

Comparative Study of Profitability of Private and Cooperative Banks in India

***Dr. Chandra Prakash Gupta**

Abstract

This paper gives a comparative study of the earnings of commercial and cooperative banks in India. Using secondary data from the Reserve Bank of India (RBI) and NABARD reports, the study rates key performance measures such as Return on Assets (ROA), Return on Equity (ROE), and Net Interest Margin (NIM) to assess the financial efficiency of both banking groups. The data show that private sector banks have steadily surpassed cooperative banks in profitability, driven by stronger asset management, technological innovation, and varied income streams. In contrast, cooperative banks, despite having a major role in financial inclusion and rural development, continue to suffer structural problems such as inadequate control, low capitalization, and high NPAs. The study suggests that boosting cooperative banks via greater regulatory tracking, capital reform, and innovation is crucial for ensuring lasting financial development and inclusion in India's banking sector.

Keywords: Profitability, Cooperative Banks, Private Sector Banks, Financial Performance, Return on Assets (ROA), Non-Performing Assets (NPA), India.

Introduction

The Indian banking system has a broad mix of groups including public sector, private sector, and cooperative banks, each playing a vital role in ensuring financial stability and inclusion. Among them, private banks and cooperative banks vary greatly in their ownership structure, working aims, and business structures. Private Banks are usually profit-driven and run with a strong focus on efficiency, innovation, and market competitiveness. In contrast, cooperative banks are community-oriented groups that support social welfare, rural finance, and financial inclusion, especially among the agricultural and low-income sectors (NABARD, 2013).

The direct analysis of income between these two groups of banks is important for understanding their input to India's financial environment. Profitability acts as a vital measure of financial health, working efficiency, and longevity. Factors like as interest income, non-interest revenue, cost-to-income ratio, asset quality, and management efficiency impact the overall earnings performance (Pandey, 2014). Private sector banks, particularly following deregulation, have showed improved profits due to increased technology adoption, better asset management, and diverse income streams (Reserve Bank of India, 2014). Meanwhile, cooperative banks, albeit important in providing

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grassroots-level credit, have faced issues including low capital base, high non-performing assets (NPAs), and weak governance (Nair, 2012).

The economic changes of the 1990s and the following deregulation of the financial sector led to a shift in banking operations. Private banks gained pace via growing autonomy and competition, whereas cooperative banks failed to adapt due to structural restraints and legal limits. Studies such as Mohan (2005) and Rangarajan (2007) stress that the profitability difference between private and cooperative banks grew greatly during this time. Despite this, cooperative banks continued to play a big part in agricultural loan disbursement and rural finance, which remain important for equitable growth (Karmakar, 2010).

By 2014, the financial environment showed that commercial banks had improved their performance across all profitability indicators—return on assets (ROA), return on equity (ROE), and net interest margins (NIM)—while cooperative banks displayed modest but steady development. Government reforms and regulatory oversight by the Reserve Bank of India (RBI) and National Bank for Agriculture and Rural Development (NABARD) also attempted to strengthen cooperative banking structures through recapitalization, professionalization, and improved risk management practices (RBI, 2014).

The present study aims to provide a comparative analysis of the profitability of commercial and cooperative banks in India by analyzing their performance measures, operational problems, and efficiency trends. By assessing both groups, the study aims to give insights into their relative strengths and flaws, find underlying reasons of profitability variance, and suggest policy approaches for increasing the general financial stability and inclusivity of the Indian banking system.

Objectives

1. To compare the **profitability performance** of private and cooperative banks in India using key financial indicators such as ROA, ROE, and NIM.
2. To analyze the **determinants influencing profitability**, including asset quality, capital adequacy, cost efficiency, and income diversification in both banking categories.
3. To evaluate the **policy and regulatory factors** affecting the financial sustainability and operational efficiency of cooperative and private sector banks.

Research Methodology

This study utilizes a descriptive and comparative research approach based on secondary data acquired from trustworthy institutional sources such as the Reserve Bank of India (RBI) Annual Reports, NABARD publications, and Indian Banking Statistics for the period. Key financial indicators—Return on Assets (ROA), Return on Equity (ROE), Net Interest Margin (NIM), and Cost-to-Income Ratio—were used to analyze profitability across commercial and cooperative banks. The data were evaluated to determine trends, efficiency levels, and structural variations in profitability patterns.

