

Performance and Evaluation of Public and Private Sector Banks in India

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Abstract: The banking sector has become the foundation of modern economic development of a country. The effect of LPG in the financial sector in India is exposing Indian banks to a new economic environment that is characterized by increased competition and new regulatory requirements. So there is a need to examine their strengths and weakness of banking sector. The public and private sector banks are very important segments of banking sector in India. The present study is comparative study of public and private sector bank for three years from the year 2011 to 2013. The study based on secondary data. Both the banks have been compared on the basis of seven parameters. i.e. Branch expansion, advances, borrowings, profitability, deposits, non-performing assets, income and investments. Overall, it may be concluded that public sector banks even have dominant position in numbers of branches in all over India but still facing competition from private sector banks because the public sector banks requires to working in rural areas, it resulting in high per unit transaction costs. So, they should adopt advancement in technology for overcoming reduction of costs in rural branches.

1. INTRODUCTION

Capital formation is very essential for a growing economy. It depends upon the financial sector of a country. The banking system is the most dominant segment of the financial sector. Because 80 percent of the funds flowing from banking sector. Now in India, after the implementation of Liberalization, Privatation and globalization (LPG) increasing pressure on every sector of the economy where banking is the most affected sector among the services sector of the economy. In the pace much competitive pressure building up for Indian banks both from within and outside. In current days, public sector banks are facing much competition from new private sector banks and foreign banks to retain their share in the market. In this high competitive environment there is a need to evaluate the performance of Indian banking to examine strengths and weakness. Currently as 31 march 2011 India has 88 scheduled commercial banks (SCBs) 26 public sector banks, 22 private sector banks and 31 foreign banks. They have a combined network over 93080 branches and 74505 ATMS. According to a report by ICRA limited a rating agency the public sector banks hold 75% percent of total assets of banking industry with the private and foreign banks holding 18.2% and 6.5% respectively.

2. STATEMENT OF THE PROBLEM

The public and private banks are playing a major role in the development of Indian Banking

Industry as well as the national economy. They have made

Banking more efficient and customer friendly, the problem to be investigated in this study stated as "A Study on Comparative Performance between public and private sector banks in India".

Performing may be measured through the following factors:

- The branch expansion
- The growth of deposits
- The growth of Advance
- The profitability
- Nonperforming Assets (NPA)
- Total incomes and Investments

The banking industry in India has undergone revolutionary changes due to initiation of reform. The Narasimhan committee in the year 1991 and 1998 to bring about greater efficiency in banking operations and to strengthen Indian financial system and make it internationally competitive. In July 1993 as part of the banking reform process and as a measure to induce competition in the banking sector RBI permitted the private sector banks.

In the pace of much competitive peruse inherent rigidities in public sector banks to enhance their overall efficiency pose series challenges. In current days, public sector banks are facing much competition from private sector banks and foreign banks to retain their share in the market. In this circumstances, There is a need to evaluate and compare performance of public and private sector banks in India.

The growth of real GDP is linked to the financial sector through increased savings, investment and improved efficiency in financial intermediation. But the Indian economy is estimated to grow by 6.9 percent in 2011-12 after having grown at the rate of 8.4 percent in each of the two preceding years. This indicates a slowdown compared not just to the previous two years but 2003 to 2011 (except 2008-2009) the banking system should be financially sound if it is in a position to carry on its business performance evolution is an important issue and currently required for the Indian banking industry to examine the strengths. In recent year, there has been decline in the rate of GDP and deposit growth rate. Hence, it is intended to make an attempt study the comparative performance between private and public banks in India.

3. REVIEW OF LITERATURE:

Salam Abdus and Kulsum Umma (2004) in their study had observed the saving behavior in India. The objective of the study was to find the determinants of savings by analyzing saving behavior in India over a period of nineteen years. i.e., from 1980-81 to 1998-99. The methodology adopted was simple and multiple regression models were used. From the analysis it was found that a favorable macro-economic environment supported by string structure reforms including liberalization of financial market should help domestic saving to increase substantially.

M.Syed Ibrahim (2009), his study the main objectives the functional spread of the scheduled commercial banks. He found that the deposits of scheduled commercial banks reveals that between 2001-2006, the deposits growth has been consistently positive. He also found that the banks face increasing costs incurred on staff, provision for sanction, technology and advertising among others. Banks have to; therefore create new avenues of business such as fee-based income.

