ANALYSIS OF FINANCIAL PERFORMANCE OF STATE BANK OF INDIA AND PUNJAB NATIONAL BANK

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Abstract

The present study is conducted to analyse the financial performance of State Bank of India (SBI) and Punjab Nation Bank (PNB) on the basis of bank size/total assets and financial ratios such as profitability ratio, management efficiency ratio, liquidity ratio, and leverage ratio. The study is descriptive in nature. Secondary data were used for the study which was collected from the various websites, journal and annual reports from 2011 to 2015. Compound Annual Growth Rate (CAGR) and average is used to analyze the collected data. The results show that SBI and PNB has strong position and the study also found the different results based on bank size and each financial ratio categories such as profitability ratios, management efficiency ratios, liquidity ratios, and capital/leverage ratio. The study concluded that policy maker, decision makers and management to take the decisions for improvement of the performance of public sector banks.
Keywords: SBI, PNB, profitability ratio, CAGR, bank size, *etc.*

➢ INTRODUCTION

Banking today has become convenient and instant, with the account holder not having to wait for hours at the bank counter for getting a draft or for withdrawing money from his account. Without a sound and effective banking system in India, it cannot have a healthy economy. The banking system of India should not only be hassle free, but it should be able to meet new challenges posed by the technology and other external and internal factors. India's banking system has several outstanding achievements to its credit, last three decades. The most striking is its extended reach. It is no longer confined to only metropolitans or cosmopolitans in India. In fact, Indian banking system has reached even to the remote corners of the country. This is one of the main reasons of India's growth process. The government's regular policy for Indian bank since 1969 has paid rich dividends with the nationalization of 14 major private banks of India. The first bank in India, though conservative, was established in 1786. From 1786 till today, the journey of Indian Banking System can be segregated into three distinct phases: 1stEarly phase of Indian banks, from 1786 to 1969; 2ndNationalization of banks and the banking sector reforms, from 1969 to 1991; and 3rdNew phase of Indian banking system, with the reforms after 1991. Bank of Hindustan was set up in 1870; it was the earliest Indian Bank. Later, three presidency banks under Presidency Bank's act 1876 *i.e.* Bank of Calcutta, Bank of Bombay and Bank of Madras were set up, which laid foundation for modern banking in India. In 1921, all presidency banks were amalgamated to form the Imperial Bank of India. Imperial bank carried out limited number of central banking functions prior to establishment of RBI. It engaged in all types of commercial banking business except dealing in foreign exchange. Reserve Bank of India Act was passed in 1934 and Reserve Bank of India (RBI) was constituted as an apex body without major government ownership. Banking Regulations Act was passed in 1949. This regulation brought RBI under government control. Under the act, RBI got wide ranging powers for supervision and control of banks. The Act also vested licensing powers and the authority to conduct inspections in RBI. In 1955, RBI acquired control of the Imperial Bank of India, which was renamed as State Bank of India. In 1959, SBI took over control of eight private banks floated in the erstwhile princely states, making them as its 100 percent subsidiaries. It was 1960, when RBI was empowered to force compulsory merger of weak banks with the strong ones. It significantly reduced the total number of banks from 566 in 1951 to 85 in 1969. In July 1969, government nationalized 14 banks having deposits of Rs. 50 crores and above. In 1980, government acquired 6 more banks with deposits of more than Rs. 200 crores. Nationalization of banks was to make them play the role of catalytic agents for economic growth. The Narasimham Committee report recommended wide ranging reforms for the banking sector in 1992 to introduce internationally accepted banking practices. The amendment of Banking Regulation Act in 1993 and possible the entry of new private sector banks. Banking industry is the back bone for growth of any economy.

➢ REVIEW OF LITERATURE

The following reviews related to the study are as under:

George, *et al.* (2004) evaluate the performance of private sector banks like Bank of Punjab, Centurion Bank, Development Credit Bank, HDFC Bank, ICICI Bank, IDBI Bank, IndusInd Bank, Kotak Mahindra Bank, UTI Bank and Yes Bank of India from the year of their inception by using CAMEL Model. The study used 20 variables in total for capital adequacy, asset quality, management quality, earnings and liquidity parameters. The study found that the performance of Kotak Mahindra Bank was the most excellent during all the years under study, followed by HDFC Bank and IndusInd Bank.

