

“A COMPARATIVE STUDY ON FINANCIAL PERFORMANCE OF INDIAN BANKING SECTOR: A BANK GROUP WISE ANALYSIS”

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1. Abstract:

In the present banking scenario, various sectors like Public Sector Bank, Private sector bank, Foreign Bank and Small Finance bank plays a catalyst role in the development and growth of the economy as a whole. Such sectors of banks act as competitors as well as collaborators at the same time. We must take into account their operational efficiency as a sector and to be compared with other prime sectors. Present study is based on the above rationale to find out if there are any major differences in the financial and operational efficiency of selected four groups of banks by comparing various key ratios of banks. In the present study the researcher will try to find out the financial efficiency of selected bank groups of India in order to evaluate how significantly similar or different the operational efficiency of all the selected Indian groups of banks. i.e. Public Sector Bank, Private Sector Bank, Foreign bank and Small Finance Bank. In this study, researcher will draw the inference by applying ANOVA as a statistical measure. Researcher found out that overall there is no significant difference in the financial performance among the selected bank group ratios.

2. Keywords: Comparative study, Financial Performance, Indian Banking Sector, Group wise analysis.

3. Introduction:

Indian Banking system is the backbone of Indian Financial system. Either it is Capital Market or Money Market, Indian banking system always plays a catalyst role in the smooth functioning of it. Since the independence Public Sector banks has been playing a pivotal role in the development of Indian Economic Condition, alongside gradually private sector banks, foreign banks and Small Finance Bank has come into existence to strengthen the economic environment of India. Nationalization of banks has been implemented in order to cater the banking services to the remotest part of India. Due to nationalization various public sector banks are allowed to provide soft loans and small finances to the farmers and villagers, for this purpose Small finance banks has been established in the remote villages of country. On the other hand after the economic reforms in July, 1991, foreign banks are welcomed to participate in Indian financial market alongside Public sector bank and Private Sector Bank. As we can conclude, Public Sector Bank, Private Sector Bank, Foreign Bank and Small finance bank have a significant amount of contribution in the development of Indian Economy and as catered almost all types of financial requirements of Indian citizens it becomes worthwhile to compare the significance among all these banking groups.

4. Review of Literature:

- 1) **Fulwari A.A. (2020)**, “Concentration and Competition in the Indian Banking Sector: A Bank Group wise study” has analyzed how various banking groups concentrate and compete with each other by adopting aggressive products and pricing strategies to secure higher market share. The researcher studied the bank group wise levels of concentration and checked while individual banks chart their ways of responding to the changing environment and influence the structure of the sector, there may be fundamental difference in the nature of the competitive changes within different bank groups. The study showed that due to the advent of private sector banks the level of competition has increased in the Indian Banking Sector.
- 2) **Kadiwala A.G., Dr. Prajapati R.I. (2020)**, “Sector wise comparative analysis of Non-performing assets of selected Private Sector and Public Sector Banks” has analyzed the performance of private sector banks and public sector banks of India by taking Non-Performing asset as a Parameter. Researcher concluded that efficiency of private sector banks to cover the debt is more in comparison to Public Sector Banks

5. Research Gap:

By reviewing certain above literature for justifying the gap for the above research problem we have concluded that there are many researches which has compared public sector with private sector banks along with certain parameters but very few researches has been conducted and compared the financial performance of four major bank groups influencing the Indian Economic System i.e Public Sector Bank, Private Sector Bank, Foreign Bank and Small Finance Bank.

6. Objective of the study:

- To compare the financial performance of selected banking sector.
- To check the operational efficiency of selected banking sector for 3 years.
- To have a better understanding about the working aspect of all selected banking sector.

7. Research Methodology:

• Sample Size:

The researcher has selected four groups of the banks i.e. Public Sector Bank, Private Sector Bank, Foreign bank and Small Finance Bank as its sample size. Here, a convenient sampling technique has been adopted.

