

Original Article

A Comparative Study on the Financial Performance of the Nationalized Banks with the Private Banks in India in the Financial Year 2020-21

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Abstract: This paper is an attempt to study the financial performance of the nationalized banks and the private banks in the financial year 2020-21 and try to make a comparison between them. The study is both descriptive and analytical in nature and is based on the secondary data only. These data are collected from the various financial statements of the selected banks for the financial year 2020-21 of the ten selected banks. Five nationalized and five private banks are selected randomly. Three accounting ratios namely Return on Assets, Earnings Per Share and Net NPA to Net Advances ratios are used for analyzing the financial performance of the nationalized banks and private banks. Three statistical tools namely mean, standard deviation and variance are used to make the comparison of the financial performance of nationalized banks and private banks. Bar charts are also used for the graphical representation of the collected data. This study reveals that the financial performance of the private banks is far better than the financial performance of the nationalized banks in the financial year 2020-21. This study also reveals that the Net NPA to Net Advances ratios of the nationalized banks is more than the Net NPA to Net Advances ratios of the private banks.

Keywords: Earnings per Share; Net NPA to Net Advances Ratio; Profitability Ratio; Return on Assets; Standard Deviation; Variance.

1. Introduction

The Indian banking system is one of the largest banking systems in the world. It comprises different kinds of banks like nationalized banks, private banks, regional rural banks, foreign banks. Nationalized banks and private banks are the two major components of the Indian banking system. At present, there are 12 nationalized banks and 22 private banks that are operating and providing services in India. List of nationalized bank and private banks which are operating in India.

Table1: List showing the name of the banks operating at present in India

Nationalized bank	Private bank
<ol style="list-style-type: none"> 1. State Bank of India, 2. Punjab National Bank, 3. Bank of Baroda, 4. Bank of India, 5. Bank of Maharashtra, 6. Canara Bank, 7. Central Bank of India, 8. Indian Bank, 9. Indian Overseas Bank, 10. Punjab and Sind Bank, 11. UCO Bank, 12. Union Bank of India. 	<ol style="list-style-type: none"> 1. Axis Bank, 2. Bandhan Bank, 3. CSB Bank, 4. City Union Bank, 5. DCB Bank, 6. Dhanalaxmi Bank, 7. Federal Bank, 8. HDFC Bank, 9. ICICI Bank, 10. IDBI Bank, 11. IDFC First Bank, 12. IndusInd Bank, 13. Karur Vysya Bank, 14. Kotak Mahindra Bank, 15. Nainital Bank 16. RBL Bank, 17. South Indian Bank, 18. Tamilnad Mercantile Bank, 19. Yes Bank, 20. Laxmi Vilas Bank,, 21. Jammu & Kashmir Bank, 22. Karnataka Bank.

(Source: Retrieved from <https://www.jagranjosh.com>)

The financial year 2020-21 is very crucial for all the banks as in this period, the Covid19 disease was identified in India and it spread and infected a large number of people in India. The central Government of India ordered nationwide

lockdown for 21 days which extended for 3 months in different parts of the country. Everyone including banks, companies, industries, schools, colleges was affected from this inevitable situation. So this is very important for us to measure and analyze the performance of the nationalized banks and make a comparison of it with the private banks.

Five nationalized banks namely State Bank of India, Punjab National Bank, Bank of Baroda, Bank of India, Bank of Maharashtra and five commercial banks namely Axis Bank, Bandhan Bank, HDFC Bank, ICICI Bank, IDBI Bank are selected for the study. In this study, the financial performance of the banks is measured with the help of Net Profit Ratio, Earnings per Share and Net NPA to Net Advances ratio. The performance of nationalized banks will be compared with private banks with the help of mean, standard deviation, variance and bar charts.

Return On Assets (ROA)

Return on Assets is a profitability ratio that measures how much profit a company is able to earn by using its assets. It reflects the efficiency of the management in utilization of its economic resources. Return On Assets is calculated with the help of following formula:

$$\text{Return On Assets} = (\text{Net Profit/Income})/(\text{Total Assets}) \times 100$$

Higher the Return on Assets better will be the profitability and financial performance.

