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A COMPARATIVE STUDY ON THE FINANCIAL PERFORMANCE BETWEEN PUBLIC SECTOR AND PRIVATE SECTOR BANKS IN INDIA WITH SPECIAL REFERENCE TO SBI AND HDFC BANK

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Abstract

A lot depends on the financial institutions of an economy and their adequate performance drives the nation towards economic development. Banks are the main financial institutions of any country and they ensure financial stability by providing timely financial services to its customers. Both public and private sector banks are necessary in an economy which will give them a healthy competition among each other such that they will contribute towards the financial development of the country. The financial soundness of the banking sector is very much necessary especially in a country like India that will drive one step forward towards inclusive growth. Looking at the banking sector of our economy in the recent scenario, the researchers attempted to evaluate the financial performance of both public and private sector banks of our country with the help of the largest banks of their kind. CAMEL model was used in the study to compare the overall financial performance between the top most banks such that the objectives of the study can be fulfilled. The results of the study were quite clear and it ensures that the private sector banks of our country are giving tough competition to its peer counterparts. Finally, conclusion has been provided by the researchers based on the findings of the study such that the sector can be improved in coming times not only to satisfy its customers but also to ensure economic sustainability in the economy.

Keywords: ***Banking Sector, CAMEL Model, Competition, Financial Institutions, Inclusive Growth.***

1. INTRODUCTION

Banking sector of an economy stabilizes the financial situation of that country and the sector is becoming complex day by day with passing time. Indian banking sector is one of the fastest growing sector and it is playing a relentless role in serving the needy customers along with maintaining stability and profitability for their survival. The banking industry has always been considered as the pillar for economic growth and development in our country and it is commendable and adorable to watch how crucially they play their roles for its sustainability. Day by day the competitions among the banks are increasing and the private sector banks are also playing some concrete role to give an edge with the public sector banks of our economy. Moreover, the efficiency of the banks is very much important for the smooth flow of trade locally as well as globally. The banking sector of our nation has been witnessing several dynamic changes in the recent scenario which also forms an integral and imperative constituent of any economic as well as and financial system.

Evaluating the banking sector of our country is not an easy task and in today's era of cutthroat competition, an increase in slightest of market share is a matter of concern such that the ranking as well as position of the banks will change. In the current market situation, there are so many factors that need to be taken care of while differentiating good banks from the bad ones and a minor change in the performance can change its complexion to the customers. Without profitability an industry cannot sustain and it is also expected that the banking industry should earn profit by serving customers while maintaining a reasonable level of efficiency. Financial performance of a bank now depends on several factors and variables such that it is necessary in this competitive world to compare the financial performance of its peers to maintain an edge over its counterpart in the same field. Comparing financial performance of the largest banks is also necessary for the least performed banks such that they can follow the footsteps of the top ranked banks to maintain efficacy and can also provide further applications in the desired area which will help the decision makers to find solution to the complex problems which will arise in the competitive market.

2.LITERATURE REVIEW

Several extensive literatures in the concerned area have been studied by the researchers which are further elaborated below:

Mohan and Ray (2004) compared the measures of productivity and efficiency among public sector banks, private and foreign banks for the period 1992-2000 and it was found that the public sector banks are a better performer than foreign and private sector banks. It was also found out by the researchers that out of six comparisons among the banks; public sector banks performed better in two, foreign banks in one and the rest were even for all.

Prasad, et al. (2011) evaluated the financial performance of the banking sector of all public sector banks and thirteen private sector banks in our country with the help of CAMEL model approach and the findings of the study have shown that Karurvysya bank was the best performer followed by Andhra bank and Bank of Baroda. It was also found that Central Bank of India hold the bottom position and the largest Public sector bank SBI got 36th position.

