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A Comparative Study of the Growth in Punjab National Bank and HDFC Bank

Priyanka Agrawal[a], Anil Kumar Yadav*[b]

[a]Dept. of Business Administration, DDU Gorakhpur University, Gorakhpur.
[b]Dept. of Commerce, DDU Gorakhpur University, Gorakhpur. 9935367733;
Email-anilkyadava@gmail.com.

Abstract

Banking sector has a very important place in our Indian economy. After nationalisation, the Indian banking system has considerably developed with a large network of branches and wide range of financial instruments. The banking industry is growing today with a rapid speed and competition having more than 11,75,150 employees and 1,09,811 branches across India, as well as, 171 branches in abroad; managing 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. The amount of the profit indicates the efficiency of the organization. As the larger the profit higher the growth rate. The profitability depends on the effective utilization of funds which ensure maximisation of profit for growth.

The banking sector is very important for Indian economy, therefore effective working and growth of banks are crucial for its economic health. The amount of the profit is a prominent indicator that indicates efficiency in the banks as in any other organization. In banks profitability depends more on the effective utilization of funds to procure maximum profit and growth, which is the focal area of this paper.

As Indian banking sector is mainly classified into public sector and private sector banks, so as this study is an effort to review the growth rate of both types of banks, ie., a comparative study of growth in the HDFC Bank (from private sector) and in PNB (from public sector). The study is performed by analysis of growth in both of the banks for a period of 10 years, from 2004 to 2014. The main parameters used for analysis of growth in banks are Net Profit Growth, Net Assets Growth, Return on Assets (ROA) and Non Performing Assets (NPA).

Key Words: *Growth, Net Assets, Net Profit, Future Value, Present Value, Compound Annual Growth Rate (CAGR), Return on Assets (ROA), Non Performing Assets (NPA).*

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*Corresponding Author

1. INTRODUCTION

India is the largest economy in the world having more than 120 crore population. Today in India the service sector is contributing half of the Indian GDP and the banking is most popular service sector in India. Banking sector is going through major changes as a consequence of economic reforms. The role of banking sector is very important as one of the leading and mostly essential service sector. The significant role of banking industry is to speed up the socio-economic development of our country.

Banking is an industry incorporating dozens of 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.

Banks have more capacity than they 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.

As banking sector is very important for our economy; therefore, effective working and growth of banks are crucial for country's economic health. Further, the amount of the profit is a prominent indicator that indicates the efficiency of any organization, as the larger the profit higher the growth rate. The profitability depends on the effective utilization of funds to procure maximum profit and growth.

One of the eminent public sector banks, the Punjab National Bank, 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. An eminent public sector bank, HDFC Bank, was established by Reserve Bank of India in 1994. 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.

As the Indian banking sector is mainly classified into public sector and private sector banks, this study is an effort to review the growth rate of both types of banks, through a comparative study between the growth of HDFC Bank (private sector) and PNB (public sector banks). The study is performed by analysis of growth in both of the banks for a period of 10 years, i.e. from 2004 to 2014. The main parameters used for analysis of growth in banks are Net Profit Growth, Net Assets Growth, Return on Assets (ROA) and Non Performing Assets (NPA). The statistical analysis is made on the bases of annual compound growth rate and NPA on mean, standard deviation, coefficient of correlation.

2. OBJECTIVES OF THE STUDY

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

3. REVIEW OF LITERATURE

Bahia, K and J Nantel (2000), in his paper suggested an alternative scale for measuring service quality in retail banking and developed a scale called as Banking Service Quality Scale which contained factors like effectiveness and assurance, access, price, tangibles, service portfolio and reliability and was found to be more reliable than SERVQUAL.

Sureshchandar (2002), ascertained that the relationship between service quality and customer satisfaction in Indian banking sector were found to be independent but closely related. Both constructs were found to vary significantly in core services, ie., human element, systematization of service delivery, tangibles and social responsibility.

Arora, S. (2005), has undertaken an analysis influencing customer satisfaction in public sector, private sector and foreign banks in northern India. 300 customers were questioned using questionnaire method which reveled that significant differences exist in customer satisfaction level of customers in each group of banks regarding routine operation and situational and interactive factors. Foreign banks were found to be the leaders in mechanisation and automation.

Nag and Das (2002), studied the impact of imposition of capital requirement norms on flow of credit to the business sector by public sector banks of India and the results showed that in the post reform period, public sector banks did shift their portfolio in a way that reduced their capital requirements.

Sanjay, J. Bhayani (2006), in his study, "Performance of the New Indian Private Banks: A Comparative study". The study covered 4 leading private sector banks- ICICI, HDFC Bank, UTI and IDBI. The result showed that the aggregate performance of IDBI Bank is the best among all the banks.

