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A Study on Financial Performance of State Bank of India for The Period 2003 To 2012

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ABSTRACT *Economically strong nations are backed by sound banking system. The banking system in India has played a crucial role in the growth and development of the economy. The current study on financial performance of state bank of India for the period 2003 to 2012 aimed at measuring the cost and financial performance of state bank of India. The study had used the secondary data published by state bank of India - "The Annual Statistical Report of State Bank of India". The overall growth performance of SBI showed an increasing trend. The net profit was increasing gradually. The net profit has increased four times in the last ten years. The financial performance of SBI was good over the period of study. SBI and its Associate banks should grow in size and should introduce diversified and sophisticated products to meet the needs of modern society.*

KEYWORDS :

INTRODUCTION

Economically strong nations are backed by sound banking system. The banking system in India has played a crucial role in the growth and development of the economy. Indian banking system is the largest one in South Asia with varied financial institutions and instruments. It is characterised by the co-existence of different ownership groups, public and private, within private, domestic and foreign. It has been evolutioned over hundreds of years. The Indian banking system has been stable without any major crisis. It is relatively transparent in its operations and follows the international best practices of disclosure.

During the pre-nationalization period, the industrial sector claimed the major share of bank credit. At the time of independence, the country had a banking system which was based on the style of British banking system. There were many joint stock companies doing banking business and they were concentrating mostly in major cities. Due to large-scale and unregulated growth of the banking system bank failures became common feature in those days. The banks were largely urban-oriented and rural folk was kept out of its scope. Large chunk of rural population depended on moneylenders for their financial needs. In pre-nationalization period, the entire rural economy and agriculture sector was neglected by the banking system. The major reason behind this neglect was that agriculture sector was not considered as profitable economic activity and was mainly for subsistence purpose.

To meet the requirements of priority sector and weaker section of the society, it was considered necessary to expand public sector banking through the nationalization of fourteen major Indian scheduled commercial banks in 1969. Nationalization of fourteen banks marked the most important landmark in the history of Indian banking. There was very crucial change in the concept of sound banking business. The public sector came to control the commanding heights of the banking economy accounting for 80 percent of total commercial bank offices, 83 percent of deposits and 84 percent of advances.

State Bank of India has made remarkable progress since its inception from 1955. It has made tremendous progress on all fronts in order to achieve the goals. State Bank of India has occupied the significant position in the Indian banking industry in terms of branch expansion, resource mobilisation and credit deployment.

It was the success of SBI which involves several structural changes in favour of rural and priority sector. The State Bank of India is India's largest public sector banks. It has expanded its business in the retail and wholesale market by providing products like credit cards, insurance, gold etc. It has opted for business process reengineering as a tool to meet world class standards thus reducing delivery time and the time involved in transaction process. The bank has a wide network in India with 14,187 branches all over the country. Its ATM network is the largest in India. The Bank also provides internet banking on a 24x7 basis covering 1,116 branches in 237 centres. State Bank of India is a premier institution of Indian Banking industry and has taken the Indian banking industry to global standards.

NEED FOR THE STUDY

Though recently a large number of studies evaluating the performance of commercial banks in liberalized era have come up, yet certain important aspects remain untouched. These studies by and large confined to economic aspects of their performance. Socio economic dimensions of their working are altogether ignored. However, in most of these studies analysis is based upon very limited number of indicators and mostly based on overall performance analysis of commercial banks, public sector banks or private sector banks and performance of individual banks are ignored. State Bank of India is the oldest and largest commercial bank in India. There is dearth of studies which do the analysis of performance of SBI and its associate banks. It is therefore desirable to take up a comprehensive study evaluating the performance of SBI and its associate banks. There is a need to study the performance of the banks as banks not only play a vital role in the economic development of country but also strengthen the economic structure through their banking services.

OBJECTIVES OF THE STUDY

The following are the objectives of the present study.

- To trace the evolution of banking technology and understand the recent trends in the Indian banking industry.
- To measure the financial performance of State Bank of India.
- To analyse the growth rate of State Bank of India.
- To offer suggestions to improve the State Bank of India.

REVIEW OF LITERATURE

Abdul Naser V (2014) analyses the financial performance and employee efficiency of Indian banks during 2007 to 2013. The financial performance of the banks was measured using standard financial performance measures and employee efficiency was measured using accounting ratios related with employees efficiency. The data was collected from the database of Reserve Bank of India. It is concluded that both the financial performance and employee efficiency of foreign banks working in India are better than Indian domestic banks. Private sector banks performance are better than the Public sector banks. It is noted that the Public sector banks performance are more stable when compared to the private sector banks.

