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A Comparative Study On the Financial Performance of SBI and HDFC Bank Through Ratio Analysis

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ABSTRACT - State Bank of India (SBI) is the largest public sector bank and HDFC is the largest private sector bank in India. To measure the country's financial system of a country, it becomes necessary to study how its commercial banks are performing. Considering this fact, the study has been undertaken between SBI and HDFC bank. In this study, the financial performances of both the banks have been studied through ratio analysis. The results of this study show that both the banks are following the rules and regulations, maintains proper standards and running profitably. In terms of loans, advances, investments, net profit etc., there is a vast difference between the performances of these two banks. Considering the results of this study, it can be said that SBI runs more smoothly and extensively than HDFC bank.

Key words: SBI, HDFC, Ratio, Advances, Net profit, Investment.

I. INTRODUCTION

For the development of any country, economy of that country must be developed and for the development of economy, the banking sector plays an important role. For human life, blood is needed. In the same way, for the development of economy, money is needed. Banking sector provides money to the businesses which supports and promotes the growth in all businesses. Growth of banking sector is dependent on the number of bank branches, number of customers, amount of deposits, amount of lending etc. By analyzing banking sector, one can say that the country's economy is going in which direction. There are 48 commercial banks in India out of which 27 are public sector banks, 19 are public sector banks and 2 are other public sector banks. Out of the total market share, public sector banks are holding 72.9% share and private sector banks are holding 19.7% share. So, it can be said that public sector banks dominating the Indian banking system.

PROFILE OF SBI BANK

- Oldest bank of India.
- Established in the year 1806.
- Largest public sector bank in India.
- Consumes ¼th market share in India.
- Runs branches in India as well as in abroad.
- Head Quarter is at Mumbai, India.
- State Bank of Bikaner & Jaipur, State Bank of Hyderabad, State Bank of Mysore, State Bank of Patiala, State Bank of Patiala, State Bank of Travancore etc. are the banking subsidiaries of SBI.
- SBI General Insurance, SBI Life Insurance, SBI Mutual Fund, SBI Card, etc. are the non-banking subsidiaries of SBI.
- Have 22,219 branches, 62,617 ATMs/ADWMs and 71,968 BC outlets in India and abroad.
- Nearly 2,50,000 employees are working in different branches of SBI bank.

PROFILE OF HDFC BANK

- Established in the year 1994.
- Largest private sector bank in India.
- Runs branches in India as well as in abroad.
- Head Quarter is at Mumbai, India.
- HDFC Securities, HDFC Life, HDFC Mutual fund, HDFC Credila, HDFC Realty, HDFC Ergo, HDFC Pension, HDFC Financial services, HDFC Sales etc. are the non-banking subsidiaries of SBI.
- Have 5,779 branches, 17,238 ATMs/ADWMs in India and abroad.
- Over 1,20,000 employees are working in different branches of HDFC bank.

II. LITERATURE REVIEW

Samad(2007) examined how domestic and international banks are working for the industrialization and development of economy of Bangladesh in his paper entitled "Comparative Analysis of Domestic and Foreign Bank Operations in Bangladesh". In his study, he made a comparison of financial ratios between domestic and

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international banks. In his results, he found that there is a significant difference in the functioning between them.

Verma *et al.* (2011) examined the efficiency of 88 Scheduled Commercial Banks by taking ten years data from 1998-99 to 2007-08 in his paper entitled "Performance of Scheduled commercial banks in India: An application of DEA". In his paper, he found that out of ten years, public sector banks did not work with full efficiency in six years and private sector banks did not work with full efficiency in five years. He suggested that banks should reduce their expenses and also work with full efficiency level.

Chaudhary (2014) examined the functioning of public sector and private sector banks for the period 2009 to 2011. For this study, he collected data from various secondary sources such as annual reports of the banks, websites etc. In his results, he found that private sector banks performed more efficiently as compared to public sector banks. The growth rate of private sector banks was higher than the public sector banks.

