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A COMPARATIVE ANALYSIS OF FINANCIAL PERFORMANCE OF PUBLIC AND PRIVATE SECTOR BANKS WITH SPECIAL REFERENCE TO SBI AND IDFC FIRST BANK

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ABSTRACT

The present study aims at analyzing the efficiency among the Top two India's Best Banks. The main objective of this paper is to evaluate the financial performance of State Bank of India which is a public sector bank and IDFC First bank which is a private sector banks in India. This study has evaluated the various factors influencing the efficiency of the two banks using ratios and statistical tools. The study has used secondary data for period of five years from 2019-20 to 2023-24 to compare the financial performance by using selected parameters namely dividend per share, return on asset, total income, net profit, cash margin, credit deposit ratio, cash deposit ratio operating profit etc.. The study found that in respect of most of parameters the performance of IDFC first bank was better than SBI. There is no significant difference between the two banks in respect to net profits and Return on net worth

Keywords: Financial Performance, Public Sector, Private Sector, Net Profit, Operating Profit.

1. INTRODUCTION

Indian banking is the lifeline of the nation and its people. Banking has helped in developing the vital sectors of the economy and usher in a new dawn of progress on the Indian horizon. The sector has translated the hopes and aspirations of millions of people into reality. But to do so, it has had to control miles and miles of difficult terrain, suffer the indignities of foreign rule and the pangs of partition. Today, Indian banks can confidently compete with modern banks of the world. Credit, market and liquidity risk studies suggest that Indian banks are generally resilient and have withstood the global downturn well.

The Indian banking industry has recently witnessed the rollout of innovative banking models like payments and small finance banks. In recent years India has also focused on increasing its banking sector reach, through various schemes like the Pradhan Mantri Jan Dhan Yojana and Post payment banks. Schemes like these coupled with major banking sector reforms like digital payments, neo-banking, a rise of Indian NBFCs and fintech have significantly enhanced India's financial inclusion and helped fuel the credit cycle in the country.

The Indian banking system currently consists of 12 public sector banks, 21 private sector banks, 44 foreign banks, 12 Small finance banks. Public Sector Banks are the banks whose majority of stakes are held by the state or central government. The government is responsible for formulating all the financial guidelines for these banks. These banks work under the government and thus they are trustworthy. Public sector banks work for the benefit of people by introducing new schemes from time to time and also charge less for their services. The charges on loans are also less as compared to private sector banks. The biggest public sector bank in India is the State Bank of India. Private Sector Banks are the banks whose stakes are held by private companies or maybe by an individual. Despite being owned by private companies or individuals, these banks have to follow the rules and regulations of the central bank. These banks provide good services and are efficient. Private sector banks provide numerous excellent services but at an additional cost. However both are essential to cater to the diverse needs of the country's people. This study is attempt to evaluate the financial performance of selected public and private sector banks in India on the basis of selected parameters namely return on asset, total income, net profit, net interest income and operating profit.

2. REVIEW OF LITERATURE

Amitava Mandal, Santanu Kumar Ghosh,(2012), 'Intellectual Capital and Financial Performance of Indian Banks', made an attempt to investigate empirically the relationship between intellectual capital and financial performance of 65 Indian banks for a period of ten years from 1999 to 2008. The analysis indicates that the relationships between the performance of a bank's intellectual capital, and financial performance indicators, namely profitability and productivity, are varied. The study results suggest that banks‟ intellectual capital is vital for their competitive advantage. George, Sajeev Abraham, Chattopadhyay,(2012), an Investigative Study of Operational Performance and Service Quality of Indian Public Sector Banks, presents information on an investigative study of the service quality and operational performance of the public sector banks in India. It informs that from the onset of the economic liberalization in 1990 the public sector banks in the country are facing a stiff competition from the private sector banks and the other foreign banks. It further informs that in spite of the fact of this competition the majority of the shares in this sector belong to public sector banks.

Dash, Mihir Charles, Christabel, (Nov 2017), 'An Analysis of Technical Efficiency of Banks in India', investigates the technical efficiency of Indian banks, segmented in terms of ownership. For this purpose, the Data Envelopment Analysis (DEA) model was used with five input variables (borrowings, deposits, fixed assets, net worth, and operating expenses) and four output variables (advances and loans, investments, net interest income, and non-interest income), and the efficiency scores were calculated for a sample of 49 major banks operating in India. The findings of the study help in identifying the inputs and outputs that each of the banks would need to control and streamline to enhance their efficiency.