Chidambaram, R.M and Alamilu (1994), in his study "Profitability in Banks, a matter of survival", revealed that the profitability of public sector banks is low as compared to private sector banks.

4. RESEARCH METHODOLOGY

The present study is secondary data based collected from various journals, reports of RBI and annual reports of banks, moneycontrol.com. The study period is limited to ten years, ie., from 2004-05 to 2013-14.

5. CONCEPT OF GROWTH

For banking sector the 'concept of growth' is simply to grow in every area in profitable manner, viz., in assets, in networks, in number of branches, in number of ATMs, in capital adequacy ratio, but less in percentage of NPA.

Every year targets are fixed by the banks to achieve, various types of scheme are launched, interest on deposits and loans are adjusted, and 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.

6. 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.

Table 1: Net Assets

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 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%. This indicates 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:

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

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

Where FV = Future Value

PV = Present Value

n = Number of Years

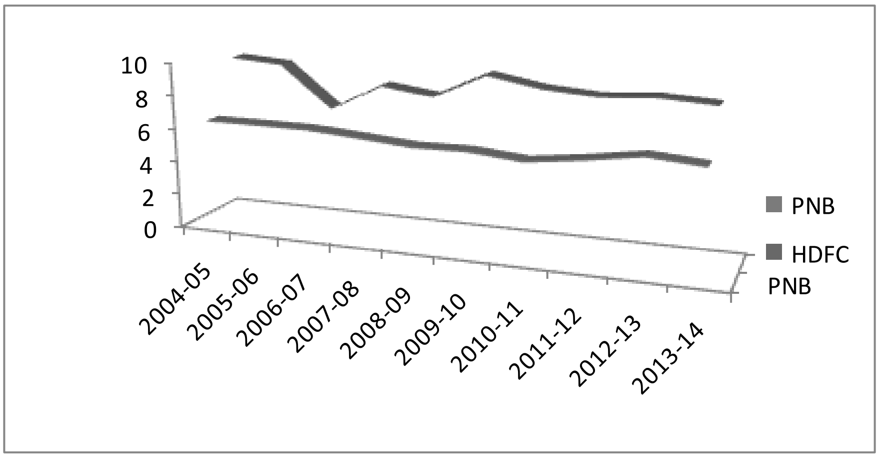
Using logarithms Growth rate is calculated as

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

Figure 1: Net Assets Growth of PNB & HDFC Bank



Note: Net assets % growth - year wise - has been shown in Figure 1

7. 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. 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.

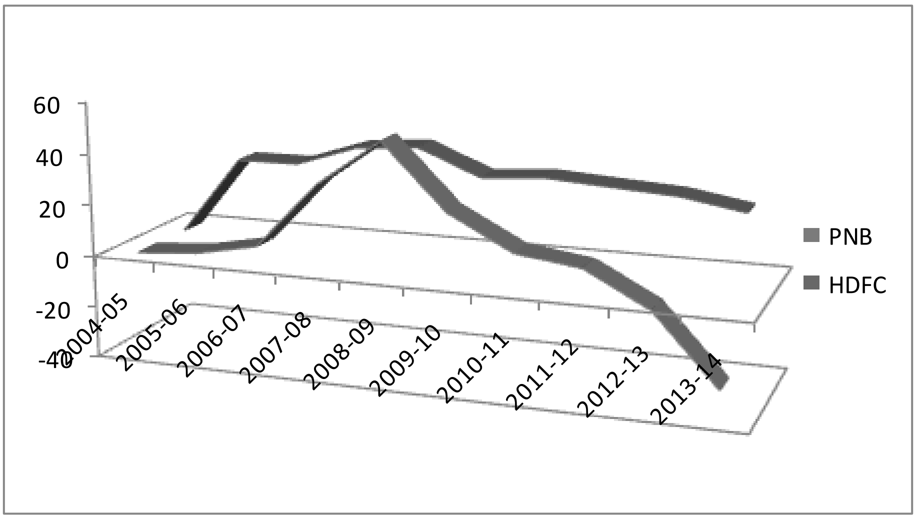
Table 2: Net Profit Growth of PNB and HDFC Bank

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.

As per Table no. 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 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%

Figurer 2:Net Profit of PNB and HDFC Bank



Note: Net Profit is shown in % form in Figure 2

8. 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. 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.

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.

