

# Performance Evaluation of State Bank of India: A Study of Financial Strength, Weakness and Share Position



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## Abstract

Nowadays Investment decision, in any sector is getting more importance, offering good return at low risk is more preferable. Due to entry of MNCs in the Indian banking sector, there have been changes in terms of new products and services resulted into cutthroat competition. In the light of these, a careful analysis of the profitability of Indian banking sector is inevitable before taking any investment decision. Both the Fundamental analysis and Technical analysis should be used to study the stocks and financial performance. This study uses secondary data collected through annual reports and post records of SBI bank through online websites for analysis purpose. The collected data were analyzed and interpreted using the various tools like Fundamental analysis, Technical analysis. The variables taken for the fundamental analysis includes; Operating Profit Margin (OPM), Net Profit Margin (NPM), Return on Equity (RoE), Earnings per Share (EPS), Price Earnings Ratio (PER), Dividends per Share (DPS), and Dividends Payout Ratio (DPR). The tools used for technical analysis are Simple Moving Average (SMA), Exponential Moving Averages (EMA), Rate of Change (ROC), Relative Strength Index (RSI), and Relative Vigor Index (RVI). The Fundamental Analysis and technical analysis aims at developing an insight into the economic performance of the business and stock price are of paramount importance from the view point of investment decisions

**Keywords:** Fundamental Analysis, Technical Analysis, Moving Average, Intrinsic Value, Financial Performance, Investment Decision.

## Introduction

Fundamental analysis is the examination of the forces that affect the well being of the economy, industry groups and companies with an objective to develop a forecast of future price movement and profit from it. At the Company Level, Fundamental Analysis may involve examination of financial data, management, business concept and competition. At the Industry Level, there might be an examination of supply and demand forces of the products. For the National Economy, Fundamental Analysis might focus on economic data to assess the present and future growth of the economy. Fundamental Analysis combines economic, industry, and company analysis to derive a stock's fair value called intrinsic value to forecast future stock prices. If fair value is not equal to the current stock price, fundamental analysts believe that the stock is either over or under valued. As the current market price will ultimately gravitate towards fair value, the fair value should be estimated to decide whether to buy the security or not. By believing that prices do not accurately reflect all available information, fundamental analysts look to capitalize on perceived price discrepancies.

Fundamental Analysis is a method of evaluating a security by attempting to measure its intrinsic value by examining related economic, financial and other qualitative and quantitative factors. Fundamental analysts attempt to study everything that can affect the security's value, including macroeconomic factors (like the overall economy and industry conditions) and individual specific factors (like the financial condition and management of companies).

The main notable investment option available is stock market and mutual fund. In the share market the amount of risk involved is high. Compare to share market investment the mutual fund (MF) investment is having low amount of risk. So it is important to indicate or suggest the peoples who involved in the stock trading that how to buy a profitable share. Without knowing the performance of the company it is difficult for the

investors to find out the profitable company share. In this paper the fundamental analysis is used to highlight the SBI financial strength weakness. The technical analysis will highlight the SBI share position in the past and present period of time. It is mainly useful for the shareholders, customers and the investors to take their investment decision on SBI shares.

#### **Review of Literature**

Thomas Oberlechner (2001) presents the findings of a questionnaire and an interview survey on the perceived importance of Technical and Fundamental analysis among foreign exchange traders and financial journalists in Frankfurt, London, Vienna and Zurich. Foreign Exchange traders confirm that, out of both the forecasting approaches, technical analysis is more prominent than the other.

Doron Nissim and Stephen H. Penman (2001), this research work envisages on Financial Statement analysis and identifies that this analysis has traditionally been seen as part of the Fundamental analysis required for equity valuation.

P Janaki Ramudu & S Durga Rao, (2006) in their study attempted to analyze the profitability of the three major banks in India: SBI, ICICI, and HDFC. The variables taken for the study were Operating Profit Margin (OPM), Net Profit Margin (NPM), Return on Equity (RoE), Earnings per Share (EPS), Price Earnings Ratio (PER), Dividends per Share (DPS), and Dividends Payout Ratio (DPR). The study brings out the comparative efficiency of SBI, ICICI, and HDFC.

