REVIEW OF RESEARCH

A STUDY ON GROWTH AND PROFITABILITY OF PUBLIC SECTOR AND PRIVATE SECTOR BANKS OF INDIA

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ABSTRACT:
As the banks are vital channels of sustainable development in a developing nation like India, it is important to measure the soundness of various banks and identify the weakness of the banks to devise appropriate strategies to overcome these. Banks mobilizing the idle saving of the people and channeling them to a productive purpose which is necessary for the economic development of the country. This study attempts to measure the relative performance of Indian banks. For this study, both public sector banks and private sector banks are considered. The study is based on secondary data which has been collected from annual reports of the selected banks. Different proxy indicators are used for measuring productivity of banking sector.

KEYWORDS: *Performance, Banking Sector.*

INTRODUCTION:

The bank of any country plays very important role in the economic development of the country. Finance is regarded as the oxygen of trade and industry. In India the Banking is very old like its civilization. The banking sector is the lifeline of any modern economy. The development of banks in the country and develop through banks in the country has placed India amongst the top 5 fastest growing economics in the world. The whole of the world is looking towards India a prospective dominant player in the world's markets. The banks today have touched the lives of every citizen. Whether he has to keep his money at midnight from the bank, to keep is valuable safe; to book the tickets for rail and air journeys; to pay insurance premium, telephone bills, electricity bills; to purchase/sell securities from the capital market, to take a loan for business, for education, for a house or for consumer items, everywhere the bank is present.

It is a well known fact that banks are one of the oldest financial intermediaries in the financial system. They play a crucial role in the mobilization of deposits from the disbursement of credit to various sectors of the economy. The banking system reflects the economic health of the country. The strength of the economy of any country basically hinges on the strength and efficiency of its financial system, which in turn depends on a sound and solvent banking system. A Banking Sector performs three primary function in economy, the operation of the payment system, the mobilization of savings and the allocation of saving to investment products.

MEASURING BANKS PERFORMANCE

Efficiency evaluation of the banking sector has assumed primal importance due to intense competition, greater customer demands and changing banking reforms. Measurement of efficiency of banking institutions serves many purposes. It helps to bench mark the relative efficiency of an individual bank against the best practice banks and secondly it helps to evaluate the impact of various measures on the efficiency and performance of those institutions.

Financial ratios are the most used tool for performance evaluation in the banking sector. Regulators, managers, investors and analysts feel easy to understand and to compare the performance. Hence they are widely used. Some of the Key Financial Ratios are

REVIEW OF LITERATURE

Jha and Sarangi (2011) evaluated the performance of seven public sector and private sector banks for the year 2009-10. They used three sets of ratios, operating performance ratios, financial ratios and efficiency ratios. they found that Axis bank took the first position and followed by ICICI Bank, PNB, BOI, SBI, IDBI AND HDFC bank, in that order.

Goel and Rekhi (2013) attempted to measure the relative performance of Indian public sector and private sector banks. They concluded that the efficiency and profitability are interrelated and the performances of private sector banks are better than public sector banks in India

Nagarkar (2015) had studied the financial performance with principle component analysis of fifteen banks taking five each from public, private and foreign banks. The data was collected for the period 2003 to 2013 and it was divided in two period as 2003-08 and period 2009-13. The study shows that with the down fall in deposits, the credit growth rate is not affected because large national banks were able to withstand business cycles better than regional banks. The study justified the objective of government to create bigger national level banks by merging smaller banks.

Balaji and Kumar (2016) examined and compared the overall financial performance of selected public and private sector banks in India during the period 2011-12 to 2015-16 with help of mean and T-Test . They concluded that public sector banks must redefine their strategies by considering their strengths, weakness and operating marketObjective of the Study

RESEARCH GAP

From the above literature review, it appears that over the years, various attempts have been made by the researchers and academicians to evaluate the financial position and performance of public sector banks and private sector banks from different aspects of CAMEL model. But there are no much comparative studies made on the empirical analysis on the performance of public sector banks and private sector banks in India. So, the present study has tried to highlight this untouched area.

