Research Paper

A Inclusive Study on Financial performance of Selected Public Sector and Private Sector Banks in India

Management

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ABSTRACT

Banking is a one of the most growing industry in the country today. Indian banking sector is havingmore than 11,75,150employee and has a total 1,09,811 branches across India and 171 branches abroad and managed Rs. 67504.54 Billion and bank Credit of Rs. 52604.59 Billion. The Net profit of banks operating in India was Rs. 1027.51 Billion against Rs. 9148.60 Billion Turnover during 2012-13. Banking sector is important part and sector for growth and development of Indian economy.

Research Purpose: the purpose of this research is to know the financial performance and position of selected public and private banks in India. By using various financial data and ratios of Public and private sector banks during 2007-08 to 2011-12,Researchers have compared the public and private sector banks.

Research Methodology: The research is based on the Analytical research design. Moreover, the data collection method used for this research is secondary method. Data are collected by annual report of companies and various websites. The data presented in this report is from the period 2007-2008 to 2011-2012.

Major Findings: Here,Researcherss found out that public sector banks is quite good compared to public sector banks in area of profitability, Debt-Equity, Earning per Share. Also found that price earning ration of private sector banks is high compare to public sector banks.

Implications: implication is concern of this research is, it helps to Government, Reserve bank of India and Planning commission for knowing performance of top public and private banks in India during 2007-08 to 2011-12. This study can also be useful for those, who want to have a further research in the same field.

Introduction

Around the turn of the 20th Century, the Indian economy was passing through a relative period of stability. Around five decades had elapsed since the Indian Mutiny, and the social, industrial and other infrastructure had improved. Indians had established small banks, most of which served particular ethnic and religious communities.

The period between 1906 and 1911, saw the institution of banks inspired by the Swadeshi movement. The Swadeshi movement inspired local businessmen and political figures to found banks of and for the Indian community. A number of banks established then have survived to the present such as Bank of India, Corporation Bank, Bank, Bank, Canara Bank and Central Bank of India.

Present days of Privatization and Liberalization are leads to growth and development of banking sector is one of the most growing sectors in India. During last decade all the banks in India is growing very fast due the demand of banking sector India.

This research work will be carried out to compare the financial performance of major public sector and private sector banks. Criteria for selecting banks for this research are based on market capitalization.

In this research, Researchers will used comparison of Profitability, EPS, P/E Ratio, Liquidity, NPA and Debt-Equity Ratio analysis of various selected bank. This research work will mainly help to compare financial performance of Indian banks and will indicate that which bank has the strongest Performance.

Literature Review

Roma Mitra, Shankar Ravi (2008), a stable and efficient Banking sector is an essential precondition to increase the Economic level of a country. This paper tries to model and evaluate the efficiency of 50 Indian banks.

NimalathasanBalasundram (2008) a comparative study of financial performance of Banking Sector in Bangladesh - An Application of CAMELS Rating System, By NimalathasanBalasundram,

University of Jaffna, Jaffna, Sri Lanka,July 25, 2008, *Annals of University of Bucharest, Economic and Administrative Series, Number 2 (2008) pp. 141-152* The Banking sector in Bangladesh

is different from the banking as seen in other developed countries.

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.

Brijesh K. Saho, Anandeep Singh (2007), this paper attempts to examine, the performance trends of the Indian commercial banks for the period: 1997-98 - 2004-05.

Vradi, Vijay, Mauluri, Nagarjuna (2006), in his study on´ Measurement of efficiency of bank in India'

PetyaKoeva (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.

Research Hypothesis

H_{01}: There is no significant difference between public and private sectors banks profitability.

H_{02}: There is no significant difference between public and private sectors banks Debt-Equity ratio.

H_{03}: There is no significant difference between public and private sectors banks Non-Performing Assets (NPA).

H_{04}: There is no significant difference between public and private sectors banks EPS.

H_{05}: There is no significant difference between public and private sectors banks P/E Ratio.

H_{06}: There is no significant difference between public and private sectors banks Liquidity.

Research Objectives

✓ To measure the profitability of Public sector and Private sector bank.
✓ To compare financial strength of Public sector and Private sector bank.
✓ To compare against industry benchmarks.

✓ For Intra banks comparison of banks.
✓ To know the current position of the banks.
✓ To know the growth and development of banks.
✓ To find out trends in NPA Level of Public and Private sector banks in India.

