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A Comparative Study of Financial Performance of SBI & ICICI Bank

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Abstract

The banking sector is very important for the economic development of a country. Traditionally the banks worked as finance depositor and finance provider only but presently as the scenario have changed. Many policies and other technical changes have become the part of economies therefore now banks also play many roles in the development of economy. The study is an attempt to analyze the financial performance of SBI and ICICI banks. The State Bank of India, popularly known as SBI is one of the leading bank of public sector in India. SBI has 14 regional hubs and 57 Zonal Offices located at important cities throughout the country. ICICI bank is the second largest, leading bank of private sector in India The Bank has 4850 branches and 14404 ATMs in India. The study is descriptive and analytical in nature. The collected data was secondary in nature and collected from various reports issued by these banks through internet. The comparison of financial performance of these two banks was made on the basis of ratio analysis. The results indicated that the SBI is performing well and financially sound than ICICI Bank. Also the market position of SBI is better than ICICI in terms to earning per share, price ratio per share and dividend payout ratio, but on the other hand ICICI bank is performing well in terms of NPA and provision for NPA in comparison of SBI bank.

Keywords : *Dividend Payout Ratio, EPS (Earning per share), ICICI, NPA (Non performing assets), Price Ratio per Share, SBI*

Introduction

The banking industry plays an important role in the economic development of a country. It supplies the lifeblood-money that supports and fosters growth in all the industries. Growth of the banking sector is measured by the increase in the number of banks' branches, deposits, credit, etc. In analyzing the banking sector, it indicates the direction in which the country's economy is moving. India has about 88 commercial banks including 31 private banks, 27 public sector banks, and 38 foreign banks and in total, 53,000 bank branches, and 104500 ATMs are servicing the nation. Public sector banks dominate the segment with 75 per cent of the total assets of the industry held by them. State Bank of India (SBI) and ICICI Bank are the two largest banks in India in public and private sector.

SBI Bank

The roots of the State Bank of India lie in the first decade of the 19th century, when the Bank of np later 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). All three Presidency banks were incorporated as joint stock companies and were the result of royal charters. These three banks received the exclusive right to issue paper currency till 1861 when, with the Paper Currency Act, the right was taken over by the Government of India. The Presidency banks amalgamated on 27 January 1921, and the re-organised banking entity took as its name

Imperial Bank of India. The Imperial Bank of India remained a joint stock company but without Government participation.

Pursuant to the provisions of the State Bank of India Act of 1955, the Reserve Bank of India, which is India's central bank, acquired a controlling interest in the Imperial Bank of India. On 1 July 1955, the imperial Bank of India became the State Bank of India. In 2008, the Government of India acquired the Reserve Bank of India's stake in SBI so as to remove any conflict of interest because the RBI is the country's banking regulatory authority.

In 1959, the government passed the State Bank of India (Subsidiary Banks) Act. This made SBI subsidiaries of eight that had belonged to princely states prior to their nationalization and operational takeover between September 1959 and October 1960, which made eight state banks associates of SBI. This une with the first Five Year Plan, which prioritised the development of rural India. The government integrated these banks into the State Bank of India system to expand its rural outreach. In 1963 SBI merged State Bank of Jaipur (est. 1943) and State Bank of Bikaner (est.1944).

SBI has acquired local banks in rescues. The first was the Bank of Bihar (est. 1911), which SBI acquired in 1969, together with its 28 branches. The next year SBI acquired National Bank of Lahore (est. 1942), which had 24 branches. Five years later, in 1975, SBI acquired Krishnaram Baldeo Bank, which had been established in 1916 in Gwalior State, under the patronage of Maharaja Madho Rao Scindia. The new bank's first manager was Jall N. Broacha, a Parsi. In 1985, SBI acquired the Bank of Cochin in Kerala, which had 120 branches. SBI was the acquirer as its affiliate, the State Bank of Travancore, already had an extensive network in Kerala.

