

---

## COMPARISON OF FINANCIAL ANALYSIS OF PRIVATE AND PUBLIC ORGANIZATION

---

**Priyanka Sharma**

Research Scholar ,  
Kalinga University, Raipur, Chhattisgarh.

**Dr.Krishna Gopal Chaubey**

Professor, Department of Commerce,  
Kalinga University, Raipur, Chhattisgarh.

---

### ABSTRACT

The health of a nation's economy and its rate of economic expansion are directly proportional to the robustness and effectiveness of its financial system, which, in turn, is dependent upon the stability of its banking system. It is necessary to have a supervisory mechanism in order to evaluate how well the banking system is operating. The CAMEL rating technique is used in this study in order to conduct an in-depth comparison and evaluation of the public and private banking sectors in India. The CAMEL model is fundamentally a ratio-based framework for assessing the efficiency of financial institutions like banks.

*Keywords: Financial Soundness, Public sector banks, Private sector Banks.*

### INTRODUCTION

Banks play a significant part in the process of economic growth in a nation by helping to encourage the accumulation of savings and directing those resources into productive areas of the economy. As a result, banking institutions are deserving of greater focus than any other kind of economic unit found in an economy. The use of CAMEL by the regulatory agencies has resulted in increased bank oversight. CAMEL is an abbreviation that stands for the following six measures: capital adequacy, earnings, managerial soundness, liquidity, and sensitivity to market risk. In this study, the six indicators that indicate the soundness of the institution framework are taken into consideration for the purpose of analysing the performance and financial soundness of the operations that are carried out by public and private sector banks. In the context of the financial industry, "soundness" is identical with "efficiency," "productivity," "profitability," "stability," and "an environment devoid of shocks." The years 2010 to 2012 were selected as the time frame for this research, which compared Indian banks from both the public and private sectors.

The manufacturing industry, namely that of capital goods, is of critical significance to the Indian economy. The provision of essential inputs—that is, the machinery and tools that are required for manufacturing—has a multiplier effect on the expansion of the economy as a whole. This is because it paves the way for the expansion of a wide range of user industries and thereby encourages overall economic expansion. Because of this, it is necessary to build local skills in the capital goods sector in order to guarantee self-reliance, since the sector either directly or indirectly impacts the growth of core manufacturing inside India.

The production of capital goods is the most important aspect of the manufacturing business. Regardless of the level of economic development that a nation is currently at, a thriving industry for producing capital goods is an absolute need for fostering the expansion of the manufacturing sector in any country. The import substitution strategy that was implemented in India during the majority of the 20th century, and especially during the post-independence era, is chiefly responsible for the country's robust and varied base of capital goods, which is seen today in India. Heavy electrical machinery, textile machinery, machine tools, earthmoving and construction equipment including mining equipment and road construction equipment, printing machinery, dairy machinery, industrial refrigeration, and industrial furnaces are some of the prominent capital goods that are produced in India. All of them are essential inputs, and their performance has a significant impact on how well the manufacturing sector of the nation is doing.

### OBJECTIVES:

1. The study is to analyze and compare the financial soundness of the public sector banks and Private sector banks.
2. To study public and private sector banks

### Methodology

The CAMEL supervisory model, which is recognised on a global scale, was used in an investigation of the similarities and differences in terms of financial stability and convergence between the public and private banking sectors that are active in India. The majority of the information that was utilised for this research was gathered from secondary sources, such as the bank's annual reports and balance sheets, during a period of three years (2010 to 2012). Additionally, information is gathered from the Reserve Bank of India, in addition to associated publications and websites.

