A Comparative Study of India's two Largest Banks

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1. Abstract: In the current scenario in June, 2020 if we think about the two largest of banks of India one from the private segment and other from the public sector segment, there is no doubt about it being HDFC Bank from the Private sector and SBI from the Public sector looking at their balance sheet, reach and customer base. In the private banking space HDFC Bank is one of bank large bank having more than 5,000 branches across the country and most commercially successful bank with net profit 21078 crores being the highest across the banking industry with lowest Gross NPAs below 2% for the FY 2018-19. At the same time if we look at the SBI which is most prominent public sector bank in the public sector space and oldest bank of India with more than 200 years background doing better as compare to its peer public sector banks but not as good as it's private sector peers in different parameters like profitability, NPAs management, annual growth and key parameter management. However bank has managed to post the net profit of 862.23 crores in the fiscal 2018-19.

Key Words: HDFC Bank, SBI, Gross NPAs, Net Profit, PCR, CAR

2. Introduction of NPA

NPA is in limelight since last 2015 and from almost 4 year now as the government has started observing the defaulters and once started focusing on the bank's profitability and employee productivity. PNB has also been in limelight due to some wrong reasons but after that they have come out very strongly from there.

Below is the regulator guidelines and guidance on about the NPAs,

An asset, including a leased asset, becomes non-performing when it ceases to generate income for the bank.

A non performing assets (NPAs) is a loan or an advance where;

- Interest and/ or installment of principal remain overdue for a period of more than 90 days in respect of a term loan,
- the account remains 'out of order', in respect of an Overdraft/Cash Credit (OD/CC),
- Thebillremainsoverdueforaperiodofmorethan90daysinthecaseof bills purchased and discounted,
- The installment of principal or interest thereon remains overdue for two crop seasons for short duration crops,
- the installment of principal or interest thereon remains overdue for one crop season for long duration crops,
- The amount of liquidity facility remains outstanding for more than 90 days, in respect of a securitization transaction undertaken in terms of guidelines on securitization dated February 1, 2006.
- In respect of derivative transactions, the overdue receivables representing positive mark-to-market value of a derivative contract, if these remain unpaid for a period of 90 days from the specified due date for payment.

In case of interest payments, banks should, classify an account as NPA only if the interest due and charged during any quarter is not serviced fully within 90 days from the end of the quarter.

2.1 ASSET CLASSIFICATION

Type of NPAs

Banks are required to classify non-performing assets further into the following three categories based on the period for which the asset has remained non-performing and the reliability of the dues:

- Substandard Assets
- Doubtful Assets
- Loss Assets

2.1.1 Substandard Assets

With effect from March 31, 2005, a substandard asset would be one, which has remained NPA for a period less than or equal to 12 months. Such an asset will have well defined credit weaknesses that jeopardize the liquidation of the debt and are characterized by the distinct possibility that the bank will sustain some loss if deficiencies are not corrected.

2.1.2 Doubtful Assets

With effect from March 31, 2005, an asset would be classified as doubtful if it has remained in the substandard category for a period of 12 months. A loan classified as doubtful has all the weaknesses inherent in assets that were classified as sub- standard, with the added characteristic that the weaknesses make collection or liquidation in full, – on the basis of currently known facts, conditions and values –highly questionable and improbable.

2.1.3 Loss Assets

A loss asset is one where loss has been identified by the bank or internal or external auditors or the RBI inspection but the amount has not been written off wholly. In other words, such an asset is considered uncollectible and of such little value that its continuance as a bankable asset is not warranted although there may be some salvage or recovery value.

