Industry Analysis Research and Report

On

"Banking Industry"

By

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PGDM

Batch (2024-26)

Under the guidance of

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TBS

Pune

DECLARATION

I **Om Pravin Nilapwar** of ISMS TBS, Vadgaon, Pune, Batch 2024-2026 hereby declare that the Industry Analysis Research and Report titled **Banking Industry** which has been submitted to ISMS TBS is an original work of the undersigned and has not been reproduced from any other source. I have not plagiarized or submitted the same work for the award of any other degree. In case this undertaking is found incorrect, I accept that my degree may be unconditionally withdrawn.

Name of Student: Om Pravin Nilapwar

Signature of Student:

Date:

Place: Pune

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EXECUTIVE SUMMERY

Introduction

Definition of the Banking Industry :

The banking industry is a vital component of the global economy, encompassing financial institutions that provide various financial services to individuals and businesses. These institutions primarily act as intermediaries between lenders and borrowers, facilitating the flow of money and capital within the economy.

About Indian Banking Sector :

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 .Despite facing challenges such as non-performing assets and cyber threats, the Indian Banking Sector in 2024 continues to thrive .The sector's recent performance, marked by improved asset quality and robust credit growth, underscores its resilience. This Indian Banking Industry Report in 2024 also highlights the sector's drivers, including open banking, digital payments, AI and machine learning, customer centricity, and demographic changes.

Purpose/Aim of the report:

To provide a detailed overview of the Indian banking sector, including financial performance, recent developments, and the external environment.

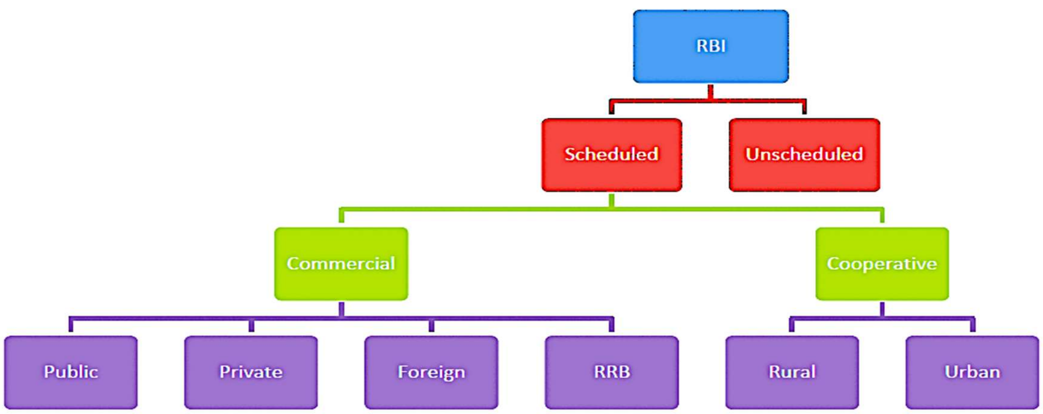
Procedure Used:

This report uses data from various financial databases, annual reports of leading banks, industry analysis reports, and news sources to provide a comprehensive understanding of the banking sector.

Structure

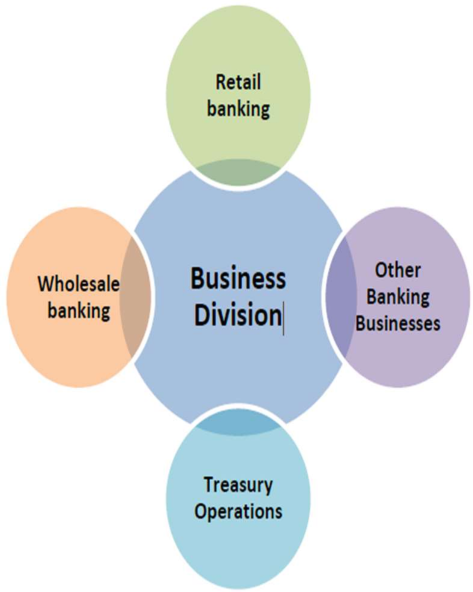
The Reserve Bank of India, the nation's central bank, began operations on April 01, 1935. It was established with the objective of ensuring monetary stability and operating the currency and credit system of the country to its advantage.

Chart : Structure of Bank



Source : Statista

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.



Source : Statista

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.

The Scope of the Banking Industry

The banking industry encompasses a wide range of financial institutions and services, operating at both domestic and international levels. Its scope includes :

Geographic Scope :

I. **Local :** Banks often operate within specific regions or countries, serving local communities and businesses.
II. **National :** Many banks have a national presence, offering services across multiple regions within a country.
III. **International :** Some banks operate on a global scale, with branches and subsidiaries in various countries.

Product and Service Scope :

I. **Traditional Banking:** Core products and services include deposit accounts, loans, payment services, and wealth management.
II. **Investment Banking:** Specialized services for corporations, governments, and other institutions, such as mergers and acquisitions, underwriting securities, and trading.
III. **Retail Banking:** Focus on individual customers, offering savings accounts, checking accounts, and loans.
IV. **Corporate Banking:** Services tailored to the needs of businesses, including commercial loans, trade finance, and cash management.
V. **Private Banking:** High-net-worth individuals receive personalized wealth management and investment services.
VI. **Islamic Banking:** Adherence to Islamic principles, offering interest-free banking products and services.

Boundaries :

The banking industry operates within a complex regulatory framework that defines its boundaries and scope. These boundaries include:

I. **Geographic Boundaries:** The industry is subject to national and international regulations that govern its operations in different jurisdictions. This includes licensing requirements, capital adequacy standards, and consumer protection laws.
II. **Product and Service Boundaries:** Banks are generally restricted to offering specific financial products and services, such as deposit accounts, loans, and payment services. There may be limitations on certain types of transactions or investments, particularly those deemed risky or speculative.
III. **Customer Boundaries:** Banks typically serve individuals and businesses, but there may be restrictions on certain types of customers, such as those deemed high-risk or politically exposed persons.

Key Characteristics :

I. **Intermediation:** Banks act as intermediaries between lenders and borrowers, facilitating the flow of money and capital within the economy.
II. **Risk Management:** Banks must effectively manage various risks, including credit risk, market risk, liquidity risk, and operational risk.
III. **Innovation:** The industry is constantly evolving, with new technologies and financial products being introduced.
IV. **Competition:** Banks compete with each other for customers and market share, leading to a dynamic and competitive environment.
V. **Social Responsibility:** Banks are increasingly expected to contribute to social and environmental causes, promoting sustainable development and ethical practices.

Technological Advancements in the Indian Banking Industry

Technological advancements have significantly transformed the Indian banking industry, leading to increased efficiency, improved customer experience, and new business opportunities. Key technological trends include:

Digital Banking :

I. **Online Banking:** Banks have developed robust online banking platforms that allow customers to access their accounts, make transactions, and manage their finances 24/7.
II. **Mobile Banking:** Mobile banking apps have become increasingly popular, providing customers with convenient access to banking services on their smartphones and tablets.
III. **Internet Banking:** Internet banking enables customers to access their bank accounts through a web browser.

Fintech Innovations :

I. **Payment Gateways:** Banks have partnered with fintech companies to offer secure and convenient payment gateways for online transactions.
II. **Digital Wallets:** Mobile wallets such as Google Pay, PhonePe, and Paytm have become widely adopted for peer-to-peer payments and offline purchases.
III. **Neobanks:** Digital-only banks are disrupting the traditional banking model by offering innovative products and services, often with lower fees and reduced paperwork

CHAPTER 1
INDUSTRY OVERVIEW

The Indian banking industry is a significant player in the global financial landscape, characterized by its substantial size and rapid growth. Our in-depth analysis of the Indian Banking Sector in 2024 reveals that India has amassed $2 trillion in total deposits, showcasing superior financial conditions compared to other global markets. The 2024 Banking Sector Report delves into various factors contributing to this growth, including government initiatives and the rising trend of vehicle electrification. As of March 2023, the Indian Banking Market in 2024 comprises a diverse array of institutions, including public sector banks, private sector banks, foreign banks, regional rural banks, and cooperative banks. With over 160,000 branches and extensive ATM networks, the Indian banking infrastructure ensures significant accessibility across rural and urban areas. Despite facing challenges such as non-performing assets and cyber threats, the Indian Banking Sector in 2024 continues to thrive. The sector's recent performance, marked by improved asset quality and robust credit growth, underscores its resilience. This Indian Banking Industry Report in 2024 also highlights the sector's drivers, including open banking, digital payments, AI and machine learning, customer centricity, and demographic changes. For investors, the Indian Banking Market in 2024 presents lucrative opportunities. These insights will help investors make informed decisions, capitalizing on the growth and stability of the Indian banking sector Key indicators of its current status include

Size :

I. Total Assets: The Indian banking industry holds trillions of rupees in assets, making it one of the largest financial sectors
II. In India, the Banking market is expected to witness a significant growth in Net Interest Income, with a projection of reaching US$459.60bn in 2024
III. Traditional Banks are anticipated to dominate the market, with a projected market volume of US$435.80bn in the same year.
IV. Number of Banks: There are thousands of banks operating in India, including public sector banks, private sector banks, foreign banks, and regional rural banks.
V. Employment: The industry employs millions of people, providing jobs in various roles from tellers and loan officers to investment bankers and risk managers.

