International Journal of Trade & Commerce-IIARTC
July-December 2018, Volume 7, No. 2 pp. 484-488

Double Blind Peer Reviewed/Referred International Indexed Journal
COSMOS (Germany) JIF: 5.135; ISRA JIF: 5.994; NAAS Rating 3.55; ISI JIF: 3.721

Growth of Public & Private Sector Bank in the Banking Sector with Reference to SBI & HDFC Bank

Rekha Garg

Department of Commerce, N.A.S. College Meerut (U.P.) India
E-mail Id: rekhagargnas2016@gmail.com

Abstract

Today the Indian banking system has undergone significant transformation following financial sector reforms adapting international best practices. Several prudential payments integrating and provisioning norms have been introduced and these are shaping up the banks to improve efficiency and trimming down NPAs to improve the financial health in the banking system.

In this study a comparison has been made between the public sector banks and private sector bank taking parameters like Non-Performing Asset (NPA), net interest margins etc. The finding reveals that private sector books tend to much better placed. Some private banks like HDFC are performing very much well as compared to the PSU banks. They have low level of NPAs. Also there is a need for the recapitalization of some of the PSU banks for better performance and to reduce the level of NPAs.

Keywords: *PSB, NPA, ICICI, HDFC, SBI.*

PAPER/ARTICLE INFO
RECEIVED ON: 03/10/2018
ACCEPTED ON: 11/11/2018

Reference to this paper should be made as follows:

Rekha Garg (2018), "Growth of Public & Private Sector Bank in the Banking Sector with Reference to SBI & HDFC Bank", *Int. J. of Trade and Commerce-IIARTC*, Vol. 7, No. 2, pp. 484-488

**Corresponding Author*

1. INTRODUCTION

1.1 Public Sector Banks

Public sector banks (PSB) are banks where a majority stake (i.e. more than 50%) is held by the government. The shares of these banks are listed on stock exchanges. There are total of 27 PSBs in India. Where 21 are nationalised banks and 6 are of state bank group including its 5 associates. The motive behind nationalizing the banks were to break the ownership and control of banks by the influential and business families in the country in order to make it free from the shackles of private hands. It has also become an important entity as it mobilized the savings of the people from every corner of the country making it possible to connect the entire nation into one string.
The basic function of any public sector or private sector bank is to mobilize the resources and capital private through various deposits and schemes for varied period and lend the same at higher rate of interest to its own customers in order to gain more profit from the money. PSBs have been the Bank of Indian financial architecture since nationalization of state bank of India in 1955, followed by more banks in 1969 and 1980.

1.2 Private Sector Banks

In these banks most of the equity is owned by private bodies, corporations, institutions or individuals rather than government. These banks are managed and controlled by private promoters. Post – Liberlisation in the 1990, bank such as ICICI, HDFC which got the license are the new age private sector banks. They owing to their improved service offerings give a tough competition to the players in the public sector. Of the total banking industry in India, public sector banks constitute 72.9% shares while the rest is covered by the private players. In terms of the number of banks there are 27 public sector banks whereas there are 22 private sector banks.

Table 1: Difference Between Public Sector Banks & Private Sector Banks

S.No.	Basis of comparison	Public sector	Private sector
1	Meaning	Public sector banks are the banks whose complete or maximum ownership lies with the government	Private sector banks refer to the banks whose majority of stake is held by the individuals and corporations
2	No of banks	27	22
3	Share in banking industry	72.9%	19.7%
4	Customer base	Large	Relatively small
5	Interest rate on deposits	Lower	At par of PSB/sometime higher
6	Promotion	Based on seniority	Based on merit
7	Growth opportunities	Low	Comparatively high
8	Job security	Always present	Purely based on performance
9	Pension	Yes	No

2. OBJECTIVE OF THE STUDY

1. To review the growth of both the type of banks.
2. To compare the contribution of both type of banks in the banking sector.

3. Methodology Adopted

The present study is secondary data based collected from various Journals, Report of the RBI and Annual reports of banks money control.com. Technology customer satisfaction services provided by the banks to its customers scheme launched by the banks, number of branches, ATM's etc. are the main points of study in this article.

4. Comparing Financial Performance of Public and Private Sector Banks.

In terms of financial performance, PSU banks lag behind. When comparing most of the parameters like non performing assets (NPA) and net interest margins, private sector banks tend to be much better placed. Some of the private sector banks like HDFC banks and indusland bank have very low level of non-performing assets, as compared to the public sector or government owned Banks.

Some of the banks like Bank of Baroda from the government or public sector have reported record losses. Losses for the steel sector has aggravated the non-performing assets of the public sector bank in India is on a higher side. Another important factor in terms of capital adequacy, public sector banks are lagging behind from their private sector banking peers. Recently, the government of India has decided to infuse such capital in some of the government owned banks such that they are solvent and at the same time are fully compliant with Based III, global capital adequacy norms. The recapitalization of the banks should be done under the center's exclusive Indradhanush 2.0 scheme.

An infusion to the tune of Rs 10,000 crore is earmarked for the sector in the F.Y (2017-18) and (2018-19), it is hoped that there would be some recovery in the losses and the public sector banks would be able to compete with private sector banks in India.

5. State Bank of India

State Banks of India (SBI) is an Indian multi-national, public sector banking and financial services company. Its is a government owned corporation having it head quarter in Mumbai, Maharastra. The company is ranked 216th on the Fortune Globle 500 list of the world's biggest corporations as of 2017. It is the largest Bank in India with 23% market share in assets besides, a share of one fourth of the total loan and deposits market.

