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"THE STUDY ON COMPARATIVE ANALYSIS OF FINANCIAL PERFORMANCE OF PUBLIC SECTOR AND PRIVATE SECTOR BANK"

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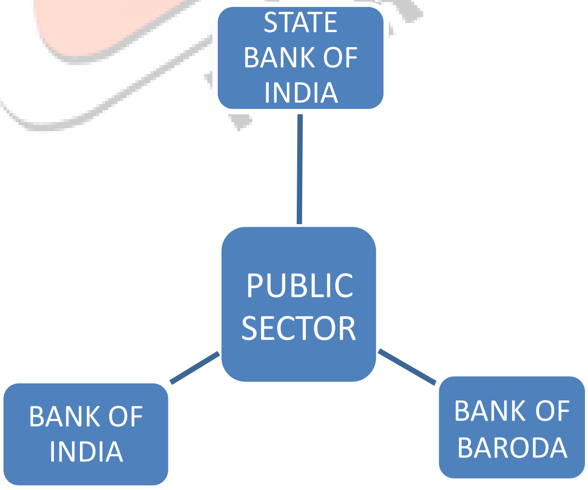
Abstract: As a country's financial system depends upon the financial soundness of banking industry, it is very much essential to measure it. The main objective of this study is to analyze the financial performance of select private sector banks and compare them using CAMEL Model. The study is related to a period of five years from financial year 2017-2018 to 2021 – 2022. The CAMEL model helped to measures the performance of banks from each of the important parameter like Capital Adequacy, Assets Quality, Management Efficiency, Earning Quality and Liquidity. From the analysis of select public sector and private sector banks, ICICI Bank, HDFC Bank, Axis Bank, SBI Bank, Bank of Baroda, Bank of India the study is concluded giving the relative positions of the banks.

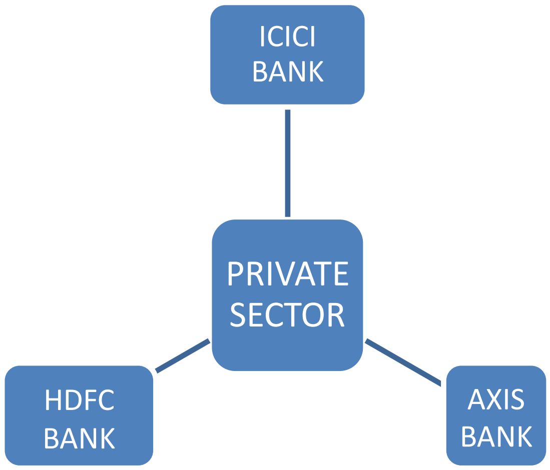
Index Terms – Financial Soundness, Performance, CAMEL Model

I. INTRODUCTION

It is most important to decide appropriate parameter at the time of measuring financial performance of banks. Till today many experts have given their opinion on parameters of financial performance of banks, even enormous numbers of research are available on financial performance of banks which has used different parameters for measuring financial performance.

In terms of financial performance of banks I would like to add one more point regarding parameters of financial performance that time period also play a vital role in terms of selection of financial parameters. The financial parameters that we should select in 1990 or before must be different that the parameters we should select in 2010 -11, as since independent Indian banking is passing through lots of changes which does not permit us to evaluate on same parameters. One more important aspect which one should highlight at the time of selecting financial performance parameters is availability of data on selected parameters for desired time period.





➢ **REVIEW OF LITERATURE**

➢ **Gopal and Dev (2006),** in their research paper, empirically analyzed the productivity and profitability of selected public and private sector banks in India. They evaluated the effect of globalization and liberalization on the productivity and profitability of Indian banks during the period 1996-97 to 2003-04.
The study reveals that except few cases, the productivity index is found to be greater than one in the selected banks. As far as the matter of achieving the target profitability is concerned, SBI and PNB were most successful followed by HDFC Bank and ICICI.

➢ **Rao (2007),** in his article titled, "Reforms in Indian Banking Sector: Evaluation Study of the Performance of Commercial Banks" found that the nationalization process achieved the widening of the banking industry in India. By the beginning 1990, the social banking goals set for the banking industry made most of the PSBs unprofitable. The resultant 'Financial repression' led to the declining in productivity and efficiency, and erosion of profitability of the banking sector in general.

