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A Comparative Study on Financial Performance of Selected Public & Private Sector Banks in India

Ch. Balaji

Research Scholar in Management, Rayalaseema University, Kurnool, Andhra Pradesh

Dr. G. Praveen Kumar

Research Supervisor, Rayalaseema University, Kurnool, Andhra Pradesh

Abstract

Banks form a fundamental component of the financial system and are also active players in financial markets. An efficient banking system capable of mobilizing the savings and channeling them to productive purposes are essential for the development of any economy. The objective of the study is to analyze and compare the overall financial performance of selected public and private sector banks in India. The study is based on secondary data that has been collected from annual reports of the respective banks, Reserve Bank of India website. This research study covers a period of five years i.e. from financial year 2011-2012 to 2015-2016. A quota sample method is used for to select ten banks i.e. five from public sector and five from private sector has been selected and the criteria is based on highest market capitalization generated by banks during 2015-2016. T Test, mean and graphs are used to analyze the data. Although there was increase in profitability for both sector banks the rate of growth is higher for private sector banks. Public sector banks are lagging in many financial parameters and they are facing many challenges also. It is concluded that Public sector banks must redefine their strategies by considering their strengths and weakness and the type of market they are operating.

Key Words: Public Sector Banks, Private Sector Banks, net income, Operating Profit, Net Profit, Return on Assets.

1. INTRODUCTION

Public sector banks are the banks in which the government has a major holding. Private sector banks are those banks in which the equity is held by private shareholders, i.e., there is no government shareholding. Public sector banks dominated the Indian banking industry in the initial stages. Financial sector reforms made many changes in banking industry and private sector banks with the help of advanced technology and professionalized management achieved a challenging position thereby causing a great threat to the public sector banks.

2. REVIEW OF LITERATURE

Anand. K(2015) describe Banks form a

fundamental component of the financial system and are also active players in financial markets. An efficient banking system capable of mobilizing the savings and channelling them to productive purposes are essential for the development of any economy. Besides providing financial resources for the growth, banks can also influence the direction in which these resources are to be utilized. Post liberalization era has spread new colours of growth and development in India. At the same time it has also created many challenges.

Vidisha Shah (2015) discussed about the comparative analysis on performance of new private sector banks and the public sector banks of India during the period 2011-2015 on many key parameters such as the P/E Ratio, Dividend Payout ratio, Return

on equity ratio, Capital adequacy ratio, Credit deposit ratio. The above period is chosen since it is very important to know how different banks performed during the recession and inflation duration. . We have done a field study taking ICICI bank as private sector bank and SBI Bank as public sector bank to better understand the above argument.

D. K. Malhotra, et al (2011) analyzed the performance of commercial banks in India during the period 2005 to 2009. This period covers the pre-credit crisis and the crisis time period. Specifically, the paper examines the behaviour of profitability, cost of intermediation, efficiency, soundness of the banking system, and industry concentration for public and private sector Indian commercial banks. The empirical results show that competition in the Indian banking industry has intensified. While the net interest margin has improved, cost of intermediation is actually rising and banks are responding to the increased costs with higher efficiency levels.

3. OBJECTIVE OF THE STUDY

The main objective of the study is to analyze and compare the overall financial performance of selected public sector banks and private sector banks in India.

4. RESEARCH METHODOLOGY

Secondary Data

The study is based on secondary data that has been collected from annual reports of the respective banks, Reserve Bank of India data, Indian Banks Association publications, magazines, journals, documents and other published information.

Period of the Study

This research study covers a period of five years i.e. from financial year 2011-2012 to 2015-2016.

Sample

A sample of ten banks i.e. five from public sector and five from private sector has been selected and the criteria is based on highest market capitalization generated by banks during 2015-2016. The banks matched under this criteria are State Bank of India, Bank of Baroda, Punjab National Bank, central bank of India and IDBI Bank from public sector and HDFC Bank Ltd, ICICI bank Ltd, Kotak Mahindra bank, Axis Bank Ltd and IndusInd Bank from private sector.

5. TOOLS OF ANALYSIS

T-Test, mean and graphs are used to analyze and compare financial performance of public sector banks and private sector banks.

