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RESEARCH ARTICLE

FINANCIAL PERFORMANCE OF BANKS IN INDIA – A COMPARATIVE ANALYSIS BETWEEN PUBLIC AND PRIVATE SECTOR BANKS

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Abstract

Financial performance refers to the overall financial health of the business. All businesses take financial assets, which come in many forms, and use them to support business activity, which generates revenue and ultimately, profits. The main objective of this paper is to study the financial performance of public and private sector banks in India. In this purpose the study used secondary data of public and private sector banks for a period of five years i.e. from 2019-20 to 2023-24. To compare the financial performance by using selective parameters namely on return on assets ratios, total income to total assets, operating profit to total assets, net interest, income to total assets and non-interest income to total assets. As per the study, total income, net interest income and operating profit of selected public sector banks are performing better than private sector banks. On the other hand, net profit and return on assets of private sector bank is higher than public sector banks. There is no significant difference between the net profits of selected public sector and private sector banks. However, the private sector banks are more constant than public sector banks.

Introduction:-

Financial performance refers to the overall financial health of the business. All businesses take financial assets, which come in many forms, and use them to support business activity, which generates revenue and ultimately, profits. While banking sector plays a significant role in the economic growth of country,they mobilize the resources through collecting funds from various sources and in return provide credit facilities to various sectors through loans (Garhwali, 1993)[1]. As an important segment of the tertiary sector of our economy, commercial banks act as the back-bone of economic growth and prosperity by playing an all pervasive role as a catalyst of development. After the

[1]Garhwali, S. (1993). Commercial Banking and EconomicDevelopment. Jaipur: Point Publishers

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Liberalization, Privatization and Globalization (LPG) in 1991, private sector banks have playing a major tool of Indian financial system (Sathiya and Sangeetha, 2021)[2].However, the banking sector facing more challenges due to rising in completion, weakening the asset quality and level of non- performing assets among various public and private banks in the country. These may lead to adverse effect on the economy of the nation. By improving the economy of the nation they raise living standard of the people. Therefore, the banking sector is painstaking to develop the source of financing to most business activities and take possible effort to attain stable prices, sound economic growth and level of employment. This will facilitate to increase the flow of goods and services and the activities of the society. Further, profitability and efficiency of banking sector has been attained through importance given to high customer demand, intense competition and accelerated reforms in India. Therefore, the study is attempt to evaluate the financial performance of public and private sector banks in India on the basis of selected parameters namely return on assets, total income, net profit, net interest income and operating profit.

Review of Literature:-

Banoth Ganesh and Sreeramulu (2024)[3] studied on evaluation of the financial performance of public and private sector banks and found that there is no significant difference between public and private sector banks in their financial performance. But it is found HDFC Bank stood first followed by ICICI Bank and SBI in their performance and Union Bank rankedas last. Madhavi Latha (2023)[4] has done a comparative analysis on financial performance of public and private sector bank in India, where she found ICICI bank from private sector has more ability to meet its obligations related to risk as compare to SBI of public sector. Therefore, public has more trust on the private sector banks than their counterpart public sector banks. Tamilarasu and Srinivasan (2022)[5] studied on financial performance analysis of selected public and private sector banks and concluded that both public sector banks and private sector banks need to focus on decreasing their non-performing assets as they seriously dent the profitability of banks by affecting its revenue. RamrajMalav and NiraliKantharia (2021)[6] studied on financial performance of public sector bankswith special reference to their net profit and observed that GNPA and CD ratio are significant with Net profit, where GNPA is negatively impacted on Net profit and CD ratio is positively impacted on Net profit.Jagdish R. Raiyani (2020)[7] has done acomparative analysis on financial performance of public, private and foreign banks in India through CAMEL model and found that foreign banks perform well as compare to public sector and private sector banks in terms of Capital Adequacy, Management Efficiency and in Liquidity Management. While private sector banks perform well in Assets Quality compared to public sector banks and foreign banks and in Earning Quality public sector banks perform better than other two types of banks.

Objectives:-

- To study the growth and financial performance of public and private sector banks in India.
- To compare the financial performance of banks between public sector and private sector.

Hypothesis:-

H_1: There is no significant difference between public and private sector banks in their growth and financial performance.

[2]Sathiya N. and Sangeetha S. (2021). Financial Performance of selected Public and PrivateSector Banks in India. ICTACT Journal on Management Studies, November 2021, Volume: 07, Issue: 04

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[5]Tamilarasu S, Srinivasan K (2022), A Study on Financial Performance Analysis of Selected Public and PrivateSector Banks, Volume 10, Issue 4 April 2022 | ISSN: 2320- 2882, IJCRT2204543 International Journal of CreativeResearchThoughts (IJCRT) www.ijcrt.org

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[7]Jagdish R. Raiyani (2020). A Comparative Study on Financial Performance of Public, Private and Foreign Banks in IndiaThrough CAMEL rating System. International Journal of Management (IJM), Volume 11, Issue 10, October 2020, pp. 876-889.

