A Comparative Study of Performance of Largest Public Sector and Private Sector Banks in India

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Abstract:

Banks are a fundamental component of the financial system, and are also active players in financial markets. Banks play an important role in the economic development of every nation. They have control over a large part of the supply of money in circulation. Banks are a fundamental component of the financial system, and are also active players in financial markets. Major changes took place in the functioning of Banks in India only after liberalization, globalisation and privatisation. It has become very mandatory to study and to make a comparative analysis of services of Public sector Banks and Private Sector banks. This study tries to analyse the performance of largest public sector bank and largest private sector bank. The study takes two largest bank in terms of assets BOB(largest public sector bank) ICICI(largest private sector bank) period of study is from 2011-2015. For the analysis of performance various profitability ratios like Net profit margin, return on net worth, interest spread etc are taken. The overall result shows the similar performance of both the banks.

Key words: Profitability, liberalization, globalisation , privatisation

I. Introduction

The Indian banking system has come a long way since independence from nationalization to liberation. It has witnessed from a slow business institution to highly proactive and dynamic entity. This transformation has been largely brought about by the large dose of liberalization an economic reform that allowed banks to explore new business opportunities rather than generating revenue from conventional streams. India's financial market has been gradually developing, but still remains bank dominated in the reform period. The banking system forms the core of the financial system of the economy. The roll of commercial bank is particular important in under developed country's. Through mobilization of resources and their better allocation, commercial banks play an important roll in the development process of underdeveloped countries. Financial sector reform aimed at improving efficiency, introduction transparency and insuring a sound financial footing of the banking sector Profitability is a bank's first line of defence against unexpected losses, as it strengthens its capital position and improves future profitability through the investment of retained earnings. Although banking institutions have become increasingly complex, the key drivers of their performance remain earnings, efficiency, risk-taking and leverage. . The development of sound banking system was considered essential for the future growth of the financial system

II. Review of literature

Usman et al (2009) conduct a study on banking efficiency dynamic with financial sector reforms effect. They took the data set of 20 commercial banks of Pakistan and measure the efficiency using Data Envelopment Analysis Malmquist productivity index of total factor productivity (TFP) from 1990-2005.

B.Satish Kumar (2008), in his article on an evaluation of the financial performance of Indian private sector banks wrote Private sector banks play an important role in development of Indian economy. After liberalization the banking industry underwent major changes. The economic reforms totally have changed the banking sector. RBI permitted new banks to be started in the private sector as per the recommendation of Narashiman committee. The Indian banking industry was dominated by public sector banks. But now the situations have changed new generation banks with used of technology and professional management has gained a reasonable position in the banking industry.

Jahangir, Shill and Haque (2007) Stated that the traditional measure of profitability through stockholders equity is quite different in banking industry from any other sector of business where loan–to-deposit ratio works as very good indicator of banks profitability as it depicts the status of assts-liability management of banks.

Fadxlan Sufian (2006) applied DEA window analysis approach to examine the long term trend in the efficiency of 29 Singapore banking group during the period of 1993-2000.

X.Chen et all (2005) applies frontier analysis (X-efficiency) using DEA to examine the cost, technical and locative efficiency of 43 Chinese banks over the period 1993-2000.

Chien-Ta(Bruce)(2004) Used a new approach of performance evaluation,grey relation analysis(GRA),which is a concept borrowed from the study of industry and is increasingly applied to commerce.GRA is used to evaluate the realative performance of three of Australia's major banks.

Petya Koeva (July 2003), in his study on The Performance of Indian Banks. During Financial Liberalization states that new empirical evidence on the impact of financial liberalization on the performance of Indian commercial banks. The analysis focuses on examining the behaviour and determinants of bank intermediation costs and profitability during the liberalization period. The empirical results suggest that ownership type has a significant effect on some performance indicators and that the observed increase in competition during financial liberalization has been associated with lower intermediation costs and profitability of the Indian banks

Malhotra (1999) in her study, "Banking Sector Reforms: Experience of PSBs", has analyzed the performance of PSBs as a result of banking sector reforms. The study is divided into two parts. In the first part, a brief review of banking reforms has been made. In the second part, the researcher has discussed the impact of banking sector reforms on PSBs, after dividing the reform period of 1992-98 into two phases.

III Objectives of the study

1) To compare the performance of public and private banks of India (BOB , ICICI).
.2)To study the determinants of profitability (defined in terms of net interest margin, return on net worth etc.) of private sector banks in India, with focus on the ICICI bank.
3) To suggest measures, on the basis of the study results, to improve further the financial performance of the banks under study.

