A COMPARITIVE ANALYSIS OF SELECTED PUBLIC AND PRIVATE SECTOR BANKS

T.Thirunavukkarasu[*] Assistant Professor, Department of Management Studies, Kalaignar Karunanidhi Institute of Technology, Coimbatore.

D.Nachimuthu[**] II[nd] Year MBA –Student, Department of Management Studies, Kalaignar Karunanidhi Institute of Technology, Coimbatore.

ABSTRACT

Recently the Indian economy has witnessed the emergence of many banks in the private sector. There are several reasons behind the increasing number of commercialization of banks. For This study, we have used public sector banks and private sector banks. We know that in the service sector, it is difficult to quantify the output because it is intangible. Hence different proxy indicators are used for measuring productivity of banking sector. Segmentation of the banking sector in India was done on bank assets size. Overall, the analysis supports the conclusion that new banks are more efficient that old ones. The public sector banks are not as profitable as other sectors are. It means that efficiency and profitability are interrelated. The key to increase performance depends upon ROA, ROE and NIM.

Key Words*: *Efficiency, Profitability, Segmentation, Performance, Indicators

Introduction of Banking

Finance is the life blood of trade, commerce and industry. Now-a-days, banking sector acts as the backbone of modern business. Development of any country mainly depends upon the banking system. A bank is a financial institution which deals with deposits and advances and other related services. It receives money from those who want to save in the form of deposits and it lends money to those who need it.

Roles of Banks in Indian Economy

In India, as in many developing countries, the commercial banking sector has been the dominant element in the country financial system. The sector has performed the key functions of providing liquidity and payment services to the real sector and has accounted for the Bulk of the financial intermediation process, Besides institutionalizing saving the banking sector has contributed to the process of economic development by serving as a major source of credit to households, government, business and to weaker sectors of the economy like village and small scale industries and agriculture. Over the years, 30-40% of gross household savings have been in the form of bank deposits and around 60% of the assets of all financial institutions accounted for by commercial banks.

An important landmark in the development of banking sector in recent years has been the initiation if reforms following the recommendations of the first **Narasimham Committee** on Financial System. In reviewing the strengths and weaknesses of these banks, the Committee suggested several measures to transform the Indian banking sector from a highly regulated to amore market oriented system and to enable it to compete effectively in an increasingly globalized environment. Many of the recommendations of the Committee especially those pertaining to Interest rate, an institution of prudential regulation and transparent accounting norms were in line with banking policy reforms implemented by a host of developing countries since 1970‟s.

Reviews of Literature

Pat (2009) made an assessment of the RBI's Report on "Trend and Progress of Banking' in India, 2007-08, which reported a relatively-healthy position of the Indian banking system. He noted that the various groups of banks reported improvements in net profits, return on assets and return on equity. Two basic indicators of sound banking system, namely, capital to risk weighted assets and quality of assets, also revealed considerable improvements over the years.

Jha and Sarangi (2011) analyzed the performance of seven public sector and private sector banks for the year 2009-10. They used three sets of ratios, operating performance ratios, financial ratios, and efficiency ratios. In all eleven ratios were used. They found that Axis Bank took the first position, followed ICICI Bank, BOI, PNB, SBI, IDBI, and HDFC, in that order.

Dangwaland **Kapoor(2010)** evaluated the financial performance of nationalized banks in India and assessed the growth index value of various parameters through overall profitability indices. The data for 19 nationalized banks, for the post-reform period from 2002-03 to 2006-07, was used to calculate the index of spread ratios, burden ratios, and profitability ratios. They found that while four banks had excellent performance, five achieved good performance, four attained fair performance, and six had poor performance.

Makesh (2008) evaluated the financial management practices of Federal Bank and Dhanlakshmi Bank, along with the SBI, for the financial year 2006-2007. He revealed that all the three banks maintained capital in excess of the stipulated norms of the RBI. Federal Bank had the lowest NPA Ratio to net advances and had the maximum return on equity. Dhanalakshmi Bank maintained a very high liquidity. But Federal Bank performed well in cost management, as compared to the SBI and Dhanalakshmi Bank.

Need of the Study

Significance of performance evaluation in a Banks, for sustainable growth and development,has been recognized since long. This calls for a system that first measures and evaluates the performance, and then brings out the strengths and weaknesses of the Banks for the purpose of further improvement. Efficient performance evaluation system encompasses all aspects of aBanks. With the advances in computational tools, performance evaluation systems have evolved over a period of time from single-aspect systems to more comprehensive systems covering all aspects of aBanks.