Avani Ojha and Hemchandra Jha (2018) examined how NPA is affecting the working of SBI and PNB. For this, he used different statistical methods. They found that NPAs are having impact on a large scale on the profitability of selected banks. They also found by testing of hypothesis that NPAs are affecting the profitability and productivity of the selected banks. They suggested that banks should be very careful while sanctioning the loan or credit and financial position of the borrower should be examined properly before such sanctioning.

Subalakshmi, Grahlakshmi and Manikandan (2018) examined the portfolio of SBI on the basis of assets and liabilities for the period 2009 to 2016. They used ratio analysis and examined the profitability, deposits, loans-advances, investments, NPAs, earnings and efficiency of the bank. They found that there has been an improvement in the performance of the bank in the context of deposits, return, credit and profit margin ratios.

OBJECTIVES OF THE STUDY

(1) To study and compare the financial performance of State Bank of India and HDFC Bank.
(2) To study and compare the profitability situation of State Bank of India and HDFC Bank.
(3) To provide findings of financial performance of State Bank of India and HDFC Bank.

III. RESEARCH METHODOLOGY

Sample size

In this paper, two banks i.e. SBI from public sector and HDFC from private sector have been selected.

Study Period

In this paper, data for five years 2016-17 to 2020-21 have been taken for the study.

Data Collection

In this paper, the secondary data has been taken from the published sources for the study.

Limitations of the study

- The data has been analyzed only from two banks. Other banks have not been included.
- The study is based on the secondary data and the secondary data has its own limitations.
- The data has been analyzed only for five years.

IV. DATA ANALYSIS AND FINDINGS

The analysis of financial performance is done by using ratio analysis. For this, following ratios have been used:

(1) Earnings Per Share (EPS)
(2) Dividend Per Share (DPS)
(3) Net Profit Per Share
(4) Return On Capital Employed (ROCE)
(5) Net Profit Margin
(6) Return on Equity/Net Worth
(7) Interest Income to Total Assets
(8) Interest Expense to Total Assets
(9) Non Interest Income to Total Assets
(10) Operating Expense to Total Assets
(11) Advances
(12) Deposits

(1) <u>Earnings Per Share (EPS)</u>:

This ratio is used on a large scale to measure the value of any bank or company. It indicates that how much money bank is earning per share. This ratio is calculated by dividing total profit by the total number of shares. Higher EPS indicates that bank is earning higher profit and as a result, investors will be ready to pay higher price for the shares of such bank.

Table-1.1: Year-wise EPS

Year	SBI (Rs.)	HDFC (Rs.)
2016-17	13.43	57.18
2017-18	-7.67	67.76
2018-19	0.97	78.65
2019-20	16.23	48.01
2020-21	22.87	56.58
Average	**9.17**	**61.64**
Rank	**2**	**1**

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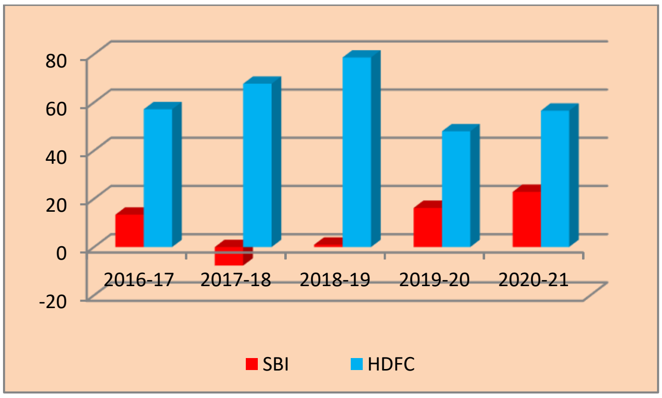


Chart-1.1: Comparison of year-wise EPS

From the above data, it can be said that HDFC bank is having higher EPS as compared to SBI. During the year 2017-18, SBI had negative EPS of Rs. 7.67. The average EPS of SBI is Rs. 9.17 whereas it is Rs. 61.64 of HDFC bank. Accordingly, HDFC bank stands at number-1 and SBI stands at number-2 as far as EPS is concerned.

