STUDY ON SHORT-RUN FINANCIAL POSITION OF BANKS: A CASE STUDY OF SBI VS ICICI

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Abstract

Banking as a system act as central processing unit for the whole financial system. It is said to be an effective facilitator of mobilization of funds i.e. transforming funds from unproductive sector to productive sector. It is mechanism to process the fund for economic development. An effective banking system reflects the position of an economy in a greater context. As a developing country India needs a hassle free banking system to meet the upcoming challenges which comes from both internal and external factors. In this study effort is given to measure the financial efficiency or position of major and leading public sector bank "State Bank of India (SBI)" and major private sector bank "Industrial Credit Investment Corporation of India (ICICI) Bank". In this paper ratio analysis is used in a new perspective to measure the operational efficiency of both SBI and ICICI bank and comparison is made between them. The data used for this study is purely of secondary nature and the period of study ranges from the financial year 2007-08 to 2011-12.The study found that financial performance of SBI is sounder than Private sector leading bank ICICI.

Key Words; Financial system, Banking, Financial efficiency, SBI, ICICI.

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INTRODUCTION

Operation of an economy is not possible through a sound and technically fit banking system. In an economy or financial system, money or cash or funds is considered as blood as like in human body. Without circulation of blood results in death .Similarly no circulation of funds makes the economy stagnant and pushes it into the recession. Banking as a mechanism in the financial system takes the responsibility of circulation of the funds. In other words, bank act as an intermediary between surplus sector and needy sector. Bank also plays an important role in economic development of a country as repositories of community's savings and as purveyors of credit.

During beginning of 19^{th} century banking was started in India as per the British pattern and all the banks were joint stock banks .The law through which it was governed was company law. After independence the whole banking system metamorphosis's into a new structure. As a result of which many commercial banks were nationalized and new banking regulation takes place. Currently commercial bank in the country comprises of state bank of India and its associate banks, nationalized banks, private sector banks, regional rural banks and foreign banks. Presently the function of bank is not only restricted with financing activity. It is right now started from different counseling to project financing. Bank plays an important role in entrepreneurial assistance and economic development.

This study is based upon two leading commercial banks, one from public sector i.e.SBI and another from private sector i.e.ICICI.SBI as a leading public sector bank spread with network of more than 16,000 branches. It has its head office at Mumbai and 14 local head offices and 57 zonal offices located at important cities of the country.ICICI also as a leading private sector bank spread with network of 2757 branches

Over the years banks have come to occupy a place of importance in the planned development of the economy in the country responding to the emerging requirements of agricultural and industrial sector. It is not only increases the flow of monetary assistance but also make progressive increase in co-ordinated approach of agricultural and industrial financing.

