

# A Comparative study of Public and Private Banks of India: A Fundamental Approach

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**Abstract:** *The Banking system of a country is an important pillar holding up the financial system of the country's economy. Fundamental analysis is to determine a number that an investor can compare with a security's current price to see whether the security is undervalued or overvalued by other investors. The objective of the study is to examine the fundamentals of public and private sectors banks. Data collection has been done through secondary data. The time span of study consists of 5 years i.e. 2017-18 to 2021-22. 5 Private banks and 5 Public Bank each have been chosen to study on the basis of market capitalization. It is evident that private banks have outperformed public banks. The fundamentals of private banks are better than public banks which can be analysed as from the 09 factors, the public banks could outrun only in Operating Revenue/share.*

**Keywords:** Public Sector Bank, Private Sector Bank, Fundamental Analysis, EPS

## Introduction:

A country's banking system is an important pillar that supports the country's financial system. Banks' primary job in a financial system is to mobilise deposits and issue credit to various sectors of the economy. India's current, complex financial structure has evolved over several decades.

Indian banks are basically divided into two types: scheduled banks and non-scheduled banks. These banks may be commercial, small finance, payment, or cooperative in nature. Commercial banks are classified as private, public, foreign, or regional rural. Small finance and cooperative banks serve clients on a small scale.

Banks in the private sector are those in which private individuals or private corporations possess a major amount of the bank's equity. Despite adhering to the standards of the country's central bank, these banks are free to design their own financial strategies for their customers. A substantial number of these banks' shares are traded on the stock exchange, and anyone can buy a substantial amount of these banks' shares on the stock exchange.

Public Sector Undertakings (Banks) are a prominent form of government-owned bank in India, with the Ministry of Finance of the Government of India or State Ministries of Finance of various State Governments of India holding a majority interest (i.e. more than 50%). Some government-owned banks' shares are traded on stock markets.

Fundamental analysis (FA) determines the intrinsic value of a security by studying associated economic and financial elements. Intrinsic value is the value of an investment based on the financial state of the issuing company as well as current market and economic conditions.

Fundamental analysts research everything that has the potential to affect the value of a security, from macroeconomic issues like the state of the economy and industry circumstances to microeconomic elements like the effectiveness of the company's management. The end goal is to arrive at a number that an investor may compare to the current price of a security to assess if it is undervalued or overpriced by other investors.

## Literature Review:

**Limbore Nilesh V. and Mane Baban S. (2014)** did research on the topic A comparative study on the banking sector in India and an overview of the performance of Indian banks with reference to net interest margin and market capitalization of banks to understand the banking sector and performance of banks using primary and secondary data for the fiscal years 2011 and 2012. The project was completed with specific attention paid to Net Interest Margin and Market Capitalization, and they found that the money market has been down, increasing the challenges.

**Manisha Kaushal Arora and Joshita Dua**, basic analysis of the banking sector was studied. Its primary goal was to research the current financial system and evaluate bank performance. The research examines the profitability ratios of two major Indian banks: SBI and HDFC. One private bank and one public bank were chosen for investigation. This analysis evaluated current rates, loan rate estimations, predicted retention rates, net profitability ratios, and return payout ratios (DPR). This study compares the efficacy of SBI and HDFC. The results show that the debt equity ratio and net profit ratio are significantly different from one other, although the earning retention ratio, current rate, and dividend payout ratio are not.

**Mantri Pravin and Porwal (2011)** completed a study on "Financial Study of Public Sector Banks with particular reference to Punjab National Bank, Bank of Baroda, Bank of India, and Canara Bank" with the goal of evaluating the bank's safety, analysing financial

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aspects, and many other things. The analysis was carried out using ratios and CAMEL Analysis. Secondary data from 2009 and 2010 were utilised to conclude "Financial Study of Public Sector Banks with particular reference to Punjab National Bank, Bank of Baroda, Bank of India, and Canara Bank." All of the banks are quite efficient and consistently perform well.

**Rajendra Bhupatlal Patoliya (2018)** finished comparative analysis of financial performance of public sector banks and private sector banks in India. The goal seems to be to study and compare the financial performance of public and private sector banks. The study was conducted over a five-year period, from 2011-12 to 2015-16, and included 10 public sector banks and 10 private sector banks in India. Data for four factors were collected: liquidity, profitability, asset efficiency, and solvency ratio. To summarise, private sector banks were comparatively more lucrative and solvent during the study period and can move forward, but in terms of liquidity performance, researchers did not find particularly favourable indicators in private sector banks.

