



FINANCIAL PERFORMANCE OF PRIVATE BANKS IN INDIA

Section- 1

Introduction

During the first half of the twentieth century, the private sector had played significant role in the growth of joint stock banks in India. As a consequence, there were in total 566 private sector banks in 1951, of which 474 were non -scheduled and 92 were scheduled. There was not a single public sector commercial bank at that time. Prior to that, in 1935, the British Government in India had started a central bank called the Reserve Bank of India as a private sector bank, Later on, by enacting the Reserve Bank of India Act 1949, the Reserve Bank of India was taken over as state owned central bank.

The government of India entered into the banking business on 1st July 1955, with nationalization of Imperial Bank of India and its conversion into the State Bank of India. Later on during the period 1959-60, seven subsidiary State Banks were also nationalized to form the SBI group. On July 19, 1969, fourteen major Indian scheduled banks have nationalized. On 15th April, 1980 six more private sector commercial banks with deposits over Rs. 200 crore were nationalized. Narsimham Committee in 1991 had solved the major problem of private sector banks by recommending a more level playing field for all types of players in the banking sector. The Banking Regulation Act, 1959 was amended and the ceiling of voting rights of an individual shareholder in a Private Sector was raised from one percent to ten percent. Similarly, in April 1994, Private Sector Banks were permitted to declare dividends up to 25 percent without prior approval from RBI, provided the dividend is paid out of the bank current year profits.

During 1994-95, six new Private Sector Banks out of ten banks approved. In 1995-96, four new private sector banks approved. In spite of their late entry, complete deregulation of interest rates, partial deregulation of exchange rates, recession ridden sluggish economy, dull capital market, violated money market and such other adverse conditions, private sector banks have recorded impressive performance. So it is become important to study the financial performance of Private Banks after merger and number of steps taken by RBI for the soundness of Private Banking sector. This paper is an attempt to study financial performance of private sector banks in India.

The rest of the paper has been divided into four sections. Section 2 provides a brief review of studies related to Private Banks progress. Section 3 describes the methodology adopted in this research. Section 4 describes analysis and results of recent financial performance of Private Banks. Section 5 describes the conclusion of the paper.

Section- 2

Literature Review

For over two decades, after the nationalization of 14 larger banks in 1969, no banks were allowed to be set up in the private sector. In the pre reform period, there were only 24 banks in the private sector. The Narsimham committee, in its first report, recommended the freedom of entry into the financial system. It stated that the RBI should permit the establishment of new banks in the private sector provided they conform to the minimum start-up capital and other requirement.

Government and RBI has constituted various committees – Narsimham Committee (1990), Narsimham Committee (Jan, 1993), RBI guidelines (Jan. 1993), RBI license norms (Feb. 2005) etc. have found significance performance and growth of Private Banks in India. In the India context, several studies have been conducted on aspects of progress of Private Banks, notable among them Nirmal Nathwani (2004) Satya Swaroop Debasis (2005), Ketan upadhyay (2009), Hemal Pandya (2011), Dimple Dharamsi (2015). They observed that significant growth of Private Banks in all over India. They have also found that these banks reported profits in the very first year of their existence.

Section- 3

Methodology

The period of this study for key financial indicators confined to 2009 to 2013. The data regarding financial Total Income and Total Expenses of Private Banks were available from 2008-09 and profitability indicators ratios were available from 2008-09. Therefore financial performance analysis was confined to 2008-09 to 2012-13.

Section- 4

Analysis and Results

The resent development of Private Banks can be measured on many parameters. The key financial indicators of Private Banks were analyzed and it is presented in Table No. 1

NO OF BANKS

In 2008-09, there were 22 Private Banks in India and by the year 2011-12 the number decreased to two (2). In the year 2012-13, there were 20 Private Banks in India.

DEPOSITS

From 2009-2013, the recoveries mobilized by way of deposits by the Private Banks have registered a phenomenal growth. In 2008-09 the total deposits with these banks were be around Rs. 73,63,776 Millions and by the year 2009-10 deposits increased to Rs. 82,28,007 Millions. In 2010-11, the total deposits were Rs. 1,00,27,588 Millions and by the year 2011-12 deposits increased to Rs. 1,17,45,874 Millions. In the year 2012-13, the total deposits were Rs. 1,39,58,355 Millions. The deposits of these banks increased by Rs. 26,63,812

Millions (36.17%) in the period 2009-2011 and deposits of these banks increased by Rs. 39,30,767 Millions (39.20%) in the year 2012-13 in comparison of 2010-11.

ADVANCES

In 2008-09 the total advances with these banks were be around Rs. 73,63,776 Millions and by the year 2009-10 advances increased to Rs. 82,28,007 Millions. In 2010-11, the total advances were Rs. 1,00,27,588 Millions and by the year 2011-12 advances increased to Rs. 1,17,45,874 Millions. In the year 2012-13, the total advances were Rs. 1,39,58,355 Millions. The advances of these banks increased by Rs. 22,22,164 Millions (38.62%) in the period 2009-2011 and advance of these banks increased by Rs. 34,57,046 Millions (43.35%) in the year 2012-13 in comparison of 2010-11.

Table 1

KEY FINANCIAL INDICATORS OF PRIVATE BANKS

Year	No of Banks	Deposits (Rs. in Millions)	Advances (Rs. in Millions)
2008-09	22	73,63,776	57,53,276
2009-10	22	82,28,007	63,24,409
2010-11	21	1,00,27,588	79,75,440
2011-12	20	1,17,45,874	96,64,030
2012-13	20	1,39,58,355	1,14,32,486

Sources:

- RBI, "Report on Trend and Progress of banking in India". Various issues.

