Comparative Profitability Analysis of Indian Private and Public Sector Banks

CMA (Dr.) Tushar Balkrishna Raut[1], Mr. Piyush Harish Rana[2], CMA (Dr.) Alwin Jerome Menezes[3],Dr Irshad WajidAli Shaikh[4], Dr Macnoble Michael Dcruz[5]

[1]*Assistant Professor , St. Gonsalo Garcia college Vasai (West)*
[2]*Assistant Professor , Annasaheb Vartak College, Vasai (west)*
[3]*Principal, Abhinav college of arts commerce and science.*
[4]*Assistant Professor, SEMT's, M.B Harris College of Arts, A. E. Kalsekar College of Commerce and Management, Nallasopara (West)*
[5]*Assistant Professor, St. Gonsalo Garcia college Vasai (West)*

Abstract:
The success or failure of banks depends upon many factors, and one of the factors is the profitability of the bank. This paper aims to study the comparative analysis of the profitability of 10 banks, having a combination of private and public banks having 5 banks from each sector. The period under study is for the financial year starting from 2019 to 2024, covering 5 financial years. The major indicators of the study are Net Profit Margin, returns on Assets, Returns on Equity, and Net Interest Margin. The analysis uses ratio analysis and secondary data from the online and offline annual reports of the banks. The findings revealed that there is a consistent trend of higher profitability in private sector banks driven by better asset utilization, risk management, and operational efficiency. The paper also attempts to discuss the key challenges faced by the public sector banks and provide strategic recommendations for improvement.

Keywords: Bank Profitability, ROA, ROE, NIM, Private and Public sector banks

## 1.	Introduction: -
Banks play an important role in the economic framework of any country. India has a mixed composition of Public and Private sector banks that cater to a diverse population and sectoral needs of the nation. The economic development and growth of the nation depend upon the banking sector of the country, like India. The government-owned banks, normally known as Public Sector Banks (PSBs) has been the backbone of the Indian economy for a long time. However, with the changing economic scenario of the economy, private sector banks have emerged as strong competitors to the PSBs. This paper attempts to study the profitability of these banks to identify the trends and drivers in the period of the last five years, from 2019 to 2024. The paper considers various parameters which are depending upon the profitability of the bank's operations.

## 2.	Review of Literature: -
Bodla and Verma (2006) studied profitability affecting factors of the banks in India over the period of ten years from 1992 to 2003 using various statistical methods. Their study revealed that the bank's profitability depended on various operating and non-operating incomes and expenses too.

Sushil Kumar and Rajni Gupta (2018): - Studied the constraints having an impact on the listed banks in India, considering the profitability. The sample space was of 39 banks, and various statistical tools were used to achieve the target of the study. The results showed that

the profitability of the Indian banks was affected by various factors, including those that were also not included as part of the study.

Hafiz Waqas Kamran et al (2016): - Studied 44 banks in Pakistan for understanding the factors of profitability in terms of internal factors like loan, assets, equity, etc., as well as external factors like government policies, inflation, etc. The study resulted in a conclusion that both the internal and external factors affected the profitability of the Banks in the country for the period of 2005 to 2009.

Hasan Raza et.al. (2019) also studied the profitability of 34 Pakistan's Public, Private, foreign banks, and specialized banks for the period of 2006 to 2016. The main factors considered for the study were internal in nature, like the size of assets, loans, interest, spread ratio, etc. The result was mixed in nature, having a positive impact of some factors and a negative impact of some, while some factors were neutral in nature.

Saluja and Kaur (2010): - concentrated on Public sector banks and their profitability, keeping in mind the operating and non-operating incomes and expenses of the Indian public sector banks in connection to the total assets. The outcomes of the study varied, considering different factors and ratios taken into consideration for the study.

Narwal and Pathneja(2015) attempted to study the profitability and productivity determinants of the banks in India and revealed that the public banks' productivity is less as compared to private banks in the nation. One of the reasons for the same was stated as the adaptation of technology by the private banks, which made them more productive, resulting in high profits too.

