

**A STUDY ON FINANCIAL STATEMENT ANALYSIS IN STATE BANK OF PATIALA
WITH SPECIAL REFERENCE TO SALEM BRANCH**

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ABSTRACT

In any organization, the two important financial statements are the Balance Sheet and Profit & Loss Account of the business. Balance Sheet is a statement of financial position of an enterprise at a particular point of time. Profit & Loss account shows the net profit or net loss of a company for a specified period of time. When these statements of the last few years of any organization are studied and analyzed, significant conclusions may be arrived regarding the changes in the financial position, the important policies followed and trends in profit and loss etc. Analysis and interpretation of financial statement has now become an important technique of credit appraisal. The investors, financial experts, management executives and the bankers all analyze these statements. Though the basic technique of appraisal remains the same in all the cases but the approach and the emphasis in the analysis vary. A banker interprets the financial statement so as to evaluate the financial soundness and stability, the liquidity position and the profitability or the earning capacity of borrowing concern. Analysis of financial statements is necessary because it helps in depicting the financial position on the basis of past and current records. Analysis of financial statements helps in making the future decisions and strategies. Therefore, it is very necessary for every organization whether it is a financial or manufacturing, to make financial statement and to analyze it.

Key Words: Balance Sheet, Liquidity Position, Financial Experts, Financial Statement, Strategies,

INTRODUCTION:

Financial statements refer to such statements which contains financial information about an enterprise. They report profitability and the financial position of the business at the end of accounting period. The team financial statement includes at least two statements which the accountant prepares at the end of an accounting period. The two statements are: -

- **The Balance Sheet**
- **Profit and Loss Account**

They provide some extremely useful information to the extent that balance Sheet mirrors the financial position on a particular date in terms of the structure of assets, liabilities and owners' equity, and so on and the Profit and Loss account shows the results of operations during a certain period of time in terms of the revenues obtained and the cost incurred during the year. Thus the financial statement provides a summarized view of financial positions and operations of a firm.

MEANING OF FINANCIAL ANALYSIS

The term **financial analysis** is also known as '**analysis and interpretation of financial statements**' refers to the process of determining financial strength and weakness of the firm by establishing strategic relationship between the items of the Balance Sheet, Profit and Loss account and other operative data.

The first task of financial analysis is to select the information relevant to the decision under consideration to the total information contained in the financial statement. The second step is to arrange the information in a way to highlight significant relationship. The final step is interpretation and drawing of inference and conclusions. Financial statement is the process of selection, relation and evaluation.

REVIEW OF LITERATURE

A Study on Financial Statement Analysis was done by **Ms.C.Thangamani** with special reference to Sakthi Sugars Ltd., Coimbatore for a period of five years (1999 – 2003) in the year 2004 with the main objective to ascertain the financial position and the profitability of Sakthi Sugars Ltd. The findings revealed that there was an improvement in the investment of the company and the company is capable of paying its current obligations in time. But, the company has incurred an unexpected loss during the period of study due to drought and insufficient production of sugar. Further the sales of the firm have been declined during the current year and it is found that the firm has insufficient funds to adopt new technologies to boost up their sales.

Danish A. Hashim (2003) in his study "Capacity Utilization in Indian Airlines" has studied the financial performance of the state-owned Indian Airlines has deteriorated since 1989-90. The main

reasons cited for the poor financial performance of Indian Airlines include: rising fuel prices, excess staff, serving uneconomic routes and increasing expenses on insurance. However, low capacity utilization has rarely been cited as one of the main reasons for the poor performance. The present study thus has made an attempt to measure the extent of capacity utilization in Indian Airlines and its impact on the unit cost of production. Using data from 1964-65 to 1999-00 and applying a translog variable cost function, the capacity utilization has been estimated with respect to two alternative measures of potential output: (i) where short-run average cost is minimum, and (ii) where short-run and long-run average cost curves are tangent. The results reveal that the capacity utilization in Indian Airlines has been poor in general and also declining over the last decade. Therefore, the study has suggested a need to improve the capacity utilization, which in turn would improve the financial performance of Indian Airlines by reducing its cost per unit of output.

