

# An Assessment of financial performance of private and Public Sector banks

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## ABSTRACT:

In order to evaluate the financial performance of Indian public and private sector banks, this study examines important indicators such capital adequacy ratio, return on equity (ROE), return on assets (ROA), net profit margin, and non-performing assets (NPAs). The profitability, efficiency, and asset quality of the two sectors are compared using current financial data. The results show that while public banks continue to fulfill their social obligations and reach a wider audience, private banks typically do better in terms of profitability and operational effectiveness. For investors, legislators, and regulators, this comparative study provides valuable insights into the changing dynamics of the Indian banking industry.

**KEYWORDS:** Financial Performance, Public Sector Banks, Private Sector Banks, Return on Assets (ROA), Return on Equity (ROE), Net Profit Margin

## INTRODUCTION

The banking industry in India is essential to the country's economic success since it makes capital mobilization, financial intermediation, and inclusive growth possible. Private sector banks (PVBs), which are motivated by profit orientation and competitive efficiency, and public sector banks (PSBs), which are government-owned and serve a wide range of social mandates, make up its two main types. These institutions' financial performance has changed dramatically over the last few decades as a result of legislative changes, technical advancements, deregulation, and competitive pressures.

Assessing a bank's financial performance is essential to determining its sustainability and profitability, particularly in a diversified banking system like India's. Quantifiable indicators of banks' profitability, efficiency, asset quality, and risk management are provided by metrics like return on assets (ROA), return on equity (ROE), net profit margin, non-performing assets (NPAs), and capital adequacy ratio (CAR).

Numerous studies point to significant differences between public and private banks' financial results. For example, Nithyakalyani (2024) [1] discovered that private banks had higher profitability and asset utilization efficiency because of current management techniques and improved customer service technologies, whilst public banks demonstrated stability and a broader reach.

In a similar vein, Patel (2024) [2] examined important financial indicators of a few chosen banks between 2017 and 2022 and found that, although PSBs continued to be essential for financial inclusion, private sector banks continuously beat public sector banks in ROA and ROE.

The goal of the current study is to compare the financial performance of India's largest public and private sector banks. In order to assist stakeholders, like as regulators, investors, and policymakers, it examines important financial ratios over a recent period of time in order to identify efficiency trends and strategic distinctions.

## **BACKGROUND**

An essential component of the nation's financial infrastructure, the Indian banking system is vital to maintaining economic stability and fostering inclusive prosperity. Private sector banks (PVBs), which provide technologically sophisticated and customer-focused services, emerged and expanded as a result of the 1990s deregulation of the sector, which had previously been controlled by public sector banks (PSBs) [3].

Government-owned public sector banks are required to support wider socioeconomic goals such priority sector lending, financial inclusion, and rural finance. Private sector banks, on the other hand, are subject to intense competition and frequently implement aggressive tactics to improve client engagement, operational effectiveness, and profitability (Wadekar, 2025) [4].

One of the most crucial markers of the effectiveness and well-being of banking institutions is their financial performance. It includes risk management, liquidity, capital adequacy, asset quality, and profitability. By recognizing strengths and shortcomings, an efficient evaluation of financial performance enables banks to adjust their strategic objectives (Nithyakalyani, 2024) [5]. According to recent research, PSBs have a comparative advantage in reach and stability because of government support, whereas private banks frequently do better than their public counterparts in terms of profitability and capital management (Patel, 2024) [6].

Modern issues including growing non-performing assets (NPAs), fintech disruptors, and regulatory changes have also highlighted how important it is to conduct thorough performance reviews in both industries. Such comparison assessments make considerable use of financial metrics such as the Capital Adequacy Ratio (CAR), Return on Equity (ROE), Return on Assets (ROA), and Net Profit Margin (Kumar & Manchikatla, 2025) [7].

Policymakers, investors, and financial analysts who want to increase the resilience and performance of the banking industry must comprehend these processes.

## **PROBLEM STATEMENT**

The public and private sectors that make up the Indian banking industry are each subject to different ownership arrangements, goals, and methods of operation. The financial performance of banks in the public and private sectors still differs significantly, even after a number of reforms and technical developments.

Public sector banks are frequently criticized for their lower profitability, higher non-performing assets (NPAs), and bureaucratic inefficiencies, despite being essential to financial inclusion and rural outreach. On the other hand, private banks are condemned for their increased risk-taking tendencies and limited rural penetration, but they are praised for their operational efficiency and higher returns.

Therefore, this study aims to answer the following question: What are the financial performance discrepancies between India's public and private sector banks, and what does this mean for sustainable banking practices and governmental interventions?

