A COMPARATIVE STUDY ON FINANCIAL PERFORMANCE OF SELECT PUBLIC SECTOR AND PRIVATE SECTOR BANKS IN INDIA

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Abstract:

Banking system plays an important role in building of the modern-day economic world. The growth of trade and industry, which contributes significantly towards overall economic growth, depends crucially upon the smooth flow of money through banks. The presence of effective banking system thus is essential for the economic progress of a country; and the Indian economic growth story amply highlights the significance of a sound banking system. This paper throws enough light on the financial performance of Public sector banks versus private sector banks in India. Financial performance of banks plays an important role in economic growth of a country. Good financial performance of banks encourages investment in the economy whereas the poor performance leads to slowdown and other negative repercussions. Financial performance of banks can be studied by using various methods like ratio analysis, CAMEL rankings, liquidity, and profitability and so on. In the present study, ratio analysis was used to compare the financial performance of public and private sector banks in India since the year 2006.

Key Words: *Banking System, Trade, Industry, Economic growth, Flow of money, Financial Performance, Public Sector Bank, Private Sector Bank.*

I. Introduction

The first bank in India, the General Bank of India was established in 1786 followed by the formation of Bank of Hindustan and the Bengal Bank. The most considerable achievement of this period was the formation of Bank of Bengal (1806), Bank of Bombay (1840) and Bank of Madras (1843); which were acknowledged as Presidency Banks (RBI, 2008). In 1921, the merger of these three presidency banks led to the formation of the new bank known the Imperial Bank of India. The further growth in banking sector took place with the formation of Reserve Bank of India on 1st April 1935 under the Reserve Bank of India Act, 1934 (Gauba, 2012). A reduction in customer base and performance of banks was felt when many small banks went into liquidation during the time of crises, (1913-17, 1939-45 and 1948-53) as the banking sector was not developed to meet the requirements of the economy (Barasara, 2013).

A. Public Sector Banks

A Public Sector Bank (PSB) is a bank in which the government of a country owns a majority stake, either directly or indirectly. In the case of India, PSBs are banks that are owned by the Government of India.

The purpose of PSBs is to provide banking services to the general public, support economic growth and development, and ensure financial inclusion. PSBs offer a wide range of banking services, including deposit accounts, loans, and other financial products and services.

PSBs are regulated by the Reserve Bank of India (RBI) and are subject to the same rules and regulations as other banks in the country. They are also required to comply with various guidelines and policies issued by the government and the RBI from time to time.

Some of the key features of PSBs in India include:

1. Majority government ownership: The government of India holds a majority stake in PSBs, either directly or indirectly through other government entities such as Life Insurance Corporation of India (LIC).
2. Social objectives: PSBs are expected to support the government's social and economic objectives, such as financial inclusion, rural development, and support for small and medium enterprises (SMEs).

3. Regulatory oversight: PSBs are subject to regulatory oversight by the RBI and other government agencies, which helps ensure their safety and soundness.
4. Priority sector lending: PSBs are required to meet certain targets for lending to priority sectors such as agriculture, SMEs, and housing for low-income households.

Thus, PSBs play an important role in the Indian banking system and the economy as a whole, by providing access to banking services to a large segment of the population and supporting economic growth and development.

B. Private Sector Banks

A Private Sector Bank is a bank that is owned by private shareholders, rather than by the government. In India, private sector banks are banks that are owned by private entities or individuals, such as corporations, individuals or other non-governmental entities.

Private sector banks are regulated by the Reserve Bank of India (RBI) and are subject to the same rules and regulations as public sector banks in the country. They offer a wide range of banking services, including deposit accounts, loans, and other financial products and services.

Some of the key features of private sector banks in India include:

1. *Ownership:* Private sector banks are owned by private entities or individuals, rather than by the government.
2. *Profit-oriented:* Private sector banks operate on a profit-oriented basis and are accountable to their shareholders for their financial performance.
3. *Customer focus:* Private sector banks generally have a greater focus on customer service and innovation, as they are in a competitive market with other private sector banks.
4. *Technology-driven:* Private sector banks often have a strong focus on technology and use it extensively to improve customer experience, reduce costs and increase efficiency.
5. *Diversified product offerings:* Private sector banks offer a wide range of financial products and services such as insurance, wealth management, and other investment products.

Hence, private sector banks play an important role in the Indian banking system and offer customers an alternative to public sector banks. They are known for their innovation, customer focus, and strong use of technology to deliver high-quality banking services.

