

# COMPARATIVE STUDY OF FINANCIAL PERFORMANCE OF STATE BANK OF INDIA AND BANK OF BARODA

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**Abstract:** In any organization, the two important financial statements are the Balance Sheet and Profit & Loss Account of the business. Balance Sheet is a statement of financial position of an enterprise at a particular point of time. Profit & Loss account shows the net profit or net loss of a company for a specified period of time. When these statements of the last few year of any organization are studied and analyzed, significant conclusions may be arrived regarding the changes in the financial position, the important policies followed and trends in profit and loss etc. Analysis and interpretation of financial statement has now become an important technique of credit appraisal. The investors, financial experts, management executives and the bankers all analyze these statements. Though the basic technique of appraisal remains the same in all the cases but the approach and the emphasis in the analysis vary. A banker interprets the financial statement so as to evaluate the financial soundness and stability, the liquidity position and the profitability or the earning capacity of borrowing concern. Analysis of financial statements is necessary because it helps in depicting the financial position on the basis of past and current records. Analysis of financial statements helps in making the future decisions and strategies. Therefore it is very necessary for every organization whether it is a financial or manufacturing, to make financial statement and to analyze it. We have found out the necessary ratios and had made a comparative analysis on the financial performance between SBI and BOB.

**Keywords:** financial position, investors, financial experts, comparative analysis, SBI and BOB.

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## 1. INTRODUCTION OF BANKING

Banking Means "Accepting Deposits for the purpose of lending or Investment of deposits of money from the public, repayable on demand or otherwise and withdraw by cheque, draft or otherwise."

- Banking Companies (Regulation) Act,1949

### ORIGIN OF THE WORD "BANK":-

The origin of the word bank is shrouded in mystery. According to one view point the Italian business house carrying on crude form of banking were called *banchi* *bancheri*" According to another viewpoint banking is derived from German word "Branck" which mean heap or mound. In England, the issue of paper money by the government was referred to as a raising a bank.

### ORIGIN OF BANKING:

Its origin in the simplest form can be traced to the origin of authentic history. After recognizing the benefit of money as a medium of exchange, the importance of banking was developed as it provides the safer place to store the money. This safe place ultimately evolved in to financial institutions that accepts deposits and make loans i.e., modern commercial banks.

**Banking system in India**

Without a sound and effective banking system in India it cannot have a healthy economy. The banking system of India should not only be hassle free but it should be able to meet new challenges posed by the technology and any other external and internal factors.

For the past three decades India's banking system has several outstanding achievements to its credit. The most striking is its extensive reach. It is no longer confined to only metropolitans or cosmopolitans in India. In fact, Indian banking system has reached even to the remote corners of the country. This is one of the main reasons of India's growth process.

**❖ HISTORY OF BANKING IN INDIA**

Banking in India has its origin as early or Vedic period. It is believed that the transitions from many lending to banking must have occurred even before Manu, the great Hindu furriest, who has devoted a section of his work to deposit and advances and laid down rules relating to the rate of interest. During the mogul period, the indigenous banker played a very important role in lending money and financing foreign trade and commerce.

During the days of the East India Company it was the turn of agency house to carry on the banking business. The General Bank of India was the first joint stock bank to be established in the year 1786. The other which followed was the Bank of Hindustan and Bengal Bank. The Bank of Hindustan is reported to have continued till 1906. While other two failed in the meantime. In the first half of the 19th century the East India Company established there banks, The bank of Bengal in 1809, the Bank of Bombay in 1840 and the Bank of Bombay in 1843. These three banks also known as the Presidency banks were the independent units and functioned well. These three banks were amalgamated in 1920 and new bank, the Imperial Bank of India was established on 27th January, 1921.

With the passing of the State Bank of India Act in 1955 the undertaking of the Imperial Bank of India was taken over by the newly constituted SBI. The Reserve Bank of India (RBI) which is the Central bank was established in April, 1935 by passing Reserve bank of India act 1935. The Central office of RBI is in Mumbai and it controls all the other banks in the country.