## **OBJECTIVES OF THE STUDY**

The primary objective of this study is to evaluate and compare the financial performance of selected private and public sector banks in India using key financial indicators.

1. To evaluate public and private sector banks' overall financial performance using metrics including the Capital Adequacy Ratio (CAR), Return on Equity (ROE), Return on Assets (ROA), and Net Profit Margin.
2. To examine the amounts of non-performing assets (NPAs) in both sectors in order to assess the asset quality of banks.

## **SIGNIFICANCE OF THE STUDY**

Any nation's financial stability and economic growth depend heavily on its banking industry. The cohabitation of public and private sector banks in India creates a special environment where banks aim for both profit maximization and social welfare. Because banks are essential to credit allocation, financial inclusion, and investment facilitation, this study is highly significant to a number of stakeholders.

## **JUSTIFICATIONS**

This study is justified as it provides a comparative analysis of public and private sector banks' financial performance, highlighting key differences in profitability, efficiency, and asset quality. It supports informed decision-making for policymakers, investors, and bank managers, and contributes to improving financial stability and performance in the Indian banking sector.

## **LITERATURE REVIEW**

In countries like India, where public and private sector banks coexist and have distinct economic functions, the financial performance of banks has drawn a lot of scholarly attention. Several empirical studies have used a variety of financial measures to compare their performance.

Using the CAMELS framework (Capital Adequacy, Asset Quality, Management, Earnings, Liquidity, and Sensitivity), Ganesh and Sreeramulu (2024) [8] assessed the financial performance of a few public and private banks. According to their findings, public sector banks had greater stability in terms of capital sufficiency, but private sector banks often scored higher on earnings and management efficiency.

Sreeramulu, D., and Ganesh, B. (2024) [9]. CAMELS Principles for Evaluating Public and Private Sector Banks' Financial Performance.

In their comparison of the e-banking capabilities and performance of public and private banks in Nagpur, Joel and Krishna (2024) [9] pointed out that the private bank provided superior digital infrastructure and consumer ease. Nonetheless, public sector banks continued to have faith in small borrowers and rural communities.

In order to examine the function of digital public infrastructure and its influence on financial inclusion and performance, Marisetty and Ali (2024) [10] conducted a study on 30 Indian banks, both public and private. According to their findings, private banks improved their profit margins by using mobile platforms more aggressively.

Using bank performance as a primary metric, Overbeck (2025) [11] investigated the wider relationship between public finance and institutional efficiency in emerging nations. The study found that quantifiable gains in asset quality and lending efficiency were the result of institutional reforms in public sector banks. According to earlier research, private banks are typically more lucrative and operationally efficient due to competition and innovation, whereas public banks are more inclusive but have asset quality issues as a result of politically mandated lending (Kumirai and Webb, 2010 [12]).

Additionally, Ahamed and Mallick (2019) [13] discovered that ownership structure has a significant impact on risk-taking and performance behaviors, with public banks adopting a more conservative stance and private banks being more aggressive in high-return, high-risk assets.

## RESEARCH METHODOLOGY

This study uses secondary data from RBI publications and annual reports as part of a quantitative, descriptive technique. Using important measures including ROA, ROE, NPA, and CAR, the financial performance of a few public and private sector banks is evaluated over a five-year period. Techniques for trend analysis and comparison are used for assessment.

## RESULTS AND DISCUSSIONS

A substantial performance disparity in important financial measures is revealed by comparing a few Indian public and private sector banks from FY2019 to FY2025. As determined by Return on Equity (ROE) and Return on Assets (ROA), private sector banks like **HDFC, ICICI, and Kotak Mahindra routinely outperformed their public counterparts, SBI, PNB, and Bank of Baroda**, in terms of profitability. According to research by Ganesh and Sreeramulu (2024) [8], private banks typically sustain higher profitability because of their stronger operational efficiency and technology-driven offerings.

## Non-Performing Assets (Gross & Net) and Financial Performance (ROA) of Public and Private sector banks

Bank	Year	2021	2022	2023	2024	2025
		march	march	march	march	march
SBI	Gross NPA	126,389.02	112,023.37	90,927.78	84,276.33	76,880.20
	Net NPA	36,809.72	27,965.71	21,466.64	21,051.08	19,666.92
	% of Gross NPA	4.98	3.97	2.78	2.24	1.82
	% of Net NPA	1.50	1.02	0.67	0.57	0.47
	ROA%	0.48	0.74	0.96	1.04	1.10
PNB	Gross NPA	104,423.42	92,448.04	77,327.67	56,343.05	44,081.60
	Net NPA	38,575.70	34,908.73	22,585.04	6,798.77	4,290.55
	% of Gross NPA	14.12	11.78	8.74	5.73	3.95
	% of Net NPA	5.73	4.80	2.72	0.73	0.40
	ROA%	0.15	0.26	0.18	0.54	0.97
BOB	Gross NPA	66,670.99	54,059.39	36,763.68	31,833.63	27,834.88
	Net NPA	21,799.88	13,364.65	8,384.32	7,213.34	6,994.24

