

GOA UNIVERSITY

GOA BUSINESS SCHOOL

MASTER OF BUSINESS ADMINISTRATION
(PART -I)

PROJECT REPORT

Name- Vinit Chandrakant Venji

Roll No- 2056

Done under the guidance of Asst. Professor Suraj Velip

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Overview of Banking Industry

Banks play a key role in the entire financial system by mobilizing deposits from households spread across the nation and making these funds available for investment, either by lending or buying securities. Today the banking industry has become an integral part of any nation's economic progress and is critical for the financial wellbeing of individuals, businesses, nations, and the entire globe. In this article, we will provide an overview of key industry concepts, main sectors, and key aspects of the banking industry's business model and trends.

A bank is a financial institution that provides banking and other financial services to their customers. Banks are a subset of the financial services industry and play an important role in the global economies. They are a key player in stimulating economic growth. Banking is an important undertaking. The movement of capital handled by banks allows economies to grow and prosper. Businesses and governments need money to operate, and banks act as intermediaries between the suppliers of funds and users of funds.

Evolution of the Indian banking sector

1921

- Closed market.
- State-owned Imperial Bank of India was the only bank existing.

1935

- RBI was established as the central bank of country.
- Quasi central banking role of Imperial Bank came to an end.

1936-1955

- Imperial Bank expanded its network to 480 branches.

- In order to increase penetration in rural areas, Imperial Bank was converted into State Bank of India.

1956-2000

- Nationalisation of 14 large commercial banks in 1969 & six more banks in 1980.
- Entry of private players such as ICICI intensifying the competition.
- Gradual technology upgradation in PSU banks.

2000 onwards

- In 2003, Kotak Mahindra Finance Ltd received a banking license from RBI and became the first NBFC to be converted into a bank.
- In 2009, the Government removed the Banking Cash Transaction Tax which was introduced in 2005.

2020 onwards

- As per Union Budget 2021-22, the government will disinvest IDBI Bank and privatise two public sector banks.
- According to the RBI, India's foreign exchange reserves reached US\$ 580.3 billion, as of March 5, 2021.
- The Finance Ministry announced to infuse Rs. 14,500 crores in banks that are under the RBI's prompt corrective action framework.

Public sector banks

Public sector banks are those banks where the government holds more than 50% ownership. With these banks, the government regulates the financial guidelines. Because of government ownership, most depositors believe that their money is more secured in public sector banks. As a result, most public sector banks have a large customer base.

For example, The State bank of India (SBI) is the largest public sector bank in India. In this bank, the Indian government holds more than 63% share. A large part of the remaining share is also traded in the Indian stock market.

Relative to other banks, the employees of public sector banks enjoy more job security. They also enjoy other perks like pension after retirement. For this reason, many of these employees are reluctant to give their best service. As a result, the rate of loan defaulter is much higher in public sector banks. The promotion in the public sector banks is based on seniority, which demotivate many employees.

Most public sector banks offer less customized service to customers. As a result, Customer complaint due to poor service is very common in public sector banks. However, public sector banks offer more interest rate to the customer. Customers can also get different loans with a small interest rate.

Private Sector Banks

Private Sector Banks are those banks in which the majority of the stake is held by shareholders of the bank and not by the government. RBL bank, HDFC Bank, ICICI Bank, Yes Bank, etc. are the private sector banks in India. They provide all the banking products and services to the customers. These products include Fixed Deposit, Savings Deposit, RD, Home Loan, Personal Loan, Car Loan, Locker, Demat Facilities, Debit/ Credit Card, ATM, Foreign Exchange Transactions, Insurance, Wealth Management, Net Banking, etc. Private banks are known for introducing information technology in the banking system.