Return on Assets = Net Profit / Total Assets X 100

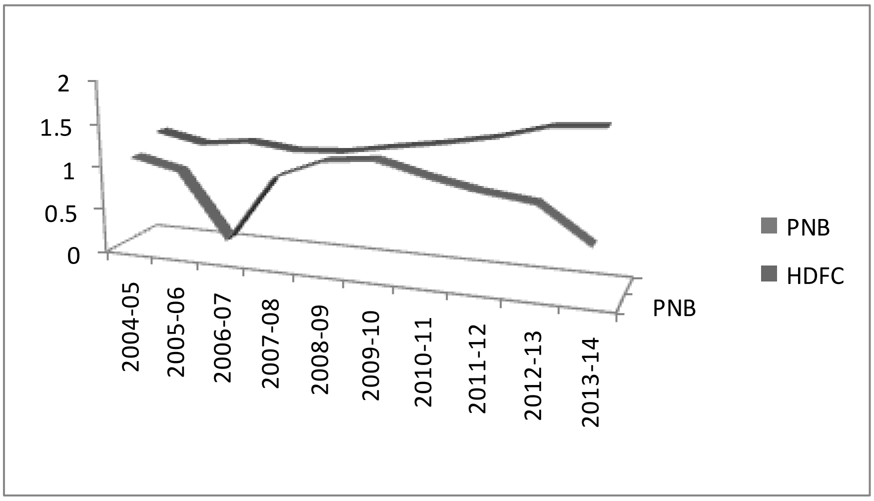
Table: 3: Return on Assets (%)

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

The figures in Table 3 reveal 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 60%, which is lowest among above years. Therefore, in comparison to PNB, HDFC utilises its assets more efficiently and gives better performance.

Figure 3: Return on Assets in PNB and HDFC Bank



Note: Return on Assets has been shown in % form in Figure 3

9. 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.

Types of NPA

1. **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:
   Gross NPAs Ratio = Gross NPAs / Gross Advances
2. **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. The provisions the banks have to make 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:
   Net NPAs = Gross NPAs – Provisions / Gross Advances – Provisions

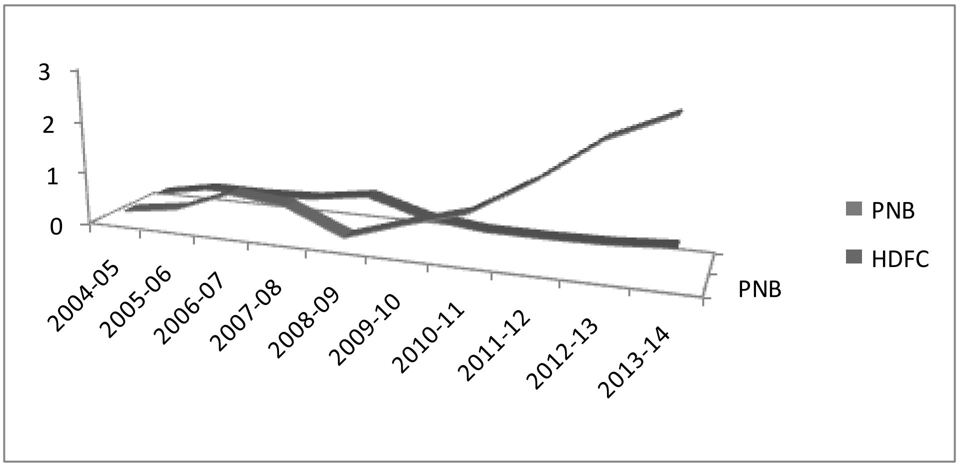
Table 4: Net NPA Ratio (%) in PNB and HDFC Bank

Year	PNB	HDFC
2004-05	0.2	0.24
2005-06	0.35	0.44
2006-07	0.76	0.43
2007-08	0.64	0.47
2008-09	0.17	0.63
2009-10	0.53	0.31
2010-11	0.85	0.19
2011-12	1.52	0.18
2012-13	2.35	0.20
2013-14	2.85	0.27

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

The Net NPA ratio in PNB and HDFC Bank has been shown in table no. 4, year wise and also reflected in figure 4. It mostly increased in recent years in case of PNB and was maximum 2.85 in 2013-14, which reflect huge burden of NPAs over public sector banks. It was comparatively low in most of the year and nearly constant in recent years in case of HDFC, though it was maximum 0.63 in 2008-09, which reflect a little burden of NPAs over private sector banks in comparison to public sector banks.

Figure 4: Net NPA of PNB and HDFC Bank



Note: Net NPA is shown in % form in Figure 4

10. ANALYSIS OF MEAN, STANDARD DEVIATION, COEFFICIENT OF VARIATION

Table 5: 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

Note: Analysis of mean, standard deviation, coefficient of variation from table no.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.

10. FINDINGS AND CONCLUSION

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% where as 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 utilises 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 table 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 better as compared to PNB. Therefore, it can easily be concluded that growth in private sector (HDFC) banks is better than public sector (PNB) banks.

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