INSTITUTE OF MANAGEMENT

NIRMA UNIVERSITY

NAME: Shivani Chaturvedi

ROLL NO.: 201247

SECTION: B

PROGRAM: MBA – Full Time

COMPANY: IndusInd Bank Ltd.

DATE: 12/07/2021

Summer Internship Final Report

Liquidity Profile Analysis of Indian Banking Sector Pre – COVID and during COVID times.

<u>Table of Contents</u>

Introduction

Type of Project: Research based Project

Project Title: Liquidity Profile Analysis of Indian Banking Sector Pre – COVID and during COVID times.

Company Name: IndusInd Bank

Nature of Project:

Economic activity has begun making a hesitant and uneven recovery from the unprecedented steep decline in the wake of the COVID-19 pandemic.

In view of the comfortable liquidity situation in the system, it is useful to evaluate the adequacy of unencumbered high-quality liquid assets (HQLA) for meeting short term liquidity under a significantly severe liquidity stress scenario. This is reflected in the movement of the liquidity coverage ratio (LCR) across bank groups, while recognising that the negative carry engendered by deployment of available deposits in HQLA can potentially strain the future profitability of banks.

Objective:

The aim of the project is to undertake analysis of select representative banks and analyse their liquidity profile prior to onset of COVID-19 and during COVID times, the structural changes that are observed in liquidity profile of banks during COVID times, measures undertaken by RBI in view of COVID, impact of such measures on banking sector etc.

ABOUT THE ORGANISATION

IndusInd Bank is a universal bank with over 2.5 crore customers, over 5,000 distribution sites, and approximately 2,000 branches spread across the country.

The Bank offers a comprehensive range of goods and services for individuals and businesses, including microfinance, personal loans, personal and commercial vehicle loans, credit cards, and SME loans, all with 'Sustainability' at their core. The Bank is also a preferred banking partner for various Government entities, PSUs and large corporates.

IndusInd Bank, which first opened its doors in 1994, serves both retail and business customers. Its technological infrastructure allows for multi-channel delivery. IndusInd Bank had 1210 branches and 2090 ATMs spread in 687 sites as of June 30, 2017. In addition, the Bank has offices in London, Dubai, and Abu Dhabi. The Bank thinks that technology is the key to its success. It is a clearing bank for the country's major stock exchanges (BSE and NSE) as The bank as key commodity markets (MCX, NCDEX, and NMCE). On April 1, 2013, IndusInd Bank was added to the NIFTY 50 benchmark index. According to the BrandZ Top 50 Most Valuable Indian Brands 2015, IndusInd Bank is rated 13th.

Vision and mission

The Bank will dependably add value to all its stakeholders by enhancing its sustainability and emerging as India's most convenient Bank with financial metrics amongst the best in the industry.

1. IndusInd Bank will be an appropriate business and banking partner to its clients.
2. IndusInd Bank will be Customer-responsive, striving at all times to collaborate with clients in providing solutions for their banking needs.

3. IndusInd Bank will be a forerunner in the marketplace in terms of productivity, efficiency and profitability.
4. IndusInd Bank will be engaged with all its stakeholders and will deliver sustainable and compliant growth and returns.
5. IndusInd Bank will be a change agent for financial inclusion in India.

History

The name 'IndusInd' Bank was inspired by the Indus Valley Civilisation, which is one of the most remarkable cultural examples of integrating innovation with strong business and trade practices. It was founded in 1994 by Srichand P Hinduja. The Bank has expanded steadily and dynamically over the years, driven by a desire to provide its customers with banking services that meet the highest quality standards in the industry.

Brand

IndusInd's brand is built on a solid dedication to the customer and an all-encompassing customer-centric culture, which is at the heart of what the Bank does. It exemplifies its deep commitment to innovation and its never-ending efforts to make banking more convenient for customers. Its dedication to the consumer is based on four pillars of convenience. Making banking smooth, easy, rapid, and transparent is something the Bank has embraced. The philosophy of the Indus Valley Civilization, from which the Bank takes its name, inspires the Bank. The Bank's principles of trust, transparency, simplicity, and service are derived from the Bank's rich past and past.

The Zebu Bull, a vivid symbol of this old culture, is used by the Bank. The Zebu is more than just a classic icon of ancient culture. It also depicts the Bank's motivation, which is a dynamic and dynamic neighbourhood.

The Zebu is the brand's identity, and it can be found in all of the company's touchpoints. Burgundy and Yellow Ochre - the brand's colitis – are used to convey. These colitis aid in the creation of brand awareness and visual interest throughout all of the company's communications, as well as adding warmth and vitality. Their utilisation ensures a strong consumer relationship and brand continuity.

Services offered

IndusInd Bank offers the below services:

1. Branch banking.
2. Consumer finance.
3. Corporate banking and finance.
4. Commercial and transaction banking.
5. Cash Management Services (CMS).
6. Trade Services Utility (TSU)
7. Depository operations
8. Treasury operations
9. Wealth management

INDUSTRY PROFILE

Banking and Finance Industry

The Reserve Bank of India (RBI) claims that India's banking system is adequately capitalised and regulated. The country's financial and economic conditions are significantly superior to those of any other country on the planet. According to credit, market, and liquidity risk analyses, Indian banks are generally resilient and have weathered the global crisis.

