# ANALYSIS OF KEY RATIOS AND TREND PROJECTIONS OF ICICI BANK LIMITED

**Dr. D. PADMAVATHI***

**S.JOTHIMANI****

**Abstract**

In our present day economy, finance is defined as the provision of money at the time when it is required. Finance is the lifeblood of an enterprise. Financial performance is crucial for taking financial decisions related to planning and control. Banking Sector plays an important role in economic development of a country. The banking system of India is featured by a large network of bank branches, serving many kinds of financial services of the people. Industrial Credit and Investment Corporation of India (ICICI) Bank today is a leading player in Indian banking industry and is deeply engaged in economic development at the national level. As of 2014 it is the second largest bank in India in terms of assets and market capitalization. In the light of its strategic importance in the nation interest, it is crucial to evaluate the financial performance of ICICI Bank. The present study focused on liquidity, solvency and profitability etc. This research paper is aimed to analyse the financial performance of ICICI Bank and offer suggestions for the improvement of efficiency in the bank. In the present paper special emphasis has been laid down on the financial analysis of the bank by using different research and statistical tools.

**Keywords:** Banking, Balance Sheet, Profit & Loss A/c, Ratio Analysis, Trend Analysis.

* Associate Professor And Head, Department Of Commerce, Sri Ramakrishna College Of Arts And Science For Women, 395, Sarojini Naidu Road, Sidhapudur, Coimbatore – 641044, Tamil Nadu, India.

** M.Phil Scholar, Department Of Commerce, Sri Ramakrishna College Of Arts And Science For Women, 395, Sarojini Naidu Road, Sidhapudur, Coimbatore – 641044, Tamil Nadu, India.

## INTRODUCTION

A **bank** is a financial intermediary and money creator that create money by lending money to a borrower, thereby creating a corresponding deposit on the bank's balance sheet. Lending activities can be performed directly by loaning or indirectly through capital markets. Due to their importance in the financial system and influence on national economies, banks are highly regulated in most countries. Most nations have institutionalized a system known as fractional reserve banking, central banking, under which banks hold liquid assets equal to only a portion of their current liabilities. The growth in the Indian Banking Industry has been more qualitative than quantitative and it is expected to remain the same in the coming years. Based on the projections made in the "India Vision 2020" prepared by the Planning Commission and the Draft 10th Plan, the report forecasts that the pace of expansion in the balance-sheets of banks is likely to decelerate. The total assets of all scheduled commercial banks by end-March 2010 is estimated at Rs 40,90,000 crores.

## ABOUT ICICI BANK

ICICI Bank was originally promoted in 1994 by ICICI Limited, an Indian financial institution, and was its wholly–owned subsidiary. ICICI's shareholding in ICICI Bank was reduced to 46% through a public offering of shares in India in fiscal 1998, an equity offering in the form of ADRs listed on the NYSE in fiscal 2000. ICICI was formed in 1955 at the initiative of the World Bank, the Government of India and representatives of Indian industry. The principal objective was to create a development financial institution for providing medium–term and long–term project financing to Indian businesses. In the 1990s, ICICI transformed its business from a development financial institution offering only project finance to a diversified financial services group offering a wide variety of products and services, both directly and indirectly through a number of subsidiaries and affiliates like ICICI Bank.

ICICI Bank today is a leading player in Indian banking industry and is deeply engaged in human and economic development at the national level. ICICI Bank Ltd. is India's second largest financial services company. The Bank has 2,533 branches and 6,800 ATMs in India. As of 2014 it is the second largest bank in India in terms of assets and market capitalisation. ICICI bank emerged as a pioneer venture on the horizon of offering an expanded range of banking products and financial services for corporate and retail customers through its diverse delivery channels and specialized subsidiaries in the areas of investment banking, asset management, venture capital and insurance.

## STATEMENT OF THE PROBLEM

The financial performance is an integral part of any business concern. It can be analysed with the help of profit earned as well as the other factors which are responsible for such performance. The problem of the study is to analyse the financial status of ICICI Bank Ltd which is the 2nd largest bank in India in term of net assets after the merger of ICICI Ltd with ICICI Bank. In this context, an attempt is made to find out the answers for the following questions.

