

# Measurement of Financial Performance of Public and Private Sector Banks of India

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## Abstract

The banking sector of India is one of the fast-growing sectors and considered as a main pillar of Indian Economy. Indian banking sector helps to maintain a healthy financial system and a well growth economy. The banking sector is becoming more complex day by day Hence, performance evaluation, supervision and monitoring of financial statements of Banks is compulsory to ensure the stability of the economy. As the public sector banks comes under the government undertaking, they have to work more to provide better services than private sector banks as they work for customer welfare more than the profitability while on the side public sector banks serves for profit motives. Financial performance of banks helps to review banking errors and regulations related to banking sector. Financial performance measurement is a strategy to provide a platform for improvement and best decision making. This paper is an attempt to analyze and compare the financial performance of selected public & private sector banks of India using some important financial parameters. The study is based on secondary data that were collected from annual reports of the banks. In this study some quantify metrics and descriptive analysis have used to evaluate the actual health position of the selected public & private sector banks. The uses are based on the importance of parameters on financial basis.

**Key Words:** Evaluation, importance, economy, public sector banks, maintain, banking sector

## 1. Introduction

The term financial performance is a technique that represents the execution of financial activities. It depicts the extent to which financial goals have been achieved. Financial performance exhibits the proper execution of financial objectives and activities. ( Anshu, Jaggarwal, & Ahuja, 2021) Financial performance measurement works as a supervisory tool for the financial statements, as it describes the profitability revenue expenses, liabilities, bonds and assets position. It is a subjective measure that analysis the use is of assets and income from the modes of business It depicts the financial position of a firm This term is generally used to describe the overall financial soundness of the business over a given time. (Nagarkar, 2015) Financial statements are used to evaluate the financial performance through balance sheet, cash flow statement and income statement The soundness of financial performance shows the sound business activities wellbeing business strategies and management control There are many ways to evaluate the financial performance, but Should be taken together to represent the right picture of our business. (Talla, Bethapudi, & Reddeppa , 2021) The main purpose to measure the financial performance in terms of monetary is for decision making purpose Energy performance is a process of systematic, critical and proper evaluation of revenue, expenses and profitability. (Tamilmani & Selvakumar,, 2022) Financial performance is a supervisory technique, that represents the information about the earnings and its components. Financial performance is a key to evaluate the success of the specific areas in which the business activities are engaged. Financial performance represents the productivity, flow of funds, efficiency of business activities, working capital, liquidity and profitability of the business. (Saminathan & Madhankumar, 2020) Financial performance provides many information for the management of the business. There are many measurements available to evaluate the financial performance of business i.e., camel model, eagle mode etc. Analysts, Regulators and policymakers use these techniques as per their objectives. ( Lad & Ghorpade, 2022) Financial performance of banks helps to review banking errors and regulations related to banking sector. Financial

performance measurement is a strategy to provide a platform for improvement and best decision making. Financial performance measurement is the process of measuring the outcomes of the firm's policies, operations and activities in terms of monetary. (Singh, 2022) financial performance is a subjective concept that represents how effectively a business manage its debt to grow revenue and uses its assets. Financial performance measurement is a multifaceted approach to analyses a company's performance using financial statements. (Abinaya & Selvakumar, 2022) Financial performance measurements are the metrics that are used by the businesses to track and analyze the data with the help of financial statements. (Raj, 2022) One of the best ways to evaluate the financial performance is to calculate the financial ratio for the certain period of time that ratios are used to measure progress and performance. (Kulshrestha & Srivastava, 2022)

## 2. Importance of Financial Performance Measurement

Financial performance is a key measurement that represents the ability of managing the fund of an organization. Financial performance measurement is important to monitor, plan, control the decision, comparison and evaluation of performance. (Gupta & Jain, 2022) Financial performance exhibits the financial soundness of a business whether they are in profit or loss. Financial performance is useful to know the financial position for different purposes. (Pervez & Ali2, 2022) Financial performance is a source to increase a company's goodwill among their customers, shareholders, and depositors, which in turns create faith among their investors and stakeholders. (Vasuki, 2022) The financial performance is used by the different categories, some of them are mentioned below-