3. Literature Review

Research on the banking sector in India or Public sector banks or private sector banks or group of banks are published. We found some of the related paper for the study purpose and we have anlysed them. Research paper alone on PNB is not found but few papers were found where PNB was one of the integral part of study,

3.1 Avani Ojha and Hemchandra Jha, has done the study on impact of NPAs on working of the SBI and PNB by using the different research methods and analyzed the hypothesis from the complete study they have gone through that NPAs are contributing significant way. Non-Performing Assets have huge impact on the profitability of banks as they majorly related to the productivity, profitability and asset liability management of the banks in India. NPAs are the results of under recovery or non-recovery of advances within certain period of time for given particular lending. They have recommended the constant analysis of NPAs by the banks purpose wise, borrower wise, region wise etc. there should the methods and proper examinations of the borrowers before sanctioning the credit. Information on the financial position should be analyzed extensively.

3.2 Dr. Ganesan and R. Santhanakrishnan has did the study on NPAs of state Bank of India for the duration of 2002-03 to 2011-12 by keeping the objective of deployment of funds, examining gross NPAs, investigate the impact of NPAs, measures to be suggested to control the NPAs. They have tested the hypothesis by calculating the averages and standard deviation and concluded the result on the desired objectives. They have found that banking industry has undergone many fold changes after the first phase of economic liberalization and due to this importance of credit management emerged. NPAs have increased with the economic growth and aggressive lending of the banks. After some default banks also become the cautious and government has taken the measures and ultimately it looks quite in control so far.

3.3 Manisha Raj, Aashita Jain, Shruti Bansal, Tanya Verma has done the study titled on NPAs and conducted the “A comparative study of SBI & ICICI Bank from 2014-17”. They have mostly done the study on NPAs to checked the trend of NPAs in 4 years from 2014-17 of State Bank of India and ICICI Bank. Also they have did table to table comparison of the total advances, net profit, gross NPAs and net NPAs of SBI and ICICI Bank. During the study, they have checked for a linear relationship in net profit and net NPAs in both the banks. They have concluded after study that management of NPAs is daunting task for every bank in the banking industry. After the study of figures for the given years it is found that it seems biggest challenge as far as liquidity is concern for both the banks as NPAs has increased and profitability has gone down. Even though SBI having higher NPAs than the ICICI Bank. As SBI is public sector bank, it is more vulnerable to give up the returns if the loans extended to general public. In the case of ICICI Bank their study found that there is no major profit or loss has been declared but the NPAs are settled against the profitability of the bank from time to time. In case SBI situation is worse as losses have increased due to increasing NPAs.

3.4 Swathi.M.S, Sridhar.K , has did the study of Non Performing Assets from year 2007 to 2013 and analyzed the ways with which NPAs can be fixed for the public sector Banks, Private Sector Banks and other categories of the banks. They have mostly used the secondary data released by the banks at the quarter end and at the year end and the RBI annual reports to conclude the study. From the data extracted from secondary sourced they have took the net and gross Non-Performing Assets to analyze and to find the fact and figures in the study. They have studied the causes & factors affecting the NPAs. The main reason in the central light was willful defaults by the customers of the different banks. Else reasons, they found during the study were, default was due to lenient lending norms, industrial crises, diversification of the funds, higher leverage and borrowing cost, sudden capital market downfall. Also remedies suggested by them to solve the problems are Lok Adalat, Enactment of SARFAESI Act, Asset Reconstruction Company, Corporate debt restructuring etc.

4. The Design of Study and Research methodology

4.1 Need for the Study

NPAs are the big challenges for the banking system in entire world. As far as Indian banking system perspective NPAs has grown drastically in last few years since year 2014. There are number of reasons for this but foremost reason being the prevailing transparency now days in the system since then 2014. Total NPAs has reached more than 10.25 lakhs crores and it was became the matter of concern for the banks. There for different studies has been conducted on the same. HDFC Bank is one of most prominent private sector bank who has managed the best NPAs ratios and SBI is one of public sector bank who has maintained the better asset class as compared to its peers so here we are comparing both the banks.

4.2 Statement of Problem

Definition of NPAs has been changes in India from time to time and hence NPAs in India in banking sector has also been changes in increasing order. Since many years NPAs has been seen as big monster in every corporate for different good reasons for which one of the reason being more transparency taken in to the picture especially in banking. To study these dynamic changes in NPAs for different banks become very important and we have chosen the HDFC Bank and SBI for the study purpose for being these banks most prominent and best in their category.