According to the various papers on study, the goal to be in common while studying the banks is to compare the financial performance and the pricing of the banking sectors. Their data was primarily secondary, and the most often used statistical methods were Mean, Median, T-test, F-test, and one-way ANOVA. The variables were the selected banks' profitability, effectiveness, and performance. The following were the most often reached conclusions:

- When only one sector's historical performance is examined, i.e. the public or private sector, a favourable outcome is obtained.
- A comparative review of past performance shows that private banks outperform public sector banks.

### **Research Methodology:**

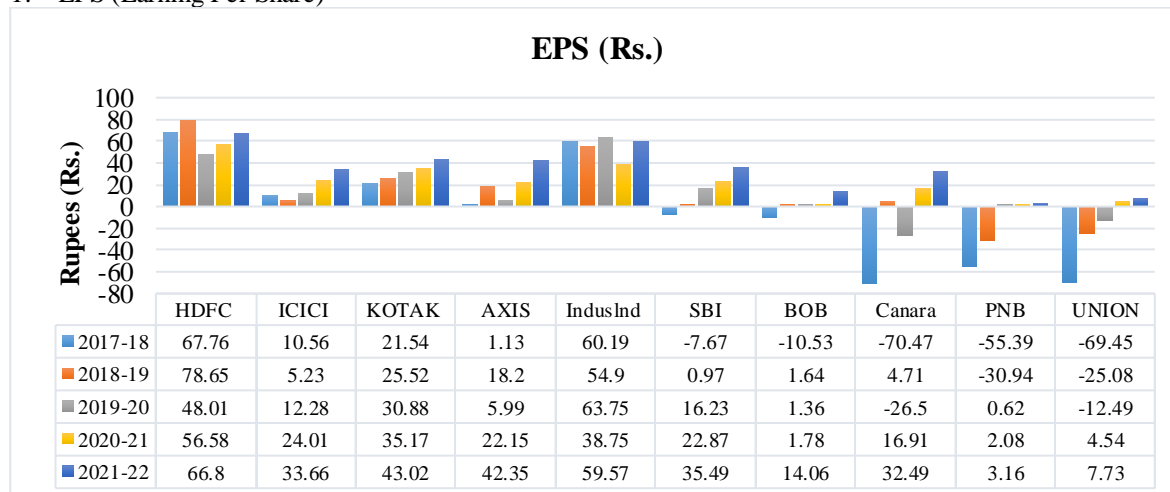
The main objective of the study is to study the fundamentals of selected public sector and private banks in India. In the present study top five public sector banks (State Bank of India, Bank of Baroda, Canara Bank, Punjab National bank and Union Bank) and five private sector banks (HDFC Bank, ICICI Bank, Kotak Mahindra Bank, Axis Bank and IndusInd Bank) were selected based on capitalization and having NSE indices. The data were collected from 2017-18 to 2021-22 through reliable sources like, [www.moneycontrol.com](http://www.moneycontrol.com), [www.nseindia.com](http://www.nseindia.com) and [www.bseindia.com](http://www.bseindia.com). For the present study data were collected of different indicators that show the conditions of the company. Fundamental indicators like EPS, operating revenue/share, dividend/share, net profit margin, CASA, operating profit margin, net interest margin and price to book value of all selected banks under study.

### **Data Analysis and interpretation:**

In this section, data were analysed based on the financial statement. Following analysis were done: EPS, operating revenue/share, dividend/share, net profit margin, CASA, operating profit margin, net interest margin and price to book value for all ten banks.

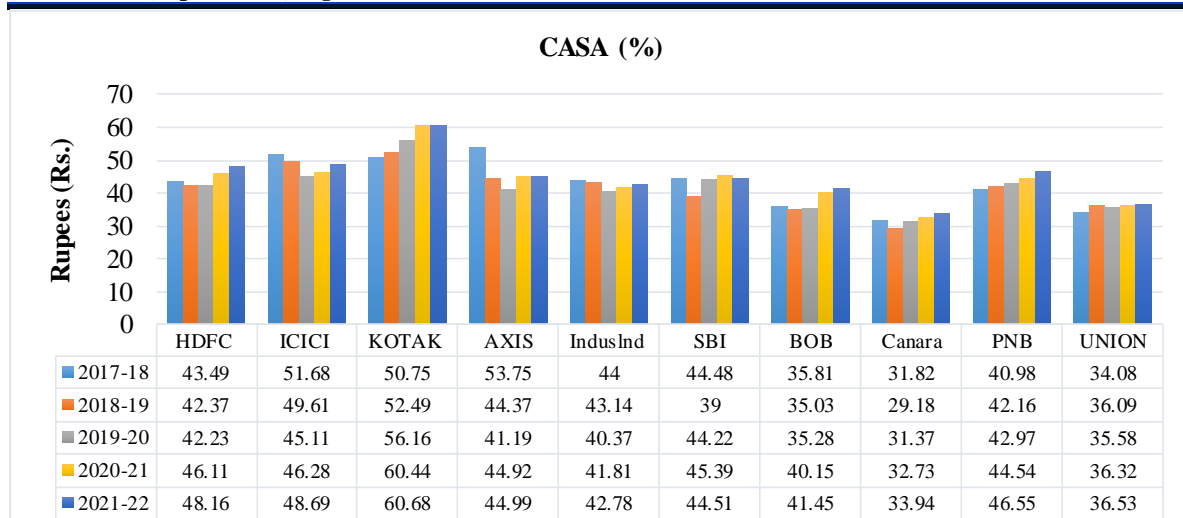
Followings are the results of analysis:

