

FINANCIAL PERFORMANCE OF PUBLIC SECTOR BANKS AND PRIVATE SECTOR BANKS: A COMPARATIVE STUDY

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ABSTRACT

In today's financial world, financial performance is compulsory with perspective to stakeholders, and investors. Financial performance is crucial for taking financial decisions related to planning and control. Banking sector perform an important role in economic development of a country. The feature of Indian banking system is large network of bank branches, providing many kinds of financial services for the people. This paper is aimed at examining the performance and productivity of public and private sector banks in India. The objective is to examine the performance of public and private banks with special reference to selected banks during the period of five years i.e.2015 to 2019.The data is collected from secondary sources and the sample are selected through random selection technique. To study every aspect of performance various ratios have been used which help to analysis the variable in better way.

Keywords: Public sector bank, Private sector bank, Ratio analysis, Financial performance.

Introduction

Banking sector in India is classified into three namely nationalized banks and (SBI), private sector banks and foreign banks. All these banks are doing banking operation for achieving their objectives. The operations of all the banks in India are regulated by the Reserve bank of India (RBI). RBI took over the reasonability of formally controlling the

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banks in India in year 1935. RBI was announced as the official central authority of India for the smooth supervision of the banking sector in India. Bank's competition has double benefit to the economy and to these banks themselves. We have seen in the era of nationalized banks dominated banking industry where all the banking operating are done by the nationalized banks only with the sole objective of social banking where people's welfare occupies the major place. Various aspects of the Indian banking sector have been highlighted in recent studies. Many of these refer to convergence and soundness of the sector. There has been a lot of literature covering both of these aspect and, to a great extent, establishing different relationships between these and key macroeconomic and financial variable. This study analyse the various aspect of convergence and soundness in the India banking sector, computes various factor affecting and determining the two using econometric analysis and provides policy suggestion tackling obstacles encountered while achieving soundness and convergence and how to maintain stability for longer period.

Review of Literature

Kajal Chaudhary and Monika Sharma (2011), in her paper titled, "Performance of Indian Public Sector Banks and Private Sector Banks: A Comparative Study" concludes that an efficient management information system should be developed. The bank staff involved in sanctioning the advances International Journal of Commerce and Management Research should be trained about the proper documentation and charge of securities and should be motivated to take measures in preventing advances turning into NPA. Public banks should focus on their functioning to compete with private banks. Banks should be proficient in proper selection of borrower / project and analysis of financial statements.

Bansal (2010), attempted to find out the impact of liberalization on productivity and profitability of public sector banks in India. While measuring the profitability of all PSBs, the results of the trend analysis showed that for the majority of PSBs there was an increase in absolute net profit, but a drop in profitability was observed. But some banks have improved their profitability over the study period.

Zafar T.S.M., Maqbool A. and et al.(2012), in their study to analysis quantitative factors involve in evaluating performance of Indian commercial banks and checks the adequacy of Camel module recommendation for improvement of the banks performance. Study was based on secondary data and collected from annual reports of banks from 2005-06 to 2009-10. Tools used to analysis Camel technique like: Capital adequacy ratio, management efficiency, and assets quality etc. during the year and all banks are sensitive and responsible for customer needs during the analysis.

Jha and Sarangi (2011), Evaluated the performance of 7 public sector and private sector banks during the year 2009-10. They used three financial ratios like operating performance ratios, financial ratios and efficiency ratios. They found that Axis bank took the first position and followed by ICICI Bank, PNB, BOI, SBI, IDBI AND HDFC bank, in that order.

Objective of the Study

- To study the performance of selected public sector banks and private sector banks.
- To study the comparative analysis of public sector and private sector bank with special reference of some selected banks.

Research Methodology

The research study is based on secondary data to analysis the selected public sector banks and private sector banks during the period of 2015-2019. Data is collected from respective banks sites and moneycontrol.com. For analysis of the data, various tools have been used like ratio, means and percentage, etc. ratios were used for analysis and compare the financial performance of selected banks. Means used for compare the trend of banking profitability.

Variable of the study

- Return on assets (ROA)
- Return on equity(ROE)

- Net margin ratio
- Ratio of Interest Income to Total Assets
- Ratio of Non-Interest to Total Assets

Limitations of the Study

- The study is based on secondary data and only 6 banks, (3 from public sector and 3 from private sector) were taken as samples. Data have been used only 5 year i.e. 2015 to 2019.
- So many websites contains different values of the same year hence reference is taken from limited website. i.e. moneycontrol.com.

