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A Comparative Study of Financial Performance and Operational Efficiency of State Bank of India (SBI) and HDFC Bank

Dharmendra Kumar Singh
Research Scholar, Invertis University

Dr. Hitendra Shukla
Associate Professor, Department of Management, Invertis University, Bareilly

Dr. Satendra Soam
Group Director, MSM

Dr. Prafulla Ranjan
MD and CEO, Haryana State Cooperative Apex Bank Ltd.

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Abstract

The Indian banking system is instrumental in driving and sustaining economic progress via financing intermediation, conserving banking, and making available financial resources for the expansion of industries and agriculture. In light of the banking system being oligopolistic and comprising of the different ownership structures of Public and Private sector Banks, it is imperative to analyze the operational effectiveness and the performance of the individual Banks in the system. The present study is the first of its kind to evaluate and analyze the performance using secondary data of the largest public sector bank, State Bank of India (SBI), and one of the leading private sector banks, HDFC Bank, and provide a comparative study. The study is based on information available from various published annual reports, Reserve Bank of India reports, published research articles, and financial data reporting websites and it is both analytical and descriptive in nature. The performance of both the banks has been evaluated and then results analyzed based on the parameters of financial performance, profitability, operational effectiveness, asset quality, and customer service. It has been observed that HDFC Bank is superior to SBI in relation to profitability, operational effectiveness, and asset quality. Conversely, it has been observed that the performance of SBI is superior to HDFC Bank with respect to the number of customers served, the customer base financially included, and the extent to which various government banking schemes have been operationalized. It has also been found that there exist the supportive and reinforcing functions of both the public sector and private sector banks in the strengthening of the Indian Banking System and facilitating economic growth.

Keywords: *Indian Banking System, HDFC Bank, State Bank of India, Public Sector Banks, Private Sector Banks*

1. Introduction

One of the most important functions of the Indian banking system is the mobilization of public savings, the provision of credit, the facilitation of trade, and the support of various sectors such as industry and agriculture (Koley, 2019). Over the past years, the banking system in India has undergone changes as a result of RBI (Reserve Bank of India) policies and economic reform, and technological and liberalization advancements. The Indian banking system is made up of public sector banks, private sector banks, foreign banks, and cooperative banks. The public sector and the private sector banks make the Indian banking system complete.

As the name suggests, public sector banks are the ones in which the government of India has a majority stake. These banks have more of a social welfare component and focus on aspects such as financial inclusion, by lending service to poorer sections of society, and the implementation of various schemes of the government (Anand et al., 2017). On the other hand, private sector banks are owned and managed by private players, and like other profit enterprises, they focus on profit maximization and operational efficiency to improve system productivity, attain service innovation and increase customer satisfaction. Public Sector Banks look more into the social component while the private sector banks look more into the technological component, hence the focus differential.

Empirical and theoretical aspects of comparative public and private sector banking studies in India focus on performance, profitability, and asset quality. They also deal with the research and banking operational outcomes of an ownership structure.

HDFC Bank is one of the biggest private sector banks in India. It has a great reputation for excellent customer service, the use of automated systems, as well as online banking. Its non-performing assets are also very low (Kaur et al., 2017). In contrast, the State Bank of India (SBI), the top public sector bank, has an impressive number of branches and a major role in achieving regional financial inclusion. This paper attempts to analyze HDFC Bank and State Bank of India's performances using secondary data, and to determine their respective roles in the Indian banking system.

2. Review of Literature

Many researchers have looked at how public and private sector banks in India stack up against one another. Previous studies show that because of superior management and adoption of technology, private sector banks outperform the competition, usually in profitability, operational efficiency, and asset quality. As pointed out in studies that center around financial performance, private sector banks outperform public sector banks in return on assets and return on equity (Singh & Sharma, 2022). Research regarding efficiency and productivity has demonstrated that in the management of costs and income generation, private sector banks have the advantage, whereas public sector banks, because of the social banking mandate coupled with operational costs, the conundrum, face restrictions. Numerous studies have reinforced the idea that "public sector banks, with the effect on profitability and risk, are important in the aspect of financial inclusion and rural banking (Deepika & Srisailam, 2024). Some researchers have looked into the credit extended to former and active corporate and other prioritized sector lenders and have cited the surplus NPAs that public sector banks have. Because of their credit appraisal and risk management methodologies, private sector banks, on the other hand, have less.

Although many studies exist in banking performance most studies capture a larger pool of banks and do not aim at a detailed comparison of a few specified banks. The present study attempts to fill this gap by using recent secondary data to conduct a focused comparative analysis of HDFC Bank and SBI, thus contributing to the public and private sector banking performance literature.

3. Objectives of the Study

1. To compare the financial performance of HDFC Bank and SBI
2. To analyze the profitability and asset quality of both banks
3. To study operational efficiency and technological adoption
4. To examine customer service and outreach
5. To identify differences between public and private sector banking models

4. Research Methodology

The present study is descriptive and analytical in nature. It attempts to evaluate and analyze the data available secondary data pertaining to HDFC Bank and the State Bank of India. Descriptive research aids in examining the current attributes of the respective banks. On the other hand, analytical research aids in

assessing the financial performance and efficiency of the bank.

The research relies solely on secondary data available from credible sources. Such sources include annual report publications for HDFC Bank and SBI, Reserve Bank of India (RBI) publications, bankig research journals, research publications, and financial websites. Such sources provide in-depth and trustworthy data needed in provideing a analytical study bank and its respective competitor.

