A STUDY OF BANKING SECTOR IN INDIAAND OVERVIEW OF PERFORMANCE OF INDIAN BANKS WITH REFERENCE TO NET INTEREST MARGIN AND MARKET CAPITALIZATION OF BANKS

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Abstract

Banking and financial services are essential to the functioning of markets and businesses. The banking industry today is the backbone of contemporary commerce. The banking system is crucial to the progress of every nation. A financial entity that accepts deposits, makes loans, and provides other banking services is called a bank. Financial institution that accepts deposits from savers and makes loans to borrowers. Banking is a crucial and integral component of human existence. People in today's fast-paced society may not have time to build a solid financial support system before making major life changes. Nationalised banks are the backbone of India's financial system. Perhaps no other industry's success can be disentangled from that of the banking industry. According to estimates, the Indian economy's development has slowed dramatically. Business expansion in India's banking sector was relatively subdued in FY12 due to the country's slowing economy and external factors. As a result, financial institutions have been compelled to cut costs, shift priorities, and fortify their balance sheets. Here, the focus is on Indian banks and the financial climate in India.

Keywords: Banking System, Banking, Indian Economy, Economic Slowdown.

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Introduction to meaning of Bank

Financial institutions raise working capital funds by accepting deposits from the general public and by borrowing money from other sources. The cost comes in the form of interest on the money they borrow. Working capital funds must be used by the bank in the form of advances or investments in order for the bank to recoup this cost, cover administrative and other expenses, and generate a profit. In this way, the liabilities of the banks become the assets of the company through the use of working capital funds. Although a bank's profits come only from making loans and investing, it still needs to keep "cash in hand" or "balances with other banks in current accounts" and invest in infrastructure like buildings, office equipment, and furnishings. However, the bank must still account for its 'ware and tare' by providing depreciation, even though these assets provide nothing monetarily. By law, financial institutions must promptly reimburse customer deposits and loan principal when due. Given that these sums have been turned into assets, financial institutions must constantly check that all of their assets are releasable, or liquid, and can be completely recovered to pay their responsibilities. Making a profit is the primary motivation for lending money or investing. When the accrual or expected income from an asset ceases, it is classified as a non-performing asset, and the danger of not recovering even the principle amount invested in the asset emerges.

Objective of the Study

Examine the financial services industry in India and the success of Indian banks.

Importance or Need of the study

Before the establishment of banks, financial activities were handled by money lenders and individuals. At that time, interest rates were very high. Again, there was no security of public savings and no uniformity regarding loans. So as to overcome such problems, the organised banking sector was established, which was fully regulated by the government. The organised banking sector works within the financial system to provide loans, accept deposits, and provide other services to their customers. The following functions of the bank explain the need for the bank and its importance: To provide security for the savings of customers. To control the supply of money and credit. To encourage public confidence in the workings of the financial system, increase savings quickly and efficiently. To avoid concentrating financial power in the hands of a few individuals and institutions. To set equal norms and conditions (i.e., rate of interest, period of lending, etc.) for all types of customers.

Research Methodology

Research methods are critically important since they determine how precise, reliable, and sufficient the findings will be. This necessitates elaboration on the researcher's technique, or the means by which the research was conducted. It could be thought of as the study of the scientific method itself. Thus, the research methodology not only describes the research methodologies but also takes into account the reasoning behind each approach employed within the scope of the study. Methodology in research is the process of systematically investigating and finding answers to research questions. Clearly stating the methodology utilised in performing the research allows the reader to evaluate the study's validity and determine whether or not the researcher's claims about the study's quality are justified.

Research design used in the study

Because of its capacity to reduce bias and maximise the reliability of data, a descriptive research method was chosen for this investigation. Research with a descriptive focus assumes familiarity with the subject matter, has a well-defined goal, and calls for well-defined data. Financial statements from prior years were mined for relevant data, and their analysis was used to provide a critical appraisal of the information at hand. Therefore, by incorporating an analytical component within the descriptive study. The research informed the choice of data to gather and the method to employ for doing so.

Data Collection Method

After a study problem and research strategy have been established, data gathering can commence. There are essentially two varieties of information:

Primary Data

It's data that the researcher has collected and double-checked themselves. Several primary data collection strategies are employed to guarantee that the final product is useful, practical, and credible. In-depth interviews and careful observation were the primary methods of data collection. This was achieved as a result of high-ranking company officials engaging in in-person communication and observation.

Secondary Data

It is the data which is already collected by someone else. Researcher has to analyze the data and interprets the results. It has always been important for the completion of any report. It provides reliable, suitable, adequate and specific knowledge. Researcher collected the secondary data by using banks annual reports and authorized websites of banks.

