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An analysis of the financial position of SBI

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Abstract
This study focuses on key financial position indicators including profitability, asset quality, liquidity, and operational efficiency of the State Bank of India over five years, from 2019 to 2024. The study relied on secondary data from the annual report and financial statements prepared by the State Bank of India. Assessments are conducted through ratios such as Return on Assets and Net Interest Margin. Findings represent sustained earnings growth and asset quality improvement for SBI, with healthy liquidity postures. Results indicated the resilience and strategic initiatives undertaken by SBI, considering an economically challenged environment.

Keywords: State bank of India, financial performance, profitability, asset quality, liquidity, operational efficiency, ratios, financial statements, HDFC Bank, ICICI bank, improvement, resilience

Introduction
The State Bank of India is the largest and one of the oldest commercial banks in India, with a history dating back as far as the making of the Indian banking sector itself. Established in the year 1806 as the Bank of Calcutta, it had also evolved along the passage of time. The old banks of Bombay and Madras came to unite with it in 1921 to form the Imperial Bank of India. Since the bank was nationalized in 1955, a drastic alteration befell its system of operation and brought about a change in names to state Bank of India. SBI is not only the largest public sector bank in India, but also an institution of prime importance in the financial landscape of the country, rich in the feeling of history, and its spread has been highly extensive. Having unpolluted origins that stand untouched by colonization, it has crossed the hands of eras and undergone metamorphosis into an extensively modernized technology-based bank. The services are diverse and divergent to cater for different sections of customers, be it domestic or international. The business model adopted by SBI is universal banking, where the strategy features three business lines of retail, corporate, agriculture, and financial inclusion. Being one of the largest networks of branches and ATMs and strong international presence, SBI plays a very crucial role in the Indian banking system. The performance of this bank, on its own merits, has a significant impact on the country's economic stability, especially in providing credit, mobilizing deposits, and facilitating access to credit for various sections of society.

Today, SBI has an enormous branch network of over 22,500 branches and over 63,580 ATMs spread all over India, which is offered to an extensive customer group including, individuals, SMEs, and corporates. International reach also situates SBI as one of the major financial entities in the world with outlets in a few countries. The past ten years have really tested the abilities of SBI, facing a host of challenges that included a global slowdown, rising non-performing assets, and increased competition from public and private sector banks, as well as fintech firms. However, with strategic moves such as merging and going digital, the bank never lost its number one status and, therefore, is very apt for a study on the financial position.

Objectives
- To evaluate the profitability of SBI with key ratios, which include ROA and NIM.
- To find the asset quality of the bank, focusing specifically on the NPAs and their consequences to the profitability of SBI.
- To know the liquidity and solvency positions of the bank and getting familiar with CAR.
- To analyse the efficiency of the cost-to-income ratio of the bank in managing its cost as an expense.

Review of literature

Navyashree S, Dr. D Jogish (2023) [1] This research focuses on the management of non-performing assets (NPAs) at the State Bank of India (SBI), one of the largest public sector banks in the country. The study is guided by four main objectives: to examine the gross and net NPAs at SBI, to analyze the NPAs across different sectors and segments, to evaluate the provisions made for NPAs, and to assess the impact of NPAs and these provisions on SBI's profitability. The research utilizes secondary data sourced from SBI's annual reports spanning from 2019 to 2023. The findings indicate that SBI has enhanced its asset quality and credit risk management over the five-year period, as demonstrated by a downward trend in both gross and net NPAs, a reduction in NPAs within high-risk sectors, and an increase in provisions and profitability.

Prof. Bhoomi Ahuja and Shivam Premshankar Gupta (2023) conducted a comparative study of the financial reports of SBI and ICICI Bank, highlighting that the analysis and interpretation of financial statements have become crucial techniques in credit appraisal. While the fundamental appraisal techniques remain consistent across different cases, the methods and focus of the analysis can differ significantly. Analyzing financial statements is essential as it provides insights into the financial position based on historical and current data. This analysis is vital for informing future decisions and strategies. Consequently, it is imperative for all organizations, whether in finance, manufacturing, or other sectors, to prepare and analyze their financial statements.