OBJECTIVE OF THE STUDY

The present study is undertaken with the objective to measure the performance of public sector banks and private sector banks. For the purpose of this study, SBI and BOB from public sector banks and ICICI and HDFC bank from private sector banks have been selected as they have the largest market capitalization at present.

NEED OF THE STUDY

Significance of performance evaluation in an organization, for sustainable growth and development, has been recognized since long. This calls for a system that first measures and evaluates the performance, and then brings out the strengths and weaknesses of the organization for the purpose of further improvement. Efficient performance evaluation system encompasses all aspects of an organization. With the advances in computational tools, performance evaluation systems have evolved over a period of time from single-aspect systems to more comprehensive systems covering all aspects of an organization. Moreover, almost every industry, that envisages importance of evaluation, can adopt many methods to evaluate the performance. It proves to be better for performance measurement, evaluation and strategic planning for future growth and development of the Indian banks in the light of changing requirements of this sector. This will help the banking industry for the improvement or change in their business model.

SCOPE OF THE STUDY

The financial fund management is the essential function in every organization for the effective utilization of funds for making profits. The financial fund management influences the managerial decisions regarding the investment policies

RESEARCH METHODOLOGY

DATA COLLECTION

The data is purely based on secondary and the data was primarily collected from the Annual Reports of the banks and RBI publications. The information about private banks is taken from their respective website and net current information from economic times. Many books and articles have been referred.

DATA ANALYSIS

The collected information has been tabulated, analyzed and interpretation has been arrived on the basis of statistical analysis. Data processing and analysis have been done both manually and by using computer. Mainly ratio analysis is used to compare the financial performance of the banks. The following ratios were used for the comparison:

1. Return on Assets.
2. Return on Equity
3. Net profit margin
4. Net interest margin
5. Cost to income

STUDY PERIOD

The study covers a period of five years from 2013-14 to 2017-18.

LIMITATIONS OF STUDY

In this study is due to constraints of time and resources. The study suffers from certain limitations and some of these mentioned here under so that finding of the study may understood in a proper perspective. In this Study has been following certain Limitation and Assumptions

1. The study is related to selected public sector and private sector banks.
2. The study is based on the secondary data only and the same has been collected from the published annual reports and bank websites. This data possible to shown in Reports may be window dressing and does not show the actual position of the Bank.

DATA ANALYSIS AND INTERPRETATION

RATIOS

RETURN ON ASSETS (ROA)

Return on assets (ROA) is an indicator of how profitable a company is relative to its total assets. ROA gives a manager, investor, or analyst an idea as to how efficient a company's management is at using its assets to generate earnings. Return on assets is displayed as a percentage. The Formula for Return on Assets – ROA Is

ROA = Net profit after taxes / assets

Table 1

Year	SBI	BOB	ICICI	HDFC
2014	0.63	0.47	1.72	1.73
2015	0.42	-0.80	1.34	1.73
2016	0.38	0.19	1.26	1.68
2017	-0.18	-0.33	0.77	1.64
2018	0.02	0.05	0.34	1.69
Mean	0.25	-0.08	1.09	1.69
SD	0.33	0.49	0.54	0.04

It is found from the above table 1 that ROA is higher in HDFC bank followed by ICICI bank and SBI. BOB. Above table shows that the performance of private sector banks is superior to public sector banks in terms of use of their assets in generating returns. Bank of Baroda is the worst performer amongst the sampled banks.

RETURN ON EQUITY/NETWORTH

ROE is considered a measure of how effectively management is using a company's assets to create profits. ROE is expressed as a percentage and can be calculated for any company if net income and equity are both positive numbers. Net income is calculated before dividends paid to common shareholders and after dividends to preferred shareholders and interest to lenders.

