PERFORMANCE EVALUATION OF SBI AND ITS ASSOCIATES IN INDIA

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Introduction

In the recent years the Indian banking system has witnessed a significant transformation. World over, dramatic changes are taking place in banks and banking operations. Prior to the institutions of financial reforms, Indian banks were operating in highly regulated environment. In view of the social responsibility place on the banking sector, profitability was not considered as an important yardstick to judge their performance. From the time of nationalization of 14 major scheduled commercial banks in 1969 till the early 1990s, the main thrust of banking operation was on social banking. Accordingly the emphasis was placed on enhancing branch network in rural and semi-urban areas. Moreover, banks had to undertake several other responsibilities which included the financing of fiscal deficit and facilitating the development of certain specific factors as reflected in high and increasing prescription of SLR and direct lending. With institution of financial sector reforms, competition among the banks had increased. Barriers to entry have been sharply reduced. Economics of scale and scope have to be exploited for facing competition. Efficiency and profitability have, as a result, become critical objectives to be aimed at. Hence, in the present paper an attempt has been made to analyze the financial performance of SBI and its associates.

Company Profile

State Bank of India (**SBI**) is a multinational banking and financial services company based in India. It is a government-owned corporation with its headquarters in Mumbai, Maharashtra. As of December 2013, it had assets of US$388 billion and 16,000 branches, including 190 foreign offices, making it the largest banking and financial services company in India by assets. State Bank of India is one of the *Big Four banks* of India, along with ICICI Bank, Punjab National Bank and Bank of Baroda. The bank traces its ancestry to British India, through the Imperial Bank of India, to the founding in 1806 of the Bank of Calcutta, making it the oldest commercial bank in the Indian Subcontinent. Bank of Madras merged into the other two presidency bank, Bank of Calcutta and Bank of Bombay—to form the Imperial Bank of India, which in turn became the State Bank of India. Government of India nationalized the Imperial Bank of India in 1955, with Reserve Bank of India taking a 60% stake, and renamed it the State Bank of India. In 2008, the government took over the stake held by the Reserve Bank of India. SBI is a regional banking behemoth and has 20% market share in deposits and loans among Indian commercial banks.

Operations

SBI provides a range of banking products through its network of branches in India and overseas, including products aimed at non-resident Indians (NRIs). SBI has 14 regional hubs and 57 Zonal Offices that are located at important cities throughout India.

DOMESTIC PRESENCE

SBI had 14,816 branches in India, as on 31 March 2013, of which 9,851 (66%) were in Rural and Semi-urban areas. In the financial year 2012-13, its revenue was INR 200,560 Crores (US$ 36.9 billion), out of which domestic operations contributed to 95.35% of revenue. Similarly, domestic operations contributed to 88.37% of total profits for the same financial year.

International Presence

As of 28 June 2013, the bank had 180 overseas offices spread over 34 countries. It has branches of the parent in Moscow, Colombo, Dhaka, Frankfurt, Hong Kong, Tehran, Johannesburg, London, Los Angeles, Male in the Maldives, Muscat, Dubai, New York, Osaka, Sydney, and Tokyo. It has offshore banking units in the Bahamas, Bahrain, and Singapore, and representative offices in Bhutan and Cape Town. It also has an ADB in Boston, USA.

Associate Banks

SBI has five associate banks; all use the State Bank of India logo, which is a blue circle, and all use the "State Bank of" name, followed by the regional headquarters' name:

1. State Bank of Bikaner & Jaipur
2. State Bank of Hyderabad
3. State Bank of Mysore
4. State Bank of Patiala
5. State Bank of Travancore

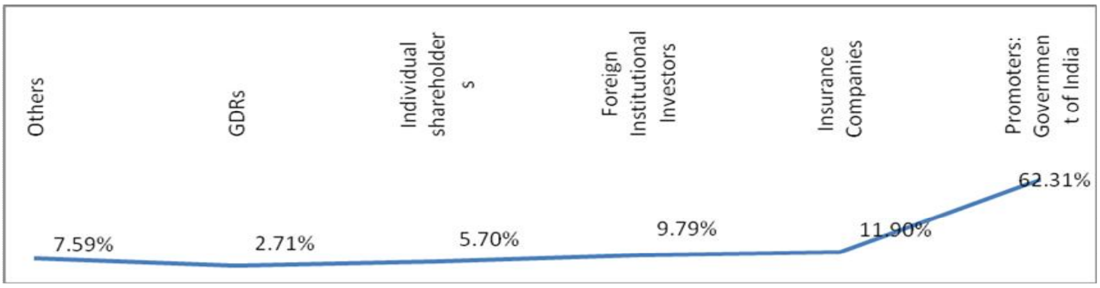
Earlier SBI had seven associate banks, all of which had belonged to princely states until the government nationalized them between October 1959 and May 1960. In tune with the first Five Year Plan, which prioritized the development of rural India, the government integrated these banks into State Bank of India system to expand its rural outreach. There has been a proposal to merge all the associate banks into SBI to create a "mega bank" and streamline the group's operations.