C. Overview of performance of Public and Private Sector Banks in India

The performance of Public Sector Banks (PSBs) in India has been a subject of debate and analysis over the years. PSBs are banks that are owned by the government of India, and they account for a significant share of the banking sector in the country. In recent years, PSBs in India have been facing a number of challenges such as high levels of non-performing assets (NPAs), low profitability, and stiff competition from private sector banks. These challenges have had an impact on the overall performance of PSBs.

Private sector banks were first introduced in India in 1991, as part of the economic liberalization policies introduced by the Indian government. Prior to 1991, the Indian banking sector was dominated by public sector banks, which were owned and operated by the government.

The introduction of private sector banks in India was a significant development, as it marked the entry of new players in the banking sector, which was previously dominated by a few large public sector banks. Private sector banks were allowed to be set up under the guidelines of the Reserve Bank of India (RBI), the central bank of India.

Initially, private sector banks faced several challenges, such as high entry barriers, limited access to capital, and limited customer base. However, they were able to overcome these challenges by leveraging technology, introducing innovative products and services, and adopting best practices from other countries.

Private sector banks have grown in importance and have become an integral part of the Indian banking sector. They have introduced several innovations, such as online banking, mobile banking, and digital wallets, which have transformed the way banking is done in India.

Today, private sector banks in India are known for their efficiency, innovation, and customer-centric approach. They have become a preferred choice for many customers due to their superior service, better product offerings, and more personalized approach to banking. The introduction of private sector banks in India has been a positive development, as it has led to increased competition, improved efficiency, and better service for customers.

D. Overview Financial Performance of Banking Sector in India

Productivity is a vital indicator of economic performance and it shows relationship between the output and the inputs used to produce it (Bansal, 2010). Productivity of banking sector, as pointed out earlier, is important for economic growth of a country. It is believed that strong and well organized banking system leads to faster economic growth (Singla, 2013). Although the banking sector has made good progress in tangibles but there still are challenges and banks would have to continuously take note of the same. Therefore, evaluation of performance has become important for the banks because it helps in protecting the banking operations from the continuous risk associated with capital market (Hays *et.al.* 2009). Today, keeping an eye on bank performance has become a preferred topic for many stakeholders such as customers, investors and the general public (Jha and Hui, 2012). A number of financial indicators are available to assess the financial performance. But some of the most important criteria to determine the compatibility and health of a financial organization are various ratio measures like credit deposit ratio, return on assets ratio, net NPA to net advances ratio, capital adequacy, asset quality, quality of management etc. In this study the ratio measures have been used. These rating are largely accepted for evaluating performance of banks and other financial institutions (Nimalathasan, 2008).

II. Review of Literature

Various studies have confirmed that the initiation of liberalization had a significant impact on the performance of Indian banking sector. The banking structure has gone through an extensive expansion, reorganization and consolidation over time. The recent technological developments like the beginning of internet and mobile banking have changed the scenario altogether. Such structural changes certainly have had an impact on the financial performance of the banks. Studies undertaken on the issue have been summarized here:

Shetty[1] in his study on "Performance of Commercial Banks since Nationalization of major Banks- Promise and Reality" had highlighted the level achieve by banks to achieve the objectives determined during the nationalization of banks. It was concluded that composition of

[1] S.L. Shetty, "Performance of Commercial Banks since Nationalization of Major Banks: Promise and Reality," Economic and Political Weekly, August 1978.

deposits remained unchanged and credit- deposit ratio had shown no improvement over the period. Further, it was reported that rural areas were neglected for opening of new branches.

Divatia and Venkatechalam[2] proposed to create a composite index by studying operational efficiency and profitability of individual banks using factor analysis technique. Total 15 public sector banks were studied using eighteen indicators of productivity, profitability and social objectives. The indicators chosen for the study were divided into productivity, social objectives and profitability. The results of the study revealed that significant difference was found in terms of social obligation, productivity and profitability.

Chopra[3] in her book titled "Managing Profits, Profitability and Productivity in Public Sector Banking", discussed about the changing trends in profitability of selected public sector banks. It was mentioned in the book that it is important for banks to develop strategies for enhancing profitability and also need to work for reducing the costs for better earnings.

