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Performance of banking sector in India: A comparative study of selected bank

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Abstract

Bank play important role in economic development of a country. In the present era, due to globalization many reforms takes place which also effect on banking sector. Banking sector also witnessed tremendous changes in the present time. These changes also affect the performance of banks in India. After Liberalization Indian Banking sector develops rapidly. Many private players and foreign institutions also enter the Indian banking sector which also creates competition among them. The present paper attempts to know the performance of Public, Private & Foreign Banks in India by taking one bank from each sector.

Keywords: banking, Indian Banking industry, CITI Bank, State Bank of India, HDFC Bank

1. Introduction

The Indian Banking industry, which is governed by the Banking Regulation Act of India, 1949 can be broadly classified into two major categories, non-scheduled banks and scheduled banks. Scheduled banks comprise commercial banks and the co-operative banks. In terms of ownership, commercial banks can be further grouped into nationalized banks, the State Bank of India and its group banks, regional rural banks and private sector banks (the old/ new domestic and foreign).

The first phase of financial reforms resulted in the nationalization of 14 major banks in 1969 and resulted in a shift from Class banking to Mass banking. This in turn resulted in a significant growth in the geographical coverage of banks. Every bank had to earmark a minimum percentage of their loan portfolio to sectors identified as “priority sectors”. The manufacturing sector also grew during the 1970s in protected environs and the banking sector was a critical source. The next wave of reforms saw the nationalization of 6 more commercial banks in 1980. Since then the number of scheduled commercial banks increased four-fold and the number of bank branches increased eight-fold.

2. Profile of Banks Selected for Study

- State Bank of India is an Indian multinational government owned public sector banking and financial services company. Its headquarters in Mumbai. SBI is the leading bank in India when it comes to number of branches, ATM’s, net profits, total assets managed, etc. With an employee base of close to 3 lakh people SBI commands 20% (approx) of the Indian banking sector. The bank has over 17,000 branches including 191 foreign offices spread across 36 countries, making it the largest banking and financial services company in India by assets and with more than 27,000 ATM’s. The bank manages assets worth more than 390 billion USD. In 2001, the SBI Life Insurance Company was started by the bank. They are the only bank that have been permitted 74% stake in the insurance business. SBI also introduced ‘SBI e-tax’ an online tax payments facility for direct and indirect tax payments.
- HDFC Bank: HDFC Bank Limited (Housing Development Finance Corporation) is an Indian banking and financial services company headquartered in Mumbai, Maharashtra. HDFC bank commenced operations as a Scheduled Commercial Banks in January, 1995. The bank has over 3200 branches, 12000+ ATM’s. The assets managed by this bank are valued at 66.7 billion USD. It has about 76,286 employees including 12,680 women and has a presence in Bahrain, Hong Kong and Dubai. HDFC Bank is the second largest private bank in India in terms of assets. It is the largest bank in India by market capitalization as of February 2016
- CITI Bank: CITI Bank has a long history in India. Currently, the owner of Citibank India, Citigroup is the largest foreign direct investor in financial services in India with a total capital investment of approximately US$4 Billion in its onshore banking and financial services business and its principal and alternate investment programmes. It operates 44 full-service Citibank branches in 31 cities and over 700 ATMs across the country. Citibank is an employer of about 7,500 people.

3. Review of Literature

Several research have been conducted to analyses the different aspects of performance of commercial banks in India and abroad. Some of the review concerned with the topic discussed in below

Singla HK (2008), in his paper,’ financial performance of banks in India,’ in ICFAI Journal of Bank Management No 7, has examined that how financial management plays a crucial role in the growth of banking. It is concerned with examining the profitability position of the selected sixteen banks of banker index for a period of six years (2001-06). The study reveals that the profitability position was reasonable during the period of study when compared with the previous years. Strong capital position and balance sheet place, Banks in better position to deal with and absorb the economic constant over a period of time.

Kajal Chaudhary and Monika Sharma (2011) [4] in her paper titled, “Performance of Indian Public Sector Banks and Private Sector Banks: A Comparative Study” concludes that an efficient management information system should be developed. The bank staff involved in sanctioning the advances should be trained about the proper documentation and charge of securities and motivated to take measures in preventing advances turning into NPA. Public banks must pay attention on their functioning to compete private banks. Banks should be well versed in proper selection of borrower/project and in analyzing the financial statement

Virendar Koundal (2012) [5] in his paper titled 'Performance of Indian Banks in Indian Financial System concludes that concludes that although various reforms have produced favorable effects on commercial banks in India and because of this transformation is taking place almost in all categories of the banks. It has also realized that the profitability of the public sector banks appears to have started improving but despite this, the foreign and private sector banks take a big share of cake. Our public sector banks are still lagging behind regarding the various financial parameters in comparison with other banks. It is also true that presently, they are facing many internal and external challenges, which are hindering their performance. Hence, there is a need to consider the above listed challenges for another reform to improve the performance of the banks particularly of public sector banks to meet the requirement of new and open competitive environment.

