

## **Performance Analysis: A Study Of Public Sector & Private Sector Banks In India** **Gurpreet Kaur<sup>1</sup>**

### **Abstract**

A better performance in terms of Efficiency and profitability of banking sector is must for a flourishing economy to ensure the growth and development by facing intense competition, meeting greater customer demands and changing banking reforms. Since the adoption of Liberalization, Privatization and Globalization in 1991 the banking sector has undergone significant changes. The Fundamental Analysis, which aims at developing an insight into the economic performance of the business, is of paramount importance from the view point of investment decisions. The present study attempts to analyze and measure the relative performance of the major banks in India. ; PNB, SBI, Canara Bank, UCO Bank, ICICI , Axis Bank, HDFC Bank and Yes Bank. The main objective of this article is to make an evaluation of the financial performance of Indian Banks .The financial performance of a bank is measured by a number of key indicators with reference to Deposits, Advances, Total Income, Investment and Net Profit etc. Recommendations and suggestions have been given for improving the performance of Banks in India.

**Keywords:** Efficiency, Indicators, Profitability, Performance parameters.

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### **Introduction**

The banking sector mirrors the larger economy – its linkages to all sectors make it a proxy for what is happening in the economy as a whole. Efficient functioning of banking sector is required for the growth of overall economy. Banking plays a silent, yet crucial role in our day-to-day lives. The banks work as financial intermediaries, pooling savings and channelizing them into investment, helps in economic development of a country. A banking system also referred as a system provided by the bank which offers cash management services for customers, reporting the transactions of their accounts and portfolios, throughout the day. The banking system in India should not only be hassle free but it should be able to meet the new challenges posed by the technology and any other external factors. For the past three decades, India's banking system has several outstanding achievements to its credit. The banks are the main participants of the financial system in India. The banking sector offers several facilities and opportunities to

their customers. All the banks safeguard the money and valuables and provide loans, credit, and payments services, such as checking accounts, money orders, and cashier's cheques. The banks also offer investment and insurance products. As a variety of models for cooperation and integration among finance industries have emerged, some of the traditional distinctions between banks, insurance companies, and securities firms have diminished. In spite of these changes, banks continue to maintain and perform their primary role- accepting deposits and lending funds from these deposits. The efficient working of banking system leads to survival of any country. The banking system of India is featured by a large network of bank branches, serving many kinds of financial needs of the people.

The commercial Banking system provides a large portion of the medium of exchange of a given country, and is the primary instrument through which Monetary policy is conducted, through their deposit mobilization and lending operations. Commercial banks make the productive utilization of ideal funds, thus assists the society to produce wealth. Commercial Banks are the institutions specifically designed to further the capital formation process through the attraction of deposits and extension of credit.

## REVIEW OF LITERATURE

**Noulas and Ketkar (1996)** conducted a study to examine the technical and scale efficiency of banks.

**Bhattacharya et al. (1997) and Sathye (2005)** have studied the impact of privatization on the performance of banks. The results of the studies were, however, contradictory. While Bhattacharya found that performance of the public sector banks was sound as compared to the private sector banks, Sathye found the opposite results in his study.

**Mukherjee et al. (2002)**, conducted a study on technical efficiency and benchmark performance of 68 commercial banks which revealed that, in India, public sector banks are more efficient than both private and foreign banks.

**Swamy (2001)** studied the comparative performance of different banks groups.

**Das (2002)** developed a model to rank nationalized banks during 1999-2000 and 2000-2001. He covered 17 nationalized banks, excluding the Indian Bank and the UCO Bank. Corporation Bank emerged as the top-most bank, followed by Andhra Bank and Oriental Bank of Commerce (OBC). While, in business performance, Punjab National Bank (PNB) was the top ranker, in efficiency and labour productivity, Corporation Bank was at the top. In terms of safety and soundness, Andhra Bank obtained the highest rank.

**Uppal (2004)** conducted a comparative study of the business, efficiency, soundness and productivity of the new private sector banks. He concluded that private sector banks are sound in urban area and he has ranked the banks as per the parameters

**Jha and Sarangi (2011)** analyzed the performance of seven public- sector and new private-sector banks, for the year 2009-10. They used three sets of ratios, operating performance ratios, financial ratios, and efficiency ratios. In all, eleven ratios were used. They found that Axis Bank, BOI, PNB, SBI, IDBI, and HDFC, in that order.

### OBJECTIVE OF THE STUDY

- To classify the banks in India on the basis of their financial characteristics and to assess their financial performance in terms of deposits, advances, net profit etc.
- To review the financial performance of the private and public sector banks.
- To make a comparative study on the performance of the private and public sector banks.