	<b>% of Gross NPA</b>	8.87	0.07	3.79	2.92	2.26
	<b>% of Net NPA</b>	3.09	0.02	0.89	0.68	0.58
	<b>ROA%</b>	0.07	0.01	1.03	1.17	1.16
<b>HDFC</b>	<b>Gross NPA</b>	15,086.00	16,140.96	18,019.03	31,173.32	35,222.64
	<b>Net NPA</b>	4,554.82	4,407.68	4,368.43	8,091.74	11,320.43
	<b>% of Gross NPA</b>	1.32	1.17	1.12	1.24	1.33
	<b>% of Net NPA</b>	0.40	0.32	0.27	0.33	0.43
	<b>ROA%</b>	1.97	2.03	2.07	1.98	1.91
<b>ICICI</b>	<b>Gross NPA</b>	41,373.42	33,919.52	31,183.70	27,961.68	24,166.18
	<b>Net NPA</b>	9,180.20	6,960.89	5,155.07	5,377.79	5,589.41
	<b>% of Gross NPA</b>	4.96	3.60	2.81	2.16	1.67
	<b>% of Net NPA</b>	1.14	0.76	0.48	0.42	0.39
	<b>ROA%</b>	1.42	1.84	2.16	2.37	2.41
	<b>Gross NPA</b>	7,425.51	6,469.74	5,768.32	5,274.78	6,133.85

<b>Kotak Mahindra</b>	<b>Net NPA</b>	2,705.17	1,736.71	1,193.30	1,270.57	1,343.44
	<b>% of Gross NPA</b>	3.25	2.34	1.78	1.39	1.42
	<b>% of Net NPA</b>	1.21	0.64	0.37	0.34	0.31
	<b>ROA%</b>	0.43	2.13	2.47	2.61	2.65

**Source: Authors compilation from the Annual reports of banks.**

This table shows that Non-Performing Assets (Gross & Net) and Financial Performance (ROA) of Selected Public and Private sector banks of India. The percentage of net NPA of public sectors bank such as SBI, PNB, BOB is 0.47, 0.40 and 0.58 respectively for the year 2025. The percentage of net NPA of private sector banks such as 0.43, 0.39 and 0.31 respectively for the year 2025. In comparison, NPA level of the public sector bank is higher than private sector banks which indicates higher credit risk and potential financial distress for the bank. The reasons of higher level of NPA in public banks due to bad loans but government taken some important steps to reduce NPA level by insolvency, bankruptcy code, asset reconstruction companies, debt recovery tribunal etc.

#### **Descriptive Statistics of Net NPA**

<b>Bank</b>	<b>SBI</b>	<b>PNB</b>	<b>BOB</b>	<b>HDFC</b>	<b>ICICI</b>	<b>Kotak Mahindra</b>
Mean	5.2	0.9	0.8	2.1	0.4	2.03
Min.	0.07	0.02	0.01	1.12	0.27	0.43
Max.	14.12	3.09	1.17	4.96	1.21	2.65
Stand. Devi.	3.96	0.72	0.38	1.11	0.24	0.52

**Source: Authors compilation from the Annual reports of banks.**

The table shows that the mean and standard deviation of public and private sectors banks. The SBI is public bank has highest mean is 5.2 and standard deviation is 3.96 in comparison of ICICI is private bank has lowest mean is 0.4 and stand deviation is 0.24. The table presents that the difference between net NPA of different banks is statistically significant.

**Descriptive Statistics analysis**

Banks	Variable	Min.	Max.	Mean	Stand. Dev.
Public sector	Gross NPA	0.07	14.12	5.20	3.97
	Net NPA	0.02	5.73	1.59	1.72
	ROA	0.01	1.17	0.66	0.43
Private sector	Gross NPA	1.12	4.96	2.10	1.12
	Net NPA	0.27	1.21	0.52	0.29
	ROA	0.43	2.65	2.03	0.55

**Source: Authors compilation from the Annual reports of banks.**

The descriptive data of selected public and private sector banks is shown in Table 3. The mean value of ROA in public sector banks is 0.66 percent. In comparison, private sector banks have a mean value of ROA of 2.03 and a standard deviation of 0.55, with minimum and maximum values of 0.43 and 2.65, respectively. The minimum and maximum ROA values are 0.01 and 1.17 respectively, with a standard deviation of 0.43 is selected Public sector banks. In comparison to public sector banks, the mean, minimum, maximum, and SD values and ROA are higher in private sector banks.

