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Comparative Study of Financial Distress with Reference to SBI and ICICI

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Abstract: *The present study has made an attempt to examine the Profitability and Financial Distress of SBI and ICICI banks. The study has considered the two banks to know the level of Financial Distress of the respective banks as well as comparison of Financial Distress of the banks. To further explore difference in profitability of SBI and ICICI banks. The Profitability has been measured with the ratios of Net profit, Gross profit, Operating profit. To know the Financial Distress I applied the Z-Score model. It is very helpful because if Financial Distress cannot relieved it can leads to bankrupts.*

Keywords: *Financial Distress, Bankruptcy, Profitability.*

I. INTRODUCTION

Financial distress is a condition in which the company, bank or any other individual cannot generate money or revenue or income. Because the person, bank, cannot pay his financial obligations. Sometimes it's normally happens because of high fixed costs, illiquid assets, or else revenues sensitive to the economic downturns.

Financial distress is an analysis of bank crisis which causes an adverse effect on the economy and health of financial sector. Generally financial distress is a situation in which a firm or company is not in position to pay its monetary obligation and debts and financial crisis start in the unit. If financial distress cannot relieved it can leads to the bankrupts. It's not good for the society. When a bank faces financial distress, at that time market value of share is reduced and customers avoid dealings with that bank if the bank is facing crucial situation of distress. Profitability is measuring efficiency in banking sector.

II. OBJECTIVES OF THE STUDY

- A. To explore difference in Profitability and Liquidity Position of SBI and ICICI
- B. To examine the level of financial distress of SBI and ICICI
- C. To compare financial distress of SBI and ICICI.

III. NEED FOR THE STUDY

The need for the study helps to examine the financial distress of SBI and ICICI. This study helps to understand the level of Financial Distress of both banks as well as the reasons which are affecting to become Financial Distress position for the banks

IV. SCOPE FOR THE STUDY

The scope of the study is confined to "Analytical study of financial distress and profitability of SBI and ICICI banks." The data analysis is for period of 5 years (2015 to 2019).

V. RESEARCH METHODOLOGY

1) *Sources of Information:* The study is based on the Secondary data. The Secondary data sources adopted from different Journals, Websites and Newspapers, Text books.

2) *Statistical Tools*

a) *T-test (Z-score Model):* This is used for to find out the level of Financial Distress

The Altman equation is calculated by weighting various financial ratios and comparing their sum to a graded scale. New York University professor Edward Altman introduced the Z-score formula in the late 1960s. He suggested that Rather than search for a single best ratio, Altman built a model that distills five key performance ratios into a common single score and it is very helpful. As it turns out, the Z-score gives investors a pretty good overview of corporate financial health. So that the individual, corporation, institution gets an idea.

The Z-score formula for the manufacturing firms or companies, which is built out of the five weighted financial ratios are:

$$Z\text{-Score} = 1.2A + 1.4B + 3.3C + 0.6D + 1.0E$$

Where:

A = Working Capital/Total Assets

B = Retained Earnings/Total Assets

C = Earnings before Interest & Tax/Total Assets

D = Market Value of Equity/Total Liabilities

E = Sales/Total Assets

b) *Mean*: The arithmetic mean of a set of values is the ratio of their sum to the total numbers value in the set.

$$M = \frac{X_1 + X_2 + X_3 + \dots + X_n}{n}$$

c) *Standard Deviation*: the standard deviation of data set this measure of the magnitude of deviations between the values of the observations contain in the data set.

$$s = \sqrt{\frac{\sum (x - \bar{x})^2}{n - 1}}$$

d) *Standard Error*

$$\sigma_M = \frac{\sigma}{\sqrt{N}}$$

VI. REVIEW OF LITERATURE

A. *The Influence Of Profitability On Financial Distress : A Research On Agricultural Companies Listed In Indonesia Stock Exchange Win Win Yadiati*

Abstract: Says that point of this exploration is to break down the impact of profitability on money related distress in rural organizations recorded in Indonesia stock trade from 2012 to 2014. Altman Z's Score, net revenue, money proportion, and normal logarithm all out resources are utilized as the intermediary of budgetary distress, profitability.

Through purposive testing technique, 18 organizations were utilized as an example in this examination. Information utilized in this examination were auxiliary ones which gotten from organization's fiscal report and Indonesian Capital Market Directory (ICMD) from 2012 to 2014. The investigation strategies for this examination is utilized various relapse investigation. The outcome is demonstrated that incompletely profitability have impact however no huge towards monetary distress.

