

FINANCIAL PERFORMANCE OF SELECTED PUBLIC AND PRIVATE SECTOR BANKS IN INDIA

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Abstract

The main objective of this paper is to evaluate the financial performance of selected public and private sector banks in India. The present study is used secondary data for period of five years from 2014-15 to 2018-19. To compare the financial performance by using selected parameters namely return on asset, total income, net profit, net interest income and operating profit. The study found that total income, net interest income and operating profit of selected public sector banks are performing better than private sector banks. On the other hand, net profit and return on assets of private sector bank is higher than public sector banks. There is no significant difference between the net profits of selected public sector and private sector banks.

Keywords:

Financial Performance, Public Sector, Private Sector, Net Profit

1. INTRODUCTION

Banking sector plays a significant role in the economic growth of country. Banks mobilizing the resources through collecting funds from various sources which has providing credit facilities to various sectors. After the Liberalization, Privatization and Globalization (LPG) in 1991, private sector banks have played a major tool of Indian financial system. However, the banking sector facing more challenges due to rising in completion, weakening the asset quality and level of non-performing assets. These may lead to adverse effect on the economy of the nation. By improving the economy of the nation, they raise living standard of the people.

Therefore, the banking sector is painstaking to develop the source of financing to most business activities and take possible effort to attain stable prices, sound economic growth and level of employment. This will facilitate to increase the flow of goods and services and the activities of the society. Further, profitability and efficiency of banking sector has been attained through importance given to high customer demand, intense competition and accelerated reforms in India. Therefore, the study is attempt to evaluate the financial performance of selected public and private sector banks in India on the basis of selected parameters namely return on asset, total income, net profit, net interest income and operating profit.

The main objective of the study is:

- To evaluate the financial performance of selected public and private sector banks.
- To compare the financial soundness of public and private sector banks.

The hypothesis of the study is given below:

H_0 : There is no significant difference between the financial performance of selected public and private sector banks.

2. RESEARCH METHODOLOGY

- **Sample:** A sample of five public sector (State Bank of India, Punjab National Bank, Bank of Baroda, Canara Bank and Bank of India) and five private sector (ICICI Bank, HDFC Bank, Axis Bank, Yes Bank and Kotak Mahindra Bank) banks has been selected on the basis of market capitalization of banks during the period from 2014-15 to 2018-19.
- **Study Period:** The study covered the period of five years from 1st April 2014 to 31st March 2019.
- **Data Collection:** The study is purely based on secondary data. The secondary data has been collected from annual reports of respective banks, RBI Bulletin, Magazines, journals etc.
- **Tools of Analysis:** Mean, Standard Deviation, t- test and graphs are used to evaluate and compare the financial performance of selected public and private sector banks.

3. REVIEW OF LITERATURE

Madhusudhana Rao [1] examined the financial performance of SBI and HDFC Bank in India. The study was entirely used for the secondary data. He analysed the financial performance of SBI and HDFC bank with help of ratios namely credit deposit ratio and net profit margin etc. He covered the study period of five years from 2008-09 to 2012-13. He found from his study, HDFC Bank is performed well and financially sound as compared with SBI. Whereas, in the aspect of deposits and expenditure both are HDFC and SBI has better management efficiency.

Ashish Gupta and Sundram [2] compared the financial performance of selected public sector banks (Bank of Baroda, Central Bank of India and Punjab National Bank) and private sector banks (Axis Bank, HDFC Bank and ICICI Bank) in India. They used the secondary data during the 5 years period from 2009-10 to 2013-14. They used financial ratios to know the financial position of selected public and private sector banks. Their study results showed that overall financial performances of private sector banks like Axis bank, HDFC bank and ICICI bank are better than public sector banks such as Bank of Baroda, Central Bank of India and Punjab National Bank.

