©KY PUBLICATIONS
RESEARCH ARTICLE
Vol.2.Issue.2.2015

IJBMAS
E ISSN 2349-4638

http://www.ijbmas.in
INTERNATIONAL JOURNAL OF BUSINESS, MANAGEMENT AND ALLIED SCIENCES (IJBMAS)
A Peer Reviewed International Research Journal

A STUDY ON COMPARISON OF FINANCIAL PERFORMANCE OF PRIVATE AND PUBLIC SECTOR COMMERCIAL BANKS IN INDIA

G.SRINIVASA BABU
HOD, Department of Commerce
The Hindu College, Machilipatnam

Article Info:
Article Received on:07/05/2015
Article Revised on:21/05/2015
Article Accepted on:29/06/2015

ABSTRACT

Banking system plays a vital role for the economic development of developing countries like India. It is clear that a poor banking system cannot help for the economic development in a country. The objective of this study was to compare the financial performance of two commercial banks in private sector (ICICI, HDFC) and two in public sector (PNB, Bank of India) of India based on their financial characteristics and identify the determinants of performance exposed by the financial ratios. Four commercial banks for the period 2009 to 2014 were financially analyzed. In addition, econometric model (multivariate regression analysis) by formulating a regression model was used to estimate the impact of loan to asset ratio, non-performing loan ratio, credit to deposit ratio and percentage of classified loan on the financial profitability namely returns on assets of these banks. HDFC with 4.2% share of India's total non-food credit disbursements in FY12, HDFC Bank is the second largest private sector bank in the country (after ICICI Bank) in terms of asset size. The bank has tripled its share from 1.2% of total non-food credit in FY02 to 2.8% in FY08. Retail assets constituted 32.3% of advances in FY8. Its group companies, HDFC Standard Life (insurance), HDFC AMC (mutual funds) and HDFC Securities (equities) add scalability to the bank's offerings. Despite being the second largest bank in the country after SBI in terms of asset size, ICICI Bank lost its share of the banking sector's advances from 10.2% in FY07 to 8% in FY8. At the end of March 2012, the bank had assets of over Rs 4.8 trillion and a franchise of over 9,000 ATMs and 2,750 branches spread across the country. The bank is focusing on loan origination in the large corporate, SME and AGRIE segments and on non-fund based products and services. Besides the bank itself being the market leader across retail loan portfolios, its subsidiaries ICICI Life Insurance, ICICI General Insurance and ICICI AMC are leaders in their respective businesses.

With one of the most geographically diversified advance portfolio, State nank of India (SBI) is amongst the largest public sector banking entity in the country (in terms of asset size) with 5.8% share of the total non-food credit disbursals at the end of FY8. Punjab National Bank (PNB) is the third largest banking entity in the country with 7% share of the total non-food credit disbursals at the end of FY8. Robust growth and stellar margins has pegged the bank amongst the frontrunners in the PSU banking space. This has helped it keep its neck above its peers. The results show that the same bank had different ranks under the different financial ratios. Furthermore, the estimation results reveal that return on assets was significantly influenced by capital adequacy ratio and percentage of classified loan.

Introduction

The Indian banking can be broadly characterized as nationalized (government owned), privet banks and specialized banking institutions. The reserve bank of India performed a centralized body monitoring any discrepancies and shortcoming in the system. Nationalization of banks took place in 1969, the public sector banks or the nationalized banks have attained a prominent place and has since then seen tremendous progress. The Indian banking has finally taken up challenges under competitive dynamics scenario in India. Banking sector is successfully addressing the relevant issues to take on the multifarious challenges of globalization. More number of Banks employ IT solutions and they are perceived to be 'futuristic' and proactive players, capable of meeting the multifarious requirements of the large customer base[1].

