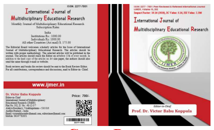
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ROLE OF PRIVATE FINANCIAL INSTITUTIONS IN REGIONAL ECONOMIC DEVELOPMENT OF TELANGANA: A CASE STUDY APPROACH

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Abstract

This research paper explores the central role of private financial institutions in the economic development of the regions of Telangana, the youngest state of India, established in 2014. The research examines the roles of private banks, non-banking financial firms (NBFCs), and microfinance institutions (MFIs) in enhancing industrial growth, agricultural finance, infrastructure development, and financial inclusion in the state through a case-study approach. The researcher uses both quantitative and qualitative research to examine the patterns of credit disbursement, the growth of branches, and the indicators of regional development, followed by qualitative case studies of the main private financial institutions working in Telangana. According to the results, private financial institutions have played a huge role in penetrating credit, especially in tier-2 and tier-3 cities, and credit-deposit ratios have improved to a point of 0.89 as compared to 0.68 in 2024 and 2014, respectively. Telangana has been emerging as an important economic centre with significant investments by the pharmaceutical, information technology, and textile industries from the private sector. Nevertheless, the disparities between regions are still present as the rural and semi-urban areas continue to face credit gaps. The paper concludes by giving policy recommendations on the improvement of the role of the private financial institutions in developing the regions in a balanced way.

Keywords: Regional development, Telangana economy, credit disbursement, financial inclusion, case study, banking sector, economic growth, private financial institutions.

1. Introduction

The introduction of the 29th state of Telangana in India, which occurred on June 2, 2014, was a turning point in the federal restructuring of the nation. Telangana inherited special economic challenges and opportunities, developed out of Andhra Pradesh after a long-term political movement (Reddy, 2019). It has grown to be one of the fastest-expanding economies in India, with a population of about 39.12 million people and a geographical area of 112,077 square kilometers, with an average annual growth rate of 11.5 between 2014 and 2024 (Government of Telangana, 2024). The contribution of such an economic path has been truly great, courtesy of the contribution of the private financial institutions, which have served as a driving force for industrial development, agricultural modernization, and infrastructure improvement.

A significant role in resource mobilization and credit provision is played by the private financial institutions, which include the banks of the private sector, non-banking financial intermediaries (NBFCs), microfinance intermediaries (MFIs), and others (Kumar and Sharma, 2021). Compared to the public sector financial institutions that tend to be bureaucratic and politicized, the private financial institution is more flexible in its operations, technological adoption, and customer-focused service delivery (Narasimhan, 2020). This has seen them play a leading role in funding the flagship projects of the state, such as the drinking water project, Mission Bhagiratha, T-Fibre (digital connection), and other industrial parks and special economic zones in Telangana.

This study is research-wise meaningful as it focuses entirely on the role of the involvement of the financial institutions in Telangana concerning its economic change by the deployment of specific credit, inventive financial products, and the growth of the branch network. Although the role of financial institutions in the development of a country and its economy

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is well-researched in the existing literature, region-focused studies, especially on the newly established states, such as Telangana, are rare (Rao & Deshpande, 2022). This research fills this gap because it uses a case study to examine the operation strategy, lending behavior, and developmental influence of the specific private financial institutions in Telangana.

1.1 Research Objectives

The following research questions will guide the study: (1) To develop the growth process and operational pattern of private financial institutions in Telangana since the creation of the state in 2014; (2) To review the sectoral pattern of credit disbursed by the private financial institutions and their relationship with the indicator of regional economic development; (3) To evaluate how the private financial institutions are helping in promoting balanced regional development and come up with policy recommendations; (4) To conduct case studies on the leading financial institutions by the private banks and NBFCs operating in Telangana to understand their operational.

