

Appraisal of Public and Private Sector Banks

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ABSTARCT:

The new millennium has brought with it challenges and opportunities in various fields of economic activities including banking. Indian banking, which was operating in a highly comfortable environment till the beginning of the 1990s has been pushed into the choppy water of intense competition. This paper attempts to examine the growth rate of public and private sector banks. Data for study was collected from annual reports of the public and private sector banks , Journals , and Internet resources . The finally confirm that the growth rate of interest , incomes , other income , deposits , and advance in private sector banks is highest compare to public sector banks.

INTRODUCTION:

The new millennium has brought with it challenges and opportunities in various fields of economic activities including banking. Indian banking, which was operating in a highly comfortable environment till the beginning of the 1990s has been pushed into the choppy water of intense competition. The Modern banking activity is Marked by itineraries into Un-chartered horizons mingled with risks and heavy competition. The current process of transformation should be viewed as an opportunity to convert Indian banking into a Sound, Strong and vibrant system capable of playing its role efficiently and effectively on their own without imposing any burden on government.

In 1992 the RBI launched banking sector reforms, as per the recommendations made by the Narasimhan Committee on financial reforms to create a more profitable, efficient and sound

banking system which entailed several proposals relating to the structure, organization, functions and procedures of financial system. Broadly these reforms were related with dismantling of Interest rate, prudential regulation and supervision norms, restructuring of distressed banks, entry of New generation private and foreign bank's and liberalized branch licensing policy. This report had recommended a broad structure of the banking system with primary objectives of having a strong and reliant banking system. These recommendations have induced greater competition with enhanced application of information technology, specialized skills, greater port folio diversification, better risk management practices and diversified ownerships.

These reforms opened the banking sector for private player. Domestic Private Sector bank's are divided into two categories old banks which existed with the Public Sector Banks before the entry deregulation and the new banks that

came into existence after the reforms of 1992. The old banks are smaller in size. In contrast the new Private Sector Banks are much larger in size, operate primarily in metros and are technologically superior.

The emergence of New Private Sector Banks in 1995 exposed the inefficiencies of the Public Sector banks. New Private Sector Banks have set a blistering pace of growth easily beating the growth rate of Public Sector Banks. The business show for Private Sector Banks is very small but their share in the total net Profit of the banking system is disproportionately high. Just like many other business, profit in banking acts as a stimulant factor for management to expand and improve their Service. Though Profit maximization is secondary for Public Sector Banks, adequate profit is necessary for their survival and healthy operations because even socio-economic obligations, like branch expansion in rural areas and priority Sector advances cannot be fulfilled without adequate profit.

REVIEW OF LITERATURE

Quite a number of studies have been undertaken on the financial performance of public and private sector Bank's in India in post reform period.

Manish Mittal and Aruna Dhade (2007) Compares the Public and Private Sector and foreign bank on their Productivity and Profitability in India for the period 1999-00 to 2003-04. The study is based on secondary data Ratio analysis technique is used to compare profitability and Productivity of different categories of banks. In his study they focus on the achievement and Performance of Public Sector banks Vis-a-vis Private Sector Bank's and foreign Banks. In his study Manish Mittal and Aruna Dhade studied the variable and Interest paid, Interest earned, total

deposits and advances, non operating income and expenses, number of employees number of branches and establishment exp. The result obtained by them show that the public sector banks less Profitable then the Public Sector and foreign bank's terms of overall Profitability (Spread-Burden Ratio) but their profitability is improving over last 5 years.

Ram Pratap Sinha and B.Chatterjee (2008) examined 38 Indian commercial bank in the respect of their technical efficiency taking contingent liabilities and other income as the output indicators and find out the How total factor Productivity changed during the period, for his Study Data Envelopment Analysis (DEA) have been used. In his study the mean technical efficiency scores of the observed public sector commercial banks is considerably lower that the observed Private sector bank. Both (Public and Private Sector Banks) under constant and variable returns to scale, the overall mean technical efficiency score of the observed public sector banks is about 85% of the observed Private Sector Banks.

Objective of the Study

1. To analysis the role of banking sector in economics development in general.
2. To analysis the financial performance of Public and Private Sector Banks.

Scope of Study

To Analysis the growth of input and output variables of Private and Public Sector Banks.

Methodology

In this study secondary data has been used to empirically examine the performance of selected public and private sector banks from 2003-04 to 2008-09. The study divide the four

public sector bank's (SBI, PNB, Allahabad bank and Central bank of india) and four Private sector bank's (ICICI, AIXS, HDFC and Bank of Rajasthan). A five year period from 2003-04 to 2008-09 has been selecte for evaluating the banks performance.

STATISTICAL TOOLS:

Compounded Annual Growth has been computed for different variables to analyze the performance of Pubic and Private Sector Banks.

The following expression has been used to compute the growth rate.

$$Y = Y_0 e^{mt}$$

Where Y is the variable whose growth rate has been computed.

t is time period

Y_0 is estimated intercept term reflecting initial value of y

e is exponential constant and

M is computed annual growth rate

Now, it can be computed by taking log of above Eq. and conducting regression of Log y on t.

$$\text{Log } y = \text{log } y_0 + mt$$

ANALYSIS OF FINANCIAL PERFORMANCE OF PUBLIC AND PRIVATE SECTOR BANKS

To analyze the financial performance of public and private sector bank's for the period of 2003-04

to 2008-09, we will mainly focus on compounded Annual Growth Rate Analysis.

