

# Study on Financial and Operational Performance of Private Sector Banks in India

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## ABSTRACT

*The purpose of this study was to look at the financial and operational performance of private sector banks in India. Banking sector reforms in India has provided much needed boost to the private sector banks. RBI permitted new banks to be started in the private sector as per the recommendation of Narashiman committee. Financial performance has been analyzed using parameters such as return on assets, operating profit and capital adequacy ratio (CAR). Operational performance of private sector banks has been analyzed on the parameters like Profit per employee, business per employee, wages as percentage of total expenses, and Net NPA. For the purpose of analyses data has been collected from secondary sources like RBI bulletin and data are collected for a period of three years (2007-08, 2008-09 and 2009-10) for all private sector banks. For the purpose of making comparison of private sector with public sector banks and foreign banks, group wise data for public and foreign sector banks has also been collected for the same period. Results of the study revealed that in terms of operating profit, ICICI Bank Ltd. ranks first for all the years of study and Ratnakar Bank have maintained higher CAR for all three years. Nainital Bank emerged as best performer in terms of Net NPA as a percentage of net advances. On the basis of return of assets, profit per employee, and capital adequacy ratio performance of private sector bank group was better than public sector bank group during the period of study.*

## Introduction

Private sector banks in India have played a major role in the development of Indian banking industry. They were started in the pre-independence era to cater to the banking needs of the people. But after nationalization of banks in 1969 public sector banks occupied dominant role in the banking structure. New private sector banks have not been allowed to be set up in India since 1969. With a view to increasing competition in the banking industry and in line with the recommendations of the Narasimhan Committee, the Government has allowed the entry of such banks. With more efficient and customer friendly banking, private sector banks have jolted public sector out of complacency and forced them to become more competitive. During 1994-95 banks like Axis Bank that time UTI bank, ICICI bank, HDFC bank, and IndusInd bank were given permission to set up banks. HDFC was the first to receive an 'in principle' approval from the Reserve Bank of India (RBI) to set up a bank in private sector. At present, Private Banks in India includes leading banks like ICICI Banks, ING Vysya Bank, Jammu & Kashmir Bank, Karnataka Bank, Kotak Mahindra Bank, SBI Commercial and International Bank, etc. Private sector banks are giving much needed competition to the public sector bank by offering state-of-the-art facilities such as ATMs, doorstep banking, banking on phone, internet banking, core banking etc. Public sector banks in India also suffer from high labor cost and low level of automation. Apart from this public sector banks also suffer from high NPA levels, declining margins, high overheads and poor customer service. However, we have to accept that share of public sector bank in assets and income, and number of

branch network offered by them cannot be matched with other sectors.

## The Indian Banking Sector : A Snapshot

India is the largest country in South Asia with a huge financial systems characterized by variety of institutions and instruments. The Indian financial sector was well developed even before political independence of the country in 1947. The first bank in India, though conservative was established in 1786 (General Bank of India was the first joint stock bank). In the first half of the 19th century, the East India Company established three banks: the Bank of Bengal in 1809, the Bank of Bombay in 1804 and Bank of Madras in 1843. These three banks were amalgamated in 1920 and the Imperial Bank of India was established on Jan 27, 1921. With the passing of the SBI Act in 1955, the Imperial Bank of India was taken over by the newly constituted SBI. The Reserve Bank, which is the Central Bank, was created in 1935 by passing the Reserve Bank of India act 1934.

In the wake of the Swadeshi Movement, two successive nationalization of banks taken on July 19, 1969, 14 major banks of the country were nationalized and on April 15, 1980, 6 more commercial private sector banks were also taken over by the government. The present commercial banking system in India may be distinguished into public sector banks, private sector banks, and foreign banks.

Among the 22 private sector banks in India today, we have 15 old and 7 new banks, which are able to sustain the competition. Development Credit Bank, HDFC Bank, ICICI

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Bank, IndusInd Bank, Axis Bank (earlier UTI Bank), Kotak Mahindra Bank and Yes Bank are new private sector banks in India. These new private banks have the advantage of starting with a clean state, adequate capital resources, well-trained and professional manpower, and absence of non-performing loans in their books, computerization, and lean organizational system.

