TO STUDY THE FINANCIAL PERFORMANCE OF BANK: A CASE STUDY OF SBI

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ABSTRACT

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 any other external and internal factors. The State Bank of India, popularly known as SBI is one of the leading banks in India. SBI has 14 Local Head Offices and 57 Zonal Offices that are located at important cities throughout the country. It also has around 130 branches out of the country. The purpose of the study is to examine the financial performance of SBI. The data used for the study was entirely secondary in nature. The period of study taken from 2005-06 to 2009-10. The study found that the bank is financially sound.

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INTRODUCTION

A bank is a financial institution that serves as a financial intermediary. 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 any other external and internal factors. The State Bank of India, popularly known as SBI is one of the leading banks in India. The State Bank Group, with over 16,000 branches provides a wide range of banking products through its vast network of branches in India and overseas, including products aimed at Non-Resident Indians (NRIs). The headquarter of SBI is at Mumbai. SBI has 14 Local Head Offices and 57 Zonal Offices that are located at important cities throughout the country. It also has around 130 branches out of the country. It has 5 subsidiary banks named as State Bank of Bikaner & Jaipur, State Bank of Hyderabad, State Bank of Mysore, State Bank of Patiala, and State Bank of Travancore. With an asset base of $352 billion and $285 billion in deposits, SBI is one of the largest financial institution in the world. It has a market share among Indian commercial banks of about 20% in deposits and loans. According to Forbes. State Bank of India is the 29th most reputed company in the world.

History

The roots of the State Bank of India rest in the first decade of 19th century, when the **Bank of Calcutta** later on renamed the Bank of Bengal, was established on 2 June 1806. The Bank of Bengal was one of three Presidency banks, the other two being the **Bank of Bombay** (incorporated on 15 April 1840) and the **Bank of Madras** (incorporated on 1 July 1843). With the result of the royal charters all three Presidency banks were incorporated as joint stock companies and received the exclusive right to issue paper currency in 1861 with the Paper Currency Act. They retained this right till the formation of the Reserve Bank of India. The Presidency banks amalgamated on 27 January 1921, and renamed Imperial Bank of India. The Imperial Bank of India remained a joint stock company

The government of India nationalized the Imperial Bank of India in 1955, with the Reserve Bank of India taking a 60% stake, and renamed it the State Bank of India. This transformation from the Imperial Bank of India to the State Bank of India was given legal recognition in terms of an Act of the Parliament of India, which came into force from 1 July 1955. In 1959, the government passed the State Bank of India (Subsidiary Banks) Act, enabling the State Bank of India to take over eight former state-associated banks as its subsidiaries. On 13 September 2008, the State Bank of Saurashtra, one of its Subsidiary banks, merged with the State Bank of India. In 2008, the government took over the stake held by the Reserve Bank of India. Then on June 19, 2009 the SBI board approved the merger of its subsidiary, State Bank of Indore, with itself. SBI holds 98.3% in State Bank of Indore. But the process of merging of State Bank of Indore was completed by April 2010, and the SBI Indore Branches started functioning as SBI branches on 26 August 2010.

NATIONALIZATION OF BANKS:

The nationalization of banks in India took place in 1969 by Mrs. Indira Gandhi the then prime minister. It nationalized 14 banks then. These banks were mostly owned by businessmen and even managed by them. Before the steps of nationalization of Indian banks, only State Bank of India (SBI) was nationalized. It took place in July 1955 under the SBI Act of 1955. Nationalization of Seven State Banks of India (formed subsidiary) took place on 19th July, 1960.

RESEARCH METHODOLOGY

Research is an art of scientific investigation. In other word research is a scientific and systematic search for pertinent information on a specific topic. The logic behind taking research methodology into consideration is that one can have knowledge about the method and procedure adopted for achievement of objectives of the project. With the adoption of this others can evaluate the results also. Its main aim is to keep the researchers on the right track.

The methodology adopted for studying the objectives was to know the performance of STATE BANK OF INDIA. So keeping in view the nature of requirements of the study to collect all the relevant information regarding the performance of the bank. Secondary data has been collected and the guide in the organization was consulted at many times.

OBJECTIVE OF STUDY:

The following are main objectives of study:

To study the profitability of State Bank of India.

To examine the financial performance of SBI.

