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AN EMPERICAL STUDY ON PERFORMANCE EVALUATION OF STATE BANK OF INDIA

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ABSTRACT

State Bank of India (SBI) is one of the leading public sector banks and has been always compared as the benchmark for public sector banks. Financial performance and development have been the most important attributes of an economy's financial status. For the analysis of SBI's performance and status the study has been conducted with the attribute of financial tools like Financial Ratios for the last five years., The Solvency Ratios, Liquidity Ratios, Valuation Ratios, Profitability Ratios have been discussed in detail to give a detailed picture on criteria the firm has been performing well and where they need development and attention. The study has recognized that SBI has been maintaining the described parameters and attributes and operating in profits

Key words: Performance, Profitability Ratios, Solvency Ratios, Liquidity Ratios, Valuation

Introduction

Ratio Analysis is one of the most predominant tools used by the fundamental analysts to get a quick understanding of the financial situation and the growth prospects of the firm, since its simple and because of its quantitative description, ratio analysis tools are quite useful for the investors who can judge the company based on different views of segregation for example:

Solvency, Liquidity, Profitability, thus enabling the analyst to report accordingly

Statement of the problem

The financial execution of SBI is the major element of the economy's financial progress and development. The fundamental objective of Banking industry is to enhance the firm's operations as well as overall profitability. In addition to this, the current generation of managers and executives are keen to advance their operations based on certain financial advice. The criteria for measuring the performance of banks have been calibrated in two aspects, 1. Financial

- Human Resource. For analysis of performance, the following most suitable and technical ratios are considered viz., Solvency Ratio, Profitability Ratio, Valuation ratio and Liquidity ratio for SBI

Objectives

- To give an enhanced vision of SBI's financial performance trend over the past five financial years.
- To provide the scope of improvement in performance with the use of Financial Ratios.
- To provide an investment overview for fundamental analysts.

Review Of Literature

Hannes Koster and Matthias Pelster (2017) conducted an analytical study on SBI with profitability ratios. The study stressed on financial deviations and other legal penalties and its impact on profitability and performances of SBI. He concluded that SBI has been profitable for the investors.

Premchand Kaila and Dr.E. Lokhanada Reddy (2019) conducted an extensive analytical review of SBI and Axis Bank. He compared the heavyweights with each other for the 5 years 2013- 2018 based on financial ratios and came to an extensive conclusion that SBI has performed better than AXIS Bank

Poonam Singh, Kanahiya Singh (2015) conducted an extensive study on public sector banks. He used ratio analysis tools and sampling method for the study and analyzed SBI and its peers concluding that SBI has performed better than other public sector banks

Jyotrimany Koley (2019) conducted a detail study on SBI as well as HDFC bank. For the study Koley uses the CAMEL model and other financial tools including financial ratios and concluded that HDFC has performed better than SBI in key areas of the CAMEL Model

Swati Sharma and Dr Jay Kumar Patel (2019) conducted a study in SBI. He conducted the study based on the CAMEL Model parameters as well as other tools and came to a decisive conclusion that SBI has been performing well around satisfactory level based on CAMEL Model and stated that SBI 's liquidity was of high concern as larger proportion of SBI'S capital was dependent on Debt.

S. Subalakshmi and M. Manikandan (2016) conducted a financial analysis study on SBI from year 2009-2016. Subalakshmi used ratio analysis tools and compared SBI's year on year performance and concluded that there was sufficient progress in SBI with overall performance of the bank being satisfactory for investors but needed to improve its equity structure and reduce the debt percentage which was higher than usual.

