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Ownership Matters: Financial Health of Indian Investment Banks

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Abstract:
Investment banks sit close to the centre of India's financial system. They channel capital, advise on mergers, and help companies and public bodies raise fresh funding. In this paper we look at how financially healthy twelve Indian investment banks actually were between 2020 and 2023, splitting them evenly across the private, public-sector and foreign-bank categories. We built our numbers from annual reports and regulatory filings, and tracked four things: profitability (ROE and ROA), cost performance (Cost-to-Income Ratio and Net Interest Margin), leverage and resilience (Debt-to-Equity Ratio and Provision Coverage Ratio), and short-term liquidity (Current Ratio and Cash Ratio). What we found was fairly consistent. Private banks, especially ICICI Securities, Kotak Mahindra and Axis Capital, lead on profitability and keep their costs under control. Public-sector banks, Canara Bank most of all, aren't as profitable but make up for it with cautious leverage and stronger provisioning. Foreign banks are harder to pin down they hold plenty of liquidity, but their profitability is often weak and sometimes outright negative. So while private banks are currently setting the benchmark, every group has a soft spot worth watching, whether that's liquidity, profitability or leverage, and these will matter more as competition and digital disruption reshape the industry.

Keywords: Investment Banking, Financial Performance, Profitability, Liquidity, Leverage, Private Sector Banks, Public Sector Banks, Foreign Banks, India

I. Introduction

A. What Investment Banks Do

At its core, an investment bank is a go-between for large, complicated financial deals. A company launching an IPO, or working through a merger, will usually bring one on board. Institutional investors lean on them too, mostly for brokerage and broader advisory work. Their main job is connecting corporate clients with capital markets: helping businesses issue shares and tracking down investors willing to hold corporate debt. There's a quieter, less glamorous side to the work as well checking that a company's financial statements actually hold up, and drafting the prospectus that tells prospective investors what they're buying into. Put it all together and the main lines of business are capital raising, M&A advisory, restructuring, trading and market-making, and equity or credit research.

B. How the Industry Developed

The phrase 'investment bank' only came into common use in the late 1800s and early 1900s, though the activity itself is a lot older. Merchant banking houses such as the Medici family were already lending to European monarchs and traders back in fifteenth-century Italy. Later on, names like the Rothschilds, Barings and J.P. Morgan left their mark on the industry through the 1800s. Then came 1929. The crash and the Depression that followed brought in much stricter oversight, most notably the Glass-Steagall Act of 1933, which split commercial banking from investment banking in the United States. From there the sector expanded internationally, loosened its regulatory constraints through the 1980s, drifted from advisory work toward trading, and was reshaped again by the 2008 financial crisis which set off a wave of bank mergers and yet another round of tighter regulation.

India's own investment-banking story goes back to European merchant banks that set up trading operations here in the nineteenth century. For most of the post-independence period, state-owned institutions such as the State Bank of India dominated the field. It wasn't until the liberalisation reforms of the 1990s that global players like Morgan Stanley, Goldman Sachs and J.P. Morgan entered the Indian market, around the same time the Securities and Exchange Board of India (SEBI) was set up in 1992. Homegrown firms such as Kotak Mahindra, ICICI Securities and Edelweiss rose to prominence through the 2000s, and today India is home to well over 300 investment banks doing M&A advisory, equity and debt capital-markets deals, and corporate restructuring, with digital transformation and ESG priorities increasingly shaping how they operate.

C. Regulatory Landscape

Investment banking in India doesn't answer to just one regulator. SEBI is the main authority, covering merchant banking, securities issuance, takeovers, insider trading and alternative investment funds. The Reserve Bank of India handles banking operations and foreign-exchange dealings. The Ministry of Finance and its Department of Economic Affairs set the wider legal and fiscal framework through laws such as the Companies Act, 2013 and the Foreign Exchange Management Act, 1999. Then there are the specialists: the Insurance Regulatory and Development Authority of India (IRDAI) and the Pension Fund Regulatory and Development Authority (PFRDA) look after insurance and pensions, the depositories NSDL and CDSL handle securities settlement, and bodies such as the Indian Banks' Association and the Association of Investment Bankers of India keep an eye on codes of conduct and industry standards.

D. Looking Ahead

The outlook for the industry looks reasonably bright. Steady economic growth, a fuller pipeline of public offerings and bond issuances, and a quickening pace of M&A and private-equity activity across technology, healthcare and financial services all point the same way. Government initiatives such as Make in India, Startup India and Digital India are pulling in foreign investment, and digital adoption is letting banks sharpen efficiency, improve client service and manage risk more effectively than before. A deep bench of domestic talent and the growing international footprint of Indian investment banks add further momentum though the sector still has to navigate a regulatory environment that keeps shifting and competition that shows no sign of easing up, at home or abroad.