## Objective of study

The objective of this is article to study the financial and operational performance of Indian private sector banks and rank them based on each variable for the period of study and making overall comparison of private sector bank with public sector banks and foreign banks.

## Research Methodology

Financial performance has been analyzed using parameters such as return on assets, operating profit and capital adequacy ratio (CAR). Operational performance of private sector banks has been analyzed on the parameters like Profit per employee, business per employee, wages as percentage of total expenses, and Net NPA. For the purpose of analyses data has been collected from secondary sources like RBI bulletin and data are collected for a period of three years (2007-08, 2008-09 and 2009-10) for all private sector banks. Besides this group wise data for public and foreign sector banks has also been collected for the same period.

## Empirical Analysis

**Financial Performance of Private Sector Banks :** Financial performance has been analyzed using parameters such as return on assets, operating profit and capital adequacy ratio (CAR).

**Return on assets ratio :** Returns on asset (ROA) ratio is the net income (profits) generated by the bank on its total assets (including fixed assets). This ratio is used to measure the profitability of the banks. The higher the proportion of average earnings assets, the better would be the resulting returns on total assets. During the year 2007-2008 SBI commercial and international bank ranks first with 1.93% followed by Karur Vysya Bank, and City Union Bank. The least performer during 2007-2008 was IndusInd Bank Ltd which was 0.34%. During the year 2008 -2009 the best performer in terms of return on assets can be assigned to Ratnakar Bank, followed by Nainital Bank and Yes bank in second and third position respectively. Development Credit Bank Ltd., with a negative return on assets of 1.25% ranks

at the end. In case of the year 2009-2010 Yes bank has got the first rank and Karur Vysya bank has got second rank. Development Credit bank and Bank of Rajasthan ranks last with a negative return on assets of 1.30% and 0.58% respectively.

Table 1: Performance on Basis of Return on Assets

Bank	2007-08	Rank	2008-09	Rank	2009-10	Rank
Axis bank	1.24	11	1.44	9	1.67	4
Bank of Rajasthan	0.91	16	0.74	16	-0.58	20
Catholic Syrian Bank	0.64	19	0.57	20	0.02	19
City Union Bank	1.60	3	1.50	5	1.52	7
Development Credit Bank	0.48	20	-1.25	21	-1.30	21
Dhanalakshmi Bank	0.76	17	1.21	12	0.35	17
Federal Bank	1.34	9	1.48	8	1.15	9
HDFC Bank	1.32	8	1.28	10	1.53	6
ICICI Bank	1.12	12	0.98	15	1.13	11
IndusInd Bank	0.34	22	0.58	19	1.14	10
ING Vysya Bank	0.74	18	0.70	18	0.80	14
Jammu & Kashmir Bank	1.09	14	1.09	13	1.20	8
Karnataka Bank	1.37	7	1.25	11	0.67	15
Karur Vysya Bank	1.63	2	1.49	7	1.76	2
Kotak Mahindra Bank	1.10	13	1.03	14	1.72	3
Lakshmi Vilas Bank	0.41	21	0.71	17	0.33	18
Nainital Bank	1.51	6	1.68	2	1.72	3
Ratnakar Bank	1.31	10	1.96	1	1.05	13
SBI Commercial & International Bank	1.93	1	1.52	4	0.49	16
South Indian Bank	1.01	15	1.09	13	1.07	12
Tamilnad Mercantile Bank	1.58	4	1.51	6	1.54	5
Yes Bank	1.54	5	1.59	3	1.79	1

Source: www.rbi.org.in

**Capital adequacy ratio:** A bank's capital ratio is the ratio of qualifying capital to risk adjusted (or weighted) assets. The RBI has set the minimum capital adequacy ratio at 9% for all banks. A ratio below the minimum indicates that the bank is not adequately capitalized to expand its operations. The ratio ensures that the bank do not expand their business without having adequate capital. Higher the ratio the banks are in a comfortable position to absorb losses. It must be noted that it would be difficult for an investor to calculate this ratio as banks do not disclose the details required for calculating the denominator (risk weighted average) of this ratio in detail. As such, banks provide their CAR from time to time.

