

©KY PUBLICATIONS  
**RESEARCH ARTICLE**  
 Vol.2.Issue.3.2015  
 July-Sept.



<http://www.ijbmas.in>

**INTERNATIONAL JOURNAL OF BUSINESS, MANAGEMENT  
 AND ALLIED SCIENCES (IJBMAS)**  
 A Peer Reviewed International Research Journal

**COMPARATIVE STUDY ON FINANCIAL PERFORMANCE OF STATE BANK OF INDIA  
 (SBI) AND KOTAK MAHINDRA BANK (KMB) FOR THE SPECIFIC PERIOD**

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**Article Info:**

Article Received on:10/07/2015

Article Revised on:17/08/2015

Article Accepted on:14/09/2015

**ABSTRACT**

Banking sector occupies an important role in the economic development of a nation. It is one of the fastest growing sectors in India as it is featured by a large network of bank branches, serving many kinds of financial services to its customer. Bank plays an important role to mobilize savings of general public, remittance of money and other general banking services. The performance of a bank may be evaluated for several reasons depending upon various objectives. Profit is the main motive for the continued existence of every commercial organization and profitability depicts the relationship between the absolute amounts of profit with various other factors. As compared to other business concerns, banks in general have to pay much more attention for balancing profitability and liquidity. Liquidity is required to meet the prompt demands of customers whereas profitability is required to meet the expenses of banks. Hence, the present research is an effort to measure and compare the financial performance of Kotak Mahindra Bank (KMB) and State Bank of India (SBI) as both the banks are big giants in public and Private sector respectively. The study focused on the growth and performance analysis of both the banks for a period of five years, i.e. from 2009-10 to 2013-14. Quantitative analysis has been undertaken by looking at various financial ratios like management efficiency, liquidity and profitability which are the reliable indicators of a bank performance. It is found that SBI is more financially sound than KMB but in context of deposits and expenditure KMB bank has better managing efficiency than SBI. SBI is India's largest bank in the country with an asset size of over Rs 13 trillion. Although the bank's loan book is largely skewed towards corporate (large, mid and small) loans (50% of total advances in FY8), the retail side is also fast catching up. A flagship company of the well-known financial conglomerate Kotak Mahindra Group, Kotak Mahindra Bank was the first banking entity in the country created by conversion of a

financial institution in 2003. The bank had 105 branches across 69 locations in India at the end of FY07, with over 10,800 employees. The capital adequacy ratio of the bank stood at 13.5% at the end of FY07. The bank has subsidiaries in diverse businesses such as securities broking, investment banking and life insurance. This study determines the ranking of commercial banks on the base of bank size, return on assets (ROA), and return on equity (ROE), spread ratio, and earnings per share (EPS).

Key Words: Financial Performance, Commercial Banks, SBI, KMB

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## Introduction

The nationalization phase of the early 1970s brought some of the elite banks under the government's control. The next decade heralded the second phase of nationalization with the merging of old private sector banks. The 1990s saw partial liberalization of the banking industry and the emergence of new private sector banks as well as international banks. During the next few years, fears of liberalization were put to rest and in the past decade the banking system has gained much from it. Liberalization brought out the best in the industry inducing competitive spirit among various banks. During this period banks were restructured, shed the flab of over employment, embraced technology and ventured into related new businesses. Some of them have even re branded they to cater to the ever demanding customers. Also the banks put in place effective Risk-Management mechanisms and added fresh capital, which is very important to the banking industry. With the development of the banking sector, it is interesting to know how the selected banks have performed. The present study carried out a closer analysis of two banks based on their annual results. Financial analysis is mainly done to compare the growth, profitability and financial soundness of the respective banks by diagnosing the information contained in the financial statements. Global growth continued to remain sluggish in 2012-13. Adverse international economic developments combined with the loss of growth momentum in the domestic economy posed challenges to the banking sector in India during 2012-13. There was a rise in asset impairment coupled with a dip in profitability. Macro stress tests indicate that if the current macroeconomic conditions persist, the credit quality of commercial banks could deteriorate further. However, overall the comfortable capital base still lends resilience to the Indian banking sector.