Present study has focused on the different component like CAR, Gross Profit, and PCR by keeping NPAs ratios in the central for the study of non-performing assets of Punjab National Bank.

4.3 Scope of the study:

The scope of the study is to analyze the HDFC Bank and SBI for the duration of 2010 to 2019.

4.4 Objectives:

1. To analyze NPAs correlation of HDFC Bank to CAR, PCR and net profit.
2. To analyze NPAs correlation of SBI Bank to CAR, PCR and net profit.
3. To compare the HDFC Bank and SBI's ratios to understand their neck to neck standing.

4.5 Methodology:

Methodology describes the research route to be followed, the instruments to be used, universe and sample of the study for the data to be collected, the tools of analysis used and pattern of deducing conclusions.

For the purpose of the study, we will collect the required data from the Annual reports of Punjab National Banks which published every year and half yearly report of current year. The study is based on secondary data. To supplement the data, the researcher elicits other relevant data available from the annual reports of PNB.

4.5.1. The Sample:

The universe of the study consists of all the different ratios and variables of HDFC Bank and SBI for the study purpose. Here, research has been done on HDFC Bank and SBI's correlation analysis of their ratios and comparative study of both banks.

4.5.2. Period of the study:

The study has been carried out from 2010 to 2019. The study is based on secondary data.

4.6 Data collection tool and techniques

As per the nature of study following tools and techniques are used for testing the hypotheses,

- Tools - Ratio Analysis, Excel
- Statistical Techniques - Mean, Standard deviation and T – test, Correlation Analysis

4.7 Data Analysis

The Data analysis is the core of the research. Scientific methods are been used now a days to get the output or study made authentic and can also suffice the purpose what the study meant for. The collected data now a day's analyzed by using the Microsoft excel with the inbuilt formulas and helpful to researchers as well.

To reach certain relevant results, the data collected from all resources have been tabulated, analyzed and interpreted with the help of appropriate statistical techniques. In order to analyze the data and draw conclusions in this study, various statistical tools like Excel. The study is confined to a period of ten years that is from 2010 to 2019.

4.8 Limitations of the study:

The present study has the following limitations such as,

i. Comparison is restricted to the HDFC Bank and SBI only.

ii. The study is based on secondary data as published in various publications of RBI and other reports. These data are based on historical accounting concept.

iii. The study, as limitations, is confined only to the selected and restricted indicators and the study is confined only for a period of ten years.

5. Data Analysis and Interpretation

As below mentioned data is collected from the different sources mentioned in the references section like RBI website, Annual reports of Banks etc. below mentioned belongs to HDFC Bank and State bank India and also ratios collected from the annual reports are shown in the below table.