2. Literature Review

The tie between the economic development in the region and financial institutions is an issue that has been deeply reported in economic literature. The fact that financial intermediaries are a key component of economic development was pioneered by Schumpeter (1934), who discovered that they identify profitable ventures, facilitate the mobilization of savings, and efficiently allocate resources. This back-view has been supported by the current studies that reveal positive relations between the development of financial sectors and the growth of the economy (Levine, 2005). King and Levine (1993) were able to prove empirically that higher-developed financial systems of countries lead to a higher growth rate, a greater productivity effect, and efficient capital accumulation.

The banking sector reforms in India, which started in 1991, changed the financial landscape of the country by allowing participation of the private sector, low entry barriers, and a competitive efficiency (Mohan, 2006 & Rao, M. K. P., 2018). Later research has pointed to the role of the banks of the private sector in introducing technological innovation, better customer service, and effective risk management practices to the Indian banking system (Kumbhakar & Sarkar, 2003). Of particular interest to this research, Burgess and Pande (2005) established that in rural India, the expansion of bank branches resulted in a substantial poverty reduction, as well as non-agricultural jobs, which supports the developmental role of financial access.

The literature in the field of economic development of regions points out that the financial structure plays an important role in minimising spatial disparities (Chakraborty & Mishra, 2010). Investigations into the new states emerging in India provide evidence that access to formal credit plays a crucial role in decisions to locate industries, agricultural output, and entrepreneurship (Singh & Kumar, 2018). In particular, a preliminary study of Telangana suggests that the strategic location, labor sources, and proactive policies have received numerous investments in the banking and financial services sectors by the private sector in the state (Prasad, 2020). Nevertheless, the role of the private financial institutions in the regional development of Telangana has not been studied in depth, which is why the given study can merit being included in the literature.

3. Research Methodology

The research design in this study is a mixed-method research design that will include a quantitative analysis of secondary data and case studies. The research design will involve three methodological elements, namely the descriptive analysis of banking statistics, the inferential analysis of regional development correlation, and a comparative case study analysis with the selective and private financial institutions.

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3.1 Data Sources

The quantitative analysis of secondary data has been compiled as follows: (1) publications of Reserve Bank of India (RBI), i.e., annual reports, statistical tables, and basic statistical returns of the scheduled commercial banks; (2) Government of Telangana publications, i.e. Socio-Economic Outlook reports, 2014-2024; (3) published annual reports and financial statements of the Telangana-based banks and NBFCs; (4) credit bureau reports and CIBIL data on the lending patterns; and (5) academic journals The time frame of the study goes back to June 2014 (state formation) to March 2024, which will include a full ten-year analysis.

3.2 Case Study Selection

Four private financial institutions have been chosen to be analyzed through a case study depending on the following criteria: market presence and branch network in Telangana, diversification of financial products and services, sectoral lending trends, and adherence to financial inclusion policies. The chosen institutions are: HDFC Bank (the largest bank of the private sector by assets), ICICI Bank (the first bank using the technological approach), Bajaj Finance (the leader in the NBFC), and Bandhan Bank (microfinance and financial inclusion). These institutes are a collective reflection of the various divisions of the private financial industry and offer an entire picture of their formation and mission.

3.3 Analytical Framework

The analytic model is based on descriptive statistics, which are used to analyze the patterns in the disbursement of credit, deposit mobilization, and the growth in the number of branches. Correlation analysis is done to determine the relationships between variables of the financial sector and regional development indicators, such as per capita income, industrial growth, and employment creation. The presentation of the case study is based on a multiple-case study design, as proposed by Yin (2018), which will investigate each of the institutions as to their operational strategy, lending portfolio, technological endeavors, and their developmental effect through the analysis of documents and comparing them.

4. Financial Sector Overview of Telangana

Since the formation of the state, there has been a significant growth in the financial sector of Telangana with a high rate of expansion of the branches, an increase in credit flow, and a greater rate of financial inclusion. The state has 4,897 branches of banks, including 2,134 branches of the private sector, as of March of this year, which is a 78 per cent increment from June 2014 (RBI, 2024). The banking density was also enhanced, as it stood at 8.2 branches per lakh population in 2014 and 12.5 branches per lakh population in 2024, which is better than the national average of 11.3 branches per lakh population.

