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Comparative Analysis of Profitability of Public and Private Sector Banks in India

Shreyash Pradip Lonare*, Prof. Kushal M. Dharmik**
*(Student, Department of MBA, Wainganga college of engineering and management, Nagpur, Maharashtra, India
Email: shreyashlonare1925@gmail.com)
** (Professor, Department of MBA, Wainganga college of engineering and management, Nagpur, Maharashtra, India
Email: vaidehi1210@gmail.com)

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Abstract:

The banking sector forms the backbone of the Indian financial system, intermediating savings into productive credit and transmitting monetary policy to the real economy. Within this system, public sector banks (PSBs) and private sector banks (PVBs) coexist as two structurally distinct ownership groups whose profitability trajectories have diverged sharply over the last decade. This paper undertakes a comparative analysis of the profitability of public and private sector banks in India, using key profitability and efficiency indicators - Return on Assets (ROA), Return on Equity (ROE), Net Interest Margin (NIM), Net Profit Margin and asset-quality proxies such as the Gross NPA (GNPA) and Net NPA (NNPA) ratios. The study draws on secondary data compiled from the Reserve Bank of India (RBI), the Press Information Bureau, published bank financial statements and prior empirical research covering the period from FY 2017–18 to FY 2024–25. The analysis finds that although the overall banking system has staged a strong turnaround — with system-wide GNPA falling to a multi-decade low of about 2.3% and system ROA and ROE recovering to roughly 1.37% and 14.1% respectively by FY 2024–25 — private sector banks have consistently outperformed public sector banks on most profitability and efficiency metrics. Private banks sustain higher net interest margins, lower non-performing asset ratios and stronger return ratios, driven by superior cost efficiency, a higher-yielding retail loan mix, better credit underwriting and greater income diversification. Public sector banks, however, have narrowed the gap appreciably since FY 2020–21 following recapitalization, consolidation and the clean-up triggered by the Asset Quality Review. The paper concludes with recommendations for strengthening PSB profitability through governance reform, digital investment, risk-based pricing and continued balance-sheet discipline.

Keywords — **Profitability, Public Sector Banks, Private Sector Banks, Return on Assets, Return on Equity, Net Interest Margin, Non-Performing Assets, Indian Banking.**

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I. INTRODUCTION

The Indian banking industry is one of the largest and most dynamic in the world, and it occupies a central position in the country's drive to become the third-largest economy. As at end-March 2024, India's commercial banking sector comprised 12 public sector banks, 21 private sector banks, 45 foreign banks and a growing cohort of small finance and payments banks. Public sector banks — in which the Government of India holds a majority stake — have historically dominated the sector in terms of branch network, deposit base and social-banking obligations. Private sector banks, re-energised after the liberalisation of 1991 and the entry of "new-generation" private banks such as HDFC Bank, ICICI Bank and Axis Bank, have progressively captured market share in deposits, advances and, most visibly, profitability.

Profitability is the single most important indicator of a bank's long-term viability. A profitable bank

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can absorb loan losses, build capital buffers, invest in technology, reward shareholders and continue to extend credit through economic cycles. Conversely, a sustained erosion of profitability — as witnessed across Indian PSBs during the "twin balance sheet" crisis of 2015–18 — constrains lending, forces repeated recapitalisation from the public exchequer and threatens systemic stability. The system-wide GNPA ratio peaked at 11.46% in March 2018, and aggregate ROA for scheduled commercial banks turned negative at about −0.22% in FY 2017–18, before a decade of structural reform restored the sector to health.

The divergence in profitability between the two ownership groups is both persistent and policy relevant. Private banks consistently report higher return ratios and lower non-performing assets, raising questions about ownership structure, governance, incentive design, operational efficiency and business-model differences. Understanding these differences is important for regulators calibrating capital and governance norms, for the Government as the dominant PSB shareholder, for investors allocating capital, and for depositors assessing the safety and competitiveness of their banks.

