International Journal of Research
Available at https://edupediapublications.org/journals
e-ISSN: 2348-6848
p-ISSN: 2348-795X
Volume 04 Issue 10
September 2017

A comparative Analysis of the Financial Performance of Selected Public Sector and Private Sector Banks

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ABSTRACT:

The Indian banking sector has been the backbone of the Indian financial system over the past few decades. It includes public and private sector banks in it. The researcher would like to examine comparatively financial performance between public sector banks namely, Bank of India (BOI), State Bank of India(SBI) and Punjab National Bank(PNB) ,Oriental Bank of Commerce(OBC), IDBI and private sector banks namely HDFC, ICICI , Kotak Mahindra Bank ,Yes, Axis for the period of five years(2012-2017) in the Indian banking sector. Here in this paper CAMEL approach has been used and make an effort to give rank to the banks under study period as per performance according to various ratios used under study approach.

Introduction:

Now a days, the banking sector one of the highest growing area and a lot of money a invested in Banks. Also today's banking structure is becoming more complex. So, we thought of evaluating the financial performance of the banks. There are so many models to examine the performance of the banks, but we have selected the CAMEL Model to estimate the financial performance of the banks. It is the most excellent model because it measures the performance of the banks from each factor i.e. Capital, Assets, Management, Earnings and Liquidity. After

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p-ISSN: 2348-795X
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deciding the model, we have chosen five Indian public sector banks, i.e. Bank of India, State Bank of India, Oriental Bank of Commerce, Punjab National Bank, IDBI and five private sector banks ICICI, HDFC, Yes ,Axis and Kotak Mahindra Bank.. Then we have collected annual reports of the consecutive 5 years i.e. 2012-20113 to 20116-2017 of all the banks. And we have calculated ratios for all the banks and interpreted them.

CAMEL frame work

CAMEL is an acronym for five Factors Capital Adequacy, Assets Quality, Management Soundness, Earnings and Liquidity. In this analysis the five indicators which reflect the soundness of the organization framework are measured.

Review of literature

Aswini Kumar Mishra and et al (2013) studied on “Are Private Sector Banks More Sound and Efficient than Public Sector Banks? Assessments Based on Camel and Data Envelopment Analysis Approaches”. They analyzed in their study the soundness and the efficiency of 12 public and private sector banks. CAMEL model has been used over a time period of twelve years (2000-2011). They used frontier based non-parametric technique; Data Envelopment Analysis (DEA) tools in their study, provides significant insights on capability of different banks and places. They found that private sector banks are so efficient in comparison to public sector banks. DEA results shows that among the public sector banks, the performance of Bank of India, Canara Bank and Punjab National Bank got decreasing in the last two years as comparison to the private sector banks except Axis bank only. It was not found to be satisfactory level. But remaining all private banks exhibits well consistency in their efficiency level during the study.

Uppal and Amit Juneja (2012) studied on comparison of various bank groups on their deposits, borrowings, loans and advances and reserves associated to different time periods. On behalf of the above study, all the banks are separated into four groups i.e. public sector banks, old private sector banks, and new private sector banks. Later than the performance examination, it accomplished that foreign banks are performing much better than the further bank groups, whereas the performance of old private sector banks is unsatisfactory amongst all the bank groups. New private sector banks and Public sector banks are performing only adequately.

Hitesh Arora and Padmasai Arora (2012) studied on competence growth in public sector banks (PSBs) in India in post-liberalization period as of 1991-1992 to 2008-2009. Total factor output (TFP) in Indian PSBs is computed using Hicks-Moorsteen index numbers the same as given by O'Donnell (2010a). This paper is maybe the first study that focuses completely on efficiency in Indian PSBs. It also compares and contrasts efficiency growth outcome for Nationalized Banks (NBs) and State Bank of India Group (SBIG). Outcome shows that Indian PSBs have skilled positive efficiency growth ever since liberalization. Also, here exists significant difference in the efficiency growth skilled by SBIG and NBs with the concluding having experienced higher TFP growth. The difference has been traced to better technological progress practiced in NBs rather than to the result of higher efficiency gains.

