



A COMPARATIVE STUDY OF FINANCIAL PERFORMANCE OF TOP PUBLIC AND PRIVATE SECTOR BANKS OF INDIA

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ABSTRACT

The aim of this article is to make a comparative study of sound financial efficiency of the top Indian Banks in selected five Public and five Private sector and how financial ratios are affecting their performance and for the period of five years. The various financial metrics are used for comparison. Statistical variables like average, Sd, Min, Max and t-Test: Two-Sample Assuming Equal Variances used. The study concluded that Private Sector Banks performed better than the Public Sector Banks in all the financial metrics. In nutshell, from the two-sample independent t-test the ROCE (%), CASA (%), Net Profit Margin (%), ROA (%) Accepted H1 because there is a major difference between two banking sectors, with a p-value is less than 5%. For Cost to Income (%), and Interest Expenses/Total Assets (%) Accepted H0 because the p-value is higher than 5%.

Keywords: Comparative analysis, Ratios, Public and Private Sector Banks.

INTRODUCTION

The Banking Industry is currently undergoing a new wave of development as a result of advancements in the digital arena, particularly with the growth of prepaid wallets. The Indian banking system will continue to increase in size and complexity, while also serving as an essential driver of economic growth and integrating various parts of the financial sector. Public Sector Banks are those Nationalized Banks whose more than 50% shares are held by the Government of India. Now, there are 12 Public Sector Banks in India. Private sector banks are those whose more than 50% shares are held with private shareholders and not the Government of India. At this time, there are 22 private sector banks in India and the RBI is entrusted with the responsibility of supervising and regulating them under the Banking Regulation Act, 1949. The future of banking will provide clients with more sophisticated services through continual product and process innovation. Disclosures and transparency will ensure that the Indian the Banking Industry maintains a competitive edge over other established financial systems at Global level.

RATIONALE OF THE STUDY

In the current environment, private-sector banks provide fierce challenge to public-sector banks in every financial sphere of their operational effectiveness. This study focuses on how financial restrictions are adversely influencing banking financial operations in order to fill the gap left by past



research work conducted by other researchers. As a result, it is necessary to conduct a comparison study of the financial outcomes of banks in the public and private sectors.

SIGNIFICANCE TO THE STUDY

With the use of this study, will be possible to compare the differences between chosen public and private sector banks with respect to of their ROCE, CASA, net profit margin, ROA, cost to income, interest expenditures, and total assets, to boost their financial performance as a whole. Comparative financial analysis indicates the banks' overall competitive mentality, which aids them in navigating one another.

REVIEW OF LITERATURE

Chanchal Agrawal and Dr. Dilip Kumar Jha (2022), The main goal of this study was to compare private and public sector banks in order to analyze the necessity and efficacy of privatizing public sector banks. As a result, the primary purpose of privatization was to manage the vast assets that were in the form of non-performing assets (NPAs) and were not making money.

Dr. Divyang Joshi et. al., (2021), this research article attempts to examine the financial outcomes of private and public banks using various ratio tools such as net profit, assets, liabilities, income, expense, margin ratio, and return on equity ratio. After studying data for five years, the researcher determined that private banks perform better than state banks.

M. Subramanyam Reddy, Dr. N. Rajendhiran (2020), was established that private sector banks used available resources more effectively. Through staff training, rewards, and efficient implementation, public banking institutions must spend more on increasing their productivity and effectiveness.

Sunita Chaki, Dr Kshamta Chauhan, Anita Daryal (2019), this study examined the financial performance of commercial and state banks during a thirteen-year period, from 2005 to 2018. T-test, Welch test, and post-hoc test was employed for analysis. Finally, the study determined that there are significant variations. When compared to public sector banks, scheduled commercial banks and private sector banks ran more smoothly.

