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A Comparative Study on Financial Performance of SBI Bank and HDFC Bank

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ABSTRACT:

The banking sector in any economy plays a significant role in its growth and development. This paper is based on financial performance analysis of two leading banks of India. This paper aims to evaluate financial performance of HDFC and SBI bank on the basis of accounting ratios and also to study the functioning of the Indian banking system [6]. In this paper different ratios of both the banks are compared. Capital adequacy ratio, debt equity ratio, leverage ratios, profit and loss account ratios, net interest margin ratio, return on equity and other ratios are used to compare the performance of both the banks. This research is based on the data collected from financial statements of the banks. The performance of both the banks are compared from the year 2018 to 2022. It is observed that performance of HDFC is better than SBI not only in terms of ratio analysis but also in terms of customer satisfaction

I. INTRODUCTION

INTRODUCTION TO THE STUDY:

Banking in India originated in the last decades of the 18th century. The oldest bank in existence in India is the State Bank of India, a government-owned bank that traces its origins back to June 1806 and that is the largest commercial bank in the country. Central banking is the responsibility of the Reserve Bank of India, which in 1935 formally took over these responsibilities from the then Imperial Bank of India, relegating it to commercial banking functions .After India's independence in 1947, the Reserve Bank was nationalized and given broad powers. In 1969 the government nationalized the 14 largest commercial banks; the government nationalized the six next largest in 1980.

Currently, India has 88 scheduled commercial banks (SCBs) – 27 public sector banks (that is with the Government of India holding a stake), 31 private banks (these do not have government stake; they may be publicly listed and traded on stock exchanges) and 38 foreign banks. They have a combined network of over 53,000 branches and 17,000 ATMs. According to a report by ICRA Limited, a rating agency, the public sector banks hold over 75 percent of total assets of the banking industry, with the private and foreign banks holding 18.2% and 6.5% respectively.

About HDFC:

The Housing Development Finance Corporation Limited (HDFC) Bank is an Indian banking and financial services company, headquartered in Mumbai, Maharashtra. HDFC Bank is India's largest private sector bank by assets and by market capitalization as of April 2021. It is the third largest company by market capitalization on the Indian stock exchanges.

About SBI

STATE BANK OF INDIA is a regulatory body for public sector banking and financial services in India, based 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 is India's largest public sector bank, with a 23 percent asset market share and a 25 percent share of the overall loan and deposit market.

OBJECTIVES OF THE STUDY:

- To study the overview of SBI BANK and HDFC BANK.
- To study the financial strength in the banking sector of SBI BANK and HDFC BANK.
- To compare the performance of SBI BANK and HDFC BANK.
- To study the profitability of SBI BANK and HDFC BANK.

- To observe the difference in the financial performance of banks on the basis of accounting ratios
- To observe the significant factors impacting overall financial performance of both the banks

SCOPE OF THE STUDY:

The study was evaluate and comparison of SBI BANK and HDFC BANK to analyse the financial performance of the past 5 years. The data are collected from the previous 5 years "audit book", "profit and loss account" and "balance sheet". The study aims to analyse and compare the liquidity, profitability, solvency position of the banks. The project is conducted in order to know the functioning of the bank. It will help in determining the negatives and positives of the business concern. The study will also help in the future growth and decision making of the banks.

STATEMENT OF THE PROBLEM:

Definition of banking has been changes in India from time to time and hence in India in banking sector has also been changes in increasing order. Since many years it has been seen as big monster in every corporate for different good reasons for which one of the reason being more transparency taken in to the picture especially in banking. To study these dynamic changes in financial analysis for different banks become very important and we have chosen the HDFC Bank and SBI Bank for the study purpose for being these banks most prominent and best in their category.

RESEARCH METHODOLOGY:

- *Research Design:*

A research design is the arrangement of condition for collection and analysis of data in a means that aims relevance to the research purpose with economy in procedure. In this study the descriptive research is followed.