III. Statement of the Problem

The Financial performance of Banks is one of the major factors which decides the success and survival of Banks Productivity is a vital indicator of economic performance of the nation, it shows the relationship between the output and the inputs used to produce it. Productivity of the banking sector is important for economic growth of a country although the banking sector both the Private and Public Sector Banks have made notable progress in tangibly but still there are challenges and Banks would have to continuously take note of the same. This study compares and contrasts the comparative performance of select Public and Private Sector Banks in India.

IV. Objective of the study

The objective of the study is to compare the financial performance of public and private sector banks.

[2] V.V. Divatia and T.R. Venkatachalam (1978), "Operational Efficiency and Profitability of Public Sector Banks", Reserve Bank of India Occasional Papers, Vol.3, No.1, June, Pp.1-16.

[3] Chopra, Kiran (1987), Managing Profits, Profitability and Productivity in Public Sector Banking, ABS Publications, Jalandhar.

V. Research Methodology

Research methodology deals with the selection of systematic methods that can be adopted to solve research problems. Systematic research methodology is a crucial step in any research because it directly influences the whole research and its outcomes. Therefore, a clear methodology is required in selection of study areas, respondents and the use of appropriate tools for collection and analysis of data. This chapter presents the research approach adopted to compare the financial performance and financial inclusiveness of private and public sector banks in India. The study further helps the various stakeholders such as investors, customers and general public by large.

VI. Study Area and Sample Design

The major thrust of the present study was to analyze comparative financial performance and inclusiveness of public and private sector banks. The study also analyzed relative customer satisfaction levels of private and public sector banks. The issue is of importance to address the often-raised concerns of differences in working and services provided by public and private sector banks.

As far as the performance of public and private sector banks was concerned, overall comparison of financial performance and financial inclusiveness of these banks for the last 10 years was done. Whereas, to study the customer satisfaction with regard to the services provided by public and private sector banks; for reasons of time and financial resource constraints on the part of the researcher. In the next stage of selection of sample customers, two separate lists of public and private sector banks operating in the selected states were prepared, using the relevant data published by Indian Banks Association. In the third stage, the public and private sector banks were arranged on the basis of their total assets, as on March, 2011. It was noted that some of the top public sector banks (State Bank of India, Punjab National Bank, Bank of Baroda) were too large to be compared with the private sector banks. Hence, in order to get the comparable sample of public sector banks, the total assets of top private sector bank were considered as benchmark to select banks from the list of public sector banks. Finally, a random sample of three banks each was selected from the lists of public and private sector banks for conducting the survey for

analyzing the customer satisfaction of the services provided by the two groups of banks. The banks so selected for the detailed study are listed in table 1.

Table - 1: Banks Selected

Public sector	Private sector
Bank of India	ICICI Bank
Union Bank of India	Axis Bank
Punjab & Sind Bank	IndusInd Bank