Considering that the Indian banking sector has been growing at a strong pace, all private sector banks, have also been

expanding operations at a strong pace. As such, their CAR ratios are well above the prescribed limit of 9% except for Bank of Rajasthan for the year 2009-10. However, Ratnakar Bank has considerably maintained higher CAR for all the three years.

**Table 2: Performance on Basis of Capital Adequacy Ratio**

Bank	2007-2008	Rank	2008-2009	Rank	2009-2010	Rank
Axis bank	13.73	8	13.69	13	15.80	9
Bank of Rajasthan	11.87	18	11.50	20	7.52	22
Catholic Syrian Bank	11.21	19	12.29	18	10.81	21
City Union Bank	12.48	14	12.69	16	13.46	18
Development Credit Bank	13.38	10	13.30	15	14.85	15
Dhanalakshmi Bank	9.21	21	15.38	9	12.99	19
Federal Bank	22.46	3	20.22	3	18.36	5
HDFC Bank	13.60	9	15.69	7	17.44	7
ICICI Bank	13.97	6	15.53	8	19.41	4
IndusInd Bank	11.91	17	12.55	17	15.33	13
ING Vysya Bank	10.20	20	11.65	19	14.91	14
Jammu & Kashmir Bank	12.80	11	14.48	12	15.89	8
Karnataka Bank	12.17	16	13.48	14	12.37	20
Karur Vysya Bank	12.58	13	14.92	10	14.49	17
Kotak Mahindra Bank	18.65	4	20.01	4	18.35	6
Lakshmi Vilas Bank	12.73	12	10.29	21	14.82	16
Nainital Bank	12.32	15	13.10	15	15.68	10
Ratnakar Bank	49.15	1	42.30	1	34.07	1
SBI Commercial & International Bank	23.48	2	21.24	2	27.31	2
South Indian Bank	13.80	7	14.76	11	15.39	12
Tamilnad Mercantile Bank	15.35	5	16.05	6	15.54	11
Yes Bank	13.60	9	16.60	5	20.60	3

Source: www.rbi.org.in

**Operating Profit:** Banks operating profit is calculated after deducting administrative expenses, which mainly include salary cost and network expansion cost. In terms of operating profit, ICICI Bank Ltd. Ranks first for all the years of study. During the year 2007 – 2008 & 2008-09, The SBI Commercial and International Bank ranks least with the operating profit Rs. 12.00 crores. During the 2009-10 the Bank of Rajasthan, has incurred an operating loss of Rs. 28 crores and has been dragged to last rank. This has resulted into merger of Bank of Rajasthan with ICICI bank- a RBI driven merger. According to RBI, all branches of Bank of Rajasthan will function as branches of ICICI Bank with effect from August 13, 2010. Reasons for high operating profit of ICICI could be attributed to increase in percentage of fees to income, increase in treasury income, high net interest margin and reduction in cost to income ratio.

**Table 3: Performance on Basis of Operating Profit (in Rs. Crores)**

Bank	2007-2008	Rank	2008-2009	Rank	2009-2010	Rank
Axis bank	2226.00	3	3725.00	3	5241.00	3
Bank of Rajasthan	171.00	15	194.00	15	-28.00	22
Catholic Syrian Bank	73.00	18	79.00	18	8.00	20
City Union Bank	180.00	14	227.00	14	256.00	14
Development Credit Bank	110.00	16	75.00	19	48.00	17
Dhanalakshmi Bank	44.00	20	88.00	17	39.00	18
Federal Bank	794.00	4	1260.00	4	1265.00	5
HDFC Bank	3765.00	2	5179.00	2	6430.00	2
ICICI Bank	7961.00	1	8925.00	1	9732.00	1
IndusInd Bank	196.00	13	368.00	11	704.00	8
ING Vysya Bank	307.00	10	425.00	9	642.00	9
Jammu & Kashmir Bank	652.00	6	774.00	5	958.00	6
Karnataka Bank	391.00	8	480.00	8	261.00	13
Karur Vysya Bank	308.00	9	418.00	10	463.00	10
Kotak Mahindra Bank	670.00	5	596.00	6	1297.00	4
Lakshmi Vilas Bank	90.00	17	109.00	16	166.00	15
Nainital Bank	51.00	19	64.00	20	65.00	16
Ratnakar Bank	34.00	21	46.00	21	33.00	19
SBI Commercial & International Bank	12.00	22	12.00	22	3.00	21
South Indian Bank	271.00	11	359.00	12	411.00	11
Tamilnad Mercantile Bank	224.00	12	265	13	316	12
Yes Bank	350.00	7	528.00	7	863.00	7

