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A Comparative Study on the Financial Performance of SBI and ICICI Bank

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Abstract:-

Banks are an important component of the Indian financial system and they play a major role in the development of the country. Banks help in channelling the idle fund to productive investment, creation of credit and capital formation, etc. In the Indian economy, banks have a major role to play in the development of each sector as commercial banks provide credit to the primary sector to promote agricultural farmers and provide advances to the customer to increase their standard of living. The State Bank of India (SBI) is the major public sector bank of the country. ICICI Bank is the largest private-sector bank in India. The present study is based on the financial performance of these two banks with the help of some financial ratios. The study covered five financial years from 2015-16 to 2019-20. The study is purely based on secondary data collected from annual reports of the respective banks, websites, etc.

Keywords: - Financial System, Capital Formation, Commercial Banks, Financial performance, Financial Ratio

Introduction: -

The banking system is crucial to the nation's economic growth and development. It is one of the most vital financial tools in the country's financial system. Banking institutions are classified as central banks, commercial banks, investment banks, cooperative banks, postal banks, and so on. Commercial banks are categorized into two kinds: public and private sector banks. Public sector banks are those that are owned by the government, or in which the government owns more than 51 percent of the stock. Private sector banks are those that are owned or managed by private enterprises or individuals. Banking firms provide services to all industries, accepting deposits and providing advances, check clearing, fund management, bill discounting, etc. The performance of the State Bank of India and ICICI bank was assessed in this research paper to understand the performance of banking services provided by public and private sector banks. State banks of India were established on 1 July 1955, it is one of the largest public sector banks, in terms of deposits, advances, assets, and employees. It provides a variety of general banking services to corporations and people in India and globally, including loans and advances. ICICI stands for Industrial Credit and Investment Corporation of India, and it is India's largest private bank. ICICI, which was founded in 1955 on the World Bank's initiative, provides Net banking and Personal Banking services such as Accounts & Deposits, Cards, Loans, and so on.

Literature Review

(Goel & Rekhi, 2013) Examined the performance of the public and private sector banks for the years 2009-10 to 2011-12. To analyze the financial performance, the researchers used three sets of ratios: Return on Assets (ROA), Return on Equity (ROE), and Net Interest Margin (NIM). The findings revealed that the banks overall performance are determined to a great extent by these ratios.

(D.Padma & V.Arulmathi, 2013) Analyzed the financial performance of the SBI and ICICI banks. The study period covered five financial years from 2006-07 to 2010-11. The researchers applied ratio analysis, percentage, and t-test to measure financial performance. The study found that there were significant differences in the performance of the SBI and ICICI banks in terms of deposits, advances, investments, net profit, and total assets.

(Kumar & Malhotra, 2017) Evaluated the financial performance of the private sector bank in India for the period of 2006-07 to 2016-17. For this purpose, select five private sector banks i.e. HDFC Bank, ICICI Bank, Kotak Mahindra Bank, Axis Bank, and IndusInd Bank. Banks were selected based on their market capitalization. The researchers used the CAMEL Model as a financial tool for the study. It was found that using all parameters of the CAMEL ratio, Axis Banks financial performance was much better than other selected banks included in the study.

(Gupta & Sundram, 2015) In their research paper, they examined the performance of the selected public and private sector banks from the period 2009-10 to 2013-14. Ratio analysis techniques used for the analysis of the data and study found that the overall performance of the private sector banks was better than the performance of the public sector banks.

(Dubey & Puri, 2021) The researchers applied the CAMEL Model to study the performance of selected private-sector and public-sector banks. The study period covered five financial years from 2015 to 2020 and the study found that the private sector was performing way better than the public sector banks. This paper focused on the growth rate of the banks and a comparison was made between the growth rate of the selected public sector and private sector banks. The main parameters used to measure growth rate are Return on Assets, Net profit Growth, NPA, and Net Assets Growth.

(Khan, 2018) This paper used CAMEL Ratio to analyze the financial performance of the selected public and private sector banks. The study covered five financials from 2013 to 2017. The study found a significant difference in the performance of the selected public and private sector banks.

(Jha, 2018) Examined the financial performance of the PNB and ICICI Bank for the period of 2011-12 to 2017-18. The analysis was based on secondary data and data was collected from the selected Banks' annual reports. The Ratio analysis, percentage, and SD were used as financial tools for the study. The study found that customer trusts the public sector banks compared to the private sector banks. People preferred PNB banks for taking loans and advances, But ICICI bank has more soundness compared to the PNB bank.

