ISSN: 2454-9940

INTERNATIONAL JOURNAL OF APPLIED SCIENCE ENGINEERING AND MANAGEMENT

E-Mail :
editor.ijasem@gmail.com
editor@ijasem.org

www.ijasem.org

INTERNATIONAL JOURNAL OF APPLIED SCIENCE ENGINEERING AND MANAGEMENT

ISSN2454-9940

www.ijasem.org

Vol 15, Issue 3, 2021

FINANCIAL PERFORMANCE OF PUBLIC AND PRIVATE SECTOR BANKS IN INDIA

[1] BANOTH GANESH, Research Scholar, Department of Business Management, Osmania University, Hyderabad

[2]Dr. D. SREERAMULU, Research Supervisor, Professor, Department of Business Management, Osmania University, Hyderabad

Abstract:

The performance and asset size of the banking industry have an important influence on the economic growth about any country. This goal of assessing overall performance is not just to understand how a bank is functioning, but also to allow it to execute more effectively. The ultimate aim of executing an overall performance strategy is to enhance the banks' performance so that they can better serve their customers, workers, owners, and other stakeholders. The Indian scenario of the banking industry has a robust network of public and private sector banks that continue to work seamlessly reinforcing the Indian economy. The operational scope and targets of the public sector and private sector differ to a great extent even though they work together under several governmental schemes. While the greatest objective of public sector banks is social welfare, private sector banks are more target-oriented focusing on profitability.

Key words: overall performance strategy - enhance the banks' performance- financial performance of selected public sector banks

Introduction:

The study attempts to derive a comparison between the financial performance of the public and private sectors concerning internal and external factors that influence the overall performance of the banking industry. This study might prove helpful in reinforcing the central policies and identifying factors that are adversely affecting performance so that banks can equip themselves in a better way to counteract any financial shocks that may occur in the future. The goal of this research was to examine the financial performance of a few public and private sector banks from 2019 to 2023. The study concluded that both public sector banks and private sector banks need to focus on decreasing their non-performing assets as they seriously dent the profitability of banks by affecting its revenue. Banks need to work from the perspective of improving revenue and also cutting expenses if they wish to reinforce their banking performance.

ISSN2454-9940
www.ijasem.org
Vol 15, Issue 3, 2021

The study has analysed the financial performance of selected public sector banks State Bank of India(SBI) and Union Bank of India(UBI) along with private ICICI and HDFC Bank sector banks in Hyderabad in the state of Telangana. Ratio analysis is a widely utilized financial analytical technique. This sort of analysis is primarily beneficial to analysts that work outside of banks.

Banks are a basic component of the financial system for the development of the economy and are also active players in the financial markets. An efficient banking system capable of mobilizing savings and directing them to productive purposes is essential for the development of any economy. Banks playa major role in the circulation of money in the economy. It is mostly about lending and borrowing money from the public and provides loans mostly for productive purposes. The objective of this study is to examine the financial performance of selected Indian public and private sector banks. Secondary data was used inthis study which used Reserve Banks of India website and official websites of the banks. The ratio analysis technique used to analyze the financial performance of selected public sector banks. Although there has been an increase in the efficiency and profitability of public sector banks, the growth rate of private sector banks is more compared to public sector banks. Public sector banks are faltering on many financial parameters and also facing many challenges.