Type of data used in the study

The majority of the information used in the study is secondary in nature, and it was gathered from various online sources, such as the annual reports of individual Indian banks and the websites of major financial institutions in the country (such as www.axis.com, www.sbi.co.in, etc.). Staff members and the branch manager from various banks provided invaluable assistance in fulfilling the needs in data gathering for this study.

Methods of data analysis

Certain statistical techniques were utilised for accurately and efficiently measuring a wide range of phenomena and drawing reasonable inferences from the resulting data. After cleaning, sorting, and tabulating the data, it was ready for analysis. In this research, graphical analysis was utilised to compare the efficiency of several banks in India. MS- EXCEL is used for the data analysis.

Review of Literature

In the first decade of the 18th century, banking was established in India. The General Bank of India, which opened in 1786, and the Bank of Hindustan, which opened in 1819, were the first banks in India. The State Bank of India, which dates back to Calcutta's "The Bank of Bengal" in June 1806, is India's oldest financial institution. Along with the Bank of Bombay and the Bank of Madras, this was one of the three presidential banks. The British East India Company issued licences for the creation of the presidency banks. In 1925, they united to become what is now known as the Imperial Bank of India, which changed its name to the State Bank of India after India gained its independence. The banks under the Presidency, and their predecessors, served as de facto central banks for a long period of time. In 1935, the Reserve Bank of India legally assumed control of the Indian banking system. The Reserve Bank of India was nationalised and granted more authority when India gained its independence in 1947.

Early History of Indian Banking Sector

When it opened in 1865, the Allahabad Bank was the first Indian-owned bank. However, by the late 18th century, India had only a handful of what we would recognise today as banks. Cotton was being shipped from the Confederate States to Lancashire before the American Civil War interrupted the trade route. Promoters set up banks to ease the flow of money in the Indian cotton trade. Overextended on speculative investments, most of the new Indian banks of the time went under. Those who had their money in the banks watched it go and became disenchanted with keeping it there. Only Europeans were allowed to work in India's banking industry until the turn of the twentieth century, a period spanning several decades. Foreign banks primarily settled in Calcutta starting in the 1860s. Calcutta and Bombay offices were opened by the Comptoired 'Escompte de Paris in 1860 and 1861, respectively; by 1862, the firm had also established a presence in Madras and Pondicherry, then French territories in southern India. As a result of its status as the busiest port in India thanks to British trade, Calcutta eventually became a major financial centre.

Nationalized Banks in India

In India, the majority of financial institutions are government-owned. In 1969, while Mrs. Indira Gandhi was prime minister, she nationalised the banks in India. The main reason for nationalisation was to increase access to banking services and inexpensive financing for rural areas and Indian farmers. In 1969, the federal government took over 14 different bank institutions. It wasn't until 1969 that India's other public sector banks joined the State Bank of India (SBI). The SBI Act of 1955 effectively nationalised the bank.In 1980, the Indian government took over the banking sector for a second time. Seven additional banks with balances in excess of 200 crores were nationalised. At the turn of the twentieth century, India's economy experienced a period of relative stability. Small banks, often catering to certain ethnic or religious groups, had been founded by Indians. In India, the banks affiliated with the presidency had sway. Several Indian joint stock banks and an exchange bank also existed. Each of these financial institutions catered to a unique sector of the economy. The exchange banks, which were primarily owned by Europeans, provided funding for international business transactions. It was difficult for Indian joint stock banks to compete with the presidency and exchange banks because they lacked the capital and experience to do so. This breakdown allowed Lord Curzon to remark, "In regards to banking it seems we are behind the times." We're like an antique sailing ship with plenty of awkward sections created by thick wooden bulkheads. Bank of India, Corporation Bank, Indian Bank, Bank of Baroda, Canara Bank, and Central Bank of India are only few of the banks that have been around since those times.