There has been a proposal to merge all the associate banks into SBI to create a ‘mega bank’ and streamline the group's operations. The first step towards unification occurred on 13 August 2008 when State Bank of Saurashtra merged with SBI, reducing the number of associate state banks from seven to six. On 19 June 2009, the SBI board approved the absorption of State Bank of Indore. SBI holds 98.3% in State Bank of Indore. (Individuals who held the shares prior to its takeover by the government hold the balance of 1.7%.)

The acquisition of State Bank of Indore added 470 branches to SBI's existing network of branches. Also, following the acquisition, SBI's total assets will approach □10 trillion. The total assets of SBI and the State Bank of Indore were □9,981,190 million as of March 2009. 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.

ICICI Bank

ICICI Bank was originally promoted in 1994 by ICICI Limited, an Indian financial institution, and was its wholly-owned subsidiary. ICICI's shareholding in ICICI Bank was reduced to 46% through a public offering of shares in India in fiscal 1998, an equity offering in the form of ADRs listed on the NYSE in fiscal 2000, ICICI Bank's acquisition of Bank of Madura Limited in an all-stock amalgamation in fiscal 2001, and secondary market sales by ICICI to institutional investors in fiscal 2001 and fiscal 2002. ICICI was formed in 1955 at the initiative of the World Bank, the Government of India and representatives of Indian industry. The principal objective was to create a development financial institution for providing medium-term and long-term project financing to Indian businesses.

In the 1990s, ICICI transformed its business from a development financial institution offering only project finance to a diversified financial services group offering a wide variety of products and services, both directly and through a number of subsidiaries and affiliates like ICICI Bank. In 1999, ICICI become the first Indian company and the first bank or financial institution from non-Japan Asia to be listed on the NYSE.

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After consideration of various corporate structuring alternatives in the context of the emerging competitive scenario in the Indian banking industry, and the move towards universal banking, the managements of ICICI and ICICI Bank formed the view that the merger of ICICI with ICICI Bank would be the optimal strategic alternative for both entities, and would create the optimal legal structure for the ICICI group's universal banking strategy.

In October 2001, the Boards of Directors of ICICI and ICICI Bank approved the merger of ICICI and two of its wholly-owned retail finance subsidiaries, ICICI Personal Financial Services Limited and ICICI Capital Services Limited, with ICICI Bank. The merger was approved by shareholders of ICICI and ICICI Bank in January 2002, by the High Court of Gujarat at Ahmedabad in March 2002, and by the High Court of Judicature at Mumbai and the Reserve Bank of India in April 2002. Consequent to the merger, the ICICI group's financing and banking operations, both wholesale and retail, have been integrated in a single entity.

Object of Study

1. To compare the financial performance of State Bank of India and ICICI Bank.
2. To compare the SBI and ICICI in terms of profitability and managerial efficiency.
3. To offer the suggestions in order to improve the financial performance of both banks selected for the purpose of the study.

Scope of the Study

The present study is undertaken to highlight the financial performance of SBI bank and ICICI bank. SBI and ICICI Banks, being the best bank in India have been selected for the purpose of the study. It rises to the level of 2nd largest bank in India in terms of net assets after merger of ICICI with ICICI bank. It has wide range of products and services. Ratio analysis is one of the major criteria to determine the financial performance of both banks and this study will help to understand the financial performance of State Bank of India and ICICI Bank.

Research Methodology

Research methodology describes the various methods to conduct the research study. It shows the sequence of the steps which are followed in research process from beginning of the study till the completion of the study. So, research methodology is a way to systematically solve the problem and get insights into phenomena.

Data Collection

Research is based on the secondary data. The required data for the study has been collected from published annual reports of the banks and other statements prepared by the SBI and ICICI Banks.

Period of the Study

This study covers the period of 05 years from 2012-13 to 2016-17. The period of the study is large enough to know the performance of both banks.