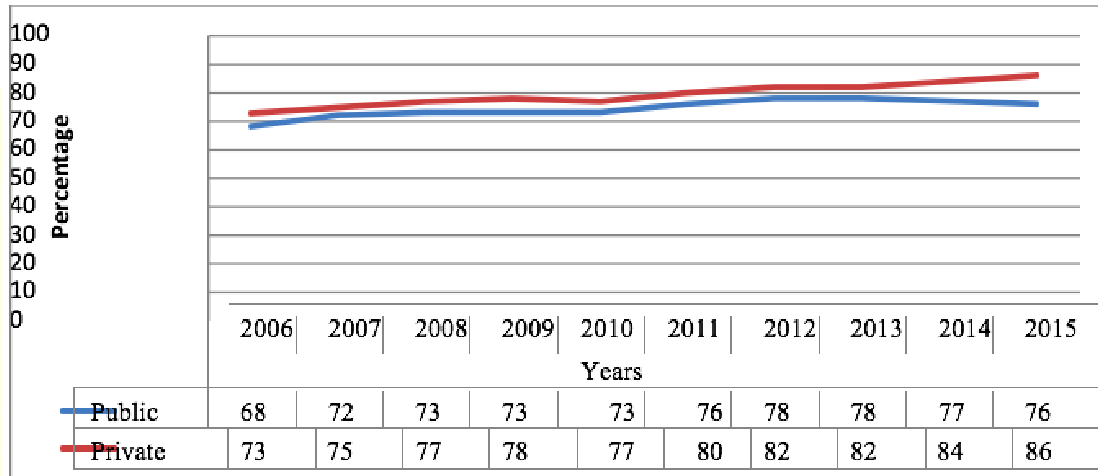
V. Results and Discussion

A. Credit-Deposit Ratio (C-D ratio): Credit-Deposit Ratio (C-D ratio) explains the level of credit deployment in relation to deposits mobilized by the banks. It shows the efficiency with which commercial banks are tapping savings from the available sources and channelizing the same to various productive activities of the economy (Kumar and Verma, 2008). According to the latest figures a C-D ratio of over 75% would indicate pressure on resources as banks have to set aside funds to maintain a cash reserve ratio (CRR) of 4% and statutory liquidity ratio (SLR) of 21% (RBI). However, there is no minimum or maximum limit for the ratio, very low ratio indicates that banks are not making full use of their resources, whereas very high ratio is considered as pressure on resources and may force banks to raise more capital (Nayak, 2012). C-D ratio of public sector banks in India picked up after nationalization from 60% in 1969 to 68% in 1976 and after that it continuously declined and reached an all-time low level of 53% as on September 1999 followed by 52.2% in year 2001 (Kumar, 2013).

This constant fall was attributed to strict credit policy of the RBI and decline in corporate demand for credit. Looking at the problem of low credit deposit ratio, an expert group was constituted under the chairmanship of Y.S.P. Thorat in the year 2005. Group examined the C-D ratio of banks and recommended that it needs to be monitored at different levels wherein District Level Consultative Committee (DLCC) may be set up to monitor the districts having the C-D ratio less than 40%; districts having C-D ratio between 40% and 60% and districts with C-D ratio of less than 20%. It was also recommended that the districts with C-D ratio of less than 20%

need to be treated more vigilantly (RBI, 2005). As a result, C-D ratio during March end 2006 was found to be 68% and 73% in case of both public and private sector banks respectively. C-D ratios for both the public and private sector banks for the last ten years have been given in Fig. 1.

Figure - 1: Credit Deposit Ratio



	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Public	68	72	73	73	73	76	78	78	77	76
Private	73	75	77	78	77	80	82	82	84	86

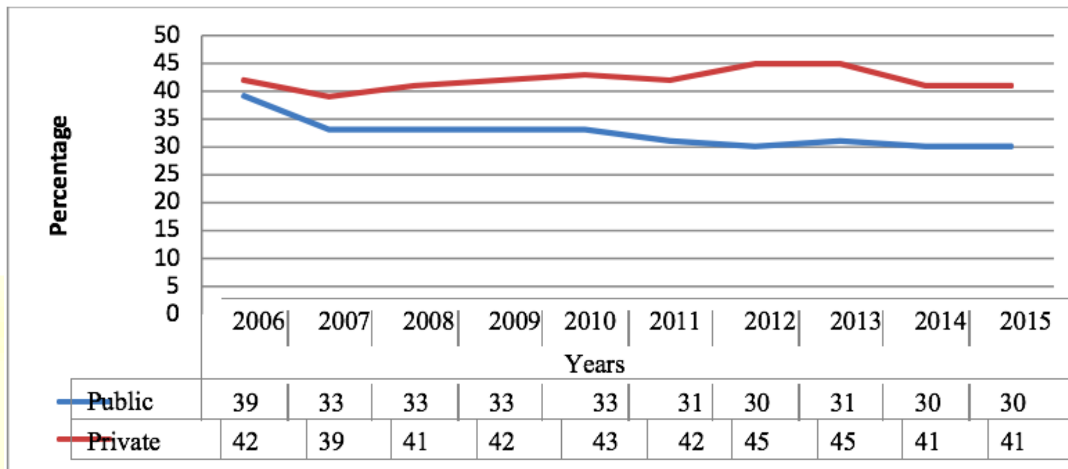
Source: Indian Bank Association www.iba.org.in & RBI, Report on Trend and Progress of Banking in India (Various Issues)

Fig. 1 highlights that the C-D ratio has been higher in private sector banks as compared to public sector banks. A rise in C-D ratio of public sector banks is clearly visible since 2006 till 2013 and after that it showed the declining trend. On the contrary, C-D ratio in case of private sector banks showed continuously an increasing trend except a minor fluctuation in 2010. The higher credit deposit ratio in private sector banks can be explained with the fact that dependence of these banks is relatively lower on deposits as compared to public sector banks. The situation in this regard is seen to be almost the same during 2012 & 2013 which could be because of the continued dependence of the banks on the alternative sources for mobilizing credit. Since 2013, decreasing trend of the ratio observed in public sector banks reflected the release of pressure from financial resources of banks. Another reason for the low C-D ratio in public sector banks could be decrease in the ratio of few states of India like Orissa where the public sector banks (Andhra Bank 45%, Bank of Baroda 47.3%, Syndicate Bank 34.5%, UCO Bank 39.2% and Union Bank of India 50%) recorded C-D ratio even lower than the stipulated norm of 60% (Indian Express, 2014) and similarly in Goa, where due to ban on mining corporate loans