II. Review of Prior Research

Quite a few studies have already looked at how financially sound Indian investment banks are. Kumar (2020) tracked fifteen banks from 2015 to 2019 and found real improvement in revenue, profitability and asset quality, though weaknesses in risk management, regulatory compliance and a reliance on wholesale funding hadn't gone away. Singh (2017) compared public, private and foreign institutions and found that foreign banks came out ahead on profitability and efficiency, while public-sector banks held the edge on asset quality. Verma (2007) landed somewhere different: private-sector banks outperformed their public counterparts on profitability and efficiency, which he put down to greater operating independence, even though the public banks were more stable and carried less risk.

A second strand of the literature is more concerned with risk management. Both Gupta (2009) and Jain (2018) noticed steady gains in how well Indian investment banks managed risk, but flagged ongoing exposure to credit risk, market volatility and compliance burdens, and both argued for more sophisticated Value-at-Risk modelling and tighter risk governance. Jain (2004) and Gupta (2002), meanwhile, tied the liberalisation of India's financial sector after 1991 to measurable gains in profitability, efficiency and asset growth. Singh (2010) took a factor-analysis approach and showed that profitability, efficiency, asset quality, capital adequacy, liquidity and risk management together explain roughly eighty per cent of the variation in banks' financial condition a fairly striking figure.

The more recent work is a bit less upbeat. Sharma (2019) and Rao (2015) both found Return on Equity and Return on Assets declining among Indian investment banks between 2004 and 2018, pointing to capital adequacy and asset quality as key drivers of profitability and naming the 2008 global financial crisis as the turning point. Gupta (2016) looked harder at the regulatory framework and still found gaps in risk management and disclosure standards despite the overall progress. Kumar (2014) and Rao (2001) both flagged growing competition, technological change and the struggle to attract talent as the industry's biggest emerging headaches. Read together, this literature describes an industry that's developing, just not evenly, with ownership structure, regulatory reform and macroeconomic conditions all playing a part in shaping outcomes. That's the gap this study tries to close, by comparing private, public and foreign investment banks in India over the more recent 2020–2023 window.

III. Research Design

A. Problem Statement

Growing competition, regulatory change and macroeconomic instability have raised fresh questions about how financially sound India's investment banks really are, and the stakes go beyond the banks themselves to the stability of the wider financial system. Yet for a sector this important to the Indian economy, thorough comparative research across ownership categories is still surprisingly thin on the ground. That makes it hard to know where improvement is actually needed, let alone design targeted strategies for financial stability.

B. Study Objectives

- To evaluate the present financial condition of investment banks operating in India.
- To identify the principal factors that influence the financial health of these institutions.
- To compare financial performance across private, public-sector and foreign investment banks in India.
- To assess how effectively risk management and liquidity are handled across the three ownership categories.
- To examine how regulatory shifts and economic conditions have affected financial performance.
- To put forward recommendations for strengthening the financial health of investment banks in India.

C. Scope and Constraints

This study sticks to investment banks operating within India, covering the financial years 2020 through 2023, and compares profitability, efficiency, leverage and liquidity across public-sector, private-sector and foreign investment banks working under India's regulatory regime. Because we relied entirely on secondary data from published annual reports and regulatory disclosures, the usual limitations apply: a modest sample of twelve institutions, a fairly short time span, an exclusive focus on the Indian market, and no real way to capture qualitative factors such as management quality or market sentiment that numbers alone just can't show.

D. Data Sources and Sample Composition

Everything here comes from secondary sources company annual reports, regulatory filings, and publications from regulators such as the RBI, SEBI and the Ministry of Finance, backed up by supporting industry research and financial databases. We picked twelve investment banks for the sample, split evenly across three ownership categories so the comparison would stay balanced: Axis Capital, ICICI Securities, Kotak Mahindra Capital and Avendus Capital for the private sector; SBI Capital Markets, BOB Capital Markets, Punjab National Bank Investment Services and Canara Bank Securities for the public sector; and Goldman Sachs, Morgan Stanley, J.P. Morgan and Credit Suisse representing the foreign banks.

E. Metrics Applied

We assessed financial performance using four categories of indicators. Profitability came from Return on Assets (ROA), Return on Equity (ROE) and Net Interest Margin (NIM), each showing how effectively a bank turns its resources into earnings. Efficiency was measured mainly through the Cost-to-Income Ratio (CIR) essentially, how well a bank keeps a lid on operating expenses relative to income. Leverage and stability came from the Debt-to-Equity Ratio (D/E) and the Provision Coverage Ratio (PCR), which together capture financial risk exposure and whether a bank has set aside enough to cover potential loan losses. And liquidity was gauged using the Current Ratio and the Cash Ratio, both markers of a bank's ability to meet its near-term obligations.

