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An analysis the financial performance in terms of Liquidity of Public Sector Bank Private Sector Bank to the credit and Deposit Ratio

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Abstract: The investigation is crucial for the Indian economy. Due to the ever-changing nature of the Indian banking sector, it is first necessary to assess and compare the financial metrics of the nation's public and private banks. The proposed research makes several important advances to the study of banking and finance by comparing the performance measures of private and public banks in India. The study uses a sample size of two, with one bank representing the public sector (Indian Bank) and one representing the private sector (HDFC Bank). Two banks, one each from the public and private sectors, were chosen as a sample based on the size of the institutions' foundations. Primary data was collected through in-depth interviews, while secondary data was culled from select public and private sector banks' 2013-2022 annual reports.

Keywords: Banking, Financial, Indian Economy, Private and Public Sector bank, Liquidity Ratios

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INTRODUCTION

The banking industry has been essential in averting economic downturns, as India commemorates its 65th anniversary and continues to expand at a phenomenal rate second only to China among the world's fastest-growing economies. Since a strong banking system supports a nation's steady industrial and economic progress, the banking sector's success reflects the nation's economic activity (Guru & Mahalik, 2019). In the 65 years since India gained its freedom, the banking industry has changed significantly, moving away from nationalization and privatization and toward something new, especially after 1997. Over the past 20 years, technology has allowed for amazing advancements in the banking sector, including the introduction of credit cards, ATMs, Internet banking, EFTPOS, and now mobile banking. Conventional banking concepts, attitudes, and practices have been replaced with new strategies cantered on viability, need-based financing, and marketing. Banks are now expected to participate in nation-building initiatives and contribute to socioeconomic reforms instead of just focusing on businesses that yield instant profits. In addition to being financial entities that move money from one location to another, banks are also social enterprises that have a duty to engage the community and assist the less fortunate in realizing their goals. Because of this, banks serve as accelerators for national growth, drawing resources and focusing them on worthwhile projects. Both small- and large-scale industries require new approaches to industrial growth. Commercial banks should use term lending and developmental financing instead of adhering to the conventional short-term finance strategy (Kumari et al., 2023). Furthermore, it is now more crucial than ever to create branches in both urban and rural locations and to offer effective customer service.

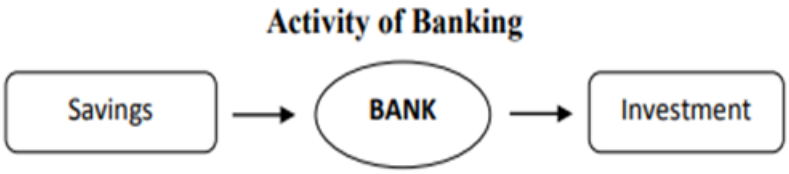

Figure 1: Activity of banking

Source: https://journal.polines.ac.id/index.php/admisi/article/view/1035/843

OBJECTIVES

To evaluate the financial performance in terms of liquidity of Public Sector Bank Private Sector Bank paying close attention to the Credit and Deposit Ratio.

HYPOTHESIS

H01: The liquidity ratios between Indian Bank & HDFC Bank do not statistically differ.

DATA ANALYSIS AND INTERPRETATION

The performance & size of the banking sector have significant effects on a nation's economic growth. Understanding how a bank is operating and enabling it to execute more effectively are two goals of evaluating overall performance. Improving the banks' ability to serve its customers, employees, owners, and other stakeholders is the end goal of implementing an overall performance strategy.

We will use financial methods like ratio analysis to measure the financial performance of a few public and private sector banks. The banks include Indian Bank and HDFC Bank. One common method for analyzing financial data is ratio analysis. Outside of banks, this kind of analysis is most useful for analysts. When it comes to evaluating financial accounts, ratio analysis is a powerful tool that may help identify a company's strengths and weaknesses, as well as its current economic position and how successfully it has been implemented throughout time (Khan and Jain, 2015).