Methodology:-

Since, the main aim of this paper is to compare the financial performance of public and private sector banks in India, the data was collected for the last five years i.e. from 2019-20 to 2023-24 years on return on assets ratios, total income to total assets, operating profit to total assets, net interest, income to total assets and non-interest income to total assets for investigation. In this purpose the secondary data of above said parameters was collected through books and websites. To reach the above objectives and test the hypothesis the statistics like mean, standard deviation, compound growth rate and t-tests are calculated and analysed.

Data Collection:-

The study is purely based on secondary data. The secondary data has been collected from annual reports of respective banks, RBI Bulletin, Magazines, journals etc.

Data Analysis:-

For the data analysis the statistics such as Mean, Standard Deviation, Compound Growth Rate and t-test are used to analyse and compare the financial performance of public and private sector banks.

Results and Discussion:-

Table 1 – Return on Assets Ratios of Public and Private Sector Banks

Year	Public sector	Private Sector
2019-20	-0.230	0.510
2020-21	0.280	1.170
2021-22	0.550	1.450
2022-23	0.790	1.630
2023-24	0.960	1.870
Mean	0.470	1.326
Standard Deviation	0.468	0.523
Compound Growth Rate (%)	233.08	29.67
t-value	2.782**	

https://www.ceicdata.com/en/india/scheduled-commercial-banks-selected-financial-ratios

From the Table-1 showsthe return on assetsratio of public sector banks are increased from -0.230 in the year 2019-20 to 0.960 in 2023-24. On the other hand the return on assets ratio of private sector also increased from 0.510 in 2019-20 to 1.870 in the year 2023-24. It is also observed from the table that mean value of return on assets ratio of public sectors banks are lesser than the private sector banks, where the average of private sector was 1.326found higher that public sector banks average 0.470. Whereas the compound growth rate of return on assets of public sector banks during the study period was 233.08, which is higher than private sector banks i.e. 29.67. Hence, the calculated t-value for the difference in the mean values is 2.782 found significant at 1% level because the p-value is 0.004. It can be concluded that while return on assets of public sector banks are fluctuated during the study period, the private sector banks are increase continuously.

Table 2 – Total Income to Total Assets of Selected Public and Private Sector Banks

Year	Public sector	Private Sector
2019-20	2.370	8.070
2020-21	2.450	7.380
2021-22	2.440	6.830
2022-23	2.720	7.360
2023-24	2.760	8.400
Mean	2.548	7.608
Standard Deviation	0.179	0.624
Compound Growth Rate	3.09	0.80
t-value	17.423**	

https://www.ceicdata.com/en/india/scheduled-commercial-banks-selected-financial-ratios

According to the Table-2 the total income to total assets ratio of public sector banks are continuously increased from 2019-20 to 2023-24 with 2.370 in the year 2019-20 to 2.760 in 2023-24. Whereas, the total income to total assets ratio of private sector banks are also increased from 8.070 in the year 2019-20 to 8.400 in the year 2023-24. It is also observed that the mean ratio of public sector banks 2.548 is lesser than that of private sector banks 7.608. From the growth analysis it is observed that 3.09 percent growth found in public sector and 0.80 percent growth found in private sector banks. Hence, the difference in total income to total assets of public and private sector banks indicate significant at 1% level because the t-value is 17.423 and the p-value is 0.000. It can be concluded that the total income to total assets of the private sector banks found better than the public sector, but the growth of public sector in this area shows significantly higher than private sector.

Table 3 – Operating Profit to Total Assets of Selected Public and Private Sector Banks

Year	Public sector	Private Sector
2019-20	1.660	2.900
2020-21	1.730	2.930
2021-22	1.640	2.780
2022-23	1.790	2.690
2023-24	1.760	2.880
Mean	1.716	2.836
Standard Deviation	0.064	0.099
Compound Growth Rate	1.18	-0.14
t-value	21.196**	

https://www.ceicdata.com/en/india/scheduled-commercial-banks-selected-financial-ratios

From the above Table-3 it shows that operating profit to total assets ratio of public sector banks are increased from 1.660 to 1.760 between 2019-20and 2023-24. Whereas, the operating profit to total assets ratio of private sector banks found decreased from 2.900 to 2.880 between the years 2019-20 and 2023-24. While the average ratio of public sector banks in operating profit to total assets was 1.716, it is 2.836 in the case of private sector banks. Thus, the compound growth rate of operating profit to total assets in public sector banks was 1.18 percent indicate higher than -0.14 of private sector banks. Hence, it is found significant difference in the operating profit to total assets of public and private sector banks, where the t-value 21.196 indicate 1% significance with 0.000 p-value. Therefore, the above analysis revealed that public sector banks are in good position in operating profit to total assets, when compared with private sector banks.

