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## **A Study of Indian Banking Sector: Comparative Study of Public and Private Sector Banks**

**ORIGINAL ARTICLE**



**Author**

**Dr. Richa Gupta**  
Assistant Professor,  
D.A.V. P.G. College,  
Varanasi, Uttar Pradesh, INDIA

### **Abstract**

In India, the banking sector plays an essential role in the economy and contributes to a key source of financial intermediation. It promotes the mobilization of savings by individuals and businesses and encourages them to make productive investments. Providing security, liquidity, and support for different economic activities is a pillar of the economy that contributes to overall socioeconomic development. In this study, five-five leading private and public sector banks were taken based on market capitalisation. The period of the study was 2019-20 to 2021-22, for which secondary data was selected. The study was conducted to know the leading public and private sector banks and their reach across the country, and also to study the net interest margin of these banks.

### **Key Words**

**Indian Banking Structure, Net Interest Margin, Market Capitalization, Indian Economy.**

### **Introduction**

Banks are financial institutions that offer a range of financial services to individuals, businesses, and Governments. It is intended to facilitate the exchange of excess capital between individuals with different objectives and those who wish to invest for various purposes. The banking sector plays an important role in the economy by facilitating funds movement, providing secure deposits and offering a broad range of financial products and services. The Companies Act of India defines Bank as “A Bank is a financial institution which accepts money from the public for the purpose of lending or investment repayable on demand or otherwise withdrawable by cheques, drafts or order or otherwise”. Sir John Pagette defined, a “Bank is such a financial institution which collects money in current, savings or fixed deposit account; collects cheques as deposits and pays money from the depositors account through cheques.” Bank is an institution that is in existence for the growth of the money and to control its circulation and production of currency. (Prabhavathi K, Dr.Dinesh G P, 2018).

Banks have a broad range of functions, which are essential for the smooth functioning of the economy. Deposits from customers, such as individuals, companies, and organisations, are accepted by banks. These deposits may be made in the form of savings accounts, current accounts, fixed and specialised deposit accounts

