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FINANCIAL PERFORMANCE OF SELECTED BANKING UNITS IN INDIA

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Abstract: The banking sector has changed as a result of the reform process. The government has prioritised this industry , and it has been restructured to meet contemporary needs. Banking sector reforms in India aim to improve the productivity and profitability of banking institutions while also exposing established institutions to foreign competition as part of the globalisation process. The various bank types are distinguished by their operational performance, productivity, profitability, and credit efficiency. The aim of the study is to examine the financial performance of banking sector on the basis Liquidity ,Solvency and Profitability . The Researcher focused on Two major banks of India ,SBI and HDFC . In this research, the inference will be drawn using T-Test as a statistical measure. According to the findings, there is no statistically significant difference in financial performance among the selected bank four ratios. The period of the study is 5 years from 2015 to 2020 and the study is based completely on secondary data.

Key words: SBI, HDFC,Current Ratio , Net Profit Margin, CAR, ROCE, QUICK Ratio, T-Test

1. INTRODUCTION

Banking is critical to the survival of every modern economy. It is critical for a country's economic growth that its financing requirements for commerce, manufacturing, and agriculture are met with a greater degree of dedication . Thus, a country's growth is inextricably related to the development of banking. Banks are to be seen as growth pioneers in a global economy, not as money traders. They are critical in terms of deposit mobilisation and credit disbursement to different sectors of the economy.Today, banks investing in technology-intensive solutions are improving core banking value.Along with the increased use of technology, banks have altered their operations and shifted toward universal banking. The majority of banks are committed to cashless and paperless transactions. Banks offer a diverse range of services via electronic media. Internet banking is extremely convenient in daily lives; in reality, it has simplified and facilitated our lives. These innovations allowed people to conduct business in more efficient and time-efficient ways.

The Indian banking sector has responded positively and encouragingly to many financial sector reforms. India's financial structure has been taken closer to global standards as a result of financial sector reforms. With India's growing integration into the global financial system, the Indian banking sector still has a long way to go before catching up to its international counterparts.

2. LITERATURE REVIEW

(Srinivasan & Britto, 2017) in their paper titled , "Analysis of Financial Performance of Selected Commercial Banks in India" assessed the financial performance of selected Indian banks over the last two years, and during that time they saw high profits. Their financial performance is tracked using various financial ratios. The financial performance of the researchers concluded in the report that private banks are better than of the government-owned banks throughout the study's time frame. The results from the experiments on the analyses show that the liquidity ratio and solvency ratio have a positive and significant impact on selected private sector profitability.

(ROHIT & SHINDE, 2018) explained Financial performance as a term that refers to how profitable a bank is. Profitability measures a bank's efficiency in allocating its total capital to maximise net income and thus serves as a proxy for asset usage and managerial effectiveness. Ratio analysis and the 't' test were used in this paper to evaluate the performance of selected public and private sector banks. Five banks from the public and private sectors have been chosen for this report. Numerous difficulties confront India's banking system. Throughout the study period, the selected public and private sector banks demonstrated strong performance in terms of growth rate and financial quality.

(Thunga, Raju, & Veeram, 2018) in their paper aimed to look at the financial results of a few public sector banks using financial indicators. The title of the research paper was , "A STUDY ON FINANCIAL PERFORMANCE OF SELECTED PUBLIC SECTOR BANKS IN INDIA".

This research span two years, from 2015-16 to 2016-17. They found that Nonperforming assets are affecting the interest earning power, operating profit, and total income of the selected public sector banks during the report. According to their findings, public sector banks experienced more non-performing assets during the study period.

(Dubey A. , 2019) in his paper , "PERFORMANCE ANALYSIS OF SELECTED PUBLIC AND PRIVATE SECTOR BANKS IN AGRA REGION" attempted to compare the performance of selected public and private sector banks from 2008-09 to 2017-18. The financial output was assessed using a variety of metrics, including deposit mobilisation, loan and advance activity, expenditure, non-performing assets, priority sector advances, cost control efficiency, productivity efficiency, earnings and profitability efficiency. Ten prominent Indian banks from both the public and private sectors were considered for this reason. Additionally, the research showed that both public and private sector banks selected for the study experienced remarkable earnings, especially in private sector banks, including their reliance on interest income, rising operating costs, increasing incidence of financial disintermediation, focus on social objectives, and rapid branch expansion.

3. Objectives of the Study

To know about financial position of selected banking units.

