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FINANCIAL PERFORMANCE ANALYSIS OF SELECTED BANKS IN INDIA: PUBLIC AND PRIVATE SECTOR COMPARISION

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ABSTRACT
The Indian economy's overall growth and development depend heavily on banking. In India, banks keep the country's entire financial system lubricated and operating efficiently. Money that supports and fuels growth across all industries and the nation is provided by it. India has a sizable branch network, a wide range of financial services, and an extensive banking system. This study compares the financial results of the two biggest private and public sector banks in India. The following metrics were used to assess the financial performance of banks: net profit, assets, liabilities, income, expenses, margin ratios, and return on equity ratios. The study found that private banks outperformed public banks after analysing financial data from 2017 to 2021.The study also highlights the impact of non-Performing assets on public sector bank's poor performance. This study's findings will benefit the bank in reviving its performance to the expected level.

INTRODUCTION

The financial sector is the foundation of any nation's economy. By offering effective monetary intermediation, it acts as a facilitator for achieving sustainable economic growth. By facilitating profitable business opportunities, mobilizing savings, effectively allocating resources, and facilitating the trade of goods and services, a sound financial system encourages investment. Because of its role in saving being mobilized and the subsequent use of this nation's resources, the banking system is regarded as the beating heart of an economy. Through the mobilization of resources, commercial banks play a significant role in the development of nations. They continuously transfer money from savers to borrowers. They should make enough money to pay for the operational expenses they will eventually have.

In every facet, banking is crucial to the expansion and development of the Indian economy. In India, banks keep everything running smoothly by lubricating the entire financial system. It provides the vital resources—cash—that fuel rapid expansion across all sectors of the economy and for the whole country.

The expansion of bank branches, deposits, credit, and other financial indicators are used to gauge the financial performance of the banking industry. The direction in which the Indian economy is moving given the constraints of the process of liberalisation and globalisation of the economy can be determined by analysing the financial performance of the banking sector.

The banking sector was critical to the Indian economy's remarkable responsiveness to its needs. The banking sector has made significant progress in its deposit mobilization efforts and has recently implemented a number of measures to accelerate the rate of deposit growth. We have different regions in India at different stages of development, which presents an interesting spectrum of the evolving role of banks in terms of intermediation and beyond.

Financial performance analysis of selected banks is the process of identifying a bank's financial strengths and weaknesses by properly establishing the relationship between balance sheet and profit and loss account items. This is beneficial in the short term and Long-term forecasting and growth can be identified using bank financial performance analysis.

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REVIEW OF LITERATURE

Ariccia and Marquez (2004) discovered in their study that banking and financial institutions are viewed as a network of individual savings and micro- and macro-credit distributions that support the implementation of economic planning and governmental financial policies.

Nathwani (2004) examined the financial performance of each commercial bank in India from 1997–1998 to 2001–2002 in his study titled "The Study of Financial Performance of Banking Sector of India." He made an effort to determine the various levels of efficiency of all Indian commercial banks. The study employed ten financial ratios to assess banks' profitability, credit efficiency, operational efficiency, and productivity. The study discovered that operational efficiency varied significantly across all banking groups during the study period. During the study period, there was a significant performance difference in all bank groups in terms of the overall profitability of the Indian banking sector.

Vithalbhai,V.S.(2020) in their study shows that the net profits of the selected banks differ significantly from one another. HDFC Bank's financial performance is consistently strong due to its high profit margins and effective management. Yes Bank's financial situation is deteriorating as a result of governance issues, false customer assurances, irresponsible investors, a lack of a market-led recovery in sight, liquidity outflow, and non-disclosure practises, according to the findings. Axis Bank and ICICI Bank are both losing market share. Jammu and Kashmir Bank lost Rs 16,000 crores during the fiscal year 2016–17 due to the five-month-long unrest in the Kashmir valley.

Similary, A study on the stability and performance of the banking industry globally was conducted by McKinnon (1973) and Levine (1997) using a variety of methods. The study found that how quickly people save money, invest, adopt new technologies, and, ultimately, expand the economy is significantly impacted by a financial system's capacity to reduce information and transaction costs. Moreover, Athanasoglou et al (2005) carried out to investigate the connection between UK bank performance and credit risk as measured by loan loss reserves. The results show that loan loss reserves have a positive impact on net interest margin but a negligible impact on bank profits.