Haresh Barot (2010), his study the major objective is to the impact of financial sector reforms Indian economy with specific reference to banking sector considering certain definite key economic indicators. This study found that the financial sector reform have had a considerable impact on banking sector to mobilize financial savings. The restructuring of the banking sector and liberal entry and exit policies resulted in dynamic growth of banks.

K.V.N.Prasad and Dr.D.Maheshwara Reddy and Dr.A.A.Chari (2011), his study has been conducted

to examine the economic sustainability of all public sector banks in India using CAMEL model during the period 2006-10. The study revealed that, state bank of Bikaner and Jaipur stood at top position in terms of capital adequacy. In front of assets quality bank of Baroda placed at first position. Punjab and Sindh Bank was at top most position in case of management efficiency. In context of earning quality Indian bank positioned at first. It's again BOB stood at first position in front of liquidity. Overall performance table shows that, Andhra Bank is ranked first followed by Bank of Baroda, Indian Bank, Corporation Bank and Panjab, National Bank.

Vijai Shooda (2011) In his A study compared the deposit and advances of the Rohtak central co-operative Bank Ltd, and the Jhajjar central co-operative Bank Ltd., by using Spearman's Rank correlation method. He found that deposits were highly correlated with the Advances; it was also found that the Jhajjar central co-operative Bank recorded increasing trend in mobilization deposits and advancing credit. But the credit Deposit ratio of this bank recorded fluctuating trend. There was no trend in deposits, advances and CD ratio of the Rohtak central co-operative Bank during the study period and it recorded fluctuating trend in all three variables considered for the study. They review of earlier studies has revealed that the deposit mobilization by bank is more important for the economic development of nation. Hence the present study is important to examine that growth of deposits of SBI Group.

4. OBJECTIVES OF THE STUDY

The following are the objectives of the study

1. To compare the branch expansion, advance, profitability, deposits, non-performing assets, incomes and investments of public and private sector banks.
2. To offer suitable suggestions based on findings of the study.

5. RESEARCH METHODOLOGY

The study is based mainly on secondary data collected from various published sources. The data required for the study has been collected from RBI annual reports, IBA Journals, books and websites.

6. PERIOD OF THE STUDY

This study covers a period of 3 years from 2011 to 2013.

TABLE I
COMPARING THE BRANCH EXPANSION OF PUBLIC AND
PRIVATE SECTORS IN INDIA

(As on 31st March) (Amount in Rs.Crore)

Year	2011	2012	2013
No of Branches (Private Sector Banks)	10480	12045	13868
No of Branches (Public Sector Banks)	61894	65416	70314

Sources: Primary data

The table indicates that the no of branches is increasing in both sector banks. In 2011 no of branches of public sector banks were 61894 but private sector banks were 10480. In 2012, the number of branches of public sector banks was 65416 and private sector banks were 12045. In

2013 there are 70314 branches of public sector banks and 13868 branches of private sector banks. The branch expansion of public sector banks is more than private sector banks.

TABLE II
COMPARING THE ADVANCES OF PUBLIC AND PRIVATE SECTOR BANKS IN INDIA
(As on 31st March) (Amount in Rs. Crore)

Year	2011	2012	2013
Advances (Private Sector) (a)	632441	797944	966418
No of branches (b)	10480	12045	13868
Average loan granted per branch (a/b)	60.35	66.25	69.69
Advances (a) (public sector)	2701019	3304433	3878312
No of branches (b)	61894	65416	70314
Average loan granted per branch (a/b)	43.6	50.51	55.16

The above table indicates total amount of advance granted, average loan granted per branch for three years by both the banks. If we compare total amount then private sector banks granted more advances. But if average is compare than more loan than public sector banks. In 2011 average of private

sector banks were 60.35 crores in case of Private sector banks and Rs.43.6 crores in case of public sector banks. In 2013, average loan granted by private sector bank was Rs.69.69 crores and by public sector banks was Rs.55.16 crores only.