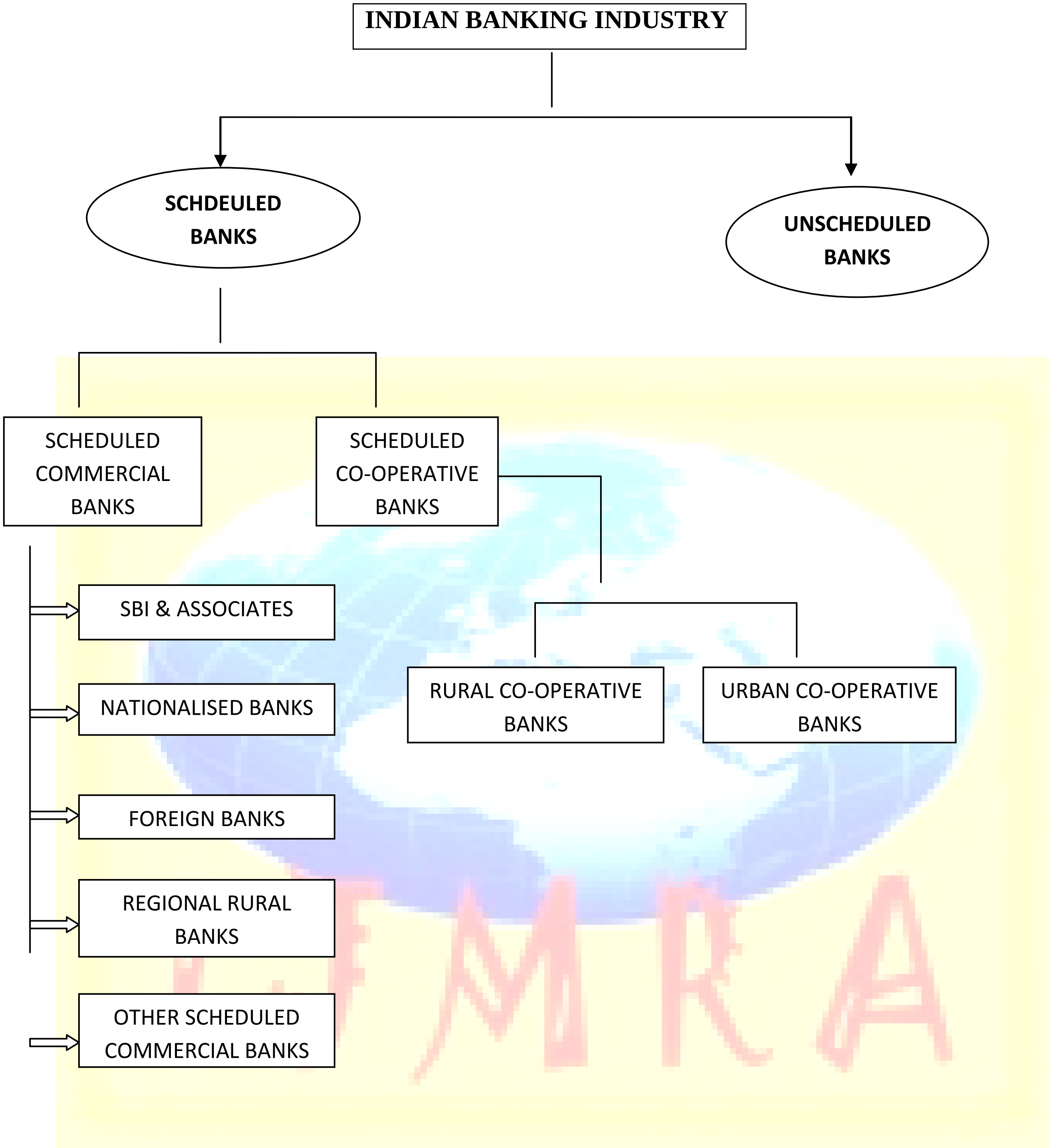
BANKING IN INDIA

The concept of banking was started in India since 18th century. Bank of Hindustan and The General Bank of India were first to start the banking function from 1770 and 1786 respectively. Both banks are now defunct. Then bank of Bengal, Bank of Bombay and Bank of Madras were established under the charters of British East India Company. In the year 1921 these three banks were merged and form the Imperial bank of India, which is renamed as State Bank of India (SBI) after India got independence i.e. in the year 1955. The period between 1906-1911 saw the establishment of Bank of India, Corporation Bank, Indian Bank, Bank of Baroda, Canara Bank and Central Bank of India .Which were inspired by Swedish movement.

After independence The Reserve Bank of India (RBI) was nationalized on 1st January 1949, which was established in April 1934.Thereafter in the year 1969, 14 major commercial banks were nationalized by then Prime Minister Indira Gandhi.Agian in the year 1980, 6 more commercial banks were nationalized with the objective to give the government more control of credit delivery. As a result of liberalization of the economy few private sector get license to establish banks in the early 1990s.

The structure of Indian banking industry depicted as follows;

November 2012 IJMIE Volume 2, Issue 11 ISSN: 2249-0558



Source: D & B Industry Research Service

TRANSFORMATION JOURNEY OF SBI AND ICICI

State bank of India (SBI) was formed on 1st July 1955 through a statutory act named as state bank of India Act, 1955 by taking over the assets and liabilities position of the imperial bank of India. The state bank of India initially had an authorized capital of Rs.20 crores divided into 20, 00,000 shares of Rs.100 each. The issued and paid-up capital was Rs.5.65 crores divided into 5, 62,500 fully paid-up shares. During the financial reforms stage authorized capital of the bank was raised to Rs.1000 crores and the issued, subscribed and paid-up capital was increased from 150 cores to 200 cores.

The state bank of India replace its outdated front and back ended process to modern customer and user friendly process to improve the customer satisfaction. Currently it is running with largest branch network of 10000 branches and 5100 branches of its associate banks. Among 10000 branches near about 8500 branches providing core banking system (CBS) facilities. It has also largest network of 21000 ATM centers across the country.SBI has made remarkable presence over the world by opening 173 offices in 33 countries of the globe.

Currently SBI moving with new and modern technologies, which create new taste of banking among the users. It also plans to expand its rural banking base, looking at the vast untapped potential in the hinterland and also proposes to cover 100,000 villages in the next two years.Today the bank is the largest provider of infrastructure debt and also largest arranger of external commercial borrowings in the country.

