

## AN ANALYSIS ON THE PERFORMANCE OF PRIVATE AND PUBLIC SECTOR BANKING SYSTEMS

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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. HDFC Bank Ltd is a major Indian financial services company based in Mumbai. The Bank is a publicly held banking company engaged in providing a wide range of banking and financial services including commercial banking and treasury operations. The Bank at present has an enviable network of 2201 branches and 7110 ATMs spread in 996 cities across India. The purpose of the study is to examine the financial performance of SBI and HDFC 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 HDFC Bank on the basis of ratios such as credit deposit, net profit margin etc. The period of study taken is from the year 2008-2009 to 2012-2013. The study found that HDFC Bank is performing well and financially sound than SBI but in context of deposits and expenditure both are SBI & HDFC bank has better managing efficiency. In the era of globalization the utilization of finance is considered as the most important function of an organization. The firms are facing a stiff competition from the whole market, so the inflow and outflow of funds will be managed well. Finance is one of the most important aspects of business management. Without proper financial planning an enterprise is unlikely to be successful.*

*Financial analysis is the process of identifying the financial strengths and weakness of a firm by properly establishing relationships between the items of Balance Sheet and Profit and Loss Account. Analysis is the process of critically examining in detail accounting information given in the financial statements. Analyzing financial statement is a process of evaluating relationship between component parts of financial statements to obtain a better understanding of firm's position and performance. The study is descriptive in nature and this attempt is made to evaluate the performance of the bank through the financial data which are disclosed in accounting policies. Thus the study is based on the published accounts and annual reports of SBI and HDFC Bank. The periods cover from 2008-09 to 2012-13.*

### **Need of Study**

1. Purpose of the present study is to evaluate the financial performance of the banks.
2. Profits are very essential for the survival of every business unit.
3. Not only the survival but the long term growth of the business is also determined by the profits. Study of profitability of banks is a very difficult task because the main purpose of establishment of Indian banks is to serve the society.
4. In the light of this purpose banks had not given much importance to earn profits.
5. In the present study, I tried to study the meaning of profitability of Indian banks and make comparison of profitability of Indian banks.

### **Objectives of the Study**

The main aim of the study is to evaluate Comparative study on financial performance of SBI (Public Sector Bank) and HDFC (Private Sector Bank).

1. To study and analysis of the profitability of banks.
2. To make a comparison of profitability between SBI (Public Sector Bank) and HDFC (Private Sector Bank).
3. To enable the investors to take investments decision on the basis of Risk & Return.

4. To analyze the financial statements to find out the bank's financial position
5. To find the solvency, liquidity, profitability position of the bank for 5 years.
6. To highlight the nature of change influencing financial position and performance of the bank with aid of comparative balance sheet and comparative income statement for 5 years.
7. To highlight the Financial Growth of SBI and HDFC Bank.
8. To find out the Comparative share value performance of SBI and HDFC Bank.

### Scope of the Study

The financial fund management is the essential function in every organization for the effective utilization of funds for making profits. The financial fund management influences the managerial decisions regarding the investment policies. Scope of the study is based on the Financial Statements for the accounting years 2008-09 to 2012-13. This covers only few two banks one from private sector Bank and another is from public sector Bank. This study is based on the available information supplied by the respective Banks. This study covers few accounting ratios and some of the types of Analysis (Trend and Comparative Analysis).

### Limitations of the Study

Thus the following are the main limitations of the study.

The study is based on the secondary data and the limitation of using secondary data may affect the results.

1. The secondary data was taken from the annual reports of the SBI and HDFC Bank. It may be possible that the data shown in the annual reports may be window dressed which does not show the actual position of the banks.
2. The company personnel do not reveal the trade secrets and some confidential financial information.
3. The study records restricted to a period of 5 years.
4. Ratio analysis has its own limitations.
5. Although the time duration of the project is not up to the extent, the collection of full-fledged data could not be achieved.

