service, progressive Human Resource Management policies and expertise in niche segments and so on. They are providing better services to customers. They are under effective management and control. The other good points towards private sector banks are low cost of operation, higher profitability ratio, low accumulation of un-remunerative and low yielding

assets, smaller in size leading to effective supervision etc.

SCOPE OF THE STUDY

The present study is undertaken to highlight the comparative on financial performance of State Bank of India and ICICI bank. The study is mainly approached from the point of view of ICICI and State Bank of India. It doesn't consider others' view.

ICICI Bank, being the best bank in India has been selected for the study. It rises to the level of 2nd largest bank in India in term of net assets after the merger of ICICI with ICICI Bank. It has a wide range of products and services. It has great prospects in retail finance. It has pioneered a multi-channel distribution strategy in India, giving 24 hours and 7 days a week access to banking services. The major criteria for analysis are priority sector and public sector, foreign exchange, cost and expenditure, profitability and so on.

RESEARCH DESIGN

Methodology and Data Collections

This study is mostly based on secondary data. The data were collected from the annual report of both ICICI and State Bank of India. In addition to the records of the bank, data were also collected from banking bulletin, websites, newspapers, magazines and the like.

Period of the Study

The study will cover a period of five financial years from 2009 – 2010 to 2013– 2014.

Statistical Tools Used

Data will be collected from diverse source that put through a rigorous analysis using the following tools:

- Trend Analysis
- Ratio Analysis
- Chi-square Test
- Correlation

LIMITATIONS OF THE STUDY

The study will cover a period of only Five years from 2009 – 2010 to 2013 – 2014 and the period from its inception has not been considered. The researcher has made collective analysis of financial statements of all ICICI banks and not any individual bank due to unavailability of financial statements.

FINDINGS OF THE STUDY

The findings emanating from the financial analysis of State Bank of India and ICICI bank have been discussed under the four heads:

- Profitability
- Liquidity

- Capital structure and
- Coverage

Profitability

Profitability is a measure of operational efficiency of the firm and indicated its ability to ensure adequate return to its investors. Profitability of the ICICI and State Bank of India has been analysed using such parameters like

- Return on investments
- Return on net worth
- Return on assets

Of the above three ratios have witnessed a mixed trend of ups and downs. This can be attributed to two factors:

- Robust growth in total assets resulting from a steep due to the assets.
- Steep increase in operating expenses incurred due to the aggressive retail and technology initiatives.

Return on investment and return on equity, which remained at the peak in 2012-2013. Both State Bank of India and ICICI banks are quest to achieve leadership position drove it to spend aggressively thus slowing down the growth in profitability but at the same time increasing manifold the capital employed in the business. This has contributed to the mixed trend. The huge difference between return on investment and return on equity implies the presence of outsiders' funds to a large extent.

To consolidate, it can be said that the bank's aggressive business strategies have resulted in robust business growth and slow rise in profitability. The large proportion of funds had been contributed by outsiders. These factors have led to

- Fall in profitability ratios, which however recovered during the last year and
- Growth of earnings attributable to equity shareholders.
- To conclude it can be said that bank is in a safe territory as for as its' profitability is concerned.

Liquidity

Liquidity indicates the ability of a firm to meet its current / short term obligation and hence, is a pre-requisite for the very survival of the firm. The ratio used here to measure the liquidity of State Bank of India and ICICI bank is:

- Current Ratio
- Cash Ratio
- Net Working Capital Ratio and
- Current Liabilities to Tangible Net worth Ratio

Amongst liquidity ratios excepting the current liabilities to tangible net worth ratio, other ratios have ups and downs during the year 2009 – 2013. The banks aggressive drive towards leadership position in terms of both volumes and

innovations and technologies had led to this.

The growth in business volume had led to a rapid rise in current liabilities, thus bringing down the liquidity ratios. But, what is significant there is, the bank's liquidity ratios have remained above the norm throughout the period. This indicates the bank's strong liquidity position.

Current liabilities to tangible assets net worth is concerned the bank had witnessed a volatile trend. Whenever the rate in growth of net worth has outwitted the rate in growth of current liabilities the ratio has decreased. On the other hand, the ratio has increased in the reverse case. Overall the current liabilities have remained on a higher side. If one looks at the trend analysis it is evident that rate of growth in current assets is relatively faster than that witnessed in fixed assets. The same can't be said of the current liabilities. This substantiates the bank's satisfactory liquidity position. The current liabilities have also moved up in a swift pace.

