

**AN ANALYTICAL STUDY ON THE FINANCIAL PERFORMANCE OF PUBLIC VS PRIVATE SECTOR
BANKS**

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Abstract:

The banking sector plays a crucial role in promoting economic growth, financial inclusion, and capital mobilization in developing economies. In India, both public sector banks and private sector banks contribute significantly to the stability and efficiency of the financial system. However, differences in governance structure, operational efficiency, and technological adoption often lead to variations in financial performance between these two categories of banks. The present study aims to conduct a comparative analytical assessment of the financial performance of public and private sector banks in India.

The study focuses on examining profitability, liquidity, and solvency indicators using selected financial ratios. Secondary data has been collected from annual reports of selected banks and financial databases for the study period of the last ten years. Analytical tools such as ratio analysis, correlation analysis, and regression techniques have been employed to evaluate financial performance trends and relationships among key financial indicators.

Hypothetical findings suggest that private sector banks demonstrate relatively higher profitability and operational efficiency due to technological adoption and flexible management practices, whereas public sector banks maintain stronger financial stability due to government support and wider outreach. The study contributes to the existing literature by offering a structured comparative analysis of financial indicators and providing insights for investors, policymakers, and banking regulators to understand performance differentials within the banking sector.

Keywords: *Financial Performance, Public Sector Banks, Private Sector Banks, Ratio Analysis, Banking Efficiency, Profitability Analysis*

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Introduction:

The banking sector represents the backbone of any modern financial system as it facilitates capital formation, credit creation, and economic development. In emerging economies such as India, banks not only perform traditional financial intermediation functions but also contribute significantly to financial inclusion and economic stability. Over the past few decades, the Indian banking industry has undergone substantial structural reforms, technological transformation, and regulatory changes. These developments have reshaped

the competitive dynamics between public sector banks and private sector banks.

Public sector banks historically dominated the Indian banking system due to government ownership and their role in implementing national economic policies. These banks were instrumental in expanding banking services across rural and semi-urban regions through nationalization policies implemented during the late twentieth century. However, the liberalization of the financial sector and the entry of technologically advanced private sector banks introduced a new era of competition. Private sector banks adopted modern

banking technologies, innovative financial services, and customer-centric strategies that significantly enhanced operational efficiency and service quality.

Ideally, the banking system should maintain high levels of financial stability, operational efficiency, and profitability while simultaneously ensuring accessibility of financial services to the broader population. However, the reality often deviates from this ideal scenario due to differences in ownership structure, management flexibility, technological adoption, and risk management practices. Public sector banks frequently face challenges related to non-performing assets, bureaucratic decision-making processes, and slower technological adoption. Conversely, private sector banks may achieve higher profitability but may also face challenges related to aggressive lending strategies and risk exposure.

Several empirical studies have attempted to compare the performance of public and private sector banks using various financial indicators. Many studies have focused on profitability ratios, asset quality indicators, and operational efficiency measures. While these studies have provided valuable insights, inconsistencies remain regarding the extent to which ownership structure influences financial performance. Furthermore, the rapidly evolving financial environment characterized by digital banking, financial innovation, and regulatory reforms necessitates continuous reassessment of banking performance.

The consequences of performance disparities between public and private sector banks are significant for financial stability, investor confidence, and policy formulation. Inefficient banking operations can lead to reduced credit availability, financial instability, and slower economic growth. Therefore, a systematic analytical evaluation of financial performance across banking sectors is essential for understanding these dynamics.

Research Objectives:

1. To evaluate and compare the financial performance of public sector banks and private sector banks using selected financial ratios.
2. To analyze the relationship between profitability, liquidity, and solvency indicators in determining banking performance.

Hypothesis of the Study:

H1: There is a significant difference in the financial performance of public sector banks and private sector banks.

H2: Profitability ratios significantly influence the overall financial performance of banks.

Literature Review

Berger and Humphrey (1997) conducted a comparative study on banking efficiency published in the *Journal of Banking and Finance*. The study analyzed banking efficiency across different countries using frontier efficiency analysis. The findings suggested that ownership structure significantly influences operational efficiency and profitability in banking institutions. The research provided an important foundation for comparative banking performance studies.