Innovative banking formats such as payments and small finance banks have lately emerged in India's banking market. The RBI's new policies may go a long way toward assisting the domestic banking industry's reform. India's digital payments system has advanced the most among 25 countries, with India's Immediate Payment Service (IMPS) ranking fifth in the Faster Payments Innovation Index (FPII).

Market Size

The Indian banking system includes 12 public sector banks, 22 private sector banks, 46 foreign banks, 56 regional rural banks, 1485 urban cooperative banks, and 96,000 rural cooperative banks.

The total number of ATMs in India has climbed to 209,282 as of November 2020. In FY20, public sector banks' assets totalled Rs. 107.83 lakh crore (US$ 1.52 trillion). Bank credit increased at a CAGR of 3.57 per cent from FY16 to FY20. Total credit extended in FY20 reached $1,698.97 billion. Deposits expanded at a CAGR of 13.93 per cent from FY16 to FY20, reaching US$ 1.93 trillion in FY20. Non-food industry credit totalled Rs. 105.53 trillion (US$ 1.44 trillion), as of January 15, 2021. Non-food sectors grew at 5.7% in January 2021 against an increase of 8.5% in January 2020.

Notable trends in the banking industry sector

1. Improved risk management practices
2. Technological innovations
3. Focus on financial inclusion
4. Derivatives and risk management products
5. Consolidation
6. Focus towards Jan Dhan Yojana
7. Wide usability of RTGS, NEFT and IMPS
8. Know Your Client
9. Open Market Operations

Strong economic growth to propel banking sector expansion

Rising per capita income will increase the fraction of the Indian population that uses banking services. People in the 15-64 age group are expected to grow strongly going ahead, further pushing the banking sector's number. As per Economic Survey2018-19, the working-age population will increase by 9.7 million per year in 2021 and 2031 and 4.2 million per year from 2031 to 2041.

PROJECT ALLOCATED

Economic activity has begun making a hesitant and uneven recovery from the unprecedented steep decline in the wake of the COVID-19 pandemic.

Given the comfortable liquidity situation in the system, it is helpful to evaluate the adequacy of unencumbered high-quality liquid assets (HQLA) to meet short-term liquidity. This is reflected in the movement of the liquidity coverage ratio (LCR) across bank groups while recognising that the negative carry engendered by the deployment of available deposits in HQLA can potentially strain the future profitability of banks.

The project aims to analyse select representative banks and analyse their liquidity profile before the onset of COVID-19 and during COVID times. The structural changes that are observed in the liquidity profile of banks during COVID times. RBI was undertaken because of COVID, the impact of such actions on the banking sector, etc.

Major tasks allocated

1) **Study various components of Liquidity and Gather data**
   A bank's liquidity position can be known by the Liquidity Coverage Ratio (LCR) movement and the availability of High-Quality Liquid Assets (HQLAs). The Leverage Ratio, Loan to Deposits Ratio, Cash to Deposits Ratio, Investments to Deposits Ratio, Credit to Deposits Ratio and CASA Ratio also help us estimate the liquidity position of the Banks. Various major Public sector banks and private sector banks. The banks were studied on these parameters to gain knowledge about their liquidity position.

2) **Analyse data from the pre – COVID and during COVID times**

To analyse the shift in the trend of liquidity risk of banks Pre-COVID and during COVID. The liquidity position of the selected banks was studied before the outbreak of the COVID 19 pandemic and after the pandemic outbreak. Various trends were seen in different liquidity ratios. From the trends, it can be seen how the pandemic has affected various public sectors and private sector banks. What measures were taken by the banks to survive in these unprecedented times.

3) **Understand the measures undertaken by RBI in view of COVID**

Seeing the uncertain and challenging times of the COVID 19 pandemic, RBI took some steps and gave banks some relaxations on various fronts. The RBI guidelines, which affected the liquidity position and the lending capacity of the banks, were understood. How these measures have affected the banks and the Indian economy as a whole was also seen.

Methodology

A bank's liquidity position can be known by the Liquidity Coverage Ratio (LCR) movement and the availability of High-Quality Liquid Assets (HQLAs). The Leverage Ratio, Loan to Deposits Ratio, Cash to Deposits Ratio, Investments to Deposits Ratio, Credit to Deposits Ratio and CASA Ratio also help us estimate the liquidity position of the Banks. Various major Public sector banks and private sector banks. The banks were studied on these parameters to gain knowledge about their liquidity position.

Therefore, the methodology used is mainly quantitative as various figures and ratios of various banks is analysed.

Sources of Data: The source of this data is secondary as it is freely available for general public. The correctness of data can be assumed as this has to be submitted before RBI – Reserve Bank of India.

Method of Collection: The data was collected from the annual reports and quarterly Basel-3 Disclosures of the bank, which were available easily on the banks' websites. Apart from this, data of few ratios was taken from the ACE Knowledge Portal.

Data Presentation

For this purpose, collection of quantitative data has been done from the government backed sources which can be relied upon. The data has been taken from the audited annual reports of various public sector banks, private sector banks and small finance banks.