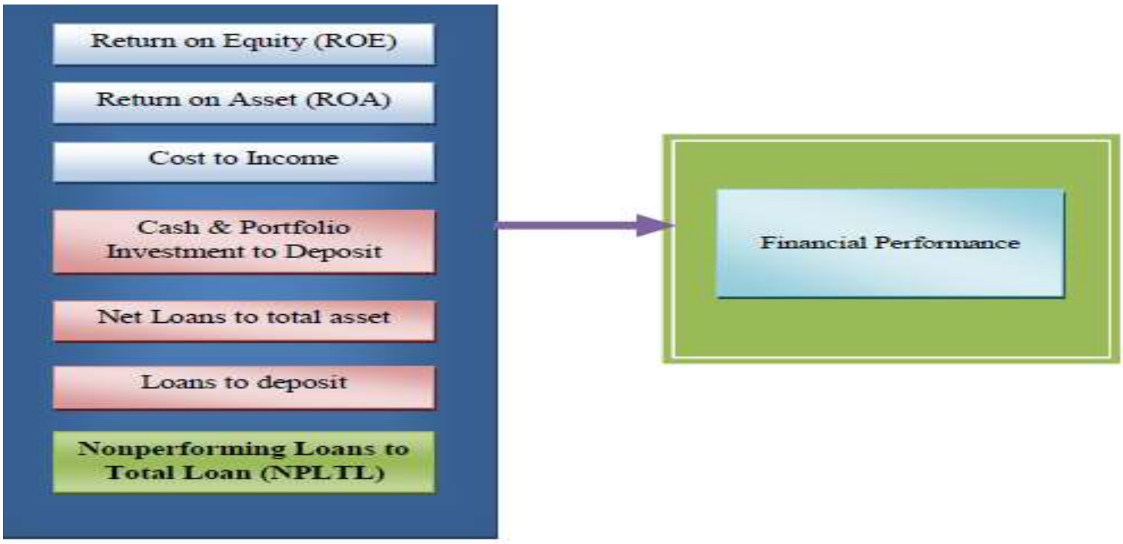


Figure 4.1 Financial Performance of Banks

Banking is the lifeblood of the economy as an integral part of the financial sector. It plays an important role in accelerating economic growth. The importance of commercial banks in the process of economic development has been emphasized from time to time by the country's economic thinkers and progressive bankers. Banks are at the heart of our financial structure. As custodians and lenders of community savings, banks play an active role in the economic development of the country. Indian bankshave effectively supported economic development over the past 73 years (1949-2022). The banking sector has shown remarkable resilience to the needs of a planned economy. The public sector banks playan important role in government participation. The financial sector reform has brought many new policies and remedies to the changes in banking with the help of advanced technology, and the professional administration has reached a tough position to increase the efficiency of India's public and private sector banks. Recently, the role of the public sector in collecting and investing savings has played a role in facilitating rapid economic development through the creation and expansion of infrastructure in productive areas.

In the era of globalization, the banking sector plays an important role in the development of each country's economy. In fact, banks have long contributed to economic stability as financial institutions. Abank is a financial institution that receives funds from the public and invests them in financial assetssuch as deposits and loans. In today's world, the banking sector's sphere of activity is not confined to anyparticular region. The transaction is cross-border. Therefore, it is very important for stakeholders to know about the bank's financial performance and financial condition. To this end, this study focuses on the analysis of the financial performance of selected Indian public sector banks.

The study helps bank executives, bank customers, and other potential investors to gain knowledge about the bank's financial performance and status. In addition, the research paper provides a detailed assessment of bank performance in terms of profitability. Furthermore, this study intended to draw the attention of researchers and provoke their discussion of the financial performance of India's public and private sector banks and their impact on the country's economic growth and stability. The study also discusses the factors that influence bank performance, which can be actively used by bank management to make the bank's activities work better and more efficiently. This research can also be seen as a guide and motivation for budding researchers.

Objectives of the study:

1. To analyze and compare the Financial Performance of selected public and Private sector banks SBI, Union Bank and HDFC and ICICI Bank

ISSN2454-9940
www.ijasem.org
Vol 15, Issue 3, 2021

2. To offer suggestions for the improvement of efficiency in selected public and Private sector banks

Research Methodology: In the present study, an attempt has been made to measure, evaluate and compare the financial performance of Financial Performance of selected public and Private sector banks SBI, Union Bank and HDFC and ICICI Bank. The study is based on secondary data that has been collected from annual reports of the respective banks, magazines, journals, documents and other published information.

Source/s of Data: The study is based on secondary data: To assess the comparative financial performance of select banks, the study adopted the world - renowned CAMEL model

Data Collection Method: The sample of the study only includes Financial Performance of selected public and Private sector banks SBI, Union Bank and HDFC and ICICI Bank. Simple random sampling was used to select the sample from this banks which are working in the stock market based on the current situation. The study works on largely on secondary data that was taken from the annual reports of the selected banks. Secondary data is collected from the IBA Bulletins, RBI publications, different publication, Bank Quest and journals, various books, periodicals, journals and relating banking industry etc. have also been used for better reliability.

Hypothesis:

Ho1: There is no significant difference between financial performance indicators of public and private sector banks.

Data Analysis and Interpretation:

4.4 Net Profit Margin

Net Profit Margin shows how much of the profit remaining after all operating expenses, interest, tax is deducted from the total income of the bank. The absolute value of a profit level expressed as a percentage is examined by NPM.

Net Profit Margin = Total Revenue - Total Expenses/ Total Revenue = Net Profit/Total Revenue.

