# COMPARATIVE STUDY OF PUBLIC AND PRIVATE SECTOR BANKS IN INDIA - AN EMPIRICAL ANALYSIS

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**Abstract**

Public sector banks and private sector banks is dominant player which have important role in growth of Indian economy. The Present research paper aimed to examine and compare the financial performance of selected public and private sector banks in India during 2013-14 to 2017 -2018. Data of public sector banks (Bank of Baroda, Punjab National Bank, Central bank of India) and private sector banks (ICICI bank, HDFC bank, Axis bank) for 5 years, has been collected from their official sites and annual report. This study is primarily based on secondary data and financial ratios are used. Some selected variables like Assets, Cash deposits and Credit deposits are taken to known the financial positions of selected banks. The study found that overall performances of private sector banks are better than public sector banks.

**Keywords:** Return on assets, Profitability, Public Sector banks, Private sector banks.

## 1. Introduction

The Indian economy is now on the threshold of a major transformation, with expectations of policy initiatives being implemented. Positive business sentiments improved consumer confidence and more controlled inflation should help boost the economic growth. Higher spending on infrastructure, speedy implementation of projects and continuation of reforms will provide further impetus to growth. All these translates into a strong growth for banking sector too, as rapidly growing business turn to banks for their credit needs, thus helping them grow very fast. Also, with the advancements in technology, mobile and internet banking services have come to the fore. Banks in India are focusing more and more to provide better services to their clients and have also started upgrading their technology infrastructure, which can help improve customer experience as well as give banks a competitive edge (www.ibef.org). The operations of all the banks in India are controlled by the RBI. All the Indian banks are governed by the RBI. This governing body took over the reasonability of formally regulating the Indian banks in 1935. The reserve bank of India was announced as the official central authority for the smooth supervision of the banking industry in India. Banks in India are classified into 2 broad categories namely, Public sector banks and Private sector banks. Public sector banks are controlled and managed by the government of India. Public sector banks have been serving the nation for over centuries and well known for their affordable and quality services. The banking sector in India is mostly dominated by the public sector banks. The public sector banks in India alone account for about 78 percent of the total advances in the Indian banking industry. The concept of private banking was introduced about twenty years ago. These are the banks that do not have any government stakes. The private banks are accountable for a share of 18 percentage of the Indian banking industry. Private Banks have gained quite a strong foothold in the Indian banking industry over the last few years especially because of optimum use of technology (business maps of India).

## 2. Review of Literature

- Jha and Sarangi (2011) evaluated the performance of seven public sector and private sector banks for the year 2009-10. They used three sets of ratios, operating performance ratios, financial ratios and efficiency ratios. they found that Axis bank took the first position and followed by ICICI Bank, PNB, BOI, SBI, IDBI AND HDFC bank, in that order.
- Dhanabhakyam and Kavitha stated that the Indian banking system faces several difficult challenges. The selected public sector banks have performed well on the sources of growth rate and financial efficiency during the study period. The old private sector banks and new private sector banks play a vital role in marketing of new type of deposits and advances schemes (Dhanabhakyam, 2012)
- Brinda Devi suggest that profitability ratios are employed by the management in order to assess how efficiently they carry on their business operations and also it is suggested for the entire bank to take effective steps to improve the operating efficiency of the business. (Devi, 2013)
- Rohit Bansal (2014) in his article researcher investigates performance of four private sector banks for the period of 2011 to 2014 and ratio analysis has been used to evaluate the profitability performance of selected banks. They found that HDFC and Federal has fairly stable asset turnover ratio which indicates its efficient utilization of resources in revenue generation and Federal has the best price earnings ratio among other banks.

## 3. Objectives of the Study

- To study the financial position of selected public sector and private sector banks.
- To compare and highlight the overall profitability of banks with selected variables.

## 4. Research Methodology

### Data Collection

Three leading public sector banks (Bank of Baroda, Punjab National Bank, and Central bank of India) and three private sector banks (ICICI bank, HDFC bank and Axis bank) of India have been selected for this study. The data is purely based on secondary and the same has been collected from annual reports and official records of the banks.

### Period of Study

This study covers the period of five years from 2013-14 to 2017-18.

### Data Analysis

The collected information has been tabulated, analyzed and interpretation has been arrived on the basis of statistical analysis. Data processing and analysis have been done both manually and by using computer. Tabular method and ratio analysis tools have been used.

### Limitation of Study

**The limitations of the study are**

- The study is related to selected public sector and private sector banks.

- The study is based on the secondary data only and the same has been collected from the published annual reports and bank websites.
- The study is related to a period of five year from 2013- 14 to 2017-18
- The study constraints on limited variables only (Cash deposits, Credit deposits & Assets) for analyzing the performance of selected private sector banks and Public sector banks.