Earnings Per Share (EPS)

Earnings Per Share measures the profit available per equity share. Earnings Per Share is also known as Earnings Coverage Ratio. Earnings Per Share is calculated with the help of following formula -

$$\text{EPS} = (\text{Profit available to equity shareholders})/(\text{Number of equity shares outstanding})$$

Higher Earnings Per Share indicates better performance.

Net NPA to Net Advances Ratio

With the help of Net NPA to Net Advances ratio, a bank calculates how much of their advances become non-performing assets. It is calculate with the help of following formula -

$$\text{Net NPA to Net Advances Ratio} = (\text{Net NPA})/(\text{Net Advances}) \times 100$$

Lesser the Net NPA to Net Advances ratio better will be the performance and higher the Net NPA to Net Advances ratio poorer the performance.

2. Review of Literature

Prasad and Ravinder (2014) analyzed the profitability of four major banks in India namely State Bank of India, Punjab National Bank, ICICI Bank and HDFC Bank. The study period is from 2005-6 to 2009-10. They used statistical tools like mean, ANNOVA, Turkey HSD test for the study. They found that SBI performs well in terms of earnings per share. Punjab National Bank performs well in terms of operating profit margin and return on equity. HDFC Bank performs well in terms of gross profit margin, net profit margin, return on assets and price earnings ratio. ICICI bank gives highest dividends to the shareholders.

Saranya. C and V. Sridevi (2018) examined the performance of the selected private banks. They used the CAMEL rating system to evaluate the performance of the selected private banks. They found that HDFC bank and Axis Bank are the best private banks in terms of overall financial performance based on CAMEL rating system.

Hari Karri, Kishore Meghani and Bharati Meghani Mishra (2015) make a comparative study on the performance of Bank of Baroda and Punjab National Bank. They used CAMEL rating system and t-test to measure the performance of the selected banks. They found from the study that Bank of Baroda performs well in comparison to Punjab National Bank.

Dr. K. Srinivas and L. Saroja (2013) conducted a study to compare the financial performance of the ICICI and HDFC bank where they found that there is no significant difference between the performances of ICICI bank but the ICICI bank performs slightly less well compared to HDFC bank.

Deepthi Tripathi and Kishore Meghani (2014) conducted a study where they compared the financial performance of Axis bank and Kotak Mahindra Bank. They used the CAMEL model and t-test for the study. They found that there is no significant difference in the performance of Axis bank and Kotak Mahindra. But Kotak Mahindra bank performance is slightly less compared to Axis Bank.

3. Research Methodology

The present study is descriptive and analytical in nature and based on secondary data only. 5 nationalized banks and 5 private banks are selected randomly for the study. The data are collected from the various financial statements of the selected nationalized and private banks for the financial year 2020-21. Mean, standard deviation and variance have been used to draw the conclusion. The collected data are inserted in the MS excel.

8. Data Analysis

As the data is categorical and does not fulfill the assumptions of the parametric test, a non-parametric test is applied for the study. A popular nonparametric test to compare outcomes between two independent groups is the Mann Whitney U test. This test is used to test if two samples are likely to derive from the same population. In the study two samples are Bank Fixed Deposits and Company Fixed Deposits on which the respondents are asked questions to understand their awareness on it. Therefore, Mann Whitney U test has been applied.

4. Results

Table 2: Showing Return on Assets of the nationalized banks and private banks for the financial year 2020-21

Nationalized Bank		Private Bank	
Name of the Bank	Return on Assets (%)	Name of the Bank	Return on Assets (%)
State Bank of India	0.45	Axis Bank	0.66
Punjab National Bank	0.16	Bandhan Bank	1.91
Bank of Baroda	0.07	HDFC Bank	1.78
Bank of India	0.29	ICICI Bank	1.31
Bank of Maharashtra	0.27	IDBI Bank	0.45

(Source: Annual reports of the selected banks for the financial year 2020-21)