ICICI bank was originally promoted in 1994 by ICICI limited. Its parental organization ICICI limited was formed in the year 1955 by the initiative of World Bank, government of India and representatives of Indian industry. The principal was to create a development financial institution for providing medium-term and long-term project financing to Indian business. In the year 1999 it was listed in most prestigious stock exchange of the world i.e. "New York Stock Exchange(NYSE)".In the year 2001 two of its wholly owned subsidiaries ICICI personal financial limited and ICICI capital services limited get merged with it. Shares of ICICI bank is listed on Bombay Stock Exchange and National Stock Exchange of India.

ICICI bank offers a wide range of banking products to corporate and retail customers through its different delivery channels and by specialized subsidiaries. As a second largest bank it has the assets of Rs.4736.47 billion as on 31st March 2012.Currently the bank is running with the network of 2765 branches and 9363 ATMs in India and also operated in 18 countries across the globe. The bank currently has subsidiaries in United Kingdom, Russia, Canada, USA, Bahrain, Hong Kong, Dubai, Qatar and Sri Lanka.Most recently this bank is awarded as the Best Trade Finance bank in India by GTR Asia Leaders in Trade Awards 2012.

SBI AND ICICI AT GLANCE

	SBI	ICICI
Established	**1955**	**1994**
Current share prices	**Rs.2095(as on 30.03.2012)**	**Rs.887(as on 30.03.2012)**
Number of branches	**10000+5100(associate banks)**	**2765**
ATMs	**21,000**	**9363**
Number of employees	**2,92,215(2012)**	**79,978(2011)**

Table-1.1: SBI & ICICI at glance

RESEARCH METHODOLOGY

In common parlance, research refers to a search for knowledge. Research simply put, is an endeavor to discover answers to problems (intellectual and practical) through the application of scientific method. The purpose of such search is to thoroughly understand the problem or issue or phenomenon and find the apt and effective solution to the problem or strategy to deal with the issue or the phenomenon. Such solution or strategy adds to our stock of knowledge in dealing with the problem or the issue.

The methodology adopted for the studying the objective of the paper is to know the financial performance of two banks namely SBI and ICICI.For this some specific and homogeneous key factors like **"Deposits, Advances, Interest Expenses, Interest Income, Operating Profit, Total Expenses and Total Income"** of both the banks taken into consideration and then ratio and trend is used to make comparison between both the underlying bank.

Basing upon above key factors some ratio and parameters have been used to study the financial health or financial soundness of both the bank. These are;

1. Credit deposit ratio
2. Interest expenses to total expenses ratio
3. Interest income to total income ratio
4. Percentage change in deposits
5. Percentage change in credit
6. Percentage change in EBIT

OBJECTIVE OF THE STUDY

To study the financial performance of SBI and ICICI.

To study the operating profitability trend of SBI and ICICI.

To make comparison between them.

SCOPE OF THE STUDY

The study period is limited within five years ranging from the financial year 2007-08 to 2011-12.All the data used is of secondary nature. It can be used as a reference for more future research or any research oriented project.

LIMITATIONS OF THE STUDY

The purpose of this study is to compare the financial soundness of SBI and ICICI bank. Measuring financial soundness of a concern is not a simple job. Financial health of a concern can be measured through different parameters. As here we are comparing between two banks, it is not possible in the researcher part to take all the factors into consideration. As a result of which this study involved with following limitations;

DATA COLLECTION

In this study purely secondary data is used. All data for analysis is collected from the audited balance sheet of the SBI and ICICI.Data collected from the period 2008-09 to 2011-12.

DATA ANALYSIS

Data collected from 2008-09 to 2011-12 are used here for satisfying the objectives of the study. Data analyzed through above mentioned parameters.

Credit deposit ratio (CDR) exhibits the proportions between credits i.e. loan advance granted by the bank, which will be collected in future and deposits accepted from the individual and organization through different form or scheme of deposits.

Table-2.1 represents the credit and deposits figure of both SBI and ICICI and their ratio.

Table-2.1: Credit Deposit Ratio

(Rs. In crores)

	SBI		ICICI		CDR	
Year	Credit(Rs.)	Deposits(Rs.)	Credit(Rs.)	Deposits(Rs.)	SBI	ICICI
2008-09	416895.15	532405.43	2,18,310.85	2,18,347.82	78.30407552	99.98307
2009-10	542503.33	742073.58	1,81,205.60	2,02,016.60	73.10640678	89.69837
2010-11	756719.45	933932.81	2,16,365.90	2,25,602.11	81.02504183	95.90597
2011-12	867578.89	1043647.37	2,53,727.66	2,81,950.47	83.12950475	89.99015

Source: calculated from financial statement of SBI &ICICI.