decreased and which affected the earnings of miners and on the contrary, decrease in deposits was also witnessed (The Hindu, 2013). Therefore, it is important for such banks to diversify their portfolio of lending to other sectors like agriculture and small & medium scale enterprises (SMEs). As mentioned above, efforts to increase CASA can also be made. The Rising trend of C-D ratio is good in context of earning more profits but with the growth in credit, Non-Performing Assets (NPAs) simultaneously need to be controlled. On the other hand, private sector banks continued to show increasing trend after the marginal decline in 2013. This situation of C-D ratio reveals that a very high ratio creates pressure on liquidity as it is mandatory for banks to maintain provision for SLR and CRR as per the mandate of RBI. To overcome the fear of liquidity crunch, it is important for banks to strengthen their network in financially backward and excluded regions (Sethi and Bajaj, 2013).

B. Investment - Deposit Ratio: The Investment-Deposit (I-D) ratio is calculated to know the proportion of deposits which are being invested in fixed income securities. It is calculated as Investments (Government Securities and Other Approved Securities)/Total Deposits. The ideal I-D ratio is supposed to range between 29-30% (Agarwal, 2012). Narasimham Committee (1991) objected to the system of maintaining high liquid assets by commercial banks in the form of cash, gold and unencumbered government securities. During 1991, SLR and CRR were as high as 38.5% and 15% respectively. Taken together banks needed to maintain 53.5% of their resources with the RBI which according to the Narasimham Committee was one of the reasons for poor profitability of banks. The committee recommended the reduction in SLR to 25% and CRR to 3- 5% (Akrani, 2010) as because of credit demand in the market, public sector banks began liquidating some of their non-SLR investments which do not qualify for the statutory liquidity ratio. In 2008, entire banking sector saw a huge surge in loan demand from oil companies and other Public Sector Undertakings (PSUs) due to which loans grew at a faster pace than deposits. On the other hand, RBI pulled down the CRR by 350 basis points, releasing more than Rs.1200000 million in the system (ET, 2008). This forced banks to pass on their stock of government bonds to fund the loan demand due to which in 2008, the investment deposit ratio slipped down to 28.3% moving towards the mandatory mark of 25% (Pandey, 2008).

Figure - 2: Investment Deposit Ratio



	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Public	39	33	33	33	33	31	30	31	30	30
Private	42	39	41	42	43	42	45	45	41	41

Source: Indian Bank Association www.iba.org.in (Various Issues)

As exhibited in Fig 2, I-D ratios in public sector banks have been lower than that in private sector banks. The ratio in public sector banks showed a decreasing trend since 2006 with a small increase in 2013 whereas, I-D ratio in case of private sector banks showed fluctuations during the period under study.

The decline in I-D ratio of public sector banks could be attributed to the rise in C-D ratio. Further, it was observed that in 2009, I-D ratio of public and private sector banks increased to 32.52% and 41.63% respectively which implied that private sector banks were in a better position with respect to earning interest on investments but on the contrary, higher ratio may also lead to liquidity problems. Hence, it is important for the banks to have a pool of short-term investments which have higher liquidity. Further, Fig.2 reveals that after witnessing the increasing trend till March 2010, I- D ratio in 2010-11 declined to 30.44% and 42.09% in public and private sector banks respectively. Only 75% of the total investments were held back to meet the SLR requirements and to raise funds from money market (RBI, 2011) whereas, rest 25% available fund was being used to meet the liquidity problem. In addition, it was witnessed that during the year 2013, both public and private sector banks started hoarding money in government bonds rather than lending it to business houses which may be because of lowered market interest rates. On other hand, it was also revealed that those banks which hold government bonds much beyond the mandated levels, have strong retail franchise and a lot of