Table 4.1Net Profit Margin of selected public and private sector banks (Percentage)

Year	Public Sector Banks		Private Sector Banks	
	State Bank ofIndia	UnionBank	HDFC	ICICI
2023	15.12	10.44	27.29	29.2
2022	11.49	7.70	28.93	27.02
2021	7.69	4.22	25.74	20.46

2020	5.63	-7.78	22.86	10.6
2019	0.35	-8.65	21.29	5.3
Mean	8.56	0.52	25.222	18.516
SD	4.58	8.33	12.68	10.33
CV	73.16	78.24	96.54	55.84%

Source: Data Compiled from the annual reports of Banks

Table 4.1 presents the selected public and private sector banks have a Net Profit Margin percentage has analysed the financial performance of selected public sector banks State Bank of India(SBI) and Union Bank of India(UBI) along with private ICICI and HDFC Bank sector banks in Hyderabad in the state of Telangana.

In the year 2023 the percentage of Net Profit Margin Percentage State Bank of India(SBI) 15.12%, Union Bank of India(UBI) 10.44% along with private ICICI 27.29% and HDFC Bank 29.2%.

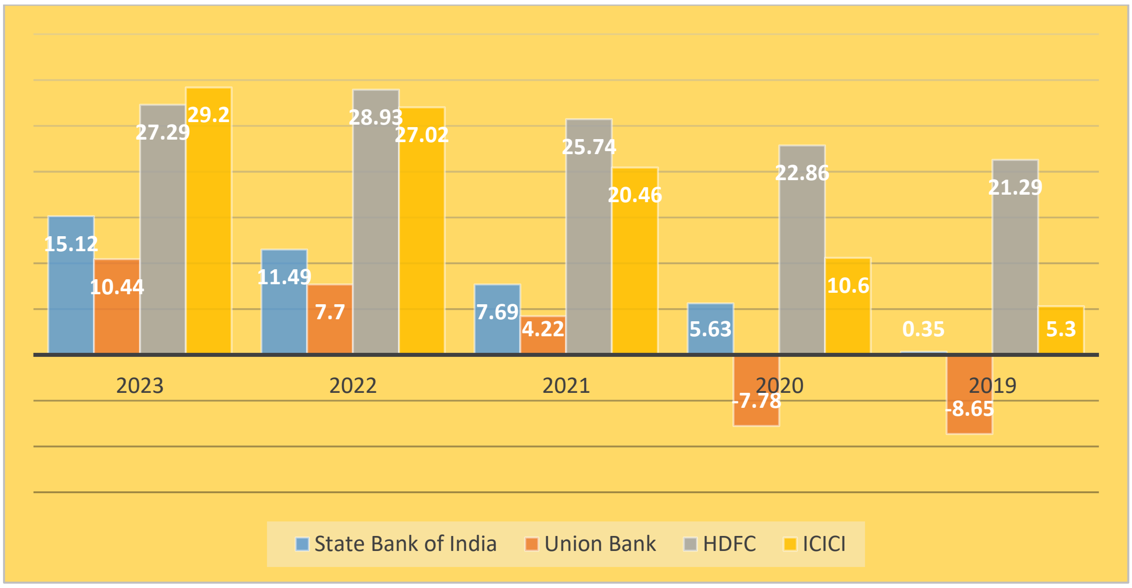


Figure:4.2 Net Profit Margin selected public and private sector banks (Percentage)

The study suggests that both public and private banks have sustained a healthy level of profit over gross income sincein comparison to the first 5 years of the study period, all 4 of the banks under investigation had excellentnet profit margin ratios except Union bank. Every banks have performed as efficiently as possible during the last 5 years. HDFC bank and ICICI have the greatest mean net profit margin ratios among banks.

Hypothesis:

H0: There is no significant relationship between Net Profit Margin among different public and private sector banks in India.

Table 4.2 ANOVA Summary

Source of Variation	DF	SS	MS	F	P-Value
Between Groups	9	3314.0267	368.2252	F = 3.1898	0.002
Within Groups	90	10389.4076	115.4379		
Total	99	13703.4342			

Source: Data Compiled from the annual reports of Banks

As per table 4.2 of ANOVA show that relationship between Net Profit Margin among different public and private sector banks in India. They have positive relation as the ANOVA is 3.1898. The significant level is 0.002, which is less than 0.05, so that ANOVA is statistically significant. So that null hypothesis rejected Ho, and accept alternate hypothesis H1 that is significant relationship between Net ProfitMargin among different public and private sector banks in India.