➢ **Meenakshi Rajeev and H P Mahesh (2010),** the issue of non-performing assets (NPA), the root cause of the recent global financial crisis, has been drawing the attention of the policy makers and academicians alike. The problem of NPAs, which was ignored till recently has been given considerable attention after liberalization of the financial sector in India. This exploratory paper examines the trends of NPAs in India from various dimensions and explains how mere recognition of the problem and self-monitoring has been able to reduce it to a great extent. It also shows that public sector banks in India, which function to some extent with welfare motives, have as good a record in reducing NPAs as their counterparts in the private sector. The paper also discusses the role of joint liability groups (JLGs) or self-help groups (SHGs) in enhancing the loan recovery rate.

➢ **McKinsey & Company (2010),** the last decade has seen many positive developments in the Indian banking sector. The policy makers, which comprise the Reserve Bank of India (RBI), Ministry of Finance and related government and financial sector regulatory entities, have made several notable efforts to improve regulation in the sector. The sector now compares favourably with banking sectors in the region on metrics like growth, profitability and non-performing assets (NPAs). A few banks have established an outstanding track record of innovation, growth and value creation.

➢ **Dwivedi and Charyulu (2011),** one of the major objectives of Indian banking sector reforms was to encourage operational self-sufficiency, flexibility and competition in the system and to increase the banking standards in India to the international best practices. Variable returns to scale (VRS) assumption for estimating the efficiency was not attempted. It was found from the results that national banks, new private banks and foreign banks have showed high efficiency over a period time than remaining banks.

➢ **OBJECTIVE OF STUDY**

This research work has been carried out for attaining below mention objectives.
To compare the financial performance of private sector bank and public sector bank.

i) To access the financial growth of selected bank.
ii) To offer findings and suggestion to enhance the financial performance of public sector and private sector Bank.
iii) To rank the banks under the study based on performance and efficiency.

➢ **SCOPE OF STUDY**

i) This study covers only Three Private sector and Three Public sector banks in India and CAMEL ratios are used to evaluate their performance and efficiency to come to a conclusion that which bank is leading position in performance and efficiency.
ii) This study will also help to understand the financial performance of both public sector and private sector.
iii) This study will throw light on different aspects where the public sector and Private sector Bank will provide an opportunity in balancing its activities to achieve best performance

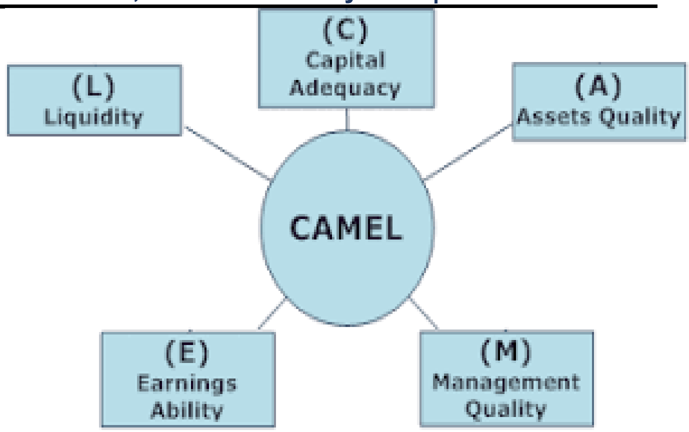
➢ **HYPOTHESIS**

iv) H0: There is no significant difference between financial performance of public sector banks and private sector banks in India.
v) H1: There is significant difference between financial performance of public sector banks and private sector banks in India.

➢ **METHODLOGY**

Descriptive Research Design is used for the study and it is essentially a fact-finding approach. It aims to explain the characteristics of an individual or group characteristics and to determine the frequency with the same things occurs.

Any project requires a basic plan of action, or a series of actions chalked out, in order to accomplish the objectives effectively and efficiently within a time framework, without deviating from the original target. In other words we can say that, from where we are and where we want to go, the process involved is carefully transformed in to a blue print called the research design