Against this backdrop, the present study offers a focused comparative analysis of the profitability of public and private sector banks in India. It benchmarks the two groups across standard profitability and efficiency ratios, interprets the drivers of the observed profitability gap, and evaluates the extent to which post-2018 reforms have narrowed that gap.

II. OBJECTIVES OF THE STUDY

The study is guided by the following objectives:

1. To examine and compare the profitability of public sector and private sector banks in India using key financial indicators such as Return on Assets, Return on Equity, Net Interest Margin and Net Profit Margin.
2. To analyse the trend in asset quality — measured through Gross NPA and Net NPA ratios — of the two ownership groups and to assess its impact on profitability.
3. To identify the principal factors that explain the profitability differential between public and private sector banks.
4. To evaluate the extent to which post-2018 structural reforms (recapitalisation, consolidation, the Insolvency and Bankruptcy Code and digital adoption) have influenced the relative profitability of public sector banks.
5. To offer practical recommendations for improving the profitability and competitiveness of public sector banks while preserving financial stability.

III. REVIEW OF LITERATURE

A substantial body of empirical research has examined the comparative performance and profitability of Indian banks. The literature broadly concludes that private sector banks outperform public sector banks on most profitability and efficiency measures, though the gap is sensitive to the study period and the macro-credit cycle.

Sultana and co-authors (2019), in a profitability analysis of selected public and private sector banks, concluded that private sector banks were generally more competent and cost-effective than public sector banks across most profitability indicators, attributing the difference to better operating efficiency and asset quality (Sultana, A., *Profitability Analysis of Public and Private Sector Banks*, RGMCET, 2019–20).

Kaur (2022), reviewing the comparative position of private and public sector banks, drew on Bansal (2005), who studied the impact of liberalisation on the productivity and profitability of India's public sector banks and found that reform exposed PSBs to competitive pressure that private banks were better placed to exploit (Kaur, A., *A Comparative Study between Private Sector and Public Sector Banks*, 2022).

Murthy, K. V. B. in a review of forty studies on the market structure, conduct and performance of public sector banks in India, documented that

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structural factors — ownership, scale and priority-sector obligations — systematically depress PSB profitability relative to private peers (Murthy, K. V. B, *Public Sector Banks in India: A Review*, Delhi College of Arts and Commerce Journal, Vol. 5).

A comparative study of financial performance (ResearchGate, 2023) testing hypotheses on SBI versus ICICI found a statistically significant difference in Net Interest Margin and Net Profit Margin ratios, with the private bank reporting superior management efficiency and profitability over the study window.

Srivastava, A. (2024), assessing the dual facets of monetary policy on profitability and liquidity of Indian public and private sector banks (HDFC, ICICI, Kotak Mahindra versus SBI, PNB, Bank of Baroda), reported that the average Net Interest Margin of public sector banks was approximately 2.34%, materially below that of private sector banks, and that private banks responded more profitably to monetary-policy shifts (Srivastava, A., *Assessing the Dual Facets of Monetary Policy*, Indiastat Socio-Economic Voices, 2024).

Recent comparative studies (2024–2025) of leading banks — HDFC, ICICI, SBI and Axis — consistently report that private banks exhibit a higher Net Interest Margin (in the range of roughly 2.8%–6.1%), superior ROA and ROE, and markedly lower NPA ratios, with HDFC Bank frequently achieving the highest ROA, ROE, Net Profit Margin and provision-coverage ratio alongside the lowest NPA ratios, and ICICI Bank following closely (see IJCRT, 2606498, 2024; airo.co.in, 2025).

Studies on non-performing assets (IJRPR, 2024) found that among selected banks, HDFC Bank recorded the lowest mean Net NPA (about 1.05%) while weaker public sector and legacy institutions carried substantially higher NPA burdens, confirming the link between asset quality and profitability.

The literature is largely consistent: private sector banks lead on profitability and efficiency, principally because of better asset quality, higher margins and tighter cost control. However, several studies note that the gap narrows during benign credit cycles and after major PSB reforms, and that during specific periods (for example FY 2008–09) public sector banks reported larger aggregate net profits owing to their sheer scale. The present study extends this literature by incorporating the strong post-2021 recovery of public sector banks documented in the most recent RBI data.

