

A Comparative Study of The Public and Private Sector Bank with Special Reference to Punjab National Bank and ICICI Bank

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Abstract

The economic development of a country mostly depends upon the efficient banking system because they play significant role in the effort to attain stable prices, high level of employment and sound economic growth. Hence, banking can better be described as the kingpin of the chariot of economic progress. In recent years, there have been considerable pressures on the profitability of banks. Profitability is considered to be an index of financial strength. Profitability is a key performance parameter in banking sector, which reflect efficient utilization of all resources in an organization. The present research paper is an effort to make a comparative study between the Growth rate in Punjab National Bank and ICICI Bank as both the banks are giant 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 2011 to 2016 is made. The main parameters 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 an important role in economic development of a country because it is one of the major financial pillars of the financial sector, which plays a vital role in the functioning of the economy. The banking sector's performance is seen as the replica of economic activities of the nation as a healthy banking system acts as the bedrock of social, economic and industrial growth of a nation. Banks are considered to be very important financial mediators or institutions because they result into wellbeing of saver as well as investors. In modern economy banks play the role of leaders of development. They play an important role in mobilization of deposits and disbursement of credit to various sectors of economy. Hence, banking can better be described as the kingpin of the chariot of economic progress. The banking system of India is featured by a large network of bank branches, serving many kinds of financial services of the people. As regards Punjab National Bank, it was established in 1895 and it holds the distinction of being the first Indian bank to have been started exclusively with Indian capital. Bank has strong capital base with capital adequacy ratio 11.28% as in march 2016. The bank has paid up capital of 392.72 crore as on march 2016. As regards ICICI Bank, it was originally promoted in 1994 by ICICI limited, an Indian financial institution, and was its wholly- owned subsidiary. The paid up share capital as on march 2016 is 1162.95 crore its capital adequacy ratio as on march 2016 is 16.64%.

Objectives Of The Study

- To study the growth rate of both the banks under study period.
- To compare and highlight the growth of Punjab National Bank 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 2011-12 to 2015-16.

Analysis of Data:-

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 regards Net Assets of Punjab National Bank & ICICI Bank, it has been computed by deducting all liabilities from total assets and shown in Table 1

Table 1: Net Assets

Year	Punjab National Bank			ICICI 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
2011-12	2636755	45674448	5.77	6040525	47364710	12.75
2012-13	3124805	47744818	6.54	6670596	53679468	12.42
2013-14	3448714	54901174	6.28	7321332	59464158	12.31
2014-15	3769197	60194605	6.26	8042936	64612930	12.44
2015-16	3546536	66454567	5.33	8691811	71787764	12.10

Table 1 reveals that Net Assets of Punjab National Bank indicated a compound annual growth Rate (CAGR) of 6.11% whereas that of ICICI Bank Indicated an annual compound growth rate of 7.55%. All this indicate that net assets of ICICI Bank increased quicker than that of Punjab

National Bank. Growth Rate of Net Assets of Punjab National Bank and ICICI 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

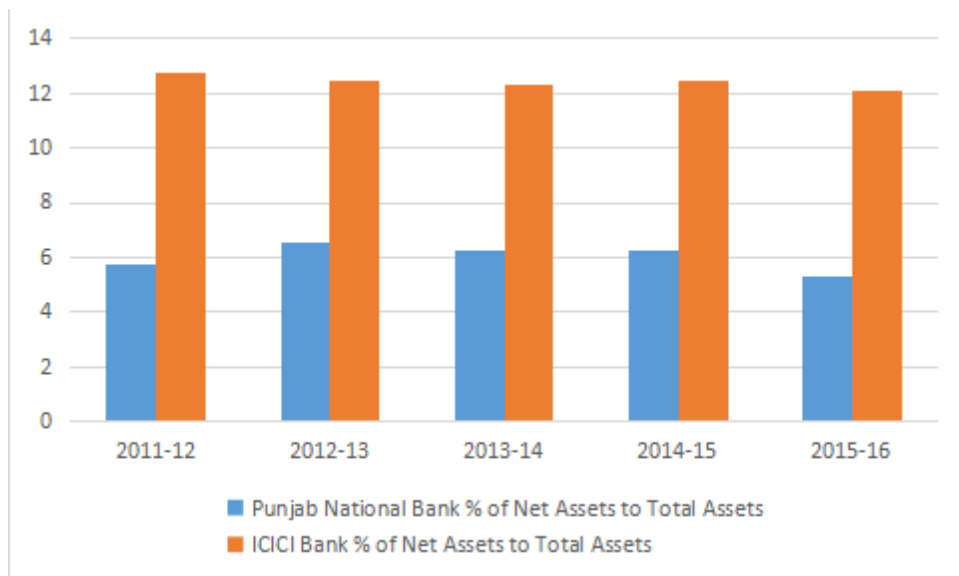
n = Number of Years

Using logarithms Growth rate is calculated as

Growth rate of Punjab National Bank = 6.11%

Growth rate of ICICI Bank = 7.55%

As regarding Net Assets Growth of Punjab National Bank & ICICI Bank, it has been computed with the help of geometric mean and has been shown in Graph 1.