SCOPE OF STUDY:

The present study has been undertaken to measure and evaluate the performance SBI. The study covers the period of 5 years that is from year 2005-06 to year 2009-2010.

DATA COLLECTION:

For the purpose of study secondary data has been collected. The secondary data has been collected from year 2005-06 to 2009-10. Secondary data is the data which is available in readymade form and which is already used by people for some purposes. There may be various sources of secondary data such as-newspapers, magazines, journals, books, reports, documents and other published information.

LIMITATION OF THE STUDY:

Due to constraints of time and resources, the study is likely to suffer from certain limitations. Some of these are mentioned here under so that the findings of the study may be understood in a proper perspective.

The limitations of the study are:

- The study is based on the secondary data and the limitation of using secondary data may affect the results.
- The secondary data was taken from the annual reports of the SBI. It may be possible that the data shown in the annual reports may be window dressed which does not show the actual position of the bank.

Financial analysis is mainly done in order to judge the growth, profitability and financial soundness of the bank but diagnosing the information contained in the financial statements. Financial analysis is done to identify the financial strengths and weaknesses of banks by properly establishing relationship between the items of profit and loss account. It helps in better understanding of bank’s financial position and growth and performance by analyzing the financial statements with various tools and evaluating the relationship between various elements of financial statements.

The term “financial statement analysis” includes both “analysis” and “interpretation”. The term “analysis” is used to mean the generalization of data given in the financial statements by systematic arrangements and classification of data and “interpretation” means explaining the meaning and significance of the data so simplified. However both analysis and interpretation are interlinked and complimentary to each other.

For this purpose the following parameters have been studied.

1. Credit Deposit Ratio
2. Staff Expenses to Total Expenses
3. Staff Expenses to Total Operating Expenses
4. Interest Expenses to Total Expenses
5. Overhead Expenses to Total Expenses
6. Interest Income to Total Income
7. Other Income to Total Income
8. Percentage Change in Deposits
9. Percentage Change in Advances
10. Percentage Change in Operating Profits

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 of later on. Interest is charges 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 **(Rs. in billions)**

Year	Advances\Credit	Deposits	Ratio of Credit Deposit
2005-06	2023.74	3670.48	55.13
2006-07	2618.01	3800.46	68.88
2007-08	3373.36	4355.21	77.45
2008-09	4168.95	5324.05	77.57
2009-10	5425.03	7420.73	73.10
MEAN			70.42
CGR			5.80

Source: Calculated from the Annual Reports of SBI

Fig. No. 1.1

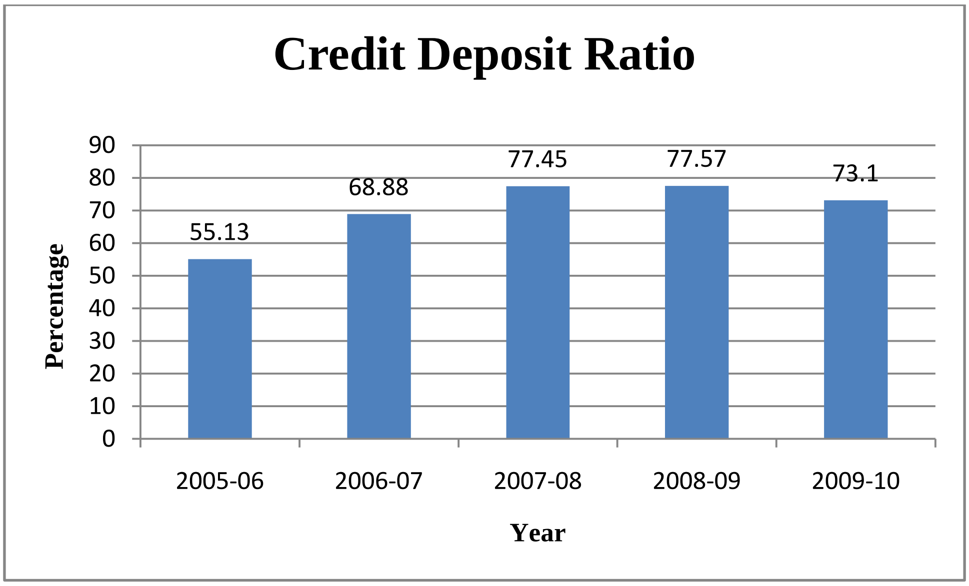

Table 1.2 depicts that over the course of 5 periods of study the mean of Credit Deposit Ratio was 70.42 per cent and Compound Growth Rate was 5.80 per cent. In the year 2005-06 Credit Deposit Ratio was 55.13 per cent and it increased to 77.57 per cent in the year 2008-09 but in 2009-10 it decreased to 73.10 per cent.

