COMPARATIVE STUDY OF PROFITABILITY OF SBI&HDFC

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ABSTRACT

The Banking sector is the backbone of the Indian economy. A well-developed banking system is necessary pre condition for economic development of an economy. The major role of banks is to collect money from the public in the form of deposits and then along with its funds to serve the demands of the customers quickly. For this purpose, banks maintain adequate profitability. Profit is the main reason for the continued existence of every commercial organization. The present article discusses the profitability of the two banks of India. It takes into account the various profitability ratios of two banks. The common denominator used for developing the various profitability ratios is business volume (deposits + advances). The study analyses the published five-year data from 2008-2009 onwards for the two largest banks, i.e., SBI- the largest public sector bank and HDFC- the largest private sector bank. The comparative analysis of the profitability of the two banks clearly reveals that there is a large difference between in the profitability of the two banks. HDFC's profitability is more than that of SBI.

Keywords: Bank's Profitability, Burden Ratio, Business Volume, Spread Ratio

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INTRODUCTION

Banks play an active role in the economic development of a country. Their ability to make a positive contribution in igniting the process of growth depends on the effective banking system. The banking sector reforms were aimed at making banks more efficient And viable . The major role of banks is to collect the savings and utilize the same in the productive sectors of the economy. For this purpose banks maintain adequate liquidity and profitability . Commercial banks and short-term creditors are interested in such type of analysis. Profit is the barometer to measure the efficiency of firm and to judge the extent to which the management has been successful in proper utilization of the resources .Profit is the main reason for the continued existence of every commercial organization as well as for long term growth of business. Therefore , it is quite imperative and obvious to study the profitability of the banking sector The present study is devoted to analyze the financial performance of HDFC Bank and SBI Bank. This study focus on achievement and performance of a public sector bank and a private sector bank that is SBI(State Bank Of India) largest public sector bank and HDFC(Housing Development Finance Corporation)largest private sector bank . The parameter selected for evaluation is profitability .

OBJECTIVES OF THE STUDY

1. To study and analysis the profitability of selected banks .
2. To compare the profitability between SBI public sector bank and HDFC private sector bank

REVIEW OF LITERATURE

According toChidambaram R.M.Profitability of public sector banks is low as compared to private sector banks .According to Dr. Major Singh and VivekKumar ,Profitability is the most important parameter for performance appraisal of any business organization . Their study covered 2 banks (SBI and HDFC).Their study revealed that Profitability of HDFC is more than that of SBI.Jha and Sarangi (2011) analyzed the performance ofseven public sector and private sector banks for the year2009-10. They found thatAxis Bank took the first position, followed ICICI Bank,BOI, PNB, SBI, IDBI &HDFC, in that order.Mr. Dangwal and Kapoor (2010) evaluated the financialperformance of nationalized banks in India. The data for 19nationalized banks was used to calculate the index of spread ratios, burden ratios, and profitability ratios.

They found that while four banks had excellent performance, five achieved good performance, fourattained fair performance, and six had poor performance .Pat (2009) made an assessment of the RBI's Report on"Trend and Progress of Banking' in India, 2007-08,which reported a relatively-healthy position of theIndian banking system. He also revealedconsiderable improvements over the years. Singla HK (2008), in his paper,' financial performanceof banks in India,', has examined that how financialmanagement plays a crucial role in the growth of banking. It is concerned with examining theprofitability position of the selected sixteen banks ofbanker index for a period of six years (2001-06). Thestudy reveals that the profitability position wasreasonable during the period of study when comparedwith the previous years. Strong capital position andbalance sheet place, Banks in better position to dealwith and absorb the economic constant over a period oftime .According to Samwel (2005) in his articleelaborated that the profitability performance of the banks can be improved by strengthening the magnitudeof burden ratio. The spread ratio can be increased byincreasing the interest receipts faster than the interestpayments. The burden ratio can be lowered bydecreasing the manpower expenses, other expenses andincreasing other incomes

METHODOLOGY

This paper is a comparative study and explains the various ratios to study the profitability of two banks . The data is collected from secondary sources and ratios are calculated accordingly. The common denominator used for developing various profitability ratios are current liabilities and business volume(deposits +advances).

