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Financial Performance of ICICI Bank – A Study

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Abstract

The first bank or financial institution from Asia that is not Japan to be listed on the NYSE is ICICI, an Indian corporation. The nature of this investigation is analytical. This study's primary goal is to use camel analysis to examine ICICI Bank's financial performance. The nature of this investigation is analytical. Secondary Annual reports, books, journals, and magazines are used to gather data. Ratio analysis has been used to analyse the data that was obtained. The study's findings indicate that ICICI Bank was on the rise and that the liquidity metric held the top spot.

Keywords: Institution, Bank, financial Performance, Camel, Analytical.

1. Introduction

The banking industry has demonstrated a remarkable capacity for adapting to the demands of the planned economy. It has made significant headway in its attempts to mobilise deposits and has recently taken a number of steps to speed up the rate at which deposits are growing. Commercial banking operations are expanding in both multidirectional and multidimensional ways. Commercial banks have kind of become important financial institutions for accelerating economic growth. Banks may provide money to specialised organisations that finance diverse sectors of the economy and require cash for a variety of objectives, risks, and maturities by pooling deposits together. By funding government securities, bonds, and debentures of long-term lenders in the areas of agriculture, industry, and now housing, banks are also giving these lenders access to the collective pool of savings they have organised, therefore freeing them of the need to contact the saver directly. In the early phases of economic and financial growth, banks' intermediation function is especially crucial. In a country like India, where different regions are at various stages of development, the changing role of banks in intermediation and other areas is interestingly represented.

In 1994, ICICI Limited, an Indian financial firm, launched ICICI Bank as a wholly-owned subsidiary. Through a public offering of shares in India in fiscal year 1998, an equity offering in the form of ADRs listed on the NYSE in fiscal year 2000, the acquisition of Bank of Madura Limited by ICICI Bank in an all-stock amalgamation in fiscal year 2001, and secondary market sales by ICICI to institutional investors in fiscal years 2001 and 2002, ICICI's shareholding in ICICI Bank was decreased to 46%.

On the initiative of the World Bank, the Indian government, and business leaders from India, ICICI was established in 1955. The main goal was to establish a development financial organisation to give Indian companies access to medium- and long-term project funding. As a development financial institution that only provided project finance, ICICI changed its business model in the 1990s to become a diversified financial services group that provided a wide range of products and services both directly and through a number of subsidiaries and affiliates, such as ICICI Bank. In 1999, ICICI became the first bank or financial institution from Asia that is not Japan to be listed on the NYSE. It was also the first Indian corporation to do so.

The managements of ICICI and ICICI Bank came to the conclusion that the merger of ICICI and ICICI Bank would be the best strategic alternative for both entities and would produce the best legal structure for the ICICI group's universal banking strategy after considering various corporate structuring alternatives in the context of the emerging competitive scenario in the Indian banking industry and the move toward universal banking. Through the amalgamated entity's access to low-cost deposits, expanded potential for earning fee-based income, and capacity to participate in the payments system and offer transaction-banking services, the merger would increase value for ICICI shareholders. Through a substantial capital base and operational scale, easy access to ICICI's solid corporate relationships developed over five decades, entry into new business segments, increased market share in various business segments, particularly fee-based services, and access to ICICI and its subsidiaries' large talent pool, the merger would increase value for ICICI Bank shareholders.

The Bombay Stock Exchange and the National Stock Exchange of India Limited both list ICICI Bank's equity shares in India, and the New York Stock Exchange lists its American Depositary Receipts (ADRs) (NYSE).

2. Review of Literature

Baral (2005) used the CAMEL Model to analyse the performance of joint venture banks in Nepal. The study's primary data source was secondary information obtained from joint venture banks' annual reports. The CAMEL criteria were used to examine the joint venture banks' financial health. The study's conclusions showed that joint ventures' financial soundness is superior than commercial banks'. Additionally, the CAMEL components demonstrated that joint venture banks' ability to manage the potential damage to their balance sheet on a wide scale without suffering any financial health restrictions.

Wirnkar and Tanko (2008) examined the suitability of CAMEL in assessing bank performance. This empirical study was conducted to determine the usefulness of CAMEL in reviewing bank performance overall, the significance of each CAMEL component, and to identify the best ratios that bank regulators may use to judge the effectiveness of banks. Eleven Nigerian commercial banks were used as a sample for the analysis. The research included information from yearly reports during a nine-year period (1997-2005). The evaluation shown how each CAMEL component could not aggregate the complete performance of a bank. Additionally, the ideal ratios for each CAMEL parameter were found.