Murty and Chowdary (2018): -propagated an empirical study on nationalized banks' profitability, keeping in mind the changing interest rates over a period of thirty years. The outcome of the study showed an impressive relationship between the changes in the rate of interest and the profitability of the banks, also having an impact on return on equity, returns on assets, return on employed capital, etc.

Merger and Acquisition
Snehal et al (2022) raised a question on the improvement in efficiency of banks due to merger and acquisition and found that the M & As to affect the same. It results in geographical diversification of the banks resulting in greater earnings and rise in interest earnings too.

Muhammad et al (2021) studied the effects of M & As on the financial performance considering the Micro financing banks in the Pakistan. The study was based on 45 financial institutions operating at various levels of which 10 belonged to micro finance banks. It was found that technological advancement do increase the efficiency in the operations of the banks but there is very less impact of merger and acquisition on the micro financing banks.

Dr P. Roopa and Dr. K. Uday Gowri Shankar (2020) analysed the financial statement of public sector banks for studying the impact of proposed bank mergers of 10 to 4 reducing the total banks to 12 in the nation. The study revealed the positive impacts of the mergers leaving the comment on the difficulties in the execution of the mergers and laying strong governance policies for effective and efficient management.

Shweta Yadav and Jonghag Jang (2021) studied HDFC banks financial performance pre and post mergers over a period of time. The study concluded with a positive remark showing an increase in the financial performance of HDFC bank post-merger.

Digital banking

Baljinder et al (2021) conducted a survey on 222 respondents inviting their perspective of digital banking post COVID-19 pandemic which changed the banking scenario worldwide. Considering various challenges due to digitalized banking in the minds of customers of north India, the study revealed a positive outcome for adaption of digital banking. However, it also highlighted risk of reliability, tangibility and responsiveness in digital banking.

Bhadrappa Haralayya (2021) through his short article focused on the changing banking patterns of the customers due to digital transformation, the era of paperless banking. The article concluded with the remark that digital banking is a necessity rather than choice for businesses and banks equally.

Pooja Yadav et al. (2023) adapted a literature review approach studying the available literature on digital banking in India from various sources available in physical and digital forms. The review had positive as well as negative remarks considering the benefits of digital banking on one hand and the risks like cyber security on the other.

Simran Jit Kaur et al (2020) made a qualitative study on digital banking and the role of banks in internal operations. The study was a outcome of structured interview conducted on the banking professional and executives adapting the changing banking habits. The study disclosed facts that gaining the customers trust for adapting digital banking was the main challenge for the banks.

3. Objectives of the Study: -

a.   To evaluate and compare the profitability of selected public and private sector banks, considering five banks from each sector are considered for the study to compare the profitability of the banks from 2019 to 2024.

b.   To analyze key financial ratios: Net Profit Margin(NPM), Returns On Assets(ROA), Return On Equity (ROE), and Net Interest Margin(NIM) for the above period for the selected ten banks from both the sectors.

c.   To identify trends, strengths, and weaknesses in each sector, considering the above financial ratios and understanding the performance of the selected banks.

d.   To suggest strategic improvements for enhancing profitability, especially in PSBs, which are normally observed to have a poor performance as compared to the private players of the banking sector.

4. Research Methodology

➢   **Sample Size:** The sample size consists of 10 banks in all, covering 5 each from the public sector and the private sector, respectively. Considering the length of the paper and the major events like Mergers, the COVID-19 Pandemic, the number is kept limited to 10 only.

➢   **Public Sector Banks:** The PSBs considered for the study are the State Bank of India (SBI), the Bank of Baroda (BoB), the Punjab National Bank (PNB), the Canara Bank, and the Union Bank of India.

