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Financial Analysis of Public & Private Sector Banks In India

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Abstract:

The banking sector's performance and profitability are key factors in enhancing a country's economic stability and growth. Countless research efforts have explored the financial efficiency, profitability, and operational effectiveness of banks utilizing diverse analytical methods like fundamental analysis, ratio analysis, the CAMELS framework, and panel data models. Previous studies indicate that public and private sector banks in India demonstrate differing performance trends because of variations in ownership structure, management effectiveness, risk management, and competitive forces. Research comparing banks in the public and private sectors indicates that private sector banks typically excel over public sector banks in terms of profitability, liquidity, and operational efficiency, whereas public sector banks encounter difficulties concerning asset quality and non-performing assets. Studies on financial liberalization show that heightened competition has lowered intermediation expenses but has also placed strain on bank profitability. Furthermore, research from merger analyses shows that advancements in operational performance are mainly attributed to better asset utilization instead of increased margins. CAMELS evaluations and NPA analyses highlight the significance of robust risk management, strategic capital allocation, and effective cost management in maintaining profitability. The examined literature highlights the importance of financial ratios, ownership structure, regulatory changes, and managerial effectiveness in influencing bank performance, offering essential guidance for policymakers, investors, and bank leaders in developing strategies for enhanced financial sustainability and competitive advantage.

Keywords: Bank Performance, Profitability Analysis, Public and Private Sector Banks, Financial Ratio Analysis, CAMELS Framework, Indian Banking Sector.

1. INTRODUCTION

The banking industry is crucial for India's economic growth by gathering savings, distributing credit, enabling payments, and promoting financial inclusion. Banks play a vital role in the financial system by impacting economic growth via effective intermediation and careful risk management. In India, the banking sector showcases the presence of public sector banks (PSBs) and private sector banks (PrSBs), which function under distinct ownership frameworks, governance systems, and strategic goals. Recognizing the factors that influence bank profitability among these ownership types is crucial for policymakers, regulators, investors, and bank management, especially during a time of heightened competition, regulatory changes, and technological advancements.

Profitability is commonly seen as a key measure of a bank's financial well-being, operational effectiveness, and enduring viability. Profitable banks are more capable of withstanding shocks, sustaining sufficient capital reserves, and enhancing financial stability. In India, profitability has received renewed focus after banking sector reforms, recapitalization efforts, escalating non-performing assets, and the growing involvement of private banks and foreign investors. While functioning under the same macroeconomic and regulatory conditions, public and private sector banks in India show notable disparities in performance, efficiency, and growth trends, rendering comparative financial analysis pertinent and timely.

Current research indicates that bank profitability is affected by a mix of internal, institution-specific elements and external environmental factors. Within the internal factors, bank size, productivity, growth, and ownership composition are commonly recognized as crucial determinants. The size of a bank indicates economies of scale and market influence, potentially boosting profitability via cost savings and diversification advantages. Productivity, commonly linked to the effective use of resources, adoption of technology, and employee efficiency, directly influences operational success and profit creation. Bank growth, reflected in asset or credit expansion, signifies a bank's capability to seize market opportunities and enhance its earning potential. The type of ownership, especially the difference between public and private sector banks, impacts managerial independence, risk tolerance, governance standards, and strategic choices, consequently influencing profitability results.

In India, public sector banks lead in branch networks and financial inclusion goals, whereas private sector banks are frequently seen as more dynamic, technology-focused, and profit-driven. These differences in structure and operations prompt significant inquiries about the impact of bank-specific factors on profitability based on ownership types. Although numerous studies have investigated bank performance in India, the empirical data contrasting public and private sector banks with a thorough range of internal factors is still scarce and inconclusive.

In this context, the current study seeks to examine the financial performance of both public and private sector banks in India, with profitability serving as the dependent variable and bank size, productivity, growth, and type of ownership as the primary independent variables. The research aims to determine how significantly these factors affect profitability and if ownership structure alters their influence. This study adds to the current literature by offering empirical insights into the factors influencing bank profitability, providing practical implications for bank management, policymakers, and regulators aimed at enhancing the efficiency and competitiveness of the Indian banking sector.