Table 1: *Banking Infrastructure Growth in Telangana (2014-2024)*

Parameter	June 2014	March 2019	March 2024	Growth (%)
Total Bank Branches	2,751	3,892	4,897	78.0
Private Bank Branches	1,198	1,687	2,134	78.1
ATMs	3,456	6,234	8,923	158.3
Banking Density (per lakh)	8.2	10.8	12.5	52.4

Note. Data compiled from Reserve Bank of India (2024) and Government of Telangana (2024).

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Telangana has experienced an incredible change in the credit scenario. The growth of total credit outstanding was 14.2 per cent at a compounded annual rate (CAGR) between 31 June 2014 and 31 March 2024, between 1.87 lakh crore in June 2014 and 6.94 lakh crore in March 2024 (RBI, 2024). The share of the total credit of the private sector banks increased to 47.3 in 2024 and was 38.5 in 2014, showing their growing contribution to the total credit. The credit-deposit (CD) ratio, which is used to suggest the rate at which credit is penetrated, also improved to 0.89 against 0.68 within this time, indicating increased mobilization of deposits to productive lending.

Table 2: *Sectoral Credit Deployment by Private Banks in Telangana (March 2024)*

Sector	Credit (₹ Crore)	Share (%)	YoY Growth (%)
Industry	1,42,367	43.3	16.8
Services	89,234	27.2	19.3
Agriculture & Allied	35,678	10.9	12.4
Personal Loans	48,923	14.9	21.7
Others	12,398	3.7	8.9
Total	**3,28,600**	**100.0**	**17.2**

Note. Data compiled from Reserve Bank of India (2024) and annual reports of major private banks.

5. Case Studies of Private Financial Institutions

5.1 HDFC Bank: Market Leadership Through Branch Expansion

The Indian HDFC bank, which has overtaken SBI as the largest bank in the country in terms of assets, has come to dominate the state of Telangana with 387 branches as of March 2024, compared to 162 branches in June 2014 (HDFC Bank, 2024). The bank's strategic emphasis on the tier-2 cities like Warangal, Karimnagar, Nizamabad, and Khammam has helped it to deepen its financial emphasis outside the metropolitan region of Hyderabad. The lending portfolio of HDFC Bank in Telangana focuses on three main industries, namely manufacturing (42%), services including IT and ITeS (31%), and personal banking (21%). The bank has also been very prolific in funding pharmaceutical manufacturing plants, textile industries, and technology-based startups by providing tailor-made loans.

One of the characteristics of the developmental contribution of HDFC Bank is the deployment of a digital infrastructure. The bank was the first to introduce digital payment systems in the rural areas of Telangana under the cooperation with the local self-help groups and agricultural cooperatives, where cashless transactions and direct benefit transfers can be performed (Reddy & Kumar, 2023). Also, specialized agricultural loan products of HDFC Bank, like the Kisan Credit Card scheme and warehouse receipt financing, have facilitated the modernization of agriculture in cotton, rice, and turmeric growing areas in Telangana. The bank has a non-performing asset (NPA) percentage of 1.12% in Telangana, and this is much lower than the state banking performance of 2.87, an indication of the bank having strong credit appraisal strategies and recovery processes.

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5.2 ICICI Bank: Financial Innovation using technology

ICICI Bank has stood out in Telangana in terms of intensive use of technology and product innovation. With 312 branches and 1,456 ATMs in the state, ICICI Bank has used artificial intelligence and machine learning to evaluate credit, especially to micro, small, and medium enterprises (MSMEs). The InstaBIZ platform (introduced in 2018) is an online system, offered by the bank to small businesses, to access instant working capital loans; thus, the average time of disbursement was 59 seconds after approval of the application (ICICI Bank, 2024). This technological advancement has played a major role in meeting the working capital needs of the thriving MSME sector in Telangana, which produces almost 31 percent of the state's GDP in the state.

