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Financial KYE Performance Analysis of SBI and HDFC Bank (Year 2016-17 To 2019-20)

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Abstract:- Bank is a mainstay of an economy's financial system and a banking sector plays an significant role in economic growth of a country. Banks form an essential component of the financial system and are operational players in financial markets. Financial enclosure is the main need of an economy. Banks and financial institutions shows supreme role in financial inclusion of an economy of country. In the modern globalized economy of today's world, for individual or for the corporation the safe source of finance is the bank. Through financial bulletins and annual reports, a company provides its financial information for a year. These financial performance reports on analyzing help the decision makers to predict, compare and evaluate the ability of earning of the company. The paper presents a comparison between two banks, HDFC the largest private bank of India and SBI the largest Government bank of India based on their financial key performance from the financial year 2015-16 to 2019-20.

Keywords:- *HDFC, SBI, Key Performance Ratios, Return on assets (ROA), Return on equity per Net worth, Cost to Income, Return on equity.*

I. INTRODUCTION

For an economy, an efficient banking system considered as the basic need for its development. The main function of a bank is to mobilize the community savings to the different industrial channels. In India, the banking system featured with large network of its branches throughout the country serving the financial need of the population. A measuring process by which it calculated that how a company from its primary mode consumes the assets to raise its own income and to determine the financial health in a given time known as financial performance. Financial performance of a bank deals with its financial weakness and strength by finding the relation between its balance sheet and the income statement. This process is use to understand the clear short term and long-term growth of the particular bank.

The present work has conducted to compare the financial performance of India's largest private and national banks: HDFC and SBI based on the ratio analysis to determine which one is better between the financial years 2015-16 to 2019-20.

II. STATE BANK OF INDIA

The State Bank of India (SBI) considered as one of the leading bank of the country. SBI first established on the first decade of 19th century. On 2nd June 1806, Bank of Calcutta renamed as the Bank of Bengal was recognized. other such as Bank of Bombay (included on 15th April 1840) and Bank of Madras (included on 1st July 1843) were known for the 3 presidency banks were merged together as joined stock company for issuing paper currency under the act of Paper Currency Act, 1861. These presidency banks were amalgamated on 27th January 1921 and named as Imperial bank of India. This bank retained all the rights till the creation of Reserve bank of India (RBI).

On 1st July 1955under SBI Act, 1955, State bank of India was constituted for joining hands of state centered partners and sponsored bank by integrating them with the Imperial Bank of India. The SBI subsidiary bank Act passed on 1959 making enable eight state associate banks as subsidiaries. SBI headquarter is situated in Mumbai. It has 14 local Head offices and 57 Zonal offices situated in different cities of India. Additionally it has around 130 branches throughout the country. Its market share is about 20% (both in deposit and in loans) among the Indian commercial banks.

The Largest Nation bank "The State bank of India" has approximately 9000 branches throughout the country and 54 offices in international level. Apart from these, its associate banks have a domestic network of about 4000 branches. It also has joint ventures and subsidiaries worldwide. In India, it is the largest base for retail banking customer.

III. HDFC BANK

HDFC Bank (Housing Development Finance Corporation) introduced on August 1994. Its registered office also situated in Mumbai. In 1995, only HDFC Bank came into action as a scheduled commercial Bank. In 1994, under RBI liberalization of Indian banking Industry, HDFC declared to receive in principle approval from RBI to set a bank in the private sector. At Sandoz house, its first corporate office and service the Union Finance Minister Dr. Manmohan Singh inaugurated bank. HDFC is known as the India's top premium housing finance company which keeps an impeccable track record throughout the both national and international market. Since its first inspection in the year 1997, it maintained a consistent growth for its work and operation and became the market leader for mortgage. It han an outstanding portfolio for house loan which covers millions of dwelling units throughout the country. At present , the bank has 4,805 branches all over the country linked through online mode on time basis. They are also serving customer with telephonic net banking. It also has the network of more than 12,860 ATM across 2,657 cities across the country. It has the largest housing related credit facilities for the clients and developed significant expertise in retail mortgage loan for different segments with in the market. It has developed a huge experience in financial market, with its reputation, large quantity of shareholders and exceptional customer franchise; it has placed in an ideal position to promote banking in Indian economy.

