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Financial Performance of Indian Banking Sector: A Case Study of SBI and ICICI Bank

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ABSTRACT

Banking sector is backbone of an economy and essential for the survival of country. The finance collected from this sector works in economy as blood works in the body. The financial performance is the blue print of the financial affairs of a business concern. And, it reveals how a business has prospered under the leadership of its management. It shows the act of performing the financial activity of the organization. The present study is based on secondary data. Data of five years from 31st March, 2012 to 31st March, 2016 has been taken for the present analysis. In this study independent sample has been used for the testing of the hypotheses. In order to measure the financial performance of banking sector in India, two banks i.e. SBI and ICICI are taken into consideration and a comparative study of these two banks has been done. Current ratio, Quick ratio, Debt-Equity ratio, Interest coverage ratio, Gross Profit ratio and Net Profit ratio are calculated for this purpose. The current ratio of SBI and ICICI was not recorded according to the standard norms of CR i.e. 2:1. On the other hand, in the case of SBI and ICICI, liquid ratio was recorded very high. The liquidity position of SBI and ICICI is not recorded in a sound manner. In respect of profitability position, it was found that the NPR of SBI recorded fluctuating trend. On the other hand ICICI bank maintains stability. The solvency position of the SBI and ICICI is recorded in a sound condition. And, DER and ICR maintain uniformity. In respect of hypotheses testing, it was found that except H02, rest of the hypotheses have been rejected, which indicates that there is significant difference between current ratio, net profit ratio, debt equity ratio and interest coverage ratio of SBI and ICICI.

Keywords: Financial performance, independent sample t test, SBI and ICICI.

1. INTRODUCTION

Banking sector is backbone of an economy and essential for the survival of country. The finance collected from this sector works in economy as blood works in the body. The banking sector is characterized by various services such as account facility, ATM facility, loan facility, mutual fund facility and many other financial services. These services help a citizen to facilitate his/her work life and private life in many ways. In India the banking sector is witnessed various changes after liberalization and globalization. It was seen that after the after the reforms of 1991, many banks have entered in India. Moreover, it enhances the competition in the Indian banking sector. In the era of throat cut competition, it becomes significant to evaluate the financial performance of the banking sector of the India. Therefore, in this study one private bank i.e. ICICI and one public sector bank i.e. SBI have been taken to study the financial performance on the basis of ratio analysis and its comparison. Because, SBI is one of the leading public sector banks in India and ICICI is the second largest and leading bank of private sector in India.

ICICI Bank Profile

The Industrial Credit and Investment Corporation of India (ICICI) Bank was originally incorporated in 1955 at the initiative of the World Bank, the Government of India and representatives of Indian industry. The parent company was later merged with the bank. ICICI Bank launched internet banking operations in 1998 ICICI Bank Ltd is a major banking and financial services organization in India. They are a publicly held banking company engaged in providing a wide range of banking and financial services including commercial banking and treasury operations. The Bank and their subsidiaries offers a wide range of banking and financial services including commercial banking, retail banking, project and corporate finance, working capital finance, insurance, venture capital and private equity, investment banking, broking and treasury products and services. They offer through a variety of delivery channels and through their specialised subsidiaries in the field of investment banking, life and non-life insurance, venture capital and asset management. The Bank has a network of 2,035 branches and around 5,518 ATMs in India and presence in 18 countries. They have subsidiaries in the United Kingdom, Russia and Canada, branches in United States, Singapore, Bahrain, Hong Kong, Sri Lanka, Qatar and Dubai International Finance Centre and representative offices in United Arab Emirates, China, South Africa, Bangladesh, Thailand, Malaysia and Indonesia. The ICICI Bank has become first bank which is listed of New York Stock Exchange.

State Bank of India Profile

The origin of the State Bank of India goes back to the first decade of the nineteenth century with the establishment of the Bank of Calcutta in Calcutta on 2 June 1806. Three years later, the bank received its charter and was re-designed as the Bank of Bengal (2 January 1809). A unique institution, it was the first joint-stock bank of British India sponsored by the Government of Bengal. The Bank of Bombay (15 April 1840) and the Bank of Madras (1 July 1843) followed the Bank of Bengal. These three banks remained at the apex of modern banking in India till their amalgamation as the Imperial Bank of India on 27 January 1921.

