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"ANA LYZING FINANCIAL PERFORMANCE: A COMPARATIVE STUDY OF STATE BANK OF INDIA AND HDFC BANK"

PIYUSH B. PATEL
M.Com, M.B.A., NET(Commerce), NET(Management), GSET(Commerce), GSET(Management), Ph.D. (Pursuing) Department of Commerce, Saurashtra University, Rajkot.
Assistant Professor (Shree Atal Bihari Vajpayee Government Arts and Commerce College, Vankal, Ta- Mangrol; Dist- Surat

PROF. DR. KAILASH P. DAMOR
M.Com., M.Phil., Ph.D., M.B.A, PGDMM, DIM, PGDIM, PGDFM
Professor,
Department of Commerce, Saurashtra University, Rajkot.

ABSTRACT

The banking Sector is very important for national economy and developing countries. It is important to understand all aspects of the banking industry to provide guidance in policy making. In this study, we compared the performance of Top Bank in public and private sector i.e. State Bank of India and HDFC Bank in the following areas; return on assets, return on equity, asset quality, capital adequacy, efficiency of management, profitability performance, liquidity and bank size, 2018-19 to 2022-23 data. We found many differences in the comparison between the two banks. It should be noted that this research is for educational purposes.

This research paper presents a comparative analysis of the financial performance of two leading banks in the Indian banking sector, State Bank of India (SBI) and HDFC Bank. The study focuses on evaluating their performance across key financial indicators, including Return on Assets (ROA), Return on Equity (ROE), Capital Adequacy (CA), Asset Quality (AQ), Management Efficiency (ME), Earnings Performance (EP), Liquidity (LIQ), and Size. Using financial data spanning a specific time period, the research employs a quantitative approach to assess the banks' financial strengths and weaknesses. The analysis reveals that HDFC Bank has consistently outperformed SBI across several metrics. Through a systematic review of available literature, financial reports, and industry analyses, the paper sheds light on how HDFC Bank and SBI have navigated the dynamic landscape of the Indian banking sector, addressing challenges and leveraging opportunities. The analysis considers aspects such as asset quality, profitability, innovation in services, risk management, and customer satisfaction. By synthesizing this information, the paper provides insights into the distinct strategies employed by HDFC Bank and SBI to sustain growth, manage risks, and enhance their market presence. The research contributes to a comprehensive understanding of the Indian banking industry's evolution and offers valuable insights for policymakers, investors, and stakeholders keen on grasping the trajectories of these influential financial institutions.

This study's findings underline the significant variations in financial performance between SBI and HDFC Bank, with HDFC Bank consistently displaying stronger performance across various key indicators. The

implications of these findings extend to the strategic decision-making processes of both banks, suggesting potential areas for improvement for SBI to compete effectively in the evolving banking landscape.

KEYWORDS: Financial Performance, bank type, CAMEL, Bank, India, State Bank of India, SBI, HDFC Bank.

1. INTRODUCTION:

The financial sector/region may be very crucial to the economies of various nations. Banks are a middle of the economic zone specifically in terms of developing economies in which the capital marketplace is not robust sufficient. In the financial system where the capital market continues to be a growing one, banks function critical assets of budget for groups. For this purpose, the survival and continuously suitable performance of banks is a difficulty of issue to all. studies that seek to investigate the overall performance of banks and their diverse determinants are steps within the proper course to identifying the approach of promoting the survival and boom of the arena that serves because the spine of the economic machine of developing economies. notwithstanding the above, the first-rate melancholy of the Forties coupled with financial institution failures experienced in the USA drove big interest to bank overall performance. seeing that then, the attention on financial institution overall performance has grown from ranges to levels (Heffernan, 2005). Because of the significance of banks and the sensitivity of their performance to the financial system of countries, numerous regulators installed location policies to make sure that banks are properly located to guarantee continuity at the least for the foreseeable destiny. In India, the critical financial institution after the invention of the oil required all general banks in India to recapitalize.
What are the variations inside the overall performance in SBI and HDFC Bank that demand special treatment? In
this observe had been look into the variations within the performance of these bank from 2018 to 2023. The variations between these banks are studied by myself the CAMEL method to assessing bank overall performance.

2. LITERATURE REVIEW

In the study by Gauda (2019), various indicators were employed to gauge bank performance, including a network of banks, bank productivity, capital adequacy ratio, and bank growth. The research observed that private sector banks demonstrated a more rapid expansion compared to their public sector counterparts. Notably, the capital adequacy ratios of new private sector banks surpassed the minimum requirements set by the Reserve Bank of India (RBI). On the contrary, the asset base of public sector banks exhibited swifter growth compared to that of private sector banks.