4.5 Operating Profit Margin (OPM):

This is shows how much cash is thrown after most of the expenses are completed. High operatingprofit margin means that the bank has good cost control.

Operating Profit Margin = Operating Earnings/ Revenue.

This computes the earnings from operations of a bank for each rupee spent as a working fund per share.

Table 4.3 Operating Profit Margin of selected public and private sector banks

	Public Sector Banks		Private Sector Banks	
Year	State Bank of India	UnionBank	HDFC	ICICI
2023	4.1	-7.67	7.97	11.04
2022	-3.22	-10.73	5.83	5.58
2021	-8.70	-12.26	4.89	-3.5
2020	-11.94	-21.91	2.60	-11.38

2019	-14.14	-21.78	2.49	-17.58
Mean	-9.98	-12.93	5.68	-3.168
SD	10.37	9.45	13.92	11.76
CV	-63.83	-73.09	84.26	-371.37%

Source: Data Compiled from the annual reports of Banks

Table 4.3 The study analyzes the financial performance of public and private banks over a five-year period. The sample includes three leading private sector banks HDFC Bank, ICICI Bank, two public sector banks State Bank of India, union Bank, to evaluate the performance of Indian commercial banks.

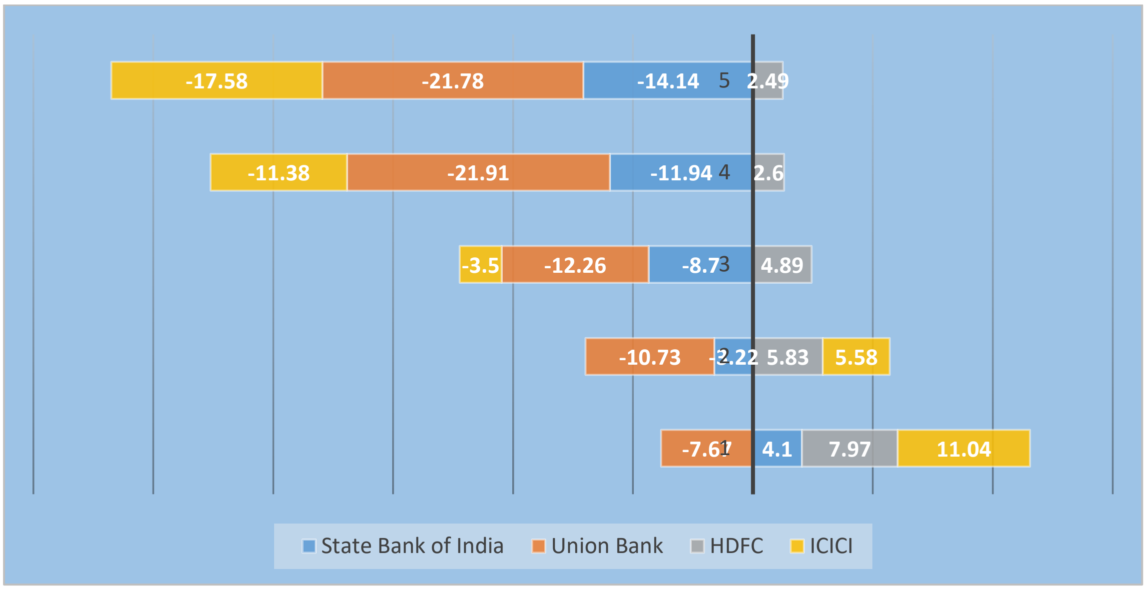


Figure 4.3 Operating Profit Margin of selected public and private sector banks

Both the selected public and private banks have maintained their operating profit ratio when compared to the initial years of the study period, it can be concluded from the above table that businesses have been able to maintain an acceptable level of profit over gross income. Every bank has performed as efficiently as possible during the last 5 years. HDFC bank has the greatest mean operating profit followed by ICICI and SBI bank.

Hypothesis:

H0: There is no significant relationship between Operating Profit Margin among different public and private sector banks in India.