RBI Guidelines:

The LCR promotes the short-term resilience of banks to potential liquidity disruptions by ensuring that they have sufficient high-quality liquid assets (HQLAs) to survive an acute stress scenario lasting for 30 days. It is binding on banks from January 1, 2015. Initially, the requirement was a minimum of 60% for 2015 and a subsequent rise of 10% every year to reach the minimum required level of 100% on January 1, 2019.

Due to the COVID 19 pandemic surging in the early months of 2020, RBI reduced the LCR requirements for banks to 80% to relieve the lenders. At the same time, RBI asked the banks to raise provisions against stressed accounts. The LCR requirement was gradually restored 90% by October 1, 2020, and 100% by April 2021.

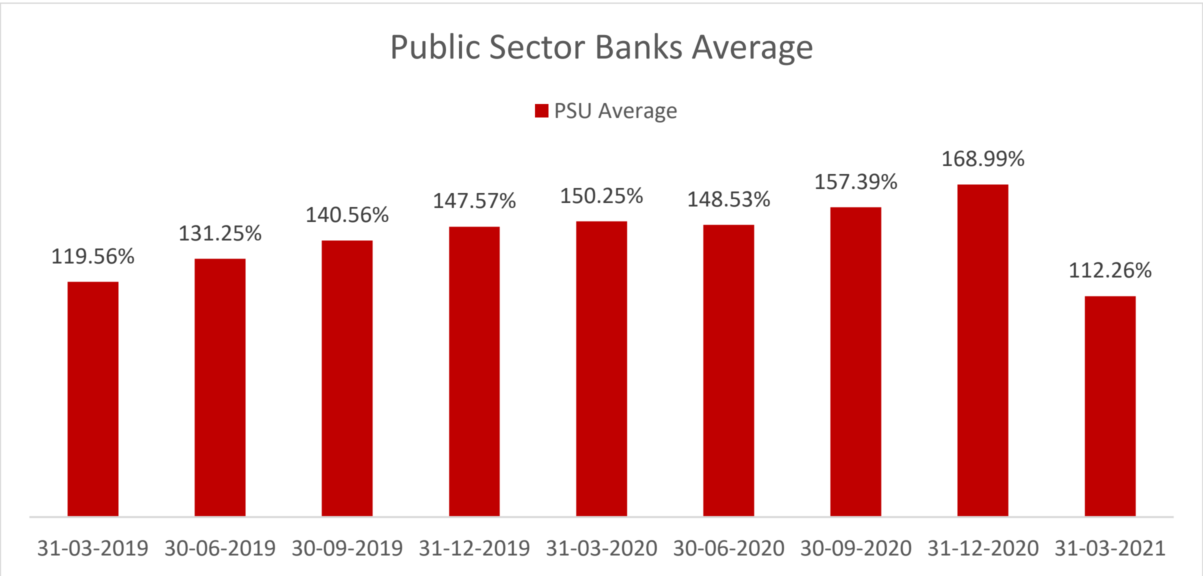
	Pre - COVID					**During COVID**		
	January 1, 2015	January 1, 2016	January 1, 2017	January 1, 2018	January 1, 2019	April, 2020	October, 2020	April, 2021
Minimum LCR	60%	70%	80%	90%	100%	80%	90%	100%

Public Sector Banks

The Major Public Sector Banks in the Indian banking sector were selected –

1. State Bank of India (SBI)
2. Punjab National Bank (PNB)
3. Canara Bank
4. Bank of Baroda (BOB)

Their quarterly Liquidity Coverage Ratio was analysed. Then, the average of these banks was taken to analyse the trend before COVID and during COVID.



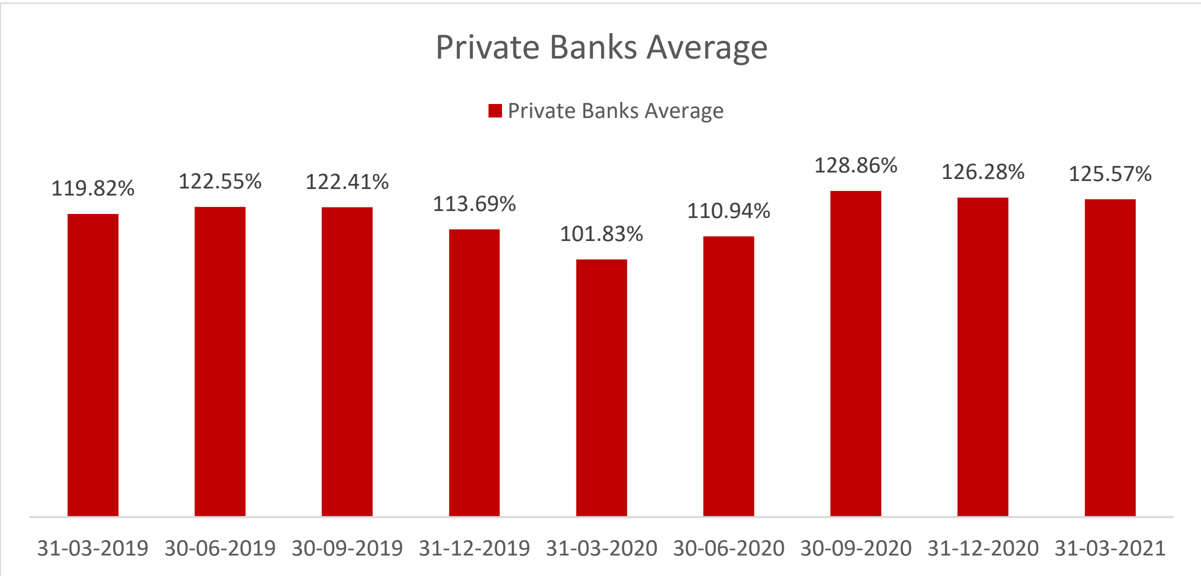
An increasing trend can be seen in the LCR of the Public Sector banks. This shows that the banks were keen on keeping more liquidity in hands in the unprecedented times. One interesting thing which can be seen is that soon after there was a decline in the reported cases of COVID – 19 during Q4 of 2020-21, the LCR of the banks also decreased. This shows that uncertain times force people as well as banks to keep more liquidity in their hands.