In his research article, Gajreva (2021) conducted an evaluation of the financial performance of private and public sector banks. The study revealed a significant disparity in the financial performance of these banks, with private sector banks outperforming their public sector counterparts in terms of capital adequacy ratio and overall financial performance.

Richa Chaudhary and Harsh Purohit's study in 2020 explored how banking institutions are promoting environmentally friendly products by providing financial support to industries engaged in producing "Green Products." For instance, the automobile industry is prioritizing battery-powered bikes and solar cars. The concept of green banking encompasses multiple dimensions—economic, environmental, and social—rendering banks more sustainable. This approach drives technological advancements within the banking sector, reflecting a forward-thinking perspective towards future sustainability. Despite its significance, green banking remains a pressing concern, holding potential to significantly contribute to India's developmental progress. Embracing environmentally friendly practices such as adopting energy-efficient technologies and implementing green data centers not only enhances operational efficiency but also serves as a cost-saving measure in the long term.

Renuga (2019) conducted a comparative analysis with the primary objective of examining the utilization of different services offered by private sector banks and public sector banks. The research focused on services such as M-Banking, Net Banking, and ATM usage. Among these services, Mobile Banking emerged as a notable offering, enabling users to conduct diverse financial transactions using mobile phones or Personal Digital Assistants (PDAs).

The investigation encompassed data analysis from private sector banks including ICICI Bank, INDUSIND Bank, HDFC Bank, and Axis Bank, as well as public sector banks like SBI Bank, SBBJ, IDBI, and OBC Bank, all of which provide Mobile Banking services. The collective findings indicated that the usage of Mobile Banking transactions was higher in public sector banks compared to private sector banks.

Baral (2005) emphasizes that the CAMEL framework stands as the most widely utilized model, endorsed both by the Basle Committee on Bank Supervision and the IMF. CAMEL, representing Capital adequacy, Asset quality, Management efficiency, Earnings performance, and Liquidity, serves as a comprehensive evaluation tool. The aspect of Capital adequacy gauges a bank's capacity to withstand shocks, necessitating a balanced equity proportion within its financing structure (Kosmidou, 2009).

According to Aburime (2008), a bank's profitability hinges on its aptitude to foresee, mitigate, and oversee risks, potentially safeguarding against losses induced by unforeseen risks. While maintaining liquidity is pivotal to prevent a bank run, Kamau (2009) contends that excessively high liquidity holdings might incur an opportunity cost in terms of potentially lucrative investments.

Furthermore, Sufian and Chong (2008) emphasize a robust correlation between firm performance and management efficiency, particularly in the realm of expense management. This underscores the critical role of effective expense control in enhancing overall performance.

Dr. (Mrs.) Annesha (2018) underscores the significance of customers dedicating time at banks to access a range of services. The author emphasizes the importance of fostering relationship marketing, particularly among cooperative staff members. Specialized training is also recommended in this context. Furthermore, the research highlights that private banks exhibit a more advanced strategic intent compared to their public counterparts.

To enhance customer satisfaction, the paper advocates for adequate infrastructure, comfortable seating, and an overall enhancement of the banking environment. The incorporation of cutting-edge technology and services is deemed essential. Naloni's investigation into service quality models for customers in Public Sector Banks (PSBs) reveals that the entry of new private sector banks has contributed to an enhancement in customer services and product offerings.

3. METHODOLOGY

Data is accumulated from the financial statements of the banks beneath the study from 2018 to 2023. We appoint a complete of 25 on the idea of availability of records. We comply with the work of Hassan et al. (2021). We evaluate the banks on the various dimensions of performance (determinants). The averages for the various ratios are calculated and compared on charts. the two classifications for the evaluation are SBI & HDFC BANK.