B. *AMAD RAFIQUE International Economic and Management Paderborn University. EFFECT OF FINANCIAL DISTRESS ON OPERATING CASH FLOWS*

Abstract: Says that worrying on the vital capacity played by monetary distress this report provide new guidance on the budgetary execution of joint stock firm. The principle focal point of this work is to recognize a model which can be utilized for early predication of monetary distress that grant us to distinguish a particular nature of money related distress can impact working income and Monetary distress is a circumstance when an association's benefits' esteem falls beneath some limit. Firm begins to bring about misfortunes and it isn't in a situation to create positive money streams. A firm enters to money related distress before it goes bankrupt.

C. *Ikpesu Fredrick1 and Eboiyehi Osazemen Capital structure and corporate financial distress of manufacturing firms in Nigeria*

This paper researched the impact of capital structure on corporate budgetary distress of assembling firms in Nigeria by utilizing board amended standard mistake (PCSE) system.

The factors utilized in the examination are corporate money related distress, capital structure, firm size, resources substantial quality, income development, profitability and period of firms. The result of the exploration uncovers that capital structure influences corporate money related distress contrarily while organization age from posting years, profitability and resource substance influences corporate budgetary distress decidedly. The outcome further uncovered that firm development and firm size influences monetary distress contrarily. Arrangement suggestion from the investigation is that administrators must be wary when planning their capital structure.

VII. DATA ANALYSIS AND INTERPRETATION

A. Objective 1

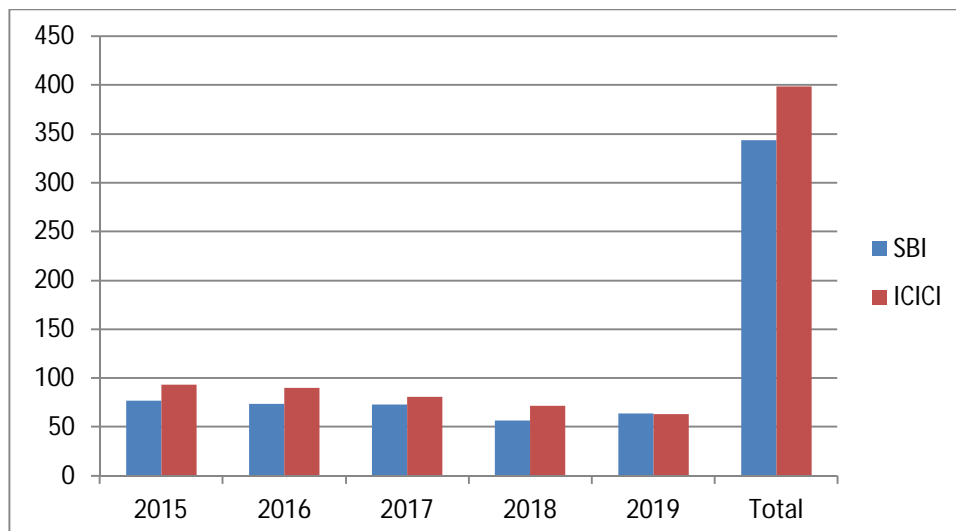
To explore difference in Profitability & Liquidity position of SBI and ICICI

1) Calculation of Gross Profit Margin of SBI and ICICI for the year 2015-2019

Years	SBI	ICICI
2015	76.5735	93.4414
2016	73.5235	89.7072
2017	73.2195	80.6879
2018	56.5449	71.6346
2019	63.642	63.3476
Total	343.503	398.819

Gross Profit Margin = (Gross Profit / Revenue) * 100

Graphical representation of Gross Profit Margin of SBI and ICICI



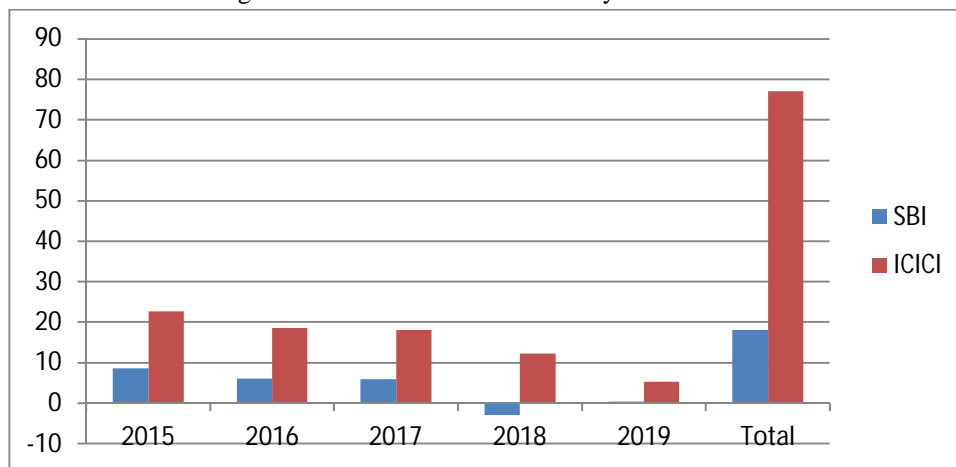
a) *Interpretation:* The above graph represents the differences of Gross Profit Margin ratios. ICICI bank Gross Profit Margin ratio was decreased for the year 2015-2019. SBI Gross Profit ratio is fluctuating