The case of ICICI Bank and the Government of Telangana in the project T-Hub is an example of how private financial institutions contribute to the creation of innovation systems. It has venture debt financing available to technology incubations in T-Hub and other innovation hubs in Hyderabad, with 134 startups having received ₹847 crore distributed by the bank since 2015 (Government of Telangana, 2024). Also, priority sector lending by ICICI Bank in Telangana had increased to 18,923 crore in 2024, or 42.7 per cent of the adjusted net bank credit of the state, which was well above the regulatory limit of 40 per cent. The bank has achieved its goal of working in renewable energy financing by contributing to the solar power projects in Telangana of a total capacity of 567 MW.

5.3 Bajaj Finance: Diversifying Consumer credit and asset financing

Another key distributor of credit to consumers and asset financing in Telangana has been Bajaj Finance, the largest non-banking financial company (NBFC) in India. Having 178 distribution points in the state, Bajaj Finance focuses on consumer durable loans, two-wheeler and car loans, personal loans, and business loans for small businesses. The Telangana loan book of the company increased by 2340 crore in March 2015 to 14,567 crore in March 2024, showing a CAGR of 21.8 (Bajaj Finance, 2024). This growth trend is an indication of rising consumer buying power and a good distribution channel adopted by the company, which has reached into semi-urban and rural markets.

The collaboration between Bajaj Finance and manufacturers and retail chains in consumer durables has facilitated point-of-sale financing, which has dramatically improved accessibility of household appliances, electronics, and furniture to the consumer. Bajaj Finance has become an indispensable source of two-wheeler loans in rural Telangana, where the penetration of banking is fairly low, allowing people to move and access economic opportunities. The online loan company uses artificial intelligence-based credit scores to process loans that the company offers, which provides the company with an opportunity to disburse loans to eligible customers within a day of receipt. It is noteworthy that Bajaj Finance has high-quality assets with a gross NPA ratio of 1.46 per cent in Telangana, which indicates that it implements effective risk management practices in spite of high-quality assets, even though its portfolio is growing at a very high rate.

5.4 Bandhan Bank: Microfinance and Financial Inclusion

Bandhan Bank, a case in store where a microfinance institution changed to a universal bank in 2015, is a good example of the financial inclusion potential of private financial institutions. The bank has 89 branches in Telangana, mostly of rural and semi-urban locations, and 4.23 lakh customers, as of March 2024 (Bandhan Bank, 2024). The lending approach of the Bandhan Bank focuses on microcredit to women self-help groups, small agricultural credits, and microenterprise credits. The mean loan amount of 38700 is an indicator of the bank targeting economically disadvantaged segments, especially women entrepreneurs and small farmers.

The group lending model that is the legacy of the microfinance model of Bandhan Bank implies high repayment rates due to the presence of peer monitoring and social collateral mechanisms. The Bandhan Bank has played a significant role in the Telangana backward districts like Mahabubnagar, Nagarkurnool, and Adilabad by giving first-time formal access to women entrepreneurs in the fields of livestock rearing, vegetable farming, and production of handicrafts. The financial literacy

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activities, which the bank undertook in partnership with the Telangana State Rural Livelihood Mission (TSRLM), have benefited more than 2.87 lakh beneficiaries, making them financially aware and encouraging them to save. Compared to commercial banks, the gross NPA ratio of 2.34% in Telangana is quite manageable since Bandhan Bank is exposed to more risky segments of microcredit.