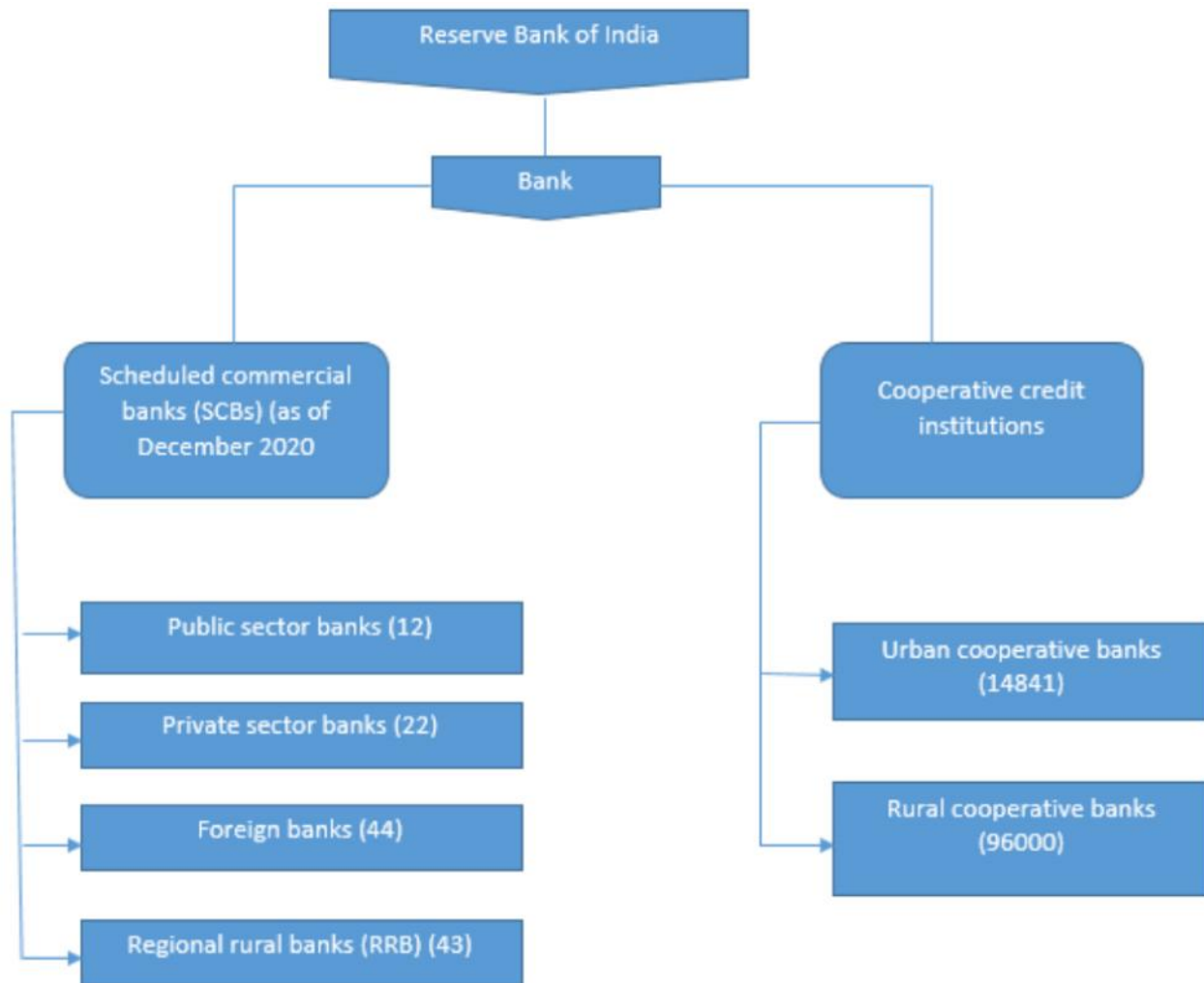
that are tailored to specific needs. On the basis of their creditworthiness, banks provide loans and credits to borrowers. They provide a wide range of loans, such as personal loans, business loans, mortgages, and lines of credit. The main source of income for banks is interest charged on these loans. Banks make it easier to transfer funds and conduct transactions by facilitating payment services. This service includes the issuance of checks, supply of debit and credit cards, facilitating electronic transfers of funds as well as providing a banking platform for e.g. using an Internet or Mobile Banking Platform. Banks make it easier for customers to convert currencies and engage in international transactions by facilitating foreign exchange services. In order to enable customers to grow and manage their financial resources, banks offer a range of investment and wealth management services. They also provide a number of investment products, including mutual funds, securities, bonds, and similar financial instruments. Banks perform critical functions in the area of risk management. They carefully assess the creditworthiness of borrowers and manage the risks associated with lending. Banks are playing a key role in the promotion of Financial Inclusion. They are working to expand banking services, provide access to basic financial services, and promote economic participation and development for all sections of society with a view to reaching out to underserved populations and rural areas. Overall, banks perform multifaceted functions that are fundamental to the functioning of the economy.

## **Overview of an Indian Banking Sector**

The management and control of the flow of money in the economy is a major function of the banking sector. It's a way of connecting people who need the money to borrow with those who can lend money. Banks are playing a crucial role in the economy by providing credit, which is an essential part of overall economic growth. This is achieved through the redistribution of public savings into productive activities like providing loans to individuals and businesses. Banks play an important role in the development of the economy and in creating jobs by encouraging people to save and invest their money wisely. There are several various kinds of banks in India, namely public sector, private, foreign, regional rural, urban cooperative, and rural cooperative banks. As of November 4, 2022, the total amount of money deposited in banks in India was Rs. 173.74 lakh crores, showing how banks help collect savings from the public. In the financial year 2021-2022, the amount of money borrowed from banks in India increased by 9.6%, which was a significant improvement compared to the previous year's growth of 5.6%. This indicates that the banking sector helps people borrow money and supports economic activities. From 2020 to 2022, the total value of assets held by banks in different sectors also increased. In 2022, the banking sector, including both public and private banks, had assets worth US\$ 2.67 trillion. Public sector banks held assets worth US\$ 1,594.51 billion, and private sector banks held assets worth US\$ 925.05 billion. Overall, finance and banking are crucial for a country's trade, commerce, and industrial growth. They play a vital role in managing money, supporting economic activities, and contributing to the overall development of the nation.

