Analyzing the Performance of Indian Banks: A Comparative Study of Selected Institutions in the Banking Sector

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Abstract

The banking sector plays a crucial role in the economic development of a country. In the current era, globalization has led to numerous reforms that have had a significant impact on the banking sector. In recent times, the banking sector has undergone remarkable changes, which have also influenced the performance of banks in India. Following the liberalization period, the Indian banking sector experienced rapid growth, with the entry of private players and foreign institutions, resulting in increased competition among them. This study aims to assess the performance of banks in India by selecting one bank from each sector: public, private, and foreign.

Keywords: banking, Indian Banking industry, CITI Bank, State Bank of India, HDFC Bank

Introduction

The Indian banking industry, regulated by the Banking Regulation Act of India, 1949, can be broadly categorized into two main groups: non-scheduled banks and scheduled banks. Scheduled banks include commercial banks and co-operative banks. Commercial banks, in terms of ownership, can be further classified into nationalized banks, the State Bank of India and its group banks, regional rural banks, and private sector banks (both old and new domestic and foreign banks).

The initial phase of financial reforms, which occurred in 1969, involved the nationalization of 14 major banks. This led to a transition from Class banking to Mass banking, resulting in a significant expansion of banks' geographical coverage. Each bank was required to allocate a minimum percentage of their loan portfolio to sectors identified as "priority sectors." Additionally, the manufacturing sector experienced growth in the 1970s within a protected environment, with the banking sector serving as a critical source of funding. The subsequent phase of reforms involved the nationalization of six more commercial banks in 1980. As a result, the number of scheduled commercial banks increased significantly.

Profile of Banks Selected for Study

1. State Bank of India (SBI): SBI is a government-owned public sector banking and financial services company, headquartered in Mumbai. It holds a prominent position in the Indian banking sector, with the highest number of branches, ATMs, net profits, and total assets managed. With approximately 300,000 employees, SBI commands around 20% of the Indian banking sector. It has over 17,000 branches, including 191 foreign offices across 36 countries, making it the largest banking and financial services company in India. SBI manages assets worth more than $390 billion USD and also operates SBI Life Insurance Company, holding a 74% stake in the insurance business. The bank introduced the online tax payment facility called "SBI e-tax" for direct and indirect tax payments.
2. HDFC Bank: HDFC Bank Limited, headquartered in Mumbai, is an Indian banking and financial services company that began operations as a scheduled commercial bank in January 1995. It operates over 3,200 branches and has a network of 12,000+ ATMs. The bank manages assets valued at $66.7 billion USD and employs about 76,286 individuals, including 12,680 women. HDFC Bank is the second largest private bank in India in terms of assets and holds the highest market capitalization among Indian banks as of February 2016. It also has a presence in Bahrain, Hong Kong, and Dubai.
3. CITI Bank: CITI Bank has a significant history in India and is currently owned by Citigroup. Citigroup is the largest foreign direct investor in India's financial services sector, with a capital investment of approximately $4 billion in its onshore banking and financial services business. CITI Bank operates 44 full-service branches in 31 cities and over 700 ATMs across the country. It employs around 7,500 people in India.

Review of Literature

Some of the key findings from the reviewed literature:

Singla HK (2008) examined the financial performance of sixteen selected banks in India. The study focused on profitability over a six-year period (2001-2006) and found that the profitability position of the banks improved during this period compared to previous years. Strong capital positions and balanced balance sheets enabled banks to handle and absorb economic fluctuations.

Kajal Chaudhary and Monika Sharma (2011) conducted a comparative study titled "Performance of Indian Public Sector Banks and Private Sector Banks." The study emphasized the importance of developing an efficient management information system. It also highlighted the need to train bank staff involved in loan sanctioning to ensure proper documentation, security charges, and measures to prevent advances from turning into non-performing assets (NPAs). Public sector banks were advised to focus on their functioning to compete with private banks, emphasizing borrower/project selection and financial statement analysis.

Virendar Koundal (2012) analyzed the performance of Indian banks in the Indian financial system. The study revealed that various reforms had a positive impact on commercial banks in India, although public sector banks still faced challenges. Despite improvements in profitability for public sector banks, foreign and private sector banks held a significant market share. The study emphasized the need for further reforms to address challenges and improve the performance of public sector banks in the competitive environment.