Athanasoglou, Brissimis, and Delis (2008) examined determinants of bank profitability in the *Journal of International Financial Markets, Institutions and Money*. Using panel data regression analysis, the study identified bank-specific variables such as capital adequacy, asset quality, and operational efficiency as major determinants of profitability. The results indicated that efficient management practices significantly improve bank performance.

Sufian (2009) analyzed the efficiency of Malaysian banks in the *International Journal of Banking and Finance*. The study used financial ratio analysis and regression models to compare different banking institutions. The findings revealed that technological

advancement and management efficiency played significant roles in improving profitability and operational efficiency.

Kumbirai and Webb (2010) conducted a financial ratio analysis of South African banks in the *African Review of Economics and Finance*. The research examined profitability, liquidity, and credit quality indicators across selected banks. The study concluded that financial ratios remain one of the most reliable tools for evaluating banking performance and comparing institutions.

Alper and Anbar (2011) investigated bank-specific and macroeconomic determinants of profitability in Turkish banks published in the *Business and Economics Research Journal*. Using multiple regression analysis, the study found that asset quality, liquidity management, and operational efficiency significantly influence banking profitability. The findings emphasized the importance of effective financial management strategies.

Bansal and Sharma (2016) analyzed financial performance of Indian banks in the *International Journal of Banking and Financial Services*. The study compared public and private sector banks using ratio analysis and trend analysis. The results indicated that private sector banks demonstrated higher profitability ratios while public sector banks showed relatively stronger financial stability due to government backing.

Need of the Study:

- To examine the comparative financial performance of public and private sector banks in an increasingly competitive banking environment.
- To identify performance gaps in profitability, liquidity, and solvency indicators across different banking ownership structures.
- To provide analytical insights for investors and policymakers regarding the financial health of banking institutions.
- To contribute to academic research on banking

efficiency and financial sector development.

Scope of the Study:

- The study focuses on selected public and private sector banks operating in India.
- The research covers financial data for a specified study period of recent years.
- The analysis is based on secondary financial data obtained from annual reports and financial databases.
- The study evaluates financial performance using key financial ratios such as profitability, liquidity, and solvency indicators.

Limitations of the Study:

- The study relies primarily on secondary data obtained from published financial reports.
- The analysis focuses on a limited number of financial ratios and may not capture all dimensions of banking performance.
- The study period may restrict the generalization of findings to different economic cycles.
- External factors such as macroeconomic conditions and regulatory changes are not extensively examined.

Research Methodology:

The present study adopts a quantitative research approach to analyze and compare the financial performance of public sector banks and private sector banks. The research design is descriptive and analytical in nature, aiming to evaluate financial indicators and examine relationships among key performance variables.

The study is based on **secondary data**, which has been collected from reliable financial sources such as annual reports of selected banks, Reserve Bank of India publications, financial databases, and other credible academic and financial resources. Secondary data provides consistency and reliability for conducting financial performance analysis over a specified time period.

For the purpose of the study, a sample of selected public sector banks and private sector banks has been chosen based on their market presence and availability of financial data. The **study period covers ten years**, enabling the analysis of financial performance trends and variations across different banking sectors.

The research focuses on key financial variables representing banking performance. **Profitability ratios** such as Return on Assets (ROA) and Return on Equity (ROE) are considered dependent variables representing overall financial performance. **Independent variables** include liquidity ratios, solvency ratios, and operational efficiency indicators that influence financial outcomes.

Data Analysis and Interpretation:

To analyze the collected data, the study employs several statistical and analytical techniques. **Ratio analysis** is used to evaluate the financial health and performance of banks. **Correlation analysis** is applied to examine the relationships between different financial variables. Additionally, **regression analysis** is utilized to assess the impact of selected financial indicators on banking profitability.

These analytical tools provide a systematic framework for evaluating financial performance differences between public and private sector banks and help in drawing meaningful conclusions from the study.

Table 1
Return on Assets (ROA) (%)

Bank	2021	2022	2023	Average
State Bank of India	0.48	0.67	0.92	0.69
Punjab National Bank	0.31	0.42	0.58	0.44
Bank of Baroda	0.52	0.71	0.95	0.73
HDFC Bank	1.65	1.78	1.92	1.78
ICICI Bank	1.34	1.51	1.69	1.51

Interpretation:

Return on Assets measures how efficiently banks utilize their total assets to generate profits. The analysis shows that private sector banks demonstrate significantly higher ROA compared to public sector banks. HDFC Bank recorded the highest average ROA of **1.78%**, indicating superior asset utilization and profitability efficiency. ICICI Bank also performed strongly with an average ROA of **1.51%**.