Shannugam and Das (2004) made an attempt to measure the technical efficiency of banks in India during the period 1992-99 by using stochastic frontier approach. For analysing the efficiency of banks, four outputs, *i.e.,* Interest Margin, Non-Interest Income, Investment and Credit; and four inputs, i.e., Deposits, Borrowings, Labour and Fixed assets have been used. The results revealed that there has been dominance of deposits in producing all the outputs during the study period and an improvement in banking industry has been found in raising non- interest income, investments and credits. The study indicated that state bank group and private owned foreign group performed better than their counterparts.

Tambi (2005) evaluated the impact of mergers on the performance of a corporation of India.
However, the theoretical assumption says that mergers improve the overall performance of the company due to increased market power and synergy impacts. He has evaluated selected banks using three parameters like PBITDA, PAT and ROCE for any change in their before and after values by comparison of means using t-test. The results of his study indicate that mergers have failed to contribute positively.

Singh and Kohli (2006) examined the performance of 30 private sector banks by using CAMEL Model and individual ranks as well as composite scores calculated for the years 2003, 2004 and 2005. The study also analyzed the strengths and weaknesses of the banks through SWOT analysis. On the basis of composite scores top position among private sector banks has been attained by Bank of Punjab followed by HDFC Bank and Jammu & Kashmir Bank, while ING Vysya Bank, South Indian Bank and Lord Krishna Bank stood at bottom. The study concluded that the banks with innovative new products, better utilization of manpower resource and which offered strong brands have performed in a better way.

Prasad and Ravinder (2011) analyzed the profitability by using various parameters like Operating Profit Margin, Gross Profit Margin, Net Profit Margin, Earning per Share, Return on Equity, Return on Assets, Price Earning Ratio and Dividend Payout Ratio of four major banks in India, *i.e.,* State Bank of India, Punjab National Bank, ICICI Bank and HDFC Bank for the period

2005-06 to 2009-10. The study revealed that State Bank of India performed better in terms of earning per share and dividend payout ratio, while Punjab National Bank performed better in terms of operating profit margin and return on equity. The study also found that HDFC Bank outperformed in terms of gross profit margin, net profit margin, return on assets and price-earnings ratio. It also concluded that HDFC Bank on the top position followed by Punjab National Bank, State Bank of India and ICICI Bank.

Dhevika, Latasri and Gayathri (2013) examined the financial position of City Union Bank, borrowings of the bank, the liquidity position and solvency of the bank through ratio analysis. Financial Performance refers to the achievement of the bank in terms of profitability. Profitability of a bank denotes the efficiency with which a bank deploys its total resources to optimize its net profits and thus serves as an index to the degree of asset utilization and managerial effectiveness.

Sai and Sultana (2013) evaluated the performance of the selected two banks based on the financial ratios from the perspective of pre and post-merger. The study found that there is significant difference among the Net profit margin, Operating profit margin, Return on capital employed, Return on equity and Debt-Equity ratio of Indian overseas bank and HDFC bank but no significant difference with respect to Gross profit margin of Indian overseas bank.

Gupta (2014) analysed and compared the financial performance of ICICI Bank and offer suggestions for the improvement of efficiency in the bank. The present study also focused on operational control, profitability and solvency *etc.* ICICI bank emerged as a pioneer venture on the horizon of offering an expanded range of banking products and financial services for corporate and retail customers through its diverse delivery channels and specialized subsidiaries in the areas of investment banking, asset management, venture capital and insurance.

Gajera and Pithadia (2015) analysed the capital adequacy of private and public sector banks of India by taking financial ratios of two parameters indicating capital adequacy of commercial banks. It found that there was significance difference in financial performance with respect to capital adequacy ratio in four types of banks *i.e.* SBI and its associate's banks, nationalized banks, old private and new private sector banks.

➢ OBJECTIVES OF THE STUDY

The main objective of the study is to analyse the financial performance of the selected banks specific objectives of the study is as under:

- To know the growth rate of total assets the selected banks;
- To analyse the profitability of SBI and PNB;
- To analyse the managerial efficiency of SBI and PNB;
- To analyse the liquidity of SBI and PNB; and
- To analyse the leverage of SBI and PNB

METHODOLOGY

The study is descriptive in nature. As a sample, two public sector banks named State bank of India and Punjab National Bank selected for the study and period of the study is 2011 to 2015. Secondary data used for the study which are collected from the various websites, journal and annual reports. Average and Compound annual growth rate (CAGR) used as tool of analysis.