Primarily Anglo-Indian creations, the three presidency banks came into existence either as a result of the compulsions of imperial finance or by the felt needs of local European commerce and were not imposed from outside in an arbitrary manner to modernise India's economy. Their evolution was, however, shaped by ideas culled from similar developments in Europe and England, and was influenced by changes occurring in the structure of both the local trading environment and those in the relations of the Indian economy to the economy of Europe and the global economic framework.

The establishment of the Bank of Bengal marked the advent of limited liability, joint-stock banking in India. So was the associated innovation in banking, viz. the decision to allow the Bank of Bengal to issue notes, which would be accepted for payment of public revenues within a restricted geographical area. This right of note issue was very valuable not only for the Bank of Bengal but also its two siblings, the Banks of Bombay and Madras. It meant an accretion to the capital of the banks, a capital on which the proprietors did not have to pay any interest. The concept of deposit banking was also an innovation because the practice of accepting money for safekeeping (and in some cases, even investment on behalf of the clients) by the indigenous bankers had not spread as a general habit in most parts of India. But, for a long time, and especially up-to the time that the three presidency banks had a right of note issue, bank notes and government balances made up the bulk of the investible resources of the banks.

The three banks were governed by royal charters, which were revised from time to time. Each charter provided for a share capital, four-fifth of which were privately subscribed and the rest owned by the provincial government. The members of the board of directors, which managed the affairs of each bank, were mostly proprietary directors representing the large European managing agency houses in India. The rest were government nominees, invariably civil servants, one of whom was elected as the president of the board. State Bank of India (SBI) is an Indian

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multinational, public sector banking and financial services company. It is a government-owned corporation with its headquarters in Mumbai, Maharashtra. As of 2016-17, it had assets of □30.72 trillion (US$460 billion) and more than 14,000 branches, including 191 foreign offices spread across 36 countries, making it the largest banking and financial services company in India by assets. The company is ranked 232nd on the Fortune Global 500 list of the world's biggest corporations as of 2016.

2. FINANCIAL PERFORMANCE

The financial performance is the blue print of the financial affairs of a business concern. And, it reveals how a business has prospered under the leadership of its management. It shows the act of performing the financial activity of the organization. In other words, we can say that the financial objective of the firm has been achieved or not. The financial performance is also useful for the measurement of the overall financial health of the organization over a given period of time. This technique is also play a vital role for the comparison with other industry. Therefore, financial statements are significant analytical tools for the manager of the business. Moreover, the finance is the base for every business activities. Hence, it is essential to analyze the financial performance of the company with their financial statement. In order to know the financial performance the following ratios are calculated:

Liquidity Ratio:

The liquidity refers to the ability of a business concern to meet its current obligations without any delay.

Current Ratio:

It is calculated by dividing the current assets by current liabilities. It measures the short term financial condition of the firm. The ratio of 2 to 1 is considered satisfactory for the organization.

Current Ratio = Current Assets / Current Liabilities

Quick Ratio:

The quick ratio indicates the relationship between liquid assets and current liabilities. An asset is liquid if it can be converted into cash immediately. Generally, a quick ratio of 1 to 1 is considered to represent a satisfactory current financial condition.

Quick Ratio = Current Assets – (Stock + Prepaid Expenses) / Current Liabilities

Solvency Ratio:

The word "solvency" refers to the ability of a concern to meet its long term debts or obligations.

Debt-Equity Ratio:

The debt-equity ratio indicates what proportion of debt and equity is using to finance its assets. The debt-equity ratio is also known as external to internal equity ratio.

Debt-Equity Ratio = Debt / Equity

Interest Coverage Ratio:

This ratio measures the firm's ability to make contractual interest payments. It defines the relationship between operating profit or earnings before interest and taxes to fixed interest charges on loan (Khan and Jain 2005).

Interest Coverage Ratio = EBIT / Interest Charges

Profitability Ratios:

The profitability of a company can be defined as its capability to generate income which exceeds its liabilities. The profitability is defined as a substitution of financial performance. And, it is one of the main objectives of the management of the organization.

Gross Profit Ratio:

It defines the relationship between gross profits to net sales.