#### 1. EPS (Earning Per Share)



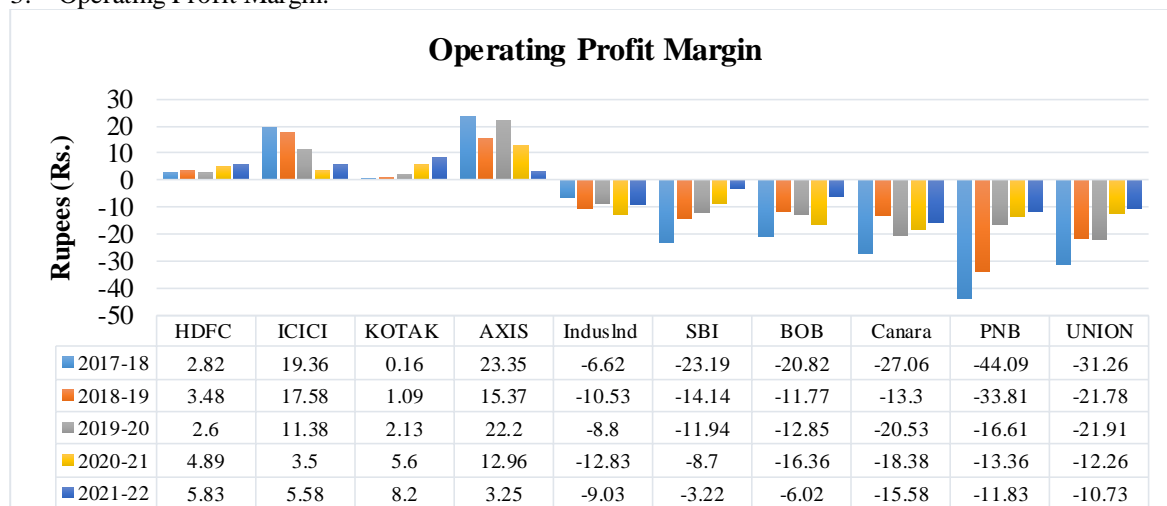
**Interpretation:** From the above chart, it can be interpreted that the common decline has been seen in the year 2019-20 because of Pandemic. When the Earnings per Shares (EPS) only considering the private banks is analyzed the answer comes to that HDFC Bank has been performing better and then followed by the IndusInd Bank. And only considering the public banks, SBI has been performing good compared to others. And lastly when comparing Public to Private Banks, The clear answer comes out to be that Private banks has performed better compared to Public Bank.