Company Profile

- **STATE BANK OF INDIA:** State bank of India (SBI) is one the of largest public sector bank in India with a 23% market share in asset, besides a share of one-fourth of the total loan and deposits market. SBI was established on 1st July 1955. It is a government statutory body and its headquarter is located in Mumbai, (Maharashtra). SBI has 14 local head offices and 57 regional offices located in important cities across the country. During 2014-15, SBI has 16333 branches, including 191 foreign offices spread across 36 countries; it makes the group a truly big financial supermarket and financial icon of India.
- **PUNJAB NATIONAL BANK:** PNB, India's first Swadeshi Bank, commenced its operations from Lahore on 12 April 1895, with an authorized capital of Rs 2 lakh and working capital of Rs 20,000. The Bank was established by the spirit of nationalism. PNB was the first bank which was purely managed by Indians with Indian Capital. Its headquarters is located in New Delhi, India. As of June 2019, the PNB has 7,037 branches and 9,071 ATMs across the country. As of 31st Dec '19, PNB is having 2 overseas branches in Hong Kong and Dubai.
- **BANK OF BARODA:** Bank of Baroda (BOB) is an Indian public sector Banking. It is the second largest public sector bank in India postmerger with a business mix

of close to US\$225 billion. As on 2019 data report, BOB is ranked 1145 on Forbes Global 2000 list. Its head quarter is located in Vadodara, (Gujarat).

- **ICICI BANK:** Industrial credit and Investment Corporation of India (ICICI) is the second largest private sector bank in India. ICICI Bank is an Indian multinational banking company. ICICI bank has established on 5 January 1994 and its headquartered in Mumbai, Maharashtra with its registered office in Vadodara, Gujarat. Based on 2018, ICICI Bank is the second largest bank in India in terms of assets and market capitalization.
- **HDFC BANK:** HDFC Bank was established in 1994, with its headquartered in Mumbai, Maharashtra. Based on 2020. HDFC is the largest private sector bank in India by market capitalization. As of 2019, the Bank's distribution network was at 5500 branches across 2,764 cities.
- **AXIS BANK:** Axis Bank is the India's third-largest private sector bank. Axis bank offering a wide assortment of financial products. Its head office is in Mumbai, Maharashtra. It has 4,050 branches, 11,801 ATMs, and 9 international offices. Axis bank employs over 55,000 people and bank had a market capitalization of Rs.1.31 trillion.

Data Analysis

Return on Assets (ROA):

Return on assets is a ratio of annual net income divided by net asset. This ratio measure the company's efficiency. Higher value of this ratio means that company is managing its assets more effectively to produce more of the net income.

Table 1: Return on Assets Ratio (in %)

YEAR	SBI	PNB	BOB	AVG	ICICI	HDFC	AXIS	AVG
2015	0.63	0.5	0.47	0.53	1.72	1.73	1.59	1.68
2016	0.42	0.59	0.8	0.60	1.34	1.73	1.56	1.54
2017	0.38	0.18	0.19	0.25	1.26	1.68	0.61	1.18
2018	0.18	1.6	0.33	0.70	0.77	1.64	0.03	0.81

2019	0.02	1.28	0.05	0.45	0.34	1.69	0.58	0.87
AVERAGE	0.33	0.83	0.368	0.508	1.09	1.69	0.87	1.22
SD	0.23	0.59	0.29	0.17	0.54	0.04	0.68	0.39
CV	71.79	70.88	78.20	33.78	49.44	2.23	77.85	31.94

Table-1: reveals that bank wise average, standard deviation (SD), and coefficient of variation (CV) of interest income to total assets of selected banks.

The table shows that year to year interest income to total assets ratio fluctuated over the study period. PNB has highest average i.e. (0.83) and SBI has lower average i.e. (0.33) among the selected public sector bank. Standard deviation of interest income to total assets of SBI is 0.23 which is more consistent and low coefficient of variation i.e. 71.79 as compared to PNB and BOB. On the other side Private sector bank, ICICI bank, HDFC bank and Axis bank have been shown fluctuating but decreasing trend over the period of study. HDFC bank has highest average i.e. 1.69 followed by ICICI bank and AXIS bank 1.09 and 0.87 respectively. Standard deviation of interest income to total assets of HDFC bank is 0.04 which is more consistent with low coefficient of variation i.e. 2.23 as compared to ICICI bank and Axis bank. If we consider the overall position of selected public and private sector banks as interest income to total assets ratio then private sector banks have got better position than public sector banks during the period of study.

Return on Equity:

Return on equity is a measure company's profitability in relation to the equity. Return on equity is a ratio of net income divided by shareholder's equity. The higher the ROE, the more efficient the management of the company is in generating income and growth from its equity financing.