IV. RESEARCH METHODOLOGY

1) ***Nature and Type of Study:*** This is a descriptive and analytical study based entirely on secondary data. It compares profitability and asset-quality indicators of public and private sector banks at the bank-group level and for five representative banks over eight financial years.

2) ***Period of Study:*** The analysis covers the eight-year period from FY 2017–18 to FY 2024–25, chosen deliberately to span the trough of the twin balance-sheet crisis (FY 2017–18) and the subsequent recovery, so that the profitability turnaround and the narrowing of the public–private gap can both be observed.

3) ***Sample:*** At the group level, the study uses aggregate data for all public sector banks and all private/scheduled commercial banks. At the representative-bank level, it uses the State Bank of India (SBI) and Punjab National Bank (PNB) as leading public sector banks, and HDFC Bank, ICICI Bank and Axis Bank as leading private sector banks, since these institutions together account for a dominant share of each group's assets.

4) ***Sources of Data:*** Data were compiled from the Reserve Bank of India's *Report on Trend and Progress of Banking in India* and *Financial Stability Report*; the Press Information Bureau backgrounder on the strengthening of India's banking sector (December 2025); audited annual reports and investor presentations of the sample banks; and peer-reviewed empirical studies cited in the review of literature.

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*5) **Variables and Tools of Analysis:*** Profitability is measured using Return on Assets (ROA), Return on Equity (ROE), Net Interest Margin (NIM) and Net Profit Margin. Asset quality is measured using the Gross NPA (GNPA) and Net NPA (NNPA) ratios. Annual bank-group values for public and private sector banks for FY 2017–18 to FY 2024–25 are taken from the statistical tables of the RBI's Report on Trend and Progress of Banking in India [10]. Bank-level ratios for the five sample banks are taken from their audited annual reports. The study applies ratio analysis, year-wise trend analysis and comparative tabulation.

*6) **Limitations:*** The findings rest on secondary data and are therefore subject to the accuracy and comparability of published figures. The representative-bank sample, though dominant by assets, does not capture every institution, so group-level inferences should be read with appropriate caution. Accounting-policy differences, one-off items and the effects of the HDFC–HDFC Bank merger (effective July 2023) can distort year-on-year ratio comparisons.

V. DATA ANALYSIS AND INTERPRETATION

A. System-Wide Profitability Turnaround

The Indian banking system has staged a remarkable recovery over the study period. According to RBI and Government data, system-wide profitability of scheduled commercial banks (SCBs) improved for six consecutive years to FY 2023–24 and strengthened further in FY 2024–25. The table below summarises the headline turnaround.

TABLE I
SYSTEM-WIDE PROFITABILITY OF SCHEDULED COMMERCIAL BANKS

Indicator (Scheduled Commercial Banks)	FY 2017–18 (trough)	FY 2024–25 (recovery)
Return on Assets (ROA)	−0.22%	1.37%
Return on Equity (ROE)	−2.74%	14.09%
Gross NPA ratio	11.46% (peak)	2.3%
Net NPA ratio	6.1% (peak)	0.5%
Aggregate net profit	subdued / losses	Rs. 4.01 lakh crore (record)

The swing from negative returns and double-digit GNPA to healthy, positive profitability reflects the combined effect of the Asset Quality Review, the Insolvency and Bankruptcy Code, PSB recapitalisation and consolidation, and a strong credit cycle. This system-level recovery is the backdrop against which the public–private comparison must be read.

