

**EARNING QUALITY PERFORMANCE OF STATE BANK OF INDIA AND PUNJAB
NATIONAL BANK: A COMPARATIVE ANALYSIS**

Dr. Vineet Singh¹

Dr. Manish Seth²

^{1&2}Assistant Professor, Department of Commerce,
Guru Ghasidas Vishwavidyalaya, Bilaspur, (C.G.), 495009

ABSTRACT

Effective and sound earning performance of a bank can be responsible for future earning of that particular bank. Advanced business activities are the result of effective cash flows in the bank and the foremost basis of this is sound earning quality of any bank. As we all know that long term survival is very crucial aspect for any bank in this competitive society. In this research paper, we have done comparative analysis of earning quality aspect of State Bank of India and Punjab National Bank (Both banks are renowned as first and third largest public sector bank respectively as per market capitalization, working in Indian economy). More market shares and customers can be achieved through strong earning capacity of a bank. Because strong earning capacity is important for supporting present and future functions of a bank. We have used various accounting ratios for judging sound earning quality of both banks.

Keywords: Earning Quality, Advanced, Survival and Capitalization

I. INTRODUCTION

(A) State Bank of India:

State Bank of India is the nationalized commercial public sector bank of Indian economy which is established in the year 1955. Earlier, this bank is renowned with the name of Imperial Bank. This bank is the largest and oldest running bank in India and headquarter of this bank is in Mumbai. State Bank of India provides many variety of banking products and financial services to retail and corporate customers of India. This bank plays a strong role in the development of Indian economy since establishment. Reserve Bank of India specially used State Bank of India as its subsidiary in many places in India where Reserve Bank of India does not have branches.

(B) Punjab National Bank:

Punjab National Bank is known as first Swadeshi Bank of India. This bank commenced its operations from 12 April 1895 in Lahore. The authorized capital of this bank was Rs. 2 lakh and working capital was Rs. 20,000 that time. There was the spirit of nationalism involved in establishment of this bank. This was the first bank purely managed by Indians with Indian capital. During the long journey of bank, 7 banks have merged with Punjab National Bank. The brand image of this bank has been seen with growing customer base and increasing business graph of the bank. The main focus of this bank since establishment is qualitative business growth, recovery of loans and arresting fresh slippages.

II. OBJECTIVES

The main objective of this study is to compare earning quality performance of State Bank of India and Punjab National Bank during the year 2008-09 to 2017-18.

III. RESEARCH METHODOLOGY

- **Scope of Study:** The study will provide wider scope for improving earning quality performance of SBI and PNB. This will become base for its strength and development in the future coming years for these banks in the Indian economy.
- **Period of Study:** This research paper is an effective attempt of comparative research on earning quality performance of SBI and PNB covering the period of 10 years i.e. 2008-09 to 2017-18, based on the secondary data sourced
- **Data Collection:** Secondary Data has been used for the research from journals, magazines, articles, media reports and annual reports of these banks.
- **Statistical Techniques:** In accordance with the proper analysis and interpretation averages and various accounting ratios has been used with the help of MS- Excel.

IV. DATA ANALYSIS AND INTERPRETATION

Table-1: Earning Quality of State Bank of India
(In Percent)

Years	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	Average
Ratios											
Operating Profit to Working Fund	2.05	1.75	2.17	2.38	2.01	1.78	1.94	1.92	1.99	1.72	1.97
Spread to Total Assets	2.16	2.25	2.66	3.24	2.83	2.75	2.69	2.43	2.29	2.17	2.55
Net Profit to Total Assets	0.95	0.87	0.68	0.88	0.90	0.61	0.64	0.42	0.39	-0.19	0.61

Interest Income to Total Income	83.41	82.59	83.72	88.13	88.18	88.02	87.10	85.49	83.19	83.18	85.30
Non-Interest Income to Total Income	16.59	17.41	16.28	11.87	11.82	11.98	12.90	14.51	16.81	16.82	14.70

Source: Compiled and computed from Various Annual Reports of State Bank of India.

Operating profit to working fund ratio, exhibits about the adorable operating profit earned by any bank while utilizing its working fund. In State Bank of India, operating profit to working fund ratio has been found 2.05 percent in the year 2008-09 and during the study period it shows fluctuating trend. In the last year of the study, it has found 1.72 percent which is 0.33 percent less than the starting year of the study. In the year 2011-12 operating profit to working fund ratio was highest among all years of the study. Average operating profit to working fund ratio has been secured of 1.97 percent by this bank during the study period. This average value clears that earning of operating profit is decreasing year to year in total span of this study.

Spread expresses net interest income of any bank, with spread to total asset ratio we try to know how much net interest income is earned by bank on behalf of its total assets. Spread to total assets ratio has been found 2.16 percent in the year 2008-09 and it has increased to 3.24 percent till the year 2011-12. But that spread was regularly decreased in every year till 2017-18. Average spread to total assets ratio has been found 2.55 percent of its total assets during the study period.