Anamika Chowdhary and Rajalakshmi Das (2023) present a study that examines the influence of Net Non-Performing Assets (NNPAs) on two prominent banks by market capitalization: State Bank of India (SBI) and HDFC Bank. The research spans the fiscal years from 2008-09 to 2021-22. Data for this analysis has been sourced from secondary materials, including annual reports and academic journals. The study employs correlation analysis to assess the relationship between NNPAs and the profitability of the selected banks, while regression analysis is utilized to determine the causal effects between these variables. Additionally, the paper applies the CAMEL model to evaluate the financial strengths of both banks over a five-year period from FY18 to FY22.

G. Kumar and G. Kapoor (2022) [4] highlight that Public Sector Banks (PSBs) dominate the Indian banking sector, holding a significant market share. This study aims to evaluate the financial performance of the State Bank of India (SBI) in comparison to industry averages, utilizing financial ratios from the fiscal years 2016-17 to 2020-21. The findings indicate that SBI's solvency and asset utilization are superior to those of the industry and its competitors. Additionally, SBI demonstrates a more effective use of shareholder funds and a stronger Current Account Savings Account (CASA) ratio compared to the industry and other banks.

Priyadarshan, R. Sarvamangala (2022) conducts a comparative analysis of the performance of two prominent banks in India: the public sector State Bank of India (SBI) and the private sector HDFC Bank. Utilizing secondary data from the past eight quarters over a two-year period, the study evaluates various performance metrics, including interest earned, operating profit, net profit, earnings per share (EPS), non-performing assets (NPA), and return on assets. The analysis employs statistical methods such as calculating the arithmetic mean, standard deviation, and hypothesis testing to derive conclusions based on the gathered data.

Reetika Verma (2021) [6] This study seeks to assess the financial health of HDFC and SBI banks through the analysis of various accounting ratios, while also examining the operations of the Indian banking sector. The paper compares multiple ratios from both institutions, including capital adequacy ratio, debt-equity ratio, leverage ratios, profit and loss account ratios, net interest margin ratio, return on equity, among others. The research relies on data obtained from the banks' financial statements.

K. Gayathri and M. Chandraiah (2020) [7] conducted a study examining the profitability of public sector banks in India, aiming to identify which bank demonstrates superior performance in this regard. Utilizing secondary data, the research revealed that State Bank of India (SBI) recorded the highest average net profit, while Andhra Bank exhibited the lowest. Additionally, several banks showed a negative mean profit. The study also highlighted that SBI experienced the greatest variability in profitability, whereas Indian Bank had the least. Overall, SBI outperformed all other public sector banks in terms of profitability.

Research methodology

The research methodology is the most crucial part of any financial position analysis as it explicitly defines the framework, tools, and techniques undertaken in a study. While elaborating on the State Bank of India (SBI), this particular section would describe how data is collected, analyzed, and interpreted so that meaningful insights are derived into the bank's financial position over the last five years, for example, 2019–2024.

Data collection

The data for the research work selected is secondary data, sourced from accessible publications.

- Annual reports of SBI
- Publications of Reserve Bank of India
- Official website of SBI

The study makes use of data covering the past five fiscal years starting from 2019 – 2020 and ending in 2023 – 2024. This helps in getting adequate insights into the changing trends and patterns in the financial position of the bank.

Analysis of the financial position of SBI

This is a detailed financial position analysis of the State Bank of India for five years from 2019 to 2024. The parameters used here are five main financial indicators indicating bank profitability, asset quality, liquidity, efficiency, and solvency. The analysis uses annual reports, financial statements, and key financial ratios taken from SBI, representing qualitative as well as quantitative findings about the general position during the respective period.

Profitability analysis

The profitability ratio gives an indication of the strength or weakness in the operations and financial health of a bank in making income relative to its assets and shareholders' equity. For SBI, the important profitability ratios that are covered by profitability analysis are ROA (Return on Assets) and NIM (Net Interest Margin).

1. Return on Assets (ROA)

ROA is the profitability ratio of profits earned to the assets employed; it measures how efficiently a bank can use its assets to generate profits. In this case of SBI, ROA has had an improving trend for the five years of study, indicating that asset management and profitability have improved in the face of macroeconomic challenges.