As on 31 March 2017 government of India held around 61.23% equity shares in SBI. The life Insurance corporation of India, itself state owned, is the largest non promoting shareholder in the company with 8.82% shareholding. SBI provides a range of banking products through its network of branches in India and overseas including product aimed at non resident Indians. As of 31 March 2017, SBI group including associate banks has 59,291 ATMs. Since November 2017 SBI also offer on integrated digital Banking platform named YONO.

On 1st April 2017 State Bank of India, which is India's largest bank merged with five of its Associate banks (State Bank of Bikaner & Jaipur, State Bank of Hyderabad, State Bank of Mysore, State Bank of Patiala and State Bank of Travancore) and Bhartiya Mahila Bank with itself. This is the first ever large scale consolidation in the Indian Banking Industry with the merger, state bank of India will enter the league of top 50 global banks with a balance sheet size of 33 trillion, 278,000 employees, 420 million customers and more than 24,000 branches and 59,000 ATMS. SBI market share will increase to 22 percent from 17 percent. It has 198 offices in 37 countries. The company is ranked 232nd on the **Fortune Global 500 List** in the world's biggest corporation as of 2016.

7. HDFC

HDFC bank is India's largest private sector lender by assets. It is the largest bank in India by market capitalization as of Feb. 2016. HDFC bank limited is an Indian banking and financial services company having headquarter in Mumbai, Maharashtra. It has 88,253 permanent employees as on 31 March 2018 and has a presence in Bahrain, Hongkong and Dubai. As of June 30 2017, the bank's distribution network was at 4,715 branches and 12,260 ATM's across 2657 cities and towns. The bank also installed 4.30 lacs POS terminal and issued 235.7 lacs debit cards and 85.4 lacs credit card in FY 2017.

HDFC bank provides a number of products and services including whole sale banking, retail banking, treasury, auto loans, two wheeler loans, personal loans against property and credit cards. Along with this various digital products are payzapp and chiller. HDFC bank was setup in 1994, and was one of the first lenders in the country to receive the RBI's in principle approval after India decided to liberalize its banking sector till then dominated by state run banks.

HDFC Bank's success come largely due to its focus on retail loans which constitute 54% of its loans book as per latest date. The strategy was far-sighted particularly at a time when other lenders were chasing big corporate loans because it helped to maintain growth when other were struggling with non-performing assets (NPA).

HDFC Bank well continue to be dominant player in the retail space as they have a strong capital position and stable asset quality. HDFC bank is strengthening its position by expanding into term loans, which are having longer duration loans taken by companies for asset creation. Besides organic growth, HDFC bank also took the acquisition route buying out Times Bank in 2000 and Centurion Bank of Punjab in 2008. Infact HDFC bank has the like's share of credit card segment at 9.25 million outstanding cards at the end of July 2017. SBI its closest competitor in the segment has any 4.97 million cards.

Over the past two years the bank has expanded its on line and mobile banking channels. Initiatives like personal loans in 10 seconds, loans at Automated Teller Machines (ATM) and missed call services for mobile phone recharge have helped its position itself as a digital bank. These technologies are also being used to expand it presence in the same urban and rural areas where it has a majority of its branches.

8. CONCLUSION

HDFC Bank briefly over took the State Bank of India (SBI) and become India's most valuable bank when SBI's balancesheet is five times bigger than HDFC banks even without counting the former & five major subsidiaries.

However, it is worth underlining how HDFC bank made it to the top and why it is likely to remain India's most valuable bank.

First, It's had made a steady focused leadership. Since the bank was set up in 1994, it had only one boss – Adityapuri who remains its manager director. The SBI, in the same period has had around 10 bosses.

Second, a scrooge–like respect for earning and shareholders funds.

Throughout its history, HDFC bank has been ploughing back earnings to boost capital and grow it business.

SBI needs more capital from the government for growth, HDFC bank does not. It is coasting along without nicking shareholders for funds. Third, HDFC bank has converted a handicap into an advantage.

The bank's handicap is that its parent is in housing loans. This means it cannot directly compete with is parent in this business which has been the biggest growth segment in banking during the last decade. But the bank did a smart thing. It now originates loans for its parent HDFC and collects a fee for the same. The net result is it get to earn unencumbered income, and doesn't have to carry all the loans on its book or account for non performing loans on its balance sheet.

Fourth, HDFC bank's sheer consistency in performance. SBI may report huge profits in one quarter and barely scrape tough in the next but not HDFC Bank. In the last 26 quarters net profit growth has never fallen below 30 percent that is why we have called it the best annuity scheme in the share markets.

REFERENCES

[1]. https.//en.m. wikipedia org, wiki > Publication.
[2]. https:// financial services.gov.in > Public service www.livement.com.
[3]. https.//economic times. midia times.com
[4]. https.//www.quora.com
[5]. https.//www.mapsofindia.com
[6]. https.//www. equity master.com
[7]. https.//www. day today gk.com
[8]. https.//www. wall street mojo.com
[9]. https.//www. good returns.in
[10]. https//www.banking financial.in
[11]. https.//www. hdfc bank.com
[12]. https.//moneycontrol.com > hdfc bank
[13]. https.//www.ndtv.com > business > stock
[14]. The Hindustan Times
[15]. The Times of India
[16]. The India Express
[17]. The Economic Times