



## A comparative study of the financial performance of the selected public and private sector banks in India

Hitesh Gordhanbhai Khant<sup>1</sup>, Dr. K D Ahir<sup>2</sup>

<sup>1</sup> Research Scholar, Saurashtra University, Rajkot, Gujarat, India

<sup>2</sup> Associate Professor & Head, Department of Commerce, Shri M.P. Shah Commerce College, Surendranagar, Gujarat, India

### Abstract

This study presents a comparative analysis of the financial performance of selected public and private sector Banks in India. Given the crucial role of Banks in safeguarding public savings and supporting economic growth, assessing their performance is of significant importance to policymakers, investors, and customers. The analysis relies on secondary data and employs ratio analysis and the independent t-test to evaluate key financial indicators, namely Net Profit Margin (NPM), Return on Assets (ROA), and Return on Equity (ROE). The results indicate that private sector Banks consistently outperform public sector Banks in terms of profitability and asset utilisation. While the difference in return on equity between the two groups is statistically insignificant, private sector Banks demonstrate stronger performance in other ratios. These findings suggest that public sector Banks need to adopt efficient management practices, strengthen their financial strategies, and enhance customer-oriented services to remain competitive.

**Keywords:** Private sector, public sector, ROE ratio, ROA ratio, NIM ratio and more

### Introduction

The Banking industry is vital for every nation, not just India. Banks force the growth of our country. Banks provide many facilities to the public, accepting savings from the general public and offering interest on these deposits. It also provides loans to the public, industry, and other organisations. Banks offer various services, such as ATM services and online Banking, allowing the public to access their accounts without needing to visit the Bank. Additionally, Banks face numerous challenges, including recovering loans with interest and managing non-performing assets. In India, the Reserve Bank of India manage all Banking activities. So, the Bank can work properly. The RBI designs the rules and regulations for all Banks operating in India. RBI protects the interests of the public. If Banks fail to follow the RBI's rules and regulations, the RBI takes steps against them. Here, the researcher also aims to discuss the financial performance of the Banks. Why is financial performance important for Banks and the public? For that reason, this research has been conducted. Financial performance is too useful for citizens. Therefore, the public wants their savings to remain secure and generate a return. For that reason, many people keep their money in Banks as an investment. Customers should be aware of all aspects. How can customers know about the Banks? Which Banks give quality services, and which Banks have goodwill? So, customers can keep their deposit there. The public should be known of the financial performance. So many researchers conduct research regarding financial performance, which is useful for governments, investors, shareholders, and creditors. Financial performance denotes how well Banks are working in the Banking market. Financial performance can be known by different types of financial parameters like net profit, all debts and assets, loans and advances, reserve and surpluses, equity, operating income and expenses and more. There are many researchers who takes these financial parameters to know about the financial performance of the Banks. And

then researchers apply ratios to these parameters and also use statistical tools for reliable results for the financial performance. There are many ratios to calculate for the financial performance, such as profitability, liquidity, and solvency ratios. Also, camel can help researchers to know about the financial performance of the Banks. Some other models can be used to find the financial performance of the Banks, like DuPont analysis, Economic value-added model, Balanced scorecard model, Z – Z-score model; these are also useful for financial performance analysis. Financial performance is also helpful for the Government to regulate the Banks and to give valuable suggestions and recommendations to the Banks regarding their weakness and problems.

### Literature Review

Balaji (2016) <sup>[1]</sup> conducted a comparative analysis of the financial performance of selected public and private sector Banks in India. The study found that private sector Banks demonstrated a higher growth rate, whereas public sector Banks encountered several operational and financial challenges. The author recommended that public sector Banks implement strategic measures to address their financial shortcomings.

Chaudhuri (2018) <sup>[2]</sup> examined the financial performance of the State Bank of India (SBI) and ICICI Bank over the period 2010–2016, using the CAMEL framework and relying exclusively on secondary data. The study revealed that SBI underperformed relative to ICICI Bank in terms of profitability and management efficiency. In contrast, ICICI Bank exhibited a stronger financial position. The researcher suggested that SBI should improve its return on assets, optimise its debt-to-equity ratio, and enhance its credit-to-deposit ratio to strengthen overall economic performance.

(Mali, 2021) <sup>[3]</sup> Worked on the comparative financial performance of selected private and public sector Banks in India during COVID-19. What is the impact of COVID-19 on the economic performance of selected private and public

sector Banks in India? They used certain financial parameters, including Net NPA, Gross NPA, EPS, and ROA. Researchers observed that private sector Banks had worked better than public sector Banks. Additionally, private Banks outperform the public sector in terms of EPS. The public sector faces the problems of non-performing assets. Also, private sector Banks should pay attention to the Return on assets ratio.