IV. Methodology

Methodology describes the research route to be followed, the instruments to be used, universe and sample of the study for the data to be collected, the tools of analysis used and pattern of deducing conclusions. For the purpose of the present study, the research instrument used is ratio analysis which is the recent innovation in the area of financial performance evaluation of banks.

Sample of the study

The present study seeks to evaluate the financial performance of the two top banks based in India, representing the largest nationalized bank (i.e Punjab National Bank, PNB) and the largest private sector bank (i.e Jammu and Kashmir Bank, JKB).

Data and tools

The study is mainly based on secondary data drawn from the annual reports of the respective banks. This data is related to 5 years (2011-2015). For analysis of the data, two important statistical tools viz. Mean and ratio has been used to arrive at conclusions in a scientific way.

V .Results and Discussion:

1. **Return on Assets(ROA)** Return on assets is the ratio of Net Income after Taxes/Total Assets. The rate of return secured on a bank's total assets indicates the efficiency of its management in generating net income from all of the resources (assets) committed to the institution (ROA):

.TABLE-1

RETURN ON ASSETS	BOB	ICICI
YEARS		
2011	537.45	478.3
2012	668.34	524.01
2013	758.91	578.21
2014	838.02	633.92
2015	180.13	138.72
MEAN	596.57	470.63

This ratio is higher in BOB as it indicates better management efficiency as compare to ICICI bank.

2. **Interest spread** is the difference between the average lending rate and the average borrowing rate for a bank or other financial institution. It is:*(interest income ÷interest earning assets)* - *(interest expense ÷interest bearing liabilities)*. If a bank's lending was exactly equal to its borrowings (i.e. deposits plus other borrowing) the two numbers would be identical. In reality, bank also has its shareholder's funds available to lend, but at the same time its lending is constraines reserve requirements. Changes in the spread are an indicator of profitability as the spread is where a bank makes its money.

TABLE-2

INTEREST SPREAD	BOB	ICICI
YEARS		
2011	5.58	6.95
2012	5.59	7.45
2013	5.95	7.82
2014	5.35	7.35
2015	5.47	7.04
MEAN	5.58	7.32

Interest spread is higher in ICICI bank shows more profitability of bank then BOB.

3. **Return On Equity - ROE**

The amount of net income returned as a percentage of shareholders equity. Return on equity measures a corporation's profitability by revealing how much profit a company generates with the money shareholders have invested. ROE is expressed as a percentage and calculated as:

Return on Equity = Net Income/Shareholder's Equity

Also known as "return on net worth" (RONW).

TABLE-3.

RETURN ON EQUITY	BOB	ICICI
YEARS		
2011	20.15	9.35
2012	18.22	10.70
2013	14.01	12.48
2014	12.61	13.40
2015	8.53	13.89
MEAN	14.70	11.96

Return on equity is higher in BOB shows that profitability by revealing how much profit a company generates with the money shareholders have invested

4. Net Profit Margin ratio indicates the proportion of sales revenue that translates into net profit.Net Profit Margin ratio is a key performance indicator of the profitability of an enterprise.

TABLE-4

NET PROFIT MARGIN	BOB	ICICI
YEARS		
2011	19.38	19.83
2012	16.87	19.27
2013	12.73	20.77
2014	11.66	22.20
2015	7.91	22.76
MEAN	13.71	20.96

Net Profit Margin ratio is higher in ICICI BANK as compare to BOB shows higher profitability of bank

This study shows that the performance of both the banks are similar the four profitability ratios are taken BOB is higher in two ratios(return on assets and ROE) and ICICI bank is also higher in two ratios (interest spread ,net profit margin)

VI.SUGGESTIONS

Based on the study conducted, there are some of the suggestions given how the modern banking should be. These are the comment given about the improvement of the banking sector in India.

1) Banks should obey the RBI norms and provide facilities as per the norms, which are not being followed by the banks.
2) Banks should increase the rate of saving account.
3) Internet banking facility must be made available in all the banks.
4) More ATM coverage should be provided for the convenience of the customers.
5) No limit on cash withdrawals on ATM cards.
6) 24 hours banking should be induced so as to facilitate the customers who may not have a free time in the daytime. It will help in facing the competition more effectively.
7) The branch should promote cooperation and coordination among employees which help them in efficient working.

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