Pawan et al. [3] conducted to know the financial performance of selected private sector banks in India such as ICICI bank, Axis bank, HDFC bank, Yes bank and Indusland bank. They used the 5 years from financial year 2010-11 to 2014-15. Their study results indicate that Indusland bank and Yes bank generated profit high rate than ICICI bank, Axis bank and HDFC bank. They also concluded from the return on net worth ratio that Yes bank, HDFC

bank and Axis bank generated more return on net worth compare to ICICI and Indusland bank.

Sonaje and Nerlekar [4] attempted to study the performance of commercial banks in India during the period from 2012-13 to 2016-17. Their results showed that HDFC bank and Kotak bank are the top performers while the public sector giant Punjab National bank and State Bank of India are at the bottom.

Kumar and Chander [5] evaluated the financial performance of public and private sector banks during the period from 2004-05 to 2016-17. Their study results showed that private sector banks are performing better than public sector banks in terms of profit per employee, operating profit to total assets ratio, return on assets and return on advances ratio. Whereas, public sector banks are performing better than private sector banks in terms of return-on-investment ratio. They also found that difference between the ratios of various banks is statistically significant except in case of return on equity.

4. RESULTS AND DISCUSSIONS

From the Table.1 showed that return on assets of public sector banks are decreased from 2.52 in the year 2014-15 to -1.95 in 2018-19. The total return on assets of private sector also decreased from 9.61 in 2014-15 to 5.13 in the year 2018-19. The Table.1 also observed that means of selected public sectors banks are less than the selected private sector banks with private sector average 7.32 than that of public sector banks average of -0.97. From Table.1 showed that return on assets of public sector banks are fluctuated during the study period whereas, private sector banks are decrease continuously.

From the Table.2 indicated that total income of selected public sector banks is continuously increased from 2014-15 to 2018-19 with Rs. 3,70,808 crores in the year 2014-15 to Rs. 4,93,681 crores in 2018-19.

Table.1. Return on Assets of Selected Public and Private Sector Banks Amount (in %)

Particulars	2014-15	2015-16	2016-17	2017-18	2018-19	Mean
State Bank of India	0.68	0.46	0.41	-0.19	0.02	0.276
Punjab National Bank	0.53	-0.61	0.19	-1.61	-1.25	-0.550
Bank of Baroda	0.49	-0.78	0.20	-0.34	0.06	-0.074
Canara Bank	0.55	-0.52	0.20	-0.75	0.06	-0.092
Bank of India	0.27	-0.94	-0.24	-0.91	-0.84	-0.532
Public Sector Banks	2.52	-2.39	0.76	-3.80	-1.95	-0.972
ICICI Bank	1.86	1.49	1.35	0.87	0.39	1.192
HDFC Bank	2.02	1.89	1.88	1.93	1.90	1.924
Axis Bank	1.83	1.72	0.65	0.04	0.63	0.974
Yes Bank	1.60	1.78	1.81	1.78	0.52	1.498
Kotak Mahindra Bank	2.30	1.19	1.73	1.73	1.69	1.728
Private Sector Banks	9.61	8.07	7.42	6.35	5.13	7.316

Source: Annual Reports of Respective Banks

Table.2. Total Income of Selected Public and Private Sector Banks Amount (Rs. in Crore)

Particulars	2014-15	2015-16	2016-17	2017-18	2018-19	Mean
State Bank of India	1,74,973	1,91,844	2,10,979	2,65,100	2,79,644	2,22,708
Punjab National Bank	52,206	54,301	56,227	56,877	58,688	55,660
Bank of Baroda	47,366	49,060	48,958	50,306	56,065	50,351
Canara Bank	48,300	48,897	48,942	48,195	53,385	49,543
Bank of India	47,963	45,764	46,063	43,805	45,899	45,898
Public Sector Banks	3,70,808	3,89,866	4,11,169	4,64,283	4,93,681	4,24,160
ICICI Bank	61,267	68,062	73,661	72,386	77,913	70,657
HDFC Bank	57,466	70,973	81,603	95,462	1,16,598	84,420
Axis Bank	43,844	50,360	56,233	56,747	68,116	55,060
Yes Bank	13,618	16,246	20,581	25,491	34,215	22,030
Kotak Mahindra Bank	21,471	28,032	33,983	38,813	45,979	33,655
Private Sector Banks	1,97,666	2,33,673	2,66,061	2,88,899	3,42,821	2,65,822