The financial performance of a few chosen public banks (Indian Bank) & private sector banks (HDFC Bank) is examined using the following financial ratios:

LIQUIDITY RATIOS

The following liquidity ratios have been calculated:

Cash Deposit Ratio

CDR is a metric used by analysts to evaluate how much money a bank lends out to how much it holds in deposits. Each bank's primary operation, lending, was broken down by the percentage of total assets allocated to lending. A greater percentage indicates that the liquidity of the bank is not under pressure. Another way to figure it out is

$$\text{Cash Deposit Ratio} = \frac{Cash\ in\ Hand + Balances\ with\ RBI}{Deposit} X\ 100$$

The table makes it obvious that banks are intelligent. CDR (mean, standard deviation, & coefficient of variation) of one private sector bank and two chosen public sector banks (Indian Bank & HDFC Bank) are shown in this table. CDR determines how much of a bank's primary funds are used for lending. With a mean score of 7.50, HDFC Bank performs better than public sector banks like Indian Bank. The standard deviation of Indian banks is 1.27, which is lower than that of HDFC Bank. Indian Bank has a smaller coefficient of variation (24.25) than HDFC Bank, a private sector bank. According to research, the cash deposit percentage of public sector banks, such as Indian Bank, is more steady and consistent. This bodes well for the CDR of the Indian bank.

Table 1: Cash Deposit Ratio (In %)

					In Lakhs	
Years	Public Sector			Private Sector		
	Cash and Balance with RBI (₹)	Deposit (₹)	Indian Bank	Cash and Balance with RBI (₹)	Deposit (₹)	HDFC Bank
2013	706,071.67	8,822,765.81	8.00	1,548,328.41	16,740,443.94	9.25
2014	687,793.85	10,580,418.27	6.50	2,510,081.58	20,858,640.54	12.03
2015	631,887.20	12,080,379.95	5.23	1,499,109.45	24,670,644.59	6.08
2016	706,424.35	14,198,015.50	4.98	1,462,739.90	29,624,698.46	4.94
2017	775,768.02	16,227,481.93	4.78	2,534,562.77	36,733,747.77	6.90
2018	830,107.99	16,922,527.17	4.91	2,751,045.36	45,079,564.25	6.10
2019	917,445.13	17,828,584.26	5.15	3,005,830.87	54,642,419.20	5.50
2020	558,870.03	18,250,928.25	3.06	3,789,687.55	64,363,965.63	5.89
2021	1,050,160.02	20,829,422.17	5.04	10,467,047.30	78,877,063.96	13.27
2022	1,170,186.43	24,207,594.68	4.83	4,676,361.84	92,314,092.84	5.07
Mean			5.25			7.50
SD			1.27			2.99
CV			24.25			39.82

❖ ANOVA

CDR of chosen Indian Bank (Public Sector Bank) and HDFC Bank (Private Sector Bank):

Hypothesis (H0): There is no significance difference in CDR of Indian bank (public sector bank) along with HDFC Bank (private sector bank).

Hypothesis (HA): There is a significance difference in Cash Deposit Ratio of Indian bank (public sector bank) along with HDFC Bank (private sector bank).

❖ **Summary**

Groups	Count	Sum	Average	Variance
Column 1	10	52.48	5.25	1.691
Column 2	10	75.02	7.50	8.926

❖ **ANOVA**

Source of Variation	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	25.425	1	25.425	4.826	**.041**
Within Groups	94.825	18	5.268		
Total	120.250	19			

Interpretation: The aforementioned analysis of variance yielded a F value of 4.826 and a significance level of 0.041. There was a substantial difference in CDR between HDFC Bank & Indian Bank (P0.05). To sum up, the Cash Deposit Ratio supports the alternative theory.

Liquidity total in Credit Deposit Ratio

A bank's liquidity can be determined using the Credit Deposit Ratio, which compares the bank's credit to its deposits over a given time period. This percentage has been provided as a percentage. The solvency of the bank could not be enough to cover any unexpected expenses if the ratio is high. However, the bank may not generate as much revenue as it could if the ratio is much lower. It can also be calculated as follows:

$$\text{Credit Deposit Ratio} = \frac{Total\ Advances}{Total\ Deposits}\ X\ 100$$

Table 2: Liquid total Credit Deposit Ratio (In %)

