"Indian Banking Industry"

A Project report

Submitted to the Dibrugarh University for the partial fulfillment of the requirement of B.Com 6th Semester course curriculum in Commerce Stream.

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Introduction

The Indian banking sector has emerged as one of the strongest drivers of India's economic growth. The Indian banking industry (US$ 1.22 trillion) has made outstanding advancement in last few years, even during the times when the rest of the world was struggling with financial meltdown. India's economic development and financial sector liberalization have led to a transformation of the Indian banking sector over the past two decades.

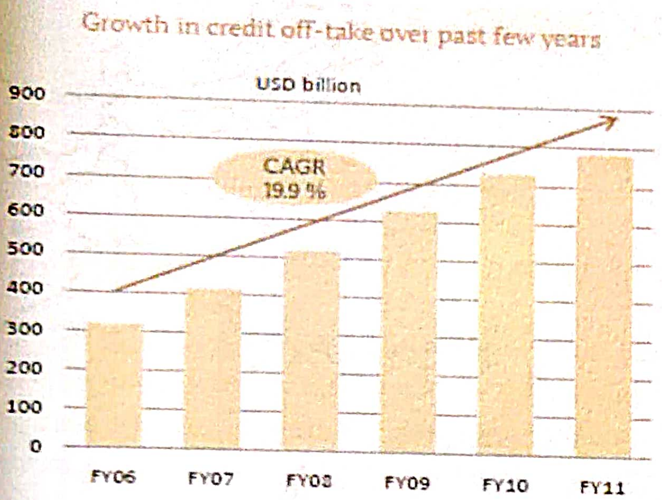
Today Indian Banking is at the crossroads of an invisible revolution. The sector has undergone significant developments and investments in the recent past. Most of banks provide various services such as Mobile banking, SMS Banking, Net banking and ATMs to their clients.

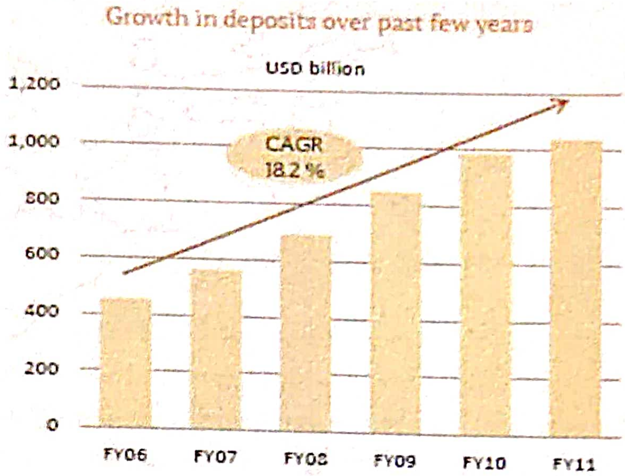
Indian banks, the dominant financial intermediaries in India, have made high-quality progress over the last five years, as is evident from several factors, including annual credit growth, profitability, and trend in gross non-performing assets (NPAs). While annual rate of credit growth clocked 23% during the last five years, profitability (average Return on Net Worth) was maintained at around 15% during the same period, while gross NPAs fell from 3.3% as on March 31, 2006 to 2.3% as on March 31, 2011.

The Indian banking sector is a mixture of public, private and foreign ownerships. The below table highlights top 10 banks which contributed 58% share of the total credit as on March 31, 2011. The State bank of India has recorded highest market share. The Net Interest Margin of HDFC Banks is 4.2% which is highest among others.

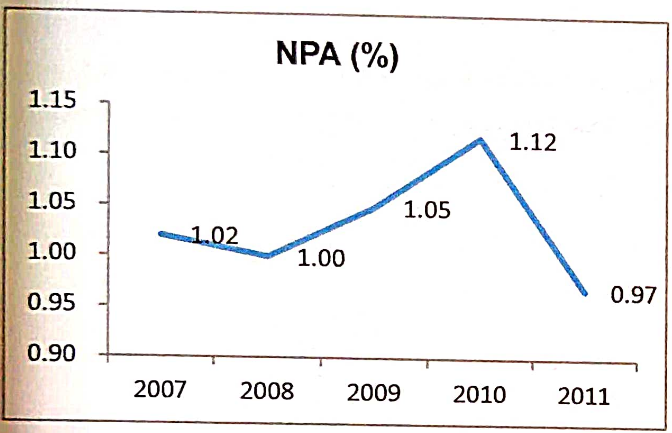
Name of Bank	Credit Portfolio (Rs.Bn) – Mar 2011	Market Share (%)	NIM (%) Mar-11	Tier I Capital (%) - Mar 2011	RONW (%) Mar - 11	Gross NPA(%) - Mar 11
State Bank of India	7567	18	2.9	7.8	13	3.3
Punjab National Bank	2421	6	3.5	8.4	24	1.8
Bank of Baroda	2287	5	2.8	10.0	24	1.4
ICICI Bank	2164	5	2.3	13.2	10	4.5
Bank of India	2131	5	2.5	8.3	17	2.2
Canara Bank	2125	5	2.6	10.9	26	1.5
HDFC Bank	1600	4	4.2	12.2	17	1.1
IDBI Bank	1571	4	1.8	8.1	16	1.8
Axis Bank	1424	3	3.1	9.4	19	1.1
Central bank of India	1297	3	2.7	6.4	18	2.2

