

A Comparative Study of the Public and Private Sector Bank with Special Reference to Bank of Baroda and HDFC Bank

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Abstract

The economic development of a country largely depends upon the effective banking system because they play key role in the effort to obtain stable pricing, high level of employment and sound economic growth. Hence, banking can best be defined as the kingpin of the chariot of economic advancement. In recent years, there have been tremendous challenges on the profitability of banks. Profitability is regarded to be a measure of financial strength. Profitability is a critical performance metric in banking sector, which represents optimal exploitation of all resources in a firm. The present research paper is an effort to make a comparative analysis between the Growth rate in Bank of Baroda and HDFC Bank since both the banks are large banks in public and private sector. As a study of Growth analysis of both the banks for a period of 5 years, i.e., from 2016 to 2021 is made. The primary measures of growth in banks are Net profit growth, Net assets growth, and NPA.

KEYWORDS: Growth, Compound Annual Growth Rate (CAGR), Net Assets, Net Profit, Non-Performing Assets (NPA)

INTRODUCTION

Banking sector plays a significant part in economic development of a country since it is one of the primary financial pillars of the financial sector, which plays a key part in the running of the economy. The banking sector's performance is considered as the replica of economic activity of the nation since a sound banking system functions as the base of social, economic and industrial growth of a nation. Banks are considered to be very significant financial mediators or institutions because they result into welfare of saver as well as investment. In modern economy banks play the role as leaders of development. They play a vital role in mobilization of deposits and delivery of credit to various sectors of economy. Hence, banking can best be defined as the kingpin of the chariot of economic advancement. The banking system of India is featured by a huge network of bank branches, supplying different sorts of financial services of the population. As regards Bank of Baroda, it was created in 1908 and it bears the distinction of being the first Indian bank to have been created completely with Indian capital. Bank has solid capital base with capital adequacy ratio 10.12 percent as in march 2021. The bank has paid up capital of 595.83 crore as on march 2021. As regards HDFC Bank, it was

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originally established in 1994 by HDFC limited, an Indian financial institution, and was its wholly-owned subsidiary. The paid-up share capital as on march 2021 is 4293.95 crore its capital adequacy ratio as on march 2021 is 15.69 percent.

OBJECTIVES OF THE STUDY

- a) To study the growth rate of both the banks under study period.
- b) To compare and highlight the growth of Bank of Baroda and HDFC Bank with selected variables

RESEARCH METHODOLOGY

The present study is secondary data based collected from various journals, reports of RBI and annual reports of banks, websites of the banks etc. Data is presented with the help of graphs, charts and tables etc. The study period is limited, from 2016-17 to 2020-21.

ANALYSIS OF DATA:-

NET ASSETS GROWTH COMPARISON

Net assets is the sum of asset side of the balance sheet removing any provision for depreciation fund or the assets indicated at book value less depreciation charges, or the market value of the asset to be disposed off less any estimated loss or provision against that asset. This total of the asset side exclude the fictional assets if there is any displayed 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 contain both sorts of assets i.e., fixed asset, as well as, the current asset possessed by the business entity owned by the concerned. These assets give the base for making the concern capable for carrying out its business activities for collecting income and solidify its position in the years to come. These assets are possessed by the business from many sources shown in the liabilities side of the concern i.e., owners funds and borrowed funds or the internal resources of the firm developed out of profits. As regards Net Assets of Bank of Baroda & HDFC Bank, it has been determined by deducting all liabilities from total assets and given in Table 1

Table 1: Net Assets

Year	Bank of Baroda			HDFC Bank		
	Net Assets in lac	Total Assets in lac	% of Net Assets to Total Assets	Net Assets in lac	Total Assets in lac	% of Net Assets to Total Assets
2016-17	2636755	45674448	5.77	6040525	47364710	12.75
2017-18	3124805	47744818	6.54	6670596	53679468	12.42
2018-19	3448714	54901174	6.28	7321332	59464158	12.31
2019-20	3769197	60194605	6.26	8042936	64612930	12.44
2020-21	3546536	66454567	5.33	8691811	71787764	12.10

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Table 1 reveals that Net Assets of Bank of Baroda indicated a compound annual growth Rate (CAGR) of 6.11% whereas that of HDFC Bank Indicated an annual compound growth rate of 7.55%. All this indicate that net assets of HDFC Bank increased quicker than that of Bank of Baroda. Growth Rate of Net Assets of Bank of Baroda and HDFC Bank has been computed by way of annual compound growth rate with the help of the following formula:

