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PERFORMANCE OF INDIAN BANKING SECTOR – A COMPARITIVE STUDY OF SBI AND HDFC

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Abstract:
Performance of banks is a key indicator of any economy. Both public sector and private sector banks have performed extensively in India. So this paper compares the performance of two leading banks in India one being a public sector bank State Bank of India (SBI) and another private sector bank HDFC using secondary data for the previous eight quarters spread over two years. The performance measurement of any financial institution is a difficult task due to existence numerous performance indicators. The study uses interest earned, operating profit, net profit, EPS, NPA and return on assets as performance indicators. Further these data are used to calculate simple arithmetic mean, standard deviation and hypotheses testing. Conclusion are drawn based on these statistical tools.

Keywords: Performance, Public sector, Private sector, Profitability,NPA, Return on assets.

Introduction

Indian banking sector is one of the robust and active banking industries in the whole world. India being a mixed economy has given place for both public and private players in all industries, banking sector is also not an exception. Existence of both sectors assures a healthy competition and quality service delivery for the customers and all stake holders. India is home for few big banking companies in both the sectors i.e. public

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and private. The study considers State Bank of India which is the leading bank in public sectors in terms of business and profits with HDFC being the leader in private sector banks.

Literature review:

opined that speciality of each localities of a country needs to be considered, business working models have to be altered, incorporate the latest technology and prioritise on technology enablement are the key factors for banking performance these days.
reported that gross NPA rates of the Indian banking sector would be estimated at around 8.6% for fiscal 2021-22 revealed that NPA recovery of Indian commercial banks stood at INR 400,000 for the financial year 2019 which was the highest till date.

Objectives of Study:

1) To study and compare the profitability of SBI and HDFC in terms of interest income, operating profit and net profit.
2) To study and compare the efficiency of SBI and HDFC in terms of EPS, NPA and ROA

Hypotheses of the Study:

a) (H0) There is no significant difference between the performance of SBI and HDFC.
b) (H1) There is a significant difference between the performance of SBI and HDFC.

Methodology of the study:

a. Sources of data: The study is based on secondary data taken over eight quarters starting from December 2019 to September 2021.

b. Plan of analysis: The collected data has been analysed using interest earned, operating profit, net profit, EPS, NPA and return on assets as performance indicators. These data of both SBI and HDFC banks have been analysed using mean and CV. Further t-test is used for testing hypotheses and p-value is used to draw inferences.

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Lower the p value there is significant difference between the performances of two companies. So P =0.5 or greater than 0.5 is not significant, P=0.2- 0.5 significant, p-0.00-0.2 is highly significant.

c. Limitations of the study: The study is limited only to interest earned, operating profit, net profit, EPS, NPA and return on assets. The suggestions are based on p value results derived from the above indicators.

Profile of the banks:

- **State Bank of India:** SBI is a Fortune 500 organization, is an Indian Multinational, Public Sector Banking and Financial administrations legal body settled in Mumbai. The rich legacy and tradition of more than 200 years, authorizes SBI as the most confided in Bank by Indians through ages.

SBI, the biggest Indian Bank with 1/fourth piece of the pie, serves more than 45 crore clients through its huge organization of more than 22,000 branches, 62617 ATMs/ADWMs, 71,968 BC outlets, with a resolute spotlight on development, and client centricity, which originates from the basic beliefs of the Bank - Service, Transparency, Ethics, Politeness and Sustainability. The Bank has effectively broadened organizations through its different auxiliaries i.e. SBI General Insurance, SBI Life Insurance, SBI Mutual Fund, SBI Card, and so on It has spread its quality universally and works across time regions through 229 workplaces in 31 outside nations. Developing with times, SBI keeps on reclassifying banking in India, as it intends to offer mindful and economical banking arrangements.

- **Housing development Finance Corporation:**HDFC was among the first monetary organizations in Quite a while to get an "on a fundamental level" endorsement from the Reserve Bank of India (RBI) to set up a bank in the private area. This was done as a feature of RBI's strategy for advancement of the Indian financial industry in 1994. HDFC Bank was fused in August 1994 for the sake of HDFC Bank Limited, with its

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enrolled office in Mumbai, India. The bank started tasks as a Scheduled Commercial Bank in January 1995. As of March 31, 2021, the Bank had a cross country appropriation network 5,653 branches and 16,291 ATM's in 2,917 urban communities/towns.