Research Methodology

Research Methodology is a systematic way of gathering, recording, analysis and interpreting data. The system of collecting data for research projects is known as **research methodology**. The data may be collected for either theoretical or practical research for example management research may be strategically conceptualized along with operational planning methods.

❖ **Sample size : 10 Banks**

Public Sector Banks		Public Sector Banks	
S r . No.	Name of Banks	S r . No.	Name of Banks
1	State Bank Of India	1	HDFC Bank Ltd.
2	Punjab National Bank	2	ICICI Bank Ltd.
3	Bank Of Baroda	3	Axis Bank Ltd.
4	Canara bank	4	Kotak Mahindra Bank Ltd.
5	Bank Of India	5	IndusInd Bank

❖ **Research Design: Analytical Research**
❖ **Sampling Design:**
Sampling Unit- private & public sector Banks (criteria for selection will be M.cap.)

Sampling Size   - 5 private & 5 public sector Banks

Sampling Method- Convenience Sampling

❖ **Data Collection -** Secondary Data
Here Researchers have selected 10 banks on the base of market capitalization. (Five Public Sector Banks & Five Private Sector Banks)

Statistical Techniques

In accordance with the analysis and Interpretation f data researcher has used ANOVA with the help of SPSS.

1. Profitability Ratio

Profitability ratios show a company's overall efficiency and performance. **Profitability ratios** measure a company's ability to generate earnings relative to sales, assets and equity. These ratios assess the ability of a company to generate earnings, profits and cash flows relative to relative to some metric, often the amount of money invested. They highlight how effectively the profitability of a company is being managed.

Table-1.1

ANOVA

Source of Variation	SS	df	MS	F	P-value	F crit
Between Groups	96.42357	4	24.10589	2.86068	0.033985	2.578739
Within Groups	379.1984	45	8.42663			
Total	475.6219	49				

Interpretation:

Here there calculated value **(2.8606)** is less than critical Value **(±2.5783)** sonull hypothesis rejected and there is significance difference between profitability of public sector and private sectors banks.

2. Debt-Equity Ratio

The **debt-to-equity ratio (debt/equity ratio, D/E)** is a finan-

cial ratio indicating the relative proportion of entity's equity and debt used to finance an entity's assets. This ratio is also known as **financial leverage.**

Table-1.2 ANOVA

Source of Variation	SS	df	MS	F	P-value	F crit
Between Groups	12.88913	4	3.222283	0.131785	0.969946	2.578739
Within Groups	1100.3	45	24.45112			
Total	1113.189	49				

Interpretation

From above analysis and calculation we can interpret that value of F statistics **(0.1317)** is less than that of critical value **(± 2.578)** so here null hypothesis got accepted so there is no significance difference between debt-equity ratio of public sector and private sector banks in India during the period of 2007-08 to 2011-12.

3. Non-Performing Assets Ratio

▪ In case government guarantee is invoked such an account is called as Non Performing Assets.
▪ In case where there are threats of recovery on account such as frauds committed by borrowers are classified as doubtful assets and remained as Non Performing Assets.

1. Interest / installment of principal remain overdue for a period more than 90 days in case of term loan.
2. The account remains overdue for a period more than 90 days in case of overdraft.
3. The bill remains overdue for a period more than 90 days in case of bill discounted.
4. Any amount to be received remains overdue for a period more than 90 days in case of bill purchase.

Where there is doubt of recoverability of advances the assets should be classified as NPA. Loan and advances given by bank are classified as;

Table-1.4   ANOVA

Source of Variation	SS	df	MS	F	P-value	F crit
Between Groups	0.86026	4	0.215065	0.494641	0.739675	2.578739
Within Groups	19.56554	45	0.43479			
Total	20.4258	49				

Interpretation:

From above data shows that the value of F-test **(0.4946)** got less than the critical value **(±2.578)** so here null hypothesis is accepted and we conclude that there is no any significance difference between Non-Performing assets of Public and Private sector banks in India.

4. Earnings Per Share

The portion of a company's profit allocated to each outstanding share of common stock. Earnings per share serve as an indicator of a company's profitability.

