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PERFROMANCE OF PUBLIC AND PRIVATE SECTOR BANKS : AN EVALUATION

Dr.Vineet Jain
Associate Professor in Commerce
S.A.Jain College, Ambala City

Abstract

In every facet, banking is crucial to the expansion and development of the Indian economy. The primary goal of the study is to examine and compare the profitability, Net NPA to Net Advances, and Business Per Employee of a sample of public and private sector banks. Secondary data for the study was gathered from the bank websites' internal publications, periodicals, newsletters, and annual reports. ICICI Bank, HDFC Bank, SBI Bank, and PNB Bank are the banks chosen for analysis. The chosen study's study period runs from 2011 through 2020. The analysis comes to the conclusion that private sector banks have outperformed public sector banks in terms of the characteristics.

Keywords: bank, ratio, performance, economy, public, private, selected, etc.

Introduction to Banking

A crucial aspect of modern living is banking. Excellent customer service is the most crucial tool for long-term business growth in the current competitive banking environment. After the financial sector reforms and the use of cutting-edge technology, customer service has proven to be the most difficult profession in the banking business. Commercial banks prioritize rapid and effective service in order to draw in and keep new clients. The Reserve Bank of India has made improving bank customer service its top goal.

In India, modern banking dates back to the latter half of the 18th century. Among the early banks were the General Bank of India, founded in 1786 but failing in 1791, and the Bank of Hindustan, founded in 1786 and liquidated in 1829–1832.

The State Bank of India (S.B.I.) is the biggest and oldest bank still in operation. In June 1806, it was created as the Bank of Calcutta. It was called the Bank of Bengal in 1809. The other two banks funded by a presidency government were the Bank of Bombay in 1840 and the Bank of Madras in 1843. This was one of the three banks.The three banks were combined in 1921 to become the Imperial Bank of India, which later changed its name to the State Bank of India in 1955 upon India's independence. Before the Reserve Bank of India was founded in 1935 under the Reserve Bank of India Act, 1934, the presidency banks and their successors served as quasi-central banks for a long time.

The State Bank of India (Subsidiary Banks) Act, 1959 gave the State Banks of India jurisdiction over eight state-affiliated banks in 1960. Now, these are referred to as its associate banks. The Bank of India was one of the fourteen large commercial banks that the Indian government nationalized in 1969. Six additional private banks were nationalized in 1978. The primary lenders in the Indian economy are these nationalized banks. They control the banking industry due to their size and extensive networks.

Scheduled and non-scheduled banks are the two primary categories of the Indian banking industry. The scheduled banks are those included in the Reserve Bank of India Act, 1934's 2nd Schedule. The nationalized banks, State Bank of India and its affiliates, Regional Rural Banks (RRBs), foreign banks, and other Indian private sector banks are further divided into the scheduled banks. Scheduled and unscheduled commercial banks subject to the 1949 Banking Regulation Act are both referred to as commercial banks.

In general, India's banking industry is fairly developed in terms of supply, product selection, and reach, yet reaching the impoverished and rural areas of the country is still difficult. The National Bank for Agriculture and Rural Development (NABARD), which offers services including microfinance, and the State Bank of India, which is increasing its branch network, are two government-developed initiatives to solve this.

Review of the Literature

In commercial banks, **Alamelu and Chidambaram R.M. (1994)** placed a strong emphasis on profitability. On the basis of profitability, he looked at and contrasted the performance of banks in the public and private sectors. It was discovered that all public and private sector banks had seen rapid expansion and substantial profits.The report outlined several elements that contributed to the success of private sector banks in India, including improved customer service, technology, novel products, effective marketing tactics, efficient monitoring of advancements, and regional focus.

In his article titled "How well have Public Sector Banks Done," **Errol D'souza (2002)** studied the performance of public, commercial, and foreign banks from 1991 to 1999-2000. Different ratio approaches, such as the spread/working funds ratio and the turnover/employees ratio, were used to gauge the efficiency of the banking sector. The spread working funds ratio indicated that the efficiency of commercial banks as a whole had decreased in the years following the reform.Since the efficiency of private and foreign banks had increased in the 1990s, it was the public sector banks that were to blame for this decline.