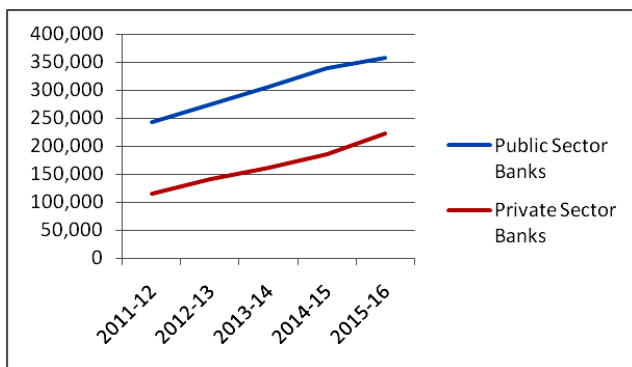
6. DATA ANALYSIS

Table 1: Showing total incomes of selected public and private sector banks

Total Income	Amount in Cr.					
Particulars	2011-12	2012-13	2013-14	2014-15	2015-16	Mean
State Bank of India	1,20,873	1,35,692	1,54,904	1,74,973	1,91,843	1,55,657
Bank Of Baroda	34,589	40,953	46,018	50,364	51,791	44,743
Punjab National Bank	40,679	46,117	47,800	52,206	54,301	48,221
Central bank on India	20,545	23,528	26,350	28,303	27,827	25,311
IDBI bank	25,482	28,284	29,576	32,162	31,453	29,391
Public Sector Banks	2,42,168	2,74,573	3,04,648	3,38,008	3,57,216	3,03,323
HDFC Bank Ltd.	33,658	41,917	49,055	57,466	70,973	50,614
ICICI Bank Ltd.	41,045	48,421	54,606	61,267	68,062	54,680
Kotak Mahindra Bank	7,158	9,203	10,167	11,748	18,996	11,454
Axis Bank Ltd.	27,415	33,734	38,046	43,844	50,360	38,680
Indusind Bank	6,371	8,346	10,144	12,096	14,878	10,367
Private Sector Banks	1,15,647	1,41,621	1,62,018	1,86,421	2,23,269	1,65,795

Source : Reserve Bank of India website

Graph 1: Representing the growth of total incomes of public and private sector banks



From the above table it is observed that total incomes of selected public sector banks increased from

2011-12 to 2015-16 with Rs. 242,168 crores in the financial year 2011-12 to Rs. 357,216 crores in financial year 2015-16. The total incomes of selected private sector banks also increased from 2011-12 to 2015-16 with Rs. 115,647 crores in the financial year 2011-12 to Rs. 165,795 crores in financial year 2015-16. It is also observed that means of the selected public sector banks is higher than the selected private sector banks with public sector banks average Rs. 303,323 crores to that of private sector banks average of Rs. 165,795 crores. From the above graph it is observed that total incomes of both public and private sector are increasing and total incomes of public banks are higher than the private sector banks.

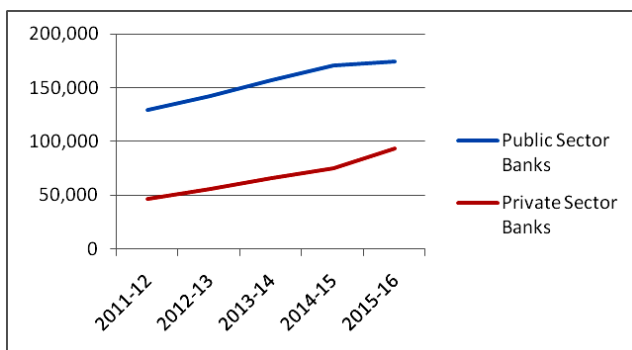
Table 2: Showing net interest income of selected public and private sector banks

Net Interest Income

Amount in Cr.

Particulars	2011-12	2012-13	2013-14	2014-15	2015-16	Mean
State Bank of India	43,291	44,329	49,282	55,015	56,881	49,760
Bank Of Baroda	30,488	36,442	40,463	44,915	45,799	39,621
Punjab National Bank	13,414	14,857	16,146	16,556	17,674	15,729
Central bank on India	19,150	21,861	24,428	26,409	25,888	23,547
IDBI bank	23,370	25,064	26,598	28,154	28,043	26,246
Public Sector Banks	1,29,713	1,42,553	1,56,916	1,71,049	1,74,285	1,54,903
HDFC Bank Ltd.	12,885	15,811	18,483	22,396	27,591	19,433
ICICI Bank Ltd.	10,734	13,866	16,476	19,040	21,224	16,268
Kotak Mahindra Bank	6,180	8,042	8,767	9,720	16,384	9,819
Axis Bank Ltd.	8,018	9,666	11,952	14,224	16,833	12,139
Indusind Bank	8,254	8,254	9,692	9,692	11,581	9,494
Private Sector Banks	46,071	55,639	65,370	75,072	93,613	67,153