**Variables of the Study**

The following nine variables have been selected to analysis the profitability of selected banks

A. Return on Assets
B. Cash to Deposit Ratio
C. Credit to Deposit Ratio

**A. Return on Assets**

The return on assets is the ratio of annual net income to total assets of a company during a financial year. It measures efficiency of the company in using its assets to generate net income. Higher values of the return on assets show that the company is more effectively managing its assets to produce greater amount of net income.

**Table 1:** Return on Assets Ratio (in %)

| Year | Bob | Pnb | Cbi | Average of Psb* | Icici | Hdfc | Axis | Average of Pvt.Sb** |
|---|---|---|---|---|---|---|---|---|
| 2017-18 | 0.69 | 0.61 | 0.44 | 0.58 | 1.65 | 1.72 | 1.62 | 1.66 |
| 2016-17 | 0.82 | 0.99 | 0.38 | 0.73 | 1.55 | 1.68 | 1.52 | 1.58 |
| 2015-16 | 1.12 | 1.06 | 0.23 | 0.80 | 1.36 | 1.53 | 1.49 | 1.46 |
| 2014-15 | 1.18 | 1.17 | 0.59 | 0.98 | 1.27 | 1.42 | 1.4 | 1.36 |
| 2013-14 | 1.11 | 1.32 | 0.58 | 1.00 | 1.11 | 1.33 | 1.39 | 1.27 |
| Average | 0.984 | 1.03 | 0.444 | 0.81 | 1.388 | 1.536 | 1.484 | 1.46 |
| SD | 0.2157 | 0.2658 | 0.1497 | 0.21 | 0.2161 | 0.1662 | 0.0944 | 0.15 |
| CV | 21.9215 | 25.8058 | 33.7311 | 27.15 | 15.5726 | 10.8217 | 6.3678 | 10.92 |

**Source:** Calculated from the Annual Report of respective banks (2013 - 14 to 2017 - 18)

***Psb – Public Sector Bank, **Pvt. Sb – Private Sector Bank**

Table1 exhibits that bank wise average, standard deviation and coefficient of variation of return on assets of selected banks. The table shows the year wise return on assets ratio had been fluctuated over the period of study. BOB and PNB have been shown the decreasing trend and CBI has been shown fluctuating but decreasing trend over the period of study.PNB has highest average i.e. 1.03 and CBI has lowest average i.e. 0.444 among the selected PSB. Standard deviation of net income to total assets of CBI is 0.1497 which is more consistent as compared to PNB and BOB respectively 0.2658 and 0.2157. But in case of coefficient of variation BOB has better position (low CV – 21.9215) in compared to PNB and BOB. On the other hand, Private sector banks ICICI bank, HDFC bank and Axis bank have been shown increasing trend over the period of study. HDFC bank has highest average i.e. 1.536 and ICICI bank has lowest average i.e. 1.388 among the selected Pvt.SB. Standard deviation of net income to total assets of Axis bank is 0.0944 which is more consistent with low coefficient of variation by 6.3678 when compared to HDFC bank and ICICI bank. It reveals that private sector banks have got better position when compared to public sector banks in terms of return on assets ratio.

### B. Cash to Deposit Ratio

The cash to deposit ratio is calculated as (cash in hand + balance with RBI)/ Total Deposits (Demand + Time Deposits). It helps understand how much cash banks maintain for each rupee of deposit they accept.

**Table 2:** Cash to Deposits Ratio (in %)

| Year | Bob | Pnb | Cbi | Average Of Psb | Icici | Hdfc | Axis | Average Of Psb |
|---|---|---|---|---|---|---|---|---|
| 2017-18 | 3.27 | 4.93 | 4.12 | 4.1066 | 6.57 | 6.90 | 6.07 | 6.5133 |
| 2016-17 | 2.84 | 4.57 | 6.00 | 4.47 | 6.51 | 4.94 | 5.86 | 5.77 |
| 2015-16 | 5.62 | 4.87 | 6.68 | 5..7233 | 8.01 | 6.08 | 4.87 | 6.32 |
| 2014-15 | 6.50 | 7.60 | 7.85 | 7.3166 | 9.26 | 12.03 | 7.34 | 9.5433 |
| 2013-14 | 5.62 | 7.35 | 10.49 | 7.82 | 13.62 | 9.25 | 6.71 | 9.86 |
| Average | 4.77 | 5.864 | 7.028 | 5.8873 | 8.794 | 7.84 | 6.17 | 7.6013 |
| SD | 1.6134 | 1.4795 | 2.3609 | 1.8179 | 2.9276 | 2.8255 | 0.9295 | 2.2276 |
| CV | 33.8248 | 25.2317 | 33.5928 | 30.8831 | 33.2916 | 36.0404 | 15.0664 | 28.1328 |

