

Indian Commercial Banks- The Report of Corporate Financial Practices

Umesh U¹, Dr. K. Sujatha²

¹Research Scholar in Management (Part time), Department of Business Administration, Annamalai University, and Assistant Professor, Dept. of Commerce & Mgmt. Studies, Amal, College of Advanced Studies (*aided by Govt. of Kerala & affiliated to Uty. of Calicut*), Myladi, Nilambur-679329, Kerala.

²Professor & Supervising Guide, Department of Business Administration, Annamalai University, Annamalainagar, Tamilnadu-608002

ABSTRACT

Corporate finance is a branch of finance that deals with the financial activities of corporations, including raising capital, investing, and managing financial risks. Commercial banks are financial institutions that provide a range of banking and financial services to individuals and businesses. "Corporate Financial Practices of Indian Commercial Banks" refers to the financial practices and strategies adopted by commercial banks in India to manage their corporate finances. This study examines the corporate financial practices of Indian commercial banks. It also identifies key factors influencing the financial performance of Indian banks, including regulatory compliance, capital adequacy, asset quality, and liquidity management. The study finds that Indian banks have made significant improvements in their financial practices in recent years, but still face challenges in managing risks and maintaining profitability in a rapidly changing economic environment. The key recommendations for Indian banks include enhancing their risk management practices, improving governance structures, and adopting more innovative financial products and services to meet the evolving needs of customers.

Keywords: Corporate Financial Practices, Indian Commercial Banks, Financial Performance, Regulatory Compliance, Capital Adequacy, Asset Quality, Liquidity Management, Profitability, Risk Management, Innovation.

INTRODUCTION

Commercial banks are financial institutions that provide a range of banking and financial services to individuals and businesses. The Reserve Bank of India (RBI) is the central bank of India, and it regulates and supervises the functioning of commercial banks in the country. "Corporate Financial Practices of Indian Commercial Banks" refers to the financial practices and strategies adopted by commercial banks in India to manage their corporate finances. Corporate finance is a branch of finance that deals with the financial activities of corporations, including raising capital, investing, and managing financial risks. The financial practices of Indian commercial banks are influenced by various factors, such as the regulatory framework, economic conditions, competition, and customer demands. The banking sector in India has undergone significant changes in recent years, with increased competition, consolidation, and technological advancements. The study aims to understand the financial practices adopted by these banks to maximize their profits, manage risks, and ensure financial stability. This study also identifies key factors influencing the financial performance of Indian banks, including regulatory compliance, capital adequacy, asset quality, and liquidity management. Understanding the corporate financial practices of Indian commercial banks is crucial for stakeholders, including investors, regulators, and customers, to make informed decisions and ensure the stability and growth of the banking sector.

Statement of the Problem:

Indian commercial banks play a crucial role in supporting economic growth and development in the country, by providing a range of financial services to businesses, individuals, and other organizations. Corporate financial practices are a crucial aspect of any organization's success, particularly in the banking sector, where financial stability is paramount. Indian commercial banks are no exception to this rule. Therefore, it is critical to investigate the corporate financial practices of Indian commercial banks to determine their effectiveness and identify areas for improvement. This study aims to identify the financial practices employed by Indian commercial banks and assess their impact on the banks' financial stability and performance. It also identifies key factors influencing the financial performance of Indian banks, including regulatory compliance, capital adequacy, asset quality, and liquidity management.

Objectives of The Study:

1. To analyse the financial performance of Indian commercial banks in terms of profitability, liquidity, solvency, and efficiency.
2. To identify the factors that affect the financial performance of Indian commercial banks.
3. To examine the corporate financial practices of Indian commercial banks.
4. To examine the challenges faced by Indian Commercial Banks.

Research Methodology:

The study is descriptive in nature and use secondary data sources. Secondary data have been collected from journals, magazines, newspapers, reports, websites, etc. The research findings will provide valuable insights into the corporate financial practices of Indian commercial banks and help inform future decision-making processes in the sector.

RESULTS AND DISCUSSION

Indian Commercial Banks

Indian commercial banks are financial institutions that are authorized to accept deposits and grant loans. They are regulated by the Reserve Bank of India (RBI) and are an important part of the Indian financial system. There are various types of commercial banks in India, including public sector banks, private sector banks, foreign banks, regional rural banks, and cooperative banks. Public sector banks are owned by the Indian government, while private sector banks are owned by private investors. Some of the major Indian commercial banks include State Bank of India, HDFC Bank, ICICI Bank, Axis Bank, Punjab National Bank, Bank of Baroda, and Canara Bank. These banks offer a range of products and services, such as savings accounts, current accounts, fixed deposits, loans, credit cards, and online banking. Indian commercial banks have played a crucial role in the country's economic growth by providing credit to businesses and individuals. They have also contributed to financial inclusion by expanding their branch network in rural areas and offering digital banking services to customers. However, the Indian banking sector also faces challenges such as non-performing assets (NPAs) and liquidity issues.