- Is the bank in a position to meet its current obligations?
- Is the bank efficient in the management of its assets?
- Will the bank be able to meet its long term obligations?
- Is the profitability of the bank satisfactory to survive and grow over a long period of time?

## OBJECTIVES OF THE STUDY

- To analyse the liquidity position of the bank.
- To analyse the solvency position of the bank.
- To analyse the profitability position of the bank.
- To analyse the trend of deposits, loans and advances, investments, reserves and net profit of the bank.

## SCOPE OF THE STUDY

- The present study is undertaken to highlight the financial performance of ICICI Bank Ltd.
- The scope of the study is limited to the analysis of annual accounts of ICICI Bank Ltd.
- The study is limited to a period of ten years from 2005-06 to 2014-2015.

## RESEARCH METHODOLOGY

Research methodology is a way to systematically solve the research problem. The research methodology used for finding out the solution to the research problem is descriptive in nature. To achieve the aforementioned research objectives, the data for the study is collected from the annual reports of the ICICI bank concerned. The annual data for ICICI Bank during 2005-06 to 2014-15 are used for calculating key financial ratios to analyse the financial performance of the bank. Besides, annual accounts of ICICI Bank, review different articles, papers and relevant previous studies were also collected.

Financial analysis is done to identify the financial strengths and weaknesses of the bank by properly establishing relationship between the items of Balance Sheet and Profit & Loss Account. It helps in better understanding of bank financial position, growth and performance by analysing the financial statements with various tools and evaluating the relationship between various elements of financial statements. The period of evaluating financial performance of ICICI bank ranging from 2005-06 to 2014-15 i.e. for ten years. Secondary data is collected from annual reports of the bank. To analyse the data, the standard tool, ratio analysis and trend analysis is applied for the study.

**SAMPLING UNIT**

It is number of items to be included in the sample. In the present study, an attempt has been made to evaluate and compare the financial performance of **ICICI bank.**

**SOURCE OF DATA**

Secondary data has been taken into consideration to solve the research problem. Most of the information was collected from the annual reports of the bank and various studies made available through library work.

**PERIOD OF STUDY**

The study covers the period of 10 years i.e. from year **2005-06** to year **2014-15**.

**RESEARCH DESIGN**

Descriptive research design is used in the present study.

**LIMITATIONS OF THE STUDY**

The study is based on secondary data collected from the secondary data source, internet and websites of ICICI Bank concerned.

- The quality of the study depends upon the accuracy, reliability, and quality of secondary data source.
- The availability of the information and data are limited by time factor.
- The study covers only ICICI Bank, findings are not applicable to other banks.
- The study does not take into account the other areas of financial aspects such as leverage, capital budgeting, etc.
- Various accounting and statistical tools extensively used for the present study have their own limitations.

**REVIEW OF LITERATURE**

An attempt was made to review the previous studies relating to this work in order to understand the research findings and insights offered by the studies and they are presented here:

**Rajkumar (2007)** in his paper entitled "The Earning Performance of Private Sector Banks during 2005-2006" reveals that the interest income over expenditure increased to Rs. 13,108 crores during 2005-06 from Rs. 10,006 Crores during 2004-05. The increased percentage was 31. At the same time, the operating expenditure over operating profit fell to Rs.817 crores during 2005-06 from Rs.992 crores during 2004-05. The profitability ratios of all the 28 private sector banks witnessed a positive trend during the year. The highest profit earning private sector bank was ICICI Bank.

**Jha and Sarangi (2011)** analysed the performance of seven public sector and private sector banks for the year 2009-10. They used three sets of ratios, operating performance ratios, financial ratios, and efficiency ratios. In all eleven ratios were used. They found that Axis Bank took the first position, followed ICICI Bank, BOI, PNB, SBI, IDBI, and HDFC, in that order.

**Reddy K. Sriharsha (2012)** analysed relative performance of banks in India using CAMEL approach. It is found that public sector banks have appreciably improved indicating positive impact of the reforms in liberalizing interest rates, rationalizing directed credit and Investments and increasing competition.

**Singh A.B., Tondon P. (2012)** examined the financial performance of SBI and ICICI Bank, public sector and private sector respectively. The study found that SBI is performing well and financially sound than ICICI Bank but in context of deposits and expenditure ICICI bank has better managing efficiency than SBI.