Results, analysis and findings:

1. Interest income earned:

Table-1

Interest income earned by the banks

Interest earned	**Dec '19**	**Mar '20**	**Jun '20**	**Sep '20**	**Dec '20**	**Mar '21**	**Jun '21**
SBI	67691.99	62681.40	66500.38	66814.11	66734.50	65101.64	65564.43
HDFC	29369.72	29885.06	30377.97	29976.97	30079.70	30423.59	30482.97
Interest earned	**Sep '21**	**Mean**	**SD**	**CV**	**T value**	**P value**	**Result**
SBI	69481.49	66321.24	1986.40	3.00			
HDFC	31353.37	30243.67	576.88	1.91	1.94	0.09	H sig.

(Source: Secondary data from RBI website), (Table compiled by author)

It is evident from the table that both SBI as well as HDFC banks have experienced an increasing trend in interest earning the observation period. When CV of the banks are observed SBI has a higher CV showing variation in interest income generated than HDFC. Testing results indicate high significant difference in the interest income of the banks.

1. Operating profit:

Table-2

Operating profit generated by the banks

Operating profit	**Dec '19**	**Mar '20**	**Jun '20**	**Sep '20**	**Dec '20**	**Mar '21**	**Jun '21**
SBI	18,222.56	15,733.78	16,521.35	16,459.76	17,333.16	19,700.15	18,974.82
HDFC	12,945.41	12,958.82	12,829.27	13,813.78	15,186.02	15,532.77	15,137.03
Operating profit	**Sep '21**	**Mean**	**SD**	**CV**	**T value**	**P value**	**Result**
SBI	18,079.08	17,628.08	1359.05	7.71			
HDFC	15,807.29	14,276.30	1270.88	8.90	0.004	0.99	L Sig.

Operating profit of a bank is one of the important indicators of banking performance.

(Source: Secondary data from RBI website),(Table compiled by author)

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The study shows that both the banks have shown an increasing trend, but for three quarters of the year 2020 due to the pandemic condition in the country. The CV shows that there is no much deviation in operating profits of both the banks. P value of 0.99 indicates that there no significant difference between the operating profits of the banks showing irrespective of income the banks are able to maintain a decent profit margin.

1.Net profit:

Table-3
Net profit generated by the banks

Net profit	Dec '19	Mar '20	Jun '20	Sep '20	Dec '20	Mar '21	Jun '21
SBI	5,583.36	3,580.81	4,189.34	4,574.16	5,196.22	6,450.75	6,504.00
HDFC	7,416.48	6,927.69	6,658.62	7,513.11	8,758.29	8,186.51	7,729.64
Net profit	**Sep '21**	**Mean**	**SD**	**CV**	**T value**	**P value**	**Result**
SBI	7,626.57	5,463.15	1351.24	24.73			
HDFC	8,834.31	7,753.08	794.437	10.25	0.0005	0.999	L Sig.

(Source: Secondary data from RBI website),(Table compiled by author)

Net profit is the important performance indicator of any business organisation and has direct impact on the mind-set of all stakeholders. HDFC bank has scored considerable high profits in comparison to SBI. The profit variation is also less in HDFC when compared to SBI which is shown by a CV of 10.25 and 24.73. The net profit recorded by the banks are in total agreement with operating profit which is evident by a low significance of P value 0.99. This shows that there is no significant difference in the profits made by the banks.

1. Earnings per share

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Table-4
Earnings per share (EPS)

EPS	Dec '19	Mar '20	Jun '20	Sep '20	Dec '20	Mar '21	Jun '21
SBI	6.26	4.01	4.69	5.13	5.82	7.23	7.29
HDFC	13.5	12.6	12.1	13.7	15.9	14.9	14
EPS	**Sep '21**	**Mean**	**SD**	**CV**	**T value**	**P value**	**Result**
SBI	8.55	6.1225	1.51622	24.7648			
HDFC	16	14.0875	1.42772	10.1347	1.75	0.12	H Sig.