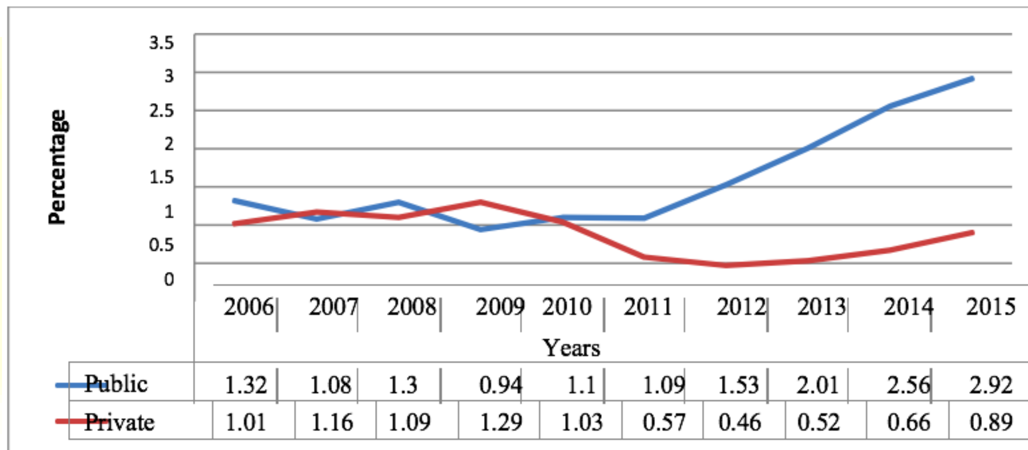
surplus funds. Even after viewing the fluctuating trend from 2009 onwards, the ratio remained higher than the SLR requirement of 22% during 2015 which implies that both bank groups had enough funds to invest in government securities. In February 2015, RBI decided to bring down SLR to 21.50% with the purpose to inject more funds in the market.

C. Non-Performing Assets Ratio: In banking, Non-Performing Assets (NPA) are the loans which may or may not get recovered. A high level of NPA increases the prospect of large number of defaults which affects the profitability of banks and reduces the pace of economic growth. Some of the biggest NPA crises around the world like American savings and loans crises in 1980s, the Nordic banking crisis during early 1990s, the banking sector problems in Japan and Turkey and recently happened subprime crisis of USA had been one of the reasons for defaults that happened in loans (Zafar *et.al*. 2013). In India, tendency of NPA emerged after the nationalization of banks and in lieu of these various distinguished measures like introduction of Sick Industrial Companies Act (SICA) -1985, Board for Industrial and Financial Reconstruction (BIFR), Recoveries of Debt due to Banks and Financial Institutions Act (RDDBFI)-1993 were taken to recover NPAs but none of the regulations was able to speed up the recovery of bad loans (Dun and Bradstreet, 2008). Narasimham Committee concluded in its report that lenient priority sector lending was one of the main reasons for the increase of NPAs of banks and also highlighted poor credit policy, behest lending and cyclical economic factors as some of the other reasons for increase in NPAs.

In order to speed up the recovery process committee recommended reducing the period of default from 180 days to 90 days followed by the setting up of Asset Reconstruction Fund (ARF) by which Government of India, if necessary, can take over the NPAs from Banks at discount and recover the dues owned by the primary borrowers. Other than this, various other norms like Lok Adalats, Civil Courts, Debt Recovery Tribunals and Compromise Settlement were established for better recovery of loans. In addition to this, in 1999 an expert group committee was constituted under the chairmanship of T.R. Andhyarujina, senior Supreme Court advocate and former Solicitor General of India to formulate the Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest (SARFAESI) Act, which was passed on December 17, 2002. The Act provides for enforcement of the security factor without recourse to civil suits. From 2002 till 2009 number of cases referred to SARFAESI act increased from 0.002 million to

0.061 million which contributed towards the recovery of Rs.39820 million from the total recoverable amount of Rs.120670 million (Rajeev and Mahesh, 2010). Further, with a view to provide additional option for NPA management, RBI issued guidelines on sale/ purchase of NPAs by banks in order to reduce the level of NPAs (RBI, 2007).