Gross Profit Ratio = Gross Profit / Net Sales x 100

Net Profit Ratio:

The net profit explains the association between net profit after tax and net sales of the firm. Moreover, it indicates the efficiency of the management of the company in terms of manufacturing, selling, administrative and the different activities of the firm.

Net Profit Ratio = Net Profit after Tax / Net Sales x 100

Review of Literature

Singh and Tandon (2012) in their paper entitled, "A Study of Financial Performance: A Comparative Analysis of SBI and ICICI Bank", judged the financial performance of SBI and ICICI Bank, public and private sector respectively. For the study, researchers have taken the variables like credit deposit and net profit margin etc. The period of study taken is from the year 2007-08 to 2011-12. It was found that SBI is performing well and financially sound than ICICI Bank but in context of deposits and expenditure ICICI bank has better management efficiency than SBI.

A research paper written by **Tirkeyi and Salem** (2013) entitled, "A Comparative Study of Financial Statement of ICICI and HDFC through Ratio Analysis", examined the financial position with the use of different ratios. It was fund that financial position of ICICI is much better than the HDFC. A research paper authored by **Gupta** (2014) entitled, "An empirical study of financial performance of ICICI bank- a Comparative analysis", focused on operational control, profitability and solvency etc. This research paper aimed to analyse and compare the financial performance of ICICI Bank and offer suggestions for the improvement of efficiency in the bank. This study suggested that NPAs of the ICICI bank is more than 1 per cent. Therefore, ICICI should control NPAs otherwise; it affects the asset quality in long run. A research paper authored by **Yameen and Ahmad (2015)** entitled, "Impact of Corporate Governance Practices on Financial Performance of Hindustan Petroleum Corporation Limited". They have tested the role corporate governance practices for the improvement of the operating performance, financial

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efficiency and shareholder's wealth in the organization. And, also found that that the corporate governance has positive impact on the overall financial performance of Hindustan Petroleum Corporation Limited.

A research paper authored by **Ahmad (2016)** entitled, "Analysis of Financial Performance of Hindustan Petroleum Corporation Limited". The current study is based on secondary source of information. This study covers the data of fifteen financial years from 2000- 01 to 2014-15 for the study of financial performance of Hindustan Petroleum Corporation Limited Since 2000.The main emphasis in this study has been given to evaluate the financial performance of Hindustan Petroleum Corporation Limited with respect to measure the impact of liquidity, solvency and efficiency ratio on return on capital employed. In this study, researcher analysed the impact of liquidity, solvency and efficiency ratio on return on investment. Moreover, for testing the hypotheses of the study researcher run multiple regression analysis on SPSS. A research paper written by **Jaiswal and Jain (2016)** entitled, "A Comparative Study of Financial Performance of SBI and ICICI Banks in India". This study examines the financial performance of Indian banks with the help of CAMEL Model. This study compare the financial performance of SBI and ICICI from 2010-11 to 2014-15. The authors suggested that SBI is performing well as compare to the ICICI bank. Furthermore, it was found that the market position of SBI is better than ICICI in terms to earning per share, price ratio per share and dividend payout ratio, but on the other hand ICICI bank is performing well in terms of NPA and provision for NPA in comparison of SBI bank.

3. RESEARCH GAP

From the above review of empirical works, it is clear that the researcher has approached the various aspects of analysis of financial performance. The survey of various review of literature indicates that, many studies have been conducted to analysis the financial performance of banking sector. But, researcher couldn't come to across to compare the financial ratios of SBI and ICICI with the help of statistical tools. Therefore, to cover the gap in the earlier studies, the present is undertaken to give an insight into the financial performance of SBI and ICICI by attempting to offer a detailed examination of the profitability, liquidity and solvency.

4. RESEARCH METHODOLOGY

This study is based on secondary data. Researcher has taken the data of five years from 31st March, 2012 to 31st March, 2016 for analysing the Financial Performance of Banking Sector of India. In this study independent sample has been used for the testing of the hypotheses. In order to measure the comparative study between SBI and ICICI, researcher has taken current ratio, quick ratio, debt-equity ratio, interest coverage ratio, gross profit ratio and net profit ratio.

Objectives of the Study

- To study the liquidity position of SBI and ICICI.
- To analyse the solvency position of SBI and ICICI.
- To examine the profitability of SBI and ICICI.