Haralayya and Aithal (2021) examined the performance of 18 public sector banks, 13 private sector banks and 16 foreign banks for the period 2005-2020 using panel data approach and it was found that return on equity and return on assets are significantly associated with net profit, cash deposit ratio, return on advances adjusted to cost of funds and profit per employee and they are the most influencing factor for the performance of different kind of banks in our country.

Mathur (2022) studied the efficiency as well as profitability of the selected public and private sector banks which was based on several financial ratios and the researcher mainly concentrated on the comparative analysis of the selected public and private sector banks and it was found that the private sector banks of our economy were a better performer compared to its counterparts for the selected study period.

3.RESEARCH METHOD

Methodology is a very important part of the study which elaborates about the tools and techniques that have been used in the study and it also describes about how the overall study has been carried out by the researchers. The current research work in the methodology is described below by data sources and period of the study; and tools and techniques used along with selection of variables.

3.1.Data sources and period of the study:

The current research work is analytical, descriptive and exploratory in nature which is based on secondary sources of data and information. The secondary sources of available information have been collected from various related journals, articles, published information, magazines, news reports and research bulletins which is used to find answers to the above raised research questions and also to fulfill the mentioned objectives of the study. The current study is taken care of for last five financial years which ranged from the FY 2017 to FY 2021 since data for five years has thought of to be sufficient enough such that inference can be drawn from it and the study can come to a conclusion by examining the overall performance of public and private sector banks such that also a comparison between the public and private sector banks can be undertaken. Herein the study, the data related to both the banks State Bank of India (SBI) and HDFC Bank for comparison have been collected from its respective annual reports for the period of last five financial years and being the largest public and private sector bank in our nation, it represents the overall public and private sector banks of our country as per the study.

3.2.Tools and techniques used and selection of variables

: The variables that are used in the study relates to the top most and the largest public sector bank SBI and the largest private sector bank HDFC Bank of our country that have been considered to access the comparative analysis between the largest financial institutions of our Nation. To compare the analysis between the banks, CAMEL model has been used to examine the performance of both the banks. Other statistical tools like Mean, Standard Deviation (SD) and Coefficient of Variation (COV) have also been used to fulfill the objectives of the study. The CAMEL model is a very popular term which is widely accepted across the globe to evaluate and examine the performance of financial institutions. Here, CAMEL is the acronym for Capital Adequacy, Asset Quality, Management Efficiency, Earnings Capacity and Liquidity Position. This model judges the safety and soundness of banks that helps to assess the financial performance of different financial institutions such that it can be compared with each other. Under the acronym of CAMEL model, several parameters like Capital Adequacy Ratio, Debt Equity Ratio, Asset Turnover Ratio, Return on Net Assets, Return on Net Worth, Credit Deposit Ratio, Return on Capital Employed, Net Interest to Funds Ratio, Current Ratio and Quick Ratio that have been analyzed in the work to assess the data such that the comparison can be done to fulfill its objectives. MS Excel software has been used in the study to suitably represent the data and present it systematically such that to analyze it to come at a conclusion at the final stage.

4.RESULTS AND DISCUSSION

To fulfill the research objectives and to answer the research questions of the study, data regarding the largest public sector bank of India and the largest private sector bank of India of India are presented and then analyzed below using CAMEL Model to access and compare its financial performance in the current scenario:

Table 1: An Overview of the CAMEL Model

Capital Adequacy	▪ Capital Adequacy Ratio is (Tier I Capital + Tier II Capital)/ Risk weighted Assets ▪ Debt-Equity Ratio is Total Debt/ Shareholders Fund
Asset Quality	▪ Asset Turnover Ratio is Net Revenue/ Average Total Assets X 100 ▪ Return on Net assets is Net Profit/ Net Assets X 100
Management Efficiency	▪ Return on Net Worth is Net Profit/ Net Worth X 100 ▪ Credit Deposit Ratio is Total Loans/ Total Deposits X 100
Earning Capacity	▪ Return on Capital Employed is Total Income/ Capital Employed X 100 ▪ Net Interest to Funds Ratio is (Interest Earned – Interest Expended)/Total Funds
Liquidity Position	▪ Current Ratio is Current Assets/ Current Liabilities ▪ Quick Ratio is Quick Assets/ Quick Liabilities