B. Public Sector Banks: Profitability Recovery

Public sector banks were the epicentre of the earlier stress and have been the biggest beneficiaries of the clean-up. Their aggregate net profit rose from about Rs. 1.05 lakh crore in FY 2022–23 to about Rs. 1.78 lakh crore in FY 2024–25 — a gain of roughly 70% in two years. Over the same period total PSB business expanded from about Rs. 203 lakh crores to about Rs. 252 lakh crore, and dividend payouts grew from Rs. 20,964 crores to Rs. 34,990 crores. Asset quality improved sharply: PSB Gross NPA fell from 9.11% in March 2021 to 2.58% in March 2025, while PSB Net NPA declined to a multi-year low of about 0.52% in FY 2024–25 from 1.24% in FY 2022–23. PSB capital adequacy (CRAR) stood at a comfortable 16.4% as of June 2025.

The interpretation is clear: the profitability of public sector banks has recovered strongly, and the group is now soundly capitalised and clean. The recovery, however, started from a very low base and was heavily dependent on provision write-backs and recoveries following the earlier recognition of bad loans.

C. Private Sector Banks: Sustained Profitability Leadership

Private sector banks did not experience the same depth of stress and have maintained consistently higher profitability throughout the cycle. The representative private banks — HDFC, ICICI and Axis — report structurally higher net interest margins, stronger return ratios and lower NPA ratios than their public sector counterparts. Prior empirical workplaces private-bank NIMs in the range of roughly 2.8%–6.1% against an average of about 2.34% for public sector banks, and finds HDFC Bank typically achieving the highest ROA,

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ROE and Net Profit Margin alongside the lowest NPA ratios, with ICICI following closely.

D. Comparative Profitability Snapshot

TABLE II
COMPARATIVE PROFITABILITY SNAPSHOT OF PUBLIC AND PRIVATE SECTOR BANKS

Metric	Public Sector Banks (SBI, PNB)	Private Sector Banks (HDFC, ICICI, Axis)	Leader
Return on Assets (ROA)	0.9%–1.1%	1.6%–2.1%	Private
Return on Equity (ROE)	14%–17%	15%–18%	Private (SBI competitive)
Net Interest Margin (NIM)	2.3%–3.3%	3.6%–4.4%	Private
Gross NPA ratio	2.0%–4.0%	1.2%–2.0%	Private
Net NPA ratio	0.5%–0.9%	0.3%–0.6%	Private
Cost-to-income / efficiency	Moderate–high	Lower (more efficient)	Private

Interpretation

On most profitability and asset-quality indicators, private sector banks occupy the stronger position, although the gap is small on Return on Equity. The widest and most persistent gaps are in Net Interest Margin and Return on Assets, where private banks enjoy a structural advantage from a higher-yielding retail and SME loan mix, a lower cost of funds through strong CASA (current and savings account) franchises, superior fee-income generation, and tighter operating-cost control. On Return on Equity, the gap is narrower — and SBI in particular is highly competitive — partly because public sector banks operate with higher leverage. On asset quality, private banks maintain lower NPA ratios, which translates directly into lower credit costs and higher net profitability.

E. Drivers of the Profitability Gap

The analysis identifies five principal drivers of the private-sector profitability advantage:

1. **Loan mix and pricing.** Private banks skew toward higher-yielding retail, credit-card and SME lending and practise sharper risk-based pricing, lifting NIM. PSBs carry a larger share of lower-margin priority-sector and corporate exposure.
2. **Cost efficiency.** Private banks run leaner operating models with lower cost-to-income ratios, aided by earlier and deeper digital adoption and more flexible staffing.
3. **Asset quality and credit culture.** Stronger underwriting and faster recognition keep private-bank NPAs low, reducing provisioning drag on profits.
4. **Fee and non-interest income.** Private banks generate proportionately more fee, distribution and transaction income, diversifying earnings beyond spread income.
5. **Governance and incentives.** Private banks enjoy greater managerial autonomy, performance-linked incentives and freedom from social-banking mandates and dual regulation (RBI and Government), supporting more commercially driven decisions.

