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A comparative analysis of financial performance of SBI and ICICI Bank

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Abstract

Banks play a vital and crucial role in the development of an economy. A sound banking system mobilizes small savings of the community and makes them available for investment in productive enterprises. Banks mobilise deposits by offering attractive rates of interest and thus convert savings into active capital, otherwise that amount would have remained idle. Banks are very important sources of finance and credit for industry and trade. The commercial bank helps the farmers in extending credit for agricultural development. Banks also play crucial role in raising the level of standard of living of people by providing them consumer loans. But for all this what is required is the sound financial position of the banks. A financially sound bank is an asset for the economy whereas a financially weak bank is a liability for the economy. In the present study, ICICI Bank from Private Sector and SBI from Public Sector have been taken for their financial comparison. Both banks are largest banks in their respective segments. Credit Deposit Ratio, Operating Expenses to Total Funds Ratio, Cash Deposit Ratio, Return on Equity and Net Profit to Total Funds Ratio have been used for the comparative financial analysis. It was found that ICICI Bank is superior on the above mentioned fronts as compared to SBI.

Keywords: financial, development, economy, enterprises, finance

Introduction

Banks play a very useful and crucial role in the economic life of every nation. They have control over a large part of the supply of money in circulation, and they can influence the nature and character of production in any country. In any economy, economic development is not possible unless there is an adequate degree of capital accumulation (or) formation. Deficiency of capital formation is the result of low saving made by the community. The serious capital deficiency in developing economies is reflected in small amount of capital equipment per worker and the limited knowledge, training and scientific advance. In any plan of economic development, capital occupies a position of strategic importance. No economic development of sizable magnitude is possible unless there is an adequate degree of capital formation. A very important characteristic of an under-developed economy is deficiency of capital which is the result of insufficient savings made by the community. Backward economies hardly save 5% of the national income, whereas they should save and invest at least 15%. At this juncture, banks play a useful role. Banks stimulate saving and investment to remove this deficiency. A sound banking system mobilizes small savings of the community and makes them available for investment in productive enterprises. Banks mobilise deposits by offering attractive rates of interest and thus convert savings into active capital, otherwise that amount would have remained idle. Banks distribute these savings through loans among productive enterprises which are helpful in nation building. It facilitates the optimum utilization of the financial resources of the community.

Banks are very important sources of finance and credit for industry and trade. It is observed that credit is the lubricant of all commerce and trade. Hence, banks become nerve centers of all trade activities and therefore commerce and trade could function in the presence of sound banking system. The banks cover foreign trade transactions also. Big banks also undertake foreign exchange business. They help in concluding deferred payments, arrangements between the domestic industrial undertakings and foreign firms to enable the former to import machinery and other essential equipment.

Commercial bankers help commerce and industry in yet another way. With the sound banking system, it is possible for commerce and industry for extending their field of operation. Commercial banks act as an intermediary between buyers and the sellers. Goods are supplied on bank guarantees, making it viable for industry and commerce to cultivate and locate markets for their products. The risks are undertaken by the bank. When the risks have been set free by the banks, the industry can look forward to derive economies of the large size of the market.

Commercial banks help in proper allocation of funds among different regions of the economy. The banks operate primarily for profits. When the banks lend their funds for more productive uses, their profits will be maximized. Introduction of branch banking makes it possible to choose between different regions. A region with growth potential attracts more bank funds. But in recent years, the approach of banks towards regional growth has been undergoing a change. Banks are providing help to create infrastructure which is essential for the economic development of nation. Thus banks are engines of balanced regional development in the country.

The commercial bank also helps the farmers in extending credit for agricultural development. Farmers require credit for various purposes like making their produce, for the modernization and mechanization of their agriculture, for providing irrigation facilities and for developing land. The banks also extend their financial assistance in the areas of animal husbanding, dairy farming, sheep breeding, poultry farming and horticulture.

