

A Comparative Study of the Public and Private Sector Bank with Special Reference to Punjab National Bank and HDFC Bank

Agrawal P^{1*} and Yadav AK²

¹Research Scholar, Department of Business Administration, DDU Gorakhpur University, Gorakhpur

²Associate Professor, Department of Commerce, DDU Gorakhpur University, Gorakhpur

Abstract

After passing of nationalization the Indian banking system has considerably developed with a large network of branches and wide range of financial instruments. As banking industry is growing today with a rapid speed and competition it has more than 11,75,150 employee and has a 1,09,811 branches across India and 171 branches in abroad and have managed deposits of Rs. 67504.54 billion and bank credit of Rs. 52604.59 billion. The net profit of banks operating in India was Rs. 1027.51 billion against RS. 9148.60 billion turn over during 2012-13.

Banking sector has a very important place in our Indian economy. The amount of the profit indicates the efficiency of the organization the larger the profit higher the growth rate. The profitability depends on the effective utilization of funds to procure maximum profit for growth. The present research paper is an effort to make a comparative study between the Growth rate in Punjab National Bank and HDFC Bank. As a study of Growth analysis of both the banks for a period of 10 years, i.e., from 2004 to 2014 is made. The main parameters of growth in banks are Net profit growth, Net assets growth, ROA (Return on Assets) and NPA.

Keywords: Growth; Net assets; Net profit; Future value; Present value; Compound annual growth rate (CAGR); Return on assets (ROA); Non performing assets (NPA)

Introduction

Banking is a single industry incorporating a dozen businesses, such as corporate banking, investment banking, small business banking, wealth management, capital markets and so on. Further one of these is retail banking, which is characterized by large numbers of customers, accounts and transactions, a variety of products and services, a high level of dependency on technology and terrific levels of cooperation between banks, retailers, businesses and consumers [1].

Banks have more capacity than they can use; consumers will need a bank account to receive government benefits; and banks continue consolidating into a small number of large banks. This consolidation may be a good thing, or it may be a bad thing. Certainly, smaller banks will have to develop successful strategies to compete with large banks, and such competition will benefit customers. One hope could be that even if we do end up with a handful of banks, they will at least compete with each other, and not enjoy comfortable, begin competition between themselves. But that might be a dream. We must have real competition.

After passing of nationalization the Indian banking system has considerably developed with a large network of branches and wide range of financial instruments. As banking industry is growing today with a rapid speed and competition it has more than 11,75,150 employee and has a 1,09,811 branches across India and 171 branches in abroad and have managed deposits of Rs. 67504.54 billion and bank credit of Rs. 52604.59 billion. The net profit of banks operating in India was Rs. 1027.51 billion against RS. 9148.60 billion turnover during 2012-13 [2]. Banking sector has a very important place in our Indian economy. The amount of the profit indicates the efficiency of the organization the larger the profit higher the growth rate. The profitability depends on the effective utilization of funds to procure maximum profit and growth.

As regards Punjab National Bank, it was established in 1895. Bank has strong capital base with capital adequacy ratio 12.89% as in March

2014. The bank has paid-up capital of 370.91 crore as on march 2014, with more than 120 years of purposeful existence, more than 8.9 crore customers through 6200 branches it has grown. As regards HDFC Bank, it was established by Reserve Bank of India in 1994 [3]. It was the first bank to get the approval by RBI to set up as Private Sector Bank. The paid up share capital as on march 2015 is Rs.501,2990,634, its capital adequacy ratio as on March 2014 is 16.1% and it has 3659 branches with 11766 ATMs [3,4].

This research paper is an effort to make a comparative study of the Growth rate in Punjab National Bank and HDFC Bank. As a study of Growth analysis of both the banks for a period of 10 years, i.e., from 2004 to 2014 is made [5,6]. The main parameters of growth in banks are Net profit growth, Net assets growth, ROA (Return on Assets) and NPA. The statistical analysis is made on the bases of annual compound growth rate and NPA on mean, standard deviation, coefficient of correlation.