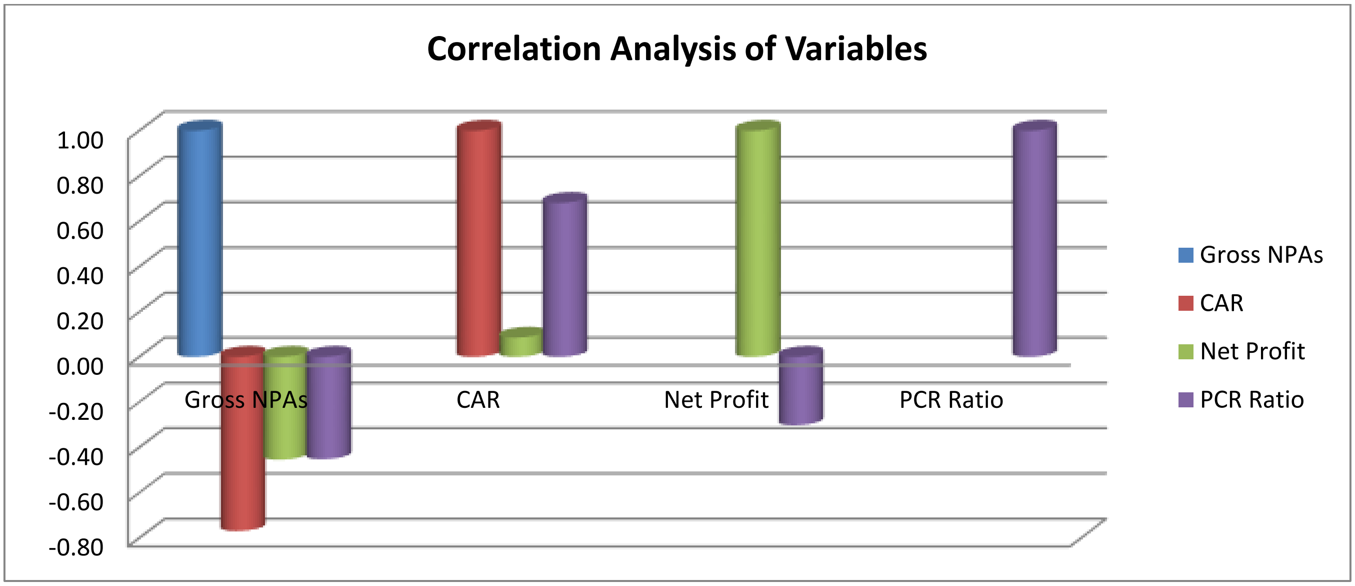
Figures in Cr	Years	Gross NPAs	CAR	Net Profit	PCR Ratio
HDFC BANK	2010	1.43	17.44	2948	78.42
HDFC BANK	2011	1.05	16.22	3926	82.51
HDFC BANK	2012	1	16.52	5167	82.38
HDFC BANK	2013	0.95	16.8	6726	79.91
HDFC BANK	2014	0.91	16.1	8478	72.57
HDFC BANK	2015	0.89	16.8	10216	73.93
HDFC BANK	2016	0.25	15.5	12296	69.94
HDFC BANK	2017	1.04	14.6	14550	68.67
HDFC BANK	2018	1.28	14.8	17487	69.78
HDFC BANK	2019	1.35	17.1	21078	71.36
SBI	2010	3.05	13.39	9166	59.23
SBI	2011	4.44	11.98	8265	64.95
SBI	2012	5.3	13.86	11707	68.1
SBI	2013	4.75	12.92	14105	66.58
SBI	2014	4.95	12.44	10891	62.86
SBI	2015	4.25	12	13102	69.13
SBI	2016	6.5	13.12	9951	60.7
SBI	2017	6.9	13.11	10484	65.95
SBI	2018	10.91	12.6	-6547	66.17
SBI	2019	7.53	12.72	862	78.73

Above table shows the data of HDFC Bank and State bank of India for the analysis purpose. From the above data there are the 3 kind of correlation analysis we are performing. First is the both banks common correlation analysis and other 2 analysis we are doing is there individual analysis.

5.1 Correlation analysis of variables with Gross NPAs of both the Banks

	Gross NPAs	*CAR*	*Net Profit*	*PCR Ratio*
Gross NPAs	1.00			
CAR	-0.77	1.00		
Net Profit	-0.45	0.08	1.00	