Source : Annual Report, ICRA



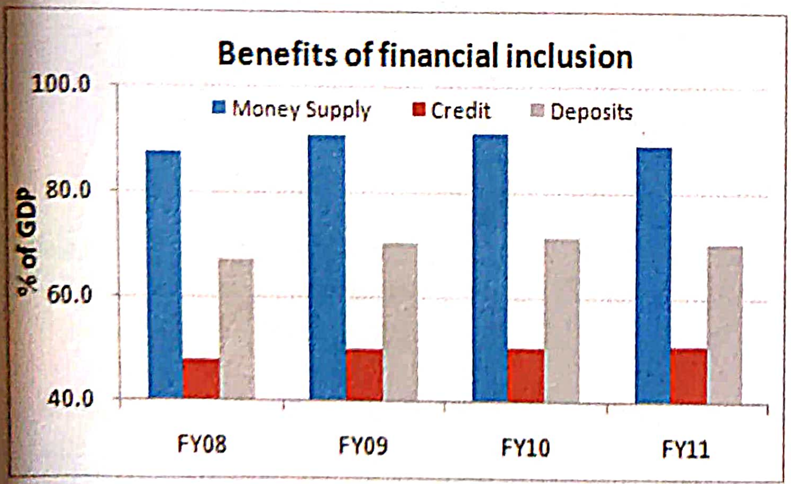


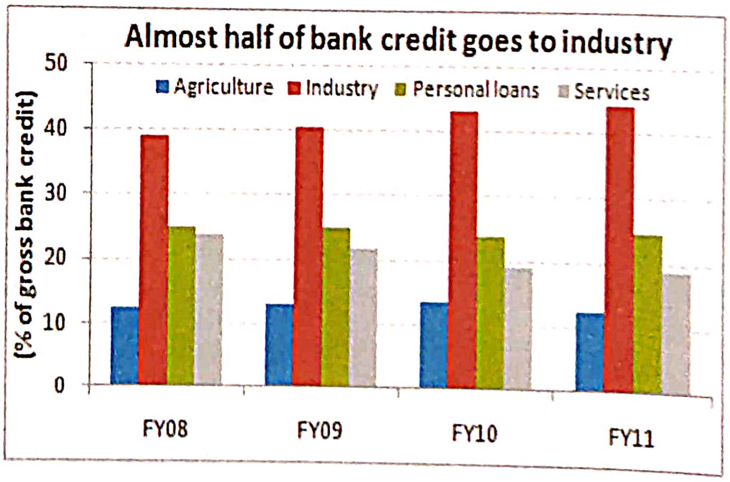
Source: RBI, Aranca Research



The Credit off-take has increased at a CAGR of 19.9 % over FY 06-11. The Deposits have grown at a CAGR of 18.2% over FY 06-11 on account of strong growth in saving account. The net NPA has increased from 1% in FY 2008 to 1.12% in FY 10. The High interest rates and lower economic growth has impacted the repayment capacities of borrowers and hence pushing up the NPAs of banks. The net NPA decelerated from 1.12% in FY 10 to 0.97% in FY 11.

Indian banks enjoyed higher levels of money supply, credit and deposits as a percentage of GDP in FY11 as compared to that in FY10 showing improved maturity in the financial sector. Credit growth remained high in the first half of FY11 on account of increased demand from industry and the service sector. Personal loans grew significantly by 17% during 2010-11 as compared with 4.1% during the previous year.





