A Comparative Study of SBI and IDBI Banks with Reference to Selected Ratios

Abstract:

This paper mainly focuses on the banking performance. For study purpose researcher has taken two banks i.e. state bank of India and Industrial Development Bank of India Limited. It difficult and time consuming process to analyses the whole performance from all the possible aspectso, researcher has restricted the study up to three main aspects i.e. Credit Deposit Ratio, Investment Deposit Ratio & Spread as % of Assets. This study mainly bases on secondary data and while working with secondary data ten years' data is good for it. So researcher has takenrecent or latest ten years' data i.e. 2007 to 2016.

Key words: Credit Deposit Ratio, Investment Deposit Ratio & Spread as % of Assets

1) Introduction:

The major area of study is based on SBI and IDBI banks performance with reference to three ratios i.e. Credit Deposit Ratio, Investment Deposit Ratio & Spread as % of Assets. Brief information regarding SBI and IDBI banks related given here. Researcher has taken 10 years i.e. 2007 to 2016. A comparative table related to brief information is given below.

Table No. 1.1
Comparative Information Table on About SBI and IDBI Bank

Particulars	SBI	IDBI
Full Name	State Bank of India	Industrial Development Bank of India
Establishment Year	Imprerical Bank established in 1921 and nationalized on 1st July 1955 and became SBI Bank.	July 1964. ➤ Till 1976, IDBI was a subsidiary bank of RBI
Branches	57 Zonal Offices ,14 local head offices andSBI has about 10000 branches	509 branches
Services	➤ Personal Banking ➤ Others	➤ Personal Banking ➤ Corporate Banking ➤ Others
Head Office:	State Bank of India, Corporate Centre, Madam Cama Road, Mumbai 400 021, India,	IDBI Tower, WTC Complex, Cuffe Parade, Colaba, Mumbai – 400005
Associates banks are	1) SBI of Bikaner & Jaipur 2) SBI of Hyderabad 3) SBI of Mysore 4) SBI of Patiala 5) SBI of Travancore ➤ 13 Aug 2008 SBI of Saurashtra merge with SBI ➤ 19 June 2009 SBI of Indore merge with SBI	Nil
Net Profit of Three Years	(₹ Crore)	(₹ Crore)

2014	10891	1121
2015	13102	873
2016	9951	(3665)
Net NPA to as % Net Advance of three Years	(in %)	(in %)
2014	2.57	2.48
2015	2.12	2.88
2016	3.81	6.78
Net NPA of three Years	(₹ Crore)	(₹ Crore)
2014	31096	4902
2015	27591	5993
2016	55807	14643
Total Assets of three Years	(₹ Crore)	(₹ Crore)
2014	1792748	328988
2015	2048080	356144
2016	2259063	374372

2) About selected three Ratios: Following three ratios researcher has used for the study purpose.

2.1) Credit Deposit Ratio: There are two types of liquidity one is deposit liquidity which refers to the bank's ability to meet its deposit liabilities or demands for cash as they arise. Second types are loan liquidity which is bank's capacity to meet all the credit requirements of its customers. There are two ratios one is "Credit deposit ratio" It also called loan or advance to deposit ratio. And second is cash/cash plus liquid assets to deposit ratio.

The higher this ratio, the lower is the liquidity position of the bank. Here, loans mean the amount which is paid to customer and deposits mean total amount of the bank which are mobilized from the people Moreover, the, Investment is an amount which is paid to any industry or company. Which may be short term investment or may be long term? The Banker must safe guard his position by maintaining sufficient cash with him or with other banks or any liquid assets. Liquid assets include cash in hand, investment in Government and semi Government securities, money at call and short notice. The urgency of maintaining the liquid assets is recognized by banking regulation act- 1949, section 24 of an amount not less than 25 percent of its net demand and time liabilities.

The formula of the ratios is given below

Credit Deposit Ratio= $\dfrac{\text{Advances}}{\text{Deposit}} \times 100$

2.2) Investment Deposit Ratio: The rule was applicable to Investment Deposit Ratio. The formula is given below.

Investment Deposit Ratio = $\dfrac{\text{Investment}}{\text{Deposit}} \times 100$

2.3) Spread as % of Assets: The spread ratio is a sort of a cushion for banks. Generally, the higher the spread ratio, the higher is the profitability, other conditions being equal. To the extent that the

spread ratio of a particular bank is higher than the mean ratio of all banks, that bank would be getting differential quasi-rents.

What is the measure of the optimum spread ratio? From empirical experience of different public sector banks, it seems that 3 per cent should be a normative ratio to be sought by the different banks in the present circumstances. This should give a sufficient cushion for operations. Many banks are still below the above ratio. The Formula of ratio is given below

Spread as % of Assets = $\dfrac{\text{Interest Income} - \text{Interest expended}}{\text{Assets}} \times 100$

(Here, in above formula bank is not considering other income for the calculation of Spread as % of Assets)

3) Research Methodology: Research Methodology is blue print of any study. researcher has tried to covers all possible aspects of the study in this point.

3.1) Objectives of the study:

- To compare the performance of SBI and IDBI bans with relates to Credit Deposit Ratio.
- To compare the performance of SBI and IDBI bans with relates to Investment Deposit Ratio.
- To compare the performance of SBI and IDBI bans with relates to Spread as % of Assets

3.2) Types of Research: Descriptive and Purposive Research

3.3) SampleSelected: Two Banks i.e. 1) SBI (Associates banks not cover) 2) IDBI

3.4) Sampling Techniques: Convenient Sampling

3.5) Time Period of the study: 10 years i.e. 2007 to 2016

3.6) Tools and Techniques:

1) Accounting Tool: 1) Credit Deposit Ratio, 2) Investment Deposit Ratio &3) Spread as % of Assets

2) Statistics Tool: Student t test is used for hypothesis test.

