A Study on the Financial Performance of SBI and ICICI Bank in Demonetization Period

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Abstract: Banks play an important role in the economic development of a country. Demonetization has affected many sectors of the nation, but banking sector was the most affected one because it served as a primary source via which the entire process carried out. It becomes necessary to understand the demonetization effect on banks performance. The present study is an attempt to evaluate the financial performance of two major Indian banks during demonetization period. These two banks are State Bank of India and ICICI Bank. The State Bank of India, popularly known as SBI is one of the leading public sector banks and ICICI is second largest private sector bank in India. The objective of the current study is to analyze the profitability of SBI and ICICI banks using ratios such as Net profit ratio, return on equity and return on assets. The study period is from the year 2014-15 to 2019-20.

Keywords: Financial performance • ICICI Bank • Pre demonetization • Post demonetization • SBI Bank.

Introduction

Demonetization is the process of replacing existing currency with new currency and removing the old currency from circulation. This has been a standard practice being followed by most of the world economies citing the numerous causes from time to time. It happened three times in India. Two previous times, in 1946 and 1978, the Indian government demonetized banknotes and third time it happened on Nov 2016. The government announced on November 8, 2016, that the Rs. 500 and Rs. 1000 banknotes would no longer be useful to the general people. In addition, the government announced that it would replace the previous demonetized banknotes with fresh Rs 500 and Rs 2,000 note. The primary objective of this is to discourage black money, to remove counterfeit currency and to minimize the cash transaction or to promote cashless economy.

It has some positive effect over banks. It has increased cash deposits in the banks and banks invested excess fund in government bond. Both urban and rural areas saw an increase in new bank accounts. When the public was experiencing cash scarcity at the time, they switched to online banking. E-banking saved the time of banks and customer. There was also short term but negative impact of demonetization over banks. It was difficult for the banks to provide other banking service properly as they were engaged in exchanging banned currency notes. The work life balance of bank employees also got affected due to this excessive operational task.

Review of Literature

Bansal (2019) examined the impact of demonetization on the Indian banking industry. The study used secondary data that was gathered from books, websites, and other sources. Researcher examined the balance sheets of commercial banks and found that the liquidity position of commercial banks had improved, and banks made profit by using the excess funds to invest in government bonds. Additionally, it discovered that the amount of currency in use has fallen since demonetization.

Rastogi (2018) tried to find the demonetization impact on Indian economy. Researcher studied about the decision of demonetization and its outcomes in many different countries from

1982 to 2016 by using secondary data and found that it was not successful in every country but in India people accepted government decision. It was revealed by researcher that the main objectives of demonetization in India were to curb illegal money, fake currency and to encourage people for cashless transaction and general public.

Srivastava (2018) analyzed the impact of demonetization on the financial industry. For the study two banks were selected. One public sector bank (SBI) and one private sector bank (AXIS) from the years 2016 to 2017 were compared for the study. Data for the study was collected from the official websites of the banks. According to the findings, it had an impact on both banks' financial performance because there was an increase in deposits, which led to a decrease in the cost of funds.

Sarkodie (2018) analyzed the demonetization effect on low earning people. In addition to primary data, this study also used secondary data. Secondary data has been taken through online articles and primary data from one to one interaction, informal interview with the poor income group class in Lovely Professional University. On the basis of the study researcher found that although it was a good move, but it could not fulfil its objective of removing black money from economy and it had bad effect on poor people.

Nazhat & Saleem (2018) analyzed the effect of demonetization on the financial industry. Researchers used a structured questionnaire method to collect primary data. Twelve banks and fifty bank employees of Raipur city were selected. The results showed that after demonetization, online banking was used more frequently, which helped to remove illicit money from the system, but bank staff had trouble doing their tasks because of the long working hours.

Singh (2017) analyzed the demonetization impact on banking sector. Researcher tried to find out the demonetization effect on balance sheet, Profitability of bank, on Indian economy and change in GDP. It was revealed that banks were the major institutions which were affected in this process. There was increase in deposits without incurring any cost although it disturbed banking operation for short term, but it will be helpful for country to grow.

Antony et al (2017) studied the impact of demonetization on Banks. For this, comparative analysis of some public sector banks (SBI, Allahabad, Canara, UCO, PNB etc.) was done. Researcher studied the data which was provided in bank official websites. Some factors like reduction in demand for credit, enhanced deposits, diminish asset quality were examined and found that demonetization would bring ample fund for banks.

Singhal (2017) conducted case studies on the application of e-banking in both urban and rural areas. 50 persons from Bangalore's urban and rural areas were face-to-face interviewed for the study's primary data using the questionnaire approach. Four banks each from the public and private sectors were also taken. Researchers looked at data from Sep 2016 to Nov 2016 and found that while the rural population required greater awareness because they were fearful of making mistakes, the urban population was more aware and frequently used e-banking.

Prabhu & Mamatha (2017) have researched demonetization's impact on the banking industry. Researchers used secondary data for their study including published books and newspapers. Their goal was to determine how demonetization would affect regular banking activity. According to the report, there was an increase in deposits and decrease in the cost of funds as well there was rise in the demand for government security. Although it briefly disrupted banking activity, but it boosted the economy.

