

COMPARATIVE FINANCIAL PERFORMANCE ANALYSIS OF SBI AND PNB

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Abstract

The banking sector is an important source of financing for most businesses. They play a very important role in the effort to attain stable prices, high level of employment and sound economic growth. Bank play important role in the Economic Development of all the Nations of the World. Banking is the life blood of Modern Commerce. The growth of such banks is not possible unless they witness some success in the context of customer satisfaction or may it be the net assets held by these banks, efficiency of their management or the networks of the public sector bank. The following paper covers the financial performance analysis of the two largest public sector banks (State Bank of India and Punjab National Bank) for the Periods of 9 Financial year (2011 to 2019). State Bank of India is the largest bank in India. Punjab National Bank is second largest bank in India. This study based on entirely on secondary data and certain ratios are used as tools to analyse the two selected public sector banks. This study found that SBI is more financially sound than PNB.

Key Words: *Financial Performance, Public Sector, Financial Ratios, Return on Assets, Return on Equity*

1. Introduction

Banking sector plays a significant role in the economic growth of country. Banks mobilizing the resources through collecting funds from various sources which has providing credit facilities to various sectors. After the Liberalization, Privatization and Globalization (LPG) in 1991, private sector banks have played a major tool of Indian financial system. However, the banking sector facing more challenges due to rising in completion, weakening the asset quality and level of non-performing assets. These may lead to adverse effect on the economy of the nation. By improving the economy of the nation, they raise living standard of the people. Therefore, the banking sector is painstaking to develop the source of financing to most business activities and take possible effort to attain stable prices, sound economic growth and level of employment. This will facilitate to increase the flow of goods and services and the activities of the society. Further, profitability and efficiency of banking sector has been attained through importance given to high customer demand, intense competition and accelerated reforms in India. Financial ratios are widely used for modelling purposes both by practitioners and researchers. The firm involves many interested parties, like the Owners management, personnel, customers, suppliers, competitors, regulatory agencies, and academics, each having their views in applying financial statement analysis in their evaluations. Practitioners use financial ratios, for instance, to forecast the future success of companies, while the researchers' main interest has been to develop models exploiting these ratios. Many distinct areas of research involving financial ratios can be discerned, historically one can observe several major themes in the financial analysis literature. There is overlapping in the observable themes. And they do not necessarily coincide with what theoretically might be the Best-founded areas.

State Bank of India

The roots of the State Bank of India lie in the first decade of the 19th century, when the Bank of Calcutta, later renamed the Bank of Bengal, was established on 2 June 1806. The State Bank of India (SBI) is an Indian multinational, public sector banking and financial services statutory body, Bank of Calcutta, 27 January 1921, Imperial Bank of India and 1 July 1955, State Bank of India. State Bank of India Headquarters is Mumbai, Maharashtra. State bank of India chairperson is Smt. Arundhati Bhattacharya and product is Consumer banking, corporate banking, finance and insurance, investment banking, mortgage loans, private banking, private equity, savings, securities, asset management, wealth management, credit cards. Government of India is owner and Members around 286. The State Bank of India (SBI) is an Indian multinational, public sector banking and financial services statutory body. It is a government corporation statutory body headquartered in Mumbai, Maharashtra. SBI is ranked as 236th in the Fortune Global 500 list of the world's biggest corporations of 2019.

Punjab National Bank

Punjab National Bank, India's first Swadeshi Bank, Punjab National Bank (PNB) is a Banking and Financial service bank owned by Government of India. Its headquarter is in New Delhi, India. The bank was founded in 1894. As of June 2019, the bank has over 115 million customers, 7,036 branches and 8,906 ATMs. The major function of PNB is to make loans and advances out of the deposits of public. Direct loans and advances are given to all types of persons particularly to business and investors, against personal security, gold and silver and other movable and immovable assets. Punjab National Bank acquired New Bank of India in 1993.