Source: Researcher's own Presentation

The following ratios and parameters provided above under the CAMEL Model are used in the current study to examine the overall performance of both public sector and private sector bank. Therefore, a brief overview of the CAMEL Model is elaborated below which is very much important for assessing the overall performance of the financial institutions, especially banks:

Capital Adequacy is one of the most important parameters for the for the banks to determine its financial performance such that it can protect itself from bankruptcy and can also protect the interest of the shareholders that which depends on dividend policies and practices; growth plans; interest; ability to control risk and the external environment.

Asset Quality is an important indicator and also an important parameter which determines the health of public and private sector banks against the loss of value of assets that also indicates the banking investment policies along with its practices.

Management Efficiency determines the capability of management and the issues related to management that can be adequately reacted for determining and controlling financial stress as well as to mitigate and control risks of the day to day activities of banks and other financial institutions.

Earning Capacity is an important parameter to determine the overall performance of the financial institutions which is reflected by assessing profitability, net worth level, growth, stability, quality of the financial institutions existing assets and net interest margin.

Liquidity Position is also an important indicator for financial institutions which measures a bank's short term solvency and that which enables to generate or procure sufficient and desirable funds either by converting its assets into cash quickly at a reasonable cost or by increasing its liabilities.

Table 2: Comparison of Capital Adequacy Ratio (CAR) between SBI and HDFC Bank

	FY 2017	**FY 2018**	**FY 2019**	**FY 2020**	**FY 2021**	**Mean**	**SD**	**COV**
SBI	13.11	12.60	12.72	13.06	13.74	13.05	0.44	3.37
HDFC Bank	14.60	14.82	17.10	18.50	18.80	16.76	1.98	11.81

Source: Researcher's own Computation

From Table 2, it can be observed that the Capital Adequacy Ratio of both SBI and HDFC Bank is more than satisfactory and it is well above the standard set by the Reserve Bank of India as per the period of the study. Herein, the mean value of HDFC bank's CAR is 16.76 with a SD of 1.98 and a COV of 11.81 is slightly superior and better performer as compared to SBI having a mean value of 13.05, a SD of 0.44 and with a COV at 3.37.

Table 3: Comparison of Debt-Equity Ratio between SBI and HDFC Bank

	FY 2017	**FY 2018**	**FY 2019**	**FY 2020**	**FY 2021**	**Mean**	**SD**	**COV**
SBI	1.67	1.30	1.46	1.29	1.55	1.45	0.16	11.03
HDFC Bank	0.06	0.13	0.05	0.76	0.69	0.34	0.36	105.88

Source: Researcher's own Computation

Table 3 exhibits the Debt Equity Ratio of both the largest public and private sector banks in India which is at satisfactory level for both the banks. Furthermore, as per the calculation the Debt Equity Ratio of SBI with a mean value of 1.45, SD at 0.16 and with a COV of 11.03 has outperformed its counterpart HDFC bank which is having a lower Debt Equity Ratio with a mean value of 0.34, SD at 0.36 and with a COV of 105.88 which is very much high implies not at all consistent in its debt equity ratio.

Table 4: Comparison of Asset Turnover Ratio between SBI and HDFC Bank

	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	Mean	SD	COV
SBI	0.07	0.08	0.07	0.07	0.07	0.07	0.0044	6.29
HDFC Bank	0.09	0.09	0.09	0.09	0.08	0.09	0.0045	5.00

Source: Researcher's own Computation

As per the computation in Table 4 above, it can be seen that the Asset Turnover Ratio of the largest public sector bank of India SBI is having a mean of 0.07, a SD of 0.0044 with a COV at 6.29 which is slightly underperformed as compared to the largest private sector bank of India HDFC bank which is having a mean of 0.09, a SD of 0.0045 with a COV at 5.00 for the period of the study.

