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Financial performance of select public sector banks in India: A Review of Selected Studies

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ABSTRACT : This study focuses on review papers that are published in prestigious journals and explores the performance of public sector banks (PSBs) as a critical indicator of the nation's economic health. Delving into intricate financial dynamics, it scrutinizes select PSBs, revealing insights into their fiscal resilience, adaptability to market trends, and contribution to economic well-being. The research analyzes transformative changes in the financial landscape, encompassing regulatory reforms and technological advancements. Examining key metrics like profitability, asset quality, and credit expansion, the study provides a comprehensive overview of PSBs' role in economic resilience. The methodology involves a review of 20 papers, identifying a research gap in understanding the long-term impact of specific characteristics on profitability. The findings suggest a need for holistic and longitudinal analyses to comprehend the evolving dynamics of public sector banks in response to market changes and regulatory reforms, providing enduring insights into their financial health.
KEYWORDS: *Public sector banks, financial performance, Economic resilience, Regulatory reforms, Technological advancements, Longitudinal analysis, Indian banking sector.*

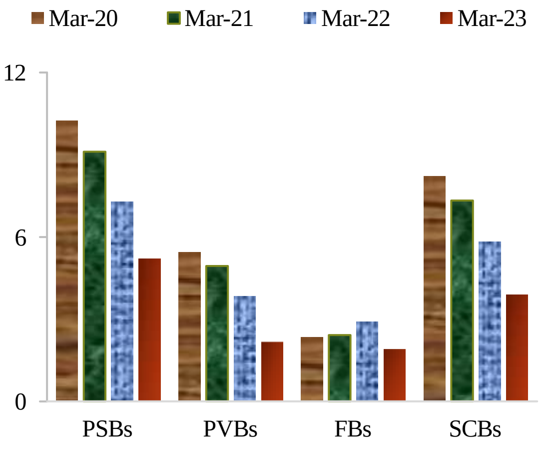
I. INTRODUCTION

In the dynamic landscape of India's financial sector, the performance of public sector banks (PSBs) stands as a critical barometer, reflecting the economic health and stability of the nation. This study delves into the intricate web of financial dynamics to scrutinize and comprehend the performance of select PSBs, shedding light on their fiscal resilience, adaptability to market trends, and overall contribution to the country's economic well-being.Public sector banks, constituting a significant portion of India's banking system, play a pivotal role in facilitating economic growth, financial inclusion, and stability. As government-owned entities, these banks are entrusted with the responsibility of not only safeguarding the public's deposits but also fostering economic development by channeling funds into key sectors. Against this backdrop, evaluating their financial performance becomes imperative for policymakers, investors, and the general public alike.The financial landscape of PSBs has been marked by a series of transformative changes in recent years, from regulatory reforms to technological advancements. Amidst the evolving global and domestic economic scenarios, this study aims to provide a comprehensive analysis of the financial performance of select PSBs, unraveling key metrics such as profitability, asset quality, liquidity, and capital adequacy. By scrutinizing these facets, we seek to discern patterns, challenges, and opportunities that define the trajectory of these banks in contributing to India's economic resilience and financial robustness. As we embark on this exploration, we unravel the intricate tapestry of financial performance within the contours of India's public sector banking, offering insights that resonate with the broader narrative of the nation's economic journey.

The banking industry in India has been steadily improving; in March 2023, the Gross Non-Performing Assets (NPA) ratio of State Banks (SCBs) fell to its lowest level in a decade. The IBC, IBC, and CRAR are among the metrics that are credited with this improvement. With advancements in agriculture, industry, services, and personal loans, the GNPA ratio has decreased to 3.9%. Additionally, there has been an improvement in the provisioning coverage ratio (PCR), which is now 74% as opposed to 71.4% in March 2022. The ROE and ROA have risen due to higher profitability and new capital raising, while the CRAR is still a respectable 17.1.