2. Review of Literature

Noulas and Ketkar (1996) conducted a study to examine the technical and scale efficiency of banks. Bhattacharya et al. (1997) and Sathye (2005) have studied the impact of privatization on the performance of banks. The results of the studies were, however, contradictory. While Bhattacharya found that performance of the public sector banks was sound as compared to the private sector banks, Sathye found the opposite results in his study. Mukherjee et al. (2002), conducted a study on technical efficiency and benchmark performance of 68 commercial banks which revealed that, in India, public sector banks are more efficient than both private and foreign banks. Swamy (2001) studied the comparative performance of different banks groups. Das (2002) developed a model to rank nationalized banks during 1999-2000 and 2000-2001. He covered 17 nationalized banks, excluding the Indian Bank and the UCO Bank. Corporation Bank emerged as the top-most bank, followed by Andhra Bank and Oriental Bank of Commerce (OBC). While, in business performance, Punjab National Bank (PNB) was the top ranker, in efficiency and labour productivity, Corporation Bank was at the top. In terms of safety and soundness, Andhra Bank obtained the highest rank. Uppal (2004) conducted a comparative study of the business, efficiency, soundness and productivity of the new private sector banks. He concluded that private sector banks are sound in urban area and he has ranked the banks as per the parameters. Jha and Sarangi (2011) analyzed the performance of seven public-sector and new private-sector banks, for the year 2009-10. They used three sets of ratios, operating performance ratios, financial ratios, and efficiency ratios. In all, eleven ratios were used. They found that Axis Bank, BOI, PNB, SBI, IDBI, and HDFC, in that order. Mukund Sharma (2014) has given a statement in his article that the purpose of CAMEL system is to detect problems before they manifest themselves. He analysed that private sector banks were better than public sector banks in utilising the available resources such as fixed assets and also banks whose investment ratios in Government securities were more to have less gross non-performing assets and net non-performing assets using Friedman test and Mann-Whitney test. Subendra Dutta (2013) has analysed the most significant factors influencing return on assets of public sector banks which directly or indirectly influenced the economic growth of the country by applying backward multiple regression analysis. He found that NPA had negative impact on RoA and Durbin Watson statistic showed absence of auto correlation. Apoorva Trivedi (2015) has examined the comparative performance of leading public and private sector banks in India and found that capital adequacy for all the banks have capital about the required level. The earnings ability of banks depends largely on the management of its assets and liabilities which are significant to maintain adequate capital and loan allowance. Khatik (2014) has analysed that there is a significant difference in the performances and soundness of selected five nationalised banks by applying ANOVA one way classification model. Ruchi Gupta (2014) has evaluated the field Nigels position and performance of public sector banks in India using CAMEL model and signified that the overall performance of public sector banks is different. Anju Sharan (2016) has opined that not only earnings, but also the quality of earning must be seen in the context of sustainability, competitiveness, healthy growth for the banking sector. The study recommended that the banks of the increase the interest and non-interesting come through fully utilisation of resources and improve the operational efficiency.

3. Objectives of the study

To examine the financial performance of the two selected public sector banks (SBI and PNB)
To study the comparative analysis of SBI and PNB

4. Research Methodology

For achieving the purpose of the study, the following methodology has been adopted

- Selection of sample: Public sector bank – State bank of India, Panjab national bank
- Duration of The Study: Financial Year – 2011 -2019 (9 year)
- Source of Data: The study is based on secondary data. Data of selected banks has been collected from their annual reports of Selected Public Sector Bank with the help of internet.
- Analytical Tool Used: Return on Assets, Return on Equity, Earning per Share, Credit deposit Ratio and Net interest Margin.

5. Data Analysis and Interpretation

Comparative Analysis of Selected Public Sector Banks

Table-1: Return on Assets (ROA)

| Year/ Banks | SBI | PNB |
|-------------|-------|-------|
| 2011 | 0.60 | 1.17 |
| 2012 | 0.87 | 1.06 |
| 2013 | 0.90 | 0.99 |
| 2014 | 0.60 | 0.60 |
| 2015 | 0.63 | 0.50 |
| 2016 | 0.42 | -0.59 |
| 2017 | 0.38 | 0.18 |
| 2018 | -0.18 | -1.60 |

| | | |
|-------------|-------------|-------------|
| 2019 | 0.02 | -1.28 |
| MEAN | 0.47 | 0.11 |

This table shows the Four Selected Public Sector bank (SBI, PNB, BOB and BOI) Return on Assets for periods of 2011 to 2019. This ratio indicates the effectiveness of using assets to generate revenues. Generally, higher this ratio is the more effective. In this table shows that the highest ROA was in 2013 (0.90) of SBI and lowest was in 2018 (-0.18). The ROA was highest was in 2011 (1.17) of PNB and lowest was in 2018 (-1.60). The ROA is higher SBI (0.47) as compared to PNB (0.11) and this reflects effectiveness of using assets to generate revenues SBI is good.