Prasad K.V.N. & Ravinder G., (2011) attempted to analyze the profitability of the four major banks in India; SBI, PNB, ICICI and HDFC. The variables taken for the study are Operating profit margin (OPM), Gross profit margin (GPM), Net profit margin (NPM), Earning per share (EPS), Dividend per share, Return on Equity (ROE), Return on Assets (ROA), Price Earnings Ratio (PER), Dividend payout ratio (DPR). The study brings out the comparative efficiency of SBI, PNB, ICICI and HDFC.

Suresh A.S (2013) has emphasized that the unique nature of capital market instruments forces investors to depend strongly on fundamental factors in their investment decisions. These fundamental factors relate to the overall economy or a specific industry or a company. The performance of the securities that represent the company can be said to depend on the performance of the company itself. However, as companies are a part of industrial and business sector, which in turn are a part of overall economy, so even the economic and industry factors can affect the investment decision. The selection of an investment will start with fundamental analysis. Fundamental analysis examines the economic environment, industry performance and company performance before making an investment decision.

Sehgal and Gupta (2005) present the survey which aims at providing insights about the way technical traders operate in the financial market and the trading strategies that they adopt. The survey covered institutional and individual technical traders with a long and active trading record for the Indian

market. In this study also it is observed that the sample respondents tend to use Technical analysis along with Fundamental analysis for security selection.

Jenni L., Bettman, Stephen. J. Sault, Emma J. Schultz (2008), proposes an equity valuation model integrating Fundamental and Technical analysis, they tend to recognize their potential as complements rather than as substitutes. Testing confirms the complementary nature of Fundamental and Technical analysis by showing that in spite of each performing in isolation models integrating both have superior explanatory power.

Parvez Ahmed, Kristine Beck, Elizabeth Goldreyer (2005) studies the efficacy of using moving average technical trading rules with currencies of emerging economies. If technical trading rules are successful, they can become a risk management tool for multinational firms and investors in emerging markets. They use 4 Variable Length Moving Average (VMA) trading models and compare them to a simple buy and hold strategy. Results support the effectiveness of trading models, which imply the presence of strong serial correlation among currency returns for emerging markets. Hence, the predictability of future currency prices will allow investors to create effective hedges in the often volatile emerging markets.

Muhammad A. Atmeh, Ian M. Dobbs (2006) analysis the performance of moving average trading rules in Jordanian stock market. The conditional returns on buy or sell signals from actual data are examined for a wide range of trading rules. These are compared with conditional returns from simulated series generated by a range of models (random walk with a drift, AR (1), and GARCH-(M)) and the consistency of the general index series with these processes is examined. The empirical results show that technical trading rules can help to predict market movements, and that there is some evidence that (short) rules may be profitable after allowing for transactions costs, although there are some cautions on this.

Massoud Metghalchi, Jianjun Du, YixiNing (2009) tests two moving average technical trading rules for 4 Asian markets. Identify that moving average rules do indeed have predictive power and can discern recurring price patterns for profitable trading. It supports the hypothesis that technical trading rules can outperform the buy-and-hold strategy. Break-even one-way trading costs are estimated to be high for all 4 markets. It was concluded from the statistical results that moving average rules are valid and indeed have predictive power.

#### **About SBI**

State Bank of India (SBI) is a multinational banking and financial services company based in India. It is a government-owned corporation with its headquarters in Mumbai, Maharashtra. The bank traces its ancestry to British India, through the Imperial Bank of India, to the founding in 1806 of the Bank of Calcutta, making it the oldest commercial bank in the Indian Subcontinent. Bank of Madras

merged into the other two presidency banks Bank of Calcutta and Bank of Bombay to form the Imperial Bank of India, which in turn became the State Bank of India. Government of India nationalized the Imperial Bank of India in 1955, with Reserve Bank of India taking a 60% stake, and renamed it the State Bank of India. In 2008, the government took over the stake held by the Reserve Bank of India. SBI is a regional banking behemoth and has 20% market share in deposits and loans among Indian commercial banks. State Bank of India is one of the Big Four banks of India, along with ICICI Bank, Punjab National Bank and Bank of Baroda.