Performance of Indian Banking Sector

State Bank of India (SBI), Punjab National Bank (PNB), Canara Bank (CB), Bank of India (BoI), Bank of Baroda (BoB), ICICI Bank (ICI), HDFC Bank (HDFC), Axis Bank (Axis), Kotak Mahindra Bank (KMB), and IndusInd Bank (IIB) are the top 10 banks chosen for the analysis, based on market capitalization as of 30 March 2012. Perhaps no other industry's success can be disentangled from that of the banking industry. From an expected 8.39% in FY11, the Indian economy is predicted to grow at a much more modest 6.88% in FY12. Several things may be to blame for this slowdown: Foreign investment into India has been affected by ongoing issues in Europe and a slowing US economy. Government inaction on a number of pressing policy challenges and reforms has led to policy paralysis. Spending without restraint causes a budget deficit. High levels of inflation cause interest rates to rise. Depreciation of the rupee, which worsens the trade deficit. The RBI has tightened monetary policy over the past two years due to growing inflation for these and other reasons, hiking the benchmark repo rate 13 times in a row. High interest rates dampened economic expansion but did little to slow price increases. The profitability of banks has been negatively impacted by persistent high inflation, which has resulted in a slowdown in lending growth and an increase in the cost of financing. The efficiency of Indian banks was also impacted by a variety of policy and regulatory shifts. The requirement to expand into generally less profitable under-banked and unbanked areas, as well as the migration to a system to track non-performing assets (NPAs) throughout the whole loan book, were all examples Banks ‘margins.

Deregulation of the savings deposit rate and an increase in the cost of bulk deposits also played a role in the reduction in NIMs, as did a decrease in the growth of savings deposits (caused by the large interest rate differential). Eight of the 10 banks analysed saw a reduction in their NIMs during FY12, with SBI and ICICI Bank being the only two exceptions. SBI's net interest margin rose to 3.85% in FY12, as shown. As a result, its NIMs for both international and domestic operations rose by 30 basis points to 1.67 percent and 54 basis points to 4.17 percent, respectively. PNB maintained a relatively consistent total operating income ratio of 76.14 percent from FY11 to FY12, but its net interest margin (NIM) fell from 3.96 percent to 3.84 percent. The rise in deposits cost from 4.57 percent in FY11 to 5.62 percent in FY12 was the primary factor in the decline in the bank's NIM. BoB's NIM fell by 2.97 percentage points, mostly because its domestic NIM fell by 21 basis points to 3.51 percent. The decrease in CASA deposits and the general rise in funding costs drove up the bank's cost of funds. As the growth in yield on advances lagged behind the growth in cost of funds, Canara Bank's NIM shrank by 2.50 percentage points in FY12. Due to a change in the composition of ICICI Bank's deposits, the offloading of large deposits, and a reduction in securitization losses, the bank's net interest margin (NIM) climbed from 2.64 percent in FY11 to 2.73 percent in FY12. The bank has mainly left undesirable business categories, such as low-value personal loans in the domestic market and exposures outside of India in the foreign market. The bank's domestic NIM improved by 6 basis points to 3.04 percent, while its international NIM grew by 35 basis points to 1.23 percent. As a result of fresh disbursements at higher interest rates and the return and prepayment of low yielding loans, the company's international operations saw an improvement in their net interest margins. Due to HDFC Bank's role as collecting banker for certain tax-free bond issuances, the bank's current account floats increased and its cost of funds decreased, resulting in an increase in NIM during the fourth quarter of FY12. Although the bank's NIM was 4.25% in FY11, it dropped to 4.22% in FY12 as a result of an increase in the cost of deposits from 4.30% to 5.72%. In FY12, the bank's NIM was 3.59 percent, down from 3.65 percent in FY11. Similarly, IIB saw its NIMs fall as a result of the rising cost of its funding. Due to its reliance on big business and farming, BoI saw its net interest margin (NIM) drop from 2.92 percent in FY11 to 2.52 percent in FY12.

Observation

As can be seen in the aforementioned graph, the market capitalization of the institutions being examined at the moment is substantial. The SBI has a larger market capitalization than any other company in India, at INR 107643 crores. When compared to SBI, the market capitalization of other nationalised banks is relatively low. In India's private banking sector, HDFC and ICICI have the greatest market capitalizations with INR 147982 and INR 97661 billion, respectively. The market capitalization of private banks varies.

Conclusion

Today's Indian banking industry offers a wide variety of services to a large customer base. It is difficult for private and international banks to expand their services into rural India. The requirement for investment in critical infrastructure in a developing country like India necessitates that corporations allocate their funds between debt and equity. For the banking industry to successfully raise capital, fuel economic expansion, and maintain an adequate capital adequacy ratio, a robust domestic capital market is essential. There is also an upward tendency in bank investments. Researchers studying the banking sector came to the conclusion that the persistent weakness of the money market was causing a wide range of problems in the industry.

Limitation of the study

Problems with gathering data. In most cases, outside researchers are not permitted to participate in official company research. So it was tough to get the research done within the company. In the first phases, there was a lack of familiarity with the bank. The bank's branch manager hid its financial records. The data used for analysis and interpretation comes from the publicly available annual reports of Indian banks during the study period. The study only covers the years 2019 through 2022 because that's all we had accessible to us at the time.

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