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NATIONALIZED VS. PRIVATE BANKS: A COMPARATIVE STUDY OF IIFL

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Abstract

This study compares and contrasts the private sector banks of India with their public sector counterparts in a number of important areas, including network size, productivity, capital sufficiency, asset quality, management quality, earnings quality, liquidity, and earnings quality. Knowing how various banks fared during the sub-prime mortgage crisis is crucial, thus we've picked the aforementioned time frame. Additionally, it sheds light on who will do better in the event of a future recession. In order to have a better understanding of the argument mentioned above, Data Envelopment Analysis (DEA) was conducted on a group of banks in India. This group includes both new private sector banks and public sector banks.

In recent years, India's private sector banks have achieved remarkable strides. Some new private sector banks made their debut in the mid-1990s, and since then, they've expanded at a dizzying rate. To improve their bottom line and stay competitive in a highly regulatory and unpredictable environment, private sector banks have surpassed their public sector counterparts in many areas and have seen increases in income, margins, and asset sizes. The two sectors are being evaluated based on eight critical parameters.

While new private sector banks experienced significant volatility, mostly as a result of the recession, the asset bases and incomes of public sector banks increased at a respectable clip in recent years. However, these institutions' extraordinary expansion following the disaster demonstrates their resilience. Banks are able to demonstrate capital adequacy when their capital levels are sufficient to cover all risks, as well as when their management is able to recognise, quantify, track, and manage these risks. Additionally, it reveals whether or not the bank can sustain a fair level of loss while still meeting the capital criteria set out by law. Banks in India are now required by the Reserve Bank of India (RBI) to have a Capital Adequacy Ratio (CAR) of 9% for credit risk, market risk, and operational risk, up from 8% under the BASEL framework. Because it is mostly a qualitative quality, sound management is notoriously difficult to quantify, despite its centrality to bank profitability. But there are a number of ways to gauge efficiency; one is the ratio of non-interest expenditure to total assets, which sheds light on the management's grip on operational expenditures. Similarly, asset turnover ratios and other efficiency ratios may be used to evaluate the efficiency with which a corporation generates income from its assets.

I. Introduction:

Global competition forced organizations to build global capabilities.

Banking sector is the most effective instrument for economic development, so developing Human Resources for this sector is essential to achieve the national development.

Banking in India originated in the last decades of the 18th century. The oldest bank in existence

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in India is the State Bank of India, a government-owned bank that traces its origins back to June 1806 and that is the largest commercial bank in the country. Central banking is the responsibility of the Reserve Bank of India, which in 1935 formally took over these responsibilities from the then Imperial Bank of India, relegating it to commercial banking functions. After India's independence in 1947, the Reserve Bank was nationalized and given broader powers. In 1969 the government nationalized the 14 largest commercial banks; the government nationalized the six next largest in 1980.

Currently, India has 88 scheduled commercial banks (SCBs) - 27 public sector banks (that is with the Government of India holding a stake), 31 private banks (these do not have government stake; they may be publicly listed and traded on stock exchanges) and 38 foreign banks. They have a combined network of over 53,000 branches and 17,000 ATMs.
According to a report by ICRA Limited, a rating agency, the public sector banks hold over 75 percent of total assets of the banking industry, with the private and foreign banks holding 18.2% and 6.5% respectively.

The most significant achievement of the financial sector reforms has been the marked improvement in the financial health of commercial banks in terms of capital adequacy, profitability and asset quality as also greater attention to risk management. Further, deregulation has opened up new opportunities for banks to increase revenues into investment banking, insurance, credit cards, depository services, mortgage financing, securitization etc. At the same time, liberalization has brought greater competition among banks, both domestic and foreign, as well as competition from mutual funds, Non-Banking Financial Corporations, post office etc.

