A Comparative Analysis of IDBI Bank and HDFC Bank's Fund-Based and Non-Fund-Based Income

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Abstract: *The banking industry in India has grown tremendously during the past decade, supporting the expansion of the Indian economy. In today's world, the whole financial system is paperless. Bank branches have been digitalized thanks to technological advancements. The banking sector adopted globally recognized standards, bringing transparency to the whole financial business. The banking industry has gotten more diversifiable during the previous decade. Non-interest earnings such as insufficient funds fees, yearly fees, deposit and transaction fees, and others are now a source of income for the banking industry, which is no longer only reliant on interest income.*

Keywords: *banking sector, technology, fund-based income, non-fund based income*

INTRODUCTION

The Indian financial industry has been significantly impacted by the information technology revolution. In the current environment, technology and the competitive climate are the driving forces for banking automation. The banking industry is experiencing tremendous upheaval due to competitiveness, technical obstacles, and customer demand. In terms of bank performance, technology makes a significant difference. Banks must evaluate innovation in terms of both products and processes. The banking business must adopt cutting-edge technology in today's society.Fees, processing fees, trade revenue, and other sources of noninterest income have displaced traditional profitability activities like loans and advances.

Bank Income

Bank revenue or income comes from two major sources. Non-Interest Revenue or Non-fund Based Income is a kind of income that differs from Investment Earnings or Fund Based Income.

Income from Interest/Funds

Banks may sometimes employ marketable securities, savings accounts, and other forms of short-term deposit assets in order to conserve money. Examples of such assets are commercial paper with a maturity of up to twelve months, savings accounts, and commercial paper. The money that is kept in these accounts generates interest for the company, which is shown on the income statement as interest income. Throughout the life of a securitized loan, interest income is generated, and in order for this income to be recorded, the loan must be categorized as either a loan held for investment, a loan held for sale, or a loan held for securitization. What is referred to as the "spread" is the factor that determines how much money is made from interest. The spread refers to the difference between the interest rates a bank earns on customer loans and the interest rates it charges customers. Receiving interest is one way in which depositors are awarded compensation for the usage of their funds in a financial institution. It is also obtained via the asset holdings of banks, which may include things like Treasury Bills and Bonds.

Non-Interest Earnings/Non-Fund Earnings

During the last two decades, depository institutions have moved away from conventional lending and into sectors that produce non-fund based income in order to combat the falling net interest margins that have plagued these banks. The relocation is vital for maintaining one's financial stability. The more volatile a bank's revenue stream is, the riskier the bank is likely to become. According to the common knowledge in the banking business, fee-based product profits are more reliable than loan-based income, and the reason for this is because fee-based activities diversify the risk that banks face. Non-fund-based revenue may come from a variety of sources, including stock trading, assisting businesses with the acquisition of fresh equity funding, securities commissions and wealth management, the sale of property and buildings, profit and loss on asset revaluation, and other activities. Deposit and transaction fees, expenses associated with insufficient funds, costs associated with inactivity, annual fees, monthly account service expenditures, check and deposit slip fees, and other fees similar to these are examples of non-interest earnings. Fees are charged by institutions in order to create non-interest revenue as a method of making money and maintaining liquidity in the event that the default rate increases.

LITERATURE REVIEW

David Trope (2000) said that all bankers had to do to deal with competitive constraints on bank margins was to branch out into fee-generating companies. So, banks would make more money from sources other than interest, which would be enough to make up for the drop in interest income they've been seeing. Non-interest income may also be less affected by changes in the economy than net interest income. This might help make a bank's total revenue less variable.To show this, a number of banks have set specific goals for how much non-interest income they need to make. The goal could be written as a percentage of total income from sources other than interest (defined to be net of interest expense). By looking at data from U.S. businesses that owned banks every three months from 1997 to 2002.

Stiroh and Rumble (2006)studied the diversification effects of delivering a variety of financial services and changes in fee, trading, and non-interest income. The benefits of diversification exceed the risks of greater exposure to volatile non-interest activities.

Since 1992, when financial sector reforms began, the Indian banking market has been more competitive, according to Prakash et al. Using data from 1996 to 2004, the research examines this assumption in India. According to evidence, the Indian banking sector is competitive and generates money as a monopoly.