**Srinivas .K and Saroja L (2013)** compared and analysed the Financial Performance of HDFC and ICICI Bank. For the purpose of analysis of comparative financial performance of the selected banks using CAMELS model with ttest. The result showed that there is no significance difference between the ICICI and HDFC bank's financial performance but the ICICI bank performance is slightly less compared with HDFC.

**Vinod.R.R (2013)** reported that "only 25% old private sector banks taken are efficient analysed by data envelopment analysis. The efficiency of least efficient banks can be improved by giving due consideration by top management."

## ANALYSIS AND INTERPRETATION

### Section 1: Liquidity Position of the Bank

**Liquidity position** measures the adequacy of current and liquid assets and helps to evaluate the ability of the business to pay its short-term debts. In order to analyse the liquidity position of the bank, current ratio and liquid ratios were calculated and presented in table 1.1.

**TABLE: 1.1**

**LIQUIDITY POSITION OF THE BANK**

| YEAR | CURRENT RATIO | LIQUID RATIO | YEAR | CURRENT RATIO | LIQUID RATIO |
|---|---|---|---|---|---|
| 2006 | 6.97 : 1 | 6.47 : 1 | 2011 | 16.69 : 1 | 15.67 : 1 |
| 2007 | 6.52 : 1 | 6.09 : 1 | 2012 | 9.85 : 1 | 8.79 : 1 |
| 2008 | 6.63 : 1 | 6.15 : 1 | 2013 | 11.23 : 1 | 10.32 : 1 |
| 2009 | 6.23 : 1 | 5.68 : 1 | 2014 | 11.88 : 1 | 10.94 : 1 |
| 2010 | 15.44 : 1 | 14.20 : 1 | 2015 | 14.34 : 1 | 13.55 : 1 |

From the above table the year 2011 shows that high current ratio and quick ratio, indicating that the bank position is liquid and has the ability to pay its current liabilities in time. From the above analysis of current ratio and liquid ratio, the bank short term financial position is comfortable and has the ability to meet its current or liquid liabilities in time.

**Section 2: Solvency Position of the Bank**

**Solvency position** measures the ability of a business to survive for a long period of time. In order to analyse the solvency position of the bank, ratio of shareholder's funds to outsider's funds, funded debt to total capitalisation ratio, proprietory ratio, solvency ratio, ratio of equity capital to reserves, ratio of investment to long term liabilities, credit deposit ratio, cash deposit ratio and investment deposit ratio were calculated and presented in table 1.2 and 1.3.

**TABLE: 1.2**

**SOLVENCY POSITION OF THE BANK**

**(in percent)**

| YEAR | RATIO OF SHAREHOLDERS FUNDS TO OUTSIDERS FUNDS | FUNDED DEBT TO TOTAL CAPITALISATION RATIO | PROPRIETORY RATIO | SOLVENCY RATIO | RATIO OF EQUITY CAPITAL TO RESERVES |
|---|---|---|---|---|---|
| 2006 | 9.86 | 90.03 | 8.97 | 80.99 | 4.17 |
| 2007 | 7.71 | 91.95 | 7.16 | 81.75 | 3.84 |
| 2008 | 13.26 | 86.88 | 11.71 | 77.56 | 2.45 |
| 2009 | 15.14 | 85.13 | 13.15 | 75.32 | 2.30 |
| 2010 | 16.56 | 84.30 | 14.20 | 80.70 | 2.21 |
| 2011 | 15.69 | 85.88 | 13.56 | 82.50 | 2.14 |
| 2012 | 14.09 | 86.76 | 12.35 | 80.90 | 1.95 |
| 2013 | 14.19 | 86.79 | 12.43 | 81.59 | 1.76 |
| 2014 | 14.04 | 86.92 | 12.31 | 81.84 | 1.60 |
| 2015 | 14.22 | 86.91 | 12.45 | 82.64 | 1.46 |

From the above table the year 2010 shows high ratio of shareholder's funds to outsider's funds, indicating that the bank is doing business with the maximum of outsider's' funds in order to take lesser risk of their investments. The year 2007, shows high equal amount of funded debt to total capitalisation ratio, indicating that the bank has not relied much on outside sources for raising long-term funds. The year 2010 shows that high proprietory ratio, indicating little secure position to the bank. The year 2015 shows high solvency ratio indicates that unstable long term solvency position of a bank. The year 2006 shows high equity capital to reserves ratio, indicates that the bank retained high profits for future growth.