History of Commercial Banks In India

The history of commercial banks in India can be traced back to the early 19th century during the British rule. The first bank in India, the Bank of Hindustan, was established in 1770 in Calcutta, but it failed in 1832. The first successful commercial bank, the General Bank of India, was established in 1786 in Calcutta. In 1806, the Bank of Calcutta (later renamed the Bank of Bengal) was established, followed by the Bank of Bombay in 1840 and the Bank of Madras in 1843. These three banks were merged in 1921 to form the Imperial Bank of India, which became the State Bank of India in 1955. During the 19th century, several other banks were established in India, including the Allahabad Bank in 1865, the Punjab National Bank in 1894, and the Canara Bank in 1906. These banks mainly served the needs of European businesses in India and the British government.

After India gained independence in 1947, the Reserve Bank of India (RBI) was established in 1935 as the central bank of the country. The RBI was responsible for regulating the banking sector and ensuring the stability of the financial system. In 1969, the Indian government nationalized 14 major commercial banks, including the State Bank of India and its subsidiaries, and the nationalized banks became instruments of the government's social and economic policies. This move was aimed at promoting financial inclusion and providing credit to neglected sectors of the economy. Since then, the Indian banking sector has undergone significant changes, with the introduction of new banking products and services, the liberalization of the sector, and the entry of private and foreign banks. Today, there are over 90 scheduled commercial banks in India, including public sector banks, private sector banks, and foreign banks, providing a wide range of services to customers across the country.

Role of Commercial Banks in the Economic Development of India

Commercial banks play a crucial role in the economic development of India. They act as intermediaries between the savers and the borrowers, mobilizing savings and channeling them into productive investments. Here are some of the ways in which commercial banks contribute to India's economic development.

Mobilizing Savings: Commercial banks collect deposits from savers and mobilize them for productive investments. These deposits are used to lend to businesses, households, and governments.

Providing Credit: Commercial banks provide credit to businesses, which can be used to invest in new projects or expand existing ones. This credit helps to fuel economic growth and development.

Supporting Trade: Commercial banks provide trade finance services such as letters of credit, guarantees, and bill discounting to facilitate international trade. This helps to promote exports and imports, thereby contributing to the growth of the economy.

Facilitating Payments: Commercial banks provide payment services, such as electronic fund transfers, cheques, and debit/credit cards. These services enable businesses and individuals to transact easily, quickly, and safely.

Promoting Financial Inclusion: Commercial banks help to promote financial inclusion by providing banking services to the unbanked and under banked segments of society. This helps to bring more people into the formal financial system and enables them to access credit and other financial services.

Overall, commercial banks play a vital role in the economic development of India by mobilizing savings, providing credit, supporting trade, facilitating payments, and promoting financial inclusion.

Different Types of Commercial Banks in India

In India, there are several types of commercial banks that operate to serve different sectors of the economy. Here are the different types of commercial banks in India:

Public Sector Banks: These banks are owned and controlled by the Government of India. They have a large network of branches throughout the country and play a vital role in meeting the credit needs of the country.

Private Sector Banks: These banks are owned and controlled by private individuals or entities. They operate on a profit-making basis and offer a range of services to their customers.

Foreign Banks: These banks are headquartered outside India but have a presence in the country. They provide a range of services to their customers, including foreign exchange services.

Regional Rural Banks: These banks are set up to serve the rural areas of India. They are jointly owned by the central government, state governments, and sponsor banks, and provide banking services to the rural population.

Cooperative Banks: These banks are owned by cooperative societies or groups. They cater to the needs of their members and operate on a cooperative basis.

Payments Banks: These banks are a new type of bank in India that offer a limited range of banking services, primarily focused on providing payment and remittance services to customers.

Small Finance Banks: These banks are set up to cater to the financial needs of small and micro-enterprises, small farmers, and the unbanked and under banked sections of the population.

Non-Banking Financial Companies (NBFCs): These are financial institutions that provide banking services without holding a banking license. They offer a range of financial products and services, such as loans, investments, and insurance.

Financial Performance of Indian Commercial Banks

The financial performance of Indian commercial banks can vary widely depending on factors such as market conditions, regulatory changes, and individual bank strategies. However, some key indicators can provide a general overview of the industry's financial health.