Murad Mohammad Gafil and Abdel Karim Salim Issa Albkour (2018) conducted as study and compared SBI and ICICI bank from 2012 to 2016 and concluded that SBI had fluctuating trend whereas ICICI was not able to cope up with the uptrend, they also stated that SBI's capital structure had lesser proportion of equity in overall capital compared to ICICI bank thus causing a worry for investors

Mr. P. Kanaagaraj and Mr. Arun Kumar (2021) conducted a study on SBI 's financial performance and came to a conclusion that SBIN must take essential measures to improve their liquidity position

Reetika Verma (2021) conducted a study on SBI and HDFC Banks performance. For the period of 2015-2020 she conducted an extensive study on SBI and HDFC Bank performance with the vision of ratio analysis tools. She concluded that HDFC Bank had better capital adequacy for the last 5 years compared to SBI and also started that there was still scope for improvement and development for banking sector in India, she also stated that according to customers preference SBI ranked 11th and SBI played the best role in recovery of the Indian economy.

Priyanka Jha and Dr. Monu Bhargav (2018) conducted a study on financial status of SBI and ICICI bank from 2011-2018 for the period of 7 year, they came to a conclusion that SBI had better financial soundness compared to ICICI bank however ICICI bank have been using its assets better compared to SBI who had lower asset turnover ratio compared to ICICI bank.

RESEARCH METHODOLOGY Research Design & Data collection

To analyze and interpret the performance of SBI the data was collected through annual report as well as the secondary WWW.BSEINDIA.COM, The Balance Sheet as well as all the related financial documents for the study was formulated on the Standalone basis and not on the Consolidated version.

Period of Study & Tools Applied

The extensive study of SBI covers a period of five years, from 2016-17 to 2020-2021 and the data have been coordinated according to the respective year's figures, The tools applied here are the Financial Ratios.

- **ANALYSIS & INTERPRETATION Profitability Ratios**
- **Net Profit Ratio**

Net profit Ratio= (Net profit (or) Earnings After Tax /Sales) x100

Table 1: Net Profit Ratio (In Crores)

Particulars	2021	2020	2019	2018	2017
Net Profit	20,410	14,488	862	-6,547	10,484
Net Sales	265,150	257,323	242,868	220,499	175,518

Net Profit Ratio	7.69	5.63	0.35	-2.96	5.97

[Source: computed data]

Interpretation:

SBI's performance with net profit margin as a parameter has been quite unstable before the pandemic with even negative returns in 2018 a time at which other banks performed satisfactorily, during the pandemic year 2020-2021 SBI has been able to perform at its new high 7.69% which is due to reduction in operating costs due to the pandemic, the ideal ratio is 20%.

Return on Capital Employed

Return on Capital Employed= (Net Profit/Total Capital Employed) x100

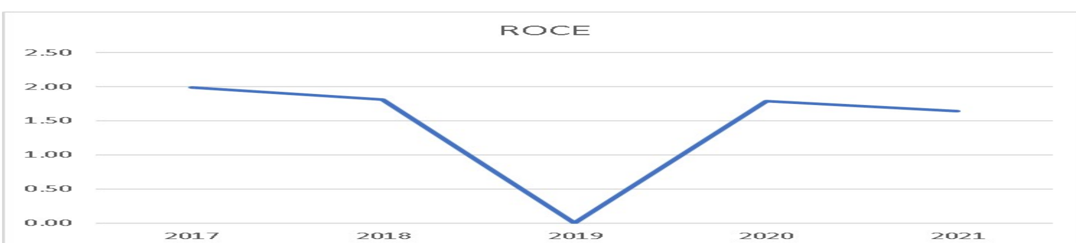
Table 2: ROCE (In Crores)

Particulars	2021	2020	2019	2018	2017
Net Profit	20,410	14,488	862	-6,547	10,484
Total Capital	43,52,448	37,88,281	35,35,316	32,87,613	25,50,729
ROCE	1.64	1.79	0.00	1.81	1.99

[Source: computed data]

Interpretation:

SBI'S Return on Capital employed has been quite unsatisfactory for the investors especially in 2019 causing a major throttle for the investors, the post pandemic performance also has not been up to mark, The ideal ratio is around 10% for which SBI underperformed.