Ameur and Mhiri (2013) examined 10 commercial Tunisian banks to identify the variables that account for Tunisian banks' performance from 1998 to 2011. This study considered macroeconomic, industry-specific, and bank-specific factors that influence bank performance. The findings show that the bank's capitalization and best managerial performance have a positive and significant impact on its performance. The research also discovered that concentration, an industry-specific factor, has a negative and significant impact on performance. Furthermore, macroeconomic indicators have little impact on bank performance.

While methods have become more complex, few researchers have adequately addressed the problems related to the sample used, according to Foster's (1986) review of the literature describing methods and theories for evaluating and predicting financial performance. For instance, the majority of studies on ratio analysis use multivariate analysis, which is predicated on the idea that financial ratios have a normal distribution. Without confirming the ratio distribution's approximation to normality, the researcher runs the risk of coming to the wrong conclusions. Data entry errors, negative denominators, and denominators that are close to zero can all skew the normality of the distribution of financial ratios in any database.

According to Rahman et al., one of the most important internal factors influencing bank profitability is management efficiency (2009). It is indicated by various financial ratios such as total asset growth, loan growth rate, and earnings growth rate. However, it is one of the more complex situations for which financial ratios can be used. Another aspect of management quality is operational effectiveness in terms of controlling operating costs. Financial ratios can be used to assess a management team's ability to deploy resources, maximise income, and reduce operating costs. One of the ratios used to assess management quality is the operating profit to income ratio.

According to Molyneux and Thornton (1992), the type of ownership has no bearing on profitability. The authors discover little evidence to back up the theory that state-owned banks are less profitable than privately owned banks. However, we can see that in empirical literature, ownership structure is always measured by a dummy variable that takes a value of one if the bank is publicly owned and zero otherwise.

Goyal and Kaur (2008) examined the performance of seven new private sector banks from 2001 to 2007. The t-test, One Way ANOVA, and SD were among the statistical techniques used. A number of ratios were also used to analyse the data. According to the study's findings, Axis Bank, Kotak, and Mahindra Bank have the highest average debt-to-equity ratios. The ratio of advances to total assets has increased for all of the banks under consideration, indicating an increase in lending activity. The study discovered significant differences in the mean ratios of all other

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parameters, in addition to liquid assets to total assets, liquid assets to total deposits, net profit to average assets, and percentage change in NPAs.

Prior to the financial crisis, Wanzenried (2011) finds no discernible impact of capital ratio on bank profitability in Switzerland. Nevertheless, the return on average assets—a measure of bank profitability—was adversely and significantly impacted by the financial crisis of 2007–2009. Once more, it can be challenging to predict the overall effect of changes in this ratio. The significance of selection criteria used by Kuwaiti business consumers in selecting domestic and foreign banks was established in a study conducted in Kuwait (Edris, 1997). The size of a bank's assets, staff productivity, banking experience, friendliness of staff, reputation, and the availability of branches abroad were found to be the top determinants of business firms choosing a bank in Kuwait.

RESEARCH METHODOLOGY

Since the current financial standing of the chosen banks is being investigated, this research is both descriptive and quantitative in nature. Two public sector banks, SBI and PNB, as well as two private sector banks, ICICI and HDFC, were chosen based on market capitalization, and data for these chosen banks from 2017 to 2021 were obtained from financial websites and moneycontrol.com was used to get reliable analysis of ratios. The total net profit, total assets, total income, total expense, net profit ratio, and return on net worth ratio were all calculated and compared for the data analysis.

DATA ANALYSIS

Table.1.NET PROFIT (Amount is in Rs. Crore)

Bank's Name	2021	2020	2019	2018	2017
HDFC Bank	31,116.53	26,257.32	21,078.17	17,486.73	14,549.64
ICICI Bank	16,192.68	7,930.81	3,363.30	6,777.42	9,801.09
State bank of India	20,410.47	14,488.11	-698.32	-6,547.45	10,484.10
Punjab National Bank	2,021.62	336.19	-9,975.49	-12,282.82	1,324.80