Banks also helps in raising the standard of living of the people of a nation. The standard of living of the people is estimated on the basis of the consumption pattern. The banks advance loans to consumers for the purchase of consumer durables and other immovable property, which raises the standard of living of the people. Stimulating human capital formation, facilitating monetary policy formulation and developing entrepreneurs are some of the other roles played by commercial banks in the economic life of every nation.
But all this depend upon the sound financial position of banks. In the present study two largest banks namely SBI from Public Sector and ICICI from Private sector are taken for comparison of their financial performance.

ICICI Bank Profile
ICICI Bank was originally promoted in 1994 by ICICI Limited, an Indian financial institution, and the bank 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.
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. The merger would enhance value for ICICI shareholders through the merged entity's access to low-cost deposits, greater opportunities for earning fee-based income and the ability to participate in the payments system and provide transaction-banking services. The merger would enhance value for shareholders of bank through a large capital base and scale of operations, seamless access to ICICI's strong corporate relationships built up over five decades, entry into new business segments, higher market share in various business segments, particularly fee-based services, and access to the vast talent pool of ICICI and its subsidiaries.
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.

SBI Bank Profile
State Bank of India (SBI), with a 200 year history, is the largest commercial bank in India in terms of assets, deposits, profits, branches, customers and employees. The Government of India is the single largest shareholder of this Fortune 500 entity with 61.58% ownership. SBI is ranked 60th in the list of Top 1000 Banks in the world by "The Banker" in July 2012.
`The origins of State Bank of India date back to 1806 when the Bank of Calcutta (later called the Bank of Bengal) was established. In 1921, the Bank of Bengal and two other banks (Bank of Madras and Bank of Bombay) were amalgamated to form the Imperial Bank of India. In 1955, the Reserve Bank of India acquired the controlling interests of the Imperial Bank of India and SBI was created by an act of Parliament to succeed the Imperial Bank of India.
The SBI group consists of SBI and five associate banks which are now merged in SBI. The group has an extensive network, with over 20000 plus branches in India and another 186 offices in 34 countries across the world. As of 31st March 2013, the group had assets worth USD 392 billion, deposits of USD 299 billion and capital & reserves in excess of USD 23.03 billion. The group commands over 23% share of the domestic Indian banking market.
SBI’s non- banking subsidiaries/joint ventures are market leaders in their respective areas and provide wide ranging services, which include life insurance, merchant banking, mutual funds, credit cards, factoring services, security trading and primary dealership, making the SBI Group a truly large financial supermarket and India’s financial icon. SBI has arrangements with over 1500 various international / local banks to exchange financial messages through SWIFT in all business centres of the world to facilitate trade related banking business, reinforced by dedicated and highly skilled teams of professionals.’

Objective of the study

1. To compare the financial performance of SBI and ICICI Banks.

Research Methodology
Financial analysis is mainly carried out to make a comparison between the parameters of growth, profitability and financial soundness of the respective banks by diagnosing the information contained in the financial statements. Financial analysis is carried out to identify the financial strengths and weaknesses of the two banks by properly establishing relationship between the items of Balance Sheet and Profit & Loss Account. It helps in better understanding of banks financial position, growth and performance.

Data Collection
The study is based on secondary data that has been collected from annual reports of the respective banks. The study covers the period of 8 years i.e. from year 2008-09 to year 2015-16.

Data Analysis
Ratio Analysis was applied to analyze and compare the trends in banking business and financial performance. The following

ratios have been used in the present study to compare the performance of banks:

1. Credit Deposit Ratio
2. Operating Expenses/Total Funds Ratio
3. Net Profit/Total Funds Ratio
4. Return on Equity
5. Cash Deposit Ratio

Discussion

Credit-Deposit Ratio

Credit-deposit ratio, popularly CD ratio, is the ratio of how much a bank lends out of the deposits it has mobilized. RBI does not stipulate a minimum or maximum level for the ratio, but a very low ratio indicates banks are not making full use of their resources. Alternatively, a high ratio indicates more reliance on deposits for lending and a likely pressure on resources. CD ratio helps in assessing a bank's liquidity and indicates its health - if the ratio is too low, banks may not be earning as much as they could be. If the ratio is too high, it means that banks might not have enough liquidity to cover any unforeseen fund requirements, may affect capital adequacy and asset-liability mismatch. A very high ratio could have implications at the systemic level.

