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A Comparative Study on Profitability of SBI and HDFC

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ABSTRACT

Profit is an absolute word, whereas, the profitability is a relative concept, though they are closely related and mutually interdependent, having distinct roles in business. Profitability refers to the operating efficiency of the enterprise. It is the ability of the concern to make profit on sales and also to get sufficient return on the capital employed It takes into account various profitability ratios like Adjusted Cash Margin, Net Profit Margin, Return on Net worth and Adjusted Return on Net worth. State Bank of India (SBI) and Housing Development Finance Corporation Limited (HDFC) are selected as sample banks for the study as they are top banks in the domain of public and private sectors. The State Bank of India, popularly known as SBI is one of the leading public sector bank in India. This study is a case method of Research and comparative analysis in nature. The study used only secondary data that was collected from research articles, books related and thesis works already done on the topic and particularly from annual reports of SBI and HDFC Bank.

***Keywords:** Profitability, SBI, HDFC, Net Profit, Return on Net Worth*

Introduction

The terms 'Profit' and 'Profitability' are used interchangeably sometimes. But in real sense, there is a difference between the two. Profit refers to the total income earned by the enterprise during the specified period of time, while. In other words, Profitability is a measure of efficiency and control. It indicates the efficiency or effectiveness with which the operations of the business are carried on and is the most important measure of the success of the business. A business that is not successful cannot survive. Conversely, a business that is highly successful has the ability to reward its owners with a large return on their investment. Increasing profitability is one of the most important tasks of the business executive. Managers constantly look for ways to change the business to improve profitability.

Banks play a vital role in the operation of most of the countries in the world. The banking sector is the pillar of the Indian economy and plays an important role of a financial intermediary. It is generally agreed that a strong and healthy banking system is a prerequisite for sustainable economic growth. Banks are in a business to receive deposits or liabilities and to issue debt securities on the one hand and create or invest in assets on the other hand. A bank collects the savings and gives in various productive sectors. In this process, the performance of financial institutions in efficient allocation of capital to the productive sectors of the economy is conditioned on its own financial performance. Therefore, it is quite imperative and obvious to study the profitability of the banking sector. Profits are very essential for the survival of every business unit. Not only the survival but the long term growth of the business is also determined by the profits. Study of profitability of banks is a very difficult task because the main purpose of establishment of Indian banks is to be in the service of the community. In the light of this purpose banks had not given much importance to earn profits. In the present study, an attempt has been made to study the meaning of profitability and make comparison of profitability of SBI and HDFC.

Literature Review

1. George, Sajeev Abraham, Chattopadhyay,(2012), made an Investigative Study of Operational Performance and Service Quality of Indian Public Sector Banks, It informs that from the onset of the economic liberalization in 1990, the public sector banks in the country are facing a stiff competition from the private sector banks and the other foreign banks. It further informs that the in spite of the fact of this competition the majority of the shares in this sector belong to public sector banks.

2. Verma, Richa,(Apr 2011), attempt to evaluate the productive efficiency of Scheduled Commercial Banks (SCBs) operating in India. To judge the efficiency of banks, interest expenses and non-interest expenses (operating expenses) are considered as input variables and deposits, advances, investments and spread as outputs. The paper analyzed the efficiency of 88 SCBs with the dataset ranging from the year 1998-99 to 2007-08. The results indicate that the public sector and foreign banks need to take steps to reduce the expenses and improve the output at the given input level because they have failed to acquire full efficiency score in six and five years, respectively, out of the ten years under study.

3. K. Mishra,(June 2011), attempts to analyze the impact of growth of Indian economy on the performance of public and private sector banks of the country. The results imply that the growth of Indian economy is significant in explaining the performance of public and private sector banks. Thus, the outlook is that the planners and policy makers should architect prudential norms in line with international standards and best practices to ensure sustainable development of the Indian Banking System.

4. Thiagarajan, Somanadevi, Ramachandran,(2011), carried out a study to measure the credit risk component of the Indian Scheduled Commercial Banking sector by using data from the past ten years (2001 - 2010). The study illustrates how certain key credit risk ratios can be used to measure the credit risk in the banking sector. The outcome indicate that there is a constant increase in the total loans to total assets ratio and total loans to total deposits ratio for both public and private sector during the period of study.

5. **Wanniarachchige, Manjula Kumara,(Mar 2011),** empirically investigate the effect of ownership on various performance dimensions. Drawing upon experiences of Indian commercial banks during 2002-2009, this study analyzes how state-owned, nationalized and domestic private banks are behind foreign banks, using data envelopment analysis together with three supplementary measures of execution. The findings suggest that the performance of domestic banks has not yet reached the level of foreign banks in terms of both cost and revenue efficiencies. Surprisingly, domestic private banks are the least efficient in the market. Though foreign banks outperform domestic counterparts in numerous aspects, their contribution for spreading banking services beyond metropolitan cities by establishing new branches is trivial and thus they make the least contribution to country's financial deepening.

