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NAIRJC JOURNAL PUBLICATION

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ISSN NO: 2454 - 2326

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INDIAN PUBLIC SECTOR BANKING -THE ROAD AHEAD OR AT CROSS ROAD

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ABSTRACT

The Indian banking sector has emerged as one of the strongest drivers of India's economic growth. There are government owned banks, privately owned banks and foreign owned banks. The Public Sector Banks dominated the banking system with a market share of 72.1% as at end March 2014 distantly followed by Non Public Sector Banks (15.9%), Foreign Banks (7.2%) and Other Public Sector Banks (4.9%). Their gross Non Performing Assets (NPA) was 4.36% V/S 3.83% of all banks:

India's economic development and financial sector liberalization have led to a transformation of the Indian banking sector over the past two decades. On the other hand the balance of payment crisis situation arose in the year 1991 on account of Global Meltdown. Banking industry was deregulated by way of allowing entry of new private sector banks after the economic reform process in 1995 Thus the paper seek to assess the impact of Global Financial Crisis and Economic reforms process on Indian Public Sector Banks to find out whether these are moving head or at cross road.

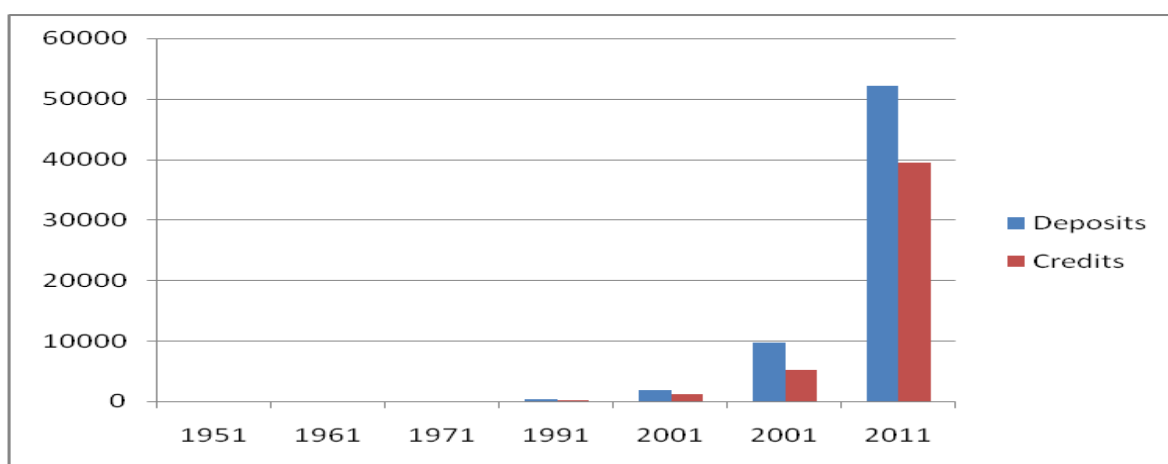
Key Words: Global Meltdown, Liberalization, Financial Sector, PSU Banks

INTRODUCTION

The Public Sector Banks came into existence with the nationalization of the then Imperial Bank as State Bank of India in the year 1955. The Government of India headed by the then Prime Minister Mrs. Indira Gandhi nationalized fourteen private sector commercial banks in the year 1969 and it created history in the Indian banking industry. In the year 1980, six more banks were nationalized by our government. Banking industry was deregulated by way of allowing entry of new private sector banks after the economic reforms process started in the globalised era 1991 and Foreign Direct Investment in private sector banks was also allowed in a systematic manner. Indian banking sector comprises of different types - government owned banks, privately owned banks and foreign owned banks- in order to meet the different banking needs of various sectors of the economy. Further there are Regional Rural Banks (RRBs) created to bring together the positive features of credit cooperatives and commercial banks and special objective to meet out the credit needs of backward sections in rural areas.

The Indian banking system has grown phenomenally over the years. The aggregate deposits which stood at just ` 8 billion as on March 1951, grew to `17 billion by March 1961, `59 billion by March 1971, `380 billion by March 1981, `1925 billion by March 1991, `9629 billion by March 2001 and `52080 billion by March 2011. As at end March 2014, it reached `85,331 billion. The Bank credit increased from `5 billion as at end March 1951, to `13 billion by March 1961, `47 billion by March 1971, `254 billion by March 1981, `1164 billion by March 1991, `5114 billion by March 2001, `39420 billion by March 2011 and `67352 billion by March 2014 as shown in the following graph.