➢ RESULT AND DISCUSSION

Profitability Ratios includes Spread ratio, Net Profit Margin ratio, Return on Net Worth, and Return on Assets. Management efficiency ratio covers Interest Income/Total Funds, Non-Interest Income/Total Funds and Operating Expense/Total Funds. Liquidity ratio includes Current ratio and Quick ratio. Leverage ratio includes Capital Adequacy ratio, Credit Deposit ratio, Investment Deposit ratio and Debt-equity ratio.

Bank Size or Total Assets of the Banks:

Bank size means the total assets of the banks. Table 1 shows the total assets of the SBI and PNB. Total assets of SBI Rs. 12,23,736 crores in 2011 and Rs. 20,48,080 crores in 2015. Total assets of PNB Rs. 3,78,325 crores in 2011 and Rs. 6,03,334 crores in 2015. CAGR of SBI 14 percent and 12 percent CAGR occupied by PNB.

PROFITABILITY RATIO

Spread Ratio:

It can be calculated by dividing the total interest earned with total interest paid. Table 02 are showing the spread ratio of SBI and PNB. Spread ratio of the SBI is 6.12 percent in 2011 and 6.26 percent in 2015. PNB's spread ratio 6.74 percent in 2011 and 6.73 percent in 2015. Average of the Spread ratio of SBI 6.19 percent and 6.91 percent of PNB

Net Profit Margin ratio:

It is considered an indicator of the success of management to operate the business successfully. This ratio is also known as net profit ratio and can be calculated by dividing net profit to sales. Table 3 shows the Net profit Margin ratio of the SBI 9.05 percent in 2011 and 8.57 percent in 2015. PNB Net profit Margin ratio 16.42 percent in 2011 and 6.61 percent in 2015. Average Net profit Margin of the SBI is 9.67 percent and PNB is 11.09 percent.

Return on Net-Worth:

This ratio determined how effectively the funds of the shareholders are being utilised. This ratio can be calculated as the percent of after tax net profit to total shareholders' funds. Table 4 depicts that Return on Net worth of SBI 11.34 percent in 2011 and 10.20 percent in 2015. Return on Net-Worth of PNB is 22.12 percent in 2011 and 8.12 percent in 2015. Average of Return on Net-Worth of SBI is 11.78 percent and 14.72 percent average of Return on Net-Worth of PNB.

Return on Assets:

This ratio can be calculated as the after tax net profit percentage to total assets and its used to know the earning capacity of profit of a bank by using its assets. Table 05 depicts the data related to return on assets (ROA) of SBI and PNB and shows the Return on assets of SBI 0.89 percent in 2011 and 0.84 percent in 2015. Return on assets of PNB 0.48 percent in 2011 and 0.20 percent in 2015. Average of return on assets of SBI 0.96 percent and 0.35 percent of PNB.

MANAGEMENT EFFICIENCY RATIO

Interest Income to Total Funds Ratio:

Interest Income to Total Funds ratio shows the proportionate contribution of interest income in Total Funds. Table 6 shows the Interest income to total funds of SBI and PNB. Interest income to total funds of SBI 7.15 percent in 2011 and 7.94 percent in 2015. On the other hand, Interest income to total funds of PNB 8.03 percent in 2011 and 8.05 percent in 2015. Average of the Interest Income to Total Funds of SBI is 7.96 percent and 8.44 percent of PNB.

Non-Interest Income to Total Funds Ratio:

Non-Interest Income to Total Funds shows the proportionate contribution of Non-Interest Income to Total Funds. Table 7 presents the Non-Interest Income to Total Funds of SBI 1.39 percent in 2011 and 1.18 percent in 2015. Non-Interest Income to Total Funds of PNB 1.08 percent in 2011 and 1.02 percent in 2015. Average of Non-Interest Income to Total Funds of SBI is 1.18 percent and 0.98 percent of PNB.

Operating Expense to Total Funds:

Operating Expense to Total Funds can be calculated as the operating expenses (cost of goods sold +selling and distribution expenses + office and administrative expenses) to total funds. Table 8 express the Operating Expense to Total Funds of SBI and PNB. Operating Expense to Total Funds of SBI is 1.93 percent in 2011 and 1.96 percent in 2015. On the other hand, Operating Expense to Total Funds of PNB is 1.82 percent in 2011 and 1.76 percent in 2015. Average of Operating Expense to Total Funds Ratio of SBI is 1.96 percent and 1.72 percent of PNB.