Graph 2: Representing the net interest incomes of public and private sector banks



From the above table it is observed that total net interest incomes of selected public sector banks increased from 2011-12 to 2015-16 with Rs. 129,713 crores in the financial year 2011-12 to Rs. 174,285 crores in financial year 2015-16. The total net interest incomes of selected private sector banks also increased from 2011-12 to 2015-16 with Rs. 46,071 crores in the financial year 2011-12 to Rs. 93,613 crores in financial year 2015-16. It is also observed that means of the selected public sector banks is higher than the selected private sector banks with public sector

banks average Rs. 154,903 crores to that of private sector banks average of Rs. 67,153 crores.

From the above graph it is observed that net

interest income of both public and private sector are increasing and net interest income of public banks is higher than the private sector banks.

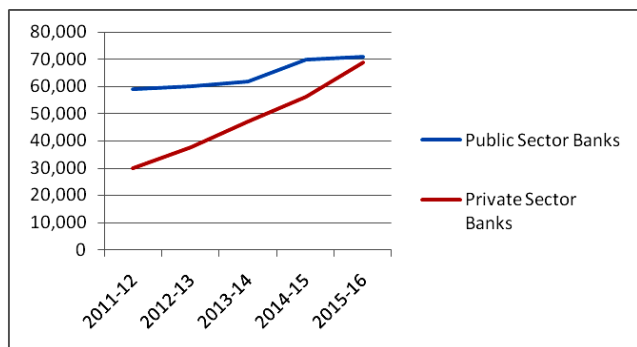
Table 3: Showing operating profit of selected public and private sector banks

Operating Profit

Amount in Cr.

Particulars	2011-12	2012-13	2013-14	2014-15	2015-16	Mean
State Bank of India	31,574	31,082	32,109	38,914	43,258	35,387
Bank Of Baroda	8,630	9,074	9,353	9,915	8,816	9,158
Punjab National Bank	10,614	10,915	11,384	11,955	12,216	11,417
Central bank on India	2,815	3,173	3,238	3,559	2,643	3,086
IDBI bank	5,370	5,728	5,681	5,458	4,056	5,259
Public Sector Banks	59,003	59,971	61,766	69,801	70,989	64,306
HDFC Bank Ltd.	9,391	11,428	14,360	17,404	21,523	14,821
ICICI Bank Ltd.	10,386	13,199	16,595	19,720	23,863	16,753
Kotak Mahindra Bank	1,655	2,157	2,577	2,997	4,041	2,685
Axis Bank Ltd.	7,431	9,303	11,456	13,385	16,104	11,536
Indusind Bank	1,193	1,576	2,128	2,709	3,469	2,215
Private Sector Banks	30,056	37,663	47,116	56,216	69,000	48,010

Graph 3: Representing the growth of operating profit of public and private sector banks



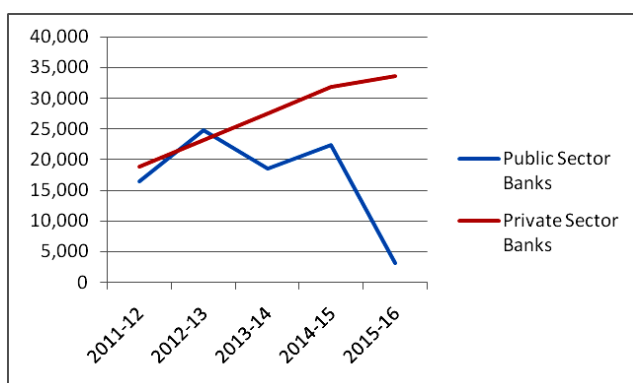
From the above table it is observed that total operating profits of selected public sector banks are stable from 2011-12 to 2013-14 with Rs. 59,003 crores in 2011-12 to Rs. 61,766 crores in 2013-14

and total operating profits are increased in the year 2014-15 with Rs. 69,801 crores. The total operating profits of selected private sector banks continually increased from 2011-12 to 2015-16 with Rs. 30,056 crores in the financial year 2011-12 to Rs. 69,000 crores in financial year 2015-16. It is also observed that means of the selected public sector banks are higher than the selected private sector banks with public sector banks average Rs. 64,306 crores than that of private sector banks average of Rs. 48,010 crores.