Table 4.5 ANOVA Summary

Source of Variation	DF	SS	MS	F	P-Value
Between Groups	9	4233.6225	470.4025	F = 3.3739	0.0013
Within Groups	90	12548.2537	139.425		
Total	99	16781.8762			

Source: Data Compiled from the annual reports of Banks

As pertable 4.5 of ANOVA show that relationship between Operating Profit Margin among different public and private sector banks in India. They have positive relation as the ANOVA is 3.3739. The significant level is 0.001, which is less than 0.05, so that ANOVA is statistically significant. So that we reject nullhypothesis Ho, and accept alternate hypothesis H1 that is significant relationship between Operating Profit Margin among different public and private sector banks in India.

The banking industry is important to the economic growth of the country. The Indian banking system is large, with an extensive branch network and diverse financial services. The Profitability ratios of metrics provide a measurement of financial performance of banks' and financial institutions' current and overall financial, operational and managerial performance. Each bank must monitor the policies and regulations established by the Reserve Bank to ensure that cash can circulate freely without disruption or prohibition to the public or banks. Furthermore, fora bank to perform efficiently there should be least requirements to be upheld such as having net profits with ease of loans and deposits i.e. having balance between loans and deposits. It is therefore, the results of this study will benefit bank, shareholders and customers, as well as bank management.

The study relies on secondary data gathered from various sources, including bank annual reports, scholarly journals, and the database of the Reserve Bank of India. The study encompasses the time span from 2019 to 2023. In this study, banks are selected based on their total assets in the financial year 2022-2023. Privatebanks consist of HDFC Bank, ICICI Bank, and public sector banks consist of the State Bankof India (SBI), Union Bank. The assessment of banks' profitability involves computing Return on Assets (ROA) and Return on Equity (ROE). Comparisons of profitability between public and private banks are performed using the T-test, mean, and graphical representations.

INTERNATIONAL JOURNAL OF APPLIED SCIENCE ENGINEERING AND MANAGEMENT
ISSN2454-9940
www.ijasem.org
Vol 15, Issue 3, 2021

4.6 Return on Assets (ROA):

H01: There is no significant difference in the Return on Assets of selected public sector banks and private sectorbanks.

Return on Assets is the net earnings earned on total assets.

Return on Assets (ROA) can be calculated as follows: ([Net income / Total assets] * 100).

Table 4.6: Return on Assets (ROA) of selected Public and Private Banks (2019-2023)

Year	Public sector Banks			Private sector Banks		
	SBI	**UBI**	**Mean**	**HDFC Bank**	**ICICI Bank**	**Mean**
2019	0.02	-1.25	-0.39	1.9	0.34	0.96
2020	0.38	0.04	0.16	2	0.81	1.00
2021	0.48	0.15	0.23	2.0	1.42	1.36
2022	0.67	0.26	0.50	2.7	1.84	1.92
2023	0.96	0.18	0.70	2.07	2.16	2.02

Source: Data Compiled from the annual reports of Banks

The analysis of Table 4.6 reveals that a subset of public banks exhibited a negative mean ROA in the year 2019. It started increasing in 2020 and there was continuous improvement in the ROA of all PSBs till 2023.The private sector banks' ROA continuously increased throughout the years. In the past five years, it has been observed that the average ROA of a subset of private banks has been higher than that of public sector banks. It shows that private banks are earning more on total assets than public banks.

INTERNATIONAL JOURNAL OF APPLIED SCIENCE ENGINEERING AND MANAGEMENT
ISSN2454-9940
www.ijasem.org
Vol 15, Issue 3, 2021

