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Comparative study on overall financial performance and CSR of selected Public sector and Private sector banks in India

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Abstract
Banking sector is the backbone of any economy as it is essential for sustainable socio- economic growth and financial stability in the economy. In India the banking sector is controlled by the Reserve bank of India [RBI] who acts as a regulatory body who defines and governs the rules and regulations for all the banks by establishing the RBI act 1934. The banking sector is also crucial as it deals with mammoth amounts of public monies and is highly sensitive to reputational risk. Public sector banks: public sector banks are those banks in which majority stake i.e., more than 50% of the shares is held by the government of the country. And the management of the bank is in the government's control. Example: SBI, BOB, IDBI etc. Private sector banks: private sector banks are those banks which are owned by group of private shareholders. They elect board of directors which manages the affairs of the bank. Example: ICICI, HDFC, Axis etc
Key word: private sector banks, public sector banks, corporate social responsibility, financial performance

Introduction:

This research paper provides a Comparative Study on holistic performance of selected Private and Public-sector Banks. This research paper tries to cover all the areas that a Banking undertaking should be focusing on to have an overall performance improvement. In this report, our main area of interest is on Net Interest Income, Return on Assets, Return on Equity and Non-Performing Advances of the selected Banks, which are of key importance to the Banking sector undertakings. This research paper also provides the information about the CSR policies that are being followed by both the sectors.

Literature Review:

1. *Krupa and Bhatt (2012), This study revealed the service and commitments of both sectors of the banks when it comes to satisfying the customer's expectation and to improve the relationship with customers. This study also talks about the employee's opinion about the promoting services and customer dealing. This study concluded that the private sector is giving stiff competition to public sector banks in relation to non-financial matters/services that a bank should provide like, customer satisfaction, acceptance, employee's satisfaction, etc.*

2. *Cheenu goel and Chitwan Bhutani Rekhi (2013), Observed that there is a need of a system that first measures and evaluate the performances and then bring out the strength and weaknesses of the organisation. This is done by examining the relationship among*

banks equity, assets and deposits to profitability such as ROE, ROA & NIM and that 7 other ratios. His study revealed that NIM is responsible for the overall profitability of the firm and also that Financial performance (financial statement alone doesn't show a true and fair view about the profitability, earnings capacity, stability and investment friendly characteristics of the banking firms. It is with the help of the ratios that are mentioned above which will actually help us in finding the actual effectiveness of a bank.

3. Namrata Singh, Rajlaxmi Srivastara, Rajni Rastogi (2013), This paper tries to enlist various initiatives taken by the banking sector in the current era with respective to CSR and its reporting along with its future scope. It focuses on the present status of CSR in banking. It concludes that banks have started to work towards social responsibility but are yet not reporting i.e., disclosing the amount spent on CSR activities it suggests that more regulations and new policies are requires to implements the concept of CSR in Indian banking sector. RBI should fix a percentage of contribution towards CSR required to be done by banks and also monitor the banks by a committee.

4. Limbore Nilesh and Mane Baban (2014) , This paper took into account mainly two

things into consideration to give an overview of the performance of Indian banks i.e., NIM & market capitalization. Hs study revealed that monetary control by the govt and the regulatory body RBI showed positive response on the bank's performance during the financial year.

5. Deepak Dhingra and Rama Mithal (November 2014), This paper is an attempt to examine the steps initiated by Indian commercial banks to represent their efforts. It has unfolded the prominent dimensions of CSR practice world-wide and the limitations of CSR practice is Indian Banking sector. The report concluded that very few banks report their activities on TBL principles. CSR reporting practice are less uniform that financial reporting practices and also implements in a Ad-hoc manner and doesn't state how much they spend on CSR which is suggested to integrate TBL principle in practice. And also provide training on environmental and social risks with regards to climate change in corporate banking decisions.

6. Asish Gupta, VS Sundharan (2015), This paper revealed the performance efficiency of the sector through variables like assets, net profit, interest income and expense, deposits taken etc. his study is based on 6 banks (3 public sectors and 3 private sectors). He concluded from the basis of one bank from each sector whose overall performance or efficiency is better than the remaining two in the respective sector. And that the public-

sector banks need to improve on their performance to cope up with the private sector bank's growth.