Nandhini and Sivasakthi (2015) studied on “An analysis of selective Indian public sector banks using camel approach”. The aim of the study to analyze the financial performance of the particular selective Indian public sector banks. For analyze the banks performance they used CAMEL model and give suggestion to banks for improvement. They used a very simplified model using internationally accepted CAMEL model. CAMELS are an acronym for five measures (capital adequacy, asset quality, management soundness, earnings and liquidity). The study on the five indicators which reflect the financial and economic soundness of the Public Sector banks for a time period of 5 years 2009-2010 to 2013-14. The study identified that Syndicate Bank is representing very less ratio as compared to other public banks because their profit was increasing and they paid their liabilities during the year and vice versa in the other year. Punjab National Bank ratio shows the higher the credits risk in Comparison to other banks. Total investment to total assets ratio of Bank Of India is highest Performance in the year 2013-2014. Bank of Baroda represents higher efficiency to the management.

Rajasekar and Rameshkumar (2015) studied on "Analysis of Financial Health of the New Private Sector Banks in India through CAMEL Rating System". They took all private banks group wise and studied for the period 2005-06 to 2012-13. The researchers used the descriptive statistics like Percentage Analysis, Averages, Mean, Standard Deviation and Ranking Technique for analyzed the data and arrive at meaningful conclusion. They also used the CAMEL Model for identity capital adequacy, liquidity, assets quality, management and efficiency. They concluded their study that Kotak Mahindra Bank was at the top position under the capital adequacy ratio, while the Development Credit Bank was at the bottom. Under the asset quality Aspect, the YES Bank was the top rank while the Development Credit Bank (DCB) again holder the lowest rank. Under the management efficiency parameter, top rank was achieved by AXIS Bank and the lowest rank gone to DCB. Under the terms of earning quality parameter the ICICI Bank was on top, while the DCB at bottom. Under

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the liquidity aspect, the Kotak Mahindra Bank holds on the top position and the ICICI Bank was on the lowest position. It is important to note that the YES Bank was at the first position with overall ranking average of 2.5 closely followed by the AXIS Bank with overall ranking average of 3.1. The DCB was got the bottom rank with overall ranking average of 6.4.

Srinivasan, (2016) examined on "A Camel Model Analysis of Public, Private and Foreign Sector Banks in India". The objective of the study, to give ranks the various commercial banks operating in India. For getting this purpose all the banks in India have been categorized into Public sector, Private sector, and Foreign banks. The researcher took sample of selected 25 Public Sector banks and 8 Foreign banks, 18 Private Sector. For giving of ranking, CAMEL MODEL approach has been used, with important parameters like Capital Adequacy, Assets Quality, Management Efficiency, Earnings Quality and Liquidity. The study concluded that public sector banks, like Andhra Bank, Bank of Baroda, Punjab National Bank, Allahabad Bank, IDBI Bank, State Bank of Bikaner and Jaipur and UCO Bank were ranked at the top five positions in their financial and economical performance during the study period. In the private sector banks, Kotak Mahindra Bank, Tamilnad Merchantile Bank, HDFC Bank, Axis Bank, Karur Vysya Bank, IndusInd Bank, ICICI Bank, Citi Union Bank are on the top five positions. The foreign banks like as Bank of Bahrain & Kuwait, HSBC Bank, Deutsche Bank ,The Royal Bank of Scotland, CTBSBank, Citi Bank and Royal Bank of Scotland, DBS on the top five positions during the study period.

Objective of the Study

To make a comparative analysis of the financial performance of selected Public sector and Private sector banks.

Methodology of the Study

In common financial soundness about union of the commercial banks working in India researcher have used a very simplify approach using worldwide accepted CAMEL rating parameters. CAMEL is an short form for five measures (capital

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adequacy, asset quality, management soundness, earnings and liquidity). The analysis the five indicators which reflect the financial soundness of the Public and private Sector banks for a period of 5 years 20012-13 to 2016-17.

Sources of Data

The study is based on secondary data. The data required for study was collected throughout the annual report and other relevant information from the banks. The researcher has gone through various journals, websites, newspapers etc for obtaining information.

Tools for Analysis

The investigator has analyzed the CAMEL Model to estimate the performance of the banks with the help of some ratio analysis.

C-Capital Adequacy

A-Asset Quality

M-Management

E-Earning and profitability

L- Liquidity

Period of Study

The study covers the period of five years from 2012-2013 to 2016-2017 in order to estimate the performance of selective Indian public and private sector bank through CAMEL model analysis

Limitations of the Study

The study was limited to five Indian public and private sector banks.

