PRIVATIZATION OF STATE-OWNED BANKS A BOON OR A BANE

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Abstract

Banking has existed for thousands of years, stretching back to the ancient Mesopotamian civilisation. The original banks were essentially shrines where people could deposit their valuables and borrow money at a profit. As trade and commerce expanded, so did the demand for financial services. Banks had become established in various parts of Europe by the Middle Ages, and they played an important role in financing the Renaissance.

The Industrial Revolution increased demand for financial services even more. Banks aided in the financing of factory and railway construction, as well as lending to firms to invest in new machinery and equipment.

Banking witnessed several changes in the twentieth century. The Great Depression of the 1930s resulted in the failure of numerous banks and the implementation of government regulations to avoid a similar crisis from occurring again. Following World War II, the banking industry grew rapidly as economies expanded and more people began to use financial services.

Banking has been changed in recent decades by the introduction of new technology. People may now access banking services more easily and conveniently thanks to electronic banking, online banking, and mobile banking. Banks have also broadened their product and service offerings to fulfil the needs of their clients.

The Indian government recently made hints about the possibility of privatising public sector banks. The bank workers became uneasy as a result, and they staged a protest walkout. This essay aims to demonstrate how few (20) private banks were nationalised in the 1980s and how the government now wants to privatise those same banks. The study has emphasised the seeming contradiction between the motivations for nationalisation and privatisation.

As of August 8, 2023, no Indian banks had made the transition from public to private ownership. But in the near future, the Indian government intends to privatise IDBI Bank and Central Bank of India, two public sector banks.

History of Bank

Banking in India dates back to the Vedic culture (1500-500 BCE), when money lending was popular. There was a well-developed banking system throughout the Mughal Empire (1526-

1857), with banks offering a variety of services including as deposits, loans, and money transfers.

The financial system underwent a period of transformation following the British conquest of India in the 18th century. The British pioneered several innovative banking practises, including the usage of paper money and the foundation of central banks. The Bank of Hindustan, India's first modern bank, was founded in Calcutta in 1770.

The financial system in India expanded significantly throughout the nineteenth century, with the founding of a number of new banks, both Indian and international. During this time, the banking industry was critical to the financing of the Indian economy.

Following India's independence in 1947, the government made several moves to nationalise the banking industry. The State Bank of India was created in 1955 through the merging of numerous imperial banks, and several more banks were nationalised in the years that followed.

The Indian banking system underwent significant transformation in the 1990s. The government opened up the banking industry to private competition and enacted a slew of new laws to boost the system's efficiency and stability.

The Indian banking system is now one of the world's largest and most sophisticated. In India, there are over 100 scheduled commercial banks, both public and private. Individuals, corporations, and the government can all benefit from the banking system's extensive range of services.

Banking System in India

The history of banking in India dates back to the 18th century, when European traders founded the country's first banks. India's first bank, the Bank of Hindustan, was established in 1770 and failed in 1832. The first prosperous bank in India was the General Bank of India, which opened its doors in 1786.

The British Raj saw substantial expansion in the banking industry. Established in 1809, the Bank of Bengal, along with the Banks of Bombay (1840) and Madras (1843), merged to become the Imperial Bank of India in 1921.

The Indian government became more involved in the banking industry after independence. The central bank of India, the Reserve Bank of India (RBI), was founded in 1935 and given the responsibility of overseeing and regulating the banking sector.

In order to guarantee that banking met the demands of the whole public and not just a small group of wealthy people, the government nationalised fourteen large banks in 1969. There were also the establishment of new banks, such as Punjab National Bank (PNB) and State Bank of India (SBI).

The banking industry was liberalised in the 1990s, which paved the way for the entrance of international banks as well as new private sector banks like ICICI Bank and HDFC Bank.

Presently, the Indian banking industry stands among the biggest and most vibrant globally, with more than 100 scheduled commercial banks and over $2 trillion in total assets. India's banking industry is essential to the country's economic growth.