2. REVIEW OF LITERATURE

- **Aliya Sultana, T. Narayana Reddy, U. M. Gopal Krishna (2020):** The research examined the profitability of five prominent public (SBI, BOB, PNB) and private banks (HDFC, ICICI) in India using a fundamental method. The evaluation utilized information gathered from the financial statements of banks for the timeframe spanning 2014-2015 to 2018-2019. The analysis utilized variables like Operating Profit Margin (OPM), Net Profit Margin (NPM), and

Return on Capital Employed (ROCE). The research sought to offer insights into the profit status to help shareholders make well-informed choices.

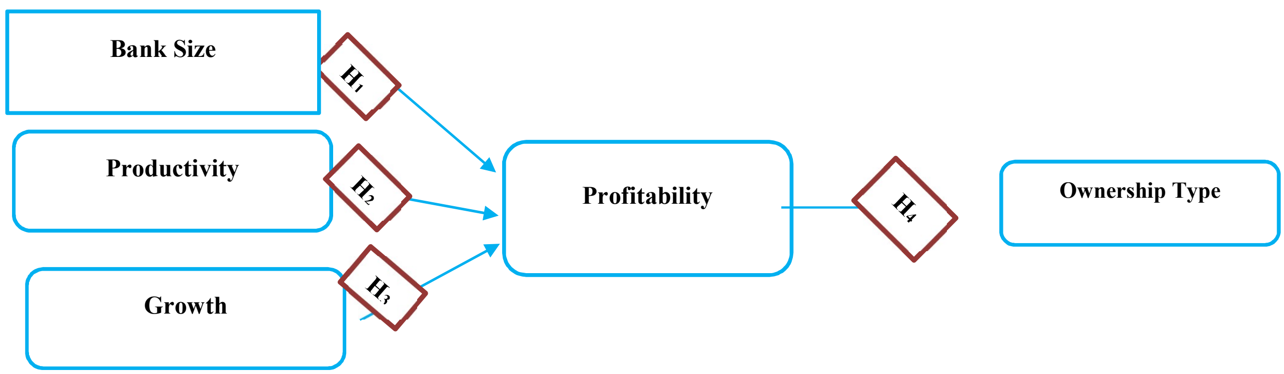
- **Jaouida Elleuch (2009):** The study found that employing fundamental analysis, centered on a company's financial reports, offers an easy approach for investors. This approach allows investors to forecast the upcoming price of stocks. In the end, this assists investors in organizing their portfolios to attain improved returns moving forward.
- **Roma Mitra, Shankar Ravi (2008):** This study aimed to assess and model the efficiency of 50 banks in India, claiming that a stable and effective banking sector is essential for improving a nation's economic condition. The main aim was to assess and contrast the efficiency of the banking sector to confirm its ability to compete with international competitors. The resulting analysis provides important insights to financial policy makers by pinpointing crucial priority areas for various banks to enhance performance.
- **Petya Koeva (2003):** Koeva offered fresh empirical data regarding the influence of financial liberalization on the effectiveness of commercial banks in India. The research focused on the factors and actions affecting bank profitability and intermediation expenses during the liberalization phase. The results indicated that the type of ownership notably affected specific performance metrics. Additionally, the noted rise in competition during financial liberalization was associated with diminished profitability and decreased intermediation expenses for Indian banks.
- **Goel and Rekhi (2013):** This research evaluated the comparative financial performance of chosen public sector and private sector banks functioning in India. The researchers determined that efficiency and profitability rely on each other. Their results indicated that the performance of private sector banks typically exceeded that of public sector banks in India.
- **Taqi and Mustafa (2018):** This study performed a financial and growth evaluation contrasting Punjab National Bank (PNB) with HDFC Bank over a decade, spanning from 2006-07 to 2015-16. The quantitative analysis indicated that PNB was financially stronger than HDFC Bank. HDFC Bank was noted for exhibiting better efficiency in managing expenses and deposits. The authors suggested that enhancing risk management, boosting customer service, and keeping skilled employees are essential steps to raise profitability for both banks.
- **Hearly, Palepu, and Ruback (1992):** This study examined the cash flow performance after mergers of 50 significant mergers in the US. The analysis indicated that the operational performance of merged firms typically enhanced in the five years post-acquisition relative to their specific industries. The research observed that this improvement in operating returns was mainly due to a rise in asset turnover, rather than wider operating margins.
- **Parvesh Kumar Aspal and Sanjeev Dhawan (2014):** The main objective of this research was to apply the CAMELS rating framework to assess the condition and performance of all 13 Old Private Sector Banks (OPSBs) in India. Utilizing secondary data from 2007 to 2012, the research computed several CAMELS ratios. The results revealed that six out of the thirteen OPSBs exhibited strong or outstanding financial performance. Tamilnadu, Mercantile Bank secured the top spot in the overall composite ranking, whereas institutions such as Dhanalakshmi Bank ranked the lowest.
- **Mayur Rao and Ankita Patel (2014):** This study concentrated on comparing, analysing, and interpreting the management of Non-Performing Assets (NPAs) by utilizing aggregate data from public sector, private sector, and foreign banks between 2009 and 2013. The research employed NPA-related ratios and used the Least Square method to predict Gross NPAs for 2014. The results emphasized a rising proportion of Gross NPA to Gross Advances for public