In his 2010 study, Bansal examined the effects of liberlization on the profitability and productivity of India's public sector banks. The analysis was carried out using both primary and secondary data for the years 1996–2007. The study came to the conclusion that banks' capacity to compete depended on how determinedly they pursued technical advancement, management efficiency improvement, customer service improvement, internal control improvement, and productivity and profitability enhancement. According to the report, public sector banks must provide strategic management, strategic planning, and increased expertise in the technical area of lending and credit evaluation careful consideration. Public sector banks were advised to improve their capacity for project evaluation. Public sector banks should occasionally employ turnover strategies, income-oriented, and cost-oriented strategies in order to increase their productivity and profitability.

Jaiswal and Jain (2016) found that when comparing the financial performance of public and private sector banks, SBI has a stronger market position than ICICI in terms of earnings per share, price ratio per share, and dividend payout ratio. On the other hand, ICICI bank is performing well in terms of non-performing assets (NPA) when compared to SBI bank, and Kumar and Gopal (2019) discovered that ICICI Bank outperformed HDFC Bank in terms of balance sheet ratios and debt coverage ratio.

Sathye (2020) evaluated the productive effectiveness of banks in a developing country, mainly India, in his study. SBI and Kotak Mahindra Bank have performed well in terms of profitability ratios. The dimension of effectivity was really finished using information envelopment analysis. Three financial institutions publicly owned, privately owned, and internationally owned have their efficacy evaluated. It has been determined that when compared to the rest of the world, Indian banks have a worse grade for effectivity than public sector banks and foreign banks in India. One of the main goals of the Indian government is to increase the competitiveness of Indian banks abroad, so it may be continuing to reap the advantages of the existing strategy of lowering non-performing assets and describing the body of employees and branches.

3. Research Gap

According to the assessment of the literature, the majority of earlier studies solely examined the ICICI Bank's financial performance, and neither the trend in productivity nor the profit per employee were taken into account (Padma & Arulmathi, 2013). Singh examined the bank's statistics and balance sheet, as well as its profit and loss account (2015). Financial performance in terms of profitability measures and trends in the growth of ratios were both examined (Reddy, 2020). The financial performance of ICICI bank was analysed by using of CAMEL model during 2015-21(Shikhil Manjal and Krishan Lal Grover, 2022). This survey, which was not conducted in previous years, will take into account the overall effectiveness of ICICI Bank.

4. Objectives of the Study

1) To ascertain the ICICI bank's Capital sufficiency, Asset quality, Management effectiveness, Earnings, and Liquidity.
2) To use the CAMEL grading method to analyse the financial performance of the ICICI bank.

5. Scope of the Study

Understanding the ICICI banks' total profitability condition, liquidity position, and long-term financial performance is made possible via the examination of financial performance. This study aids in the evaluation of ICICI Bank and makes recommendations to investors.

6. Limitations of the Study

The analysis is dependent on secondary information gathered, including numerous ICICI bank records. The study period is only allowed to last five years.

7. Research Methodology

This project's research is analytical in character. In analytical research, one must utilize facts or information that are previously known and evaluate them to provide a critical assessment of the subject matter. Data that has previously been gathered and saved are considered secondary data. Secondary data may be gathered from Bank annual reports Bulletins, periodicals, newsletters, and internal bank reports. The four-year research period runs from 2014 to 2018.

8. Analysis and Interpretation

8.1 Ratios of Capital Adequacy

The ratio is shown as a percentage; a larger percentage often indicates more safety. A low ratio shows that the bank does not have enough capital to cover the risk connected with its assets, and as happened during the recession, it is susceptible to failure in any unfavorable scenario. A highly high ratio may be a sign that the bank is not lending to consumers as efficiently as it may be (Accounting tools, 2022).

Table No.1 Ratios of Capital Adequacy From 2017-18 to 2021-22

Ratios	2017-18	2018-19	2019-20	2020-21	2021-22
The Capital Adequacy Ratio	17.39	18.42	16.89	15.98	18.27
Debt equity Ratio	1.78	2.18	1.88	1.92	0.86
Govt Securities to Total Investment	0.14	0.16	0.15	0.17	0.18
Total Advance to Total Assets	2.91	2.94	2.98	3.11	3.29

Source: Annual Reports Of ICICI

According to the following data, the ICICI Capital Adequacy Ratio was at its greatest in 2018-19, the Debt Equity Ratio was at its highest in 2018-19, the Advance to Asset Ratio was at its highest in 2021-22, and the Government Securities to Total Investments Ratio was at its highest in 2021-22.