Here is a timeline of the key events in the history of banking in India:

1770: Bank of Hindustan is established

1786: General Bank of India is established

1809: Bank of Bengal is established

1840: Bank of Bombay is established

1843: Bank of Madras is established

1921: Imperial Bank of India is formed

1935: Reserve Bank of India is established

1969: 14 major banks are nationalized

1990s: Banking sector is liberalized.

2000s: New private sector banks and foreign banks enter the market.

Division of Banks into Public, Private and Government

A confluence of historical, policy, and economic events led to the split of India's banking system into public sector banks (PSBs), private sector banks, and government-owned banks.

Historical Legacies: This division's origins can be traced to the British colonial era, when they founded banks in India. These establishments were passed down to the government upon independence in 1947, and public sector banks were founded on them.

Policy Goals: The nationalisation of large banks in 1969 and 1980 was intended to encourage financial inclusion, lessen economic concentration, and advance economic development. By allocating credit to priority industries, PSBs played a crucial role in accomplishing these goals.

Economic Liberalisation: The 1991 economic reforms brought in competition and modernization to the banking industry by allowing private and foreign banks to operate there.

Innovative and cutting-edge services were introduced with the emergence of new generation private sector banks.

Diverse Banking Landscape: The division meets the wide range of financial needs of India's enormous population as well as different policy objectives. PSBs support government policy goals, government-owned banks have specific responsibilities, such as rural and agricultural development, and private banks provide efficiency and innovation.

The nation's overall economic growth and development are aided by this diverse strategy, which guarantees that India's population have access to a wide range of banking services and products.

IDBI Bank Embraces Privatization

With the intention of fostering industrial growth and offering financial support to different industrial initiatives, the Reserve Bank of India (RBI) founded the Industrial growth Bank of India (IDBI) as a wholly owned subsidiary in 1964. IDBI's primary function was that of a development finance institution (DFI), and it was essential in providing capital for and encouraging India's industrial expansion. It offered long-term financing to businesses, infrastructure initiatives, and other economic sectors.

When the government chose to sell off a portion of its ownership in IDBI Bank in 2004, the bank underwent a transition into the private sector. The government-run Industrial Development Bank of India (Transfer of Undertaking and Repeal) Act assumed ownership of IDBI Bank in 2004. In the wake of this move, IDBI Bank became a separate, publicly traded entity.

Govt getting ready to sell IDBI Bank, may keep some stake: Top official

First such case of bank being sold through open bidding process

AASHISH ARYAN & SUNNY VERMA
NEW DELHI, FEBRUARY 3

THE CENTRE will come out with an expression of interest (EOI) for the sale of IDBI Bank by the end of March but may not offload its entire stake in the bank in one go, Department of Investment and Public Asset Management (DIPAM) Secretary Tuhin Kanta Pandey said.

The government will also file the Draft Red Herring Prospectus (DRHP), or the primary prospectus, of Life Insurance Corporation (LIC) with the market regulator next week, and expects to list it on stock exchanges by the end of the financial year.

LIC, which currently holds management stake in IDBI Bank, has 49.24 per cent shareholding, while the Central government holds another 45.48 per cent stake in the bank. The non-promoter shareholding in the bank currently stands at 5.29 per cent.

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TUHIN KANTA PANDEY
DIPAM SECRETARY

"We had detailed consultations with the Reserve Bank of India (RBI) and have worked out the process. There are licences involved and we do not want any uncertainty after the financial bids are placed. We plan to sell LIC's and the government's stake together and the LIC's management control will be passed on. But not the entire (stake) may go," Pandey told *The Indian Express*.

The sale of IDBI Bank will be the first such case of "voluntary discovery" of the buyer through

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Fig.1 News address by The Indian Express in 2019

The Indian government has planned and was moving forward with the privatisation of IDBI Bank as of my final report in September 2021. The government's larger plan to restructure the banking industry and lower its ownership of non-strategic companies included the privatisation. Given that IDBI Bank has been dealing with a significant amount of non-performing assets (NPAs) and financial difficulties, the goal was to improve the bank's efficiency and financial health.

It was anticipated that the privatisation of IDBI Bank would increase corporate governance, draw in outside capital, and provide expert management techniques to the organisation. The government wanted to promote competition and innovation in the banking industry and make it easier for IDBI Bank to obtain private funding, so it reduced its ownership stake.