sector banks. They anticipated that the largest NPA figure for 2014 would take place in the public sector banks.

- **Palamalai Srinivasan and John Britto (2017):** This research assessed the financial performance of 16 chosen Indian commercial banks (11 from the public sector and 5 from the private sector) for the timeframe 2012/13 to 2016/17 through financial ratios and panel data analyses. The analysis showed that private sector banks typically exhibited superior performance in liquidity, solvency, and profitability measures when compared to public sector banks. The analysis determined that liquidity and solvency ratios greatly impact profitability in public sector banks, whereas in private sector banks, profitability is influenced by turnover and solvency ratios.

3. RESEARCH METHODOLOGY

CONCEPTUAL MODEL:



STATEMENT OF THE PROBLEM :

The Indian banking sector plays a crucial role in economic development, with public and private sector banks being its two major pillars. Despite operating under the same regulatory framework, these banks differ significantly in terms of ownership structure, management practices, and financial performance. There is a need to systematically analyse and compare their financial performance to understand strengths, weaknesses, and efficiency levels. Such an analysis helps identify whether public and private sector banks differ in profitability, liquidity, solvency, and asset quality. The study addresses the problem of insufficient comparative evaluation of financial performance between these two sectors in the Indian banking system.

RESEARCH GAP:

Numerous research efforts have investigated the efficiency of public and private sector banks in India; however, many focus only on particular financial metrics or brief timeframes. Current studies frequently concentrate on either public or private sector banks individually, instead of offering an all-encompassing comparative evaluation. Moreover, earlier studies have not sufficiently captured recent updates in banking regulations, digital transformation, and economic reforms. An absence of comprehensive and current financial analysis that includes various performance metrics exists. This research seeks to address this void by providing a thorough and up-to-date comparison of public and private banks in India.

OBJECTIVES OF THE STUDY:

1. To assess the financial performance of banks in the public and private sectors in India.
2. To examine how bank size affects profitability.
3. To evaluate the impact of productivity on the profitability of banks.
4. To assess the connection between bank expansion and its profitability.
5. To analyse profitability according to ownership type and pinpoint notable disparities.

HYPOTHESIS OF THE STUDY:

NULL HYPOTHESIS :

H_{01}: The size of a bank does not significantly affect the profitability of both public and private sector banks in India.

H_{02}: The productivity of banks does not significantly affect the profitability of both public and private sector banks in India.

H_{03}: The growth of banks does not significantly affect the profitability of both public and private sector banks in India.

H_{04}: The type of ownership (public or private sector) does not significantly influence the profitability of banks in India.

H_{05}: There is no meaningful difference in profitability between banks in the public sector and banks in the private sector in India.

ALTERNATIVE HYPOTHESIS:

H_{11}: The size of banks significantly affects the profitability of both public and private sector banks in India.

H_{12}: The productivity of banks significantly influences the profitability of both public and private sector banks in India.