Private banks are managed and controlled by private promoters. There are 2 different categories in which these private banks have been divided:

- Pre-liberalisation- There are the total 12 banks which exist from the period before liberalisation in India that took place in 1990. These banks include Federal Bank, Karnataka Bank, Karur Vysya Bank, RBL Bank, etc.
- Post-liberalisation- There are the total 9 banks which got licenses and came into being after liberalisation in India that took place in 1990. These banks are called new age banks and include HDFC Bank, ICICI Bank, Axis Bank, Yes Bank, etc.

Private Sector Banks offer innovative products and better services as compared to public sector banks but they charge some extra amount for providing such additional services. It has been seen that the financial performance of private banks has remained better than that of public banks as they have managed their net interest margin (NIM) and non-performing assets (NPA) very well.

A Comparative Study on Financial Performance of Selected Public & Private Sector Banks in India.

Introduction

Public sector banks are the banks whose more than 50% shareholdings lie with the government. Private sector banks are the banks whose majority of stake is held by private corporations or individuals. Public sector banks conquered the Indian banking industry in the early stages. Financial sector reforms made many changes in banking industry and private sector banks with the assist of superior technology and professionalized management achieved a demanding position thus causing a great threat to the public sector banks.

Review of literature

- (Goel, 2013) has found that the new banks are more efficient than old ones. The public sector banks are not as profitable as other sectors are. It means that efficiency and profitability are interrelated. They used the data of six banks from the year 2009 to 2012 for the analysis.
- Studied by (Annual & Proceedings, 2015) 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. Data used for analysis was from the year 2010-11 to 2012-13.
- (Chaudhary & Sharma, 2011) Has analysed the data for Non-Performing Assets. For this they have undertaken data of 27 public sector banks and 22 private sector banks. They found that 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 analysing the financial statement.

- (Bansal, 2014) has used the data of 4 banks. The trend analysis was from April 2011 to March 2014. The ratios used for analysis of the financial statements of these banks were liquidity ratios, activity ratios, leverage ratios, profitability ratios, and market value ratios. After doing through analysis; he has found that overall performance Federal bank is the most financially stable company in comparison to others.
- (Varshney, 2016) has utilised the data of 2 public sector banks for comparison of financial performance. The trend analysis was from 2007-08 to 2011-12. The ratios used for analysis were banks liquidity, profitability, management capacity, and capital structure and share performance as reliable indicators of a bank performance. They found that stakeholders have more trust on State Bank of India as compared to Punjab National Bank.
- (Jha, 2018) study gathered data of ICICI bank and PNB bank for the year 2011-2018. Based on the findings, author's study revealed that bank customers have a lot of trust in public sector banks compared to private sector banks. Individuals well-liked PNB bank to require loans and advances as compare to ICICI bank. However, PNB bank has lower operational efficiency comparatively than ICICI bank. In case of dividend pay-out ratio, debt-equity ratio and Interest expended to interest earned, ICICI bank has performed sounder as compare to PNB bank.
- (Karri, 2015) have used public sector banks. They have chosen the CAMEL model and t-test which measures the performance of bank from each of the important parameter From the CAMELS' analysis it clears that there is no significance difference between the Bank of Baroda and Punjab National Bank's financial performance but they conclude that the Punjab National Bank performance is slightly less compared with Bank of Baroda.
- (Balaji, 2016) Has considered data from the year 2011-12 to 2015-16 for the research work. They found that there was increase in profitability for both sector banks. The rate of growth was higher for private sector banks. They pointed out that public sector banks are lagging in many financial parameters and they are facing many challenges also. And stated that public sector banks must redefine their strategies by considering their strengths and weakness and the type of market they are operating.

Research gap and questions

Most of the above-mentioned researchers have focused on either of the banking sector of India. Here I have focused on public and private banking sector of India.

The above-mentioned researchers have opted data of the banks from the year 2009-10 to 2015-16 for their studies. My study covers the data from the year 2015-16 to 2019-20

Project objective

The main objective of the study is to analyse and compare the overall financial performance of selected public sector banks and private sector banks in India.

Project methodology

- Secondary Data

The study is based on secondary data that has been collected from annual reports of the respective banks, moneycontrol, proweessiq, and CMIE.

