A STUDY ON THE COMPARISON OF FINANCIAL PERFORMANCE OF PUBLIC SECTOR BANKS WITH SPECIAL REFERENCE TO STATE BANK OF INDIA AND PUNJAB NATIONAL BANK

Nidhi Varshney
Assistant professor, IFTM University, Lodhipur Rajput, Moradabad
Chanchal Chawla
Assistant professor, TeerthankerMahaveer University, Moradabad

Voice of Research
Volume 5, Issue 3
December 2016
ISSN 2277-7733

Abstract

The banking system of India is featured by a large network of bank branches, serving many kinds of financial services of the people. There are currently 27 public sector banks in India out of which 19 are nationalised banks and 6 are SBI and its associate banks, and rest two are IDBI Bank and BharatiyaMahila Bank, which are categorized as other public sector banks. There are total 93 commercial banks in India. The purpose of this study is to compare the financial performance of two leading public sector banks of India i.e. State Bank of India and Punjab National Bank. Quantitative analysis was undertaken by looking at various sets of financial ratios that are routinely used to measure bank performance. The State Bank of India, popularly known as SBI is one of the leading bank of public sector in India. SBI has 14 Local Head Offices, 57 Zonal Offices and more than 13500 branch offices located at important cities throughout the country. On the other hand Punjab National Bank Founded in 1894, the bank has over 6,968 branches and over 9,656 ATMs across the country. The period of study taken is from the year 2007-08 to 2011-12. The main ratios that were employed put a particular focus on the banks liquidity, profitability, management capacity, capital structure and share performance as reliable indicators of a bank performance. Conclusions were then drawn from the computation of the relevant ratios that allowed the author to make an effective comparison of said banks.

***Keywords**: Credit Deposit Ratio, PNB, Net Profit Margin, Net worth Ratio, Financial Analysis, SBI.*

Banking Sector plays an important role in economic development of a country. An efficient banking system is recognized as basic requirement for the economic development of any economy. Banks mobilize the savings of community into productive channels. The banking system of India is featured by a large network of bank branches, serving many kinds of financial needs of the people.

State Bank of India Profile

State Bank of India (SBI) is that country's largest commercial bank. The government-controlled bank—the Indian government maintains a stake of nearly 60 percent in SBI through the central Reserve Bank of India—also operates the world's largest branch network, with more than 13,500 branch offices throughout India, staffed by nearly 220,000 employees. SBI is also present worldwide, with seven international subsidiaries in the United States, Canada, Nepal, Bhutan, Nigeria, Mauritius, and the United Kingdom, and more than 50 branch offices in 30 countries. Long an arm of the Indian government's infrastructure, agricultural, and industrial development policies, SBI has been forced to revamp its operations since competition was introduced into the country's commercial banking system. As part of that effort, SBI has been rolling out its own network of automated teller machines, as well as developing anytime-anywhere banking services through Internet and other technologies. SBI also has taken advantage of the deregulation of the Indian banking sector to enter the bancassurance, assets management, and securities brokering sectors.The Bank also has subsidiaries and joint ventures outside India, including Europe, the United States, Canada, Mauritius, Nigeria, Nepal, and Bhutan. The Bank has the largest retail banking customer base in India.

Punjab National Bank Profile

Established in 1895 in Lahore, Punjab National Bank is one of the oldest banks in India having a virtual presence in every important center of the country. The bank has over 35 million customers through 4540 offices including 421 extension counters, out of which 2/3 of its branches in rural and semi rural areas–the largest among nationalized banks, which makes it enjoy one of the highest penetration rate of banking activities in the country. As on 31 March 2015, the bank had 68,290 employees. NB has had the privilege of maintaining accounts of national leaders such as Mahatma Gandhi, Jawahar Lal Nehru, Lal Bahadur Shastri, Indira Gandhi, as well as the account of the famous JalianwalaBagh Committee

Objective

To study the financial performance of SBI and PNB.

To compare the financial performance of SBI and PNB

Literature Review

Kumbrai et al. (2010) investigated the performance of South Africa's commercial banking sector for the period 2005-2009. They use financial ratios to measure the profitability, liquidity and credit quality performance of five large South African based commercial banks. The results showed an improvement in the bank performance in terms of profitability, liquidity, and credit quality from 2005 to 2007. They also found significant differences in profitability performance for the period 2005-2006 and the period 2008-2009.

Jha and Hui (2012) compared the financial performance of different structured banks in Nepal using camel framework. The study covered the years 2005-2010 to assess the financial performance of the eighteen commercial banks in Nepal.