R.K. Uppal After financial liberalization, Indian commercial banks' earning behavior altered. Recently, banks have been growing into non-funds-based companies, unlike conventional banking. In this context, we looked at all banking institutions in India's interest and noninterest income.The article analyses interest and non-interest revenue at the bank, bank group, and industry levels. It also found problems in bank revenue and proposed techniques for expanding non-interest income, which might assist banks' overall income in the present competitive market. Bhawna Rajput, Y. P. Singh, and A. K. (2008). In this study, researchers looked at a bank's revenue portfolio and risk-adjusted performance in India. Non-fund earnings are more stable than loan profits, and focusing on them reduces income and profitability volatility via diversification.

Objectives of the Study

The research has the following goals: to investigate the contribution of fund-based and non-interest-based revenue to IDBI and HDFC banks' overall income in India.

To compare and contrast the fund-based and non-fund-based revenue of IDBI and HDFC banks in India from 2012 to 2021.

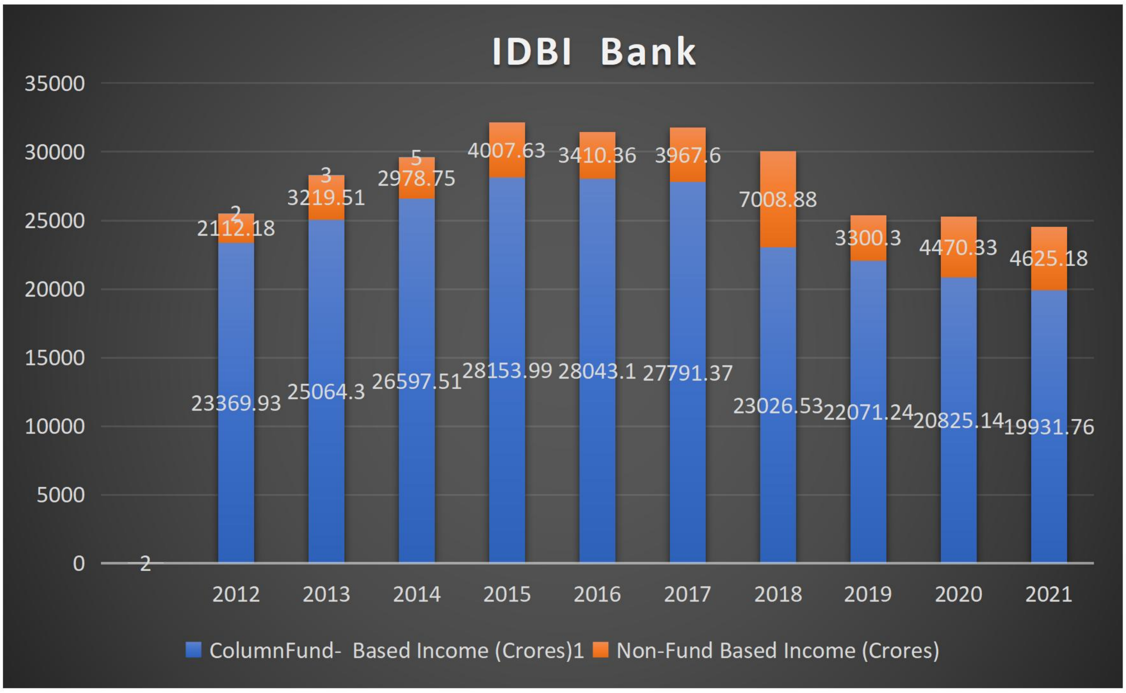
RESEARCH METHODOLOGY

The current research uses secondary data from 2012 to 2021. The research is based on publicly available data gathered from a variety of sources. The information was acquired from secondary sources such as journals, periodicals, bank annual reports, and stories published in different newspapers and websites both online and offline. IDBI and HDFC banks were chosen to determine their year-over-year growth rates in terms of fund-based and non-fund-based revenue. For the purpose of comparing bank fund and non-fund revenues, the mean and standard deviation are employed.