In the wake of Swadeshi Movement, number of banks with the Indian management were established in the country namely, Punjab National Bank Ltd., Bank of India Ltd., Bank of Baroda Ltd., Canara Bank. Ltd. on 19<sup>th</sup> July 1969, 14 major banks of the country were nationalized and on 15<sup>th</sup> April 1980, 6 more commercial private sector banks were taken over by the government.

The first bank in India, though conservative, was established in 1786. From 1786 till today, the journey of Indian Banking System can be segregated into three distinct phases. They areas mentioned below:

- ❖ Early phase from 1786 to 1969 of Indian Banks
- ❖ Nationalization of Indian Banks and up to 1991 prior to Indian banking sector Reforms.
- ❖ New phase of Indian Banking System with the advent of Indian Financial & Banking Sector Reforms after 1991.

**BANKS IN INDIA**

In India the banks are being segregated in different groups. Each group has their own benefits and limitations in operating in India. Each has their own dedicated target market. Few of them only work in rural sector while others in both rural as well as urban. Many even are only catering in cities. Some are of Indian origin and some are foreign players.

All these details and many more is discussed over here. The banks and its relation with the customers, their mode of operation, the names of banks under different groups and other such useful information's are talked about.

One more section has been taken note of is the upcoming foreign banks in India. The RBI has shown certain interest to involve more of foreign banks than the existing one recently. This step has paved a way for few more foreign banks to start business in India.

2. BANKING STRUCTURE IN INDIA

SCHEDULED BANKS IN INDIA

(1) Scheduled Commercial Banks

Public Sector Banks	Private Sector Banks	Foreign Banks In India	Regional Rural Banks
(26)	(25)	(29)	(95)
<ul style="list-style-type: none"> <li>❖ Nationalized Bank</li> <li>❖ Other Public Sector Banks (IDBI)</li> <li>❖ SBI And Its Associates</li> </ul>	<ul style="list-style-type: none"> <li>❖ Old Private Banks</li> <li>❖ New Private Banks</li> </ul>		

(2) Scheduled Cooperative Banks

Scheduled Urban Cooperative Banks	Scheduled State Cooperative Banks
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Public Sector Banks

Public sector banks are those banks which are owned by the Government. The Govt. runs these Banks. In India 14 banks were nationalized in 1969 & in 1980 another 6 banks were also nationalized. Therefore in 1980 the number of nationalized bank 20. At present there are total 26 Public Sector Banks in India (As on 26-09-2009). Of these 19 are nationalised banks, 6 (STATE BANK OF INDORE ALSO MERGED RECENTLY) belong to SBI & associates group and 1 bank (IDBI Bank) is classified as other public sector bank. Welfare is their primary objective.

Nationalized banks	Other Public Sector Banks	SBI & its Associates
<ul style="list-style-type: none"> <li>• Allahabad Bank</li> <li>• Andhra Bank</li> <li>• Bank Of Baroda</li> <li>• Bank Of India</li> <li>• Bank Of Maharashtra</li> <li>• Canara Bank</li> <li>• Central Bank Of India</li> <li>• Corporation Bank</li> <li>• Dena Bank</li> <li>• Indian Bank</li> <li>• Indian Overseas Bank</li> <li>• Oriental Bank Of Commerce</li> <li>• Punjab &amp; Sind Bank</li> <li>• Punjab National Bank</li> <li>• Syndicate Bank</li> <li>• UCO Bank</li> <li>• Union Bank Of India</li> <li>• United Bank Of India</li> <li>• Vijaya Bank</li> </ul>	<p><b>IDBI</b> (Industrial Development Bank Of India)Ltd.</p>	<ul style="list-style-type: none"> <li>• State Bank of India</li> <li>• State Bank of Hyderabad</li> <li>• State Bank of Mysore</li> <li>• State Bank of Patiala</li> <li>• State Bank of Travancore</li> <li>• State Bank of Bikaner And Jaipur</li> </ul> <p>(State Bank of Saurashtra merged with SBI in the year 2008 and State Bank of Indore In 2010)</p>

**Private Sector Banks**

These banks are owned and run by the private sector. Various banks in the country such as ICICI Bank, HDFC Bank etc. An individual has control over these banks in proportion to the share of the banks held by him.