The definition of a bank varies from country to country. Under English common law, a banker is defined as a person who carries on the business of banking, which is specified as:
• conducting current accounts for his customers
• paying cheques drawn on him, and
• collecting cheques for his customers.
In most English common law jurisdictions there is a Bills of Exchange Act that codifies the law in relation to negotiable instruments, including cheques, and this Act contains a statutory definition of the term *banker*: *banker* includes a body of persons, whether incorporated or not, who carry on the business of banking' (Section 2, Interpretation). Although this definition seems circular, it is actually functional, because it ensures that the legal basis for bank transactions such as cheques do not depend on how the bank is organised or regulated.
The business of banking is in many English common law countries not defined by statute but by common law, the definition above. In other English common law jurisdictions there are statutory definitions of the *business of banking* or *banking business*. When looking at these definitions it is important to keep in mind that they are defining the business of banking for the purposes of the legislation, and not necessarily in general. In particular, most of the definitions are from legislation that has the purposes of entry regulating and supervising banks rather than regulating
the actual business of banking. However, in many cases the statutory definition closely mirrors the common law one. Examples of statutory definitions:
• "banking business" means the business of receiving money on current or deposit account, paying and collecting cheques drawn by or paid in by customers, the making of advances to customers, and includes such other business as the Authority may prescribe for the purposes of this Act; (Banking Act (Singapore), Section 2, Interpretation).

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• "banking business" means the business of either or both of the following:

1. eceiving from the general public money on current, deposit, savings or other similar account repayable on demand or within less than [3 months] ... or with a period of call or notice of less than that period;
2. Paying or collecting cheques drawn by or paid in by customers Since the advent of EFTPOS (Electronic Funds Transfer at Point Of Sale), direct credit, direct debit and internet banking, the cheque has lost its primacy in most banking Systems as a payment instrument. This has lead legal theorists to suggest that the cheque based definition should be broadened to include financial institutions that conduct current accounts for customers and enable customers to pay and be paid by third parties, even if they do not pay and collect cheques.

Inflation

The Reserve Bank of India has effectively contained the inflation expectations in 2018 by managing the WPI inflation down from 6.6% in Feb 2018 to around 4% in Dec 2018. This is attributed to the moderation of prices of primary food articles and some manufactured products.

The inflation rate in India was recorded at **6.16** percent in **December of 2019**. Inflation Rate in India is reported by the Ministry of Commerce and Industry, India. Inflation Rate in India averaged 7.71 Percent from 1969 until 2019, reaching an all time high of 34.68 Percent in September of 1974 and a record low of -11.31 Percent in May of 1976. In India, the wholesale price index (WPI) is the main measure of inflation. The WPI measures the price of a representative basket of wholesale goods. In India, wholesale price index is divided into three groups: Primary Articles (20.1 percent of total weight), Fuel and Power (14.9 percent) and Manufactured Products (65 percent). Food Articles from the Primary Articles Group account for 14.3 percent of the total weight. The most important components of the Manufactured Products Group are Chemicals and Chemical products (12 percent of the total weight); Basic Metals, Alloys and Metal Products (10.8 percent); Machinery and Machine Tools (8.9 percent); Textiles (7.3 percent) and Transport, Equipment and Parts (5.2 percent).

Industry Production

Industrial production dropped sharply in the month of January 2018 owing to sluggish performance in the manufacturing sector. The general index for the month of January 2018 showed a growth of only 5.3% compared to growth of 11.6% in January 2018. This was the third successive month of low growth. In Dec ’07, the industrial production grew by 7.7%. The lower growth has been contributed by sluggishness in the manufacturing and mining sector. Cumulatively, industrial production showed a growth of 8.7% between April-January 2019-09, with 9.8% growth for manufacturing, 4.6% for mining and 6.3% for electricity. Lagged impact of interest rate increases and decrease in global demand have been affecting industrial growth in the last few months.

Growth in the manufacturing sector declined to 5.9% in Jan’09 as against 12.3% in Jan’08, and growth in mining declined to 1.8% as against 7.7% in Jan’18. Electricity sector recorded a moderate growth of 3.3% as against 8.3% in Jan’18.

Increases in interest rates over the last two years is impacting the consumer durable and capital goods sector as consumer durables production, including washing machine and television sets, fell 3.1% in January after increasing 5.3% a year earlier and output of capital goods increased by a meager 2.1% compared with 16.3% a year ago. Also indices for machinery and equipment showed a sharp fall of 3.8% in Jan ’08 against 10.7% growth in Dec ’18.