The research also used results from scholarly journals, working papers, and committee reports (such

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as the Rangarajan and Narasimham Committees) to analyze the effect of policy changes and regulatory frameworks on bank performance. The investigation highlights both quantitative comparison and qualitative insights into governance, loan management, and operational problems encountered by cooperative and private sector banks.

Literature Review

The profitability and performance comparison between private and cooperative banks in India has been an ongoing problem in banking study, especially after the financial liberalization changes of the 1990s. These changes significantly changed the operational and regulatory surroundings of the Indian banking system, creating market competition and efficiency as key performance standards (Rangarajan, 1998).

Early studies by Bhattacharyya and Sahoo (1996) noted that private sector banks, with their greater management autonomy and technology innovation, were more responsive to deregulation, leading to higher profitability. Cooperative banks, however, continued to face problems such as low capital formation, greater non-performing assets (NPAs), and limited access to modern banking infrastructure. Despite this, cooperative banks played a crucial part in rural credit delivery, farm finance, and small-scale loans, which are vital for India's fair financial growth (NABARD, 2008). Pandey (2011) noted that profitability measures such as Return on Assets (ROA) and Return on Equity (ROE) were constantly higher for private sector banks compared to cooperative banks. The gap was linked to greater asset management, diversified income portfolios, and better risk assessment methods applied by private companies. Similarly, Rajaraman and Vasishtha (2002) showed that commercial banks kept better operational efficiency and cut intermediation costs, whereas cooperative banks fought with governance concerns and credit recovery methods. On the other hand, experts like Karmakar (2010) and Nair (2012) emphasized the social and developmental significance of cooperative banks, especially in providing financial services to underserved groups of society. Cooperative banks supported micro-credit, self-help group funding, and agricultural loans, directly adding to rural job and income growth. However, their financial performance was limited by insufficient economies of scale, poor funding, and political participation in loan distribution (RBI, 2013).

Empirical research by Mohan (2005) and Joshi and Acharya (2008) showed that profitability in banking is highly affected by internal factors such as management efficiency, cost control, and capital supply, as well as external variables like macroeconomic stability and government laws. The adoption of Basel II rules during the early 2000s further exposed the shortcomings of cooperative banks, since many failed to achieve capital adequacy criteria or adopt risk-based management systems (Sharma, 2014).

According to the Reserve Bank of India's Trend and Progress Report (2014), private banks reported an average ROA of 1.5% and ROE of 14%, whilst cooperative banks' performance stayed weak, with a ROA below 1%. While commercial banks profited from technology-driven cost efficiency and diverse operations, cooperative banks' profitability was restricted by low productivity, more NPAs, and dependence on refinancing agencies such as NABARD.

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Despite their poor profitability, cooperative banks continue to serve a vital developmental role by helping farms, rural businesses, and small-scale industries. Scholars like Patnaik (2013) think that cooperative banking should not be judged merely on revenue but on its bigger socio-economic effect. Nonetheless, changes in governance, capital structure, and technology modernization are important for improving financial sustainability.

In summary, the literature shows that while private sector banks beat cooperative banks in revenue, efficiency, and innovation, cooperative banks remain important for inclusive growth and rural development. The profitability gap underlines structural problems and the need for governmental actions that support cooperative groups without sacrificing their social aims.

Conclusion

The comparative study of commercial and cooperative banks in India shows a considerable gap in profitability and working efficiency. Private sector banks have proven better financial success thanks to improved asset management, technological innovation, and diverse revenue sources. In comparison, cooperative banks, albeit important for financial inclusion and rural development, continue to suffer hurdles such as low capitalization, government errors, and higher NPAs. Strengthening cooperative banks via legal change, digital modernization, and professional management is crucial for ensuring their survival and competitiveness. A balanced approach that combines financial viability with social duty is important to support the security and inclusivity of India's banking system.

***Lecturer in EAFM
S.P.S.B. Govt. College
Shahpura, Bhilwara (Raj.)**

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