"Analysis of the Efficiency of the Entire Bank Groups in the Post Banking Sector Reforms Era" is the title of a paper by **Uppal and Kaur from 2007.** Their research covered the second wave of post-banking sector reforms, which took place between 1999–2000 and 2004–2005. In the second post-reform phase, efficiency across all bank groups grew, but new private sector banks and foreign banks benefited more from the reforms, according to the study. This report provided recommendations for improving the effectiveness of Indian nationalized banks.Five different ownership groups in the Indian banking sector made up the study's sample. The ratio approach was employed to determine each bank group's efficiency. It was discovered that new private sector banks were in a continuous state of performance improvement competition with overseas banks and other public and private banks.

"Financial Performance of Banks in India" by**Singla H. K. (2008)** investigated how financial management was essential to the development of the banking industry. For a period of six years (2001–2006), the author looked at the profitability situation of the sixteen banks that made up the banker index. According to the study, the profitability position throughout the study period was respectable when compared to the years before.With robust capital and balance sheet positions, banks are better equipped to manage and absorb the economic constant over time.

Prasad and Ravinder (2014) examined the profitability of four significant Indian banks from 2005–2006 to 2009–2010: State Bank of India, Punjab National Bank, ICICI Bank, and HDFC Bank. For the objective of the study, statistical techniques such the arithmetic mean, one-way ANOVA, and Tukey HSD Test were used. Several metrics, including Operating Profit Margin, Gross Profit Margin, Net Profit Margin, Earnings per Share, Return on Equity, Return on Assets, Price Earning Ratio, and Dividend Pay-out Ratio, were used to assess the profitability of these banks.According to the analysis, Punjab National Bank did better in terms of operating profit margin and return on equity, while State Bank of India performed better in terms of earnings per share and dividend pay-out ratio. In terms of gross profit margin, net profit margin, return on assets, and price earning ratio, the study found that HDFC Bank fared better than average. According to the survey, ICICI Bank distributed the largest percentage of its earnings as dividends to shareholders.

Hawaldar (2017) examined how the financial and oil price crises affected the financial health of a few Bahraini institutions. Seven commercial banks were chosen as a sample, of which three were Islamic and four were conventional.The study was conducted during an eleven-year period, from 2005 to 2015. These ratios were used to analyze the financial performance of banks in terms of profitability, efficiency, leverage, and liquidity. They discovered that while the pre-crisis and crisis periods did not have much of an impact on the financial performance of the banks, the impact was noticeable in the years following the financial crisis. The oil price issue has a negative effect on the banks' financial health.

Objectives of Study

- To assess the effectiveness of banks in the public and private sectors.
- To evaluate bank performance.

Research Methodology

Data: The study's foundation is secondary data. The secondary data was gathered from the bank websites and the RBI reports on the performance of the public and private sector banks in India.Bank annual reports, bulletins, and Journals, magazines, websites, internal bank reports, newsletters, periodicals, and news letters

Scope and Sample: Two significant banks from the public and private sectors were selected for the study. From public sector banks, along with ICICI and HDFC, State Bank of India and Punjab National Bank were acquired. Banks from the private sector were chosen.Data was collected from 2010–11 through 2019–20. For measuring the performance of the banks, the study's parameters included NPAs, business per employee, and profits during the previous ten years.

Limitations of the Study

- The research is based on secondary data.
- The study only considers three factors when evaluating the efficiency of banks.
- Only four banks are eligible for the results. Its scope is so constrained.

An analysis of Bank Performance

The word "performance" refers to putting something into action or achieving something, as well as to finishing a specified task or carrying out a responsibility.

"Bank performance" can be described as the reflection of how a bank uses its resources in a way that enables it to achieve its goals.

Additionally, the word "bank performance" refers to the adoption of a set of metrics that reflect the bank's current situation and the degree of its capacity to meet defined goals. Three indicators are used to gauge the Bank's performance:

Profitability: A key metric for gauging bank success is profitability. It displays the rate of return that a bank was able to produce while utilizing the resources. Banks turn a profit when they generate or create more money than they spend on expenses. A bank's primary sources of income are the service fees it charges for its products and the interest it earns on its investments. Interest on its liabilities is its principal expense.