PCR Ratio	-0.45	0.68	-0.30	1.00



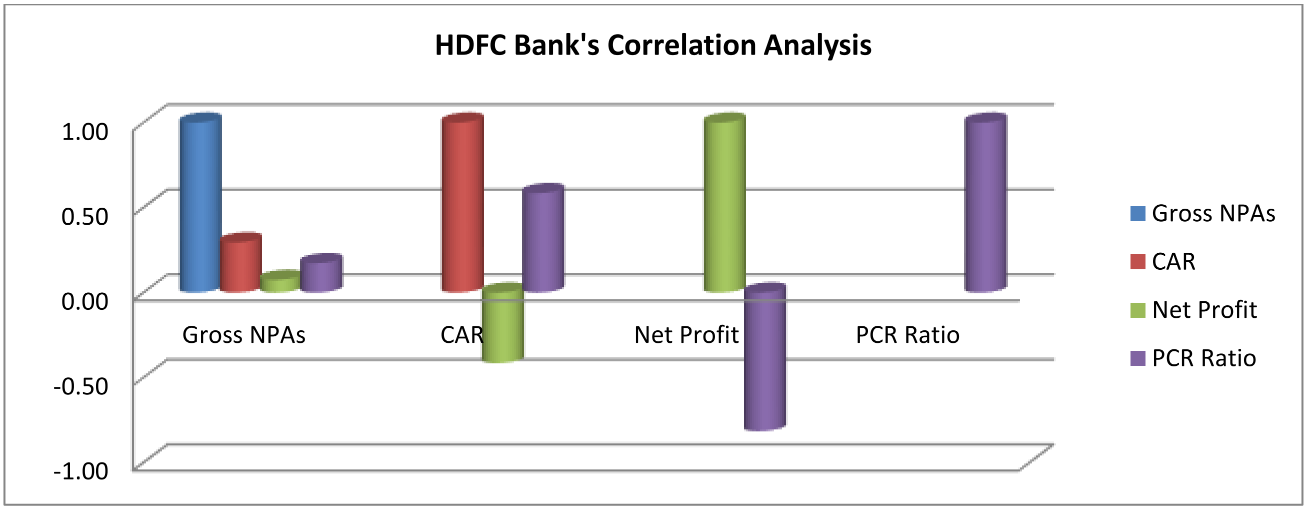
As per the correlation study of the both the banks together we can see that Capital adequacy ratios to gross NPAs seems to be negative and showing the negative strength of association. This shows that there is strong inverse relationship between both the variables if we look at the case of Gross NPAs to Capital Adequacy ratios. In the another variable Gross NPAs to Net profit analysis of both banks shows that strength of association is negative between both the variables. This shows that both share the inverse relationship to each other however it is not stronger like CAR. Gross NPAs to PCR ratios analysis of correlation shows that both share the negative strength of association. This shows that once the gross NPAs of the bank are increasing maintaining the PCR ratios becomes the challenges for the bank and hence showing the negative strength of associations.

If we look the CAR to net profit it shows the both share the week positive strength of association, this means both having the similar set of association to each other. Also to maintain the CAR it is necessary to have profits with banks. Also CAR and PCR are showing the positive strength of association to each other. This shows that both the variables requirement of maintenance is same. This means if one banks is able to maintain CAR then it is also able to maintain the PCR ratios.

Net profits to PCR ratios are showing the negative correlation to each in the case to both banks if we put them together to study. It shows that net profits are hampered to maintain the PCR ratios.

5.2 Correlation Analysis of HDFC Bank

	Gross NPAs	*CAR*	*Net Profit*	*PCR Ratio*
Gross NPAs	1.00			
CAR	0.30	1.00		
Net Profit	0.07	-0.41	1.00	
PCR Ratio	0.17	0.59	-0.82	1.00



