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ANALYSIS OF PERFORMANCE OF PUBLIC AND PRIVATE SECTOR BANKS IN INDIA

Dharmendra Chavda, Dr. Dharmendra Mistry, Dr. Satyajeet Deshpande

Ph.D. Scholar, Gujarat University, Ahmedabad.

Principal, M. C. Shah Commerce College, Ahmedabad.

Principal, J. G. College of Commerce, Ahmedabad.

ABSTRACT

Banking sector promotes balanced regional development in the country by making necessary financial structure and funds available for the backward areas. It also promotes primary sector by providing timely credit to agricultural farmers. It also enhances standard of living of the people by providing loans to customers for purchase of houses, consumer goods, electronic goods etc. Hence, it has become necessary to study the performance of the Banks in India because if the performance of the banks is positive, it can result into positive growth in economy. Thus, the present study has been undertaken with an objective to study financial performance of the Public as well as Private Sector Banks in India. The objective of the study is to analyze the performance of Public and Private Sector Banks in India for the duration of 5 years i.e. 2015-16 to 2019-20. It can be concluded from the study that there has been significant difference in performance of the selected public and private sector banks in India during the study period. For the purpose of the study 6 variables have been selected and it can be concluded that the selected public and private sector banks differed from one another in case of all the variables. Hence, it can be said that despite the difference in various variables of the selected public and private sector banks have had been almost same during the study period.

Key words: Indian Banking Sector, Capital Adequacy Ratio, Credit Deposit Ratio, Current Ratio. Interest Income/Total Fund Ratio, Loans Turnover Ratio, Net Profit Margin Ratio

INTRODUCTION

Banking sector in India plays a considerable role in the economy of a country. The role of the sector is significant because it caters timely credit to all the sections of the society. Economic Development of the country is not possible if there is an inadequate capital formation. Banks therefore motivate people to save their money with the Banks and mobilize that saving for investing in creative purposes. Such Credit Creation results into production activities which in return promotes economic growth as well as produces ample employment opportunities. Hence, the role of banking sector in Indian economy is gigantic because it plays an important role to accomplish goals of the government for the planned economic development of the country. Banking sector promotes balanced regional development in the country by making necessary financial structure and funds available for the backward areas. It also promotes primary sector by providing timely credit to agricultural farmers. It also enhances standard of living of the people by providing loans to customers for purchase of houses, consumer goods, electronic goods etc.

Hence, it has become necessary to study the performance of the Banks in India because if the performance of the banks is positive, it can result into positive growth in economy. Thus, the present study has been undertaken with an objective to study financial performance of the Public as well as Private Sector Banks in India because over a period of time not only Public Sector Banks but Private Sector Banks have emerged to be Key Contributor in the economical growth of the nation.

REVIEW OF LITERATURE

Outcome of the literature review shows that the existence of consistency among the Banking sector and suggested investors to follow perfect portfolio management in order to avoid risk involved in it (Prabhakar & LakshmiPrabha, 2012). The Banks can be classified on the basis of banks profitability and efficiency between small and large banks (Spathis & Doumpos, 2002). The overall performance of Public Sector Banks is better than private Sector Banks (Kaur, 2012). Private sector banks can also play an important role in development of Indian economy (Balasubramanin, 2007). Financial parameters like deposits, profits, return on assets and productivity can be used to study financial performance of the banks (Pathak, 2003). Financial indicators like Liquidity, Capital Adequacy, and Profitability ratios to explain that there is no such great impact on Indian banks due to global recession for the time period 2006-2009 (Goel & Bajpai, 2013). Before the global recession foreign bank

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group was performing much better than other banking sectors (Yadav, 2014). Outcome of the study shows that profitability position of the banks was reasonable and sustained at a moderate rate during the study period. Increasing interest covering ratio and maintaining debt equity ratio over 1:1 indicated strong solvency position of the banks. Negative correlation between return on net worth and the debt equity ratio was revealed during the study period. Even interest income to working funds also had negative association with interest coverage ratio. It was also divulged from the study that the Non-Performing Assets to net advances was negatively correlated with interest coverage ratio (Singla, 2008) and even Bank with better efficiency does not always mean that it has better effectiveness (Chien & Danw, 2004). Some studies suggested that an efficient management information system should be developed. The bank staff involved in sanctioning the advances should be trained about the proper documentation and charge of securities and motivated to take measures in preventing advances turning into NPA. Public banks must pay attention on their functioning to compete private banks. Banks should be well versed in proper selection of borrower/project and in analyzing the financial statement (Chaudhary & Sharma, 2011). The study by (Kumar & Malhotra, 2013) found that Bank of Baroda was at the first position with overall composite ranking average of 6.05 due to its better performance in the areas of liquidity and asset quality, closely followed by Andhra Bank with overall composite ranking average of 6.15 because of its strength in the spheres of management efficiency, capital adequacy and asset quality. United Bank of India held the bottom most rank with overall composite ranking average of 14.60 due to management inefficiency, poor assets and earning quality. The study recommends that United Bank of India has to improve its management efficiency, assets and earning quality. Similarly Bank of Maharashtra should take necessary steps to improve its liquidity position and management efficiency. The study by (Mohanraj & Gomathi, 2013) finds that the banking sector faces profitability pressures due to higher funding costs, mark-to-market requirements on investment portfolios, and asset quality pressures due to a slowing economy. But Indian banks' global exposure is relatively small, with international assets at about 6 per cent of the total assets. The strong economic growth in the past, low defaulter ratio, absence of complex financial products, regular intervention by central bank, proactive adjustment of monetary policy and so called close banking culture has favored the banking industry in India in recent global financial turmoil. The study found that Return on Assets and Interest Income Size have negative correlation with operational efficiency, whereas positive correlation with Assets Utilization and Assets size. It is also revealed from the study that there exists an impact of operational efficiency, asset management and bank size on financial performance of the Indian Private Sector Banks. (Mistry & Savani, 2015). The study found that a significant positive relationship exists between the size of the selected public and private sector banks and the extent of corporate social disclosures. It is also found that a significant positive relationship exists between the return on assets and the level of corporate social disclosure of the selected public and private sector banks under the study. (Mistry, 2014) (Mistry, 2012) (Mistry, 2011).