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Rupee Outlook

Massive FII inflows and slumping US dollar in 2018 led to significant appreciation of rupee. This led to curbing of inflows through external commercial borrowing and participatory notes measures and has led to stabilization of the rupee – US $ movement. The outlook for the US dollar is expected to be weak in an aggressive easing stance adopted by the US Fed.

Fed easing cycle since September 2018 has led to 'Hold/Softening' stance across various Central Banks globally. Global uncertainties triggered by increase chances of US recession and increasing commodity prices have led to risk aversion among investors across the globe which has impacted India's equity and debt market. In the first two months of 2019, net investment has been $2802mn in equity and $1103mn in debt respectively against $1173mn in equity and $268mn in debt respectively in the same period last year.

Trade Outlook

India's merchandise exports showed a growth of 21.62% during the first ten months of period of April – January 2009 to US$ 124.19bn. Exports showed a growth of 20.47% for Jan '08 to US$ 13.14bn compared to US$ 10.90bn Jan '08. Exports have not performed well so far due to 12% rupee appreciation that has affected the competitiveness of the export focused industries.

Labour intensive sectors like textiles, leather, handicrafts and marine products have been hit the most in recent times.

NEED OF THE STUDY:

The need of the study is to concentrates on the growth and performance of **Nationalized and Private Banks** and to calculate the performance by using Comparative analysis and to know the Activates of the banks of **SBI, Syndicate Bank, ICICI and HDFC**.

- To know financial position of **SBI, Syndicate Bank, ICICI and HDFC**
- To analyze existing situation of **SBI, Syndicate Bank, ICICI and HDFC**
- To improve the performance of **SBI, Syndicate Bank, ICICI and HDFC**
- To analyze competition between **SBI, Syndicate Bank, ICICI and HDFC** with other cooperatives.

SCOPE OF THE STUDY:

In this study the analysis based on ratios to know asset and liabilities management under **SBI, Syndicate Bank, ICICI and HDFC** and to analyze the growth and performance of **SBI, Syndicate Bank, ICICI and HDFC** by using the calculations under asset and liability management based on ratio.

- Comparative statement

This analysis attempts to study the growth pattern of Equity sector, such as Banking and RESPECTIVE to **Nationalized banks Vs Private Banks**. When compared to its sector wise indices and the national index S&P CNX Nifty. The analysis hereby done attempts to prepare a report on the behavior of share prices of major Banking in Private and Nationalized Sector stocks, so that a investor can prepare and well diversified portfolio and logically forecast about the behavior of the share market and invest in a manner so as to make a lucrative deal and earn a maximum possible capital gain from the market. Moreover the study also gives a comparative analysis of the above stated stocks with their respective sartorial index and the national index so that a investor wanting to invest in these sectors can check the past performance and behavior of major companies in these sectors and analyze their growth trends

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before investing making a investment in the stock market.

II. OBJECTIVE OF STUDY

- To study and analyze the growth trend of Banking industry w.r.t Private Banking and Nationalized banking sectors.
- To study the relationship between the Banking index and BSE Sensex, Sectoral Index and the share prices of the major industries in this sector.
- To find how inflation is also a cause for the growth/fall of BANKING INDEX. With the sample of 4 banks, three from private sector and three from public sector.
- Attempt to provide a direction to an investor to analyze and forecast the stock market so as to make the best possible lucrative deal by investing in stocks.

III. METHODOLOGY

SOURCE OF DATA

The following analysis is completely based on Secondary Data

Tools and Techniques

1) Research Design: **Descriptive** Design

2) Data Analysis: M.S. Excel with the help of Line Graphs, Moving Averages and Correlation.

Data Processing and Analysis

For a complete analysis on equities, there are basically two parts in which the total analysis is done.

Fundamental Analysis

Technical Analysis

LIMITATION OF THE STUDY:

1. This subject is based on past data of **Banks.**
2. The analysis is based on structural liquidity statement and gap analysis.
3. The study is mainly based on secondary data.
4. Approximate results: The results are approximated, as no accurate data is Available.
5. Study takes into consideration only LTP and issue prices and their difference for Concluding whether an issue is overpriced or under priced leaving other.
6. The study is based on the issues that are listed on NSE and BSE only.

