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

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Abstract:

The backbone of business, industry, and trade is finance and banking. Nowadays, the banking industry serves as the foundation of contemporary industry. Each nation's ability to develop rests heavily on its financial sector. A bank is a type of financial institution that deals with loans, deposits, and other services. It accepts deposits from people who wish to save money and loans money to people who need it. One of life's most fundamental and significant aspects is banking. Without creating the appropriate bank network, people may not be able to make the required adjustments in today's rapid lifestyle. Nationalized banks dominate India's financial system. The banking industry's success is more strongly correlated with the.

KEY WORDS:
Banking System, Banking, Indian Economy, Economic Slowdown.

1.1 INTRODUCTION TO MEANING OF BANK

Banks raise working capital funds by accepting public deposits as well as borrowing from other sources. They must pay a fee in the form of interest on the money they have raised. Banks must use the working capital funds by either making loans or investments in order to pay this cost, administrative and other costs, and to turn a profit. Working capital funds, which are liabilities for banks, are thereby transformed into assets. As we have already seen although a bank's earnings accrue only from advances and investments it has to hold " Cash in Hand" or "Balances with other banks in Current Accounts" and also invest some amounts in premises, furniture, fixtures and other assets which are essential tools for its trade. These resources
liabilities in case of emergency.
Gaining a profit is the primary goal of loaning money or making investments. The accrual or projected revenue from an asset stops, and the danger of not even retrieving the principle amount invested in the asset occurs if no income is made on any advances, which is classified as a non-performing asset.

1.2 OBJECTIVE OF THE STUDY

1.To study the Indian banking sector and performance of Indian banks.

1.3 IMPORTANCE OR NEED OF THE STUDY

Before banks were established, people and moneylenders handled all financial transactions. Interest rates were relatively high at that time. Once more, there was no guarantee for public deposits, and there was no standardization of loans. The government fully regulated the newly founded organized banking industry, which was created to address these issues. To lend loans, receive deposits, and offer other services to its clients, the organized banking industry operates inside the financial system. The bank's necessity and significance are demonstrated by the following operations:

to protect consumer savings by offering security. to manage the flow of credit and money Encourage rapid and effective savings growth to boost public trust in the operation of the financial system.

2. RESEARCH METHODOLOGY

The method used to conduct the study needs to be carefully considered because it directly affects the sufficiency, correctness, and reliability of the findings. It stands to reason that the research technique the researcher employed at the time of the study ought to be detailed. It may be viewed as a science that studies how scientific research is conducted. So, the research methodology discusses the research methodologies as well as the reasoning behind each approach in the context of the research study. A research technique is a process for methodically examining and resolving research issues. A researcher must explicitly identify the technique used in the research if he or she wants to call it a good study.

2.1 RESEARCH DESIGN USED IN THE STUDY:

The adoption of a descriptive research approach in this study ensures that bias is minimized and data dependability is maximized. A descriptive study relies on prior knowledge of the subject, but a research study has a highly definite purpose and precise data needs. In order to critically evaluate the material available, the researcher had to use fact and information that were already available through financial statements from prior years and analyze them. Hence, by doing research that is both descriptive and analytical in character. The research was used to determine the type of data to be gathered and the technique to be followed.

2.2 DATA COLLECTION METHOD:

The process of data collection begins after a research problem has been defined and research design has been chalked out. There are two types of data

2.2.1 PRIMARY DATA:

It is first hand data, which is collected by researcher itself. Primary data is collected by variousapproaches so as to get a precise, accurate, realistic and relevant data. The main tool is gathering primarydata was investigation and observation. It was achieved by a direct approach and observation from the officials of the company.

2.2.2 SECONDARY DATA:

It is information that has previously been gathered by another party. The researcher must interpret the findings after analyzing the data. Every report's completion has always depended on it. It offers accurate, pertinent, sufficient, and focused knowledge. The researcher used bank annual reports and official bank websites to gather secondary data..

2.3 TYPE OF DATA USED IN THE STUDY

The necessary data for the study are primarily secondary in nature, and they were gathered from the annual report of the Indian banks, which included the necessary financial data gathered from those banks' official websites, such as www.axis.com and www.sbi.co.in, as well as some other websites on the internet.