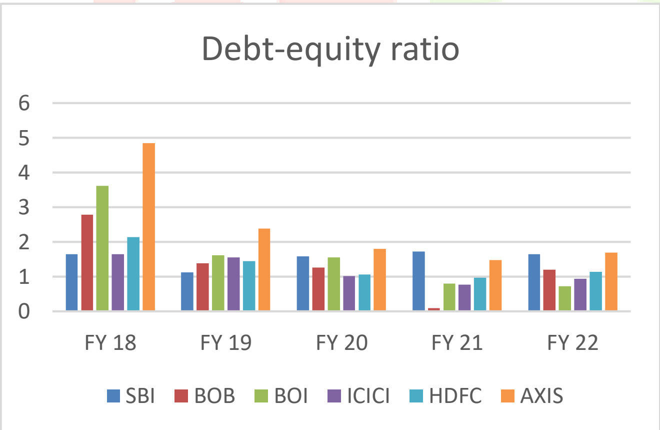
➢ TOOLS FOR ANALYSIS

The data collected were moderated for the study. CAMEL is an acronym for five components of bank safety and soundness: - C - Capital Adequacy A - Asset Quality M - Management Efficiency E – Earnings Ability L – Liquidity position.

➢ DATA ANALYSIS

Table 1. Showing Debt to Equity Ratio of Selected Public and Private Sector Bank

Year/Bank	SBI	BOB	BOI	ICICI	HDFC	AXIS
FY 18	1.644	2.79	3.62	1.65	2.14	4.85
FY19	1.128	1.38	1.61	1.549	1.45	2.38
FY 20	1.576	1.26	1.55	1.016	1.06	1.80
FY 21	1.719	0.865	0.802	0.7593	0.961	1.47
FY 22	1.649	1.19	0.723	0.9409	1.14	1.69
Average	1.5432	1.3413	1.661	1.18	1.35	2.438
Rank	4	2	5	1	3	6

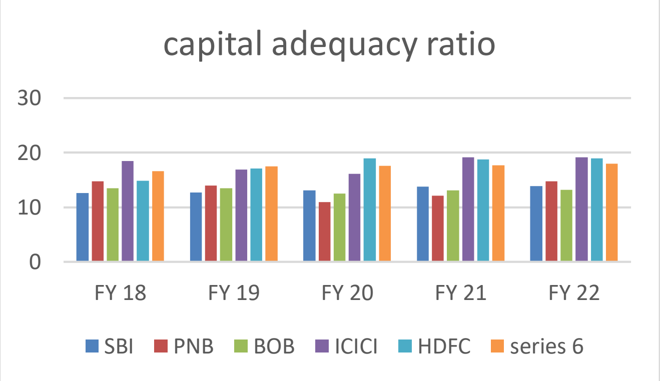


From the above analysis we can observe that on an average AXIS Bank i.e. 2.438 followed by BOI 1.661 and SBI i.e. 1.5432 have higher debts in the bank which indicates high risk and low performance of the banks. Whereas in private sector bank ICICI Bank i.e.1.18 have lower debt to equity ratio followed by HDFC Bank and BOB.
So Private sector bank has low debt as compared to public sector bank.

ii) Capital adequacy ratio

Table 2. Showing Ratio of capital adequacy of Selected Public and Private Sector.

Year/bank	SBI	BOI	BOB	ICICI	HDFC	AXIS
FY 18	12.60	14.74	13.52	18.42	14.8	16.57
FY 19	12.72	13.94	12.50	16.89	17.11	17.53
FY 20	13.06	10.94	12.53	16.11	18.9	17.62
FY 21	13.74	12.10	13.06	19.12	18.8	17.72
FY 22	13.83	14.74	13.21	19.61	18.9	17.93
AVERAGE	13.19	13.29	12.96	17.94	17.70	17.74
Rank	5	4	6	1	2	3



From the above analysis we can observe that ICICI bank maintained highest capital adequacy ratio i.e. 17.94% followed by HDFC, Axis, Bank of Baroda, SBI. Whereas BOI has high capital adequacy in public sector bank which is 13.29%.

So it can be easily interpreted that Private sector banks have performed better in capital adequacy providing high safety to their investors and is considered safe and likely to meet its financial obligation.