- Period of the Study

This research study covers a period of four years that is from financial year 2015-16 to 2019-20.

- Sample

A sample of eight banks, that is four from public sector and four from private sector has been selected and the criteria is based on highest market capitalization generated by banks during 2019-20. The banks matched under these criteria are State Bank of India, Bank of Baroda, Punjab National Bank and Bank of India from public sector and HDFC Bank Ltd, ICICI bank Ltd, Kotak Mahindra bank and Axis Bank Ltd from private sector.

- Tools of analysis

T-Test, mean and graphs are used to analyse and compare financial performance of public sector banks and private sector banks.

Data analysis and discussion

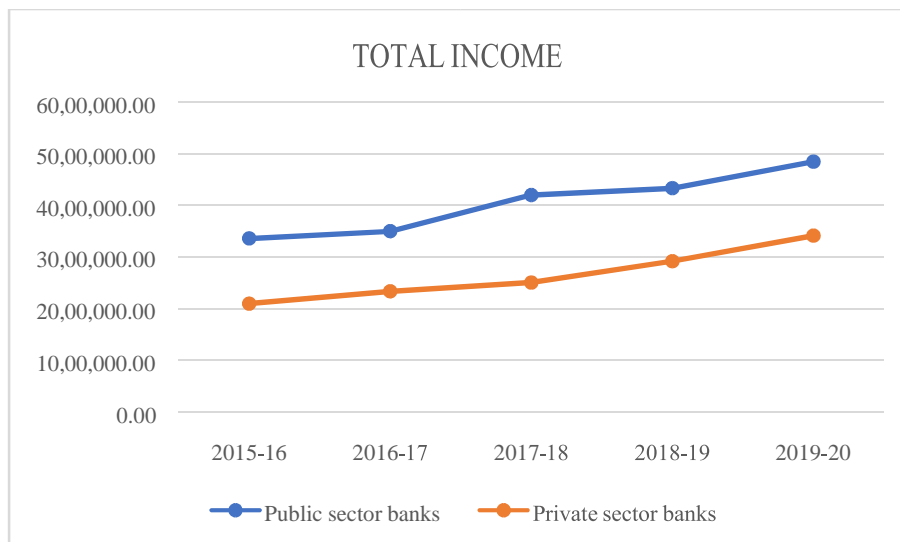
Table 1: Showing total incomes of selected public and private sector banks

Total income

amount in million (Rs)

Year	2015-16	2016-17	2017-18	2018-19	2019-20	Mean
S.B.I.	19,53,516.20	21,18,079.50	27,07,372.10	28,34,413.20	30,36,755.90	25,30,027.38
BANK OF BARODA	5,09,055.30	4,96,221.70	5,13,756.50	5,63,429.00	8,88,835.20	5,94,259.54
P.N.B.	5,88,835.80	5,90,335.40	6,69,830.70	6,47,746.50	6,43,696.10	6,28,088.90
BANK OF INDIA	4,54,490.10	4,60,631.80	4,38,051.70	4,58,998.20	4,90,663.40	4,60,567.04
Public sector banks	35,05,897.40	36,65,268.40	43,29,011.00	45,04,586.90	50,59,950.60	42,12,942.86
H.D.F.C.	7,10,060.70	8,16,140.60	9,56,220.10	11,66,131.80	13,87,755.80	10,07,261.80
I.C.I.C.I	6,85,253.40	7,42,773.50	7,29,378.40	7,79,133.50	9,15,088.40	7,70,325.44
Kotak Mahindra Bank	1,90,656.20	2,12,821.30	2,39,177.10	2,86,221.90	3,23,783.30	2,50,531.96
Axis Bank	5,09,288.60	5,62,509.00	5,78,902.30	6,81,586.70	7,82,113.80	6,22,880.08
Private sector banks	20,95,258.90	23,34,244.40	25,03,677.90	29,13,073.90	34,08,741.30	26,50,999.28

□ Graph 1: Representing the growth of total incomes of public and private sector banks.