Fig.No.-1.1

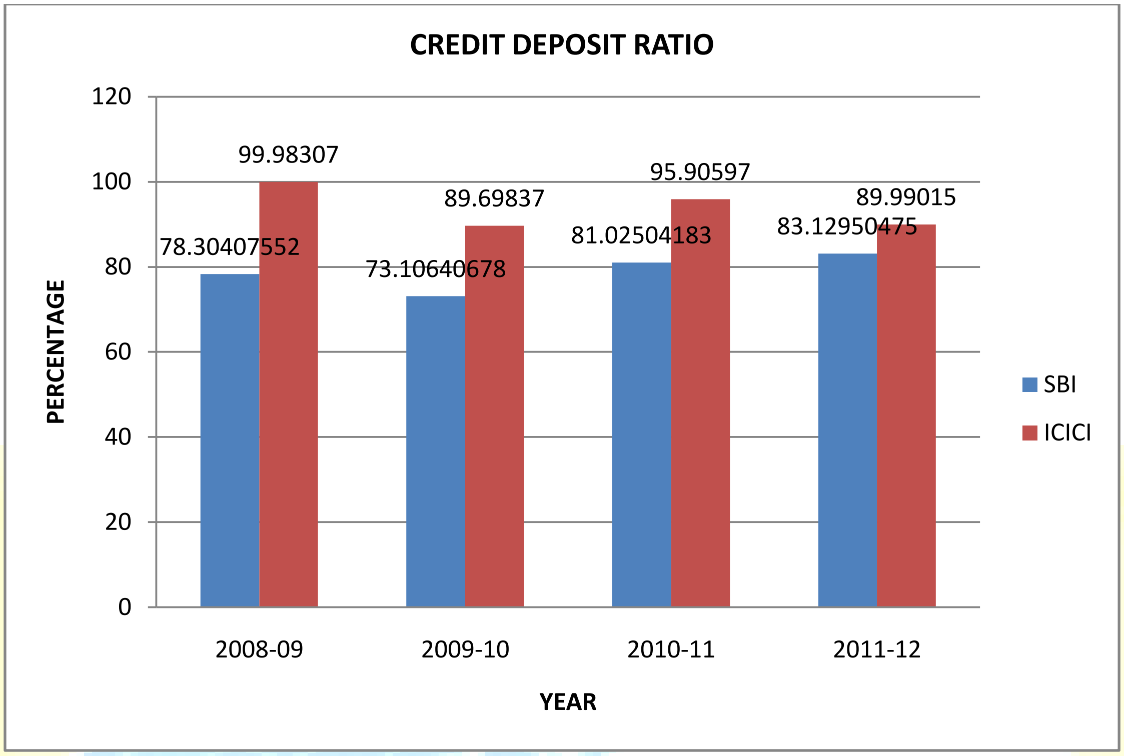


Fig.no-1.1 depicts the credit deposit ratio (CDR) of both SBI and ICICI from the year 2008-09 to 2011-12.During 2008-09 CDR of SBI was 78.30% and ICICI was 99.9 %(almost 100%).As 2008-09 was the most difficult period because of financial recession it forces banks to take some special strategy for survival .In this study it is found that strategy of both SBI and ICICI is different.ICICI credit deposit ratio signifies that it is more risky decision ,while SBI credit deposit ratio signifies risk averse strategy.

Interest expenses ratio to total expenses ratio (IETER) shows the percentage of interest expenses with respect to the total expenses. It is purely depended on the amount of deposit. It helps in taking of decision relating to the expenses part of the bank, obviously some corrective measures or actions.

Table2.2 exhibits amount of interest expenses and total expenses of both SBI & ICICI starting from 2008-09 to 2011-12.

Table-2.2: Interest expenses to total expenses ratio

(Rs. In crores)

	SBI		ICICI		IETER	
Year	Interest Expenses(Rs.)	Total Expenses(Rs.)	Interest Expenses(Rs.)	Total Expenses(Rs.)	SBI	ICICI
2008-09	42915.29	58563.99	22,725.93	29,771.04	73.2793138	76.335694
2009-10	47322.48	67641.16	17,592.57	23,452.40	69.961071	75.013943
2010-11	48867.96	71883.39	16,957.15	23,574.40	67.9822696	71.930357
2011-12	63230.37	89299.36	22,808.50	30,658.94	70.8071928	74.394288

Source: Calculated from financial statement of SBI &ICICI.