Objectives of the Study

1. To review the growth rate of both the banks under study
2. To compare the growth between in private (HDFC Bank) and public sector (PNB) bank

Research Methodology

The present study is secondary data based collected from various

***Corresponding author:** Agrawal P, Research Scholar, Department of Business Administration, DDU Gorakhpur University, India, Tel: +91-551-2201577; E-mail: registrarddugu@gmail.com

Received September 29, 2015; **Accepted** November 12, 2015; **Published** November 30, 2015

Citation: Agrawal P, Yadav AK (2015) A Comparative Study of the Public and Private Sector Bank with Special Reference to Punjab National Bank and HDFC Bank. J Bus Fin Aff 4: 155. doi:10.4172/2167-0234.1000155

Copyright: © 2015 Agrawal P, et al. This is an open-access article distributed under the terms of the Creative Commons Attribution License, which permits unrestricted use, distribution, and reproduction in any medium, provided the original author and source are credited.

journals, reports of RBI and annual reports of banks, moneycontrol.com. The study period is limited, from 2004-05 to 2013-14.

Concept of Growth

Growth is the concept for banking sector to grow in a profitable manner, in assets, in number of branches and networks in number of ATMs, in capital adequacy ratio, but less in percentage of NPA.

Every year targets are fixed by the banks to achieve it, various types of scheme are launched, and interest on deposits and loans are adjusted. The increase in business per employee of the bank in comparison to the previous year is evaluated. Operating profits, net profits, earning per share, dividend per share, return on capital employed, return on equity, interest coverage ratios are the other yardsticks to measure the growth of a business entity over a period of time. Growth also means to compare the net profit of current year to the previous year's profit.

All of these mostly depend upon the factor which is very important in the recent scenario is the customer satisfaction and prompt services of banks. The technology factor also affects the growth very hardly. The bank which gives the prompt services to the customers they grow rapidly on every parameter of growth.

Net assets growth comparison

Net assets is the sum of asset side of the balance sheet excluding any provision for depreciation fund or the assets shown at book value less depreciation charges, or the market value of the asset to be disposed off less any expected loss or provision against that asset. This total of the asset side exclude the fictitious assets if there is any shown in the asset side of the balance sheet like preliminary expenses, discounts on issue of shares or debenture, interest paid out of capital etc. Net assets include both types of assets i.e., fixed asset, as well as, the current asset possessed by the business entity owned by the concerned. These assets provides the base for making the concern capable for carrying out its business activities for earning revenue and consolidate its position in the years to come. These assets are possessed by the business from various sources shown in the liability side of the concern i.e., owners funds and borrowed funds or the internal resources of the business created out of profits. As regarding Net Assets of Punjab National Bank & HDFC Bank Limited, it has been computed by deducting all liabilities from total assets and shown in Table 1 [5-7].

Table 1 reveals that Net Assets of Punjab National Bank indicated a Compound Annual Growth Rate (CAGR) of 15.5% whereas that of HDFC Bank indicated an annual compound growth rate of 25.4%. All this indicate that net assets of HDFC Bank Limited increased quicker

than that of Punjab National Bank Limited. Growth rate of Net Assets of Punjab National Bank and HDFC Bank has been computed by way of annual compound growth rate with the help of the following formula:

$$CAGR = \left(\frac{\text{Ending value}}{\text{Beginning value}} \right)^{\left(\frac{1}{\text{\#of years}} \right)} - 1$$

That is $CAGR = (FV/PV)^{1/n} - 1$

Where FV = Future Value

PV = Present Value

n = Number of Years

Using logarithms Growth rate is calculated as

Growth rate of Punjab National Bank = 15.50 (%)

Growth rate of HDFC Bank = 25.4%

As regarding Net Assets Growth of Punjab National Bank & HDFC Bank Limited, it has been computed with the help of geometric mean and has been shown in Figure 1.

Net profit/loss growth rate

Net income is what remains out of a company's revenue after subtracting all costs. It is also referred as net profit, earnings, or the bottom line. Net Income, that is not paid out in dividends is added to retained earnings.

Increasing (decreasing) net income is a good (bad) sign for a company's profitability [8]. Companies with consistent and increasing net income over time are looked at very favorably by stockholders.