## **Structure of the Indian Banking Sector**

India's central bank, the Reserve Bank of India, is responsible for regulating its banking system. The scheduled commercial banks are those institutions that are included in the second schedule of the RBI Act of 1934 and that carry out banking operations, such as accepting deposits, approving loans, or offering any type of banking services. Since cooperatives are registered under the Cooperative Societies Act as cooperative credit institutions, the holding structure of Scheduled Commercial Banks and Scheduled Cooperative Banks differs. Public sector banks, private sector banks, foreign banks, and regional rural banks are additional categories for commercial banks. A cooperative bank is a type of financial organisation that includes its members in addition to its shareholders and clients. They offer a wide range of banking and financial services to its customers. Cooperative banks are categorized into two parts – urban cooperative banks and rural cooperative banks. The following are the figure presents:



## Review of Literature

Antil and Aggrawal (2017) conducted a study on the topic “A study of Indian banking sector” and the study revealed that in the present scenario, Indian banking sector is developed in terms of supply, product range, and reach. The global economy has witnessed numerous instances of bank failures. In such scenarios, the Indian Government has played a crucial role by implementing recommendations put forth by various committees. Economy with rapid growth like India necessitates a well-balanced combination of risk capital and long-term resources. This allows corporations to make informed decisions regarding the optimal mix of debt and equity for their operations.

Das and Dutta (2014) in the paper titled “A Study on NPA of Public Sector Banks in India” studied the State Bank of India and its affiliates, as well as the other public sector banks, using secondary data. The period of the study was taken from 2008 to 2013. Data analysis using the statistical method ANOVA is attempted. The primary goal was to determine whether there were any differences in the prevalence of NPAs amongst the various banks over the research period. According to the study’s findings, there was no statistically significant difference between the banks NPA averages at the 5% level of significance.

Dharwad and Tamragundi (2019) conducted a study titled “Growth and Development of Indian Banking Sector - A Collective Study” The current research aims to examine the growth and development of the Indian banking industry and sheds light on the development of banks through several stages. The analysis is based on secondary data taken from published papers and the RBI bulletin. Regarding the expansion of bank branches and the mobilisation of deposits by Indian banks, the report comprises data collected over a five-year period.

Hundal and Singh (2016) According to the research paper titled “Performance Evaluation of Public and Private Sector Banks in India: A Comparative Study,” it is suggested that banks should make efforts to decrease operating expenses by enhancing the efficiency of non-viable branches. This can be achieved through the utilization of expert services such as professional management or private management. Additionally, prompt measures should be taken to increase the investment deposit ratio and credit deposit ratio, which can enhance the profitability of banks.

Khanna and Kaushal (2013) in the research paper titled “Growth of Banking Sector in India: A Collective Study of History and its Operations,” it was concluded that Indian banks need to embrace product innovation in addition to traditional banking services to remain competitive in a highly competitive environment. The study also highlighted the increased consumer awareness compared to previous years, with customers now seeking internet banking, mobile banking, and ATM services. To counter competition, banks should consider expanding their branch networks to capture a larger market share. Furthermore, the paper emphasized the importance of leveraging brand equity as a valuable asset for Indian banks.

## Objectives

The study has been conducted with the following objectives to study of the Indian banking sector and the performance of the Indian banks:

1. To identify the leading five private and five public sector banks based on market capitalisation
2. To examine the reach of the leading private and public banks across the country.
3. To study the net interest margin of leading private and public banks.

## Research Methodology

The study is both analytical and descriptive in nature. Secondary data was used in the study and the data has been collected from annual reports of respective banks and RBI reports, and Indian banking association (IBA). Three consecutive years were taken for the study period. For the study, five private banks and five public banks were taken based on market capitalisation. The data were analyzed through MS EXCEL, the graphical method used for the graphical presentation of the data. The collected data were edited, classified, and tabulated for analysis.

## Data Analysis and Interpretation

During the study period, there were a total of 22 private banks and 12 public sector banks, taking into after the mergers. Table 1 presents the market capitalization rankings of the five leading private-sector banks.

HDFC Bank is the leading bank in terms of market capitalization, with a value of 8,076.44 billion Indian rupees. It is followed closely by ICICI Bank, which has a market capitalization of 6,250.86 billion Indian rupees. The third, fourth, and fifth positions are held by Kotak Mahindra Bank, Axis Bank, and IndusInd Bank, with market capitalizations of 3,714.03 billion, 2,505.85 billion, and 944.91 billion Indian rupees, respectively.

**Table 1:** presents leading 5 private banks based on market capitalisation.

S.No	Bank	Market Capitalization ( <i>in billion Indian rupees</i> ) 2022
1	HDFC Bank	8,076.44
2	ICICI Bank	6,250.86
3	Kotak Mahindra Bank	3,714.03
4	Axis Bank	2,505.85
5	IndusInd Bank	944.91

(Source : <https://www.statista.com/>)

In the financial year 2021-22, State Bank of India (SBI) is positioned as one of the largest banks in terms of market value, with a market capitalization of 4,988.41 billion Indian rupees. Following SBI is Bank

of Baroda (BOB) with a market capitalization of 721.15 billion Indian rupees. Canara Bank, Punjab National Bank (PNB), and Indian Overseas Bank (IOB) secure the 3rd, 4th, and 5th positions, respectively, with market capitalizations of 444.73 billion, 423.37 billion, and 330.79 billion Indian rupees.