Private banking in India was practiced since the beginning of banking system in India. The first private bank in India to be set up in Private Sector Banks in India was IndusInd Bank. It is one of the fastest growing Bank Private Sector Banks in India. IDBI ranks the tenth largest development bank in the world as Private Banks in India and has promoted world class institutions in India. The first Private Bank in India to receive an in principle approval from the Reserve Bank of India was Housing Development Finance Corporation Limited, to set up a bank in the private sector banks in India as part of the RBI's liberalization of the Indian Banking Industry. It was incorporated in August 1994 as HDFC Bank Limited with registered office in Mumbai and commenced operations as Scheduled Commercial Bank in January 1995. ING Vysya, yet another Private Bank of India was incorporated in the year 1930

Private sector banks have been subdivided into following 2 categories:-

Old Private Sector Banks	New Private Sector Banks
<ul style="list-style-type: none"> <li>• Bank of Rajasthan Ltd.</li> <li>• Catholic Syrian Bank Ltd.</li> <li>• City Union Bank Ltd.</li> <li>• Dhanalakshmi Bank Ltd.</li> <li>• Federal Bank Ltd.</li> <li>• ING Vysya Bank Ltd.</li> <li>• Jammu and Kashmir Bank Ltd.</li> <li>• Karnataka Bank Ltd.</li> <li>• Karur Vysya Bank Ltd.</li> <li>• Lakshmi Vilas Bank Ltd.</li> <li>• Nainital Bank Ltd.</li> <li>• Ratnakar Bank Ltd.</li> <li>• SBI Commercial and International Bank Ltd.</li> <li>• South Indian Bank Ltd.</li> <li>• Tamilnad Mercantile Bank Ltd.</li> <li>• United Western Bank Ltd.</li> </ul>	<ul style="list-style-type: none"> <li>• Bank of Punjab Ltd. (since merged with Centurian Bank)</li> <li>• Centurian Bank of Punjab (since merged with HDFC Bank)</li> <li>• Development Credit Bank Ltd.</li> <li>• HDFC Bank Ltd.</li> <li>• ICICI Bank Ltd.</li> <li>• IndusInd Bank Ltd.</li> <li>• Kotak Mahindra Bank Ltd.</li> <li>• Axis Bank (earlier UTI Bank)</li> <li>• Yes Bank Ltd.</li> </ul>

**3. REASON FOR SELECTION BEHIND THE COMPARATIVE STUDY OF FINANCIAL PERFORMANCE BETWEEN SBI AND BOB:**

**SBI** An efficient banking system is recognized as basic requirement for the economic development of any economy. Banks mobilize the savings of community into productive channels. The banking system of India is featured by a large network of bank branches, serving many kinds of financial needs of the people. The State Bank of India, popularly known as SBI is one of the leading banks in India. The State Bank Group, with over 16,000 branches provides a wide range of banking products through its vast network of branches in India and overseas, including products aimed at Non-Resident Indians (NRIs). The headquarter of SBI is at Mumbai. SBI has 14 Local Head Offices and 57 Zonal Offices that are located at important cities throughout the country. It also has around 130 branches out of the country. It has a market share among Indian commercial banks of about 20% in deposits and loans. The roots of the State Bank of India rest in the first decade of 19th century, when the Bank of Calcutta later on renamed the Bank of Bengal, was established on 2 June 1806. The Bank of Bengal was one of three Presidency banks, the other two being the Bank of Bombay (incorporated on 15 April 1840) and the Bank of Madras (incorporated on 1 July 1843). With the result of the royal charters all three Presidency banks were incorporated as joint stock companies and received the exclusive right to issue paper currency in 1861 with the Paper Currency Act. They retained this right till the formation of the Reserve Bank of India. The

Presidency banks amalgamated on 27 January 1921, and renamed Imperial Bank of India. The Imperial Bank of India remained a joint stock company. The State Bank of India was constituted on 1st July 1955, pursuant to the State Bank of India Act, 1955 (the "SBI Act") for the purpose of creating a state-partnered and state-sponsored bank integrating the former Imperial Bank of India. In 1959, the State Bank of India (Subsidiary Banks) Act was passed, enabling the Bank to take over eight former state associated banks as its subsidiaries. The State Bank of India's is largest bank, with approximately 9,000 branches in India and 54 international offices. Its Associate Banks have a domestic network of around 4,600 branches, with strong regional ties. The Bank also has subsidiaries and joint ventures outside India, including Europe, the United States, Canada, Mauritius, Nigeria, Nepal, and Bhutan. The Bank has the largest retail banking customer base in India.

