



Profitability Of State Bank Of India: An Analysis

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Abstract

The paper attempts to analyze the profitability of State bank of India for the period of Ten years. Apart from studying the trend of different components of both income and expenditure, performance of the bank has been analyzed with the parameters like OPTWF, ROA, ROE, ROI and EPS. There is a significant difference not only between the components of income but also across the components of expenditure. The paper concludes that the profitability performance of the SBI is not consistent during the study period. The bank should focus more on diversification of income and should also curtail operating expenses in order to improve profitability performance.

Keywords: Income, Expenditure, Operating Expenses, Profit, Interest.,

A. Background of the Study

Financial system has a great role to play in economic development of a country. A well-functioning financial sector facilitates efficient intermediation of financial resources, which creates money in the economy. In a country like India, public sector banks have an edge over private sector banks in terms of size, geographical reach and access to low cost deposits. Large size of business enables them to cater to the larger credit needs of corporate as well as other sections of the society. Geographical reach through a large number of branches increases their access to low cost deposits and lowers the portfolio risk through diversification. The access to low cost deposits enables them to the corporate at competitive rates (Pathak, 2005:479). At present, there are 26 public sector banks in India out of which 19 nationalized banks, one IDBI bank and other six banks are SBI and its Associates. SBI is the biggest commercial bank in India. Compared to other Indian commercial banks it has wide business networks and been able to access to a wide coverage of areas. Thus, the assessment of profitability performance of such a big bank has its own importance having implication towards its own financial health as well as economic condition of the economy. Besides, if the profitability performance shows increasing trend, it signals that the concern is moving towards the development stage along with right strategy

B. Review of Literature

The theoretical literature implies that profit earned by a particular concern indicates its strength in yielding benefits from all sorts of its efforts injected in earning the same. On the other hand, profitability indicates the earning ability or earning power of a particular source to which it is affected. Over the period, there are various profitability-based studies conducted in the area of banking and some of them have been reviewed as follows

Mishra et al. (2021) conducted a study on the financial performance of SBI. The study found that SBI had a higher ROA and ROE compared to other banks in India. The study also found that SBI had a higher NIM and lower NPA compared to other banks.

Chakraborty and Debnath (2021) conducted a study on the impact of financial inclusion on the financial performance of banks in India, including SBI. The study found that financial inclusion had a positive impact on the financial performance of banks, including SBI.

Nayak and Singh (2020) conducted a study on the financial performance of Indian banks during the COVID-19 pandemic, including SBI. The study found that the pandemic had a negative impact on the financial performance of banks, including SBI. However, SBI's financial performance was relatively better compared to other banks due to its strong digital infrastructure.

D'suza (2002) discovered that the profitability of the public sector banks in late nineties improved relatively to that of private and foreign banks. In this context, Mathur (2002) and Nayak (2001) argued that private banks perform better than public banks only because the private sector banking has a legal support and makes them free from the adversaries of extraneous pressures as well as they are least involved in socio-economic policies of the government.

C. Objectives of the Study

1. To analyze the trend of income and expenditure of State Bank of India;
2. To assess the degree of correlation across the various components of profit earned by the State Bank of India.
3. To evaluate the profitability performance of State Bank of India over the study period.

D. Hypotheses of the Study

- A. H01: There are no significant differences across the different components of income and expenditure.
- B. H02: There is no significant difference between the trend of income and expenditure.
- C. H03: The profitability performance of the State Bank of India is not significant during the study period.

E. Scope and Methodology

The present study is based on secondary data collected from the annual reports of State Bank India. The analysis of profitability of the bank is being carried out from 2012-13 to 2021-22. In order to analyze the profitability performance of the bank certain ratios have been considered such as Operating Profit as a percentage to Working Funds, Return on Assets, Return on Equity, Return on Investment, Earning per share. Such ratios as well as the components of profit of the bank have been further analyzed through index, mean, coefficient of variation and compound annual growth rate. The study employed Karl Pearson's coefficient in order to find the correlation of various components of income and expenditure with the net profit earned as well as across the components. Further, the study used student's *t* test an ANOVA for testing the hypotheses. All the calculation and testing of hypotheses have been processed through MS Excel and PASW 18 version.

F. Results and Discussion

To chalk out the trends in the profits and profitability of the bank under study, the following indicators have been selected:

1. Income
2. Expenditure
3. Spread
4. Burden
5. Net profit
6. Profitability

Trends of Income

Year	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22
Amount (in crore)	135692	154904	174973	191844	210979	265100	279644	302545	308647	316021
% Change		14.16	12.96	9.64	9.97	25.65	5.49	8.19	2.02	2.39

Trends of Non-Interest income

Year	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22
Amount (in cr)	16036	18552	22575	27845	35460	44600	36774	45221	43496	40563

Trends of Interest Earned

Year	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22
Amount (in crore)	119657	136350	152397	163685	175518	220499	242868	257323	265150	275457
% Change		13.95	11.77	7.41	7.23	25.63	10.14	5.95	3.04	3.89

Trends of Total Expenditure

Year	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22
Amount (in cr)	121587	144012	161871	181893	200495	271647	278781	288056	288236	284345
% Change		18.44	12.40	12.37	10.23	35.49	2.63	3.33	0.06	-1.35

Trends of Spread

Year	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22
Amount (in cr)	44329	49282	55015	57195	61860	74854	88349	98085	110710	120708
% Change		11.17	11.63	3.96	8.16	21.01	18.03	11.02	12.87	9.03

Trends of Burden

Year	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
Amount (in cr)	7506	9640	11229	10517	10292	11752	14506	24261	31585	30225
% Change		28.43	16.48	(6.34)	(2.14)	14.19	23.43	67.25	30.19	(4.31)

Trends of Net Profit

Year	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22
Amount (in cr)	14105	10891	13102	99514	10484	-6547	862	14488	20410	31676
% Change		-22.79	20.30	-24.05	5.36	-162.45	-113.14	1580.74	40.88	55.20

Trends of Profitability

Year	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22
Amount (in %)	0.97	0.65	0.68	0.46	0.41	-0.19	0.02	0.38	0.48	0.67

Discussion :

1. Income Index on the base year revealed the fact that the income of the bank was about 2.33 times at the end of the study period. It showed favorable position of the bank. It revealed the fact that the bank might have expanded network, launched new service products, which attracted clients. In short, overall income performance improved during the study period.
2. The Total Expenditure of State Bank of India was ₹121587 crore for the base year 2012-13. It remarked an upward movement during whole of the study period and came to ₹ 284345 crore at the end of the study period 2021-22. It had compounded its total expenditure by about 2.33 times over the base year.
3. Spread is nothing but surplus of interest income over interest expenses. Spread of SBI was ₹ 44329 crore in 2012-13. It showed upward movement during the study period.
4. Excess of non-interest expenditure over non-interest income of a bank is known as burden. Burden of SBI was ₹30225 crore in the year 2012-13, which increased in the subsequent years and reached to ₹ 50225 crore at the end of the study period.
5. Net profit of SBI shows fluctuation during whole of the study period from 2012-13 to 2021-22 of the study period.
6. Profitability of State Bank of India shows fluctuating trend during whole of the study period.
7. The average % of Gross NPA to Advances was 11.55 % which shows a higher rate of NPA (3.38 %) in comparison to SCBs of India.
8. The Gross NPA & Net NPA of SBI shows a growth of 4.36 times and 5.04 times respectively over the base year.

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