The study was depended only for five years data.

The study was completely done on the basis of ratios calculated from the balance sheets.

Data Analysis and interpretation

Table No. 4.1

Debt Equity Ratio

(Value in %)

	Bank/Year	2016-17	2015-16	2014-15	2013-14	2012-13	Average	Rank
	SBI	16.07	14.66	14.95	14.15	14.84	14.93	4
	IDBI	15.66	12.02	11.47	10.75	11.66	12.31	5

	OBC	18.85	16.55	16.47	16.19	15.53	16.71	2
	PNB	17.81	17.74	14.97	14.92	14.28	15.94	3
	Bank of India	19.31	18.63	18.67	18.16	17.92	18.53	1
	Average	**17.54**	**15.92**	**15.31**	**14.83**	**14.85**	**15.69**	
Private Sector Banks	ICICI	6.93	7.26	7.03	7.12	7.05	7.08	3
	Axis	9.79	8.88	9.34	9.03	9.29	9.26	2
	Yes	8.75	10.99	10.66	14.31	16.06	12.15	1
	Kotak mahindra	6.77	7.03	6.5	6.13	7.86	6.85	4
	HDFC	4.85	4.42	4.23	4.03	4.38	4.38	5
	Average	**7.42**	**7.72**	**7.55**	**8.12**	**8.93**	**7.95**	

Source:(www.moneycontrol.com)

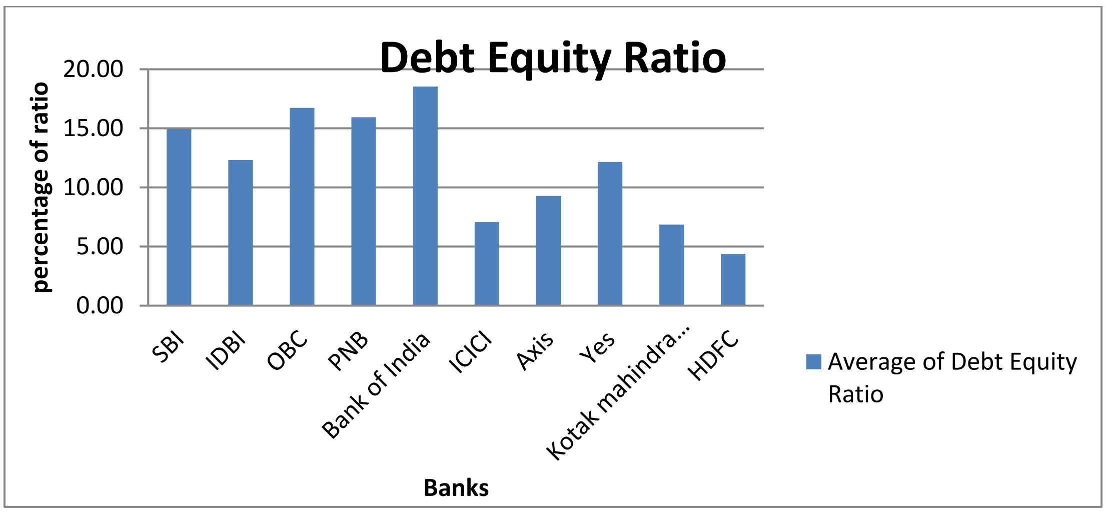

Fig- 4.1: Debt Equity Ratio

INTERPRETATION

Table 4.1 and Fig. 4.1 shows that in case of public sector banks , Bank of India leads the all public banks with average in Debt Equity Ratio 18.53% followed by OBC bank (16.71%) and PNB bank (15.94%). In private sector banks ,YES bank leads all private banks with average of Debt Equity ratio 12.15% followed by AXIS bank (9.26%) and ICICI bank (7.08%) .

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The trend of Debt Equity Ratio is fluctuating during the period of study. The overall grand average of Debt Equity Ratio of five public sector banks (15.69%) is higher than the five private sector banks(7.95%) during the period of study (2012-13 to 2016-2017).

