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A Comparative Study on cash management of private & public Sector in India with reference of SBI & HDFC Bank

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ABSTRACT:

In the current scenario in June, 2020 if we think about the two largest of banks of India one from the private segment and other from the public sector segment, there is no doubt about it being HDFC Bank from the Private sector and SBI from the Public sector looking at their balance sheet, reach and customer base. In the private banking space HDFC Bank is one of bank large bank having more than 5,000 branches across the country and most commercially successful bank with net profit 21078 crores being the highest across the banking industry with lowest Gross NPAs below 2% for the FY 2018-19. At the same time if we look at the SBI which is most prominent public sector bank in the public sector space and oldest bank of India with more than 200 years' background doing better as compare to its peer public sector banks but not as good as it's private sector peers in different parameters like profitability, NPAs management, annual growth and key parameter management. However, bank has managed to post the net profit of 862.23 crores in the fiscal 2018-19. Cash management is a broad term that covers a number of functions that help individuals and businesses process receipts and payments in an organized and efficient manner. Administering cash assets today often makes use of a number of automated support services offered by banks and other financial institutions. The range of cash management services range from simple check book balancing to investing cash in bonds and other types of securities to automated software that allows easy cash collection. When it comes to cash collections, there are a few popular options today that can make the process of receiving payments from customers much easier. Automated clearing houses make it possible to transact a business to business cash transfer that deducts the payment from the customer account and deposits the funds in the vendor account. Cash management is the main factors of the banking sectors in India because of all the bank provide loan, deposit cash and credit creation.

Keywords – Net Non-Performing Assets Ratio, Profitability ratio, Net profit Ratio,

1. INTRODUCTION

Cash management has the following purposes: controlling spending in the aggregate, implementing the budget efficiently, minimizing of the cost of government borrowing, and maximizing the opportunity cost of resources (the last two purposes yielding interest). Control of cash is a key element in macroeconomic and budget management. However, it must be complemented by an adequate system for managing commitment. For efficient budget implementation, it is necessary to ensure that claims will be paid according to the contract terms and that revenues are collected on time. It is necessary to minimize transaction costs; and to borrow at the lowest interest rate or to generate additional cash by investing in revenue-yielding paper. It is also necessary to avoid paying in advance and to track accurately the dates on which payments are due. In developing countries, governments often do not pay attention to issues related to cash management. Budget execution procedures and the management of cash flows focus on compliance issues, while daily cash needs in are met at low cost by the Central Bank. Spending units are not concerned with borrowing costs since their interests are already taken account in the budget prepared by the Ministry of Finance.

How do Banks Function of Cash Management?

We deposit saved money into the bank and bank provide loan to needed person. Banks play a crucial role in managing money and offering financial services. Interest is money the banks pays you for letting then look after your money. In private and public sector bank to provide the more money you put in the bank and longer you leave it then for the more interest you will get.

Types of Bank

There are following types of bank role in India but I am research about only classified as Public or Private banking sector to provide cash management.

Public Sector Banks- These banks are owned regulated by government with 50% government ownership. 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.

Private Sector Banks-These bank are owned privately and 50% above Ownership Invidiously. They follow RBI regulation but a managed privately. Private sector banks in India include RBL Bank, HDFC Bank, ICICI Bank, Yes Bank, and others.

Cash Management: Public vs. Private Banks in India (SBI & HDFC Bank)

Branch Network and Reach: SBI: With the largest branch network in India, SBI offers extensive physical cash handling capabilities. This caters to a wider customer base, especially in rural and underbanked areas.

HDFC Bank: Having a smaller physical footprint, HDFC prioritizes digital channels for cash management. This leads to potentially lower operational costs and faster transactions.

Technology Adoption: SBI: PSBs like SBI are increasingly adopting digital solutions, but their legacy infrastructure can sometimes pose challenges in seamless integration.

HDFC Bank: Known for its technological prowess, HDFC Bank offers a robust digital platform for cash management services. Customers can access real-time account information, initiate online transfers, and utilize mobile wallets for transactions.

Focus and Efficiency: SBI: PSBs often have social obligations beyond pure profit maximization. This can impact their focus on optimizing cash management strategies.