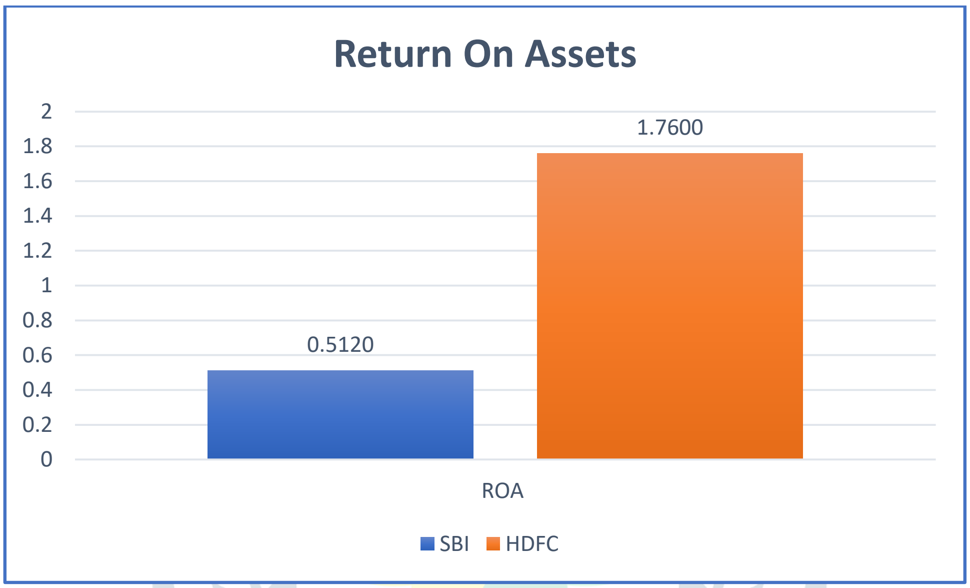
Definition of variables		
	Variable	**Measured as**
ROA	Return on Assets	Net income / Total Assets
ROE	Return on Equity	Net income / Total Equity
CA	Capital Adequacy	Total Equity/ Total Assets
AQ	Asset Quality	Non-performing loans/ gross loans

ME	Management Efficiency	Interest income / total assets
EP	Earning Performance	Net interest margin
LIQ	Liquidity	Advances / Deposits
SIZE	Bank size	Log of total assets

4. DISCUSSION OF FINDINGS

BANK	ROA	ROE	CA	AQ	ME	EP	LIQ	SIZE
SBI	0.5120	0.0958	0.1361	0.0169	0.0610	0.0306	0.7063	4534263
HDFC	1.7600	0.1528	0.1902	0.0032	0.0723	0.0378	0.8608	2163221

FIGURE 01



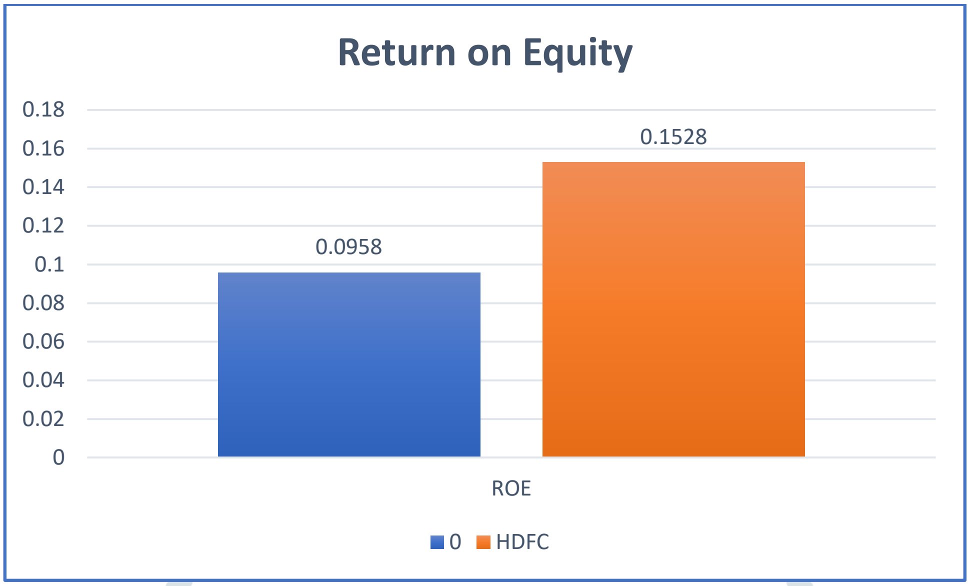
Return on Assets (ROA) is a crucial financial metric that assesses a bank's ability to generate profits in relation to its total assets. Let's interpret the Return on Assets values for State Bank of India (SBI) and HDFC Bank.

An ROA of 0.5120 means that SBI generates approximately 51.2 cents of profit for every unit of its total assets. This indicates the efficiency with which SBI utilizes its assets to generate earnings. A higher ROA value suggests that the bank is more effective at generating profits from its assets.

