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A COMPARATIVE ANALYSIS OF THE FINANCIAL SOUNDNESS OF SELECTED PUBLIC AND PRIVATE SECTOR BANKS IN INDIA (2021-2025): A SECONDARY DATA STUDY

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ABSTRACT

This study empirically assesses the structural transformation and institutional resilience of the Indian banking sector between FY20 and FY25. It focuses on a comparative assessment of top-tier public sector banks (PSBs) – State Bank of India (SBI) and Punjab National Bank (PNB), along with major private sector banks (PvSBs) – HDFC Bank and ICICI Bank. Using the international CAMEL framework and longitudinal panel analysis, the study identifies a historic structural shift. The findings reveal that PSBs achieved a record net profit of ₹3.71 lakh crore in FY25 (As per RBI Data, 2025), driven by the lowest system-wide gross NPA of 2.1% in a decade. Most notably, for the first time in 14 years, PSBs outperformed private banks in domestic credit growth (13.1% vs. 9.0%). Ratio analysis indicates a significant performance convergence in asset quality and return profile. The study concludes that the government's 4Rs strategy and aggressive digital adoption have successfully bridged the historical efficiency gap.

KEYWORDS: Indian Banking Sector, Public Sector Banks, Private Sector Banks, CAMEL framework, performance convergence, Non-Performing Assets (NPA), 4Rs Strategy.

INTRODUCTION

The banking sector represents the fundamental backbone of India's economic structure, serving as the primary mechanism for capital formation. Between 2021 and 2025, the industry made an unprecedented journey from chronic asset quality stress to a decade of financial stability. When the global economy faced severe shocks due to pandemic-induced volatility and geopolitical uncertainty, the Indian banking system demonstrated unique resilience, anchored by strong regulatory oversight and successful insolvency reforms. By 2025, the traditional dichotomy between state-owned and private institutions had fundamentally changed. Public sector banks (PSBs) were no longer simply *fragile* entities burdened with inherited assets but were now aggressively competing commercially. This study aims to measure this *renaissance* through standardized financial metrics and advanced multi-factor statistical validation.

BACKGROUND OF THE STUDY

Historically, the Indian banking landscape was defined by the 'twin balance sheet' crisis, where banks were plagued by over-leveraged corporates and bad loans (NPAs). Non-performing assets tripled between 2015 and 2018 to reach Rs 8.45 lakh crore. However, the 2021 - 2025 period is set to witness a radical change with the mega-merger of 2020, which

will see the public sector merged into 12 entities and government capital inflows of over Rs 3.15 lakh crore.

RESEARCH PROBLEM

Despite the apparent resurgence of state-owned banks, contemporary academic literature often relies on historical data that consistently outperform private sector banks on all performance measures. There is a clear research gap in documenting the *performance shift* to 2025, where state-owned banks caught up with private banks in net NPA ratios and surpassed them in loan growth. The issue focuses on determining whether the traditional performance differences are valid after system-wide GNPA's fell to a 13-year low of 2.1% by the end of 2025.

RESEARCH QUESTIONS

Aligned with CAMEL framework, this study addresses the following questions:

1. **(C)** How have Capital Adequacy Ratios (CAR) evolved differently across sectors from 2021 to 2025?
2. **(A)** What is the trajectory of Asset Quality (Net NPA) across public and private banks post-pandemic?
3. **(M)** How much impact has digital maturity (YONO, India Stack) had on the Management Efficiency ("profit per employee") score?
4. **(E)** How has the Earnings Quality (ROA) trajectory shifted between public and private sector banks over the five-year period?
5. **(L)** How do social mandates like Pradhan Mantri Jan Dhan Yojana (PMJDY) affect the Liquidity profile of public sector banks?

RESEARCH OBJECTIVES

1. **(C)** To map the Capital Adequacy resilience (CAR) of top-tier banks through post-pandemic recovery.
2. **(A)** To analyze the trajectory of Asset Quality (NPAs) and assess the effectiveness of solution frameworks such as IBC.
3. **(M)** To examine the impact of digital banking adoption on management efficiency indicators such as profit per employee.
4. **(E)** To provide a detailed comparison of Earnings Quality metrics (Net Profit, ROA) over a five-year long-term (2021-2025) period.
5. **(L)** To examine how public sector banks, maintain stronger liquidity through financial inclusion driven deposit growth.