- *Source of Information:*

The study based on secondary data. Secondary data has been collected from various sources like Research papers, reports published by IBEF and from Annual reports of the sample unit and to supplement the different data published, various books, journals and different websites related to textile industry have been used for better reliability.

- *Secondary Data:*

These secondary data are those which have already been collected by someone else and which have already been passed through the statistical process. Thus the data was collected from company document reports and books.

The data were collected from secondary the major source of secondary data were;

1. Balance sheet
2. Profit and loss account

- *Tools Used for Analysis:*
  - Solvency ratio
  - Liquidity ratio
  - Profitability ratio

LIMITATIONS OF THE STUDY:

- To study the comparison of five year transactions of the bank.
- The study is only limited with SBI and HDFC and not included with other banks.
- The study is based on the secondary data. The secondary data was taken from the annual report of SBI BANK and HDFC BANK.
- The limitations of using secondary data may offer the result.
- The study is confined only to the selected and restricted indicators and the study is confined only for a period of three years.
- Ratio analysis metrics do not necessarily represent future performance of the company

II. REVIEW OF LITERATURE

1. **Subalakshmi, Grahlakshmi and Manikandan (2018)** examined the asset liability portfolio of SBI and also analyzed the various aspects like deposit mobilization, investment position, earnings, profitability and efficiency, loans and advances and non-performing assets by applying the technique of ratio analysis. The studycovered the period from 2009-2016. The findings suggested that there has been sufficient improvement in the performance of the bank in terms of credit deposit ratio, Deposits to Total Assets ratio, Return on Equity. Profit Margin.

2. **Chaudhuri (2018)** conducted a comparative study on the performance of SBI and ICICI for a period of five years from 2011-12 to 2015-16 using the CAMEL model. The results concluded that both the banks are complying the required standards and are profitable. However, the performance of ICICI is better than SBI on the parameter of earnings and management efficiency.

3. **SunitaChaki, Anita Daryal, Dr. Kshamta (2019)** Financial performance of banks in India: are banks sound enough to be banked upon To compare financial stability of private and public sector banks In the past 10 years banking sector has been exposed to external and internal volatility.

4. **BangaruPushpalatha (2020)**analyzed the State Bank of India's financial accounts.The goals are to look at SBI's asset and liability portfolio. The investigation wasConfined to a period of seven years, from 2011 to 2017. To establish the relativeRelevance of each variable, the researchers utilized the 'T' test. According to the survey,SBI has better management and financial efficiency.People also choose SBI for advance Lending plans, according to the research.

III. DATA ANALYSIS AND INTERPRETATION

1. PROFITABILITY RATIO:

- *RETURN ON ASSET RATIO:*

YEAR	SBI BANK	HDFC BANK
2017-2018	1.91	3.32
2018-2019	0.00	3.45
2019-2020	1.94	3.43
2020-2021	1.77	3.57
2021-2022	1.57	3.38