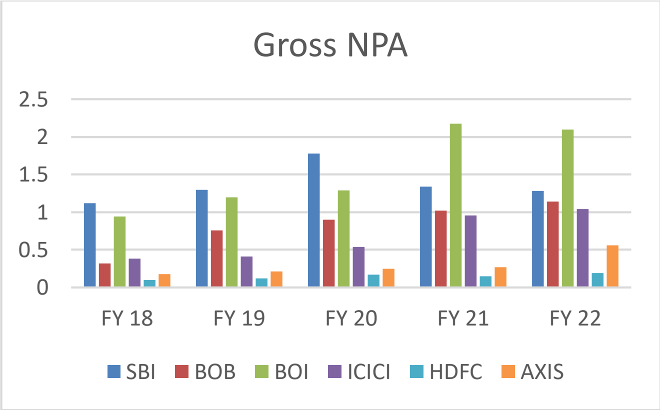
2) A- ASSET QUALITY RATIOS FOR SELECTED BANKS

i) Gross NPA

Table 3. Showing Gross NPA asset of Selected Public and Private sector Banks.

(In Percent)

Year/Bank	SBI	BOB	BOI	ICICI	HDFC	AXIS
FY 18	10.91	12.26	16.58	8.84	1.30	6.77
FY19	7.53	9.61	15.84	6.70	1.36	5.26
FY 20	6.15	9.40	14.78	5.53	1.26	4.86
FY 21	4.98	8.87	13.77	4.96	1.32	3.70
FY 22	3.97	0.07	9.98	3.60	1.17	2.82
Average	6.708	8.042	14.19	5.926	1.28	4.68
Rank	4	5	6	3	1	2



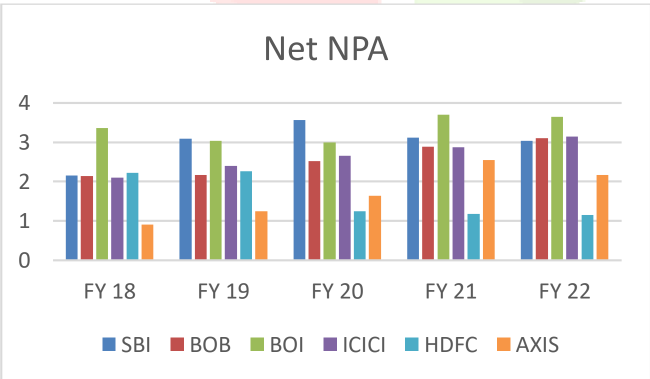
From the above analysis we can observe that Bank of India has the highest gross NPAs followed by Bank of Baroda and State Bank of India. These banks have to manage their NPAs. Compared to public sector banks private sector banks have low NPAs in their asset

ii) Net NPA

Table 4. Showing Net NPA (Non-performing Asset) of Public and Private Sector.

(In percent)

Year/Bank	SBI	BOB	BOI	ICICI	HDFC	AXIS
FY 18	5.73	5.49	8.26	4.77	0.40	3.40
FY 19	3.01	3.33	5.61	2.06	0.39	2.06
FY 20	2.23	3.13	3.88	1.41	0.36	1.56
FY 21	1.50	3.09	3.35	1.14	0.40	1.05
FY 22	1.02	0.02	2.34	0.76	0.32	0.73
Average	2.69	3.012	4.68	2.02	0.37	1.76
Rank	4	5	6	3	1	2

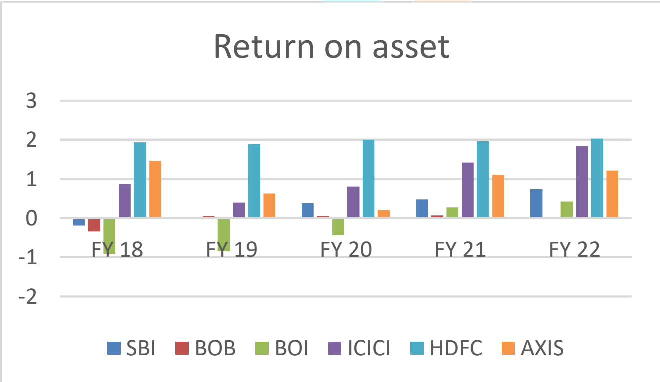


HDFC Bank has low NNPA, which reduces a bank or capital adequacy. The banks have become averse to giving loans and taking risks of zero percent. Thus, the creation of fresh credit is debarred, followed by AXIS bank and ICICI bank.
So from above analysis, we can say that performance of private sector bank is better than public sector

iii) ROA-Return on Asset

Table 5. Showing Return on Asset (ROA) of Public and Private Sector.