Dhara (2017) this study examined the effect of demonetization on the banking sector. This study used primary data and took 13 banks of

Verval City and questionnaire was filled by 100 respondents who were the employee of selected banks. Researcher found that the most recent demonetization was more successful than the previous two and people are switching to internet banking. Although one of the objectives of demonetization was to grab black money, but it could not grab full black money but still it created fear for black money holder.

Uke (2017) researched on effect of demonetization in India. The study was based on theoretical framework of studying experts and economist view over demonetization. It was revealed that demonetization had both positive and negative impact. Government action was successful to some extent, but its true effect will be clear in future.

Gajjar (2016) studied about different aspects of black money in India. Researcher gave some suggestions to deal with it and as per the study demonetization is also a effective method to deal with corruption and also e governance, cashless economy will also be helpful to control the black money problem.

Chatterjee & Banerji (2016) in the article in Square Patron Boggs, revealed that demonetization had immediate and long-term effect in Indian economy also it will improve the liquidity status of banks, and banks can get profit by lending its surplus fund. Researchers also examined about short term liquidity issue in economy and noticed that people began using debit and credit cards more frequently as well as e-wallets and other online transactions like e-banking.

Objective of The Study

To study the financial performance of SBI and ICICI Banks during demonetization period.

Methodology
Data collection and Period of the study
In this study, the six-year financial performance of ICICI Bank and State Bank of

India is compared i.e. from 2014-15 to 2019-20. The study period is divided into two parts as pre demonetization period, which is from 2014-15 to 2016-17 and post demonetization period which is from 2017-18 to 2019-20. For the study, secondary data is selected and taken from the annual report of SBI and ICICI Bank.

Data analysis Tool for the Study
Ratios like Net Profit Ratio, Return on Equity and Return on asset, have used in the course of analysis.

Profitability Performance
Profitability refers to how well a company is employing their resources to generate profit. In this study three profitability ratios are used. Net Profit Ratio, Return On equity ratio and return on asset ratio.

Net Profit Ratio: This ratio reveals an organization's profitability status based on its operational activity. The ratio shows the relationship between the net profits after-tax and net sales of the organization.
The formula to calculate Net Profit Ratio is as under

Net Profit/Total Income *100

Table 1: Net Profit ratio of SBI from 2014-15 to 2019-20.

Year	Net Profit	Total Income	Ratio
2014-15	17,517.37	257289.50	6.81
2015-16	12,743.28	272871.02	4.67
2016-17	-390.67	298640.45	-0.13
2017-18	-4,187.41	306527.52	-1.37
2018-19	3,069.07	330687.36	0.93
2019-20	18,176.83	368010.65	4.94
Mean			**2.64**

In pre demonetization period, it was showing decreasing trend. In the year 2014-15, the ratio was recorded 6.81 then it was decreased to 4.67 in the following year 2015-16. In the last year of pre demonetization period or the year

when it happened, it was reached to negative as -.13 in the year 2016-17.

Table 2: Net Profit ratio of ICICI from 2014-15 to 2019-20

Year	Net profit	Total income	Ratio
2014-15	12,942.30	90216.24	14.35
2015-16	10,926.89	101395.85	10.78
2016-17	11,340.33	113397.63	10.00
2017-18	9,099.54	118969.10	7.65
2018-19	5,689.16	131306.50	4.33
2019-20	11,225.47	149786.10	7.49
Mean			**9.10**

In post demonetization period, it was showing increasing trend. In the year 2017-18, it was reached to its minimum ratio which was -1.37 and after that it started improving and reached to .93 and 4.94 in the year 2018-19 and 2019-20 respectively. The maximum ratio was recorded 6.81 in the year 2014-15 and the minimum ratio was -1.37 for the year 2017-18. The average ratio was 2.64

In pre demonetization period, it was showing decreasing trend. In the year 2014-15, the ratio was observed 14.35 then it was decreased to 10.78 in the following year 2015-16. In the last year of pre demonetization period, year 2016-17 again it was decreased to 10.

In post demonetization period, it was showing mix trend. In the year 2017-18, it was 7.65 and after that it was decreased to 4.33 in the year 2018-19. In the next year, 2019-20, it was increased and reached to 7.49. In the study period, the maximum ratio was 14.35 in the year 2014-15. The minimum ratio was 4.33 in the year 2018-19. The average ratio was 9.10.

Return on Equity: The percentage of net income returned to shareholders' equity is known as return on equity (ROE). A company's profitability is also determined by its return on equity, which displays how much profit it makes using investors' funds. The formula to calculate return on equity is as follows.