Pankaj Gupta and Seema Garg,(July – Dec 2011), Measuring Technical Efficiency of Commercial Banks through Data Envelopment Analysis, states that it is due to fierce competition with financial corporate, banks have to use various performance measurement tools to improve the quality of their services. The study seeks to examine the competitiveness of Commercial banks in India. For this purpose, the study investigates analyses and compares the efficiency of 49 Commercial Banks by employing the Data Envelopment Analysis (DEA) resulting in the delineation and identification of the causes of inadequate performance. The performance of Commercial banks in India for private and public sectors is also measured using the non-parametric techniques. Constant returns to scale and variable returns to scale, DEA Models are used for the analysis. The impact of scale on the efficiency scores is also assessed. The study reveals that there is a variation in the technical efficiency and the scale efficiency of most of the banks.

P. K. Mishra, (Jan-June 2011), Economic Growth and the performance of Public and Private Sector Banks in India, attempts to analyze the impact of growth of Indian economy on the performance of public and private sector banks of the country. The results suggest that the growth of Indian economy is significant in explaining the performance of public and private sector banks. This result is in line with the "Demand – following" hypothesis. Thus, the outlook is that the planners and policy makers should architect prudential norms in line with international standards and best practices to ensure sustainable development of the Indian Banking System.

Verma, Richa, (Apr 2011), Performance of Scheduled Commercial Banks in India, attempt to evaluate the productive efficiency of Scheduled Commercial Banks (SCBs) operating in India. To judge the efficiency of banks, interest expenses and non-interest expenses (operating expenses) are considered as input variables and deposits, advances, investments and spread as outputs. The paper analyzed the efficiency of 88 SCBs with the dataset ranging from the year 1998-99 to 2007-08. The results of the study indicate that the scheduled commercial banks need a lot of improvement in their efficiency level, as at the most only 42.9 percent public sector banks, 40 percent private sector banks and 42.9 percent foreign banks were found efficient in a year during the study period. The results indicate that the public sector and foreign banks need to take steps to reduce the expenses and improve the output at the given input level because they have failed to acquire full efficiency score in six and five years, respectively, out of the ten years under study.

Xuezhi Qin, Dickson Pastory, (July 2012), 'Commercial Banks Profitability Position: The case of Tanzania', examine commercial banks profitability in Tanzania for the period of ten years (2000-2009).The study used National Microfinance Bank (NMB), National Bank of Commerce (NBC) and CRDB as the case study. The study employed the profitability measures of commercial banks, and the evidence of performance in terms of profitability was established based on return on average asset, net interest income to average bearing assets and non-interest expenses to average assets. The findings revealed that there is no significant difference on profitability among the commercial banks, in the context of regression model it has been noted that liquidity and asset quality has positive impact in profitability with exception to the level of nonperforming loans which has a negative influence on profitability. Also capital adequacy has shown negative impact on profitability. The study confirmed the profitability of commercial banks to stable and meeting the regulatory requirement of the Bank of Tanzania (BOT).

Though Indian Banking is above the global meltdown, there have been significant shift in the Indian Banks which could affect in a slowdown of India's aggressive growth plans. This situation requires an in depth study of efficiency of the banks and factors responsible for success and failure of banks. The present study aims at analyzing the efficiency among the Top two India's Best Banks. This study has evaluated the various factors influencing the efficiency of the two banks using ratios and statistical tools.

3. PROFILE OF SBI AND IDFC FIRST BANK

The State Bank of India (SBI) is an Indian multinational, public sector banking and financial services statutory body. It is a government corporation statutory body headquartered in Mumbai, Maharashtra. SBI is ranked as 216th in the Fortune Global 500 list of the world's biggest corporations of 2018.It is the largest bank in India with a 23% market share in assets, besides a share of one-fourth of the total loan and deposits market. As per recent data the bank has more than 13,000 outlets and 25,000 ATM centers. The bank has its presence in 32 countries engaging currency trade all over the world.

IDFC first bank has a customer-first philosophy offering high-quality products including current accounts, savings accounts, fixed deposits, home loans, auto loans, consumer loans, small business loans, gold loans, education loans, corporate banking, cash management solutions, FASTag, wealth management, and 24/7 customer care services. It offers Zero fees for 28 essential services on savings accounts including for ATM cash withdrawals, IMPS, RTGS, NEFT, Cash Deposits and Cash withdrawals at branches, SMS Alerts, Cheque book, Demand Drafts, Pay-order, duplicate statements, etc. The bank's credit cards have unique features such as lifetime free, never-expiring rewards points, and zero interest on cash withdrawal at ATMs and low APR. IDFC FIRST Bank has transformed from infrastructure to retail banking in four years since merger, increasing CASA ratio from 8.6% to 49.77% (March 31, 2023) and increased retail deposits from 27% to 76% of total deposits, and set up 809 branches and 925 ATMs. The Bank recorded a PAT of Rs. 2437 crore (US$ 301 million) in FY23, with strong Capital Adequacy of 16.82%.