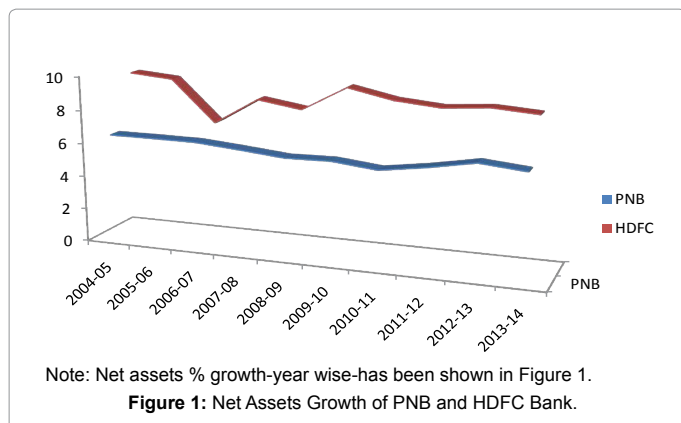
Net profit is another base for comparing the performance of these two banks PNB and HDFC. Net profit growth in respect of Punjab National Bank and HDFC Bank has been calculated by taking Net Profit after Tax, so as to adjudge the absolute growth of net profit after tax [9,10].

As per Table 2, it can be observed that the net profit of PNB was 141012 lac in 2004-05 and it rose to 334258 lac in 2013-14 which is 1.37 times but the growth of HDFC is much higher than PNB as HDFC has a net profit of 66556 lac in 2004-05 and it rose to 847838 lac in 2013-14 which is 11.73 times. Net profit growth rate of PNB is 9.01% and the HDFC is 28.98%. This implies that the performance of HDFC is better times as PNB in the corresponding years. In 2012-13 and in 2013-14 PNB has shown a negative growth in the profit which is -2.7 and -29.5

Year	Punjab National Bank			HDFC Bank		
	Net Assets (in Lacs)	Total Assets (in Lacs)	% of Net Assets	Net Assets (in Lacs)	Total Assets (in Lacs)	% of Net Assets
2004-05	816130	12624128	6.46	452028	5142900	9.76
2005-06	937636	14526738	6.45	529960	7350639	9.53
2006-07	1043546	62422149	6.42	643315	9123561	7.05
2007-08	1231835	19902036	6.19	1149724	13317661	8.63
2008-09	1465363	24691862	5.93	1505273	18327077	8.21
2009-10	1772292	29663277	5.97	2152249	22245857	9.67
2010-11	2150856	37832526	5.68	25,37927	27735260	9.1
2011-12	27,81707	458,19401	6.06	29,92468	33790951	8.85
2012-13	31,24805	477,44819	6.54	36,21414	40033189	9.04
2013-14	34,48714	549,01174	6.28	4347863	49159950	8.84

Source: Annual Reports of Punjab National Bank and HDFC Bank - various issues.

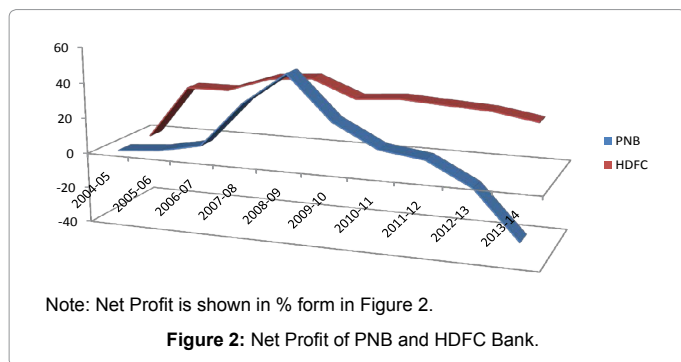
Table 1: Net Assets.



Year	PNB		HDFC	
	Net Profits in lac	% Increase over Previous Years	Net Profits in lac	% Increase over Previous Years
2004-05	141012	-----	66556	-----
2005-06	143931	2.07	87078	30.83
2006-07	154008	7.00	114155	31.08
2007-08	204876	33.0	159018	39.31
2008-09	309088	50.86	224494	41.17
2009-10	390536	26.35	294870	31.34
2010-11	443350	13.52	392640	33.15
2011-12	488420	10.16	516709	31.59
2012-13	474767	-2.7	672628	30.17
2013-14	334258	-29.5	847838	26.04

Source: Annual Reports of Punjab National Bank and HDFC Bank - various issues.