Table 1
Profitability of Banks

Bank/Year	**2020**	**2019**	**2018**	**2017**	**2016**	**2015**	**2014**	**2013**	**2012**	**2011**
SBI (in crores)	14488	862	-6547	10448	9951	13102	10891	14105	11707	8265
PNB (in crores)	336	-9975	-12282	1325	-3974	3062	3343	4748	4884	4433
ICICI (in billion)	79.31	33.63	67.77	98.01	97.26	111.75	98.10	83.25	64.65	51.51
HDFC (in crores)	26257	21078	17487	14550	12296	10215	8478	6726	5167	3926

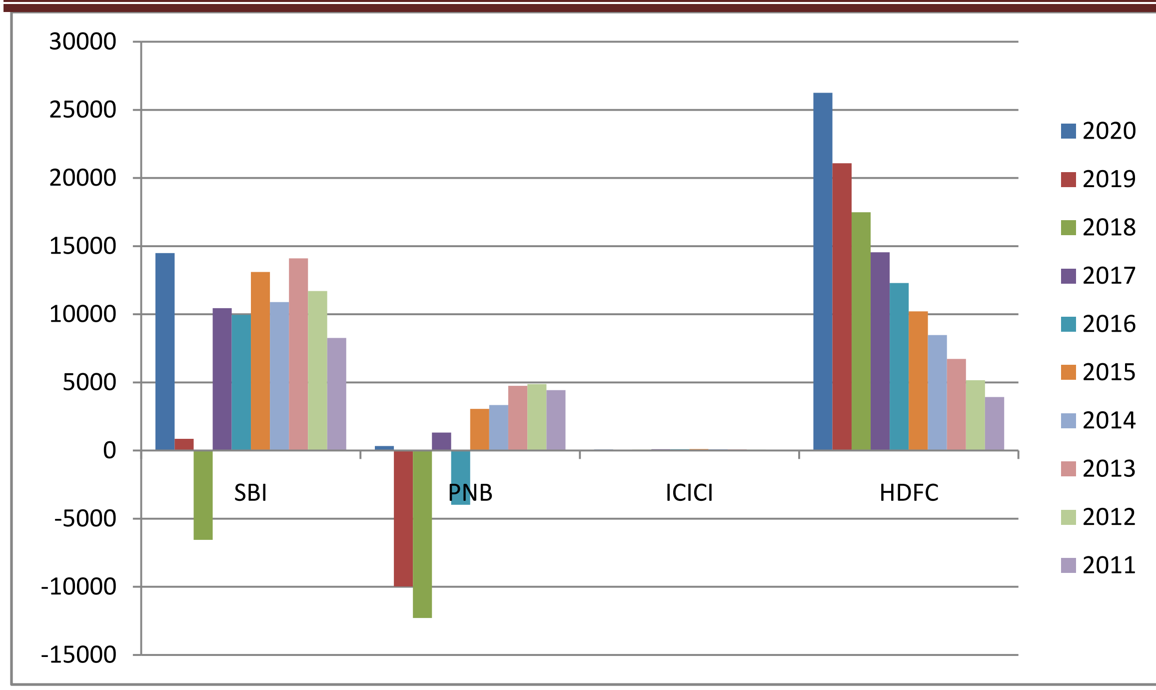

Fig. 1: Profitability of Banks

The profitability of banks from 2011 to 2020 is shown in the diagram. In comparison to the other banks out of the four major banks, HDFC Bank's profitability increased year over year. The ICICI Bank consistently makes money. Since public sector banks have experienced increasing, falling, and negative trends over the past ten years, private sector banks exhibit higher rates of profits.

- **NPAs to Net Advances:** The ratio of Net NPA to Net Advances is known as the net NPA to advances ratio. It gauges the institution's overall strength and the caliber of its loans. Loans that have not been repaid for a very long time after the payback period has ended are referred to as NPAs or non-performing assets. Such assets are eventually included in the bank's balance sheets. For financial institutions that lend money, NPAs are a form of burden. The opportunity for the financial institution to collect interest is lower the larger its NPA, which eventually results in poorer profitability.