7. Balaji Chitala, Dr. G. Pravan Kumar (2016), This study revealed the comparative performance of both private and public-sector banks of India (5 from each) for a period of

5 years during which both the sectors made good earnings but private sector took off. And this observation is based on t-test I.e., graphical representation of the bank's total income, NII is a major component to analyse the performance of the banks, operating profits/EBIT, ROA, and finally the net profits of the bank. This research paper concluded that the performance of public sector banks should be enhanced so that it can catch up to the private sector banks.

8. Pawan, Gorav and Bhawar Singh (2016), This paper provides us with a study on performance of selected private sector banks in India and also the operating efficiency and availability of the bank services in many areas of the country. The tools used for calculating the performances are Return on Net Worth, NPA to Net Advance ratio, Capital Adequacy Ratio, Deposit Ratio and other 3 of them including Kruskalwallis Test. He concluded that the research was quite difficult due to dynamic nature of the market and the Ranking was done on the basis of Return on Net Worth.

9. Sandeep Kaur (2016), The report is about the CSR Policies followed by various Indian Banks and also gives a gist of CSR Policies. It concludes that there can be more emphasis on CSR in banking sector. There are some banks which does not meet the mandatory requirement of law. The public-sector banks overall have the highest contribution in CSR activities while private sector banks still lag in this area. CSR practice is being a marketing tool for the banks.

10. Gajera Alpeshkumar Chandulal (2016), This report is based on a comparative study of financial performance of Private and Public sector of Banks with special reference to affecting factors and their impacts on performance indicator. This report concludes that private sector banks performance is good compared to public sector banks in terms of Capital Adequacy Ratio, Ratio of Secured Advance to Total Advances, on ratio of Return on Assets, on ratio of Return on advances. And Public Banks performance is good compared to Privatr sector Banks in terms of Capital Adequacy Ratio, Ratio of deposit to total Liability, Ratio of Investments, Ratio of return on equity, Ratio of cost of borrowings, Ratio of Return on Investments.

Objectives:

The main objective of the study is to provide an overall analysis and a comparison between the selected public and private banks on the basis of their financial performance, NPA and their CSR policies.

1) To present the overall analysis of private and public sector banks
2) To compare public sector and private sector banks on the basis of their performance and NPAs
3) To Distinguish between public sector and private sector on the basis of their CSR policies

Research Methodology:

The research is descriptive in nature. The research aims at studying and comparing public sector and private sector banks.
The Data procured for the research is secondary in nature.

The sources of data are financial reports procured from company websites, journals, websites, e-articles etc.

Data Analysis:

Net Interest Income: it is the difference between the revenue that is generated from the bank's and expenses associated with paying out its liabilities. The percentage of net interest income is calculated with respect to earning assets of the bank which generally are the banks investment. It is calculated as under:

Net Interest Income =(Interest Income in current year– Interest expended in current year) x 100 Average Investments(earnings assets)

Average Investments = Investments in Current year+Investments in previous year 2

State Bank of India [SBI]

Year	Interest Earned	Interest given	Investment in current year	Average Investment	NII (in %)
2017-18	2,204,993,156	1,456,456,000	10,609,867,150	9,134,881,729.5	8.194
2016-17	1,755,182,404	1,136,585,034	7,659,896,309	6,708,207,068.5	9.221
2015-16	1,639,982,975	1,068,034,921	5,756,517,828	5,353,395,890	10.683
2014-15	1,523,970,742	973,818,236	4,950,273,952	4,469,134,832.5	12.310
2013-14	1,363,508,039	870,686,325	3,987,995,713	3,748,634,214.5	13.146
2012-13			3,509,272,716		

SBI's net interest incomes of the previous five years are provided in the above table. The NII of SBI is on a downward trend which shows that the bank's interest earnings have decreased during the past five years, but the decrease in net interest should be looked into and the bank should get back into earning as it used to five years back.