The financial performance of a bank is often measured as the achievement of the bank in terms of profitability position, service quality, customer satisfaction and other relevant aspects. In recent times, Public sector banks dominate commercial banking in India and therefore the study reveals that bank customers have a lot of trust in public sector banks as compared to private sector banks[2]. However, things have transformed; at present, banks are known for technical and financial changes. Private bank in India are performing very well and more and more private banks are coming up with topmost quality standards since globalization[3]. People are more satisfied from the private sector banks because of their better services provided by them in terms of speedy transactions, totally computerized facilities, more operating hours, smart investment consultative services, efficient and cooperative employees, and better approach to client relationship management[4]. Public sector banks are facing stiff challenges from the private sector banks and are underneath terrific pressure to cope up with the facilities provided by the multinational banks[5]. Public sector banks should concentrate on their functioning to private sector banks. Banks should be well versed in proper selection of borrower/project and in analysing the financial plan[6].In the present day, Indian commercial banking industry is split into following categories-(a) Public sector banks (b) Private sector banks. Public sector banks are the ones in which the government features a major holding. These can be further classified into: a) State Bank of India b) Nationalized banks c) Co-operative sector banks. The State bank of India, (SBI) is that the leading bank of public sector in India whereas the Punjab National Bank (PNB) is that the second largest public sector banks in India and plays an important role within the development of Indian economic system. Private sector banks are the banks that are controlled by the private lenders with the approval from the reserve bank of India (RBI). Their interest rates are slightly expensive as compared to Public sector banks. The ICICI (Industrial Credit and Investment Corporation of India) is one among the biggest and leading banks of private sector banks in India. As regards HDFC Bank, it was established by Reserve Bank of India in 1994. It was the first bank to get the approval by RBI to set up as Private Sector Bank. The paid up share capital as on march 2015 is Rs.501,2990,634, its capital adequacy ratio as on March 2014 is 16.1% and it has 3659 branches with 11766 ATMs. In this paper, an effort has been made to assess and compare the financial performances of two major public sectors Banks SBI and PNB and Private Sector banks ICICI & HDFC in India for operating period 2009-2014.

Review of Literature

Bodla, B.S et al (2006)[7] focused on determinants of bank profitability in India and found that the profit margins deteriorated due to increased competition and changing face of the Indian banking. Tabak, B.M et al (2010)[8] reported that the Indian public sector banks were most efficient than the private and foreign banks in terms of cost and profit efficiencies. Maheshwari, N. et (2013)[9] examined the financial performance of SBI (State Bank of India) using the investment valuation ratio, profitability ratio, management efficiency ratio, balance sheet ratio, and cash flow indicators. They suggested that SBI's excellent performance can be attributed to the adoption of modern technology, banking reforms, and good recovery mechanisms. Makkar, A. and Singh, S. (2013)[10] has done comparative analysis of the financial performance of Indian commercial banks and disclosed that there is no statistically significant difference in the financial performance of the public and private sector banks in India.

Objectives of the Study

1. To review the growth rate of both the banks under study
2. To compare the growth between in private (ICCI& HDFC Bank) and public sector (SBI& PNB) banks
3. To evaluate the best bank regarding financial performance

Research Methodology

In this study secondary data has been used to empirically examine the performance of Schedule Commercial Banks except Regional Rural Banks from 2009-10 to 2013-14. The data for the accomplishment of the afore mentioned research objectives used was secondary data with a view of evaluating performance. The data was gathered from bank's financial statements as published in their annual reports. During the course of study ANOVA Hypothesis Statistical Technique is used.

Results and discussion

The comparative data for operative period 2009-2013 (among SBI/PNB and ICICI/HDFC) with percentage change in credit deposit, interest expenses to total expenses, interest income to total income, and other income to total income(Table 1). Net assets is the sum of asset side of the balance sheet excluding any provision for depreciation fund or the assets shown at book value less depreciation charges, or the market value of the asset to be disposed off less any expected loss or provision against that asset. This total of the asset side exclude the fictitious assets if there is any shown in the asset side of the balance sheet like preliminary expenses, discounts on issue of shares or debenture, interest paid out of capital etc. Net assets include both types of assets i.e., fixed asset, as well as, the current asset possessed by the business entity owned by the concerned. These assets provides the base for making the concern capable for carrying out its business activities for earning revenue and consolidate its position in the years to come. These assets are possessed by the business from various sources shown in the liability side of the concern i.e., owners funds and borrowed funds or the internal resources of the business created out of profits[11]. As regarding Net Assets of Punjab National Bank & HDFC Bank Limited, it has been computed by deducting all liabilities from total assets and shown in Table 1.