Source : Secondary Data

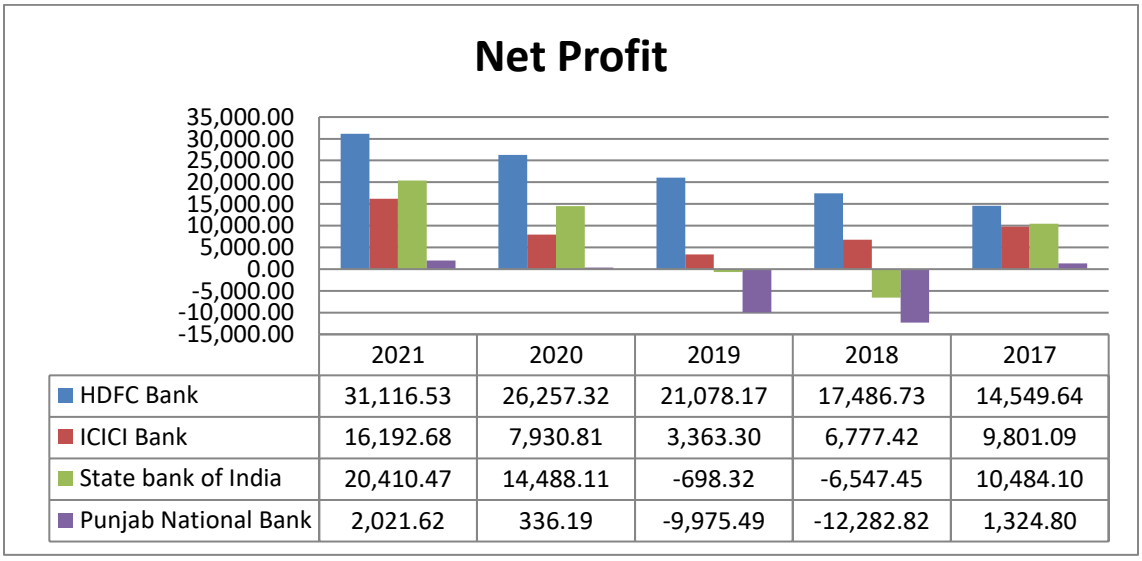

Table No.1.shows that both the private sector banks HDFC and ICICI showed a positive trends for the 5 years but in the case of SBI and PNB the trend was fluctuating for these years. Public sector banks should focus on reducing their expenses to maintain steady flow of profit.

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Table.2. TOTAL ASSETS / TOTAL LIABILITIES (Amount is in Rs. Crore)

Bank's Name	2021	2020	2019	2018	2017
HDFC Bank	1,746,870.52	1,530,511.26	1,244,540.69	1,063,934.32	863,840.19
ICICI Bank	1,230,432.68	1,098,365.15	964,459.15	879,189.16	771,791.45
State bank of India	4,534,429.63	3,951,393.92	3,680,914.25	3,454,752.00	2,705,966.30
Punjab National Bank	1,260,632.62	830,665.91	774,949.46	765,830.10	720,330.55

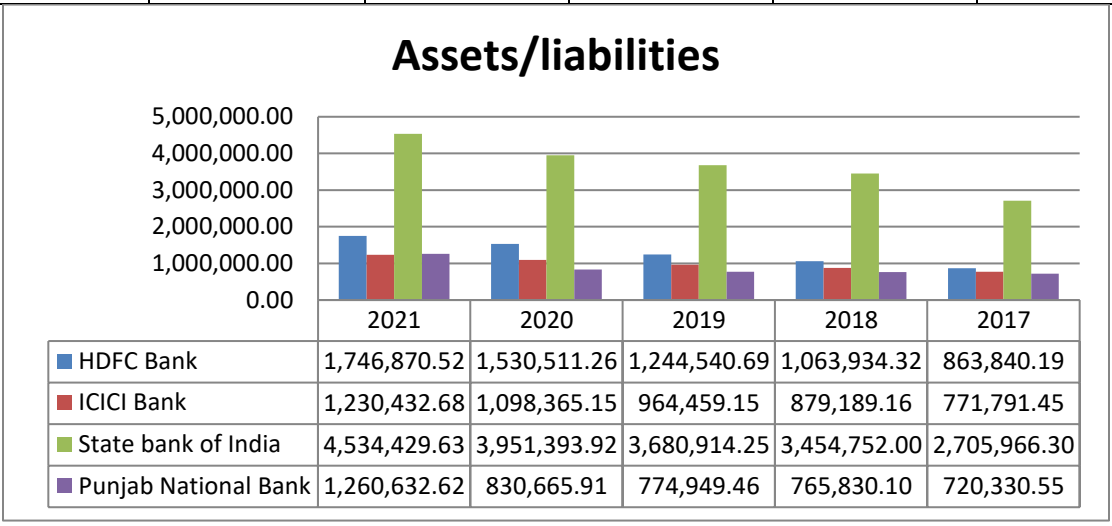

Table 2 indicates steady increases in assets of all the four banks for the five-year period from 2017 to 2021. In comparison private sector banks maintained a constant increase in assets and mitigating liabilities.