With an ROA of 1.7600, HDFC Bank showcases a higher efficiency in generating profits from its total assets compared to SBI. For every unit of assets, HDFC Bank generates approximately 1.76 units of profit. This suggests that HDFC Bank's operations are more adept at generating earnings from its asset base.
HDFC Bank demonstrates superior Return on Assets compared to SBI, indicating its better ability to generate profits from its total asset base.

In conclusion, the comparison of Return on Assets values indicates that HDFC Bank is more effective in generating profits from its total assets compared to State Bank of India. However, interpreting ROA should also be done in conjunction with other financial metrics, risk considerations, and market conditions to form a comprehensive understanding of a bank's overall financial performance and profitability.

FIGURE 02



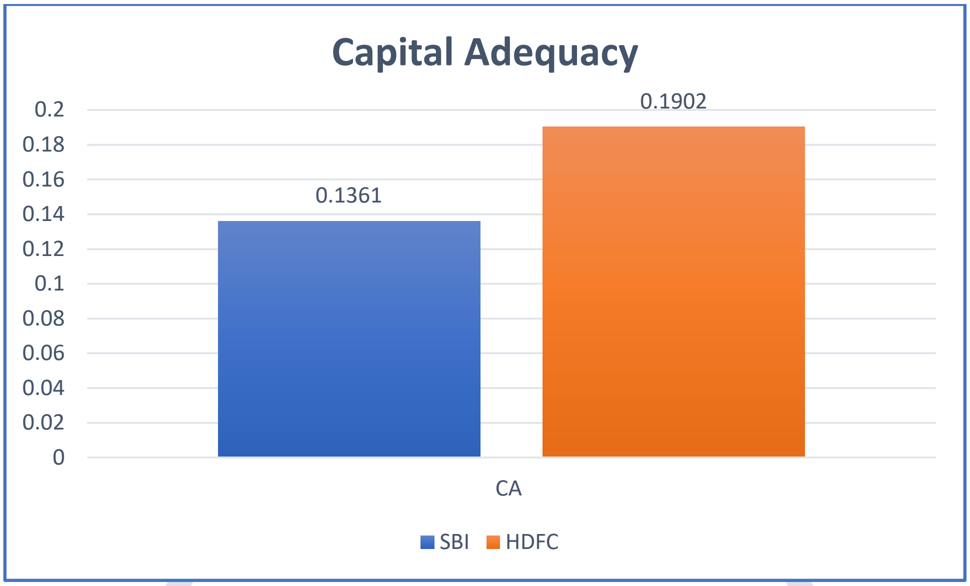
Return on Equity (ROE) is a key financial metric that measures a company's profitability in relation to its shareholders' equity. Let's interpret the ROE values for State Bank of India (SBI) and HDFC Bank.

An ROE of 0.0958 means that for every unit of shareholders' equity invested, SBI generated a profit of approximately 0.0958 units. This suggests that SBI's ability to generate profits from its shareholders' equity is relatively moderate. There could be factors affecting SBI's profitability, such as operational challenges, lower profit margins, or higher equity base due to its larger size and diverse operations

With an ROE of 0.1528, HDFC Bank demonstrates a higher profitability in relation to its shareholders' equity. For every unit of equity invested by shareholders, HDFC Bank generated a profit of approximately 0.1528 units. This indicates that HDFC Bank is more efficient in translating shareholders' equity into profits, suggesting stronger profitability margins, efficient operations, or possibly a focus on high-return projects.
HDFC Bank exhibits a higher ROE compared to SBI. This indicates that HDFC Bank is more effective at generating profits from the equity invested by its shareholders. It implies that HDFC Bank's operations are more efficient, or it could be generating higher profit margins or deploying its equity more judiciously into profitable ventures.

In conclusion, the comparison of ROE values between State Bank of India and HDFC Bank suggests that HDFC Bank is performing better in terms of generating profits from shareholders' equity.