Graph 1 Net Assets Growth of Punjab National Bank and ICICI Bank

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Net Profit/loss Growth Rate

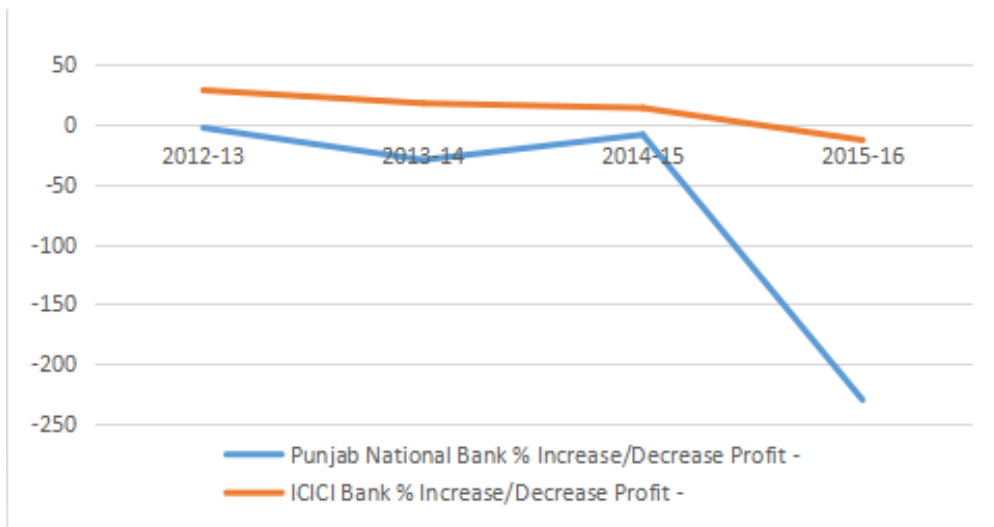
Net profit is another base for comparing the growth of these two banks Punjab National Bank and ICICI Bank. Net profit growth in respect of Punjab National Bank and ICICI Bank has been calculated by taking Net profit after tax, so as to adjudge the absolute growth of net profit after tax.

Table 2: Net Profit/ (loss) Growth

Year	Punjab National Bank		ICICI Bank	
	Net Profit in lac	% Increase/Decrease Profit over previous years	Net Profit in lac	% Increase/Decrease Profit over previous years
2011-12	488420	-	646526	-
2012-13	474767	-2.7	832547	28.7
2013-14	334258	-29.5	981048	17.83
2014-15	306158	-8.4	1117535	13.9
2015-16	-397440	-229.8	972629	-12.9

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

In 2012-16 Punjab National Bank has shown a negative growth in the profit which is -2.7, -29.5, -8.4 and -229.8 respectively, as compared to ICICI it is very low. The net profit of both the banks ICICI Bank indicate annual compound growth rate of 8.51% where as Punjab National Bank shows -195% (graph 2)



Graph 2 Net Profit of Punjab National Bank and ICICI Bank

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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

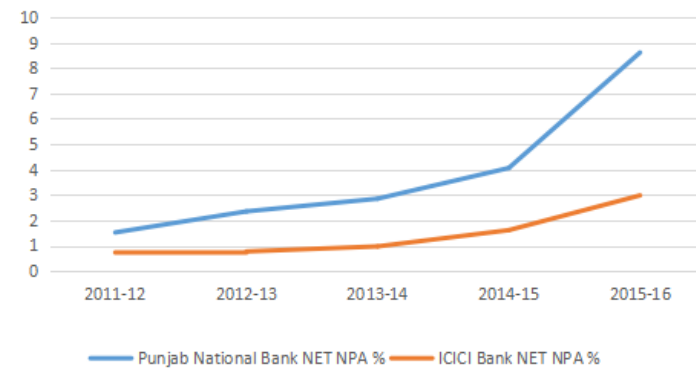
Net NPA: Net NPA shows the actual burden on banks. Net NPA are those type of NPA in which the bank has deducted the provision regarding NPA. Net NPA is obtained by deducting items like interest due but not recovered, part payment received and kept in suspense account from Gross NPA.

From table 3, in Punjab National Bank highest Gross NPA is 12.9% in 2015-16 where as lowest is 2.93% in 2011-12 and same data in ICICI Bank are 5.82% in 2015-16 and 3.03% in 2013-14 respectively.

From table 3, in Punjab National Bank highest Net NPA is 8.61% in 2015-16 where as lowest is 1.52% in 2011-12 and same data in ICICI Bank are 2.98% in 2015-16 and 0.73% in 2011-12 respectively. From the observation ICICI Bank performance better than Punjab National Bank.

Year	Punjab National Bank		ICICI Bank	
	Gross NPA %	NET NPA %	Gross NPA %	NET NPA %
2011-12	2.93	1.52	3.62	0.73
2012-13	4.27	2.35	3.22	0.77
2013-14	5.25	2.85	3.03	0.97
2014-15	6.55	4.06	3.78	1.61
2015-16	12.90	8.61	5.82	2.98

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



Graph 3 Net NPA of Punjab National Bank & ICICI Bank

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Findings

- (a) Compound annual growth rate of net assets indicated that net assets of ICICI Bank increased quicker than that of Punjab National Bank.
- (b) CAGR reveals that the Net Profit of Punjab National Bank had negative growth rate during corresponding years.
- (c) Gross NPA & Net NPA of Punjab National Bank had increased every year. It causes an adverse effect on the liquidity of Bank.

Conclusion and Suggestions

Net Assets of ICICI Bank show annual compound growth rate of 7.55% which is higher than Punjab National Bank that is 6.11%. While comparing the net profit of both the banks, ICICI Bank indicate annual compound growth rate of 8.51% whereas Punjab National Bank shows -195%. There is huge difference between profit of both banks, as the net profit of Punjab National Bank from 2013 to 2016 and ICICI Bank for 2015-16 indicates negative growth rate.

Net NPA ratio of both the banks indicate the true story 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 shown in table 3. Punjab National Bank has higher net NPA ratio that is 8.61% whereas ICICI Bank has 2.98% having large gap. So every basic of data establishes that ICICI as compared to Punjab National bank. Therefore, it can easily be concluded that growth in ICICI Bank is better than Punjab National Bank.

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