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

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

Net Profit/loss Growth rate

Net profit is another base for comparing the growth of these two banks Bank of Baroda and HDFC Bank. Net profit growth in respect of Bank of Baroda 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/ (loss) Growth

Year	Bank of Baroda		HDFC Bank	
	Net Profit in lac	% Increase/Decrease Profit over previous years	Net Profit in lac	% Increase/Decrease Profit over previous years
2016-17	488420	-	646526	-
2017-18	474767	-2.7	832547	28.7
2018-19	334258	-29.5	981048	17.83
2019-20	306158	-8.4	1117535	13.9
2020-21	-397440	-229.8	972629	-12.9

Net profit growth rate of Bank of Baroda is -195% and the HDFC Bank is 8.51%. This implies that performance of HDFC Bank is better times as Bank of Baroda in corresponding years.

In 2016-17 Bank of Baroda has shown a negative growth in the profit which is -2.7, -29.5, -8.4 and -229.8 respectively, as compared to HDFC it is very low. The net profit of both the banks HDFC Bank indicate annual compound growth rate of 8.51% where as Bank of Baroda shows -195% (graph 2)

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NPA (Non Performing Assets)

NPA (non-performing assets) is related to banking and finance term. When bank or finance company is unable to recover its lent money from borrower in 90 days than that amount which have not been recovered will be treated as NPA. It represents bad loans, the borrowers of which failed to satisfy their repayment obligations.

Types of NPA

Gross NPA: Gross NPA are the sum total of all loan assets that are classified as NPA as per RBI Guidelines as on Balance Sheet date. Gross NPA reflects the quality of the loans made by banks.

Gross NPA Ratio = Gross NPA / Gross Advances

Net NPA: Net NPA shows the actual burden on banks. Net NPA are those type of NPA in which the bank has deducted the provision regarding NPA. Net NPA is obtained by deducting items like interest due but not recovered, part payment received and kept in suspense account from Gross NPA.

From table 3, in Bank of Baroda highest Gross NPA is 12.9% in 2019-20 where as lowest is 2.93% in 2016-17 and same data in HDFC Bank are 5.82% in 2019-20 and 3.03% in 2017-18 respectively.

From table 3, in Bank of Baroda highest Net NPA is 8.61% in 2019-20 where as lowest is 1.52% in 2016-17 and same data in HDFC Bank are 2.98% in 2019-20 and 0.73% in 2016-17 respectively. From the observation HDFC Bank performance better than Bank of Baroda.

Table 3: Ratio of Gross & Net NPA to Total Advances

Year	Bank of Baroda		HDFC Bank	
	Gross NPA %	NET NPA %	Gross NPA %	NET NPA %
2016-17	2.93	1.52	3.62	0.73
2017-18	4.27	2.35	3.22	0.77
2018-19	5.25	2.85	3.03	0.97
2019-20	6.55	4.06	3.78	1.61
2020-21	12.90	8.61	5.82	2.98

Findings

- Compound annual growth rate of net assets indicated that net assets of HDFC Bank increased quicker than that of Bank of Baroda.

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- b) CAGR reveals that the Net Profit of Bank of Baroda had negative growth rate during corresponding years.
- c) Gross NPA & Net NPA of Bank of Baroda had increased every year. It causes an adverse effect on the liquidity of Bank.

CONCLUSION AND SUGGESTIONS

Net Assets of HDFC Bank show annual compound growth rate of 7.55 percent which is better than Bank of Baroda that is 6.11 percent . While comparing the net profit of both the banks, HDFC Bank display annual compound growth rate of 8.51 percent whereas Bank of Baroda shows -195 percent . There is considerable disparity in profit of both banks, as the net profit of Bank of Baroda from 2013 to 2021 and HDFC Bank for 2019-20 suggests negative growth rate.

Net NPA ratio of both the banks reflect the true narrative of the banks that how much loan are bad and how much is recovered, who is managing its NPA more efficiently to lower it down to maximize the true profit displayed in table 3. Bank of Baroda has greater net NPA ratio that is 8.61 percent whereas HDFC Bank has 2.98 percent having significant disparity. So every basic of evidence demonstrates that HDFC as compared to Bank of Baroda. Therefore, it can easily be concluded that growth in HDFC Bank is better than Bank of Baroda.

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