Fig.No.-1.2

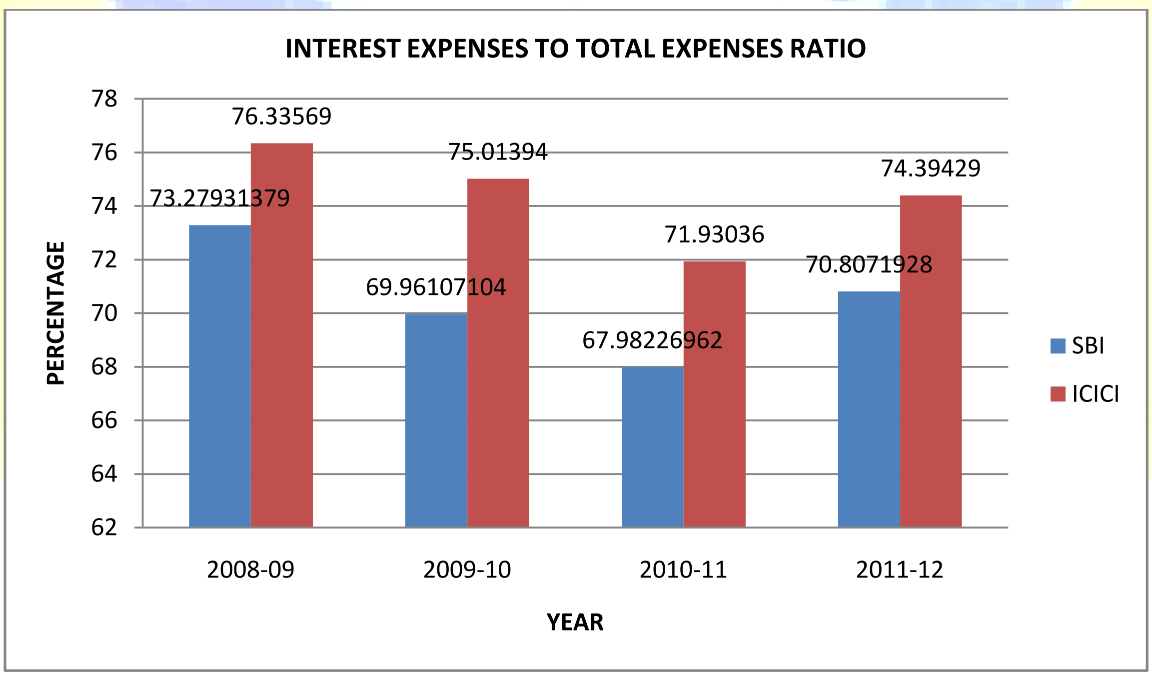


Figure No.1.2 reveals that the interest expenses of SBI was 73.27% during 2008-09 and then it gets declined consecutively in the next two year to 69.96% and 67.98% respectively. Then it takes momentum in the year of 2011-12.Comparing it with the private largest ICICI, it is clear that ICICI incurs more interest expenses in the year 2008-09, then it starts decline for next two yerars.After that it takes upward momentum in the year 2011-12.Decline in the interest expenses is the result of the financial recession and decrease in interest rate to some extent.

Interest income to total income ratio (IITIR) implies the proportion of interest income with respect to total income. Interest income of the bank is generated from the loan granted and deposit maintained with other banks. Major contribution to the total income of a bank is its interest income. More interest income can be generated only when more and more credit granted, but the bank should not forget the risk level. This ratio is treated as one of the major criteria to measure the financial health of the bank.

Table2.3 exhibits amount of interest income and total income of both SBI & ICICI starting from 2008-09 to 2011-12.

Table-2.3: Interest income to total income ratio

(Rs. In crores)

	SBI		ICICI		IITIR	
Year	Interest Income(Rs.)	Total Income(Rs.)	Interest Income(Rs.)	Total Income(Rs.)	SBI	ICICI
2008-09	63788.43	76479.22	31,092.55	38,696.27	83.4062245 9	80.35025
2009-10	70993.92	85962.07	25,706.93	33,184.58	82.5874946 9	77.46649
2010-11	81394.36	97218.96	25,974.05	32,621.95	83.7227224	79.62139

2011-12	106521.45	120872.9	33,542.65	41,045.41	88.1268257 8	81.72083

Source: calculated from financial statement of SBI &ICICI.