Table No. 4.2

Government Securities to Total Investment

(Value in %)

	Bank/Year	2016-17	2015-16	2014-15	2013-14	2012-13	**Average**	Rank
Public Sector Banks	SBI	76.25	77.63	79.59	77.28	77.54	77.66	4
	IDBI	90.24	88.01	69.02	64.54	72.05	76.77	5
	OBC	84.06	79.35	75.7	75.23	75.27	77.92	3
	PNB	79.09	80.14	81.94	78.10	82.83	80.42	2
	Bank of India	88.72	90.43	87.72	87.85	86.52	88.25	1
	Average	**83.67**	**83.11**	**78.79**	**76.60**	**78.84**	**80.20**	
Private Sector Banks	ICICI	69.67	70.33	57.56	54.17	54.28	61.20	5
	AXIS	72.21	67.57	63.85	54.04	56.31	62.80	4
	YES	70.98	72.05	64.37	54.77	54.77	63.39	3
	Kotak Mahindra	95.79	93.18	91.61	82.82	81.95	89.07	1
	HDFC	79.58	81.92	84.22	68.02	62.37	75.22	2
	Average	**77.65**	**77.01**	**72.32**	**62.76**	**61.94**	**70.34**	

Source: (Compiled from annual reports of banks)

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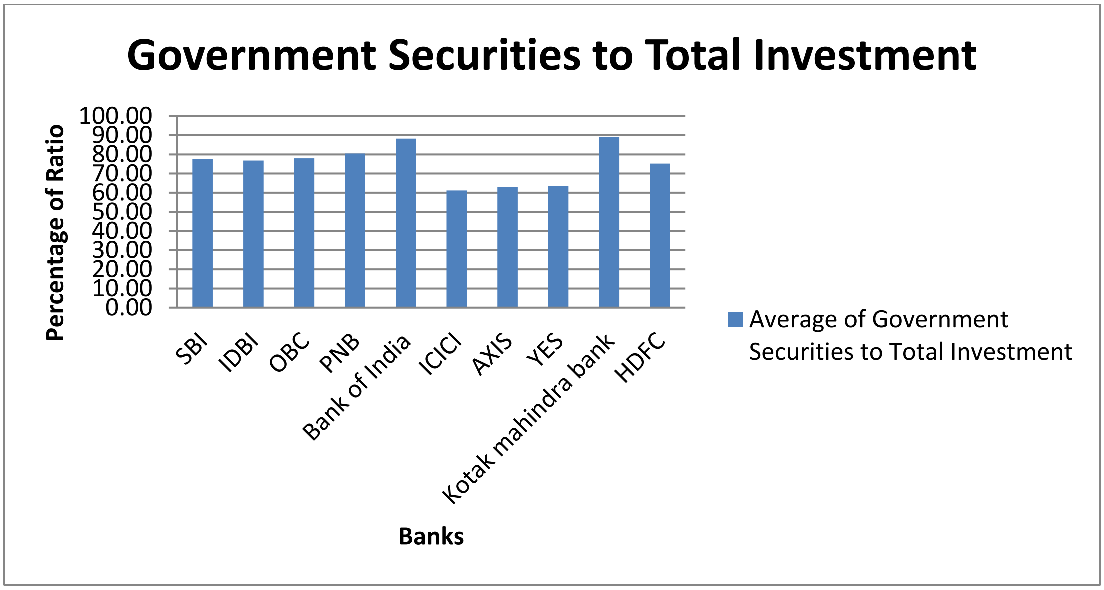

Fig. - 4.2: Government Securities to Total Investment

INTERPRETATION

Table 4.2 and Fig. 4.2 shows that in case of public sector banks , Bank of India is on top position with average of Government securities to total investment Ratio 88.25% followed by PNB bank (80.42%) and OBC bank (77.92%). In private sector banks, Kotak Mahindra bank is on 1st position with average of Government securities to Total Investment ratio 89.07% followed by HDFC bank (75.22%) and YES bank (63.39%). The trend of Government securities to total investment is fluctuating during the period of study. The overall grand average of Government securities to total investment of five public sector banks (80.20%) is higher than the five private sector banks (70.34%) during the period of study (2012-13 to 2016-2017).