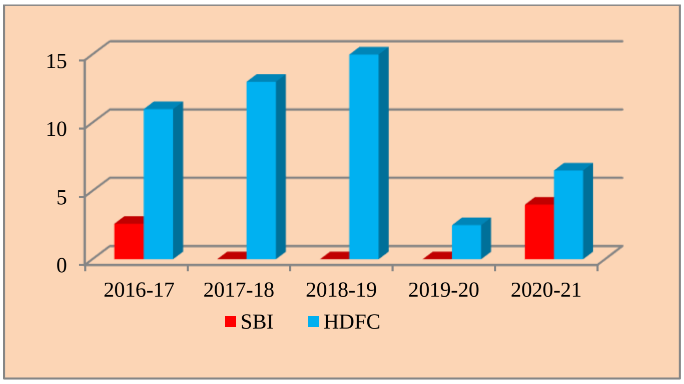
(2) Dividend Per Share (DPS):

This ratio indicates how much amount bank or a company is paying to shareholders in the form of dividend during 12 months. This ratio is calculated by dividing total dividend by the total number of shares. The higher DPS can attract more investors towards the bank who are wishing regular income.

Table-2.1: Year-wise DPS Chart-
2.1: Comparison of year-wise DPS

Year	SBI (Rs.)	HDFC (Rs.)
2016-17	2.60	11
2017-18	0	13
2018-19	0	15
2019-20	0	2.50
2020-21	4	6.50
Average	**1.32**	**9.6**
Rank	**2**	**1**

Chart-2.1: Comparison of year-wise DPS



From the above data, it can be said that HDFC bank has paid higher dividend per share as compared to SBI during all the five years of study. SBI did not give any dividend during three years i.e. 2017-18, 2018-19 and 2019-20. The average DPS of SBI is Rs. 1.32 whereas it is Rs. 9.6 of HDFC bank. Accordingly, HDFC bank stands at number-1 and SBI stands at number-2 as far as DPS is concerned.

(3) Net Profit Per Share:

This ratio indicates that how much net profit bank is earning per share. Here, net profit means a profit after deducting all the expenses. This ratio is calculated by dividing total net profit by the total number of shares. Higher the ratio, higher is the chances of attracting more and more investors towards the bank.

Table-3.1: Year-wise Net profit per share

Year	SBI (Rs.)	HDFC (Rs.)
2016-17	13.15	56.78
2017-18	-7.34	67.38
2018-19	0.97	77.40
2019-20	16.23	47.89
2020-21	22.87	56.44
Average	**9.18**	**61.18**
Rank	**2**	**1**

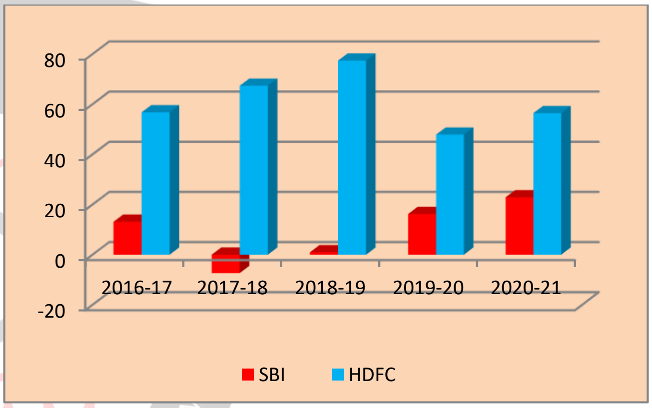


Chart-3.1: Comparison of year-wise Net profit per share

From the above data, it can be said that HDFC bank is having higher net profit per share as compared to SBI. During the year 2017-18, SBI had negative net profit per share of Rs. 7.34. The average net profit per share of SBI is Rs. 9.18 whereas it is Rs. 61.18 of HDFC bank. Accordingly, HDFC bank stands at number-1 and SBI stands at number-2.

(4) Return On Capital Employed (ROCE):

ROCE is also an important ratio to measure the performance of any bank or company. This ratio indicates how much return company is giving to their shareholders against their investment. This ratio is calculated by dividing EBIT by the Capital Employed. Here, EBIT means Earnings Before Interest and Tax. Higher the ratio, higher is the chances of attracting more and more investors towards the bank.