• Research Parameter:

The researcher has selected total 10 parameters to conduct the present study for the 2016-17 to 2018-19. The selected parameters are as under:

1. Cash - Deposit Ratio
2. Credit - Deposit Ratio
3. Investment - Deposit Ratio
4. Ratio of Priority Sector Advances to Total Advances
5. Ratio of deposits to total liabilities
6. Ratio of Term-Loan to Total Advances
7. Ratio of Secured advances to Total Advances
8. Ratio of Interest Income to Total Assets
9. Return on Assets
10. Return on Equity

• Data Collection:

The data has been collected from the secondary sources. For the justification of the present study researcher has used the data derived the aggregate ratios from the RBI journals for the study period.

• Period of the study:

The present research conducted for three years from 2016-17 to 2018-19.

• Hypothesis of the study:

- ✓ H_0 = There is no significant difference between the bank group wise selected ratios of scheduled commercial banks during the study period.
- ✓ H_1 = There is a significant difference between the bank group wise selected ratios of scheduled commercial banks during the study period.

• Statistical Tool

Researcher has adopted ANOVA (Analysis of Variance) as a test statistics.

8. Data Analysis:

	2018-19			
	Public Sector Bank	Private Sector Bank	Foreign Banks	Small Finance Bank
1. Cash - Deposit Ratio	5.37	5.48	5.78	4.73
2. Credit - Deposit Ratio	69.83	88.26	68.18	120.97
3. Investment - Deposit Ratio	31.84	32.35	65.90	30.40
4. Ratio of Priority Sector Advances to Total Advances	32.51	30.21	27.16	68.62
5. Ratio of deposits to total liabilities	83.50	71.16	55.06	58.87

6.Ratio of Term-Loan to Total Advances	55.19	68.06	38.85	89.99
7.Ratio of Secured advances to Total Advances	82.96	77.45	44.75	59.47
8. Ratio of Interest Income to Total Assets	6.87	7.92	5.77	14.33
9. Return on Assets	-0.65	0.63	1.56	1.59
10. Return on Equity	-11.44	5.45	8.77	12.59
Average	35.598	38.697	32.178	46.156
S.D.	35.56311	34.3053	25.95785	40.07238
	2017-18			
	Public Sector Bank	Private Sector Bank	Foreign Banks	Small Finance Bank
1. Cash - Deposit Ratio	5.43	7.97	8.09	6.58
2. Credit - Deposit Ratio	68.96	88.36	70.93	151.03
3. Investment - Deposit Ratio	33.79	33.57	63.16	43.23
4. Ratio of Priority Sector Advances to Total Advances	32.64	27.01	27.60	57.41
5. Ratio of deposits to total liabilities	82.33	70.10	56.91	44.71
6.Ratio of Term-Loan to Total Advances	53.51	66.88	37.67	88.47
7.Ratio of Secured advances to Total Advances	84.95	76.61	43.29	58.84
8. Ratio of Interest Income to Total Assets	6.68	7.73	5.96	18.40
9. Return on Assets	-0.84	1.14	1.34	0.73
10. Return on Equity	-14.62	10.12	7.16	6.34
Average	35.283	38.949	32.211	47.574
S.D.	35.9943	33.29456	26.017851	46.01038849
	2016-17			
	Public Sector Bank	Private Sector Bank	Foreign Banks	Small Finance Bank
1. Cash - Deposit Ratio	6.00	6.18	8.04	9.30
2. Credit - Deposit Ratio	68.81	86.53	71.39	164.37
3. Investment - Deposit Ratio	31.63	33.34	51.50	62.17
4. Ratio of Priority Sector Advances to Total Advances	32.15	28.86	28.93	84.75
5. Ratio of deposits to total liabilities	82.95	71.22	56.45	35.93
6.Ratio of Term-Loan to Total Advances	52.64	67.96	36.95	85.98
7.Ratio of Secured advances to Total Advances	86.51	79.65	45.15	61.13
8. Ratio of Interest Income to Total Assets	7.20	8.27	6.27	10.07
9. Return on Assets	-0.10	1.30	1.61	1.13
10. Return on Equity	-2.05	11.87	9.12	5.41
Average	36.574	39.518	31.541	52.024
S.D.	34.3511692	33.498453	24.5346210	51.24998064

(Source: STRBI Table. No. 10 Bank Group wise selected Ratios of Scheduled Ratios of Scheduled Commercial Bank)

❖ Hypothesis testing for the year 2018-19:

H_0 = There is no significant difference between the bank group wise selected ratios of scheduled commercial banks during the study period.

