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Analysis of Financial Performance of Selected Public and Private Sector Banks in India

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I. Introduction

These financial measures revealed the performance and achievement of the business in monetary terms and provided a high level of aggregation of information. (2014) Financial performance is defined as a measurement of the results of a firm's policies and operations in monetary terms. To assess the overall financial condition of a company, the income statement and the balance sheet are used since the income statement reflects the company's operating performance while the balance sheet reflects its net worth. Financial performance can be assessed using measures such as liquidity ratios, measuring non-performing assets, working capital, and assets turnover among others. This study will measure the performance of public and private sector banks in India by using return on assets (ROA), gross and net non-performing assets (NPA), profit of the year and interest spreads as profitability indicators of the banks.

The banks taken under consideration for the analysis of financial performance are HDFC Bank, Kotak Mahindra Bank and ICICI Bank on the Private Sector side whereas on the Public Sector side the banks SBI, IDBI and Bank of Baroda have been considered. The choice was made with respect to the market capital share of each of the banks in their respective sectors. The banks chosen are the ones having the largest market capitalisation in their respective sectors.

II. Review Of Literature

Reviewofliteratureis of vitalrelevance to anyresearch work. The possibility of repetition of study can be eliminated by reviewing literature, and a different dimension can be adopted for the study. The literature review helps the researcher remove limitations of existing work (in the same field/topic) and may assist in extending prevailing studies.The present research attempts to compare the financial performance of selected public and private sector banks. The banks under study are SBI, ICICI Bank, Bank of Baroda, HDFC Bank, IDBI and Kotak Mahindra Bank.

T T Ram Mohan and Subhash C Ray (2004) compared the performance of public and private sector banks by looking at it through a revenue maximisation efficiency approach during the period of 1992 and 2000. They concluded that Public Sector Banks performed relatively better than private sector banks and this superior performance is owed to higher technical efficiency rather than higher allocative efficiency after analysing their data using the software Data Envelopment Analysis.

GajeraAlpeshkumarChandulal(2016) in his paper 'A comparative study on financial performance of private and public sector banks with special reference to affecting factors and their impact on performance indicators' studied the financial performance of public sector and private sector banks for 12 years (2001-2002 to 2012-2013). He identified 29 parameters of performance and used statistical tools such as arithmetic mean, standard deviationand t-test. Out of the 29 parameters, only 10 showed a significant financial difference between public sector and private sector banks. Out of these 10 parameters, private sector banks performed well in 4 and public sector banks performed better than private sector banks in the remaining 6 parameters.

Bharat Bhushan(2006) studied the trend in credit portfolio in public sector and private sector banks in post reform period, and to examine the nature of credit products offered by banks to borrowers. He analysed includes past studies, conducted an experience survey where all the concerned head offices, regional offices, zonal offices and branches situated in Haryana were a part of the sample population and then used tools such as percentage, t-test, arithmetic mean, and chi-square tests. The author concluded that there was a poor credit off-take in public sector banks when compared to private sector banks.

III. Objectives

- To analyze the financial performance of the banks under study.
- To suggest measures, on the basis of the study results, to improve further the financial performance of the banks under study.

IV. Research Methodology

Secondary data is used to study the relationship of financial indicators with the performance of banks and to measure the corporate social responsibility activities of the banks. The secondary data has been collected for the five variables namely- liquidity, profitability, efficiency, asset quality and capital adequacy ratio, which are identified from the literature review. For the first part of the research, indicators such as return on assets (ROA), gross and net non-performing assets (NPA), profit of the year and interest spreads are used to measure performance of banks.Data for the last five years (2013-2014 to 2017-2018) is collected for each of the banks. To analyse the performance a statistical tool called DEA (Data Envelopment Analysis) is used. This tool helps identify the most efficient banks among the ones evaluated and compares the performance of the other banks in the study to the most efficient one.

ANALYSIS

The data collected was analysed using the Data Envelopment Analysis (DEA) Tool. The DEA Tool is essentially used to measure productive efficiency of DMUs or Decision Making Units. It is one of the most powerful benchmarking tools that can be used for the purpose of measuring and comparing performance of organisations.

In this study, the efficiency of the banks is measured using the various parameters of data collected. The data was then divided into two parts- input and output. Input data consisted of all the variables that need to increase or remain high for each bank whereas output data consisted of the variables that each bank needs to reduce. inthis case, input data consisted of return on assets, interest spread and profit. Output data constituted of gross NPA, net NPA, loss on assets and net loss. The tool then calculates the efficiency and helps compare the performance of the lesser efficient banks with the bank or banks with optimal efficiency.