The analysis was based mainly on the descriptive financial analysis to describe, measure, compare, and classify the financial situations. The authors then used multivariate regression model to test the significance of the variables used. They found that return on assets (ROA) of public sector banks were higher than those of joint venture and domestic public banks. Moreover, the values determined for the financial ratios revealed that joint venture and domestic public banks were also not so strong in Nepal to manage the possible large-scale shock to their balance sheet.

Misra and Apa (2013) analyzed the financial position and performance of the state bank group using camel model. They tested their hypothesis on six banks on the basis that there is no significant difference in performance using twenty financial ratios. Their findings showed that different banks obtained different ranks with respect to camel ratios. Their study also depicted that thought ranking of ratios is different for different banks in state group. But there is no statistically significant difference between banks the camel ratios. It signifies that overall performance of state group is same.

Ferrouhi (2014) analyzed the performance of major Moroccan financial institutions for the period 2001-2011 using camel approach. He used one financial ratio for each of capital adequacy, assets quality, management quality, earning ability, and liquidity position measures. The testing of the above measurements on six Moroccan institutions revealed that all the six banks did well over the period of study. His findings were based on ranking the average of each ratio, showed that some banks are better off than others.

Gupta (2014) evaluated the performance of public sector banks in India. He used camel approach for a 5-year period 2009-2013. The results showed that there is a statistically significant difference between the camel ratios of all the public sector banks in India. Therefore, the overall performance of public sector banks is different.

Ibrahim (2015) measured the financial performance of two Islamic banks in United Arab Emirates for the period of 2003-2007. Different groups of financial ratios have been used to measure the performance and make a comparison between these two banks. Although, the results showed that both banks did well, it appears that each bank has its focus on some area such as liquidity, profitability, capital structure and stability.

Research Methodology

For the purpose of the study two (2) banks i.e. State bank of India and Punjab National Bnak have been selected.The study is conducted for a period of five (5) financial years i.e. from 2011–12 to 2015–16.In this study, mainly secondary data is collected. Secondary data has been obtained from the published Annual Reports of the banks for the financial years 2011-12 to 2015–16, Websites of the selected banks and Other related websites.

Key ParamatersUnder the Study

1. Credit Deposit Ratio
2. Other Income to Total Income
3. Net Profit Margin
4. Current Ratio
5. Quick Ratio

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 1.1 Credit Deposit Ratio

Year	SBI	PNB
2011-12	7.51	6.10
2012-13	5.34	4.72
2013-14	5.81	4.76
2014-15	6.76	4.88
2015-16	7.42	4.81
Mean	6.57	5.05
CGR	-0.24%	-4.64%

Source: Annual Reports of SBI and PNB from 2011-12 to 2015-16.

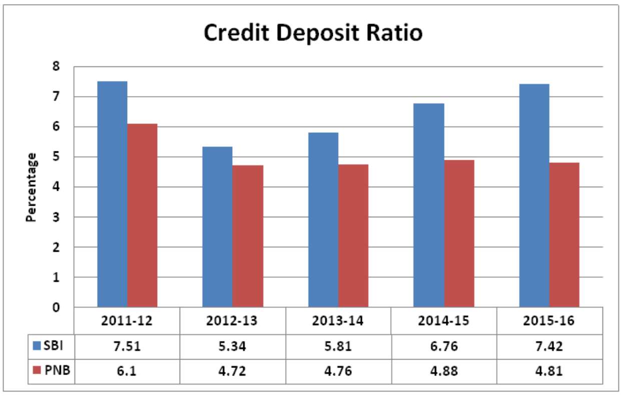

Fig. No. 1.1:- Credit Deposit Ratio

Interpretation:Table 1.1 depicts that over the course of five financial periods of study the mean of Credit Deposit Ratio in SBI was higher (6.568%) than in PNB (5.054%). And the Compound Growth Rate in PNB lowers (-4.64%) than in SBI (-0.24%) In case of SBI the credit deposit ratio was highest in 2011-12 and lowest in 2012-13. But in case of PNB credit deposit ratio was highest in 2011-12 and lowest in 2012-13. This shows that SBI has created more loan assets from its deposits as compared to PNB.

Other Income To Total Income

Other income to total income reveals the proportionate share of other income in total income. Other income includes non-interest income and operating income. Total income includes interest income, non-interest income and operating income.

Table 1.2 - Other Income to Total Income in SBI and PNB

Year	SBI	PNB
2011-12	11.87	10.34
2012-13	11.82	9.14
2013-14	11.98	9.57
2014-15	12.90	11.28
2015-16	14.68	12.66
Mean	12.65	10.59
CGR	4.34%	4.13%

Source: Annual Reports of SBI and PNB from 2011-12 to 2015-16.