The first step towards unification occurred on 13 August 2008 when State Bank of Saurashtra merged with SBI, reducing the number of associate state banks from seven to six. Then on 19 June 2009 the SBI board approved the absorption of State Bank of Indore. SBI holds 98.3% in State Bank of Indore. (Individuals who held the shares prior to its takeover by the government hold the balance of 1.77%.

The acquisition of State Bank of Indore added 470 branches to SBI's existing network of branches. Also, following the acquisition, SBI's total assets will inch very close to the ₹10 trillion mark (10 billion long scale). The total assets of SBI and the State Bank of Indore stood at ₹9,981,190 million as of March 2009. The process of merging of State Bank of Indore was completed by April 2010, and the SBI Indore branches started functioning as SBI branches on 26 August 2010.

Listings and Shareholding

As on 30 June 2013, Government of India held around 62% equity shares in SBI. Over 800,000 individual shareholders hold approx. 5.7% of its shares. Life Insurance Corporation of India is the largest non-promoter shareholder in the company with 10.9% shareholding.



The equity shares of SBI are listed on the Bombay Stock Exchange, where it is a constituent of the BSE SENSEX index, and the National Stock Exchange of India, where it is a constituent of the S&P CNX Nifty. Its Global Depository Receipts (GDRs) are listed on the London Stock Exchange.

Objectives of the Study

1. To analyze the financial performance of State Bank of India and Its Associates.

Scope of the Study

The scope of the present paper is confined to all the banks of SBI group for a data period from 2008-13, i.e., application of financial deregulation measures to 2012-2013. The paper includes the analysis of financial performance of SBI and its associates.

Research Methodology

The study is based upon secondary data covering the period from 2008-2013.The study is related to State Bank of India (SBI) and its associates. The proposed study will aim at examining the performance of State Bank of India (SBI) in India. The data on the variables selected like Business per employee, Profit Per employee, Net Interest Margin, Cost of funds, Return on advance, Wages to total expenses, Return on equity, Return on assets, CRAR and Net NPA Ratio. for analysis from RBI website www.rbi.org.in and website of Indian Banker Association www.iba.org.in.

Ratio analysis is a technique used for evaluating the financial performance of an organization. There are number of ratios for measuring the performance of banks but in the present study the most popular ratios have been used. We have computed Net Interest Margin, CRAR, Return on Equity, Return on Assets, and NPA Ratio.

Analysis and Interpretation

Return on Asset

An indicator of how profitable a company is relative to its total assets. ROA gives an idea as to how efficient management is at using its assets to generate earnings. Calculated by dividing a company's annual earnings by its total assets, ROA is displayed as a percentage. Sometimes this is referred to as "return on investment".

The formula for return on assets is: Net Income / Total Assets

Note: Some investors add interest expense back into net income when performing this calculation because they'd like to use operating returns before cost of borrowing.

Net Interest Margin of SBI & Its Associates								
Year	SBI and Its Associates (Amt In Rs Million)						Group Aggregates	All Bank Aggregates
	SBI	SBBJ	SBH	SBM	SBP	SBT		
2008-2009	2.48	2.52	2.12	2.28	1.75	2.75	2.39	2.62
2009-2010	2.35	2.41	2.26	2.88	2.11	2.57	2.36	2.54
2010-2011	2.86	3.02	2.92	3.36	2.97	2.6	2.84	2.91
2011-2012	3.38	3.28	2.99	2.82	2.6	2.42	3.25	2.9
2012-2013	3.06	3.24	3.08	2.88	2.37	2.27	2.98	2.79

A performance metric that examines how successful a firm's investment decisions are compared to its debt situations. A negative value denotes that the firm did not make an optimal decision, because interest expenses were greater than the amount of returns generated by investments.

$$\text{Net Interest Margin} = \frac{\text{(Investment Returns – Interest Expenses)}}{\text{Average Earning Assets}}$$

Return on Total Equity

The amount of net income returned as a percentage of shareholders equity. Return on equity measures a corporation's profitability by revealing how much profit a company generates with the money shareholders have invested. ROE is expressed as a percentage and calculated as:

Return on Equity = Net Income/Shareholder's Equity Net income is for the full fiscal year (before dividends paid to common stock holders but after dividends to preferred stock.) Shareholder's equity does not include preferred shares also known as "return on net worth" (RONW).