Fig.No.-1.3

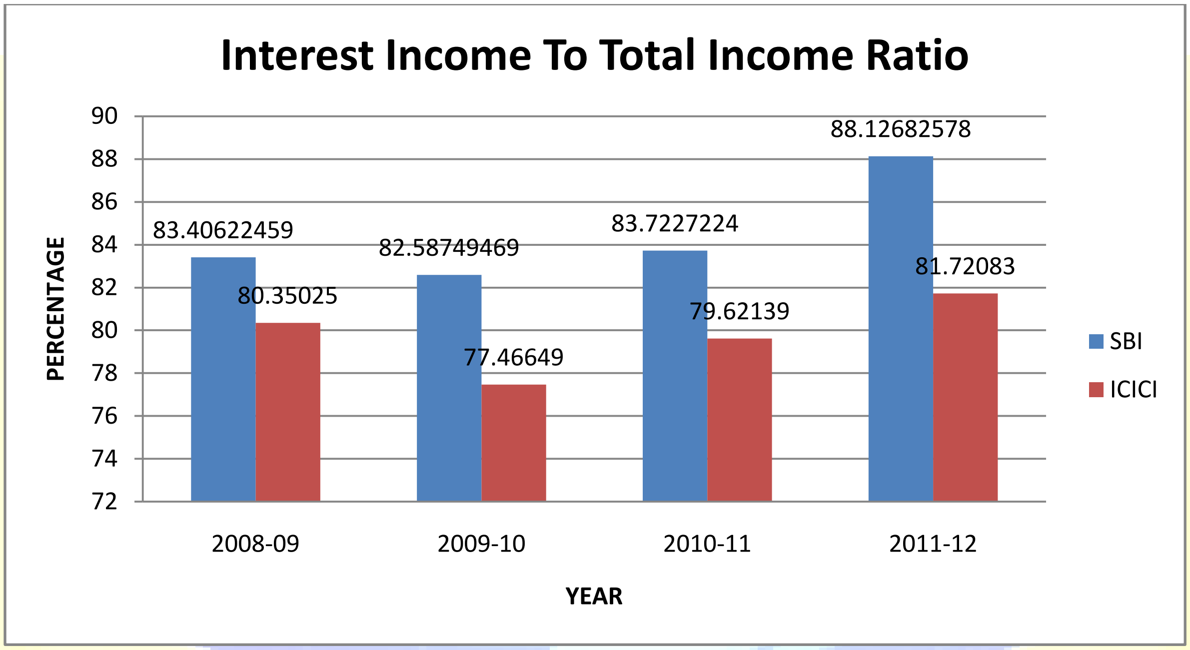


Fig.No.1.3 depicts the up and down situation of SBI and ICICI .It shows that the portion of interest income of SBI is more than ICICI in all the years of the study. It also exhibits that SBI has steady growth in its interest income expect 2009-10.But ICICI bank has 80.35% national income in the year 2008-09 and it suddenly decreases to 77.46% in the next year then continues upward movement. Both the bank have generated major portion of income from interest of loans and advances, which ranges from 70% to almost 90%.

Percentage change in deposits is simple technique, which gives idea relating to each year change in deposits in comparison to its previous years. This method is suitable for a long period study. In our study it is used to find out the trend of deposits year by year.

Table2.4 exhibits amount of deposits of both SBI & ICICI starting from 2008-09 to 2011-12.

Table-2.4: Percentage change in deposits

(Rs. In crores)

	Amount of Deposits		Percentage Change in Deposits	
YEAR	**SBI**	**ICICI**	**SBI**	**ICICI**
2008-09	532405.43	2,18,347.82	0	0
2009-10	742073.58	2,02,016.60	39.38129444	-7.4794
2010-11	933932.81	2,25,602.11	25.85447524	11.675
2011-12	1043647.37	2,81,950.47	11.747586	24.9768

Source: calculated from financial statement of SBI &ICICI.