LITERATURE REVIEW

Contemporary research identifies digital adoption as a performance differentiator. Kiruthika and Muthumari (2025) find that while private banks have maintained higher absolute profits, state-owned banks have shown the most significant recovery in asset quality in Indian history. Shukla (2025) highlights the historical anomaly of FY2025 where state-owned banks led loan growth at 13.1%, indicating a desire for state-backed lending. Mehta et al. (2025) argue that bank consolidation has significantly reduced the efficiency gap across sectors. An important gap remains in the analysis of the full audited FY25 cycle, which is addressed in this study.

THEORETICAL FRAMEWORK

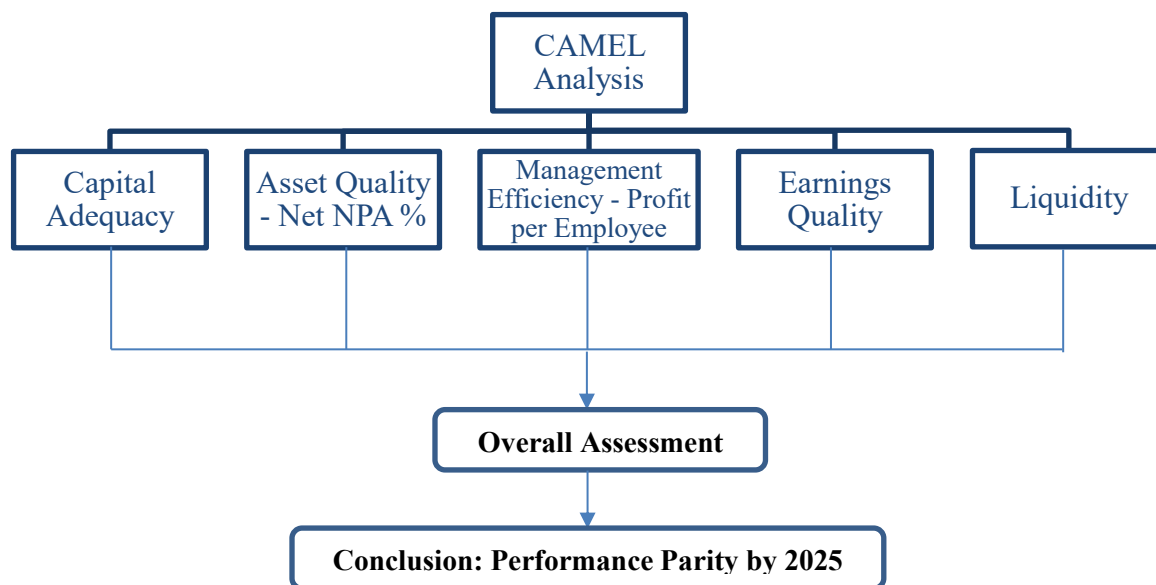
This study is based on the theory of financial-led growth, which suggests that a strong financial intermediation system is essential for industrial productivity and economic output. In addition, it uses the CAMEL rating model, an international standard adopted by the Reserve Bank of India in 1996. The framework assesses:

1. Capital adequacy (C): Buffer to absorb unexpected losses.
2. Asset quality (A): Assessment of credit risk exposure.
3. Management efficiency (M): Soundness of managerial oversight.

4. Earnings quality (E): Quality of sustainability and profitability.
5. Liquidity (L): Short-term liabilities and cash management.

Dig. 1

CAMEL Research Model Framework



SIGNIFICANCE AND JUSTIFICATION OF THE STUDY

This research provides an important roadmap for policymakers to assess the long-term impact of the “4Rs strategy” (recognition, resolution, recapitalization and reform). For investors, it illustrates the significant revaluation of PSB stocks, with price-to-book (P/B) ratios increasing from an average of 0.35 in March 2020 to 1.14 in July 2025. It also provides a framework for understanding how the “mass banking” mandate can be transformed into a “profitable banking” model.

With system-wide gross NPAs falling to a multi-decade low of 2.1% as of September 2025, the Indian banking system is in its healthiest state in 13 years. To assess the sustainability of this recovery and to guide the future regulatory framework for sustainable economic expansion a comparative study analyzing the full audited cycle from FY 2021 to FY 2025 is mandatory.

RESEARCH METHODOLOGY

This study follows an empirical, descriptive and longitudinal trend analysis approach.

Data Source: Audited Annual Report (2021-2025), RBI Report on Trends and Developments in Banking in India and Database of Indian Economy (DBIE).

Sample Selection: Purposive sampling of top two public sector banks (SBI, PNB) and top two private sector banks (HDFC, ICICI) based on market capitalization and total assets.

Analytical Tools: Ratio analysis was used for CAMEL scoring and assessing longitudinal trends across the five-year period.