SBI provides banking services primarily to retail and corporate clients in India. In addition to the banking services, the Bank through their subsidiaries, provides a range of financial services, which include life insurance, merchant banking, mutual funds, security trading, and pension fund management. In the year 2001, the SBI Life Insurance Company was started by the Bank. They are the only Bank that have been permitted 74 % stake in the insurance business. The Bank's insurance subsidiary 'SBI Life Insurance Company' is a joint venture with Cardif S.A in which Cardif holds 26% of the stake. For FY 2017, SBI's net interest margins stood at a 2.84 % (2.96 % for FY 2016). Total deposits with the bank stood at Rs. 20, 44,751 Cr. as compared to Rs.17, and 30,722 Cr. growing by 18.14 % over the previous year. For the same period, net NPA's stood at 3.71 % (3.81% for FY 2016). CASA share in Total Deposits stood at 45.58 % as at the end of March 31, 2017.

#### **Research Methodology**

##### **Research Objective**

The primary objective is to study about the fundamental and technical analysis of State Bank of India (SBI). With the Secondary Objectives, to study on SBI financial performance for the past year using fundamental analysis, to analyze the share rates of SBI bank in the past years using technical analysis, to analyze the various financial ratios related to share and to offer suggestion to the investors to take investment decision

##### **Research Design**

This study is intended to describe the fundamental analysis so that users can make better decision for investment. The research design used in this work is necessarily analytical in nature the procedure using, which researcher has to use facts or information already available, and analyze these to make a critical evaluation of the performance.

##### **Data Source**

This study uses secondary data collected through annual reports and post records of SBI bank through online websites for analysis purpose. The data was collected for five year period from March, 2013 till March, 2017.

#### **Data Analysis Techniques**

The collected data were analyzed and interpreted using the various tools like Fundamental analysis, Technical analysis and SWOT analysis.

##### **Variable in The Study**

The variables taken for the fundamental analysis includes; Operating Profit Margin (OPM), Net Profit Margin (NPM), Return on Equity (RoE), Earnings per Share (EPS), Price Earnings Ratio (PER), Dividends per Share (DPS), and Dividends Payout Ratio (DPR).

##### **Tools Used**

The tools used for technical analysis are Simple Moving Average (SMA), Exponential Moving Averages (EMA), Rate of Change (ROC), Relative Strength Index (RSI), Relative Vigor Index (RVI).

#### **Data Analysis**

##### **Fundamental Analysis and Findings**

**Table 1.1 – Financial Ratio Analysis**

Year	2013	2014	2015	2016	2017
Operating Profit Margin	-1.61	-5.61	-6.21	-11.12	-14.23
Net Profit Margin	10.7	7.5	8.2	5.5	0.1
Return on Equity	14.3	9.6	10.5	6.8	0.1
Price Earnings Ratio	8.3	10.3	11.5	14.4	761.8
Dividends per Share	41.50	30.00	3.50	2.60	2.60
Dividends Payout Ratio	15.8	15.8	15.4	16.5	859.5

In 2013 operating profit margin -1.61, in 2014 the operating profit margin -5.61, in 2015 it decreases to -6.21, in 2016 it further decreases to -11.12, in 2017 it decreases to -14.23. In overall operating profit margin is decreasing. In 2013 the net profit margin starts with 10.7, in 2014 the net profit margin decreases to 7.5, in 2015 it increases little to 8.2, in 2016 it decreases to 5.5, in 2017 it decreases to 0.1. In 2013 the Return on Equity ratio ends on 14.3, in 2014 Return on Equity ratio decreases to 9.6, in 2015 it increases to 10.5, in 2016 it decreases to 6.8, in 2017 it ends with 0.1. In 2013 the Earnings per Share is 261.9, in 2014 the Earnings per Share is 189.9, in 2015 it decreases to 22.8, in 2016 it decreases to 15.7, in 2017 it decreases to 0.3. In 2013 the Price Earnings Ratio is 8.3, in 2014 the Price Earnings Ratio is 10.3, in 2015 it increases to 11.5, in 2016 it increases to 14.4, in 2017 it increases to 761.8. In 2013 the Dividends per Share is 41.5, in 2014 the Dividends per Share is 30, in 2015 it decreases to 3.5, in 2016 it decreases to 2.60, in 2016 it further remains on 2.6. In 2013 the Dividends Payout Ratio is 15.8, in 2014 the Dividends Payout Ratio remains to 15.8, in 2015 it decreases to 15.4, in 2016 it increases to 16.5, in 2017 it increases to 859.5.