FIGURE 03



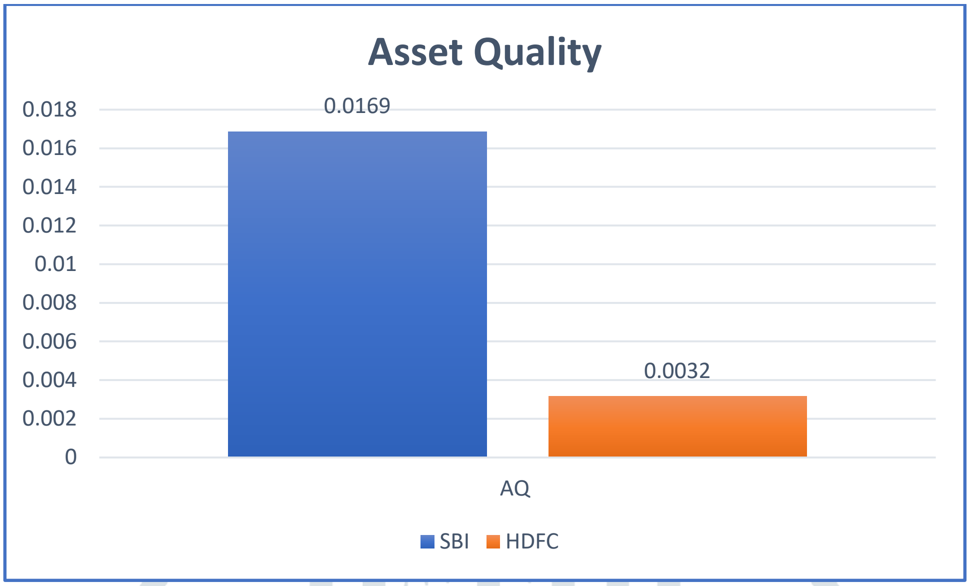
Capital Adequacy Ratio (CAR) is a critical measure that indicates a bank's ability to absorb potential losses. It compares a bank's capital against its risk-weighted assets.

A Capital Adequacy Ratio of 0.1361 translates to 13.61%. This means that SBI has capital equal to 13.61% of its risk-weighted assets. A higher CAR is generally indicative of a bank's capacity to withstand losses. The value suggests that SBI's capital is sufficient to cover potential losses to a reasonable extent, but there might be room for improvement.

With a Capital Adequacy Ratio of 0.1902 (19.02%), HDFC Bank portrays a higher level of capital adequacy compared to SBI. This indicates that HDFC Bank is better positioned to absorb losses, which could be attributed to its efficient risk management practices or a strong capital position.
HDFC Bank maintains a higher Capital Adequacy Ratio compared to SBI. This suggests that HDFC Bank has a stronger buffer of capital to absorb potential losses and manage risks.

In conclusion, the comparison of Capital Adequacy Ratio values indicates that HDFC Bank has a higher level of capital adequacy compared to State Bank of India. This implies that HDFC Bank might be better prepared to manage potential losses and risks in its operations.

FIGURE 04



Asset Quality is a critical aspect of a bank's financial health, reflecting the quality of its loan portfolio and the potential risk of loan defaults.

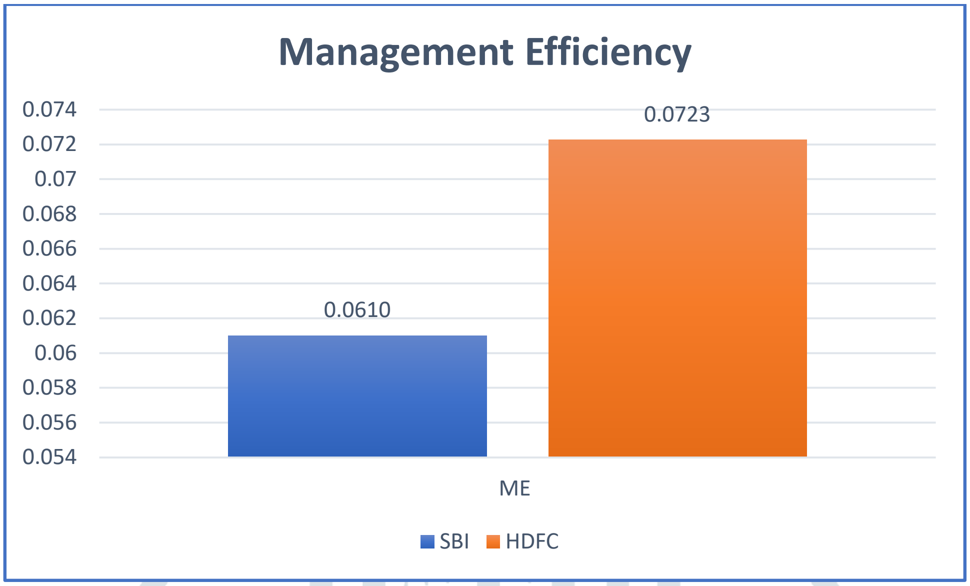
An Asset Quality value of 0.0169 implies that 1.69% of SBI's total assets are classified as non-performing or impaired. This indicates the proportion of loans that are at risk of default or have already defaulted. A higher Asset Quality value suggests a higher percentage of impaired assets, which could be indicative of challenges in managing loan quality.