4. OBJECTIVES OF STUDY

- To analyze the Financial Performance of SBI and IDFC FIRST Bank.
- To compare the Financial Performance of SBI and IDFC FIRST Bank.
- To offer suggestions for the improvement of efficiency in SBI and IDFC FIRST Bank.

5. RESEARCH METHODOLOGY

Sample

A sample size of one public sector bank (State Bank of India), and one private sector bank (IDFC First Bank) has been selected for the study.

Time period of the study

The total time period of the study was 5 years, i.e. 2019-20 to2023-24.

Method of Data Collection

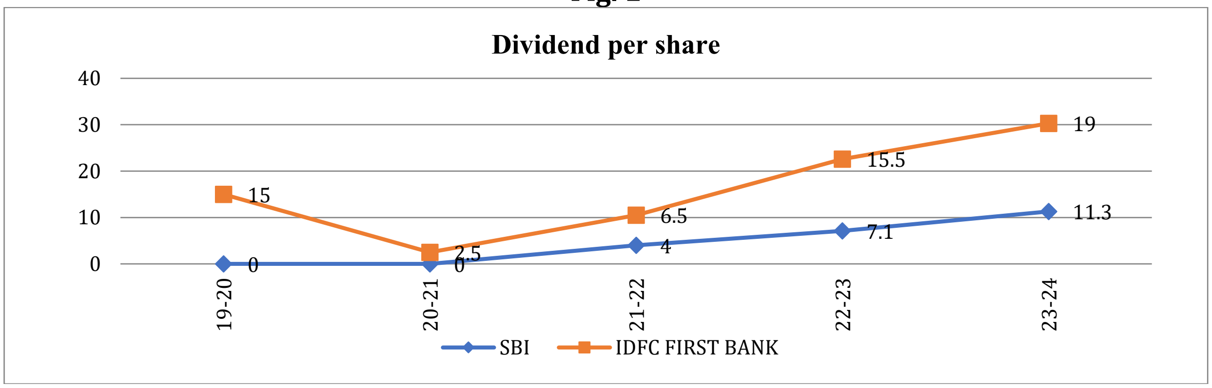
The study has used only secondary data that was collected from research articles, books related and thesis works already done on the topic and particularly from annual reports of SBI and IDFC FIRST Bank.

6. ANALYSIS AND INTERPRETATION OF DATA

The study was based on secondary data taken the annual reports of the SBI and IDFC FIRST Bank for the period from 2019-20 to 2023-24. In this study, the financial performance of SBI AND IDFC FIRST BANK was critically analyzed with the help of various bank ratios.