A study entitled “**An Analysis of Financial Performance of Non sick and Sick units of Textile Industry**” with special reference to Coimbatore textile units was done by **K.Ramamoorthi** in the year 1988 with the objectives to analyse the growth pattern of Textile Industry in India, theoretical background of sickness in the Textile Industry and to analyse the financial performance of the profit making and loss making units.

The study revealed that the profitability ratios of the sick units showed an unsuccessful performance when compared with the non-sick units. The short term and the long term solvency of the sick units was very poor as the ratios of the short term solvency showed an encouraging picture while the non-sick units showed a positive picture. Similarly, the turn over ratios of the non-sick units were quite safe when compared with the sick units.

NEED OF THE STUDY

- By “FINANCIAL PERFORMANCE ANALYSIS OF SBP BANK” we would be able to get a fair picture of the financial position of SBP bank.
- By showing the financial performance to various lenders and creditors it is possible to get credit in easy terms if good financial condition is maintained in the company with assets outweighing the liabilities.
- Protecting the property of the business.

- Compliances with legal requirement.

OBJECTIVE OF THE STUDY

- To analyses the financial performance of state bank of Patiala.
- To know the financial position of the bank.
- To see whether state bank of Patiala bank is going well or not in different areas.
- To identify the financial improvement of the bank.
- To suggest the future financial development.

SCOPE OF THE STUDY

This project acts as a reference guide or as a source of information.it gives the idea about the financial assistant of the SBP bank. The main scope of the study was to put into practical the theoretical aspects of the study into real life work experience. The study deals with analysis and interpretation of the data collection through the sources of primary and secondary data for a period five-year annual report graphs, diagrams and tabulation methods are used to analyze and interpret the data collected.

LIMITATIONS OF STUDY

- Limited knowledge about the bank in the initial stages.
- The analysis and interpretation are based on secondary data contained in the published annual reports of SBP (STATE BANK OF PATIALA) Bank for the study period.
- The study has been confined for a period of 5 years (2010-2015).
- Ratio itself will not completely show the company's good or bad financial position.
- Inter firm comparison was not possible due to the non-availability of competitor's data.
- The study of financial performance can be only a means to know about the financial condition of the company and cannot show a through picture of the activities of the company

RESEARCH METHODOLOGY

The procedure adopted for conducting the researching the research requires a lot of attention as it has direct bearing on accuracy, reliability and adequacy of results obtained. It is due to this reason the

research methodology, which we used at the time of conducting the research, needs to be elaborated upon. It may be understood as a science of studying how research is done scientifically. So, the research, methodology not only talks about the research methods but also considers the logic behind the method used in the context of the research study. Research methodology is a way to claim his study as a good study, he must clearly state the methodology adapted in conducting the research so that it may be judged by the reader whether the methodology of work done is sound or not.

Research Problem:

The first step while conducting research is careful definition of Research Problem. “To ERR IS THE HUMAN” is a proverb which indicates that no one is perfect in this world. Every researcher has to face many problems which conducting any research that’s why problem statement is defined to know which type of problems a researcher has to face while conducting any study. It is said that,

Research Design: Analytical research has been takes place in this research

Data Collection Method: Secondary data has been taken to analyze the data and interprets the results. It has always been important for the completion of any report. It provides reliable, suitable, adequate and specific knowledge

Analytical Tools Applied:

The study employs the following analytical tools:

1. Comparative statement.
2. Trend Analysis.
3. Ratio Analysis.

Comparative Financial Statements:

When financial statements figure for two or more years are placed side-side to facilitate comparison, these are called ‘comparative Financial Statements’. Such statements not only show the absolute figures of various years but also provide for columns to indicate to increase ort decrease in these figures from one year to another. In addition, these statements may also show the

change from one year to another on percentage form. Such cooperative statements are of great value in forming the opinion regarding the progress of the enterprise.