Private Sector Banks

The Major Private Sector Banks in the Indian banking sector were selected –

1. Axis Bank
2. HDFC Bank
3. ICICI Bank
4. YES Bank

Their quarterly Liquidity Coverage Ratio was analysed. Then, the average of these banks was taken to analyse the trend before COVID and during COVID.



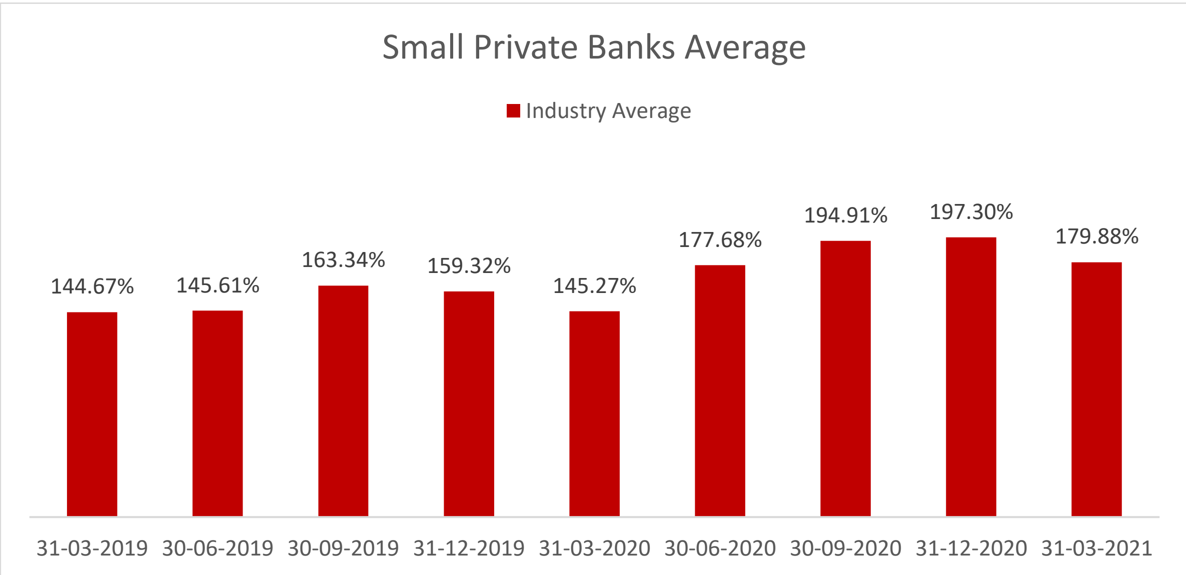
We can see a consistency in the average Liquidity Coverage Ratio of the Major Private sector Banks before and during COVID. There was a slight dip in the initial period of the COVID – 19 outbreaks in the Q4 of 2019-20. This shows that along with maintaining their liquidity above the RBI requirements, they also provided various schemes related to COVID and tried to increase the money supply in the economy during the unprecedented times.

Small Private Sector Banks

The Small Private Sector Banks in the Indian banking sector were selected –

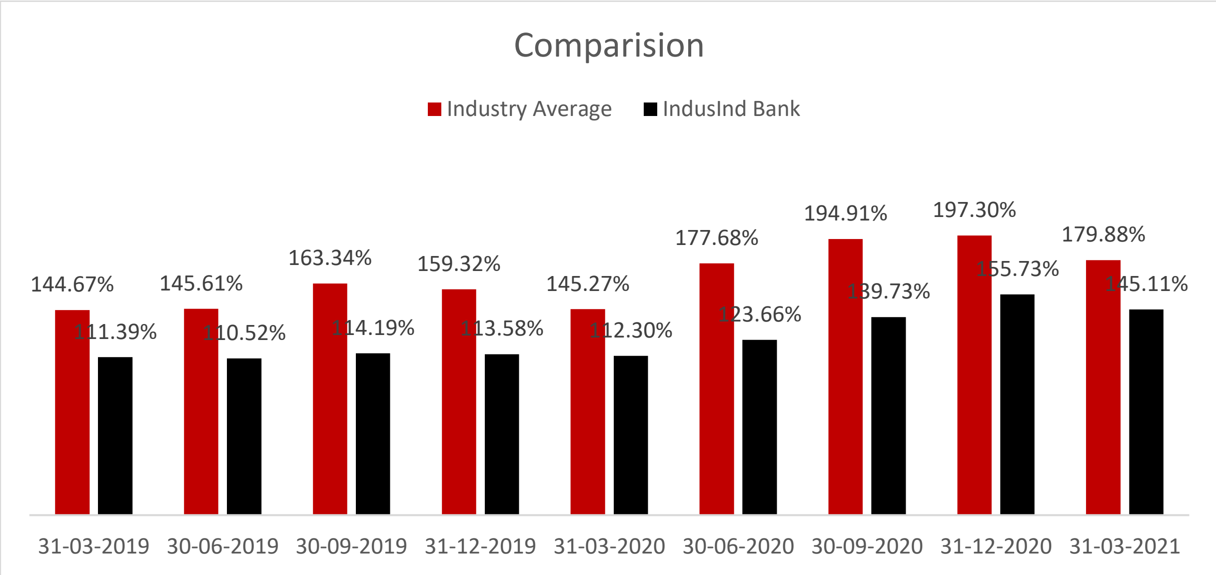
1. Bandhan Bank
2. Kotak Mahindra Bank
3. Federal Bank
4. IndusInd Bank