IV. LITERATURE REVIEW

- Vaghela Manish in “Difference between housing loans provided by SBI and HDFC bank (2013) [1]” investigated the difference in home loan services in the banks. She also studied consumer perception towards the different types of home loan scheme for both the SBI and HDFC banks. She concluded her findings in terms of interest payments by the consumers toward different home loan scheme. In this regard, she concluded that HDFC housing loan scheme are more preferred than SBI. SBI also scores more over HDFC in terms of total interest paid, the effective interest rate for SBI calculated to 9.69% as compared HDFC with 9.78%. With the conclusion, it concluded that HDFC borrowers have to pay more Rs. 70,348 than SBI borrowers do. She also stated with her findings that financial institutions and banks do not support the floating rate benefit of interest for new borrowers; it is either SBI or HDFC.
- Jeevan Jayant Nagarkar (2015) on his study "Analysis of Financial Performance of Banks in India" worked to analyze the effect of recession in banking sector for the financial year 2008. Under his consideration, 15 banks samples classified in three categories Public, Private and Foreign banks, 5 banks in each category. In his paper, he attempted to find the performance of banks on different financial parameters during last year 5 years. He divided financial performance of banks sampled into two periods, one before recession 2008 and another later the recession. Then financial performance compared between high growth years of 2004-08 verses low growth years of 2009-2013. On his finding, he concluded that the financial performances of banks are better when they depend on deposit rather than borrowing for disbursing advances. He also found that the National level banks are able to withstand business cycles much better as compared to Regional banks.
- M. Dhanabhakyam and M. Kavitha (2012) in their study on “Financial Performance of Selected Public Sector Banks in India” explained nicely how the banks have to re-orient their strategies of their strengths and the of market type on which they are likely to operate time to time. The Banking sector has to find out a perfect path for their domestic as well as international development.
- Faisal Abbas, Muhammad Tahir and Mutee-ur-Rahman (2012) in their article on “ A comparison of Financial Performance in Banking Sector: Some Evidence from Pakistani Commercial Banks” rank top five Pakistani commercial Banks based on their total average assets, total operating fixed assets, total average equity and return on respective variable.

A. *OBJECTIVE OF THE STUDY*

- To study the financial Key performance of SBI and HDFC bank for financial year 2015-16 to 2019-20.
- To compare the obtained data of financial key performance of SBI and HDFC bank for the year taken under consideration.

B. *SCOPE OF THE STUDY*

This study considered useful to present the data for 5 years each. It is useful for the investors to know about the profitability and performance of the bank. With the advances in computational tools, performance evaluation systems have evolved over a period from single aspect systems to more comprehensive systems covering all aspects of banking sectors. This will help the banking industry for the improvement or changes in their business model.

C. *LIMITATIONS OF THE STUDY*

- The study is only limited to two banks SBI & HDFC.
- The study covers the financial periods from 2015-16 to 2019-20.

V. RESEARCH DESIGN

- **Research Methodology**

A. *SOURCES OF DATA COLLECTION*

Reports from the internet taken under consideration as secondary sources for data collection. In the present study, an attempt made to measure, evaluate and compare the financial key performance of SBI and HDFC Bank.

B. *PERIOD OF THE STUDY*

From the year, 2015-16 to year 2019-20, was taken as the study period. Ratio Analysis applied to analyze and compare financial key performance the trends in banking business.

C. *TOOLS FOR DATA COLLECTION*

The data required for the study collected from-

- Annual reports of the banks taken under study
- Journals and reports on trends
- Websites
- Documents and other published informations.

D. *TOOLS USED FOR DATA ANALYSIS*

The data that analyzed in this study based on the various parameters of ratio analysis. Some of the major ratios evaluated and interpreted for understanding the financial performance of both the banks.