(Source: Secondary data from RBI website),(Table compiled by author)

EPS or earnings per share represents the net earnings available to the shareholder. SBI has recorded considerably low EPS when compare to HDFC and the CV also is at higher rate of 24.76%. Further P value of 0.12 also indicates that there is a significant difference in the per share earnings of HDFC and SBI.

1. Gross NPA percentage:

Table-5
Gross non-performing assets percentage

NPA %age	Dec '19	Mar '20	Jun '20	Sep '20	Dec '20	Mar '21	Jun '21
SBI	6.94	6.15	5.44	5.28	4.77	4.98	5.32
HDFC	1.42	1.26	1.36	1.08	0.81	1.32	1.47
NPA %age	**Sep '21**	**Mean**	**SD**	**CV**	**T value**	**P value**	**Result**
SBI	4.9	5.4725	0.73073	13.3527			
HDFC	1.35	1.25875	0.2159	17.1519	1.46	0.18	H Sig.

(Source: Secondary data from RBI website),(Table compiled by author)

NPA refers to Non-performing assets refers to loans which are not generating interest incomes for the banks. A high NPA ratio indicates stressed assets for a bank. In the above table it is inferred that SBI has a higher gross NPA ratio in comparison to HDFC but the CV shows that SBI has comparatively a lower fluctuation rate of 13.35 than HDFC with

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17.15%. The P value 0.18 shows a significant difference between the gross NPA % of both the banks.

Table-6
Net non-performing assets percentage

NPA %age	Dec '19	Mar '20	Jun '20	Sep '20	Dec '20	Mar '21	Jun '21
SBI	2.65	2.23	1.86	1.59	1.23	1.5	1.77
HDFC	0.48	0.36	0.33	0.17	0.09	0.4	0.48
NPA %age	**Sep '21**	**Mean**	**SD**	**CV**	**T value**	**P value**	**Result**
SBI	1.52	1.79375	0.45497	25.3642			
HDFC	0.4	0.33875	0.14055	41.4919	2.75	0.028	H Sig.

(Source: Secondary data from RBI website),(Table compiled by author)

Net NPA refers to the Gross NPA less deduction from provisions made to cover the NPAs. It also shows the preparedness of the bank to face loss from NPAs. SBI appears to be more prepared in facing NPA losses and is consistent which is evident from lower CV of 25.36 when compared to CV of HDFC of 41.49. The P value shows a high significant difference between the banks in preparedness for NPAs among the banks.

Conclusion: Both banks have significant amount of net NPAs

1.Return on assets ratio (ROA):

Table-7
Return on assets

ROA	Dec '19	Mar '20	Jun '20	Sep '20	Dec '20	Mar '21	Jun '21
SBI	0.6	0.37	0.42	0.44	0.49	0.58	0.57
HDFC	0.55	0.49	0.44	0.48	0.55	0.5	0.45
ROA	**Sep '21**	**Mean**	**SD**	**CV**	**T value**	**P value**	**Result**
SBI	0.66	0.51625	0.10127	19.6162			
HDFC	0.5	0.495	0.04036	8.15264	0.29	0.78	L Sig.

Return on assets shows the efficiency of a bank to generate income on their assets. It throws light on the usage of assets in the business. SBI has shown high CV of 19.6%

(Source: Secondary data from RBI website),(Table compiled by author) indicating fluctuating return on assets whereas HDFC has a lower CV of 8.15%. The P value of 0.78 indicates that there is no significant difference among the banks and both of them are generating sufficient return on their assets.

Conclusion: Both banks have a constant rate of returns on their assets.

Suggestions:

- It is suggested to SBI and HDFC to improve on the profit margins on core banking activities
- It is advised to both SBI and HDFC to work on reducing gross NPA ratio by scrutinising loan quality.
- It is proposed for both banks to provide for NPAs much more regressively.
- Stress needs to be laid on monitoring operating expenses of both banks so that return on assets can be improved further.
- Emphasis on adoption of latest technology and updating of the same is also suggested.

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