Table 5: Comparison of Return on Net assets between SBI and HDFC Bank

	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	Mean	SD	COV
SBI	0.41	-0.19	0.02	0.38	0.48	0.22	0.29	131.82
HDFC Bank	1.68	1.64	1.69	1.71	1.78	1.70	0.05	2.94

Source: Researcher's own Computation

Table 5 is all about the Return on Net assets of the financial institutions which shows the performance of a company and it is an important indicator for judging it. As per the table, the return on net assets of SBI with a mean value of 0.22, SD of 0.29 and with a COV of 131.82 has not performed well as compared to the return on net assets of HDFC bank with a mean value of 1.70, SD of 0.05 and with a COV of 2.94. The value also justifies that HDFC bank has maintained its management system and asset quality much better whereas SBI is not so consistent in maintaining its quality which can be depicted from its COV value.

Table 6: Comparison of Return on Net Worth between SBI and HDFC Bank

	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	Mean	SD	COV
SBI	6.69	-3.37	0.43	6.95	8.86	3.91	5.16	131.97
HDFC Bank	16.26	16.45	14.12	15.35	15.27	15.49	0.93	6.00

Source: Researcher's own Computation

Table 6 demonstrates the Return on Net Worth of the banks in our country and the table clearly shows that the Return on Net Worth of HDFC bank with a mean value of 15.49, SD at 3.845 and with a COV of 6.00 has performed far superior and better than the public sector bank SBI which is having mean value of 3.91, SD at 5.16 and with a COV of 131.97 thus that the variation in return on net worth for SBI as per the period of the study is very high.

Table 7: Comparison of Credit Deposit Ratio between SBI and HDFC Bank

	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	Mean	SD	COV
SBI	0.77	0.71	0.75	0.72	0.67	0.72	0.038	5.28
HDFC Bank	0.86	0.83	0.88	0.86	0.84	0.85	0.019	2.24

Source: Researcher's own Computation

Table7 given above exhibits the Credit Deposit Ratio of both the banks and here the Credit Deposit Ratio of SBI is having a mean value of 0.72, SD of 0.038 and with of COV at 5.28 for the last five financial years which is not a better performer in respect to the loan assets created by a firm from deposits received than HDFC bank which is having a mean credit deposit ratio value of 0.85, SD of 0.019 and a COV of 2.24.

Table 8: Comparison of Return on Capital Employed (ROCE) between SBI and HDFC Bank

	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	Mean	SD	COV
SBI	1.99	1.81	0.00	1.79	1.64	1.45	0.817	56.34
HDFC Bank	3.18	3.20	3.34	3.33	3.42	3.29	0.101	3.07

Source: Researcher's own Computation

The demonstration given in Table 8 is the calculation of Return on Capital Employed of the financial institutions selected for the study and here the ROCE of HDFC bank have a mean value of 3.29, SD of 0.101 and with a COV of 3.07 has performed far better and superior than SBI which is having a mean ROCE value of 1.45, SD of 0.817 and with a COV of 56.34 where its variation in ROCE is much higher.

Table 9: Comparison of Net Interest to Funds Ratio between SBI and HDFC Bank

	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	Mean	SD	COV
SBI	2.28	2.16	2.40	2.48	2.44	2.35	0.13	5.53
HDFC Bank	3.83	3.76	3.87	3.67	3.71	3.77	0.08	2.12

Source: Researcher's own Computation

Table 9 is all about the Net Interest to Funds Ratio for both the banks as per the study period considered. Here also the private sector bank HDFC has outperformed in its earning capacity with a mean Net Interest to Funds Ratio value of 3.77 whereas for SBI, the mean Net Interest to Funds Ratio value of 2.35. Furthermore, the SD value of SBI is 0.13 with a COV of 5.53 whereas the SD value of HDFC bank is 0.08 with a COV of 2.12 for the period of the study.