Results from the Table 2

The following results related to Return On Assets are found from table 2

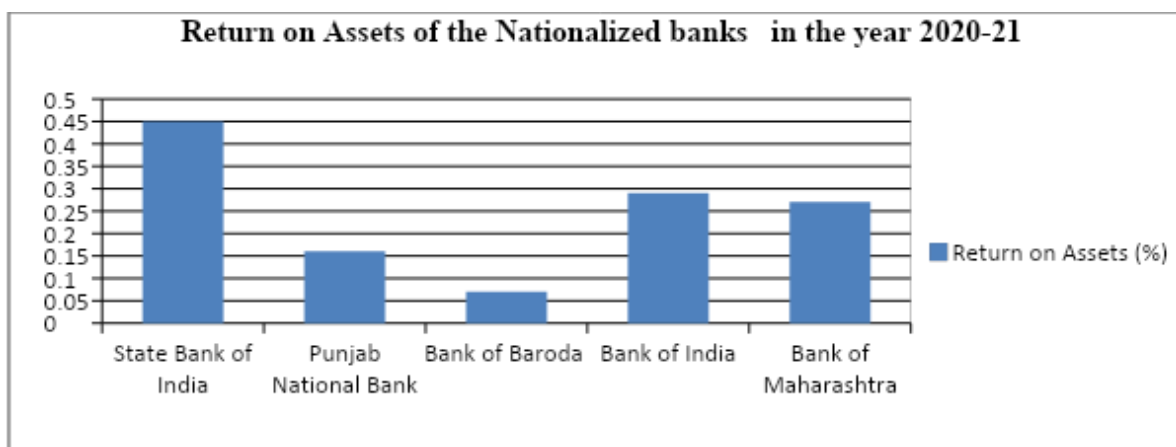


Figure 1: Return on Assets of the Nationalized Banks in the year 2020-21

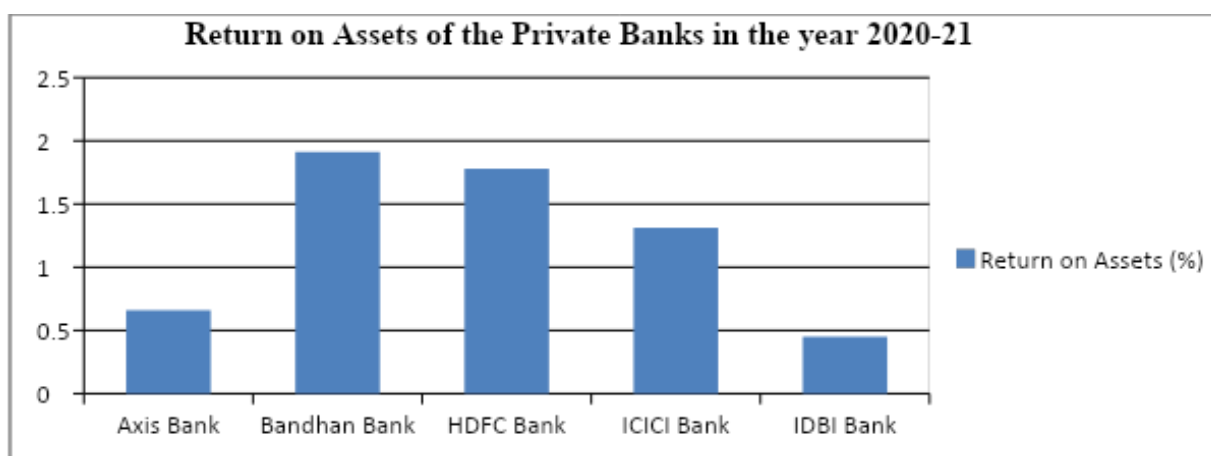


Figure 2: Return on Assets of the Private Banks in the year 2020-21

Types of Bank	Mean	Standard Deviation	Variance
Nationalized Bank	0.248	0.14	0.0196
Private Bank	1.222	0.65	0.4225

1. The average Return on Assets of nationalized banks in 2020-21 is 0.248% whereas the Return on Assets of private banks is 1.222%.
2. The standard deviation of Return on Assets for nationalized banks in 2020-21 is 0.14 and for private banks it is 0.65.
3. The variance on Return On Assets for nationalized banks is 0.0196 and for private banks the variance is 0.4225.