Dipayan Roy (2014) proactively evolved banking regulations in the Indian Banking sector under the authorative directive of the Reserve bank of India (RBI) has often brought about a change in the business strategy, capital structure and operations of the banks in the Indian banking sector. During these events of continuous change and adoption of Basel norms, the author analyse the efficiency of the Indian banking sector with using Data Envelopment Analysis across three economic eras and across the different ownership structures. The determinants of efficiency are selected on the basis of intermediation approach. The author tries to identify whether the inefficiency arises from managerial incompetence or improper size and resource allocation. It was identified that the main cause of inefficiency in the Indian Banking sector to be arising out of improper size allocation.

C.Dhanapal & G.Ganesan (2012) , measures operational efficiency of Public Sector Banks in India. The study is based on both primary and secondary data. It explores the possibility of getting more deposits by an efficient and timely services and measure the impact of variables of E-banking products on customer satisfaction.

Amit Kumar Dwivedi & D. Kumara Charyulu (2011) seeks to determine the impact of various market and regulatory initiatives on efficiency improvements of Indian banks. Efficiency of firm is measured in terms of its relative performance. Data Envelopment Analysis (DEA) has been used to identify banks that are on the output frontier. The study is confined only to the Constant-Return-to-Scale (CRS) assumption of decision making units. It was found from the results that national banks, new private banks and foreign banks have showed high efficiency over a period time than remaining banks.

RESEARCH DESIGN

The current study focused on measuring the financial performance of State Bank of India during the period 2003 to 2012. The study had used the secondary data published by state bank of India - "The Annual Statistical Report of State Bank of India" the website www.sbi.co.in and also the data from the website money control .com. Various statistical techniques have been used to analyse the data they are (i) Efficiency Ratios (ii) Exponential growth rate (iii) Correlation.

FINDINGS

Efficiency Ratios can calculate the turnover of receivables, the repayment of liabilities, the quantity and usage of equity and the general use of inventory and machinery. Efficiency ratios are important because an improvement in the ratios usually translate to improved profitability. The Table -1 explains the efficiency ratio for different variables.

Table -1
THE EFFICIENCY RATIO OF SBI FOR THE PERIOD 2003-2012

Year	Interest Income To Total Funds	Net Interest Income to Total Funds	Non-Interest Income to Total Funds	Interest Expended to Total Funds	Operating Expense to Total Funds	Net Profit to Total Funds
2003	9.81	4.33	0.10	5.48	1.91	0.98
2004	9.76	4.89	0.21	4.87	3.14	1.20
2005	8.19	3.96	0.32	4.23	2.42	1.04
2006	7.90	3.65	0.50	4.25	2.55	0.86
2007	8.28	3.77	0.68	4.50	2.76	0.88
2008	8.93	3.72	0.87	5.21	2.80	1.00
2009	8.82	3.44	0.78	5.38	2.51	0.96
2010	8.95	4.11	0.88	4.85	3.44	0.87
2011	8.51	4.10	1.01	4.40	3.62	0.72
2012	9.25	4.11	0.90	5.15	3.43	0.92
Mean	8.84	4.00	0.62	4.83	2.85	0.94
Std deviation	0.64	0.40	0.32	0.46	0.54	0.12
Variance	0.41	0.16	0.10	0.21	0.29	0.01

It was observed from the table -1, the interest income to total funds and net interest income to total funds ratio was fluctuating over the period of the study. The mean value for interest income to total funds for ten years was 8.84, standard deviation was 0.64 and co-efficient of variance was 0.41.The mean value for net interest income to total funds for ten years was 4.00, standard deviation was 0.40 and co-efficient of variance was 0.16. The non interest income to total funds ratio showed an increasing trend. The non-interest income to total funds ratio increased from 0.10 in the year 2003 to 0.90 in the year 2012. The mean value for non-interest income to total funds for ten years was 0.62, standard deviation was 0.32 and co-efficient of variance was 0.10 respectively. The interest expended to total funds ratio was fluctuating over the period. The mean value was 4.83, standard deviation was 0.46 and co-efficient of variance was 0.21 respectively. The highest operating expenses to total funds ratio was found to be 3.62 percent in the year 2011 and the lowest ratio of 1.91 percent was found in the year 2003. The mean Operating Expenses to Total Funds for ten years was 2.85. The standard deviation was 0.54 and co-efficient of variance was 0.29. The Operating Expenses to Total Funds ratio showed an increasing trend during the period. The highest Net Profit to Total Funds ratio was found 1.20 percent in the year 2004, and the lowest ratio of 0.72 percent was found in the year 2011. The mean Net Profit to Total Funds for ten years was 0.94. The standard deviation was 0.12 and co-efficient of variance was 0.01. The Net Profit to Total Funds ratio was fluctuating over the period of study.