Bank of Baroda [BOB]

Year	Interest earned	Interest given	Investment in current year	Average Investment	NII (in %)
2017-18	436,485,400	281,267,700	1,631,845,300	1,464,075,350	10.601
2016-17	421,999,300	286,865,200	1,296,305,400	1,250,405,300	10.807
2015-16	440,612,800	313,214,300	1,204,505,200	1,213,851,200	10.495
2014-15	429,635,600	297,763,200	1,223,197,200	1,192,161,900	11.061
2013-14	389,397,100	269,743,600	1,161,126,600	1,187,531,900	10.075
2012-13			1,213,937,200		

BOB's NII has been stable with an approximate average of 10.6% during the previous five years of its operation which shows that the bank is able to maintain the its NII on a stable scale which shows its operating efficiency.

Industrial Development Bank of India [IDBI]

Year	Interest earned	Interest given	Investment in current year	Average Investment	NII (in %)
2017-18	230,265,325	173,862,083	916,060,641	922,702,389	6.113
2016-17	277,913,673	220,397,056	929,344,137	929,657,744	6.187
2015-16	280,427,591	219,538,077	929,971,351	1,069,801,739.5	5.692
2014-15	281,539,920	224,060,995	1209,632,128	1,123,683,581.5	5.115
2013-14	265,975,137	205,760,381	1037,735,035	1,012,892,151.5	5.945
2012-13					

Similar to BOB this bank also is able to maintain its interest earning margin in a stable mode and not only that the banks earnings with respect to its interest expense has increased over the five years as shown in the above table.

Industrial Credit and Investment Corporation of India [ICICI]

Year	Interest earned	Interest given	Investment in current year	Average Investment	NII (in %)
2017-18	54,96,58,922	319,400,463	2,029,941,808	1,822,503,631	12.634
2016-17	54,15,62,793	324,189,585	1,615,065,454	1,609,591,710	13.505
2015-16	52,73,94,348	315,153,949	1,640,117,966	1,592,705,081	13.326
2014-15	490,911,399	300,515,294	1,581,292,196	1,675,755,180	11.362
2013-14	441,781,528	277,025,886	1,770,218,164	1,742,077,078.5	9.457
2012-13			1,713,923,406		

ICICI bank has been on an upward trend with respect to NII during its past five years of operations. This shows that the bank is successful in improving and applying its interest rate policies effectively. And it also shows that the bank's investments are good and its clients are those who don't default on paying the interest on the loan taken by them, which means the bank's loan approval policy is very efficient.

Housing Development Finance Corporation [HDFC]

Year	Interest earned	Interest given	Investment in current year	Average Investment	NII (in %)
2017-18	802,413,550	401,464,913	2,422,002,416	2,283,317,891	17.560
2016-17	693,059,578	361,667,334	2,144,633,366	2,051,498,067	16.154
2015-16	602,214,451	326,299,330	1,958,362,768	1,798,610,230	15.340
2014-15	484,699,044	260,742,352	1,638,857,691	1,424,184,197	15.725
2013-14	411,355,336	226,528,999	1,209,510,703	1,162,823,328	15.895
2012-13			1,116,135,953		

The bank is better compared to all the other banks among the selected ones with respect to its NII. The NII of this bank is on a upward trend which shows that the investment decision of the bank is very efficient.

Axis Bank

Year	Interest earned	Interest given	Investment in current year	Average Investment	NII (in %)
2017-18	457,803,123	271,625,818	1,538,760,827	1,413,347,266	13.172
2016-17	445,421,579	264,490,420	1,287,933,704	1,301,587,157	13.901
2015-16	409,880,364	241,550,675	1,315,240,609	1,245,371,365	13.516
2014-15	354,785,977	212,544,595	1,175,502,121	1,155,493,233	12.310
2013-14	306,411,554	186,895,220	1,135,484,344	1,136,429,857	10.517
2012-13			1,137,375,370		

This bank's is in a better position with respect to its past performance but when compared with other banks of the same sector that same doesn't apply. The banks of this sector are with a better performance in their NII.