Table.3. TOTAL INCOME (Amount is in Rs. Crore)

Bank's Name	2021	2020	2019	2018	2017
HDFC Bank	93,561.62	63,074.16	58,687.66	56,876.64	56,227.36
ICICI Bank	98,086.80	91,246.94	77,913.36	72,385.52	73,660.76
State bank of India	308,647.01	302,545.07	278,082.99	265,100.00	210,979.17
Punjab National Bank	93,561.62	63,074.16	58,687.66	56,876.64	56,227.36

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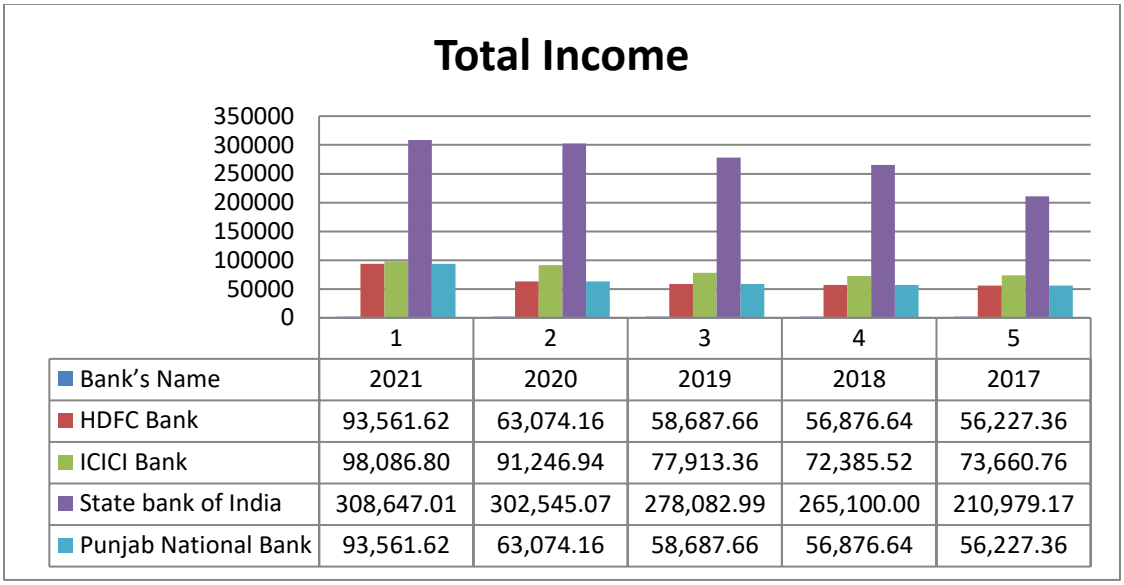

Table 3 indicates that total income of 3 banks increased during the 5 years period except that of PNB which showed only a meagre increase during 2018. Here it is found that HDFC bank's income has increased better than the other 3 banks taken for the study.

Table.4. TOTAL EXPENSE (Amount is in Rs. Cr.)

Bank's Name	**2021**	**2020**	**2019**	**2018**	**2017**
HDFC Bank	114,946.59	111,816.15	95,519.77	77,974.93	67,052.82
ICICI Bank	81,894.11	83,316.13	74,550.05	65,608.10	63,859.67
State bank of India	288,236.54	288,056.96	278,781.31	271,647.46	200,495.07
Punjab National Bank	91,540.00	62,737.97	68,663.15	69,159.46	54,902.56