Table No. 4.3

Net NPA to Total Advances Ratio

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(Value in %)

	Bank/Year	2016-17	2015-16	2014-15	2013-14	2012-13	Average	Rank
Public Sector Banks	**SBI**	4.00	4.00	2.00	3.00	2.00	3.00	1
	IDBI	13.00	7.00	3.00	2.00	2.00	5.40	5
	OBC	9.00	7.00	3.00	3.00	2.00	4.80	3
	PNB	8.00	9.00	4.00	3.00	2.00	5.20	4
	Bank of India	7.00	8.00	3.00	2.00	2.00	4.40	2
	Average	**8.20**	**7.00**	**3.00**	**2.60**	**2.00**	**4.56**	
Private Sector Banks	**ICICI**	5.00	3.00	2.00	1.00	1.00	2.40	5
	Axis	2.00	1.00	0.00	0.00	0.00	0.60	3
	Yes	1.00	0.00	0.00	0.00	0.00	0.20	1
	Kotak mahindra	1.00	1.00	1.00	1.00	1.00	1.00	4
	HDFC	0.30	0.30	0.20	0.30	0.20	0.26	2
	Average	**1.86**	**1.06**	**0.64**	**0.46**	**0.44**	**0.89**	

Source: (Compiled from annual reports of banks)

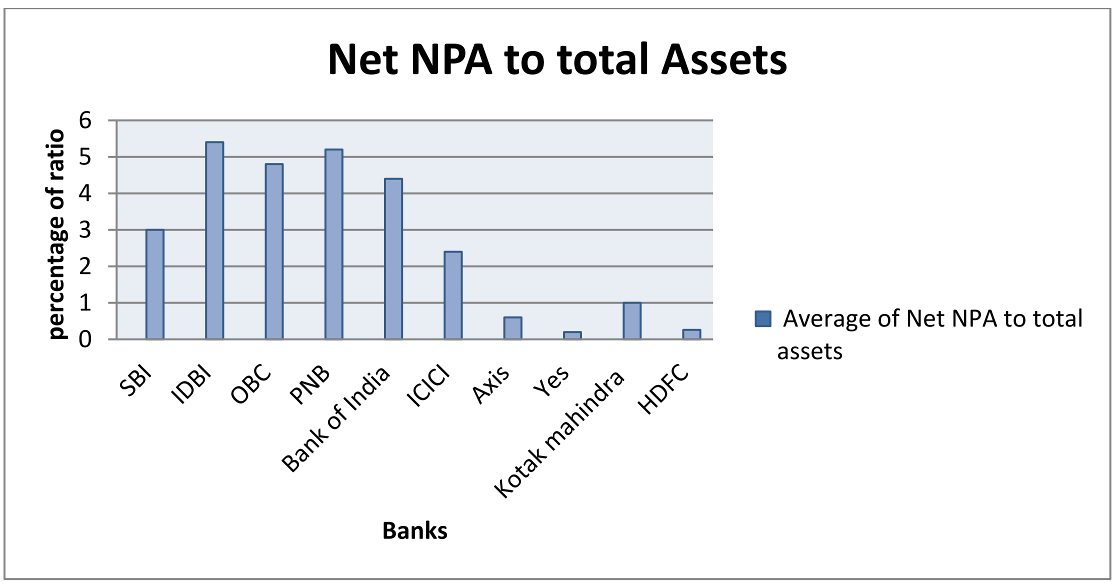

Fig. - 4.3: Net NPA to Total Advances

INTERPRETATION Table 4.3 and Fig. 4.3 shows that in case of public sector banks, SBI is on 1st position with average of Net NPA to Total Advance Ratio 3.00% followed by BOI bank (4.40%) and OBC bank (4.80%). In private sector banks, YES bank is on 1st position with average of Net NPA to Total Advance ratio 0.20% followed by HDFC bank (0.26%) and AXIS bank (0.60%). The overall grand average of Net NPA to Total Advance of five private sector banks (0.89%) is much better than the five public sector banks (4.56%) during the period of study (2012-13 to 2016-2017).

Findings:

- In public sector Banks, BOI bank, OBC bank finance through equity than debt as compare to YES bank, AXIS bank in private sector bank.
- In public sector Banks, BOI bank, PNB bank invest more in government securities which is a safe and regular source of income of banks as compare to private sector banks.
- Non – performing assets of YES bank, HDFC bank in case of private sector Banks are less as compare to public sector banks which raise their performance as compare to SBI bank, BOI bank in case of public sector banks. Hence, risk taking capacity of private sector banks is much better than public sector banks.

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