Table 1: Comparative Income of Fund Based VS Non-Fund Based

Year	IDBI Bank			HDFC Bank		
	Fund-Based Income (Crores)	**Non-Fund Based Income (Crores)**	**Total Income (Crores)**	**Fund Based Income (Crores)**	**Non-Fund Based Income (Crores)**	**Total Income (Crores)**
2012	23369.93	2112.18	25482.11	27286.35	5243.69	32530.05
2013	25064.30	3219.51	28283.81	35064.87	6852.62	41917.50
2014	26597.51	2978.75	29576.27	41135.53	7919.64	49055.18
2015	28153.99	4007.63	32161.62	48469.90	8996.35	57466.26
2016	28043.10	3410.36	31543.46	60221.45	10751.72	70973.17
2017	27791.37	3967.6	31758.97	69305.96	12296.50	81602.46
2018	23026.53	7008.88	30035.41	80241.36	15220.30	95461.66
2019	22071.24	3300.30	25371.53	98972.05	17625.88	116597.94
2020	20825.14	4470.33	25295.48	114812.65	23260.82	138073.47
2021	19931.76	4625.18	24556.93	120858.23	25204.89	146063.12
Average	**24487.487**	**3910.072**	**28406.559**	**69636.835**	**13337.241**	**82974.081**
Standard Deviation	**3076.3469**	**1318.2013**	**3008.8387**	**33292.313**	**6870.019**	**40110.90**

Source: *www.moneycontrol.com*



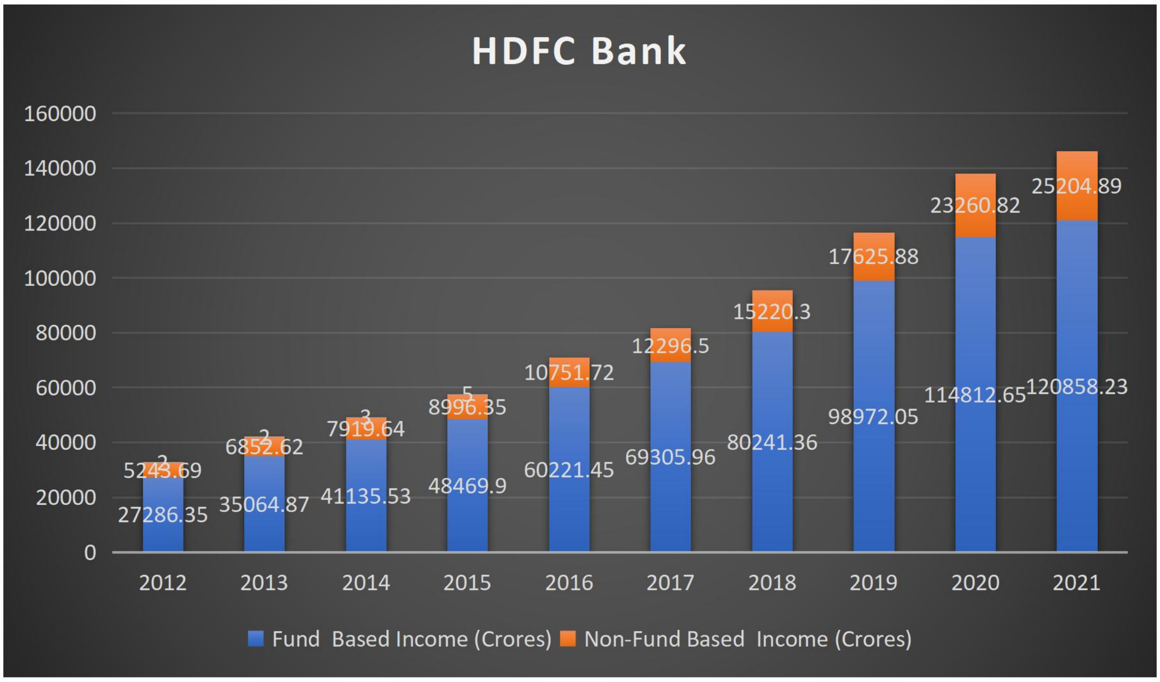


Fig 1: Comparative Income of Fund Based VS Non-Fund Based

Interpretation of Results Fund Based Income

From 2012 to 2021, Table 1 shows the fund-based revenue of IDBI Bank. The highest fund based income was Rs. 28153.99 crores in 2015, while the lowest was Rs. 19931.76 crores in 2021. The average revenue from mutual funds was Rs. 24487.487 crores. The average fund based income was greater than the average fund based income from 2013 to 2017. From 2016 to 2021, we can see that fund-based revenue has been steadily declining. From 2012 to 2021, the fund-based revenue of HDFC Bank is shown in the table above. The greatest fund-based income was Rs. 120858.23 crores in 2021, while the lowest was Rs. 27286.35 crores in 2012.

