International Journal of Management, IT & Engineering
Vol. 8 Issue 11, November 2018,
ISSN: 2249-0558 Impact Factor: 7.119
Journal Homepage: http://www.ijmra.us, Email: editorijmie@gmail.com
Double-Blind Peer Reviewed Refereed Open Access International Journal - Included in the International Serial Directories Indexed & Listed at: Ulrich's Periodicals Directory ©, U.S.A., Open J-Gage as well as in Cabell's Directories of Publishing Opportunities, U.S.A

A COMPARITIVE STUDY ON FINANCIAL PERFORMANCE OF SBI AND ICICI

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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. ICICI Bank is second largest and leading bank of private sector in India. The purpose of the study is to examine the financial performance of SBI and ICICI 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 ICICI Bank on the basis of ratios such as cost to income, net profit margin etc. The period of study taken is from the year 2012-13 to 2016-17. The study found that SBI is performing well and financially sound than ICICI Bank but in context of deposits and expenditure ICICI bank has better managing efficiency than SBI.

Keywords

Cost to income ratio, Interest income to total income ratio, Other income to total income ratio, Net Profit Margin

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INTRODUCTION

The banks are the blood to economies. The economy will freeze without a sound banking system. The banking system helps the country to walk in path of growth and development. Hence a sound banking system has immense importance to strengthen an economy. For a sound banking system banks must be financially sound.

The present study is an attempt to compare the financial soundness of two big banks in Indian Banking sector i.e. State Bank of India and ICICI Bank. State Bank of India (SBI) is the largest bank among the public sector bank and ICICI bank is the largest private sector bank in India.

OBJECTIVES OF THE STUDY

1. To study the financial performance of SBI and ICICI Bank.
2. To know profitability of SBI and ICICI Bank.
3. To understand the efficiency of SBI and ICICI Bank.

STATEMENT OF PROBLEM

Performance and efficiency of commercial banks are the key elements of efficiency and efficacy of countries' financial system. The broad objective of the banking sector reforms in India has been to increase efficiency and profitability of the banks. Prior to banking reforms, the industry was a near monopoly dominated by public sector banks. However, the banking reforms a number of private and foreign banks extend the market armed with greater autonomy. This study attempts to apply Profitability ratios SBI and ICICI Bank in order to compare their performance.

NEED AND SCOPE OF THE STUDY

Financial analysis is mainly done to compare the growth, profitability and financial soundness of the respective bank by diagnosing the information contained in the financial statements. Financial analysis is done to identify the financial strengths and weaknesses of the two banks by properly establishing relationship between the items of Balance Sheet and Profit & Loss A/C. It helps in better understanding of banks financial position, growth and performance by analyzing the financial statements with various tools and evaluating the relationship between various elements of financial statements.

METHODOLOGY

Period of Study and Sources of Data

This study undertakes the comparative financial performance analysis of State Bank of India and ICICI Bank for the period of 5 years i.e., from 2012-2013 to 2016-2017. The data for this study are taken from the annual reports of State Bank of India and ICICI Bank. Since the information is based on the annual reports published by the company, the study is said to be based on the secondary data.

Sampling Method

Banking sector in India is considered one of the fastest growing financial institutions in the world. Using purposive sample, State Bank of India and ICICI Bank were selected as the sample units for the study. The sample units selected were considered one of the successful units in the banking sector.

Tools of the Study

Ratio analysis technique has been used in the course of analysis.

Cost to Income Ratio

It shows a company's costs in relation to its income. To get the ratio, divide the operating costs (administrative and fixed costs, such as salaries and property expenses, but not bad debts that have been written off) by operating income.

Cost to Income Ratio = Total Cost ÷ Total Income

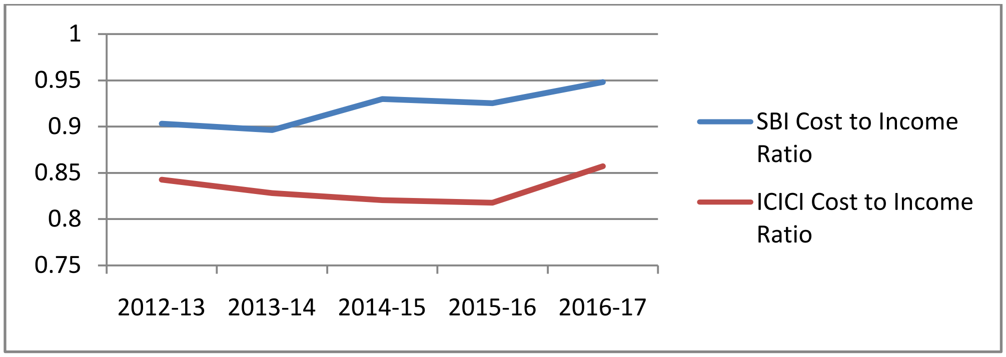
COST TO INCOME RATIO

SBI			
Year	Total Cost	Total Income	Cost to Income Ratio
2012-13	1091656105	1208728991	0.9031438
2013-14	1215869574	1356919423	0.8960514
2014-15	1440125486	1549037203	0.9296907
2015-16	1618713948	1749729668	0.9251223
2016-17	1818930125	1918436662	0.9481314

