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COMPARISON OF FINANCIAL ANALYSIS OF PRIVATE AND PUBLIC BANKS

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ABSTRACT

Present study revealed three types of logical elements of execution of India banking industry for example Productivity, Profitability, and Financial Efficiency. Banking Sector improvements in India aim to expand benefit, productivity and effectiveness of the financial foundations the existing financial foundations require fighting the worldwide competition. As a conclusion, there has not only been rapid expansion in the quantity of banking organizations in the country, but the financial skyline of the nation has also transformed completely with the passage of new private sector and unfamiliar banks.

Keywords: Financial, Private, Public, Banks, Performance, Efficiency

INTRODUCTION

Changes in the banking sector were initiated in order to bring the functioning standard welfare and financial adequacy of the banks up to date. In 1991, the Government of India established the Narasimham Committee to examine all perspectives relating to the construction, organisation, and operation of the Indian financial framework. The recommendations of the board of trustees pointed toward the establishment of a competitive and efficient financial framework. Another board of trustees, the Khan Committee, was established by the Reserve Bank of India in December 1997 to examine the harmonisation of the tasks and operations of financial foundations and banks with the purpose of improving their performance. In 1998, it submitted its findings and recommendations. The most major recommendations were a gradual shift toward broad banking, as well as an investigation into the possibility of achieving full consolidation as between banks, banks, and financial institutions. The Verma Committee was established at that point, and this panel recommended that more significant use of information technology be made even in the weak public sector banks, that frail banks be rebuilt without being combined with strong banks, and that VRS be made available to at least 25 percent of the workforce. The Banking Sector Changes targeted toward improving the approach of work, financial well-being, and institutional framework, and there were two periods of financial changes in the banking sector during this time. The Narasimham Committee provided the blueprint for the fundamental reforms in the financial industry that occurred as a result of the equilibrium of the instalment crisis in 1991.

Banking Structure in India:

The design of Indian financial framework that created during the pre freedom time frame was

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with no purposive control and bearing. There were no complete financial laws with the exception of the Bank Charter Act 1876 which directed the three managing bank and the Indian Companies Act 1913 gave some protected gatekeepers against bank disappointments.

Role of Reserve Bank of India:

The Reserve Bank of India (RBI) is the country's central banking organisation, and it regulates the financial approach of the Rupee as well as the country's money reserve balances. Following the procedures outlined in the Reserve Bank of India Act, 1934, the foundation was established on 1 April 1935 under the British Raj and has a significant impact on public authority's reformation and development procedures. It is a member of the Asian Clearing Union and operates as a bank. The Reserve Bank of India was established under the Reserve Bank of India Act, 1934, to direct the issuance of bank notes and the maintenance of reserves with the goal of increasing money related dependability in India and, more broadly, to work the country's cash and credit arrangement for its potential benefit.

The central bank was created in 1935 as a response to the monetary challenges that had arisen during World War I. The Hilton Young Commission made recommendations that led to the establishment of the Reserve Bank of India. The panel submitted its recommendations in the year 1926, but the bank did not become operational for another nine years after that date. For example, in its Preamble, the Reserve Bank of India states that its primary functions are to oversee the issuance of bank notes, to maintain reserves with the purpose of achieving money related stability in India, and to operate the cash and credit framework in India's best interests.

The Reserve Bank's Central Office was first located in Kolkata; however, Bengal was permanently relocated to Mumbai in 1937, when the city was renamed Mumbai. Myanmar's national bank, the Reserve Bank, continued to function as such until Japanese administration of Burma was established in 1942, and then until April 1947; nevertheless, Burma withdrew from the Indian Union in 1937. Following the division, the Reserve Bank of Pakistan served as the country's central bank until June 1948, when the State Bank of Pakistan took over the reins. Despite the fact that it was originally established as an investors' bank, the Reserve Bank of India (RBI) has been wholly controlled by the Indian government since it was nationalised in 1949.

Functions of reserve bank of India:

As a central bank, the Reserve Bank has huge forces and obligations to perform. For smooth and expedient advancement of the Indian Financial System, it needs to play out some significant errands. Among others it incorporates keeping up money related and financial steadiness, to create and keep up stable instalment framework, to advance and foster financial foundation and to direct or control the financial organizations.