Source:RBI

HISTORY

Although some form of banking, mainly of the money-lending type, has been in existence in India since ancient times, it was only over a century ago that proper banking began. The first bank in India, though conservative, was established in 1786. From 1786 till today, the journey of Indian Banking System can be segregated into three distinct phases. They are as mentioned below:

- Early phase from 1786 to 1969 of Indian Banks

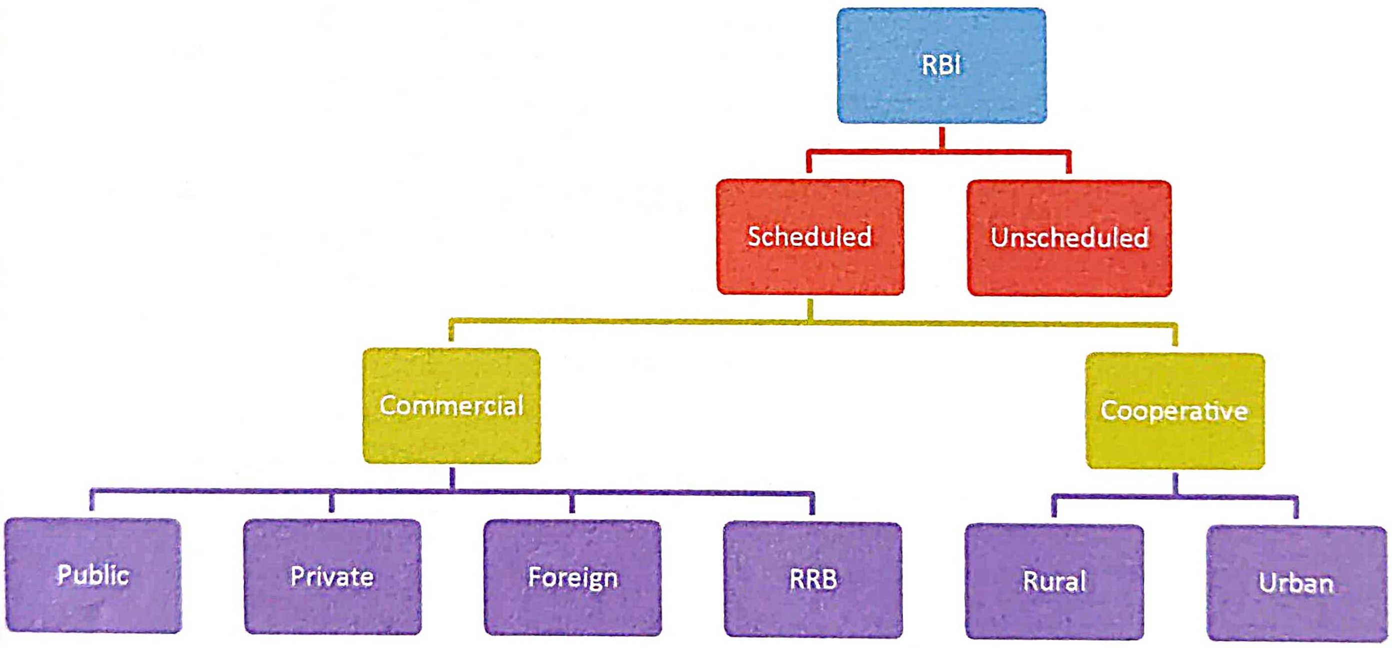
- Nationalization of Indian Banks and up to 1991 prior to Indian banking sector Reforms

- New phase of Indian Banking System with the advent of Indian Financial & Banking Sector Reforms after 1991

The banking industry has moved gradually from a regulated environment to a deregulated market economy. The market developments kindled by liberalization and globalization have resulted in changes in the intermediation role of banks. The pace of transformation has been more significant in recent times with technology acting as a catalyst. While the banking system has done fairly well in adjusting to the new market dynamics, greater challenges lie ahead.

STRUCTURE

The Reserve Bank of India, the nation's central bank, began operations on April 01, 1935. It was established with the objective of ensuring monetary stability and operating the currency and credit system of the country to its advantage.



In India, the banks are being segregated in different groups. Each group has their own benefits, own dedicated target markets, limitations in operating in India. The commercial banking structure in India consists of Scheduled Commercial Banks and Unscheduled Banks.

Scheduled commercial Banks constitute those banks which have been included in the Second Schedule of Reserve Bank of India (RBI) Act, 1934. For the purpose of assessment of performance of banks, the Reserve Bank of India categorise them as public sector banks, old private sector banks, new private sector banks and foreign banks.

BUSINESS DIVISION

Retail banking - Loans to Individuals (Auto loan, Housing Loan, Education Loan and other personal loan) or small businesses.