Various parameters are used in identifying the strengths/weaknesses of banks and suggesting improvement measures in its future working. In the present study, following data/ parameters are used for the analysis of Financial Performance.

Table.1. The comparative data for operative period 2009-2014 with percentage change in credit deposit, interest expenses to total expenses, interest income to total income, and other income to total income.

	Punjab National Bank			HDFC Bank		
Year	Net Assets (in Lacs)	Total Assets (in Lacs)	% of Net Assets	Net Assets (in Lacs)	Total Assets (in Lacs)	% of Net Assets
2009-10	1772292	29663277	5.97	2152249	22245857	9.67
2010-11	2150856	37832526	5.68	2,537,927	27735260	9.1
2011-12	2,781,707	45,819,401	6.06	2,992,468	33790951	8.85
2012-13	3,124,805	47,744,819	6.54	3,621,414	40033189	9.04
2013-14	3,448,714	54,901,174	6.28	4347863	49159950	8.84

Table 1 reveals that Net Assets of Punjab National Bank indicated a Compound Annual Growth Rate (CAGR) of 15.5% whereas that of HDFC Bank indicated an annual compound growth rate of 25.4%. All this indicate that net assets of HDFC Bank Limited increased quicker than that of Punjab National Bank Limited. Growth rate of Net Assets of Punjab National Bank and HDFC Bank has been computed by way of annual compound growth rate.

TOTAL INCOME: The total income indicates the rupee value of the income earned during a period. It consists of: Interest on advances, discount on bills and Income on investments, etc. Noninterest income of banks arises from sources other than money lent. It comprises of Commission, exchange, brokerage, Profit on sale of investment, Profit on sale of land, buildings and other assets and Profits on Foreign exchange transaction. The higher value of total income represents the efficiency and good performance. The Total Income pattern of Banks under study (SBI/PNB & ICICI/HDFC) is given in Table-2.

Table2: Total Income of Indian Banks (in Rs. Crores)

Bank Name	2009-10 (Rs Cr)	2010-11(Rs Cr)	2011-12(Rs Cr)	2012-13(Rs Cr)	2013-14(Rs Cr)	GROWTH RATE (%)	AVERAGE
PNB	25032.26	305996	40630.63	46109.25	47799.96	90.9	38034.22
SBI	859627	96324.78	120872.9	135691.9	154903.7	80.2	118751.04
ICICI	32999.36	32621.94	41045.41	48421.3	54606.02	65.47	41938.786
HDFC	19983.52	24263.36	32530.04	41917.49	49055.17	145.47	33549.9

Source: Compiled from the Annual Reports of the Banks

Table 2. Depicts that HDFC Bank has the highest growth rate (145.47%) followed by PNB (90.9%). On the other hand, State Bank of India has the highest Average (118751.04) during the study period. The proportion of interest income to total income in PNB is higher than that of ICICI, which shows that individuals well-liked PNB to require loans and advances. However, other income to total income of ICICI bank is sounder than PNB bank. We observed that credit deposit ratio, and other income to total income was significantly higher with ICICI bank when compared to PNB bank.

DEPOSITS: Deposit is the amount accepted by bank from the savers in the form of current deposits, savings deposits and fixed deposits and interest is paid to them. In general terms money deposits in banks are known as bank deposits. Deposits mobilization gets added attention in a developing country like India where resources mobilization acts as a prime mover of the development process. Expansion of Public Sector Banks deposits has been an important feature in recent years. Planned economic development, deficit financing and increase in currency issue have led to increase in Public Sector Banks deposits. At the same time Public Sector Banks have contributed greatly to the development of banking habit among the people. The deposit pattern of Banks under study is given in Table-3. Table 3 Depicts that HDFC Bank has the highest growth rate (119.43%) followed by SBI (73.40%). On the other hand, State Bank of India has the highest average total credits of Rs. 1075768.90 crores, Total Deposits for all the selected Indian Public & Private Sector Banks from 2009-2010 to 2013-14 and also reveal growth rate thereof based on 2009-2010 as base year.