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Table 2

Ratio of NPA to Net Advances

Year/Bank `	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
SBI	2.23	3.01	5.73	3.71	3.81	2.12	2.57	2.10	1.82	1.63
PNB	5.78	6.56	11.24	7.81	8.61	4.06	2.85	2.35	1.52	0.85
ICICI	1.54	2.29	5.43	5.43	2.98	1.61	0.97	0.77	0.73	1.11
HDFC	0.36	0.39	0.40	0.33	0.28	0.25	0.28	0.20	0.18	0.19

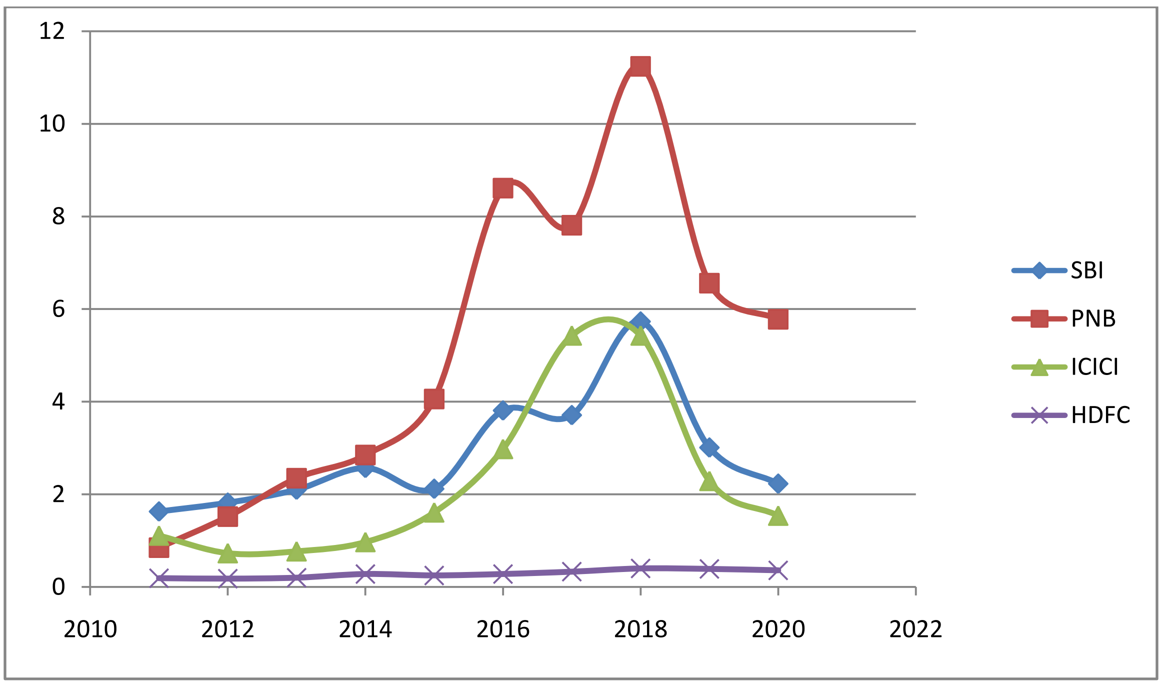

Fig 2. Ratio of NPA to Net Advances

The diagram shows the ratio of banks' Net NPAs to Net Advances for the previous ten years, from 2011 to 2020. The rule of thumb for ratios is that the lower the ratio, the better it is for financial institutions. All banks, both public and private, are keeping this ratio at a low level, but HDFC Bank has the lowest ratio, which shows the primary factor in the bank's continued solid profitability year after year, while PNB Bank has the highest ratio, which indicated unfavorable conditions for the bank. While the ratios for the ICICI and SBI banks also show a mixed pattern, their condition is gradually getting better.

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- **Business Per Employee: A**dditionally, known as Employee revenue. It is computed by dividing the total revenue of a business by the number of employees it currently has. It is a crucial ratio that approximately calculates how much each person makes for the company. When examining historical changes in a company's own ratio or comparing it to that of other businesses in the same industry as part of a fundamental analysis, the revenue-per-employee ratio is most helpful.