Table 4 – Net Interest Income to Total Assets of Selected Public and Private Sector Banks

Year	Public sector	Private Sector
2019-20	2.370	3.430
2020-21	2.450	3.580
2021-22	2.440	3.580
2022-23	2.720	3.880
2023-24	2.760	3.870
Mean	2.548	3.668
Standard Deviation	0.179	0.199
Compound Growth Rate (%)	3.09	2.44
t-value	9.376**	

https://www.ceicdata.com/en/india/scheduled-commercial-banks-selected-financial-ratios

From the Table-4 it is observed that net interest income to total assets ratio of public sector banks are increased from 2019-20 with 2.370 to 2.760 in the year 2023-24. On the other hand the net interest income to total assets of private sector banks are also increased from 3.430 in the year 2019-20 to 3.870 in the year 2023-24. While the average net interest income to total assets of public sector banks was 2.548 during the period, it was 3.668 of the private sector banks. Hence, the growth of net interest income to total assets during the study period indicate 3.09 percent in the case of public sector banks is higher than 2.44 percent of the private sector banks. Thus, the t-value 9.376 of net interest income to total assets difference between public and private sector banks indicate significant at 1% level. It can be concluded that the performance of private sector banks in net interest income to total assets found better than private sector banks, moreover the growth of public sector banks are better than private sector banks.

Table 5 – Non-interest Income to Total Assets of Selected Public and Private Sector Banks

Year	Public sector	Private Sector
2019-20	1.130	1.750
2020-21	1.090	1.480
2021-22	1.000	1.470
2022-23	0.900	1.370
2023-24	0.990	1.530
Mean	1.022	1.520
Standard Deviation	0.090	0.141
Compound Growth Rate (%)	-2.61	-2.65
t-value	6.647**	

https://www.ceicdata.com/en/india/scheduled-commercial-banks-selected-financial-ratios

From the Table-5 it is observed that non-interest income to total assets ratio of public sector banks are decreased from 1.130 in the year 2019-20 to 0.990 in the year 2023-24. In the case of private sector banks the non-interest income to total assets ratio also continually decreased from 1.750 in the year 2019-20 to 1.520 in the year 2023-24. While the average non-interest income to total assets ratio of public sector in this period shows 1.022 is lesser than 1.520 of the private sector. But it is found the growth rate of non-interest income to total assets ratio in public sector banks was -2.61 percent was almost equal to the -2.65 percent of private sector. Hence, the calculated t-value 6.647 indicates significant difference between public and private sector banks in non-interest income to total assets ratio of the study period. Thus, the analysis revealed that private sector banks are in little better position than public sector banks.

T - Test: In order to find the significant difference between the public sector and private sector banks in their financial performance parameters the study used paired sample t-test.
H_1: There is no significant difference between public and private sector banks in their growth and financial performance.

Table 6 – Growth difference between Public and Private Sector Banks in their Financial Performance Activities

Financial Performance Activities	Public sector (%)	Private Sector (%)	t-value
Return on Assets Ratios	233.10	23.70	2.782**
Total Income to Total Assets	3.10	0.80	17.423**
Operating Profit to Total Assets	1.20	-0.10	21.196**
Net Interest Income to Total Assets	3.10	2.40	9.376**
Non-interest Income to Total Assets	-2.60	-2.70	6.647**

**** Significant @ 1% level**

The Table-6 shows the compound growth valuesof public sector and private sector banks in return on assets ratios, total income to total assets, operating profit to total assets, net interest, income to total assets and non-interest income to total assets are estimated and growth percent of financial performance parameters during the study period are presented. It is found from the table that in all parameters the performance of public sector banks found better than their counterpart private sector banks. On the other hand the t-values of all the parameters of financial performance indicate significant difference between public and private sector banks. Therefore, the null hypothesis is rejected at 1 percent level of significance. Hence, it can be conclude that there is a significant difference between the public and private sector banks in their financial performance activities of return on assets ratios, total income to total assets, operating profit to total assets, net interest, income to total assets and non-interest income to total assets.

Conclusion:-

The main objective of this paper is to evaluate the financial performance as well as compare the performance of selected public sector and private sector banks in India for the five years period from 2019-20 to 2023-24. To compare the financial performance by using selected parameters namely return on assets ratios, total income to total assets, operating profit to total assets, net interest, income to total assets and non-interest income to total assets. As per the study in all the above said five parameters of financial performances, private sector banks found better than the public sector banks. Thus, it is tested and found that there is a significant difference between public sector and private sector banks in return on assets ratios, total income to total assets, operating profit to total assets, net interest, income to total assets and non-interest income to total assets. Moreover, the private sector banks are more constant than public sector banks due to their reliability and assurance of returns.

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