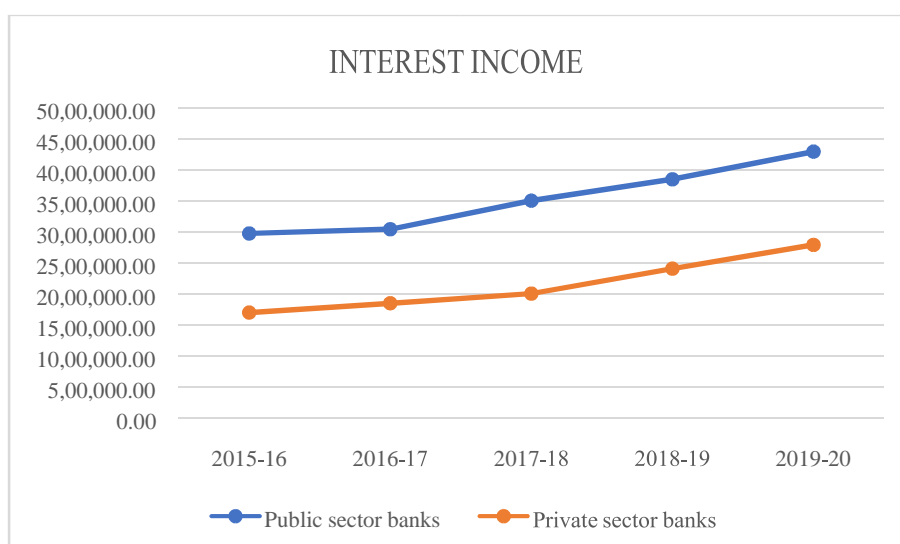


From the above table, it is observed that the total income of selected public sector bank from the year 2015-16 to 2019-20 is increased with 35,05,897.40 million in the financial year 2015-16 to 50,59,950.60 million in the financial year 2019-20. The total income of selected private is increased from 2015-16 to 2019-20 with 20,95,258.90 million in the financial year 2015-16 to 34,08,741.30 million in the financial year 2019-20. It is also observed that means of the selected public sector banks is higher than the selected private sector banks with public sector banks average Rs.42,12,942.86 million to that of private sector banks average of Rs. 26,50,999.28 million. From the above table it is also observed that the total income of selected public and private sector banks are increasing and total incomes of selected public sector banks are higher than selected private sector banks.

Table 2: Showing interest income of selected public and private sector banks

Interest income	amount in million (Rs)					
Years	2015-16	2016-17	2017-18	2018-19	2019-20	Mean
S.B.I.	16,39,983.00	17,55,182.50	22,04,993.20	24,28,686.50	25,73,236.00	21,20,416.24
BANK OF BARODA	4,40,612.70	4,21,999.40	4,36,485.40	4,97,706.10	7,59,836.50	5,11,328.02
P.N.B.	4,74,243.50	4,72,759.90	4,79,957.60	5,13,102.50	5,38,000.30	4,95,612.76
bank of India	4,17,964.60	3,92,908.50	3,80,714.10	4,07,678.10	4,23,532.70	4,04,559.60
Public sector banks	29,72,803.80	30,42,850.30	35,02,150.30	38,47,173.20	42,94,605.50	35,31,916.62
H.D.F.C.	6,00,394.20	6,90,493.20	8,00,807.60	9,85,637.80	11,46,655.60	8,44,797.68
I.C.I.C.I	5,24,275.00	5,37,055.60	5,47,033.10	6,29,529.60	7,45,283.40	5,96,635.34
Kotak Mahindra Bank	1,63,841.90	1,76,989.30	1,97,484.90	2,38,900.40	2,69,296.20	2,09,302.54
Axis Bank	4,09,880.40	4,45,421.60	4,57,803.10	5,49,857.70	6,26,351.60	4,97,862.88
Private sector banks	16,98,391.50	18,49,959.70	20,03,128.70	24,03,925.50	27,87,586.80	21,48,598.44