RATIOS USED FOR MEASURING PROFITABILITY

1) PROFITABILITY RATIOS

Profitability is a measure of efficiency and control. Profitability ratio is the common ratio required to judge the profitability of commercial banks. This ratio measures the profitability or the operational efficiency of the banks. Employing more resources and making effective utilization of resources can increase absolute profits. Profitability strengthen the long term solvency of the business.

2) INTEREST EARNED RATIO

$$\text{INTEREST EARNED RATIO} = \frac{\text{TOTAL INTEREST EARNED}}{\text{VOLUME OF BUSINESS}} \times 100$$

This ratio shows the interest earning capacity of bank which helps us to understand the earning capacity of both the banks. Higher the interest earned ratio , higher the profitability of the bank.

3) INTEREST PAID RATIO

$$\text{INTEREST PAID RATIO} = \frac{\text{TOTAL INTEREST PAID}}{\text{VOLUME OF BUSINESS}} \times 100$$

This ratio shows the interest paid by the bank. Lower the interest paid ratio ,higher the profitability of the bank.

4) NON- INTEREST INCOME RATIO

$$\text{NON –INTEREST INCOME RATIO} = \frac{\text{TOTAL INCOME - INTEREST INCOME}}{\text{VOLUME OF BUSINESS}} \times 100$$

This ratio shows the non –interest income of the bank. Non –interest income can be calculated by deducting the interest income from the total income of the bank. Higher is this ratio , higher the profitability of the bank .

5) OTHER OPERATING EXPENSES RATIO

$$\text{OTHER OPERATING EXPENSES RATIO} = \frac{\text{TOTAL EXPENSES-INTEREST EXPENSES}}{\text{VOLUME OF BUSINESS}} \times 100$$

This ratio shows the operating expenses of the bank other than the interest expenses . The operating expenses can be calculated by deducting interest expenses from total expenses . Lower is this ratio , higher is the profitability of the bank .

6) SPREAD RATIO

SPREAD RATIO = INTEREST EARNED RATIO -INTEREST PAID RATIO

Spread is the difference between interest earned and interest paid. So spread is the amount available to the commercial banks for meeting their administrative, operating and other expenses. As a matter of practice, banks try to increase the spread volume so that it is sufficiently available to meet the non-interest expenses and the remainder contributes to the profit volume.This ratio can be calculated by deducting interest paid ratio from the interest earned ratio.Higher is the ratio ,higher will be the profitability.

7) BURDEN RATIO

BURDEN RATIO=OTHER OPERATING EXPENSES RATIO- NON -INTEREST INCOME RATIO

Burden is defined as the difference betweenOther operating expenses ration an non-interest expensesratio.It represents non-interest expenses which are not covered by non-interest income and remains to be covered by spread so as to arrive at the profit. Thus, profit of commercial banks is the difference between spread and burden.This ratio can be calculated by deducting non interest income ratio from other operating expenses ratio. Higher is the ratio ,lower will be the profitability.

8) PROFITABILITY RATIO

PROFITABILITY RATIO =SPREAD RATIO -BURDEN RATIO

This ratio can be calculated by deducting burden ratio from spread ratio.

LIMITATION OF THE STUDY

The major limitation of the present study is that the analysis is restricted to one particular sector such as banking. It is confined to only measure the financial performance of select banks. The inherent limitation is secondary data. The published data is not uniform and not properly disclosed by the banks. Hence, this may be taken as another limitation.

DATA ANALYSIS

The data takes into account the previous 5 years starting from 2008-2009 to 2012-2013.

Table - 1

INTEREST EARNED RATIO (In %)

YEAR'S	SBI	HDFC
2008-09	4.96	6.76
2009-2010	4.94	5.52
2010-2011	4.81	5.41
2011-2012	5.57	6.17
2012-2013	5.32	6.54

Interest earned ratio can be find out by dividing the interest earned with the volume of business of the banks .In The above table,interest earned ratio of SBI is 4.96% in the year 2008-2009 and ratio of HDFC bank is 6.76%. in the year 2009-2010 this ratio is 4.94% in case of SBI and 5.52% in case of HDFC.

In the year 2010-2011 ,SBI ratio is 4.81% and HDFC ratio is 5.41%. In the year 2011-2012 THIS RATIO IS 5.57% IN CASE OF SBI And incase of HDFC is 6.17%. In the last year SBI ratio is decreased to 5.32% and HDFC ratio is increased to 6.54%.Thus, we can conclude that interest earned ratio of HDFC bank is greater than SBI which shows higher profitability of HDFC bank because higher the interest earned ratio,higher the profitability of bank.