(Pattanaik & Patjoshi, 2021) Evaluated the financial performance of the private sector banks for the period of 2014-15-2018-19. For this purpose used the CAMEL Model ratio to analyze the data. The study found that both banks' performance was excellent and fulfilled the RBI norms but in comparison to both the banks HDFC bank precedes ICICI bank. (Undi & C.S., 2020), Analyzed the financial performance of the selected public and private sector banks for the period of 2015-2019. To evaluate the performance of the banks used ratio analysis.

The Objective of the Study:

1. To study the financial performance of the SBI and ICICI bank.
2. To compare the financial performance of the SBI and ICICI bank.
3. To study the profitability position of the SBI and ICICI bank.
4. To compare the profitability position of the SBI and ICICI bank.

Research Methodology:

- **Nature of Study & Data Collection: -** The study is descriptive & analytical and it is based on secondary data. The data has been collected from the annual reports of the banks.
- **Period of the Study:-**This study covers five financial years from 2015-16 to 2019-20.
- **Variables used for analysis:** In This study, various ratios are considered as variables for evaluating the performance of the selected banks. The following ratios are used in the study:-
  I. Capital Adequacy Ratio
  II. Return on Assets
  III. Return on Equity
  IV. Ratio of Net Interest Margin
  V. Gross NPA Ratio
  VI. Net NPA to Net Advance Ratio

- **Tools used for Analysis:** This study used ratio analysis, percentage, and mean for analyzing the Data**.**

Data Analysis and Interpretation:

I. **Capital Adequacy Ratio:** Capital Adequacy Ratio (CAR) is the ratio of a bank's capital to its risk. It is also referred as Capital to Risk (Weighted) Assets Ratio (CRAR). In simple words, it is the ratio of a bank's capital to its risk-weighted assets and current liabilities. This use of this ratio is to secure depositors and boost the efficiency and stability of the bank.

Table 1: Capital Adequacy Ratio of SBI and ICICI banks

Years	2015-16	2016-17	2017-18	2018-19	2019-20	Mean	SD
SBI	0.46	0.41	-0.19	0.02	0.38	0.216	0.286
ICICI	1.49	1.35	0.87	0.39	0.81	0.982	0.443

Sources: Annual report of the banks

The above table shows the portions of the SBI and ICICI bank capital adequacy ratio, as per the RBI guidelines, the minimum capital adequacy ratio which should be maintained by every bank is 9% and the above table proves that both the banks followed the RBI guidelines. The average capital ratio of SBI bank is 12.398% and ICICI Bank is 17.08 %. This ratio clearly stated that the ICICI capital adequacy ratio is greater than SBI banks

II. Return on Assets Ratio: The ROA is a ratio used to measure how well a company uses its assets to generate earnings. ROA shows what happened with a firm's historically acquired Assets. It gives an idea as to how efficiently the management has used its assets to generate earnings

Table 2 : Return on Assets Ratio of SBI and ICICI banks

Years	2015-16	2016-17	2017-18	2018-19	2019-20	Mean	SD
SBI	13.2	13.11	12.60	12.72	13.06	12.398	0.2621
ICICI	16.6	17.4	18.4	16.9	16.1	17.08	0.8757

Sources: Annual report of the banks

The above table shows the ROA of the SBI and ICICI Bank. The Return on assets is a measure of the assets quality and management efficiency of the banks and its shows how profitable the bank's assets are in generating revenue. The higher the ratio better is said to be the performance of the firm and the lower the ratio means banks are not able to utilize their assets efficiently. The average ratio of ICICI bank's 0.982 % is greater than the SBI Bank ratio of 0.216%.

III. Return on Equity Ratio: Return on Equity is the ratio of net earnings to equity shareholders to the total equity shareholders fund. It is a measure of the profitability and earnings of an institution and the higher the return on equity, the better is said to be the performance of the firm.

Table 03: Return on Equity ratio of SBI and ICICI banks

Years	2015-16	2016-17	2017-18	2018-19	2019-20	Mean	SD
SBI	7.74	7.25	-3.78	0.48	7.74	3.886	5.227
ICICI	11.3	10.3	6.6	3.2	7.1	7.7	3.227

Sources: Annual report of the banks

The above table shows the ROE of both SBI and ICICI Bank. The average ROE of ICICI Bank is 7.7 % which is greater than SBI bank's ROE 3.866 %. This implies that ICICI Bank provides a higher return to equity shareholders as compared to SBI.

IV. Net Interest Margin Ratio: Net interest margin (NIM) is a measure of the net return on the bank's earning assets, which include investment securities, loans, and leases. It is the ratio of interest income minus interest expense divided by earning assets. The higher NIM indicate that the bank invests in efficiently.