Nationalized Banks of India

Nationalized banks have always contributed to boost up the economy of India and available in a large number.

It is also known for offering expeditious service and understands the actual need of its customers. In India **Nationalized banks** have great dominance over private banks as it has fully authority to look after the function and policy of private banks. Imperial Bank was the first banks that was nationalized in 1955 and became famous as State Bank of India.

After that many banks got the certification of nationalized bank. Some of these are State Bank of Tranvancore, State Bank of Indore, State Bank of Patiala, State Bank of Saurashtra and more.

The nationalized banks were established with great purpose to make wide reach of banking function even in the rural area and offers great benefit for those who actually get deprived from such service

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The nationalized banks are fully committed to offer the best possible service to its rural client and also make them aware about the various benefits, available for them.

Such banks are fully dedicated to offer quality of service to their clients. In 1969, the total number of nationalized banks was 14 whereas it became 21 in 1980. However State Bank of India became the topmost and the best commercial bank. Besides it also rated top five banks in the world.

Presently there are 88 commercial banks and 27 banks are functioning in the country and established many branches to expand its service in all parts. Some of these banks have also established their branches in foreign countries as well.

But the **nationalised banks in India** have its own reputation and operated with approximate 53,000 branches and 17,000 ATMs. By the coming of ATMs you can withdraw your money instantly and this service is available for 24 hours.

Apart from that, the nationalized banks in India are also known for offering transparent service and provide crystal clear balance sheet in comparison with other banks. Moreover, it also replaced the old payment system and introduces the best system of payment by providing debit card and credit card.

Earlier person used to carry cash while purchasing various items, but now you can easily make your payment by using such cards. Aside from offering such service, nationalized banks also introduced insurance policies such as life insurance health insurance.

State banks of India has introduced many such polices to offer extra benefit to its customers. Besides, several other nationalized banks also offered such policies with better features.

Private Banks India

In India private banks are available in plenty and known for offering expeditious service to their customers.

Thanks to globalization that prompted many foreign banks to expend their business throughout world and India became the most preferred destination.

Today you can find lots of foreign bank that are engaged to serve the customers in the best possible manner and made its stand strong by offering 24 x 7 hour service.

Private banks in India have a great history and started their service way back.

In 1920s, imperial bank of India formed by the great cooperation by Bank of Madras, Bank of Bengal and Bank of Bombay. After that Reserve Bank of India came into existence in 1935 and got authority to look after the other banks.

It became centre body and got power to introduce making policy and several new schemes.

After the establishment of Reserve Bank of India, the Imperial Bank of India was blessed with new identity and became popular as State Bank of India.

In 1969 the Government of India offered a new ordinance and approx 14 commercial banks got certification of nationalized banks. Some of them were Central Bank of India, Allahabad Bank, Punjab National Bank and Canra Bank.

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In 1994, the Reserve Bank of India opened the door for private banks and handed out the policy to control the private banks.

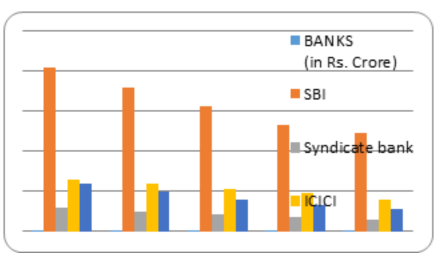
The policy also included the liberation for Private Banks in terms of their free and independent operation. The first private bank came in India as Trust Bank later it became popular as Oriental Bank of Commerce.

After that Housing Development Finance Corporation limited that got consent from Reserve Bank of India. It became a large private bank and still popular for offering wonderful service.

Today India is a swamped with many private banks such as International Bank, ING Vyasya Bank, Kotak Mahindra Bank, SBI Commercial Bank, Karnataka Bank, Kashmir Bank, ICICI Bank and more. Private Banks in India achieved a milestone for serving people and showed its great commitment.