Graph-1

DecliningSCB'sGNPARatio



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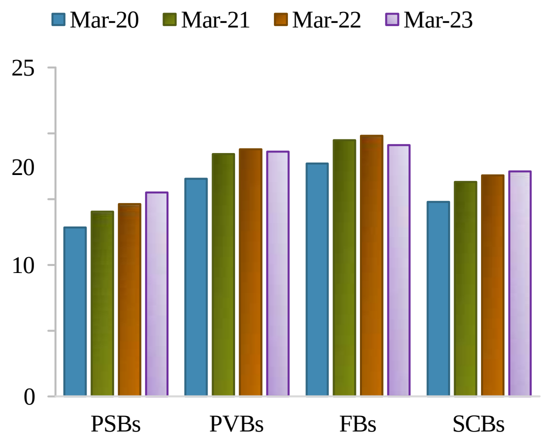
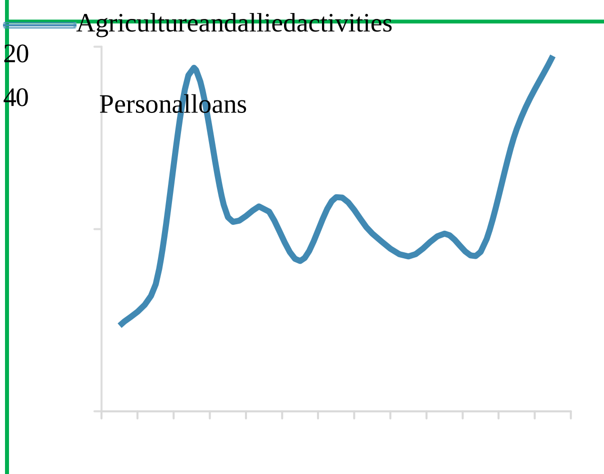


Source:RBI

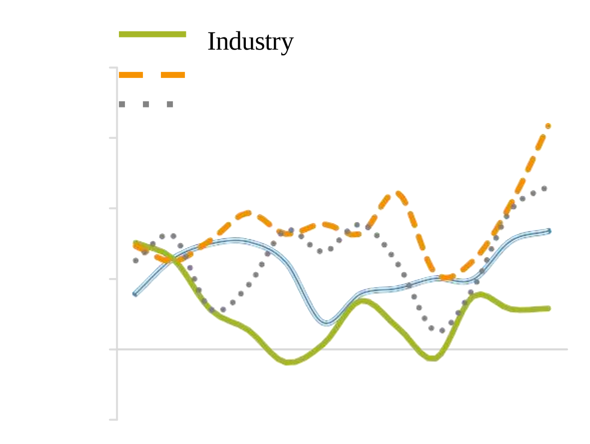
In terms of the credit situation, since April 2022, the non-food bank credit offtake of SCBs has increased broadly and by double digits. July 2023 has seen a general uptick in the YoY growth of credit across all sectors, with the services sector and personal loans category leading the way. Housing loans, which made up more than half of all personal loans outstanding as of July 2023, are what is driving the expansion in the personal loan industry. This is encouraging since it could mean more demand for building materials.

Graph-1

Non-foodbankcreditGrowth(YoY)



Broad-basedgrowthinsectoralnon-food Bank credit (YoY)



Source:RBI;Note:FY24dataisupto28July2023

Major sectoral deployment of gross bank credit rose by 19.7% (YoY) in July 2023. In July 2023, there was a 19.8% YoY growth in non-food bank credit, compared to a 13.9% YoY growth in July 2022. A review of particular industries reveals a positive degree of economic activity, with double-digit year-over-year growth in gross bank credit for beverage and tobacco, wood and wood products, glass, cement, basic metal, engineering, automobiles, gems and jewelry, and ports (under infrastructure) noted in July 2023. While maintaining banks' adequate capitalization, the availability of deposits promotes the expansion of credit. By June 2023, there were ₹ 1.85 lakh crore in total deposits with the SCBs, a 2.1% growth from ₹ 1.81 lakh crore.
(https://dea.gov.in/sites/default/files/Monthly)

II. METHODOLOGY

This study focuses on review-based where the researcher has chosen 20 papers as a sample for reviewing and found out the research gap. This is also a descriptive research paper. literature review using reputable databases, journals, books, and other academic sources.

III. REVIEW OF LITERATURE

Pawar, I. A., & Nayak, M. P. (2013). Public sector banks (PSBs) in India are outperforming private sector banks, indicating a paradigm change in the country's banking industry's use of technology and service standards. According to the RBI study, PSBs have improved asset quality and profitability by ensuring that their clients are satisfied, which has resulted in a decrease in net non-performing assets (NPA) related to loans and advances.

Balaji, C., & Kumar, G. P. (2016). The study examines the five-year financial performance of Indian public and private sector banks between 2011–2012 and 2015–2016. The study discovered that private sector banks had a faster rise in profitability using secondary data. Public sector banks did, however, experience difficulties and deficiencies in many financial areas. According to the report, public sector banks should reevaluate their approaches in light of their advantages and disadvantages as well as the kind of market they serve.