Figure – 3: Non-Performing Assets Ratio



Source: Indian Bank Association www.iba.org.in (Various Issues)

Fig.3 clearly depicts that increasing NPA has been a concern for public sector banks in recent years because the NPA ratio has been continuously and sharply increasing since 2009. In case of private sector banks, fluctuations could be seen till 2012 and then the ratio kept on increasing. It can be concluded that due to the economic slowdown and increase in non-priority sector NPAs, increasing trend of net NPA was observed in public sector banks from 2009 onwards. On the other hand, declining trend was seen among private sector banks in 2010 when the ratio came down to the level of 1.03% and further to 0.46% in 2012 which could be attributed to the decline in NPAs of ICICI Bank from 2.19% to 1.96% during March 2010 and increase in the provision for contingencies by 20.93% in the year 2011. Whereas, the delay in implementation of projects and impact of business cycles might have been some other factors responsible for continuous deterioration of asset quality in public sector banks. One additional reason could be a decline in amount recovered through SARFAESI, Debt Recovery Tribunals and Lok Adalats, (appendix 8) which was also reflected in the increase of Net NPAs to Rs. 619000 million and Rs. 281000 million in Nationalized Banks and SBI group respectively. Moreover, NPAs of priority sector were consistently higher than NPA ratio of non-priority sector (RBI, 2013). Since 2013, ratio of

private sector banks started increasing and in 2014 the ratio reached the level of 2.56% and 0.52% in public and private sector banks respectively. Looking into this adverse situation, Reserve Bank of India issued the guidelines in 2014 to all banks mentioning about setting up of Central Repository of Information on Large Credits (CRILC) to collect, store and disseminate credit data to lenders. Under CRILC, banks needed to furnish the information of large borrowers, written off accounts, current accounts and non-cooperative borrowers (RBI, 2014). Moreover, under SARFAESI highest recovery of 25.8% was recorded in 2014.

Looking into the adverse situation of NPAs in India and RBI had being issuing guidelines and making policies to reduce the same, it can be concluded that banks should also adhere to the instructions and must highlight the problem whenever it comes to light. In addition, money should be lent only to those who fulfill the criteria and have repayment capacity. Other than this, Government should work more towards generating employment and motivate companies to follow the national campaigns like Make in India so that income and employment both can be generated.

Fig. 3 also highlights that in recent years, NPA ratio has been higher in public sector banks as compared to private sector banks which implies that private sector banks are doing extremely well to control asset deterioration by strictly implementing strict the credit policy, and through stringent recovery norms and adequate provisioning. Increasing NPA of priority sector had been a matter of concern for public as well as private sector banks. The faulty lending process for fulfilling the targets of loans has also been one of the reasons for increasing level of NPAs, particularly in case of public sector banks.

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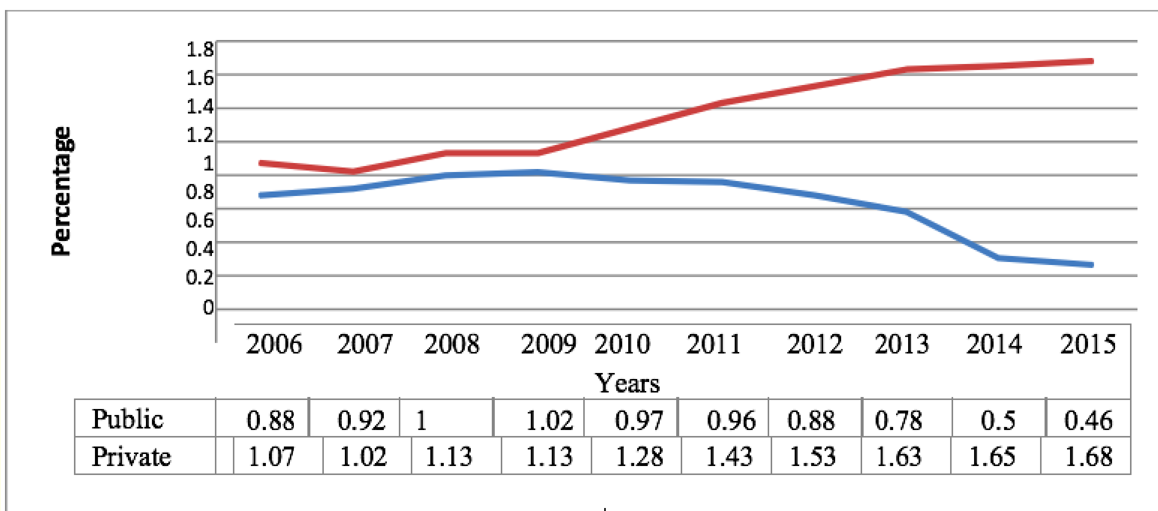
D. Returns on Assets: Return on Assets (ROA) ratio helps to measure the operating efficiency of the bank. It is ideally accepted that higher the ratio, better is the efficiency of banks and shows how effectively the assets are being used to generate greater amount of income.

Return on Assets is calculated by dividing net profit (after taxes) by the total assets. ROA ratios for public and private sector banks have been exhibited in Fig. 4.