It's important to keep in mind that the status of IDBI Bank's privatisation may have changed after 2019, thus it's best to check recent sources and official statements for the most recent details.

Fig 2. Banking news as per zee business

Several areas of concern that led to IDBI Bank's privatisation were highlighted in the 2019 CAMEL review of the bank.

Capital Adequacy (C): There was insufficient capital available to sustain IDBI Bank's risk profile, as evidenced by the capital adequacy ratio (CAR) being below the regulation threshold. This sparked questions about how the bank would handle future losses and keep its finances stable.

Asset Quality (A): The bank had a high percentage of non-performing assets (NPAs), or poor loans, which raised serious concerns about its asset quality. This meant that a large amount of the bank's assets was losing money and might cause more losses.

Management (M): Concerns regarding risk management, corporate governance, and strategic decision-making were raised in relation to the bank's management procedures. This cast doubt on the bank's capacity to successfully negotiate the difficult financial landscape.

Earnings (E): Due to significant bad loan provisioning and low net interest margins, IDBI Bank's profitability has been dropping for a number of years. This suggested a poor earnings profile and an incapacity to produce long-term profitable growth.

Liquidity (L): With a heavy reliance on wholesale funding and a comparatively low amount of liquid assets, the bank's liquidity position was also under strain. This sparked questions about the bank's capacity to fulfil its immediate obligations.

Overall, the CAMEL analysis provided a bleak picture of IDBI Bank's financial condition in 2019. The bank faced substantial issues in terms of capital sufficiency, asset quality, management, profits, and liquidity. These considerations all contributed to the decision to privatise the bank in order to improve its financial performance and ensure its long-term existence.

CAMEL Analysis - IDBI Bank LTD 2022-23			2023	2022
Capital Adequacy	(a) Capital Adequacy = (Tier 1 +Tier 2)/Total Risk Weighted Assets		20.44	19.06
Asset Quality	(a) NPL/Adv	Net NPL/Advances	0.08	0.10
	(b) Adv/TA	Advance/Total Deposits	0.49	0.48
Management Quality	Adv/Dep	Total Advances/Total Deposits	0.64	0.63
Earning Quality	Spread Ratio	(Interest Earned/Advances)-(Interest Expense/Deposits)	9.25	8.86
	Operating Profit Margin	Net markup after provision/Total Non-Markup+Total Markup	0.71	-0.62
Liquidity	Current Ratio	Current Assets/Total Assets	0.97	0.97
	Cash Ratio	Cash/Deposit	0.07	0.06

Fig 3. CAMEL Analysis - IDBI Bank LTD 2022-23

According to above Fig 3. CAMEL Analysis - IDBI Bank LTD 2022-23 The state of alterations can be noticed in the analysis.
It states that Capital Adequacy: The bank's capital adequacy ratio (CAR) increased from 19.06 in 2022 to 20.44 in 2023, suggesting a more capable ability to absorb possible losses.
Asset Quality: The NNPA ratio grew from 0.08 in 2022 to 0.10 in 2023, indicating a small worsening in asset quality. The advance-to-total-assets ratio (Adv/TA) remained reasonably steady. Management Quality: The advance to deposit (Adv/Dep) ratio remained reasonably consistent, showing that the bank's lending practises had not changed much.
Earnings Quality: The spread ratio, which compares interest income to interest expense, fell slightly from 9.25 in 2022 to 8.86 in 2023. In 2023, the operational profit margin became negative, reflecting a loss from core operations.
The current ratio, which assesses the ability to satisfy short-term obligations, fell from 0.07 in 2022 to 0.06 in 2023. The cash ratio, which compares cash to deposits, remained constant at 0.97.

Financial performance of IDBI Pvt. LTD

IDBI Bank's financial performance in 2019 was marked by mixed outcomes, with some encouraging developments despite persisting issues. On the plus side, the bank's capital adequacy ratio (CAR) increased from 19.06% in 2022 to 20.44% in 2023, showing a better ability to absorb possible losses. Additionally, the bank's asset quality improved, with the net non-performing assets (NNPA) ratio falling from 8% in 2022 to 10% in 2023.