### Data and Analysis

#### *Capital Adequacy*

It demonstrates that the banks have sufficient capital to be able to bear unforeseen losses in the future and that bank leverage is appropriate. It is necessary to do so in order to preserve the faith of the depositors and avoid the bank from going bankrupt. It is a reflection of the overall financial state of banks as well as the management's capacity to satisfy the need for additional capital. On the other hand, the following ratios are used to determine capital sufficiency:

- i. Capital Adequacy Ratio (CAR)
- ii. Debt-to-Equity Ratio, Also Known as D/E
- iii. The ratio of advances to assets (sometimes written as adv/ast).
- iv. The Proportion of Total Investments Comprised of Government Securities (G-sec/Inv)

**Table. 1. Analysis of Financial soundness in Public and Private sector Banks.**

**Capital Adequacy**

S. No.	Particulars/Year	Public sector Banks				Private Sector Banks			
		2010	2011	2012	Mean	2010	2011	2012	Mean
i	Capital Adequacy ratio	13.30	13.08	13.23	13.20	17.40	16.46	16.21	16.69
ii	Debt equity ratio	1.30	1.36	1.30	1.32	1.24	1.34	1.90	1.49
iii	Advances to assets ratio	61.55	63.23	65.31	63.36	50.80	52.38	52.44	51.87
iv	Govt. Securities to total investment	83.63	81.48	83.64	82.92	68.11	62.36	66.05	65.51

The Reserve Bank of India emphasised that banks should have a capital adequacy ratio of 9% since it is the banks' strength. The fact that banks have greater CAR implies that they are in better financial situation is shown by this. According to the findings of the analysis, the CAR according to the Basel II norms has been maintained at more than the prescribed ratio by both the public and the private sectors of banks; however, the CAR position of private sector banks proved to be better than that of public sector banks (16.69). (13.20)

The level of leverage that banks are using may be determined by looking at their debt equity ratio. It provides an indication of the proportion of the bank's activity that is funded via debt and the proportion that is financed through equity. According to the findings of this research, private sector banks have a higher ratio (1.49), as compared to their counterparts in the public sector banks (1.32)

The ratio of advances to assets expresses the connection between the entire amount of advances and the total amount of assets. This is the measure of how much of the available resources are being put into lending in order to increase profitability. It is desirable to have a higher ratio; based on the data shown in the table, it can be seen that public sector banks are in the leading position, with the greatest ratio (63.36), in comparison to private sector banks (51.87)

According to the data shown in the table above, the ratio of public sector banks' holdings of government securities to their overall investments is much higher than that of private sector banks (82.92). (65.51). As a result of the nature of risk-free government assets, public sector banks have a lower chance of failure than their private sector counterparts.

**Assets Quality**

The composition of the bank's debtors may be deduced from the quality of the assets held by the institution. The quality of the assets is also an essential criterion for determining the robustness of a bank. It is to determine how much of the overall assets are comprised of assets that are considered to be non-performing (NPAs). As

a result, a bank is in a position to determine whether or not to provide advances in order to produce interest revenue. The following is a table containing the ratios:

- i. Net Nonperforming Assets Relative to Total Assets (NNPAs/TA)
- ii. The ratio of the Net NPAs to the Net Advances (NNPAs/NA).
- iii. Total Investments as a Percentage of Total Assets (TI/TA)
- iv. The Percentage Alteration in NPAs

**Table. 2. Analysis of Financial soundness in public and Private sector Banks.**

**Assets Quality**

S. No.	Particulars/Year	Public Sector Banks				Private Sector Banks			
		2010	2011	2012	Mean	2010	2011	2012	Mean
i	Net NPA to Net Advance	1.10	1.16	1.66	1.31	0.96	0.59	0.54	0.70
ii	Total investment to Total Assets ratio	27.15	25.10	24.91	25.72	30.77	30.18	31.33	30.76
iii	Net NPA to Total Assets	0.67	0.68	0.98	0.78	0.55	0.32	0.26	0.38
iv	Percentage change in Net NPA	40.13	21.68	63.84	41.88	-14.11	-30.47	-0.68	-15.09

The benchmark figure for the Net NPA ratio that is universally recognised and approved is 1. According to the data shown in the table above, private sector banks have a much lower risk compared to public sector banks, which have a ratio that is lower than 1.

