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A Comparative Analysis of the Financial Performance of a Few Indian Public and Private Sector Banks

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ABSTRACT: Banks are a crucial component of the financial system in addition to being significant players in the financial markets. An efficient banking system is essential for mobilizing savings and allocating them to good projects in every economy. This study aims to compare and evaluate the overall financial functioning of a few commercial banks in India's private and public sectors.

The Reserve Bank of India website and the yearly reports of the pertinent institutions provided secondary data for the analysis. The study project runs from the 2017–18 fiscal year to the 2021–22 fiscal year, a period of five years. Ten banks—five from the public and five from the private sectors—are chosen using a quota sampling technique. The banks are chosen according to a set of criteria that includes the highest market capitalization they produced in 2021–22. The data is analysed using graphs, the mean, and the T test. Private sector banks are growing at a faster rate than public sector banks, despite a rise in profitability for both. Public sector banks are encountering numerous obstacles and are trailing behind in numerous financial metrics. In light of the marketplaces in which they operate as well as their advantages and disadvantages, public sector banks are advised to reassess their strategies.

KEYWORDS: Financial indicators, operating profit, net profit, return on assets, public and private sector banks

I. INTRODUCTION

The banks that have a significant stake in the government are known as public sector banks. In private sector banks, all equity is possessed by private individuals or entities, and the administration does not hold any shares. Public sector banks dominated the Indian banking industry in its early years. The banking industry saw numerous changes as a result of financial sector reforms. Private sector banks, which posed a serious threat to public sector banks, were able to attain a challenging position through the use of professionalized management and improved technology.

II. LITERATURE REVIEW

According to Anand K. (2015), banks are vital components of the monetary and financial framework and strongly participate in capital markets. Economic progress depends on a healthy banking sector that can channel savings and steer them towards profitable use cases. Besides supplying monetary resources for expansion, banks can also influence how these resources are allocated. The post-liberalization period has brought new opportunities for growth and development in India, but it has also introduced various challenges.

From 2011 to 2015, Vidisha Shah (2015) analyzed the comparison of public sector and newly established private sector banks in India, in performance on a number of important metrics, including the capital adequacy ratio, dividend payout ratio, P/E ratio, return on equity ratio, and credit deposit ratio. The aforementioned time frame was selected because it's critical to understand how various banks fared during the length of the recession and inflation. To further comprehend the aforementioned reasoning, we conducted a field study using SBI Bank as a public sector bank and ICICI Bank as a private sector bank.

D. K. Malhotra, et al (2011) a review of Indian commercial banks' 2005–2009 performance was conducted. This period encompasses both the pre-credit crisis and the crisis era. The study specifically examines the revenue generation, brokerage costs, efficiency, industry concentration, and overall stability of Indian commercial banks in both the public and private sectors. The empirical findings demonstrate that the Indian banking sector is now more competitive. Although the net interest margin has increased, banks are becoming more efficient in response to the rising costs of intermediation.

III. PURPOSE OF THE STUDY

To evaluate and contrast the overall financial results of a few commercial banks in India’s private and public sectors.

Study's hypothesis:

H0:In India, a discernible variation in the aggregate net profits of public sector banks and privately owned banks is not observed.

IV. DESIGN OF RESEARCH STUDY

Secondary Data:The study utilizes previously collected data obtained from diverse sources, such as data from the Reserve Bank of India, publications from the Indian Banks Association, journals, reviews, periodicals, and other published materials,as well as yearly reports from the participating banks.

Study Period: The five years covered by this research study are the fiscal years 2017–18 through 2021–2022.

Sample:The sample of ten banks—comprising five each of the public and private sectors—was selected based on their highest equity capitalization during the financial year of 2021-2022. The banks in the public sector chosen are SBI – State Bank of India, PNB – Punjab National Bank, BOB – Bank of Baroda, CBI – Central Bank of India, and IDBI. The banks in the private sector selected are Axis, Kotak Mahindra,IndusInd,HDFC Bank Ltd.etc.

Table 1: Selected public and private sector banks' total incomes

INSTITUTIONS	2017-18	2018-19	2019-20	2020-21	2021-22	A.M
SBI	1,20,872	1,35,693	1,54,903	1,74,974	1,91,843	1,55,657
BOB	34,583	40,959	46,014	50,368	51,791	44,743
PNB	40,679	46,110	47,807	52,201	54,306	48,221
CBI	20,548	23,525	26,353	28,300	27,827	25,311
IDBI	25,480	28,286	29,578	32,160	31,453	29,391
Banks in the Public Sector	242168	274573	304648	338008	357216	303323
HDFC	33,658	41,917	49,055	57,466	70,973	50,614
ICICI	41,045	48,421	54,606	61,267	68,062	54,680
KMB	7,158	9,203	10,167	11,748	18,996	11,454
Axis Bank	27,415	33,734	38,046	43,844	50,360	38,680
IndusInd	6371	8346	10144	12096	14878	10367
Banks in the Private Sector	115647	141621	162018	186421	223269	165795

According to the data, the total income of the chosen PSBs rose from INR 242168 crores in the fiscal year 2017-18 to INR 357216 crores in the fiscal year 2021-22. Similarly, the total income for the selected banks in the private sector increased from INR 115647 crores in 2017-18 to INR 165795 crores in 2021-22. Additionally, the average income for the selected PSBs was greater compared to that of the private sector, with PSBs averaging INR 303323 crores, while the private sector had an average of INR 165795 crores.