The invaluable assistance provided by employees and branch managers of various banks greatly helped to meet the requirements for the data gathering necessary to finish this research.

2.4 METHODS OF DATA ANALYSIS:

Several statistical approaches were employed to measure different phenomena and analyze the data acquired effectively and efficiently to get reasonable results. Edited, categorized, and tabulated data were collected for analysis. In this study, a graphical technique was employed as an analytical tool to compare the performance of Indian banks. The data is analyzed using the MS-EXCEL program.

3.1 REVIEW OF LITERATURE

In India, banking began in the first decade of the 18th century. The General Bank of India, founded in 1786, and Bank of Hindustan, both of which are no longer in operation, were the earliest banks. The State Bank of India, which began as "The Bank of Bengal" in Calcutta in June 1806, is the oldest bank still operating in India. The Bank of Bombay and the Bank of Madras were the other two of the three presidential banks. The British East India Company issued licences for the establishment of the presidency banks. In 1925, they combined to become the Imperial Bank of India, which later changed its name to the State Bank of India upon India's independence..

The Presidency banks and their successors both operated in a quasi-central capacity for a long time. In 1935, the Reserve Bank of India legally assumed control over the country's banking industry. The Reserve Bank was given greater authority and was nationalized following India's independence in 1947

3.1.1 EARLY HISTORY OF INDIAN BANKING SECTOR

The Allahabad Bank, founded in 1865, was the first bank with 100 percent Indian ownership. Yet, there were barely any banks in India in the modern sense by the end of the 18th century. The Confederate States' supply of cotton to Lancashire was halted by the American Civil War. Banks were created by the promoters to fund the trade in Indian cotton. Most of the banks established in India during that time failed because of their significant commitment to speculative businesses. The depositors suffered financial losses and lost interest in retaining their money in banks. Throughout the next years, up to the start of the 20th century, banking in India was solely the province of Europeans. In the 1860s, foreign banks also began to establish themselves, especially in Calcutta. A branch of the Comptoire d'Escompte de Paris was established in Calcutta in 1860, followed by another in Bombay in 1862. During the time, Pondicherry was a French colony. Due in large part to commerce with the British Empire, Calcutta was the busiest trading port in India and developed into a major financial hub.

4.1 NATIONALIZED BANKS IN INDIA

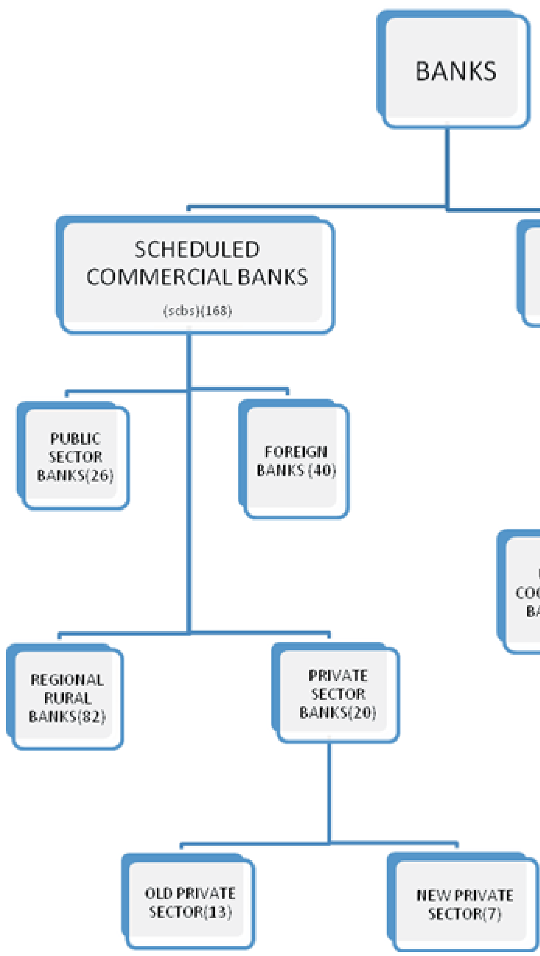
Nationalized banks dominate the Indian banking system. In 1969, Mrs. Indira Gandhi, the country's prime minister, nationalized the banks in India. The main goal of nationalization was to establish a banking infrastructure in rural regions and provide low-cost credit to Indian farmers. In 1969, fourteen banks were nationalized.