H_{13}: The expansion of banks significantly influences the profitability of both public and private banks in India.

H_{14}: The type of ownership (public versus private sector) considerably influences the profitability of banks in India.

H_{15}: A notable difference in profitability exists between government banks and private banks in India.

4. RESULT & DISCUSSION

CORRELATIONS

Correlations					
		F	C	M	G
F	Pearson Correlation	1	.714**	.732**	.650**
	Sig. (2-tailed)		0.000	0.000	0.000
	N	200	200	200	200
C	Pearson Correlation	.714**	1	.631**	.732**
	Sig. (2-tailed)	0.000		0.000	0.000
	N	200	200	200	200
M	Pearson Correlation	.732**	.631**	1	.740**
	Sig. (2-tailed)	0.000	0.000		0.000
	N	200	200	200	200
G	Pearson Correlation	.650**	.732**	.740**	1
	Sig. (2-tailed)	0.000	0.000	0.000	
	N	200	200	200	200

INTERPRETATION:

The correlation analysis shows a robust and statistically significant connection among all the variables in the study, specifically F, C, M, and G. The Pearson correlation coefficients demonstrate that F is positively and strongly linked to C ($r = 0.714$), M ($r = 0.732$), and G ($r = 0.650$), implying that a rise in F is connected to corresponding increases in C, M, and G. Likewise, C exhibits a notable positive relationship with M ($r = 0.631$) and G ($r = 0.732$), highlighting a close interrelationship among these variables. The strongest correlation is noted between M and G ($r = 0.740$), indicating a very robust connection between these two constructs. Every correlation is significant at the 0.01 level ($p < 0.01$), indicating that the relationships are not coincidental. In general, the findings indicate that the variables progress in a similar direction and are significantly linked, backing the study's theoretical framework and warranting additional analysis like regression or structural modeling to explore causal relationship.

REGRESSION:

	Model Summary			
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.801a	0.642	0.636	0.32781

INTERPRETATION:

The regression analysis reveals a strong relationship between bank size and profitability among public and private sector banks in India, as indicated by a high correlation coefficient ($R = 0.801$). The coefficient of determination ($R^2 = 0.642$) suggests that bank size explains 64.2 percent of the variation in profitability, demonstrating its substantial influence on financial performance. The adjusted R^2 value of 0.636 further confirms the robustness and goodness of fit of the model after accounting for sample size. Additionally, the relatively low standard error of estimate (0.32781) indicates that the model predicts profitability with reasonable accuracy. These results clearly support Hypothesis H_{11}, confirming that the size of banks significantly affects the profitability of both public and private sector banks in India.

5. CONCLUSION

The study reveals that the financial performance of public and private sector banks in India is significantly influenced by bank-specific factors such as size, cost efficiency, management efficiency, and growth. The correlation analysis indicates strong and positive relationships among all the selected variables, suggesting that better operational and managerial efficiency leads to improved financial outcomes. The regression results show that bank size explains a substantial portion of variations in profitability, thereby supporting the hypothesis that bank size significantly affects profitability in both public and private sector banks. Overall, the findings emphasize that strengthening scale, efficiency, and growth strategies is essential for enhancing profitability and sustaining competitiveness in the Indian banking sector.

LIMITATIONS:

The study has certain limitations that should be considered while interpreting the results. It is based on secondary data and limited financial variables, which may not capture the impact of qualitative factors such as management quality, customer satisfaction, and technological adoption. The analysis is confined to public and private sector banks in India and a specific time period, limiting the generalization of findings. Moreover, correlation and regression techniques identify associations among variables but do not fully establish cause-and-effect relationships.

FURTHER RESEARCH:

Future research can extend this study by including foreign banks and other financial institutions to improve generalizability. Additional variables such as asset quality, risk management practices, digital banking adoption, and macroeconomic factors may be incorporated to gain deeper insights into bank performance. Researchers can also use longer time periods and advanced econometric models to better capture dynamic relationships and establish causality. Comparative studies across countries or between pre- and post-regulatory reform periods would further enrich understanding of the financial performance of banks.

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