However, the bank's earnings performance remained under pressure. In 2023, the operational profit margin fell below zero, showing a loss from core operations. This was owing in part to the large provisioning for bad loans, which continued to weigh on the bank's profits.

The bank's liquidity position remained largely constant, with just minor fluctuations in the current and cash ratios. This shows that the bank's capacity to meet its short-term obligations remained reasonable.

Overall, IDBI Bank's financial performance in 2019 highlighted the company's persistent issues with profitability and asset quality. However, improved capital sufficiency and indicators of asset quality improvement provided some encouraging signals. The bank's privatisation in 2019 was intended to address these issues while also strengthening its long-term financial health.

IDBI Bank Balance Sheet

Standalone Balance Sheet	------------------- in Rs. Cr. -------------------				
	Mar 23	**Mar-23**	**Mar-22**	**Mar-22**	**Mar-21**
	12 mths	12 mths	12 mths	12 mths	12 mths
EQUITIES AND LIABILITIES					
SHAREHOLDER'S FUNDS					
Equity Share Capital	10,752.40	10,752.40	10,752.40	10,752.40	10,752.40
Total Share Capital	**10,752.40**	**10,752.40**	**10,752.40**	**10,752.40**	**10,752.40**
Revaluation Reserve	8,200.98	0	8,467.76	0	0
Reserves and Surplus	26,365.10	34,566.08	22,441.82	30,909.58	26,058.67
Total Reserves and Surplus	34,566.08	34,566.08	30,909.58	30,909.58	26,058.67
Total ShareHolders Funds	**45,318.48**	**45,318.48**	**41,661.98**	**41,661.98**	**36,811.07**
Deposits	2,55,498.94	2,55,498.94	2,33,134.42	2,33,134.42	2,30,898.41
Borrowings	12,637.75	12,637.75	14,344.98	14,344.98	15,908.05
Other Liabilities and Provisions	17,047.00	17,047.00	12,277.98	12,277.98	14,146.55

Total Capital and Liabilities	**3,30,502.17**	**3,30,502.17**	**3,01,419.36**	**3,01,419.36**	**2,97,764.08**
ASSETS					
Cash and Balances with Reserve Bank of India	16,639.18	16,639.18	13,593.37	13,593.36	13,012.80
Balances with Banks Money at Call and Short Notice	12,646.59	12,646.59	13,117.22	13,117.22	22,209.39
Investments	99,689.74	99,689.74	82,988.21	82,988.21	81,022.56
Advances	1,62,567.73	1,62,567.73	1,45,771.84	1,45,771.84	1,28,149.94
Fixed Assets	9,756.87	9,756.87	9,936.91	9,936.91	7,827.42
Other Assets	29,202.06	29,202.06	36,011.82	36,011.82	45,541.97
Total Assets	**3,30,502.17**	**3,30,502.17**	**3,01,419.36**	**3,01,419.36**	**2,97,764.08**
OTHER ADDITIONAL INFORMATION					
Number of Branches	1,928.00	0	1,886.00	0	0
Number of Employees	17,850.00	0	17,430.00	0	0
Capital Adequacy Ratios (%)	20.44	20.44	19.06	19.06	15.59
KEY PERFORMANCE INDICATORS					
Tier 1 (%)	18.08	0	16.68	0	0
Tier 2 (%)	2.36	0	2.38	0	0
ASSETS QUALITY					
Gross NPA	10,969.00	10,969.29	34,115.00	34,114.83	36,211.95
Gross NPA (%)	6	6	19	19	22
Net NPA	1,495.00	1,494.74	1,856.00	1,856.16	2,519.38
Net NPA (%)	0.92	0.92	1.27	1.27	1.97
Net NPA To Advances (%)	1	1	1	1	1
CONTINGENT LIABILITIES, COMMITMENTS					
Bills for Collection	11,310.73	0	10,706.96	0	0
Contingent Liabilities	1,76,900.69	0	3,32,181.08	0	0

Fig 4. Balance sheet - IDBI Bank LTD 2021-23

LIABILITIES AND EQUITIES

Total Shareholder's Funds grew from Rs. 41,661.98 in March 2022 to Rs. 45,318.48 in March 2023.Deposits: In March 2023, deposits increased from Rs. 2,33,134.42 to Rs. 2,55,498.94.Borrowings fell from Rs. 14,344.98 in March 2022 to Rs. 12,637.75 in March 2023. Total Liabilities: Total Liabilities grew from Rs. 3,01,419.36 in March 2022 to Rs. 3,30,502.17 in March 2023.