Tools for Analysis

Ratio Analysis: For the purpose of the study, following parameters have been taken:

1. Net Profit Ratio
2. Operating Profit Ratio
3. Return on shareholder’s Investment or Net worth Ratio
4. Earnings per Share
5. Total Assets Turnover Ratio
6. Interest Expended to Interest Earned Ratio.

Data Analysis and Interpretation

1. Net Profit Ratio

Year	SBI (Rs. in Crores)			ICICI (Rs. in Crores)		
	Net Profit	Net Sales	Net Profit Ratio	Net Profit	Net Sales	Net Profit Ratio
2012 -13	14105	135691	10.39	8325	48421	17.19
2013-14	10891	154903	7.03	9810	54606	17.96
2014 - 15	13101	174972	7.48	11175	61267	18.24
2015 - 16	9950	191843	5.18	9726	68062	14.29
2016 -17	10484	210979	4.96	9801	73661	13.30
	Average		7.00	Average		16.20

Table 1 displays that Net profit of both SBI and ICICI banks were fluctuating. The highest Net Profit ratio of SBI was 10.39% in 2012-13 and that of ICICI bank, it was 18.24% in 2014-15, where as the lowest Net Profit Ratio of SBI was 4.96% in 2016-17and that of ICICI, it was 13.30 % in 2016-17. The average Net Profit Ratio of SBI is 7.00% and ICICI bank is 16.20% which implies that the Net Profit Ratio of ICICI bank is 9.2, which is more than that of the SBI.

2. Operating Profit Ratio:

Year	SBI (Rs. In Crores)			ICICI (Rs. In Crores)		
	Operating Profit	Net Sales	Operating Profit Ratio	Operating Profit	Net Sales	Operating Profit Ratio
2012 -13	31082	135691	22.90	13199	48421	27.25
2013-14	32109	154903	20.72	16594	54606	30.38
2014 - 15	39537	174972	22.60	19720	61267	32.18
2015 - 16	43257	191843	22.55	23863	68062	35.06
2016 -17	50847	210979	24.10	26487	73661	35.96
	Average		22.57	Average		32.16

Table 2 demonstrates that the Operating Profit Ratio of both SBI and ICICI banks were fluctuating during the period of the study. The highest Operating Profit Ratio of SBI in the year 2016-17 was 24.10% and that of ICICI bank was 35.96% in 2016-17. Whereas, the lowest Operating Profit Ratio of SBI was 20.72% in the year 2013-14 and 27.25% in 2012-13 in ICICI bank respectively. The average Operating Profit Ratio of SBI is 22.57% and that of ICICI bank is 32.16% which implies that the Operating Profit Ratio of ICICI 9.59% which is more than that of SBI bank.

3. Return on Shareholder's Investment or Net Worth Ratio:

Year	SBI (Rs. in Crores)			ICICI (Rs. in Crores)		
	Net Profit	Shareholder's Funds	Net Worth Ratio	Net Profit	Shareholder's Funds	Net Worth Ratio
2012 -13	14105	98884	14.26	8325	66706	12.48
2013-14	10891	118282	9.21	9810	73213	13.40
2014 - 15	13101	128438	10.20	11175	80429	13.89
2015 - 16	9950	144274	6.89	9726	89735	10.84
2016 -17	10484	188286	5.57	9801	99951	9.80
	Average		9.22	Average		12.00

Table 3 demonstrates that the Return on Net worth Ratio of both SBI and ICICI banks were fluctuating during the period of the study. The highest Return on Net Worth Ratio of SBI in the year 2012-13 was 14.26% and that of ICICI bank in 2014-15 was 13.89% .Whereas, the lowest Return on Net Worth Ratio of SBI in the year 2016-17 was 5.57% and of ICICI bank, it was 9.8% inn 2016-17. The average Net Worth Ratio of SBI is 9.22% and that of ICICI bank is 12.00% which implies that the average Net Worth Ratio of ICICI i.e. 2.78% more than the SBI bank.