Staff Expenses to Total Expenses represent the expenses incurred on staff in proportion to the total expenses. Staff expenses is the amount spent by the bank on its employees in form of salaries, commission, bonus, perks, fringe benefits etc. Total expenses include the amount spent in the form of staff expenses, interest expenses, overhead expenses and other operating expenses etc**.**

Table 1.2

Staff Expenses to Total Expenses (Rs. in billions)

Year	Staff Expenses	Total Expenses	Ratio of Staff Expenses to Total Expenses
2005-06	69.07	285.57	24.18
2006-07	81.23	321.15	25.29
2007-08	79.33	352.61	24.49
2008-09	77.86	445.38	17.48

2009-10	97.47	585.64	16.64
MEAN			21.61
CGR			-7.20

Source: Calculated from the Annual Reports of SBI

Fig. No. 1.2

Table 1.2 represents that the mean of Staff Expenses to Total Expenses was 21.61 per cent and Compound Growth Rate was negative i.e. 7.20 per cent. In the year 2005-06 ratio of Staff Expenses to Total Expenses was 24.18 per cent and in 2006 -07 it was increased to 25.29 per cent. After that it showed a decreasing trend over the period of study and arrived at 16.64 per cent in the year 2009-10.

Staff Expenses to Total Operating Expenses shows the expenses incurred on staff in proportion to the total operating expenses. Staff expenses is the amount spent by the bank on its employees in form of salaries, commission, bonus, perks, fringe benefits etc. Total Operating expenses are those expenses which are incurred to carry out day to day activities in the organization such as payroll, sales commission, rent, repairs, depreciation, taxes etc. These are not directly associated with manufacturing.

Table 1.3

Staff Expenses to Total Operating Expenses (Rs. in billions)

Year	Staff Expenses	Total operating Expenses	Ratio of Staff Expenses to Total operating Expenses
2005-06	69.07	100.74	68.56
2006-07	81.23	117.25	69.27
2007-08	79.33	118.24	67.09
2008-09	77.86	126.09	61.74
2009-10	97.47	156.49	62.28
MEAN			65.78
CGR			-1.90

Source: Calculated from the Annual Reports of SBI

Fig. No. 1.3

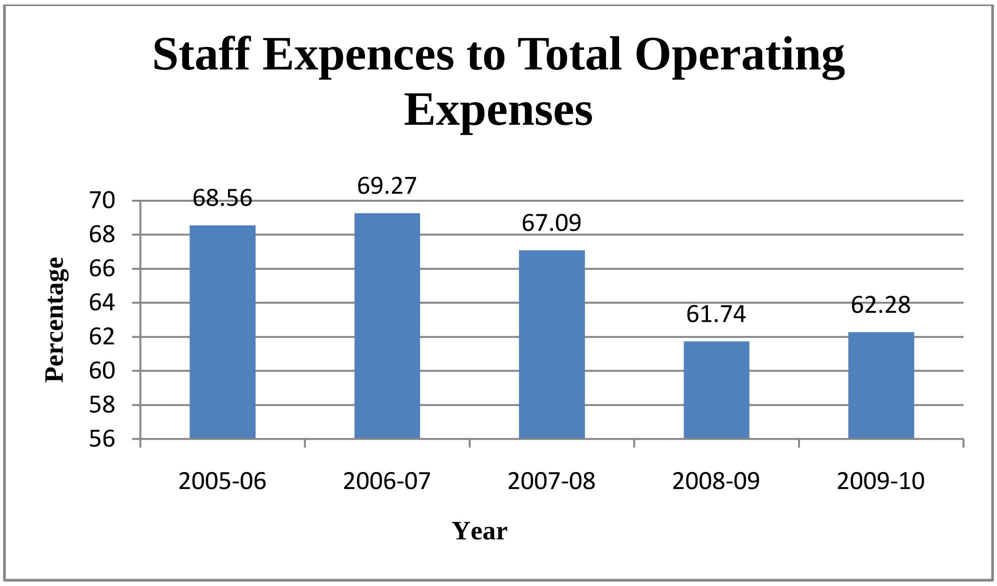

Table 1.3 presents that the mean of Staff Expenses to Total Operating Expenses was 65.78 per cent and Compound Growth Rate was negative i.e. 1.90 per cent. In the year 2005-06 ratio of Staff Expenses to Total Operating Expenses was 68.56 per cent and it increased to 69.27 per cent in the year 2006-07 but in 2007-08 and 2008-09 it decreased to 67.09 per cent and 61.74 per cent respectively. In the year 2009-10 it increased to 62.28 per cent.