Earnings Per Share

Earnings Per Share= Net Profit/Total Number of Common Share Outstanding

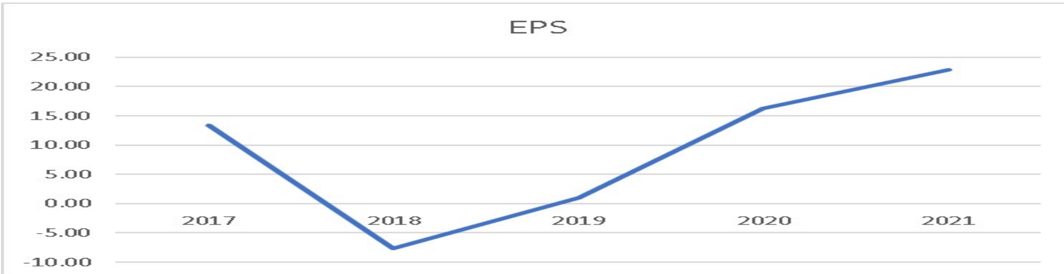
Table 3: EPS (In Crores)

Particulars	2021	2020	2019	2018	2017
Net Profit	20,410	14,488	862	-6,547	10,484
Total C/S O/S	892.46	892.46	892.46	892.45	797.35
EPS	22.87	16.23	0.97	-7.67	13.43

[Source: computed data]

Interpretation:

SBI's Earnings Per Share has been quite unstable before the pandemic with even negative returns in 2018, and showed recovery from 2019, for the last 3 accounting years SBI's EPS has shown steady raise with extraordinary performance in 2021 during the pandemic year, the ideal EPS is 25 which SBI missed with a minor margin, compared to its peers SBI has been underperforming.



Return on Equity

Return on Equity= Net Profit/Shareholder's Equity

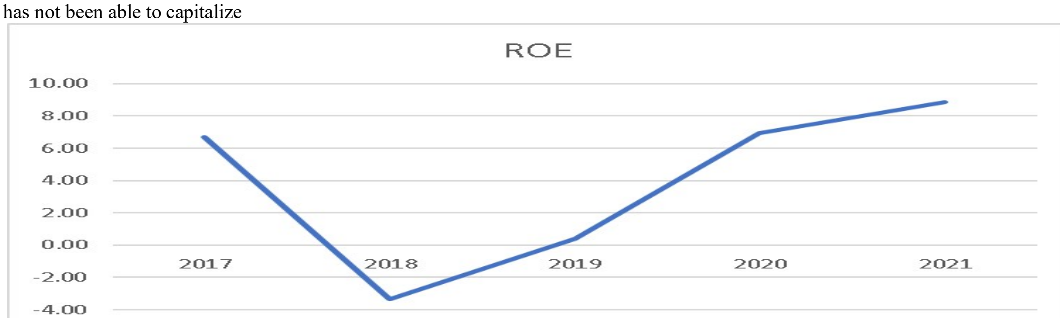
Table 4: Return on Equity (In Crores)

Particulars	2021	2020	2019	2018	2017
Net Profit	20,410	14,488	862	-6,547	10,484
Equity	2,53,874	2,32,006	2,20,913	2,19,128	1,88,285
ROE	8.86	6.95	0.39	-3.37	6.69

[Source: computed data]

Interpretation:

Return on Equity of SBI has been quite unsatisfactory for value investors with negative returns in 2018 and from 2017 to 2020 SBI's returns never bet the inflation indicating that the major gains that arose only from capital gains and not through value investing, the ideal ratio is 10% which SBI has not been able to capitalize



- **Return on investment (ROI)**

Return On Investment= EBIT/TOTAL INVESTMENT

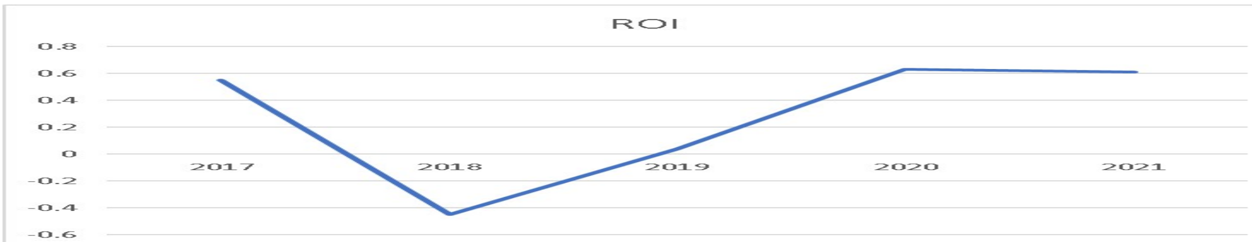
Table 5: Return on Investment (In Crores)