Graph showing Deposits and Credits of Public Sector Banks during 1951-2011



The major share of this growth story belongs to the public sector banks. PSBs dominated the banking system with a market share of 72.1% as at end March 2014 distantly followed by NPBs (15.9%), FBs (7.2%) and OPBs (4.9%). As at end of March 2014, the total capital of the PSBs stood at `5652 billion; their share in total deposits was 77.22%, share in total advances was 75.74%. The branches which stood at 8262 in 1969 expanded to 1, 16,450 by March 2014. The number of ATMs were 1, 60,055 as on that date.

OBJECTIVES:

- To examine the performance of Public Sector Banks
- To assess the impact of Global Financial Crisis and Economic reforms
- To examine amount of gross non- performing assets
- To examine amount of net non- performing asset
- To evaluate whether PSBs are on The Road ahead or at Cross Road

METHODOLOGY

The research design is mainly analytical in its nature as its aim is to assess the impact of Global Financial Crisis and Economic reforms and highlight the status of public sector banks in the Indian context. There is an urgent need to assess & examine the performance of Public Sector Banks in terms of Return on Equity and Return on Investment on the one hand and gross/ net non performing assets of these banks on the other hand. The data published by Reserve Bank of India, Economic Survey, Govt. of India is used as the basis for investigation specifically the bank wise details related to non performing assets, financial ratio etc released by the RBI in the month of December 2015 in order to assess the relationship between the two .The statistical tools such as percentage and average has been taken into consideration to analysis and interpretation to arrive at certain conclusion.

DATA ANALYSIS AND INTERPRETATION:**Table 1. : Showing Indian Banking Sector at Glance as on 31st March, 2015 (Amount in Billions)**

| Items | Amount Outstanding | Percent variation |
|--|-----------------------|----------------------|
| 1 Balance Sheet Operations | | |
| 1.1 Total Liabilities/assets | 120342 | 9.6 |
| 1.2 Deposits | 94351 | 10.6 |
| 1.3 Borrowings | 11498 | 4.4 |
| 1.4 Loans and advances | 73882 | 9.7 |
| 1.5 Investments | 31695 | 9.9 |
| 1.6 Off-balance sheet exposure (as percentage of on- balance sheet liabilities) | 124.8 | - |
| 1.7 Total consolidated international claims | 4053 | 7.3 |

| | | |
|--|-------|------|
| 2 Profitability | | |
| 2.1 Net profit | 891 | 10.1 |
| 2.2 Return on Asset (RoA) (Per cent) | 0.8 | - |
| 2.3 Return on Equity (RoE) (Per cent) | 10.4 | - |
| 2.4 Net Interest Margin (NIM) (Per cent) | 2.6 | - |
| 3 Capital Adequacy | | |
| 3.1 Capital to risk weighted assets ratio (CRAR) @ | 12.9 | - |
| 3.2 Tier I capital (as percentage of total capital) @ | 79.7 | - |
| 3.3 CRAR (tier I) (Per cent) @ | 10.3 | - |
| 4 Asset Quality | | |
| 4.1 Gross NPAs | 3243 | 22.7 |
| 4.2 Net NPAs | 1761 | 23.5 |
| 4.3 Gross NPA ratio (Gross NPAs as percentage of gross advances) | 4.3 | - |
| 4.4 Net NPA ratio (Net NPAs as percentage of net advances) | 2.4 | - |
| 4.5 Provision Coverage Ratio (Per cent)** | 44.2 | - |
| 4.6 Slippage ratio (Per cent) | 3.2 | - |
| 5 Sectoral Deployment of Bank Credit | | |
| 5.1 Gross bank credit | 61023 | 8.6 |
| 5.2 Agriculture | 7659 | 15.0 |

| | | |
|---|--------|-------|
| 5.3 Industry | 26576 | 5.6 |
| 5.4 Services | 14131 | 5.7 |
| 5.5 Personal loans | 11664 | 15.5 |
| 6 Technological Development | | |
| 6.1 Total number of credit cards (in million) | 21 | 9.9 |
| 6.2 Total number of debit cards (in million) | 553 | 40.3 |
| 6.3 Number of ATMs | 189279 | 17.0 |
| 7 Customer Services | | |
| 7.1 Total number of complaints received during the year | 85131 | 11.2 |
| 7.2 Total number of complaints addressed | 84660 | 7.5 |
| 7.3 Percentage of complaints addressed | 96 | - |
| 8 Financial Inclusion | | |
| 8.1 Credit-deposit ratio (Per cent) | 78.3 | - |
| 8.2 Number of new bank branches opened | 8975 | -20.7 |
| 8.3 Number of banking outlets in villages (Total) | 553713 | 44.3 |