➢ **Private Sector Banks:** Similarly, the banks like ICICI, HDFC, Axis, IndusdInd and Kotak Mahindra are the private players of the banking sector considered for the study. **Data Collection:** Secondary data sourced from published annual reports, RBI data, and online websites like moneycontrol.com.

➢ **Period of Study:** The period of study for the objective of the paper is FY2019-20 to FY2023-24.

➢ **Tools of Analysis:** The tools of analysis considered are Ratio analysis, trend analysis, and comparative analysis.

5. Key Financial Ratios Used: -

Various ratios and methods of analysis can be used to understand the profitability of the banks from the public and Private sectors. However, this study is based on the following ratios, considering the relevance and importance of the core objective of the study.

➢ **Net Profit Margin (NPM):** Indicates how much profit a bank generates per unit of revenue.

➢ **Return on Assets (ROA):** Measures how efficiently a bank uses its assets to generate profits.

➢ **Return on Equity (ROE):** Reflects profitability from the shareholders' perspective.

➢ **Net Interest Margin (NIM):** Measures the difference between interest income and interest expenses relative to earning assets.

6. Data Presentation and Analysis: -
The data studied is for the financial years 19-20 to 23-24.

A. Net Profit Margin (NPM) (%)

Bank	19-20	20-21	21-22	22-23	23-24
SBI	5.63	7.69	11.49	15.12	14.71
BoB	0.71	1.1	10.40	15.74	15.79
PNB	0.62	2.50	4.61	2.94	7.71
Canara Bank	-4.56	3.69	8.18	12.56	13.39
Union Bank	-7.78	4.22	7.70	10.44	13.67
HDFC Bank	22.86	25.74	28.93	27.29	23.53
ICICI Bank	10.60	20.46	27.02	29.20	28.61
Axis Bank	2.59	10.35	19.33	11.24	22.73
Kotak Mahindra	22.08	25.94	31.70	31.93	30.09
IndusInd Bank	15.34	9.78	14.96	20.31	19.56

Interpretation: Private sector banks consistently report higher NPMs, with HDFC and ICICI leading. PSBs, although improving, remain behind due to higher provisioning and legacy issues.

The net profit margins showed tremendous recovery post-COVID and the mergers of PSBs since 2020. The PSBs (SBI, BoB, PNB, Canara, Union) showed a dramatic turnaround from an average of -1.1% to 13.1% over the period of study. The private players in the nation in the banking sectors, like HDFC, ICICI, Axis, Kotak, IndusInd, showed a consistency in their progress from an average of 14.7% to 25% for the same period. Overall average showed a

growth of more than double in average from 6.8% to 19% over the period from 19-20 to the financial year 23-24.

B. Return on Assets (ROA) (%)

Bank	19-20	20-21	21-22	22-23	23-24
SBI	0.36	0.45	0.63	0.91	0.98
BoB	0.04	0.07	0.56	0.96	1.12
PNB	0.04	0.16	0.26	0.17	0.52
Canara Bank	-0.30	0.22	0.46	0.78	0.97
Union Bank	-0.52	0.27	0.44	0.65	0.98
HDFC Bank	1.71	1.78	1.78	1.78	1.68
ICICI Bank	0.72	1.31	1.65	2.01	2.18
Axis Bank	0.17	0.66	1.10	0.72	1.68
Kotak Mahindra	1.65	1.81	1.99	2.23	2.29
IndusInd Bank	1.43	0.78	1.14	1.61	1.73

Interpretation: Private banks exhibit stronger ROA figures, indicating more efficient use of assets compared to their public counterparts.

The RoA recovery is strong since COVID-19 and the mergers of PSB. Public sector banks' RoA, which was on an average 0.08% in F.Y. 19-20 shown an average figure of 0.91% in FY 23-24. This may be due to the merger strategies, increased efficiency, and reduction in the NPAs. The private sector banks were profitable, consistently showing a figure of 1.91% in FY 23-24 as compared to 1.14% in FY 19-20. The overall banking sector's figure has doubled over the period raising to 1.41% from 0.53%. The Kotak Mahinda Bank led with a figure of 2.29%, followed by ICICI, which stood at 2.18% in the private sector. The PSBs crossed 0.9%, which shows a quantitative as well as qualitative growth in operations.