Expressed as a percentage, CD ratio is computed as under:

$$\text{Credit-Deposit Ratio} = \frac{\text{Total Advances}}{\text{Total Deposits}} * 100$$

Table 1: Credit Deposit Ratios (In %)

Year	SBI	ICICI
2008-09	74.97	95.93
2009-10	75.96	95.04
2010-11	79.9	92.97
2011-12	82.14	97.71
2012-13	85.17	99.25
2013-14	86.84	100.71
2014-15	84.47	104.72
2015-16	83.56	105.08

Source: Annual Reports of the SBI and ICICI Bank

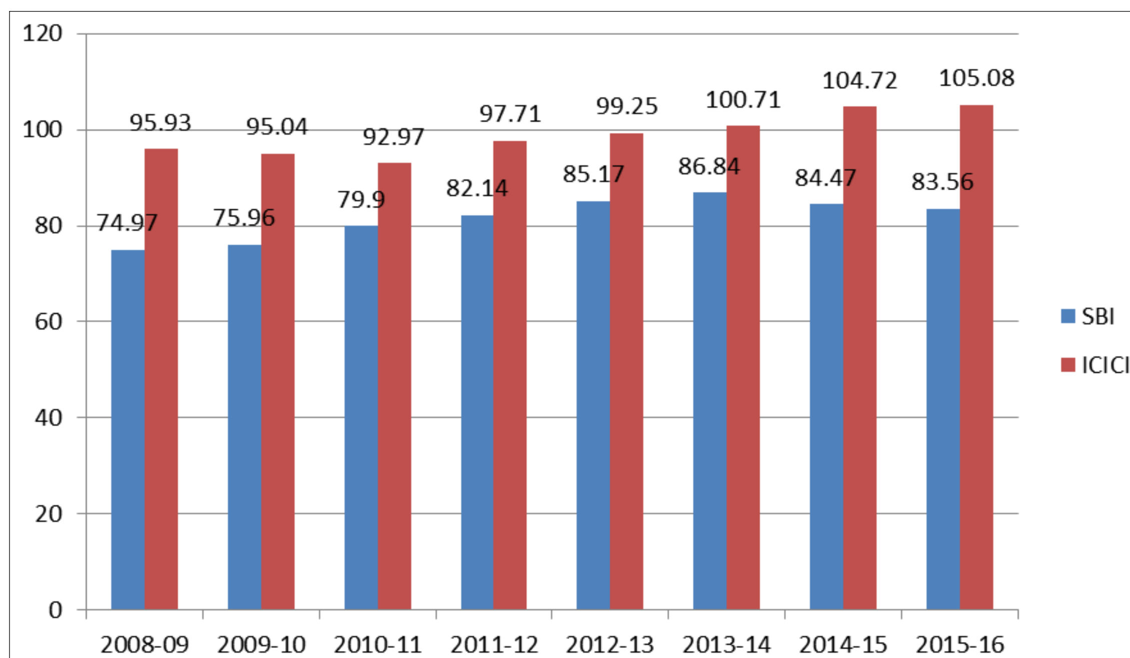

Fig 1: Credit Deposit Ratio (In %)

Table 1 shows that the Credit Deposit Ratio of ICICI was higher than in SBI during the whole period of study. The Credit Deposit Ratio of ICICI was increased from 95.93 in 2008-09 to 105.08 in 2015-16 whereas the ratio of SBI was increased from 74.97 in 2008-09 to 83.56 in 2015-16. In both, SBI and ICICI the credit deposit ratio was highest in 2015-16. This shows that ICICI Bank has created more loan assets from its deposits as compared to SBI.