Graph 2: Representing the interest incomes of public and private sector banks



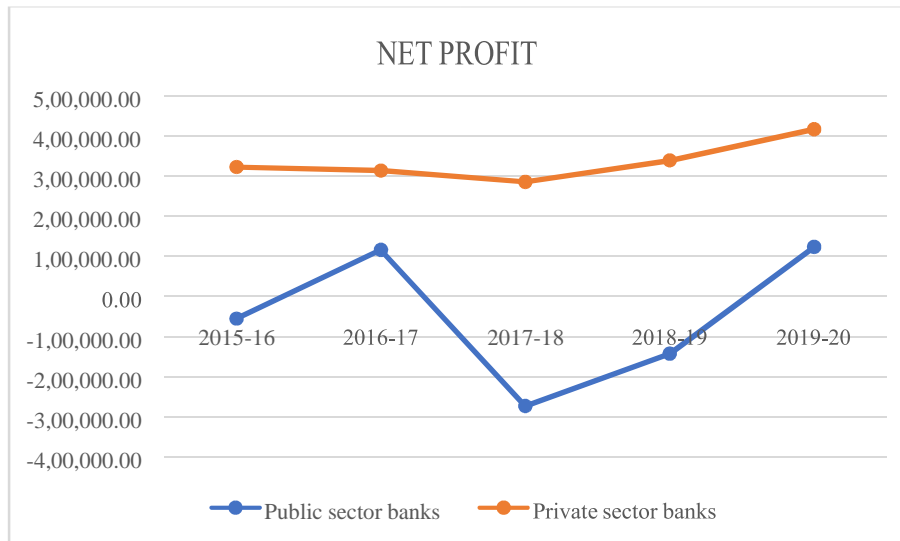
From the above table it is observed that total interest incomes of selected public sector banks increased from 2011-12 to 2015-16 with Rs. 29,72,803.80 million in the financial year 2015-16 to Rs. 42,94,605.50 million in financial year 2019-20. The total interest incomes of selected private sector banks also increased from 2015-16 to 2019-20 with Rs. 16,98,391.50 million in the financial year 2015-16 to Rs. 27,87,586.80 million in financial year 2019-20. It is also observed that means of the selected public sector banks is higher than the selected private sector banks with public sector banks average Rs. 35,31,916.62 million to that of

private sector banks average of Rs. 21,48,598.44 million. From the above graph it is observed that interest income of both public and private sector is increasing and interest income of public banks is higher than the private sector banks.

Table 3: Showing net profit of selected public and private sector banks

Profit	amount in million (Rs)					
Years	2015-16	2016-17	2017-18	2018-19	2019-20	Mean
S.B.I.	99,506.50	1,04,841.00	-65,474.50	8,622.30	1,44,881.10	58,475.28
Bank Of Baroda	-53,955.40	13,831.40	-24,318.10	4,335.20	5,461.90	-10,929.00
P.N.B.	-39,686.00	13,248.00	-1,22,828.20	-99,754.90	3,361.90	-49,131.84
Bank Of India	-60,892.10	-15,583.10	-60,437.10	-55,469.00	-29,568.90	-44,390.04
Public sector banks	-55,027.00	1,16,337.30	-2,73,057.90	-1,42,266.40	1,24,136.00	-45,975.60
H.D.F.C.	1,22,962.10	1,45,496.40	1,74,867.30	2,10,781.70	2,62,573.20	1,83,336.14
I.C.I.C.I	97,262.90	98,010.90	67,774.20	33,633.00	79,308.10	75,197.82
Kotak Mahindra Bank	20,897.80	34,115.00	40,843.00	48,653.30	59,471.80	40,796.18
Axis Bank	82,236.60	36,792.80	2,756.80	46,766.10	16,272.20	36,964.90
Private sector banks	3,23,359.40	3,14,415.10	2,86,241.30	3,39,834.10	4,17,625.30	3,36,295.04

Graph 3: Representing the net profit of selected public and private sector banks



From the above table, it is observed that net profits of selected public sector bank are increased from Rs. -55,027.00 million in the financial year 2015-16 to Rs. 1,16,337.30 million in the financial year 2016-17. In the financial year 2017-18, the net profit of selected public sector banks decreased to Rs. -2,73,057.90 million and seen to be increased by Rs.