<u>Return on Assets and Return on Equity:</u>

<u>Return on Assets</u>: it is a financial ratio that shows the percentage of profit a company earns in relation to its overall resources. It is calculated as under:

$$\text{Return on Assets} = \frac{\text{Net profit after tax} * 100}{\text{Total Asset}}$$

Return on Equity: it is a measure of the profitability of a business in relation to the book value of Equity shareholder. It is calculated as under:

$$\text{Return on Equity} = \frac{\text{Net profit after tax}}{\text{Equity capital}}$$

State Bank of India

Year	Net profit after tax	Asset	ROA (in %)	Equity Share Capital	ROE (in %)
2017-18	(129,548,266)	34,547,519,966	-0.345	8,924,588	-14.515
2016-17	104,844,194	27,059,663,041	0.387	7,973,504	13.149
2015-16	99,509,785	23,576,175,391	0.422	7,762,777	12.819
2014-15	131,018,968	20,480,797,998	0.639	7,465,731	17.549
2013-14	108,915,110	17,927,482,908	0.607	7,465,731	14.588

The ROA of the bank in the current year ending 2017-2018 is in negative and by far the worst when the last five years are compared. The same applies to the companies ROE in the current year ending 2017-2018 and the reason for both is because the bank has loss in the current year ending 2017-2018.

Bank of Baroda

Year	Net profit after tax	Asset	ROA (in %)	Equity Share Capital	ROE (in %)
2017-18	(24,318,100)	7,199,997,700	-0.338	5,303,600	-4.5852
2016-17	1,383,140	6,948,754,200	0.199	4,620,900	2.9932
2015-16	(53,955,400)	6,713,764,800	-0.804	4,620,900	-11.676
2014-15	33,984,400	7,149,885,500	0.475	4,435,600	7.662
2013-14	45,410,800	6,595,045,400	0.689	4,306,800	10.543

This bank too is similar to that of SBI. Due to losses in the current year the ROA and ROE of the bank is negative. And in the past to the bank's performance is not commendable.

Industrial Development Bank of India

Year	Net profit after tax	Asset	ROA (in %)	Equity Share Capital	ROE (in %)
2017-18	(167,303,121)	3,503,136,367	-4.776	30,838,627	-5.425
2016-17	(79,854,243)	3,618,744,732	-2.207	20,588,151	-3.879
2015-16	(27,526,147)	3,753,898,307	-0.733	20,588,151	-1.337
2014-15	17,701,570	3,560,305,665	0.497	16,039,576	1.104
2013-14	20,252,635	3,289,883,556	0.616	16,039,393	1.263

This bank is into loss for the three years and due to which the ROA and ROE is also negative. This bank is the least efficient in earning enough profits when compared the other two selected banks from the same sector.

Industrial Credit and Investment Corporation of India

Year	Net profit after tax	Asset	ROA (in %)	Equity Share Capital	ROE (in %)
2017-18	255,223,605	8,791,891,613	2.903	12,828,100	19.849
2016-17	269,332,790	7,717,914,460	3.490	11,651,071	23.117
2015-16	269,877,037	7,206,951,047	3.745	11,631,656	23.202
2014-15	244,939,434	6,461,292,924	3.791	11,596,608	21.122
2013-14	197,127,644	5,946,415,839	3.315	11,550,446	17.067

The banks performance was stable for the 2013-2017 but in the last year ending 2017-2018 the profit percentage as slightly gone down. But there is a stability in the firm's profit every year.

Housing Development Finance Corporation

Year	Net profit after tax	Asset	ROA (in %)	Equity Share Capital	ROE (in %)

2017-18	501,556,717	10,639,343,234	4.714	5,190,181	96.636
2016-17	380,773,303	8,638,401,917	4.408	5,125,091	74.296
2015-16	309,240,075	7,407,960,728	4.174	5,056,373	61.158
2014-15	248,700,721	5,905,030,731	4.212	5,012,991	49.611
2013-14	196,105,607	4,915,995,007	3.989	4,798,101	40.872

The bank's ROA and ROE is in a upward trend and as never gone towards downward trend in the past five years. This signifies that the bank is able to earn the required return for the assets invested in and the shareholders earning is also increasing every year.