Table 3: Deposits of Indian Banks (in Rs. Crores)

Bank Name	2009-10 (Rs Cr)	2010-11(Rs Cr)	2011-12(Rs Cr)	2012-13(Rs Cr)	2013-14(Rs Cr)	GROWTH RATE (%)	AVERAGE
PNB	249329.8	312898.73	379588.48	391560.06	451397	15.3	356954.8
SBI	804,116.23	933,932.00	1,043,647	12,027,391	13,944,081	73.408	1075768.9
ICICI	202,016.00	225,602.00	255,499.90	292,613.60	331,913.60	64.3	261529.2
HDFC	167,404.44	208,586.41	246,706.40	296,246.90	367,337.40	119.43	257256.9

Source: Compiled from the Annual Reports of the Banks

PRODUCTIVITY RATIO PER BRANCH BY BUSINESS VOLUME

This ratio is one of the best indicators for the measurement of productivity of bank. A high ratio indicates better productivity and low ratio indicates lower productivity. This is the most productivity key indicator used by the banks. This ratio does not reflect fully the wide range of service provided by the each branch of the banks under study. The average productivity per branch for public sector banks under study is

Rs. 111.12 crores, and the average productivity per branch for private sector banks under study is Rs.194.07 crores. This is 1.74 times more than public sector banks under study.

Table 4: Average Productivity by Business Volume per Branch (Rs. In Crores)

Bank Name	2009-10	2010-11	2011-12	2012-13	2013-2014	Average
SBI	106.43	108.36	117.82	128.25	144.46	121.06
PNB	80.35	86.22	105.59	116.56	117.16	101.18
Average	93.39	97.29	111.71	122.41	130.81	111.12
ICICI	304.50	222.67	172.31	182.78	185.98	213.65
HDFC	169.97	168.91	184.38	173.18	175.96	174.48
Average	237.24	195.79	178.35	177.98	180.97	194.07

Sources: A Profile of Banks by Reserve Bank of India

In SBI business volume per branch is Rs.106.43 crores during the year 2009-10. This ratio represented an increasing trend during the study period and reached up to Rs. 144.46 crores during the year 2013-14. This shows net increase of Rs. 38.03 crores as compared to the year 2009-10. The average of this ratio during the study period is Rs. 121.06 crores.

In PNB business volume per branch is Rs.80.35 crores during the year 2008-09. This ratio represented an increasing trend during the study period and reached up to Rs. 117.16 crores during the year 2013-14. This shows net increase of Rs. 36.81 crores as compared to the year 2009-10. The average of this ratio during the study period is Rs. 101.18 crores.

In ICICI Bank Ltd. business volume per branch is Rs. 304.50 crores during the year 2009-10. This ratio shows mixed trend during the study period and reached up to Rs. 185.98 crores in the year 2013-14. This shows net decrease of Rs. 118.52 crores as compared to the year 2009-10. The average of this ratio during the study period is Rs.213.65 crores. In HDFC Bank business volume per branch is Rs. 169.97 crores during the year 2009-10. This ratio shows mixed trend during the study period and reached up to Rs. 175.96 crores in the year 2013-14. This shows net increase of Rs. 5.99 crores as compared to the year 2009-10. The average of this ratio during the study period is Rs. 174.48 crores.

PRODUCTIVITY RATIO PER EMPLOYEE BY BUSINESS VOLUME

This ratio is one as the best indicator for the measurement of productivity of bank. A high ratio indicates better productivity and law ratio indicates lower productivity

Table 5: Productivity Ratio Per employee by business volume (Rs. In crore per employee)

	2009-10	**2010-11**	**2011-12**	**2012-13**	**2013-14**	**Average**
SBI	7.17	7.58	8.87	9.85	9.94	8.68
PNB	7.63	10.45	10.84	11.06	11.67	10.33
Average	7.40	9.02	9.86	10.46	10.81	9.51
ICICI	9.33	7.76	8.74	9.39	9.42	8.89
HDFC	5.65	6.61	6.69	7.72	7.77	6.87
Average	7.49	7.19	7.72	8.56	8.44	7.88

Sources: A Profile of Banks by Reserve Bank of India

This is the most common productivity indicator used by the banks. This ratio does not reflect fully the wide range of services provided by the banks. The employee's productivity and efficiency will reflect by this ratio. In SBI business volume per employee is Rs. 7.17 crore during the year 2009-10. This ratio represented an increasing trend during the study period and reached up to Rs. 9.94 crores business volume per employee in the year 2013-14. This shows net increase of Rs. 3.61 crores as compared to 2009-10. The average of this ratio during the study period is Rs. 8.68 crores.