Particulars	2021	2020	2019	2018	2017
EBIT	27541	24802	1607	-15528	14855

INVESTMENT	4,534,429	3,951,393	3,680,914	3,454,752	2,705,966
ROI	0.61	0.63	0.04	-0.45	0.55

[Source: computed data]

Interpretation:



SBI's Return on Investment has been quite underperformed compared to its peers with around 1-2%, again SBI has not been able to perform from 2017-2019 with negative returns in 2018 and recovery in 2020-2021, the pandemic performance has been good but not up to the standards of SBI's brand, the ideal ratio is 5% for the banks which SBI again underperformed

- **Return on assets**

Return On Assets= NET PROFIT/TOTAL ASSETS

Table 6: Return on Assets (In Crores)

Particulars	2021	2020	2019	2018	2017
NET PROFIT	20,410	14,488	862	-6,547	10,484
TOTAL ASSET	4,534,429	3,951,393	3,680,914	3,454,752	2,705,966
ROA	0.45	0.36	0.02	-0.18	0.38

[Source: computed data]

Interpretation:

SBI's Return on Asset has been quite unstable from 2017-2019 causing a concern for value investors as the deviance has been quite alarming, with negative returns in 2018 the data shows SBI has increased a lot in its total assets with formidable margin, the pandemic performance has been satisfactory, the ideal ratio is 2% for banks which SBI again underperformed.

- **Earnings Before Interest Tax Amortization & Depreciation (EBITDA)**

Earnings Before Interest Tax Amortization & Depreciation Ratio= (EBITDA/SALES) x100

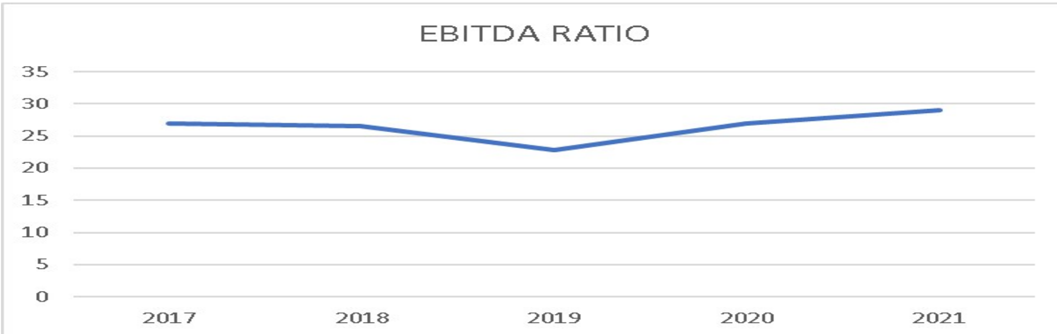
Table 7: EBITDA Margin (In Crores)

Particulars	2021	2020	2019	2018	2017
EBITDA	71,554	68,132	55,436	59,510	50,847
SALES	265,150	257,323	242,868	220,499	175,518
EBITDA RATIO	26.99	26.48	22.83	26.99	28.97

[Source: computed data]

Interpretation:

SBI'S Earnings before Depreciation Amortization Ratio margin has been in an uptrend since 2017 showing that a huge asset has been amortized in 2018 leading to negative returns in terms of Net Profit, the sales have been increasing for the last 5 years but not in an applaudable note, 2017-2018 saw a downtrend and then an upward in margin, the ideal ratio is 25% which SBI satisfies