Table 2: Return on Equity ratio(in %)

YEAR	SBI	PNB	BOB	AVG	ICICI	HDFC	AXIS	AVG
2015	10.2	8.12	8.53	8.95	13.89	16.47	16.46	15.61
2016	6.89	11.2	13.42	10.50	11.19	16.91	15.46	14.52

2017	6.69	3.47	3.43	4.53	10.11	16.26	6.59	10.99
2018	3.37	32.85	5.6	13.94	6.63	16.45	0.43	7.84
2019	0.39	24.2	0.94	8.51	3.19	14.12	7.01	8.11
AVERAGE	5.51	15.97	6.38	9.29	9.00	16.04	9.19	11.41
SD	3.74	12.18	4.82	3.41	4.16	1.10	6.72	3.58
CV	67.98	76.27	75.57	36.71	46.24	6.86	73.08	31.34

Table-2: exhibits that bank wise average, standard deviation (SD), and coefficient of variation(CV) of interest income to total assets of selected banks.

The table shows that the year-to-year interest income to total assets ratio fluctuated over the study period. PNB has highest average i.e. 15.97 and SBI has lowest average i.e. 5.51 among the selected public sector bank. Standard deviation of interest income to total assets of SBI is 3.74 which is more consistent and low coefficient of variation i.e. 67.98 as compared to PNB and BOB. On the other side Private sector bank, ICICI bank, HDFC bank and Axis bank have been shown fluctuating but decreasing trend over the period of study. HDFC bank has highest average i.e. 16.04 followed by AXIS bank and ICICI bank 9.19, and 9.00 respectively. Standard deviation of interest income to total assets of HDFC bank is 1.10 which is more consistent with low coefficient of variation i.e.6.86 as compared to ICICI bank and Axis bank. If we see overall position of selected public and private sector banks in terms return on equity ratio then private sector banks has got better position when compared to public sector banks during the period of study.

Net Interest Margin Ratio

Net interest margin ratio is a ratio that measures how successful a firm is at investing its funds in comparison to its expenses on the same investments. It is calculated by dividing the interest earned-Interest paid by its total assets. Higher the ratio indicates good financial strength of any bank.

Table 3: Ratio of Net Interest Margin (in %)

YEAR	SBI	PNB	BOB	AVG	ICICI	HDFC	AXIS	AVG
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2015	8.59	6.61	7.91	7.70	22.76	21.07	20.73	21.52
2016	6.06	8.38	12.24	8.89	18.44	20.41	20.06	19.64
2017	5.97	2.8	3.27	4.01	18.09	20.99	8.26	15.78
2018	2.96	25.59	5.57	11.37	12.33	21.79	0.6	11.57
2019	0.35	19.44	0.86	6.88	5.3	21.29	8.5	11.70
AVERAGE	4.79	12.56	5.97	7.77	15.38	21.11	11.63	16.04
SD	3.18	9.56	4.38	2.70	6.75	0.50	8.61	4.52
CV	66.49	76.06	73.32	34.73	43.86	2.37	74.05	28.20

Table-3: exhibits that bank wise average, standard deviation and coefficient of variation of Net interest margin of selected banks.

The table shows that the total net income of the year fluctuated in the total assets ratio over the study period. PNB has highest average i.e. 12.56 and SBI has lowest average i.e. 4.79 among the selected public sector bank. Standard deviation of net-interest margin of SBI is 3.18 which is more consistent with low coefficient of variation i.e. 66.49 as compared to PNB and BOB. On the other hand Private sector bank, ICICI bank HDFC bank and Axis bank have been shown fluctuating but decreasing trend over the period of study. HDFC bank has highest average i.e. 21.11 followed by ICICI bank and AXIS bank 15.38, 11.63 respectively. Standard deviation of net interest margin of HDFC bank is 0.50 which is more consistent with low coefficient of variation i.e. 2.37 as compared to ICICI bank and Axis bank. It is observed that in terms of the ratio of total interest rate of selected public and private sector banks, private sector banks have got better position than public sector banks during the period of study.

Ratio of Interest Income to Total Assets

This ratio is a financial performance measure that focus the difference between the revenue generated from a bank's interest-bearing assets and the expenses associated with

payments on its interest-liabilities. It is calculated from dividing the interest earned by its total assets.

