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 taken recent 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

<table>
<thead>
<tr>
<th>Particulars</th>
<th>SBI</th>
<th>IDBI</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Full Name</strong></td>
<td>State Bank of India</td>
<td>Industrial Development Bank of India</td>
</tr>
<tr>
<td><strong>Establishment Year</strong></td>
<td>Imprerical Bank established in 1921 and nationalized on 1st July 1955 and became SBI Bank.</td>
<td>July 1964. Till 1976, IDBI was a subsidiary bank of RBI</td>
</tr>
<tr>
<td><strong>Branches</strong></td>
<td>57 Zonal Offices, 14 local head offices and SBI has about 10000 branches</td>
<td>509 branches</td>
</tr>
</tbody>
</table>
| **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 |
### Net NPA to as % Net Advance of three Years

<table>
<thead>
<tr>
<th>Year</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>(in %)</td>
<td>2.57</td>
<td>2.12</td>
<td>3.81</td>
</tr>
<tr>
<td>(in %)</td>
<td>2.48</td>
<td>2.88</td>
<td>6.78</td>
</tr>
</tbody>
</table>

### Net NPA of three Years (₹ Crore)

<table>
<thead>
<tr>
<th>Year</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>₹ Crore</td>
<td>31096</td>
<td>27591</td>
<td>55807</td>
</tr>
<tr>
<td>₹ Crore</td>
<td>4902</td>
<td>5993</td>
<td>14643</td>
</tr>
</tbody>
</table>

### Total Assets of three Years (₹ Crore)

<table>
<thead>
<tr>
<th>Year</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>₹ Crore</td>
<td>1792748</td>
<td>2048080</td>
<td>2259063</td>
</tr>
<tr>
<td>₹ Crore</td>
<td>328988</td>
<td>356144</td>
<td>374372</td>
</tr>
</tbody>
</table>

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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 safeguard 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** = \[
\frac{\text{Advances}}{\text{Deposit}} \times 100
\]

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

Investment Deposit Ratio = \[
\frac{\text{Investment}}{\text{Deposit}} \times 100
\]

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

\[
\text{Spread as } \% \text{ of Assets} = \frac{\text{Interest Income} - \text{Interest expended}}{\text{Assets}} \times 100
\]

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

3) **Research Methodology:** Research Methodology is blueprint 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 banks with relates to Credit Deposit Ratio.
- To compare the performance of SBI and IDBI banks with relates to Investment Deposit Ratio.
- To compare the performance of SBI and IDBI banks with relates to Spread as % of Assets

3.2) **Types of Research:** Descriptive and Purposive Research

3.3) **Sample Selected:** 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) \( \text{H}_0 = \text{There would be no significant difference in Credit Deposit Ratio of SBI & IDBI Banks.} \)
   \( \text{H}_1 = \text{There would be significant difference in Credit Deposit Ratio of SBI & IDBI Banks.} \)

2) \( \text{H}_0 = \text{There would be no significant difference in Investment Deposit Ratio of SBI & IDBI Banks.} \)
   \( \text{H}_1 = \text{There would be significant difference in Investment Deposit Ratio of SBI & IDBI Banks.} \)

3) \( \text{H}_0 = \text{There would be no significant difference in Spread as % of Assets of SBI & IDBI Banks.} \)
   \( \text{H}_1 = \text{There would be significant difference in Spread as % of Assets of SBI & IDBI Banks.} \)
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

<table>
<thead>
<tr>
<th>Ratio</th>
<th>SBI</th>
<th>IDBI</th>
<th>SBI</th>
<th>IDBI</th>
<th>SBI</th>
<th>IDBI</th>
</tr>
</thead>
<tbody>
<tr>
<td>Year</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2007</td>
<td>77.46</td>
<td>144.09</td>
<td>34.25</td>
<td>59.22</td>
<td>2.66</td>
<td>0.63</td>
</tr>
<tr>
<td>2008</td>
<td>77.55</td>
<td>112.62</td>
<td>35.26</td>
<td>44.94</td>
<td>2.36</td>
<td>0.52</td>
</tr>
<tr>
<td>2009</td>
<td>73.11</td>
<td>92.12</td>
<td>37.19</td>
<td>44.53</td>
<td>2.16</td>
<td>0.77</td>
</tr>
<tr>
<td>2010</td>
<td>78.58</td>
<td>82.43</td>
<td>34.25</td>
<td>43.74</td>
<td>2.25</td>
<td>0.97</td>
</tr>
<tr>
<td>2011</td>
<td>81.03</td>
<td>87.04</td>
<td>31.65</td>
<td>37.83</td>
<td>2.66</td>
<td>1.68</td>
</tr>
<tr>
<td>2012</td>
<td>83.13</td>
<td>85.79</td>
<td>29.91</td>
<td>39.51</td>
<td>3.24</td>
<td>1.57</td>
</tr>
<tr>
<td>2013</td>
<td>86.94</td>
<td>86.43</td>
<td>29.17</td>
<td>43.50</td>
<td>2.83</td>
<td>1.28</td>
</tr>
<tr>
<td>2014</td>
<td>86.76</td>
<td>83.85</td>
<td>28.60</td>
<td>44.01</td>
<td>2.75</td>
<td>1.83</td>
</tr>
<tr>
<td>2015</td>
<td>82.45</td>
<td>80.20</td>
<td>30.55</td>
<td>37.60</td>
<td>2.69</td>
<td>1.61</td>
</tr>
<tr>
<td>2016</td>
<td>84.13</td>
<td>81.25</td>
<td>27.42</td>
<td>37.26</td>
<td>2.52</td>
<td>1.63</td>
</tr>
<tr>
<td>Average</td>
<td>81.114</td>
<td>93.582</td>
<td>31.825</td>
<td>43.214</td>
<td>2.612</td>
<td>1.287</td>
</tr>
</tbody>
</table>

Value of $t_{cal.}$: 0.0354 4.59 7.13
Value of $t_{tab}$: 2.101 2.101 2.101

For result: $t_{cal.<t_{tab}}$ = Ho is Accepted  $t_{cal.>t_{tab}}$ = Ho is rejected

<table>
<thead>
<tr>
<th>Criteria of Performance</th>
<th>SBI</th>
<th>IDBI</th>
</tr>
</thead>
<tbody>
<tr>
<td>Better Performance</td>
<td>SBI</td>
<td>SBI</td>
</tr>
</tbody>
</table>

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 IDBI Banks out of 27 Public sector banks.
➢ Only three ratios applied for the study it is also limitation of the study.

Bibliography

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