					In Lakhs	
Credit Deposit Ratio						
Years	Public Sector			Private Sector		
	Total Advances (₹)	Total Deposits (₹)	Indian Bank	Total Advances (₹)	Total Deposits (₹)	HDFC Bank
2013	6,214,613.23	,822,765.81	70.44	2,583,059.39	16,740,443.94	75.17
2014	7,524,990.56	0,580,418.27	71.12	5,998,266.54	20,858,640.54	76.70
2015	9,032,359.95	2,080,379.95	74.77	9,542,002.92	24,670,644.59	79.21
2016	10,564,254.68	4,198,015.50	74.41	3,972,064.32	29,624,698.46	80.92
2017	12,220,898.58	6,227,481.93	75.31	0,300,027.12	36,733,747.77	82.49
2018	12,586,354.58	6,922,527.17	74.38	6,549,503.12	45,079,564.25	81.08
2019	12,904,907.63	7,828,584.26	72.38	6,459,395.89	54,642,419.20	85.02
2020	12,769,928.20	8,250,928.25	69.97	5,456,820.21	64,363,965.63	86.16
2021	15,656,892.85	0,829,422.17	75.17	5,833,309.08	78,877,063.96	83.46
2022	18,126,191.24	4,207,594.68	74.88	1,940,121.67	92,314,092.84	88.76
Mean			73.28			81.90
SD			2.09			4.20
CV			2.86			5.13

Financial institutions are intelligent as the table shows. CDR average, standard deviation, and coefficient of variation for a few chosen public and private sector banks. CDR annual fluctuations during the study period are displayed in the table. With a mean of 81.90, HDFC Bank outperforms the Indian Bank, a public sector bank. Indian banks have a lower standard deviation than HDFC Bank (2.09). Compared to HDFC Bank, a private sector bank, Indian Bank's coefficient of variation is lower at 2.86. The credit deposit ratios of public sector banks, such as Indian banks, are consistently higher. This bodes good for the Indian bank's credit deposit ratio.

❖ ANOVA

Credit Deposit Ratio of chosen Indian Bank (Public Bank) along with HDFC Bank (Private Bank):

Null Hypothesis (H0): There is no significance difference in credit deposit ratio about Indian bank (public sector bank) and HDFC Bank (private sector bank).

Hypothesis (HA): There is a significance difference in CDR about Indian bank (public sector bank) & HDFC Bank (private sector bank).

❖ Summary

Groups	Count	Sum	Average	Variance
Column 1	10	732.82	73.28	4.381
Column 2	10	818.97	81.90	17.675

❖ **ANOVA**

Source of Variation	Sum of Squares	DF	Mean Square	F	Sig.
Between Groups	371.005	1	371.005	33.663	.000*
Within Groups	198.382	18	11.021		
Total	569.387	19			

Interpretation: The results of the offered ANOVA test are statistically significant with a F value of 33.663 and a significance level of 0.000. As can be shown, HDFC Banks in India & CDR were both determined to be statistically significant (P<0.05). As a result, the CDR lends credence to the alternative perspective.

Investment Deposit Ratio

The Investment Deposit Ratio can be used to calculate the percentage of the deposit that is invested in government securities. Because banks require more government securities to meet their daily liquidity demands, this ratio is usually larger than the statutory liquidity ratio (SLR). Here's another method to figure it out:

$$\textbf{Investment Deposit Ratio} = \frac{\textit{Total Investment}}{\textit{Total Deposit}} X\ 100$$

Table 3: Investment Deposit Ratio (In %)

						In Lakhs
Investment Deposit Ratio						
Years	Public Sector			Private Sector		
	Total Investment (₹)	Total Deposit (₹)	ndian Bank	Total Investment (₹)	Total Deposit (₹)	HDFC Bank
2013	2,826,832.84	8,822,765.81	32.04	5,860,761.61	16,740,443.94	35.01
2014	3,478,375.90	10,580,418.27	32.88	7,092,936.56	20,858,640.54	34.00
2015	3,797,602.96	12,080,379.95	31.44	9,748,290.94	24,670,644.59	39.51
2016	4,180,497.85	14,198,015.50	29.44	11,161,359.53	29,624,698.46	37.68
2017	4,691,041.64	16,227,481.93	28.91	12,095,107.03	36,733,747.77	32.93
2018	4,572,832.15	16,922,527.17	27.02	15,164,175.40	45,079,564.25	33.64
2019	5,308,931.36	17,828,584.26	29.78	16,388,576.91	54,642,419.20	29.99
2020	6,755,178.86	18,250,928.25	37.01	21,446,333.66	64,363,965.63	33.32
2021	7,139,776.65	20,829,422.17	34.28	24,220,024.16	78,877,063.96	30.71
2022	6,499,217.42	24,207,594.68	26.85	29,058,787.84	92,314,092.84	31.48
Mean			30.96			33.83
SD			3.22			2.97
CV			10.38			8.79