ICICI			
Year	Total Cost	Total Income	Cost to Income Ratio
2012-13	345,801,548	410,454,120	0.8424853
2013-14	400,958,254	484,212,981	0.8280618
2014-15	447,955,479	546,060,249	0.8203408
2015-16	500,919,155	612,672,704	0.8175967
2016-17	583,361,991	680,624,864	0.8570977

The lower the ratio, the more efficient the bank is performing. Though the ratio has increased to a greater extent in ICICI in the current year when compared to last year, the ratios signifies that ICICI outperforms SBI in terms of efficiency, i.e. by maintaining its Cost to Income ratio in a much lower level when compared with SBI.

COST TO INCOME RATIO



Interest Income to Total Income

Interest income refers to the major part of income generated from assets of the bank (amount lent by the bank). And total income refers to both interest earned and other income through fee charged for various other services provided by the bank. To calculate the ratio of interest income to total income, divide interest income by total income. The higher the ratio signifies that the interest forms major part of total income of the bank.

Interest Income to Total Income = Interest Income ÷ Total Income

INTEREST INCOME TO TOTAL INCOME

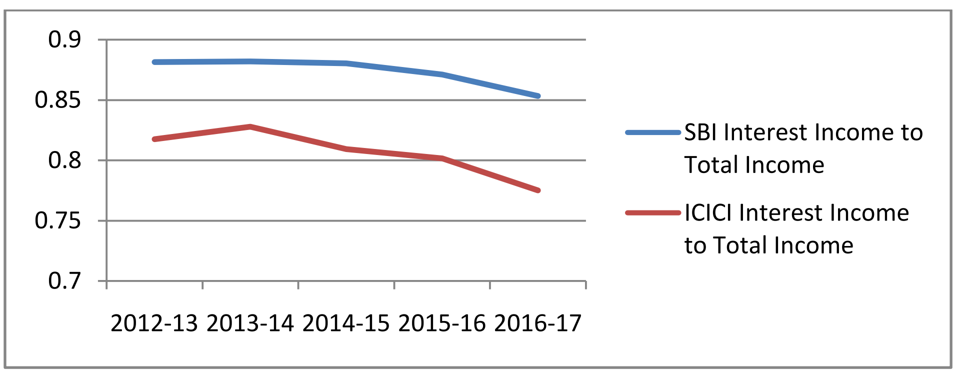
SBI			
Year	Interest Income	Total Income	Interest Income to Total Income

2012-13	1065214534	1208728991	0.8812683
2013-14	1196570990	1356919423	0.8818291
2014-15	1363508039	1549037203	0.8802294
2015-16	1523970742	1749729668	0.870975
2016-17	1636853061	1918436662	0.8532224

ICICI			
Year	Interest Income	Total Income	Interest Income to Total Income
2012-13	335,426,522	410,454,120	0.8172083
2013-14	400,755,969	484,212,981	0.827644
2014-15	441,781,528	546,060,249	0.8090344
2015-16	490,911,399	612,672,704	0.8012621
2016-17	527,394,348	680,624,864	0.7748679

The major source of revenue to the bank is interest. Interest Income to total income, higher the ratio, better the bank is utilizing its assets. Though ICICI is performing better in all others aspects, SBI has utilized its assets much better than ICICI, by lending more loans and thereby earning high interests.

INTEREST INCOME TO TOTAL INCOME



Other Income to Total Income

Fee based income accounts for a major portion of a bank's other income. A bank generates higher fee income through innovative products and adapting the technology for sustained service levels. This stream of revenue is not depended on the bank's capital adequacy and consequently, the potential to generate the income is immense. The higher ratio indicates increasing proportion of fee-based income. The ratio is also influenced by gains on government securities, which fluctuates depending on interest rate movement in the economy.

Other Income to Total Income = Other Income ÷ Total Income

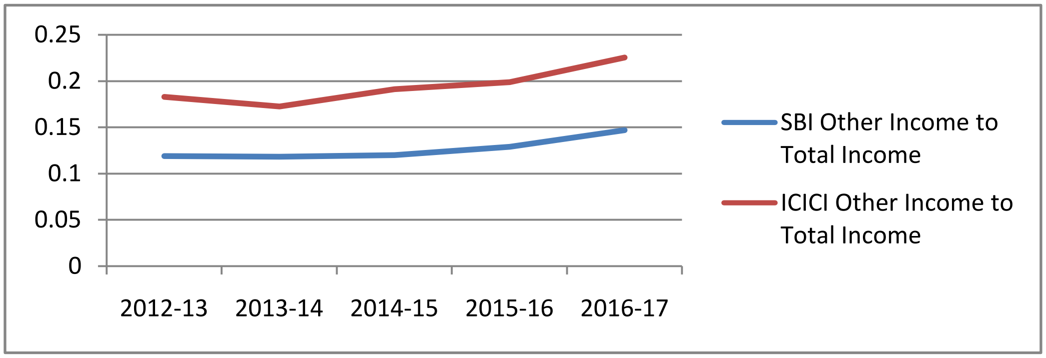
OTHER INCOME TO TOTAL INCOME

SBI			
Year	Other Income	Total Income	Other Income to Total Income
2012-13	143514457	1208728991	0.1187317
2013-14	160348433	1356919423	0.1181709
2014-15	185529164	1549037203	0.1197706
2015-16	225758926	1749729668	0.1290250
2016-17	281583601	1918436662	0.1467776