Operating expenses to total funds

This measure find out the costs incurred by an investment company to operate funds. An expense ratio is determined through an annual calculation, where a fund's operating expenses are divided by the average value of its assets under management.

Table 2: Operating Expenses to Total Funds Ratio (In %)

Year	SBI	ICICI
2008-09	1.86	1.94
2009-10	2.01	1.58
2010-11	2.02	1.72
2011-12	2.03	1.75
2012-13	1.94	1.69
2013-14	2.05	1.72
2014-15	1.96	1.75
2015-16	1.86	1.76

Source: Annual Reports of the SBI and ICICI Bank

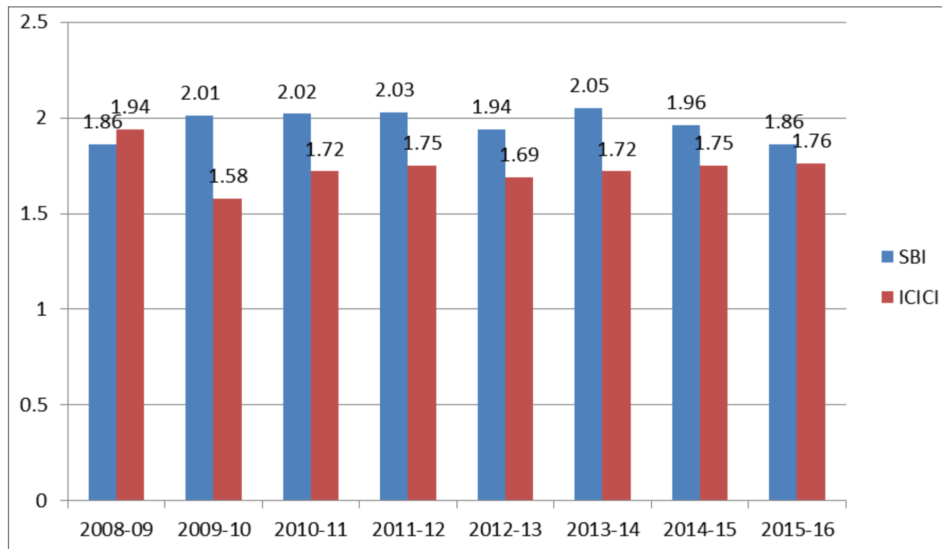

Fig 2: Operating Expenses to Total Funds Ratio (In %)

Table 2 reveals that the ratio of operating funds to total funds of ICICI was varied from 1.94 per cent to 1.76 percent during the period of study. It was lowest at 1.58 percent in 2009-10 but again increased to1.76 percent in 2015-16. The ratio of SBI has also shows fluctuation over the period of the study. It was at its lowest in 2008-09 (1.86 percent). After that it shows an increasing trend upto the year 2013-14 and start decreasing after 2013-14 and again reached to 1.86 in 2015-16. However, the ratio of SBI remain more than the ratio of ICICI during the whole period of study which shows that ICICI is working efficiently and economically than SBI.

Net profit to total funds

This ratio measures a company's ability to generate profits from its funds. The ratio is considered an indicator of how effectively and efficiently a company is using its assets to generate earnings before contractual obligations are paid.

Table 3: Net Profit to Total Funds Ratio (In %)

Year	SBI	ICICI
2008-09	1.08	0.96
2009-10	0.91	1.08
2010-11	0.73	1.34
2011-12	0.91	1.44
2012-13	0.97	1.62
2013-14	0.65	1.73
2014-15	0.68	1.80
2015-16	0.46	1.43

***Source*:** Annual Reports of the SBI and ICICI Bank

The table 3 shows that the ratio of Net Profits to Total Funds of ICICI has increased from 0.96 per cent in 2008-09 to 1.80 percent in 2014-15 but decreased to 1.43 percent in 2015-16. But the ratio of SBI has been decreased from 1.08 percent in 2008-09 to 0.46 percent in 2015-16. The trend line of ICICI is showing an increasing trend whereas the trend line of SBI is showing a decreasing trend in net profits. Thus, the financial position of ICICI is better than SBI in terms of net profit.