Their quarterly Liquidity Coverage Ratio was analysed. Then, the average of these banks was taken to analyse the trend before COVID and during COVID.



We can see a slight increase in the average Liquidity Coverage Ratio of the Small private sector banks before and during COVID. There was not a major change, but there was a significant increase in the liquidity kept by the small private banks during the uncertain times of the COVID -19 pandemic. This shows that the banks were keen on keeping more liquidity in hands in the unprecedented times. The reason might be to avoid the risk of solvency during the lockdown period.

One of the main focus in the analysis was to compare our banks liquidity – IndusInd bank – with the Industry average before and during COVID.



We can see that there is a major difference between the Industry average and Liquidity Coverage Ratio of IndusInd Bank during all the quarters of the period of analysis before and during COVID. But one interesting thing to be noted is that the company's LCR increases with an increase in the industry average and decreases with a decrease in the industry average. This shows that, although, the company does not match the industry average, but it matches the trends in the LCR of the industry.

Small Finance Banks

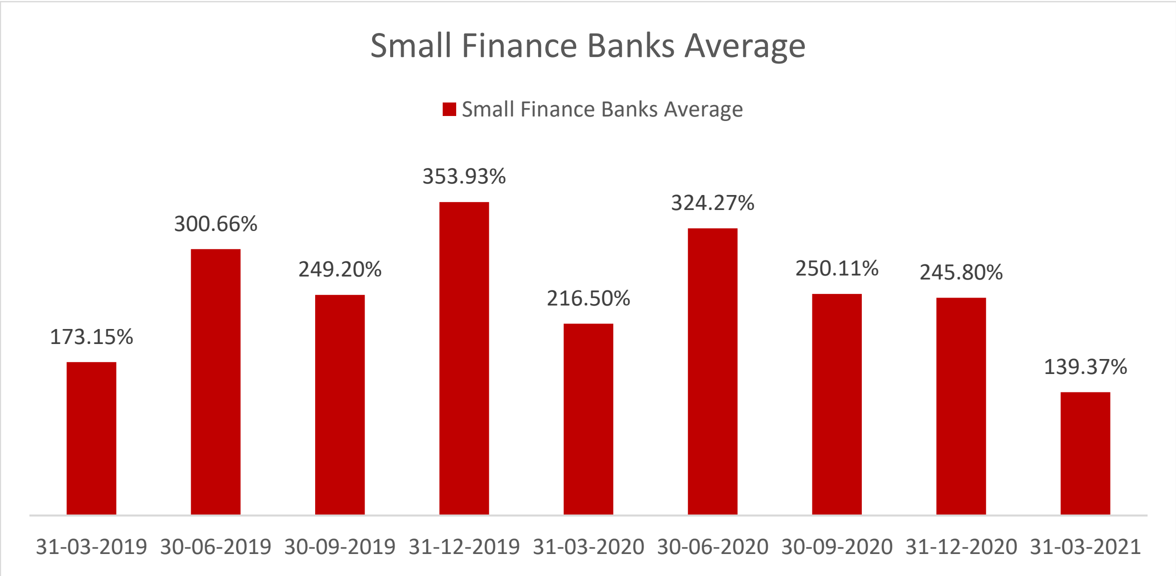
LCR requirements for Small Finance Banks given by RBI

	Pre - COVID				During COVID		
	Till Dec, 2017	From Jan, 2018	From Jan, 2019	From Jan, 2020	From April, 2020	From Oct, 2020	From April, 2021
Minimum LCR	60%	70%	80%	90%	80%	90%	100%

The Small Finance Banks in the Indian banking sector were selected –

1. AU Small Finance Bank
2. Ujjivan Small Finance Bank
3. Capital Small Finance Bank
4. Suryoday Small Finance Bank

Their quarterly Liquidity Coverage Ratio was analysed. Then, the average of these banks was taken to analyse the trend before COVID and during COVID.