Source: Annual Reports of Respective Banks

Table.3. Net Profit of Selected Public and Private Sector Banks

Particulars	2014-15	2015-16	2016-17	2017-18	2018-19	Mean
State Bank of India	13,102	9,951	10,484	-6,547	862	70,658
Punjab National Bank	3,062	-3,974	1,325	-12,282	-9,975	84,420
Bank of Baroda	3,398	-5,396	1,383	-1,887	1,100	55,060
Canara Bank	2,703	-2,813	1,122	-4,222	347	22,030
Bank of India	1,709	-6,089	-1,558	-6,044	-5,547	33,655
Public Sector Banks	23,974	-8,321	12,756	-30,982	-13,213	2,65,823
ICICI Bank	11,175	9,726	9,801	6,777	3,363	8,168
HDFC Bank	10,216	12,296	14,550	18,561	22,446	15,613
Axis Bank	7,358	8,224	3,679	276	4,677	4,842
Yes Bank	2,005	2,539	3,330	4,225	1,720	2,764
Kotak Mahindra Bank	1,866	2,090	3,411	4,084	4,865	3,263
Private Sector Banks	32,620	34,875	34,771	33,923	37,071	34,650

Source: Annual Reports of Respective Banks

Table.4. Net Interest Income of Selected Public and Private Sector Banks

Particulars	2014-15	2015-16	2016-17	2017-18	2018-19	Mean
State Bank of India	55,015	57,195	61,860	74,854	88,349	67,454
Punjab National Bank	16,556	15,312	14,993	14,922	17,156	15,787
Bank of Baroda	13,188	13,692	14,878	15,522	18,684	15,192
Canara Bank	9,664	9,763	9,872	12,163	14,478	11,188
Bank of India	11,344	11,724	11,826	10,506	13,658	11,811
Public Sector Banks	1,05,767	1,07,686	1,13,429	1,27,967	1,52,325	1,21,432
ICICI Bank	19,040	21,224	21,737	23,026	27,015	22,408
HDFC Bank	22,396	27,594	33,139	40,095	48,243	34,293
Axis Bank	14,224	16,883	18,093	18,618	21,708	17,905
Yes Bank	3,488	4,567	5,797	7,737	9,809	6,679
Kotak Mahindra Bank	4,224	6,900	8,126	9,532	11,259	8,008
Private Sector Banks	63,372	77,168	86,892	99,008	1,18,034	89,293

Source: Annual Reports of Respective Banks

Table.5. Operating Profit of Selected Public and Private Sector Banks

Particulars	2014-15	2015-16	2016-17	2017-18	2018-19	Mean
State Bank of India	39,537	43,258	50,848	59,511	55,436	49,718
Punjab National Bank	11,955	10,350	14,980	10,432	13,170	12,177
Bank of Baroda	5,421	-6,698	2,303	-2,081	1,538	77
Canara Bank	6,950	7,147	8,914	9,548	10,590	8,630
Bank of India	8,423	6,036	9,733	7,139	8,092	7,885
Public Sector Banks	72,286	60,093	86,778	84,549	88,826	78,487
ICICI Bank	19,720	23,863	26,487	24,741	23,438	23,650
HDFC Bank	10,216	12,296	14,550	18,561	22,446	15,614
Axis Bank	13,385	16,104	17,585	15,594	19,005	16,335
Yes Bank	3,250	4,302	5,838	7,748	8,135	5,855
Kotak Mahindra Bank	2,997	4,041	5,985	7,158	8,348	5,706
Private Sector Banks	49,568	60,606	70,445	73,802	81,372	67,160

Source: Annual Reports of Respective Banks

The total income of private sector banks is also increased from 1,97,666 crores in the year 2014-15 to Rs. 3,42,821 crores in the year 2018-19. It is also observed that the means of public sector banks are higher than that of private sector banks. From Table.2 observed that the total income of both selected public and private sector banks is increased during the study period of 2014-15 to 2018-19.