Interest Expenses to Total Expenses reveals the expenses incurred on interest in proportion to total expenses. Banks take deposits from savers and pay interest on these accounts. This payment of interest is known as interest expenses. Total expenses include the amount spent in the form of staff expenses, interest expenses, overhead expenses and other operating expenses etc.

Table 1.4

Interest Expenses to Total Expenses (Rs. in billions)

Year	Interest Expenses	Total Expenses	Ratio of Interest Expenses to Total Expenses
2005-06	184.83	285.57	64.72
2006-07	203.90	321.15	63.49
2007-08	234.37	352.61	66.46
2008-09	319.29	445.38	71.68
2009-10	429.15	585.64	73.27
MEAN			67.92
CGR			2.51

Source: Calculated from the Annual Reports of SBI

Fig. No. 1.4

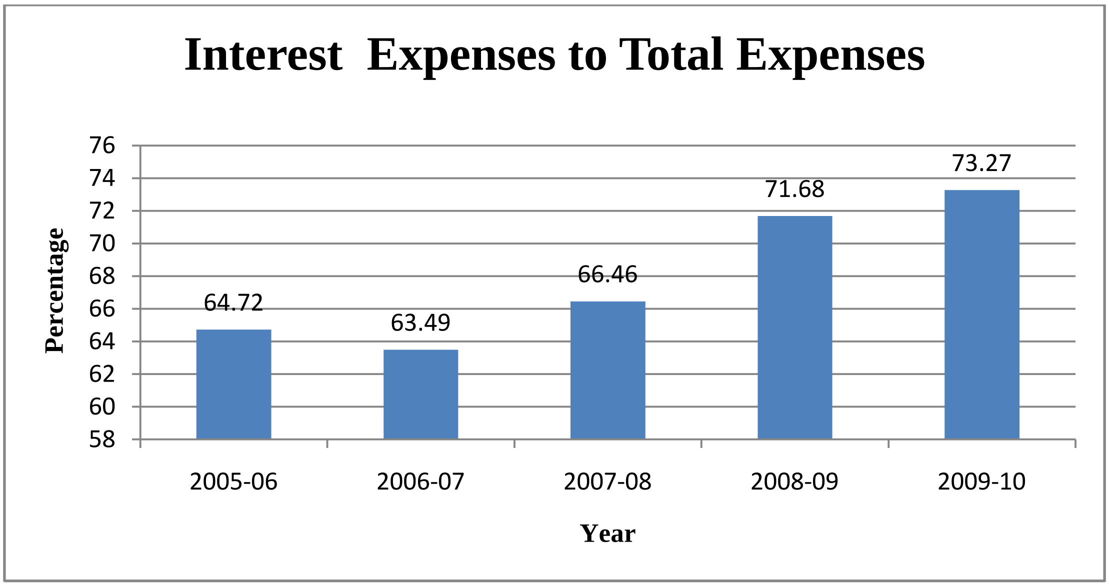

Table 1.4 reveals that over the course of 5 periods of study the mean of Interest Expenses to Total Expenses was 64.72 per cent and Compound Growth Rate was 2.51 per cent. In the year 2005-06 Ratio of Interest Expenses to Total Expenses was 64.72 per cent. It decreased to 63.49 in 2006-07. After that it showed an increasing trend over the period of study and arrived at 73.27 per cent in the year 2009-10

Overhead Expenses to Total Expenses represent the proportion of overhead expenses to total expenses. Overhead expenses are those costs which are not easily traceable to a specific job or process. These include rent or mortgage payments, utilities, insurance on plant and equipment, phone, costs of meeting government regulations, and other administrative salaries and expenses. Total expenses include the amount spent in the form of staff expenses, interest expenses, overhead expenses and other operating expenses etc**.**