Growth Rate :

I. Historical Growth: The Indian banking industry has experienced significant growth in recent decades, driven by economic liberalization, financial reforms, and increasing financial inclusion.

II. Looking ahead, Net Interest Income is expected to maintain a steady growth rate, with a Compound Annual Growth Rate (**CAGR** 2024-2029) of 0.89%.

III. This growth is projected to result in a market volume of US$480.50bn by 2029.

IV. Recent Trends: Despite facing challenges such as the global financial crisis and the COVID-19 pandemic, the industry has continued to grow at a healthy pace.

Key Trends :

India does not grant virtual banking licences to challenger banks unlike the UK. The RBI has extended the existing regulatory framework to virtual banks as well which clearly dictates that banks without physical presence in the country are not permitted to offer internet banking services15 to Indian customers. Due to this regulatory framework, neobanks in India primarily exist as distribution channels for licensed banks or as product innovation/capability partners for traditional banks. Incumbent traditional banks are also offering digital services similar to neobanks. The concept of super apps launched by existing platform players which can provide various financial and non-financial products and services under a single roof is also gaining traction.

I. **Digital Transformation:** The adoption of digital banking technologies, such as mobile banking and online payments, has accelerated in recent years, improving customer convenience and efficiency.

II. **Financial Inclusion:** Government initiatives and technological advancements have led to increased financial inclusion, bringing millions of people into the formal banking system.

III. **Competition from Fintech:** The rise of fintech companies has intensified competition in the banking industry, particularly in areas such as payments and lending.

IV. **Regulatory Changes:** The industry is subject to various regulations, including those related to capital adequacy, risk management, and consumer protection.

In comparison to other countries, China is expected to generate the highest Net Interest Income, with a projected amount of US$4,332.0bn in 2024.
India's banking market is experiencing a surge in digital banking adoption, with mobile banking becoming increasingly popular among consumers.

Banks In the Banking Industry :

Top 5 Banks :

Table 1.1

Sr .No.	Name	CMP Rs.	P/E	Mar Cap Rs. Cr.
1	HDFC Bank	1637.35	18.32	1248822.66
2	ICICI Bank	1247.7	19.39	878773.55
3	St Bk of India	824.8	10.1	736146.76
4	Axis Bank	1191.6	13.79	368518.27
5	Kotak Mah. Bank	1784.2	19.02	354730.34

(Source : Screener)

Bottom 5 Banks :

Table 1.2

Sr .No.	Name	CMP Rs.	P/E	Mar Cap Rs. Cr.
1	Fino Payments	407.95	36.99	3395.57
2	ESAF Small Fin	50.24	7.22	2586.77
3	Suryoday Small	188.23	8.39	2000.74
4	Capital Small	292.3	11.83	1318.36
5	Dhanlaxmi Bank	38.63	45.43	977.64

(Source : Screener)

Key Segments of the Indian Banking Industry

The Indian banking industry can be broadly divided into the following key segments:

Public Sector Banks (PSBs) :

I. **Government Ownership:** These banks are primarily owned and controlled by the Indian government.
II. **Large Scale:** They are typically large-scale institutions with a wide network of branches across the country.
III. **Social and Financial Inclusion:** PSBs play a crucial role in promoting social and financial inclusion, particularly in rural areas.

IV. **Government Policies:** Their operations are often influenced by government policies and priorities.

Private Sector Banks :

I. **Private Ownership:** These banks are owned and operated by private entities, often with significant foreign investment.
II. **Diverse Range:** They offer a diverse range of products and services, catering to both retail and corporate customers.
III. **Market-Driven:** Private sector banks are more market-driven and often have a stronger focus on profitability and efficiency.

Foreign Banks :

I. **International Presence:** These banks are subsidiaries or branches of foreign banks operating in India.
II. **Specialized Services:** They often specialize in specific areas, such as corporate banking, trade finance, and investment banking.
III. **International Network:** Foreign banks can leverage their global networks to offer international services and cross-border transactions.

Regional Rural Banks (RRBs) :

I. **Regional Focus:** RRBs are primarily focused on serving rural areas and promoting financial inclusion.
II. **Government Sponsorship:** They are sponsored by commercial banks and operate under the oversight of the Reserve Bank of India.
III. **Localized Services:** RRBs offer a range of banking services tailored to the needs of rural communities.

Small Finance Banks (SFBs) :

I. **Small-Scale Lending:** SFBs are specialized banks that focus on providing small-scale loans to micro, small, and medium enterprises (MSMEs) and individuals.
II. **Financial Inclusion:** They play a vital role in promoting financial inclusion and supporting the growth of the MSME sector.

III. **Specialized Products:** SFBs offer a range of financial products and services designed to meet the specific needs of their target customers.

Competitive Landscape of the Indian Banking Industry

The Indian banking industry is characterized by a competitive landscape, with a mix of public sector banks, private sector banks, foreign banks, and regional rural banks. Key factors driving competition include:

I. **Increased Competition:** The entry of private sector banks and foreign banks has increased competition within the industry, forcing banks to offer more competitive products and services.
II. **Technological Advancements:** The adoption of digital banking and fintech innovations has created new opportunities for competition, as banks and non-bank financial companies (NBFCs) compete to offer innovative products and services.
III. **Regulatory Changes:** The government has implemented various regulatory reforms to promote competition and improve the efficiency of the banking system.

Key Players :

I. **Public Sector Banks:** State Bank of India (SBI), Bank of Baroda, Punjab National Bank, Canara Bank, Union Bank of India, Bank of India, and others.
II. **Private Sector Banks:** HDFC Bank, ICICI Bank, Axis Bank, Kotak Mahindra Bank, Yes Bank, and others.
III. **Foreign Banks:** HSBC, Citibank, Standard Chartered Bank, and others.
IV. **Regional Rural Banks:** These are typically smaller banks with a focus on serving rural areas.
V. **Non-Bank Financial Companies (NBFCs):** Companies that provide financial services but are not regulated as banks, such as Bajaj Finance, Mahindra Finance, and Shriram Transport Finance Company.

Competitive Dynamics :

I. **Market Share:** Public sector banks continue to dominate the market in terms of market share, but private sector banks have been gaining ground.
II. **Product Differentiation:** Banks compete on the basis of product offerings, pricing, customer service, and technology.

III. **Customer Acquisition and Retention:** Banks compete to attract and retain customers by offering attractive products, competitive rates, and superior customer service.

IV. **Digital Innovation:** Banks are investing heavily in digital technologies to improve customer experience, reduce costs, and stay competitive

The Indian banking industry is characterized by a competitive landscape with a mix of public sector banks, private sector banks, foreign banks, and regional rural banks. Key factors driving competition include increased competition, technological advancements, and regulatory changes. The industry is dominated by public sector banks in terms of market share, but private sector banks have been gaining ground. Banks compete on the basis of product offerings, pricing, customer service, and digital innovation. However, the industry also faces challenges such as non-performing assets, regulatory compliance, and technological disruption.

Trends and Drivers of the Indian Banking Industry

The Indian banking industry is experiencing significant transformation, driven by a confluence of factors. Key trends and drivers include :

Technological Advancements :

I. **Digital Banking:** The adoption of digital banking platforms has revolutionized the way customers interact with banks, enabling convenient and efficient transactions.

II. **Fintech Innovations:** The rise of fintech companies is challenging traditional banking models, offering innovative products and services such as digital payments, lending, and wealth management.

III. **Artificial Intelligence (AI):** AI is being used to enhance customer service, fraud detection, and risk management within the banking industry.

Regulatory Changes :

I. **Financial Inclusion:** The government's focus on financial inclusion has led to increased access to banking services for millions of people, particularly in rural areas.

II. **Basel III Capital Norms:** Indian banks are required to comply with Basel III capital adequacy standards, which have strengthened the banking system's resilience.

III. **Payment Systems:** The introduction of unified payment interfaces (UPIs) and real-time gross settlement (RTGS) systems has facilitated faster and more efficient payments.

Economic Growth :

I. **Rising Income Levels:** As income levels rise, there is a growing demand for banking services, including loans, investments, and insurance.