Net profit to total assets ratio explain about the net profit percentage of any bank in comparison to its total assets. Net profit to total assets ratio has been found negative in the year 2017-18 with -0.19 percent. And the average value is 0.61 percent. It has been noticed with an overall view of the study that net profit is regularly decreasing in this bank. It is alarming sign for this bank to improve it because without proper profit no one can survive in long run, it is an universal well known principle.

In interest income to total income ratio, it is proved with the average value of 85.30 percent that this bank is earning more than 85 percent of its earning through interests. It shows better lending activities of this bank during the study period.

The average value of non-interest income to total income ratio is 14.70 percent. It shows this bank earns more than 14 percent of its total income through providing technology

based services to its customers. This bank should try to increase its non-interest income by technology advancement in the bank and try to reduce more dependency on lending activities.

Table-2: Earning Quality of Punjab National Bank
(In Percent)

Years Ratios	2008 -09	2009 -10	2010 -11	2011 -12	2012 -13	2013 -14	2014 -15	2015 -16	2016 -17	2017 -18	Aver age
Opera ting Profit to Worki ng Fund	2.52	2.69	2.72	2.59	2.3	2.19	2.06	1.88	2.08	1.34	2.24
Sprea d to Total Assets	2.77	2.86	3.12	2.93	3.10	2.93	2.74	2.29	2.08	1.95	2.68
Net Profit to Total Assets	1.25	1.32	1.17	1.07	0.99	0.61	0.51	-0.60	0.18	-1.60	0.49
Intere st Incom e to Total Incom e	86.1 9	85.5 8	88.1 9	89.6 7	90.8 4	90.4 2	88.7 2	88.7 7	84.0 8	84.3 9	87.68
Non- Intere st Incom e to Total Incom e	13.8 1	14.4 2	11.8 1	10.3 3	9.16	9.58	11.2 8	11.2 3	15.9 2	15.6 1	12.32

Source: Compiled and computed from Various Annual Reports of Punjab National Bank.

In Punjab National Bank, Operating profit to working fund ratio has been found 2.52 percent in the year 2008-09 which decreased to 1.34 percent in the year 2017-18 with average ratio of 2.24 percent during the study period. It shows that operating profit is regularly decreasing in this bank but if we talk about average ratio, it is 0.27 percent more than State Bank of India.

Spread to total assets ratio has been found 2.77 percent in the year 2008-09 and this bank secured decreasing trend after the year 2012-13 regularly. It is alarming data for this bank because spread is regularly decreasing in last 5 years during the study period. Average ratio is 2.68 percent which is better but this bank should try to give concentration on this.

Net profit to total assets ratio has been found 1.25 percent in the year 2008-09 but it reached to negative -1.60 percent in the last year of the study. Average value is also noticed that 0.49 percent. It is very crucial data of this bank which clears losses formation during the study period. This bank should try to improve it.

Average interest income to total income ratio has been found 87.68 percent which expresses that this bank is earning more than 87 percent of its total income through lending operations. The average of this ratio is 2.38 percent more than State Bank of India in this bank.

Non- interest income to total income ratio has been found less than 13 percent in this bank. It means that this bank is not improving technologies in the bank for better services providing to its customers. Due to this its percentage of earning non- interest income is going low. So this bank should try to improve this situation because it will reduce dependency on lending earnings.

Table-3: Ranking on the Basis of Average Earning Quality Secured by State Bank of India and Punjab National Bank during the Study Period

Ratios	State Bank of India	Punjab National Bank
Operating Profit to Working Fund	2	1
Spread to Total Assets	2	1
Net Profit to Total Assets	1	2
Interest Income to Total Income	2	1
Non- Interest Income to Total Income	1	2

On the basis of ranking it is clear that Punjab National Bank secured better earning quality in comparison to State Bank of India in many aspect of earning except Net Profit to Total Assets ratio and Non- Interest Income to Total Income ratio during the study period.

V. FINDINGS and SUGGESTIONS

According to above analysis, operating profit is regularly decreasing in both banks but the performance of Punjab National Bank is found better than State Bank of India. Both

banks should try to improve the shortcomings of operating profit earning as soon as possible. Spread earning is decreasing in both banks especially after four years in State Bank of India and five years in Punjab National Bank during the study period. It clears that lending activities is improper in both banks. On the basis of average value, spread earning is better in Punjab National Bank. Both banks should try to focus on this aspect because it is responsible for income generation in bank. Net profit to total assets ratio has been found negative in both bank in last year of the study period. It is just because of poor lending activities and not focused on technology advancement in banking. Both banks should try to remove such obstacles to earn more and more net profit. On the basis of average value of interest income to total income ratio, it has been found that performance of Punjab National Bank is better than State Bank of India. But it is necessary for both banks to pay attention on due care of this aspect. Technology advancement is better in State Bank of India in comparison to Punjab National Bank but for increasing non-interest income in both banks more and more technology advancement in banking is required.

VI. CONCLUSION

Finally, It can be concluded that earning quality is little bit better in both banks but not proper as we aspect from both banks. Punjab National Bank should try to focus on improving technology advancement in banking and State Bank of India should try to give attention on improving effective lending activities. For the betterment of both the banks, these banks should try to improve their earning quality because it will give better position to both banks in this economy in future.

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