Table 2: Net Profit Growth of PNB and HDFC Bank.



respectively, as compared to HDFC it is very low. The growth rate of PNB is 15.5% and HDFC growth rate is 25.4%. The net profit of both the banks HDFC indicate annual compound growth rate of 28.98% where as PNB shows 9.01% (Figure 2).

Return on assets

Return on Assets (ROA) shows the rate of return (after tax) being earned on all of the firm's assets regardless of financing structure (debt vs. equity). It is a measure of how efficiently the company is using all stakeholders' assets to earn returns [11]. Because ROA can differ significantly across firms, ROA is often used to compare a company over time or against companies that have similar financing structures [12,13].

A bank's ROA is typically well under 2%. This ratio measures the

return on assets employed or efficiency in utilization of the assets. It is arrived at by dividing net profit by total assets.

$$\text{Return on Assets} = \frac{\text{Net Profit}}{\text{Total Assets}} \times 100$$

The figures in Table 3 show the fluctuations in ROA of both banks. Return on Assets of PNB is lower in comparison to HDFC. In 2009-10 the ROA of PNB is highest 1.31% and of HDFC's is 1.32%. In 2013-14 the ROA of HDFC is 1.72%, which is highest among above years; but PNB's ROA is 0.60%, which is lowest among above years. Therefore, in comparison to PNB, HDFC utilizes its assets more efficiently and gives better performance (Figure 3).

NPA (Non Performing Assets)

A debt obligation where the borrower has not paid any previously agreed upon interest and principal repayments to the designated lender for an extended period of time. The Non-Performing Asset is therefore not yielding any income to the lender in the form of principal and interest payments [14].

Types of NPA

Gross NPA: Gross NPAs are the sum total of all loan assets that are classified as NPAs as per RBI guidelines as on Balance Sheet date. Gross NPA reflects the quality of the loans made by banks. It consists of all the nonstandard assets like as sub-standard, doubtful, and loss assets. It can be calculated with the help of following ratio:

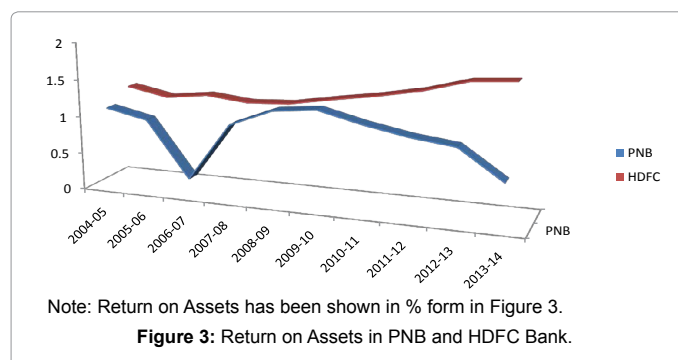
$$\text{Gross NPAs Ratio} = \frac{\text{Gross NPAs}}{\text{Gross Advances}}$$

Net NPA: Net NPAs are those type of NPAs, in which the bank has deducted the provision regarding NPAs. Net NPA shows the actual burden of banks. Since in India, bank balance sheets contain a huge amount of NPAs and the process of recovery and write off of loans is very time consuming [15]. The provisions the banks have to make

Year	PNB	HDFC
2004-05	1.11	1.29
2005-06	0.99	1.18
2006-07	0.24	1.25
2007-08	1.02	1.19
2008-09	1.25	1.22
2009-10	1.31	1.32
2010-11	1.17	1.41
2011-12	1.06	1.52
2012-13	0.99	1.68
2013-14	0.60	1.72

Source: Annual Reports of Punjab National Bank and HDFC Bank - various issues

Table 3: Return on Assets (%).



against the NPAs according to the central bank guidelines are quite significant. That is why the difference between gross and net NPA is quite high. It can be calculated as per following:

$$\text{Net NPAs} = \text{Gross NPAs} - \text{Provisions/Gross Advances} - \text{Provisions} \text{ (Table 4)}$$

As shown in Table 5 bank wise mean standard deviation and coefficient of variation of Net NPA ratio of the selected banks. HDFC have the lowest mean value and standard deviation as for as 0.336 and 0.14998 respectively. Coefficient of variation of PNB is 0.9046 which is very high as compared to HDFC. This means that HDFC is managing its NPA in better manner. The net NPA ratio is shown in Figure 4 year wise.

