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"A study of banking sector in India with reference to Market capitalization of Banks"

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ABSTARCT

Finance and banking is the life blood of trade, commerce and industry. Now-a- days, banking sector acts as the backbone of modern business. Development of any country mainly depends upon the banking system. A bank is a financial institution which deals with deposits and advances and other related services. It receives money from those who want to save in the form of deposits and it lends money to those who need it. The banking is one of the most essential and important parts of the human life. In current faster lifestyle peoples may not do proper transitions without developing the proper bank network. The banking System in India is dominated by nationalized banks. The performance of the banking sector is more closely linked to the economy than perhaps that of any other sector. The growth of the Indian economy is estimated to have slowed down significantly. The economic slowdown and global developments have affected the banking sectors' performance in India resulting in moderate business growth. It has forced banks to consolidate their operations, re-adjust their focus and strive to strengthen their balance sheets. Here researcher's objective is to study the Indian banking sector and performance of Indian banks.

Key words: Banking System, Banking, Indian Economy, Economic Slowdown.

Introduction

Banks receive deposits from public and also borrow money from other sources for raising Working Capital Funds. They have to pay cost by way of interest on the funds raised. To recover this cost and to meet the administrative and other expenses as also to earn profit, banks have to utilize the working capital funds by either granting advances or making investments. Thus working capital funds, which are banks liabilities, get converted 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 assets do not generate any income for the bank on the other hand depreciation has to be provided taking into account their 'ware and tare'.

Banks are obliged by law, to repay the deposits and borrowings as and when they fall due for repayment. As these amounts have already been converted into assets, banks have to ensure all the time that all the assets are releasable, i.e. are liquid and can be fully recovered to meet the liabilities when need arises.

The main object of granting loans or making investments is to earn profit. If any income is not earned on any advances it is treated as a Non- Performing Assets where the accrual or expected income from an asset stops, the possibility of not recovering even the principal amount invested in the asset also arises.

Objective Of The Study

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

Importance Or Need Of The Study

Before the establishment of banks, the financial activities were handled by money lenders and individuals. At that time the interest rates were very high. Again there were no security of public savings and no uniformity regarding loans. So as to overcome such problems the organized banking sector was established, which was fully regulated by the government. The organized 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 of the bank and its importance:

- To provide the security to the savings of customers.
- To control the supply of money and credit
- To encourage public confidence in the working of the financial system, increase savings speedily and efficiently.
- To avoid focus of financial powers in the hands of a few individuals and Institutions.

Research Methodology

The procedure adopted for conducting the research requires a lot of attention as it has direct bearing on accuracy, reliability and adequacy of result obtained. It is due to reason that research methodology, which researcher used at the time of conducting the research, needs to be elaborate upon. It may be understood as a science of studying how research is done scientifically. So, the research methodology not only talks about the research methods but also consider the logic behind the method used in the context of the research study. Research methodology is a way to systematically study and solve the research problems. If a researcher wants to claim his study as a good study, he must clearly state the methodology adapted in conducting the research the research so that it may be judged by the reader whether the methodology of work done is sound or not.

Research design used in the study:

Descriptive research design is used in this study because it will ensure the minimization of bias and maximization of reliability of data collected. Descriptive study is based on some previous understanding of the topic; research has got a very specific objective and clear cut data requirements. The researcher had to use fact and information already available through financial statements of earlier years and analyze these to make critical evaluation of the available material. Hence by making the type of the research conducted to be both descriptive and analytical in nature. From the study, the type of data to be collected and the procedure to be used for this purpose were decided.

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

Primary data:

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

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 required data for the study are basically secondary in nature and the data are collected from The annual report of the Indian banks.

The valuable cooperation extended by staff members and the branch manager of different banks, contributed a lot to fulfill the requirements in the collection of data in order to complete this research

Methods of data analysis:

For measuring various phenomena and analyzing the collected data effectively and efficiently to draw sound conclusions, certain statistical techniques were used. The data collected were edited, classified and tabulated for analysis. The analytical tool used in this study is graphical method to compare the performance of Indian banks.

This study is based on the secondary data. For the purpose of present study the data is collected from the annual reports of the selected banks, Ace Equity software, research journals, business magazines, various financial dailies, reports, websites etc.