Anurag B. Singh and Priyanka Tandon (2012) conducted a comparative analysis of the financial performance of SBI and ICICI Bank. Their study concluded that SBI was financially sound and outperformed ICICI Bank in terms of deposits and expenditure.

Objective of the Study:

1. To examine the financial performance of SBI, HDFC Bank, and CITI Bank.
2. To compare the financial performance of SBI, HDFC Bank, and CITI Bank.

Period of Study: The study analyzes the data of the selected banks from the years 2012-13 to 2014-15.

Parameters Studied for Performance Comparison:

1. Credit Deposit Ratio
2. Total Income
3. Total Expenditure
4. Net Profit

Data Analysis and Interpretation:

Credit Deposit Ratio:

The credit-deposit ratio measures the proportion of loan-assets created by a bank in relation to the deposits received. It reflects the extent to which the bank utilizes its deposits for lending activities. Higher credit-deposit ratios indicate that a larger portion of deposits is being utilized for lending, while lower ratios suggest that a significant portion of deposits is idle or invested in other assets.

Table 1: Credit Deposit Ratio (in Percent)

Year	SBI	HDFC	CITI BANK
2012-13	85.17	80.14	78.18
2013-14	86.76	82.49	72.17
2014-15	82.45	81.08	68.49

Source: Annual Reports of SBI, HDFC & CITI Bank from 2012-13 to 2014-15

Interpretation:

Based on Table 1, it can be observed that the average Credit Deposit Ratio of SBI was higher than that of HDFC Bank and CITI Bank over the last three financial years studied. Specifically, SBI had the highest credit deposit ratio in 2013-14 and the lowest in 2014-15. On the other hand, HDFC Bank had its highest credit deposit ratio in 2013-14 and the lowest in 2012-13. In the case of CITI Bank, the highest ratio was observed in 2012-13, while the lowest ratio was recorded in 2014-15. These findings suggest that SBI has utilized a larger proportion of its deposits for lending activities, resulting in the creation of more loan assets compared to HDFC Bank and CITI Bank. This indicates that SBI has been more actively engaged in providing loans to borrowers, potentially contributing to its overall financial performance and growth

In the context of the study, analyzing the credit-deposit ratio of SBI, HDFC Bank, and CITI Bank can provide insights into their lending activities and utilization of deposits. A higher credit-deposit ratio implies that the bank is more actively engaged in lending and leveraging its deposit base. Conversely, a lower credit-deposit ratio may indicate a more conservative approach to lending or the bank's focus on other investments.

Total Income:

Total income refers to the monetary value of the income earned by a bank over a specific period. It encompasses all sources of revenue generated by the bank, such as interest income, fees and commissions, and other operating income.

Table 2: Growth of Total Income of SBI, HDFC and CITI Bank (in Crores)

Year	SBI	HDFC	CITI BANK
2012-13	1,35,692	41,918	10,913
2013-14	1,54,904	49,058	12,199
2014-15	1,74,973	57,466	13,490

Source: Annual Reports of SBI, HDFC & CITI Bank from 2012-13 to 2014-15

Interpretation

According to Table 2, the total income of SBI, HDFC Bank, and CITI Bank has shown a consistent increase over the last three financial years studied, indicating a positive performance for all the banks. However, it is noteworthy that HDFC Bank has recorded a higher percentage increase in total income compared to the other banks. This suggests that HDFC Bank, as a private sector bank, has maintained a leading position in terms of total income growth.

The higher percentage increase in total income for HDFC Bank implies that it has been successful in generating more revenue and income from its operations, potentially driven by its business strategies and market presence. This performance indicates the bank's ability to attract customers, offer competitive products and services, and effectively manage its revenue streams. While SBI and CITI Bank have also experienced growth in their total income, the relatively higher increase observed in HDFC Bank highlights the strong performance of the private sector bank in terms of revenue generation. This indicates the bank's efficiency and effectiveness in maximizing its income and maintaining a competitive edge in the market.

Total Expenditure:

Total expenditure refers to the sum of all costs and expenses incurred by a bank during a given period. It includes various components such as staff-related expenses, interest expenses, and other overhead costs.

