Research Paper Commerce

Analysis of Profitability and Efficiency : A Comparison of HDFC and ICICI

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ABSTRACT

Banking sector has been working in India from 18th century, but at that time only a few banks were providing their services. After Narasimha Committee, 1991 competition in banking sector has increased due to entry of many private and foreign banks. So to remain in competition the banks should increase their efficiency so that they can provide better services to the customers, as the role of banking sector has changed form money lending to more socially relevant services. As banking sector plays a crucial role in the development of an economy, these should be more organized and developed. The bank acts as a bridge between those having finance and those in need of finance and mobilizes the nation's saving into profitable investments. Many private sector banks like HDFC, ICICI, Axis Bank, Canara Bank, Oriental Bank of Commerce etc. are providing their services in an efficient manner. So this report concentrates on the efficiency of two private banks HDFC and ICICI. The performance of both banks is compared to find out which one is more efficient. The analysis about the performance is done on the basis of Total Income, Total Expenses, Net Profit, Operating Profit etc. and on the basis of this analysis it is found that the performance and efficiency of HDFC bank is better than ICICI.

KEYWORDS | HDFC Bank, ICICI Bank, Net profit, Interest Income and Interest Expenses.

INTRODUCTION

A sound financial system is important for a healthy and vibrant economy. The banking sector constitutes a main element of financial service industry. The performance of an economy to a large extent is dependent on the performance of the banking sector. A healthy banking sector acts as a bedrock of social, economic, and industrial growth of a nation. Banking in India was defined under Section 5(A) as "any company which transacts banking business" and the purpose of banking business defined under Section 5(B), "accepting deposits of money from public for the purpose of lending or investing, repayable on demand through cheque/draft or otherwise" (Chaudhary 2011). The banking system in India should not only be hassle free but it should be able to meet the new challenges posed by technology and any other internal or external factor. The Indian banking system passed through a revolution in the sixties which unleashed a chain reaction of rapid chances. Commercial banking was converted into mass banking from class banking, (Kumar 2013). Till the year 1980 approximately 80% of the banking segment in India was under government ownership. On the suggestion of Narasimha committee the Banking Regulation Act was amended in 1993 and thus the gates for new private sector banks were opened. Private sector banks came into existence to supplement the performance of public sector bank and serve the needs of the economy better. HDFC and ICICI are the two major private sector banks flourishing in India. ICICI bank has it's headquarter at Mumbai and was incorporated in 1954. It is the second largest bank by assets in India. It provides financial service to corporate and retail customers in the area of Investment Banking, Life and non – life insurance, venture capital and asset management. HDFC bank has its headquarters at Mumbai and was incorporated in 1994. It is the fifth largest bank in India by assets. Its main objective is to provide loan for housing development. Increased competition, new technology and thereby declining processing cost, the erosion of product and product boundaries and less restrictive governmental regulations have played a major role for the private banks to compete with each other.

REVIEW OF LITERATURE

1. Vinod.R.R (2013) reported that "only 25% old private sector banks taken are efficient analyzed by data envelopment analysis. The efficiency of least efficient banks can be improved by giving due consideration by top management."
2. Sumeet Gupta et.al (2008) found that "private sector banks are trying to improve their position by different method like mergers and acquisition .Transparency and good governance would work as principal guiding force in present.
3. C.S. Balasubramaniam (2010) reported that "private sector banks like ICICI and HDFC are well-placed in complying Basel III norms. Indian banks performance is good as reflected by ROE, ROA but NPA is also increasing which can be reduced by good credit appraisal procedure."
4. Ashwini kumar Mishra et.al (2013) concluded that "private sector banks are at the top of list with their performance in terms of soundness being best and private sector banks will head towards convergence faster than public sector banks."
5. Avneet Kaur (2012) reported in her article that "to maintain a study growth rate deposits bank should come forward to offer some subsidiary services. The banks should take efforts to reduce the operating expenses by means of improving the efficiency of the non-viable branches by utilizing some expert services,"
6. Chitra Madaan found that "performance and compensation have a strong relation in private sector banks and foreign banks and job is less challenging and secure in public sector banks other than two banks."
7. Gupta et.al (2008) revealed that "efficiency increase in private sector banks has come from small banks and increase in capital adequacy ratio results in higher productivity which stems out of higher profitability of banks which increase soundness."
8. Sunil Kumar (2009) found that "the analysis of correlation between efficiency, effectiveness and performance measures indicate that a positive and strong correlation exist between effectiveness and performance measures. This suggests that banks can improve their performance by concentrating more on their income generation capability."

OBJECTIVES OF THE STUDY

1) To study the Income and Expenditure pattern of ICICI bank and HDFC bank in India
2) To analyze the profitability performance of ICICI and HDFC bank on the basis of net profit.

RESEARCH METHODOLOGY OF THE STUDY

The study is based on the secondary data. The data required is collected from the annual report of HDFC bank and ICICI bank, publications and websites and report of trend and progress in banking in India.