The table makes it obvious that banks are intelligent. Along with their standard deviations and coefficients of variation, the investment deposit ratio statistics for a few chosen private (HDFC Bank) & public (Indian Bank) sector banks are shown. One way to gauge how quickly banks are putting their deposit money to work is by looking at the investment deposit ratio. In comparison to Indian Bank, HDFC Bank has a mean of 33.83, according to the data. Indian Bank has a larger standard deviation than HDFC Bank (2.97 vs. 3.97). Compared to Indian Bank, a public sector bank, HDFC Bank's coefficient of variation is lower at 8.79. It was found that HDFC Bank, a private sector bank, has a more stable and steady investment deposit ratio. According to the investment deposit ratio, HDFC Bank is performing admirably.

❖ ANOVA

Investment Deposit Ratio of chosen Indian Bank (Public Sector Bank) along with HDFC Bank (Private Sector Bank):

Null Hypothesis (H0): There is no significance difference in investment deposit ratio of Indian Bank (public sector bank) along with HDFC Bank (private sector bank).

Hypothesis (HA): There is a significance difference in investment deposit ratio of Indian bank (public sector bank) & HDFC Bank (private sector bank).

❖ Summary

Groups	Count	Sum	Average	Variance
Column 1	10	309.64	30.96	10.336
Column 2	10	338.27	33.83	8.850

❖ **ANOVA**

Source of Variation	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	40.955	1	40.955	4.270	.053
Within Groups	172.644	18	9.591		
Total	213.599	19			

Interpretation: We can determine from the ANOVA test results that the F value is 4.270 & significance level is 0.053. It must be shown that certain ratios, including the investment deposit ratio, had an intermediate or non-significant impact on HDFC and Indian banks (P>0.05). The investment deposit ratio leads us to accept the framed null hypothesis.

Liquid Assets to Total Deposit Ratio

The ratio of total deposits to available liquidity gauges the bank's health. A higher ratio of liquid assets to total deposits is a more accurate measure of a bank's liquidity. Cash and accounts with banks such as the RBI are examples of liquid assets. Another method to determine it is as follows:

$$\textbf{Liquid Assets to Total Deposits Ratio} = \frac{Liquid\ Assets}{Total\ Deposit} X100$$

Banks from both the public & private sectors, including an Indian bank and an HDFC bank, are included in the table along with their respective means, standard deviations, and coefficients of variation. By examining the ratio of liquid assets to total deposits, one can determine how liquid a bank is relative to its total deposits. A high ratio suggests that things are stable financially. Data shows that HDFC Bank's mean is 10.78, which is higher than that of Indian Bank, a public sector bank. The Indian bank's standard deviation, at 1.11, is smaller than HDFC Bank's. Indian Bank's coefficient of variation is 15.30, which is less than that of the private sector bank HDFC Bank. Indian researchers discovered that public sector banks often maintain a more stable ratio of liquid assets to total deposits than do private banks. Based on the ratio of total deposits to liquid assets, it seems that all Indian banks are doing fairly well.

Table 4: Liquid Assets to Total Deposit Ratio (In %)

						In Lakhs
Liquid Assets to Total Deposit Ratio						
Years	Public Sector			Private Sector		
	Liquid Assets (₹)	Total Deposit (₹)	Indian Bank	Liquid Assets (₹)	Total Deposit (₹)	HDFC Bank
2013	811,320.07	8,822,765.81	9.20	2,994,239.88	16,740,443.94	17.89
2014	856,231.07	10,580,418.27	8.09	2,966,883.49	20,858,640.54	14.22
2015	881,336.25	12,080,379.95	7.30	2,093,772.63	24,670,644.59	8.49
2016	963,868.30	14,198,015.50	6.79	2,728,016.89	29,624,698.46	9.21
2017	1,049,053.96	16,227,481.93	6.46	3,958,363.78	36,733,747.77	10.78
2018	1,308,118.35	16,922,527.17	7.73	3,633,145.18	45,079,564.25	8.06
2019	1,199,929.07	17,828,584.26	6.73	3,891,883.80	54,642,419.20	7.12
2020	1,004,171.93	18,250,928.25	5.50	4,895,209.51	64,363,965.63	7.61
2021	1,292,778.82	20,829,422.17	6.21	12,291,508.27	78,877,063.96	15.58
2022	2,002,037.97	24,207,594.68	8.27	8,134,763.92	92,314,092.84	8.81
Mean			7.23			10.78
SD			1.11			3.77
CV			15.30			34.98