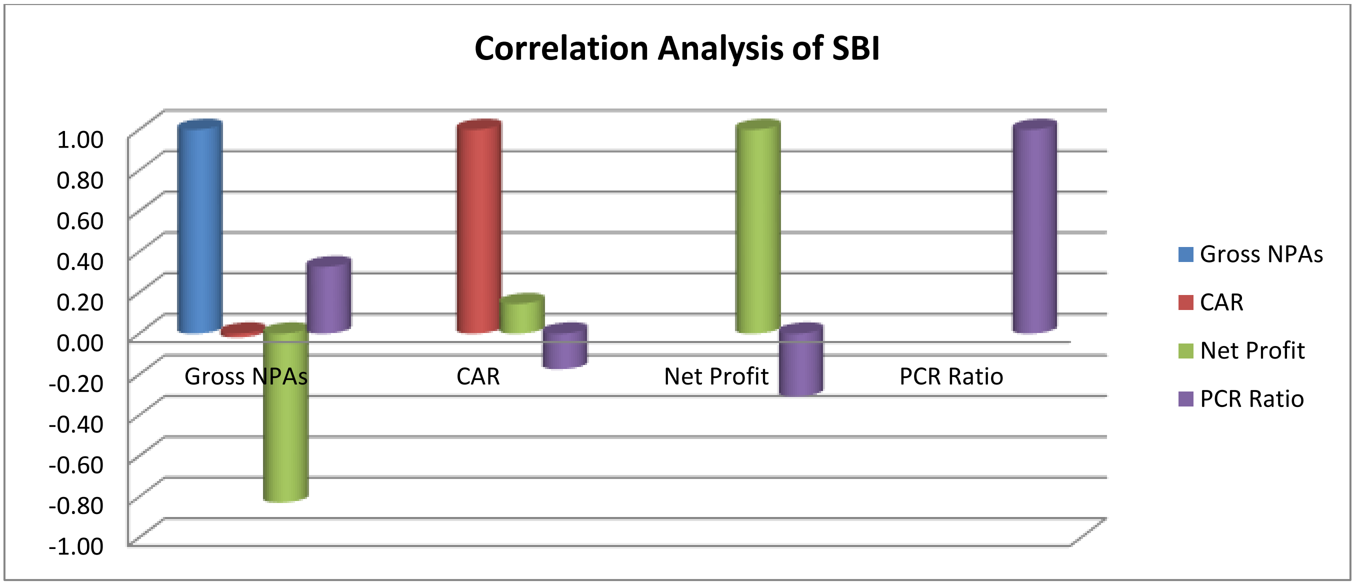
As per the correlation study of HDFC Bank the bank, we can see that Capital adequacy ratios to gross NPAs seems to be weak positive and showing the positive strength of association. This shows that there is similar relationship between both the variables if we look at the case of Gross NPAs to Capital Adequacy ratios. In the another variable Gross NPAs to Net profit analysis of both banks shows that strength of association is neutral between both the variables. This shows that both share the no association to each other. This shows HDFC Bank has managed the NPAs to net profit in a efficient manner hence net profit is not decreasing. Gross NPAs to PCR ratios analysis of correlation shows that both share the positive strength of association. This shows that gross NPAs of the bank and PCR ratios both the maintained the by the bank in very systematic manner so that NPAs and PCR share showing the positive strength of association.

If we look the CAR to net profit it shows the both share the negative strength of association, this means both have inverse set of association to each other. Also to maintain the CAR it is necessary to have profits with banks. Also CAR and PCR are showing the positive strength of association to each other. This shows that both the variables requirement of maintenance is same. This means if one banks is able to maintain CAR then it is also able to maintain the PCR ratios.

Net profits to PCR ratios are showing the negative correlation to each in the case to both banks if we put them together to study. It shows that net profits are hampered to maintain the PCR ratios.

5.2 Correlation Analysis of State Bank of India

	Gross NPAs	CAR	Net Profit	PCR Ratio
Gross NPAs	1.00			
CAR	-0.02	1.00		
Net Profit	-0.83	0.14	1.00	
PCR Ratio	0.33	-0.17	-0.31	1.00