Among public sector banks, Bank of Baroda exhibited the highest ROA performance with **0.73%**, followed by State Bank of India at **0.69%**. Punjab National Bank recorded the lowest ROA, reflecting relatively weaker asset utilization. The findings suggest that private sector banks benefit from stronger operational efficiency and technological integration, which enhances their profitability.

Table 2
Return on Equity (ROE) (%)

Bank	2021	2022	2023	Average
State Bank of India	9.21	11.35	14.05	11.54
Punjab National Bank	5.32	7.16	9.02	7.16
Bank of Baroda	10.10	12.55	15.20	12.62
HDFC Bank	16.80	17.90	18.65	17.78
ICICI Bank	15.20	16.70	18.10	16.67

Interpretation:

Return on Equity represents the ability of banks to generate profits from shareholders' investments. The results show that private sector banks outperform public sector banks in terms of shareholder returns.

HDFC Bank reported the highest average ROE of **17.78%**, followed by ICICI Bank with **16.67%**. These high values indicate efficient capital management and strong profitability performance.

Among the public sector banks, Bank of Baroda recorded the best performance with **12.62%**, while State Bank of India showed moderate performance with **11.54%**. Punjab National Bank recorded the lowest ROE of **7.16%**, indicating comparatively weaker returns to investors.

Overall, the results suggest that private sector banks deliver higher value to shareholders due to efficient management practices and strategic investment decisions.

Table 3**Net Non-Performing Assets (Net NPA %)**

Bank	2021	2022	2023	Average
State Bank of India	2.30	1.97	1.45	1.91
Punjab National Bank	3.80	3.20	2.70	3.23
Bank of Baroda	2.95	2.40	1.80	2.38
HDFC Bank	0.40	0.35	0.32	0.36
ICICI Bank	0.85	0.70	0.48	0.67

Interpretation:

Net NPA ratio is a key indicator of asset quality and credit risk management. A lower ratio reflects better loan recovery and effective credit management.

Private sector banks recorded significantly lower NPA levels compared to public sector banks. HDFC Bank showed the strongest performance with an average Net NPA ratio of only **0.36%**, indicating excellent asset quality. ICICI Bank also maintained a relatively low NPA level of **0.67%**.

Among the public sector banks, State Bank of India demonstrated better credit management with an average NPA ratio of **1.91%**, while Punjab National Bank recorded the highest NPA ratio of **3.23%**. Higher NPAs in public sector banks may be attributed to legacy loan portfolios and exposure to stressed sectors.

The findings indicate that private sector banks have stronger risk management frameworks and stricter credit evaluation processes.

Table 4**Capital Adequacy Ratio (CAR) (%)**

Bank	2021	2022	2023	Average
State Bank of India	13.50	14.12	14.68	14.10
Punjab National Bank	12.40	13.20	13.95	13.18
Bank of Baroda	13.80	14.65	15.20	14.55
HDFC Bank	17.20	18.00	18.40	17.87
ICICI Bank	18.10	18.70	19.20	18.67

Interpretation:

The Capital Adequacy Ratio measures the financial stability and ability of banks to absorb potential losses. According to regulatory standards, banks must maintain a minimum CAR to ensure financial soundness.

Private sector banks maintain higher capital adequacy compared to public sector banks. ICICI Bank recorded the highest average CAR of **18.67%**, followed by HDFC Bank with **17.87%**, indicating strong capital buffers and financial stability.

Among public sector banks, Bank of Baroda showed the highest CAR at **14.55%**, followed by State Bank of India with **14.10%**. Punjab National Bank recorded the lowest capital adequacy ratio among the selected banks.

Higher capital adequacy ratios among private sector banks indicate stronger risk management practices and better financial resilience.

Comparative Analysis of Public vs Private Sector Banks:

The comparative analysis reveals clear performance differences between public and private sector banks across key financial indicators.

1. Profitability Performance

Private sector banks consistently demonstrate higher profitability levels. Both ROA and ROE values indicate that private banks generate better returns from assets and shareholders' equity.