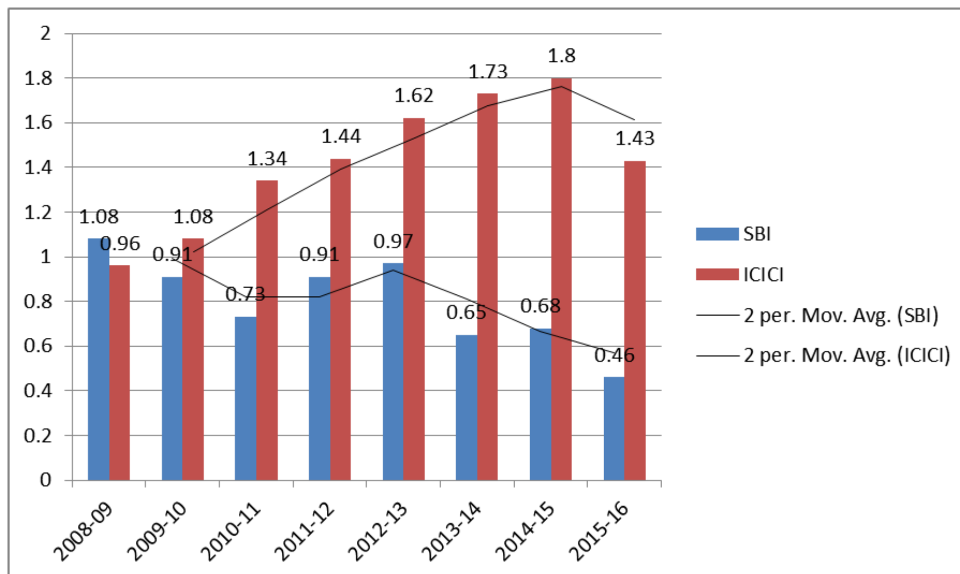

Fig 3: Net Profit to Total Funds Ratio (in %)

Cash Deposit Ratio: Cash Deposit ratio (CDR) is the ratio of how much a bank lends out of the deposits it has mobilized. It indicates how much of a bank's core funds are being used for lending, the main banking activity. It can also be defined as Total of Cash in hand and Balances with RBI divided by Total deposits.

Cash-Deposit Ratio is calculated as:
Cash-Deposit Ratio = (cash in hand + balances with RBI)/Aggregate Deposits (Demand + Time Deposits)

Table 4: Cash Deposit Ratio (In %)

Year	SBI	ICICI
2008-09	8.37	10.14
2009-10	7.56	10.72
2010-11	8.96	11.32
2011-12	7.51	8.6
2012-13	5.34	7.21
2013-14	5.81	6.54
2014-15	6.76	6.85
2015-16	7.42	6.74

Source: Annual Reports of the SBI and ICICI Bank

The table 4 reveals that the Cash Deposit Ratio in ICICI and SBI was highest in 2010-11. The ratio is an indicator to customers whether they will be able to get back their cash whenever required or not. The ratio of ICICI shows an increasing trend during the period 2009-11 but starts decreasing thereafter and reached to 6.74 percent in 2015-16. The Cash Deposit Ratio of SBI has also decreased from 8.37 percent in 2008-09 to 7.42 in 2015-16. However, there is an improvement in the ratio of SBI during the last four yeas of the study and in year 2015-16, the ratio of SBI is more than the ratio of ICICI.