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Limitations of the Study

1. The present study is based on secondary source of information.
2. In the present study all the aspects of financial performance are not taken into account.
3. The data has been arranged as per their own requirements.
4. The present study covers the period of five years only.
5. This study covers SBI and ICICI Bank only.

5. HYPOTHESES OF THE STUDY

$H_0$1: There is no significant difference between the current ratio of SBI and ICICI.

$H_0$2: There is no significant difference between the liquid ratio of SBI and ICICI.

$H_0$3: There is no significant difference between the debt equity of SBI and ICICI**.**

$H_0$4 There is no significant difference between the interest coverage ratio of SBI and ICICI.

$H_0$5: There is no significant difference between the net profit ratio of SBI and ICICI.

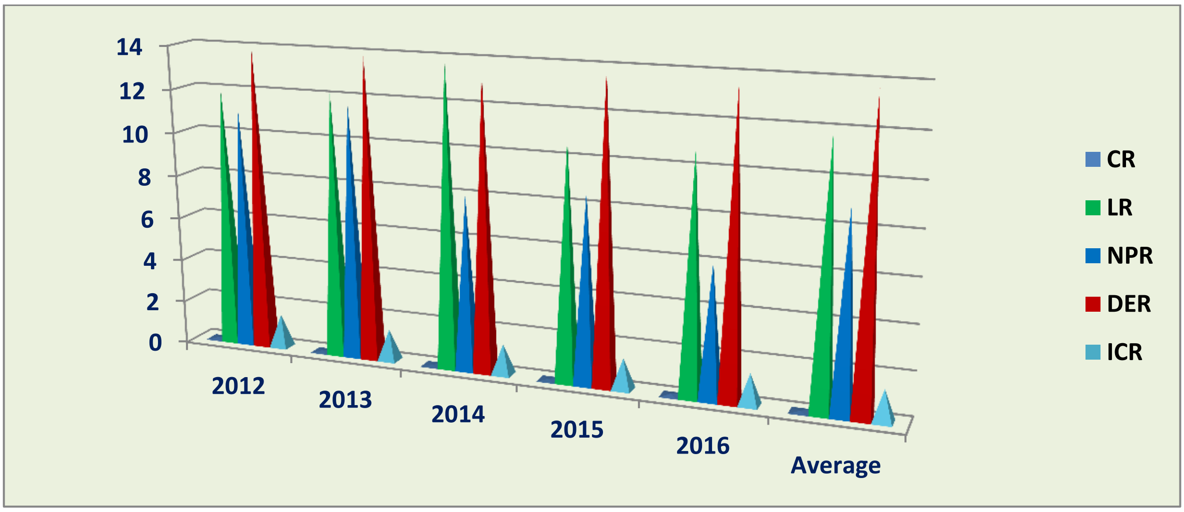
DATA ANALYSIS AND INTERPRETATION

Table 1.1: Ratios of SBI

Year	**CR**	**LR**	**NPR**	**DER**	**ICR**
2012	0.05	12.05	10.99	13.94	1.52
2013	0.04	12.15	11.78	13.87	1.43
2014	0.03	13.88	7.98	13.34	1.38
2015	0.04	10.78	8.59	13.87	1.41
2016	0.07	10.84	6.07	13.55	1.42
Average	**0.046**	**11.94**	**9.08**	**13.714**	**1.432**