6. Impact on Regional Economic Development.

6.1 Investment Facilitation and Industrial Development

Telangana has been led by its expansion route of industrial development, supported by the private financial institutions. Gross State Domestic Product (GSDP) in the state has increased on average by 11.7 per annum in the period 2014-24, with the industrial sector contributing to GSDP 32.4 per cent in 2024, an improvement over 27.8 per cent in 2014 (Government of Telangana, 2024). Credit availability by the private banks and NBFCs has contributed significantly to this industrial growth. When investment proposals are analyzed based on the Telangana State Industrial Project Approval and Self Certification System (TS-iPASS), it is found that 62 percent of the investment projects of amounts more than 10 crore have received primary financing by the program through the various financial institutions.

The industrial sectors that have been particularly improved through the financing of the private sector are pharmaceutical manufacturing that is part of the industrial sector in Telangana. Hyderabad is the Bulk Drug Capital of India, which is home to 800+ pharmaceutical firms, most of which have grown their production capacities by borrowing credit facilities through the private banks (Naidu, 2022). Likewise, the textile and apparel industry, which is considered a thrust sector by the state government, was given 4,567 crore term loans and working capital by private financial institutions in 2020-2024 to establish 23 new textile parks and modernize the present ones. The electronics manufacturing industry that has been promoted by Telangana State Electronics Policy has received investments to the tune of 12340 crore, where the investment by the private banks has contributed about 58 percent.

Table 3: *Key Regional Development Indicators in Telangana (2014 vs 2024)*

Indicator	2014	2024	Change (%)
GSDP (₹ Lakh Crore)	4.23	12.87	+204.3
Per Capita Income (₹)	1,24,104	3,28,864	+165.0
Unemployment Rate (%)	5.7	3.2	-43.9
Bank Accounts (Lakh)	127.4	312.8	+145.5
MSME Units (Lakh)	8.94	18.76	+109.8
Digital Transactions (Crore)	12.3	287.6	+2238.2

Note. Data compiled from Government of Telangana (2024), Reserve Bank of India (2024), and MSME Development Institute, Hyderabad.

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6.2 Financial Inclusion and Rural Development

The concept of financial inclusion, whereby all people should be able to access formal financial services at affordable rates, has been highly promoted by the private financial institutions in Telangana. As compared to 1.27 crore bank accounts in 2014, 3.13 crore bank accounts in 2024 have grown by 145.5 percent (RBI, 2024). PMJDY, with its national rollout in August 2014, is an initiative that has seen the involvement of the private banks, with 78.4 lakh accounts opened in Telangana as of March 2024. These accounts have enabled direct benefit transfers of government subsidies and welfare payments, which have minimized leakages and intermediation costs.

The penetration of credit among the rural population has also increased tremendously, with regional differences existing. In 2024, the branches of the private banks in the rural and semi-urban areas rose to 897 as compared to 456 in 2014, and these are mainly located in districts that are economically well-performing, including Warangal, Nizamabad, and Karimnagar (RBI, 2024). But these backward districts, such as Jayashankar Bhupalpally, Kumuram Bheem, and Mancherial, still have low banking density with credit-deposit ratios of 0.43-0.58. To correct this imbalance, business correspondent models have become more popular in the business of private financial institutions as they utilize the local entrepreneurs and self-help groups to bring banking services to the far-flung villages. Online payment systems and mobile banking apps, along with Unified Payments Interface (UPI), to an extent offset the physical branch constraints by facilitating financial exchanges without necessarily visiting a physical branch.

7. Challenges and Constraints

Though the contribution of the private financial institutions is commendable, there are several issues that they would have to deal with in order to advance the regional development in Telangana. To start with, the imbalances of credit distribution within the region are still high, as about 67% of all credit is located in Hyderabad and its suburbs (RBI, 2024). This concentration indicates the accumulation of the big industries, IT companies, and commercial establishments in the capital area, whereas the rural and backward areas get disproportionately less credit allocation. Second, the credit flow is impeded by high-risk perceptions related to lending to agriculture and small enterprises in rain-fed areas despite government credit guarantee schemes.