### Review of Literature

A Comparison of the Performance of Commercial Banks: DEA Evidence for India - Ram Pratap Sinha (2013)

The present paper makes an attempt to fill this gap and evaluates the performance of 49 Indian commercial banks for the period 2006-07 to 2010-11 using Seiford and Joe Zhu (2002) approach, which is essentially a variant of the popular Banker-Charnes-Cooper (BCC) model. The present paper makes an attempt to fill this gap and evaluates the performance of 49 Indian commercial banks for the period 2006-07 to 2010-11. The analysis of results indicate that the new private sector commercial banks performed the best, followed by the old private sector banks, nationalized banks and the SBI Group.

Financial Performance of Banks in India---Harish Kumar Singla (2008) It is concerned with examining the profitability position of the selected sixteen banks (BANDEX-based) for a period of five years (2000-01 to 2006-2007). The study reveals that the profitability position was reasonable during the period of study when compared with the previous years. Return on Investment proved that the overall profitability, and the position of selected banks was sustained at a moderate rate. From the study of the financial performance analysis of selected banks, it can be concluded that the financial positions of banks is reasonable. Debt equity ratio is maintained at an adequate level throughout and NPAs also witnessed a decline during the study period. The ROI remains at a very low position, which is a worrying factor. We can conclude that the banking sector, which is going through major reforms, is one of the emerging sectors and will grow at a sustained rate over a period of time. Profitability, efficiency and liquidity of the co-operative banks.

Dr. Dimitrios p. Petropoulos<sup>1</sup> - George kyriazopoulos<sup>2</sup> (2010) In his study he evaluated the profitability, the efficiency and the liquidity of the co-operative bank for the time period. The analysis of the economic magnitudes of the co-operative banks the groups of indexes such as: of profitability, of efficiency and of liquidity

are being implemented. From the analysis is revealed that profitability and efficiency for the co-operative banks turn out to be very satisfactory. The purpose is to present, to estimate and analyse the basic financial indexes of the co-operative banks that become active at the present time. Also to make a comparative analysis of the financial indexes of the co-operative banks with the corresponding ones for the whole banking sector. The estimation of the profitability and efficiency of the co-operative banks reaches satisfactory levels. Specifically, the corresponding indexes reach better levels than the ones for the total of the banks. The liquidity indexes for the co-operative banks lack to size when they are compared with the corresponding ones for the total of the banks.

### Research Methodology

The study is descriptive in nature and this attempt is made to evaluate the performance of the bank through the financial data which are disclosed in accounting policies. Thus the study is based on the published accounts and annual reports of SBI and HDFC Bank. The periods cover from 2008-09 to 2012-13. Being a comparative study, the design of the paper is descriptive. It explains the various ratios involved to study the profitability of two banks. The raw data is obtained from the secondary sources and the following profitability ratios are calculated accordingly. The common denominator used for developing the various profitability ratios is business volume (deposits + advances). The study is done on the data collected from the annual reports of the banks and ace equity. Tabular analysis techniques employed are: ratios and percentages. Various CAMEL ratios are calculated for the two banks. Then each bank is given a ranking on the basis of average of the percentages scored in each parameter.

### Data Collection

**Secondary Data:** The secondary data is collected from the financial statements and annual report from website of the banks. The financial statements of the company are collected from 2008-09 to 2012-13.

### Findings

Based on the analysis and interpretation of the financial statements of SBI & HDFC Bank, likes to offer the following findings are given below:

1. The Liquidity ratios measured the ability of a firm to meet its short-term obligation with the help of Demand deposits ratio, Credit-asset ratio, Cash to demand deposits ratio, cash to total deposits, cash to total assets.
  - i. The deposits of SBI are more than the deposits of HDFC Bank. There is a lot of difference between the deposits of SBI and HDFC Bank. But both are maintaining constant Deposits every year based on their portion of deposits.
  - ii. Creditworthiness of HDFC is better than SBI as outside debt is more for the all years in 2012 & 2013. HDFC also reached nearer to the SBI. So Goodwill of SBI comparatively more by the next years.
  - iii. Cash & Bank balances ratios to Demand Deposits reveals the liquidity position of the organization in the short period. It is more in the case SBI in first 2 years and HDFC dominated in the last 3 years. So liquidity of HDFC is improved compared to SBI in the last 3 years.
  - iv. Cash position of total assets ratio is more. In the case of SBI for the first 2 years and reverse in last 3 years. Where HDFC has more cash position. Liquidity position of HDFC is comparatively better than SBI in the last 3 years. In the period of 2008-2009 SBI maintained proper cash to total assets ratio better than HDFC. Thereafter the ratio goes on decreasing which is less than HDFC. Last year HDFC is better than SBI.
  