**Bank of Baroda (BoB)** (BSE: 532134) (Hindi: बैंक ऑफ़ बड़ौदा) is the third largest bank in India, after the State Bank of India and the Punjab National Bank and ahead of ICICI Bank.<sup>[3]</sup> BoB is ranked 763 in Forbes Global 2000 list. BoB has total assets in excess of Rs. 3.58 lakh crores, or Rs. 3,583 billion, a network of over 3,409 branches and offices, and about 1,657 ATMs. It plans to open 400 new branches in the coming year. It offers a wide range of banking products and financial services to corporate and retail customers through a variety of delivery channels and through its specialized subsidiaries and affiliates in the areas of investment banking, credit cards and asset management. Its total business was Rs. 5,452 billion as of June 30.

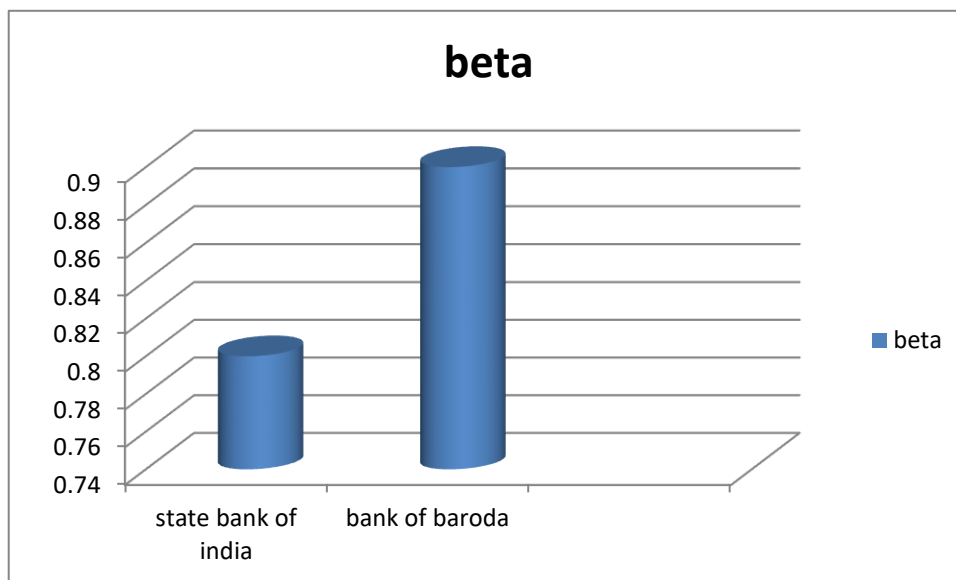
As of August 2010, the bank has 78 branches abroad and by the end of FY11 this number should climb to 90. In 2010, BOB opened a branch in Auckland, New Zealand, and its tenth branch in the United Kingdom. The bank also plans to open five branches in Africa. Besides branches, BoB plans to open three outlets in the Persian Gulf region that will consist of ATMs with a couple of people.

The Maharajah of Baroda, Sir Sayajirao Gaekwad III, founded the bank on 20 July 1908 in the princely state of Baroda, in Gujarat. The bank, along with 13 other major commercial banks of India, was nationalized on 19 July 1969, by the government of India.

4. FINANCIAL COMPARATIVE ANALYSIS

BETA VALUATION:

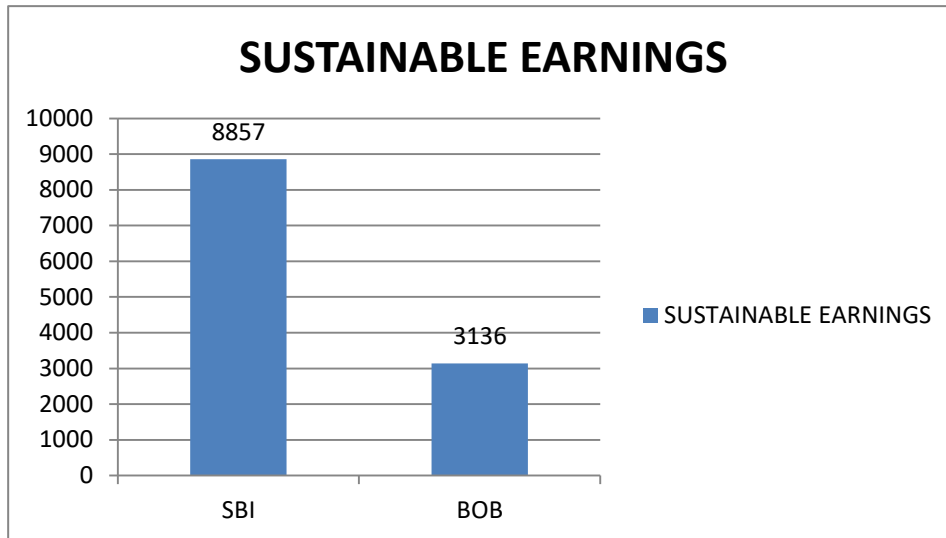
	state bank of India	bank of Baroda
beta	0.8	0.9



The graph shows the compare beta of SBI and BOB which is 0.8 and 0.9 which means that both are comparatively good. There betas are <1 which means it is good for the investors to invest in the bank as it is less risky in nature.

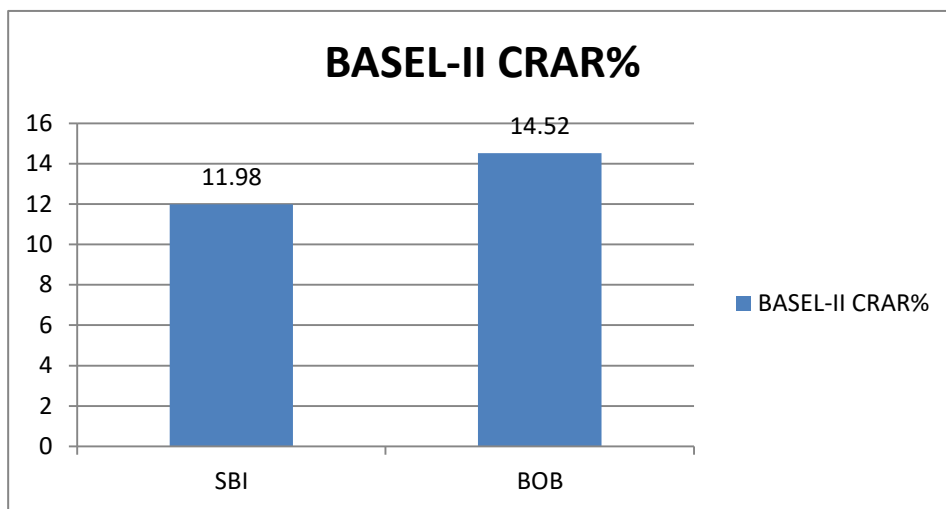
**SUSTAINABLE EARNINGS:**

	SBI	BOB
SUSTAINABLE EARNINGS	8857	3136



**CRAR% ANALYSIS:**

	SBI	BOB
BASEL-II CRAR%	11.98	14.52



**5. FINDINGS, SUGGESTIONS AND CONCLUSION**

	State bank of India	Bank of Baroda
<b>Particulars</b>		
1. Beta valuation	0.8	0.9
2. sustainable earnings ( standard deviation)	504	1044
Average sustainable earnings	8857	3136
3. Cash flow statement analysis:	<b>14467.01</b>	<b>35094.1</b>