2) Calculation of Net Profit Margin ratio of SBI and ICICI for the year 2015-2019

Years	SBI	ICICI
2015	8.5969	22.7644
2016	6.0675	18.5104
2017	5.9732	18.0977
2018	-2.9693	12.3302
2019	0.355	5.3047
Total	18.0233	77.0074

Net Profit Margin = (Net Profit / Total Revenue) * 100

Graphical representation of Net Profit Margin ratio of SBI and ICICI for the year 2015-2019



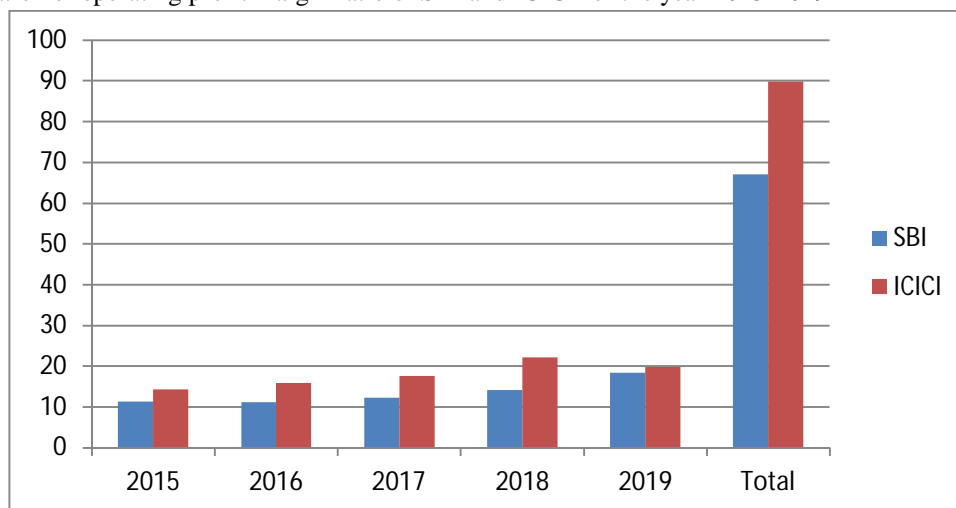
a) *Interpretation:* The above graph represents the Net profit margin ratios of SBI and ICICI banks. SBI Net profit ratio is fluctuating but in the year 2018 it was -2.9693 and in the year 2019 it was increased to 0.3550. ICICI was decreased from 2015-2019.

3) Calculation of Operating margin ratio of SBI and ICICI banks for the year 2015-2019

Year	SBI	ICICI
2015	11.8623	16.7091
2016	10.4347	17.5181
2017	10.0731	14.2918
2018	8.086	14.7412
2019	9.0062	15.3035
Total	49.4623	78.5637

Operating profit margin = (Operating profit / Net sales) *100

Graphical representation of operating profit margin ratio of SBI and ICICI for the year 2015-2019



a) *Interpretation:* The above graph represents the Operating margin ratio of SBI and ICICI banks for the year 2015-2019. There are certain fluctuations for both banks. 2016 is the highest Operating margin ratio. 2015 is the highest Operating profit margin for SBI bank. While comparing the both banks ICICI having better Operating margin than the SBI bank.