In India few public and few private sector banks were operating since conceptualization of this sector but now they have to face severe competition from the foreign banks to sustain in the market and consequently many amendments were made by these domestic players to attract customers. Though the „own country bank“ factor has played important role in the sustainment of these domestic banks because customers can easily rely on these banks and undoubtedly want to transact and make relations with domestic banks. Due to this reason, presently as well many foreign banks has stepped into our country but still not well established. The new generation is open minded in terms of new change and want to avail new facilities offered by foreign banks therefore preferring the foreign banks over domestic banks and now gradually the way of foreign banks is becoming easier in India. But the present study is focusing on the domestic banks and tries to study the financial performance of domestic banks to present the picture before the masses by comparing the public and private sector banks so that the investors, bankers, customers and government can see the insight of domestic banks to make the relation with these banks in future. For this purpose one private bank i.e. KMB and one public sector bank SBI have been taken to study the financial performance for the period 2009-2012. The total income depiction of both banks was also made through graph to show the income earning position of the banks. In addition to this, market test ration was also calculated to present the market position of banks in terms of earning per share, price earning ration and dividend payout ratio.

Kotak Mahindra Bank is an Indian bank and financial service firm established in 1985. It was previously known as Kotak Mahindra Finance Limited a non banking financial company. In February 2003 Kotak Mahindra Finance Ltd., the Group's flagship company was given the license to carry on banking business by the Reserve Bank of India. Kotak Mahindra Finance Ltd. is the first company in the Indian banking history that has converted to a bank. The bank has its registered office at Mumbai. Kotak Mahindra Finance Ltd. was

founded in 1985 by Uday Kotak. In 2004 the company converted to a commercial bank when it received a license from the Reserve Bank of India.

### Review of Literature

Several researches have been conducted to analyses the different aspects of performance of commercial banks in India and abroad. Some of the review concerned with the topic discussed in below.

Kajal Chaudhary and Monika Sharma (2011)<sup>1</sup> in her paper titled, "Performance of Indian Public Sector Banks and Private Sector Banks: A Comparative Study" concludes that an efficient management information system should be developed. The bank staff involved in sanctioning the advances International Journal of Commerce and Management Research should be trained about the proper documentation and charge of securities and motivated to take measures in preventing advances turning into NPA. Public banks must pay attention on their functioning to compete private banks. Banks should be well versed in proper selection of borrower/project and in analyzing the financial statement. Anita Makkar, Shveta Singh, (2013)<sup>2</sup>, "*Analysis of the financial performance of Indian commercial banks: a comparative study*", financial performance of the banks indicates the strength and weakness of that particular bank by properly establishing the associations between the items in the balance sheet and the profit and loss account. The study considered a sample of 37 banks (22 public sector and 15 private sector) from the period 2006-2007 and 2010-2011. Jha and Sarangi (2011)<sup>3</sup> analyzed the performance of seven public sector and private sector banks for the year 2009-10. They used three sets of ratios, operating performance ratios, financial ratios, and efficiency ratios. In all eleven ratios were used. They found that Axis Bank took the first position, followed ICICI Bank, BOI, PNB, SBI, IDBI, and HDFC, in that order.

### Objective of the Study

The primary objective of the study was:

- To study the financial performance of SBI and KMB banks.
- To compare the financial performance of SBI and KMB
- Parameters Studied for Comparison of Performance are "Credit Deposit Ratio, Total Income, Total Expenditure and Net Profit"
- To analyze the performance Kotak Mahindra bank and SBI in terms of selected ratios

### Period of Study

The data for the study is collected for four years from financial year 2009-10 to 2012-13 from two banks SBI and KMB.