- In the view of investors: financial performance helps investors to analyze the stability, probability of increase in earning and future opportunities of business. The interest of investors lies on the profitability, financial condition, productivity and efficient management control. ( Balaji & Kumar, 2016)
- In the view of management: The management of a company always focus on effective internal control, policy making and implementation of plans, positive financial performance and a good market position. With the help of financial performance management can evaluate the effectiveness of their policies. It helps to measure the outcome of policies, internal control, future plans, better decision making and adoption of new plans, the area where they need to work on. (Banu & Santhiyavalli, 2018)
- In the view of government and Reserve Bank of India (RBI): financial performance is an important factor of banking sector for government and Reserve Bank of India as the growth of Indian economy directly related with it. On the basis of current financial performance of banking sector, government and RBI can analyze the effective profitable areas of banks and future opportunities of growth. Financial performance helps government and RBI to regulate new banking policies. (NAIDU\*, 2012)
- In the view of creditors: with the help of financial analysis of statement creditors can evaluate the performance, profitability, liquidity and assets quality of business firm that helps them to take a better decision towards the investment of their funds in that particular business. It helps them to compare the performance. (SINGH & DAS, 2018)
- In the view of depositors and stakeholders: depositors and stakeholders use financial statements to evaluate the financial performance of a business. It helps them to deploy their funds by comparing and analyzing the cash flow, profitability, capital structure and liquidity. Depositors and stakeholders always consider a business that has sound financial position. Financial performance has a great impact on the choice of depositors to invest their deposits. (Haque, 2014)
- In the view of employees: The employees of the company are the most important stakeholder of the company as they play a vital role in profit, cash flow and financial position of a company. A company who has a strong financial position always provide their employees an increase in salary, facilities and other benefits. ( Chaturvedi, Akhtar, Azhar, & Shamshad, 2021)
- In the view of long-term financiers: Through the financial performance of business firm, suppliers of long- term finance can estimate the profitability and liquidity. With the present condition of the financial position, they focus on the survival of the business and possibility of solvency as they invest their funds for a long period of time.

( Maqbooln & Zameer, 2018)

### 3. Objectives

- To analyze the financial position of selected public and private sector banks.
- To evaluate the financial performance of selected public and private sector banks by comparing their performance.

### 4. Hypothesis

**H0:** There is no significant difference between the financial performance of public and private sector banks.

### 5. Data Analysis and Interpretation

The following study is based on the secondary data of selected public and private sector banks. Data has been taken from the annual reports of banks and published articles. The study includes ten years data from 2012-13 to 2021-22. Descriptive Analysis and ANOVA have been used to analyze the data.

Descriptives					
		N	Mean	Std. Deviation	Std. Error
Casa	PSU	40	36.96	6.38	1.00
	Private	40	45.92	6.32	1.00
	Total	80	41.44	7.75	.86
NPA to Total Advances	PSU	40	5.72	2.48	.39
	Private	40	3.01	1.66	.26
	Total	80	4.36	2.50	.28
Cash Eps	PSU	40	12.45	39.77	6.28
	Private	40	39.39	29.95	4.73
	Total	80	25.92	37.52	4.19
Operating Profit Margin	PSU	40	-14.22	10.84	1.71
	Private	40	-3.58	8.54	1.35
	Total	80	-8.90	11.08	1.23
Cost to Income	PSU	40	39.51	8.97	1.41
	Private	40	39.80	5.24	.82
	Total	80	39.65	7.30	.81
Retention Ratio	PSU	40	84.66	7.90	1.24
	Private	40	74.36	79.20	12.52
	Total	80	79.51	56.16	6.27
Interest expense to Total assets	PSU	40	4.75	.87	.13
	Private	40	4.12	.78	.12
	Total	80	4.44	.88	.09

Descriptives					
		95% Confidence Interval for Mean		Minimum	Maximum
		Lower Bound	Upper Bound		
Casa	PSU	34.92	39.00	25.31	50.63
	Private	43.90	47.95	29.23	62.36
	Total	39.71	43.17	25.31	62.36
NPA to Total Advances	PSU	4.92	6.52	2.00	11.00
	Private	2.48	3.54	1.00	7.00
	Total	3.81	4.92	1.00	11.00
Cash Eps	PSU	-.27	25.17	-42.41	143.33
	Private	29.81	48.97	3.29	140.08
	Total	17.57	34.27	-42.41	143.33
Operating Profit Margin	PSU	-17.69	-10.75	-44.09	2.41
	Private	-6.31	-.84	-23.35	8.20
	Total	-11.37	-6.43	-44.09	8.20
Cost to Income	PSU	36.64	42.38	26.95	59.18
	Private	38.12	41.47	28.67	51.64
	Total	38.03	41.28	26.95	59.18
Retention Ratio	PSU	82.14	87.19	74.27	100.00
	Private	49.03	99.69	-409.74	100.00
	Total	67.01	92.01	-409.74	100.00
Interest expense to Total assets	PSU	4.47	5.03	2.91	6.19
	Private	3.87	4.37	2.38	5.77
	Total	4.24	4.63	2.38	6.19