Mathematical Formulas:

All ratios were calculated using standard formulas defined by regulatory authorities:

1. Capital Adequacy Ratio (CAR) = $\frac{\text{Tier I Capital} + \text{Tier II Capital}}{\text{Risk Weighted Assets}} \times 100$
2. Net NPA Ratio = $\frac{\text{Net Non Performing Assets}}{\text{Net Advances}} \times 100$
3. Profit Per Employee (M) = $\frac{\text{Net Profit}}{\text{Total No. of Employee}}$
4. Return on Assets (ROA) = $\frac{\text{Net Profit}}{\text{Total Assets}} \times 100$

LIMITATIONS

The study is primarily limited to secondary financial ratios and does not account for internal qualitative governance factors. The merger of HDFC Ltd into HDFC Bank in FY 2024 may create temporary volatility in longitudinal comparisons.

DATA ANALYSIS & FINDINGS

Capital Adequacy

Table 1
Capital Adequacy Ratio (CAR %) Trajectory (2021-2025)

Bank	March 2021	March 2022	March 2023	March 2024	March 2025
SBI (Public)	13.74%	13.83%	14.68%	14.28%	14.25%
PNB (Public)	14.32%	14.50%	15.50%	15.97%	17.00%
HDFC (Private)	18.80%	18.90%	19.30%	19.90%	19.80%
ICICI (Private)	19.12%	19.16%	18.34%	16.30%	16.60%

Sources: Compiled from Audited Annual Reports (2021-2025).

Analysis: Private sector banks consistently maintained a higher capital buffer throughout the recovery phase. However, by 2025, public sector banks like PNB successfully raised their CAR to 17.00%, securing highly comfortable capital positions well above regulatory requirements.

1.12.2 Asset Quality

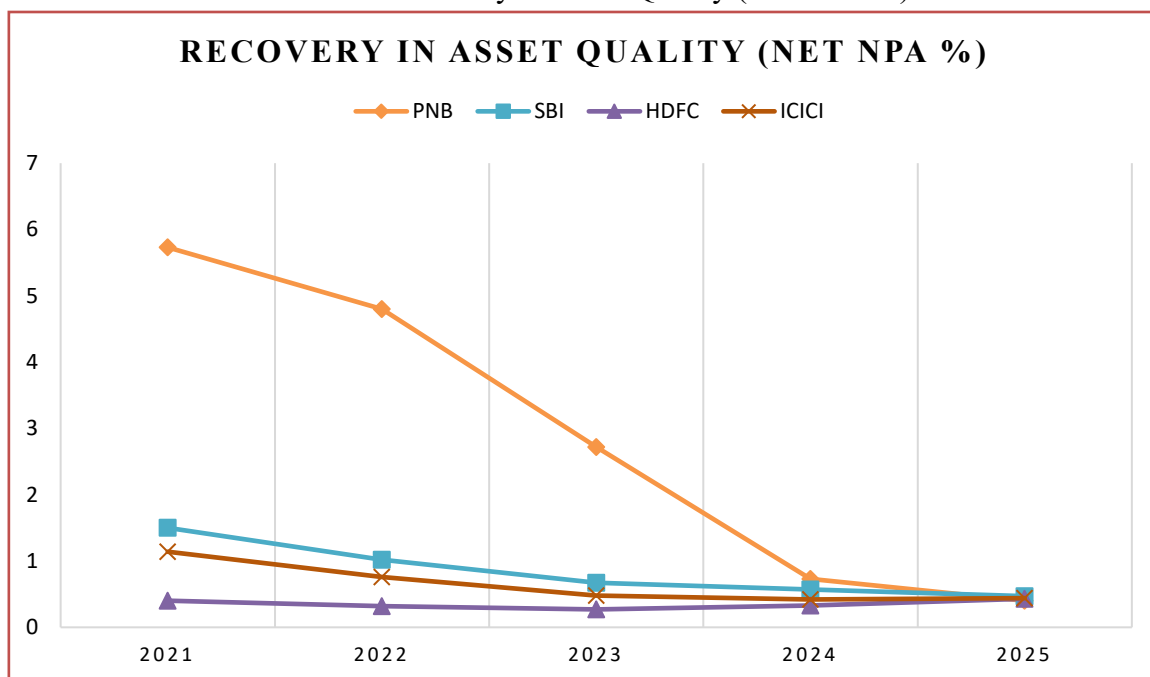
Table 2
Comparative Asset Quality (Net NPA %) Evolution (2021-2025)

Bank	March, 2021	March, 2022	March, 2023	March, 2024	March, 2025	Trend
SBI (Public)	1.50	1.02	0.67	0.57	0.47	Decadal Low
PNB (Public)	5.73	4.80	2.72	0.73	0.40	Recovery Leader
HDFC (Private)	0.40	0.32	0.27	0.33	0.43	Stable
ICICI (Private)	1.14	0.76	0.48	0.42	0.44	Consistent

Source: Compiled from Audited Annual Reports (2021-2025).

