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AN ANALYTICAL STUDY OF PERFORMANCE OF INDIAN BANKS WITH REFERENCE TO NET INTEREST MARGIN

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ABSTRACT

Banking sector is one of the fastest growing sectors in India. Without efficient banking system any economy cannot run properly. Banking sector is one of the most important part of human life. The objective of this study is to show the performance of the Indian banks with reference to their net interest margin. For this paper, we have studied public as well as private sector banks in India. In this study we have considered those banks whose market capital is among the highest.

***KEYWORDS**: Indian Economy, Public Sector Bank, Private Sector Bank, Net Interest Margin.*

Introduction

The banking industry plays an important role in the economic development of a country. It supplies the lifeblood-money that supports and fosters growth in all the industries. Growth of the banking sector is measured by the increase in the number of banks' branches, deposits, credit, etc. In analyzing the banking sector, it indicates the direction in which the country's economy is moving. The performance of banks has become a major concern of planners and policy makers in India. Since early 1990s, the Indian financial sector has noticed various changes in the policies and prudential norms to raise the banking standards in India. The growth and financial stability of the country depends on the financial soundness of its financial institutions.

Net interest margin is important factors that measure the performance of banks. Net interest margin means by paying lower fees to depositors and charging higher fees from borrowers. High NIM is an adverse affect on economy and banking system. The main determinants of the net interest rate margin in developing countries include: capital adequacy, credit risk, implicit interest payments, cost of holding reserves, the efficiency level and the level of taxes. Overall, operating expenses is the most important variable responsible for increased net interest rate margins.

Review of Literature

Sarkar.J. (1998) analysed the performance in terms of financial ratios of efficiency and profitability and concluded that private banks are not unambiguous superior to public banks.

SBI Research (2000) in its empirical study it has evaluated the financial performance of 27 public sector banks for one year i.e., 1999-2000. To measure the financial Performance the bank has selected 4 parameters I.e., Business performance, efficiency susceptibility and labour productivity. The sample size of the study is 27 public sector banks and it has been divided into 4 groups namely SBI and its Associates (7), 19 nationalized commercial banks, 8 state bank groups, In the study it has reported that the banks should be concerned about NPA and capital adequacy.

Doonger Singh, K. (2011) compared the profitability of commercial banks during the seven years of study period from 2003- 04 to 2009-10. Study finds that spread is very high in foreign and new private sector banks and low in case of public sector banks.

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Objective of the Study

The main aim of this study is to assess and show performance of public and private sector banks in India.

Scope of the Study

This study helps us to understand the performance of Indian banks.

This study is useful to the academic as well as general public about the performance of Indian banks with reference to net interest margin.

Research Methodology

Research Design

Descriptive Research Design is used for the study and it is essentially a fact-finding approach. It aims to explain the characteristics of an individual or group characteristics and to determine the frequency with the same things occurs.

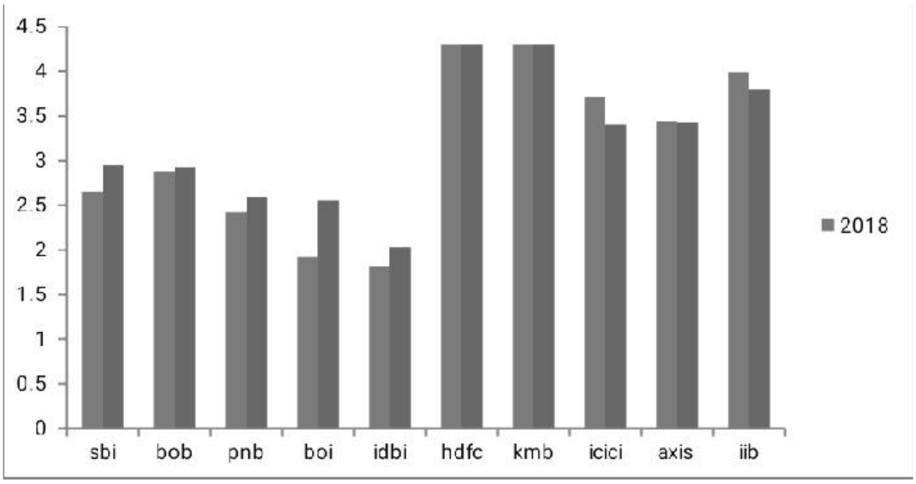
Sample Size and Collection of Data

The study includes top 10 banks for the analysis ,as based on their market capitalization as on 6th August 2019, are; State Bank of India, Bank of Baroda, Punjab National Bank, Bank of India, Industrial Development Bank of India, HDFC bank, ICICI bank, Kotak Mahindra Bank, Axis Bank, Indusland Bank. Secondary data sources have been used for collection of data which mainly includes the various publication of annual reports and website of RBI and SBI.

Structure of Banks

Modern banking in India originated in the last decade of the 18th century. The Indian banking sector is broadly classified into scheduled and non-scheduled banks. The scheduled banks are those included under the 2nd Schedule of the Reserve Bank of India Act, 1934. The scheduled banks; State Bank of India and its associates; Regional Rural Banks (RRBs); foreign banks; and other Indian private sector banks. In present , the country has about 26 public sector bank, 25 private sector bank.

Performance of Indian banks based on their net interest margin:



Observation

Research scholar found that NIM increased in FY 19 relative to the FY 18. NIM of SBI increased to 2.95 percent in FY 19 relative to 2.65 percent in FY 18. It was the result of gross advances increased by 11.96 percent. The NIM of BOB increased to 2.93 percent in FY19 relative to 2.88 percent in FY 18. The increment in the bank's NIM was due to decline in domestic cost of deposits to 5.33 percent in FY 19 From 5.48 percent in FY 18.

AS on 31 march 2019,NIM of PNB increased by 2.59 percent from 2.42 percent in FY 18. It was the result of cost of domestic deposits decline from 5.25 percent in march18 to 5.24 percent in march 19.

As on 31 march 2019, NIM of BOI increased by 2.56 percent from 1.92 percent in FY 18. NIM of IDBI also increase due to decline in cost of domestic deposit.

NIM of HDFC and KMB was remaining constant in both FY. NIM of IIB and AXIS BANK was decline in FY 19 due to increase in cost of deposits. NIM OF ICICI was 3.72 percent in quarter 4 ,compare to 3.40 percent in the quarter ended December 31 2018. Market Capitalization of Indian banks currently under review:

Name of Bank	Market Cap (Inr Crore)*	Name of Bank	Market Cap (Inr Crore)*
SBI	269077.04	HDFC	599119.59
BOB	40063.67	KMB	283825.08
PNB	31284.50	ICICI	264640.21
BOI	22774.04	AXIS	178146.35
IDBI	21738.99	IIB	98382.88

*As of 08/06/2019
Source; www.moneycontral.com

Observation

In the above figure researcher found that market cap of SBI is highest in compare to other public sector banks .HDFC show higher market cap compare to other private sector bank. Other public and private banks show variation in their market cap value.

Conclusion and Suggestion

Researcher found that NIM varies among banks depending on their business models. NIM of two banks cannot be compared as their activities may differ due to asset sizes, composition of customer base, priority sector lending and other factors. NIM is a significant measuring indicator of performance of banks. NIM increase when demand for savings decrease relative to the demand for loans. According to several studies, the high NIM is a barrier for investment and gave adverse effect on economy's growth. High NIM decline the efficiency of the banking system,in this situation banks utilize the gains from the high NIM in sustaining the capital base of banks.

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