B. Objective 2

To examine the level of Financial Distress of SBI and ICICI

A. Altman Z-Score Model

1) Calculation of financial distress level of SBI and ICICI for the years 2015 to 2019

Year	SBI	ICICI
2015	-0.1603	20.5075
2016	4.4667	7.6393
2017	8.9489	4.2003
2018	1.4233	2.8558
2019	3.498	12.0512

X1 = Working

W.C = current assets-current liabilities

X2 = Retained earnings / total assets

X3 = Earnings Before interest and taxes/total assets

X4= Market value equity/total assets

X5= Netsales/total assets

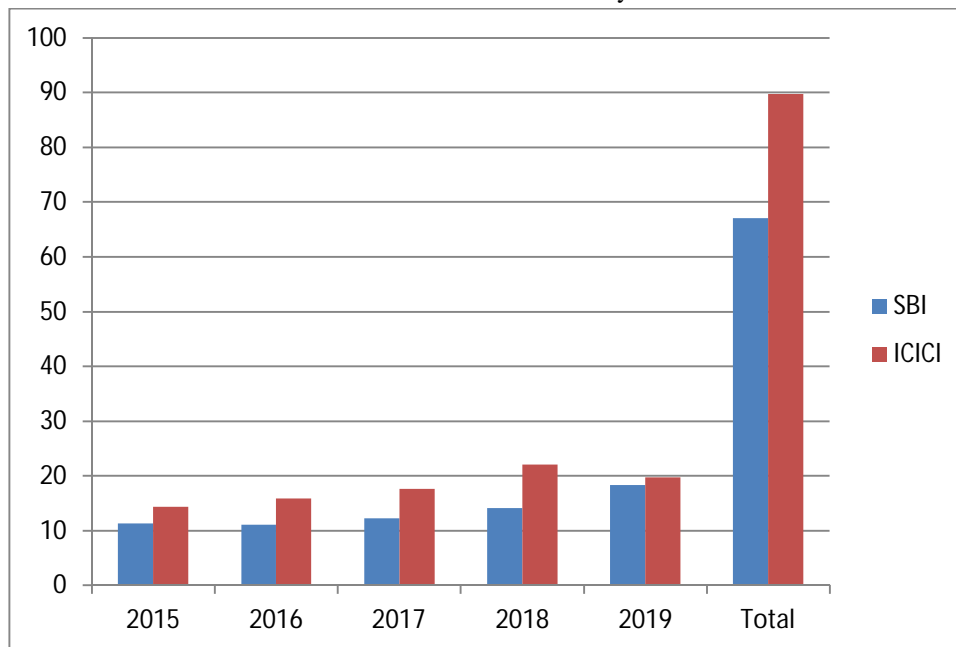
Z > 2.99 (Safe zone)

1.81 < Z < 2.99 (Gray zone)

Z < 1.81 (Distress zone)

capital/total assets

Graphical representation of Financial Distress of SBI and ICICI banks for the year 2015-2019



a) *Interpretation:* The above table depicts the year wise level of financial distress of SBI and ICICI bank for the period ranging from 2015-2019 which is calculated with the help of Altman Z-Score model. Both these banks were suffering from financial distress although ICICI is in better than that of SBI because the distress level is -0.1603 ($Z < 1.81$) in 2015 and 2018 it is 1.4233 which indicates distress zone in SBI. But the ICICI distress level is 20.5075 ($Z > 2.99$) in 2015, it is in safe zone and in 2018 distress level is constant i.e. 2.8558 which indicates there exists no distress and is in Gray zone ($1.81 < Z < 2.99$). For the remaining three years the financial distress is high which shows that the performance of the banks doesn't have any effect on profitability.

2) Calculation of mean and standard deviation of risk and return for the year 2015-2019

	BANK NAME	N	MEAN	STD.DEVIATION	STD.ERROR
Profits	SBI	5	3.6353	3.4728	1.5530
	ICICI	5	9.4508	7.1301	3.1886

a) *Interpretation:* The above table indicates the mean and standard deviation, standard error of ICICI bank and SBI bank for the year 2015-2019. From the above table it is clearly observed that there is a marginal difference between two banks. The difference of mean profits of SBI and ICICI are 3.6353 and 9.4508 respectively

Standard deviations of these two are 3.4728 and 7.1301 respectively. While observing the above table it's clearly shown that there are certain fluctuations in profits of SBI and ICICI banks.