Source: www.rbi.org.in

**Operational Performance of Private Sector Banks:**

Operational performance of private sector banks has been analyzed on the parameters like Credit to deposit ratio, Profit per employee, business per employee, wages as percentage of total expenses, and Net NPA.

**Credit to deposit ratio (CD ratio):** The ratio is indicative of the percentage of funds lent by the bank out of the total amount raised through deposits. Higher ratio reflects ability of the bank to make optimal use of the available resources. The point to note here is that loans given by bank would also include its investments in debentures, bonds and commercial papers of the companies (these are generally included as part of investments in the balance sheet). Credit deposit ratio is a tool used to study the liquidity position of the bank. It is calculated by dividing the cash held in different forms by total deposit. A high ratio shows that there are more amounts of liquid cash with the bank to meet its client's cash withdrawals.

Table 4: Performance on Basis of Credit- Deposit Ratio

Bank	2007-2008	Rank	2008-2009	Rank	2009-2010	Rank
Axis bank	68.09	12	69.48	8	73.84	7
Bank of Rajasthan	53.68	21	51.23	22	55.30	19
Catholic Syrian Bank	62.31	18	58.17	18	64.01	16
City Union Bank	70.62	7	68.79	11	66.44	15
Development Credit Bank	66.98	14	70.46	6	72.27	8
Dhanalakshmi Bank	58.25	19	64.32	15	70.53	11
Federal Bank	72.95	4	69.54	7	74.74	6
HDFC Bank	62.94	17	69.24	9	75.17	5
ICICI Bank	92.30	2	99.98	2	89.70	1
IndusInd Bank	67.21	13	71.33	4	76.94	4
ING Vysya Bank	71.61	5	67.32	13	71.55	9
Jammu & Kashmir Bank	66.04	15	63.42	16	61.92	17
Karnataka Bank	63.72	16	58.08	19	60.83	18
Karur Vysya Bank	75.07	3	68.93	10	70.04	12
Kotak Mahindra Bank	94.69	1	106.27	1	86.97	2
Lakshmi Vilas Bank	68.68	10	71.14	5	69.17	13
Nainital Bank	55.58	20	52.94	20	51.38	20
Ratnakar Bank	53.20	22	61.29	17	73.84	7
SBI Commercial & International Bank	68.67	11	52.88	21	41.73	21
South Indian Bank	68.97	9	65.49	14	68.76	14
Tamilnad Mercantile Bank	69.51	8	68.7	12	71.2	10
Yes Bank	71.05	6	76.71	3	82.81	3

Source: www.rbi.org.in

From table 4, banks like ICICI Bank, Kotak Mahindra Bank, and Yes bank maintain a high ratio during the period of study. Banks like Bank of Rajasthan and SBI Commercial and International Bank maintain low ratio during the period of study among other private sector banks.

**Profit per Employee:** This is used to measure the efficiency of the employee working in bank we can use profit per employee as a tool. During the year 2007-08 & 2008-09 SBI Commercial & International bank Ltd., ranks first with a profit per employee of Rs. 13.82 Lakhs and Rs. 13.17 respectively and has slipped to 12th rank with profit per employee of Rs. 4.43 Lakhs in the year 2009-2010. During the year 2007-08 Lakshmi Vilas Bank has the lowest rank. During the year 2008-09 & 2009-10, the Development Credit Bank has lowest rank with a negative profit per employee of Rs. 4.00 Lakhs and Rs. 5.00 Lakhs respectively. During the year 2009-10 the Bank of Rajasthan also has a negative profit per employee of Rs. 2.56 Lakhs and has got the 18th rank.