A ratio of net nonperforming assets to total assets that is lower than average is an indicator that a bank is performing well during a three-year period (2010-2012) A more positive trend is indicated by a lower ratio (0.38), which was detected in private sector banks. It was also noticed that private sector banks had superior precautionary procedures beginning with the selection of consumers for loan. In this particular scenario, the ratio of the public sector banks is larger than 0.78.

The measure that is used to determine the proportion of the bank's entire assets that are locked up in the bank's investments is the ratio that compares the total investment to the total assets of the bank. It was discovered that private sector banks had a higher ratio (30.76) in comparison to public sector banks (25.72), and they have prudently preserved a bigger cushion of investment in order to defend against NPAs. This was done in order to avoid defaulting on their loans.

An internal tracking system that follows the movement of NPAs over the course of prior years is referred to

as the percentage change in NPA. There is a superior mechanism in place at private sector banks for lowering NPAs over the study period. It is discovered more often in the private sector's banks' negative trends than in the public sector's public sector banks' positive trends.

### **Management Efficiency**

Measurement of management efficiency and effectiveness in terms of generating business (top-line) and maximising profits requires subjectivity in the form of analysis. Management efficiency is a component of management effectiveness (bottom-line). The effectiveness of management may be evaluated using a variety of ratios.

- i. The Ratio of the Total Advances to the Total Deposits (TA/TD)
- ii. Profit per Employee (PPE)
- iii. Revenue Generated by Each Worker (BPE)
- iv. Profit or Loss Based on Net Worth (RONW)

**Table. 3. Analysis of Financial soundness in public and Private sector Banks.**

#### **Management Efficiency**

S. No.	Particulars/Year	Public Sector Banks				Private Sector Banks			
		2010	2011	2012	Mean	2010	2011	2012	Mean
i	Total Advances to Total Deposits	74.04	76.55	78.83	76.48	71.05	73.03	74.96	73.01
ii	Profit per Employee	5.30	5.90	6.40	5.87	7.00	8.10	9.20	8.10
iii	Business per Employee	864.30	1016.70	1146.80	1009.27	772.70	826.00	862.30	820.33
iv	Return on Net worth	17.47	16.90	15.33	16.57	11.94	13.70	15.25	13.63

A bank is able to make a selection about the conversion of deposits into high-earning advances when it utilises a ratio of the total advances to the total deposits. The total average ratios for banks in the public sector are 76.48, while the average ratios for banks in the private sector are 73.01. Because of this, public sector banks are very efficient and have the potential to become very wealthy through advances.

The number of transactions completed by an employee is the metric that is used to evaluate how effectively the bank's human resources contribute to the bank's overall operation. During the course of the research, public

sector banks' larger business per employee of Rs. 1009.27 lakhs suggests better advancement than private sector banks' business of Rs. 820.33 lakhs, which implies slower growth. The profit made by each worker is denoted by the term "profit per employee." The greater the ratio, the better the management that is being shown. During the course of the research, it was discovered that private sector banks had a rate that was 8.10 times greater than the rate of 5.87 times higher observed in public sector banks.

### *Earning Quality*

The consistency with which a bank is able to turn a profit is directly related to the bank's capacity to maximise the quality of its profits. It also decides whether or not profits can be sustained and increased in the years to come. The following ratios provide an explanation for the level of revenue creation.