With an Asset Quality value of 0.0032 (0.32%), HDFC Bank portrays a significantly better asset quality compared to SBI. This indicates that a lower proportion of HDFC Bank's assets are impaired or at risk of default, reflecting better loan portfolio management.

HDFC Bank demonstrates superior asset quality compared to SBI, with a significantly lower proportion of impaired assets.

In conclusion, the comparison of Asset Quality values indicates that HDFC Bank has a better asset quality compared to State Bank of India. This suggests that HDFC Bank's loan portfolio has a lower proportion of non-performing or impaired loans, reflecting better risk management and loan quality control. However, analyzing asset quality comprehensively also involves assessing factors such as provisioning, recovery efforts, and the overall economic environment.

FIGURE 05



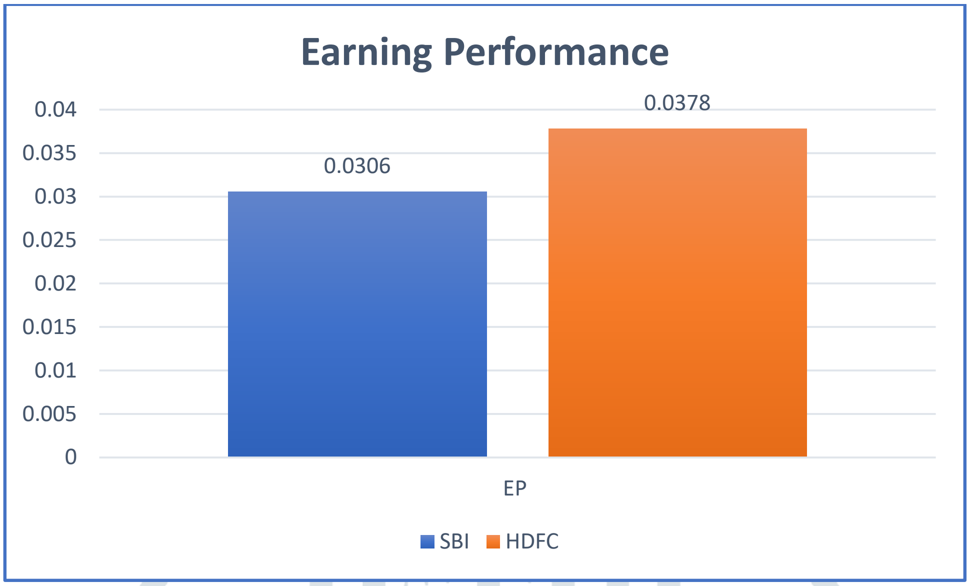
Management Efficiency is a measure that assesses how effectively a bank utilizes its resources to generate profits. Let's interpret the Management Efficiency values for State Bank of India (SBI) and HDFC Bank.

A Management Efficiency value of 0.0610 suggests that SBI generates approximately 6.10% of profit for every unit of resources it employs. This indicates the efficiency with which SBI utilizes its assets, liabilities, and equity to generate earnings. A higher Management Efficiency value implies that the bank is more effective in generating profits from its resources.

With a Management Efficiency value of 0.0723, HDFC Bank demonstrates a higher efficiency in converting its resources into profits compared to SBI. For every unit of resources, HDFC Bank generates approximately 7.23% of profit. This suggests that HDFC Bank's management is more adept at utilizing its resources to generate earnings.
HDFC Bank showcases higher management efficiency compared to SBI, signifying its superior ability to generate profits from the resources at its disposal.

In conclusion, the comparison of Management Efficiency values suggests that HDFC Bank's management is more effective in generating profits from its resources compared to State Bank of India. However, management efficiency should be evaluated in conjunction with other financial metrics and operational considerations to provide a comprehensive assessment of a bank's overall performance and effectiveness in resource utilization.

FIGURE 06



Earnings Performance measures a bank's ability to generate profits from its operations and assets. Let's interpret the Earnings Performance values for State Bank of India (SBI) and HDFC Bank.