#### 2. CASA (%)



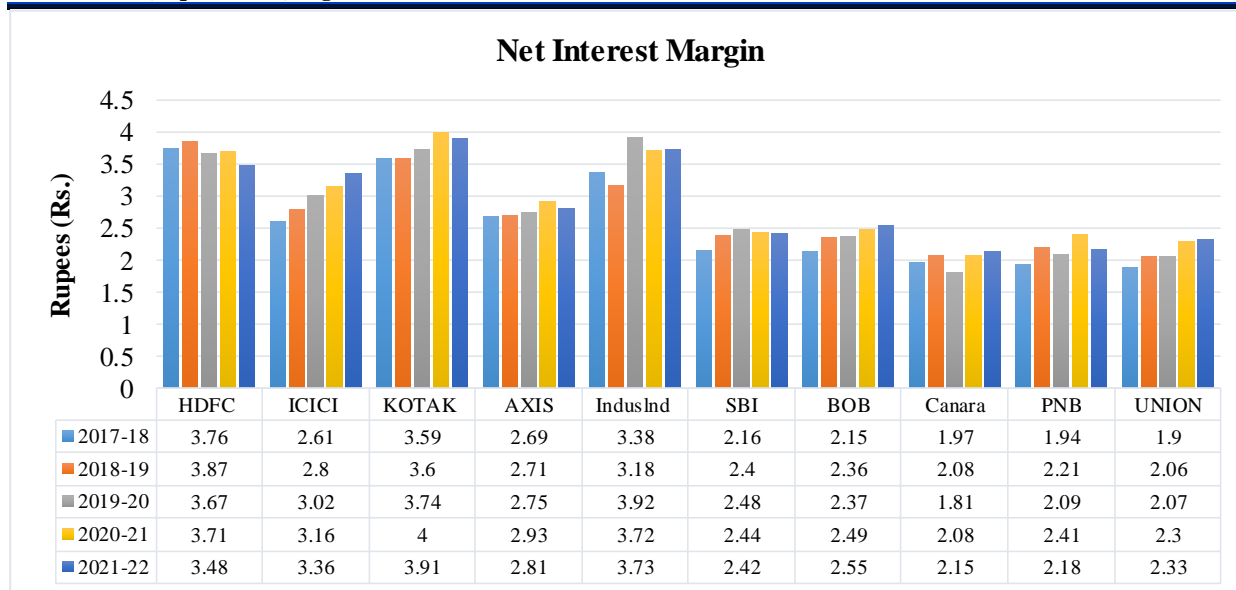
**Interpretation:** From above chart, it is observed that the CASA Ratio is good in both in sector of banks. Kotak Mahindra Bank has performed better when it is analysed for Private banks followed by ICICI and HDFC Banks respectively. Punjab National Bank has performed better in Public Banks followed by SBI and BOB respectively. Comparison between both the sector shows that even though there is a little difference; Private bank's performance is better.

### 3. Operating Profit Margin:



**Interpretation:** From above chart, Public Banks are in losses and don't have any operating profit. In Private Banks Axis Banks are performing better than others followed by ICICI banks. Operating Profit Margin is seen better before 2019-20. In Public Banks, all the banks are in negative. The least performance is of Punjab National Banks followed by Canara Bank. So when compared sector wise then Private sector bank's performance is better than Public Sector Banks.

### 4. Net Profit Margin



**Interpretation:** From above chart it is analysed that the Net Profit Margin of both Private and Public banks are in a good state. In terms of public sector banks, the margins are equivalent to each other. Yet to name one, BOB followed by State Bank of India has a better margin in public banks respectively and for private banks, IndusInd bank and Kotak Mahindra Bank have performed well respectively. So here to finally compare both the sector even though it is good for both, Private banks are better than Public Banks.

#### Other Findings:

- EPS of Indian Private banks is seen best of HDFC Bank with 66.8 Rs. 2021-22 And in Public sector banks is of SBI i.e. 39.45 Rs. 2021-22 which is half than the best of Private banks.
- The Book value/Share has been observed to be the highest of IndusInd Bank with 611.74 Rs 2021-22 and in Public sector it is observed that it is of Canara Bank is 317.54 Rs in 2021-22 and which is yet less than Private banks.
- Operating Revenue/share is seen to be most in Private banks of IndusInd bank with 397.88 Rs and in public banks with 382.61 Rs. of Canara Bank which is significantly more than Private bank.
- The most in dividend/share is 15.5 Rs. of HDFC Bank 2021-22 in private sector and 7.1 Rs. of SBI in 2021-22 for the public sector banks.
- The CASA of Private banks shows the best is in Kotak Mahindra Bank with 60.68 % in 2021-22 and for public bank it shows the high in Punjab National Bank with 46.55 % in 2021-22.
- The highest Net profit margin is 31.7% of Kotak Mahindra Bank in 2021-22 and for public bank is of 11.49 % of SBI in 2021-22.
- The Operating profit margin of private banks is maximum of HDFC bank with 5.83% and of public bank is of SBI with -3.22% which is a huge difference between tomorrow.
- The net interest margin is 3.91 of Kotak Mahindra bank to be at peak in 2021-22 and for public its 2.55 of BOB in 2021-22.
- Price to Book Value is seen maximum of 4.84 of Kotak Mahindra Bank and for in public banks it is seen of about 1.72 in SBI in 2021-22.

#### Conclusion:

Indian Banking industry is growing rapidly with the increase in technology and various initiatives by government through different schemes like Jan Dhan Yojna. India has become a largest market for Android-based mobile lending apps. Its growing into a billions dollar industry. From the study, it is evident that private banks have outperformed public banks. The fundamentals of private banks are better than public banks which analysed as from the 10 factors as public banks could outrun only in 1 aspect i.e. Operating Revenue/share.

It is undeniable that during pandemic all banks were a part of a market fall but the strong foundation could be seen of private banks that could give out returns in crisis. To sum it up, banking sector is a necessity nowadays and hence even though there may come downfalls, investments can be made in it.

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