In PNB business volume per employee is Rs. 7.63 crore during the year 2009-10. This ratio represented an increasing trend during the study period and reached up to Rs. 11.67 crores business volume per employee in the year 2013-14. This shows net increase of Rs. 4.41 crores as compared to 2009-10. The average of this ratio during the study period is Rs. 10.33 crores.

In ICICI Bank Ltd. business volume per employee is Rs. 9.33 crores during the year 2009-10. This ratio represented mixed trend during the study period and reached up to Rs. 9.42 crores in the year 2013-14. This shows net increase of Rs. 0.97 crores as compared to the year 2009-10. The average of this ratio during the study period is Rs. 8.89 crores.

In HDFC Bank business volume per employee is Rs. 5.65 crore during the year 2009-10. This ratio represented an increasing trend during the study period and reached up to Rs. 7.77crores business volume per employee in the year 2013-14. This shows net increase of Rs. 3.14 crores as compared to 2009-10. The average of this ratio during the study period is Rs. 6.87 crores.

Net interest margin (NIM) is a measure of the difference between the interest income generated by banks or other financial institutions and the amount of interest paid out to their lenders (for example, deposits), relative to the amount of their (interest-earning) assets. It is similar to the gross margin (or gross profit margin) of non-financial companies. It is usually expressed as a percentage of what the financial institution earns on loans in a time period and other assets minus the interest paid on borrowed funds divided by the average amount of the assets on which it earned income in that time period (the average earning assets).

Table 6: Net Interest Margin

	2009-10	2010-11	2011-12	2012-13	2013-14	Average
SBI	2.48	2.35	2.86	3.38	3.06	2.83
PNB	3.06	3.12	3.5	3.21	3.17	3.21
Average	2.77	2.74	3.18	3.30	3.12	3.02
ICICI	2.15	2.19	2.34	2.4	2.7	2.36
HDFC	4.69	4.13	4.22	4.19	4.28	4.3
Average	3.42	3.16	3.28	3.30	3.49	3.33

In SBI NIM is 2.83 during the year 2009-10. This ratio represented mixed trend during the study period and increased up to level of 3.06 in the year 2013-14. This shows net increase of 0.58 as compared to the year 2009-10. The average of this ratio during the study period is 2.82.

In PNB NIM is 3.06 during the year 2009-10. This ratio represented mixed trend during the study period and increased up to level of 3.17 in the year 2013-14. This shows net increase of 0.11 as compared to the year 2009-10. The average of this ratio during the study period is 3.21.

In ICICI NIM is 2.15 during the year 2009-10. This ratio represented increasing trend during the study period and increased up to level of 2.70 in the year 2013-14. This shows net increase of 0.55 as compared to the year 2009-10. The average of this ratio during the study period is 2.35.

In HDFC NIM is 4.69 during the year 2009-10. This ratio represented mix trend during the study period and increased up to level of 4.28 in the year 2013-14. This shows net decrease of 0.41 as compared to the year 2009-10. The average of this ratio during the study period is 4.30.

The analyses of public sector and private sector banks reveal that SBI, PNB & HDFC, ICICI banks are best DMUs. They are using their inputs and outputs more efficiently than other banks Interbank group analysis indicate that performance of new private sector banks, on an average, is better than old private sector banks, public sector banks. The performance of old private sector banks on TE and SE basis consider to be weak when compared to other groups. It appears that all public sector banks have not responded after crisis in the same degree and speed. Some of them, for instance, SBI and PNB banks recoded a remarkable improvement. Similarly, private sector banks have also shown lower improvement in the efficiency in comparison new private sector banks.