The table – 2 explains the exponential growth rate of SBI for different variables like deposits, investments, advances and borrowings.
Table -2

Year /variable	Deposits	Investments	Advances	Borrowings
2003	391874.97	226011.04	190689.02	12235.26
2004	435433.33	248545.61	222672.44	17373.87
2005	506105.28	261962.00	286986.55	22929.47
2006	544024.27	227931.05	374476.24	36974.90
2007	636272.88	216521.05	487285.96	48661.83
2008	776416.52	273841.72	603221.94	66023.17
2009	1011988.33	372231.45	750362.38	64591.64
2010	1116464.56	402754.13	869501.64	122074.57
2011	1255562.48	419066.45	1006401.55	142470.77
2012	1414689.40	460949.14	1163670.21	157991.36
Exponential growth rate	15.10	8.40	21.00	29.10

EXPONENTIAL GROWTH RATE OF SBI FOR THE PERIOD 2003-2012

Source: computed by investigator

It was observed from the table – 2 that all the variables namely deposits, investments, advances and borrowings showed an increasing trend for the period 2003-2012. The deposit has increased five times in the last ten years. The growth rate of deposit was 15.10 percent. The investment has increased double the time in the last ten years. The growth rate for investment was 8.40 percent. The advances and borrowings has increased ten times in the last ten years. The growth rate of advances was 21.0 percent and borrowings were 29.10 percent.

The table – 3 explains the correlation analysis of SBI for the period 2003 – 2012 by using the variables like deposits, investments, advances and assets.

Table-3
CORRELATION ANALYSIS OF SBI FOR THE PERIOD 2003-2012

Variables	Deposit	Advances	Investment	Total Asset
Deposit (x_1)	1	.996**	.960**	1.000**
Advances(x_2)	.996**	1	.933**	.997**
Investment (x_3)	.960**	.933**	1	.956**
Total Asset (x_4)	1.000**	.997**	.956**	1

**. Correlation is significant at the 0.01 level (2-tailed).
Source: computed by investigator

The table - 3 reveals that the correlation between the variables namely deposits, advances, investments and total assets showed its significance at 0.01 level. The variable deposits and advances was closely associated with a correlation of 0.996 percent, the variable deposit and investment associated with a correlation of 0.960 percent and variable total asset and deposit showed a perfect correlation of 1 percent. The variable advances and total asset was closely associated with high correlation of 0.997 percent, the variable investment and total asset associated with a correlation of 0.956 percent and the variables advances and investments showed a correlation of 0.933 percent.

SUGGESTIONS

SBI and its Associate banks should grow in size and should introduce diversified and sophisticated products to meet the needs of modern society.

SBI and its Associates should diversify their products and services because diversification has a potential to reduce risks. It also enables banks to work towards the achievement of customers delight.

More loans should be extended to professional people.

Common man should be encouraged to save more. More of monthly schemes should be framed for the welfare of 'aam aadmi'. This will help to improve the deposits of banks. Financial inclusion should be promoted.

CONCLUSION

The bank is not merely a trader in money but also an important manufacturer of money. Indian Banking sector is growing at rapid pace in co-ordination with global changes. Today banking in India is mature in terms of supply, product range and has reached even in rural India through rural banking and remote banking. In terms of quality of assets and capital adequacy, Indian banks are considered to have clean, strong and transparent balance sheets. Remarkable changes have taken place in the banking since its inception. The current study on financial performance of state bank of India for the period 2003 to 2012 aimed at measuring the cost and financial performance of state bank of India. The overall growth performance of SBI showed an increasing trend. The net profit was increasing gradually. The net profit has increased four times in the last ten years. The financial performance of SBI was good over the period of study.

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