Table 2: Selected public and private sector banks' net interest income

INSTITUTIONS	NetInterestIncome in Cr.					AM
	2017-18	2018-19	2019-20	2020-21	2021-22	
SBI	43,291	44,329	49,282	55,015	56,881	49,760
BOB	30,488	36,442	40,463	44,915	45,799	39,621
PNB	13,414	14,857	16,146	16,556	17,674	15,729

CBI	19,150	21,861	24,428	26,409	25,888	23,547
IDBI	23,370	25,064	26,598	28,154	28,043	26,246
Banks in the Public Sector	129713	142553	156916	171049	174285	154903
HDFC	12,885	15,811	18,483	22,396	27,591	19,433
ICICI	10,734	13,866	16,476	19,040	21,224	16,268
KMB	6,180	8,042	8,767	9,720	16,384	9,819
Axis Bank	8,018	9,666	11,952	14,224	16,833	12,139
IndusInd	8,254	8,254	9,692	9,692	11,581	9,494
Banks in the Private Sector	46071	55639	65370	75072	93613	67153

The data presented indicates that the net interest income for the chosen PSBs rose from INR 129713 crores in 2017-18 to INR 174285 crores in 2021-22. Similarly, the net interest income for the selected private sector banks grew from INR 46071 crores in 2017-18 to INR 93613 crores in 2021-22. Additionally, it is noted that the average net interest income for PSBs is greater than that of private sector, with public sector averaging INR 154903 crores compared to INR 67153 crores for private sector.

Table3:Showing operating profit of selected public and private sector banks

INSTITUTIONS	2017-18	2018-19	2019-20	2020-21	2021-22	AM
SBI	31,574	31,082	32,109	38,914	43,258	35,387
BOB	8,630	9,074	9,353	9,915	8,816	9,158
PNB	10,614	10,915	11,384	11,955	12,216	11,417
CBI	2,815	3,173	3,238	3,559	2,643	3,086
IDBI	5,370	5,728	5,681	5,458	4,056	5,259
Banks in Public Sector	59003	59971	61766	69801	70989	64306
HDFC	9,391	11,428	14,360	17,404	21,523	14,821
ICICI	10,386	13,199	16,595	19,720	23,863	16,753
KMB	1,655	2,157	2,577	2,997	4,041	2,685
Axis Bank	7,431	9,303	11,456	13,385	16,104	11,536
IndusInd	1193	1576	2128	2709	3469	2215
Banks in Private Sector	30056	37663	47116	56216	69000	48010

The data reveals that the total operating profits for the selected PSBs remained relatively constant from 2017-18 to 2019-20, with figures of INR 59003 crores in 2017-18 and INR 61766 crores in 2019-20, before rising to INR 69801 crores in 2020-21. In contrast, the total operating profits for the chosen banks in private sector consistently grew from INR 30056 crores in 2017-18 to INR 69000 crores in 2021-22. Furthermore, the average operating profits for PSBs exceed those of private sector banks, with PSBs averaging INR 64306 crores compared to INR 48010 crores for private sector.

Table 4: Selected public and private sector banks' net profits

INSTITUTIONS	2017-18	2018-19	2019-20	2020-21	2021-22	AM
SBI	11,707	14,105	10,891	13,102	9,951	11,951
BOB	5,007	4,481	4,541	3,398	-5,396	2,406
PNB	4,884	4,755	3,343	3,062	-3,974	2,414
CBI	-1,418	606	-1,263	1,015	533	-105
IDBI	-3,665	873	1,121	1,882	2,032	449
Banks in Public Sector	16515	24821	18634	22459	3146	17115
HDFC	5,167	6,726	8,478	10,216	12,296	8,577
ICICI	6,465	8,325	9,810	11,175	9,726	9,100
KMB	2,090	1,866	1,503	1,361	1,085	1,581
Axis Bank	4,242	5,179	6,218	7,358	8,224	6,244
IndusInd	803	1061	1408	1794	2286	1470
Banks in Private Sector	18766	23157	27417	31903	33618	26972

The table shows that the overall net earnings for certain PSBs grew from INR 16515 crores in 2017-18 to INR 24821 crores in 2018-19. However, these earnings dropped significantly to INR 3146 crores by 2021-22. In contrast, the net profits for selected banks in private sector increased steadily from INR 18766 crores in 2017-18 to INR 33168 crores in 2021-22. Additionally, the average net profits for banks in private sector are higher compared to those of PSBs, with private sector banks averaging INR 26972 crores while PSBs average INR 17115 crores.