Moreover, almost every industry, that envisages importance of evaluation, can adopt many methods to evaluate the performance. It prove to be better for performance measurement, evaluation and strategic planning for future growth and development of the Indian banks in the light of changing requirements of this sector so to analyze the comparative profitability performance of banks for the financial periods **2011-2014**. By examining the relationship among banks equity, assets and deposit size to profitability such as ROE, ROA and NIM. The banks will be ranked based on their profitability performance and growth percentage. This will help the banking industry for the improvement or change in their business model.

Objectives of the Study

1. To compares the profit earnings of the selected Public sector banks and Private sector banks from the year 2011 to 2014.

2.To investigate the factors affecting the profit earnings of the selected banks during the period.

Research Methodology

Research Design: This present study is conducted by following a Descriptive Design**.**

Sample Unit: Any single bank operating in India

Sample Size: For the in-depth analysis of the profitability, two major public sector and two private sector banks are selected on the basis of their Total Assets from the year 2011to2014. The total assets of banks are SBI 1792234.60(cr), IOB274904.84(cr), AXIS383244.89(cr), HDFC491599.52(cr).

Data Collection: Data was collected through Reserve Bank of India monthly bulletins, annual reports, moneyrediff, money control, banks websites etc. Two private sectors and two public sectors banks were selected on the basis of their total assets.

Data Analysis: Suitable statistical techniques are used for data analysis like ratios and coefficient correlation. (Return on asset ratio, Operating margin ratio, Demand deposit ratio, saving deposit ratio, Debt equity ratio, Net interest margin ratio, Debt equity ratioReturn on equity, Non-performing asset ratio).

DATA ANALYSIS AND INTERPRETATION

DEMAND DEPOSIT RATIO

The sum of money that is given to a bank but can be withdrawn as per the requirement of the depositor. Amounts that are lying in the savings and current accounts are known as demand deposits because they can be used at any point of time.

Table No.1

YEAR	SBI	IOB	AXIS	HDFC
2011	14.05	8.13	19.51	22.22
2012	9.43	6.89	18.06	18.38
2013	9.37	6.53	19.13	20.71
2014	8.12	6.15	17.33	21.81
MEAN	10.24	6.93	18.51	20.80
SD	2.61	0.86	1.00	1.74
CV	25.61	12.37	5.38	8.37
Source: SBI, IOB, AXIS AND HDFC bank Websites				

As shown in table the ratio of demand deposit is more in HDFC bank (20.80) followed by another private sector bank AXIS (18.51). Demand deposit is more in private sector banks comparing to public banks. it may be because no interest is paid on these accounts except in special cases where a large dormant balance is kept which could otherwise be transferred to the savings.

SAVING DEPOSIT RATIO

Accounts that pay interest and can be withdrawn on upon demand Offered by banks, credit unions, and Loans.

Table No.2

YEAR	SBI (%)	IOB (%)	AXIS (%)	HDFC (%)
2011	35.37	22.07	21.59	30.46
2012	35.37	19.54	23.47	25.74
2013	35.45	19.98	25.25	34.92
2014	34.79	19.19	27.68	36.71
MEAN	35.25	20.19	24.50	31.96
SD	0.30	1.29	2.60	4.91
CV	0.86	6.41	10.60	15.36
Source: SBI, IOB, AXIS AND HDFC bank Websites				

As shown in table the ratio of savings deposit to total deposit is maximum in case of SBI(35.25) followed by HDFC (31.96) it is an account at a bank in which the customer deposits money for any non-immediate use.

NET INTEREST MARGIN

A measure of the return on a Company's investment relative to its interest expenses the net interest margin helps a company determine whether or not it has made wise investment decisions.

Table No. 3

YEAR	SBI (%)	IOB (%)	AXIS (%)	HDFC(%)
2011	1.97	2.35	2.70	3.80
2012	2.37	2.38	2.81	3.64
2013	3.90	2.15	2.84	3.95
2014	3.77	2.03	3.12	3.76
MEAN	3.00	2.20	2.87	3.79
SD	0.98	0.14	0.18	0.13
CV	32.55	6.57	6.18	3.38
Source: SBI, IOB, AXIS AND HDFC bank Websites				

As shown in table NIM of HDFC is more than other banks i.e. (3.79) Which shows that interest earned by HDFC is much more than expended and other banks.IOB and AXIS earning very less interest in a study period.