Suresh A.S. and Sai Prakash L. (2018), This paper investigates the results of twelve nationalised listed banks on the NSE Bank Nifty Index in terms of return, risk, and beta from January 1st to December 31st, 2016. According to the analysis, the shares of Yes Bank and Federal Bank had good returns over the study period. Axis Bank, Bank of India and Bank of Baroda also saw slow progress throughout the same period. Bank of India, Canara Bank, Punjab National Bank, State Bank of India, Axis Bank, ICICI Bank, and Yes Bank all have betas larger than one, indicating that these stocks are more exposed to market turmoil.

OBJECTIVES

- To compare the sound financial effectiveness of top Indian Banks in Public and Private sector.
- To find out how effectively the analysis of financial ratios are affecting the performance of selected sample of the study.

HYPOTHESIS



- **H0(Null Hypothesis):** There is no major difference between the selected Public and Private sector Banks with concerned to various financial parameters of the study.
- **H1(Alternative Hypothesis):** There is a major difference between the selected Public and Private sector Banks with concerned to various financial parameters of the study.

SCOPE OF THE STUDY

The study was conducted for the financial tenure of five years from 2018 to 2022.

RESEARCH METHODOLOGY

Top five financial performers of Public and Private sector banks chosen for the study from BSE based on the criteria of market capitalization. Public sector banks SBI bank, Bank of Baroda (BOB), Punjab national Bank (PNB), Canara Bank (CB), Union Bank (UB) respectively. Private sector banks in India are HDFC bank, ICICI Bank, Kotak Mahindra Bank (KMB), Axis Bank (AB), IndusInd Bank (IB) respectively.

This study is based on secondary data that is descriptive and quantitative in nature. Financial data gathered from numerous financial websites and yearly reports from the websites of the relevant official banks. Various financial metrics and statistical methods such as mean, Sd, min and max and two sample independent t-test of hypothesis are used to analyze the fiscal performance of chosen public and private sector banks.

DATA ANALYSIS AND INTERPRETATION

I. Return on Capital Employed (%)

ROCE ratio determines how well a bank able to generate profit from its capital as it is put to use.

Formula: ROCE= Capital Employed / EBIT

Table.1: Return on Capital Employed

	ROCE (%)									
	Public					Private				
	SBI	BOB	PNB	CB	UB	HDFC	ICICI	KMB	AB	IB
Avg	1.332	1.786	1.668	1.634	1.71	3.302	2.824	2.936	2.478	3.274
Sd	0.761	0.048	0.186	0.229	0.159	0.091	0.229	0.223	0.216	0.238
Min	0	1.72	1.38	1.32	1.54	3.2	2.52	2.77	2.2	3
Max	1.81	1.85	1.85	1.92	1.89	3.42	3.1	3.32	2.7	3.62
p-value	5.24961E-05									

(Source: Computed values from Annual reports using Microsoft Excel 2019 and moneycontrol.com)

Interpretation: Private sector banks are better in terms of average ROCE than that of public sector banks. HDFC has the highest ROCE of 3.302%, followed by IB, KMB, ICICI and so on. The min and max of ROCE in public sector banks are in the range of 0.000 to 1.920 and 2.200 to 3.620 in private sector banks. The results of two sample independent t-tests show that accepted H1 because there is a



substantial distinction between ROCE of public and private sector banks with the p-value less than 5% significance.

2) Current Account Savings Account Ratio (%)

The CASA ratio indicates how much of a bank's total deposits are in both current and savings accounts which are important financial tools to determine the profitability of a bank.