H₁ = There is a significant difference between the bank group wise selected ratios of scheduled commercial banks during the study period.

Summary of Bank Group Ratios for the year 2018-19				
Bank Groups	Years	Sum	Average	Variance
1. Public Sector Banks	10	355.98	35.598	1264.735
2. Private Sector Banks	10	386.97	38.697	1176.854
3. Foreign Banks	10	321.78	32.178	673.8097
4. Small Finance Banks	10	461.56	46.156	1605.795

Table showing ANOVA Test for Bank Group Ratio for the year 2018-19						
Source of Variation	SS	df	MS	F	P-value	F-crit
Between Groups	1065.725	3	355.2417	0.300976	0.82446	2.866266
Within Groups	42490.75	36	1180.298			
Total	43556.47	39				

Interpretation:

In the above table the calculated F-Value 0.30 is less than the table value F-Critical 2.86 which indicates there is no significant difference in the financial performance of different selected Group of banks in 2018-19. So, we will accept the Null Hypothesis H₀.

❖ **Hypothesis testing for the year 2017-18:**

H₀ = There is no significant difference between the bank group wise selected ratios of scheduled commercial banks during the study period.

H₁ = There is a significant difference between the bank group wise selected ratios of scheduled commercial banks during the study period.

Summary of Bank Group Ratios for the year 2017-18				
Bank Groups	Years	Sum	Average	Variance
1. Public Sector Banks	10	352.83	35.283	1295.591
2. Private Sector Banks	10	389.49	38.949	1108.528
3. Foreign Banks	10	322.11	32.211	676.9286
4. Small Finance Banks	10	475.74	47.574	2116.956

Table showing ANOVA Test for Bank Group Ratio for the year 2017-18						
Source of Variation	SS	df	MS	F	P-value	F-crit
Between Groups	1324.396	3	441.4654	0.339719	0.796712	2.866266
Within Groups	46782.04	36	1299.501			
Total	48106.43	39				

Interpretation:

In the above table the calculated F-Value 0.34 is less than the table value F-Critical 2.86 which indicates there is no significant difference in the financial performance of different selected Group of banks in 2017-18. So, we will accept the Null Hypothesis H₀.

❖ **Hypothesis testing for the year 2016-17:**

H₀ = There is no significant difference between the bank group wise selected ratios of scheduled commercial banks during the study period.

H₁ = There is a significant difference between the bank group wise selected ratios of scheduled commercial banks during the study period.

Summary of Bank Group Ratios for the year 2016-17				
Bank Groups	Years	Sum	Average	Variance
1. Public Sector Banks	10	365.74	36.574	1180.003

2. Private Sector Banks	10	395.18	39.518	1122.146
3. Foreign Banks	10	315.41	31.541	601.9476
4. Small Finance Banks	10	520.24	52.024	2626.561

Table showing ANOVA Test for Bank Group Ratio for the year 2016-17						
<i>Source of Variation</i>	<i>SS</i>	<i>df</i>	<i>MS</i>	<i>F</i>	<i>P-value</i>	<i>F-crit</i>
Between Groups	2280.716	3	760.2388	0.549836	0.651504	2.866266
Within Groups	49775.92	36	1382.664			
Total	52056.63	39				