E. *PARAMETERS OF THE STUDY*

Quantitative study has been performed which primarily deals with financial statement of HDFC Bank for the mentioned five years. This research study is descriptive and analytical in nature. This study is based on secondary data from banks website and the annual reports. The data analyzed by the ratio analysis and the performance of the bank is clearly explained for the study period.

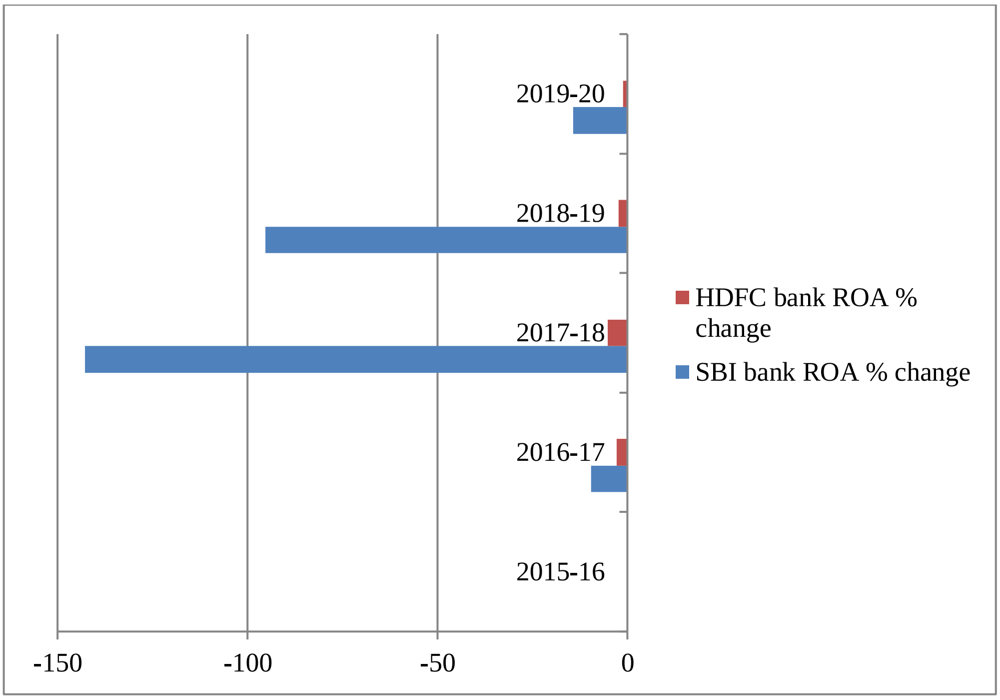
VI. DATA ANALYSIS AND INTERPRETATION

- Analysis of Key Performance Ratios

YEAR	SBI		HDFC	
	ROA	% CHANGE	ROA	% CHANGE
2016	0.42	-	1.73	-
2017	0.38	-9.5	1.68	-2.8
2018	-0.18	-142.8	1.64	-5.2
2019	0.02	-95.2	1.69	-2.3
2020	0.36	-14.2	1.71	-1.1