Figure - 4: Return on Assets Ratio

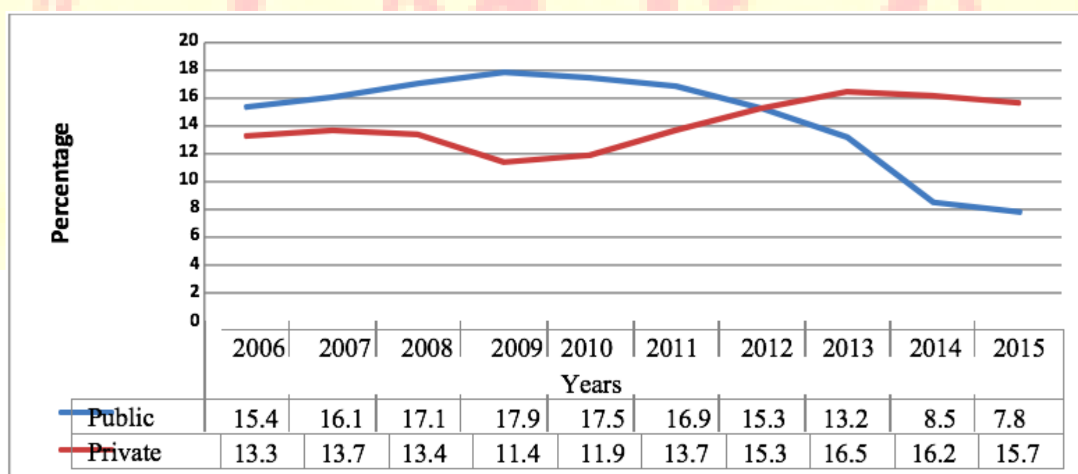


	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Public	0.88	0.92	1	1.02	0.97	0.96	0.88	0.78	0.5	0.46
Private	1.07	1.02	1.13	1.13	1.28	1.43	1.53	1.63	1.65	1.68

Source: Indian Bank Association www.iba.org.in & RBI, Report on Trend and Progress of Banking in India (Various Issues)

E. Return on Equity: Return on Equity (ROE) measures the efficiency with which banks are able to generate profits from shareholder's equity. ROE is calculated as net income divided by its average return on equity. ROE between 15-20 percent is considered as desirable.

Figure - 5: Ratio of Return on Equity



	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Public	15.4	16.1	17.1	17.9	17.5	16.9	15.3	13.2	8.5	7.8
Private	13.3	13.7	13.4	11.4	11.9	13.7	15.3	16.5	16.2	15.7

Source: Indian Bank Association www.iba.org.in & RBI, Report on Trend and Progress of Banking in India (Various Issues)

VI. Conclusion

The results of the ratio analysis conducted to measure the financial performance of public and private sector banks showed that Public sector banks were the better performers in terms of C-D ratio, whereas private sector banks have to work for maintaining C-D ratio as per ideally accepted principle. It was felt that banks have to strengthen their network in financially backward and excluded regions to overcome the fear of liquidity crunch. It was found that private sector banks were hoarding their money in government securities rather than lending it. Hence, I-D ratio of private sector banks was higher than ideally accepted norm of 29-30%, whereas public sector banks maintained it as per the accepted norms. The lower Net NPA to Net Advances ratio of private sector banks implies their efficiency in managing deposits to mobilize credit. On other hand, Public sector banks were found to be struggling to improve asset quality. The global economic slowdown and its impact on Indian economy resulted into increase in NPAs. Banks need to concentrate on strengthening the recovery channels in order to trim down NPAs and improve the asset quality. In terms of ROA, private sector banks were found to be better performers as public sector banks were found to be under pressure to improve the earnings on assets. Private sector banks were also ahead of public sector banks in terms of ROE. The increase in capital base, net interest margin and profitability of banks were reasons behind the rise in ROE of private sector banks. It was observed that CRAR of public sector banks dropped down in recent past, whereas private sector banks had an upper hand in maintaining high quality liquid assets. Once again private sector banks were found to be ahead in terms of NIM. It was concluded that public sector banks need to work for increasing low cost income. Income from ATM charges and low-cost deposits was considered as major factors helpful in increasing NIM. Further, the banks of both the bank groups were found to be almost at par in terms of managing cost of deposits. The study suggests that public sector banks need to reduce the level of NPAs and work on efficient management of deposits.

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