Third, the cost of regulatory compliance, especially regarding Know Your Customer (KYC) principles and anti-money laundering regulations, is an operational cost that will discourage branch expansion in low-density rural locations. Fourth, remote villages have barriers to digital infrastructure, which prevents the introduction of technology-based financial services, resulting in a digital disparity between urban and rural communities. Fifth, the presence of informal credit providers such as moneylenders, chit funds, and unregistered microfinance institutions still crowds out potential clients to the formal financial system, especially in economically disadvantaged communities. Finally, there is the issue of asset quality due to industry-specific slumps, like the distress of agriculture caused by drought, which requires restrictive lending policies that can limit credit availability at a time when it is needed the most.

8. Policy Recommendations

Some policy interventions are worth considering to improve the developmental role of the private financial institutions in ensuring balanced growth in the region. First, the Government of Telangana needs to set up district-based credit limit on back districts, so that lending by private banks can be encouraged by interest subversion plans, or tax exemption with reference to lending in underserved districts. Second, one possible solution is public-private partnerships, the expansion of branches in rural locations, where the infrastructure (buildings, utilities) is supplied by the state government, and the operations are run by the private banks, which would speed up access to financial services in remote areas.

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Third, enhancing credit guarantee in the agriculture and MSME sectors in Telangana, in particular, will reduce the risk perceptions and stimulate lending to the priority sectors. Fourth, the state should give priority to the digital infrastructure upgradation, especially the broadband internet and cell phone network connectivity in rural regions, to facilitate the digital financial service. Fifth, the financial literacy programs in the form of joint work of the banks and government departments together with non-governmental organizations should be escalated in order to increase awareness about formal financial products and the need to fight the informal credit sources.

Sixth, regulatory streamlining on branch licensing in rural locations and the loosening of some of the operational conditions of rural branches might lead to cost cuts on compliance and the growth of operations. Seventh, a solution to the chronic gaps in credit could be the creation of regional development banks or specialized financial institutions whose sole business would be to serve backward districts, perhaps including the involvement of the equity of the private banks. Lastly, developing holistic credit information systems to reflect the informal credit transactions would help in improving the risk assessment and maybe formal credit access to people and business organizations that are not currently covered by formal financial systems.

9. Conclusion

This paper thoroughly looks at the association of the private financial institutions with the economic growth of the region of Telangana since the constitution of the state in 2014. The discussion shows that microfinance institutions, the NBFCs, and the private banks have played a significant role in credit growth, industrial financing, development of infrastructures, and financial inclusion. The case studies of HDFC Bank, ICICI Bank, Bajaj finance and Bandhan Bank show various strategic directions such as expansion of the branch network, adoption of technology, microfinance, and sectoral lending that have a cumulative effect on economic growth and development.

There are quantitative indicators that show that the banking infrastructure, credit penetration, and regional development indicators have significantly improved over the last 10 years. The GSDP of the state has increased over three times, the personal income has grown by 165 percent, and the digital payment transactions have been growing exponentially. The major industries that have been funded by the private financial institutions in Telangana, which have led to it becoming an economic hub in India, include pharmaceuticals, information technology, textiles, and MSMEs. Nevertheless, there are still regional inequalities, with credit centers being located in Hyderabad and a comparatively poor financial access in underdeveloped rural regions.

The solutions to the challenges are described as geographic credit imbalances, risk-averse lending practices, regulatory compliance costs, gaps in the digital infrastructure, and competing with informal sources of credit, and as a result, they require concerted policy measures. Among the suggested proposals, people should focus on the region-based credit goals, cooperation between states and business, credit guarantees improvement, creation of digital infrastructure, educational programs on financial literacy, and regulatory changes to promote a balanced development of the regions. In the future, it is important that the goals of profitability and developmental concerns of the private financial institutions are reconciled, as policymakers should establish facilitating environments that encourage inclusive growth. The experience of Telangana provides great ideas to other states in India that tend to develop their economies with the help of strategic activities with financial institutions of the private sector.

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