FINANCIAL PERFORMANCE OF PRIVATE BANKS

The key Financial Performance indicators of private banks were analyzed and it is presented in Table No. 2 and Table No. 3

Table 2

FINANCIAL PERFORMANCE OF PRIVATE BANKS

Year	Total Income (Rs. in Millions)	Total Expenses (Rs. in Millions)
2008-09	10,29,316	7,87,368
2009-10	10,32,295	7,40,566
2010-11	11,75,865	8,47,555
2011-12	15,96,035	12,08,144
2012-13	19,62,791	14,76,183

Sources:

- RBI, "Report on Trend and Progress of banking in India". Various issues.

TOTAL INCOME

In 2008-09 the Total Income with these banks were be around Rs. 10,29,316 Millions and by the year 2009-10 Total Income increased to Rs. 10,32,295 Millions. In 2010-11, the Total Income was Rs. 11,75,865 Millions and by the year 2011-12 Total Income increased to Rs. 15,96,035 Millions. In the year 2012-13, the Total Income were Rs. 19,62,791 Millions. The Total Income of these banks increased by Rs. 1,46,549 Millions (14.24%) in the period 2009-2011 and Total Income of these banks increased by Rs. 7,86,926 Millions (66.92%) in the year 2012-13 in comparison of 2010-11.

TOTAL EXPENSES

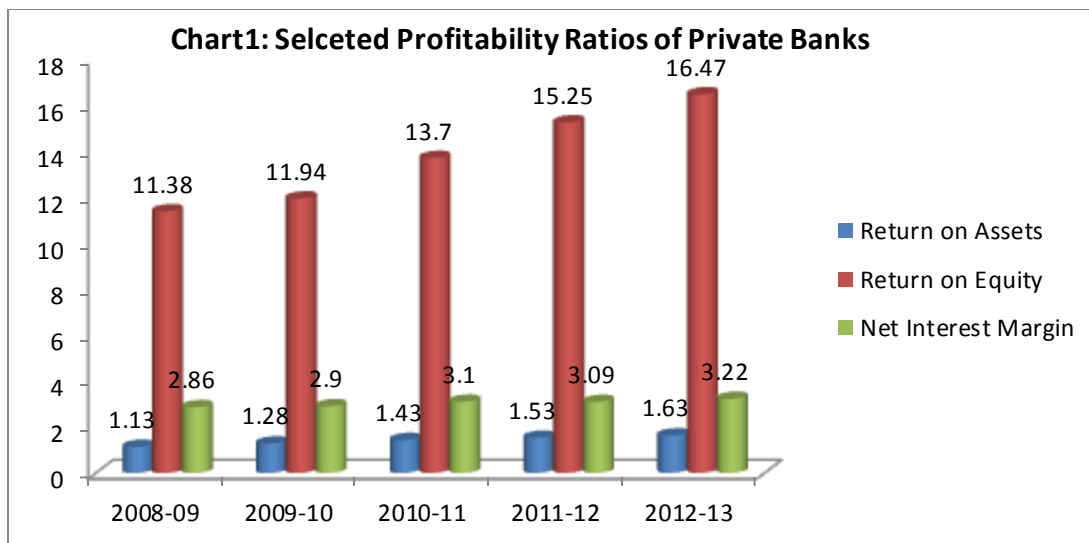
In 2008-09 the Total Expenses with these banks were be around Rs. 7,87,368 Millions and by the year 2009-10 Total Expenses increased to Rs. 7,40,566 Millions. In 2010-11, the Total Expenses were Rs. 8,47,555 Millions and by the year 2011-12 Total Expenses increased to Rs. 12,08,144 Millions. In the year 2012-13, the Total Expenses were Rs. 14,76.183 Millions. The Total Expenses of these banks increased by Rs. 60,187 (7.64%) in the period 2009-2011 and Total Expenses of these banks increased by Rs. 6,28,628 (74.17%) in the year 2012-13 in comparison of 2010-11.

Table 3**PROFITABILITY INDICATORS OF PRIVATE BANKS**

Year	Return on Assets	Return on Equity	Net Interest Margin
2008-09	1.13	11.38	2.86
2009-10	1.28	11.94	2.90
2010-11	1.43	13.70	3.10
2011-12	1.53	15.25	3.09
2012-13	1.63	16.47	3.22

Sources:

- RBI, "Report on Trend and Progress of banking in India". Various issues.



RETURN ON ASSETS

Return on Assets of Private Banks was 1.13% in 2008-09 and it was increased to 1.28% in 2009-10. This ratio was increased to 1.43% in 2010-11 and again it was increased 1.53% in 2011-12, 1.63% in 2012-13. This ratio indicates that Private Banks profitability was increased in respect of return on assets during the last five years.

RETURN ON EQUITY

Return on Equity of Private Banks was 11.38% in 2008-09 and it was increased to 11.94% in 2009-10. This ratio was increased to 13.70% in 2010-11 and again it was increased 15.25% in 2011-12, 16.473% in 2012-13.

NET INTEREST MARGIN

Net interest margin is most important indicator for the profitability of the banks. Net interest margin ratio was 2.86% in 2008-09 and it was increased to 2.90% in 2009-10. This ratio was increased to 3.10% in 2010-11. It was decreased 3.09% in 2011-12 but it was increased 3.22% in 2012-13.

Section- 5

Conclusion:

The study was shown that during 2008-2013 the private sector banking witnessed substantial growth and superior financial services. During the study period, the number of private banks decreased due to ongoing consolidation process of the private sector banks in the form of merger/acquisition among financial viable bank and exit of the Non-viable ones. Deposits, Advances, Total Income, Total Expenses of private banks have increased during the study period. The study also shows that overall financial performance of private banks improved during the study period. Reserve Bank of India and government should co-operate with private banks for their development.

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