(Malviya, 2016) [4] Researched on a comparative analysis of performance appraisal in selected public and private sector Banks in India. The primary objective of this research was to assess the financial performance of selected public and private sector Banks in India. The researcher found that the average net profit ratio, expressed as a percentage of total assets, was higher in private-sector Banks than in public-sector Banks. Also, total income as a percentage of capital employed was better in private-sector Banks than in public-sector Banks. Private sector Banks had utilised their capital efficiently. The non-performing assets ratio was higher in private sector Banks as compared to public sector Banks. Private sector Banks need to reduce their expenses and also improve their management.

Prabha (2022) [6] carried out a comparative study of SBI, Indian Overseas Bank (IOB), and ICICI Bank. The findings indicated that although SBI recorded higher total income than its peers, controlling operational expenditures was necessary to maintain profitability. The study also emphasised the importance of maintaining an adequate capital adequacy ratio to ensure financial stability.

Patoliya (2018) [5] assessed the financial performance of selected public and private sector Banks in India, utilising secondary data and employing statistical tools such as the F-test and T-test, along with economic indicators including profitability, liquidity, and solvency ratios. The analysis concluded that private sector Banks outperformed public sector Banks across the examined financial parameters.

Rayudu and Veeram (2018) [7] investigated the financial performance of selected public sector Banks in India, with particular focus on the impact of non-performing assets (NPAs). The study demonstrated that NPAs adversely affect Banks' credibility, brand value, and customer trust, highlighting the need for regulatory reforms and stricter monitoring of loans and advances by both the government and the Reserve Bank of India.

Vasani (2020) [8] explored the financial performance of selected private sector Banks in India. The study identified significant variations in net profitability, with HDFC Bank performing exceptionally well due to effective planning and management practices. In contrast, Banks such as Yes Bank, Axis Bank, ICICI Bank, and Jammu & Kashmir Bank exhibited comparatively weaker financial positions.

**Research methodology**

**Objective of The Study**

- To know the overall financial performance of the selected Banks of India.
- To compare the financial performance of selected Banks of India.

**Sample size:** Here, the researcher has selected two Banks from the private sector and two Banks from the public sector.

**Private sector Banks: HDFC and ICICI**

**Public sector Banks: SBI and PNB**

- **Study period:** The Researcher has chosen a time period from 2021 to 2022 to 2023-2024.
- **Research design:** This study employs a descriptive and analytical approach.
- **Parameters for the Study:** ROE, ROA, NIM.
- **Data collection:** This study primarily relies on secondary data. This data has been collected through RBI bulletin, annual reports of the Banks and a useful literature review.
- **Statistical tools:** Here, the Researcher used the independent t-test as a statistical tool because the scholar chose two independent groups as samples. And this group is only two. For this reason, the t-test has been used by researchers. Additionally, Scholer utilised ratio analysis as an accounting tool.

**Data interpretation and analysis**

**1. Net Profit Margin Ratio**

**H0:** There is no significant difference in the ratio of the Net profit margin in private sector Banks and public sector Banks.

**H1:** There is a significant difference in the ratio of the Net Profit Margin in private sector Banks and public sector Banks.

**Table 1:** Net profit margin Ratio for the private and public sector Banks from 2021- 22 to 2023-2024 (in percentage)

Year	Ratio	Public sector Banks		Private sector Banks	
		SBI	PNB	HDFC	ICICI
2021-22	Net-profit margin ratio	12.2	5.1	28.0	26.3
2022-23		15.9	3.9	26.9	28.1
2023-24		15.3	8.4	22.6	27.7

(Source: Annual report of the Banks)

**Table 2:** Average of Net profit margin ratio in (percentage)

Sector	Average of net profit margin ratio
public	10.15
private	26.63

**Table 3:** Statistical analysis of the Net profit margin ratio in (percentage)

t- test two – sample assuming unequal variances		
Particular	Public sector	Private sector
Mean	10.13333	26.6
Variance	26.28267	4.32
observation	6	6
Hypothesised mean difference	0	
Do	7	
T stat	-7.29124	
P(T<=t) one-tail	8.2E-05	
t Critical one-tailed	1.894579	
P(T<=t) two-tail	0.000164	
t Critical two-tailed	2.364624	
Hypothesis testing result		
T-stat value	The critical two-tailed value	H0 accepted or rejected
7.29124 > 2.364624		H0: rejected

**Interpretation:** Here, the researcher analysed various aspects related to the financial aspects of the Banks, and ultimately, they obtained the result regarding the net profit margin ratio. They concluded that there is a significant difference between the ratio of net profit margin in private

and public sector Banks. Because here the t-stat value is higher than the critical value ( $7.29124 > 2.364624$ ). So here, the null hypothesis was rejected, and the alternative hypothesis is accepted. So, private sector Banks are more profitable than public sector Banks.