Analysis: The historic turnaround in Punjab National Bank, which reduced its Net NPA from 5.73% to 0.40%, exemplifies the success of resolution frameworks. By 2025, PSBs have effectively matched private sector benchmarks in credit quality. The reduction of system-wide gross NPAs to 2.1% by 2025 was heavily catalyzed by the IBC (Insolvency and Bankruptcy Code, 2016) framework. Public sector banks actively leveraged the NCLT (National Company Law Tribunal) to resolve legacy corporate accounts, fundamentally cleaning PSB balance sheets and elevating Provision Coverage Ratios (PCR) to robust levels.

Fig. 2
Decadal Recovery in Asset Quality (Net NPA %)



Source: Compiled from Audited Annual Reports (2021-2025).
Management Efficiency

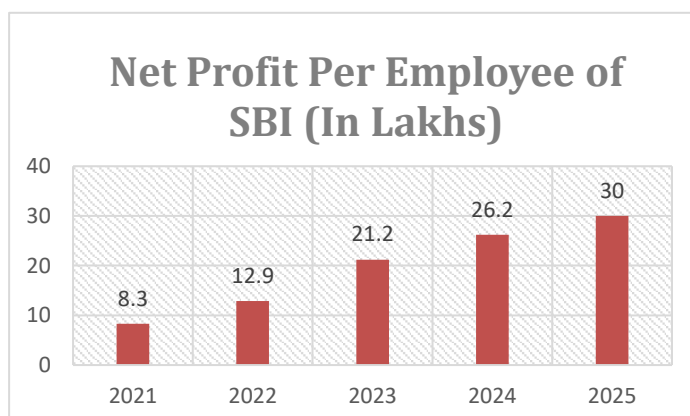
Table 3
Management Efficiency and Productivity Benchmarks (March, 2025)

Metric	SBI	PNB	HDFC	ICICI
Net Profit (In Cr.)	70,901	16,630	67,347	47,227
Profit Per Employee	30,01,389	19,25,000	47,48,000	68,56,000
Daily Digital App Logins	>1.28 Cr	314 L (UPI via ONE)	High	88% Share

Source: Audited Financial Statements and Analyst Presentations.

Analysis: SBI's productivity per employee grew nearly fourfold since 2021 (₹8.3 lakh), proving that digital scaling via platforms like YONO has eliminated historical operational blockages.

Fig. 3
Impact of SBI YONO & Digital Scaling on Productivity



Earnings Quality

Table 4
Comparative Return on Assets (ROA %) Evolution (2021-2025)

Bank	March 2021	March 2022	March 2023	March 2024	March 2025
SBI (Public)	0.48%	0.67%	0.96%	1.04%	1.10%
PNB (Public)	0.12%	0.31%	0.18%	0.54%	1.00%
HDFC (Private)	2.00%	2.03%	2.07%	1.80%	1.90%
ICICI (Private)	1.42%	1.77%	2.13%	1.90%	2.20%

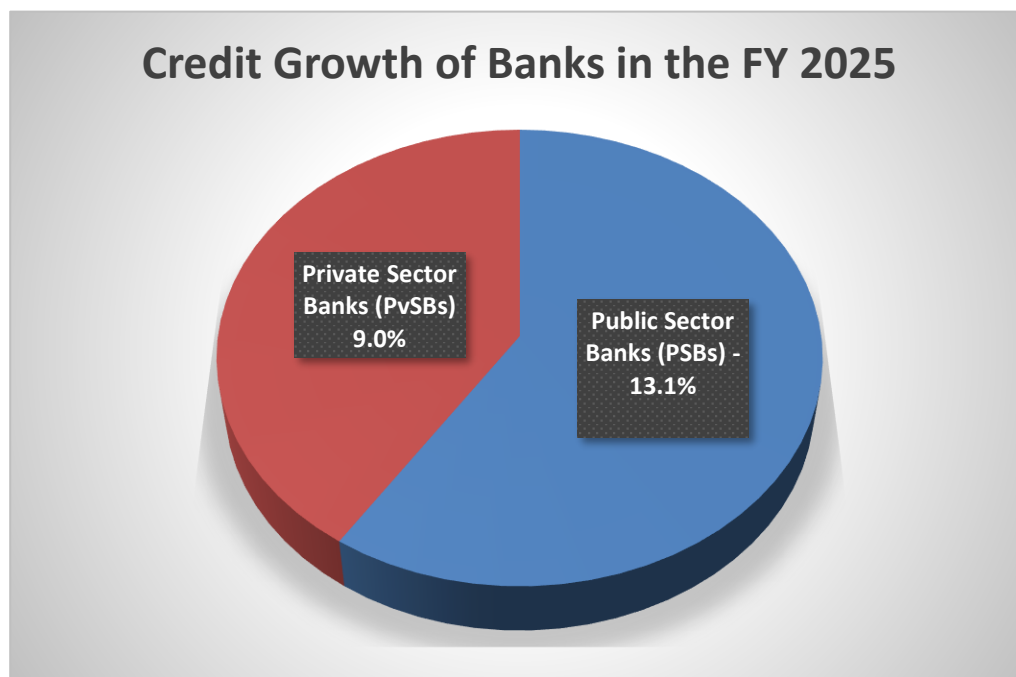
Source: Compiled from Audited Annual Reports (2021-2025).