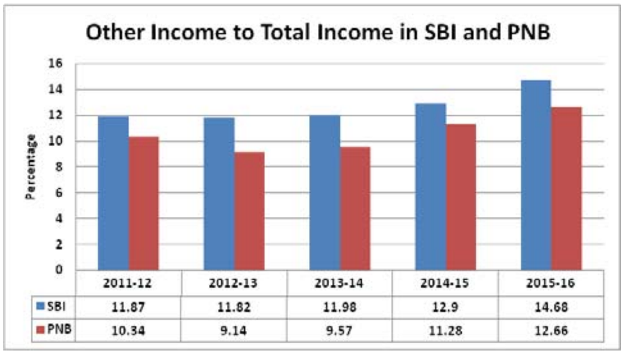

Fig. No. 1.2 Other Income to Total Income in SBI and PNB

Interpretation:The table 1.2 shows that the ratio of other income to total income was increased from 11.87 per cent in 2011-12 to 14.68 per cent in 2015-16 in case of SBI. However, the share of other income in total income of PNB was also increased from 10.34 per cent in 2011-12 to 12.66 per cent 2015-16. The table shows that the ratio of other income to total income was relatively higher in SBI (12.65%) as compared to PNB (10.59%) during the period of study.

Net Profit Margin

Net Profit Margin reveals the financial results of the business activity and efficiency of management in operations. The table 1.3 shows the net profit margin in SBI and PNB during the Period 2011-12 to 2015-16.

Table 1.3 - Net Profit Margin InSBI AND PNB

Year	SBI	PNB
2011-12	10.99	13.40
2012-13	11.78	11.33
2013-14	7.98	7.73
2014-15	8.59	6.61
2015-16	6.07	-8.38
Mean	9.08	6.14
CGR	-11.19%	-191.04

Source: Annual Reports of SBI and PNB from 2011-12 to 2015-16.

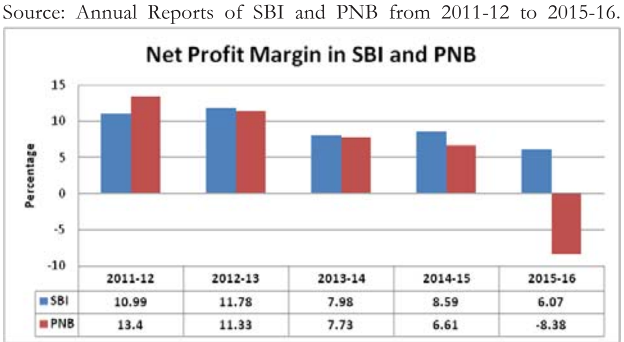

Fig. No. 1.3 Net Profit Margin in SBI and PNB

Interpretation: The table 1.3 reveals that the ratio of net profits to total income of SBI was varied from 10.99 per cent to 6.07 percent. In case of PNB, it continuously decreased from 13.40 percent to -8.38 percent in 2015-16 during the period of 5 years of study. However, the net profit margin was higher in SBI (9.082%) as compared to PNB (6.138%) during the period of study. But it was continuously decreased from 2011-12 to 2015-16 in PNB. Thus, the PNB has shown comparatively lower operational efficiency than SBI.

Current Ratio

The current ratio is a liquidity ratio that measures a company's ability to pay short-term and long-term obligations. To gauge this ability, the current ratio considers the current total assets of a company (both liquid and illiquid) relative to that company's current total liabilities.

The formula for calculating a company's current ratio, then, is:

Current Ratio = Current Assets / Current Liabilities

Table 1.4 - Current Ratio in SBI and PNB

Year	SBI	PNB
2011-12	0.05	0.02
2012-13	0.04	0.02
2013-14	0.03	0.02
2014-15	0.04	0.02
2015-16	0.07	0.03
Mean	0.046	0.022
CGR	6.96%	8.45%

Source: Annual Reports of SBI and PNB from 2011-12 to 2015-16.

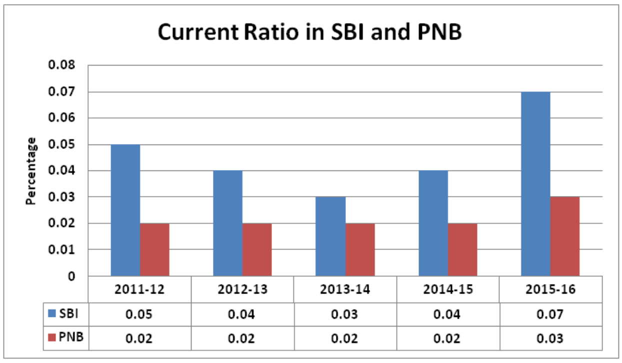

Fig. No. 1.4 Current Ratio in SBI and PNB

Interpretation:The table 1.4 reveals that the current ratio of SBI was not stable as compared to PNBduring the period of 5 years of study. However, the CGR ofcurrent ratio was higher in PNB (8.45%) as compared to SBI (6.96%) during the period of study. A higher current ratio is always more favorable than a lower current ratio because it shows the company can more easily make current debt payments. Thus, the SBIis comparatively more efficient to pay its current debt payments than PNB.