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Table-4.1: Year-wise ROCE

Year	SBI (%)	HDFC (%)
2016-17	1.99	3.18
2017-18	1.81	3.20
2018-19	0.00	3.34
2019-20	1.79	3.33
2020-21	1.64	3.42
Average	**1.45**	**3.29**
Rank	**2**	**1**

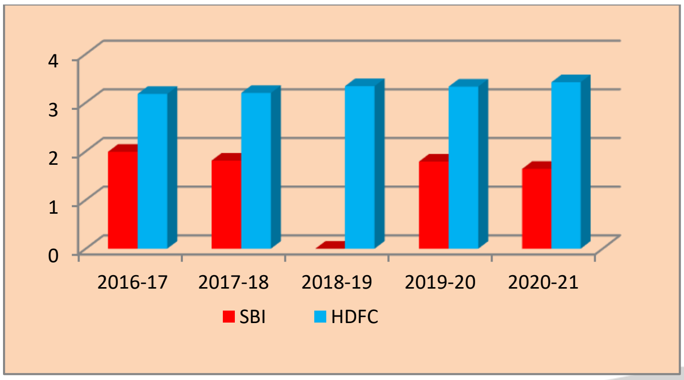

Chart-4.1: Comparison of year-wise ROCE

From the above data, it can be said that HDFC bank has paid higher return as compared to SBI during all the five years of study. SBI did not give any return during the year 2018-19. The average ROCE of SBI is 1.45% whereas it is 3.29% of HDFC bank. Accordingly, HDFC bank stands at number-1 and SBI stands at number-2 as far as ROCE is concerned.

(5) <u>Net Profit Margin</u>:

This ratio indicates that what financial result has been achieved from the business activities. It also indicates the efficiency of management in conducting day-to-day business operations. This ratio is calculated by dividing net profit after tax by the sales. Higher the ratio, higher is the efficiency level of the business and the management.

Table-5.1: Year-wise Net profit margin

Year	SBI (%)	HDFC (%)
2016-17	5.97	20.99
2017-18	-2.96	21.79
2018-19	0.35	21.29
2019-20	5.63	22.86
2020-21	7.69	25.74
Average	**3.34**	**22.53**
Rank	**2**	**1**

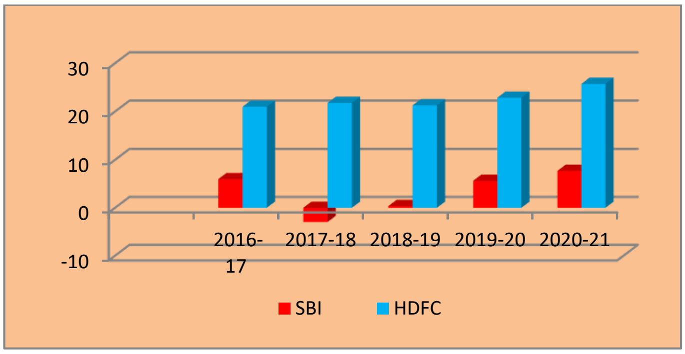

Chart-5.1: Comparison of year-wise Net profit margin

From the above data, it can be said that HDFC bank has earned higher net profit as compared to SBI during all the five years of study. SBI had a net loss during the year 2017-18. The average net profit margin of SBI is 3.34% whereas it is 22.53% of HDFC bank. Accordingly, HDFC bank stands at number-1 and SBI stands at number-2 as far as Net Profit Margin is concerned.

(6) <u>Return on Equity/Net Worth</u>:

This ratio indicates the overall efficiency of a bank or a business enterprise. This ratio is calculated by dividing the net profit by the owner's funds. Here, net profit means profit after deducting interest and tax. Higher the ratio, higher is the probability of attracting more customers.