### Research Methodology

In the present study, an attempt has been made to measure, evaluate and compare the financial performance of SBI and KMB Bank. The study is based on secondary data that has been collected from annual reports of the respective banks, magazines, journals, documents and other published information. Ratio Analysis was applied to analyze and compare the trends in banking business and financial performance. Mean and Compound Growth Rate (CGR) have also been deployed to analyze the trends in banking business profitability.

### Need of the study

Significance of performance evaluation in an organization, for sustainable growth and development, has been recognized since long. This calls for a system that first measures and evaluates the performance, and then brings out the strengths and weaknesses of the organization for the purpose of further improvement. Efficient performance evaluation system encompasses all aspects of an organization. This study is important for the investors to know the financial performance. By this study they can think whether to invest or not to invest in these banks.

### RESULTS AND DISCUSSION

The present study has been undertaken for critical evaluation of Indian banking sector [with reference to private sector and public sector bank]. The study period is of four years from 2009-10 to 2012-13.

#### Financial Highlights of SBI and KMB during 2009-2013

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. Kotak Mahindra bank, During the year 2009-10, the Bank added 32 branches, 77 off site and 28 onsite ATMS taking the total number of branches to 249 Nos, 252 Nos off-site ATMs and 240 Nos on-site ATMs. They had a debit card base of 829,876. They opened a representative office in Dubai. Also, they entered Ahmedabad Commodity Exchange as anchor investor. In June 2010, the Bank entered into an agreement with Sumitomo Mitsui Banking Corporation, Japan for a preferential issue of 1.64 crore shares at Rs 833 per share which amounts to approximately 4.5% stake on a post-issue basis for Rs 1,366 crore.

During the year 2010-11, the Bank added 72 branches and 246 ATMs and ended the year with 321 Branches and 710 ATMs, and thereby increasing their presence to 183 locations. They also added over half a million new customers this year across core banking products of savings and checking account, term deposits, overdrafts and nonresident accounts. During the year, the Bank's Treasury started Correspondent Banking Division to build and leverage on relationships with offshore banks for improving quality and international reach for their customers. Also, the Bank entered into a strategic arrangement with PVR Cinemas, one of the elite name in entertainment industry, to distribute credit card products aimed at upmarket customers. In August 2011, the Bank entered into business cooperation arrangement with CIMB Group Sdn Bhd, Malaysia (CIMB). In October 2011, Kotak Mahindra Capital Company Ltd, a subsidiary of the Bank and Evercore Partners, global investment banking advisory firm headquartered in New York, USA, entered into an exclusive strategic partnership for cross-border M&A advisory services between India and the United States, the United Kingdom and Mexico. On 4 September 2012, Kotak Mahindra Bank Ltd. announced that it has entered into a strategic alliance with Scotiabank, Canada's most international bank to provide financial services to people immigrating to Canada and to non-resident Indians (NRIs) and People of Indian Origin (PIOs) seeking bank accounts and other banking services in India. This alliance brings together the respective strengths of each bank to enable referrals for customers in Canada and India, subject to local banking regulations. On 5 February 2013, Kotak Mahindra Bank Ltd. (KMBL) announced that it has acquired a portfolio of approximately 6,000 business loans with a total loan outstanding of about Rs 700 crore from Barclays Bank PLC, India Branch and Barclays Investment and Loan (India) Ltd. The acquisition is in line with KMBL's strategy to add value to its existing business lines as it strengthens its business loans portfolio<sup>4</sup>.

### **Financial Performance of SBI between 2009-2013**

#### **Profit**

The Operating Profit of the Bank for 2012-13 stood at ` 31,081.72 crores as compared to ` 31,573.54 crores in 2011-12 registering a marginal decline of 1.56%. The Bank has posted a Net Profit of ` 14,104.98 crores for 2012-13 as compared to ` 11,707.29 crores in 2011-12 registering a growth of 20.48%. While Net Interest Income recorded a growth of 2.40%, the Other Income increased by 11.73%, Operating Expenses increased by 12.33% attributable to higher staff cost and other expenses.