**Source:** Calculated from the Annual Report of respective banks (2013 - 14 to 2017 - 18)

Table 2 exhibits that bank wise average, standard deviation and coefficient of variation of cash to deposit ratio of selected banks. The table shows the year wise cash to deposit ratio had been fluctuated over the period of study. CBI has been shown the decreasing trend but PNB and BOB have been shown fluctuating but decreasing trend over the period of study. CBI has highest average i.e. 7.028 and BOB has lowest average i.e. 4.77 among the selected PSB. Standard deviation of cash in hand to total deposit of PNB is 1.4795 which is more consistent and low coefficient of variation i.e. 25.2317 as compared to BOB and CBI. On the other hand, Private sector bank, ICICI bank has been shown a decreasing trend but HDFC bank and Axis bank have been shown fluctuating but decreasing trend over the period of study. ICICI bank has highest average i.e. 8.794 and Axis bank has lowest average i.e. 6.17 among the selected Pvt.SB. Standard deviation of cash in hand to total deposit of Axis bank is 0.9295 which is more consistent and low coefficient of variation i.e. 15.0664 as compared to HDFC bank and ICICI bank. It has been found that private sector banks have got better position when compared to public sector banks in terms of cash to deposit ratio.

### C. Credit to Deposit Ratio

It is the ratio of how much a bank lends out of the deposits it has mobilized. It indicates how much of a bank's core funds are being used for lending, the main banking activity. This is an important ratio as it conveys how much of each rupee of deposit is going towards credit markets (articles economic times). A higher ratio indicates the more reliance on deposits for lending and vice versa. This ratio serves as a useful measure to understand the systemic risks in the economy.

**Table 3:** Credit to Deposit Ratio (in %)

| Year | Bob | Pnb | Cbi | Average of Psb | Icici | Hdfc | Axis | Average of Pvt.Sb |
|---|---|---|---|---|---|---|---|---|
| 2017-18 | 69.79 | 77.38 | 73.86 | 73.6766 | 102.05 | 82.49 | 82.83 | 89.1233 |
| 2016-17 | 69.25 | 78.84 | 76.06 | 74.7166 | 99.19 | 80.92 | 78.12 | 86.0766 |
| 2015-16 | 74.66 | 77.39 | 75.2 | 75.75 | 99.3 | 79.21 | 77.13 | 85.2133 |
| 2014-15 | 74.86 | 77.37 | 72.32 | 74.85 | 95.9 | 77.21 | 75.25 | 82.7866 |
| 2013-14 | 72.54 | 74.84 | 65 | 70.7933 | 89.69 | 75.41 | 73.84 | 79.6466 |

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|---|---|---|---|---|---|---|---|---|
| Average | 72.22 | 77.164 | 72.488 | 73.9573 | 97.226 | 79.048 | 77.434 | 84.5693 |
| SD | 2.6339 | 1.4448 | 4.4185 | 2.8324 | 4.7428 | 2.8280 | 3.4411 | 3.67069 |
| CV | 3.6471 | 1.8724 | 6.0955 | 3.8717 | 4.8781 | 3.5776 | 4.444 | 4.2999 |

**Source:** Calculated from the Annual Report of respective banks (2013 - 14 to 2017 - 18)

Table 3 exhibits that bank wise average, standard deviation and coefficient of variation of credit to deposit ratio of selected banks. The table shows the year wise Credit to deposit ratio has been fluctuated over the period of study. BOB has been shown fluctuating but decreasing trend except the PNB and CBI over the period of study. PNB has highest average i.e. 77.164 and BOB has lowest average i.e. 72.22 among the selected PSB. Standard deviation of total advances to total deposits of PNB is 1.4448 which is more consistent and low coefficient of variation i.e. 1.8724 as compared to BOB and CBI. On the other hand, Private sector bank such as, ICICI bank, HDFC bank and Axis bank have been shown increasing trend over the period of study. ICICI bank has highest average i.e. 97.226 and Axis bank has lowest average i.e. 77.434 credit to deposit ratio among the selected Pvt.SB. Standard deviation of total advances to total deposits of HDFC bank is 2.8280 which is more consistent and low coefficient of variation i.e. 3.5776 as compared to ICICI bank and Axis bank. It has been found that public sector banks has got better position when compared to private sector banks in terms of credit to deposit ratio during The period of study.

## 5. Conclusion and Finding

The financial performance of selected public sector and private sector banks analysis using different parameters. The selected public sector banks that are Bank of Baroda, Punjab National Bank and Central Bank of India and Private sector banks are ICICI bank, HDFC bank and Axis Bank. During the study, it is found that earning capacity of PNB is better than BOB and CBI. In private sector banks, earning capacity of HDFC bank is better than Axis bank and ICICI bank. Return on assets ratio of PNB and HDFC bank is higher respectively in public sector bank and private sector bank. Credit to deposit ratio of PNB(77.164) indicated that it has utilized well their core funds by lending and investing funds in comparisons to other PSB but on contrary ICICI bank ratio indicates that it has utilized their core funds efficiently and more than PNB. It was found that private sector banks were better utilized the available resources such as assets, deposits, advances, and investments. It was also observed in the study that public sector banks have not been utilized their resources optimally. Hence it is necessary for public sector banks to pay more attention on improve their productivity/efficiency of employee by training, incentive and proper management.

## 6. References


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