ROE = Net profit after taxes / equity capital

Table 2

Year	SBI	BOB	ICICI	HDFC
2014	10.20	8.53	13.89	16.47
2015	6.89	-13.42	11.19	16.91
2016	6.69	3.43	10.11	16.26
2017	-3.37	-5.60	6.63	16.45
2018	0.39	0.94	3.1	14.12
Mean	4.16	-1.22	8.98	16.04
SD	5.51	8.51	4.19	1.10

Table 2 shows that the HDFC Bank is consistently generating the highest average returns on equity capital and further followed by ICICI and SBI with wide deviations from year to year. BOB shows the negative average returns on equity. Comparatively performance of private sector banks is superior to public sector banks.

NET PROFIT MARGIN

The net profit margin is equal to how much net income or profit is generated as a percentage of revenue. Net profit margin is the ratio of net profits to revenues for a company or business segment. Net profit margin is typically expressed as a percentage but can also be represented in decimal form. Net profit margin is also called net margin. The term net profits is equivalent to net income on the income statement.

Net Profit Margin = Net Profit/Total Revenue

Table 3

Year	SBI	BOB	ICICI	HDFC
2014	8.59	7.91	22.76	21.07
2015	6.06	-12.24	18.44	20.41
2016	5.97	3.27	18.09	20.99
2017	-2.96	-5.57	12.33	21.79
2018	0.35	0.86	5.3	21.29
Mean	3.60	-1.15	15.38	21.11
SD	4.75	7.88	6.75	0.50

Table 3 shows the net profit margin of the selected banks. As per table HDFC bank enjoys more net profit than other banks at 21.11 and followed by ICICI at 15.38. when compared to public sector banks private sector banks enjoys more profit.

NET INTEREST MARGIN

Net interest margin is a ratio that measures how successful a firm is at investing its funds in comparison to its expenses on the same investments. A negative value denotes that the firm has not made an optimal investment decision because interest expenses exceed the amount of returns generated by investments.

Net Interest Margin = (Interest Received - Interest Paid) / total Assets

Table 4

Year	SBI	BOB	ICICI	HDFC
2014	2.68	1.84	2.94	3.79
2015	2.42	1.89	2.94	3.89
2016	2.28	1.94	2.81	3.83
2017	2.16	2.15	2.61	3.76
2018	2.4	2.39	2.8	3.87
Mean	2.39	2.04	2.82	3.83
SD	0.19	0.23	0.14	0.05

Table 4 shows that the performance of HDFC Bank is the best among the sampled banks regarding Net Interest Income to Total Assets Ratio. ICICI Bank is at second place, SBI is at third place and BOB at the lowest level among the sampled banks. Again public sector banks are showing downward trend whereas private sector banks are showing slightly upward trend in the ratio.

COST TO INCOME

The cost-to-income ratio is a key financial measure, particularly important in valuing banks. It shows a company's costs in relation to its income. To get the ratio, divide the operating costs (administrative and fixed costs, such as salaries and property expenses, but not bad debts that have been written off) by operating income.

The ratio gives investors a clear view of how efficiently the firm is being run – the lower it is, the more profitable the bank will be. Changes in the ratio can also highlight potential problems: if the ratio rises from one period to the next, it means that costs are rising at a higher rate than income, which could suggest that the company has taken its eye off the ball in the drive to attract more business.

Table 5

Year	**SBI**	**BOB**	**ICICI**	**HDFC**
2014	36.85	29.96	32.70	36.84
2015	39.14	47.15	39.40	36.69
2016	41.15	38.58	42.68	37.84
2017	47.52	48.92	46.51	39.62
2018	44.68	43.41	48.98	38.41
Mean	41.87	41.60	42.05	37.88
SD	4.27	7.62	6.38	1.20

Table 5 depicts the cost to income ratio of the selected banks. ICICI bank shows the higher ratio (42.05) followed by SBI.

CONCLUSION

From the above discussion it can be concluded that private sector banks are performing better than their public counterparts in terms of Returns on Assets, Returns on equity, Net profit Margin and Net Interest Margin. Among the banks selected for the study HDFC Bank's performance is superior to others and Bank of Baroda shows downward trend.

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