HDFC Bank: With a profit-driven focus, Private Banks like HDFC prioritize efficient cash flow management. They utilize advanced analytics to optimize cash holdings and minimize idle funds.

Non-Performing Assets (NPAs): SBI: Higher NPAs in PSBs, like SBI, can lead to a larger portion of funds being tied up in bad loans, impacting overall cash flow.

HDFC Bank: Private Banks generally have lower NPAs than PSBs, allowing for better cash management and potentially higher returns on assets.

Customer Service: SBI: PSBs may face challenges in providing personalized customer service due to their vast size and complex structure.

HDFC Bank: Private Banks often prioritize customer experience, leveraging technology to offer faster and more convenient cash management solutions.

Regulation: SBI: PSBs are subject to stricter regulatory requirements regarding cash reserve ratios (CRR) and Statutory Liquidity Ratio (SLR). This can limit their flexibility in managing cash.

HDFC Bank: Private Banks may have slightly more flexibility in managing cash within regulatory bounds.

2. Objective of the study.

This ensures they can meet daily operational needs and customer demands.

By studying cash management practices, the study can identify strengths and weaknesses in each bank's approach.

The study can examine how effectively SBI and HDFC Bank adhere to these regulations.

The study can explore how cash management practices contribute to SBI and HDFC Bank's competitive edge in attracting and retaining customers.

3. Scope of the study.

In the present study, compare the efficiency of cash collection and disbursement processes between the two banks. Compare how they utilize various liquidity management tools like interbank borrowings, repo transactions, and cash concentration services. Compare how SBI and HDFC Bank leverage technology to improve efficiency, reduce errors, and enhance customer experience. Discuss the impact of factors like digitalization, fintech integration, and regulatory changes.

4. Literature review

In the study by Gauda (2019), various indicators were employed to gauge bank performance, including a network of banks, bank productivity, capital adequacy ratio, and bank growth. The research observed that private sector banks demonstrated a more rapid expansion compared to their public sector counterparts. Notably, the capital adequacy ratios of new private sector banks surpassed the minimum requirements set by the Reserve Bank of India (RBI). On the contrary, the asset base of public sector banks exhibited swifter growth compared to that of private sector banks

In his research article, Gajreva (2021) conducted an evaluation of the financial performance of private and public sector banks. The study revealed a significant disparity in the financial performance of these banks, with private sector banks outperforming their public sector counterparts in terms of capital adequacy ratio and overall financial performance.

Richa Chaudhary and Harsh Purohit's study in 2020 explored how banking institutions are promoting environmentally friendly products by providing financial support to industries engaged in producing "Green Products." For instance, the automobile industry is prioritizing battery-powered bikes and solar cars. The concept of green banking encompasses multiple dimensions-economic, environmental, and social-rendering banks more sustainable. This approach drives technological advancements within the banking sector, reflecting a forward-thinking perspective towards future sustainability. Despite its significance, green banking remains a pressing concern, holding potential to significantly contribute to India's developmental progress. Embracing environmentally friendly practices such as adopting energy-efficient technologies and implementing green data centres not only enhances operational efficiency but also serves as a cost-saving measure in the long term.

Renuga (2019) conducted a comparative analysis with the primary objective of examining the utilization of different services offered by private sector banks and public sector banks. The research focused on services such as M-Banking, Net Banking, and ATM usage. Among these services, Mobile Banking emerged as a notable offering, enabling users to conduct diverse financial transactions using mobile phones or Personal Digital Assistants (PDAs).

Dr. (Mrs.) Annesha (2018) underscores the significance of customers dedicating time at banks to access a range of services. The author emphasizes the importance of fostering relationship marketing, particularly among cooperative staff members. Specialized training is also recommended in this context. Furthermore, the research highlights that private banks exhibit a more advanced strategic intent compared to their public counterparts.

5. RESEARCH METHODOLOGY

Research Design – The period of this study will cover last two years of the financial data- 2022-2023, 2023-2024

Source of Data – Primary, Industry Reports, Reserve Bank of India (RBI) Data. Customer Surveys, Customer Surveys and Secondary, Secondary Data will be used in this study to compare the financial statements of both the banks over the last two years.