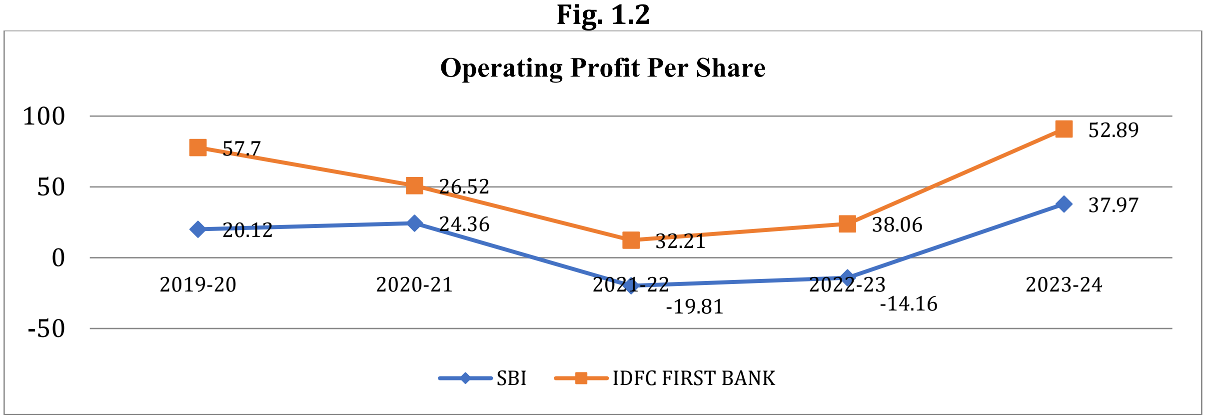
INVESTMENT VALUATION RATIOS

Fig. 1



Source: Annual Reports

Fig. 1.2



Source: Annual Reports

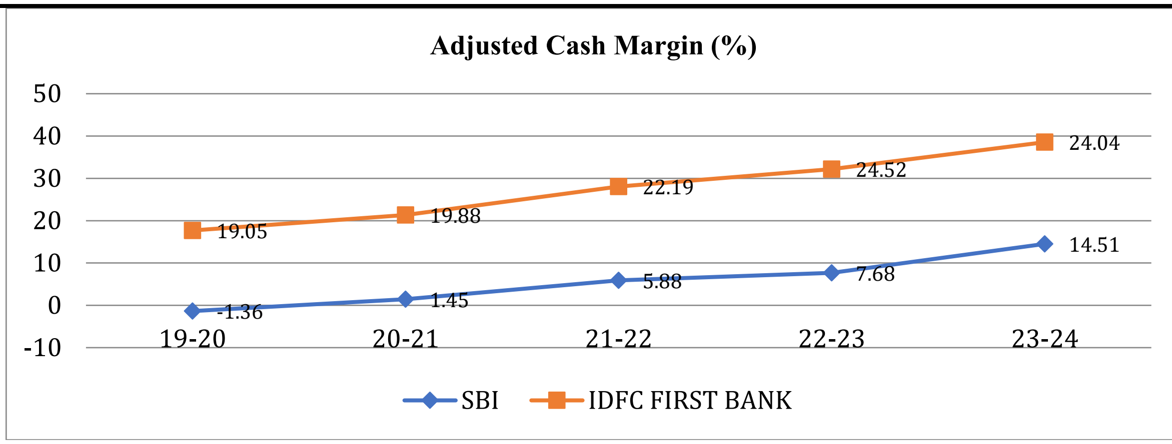
Inference

It can be inferred from the chart that Dividend per share of SBI Bank reported a mixed trend in all the years as in the past 12 months, State Bank of India has declared an equity dividend amounting to Rs 7.10 per share in 2022-23 and 11.30 in 2023-24 and the dividend per share of IDFC FIRST Bank also reported 6.50 in 2021-22 and increasing to 15.50 and 19 per share in 2022-23 and 2023-24 respectively. The Operating Profit Per Share of SBI Bank reported a mixed trend in all the years while the Operating Profit Per Share of IDFC FIRST Bank reported a positive growth in all the years. It increases from 32.21 in 20220-21 to 52.89 in 2023-24.

PROFITABILITY RATIO

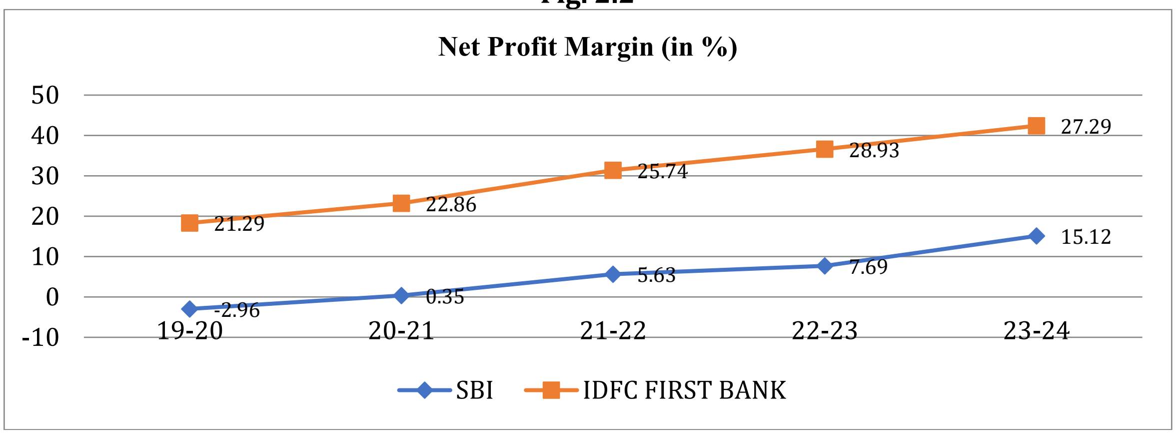
Profitability ratios in terms of Adjusted cash flow margin, Net profit margin, Return on net worth and Adjusted return on Net worth were analysed for both IDFC First Bank and SBI.