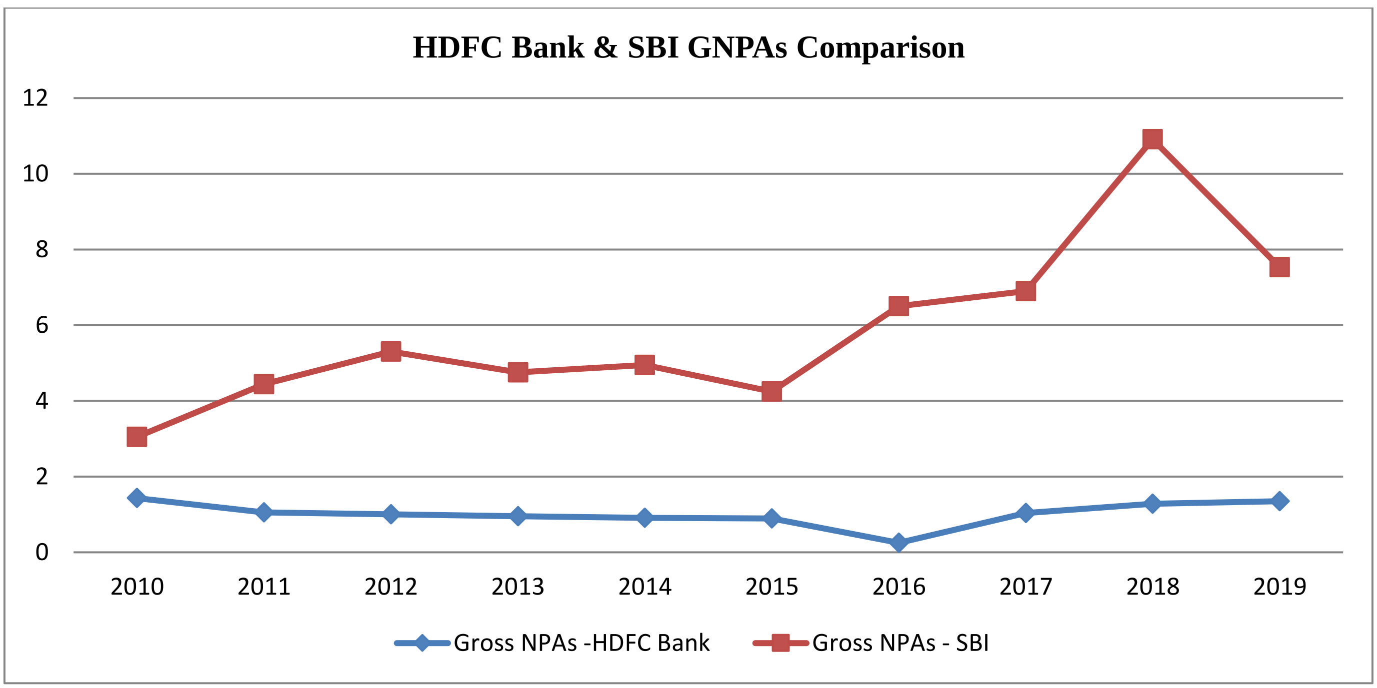
As per the correlation study of the SBI we can see that Capital adequacy ratios to gross NPAs seems to be negative and showing the negative strength of association. This shows that there is strong inverse relationship between both the variables if we look at the case of Gross NPAs to Capital Adequacy ratios. In the another variable Gross NPAs to Net profit analysis of both banks shows that strength of association is strong negative between both the variables. This shows that both share the inverse relationship to each other however it is not stronger like CAR. Gross NPAs to PCR ratios analysis of correlation shows that both share the positive strength of association. This shows that once the gross NPAs of the bank are increasing maintaining the PCR ratios not becomes the challenges for the bank and hence showing the positive strength of associations.

If we look the CAR to net profit it shows the both share the week positive strength of association, this means both having the similar set of association to each other. Also to maintain the CAR it is necessary to have profits with banks. Also CAR and PCR are showing the negative strength of association to each other. This shows that both the variables requirement of maintenance is different. This means if one bank is able to maintain CAR then not necessary it is also able to maintain the PCR ratios.

Net profits to PCR ratios are showing the negative correlation to each in the case to both banks if we put them together to study. It shows that net profits are hampered to maintain the PCR ratios.