II. **Urbanization:** The increasing urbanization of India is driving growth in the banking sector, as urban areas typically have higher levels of economic activity and financial sophistication.

Competitive Landscape :

I. **Increased Competition:** The entry of private sector banks and foreign banks has intensified competition within the industry, forcing banks to offer more competitive products and services.

II. **Mergers and Acquisitions:** Consolidation within the industry through mergers and acquisitions has led to the creation of larger, more efficient banking institutions.

The promotion and management Ethos

The promotion and management ethos in the banking industry typically emphasizes:

Meritocracy: Promotions based on individual performance, skills, and contributions.

Professionalism: Adherence to industry standards, ethics, and best practices.

Risk Management: Encouraging a culture of calculated risk-taking and responsible decision-making.

Customer-centricity: Focusing on meeting customer needs, building relationships, and providing excellent service.

Compliance: Ensuring adherence to regulatory requirements, laws, and industry standards.

Innovation: Encouraging innovation, digital transformation, and embracing new technologies.

Teamwork: Fostering collaboration, communication, and teamwork to achieve shared goals.

Continuous Learning: Supporting ongoing training, development, and education to stay up-to-date with industry trends.

Accountability: Holding individuals and teams accountable for their actions, performance, and outcomes.

Diversity and Inclusion: Promoting a culture of diversity, equity, and inclusion, recognizing the value of diverse perspectives.

Management Ethos :

Transformational Leadership: Encouraging leaders to inspire, motivate, and empower teams.

Strategic Thinking: Fostering a culture of strategic planning, innovation, and forward thinking.

Operational Excellence: Emphasizing efficiency, productivity, and process improvement.

Talent Management: Attracting, retaining, and developing top talent to drive business success.

Stakeholder Engagement: Building strong relationships with customers, investors, regulators, and the community.

These principles guide promotion and management decisions in the banking industry, ensuring a focus on performance, customer satisfact in, risk management, and innovation.

CHAPTER 2
EXTERNAL ENVIRONMENT

Regulatory Environment of the Indian Banking Industry

The Indian banking industry operates within a complex regulatory framework, designed to ensure financial stability, protect consumers, and maintain the integrity of the system. Key regulatory bodies and their roles include :

Reserve Bank of India (RBI) :

I. **Central Bank:** The RBI is the central bank of India, responsible for monetary policy, banking regulation, and supervision.
II. **Monetary Policy:** The RBI sets the monetary policy rate, influences interest rates, and manages the money supply.
III. **Banking Regulation:** The RBI regulates the banking system, including licensing, supervision, and enforcement of banking laws.

Banking Regulation and Development Authority (BRDA) :

I. **Banking Regulator:** The BRDA is a specialized regulator for the banking sector, established in 2010.
II. **Supervision and Enforcement:** The BRDA supervises banks, enforces banking laws, and takes corrective measures as necessary.

Securities and Exchange Board of India (SEBI) :

I. **Securities Regulator:** SEBI regulates the securities market, including stock exchanges, mutual funds, and derivatives.
II. **Banking-Related Activities:** SEBI also oversees certain banking-related activities, such as the issuance of bank debentures.

Insurance Regulatory and Development Authority of India (IRDAI) :

I. **Insurance Regulator:** IRDAI regulates the insurance sector, including life insurance, general insurance, and reinsurance.

Key Regulations :

I. **Banking Regulation Act, 1949:** This is the primary law governing the banking industry in India.
II. **Reserve Bank of India Act, 1934:** This act establishes the RBI as the central bank of India and outlines its powers and functions.
III. **Payment and Settlement Systems Act, 2007:** This act regulates payment systems in India, including RTGS, NEFT, and UPI.
IV. **Foreign Exchange Management Act, 1999:** This act regulates foreign exchange transactions in India, including those related to banking activities.
V. **Complex Regulatory Framework:** The Indian banking industry operates within a complex regulatory framework, which can be challenging for banks to navigate.
VI. **Regulatory Overreach:** There are concerns about regulatory overreach, which can stifle innovation and growth.
VII. **Regulatory Arbitrage:** Some banks may engage in regulatory arbitrage, seeking to exploit loopholes or inconsistencies in the regulatory framework.

Economic Indicators

The Indian banking industry is closely linked to the overall health of the Indian economy. Several key economic indicators influence the performance and outlook of the industry:

Gross Domestic Product (GDP) :

I. **Economic Growth:** A strong GDP growth rate indicates a healthy economy, which can lead to increased demand for banking services such as loans, investments, and payment processing.
II. **Loan Demand:** Higher GDP growth is often associated with increased demand for loans to support business expansion, infrastructure development, and consumer spending.
III. **Asset Quality:** During economic downturns, banks may experience higher levels of non-performing assets (NPAs) as borrowers struggle to repay their loans.

Inflation :

I. **Interest Rates:** High inflation rates can lead to higher interest rates, which can affect the cost of borrowing for both banks and their customers.
II. **Loan Repayment:** Inflation can erode the purchasing power of loan repayments, making it more difficult for borrowers to meet their obligations.

Employment Rates :

I. **Loan Demand:** A high employment rate indicates a strong labor market, which can lead to increased demand for consumer loans and business financing.

II. **Asset Quality:** During periods of high unemployment, banks may face higher levels of NPAs as borrowers struggle to make loan repayments.

Other Relevant Indicators :

I. **Interest Rate Spreads:** The difference between lending rates and deposit rates affects bank profitability.

II. **Exchange Rates:** Fluctuations in exchange rates can impact the profitability of banks engaged in international trade and currency exchange.

III. **Government Policies:** Government policies, such as fiscal and monetary policies, can have a significant impact on the banking industry.

SWOT Analysis of the Indian Banking Sector :

Chart 2.1

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

(Source :Wright)

Strengths:

I. Contributor to economic growth- The banking sector is a major contributor to economic growth, employing 1.57 million people and contributing 7.7% to GDP.
II. Financial performance- banking sector reported a healthy profit of Rs. 0.74 lakh crore with a YoY jump of 69% for Q1FY2024with PSU banks' share of profits increasing to 47%.
III. Large customer base and reach- Large and growing customer base, with over 80% of the population having a bank account in comparison to 17% in 2009.
IV. Technological advancements- Massive technological advancements, with digitalization decreasing costs and increasing efficiency.
V. Increasing profitability in the banking sector- Profitability increasing due to higher interest rates and lower credit costs.

Weaknesses :

I. High capital requirements- High capital requirements increase risk and discourage new entrants, leading to undervaluation's. Banks are trading at about 1.0 times book value, versus 3.0 times for all other industries.
II. Non-Performing Assets- The major weakness of the banking sector is NPAs. In the financial year 2022, public sector banks in India reported a total of over 5.4 trillion Indian rupees in gross non-performing assets (NPA).
III. Lack of rural coverage- Approximately 69% of India's population resides in rural areas. Government targets bank accounts for all, but rural infrastructure is still lacking.
IV. Low financial inclusion- Low financial inclusion in India, with only 53.1% having a bank account.
V. Frauds- Increasing number of frauds, including accounting fraud and fraudulent loans. The RBI in 2022 reported total fraud cases of around 9103.
VI. Refusal to Dilute stake in Non-Strategic PSUs- The government's refusal to dilute stake in non-strategic PSUs.

Opportunities :

I. **Digital Transformation:** The adoption of digital banking technologies can improve efficiency, enhance customer experience, and reduce costs.
II. **Financial Inclusion:** There is a significant opportunity to expand financial inclusion and reach underserved segments of the population.

III. **Government Initiatives:** Government initiatives such as the Pradhan Mantri Jan Dhan Yojana (PMJDY) and the Pradhan Mantri Awas Yojana (PMAY) can provide growth opportunities for banks.

IV. **Innovation:** Banks can innovate to develop new products and services that meet the evolving needs of customers.

V. **Global Expansion:** Indian banks have the potential to expand their operations globally, leveraging their strong domestic presence and expertise.

To navigate these challenges and capitalize on the opportunities, Indian banks must focus on:

I. **Digital Transformation:** Investing in technology to improve efficiency, enhance customer experience, and reduce costs.

II. **Risk Management:** Strengthening risk management practices to mitigate the impact of non-performing assets and other risks.

III. **Regulatory Compliance:** Ensuring compliance with a complex regulatory framework while adapting to changing regulations.

Threats in the Indian Banking Sector :

I. Data breaches- Data breaches a major risk for Indian banks, with 248 incidents reported in four years.

II. Online phishing scams and its impacts- Online phishing scams increasing, costing customers nearly Rs 1500 crore in two years, hampering growth. Such scams increase the fear among masses and make them question the reliability and safety of "technology".