Table 5: Performance on Basis of Profit Per Employee (in Rs. Lakhs)

Bank	2007-2008	Rank	2008-2009	Rank	2009-2010	Rank
Axis bank	8.39	3	10.02	4	12.00	2
Bank of Rajasthan	2.93	14	2.89	17	-2.56	18
Catholic Syrian Bank	1.34	19	1.39	19	0.06	17
City Union Bank	4.69	10	4.98	10	5.81	10
Development Credit Bank	2.00	18	-4.00	20	-5.00	19
Dhanalakshmi Bank	2.02	17	4.10	13	0.07	16
Federal Bank	5.43	6	6.90	5	6.01	7
HDFC Bank	4.97	9	4.18	12	5.98	9
ICICI Bank	10.00	2	11.00	3	12.00	2
IndusInd Bank	2.62	16	3.49	14	6.51	6
ING Vysya Bank	2.68	15	3.03	15	3.88	13
Jammu & Kashmir Bank	5.00	8	5.00	9	7.00	5
Karnataka Bank	5.00	8	5.00	9	3.00	14
Karur Vysya Bank	5.82	5	5.98	8	8.05	4
Kotak Mahindra Bank	4.00	11	3.00	16	7.00	5
Lakshmi Vilas Bank	1.22	20	2.07	18	1.13	15
Nainital Bank	4.00	11	6.00	7	6.00	8
Ratnakar Bank	3.00	13	5.00	9	3.00	14
SBI Commercial & International Bank	13.82	1	13.17	1	4.43	12
South Indian Bank	3.59	12	4.31	11	5.00	11
Tamilnad Mercantile Bank	5.31	7	6.43	6	8.14	3
Yes Bank	6.35	4	11.38	2	15.75	1

Source: www.rbi.org.in

**Business per employee:** It is also a tool to measure the efficiency of the employee of the banks, it is calculated by dividing the aggregate of total deposit raised and total advances distributed in a particular year by the number of employees. During the year 2007-2008 Axis bank ranks first followed by IndusInd Bank, and ICICI Bank. The least performer during 2007-2008 was Ratnakar Bank. During the year 2008 -2009 the best performer in terms of business per employee can be assigned to ICICI Bank, followed by Axis Bank, Yes bank in second and third position respectively. Kotak Mahindra Bank got least rank in the year 2008-09. In case of the year 2009-10 Yes bank has got the first rank and Axis bank has retained its position of second rank. Dhanalakshmi bank ranks the last with business per employee of Rs. 369.61 Lakhs.

**Table 6: Performance on Basis of Business Per Employee (In Rs. Lakhs)**

Bank	2007-2008	Rank	2008-2009	Rank	2009-2010	Rank
Axis bank	1117.00	1	1060.00	2	1111.00	2
Bank of Rajasthan	518.85	13	532.93	14	569.77	15
Catholic Syrian Bank	317.00	21	374.00	20	423.00	20
City Union Bank	499.06	15	565.18	13	650.96	12
Development Credit Bank	454.00	16	379.00	19	515.00	18
Dhanalakshmi Bank	409.08	18	585.88	12	369.61	22
Federal Bank	655.00	6	750.00	6	813.00	7
HDFC Bank	506.00	14	446.00	17	590.00	14
ICICI Bank	1008.00	3	1154.00	1	1029.00	4
IndusInd Bank	1062.67	2	836.00	5	837.46	6
ING Vysya Bank	547.28	11	606.39	11	623.78	13
Jammu & Kashmir Bank	596.00	9	500.00	16	731.00	10
Karnataka Bank	589.00	10	649.00	8	727.00	11
Karur Vysya Bank	604.00	7	638.00	10	789.00	8
Kotak Mahindra Bank	383.84	19	347.00	22	487.00	19
Lakshmi Vilas Bank	453.00	17	510.00	15	560.00	16
Nainital Bank	366.00	20	425.00	18	521.00	17
Ratnakar Bank	310.00	22	373.00	21	391.00	21
SBI Commercial & International Bank	754.67	4	960.48	4	1055.38	3
South Indian Bank	600.43	8	645.14	9	771.00	9
Tamilnad Mercantile Bank	541.99	12	679.25	7	870.16	5
Yes Bank	683.12	5	988.36	3	1526.70	1

Source: www.rbi.org.in

**Non-performing asset ratio:** The net NPA to loans (advances) ratio is used as a measure of the overall quality of the bank's loan book. An NPA are those assets for which interest is overdue for more than 90 days (or 3 months). Net NPAs are calculated by reducing cumulative balance of provisions outstanding at a period end from gross NPAs. Higher ratio reflects rising bad quality of loans. Once an asset falls under the NPA category, banks are required by the Reserve Bank of India (RBI) to make provision for the uncollected interest on these assets.