Table-1.3   ANOVA

Source of Variation	SS	df	MS	F	P-value	F crit
Between Groups	8838.409	4	2209.602	1.139475	0.350177	2.578739
Within Groups	87261.32	45	1939.14			
Total	96099.73	49				

Interpretation
Here from above data and calculation Researcherss interpret that the calculated value **(1.1394)** is less than the Critical value **(± 2.5787)** so here null hypothesis is accepted and we can say that there isno significance difference of earning per share between public and private sector banks during 2007-08 to 2011-12.

5. Price-Earnings Ratio
The **price to earnings ratio** (**P/E ratio**) is the ratio of market price per share to earnings per share. The P/E ratio is a valuation ratio of a company's current price per share compared to its Earning per Share. It is also sometimes known as "earnings multiple" or "price multiple".

Table-1.5 ANOVA					
Source of Variation	SS	df	MS	F	P-value	F crit
Between Groups	691.2545	4	172.8136	1.900586	0.126835	2.578739
Within Groups	4091.692	45	90.92649			
Total	4782.947	49				

Interpretation
Here calculated value of F**(1.9005)** is less than the critical value **(2.5787)** so null hypothesisfalls in acceptance region so null hypothesis got accepted hence we can say that there is a no significance difference in the **price to earnings ratio** (**P/E ratio)** between public and private sector banks in India.

6. Liquidity Ratio
Liquidity ratios are the ratios that measure the ability of a company to meet its short term debt obligations. These ratios measure the ability of a company to pay off its short-term liabilities when they fall due.

Table-1.6 ANOVA					
Source of Variation	SS	df	MS	F	P-value	F crit
Between Groups	1204.097	4	301.0242	9.196349	1.62E-05	2.578739
Within Groups	1472.985	45	32.73301			
Total	2677.082	49				

Interpretation
From above calculation value of F-statistics **(9.1963)**is more than that of critical value **(±2.5787)** so null hypothesis got rejected and we conclude that there is significance difference of liquidity of between public and private banks in India.

Findings
After the analysis of data about 10 banking companies we have found following differences.

- Here profitability of public sector banks is quite high compare to private sector banks in India during the period 2007-08 to 2011-12
- Debt-Equity Ratio of public sector banks is as per the ideal ratio and Private sector banks Debt-Equity ratio very low.
- Non-performing ratio of public sector and private sector banks is in between 05 to 1.2 so it's quite good for banking Companies.
- Earnings per share ratio of public sector banks is in between 50-110 so it's quite good and private sector banks is ion between 25-60 so it's not good.
- Price/earnings ratio of private banks is very high compare to public sector banks because private banks having very low earning per share.
- Overall we understand that the financial performance of public sector banks is good compare to private sector banks.

Conclusion
The financial performance analysis identifies the financial strengths and weaknesses of the firm by properly establishing relationships between the items of the balance sheet and profit and loss account.

Ratio analysis is one of the most important tools for measurement of financial performance and comparison of companies. Researcherss have used *Profitability Ratio, Debt-Equity Ratio, Earning per Share, Liquidity Ratio and Price-Earnings Ratio.* This entire ratio gives perfect financial measurement and comparison of all the selected top 10 Public sector and Private sector Banks in India.

Finally Researchers conclude that ha have make this research report on financial performance analysis selected of top selected top 10 Public sector and Private sector Banks in India. (As per market capitalization January, 2013). BOB, SBI, Axis, HDFC having sound financial position from last 5 years and Canara Bank, IndusInd Bank, Kotak Mahindra Bank are not having sound financial position as like other five having during 2007-12.

ABBREVIATION
BOB : Bank of Baroda

BOI : Bank of India

BPSS : Board for Regulation and Supervision of Payment and Settlement Systems

CAMELS: Capital Adequacy Assets Management Earning Liquidity and System

CB : Canara Bank

DEA : Data Envelopment Analysis

DIFs : Development Financial Institutions

FCBs : Foreign Commercial Banks

HDFC : Housing Development Finance Corporation

HLCCFCM: High Level Co-ordination Committee on Financial and Capital Markets

ICICI : Industrial Credit and Investment Corporation of India

ISB: IndusInd Bank

KMB : Kotak Mahindra Bank

NPAs : non-performing assets

P/E : Price Earnings Ratio

PCBs : Private Commercial Banks

PNB : Punjab National Bank

RBI : Reserve Bank of India

RoA : Return on Assets

RON : Return on Net Worth

SBI : State Bank of India

SFA : Stochastic Frontier Approach

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