[A] Traditional functions:

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Customary capacities are those capacities which each central bank of every country plays out everywhere on the world. Fundamentally these capacities are in accordance with the goals with which the bank is set up. It incorporates principal elements of the Central Bank. They include the accompanying undertakings.

(i) Issue of the Currency Notes:

The RBI has the sole right or authority or restraining infrastructure of giving cash notes aside from one rupee note and coins of more modest section. These cash notes are lawful delicate given by the RBI. At present it is in groups of Rs. 2, 5, 10, 20, 50, 100, 500, and 2,000.

(ii) Banker to the Banks:

The RBI being a summit monitory establishment has mandatory forces to guide, help and direct other commercial banks in the country. The RBI can handle the volumes of banks reserves and permit different banks to make credit around there.

[B] Developmental functions:

Alongside the routine customary capacities, central banks particularly in the non-industrial nation like India need to play out various capacities. These capacities are country explicit capacities and can change as per the prerequisites of that country. The RBI has been proceeding as an advertiser of the financial framework since its beginning. A portion of the significant advancement elements of the RBI are kept up underneath.

(i) Development of the Financial System:

The financial framework contains the financial foundations, financial business sectors and financial instruments. The sound and productive financial framework is a precondition of the fast monetary advancement of the country. The RBI has empowered foundation of principle banking and non-banking organizations to take into account the credit necessities of different sectors of the economy.

(ii) Development of Agriculture:

In an agrarian economy like our own, the RBI needs to give exceptional thoughtfulness regarding the credit need of agribusiness and partnered exercises. It has effectively delivered administration toward this path by expanding the progression of credit to this sector.

(iii) Provision of Industrial Finance:

Rapid industrial growth is the way to quicker financial turn of events. In such manner, the satisfactory and ideal accessibility of credit to little, medium and enormous industry is exceptionally huge. In such manner the RBI has consistently been instrumental in setting up

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uncommon financial establishments like ICICI Ltd. IDBI, SIDBI and EXIM BANK and so forth.

[C] Supervisory functions:

The reserve bank additionally performs numerous administrative capacities. It has position to direct and regulate the whole banking and financial framework. A portion of its administrative capacities are given underneath.

(i) Granting License to the Banks:

The RBI awards permit to banks for conveying its business. Permit is likewise given for opening augmentation counters, new branches, even to shut down existing branches.

(ii) Bank Inspection:

The RBI awards permit to banks functioning according to the mandates and in a judicious way without excessive danger. Notwithstanding this it can request periodical data from banks on different segments of resources and liabilities.

Traditional banking functions:

In everyday terms, the customary elements of a commercial bank can be grouped under after primary heads:

1. **Receiving of Money on Deposit:**

This is the main capacity of banks, as it is to a great extent through stores that a bank readies the reason for a few different exercises. The cash force of a bank, by which it helps to a great extent the business local area and different clients, relies significantly on the sums it can acquire via stores. The stores of a bank can appear as fixed, reserve funds or current stores.

2. Lending of Money:

This function isn't without a doubt, vital yet is the central wellspring of benefit for banks. By loaning cash banks place assets at the removal of the borrower, in return for a guarantee of instalment sometime not too far off, empowering the borrowers to carry on their Business/useful exercises and meet their different prerequisites. Banks accordingly, assist their customers to address their issues with the cash loaned to them and return the cash with revenue according to concurred terms. The advances of a bank can appear as advances, cash, credits, charges buy/rebate offices.

Functions of Commercial Banks:

[1] Primary Function:

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(i) Acceptance of Deposits:

A significant function of commercial banks is to draw in store from the public. Those individuals who have cash record and need their security; they store that measure of banks. Commercial banks acknowledge stores each class and source and assume liability to reimburse the store in similar money at whatever point they are requested by contributors.

(ii) Lending:

Another function of commercial banks is to make credits and advance out of the store get in different structures. Bank Apply the gathered public stores to useful utilizations via advances and advances, overdraft and money credits against endorsed protections.