Trend Analysis

Trend analysis determines the direction upwards or downwards and involves the computation of the percentage relationship that each statement item bears to the same item in base year. Returns values along a linear trend and fits a straight line (using the method of least squares) and predicts the future values.

Ratio Analysis

A ratio is a simple arithmetic expression as the relationship of one number to another. According to accountant’s handbook by Wnion, kell and Bedford, a ratio is “an expression of the quantitative relationship between two numbers”.

Mean

Arithmetic Average or Mean of a series is obtained by dividing the total values of the various items by their number

Standard Deviation

Standard deviation was first used by Karl Pearson in the year 1893. It is the most commonly used measure of dispersion. Standard deviation is the square root of the arithmetic average of the squares of the deviations measured is the squares of the deviations measured from the mean.

$$\sigma = \sqrt{\frac{\sum fdx^2}{N} - \left(\frac{\sum fdx}{N}\right)^2} * i$$

Coefficient of Variation.

Standard deviation

Coefficient of variation = ----- X 100

Mean

1. COMPARATIVE BALANCE SHEET OF STATE BANK OF PATIALA

	2011-2012		2012-2013		2013-2014		2014-2015	
	Absolute change	% change	Absolute change	% change	Absolute change	% change	Absolute change	% change
Capital & Liabilities								
Capital	0	0	0	0	731000	24.80	1116555	30.35
Reserve & surplus	6856840	18.04	5609927	12.50	7163641	14.19	10012008	17.37
Deposits	113505500	16.68	92554826	11.65	10010725	1.13	30317661	3.38
Borrowings	57142900	112.14	-19693208	-18.22	35456337	40.11	-15892180	-12.83
Other liabilities and provisions	-5385706	-13.37	22052729	63.18	2339368	4.11	329604	0.56
TOTAL CAPITAL AND LIABILITIES	172119534	21.17	100524274	10.21	55701071	5.13	25883648	2.27
	2011-2012		2012-2013		2013-2014		2014-2015	
	Absolute change	% change	Absolute change	% change	Absolute change	% change	Absolute change	% change
Assets:								
Investments	47683041	27.60	19137228	8.68	6244489	2.61	19464387	7.92
Advances	115012926	22.36	108652996	17.26	21367672	2.90	27055751	3.56
Fixed Assets	710111	28.78	237381	7.47	692165	20.27	919712	22.40
Current Assets	8713456	7.07	-27503331	-20.83	27396745	26.21	-21556202	-16.34
TOTAL ASSETS:	172119534	21.17	100524274	10.21	55701071	5.13	25883648	2.27