To verify liquidity and profitability position of selected banking units

4. Research Methodology

The present study is secondary data based collected from various journals,articles, money control, websites of the banks etc. Data is presented with the help of charts and tables etc. The study period is limited, from 2015-16 to 2019-20.

5. Company Profile

STATE BANK OF INDIA (SBI)-

of India dates all the way back to the first decade of the nineteenth century, when the Bank of Calcutta was established in Calcutta on 2 June 1806. Three years later, the bank was chartered and renamed the Bank of Bengal (2 January 1809). A unique institution, it was British India's first joint-stock bank, sponsored by the Bengal Government. Following the Bank of Bengal, the Bank of Bombay (15 April 1840) and the Bank of Madras (1 July 1843) were established.These three banks dominated India's modern banking scene until 27 January 1921, when they merged to create the Imperial Bank of India.

At present , With a vast network of over 22,000 branches, 58,500 ATMs, and 66,000 BC outlets, SBI, India's largest bank, serves over 44 crore customers, with an unwavering focus on innovation and customer centricity, It has a global presence, with 233 offices in 32 different countries operating across time zones.SBI continues to revolutionise banking in India as it strives to provide responsible and long-term banking solutions.

HDFC BANK Limited

HDFC Bank, a subsidiary of the Housing Development Finance Corporation, was founded in 1994 and is headquartered in Mumbai, Maharashtra, India . Manmohan Singh, the Union Finance Minister, launched the company's first corporate office and a full-service branch at Sandoz House in Worli. On the wholesale side, HDFC Bank offers commercial and investment banking, while on the retail side, transactional and branch banking are available.

The Bank's target market is predominantly major, blue-chip manufacturing corporations in India's corporate sector, as well as small and mid-sized businesses and agribusinesses to a lesser extent. Working capital finance, trade services, transactional services, cash management, and other commercial and transactional banking services are available to these customers.

As of March 21, 2020, it had 1,16,971 permanent employees.HDFC Bank now has 5,608 branches and 14,897 ATMs spread throughout 2,902 cities and towns.

6. RESEARCH HYPOTHESIS:

i) HO:There is no significant difference between net profit margin of SBI and HDFC.

Ha: There is significant difference between net profit margin of SBI and HDFC

ii). H0: There is no significant difference between current ratio of SBI and HDFC.

Ha: There is significant difference between current ratio of SBI and HDFC.

iii). H0: There is no significant difference between quick ratio of SBI and HDFC.

Ha: There is significant difference between quick ratio of SBI and HDFC.

iv) H0: There is no significant difference between return on capital employed ratio of SBI and HDFC.

Ha: There is significant difference between return on capital employed ratio of SBI and HDFC.

v) H0: There is no significant difference between return on assets ratio of SBI and HDFC.

Ha: There is significant difference between return on assets ratio of SBI and HDFC.

7. Tools and Techniques of the study:

i) Ratio Analysis

ii) Independent T-test with equal variances

8. Data Analysis

I) Current Ratio

Current Ratio = Current Assets / Current Liabilities

Current Ratio					
Year	2015-16	2016-17	2017-18	2018-19	2019-2020
SBI	0.09	0.08	0.09	0.08	0.07
HDFC	0.05	0.05	0.05	0.06	0.07

Source:www.moneycontrol.com

T-Test: (Two-Sample Assuming Equal Variances)

	SBI	HDFC
Mean	0.08	0.05
Variance	7E-05	8E-05
Observations	5	5
Hypothesized Mean Difference	0	
Df	8	
t Stat	4.74	
P(T<=t) two-tail	0.0014	
t Critical two-tail	2.31	

INTERPRETATION:

The above table of current ratio in T-test shows calculated value is 0.014 which is lower than Table Value 2.31. Therefore, Null Hypothesis (H0) is accepted. Hence it is there is no significance difference between the performance of SBI bank and HDFC bank in terms of current ratio.

II) QUICK RATIO

QUICK RATIO = (Current Assets – Inventories – Prepaids) / Current Liabilities

Quick Ratio					
YEAR	2015-16	2016-17	2017-18	2018-19	2019-20
SBI	10.89	11.94	13.83	18.06	17.05
HDFC	14.51	11.19	17.48	16.61	16.62

Source:www.moneycontrol.com

T-Test: Two-Sample Assuming Equal Variances

	SBI	HDFC
Mean	14.35	15.28
Variance	9.77	6.43
Observations	5	5
Hypothesized Mean Difference	0	
Df	8	
t Stat	-0.51	

P(T<=t) two-tail	0.62	
t Critical two-tail	2.31	

Interpretation:

The above table of quick ratio in T-test shows calculated value is 0.62 which is lower than Table Value 2.31. Therefore, Null Hypothesis (H0) is accepted. Hence it is there is no significance difference between the performance of SBI bank and HDFC bank in terms of quick ratio.

