A Study on Financial Performance of State Bank of India:An Accounting Ratio Approach

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Abstract:

Banking sector of India holds paramount significance as it drives innovation, fosters financial stability, and enhances customer experiences. It enables the development of efficient technologies, risk management tools, and regulatory frameworks to address emerging challenges. Through rigorous analysis, it identifies opportunities to expand financial inclusion, boost economic growth, and promote sustainable practices. Moreover, banking research informs policymakers, guiding informed decisions that shape the sector's evolution. By constantly evolving and adapting to the changing landscape, research empowers Indian banks to remain competitive on a global scale and play a pivotal role in supporting the nation's economic progress and prosperity.

This research study delves into the analysis of profitability in the State Bank of India, one of the leading financial institutions in the country. The main objective of this research is to evaluate the impact of selected financial ratios on the bank's profitability over a specific period. The selected ratios considered in this study include the Return on Assets (ROA), Return on Equity (ROE), Net Interest Margin (NIM), and the Loan-to-Deposit Ratio (LDR).

The research employs a comprehensive quantitative approach, utilizing financial data collected from the bank's annual reports and financial statements. The selected time frame for analysis spans five consecutive fiscal years to capture a robust representation of the bank's financial performance.

The study utilizes various statistical methods and financial modelling techniques to identify the relationships between the chosen ratios and the profitability of State Bank of India. Additionally, it explores the influence of other macroeconomic factors, such as interest rate fluctuations and economic growth, on the bank's profitability.

Keywords: Bank, Profitability, Financial performance, NPA, SBI

Introduction

Banking is a critical pillar of any financial system, playing a vital role in the overall growth and development of the economy. As India's banking sector underwent liberalization, it faced challenges in coping with competition, technological advancements, and the need for operational autonomy. Public Sector Banks (PSBs) particularly had to modernize and adapt to the changing landscape while contending with private and foreign counterparts. Despite these changes, many regions in the country still heavily rely on PSBs due to the limited presence of private and foreign banks.

The presence of a bank in any area holds significant importance, contributing to the region's economic growth and improved living standards. However, maintaining profitability and efficiency is complex and requires thorough analysis and measurement. The study aims to examine the profitability and loan management efficiency of State Bank of India (SBI), one of the largest Public Sector commercial banks, with an extensive branch network across the country.

A bank's profitability is determined by its ability to generate more income through fees and interest earned on assets than its expenses, primarily interest paid on liabilities. This relative measure is often expressed as a percentage, reflecting the relationship between profit and various other factors.

Banks provide loans and invest in securities, expecting income and periodic repayment from borrowers. Non-performing assets (NPAs) pose a significant concern, representing assets that fail to meet interest and principal payment obligations within specified deadlines.

Given that nationalized banks handle a major portion of banking business in India, monitoring and managing non-performing assets are crucial. PSBs, being at the core of public and private sector banking, require constant scrutiny to ensure their stability and effectiveness in supporting the country's financial system.

Significance of the study

The study on the financial performance of the banking sector, with special reference to the State Bank of India (SBI), holds immense significance for various stakeholders. As the largest and most prominent public sector bank in India, SBI's financial performance serves as a crucial indicator of the overall health and stability of the country's banking sector.

For policymakers and regulators, this study provides valuable insights into the effectiveness of financial policies and regulations, enabling them to make informed decisions to ensure the stability and growth of the banking sector. It helps identify areas of improvement, assess risk management practices, and enhance the overall efficiency of the sector.

For investors and shareholders, the study aids in evaluating the bank's profitability, asset quality, and overall financial strength. It assists in making well-informed investment decisions and understanding the potential risks and returns associated with SBI's stock.

For SBI itself, the study offers a comprehensive assessment of its performance, identifying strengths and weaknesses. It can guide the bank's management in formulating strategies to enhance profitability, improve customer experiences, and stay competitive in a dynamic market.

Overall, the study's findings can contribute to the stability and development of the banking sector in India, making it an essential resource for policymakers, investors, regulators, and banking institutions like SBI.

Review of Literature

A plethora of research has been conducted both in India and abroad to investigate diverse aspects of performance measurement in the banking sector. These studies have been critically reviewed to comprehend their objectives, research methodologies, findings, and implications.