#### **Net Interest Income**

The Net Interest Income of the Bank registered a growth of 2.40% from ` 43,291.08 crores in 2011-12 to ` 44,331.30 crores in 2012-13. This was due to higher growth in the advances and investment portfolios. The gross interest income from global operations correspondingly rose from ` 1,06,521.45 crores to ` 1,19,657.10 crores during the year registering a growth of 12.33%. Interest income on advances in India registered an increase from ` 77,309.15 crores in 2011-12 to ` 85,782.26 crores in 2012-13 due to higher volumes. The average yield on advances in India has declined from 11.05% in 2011-12 to 10.54% in 2012-13. Interest income on advances at foreign offices has grown by 26.17%.

#### **Non-Interest Income**

Non-interest income stood at `16,034.84 crores in 2012-13 as against ` 14,351.45 crores in 2011-12 registering an increase of 11.73%. During the year, the Bank received an income of ` 715.51 crores (` 767.35 crores in the previous year) by way of dividends from Associate Banks/ subsidiaries and joint ventures in India and abroad.

#### **Operating Expenses**

There was an increase of 8.29% in the Staff Cost from ` 16,974.04 crores in 2011-12 to ` 18,380.90 crores in 2012-13. Other Operating Expenses registered an increase of 19.89% mainly due to increase in

expenses on rent, taxes and lighting, advertisement & publicity, law charges, postage, telegrams & telephones, insurance and miscellaneous expenditure.

Operating Expenses, comprising both staff cost and other operating expenses, have registered an increase of 12.33% over the previous year.

#### Reserves and Surplus

- An amount of ` 4,417.86 crores (as against ` 3,516.98 crores in 2011-12) was transferred to Statutory Reserves.
- An amount of ` 19.17 crores (as against ` 14.38 crores in 2011-12) was transferred to Capital Reserve Fund.
- An amount of ` 6,453.26 crores (as against ` 5,536.50 crores in 2011-12) was transferred to Other Reserve Funds.

Table.1. Balance Sheet of SBI from 2009-13 (Rs in crore)

Items	2009-10	2010-11	2011-12	2012-13
<b>Capital and Liabilities</b>				
Capital	634,88,26	634,99,90	671,04,48	684,03,40
Reserves and Surplus	65314,31,60	64351,04,42	83280,16,10	124348,98,77
Deposits	804116,22,68	933932,81,30	1043647,36,23	1627402,61,19
Borrowings	103011,60,11	119568,95,50	157991,35,95	203723,19,69
Other Liabilities	80336,70,40	105248,38,93	80915,09,46	172695,87,88
<b>Total</b>	<b>1053413,73,05</b>	<b>1223736,20,05</b>	<b>1335519,23,07</b>	<b>2133108,57,03</b>
<b>Assets</b>				
Cash and Balance with RBI	61290,86,52	94395,50,20	79199,20,61	89574,03,11
Balance with Bank	34892,97,64	28478,64,57	43087,22,63	55653,69,49
Investments	285790,07,06	295600,56,90	312197,61,03	519343,42,39
Advances	631914,15,20	756719,44,80	867578,89,01	1392608,03,33
Fixed Assets	4412,90,67	4764,18,93	5466,54,92	9369,92,56
Other Assets	35112,75,96	43777,84,65	53113,01,62	66559,46,15
<b>Total</b>	<b>1053413,73,05</b>	<b>1223736,20,05</b>	<b>1335519,23,07</b>	<b>2133108,57,03</b>

Source: Published Annual Report of SBI from 2009-13

Table.2. Balance Sheet of KMB from 2009-13 (Rs in crore)