The banking sector is considered to be an important source of funding for many businesses. They play a really necessary role within the effort to achieve stable costs, high level of employment and sound economic growth. They create funds offered to satisfy the needs of persons, businesses and therefore the government. In doing this, they facilitate the flow of goods and services and therefore the activities of governments. In spite of similar social obligations; most of the private sector banks are registering both high profits and high growth rate with respect to deposits, advances and reserves as compared to the public sector banks. However, we have observed PNB bank has lower operational efficiency comparatively than ICICI bank for operating period 2009-2010 to 2013-14. Globalization has given away to many foreign banks to line up their business unit in a developing country like India. Because of set up of private banks financial resources of the country are optimally used. Ratio Analysis is useful for any shareholder, investor, creditor, banker or the other party who is concerned with the financial performance of the company. Net assets of HDFC show annual compound growth rate of 25.4% which is much higher than PNB that is 15.5%. While comparing the net profit of both the banks, HDFC indicate annual compound growth rate of 28.98% whereas PNB shows 9.01% so there is a huge difference between profits of these two banks, as the net profit of PNB in year 2013 and 2014 indicate negative growth rate from corresponding years. Therefore, it can easily be concluded that growth in private sector (ICICI/HDFC) banks is better than public sector (SBI/PNB) banks.

Conclusion

There is no doubt that after global financial crisis Indian Banking system has improved rapidly and helps in economic development of the country. However, on the basis of present study following suggestions may be considered to improve the health of commercial bank performance in terms of efficiency, profitability and over-all performance. To conclude, it can be said that the study was able to meet all the set objectives and get a detailed account on private sector banking in India and also could show an inclination of private bank over public bank. There are some basic observations that can be drawn:

- Private Sector Banks profitability is much higher than that of Public Sector Banks
- It is clear from the analysis that the public sector banks are less profitable than the private sector banks in terms of overall profitability
- For a long term success of banking institution to require effective management of credit risk and diversified into fee based activities. Non-traditional activities of banks are more sophisticated and versatile instrument for risk assessment.

This study may help the decision makers of Indian Public sector banks and other categories of banks in Indian Banking sector to concentrate on banking activities and thereby to increase the bank ranking and financial performance of the banks. It may help the management in formulating appropriate strategies for achievement of objectives.

References

1 Habiba Abbasi, A Comparative Study of Public and Private Sector Banks in India, nternational Journal on Recent and Innovation Trends in Computing and Communication , Volume: 5 Issue: 5 , 2017, 361-370

2 G.S. Kumari and M. Prasad, “A Comparative Study of the Financial Performances of Selected Public and Private Sector Banks”, IUP Journal of Bank Management, Vol. 14, No. 4, pp. 1-7, 2015

3 P. Garg and S. Kumari, “An Empirical Analysis of Profitability Position of Selected Private Sector Banks in India”, Apeejay-Journal of Management Sciences and Technology, Vol. 2, No. 3, pp. 22-28, 2015

4 M. Taqi and M.S. Mustafa, “Financial Analysis of Public and Private Sector Banks of India: A Comparative Study of Punjab National Bank and HDFC Bank”, International Academic Journal of Business Management, Vol. 5, No. 1, pp. 26-47, 2018.

5 Khushboo Bhatia et al., “Comparative Study of Performance of Public and Private Sector Bank”, International Journal of Core Engineering and Management, Vol. 2, No. 1, pp. 306- 317, 2015.

6 C. Goel and C.B. Rekhi, “A Comparative Study on the Performance of Selected Public Sector and Private Sector Banks in India”, Journal of Business Management and Social Sciences Research, Vol. 2, No. 7, pp. 46-56, 2013.

7 Bodla, B.S. and Verma, R. (2006) Determinants of Profitability of Banks in India: A Multivariate Analysis. Journal of Service Research, 6, 75-89

8 Tabak, B.M. and Tecles, P.L. (2010) Estimating a Bayesian Stochastic Frontier for the Indian Banking System. International Journal of Production Economics, 125, 96-110.

9 Maheshwari, N. and Agarwal, N. (2013) Evaluating Financial Performance of SBI through Financial Ratios. Indian Journal of Finance, 7, 34-44.

10 Makkar, A. and Singh, S. (2013) Analysis of the Financial Performance of Indian Commercial Banks: A Comparative Study. Indian Journal of Finance, 7, 41-49.

11 GuptaSP (2000)Statistical Methods.S. Chand and Sons,New Delhi.