**Reasons for NPAs in India:** According to Pricewaterhouse Coopers (2004) an internal study conducted by RBI shows that in the order of prominence, the following factors contribute to NPAs.

**Internal Factors:**

- \* diversion of funds for
  - expansion / diversification / modernization

- taking up new projects
- helping promoting associate concerns
- \* time / cost overrun during the project implementation stage
- \* business (product, marketing etc) failure
- \* inefficiency in management
- \* slackness in Credit Management and monitoring
- \* inappropriate technology / technical problems
- \* lack of co-ordination among lenders.

**External Factors:**

- \* recession
- \* input / power shortage
- \* price escalation
- \* exchange rate fluctuation
- \* accident and natural calamities etc.
- \* changes in government policies in excise / import duties, pollution control orders etc.

From table 7 we can observe that IndusInd bank, Development Credit bank and Lakshmi Vilas bank has been ranked at 1st position for the years 2007-08, 2008-09, and 2009-10 respectively indicating their aggressive nature to give loans to high risky customers. This also indicates that these banks have poor collection system for recovery of loans. Nainital Bank emerged as best performer as it Net NPA ratio was zero for all the three years. To reduce the Net NPA to zero level they have made adequate provisions against NPAs.

Lower level of provisioning for NPAs when compared to international standards is also a problem. For example, PSBs on average provide for 55 per cent of their NPAs, while provisioning by foreign banks is much higher at 70 per cent whereas international banks provide up to 140 percent. It was recognized that restoration of health of the banking system required both a stock solution (i.e., restoration of net worth) and flow solution (i.e., an improvement in future profitability) (Joshi and little 1997).

**Table 7: Performance on Basis of Net NPA Ratio**

Bank	2007-2008	Rank	2008-2009	Rank	2009-2010	Rank
Axis bank	0.42	12	0.40	15	0.40	14
Bank of Rajasthan	0.42	12	0.73	12	1.60	5
Catholic Syrian Bank	1.61	3	2.39	2	1.58	6
City Union Bank	0.98	7	1.08	9	0.58	11
Development Credit Bank	0.66	10	3.88	1	3.11	2
Dhanalakshmi Bank	0.88	8	0.88	11	0.84	10

Bank	2007-2008	Rank	2008-2009	Rank	2009-2010	Rank
Federal Bank	0.23	15	0.30	18	0.48	13
HDFC Bank	0.47	11	0.63	14	0.31	16
ICICI Bank	1.55	4	2.09	3	2.12	3
IndusInd Bank	2.27	1	1.14	7	0.50	12
ING Vysya Bank	0.70	9	1.20	6	1.20	8
Jammu & Kashmir Bank	1.07	5	1.38	4	0.29	17
Karnataka Bank	0.98	7	0.98	10	1.31	7
Karur Vysya Bank	0.18	16	0.25	19	0.23	19
Kotak Mahindra Bank	1.78	2	2.39	2	1.73	4
Lakshmi Vilas Bank	1.55	4	1.24	5	4.11	1
Nainital Bank	0.00	18	0.00	21	0.00	22
Ratnakar Bank	0.99	6	0.68	13	0.97	9
SBI Commercial & International Bank	0.00	18	0.07	20	0.19	20
South Indian Bank	0.33	14	1.13	8	0.39	15
Tamilnad Mercantile Bank	0.38	13	0.34	16	0.24	18
Yes Bank	0.09	17	0.33	17	0.06	21

Source: www.rbi.org.in

**Wages as percentage to total expenses:** It is computed as the ratio (in %) of payment to and provisions for employees to total expenses. It is also used as a parameter to measure operational performance. For the year 2007-08 & 2008-09, Kotak Mahindra bank has been ranked at 1st position and for the year 2009-10, it has got 2nd rank. It's ironic to see that bank which has been ranked at number one in the year 2009-10 i.e. Bank of Rajasthan has negative profit per employee of Rs. 2.56 Lakhs for the same year.