III. Stiff Competition- Banks face stiff competition, including from Non-Banking Financial Corporations (NBFCs).

IV. Unstable government actions- Unstable government actions, such as frequent changes in lending rates and political interference, can harm bank profitability and stability

V. Global Economic Instability- Global economic instability, such as trade wars and recessions, can harm the Indian banking sector. Because of the Dollar being a global currency, any downturns in the US economy also affects the Indian banking sector as well.

Challenges :

I. **Non-Performing Assets (NPAs):** The industry continues to grapple with the issue of NPAs, which can impact profitability and financial stability.

II. **Regulatory Compliance:** Banks must comply with a complex regulatory framework, which can be challenging and costly.

III. **Technological Disruption:** The rise of fintech companies and digital innovations present both challenges and opportunities for traditional banks.

IV. **Cybersecurity Threats:** Banks face increasing cybersecurity risks, including data breaches, fraud, and ransomware attacks.

V. **Economic Volatility:** Global economic events, such as trade wars, geopolitical tensions, and pandemics, can impact the Indian banking industry.

VI. **Competition:** The increased competition from private sector banks, foreign banks, and fintech companies can put pressure on traditional banks to innovate and improve their offerings.

Assessing the Life Cycle Stage of the Indian Banking Industry

The Indian banking industry is currently in a growth stage of its life cycle. While it has been a significant player in the Indian economy for decades, it has experienced a surge in growth and transformation in recent years. Key indicators of the growth stage include:

I. **Rapid Expansion:** The industry has witnessed a significant increase in the number of banks, branches, and customers.

II. **Technological Advancements:** The adoption of digital banking and fintech innovations has transformed the way banks operate and interact with customers.

III. **Financial Inclusion:** Government initiatives and technological advancements have led to increased financial inclusion, bringing millions of people into the formal banking system.

IV. **Rising Competition:** The entry of private sector banks, foreign banks, and fintech companies has intensified competition within the industry.

While the Indian banking industry is in a growth stage, it is important to note that different segments within the industry may be at varying stages of their life cycle. For example, some regional rural banks may be in a more mature stage, while digital-only banks may be in the early stages of growth.

CHAPTER 3

FINANCIALS

Financials Of Top 5 Players

1. HDFC Bank :

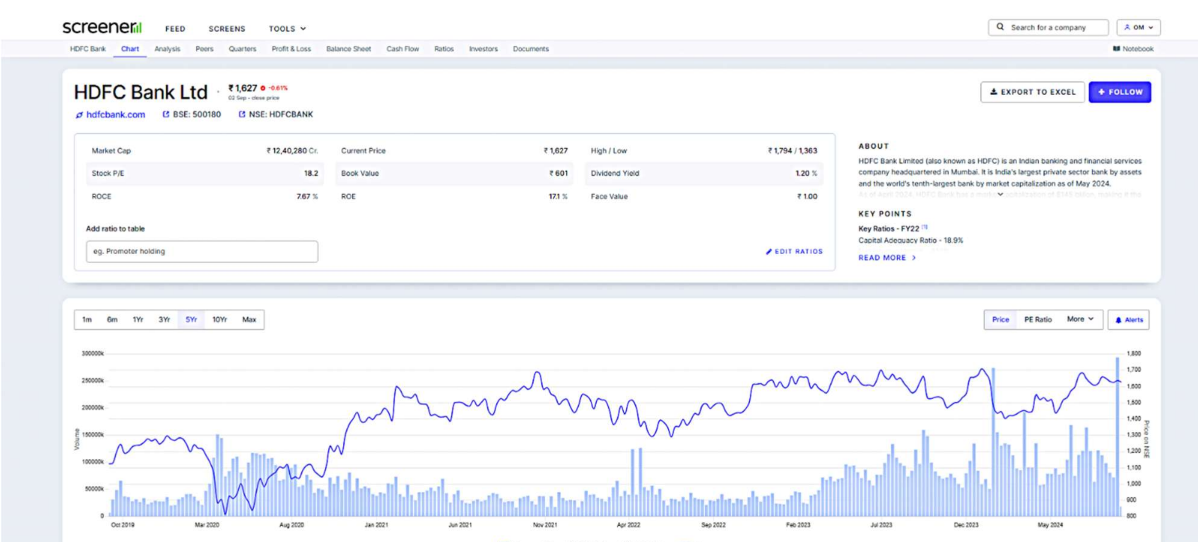
I. Capital increased from 5,545,541,000 in the year ending 31 March 2022 to 5,579,743,000 in the year ending 31 March 2023, showing an increase of 0.06134% (approx.). 34,201,810 equity shares of face value of ` 1/- each were issued by your Bank pursuant to the exercise of Employee Stock Options (ESOPs).

II. Total borrowings went up from 1,848,172,073,000 in 2021-22 to 2,067,655,655,000 in 2022-23, showing an 11.87% increase. The rise in borrowings from other banks caused the overall borrowings to rise. Also the borrowings for the Tier I and II capital were also made.

III. There has been a significant rise in deposits, going from 15,592,174,400,000 in FY2022 to 18,833,946,463,000 in FY2023. The most significant increase was observed in the demand deposits which saw a growth of 29.6%.

IV. There has been a decline in the cash and balances with the Reserve Bank of India (showing a 9.87% decline). This shows that the liquidity of the company has been decreasing. There has been a great decline in the balance with RBI in other accounts, going from 370,140,000,000 in FY2022 to just 95,260,000,000 in FY2023, showing a 74.26% decline.

Graph 3.1 : HDFC Bank



(Source : Screener)

The increase in advances was primarily driven by increase in advances to the priority sector, which mostly consisted if loans secured by tangible assets

Under fixed assets, premises have shown an increase, going from 21,820,786,000 in FY2022 to 24,353,113,000 in FY2023 due to addition of 2,799,840,000 in FY2023. Other fixed assets have also increased from 146,059,692,000 in FY2022 to179,030,451,000 in FY23. Increase in fixed assets of a company is usually due to increase in cash from borrowings.

P&L Analysis of HDFC Bank :

I. The primary revenue stream for the bank is interest income, which experienced a noteworthy expansion from Rs. 127753.12Crores to Rs. 161585.54, denoting a substantial growth of 26.4%. There is a direct relation between advances and interest income. So as observed above the advances of the bank have increased, the interest income has also grown.

II. Operating expenses increased by 27.2% and as a proportion of total revenue (RFO)remained the same at 29.3% in FY23,reflecting judicious cost control measures.

III. Total expenditures swelled from Rs. 120301.66 Crores to Rs. 148691.66 Crores, signifying a 23.5% increment. Major expenses were due to increase the deposits which led to increased interest expenses.

IV. Net Profit in FY23 exhibited more than a twofold increase compared to FY22, surging from Rs.36961.36 Crores to Rs. 44108.70Crores, marking a growth of 19.3%.

Table 4.1

HDFC BANK							
Debit Equity Ratio	Price Earning Ratio	P/B Ratio	ROA Ratio	PEG Ratio	NPG Rate	ROCE Ratio	Loan Deposit Ratio
0.88	23.87	3.77	1.98%	1.01	24.36%	1.89%	86%

(Source : Screener)

Conclusion on HDFC Bank :

The bank displayed strong growth in the year and assets quality remained stable. The amount of deposits increased substantially and the main focus of advances was on the priority sectors.

2) ICICI Bank :

I. Total liabilities increased by 11.7% from 17,526,373,837 FY22 to 19,584,904,970 FY23. It can be due to the loan growth, issue of the debt securities and deposit growth.