Fig.No.-1.4

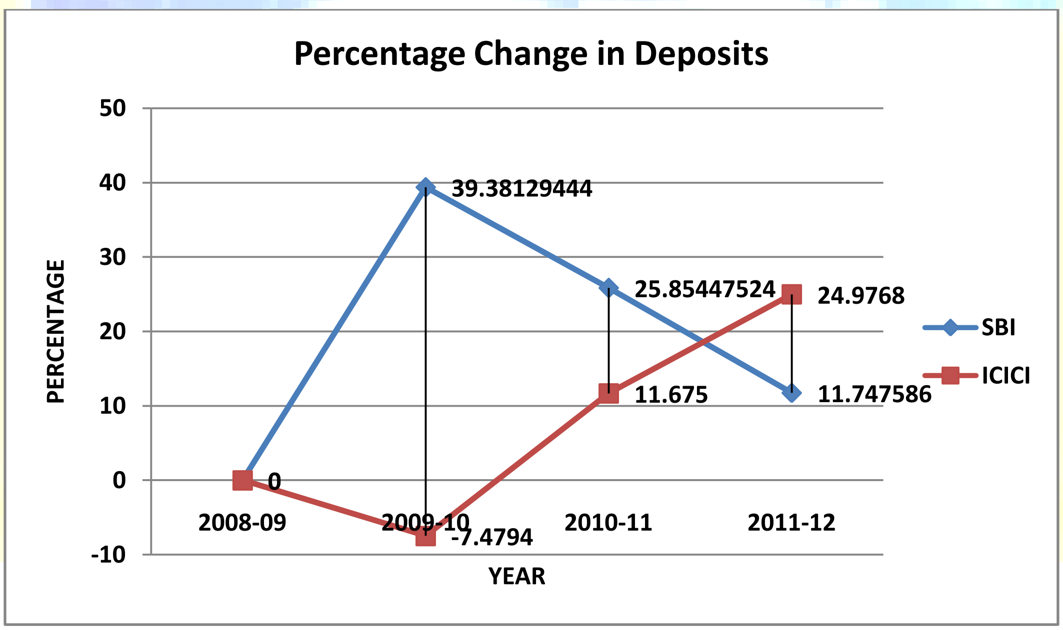


Fig.No.1.4 shows decline trend of deposits since last two financial years. Whereas opposite is the trend of India's largest private sector bank ICICI.In the year 2009-10 largest public sector bank SBI has 39.38% growth in its deposits .Whereas in case of ICICI it is negative, that to -7.47%.It is very clear cut from the picture that both bank moves in opposite direction during this four year as far as deposit is concern.

Percentage change in credit shows the year by year change in credit granted by banks. More sanctioned of credit leads to more risk as well as more return.Here, more risk implies the chance of NPA (Non-performing Assets).Credit is also a vital source of generating income. Our study is aimed at calculating the degree of changes in credit during our study period ranging from 2008-09 to 2011-12.

Table2.5 exhibits amount of credit of both SBI & ICICI starting from 2008-09 to 2011-12.

Table-2.5: Percentage change in credits

(Rs. In crores)

	Amount of Credit		Percentage Change in Credit	
YEAR	**SBI**	**ICICI**	**SBI**	**ICICI**
2008-09	416895.15	2,18,310.85	0	0
2009-10	542503.33	1,81,205.60	30.12944142	-16.9965
2010-11	756719.45	2,16,365.90	39.48660002	19.4035
2011-12	867578.89	2,53,727.66	14.65000536	17.2678

Fig.No.-1.5

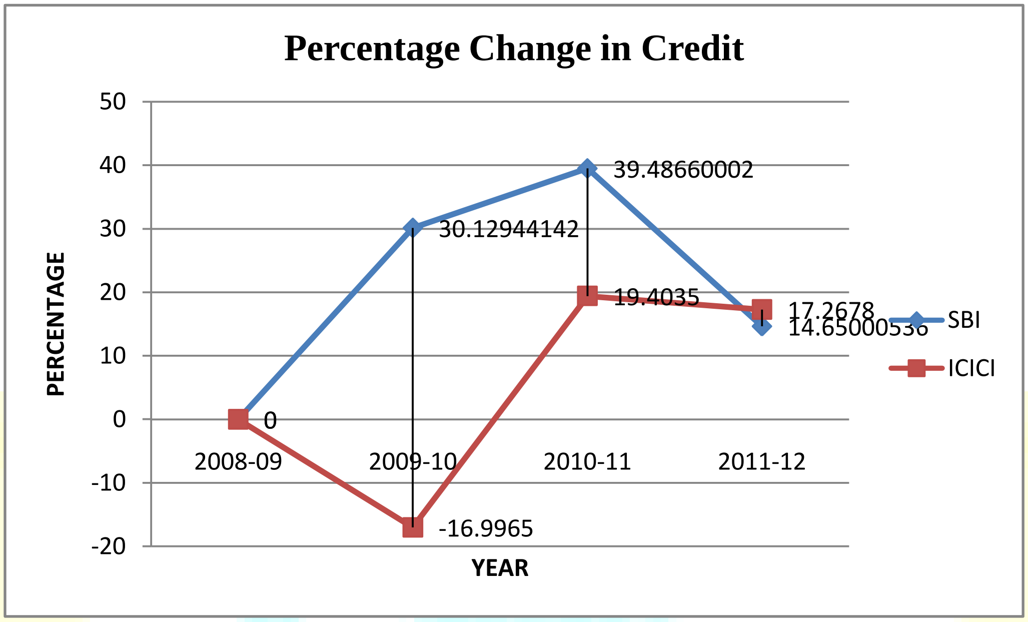


Fig.No1.5 depicts the trend of credit granted by SBI and ICICI.In the year 2009-10 ICICI was more risk averse than SBI.In that year SBI had granted 30% more credit in comparison to its previous year. Whereas ICICI granted almost 17% less credit with respect to its previous year. In the year 2010-11 both the bank increases their sanctioned amount of credit to the borrowers. In the year 2011-12 there is heavy fall in credit sanctioned by SBI, whereas ICICI shows slight fall.