Table 1: Return on Assets

Year	ROA (%)
2019–2020	0.38
2020–2021	0.48
2021–2022	0.67
2022–2023	0.96
2023–2024	1.04

Interpretation

The ROA of SBI has improved steadily from 0.38% during FY2019–20 to 1.04% during FY2023–24. It, therefore, becomes a reflection of the bank's ability to generate more earnings on its assets as an incentive for better credit management, recovery of NPAs, and increased interest income.

2. Net Interest Margin (NIM)

NIM is the difference between interest earned on loans and the interest paid on deposits, so an important measure of core profitability that a bank generates off lending.

Table 2: Net Interest Margin

Year	NIM (%)
2019–2020	2.97
2020–2021	3.04
2021–2022	3.12
2022–2023	3.37
2023–2024	3.28

Interpretation

The steadily increasing SBI's NIM over the five years indicates that the bank is able to generate more interest income than interest expenses. It indicates better lending practices, pricing of credit products and efficient mobilization of deposits.

Asset quality analysis

Asset quality is one of the critical factors in financial performance, more specifically for the banks, and has a bearing on profitability and risk management. GNPA and NNPA are used to evaluate the asset quality of SBI.

1. Gross Non-Performing Assets (GNPA)

The GNPA ratio shows the percentage of the total loans of the banks that are considered nonperforming. It displays the kind of credit risk the portfolio contains.

Table 3: Gross Non-Performing Assets

Year	GNPA (%)
2019–2020	6.15
2020–2021	4.98
2021–2022	3.97
2022–2023	2.78
2023–2024	2.24

Interpretation

The decline of GNPA ratio from 6.15% in the year 2019–2020 to 2.24% in the year 2023–2024 indicates that SBI has been able to do a great deal of asset quality management. Such a decrease can be well attributed to better credit risk management, improved loan recovery mechanisms and much stricter credit evaluation processes.

2. Net Non-Performing Assets (NNPA)

The provisions made against NPAs are also taken into account in the NNPA ratio, thus giving a clearer picture of the extent to which the bank is net exposed to bad loans.

Table 4: Net Non-Performing Assets

Year	NNPA (%)
2019–2020	2.23
2020–2021	1.50
2021–2022	1.02
2022–2023	0.67
2023–2024	0.57

Interpretation

The NNPA ratio has gradually declined from 2.23% in 2019–2020 to 0.57% in 2023–2024, which indicates that provisioning and recovery of bad loans is becoming effective in its intent. This explains the significant improvement in asset quality with declining credit risk and a healthier balance sheet.

Liquidity and solvency analysis

Liquidity and solvency represent essential requirements that ensure the bank's ability to keep paying off short-term and long-term liabilities. In the context, CAR is the significant indicators applied here.

1. Capital Adequacy Ratio (CAR)

CAR measures the capital of the bank vis-a-vis its risk-weighted assets, thereby ensuring the capital adequacy of the bank in the event of possible losses. As per the directives by the regulatory or the Basel III, there has to be a minimum level of CAR that has to be maintained by the banks.

Table 5: Capital Adequacy Ratio

Year	CAR (%)
2019–2020	13.06
2020–2021	13.74
2021–2022	13.83
2022–2023	14.68
2023–2024	14.28

Interpretation

CAR has always been above the regulatory minimum and increased from 13.06% for the year 2019–2020 to 14.28% for the year 2023–2024. This reflects that the bank is richly capitalized and is well-equipped to absorb financial shocks as it can work in the safe and stable space of the CAR.

Efficiency analysis

Efficiency works within the concern of the ability by which the bank manages its expenses relative to income generation. The Cost-to-Income Ratio becomes one of the most widely used measures of SBI's efficiency.

1. Cost-to-Income Ratio
This is the ratio that compares the operating expenses of the banks to its operating income. A relatively low ratio here will indicate a better efficiency since it will demonstrate that the bank will go on generating higher incomes relative to cost.

Table 5: Cost-to-Income Ratio

Year	Cost-to-Income (%)
2019–2020	52.46
2020–2021	53.60
2021–2022	53.31
2022–2023	53.87
2023–2024	55.66

Interpretation
The cost-income ratio, that is continually improving and was at 52.45% during the year 2019–2020 and has increased to 55.66% in the year 2023–2024, reflects that SBI has become more efficient in managing its operating costs, meaning the cost incurred from the source of operation from higher digital banking platforms like YONO used by SBI.