2. The Risk ratios measured the risks faced by the firm using Capital adequacy ratio, Net NPA to total assets ratio, Net NPAs to equity ratio.
  - a) Capital Adequacy Ratio in SBI is slightly increasing (Bank is well-capitalized) and HDFC is consistent.
  - b) There are no NPA's in HDFC for the first two years whereas NPA's are more in SBI & increased in last two years in a drastic way. Here we can understand public sector bank are very leniency in collection policy whereas private sector banks are very strict in collection policy. .
  - c) There are no NPA's HDFC's for the first two years where NPA's are more in SBI and increased in last two years. Here the graph shows HDFC is better than SBI.

3. The profitability ratio measures the profitability of the firm using Return on equity, Earnings per share, Net Profit Margin, Net Interest Margin.

1. Compared to SBI, HDFC Returns are increasing from year to year and yet present HDFC Returns are far away more than SBI whose returns are consistent over a period of time. It states that the performance of HDFC is far better than SBI in attaining returns to the equity holders.
2. Returns of SBI are growing day by day and far better than HDFC.
3. Performance of HDFC in attaining profit margin is better than SBI.
4. Performance of HDFC in attaining interest margin is better than SBI.

4. In the comparative balance sheet bank's

SBI	2008-2009	2012-2013
Fixed Assets	18.01%	18.54%
Reserves & Surplus	18.41%	17.91%
Borrowings	18.41%	33.21%
Advances	18.41%	20.52%

HDFC	2008-2009	2012-2013
Fixed Assets	214.32%	-30.16%
Reserves & Surplus	224.57%	-32.58%
Borrowings	781%	-78.92%
Advances	289.81%	21.5

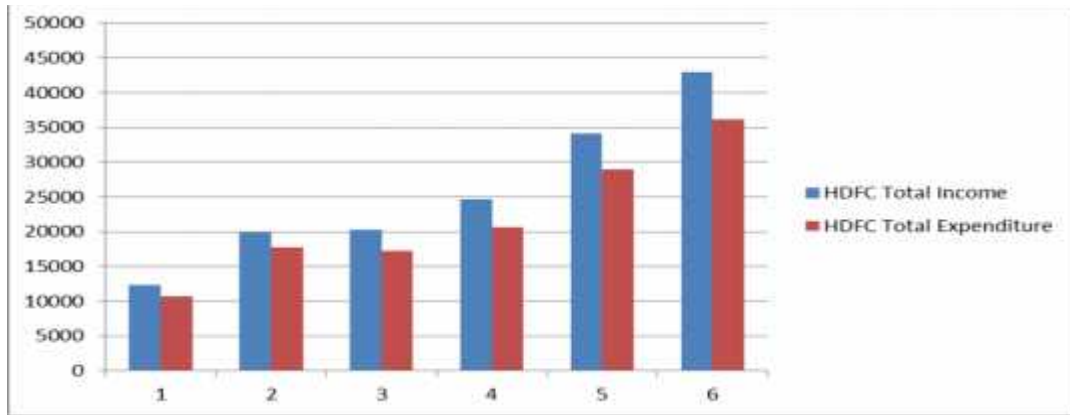
5. In the comparative income statement total Income.

#### I. SBI

2008-2009 Expenditure is more than income earned which indicates in the year 2009 bank has more expenditure than income earned.

2012-2013 Income earned is slightly more than expenditure which indicates in the year 2013 bank has slight income earned than expenditure.

