

# Rationalization of Banking Sector in India: A Critical Analysis of Selected Commercial Banks

Dr. Himanshu Kumar\*

Tilka Manjhi Bhagalpur University, Bhagalpur, Bihar-812007, India

**Abstract – Banks assume significant part for the business or in the monetary existence of the country. They go about as instalment specialist for clients and encourage obtaining and loaning of cash. It is thanks to the banks that the network investment funds naturally stream into channels which are profitable. Since 1980, has been no further nationalization, and without a doubt the pattern gives off an impression of being switching itself, as nationalized banks are giving offers to the general population, in what adds up to a stage towards privatization. The extensive achievements of the Indian financial segment in any case, advocates for privatization contend that privatization will prompt a few generous enhancements.**

**The current examination is an endeavour to dissect the exhibition of business banks. Indian commercial banks are seeing far reaching developments in the administrative condition, tremendous development in cockeyed sheet hazard the executives monetary instruments, the presentation of online business and web based banking, and noteworthy budgetary industry union. These powers have made the Indian financial industry profoundly serious.**

**Keywords: Banks, Monetary, Privatization, Commercial Banks, Nationalization.**

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## 1. INTRODUCTION

Banking industry in India possesses a significant spot in each economy and the opposition is extraordinary and regardless of the test from the worldwide players, domestic banks - both public and private are additionally observed thorough in their quest for increasing serious edge by picking mergers and acquisitions.

Estimated by portion of stores, 83 percent of the financial business in India is in the possession of state or nationalized banks, which are banks that are claimed by the administration, in a few, progressively less obvious way.

Besides, even the non-nationalized banks are dependent upon broad guidelines on who they can loan to, notwithstanding the more standard prudential guidelines. The Indian government, while nationalizing all the bigger Indian banks in 1969, contended that banking was "roused by a bigger social reason" and should "support public needs and targets, for example, fast development of farming, small industry & fares.

### 1.1 Rationalization of Indian Banking Sector

Mergers in India when all is said in did have encountered an expanded number in different parts particularly after the New Economic Policy in the year 1991 which has opened the entryways for worldwide

business sectors. Banking Sector in India has seen numerous Mergers during the years for different reasons, for example, Restructuring of Weak Banks; Economies of Scale; Expansion of Market; Business Consolidation and so on. Investigating the historical backdrop of Mergers in Banking Sector in India, at first they have occurred as a measure to ensure the premiums of the clients of the feeble banks however therefore a couple of Mergers likewise have happen deliberately in the Post Liberalization Period between different banks for a few reasons.

India has figured out how to beat the worldwide budgetary strife because of sound guideline, judicious monetary oversight and proactive strategies. India's development is driven transcendently by domestic utilization and venture

## 2. LITERATURE REVIEW

**Arora and Kaur (2006)** expressed that financial part in India has given a positive and urging reaction to the money related division changes. Passage of new private banks and unfamiliar banks has stirred up open division banks to rivalry.

Changing monetary situation has opened up open doors for the banks to grow their worldwide presence through self-extension, key unions, and so on. Banks are redirecting their attention on retail

banking in order to achieve admittance to minimal effort reserves and to venture into generally undiscovered potential development zone.

**Subramanya Prasad**, has assessed the post-merger efficiencies of Indian business banks (procuring banks) which have gone through mergers during the post-change period and dissected the elements affecting the business bank proficiency in the Indian setting and finished up with a positive note expressing that the select banks' effectiveness improved post merger.

**Anand Manoj & Singh Jagandeep (2008)** contemplated the effect of merger on the investors of five banks Times Bank with the HDFC Bank, the Bank of Madurai with the ICICI Bank, the ICICI Ltd with the ICICI Bank, the Global Trust Bank with the Oriental Bank of business and the Bank of Punjab with the Centurion Bank. The investigation uncovered that the declaration of merger of Banks had positive and noteworthy effect on investor's riches

**Kuriakose Sony & Gireesh (2010)** broke down the key and money related issues of combined Banks and significant monetary factors of separate banks and found that lone private area banks were agreeable to the wilful mergers.

**Azeem Khan (2011)** investigated different inspirations of Merger and Acquisitions in the Indian financial division. These outcomes likewise proposed that consolidated banks could get effectiveness and additions through Merger and Acquisitions and could pass the advantages to the value share holders" as profit.