Table 1.5

Overhead Expenses to Total Expenses (Rs. in billions)

Year	Overhead Expenses	Total Expenses	Ratio of Overhead Expenses to Total Expenses
2005-06	31.67	285.57	11.09
2006-07	36.02	321.15	11.21
2007-08	38.91	352.61	11.03
2008-09	48.23	445.38	10.82
2009-10	59.01	585.64	10.07
MEAN			10.86
CGR			-2.09

Source: Calculated from the Annual Reports of SBI

Fig. No. 1.5

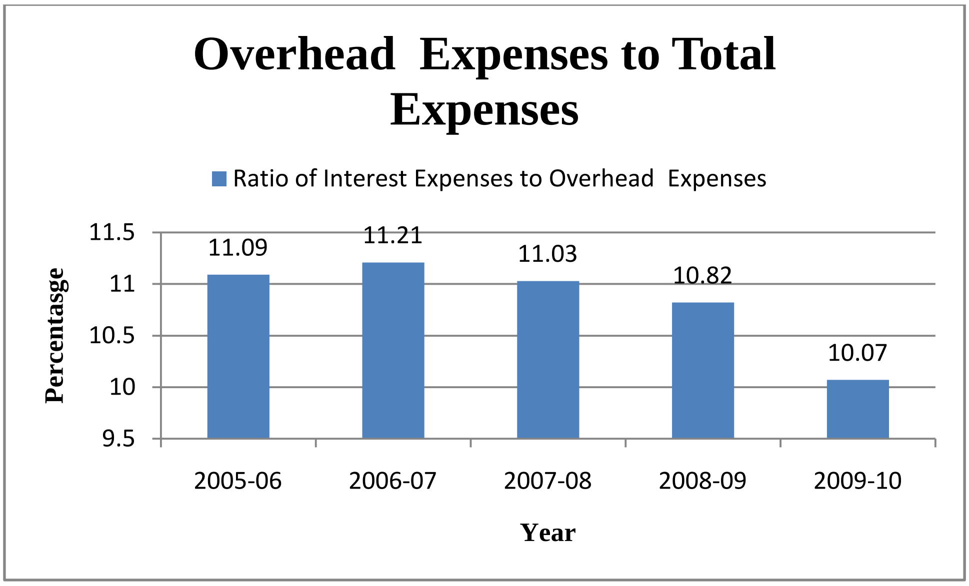

Table 1.5 discloses that the mean of Overhead Expenses to Total Expenses was 10.86 per cent and Compound Growth Rate was negative i.e. 2.09 per cent. In the year 2005-06 ratio of Overhead Expenses to Total Expenses was 11.09 per cent and it increased to 11.21 per cent in 2006-07. After that it showed a decreasing trend and reached to 10.07 per cent in the year 2009-10.

Interest Income to Total Income shows the proportionate contribution of interest income in total income. Banks lend money in the form of loans and advances to the borrowers and receive interest on it. This receipt of interest is called interest income. Total income includes interest income, non-interest income and operating income.

Table 1.6

Interest Income to Total Income **(Rs. in billions)**

Year	Interest Income	Total Income	Ratio of Interest Income to Total Income
2005-06	324.28	395.48	81.99
2006-07	359.80	434.15	82.87
2007-08	394.91	452.60	87.25
2008-09	489.50	576.45	84.91
2009-10	637.88	764.79	83.40
MEAN			84.08
CGR			0.34