PERIOD OF THE STUDY

This study covers a period of seven years from 2006-07 to 2012-13

ANALYSIS AND INTERPRETATION

TABLE 1
COMPOSITION OF TOTAL INCOME OF HDFC AND ICICI FROM (2006-07)
(AMOUNT IN CRORES)

	HDFC			ICICI		
YEAR	INTEREST INCOME	OTHER INCOME	TOTAL INCOME	INTEREST INCOME	OTHER INCOME	TOTAL INCOME
2006-07	7,055.35(80.7)	1,679.21(19.3)	8,734.56(51)	2,199.5(76.04)	692.8(24)	2,892.3(54))
2007-08	10,530.43(80.8)	2,495.94(19.2)	13,026.37(49)	3,070.88(77.7)	880.11(22.3)	3,950.99(36.6)
2008-09	16,584.01(81.7)	3,700.65(18.3)	20,284.66(55.7)	3,100.93(80.3)	760.3(19.7)	3,861.23(-2.27)
2009-10	16,467.92(81.7)	4,573.63(18.3)	20,168.57(-0.57)	2,570.7(77.5)	747.8(22.5)	3,318.5(-14.05)
2010-11	20,380.77(80.4)	4,945.23(19.6)	25,326(25.6)	2,597.4(79.6)	664.8(20.4)	3,262.2(-1.7)
2011-12	27,874.19(82.8)	5,783.62(17.2)	33,657.81(32.8)	3,354.2(81.7)	750.2(18.3)	4,104.4(25.8)
2012-13	35,064.87(83.6)	6,852.62(16.4)	41,917.49(24.5)	4,007.5(82.8)	834.6(17.2)	4,842.1(17.9)

Total income of HDFC was 8734.56 crores in 2007 which has increased to 41917.49 crores. Total average growth of total income in study period is 34 percent whereas total income of ICICI was 2892.3 crore which has increased to 4842.1 crore. So average growth rate of total income in study period is 16.6 percent. % of other income out of total income is continuously decreasing in case of both banks, so there is more increase in compound growth of HDFC.

TABLE 2
COMPOSITION OF TOTAL EXPENSES OF HDFC AND ICICI FROM (2006-13)
(AMOUNT IN CRORES)

	HDFC				ICICI			
YEAR	INTEREST EXPENSES	OPERATING EXPENSES	OTHER EXPENSES	TOTAL EXPENSES	INTEREST EXPENSES	OPERATING EXPENSES	OTHER EXPENSES	TOTAL EXPENSES
2006-07	3179.45(37.3)	2975.08(34.8)	2379.86(27.9)	8534.39(58)	1635.8(63.37)	497.9(19.28)	447.6(17.34)	2581.3(59)
2007-08	4887.12(37.6)	4311.03(33.2)	3785.63(29.2)	12983.78(52)	2384.4(66.6)	642.9(17.95)	552.8(15.44)	3580.1(38.7)
2008-09	8911.1(44.2)	5950.54(29.5)	5301.87(26.3)	20163.51(55.2)	2272.6(65.04)	630.6(18.04)	590.0(16.9)	3493.8(-2.41)
2009-10	7786.3(37.8)	6475.71(31.5)	6321.24(30.7)	20583.25(2.1)	1759.3(60.33)	559.3(19.2)	597.4(20.5)	2916(-16.5)
2010-11	9385.08(39.5)	7780.02(32.7)	6576.74(27.7)	23741.84(15.3)	1695.7(61.72)	638.1(23.22)	413.3(15.1)	2747.1(-5.7)
2011-12	14989.58(49.4)	9274.64(30.5)	6100.96(21.1)	30365.18(27.9)	2280.8(65.86)	769.8(22.22)	412.3(11.9)	3462.9(26.05)
2012-13	19253.75(52.2)	11236.11(30.5)	6378.36(17.3)	36868.22(21)	2620.9(65.36)	901.3(22.47)	487.4(12.15)	4009.6(15.8)

The average growth rate in total expenditure is 25.2% from 2006 to 2013 in case of HDFC whereas in case of ICICI average annual growth in expenditure is 16.42%.operating expenses of HDFC varied between 29.5 to 34.8% and in case of ICICI operating expenses are varied between 17.95 to 23.22%., so on the basis of expenses ICICI is performing better.

TABLE 3
GROWTH RATE OF BOTH BANKS NET PROFIT FROM 2006-2013
(AMOUNT IN CRORES)

	HDFC		ICICI	
YEAR	AMOUNT	GROWTH RATE	AMOUNT	GROWTH RATE
2006-07	1,141.45	31.1	311	22.5
2007-08	1,590.18	39.3	415.8	33.7
2008-09	2,244.93	41.2	375.8	-9.7
2009-10	2,948.70	31.34	402.5	7.1
2010-11	3,926.40	33.15	515.1	28
2011-12	5,167.07	31.6	646.5	25.5
2012-13	6,726.28	30.2	832.5	28.8

As average growth rate in net profit of HDFC in study period is 34% and average growth of ICICI is 19.4.Profits of both banks are increasing but average growth of HDFC is greater than ICICI.

FINDINGS OF THE STUDY

1) The average growth rate of total income is higher in HDFC bank then that of ICICI bank. The average growth rate is 34% in HDFC and 16.6% in ICICI bank.
2) The average growth rate of total expenditure in HDFC bank is 25.2% which is higher than the ICICI bank which is 16.42%.
3) The average growth rate of net profit is higher in HDFC bank than that of ICICI bank. The average growth rate of net profit is 34% in HDFC bank and 19.4% in ICICI bank.

Hence it is concluded that the total performance and efficiency of HDFC bank is better than that of ICICI bank.

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