Table 3: Growth of total Expenditure of SBI, HDFC and CITI Bank (in Crores)

Year	SBI	HDFC	CITI BANK
2012-13	1,04,610	30,490	6,633
2013-14	1,22,794	34,695	6,595
2014-15	1,36,059	40,062	7,509

Source: Annual Reports of SBI, HDFC & CITI Bank from 2012-13 to 2014-15

Interpretation:

According to Table 3, the total expenditure of the selected banks has increased across all sectors over the studied period. Specifically, in the case of SBI, the expenditure increased by 17.38% in 2013-14 and 10.80% in 2014-15. For HDFC Bank, the percentage increase in expenditure was 13.79% in 2013-14 and 15.47% in 2014-15. In contrast, CITI Bank experienced a decrease in expenditure in 2013-14 but saw a 13.86% increase in 2014-15.

These findings suggest that all the banks need to focus on stabilizing their expenditure to achieve higher growth rate targets. The increasing expenditure in the studied period indicates the need for effective cost management and control measures by the banks. Stabilizing expenditure levels can help the banks maintain financial stability and improve their overall financial performance. By stabilizing their expenditure, the banks can achieve a better balance between revenue generation and cost management. This approach is essential for sustaining profitability and achieving growth targets in the long term. Effective cost control measures can help optimize resource allocation and ensure efficient utilization of funds, leading to improved financial performance for the banks.

Net Profit: Net profit represents the financial outcome of a bank's business activities and reflects the efficiency of its management in conducting operations. It is calculated by subtracting provisions and contingencies from the operating profit.

Table 4: NET PROFIT of SBI, HDFC & CITI BANK (in crores)

Year	SBI	ICICI	CITI BANK
2012-13	14,105	6,726	2718
2013-14	10,891	8,478	2,893
2014-15	13,102	10,216	3,422

Source: Annual Reports of SBI, HDFC & CITI Bank from 2012-13 to 2014-15

Interpretation:

According to Table 4, the net profit of SBI exhibited a decreasing trend in 2013-14, but it subsequently increased in the following years. On the other hand, both HDFC Bank and CITI Bank experienced a continuous increase in net profit over the studied period. HDFC Bank maintained a lead in terms of net profit, indicating higher operational efficiency compared to the other banks. This suggests that HDFC Bank has been successful in managing its expenses, provisions, and contingencies, resulting in higher profitability. The consistent increase in net profit reflects the bank's ability to generate more income from its operations and effectively control costs. While SBI initially faced a decline in net profit, the subsequent increase indicates improvements in its financial performance over time. The increasing net profit suggests that SBI has implemented measures to enhance its operational efficiency and profitability. the findings indicate that HDFC Bank has demonstrated higher operational efficiency and profitability compared to SBI and CITI Bank. However, it is important to consider other factors and financial indicators to gain a comprehensive understanding of the banks' overall performance and financial health.

Findings and Conclusions

The findings of the study indicate several key points regarding the performance of the selected banks during the study period. Firstly, SBI has shown a higher credit-deposit ratio, indicating that it has created more loan assets from its deposits compared to HDFC and CITI Bank. This suggests that SBI has been successful in utilizing its deposit base to generate lending activities.

Secondly, HDFC Bank has recorded a higher percentage increase in total income compared to the other banks. This indicates that HDFC Bank, as a private sector bank, has maintained a leading position in terms of revenue growth. This highlights the bank's ability to attract customers and effectively manage its revenue streams.

Thirdly, the total expenditure of the banks, except for CITI Bank in one financial year, has increased. This emphasizes the need for the banks to focus on stabilizing their expenditure to achieve higher growth rate targets. Effective cost management is crucial for maintaining financial stability and improving overall financial performance.

Furthermore, HDFC Bank maintains a lead in net profit, showcasing higher operational efficiency compared to the other banks. This indicates the bank's ability to effectively manage expenses, provisions, and contingencies, resulting in higher profitability.

In conclusion, the study highlights that banks, including public sector banks, need to concentrate on their performance in the present era. While private and foreign sector banks maintain a lead in certain performance indicators, public sector banks have also shown commendable performance and expansion in various areas across the country. The findings emphasize the importance of continuous improvement and strategic management for all banks to thrive in a competitive banking landscape.

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