**TABLE: 1.3**

**SOLVENCY POSITION OF THE BANK Contd…**

**(in percent)**

| YEAR | RATIO OF INVESTMENT TO LONG TERM LIABILITIES | CREDIT DEPOSIT RATIO | CASH DEPOSIT RATIO | INVESTMENT DEPOSIT RATIO |
|---|---|---|---|---|
| 2006 | 35.14 | 88.54 | 5.41 | 43.34 |
| 2007 | 32.39 | 84.97 | 8.12 | 39.59 |
| 2008 | 35.94 | 92.30 | 12.02 | 45.60 |
| 2009 | 36.08 | 99.98 | 8.03 | 47.20 |
| 2010 | 41.22 | 89.70 | 13.62 | 59.84 |
| 2011 | 40.19 | 95.91 | 9.27 | 59.70 |
| 2012 | 40.33 | 99.31 | 8.01 | 62.45 |
| 2013 | 39.13 | 99.19 | 6.51 | 58.57 |
| 2014 | 36.37 | 102.05 | 6.57 | 53.33 |
| 2015 | 34.94 | 107.18 | 7.10 | 51.60 |

From the above table the year 2010 shows high investment to long term liabilities ratio, indicates that the investments are very high. The year 2015 shows high credit deposit ratio, indicates that the bank has created more loan assets from its deposits. The year 2010 shows high cash deposit ratio, indicates that the customers will be able to get back their cash whenever required or not. The year 2012 shows high investment deposit ratio, indicates that high investment made by the bank. From the above analysis of solvency ratios, the long term solvency position of the bank considered to be satisfactory.

**Section 3: Profitability Position of the Bank**

Profitability position measures the efficiency of management in the employment of business resources to earn profits. In order to analyse the profitability position of the bank, return on shareholder's investment, return on assets, return on net capital employed, return on long term fund, earning per share and dividend payout ratio were calculated and presented in table 1.4.

**TABLE: 1.4** **(in percent)**

| YEAR | RETURN ON SHAREHOLDERS INVESTMENT | RETURN ON ASSETS | RETURN ON NET CAPITAL EMPLOYED | RETURN ON LONG TERM FUND | EARNINGS PER SHARE | DIVIDEND PAYOUT RATIO |
|---|---|---|---|---|---|---|
| 2006 | 11.26 | 1.01 | 1.12 | 1.25 | 0.29 | 0.30 |
| 2007 | 12.61 | 0.90 | 1.01 | 1.10 | 0.35 | 0.29 |
| 2008 | 8.88 | 1.04 | 1.16 | 1.34 | 0.37 | 0.29 |
| 2009 | 7.53 | 0.99 | 1.12 | 1.32 | 0.34 | 0.33 |
| 2010 | 7.80 | 1.11 | 1.16 | 1.37 | 0.36 | 0.33 |
| 2011 | 9.35 | 1.27 | 1.32 | 1.54 | 0.45 | 0.31 |
| 2012 | 10.70 | 1.32 | 1.42 | 1.63 | 0.56 | 0.29 |
| 2013 | 12.48 | 1.55 | 1.65 | 1.90 | 0.72 | 0.28 |
| 2014 | 13.40 | 1.65 | 1.75 | 2.02 | 0.85 | 0.27 |
| 2015 | 13.89 | 1.73 | 1.82 | 2.09 | 0.96 | 0.26 |

From the above table the year 2015 shows high return on shareholder's investment indicates that the overall efficiency of the bank is better. The year 2015 shows high return on assets indicates that the bank effectively uses its assets to generate net income. The year 2015 shows high return on net capital employed ratio and it indicates that the overall profitability and efficiency of the bank is good. The year 2015 shows high return on long term fund ratio indicates that the long term investments are stable. The year 2015 shows high earnings per share indicates that the earning power of the bank has increased. The year 2009 and 2010 shows high dividend pay-out ratio indicates that the bank is paying a large portion of its earnings to its common shareholder's. From the above analysis of profitability ratios, the overall efficiency and profitability of a bank considered to be satisfactory.