Kaur, J., Kaur, M., & Singh, S. (2015). The banking sector in India is expanding quickly, and there are many businesses in operation. It is challenging to compare bank rankings because of the yearly fluctuations in their performance. The purpose of this study is to use indicators such as WACC, Regression Analysis, and CAMEL Model to determine which of the top public sector banks are. The financial performance of five banks—Bank of Baroda, State Bank of India, Punjab National Bank, Bank of India, and Canara Bank—was compared in the study between 2009 and 2014. In every CAMEL category, the Bank of Baroda came in first.

Singh, Y., & Milan, R. (2023). The performance of public sector banks in India is examined in this study, with an emphasis on the relationships that exist between bank-specific characteristics and performance. The results of the analysis of financial data from 2009 to 2019 show that the following relationships exist: asset quality hurts bank performance; inflation and liquidity are inversely related; capital adequacy and interest margin are positively and inversely related; GDP growth is positively and inversely related to interest income; inflation rate is inversely related; and banking sector reforms are not significantly related.

Palamalai, S., & Britto, J. (2017). Using financial ratios, the study assesses the financial performance of sixteen Indian commercial banks between 2012–2013 and 2016–17. It demonstrates that public-sector banks are not as successful as private-sector banks. The study also looks at how efficiency, solvency, and liquidity affect profitability; it finds that turnover ratios, liquidity, and solvency have a positive and significant impact on profitability.

Joshi, M. K. (2020). Using Altman's Z-Score methodology, the study assesses the financial performance of a subset of public sector banks that have large gross non-performing assets. Every bank has an average Z-Score over the recommended threshold, placing them in the safe zone. Values during the first five years were statistically different, presumably as a result of a rise in non-performing assets. The Z-Score falls by 3.1% for every 1% increase in gross non-performing assets. Nonetheless, it rises by 15.31% for every 1% increase in net income.

Dubey, S., & Puri, Y. (2021). Using the CAMEL Approach, the study looks at the financial performance of five Indian public and private sector banks, concentrating on the areas of earnings capacity, liquidity, asset quality, capital sufficiency, and managerial effectiveness. Punjab National is ranked lowest, and Kotak Mahindra is ranked highest. Private banks predominate; Bank of Baroda and HDFC Bank come in third and fourth place, respectively.

Gupta, P., & Jaiswal, K. K. (2020). To evaluate the financial performance of Indian public and private sector banks, this paper looks at several financial factors, including profitability, liquidity, and stability. Three public sector banks and three private sector banks were analyzed in the study using secondary data from 2015 to 2019. The findings indicated that although public sector banks have made great strides, they still lag behind private sector banks' performance standards. In comparison to public sector banks (5.12133%), private sector banks were judged to be more successful in controlling non-performing assets (2.02300%).

Singh, S., & Das, S. (2018). The study assesses how merger and acquisition activity affects Indian banks' operational results. It looks at M&A patterns and analyzes the performance of three top banks over six years. The results imply that post-merger and acquisition activities require strategies and regulations in procedural, physical, and sociocultural contexts. To improve internal and external operations and market share, the study suggests updating management policies, strengthening the assistance provided by the logistical framework, and putting in place a comprehensive integrated marketing communications mix.

Karri, H., Meghani, K., & Mishra, B. (2015). Using the CAMEL model and t-test, this study examines the performance and financial standing of the Bank of Baroda and Punjab National Bank in India. Examining variables including capital sufficiency, asset quality, managerial effectiveness, earning quality, liquidity, and sensitivity, the analysis focuses on the comparative performance of Indian banks.

Undi, R., & Basavaraj, C. S. (2021). The study uses seven important parameters to analyze the financial performance of Indian banks in the public and private sectors. According to the report, the superior average financial ratios of private sector banks allowed them to outperform public sector banks. From 2015 to 2019, information was gathered from ten banks' annual reports.

Azam, A., Khan, I., et al. (2023). This study uses Altman's Z-score to analyze the financial health of five private-sector banks in India from 2018 to 2022. The findings indicate that ICICI Bank, HDFC Bank, Axis Bank, Kotak Mahindra Bank, and IndusInd Bank have differing degrees of financial health. While HDFC continued to operate in the gray area, ICICI Bank made progress from crisis to safety.

Gowri, C. M., & Malepati, V. (2017). Efficiency ratios, which assess banks based on their performance, have increased as a result of the expansion of financial services. This study uses a variety of management efficiency measures to assess the financial performance of a selected group of public and private sector banks across the entire country of India. Using a variety of ratios, including gross profit to total assets, net profit to total assets, interest income to total assets, other income to total assets, interest expended to total assets, and operating expenses to total assets, the study assesses the performance of a chosen group of banks in comparison to the Indian average.