❖ **ANOVA**

Liquid Assets to TDR of chosen Indian Bank (Public Sector Bank) along with HDFC Bank (Private Sector Bank):

Null Hypothesis (H0): There is no significance difference in Liquid Assets to TDR of Indian bank (public sector bank) along with HDFC Bank (private sector bank).

Hypothesis (HA): There is a significance difference in Liquid Assets to TDR of Indian bank (public sector bank) along with HDFC Bank (private sector bank).

❖ **Summary**

Groups	Count	Sum	Average	Variance
Column 1	10	72.28	7.23	1.223
Column 2	10	107.76	10.78	14.209

❖ **ANOVA**

Source of Variation	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	62.977	1	62.977	8.162	.010*
Within Groups	138.885	18	7.716		
Total	201.862	19			

Interpretation: The aforementioned analysis of variance yielded a F value of 8.162 and a significance level of 0.010. A significantly significant correlation (P<0.05) was seen between the ratio of liquid assets to total deposits for both HDFC Banks & Indian Banks. Therefore, when considering the ratio of liquid assets to total deposits, the alternative hypothesis that has been offered is accepted.

Liquid Assets to Total Assets Ratio

This ratio evaluates the other financial institution's overall liquidity situation. It can help banks better understand their total liquid assets. Like liquid assets like cash and deposits with the RBI and other banks, asset revaluation is regarded as a total asset. Another method to determine it is as follows:

$$\textbf{Liquid Assets to Total Assets Ratio} = \frac{Liquid\ Assets}{Total\ Assets}\ X\ 100$$

Table 5: Liquid Assets to Total Assets Ratio (In %) 44

						In Lakhs
Liquid Assets to Total Assets Ratio						
Years	Public Sector			Private Sector		
	Liquid Assets (₹)	Total Assets (₹)	Indian Bank	Liquid Assets (₹)	Total Assets (₹)	HDFC Bank
2013	811,320.07	10,138,931.47	8.00	2,994,239.88	22,245,856.97	13.46
2014	856,231.07	12,171,830.58	7.03	2,966,883.49	27,735,259.12	10.70
2015	881,336.25	14,141,919.98	6.23	2,093,772.63	33,790,949.90	6.20
2016	963,868.30	16,282,260.48	5.92	2,728,016.89	40,033,189.73	6.81
2017	1,049,053.96	18,732,670.09	5.60	3,958,363.78	49,159,950.07	8.05
2018	1,308,118.35	19,283,597.31	6.78	3,633,145.18	59,050,307.31	6.15
2019	1,199,929.07	20,371,038.20	5.89	3,891,883.80	70,884,556.51	5.49
2020	1,004,171.93	21,823,314.70	4.60	4,895,209.51	86,384,019.17	5.67
2021	1,292,778.82	25,271,582.26	5.12	12,291,508.27	106,393,432.34	11.55
2022	2,002,037.97	28,006,527.37	7.15	8,134,763.92	124,454,069.06	6.54
Mean			6.23			8.06
SD			1.02			2.82
CV			16.43			34.99

The table makes it obvious that banks are evasion. Information on the means, standard deviations, and

coefficients of variation of a subset of public (Indian Bank) and private (HDFC Bank) sector banks' liquid assets to total assets ratios. The ratio of liquid assets to total assets was one measure of a bank's liquidity. With a mean score of 8.06, HDFC Bank beats Indian Bank, a public sector bank, according to the statistics in the table. Compared to HDFC Bank, Indian banks have a smaller standard deviation (1.02). Indian Bank has a lower coefficient of variation (16.43) than its private sector competitor, HDFC Bank. It has been observed that the ratio of liquid assets to total assets is more stable and consistent in public sector banks, namely those in India. This ratio shows that the Indian bank is doing well in relation to its total assets and liquid assets.