**Devarajappa S, (2012)** investigated different thought processes of merger in Indian financial industry. It additionally analyzed pre and post merger money related execution of consolidated manages an account with the assistance of budgetary boundaries like, Gross Profit, Return on Equity, and Debt Equity Ratio. At long last the investigation shows that the banks have been decidedly influenced by the occasion of merger.

**Sanjeev Kumar, (2010)**, in his Thesis about "Execution estimation frameworks in Indian Banking Sector" and discoveries with respect to execution estimation framework in Indian Banking Sector in CAMELS structure clarified that CAMEL system is a significant exhibition estimation framework dependent on various proportions used to discover positioning of the banks. CAMEL Model is essentially a proportion based Performance Measurement framework which depends on budgetary measures for estimating the exhibition of the banks.

**Shivamagi (2000)** in his article examined the changes required in provincial banking. He contended that albeit country banking in India has gained colossal quantitative ground, its quality is an alternate issue. He presumed that the approach creators should offer

push to supporting of extraordinary abilities in establishments, a positive administration disposition and a culture helpful for sound provincial banking.

**Singh and Das (2002)** attempted to survey the financial part changes presented in India. They found that the different changes attempted in the course of recent years were without a doubt age making and gave the establishment to an effective and well-working monetary framework accordingly encouraging the following phase of the changes.

### 3. OBJECTIVES OF THE STUDY

The study has been undertaken with the following objectives:

- To understand the structure of Indian Banking System
- To Study the current trend of Indian Banking System
- To Study the performance Selected Banks post restructuring

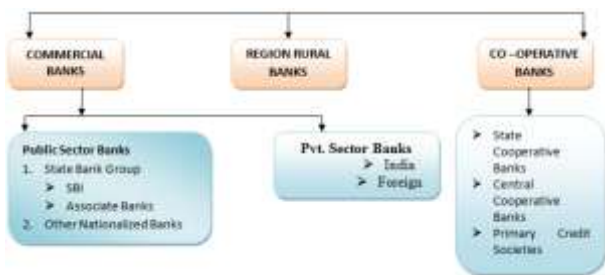
### 4. RESEARCH METHODOLOGY

Mergers have occurred in the Banking Sector in India between different Banks. In this way, the examination is attempted to break down the presentation of the chose Banks that have partaken in the merger action. By chance, these two are the main banks in Public and Private Sectors banks in India. The examination depends on Secondary Sources which incorporates the Annual Reports of the Select Banks; RBI Database-Profile of Banks – different issues; research distributions and so on. The Period of the Study is the Post Liberalization Period i.e., from 1991 to 31st March 2017.

### 5. STRUCTURE OF INDIAN BANKING SYSTEM

Banking framework contains from the national bank to all financial foundations which are working and giving monetary offices to any formative part like horticulture, enterprises, exchange, lodging and so on. Under the Indian financial structure national bank for the sake of the Reserve Bank of India which manages, coordinates and controls the financial organizations.

Figure 5.1 Structure of Indian Banking System



Source: RBI Bulletin

## Commercial banks

Commercial banks prepare investment funds of overall population and make them accessible to huge and little mechanical and exchanging units chiefly for working capital prerequisites. Commercial banks in India are generally Indian-public part and private segment with a couple of unfamiliar banks.

## Regional Rural Banks

The Regional Rural Banks the most current type of banks which appeared in 1970s. The accentuation is on giving such offices to little and negligible ranchers, horticultural workers, provincial craftsman's and other little business visionaries in the country.

## Co-operative banks

Co-operative banks are supposed on the grounds that they are sorted out under the arrangements of the Cooperative Credit Societies Act of the states. The significant recipient of the Cooperative Banking is the rural segment specifically and the provincial area all in all.

## 6. RECENT TRENDS OF INDIAN BANKING SECTOR

The customary elements of banking are restricted to acknowledge stores and to give credits and advances. Today banking is known as creative banking. Data innovation has offered ascend to new developments in the item planning and their conveyance in the banking and money businesses. "Tap", "snap" and "swipe"-these are the new hints of cash. Present day innovation is quick; supplanting paper with PC documents, bank employees with robotized teller machines and file organizers with worker racks. Current financial area has concocted a great deal of activities that arranged to furnish superior client administrations with the assistance of new advances.

Broadened banking time, messenger pickup for checks and archives, and so forth are a portion of the benefits stretched out to the clients by the banks in are energy to develop the financial business. Indian financial area today has a similar feeling of energy and opportunity that is proof in the Indian Economy.