Murugesan, S., et al. (2018). The study assesses 21 Indian private sector banks' financial performance using the Modified Value-Added Intellectual Coefficient (MVAIC). The data indicates a dynamic correlation between MVAIC and bank performance, underscoring the importance of efficient IC management.

Nandi, J. K. (2013). This study examines the financial results of Indian banking institutions operating in the public and private sectors between 2001–2002 and 2011–2012. The study examined profitability, interest spread, customer service, cost control, management, and non-performing assets (NPA) using the CAMEL approach and statistical tools. Bank of Baroda, ICICI Bank, HDFC Bank, Central Bank of India, Karnataka Bank, and UCO Bank were the top ten banks. In terms of consistency and financial performance, public sector banks fared better.

Jeet, V., &Aspal, P. K. (2020). This study investigates the correlation between the profitability of Indian Public Sector Banks and particular characteristics. To examine the impact of variables such as capital adequacy, human capital, liquidity, management efficiency, asset quality, and earning quality, the study uses secondary data from 2015 to 2019 using panel data regression. The findings indicate that bank profitability and these variables are significantly positively correlated, although capital adequacy and earning quality are not significantly impacted. This aids banks in assessing their financial health and putting in place the safeguards required to ensure their sustainability.

Nagarkar, J. J. (2015). This study examines five significant Indian banks' performances, concentrating on financial metrics. In the past ten years, the Indian economy has gone through two significant business cycles, and the banking sector has struggled to grow at a rate of 19%.

Jothi, M., & Mathiraj, S. P. (2013). With a particular emphasis on the State Bank of India, the paper investigates the relationship between CSR and CFP in Indian public sector banks. SBI and Karmayok provided the data, and statistical methods such as trend analysis, percentage analysis, net profit ratio, and turnover ratio were used to examine the link.

Santhoshi Kumari, G., & Prasad, M. S. V. (2017). In India, banks' performance is objectively measured and compared using the Eagles model. In terms of ROA, gross NPA, and PCR, Yes Bank stood out among ten public and private sector banks in research that used data spanning ten years. When it came to capital adequacy ratio and investment-to-deposit ratio, Kotak Mahindra Bank and State Bank of India did well. Significant performance disparities between banks in the public and private sectors are found in the study.

Meena, G. L. (2016). Since the nationalization of banks in 1969 and the implementation of economic reforms in 1991, the banking industry in India, which forms the foundation of the country's economy, has grown significantly. The CAMEL method uses measures including capital adequacy, asset quality, management capability, earnings capacity, and liquidity to examine the financial performance of banks in the public and private sectors. The profit per employee, debt-to-equity ratio, total assets-to-total deposits ratio, and net non-performing assets (NPAs) to total advances ratio are the four main dependent elements influencing banks' financial performance.

IV. RESEARCH GAP

Despite numerous studies on the financial performance of Indian public sector banks, there is a notable gap in understanding the long-term impact of specific characteristics on profitability. Existing research has touched on variables such as asset quality, liquidity, and managerial effectiveness, but a comprehensive investigation into the sustained influence of these factors over an extended period is lacking. Additionally, there is limited exploration into the evolving dynamics of public sector banks in response to market changes and regulatory reforms. Future research should focus on a holistic and longitudinal analysis, providing insights into the enduring relationships between key variables and the overall financial health of both public and private sector banks in India.

V. CONCLUSION

This study has meticulously examined the financial performance of public sector banks (PSBs) in India, serving as a crucial indicator of the nation's economic health. Through a comprehensive review of 20 papers published in prestigious journals, the research has unveiled insights into the fiscal resilience, adaptability to market trends, and overall contribution of select PSBs to the economic well-being of the country. The analysis of transformative changes in the financial landscape, including regulatory reforms and technological advancements, has highlighted the evolving dynamics of PSBs. While celebrating the recent improvements in the banking industry, as evidenced by declining Gross Non-Performing Assets (NPA) ratios and positive indicators such as ROE and ROA, the study has identified a research gap. Despite existing studies delving into various financial aspects, a notable gap persists in understanding the sustained impact of specific characteristics on profitability over the long term. Additionally, there is a need for more extensive exploration into the evolving dynamics of PSBs in response to market changes and regulatory reforms. The findings underscore the importance of future research adopting a holistic and longitudinal approach to provide enduring insights into the financial health of both public and private sector banks in India.

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