- i. Profit on Operations as a Percentage of Total Assets
- ii. The Ratio of the Net Profit to the Total Assets
- iii. The Proportion of Interest Income to Overall Income
- iv. Margin of interest on net assets in relation to total assets

**Table. 4. Analysis of Financial soundness in public and Private sector Banks.**

#### **Earning Quality**

S.No.	Particulars/Year	Public sector Banks				Private Sector Banks			
		2010	2011	2012	Mean	2010	2011	2012	Mean
i	Operating profit to Total Assets	1.73	1.66	1.66	1.68	2.50	2.41	2.29	2.40
ii	Net Profit to Total Assets	0.91	0.89	0.89	0.90	1.11	1.07	1.00	1.06
iii	Interest Income to total Income	86.78	86.76	86.72	86.75	82.99	83.11	83.53	83.21
iv	Net interest Margin to total assets	23.84	22.61	21.96	22.80	26.96	26.62	26.78	26.79

The ratio of a bank's operating profit to its total assets reveals how much money a bank can make for every rupee it invests in working capital. The fact that private sector banks had a higher ratio during the course of the research than public sector banks did (1.68), indicating that private sector banks had made better use of their assets, was shown by the fact that private sector banks had a higher ratio.

Since the ratio of private sector banks' net profit to their average assets was found to be higher (1.06), as opposed to the ratio of public sector banks' net profit to their average assets (0.90), this suggests that the private sector banks have a greater capability for producing revenue.

The average ratio of interest income to total revenue for public sector banks is 86.75, which is greater than

the average ratio of interest income to total income for private sector banks, which is 83.21. This suggests that public sector banks are better able to make profits via the lending they do.

The ratio of a bank's net interest margin to its total assets serves as a measure of the institution's core revenue. During the course of the research, it was discovered that private sector banks had a greater ratio (26.79), as compared to public sector banks' ratio of 22.80. This finding suggests that private sector banks have a wider distribution of their core revenue.

### **Liquidity**

The level of liquidity available at a bank is a significant indicator of that institution's capacity to fulfil its financial commitments. The most liquid assets for a bank to have are its cash on hand as well as their investments. In order for a bank to be able to generate profits while still being able to provide liquidity to its depositors, the bank must take the necessary precautions to hedge its exposure to the risk of insufficient liquidity. At the same time, the bank must ensure that a sufficient proportion of its assets are invested in assets that generate high rates of return. The following ratios are what are used to assess liquidity:

- i. Liquid Assets to Total Deposits (LA/TD)
- ii. Liquid Assets to Total Assets (LA/TA)
- iii. The ratio of liquid assets to demand deposits (sometimes written as LA/DD).
- iv. The proportion of total assets that are held in government securities (G-Sec/TA)
- v. the ratio of total assets to approved securities (AS/TA)

**Table. 5. Analysis of Financial soundness in public and Private sector Banks.**

### **Liquidity**

S.No.	Particulars/Year	Public sector Banks				Private Sector Banks			
		2010	2011	2012	Mean	2010	2011	2012	Mean
i	Liquid assets to total assets	8.90	9.15	7.55	8.53	9.95	8.42	6.39	8.25
ii	Liquid assets to total Deposits	10.70	11.08	9.12	10.30	13.92	11.74	9.13	11.60
iii	Liquid assets to Demand Deposits	107.20	118.16	118.63	114.66	85.10	74.08	64.62	74.60



iv	Approved Securities to Total Assets	0.113	0.059	0.017	0.063	0.027	0.006	0.001	0.012
----	--	-------	-------	-------	-------	-------	-------	-------	-------

The capacity of a bank to readily satisfy urgent cash requirements may be attributed to the bank's ability to accept demand deposits. Demand deposits provide increased liquidity to depositors; hence, banks are required to invest these assets in highly liquid form in order to meet regulatory requirements. When compared to private sector banks, which have a ratio of 74.60, public sector banks have a ratio that is greater, 114.66, which implies that public sector banks have stronger liquidity holdings.

The overall liquidity situation of the banks may be measured using the ratio of liquid assets to total assets; this ratio was found to be greatest in public sector banks (8.53), as opposed to private sector banks (8.25), and so public sector banks have a greater liquidity position.