Table 1.1 Comparison of ROA in between SBI & HDFC

SOURCE: Dion Global Solutions Limited



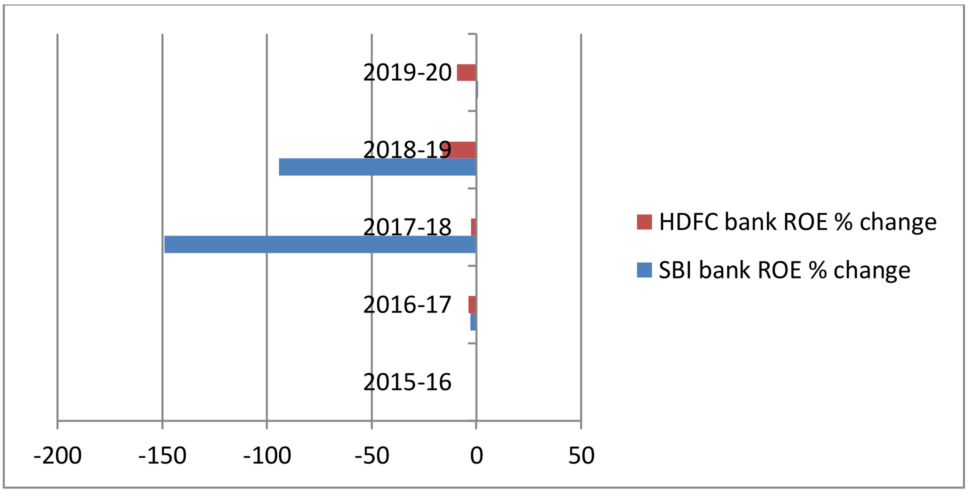
Graph 1.1 Comparison of ROA in between SBI & HDFC

- **Interpretation -** In this case all the years means 2015-16 to 2019-20 SBI bank earned more return on asset (ROA) as compared to HDFC bank. Because of some improvement of SBI interest income, which is driven by higher net interest margins and stable asset quality. So due to this reason the ROA is higher of SBI than HDFC bank.

YEAR	SBI		HDFC	
	ROE	% CHANGE	ROE	% CHANGE
2016	6.89	-	16.91	-
2017	6.69	-2.9	16.26	-3.8
2018	-3.37	-148.9	16.45	-2.7
2019	0.39	-94.3	14.12	-16.4
2020	6.95	0.8	15.35	-9.2

Table -1.2 Comparisons of ROE in between SBI & HDFC

SOURCE: Dion Global Solutions Limited



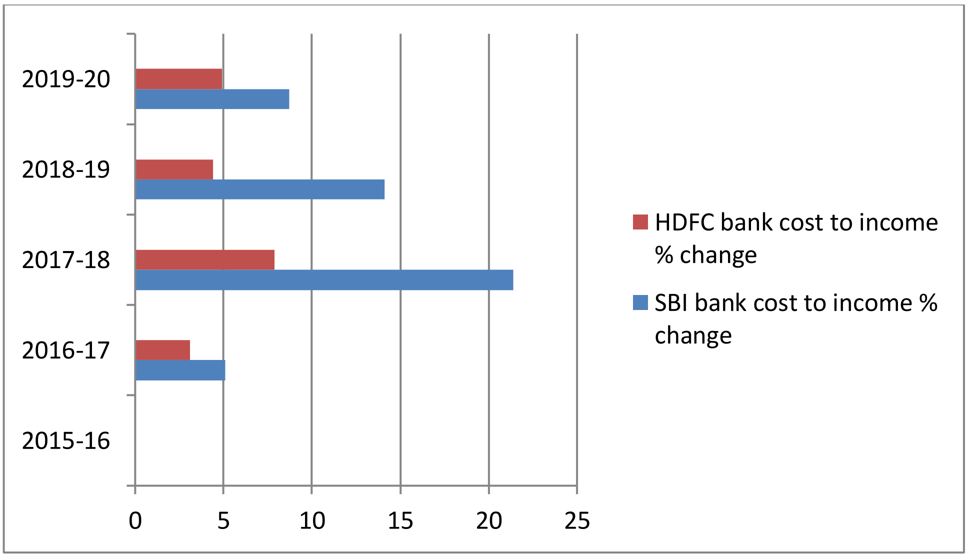
Graph -2.2 Comparisons of ROE in between SBI & HDFC

- **Interpretation -** In this case for all the years means 2015-16 to 2019-20 SBI bank earned more return on equity (ROE) compared to HDFC bank. The ROE valuation is different because as an investor, everyone is more concerned about return on equity if roe is not good then the investor will not be satisfied and this will affect directly or indirectly to the bank. The analysis shows that what the market is willing to pay today for a stock based on its past or future earnings. In addition, the main reason behind it was the proportion of both the banks and the kind of sectors of both banks.