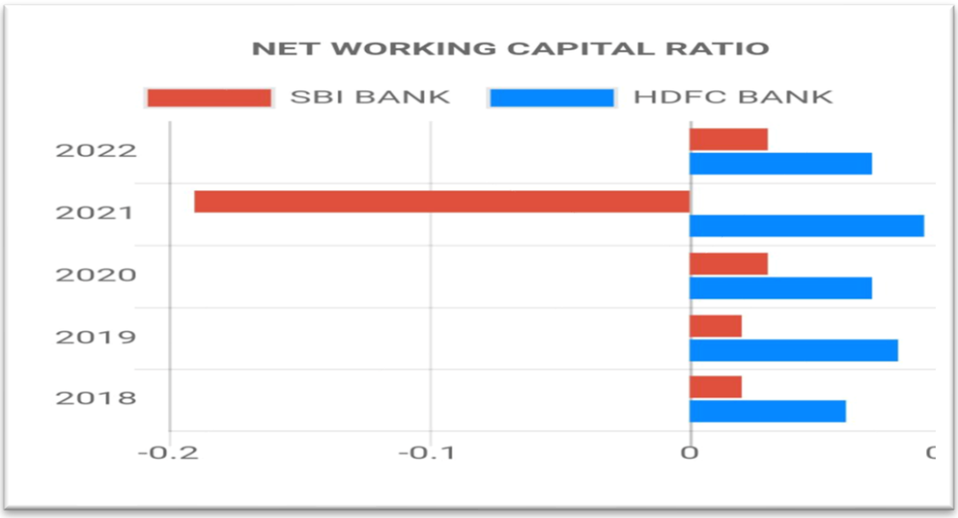
- *RETURN ON CAPITAL EMPLOYED RATIO:*

YEAR	SBI BANK	HDFC BANK
2017-2018	0.02	0.06
2018-2019	0.02	0.08
2019-2020	0.03	0.07
2020-2021	-0.19	0.09
2021-2022	0.03	0.07

2. LIQUIDITY RATIO:

- *NET WORKING CAPITAL RATIO:*

YEAR	SBI BANK	HDFC BANK
2017-2018	-012	1.67
2018-2019	0.05	1.72
2019-2020	0.47	1.72
2020-2021	0.46	1.76
2021-2022	0.65	1.79



3. SOLVENCY OR LEVERAGE RATIO:

- *SHAREHOLDERS EQUITY RATIO:*

YEAR	SBI BANK	HDFC BANK
2017-2018	6.30	9.93
2018-2019	6.03	11.89
2019-2020	5.98	11.16
2020-2021	5.69	11.66
2021-2022	5.70	11.65

- *DEBT TO ASSET RATIO:*

YEAR	SBI BANK	HDFC BANK
2017-2018	20.41	21.24
2018-2019	10.64	17.26
2019-2020	7.93	11.82
2020-2021	8.95	11.20
2021-2022	8.38	13.30

IV. FINDINGS, SUGGESTION, CONCLUSION

FINDINGS:

The study made on HDFC Bank and SBI Bank following findings.

- SBI has 100.00retention ratio in the year 2017-2018.It shows that the bank has lead the money to customers.
- HDFC has high operating profit ratio of 4.70 than SBI it shows that HDFC has more Operating profit than SBI.
- The current ratio for both HDFC and SBI Bank is satisfactory, it has increased ratio of 1.1 for HDFC and 1.04 for SBI.
- Capital employed of HDFCis high it has generated profit than SBI wit capital employed ratio of 3.38.
- HDFC bank couldn’t use it asset effectively that SBI bank.
- SBI is making less money but it has been spending more money by lending.
- HDFC has paid high dividend ratio of 100% than SBI bank.
- HDFC has high operating margin ratio of 4.70 where SBI has negative ratio of -27.81
- HDFC has 1.79 of return on asset value so it could use its asset effectively.
- Net profit margin, HDFC has 28.06 high ratio values than SBI.

SUGGESSTIONS:

- SBI Bank should improve the capital position of the company. The bank may tighten the credit policy to the customers to reduce the debt collection period.
- SBI has to focus on investing earnings and has to improve the financial position.
- SBI Bank has to make use of assets more effectively in overall period.
- Banks should increase the rate of saving account.
- Banks should provide loan at the lower interest rate and education loans should be given with ease without much documentation. All the banks must provide loans against shares.
- The financial position of HDFC is better than SBI in the study period.

CONCLUSION:

Banks are the most common institutions and media for transfer of funds and investments. The banking business is becoming more and more complex as a result of liberalization and globalization. The present study is an attempt to examine and compare the performance of the two largest banks of India SBI a government sector bank and HDFC a Private Sector bank. The analysis is based on the ratio analysis. The various ratios which are used in study are

Operating Profit Margin (OPM), Net Profit Margin (NPM), Return on Assets (ROA), Net Working Capital (NWC) and etc….The brief study of all the two banks is done and it is found that HDFC is largest bank and then the SBI in collection of money.

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