Financial Highlights	2009-10	2010-11	2011-12	2012-13
Deposits	23,886	29,261	38,537	51,029
Advances	20,775	29,329	39,079	48,469
Investments	12,513	17,121	21,567	28,873
<b>Total Assets</b>	<b>37,436</b>	<b>50,851</b>	<b>65,666</b>	<b>83,694</b>
Net Interest Income (NII)	1,780	2,097	2,512	3,206
Fee Income	388	467	578	737
Other Non Interest Income	319	314	400	424
<b>Operating profit</b>	<b>1297</b>	<b>1325</b>	<b>1655</b>	<b>2157</b>
Provisions and Contingencies	486	137	55	185
Tax Provision	250	370	515	611
<b>Net Profit</b>	<b>561</b>	<b>818</b>	<b>1085</b>	<b>1361</b>

Source: Published Annual Report of SBI from 2009-13

Table 3: Key Indicators of Kotak Mahindra Bank (Rs. in millions)

Items	2007-08	2008-09	2009-10	2010-11	2011-12
Deposits (Rs.)	164236	156440	238865	292610	385365
Advances(Rs.)	155522	166253	207751	293293	390792
Net NPA (%)	1.78	2.39	1.73	0.72	0.61
No. of Branches	182	225	257	329	363
No. of Employees	9058	8227	8804	10400	11207

Source: RBI report 2012-13

Above Table 3 shows five key indicators of Kotak Mahindra Bank. The deposits of Kotak Mahindra Bank continuously increased during the study period except the year 2008 -09. It was Rs. 164236 million in 2007 -08, then decreased to Rs. 156440 million in 2008-09 and then afterwards increased continuously and finally went up to Rs. 385365 million in 2011 -12. The Advances of Kotak Mahindra Bank continuously increased during the study period. It was Rs. 155522 million in 2007 -08 and finally went up to Rs. 390792 million in 2011-12. The Net NPA Ratio of Bank continuously decreased during the study period except the year 2008-09. It was 1.78 per cent in 2007 -08, then increased to 2.39 percent in 2008-09 and then afterwards decreased continuously and finally it went down to 0.61 per cent in 2011 -12. The number of Branches continuously increased during the study period. It was 182 in 2007-08 and finally went up to 363 in 2011 -12. The number of employees shows a mix trend during the study period. No. of employees were 9058 in 2007 -08. Then afterwards reduced to 8227 in 2008-09 and increased continuously from there on and went up to 11207 in 2011 - 12.

### Comparative analysis

#### Operating Profit to Total Assets Ratio

Ratio of operating profit to total assets indicates operating profit as percentage of total assets. Operating profit is excess of interest income over operating expenses. Higher ratio shows better financial health of the bank. Table 4 shows that the ratio of private sector bank KMB is superior to public sector bank SBI at top in position.

Table 4: Operating Profit to Total Assets Ratio

Year	SBI	KMB
2009	2.13	2.09
2010	1.82	3.92
2011	2.23	3.00
2012	2.47	2.84
2013	2.14	2.89
<b>Average</b>	<b>2.16</b>	<b>2.95</b>
<b>SD</b>	0.23	0.65

Source: RBI Publication

#### Profit per Employee

This parameter indicates the amount of profit generated per employee of banks. Higher the profit per employee, higher will be efficiency of the bank. Table 5 shows that the private sector bank KMB performing more efficiently in comparison to public sector banks SBI.

Table 5: Profit per Employee Ratio

Year	SBI	KMB
2009	0.47	0.3
2010	0.45	0.7
2011	0.39	0.8
2012	0.53	0.9
2013	0.65	1
<b>Average</b>	<b>0.50</b>	<b>0.74</b>
<b>SD</b>	0.10	0.27

Source: RBI Publication

**Return on Advances Ratio**

Ratio of return on advances indicates profit as percentage of total advances. It shows the efficiency of banks in terms of utilizing its advances. Table 6 shows that the private sector bank is utilizing their advances in more efficient way in comparison to public sector bank SBI. The Kotak Mahindra Bank is the top performer followed SBI.