Table 5: Selected public and private sector banks' return on assets

INSTITUTIONS	2017-18	2018-19	2019-20	2020-21	2021-22	AM
SBI	0.88	0.97	0.65	0.68	0.46	0.728
BOB	1.11	0.81	0.68	0.47	-0.8	0.454
PNB	1.19	1	0.64	0.53	-0.5	0.572
CBI	-0.46	0.19	-0.43	0.37	0.23	-0.02
IDBI	-0.97	0.24	0.34	0.58	0.69	0.176
Banks in Public Sector	1.74	3.20	1.87	2.62	0.09	1.90
HDFC	1.77	1.9	2	1.73	1.73	1.826
ICICI	1.5	1.7	1.78	1.86	1.34	1.636
KMB	1.08	1.76	1.71	1.62	1.65	1.564
Axis Bank	1.68	1.7	1.78	1.83	1.72	1.742
IndusInd	1.39	1.44	1.61	1.64	1.63	1.542
Banks in Private Sector	7.41	8.4	8.87	8.67	8.07	8.30

According to the table shown above, the total return on assets of a chosen group of public sector banks increased from 2017–18 to 2018–19, rising from 1.75 in 2017–18 to 3.21 in 2018–19. However, the total return on assets fell in 2021–22, falling to 0.08. From 2017–18 to 2019–20, the overall return on assets of a chosen group of private sector banks climbed steadily, ranging from 7.42 in 2017–18 to 8.88 in 2019–20, and then declined to 8.07 in 2021–2022. Furthermore, it is observed that the averages for the selected banks in private sector banks exceed those of their public counterparts, with the average of the former being 1.91 compared to the average of the latter, 8.31.

T- Test:

H0:In India, a discernible variation in the aggregate net profits of public and private sector banks is not observed.

Table 6: Selected public and private sector banks' total net earnings

FinancialYear	PublicSectorBanks	PrivateSectorBanks
2017-18	16514.97	18766.39
2018-19	24820.56	23157.16
2019-20	18633.64	27416.54
2020-21	22459.47	31903.44
2021-22	3146.1	33617.5

t-Test:PairedTwoSampleforMeans		
Variable1		Variable2
Variance	71433871.3	37641106.51
Observations	5	5
PearsonCorrelation	-0.435	
HypothesizedMean		
Difference	0	
Df	4	
tCriticalone-tail	2.131	
P(T<=t)two-tail	0.150	
tCriticaltwo-tail	2.776	
Mean	17114.948	26972.206

The table above reveals that the mean net profit of public sector banks is lower as compared to private sector. There is insufficient data to rule out the null hypothesis, H0 as the tabular value, 2.7764, is found to be higher than the computed t-test result which is 0.150. This suggests that banks operating in public and private sectors do not differ much in net profits.

V. RESULTS

1. Throughout the course of the study, the combined revenues of public and private sector banks showed a respectable growth.
2. There is an upward trend in net interest income for both sectors. Public sector banks have a quantitatively high net interest margin.
3. Compared to private sector banks, the operational profit volume for public sector banks is significantly higher.
4. A noticeable movement in the direction of net profit has been seen, from the public to the private sectors. During the first two years of the study, public sector banks reported the highest amount of net profit. In comparison to private sector banks, the former have consistently recorded high profits throughout the course of all the years.
5. The private sector shows a consistent increase rate in return on assets throughout the years, while the public sector records a diminishing trend. The private sector was given preference when it came to using resources.

VI. SUGGESTIONS

The suggestions for enhancing the performance are as follows:

1. The implementation of professionalised management scenarios and improved customer service is necessary for public sector banks to improve their performance. Even if the size of growth for public sector banks is higher, the private sector is growing at a higher rate for almost all of the metrics.
2. Public sector banks need to consider carefully reviewing net profit and its growth rate. Cost control procedures must be put in place in order to lower operating expenses. To ensure proper performance, employee-by-employee performance must also be reviewed.
3. Public sector banks need to make efficient use of their resources. For diversification purposes, underutilised or underutilised assets must be taken into account, and new income-generating investment schemes must be launched.
4. To guarantee balanced regional growth, private sector banks must also service priority sectors and rural areas. Avoiding focusing solely on financially successful endeavours is necessary to achieve its social component.
5. Public sector banks need to set goals based on employees, products, and branches in order to ensure adequate results. Likewise, private sector banks should set comparable objectives for their social effectiveness. At the same time, the RBI needs to make sure that the private sector strictly adheres to these requirements.

VII. CONCLUSION

The banking sector has changed favorably as a result of financial sector reforms. Together with the expansion of the activities carried out by banks, the service standards have been redefined. Private sector banks are growing at a faster rate than public sector banks, despite a rise in profitability for both. Public sector banks are encountering numerous obstacles and are trailing behind in numerous financial metrics. However, they also make more of an impact on social factors, which affects the parameters. In order to ensure balanced growth for both the industry and the country, banks in private sector must fully integrate priority sector lending and address societal concerns. Re-evaluation of strategies by assessing strengths and shortcomings and market conditions in which they function, is a need of the hour by public sector banks.

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