From the above graph it is observed that operating profits of both public and private sector are increasing and operating profits of public banks are higher than the private sector banks.

Table 4: Showing net profit of selected public and private sector banks**Net Profit****Amount in Cr.**

Particulars	2011-12	2012-13	2013-14	2014-15	2015-16	Mean
State Bank of India	11,707	14,105	10,891	13,102	9,951	11,951
Bank Of Baroda	5,007	4,481	4,541	3,398	-5,396	2,406
Punjab National Bank	4,884	4,755	3,343	3,062	-3,974	2,414
Central bank on india	-1,418	606	-1,263	1,015	533	-105
IDBI bank	-3,665	873	1,121	1,882	2,032	449
Public Sector Banks	16,515	24,821	18,634	22,459	3,146	17,115
HDFC Bank Ltd.	5,167	6,726	8,478	10,216	12,296	8,577
ICICI Bank Ltd.	6,465	8,325	9,810	11,175	9,726	9,100
Kotak Mahindra Bank	2,090	1,866	1,503	1,361	1,085	1,581
Axis Bank Ltd.	4,242	5,179	6,218	7,358	8,224	6,244
Indusind Bank	803	1,061	1,408	1,794	2,286	1,470
Private Sector Banks	18,766	23,157	27,417	31,903	33,618	26,972

Graph 4: Representing the growth of net profit of public and private sector banks

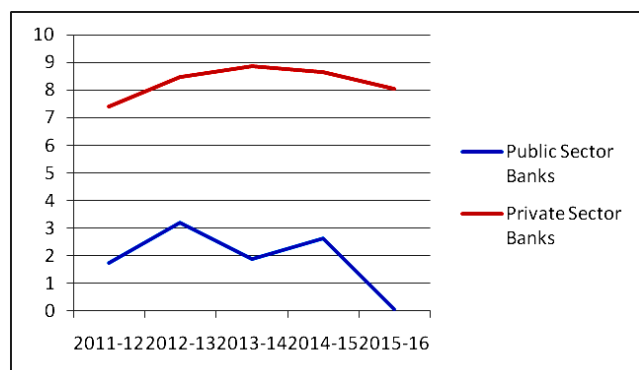
From the above table it is observed that total net profits of selected public sector banks are increased from 2011-12 to 2012-13 with Rs. 16,515 crores in

2011-12 to Rs.24,821 crores in 2012-13 and total net profits are decreased in the year 2015-16 with Rs.3,146 crores. The total net profits of selected private sector banks continually increased from 2011-12 to 2015-16 with Rs. 18,766 crores in the financial year 2011-12 to Rs. 33,168 crores in financial year 2015-16. It is also observed that means of the selected private sector banks are higher than the selected public sector banks with public sector banks average Rs. 17,115 crores than that of private sector banks average of Rs. 26,972 crores.

From the above graph it is observed that net profits of public sector banks fluctuated during the research period and the public sector banks are increase continually.

Table 5: Showing return on assets of selected public and private sector banks

Particulars	2011-12	2012-13	2013-14	2014-15	2015-16	Mean
State Bank of India	0.88	0.97	0.65	0.68	0.46	0.728
Bank Of Baroda	1.11	0.81	0.68	0.47	-0.8	0.454
Punjab National Bank	1.19	1	0.64	0.53	-0.5	0.572
Central bank on india	-0.46	0.19	-0.43	0.37	0.23	-0.02
IDBI bank	-0.97	0.24	0.34	0.58	0.69	0.176
Public Sector Banks	1.75	3.21	1.88	2.63	0.08	1.91
HDFC Bank Ltd.	1.77	1.9	2	1.73	1.73	1.826
ICICI Bank Ltd.	1.5	1.7	1.78	1.86	1.34	1.636
Kotak Mahindra Bank	1.08	1.76	1.71	1.62	1.65	1.564
Axis Bank Ltd.	1.68	1.7	1.78	1.83	1.72	1.742
Indusind Bank	1.39	1.44	1.61	1.64	1.63	1.542
Private Sector Banks	7.42	8.5	8.88	8.68	8.07	8.31