C. Return on Equity (ROE) (%)

Bank	19-20	20-21	21-22	22-23	23-24
SBI	6.95	8.86	12.33	16.75	17.46
BoB	0.76	1.07	8.46	14.36	15.85
PNB	0.58	2.41	3.90	2.74	8.39
Canara Bank	-6.78	5.05	9.85	16.03	18.69
Union Bank	-9.46	4.87	7.94	11.68	14.94
HDFC Bank	15.35	15.27	15.39	15.74	13.81
ICICI Bank	6.99	11.21	13.94	16.13	17.37
Axis Bank	1.91	6.48	11.30	7.63	16.45
Kotak Mahindra	12.25	11.01	11.90	13.17	14.24
IndusInd Bank	12.84	6.58	9.73	13.60	14.1

Indian banks of both sectors have shown an increase in the ROE for the period of study in spite of the COVID-19 era. This may be due to the mergers and acquisitions in the case of the PSBs and the increase in market and efficiency in the private sector banks due to technical adaptation. The Public sector banks reversed from an average of 1.6% in FY 19-20 to 15.1% in FY 23-24, and that of private sector banks grew to 15.2% from 9.9% for the same period. Sector-wise average more than tripled from 4.1% to 15.1%, which attracts the investors. Canara Bank stood at the top with 18.7%, followed by SBI, which was 17.5% later, followed by ICICI Bank at 17.4%. It is seen that the banking sector's robust post-pandemic rebound and lasting benefits are from the 2020 public sector consolidation.

D. Net Interest Margin (NIM) (%)

Bank	19-20	20-21	21-22	22-23	23-24
SBI	2.48	2.44	2.42	2.62	2.58
BoB	2.37	2.49	2.55	2.83	2.82
PNB	2.09	2.41	2.18	2.35	2.56
Canara Bank	1.81	2.08	2.15	2.33	2.45
Union Bank	2.07	2.30	2.33	2.55	2.62
HDFC Bank	3.67	3.71	3.48	3.52	3.00
ICICI Bank	3.02	3.16	3.36	3.92	3.97
Axis Bank	2.75	2.93	2.81	3.26	3.37
Kotak Mahindra	3.74	4.00	3.91	4.39	4.32
IndusInd Bank	3.92	3.72	3.73	3.84	4.00

Along with the increase in the above three constraints, the Indian banks showed a modest and consistent growth over the period of time in terms of net interest margin (NIM) percentage. There was an increase in public sector banks from 2016% to 2.61% for the period from 2019 to 2024, while the private banks rose to 3.3% from 3.42% for the same period. The sector-wide average showed a considerable increase from 2.79% to 3.17%. These figures may be the result of better efficiency, lower funding cost, better asset pricing, and other reasons stated earlier. Kotak Mahindra Bank topped the NIM at 4.32% in FY 23-24.

7. Findings and Interpretation: -

a.   The private sector banks perform better than public sector banks across all profitability indicators. This may be due to various factors like the size of operations, the financial products and services offered, the recovery mechanism of the loans and advances given, etc.

b.   HDFC, ICICI, and Kotak Mahindra demonstrate strong profitability with superior risk-adjusted returns. These banks are the reputed and old players in the private sector of banking in the country, and hence, they may have a good coverage of the market, resulting in high profitability.

c.   Public sector banks are showing gradual improvement, but still lag behind due to legacy NPAs, lower tech integration, and operational inefficiencies. PSBs are also involved in investments in government projects or public service projects, which may lead to losses or low profitability.

d.   The gap in ROA and ROE reflects better asset and equity utilization by private banks. This may be considered as an outcome of better management in operations and better use of

financial resources, considering the investment decision and also the dividend pay-outs of the private banks.