Table-6.1: Year-wise return on equity

Year	SBI (%)	HDFC (%)
2016-17	6.69	16.26
2017-18	-3.37	16.45
2018-19	0.39	14.12
2019-20	6.95	15.35
2020-21	8.86	15.27
Average	**3.90**	**15.49**
Rank	**2**	**1**

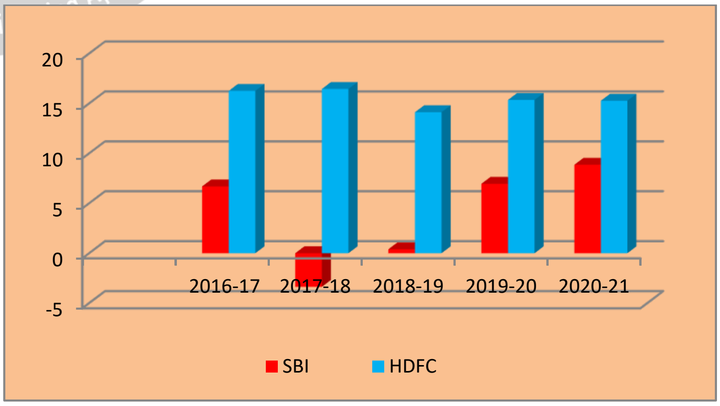

Chart-6.1: Comparison of year-wise return on equity

From the above data, it can be said that HDFC bank has given higher return on equity as compared to SBI during all the five years of study. SBI had a negative return on equity during the year 2017-18. The average return on equity of SBI is 3.90% whereas it is 15.49% of HDFC bank.

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Accordingly, HDFC bank stands at number-1 and SBI stands at number-2 as far as Return on Equity is concerned.

(7) Interest Income to Total Assets:

This ratio indicates how much interest bank has earned as against its total assets. This ratio is calculated by dividing the interest income by the total assets. Here, only interest income earned on loan, cash credit and overdraft is taken. Other incomes are not taken. Higher the ratio, higher is the efficiency level of the business and the management.

Table-7.1: Year-wise Interest income

Year	SBI (%)	HDFC (%)
2016-17	6.48	8.02
2017-18	6.38	7.54
2018-19	6.59	7.95
2019-20	6.51	7.50
2020-21	5.84	6.91
Average	**6.36**	**7.58**
Rank	**2**	**1**

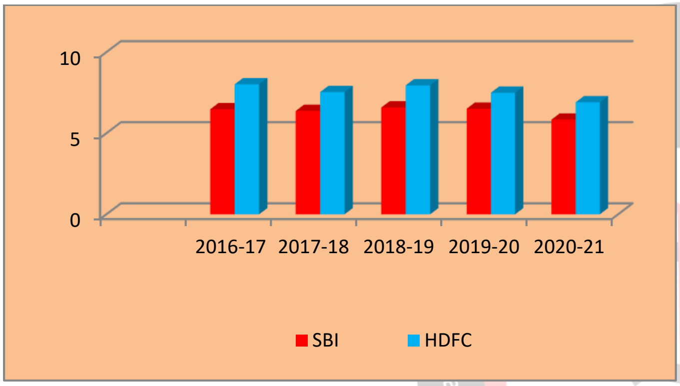

Chart-7.1: Comparison of year-wise Interest income to to total assets to total assets

From the above data, it can be said that HDFC bank has earned higher interest as compared to SBI during all the five years of study. The average interest income to total assets of SBI is 6.36% whereas it is 7.58% of HDFC bank. Accordingly, HDFC bank stands at number-1 and SBI stands at number-2 as far as Interest Income to Total Assets is concerned.

(8) Interest Expense to Total Assets:

This ratio indicates how much interest bank has paid as against its total assets. This ratio is calculated by dividing the interest expense by the total assets. Here, only interest paid on savings account, current account etc. is taken. Other expenses are not taken. Lower the ratio, higher is the efficiency level of the business and the management.