Wholesale banking – Loans to Mid and Large corporate (Working Capital loans, Project finance, Term loans, Lease Finance)

Treasury Operations – Investment in Equity, Derivates, Commodities, Mutual Funds, Bonds, Trading and Forex operations

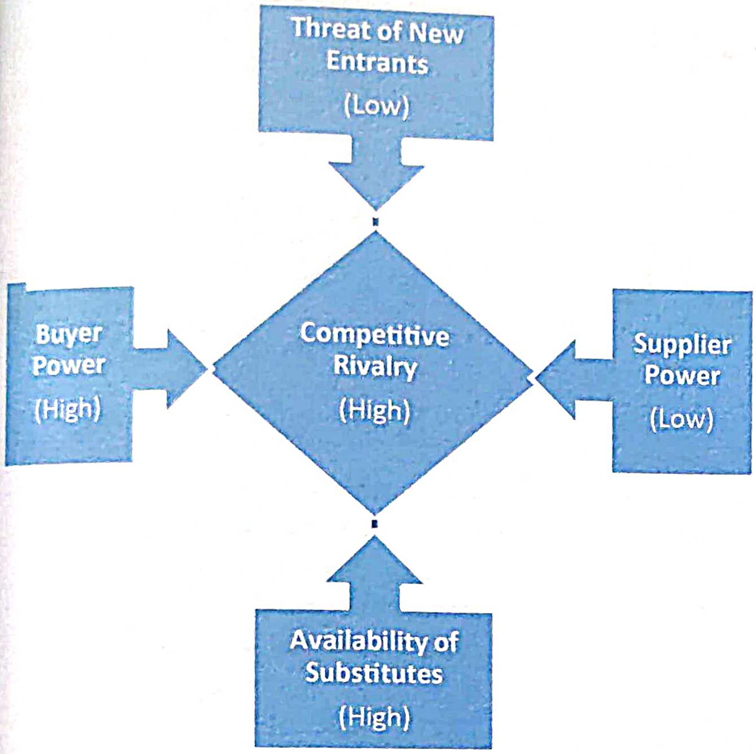
Other Banking Businesses – Merchant Banking, Leasing business, Hire purchase, Syndication services etc.

SWOT ANALYSIS

STRENGTHS	WEAKNESSES
• Valuable contributor to GDP • Regulatory environment • Government Support	• Increasing NPA • Low penetration • Lack of product differentiation
OPPORTUNITIES	**THREATS**
• Modern Technology • Untapped Rural Market • Globalization	• Unorganized money lending market • Customer dissatisfaction • Rise of monopolistic structures

PORTER'S FIVE FORCES MODEL

Banking is mainly a client oriented business. A high-quality of services to the client is crucial for the growth and stability of any bank. A wider distribution and access of financial services helps both consumers and producers to raise their welfare and productivity. Such access is especially powerful for the poor as it provides them opportunities to build savings, make investments, avail credit, and more important, insure themselves against income shocks and emergencies. To survive in an increasingly competitive environment, bank need to come up with various facilities like Internet banking, mobile banking etc. With the onset of mobile banking, the industry finds itself at the threshold of the next major technological leap.



Buyer Power - **High** bargaining power of customer's on account of banks renders uniform services to the clients. Now a day's almost all banks would like to provide requisite information very easily by way to Internet, Mobile banking to the clients

Supplier Power- **Low** bargaining power of supplier's on account of RBI regulatory benchmarks. Banks have to meet numerous regulatory standards created by RBI

Competitive Rivalry- **High** competition of account of number of prominent public, private, foreign along with cooperative banks

Availability of Substitutes - **High** menace from substitutes like NBFC's, Mutual funds, Government securities and T-bills

Threat of new entrants - **Low** threat of new entrants on account of banking regulations. Before setting up of a new bank, it is essential to take the consent of RBI.

PERFORMANCE

The empirical studies have found a strong relationship between economic growth and financial development. Finance plays an important role in the economic growth. The charts depict the performance of Bankex in last 10 year and Relative performance of BSE Bankex & BSE Sensex in 2010-11. The performance of Bankex accelerated during the period March 2002 to March 2008. The performance of bankex decelerated during March 2008 – March 2009 but thereafter it has shown increasing trend till March 2011.

The four-month period (November 2010-February 2011) was marked by a consistent decline in all the indices caused by a number of global and domestic developments. The Sensex declined by 12.4%, while the Bankex Index declined by 18.3%.

Some of the global factors, such as increase in crude oil prices and high commodity prices contributed to inflation in the domestic economy. High inflation coupled with low growth rate in the Index of Industrial Production (IIP) and tightening interest rates has caused some concerns over the short-term economic growth, hitting the stocks in all the sectors, particularly those in the financial services sector.