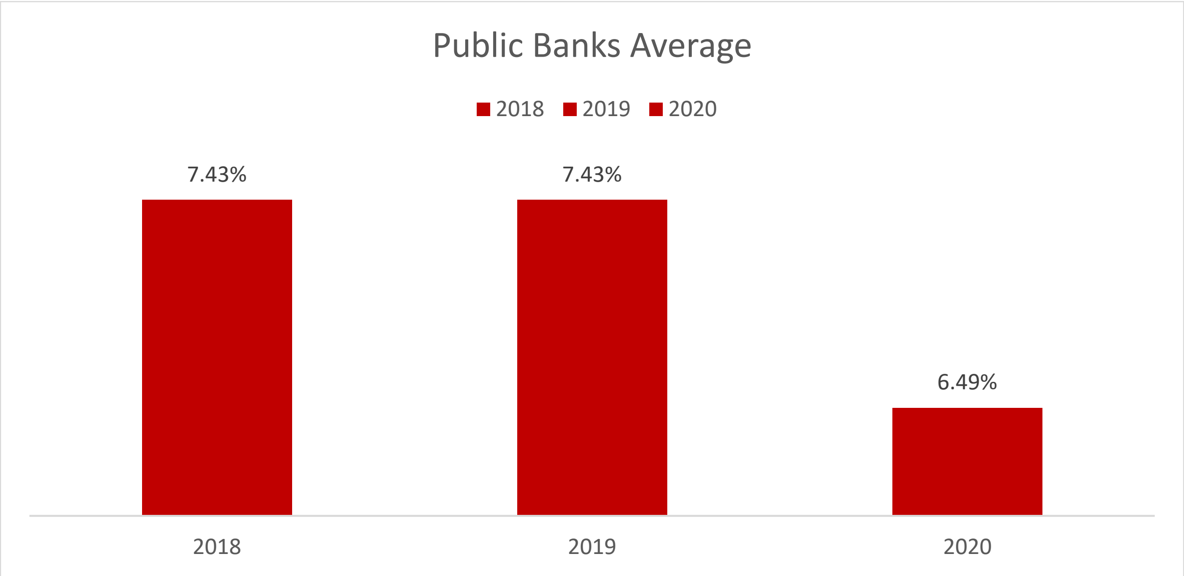
It can be seen that the average LCR of the small finance banks is much higher than the requirement of the RBI. There are major ups and downs LCR during the period covered for the analysis. But since the outbreak of the COVID – 19 pandemic, initially there was a sudden rise in the average LCR of the banks. This might be due to the uncertainty of the future. Since then, it has been declining and was recorded at a normal level in the last quarter of 2020-21.

Liquidity Concentration Analysis

Percentage of Top 20 Depositors

Public Sector Banks

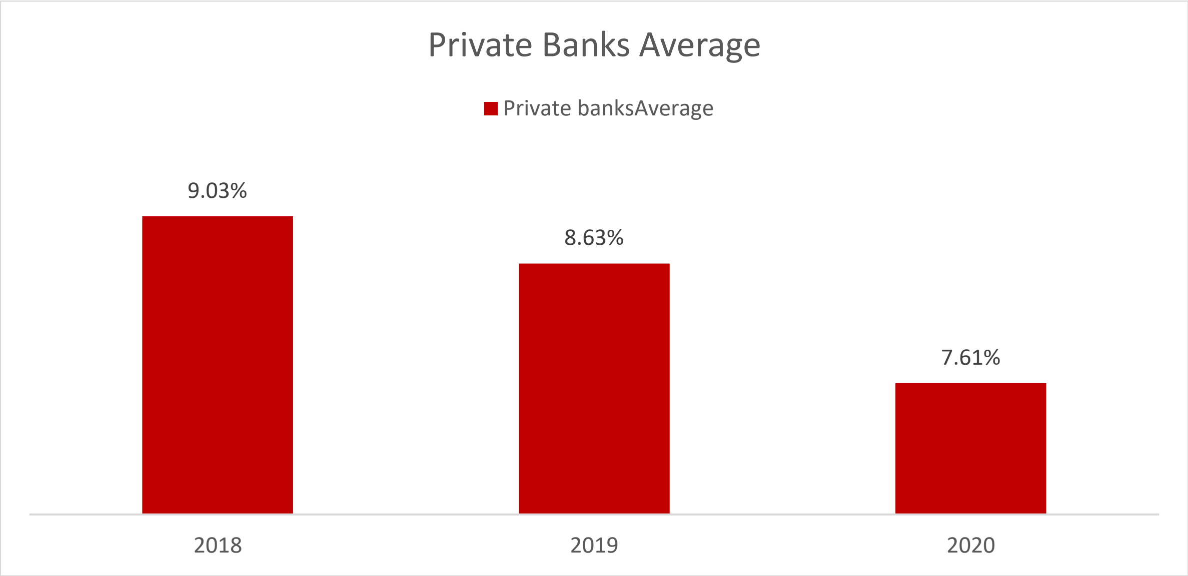
The same set of banks have been analyzed on the basis of liquidity concentration as above on LCR. The Average of Public sector banks is as found below.



The above graph shows that the average percentage of the top 20 depositors of the public sector banks reduced in the COVID period. This shows that there was an increase in the number of depositors in the public sector banks in the unprecedented times of the pandemic.

