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Research Paper

Comparative Analysis of Public and Private Sector Banks in India

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ABSTRACT:
Public Sector Banks (PSBs) are a major type of bank in India, where a majority stake (i.e. more than 50%) is held by the government. The shares of these banks are listed on stock exchanges. The private sector enterprise is an organisation which is owned, managed & controlled by private individuals or a group of individuals or both. This is also engaged in business activity but with the motive of profit maximisation rather than public service like in case of public sector enterprise. The merger of the loss making New Bank of India with the profitable Punjab National Bank was the first instance of merger of two public sector commercial banks. Corporate world have been merging to gain synergies in their operations, derive economies of scale and offer one-stop facilities to more demanding clientele. Hence, the desire to grow quickly through mergers, rather than through the slow path of normal expansion in business it is important to improve the competitiveness and quality of the services sector in order to enhance its efficiency. The present comparative study focuses on the merger of public and private sector banks in India specially merger events relating to Bank of Baroda, Punjab National Bank, HDFC Bank and ICICI Bank. It also examines the only aspect of such merger(s) in terms of valuation of banks before and after merger and find out the result that which sector gained more value through merger in India.
KEYWORDS: *Merger and Acquisition, Valuation of Banks, Public and private sector banks.*

I. INTRODUCTION:

In India it was only in 20th century that the concept of takeover took birth but even then the concept of antagonistic takeovers was not known to anybody. This concept emerged when Swaraj Paul started efforts to takeover Escorts Ltd. and DCM Ltd. He was the first hostile raider among the raiders of Indian stock market. During 1950 to 1960 there were instances of private sector banks, which had to be rescued or closed down due to very low capital. In 1960, the failure of Palai Central Bank and Laxmi Bank, led to loss of confidence in the banking system as a whole. In 1961, the Banking Companies (Amendment) Act empowered RBI to formulate and carry out a scheme for the reconstitution and compulsory amalgamation of sub-standard banks with well-managed ones. Consequently, out of 42 banks which were granted freeze, 22 were amalgamated with other banks, one was allowed to go into voluntary liquidation, one to amalgamate voluntarily with another bank, three were ordered to be wound up and the freeze on three was allowed to slide. In India, mergers have been used to bail out weak banks till the Narasimham Committee-II discouraged this practice. Since the mid 1980s, several private banks had to be rescued through mergers with public sector banks. The merger of the loss making New Bank of India with the profitable Punjab National Bank was the first instance of merger of two public sector commercial banks. As far as, the merger activity in banking sector is concerned, it is used to merger of sick and weak banks with a healthy bank. The only purpose was to save the sick bank and its customers from the liberalization problems and process. The merger of New Bank of India with Punjab National Bank was a bad experience and has not served any purpose. As a result of this merger PNB had to face lot of court litigations and also incurred a loss in the year 1996, which was unusual in the history of the Bank.

II. PUBLIC Vs PRIVATE SECTOR BANKS:

As far as, the merger activity in banking sector is concerned, it is used to merger of sick and weak banks with a healthy bank. The only purpose was to save the sick bank and its customers from the liberalization problems and process. The merger of New Bank of India with Punjab National Bank was a bad experience and has not served any purpose. As a result of this merger PNB had to face lot of court litigations and also incurred a loss in the year 1996, which was unusual in the history of the Bank. With the liberalization policies of the government, many private banks came into existence. In 1995 the government also removed entry barriers in the banking sector. As a result of this good number of technology savvy, customer friendly banks have started operating in India. In order to survive in the competition and get a market share these new banks started offering innovative and attractive products with the help of their technology. The public sector banks also realized the need of the hour and started using technology in a big way. These banks are also collaborating with the new generation banks in offering certain services and getting mutually benefited. Some of the new generation banks like HDFC Bank and ICICI Bank have started looking for external growth by way of merger route. These banks have started looking for healthy banks rather than sick and weak banks for acquisition. The main criteria while selecting target banks was the synergy benefits like market growth, market presence, effect on profit etc.

III. THE MAJOR DIFFERENCES BETWEEN A PRIVATE AND PUBLIC SECTOR BANK

• **Shareholders**

a) In a public sector bank more than fifty percentage of the stake is held by the Government.

b) In a private sector majority of the stake owned to private shareholders, including corporations and individuals.