4. Earning Per Share (Eps)

Year	SBI (Rs. in Crores)			ICICI (Rs. in Crores)		
	Net Profit	No. Of Equity Shares	Earnings Per Share	Net Profit	No. Of Equity Shares	Earnings Per Share
2012 -13	14105	68.40	206.21	8325	115.36	72.16
2013-14	10891	74.65	145.90	9810	115.50	84.93
2014 - 15	13101	74.65	175.49	11175	115.96	96.37
2015 - 16	9950	77.62	128.18	9726	116.31	83.62
2016 -17	10484	79.73	131.49	9801	116.51	84.12
	Average		157.45	Average		84.24

Table 4 reveals that the highest Earnings per Share was 206.21 in the year 2012-13 and that of ICICI bank was 96.37 in 2014-15. Whereas, the lowest Earnings per share of SBI in the year 2015-16 was 128.18 and that of ICICI bank in the year 2012-13 was 72.16. The average Earnings per Share of SBI is 157.45 and ICICI bank is 84.24, which implies that the Average Earnings per share of SBI is 73.21, which is more than that of ICICI bank.

5. Total Assets Turnover Ratio

Year	SBI (Rs. in Crores)			ICICI (Rs. in Crores)		
	Net Sales	Total Assets	Total Assets Turnover Ratio	Net Sales	Total Assets	Total Assets Turnover Ratio
2012 -13	135691	1566211	0.08	48421	536794	0.09
2013-14	154903	1792748	0.08	54606	594641	0.09
2014 - 15	174972	2048079	0.08	61267	646129	0.09
2015 - 16	191843	2357617	0.08	68062	720695	0.09
2016 -17	210979	2705966	0.07	73661	771791	0.09
	Average		0.078	Average		0.09

Table 5 depicts that the Total Assets Turnover Ratio of both SBI and ICICI banks was stable. The highest Assets Turnover Ratio of SBI is 0.08 times in 2012-16 and that of ICICI bank was stable during the study period. The average Total Assets Turnover Ratio of SBI is 0.078 times and of ICICI bank is 0.09 times, which implies that the average Total Assets of ICICI is more than that of the SBI bank

6. Interest Expended to Interest Earned Ratio

YEAR	SBI (Rs. in Crores)			ICICI (Rs. in Crores)		
	Interest Expended	Interest Earned	Ratio	Interest Expended	Interest Earned	Ratio
2012 -13	75325	119657	62.95	26209	40075	65.39

2013-14	87068	136350	63.85	27702	44178	62.70
2014 - 15	97382	152397	63.90	30051	49091	61.21
2015 - 16	106803	163685	65.24	31515	52739	59.75
2016 -17	113658	175518	64.75	32419	54516	59.47
	Average		64.13	Average		61.70

Table 6 explain that during the study period, Interest expended to Interest Earned Ratio of both SBI bank and ICICI bank fluctuated. The highest Interest Expended to Interest Earned Ratio of SBI was 65.24% in the year 2015-16 and for ICICI bank; it was 65.39% in 2012-13. Whereas the lowest Interest Expended to Interest Earned Ratio of SBI was 62.95% in 2012-13 and for ICICI bank was 59.47 in 2016-17. The average Interest Expended to Interest Earned Ratio of SBI is 64.13% and that of ICICI bank is 61.70%, which implies that the average interest Expended to Interest Earned Ratio of SBI bank is more than that of the ICICI bank with 2.43%

Conclusion

It is concluded that both the selected banks i.e. SBI and ICICI are maintaining the equitable standards and earning the profits. The position of the both the banks is satisfactory but by comparing the performance of the SBI and ICICI banks, it indicates that there are significant difference between SBI and ICICI in terms of Net profit, Operating profit and Net Worth. But it is observed that the overall performance of ICICI bank is better than SBI bank between the last 5 years.

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