1.1 COMPARATIVE PROFIT AND LOSS ACCOUNT OF STATE BANK OF PATIALA

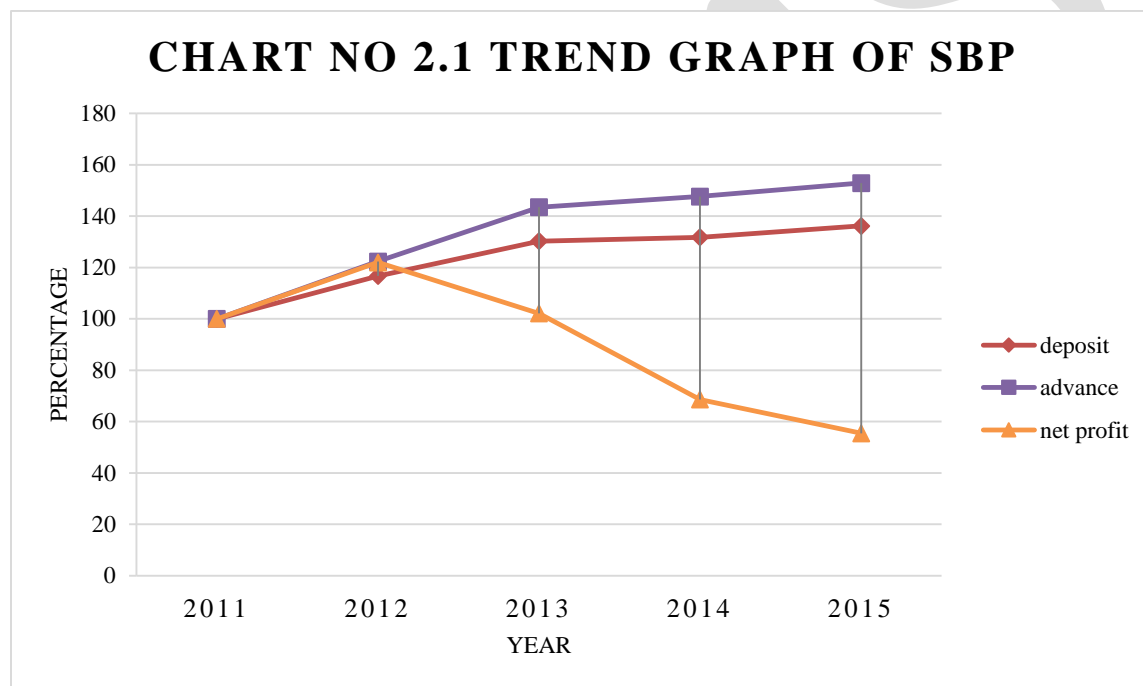
Particulars	2011-2012		2012-2013		2013-2014		2014-2015	
	Absolute change	% change	Absolute change	% change	Absolute change	change	Absolute change	Change
INCOME:								
Operating income	16384797	22.65	14509560	16.35	7048063	6.83	3301658	2.99
EXPENDITURE:								
interest expended	16315280	39.36	13372715	23.15	4470594	6.28	1939283	2.57
operating expenses	32951	0.25	2572471	19.30	4287757	26.96	-149039	-0.74
total expenses	16348231	29.86	15945186	22.43	8758351	10.06	1790244	1.87
operating profit	36566	0.21	-1435626	-8.14	-1710288	-10.56	1511414	10.44
Other provision & contingencies	-1398295	-12.64	-138712	-1.44	481223	5.05	2366891	23.65
net profit of the year	1434861	21.97	-1296914	-16.28	-2191511	-32.87	-855477	-19.11
profit brought forward	0	0	0	0	0	0	0	0
total profit/(loss)	1434861	0.48	-1296914	-16.28	-2191511	-32.87	-855477	-19.11

2. TREND PERCENTAGE OF SBP BANK FROM 2010-2011 to 2014-2015

(Base year 2010-2011)

percentage (%) figure

Particulars	2011	2012	2013	2014	2015
Deposit	100	117	130	132	136
Advance	100	122	143	148	153
Net profit	100	122	102	69	55



3. RATIO ANALYSIS

Current ratio

Table 3.1 shows the current ratio, mean, standard deviation and coefficient of variation of the liquidity ratios.

TABLE NO. 3.1: CURRENT RATIO

Year	Current Assets (Rs. In Thousand)	Current Liability (Rs. In Thousand)	Current Ratio
2010-2011	123317095	40292956	3.06
2011-2012	132030551	34907250	3.78
2012-2013	104527220	56959979	1.84
2013-2014	131923965	59299347	2.22
2014-2015	110367763	59628951	1.85
Mean	120433319	50217697	3
Standard deviation	12942462.87	12092726.05	0.87
Coefficient of variation	10.75	24.08	34.12

Interpretation:

Current ratio of the bank averaged to 3. The ratio has met the rule of thumb only during the financial year 2013 – 2014. The current assets of the bank averaged to Rs.120433319 and the current liabilities averaged to Rs.50217697. The ratio was high during the financial year 2011 – 2012 and the ratio reached a minimum value of 2012 – 2013. The standard deviation of the current ratio is 0.87 and its coefficient of variation is 34.12.