From the Table.3 showed that net profit of selected public sector banks is decreased from 2014 to 2018-19 and it is also observed that during the years of 2015-16, 2017-18 and 2018-19 are showed that net loss. The net profit of private sector banks is fluctuated during the study period but it has no loss for the entire study period from 2014-15 to 2018-19. From the Table.3 observed that net profit of public sector banks is showed that positive as well as negative trend during the study period whereas, the private sector banks are indicating fluctuated trend for study period.

From the Table.4 observed that net interest income of public sector banks is increased from 2014-15 with Rs. 1,05,767 crores to Rs. 1,52,325 crores in the year 2018-19. The net interest income of private sector banks is also increased from 2014-15 to 2018-19 with Rs.63,372 crores in the financial year 2014-15 to Rs. 1,18,034 crores in the year 2018-19. It is also observed that means of public sector banks are higher than that of private sector banks. From Table.4 it is observed that net interest income of both public and private sector banks is increasing trend.

From the Table.5 observed that operating profit of public sector banks are increased from 2014-15 with Rs. 72,286 crores to Rs. 88,826 crores in the year 2018-19. The operating profit of private sector banks are also continually increased from Rs. 49,568 crores in the year 2014-15 to Rs. 81,372 crores in the financial year 2018-19. It is also observed that mean value of public sector banks (Rs. 78,487 crores) are higher than private sector banks (Rs. 67,160 crores). From the Table.5 represented those operating profits of both public sector and private sector banks are increasing trend during the study period.

4.1 T- TEST

In order to find the significant difference between the net profits of public sector and private sector banks paired sample t-test are used.

H_0 : There is no significant difference between the financial performance of selected public and private sector banks.

From the Table.6 showed that mean value of net profits of public sector banks are less than private sectors banks. Since computed value of t-test (0.020) is greater than tabulated value (-3.763), therefore the null hypothesis is accepted at 5 percent level of significance. Hence, we conclude that there is no significant difference between the net profits of selected public and private sector banks.

Table.6. Net Profits of Selected Public and Private Sector Banks

Financial Year	Public Sector Banks	Private Sector Banks
2014-15	23,974	32,620
2015-16	-8,321	34,875
2016-17	12,756	34,771

2017-18	-30,982	33,923
2018-19	-13,213	37,071
t-Test: Paired Two Sample for Means		
	Variable 1	Variable 2
Mean	-3157.20	34652.0
Observations	5	
Pearson Correlations	-0.413	
df	4	
t Critical two-tail	-3.763	
P (T<=t) two-tail	0.020	

5. SUGGESTIONS

- Public sector banks must be reviewed by its net profit and must be implementing their cost control measures.
- Unutilized assets should be considered to generate new income schemes by public sector banks.
- The growth rate of all parameters is high for private sector banks; therefore, public sector banks must enhance their performance.
- Private sector banks should concentrate to rural areas.
- Both public sector and private sector banks must be given more attention to Corporate Social Responsibility.

6. CONCLUSION

The main objective of this paper is to evaluate the financial performance as well as compare the performance of selected public sector and private sector banks in India for the five years period from 2014-15 to 2018-19. To compare the financial performance by using selected parameters namely return on asset, total income, net profit, net interest income and operating profit. As per the study, total income, net interest income and operating profit of selected public sector banks are performing better than private sector banks. On the other hand, net profit and return on assets of private sector bank is higher than public sector banks. There is no significant difference between the net profits of selected public sector and private sector banks. So, the private sector banks are more constant than public sector banks.

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