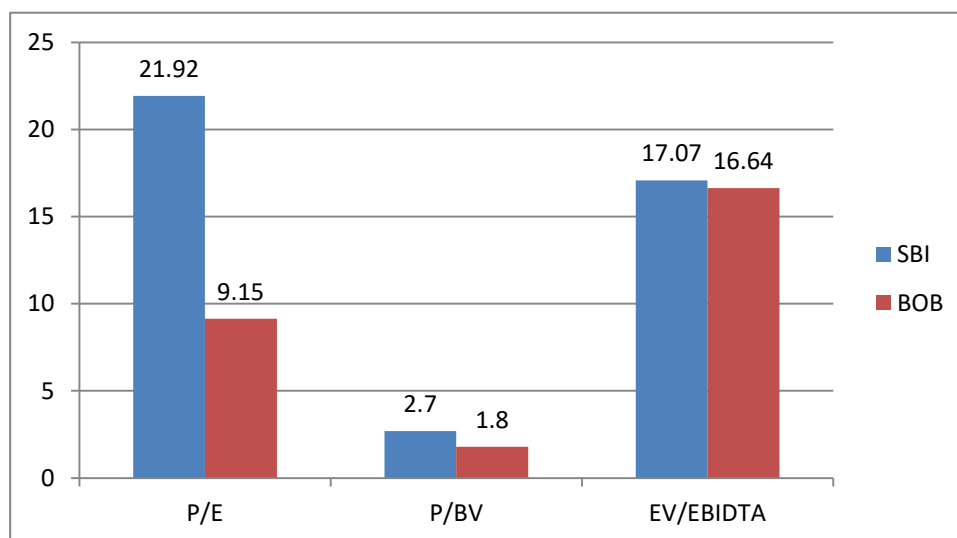
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4.	Basel-II CRAR%	11.98	14.52
5.	Profit & Loss statement analysis	(19%)	38.69%
6.	Balance sheet statement analysis	16	28%
7.	Ratio analysis:		
a.	P/E ratio	21.92	9.15
b.	P/BV	2.7	1.8
c.	EV/EBIDTA	17.07	16.64

**YEAR 2018**

	SBI	BOB
P/E	21.92	9.15
P/BV	2.7	1.8
EV/EBIDTA	17.07	16.64



**INTERPRETATION:**

P/E RATIO OF State bank of India is 21.92 which is more than the P/E ratio of its peerset bank of Baroda 9.15 which means that it is overvalued and strongly sound in nature.

**P/BV**

The ratio of state bank of india is 2.7 and that of its peerset is 1.8 which means the bank is highly overvalued in nature

**EV/EBIDTA**

The ratio of state bank of india is 17.07 and that of its peerset is 16.64 which means that the bank is closely related to its peerset.

Both are fundamentally sound in nature.

**CREDIT-DEPOSIT RATIO:**

This ratio assess the credit performance of the bank.

The graph shows that state bank of india and bank of baroda both are performing well as both banks has overall good efficiency in nature.

SBI-79.9

BOB – 73.87

State bank of India has overall good efficiency and performance of banking institutions.

**CASH DEPOSIT RATIO:**

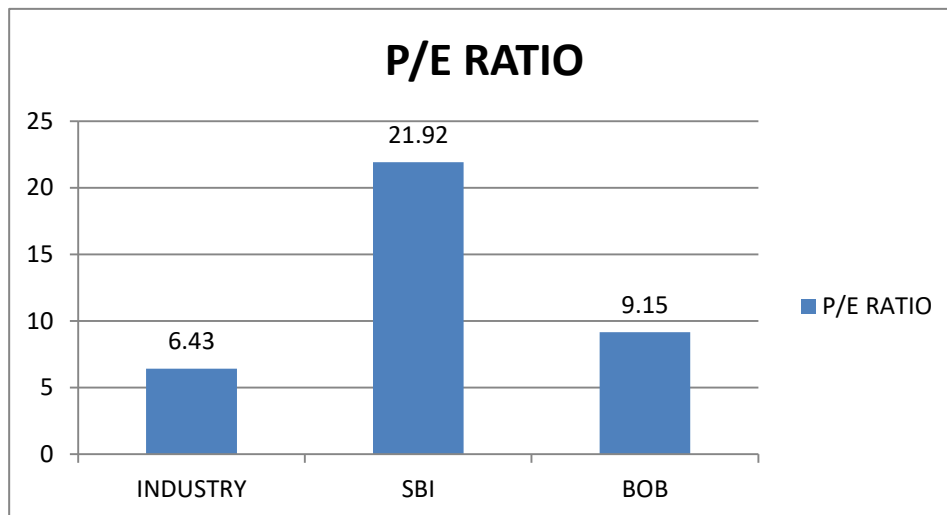
This ratio assesses the cash performance of the bank.