Study Objective

1. To compute and compare the financial performance of SBI and HDFC through Profitability ratios.

Hypothesis of the Study

$H_{0:}$ The financial performance in terms of Profitability Ratios of SBI and HDFC Bank does not differ significantly**.**

$H_{1:}$ The financial performance in terms of Profitability Ratios of SBI and HDFC bank does differ significantly

Scope and Limitations of the Study

The present study focuses only on comparative study of Profitability ratios of SBI and HDFC banks .Though the study is very comprehensive in nature, it is subjected to the limitations as under:

1. One of the major limitations of this study is all the banks in Hyderabad were not considered as the network of operation of all the banks is quite distinguishable.
2. The banks considered are only single banks i.e. SBI from Public sector Bank and HDFC from Private sector bank as they are the leading banks.
3. Co-operative banks and foreign banks are kept out of the study as they follow different set of guidelines given by RBI.

Research Methodology

The study is a case method of Research and comparative analysis in nature. The study used only secondary data and particularly from annual reports of SBI and HDFC Bank. State Bank of India (SBI) and Housing Development Finance Corporation Limited (HDFC) are selected as sample banks for the study as they are leading banks in the domain of public and private sectors. The five years data has been captured i.e. 2010-2014. To prove the authenticity of the findings, t-Tests are employed.

Data Analysis & Interpretation
Adjusted Cash Margin
The Cash Flow Margin is a measure of how efficiently a company converts its sales to cash. Data pertaining to the same is analyzed and presented through the following table.

Adjusted Cash Margin (%)		
Years	**SBI**	**HDFC**
2010	10.59	**17.59**
2011	9.6 (-9.3)	**18.13** **(3.07)**
2012	11.62 (21.04)	**16.71** **(-7.83)**
2013	13.4 (15.3)	**13.15** **(-21.3)**
2014	12.81 (-4.4)	**15.1** **(14.8)**
Average	11.6	**16.14**
	t-Value	**-3.96**
	t-Critical	**2.31**

Source: ***Secondary data***

In the above table, an attempt has been made to analyze the Adjusted Cash Margin of SBI and HDFC Bank. It can be concluded from the table that SBI be evidence for a negative growth in 2010 and 2014 and a positive growth in 2012 and 2013 whereas, HDFC Bank, demonstrate a quite opposite to the trend of SBI.

It is evident from the above table that Net Profit Margin of SBI and HDFC reported a mixed trend

Return on Net worth (RONW)
The return on equity ratio (also known as the return on net worth) reveals the amount of return

, an attempt has been made through the following table to analyze and compare the trend of RONW.

Net Profit Margin
This ratio reveals the overall profitability of the concern. It establishes relationship between net profit and sales. The following table is a modest attempt to analyze Profit Margin of SBI and HDFC.

over the study period. SBI is better than HDFC bank as its trend was somewhat positive over the study period in terms of Net Profit Margin.
earned by investors on their investments in a business. As the RONW is an essential indication to measure the value additions that took place to the shareholders contribution

Return on Net Worth (%)		
Years	**SBI**	**HDFC**
2010	13.94	**17.26**
2011	12.71	**15.47**

	(-8.8)	**(-10.3)**
2012	13.89 (9.28)	**13.7** **(-11.44)**
2013	15.74 (13.3)	**15.32** **(11.8)**
2014	13.72 (-12.83)	**13.83** **(-9.73)**
Average	14	**15.12**
	t-Value	**-1.37**
	t-Critical	**2.31**

Source: ***Secondary data***

It can be observed from the above table that growth rate of SBI initially declined, then increased and again declined whereas HDFC experienced a negative growth rate in all the years except in 2013.

Adjusted Return on Net Worth

Adjusted Return on Net Worth is all about the modified RONW, which is subject to the inclusion of various non-operating incomes. In the following table, data collected with regard to same is analyzed and presented.

Adjusted Return on Net Worth (%)		
Years	**SBI**	**HDFC**
2010	13.97	**17.26**
2011	12.74 (-8.8)	**15.47** **(-10.4)**
2012	13.91 (9.18)	**13.68** **(-11.6)**
2013	15.74 (13.2)	**15.29** **(11.8)**
2014	13.7 (-12.96)	**13.82** **(-9.6)**
Average	14.01	**15.1**

	t-Value	**-1.34**
	t-Critical	**2.31**

Source: ***Secondary data***

It can be viewed that SBI and HDFC Bank reported a mixed trend in their Adjusted RONW over the study period.

TEST OF HYPOTHESIS

H_o: The financial performance in terms of Profitability Ratios of SBI and HDFC bank does not differ significantly.

With the help of t – test, it is examined that there is no significant difference in the financial performance in terms of Profitability Ratios of SBI and HDFC. The calculated t value of Adjusted Cash Margin, Net Profit Margin, Return on Net Worth and Adjusted Return on Net Worth are less than Critical Value, therefore, the hypothesis is accepted.

Findings of the study

1. It is found that Net Profit Margin and Adjusted Cash Margin of both banks registered a low level of volatility.
2. The Return on Net Worth (RNW) and Adjusted Return on Net worth (ARNW) of SBI and HDFC was found almost with similar trend. It is also proved through t-Test that the financial performance in terms of RNW of SBI does not differ significantly from HDFC Bank.

Conclusion

It is very important to study the profitability of the banking sector. It is only profits that make the banking sector healthy and strong. In order to study the trend in profitability, t-Test has been used, the results of which have been shown in relevant tables. The comparative analysis of the profitability of the two banks clearly reveals that there is no significant difference in the financial performance in terms of Profitability Ratios of SBI and HDFC. Therefore, profitability ratios are employed by the management in order to assess how efficiently they carry on their business operations and also it is suggested for the entire bank to take effective steps to improve the operating efficiency of the business.

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