Table 3: Showing Earnings per Share of the nationalized banks and private banks for the financial year 2020-21

Nationalized Bank		Private Bank	
Name of the Bank	Earnings Per Share (Rs.)	Name of the Bank	Earnings Per Share (Rs.)
State Bank of India	22.87	Axis Bank	22.15
Punjab National Bank	2.08	Bandhan Bank	13.70
Bank of Baroda	1.78	HDFC Bank	56.58
Bank of India	6.59	ICICI Bank	24.01
Bank of Maharashtra	0.88	IDBI Bank	01.30

(Source: Annual reports of the selected banks for the financial year 2020-21)

Results from the Table 3

The following results related to Earning Per Share are found from table 3

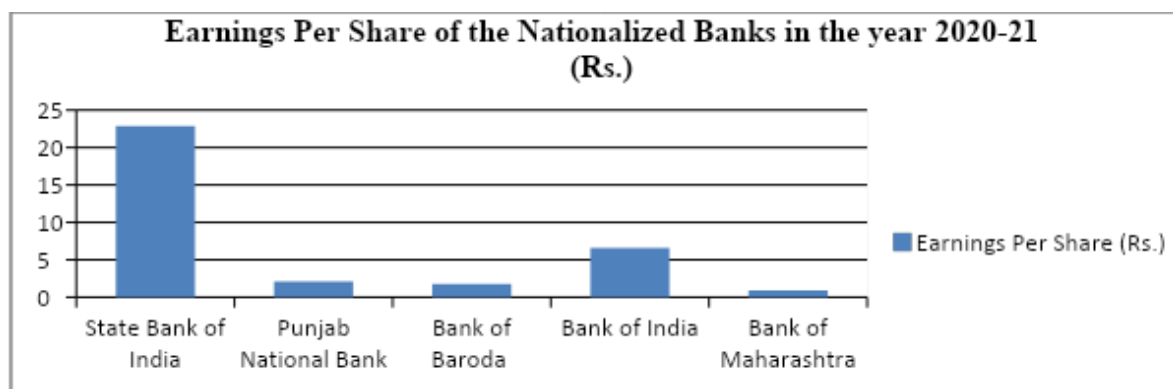


Figure 3: Earnings per Share of the Nationalized Banks in the year 2020-21

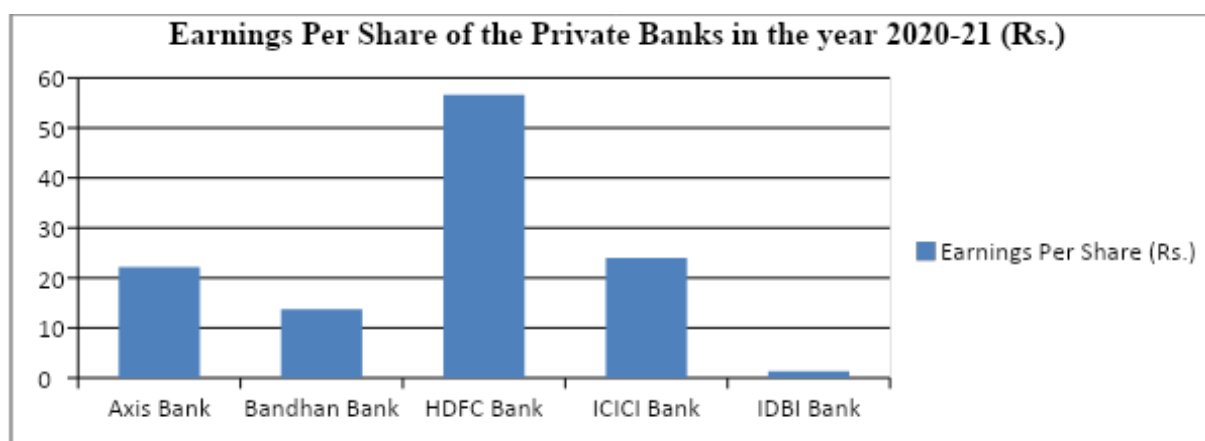


Figure 4: Earnings per Share of the Private Banks in the year 2020-21

Types of Bank	Mean	Standard Deviation	Variance
Nationalized Bank	6.84	9.23	85.20
Private Bank	23.55	20.52	421.31