Year/Bank	SBI	BOB	BOI	ICICI	HDFC	AXIS
FY 18	-0.19	-0.34	-0.91	0.87	1.93	0.04
FY 19	0.02	0.06	-0.84	0.39	1.90	0.63
FY 20	0.38	0.06	-0.43	0.81	2.01	0.20
FY 21	0.48	0.07	0.28	1.42	1.97	1.11
FY 22	0.74	0.01	0.43	1.84	2.03	1.21
Average	0.32	-0.02	-0.29	1.06	1.96	0.63
Rank	4	5	6	2	1	3



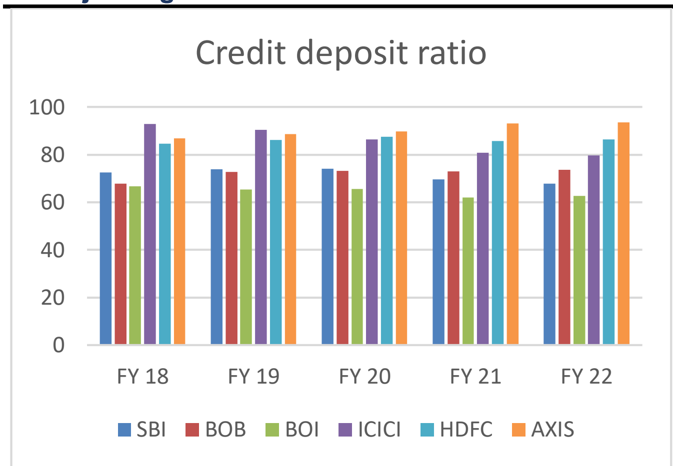
A low ROA indicates that the company is not able to make maximum use of its assets for getting more profits.HDFC Bank's operated at median return on assets of 1.9% from fiscal years ending March 2018 to 2022, followed by ICICI Bank and Axis Bank whereas BOI and BOB has negative which indicates poor performance of profit.

3. M- MANAGEMENT EFFICIENCY RATIOS

i) Credit deposit ratio

Table 6. Showing credit deposit ratio of Public and Private Sector.

Year/Bank	SBI	BOB	BOI	ICICI	HDFC	AXIS
FY 18	72.47	67.95	66.72	92.92	84.68	87
FY 19	73.94	72.87	65.51	90.54	86.32	88.62
FY 20	74.04	73.13	65.59	86.52	87.56	89.71
FY 21	69.75	73	62.11	80.95	85.66	93.25
FY 22	67.86	73.7	62.67	79.75	86.43	93.63
Average	71.612	72.13	64.592	86.14	86.13	90.42
Rank	5	4	6	2	3	1

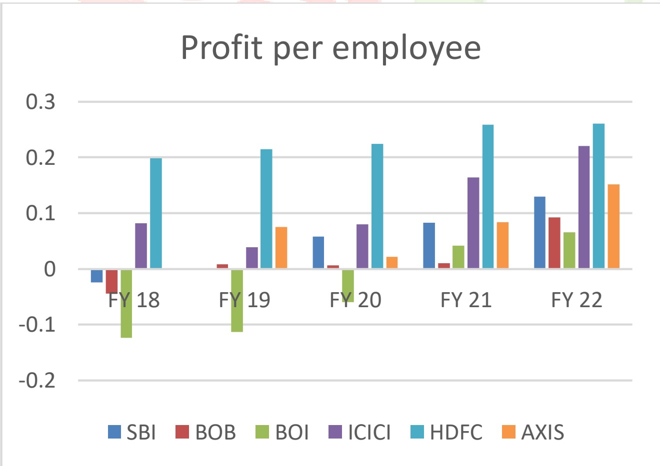


AXIS Bank secured first position in credit deposit ratio which indicates 90.42% of deposit with the bank has given out as loan, followed by ICICI and HDFC bank while BOI has worst performance which suggests relatively poor credit growth compared with deposit growth.
From above analysis we can interpret that private sector performance is better as compared to public sector.

ii) Profit per employee

Table 7. Showing profit per employee of Public and Private Sector.