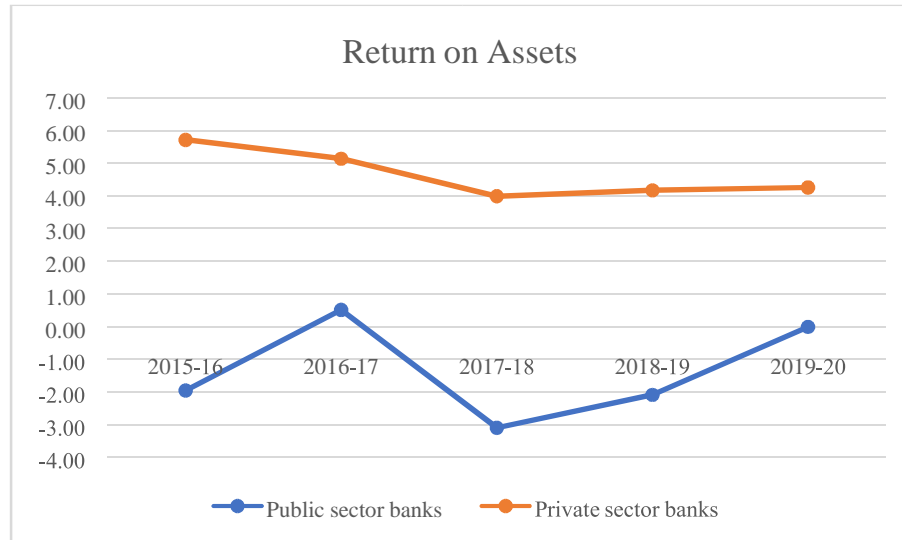
1,24,136.00 million in the financial year 2019-20. The net profit of selected private sector banks is decreased from Rs. 3,23,359.40 million in the financial year 2015-16 to Rs 2,86,241.30 million in the financial year 2017-18, and seen to be increased by Rs. 4,17,625.30 million in the financial year 2019-20. It is also observed that means of the selected private sector banks are higher than the selected public sector banks with public sector banks average Rs. 45,975.60 million than that of private sector banks average of Rs. 3,36,295.04 million.

From the above table and graph, it can be seen that the net profit of selected public sector banks is more fluctuated than that of selected private sector banks during the research period.

Table 4: Showing return on assets of selected public and private sector banks

Years	2015-16	2016-17	2017-18	2018-19	2019-20	MEAN
S.B.I.	0.42	0.38	-0.18	0.02	0.36	0.20
Bank Of Baroda	-0.80	0.19	-0.33	0.05	0.04	-0.17
P.N.B.	-0.59	0.18	-1.60	-1.28	0.04	-0.65
Bank Of India	-0.99	-0.24	-0.99	-0.88	-0.45	-0.71
Public Sector Banks	-1.96	0.51	-3.10	-2.09	-0.01	-1.33
H.D.F.C.	1.73	1.68	1.64	1.69	1.71	1.69
I.C.I.C.I	1.34	1.26	0.77	0.34	0.72	0.89
Kotak Mahindra Bank	1.08	1.58	1.54	1.55	1.65	1.48
Axis Bank	1.56	0.61	0.03	0.58	0.17	0.59
Private Sector Banks	5.71	5.13	3.98	4.16	4.25	4.65

Graph 4: Representing the return on assets of selected public and private sector banks



From the above table and graph, it is observed that the total return on assets of selected public sector banks is increased from 2015-16 from -1.96 to 0.51 in the financial year 2016-17. Also, it is observed that the returns on assets are decreased in the financial 2017-18 by -3.10 and gradually increased in the financial year 2019-20 by -0.01. It is observed that returns on assets of private sector banks are decreased from the financial year 2015-16 from 5.71 to 3.98 in the financial year 2017-18, and has been increased in the financial year 2019-20 by 4.25.