Vashisht (1987) appraised "Performance Appraisal of Commercial Banks in India," ranking public sector banks based on various indicators. The study suggested developing marketing strategies for deposit mobilization, profit planning, and SWOT analysis to improve performance.

Amandeep (1991) explored the impact of priority sector lending and other factors on bank profitability, concluding that priority sector lending did not significantly affect profitability.

Sarker and Das (1997) compared public, private, and foreign banks' performance, finding PSBs performing poorly but cautioned against drawing conclusions from a single-year comparison.

Swamy (2001) conducted a "Comparative Performance of different Bank Groups" study and found nationalized public sector banks performing better than private and foreign banks.

Pathak, Bharti (2003) compared the financial performance of private sector banks since 1994-95, emphasizing their role in introducing new banking experiences. The study analysed parameters like deposits, advances, profits, return on assets, and productivity.

Milind Sathya (2005) examined the effects of privatization on performance and efficiency, with partially privatized banks performing better after privatization.

Vong and Chan (2006) investigated internal and external factors' impact on the Macao Banking industry, revealing that capitalization and network size influenced risk and profitability.

Dr. Rao, D. Suryachandra (2007) evaluated "Reforms in Indian Banking Sector" by assessing the performance of commercial banks following the Narasimham Committee recommendations. The study compared the performance of public and private sector banks, highlighting PSBs' better profitability and Private Sector Banks' varying responses to reforms. Private Sector Banks offered better service quality to customers.

Rajeev, Meenakshi, and H P Mahesh (2010) analysed "Banking Sector Reforms and NPAs in Indian Commercial Banks" to understand NPA trends in India comprehensively. The study explored NPA comparisons with other countries, NPA variations across sectors, and the impact of immediate recognition and self-monitoring on reducing NPAs. The findings revealed that NPAs significantly contributed to economic crises and remained higher in the priority sector due to banks' socio-economic objectives.

Srivastava, Vivek, and Deepak Bansal (2012) studied trends of non-performing assets in private banks, noting a slight improvement in asset quality but an alarming level of NPAs with public sector banks.

Kanagavalli, G and Devi, S.R (2018) studied on financial performance of State Bank of India to examine the liquidity, profitability performance of SBI and to examine the turnover and market-based ratios performance of SBI. They used secondary data to achieve the objectives and mean, standard deviation, two-way ANOVA and multiple regression were used as a statistical tool to attain the objectives. They found that SBI is maintaining the required standard and running profitability.

Singh, Y and Milan, R (2020) studied on Analysis of Financial Performance of Public Sector Banks in India: CAMEL, to examine the factors affecting the performance of public sector banks in India and the interrelationship between bank-specific determinants and performance of public sector banks. The study is based on secondary data over the period of 11 years i.e., 2009-2019. The study used Generalised Method of Moments (GMM) and CCA (Canonical Correlation Analysis) to fulfil the objectives. The study found that the Banking sector reforms are insignificantly correlated with banks' performance. Inflation rate and Liquidity are inversely correlated with banks' performance. Capital adequacy is positively associated with banks' performance, but inversely linked with banks' interest margin. asset quality is negatively associated with performance of public sector banks. GDP growth has a significant positive impact on banks' performance, but inversely related with banks' interest earned.

Tamilarasu, S and Srinivasan, K (2022) investigated on Financial Performance Analysis of Selected Public and Private Sector Banks to examine the comparison between the financial performance of the public and private sectors relating to internal and external factors that influence the overall performance of the banking sector for the period of 2017 to 2021. A few financial ratios, Balance sheet, and Annual reports of selected public as well as private sector banks were used to reach the objective. The study observed that both public sector banks and private sector banks need to put attention on lessening their NPAs as they extremely dent the profitability of banks by disturbing its revenue. Banks must work from the perception of improving revenue and reduce the expenses if they wish to strengthen their banking performance.

Overall, these studies emphasize the importance of managing various factors efficiently to enhance the profitability and efficiency of commercial banks. Each study contributes unique insights to the dynamic and evolving banking sector, offering valuable directions for future research and policymaking.