Year/Bank	SBI	BOB	BOI	ICICI	HDFC	AXIS
FY 18	-0.0248	-0.0442	-0.1242	0.0819	0.1981	0.0046
FY 19	0	0.0078	-0.1136	0.0388	0.2149	0.0755
FY 20	0.0581	0.0065	-0.0594	0.0799	0.2245	0.0219
FY 21	0.0831	0.0101	0.0420	0.1640	0.2591	0.0841
FY 22	0.1297	0.0919	0.0657	0.2205	0.2611	0.1518
Average	0.0492	0.0144	-0.0379	0.1170	0.2315	0.0676
Rank	4	5	6	2	1	3

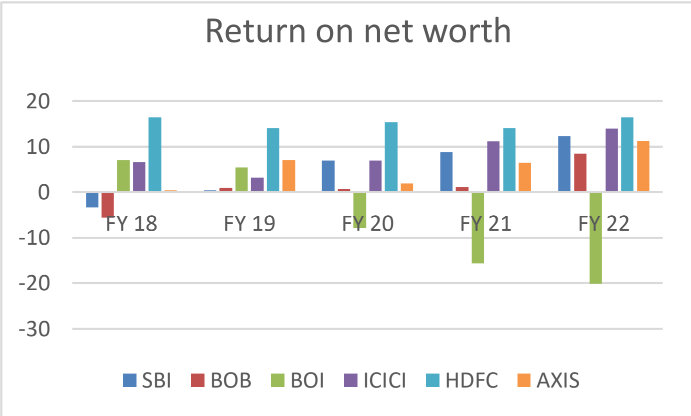


HDFC Bank has highest profit per employee which shows that more productive and efficient company, followed by ICICI and AXIS whereas BOI has least ratio which shows the poor performance.
We can interpret that private sector has better performance as compared to public sector bank.

iii) Return on net worth

Table 8.Showing Return on Net worth of Public and Private sector Bank

Year/Bank	SBI	BOB	BOI	ICICI	HDFC	AXIS
FY 18	-3.37	-5.60	7.06	6.63	16.45	0.43
FY 19	0.39	0.94	5.47	3.19	14.12	7.01
FY 20	6.95	0.76	-7.88	6.99	15.35	1.91
FY 21	8.86	1.07	-15.66	11.21	14.12	6.48
FY 22	12.33	8.46	-20.15	13.94	16.45	11.30
Average	5.032	1.126	-6.23	8.392	15.298	5.426
Rank	4	5	6	2	1	3



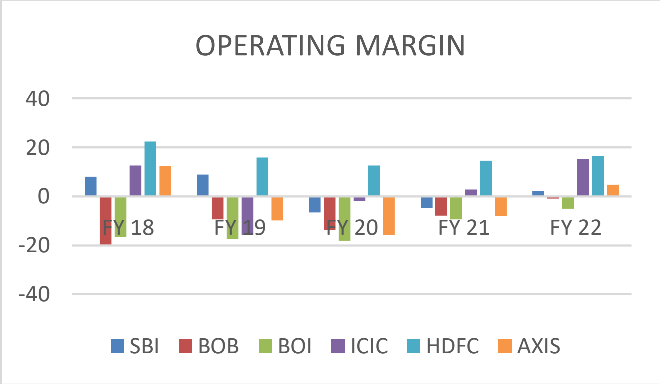
From the above analysis we can observe that HDFC bank i.e. 15.28% followed by ICICI bank i.e. 8.392% , AXIS bank and others has highest net worth which means these banks have competency to make higher returns on invested capital.
So private bank has higher Return on net worth as compared to public sector bank which indicates that private bank generate more return on its assets

4. E - EARNINGS CAPACITY RATIOS FOR SELECT BANKS

i) Operating margin

Table 9. Showing Operating Margin of Public and Private sector Bank

Year/Bank	**BOB**	**BOI**	**SBI**	**ICICI**	**HDFC**	**AXIS**
FY 18	8.14	-19.66	-16.62	12.58	22.33	12.31
FY 19	8.95	-9.41	-17.52	-15.70	15.87	-9.90
FY 20	-6.65	-13.76	-18.03	-1.94	12.66	-15.74
FY 21	-4.76	-7.79	-9.43	2.88	14.69	-7.98
FY 22	2.21	-1.01	-5.11	15.35	16.52	4.70
Average	1.57	-10.32	-13.34	2.63	16.41	-3.32
Rank	3	5	6	2	1	4



HDFC and ICICI bank have higher operating margin whereas SBI and BOI has negative profit margin which shows inability to control cost.