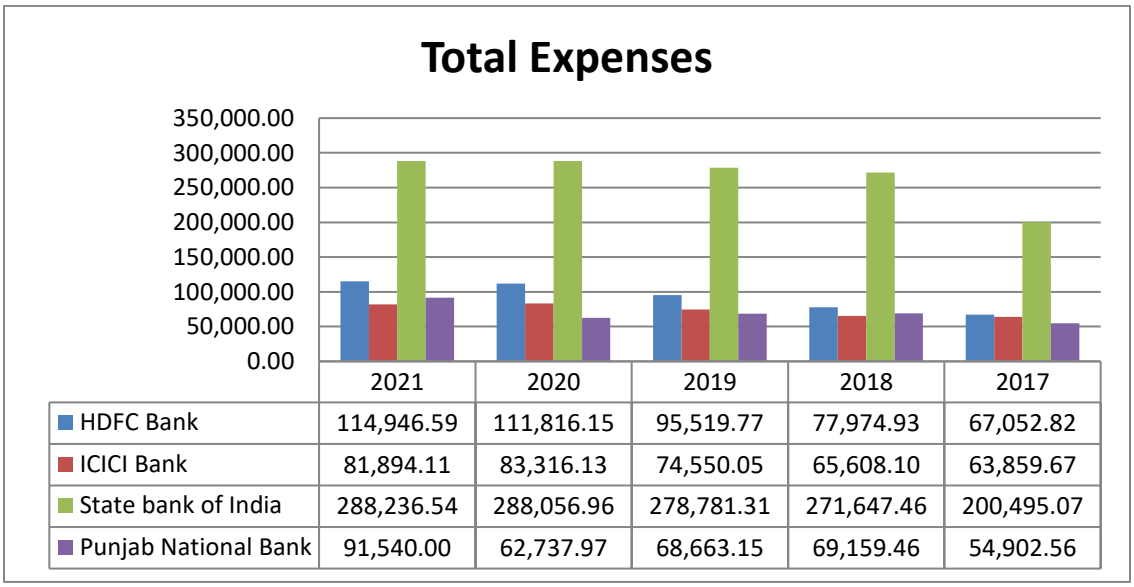

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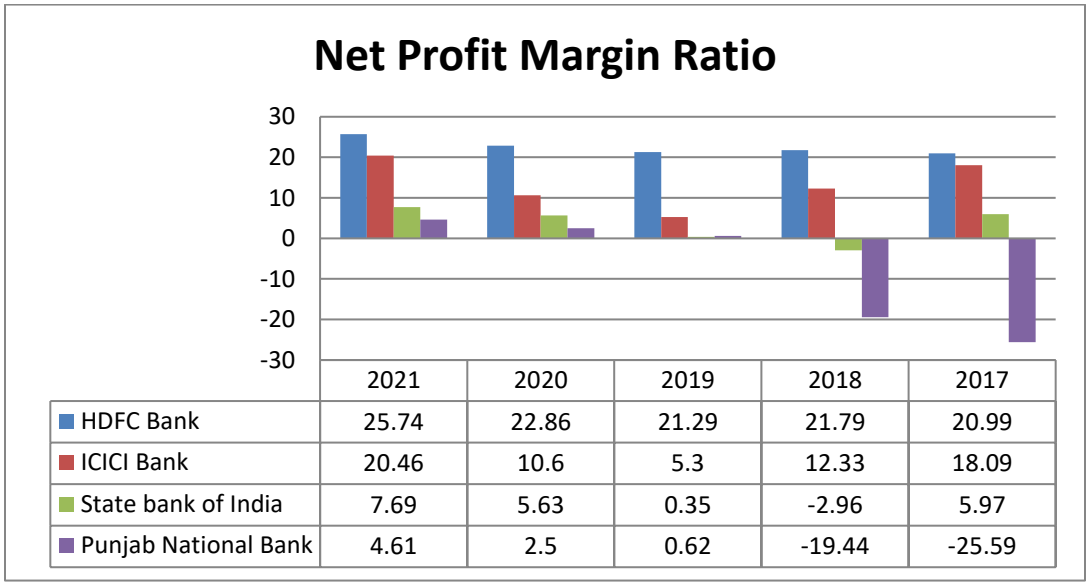
Table 4 reveals the total expenses incurred during the 5 year period Private sector banks had effective expense management policies as compared to that of public sector banks. SBI had incurred high expenses.

Table.5.NET PROFIT MARGIN RATIO (Values is in percentage)

Bank's Name	**2021**	**2020**	**2019**	**2018**	**2017**
HDFC Bank	25.74	22.86	21.29	21.79	20.99
ICICI Bank	20.46	10.60	5.30	12.33	18.09
State bank of India	7.69	5.63	0.35	-2.96	5.97
Punjab National Bank	4.61	2.50	0.62	-19.44	-25.59



. Table 5 indicates that HDFC Bank maintained effective net profit margin ratio which is a important for overall performance. The performance of SBI, PNB was observed to be fluctuating, while the performance of ICICI bank was a bit unstable.