Fig 2.1



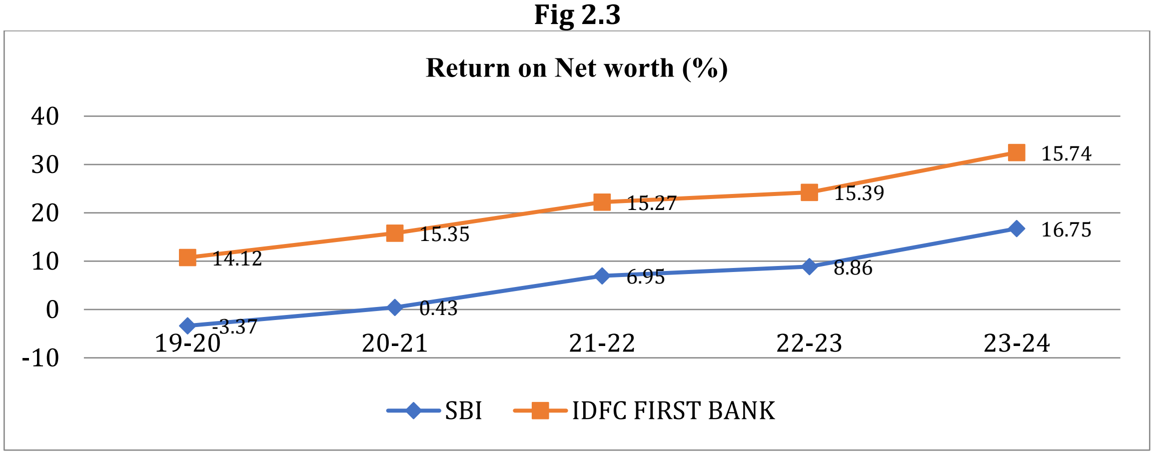
Source: Annual Reports

Fig. 2.2



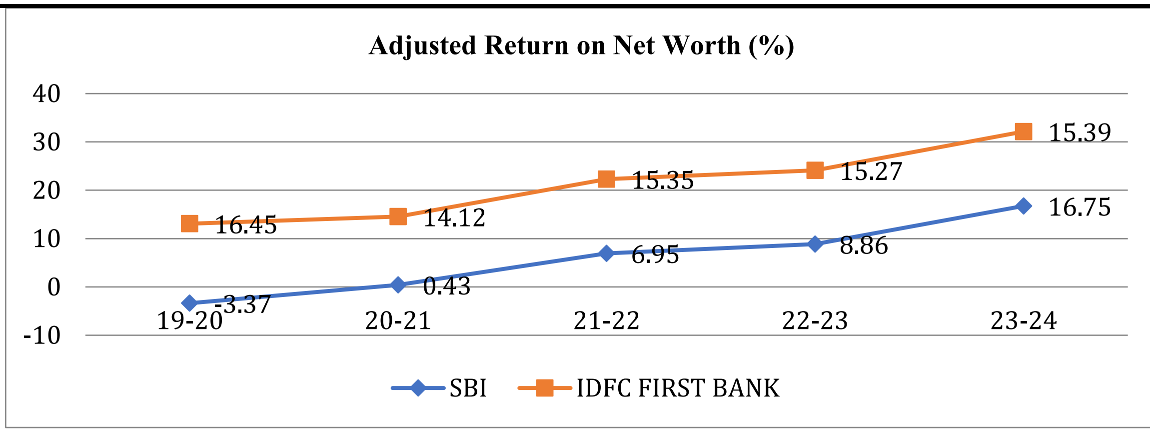
Source: Annual Reports

Fig 2.3



Source: Annual Reports

Fig 2.4



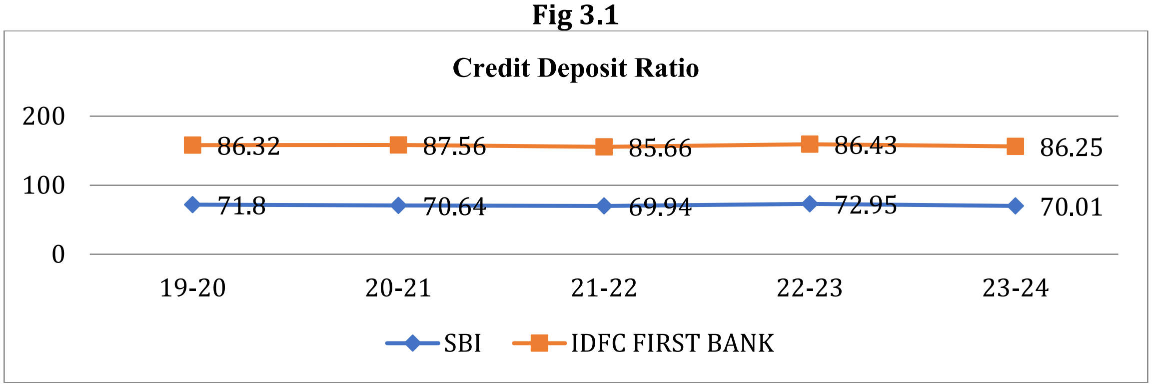
Source: Annual Reports

Inference

The Cash Flow Margin is a measure of how efficiently a company converts its sales dollars to cash. Since expenses and purchases of assets are paid from cash, this is an extremely useful and important profitability ratio. It can be inferred from the table that Adjusted Cash Margin of SBI Bank reported a negative growth rate in 2019-20 and then it was showing a positive growth in all the years while the Adjusted Cash Margin of IDFC FIRST Bank reported a positive growth rate in all the years. The Net Profit Margin reveals the overall profitability of the concern. It establishes relationship between net profit and sales. The Net Profit Margin of SBI Bank reported a positive growth rate in all the years except 2019-20 while the Net Profit Margin of IDFC FIRST Bank reported a positive growth rate in all the years. The Return on Net worth (RONW) reveals the amount of return earned by investors on their investments in a business. The Return on Net worth and Adjusted Return on Net worth of SBI Bank reported a positive growth rate in all the years except 2019-20 while the Return on Net worth of IDFC FIRST Bank reported a positive trend in all the years.