5.3 Comparison of HDFC Bank and SBI's Gross NPAs

Below, figures shows that the comparative data of last 10 years of HDFC Bank and SBI for the Gross NPAs of them. Below mentioned line chart shows the different 10 points which are showing the trend of the GNPAs. However, from the below mentioned chart it is evident that HDFC Bank has managed the GNPAs in a sophisticated manner in the sense that they maintained them below 2% level for given entire period of time. In case of SBI GNPAs are trending at higher level throughout the period and that simply shows that net profit of SBI is always hampered during the, said period. Even though SBI is bigger retail bank than HDFC Bank if we look at the customer base and branch net work and many other parameters. But this due the higher NPAs and their provisioning has not allowed the bank of book the higher profits and hence banks is successful but commercially it is still not achieving greater success as compared to its private sector peers like HDFC Bank.



6. Findings and Conclusions of the study

6.1 Finding: From the correlation analysis of the above mentioned two banks there are different finding we have observed. Below are the lists of findings which we observed in both banks.

i. HDFC Banks net profits is being not declining with NPAs as reason being NPAs are also found steady in case if this bank.

ii. Also gross NPAs and net profits are not showing any correlation to each other that shows the efficiency of NPAs management by the HDFC Bank.

iii. Correlation analysis shows that the capital adequacy ratio of HDFC Bank is positive with Gross NPAs that shows that at given level of NPAs, bank is able to maintain the CAR and also its being showing the positive strength of association.

iv. Here provision coverage ratios also showing the week but positive correlation to GNPAs, this indicates that banks having enough capacity in terms of gross profits to maintain the PCR as when NPAs and PCR showing the positive strength of associations.

v. CAR and net profits are showing the negative strength of association and at the same time HDFC Bank is managing all the ratios as per requirement of regulator at individual level. But correlation between both the variable suggests that HDFC Bank should focus in future on both ratios as both are showing the inverse relationship.

vi. State Bank of India’s net profits is being strongly negatively associated with Gross NPAs. This shows that NPAs and net profits are not correlated and moving in the inverse direction to each other. This also states that these GNPAs are hammering the bank net profits.

vii. Also gross NPAs and net profits are not showing strong negative correlation to each other that shows the inefficiency of NPAs management by the SBI.

viii. Correlation analysis shows that the capital adequacy ratio of SBI is negative but if we look at the data it is neutral with Gross NPAs that shows that at given level of NPAs, bank is able to maintain the CAR and also its being showing the neutral strength of association.

ix. Here provision coverage ratios also showing the week but positive correlation to GNPAs, this indicates that banks having enough capacity in terms of gross profits to maintain the PCR as when NPAs and PCR showing the positive strength of associations. But at the same time PCR are showing the negative strength of association with the net profit. This suggest that requirement of PCR is hampering the profits of the banks.

x. CAR is showing the positive strength of associations with net profits in case of SBI, this show that SBI managing the net profits with CAR in a systematic way in order to maintain the ratios as required by regulators.

6.2 Conclusions:

After the above study on comparative study of HDFC Bank and State Bank India, it is found that both the banks managing their ratios at the best in their capacities in given boundaries. However if we compare both the banks it suggests that HDFC Bank having the edge on the SBI reason being HDFC Bank having lower NPAs than the SBI. HDFC Bank having Gross NPAs less than 1.5% while SBI having the GNPAs near about 7.5% as per the annual report of both banks for the fiscal 2019. Also the comparative study of both bank shows the NPAs never been easy handling for the state bank of India and in every two to three year they are doing the provisioning of their NPAs while in case of HDFC Bank these restructuring incidents are rare. However findings of the study are suggesting that HDFC Bank has managed their ratios like NPAs, CAR and PCR in a very efficient manner and managed the net profits in a systematic way and paying the great role of successful commercial bank while in case of SBI they are managing their ratio but are not that much efficient in case of Net profits and NPAs while CAR and PCR are being managed by them. SBI need to be more focused on managing the net profits and NPAs part to be a commercially successful bank. During, the comparative study of SBI vs HDFC Bank it is found that HDFC Banks has never gone above 2% in GNPAs during the study period while SBI has never gone below 2% during the study period. This is the eye opening comparison and shows SBI need to focus of acquiring quality assets else they will be compromising in future with customers hard earn money.

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