From the above review of empirical works, it is clear that different authors have approached to study performance of banks in different ways in varying levels of analysis. These different approaches helped in the emergence of more and more literature on the subject over time. It gives an idea on extensive and diverse works on performance of banks. It has been noticed that the studies on performance of banks in various aspects provide divergent results relating to the study period overlap or coincide. The main reason for divergence in the results is use of different method for the measurement of performance of banks. All the studies aimed to analyze the performance of banks in India & abroad with number of factors. The survey of the existing literature reveals that no specific work has been carried out to study performance of Private and Public Sector Banks in India pre Covid 19 Pandemic and hence the present study has been undertaken.

RESEARCH METHODOLOGY

Research Objective: The objective of the study is to analyze the performance of Public and Private Sector Banks in India

Duration of the Study: The present research took into account the duration of 5 years i.e. 2015-16 to 2019-20.

Data Collection: The study has been based on the secondary data collected from annual reports of the selected banks.

Variables: On the basis of literature review, following variables have been selected:

1. Capital Adequacy Ratio
2. Credit Deposit Ratio
3. Current Ratio
4. Interest Income/Total Fund Ratio
5. Loans Turnover Ratio
6. Net Profit Margin Ratio

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Sample Size and Sampling Method: In order to meet the study's aims, a sample representing both the public and private sectors was chosen using a non-probability convenient selection method. The sample was chosen to represent the bulk of the Indian banking sector, so the study's findings would accurately reflect the situation in the Indian banking sector.

Hypothesis: The following hypothesis has been formulated in this study:
H_0 =there is no significant difference in the performance of Public sector banks in India
H_1 = there is significant difference in the performance of Public sector banks in India
H_0 =there is no significant difference in the performance of Private sector banks in India
H_1 = there is significant difference in the performance of Private sector banks in India

Hypothesis Testing: To analyze the performance of selected banks, hypothesis has been tested through Average Value, ANOVA: Single Factor.

Limitation: The present study has also faced problems due to some external factors which were out of control. Though an effort has been made to ensure correctness of data collected, the outcome of the study was subject to the accuracy of the data. Looking to limitation of time, the present study has been limited to duration of 5 years only. The geographical scope was limited to the public and private banks in India. Hence, the generalization of findings might be limited to banking sectors similar to Indian Banking Sector. The present study has been limited to the selected 8 Public Sector Banks and 8 Private Sector Banks only. The present study has been limited to the selected variables only.

RESULT AND DISCUSSION

Table 1 : Anova testing of Capital Adequacy Ratio

Anova: Single Factor

SUMMARY

Groups	*Count*	*Sum*	*Average*	*Variance*
AVERAGE OF 8 PRIVATE BANKS	5	84.854	16.971	0.457
AVERAGE OF 8 PUBLIC BANKS	5	62.111	12.422	0.402

ANOVA

Source of Variation	*SS*	*df*	*MS*	*F*	*P-value*	*F crit*
Between Groups	51.722	1	51.722	120.394	4.23E-06	5.318
Within Groups	3.437	8	0.430			
Total	55.159	9				

From above table for 1 and 8 degree of freedom. Fcal is 120.394 and Ftab is 5.318. Thus, Fcal>Ftab and p-value is smaller than specified α of 0.05. So, H_0 is rejected and H_1 is accepted and it is concluded that there is significant difference in Capital Adequacy ratio between the selected public and private sector banks of India.

Table 2 : Anova testing of Credit deposit ratio

Anova: Single Factor

SUMMARY

Groups	*Count*	*Sum*	*Average*	*Variance*
AVERAGE OF 8 PRIVATE BANKS	5	448.956	89.791	4.579
AVERAGE OF 8 PUBLIC BANKS	5	355.605	71.121	5.679

ANOVA

Source of Variation	*SS*	*df*	*MS*	*F*	*P-value*	*F crit*

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Between Groups	871.446	1	871.446	169.899	1.14E-06	5.318
Within Groups	41.034	8	5.129			
Total	912.4791	9				

From above table for 1 and 8 degree of freedom. Fcal is 169.899 and Ftab is 5.318. Thus, Fcal>Ftab and p-value is smaller than specified α of 0.05. So, H_0 is rejected and H_1 is accepted and it is concluded that there is significant difference in Credit Deposit ratio between the selected public and private sector banks of India.