Return on equity of SBI & Its Associates								
Year	SBI and Its Associates (Amt In Rs Million)						Group Aggregates	All Bank Aggregates
	SBI	SBBJ	SBH	SBM	SBP	SBT		
2008-2009	17.05	21.46	20.87	18.47	18.2	30.64	17.74	15.44
2009-2010	14.80	20.39	22.02	18.06	16.01	26.88	15.92	14.31
2010-2011	12.62	20.91	24.35	15.77	16.65	23.09	14.11	14.96
2011-2012	15.72	18.59	21.98	9.62	17.95	13.93	16	14.6
2012-2013	15.43	16.36	17.7	10	13.17	14.94	15.29	13.84

CRAR

A measure of a bank's capital. It is expressed as a percentage of a bank's risk weighted credit exposures.

$$CAR = \frac{\text{Tier One Capital + Tier Two Capital}}{\text{Risk Weighted Assets}}$$

Also known as "Capital to Risk Weighted Assets Ratio (CRAR)"

CRAR of SBI & Its Associates								
Year	SBI and Its Associates (Amt In Rs Million)						Group Aggregates	All Bank Aggregates
	SBI	SBBJ	SBH	SBM	SBP	SBT		
2008-2009	14.25	14.52	11.53	12.99	12.6	14.03	13.96	13.97
2009-2010	13.39	13.3	14.9	12.42	13.26	13.74	13.46	14.54
2010-2011	11.98	11.68	14.25	13.76	13.41	12.54	12.25	14.19
2011-2012	13.86	13.76	13.56	12.55	12.3	13.55	13.7	14.24
2012-2013	12.92	12.16	12.36	11.79	11.12	11.7	12.67	13.88

Net NPA Ratio

A classification used by financial institutions that refer to loans that are in jeopardy of default. Once the borrower has failed to make interest or principal payments for 90 days the loan is considered to be a non-performing asset also known as "non-performing loan".

Net NPA Ratio of SBI & Its Associates								
Year	SBI and Its Associates (Amt In Rs Million)						Group Aggregates	All Bank Aggregates
	SBI	SBBJ	SBH	SBM	SBP	SBT		
2008-2009	1.79	0.85	0.38	0.5	0.6	0.58	1.47	1.05
2009-2010	1.72	0.78	0.55	1.02	1.04	0.91	1.5	1.12
2010-2011	1.63	0.83	0.87	1.38	1.21	0.98	1.49	0.97
2011-2012	1.82	1.92	1.3	1.93	1.35	1.54	1.76	1.28
2012-2013	2.1	2.27	1.61	2.69	1.62	1.46	2.04	1.68

Conclusion

1. India's largest lender, State Bank of India (SBI), is No. 1 in many aspects but when it comes to business and profits per employee, it ranks below the national average, according to a Reserve Bank of India (RBI) report.
2. As per the latest data on the banking sector of India, the business per employee of SBI in 2012-13 was at Rs. 9.43 crore, while the aggregate of that of all other banks in the country was Rs. 12.13 crore.
3. Every employee on an average contributed Rs. 6.5 lakh to the bank's profit in the last fiscal year, according to the report titled 'A profile of banks: 2012-13'.
4. On this parameter also, the bank was lagging behind the all-banks aggregate which was Rs. 8.3 lakh.
5. SBI's employee strength was 2.28 lakh at the end of March 2013.
6. With regard to net non-performing ratio (NPA), SBI performed poorly. Net NPA of the bank stood at 2.10 per cent of the total advances as compared all banks' aggregate of 1.68 per cent in 2012-13.
7. However, on the parameter of net interest margin (NIM), SBI's interest spread was better at 3.06 per cent as against the all banks' aggregate of 2.79 per cent.
8. SBI's net profit was 20 per cent up at Rs. 14,105 crore in the last fiscal year.
9. Standalone profit of the bank for 2012-13 made it the third highest profit making firm in the country after ONGC and Reliance Industries.
10. Standalone total income of the bank in 2012-13 increased to Rs. 1,35, 691.94 crore, from Rs. 1,20,872.90 crore in 2011-12.
11. SBI and its five associates' consolidated net profit stood at Rs. 17,916 crore in FY13.

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