Data presentation – Graph and Table

DATA ANALYSIS AND INTERPRETATION

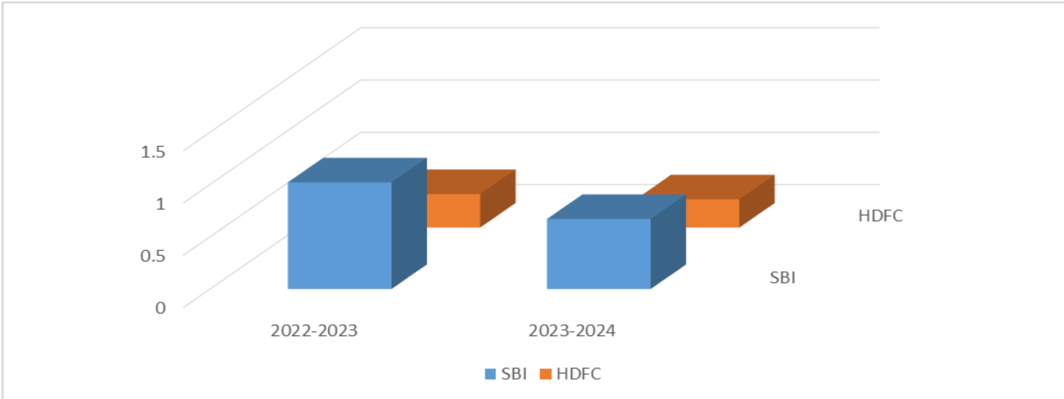
NET NON PERFORMING ASSESTS RATIO

Net non-performing assets are the amount that is realized after provision amount has been deducted from the gross non-performing assets. It is the actual loss that the organization incurs after loan defaults.

Net NPA Ratio = (Total Gross NPA) – (Provision for Unpaid Debts)/Gross Advances

YEAR	**SBI**	**HDFC**
2017-18	**1.02**	**0.32**
2018-19	**0.67**	**0.27**
Average	**1.69**	**0.29**

(Table 1 shows the % of Net NPA of SBI and HDFC for last three years)



(Graph 1 shows the % of Net NPA of SBI and HDFC for last three years)

Interpretation: In the year 2022-2023, the Net NPA ratio of SBI stood at 1.02 while that of HDFC was much lesser i.e. 0.32. In year 2023-2024, the ratio of SBI further dropped to 0.67 and that of HDFC was at 0.27, which shows the Net NPAs gradually started decreasing. The average gross NPA ratio of SBI was at 1.69 and that of HDFC was at 0.29. Therefore, it shows that HDFC has better overall financial health and it is better than SBI in managing their net NPAs.

Profitability Ratios

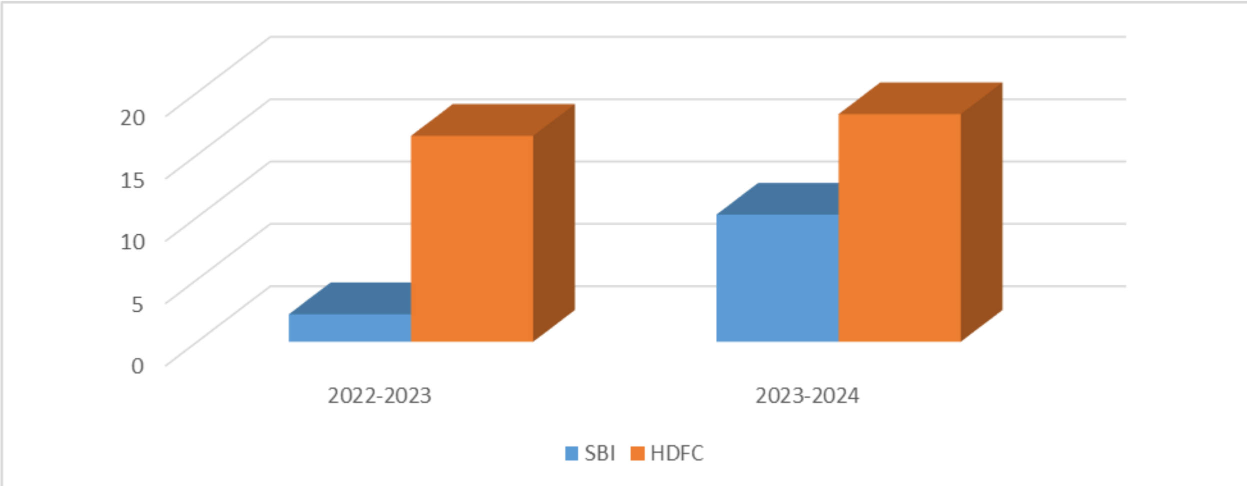
Profitability ratios measure a company's ability to generate income relative to revenue, balance sheet assets, operating costs, and equity. Common profitability financial ratios include the following:

Operating profit ratio is a profitability or performance ratio that compares the operating income of a company to its net sales to determine operating efficiency.

Operating Profit Ratio = Operating income / Net sales

YEAR	**SBI**	**HDFC**
2022-2023	**2.21**	**16.52**
2023-2024	**10.20**	**18.26**
Average	**6.21**	**17.39**

(Table 2 showing Operating Profit Ratio of SBI and HDFC for the last three year)



(Graph 2 showing Operating Profit Ratio of SBI and HDFC for the last three years)

DATA ANALYSIS OF HDFC AND SBI

As below mentioned data is collected from the different sources mentioned in the references section like RBI website, Annual reports of Banks etc. below mentioned belongs to HDFC Bank and State bank India and also ratios collected from the annual reports are shown in the below table.

Figures in Cr	Years	Gross NPAs	CAR	Net Profit	PCR Ratio
HDFC	2010	1.43	17.44	2948	78.42
HDFC	2011	1.05	16.22	3926	82.51
HDFC	2012	1	16.52	5167	82.38
HDFC	2013	0.95	16.8	6726	79.91
HDFC	2014	O.91	16.1	8478	72.57
HDFC	2015	0.89	16.8	10216	73.93
HDFC	2016	0.25	15.5	12296	69.94
HDFC	2017	1.04	14.6	14550	68.67
HDFC	2018	1.28	14.8	17487	69.78
HDFC	2019	1.36	17.1	21078	71.36
SBI	2010	3.05	13.39	9166	59.23
SBI	2011	4.44	11.98	8265	64.95
SBI	2012	5.3	13.86	11707	68.1
SBI	2013	4.75	12.92	14105	66.58
SBI	2014	4.95	12.44	10891	62.86

SBI	**2015**	**4.25**	**12**	**13102**	**69.13**
SBI	**2016**	**6.5**	**13.12**	**9951**	**60.7**
SBI	**2017**	**6.9**	**13.11**	**10484**	**65.95**
SBI	**2018**	**10.91**	**12.6**	**-6547**	**66.17**
SBI	**2019**	**7.53**	**12.72**	**862**	**78.73**

Above table shows the data of HDFC Bank and State bank of India for the analysis purpose. From the above
Data there are the 3 kind of correlation analysis we are performing. First is the both banks common correlation analysis and other 2 analyses we are doing is there individual analysis

6. a. Major Finding

As we see, the debt equity ratio of SBI is higher than HDFC so it should try to restructure its debt and NPAs.
The borrowings should be reduced to the level that it is not more than 4-5 times of equity. It will decrease their NPAs. Also, this will result in better financial health of the companies.
Banks should limit its huge lending to trusted companies or individuals so that recovery becomes comparatively faster and easier which would consequently result in less NPAs.
We can increase the gross profit ratio of SBI by generating more revenue 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 revenue.
Reducing extra operating expenses and direct overhead expenses will increase the profit margin of the Banks.

6. b. General Finding

The current ratio of HDFC Bank can be improved by
1. Delaying any capital purchases that would require any cash payments.
2. Looking to see if any term loan scan be re-amortized.
3. Selling any capital assets that are not generating a return to the business (use cash to reduce Current debt).

7. 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.

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