The only public sector bank in India prior to 1969 was State Bank of India (SBI). The SBI Act of 1955 led to the nationalization of SBI. In the year 1980, the second stage of nationalizing Indian banks was completed. Seven additional banks with balances of more than 200 crores were nationalized.

The Indian economy was going through a relatively stable phase around the turn of the 20th century. Indians had founded a number of small banks, the majority of which catered to certain racial and religious groups. In India, banking was controlled by the presidential banks. Also, there were a few exchange banks and many Indian joint stock banks. These banks all conducted business in various economic sectors. The exchange banks, which were predominately controlled by Europeans, focused on financing international commerce. Indian joint stock banks lacked the maturity and experience to compete with the presidency and exchange banks and were often undercapitalized.
With this segmentation, Lord Curzon could see, "It appears that we are behind the times in terms of banking. We are segregated into distinct, clumsy sections like a vintage sailing ship by sturdy wooden bulkheads." Several of the banks that were created at that time are still in operation today, including the Central Bank of India, Bank of India, Corporation Bank, Indian Bank, Bank of Baroda, and Indian Bank.

4.2 PRIVATE BANKS IN INDIA

Figure no. 1- Structure of Bank



Prior to it, all Indian banks were privately owned. They were established before independence to meet the requirements of the populace in banking. Nonetheless, public sector banks began to play a dominating role in the banking structure once banks were nationalized in 1969. When the Reserve Bank of India promoted the establishment of private banks as part of its objective of liberalizing the Indian Banking Industry, the private sector banking in India gained a boost. Limited by the Housing (HDFC) was amongst the first to receive an 'in principle' approval from the Reserve Bank of India (RBI) toset up a bank in the private sector

4.3 STRUCTURE OF BANKS

5.1 PERFORMANCE OF INDIAN BANKING SECTOR

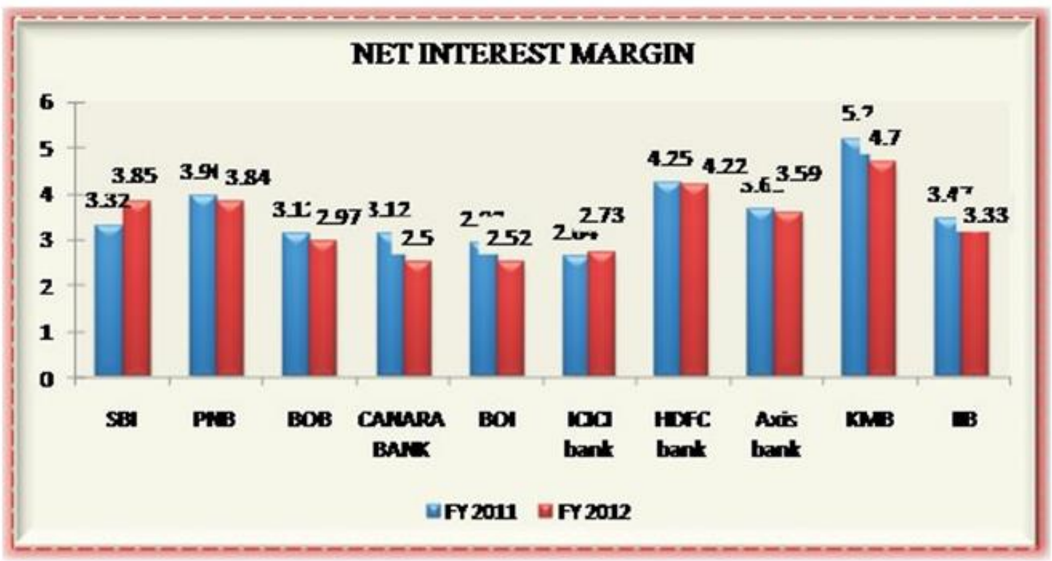
State Bank of India (SBI), Punjab National Bank (PNB), Canara Bank, Bank of India (BoI), Bank of Baroda (BoB), ICICI Bank, HDFC Bank, Axis Bank, Kotak Mahindra Bank (KMB), and IndusInd Bank are the top 10 banks chosen for the research based on market capitalization as of March 30, 2012.
Maybe more than any other sector, the banking industry's success is directly correlated with the state of the economy. According to estimates, the Indian economy's growth drastically dropped from 8.39 percent in FY11 to 6.88 percent in FY12. Many variables might be to blame for this slowness, including:

Foreign investments into India are impacted by ongoing issues in Europe and a slowing US economy.
Policy stagnation due to the government's inaction on a number of reforms and policy problems Fiscal negligence resulting in a deficit
High interest rates are a result of rising inflation.
Depreciation of the rupee, which worsens the current account deficit

Together with these other causes, the RBI was compelled to tighten monetary policy during the past two years, raising the benchmark repo rate 13 times in a row. High interest rates have a substantial influence on economic growth but little effect on inflation. A halt in credit expansion and a rise in funding costs as a result of persistently high inflation have negatively impacted banks' profitability.
The performance of Indian banks was also impacted by a number of policy and regulatory developments. They included the directive to expand in generally less lucrative under-banked and unbanked areas, the migration to the system tracking of non-performing assets (NPAs) of the whole loan book, and increased provisioning percentages for NPAs and restructured loans.

5.2 NET INTEREST MARGIN:

Figure no. 2 Net interest margin chart



OBSERVATIONS:

During nearly two years of the monetary tightening cycle, researchers noticed that interest rates had peaked before the close of FY12. As a result, the deposits lag has ended, which negatively impacted bank profitability. The slowing of savings deposit growth (because to a large interest rate disparity), the deregulation of the savings deposit rate, and the increased cost of bulk deposits were other factors that contributed to the shrinkage of NIMs.
In FY12, NIMs decreased for eight out of the 10 banks that were being examined; SBI and ICICI Bank were the only two exceptions. Hence, in FY12, SBI's NIM increased to 3.85%. Its NIMs for domestic and international operations rose by 30 basis points and 54 basis points, respectively, to 1.67 percent and 4.17 percent, leading to this result.
PNB's total operating income ratio remained roughly constant at 76.14 percent, although its net interest margin decreased from 3.96 percent in FY11 to 3.84 percent in FY12. The increase in deposits costs from 4.57 percent in FY11 to 5.62 percent in FY12 for a variety of causes was primarily blamed for the decline in the bank's NIM.

The NIM of BoB decreased by 2.97 percent, principally because its domestic businesses' NIMs decreased by 21 bps to 3.51 percent. Lower CASA deposits and an overall rise in financing costs were the main causes of the bank's cost of funds rising.
While the return on advances increased less than the cost of funds increased, Canara Bank's NIM decreased by 2.50 percent in FY12.
Due to a change in deposit composition, the elimination of bulk deposits, and fewer securitization losses, ICICI Bank's NIM climbed from 2.64 percent in FY11 to 2.73 percent in FY12. In both its domestic and foreign businesses, the bank has essentially departed unprofitable business sectors including small-ticket personal loans and most exposures unrelated to India. The bank's domestic and international NIMs rose by 6 bps and 35 bps, respectively, to 3.04 percent and 1.23 percent. NIMs of its international operations improved principally as a result of prepayment and repayment of low yielding loans, as well as an increase in yield on international advances (caused by fresh disbursements at higher interest rates)
.
In the last quarter of FY12, NIM increased due to greater current account floats and lower funding costs since HDFC Bank served as the collecting banker for some of the tax-free bond issuances. The cost of deposits increased from 4.30 percent in