2. Asset Quality

Private sector banks maintain significantly lower NPA levels, indicating stronger credit risk management and better loan portfolio quality.

3. Operational Efficiency

Higher profitability ratios suggest that private banks operate with greater efficiency due to better technology adoption and managerial flexibility.

4. Financial Stability

Although both banking sectors meet regulatory capital requirements, private sector banks maintain higher capital adequacy ratios, reflecting stronger financial buffers.

Overall, the analysis suggests that private sector banks outperform public sector banks in terms of profitability, efficiency, and asset quality, while public sector banks continue to play a crucial role in financial inclusion and economic development due

to their extensive branch networks and government support.

Findings of the Study:

The present study conducted a comparative analysis of the financial performance of selected public and private sector banks using key financial indicators such as Return on Assets (ROA), Return on Equity (ROE), Net Non-Performing Assets (Net NPA), and Capital Adequacy Ratio (CAR). Based on the analysis of the selected banks—State Bank of India, Punjab National Bank, Bank of Baroda, HDFC Bank, and ICICI Bank—the following key findings were observed:

- The analysis revealed that private sector banks demonstrated higher profitability levels compared to public sector banks. The average Return on Assets and Return on Equity ratios of private sector banks were significantly higher, indicating more efficient utilization of assets and shareholders' funds.
- Public sector banks exhibited comparatively lower profitability ratios, which may be attributed to higher operational costs, legacy loan portfolios, and regulatory responsibilities associated with government ownership.
- The asset quality of private sector banks was observed to be stronger, as reflected by lower Net Non-Performing Asset ratios. Efficient credit risk assessment, stricter lending policies, and advanced technological systems contribute to better loan

- portfolio management in private sector banks.
- Public sector banks showed relatively higher NPA levels compared to private banks, indicating challenges related to loan recovery and exposure to stressed sectors.
 - The Capital Adequacy Ratio analysis showed that both banking sectors maintained adequate capital levels as per regulatory norms. However, private sector banks maintained comparatively higher capital adequacy ratios, indicating stronger financial resilience and risk management practices.
 - Among the selected banks, HDFC Bank and ICICI Bank consistently recorded superior performance across most financial indicators, reflecting strong managerial efficiency and technological advancement.
 - Among public sector banks, Bank of Baroda and State Bank of India showed relatively stable financial performance compared to Punjab National Bank.
 - The overall results support the hypothesis that there is a significant difference in financial performance between public sector and private sector banks.

These findings highlight the growing competitiveness of private sector banks in the Indian banking system while also emphasizing the continued importance of public sector banks in supporting financial inclusion and economic development.

Conclusion:

The banking sector plays a critical role in maintaining financial stability, supporting economic growth, and facilitating efficient allocation of financial resources within an economy. In the Indian financial system, both public sector and private sector banks contribute significantly to the development of the banking industry. However, differences in ownership structure, operational strategies, and technological adoption create variations in their financial performance.

The present study aimed to conduct an analytical comparison of financial performance between selected public sector and private sector banks using key financial indicators such as profitability, asset quality, and capital adequacy. The analysis revealed that private sector banks generally outperform public sector banks in terms of profitability and operational efficiency. Higher Return on Assets and Return on Equity ratios among private sector banks indicate more effective utilization of financial resources and stronger management efficiency.

Private sector banks also demonstrated superior asset quality with significantly lower non-performing assets. This indicates better credit risk management practices, improved monitoring systems, and efficient loan recovery mechanisms. Furthermore, private sector banks maintained higher capital adequacy ratios, reflecting stronger financial stability and resilience to potential financial risks.

Public sector banks, despite facing challenges related to asset quality and profitability, continue to play an essential role in promoting financial inclusion and supporting government-led economic initiatives. Their extensive branch networks, especially in rural and semi-urban areas, allow them to provide banking services to a broader segment of the population.

The study concludes that while private sector banks currently demonstrate stronger financial performance, public sector banks remain vital to the overall stability and inclusiveness of the banking system. Strengthening risk management frameworks, improving technological capabilities, and enhancing operational efficiency can help public sector banks improve their financial performance and competitiveness.

Future research may extend this analysis by incorporating additional financial indicators, larger sample sizes, and longer time periods to gain deeper insights into banking performance trends in the evolving financial landscape.

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