1. The average Earnings Per Share (EPS) of nationalized banks in 2020-21 is Rs. 6.84 whereas the Return on Assets of private banks is Rs. 23.55.
2. The standard deviation of Earnings Per Share (EPS) for nationalized banks in 2020-21 is 9.23 and for private banks it is 20.52.
3. The variance on Earnings Per Share (EPS) for nationalized banks is 85.20 and for private banks the variance is 421.31.

Table 4: Showing Net NPA to Net Advances Ratios of the nationalized banks and private banks for the financial year 2020-21.

Nationalized Bank		Private Bank	
Name of the Bank	Net NPA to Net Advances Ratios (%)	Name of the Bank	Net NPA to Net Advances Ratios (%)
State Bank of India	2.00	Axis Bank	1.00
Punjab National Bank	6.00	Bandhan Bank	4.00
Bank of Baroda	3.00	HDFC Bank	0.00
Bank of India	3.00	ICICI Bank	2.00
Bank of Maharashtra	2.00	IDBI Bank	2.00

(Source: Annual reports of the selected banks for the financial year 2020-21)

Results from the Table 4

The following results related to Net NPA to Net Advances ratio are found from table 4

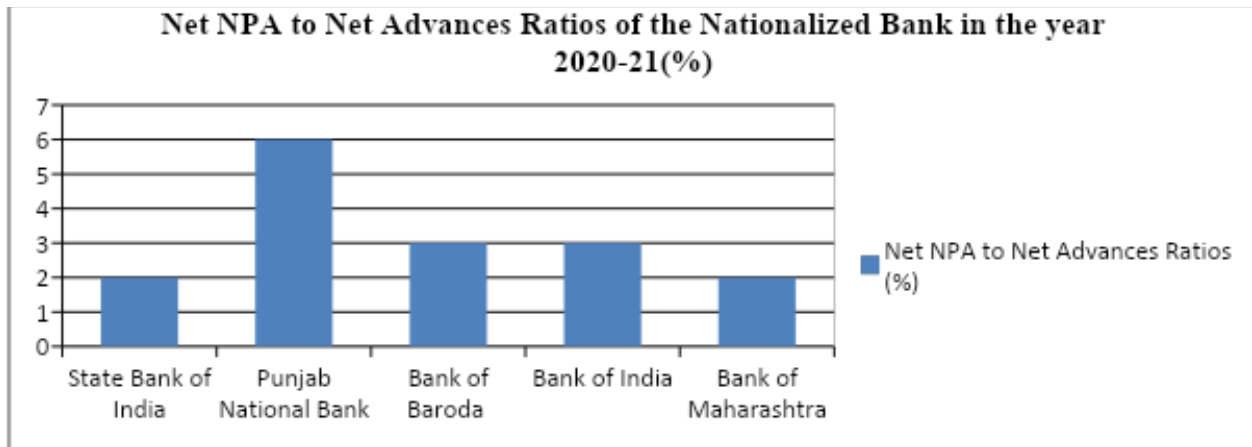


Figure 5: Net NPA to Net Advances Ratio of the Nationalized Banks in the year 2020-21

