



“A STUDY ON ANALYSIS OF INVESTMENT PROTFOOLIO OF SELECTED PRIVATE SECTOR AND PUBLIC SECTOR BANK IN INDIA”

| | |
|-----------------------------|--------------------------|
| KRUTARTH NASIT ¹ | ₁ MBA STUDENT |
| JUHI SHAH ² | ₂ MBA STUDENT |
| VISHWA SHAH ³ | ₃ MBA STUDENT |
| POOJA MOORJANI ⁴ | ₄ MBA STUDENT |

PARUL INSTITUTE OF MANAGEMENT & RESEARCH

PARUL UNIVERSITY, WAGHODIA, VADODRA, INDIA

ABSTRACT

The objective of the study is to identify the impact of portfolio structure on financial performance of selected public sector and private sector bank for the year 2016-2019. The research is based on descriptive methodology making use of ratios such as investment income to gross income, Net Profit to total income, Net profit to investment income, earning per share, return on equity, Price earnings ratio, market price per share and liquidity ratios. Study brings out among public sector banks and private sector banks, private sector banks have manage their investment portfolio better. SBI manage that investment portfolio better than BOB. HDFC bank manage their investment portfolio better than ICICI bank. Ranking of banks differ as the financial ratio changes and intend of this study is fully academic. Extension in the period of analysis may tend to further study.

KEY WORDS: Investment Portfolio, Net profit Margin, Income from Investment, Gross profit margin, Net profit margin.

INTRODUCTION:

The banking sector is one of the most vital sectors of the economy for it to function. It always refereed as the “Lifeblood” of the economy. The health of economy is closely to soundness of its banking system. Bank guid people for the Investment decisions and analysis. Banks minimize the risk by portfolio theory and competent management of investment portfolio. As Portfolio selection most important part is lending and borrowing rate on total bank capitalization.

Investment is the commitment of current money and other resources to get future returns. In investment the commitment of funds take place at present which is certain but the certain but the return we receive in future which is uncertain.

In the study Analysis of Investment Portfolio of Selected Public and Private Sector Banking this study selected 2 public and 2 private sectors Bank. In public sector bank (State Bank Of India, Bank of Baroda) and Private Sector Bank (ICICI BANK, HDFC BANK). In this research helpful to identify the Impact of the profitability and liquidity of selected public and private sector bank and comparison to [SBI OR ICICI AND BOB OR HADFC] in which bank investment portfolio better than another and what is impact of investment portfolio in banks.

This study is exploring that the impact of investment portfolio and which portfolio better of selected public and private sector bank.

Literature Review:

1. Kristina Levišauskait (2010) the main objective of the research on investment analysis and portfolio is to diversifying of investment and measurement of portfolio management with the help of various analysis tools and techniques like quantitative method of investment and portfolio theory, arbitrage price model and market efficiency theory. The secondary source used as research methodology. he conclude that A constant proportion portfolio is one of the portfolio rebalancing methods in which adjustments are made so as to maintain the relative weighting of the portfolio components as their prices change.
2. Dr.G.Brindha(2013) the main concept of this research paper on the portfolio management is to discuss and evaluate the portfolio over a time period by using RSI (Relative strength Index) and ROC (Rate of Change). The secondary source used as research methodology. He Conclude that When the RSI has crossed 30 lines from below to above and is rising, a buying opportunity is indicated. When it has crossed 70 lines from above to below and is falling, selling signal is indicated.
3. Khaira Amalia Fachrudina, Hilma Tamiami Fachrudinb (2015) the study aims to analyze the property portfolio and sustainability in real assets. The population are property and real estate companies which are registered in Indonesia Stock Exchange. The research findings show that the highest expected return is obtained from the asset enhancements and the lowest is from hospitality services and infrastructures. At 5% alpha we found that property portfolio and sustainability are influenced by the company size. Inventories of property and investment properties are positively and significantly related to the corporate performance.
4. Velnampy, T & Pratheepkanth.P (2010) the main objective of the study is to identify the impact of Portfolio structure on Performance. In order to select the sample, convenience sampling techniques method is used. The study suitably used both secondary data. Five years data representing the period of 2006- 2010 were used to measure the portfolio and performance of selected finance Companies in Sri Lanka. They conclude that the income derived from the assets of Finance Companies is increasing and it seems that the capital base of Finance Companies reaches its target during the past 5 years.

Research Methodology

- 1 .This study has proposed the two hypotheses one is Null and second is alternative hypotheses.
2. To calculate the investment portfolio of profitability and return I have taken the yearly data of selected public and private sector bank.
3. This study will check the investment portfolio of selected public and private sector bank.
4. For analysis I have used the past 5 year data from 2014 to 2018 of investment portfolio of selected public and private sector bank.