IV. Findings and Discussion

A. Profitability

Private-sector banks were the clear winners on profitability throughout the sample period. ICICI Securities posted the highest Return on Equity of any institution we looked at 58.6% in FY 2020-21, then 56.88% in FY 2021-22 and Axis Capital wasn't far behind with a healthy 18.9% ROE that same year. Among the public-sector banks, Canara Bank stood out with a 26.5% ROE in FY 2021-22. That's a decent number, but it's still well short of what the top private players managed. Foreign banks trailed furthest of all: Goldman Sachs managed an ROE of just 0.56% in FY 2021-22, and Credit Suisse's ROE actually turned negative that year, which points to real financial strain.

B. Cost and Operational Performance

Kotak Mahindra and Axis Capital reported the sector's lowest Cost-to-Income Ratios, so cost control clearly wasn't a problem for them. Canara Bank held its own among public-sector peers too, with a Return on Assets of 14.57% that suggests it's putting its asset base to efficient use. Foreign banks had a harder time of it. Both Credit Suisse and Morgan Stanley struggled with elevated Cost-to-Income Ratios, meaning income wasn't converting into profit very efficiently, and Goldman Sachs went one step further, recording a negative Net Interest Margin its core interest-earning business was, in effect, losing money.

C. Leverage and Stability

Public-sector banks ran the most cautious balance sheets in our sample by some distance. Punjab National Bank Investment Services reported a Debt-to-Equity ratio of just 0.043, and Kotak Mahindra's 0.22 pointed the same way limited financial risk. Foreign banks sat at the other end entirely: Credit Suisse's Debt-to-Equity ratio of 10.72 is high enough to raise real questions about how it would hold up under market stress. On provisioning, Canara Bank posted the strongest Provision Coverage Ratio among public-sector banks, actually beating several private-sector names, ICICI Securities included, where coverage levels were comparatively modest.

D. Liquidity

Interestingly, liquidity told almost the opposite story to profitability. SBI Capital Markets and Canara Bank, both public-sector institutions, kept healthy current ratios, and foreign banks went further still Credit Suisse's current ratio hit 29.33 in FY 2021-22. Private-sector banks generally kept thinner cash reserves by comparison; ICICI Securities in particular ran with minimal cash on hand, which points to a heavier reliance on other sources of short-term funding.

E. Comparing the Three Ownership Groups

Table I summarises how the three ownership categories compare across the four dimensions examined in this study.

TABLE I

Comparative Financial Performance by Ownership Category (FY 2020–23)

Sector	Profitability	Operational Efficiency	Leverage / Stability	Liquidity
Private	Strong (highest ROE/ROA)	Best cost management (low CIR)	Mixed; some high D/E outliers	Relatively weak
Public	Moderate	Good asset utilisation	Conservative (low D/E, high PCR)	Strong
Foreign	Weak / mixed, sometimes negative	High CIR, low NIM	High leverage (e.g., D/E > 10)	Very high

Put it all together and private-sector institutions are the strongest performers on profitability and cost efficiency, though they'd do well to pay closer attention to liquidity. Public-sector banks come across as the most stable, conservatively run group, with real room to grow on profitability. Foreign banks are the wild card of the three, pairing abundant liquidity with the weakest profitability and the heaviest leverage in the sample.

V. Conclusion

This study set out to compare how private, public-sector and foreign investment banks in India performed financially between 2020 and 2023, looking at profitability, efficiency, leverage and liquidity. What we found was that private-sector banks ICICI Securities, Kotak Mahindra and Axis Capital in particular delivered the strongest profitability and operational efficiency, which fits with their client-centred, cost-conscious way of doing business, though tighter liquidity management would help protect them against short-term funding pressure. Public-sector banks, Canara Bank being the clearest example, offer a steadier alternative built on conservative leverage, solid provisioning and sound liquidity, even if their profitability still lags the private sector. Foreign banks gave us the most mixed picture of the three: firms like Credit Suisse combine unusually high liquidity with heavy leverage and, in some cases, negative profitability, which points to deeper structural challenges operating in the Indian market.

So where does that leave things? Private-sector banks currently lead India's investment-banking industry on overall financial performance, public-sector banks remain a dependable, lower-risk option, and foreign banks are the ones who most urgently need to rethink their strategy here. As for where this could go next, future work could widen the sample, stretch the time frame, and bring in qualitative dimensions such as governance quality and technology adoption and it would be worth digging deeper into how specific regulatory reforms have shaped the financial health of investment banks in India.

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