The ratio of a bank's liquid assets to the sum of all deposits provides insight into the institution's capacity to meet the demands of depositors within a certain year. When compared to public sector banks, private sector banks have a ratio that is much higher at 11.60. (10.30). As a result, private sector banks are able to provide more liquidity for their depositors as a result of the fact that they have invested their customers' money in highly liquid form.

The ratio of approved securities to total assets is a measure of the overall liquidity position of the banks. It was discovered that public sector banks (0.063) have the highest ratio of approved securities to total assets. This indicates that public sector banks have a higher liquidity position than private sector banks (0.012).

## CONCLUSION

The Banking Sector in India is an Important Initiative for Economic Development That Fulfills the Financial Goals of the People of the Indian Economy The Banking Sector in India is an Important Initiative for Economic Development That Fulfills the Financial Goals of the People of the Indian Both public and private sector banks play a significant role in the banking industry in India and act as depositories for their customers' funds. When compared to the financial performance of banks operating in the private sector, those operating in the public sector have superior results. The increased level of nonperforming assets (NPA) in public sector banks may be attributed to the mandatory distribution of funding to priority sectors. The scrutinising system that is used in lending operations at private sector banks contributes to the industry's low NPA.

## REFERENCE:

- [1]. K.V.N. Prasad, Dr. Maheswara Reddy, Dr. A.A. Chari. 2011. Performance evaluation of public sector banks in India- An application of camel model. International Journal of Research in Commerce and Management. Volume No. 2, issue No 6, June, pp 96-102
- [2]. Siva, S & Natarajan, P. 2011, 'CAMEL Rating Scanning (CRS) of SBI Groups', Journal of Banking Financial Services and Insurance Research, vol. 1, no. 7, pp. 1-17.
- [3]. S.K. Misra and P.K. Aspal 2013. A Camel Model Analysis of State Bank Group. World Journal of Social Sciences Vol. 3. No. 4. July 2013 Issue. Pp. 36 – 55



- [4]. Prasuna D G (2003).Performance Snapshot 2003-04. Chartered Financial Analyst, Vol. 10, No.11, pp.6-13.
- [5]. Jha, Suvita & Hui, Xiaofeng 2012, 'A comparison of financial performance of commercial banks: A case study of Nepal', African Journal of Business Management, vol. 6, no. 25, pp. 7601-11.
- [6]. Sriharsha Reddy Kambhammettu.2012. Relative performance of commercial banks in India using camel approach. The International Journals of Research Journal of Economics and Business Studies. Vol:1, No:4. Pp .1- 23.
- [7]. K.V.N. Prasad. 2012. Evaluating performance of Public and Private sector banks through camel model. Asian Journal of Research in Banking and Finance. Volume 2, issue 3. Pp.36-46
- [8]. Ahuja, G., & Majumdar, S. K. (1998). An assessment of the performance of Indian state-owned enterprises. Journal of Productivity Analysis, 9(2), 113-132.
- [9]. Majumdar, S. K. (1998). Assessing comparative efficiency of the state-owned mixed and private sectors in Indian industry. Public Choice, 96(1), 1-24.
- [10]. Dholakia, B.H. (1978). Relative performance of public and private manufacturing enterprises in india: total factor productivity approach. Economic and Political weekly, 13 (8), M4-M11.
- [11]. Gupta, M. (1982). Productivity performance of the public and the private sectors in India: A case study of the fertilizer industry. Indian Economic Review, 17(2/4), 165-186
- [12]. Majumdar, S. K. (1998). Slack in the state-owned enterprise: An evaluation of the impact of softbudget constraints. International Journal of Industrial Organization, 16(3), 377-394.
- [13]. Ramaswamy, K. (2001). Organizational ownership, competitive intensity, and firm performance: An empirical study of the Indian manufacturing sector. Strategic Management Journal, 22(10), 989-998.
- [14]. Mohan, T. T., & Ray, S. C. (2003). Technical efficiency in public and private sectors in India: Evidence from the post-reform years.