RETURN ON ASSETS

Return on assets is the ratio of annual net income to average total assets of a business during a financial year. It measures efficiency of the business in using its assets to generate net income.

TableNo.4

YEAR (%)	SBI (%)	IOB (%)	AXIS (%)	HDFC (%)
2011	0.71	0.60	1.68	1.42
2012	0.88	0.48	1.68	1.53
2013	0.97	0.23	1.71	1.68
2014	0.65	0.22	7.80	1.72
MEAN	0.80	0.38	1.71	1.59
SD	0.15	0.19	0.05	0.14
CV	18.41	49.5	2.78	8.93
Source: SBI, IOB, AXIS AND HDFC bank Websites				

As shown in table ROA is highest in AXIS (1.71) followed by HDFC (1.59),IOB and SBI bank return on asset is below less then comparing to private sector banks.

RETURN ON EQUITY

One of the most important profitability metrics is return on equity (or ROE for short). Return on equity reveal show much profit a company earned in comparison to the total amount of shareholder equity found on the Balance sheet.

Table No.5

YEAR	SBI (%)	IOB (%)	AXIS (%)	HDFC (%)
2011	12.84	1.73	8.25	8.44
2012	14.36	1.32	10.27	11.01
2013	15.94	0.61	11.07	14.13
2014	10.49	0.49	13.23	17.67
MEAN	13.41	1.04	10.71	12.81
SD	2.32	0.59	2.06	0.04
CV	17.31	56.87	19.24	31.13
Source: SBI, IOB, AXIS AND HDFC bank Websites				

As shown in the table SBI received high level of equity return(13.41) And HDFC bank received (12.81). IOB return on equity is very less Comparing to other banks. i.e. (1.04)

NET PROFIT MARGIN RATIO

Net profit margin is the percentage of revenue remaining after all operating expenses, interest, taxes and preferred stock dividends (but not common stock dividends) have been deducted from a company's total revenue.

Table No. 6

YEAR	SBI (%)	IOB (%)	AXIS (%)	HDFC (%)
2011	41.77	8.05	17.12	12.07
2012	42.70	5.36	15.47	15.88
2013	41.81	2.50	15.22	16.05
2014	28.63	2.42	16.15	17.28
MEAN	38.73	4.58	15.99	15.32
SD	6.75	2.68	0.85	2.26
CV	17.42	58.55	5.32	14.72
Source: SBI, IOB, AXIS AND HDFC bank Websites				

As per table SBI enjoys more net profit (38.73),then Axis Bank(15.99) placed second place of above table.IOB loosing profit its earning minimum level of profit (4.58), because of its expenses is very high comparing to other banks.

OPERATING MARGIN RATIO

Operating margin ratio or return on sales ratio is the ratio of operating profit of a business to its revenue. It is profitability ratio showing operating income as a percentage of revenue.

Table No. 7

YEAR	SBI (%)	IOB (%)	AXIS (%)	HDFC (%)
2011	22.13	27.51	25.95	17.89
2012	25.58	18.86	22.94	23.10
2013	27.43	11.79	22.40	23.09
2014	24.13	13.19	24.62	26.87
MEAN	24.81	17.84	23.98	22.92
SD	2.24	7.13	1.62	3.74
CV	9.04	39.99	6.76	16.30
Source: SBI, IOB, AXIS AND HDFC bank Websites				

As shown in table operating margin of SBI is maximum (24.81), followed by AXIS (23.98) operating margin is directly concerned with profitability. IOB is least variable and which states that SBI bank's profitability doesn't change much.

DEBT EQUITY RATIO

The debt-to-equity ratio (debt/equity ratio, D/E**)** is a financial ratio indicating the relative proportion of entity's equity and debt used to finance an entity's assets.

Table No. 8

YEAR	SBI (%)	IOB (%)	AXIS (%)	HDFC (%)
2011	5.96	1.81	3.47	3.44
2012	6.46	1.77	4.11	4.16
2013	7.64	1.74	4.21	5.04
2014	8.10	1.42	4.90	6.32
MEAN	7.04	1.68	4.17	4.74
SD	1.00	0.18	0.58	1.24
CV	14.09	10.42	14.08	26.11
Source: SBI, IOB, AXIS AND HDFC bank Websites				

As shown in table debt equity is ratio is Maximum in SBI (7.04) and next bank is HDFC (4.74), then IOB is (1.68) it is very least comparing to other banks.