Table-2: Return on Equity (ROE)

| Year/ Banks | SBI | PNB |
|-------------|-------------|-------------|
| 2011 | 11.34 | 22.12 |
| 2012 | 13.94 | 18.52 |
| 2013 | 14.26 | 15.19 |
| 2014 | 9.20 | 9.69 |
| 2015 | 10.20 | 8.12 |
| 2016 | 6.89 | -11.20 |
| 2017 | 6.69 | 3.47 |
| 2018 | -3.37 | -32.85 |
| 2019 | 0.39 | -24.20 |
| MEAN | 7.73 | 0.98 |

This Table shows the two Selected Public Sector bank (SBI and PNB) Return on Equity for the periods of 2011 to 2019. It is indicated how much an equity shareholders' investment earning. In this Table shows that the highest ROE was in 2013 (14.26) of SBI and lowest was in 2018 (-3.37). The ROE was highest was in 2011 (22.12) of PNB and lowest was in 2018 (-32.85). The ROE is higher SBI (7.73) as compared to PNB (0.98) and SBI investment earning is better than PNB.

Table-3: Earning Per Share (EPS)

| Year/ Banks | SBI | PNB |
|-------------|--------------|--------------|
| 2011 | 130.16 | 140.60 |
| 2012 | 184.31 | 154.02 |
| 2013 | 210.06 | 138.52 |
| 2014 | 15.68 | 93.91 |
| 2015 | 17.55 | 16.91 |
| 2016 | 12.98 | -20.82 |
| 2017 | 13.43 | 6.45 |
| 2018 | -7.67 | -55.39 |
| 2019 | 0.97 | -30.94 |
| MEAN | 64.16 | 49.25 |

This Table shows the two Selected Public Sector bank (SBI and PNB) Return on Equity for the periods of 2011 to 2019. It is indicating the profit available to the equityshareholders on a per share basis. In this Table shows that the EPS highest was in 2013 (210.06) of SBI and lowest was in 2018 (-7.67). The EPS highest was in 2012 (154.2) of PNB and lowest was in 2018 (-55.39). The mean higher of SBI (64.16) as compared to PNB (49.25), and SBI is profitable to the equity shareholders on a per share basis.

Table-4: Credit Deposit Ratio

| Year/ Banks | SBI | PNB |
|-------------|--------------|--------------|
| 2011 | 79.90 | 76.26 |
| 2012 | 82.14 | 77.42 |
| 2013 | 85.17 | 78.13 |
| 2014 | 86.84 | 78.06 |
| 2015 | 84.47 | 78.93 |
| 2016 | 83.56 | 78.36 |
| 2017 | 80.38 | 72.52 |
| 2018 | 73.79 | 67.52 |
| 2019 | 73.35 | 67.74 |
| MEAN | 81.07 | 74.99 |

This Table shows the two Selected Public Sector bank (SBI and PNB) Credit Deposit Ratio for the periods of 2011 to 2019. It is the proportion of Loan & Assets created by banks from a deposit received. Credits are the loans and advances granted by the banks. In this Table shows that the Credit Deposit ratio highest was in 2014 (86.84) of SBI, 2015 (78.93) of PNB and the Credit Deposit ratio lowest was in 2019 (73.35) of SBI, 2018 (67.52) of PNB. The Credit Deposit ratio mean higher of SBI (81.07) as compared to PNB (74.99) and SBI is good at creating the loan and advances.

