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सत्यं शिवं सुन्दरम्

A STUDY ON FINANCIAL RATIO ANALYSIS OF STATE BANK OF INDIA

***Dr. B Vijaya,**
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Abstract

State Bank of India is the India's largest commercial bank in terms of assets, deposits and employees. State Bank of India is the preferred banker for most of public sector corporations. It occupies a unique place in the Indian money market as it commands more than one third of India's bank resources. Customers have vast faith in State bank of India because of its loyal services. This study aims to analyse the financial ratios of State Bank of India. The main objective of commercial bank is to maximize the profit. To do so, banks focus on their financial performance analysis and attempt to structure their portfolios in order to maximize their profit. Ratio analysis enables the management of banks to identify the causes of the changes in their advances, income, deposits, expenditure, profits and profitability over the period of time and thus helps in pinpointing the direction of action required for increasing the deposits, income, advances and reducing the expenditure and for altering the profitability prospects of the banks in future. Therefore, the study was undertaken to analyse financial ratios of State Bank of India.

***Keywords:** State Bank of India, Financial Ratio, Commercial Bank.*

INTRODUCTION

Banks are back bone of the Indian economy. Banking plays a vital role in the economic growth of a country and forms the core of the money market in an advanced country. In India, the money market is characterized by the existence of both the organized and unorganized sectors. The organized sector includes commercial banks, Regional Rural Banks and Co-operative banks while the unorganized sector includes private money lenders and indigenous bankers. Among the banking institutions in the organized sector, the commercial banks are the oldest institutions having a wide network of branches, commanding utmost public confidence and having the lion's share in the total banking operations. Initially, they were established as corporate bodies with share-holdings by private individuals, but subsequently there has been a drift towards State ownership and control. Today 12 banks constitute the strong public sector in Indian commercial banking.

In modern era banking is the king of all business activity. It is an important instrument of mobilizing the community's resources through institutional framework. Economic and industrial development of a country depends upon how efficiently funds are managed by the banks. Hence, banking plays an important role in the economic growth of the country. Adequacy of capital and competency of management are the two pillars upon which the earnings of the banks depend. Sufficiency of capital

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instills depositor's confidence, which helps in mobilizing of deposits. Increase in deposits will increases the lending business and therefore enhances the possibilities of income generation for the bank. Moreover, a bank with a sound capital base can take business opportunity more effectively and can concentrate well on dealing with problem arising from unexpected losses. The success and survival of a bank depends to a great extent upon the dedication and competence of its managers. A smart bank manager can, not only help to mobilize resources and deploy them in profitable channels, the manager can also reduce the number of idle balances and help to earn more profits. The banks now focus on integrated balance-sheet management where all the relevant factors which affect an appropriate balance sheet composition deserve consideration. Therefore, various components of balance sheet are analysed keeping in view the strengths of a bank. Analysing Asset and Liability behaviour means managing both assets and liabilities simultaneously for the purpose of minimizing the adverse impact of interest rate movement, providing liquidity and enhancing the market value of equity. A careful designing and management of Asset and Liability behaviour is integral part of banking business particularly because over three fourth of its resources originate from the depositors. However, the banks do not have free hand in the making of their behaviour on both sides (asset and liabilities). Therefore, the study was undertaken to analyse financial ratios of State Bank of India.

REVIEW OF LITERATURE

Uppal (2009) examined the profitability which is an important criterion to evaluate the overall efficiency of a bank group. The paper examines the comparative trends in profitability behaviors of five major bank groups in the post liberalization and globalization era. The paper offers suggestions on the basis of empirical results to increase the profitability and measures should be taken to increase the level spread and curtail the burden.

DR.D. Guruswamy (2012) is an attempt to analyze profitability performance of SBI and its Associates. Many recent studies have attempted to evaluate the overall performance of the banking sector by applying the profitability criterion. A very few studies have evaluated the SBI and Associates particularly in profitability performance analysis. Hence, in this paper an attempt has been made to analysis profitability performance of SBI and its Associates using various profitability ratios.

S. Subalakshmi, S. Grahalakshmi and M. Manikandan (2018) This study aims at analyzing the Financial Ratio analysis of State Bank of India. The main objective for commercial bank is to maximize the value of profit. To do so, banks concentrate on their financial performance analysis and attempt to structure their portfolios in order to maximize their return. The most popular tool/technique for analyzing the Financial Statement of Bank is Ratio Analysis. Ratio analysis enables the management of banks to identify the causes of the changes in their advances, income, deposits, expenditure, profits and profitability over the period of time and thus helps in pinpointing the direction of action required for increasing the deposits, income, advances and reducing the expenditure and for altering the profitability prospects of the banks in future.