Quick Ratio

The quick ratio or acid test ratio is a liquidity ratio that measures the ability of a company to pay its current liabilities when they come due with only quick assets. Quick assets are current assets that can be converted to cash within 90 days or in the short-term. Cash, cash equivalents, short-term investments or marketable securities, and current accounts receivable are considered quick assets.

Table 1.5 - Quick Ratio in SBI and PNB

Year	SBI	PNB
2011-12	12.05	23.81
2012-13	12.15	22.40
2013-14	13.88	25.19
2014-15	10.78	24.23
2015-16	10.84	28.09
Mean	11.94	24.74
CGR	-2.09%	3.36%

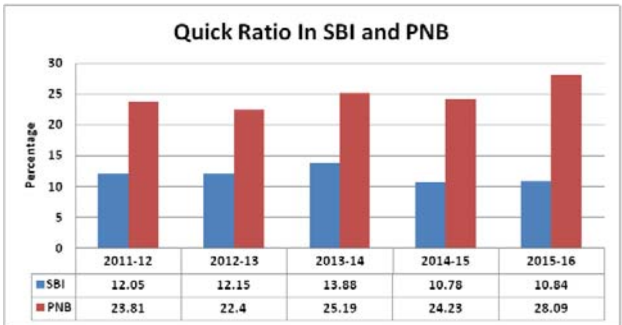

Fig. No. 1.5 Quick Ratio in SBI and PNB

Interpretation: The table 1.5 reveals that the quick ratio of PNB (24.74%) is more than of SBI (11.94%) during the period of 5 years of study. The acid test or quick ratio measures the liquidity of a company by showing its ability to pay off its current liabilities with quick assets. A higher quick ratio is always more favorable than a lower quick ratio. Thus, the PNB is comparatively more efficient to pay its current debt payments with quick assets than SBI.

Findings and Conclusions

The study found that the mean of Credit Deposit Ratio in SBI was higher (6.57 %) than in PNB (5.05%). This shows that SBI Bank has created more loan assets from its deposits as compared to PNB. The ratio of other income to total income was relatively higher in SBI (12.65 %) as compared to PNB (10.59 %). The Net Profit Margin of SBI is higher (9.08 %) whereas in PNB it was (6.14 %), which shows that SBI has shown comparatively better operational efficiency than PNB. the current ratio of SBI was higher (0.046%) as compared to PNB which was (0.022%) which shows that SBI is comparatively more efficient to pay its current debt payments than PNB. The quick ratio of PNB (24.74%) is more than that of SBI which was 11.94%.

On the basis of above calculated figures State Bank of India is a better performer as compared to Punjab National Bank. Hence, on the basis of the above study or analysis banking customer has more trust on State Bank of India as compared to Punjab National Bank.

Limitations of the Study

This study is entirely based on the published financial statements of the banks and other information received from the banks officials. So, all analysis is based on this secondary data. So it can be reliable to that extent.

As the information is collected from limited sources, it is not possible to use different tools and techniques of statistical analysis; The study is based on secondary data; the secondary data has its own limitation; The entire study is limited to two banks only. It can be carried out by including Industry.

Bibliography

P. C. Tulsian (2009) "Financial Management" (1st E dition), S. Chand & Co. Ltd., Ram Nagar, New Delhi – 110 055.

Kothari, C.R. (2010), "Statistical methods", S Chand & Sons, New Age International (P) Ltd Publishers, New Delhi.

M. Y. Khan, P. K. Jain (2001), "Financial Management" (3rd Edition), Tata McGraw – Hill, Publishing Company Ltd., New Delhi.

Mittal, M and Aruna, D (2007), "Profitability and Productivity in Indian Banks: A Comparative Study", AIMS International, 1(2), 137-152.

N Ramchandran, Ram Kumar Kakani (2010), "How to Read a Cash Flow Statement", The Mcgraw Hill Education Private Limited, West Patel Nagar, New Delhi.

Pathak, B. (2003), "A Comparison of the Financial Performance of Private Sector Banks", Finance India, 17{4), 1345-1356.

S.N. Maheshwari and S.K. Maheshwari (2006) "A Textbook of Accounting for Management" (1st edition), Vikas Publishing House Pvt. Ltd., New Delhi.

Thakarshibhai, L.C. (2011), "The Profitability Analysis of Banks in India", Paripex Indian Journal of Research, 3(12).