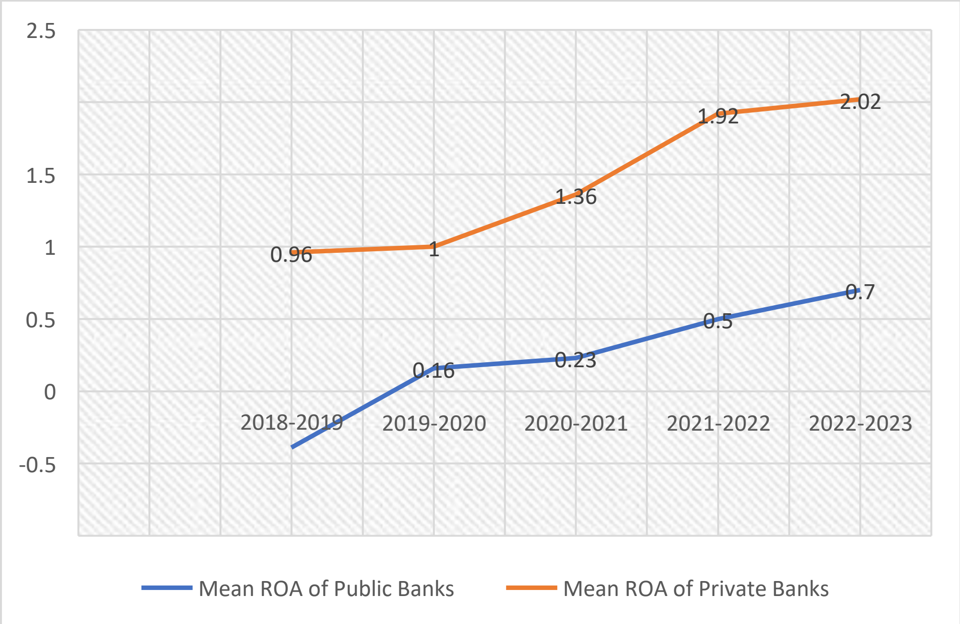


Figure:4.4 Mean ROA of Public and Private Sector Banks (2019-2023)

The aforementioned graph illustrates the Return on Assets exhibited by private sector banks.is always positive with an increasing trend. Meanwhile, the ROA of public sector banks was negative in 2019, after that, it also showed improvement over the years, but the ROA of all selected PSBs was lower than the selected private banks.

Table 4.7: t-test of selected Public and Private Banks

	Mean Return on Assets (Public Banks)	Mean Return on Assets (Public Banks)
Mean	0.24	1.452
Variance	0.1707	0.2491
Obs	5	5
df	4	
t Statistics	-11.5802	
P(T<=t) two-tail	0.0003	
t Critical two-tail	2.7764	

Source: Author's compilation

From the above table 4.7, it is found the mean of public sector banks is less than that of private banks. The t value (0.0003) is less than 0.050, hence the null hypothesis H01 is rejected. It indicates that there is a substantial difference in the Return on Assets of both

INTERNATIONAL JOURNAL OF APPLIED SCIENCE ENGINEERING AND MANAGEMENT

ISSN2454-9940
www.ijasem.org
Vol 15, Issue 3, 2021

public banks and private banks.

Return on Equity (ROE)

H02: There is no significant difference in the Return on Equity of selected public sector banks and private sectorbanks.

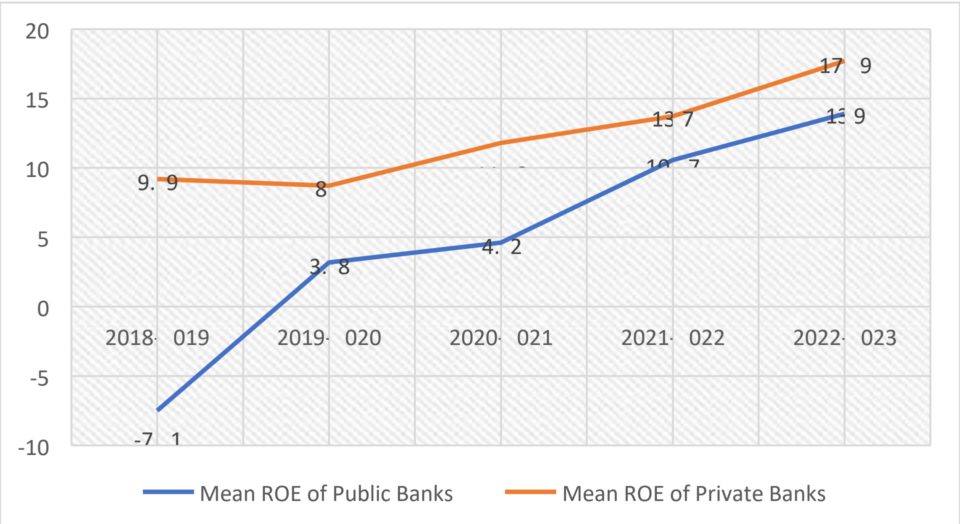
This metric assesses the proportion of net income relative to shareholders' equity.Return on Equity (ROE) is calculated as follows: Profit after tax/ Total equity.