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Table 10: Comparison of Current Ratio between SBI and HDFC Bank

	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	Mean	SD	COV
SBI	0.40	0.43	0.38	0.38	0.43	0.404	0.025	6.19
HDFC Bank	0.74	0.81	0.89	0.80	0.63	0.774	0.097	12.53

Source: Researcher's own Computation

Table 10 clearly elaborates the current ratio of both SBI and HDFC bank for last five financial years as per the study period and here the current ratio of HDFC bank is having a mean value of 0.774, SD of 0.097 with a COV of 12.53, which is a better performer than SBI that is having a mean value of 0.404, SD of 0.025 with a COV of 6.19. It is also observed that though HDFC bank outperformed its peers as per current ratio but the value is not consistent over the years as compared to SBI.

Table 11: Comparison of Quick Ratio between SBI and HDFC Bank

	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	Mean	SD	COV
SBI	12.94	13.56	14.07	10.17	11.68	12.48	1.57	12.58
HDFC Bank	11.19	17.48	16.61	16.62	17.58	15.90	2.67	16.79

Source: Researcher's own Computation

Table 11 exhibits the calculated value of quick ratio for the period of the study and it clearly visible that here also the private sector bank HDFC has performed better than SBI such that the mean quick ratio value of HDFC is 15.90, with a SD of 2.67 and a COV of 16.79 whereas the mean quick ratio value of SBI is 12.48, with a SD of 1.57 and a COV of 12.58. Here also, it is seen that HDFC bank outperformed SBI as per quick ratio but the value of SBI is more consistent over the years as compared to HDFC bank.

5.CONCLUSION

Based on the presentation and analysis of data, the study has got some concrete findings and conclusion which is further elaborated in this section such that the overall performance of SBI and HDFC bank can be assessed to get an overall comparative analysis between our nationwide public and private sector banks:

- The Capital Adequacy parameter for both SBI and HDFC was even and both have performed well and good since SBI was better compared to HDFC bank in terms of debt equity ratio and on the other hand, HDFC bank's capital adequacy ratio was superior then SBI which was found from Table 2 and Table 3 in the study.
- From the analysis of Table 4 and Table 5, it was found that HDFC bank was a better performer compared to SBI with respect to the parameter of asset quality such that HDFC bank have managed their asset well and good comparing with SBI as per the period of the study.
- As per the observation of Table 6 and Table 7, it was clearly found that HDFC bank again outperformed its peer competitor SBI in terms of the parameter of management efficiency for the last five financial years.

- The earnings capacity parameter of the model was also outperformed superiorly by HDFC bank when compared with SBI for the period of the study which can be clearly observed from Table 8 and Table 9.
- From Table 10 and Table 11 of the study, it can be seen that the liquidity position for the last five financial years for both the largest public and private sector bank is satisfactory but HDFC bank has a slight better position in terms of liquidity when compared with its peer HDFC bank.

From the findings of the study it can be clearly concluded that the largest private bank of our country has outperformed and done superiorly better than its counterpart SBI for the period of the study. Based on the CAMEL model used in the study that which helped to ascertain the overall financial performance of the financial institutions and also on the basis of the various ratios it can be said that HDFC was a better performer as compared to SBI for the last five years in every parameter used in the research work as per the model. Both the banks representing public and private sector have done well in every aspect and parameters in recent years and they have also maintained a good standard setting a benchmark for the entire financial institutions of our country. The banks used in the current study are running profitably and are performing incredibly well, and thereby the other following banks of our country should look up to it for the overall improvement of the financial institutions of our nation thus that they can serve equitably well to its customers. Also the RBI should make necessary changes in policies and regulations from time to time such that the benchmark of our financial institutions can be maintained and they can also give some healthy competition among each other which will be beneficial for the customers as well as for the economy in general.

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