IV. DATA ANALYSIS AND INTERPRETATION

TOTAL ASSETS:

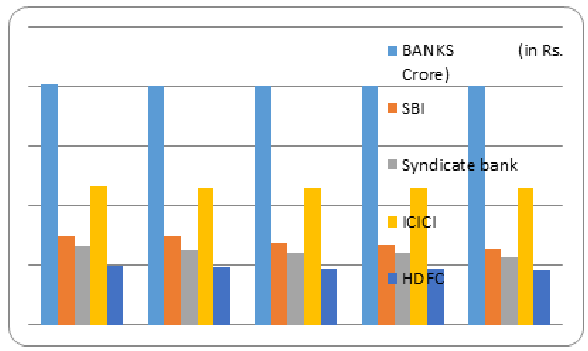


Interpretation

- SBI BANK from Public sector banks total assets increased
- Private sector banks ICICI total assets increased
- Among the nationalized banks SBI assets increased

CAPITAL:

BANKS (in Rs. Crore)	2024	2023	2022	2021	2020
SBI	746.6	746.6	684	671	635
Syndicate bank	662.1	624.6	602	601.5	573.3
ICICI	1160	1155	1154	1153	1152
HDFC	501.3	479.8	475.9	469.3	465.2



Interpretation

- Public sector banks capital increased in this period, SBI by 19% and Syndicate bank 8.20%, more than private sector banks
- Other private sector banks also increased their capital in this period.
- There is no decrease in capital structure for the given period.

NETWORTH:

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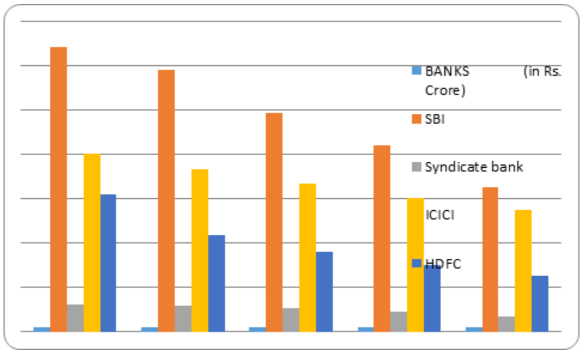
BANKS (in Rs. Crore)	2024	2023	2022	2021	2020
SBI	**128438.2**	**118282.25**	**98884**	**83951**	**64986**
Syndicate bank	**12140.3**	**11844.19**	**10541**	**9041**	**7051**
ICICI	**80429.36**	**73213.32**	**66706**	**60405**	**55091**
HDFC	**62009.42**	**43478.63**	**36214**	**29925**	**25379**



- The average net worth of public sector banks increased by 31.57%
- The average net worth of private sector banks increased by 14.27%

V. CONCLUSION

Entry of new banks resulted in a paradigm shift in the ways of banking in India. The growing competition, growing expectations led to increased awareness amongst banks on the role and importance of technology in banking. The arrival of foreign and private banks with their superior state-of-the-art technology-based services pushed Indian Banks also to follow suit by going in for the latest technologies so as to meet the threat of competition and retain their customer base. Deregulation and technological change are the two single biggest changes in the banking environment.

In India, investments in technologies by financial services organizations are increasing, and new initiatives emerging, albeit at a basic level. However, in the long run, it is evident that technology investments in transaction and process automation will cease to be a differentiator.

Technology has enabled banks to overcome the barriers of time and extending their services to customers. The new technology channels like ATMs, EFT (Electronic funds transfer), debit and credit cards mobile banking, tele banking, etc. are accessible to customers on a 24 x 7 basis.

With automation, banks can offer single window service, extend business hours and provide anywhere anytime banking. It gives bank personnel more time to devote to business planning and development also facilitates each player in market to have its unique products and services for competitive advantage. New technology driven channels help the banks to reduce cost as the cost of transaction in new channel is a fraction of what it was on branch counter.

In view of this, technology has changed major functions performed by banks:

1. Access to liquidity.
2. Transformation of assets.
3. Monitoring of risks.
4. Information technology and the communication networking systems have a crucial bearing on the efficiency of money, capital and foreign exchange markets.

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