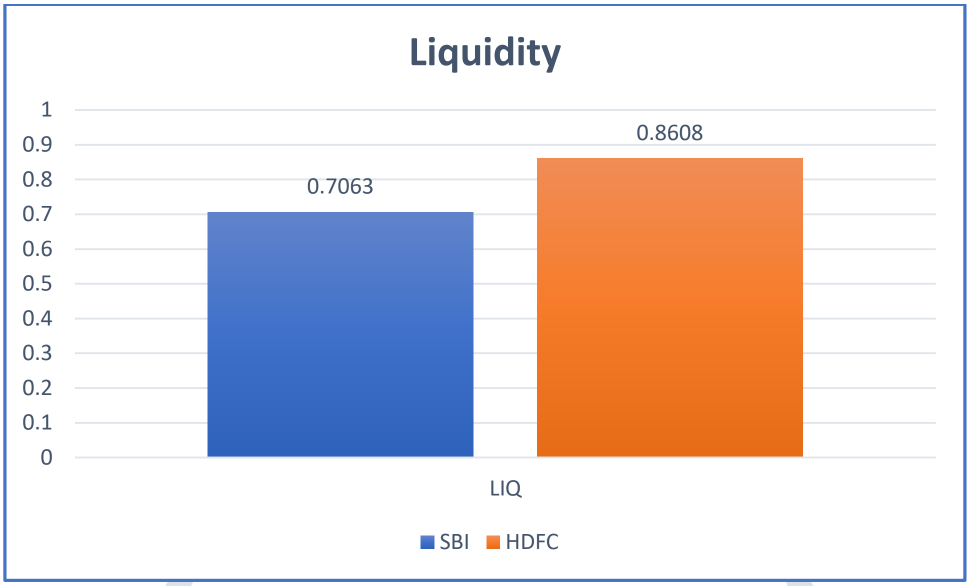
An Earnings Performance value of 0.0306 implies that SBI generates approximately 3.06% of earnings for every unit of its assets or operations. This indicates the efficiency with which SBI converts its assets into earnings. A higher Earnings Performance value suggests that the bank is more effective at generating profits from its operations.

With an Earnings Performance value of 0.0378, HDFC Bank demonstrates a higher efficiency in converting its assets into earnings compared to SBI. For every unit of assets, HDFC Bank generates approximately 3.78% of earnings. This suggests that HDFC Bank's operations are more adept at generating profits.

HDFC Bank displays better earnings performance compared to SBI, indicating its superior ability to generate profits from its operations and assets.

In conclusion, the comparison of Earnings Performance values indicates that HDFC Bank is more effective in generating profits from its operations and assets compared to State Bank of India. However, interpreting earnings performance should be done in conjunction with other financial metrics, risk factors, and market conditions to form a comprehensive understanding of a bank's overall financial performance and profitability.

FIGURE 07



Liquidity is a crucial aspect of a bank's financial health, indicating its ability to meet short-term obligations and maintain a steady flow of funds.

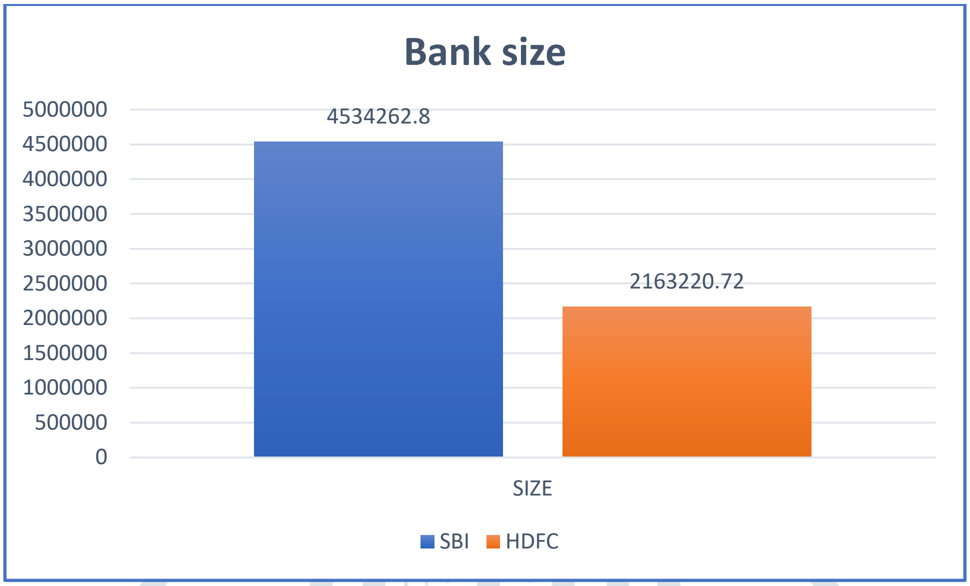
A Liquidity value of 0.7063 suggests that SBI has assets readily available to cover approximately 70.63% of its short-term obligations. This indicates the proportion of immediate liquidity that SBI can rely on to fulfill its short-term commitments. A higher Liquidity value suggests better short-term financial stability.