CAPITAL ADEQUACY RATIO

Capital adequacy ratio is the ratio which determines the bank's capacity to meet the time liabilities and other risks such as credit risk, operational risk etc.

Table No. 9

YEAR	SBI (%)	IOB (%)	AXIS (%)	HDFC (%)
2011	1.63	1.19	0.29	0.19
2012	1.82	1.35	0.27	0.18
2013	2.10	2.50	0.36	0.20
2014	2.57	3.20	0.44	0.27
MEAN	2.03	2.06	0.34	0.21
SD	0.41	0.96	0.08	0.04
CV	20.12	46.51	22.66	19.44
Source: SBI, IOB, AXIS AND HDFC bank Websites				

In this case IOB (2.06) has the capacity to meet the time liabilities and other risks such as credit risk, operational risk etc. followed by SBI at (2.03) and variation is more in case of AXIS and HDFC.

NON PERFORMING ASSET RATIO

NPA is a classification used by financial institutions that refers to loans that are in jeopardy of default. Once the borrower has failed to make interest or principle payments for 90 days the loan is considered to be a non-performing asset.

Table No. 10

YEAR	SBI (%)	IOB (%)	AXIS (%)	HDFC (%)
2011	10.69	14.55	12.65	16.22
2012	12.05	13.32	13.66	16.52
2013	11.85	11.43	17.00	16.90
2014	11.20	10.78	16.07	16.00
MEAN	11.45	12.52	14.85	16.41
SD	0.62	1.73	2.03	0.39
CV	5.43	13.82	13.68	2.38
Source: SBI, IOB, AXIS AND HDFC bank Websites				

Above this table HDFC bank non-performing asset is high (16.41) and next bank is AXIS (14.85).comparing to Public sector bank Private sector bank Non performing asset level is high of this table.

Correlation Co-Efficient Matrix

1) Correlation Co-efficient Matrix: SBI

	DD	SD	NIR	DER	ROA	ROE	OPR	NPMR	CAR	NPA
DD	1									
SD	0.482	1								
NIR	-0.760	-0.414	1							
DER	-0.822	-0.617	**0.969***	1						
ROA	-0.203	0.751	0.189	-0.008	1					
ROE	-0.517	0.457	0.532	0.366	0.926	1				
OPR	0.804	0.680	-0.947	-0.996	0.0945	-0.285	1			
NPMR	0.513	**0.986****	-0.537	-0.714	0.692	0.371	0.771	1		
CAR	-0.657	0.311	0.311	0.242	0.798	0.855	-0.175	0.304	1	
NPA	-0.800	-0.819	0.853	0.955	-0.271	0.109	-0.975	-0.881	0.093	1

**Correlation is significant at .05 level (2-tailed)*
***Correlation is significant at .01 level (2-tailed)*

The table shows that saving deposits and net profit margin ratio have a high degree of positive association (0.986) Debt equity ratio and net interest ratio have very high positive association (0.969) and return on equity, operating profit ratio are positively associated with net profit and Net profit margin ratio is positively associated with Non-performing asset. This is significant at 0.5 levels.

2) Correlation Co-efficient Matrix: IOB

	DD	SD	NIR	DER	ROA	ROE	OPR	NPMR	CAR	NPA
DD	1									
SD	0.947	1								
NIR	0.901	0.744	1							
DER	0.724	0.630	0.889	1						
ROA	0.918	0.745	0.950	0.702	1					

ROE	0.934	0.772	0.965	0.741	**0.997****	1				
OPR	0.957	0.848	0.868	0.579	0.962	0.960	1			
NPMR	0.960	0.828	0.926	0.670	0.988	0.989	0.990	1		
CAR	0.941	0.786	0.979	0.783	0.991	**0.995***	0.948	0.982	1	
NPA	-0.842	-0.648	-0.990	-0.871	-0.944	-0.953	-0.833	-.900	-.964	1

**Correlation is significant at .05 level (2-tailed)*
***Correlation is significant at .01 level (2-tailed)*

This table shows that return on asset is highly positively associated with return on equity at (0.997) and highly negatively associated with non-performing asset (-0.944). Further net profits are also positively correlated with demand deposit, return on equity and return on assets which is significant 5 percent level. It also shows that return on equity and saving deposit return on assets and demand deposit, saving deposit and demand deposit are associated with each other at positive 0.5 percent significance level.