The average revenue from mutual funds was Rs. 69636.835crores. Fund based income increased from 2018 to 2021, above the average fund based income. From 2012 to 2021, we can see that fund-based revenue has been steadily increasing. We can see that IDBI Bank's fund-based revenue was on average Rs. 24487.487 crores, or almost 86 percent of its overall income. However, fund-based revenue accounts for around 83.92 percent of HDFC Bank's overall income, or Rs. 69636.835crores on average. The fund-based income gap between IDBI Bank and HDFC Bank is 2.08 percent. For IDBI Bank and HDFC Bank, the Standard Deviations for fund-based income are 3076.3469 and 33292.313, respectively. IDBI Bank's average fund-based income was Rs. 24487.487 crores, whereas HDFC Bank's was Rs. 69636.835crores. Between IDBI Bank and HDFC Bank, the average fund based income is Rs.45149.348 crores, indicating that HDFC Bank fund based income is much more than IDBI Bank fund based income.. Non-Fund Based Income

The non-interest based revenue of IDBI Bank is shown in Table 1 from 2012 to 2021. The greatest non-interest based income was Rs. 7008.88 crores in 2018, while the lowest was Rs. 2112.18 crores in 2012. Non-interest income follows a predictable pattern. Non-interest income was Rs. 3910.072 crores on average. The average non-interest based income was greater than the average non-interest based income in 2015, 2017, 2018, 2020, and 2021. From 2012 to 2021, the non-interest based revenue of HDFC Bank is shown in the table above. The highest non-interest based income was Rs.25204.89 crores in 2021, while the lowest was Rs.5243.69 crores in 2012. Mix trends are shown by non-interest based income. Non-interest income was Rs.13337.241crores on average. Non-fund income was larger than average non-bank interest from 2016 to 2021. We can see that IDBI Bank's non-bank interest income is on average Rs. 3910.072 Crores, or around 14% of its overall revenue. However, non-bank interest accounts for around 16.07 percent of HDFC Bank's overall revenue, or Rs. 13337.241crores on average. The non-based fund income differential between IDBI Bank and HDFC Bank is 2.07 percent. For IDBI Bank and HDFC Bank, the standard deviations for non-bank interest are 1318.20 and 6870.019, respectively. IDBI Bank had an average non-fund based revenue of Rs. 3910.072 crores, whereas HDFC Bank had an average non-fund based income of Rs. 13337.241crores. Between IDBI Bank and HDFC Bank, the average non-based fund income is Rs.9427.241 crores, indicating that HDFC Bank's non-fund based revenue is much higher than IDBI Bank's non-fund based income.

FINDINGS AND CONCLUSION

In terms of fund-based revenue, we can infer that IDBI Bank contributes more than HDFC Bank, with 86 percent of IDBI's contribution compared to 83.92 percent for HDFC Bank. Banks' fund-based income is a consistent source of revenue. As a result, it can be seen that IDBI Bank outperforms HDFC Bank in terms of fund-based income. Based on the aforementioned analysis, we can deduce that HDFC Bank has a higher percentage of noninterest based revenue to total income, at 16.07 percent, whilst IDBI Bank only has a 14 percent contribution. It means that non-interest based resources account for about one-sixth of HDFC Bank's entire revenue. As a result, this non-interest ratio implies that HDFC Banks operating in India have better non-interest based operations than IDBI Banks. In terms of non-interest based revenue, it reveals that HDFC Bank provides superior services to its clients than IDBI Banks. During difficult times, it leads to increased profitability, more profit fluctuation, and a poorer risk-return trade-off for the typical commercial bank. Deregulation, technological developments, and advancements in information flows and financial markets have revolutionized the banking business during the previous two decades.

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