Profitability: Profitability measures how much profit a bank generates relative to its total assets or equity. Indian banks have shown improvement in profitability in recent years. As per the Reserve Bank of India's (RBI) report, the net profit of scheduled commercial banks increased by 16.9% in FY 2020-21 as compared to the previous year. The average return on assets (ROA) of scheduled commercial banks in India was 0.46% as of September 2021. The profitability of banks was affected due to the COVID-19 pandemic.

Asset Quality: Another important indicator is asset quality, which reflects the quality of a bank's loan portfolio. Indian banks have struggled with non-performing assets (NPAs) in recent years, with high levels of bad loans putting pressure on their financial performance. Non-Performing Assets (NPAs) have been rising due to factors such as economic slowdown, defaults by borrowers, and frauds. According to the RBI, the gross NPA ratio of scheduled commercial banks in India was 7.48% as of September 2021, down from a peak of 11.2% in March 2018. The RBI has taken various measures to address this issue, including implementing a new framework for resolution of stressed assets and requiring banks to disclose their bad loan ratios more frequently.

Liquidity: Liquidity is a measure of ability to meet short-term obligations. The liquidity position of Indian banks has improved in recent years. The RBI has taken various measures to improve the liquidity position of banks, such as reducing the Cash Reserve Ratio (CRR) and Statutory Liquidity Ratio (SLR). As of September 2021, the liquidity coverage ratio (LCR) of Indian banks stood at 166%, which is well above the regulatory requirement of 100%.

Solvency (Capital Adequacy): Indian banks have maintained a healthy capital adequacy ratio (CAR) on average, which is a measure of their ability to absorb losses. The RBI has taken measures to improve the capital adequacy of banks by increasing the minimum capital requirement, introducing Basel III norms, and encouraging banks to raise capital from the market. As of March 2021, the capital adequacy ratio (CAR) of Indian banks stood at 15.6%, which is well above the regulatory requirement of 11.5%.

Factors That Affect the Financial Performance of Indian Commercial Banks

There are several factors that can affect the financial performance of Indian commercial banks. Some of the key factors include:

Interest rates: Interest rates can have a significant impact on a bank's profitability. If interest rates are low, banks may struggle to generate income from their loans, while high interest rates can increase the cost of borrowing and reduce the demand for loans.

Asset quality: The quality of a bank's assets is an important determinant of its financial performance. Poor quality assets such as non-performing loans can lead to higher provisioning costs and lower profits.

Capital adequacy: Capital adequacy is a measure of a bank's ability to absorb losses. Banks with higher capital adequacy ratios are better equipped to handle unexpected losses and are considered to be more financially stable.

Economic conditions: Economic conditions, including GDP growth, inflation, and exchange rates, can impact a bank's financial performance. For example, a slowdown in economic growth can reduce loan demand, while inflation can increase the cost of funding.

Competition: Competition from other banks and financial institutions can impact a bank's financial performance. Banks that are able to differentiate themselves and offer unique products and services may be more successful.

Technological advancements: The banking industry is becoming increasingly technology-driven, and banks that invest in new technology and digital platforms may be better positioned to compete and generate profits.

Regulatory environment: Regulatory requirements can impact a bank's financial performance by increasing compliance costs or limiting certain activities. Banks that are able to navigate the regulatory landscape effectively may be more successful.

Management Efficiency: Finally, the efficiency of bank management is a critical factor that can impact financial performance. Banks with efficient management tend to be more profitable and have better risk management practices.

Corporate Financial Practices of Indian Commercial Banks

Indian commercial banks engage in a range of financial activities such as lending, investment, trading, and fee-based services. They offer a variety of financial products and services to meet the diverse needs of their customers, ranging from retail customers to large corporate. They conduct regular financial audits to ensure compliance with regulatory requirements and maintain adequate capital reserves to absorb any unforeseen losses. Banks also use various financial instruments, such as derivatives, to manage interest rate and foreign exchange risks.

Corporate financial practices of Indian commercial banks refer to the methods and techniques used by banks in India to manage their financial resources and provide banking services to corporate clients. The corporate financial practices of Indian commercial banks are diverse and complex. Some of the key corporate financial practices adopted by Indian commercial banks include.

Asset-Liability Management (ALM): ALM is a risk management technique that helps banks manage their interest rate, liquidity, and foreign exchange risks. Indian commercial banks use ALM to ensure that their assets and liabilities are properly matched, reducing their exposure to risks.