RESEARCH DESIGN:

During our research study, we have used Descriptive research design,

SOURCES OF DATA:

Here in this research paper we have used secondary source of data as the return for 4 different Bank.(SBI,BOB,ICICI,HDFC)

DATA COLLCATION METHOD:

Here in this research paper we have used data which were published on the bank official website and annual report of bank and balance sheet, income statement.

Population

Here in this research paper we have taken 4 Bank (2 Public Sector Bank, 2 Private Sector Bank) have been selected. This population is based on banking performance.

OBJECTIVE:

- Identify and evaluate profitability and risk of selected public and private sector bank portfolio.
- To guide investor for better co-efficient of co-relation among public and private sector bank.

Income From Investment:

| Bank Name: | Title | 2016 | 2017 | 2018 | 2019 |
|--------------|------------|-----------|-----------|-----------|-----------|
| SBI | Other Inc. | 1,75,518 | 2,20,499 | 2,42,869 | 2,57,324 |
| BOB | Other Inc. | 52,739.43 | 54,156.28 | 54,965.89 | 63,401.19 |
| HDFC | Other Inc. | 63,161 | 73,271 | 85,287 | 1,05,160 |
| ICICI | Other Inc. | 52,739.43 | 54,156.28 | 54,965.89 | 63,401.19 |

Source: www.moneycontrol.com

The Income From Investment of all the four banks last four year, in showing above table. In comparison between Public sector and Private Sector in Performance of income From investment

Private sector banks are performing better than public sector banks in income from investment factor. Like SBI is better than BOB and HDFC is better than ICICI.

P/E RATIO AND P/B RATIO:

| Bank Name | Price to Earnings Ratio (P/E) (in %) | Price to Book Value Ratio(P/B) (in %) |
|------------------------|---------------------------------------|---------------------------------------|
| 1) State Bank of India | 27.45 | 1.21 |
| 2) Bank of Baroda | 29.08 | 0.89 |
| 3)HDFC Bank | 28.16 | 4.49 |
| 4) ICICI Bank | 50.57 | 2.96 |

Source:- Researcher's Compilation from market data; Screener.in

Both the Ratios i.e. Price to Earnings ratio (P/E) and Price to Book Ratio (P/B) are used for stock valuation.

- Ideal P/E Ratio is in between 15 to 20 % whereas Ideal P/B ratio is of 3%. Considering the above table, the according to price to book ratio all the public sector banks is undervalued.
- The undervaluation clearly showcases the deteriorating asset quality of the BOB banks and cannot be mis-interpretated as opportunity to buy.
- Whereas if we consider the private banks on the basis of P/E ratio, ICICI bank looks extremely overvalued which shows a clear cut avoid signal for the investors.
- According to Price to book ratio Most of the private sector banks like HDFC Bank look overvalued but they justify the price given to them by the market as they have superior asset quality and financial performance.

Capital Adequacy ratio of selected banks as on 31 March 2019:

| Public Sector Banks | CAR(%) | Private Sector Banks | CAR (%) |
|------------------------|--------|----------------------|---------|
| 1) State Bank of India | 12.9 | 1) HDFC Bank | 17.1 |
| 2) Bank of Baroda | 13.4 | 2) ICICI Bank | 16.9 |

Source: - Researcher's Compilation; Equity master Factsheet.

<https://corporatefinanceinstitute.com/resources/knowledge/finance/capital-adequacy-ratio-car/>

- The capital adequacy ratio (CAR) measures the amount of capital a bank retains compared to its risk.
- Capital adequacy ratio is used for identifying the solvency position of the banks just like a solvency ratio is used for any company.

- The Above table shows that ICICI Bank and HDFC Bank has the highest capital adequacy ratio indicating strong solvency position whereas State bank of India has the least capital adequacy ratio.

Last 5 years Return on Equity of the selected banks

| Public Banks | Sector | ROE(%) | Private Sector Banks | ROE (%) |
|------------------------|--------|--------|----------------------|---------|
| 1) State Bank of India | | 2.76 | 1) HDFC Bank | 18.18 |
| 2) Bank of Baroda | | -0.14 | 2) ICICI Bank | 9.11 |

Source: - Researcher's Compilation from market data; Screener.in

Return on Equity reveals how much profit a company earned in comparison to the total amount of shareholder equity found on the balance sheet.

- Return on Equity is an important measure for a company because it compares it against its peers.
- With return on equity, it measures profitability and performance and higher the ROE, the better the company for investment.
- The above table shows that the return on equity for most of the public sector banks for last 5years is negative whereas in private sector banks, HDFC bank, and ICICI Bank have very attractive Return on equity.