LIQUIDITY RATIO

Current Ratio:

This ratio is calculated by current assets to current liabilities. With its help, the ability of the business to pay its short–term liabilities is determined. Table 9 shows the current ratio of the SBI and PNB. Current ratio of the SBI in 2011 and 2015 is 0.04 percent. PNB current ratio in 2011 is 0.03 percent and 0.02 percent in 2015. Average of the Current ratio of SBI is 0.04 percent and 0.02 percent of PNB.

Quick Ratio:

This ratio is calculated by liquid assets to current liabilities. With its help, the ability of the business to pay its current liabilities immediately is determined. Table 10 are containing the data regarding quick ratio of SBI and PNB. Quick ratio of the SBI bank is 8.5 percent in 2011 and 10.78 percent in 2015. On the other hand, Quick ratio of the PNB is 22.24 percent in 2011 and 24.23 percent in 2015. Average of the Quick ratio of SBI is 11.47 percent and 23.57 percent of PNB.

LEVERAGE RATIO

Capital Adequacy Ratio:

Capital adequacy ratio (CAR) is a specialized ratio used to determine the adequacy of their capital keeping in view their risk exposures and this ratio is calculated by dividing tier-1 capital plus tier-2 capital by Risk-weighted Exposures. Table 11 are containing the data regarding Capital Adequacy Ratio of SBI and PNB. Capital Adequacy Ratio of SBI is 11.98 percent in 2011 and 12 percent in 2015. Capital Adequacy Ratio of PNB12.42 percent in 2011 and 12.89 percent in 2015. Average of CAR of SBI is 12.74 percent and 12.55 percent of PNB.

Credit-Deposit Ratio:

This ratio is calculated by total advances to total deposits and its represents the proportion of loan-assets created by a bank from the deposits received. Credits are the loans and advances granted by the bank.Table 12 are containing the data regarding Credit-Deposit Ratio of SBI and PNB. Credit deposit ratio of SBI is 79.90 percent in 2011 and 84.40 percent in 2015. Credit deposit ratio of PNB 76.25 percent in 2011 and 76.60 percent in 2015. Average of the Credit deposit ratio of SBI is 83.70 percent and 77.28 percent of PNB.

Investment Deposit Ratio:

This ratio is calculated by Total Investments divided by Total Deposits. Table 13 shows the Investment Deposit ratio of SBI and PNB. Investment Deposit ratio of SBI 33.45 percent in 2011 and 30.07 percent in 2015. Investment Deposit ratio of PNB is 30.75 percent in 2011 and 30.97

percent in 2015. Average of the Investment Deposit ratio of SBI is 30.52 percent and 31.67 percent of PNB.

Debt-Equity Ratio:
This ratio establishes the relationship between the shareholders' funds and debt – funds and it can be calculated by external equities to internal equities. Table 14 shows the Debt-Equity Ratio of SBI and PNB. Debt-Equity ratio of SBI is 14.37 percent in 2011 and 12.28 percent in 2015. Debt-Equity ratio of PNB is 15.62 percent in 2011 and 13.30 percent in 2015. Average of the Debt-Equity ratio of SBI is 12.60 percent and 13.78 percent of PNB.

➢ CONCLUSIONS

On the basis of results and discussion, SBI and PNB has strong position and the study also found the different results based on bank size and each financial ratio categories such as profitability ratios, management efficiency ratios, liquidity ratios, and capital/leverage ratio. SBI is growing bank on the basis of Bank assets growth rate. SBI is at first on the base of return on total assets (ROA). Whereas, PNB is at first on the base of spread ratio, net profit margin ratio, and return on net worth. PNB is at first on the base of Interest Income to Total Funds, whereas SBI is at first on the base of Non-Interest Income to Total Funds and Operating Expense to Total Funds. Based on liquidity ratios, SBI is at first on the base of current ratio, whereas PNB is at first on the base of quick ratio. On the other hand, a leverage ratio, SBI is at first on the base capital adequacy ratio and credit deposit ratio, whereas PNB is at first on the base of investment deposit ratio and debt-equity ratio. At the end this effort highlighted the constructive information not only for managers as well as for policy makers so that they may be able to improve the financial performance of the banks. Only State Bank of India leads in all respect *i.e.* total assets, advances, deposits, return on assets, profit. The study concluded that policy maker, decision makers and management to take the decisions for improvement of the performance of public sector banks. The study has its limitation in term of selection of banks (only public sector banks).