Axis Bank

Year	Net profit after tax	Asset	ROA (in %)	Equity Share Capital	ROE (in %)
2017-18	247,240,088	6,913,295,799	3.576	5,133,078	48.166
2016-17	274,457,351	6,014,676,703	4.563	4,790,072	57.297
2015-16	258,471,542	5,398,210,296	4.788	4,765,664	54.236
2014-15	208,592,684	4,619,323,942	4.516	4,741,044	43.997
2013-14	162,469,290	3,832,448,882	4.239	4,698,446	34.579

The bank has earned good profits during the past five years but its performance when compared to the other two selected banks of the same sector is not up to the mark.

- **<u>Overview analysis of the ratios:</u>**

Name of the banks	Average NII (in %)	Average ROA (in %)	Average ROE
SBI	10.711	0.342	8.718
BOB	10.608	0.044	0.987
IDBI	5.810	-1.321	-1.655
ICICI	12.057	3.449	20.871
DFC	16.135	4.299	64.515
AXIS	12.683	4.336	47.655

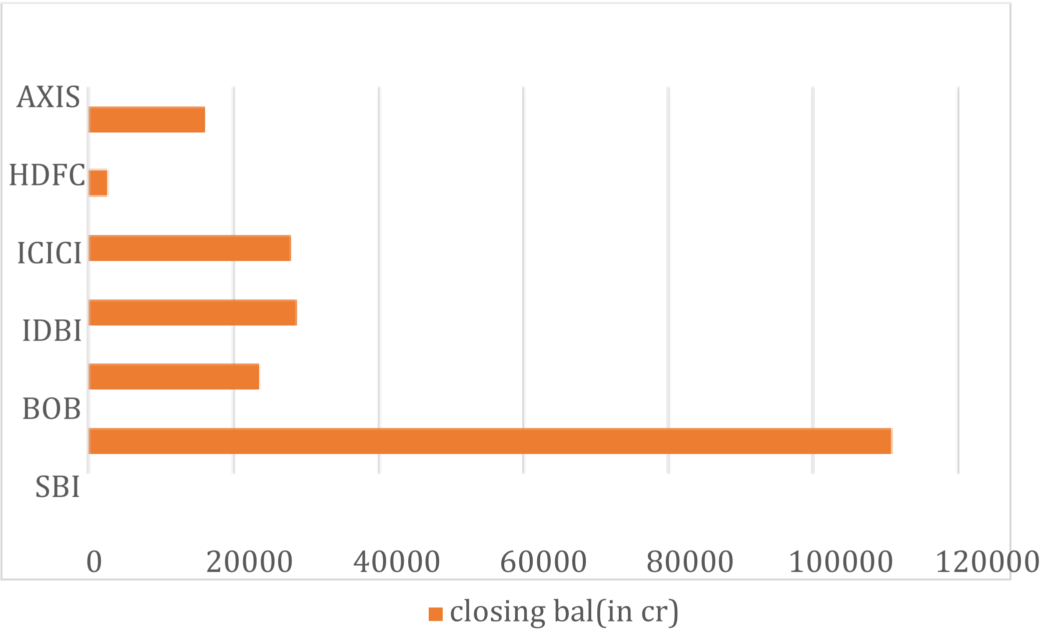
The above table brings to our attention the five year average performance of the banks of both public and private sector. From this we can conclude that though the public sector banks have more net worth when compared to the private sector banks the performance in terms of NII, ROA and ROE is not very appreciable when compared with that of the private sector banks.

When we look into the NII only two banks out of the selected three in the public sector are performing well. On the other hand all the private sector banks are having NII above 12%.

ROA and ROE both when compared gives the same conclusion that the private sector banks are performing really well. This signifies that the private sector banks are able to earn efficiently and are able to give better return on the shareholders investment in their shares. But SBI being a public sector bank is striving hard to give the performance that the private sector banks are giving.