**2. Return on assets ratio**

**H0:** There is no significant difference in the ratio of Return on assets in private sector Banks and public sector Banks.

**H1:** There is a significant difference in the ratio of Return on assets in private and public sector Banks.

**Table 4:** Return on assets ratio in (percentage)

Year	Ratio	Public sector Banks		Private sector Banks	
		SBI	PNB	HDFC	ICICI
2021-22	Return on assets ratio	0.67	0.50	2.03	1.65
2022-23		0.96	0.60	2.07	2.00
2023-24		1.04	0.70	1.98	2.18

(Source: Annual report of the Banks)

**Table 5:** Average of Return on Assets Ratio (in percentage)

Sector	Average of the Return on Assets ratio
public	0.74
private	2.02

**Table 6:** Statistical analysis of the Return on assets ratio (in percentage)

t - test two – sample assuming unequal variances		
Particular	Public sector	Private sector
Mean	0.745	1.985
Variance	0.04439	0.03195
observation	6	6
Hypothesised mean difference	0	
Df	10	
T stat	-10.9931	
P(T<=t) one-tail	3.32E-07	
t Critical one-tailed	1.812461	
P(T<=t) two-tail	6.63E-07	
t Critical two-tailed	2.228139	
Hypothesis testing result		
T-stat value	critical two-tailed value	H0 accepted or rejected
10.9931 > 2.228139		H0: Rejected

**Interpretation:** The researcher found a significant difference in the return on assets ratio between public and private sector Banks in India. Because the t-stat value is 10.9931 here. Which is less than 2.228139. So, the null hypothesis is rejected, and the alternative hypothesis is accepted. The mean of public sector Banks is less than the mean of private sector Banks. Here, private sector Banks tend to have higher profitability than public sector Banks.

**3. Return on Equity Ratio**

**H0:** There is no significant difference in the ratio of Return on equity in public sector Banks and private sector Banks.

**H1:** There is a significant difference in the ratio of Return on equity in public sector Banks and private sector Banks.

**Table 7:** Return on equity ratio (in percentage)

Year	Ratio	Public sector Banks		Private sector Banks	
		SBI	PNB	HDFC	ICICI
2021-22	Return on equity ratio	13.92	7.2	16.90	15.0
2022-23		19.43	8.0	17.39	17.7
2023-24		20.32	9.0	16.09	18.7

(Source: Annual report of the Banks)

**Table 8:** Average Return on Equity Ratio in (Percentage)

Sector	Average of the return on equity ratio in percentage
Private	12.32
Public	16.77

**Table 9:** Statistical analysis of return on equity ratio in (percentage)

t - test two – sample assuming unequal variances		
Particular	Public sector	Private sector
Mean	12.97833	16.96333
Variance	34.08218	1.672427
observation	6	6
Hypothesised mean difference	0	
Df	5	
T stat	-1.63244	
P(T<=t) one-tail	0.081757	
t Critical one-tailed	2.015048	
P(T<=t) two-tail	0.163515	
t Critical two-tailed	2.570582	
Hypothesis testing result		
T-stat value	The critical two-tailed value	H0 accepted or rejected
1.63244 < 2.570582		H0: Accepted

**Interpretation:** The researcher observed that there is no significant difference in the ratio of Return on equity between private and public sector Banks in India. Therefore, the null hypothesis was accepted, and the alternative hypothesis was rejected. So, the researcher can not say who is better. But both sectors have no difference.

**Findings and conclusions**

- In the Net Profit margin ratio, HDFC and ICICI have performed well, but SBI and PNB Banks show a poorer position than private sector Banks. Also, based on the average Net profit margin ratio, the researcher concluded that public sector Banks should enhance their net profit margin ratio by employing effective management and customer service. The average of public sector Banks for the Net profit margin ratio is 10.15% and for private sector Banks, 26.69%.
- In the Return on Assets ratio, private sector Banks also have a more effective performance than public sector Banks. The average Return on assets ratio of the private sector is 2.02% and for the public sector is 0.74%. Public sector Banks should keep attention on asset utilisation to generate more profit.
- In the Return on equity ratio, private sector Banks showed better activity in the context of the return on equity ratio than public sector Banks. Because the average Return on equity ratio for the private sector is

16.77% and 12.32% for the public sector Banks. In all ratios, the private sector's overall financial performance is better than that of public sector Banks, so public sector Banks should reframe their management and keep attention on competitors. So, Banks should try to give quality services to their customers. Also, attention should be on social welfare.

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