With a Liquidity value of 0.8608, HDFC Bank portrays a higher level of liquidity compared to SBI. This implies that HDFC Bank's assets can cover approximately 86.08% of its short-term obligations, indicating a stronger ability to meet immediate financial requirements.

HDFC Bank maintains higher liquidity compared to SBI, signifying its stronger capacity to fulfill short-term financial commitments.

In conclusion, the comparison of Liquidity values indicates that HDFC Bank possesses better short-term financial stability and liquidity compared to State Bank of India. However, evaluating liquidity comprehensively also involves assessing the composition of assets, liabilities, and the bank's ability to manage liquidity risks effectively.

FIGURE 08



Bank size is often measured in terms of total assets and indicates the scale and scope of a bank's operations. Let's interpret the Bank Size values for State Bank of India (SBI) and HDFC Bank.

A Bank Size value of 4534262.8 suggests that SBI's total assets amount to approximately 4,534,262.8 units (Rupees in Crore). This reflects the scale of SBI's operations and the total value of assets under its management. With a Bank Size value of 2163220.72, HDFC Bank portrays a smaller total asset base compared to SBI, amounting to approximately 2,163,220.72 units (Rupees in Crore). This indicates a comparatively smaller scale of operations and assets managed by HDFC Bank.

State Bank of India has a larger total asset base compared to HDFC Bank, suggesting a larger scale of operations and a broader scope of activities.

In conclusion, the comparison of Bank Size values indicates that State Bank of India has a larger scale of operations and a bigger asset base compared to HDFC Bank.

5. CONCLUSIONS:

Based on the findings of various financial metrics for State Bank of India (SBI) and HDFC Bank, we can draw the following conclusions:

1. Return on Assets (ROA): HDFC Bank has a significantly higher ROA (1.76) compared to SBI (0.512). This implies that HDFC Bank is more effective in generating profits from its total assets, indicating better asset utilization and profitability.
2. Return on Equity (ROE): HDFC Bank also demonstrates a higher ROE (0.1528) compared to SBI (0.0958). This indicates that HDFC Bank generates better returns for its shareholders' equity investment, reflecting stronger profitability in relation to its equity base.
3. Capital Adequacy (CA): HDFC Bank maintains a higher Capital Adequacy ratio (0.1902) compared to SBI (0.1361). This suggests that HDFC Bank is better equipped to absorb potential losses, indicating a stronger financial cushion and risk management.

4. Asset Quality (AQ): HDFC Bank showcases superior asset quality with a lower AQ value (0.0032) compared to SBI (0.0169). This implies that HDFC Bank's loan portfolio has a lower proportion of non-performing or impaired loans, indicating better loan quality control.
5. Management Efficiency (ME): HDFC Bank exhibits better management efficiency with an ME value (0.0723) exceeding SBI's value (0.0610). This suggests that HDFC Bank's management is more effective at generating profits from the resources it employs.
6. Earnings Performance (EP): HDFC Bank displays better earnings performance with a higher EP value (0.0378) compared to SBI (0.0306). This indicates that HDFC Bank is more efficient in converting its assets into earnings.
7. Liquidity (LIQ): HDFC Bank maintains higher liquidity with a LIQ value (0.8608) exceeding SBI's value (0.7063). This suggests that HDFC Bank has a stronger capacity to fulfill short-term financial commitments.
8. Bank Size: SBI holds a larger bank size with a higher SIZE value (4534263) compared to HDFC Bank (2163221). This implies that SBI has a larger scale of operations and a bigger asset base.

In conclusion, HDFC Bank generally outperforms State Bank of India across various financial metrics, indicating better asset utilization, profitability, risk management, and operational efficiency. However, a comprehensive assessment requires considering the broader context, market dynamics, and the banks' respective strategies to provide a holistic understanding of their performance.

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