Bangaru Pushpalatha (2020) in his study analyzed the financial performance analysis of SBI an empirical study. The study analysed the performance of SBI on the grounds of Total Assets, efficiency, profitability, Liquidity, leverage and assets quality ratios. The study period is five years has taken to analyse the data.

STATEMENT OF THE PROBLEM

Liquidity is the ability of an organization to meet its financial responsibility during the short-term and to maintain long-term debt-paying ability. The long-term survival depends on satisfactory income earned by it. A better liquidity leads to good profitability, and it turn reduces the probability of default risk in the future. Further, risk and return are very important aspects to be considered while making any decision regarding a company's finances. Therefore, a study of Financial Ratio Analysis of State Bank of India is assessing the financial position very much necessary to analyze the financial strength of the bank.

SCOPE OF THE STUDY

The present study relates to the financial ratios analysis of the State Bank of India. The study is based on the annual reports of the State Bank of India for the period of 5 years from 2016-17 to 2020-21. It includes Return on Capital Employed, Net Profit Margin, Return on Assets, Return on Equity and Net Interest Margin Ratios of the State Bank of India.

OBJECTIVES OF THE STUDY

The major objectives of the study are as follows:

- To study the comprehensive growth and structure of State Bank of India.
- To analyse the Financial Ratio Analysis of the State Bank of India.
- To offer suitable suggestions to strengthen the position of State Bank of India.

RESEARCH METHODOLOGY

The present study has focus on the financial ratio analysis of State Bank of India. The study is primarily based on the secondary data. The data has been collected from various sources like annual reports of bank, information bulletin and journals of State Bank of India. The data collected were analyzed with the help of ratios. Tables and graphs are used for better understanding.

FINANCIAL HIGHLIGHTS OF SBI

The Reserve bank of India identifies various items of assets and liabilities under schedules 1 to 12. The financial statements of banks are actually prepared in 18 schedules in accordance to special provision of third schedule of Section 29 of Banking Regulation Act, 1949. Out of these, 12 schedules are allocated to the Balance Sheet and schedules 13-16 are allocated to the Income Statement. The other schedules are related to notes of accounts, provision and contingencies or significant accounting policy changes.

FINANCIAL RATIO ANALYSIS

Ratio analysis enables the management of banks to identify the causes of changes in their advances, income, deposits, expenditure, profits and profitability over the period of time and thus helps in pinpointing the direction of action required for increasing the deposits, income, advances and reducing the expenditure and for altering the profitability prospects of the banks in future.

To analyse the performance of the SBI Banks, the researcher has identified five ratios namely:

- Return on Capital Employed
- Net Profit Margin
- Return on Assets, Return on Equity
- Net Interest Margin Ratios
- Deposit to Total Assets Ratio

Table-1 **(Figures in Ratios)**

Year	Return on Capital Employed	Net Profit Margin	Return on Assets	Return on Equity	Net Interest Margin
2016-17	1.96	-0.16	0.00	0.13	2.36
2017-18	1.91	-1.82	-0.12	-2.21	2.27
2018-19	0.00	1.21	0.05	0.98	2.50

2019-20	1.94	6.73	0.47	8.69	2.59
2020-21	1.77	8.73	0.46	8.89	2.51
MEAN	1.52	2.24	0.17	3.23	2.45

Source: SBI Annual Reports

Year	Return on Capital Employed
2016-17	1.96
2017-18	1.91
2018-19	0.00
2019-20	1.94
2020-21	1.77
MEAN	1.52

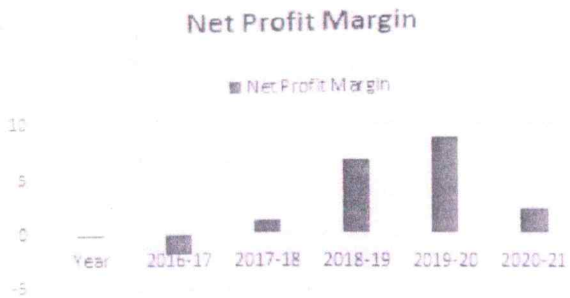
Table No-01

Graph No-01

From the above table and graph shows that the State Bank of India Return on Capital Employed is highest was in the year of 2016-17 (1.96) and lowest was in the year of 2018-19 (0.00) the Mean of the Return on Capital is 1.52.

Year	Net Profit Margin
2016-17	-0.16
2017-18	-1.82
2018-19	1.21
2019-20	6.73
2020-21	8.73
MEAN	2.24

Table No-02

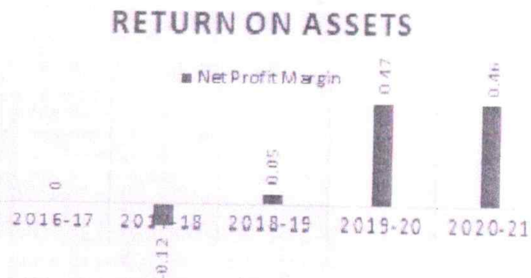


Graph No-02

From the above table and graph shows that the State Bank of India Net Profit Margin is highest was in the year of 2020-21 (8.73) and lowest was in 2017-18 (-1.82) and Mean of the Net Profit Margin is 2.24.