YEAR	SBI		HDFC	
	Cost to income	% CHANGE	Cost to income	% CHANGE
2016	39.14	-	36.69	-
2017	41.15	5.1	37.84	3.1
2018	47.52	21.4	39.62	7.9
2019	44.68	14.1	38.41	4.4
2020	42.57	8.7	38.52	4.9

Table 2.3 Comparison of cost to income in between SBI & HDFC

SOURCE: Dion Global Solutions Limited



Graph 3.3 Comparison of cost to income in between SBI & HDFC

- **Interpretation -** In this case all the years means 2015-16 to 2019-20 SBI bank earned more cost to income in comparison to HDFC bank. The reason behind the decrease in cost to income ratio of HDFC bank is due to the improvement in cost efficiency by reducing head count and slowing the branch network expansion and this improvement of cost efficiencies have allowed the bank to reduce its cost to income ratio. So that's why the cost to income ratio of SBI is better than HDFC.

VII. SUGGESTIONS, FINDINGS AND CONCLUSION

A. *Finding*

The following findings drawn from the above data analysis SBI Bank compare to HDFC Bank. SBI NPAs Ratio are high than HDFC. High NPAs Ratio of SBI shows low credit portfolio of the Bank.

- On analysis, HDFC profile has low risk as compare to SBI based on NPAs. Study also indicated that the major NPA increases due to government recommended priority sectors. Study also concluded HDFC has better capital adequacy ratio than SBI.

B. *SUGGESTIONS*

The Banker must ensure that the business for which a loan sought is a sound one and the borrower has the capacity of carrying it out successfully, the person should be of high integrity, credibility and good character. The Banks, either than providing loans to small farmers, should make provisions to grant them insurance policies for crop protection and income security. The balance sheet of the consumer should be studied thoroughly by the bankers to obtain the actual scenario of the business will be revealed on analysis of profit/loss a/c and balance sheet .While extending loans, Banks should also examine the main purpose of the loan.

At very early stage, the problem must be identified so that company could try their best to stop an asset or A/C becoming NPA and Bank should try their best to recover NPAs. The responsibility of the banks to evaluate the SWOT analysis of the borrowing companies that are how they would tackle with the environmental threats and opportunities with the use of their strength and weakness, and based on their financial and operational performance, what will be their possible future growth. Each Bank should develop their own independent credit rating agency, which would be responsible for evaluating the financial capacity of the borrowers before providing the credit facility.

C. *CONCLUSIONS*

The present study investigate and compare the growth financial performance of SBI and HDFC bank for the period from 2015-16-2019-20 using descriptive, correlation and multiple regression statistical methods. The empirical results of descriptive statistic illustrates that the growth performance of HDFC bank is very satisfying in India during the period under study than SBI bank which may indicates that growth performance of private sector bank than public sector are more updated and attractive in India during the period under study. HDFC also shows the better performance in the case of management of growth performance in the area of Reserve, Advance, Investment, Equity Dividend, Net Profit and EPS, C.V. because of its low variability. But in case of Interest Earned and Operating Expenses, low variability was seen in case of SBI. This is an indication of satisfactory management of performance. Correlation test result is unbelievably powerful in case of SBI than HDFC bank. However, it does not explain about the grounds and shock.

- The total advances show an upward trend for both SBI and HDFC Bank. Net profit for SBI has been fluctuating over the years whereas for HDFC Bank consistent to around 10,000 Cr.
- Under percentage Gross NPA, financial performance of HDFC (Private sector Bank) doing better than SBI Bank (Public sector Bank).
- Under the case of percentage net NPA, performance of HDFC observed to be improving year after year and thus creation of less non -performing assets when compared to SBI Bank. Percentage net NPA for SBI Bank observed to be continuously rising.

This study also has certain limitations. Only 5 years considered as the study period and the analysis done only based on performance indicators. Other parameters such as the growth of sales, expansion of the business, risk of the business, deposits mobilization, net interest margin, non-interest income will be considered in future research work.

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