Review Of Literature

Banking in India originated in the first decade of 18th century. The first banks were The General Bank of India, which started in 1786, and Bank of Hindustan, both of which are now defunct. The oldest bank in existence in India is the State Bank of India, which originated in the "The Bank of Bengal" in Calcutta in June 1806. This was one of the three presidency banks, the other two being the Bank of Bombay and the Bank of Madras. The presidency banks were established under charters from the British East India Company. They merged in 1925 to form the Imperial Bank of India, which, upon India's independence, became the State Bank of India.

Early History Of Indian Banking Sector

The first fully Indian owned bank was the Allahabad Bank, established in 1865. However, at the end of late-18th century, there were hardly any banks in India in the modern sense of the term. The American Civil War stopped the supply of cotton to Lancashire from the Confederate States. Promoters opened banks to finance trading in Indian cotton. With large exposure to speculative ventures, most of the banks opened in India during that period failed. The depositors lost money and lost interest in keeping deposits with banks. Subsequently, banking in India remained the exclusive domain of Europeans for next several decades until the beginning of the 20th century.

Nationalized Banks In India

Banking System in India is dominated by nationalized banks. The nationalization of banks in India took place in 1969 by Mrs. Indira Gandhi prime minister of India. The major objective behind nationalization was to spread banking infrastructure in rural areas and make available cheap finance to Indian farmers. Fourteen banks were nationalized in 1969.

Before 1969, State Bank of India (SBI) was the only public sector bank in India. SBI was nationalized in 1955 under the SBI Act of 1955.The second phase of nationalization of Indian banks took place in the year 1980. Seven more banks were nationalized with deposits over 200 crores.

Around the turn of the 20th Century, the Indian economy was passing through a relative period of stability. Indians had established small banks, most of which served particular ethnic and religious communities. The presidency banks dominated banking in India. There were also some exchange banks and a number of Indian joint stock banks. All these banks operated in different segments of the economy. The exchange banks, mostly owned by Europeans, concentrated on financing foreign trade. Indian joint stock banks were generally undercapitalized and lacked the experience and maturity to compete with the presidency and exchange banks. This segmentation let Lord Curzon to observe, "In respect of banking it seems we are behind the times. We are like some old fashioned sailing ship, divided by solid wooden bulkheads into separate and cumbersome compartments." A number of banks established then have survived to the present such as Bank of India, Corporation Bank, Indian Bank, Bank of Baroda, Canara Bank and Central Bank of India.

Banking Structure In India

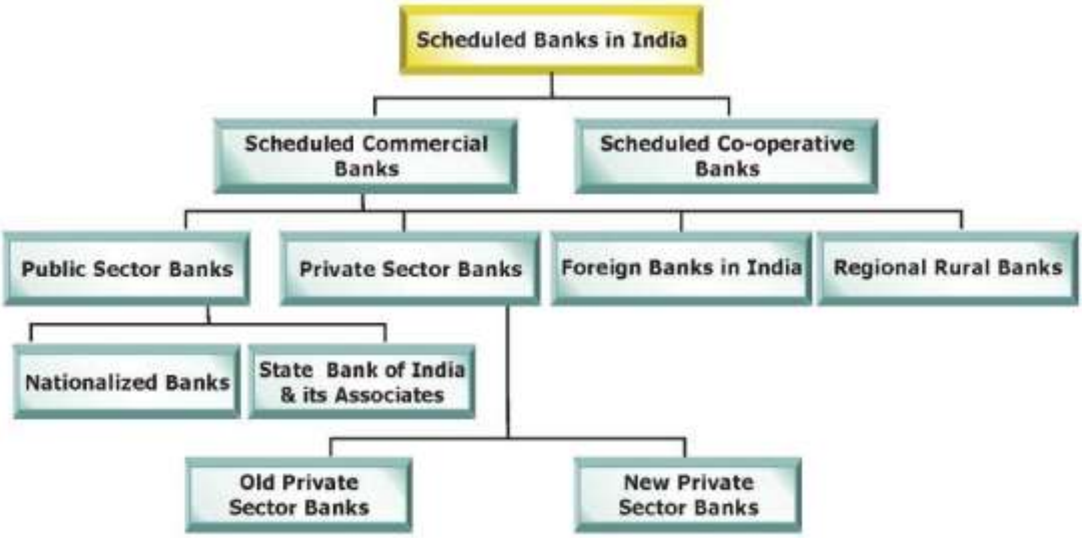
Indian banking system consists of “non scheduled banks” and “scheduled banks”. Non scheduled banks refer to those that are not included in the second schedule of the Banking Regulation Act of 1965 and thus do not satisfy the conditions laid down by that schedule. Schedule banks refer to those that are included in the Second Schedule of Banking Regulation Act of 1965 and thus satisfy the following conditions: a bank must

- have paid up capital and reserve of not less than Rs. 5 lakh and
- satisfy the Reserve Bank of India (RBI) that its affairs are not conducted in a manner detrimental to the interest of its deposits.