To ensure current and consisitent performance in comparison, the study has a time frame of the previous 3 to 5 financial years. The study is based on the financial data available and the financial performance of the banks is evaluated based on the collected data. The financial data studied includes: (i) the bank's total financial assets, (ii) net profits, and (iii) the profitability ratios: (a) return on assets, (b) return on equitiy, (c) net interest margin (NIM), and (d) non-performing assets (NPA) ratio.

The analytical techniques employed in the study include the use of comparative table and ratio analysis. The ratios were: return on assets (ROA); return on equity (ROE); net interest margin (NIM); and non-performing assets (NPA) ratio.There were certain constraints to this study. Firstly, the study was limited to two banks, inhibiting any findings from being representative of the larger banking industry. Additionally, the research only utilized secondary data, which may contain its own deficiencies.

5. Profile of Selected Banks

5.1 Profile of HDFC Bank

Among the top private banks in India, HDFC bank began operations in 1994. They have provided a number of services that include retail banking, wholesale banking, digital banking, and treasury operations (Agrawal et al., 2017). They have an outstanding reputation for customer satisfaction, service delivery, and the adoption of technology. HDFC digital banking, strong customer services and market competition have place them in positive positions along with their current strong NPAs and Fintech customer services.

5.2 Profile of State Bank of India

As the largest public bank in India, and with over 2 centuries of experience, State Bank of India is the largest and oldest public bank in India. State Bank of India has operational branches in rural, semi-urban, and urban distributing their operational capacity, making them the backbone of the Indian public banking system (Saikrishna & Varghese, 2020). With their many operational branches, State Bank of India has been able to provide services to the government for inclusive banking, agriculture, and for small industries and businesses with various government initiatives. Out of all the public banks in India, State Bank of India has the most trust from the public.

6. Comparative Analysis of HDFC Bank and SBI

The study comparing HDFC Bank and SBI shows notable differences in performance due to variations in ownership and operational goals. SBI, due to its size and presence across India, has a much larger asset size compared to HDFC Bank (Kumar, 2019). HDFC Bank shows more effective asset utilization and steady growth in its profits.

Table 1: Comparative Financial Performance of HDFC Bank and SBI

Parameters	HDFC Bank (Private Sector)	State Bank of India – SBI (Public Sector)
Ownership	Privately owned	Government of India majority-owned
Asset Base	Moderate compared to SBI	Largest asset base in India
Net Profit Trend	Consistently high and stable	High but fluctuating
Revenue Generation	Strong retail-focused income	Diverse income sources
Growth Rate	Steady and efficient growth	Large-scale but slower growth

Table 2: Comparative Efficiency and Asset Quality Indicators

Indicators	HDFC Bank	SBI
Return on Assets (ROA)	Higher	Lower
Return on Equity (ROE)	Higher	Moderate
Net Interest Margin (NIM)	Higher	Lower
Non-Performing Assets (NPAs)	Low	Relatively High
Cost-to-Income Ratio	Lower	Higher
Technology Adoption	Advanced	Improving

SBI suffers from a proportionately larger social sector loan, and thus has a weaker asset and equity return because of the increased loan loss provisioning, which negatively impacts SBI's net interest margins. HDFC Bank, having a lower level of risk, consistently achieves better profitability and equity returns. HDFC also has a lower level of NPAs compared to SBI, which is primarily due to HDFC's better risk management due to more effective credit assessment (Gupta & Jaiswal, 2020). SBI has a higher level of NPAs due to its lending to large corporates and to the priority lending sectors. HDFC performs better operationally due to its lower cost of income ratio and more advanced digital banking capabilities; whereas, SBI's operational costs are higher due to its larger operational workforce and higher branch count, despite more recent advances like mobile and internet banking.

In terms of customer service and outreach, HDFC Bank embraces a more urban, rapid and technology-driven service model, while the State Bank of India (SBI) has unparalleled coverage in rural India, which is critical for financial inclusion. As a result, the two banks differ in strategy, performance and service.

7. Findings of the Study

The key findings of the present comparative study of HDFC Bank and State Bank of India are as follows:

- HDFC Bank, despite a smaller asset base than SBI, has a higher financial performance in terms of profitability and efficiency.
- HDFC Bank displays superior management efficiency, as is evident in the profitability ratios (ROA and ROE) being higher than SBI (KAUR, 2022).
- SBI's financial inclusion objectives, in both urban and rural areas, are made possible through its expansive network of branches and customer base.
- As a result of higher NPAs due to priority sector and large corporate lending, SBI has a higher asset quality deficiency, whereas HDFC Bank is reflected to have a stronger asset quality due to lesser NPAs (Koley, 2019).
- HDFC Bank has also provided more efficient customer service at a lower operational cost due to more effective technological advancement and digital banking services.

SBI's involvement with social banking's profitability and the government's impact also including the social banking objectives.

8. Conclusion

Secondary data was utilized in this study to compare the performance of HDFC Bank (a private sector bank) and State Bank of India (a public sector bank). The findings indicate that both banks function with distinct goals and constraints that heavily shape their performance and efficiency.

HDFC Bank outperforms the competition in profitability, asset quality, operational efficiency, and deployment of cutting-edge technology. Effective customer-focused strategies are evidenced by the successful management of risk, demonstrated by the bank's low NPA levels and high profitability ratios. SBI, as the largest public sector bank, is notable for his scale, outreach, and role in the financial inclusion of marginalized communities. His branched network and government-subsidized welfare schemes are indicative of his social responsibility.

The two banks differ primarily in their ownership model and operational focus. Private sector banks focus on operational efficiency and profit maximization, whereas public sector banks focus on inclusive growth and economic stability. In the Indian Banking system, Public and Private sector banks' roles complement each other. The Indian banking sector will achieve sustainable growth by improving efficiency in

public sector banks and sustaining innovation in private sector banks.

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