Source: Money control Website

Figure 1.1



Source: Table 1.1 by using MS-Excel

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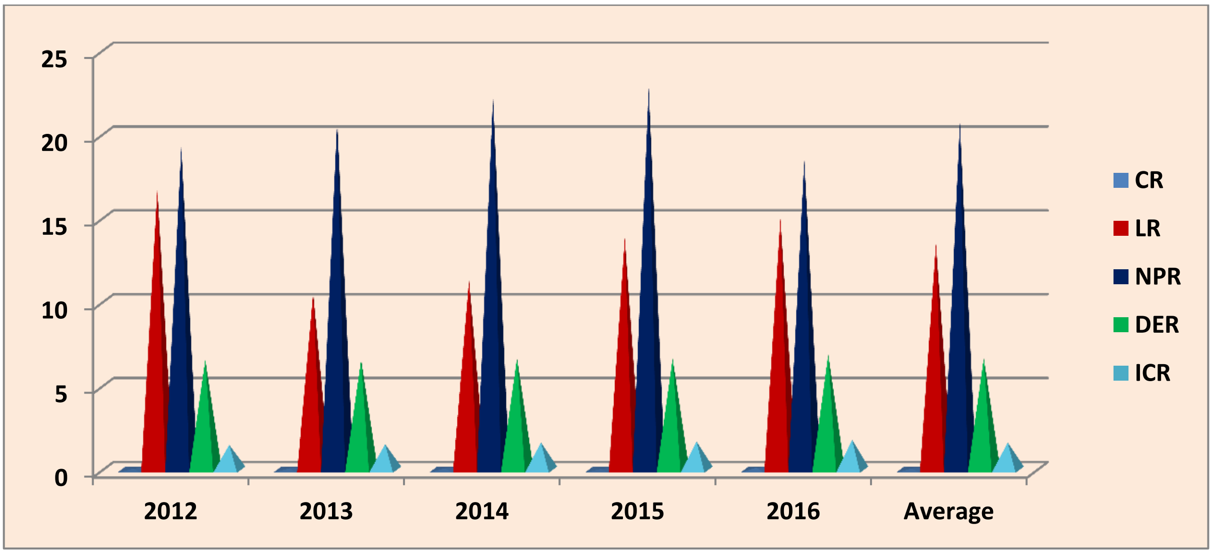
The above table and figure 1.1 reveals the liquidity position, solvency position and profitability of State Bank of India. The above table and figures highlights that the average ratio of CR is recorded higher than CR of different years. Moreover, the current ratio of SBI was not recorded according to the standard norms of CR i.e. 2:1. On the other hand the LR was recorded very high. The liquidity position of the company is not recorded sound. In respect of profitability position, it was found that the NPR of SBI recorded fluctuating trend. Furthermore, in the year 2014, 2015 and 2016 the NPR was recorded below the average profit of five years. The solvency position of the SBI is recorded in a sound condition. And, DER and ICR maintain uniformity.

Table 1.2: Ratios of ICICI

Year	**CR**	**LR**	**NPR**	**DER**	**ICR**
2012	0.07	16.71	19.27	6.55	1.48
2013	0.09	10.53	20.77	6.57	1.52
2014	0.09	11.31	22.20	6.65	1.62
2015	0.06	13.81	22.76	6.64	1.68
2016	0.13	14.97	18.44	6.86	1.78
Average	**0.088**	**13.466**	**20.688**	**6.654**	**1.616**

Source: Money control Website

Figure 1.2



Source: Table 1.1 by using MS-Excel

The above table and figures highlights the liquidity position, solvency position and profitability of ICICI. It reveals that the average ratio of CR is recorded higher than CR of different years i.e. 0.088. Moreover, the current ratio of ICICI was not recorded according to the standard norms of CR i.e. 2:1. On the other hand the LR was recorded very high. The liquidity position of the company is not recorded sound because in the case of CR it couldn't record more

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than the current assets. And, in the case of LR it was recorded very high. In respect of profitability position, it was found that the NPR of ICICI recorded uniform trend. Furthermore, in the year 2014 and 2015 the NPR was recorded higher than the average net profit ratio of five years. The solvency position of the ICICI is recorded in a sound condition. And, DER and ICR maintain uniformity.

Results of Hypotheses Testing

$H_0$1: Rejected: There is significance difference

$H_0$2: Accepted: There is no significance difference

$H_0$3: Rejected: There is significance difference

$H_0$4: Rejected: There is significance difference

$H_0$5: Rejected: There is significance difference

Findings of the Study

The current ratio of SBI and ICICI was not recorded according to the standard norms of CR i.e. 2:1. On the other hand, in the case of SBI and ICICI, liquid ratio was recorded very high.

The liquidity position of SBI and ICICI is not recorded in a sound manner. In respect of profitability position, it was found that the NPR of SBI recorded fluctuating trend.

On the other hand ICICI bank maintains stability. The solvency position of the SBI and ICICI is recorded in a sound condition. And, DER and ICR maintain uniformity.