### RESEARCH METHODOLOGY:

The secondary data is collected from various journals, reports and annual reports have been collected from various websites of reserve bank of India and State Bank of India.:

**Period of the study:** The post-reform period of five years has been taken for measuring the financial performance of public sector & private sector banks in India. The years selected for analysis are 2010-2014.

**Sample size:** The study include 4 public sector & 4 private sector banks operating in India. The study has taken in to consideration following banks

<b>PUBLIC SECTOR BANKS</b>	<b>PRIVATE SECTOR BANKS</b>
PNB	ICICI BANK
SBI	AXIS BANK
CANARA BANK	HDFC BANK
UCO BANK	YES BANK

**Data collection:** The data for the accomplishment of the afore mentioned research objectives used was secondary data with a view of evaluating performance. The data was gathered from bank's financial statements as published in their annual reports (2010 to 2014). The data base of Indian Banking Association has also been utilized.

**Data Analysis:** The following accounting and statistical techniques are used:

- The arithmetic mean of each parameter for bank has been calculated for the period of study.
- Growth Rate in Percentage was calculated for measuring the performance of each Bank.

### ANALYSIS AND DISCUSSION

Various parameters are used in identifying the strengths/weaknesses of banks and suggesting improvement measures in its future working. In the present study, following data/ parameters are used for the analysis of Financial Performance.

1.	Net profit
2.	Total income
3.	Investment
4.	Total assets
5.	Advances
6.	Deposits

### NET PROFIT:

Profit is a financial measure of a firm's operations during a period. It is the difference between the income earned and the expenditure incurred during the period. It is, therefore, called the 'Net Result'.

It is an accounting entity where  $\text{PROFIT} = \text{INCOME} - \text{EXPENDITURE}$ .

The balance of operating profit after the provisions and contingencies is known as net profit.

Net Profit mainly depends upon productivity of the bank and growth of profit per employee. The net profit Pattern of Banks under study are given in Table-1.

**Table1: Net profit of Indian Banks (in Rs. Crores)**

BANKS	2009-10	2010-11	2011-12	2012-13	2013-14	GROWTH RATE	AVERAGE
PNB	3905.36	4433.50	4884.20	4747.67	3342.5	-14.4	4262.65
SBI	9166.05	7370.35	11707.29	14104.98	10891.17	18.82	<b>10647.968</b>
CANARA BANK	3021.43	4025.89	3282.71	2872.1	2438.19	-19.303	3128.064



UCO Bank	1012.19	906.54	1108.67	618.20	1511	49.28	1031.32
icici	4024.98	5151.38	6465.26	8325.47	9810.48	143.74	6755.5
axis	2514.53	3388.49	4242.21	5179.43	6217.67	147.26	4308.47
Hdfc	2948.70	3926.40	5167.09	6726.28	8478.38	187.53	5449.37
Yes bank	477.74	727.14	977	1300.68	1617.8	<b>238.63</b>	696.5

Source: Compiled from the Annual Reports of the Banks

Table-1 Depicts that Yes Bank has the highest growth rate (238.63%) followed by HDFC (187.53%). On the other hand, State Bank of India has the highest Average (10647.968) during the study period.

#### TOTAL INCOME:

The total income indicates the rupee value of the income earned during a period. It consists of: Interest on advances, discount on bills and Income on investments, etc. Non-interest income of banks arises from sources other than money lent. It comprises of- Commission, exchange, brokerage, Profit on sale of investment, Profit on sale of land, buildings and other assets and Profits on Foreign exchange transaction.

The higher value of total income represents the efficiency and good performance. The Total Income pattern of Banks under study is given in Table-2.

**Table2: Total Income of Indian Banks (in Rs. Crores)**

BANKS	2009-10	2010-11	2011-12	2012-13	2013-14	GROWTH RATE	AVERAGE
PNB	25032.22	30599.06	40630.63	46109.25	47799.96	90.9	38034.22
SBI	85962.07	96324.78	120872.90	135691.94	154903.72	80.2	<u>118751.04</u>
CANARA BANK	21752.78	25890.99	33800.37	37230.95	43480.37	99.88	32431.058
UCO Bank	10492.25	12296.21	15597.93	17703.88	19550.42	86.33	15128.14



icici	32999.3 6	32621.9 4	41045.41	48421.30	54606.02	65.47	41938.786
axis	15583.8	19786.9 4	27414.87	33733.68	38046.38	144.14	26913.134
Hdfc	19983.5 2	24263.3 6	32530.04	41917.49	49055.17	145.478	33549.90
Yes bank	2945.24	4665.02	7164.48	9551.43	11702.92	<b>297.35</b>	7205.82

Source: Compiled from the Annual Reports of the Banks

Table 2. Depicts that Yes Bank has the highest growth rate (297.35%) followed by HDFC (145.48%). On the other hand, State Bank of India has the highest Average (118751.04) during the study period.