Table-8.1: Year-wise Interest expense

Year	SBI (%)	HDFC (%)
2016-17	4.20	4.18
2017-18	4.21	3.77
2018-19	4.19	4.07
2019-20	4.02	3.83
2020-21	3.40	3.20
Average	**4.00**	**3.81**
Rank	**2**	**1**

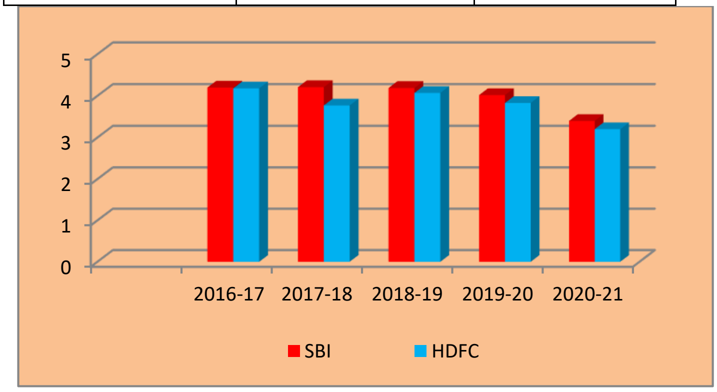

Chart-8.1: Comparison of year-wise Interest expense to total assets to total assets

From the above data, it can be said that HDFC bank has paid lower interest as compared to SBI during all the five years of study. The average interest expense to total assets of SBI is 4.00% whereas it is 3.81% of HDFC bank. Accordingly, HDFC bank stands at number-1 and SBI stands at number-2 as far as Interest Expense to Total Assets is concerned.

(9) Non Interest Income to Total Assets:

This ratio indicates how much other income bank has earned as against its total assets. This ratio is calculated by dividing the non-interest income by the total assets. Here, only other incomes are taken. Interest income is not taken. Higher the ratio, higher is the efficiency level of the business and the management.

Table-9.1: Year-wise Non Interest income

Year	SBI (%)	HDFC (%)
2016-17	1.31	1.42
2017-18	1.29	1.43
2018-19	0.95	1.41
2019-20	1.14	1.51
2020-21	0.95	1.44
Average	**1.13**	**1.44**
Rank	**2**	**1**

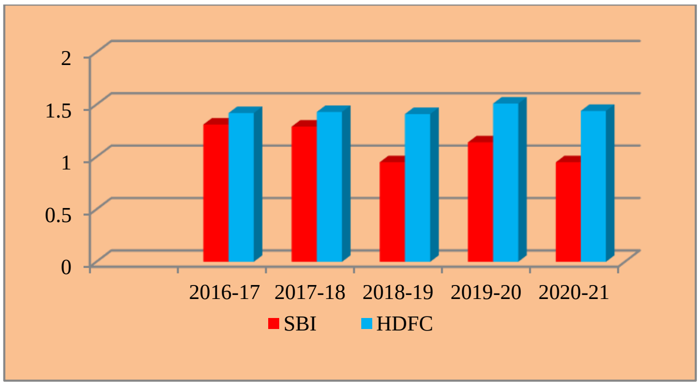

Chart-9.1: Comparison of year-wise Non Interest to total assets income to total assets

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From the above data, it can be said that HDFC bank has earned higher non-interest income as compared to SBI during all the five years of study. The average non-interest income to total assets of SBI is 1.13% whereas it is 1.44% of HDFC bank. Accordingly, HDFC bank stands at number-1 and SBI stands at number-2 as far as Non Interest Income to Total Assets is concerned.

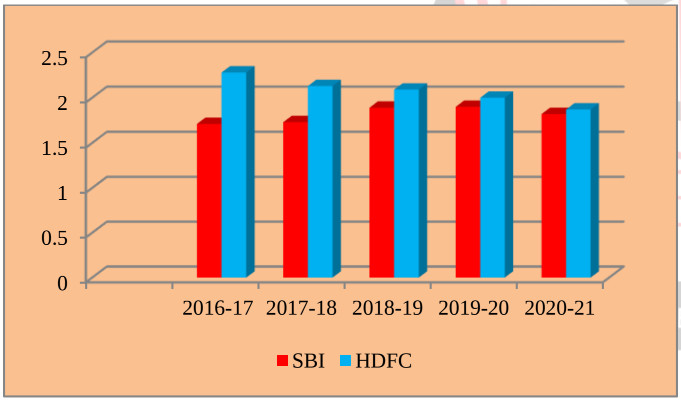
(10) Operating Expense to Total Assets:

This ratio indicates how much other expenses bank has paid as against its total assets. This ratio is calculated by dividing the operating expenses by the total assets. Here, only non-interest expenses are taken. Interest expense is not taken. Lower the ratio, higher is the efficiency level of the business and the management.