Table-2.6: Percentage change in EBIT

(Rs. In crores)

	EBIT		**Percentage Change in EBIT**	
YEAR	**SBI**	**ICICI**	**SBI**	**ICICI**
2008-09	17915.23	8,925.23	0	0
2009-10	18320.91	9,732.18	2.264442042	9.0412236
2010-11	25335.57	9,047.55	38.28772697	-7.0347034
2011-12	31573.54	10,386.47	24.62139198	14.7987024

Fig.No.-1.6

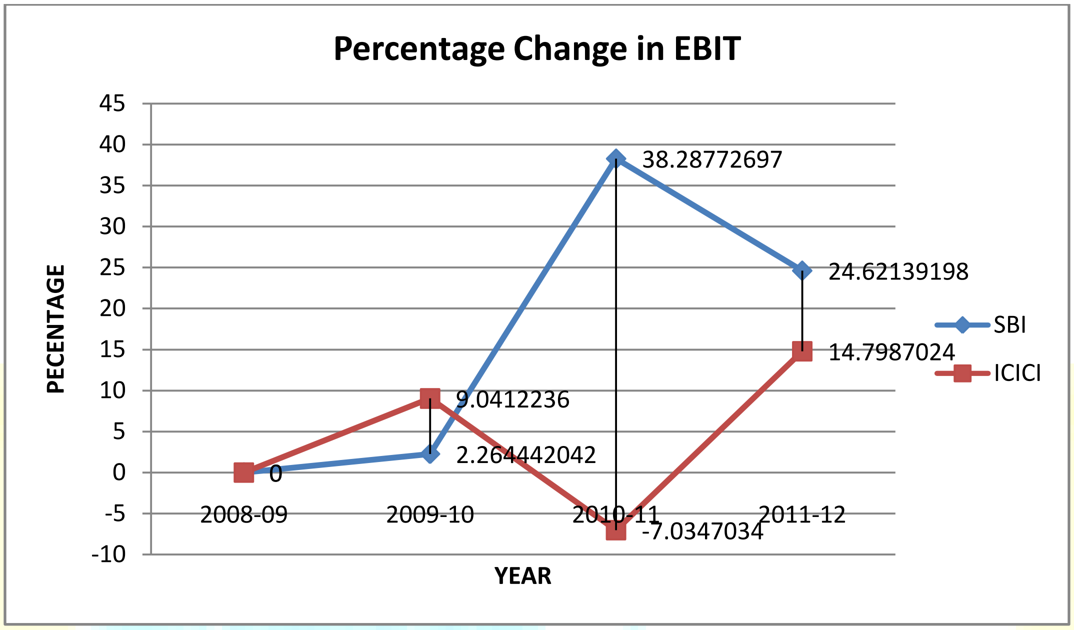


Fig.No.1.6 shows the trend of SBI and ICICI's operating profit from 2008-09 to 2011-12.This is the ultimate thing which we are searching for during this study. Both the bank have increment in their operating profit or EBIT in the year 2009-10.In the year 2010-11 SBI's operating profit increases by 38.28%, at the same time ICICI's operating profit decreases by -7.03%.At last in the year 2011-12 SBI operating profit decreases by 24.62% in comparison to the previous year. Whereas ICICI is increases by 14.80% in comparison to its previous financial year.Continiously for two year i.e.2010-11 and 2011-12 both ICICI and SBI moves in opposite direction as far as their operating profit or EBIT is concern.

FINDINGS OF THE STUDY

- As it is a comparative study it is necessary to comment on competitive advantages of one over others. Above study found out following points;
- In case of credit deposit ratio (CDR) it is found that ICICI has less liquidity position than SBI.
- ICICI bank incurs more interest than SBI which may have impact over its operating profit.
- Interest income of SBI is more than ICICI over its four year study period.

- SBI faces decline trend of deposits since last three financial years, whereas ICICI has opposite trends.
- Credit sanction trend of ICICI is very much fluctuative and SBI is declined.
- Operating profit or EBIT of both the bank moves in opposite direction, in which ICICI is positive and SBI is negative during the last financial year of our study.

CONCLUSION

The study concludes that SBI has more liquidity than ICICI in terms of its credit deposit ratio. Study of both the bank shows that there major source of income is there interest income which they receive from the borrower and their banker. Whereas their major part of expenses is interest payment. The whole study reveals that financial position of SBI is stronger than ICICI. But being a private leading bank ICICI creates more challenge before major and leading public sector bank SBI.

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