Source: Calculated from the Annual Reports of SBI

Fig. No. 1.6

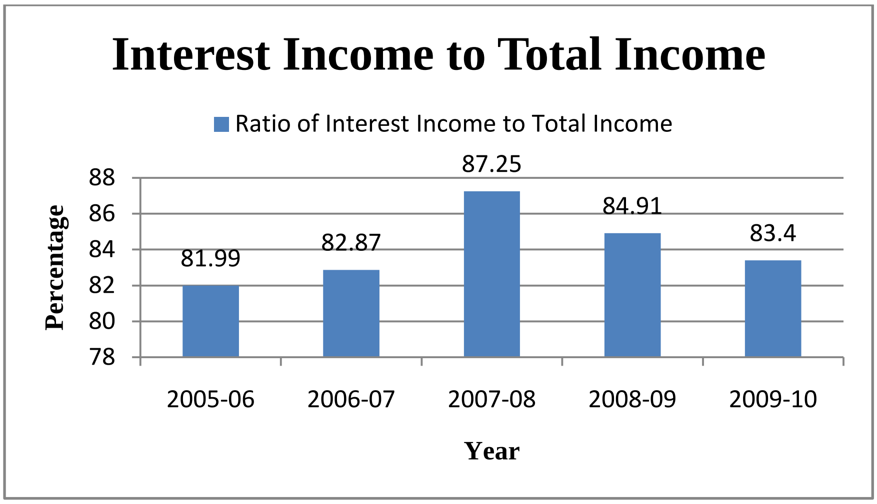

Table 1.6 depicts that over the course of 5 periods of study the mean of Interest Income to Total Income was 84.08 per cent and Compound Growth Rate was 0.34 per cent. In the year 2005-06 Ratio of Interest Income to Total Income was 81.99 per cent and it showed an increasing trend for next two years and reached to 87.25 per cent in 2007-08 but after that it was decreased continuously and reached to 83.40 per cent in the year 2009-10.

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 1.7

Other Income to Total Income **(Rs. in billions)**

Year	Other Income	Total Income	Ratio of Other Income to Total Income
2005-06	71.20	395.48	18.00
2006-07	74.35	434.15	17.12
2007-08	57.69	452.60	12.74
2008-09	86.95	576.45	15.08
2009-10	126.91	764.79	16.59
MEAN			15.90
CGR			-1.62

Source: Calculated from the Annual Reports of SBI

Fig. No. 1.7

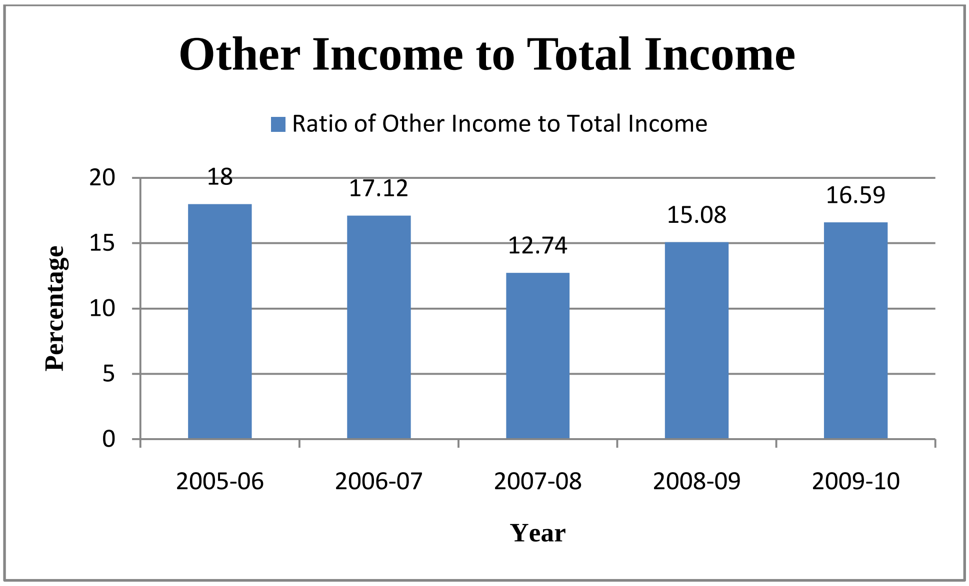

Table 1.7 shows that the mean of Other Income to Total Income was 15.90 per cent and Compound Growth Rate was negative i.e. 1.62 per cent. In the year 2005-06 Ratio of Other Income to Total Income was 18 per cent but after that it decreased for next two years and reached to 12.74 per cent in 2007-08 and then it showed an increasing trend and reached to 16.59 per cent in the year 2009-10

Deposits: Deposit is the amount accepted by bank from the savers in the form of current deposits, savings deposits and fixed deposits and interest is paid to them.