- **Dividend Payout Ratio**

Dividend Payout Ratio= Total Dividends/Net Profit

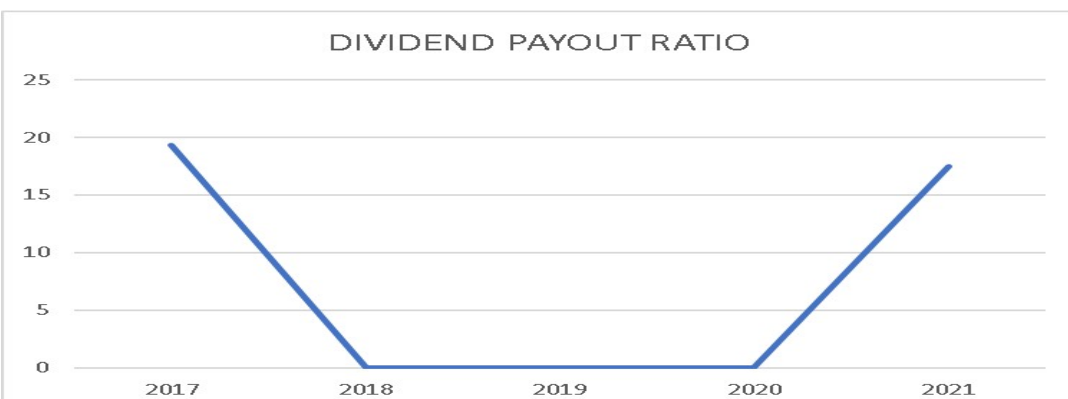
Table 8: Dividend Payout ROCE (In Crores)

Particulars	2021	2020	2019	2018	2017
Dividend	4.00	0	0	0	2.60
EPS	22.87	16.23	0.97	-7.67	13.43
Payout Ratio	17.49	0	0	0	19.35

[Source: computed data]

Interpretation:

SBI's dividend payout ratio has clearly shown a negative mark for passive value investors with unstable dividend yields especially in 2018-2020 where investors did not receive any dividends, surprisingly SBI has provided decent dividend in 2021 providing some relief.



- **Dividend Yield Ratio**

Dividend Yield Ratio= Total Dividends/Market Value Per Share

Table 9: Dividend Yield Ratio (In Crores)

Particulars	2021	2020	2019	2018	2017

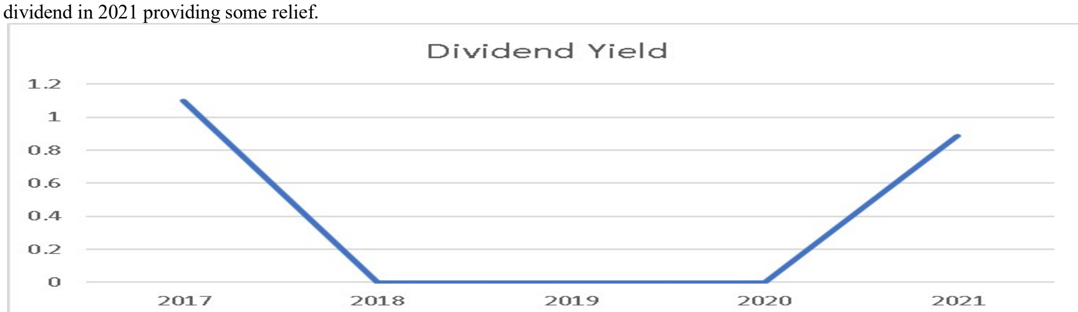
Total Dividends	4.00	0	0	0	2.60
M.V. per share	364	196	322	335	298
Dividend yield	1.10	0.00	0.00	0.00	0.89

[Source: computed data]

Interpretation:

SBI's Dividend Yield as mentioned above has clearly shown a negative mark for passive value

investors with unstable dividend yields especially in 2018-2020 where investors did not receive any dividends, surprisingly SBI has provided decent dividend in 2021 providing some relief.