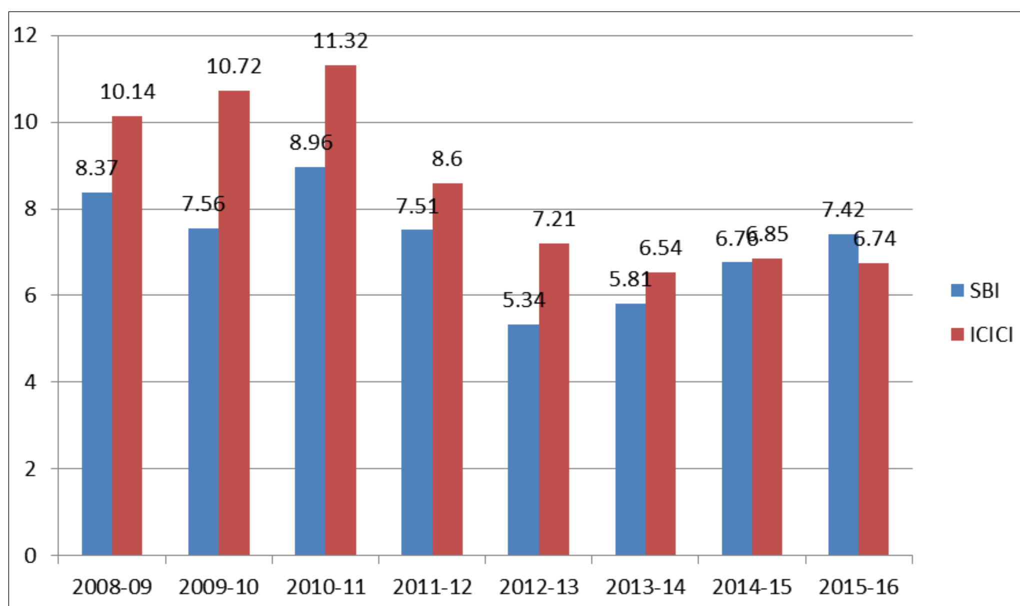

Fig 4: Cash Deposit Ratio (In %)

Return on Equity

The ability of the firm's management to realize an adequate return on the capital invested by the owners of the firm. Tendency is to look increasingly to this ratio as a final criterion of profitability.

Table 5 shows that Return on Equity of SBI bank has decreased to 17.05% in year 2008-09 from 6.89% in 2015-16 while in ICICI bank, ROE has continuously increased from 7.83 percent in 2008-09 to 13.89 perncet in 2014-15. In 2015-16, the ROE of ICICI has decreased in comparison to previous year and reached to 11.19 percent from 13.89 percent. The overall trend of ROE of SBI is decreasing whereas the trend of ROE of ICICI is increasing. Hence it shows that ICICI bank has been successful in generating more returns on the shareholders' capital as compared to SBI bank.

Table 5: Return on Equity (In %)

Year	SBI	ICICI
2008-09	17.05	7.83
2009-10	14.8	7.96
2010-11	12.62	9.65
2011-12	15.72	11.2
2012-13	14.26	12.48
2013-14	9.20	13.40
2014-15	10.20	13.89
2015-16	6.89	11.19