ICICI			
Year	Other Income	Total Income	Other Income to Total Income
2012-13	75,027,598	410,454,120	0.1827917
2013-14	83,457,012	484,212,981	0.172356
2014-15	104,278,721	546,060,249	0.1909656
2015-16	121,761,305	612,672,704	0.1987379
2016-17	153,230,516	680,624,864	0.2251321

Other income mainly deals with various fees, charges and penalties imposed by the bank on its customers. ICICI having a higher Other Income to Total Income ratio, thereby, creating a caution on ICICI which fails to attract its customers.

OTHER INCOME TO TOTAL INCOME



Net Profit Margin

Net profit margin is the percentage of revenue remaining after all operating expenses, interest, taxes and preferred stock dividends (but not common stock dividends) have been deducted from a company's total revenue.

Net Profit Margin = ((Total Revenue - Total Expenses) ÷ Total Revenue) × 100

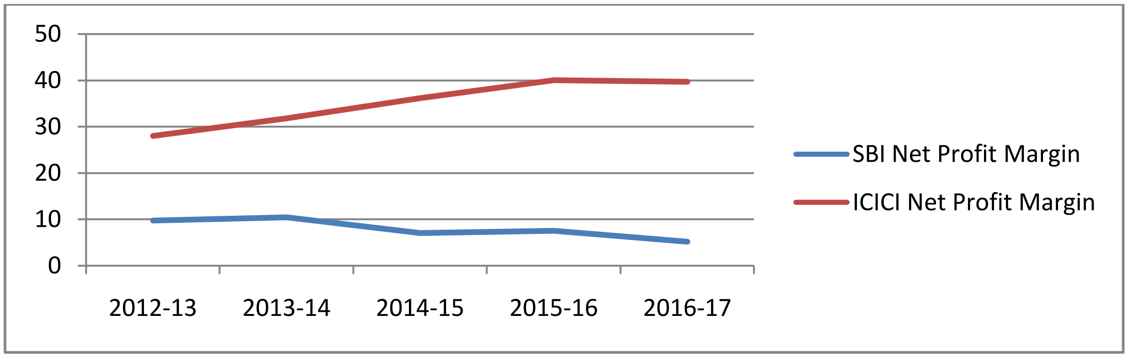
NET PROFIT MARGIN

SBI			
Year	Net Profit	Total Revenue	Net Profit Margin
2012-13	117072886	1208728991	9.6856191
2013-14	141049849	1356919423	10.394858
2014-15	108911717	1549037203	7.0309297
2015-16	131015720	1749729668	7.4877692
2016-17	99506537	1918436662	5.1868555

ICICI			
Year	Net Profit	Total Revenue	Net Profit Margin
2012-13	114,834,409	410,454,120	27.977404
2013-14	153,797,050	484,212,981	31.762273
2014-15	197,127,644	546,060,249	36.099981
2015-16	244,939,434	612,672,704	39.978839
2016-17	269,877,037	680,624,864	39.651363

Net Profit Margin is in an increasing trend in ICICI, while it keeps decreasing in SBI. This is because, Interest income have decreased in the years. Though interest income has not increased measurably in ICICI too, they have taken proper steps to cut down costs and other expenditures. They have also raised their sources of income through other fees, charges and penalties, thereby increasing the net profits. But SBI has failed to increase both interests and other incomes, and also no steps have been taken to bring down the costs.

NET PROFIT MARGIN



FINDINGS

- Interest Income to Total Income ratio has drastically reduced in both the banks.
- Other Income to Total Income ratio has increased in both the banks. The ICICI bank has a higher increase when compared to SBI which must be immediately taken into consideration by ICICI.
- Net Profit Margin is in an increasing trend in ICICI while it is decreasing drastically in SBI.

SUGGESTIONS

After analyzing the above data the following suggestion are given to improve the financial performance of the company.

- As the operating cost of both the banks has led to the reduced profits, they have to be reduced in order to increase the profits.
- The NPAs should be controlled in case of SBI to increase the profits and realize the actual returns of the loans it has lent.
- ICICI should cut down the charges it has imposed on customers so as to attract more number of customers thereby increasing the operations.

CONCLUSION

The analysis of both the banks using the various tools reveals that both the banks have performed well over the last 5 years. The banks' profits were highly satisfactory during the years. The solvency positions of the banks are fairly safe and they are fully equipped to handle all the debts. Thus the banks are in a good position and fully armed to handle all the future contingencies.

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