Source: Reserve Bank of India 2014-15

Table 2: Showing performance ratio of All Banks

| | 2012 | 2013 | 2014 |
|---------------------------------------|-------|-------|-------|
| Return on Equity | 15.50 | 15.30 | 11.70 |
| Return on Assets | 1.08 | 1.05 | 0.80 |
| Net Profit Margin | 11.02 | 10.58 | 8.34 |
| Net Interest Margin | 2.98 | 2.87 | 2.75 |
| Non Interest Income / Total Income | 11.57 | 11.35 | 11.78 |
| Staff Expenses / Total Income | 10.52 | 10.13 | 10.41 |

Table 3: Showing performance ratio of Public sector banks

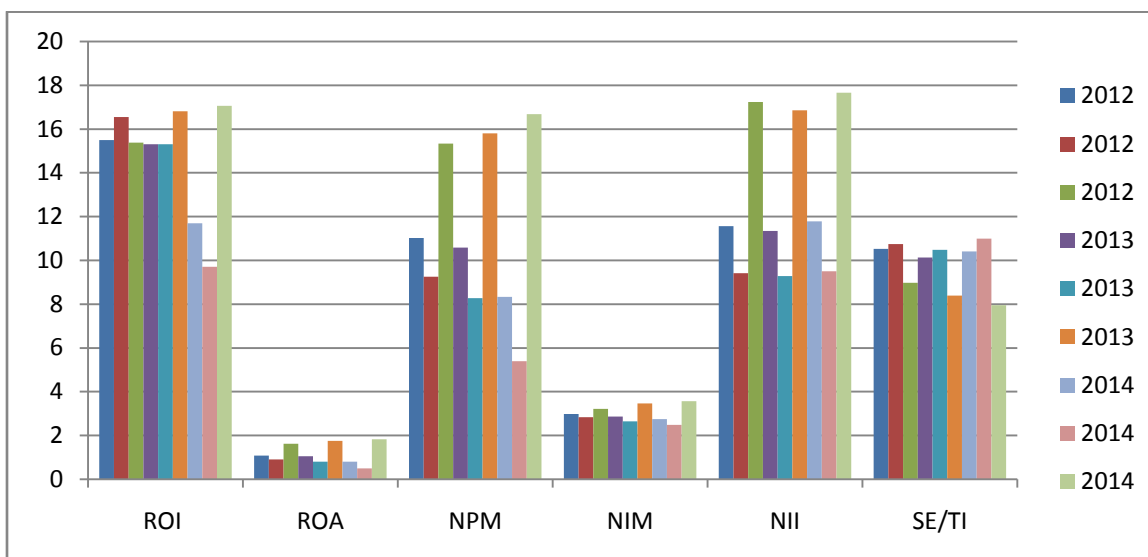
| | 2012 | 2013 | 2014 |
|---------------------------------------|-------|-------|-------|
| Return on Equity | 16.55 | 15.31 | 9.71 |
| Return on Assets | 0.90 | 0.80 | 0.50 |
| Net Profit Margin | 9.25 | 8.27 | 5.40 |
| Net Interest Margin | 2.84 | 2.64 | 2.48 |
| Non Interest Income / Total Income | 9.41 | 9.28 | 9.50 |
| Staff Expenses / Total Income | 10.74 | 10.48 | 10.99 |

Table 4: Showing performance ratio of New private sector banks

| | 2012 | 2013 | 2014 |
|------------------------------------|-------|-------|-------|
| Return on Equity | 15.38 | 16.81 | 17.06 |
| Return on Assets | 1.63 | 1.76 | 1.83 |
| Net Profit Margin | 15.34 | 15.80 | 16.68 |
| Net Interest Margin | 3.22 | 3.46 | 3.56 |
| Non Interest Income / Total Income | 17.24 | 16.85 | 17.66 |
| Staff Expenses / Total Income | 8.97 | 8.39 | 7.96 |