Table-5: Net Profit Margin

| Year/ Banks | SBI | PNB |
|-------------|-------------|-------------|
| 2011 | 9.05 | 16.42 |
| 2012 | 10.99 | 13.40 |
| 2013 | 11.78 | 11.33 |
| 2014 | 7.98 | 7.73 |
| 2015 | 8.59 | 6.61 |
| 2016 | 6.06 | -8.38 |
| 2017 | 5.97 | 2.80 |
| 2018 | -2.96 | -25.59 |
| 2019 | 0.35 | -19.44 |
| MEAN | 6.42 | 0.54 |

This Table and chart show the Four Selected Public Sector bank (SBI, PNB, BOB and BOI) Net Profit Margin for the periods of 2011 to 2019. It is indicated Net Profit Margin reveals the financial results of the business activity and efficiency operations by management. This Table shows that the Net Profit Margin highest was in 2013 (11.78) of SBI, 2011 (16.42) of PNB and the Net Profit Margin lowest was in 2018 (-2.96) of SBI, 2018 (-25.59) of PNB. The Net Profit Margin Mean is higher of SBI (6.42) as compared to PNB (0.54). SBI's operational efficiency is better than PNB.

6. Findings

In this Return on Assets finding mean value of SBI (0.47) is higher than PNB (0.11). This ratio shows that SBI satisfactory performance forgenerated revenues other than PNB. In the Ratio Return on Equity Mean Value of SBI (7.73) is good other than PNB (0.98). It is shows that SBI is satisfactory position to providereturn on Equity other than PNB, which attract the investors to investment in this bank. In the Ratio Earning Per share (EPS) Mean Value of SBI (64.16) is higher than PNB (49.25). It is shows that SBI is good at profit making capacity to theEquity shareholders on per share than PNB.In the Credit Deposit Ratio finding Mean value of SBI (81.07) is higher than PNB (74.99). It is shows that SBI is good for creating loan and advance andcustomer prefer SBI loan andadvance other than PNB. The Net Profit Margin finding Mean Value of SBI (6.42) is higher than PNB (0.54). It is shows that SBI is good financial position and better efficiency by management than PNB.

7.Recommendations

The forgoing analysis reveals that though there is a phenomenal development in theperformance, still public sector banks lagging some major thrust areas. Somerecommendations to improve the performance of public sector banks are given below:

Technology: in a deregulated environment, managing a wide range of products on shrinking margin create a fiercely competitive environment and new challenges. in this context, technology will be the key to reduce transaction cost, offering customized products and managing risk. our public sector banks are lagging in technology when we compare them with private banks.

Competition: due to LPG, the banks are facing a severe competition. to stay ahead in the race, therefore, banks will have to leverage technology development as well as developing sophisticated financial products. public sector banks will have to develop new tech-savvy products to beat the competition.

Effective handling of NPAS: for effective handlings of NPAS there is an urgent need that public sector banks should improve the quality of their appraisal for loan proposals. further, they should also strengthen their loan monitoring system. more importance should be given to actual verification of the information provided.

Issue of HRM: Human resources development is a crucial factor which can play avital role in increasing business per employee and profit per employee. Training, development, and retraining is a major emerging challenge before the public sector banks.Public sector banksshould make proper policies for training, developing, and retraining tothe new and old employees. More and more training cells should be organized withhighly skilled and having friendly staff to learn new techniques.

Check on operating cost: High operating cost is a major hurdle impactingthe profitability of public sector banks. The financial position of public sector banks canbe enhanced by keeping a control on operating cost through higher labour productivity,updated technology, low cost funds and restructuring of remunerating branches.

8. Conclusion

In this study two Selected Public Sector Bank SBI and PNB were taken in to consideration for the period of (2011 to2019). overall conclude that SBI's performance is good and it mobilizes the saving into productivechannel. SBI is the largest public sector Bank. PNB is second largest Bank. SBI isperforming good in respect of Earning Per Share, which provide better earning pershare and the Credit Deposit Ratio is reflecting the maximum deposit. PNB is a good performingbank in Respectof Return on Assets as it earned good on Investment. But SBI is better in respect of Net ProfitMargin, which means effective business activity and efficiency in operations by management. SBI is good at financialposition than the Punjab National Bank during the period of study.

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