Objective of the study

The aim of this research is two-fold:

a. To analyse the evolving trends in various financial performance indicators of State Bank of India.
b. To assess the bank's profitability over the past decade (2013-2023) through the examination of specific financial ratios.

Data & Methodology

Research Type: The said study is conducted based on Quantitative research methodology.

Period: The selected study is taken into consideration the period of 2013 to 2022 as no study has been conducted during such period.

Source of the Data: The data is collected from Prowess IQ Data base as a secondary source managed by CMIE

Variables: For the said study we have selected the net profit ratio approach to measure the profitability of the said bank

Net Profit or Margin Ratio= (Net Profit or Loss/Net Sales) *100

Method: The analysis method employed in this study involves the utilization of diverse ratios to evaluate both the profitability and loan management efficiency of United Bank of India. Additionally, the research employs straightforward statistical tools, including CAGR (Compound Annual Growth Rate), Mean, Maximum, and Minimum, to derive the overall findings.

Result and Analysis

Table 1 presents the "Net Profit Trends of United Bank of India" spanning the years 2013 to 2022. The data reveals that the bank experienced a fluctuating pattern in its net profit during this period. In 2013, the net profit stood at Rs. 300.18 crores, but in the subsequent year, 2014, the bank faced a loss of Rs. 73.87 crores. The following years saw a recovery with profits of Rs. 267.28 crores in 2016 and Rs. 318.95 crores in 2016, yet it dipped to Rs. 184.71 crores in 2017. Subsequently, the bank witnessed an upward trend, reaching Rs. 632.53 crores, but ultimately ended with a net loss of Rs. 1213.44 crores. The data highlights a mixed performance trend exhibited by the bank over the past decade.

Table 1: Trends in Net Profit of State Bank of India (2013-2022)

(Rs. in crores)

Year	Profit	Yearly Growth Rate (%)
2013	300.18	-
2014	-73.87	- 156.11
2015	267.28	- 461.83
2016	318.95	19.33
2017	184.71	- 42.09
2018	322.36	74.52

2019	523.97	62.54
2020	632.53	20.72
2021	391.90	- 38.04
2022	-1213.44	- 409.63

Source: Prowess IQ Database

Fig.1

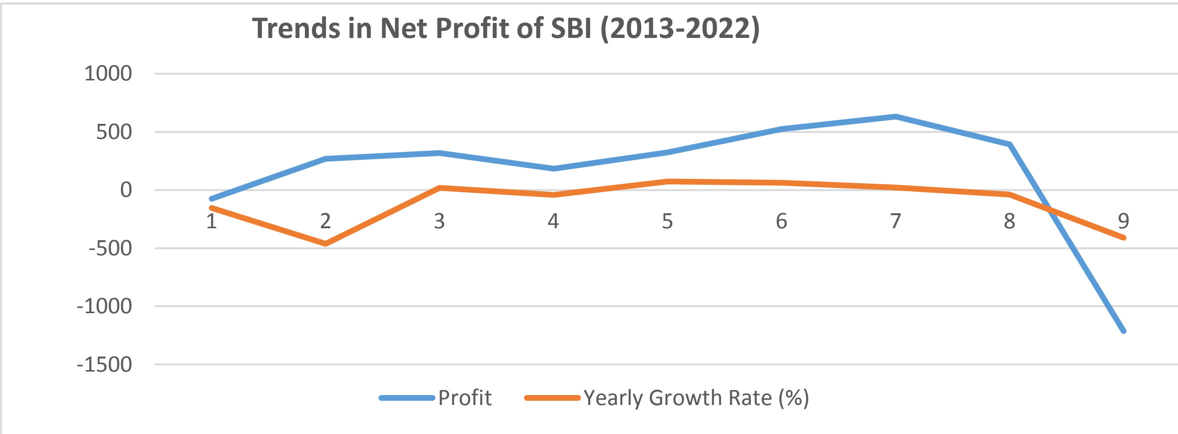

Fig.1 exhibits the diagrammatic representation clearly reveals that the rate of profit is sharply dropped in the initial year but recovered in the progressive years with fluctuating corelation between profit and its yearly rate which is shown in percentage form.