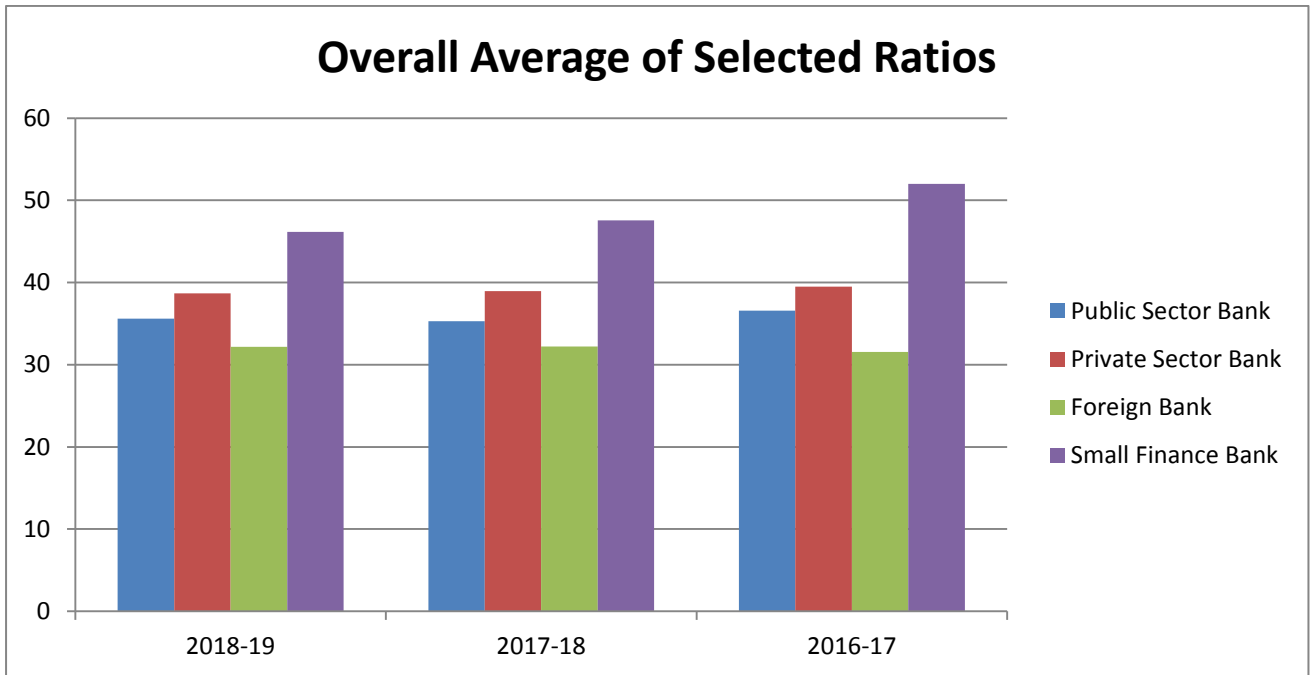
Interpretation:

In the above table the calculated F-Value 0.55 is less than the table value F-Critical 2.86 which indicates there is no significant difference in the financial performance of different selected Group of banks in 2016-17. So, we will accept the Null Hypothesis H_0 .

9. Findings:

No.	Banking Groups	Year	Inter-Group Comparison	Remarks
1.	Public Sector Bank	2018-19	Fail to Reject Null Hypothesis	No significant difference in financial performance of the bank groups in selected ratios
2.	Private Sector Bank			
3.	Foreign Bank			
4.	Small Finance Bank			
1.	Public Sector Bank	2017-18	Fail to Reject Null Hypothesis	No significant difference in financial performance of the bank groups in selected ratios
2.	Private Sector Bank			
3.	Foreign Bank			
4.	Small Finance Bank			
1.	Public Sector Bank	2016-17	Fail to Reject Null Hypothesis	No significant difference in financial performance of the bank groups in selected ratios
2.	Private Sector Bank			
3.	Foreign Bank			
4.	Small Finance Bank			

- In case of Public Sector Bank group, in the year 2018-19 the aggregate of selected ratio of Public sector bank is 35.60 while it was at 35.28 in 2017-18 and was highest at 36.57 in 2016-17.
- While in case of private sector bank group, in the year 2018-19 the aggregate of selected ratio of Private sector bank is 38 while it was at 38.94 in 2017-18 and was highest at 39.51 in 2016-17.
- In case of Foreign Bank group, in the year 2018-19 the aggregate of selected ratio of Foreign Bank is 32.17 while it was at 32.21 in 2017-18 and was lowest at 31.54 in 2016-17.
- While in case of Small Finance Bank Group, in the year 2018-19 the aggregate of selected ratio of Small Finance Bank is 46.15 while it was at 47.57 in 2017-18 and was highest at 52.02 in 2016-17.



As we can deduce from the above data and testing of hypothesis, the researcher found no significant difference in the financial performance of selected bank group during the study period. But if we can draw our attention on the above chart, we can surmise that 2016-17 is the year where almost all the bank groups were performing well from the point of view of financial efficiency except for the foreign banks. We can also notice that Small finance banks are taking lead as a group in comparison to other banking groups consistently during the study period from 2016-17 to 2018-19.

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