Table 1.8

Percentage Change in Deposits (Rs. in billions)

Year	Deposits	% Change In Deposits
2005-06	3670.48	------
2006-07	3800.46	3.54
2007-08	4355.21	14.59
2008-09	5374.05	23.39
2009-10	7420.73	38.08
MEAN		4924.18
CGR		15.12

Source: Calculated from the Annual Reports of SBI

Fig. No. 1.8

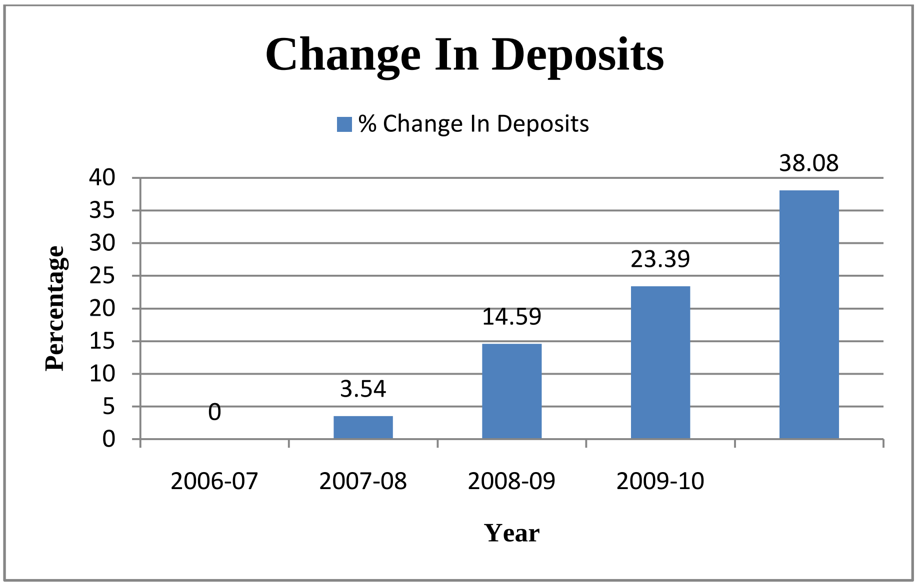

Table 1.8 presents that the mean of Deposits was 4924.18 per cent and Compound Growth Rate was 15.12 per cent. Table also shows the per cent Change in Deposits over the period of 5 years. In the year 2006-07 Deposits were increased by 3.54 per cent and after that it showed the increasing trend over the whole period of study. In the year 2009-10 deposits were increased by 38.08 per cent

Advances: Advances is the credit facility granted by the bank**.** In other words it is the amount borrowed by a person from the Bank. It is also known as 'Credit' granted where the money is disbursed and recovery of which is made later on.

Table 1.9

Percentage Change in Advances (Rs. in billions)

Year	Advances	% Change In Advances
2005-06	2023.74	------
2006-07	2618.01	29.36
2007-08	3373.36	28.85
2008-09	4168.95	23.58
2009-10	5425.03	30.12
MEAN	3521.81	
CGR	21.79	

Source: Calculated from the Annual Reports of SBI

Fig. No. 1.9

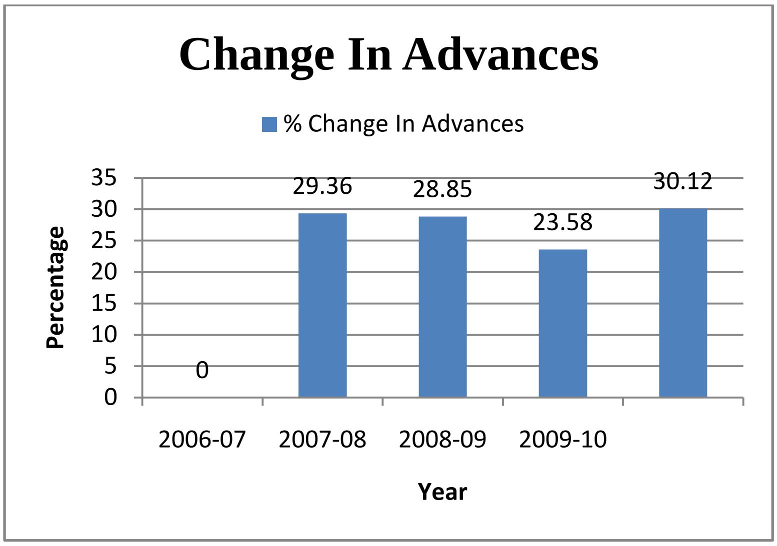

Table 1.9 reveals that the mean of Advances was 3521.81 per cent and Compound Growth Rate was 21.79 per cent. Table also shows the per cent Change in Advances over the whole period of study. In the year 2006-07 Advances were increased by 29.36 per cent and in 2007-08 these were increased (again) by 28.85 per cent but in the year 2008-09 deposits were decreased by 23.58 per cent and after that these were increased by 30.12 per cent in 2009-10

Operating profits are also known as "earnings before interest and tax" (EBIT). These are the profits earned from the normal course of business operations. It does not include any profit earned from the firm's investments and the effects of interest and taxes.