Table 6: Return on Advances Ratio

Year	SBI	KMB
2009	9.67	15.5
2010	8.62	13.51
2011	8.64	12.83
2012	9.98	14.23
2013	9.46	14.04
<b>Average</b>	<b>9.27</b>	<b>14.02</b>
<b>SD</b>	0.62	0.99

Source: RBI Publication

**Return on Equity**

Return on equity is also one of the important parameters for measuring profitability of the banks. Return on Assets measures profit as percentage of total assets while Return on Equity measures profit as percentage of equity capital of banks.

Table 7: Return on Equity

Year	SBI	KMB
2009	17.05	7.36
2010	14.80	13.29
2011	12.62	14.39
2012	15.72	14.65
2013	15.43	15.6
<b>Average</b>	<b>15.12</b>	<b>13.06</b>
<b>SD</b>	1.62	3.29

Source: RBI Publication

Table 7 shows that the KMB Bank is consistently generating the highest average returns on equity capital and further followed by SBI with wide deviations from year to year.

**Return on Assets**

Returns on Asset Ratio is the ratio of net income (profits) generated by the bank on its total assets (including fixed assets). The higher the proportion of earnings assets, the better would be the resulting returns on total assets. Return on Assets is one of the important parameters for measuring profitability of the banks. This ratio indicates the return as percentage of total assets.

Table 8: Return on Assets

Year	SBI	KMB
2009	1.04	1.03
2010	0.88	1.72
2011	0.71	1.77
2012	0.88	1.83
2013	0.97	1.81
<b>Average</b>	<b>0.90</b>	<b>1.63</b>
<b>SD</b>	0.12	0.34

Source: RBI Publication

Table 8 shows that the performance of private sector bank KMB is superior to public sector bank SBI in terms of use of their assets in generating returns. KMB is the top performer followed by SBI. The long term



trend of public sector bank is downward whereas the private sector bank showing a slight upward trend during the period of study.

#### Net Interest Income to Total Assets Ratio

The ratio of Interest Income to Total Assets indicates interest income as percentage of total assets. It is also known as net interest margin. Total Assets includes cash in hand, balances with RBI, balances with banks inside/outside India, money at call, investments, advances, fixed Assets and other Assets.

Table 9: Net Interest Income to Total Assets Ratio

Year	SBI	KMB
2009	2.48	5.33
2010	2.35	5.62
2011	2.86	4.75
2012	3.38	4.31
2013	3.06	4.29
<b>Average</b>	<b>2.83</b>	<b>4.86</b>
<b>SD</b>	<b>0.42</b>	<b>0.60</b>

Source: RBI Publication

Table 9 shows that the performance of Kotak Mahindra Bank is the best among the sampled banks regarding Net Interest Income to Total Assets Ratio. Again public sector bank SBI showing downward trend whereas private sector bank is showing slightly upward trend in the ratio.

#### Conclusion

From the above discussion it can be concluded that private sector bank KMB is performing better than their public counterpart in terms of Operating Profit to Total Assets Ratio, Profit per Employee, Return on Advances Ratio and Returns on Assets. However, public sector bank SBI is performing better than their private sector counterpart in terms of Return on Investment Ratio. KMB Bank is earning the highest Return on Equity and the variations in its earning are also at the lowest level. The returns of SBI is showing downward trend whereas returns of KMB shows upward trend upto the year 2011 and thereafter shows downward trend. The returns of Kotak Mahindra Bank shows almost constant trend with little upward and downward fluctuations. Kotak Mahindra Bank is generating higher ratio of Net Interest Income to Total Assets Ratio. Further the long term trend of Net Interest Income to Total Assets Ratio is downward which a matter of concern for the respective banks is. The difference between the ratios of various banks was statistically significant in all cases except in case of Return on Equity where it was statistically insignificant.

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