3.7) Data Types & Collection: The main source of Data, used for the study is secondary drown from the Profit and Loss Account and Balance sheet figures as found in the Annual Reports of the SBI & IDBI Banks.The Data is also available from Indian Banking Associations Official Websites. Opinion expressed in newspapers, accounting literature, commercial journals, magazines, various journals and magazines on fertilizer have also been used as sources of secondary data in this study.

3.8) Hypotheses:

1) H_0=There would be no significant difference in Credit Deposit Ratio of SBI & IDBI Banks.
   H_1= There would be significant difference in Credit Deposit Ratio of SBI & IDBI Banks.
2) H_0=There would be no significant difference in Investment Deposit Ratio of SBI & IDBI Banks.
  H_1= There would be significant difference in Investment Deposit Ratio of SBI & IDBI Banks.
3) H_0=There would be no significant difference in Spread as % of Assets of SBI & IDBI Banks.
   H_1= There would be significant difference in Spread as % of Assets of SBI & IDBI Banks.

4) Analysis of Data:

Table No.4.1

Credit Deposit Ratio, Investment Deposit Ratio & Spread as % of Assets data of SBI and IDBI Banks of ten years i.e. 2007-2016 with hypotheses testing

Ratio	Credit Deposit Ratio		Investment Deposit Ratio		Spread as % of Assets	
Year	SBI	IDBI	SBI	IDBI	SBI	IDBI
2007	77.46	144.09	34.25	59.22	2.66	0.63
2008	77.55	112.62	35.26	44.94	2.36	0.52
2009	73.11	92.12	37.19	44.53	2.16	0.77
2010	78.58	82.43	34.25	43.74	2.25	0.97
2011	81.03	87.04	31.65	37.83	2.66	1.68
2012	83.13	85.79	29.91	39.51	3.24	1.57
2013	**86.94**	86.43	29.17	43.50	2.83	1.66
2014	86.76	83.85	28.60	44.01	2.75	1.83
2015	**82.45**	80.20	30.55	37.60	2.69	1.61
2016	**84.13**	81.25	27.42	37.26	2.52	1.63
Average	**81.114**	**93.582**	**31.825**	**43.214**	**2.612**	**1.287**
Value of $t_{cal.}$	0.0354		4.59		6.73	
Value of t_{tab}	2.101		2.101		2.101	
For result: $t_{cal} < t_{tab}$ = Hois Accepted &$t_{cal} > t_{tab}$ = Ho is rejected						
H_0	Accepted		Rejected		Rejected	
H_1	Rejected		Accepted		Accepted	
Criteria of Performance	Lower the ratio better performance		Lower the ratio better performance		Higher the ratio better performance	
Better Performance	SBI		SBI		SBI	
Table Value of t_{tab} @ 5 % level of Significance is **2.101** where degree of freedom is 18 for all above ratios.						
Source: www.iba.org.in/key business statistics/Public Sector Banks						

Interpretations:

1) H_0=There would be no significant difference in Credit Deposit Ratio of SBI & IDBI Banks.
H_1= There would be significant difference in Credit Deposit Ratio of SBI & IDBI Banks.

Interpretation: From above Calculation researcher can say that null hypothesis is accepted in the case of credit deposit ratios.Means there would no significant difference between the performance. Both banks have same kind of advancing and depositing the moneyActivity. From the average of ten years it is easily identified that SBI has better performance in compare to IDBI bank. Out of ten years seven years SBI had lower the ratios in compare to IDBI bank. While only three years IDBI bank's ratios was lower in compare to SBI.

2) H_0=There would be no significant difference in Investment Deposit Ratio of SBI & IDBI Banks.
H_1= There would be significant difference in Investment Deposit Ratio of SBI & IDBI Banks.

Interpretation: From above Calculation researcher can say that null hypothesis is rejected in the case of Investment deposit ratios. Means there would significant difference between the

performances. Both banks have not same kind of Investment and depositing the money Activity. From the average of ten years it is easily identified that SBI has better performance in compare to IDBI bank. All ten years SBI had lower the ratios in compare to IDBI bank.

3) H_0=There would be no significant difference in Spread as % of Assets of SBI & IDBI Banks.
   H_1= There would be significant difference in Spread as % of Assets of SBI & IDBI Banks.

   Interpretation: From above Calculation researcher can say that null hypothesis is rejected in the case of in Spread as % of Assets. Means there would significant difference between the performances. Both banks have not same kind of ratios in Spread as % of Assets. From the average of ten years it is easily identified that SBI has better performance in compare to IDBI bank. All ten years SBI had higher the ratios in compare to IDBI bank.

4) Conclusion and Suggestions:

Conclusion: The performance with reference to Credit Deposit Ratio, Investment Deposit Ratio & Spread as % of Assets wise and year wise SBI is doing well in compare to IDBI Bank.

Suggestions:

✓ IDBI should reduce credit Deposit ratios and increase the deposits from the customer in compare to Advances or loan.
✓ IDBI should reduce Investment Deposit ratios and increase the deposits from the customer and need more analysis before investment.
✓ IDBI should increase Spread as % of Assets and try to achieve it up to or more than the standard percentage rate i.e. 3.

5) Limitations of the study: The main limitations of the study are as follows:

➢ The study is related to SBI and IDBI Bank only.
➢ The study is based on secondary data derived from websites and annual reports of SBI and IDBI Banks.
➢ This study is restricted to only to comparison of SBI and IDBIBanksout of 27 Public sector banks.
➢ Only three ratios applied for the study it is also limitation of the study.

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