Formula: CASA Ratio = CASA Deposits ÷ Total Deposit

Table.2. Current Account Savings Account Ratio (%)

CASA (%)										
	Public					Private				
	SBI	BOB	PNB	CB	UB	HDFC	ICICI	KMB	AB	IB
Avg	35.720	37.544	1.668	31.808	35.720	44.472	48.274	56.104	45.844	42.420
Sd	19.973	3.021	0.186	1.767	0.983	2.583	2.624	4.513	4.688	1.389
Min	0.000	35.030	1.38	29.180	34.080	42.230	45.110	50.750	41.190	40.370
Max	45.390	41.450	1.85	33.940	36.530	48.160	51.680	60.680	53.750	44.000
p-value	0.008258374									

(Source: Computed values from Annual reports using Microsoft Excel 2019 and moneycontrol.com)

Interpretation: The higher the CASA (%) ratio is seen in the Private Sector Banks when compared to Public Sector Banks. In terms of average the KMB has a higher value of 56.104% chased by ICICI, AB, HDFC and so on. The lowest and highest CASA in Public Sector Banks is in the orbit of 0.000 to 45.390 of SBI and 40.370 to 60.680 in Private Sector Banks. The findings of a two-sample independent t-test demonstrate that accepted H1 in CASA, due to there is a major difference between public and private sector banks, with a p-value less than 5%.

3) Net Profit Margin (%)

The net profit margin is the proportion of revenue that net income or profit is earned.

Formula: Net Profit margin = Net income/Total revenue x 100

Table.3. Net Profit Margin (%)

Net Profit Margin (%)										
	Public					Private				
	SBI	BOB	PNB	CB	UB	HDFC	ICICI	KMB	AB	IB
Avg	4.440	1.516	-7.460	-0.436	-4.10	24.12	15.14	24.14	8.27	15.15
Sd	5.770	5.708	13.986	7.169	9.808	3.19	8.58	4.775	7.37	3.92
Min	-2.960	-5.570	-25.590	-10.23	-16.02	21.29	5.30	20.32	0.60	9.78
Max	11.490	10.400	4.610	8.180	7.70	28.93	27.02	31.70	19.33	20.86
p-value	0.000999424									

(Source: Computed values from Annual reports using Microsoft Excel 2019 and moneycontrol.com)



Interpretation: Private Sector banks produced better than the Public Sector Banks in connection with average. The KMB has a high Net Profit Margin (%) of 24.144% followed by the remaining sample Banks. The minimal and maximal values are of public sector Banks and Private Sector Banks in the order of -25.590 to 11.490 and 0.600 to 28.930. Accepted H1 on account of two-sample independent t-test reveals a significant difference in Net Profit Margin (%) between public and private sector banks, with a p-value is 0.000999424 less than 5%

4) Return on Assets (%)

This ratio indicates a company's net income and average assets. A greater ROA shows that a corporation is more effective and productive in managing its balance sheet to create profits, whilst a lower ROA suggests that there is still space for development.

Formula: Return on Assets = Total Assets/Net Income

Table.4. Return on Assets

Return on Assets(%)										
	Public					Private				
	SBI	BOB	PNB	CB	UB	HDFC	ICICI	KMB	AB	IB
Avg	0.256	0.078	-0.484	-0.052	-0.294	1.720	0.958	1.708	0.508	1.230
Sd	0.329	0.317	0.883	0.447	0.632	0.060	0.519	0.191	0.425	0.318
Min	-0.180	-0.330	-1.600	-0.680	-1.070	1.640	0.340	1.540	0.030	0.780
Max	0.630	0.560	0.260	0.460	0.440	1.780	1.650	1.990	1.100	1.620
p-value	0.001069669									

(Source: Computed values from Annual reports using Microsoft Excel 2019 and moneycontrol.com)

Interpretation: It is clear from Table.4. The Private Sector Banks gain high ROA in the matter of average values. The HDFC has a greater ROA of 1.720%, accompanied by KMB, IB, ICICI and AB with 1.708%, 1.230%, 0.958% and 0.508% respectively. The outcomes of a two-sample independent t-test demonstrate a significant difference in ROA (%) between public and private sector banks, with a p-value 0.001069669 is less than 5% than approved H1 and denied H0.

5) Cost to Income (%)

The cost-to-income ratio depicts the relationship between income and the expense of attaining that revenue. The Cost Income ratio and bank profitability have an adverse connection. The lower a bank's Cost to Income Ratio, the more effectively it works, and the higher its profitability.