Table-10.1: Year-wise Operating assets

Year	SBI (%)	HDFC (%)
2016-17	1.71	2.28
2017-18	1.73	2.13
2018-19	1.89	2.09
2019-20	1.90	2.00
2020-21	1.82	1.87
Average	**1.81**	**2.07**
Rank	**1**	**2**

Chart-10.1:Comparison of year-wise Operating expense to expense to total to total assets



From the above data, it can be said that SBI has paid lower operating expenses as compared to HDFC bank during all the five years of study. The average operating expense to total assets of HDFC bank is 2.07% whereas it is 1.81% of SBI. Accordingly, SBI stands at number-1 and HDFC bank stands at number-2 as far as Operating Expense to Total Assets is concerned.

(11) Advances:

Advances indicate how much money bank has granted to its customers in the form of loan, cash credit and overdraft. It is also known as credit facility. Customers are given credit facility and amounts are collected in installments. Bank is charging interest on such advances. Higher the amount of advances, higher is the efficiency level of business and the management.

Table-11.1: Year-wise Advances

Year	SBI (Rs. in crore)	HDFC (Rs. in crore)
2016-17	15,71,078	5,54,568
2017-18	19,34,880	6,58,333
2018-19	21,85,877	8,19,401
2019-20	23,25,290	9,93,703
2020-21	24,49,498	11,32,837
Average	**20,93,325**	**8,31,768**
Rank	**1**	**2**

From the above data, it can be said that SBI has granted higher amount of advances as compared to HDFC bank during all the five years of study. The average advances of HDFC bank is Rs. 8,31,768 crore whereas it is Rs. 20,93,325 crore of SBI. Accordingly, SBI stands at number-1 and HDFC bank stands at number-2 as far as Advances are concerned.

(12) Deposits:

Deposits indicate how much amount bank has collected from its customers in the form of savings account, current account, fixed deposits etc. Bank is giving interest to its customers against such deposits. Higher the amount of deposits, higher is the faith of customers towards the bank.

Table-12.1: Year-wise Deposits

Year	SBI (Rs. in crore)	HDFC (Rs. in crore)
2016-17	20,44,751	6,43,640
2017-18	27,06,344	7,88,771
2018-19	29,11,386	9,23,141
2019-20	32,41,621	11,47,502
2020-21	36,81,277	13,35,060
Average	**29,17,076**	**9,67,623**
Rank	**1**	**2**

From the above data, it can be said that SBI has collected higher amount of deposits from its customers as compared to HDFC bank during all the five years of study. The average deposits of HDFC bank is Rs. 9,67,623 crore whereas it is Rs. 29,17,076 crore of SBI. Accordingly, SBI stands at number-1 and HDFC bank stands at number-2 as far as Deposits are concerned.

V. CONCLUSION

The study found that as far as Earnings per share (EPS), Dividend per share (DPS), Net Profit per share, Return on Capital Employed (ROCE), Net Profit Margin, Return on Equity/Net Worth, Interest Income to Total Assets, Interest Expense to Total Assets, Non Interest Income to Total Assets etc. are concerned, HDFC bank has better position as compared to SBI. So, it can be said that HDFC bank has given higher return to its investors as compared to SBI. But, as far as Operating Expense to Total Assets ratio is

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concerned, SBI has better position as compared to HDFC bank. Similarly, SBI has collected higher amounts of deposits and has given higher amounts of advances as compared to HDFC bank. It means that customers are keeping more faith on public sector bank as compared to private sector bank. Finally, from the above study, it can be said that from investor's point of view, HDFC is better. But from customer's point of view, SBI is better.

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