Table 4.8: Return on Equity (ROE) of selected Public and Private Banks (2019-2023)

Year	Public Sector Banks			Private sector Banks		
	SBI	UBI	Mean	HDFC Bank	ICICI Bank	Mean
2019	0.48	-24.2	-7.51	16.3	3.19	9.19
2020	7.74	0.58	3.18	16.76	6.99	8.70
2021	9.94	2.41	4.62	16.6	11.21	11.79
2022	13.92	5.96	10.57	13.4	14.8	13.70
2023	19.43	3.94	13.90	17.4	17.3	17.69

Source: Annual Report of Banks

It can be seen from the table 4.8 above that the average Return on Equity of a subset of public sector banks was negative in 2019. It shows an increasing trend from the year 2020 onwards. The mean ROE of all three PSBs reach 13.90% in 2023. The ROE of selected private sector banks was always positive and showed a continuous increase till 2023. The mean ROE of selected public banks was less than selected private banks throughout the study.



ISSN2454-9940
www.ijasem.org
Vol 15, Issue 3, 2021

Figure 4.5: Mean ROE of selected Public and Private Bank (2019-2023)

It can be seen from the graph above that over the past five years, the Return on Equity of a subset of private banks has consistently exceeded that of a subset of public banks. The Public banks showed negative ROE in 2019 while Private banks always have positive ROE.

Table 4.9: t-test

	Mean Return on Equity (Public Banks)	Mean Return on Equity (Private Banks)
Mean	4.952	12.214
Variance	67.5451	13.4668
Obs	5	5
df	4	
t Statistics	-2.9494	
P(T<=t) two-tail	0.0420	
t Critical two-tail	2.7764	

Source: Author's compilation

From the above table4.9 it is depicted that the average value of chosen private sector banks significantly exceeds that of the public banks. Given that the t value (0.042) is smaller than 0.050, hypothesis H02 is rejected. This indicates a substantial disparity in the ROE of a subset of public and private banks.

This study investigates and contrasts the financial performance of specific public banks, namely State Bank of India, Union Bank, and private banks such as HDFC, ICICI Bank. The analysis of Return on Assets exhibits that private banks are more earning on their assets as compared to public banks. Meanwhile, the ROE of private banks during the last five years surpasses the ROE ofpublic banks.

The HDFC Bank attained the highest ROA and ROE during the study period among all selected banks. Thus, it can be concluded that relative to public-sector banks, private-sector banks exhibit superior profitability. The profitability of public sector banks is impaired by the heavy burden of NPAs and inefficiency in managing the operations.

The study suggests that public sector banks should utilize their strength in the efficient management of banking operations and try to reduce the burden of NPAs. However, this

ISSN2454-9940
www.ijasem.org
Vol 15, Issue 3, 2021

study is limited to only three public and three sector banks, and only two profitability indicators namely ROA and ROE are utilized. Further researchers can include other variables along with more banks.

The data analysis has done with the help of various statistical techniques including arithmetic mean, dispersion (range), and t-test is used for hypothesis testing. To evaluate profitability aspects of selected banks' net interest margin ratio, net profit margin ratio, return on capital employed, return on equity,and return on assets have been used.

Table 4.59 Mean, SD and Coefficient of Variation to the Difficult to Survive, Grow, Stabilize and Excel in Business in Banking Sector.

Factors	**Public Sector Banks (SBI and UBI)**			**Private Sector Banks (HDFC and ICICI Bank)**			**Total**		
	Mean	S.D	CV	Mean	S.D	CV	Mean	S.D	CV
Difficult to Survive, Grow, Stabilize and Excel in Business in the Banking Sector	3.87	0.76	19.61	3.88	0.87	22.40	3.87	0.81	21.01

Source: Data Compiled from the annual reports of Banks

The table4.59 shows the mean, standard deviation, in addition to coefficient of variation of the difficult to Survive, Grow, Stabilize and Excel in Business in the banking industry for chosen Public (SBI and UBI) along with private (HDFC and ICICI Bank) sector banks. The table reveals that the mean in HDFC Bank (3.88) was greater than in the public sector bank (Indian Bank). Indian Bank has a smaller standard deviation (0.76) whereas HDFC Bank has a greater standard deviation. When a compared to private sector bank (HDFC Bank), the CV of Indian Bank (19.61) is lower. It can be shown that public sector bankers are more consistent and stable to Survive, Grow, Stabilize and Excel in Business in the banking industry. It indicates that Indian Bank's bankers are not difficult to Survive, Grow, Stabilize and Excel in Business in the banking business.

INTERNATIONAL JOURNAL OF APPLIED SCIENCE ENGINEERING AND MANAGEMENT
ISSN2454-9940
www.ijasem.org
Vol 15, Issue 3, 2021

ANOVA:

The Difficult to Survive, Grow, Stabilize and Excel in Business in the Banking Sector of Public (SBI and UBI) along with private (HDFC and ICICI Bank) sector banks.