It is also observed that means of the selected private sector banks are higher than the selected public sector banks with public sector banks average -1.33 than that of private sector banks average of 4.65. From the above table and graph, it can be seen that the net profit of selected public sector banks is more fluctuated than that of selected private sector banks during the research period.

T test

H0: There is no significant difference between the total net profits of public sector banks and private sector banks in India.

H1: There is significant difference between the total net profits of public sector banks and private sector banks in India.

	public sector banks (Rs in million)	private sector banks (Rs in million)
Mean	-45975.6	336295.04
Variance	29050912735	2444643895
Observations	5	5
Hypothesized Mean Difference	0	
df	5	
t Stat	-4.816497084	
P(T<=t) one-tail	0.002406618	
t Critical one-tail	2.015048373	
P(T<=t) two-tail	0.004813236	
t Critical two-tail	2.570581836	

From the above table it is observed that mean value for net profits of public sector banks is less than that of the private sector banks. As computed t-test value 0.004813236 is less than t Critical two-tail value 2.570581836 there is not enough evidence to reject H0. Therefore, we fail to reject the null hypothesis

Findings

The main findings associated with this study are as follows:

- Total incomes of both public and private sector banks recorded a good growth in total income during all the years of study.
- Interest income is showing an increasing trend for both sectors. Interest margin for public sector banks is quantitatively high.

- A shifting momentum from public sector to private sector has been recorded in case of net profit. The performance of public sector banks seen to be fluctuated with respect to its net profit and seen to be increasing since last two years of study period. Private sector banks continuously recorded well profits for the all the years compare to public sector banks.
- In case of return on assets a steady growth rate is exhibited for private sector in all years where as fluctuations are been observed in the public sector throughout the period. Private sector enjoyed a healthy position in case of utilisation of assets.

Conclusion

Overall, the selected private sector banks are seen to be performing well than that of selected public sector banks. Although there was increase in profitability for both sector banks during the study period, the rate of growth is higher for private sector banks. Public sector banks are lagging in many financial parameters as they are focused more on weaker section of India. Public sector banks provide loans to the lower category of people as per the instructions of the government and their contributions to social aspects are also on the higher side which has an impact in the parameters. Private sector banks mostly provide loans to the middle and upper categories of people which has a guaranteed repayment. Private sector banks must also consider priority sector lending in its fullest form along with meeting of societal aspects so that there exists a balanced growth for the industry and for the nation.

Managerial implication

- Rural areas and other weaker sectors need to be served by private sector banks so as to ensure balanced growth of both public and private sector banks. Concentration of private sector banks only on profitable ventures must be avoided to fulfil the community aspect. This action will not only uplift the profit of the public sector banks but it will also give buying powers in the hands of common people which will contribute towards the growth of the economy.
- Net profit and its growth rate must be reviewed by public sector banks. Operating expenses must be reduced by implementing cost control measures. Employee wise performance must also be checked for ensuring sufficient performance. The portion of fixed pay is more as compared to the variable pay in the salary of employees who are working for the public sector banks. And the portion of fixed pay and variable pay is typically well balanced in the salaries of the employees who are working for private sector banks.

- Branch wise targets must be fixed by public sector banks so as to ensure adequate performance based upon the population of that particular geographic area where the branch is located. Likewise same sort of targets must be fixed by private sector banks for social performance. For this, Reserve Bank of India must frame some rules and regulation regarding coverage of certain percentage of economically weak/lower class people.
- Assets must be utilised effectively by public sector banks. Underutilised or unutilised assets must be considered for diversification purposes and new schemes of income generating investments must be started.

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