**Table 2:** Presents leading 5 public sector banks based on market capitalisation.

S.No	Bank	Market Capitalization ( <i>in billion Indian rupees</i> ) 2022
1	SBI	4,988.41
2	BOB	721.15
3	Canara Bank	444.73
4	PNB	423.37
5	IOB	330.79

(Source: <https://www.statista.com/>)

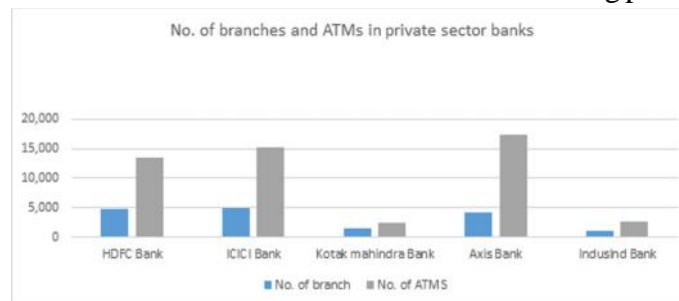
Overall, private-sector banks are dominant over public-sector banks as per the study based on market capitalisation. As per the study, in the private sector, HDFC Bank is the leading bank in terms of market capitalization, with a value of 8,076.44 billion Indian rupees, and State Bank of India (SBI) is leading in terms of market value, with a market capitalization of 4,988.41 billion Indian rupees in public sector banks.

**Table 3:** Status of private banks in the number of branches and ATMs

S.No	Bank	No. of branches	No. of ATMS
1	HDFC Bank	4,787	13,514
2	ICICI Bank	4,882	15,159
3	Kotak mahindra Bank	1,369	2,429
4	Axis Bank	4,094	17,315
5	IndusInd Bank	1,004	2,662

(Source: <https://www.wishfin.com/>)

**Graph 1:** Presents total number of branches and ATMs in leading private sector banks.



HDFC Bank boasts a substantial branch network with 4,787 branches and 13,514 ATMs. ICICI Bank follows closely with 4,882 branches and 15,159 ATMs. Kotak Mahindra Bank, Axis Bank, and IndusInd Bank have comparatively smaller branch networks, with 1,369, 4,094, and 1,004 branches, respectively. The number of ATMs for Kotak Mahindra Bank and IndusInd Bank is 2,429 and 2,662, respectively. Axis Bank has a significant number of ATMs, totaling 17,315.

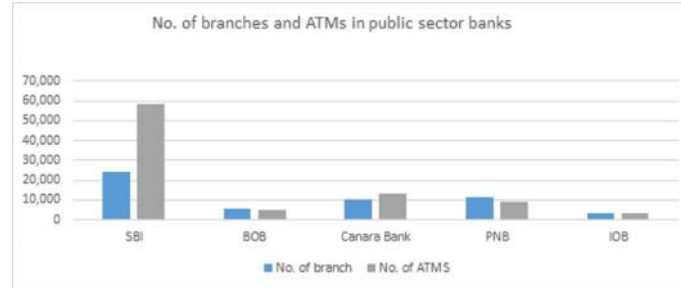
**Table 4:** Status of public sector banks in the number of branches and ATMs

S.No	Bank	No. of branches	No. of ATMS
1	SBI	24,000	58,559
2	BOB	5,825	5,000
3	Canara Bank	10,391	12,829
4	PNB	11,437	8,985
5	IOB	2,995	3,400

(Source: <https://www.wishfin.com/>)

State Bank of India (SBI) has a vast branch network with 24,000 branches and 58,559 ATMs. Bank of Baroda (BOB) operates 5,825 branches and 5,000 ATMs. Canara Bank has 10,391 branches and 12,829 ATMs. Punjab National Bank (PNB) operates 11,437 branches and 8,985 ATMs. Indian Overseas Bank (IOB) has a smaller network with 2,995 branches and 3,400 ATMs.

**Graph 2:** Presents total number of branches and ATMs in leading public sector banks.



## Net Interest Margin

The table presents data on the net interest margins (NIM) of ten prominent banks during three consecutive fiscal years from 2019-20 to 2021-22.