**INVESTMENT:** Investment as a window of deployment of funds was given more emphasis than lending. Investment can be defined as sacrifice of present consumption with expectation of return in future. Investment takes place at present but return can be expected in future but return is uncertain too.

“Investment is made in assets. Assets in all are of two types- real assets (land, building etc.) and financial assets (stock, bond, etc.). Highly developed financial institutions greatly facilitate real investment. “Investment is nothing but deploying our saving in manner that ensures safety of our money & provides a sustained return to supplement our regular income” (Delhi Stock exchange 2002). The Total Investment pattern of Banks under study is given in Table-3.

**Table3: Total Investment of Indian Banks (in Rs. Crores)**

BANKS	2009-10	2010-11	2011-12	2012-13	2013-14	GROWTH RATE	AVERAGE
PNB	77724.47	95162.35	122629.47	129896.19	143786	84.99450688	113839.696
SBI	285790.07	295600.57	312197.61	350927.27	398308.19	39.37089907	<b>328564.742</b>
CANARA BANK	69,676.95	83,699.92	102,057.43	121,132.83	126,828.26	82.02326594	100679.078
UCO Bank	43521.43	42927.28	45771.5	52244.9	67451.69	54.98500394	50383.36



icici	120,89 2.8	134,68 5.96	159,560.0 4	171,393 .6	177,021. 82	46.4287 5341	152710. 844
axis	55974. 82	71991. 62	93192.09	113737. 54	76278	36.2719 8801	82234.8 14
Hdfc	58,607. 62	70,929. 37	97,482.91	111,613 .60	120,951. 07	106.374	91916.9 14
Yes bank	10,209. 94	18,828. 84	27,757.35	42,976. 04	40950	<b><u>301</u></b>	28144.4 58

Source: Compiled from the Annual Reports of the Banks

Table 3 Depicts that Yes Bank has the highest growth rate (301%) followed by HDFC (106.38%). On the other hand, State Bank of India has the highest Average (328564.74) during the study period.

#### ADVANCES:

Advances are the credit facility granted by the bank. In other words it is the amount borrowed by a person from the Bank. It is also known as „Credit“ granted where the money is disbursed and recovery of which is made later on. Bank credit means the loan (advances) made by the banks to the customers. Credit deployment is the major force through which banks helps in the transformation of saving into capital. This is considered to be the single most important causal factor in the process of economic development with the expansion of bank deposits. There has been continued expansion of bank credit reflecting the rapid expansion of agricultural and industrial output. The Advances pattern of Banks under study is given in Table-4.

**Table4: Advances of Indian Banks (in Rs. Crores)**

BANKS	2009-10	2010-11	2011-12	2012-13	2013-14	GROW TH RATE	AVERA GE
PNB	186601. 21	242106. 67	293772. 76	308725.2 1	349269	87.17	276094.9 7
SBI	631,914. 15	756,719. 45	867578. 89	1045616. 55	1209828. 72	91.45	<u>902331.5</u> <u>5</u>
CANAR A	169,334. 63	212,467. 17	232,489. 82	242,176. 62	301,067. 48	77.80	231507.1 08



BANK							
UCO Bank	82,504.53	99,070.81	115,540.01	128,282.86	149,584.21	81.3	114,996.49
icici	181,205.6	216,365.90	253,727.66	290,249.44	338,702.65	86.916	256,050.24
axis	104,343.12	142,407.83	169,759.54	196,965.96	235,762	125.9	169,847.62
Hdfc	125,830.59	159,982.67	195,420.03	239,720.64	303,000.27	140.8	204,790.84
Yes bank	22,193.12	34,363.64	37,988.64	46,999.57	55,603.3	<u>150.67</u>	39,435.6

Source: Compiled from the Annual Reports of the Banks

Table 5 Depicts that Yes Bank has the highest growth rate (150%) followed by HDFC (140.8%). On the other hand, State Bank of India has the highest average total credits of Rs. 902331.55 crores. Therefore, it indicates that the bank with good growth rate of total credits during the study period does not always mean having the highest average of total credits.

### DEPOSITS:

Deposit is the amount accepted by bank from the savers in the form of current deposits, savings deposits and fixed deposits and interest is paid to them. In general terms money deposits in banks are known as bank deposits. Deposits mobilization gets added attention in a developing country like India where resources mobilization acts as a prime mover of the development process. Expansion of Public Sector Banks deposits has been an important feature in recent years. Planned economic development, deficit financing and increase in currency issue have led to increase in Public Sector Banks deposits. At the same time Public Sector Banks have contributed greatly to the development of banking habit among the people. The deposit pattern of Banks under study is given in Table-6.