Table 3 : Anova testing of Current ratio

Anova: Single Factor

SUMMARY

Groups	*Count*	*Sum*	*Average*	*Variance*
AVERAGE OF 8 PRIVATE BANKS	5	0.443	0.089	0.000
AVERAGE OF 8 PUBLIC BANKS	5	0.271	0.054	0.000

ANOVA

Source of Variation	*SS*	*df*	*MS*	*F*	*P-value*	*F crit*
Between Groups	0.003	1	0.003	19.551	0.002222	5.318
Within Groups	0.001	8	0.000			
Total	0.004133	9				

From above table for 1 and 8 degree of freedom. Fcal is 19.551 and Ftab is 5.318. Thus, Fcal>Ftab and p-value is smaller than specified α of 0.05. So, H_0 is rejected and H_1 is accepted and it is concluded that there is significant difference in Current ratio between the selected public and private sector banks of India.

Table 4 : Anova testing of Interest Income/Total Fund ratio

Anova: Single Factor

SUMMARY

Groups	*Count*	*Sum*	*Average*	*Variance*
AVERAGE OF 8 PRIVATE BANKS	5	44.584	8.917	0.335
AVERAGE OF 8 PUBLIC BANKS	5	35.481	7.096	0.113

ANOVA

Source of Variation	*SS*	*df*	*MS*	*F*	*P-value*	*F crit*
Between Groups	8.286	1	8.286	37.005	0.000295	5.318
Within Groups	1.791	8	0.224			
Total	10.07677	9				

From above table for 1 and 8 degree of freedom. Fcal is 37.005 and Ftab is 5.318. Thus, Fcal>Ftab and p-value is smaller than specified α of 0.05. So, H_0 is rejected and H_1 is accepted and it is concluded that there is significant difference in Interest Income/Total Fund ratio between the selected public and private sector banks of India.

Table 5 : Anova testing of Loans Turnover ratio

Anova: Single Factor

SUMMARY

Groups	*Count*	*Sum*	*Average*	*Variance*

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AVERAGE OF 8 PRIVATE BANKS	5	0.724	0.145	0.000
AVERAGE OF 8 PUBLIC BANKS	5	0.591	0.118	0.000

ANOVA

Source of Variation	*SS*	*df*	*MS*	*F*	*P-value*	*F crit*
Between Groups	0.002	1	0.002	26.752	0.000851	5.318
Within Groups	0.001	8	0.000			
Total	0.002281	9				

From above table for 1 and 8 degree of freedom. Fcal is 26.752 and Ftab is 5.318. Thus, Fcal>Ftab and p-value is smaller than specified α of 0.05. So, H_0 is rejected and H_1 is accepted and it is concluded that there is significant difference in Loans Turnover ratio between the selected public and private sector banks of India.

Table 6 : Anova testing of Net Profit Margin ratio

Anova: Single Factor

SUMMARY

Groups	*Count*	*Sum*	*Average*	*Variance*
AVERAGE OF 8 PRIVATE BANKS	5	41.725	8.345	56.008
AVERAGE OF 8 PUBLIC BANKS	5	-22.891	-4.578	27.843

ANOVA

Source of Variation	*SS*	*df*	*MS*	*F*	*P-value*	*F crit*
Between Groups	417.526	1	417.526	9.959	0.013481	5.318
Within Groups	335.401	8	41.925			
Total	752.9272	9				

From above table for 1 and 8 degree of freedom. Fcal is 9.959 and Ftab is 5.318. Thus, Fcal>Ftab and p-value is smaller than specified α of 0.05. So, H_0 is rejected and H_1 is accepted and it is concluded that there is significant difference in Net Profit Margin ratio between the selected public and private sector banks of India.

FINDINGS AND CONCLUSION

It is found that there has been significant difference in Capital Adequacy Ratio of selected public and private sector banks during the study period. It is found that there has been significant difference in Credit Deposit Ratio of selected public and private sector banks during the study period. It is found that there has been significant difference in Current Ratio of selected public and private sector banks during the study period. It is found that there has been significant difference in Interest Income/Total Fund Ratio of selected public and private sector banks during the study period. It is found that there has been significant difference in Loans Turnover Ratio of selected public and private sector banks during the study period. It is found that there has been significant difference in Net Profit Margin Ratio of selected public and private sector banks during the study period.

It can be concluded that there has been significant difference in performance of the selected public and private sector banks in India during the study period. For the purpose of the study 6 variables have been selected and it can be concluded that the selected public and private sector banks differed from one another in case of all the variables. Hence, it can be said that despite the difference in various variables of the selected public and private sector banks have had been almost same during the study period.

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