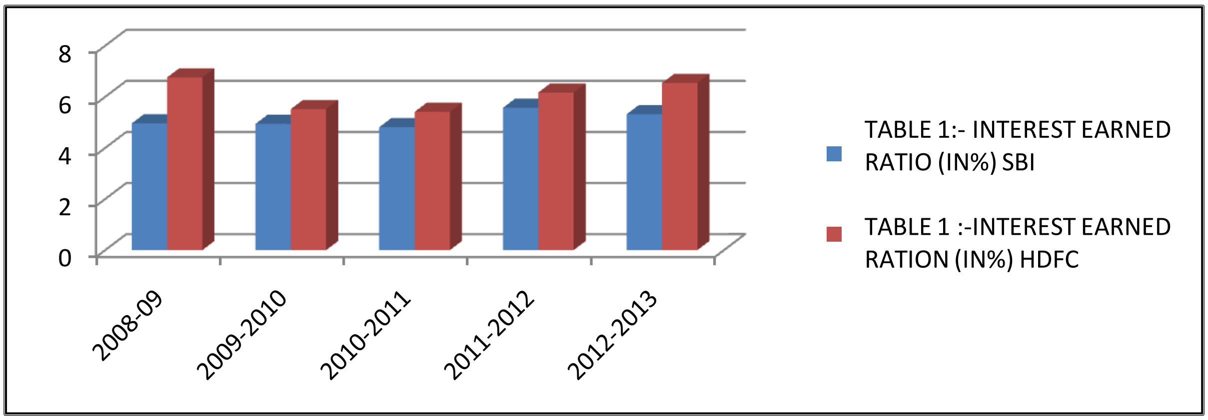


Table - 2

INTEREST PAID RATIO (In %)		
YEAR'S	SBI	HDFC
2008-2009	3.34	3.69
2009-2010	3.23	2.66
2010-2011	2.89	2.55
2011-2012	3.31	3.39
2012-2013	3.35	3.59

Interest paid ratio can be find out by dividing the interest paid with the volume of business of the banks . In the above Table, in the year 2008-2009,interest paid ratio of SBI is 3.34% and of HDFC is 3.69%.In the year 2009-2010, SBI ratio is decreased to 3.23% which is good and HDFC ratio is 2.66%.in the year 2010-2011, ratio of SBI is 2.89% and HDFC ratio is 2.55%

.in the next year 2011-2012,this ratio is 3.31% in case of SBI and 3.39% in case of HDFC bank. In the last year, this ratio is 3.35% in case of SBI and 3.59% in case of HDFCbank.Thuswe can conclude that interest paid ratio of HDFC bank is greater than SBI bank which shows higher profitability of SBI bank because lower the interest paid ratio,higher the profitability of bank.This adversely affect the profitability of HDFC bank.

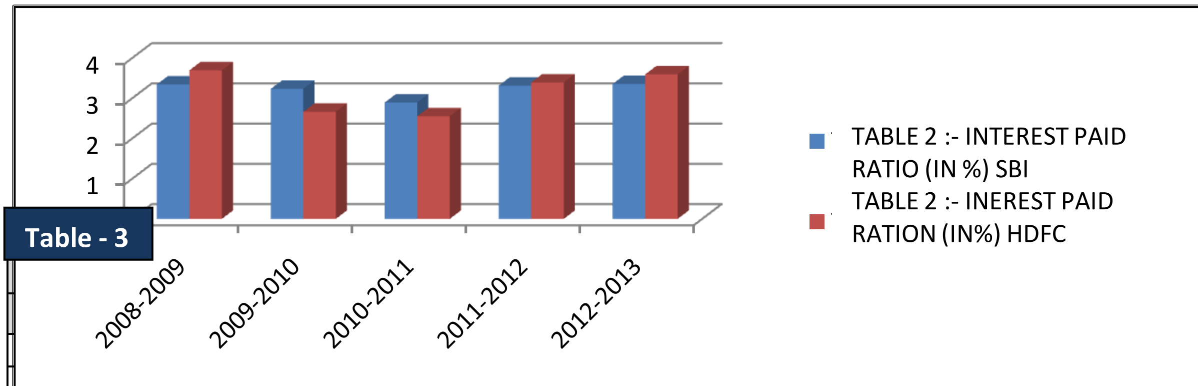


Table - 3

2010-2011	**0.94**	**1.18**
2011-2012	**0.75**	**1.19**
2012-2013	**0.713**	**1.28**