It is concluded that the current ratio averaged to 3 and have met the rule of thumb during the financial year 2010-2011.

LIQUID RATIO / QUICK RATIO

TABLE 3.2 shows the summary statistics of liquid ratio for the period of study.

TABLE NO. 3.2: LIQUID RATIO

Year	Total Quick Assets (Rs. In Thousand)	Total Current Liability (Rs. In Thousand)	Liquid Ratio
2010-2011	60866629	40292956	1.51
2011-2012	74841423	34907250	2.14
2012-2013	40669772	56959979	0.71
2013-2014	83497438	59299347	1.41
2014-2015	53209583	59628951	0.89
Mean	62616969	50217697	1.33
Standard deviation	17019645.41	11719819.82	0.56
Coefficient of variation	27.18	23.34	42.28

Interpretation:

It is known from the above table that the Liquid ratio averages to 1.33:1. The standard deviation of liquid ratio is 0.56 and the coefficient of variation is 42.28. The liquid assets averaged to Rs.62616969. The liquid assets are more consistent than that of current assets as the coefficient of variation is low. The liquid assets ratio has met the rule of thumb during the financial year 2013-2014. The ratio has been volatile and has increased suddenly in the financial year 2011 – 2012 and shows a negative trend up to 2012 – 2013 and shows a slight increase.

It is concluded that the liquid ratio averages to 1 and the ratio meet the rule of thumb of 1.4:1 during the financial year 2013 – 2014.

FINDINGS

- Profit after tax for FY2015 was Rs.3620563 compared to Rs. 4476040 for FY2014 due to the higher effective tax rate on account of lower proportion of income taxable as dividends and capital gains.
- Operating income increase by 22.65% in 2011-2012, 16.35% in 2012-2013, 6.83% in 2013-2014 and 2.99% in 2014-2015. But it have lower rate of increase compare to preceding year due to decrease in commission, exchange, brokerage and other interest earned amount.
- Interest expended is increase by 39.36% in 2011-2012, 23.15% in 2012-2013, 6.28% in 2013-2014 and 2.57% in 2014-2015. The interest expended percentage are slop down due to decrease in the interest from RBI.
- Operating expenses increased to 0.25% in 2011-2012, 19.30% in 2012-2013 due to increase in expenses such as payment to provisions for employees and rent, taxes, audit fees and other expenses. There was a decrease in operating expenses by 0.74% in 2015-2015 due to depreciation on banks property and other expenses are decreased.
- During the year, the Bank has pursued a strategy of prioritizing capital conservation, liquidity management and risk containment given the challenging economic environment. This is reflected in the Bank's strong capital adequacy and its focus on reducing its wholesale term deposit base and increasing its CASA ratio. The Bank is maintaining excess liquidity on an ongoing basis. The Bank has also placed strong emphasis on efficiency improvement and cost rationalization. The Bank continues to invest in expansion of its branch network to enhance

its deposit franchise and create an integrated distribution network for both asset and liability products.

- In line with the above strategy, the total deposits of the Bank were A fluctuation is revealed from current assets. It increases 7.07% in 2011-2012 and 26.21% in 2013-2014 and in 2012-2013 it was decrease to 20.83% and in 2014-2015 to 16.34% due to decrease balance in RBI and other bank.

- **Liquidity position**

The liquid ratio of the bank in the year 2014 and 2015 liquid ratio is 1.41 and 0.89 respectively which is close to 1. Though it is not equal to the ideal liquid ratio of 1:1 but still it's under control. So in nut shell, it can be concluded that the liquidity position of the bank is quite satisfactory.

- **Capital adequacy and return on capital employed**

The Bank's capital adequacy at March 31, 2015 as per Reserve Bank of India's revised guidelines on Basel II norms was 11.64%% and Tier-1 capital adequacy was 11.97%, well above RBI's requirement of total capital adequacy of 9.0% and Tier-1 capital adequacy of 6.0%. The above capital adequacy takes into account the impact of dividend recommended by the Board.