# Shrinkhla Ek Shodhparak Vaicharik Patrika

## Technical Analysis and Findings Chart 1.1 - Simple Moving Average (SMA)



Moving Average is 285.28 and the closing price of SBI on November 22, 2017 is 335.30. Moving Average is on positive note. But the share value of SBI starts increases only after the end of October

2017. While considering the short time period, it is advisable to trade SBI shares during short period time.

## Chart 1.2 - Exponential Moving Averages (EMA)



Exponential Moving Averages is 318.28 and the closing price of SBI on November 22, 2017 is 335.30. Exponential Moving Averages is on positive

note. But the share value of SBI starts increases only after the end of October 2017.

## Chart 1.3 - Rate of Change (ROC)



# Shrinkhla Ek Shodhparak Vaicharik Patrika

While considering the short time period, it is advisable to trade SBI shares during short period time shows Rate of Change which is 2.23%. Rate of

Change is fluctuating, but in overall it is on positive note. But not high as compare to first week of November 2017.

**Chart 1.4 - Relative Strength Index (RSI)**



Relative Strength Index (RSI) of SBI. While RSI is considered overbought when above 70 and oversold when below 30. The highest RSI during the

Jun 1, 2017 to November 22, 2017 is measured to be 64.60 which indicate that the investors are above average buying SBI shares after end of October 2017.

**Chart 1.5 - Relative Vigor Index (RVI)**



Relative Vigor Index (RVI) of SBI. In overall RVI fluctuates during the June 2017 to 22nd November 2017. A low value indicates an oversold market and a high value signals an overbought one. Entry and exit signals are triggered when the short moving average crosses the long moving average. Divergences between price action and RVI often lead counter trend moves.

**Suggestions**

In a bid to protect its profitability, SBI has embarked on a Selective growth strategy. But given the bank's spread and size, would be difficult to pursue a selective growth strategy unless It reconciles to a significant loss a market share over time. SBI's size and potential to improve efficiency may sway

Consensus opinion; the deep value inherent makes the Investment case compelling. Although there is potential to improve performance, it remains unrealized thus far. Convinced Size and potential is convincing. Limited upside to growth expectations in the medium term Believe SBI's growth will remain volatile. Lack of exceptional Income/cost elements and need to raise loan loss provisions from Very low levels will likely cause volatility in earnings growth though past five years. SBI is viewed as it will need flexibility in reorganizing its Distribution network and human resources. As long as the Constraints remain, it will be at a disadvantage to peers in the Private sector is believed. There have a few incremental changes such as introduction of Voluntary retirement

scheme for employees. However, there Changes tend to drain the productive resources rather than eliminating redundancy is viewed.

#### Conclusion

The fundamental analysis compares the financial ratios of SBI during past five years, i.e. FY 2013 to FY 2017. The fundamental analysis and stock performance of SBI in long term shows decrease in trend. Which mean, it is not advisable to trade SBI shares for long term. The technical analysis of SBI during June 2017 to November 2017 is fluctuating. The share value of SBI decrease during June 2017 and starts increase during July 2017 and first week of august 2017. Share price of SBI decreases till end of October 2017. Starts increases from November 2017. It is advisable to trade SBI shares only for short term like 1week to 1month. But not more than 1 month. In overall, the investors can trade SBI share only for very short time. This study on fundamental and technical analysis of State Bank of India (SBI) concludes that the investors should understand the past performance of the SBI before investing in the shares. Investors should understand the limitations of the techniques used in both Fundamental as well as technical analysis. Both the Fundamental analysis and Technical analysis should be used to study the stocks.

#### Direction of Future Research

Due to the time constraints study uses past five financial years i.e., 2013 – 2017. In future the same study will be conducted for more financial years or as comparative based research with other Banks.

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