ROE = *Net Profit / shareholder equity *100*

Table 3: Ratio of Return on equity of SBI from 2014-15 to 2019-20

Year	Net Profit	Shareholder Equity	Ratio
2014-15	17,517.37	160640.97	10.90
2015-16	12,743.28	178442.06	7.14
2016-17	-390.67	180800.92	-0.22
2017-18	-4,187.41	204581.50	-2.05
2018-19	3,069.07	208949.26	1.47
2019-20	18,176.83	226404.99	8.03
Mean			**4.21**

In pre demonetization period, it was showing decreasing trend. In the year 2014-15, the ratio was observed 10.90 then it was decreased to 7.14 in the following year 2015-16. In the last year of pre demonetization period 2016-17, it reached to negative which was -.22.

In post demonetization period, it was showing increasing trend. In the year 2017-18, it was -2.05 and after that it was increased to 1.47 in the year 2018-19. In the year 2019-20, it was again increased significantly and reached to 8.03. The maximum ratio was 10.90 in the year 2014-15. The minimum ratio was -2.05 in the year 2017-18. The average ratio was 4.21

Table: Ratio of Return on equity of ICICI bank from 2014-15 to 2019-20

Year	Net Profit	Shareholder Equity	Ratio
2014-15	12,942.30	83537.44	15.49
2015-16	10,926.89	90123.36	12.12
2016-17	11,340.33	100395.52	11.30
2017-18	9,099.54	106310.68	8.56
2018-19	5,689.16	109889.27	5.18
2019-20	11,225.47	118518.45	9.47
Mean			**10.35**

In pre demonetization period, it was showing decreasing trend. In the year 2014-15, the ratio

was 15.49 then it was decreased to 12.12 and 11.30 in the year 2015-16, 2016-17 respectively. In post demonetization period, it was showing mixed trend. In the year 2017-18, it was -8.56 and after that it was decreased to 5.18 in the year 2018-19. In the year 2019-20, it was increased and reached to 9.47. The maximum ratio was 15.49 in the year 2014-15. The minimum ratio was 5.18 in the year 2018-19. The average ratio was 10.35

Return on Assets: A company's profitability in relation to its total assets is measured by its return on assets (ROA). ROA provides insight into how effectively management utilizes its resources to generate profit. ROA is shown as a percentage by calculating a company's annual earnings and dividing them by all of its assets.

The formula to calculate return on assets is as under.

$$ROA = Net\ Profit\ /\ Total\ Asset\ *100$$

Table 5: Ratio of Return of assets of SBI from 2014-15 to 2019-20.

Year	Net Profit	Total Asset	Ratio
2014-15	17,517.37	2700110.02	0.65
2015-16	12,743.28	2970897.64	0.43
2016-17	-390.67	3445121.56	-0.01
2017-18	-4,187.41	3616433.00	-0.12
2018-19	3,069.07	3888467.06	0.08
2019-20	18,176.83	4197492.34	0.43
Mean			**0.24**

In pre demonetization period, it was showing decreasing trend. In the year 2014-15, the ratio was observed .65 then it was decreased to .43 in the year 2015-16. In the last year of pre demonetization period 2016-17, it reached to negative which was -.01

In post demonetization period, it was showing mixed trend. In the year 2017-18, it was -.12 and then, it was increased to .08 in the year 2018-19. In the year 2019-20, it was again increased and reached to .43. The maximum ratio was .65 in the year 2014-15. The minimum ratio was -.12 in the year 2017-18. The average ratio was .24

Table: Ratio of Return of assets of ICICI from 2014-15 to 2019-20.

Year	Net Profit	Total Asset	Ratio
2014-15	12,942.30	826,079.17	1.57
2015-16	10,926.89	918,756.20	1.19
2016-17	11,340.33	986,042.66	1.15
2017-18	9,099.54	1,124,281.04	0.81
2018-19	5,689.16	1,238,793.89	0.46
2019-20	11,225.47	1,377,292.23	0.82
Mean			**1.00**

In pre demonetization period, it was showing decreasing trend. In the year 2014-15, the ratio was 1.57 then it was decreased to 1.19 and 1.15 in the year 2015-16, 2016-17 respectively.

In post demonetization period, it was showing mixed trend. In the year 2017-18, it was 0.81 and then it was decreased and reached to .46 in the year 2018-19. In the year 2019-20, it was increased and reached to 0.82. The maximum ratio was 1.57 in the year 2014-15. The minimum ratio was .46 in the year 2018-19. The average ratio was 1.

Findings and Conclusion

Net Profit ratio of SBI and ICICI bank declined during the pre-demonetization period, but ICICI showed less volatility while SBI went into the negative which indicate that SBI had significant trouble turning a profit. SBI net profit ratio increased in the post demonetization period whereas ICICI Bank's ratio fluctuated, demonstrating that SBI efficiently used its operational efficiency than ICICI Bank during that time. **Return on equity** ratio of SBI and ICICI bank, also decreased in pre demonetization period. ICICI is showing less variation where SBI ratio steeply declined which shows that ICICI performed comparatively better than SBI. In post demonetization period, SBI has improved and utilized its resources more efficiently as compared to ICICI. In pre demonetization period, **return on assets** of SBI and ICICI decreased but in ICICI showing less variation which shows that ICICI's performance is

comparatively better than SBI. In post demonetization period, SBI has utilized its resources more efficiently as compared to ICICI bank.

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