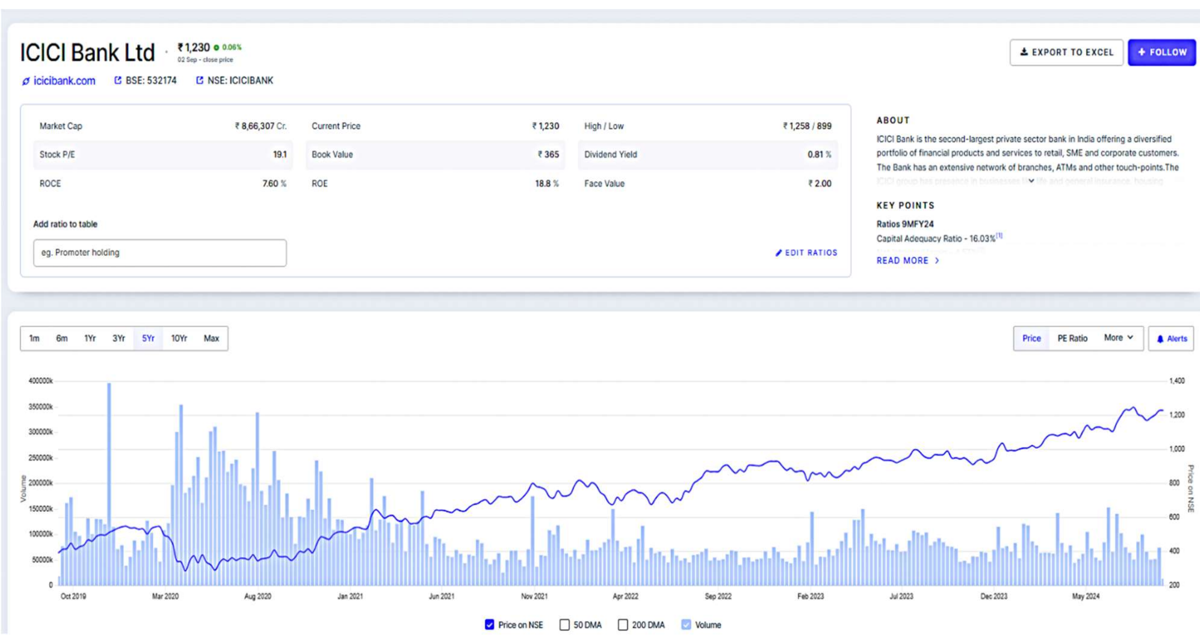
II. Capital did not show any significant increase as it increased by 0.48%. This increase is mainly due to issuing subscribed an paid up capital. An increase in equity suggests that a company's financial health is improving. Also a higher equity value can result in a higher valuation for the company which can be important for attracting investors.

III. Reserves and Surplus increased by 17.7%. This increase is mainly driven by the increase in Statutory reserves , special reserves and securities premium reserves while all the other reserves showed did not show a significant increase. This increase in reserves and surplus act as a financial cushion in case the economy faces any downturns.

IV. Total Deposits have shown an increase by 10.96% in current year as compared to previous year. The increase in the total deposits is a positive sign as it shows that the bank is growing and can lend more which in turn will boost the profitability of the bank

V. Borrowings have shown an increase from 1,616,026,828 FY22 to 1,890,618,073 FY23. It can lead to reduction in profitability and can invite regulatory scrutiny.

Graph 3.2



(Source : Screener)

VI. Total assets increased by 11.7% from 17,526,373,837 FY22 to 19,584,904,970 FY 23. There has been a decrease in cash and balances with reserves bank of India by 37.4%.This is bad for a bank as it can lead to liquidity risk for the bank.

VII. Balances with Banks and Money at call and short notice have also shown a decrease. Total Investments showed an increase by 12.7%. It is a positive sign as increase in investment suggests that the bank is allocating its resources towards expanding its operations. Expanding investments can result in new opportunities which will be beneficial.

P&L Analysis of ICICI Bank :

I. There is an increase in the net interest income by Rs.146.63 billion. It is primarily on account of the growth in the in discount on the advances/bills. There other reasons could be increased in the core business of lending loans and the primary increase in the interest rates by RBI.

II. There is a 26.5% increase in the interest income from Rs.863.75 billion to Rs.1092.31 billion. Net interest income increased by30.9% from Rs.474.66 billion in fiscal 2022 to Rs.621.29 billion in fiscal 2023.

III. Other Income Rs.198 billion in FY-23 from Rs.185 billion in FY-22. It still accounts for 15.3% of the total revenue. In case of the ICICI Bank commission, exchange and the brokerage form a major part of the other income. Increase in the other income can be a positive sign for the bank only when it is increasing the non-interest revenue streams and is not completely dependent upon its core activities to make money however.

IV. There is a rise in the total expenditure from 159 billion to 171 billion which is 75% growth. There is a 22.8 % growth in the operating expenses of the bank. The overall operating expenses increased from Rs.267 billion to Rs.328 billion.

Table 3.2

ICICI BANK							
Debit Equity Ratio	Price Earning Ratio	P/B Ratio	ROA Ratio	PEG Ratio	NPG Rate	ROCE Ratio	Loan Deposit Ratio
0.88	17.87	2.97	1.91%	0.5	29.04%	4.66%	80%

(Source : Screener)

V. There is a 20.6% increase in the interest expended. It is primarily on account of the increase in the interest rates and the growth in deposits so the bank also has to pay higher rates on

VI. the deposits. However, if the bank is forced to increase the interest rates based on competition from other banks it can be a negative sign.

Conclusion on ICICI Bank

Overall the banks deposits as well as the profits have been growing and the future appears to be bright. There is a significant decline in the NPA of the bank which will reduce the financial distress of the bank. The balance sheet is also very strong on account of the growth in deposits.

3) SBI :

I. The capital remained constant at ₹ 89,24,612 in both 2022 and 2023. This indicates the company has enough funds to meet its functioning and is not in need on any additional funding. This points to a healthy financial structure and stable profitability.

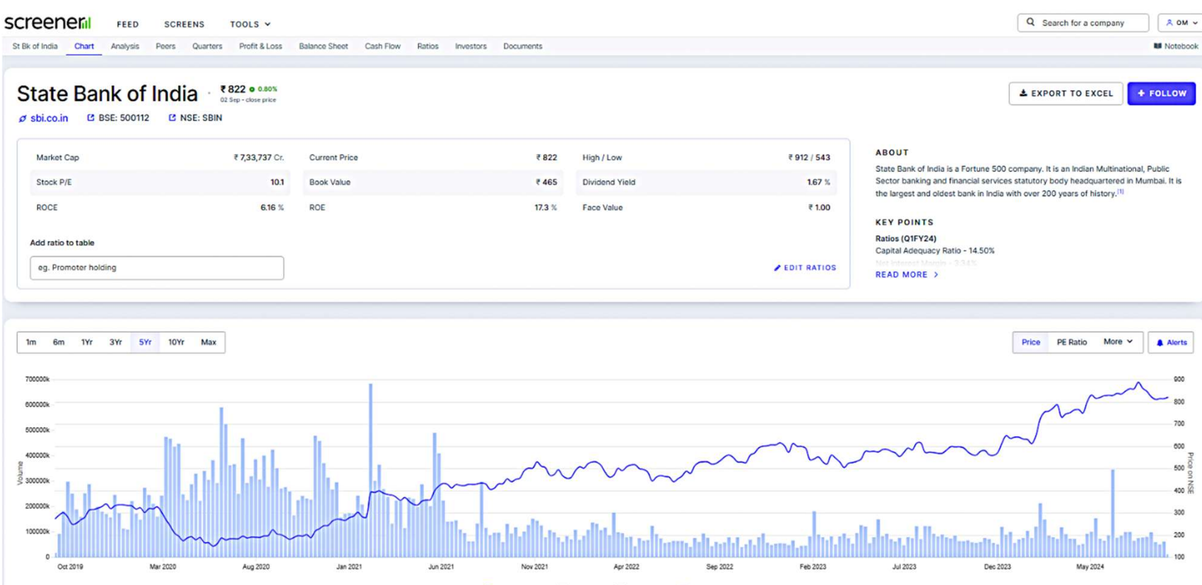
II. Deposits increased to ₹ 44,68,53,55,068 from ₹ 40,87,41,06,006 in FY22, representing a notable rise of 9.32%. the term deposits shall enable the bank to lend a greater amount of loans, thereby increasing the interest income, which can be used for further operations.

III. BORROWINGS, which previously constituted 8.75% of the balance sheet total, increased to ₹ 5,21,15,19,498 from ₹4,49,15,97,836, marking a substantial increase of 16%. This can be attributed to the need of meeting liquidity requirements of the bank.

IV. Cash and Balances with Reserve Bank of India, constituting 4.1% of the total assets, decreased by 22.35% from ₹3,18,49,24,301 to ₹ 2,47,32,10,497. Similarly, Balances with Banks and Money at Call and Short Notice decreased by 11.7%, falling from ₹ 80,41,26,916 to ₹ 70,99,08,600.

V. Fixed Assets, forming 0.75% of the total assets, increased by 12.4% from ₹ 39,51,00,305 to ₹ 44,40,73,810. The majority of this increase was due to Premises, constituting 75.5% of the total fixed assets, which went up by 14.7% from ₹ 29,13,89,348 to ₹33,40,00,396. An increase in premises could possibly be due to the opening of new branches, ATMs etc., indicating people's trust on the bank's profitability and financial stability.

Graph 3.3



(Source : Screener)

P&L Analysis of SBI :

I. Revenue from operations (interest earned) increased significantly by 21% from ₹ 2,89,97,26,860 to ₹ 3,50,84,45,801. Higher revenue can be attributed to greater amount of deposits and greater advances leading to higher profits earned by the banks.