B. Objective 3

To compare Financial Distress of SBI and ICICI

1) *ICICI Bank NPA*

- a) Core operative profit (profit before provisions and tax, excluding treasury income) grew by twenty sixth year-on-year to ₹6,077 large integer (US\$ 879 million) within the quarter concluded March thirty one, 2019 (Q4-2019)
- b) Net interest margin at 3.72% in Q4-2019
- c) Fee financial gain grew by V-J Day year-on-year in Q4-2019
- d) Core operative profit grew by Revolutionary Organization 17 November year-on-year to ₹ twenty two, 072 Crore (US\$ 3.2 billion) in the year ended March 31, 2019 (FY2019)
- e) Domestic loan growth at Revolutionary Organization 17 November year-on-year at March thirty one, 2019 driven by retail
- f) Retail loans grew by twenty second year-on-year and planted hr of the loan portfolio at March thirty one, 2019
- g) 16 PF year-on-year growth in total deposits at March thirty one, 2019
- h) Twelve-tone music year-on-year growth in current and bank account (CASA) deposits; period-end CASA magnitude relation at forty nine.6% at March 31, 2019
- i) Web terrorist organization magnitude relation reduced from two.58% at December 31, 2018 to 2.06% at March 31, 2019 - the lowest in the last 13 quarters
- j) Web NPAs reduced by over five hundredth year-on-year to ₹ thirteen,577 Crore (US\$ 2.0 billion) at March 31, 2019
- k) Provision coverage ratio (including technical/prudential write-offs) increased from 60.5% at March 31, 2018 to 80.7% at March 31, 2019, further strengthening the balance sheet
- l) Gross terrorist organization additions in FY2019 were ₹11,039 Crore (US\$ 1.6 billion) compared to ₹28,730 Crore (US\$ 4.2 billion) in the year ended March 31, 2018 (FY2018)
- m) Total capital adequacy ratio of 16.89% and Tier-1 capital adequacy ratio of 15.09% on standalone basis at March 31, 2019

2) *SBI Bank NPA*

- a) State Bank of India (SBI) reported a net profit of Rs 2,312 Crore for the June quarter of 2019-20 (Q1FY20) on the back of healthy growth in advances and stable asset quality. The bank had reported a net loss of Rs 4,875.9 Crore in the corresponding quarter of the previous fiscal (Q1FY19) and a PAT of Rs 838.4 in the March 2019 quarter (Q4FY19).
- b) The profit beat analysts' expectations World Health Organization had pegged the profit at Rs two, 066.7 Crore.
- c) The bank's asset quality improved with gross non-performing assets (GNPA) at Rs 1.68 lakh Crore, down 21 per cent, from Rs 2.13 lakh Crore reported in Q1FY19. It was down 2.8 per cent sequentially from Rs 1.73 lakh Crore in Q4FY19.
- d) The net NPA (NNPA) remained flat on a quarterly basis. It came in at Rs 65,624 Crore, down 0.41 per cent QoQ from Rs 65,894.74 Crore. The NNPA, however, fell 34 per cent YoY from Rs 99,236 Crore clocked in Q1FY19.
- e) Asset quality, an issue that has pestered Indian lenders for years as bad loans surged, was stable at SBI during the recently concluded quarter, with gross non-performing assets as a percentage of total loans standing at 7.53 per cent at June-end, flat over the previous quarter and lower than 10.69 per cent in the same period last year. Interest earned rose 6.5 per cent, while provisions for bad loans dived 10.7 per cent in the quarter.

VIII. FINDINGS AND CONCLUSION

A. Findings

- 1) The Gross Profit Margin ratio of SBI and ICICI are 343.503 and 398.819 respectively for the year 2015-2019
- 2) The Net Profit Margin ratio of SBI and ICICI are 18.0233 and 77.0074 respectively for the year 2015-2019
- 3) The Operating Margin of SBI and ICICI banks are 49.4623 and 78.5637 respectively for the year 2015-2019.
- 4) The Current ratio of SBI and ICICI banks are 67.1035 and 89.7616 respectively for the years 2015-2019
- 5) The Debt ratio of SBI and ICICI banks are 4.9889 and 4.9731 respectively for the year 2015-2019
- 6) The Working capital turnover ratio of SBI and ICICI are 0.5064 and 0.4883 respectively for the year 2015-2019
- 7) Distress levels of SBI are fluctuating though in case of ICICI the distress levels are low consequently it can increase higher benefits in future. In the year 2014 and 2017 (-0.1603, 1.4233) financial distress level in SBI remaining years are safe zone.
- 8) The overall distress level of SBI is fluctuating whereas in case of ICICI, the distress levels are low hence it can gain higher profits in future.

B. Conclusion

The outcome of the ratios reflects the ability of the bank to make optimal use of the available resources. Both these banks were suffering from financial distress although ICICI is in better than that of SBI because the distress level is -0.1603 ($Z < 1.81$) in 2015 and 2018 it is 1.4233 which indicates distress zone in SBI. But the ICICI distress level is 20.5075 ($Z > 2.99$) in 2015, it is in safe zone and in 2018 distress level is constant i.e. 2.8558 which indicates there exists no distress and is in Gray zone ($1.89 < Z < 2.99$). SBI should keep an eye on its expenses and should take proper steps to reduce credit risk so that there will be no financial Distress in coming years

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