**Table 5: Deposits of Indian Banks (in Rs. Crores)**

BANKS	2009-10	2010-11	2011-12	2012-13	2013-14	GROWTH RATE	AVERAGE
PNB	249329.80	312898.73	379588.48	391560.06	451397	15.3	356954.814





SBI	804,116. 23	933,932. 81	1,043,647 .36	1,202,739 .57	1,394,408 .51	73.408	<u>1075768.</u> <u>90</u>
CANA RA BANK	234,651. 44	293,972. 65	327,053.7 3	355,855.9 9	420,722.8 2	79.30	326451.3 3
UCO Bank	122,415. 55	145,277. 60	154,003.4 9	173,431.0 5	199533.5 4	62.99	158932.2 5
icici	202,016. 6	225,602. 11	255,499.9 6	292,613.6 3	331,913.6 6	64.30	261529.2
axis	141,300. 22	189,237. 80	220,104.3 0	252,613.5 9	280,944.5 6	98.2	160650.9 8
Hdfc	167,404. 44	208,586. 41	246,706.4 5	296,246.9 8	367,337.4 8	119.43	257256.9 5
Yes bank	26,798.5 7	45,938.9 3	49,151.71	66,955.59	74192	<u>176.84</u>	52607

Source: Compiled from the Annual Reports of the Banks

Table 6 Depicts that Yes Bank has the highest growth rate (176.84%) followed by HDFC (119.43%). On the other hand, State Bank of India has the highest average total credits of Rs. 1075768.90 crores

Total Deposits for all the selected Indian Public & Private Sector Banks from 2009-2010 to 2013-14 and also reveal growth rate thereof based on 2009-2010 as base year.

**FINDINGS:**

The above analysis gives following order for investing in banks

<b>BANKS</b>	<b>RANKS</b>
Yes bank	1
Hdfc bank	2
Axis bank	3
Canara bank	4
Sbi	5
Icici bank	6
UCO Bank	7
PNB	8

From the above analysis we conclude that the private sectors sector banks have much better growth prospects as compared to public sector banks.

### **RECOMMENDATIONS TO IMPROVE THE PERFORMANCE OF BANKS**

The forgoing analysis reveals that though there is a Phenomenal development in the performance, still public sector banks lagging behind some major thrust areas. Some recommendations to improve the performance of public sector banks are given below:

1. **TECHNOLOGY:** In a deregulated environment, managing a wide range of products on shrinking margin create a fiercely competitive environment and new challenges. In this context, technology will be the key to reduce transaction cost, offering customized products and managing risk. Our Public Sector Banks are lagging behind in technology when we compare them with private banks.
2. **COMPETITION:** Due to LPG, the banks are facing a severe competition. To stay ahead in the race, therefore, banks will have to leverage technology development as well as developing sophisticated financial products. Public sector banks in particular will have to develop new tech-savvy products to beat the competition.
3. **EFFECTIVE HANDLING OF NPAs:** For effective handlings of NPAs there is an urgent need that public sector banks should improve the quality of their appraisal for loan proposals. Further, they should also strengthen their loan monitoring system. More importance should be given to actual verification of the information provided.
4. **ISSUE OF HRM:** Human resources development is a crucial factor which can play a vital role in increasing business per employee and profit per employee. Training, development and retraining is a major emerging challenge before the Public sector banks. Public sector banks should make proper policies for training, developing and retraining to the new and old employees. More and more training cells should be organized with highly skilled and having friendly staff to learn new techniques.
5. **CHECK ON OPERATING COST:** High operating cost is a major hurdle impacting the profitability of public sector banks. The financial position of public sector banks can be enhanced by keeping a control on operating cost through higher labour productivity, updated technology, low cost funds and restructuring of unremunerating branches.

### **Conclusion**

For ensuring susustainable development of banking sector , it's very important to take following steps . Application of recent technology in public sector banks, debt recovery mechanism, and improved manpower skills could be some way outs for improving the

financial performance of the sector. Public sector banks are needed to devise innovative ways of responding to the evolving challenges. So, in the era of liberalization and globalization, the banks should adopt the latest framework as per the Basel-III Accord, and evolve cost- reduction strategies and should venture into integrated banking services. Further, to ensure the resilience of the banking sector and to avoid the volatility of other sector banks more stringent provisions may be enacted. This study may help the decision makers of Indian Public sector banks and other categories of banks in Indian Banking sector to concentrate on banking activities and thereby to increase the bank ranking and financial performance of the banks. It may help the management in formulating appropriate strategies for achievement of objectives.

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