If we look at the performance ratios cited above for the year 2012-2014 of Public Sector Banks along with New Private Sector Banks and All Banks together a deep despondency sets in. The Return On Equity of Public Sector Banks is very low at 9.71 at end March 2014 vs 17.06 of the New Private Sector Banks. If we compare it with ROE of All Banks it is also very low. Further ROI of PSBs is also very low in comparison to NPSBs and All Banks 0.50 V/S 1.83. The Net Profit Margin of these banks is also dim in contrast to NPSBs at the end of 2014.

Graph Showing performance ratios of All Banks, PSBs and NPSBs



**Table 5:Non-Performance Assets of Schedule Commercial Banks as on 31st March 2015
(Amount in Millions)**

| | BANK | Gross NPAs | | | | Net NPAs | | |
|---|--|-------------------------|--------------------------------|--------------------------------|------------------------------------|-------------------------|-------------------------|-------------------------|
| | | As on March 31 PY | Addition during the year | Reducti on during the | Write off during the year | As on March 31 CY | As on March 31 PY | As on March 31 CY |
| 1 | STATE BANK OF INDIA & ITS ASSOCIATE | 798165 | 452507 | 302552 | 213035 | 735085 | 418151 | 372 |
| 2 | NATIONALI ZED BANKS | 1482576 | 1328502 | 742430 | 9307 | 2059341 | 888076 | 1229 |
| 3 | PRIVATE SECTOR BANKS | 245424 | 266799 | 118538 | 52623 | 341062 | 88615 | 141 |
| 4 | FOREIGN BANKS | 115650 | 40971 | 39719 | 9194 | 107708 | 31607 | 17 |

The gross NPAs of nationalized banks during the previous year 2014 were amounting to Rs 1482576 millions which rose to 2059341 millions as on 31st March during the current year. The gross NPAs of SBI & Associates were Rs 798165 millions during the same period where as Private Sector Banks NPAs are amounting to Rs. 245424 million only. It indicates that NPAs nationalized banks are more than the combined amount of SBI and NPSBs together which is not a positive sign.

RESULTS

- The Public Sector Banks has grown phenomenally over the years in terms of Deposits, Credits and number of branches.
- The performance ratios such as Return on Equity, Return Assets, Net Profit Margin, Net Interest Margin of PSBs has shown deterioration in comparison to New Private Sector Banks.
- The Non-interest income/ total income of PSBs has also gone slow down in comparison to new private sector banks
- The staff expenses /total income of New Private Sector Banks has shown a downward trends where as PSBs has shown a upward trend.
- The gross nonperforming assets have gone up to Rs. 2059341 millions as on 31st March. 2015 which is not a positive sign.
- The net non performing assets have also gone up to Rs. 888076 millions as on 31st March. 2015 which is not a positive sign.

SUGGESTIONS

The necessary steps such as government influence and its interference are reduced in order to strengthen corporate governance of these banks.

- There is an urgent need of that the PSBs be managed and operated by professionals.
- The Public Sector Banks (PSBs) have hardly any participation in the financial markets such as BCD instruments. This curtails the financial market development.
- The PSBs should look at financial inclusion as a profitable business proposition and not as a matter of compliance with the RBI and government.
- PSBs need to engage proactively, especially, in the derivative instruments for hedging their risks.
- PSBs should be ready to meet these needs of individuals falling in high income brackets and higher financial needs by overhauling the products, instruments and methods for deployment.

CONCLUSION

From the facts and figure stated above it can be said that the Indian banking industry has made outstanding advancement in last few years even during the times when the rest of the world was struggling with financial

meltdown. Indian banks, the dominant financial intermediaries in India, have made high-quality progress over the last five years, as is evident from facts and figure stated above including annual credit growth, profitability, and trend in gross non-performing assets (NPAs). 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. In addition to the banking services, the Bank through their subsidiaries, provides a range of financial services, which include life insurance, merchant banking, mutual funds, credit card, factoring, security trading, pension fund management and primary dealership in the money market. They are now being increasingly enabled to compete on professional basis. Keeping in view the changing economic environment, it is the right time that Public Sector Banks must deliver value for the nation which provides its capital and to different segments of the society at large in which they operate.

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