Table 4: Ratio of Interest Income to Total Assets (in %)

YEAR	SBI	PNB	BOB	AVG	ICICI	HDFC	AXIS	AVG
2015	7.44	7.67	6	7.04	7.59	8.2	7.68	7.82
2016	6.95	7.1	6.56	6.87	7.31	8.49	7.8	7.87
2017	6.48	6.56	6.07	6.37	7.01	8.02	7.4	7.48
2018	6.38	6.26	6.06	6.23	6.25	7.54	6.62	6.80
2019	6.59	6.62	6.39	6.53	6.57	7.95	6.86	7.13
AVERAGE	6.77	6.84	6.22	6.61	6.95	8.04	7.27	7.42
SD	0.43	0.55	0.25	0.34	0.54	0.35	0.51	0.46
CV	6.40	8.07	3.95	5.10	7.81	4.34	7.07	6.15

Table-4: reveals that bank wise average, standard deviation and coefficient of variation of interest income to total assets of selected banks.

The table shows that year to year interest income to total assets ratio fluctuated over the study period. PNB has highest average i.e.6.84 and BOB has lowest average i.e. 6.22 among the selected public sector bank. Standard deviation of interest income to total assets of BOB is 0.25 which is more consistent and low coefficient of variation i.e. 3.95 as compared to PNB and CBI. On the other hand Private sector bank, ICICI bank, HDFC bank and Axis bank have been shown fluctuating but decreasing trend over the period of study. HDFC bank has highest average i.e. 8.04 followed by Axis bank and ICICI bank at 7.27 and 6.095 respectively. Standard deviation of interest income to total assets of HDFC bank is 0.35 which is more consistent with low coefficient of variation i.e. 4.34 as compared to ICICI bank and Axis bank. If we see overall position of both selected public sector and private sector banks in terms interest income to total assets ratio then private

sector banks has got better position when compared to public sector banks during the period of study.

Ratio of Non-Interest to Total Assets

This ratio shows how efficiently assets are used to generate interest income. High ratio is an indicator of efficient management of total assets of banks. It is calculated from dividing the interest earned by its total assets.

Table 5: Ratio of Non-Interest Income to Total Assets (in %)

YEAR	SBI	PNB	BOB	AVG	ICICI	HDFC	AXIS	AVG
2015	1.1	0.97	0.61	0.89	1.88	1.52	1.81	1.74
2016	1.18	1.03	0.74	0.98	2.12	1.51	1.78	1.80
2017	1.31	1.24	0.97	1.17	2.52	1.42	1.94	1.96
2018	1.29	1.15	0.92	1.12	1.98	1.43	1.58	1.66
2019	0.95	0.95	0.77	0.89	1.5	1.41	1.63	1.51
AVERAGE	1.17	1.07	0.80	1.01	2.00	1.46	1.75	1.74
SD	0.15	0.12	0.14	0.13	0.37	0.05	0.14	0.17
CV	12.67	11.59	18.06	12.83	18.53	3.61	8.28	9.54

Table-5: exhibits that bank wise average, standard deviation and coefficient of variation non-interest income to total assets of selected banks.

SBI has highest average i.e. 01.17 and BOB has lowest average i.e. 0.80 among the selected public sector bank. Standard deviation of no-interest income to total assets of PNB is 0.12 which is more consistent as compared to SBI and BOB but in case of coefficient of variation, PNB has better position in comparison to other banks. On the other hand Private sector banks, ICICI bank, HDFC bank, and Axis bank have been shown fluctuating but increasing trend over the period of study. ICICI bank has highest average i.e. 2.00 followed by Axis bank and HDFC bank at 1.75, 1.46 respectively. Standard deviation of non-interest income to total assets of HDFC bank has 0.05 more consistent with low coefficient of variation i.e. 3.61 as compared to ICICI bank and Axis bank. If we

consider the overall position of selected public and private sector banks as non-interest income to total assets ratio then private sector banks have got better position than public sector banks during the period of study.

Findings and Conclusion

For analysing the financial performance of selected public sector and private sector banks, different variable have been used. The selected public sector banks that are State Bank of India (SBI) and Punjab National Bank (PNB) and Bank of Baroda (BOB), where as Private sector banks are ICICI bank, HDFC bank and Axis Bank. During the study, it has been found that earning capacity of PNB is better than SBI and BOB. In private sector banks, earning capacity of HDFC bank is better than ICICI bank and Axis bank. Return on assets ratio of PNB and HDFC bank is higher respectively in public sector bank and private sector bank. It is found that private sector banks have better utilized their available resources such as assets, investments etc. It is also observed in the research study that public sector banks have not utilized their resources optimally. Therefore it is necessary for public sector banks to pay more attention on improve their productivity/efficiency of employee by training, incentives and suitable management.

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