**Table 8: Performance on the Basis of Wages as % Age to Total Expenses**

Bank	2007-2008	Rank	2008-2009	Rank	2009-2010	Rank
Axis bank	10.19	18	9.97	19	12.14	15
Bank of Rajasthan	17.40	4	15.90	6	25.18	1
Catholic Syrian Bank	21.01	2	20.65	2	18.11	6
City Union Bank	9.69	19	9.26	20	9.49	21
Development Credit Bank	15.51	7	15.14	9	16.99	7
Dhanalakshmi Bank	15.28	9	15.65	7	18.59	4
Federal Bank	12.82	13	12.35	12	12.45	13
HDFC Bank	15.07	11	15.50	8	16.89	8
ICICI Bank	6.57	21	6.62	22	8.21	22
IndusInd Bank	6.15	22	7.81	21	11.37	16
ING Vysya Bank	16.88	5	16.60	5	19.40	3
Jammu & Kashmir Bank	11.14	16	11.34	15	14.57	11

Karnataka Bank	12.86	12	10.64	16	9.88	20
Karur Vysya Bank	10.37	17	9.50	17	10.59	19
Kotak Mahindra Bank	22.29	1	21.28	1	22.56	2
Lakshmi Vilas Bank	12.65	14	11.96	13	10.92	18
Nainital Bank	16.32	6	16.70	4	15.77	9
Ratnakar Bank	20.85	3	19.04	3	18.47	5
SBI Commercial & International Bank	8.73	20	9.10	18	10.97	17
South Indian Bank	12.58	15	14.35	11	13.06	12
Tamilnad Mercantile Bank	15.19	10	14.67	10	14.76	10
Yes Bank	15.39	8	11.41	14	12.34	14

Source: www.rbi.org.in

### Comparison of Private Sector Bank with Public Sector & Foreign Bank Group

Most of the studies by Vyas and Dhade (2009), Raman and Srinivasan (2005), Ganesan P. (2001), Rayapati V. S. (2003), Gupta V. and Jain P. K. (2003) compared the performance of public, private and foreign banks by using measures of profitability, productivity and financial management. They found that public sector banks fared poorly on all measures when compared with the private and foreign banks. Better performance from commercial banks is possible only if it incorporates profit making as one of the responsibilities. Kantawala A. S. (2004), Ketkar W. K. et al., (2004) analyze the performance of banks from a profitability point of view by using various financial parameters. These studies mainly reveal the authors' concern about the declining trends of public sector banks and increasing prominence of new private sector banks and foreign banks.

Sathye (2003) measured the productive efficiency of banks in India. It was done using Data Envelopment Analysis. This study compared the mean efficiency score of Indians Banks with the mean efficiency score of world and also stated that the efficiency of private sector commercial banks, as a group is paradoxically lower than that of public sector banks and foreign banks in India.

Table 9 shows that on the basis of return of assets, profit per employee and business per employee foreign bank group have outperform banks in private sector and public sector bank group in all three years. On the basis of capital adequacy ratio, private sector bank group leads in all three years followed by foreign bank group and public sector bank group.

Net NPA ratio was lowest for foreign sector bank group, public sector bank group, and private sector bank group in 2007-08, 2008-09 and 2009-10 respectively. Wages as

a percentage of total expense was higher for foreign bank group and lower for private sector bank group in all three years.