Analysis: The earning capability of the sampled PSBs has shown sequential strengthening. SBI and PNB successfully pushed their ROA to or above the critical 1.00% threshold by 2025, confirming the shift from recovery to sustainable profitability.

1.12.5 Liquidity

Analysis of Social Mandates on Liquidity: Addressing the final dimension of the CAMEL framework, social mandates like the Pradhan Mantri Jan Dhan Yojana (PMJDY) have profoundly impacted the liquidity profile of public sector banks. By bringing millions of unbanked citizens into the formal financial system, PSBs accumulated a massive and highly stable base of low-cost CASA (Current Account – Savings Account) deposits. This structural advantage insulates their liquidity positions against sudden market shocks, providing a reliable funding base to support the **aggressive 13.1% domestic credit growth** witnessed in FY25.

Dig.4
Sectoral Credit Growth “Flip”



Source: RBI Publication 2024-25.

Note: For the first time in 14 years, PSBs outpaced private peers in portfolio expansion during 2025.

CONCLUSION AND RECOMMENDATIONS

The longitudinal analysis for 2021-2025 indicates a major shift in Indian banking. Public sector banks have successfully transitioned from a phase of asset stress to sustainable profitability, effectively narrowing the historical efficiency gap with private banks. The “performance shift” in 2025, where public sector banks outperformed private banks in lending, indicates a resurgence in lending appetite in state institutions, supported by digital platforms like SBI’s YONO. However, regulatory vigilance is needed to be alert to risks arising from high-value fraud (₹34,771 crore in 2024-25) and technological disruptions.

Table 5

Terminal Year Performance Indicators (March 2025) *(This table highlights the Earnings and Management Efficiency metrics for the final year of the study.)*

Bank Name	Sector	Net Profit (₹ in Cr.)	Profit Per Employee (₹)
SBI	Public	70,901	30,01,389
PNB	Public	16,630	19,25,000
HDFC	Private	67,347	47,48,000
ICICI	Private	47,227	68,56,000

Source: Audited Financial Statements of Banks and Analyst Presentations.

Table 6

Mean Performance of Bank Groups (March 2025) *(Sectoral averages used for comparative convergence analysis.)*

Ratio	PSB Group Mean	PvSB Group Mean	System Average
Net NPA (%)	0.435%	0.435%	0.435%
ROE (%)	17.62%	16.44%	17.03%
CAR (%)	15.63%	18.05%	16.84%

Source: Compiled from Audited Annual Reports 2025.

Annexure II: Note on Structural Adjustments (HDFC Bank merger)

Methodological Treatment of the HDFC Ltd. and HDFC Bank Merger (FY24)

Context: The reverse merger of parent company Housing Development Finance Corporation (HDFC Ltd.) into HDFC Bank became effective on July 1, 2023 (Q2 FY24). This created a structural break in the longitudinal data for HDFC Bank, significantly inflating its total asset base, loan book, and altering its net interest margin (NIM) and CASA ratios artificially when compared on a purely historical basis.

Adjustment Protocol Applied in this Study:

- 1. Ratio Reliance over Absolute Values:** To mitigate the volume distortion caused by the sudden influx of HDFC Ltd.'s assets, this study relies primarily on normalized percentages (such as Net NPA %, CAR %) rather than absolute volume figures for the longitudinal trend analysis spanning FY21 to FY25.
- 2. Per-Employee Normalization:** When assessing management efficiency (Profit Per Employee), the total expanded headcount of the merged entity as of March 31, 2025, was utilized against the consolidated net profit to ensure a true reflection of the current operational efficiency.

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