Year	Return on Assets
2016-17	0.00
2017-18	-0.12
2018-19	0.05
2019-20	0.47
2020-21	0.46
MEAN	0.17

Table No-03

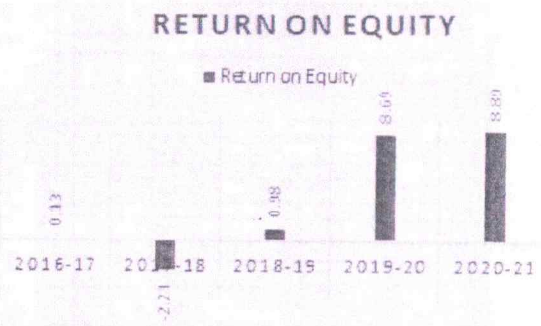


Graph No-03

From the above table and graph shows that the State Bank of India Return on Assets is highest was in the year of 2019-20 (0.47) and lowest was in 2017-18 (-0.12) and Mean of the Return on Assets is 0.17.

Year	Return on Equity
2016-17	0.13
2017-18	-2.21
2018-19	0.98
2019-20	8.69
2020-21	8.89
MEAN	3.23

Table No-04

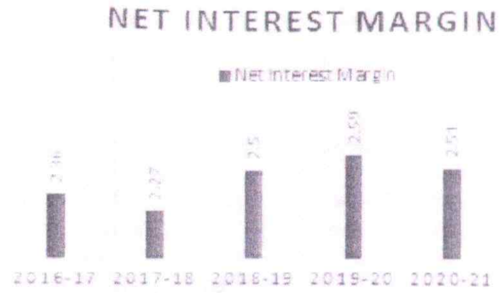


Graph No-04

From the above table and graph shows that the State Bank of India Return on Equity is highest was in the year of 2020-21 (8.89) and lowest was in 2017-18 (-2.21) and Mean of the Return on Equity is 3.23.

Year	Net Interest Margin
2016-17	2.36
2017-18	2.27
2018-19	2.50
2019-20	2.59
2020-21	2.51
MEAN	2.45

Table No-05



Graph No-05

From the above table and graph shows that the State Bank of India Net Interest Margin is highest was in the year of 2019-20 (2.59) and lowest was in 2017-18 (2.27) and Mean of the Net Interest Margin is 2.45.

GRAPHICAL REPRESENTATION OF THE ABOVE TABLE

The above table-1 and diagram shows the State Bank of India Ratios for periods of 2016-17 to 2020-21. The ratios indicate the effectiveness of State Bank of India. Generally, higher this ratio is the more effective. In this table and graph shows that the State Bank of India Return on Capital Employed is highest was in the year of 2016-17 (1.96) and lowest was in the year of 2018-19 (0.00) the Mean is 1.52. Net Profit Margin is highest was in the year of 2020-21 (8.73) and lowest was in 2017-18 (-1.82) and Mean is 2.24. Return on Assets is highest was in the year of 2019-20 (0.47) and lowest was in 2017-18 (-0.12) and Mean is 0.17. Return on Equity is highest was in the year of 2020-21 (8.89) and lowest was in 2017-18 (-2.21) and Mean is 3.23. Net Interest Margin is highest was in the year of 2019-20 (2.59) and lowest was in 2017-18 (2.27) and Mean is 2.45.

FINDINGS OF THE STUDY

- The Return on Capital Employed of SBI is decreasing by the last five years and average is 1.52.
- The Net Profit Margin of SBI is increasing by the last five years and average is 2.24.
- The Return on Assets of SBI is increasing by the last five years and average is 0.17.
- The Return on Equity of SBI is increasing by the last five years and average is 2.23
- The Net Interest Margin of SBI is also increasing by the last five years and average is 2.45.

CONCLUSION

The present research work dealt with Ratio analysis of SBI. There is a sufficient progress in the SBI and the overall performance of the Bank is good. The performance of SBI bank has been analyzed in detail in terms of Return on Capital Employed, Net Profit Margin, Return on Assets, Return on Equity and Net Interest Margin Ratios. According to the analysis, the SBI is maintaining the required standards and running profitability. SBI have more profitability because it enters into the industry as well as commercial market also and regularly it improving the service quality level. In this highly competitive global environment, it is imperative for the State Bank of India to show outstanding performance in various parameters.

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