This ratio shows the income of a bank other than the interest income.In the above Table,non interest income ratio in case of HDFC bank is higher as compared to SBI.In the year 2008-2009 it is 0.988% in case of SBI and 1.36% in case of HDFCbank.In the year 2009-2010,it is 1.04% in case of SBI and 1.36%in case of HDFC bank. Inthe next year ratio of SBI and HDFC are 0.94% and 1.18% respectively .In the year 2011-2012, ratio of SBI is 0.75% and ratio of HDFC bank is 1.19%.In the last year,this ratio is 0.71% in case of SBI and 1.28% in case of HDFCbank.Thuswe can conclude that interest paid ratio of HDFC bank is greater than SBI bank which shows higher profitability of SBI bank because higher is the ratio,higher the profitability of the bank.

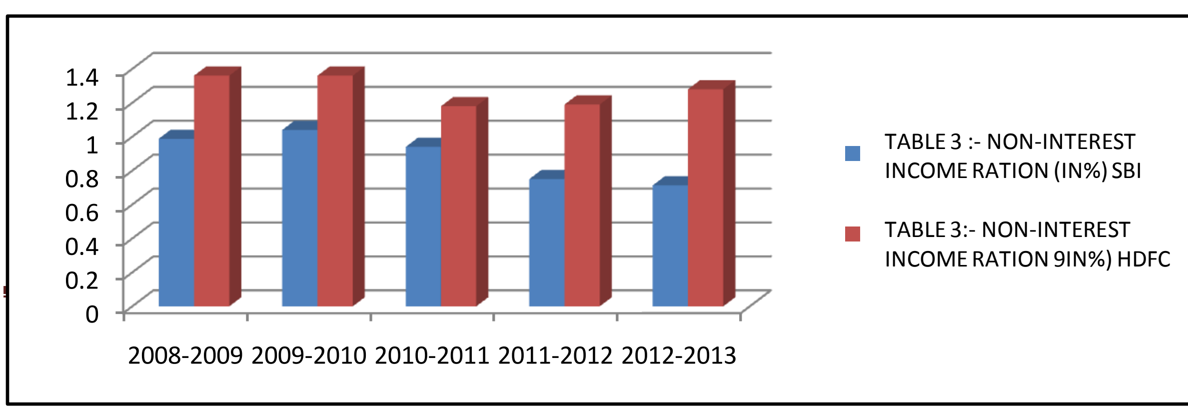


Table - 4

OTHER OPERATING EXPENSE RATIO (In %)		
YEAR'S	SBI	HDFC
2008-2009	1.22	2.29
2009-2010	1.41	2.03
2010-2011	1.36	1.94
2011-2012	1.36	1.94
2012-2013	2.05	2.97

In the above Table, other operating expense ratio of SBI is 1.22% and of HDFC BANK IS 2.99%in the year 2008-2009. In the year 2009-2010,this ratio of SBI and HDFC bank is 1.41% and 2.03% respectively.In the year 2010-2011, the ratio of SBI bank is 1.36% and the ratio of HDFC bank is 1.94%.I n the year 2011-2012, the ratio is 1.36% in case of SBI bank and 1.94% in caSE OF HDFC bank .In the last year ,this is 2.05% and 2.97%in case of SBI and HDFC bank respectively. Thus we can conclude that interest paid ratio of HDFC bank is greater than SBI bank which shows higher profitability of SBI bank because lower is the ratio, higher is the profitability of the bank.This will adversely affect the profitability of the HDFC bank.