Credit Risk Management: Indian banks use various credit risk management practices such as credit analysis, risk rating, and monitoring to manage the credit risk associated with lending. Banks also maintain a credit risk database and follow strict guidelines for lending to avoid any potential losses.

Capital Adequacy Management: Indian banks are required to maintain a minimum capital adequacy ratio (CAR) of 9%. Banks use various capital adequacy management practices such as capital planning, capital optimization, and risk-weighted assets calculation to maintain the required CAR and optimize their capital structure.

Profitability Management: Indian commercial banks focus on maximizing profitability through various strategies like optimizing the cost of funds, increasing fee-based income, and managing non-performing assets (NPAs).

Cost Management: Indian banks focus on cost management practices such as cost optimization, cost reduction, and cost rationalization to minimize their expenses and improve their profitability. Banks also use advanced technology solutions such as digital banking and automation to reduce their operational costs.

Investment Management: Banks invest in various instruments such as government securities, corporate bonds, and mutual funds to generate income from their surplus funds. Indian banks follow strict investment guidelines and risk management practices to ensure that their investments are safe and generate optimal returns.

Governance and Compliance: Indian banks follow strict governance and compliance practices to ensure that they operate in a transparent and ethical manner. Banks comply with various regulations and guidelines issued by the Reserve Bank of India (RBI) and other regulatory bodies.

Digital Transformation: Indian commercial banks are increasingly adopting digital technologies to improve efficiency, enhance customer experience, and reduce costs. They offer services like internet banking, mobile banking, and digital wallets to their customers.

These practices are essential to ensure the safety and soundness of the banking system and to protect the interests of depositors. These practices are influenced by various factors such as government policies, economic conditions, market trends, and regulatory frameworks.

Overall, the corporate financial practices of Indian commercial banks have evolved significantly over the years, and banks continue to adopt innovative approaches to stay ahead in a highly competitive market.

Challenges Faced by Indian Commercial Banks

Indian commercial banks face several challenges, including: **Non-performing assets (NPAs):** One of the biggest challenges faced by Indian commercial banks is the issue of non-performing assets (NPAs). NPAs are loans that have not been repaid by the borrower for 90 days or more, and they are a major cause of concern for banks in India. The high level of NPAs in the Indian banking system is a result of various factors, including economic slowdowns, frauds, and corruption.

Capital adequacy: Indian commercial banks are required to maintain a minimum level of capital adequacy ratio (CAR) to ensure that they have sufficient funds to cover their risks. However, many banks in India struggle to maintain the required CAR, which limits their ability to lend and expand their business.

Competition from new players: With the emergence of new players in the banking industry, including fintech companies and payment banks, traditional banks are facing stiff competition. These new players are leveraging technology to offer innovative products and services, which is attracting customers away from traditional banks.

Technology upgrades: Technology upgrades are essential for banks to remain competitive and efficient. However, many Indian banks struggle to keep up with the latest technological developments due to the high cost of upgrades and a lack of technical expertise.

Cyber security - Indian banks are vulnerable to cyber attacks, which can result in financial losses and reputational damage. Banks need to invest heavily in cyber security measures to ensure the safety and security of their customers' data.

Regulatory compliance: Indian banks are subject to numerous regulations and compliance requirements, which can be complex and time-consuming to implement. Failure to comply with these regulations can result in fines and reputational damage.

Customer service: Indian banks have traditionally struggled with customer service, which has resulted in customer dissatisfaction and a lack of trust. Banks need to improve their customer service standards to retain existing customers and attract new ones.

Financial inclusion: Despite the government's efforts to promote financial inclusion, many people in India still do not have access to basic banking services. Indian banks need to find ways to reach out to these underserved populations and provide them with affordable and accessible banking services.

Despite these challenges, some Indian banks have shown good financial performance in recent years. Private sector banks, in particular, have shown better asset quality and profitability compared to public sector banks.

CONCLUSION

Corporate financial practices provide insight into the financial stability and overall performance of a company, and can be used to evaluate investment opportunities, assess risk, and inform business decisions. In the case of commercial banks, their financial practices are particularly significant, as these institutions play a crucial role in the economy and the financial system. It is important for commercial banks to maintain strong financial practices in order to ensure the safety and stability of the banking system, and to protect the interests of depositors and other stakeholders. This may involve implementing sound risk management strategies, maintaining adequate capital reserves, and adhering to regulatory requirements. The study finds that Indian banks have made significant improvements in their financial practices in recent years, but still face challenges in managing risks and maintaining profitability in a rapidly changing economic environment. The key recommendations for Indian banks include enhancing their risk management practices, improving governance structures, and adopting more innovative financial products and services to meet the evolving needs of customers.

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