[2] Secondary Functions:

(i) Agency Services:

1) Collection and Payment of Checks

2) Standing Instruction

3) Acting as correspondence

4) Collecting of bills-power, gas, WASA, phone and so forth

5) Purchase and Sales of stocks/share-go about as a banker to issue

(ii) **Miscellaneous or General Services:**

1) Safe Custody

2) Lockers-trustee

3) Remittance offices – DD, TT, MT and

4) Advisory administrations

5) Providing Credit reports

6) Opening L/C

7) Demand in Forex/Travers Check just Authorized Dealer branches

8) Complete assistance in Foreign Trade

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Challenges in banking sector:

There has been impressive broadening and developing of the Indian financial framework in the new years. The upgraded job of the Banking sector in the Indian Economy, the expanding levels of liberation and the expanding levels of rivalry have put various requests on our Banks. The unfriendly results of malfunction of the Banking framework could be more extreme than previously.

1. Improving Risk Management System:

RBI had given rules on resource obligation the board and Risk Management Systems in Banks in 1999 and Guidance Notes on Credit Risk Management and Market Risk Management in October 2002 and the Guidance note on Operational Risk Management in 2005. Despite the fact that Basel II spotlights essentially on hazards it execution can't be viewed as an end in itself. The current business climate requests an incorporated way to deal with hazard the executives.

2. Rural Coverage:

Indian nearby banks uncommonly state bank bunches having a decent inclusion and numerous branches in country regions. However, that is very deficient with regards to specialized improvement. The administrations accessible at urban communities are explicitly not accessible to provincial branches, which are vital if banks need to contend now daily.

3. Technological Problems:

That is genuine that Indian banks were at that point begun modernized operations thus numerous other innovative up degree done however is this adequate? In metro urban communities Indian neighbourhood banks are having acceptable equivalent innovation however that can't be upheld and similar by the entire organization of different urban areas and town branches.

OBJECTIVES OF THE STUDY

1. To study on benefit, productivity and effectiveness of Private and Public Banks.
2. To study on Challenges in Banking Sector and Improving Risk Management System.

RESEARCH METHODOLOGY:

1. Data Collection - In this research the data's obtained to secondary method.
2. Source of Data–The ratio data is are gathered from reliable sources like Money Control, Stock Edge, Business Standard, Valuestock.com.

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3. Examination - A research on comparative analysis of financial status of private and public sector banks.

4. Time length of the study-The selected ratio variables of public and private sector banks used for analysis was from financial year 2017 to 2021 for five years

5. Data type -The data used for the study is taken for 10 Public and 10 Private bank, The variables used for determining bank performance include Profitability (ROE,NIM), Liquidity ratio(Cash/deposit ratio, Credit/deposit ratio) etc…,and this ratio is utilised to figure out the liquidity in management.

6. Statistical tools utilized- The tools used for the analysis is T-test it is used to compare the all bank performance of the Private sector banks versus Public sector banks, Regression this test is used for evaluate the influence of liquidity management on the profitability of both public and private sector banks, Graphical depiction it is used for rating the bank in both sector based on the performance, Correlation analysis is done to analyse the relationships between distinct sets of independent and dependent variable.

DATA ANALYSIS:

EARNINGS RATIOS:

Net Interest Margin:

The performance of both public and private banks regarding their net interest margins, SBI was placed first among public banks with a score of 2.57, followed by Indian bank with a score of 2.49 and Bank of Maharashtra with a score of 2.19. Bandhan bank came in first place with a score of 5.59, followed by HDFC bank with 4.18, and Kotak bank in third place with 4.11. However, the overall average performance of private banks is higher than that of public banks.

Table-1: Statistical Analysis of Net Interest Margin for Public and Private Banks:

t-Test: Two-Sample Assuming Unequal Variances	
P(T<=t) one-tail	0.005386
t Critical one-tail	1.812461
P(T<=t) two-tail	0.010772
t Critical two-tail	2.228139

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Hypothesis Test:

H0: There is no significant different between Public bank and private bank in Net interest Margin.