The going advancements in the worldwide business sectors offer endless chances to the financial segment. In the serious financial world, improvement step by step in client administrations is the most valuable apparatus for their better development. Bank offers endless changes to get to their banking and different administrations.

## 7. DATA ANALYSIS AND INTERPRETATION

In this part information gathered from the overview have been talked about in detail:

- Bank of Baroda is proposing to legitimize its branch structure, an activity, the bank expects would affect some 800-900 branches the nation over. The activity is planned to improve operational effectiveness, following its merger with Dena Bank and Vijaya Bank.
- Traditionally branch banking has changed. Various banks have embraced another model of branch banking, where one would locate that solitary a little space is saved for self assistance territory and the rest is utilized for initiates identified with sales.

Table 7.1 Statistics of SBI after its Merger

Years	Deposits	Advances	Net Profit	No Employees	No Branches
Base Year	742073	542903	9121	205396	12022
2009-10	804116	631914	9166	206299	13039
2010-11	933933	756719	7370	222933	14350
2011-12	1043647	867579	11686	213481	14902
2012-13	1202740	1045617	14839	228296	15564
2013-14	1394409	1209879	16091	222033	16059
2014-15	1576793	1300026	13101	211338	16333
2015-16	1730722	1463700	9951	207739	16784
2016-17	2044751	1571078	18484	209567	17170
CAGR	11.92%	12.54%	1.56%	3.0%	4.04%
Mean	1341388.923	1105807.851	10036.09	214948.3	15525.13
Median	1298574	1127723	10687.64	214359.5	15811.5
SD	425454.7	338044.6	2314.978	9187.357601	1372.151
Kurtosis	-0.81987	-1.39946	0.196324	-0.668664275	-0.00617
Skewness	0.416457	-0.03792	0.277795	-0.107177778	-0.7451

Source: Based on secondary data compiled from SBI Annual Report

Table 7.2 Statistics related to Productivity Ratios of SBI Bank

Years	DE	AE	PE	DB	AB	PB
2000-01	1.13025	0.52871	0.00747	26.74906	12.51267	0.17669
2001-02	1.29169	0.57674	0.01162	29.72534	13.27247	0.26730
2002-03	1.41687	0.65914	0.01486	32.58396	15.15823	0.34166
2003-04	1.53893	0.76282	0.01778	34.98616	17.34204	0.40419
2004-05	1.78599	0.98472	0.02094	40.06637	22.09082	0.46982
2005-06	1.91195	1.31708	0.02217	40.14005	27.65134	0.46546
2006-07	2.34924	3.81962	0.02449	44.99649	34.85236	0.46916
2007-08	2.99882	2.32365	0.03755	50.30460	59.01726	0.62908
Average	1.76989	1.08646	0.01914	37.79090	23.18635	0.40873
Base Year	3.80412	2.63484	0.04430	61.73625	45.12563	0.75989
2009-10	4.01458	3.15485	0.04576	61.67007	48.46338	0.70197
2010-11	4.18930	3.39438	0.03306	65.08243	52.73306	0.31139
2011-12	4.84334	4.02624	0.05423	70.03405	58.21896	0.78419
2012-13	5.26833	4.58009	0.06500	77.27702	67.18174	0.95343
2013-14	6.28019	5.48887	0.04905	86.83054	75.33649	0.67820
2014-15	7.39452	6.09660	0.06144	96.54033	79.59508	0.80215
2015-16	8.33124	7.04386	0.04790	103.11740	87.20808	0.59187
2016-17	9.75703	7.49678	0.05003	119.08861	91.50136	0.61061
Average	6.24052	5.14453	0.05088	86.40117	71.22099	0.70441

Source: Based on secondary data compiled from SBI Annual Report



Table 7.3 Statistics of SBI after its Merger

Year	Deposits	Advances	No of Employees	No of Branches	Net Profit
Base Year	100769	61437	37386	745	1590
2008-09	143812	98883	52687	1422	2245
2009-10	167404	125831	51888	1729	2949
2010-11	208586	159983	55752	1999	1920
2011-12	246706	195420	60676	2553	5167
2012-13	295347	239721	69461	3046	6726
2013-14	3,67,337	3,03,000	68,165	3,403	8,478
2014-15	4,50,796	3,65,495	76,286	4,014	10,216
2015-16	5,46,424	4,64,594	87,555	4,520	12,296
2016-17	6,43,640	5,54,568	94,325	4,715	14,550
CAGR	20.37%	24.21%	8.47%	26.26%	24.78%
Mean	341105.8633	278616.5289	68815	3644.5556	7804.79444
Median	295347	239720.6	68865	3046	6726
SD	174778.4441	156917.6749	13073.58616	1211.084959	4302.280739
Kurtosis	0.797402245	-0.646143947	-1.209148551	-1.50787773	-1.632842803
Skewness	0.643765192	0.68367377	0.195689107	0.092288212	0.464591711