Scheduled banks consists of "scheduled commercial banks" and scheduled cooperative banks. The former are further divided into four categories: (1) public sector banks (that are further classified as "Nationalized Banks and the "State Bank of India (SBI) banks"); (2) private sector banks (that are further classified as "Old Private Sector Banks" and "New Private Sector Banks" that emerged after 1991); (3) foreign banks in India, and (4) regional rural banks (that operate exclusively in rural areas to provide credit and other facilities to small and marginal farmers, agricultural workers and small entrepreneurs). These scheduled commercial banks except foreign banks are registered in India under the Companies Act.

The SBI banks consist of SBI and five independently capitalized banking subsidiaries. The SBI is the largest commercial bank in India in terms of profits, assets, deposits, branches and employees and has 13 head offices governed each by a board of directors under the supervision of a central board. It was originally established in 1806 when the bank of Calcutta (latter called the Bank of Bengal) was established, and then amalgamated as the Imperial Bank of India after the merger with the bank of Madras and the Bank of Bombay. The Imperial Bank of India was Nationalized and named SBI in 1955. Nationalized banks refer to private sector banks that were nationalized (14 banks in 1969 and 6 in 1980) by the central government compared with the SBI banks, nationalized banks are centrally governed by their respective head offices. In 1993, Punjab National Bank merged another nationalized bank, New Bank of India, leading to a decline in total number of nationalized banks from 20 to 19. Regional rural banks account for only 4% of total assets of scheduled commercial banks. As at the end of March 2001, the number of scheduled banks is a follows: 19 nationalized banks, 8 SBI banks, 23 old private sector banks, 8 new private sector banks, 42 foreign banks, 196 regional rural banks and 67 cooperative banks. But number of scheduled commercial banks in India as on 31 October, 2012 as follows: 26 public sector banks 20 private sector banks.

Banking Sector in India



Performance Of Indian Banking Sector

The top 10 banks selected for the analysis, as based on the market capitalization as of 30 March 2012, are: 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 (IIB).

The performance of the banking sector is more closely linked to the economy than perhaps that of any other sector. The growth of the Indian economy is estimated to have slowed down significantly from 8.39 percent in FY11 to 6.88 percent in FY12. This slowdown could be attributed to a number of factors:

Continuing problems in Europe and economic slowdown in the United States affecting foreign investments coming into India Policy paralysis in view of the government's inertia on various policy issues and reforms Fiscal indiscipline leading to fiscal deficit High inflation leading to high interest rate Rupee devaluation which further deteriorates the current account deficit.

Besides these factors, rising inflation forced the RBI to tighten the monetary policy during the last two years, increasing the benchmark repo rate 13 times successively. While the high interest rates impacted the economic growth significantly, they had little impact on inflation. Persistent high inflation has led to a slowdown in credit growth and increase in cost of funds, hence adversely affecting the profitability of banks.

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A number of changes in the policy and regulatory domain also affected the performance of Indian banks. These included migration to the system tracking of non-performing assets (NPAs) of the entire loan book, increasing the provisioning percentages for NPAs and restructured loans and the mandate to expand in relatively less profitable under-banked and unbanked areas.

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

Source: www.moneycontrol.com

Note: Market cap on a particular day has been used for illustrative purposes.

Conclusions

Today the banking sector in India is fairly mature in terms of supply, product range and reach. As far as private sector and foreign banks are concerned, the reach in rural India still remains a challenge.

A growing economy like India requires a right blend of risk capital and long term resources for corporate to choose an appropriate mix of debt and equity, particularly for infrastructure projects which is the need of the day. A well functioning domestic capital market is also necessary for the banking sector to raise capital and support growth and also have suitable capital adequacy ratio to mitigate risk. Bank investments are also showing an increasing trend. After researching banking sector researcher found that different problems are increasing to banking sector because of the money market has always down.

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