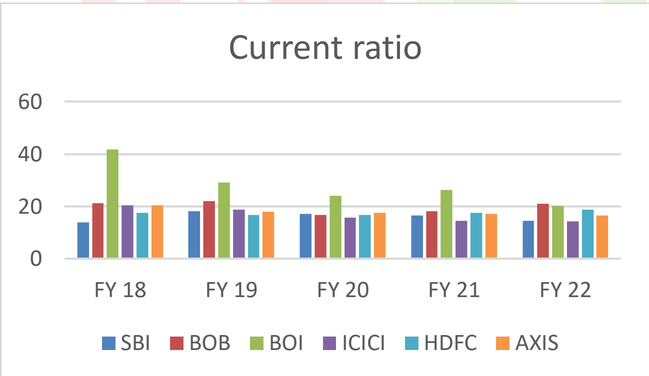
So from the above analysis we can say that Private bank performance is better that public sector and generate good operating profit.

5. L - LIQUIDITY RATIOS FOR SELECT BANKS

i) Current ratio

Table 10. Showing current ratio of Public and Private sector

Year/Bank	SBI	BOB	BOI	ICICI	HDFC	AXIS
FY 18	13.83	21.18	41.67	20.44	17.48	20.02
FY 19	18.06	21.94	29.21	18.66	16.61	17.84
FY 20	17.05	16.70	24.12	15.76	16.62	17.60
FY 21	16.56	18.09	26.36	14.52	17.58	17.05
FY 22	14.49	20.94	20.10	14.26	18.77	16.52
Average	15.99	19.77	28.29	16.72	17.41	17.80
Rank	6	2	1	5	4	3



BOI has high current ratio followed by BOB and Axis Bank which indicates that these banks has high capacity in paying off its obligations.

From the above analysis public sector bank has higher current ratio as compared to private sector bank indicates high current ratio is a sign that the bank is sufficiently liquid and can easily pay off its current liabilities using its current assets

- **Overall Ranking For select banks on Camel Rating:-**

To measure the financial performance of the public and private sector banks by using CAMEL Model the banks were listed as follows:

Bank	SBI	BOI	BOB	ICICI	HDFC	AXIS
Capital adequacy	3	6	4	1	2	5
Asset quality	4	6	5	1	2	3
Management efficiency	4	6	5	1	2	3
Earning capacity	5	4	6	2	1	3
Liquidity	4	6	2	3	1	5

OVERALL CAMEL MODEL

1.	ICICI BANK
2.	HDFC BANK
3.	AXIS BANK
4.	STATE BANK OF INDIA
5.	BANK OF BARODA
6.	BANK OF INDIA

➢ FINDINGS

The main findings associated with this study are as follows: Total incomes of both public and private sector banks recorded a good growth in total income during all the years of study.The volume of gross profit margin for private sector banks is much higher than the public sector banks.A shifting momentum from public sector to private sector has been recorded in case of net profit. Private sector banks continuously recodedWell profits for the all the years compare to public sector banks.In case of return on assets a steady growth rate is exhibited for private sector which shows sufficient utilization of assets.In terms of capital adequacy private bank have performed better providing high safety to their investors and is considered safe

➢ SUGGESTION

The suggestions for enhancing the performance are as follows: The CAMEL parameters provide a measurement of banks' and financial institutions' current and overall financial, operational and managerial performance

Public sector banks must enhance their performance by implementing professionalized management scenario and better customer service. The rate of growth for almost all the parameters is high for private sector even though magnitude is high for public sector banks.Assets must be utilized effectively by public sector banks. Underutilized or unutilized assets must be considered for diversification purposes and new schemes of income generating investments must be started.Branch wise, product wise and employee wise targets must be fixed by public sector banks so as to ensure adequate performance. Likewise same sort of targets must be fixed by private sector

➢ CONCLUSION

Every bank needs to follow the guidelines and regulations set by the central bank so that there will be free flow of cash without any obstacles or prohibitions to be faced by general public or by the banks.
Financial sector reforms have made favorable changes in the banking industry. The service levels have been redefined along with the extension of activities performed by banks. Although there was increase in profitability for both sector banks the rate of growth is higher for private sector banks.
Public sector banks are lagging in many financial parameters and they are facing many challenges also. But their contributions to social aspects are also on the higher side which has an impact in the parameters.
Public sector banks must redefine their strategies by considering their strengths and weakness and the type of market they are operating with whereas private sector banks must also consider priority sector lending in its fullest form

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