II. Expenses, which mainly consist of interest expended and operating expenses, each forming 54% of the total revenue from operations (RFO), increased by 21.6% and 8.8%. operating expenses increased from ₹ 1,74,36,34,258 to ₹ 1,89,81,44,859.Advertising and publicity expenses have risen the operating expenses but it is justified as is evidenced by the increased trust of the people in the firm's profitability.

III. Interest on RBI and interbank borrowings, making up 5% of the total interest expended, increased significantly by 136%. An increase in the firm's borrowings has caused a subsequent rise in the interest expenditure

IV. The Profit after Tax (pat) experienced a notable increase of 21.67%, rising from ₹ 43,47,04,210 to ₹76,04,25,233. Previously forming 15% of the RFO, it now constitutes 21%.

Table 3.3

SBI BANK							
Debit Equity Ratio	Price Earning Ratio	P/B Ratio	ROA Ratio	PEG Ratio	NPG Rate	ROCE Ratio	Loan Deposit Ratio
1.57	7.91	1.51	1.00%	0.15	105.60%	12.46%	73%

(Source : Screener)

Conclusion on SBI :

The overall analysis indicates the positive financial health of the bank. Increase in profits, deposits, and a rise in the firm's capacity to lend loans portrays the immense trust of the people. Moreover, since it's a public sector bank, most people find it to be extremely reliable and are assured of the safety of their investment. Assets of the bank show a positive trend and investment in premises would lead to possible expansion in the near future.

4) Kotak Mahindra :

I. An increase in a bank's capital means more funds for the acquisition of assets and a higher capital ratio, which also leads to higher return on equity.

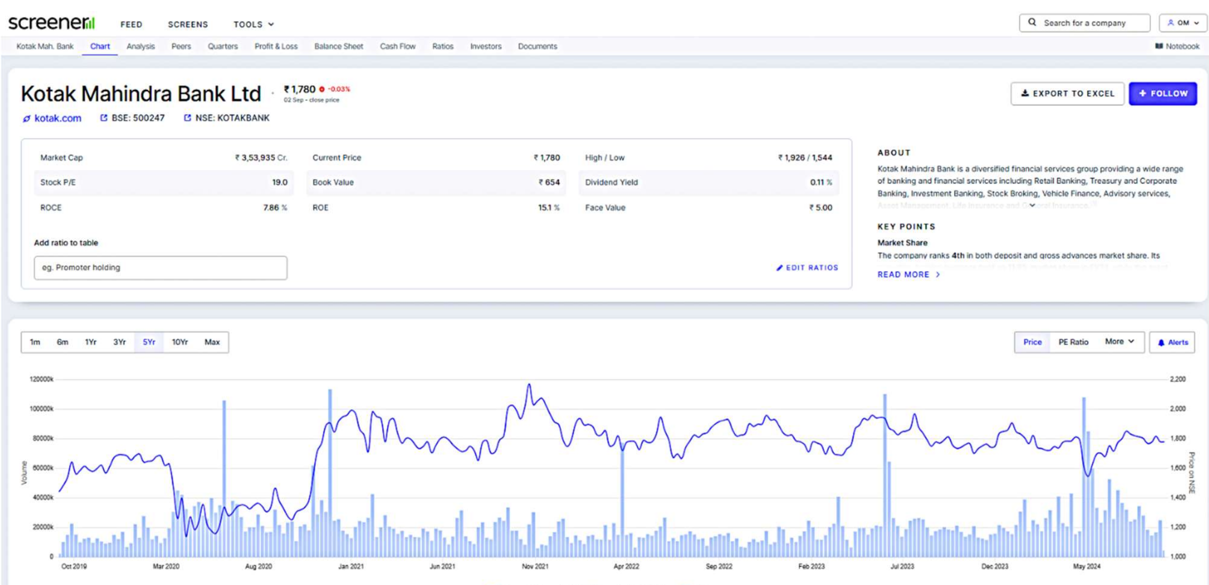
II. Increase in reserves and surplus in a bank allows a bank to have more of a cushion in case of emergencies and acts as a safety net in bad times.

III. Increase in deposits in a bank is great for a bank as it shows there's an increase in funds available to a bank for loaning out and other activities.

IV. An increase in term deposits shows an increase in a bank's profitability. However, the bank needs to maintain a balance between interest rates and attracting new investors. If the bank pays too little interest, it won't attract new investors. If it charges too high of a rate on loans, it won't attract new borrowers.

V. A reduction in bills payable shows the bank is paying back its creditors on time, but it also has an effect on the cash flows of the company as it causes a lot of cash outflow.

Graph 3.4



(Source : Screener)

VI. An increase in investments by a bank is good for the bank as the bank will keep earning interest on these investments which will act as a passive income for the bank. A decrease in debentures and bonds shows that the bonds and debentures have matured and the banks have earned enough interest on them.

P&L Analysis of Kotak Mahindra :

I. The net increase of income of 25% YOY, shows that the bank is improving margins and keeping its costs in check.

II. he increase in operating expenses by 10% YOY, can decrease the bank's short-term profits, however, it is important that expenses are towards necessary expenditures like brand building, etc, which can derive benefits for business in long run

III. The profit growth for the business was 21% YOY, increase profits can provide higher leverage to bank to give out more loans and advances.

Table 3.4

KOTAK BANK							
Debit Equity Ratio	Price Earning Ratio	P/B Ratio	ROA Ratio	PEG Ratio	NPG Rate	ROCE Ratio	Loan Deposit Ratio
0.51	21.12	3.18	2.56%	1.02	21.21%	12.70%	90%

(Source : Screener)

Conclusion on Kotak Mahindra :

The bank looks fundamentally strong with good financials and management. Even though stock price of bank has remained stagnant for almost 3 years now, but due to recent improvement in margins and profits, the stock could show an upside. Moreover, healthy net interest margins and aggressive adaptation of technology by bank could benefit the stock.

5) IDBI Bank :

I. Steady at Rs. 10,752.4 Crores in 2022 and 2023, the unchanged share capital signifies financial stability, indicating the bank's confidence in profitability and meeting financial obligations to creditors and depositors.

II. As of March 31, 2023, the bank's deposits increased to 2,55,499 crore, reflecting a 9.5% year-on-year growth, which signifies the bank's growth, customer attraction, and potential benefits like expanded lending capacity, better financial stability, and an improved reputation.

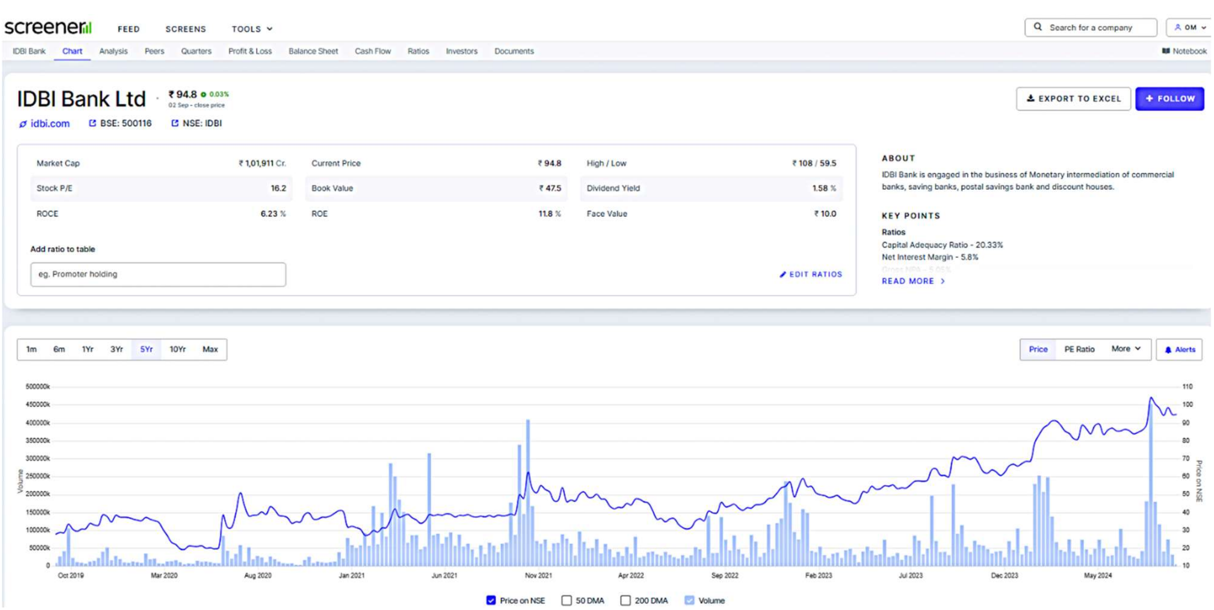
III. An 11.9% decrease was seen in the total borrowings of the bank, reaching Rs 12637 cr. a positive sign. It indicates that the bank is financially stronger, less risky, and more profitable and will have a positive impact on a bank's net margin.