Table 4: Net Interest Margin Ratio of SBI and ICICI Banks

Years	2015-16	2016-17	2017-18	2018-19	2019-20	Mean	SD
SBI	2.52	2.36	2.27	2.50	2.59	2.448	0.1298
ICICI	3.49	3.25	3.23	3.42	3.73	4.1633	1.7019

Sources: Annual report of the banks

The above table shows that the average NIM of the ICICI Bank for the stated duration is 4.1633 which is greater than the average NIM of SBI Bank whose NIM is 2.448.

V. Gross NPA Ratio: This ratio reflects the quality of the bank's loan amount. It is

Table 5: Gross NPA Ratio of SBI and ICICI Banks

Years	2015-16	2016-17	2017-18	2018-19	2019-20	Mean	SD
SBI	6.50	6.90	10.91	7.53	6.15	7.598	1.9211
ICICI	5.82	8.74	9.90	7.38	6.04	7.576	1.7490

Sources: Annual report of the banks

The above table shows the Gross NPA ratio of SBI and ICICI Bank during the years 2015-16 to 2019-20. The average Gross NPA ratio of both banks is 7.598 and 7.576 respectively during the years 2015-16 to 2019-20. It is clear from the above table that the Gross NPA ratio of ICICI bank is slightly lower than the Gross NPA ratio of SBI.

VI. Net NPA to Net Advance Ratio : The Net NPA to Net Advances ratio measures the quality of the loan amount. The lesser amount indicates the better liquidity position of the banks and the higher amount affects the liquidity and profitability of the banks.

Table 6: Net NPA Ratio to net advances ratio of SBI and ICICI Banks

Years	2015-16	2016-17	2017-18	2018-19	2019-20	Mean	SD
SBI	3.81	3.71	5.73	3.01	2.23	3.698	1.3009
ICICI	2.98	5.43	5.43	2.29	1.54	3.534	1.8041

Sources: Annual report of the banks

The above table shows the year-wise Net NPA to Net Advances ratio of SBI and ICICI Bank from the years 2015-16 to 2019-20. The average Net NPA to Net Advances ratio of SBI is 3.698 whereas the Net NPA to Net Advances ratio of ICICI Bank is 3.534 %. It is evident that the average Net NPA to Net Advances ratio of ICICI Bank is lesser than the Average net NPA ratio of SBI Bank.

Findings

- The capital adequacy ratio of both banks meets the RBI's mandatory minimum requirement of CAR of 9% as the CAR of SBI bank was 12.398% and ICICI Bank was 17.08 %.
- The calculation of the Return to Asset Ratio (ROA) showed a big difference as the ROA of ICICI was 0.982% and the ROA of SBI was only 0.216%. This indicates that ICICI was utilizing its assets better than SBI.
- The study of the Return on Equity (ROE) ratio revealed that the average ROE of ICICI Bank was 7.7 % which was greater than SBI bank's ROE of 3.866 %. Which implied that ICICI Bank was better than SBI at providing returns to its shareholders.
- The analysis of the Net Interest Margin Ratio showed that ICICI Bank was better than SBI in terms of earning interest.
- The average Gross NPA ratio of both banks was nearly similar as the NPA of SBI was 7.598 and the NPA of ICICI was 7.576.
- The Net NPA to Net Advance Ratio of both the banks were also similar with an average of 3.698% and 3.534% respectively.

Suggestions

- The return on Assets of both banks was very low and could be improved by taking appropriate measures.
- Both SBI and ICICI have a very low level of return on assets and as such assets must be utilised more efficiently for improving the return on assets.
- The Net Interest Margin Ratio (NIM) of SBI is nearly half of the NIM of ICICI Bank. SBI needs to improve its NIM by investing in good investment opportunities.
- Both banks should take steps to reduce the Gross NPA to less than 5%.

Limitation of Study:-

- The study covers only the period of five financial years from 2015-16 to 2020-2021.
- This study used a limited ratio to analyse the financial performance of the selected banks.
- Only two banks have been taken for the study. Further studies could be conducted by comparing more banks.

Conclusion:-

SBI and ICICI Bank are the two largest banks in India in the public and private sectors respectively. To compare the financial performance of both banks, selected financial ratios are analysed which included Capital Adequacy Ratio, Return on Assets, Return on Equity, Ratio of Net Interest Margin, Gross NPA Ratio, and Net NPA to Net Advance Ratio. With the help of the analysis, it is can be concluded that both banks are maintaining the required standards and running profitably. The study also reveals that ICICI has been performing efficiently and profitably as compared to SBI for the study period. Both banks are leading banks in India and the growth of the Indian economy would be greatly affected by the performance of these banks in the coming years. Hence, required steps must be taken for improving the profitability and efficiency of both banks.

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