3) Correlation Co-efficient Matrix: AXIS

	DD	SD	NIR	DER	ROA	ROE	OPR	NPMR	CAR	NPA
DD	1									
SD	-0.740	1								
NIR	-0.850	0.952	1							
DER	-0.862	0.976	0.964	1						
ROA	-0.740	0.899	0.971	0.878	1					
ROE	-0.814	**0.991***	0.960	**0.996****	0.884	1				
OPR	0.146	-0.302	-0.061	-0.322	0.140	-0.333	1			
NPMR	0.274	-0.429	-0.203	-0.454	0.002	-0.462	0.989	1		
CAR	-0.292	0.829	0.625	0.726	0.571	0.779	-0.578	-0.645	1	
NPA	-0.539	0.917	0.901	0.835	0.945	0.868	0.017	-0.102	0.763	1

**Correlation is significant at .05 level (2-tailed)*
***Correlation is significant at .01 level (2-tailed)*

This table shows that debt equity ratio and return on equity associated at (0.996) and operating profit ratio positively associated with non-performing asset at (0.017) and net interest margin ratio positively associated with return on asset at (0.971).which is significant at 0.5 percentage level.

4) Correlation Co-efficient Matrix: HDFC

	DD	SD	NIR	DER	ROA	ROE	OPR	NPMR	CAR	NPA
DD	1									
SD	0.695	1								
NIR	0.499	0.662	1							
DER	0.189	0.762	0.151	1						
ROA	0.050	0.740	0.320	0.951	1					
ROE	0.158	0.762	0.186	**0.997****	0.969	1				
OPR	-0.172	0.506	-0.045	0.934	0.930	0.942	1			
NPMR	-0.333	0.386	-0.075	0.861	0.898	0.877	**0.984***	1		
CAR	-0.504	-0.156	0.479	-0.218	0.092	-0.1524	-0.051	0.087	1	
NPA	0.517	0.785	0.056	0.889	0.719	0.859	0.709	0.574	-.607	1

**Correlation is significant at .05 level (2-tailed)*
***Correlation is significant at .01 level (2-tailed)*

The above the table shows that debt equity ratio is positively associated with return on equity at 0.997 and operating profit ratio positively associated with net profit margin ratio at 0.984.net interest ratio negative associate with operating profit and net profit margin ratio. Return on asset associate with capital adequacy ratio and non-performing asset. These relations are significant at 0.5 levels.

SUGGESTION AND CONCLUSION

SBI having high deposits level and the deposits are being utilized in good manner as they are giving credit on it and there CDR and profitability is well associated and its net interest margin is good. it will help full to earn more profit. Debt equity ratio is also very high. The bank needs to concentrate the non-performing asset.

For IOB net interest margin and return on equity is very less. so the bank earned low level of profit. Need to increase the interest income and reduced the total expenses. it will help to boost the revenue of bank.

Axis bank returns on asset and is highly positive. It has good association with capital adequacy and deposits in banks are very high. It is drastically impacted the net profit and the bank need to give importance of non-performing asset.

For HDFC bank return on equity is quite high as compared to other banks and is positive associated with capital adequacy. Profitability is positive associated with net interest margin.

REFERENCES

1. ICFAI *Journal of Bank Management*No7.vol 3.Jan 2008
2. Makesh, K.G. (2008), "*Financial Performance Analysis of Commercial Banks*: A Comparison of Federal Bank, Dhanlakshmi Bank, and SBI", Professional Banker, Vol. 8, No. 9, pp. 34-44.
3. Pat, K.A. (2009), "Why Indian Banks are healthy in this Global Crisis?" *Economic andPolitical Weekly*, Vol. 44, No. 17, pp. 21-22.
4. SamwelKakuko Lopoyetum2,"A Study of Business Performance with Special Reference to Profitability and Viability Dimension– Uthamapalyam Urban Cooperative Bank, Theni District," *Cooperative Perspective*, Vol.37, No.4,March 2005, pp. 61-81.
5. http://www.scribd.com/doc/39173858/Synopsison- Comparative-Study-on-ICICI-and-SBI
6. http://www.moneycontrol.com/
7. http://www.moneyrediff.com/
8. http://www.equitymaster.com/
9. http://www.gktoday.in/brief-history-of-bankingin
10. http://www.researchandmarkets.com/reports/402/indian_banking_industry
11. http://www.sbi.in
12. http://www.axis.in
13. http://www.hdfc.com
14. http://www.iob.in