Table.6. RETURN ON NET WORTH / EQUITY (Values is in percentage)

Bank's Name	**2021**	**2020**	**2019**	**2018**	**2017**
HDFC Bank	15.27	15.35	14.12	16.45	16.26
ICICI Bank	11.21	6.99	3.19	6.63	10.11
State bank of India	8.86	6.95	0.43	-3.37	6.69
Punjab National Bank	3.90	2.41	0.58	-24.20	-32.85

Table-6 shows that the private sector player HDFC bank outperformed others especially the public sector banks ICICI banks' performance was not satisfactory during the year 2019. In 2017& 2018 , both public-sector banks performed very poorly. This ratio calculates the rate of return on net worth investments. This is regarded as the most critical financial ratio because it relates to the return on shareholder equity.

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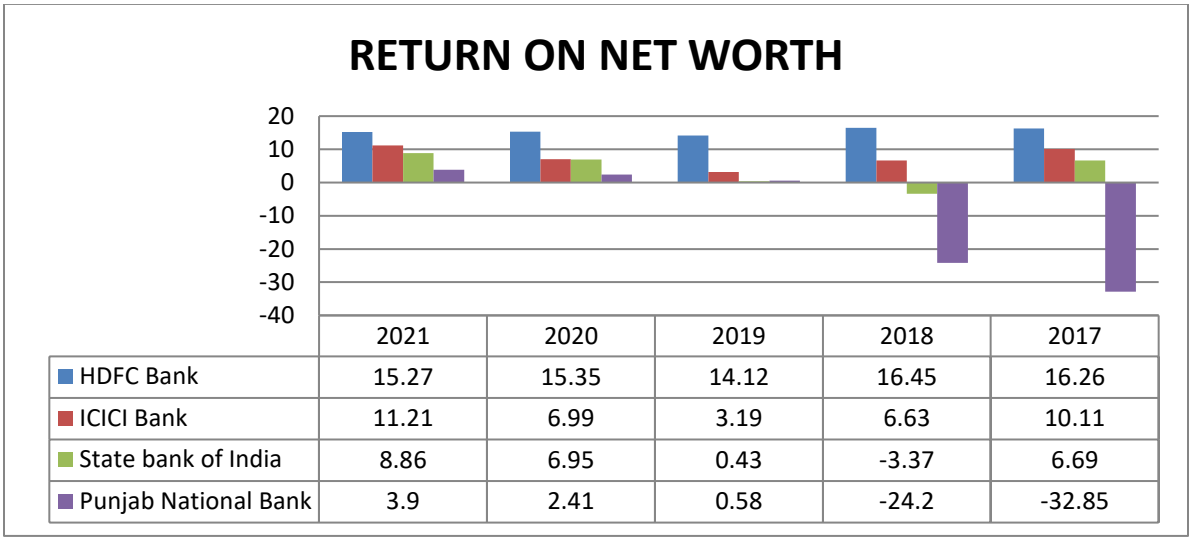

Table.7. EARNING PER SHARE RATIO (Value in Rs.)

Bank's Name	**2021**	**2020**	**2019**	**2018**	**2017**
HDFC Bank	56.58	48.01	78.65	67.76	57.18
ICICI Bank	24.01	12.28	5.23	10.56	15.31
State bank of India	22.87	16.23	0.97	-7.67	13.45
Punjab National Bank	2.08	0.62	-30.94	-55.39	6.45

Table-7 indicates that the performance of the 2 public sector banks was very poor during the 5 year period. From 2017 to 2021 HDFC Bank's earnings per share (EPS) seen a fluctuation but was performing good, while ICICI Bank's EPS seen a steeping downside. In terms of EPS public sector banks had a worst 5 year period.