Analysis and Findings

Net assets of HDFC show annual compound growth rate of 25.4% which is much higher than PNB that is 15.5%. While comparing the net profit of both the banks, HDFC indicate annual compound growth rate of 28.98% whereas PNB shows 9.01% so there is a huge difference between profits of these two banks, as the net profit of PNB in year 2013 and 2014 indicate negative growth rate from corresponding years.

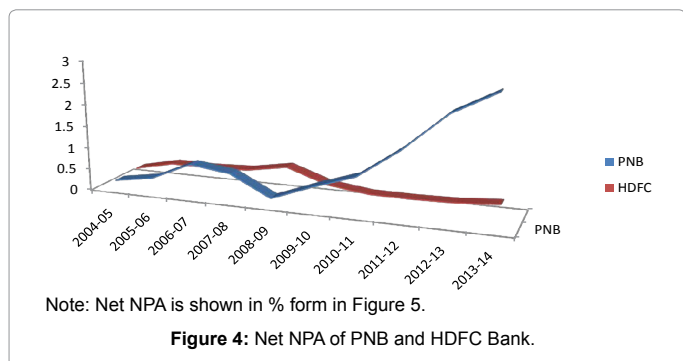
Looking at the next basis which is Return on assets, HDFC grew from 1.29% to 1.72% but PNB went down stairs from 1.11% to 0.60%. So as in comparison to PNB, HDFC utilizes its assets more efficiently and giving better performance. Further the Net NPA ratio of both the banks indicate the true story of the banks that how much loans are bad and how much is recovered, who is managing its NPA more efficiently to lower it down to maximize the true profit shown in Tables 4 and 5. PNB has higher coefficient of variation in Net NPA ratio that is 0.90461 whereas HDFC has 0.46853 having large gap. So every basis of data establishes that HDFC as compared to PNB. Therefore, it can easily be concluded that growth in private sector (HDFC) banks is better than public sector (PNB) banks.

Banks	Mean	Standard Deviation	Coefficient of Variation
PNB	1.012	0.9266	0.90461
HDFC	0.336	0.14998	0.46853

Table 4: Analysis of NPA of PNB and HDFC Bank.

Banks	Mean	Standard Deviation	Coefficient of Variation
PNB	1.012	0.9266	0.90461
HDFC	0.336	0.14998	0.46853

Table 5: Analysis of NPA of PNB and HDFC Bank.



References

1. Apropos (2004) The Soundness of Public Sector Banks. Finance India: 12.
2. Bhole LM (2000) Financial Institution and Markets. Tata McGraw Hill Publications Ltd, New Delhi.
3. Garima C (2014) Performance Comparison of Private Banks with Public Sector Banks. International Journal of Emerging Research in Management and Technology.
4. Desai, Vasant (1997) Indian Financial System, Himalaya Publishing House, New Delhi.
5. Dutt, Ruddar, Sundaram KPM (2003) Indian Economy, S. Chand and Company Pvt. Ltd, New Delhi.
6. Gupta R, Sikarwar NS (2013) A Comparative Study of Growth Analysis of Punjab National Bank of India and HDFC Bank Limited. IJAIEM 2: 60-68.
7. Gupta SP (2000) Statistical Methods. S. Chand and Sons, New Delhi.
8. Gupta, Shashi K, Aggarwal, Nisha, Gupta, Neeti (2004) Financial Institutions and Markets. Kalyani Publishers, New Delhi.
9. Horne, Van JC (2000) Financial Management and Policy. Prentice Hall of India, New Delhi.
10. Jain TR, Khanna OP (2007) Indian Financial System, V. K. Publications, New Delhi.
11. Uma K (2009) Indian Economy, Performance and Policies. Academic Foundation (8th eds.), New Delhi.
12. Khan MY (1996) Indian Financial System. Tata McGraw-Hill Publishing Company Ltd, New Delhi.
13. Kothari CR (2006) Social Banking and Profitability. Arihant Publishers, Jaipur, Delhi.
14. Mangal SK, NP (1988) Reading in Financial Management. Printwell Publishers, Jaipur.
15. Vaish MC (2005) Money, Banking & Finance. Vikas Publishing House Pvt. Ltd, New Delhi.