**Section 4: Trend Analysis and Projections of Key Performance Indicators**

Trend refers to the general tendency of the data to growth or decides over a long period of time. In the study trend is calculated for deposits, loans and advances, investments, reserves and net profit. In the present study, method of least squares is adopted to project the trend for future period. Trend projections are represented in the table 1.5.

**TABLE: 1.5**

| PROJECTED TREND | YEAR | | | | |
|---|---|---|---|---|---|
| | 2016 | 2017 | 2018 | 2019 | 2020 |
| | (Rs. in Crores) | | | | |
| DEPOSITS | 3,47,894.61 | 3,65,192.16 | 3,82,489.71 | 3,99,787.26 | 4,17,084.81 |
| LOANS AND ADVANCES | 3,66,595.16 | 3,88,635.57 | 4,10,675.98 | 4,32,716.39 | 4,54,756.79 |
| INVESTMENTS | 2,03,366.42 | 2,16,206.64 | 2,29,046.86 | 2,41,887.08 | 2,54,727.30 |
| RESERVES | 85,201.39 | 91,255.07 | 97,308.75 | 1,03,362.43 | 1,09,416.11 |
| NET PROFIT | 11,008.77 | 11,946.38 | 12,883.99 | 13,821.59 | 14,759.21 |

The table 1.5 shows increasing trend for deposits, loans and advances, investments, reserves and net profit. The trend projections will be useful for the bank in forecasting the future trend of the bank in terms of deposits, loans and advances, investments, reserves and net profit.

**FINDINGS**

**a) Findings of the Liquidity Position of the Bank**

The year 2011 shows the highest current ratio and quick ratio, indicating that the bank position is liquid and has the ability to pay its current liabilities, whereas the financial year 2009 shows the lowest current ratio and quick ratio, indicating that the bank position is less liquid and has the less ability to pay its current liabilities.

**b) Findings of the Solvency Position of the Bank**

The year 2010 shows the highest shareholder's funds to outsider's funds ratio indicating that the claims of shareholder's are greater than outsider's, whereas the financial year 2007 shows the lowest shareholder's funds to outsider's funds ratio, indicating that the claims of shareholder's are not greater than outsider's**.** The year 2007 shows the highest funded debt to total capitalisation ratio indicating that the bank has not relied much on outside sources for raising long-term funds, whereas the financial year 2010 shows the lowest funded debt to total capitalisation ratio, indicating that the bank has relied much on outside sources for raising long-term funds. The year 2010 shows that the highest proprietory ratio indicates a strong financial position of the bank and greater security for creditors, whereas the financial year 2007 shows a lowest proprietory ratio indicates that the bank is heavily depending on debts for its operation and greater risk to the creditors. The year 2015 shows that the highest solvency ratio indicates that unstable long term solvency position of a bank, whereas the financial year 2009 shows a lowest solvency ratio indicates that stable long term solvency position of a bank. The year 2006 shows highest equity capital to reserves ratio indicates that the bank retained high profits for future growth, whereas the financial year 2015 shows lowest equity capital to reserves ratio indicates that the bank retained low profits for future growth.

The year 2010 shows highest investment to long term liabilities ratio indicates that the investments are high, whereas the financial year 2007 shows lowest investment to long term liabilities ratio indicates that the investments are low. The year 2015 shows highest credit deposit ratio indicates that the bank has created more loan assets from its deposits, whereas the financial year 2007 shows lowest credit deposit ratio indicates that the bank has created less loan assets from its deposits. The year 2010 shows highest cash deposit ratio indicates that the customers will be able to get back their cash whenever required or not, whereas the financial year 2006 shows lowest cash deposit ratio indicates that the cash and bank balance of bank are low. The year 2012 shows highest investment deposit ratio indicates high increase in investments, whereas the financial year 2007 shows lowest investment deposit ratio indicates that low increase in investments.

**c) Findings of the Profitability Position of the Bank**

The year 2015 shows highest return on shareholder's investment indicates that the overall efficiency of the bank is good, whereas the financial year 2009 shows lowest return on shareholder's investment indicates that the overall efficiency of the bank is not good. The year 2015 shows highest return on assets indicates that the bank effectively managing its assets to generate net income, whereas the financial year 2007 shows lowest return on assets indicates that the bank is not effectively managing its assets to generate net income. The year 2015 shows highest return on net capital employed indicates that the overall profitability and efficiency of the bank is good, whereas the financial year 2007 shows lowest return on net capital employed indicates that the overall profitability and efficiency of the bank is not good.