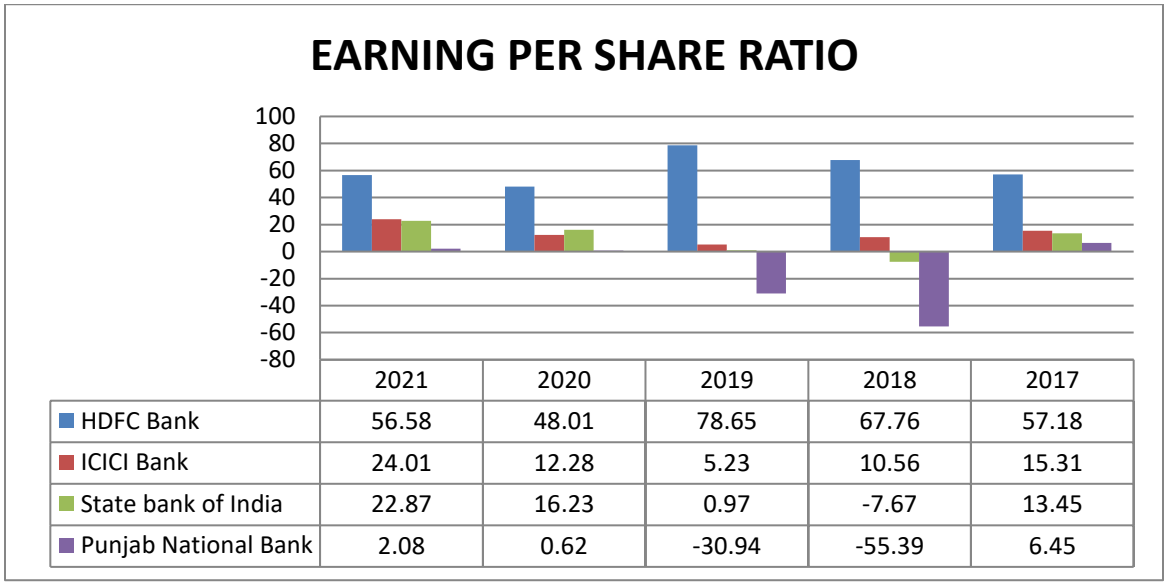

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Table.8. CASA RATIO (Value in Percentage)

Bank's Name	2021	2020	2019	2018	2017
HDFC Bank	46.11	42.23	42.37	43.49	48.03
ICICI Bank	46.28	45.11	49.61	51.68	18.09
State bank of India	45.39	44.22	0.00	44.48	44.57
Punjab National Bank	44.54	42.97	42.16	40.98	41.82

Table 8 reveals the ICICI bank was found to be the best, followed by HDFC. In 2017, the ICICI had a lower ratio. Total bank deposits in current and savings accounts are described by the CASA ratio. The higher ratio is advantageous because the majority of funds originate from the least expensive sources, namely current and savings accounts.

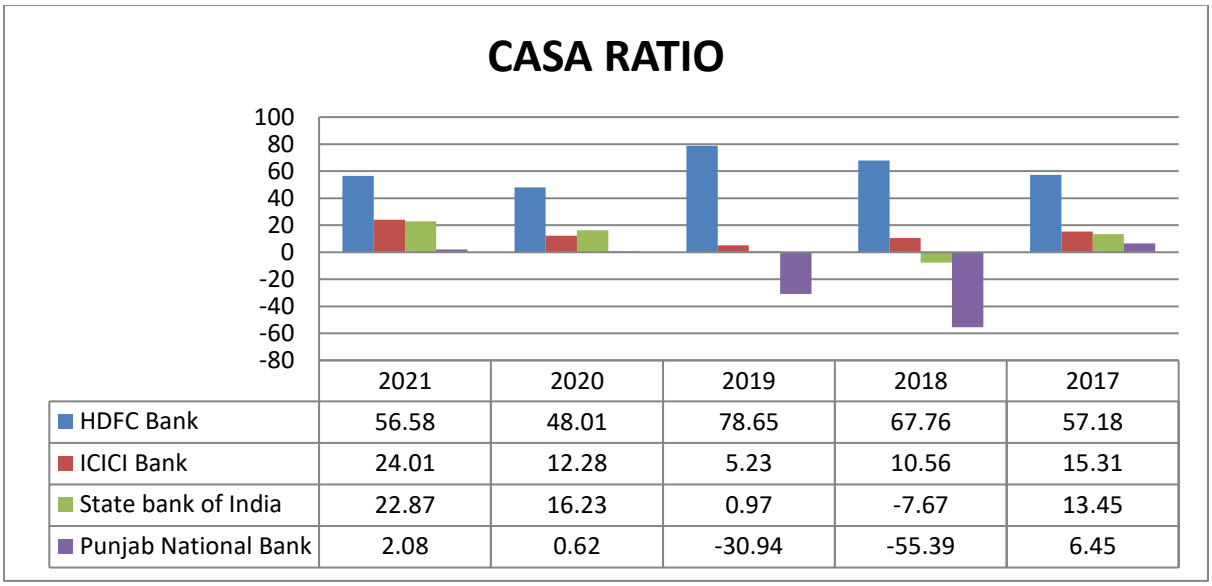

Table.9. CAPITAL ADEQUACY RATIO (Value in Percentage)