The graph shows that state bank of India and bank of Baroda is performing well in nature.

**OUTCOME:**

Since the average sustainable earnings is high and standard deviation of state bank of India is low which means that the bank is fundamentally sound and it is performing good as compared to bank of Baroda.

	INDUSTRY	SBI	BOB
P/E RATIO	6.43	21.92	9.15

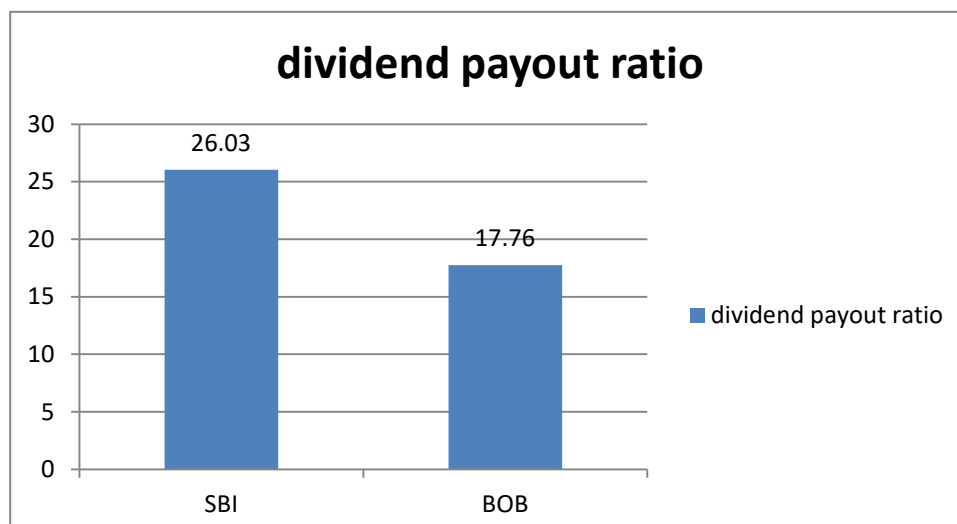


**INTERPRETATION:**

Since the industry P/E ratio is 6.43 ,SBI 21.92,BOB 9.15.

It means that State bank of India P/E ratio is more than the industry/peerset company which means it is overvalued and it is fundamentally sound in nature as compared to its industry/ peerset bank of Baroda.

	SBI	BOB
dividend payout ratio	26.03	17.76





**INTERPRETATION:**

SBI 26.03

BOB 17.76

There is increase in ratio in the year 2011 in both the banks .

	SBI	BOB
Earnings Per Share	116.07	108.33
Book Value	1,023.40	536.16
Dividend Per Share	30	16.5
Price Earning (P/E)	21.92	9.15
Price to Book Value ( P/BV)	2.7	1.8

It is indicated that EPS AND DPS ARE INCREASING OF STATE BANK OF INDIA AS COMPARED TO BANK OF BARODA .

THE REASON MAY BE THAT THERE IS MORE USE OF DEBT THAN DUE TO IMPROVED OPERATIONS.

P/E RATIO AND P/BV RATIO BOTH ARE INCREASING . .

THE OVERALL EFFICIENCY OF THE COMPANY IS GOOD AND ITS PERFORMANCE IS BETTER IN THE BANKING INSTITUTION.

**CONCLUSIONS**

1. State Bank Of India has overall better efficiency and has performed better in the banking institution as compared to Bank Of Baroda.
2. EPS And DPS Of State Bank Of India is increasing due to increase in the use of debt rather than the use of improved operations.
3. The P/E Ratio Of State Bank Of India is high as compared to its industry and Bank Of Baroda which means that SBI is using its funds in a better manner and it is fundamentally sound in nature.
4. Beta Of State Bank Of India And Bank Of Baroda is less than the market beta which means that both banks are giving less returns but they are less risky and investors can invest in these shares.
5. The Average Sustainable Earnings Of State Bank Of India is high and the standard deviation is low so the bank has its earnings sustain and more robust in nature as compared to Bank of Baroda.
6. The Credit Deposit Of State Bank Of India And Bank Of Baroda is close but the ratio is high which means that State Bank Of India has overall good efficiency and better performance, i.e., the bank has high credit deposit ratio.

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