**Table 2:** Net Interest Margin

Serial no.	Name of the bank	Net Interest Margin		
		Financial year 2019-20	Financial year 2020-21	Financial year 21-22
1	HDFC Bank	4.30%	4.20%	4.00%
2	ICICI Bank	3.87%	3.84%	4.00%
3	State Bank of India	2.97%	3.04%	3.40%
4	Kotak M. Bank	4.73%	4.45%	4.78%
5	Axis Bank	3.55%	3.56%	3.49%
6	IndusInd Bank	4.25%	4.13%	4.20%
7	Bank of Baroda	2.63%	3.40%	3.08%
8	Punjab National Bank	2.40%	2.68%	2.76%
9	Canara Bank	2.28%	2.75%	2.93%
10	Indian Overseas Bank	2.30%	2.22%	2.41%

(Source : <https://investyadnya.in/>)

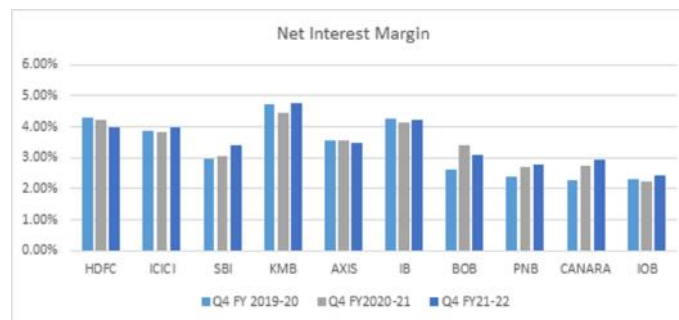
HDFC Bank experienced a slight decline in its net interest margin from 4.30% in the financial year 2019-20 to 4.20% in the financial year 2020-21 and further decreased to 4.00% in the financial year 21-22. On the other hand, ICICI Bank saw a minor decrease from 3.87% to 3.84% between the financial year 2019-20 and financial year 2020-21 but managed to increase it to 4.00% in the financial year 21-22. State Bank of India displayed a steady increase in its net interest margin, starting at 2.97% in the financial year 2019-20, rising to 3.04% in the financial year 2020-21, and reaching 3.40% in the financial year 21-22. Kotak Mahindra Bank witnessed a decline in its net interest margin, falling from 4.73% in the financial year 2019-20 to 4.45% in the financial year 2020-21, but then recovering and surpassing its previous level to 4.78% in the financial year 21-22. Axis Bank maintained relative stability, with a slight decrease from 3.55% to 3.56% between the financial year 2019-20 and financial year 2020-21, followed by a decline to 3.49% in financial year 21-22. IndusInd Bank experienced a gradual decrease in its net interest margin, declining from 4.25% in the financial year 2019-20 to 4.13% in the financial year 2020-21 before experiencing a modest increase to 4.20% in the financial year 21-22. Bank of Baroda displayed significant improvement in its net



interest margin, rising from 2.63% in financial year 2019-20 to 3.40% in financial year 2020-21, but then witnessing a decline to 3.08% in financial year 21-22. Punjab National Bank (PNB) exhibited consistent upward momentum, with its net interest margin increasing from 2.40% in financial year 2019-20 to 2.68% in financial year 2020-21 and further rising to 2.76% in financial year 21-22. Canara Bank demonstrated a similar pattern, starting with a net interest margin of 2.28% in the financial year 2019-20, increasing to 2.75% in the financial year 2020-21, and further improving to 2.93% in the financial year 21-22.

Lastly, Indian overseas bank showed a decline in its net interest margin, leaping from 2.30% to 2.22% in the financial year 2020-21. In the financial year 2021-22, increase in net interest to 2.41%.

Overall, it reveals that there are variations in net interest margin, which indicates fluctuations in profitability over the study period. It provides information for investors, banking professionals, and analysts who are assessing the performance of these banks.



(Source: <https://investyadnya.in/>)

## Conclusion

The paper discussed the overview of the Indian banking sector it also discussed the structure of the Indian banking sector. In India, the banking sector plays an essential role in the economy and contributes to a key source of financial intermediation. It is considered a pillar of the Indian economy that contributes to overall socioeconomic development. The paper also studied to identify leading public and private sector banks on the basis of market capitalisation, it is found that private-sector banks are dominant over public-sector banks as per the study based on market capitalisation. The paper examines the number of branches and ATMs, results found that public sector banks have vast branch network than private sector banks and also a higher number of ATMs than private banks. The paper analyzed the net interest margin of these banks and, it reveals that there are variations in net interest margin, which indicates fluctuations in profitability over the study period.

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