IV. The cash in hand of IDBI saw a 10% increase, while the Balances with RBI saw a massive fall of almost 50%. 60% growth in the deposits with other banks in India and saw the total balances with banks and call money rising to Rs 12712 cr.

V. Advances touched 1,62,568 crore having grown by 18.7%. This shows that the bank is growing and lending more money to its customers which can lead to an increased revenue, improved profitability, and boosted economic growth.

VI. The deposit growth enhances lending capacity and revenue. Bills purchased/discounted surged 50% to Rs 6327 crore, with a primary focus on retail loans, which grew by 34%.

Graph .3.5



(Source : Screener)

P&L Analysis of IDBI :

I. The bank's total income was 24,942 crore, with 82% from interest income and 4,372 crore from other sources. The interest income mainly comes from advances, investments, and RBI balances. In FY23, increased advances boosted revenue, the income statement.

II. The total expenditure of the bank showed an increase of 3.6%, with minimal changes in interest expenditure. This could signify that the bank is investing in new growth opportunities such as expanding into new markets or developing new products and services.

III. Operating expenses increased by 11.2%, mainly due to provisions related to employee remuneration and information technology (IT)expenditures. Even though the costs are rising, the bank is investing in its employees and IT infrastructure, which could lead to improved productivity and efficiency.

IV. YoY, Net Income grew by 25%, while Profit after Tax surged by 49.4%, indicating effective management, successful strategy execution, financial health, and profitability for shareholders.

Table 3.5

IDBI BANK							
Debit Equity Ratio	Price Earning Ratio	P/B Ratio	ROA Ratio	PEG Ratio	NPG Rate	ROCE Ratio	Loan Deposit Ratio
0.27	18	1.87	1.18%	0.39	113.38%	4.26%	63%

Source : Screener

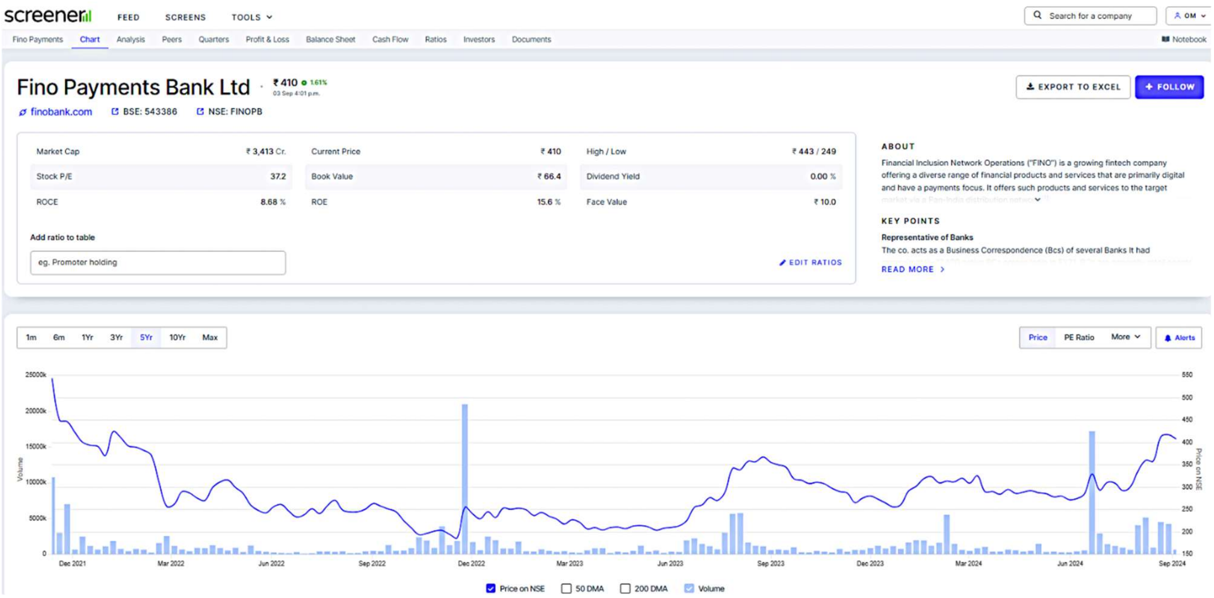
Conclusion on IDBI :

Overall, the bank's financial position strengthened in FY2023 as compared to FY2022. Even though the income and profit increased by a significant amount, an increase in the operating expenses was also observed. Thus, the bank should focus on how to control its total and operating expenses primarily to continue maintaining its strong financial position in the future as well.

Financials Of Bottom 5 Players

1) Fino Payment Bank LTD :

Graph 3.6



(Source : Screener)

Table 3.6

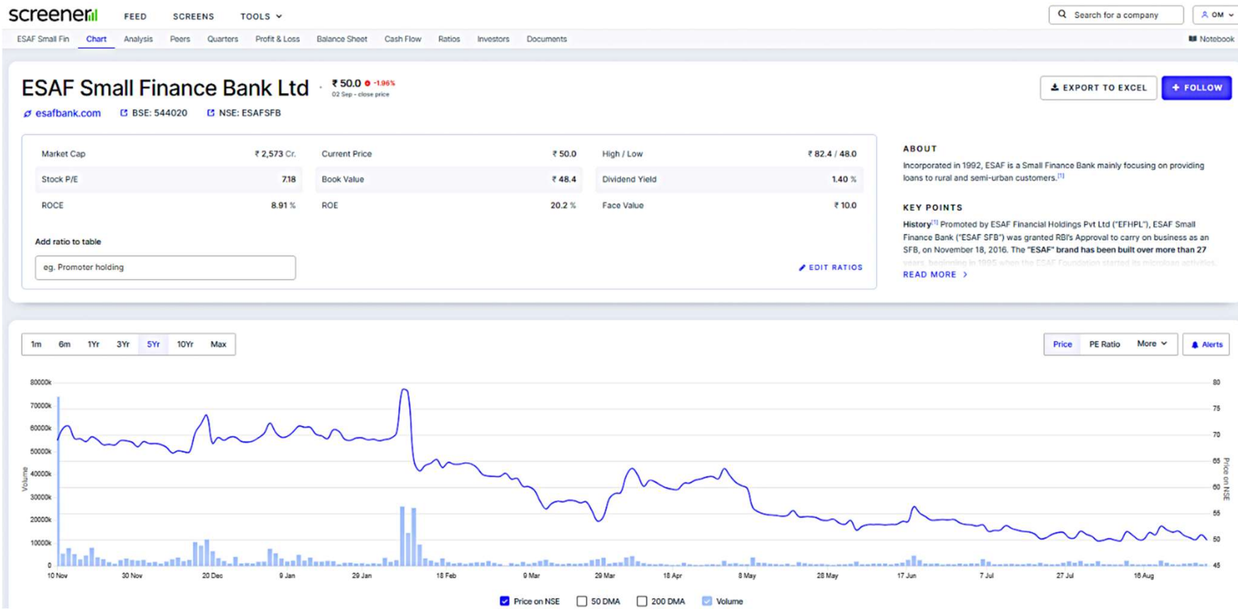
Compounded Sales Growth	
10 Years:	%
5 Years:	51%
3 Years:	95%
TTM:	49%

Compounded Profit Growth	
10 Years:	%
5 Years:	28%
3 Years:	60%
TTM:	25%

(Source : Screener)

2) ESAF Small Finance Bank LTD :

Graph 3.7



(Source : Screener)