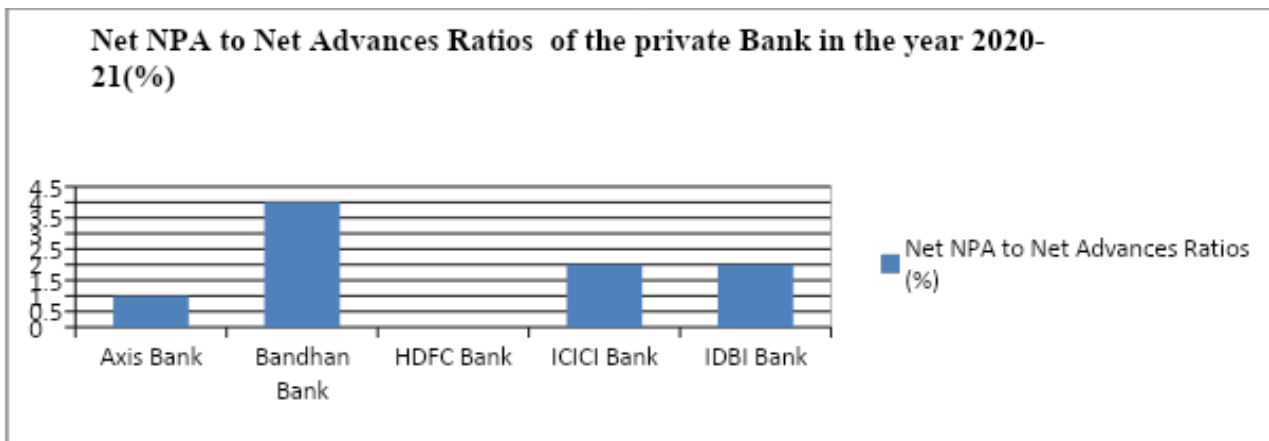


Figure 6: Net NPA to Net Advances Ratio of the Private Banks in the year 2020-21

Types of Bank	Mean	Standard Deviation	Variance
Nationalized Bank	3.2	1.64	2.7
Private Bank	1.8	1.48	2.2

1. The average Net NPA to Net Advances ratio of nationalized banks in 2020-21 is 3.2 whereas the Net NPA to Net Advances ratio of private banks is 1.8.
2. The standard deviation of Net NPA to Net Advances ratio for nationalized banks in 2020-21 is 1.64 and for private banks it is 1.48.
3. The variance of Net NPA to Net Advances ratio of nationalized banks is 2.7 and for private banks the variance is 2.2.

5. Discussions

From the analyses of the collected data, it is found that the average Return On Assets and Earnings Per Share of the selected private banks are more than the average Return On Assets and Earnings Per Share of the selected nationalized banks which means that the profitability of the selected private banks are better than the selected nationalized banks in the financial year 2020-21. From the analyses of the data, it is also found that the standard deviation and variance of the Return On Assets and Earnings Per Share of the selected private banks are more than the selected nationalized banks which indicate that the profitability of the selected private banks are more heterogeneous and volatile compared to the selected nationalized banks.

Again in case of Net NPA to Net Advances Ratio, the selected nationalized banks have more Net NPA to Net Advances Ratio than the selected private banks. This indicates that the loans given by the selected nationalized banks are not returned by the beneficiaries in time and become default compared to selected private banks or we can say nationalized banks provide loans to less creditworthy people.

From the study the researcher also found that there are certain factors because of which the selected profitability ratios of the nationalized banks were affected during the year 2020-21. During the time of covid19 pandemic, the Government of India announced lockdown and the general people cannot come out from the home. People preferred to work from home during that period and this would make a huge difference in the performance of the private banks. The private banks provide certain facilities to the general people like opening bank account from the home, proper net banking facilities. The net banking facilities provided by the private banks are far better in comparison to public sector banks. So the customers can easily do banking activities from home without going to the branch. The employees of the private banks were generally instructed to find probable customers and meet them personally and insist them to open bank account in their banks. Moreover the private banks give target to their employees and if the employees achieve the target, then they are rewarded and this act as a motivating factors for the employees and increases the profitability of the private banks during 2019-20.

6. Conclusion

From the study it is found that the performance of the selected nationalized banks is not good in comparison to the performance of the selected private banks in the financial year 2020-21. The average Return on Assets, Earnings Per Share of the selected nationalized banks is less than the average Return on Assets, Earnings Per Share of the selected private banks. It is also found that the Net NPA to Net Advances ratios of the selected nationalized banks is more than the Net NPA to Net Advances ratios of the selected private banks. This higher Net NPA to Net Advances ratios of the selected banks has a direct impact on the profitability of the nationalized banks. The nationalized banks should try to decrease this ratio by offering the loans to creditworthy people and this will ultimately help in increasing the profitability and return of the nationalized banks.

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