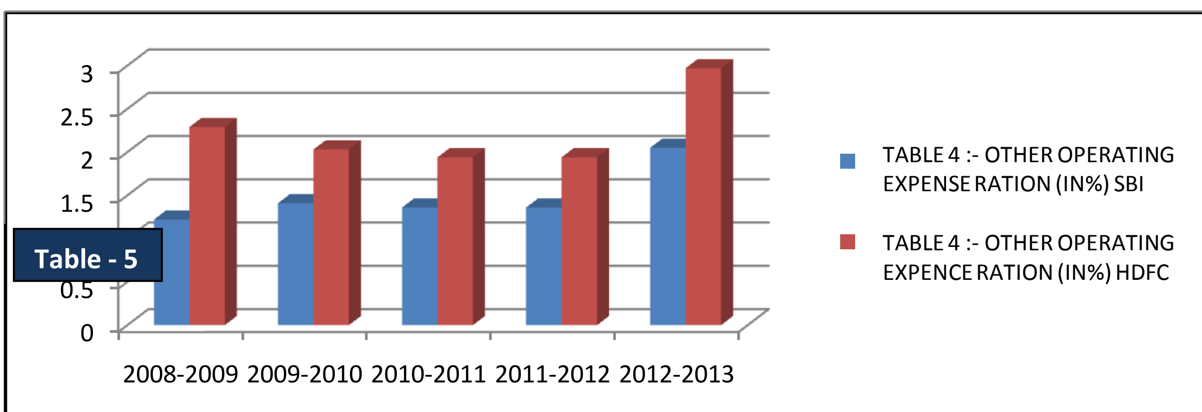


Table - 5

2009-2010	1.71	2.86
2010-2011	1.92	2.86
2011-2012	2.26	2.78
2012-2013	1.97	2.95

Spread ratio is the difference between the interest earned on loans and advances and interest paid on deposits and borrowings by the banks .SBI'S spread ratio is 1.62% in 2008-2009 and1.97% in 2012-2013 . Whereas HDFC's spread ratio is 3.07% in 2008-2009 and 2.95% in 2012-2013 .From the above table, we can conclude that, spread ratio of HDFC bank is greater as compared to SBI bank which shows higher profitability of HDFC bank.

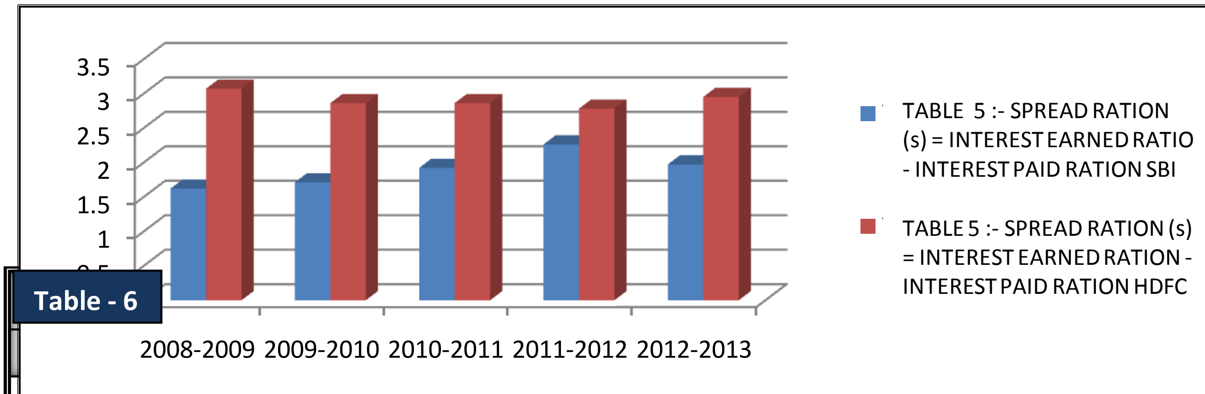
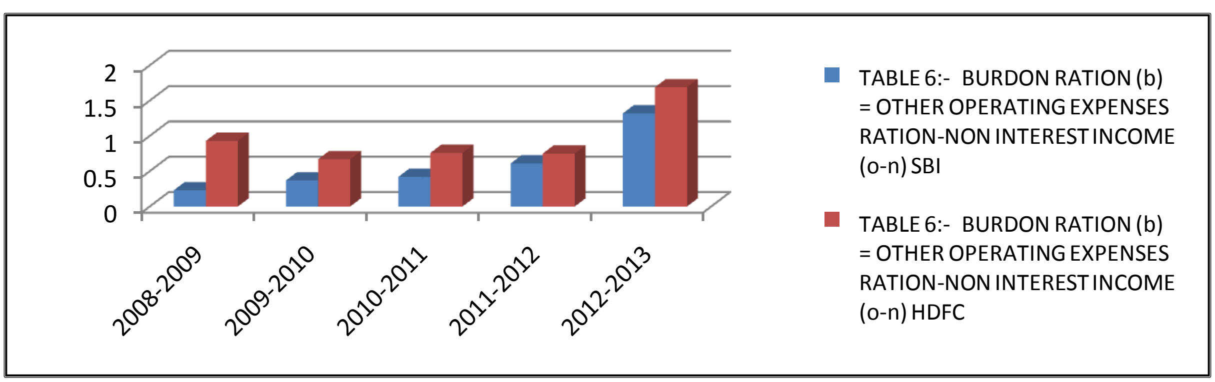