Anurag B. Singh, Priyanka Tandon (2012) [6] in their paper titled 'A Study of financial Performance-Comparative Analysis of SBI and ICICI Bank concludes 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.

4. Objective of the study

1. To study the financial performance of SBI, HDFC& CITI Bank
2. To compare the financial performance of SBI, HDFC & CITI Bank

Period of Study

The study analyses the data of banks selected from 2012-13 to 2014-15.

Parameters Studied for Comparison of Performance

1. Credit Deposit Ratio
2. Total Income
3. Total Expenditure
4. Net Profit

Data Analysis and Interpretation

Credit Deposit Ratio

Credit-Deposit Ratio is the proportion of loan-assets created by a bank from the deposits received. Credits are the loans and advances granted by the bank. In other words it is the amount lent by the bank to a person or an organization which is recovered later on. Interest is charged from the borrower. Deposit is the amount accepted by bank from the savers and interest is paid to them.

Table 1: Credit Deposit Ratio (in Percent)

Year	SBI	HDFC	CITI BANK
2012-13	85.17	80.14	78.18
2013-14	86.76	82.49	72.17
2014-15	82.45	81.08	68.49

Source: Annual Reports of SBI, HDFC & CITI Bank from 2012-13 to 2014-15

Table 1 indicates that over the last three financial years of study the average of Credit Deposit Ratio in SBI was higher than in HDFC and Citi Bank. In case of SBI the credit deposit ratio was highest in 2013-14 and lowest in 2014-15. But in case of HDFC credit deposit ratio was highest in 2013-14 and lowest in2012-13. In Citi Bank the ratio is highest in 2012-13 and lowest in 2014-15.This shows that SBI has created more loan assets from its deposits as compared to HDFC and Citi Bank.

Total Income

The total income indicates the rupee value of the income earned during a period. The higher value of total income represents the efficiency and good performance.

Table 2: Growth of Total Income of SBI, HDFC and CITI Bank (in Crores)

Year	SBI	HDFC	CITI BANK
2012-13	1,35,692	41,918	10,913
2013-14	1,54,904	49,058	12,199
2014-15	1,74,973	57,466	13,490

Source: Annual Reports of SBI, HDFC & CITI Bank from 2012-13 to 2014-15

Table 2 depicts the total income of different banks selected for study in last three financial years. The total income of SBI HDFC and CITI Bank increasingly every year which shows good performance. But the percentage increase in total income is higher in HDFC as compare to other banks. So under this indicator private sector maintains the lead.

Total Expenditure

The total expenditure reveals the proportionate share of total expenditure spent on the development of staff, interest expended and other overheads.

Table 3: Growth of total Expenditure of SBI, HDFC and CITI Bank (in Crores)

Year	SBI	HDFC	CITI BANK
2012-13	1,04,610	30,490	6,633
2013-14	1,22,794	34,695	6,595
2014-15	1,36,059	40,062	7,509

Source: Annual Reports of SBI, HDFC & CITI Bank from 2012-13 to 2014-15

Table 3 shows that the total expenditure of banks selected for study increased in every sector of banks. In case of SBI the expenditure is increased 17.38% in 2013-14 and 10.80% in 2014-15. In HDFC Bank in 2013-14 the percentage increase of expenditure is 13.79% and 15.47% in 2014-15. But in case of CITI Bank the expenditure is decreasing in 2013-14 but increased by 13.86% in 2014-15. So the above data indicates that the banks should concentrate to stabilize their expenditure so that they can achieve higher growth rate target.

Net Profit

Net Profit reveals the financial results of the business activity and efficiency of management in operations. It is calculated by deducting provisions and contingencies from operating profit.

Table 4: NET PROFIT of SBI, HDFC & CITI BANK (in crores)

Year	SBI	ICICI	CITI BANK
2012-13	14,105	6,726	2718
2013-14	10,891	8,478	2,893
2014-15	13,102	10,216	3,422

Source: Annual Reports of SBI, HDFC & CITI Bank from 2012-13 to 2014-15

The table 4 indicates that the net profit of SBI shows decreasing trends in 2013-14 but afterwards it increase. However, the net profit was continuously increased in HDFC and CITI bank. HDFC Bank maintains the lead in their Net Profit as compare to other banks showing higher operational efficiency as compare to other banks.

5. Findings and Conclusions

Findings show that during the period of study SBI has created more loan assets from its deposits as compared to HDFC and CITI Bank. But the percentage increase in total income is higher in HDFC as compare to other banks. So under this indicator private sector maintains the lead. The total expenditure of all banks increased except in CITI bank for one financial year i.e. 2013-14.So the banks should concentrate to stabilize their expenditure so that they can achieve higher growth rate target. HDFC Bank maintains the lead in their Net Profit as compare to other banks showing higher operational efficiency as compare to other banks. According to the parameters selected for study to judge the performance of banks, it can be concluded that banks have concentrate on their performance in the present era. But still private and foreign sector banks maintain a lead in certain performance indicator. The public sector banks also perform well and they also expand their business in every area of a country.

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