Graph 5: Representing the growth of return on assets of public and private sector banks

From the above table it is observed that total return on assets of selected public sector banks are increased from 2011-12 to 2012-13 with 1.75 in 2011-12 to 3.21 in 2012-13 and total return on assets are decreased in the year 2015-16 with 0.08. The total return on assets of selected private sector banks continually increased from 2011-12 to 2013-14 with 7.42 in the financial year 2011-12 to 8.88 in financial year 2013-14 and total return on assets are decreased in the year 2015-16 with 8.07. It is also observed that means of the selected private sector banks are higher

than the selected public sector banks with public sector banks average 1.91 than that of private sector banks average of 8.31.

From the above graph it is observed that return on assets of public sector banks fluctuated during the research period and the public sector banks are increase continually.

T Test:

H₀: There is no significant difference between the total net profits of public sector banks and private sector banks in India.

H₁: There is significant difference between the total net profits of public sector banks and private sector banks in India.

Table 5: Showing total net profits of selected public and private sector banks

Financial Year	Public Sector Banks	Private Sector Banks
2011-12	16514.97	18766.39
2012-13	24820.56	23157.16
2013-14	18633.64	27416.54
2014-15	22459.47	31903.44
2015-16	3146.1	33617.5

t-Test: Paired Two Sample for Means		
	Variable 1	Variable 2
Mean	17114.948	26972.206
Variance	71433871.3	37641106.51
Observations	5	5
Pearson Correlation	-0.4352169	
Hypothesized Mean		
Difference	0	
df	4	
t Critical one-tail	2.13184678	
P(T<=t) two-tail	0.15056946	
t Critical two-tail	2.77644511	-

From the above table it is observed that mean value for net profits of public sector banks are less than that of the private sector banks. As computed t-test value 0.150 is less than tabulated value 2.7764 there is not enough evidence to reject H₀. There is no significant difference between the net profits of public and private sector banks.

6. FINDINGS

The main findings associated with this study are as follows:

1. Total incomes of both public and private sector banks recorded a good growth in total income during all the years of study.
2. Net interest income is showing an increasing trend for both sectors. Net interest margin for public sector banks is quantitatively high.
3. The volume of operating profit for public sector banks is much higher than the private sector banks.
4. A shifting momentum from public sector to private sector has been recorded in case of net profit. Public sector banks recorded for the maximum volume of net profit in the first two years of study. Private sector banks continuously recorded well profits for the all the years compare to private sector banks.
5. In case of return on assets a steady growth rate is exhibited for private sector in all years where as a declining trend is recorded by public

sector throughout the period. Private sector enjoyed a privileged position in case of utilisation of assets.

6. There exists a good variability of net profits between public sector banks and private sector banks.

7. SUGGESTIONS

The suggestions for enhancing the performance are as follows:

1. Public sector banks must enhance their performance by implementing professionalised management scenario and better customer service. The rate of growth for almost all the parameters is high for private sector even though magnitude is high for public sector banks.
2. Net profit and its growth rate must be considered seriously reviewed by public sector banks. Operating expenses must be reduced by implementing cost control measures. Employee wise performance must also be checked for ensuring adequate performance.
3. Assets must be utilised effectively by public sector banks. Underutilised or unutilised assets must be considered for diversification purposes and new schemes of income generating investments must be started.
4. Rural areas and priority sectors also need to be served by private sector banks so as to ensure balanced regional growth. Concentration on merely profitable ventures must be avoided to fulfil its social aspect.
5. Corporate social responsibility must be given due weightage.
6. Branch wise, product wise and employee wise targets must be fixed by public sector banks so as to ensure adequate performance. Likewise same sort of targets must be fixed by private sector banks for social performance also and Reserve Bank of India must ensure that private sector follows strict adherence to these aspects.

8. CONCLUSION

Financial sector reforms have made favourable changes in the banking industry. The service levels have been redefined along with the extension of activities performed by banks. Although there was increase in profitability for both sector banks the rate of growth is higher for private sector banks. Public sector banks are lagging in many financial parameters and they are facing many challenges also. But their contributions to

social aspects are also on the higher side which has an impact in the parameters. Public sector banks must redefine their strategies by considering their strengths and weakness and the type of market they are operating with whereas private sector banks must also consider priority sector lending in its fullest form along with meeting of societal aspects so that there exists a balanced growth for the industry and for the nation.

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