Null Hypothesis (H_0):

There is no significance differentiation in the observation about Public (SBI and UBI) along with private (HDFC and ICICI Bank) sector banks concerning the difficult to Survive, Grow, Stabilize and Excel in Business in the banking sector.

Table 4.60 Survive, Grow, Stabilize and Excel in Business in the banking sector.

ANOVA Table					
Source of Variation	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	0.007	1.000	0.007	0.010	0.920
Within Groups	98.587	148.000	0.666		
Total	98.593	149.000			

Source: Data Compiled from the annual reports of Banks

**Significant at 0.05 level*

Interpretation:

The F value in the above ANOVA test results is 0.010; together with the significance value is 0.0.920. It can be shown that each difficult to Survive, Grow, Stabilize and Excel in Business in the banking sector of chosen SBI and UBI (public sector bank) along with HDFC and ICICI Bank (private sector bank) determined to be scientifically insignificant difference Indian along with HDFC Bankers (P>0.05). As a result, based on the impression of public along with private sector bankers that the difficult to Survive, Grow, Stabilize and Excel in Business, the framed null hypothesis is accepted.

The banking sector has shown remarkable resilience to the needs of a planned economy. The public sector banks playan important role in government participation. The financial sector reform has brought many new policies and remedies to the changes in banking with the help of advanced technology, and the professional administration has reached a tough position to increase the efficiency of India's public and private sector banks. Recently, the role of the public sector in collecting and investing savings has played a role in facilitating rapid economic development through the creation and expansion of infrastructure in productive areas.

In the era of globalization, the banking sector plays an important role in the development of each country's economy. In fact, banks have long contributed to economic stability as financial institutions. Abank is a financial institution that receives funds from the public and invests them in financial assetssuch as deposits and loans. In today's world, the banking sector's sphere of activity is not confined to anyparticular region. The transaction is cross-border. Therefore, it is very important for stakeholders to know about the bank's financial performance and financial condition. To this end, this study focuses on the analysis of the financial performance of selected Indian public sector banks.

This study investigates and contrasts the financial performance of specific public banks, namely State Bank of India, Union Bank, and private banks such as HDFC, ICICI Bank. The analysis of Return on Assets exhibits that private banks are more earning on their assets as compared to public banks. Meanwhile, the ROE of private banks during the last five years surpasses the ROE ofpublic banks. The HDFC Bank attained the highest ROA and ROE during the study period among all selected banks. Thus, it can be concluded that relative to public-sector banks, private-sector banks exhibit superior profitability. The profitability of public sector banks is impaired by the heavy burden of NPAs and inefficiency in managing the operations. The study suggests that public sector banks should utilize their strength in the efficient management of banking operations and try to reduce the burden of NPAs.

References:

1. Gupta, P., & Jaiswal, K. K. (2021). Analysis of financial performance of selected public and private sector banks. Indian Journal of Finance, 14(1), 45-57.
2. Singh, Y., & Milan, R. (2019). Analysis of financial performance of public sector banks in India: CAMEL. Arthaniti: Journal of Economic Theory and Practice, 22(1), 86-112.
3. Mohammady, E. (2019). “A Study on Financial Performance of Private and Public Banks in Afghanistan (2014- 2017)”, Asian Journal of Research in Banking and Finance, Vol. 9, Issue 4, (2019), pp. 8-30
4. Parikh, H. (2018). “Camels Framework as a Tool to Measure Performance of Public Sector And Private Sector Banks”, IOSR Journal of Business and Management, Vol. 20, Issue 9, Ver. II, (2018), pp. 52-60.
5. Murty, A.V.N. and Kumar, K.A. (2017). “Financial Performance of Selected Public and Private Sector Banks Based on Camel MODEL with reference to Indian Banking Sector”, International Journal in Management and Social Science, Vol. 5, Issue 4, (2017)
6. Kaur, J., Kaur, M., & Singh, S. (2015). Financial performance analysis of selected public sector banks: A CAMEL model approach. International Journal of Applied Business and Economic Research, 13(6), 4327-4348.
7. Jeet, V., &Aspal, P. K. (2020). The Determinant of Financial Performance of Indian Public Sector Banks-A Panel Data Approach. International Journal of Financial Research, 11(5), 285-295.