In respect of hypotheses testing, it was found that except $H_0$2, rest of the hypotheses have been rejected, which indicates that there is significance difference between current ratio, net profit ratio, debt equity ratio and interest coverage ratio of SBI and ICICI.

6. CONCLUSION

This study covers the period of five years of SBI and ICICI. Moreover, this study ignores the non-financial aspects of both the banks. Both the banks may focus on to improve the profitability position. During the study, it was found that the SBI recorded fluctuating trend on the other hand ICICI failed to manage the increasing trend.

SUGGESTIONS OF THE STUDY

In order to improve the financial positions of the banks few suggestions are underlined:

a) The SBI and ICICI should improve their liquidity positions either increase current assets or reduce current liabilities.

b) In respect of profitability position, it was found that the NPR of SBI recorded fluctuating trend. Therefore, SBI may focus on to improve NPR by way of reducing indirect expenses.

Abbreviation

CR = Current Ratio

LR = Liquid Ratio

NPR = Net Profit Ratio

DER = Debt Equity Ratio

ICR = Interest Coverage Ratio

SBI = State Bank of India

ICICI = Industrial Credit and Investment Corporation of India

SPSS = Statistical Packages for the Social Sciences

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www.sbi.com

www.icici.com

APPENDIX

RESULTS OF INDEPENDENT T TEST

Group Statistics

	group	N	Mean	Std. Deviation	Std. Error Mean
Score	1	5	.0460	.01517	.00678
	2	5	.0880	.02683	.01200

Independent Samples Test

		Levene's Test for Equality of Variances		t-test for Equality of Means						
		F	Sig.	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	95% Confidence Interval of the Difference	
									Lower	Upper
score	Equal variances assumed	.701	.427	-3.047	8	.016	-.04200	.01378	-.07379	-.01021
	Equal variances not assumed			-3.047	6.319	.021	-.04200	.01378	-.07532	-.00868

Group Statistics

	group	N	Mean	Std. Deviation	Std. Error Mean
Score	1	5	11.9400	1.26248	.56460
	2	5	13.4660	2.55794	1.14395

Independent Samples Test

		Levene's Test for Equality of Variances		t-test for Equality of Means						
		F	Sig.	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	95% Confidence Interval of the Difference	
									Lower	Upper
score	Equal variances assumed	3.325	.106	-1.196	8	.266	-1.52600	1.27569	-4.46775	1.41575
	Equal variances not assumed			-1.196	5.840	.278	-1.52600	1.27569	-4.66841	1.61641

Group Statistics

	group	N	Mean	Std. Deviation	Std. Error Mean
Score	1	5	9.0820	2.31561	1.03557
	2	5	20.6880	1.84731	.82614

Independent Samples Test

		Levene's Test for Equality of Variances		t-test for Equality of Means						
		F	Sig.	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	95% Confidence Interval of the Difference	
									Lower	Upper
score	Equal variances assumed	.383	.553	-8.761	8	.000	-11.60600	1.32474	-14.66085	-8.55115
	Equal variances not assumed			-8.761	7.624	.000	-11.60600	1.32474	-14.68730	-8.52470

Group Statistics

	group	N	Mean	Std. Deviation	Std. Error Mean
Score	1	5	13.7140	.25813	.11544
	2	5	6.6540	.12300	.05501

Independent Samples Test

		Levene's Test for Equality of Variances		t-test for Equality of Means						
		F	Sig.	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	95% Confidence Interval of the Difference	
									Lower	Upper
score	Equal variances assumed	5.732	.044	55.210	8	.000	7.06000	.12787	6.76512	7.35488
	Equal variances not assumed			55.210	5.728	.000	7.06000	.12787	6.74346	7.37654

Group Statistics

	group	N	Mean	Std. Deviation	Std. Error Mean
score	1	5	1.4320	.05263	.02354
	2	5	1.6160	.12116	.05418

Independent Samples Test

		Levene's Test for Equality of Variances		t-test for Equality of Means						
		F	Sig.	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	95% Confidence Interval of the Difference	
									Lower	Upper
score	Equal variances assumed	3.230	.110	-3.115	8	.014	-.18400	.05908	-.32023	-.04777
	Equal variances not assumed			-3.115	5.458	.023	-.18400	.05908	-.33211	-.03589