GROWTH RATE ANALYSIS :

Growth is the cardinal objective of a bank like any other firm for a bank, growth is measured terms of:

- Growth in Interest Income, other income
- Growth in interest expenses, and operating expenses
- Growth in deposits, investment and advances

The interest income of axis bank increased from Rs. 1924 Crore (2004-2005) to Rs. 10835 Crore (2008-2009) reflecting a growth rate of 43.424 percent which was highest among all Banks (Table-1). The Growth Rate of Interest Income and other income of Private Sector Bank's grew more then Public Sector Bank's. This is mainly due to their employee's hardworking and efficient management.

This growth rate in Interest Expenses of HDFC Bank is 47.544 percent which is highest followed by SBI (21.332), PNB (26.054), Allahabad Bank (28.197), Central Bank of India (27.867). The rise in interest expenses is due to an Increases in Interest paid on deposit. The growth rate in operating expenses for AXIS banks is 41.598 percent which was highest among all public and private sector banks. The growth rate in operating expenses of PNB (6.522) and Central Bank of India (2.159) are much lower compare to all private sector banks. This is due to decline in wages costs led to a decline in operating cost of public sector banks. The reduction in wages costs in an account of the Voluntary Retirement Scheme(VRS) introduced in 2000-01. The growth rate of Deposit, Advances of AXIS banks is highest among all banks. The growth rate of Investment of HDFC banks is highest 26.974 percent among all banks. The growth rate of PNB in Investment is lowest 7.125 percent among all banks. This is mainly due to lowest growth rate in deposits among all banks (Table-1).

Table : 1 Growth Rate of Interest Income, Other Income, Interest exp., operating exp., Deposits, Investment and Advance according to Bank-Wise (Percentage)

Bank's	Interest Income	Other Income	Interest Expenses	Operating Expenses	Deposits	Investment	Advance
SBI	16.609	13.125	21.332	9.536	17.543	8.265	24.370
PNB	20.499	15.603	26.054	6.522	17.491	7.125	23.514
Allahabad Bank	21.695	18.523	28.197	6.475	18.588	11.545	25.789
Central Bank of India	17.759	8.319	27.867	2.159	20.473	7.617	29.510
ICICI	31.568	23.458	33.766	20.063	19.579	18.704	21.753
AXIS	43.424	47.812	44.733	41.598	33.986	26.974	42.911
HDFC	41.434	39.494	47.544	40.537	33.275	27.771	32.981
Bank of Rajasthan	24.602	17.870	30.735	9.528	16.953	19.333	25.803

Source: Calculated

CONCLUSION AND SUGGESTIONS

Conclusion:

Public sector and Private Sector Banks play an important role in Mobilization and allocation of resources in an economy.

They generally perform the basic economic function of intermediation through four transformation mechanisms:

1. Transformation liability to assets i.e accept deposits and convert them into loans and investment.
2. Transformation of size i.e accepts numerous small deposits and extend relatively large loans.
3. Transformation of maturity i.e accepts deposit of various maturity and provide borrowers with loans of desired maturities.
4. Transformation of risk i.e., substantially, reduce risk for depositors through diversification of assets. Bank are important institutions to foster economic growth .The gains to the economy depend on how efficiently the banks performs this basic function of financial intermediation. Due to current global financial crisis, more than 19 banks in America failed including three biggest banks. Under this circumstance, Indian banks are performing efficiently that conclude how strong is Indian banking system.

The growth rate of Interest Income, other Income, deposit and advances of Axis Bank is highest among all Banks followed by SBI, PNB, Allahabad bank, Central Bank of India, ICICI, HDFC and Bank of Rajasthan. The growth rate of investment for PNB is lowest (7.125) and for HDFC is highest (27.771) among all Banks.

SUGGESTION AND POLICY IMPLICATION:

Indian bank especially the public sector banks are lagging far behind their competitors in terms of growth rate. The public sector banks need to go for the major transformation programs for increasing their growth rate.

Some Suggestions and recommendations for improvement in performance of public sector banks are given below.

A. Policies and Strategies to reduce high level of NPAs:

High level of NPAs is the most crucial challenge faced by the Indian banking system. To take this problem different options are available which would include.

1. Reducing the exiting NPAs and curbing their further buildup.
2. Strengthening the provisions of the Debt Recovery Act for recovery dues of bank's and FDIs.
3. Increasing the number of Debt Recovering Tribunals.

B. Check on Operating Cost:

Higher operating cost is a obstacle affecting the profitability of Public Sector Banks. The financial viability of Public Sector Banks can be enhanced by keeping a control on operating cost through higher labor productivity, Updated

technology, low cost funds and restricting of unremunreating branches.

C. Rationalisatization of Staff Cost :

In Public sector banks, the proportion of wage bill is significantly higher as compared to private sector banks and in turn ratio of business per employee and profit per employee is quite low in comparison to other banks. Through public sector banks have tended to rationalize staff cost by VRS schemes, but employees per cost of public sectors banks has raised due to the changing composition of the staff and increased provisioning towards superannuation liabilities. The manpower for each branch should be determined by customer profile, network of branches and the level of computerization while ensuring to retain the best talent in the organization.

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