❖ **ANOVA**

Liquid Assets to Total Assets Ratio of chosen Indian Bank (Public Sector Bank) along with HDFC Bank (Private Sector Bank):

Null Hypothesis (H0): There is no significance difference in liquid assets to total assets ratio of Indian bank (public sector bank) along with HDFC Bank (private sector bank).

Hypothesis (HA): There is a significance difference in liquid assets to total assets ratio of Indian bank (public sector bank) along with HDFC Bank (private sector bank).

❖ **Summary**

Groups	Count	Sum	Average	Variance
Column 1	10	62.33	6.23	1.049
Column 2	10	80.62	8.06	7.959

❖ **ANOVA**

Source of Variation	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	16.745	1	16.745	3.720	.070
Within Groups	81.027	18	4.501		
Total	97.771	19			

Interpretation: The aforementioned analysis of variance yielded a F value of 3.720 and a significance level of 0.070. The ratios of liquid assets to total assets for both Indian & HDFC Banks were determined to be statistically insignificant (P>0.05). As a result, the ratio of liquid assets to total assets supports the framed null hypothesis.

Overall Liquidity Ratios

One way to measure a bank's liquidity is by looking at its liquidity ratio. When will the banks be able to pay off their current debts?

Table 6: Overall Liquidity Ratios (In %)

Overall Liquidity Ratios						
Particulars	Indian Bank Public Sector Bank			HDFC Bank Private Sector Bank		
	Mean	SD	CV	Mean	SD	CV
Cash Deposit Ratio	5.25	1.27	24.25	7.50	2.99	39.82
Credit Deposit Ratio	73.28	2.09	2.86	81.90	4.20	5.13
Investment deposit Ratio	30.96	3.22	10.38	33.83	2.97	8.79
Liquid Assets to Total Deposits Ratio	7.23	1.11	15.30	10.78	3.77	34.98
Liquid Assets to Total Assets Ratio	6.23	1.02	16.43	8.06	2.82	34.99
Overall Liquidity Ratios	24.59	0.56	2.26	28.41	1.37	4.81

The table makes the craftiness of banks evident. The chosen public (Indian Bank) and private (HDFC Bank) sector banks' total liquidity ratios are displayed, together with their standard deviations and coefficients of variation. The overall liquidity status of the bank was estimated using total liquidity ratios. The figures show that HDFC Bank has a mean of 28.41, which is greater than the public sector bank's (Indian Bank) mean. Compared to HDFC Bank, Indian Bank has a lower standard deviation (0.56). Indian Bank's coefficient of variation is lower (2.26), in comparison to a private sector bank (HDFC Bank). Results demonstrated that overall liquidity ratios at public sector banks (including Indian banks) were more constant and steady. The Indian bank's overall liquidity ratios are looking good.

❖ ANOVA

The total liquidity ratios of HDFC Bank (a private sector bank) & selected Indian bank (a public sector bank).

Null Hypothesis (H0): There is no significance difference in overall liquidity ratios of Indian bank (public sector bank) along with HDFC Bank (private sector bank).

Hypothesis (HA): There is a significance difference in overall liquidity ratios of Indian bank (public sector bank) along with HDFC Bank (private sector bank).

❖ Summary

Groups	Count	Sum	Average	Variance
Column 1	10	245.91	24.59	0.310
Column 2	10	284.13	28.41	1.868

❖ ANOVA

Source of Variation	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	73.038	1	73.038	67.110	.000*
Within Groups	19.590	18	1.088		
Total	92.628	19			

Interpretation: The provided ANOVA test result has a F value of 67.110 and a significance level of 0.000. The total liquidity ratios for HDFC Banks and all Indian banks were determined to be statistically significant (P<0.05). Consequently, the alternative hypothesis that was constructed is supported by the overall liquidity ratios.

CONCLUSION

Every nation's economic progress is ultimately dependent on the efficiency of its banking system. The services offered by Indian banks are widely acknowledged and appreciated by those with influence in both domestic & international monetary markets. When looking at financial performance, the private sector bank HDFC Bank does better than the public sector bank Indian Bank. However, when looking at non-financial performance, the public sector bank Indian Bank does better than HDFC Bank. This analysis includes a total of 26 ratios that span all five factors. In order to evaluate the chosen banks' financial performance, the investigator of liquidity. Credit deposit ratios show that public sector banks (in this case, Indian banks) are more consistent and stable than private sector banks.

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