ANOVA				
		Sum of Squares	df	Mean Square
Casa	Between Groups	1606.52	1	1606.52
	Within Groups	3150.61	78	40.39
	Total	4757.14	79	
NPA to Total Advances	Between Groups	147.15	1	147.15
	Within Groups	349.21	78	4.47
	Total	496.37	79	
Cash Eps	Between Groups	14517.69	1	14517.69
	Within Groups	96710.02	78	1239.87
	Total	111227.72	79	
Operating Profit Margin	Between Groups	2266.42	1	2266.42
	Within Groups	7440.05	78	95.38
	Total	9706.47	79	
Cost to Income	Between Groups	1.66	1	1.66
	Within Groups	4215.77	78	54.04
	Total	4217.44	79	
Retention Ratio	Between Groups	2123.44	1	2123.44
	Within Groups	247120.74	78	3168.21
	Total	249244.19	79	
Interest expense to Total assets	Between Groups	7.86	1	7.86
	Within Groups	53.94	78	.69
	Total	61.81	79	

ANOVA			
		F	Sig.
Casa	Between Groups	39.77	.000
	Within Groups		
	Total		
NPA to Total Advances	Between Groups	32.86	.000
	Within Groups		
	Total		
Cash Eps	Between Groups	11.70	.001
	Within Groups		
	Total		
Operating Profit Margin	Between Groups	23.76	.000
	Within Groups		
	Total		
Cost to Income	Between Groups	.03	.86
	Within Groups		
	Total		
Retention Ratio	Between Groups	.67	.41
	Within Groups		
	Total		
Interest expense to Total assets	Between Groups	11.37	.001
	Within Groups		
	Total		

#### Inference:

Though PSU Banks are lagging behind Private Sector Banks except being at par with operating Cost to Income Ratio and infusion of capital i.e., Retention Ratio, we cannot say that private banks have outperformed public sector banks; as core principle and agenda of working are totally different for each sectors type banks. Private Banks as like any other corporate have prime motive to generate more profit, the base of all service and lending schemes are directly related to the net worth of customer. However, on the other side for Public Sector banks, the base of all service is that no section of public whether pertains to viz. either low net worth or of rural areas where business opportunities for banks are less or of backward and socially left of section of society etc.; should be equally harmonized at par with service provided to urban areas and to high-net-worth individuals. The PSU emphasizes to implement various government sector schemes viz. Stand-Up India, PMMY collateral free advances up to 10 lakh, PMEGP, PMJDY, PMSBY, PMJJY, Sukanya Smradhhi Yogna and last but not least PM Swanidhi where advance of rupees ten thousand at phase first is provided to socially and economically weaker sections and lastly even the write off schemes, recovery measures adopted and NPA management policies are also liberal. The primary end goal for Public Sector banks is social service and secondary goal is profit generation. The results obtained in this research paper clearly depict significant difference in performance of private and public sector banks. Private sector banks have outperformed public sector banks in Casa ratio (Casa), Npa management (Npa), Cash Eps, for Operating profit (Opm) and lastly for expense management (IE to TA) except for Cost to Income and Retention ratio. The results shows that despite of faction each financial & wealth management parameter the public sector banks are lagging significantly behind Private sector banks but most importantly their retention and capital infusion is at par with private sector banks, hence as the infusion of capital is the most important parameter which depicts the willingness to operate and to be in business longevity is equal for both sector banks.

#### 6. Conclusion

Hence, we may conclude that Private sector banks are doing well by generating revenue and reducing NPA base as their sole purpose. Public sector banks are doing equally well by serving prime purpose of social

service, implantation of government schemes, liberal NPA and write-off policies; with secondary purpose of generating revenue and intent to remain in business measured via retention ratio is at par for each sector banks which shows both are satisfied with their own performance indexes and wish to serve as long as possible pursuing same end goals.

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