TABLE III
COMPARING THE PROFITABILITY OF PUBLIC AND PRIVATE SECTOR BANKS IN INDIA
(As on 31st March) (Amount in Rs.Crore)

Year	2011	2012	2013
Net Profit (a) (Private Sector)	13112	17712	22718
No of branches (b)	10480	12045	13868
Average net profit per branch (a/b)	1.25	1.47	1.64
Net profit (a) (Public sector banks)	39257	44901	49514
No of branches (b)	61894	65416	70314
Average net profit per branch (a/b)	0.63	0.69	.70

The above table indicates that from 2011 to 2013 the net profit of public sector banks is more. But if one sees the average net profit as per branch expansion, the profitability of private sector banks is more. The public sector banks has average net

profit of Rs.0.63 in 2013. Whereas private sector banks has average net profit of Rs.1.25 crores in 2011, Rs.1.47 crores in 2012 and Rs.1.64 crores in 2012. So profitability of Private Sector bank is more.

TABLE IV
COMPARING THE NPA OF PUBLIC AND PRIVATE SEXTOR BANKS IN INDIA
(As on 31st March) (Amount in Rs.Crore)

Year	2011	2012	2013
Net NPA % to net advances (Private Banks)	1.03	0.56	0.46

Net NPA as % to yet Advances (Public Banks)	1.10	1.09	1.53
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The table indicates that in public sector banks percentage of Net NPA to total net advances is increasing continuously. In 2011, % age of net NPA was 1.10%, 1.09 in 2012 and 1.53% in 2012. In case private sector banks, there is declining

trend. Percentage of NPA in 2010 was 1.03% in 2011, it decline to 0.56% and in 2013 declined further to 0.46% from the above one can say that private sector bank is better than public sector bank in case of NPA.

TABLE V
**COMPARING THE DEPOSITS OF PUBLIC AND PRIVATE
 SECTOR BANKS IN INDIA**
 (As on 31st March) (Amount in Rs.Crore)

Year	2011	2012	2013
Private Sector (a)	822801	1002759	1174587
No of branches (b)	10480	12045	13868
Deposit per branch (a/b)	78.51	83.25	84.70
Public Sector (a)	3692019	4372449	5001743
No of branch (b)	61894	65416	70314
Deposit per branch (a/b)	59.65	66.84	71.13

The table indicates the public sector banks and private sector banks deposits show increasing trend. Public sector banks accepts more deposits than private sector banks. In 2013, the deposits accepted by public sector banks are Rs.5001743 crores and by private sector banks, Rs.1174587 crores. But deposits as per branch expansion the profitability of private banks is more compared to

public sector banks. The private public sector banks has deposit per branch of Rs.59.65 crores in 2010 and Rs.66.84 crores in 2012 and Rs.71.13 crores in 2013. Where as private sector banks has deposit per branch of Rs.78.51 crores in 2010 and Rs.83.25 crores in 2012 and Rs.84.70 crores in 2013.

TABLE VI
**COMPARING THE INCOME OF PUBLIC AND PRIVATE
 SECTOR BANKS IN INDIA**
 (As on 31st March) (Amount in Rs.Crore)

Year	2011	2012	2013
Total Income (Public Banks)	354876	414099	535098
Total Income (Private Banks)	103220	117586	158478

The table indicates that total income of public sector banks and private sector banks showing increasing trend. Private sector banks earn & more income than public sector banks. The public sector banks has total income of Rs.103220 crores in 2011, Rs.117586 crores in 2012, and Rs.158478

crores in 2012, whereas public sector banks has total income of Rs.354876 crores in 2011, Rs.414099 crores in 2012, and Rs.535098 crores in 2013. So total income of private sector bank is more.

TABLE VII
**COMPARING THE INVESTMENT OF PUBLIC AND PRIVATE
 SECTOR BANKS IN INDIA**
 (As on 31st March) (Amount in Rs.Crore)

Year	2011	2012	2013
Private sector banks	354117	422020	525982
Public sector banks	1215598	1336076	1504077

The table indicates that public and private sector bank investment showing increasing trend

public sector banks. More investment trend private sector banks. In 2011, the invested by public sector

banks are Rs.1504077 crores and private sector banks as Rs.525982 crores only. So the Investment of public sector bank is more.

7. ANALYSIS AND CONCLUSION

As regards branch expansion, acceptance of deposits from public are investment public sector banks is better position than private sector banks. But as regards average loan granted per branch, profitability, and percentage NPA, private banks is better overall it may be concluded that public sector banks even have dominant position in number of branches in all over India but still facing competition from private sector banks. Because the public sector banks required to working in rural areas it resulting in high per unit transaction costs. So they should adopt advancement in technology for overcoming reduction of costs in rural branches.

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