Table 1.10

Percentage Change in Operating Profits (Rs. in billions)

Year	Operating Profits	% Change In Operating Profits
2005-06	109.91	------
2006-07	112.99	2.80
2007-08	100.00	11.49
2008-09	131.07	31.07
2009-10	179.15	36.68
MEAN	126.24	
CGR	10.36	

Source: Calculated from the Annual Reports of SBI

Fig. No. 1.10

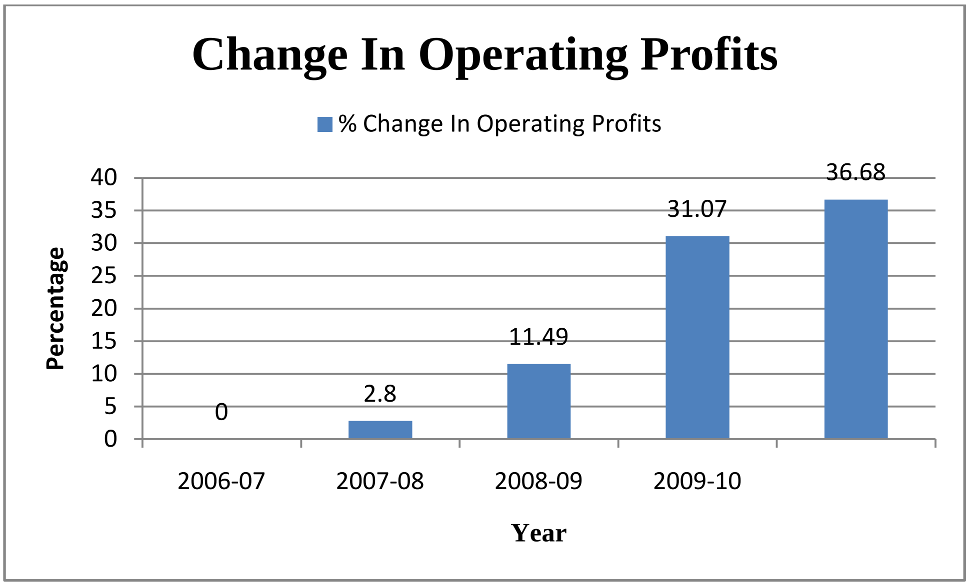

Table 1.9 discloses that the mean of Operating Profits was 126.24 per cent and Compound Growth Rate was 10.36 per cent. This table also discloses the per cent Change in Operating Profits over the course of 5 periods. In the year 2006-07 Operating Profits were increased by 2.80 per cent and in 2007-08 these were decreased by 11.49 per cent but after that it showed an increasing trend and increased by 36.68 per cent in the year 2009-10.

Findings

The major findings of the study are:

The study found that the CGR of Credit Deposit Ratio was 5.80 per cent and CGR of Staff Expenses to Total Expenses was negative in the year 2006-07 and mean of Staff Expenses to Total Expenses was 21.61 per cent. In the year 2006-07 Ratio of Interest Expenses to Total Expenses was decreased from 64.72 to 63.49 per cent. Afterwards it showed an increasing trend over the period of study The CGR of Overhead Expenses to Total Expenses was negative. The CGR and mean of Interest Income to Total Income was 0.34 per cent and 84.08 per cent respectively. The average mean of Other Income to Total Income was 15.90 per cent. The study revealed that the deposits of the bank were increasing at increasing rate and advances were increasing at decreasing rate up to the year 2008-09 and same was increased in the year 2009-10.The operating profits of the bank were decreased by 11.49 per cent and increased afterwards.

CONCLUSION

The study concludes that the SBI is one of the leading banks in India. The interest expense is more as compared to operating expense in SBI. Out of total income the major share of income is expanded on interest paid. The operating efficiency of SBI is better .So there is a need to control the operating expenses to increase the operational efficiency.

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