***Source*:** Annual Reports of SBI and ICICI Bank

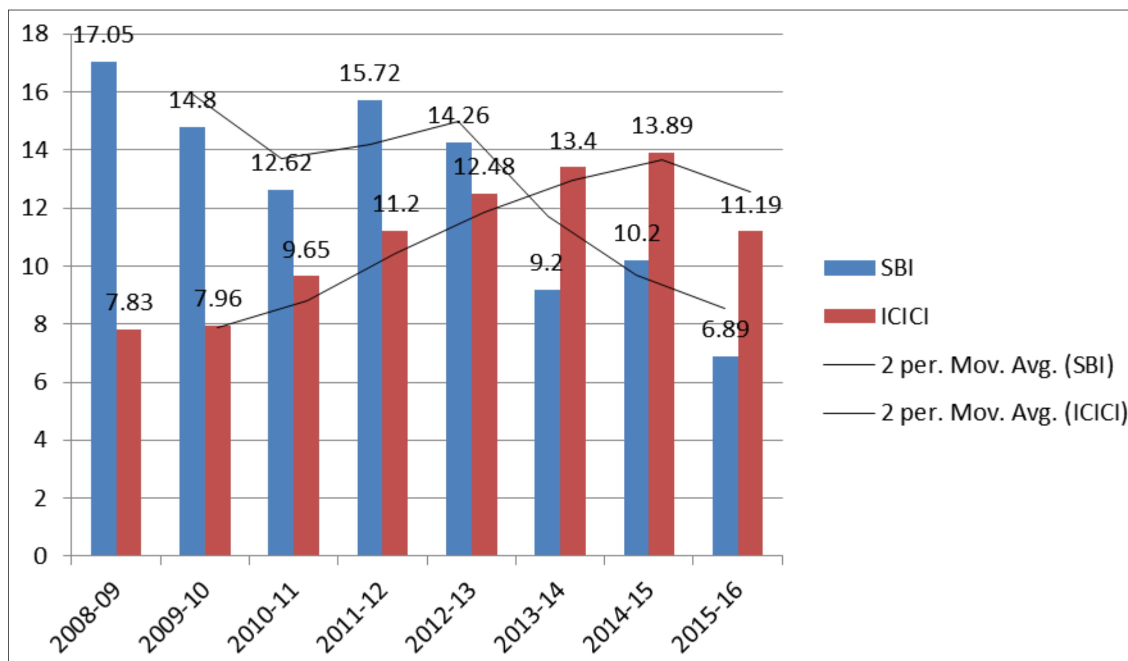

Fig 5: Return on Equity (In %)

Findings and Conclusions

Form the above discussion it is clear that over the course of eight financial periods of study, the Credit Deposit Ratio of ICICI is showing an increasing trend and the ratio of ICICI remains higher than SBI during the whole period of study. The Credit Deposit Ratio of SBI also shows an increasing trend upto the year 2013-14 but starts decreasing thereafter and reached to 83.56 percent in 2015-16 from 86.84 percent in 2013-14. This shows that ICICI Bank has created more loan assets from its deposits as compared to SBI.

The ratio of operating expenses to total funds of ICICI has varied from 1.94 per cent to 1.58 percent however it shows stabilization around 1.75 percent during the last six years of the study. It was at 1.58 percent in 2009-10, lowest among eight years but again it increased to1.72 percent in 2010-11. But the ratio of Operating Expenses to Total Funds of SBI has increased over the first five years of the study and start decreasing after the year 2013-14. However, the ratio of SBI is higher than the ratio of ICICI during the whole period of study.

The ratio of Net Profits to Total Funds of ICICI shows an increasing trend whereas the ratio of SBI is showing a decreasing trend during the period of study. The ratio of ICICI was higher than that of SBI during the whole period of study. The ratio of ICICI ranged from 0.96 percent to 1.80 percent whereas the ratio of SBI was ranged from 0.46 percent to 1.08 percent during the period of study. Thus, the ICICI has shown comparatively lower operational expenses than SBI.

The Cash Deposit Ratio of ICICI and SBI have shown an increasing trend during the first three years of study. The ratio of ICICI is decreasing continuously after 2010-11 to 2015-16 whereas the ratio of SBI was decreased from 2010-11 to 2012-13 and starts improving again. In 2015-16, the Cash Deposit Ratio of SBI was higher than that of ICICI Bank.

Return on Equity in SBI bank is showing a decreasing trend whereas the ratio of ICICI Bank is showing an increasing trend during the period of study. Hence it shows that ICICI bank has been successful in generating returns on the shareholders' capital more than SBI bank. Hence, on the basis of the above study or analysis it can be concluded that ICICI bank is performing well in comparison to SBI.

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