Table 3.7

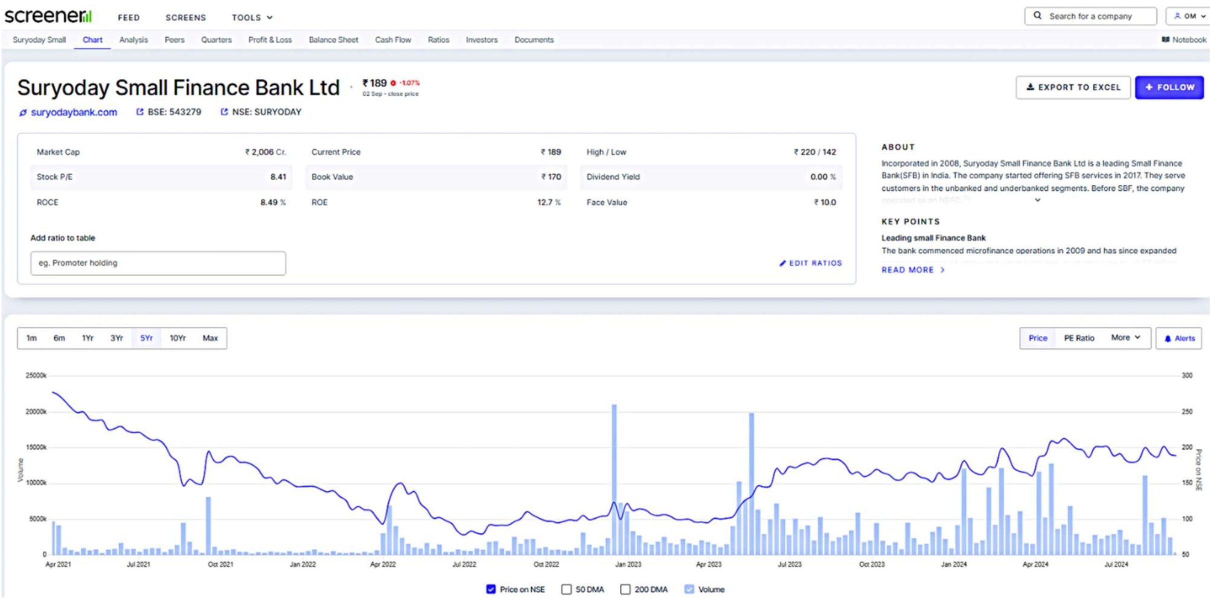
Compounded Sales Growth	
10 Years:	39%
5 Years:	25%
3 Years:	27%
TTM:	36%

Compounded Profit Growth	
10 Years:	38%
5 Years:	19%
3 Years:	163%
TTM:	103%

(Source : Screener)

3) Suryoday Small Finance Bank Ltd :

Graph 3.8



(Source : Screener)

Table 3.8

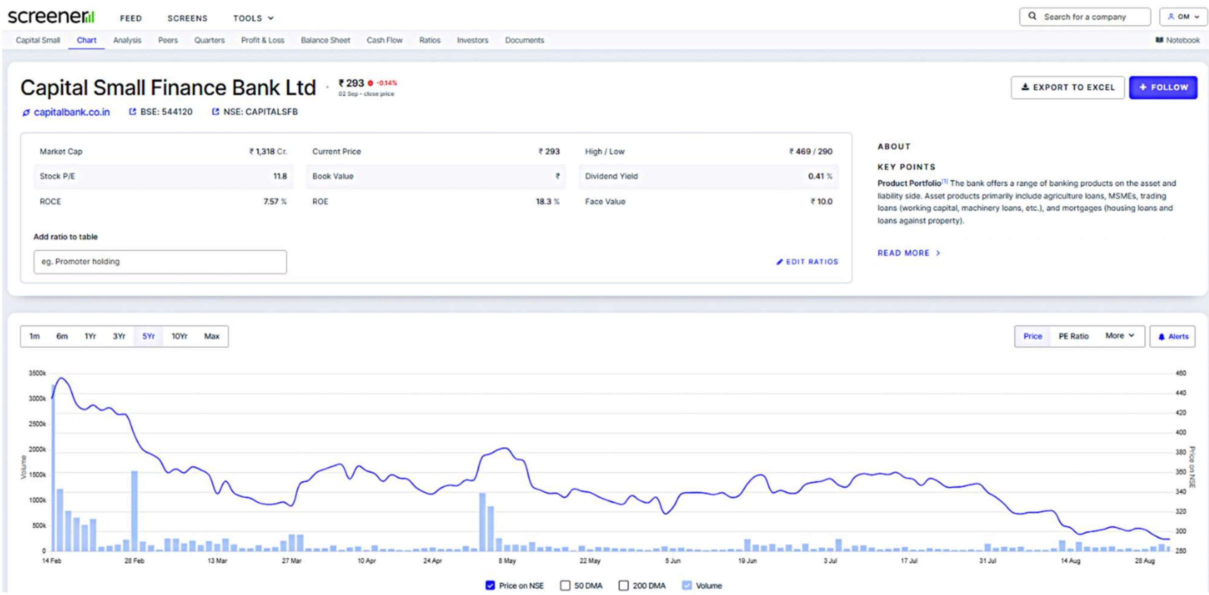
Compounded Sales Growth	
10 Years:	%
5 Years:	30%
3 Years:	33%
TTM:	29%

Compounded Profit Growth	
10 Years:	%
5 Years:	36%
3 Years:	59%
TTM:	10%

(Source : Screener)

4) Capital Small Finance Bank Ltd :

Graph 3.9



(Source : Screener)

Table 3.9

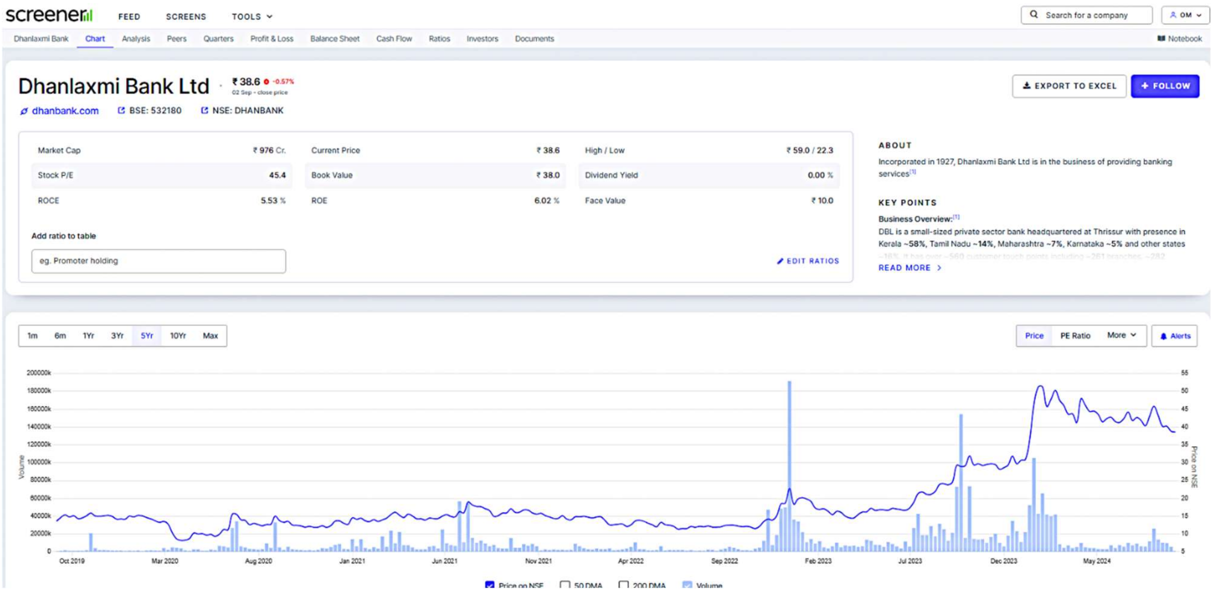
Compounded Sales Growth	
10 Years:	%
5 Years:	18%
3 Years:	16%
TTM:	18%

Compounded Profit Growth	
10 Years:	%
5 Years:	42%
3 Years:	40%
TTM:	19%

(Source : Screener)

5) Dhanlaxmi Bank Ltd :

Graph 3.10



(Source : Screener)

Table 3.10

Compounded Sales Growth	
10 Years:	-1%
5 Years:	4%
3 Years:	9%
TTM:	11%

Compounded Profit Growth	
10 Years:	8%
5 Years:	37%
3 Years:	16%
TTM:	-79%

(Source : Screener)

CHAPTER 4
RECENT DEVELOPMENT

Impact of Fiscal Policy

Analyse the recent Union Budget's implications for the banking industry, such as changes in tax rates, government spending, and financial sector reforms. Assess the impact of these policies on bank profitability, lending rates, and deposit mobilization.

Impact of Exim Policy

Examine how the latest Export-Import (Exim) Policy affects banks involved in international trade financing. Evaluate the impact of changes in export incentives, import duties, and foreign exchange regulations on bank business.

Key Developments

Alliances and Partnerships: Analyse significant alliances, joint ventures, or partnerships formed by banks in the past 5 years. Assess their impact on market share, product offerings, and customer reach.

- **Mergers and Acquisitions:** Review any major mergers or acquisitions within the banking industry. Evaluate the rationale behind these deals and their potential consequences for competition and market concentration.
- **Technological Developments:** Discuss the adoption of new technologies by banks, such as digital banking, fintech innovations, and artificial intelligence. Analyse the impact of these developments on customer experience, operational efficiency, and risk management.
- **Labor Unrest:** Examine any labour unrest or disputes that have occurred within the banking industry. Assess the reasons behind these conflicts and their impact on bank operations and employee morale.
- **Emerging Entrepreneurs:** Identify and analyse the role of first-generation entrepreneurs in the banking industry. Evaluate their contributions to innovation, job creation, and economic growth.

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