Private Sector Banks

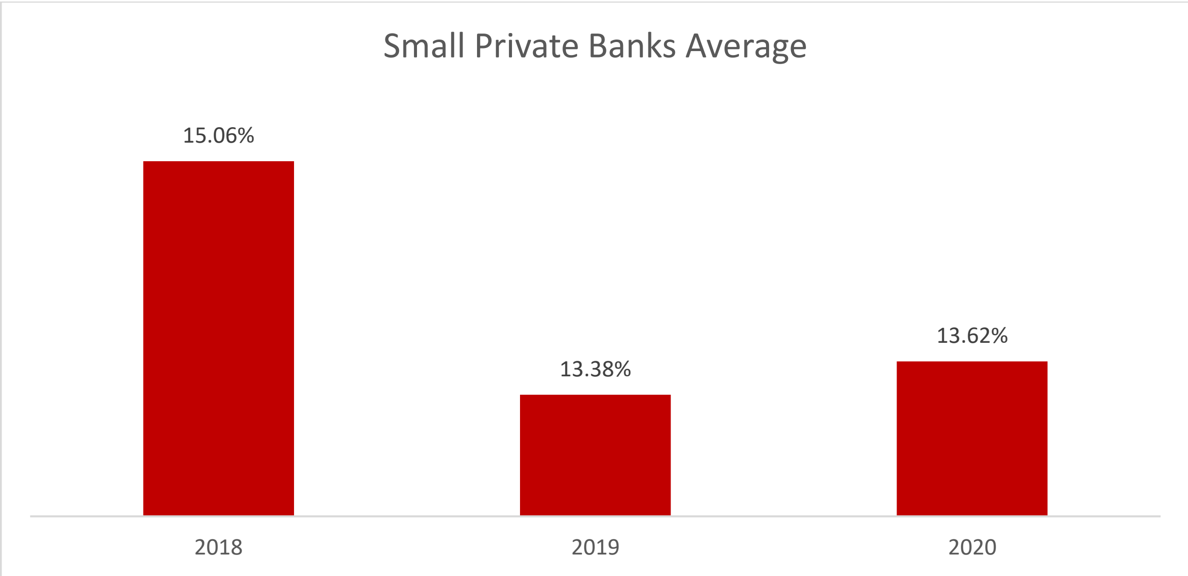
The same set of banks have been analyzed on the basis of liquidity concentration as above on LCR. The Average of Private sector banks is as found below.



The above graph shows that the average percentage of the top 20 depositors of the private sector banks reduced in the COVID period. This shows that there was an increase in the number of depositors in the private sector banks in the unprecedented times of the pandemic.

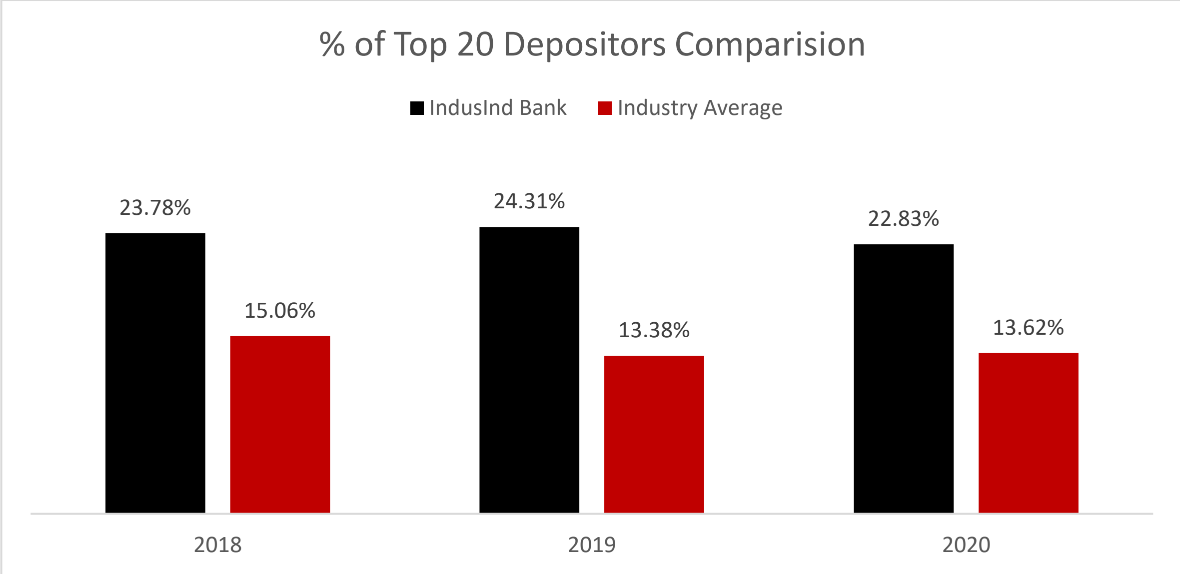
Small Private Banks

The same set of banks have been analyzed on the basis of liquidity concentration as above on LCR. The Average of Small Private banks is as found below.



The above graph shows that the average percentage of the top 20 depositors of the smaller private sector banks also reduced in the COVID period. This shows that there was an increase in the number of depositors in the smaller private sector banks in the unprecedented times of the pandemic.