	SBI	
	Total Income	Total Expenditure
2008	58348.74	51619.62
2009	113722.36	102543.45
2010	130828.84	136808.55
2011	147843.92	136663.98
2012	176888.97	161059.52
2013	200559.84	182236.84

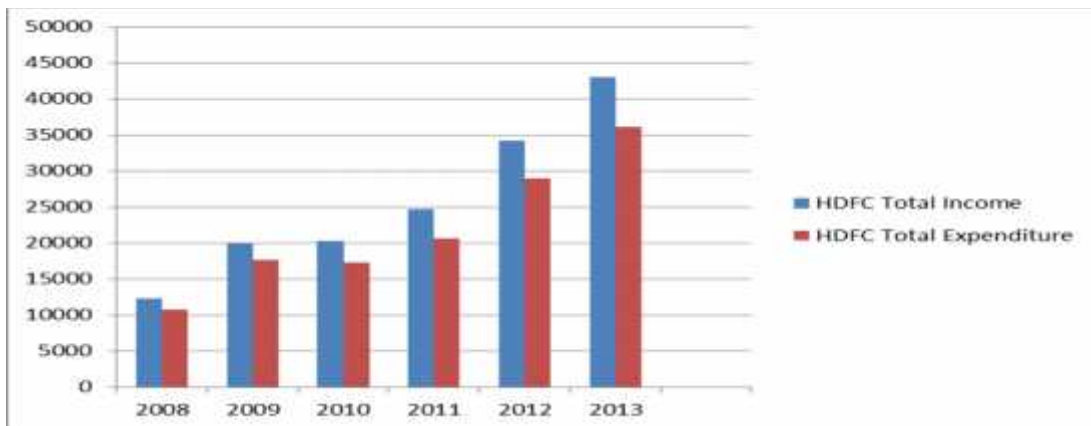


**II.HDFC**

2008-2009 Expenditure is more than income earned which indicates in the year 2009 bank has more expenditure than income earned.

2012-2013 Income earned is more than expenditure which indicates in the year 2013 bank has more income earned than expenditure.

	HDFC	
	Total Income	Total Expenditure
2008	12320.38	10730.2
2009	19930.97	17678.85
2010	20270	17237.09
2011	24628.38	20610.68
2012	34185.72	28912.32
2013	42993.98	36093.71



6. Share value performance of SBI & HDFC on the basis of risk & Return analysis states that SBI has more return with less risk when compared to HDFC whose returns are in Negative and percentage of risk is more. So, SBI is better than HDFC for share value performance.

7. Net profit of SBI & HDFC Bank is in increasing trend whereas the portion of growth in HDFC is far better than SBI growth.

8. Total income of SBI & HDFC Bank are in increasing trend whereas the portion of growth in HDFC is far better than SBI growth.
9. Total Expenditure of SBI & HDFC Bank are in increasing trend whereas the portion of growth in HDFC is far better than SBI growth
10. Total advances of SBI & HDFC Bank are in increasing trend whereas the portion of growth in HDFC is better than SBI growth.
11. Total deposits of SBI & HDFC Bank are in increasing trend whereas the portion of growth in HDFC is better than SBI growth.

### Suggestions

1. Even though Deposits of SBI are more. SBI doesn't have creditworthiness. So, It has to improve its Creditworthiness.
2. SBI have to maintain cash reserves with respect to its demand deposits which helps in maintaining proper liquidity ratio.
3. SBI has to take proper analysis & scrutiny in analyzing NPA & giving loans in order to reduce its NPA's which is heavy burden for the company.
4. Even though SBI is public limited company it has to maintain certain category of deposits which gives more returns. Thus, it helps to attain a better profit margin when compared private limited company.
5. Though SBI & HDFC initially went expenditure over income, through their effective strategy implementation gained into income over Expenditure which is a positive sign for development.
6. HDFC Bank is better profit, Income, Advances, deposits than SBI, still it was found that growth of SBI in increasing trend. This is because the perception of people towards Nationalized bank or Public sector banks.

### Conclusion

With respect to the banking activities the performance of HDFC is better than the SBI and for the investors who are intended for long term investments & risk takers HDFC is better but with respect to the growth in the market for the company price SBI is better. For the investors who are willing for short term investments & who take less risk SBI is better. Overall analysis states that financial performance of HDFC is better than SBI. From the analysis as it has better NPA's, Net profit margin, Net Interest margin & Return on equity which states that it is managing its assets for better than SBI but with regards to share value performance SBI share value is better in the market when compared to HDFC

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