Non-Performing Assets:

Name of the Bank	Net NPA as a % of NA of current year	Closing balance (in crore)
SBI	5.73	110854.70
BOB	5.49	23482.65
IDBI	0.4	2601.02
ICICI	3.46	16004.42
HDFC	5.43	27823.56
AXIS	16.69	28665.14



NPA are those Assets of the Banks which are in the form of Loan, Advances Etc. which are not giving back any benefit/return i.e. neither the Interest is being received nor the principle amount that was given to the customer is coming back to us.

The NPA of a Bank decides the effectiveness of the bank's recollection policy and the Security/Collateral level that is kept with itself with respect to the loans and advances given to the customers.

From the above table we can come to conclusion that, in Public sector banks HDFC has the lowest % of NPA & closing balance of NPA among the above selected banks which indicates that the recollection methodologies/policies used by it is Effective and it has been able to take adequate security against the loans and advances given to the Customers.

In Private sector, Axis Bank steps into the place of being the bank having the lowest NPA % and closing balance for the year ending 2018. When we talk about both the sectors as a whole

Then the % NPA in aggregate is lesser in Public sector Banks but the amount of closing balance of NPA for the year ending 2018 is lesser in Private sector when compared to that of Public sector.

Findings :

Public Sector Banks

1) SBI has been showing a downward trend in the Net Interest Income. There has been a steady decrease in NII by 1 percent every year.

2) In case of Bank of Baroda NII is constant from 2013 to 2018, which shows the stability in the operational scale.

3) IDBI has shown a positive trend towards the NII with a constant growth. This also reveals the banks income from the interest expense has been on rise.

4) The return on assets as well as return on equity is negative in the public sector bank. The trend is especially negative for the year 2017-18.

5) % NPA in aggregate is lesser in Public sector Banks but the amount of closing balance of NPA for the year ending 2018 is lesser in Private sector when compared to that of Public sector.

Private Sector Banks

6) ICICI bank has also shown relatively positive trend over the period of 5 years. It is the indicator of the bank's investments are good and its clients are those who don't default on paying the interest on the loan taken by them, which means the bank's loan approval policy is very efficient.

7) HDFC bank has also shown the most positive trend amongst all private sector banks and is an indicator of less defaulters towards loan payment.

8) The Axis bank is also placed well in terms of NII, which is an indicator of effective bank operations.

9) The return on assets and return on equity shows upward and positive trend for the private sector bank. The bank is earning on the assets invested and shareholders earning is also increasing each year.

Recommendation:

Public Sector banks

1) A speculative study should be conducted for SBI to understand the reasons for higher NII in 2013. This will help the organization to succeed in their endeavour.

2) Bank of Baroda can positively increase the NII owing to the stable operational scale, the prospects are stable and can look at constant 1% growth. Though the economic situation is challenging, owing to operational stability, the institution can still be hopeful.

3) IDBI can also strategize to increase the banks' earnings with respect to its interest expense.

4) The public sector banks are needed to work on their Non-Performing Assets and generate income from the same. A due diligent drive to address the non-performing assets is required. This will help the banks to improve the performance.

Private sector banks

5) ICICI, HDFC and Axis bank has reported positive trend for NII, the bank can extend the loan schemes product mix in order to increase the interest expense.

Therefore comparatively the private sector banks have shown much better performance in terms of NII than the public sector bank.

6) Since the Return on Assests and return on investments show negative trend, the banks need to improve their performances. Strategic alliances with other private sector banks could help the banks to improve their financial performance. Public-Private Partnership could be the possible solution for this situation.

7) The Private sector banks show a positive trend for Return on Assets and return on equity. The bank has been successful in earning out of its assets invested and earnings is also increasing per year.

➢ Conclusion:

The indigenous banking system needs to restructure rather than complete commercialization. In spite of the situations of the Public banks, the interest of smaller credit borrowers is safeguarded. The reach and schemes of the Private sector banks are yet to spread like the public sector banks. The Public sector banks need to sort out the banking and non-banking businesses to enjoy the pleasure of rediscount and remittance facilities. The banks have not shown a positive approach towards segregation of services. In the long run the banks should look for strategic restructuring to make it a profit-making business rather than incurring losses on NPAs, ROE and ROA.

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