Table - 6

2008-2009	0.23	0.93
2009-2010	0.37	0.67
2010-2011	0.42	0.76
2011-2012	0.61	0.75
2012-2013	1.32	1.69

It is a difference between non-interest expenditure and non –interest income of a commercial bank .burden ratio of SBI bank is 0.23% in 2008-2009 and 1.32% in 2012-2013. Burden ratio of HDFC bank is 0.93% in 2008-2009 and 1.69 % in 2012-2013 .From the above table, we can conclude that, burden ratio of HDFC bank is greater as compared to SBI bank which will adversely affect the profitability of HDFC bank.



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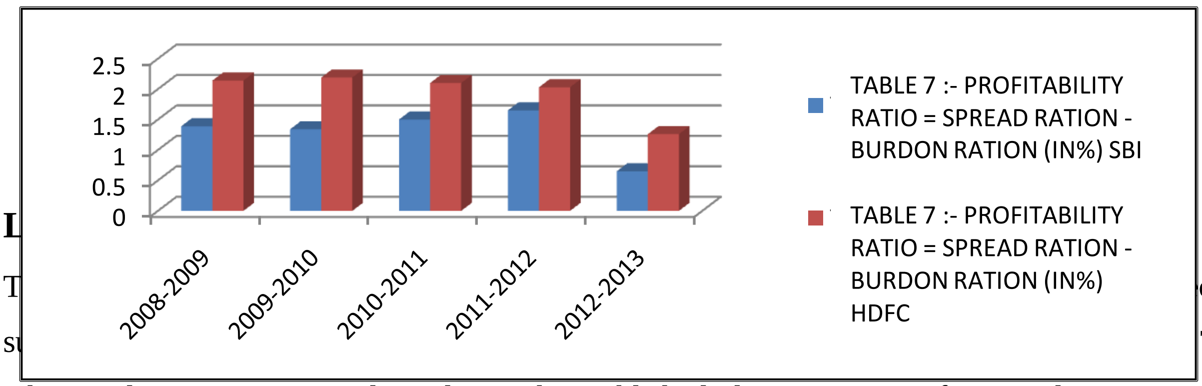
PROFITABILTY RATIO (In %)		
YEAR'S	**SBI**	**HDFC**
2008-2009	1.39	2.14
2009-2010	1.34	2.19
2010-2011	1.5	2.1
2011-2012	1.65	2.03
2012-2013	0.65	1.26

Profitability ratio can be find out by deducting the burden ratio from the spread ratio.SBI's ratio is 1.39% in 2008-2009 and 0.65 in 2012-2013 .HDFC's ratio is 2.14% in 2008-2009 and 1.26% in 2012-2013 .From the above table, we can conclude that, spread ratio of HDFC bank is greater as compared to SBI bank which shows higher profitability of HDFC bank.



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inherent limitation issecondary data. The published data is not uniform and not properly disclosed by the banks. Hence, this may be taken as another limitation

FINDINGS

It is very important to study the profitability of banking sector. For the existence of the firm adequate profitability is essential which makes banking sector healthy and strong. The comparative analysis of profitability of two banks clearly shows that there is difference in the profitability of both the banks. The spread ratio ofHDFC bank is more as compared to SBI BANK .Hence we can say that HDFC bank interest income is more compared with SBI bank .Hence HDFC bank earns more profits. The spread of the bank should control otherwise the income of the bank is eaten away by theinterest expenses in the long-run. The burden ratio of HDFC bank is more compared with SBI bank but spread is more in HDFC bank hence it earns profits . The burden of the HDFC bank should control within the short-period otherwise the profit of the bank is eaten away by the increased burden in the long-run .HDFC's profitability is more than that of SBI. SBI is a public bank which plays vital role in the development of banking industry in the country. The reason of lower profitability of this bank may be due to the reason because profit earning is not the sole motive of SBI. But nowadays profitability is very essential for the success and survival of any business organization.

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