The year 2015 shows highest return on long term fund indicates that the high investment made in the bank for long term, whereas the financial year 2007 shows lowest return on long term fund indicates that the low investment made in the bank for long term. The year 2015 shows highest earnings per share indicates that the bank has high earning power, whereas the financial year 2007 shows lowest earnings per share indicates that the bank has low earning power. The year 2009 and 2010 shows highest dividend payout ratio indicates that the bank is paying a large portion of its earnings to its shareholder's, whereas the financial year 2013 shows lowest dividend payout ratio indicates that the bank is paying a small portion of its earnings to its shareholder's.

**d) Findings of Trend Analysis**

The deposits will go high in the year 2020 i.e. Rs. 4, 17, 084.81 Crores and the deposits will be increasing in future period of time .The loans and advances will go high in the year 2020 i.e. Rs. 4, 54, 756.79 Crores and the loans and advances will be increasing in future period of time. The investments will go high in the year 2020 i.e. Rs. 2, 54, 727.30 Crores and the investments will be increasing in future period of time. The reserves will go high in the year 2020 i.e. 1, 09, 416.11 Crores and the reserves will be increasing in future period of time. The net profit will go high in the year 2020 i.e. Rs. 14, 759.21 Crores and the net profit will be increasing in future period of time.

## SUGGESTIONS

The bank liquidity ratios are higher than the standard ratio. They should reduce the investment in debtors and should make efficient use of cash balance.The bank shall improve its solvency position by raising shareholder's funds. It is suggest that the credit performance of bank is good and it is performing its business well by fulfilling the major objective of granting credit and accepting deposits. So in order to have more creditability in the market the bank should maintain its credit deposit ratio. Though the bank has been successful in increasing its deposits but to further improve upon such situation it can introduce some new and attractive schemes for public. The bank may utilise the trend projections of deposits, loans and advances, investments, reserves and net profit for further planning and development.

## CONCLUSION

The growth and development of the bank is highly dependent on the financial position. The present study was undertaken to analyse the financial performance of ICICI Bank Ltd. The data were taken from the financial year April 2006 to March 2015. According to financial analysis of ICICI Bank, its performance in the banking industry is good and expected to grow further in the near future which is a good sign for investment. The financial performance of ICICI Bank in terms of liquidity, solvency and profitability over the study period is satisfactory though there are some fluctuations over the years. The overall financial performance of the bank is satisfactory.

## SCOPE FOR FURTHER STUDY

The present study consists of ratio and trend analysis on financial statement of ICICI Bank Ltd. Financial performance covers the aspects like liquidity, solvency and profitability of "ICICI Bank Ltd". Further the research may be carried on other areas of financial aspects like leverage, capital budgeting and so on. Due to the time constraint the researcher has taken only ten years financial statement. Further it may be carried on several years and the comparative study can be undertaken with different financial tools.

## REFERENCES


1. Prabakkar Rajkumar.K (2007) in his paper entitled "The Earning Performance of Private Sector Banks During 2005-2006", ***The Journal Accounting and Finance***, Vol.21, No.2, Apr-Sep 2007, pp. 66-77.

2. Jha.D.K and D.S.Sarangi (2011) "Performance of New Generation Banks in India: A Comparative Study", ***International Journal of Research in Commerce and Management***, Vol. 2, No. 1, pp. 85-89.

3. Reddy Sriharsha.K (2012) "Relative Performance of commercial banks in India using Camel Approach", ***Zenith International Journal of Multidisciplinary Research***, Vol.2, Issue 3, pp. 38-58.

4. Singh A.B., Tondon .P (2012) "A Study of Financial Performance: A Comparative Analysis of SBI and ICICI Bank", ***International Journal of Marketing, Financial Services & Management Research***, Vol., Issue 11, pp. 56-71.

5. Srinivas .K and Saroja .L(2013) " Comparative Financial Performance of HDFC Bank and ICICI Bank", ***Multidisciplinary Journal of Contemporary Research,*** Vol.1, Issue.2, pp. 108-126.

6. Vinod. R.R (2013) "Efficiency of Old Private Sector Banks in India: a DEA approach", ***International Journal of Management and Social Science Research***, Vol.2, No.6. pp. 78-82.