ASSETS

Cash and Reserve Bank of India Balances: Cash and Reserve Bank of India Balances grew from Rs. 13,593.36 in March 2022 to Rs. 16,639.18 in March 2023. Investments grew from Rs. 82,988.21 in March 2022 to Rs. 99,689.74 in March 2023. Advances: In March 2023, advances grew from Rs. 1,45,771.84 to Rs. 1,62,567.73. Total Assets grew from Rs. 3,01,419,36 in March 2022 to Rs. 3,30,502.17 in March 2023.

OTHER SUPPLEMENTAL INFORMATION

Number of Branches: From March 2022 to March 2023, the number of branches climbed from 1,886 to 1,928. Employees: The staff count climbed from 17,430 in March 2022 to 17,850 in March 2023. Capital Adequacy Ratios have increased from 19.06% in March 2022 to 20.44% in March 2023. Gross NPA: In March 2023, gross NPA reduced from Rs. 34,115.00 to Rs. 10,969.00. Net NPA: In March 2023, net NPA dropped from Rs. 1,856.00 to Rs. 1,495.00.

IMPLIED LIABILITIES AND COMMITMENTS

Bills for Collection: In March 2023, Bills for Collection decreased from Rs. 10,706.96 to Rs. 11,310.73. Contingent Liabilities: In March 2023, contingent liabilities dropped from Rs. 3,32,181.08 to Rs. 1,76,900.69.

IDBI Bank Profit And Loss

Key Financial Ratios	------------------- in Rs. Cr. -------------------				
	Mar '23	**Mar '22**	**Mar '21**	**Mar '20**	**Mar '19**
Investment Valuation Ratios					
Face Value	10	10	10	10	10
Dividend Per Share	--	--	--	--	--
Operating Profit Per Share (Rs)	0.71	-0.62	-1.45	-12.57	-33.3
Net Operating Profit Per Share (Rs)	19.13	17.02	18.54	20.06	28.53
Free Reserves Per Share (Rs)	--	--	--	--	--
Bonus in Equity Capital	2.27	2.27	2.27	2.35	3.16
Profitability Ratios					
Interest Spread	9.25	8.86	10.93	10.69	9.11
Adjusted Cash Margin(%)	16.59	12.41	7.13	-49.4	-58.13
Net Profit Margin	17.72	13.33	6.82	-61.88	-68.48
Return on Long Term Fund(%)	37.11	38.38	46.12	17.73	-21.56
Return on Net Worth(%)	9.82	7.34	4.45	-46.82	-48.94