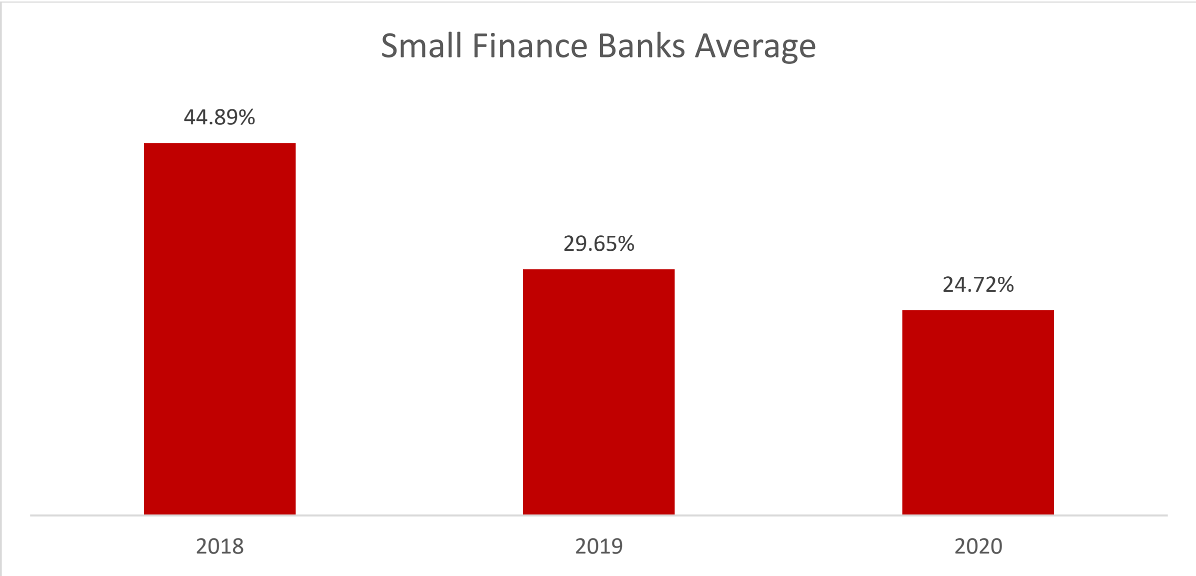
One of the main focus in the analysis was to compare our banks liquidity – IndusInd bank – with the Industry average before and during COVID.



It can be seen from the graph that the percentage of deposits contributed by the top 20 depositors of IndusInd Bank is way higher than the Industry Average. This means that the number of depositors of IndusInd Bank is lesser than other banks of the industry. Top 20 depositors of IndusInd Bank contribute a bigger chunk of deposits when compared to the average of the other banks.

Small Finance Banks

The same set of banks have been analyzed on the basis of liquidity concentration as above on LCR. The Average of Small Finance banks is as found below.



The above graph shows that the average percentage of the top 20 depositors of the small finance banks reduced in the COVID period. This shows that there was an increase in the number of depositors in the small finance banks in the unprecedented times of the pandemic.

Conclusion

Economic activity has begun making a hesitant and uneven recovery from the unprecedented steep decline in the wake of the COVID-19 pandemic.

In view of the comfortable liquidity situation in the system, it is useful to evaluate the adequacy of unencumbered high-quality liquid assets (HQLA) for meeting short term liquidity under a significantly severe liquidity stress scenario. This is reflected in the movement of the liquidity coverage ratio (LCR) across bank groups, while recognising that the negative carry engendered by deployment of available deposits in HQLA can potentially strain the future profitability of banks.

The data was collected from the annual reports and quarterly Basel-3 Disclosures of the bank, which were available easily on the banks' websites.

The liquidity position of the selected banks was studied before the outbreak of the COVID 19 pandemic and after the pandemic outbreak. Various trends were seen in Liquidity Coverage Ratios of banks of various sectors. From the trends, it can be seen how the pandemic has affected various public sector banks, private sector banks and small finance banks. The initial response of almost all banks was to hold more of liquidity in hand. Some banks relaxed their liquidity according to the situation, while some kept strong hold of their liquidity position. The RBI also relaxed its level of LCR requirements for the ease of the banks. Various banks came up with various COVID – related schemes to help its customers during the unprecedented times, which can be a reason for the increase in their number of depositors, as seen in the analysis above.

Learnings

The Internship programme has helped me understand the basics of liquidity risk and asset-liability management of banks. I learnt about the several tools and techniques that can be used to assess a bank's liquidity position. How do different adverse situations, such as the COVID 19 pandemic, affect the liquidity position of the banks and their lending policies. What changes can be seen in the asset-liability position of the banks during such times. RBI measures make it easy for the banks to survive the situation and normalise the Indian economy.

References

1. https://www.sbi.co.in/
2. https://www.pnbindia.in/
3. https://www.canarabank.com/
4. https://www.bankofbaroda.in/
5. https://www.axisbank.com/
6. https://www.icicibank.com/
7. https://www.hdfcbank.com/
8. https://www.yesbank.in/
9. https://www.bandhanbank.com/
10. https://www.federalbank.co.in/
11. https://www.kotak.com/
12. https://www.indusind.com/
13. https://www.aubank.in/
14. https://www.ujjivansfb.in/
15. https://www.capitalbank.co.in/
16. https://www.suryodaybank.com/
17. https://www.rbi.org.in/