Bank's Name	2021	2020	2019	2018	2017
HDFC Bank	18.79	18.52	17.11	14.82	14.55
ICICI Bank	19.12	16.11	16.89	18.42	17.39
State bank of India	13.74	13.13	12.72	12.60	13.11
Punjab National Bank	14.50	14.32	14.14	9.73	9.20

Table 9 shows that private banks performed better than public banks, with ICICI doing the highest of the four banks. The amount of a bank's capital is compared to the sum of its risk-weighted credit exposures in capital adequacy ratio. The more unexpected losses a bank can withstand before going bankrupt, the higher its capital adequacy levels must be.

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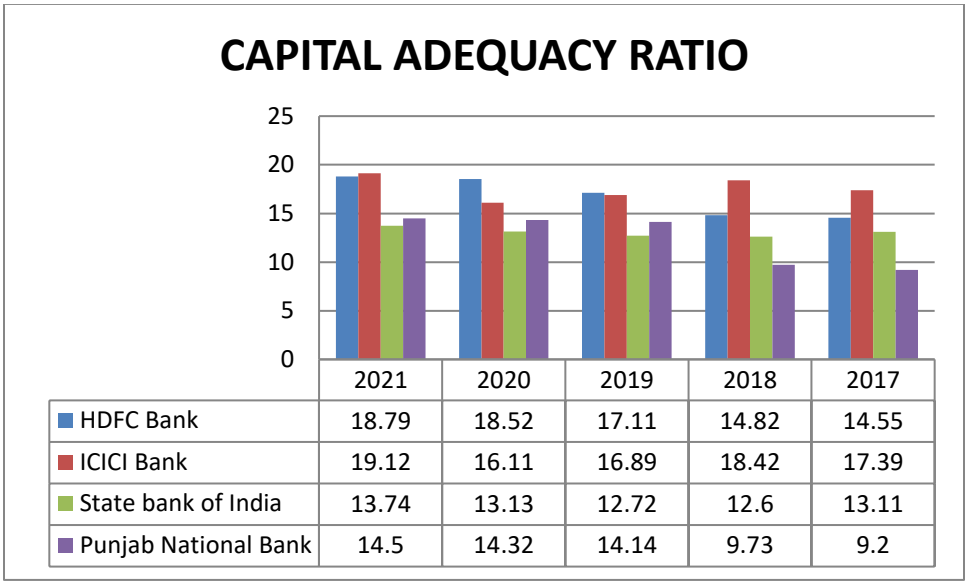

CONCLUSION

The purpose of the study was to evaluate the financial results of Indian public and private banks over a five-year period, from 2017 to 2021. The study also sought to determine the key elements influencing bank success and the top banks based on their financial performance over a predetermined time period. The following metrics were used to analyse the data: net profit, total assets, total net income, total expenses, net profit margin ratio, return on net worth ratio, EPS ratio, CASA ratio, capital adequacy ratio, and P/E ratio.

According to the analysis of the data, private banks outperformed public sector banks. The private sector's HDFC Bank and ICICI Bank both maintained consistent performance. SBI is one of the most coveted and stable public sector banks, offering investors reliable returns, but the NPA issue has had a negative effect on the bank.PNB, on the other hand, was found to be a below-average performing bank. All four banks experienced significant changes in 2018. When compared to public sector banks, private sector banks earn more profit assets. Because private sector banks have a strong credit rating, their NPAs have been found to be lower than those of public sector banks. Financial performance in public sector banks has not improved since the merger. If a bank provides a loan, there are no absolute restrictions or rules that must be followed in order for the person to withdraw it. Private sector banks have a lower NPA than public sector banks. It was discovered that private sector banks make more profit than public sector banks because public sector banks' NPAs have a lower CAR. Banks in both the public and private sectors reflect the financial performance of NPAs. The problem of NPAs is affecting not only banks but also the entire economy.

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