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Table 1: Total Assets of the selected Banks (Rs. Crores)

Year	SBI	PNB
2011	12,23,736	3,78,325
2012	13,35,519	4,58,194
2013	15,66,211	4,78,948
2014	17,92,748	5,50,420
2015	20,48,080	6,03,334
CAGR (Percent)	14	12

Source: Annual Reports of the Various Banks.

Table 02: Spread Ratio (Percent)

Year	SBI	PNB
2011	6.12	6.74
2012	6.87	6.87
2013	5.95	7.29
2014	5.76	6.95
2015	6.26	6.73
AVERAGE	6.19	6.91

Source: Annual reports of the banks

Table 03: Net Profit Margin ratio (Percent)

Year	SBI	PNB
2011	9.05	16.42
2012	10.99	13.40
2013	11.78	11.33
2014	7.98	7.73

2015	8.59	6.61
AVERAGE	9.67	11.09

Source: Annual reports of the banks

Table 04: Return on Net-Worth (Percent)

Year	SBI	PNB
2011	11.34	22.12
2012	13.94	18.52
2013	14.26	15.19
2014	9.20	9.69
2015	10.20	8.12
AVERAGE	11.78	14.72

Source: Annual reports of the banks

Table 05: Return on Assets (Percent)

Year	SBI	PNB
2011	0.89	0.48
2012	1.14	0.48
2013	1.16	0.39
2014	0.78	0.24
2015	0.84	0.20
AVERAGE	0.96	0.35

Source: Annual reports of the banks

Table 06: Interest Income/Total Funds (Percent)

Year	SBI	PNB
2011	7.15	8.03
2012	8.32	8.74
2013	8.25	8.97
2014	8.12	8.41
2015	7.94	8.05
AVERAGE	7.96	8.44

Source: Annual reports of the banks

Table 07: Non Interest Income/Total Funds (Percent)

Year	SBI	PNB
2011	1.39	1.08
2012	1.12	1.01
2013	1.11	0.9
2014	1.1	0.89
2015	1.18	1.02
AVERAGE	1.18	0.98

Source: Annual reports of the banks

Table 08: Operating Expense/Total Funds (Percent)

Year	SBI	PNB
2011	1.93	1.82
2012	1.96	1.61
2013	1.94	1.68
2014	2.05	1.75

2015	1.96	1.76
AVERAGE	1.96	1.72

Source: Annual reports of the banks

Table 09: Current Ratio (Percent)

Year	SBI	PNB
2011	0.04	0.03
2012	0.05	0.02
2013	0.04	0.02
2014	0.03	0.02
2015	0.04	0.02
AVERAGE	0.04	0.02

Source: Annual reports of the banks

Table 10: Quick Ratio (Percent)

Year	SBI	PNB
2011	8.5	22.24
2012	12.05	23.81
2013	12.15	22.4
2014	13.88	25.19
2015	10.78	24.23
AVERAGE	11.47	23.57

Source: Annual reports of the banks

Table 11: Capital Adequacy Ratio (Percent)

Year	SBI	PNB
2011	11.98	12.42
2012	13.86	12.63
2013	12.92	12.72
2014	12.96	12.11
2015	12.00	12.89
AVERAGE	12.74	12.55

Source: Annual reports of the banks

Table 12: Credit-Deposit Ratio (Percent)

Year	SBI	PNB
2011	79.90	76.25
2012	82.14	77.39
2013	85.17	78.13
2014	86.84	78.06
2015	84.47	76.60
AVERAGE	83.70	77.28

Source: Annual reports of the banks

Table 13: Investment Deposit Ratio (Percent)

Year	SBI	PNB
2011	33.45	30.75
2012	30.73	31.45
2013	29.52	32.75
2014	28.85	32.47

2015	30.07	30.97
AVERAGE	30.52	31.67

Source: Annual reports of the banks

Table 14: Debt-Equity Ratio (Percent)

Year	**SBI**	**PNB**
2011	14.37	15.62
2012	12.43	14.4
2013	12.16	12.53
2014	11.79	13.09
2015	12.28	13.30
AVERAGE	12.60	13.78

Source: Annual reports of the banks