- **Earnings Yield Ratio**

Earnings Yield Ratio= Earnings Per Share/Market Value Per Share

Table 10: Earnings Yield Ratio (In Crores)

Particulars	**2021**	**2020**	**2019**	**2018**	**2017**
EPS	22.87	16.23	0.97	-7.67	13.43
M.V.	364	196	322	335	298
Earnings Yield	4.8	9.5	.29	-2.4	4.33

[Source: computed data]

Interpretation:

Not much comprehensive can be spoken about the Earnings Yield as the Market Price fluctuation has been quite high causing immense complexity to analyze with the Pandemic fall the earnings yield increased due to fall in market price but marginally decreased after the correction

Valuation Ratio

- **Price to Earnings Ratio (PE Ratio)**

Price To Earnings Ratio= Market Price/Earnings Per Share

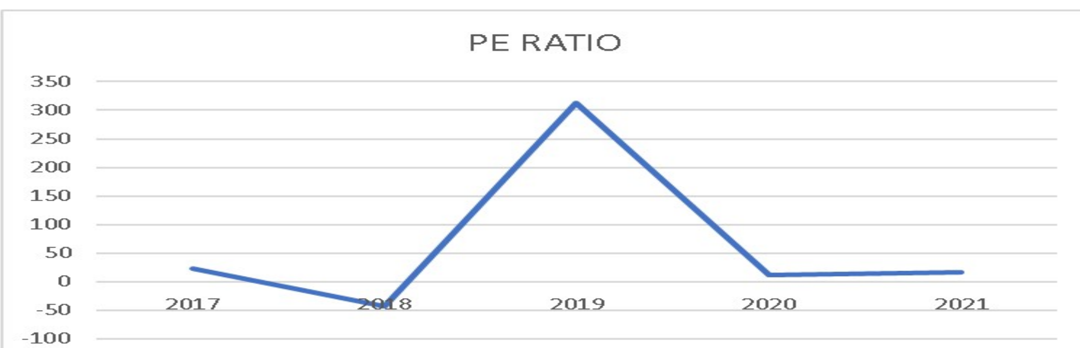
Table 11: Price to Earnings Ratio (In Crores)

Particulars	2021	2020	2019	2018	2017
M.V.	364	196	322	335	298
EPS	22.87	16.23	0.97	-7.67	13.43
PE RATIO	15.93	12.13	312.34	-43	22.25

[Source: computed data]

Interpretation:

The PE ratio has been quite intimidating for fundamental investors with extreme range in 2018 and 2018 with EPS changes dramatically, since 2020 the PE ratio increased with recovery from correction in market price post the pandemic.



- **Price to Sales Ratio**

Price To Sales Ratio= Market capitalization/Sales

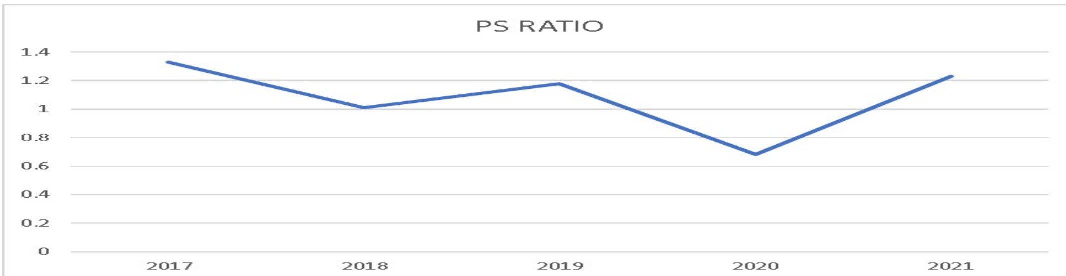
Table 12: Price to Sales Ratio (In Crores)

Particulars	2021	2020	2019	2018	2017
Market Cap	326134.5	174979.64	286587.24	222704	233438.94
Sales	265,150	257,323	242,868	220,499	175,518
P/S Ratio	1.23	0.68	1.18	1.01	1.33

[Source: computed data]

Interpretation:

The PS ratio of SBI has been remarkably high showing investors interested in the firm and willing to pay higher prices, with fall in market value in 2020 due to announcing of lockdown caused major disruption in market cap but SBI was able to recover, the ideal ratio is 1 which SBI slightly shows overvaluation.