EPS of Selected Banks:

| Indian Public Sector Banks | Earnings per share (EPS) in Rs | | | | |
|----------------------------|--------------------------------|------------|------------|------------|------------|
| | March 2015 | March 2016 | March 2017 | March 2018 | March 2019 |
| 1) State Bank of India | 22.8 | 15.7 | 0.3 | -5.1 | 2.6 |
| 2) Bank of Baroda | 17.6 | -21.9 | 7.8 | -7.1 | 4.1 |

➤ INDIAN PRIVATE SECTOR BANK:

| Indian Private Sector Banks | Earnings per share (EPS) in Rs | | | | |
|-----------------------------|--------------------------------|------------|------------|------------|------------|
| | March 2015 | March 2016 | March 2017 | March 2018 | March 2019 |
| 1) HDFC Bank | 42.6 | 50.6 | 59.5 | 71.3 | 82.0 |
| 2) ICICI Bank | 21.2 | 17.6 | 17.5 | 13.2 | 6.6 |

Source: - Researcher's Compilation from market data; Equity master Factsheet

Net profit Margin of selected banks

Indian Public Sector Bank:

| Indian Public Sector Banks | Net Profit Margin (%) | | | | |
|----------------------------|-----------------------|------------|------------|------------|------------|
| | March 2015 | March 2016 | March 2017 | March 2018 | March 2019 |
| 1) State Bank of India | 8.2 | 5.5 | 0.1 | -2.0 | 0.9 |
| 2) Bank of Baroda | 8.7 | -11.1 | 4.1 | -4.1 | 2.1 |

Indian Private Sector bank:-

| Indian Private Sector Banks | Net Profit Margin (%) | | | | |
|-----------------------------|-----------------------|------------|------------|------------|------------|
| | March 2015 | March 2016 | March 2017 | March 2018 | March 2019 |
| 1) HDFC Bank | 21.1 | 20.3 | 20.8 | 21.7 | 21.2 |
| 2) ICICI Bank | 22.3 | 17.2 | 16.7 | 12.4 | 5.9 |

Source: - Researcher's Compilation from market data; Money control

Findings:

- WE can show in comparative analysis of public sector and private sector bank that in 2016- 2019.
- Every year private sectors performing well in comparison with public sector banks.
- Also in income statement private sector bank increased every year while public sector can't.
- In comparison between private sector and public sector banks net profit ratio, HDFC and ICICI banks are performing better than SBI and BOB.

CONCLUSION:

- The above study compares the financial performance of the selected Public sector and private sector banks based on the key financial indicators.
- The study shows that the profitability position of the public sector banks is extremely low as compared to the private sector banks. The short term liquidity position of the public sector banks is good but the long term solvency position is not so good as compared to the private sector banks.
- Also the asset quality of private sector banks is very much superior than the public sector banks.
- All the public sector banks are suffering from NPA crisis and has huge NPA percentage.
- According to valuation ratio the private sector banks are slightly overvalued but they justify the overvalued price considering their superior profitability position, lower Nonperforming assets and growth potential.
- State Bank of India has the best financial position amongst the public sector banks.
- It can be considered for long term investments. HDFC Bank and ICICI bank are best banks to invest from the private sector.
- Especially, HDFC banks looks to be the best bet from the industry considering its strong fundamentals & superior asset quality.
- HDFC bank truly justifies its position as the leader in market capitalisation.
- Researcher also advices the investor to use knowledge about the qualitative factors and current market situations while taking Investment decisions.

Scope of the study

The purpose of the study to identify which bank investment portfolio is better public sector bank or private sector bank. What is the impact of portfolio investment in banking sector

- 1) To identify the correlation between all 4 selected banks.
- 2) To guide the investor for better decision in portfolio selection.
- 3) To measure the performance of bank by assessing bank and return.

REFERENCES:

www.economictimes.com

www.moneycontrol.com

www.sbi.co.in

www.icicibank.com

<https://economictimes.indiatimes.com/bank-of-baroda/yearly/companyid-12040.cms>

<https://www.moneycontrol.com/financials/bankofbaroda/results/yearly/bob>

https://www.moneycontrol.com/stocks/company_info/print_main.php

<https://sbi.co.in/web/investor-relations/sbi-financial-highlights-past-5>

<https://www.moneycontrol.com/financials/statebankofindia/balance-sheetVI/SBI?classic=true>

https://www.moneycontrol.com/mf/user_scheme/mfholddetail_sec.php?sc_id=hdf01

<https://www.hdfcbank.com/personal/about-us/investor-relations/annual-reports>

<https://economictimes.indiatimes.com/hdfc-bank-ltd/yearly/companyid-9195.cms>