Capital Structure

The long term solvency of a firm can be examined by using capital structure ratios. Debt-equity ratio, equity ratio, proprietary ratio, debt asset ratio, fixed ratio, long term debt to long term fund ration and long term debt to net worth ratio are the various capital structure ratios, trend analysis has also been used to examine the bank's capital structure.

The capital structure ratios of the bank indicate the prominence of debt in its capital structure. Debt has occupied the major portion of capital employed in all parameters-debt equity, capital employed equity, long-term fund to net worth. This is only logical since the firm is a banking company.

If the capital structure is examined from another point of view the proportion of debt and shareholders' equity in financing asset5s, it is again established that debt occupied a prominent position. Debt has been used to finance over 90% of assets. To considering the nature of the business, the prominence of debt is no cause for worry.

Coverage

Coverage Ratio measured a firm's ability to cover the interest payments on its debt funds. The bank's interest coverage witnessed downward trend until the year. After that, it will be increased but at the diminishing rate. Overall the bank has a healthy interest coverage ratio throughout the study period.

The performance has been evaluated in terms of growth, portfolio management, income, profitability and recovery.

Growth

The number of branches has increased from 1707 in 2009 – 2010 to 3753 in the year 2013 – 2014. Also the deposit with the bank has risen from Rs.16.43 billion in 2000-2000 to Rs.99.82 billion in the year 2004-2005 for ICICI bank. In State Bank of India, the branches have increased from 12,496 in 2009 – 2010 to 15,869 in the year 2013 – 2014. Also the deposit if the of the bank is also increased from Rs.8041.16 billion in 2009 – 2010to Rs.13944.09 billion in the year 2013 – 2014. In ICICI Bank deposit amount also increased from the year 2009-2010 would be Rs.2020.17 billion to Rs.3319.14.

Portfolio Management

The investments in terms of advances are raised to Rs.6319.14 billion in the year 2009 – 2010 to Rs.12098.29 billion in 2013 – 2014 for State Bank of India. In ICICI Bank, the advances are raised from Rs.1812.06 billion in 2009 – 2010 to Rs.3387.03 billion in 2013 – 2014. The project quantum of loans and advances for the year 2018 – 2019 is Rs.19136.29 for State Bank of India and Rs.5282.87 billion for ICICI Bank.

The liquid cash held by the State Bank of India during 2009 – 2010 was Rs.961.84 billion, it increased to Rs.1325.50 billion in 2013 – 2014. But in ICICI Bank it is reduced from Rs.275.14 billion to Rs.218.22 billion in the year 2013 – 2014. The total assets of the State Bank of India was increased from Rs.10534.14 billion in 2009 – 2010 to Rs.17922.35 billion in 2013 – 2014. In ICICI, it increased to Rs.3634.00 billion in 2009 – 2010 to Rs.5946.42 billion in 2013 – 2014.

Management of Income and Profitability

The interest expenses of the State Bank of India were Rs.473.22 billion in 2009 – 2010 to Rs.870.69 billion in the year 2013 – 2014. In ICICI bank, it increased from Rs. 175.93 billion in 2009 – 2010 to Rs.277.03 billion in 2013 – 2014.

The operating expenses of the State Bank of India were Rs.203.19 billion in 2009 – 2010 to Rs.357.26 billion in the year 2013 – 2014. In ICICI, it increased from Rs. 58.60 billion in 2009 – 2010 to Rs.103.09 billion in 2013 – 2014.

The interest income of the State Bank of India were Rs.709.94 billion in 2009 – 2010 to Rs.1363.51 billion in 2013 – 2014. In ICICI Bank, it increased from Rs. 257.07 billion in 2009 – 2010 to Rs.441.78 billion in 2013 – 2014.

The operating income of the State Bank of India were Rs.149.68 billion in 2009 – 2010 to Rs.185.53 billion in the year 2013 – 2014. In ICICI bank, it increased from Rs. 74.78 billion in 2009 – 2010 to Rs.104.28 billion in 2013 – 2014.

The net profit of the State Bank of India was Rs. 91.66 billion in 2009 – 2010 to Rs.108.91 in 2013 – 2014. In ICICI, it increased from Rs.40.25 billion in 2009 – 2010 to Rs.98.10 billion in 2013 – 2014.