Table 1: Analysis for 2014

DMU No.	DMU Name	Efficiency	RTS	Optimal Lambdas with Benchmarks
1	HDFC	1.00000	Constant	1.000
2	Kotak Mahindra	1.00000	Constant	1.000
3	ICICI	0.33577	Decreasing	1.134
4	SBI	0.06233	Decreasing	1.285
5	Bank of Baroda	0.17471	Decreasing	0.377
6	IDBI	0.17940	Decreasing	1.533

In 2014, HDFC Bank and Kotak Mahindra Bank- Both Private Sector Banks, had the optimal efficiency (1) and had constant Returns to Scale. The other banks had decreasing Returns to Scale and were compared to the optimal banks.

Table 2: Analysis for 2015

DMU No.	DMU Name	Efficiency	RTS	Optimal Lambdas with Benchmarks
1	HDFC	1.00000	Constant	1.000
2	Kotak Mahindra	1.00000	Constant	1.000
3	ICICI	0.25841	Decreasing	1.052
4	SBI	0.07774	Decreasing	1.282
5	Bank of Baroda	0.11591	Decreasing	0.110
6	IDBI	0.15585	Decreasing	1.533

In 2015, HDFC Bank and Kotak Mahindra Bank- Both Private Sector Banks, had the optimal efficiency (1) and had constant Returns to Scale. The other banks had decreasing Returns to Scale and were compared to the optimal banks.

Table 3: Analysis for 2016

DMU No.	DMU Name	Efficiency	RTS	Optimal Lambdas with Benchmarks
1	HDFC	1.00000	Constant	1.000
2	Kotak Mahindra	1.00000	Constant	1.000
3	ICICI	0.18364	Decreasing	0.675
4	SBI	0.05021	Decreasing	0.698

5	Bank of Baroda	0.09455	Decreasing	1.350
6	IDBI	0.17494	Decreasing	1.533

In 2016, HDFC Bank and Kotak Mahindra Bank- Both Private Sector Banks, had the optimal efficiency (1) and had constant Returns to Scale. The other banks had decreasing Returns to Scale and were compared to the optimal banks.

Table 4: Analysis for 2017

DMU No.	DMU Name	Efficiency	RTS	Optimal Lambdas with Benchmarks
1	HDFC	1.00000	Constant	1.000
2	Kotak Mahindra	1.00000	Constant	1.000
3	ICICI	0.14263	Decreasing	0.449
4	SBI	0.05494	Decreasing	0.515
5	Bank of Baroda	0.12434	Decreasing	0.308
6	IDBI	0.12261	Decreasing	1.533

In 2017, HDFC Bank and Kotak Mahindra Bank- Both Private Sector Banks, had the optimal efficiency (1) and had constant Returns to Scale. The other banks had decreasing Returns to Scale and were compared to the optimal banks.

Table 5: Analysis for 2018

DMU No.	DMU Name	Efficiency	RTS	Optimal Lambdas with Benchmarks
1	HDFC	1.00000	Constant	1.000
2	Kotak Mahindra	1.00000	Constant	1.000
3	ICICI	0.10996	Decreasing	0.052
4	SBI	0.02568	Decreasing	1.500
5	Bank of Baroda	0.09572	Decreasing	1.350
6	IDBI	0.10552	Decreasing	1.533

In 2018, HDFC Bank and Kotak Mahindra Bank- both Private Sector Banks, had the optimal efficiency (1) and had constant Returns to Scale. The other banks had decreasing Returns to Scale and were compared to the optimal banks.

V. Conclusion

It was found that private sector banks did comparatively better than public sector banks for the last five years with HDFC and Kotak Mahindra performing with optimal efficiency. This could be due to the higher technical efficiency of private sector bank. Most public sector banks act as work stations with hectic withdrawal and deposit activity. Private sector banks, on the other hand, focus on building relationships with their customers which leads to higher customer loyalty and profitability. Private sector banks are mainly driven by profit considerations. Public sector banks tend to lend money to sectors such as power, aviation and infrastructure which leads to high stress in the market. The banks in the public sector also face high staff expenses, modest net interest income and higher provisioning.

VI. Suggestions And Recommendations

In order to strengthen and improve the financial (and overall) performance of the banking sector, the below measures have been suggested to make banks achieve the objectives they have been set up for.

- Banks should reduce their non-performing assets as it affects the bank’s profitability in several ways. Apart from that, high NPA also reduces the bank’s liquidity position and creates a mismatch between assets and liabilities.
- Banks profitability largely depends on efforts made by management to minimize establishment / overhead costs, enhance operational efficiency through cost effective operations and to systematically cost and appropriately price their services, an exercise which should be done as a continuous and ongoing process.
- To make public sector banks as competitive as private sector banks, they (public sector banks) must work towards achieving greater efficiency through ascertaining control over shrinking spread, maximizing business per employee and per branch, and increasing non-interest income.
- Public Sector Banks should also exercise more control over the volume of credit along with credit portfolio mix that is within the limits of deployment and acquisition of funds.

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