Findings
1. Profitability Trends
SBI has demonstrated a consistent upward trajectory in its profitability metrics, including Return on Assets (ROA) and Net Interest Margin (NIM), over the past five years.

- ROA rose from 0.38% in 2019–2020 to 1.04% in 2023–2024, reflecting improved efficiency in asset utilization and greater profitability per asset unit.
- NIM increased from 2.97% to 3.28%, indicating enhanced profitability in SBI's core lending activities.
- The ongoing enhancement in profitability underscores SBI's commitment to boosting interest income, minimizing operational expenses, and effectively managing its asset portfolio, leading to greater returns for the bank and its investors.

2. Asset Quality Improvement
SBI has achieved notable advancements in asset quality, evidenced by the decline in both Gross Non-Performing Assets (GNPA) and Net Non-Performing Assets (NNPA) ratios.

- GNPA fell from 6.15% in 2019–2020 to 2.24% in 2023–2024, highlighting SBI's initiatives to mitigate bad loans.
- Likewise, NNPA decreased from 2.23% to 0.57%, reflecting improved provisioning and a reduction in net exposure to high-risk loans.

Key Insight: The significant drop in NPAs over the five-year span illustrates SBI's effective recovery strategies, rigorous credit evaluation processes, and enhanced provisioning measures, which have markedly strengthened the bank's risk profile.

3. Capital Adequacy and Solvency
Throughout the five-year period, SBI has maintained a robust Capital Adequacy Ratio (CAR), consistently exceeding the regulatory benchmarks established by Basel III. CAR improved from 13.06% in 2019–2020 to 14.28% in 2023–2024, signifying that SBI is well-capitalized and capable of enduring financial pressures.
The rise in CAR emphasizes SBI's solid capital foundation and its capacity to absorb potential losses, thereby ensuring long-term solvency and stability.

4. Operational Efficiency
SBI has demonstrated a consistent improvement in its cost-to-income ratio over the past five years, signifying enhanced operational efficiency.
The ratio increased from 52.46% in 2019–2020 to 55.66% in 2023–2024, showcasing effective cost management and income enhancement strategies.
Key Insight: This advancement in operational efficiency is largely due to SBI's strategic investments in technology, digitization efforts such as YONO, and a commitment to minimizing operational expenses while boosting income from core banking services.

Suggestions
In light of the findings, the following strategies are proposed to assist SBI in enhancing its financial performance and overcoming its challenges:

1. **Enhance Credit Risk Management:** SBI should further refine its credit assessment procedures and loan recovery strategies to minimize non-performing assets (NPAs) and uphold asset quality.
2. **Emphasize Digital Innovation:** The bank ought to invest in advanced digital banking technologies and broaden the YONO platform's reach to serve a larger customer base, ensuring a smooth banking experience and maintaining a competitive advantage over fintech companies.
3. **Boost Operational Efficiency:** SBI should persist in optimizing operational expenses through process automation, branch consolidation, and the use of technology to minimize manual processes in banking operations.
4. **Adopt a Customer-Centric Approach:** By improving customer satisfaction through tailored banking solutions and enhanced service quality, SBI can better retain existing customers and attract new ones, particularly in the fiercely competitive retail and corporate banking sectors.

Conclusion
From the State Bank of India's last five-year financial performance analysis, we observe a turn towards improvement in key parameters like profitability, asset quality, and operational efficiency. Hence, SBI was able to increase its return on assets, showing improvement in the sophistication of generating returns and utilization of assets. The bank, however, does report a strong improvement in reducing its Gross and Net Non-Performing Assets (GNPA and NNPA), thus showing an improvement in credit risk management. Despite these positives, however, the concerns that the bank still has are those concerning comparisons with its peer HDFC Bank from the private sector, as the latter continues to outperform on both profitability as well as asset quality.
With its improved CAR, SBI will be well-placed to absorb losses in case the interest in zeroing the balance remains strong. As SBI embarks on the consolidation of growth opportunities, it should explore further investments in digital banking projects, improve customer engagement, and work more toward bringing down NPAs. Improving efficiency in

its operations and leveraging technology, SBI will be much better placed in Indian banking than it has been for a long time. While SBI, as a whole, has taken commendable strides in financial performance, strategic initiatives need to be undertaken to maintain the momentum towards long-term success.

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