Source: Based on secondary data compiled from HDFC Annual Report

Table 7.4 Statistics related to Productivity Ratios of HDFC Bank

Year	D/E	A/E	P/E	D/B	A/B	P/B
1998-99	3.5248	1.6935	0.0996	51.1404	24.5712	1.4456
1999-00	6.7422	2.6896	0.0980	75.9254	30.2883	1.0614
2000-01	4.2378	1.6854	0.0764	88.9932	35.3944	1.6040
2001-02	4.7178	1.8210	0.0975	106.3494	41.0482	2.1978
2002-03	4.6704	2.4536	0.1009	104.0744	54.6744	2.2484
2003-04	5.3603	3.1280	0.0899	103.0814	60.1525	1.7288
2004-05	4.0259	2.8312	0.0738	81.5112	57.9229	1.4933
2005-06	3.7503	2.3566	0.0585	108.1337	67.9477	1.6880
2006-07	3.1801	2.1858	0.0531	102.5485	70.4880	1.7132
Average	3.9412	2.5795	0.0691	97.4376	58.8879	1.7091
Base Year	2.6954	1.6965	0.0425	135.2604	85.1369	2.1342
2008-09	2.7106	1.8768	0.0426	100.4304	69.5360	1.5788
2009-10	3.7263	2.4251	0.0546	96.8213	72.7767	1.7056
2010-11	3.7413	2.8895	0.0704	104.3454	80.0314	1.9640
2011-12	3.7337	2.9575	0.0782	96.6339	76.5452	2.0239
2012-13	4.2686	3.4541	0.0969	97.2577	78.7003	2.2081
2013-14	5.3889	4.4451	0.1244	107.9452	89.6392	2.4914
2014-15	5.9093	4.7911	0.1339	112.3058	91.0551	2.5451
2015-16	6.2409	5.3063	0.1404	120.8903	102.7863	2.7204
2016-17	7.6328	6.5706	0.1725	136.5089	117.6179	3.0658
Average	5.0152	4.0963	0.1087	112.0380	91.5311	2.4289

Source: Based on secondary data compiled from HDFC Annual Report

- Besides rationalization of the branches, the bank has discovered need to close local and zonal workplaces of union substances as they would not be needed. The bank is likewise reflecting to grow its compass in eastern India.
- Following the 3-way merger, Bank of Baroda is presently the second-biggest public part bank after State Bank of India with more than 9500 branches, 13,400 ATMs, and 85,000 workers, serving 12 cr. Clients.
- SBI will zero in on cost decrease, justification and re-skilling of workforce and improve staff profitability by redeploying workforce from organization workplaces to deals functions as it mitigates the effect of the corona virus pandemic on its business.
- SBI the biggest loan specialist by resources and branch network intends to spare Rs 1,000 cr. through such cost streamlining
- SBI will additionally scale up its YONO advanced banking application and has set an objective of multiplying client enrolments in the following a half year with new options on the

stage like start to finish home credits, pre-endorsed vehicle advance and individual gold advances.

- The bank finished monetary 2020 with a store development of 11.34% to Rs 32.42 lakh cr. from Rs 29.11 lakh cr. a year sooner, expanding its piece of the pie by 46 premise focuses to 22.84%.

## 8. CONCLUSION

With the section of unfamiliar banks in Indian market, the quantity of administrations offered has expanded and banks have laid accentuation on meeting the client desires. Presently, the current circumstance has made different difficulties for Commercial Banks to support in the market. So as to experience the overall situation of banking industry we have to comprehend and rearrange through merger. This could offer re-foundation of those suitable banks which ideal size with worldwide presence. Indian banking sector so far has been successful in protecting against their failures due to rationalization /consolidation. The merger as a strategy in India presently can't seem to burst into flames. The blended banks are persistently developing than before the merger. Moreover, banks have expanded their branches and ATMs, their net benefit, no. of branches and so forth.

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## Corresponding Author

Dr. Himanshu Kumar\*

Tilka Manjhi Bhagalpur University, Bhagalpur, Bihar-812007, India