Table 2: Trends of advances and deposits in SBI

Descriptive statistics

	Total Advances	Total Deposits
Mean	54824.25	83639.76
Standard Error	5541.007	8594.063
Median	58272.87	83480.53
Standard Deviation	13572.64	21051.07
Sample Variance	1.84E+08	4.43E+08
Kurtosis	-1.60531	-1.03267
Skewness	-0.55543	-0.05809
Range	33515.11	56973.81
Minimum	35393.55	54535.9
Maximum	68908.66	111509.7
Sum	328945.5	501838.5
Count	10	10
Largest (1)	68908.66	111509.7
Smallest (1)	35393.55	54535.9

t-Test: Paired Two Sample for Means

	Total Advances	Total Deposits
Mean	54824.25	83639.76
Variance	1.84E+08	4.43E+08
Observations	6	6
Pearson Correlation	0.949131	
df	5	
t Stat	-7.65605	
P(T<=t) one-tail	0.000303	
t Critical one-tail	2.015048	
P(T<=t) two-tail	0.000605	
t Critical two-tail	2.570582	

Source: Authors' computation

Table 2 depicts the descriptive statistics as well as t-test. From descriptive statistics it has been clearly observed that mean of total advances is Rs 54824.25 and mean of total deposits is Rs 83639.76 based on sample year starting from 2013-2023. The standard deviation of total advances and deposits shows 13572.64 & 21051.07 respectively. The range of this these variables are also very significant. While the t stat value between the Total Advances and Total Deposits is showing negative but the distribution between the two variables is showing a positive result. Moreover, as the correlation coefficient between the two variables is 0.95, the variables are very highly positively correlated.

Table 3 Net profit Ratio

Year	Net Profit	Net Profit Ratio
2013	300.18	11.53
2014	-73.87	7.96
2015	267.28	8.81
2016	318.95	8.07
2017	184.71	3.95
2018	322.36	5.47
2019	523.97	7.05
2020	632.53	7.34
2021	391.9	3.79
2022	568.91	3.86
2023	-1213.44	-10.27
Mean	***165.46***	***5.37***

Source: Authors' computation

Table 3 depicts the Net profit ratio of SBI from 2013 to 2023. The net profit (NP) ratio is a valuable metric for assessing a business's overall profitability. An elevated ratio suggests effective management of the business operations. One commonly used profitability ratio examines the correlation between net profit after taxes and net sales. This ratio is calculated by dividing the net profit (after tax) by net sales. The net profit ratio of the SBI from 2013 to 2023 was analysed. In the initial year, the ratio stood at 11.53% but declined to 7.96% in the following year. Subsequently, it experienced fluctuations, reaching 8.81% in 2007, then declining to 8.07% and 3.95%. From 2018 to 2020, the ratio showed an upward trend, with values of 5.47%, 7.05%, and 7.34% respectively. However, starting from 2021, the net profit ratio declined once again, dropping to 3.79% in that year and even turning negative at -10.27% in 2023. The average net profit ratio over the entire period was 5.37.

Findings of the study

- Branch Expansion: The State Bank of India has primarily focused on expanding its branches in the Eastern region compared to other regions.
- Growth of Net Profit: The bank's performance in 2023 was notably poor, as indicated by a negative growth in net profit.
- Growth in Providing Advances: The study reveals that the bank has experienced more significant growth in short-term advances compared to long-term advances.
- Growth in Receiving Deposits: The study indicates that the growth in savings bank deposits has been higher than that of term deposits.

Limitations of the study

The present study focus on assessing the profitability of State Bank of India taking into consideration on limited variables. The present study considers the only Net profit ratio as the measure of profit but there is so many other factors are there which are been ignored so there is a future scope for researcher to do research. Further inter-bank comparison is also not done in the present study

Conclusion

The present study investigates the "Profitability the State Bank of India: A Comparative study" which measures the Profitability ratio considering NP ratio for estimating the overall performance of the bank & it has found from the study that in the year 2023, the performance of the bank was very poor which largely affects the overall profitability of the bank & their loan management efficiency was estimated through some specific ratio.

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