Interpretation:

The P value is 0.01, which is significantly lower than the criterion of significance of 0.05. Therefore, accept the Ha while denying the H0, The alternative hypothesis states that the net interest margins of public and private banks are significantly different from one another. The mean value of the Public bank is 2.27, whereas the mean value of the Private bank is 3.319. The performance of the Private bank is superior to that of the Public bank. The graph that is displayed above shows how public and private banks fare in terms of the yield they generate on advances. The higher the ratio, the better it is for the bank. First place in the public bank category went to IDBI bank with 13.38 percent, followed by Punjab & Sid bank with 13.09 percent and Union bank with 11.75 percent. First place in the category of private banks was held by Dhanlaxmi bank with 16.56 percent, followed by Bandhan bank with 13.78 percent and Kotak bank with 13.38 percent. However, on average, the performance of private banks is superior than that of state banks.

Table 2: Statistical Analysis of Yield on Advances for Public and Private Banks:

t-Test: Two-Sample Assuming Unequal Variances	
P(T<=t) one-tail	0.138327
t Critical one-tail	1.739607
P(T<=t) two-tail	0.276654
t Critical two-tail	2.109816

Hypothesis Test:

H0: There is no significant different between mean value of Public and Private bank in Yield on Advances.

Interpretation:

The threshold of significance is more than 0.05, and the P value comes in at 0.27. Therefore, we must accept the H0 hypothesis and reject the Ha hypothesis; the null hypothesis is The mean value of public banks is 12.36 percent, while the mean value of private banks is 13.16 percent. There is no significant difference between the man values of the public sector and the private sector. However, the performance of private sector banks is slightly higher than that of

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public sector banks.

Interest Spread:

Comparison of the Interest Spread performance of Public and Private Banks, The higher the ratio, the better it is for banks. In the public sector, the central bank has the highest interest spread at 9.38 percent, followed by IDBI Bank in second place with 6.67 percent and UCO Bank in third with 7.54 percent. In the private sector, Dhanlaxmi Bank has the highest interest spread at 9.91 percent, followed by Bandhan Bank in second place with 9.65 percent and HDFC in third place with 7.59 percent. However, on a whole and average, the performance of private sector banks was better than that of public banks.

Table-3: Statistical Analysis of Interest Spread for Public and Private Banks:

t-Test: Two-Sample Assuming Unequal Variances	
P(T<=t) one-tail	0.135731
t Critical one-tail	1.739607
P(T<=t) two-tail	0.271462
t Critical two-tail	2.109816

Hypothesis Test:

Ho: There is no significant different between mean value of the public bank and private bank in yield on advances.

Interpretation:

P value is 0.27 because it is more than the significant threshold of 0.05; we must accept the Ha hypothesis and reject the H0 hypothesis. Therefore, the alternative hypothesis is that there is a significant difference between the mean value of the public bank and the yield on loans of the private bank. The overall average shows that the private sector has a higher interest spread than the public sector does. The value of the average mean interest rate at private sector banks is 6.54 percent, while the value at public sector banks is 7.36 percent.

CONCLUSION

In all of the randomly chosen banks that were put through the test, the Capital Adequacy Ratio was far greater than the norm set by the RBI. The Normal Capital Adequacy Ratio of the Selected Banks in the Public Sector is 13.31 Percent, while the Normal Capital Adequacy Ratio of the Selected Banks in the Private Sector is 17.16 Percent. Every single bank is maintaining a CAR that is higher than 9 percent, which is the lowest amount that is supported by the RBI.

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Despite this, the CAR of banks in the private sector is significantly greater than that of banks in the public sector. In addition, the results of the ANOVA Hypothesis suggest that there is a significant difference between the CAR of selected public sector banks and private sector banks. The provision of financial resources is essential to the operation of any bank and business. In today's hypercompetitive banking environment, a bank simply cannot thrive without employing sound financial management practises. A prudent financial manager is required to conduct regular reviews and examinations of the bank's operations. The state of the financial performance of both public and private banks is satisfactory. However, the QoQ banks are looking to improve their performance. As a whole, the situation of private banks is favourable; however, the performance of public banks is subpar in comparison; consequently, public sector banks wish to improve the effectiveness and capability of their banking operations; this is because the majority of the general public places their faith in public banks. From the perspective of an investor, a large number of depositors favour the public bank, but the vast majority of investors do not favour the public bank due to its inefficient use of the cash and resources provided by shareholders.

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