**Table 9: Comparison of Private Sector Bank with Public Sector & Foreign Bank Group**

VARIABLES	2007-08	2008-09	2009-10
<b>RETURN ON ASSET</b>			
Private Sector Bank Group	6.00	6.16	7.19
Public Sector Bank group	3.75	4.70	5.34
Foreign Bank Group	19.47	25.39	17.09
<b>PROFIT PER EMPLOYEE( in Rs. Lakhs)</b>			
Private Sector Bank Group	6.00	6.16	7.19
Public Sector Bank group	3.75	4.70	5.34
Foreign Bank Group	19.47	25.39	17.09
<b>BUSINESS PER EMPLOYEE (in Rs. Lakhs)</b>			
Private Sector Bank Group	751.42	743.85	798.37
Public Sector Bank group	600.10	734.35	870.29
Foreign Bank Group	1037.10	1282.74	1445.87
<b>CAPITAL ADEQUACY RATIO</b>			
Private Sector Bank Group	14.34	15.23	17.45
Public Sector Bank group	12.51	13.49	13.32
Foreign Bank Group	13.08	14.32	17.25
<b>NET NPA RATIO</b>			
Private Sector Bank Group	1.09	1.29	1.03
Public Sector Bank group	0.99	0.94	1.10
Foreign Bank Group	0.77	1.81	1.82
<b>WAGES AS A %AGE OF TOTAL EXPENSE</b>			
Private Sector Bank Group	10.35	10.83	12.76
Public Sector Bank group	14.66	13.88	14.76
Foreign Bank Group	19.95	19.44	23.48

Source: www.rbi.org.in

## Findings of Study

The following are the summarized results of analysis:

- On the basis of return on assets SBI Commercial & International Bank, Ratnakar Bank and Yes Bank was best performer in the year 2007-08, 2008-09 & 2009-10.
- Ratnakar Bank has considerably maintained higher CAR for all the three years.
- In terms of operating profit, ICICI Bank Ltd. Ranks first for all the years of study. During the 2009-10 the Bank of Rajasthan, has incurred an operating loss of Rs. 28 Crores which has resulted in its merger with ICICI Bank w.e.f. August 13, 2010.

- In terms of credit to deposit ratio banks like ICICI Bank, Kotak Mahindra Bank, and Yes bank maintain a high ratio during the period of study. Banks like Bank of Rajasthan and SBI Commercial and International Bank maintain low ratio during the period of study among other private sector banks.
- In year 2009-10 profit per employee was higher for Yes bank followed by Axis bank and Tamilnad bank and was in negative for Bank of Rajasthan and Development Credit bank.
- In studying the quality of assets with Net NPA as a percentage of Net Advances, Nainital Bank emerged as best performer as its Net NPA ratio was zero for all the three years.
- Even if the operating profit was higher for ICICI bank in all three years, but wages as a percentage of total expense was lowest among the private sector bank group.

## Conclusion

Indian banking system has under gone a drastic change since liberalization. Today private sector banks are in the forefront due to the use of technology, resources and employees in efficient and effective manner. Private Sector banks in India are professional managed and provide quality customer service which helps them attract more and more customer and grow faster and faster. It was strong fundamentals of private banks in India that all the banks in private sector bank group have been able to face the negative effect of financial crisis 2008-09 except Bank of Rajasthan which has resulted into merger of Bank of Rajasthan with ICICI bank- a RBI driven merger. Narashiman committee 2 recommended merger of strong bank which have a multiplier effect on industry. Merger should not be seen as a means of bailing out weak banks as it will adversely affect the asset quality of strong bank. Any consolidation of banks should not be forced from outside as has happened in case of Bank of Rajasthan. Rather consolidation should be driven by commercial motivation of individual banks, with the government and regulator playing at best a facilitating role.

Results of analysis reveals that YES bank, which is one of the smallest banks among all bank groups is emerging as key Player in India's private sector banking. Its performance in terms of Return on Assets, Capital Adequacy Ratio, Profit per employee, Business per employee, Net NPA ratio is ahead of India's leading Private Sector bank, i.e. ICICI Bank. Yes Bank emerged as Best Performer in terms of return on assets for year 2009-10. It has got 3rd rank in

terms of Capital Adequacy ration for the year 2009-10 ahead of ICICI bank which has got 4th rank. Also on the basis of profit per employee and business per employee, performance of Yes bank has got 1st rank while ICICI bank got 2nd rank for performance on the basis of profit per employee and 4th rank for performance on the basis of business per employee for the year 2009-10. Net NPA ration of Yes Bank is much lower than ICICI Bank in all the three years.

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