Table.5. Cost to Income

Cost to Income (%)										
	Public					Private				
	SBI	BOB	PNB	CB	UB	HDFC	ICICI	KMB	AB	IB
Avg	43.822	45.882	50.244	42.966	45.716	39.594	44.900	40.998	47.296	43.038



Sd	2.458	2.792	10.096	3.607	3.892	1.149	3.299	2.183	3.746	4.190
Min	41.000	43.130	41.810	38.780	41.340	38.410	40.650	38.520	42.770	39.220
Max	47.520	48.920	63.440	48.400	51.780	41.050	48.980	43.720	51.640	48.510
p-value	0.205958862									

(Source: Computed values from Annual reports using Microsoft Excel 2019 and moneycontrol.com)

Interpretation: In both Public and Private Sector Banks the most effectively working bank is HDFC which has a lower Cost to Income ratio of average 39.594% and followed by KMB with 40.998%, CB with 42.966% and so on. The minimum and maximum values are in the range of CB 38.780 to PNB with 63.440 and HDFC with 38.410 to 51.640. A two-sample independent t-test results in there is no significant difference in Cost to Income ratio (%) between public and private sector banks, with a p-value 0.205958862 is greater than 5% than accepted H0 and rejected H1.

6) Interest Expenses/Total Assets (%)

This ratio reflects how much interest the bank is spending and compare it with respect to the total funds i.e., Assets.

Table.6. Interest Expenses/Total Assets

Interest Expenses/Total Assets (%)										
	Public					Private				
	SBI	BOB	PNB	CB	UB	HDFC	ICICI	KMB	AB	IB
Avg	3.784	3.720	4.114	4.342	4.358	3.512	3.438	3.400	3.702	4.572
Sd	0.504	0.501	0.377	0.609	0.619	0.559	0.438	0.698	0.520	0.581
Min	3.100	2.910	3.510	3.500	3.380	2.690	2.750	2.380	2.910	3.930
Max	4.210	4.190	4.400	4.940	4.820	4.070	3.780	4.060	4.150	5.440
p-value	0.222825442									

(Source: Computed values from Annual reports using Microsoft Excel 2019 and moneycontrol.com)

Interpretation: Table 6. clears that Private Sector Banks spending minimal range of its interest from their Assets which shows its effective working nature. In terms of lower average, the KMB with the 3.400%, followed by ICICI, HDFC and so on. The minimum and maximum values of Public Sector banks are in the ambit of 2.910 to 4.940 and 2.380 to 5.440 of Private Sector Banks. The outcomes of test of hypothesis revealed that accepted H0 because there is no significant difference in Interest Expenses/Total Assets (%) between public and private sector banks, with a p-value 0.222825442 is higher than 5%.

FINDINGS:

From the study it is clear that the Private Sector Banks performed excellently than the Public Sector Banks in all the financial metrics analyzed from the sample of the study. Finally, the study concluded



that from the two-sample independent t-test revealed that ROCE (%), CASA (%), Net Profit Margin (%), ROA (%) Accepted H1 because there is significant difference between Public and Private Sector Banks, with a p-value is less than 5%. For Cost to Income (%), and Interest Expenses/Total Assets (%) Rejected H1 and Accepted H0 because the p-value is higher than 5% means there is no major difference between Public and Private Sector Banks, with a p-value is less than 5%.

CONCLUSIONS

Public Sector Banks are trying to complete with the Private Sector Banks in terms of all financial Operations. But still Public Sector Banks' performance not reached up to the performance of Private Sector Banks. Therefore, the Banks in Public Sector need to enhance their entire economic efficiency to cope up with the competition from the global level.

MANAGERIAL IMPLICATION

The study's findings make it evident that the management of public sector banks is under competition pressure from the financial activities of private sector banks. The management can relieve their financial stress by focusing on how to integrate cutting-edge financial services into their banking operations to boost their financial success.

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