Table 3
Business per Employee:

Year/Bank	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
SBI (in crores)	22.32	19.8	17.5	17.2	15.38	13.49	11.69	9.85	8.80	7.58
PNB (in lakhs)	18.21	16.80	14.73	14.17	13.59	13.19	12.83	11.65	11.32	10.18
ICICI (in crores)	14.54	14.59	13.16	11.76	11.86	11.29	9.28	9.39	8.73	7.75
HDFC (in crores)	18.3	17.8	16.4	14.2	11.5	10.7	9.83	7.76	6.69	6.61

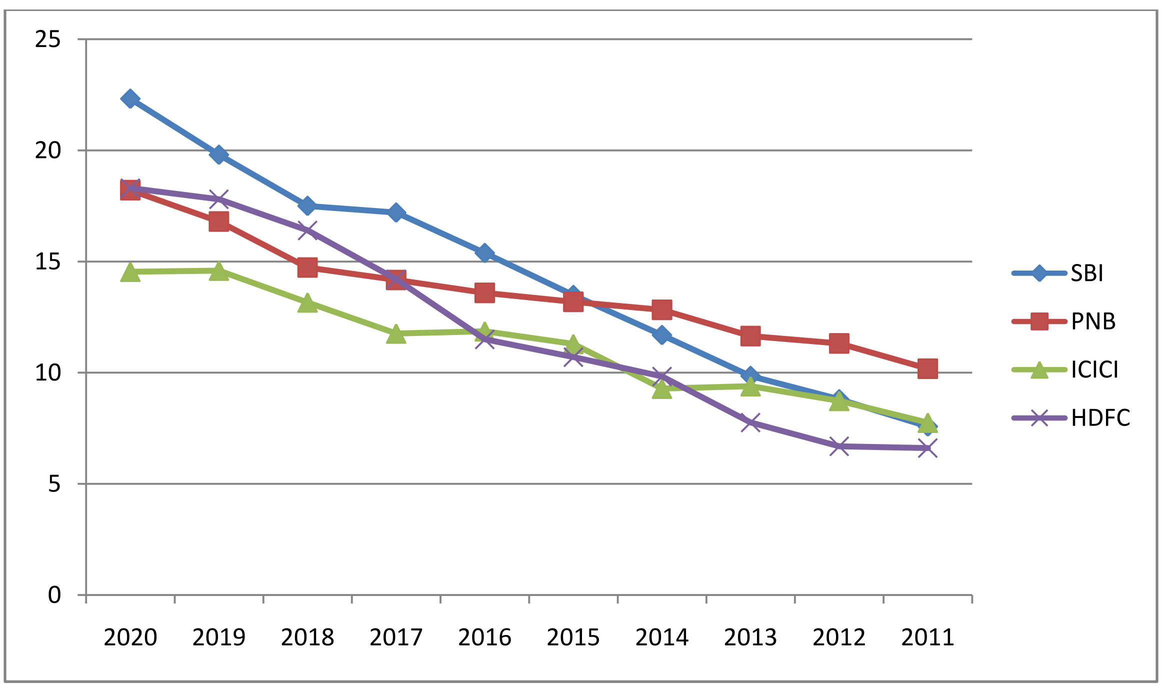

Fig: 3 Business Per Employee

The chart displays the business per employee data for banks for the previous ten years, from 2011 to 2020. It shows that the staff members of banks in the public and private sectors are equally effective and well-trained, and they aid the banks in achieving their goals. Compared to other banks, SBI bank is earning more money with the aid of its staff. Regarding business generated per employee over the previous 10 years, all banks have taken a positive stance.

CONCLUSION

The study revealed that, according to the profitability indicator, HDFC Bank is dominating the list as its earnings are rising year after year during the process of analyzing the performance of the chosen public and private sector banks on the basis of the factors. This is a result of the bank's sound policies, improved yield on advances, and high-quality assets. The lower Net NPV to Net Advances ratio of HDFC Bank is the primary factor in the bank's continued profitability and wealth. According to the most recent Business per Employee metric, SBI Bank is increasing its revenue with the aid of its employees, demonstrating the necessity of fulfilling human resource policies for those working in their bank to achieve their objectives. Therefore, based on the analysis, private sector banks perform better than public sector banks. In order to improve their performance, public sector banks should aim to create better and adaptable policies and strategies.

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