Recovery

The non-performing assets of the State Bank of India were increased Rs.51.48 billion in 2009 – 2010 to Rs.142.24 billion in 2013 – 2014. In ICICI Bank, it was increased from Rs.96.27 billion in 2009 – 2010 to Rs.105.54 billion in 2013 – 2014.

The researcher has also used statistical analysis to interpret the performances of State Bank of India and ICICI Bank. The ratios have been computed on the basis of capital adequacy, deployment of resources of assets, quality, earning quality liquidity and efficiency.

Capital Adequacy

The proportion of debt to owner's stake in the business of State Bank of India were Rs.9071.28 billion in 2009 - 2010 to Rs.15775.49 billion in 2013 - 2014. In ICICI Bank, it increased from Rs.2962.81 billion in 2009 - 2010 to Rs.4866.73 billion in 2013 – 2014.

Then the composition of advances in the total assets was increased from Rs.6319.14 billion in 2009 - 2010 to Rs.12098.29 billion in 2013 - 2014 for State Bank of India. In ICICI Bank, it increased Rs.1812.06 billion in 2009 - 2010

to Rs.3387.03 billion in 2013 - 2014.

Development of Resources

The investments to total assets are increased in Rs.861.94 billion in 2009 - 2010 to Rs.1325.50 billion in 2013 - 2014. In ICICI Bank, the investments are increased in Rs.388.73 billion in 2009 - 2010 to Rs.415.30 billion in 2013 - 2014.

The fixed assets to total assets was Rs.44.13 billion in 2009 – 2010 to Rs.80.02 billion in 2013 – 2014 for State Bank of India. In ICICI bank, it is increased from Rs.32.13 billion in 2009 – 2010 to Rs.46.78 billion in 2013 – 2014.

Efficiency

The productivity of the employee is follows:

The deposit per employee has increased from Rs.8041.16 billion in 2009 – 2010 to Rs.13944.09 billion in 2013 – 2014 for State Bank of India. In ICICI Bank, it was increased in Rs.2020.17 billion in 2009 – 2010 to Rs.3319.14 billion in 2013 – 2014.

The business per employee has increased from Rs.14360.30 billion in 2009 – 2010 to Rs.26042.38 billion in 2013 – 2014 for State Bank of India. In ICICI Bank, it was increased in Rs.3832.23 billion in 2009 – 2010 to Rs.6706.17 billion in 2013 - 2014.

The net profit per employee has increased from Rs.91.66 billion in 2009 – 2010 to Rs.108.91 billion in 2013 – 2014 for State Bank of India. In ICICI Bank, it was increased Rs.40.25 billion in 2009 – 2010 to Rs.98.10 billion in 2013 – 2014.

The State Bank of India's branch productivity by means of deposits per branch in the year 2009 – 2010 was Rs.8041.16 billion and was increased to Rs.13944.09 billion in 2013 – 2014. In ICICI Bank, it was increased Rs.2020.17 billion in 2009 – 2010 to Rs.3319.14 billion in 2013 – 2014.

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The State Bank of India's branch productivity by means of net profits per branch in the year 2009 – 2010 was Rs.91.66 billion and was increased to Rs.108.91 billion in 2013 – 2014. In ICICI Bank, it was increased Rs.40.25 billion in 2009 – 2010 to Rs.98.10 billion in 2013 – 2014.

Earnings Quality

The spread ratio of State Bank of India in the year 2009 - 2010 was Rs.709.94 billion and it increased to Rs.1363.51 billion in 2013 – 2014. In ICICI Bank, it was Rs.257.07 billion in 2009 – 2010 to Rs.441.78 billion in 2013 – 2014.

The return on equity of State Bank of India has increased from Rs.91.66 billion in 2009 – 2010 to Rs.108.91 billion in 2013 – 2014. In ICICI Bank, it was increased Rs.40.25 billion in 2009 – 2010 to Rs.98.10 billion in 2013 - 2014.

After analyzing the financial statements and the findings of the State Bank of India and ICICI in a detailed manner, the researcher has come out with following suggestion for further improvement of the bank.

- Appropriate measure may be made to recover over dues.
- The surplus funds can be properly channelized.
- Since interest expenses are high, the banks are concentrating on services.
- Employees are to be motivated for the better customer services.
- The banks should not have idle funds in its hand.

CONCLUSIONS

At present competition prevails in every industry. Banks are in no way exception to this. The performance of ICICI and State Bank of India is found to be good. The bank can grow further by implementing the above suggestions. Could they follow?

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