Liquidity Ratio

- **Current Ratio**

Current Ratio = Current Assets/ Current Liabilities

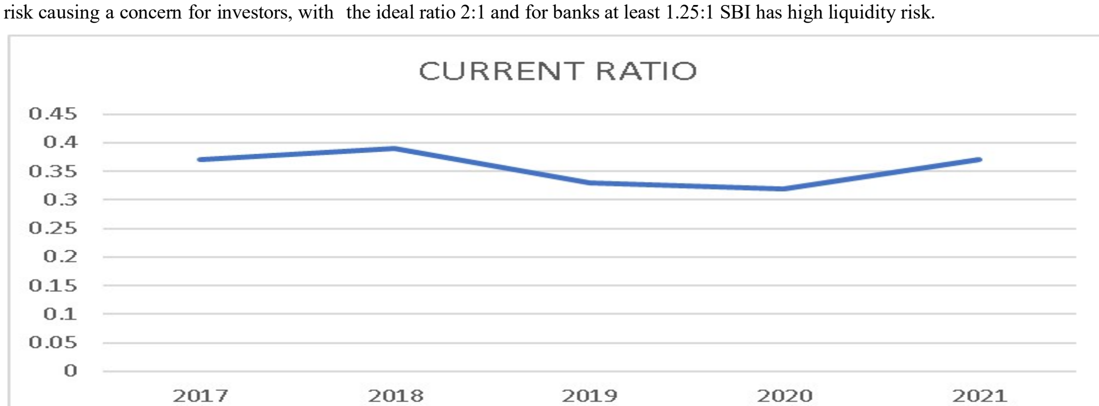
Table 13: Current Ratio (In Crores)

Particulars	**2021**	**2020**	**2019**	**2018**	**2017**
Current Assets	8,067.41	38,023.39	38,508.94	39,200.71	42,344.99
Current Liabilities	181,979.66	163,110.10	145,597.30	167,138.08	155,235.19
Current Ratio	0.37	0.32	0.33	0.39	0.37

[Source: computed data]

Interpretation:

The current ratio has always been a major concern for investors especially in banking sector, with such low current ratio SBI has high short-term risk causing a concern for investors, with the ideal ratio 2:1 and for banks at least 1.25:1 SBI has high liquidity risk.



Solvency Ratios

- **Financial Leverage Ratio**

Financial Leverage Ratio= Total Assets/Equity

Table 14: Financial Leverage Ratio (In Crores)

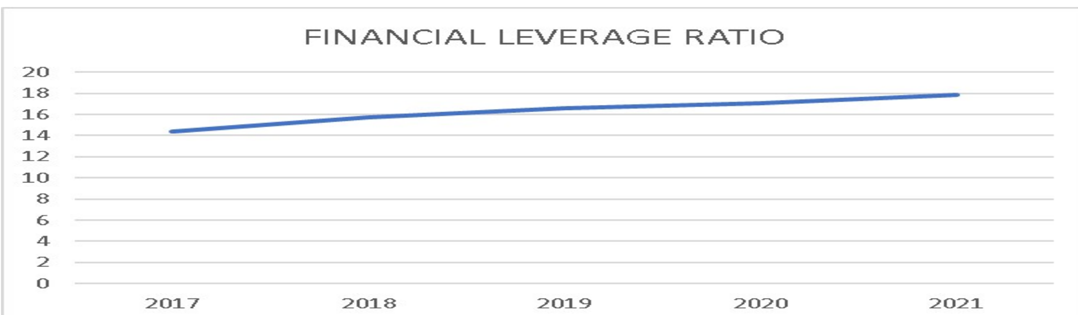
Particulars	2021	2020	2019	2018	2017
Total Asset	4,534,429	3,951,393	3,680,914	3,454,752	2,705,966
Equity	2,53,874	2,32,006	2,20,913	2,19,128	1,88,285
Financial Leverage	17.86	17.03	16.62	15.76	14.37

[Source: computed data]

Interpretation:

The Financial Leverage of SBI has been quite high with Equity being only 18% of the total capital in recent, showing the firm is heavily dependent on leverage, this shows high solvency problems for investors, the ideal ratio is 50% which SBI has not been able to achieve.