Also the capital is being effectively utilized in the bank as it shows better return on capital employed over years.

- **Asset quality**

At March 31, 2015, the Bank's net non-performing asset ratio was 6.73%. During the year the Bank restructured loans aggregating to Rs. 5385.01 crores.

- **Dividend on equity shares**

Since the dividend per share is lower in 2015 while compare to 2013. the dividend price is rs.36 in 2013 but in 2015 it decreases to Rs. 0.34 this is because of the interim dividend is paid.

- **Earnings per share**

The earnings per share for the period under study also shows a decreasing movement. The share price is too lower in 31 march 2015 when compare to other financial year. The earing per share is Rs 92.94.

- **Higher trends of credit deposit ratio – A positive sign**

High trends of credit deposit ratio reveal that bank has performed satisfactorily as regard to granting loans and advances to generate income. It suggests that credit performance is good and the bank is doing its business good by fulfilling its major objective as regards to granting loans and accepting deposits.

SUGGESTIONS

- Although the short term liquidity position is quite satisfactory as per revealed by liquid ratio but the current ratio is below the ideal ratio of 2:1. So the bank should make efforts to increase its current assets to maintain a safety margin and to maintain a better liquidity position.
- The profitability of the bank for the period under study is not satisfactory. Profits are increasing but not with same pace as of the expenditure due to higher reliance on debt capital in the form of borrowings and loans for financing capital structure. So in order to improve profitability, the bank should reduce its dependence on external equities for meeting capital requirements. Consequently, the interest expenses will decline and profits will increase which is good for the bank. Similarly, non-productive expenses should be curtailed to improve profitability.
- Higher trend of credit deposit ratio reveals that the bank has performed satisfactorily as regard to granting loans and advances to generate income. It suggests that the credit performance of bank is good and it is performing its business well by fulfilling the major objective of granting credit and accepting deposit. So in order to have more creditability in the market the bank should maintain its credit deposit ratio.
- Though the bank has been successful in increasing its deposits but to further improve upon such situation it can introduce some new and attractive schemes for public. Such schemes can be in the form of higher rate of interest and shorter maturity period for FD's etc.
- Bank should try to finance more and more projects. Financing will help it to earn higher amount of profits.
- The bank is having a greater reliance on debt capital. The increasing reliance on external equities may prove hazardous in the long run. So in order to remedy this situation bank should increase its focus on internal equities and other sources of internal financing.

- Bank can also think for improving its day-to-day service to its clients. Such service can be improved by providing prompt service and showing an attitude of co-operation to its clients. It will help to give a kind of confidence to the public and build a better public image.
- To achieve the objective of rural development it should open more and more branches in different rural areas of the country. It will facilitate in providing help to rural poor farmers and other living below the poverty line. Bank can appoint commission agents for different area who can encourage general public to invest in the capital of the bank and make more deposits in SBP Bank.
- The bank should simplify the procedure of advances for quick disbursement.
- To achieve organizational success a proper independent working atmosphere should be developed to achieve desired objective more effectively.
- Last but not least, bank should adopt branch automation experiment to control the operational cost.

CONCLUSION

On the basis of various techniques applied for the financial analysis of SBP Bank we can arrive at a conclusion that the financial position and overall performance of the bank is satisfactory. Though the income of the bank has increased over the period but not in the same pace as of expenses. But the bank has succeeded in maintaining a reasonable profitability position. The bank has succeeded in increasing its share capital also which has increased around 50% in the last 5 years. Individuals are the major shareholders. The major achievement of the bank has been a tremendous increase in its deposits, which has always been its main objective. Fixed and current deposits have also shown an increasing trend. The bank should concentrate on the net profit and earning per share and for dividend because the ratio of this shows a decreasing trend.

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