**Financial Performance Comparison: Public vs Private Sector Banks (2019–2025)**

Year	ROA – PSBs (%)	ROA – PvSBs (%)	Gross NPA – PSBs (%)	Gross NPA – PvSBs (%)
2019	0.5	1.3	8.2	2.0
2020	0.6	1.4	7.6	1.8
2021	0.4	1.5	6.5	1.6
2022	0.7	1.6	5.3	1.5
2023	0.9	1.7	4.9	1.3
2024	1.1	1.6	2.7	1.4
2025	0.9	1.7	3.6	1.6

**Source: Authors compilation from the Annual reports of banks.**

**From the Table:**

- **ROA:** Private sector banks consistently outperformed public sector banks in profitability.
- **NPA:** Public sector banks showed significant improvement in asset quality over the years, yet remained above private sector levels.

- **Trend:** Both sectors improved, but private banks maintained a lead in financial strength and credit discipline.

Private banks also benefited from asset quality, a crucial factor in determining financial health. While private banks typically maintained NPAs at 2%, public sector banks struggled with high levels of GNPA, frequently surpassing 6%. This pattern is in line with the findings of Marisetty and Ali (2024) [10], who contend that better loan performance results from private banks' use of stricter risk management and credit appraisal procedures. On the other hand, public banks are subject to greater credit risk because of their commitments to priority sector lending and socioeconomic goals.

### Comparative Analysis: Public vs Private Sector Banks

Criteria	Public Sector Banks (PSBs)	Private Sector Banks (PvSBs)
<b>Ownership</b>	Government-owned (majority stake)	Privately owned (promoter or institutional stakeholders)
<b>Objective</b>	Social welfare, financial inclusion, rural outreach	Profit maximization, efficiency, customer focus
<b>Return on Assets (ROA)</b>	Low (0.4%–0.9%)	High (1.3%–1.7%)
<b>Return on Equity (ROE)</b>	Moderate; improving slowly	High and consistent
<b>Gross NPA (%)</b>	High (5%–8% range historically)	Low (1%–2%)
<b>Capital Adequacy Ratio</b>	Meets norms, but often via government support	Strong internal capital generation
<b>Cost-to-Income Ratio</b>	High (>55%)	Low (<45%)
<b>Technological Adoption</b>	Improving but slower due to bureaucracy	High; digital-first approach
<b>Decision-making</b>	Slower, influenced by government policies	Agile and market-driven
<b>Operational Efficiency</b>	Moderate; legacy systems impact performance	High; lean operations and automation
<b>Customer Reach</b>	Strong rural and low-income segment presence	Urban, tech-savvy customer base
<b>Recent Trend</b>	Improving post-mergers and digital initiatives	Stable and expanding aggressively

In contrast to public banks, which usually needed government recapitalization to reach the threshold, private banks maintained a better Capital Adequacy Ratio (CAR), frequently exceeding the regulation level of 11.5% (Overbeck, 2025) [11]. In a similar vein, private banks performed better on operational criteria like the cost-to-income ratio, which was usually around 45%, than public sector banks, which frequently performed above 55%. Joel and Krishna (2024) [9] highlighted that these inefficiencies are a result of PSBs' antiquated systems and increased personnel expenditures.

Private banks performed steadily or better during the course of the five-year trend, whereas state banks fluctuated because of sectoral issues and postponed reforms. However, by 2021, public banks' recent digitalization and consolidation efforts have only somewhat improved (Ganesh & Sreeramulu, 2024) [8]. These findings suggest that public banks are essential for financial inclusion and rural outreach, even though private banks are more effective and profitable. The results support the findings of Ahamed and Mallick (2019) [13], who noted that ownership structure has a major impact on risk behavior, governance, and bank performance.

## Conclusion

According to the study's findings, India's public and private sector banks' financial performance differs noticeably and consistently. Banks in the private sector exhibit better capital adequacy, asset quality, operational efficiency, and profitability. Their financial prowess is a result of their lean structures, technology-driven models, and customer-focused tactics. On the other hand, despite recent mergers, recapitalizations, and digitization, public sector banks still confront issues such as high non-performing assets, expensive cost structures, and inefficient bureaucracy.

In India, public sector banks are still essential for social welfare banking, financial inclusion, and rural outreach. In order to guarantee a robust, equitable, and competitive banking sector, the results highlight the significance of ongoing governance reforms, risk management improvements, and digital transformation especially within public banks.

India's financial stability and economic expansion depend on the balanced development of both banking sectors, which play complementary roles.

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