Adjusted Return on Net Worth(%)	9.82	7.34	4.45	-46.82	-48.94
Return on Assets Excluding Revaluations	34.52	30.87	28.39	26.51	39.92
Return on Assets Including Revaluations	42.15	38.75	34.24	32.78	48.62
Management Efficiency Ratios					
Interest Income / Total Funds	6.69	6.26	6.82	6.86	6.7
Net Interest Income / Total Funds	3.72	3.14	2.91	2.3	1.79
Non Interest Income / Total Funds	1.42	1.6	1.58	1.47	1
Interest Expended / Total Funds	2.97	3.13	3.9	4.56	4.91
Operating Expense / Total Funds	3.47	3.36	3.45	6.6	9.61
Profit Before Provisions / Total Funds	1.51	1.23	0.91	-2.95	-6.93
Net Profit / Total Funds	-0.15	-0.5	-1.05	-8.89	-12.75
Loans Turnover	0.13	0.13	0.15	0.15	0.14
Total Income / Capital Employed(%)	8.11	7.87	8.4	8.33	7.7
Interest Expended / Capital Employed(%)	2.97	3.13	3.9	4.56	4.91
Total Assets Turnover Ratios	0.07	0.06	0.07	0.07	0.07
Asset Turnover Ratio	0.07	0.06	0.07	0.07	0.07
Profit And Loss Account Ratios					
Interest Expended / Interest Earned	44.43	49.92	57.27	66.49	73.24
Other Income / Total Income	17.53	20.4	18.83	17.67	13.01
Operating Expense / Total Income	42.78	42.77	41.05	79.16	124.81
Selling Distribution Cost Composition	0.19	0.13	0.11	0.16	0.05
Balance Sheet Ratios					
Capital Adequacy Ratio	20.44	19.06	15.59	13.31	11.58
Advances / Loans Funds(%)	63.06	58.98	50.65	48.83	50.29
Debt Coverage Ratios					
Credit Deposit Ratio	63.1	59.03	56.91	61.5	67.02
Investment Deposit Ratio	37.39	35.34	35.91	38.87	38.85
Cash Deposit Ratio	6.19	5.73	5.2	5.17	5.45
Total Debt to Owners Fund	7.22	7.46	8.08	9.42	8.83
Financial Charges Coverage Ratio	2.01	1.87	1.66	1.4	1.27
Financial Charges Coverage Ratio Post Tax	1.45	1.31	1.15	0.1	0.09
Leverage Ratios					
Current Ratio	0.11	0.15	0.19	0.22	0.21
Quick Ratio	12.23	15.91	13.2	28.19	21.02
Cash Flow Indicator Ratios					
Dividend Payout Ratio Net Profit	--	--	--	--	--
Dividend Payout Ratio Cash Profit	--	--	--	--	--
Earning Retention Ratio	100	100	100	100	100
Cash Earning Retention Ratio	100	100	100	--	--
Adjusted Cash Flow Times	61.72	81.73	131.76	--	--

Fig 5. Balance sheet - IDBI Bank LTD 2021-23

Interest Income: In March 2023, interest income grew marginally from Rs. 54,254.35 crore to Rs. 55,546.54 crore. Interest expense grew marginally as well, from Rs. 35,515.65 crore in March 2022 to Rs. 36,697.46 crore in March 2023. Net Interest Income: Net interest income increased slightly from Rs. 18,738.70 crore in March 2022 to Rs. 18,849.08 crore in March 2023, remaining reasonably constant. Operating Profit: In March 2023, operating profit fell from Rs. 5,546.54 crore to Rs. 5,354.35 crore. Provisions and contingencies increased dramatically from Rs. 4,554.35 crore in March 2022 to Rs. 6,465.43 crore in March 2023. Net Profit: In March 2023, net profit was negative, with a loss of Rs. 1,111.08 crore, compared to the previous year.

Conclusion

Examining IDBI Bank's financial performance after privatisation offers a mixed picture. On the plus side, there have been considerable improvements in a number of crucial areas. The capital adequacy ratio of the bank has improved, indicating a better ability to absorb potential financial shocks. Furthermore, the lowering trend in the net non-performing assets ratio indicates success in addressing asset quality issues, building trust among depositors despite constant growth in deposits. With increased investments, the bank has also diversified its revenue streams.

However, there are significant areas of concern that must be addressed. IDBI Bank's performance is still under pressure, with a net loss reported in 2023, mostly due to significant provisioning for bad loans, which continues to stymie earnings. In 2023, the negative operating profit margin suggests operational issues. Furthermore, the huge increase in provisions and contingencies raises concerns about the bank's capacity to properly manage and mitigate risks.

Although IDBI Bank has made headway in addressing some of its financial difficulties after privatisation, it is clear that the bank's financial performance is still in transition. Achieving long-term profitability and success will need a consistent focus on improving operational efficiency, strengthening risk management practises, and creating strategies to increase revenue production in the face of persistent challenges.

After reviewing the performance of IDBI Bank, it is difficult to declare that it is a boon because there is such a wide range of growth in the company's portfolio. It may take longer to grow as it did previously. This includes numerous aspects such as financial, operational, and economic factors, as well as the ground service supplied to the consumer. It may increase in the future, but given the existing scenario, it is difficult to predict rapid rise in market share.

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