III) CAPITAL ADEQUACY RATIO

CAPITAL ADEQUACY RATIO = (Tier 1 capital + Tier 2 capital)/risk weighted assets

Capital Adequacy Ratio					
YEAR	2015-16	2016-17	2017-18	2018-19	2019-20
SBI	13.12	13.11	12.6	12.72	13.13
HDFC	15.53	14.55	14.82	17.11	13.13

Source:www.moneycontrol.com

T-Test: Two-Sample Assuming Equal Variances

	SBI	HDFC
Mean	12.9	15.02
Variance	0.065	2.11
Observations	5	5
Hypothesized Mean Difference	0	
df	8	

t Stat	-3.16	
P(T<=t) two-tail	0.013	
t Critical two-tail	2.31	

Interpretation:

The above table of Capital Adequacy ratio in T-test shows calculated value is 0.013 which is lower than Table Value 2.31. Therefore, Null Hypothesis (H0) is accepted. Hence it is there is no significance difference between the performance of SBI bank and HDFC bank in terms of capital adequacy ratio.

IV) NET PROFIT MARGIN

Net Profit margin = Net profit after tax/sales*100

Net Profit Margin					
YEAR	2015-16	2016-17	2017-18	2018-19	2019-20
SBI	6.06	5.97	-2.96	0.35	5.63
HDFC	20.41	20.99	21.79	21.29	22.86

Source:www.moneycontrol.com

T-Test: Two-Sample Assuming EqualVariances

	SBI	HDFC
Mean	3.01	21.468
Variance	16.9	0.85
Observations	5	5
Hypothesized Mean Difference	0	

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Df	8	
t Stat	-9.7	
P(T<=t) two-tail	9.90	
t Critical two-tail	2.31	

Interpretation:

The above table of Net Profit Margin ratio in T-test shows calculated value is 9.90 which is higher than Table Value 2.31. Therefore, Null Hypothesis (H0) is rejected. Hence it is there is significance difference between the performance of SBI bank and HDFC bank in terms of net profit margin ratio.

V) RETURN ON ASSETS

Return on Assets = Net profits after taxes / total assets*100

RETURN ON ASSETS					
YEAR	2015-16	2016-17	2017-18	2018-19	2019-20
SBI	0.42	0.38	-0.18	0.02	0.36
HDFC	1.73	1.68	1.64	1.69	1.71

Source:www.moneycontrol.com

T-Test: Two-Sample Assuming Equal Variances

	SBI	HDFC
Mean	0.2	1.69
Variance	0.07	0.001
Observations	5	5

Hypothesized Mean Difference	0	
df	8	
t Stat	-12.4	
P(T<=t) two-tail	1.65	
t Critical two-tail	2.30	

Interpretation:

The above table of return on assets ratio in T-test shows calculated value is 1.65 which is lower than Table Value 2.31. Therefore, Null Hypothesis (H0) is accepted. Hence it is there is no significance difference between the performance of SBI bank and HDFC bank in terms of return on assets.

9. <u>Findings of the Study</u>

Based on Independent t-test Ratios

Ratios	Calculated value	Table value	Result
Current Ratio	0.014	2.31	H0 is Accepted
Quick Ratio	0.62	2.31	H0 is Accepted
Capital Adequacy Ratio	0.013	2.31	H0 is Accepted
Net Profit Margin	9.90	2.31	H0 is Rejected
Return On Assets	1.65	2.31	H0 is Accepted

10. <u>CONCLUSION:</u>

This study is mainly focused on analyzing performance of SBI and HDFC. From the above findings it can be concluded that there is not any significant difference between the performances of SBI and HDFC except in Net Profit Margin ratio. But overall HDFC is performing better than SBI.

11. LIMITATIONS OF STUDY:

 The present study limited only to two banks of the whole banking industry.

 This study is based on the secondary data so limitation of the secondary data will remain with the study.

Refereces :

https://sbi.co.in/

www.moneycontrol.com

https://www.hdfcbank.com/

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