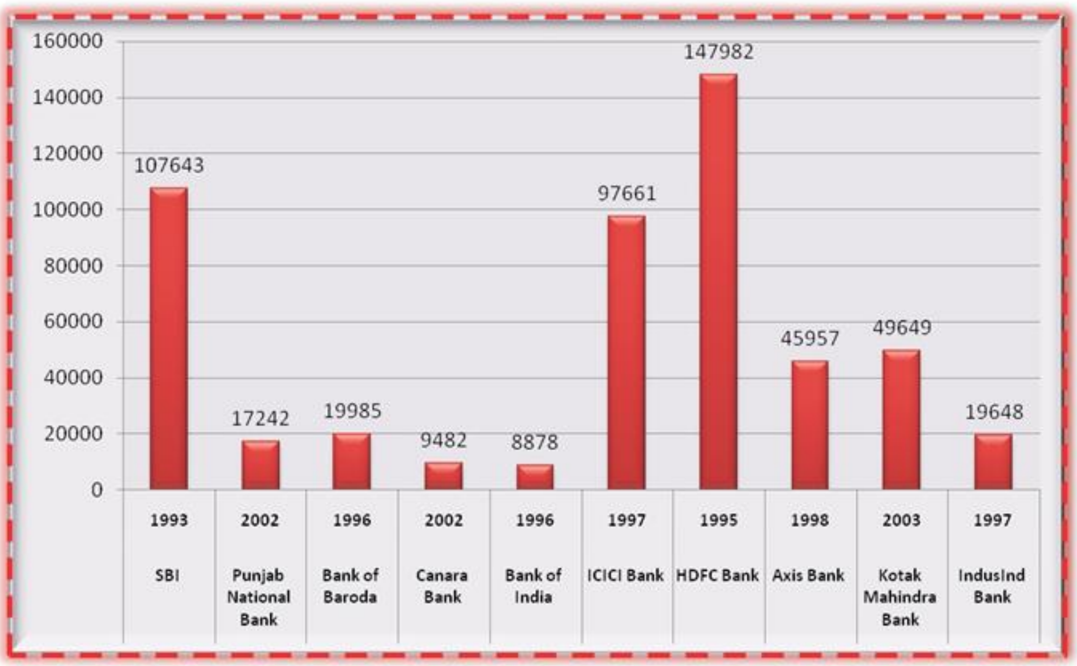
FY11 to 5.72 percent in FY12, which caused the bank's NIM to only slightly decline from 4.25 percent in FY11 to 4.22 percent in FY12. From 3.65 percent in FY11 to 3.59 percent in FY12, the bank's NIM decreased. The increasing cost of financing also caused IIB's NIMs to decrease. BoI's reliance on big business and agriculture caused a decrease in its NIM from 2.92 percent in FY11 to 2.52 percent.

Table no. 1 Market Capitalization of Banks Currently Under Review

Name of Bank	Year of Listing	Market Cap (INR crores)*	Name of Bank	Year of Listing	Market Cap (INR billion)*
SBI	1993	107643	ICICI Bank	1997	97661
Punjab National Bank	2002	17242	HDFC Bank	1995	147982
Bank of Baroda	1996	19985	Axis Bank	1998	45957
Canara Bank	2002	9482	Kotak Mahindra Bank	2003	49649
Bank of India	1996	8878	IndusInd Bank	1997	19648

* As of 08/26/2013 (rounded off)

Figure no.3 Market Capitalization of Banks Currently under Review



Observations:

Researchers should note that the market capitalization of banks presently undergoing review is shown in the above chart. The market capitalization of SBI, which is INR 107643 crores, is the largest. In comparison to SBI, other nationalized banks have lower market capitalization levels and smaller market cap values. With market caps of INR 147982 and INR 97661 billion, respectively, HDFC and ICICI have the biggest market capitalizations in the private banking industry. The market cap value of other private banks varies.

6.1 CONCLUSIONS

India's banking industry is currently fairly developed in terms of supply, scope, and product offerings. The reach in rural India continues to be a problem for the private sector and international banks.

In a developing country like India, where infrastructure projects are in high demand, corporations must have the correct combination of long-term resources and risk capital to decide on the optimal balance of debt and equity. For the banking industry to obtain capital, promote expansion, and maintain an appropriate capital adequacy ratio to manage risk, a healthy domestic capital market is also essential. Investments in banks are also trending upward.

6.2 LIMITATIONS OF THE STUDY:

Data collecting was difficult.
In general, the organization prohibits outsiders from doing any type of research or study there. Thus, it was exceedingly challenging to complete the investigation within the business.

initially having little understanding of the bank.
The branch manager resisted providing the bank's financial information.
Based on secondary data from the Indian banks' published annual reports for the research period, the analysis and interpretation were done. Owing to the short amount of time available, the study has only been conducted for a total of 5 years..

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