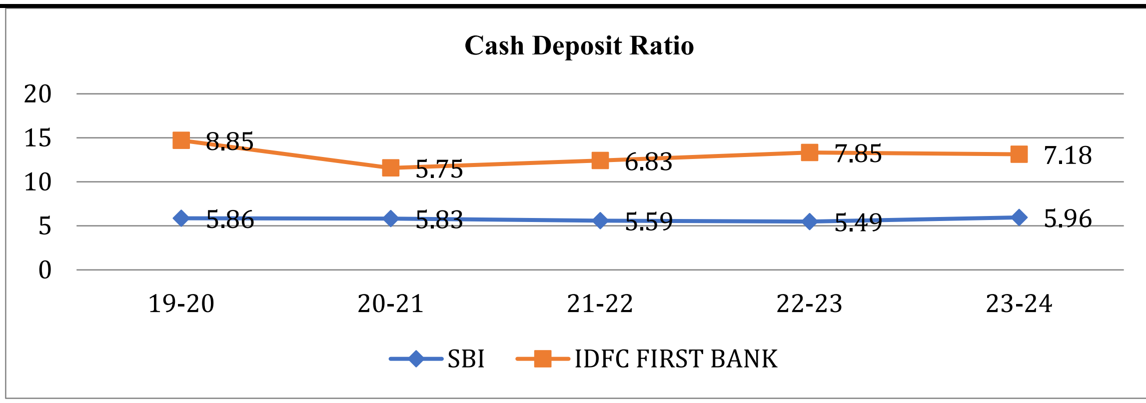
DEBT COVERAGE RATIOS

Fig 3.1



Source: Annual Reports

Fig 3.2



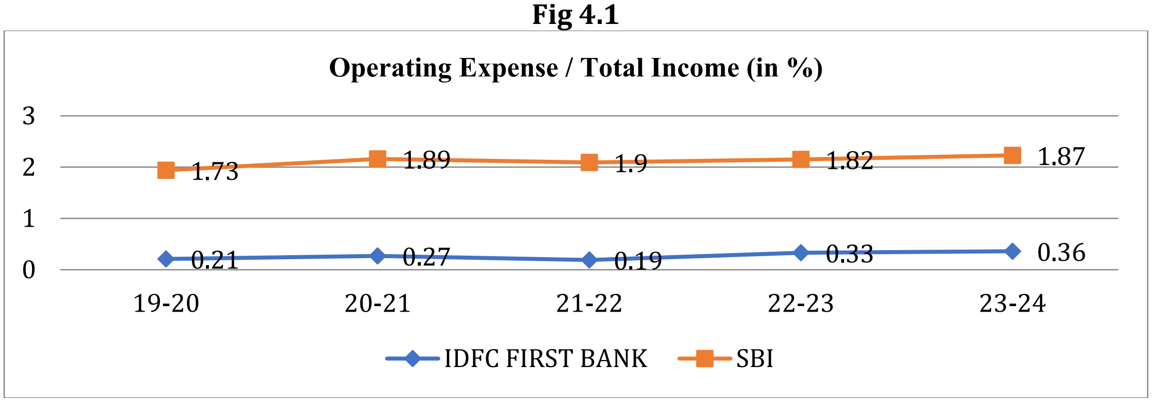
Source: Annual Reports

Inference

Credit Deposit Ratio is the proportion of loans generated by banks from the deposits received. It indicates the performance of the bank in terms of turning the total inflow in to very productive outflow. The Cash Deposit Ratio reflects the amount of money a bank should have available as a percentage of the total amount of money its customers have paid into the bank. Both the Credit Deposit Ratio and Cash deposit ratio of SBI is much lower than that of IDFC First Bank.

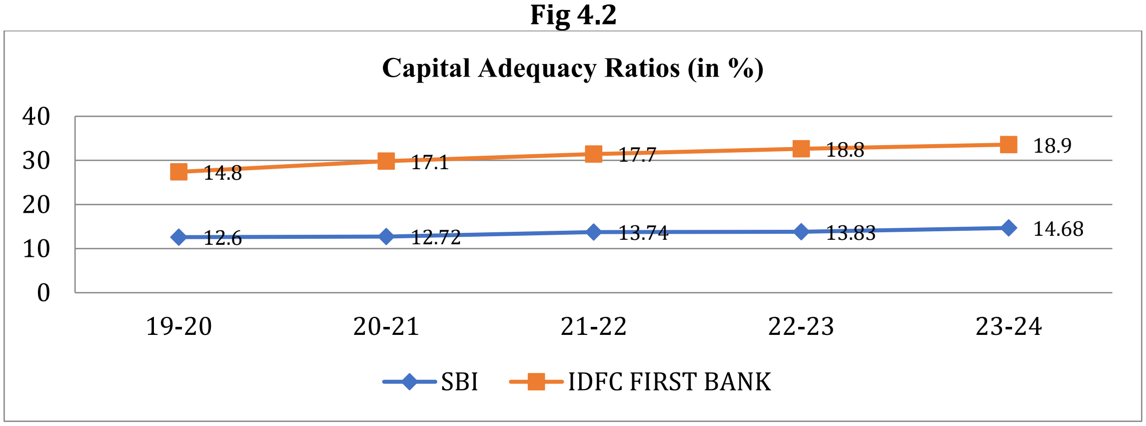
PROFIT AND LOSS ACCOUNT RATIOS

Fig 4.1



Source: Annual Reports

Fig 4.2



Source: Annual Reports

Inference

The Operating Expense / Total Income ratio is calculated by dividing the operating expenses by the total income generated i.e.net interest income plus the other income. The lower the ratio, the better it is for a bank as it would help to prop up its profit and return ratios. CAR relates a bank's core net worth to its risk-weighted assets. The ratio is internationally accepted risk-driven measure of a bank's degree of capitalization. A higher ratio indicates that a bank is well capitalized vis-a-vis its perceived risks. It is also an indicator of a bank's long term solvency. Both the ratios reflect a positive performance by IDFC First Bank as compared to SBI.

7. MAJOR FINDINGS OF THE STUDY

Following are some major findings of the present study:

- Dividend per share of SBI Bank reported a mixed trend in all the years as in the past 12 months, State Bank of India has declared an equity dividend amounting to Rs 7.10 per share in 2022-23 and 11.30 in 2023-24 and the dividend per share of IDFC FIRST Bank also reported 6.50 in 2021-22 and increasing to 15.50 and 19 per share in 2022-23 and 2023-24 respectively.
- Operating Profit Per Share of SBI Bank reported a mixed trend in all the years while the Operating Profit Per Share of IDFC FIRST Bank reported a positive growth in all the years. It increases from 32.21 in 20220-21 to 52.89 in 2023-24.
- Net Operating Profit Per Share of SBI Bank reported an increasing trend in all the year while the Net Operating Profit Per Share of IDFC FIRST Bank reported a mixed growth. It was decreasing from 2019-20 to 2020-21 and after that it shows a positive growth.
- Adjusted Cash Margin of SBI Bank reported a negative growth rate in 2019-20 and then it was showing a positive growth in all the years while the Adjusted Cash Margin of IDFC FIRST Bank reported a positive growth rate in all the years.
- Net Profit Margin of SBI Bank reported a positive growth rate in all the years except 2019-20 while the Net Profit Margin of IDFC FIRST Bank reported a positive growth rate in all the years.
- Return on Net worth of SBI Bank reported a positive growth rate in all the years except 2019-20 while the Return on Net worth of IDFC FIRST Bank reported a positive trend in all the years.
- Return on Net worth of SBI Bank reported a positive growth rate in all the years except 2019-20 while the Return on Net worth of IDFC FIRST Bank reported a mixed trend in all the years.
- Credit Deposit Ratio of SBI Bank reported a mixed trend in all the years while the Credit Deposit Ratio of IDFC FIRST Bank reported a mixed growth rate in all the years.
- Investment Deposit Ratio of SBI Bank reported a decreasing trend till 20220-21 and then showing positive growth in 2022-23 and 2023-24 while the Investment Deposit Ratio of IDFC FIRST Bank reported a positive growth rate in all the years except 2022-23 and 2023-24.
- Cash Deposit Ratio of SBI Bank reported a mixed trend in all the years while the Cash Deposit Ratio of IDFC FIRST Bank reported a mixed growth rate in all the year.
- Operating Expense / Total Income of SBI Bank reported an increasing trend in all year except in 2022-23 while the Operating Expense / Total Income of IDFC FIRST Bank reported a positive growth rate in all the years.
- Capital Adequacy Ratios of SBI Bank reported a positive growth rate in all the years while the Capital Adequacy Ratios of IDFC FIRST Bank also reported a positive growth trend in all the years.

8. CONCLUSIONS

Banks are the most common institutions and media for transfer of funds and investments. The banking business is becoming more and more complex as a result of liberalization and globalization. The present study is an attempt to examine and compare the performance of the two largest banks of India SBI a government sector bank and IDFC First Bank a Private Sector bank. The analysis is based on the ratio analysis. The various ratios which are used in study are Operating Profit Margin (OPM), Net Profit Margin (NPM), Return on Assets (ROA). The brief study of the two banks reveals that IDFC First Bank is largest bank and in terms of money collection as compared to SBI.

9. RECOMMENDATIONS

The Indian banks are one of capital sound banks of the world. In post liberalization period a number of Private Banks are operating hence there is need to have special check on the soundness of private banks so as to increase at least one percent higher CAR of private Sector Bank than public sector bank. The debt equity ratio should be reduced by IDFC First Bank to the level of SBI bank. IDFC First Bank needs to effectively utilize their assets into advances. The SBI Bank is needed to increase their investment in G-Security, for reducing their uncertainly on income and safety of their investment.

The NPAs of Indian Banks are high. In case of Public Sector Banks, the NPAs are higher than Private Sector Banks. There is a need for the RBI to fix special norm like CAR, to reduce the NPAs. The Private Sector Banks need to improve their total investment against the total assets.

The technology had effected all sectors around the world. The role of technology in Banks had not only improved the efficiency but also reduced the cost. The public sector Banks are very slow in adopting the technology and cost reduction. There is a need for Public Sector Banks to increase the profit per employee, Business per employee and converting their deposits into advances by adopting latest technology viz. information technology, e-commerce etc.

The Earning Quality of Public Sector Bank as well as private sector Banks are poor. In case of public sector banks income from interest is better but their income from operating profit and non interest income (i.e. fee, commission etc.) is very low. There is a need to improve the Earning Quality in Public Bank in order to improve their overall profitability. There is a need to work in this area in order to improve the profitability.

The higher liquidity indicates the low profitability but low liquidity may cause of loss of credit. The public sector banks (retain) possess excess liquidity against the deposit. The public sector Banks need to utilise their liquidity in such a manner which will enable them to garner higher profit. With regard to private sector banks low assets in form of liquidity which may create problem in payment, hence there is a need to increase the liquid asset.

The Banking sector reforms in India has opened up new avenues for the banks; operating in public, private and foreign collaboration. Due to the changing economic environment in the country the banking scenario is also changing. In order to improve the efficiency, profitability, asset quality management of banks efforts should be made to reduce their NPA by adopting various measures within the constraints of regular guidelines. The banks should declare the thrust area for loans and advances. A bank may choose consumer loans or corporate loan. The Banks should have more earning assets if they have minimum investment in fixed asset and low NPA's. Recovery, from NPA is a path for unnecessary earning assets. The bank should have strong treasury functionaries, so that funds are not kept idle during period of low credit.

CONFLICT OF INTEREST

None

ACKNOWLEDGEMENTS

None

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