Note: here the leverage is calculated as equity compared to total asset.



- **Debt Equity Ratio**

Debt to Equity Ratio= Total Debt/ Total Equity

Table 15: Debt to Equity Ratio (In Crores)

Particulars	2021	2020	2019	2018	2017
Total Debt	42,80,553	37,19,385	34,60,000	32,35,623	25,17,679
Total Equity	2,53,874	2,32,006	2,20,913	2,19,128	1,88,285
Debt to Equity Ratio	16.86	16.03	15.66	14.7	13.37

[Source: computed data]

Interpretation:

SBI ‘s Debt Equity ratio clearly states that SBI has been heavily dependent on debt as a source of fund increasing the firm’s fixed obligation, through the data we can have a clear observation that SBI has increased equity as well as debt form 2017-2021 with figures increasing but debt in enormously higher margin than equity, ideal DE ratio for banks is 10 which SBI crosses.

Results

- The Profitability ratios has shown underperformance of SBI compared to its peers
- The Valuation ratio has shown SBI has been undervalued
- The Liquidity ratio shows that the firm is highly illiquid
- The Solvency Ratio shows SBI is highly insolvent

Findings

- The Net profit ratio has been at the peak of 7.69% which does not beat the ideal ratio
- Return on Capital Employed has been at the peak of 1.99 which is less than ideal ratio.
- EPS has been at the peak of 22.47 for which the peer's average around 30 (Reetika Verma 2021) hence SBI underperformed
- Return on Equity has at the peak of 8.86% which does not beat the ideal ratio of 10%
- Return on Investment at the peak of 0.63% was not able to beat the ideal ratio of 5%.
- Return on Assets at the peak of 0.45 was not able to beat the ideal ratio of 2% for banks
- EBITDA Margin at the peak of 28.97 was able to cross the ideal ratio of 25%.
- Dividend payout ratio at the peak of 19.35% not able to beat the ideal ratio of 20%.
- Dividend Yield ratio at the peak of 1.10 not able to beat the ideal ratio of 2%
- The PE ratio with the latest rate of 15.93 is below the range of 20 hence undervalued (except 2019 range)
- The PS ratio with latest rate of 1.23 is below the range of 2 hence undervalued.
- The current ratio with lates value of .37 below the ideal ratio of 1 for banks. showing SBI is illiquid
- The Financial leverage Ratio with value of 17.86 shows the firm's capital structure is dominated by debts
- The Debt Equity Ratio with values crosses the ideal ratio of 10 for banks hence SBI is highly insolvent
- Earnings Yield ratio at the peak of 9.5% just near ideal ratio of 10%

Suggestions

- SBI should improve the sales conditions to attract more investors
- EPS has been low compared to peers (Reetika Verma 2021) hence need a high attention from the board members
- SBI should reduce the debt percentage in the capital structure to safeguard from economic instabilities

Decisive Conclusion

After thorough analysis of the financial statements and interpreting in ratio, the primary conclusion is that SBI is not that attractive to value fundamental investors thus the most prevalent benefits are from capital gain and SBI is unattractive for passive investors.

Scope for further study

The Study has been conducted till FY2021 and thus is open ended towards the upcoming reports, top category ratio has been selected, hence other ratios not included in the study also can be considered with defined priority in order to define the performance of SBI

Limitations of Study

- The valuation ratio may differ from other sources due to fluctuation in market prices

- The data has been collected from WWW.MONEYCONTROL.COM hence any deviations or corrections may be subject to the website editor
- Ratio analysis itself is not fully conclusive enough to determine the overall performance
- Ratios can be manipulative and misleading as well and avoids qualitative factor.

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