VI. FINDINGS

1. The Indian banking system has undergone a decisive profitability turnaround, with SCB ROA improving from about −0.22% in FY 2017–18 to about 1.37% in FY 2024–25 and ROE from about −2.74% to about 14.1%, while system GNPA fell to a multi-decade low of about 2.3%.
2. Private sector banks consistently outperform public sector banks across most profitability and efficiency indicators — ROA, NIM, Net Profit Margin, cost efficiency and asset quality.
3. The profitability gap is widest and most persistent in Net Interest Margin and Return on Assets; private banks' NIMs cluster well above the roughly 2.34% average of public sector banks.
4. Asset quality is a key driver of the differential: private banks' lower Gross and Net NPA ratios translate into lower credit costs and higher net profitability.
5. Public sector banks have narrowed the gap substantially since FY 2020–21. PSB net profit rose from about Rs. 1.05 lakh crore (FY 2022–

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23) to about Rs. 1.78 lakh crore (FY 2024–25), and PSB GNPA fell from 9.11% (March 2021) to 2.58% (March 2025).

6. On Return on Equity the two groups are closer than on other metrics, and large PSBs such as SBI are competitive, reflecting higher PSB leverage and the scale of their recovery.
7. The private-sector advantage rests on structural factors — loan mix, cost efficiency, credit culture, fee-income diversification and governance autonomy — rather than on any single transient factor.

VII. SUGGESTIONS / RECOMMENDATIONS

1. **Strengthen governance and autonomy of PSBs.** Greater operational independence, professional board-led decision-making, longer management tenures and performance-linked incentives would help PSBs make more commercially driven, profitability-focused decisions.
2. **Rebalance the loan portfolio toward higher-yielding, well-underwritten segments.** PSBs should selectively grow retail, SME and transaction banking — supported by robust risk-based pricing and analytics — to lift net interest margins without compromising credit quality.
3. **Accelerate digital transformation and cost efficiency.** Continued investment in core-banking modernisation, data analytics, straight-through processing and digital customer acquisition can lower cost-to-income ratios and close the efficiency gap with private peers.
4. **Deepen the low-cost deposit (CASA) franchise.** Improving service quality, digital onboarding and salary/transaction relationships would reduce the cost of funds and protect margins.
5. **Sustain asset-quality discipline.** Maintaining strengthened underwriting, early-warning systems, dedicated stressed-asset units and timely resolution under the IBC will keep credit costs low and protect hard-won profitability.
6. **Diversify non-interest income.** Expanding fee-based services — wealth management, insurance and mutual-fund distribution, cards and transaction banking — would reduce reliance on spread income.
7. **Prepare for the Expected Credit Loss (ECL) regime.** Both groups, but PSBs in particular, should build data, models and provision buffers ahead of the RBI's proposed shift to forward-looking ECL provisioning to avoid earnings shocks.
8. **For private banks,** the priority is to defend margins amid rising competition and deposit costs, extend financial inclusion, and manage concentration and unsecured-retail risks prudently as they scale.

VIII. CONCLUSION

The comparative analysis confirms that private sector banks in India remain the more profitable and efficient ownership group, sustaining higher net interest margins, stronger return on assets, better cost efficiency and lower non-performing assets than public sector banks. These advantages are structural — rooted in loan mix, pricing discipline, credit culture, fee-income diversification and governance autonomy — rather than cyclical, which is why the gap has persisted across the study period.

At the same time, the story of the last five years is one of convergence. The decisive post-2018 reforms — the Asset Quality Review, the Insolvency and Bankruptcy Code, recapitalisation, the consolidation of 27 public sector banks into 12, and sector-wide digital adoption — have restored public sector banks to strong profitability and clean balance sheets. PSB net profits have risen sharply, asset quality has reached multi-year highs, and capital adequacy is comfortable. The system as a whole now records record profits, a multi-decade low in bad loans and healthy return ratios.

The policy implication is that ownership structure, governance and business model — not public ownership per se — explain much of the historical profitability gap. If public sector banks continue to reform governance, invest in technology, sharpen

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their business mix and preserve asset-quality discipline, the remaining gap can be narrowed further. A banking system in which both ownership groups are strongly profitable, well capitalised and competitive is the surest foundation for financing India's next decade of growth.

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