8. Discussion: -

The higher profitability of private banks can be attributed to various factors, such as greater adoption of digital banking and analytics. The private banks also adopt focused customer service and lean operational models. The private banks also have better credit risk assessment and management. Lower exposure to government-mandated lending, allowing greater freedom in portfolio management, also helps the private banks to have high profitability. Public banks face legacy issues, rigid HR structures, and political interference in lending decisions.

8.1 Bank-Level Managerial Actions

Bank-level managerial actions refer to internal strategies and operational decisions that individual banks can implement to enhance profitability. The study suggests the following key managerial interventions:

i. **Strengthening Credit Risk Assessment:** Banks should adopt technology-based credit scoring models to reduce the incidence of NPAs, which would enhance the asset quality.

ii. **Operational Efficiency and Cost Control:** Adopting streamlined branch operation and optimizing human resources efficiently can reduce operating costs and improve profit margins.

iii. **Digital Transformation and Innovation:** Digital transformation and adoption can enhance customer experience and expand revenue streams.

iv. **Product Diversification and Cross-Selling:** Expanding fee-based services along with the primary services like wealth management, insurance distribution, and advisory services can improve non-interest income.

v. **Human Resource Development:** Continuous training, performance-based incentives, and leadership development programs can improve employee productivity and service quality.

8.2 Government and Regulatory Reforms

The PSBs, which are under government control, can be intervened at the policy and regulatory level for efficient and effective performance. The following reforms are essential for long-term profitability improvement:

i. **Greater Operational Autonomy for Public Sector Banks:** Operational independence with a professional approach can enhance governance and accountability, which is otherwise controlled by political interference in some instances.

ii. **Capital Infusion and Recapitalization Support:** Adequate capital support from the government ensures compliance with Basel norms and enables banks to expand lending safely.

iii. **Strengthening Regulatory Oversight:** RBI plays an important role in enhancing supervision to promote financial discipline by strictly reviewing the asset quality along with operations.

iv. **Encouraging Consolidation and Strategic Partnerships:** Mergers and acquisitions help the banks to develop competition due to the increased market in the global landscape.

9. Recommendations: -

After studying the data and the interpretations, it is observed that the performance of the PSBs is not satisfactory as compared to the Private sector banks. Some of the recommendations that the PSBs can adopt to overcome their weak performance are stated below.

➢ Public sector banks should accelerate digital transformation.
➢ Enhance credit monitoring systems to reduce fresh slippages.
➢ Invest in employee training and customer engagement.
➢ Focus on retail banking and cross-selling of financial products.
➢ Government should allow more autonomy and incentivize performance.

10. Limitations: -

The study is an attempt to study the performance of the banks in the country for the five-year period, viz., 2019 to 2024. However, the limited sample size of 10 banks considering both sectors is smaller. The secondary data for the study and ratio analysis only which cannot be considered for the concrete and general outcomes of decisions. Market volatility, macroeconomic changes, and RBI policies are not deeply analyzed, considering the theme relevance of the paper. The event of the COVID-19 pandemic was an abnormal event in the world, which may have affected the functioning of the PSBs, which is not considered in the study due to the non-monetary nature of the event.

11. Conclusion: -

This study reveals a clear edge in profitability for the private sector banks over their public counterparts. While reforms and mergers have provided a foundation for public sector revival, consistent policy support, governance reforms, and customer-centric strategies are needed to bridge the profitability gap. With continued reform, public sector banks can significantly enhance their performance and regain competitiveness. The mergers and amalgamations of PSBs may increase profitability and overall performance in the upcoming years. PSBs should focus on adopting technology for its growth and development along with modern management practices, enhancing the operations and fund management of the banks in the public sector. The Private players of the sectors may extend finance in the form of investment or go into technical tie-ups with the PSBs, which may boost the operations of the PSBs.

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