• **Interest Rate**

Deposit interest rates offered by public sector banks are almost the same when compared to private sector banks. However new-age banks such as the Bandhan Bank, Airtel Bank are offering marginally better interest rates when compared with their counterparts In case of loans, interest rates are marginally lower as for example SBI introduced a new home loan offering for its women customers with an interest rate of 8.35% for a ticket size of upto Rs. 30 lakhs.

• **Fees & Service**

Private Sector Banks have made names in providing better service, however, they charge for the extra services provided by them. Public sector banks fees and charges are less such as on balance maintenance. A lot of public sector banks are still picking up in their service offerings.

• **Customer Base**:

Mostly public sector accounts are opened for government employees for their salaries, fixed deposits, lockers etc. Their customer base is also relatively large when compared with their peers in the private sector as they have been in the domain for long and have managed to gain customer's confidence. Whereas private sector bank in India target company employees,for their salary accounts, credit cards and net banking.

List of Some Public Banks in India:

- Bank of Baroda
- Bank of India
- Bank of Maharashtra
- Canara Bank
- Central Bank of India
- Indian Bank
- Indian Overseas Bank
- Punjab National Bank
- Punjab and Sindh Bank
- Union Bank of India
- Uco Bank
- State Bank of India

List of Some Private Banks in India:

- Axis Bank
- Bandhan Bank
- CSB Bank
- City Union Bank
- DCB Bank
- Dhanlaxmi Bank
- Federal Bank
- HDFC Bank
- ICICI Bank
- IndusInd Bank
- IDFC FIRST Bank
- Jammu & Kashmir Bank
- Karnataka Bank

- Karur Vysya Bank
- Kotak Mahindra Bank
- Lakshmi Vilas Bank
- Nainital bank
- RBL Bank
- YES Bank
- IDBI Bank

IV. VALUATION OF BANKS:

The valuation of banks is resorted when the proposals are under consideration and the value of business depends not just on assets it carries but determined mostly by the projects in hands, the risk profile of the different classes of business. Business valuation is a process and a set of procedures used to estimate the economic value of an owner's interest in a business. Valuation is used by financial market participants to determine the price they are willing to pay or receive to consummate a sale of a business. In addition to estimating the selling price of a business, the same valuation tools are often used by business appraisers to resolve disputes related to estate and gift taxation, divorce litigation, allocate business purchase price among business assets, establish a formula for estimating the value of partners' ownership interest for buy-sell agreements, and many other business and legal purposes Three different approaches are commonly used in business valuation: the income approach, the asset-based approach, and the market approach. Within each of these approaches, there are various techniques for determining the value of a business using the definition of value appropriate for the appraisal assignment. Generally, the income approaches determine value by calculating the net present value of the benefit stream generated by the business (discounted cash flow); the asset-based approaches determine value by adding the sum of the parts of the business (net asset value); and the market approaches determine value by comparing the subject company to other companies in the same industry, of the same size, and/or within the same region. A number of business valuation models can be constructed that utilize various methods under the three business valuation approaches. Venture Capitalists and Private Equity professionals have long used the First Chicago method which essentially combines the income approach with the market approach. In determining this of these approaches to use, the valuation professional must exercise discretion. Each technique has advantages and drawbacks, which must be considered when applying those techniques to a particular subject company. Most treatises and court decisions encourage the valuator to consider more than one technique, which must be reconciled with each other to arrive at a value conclusion. A measure of common sense and a good grasp of mathematics are helpful.

V. CONCLUSION:

The overall analysis of table reveals the fact that the private sector banks provided positive returns whereas Public Sector Bank (PSB) like State Bank of India, provided negative returns. The major reasons for negative returns of PSB might be that PSBs are still conservative banks. But in the case of ICICI Bank, which follows an aggressive policy, the event got discounted within a shorter duration and with positive returns. It is important for Indian banks to improve competitiveness and quality of the banking system to bring efficiency in the performance. Merger banks need to communicate or publicize about merger proposal with a view to getting the consent of their shareholders.

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