8.2 Ratios of Asset Quality

A bank's or NBFC's asset quality is the foundation of its operational effectiveness and a clear indicator of its risk management procedures and credit evaluation process. Furthermore, the overall health of the financial system has an influence on a bank's or NBFC's asset quality. When reviewing banks and NBFCs, assessing asset quality is important since a decline in credit quality has a twofold impact on the profitability of the company by lowering the profits profile and expanding the credit costs. Additionally, a significant decline in asset quality would increase the amount of cash the company would need to fund growth and supply (Accountingtools, 2022).

Table No.2 Ratios of Assets Quality From 2017-18 to 2021-22

Ratios	2017-18	2018-19	2019-20	2020-21	2021-22
Net NPA to total advances ratio	1.11	0.73	2.29	2.35	2.33
Total investments to total assets ratio	0.63	0.69	0.65	0.69	0.70

Source: Annual Reports Of ICICI

According to the data, the ratio of ICICI's Net NPA to total loans was greatest in 2020-21, while the ratio of total investments to total assets was highest in 2021-22.

8.3 Ratios of Management Effectiveness

A management efficiency ratio is a type of financial ratio used to assess how effectively management manages the working capital or other funding sources employed by the company. Efficiency ratios gauge a company's capacity to utilise its resources assets and liabilities to create revenue. Efficiency ratios assess an overall collection of assets in relation to sales or the cost of products sold. Liabilities' primary efficiency ratio contrasts payables with fully completed supplier purchases. These ratios are typically compared to the results of other firms in the same industry in order to assess success (Accountingtools, 2022)

Table No.3 Ratios of Management Efficiency From 2017-18 To 2021-22

Ratios	2017-18	2018-19	2019-20	2020-21	2021-22
Total advances to total deposits ratio	94.73	91.34	89.85	89.45	93.02
Business per employee	989.00	1078.00	1222.00	1453.00	1567.00
Profits per employee	12.00	8.00	4.00	5.00	19.00
Return on equity ratio	8.70	5.20	9.72	14.74	15.49

Source: Annual Reports Of ICICI

According to the data, the ICICI Total Advances to Total Deposits Ratio was greatest in 2018, Business per Employee was highest in 2022, Profits per Employee was highest in 2022, and Return on Equity Ratio was highest in 2022.

8.4 Earning Quality

Interest income and non-interest income are the two major categories that make up a bank's or financial institution's earnings profile. Non-interest revenue includes earnings from trading and the sale of assets as well as fee-based income (guarantee commission, mortgage processing fees, dividend income, etc.). Interest income is produced by lending money. The cost of interest on deposits and borrowings is the largest expense for any bank or financial institution. Employee costs and administrative costs make up the bulk of a bank's operating costs. Provision for nonperforming assets and Provision for Depreciation in Fair Value of Investments are two additional significant charges to the profit and loss statement (Seth, 2017).

Table No.4 Earning Quality From 2017-18 To 2021-22

Ratios	2017-18	2018-19	2019-20	2020-21	2021-22
Operating profit to total asset ratio	-1.21	-1.15	-0.77	-0.22	0.34
Interest income to total income ratio	6.25	6.57	6.80	6.43	6.12
Net interest margin to total asset ratio	2.61	2.80	3.02	3.16	3.36

Source: Annual Reports Of ICICI

It can be seen from the above table that ICICI's operating profit to total assets ratio was greatest in 2000, while interest income to total income ratio was highest in 2019, and net interest margin to total assets ratio was all highest in 2022.

8.5 Ratios of Liquidity

Liquidity ratios calculate the government securities to total assets ratio, the liquid assets to total deposit ratio, the liquid assets to demand deposit ratio, the liquid assets to total assets ratio, the current ratio, and the quick ratio to determine a company's ability to pay debt obligations and its margin of safety (Vanniarajan & Joseph, 2007).

Table No.5 Ratios of Liquidity From 2017-18 To 2021-22

Ratios	2017-18	2018-19	2019-20	2020-21	2021-22
Liquid asset to total asset ratio	0.26	0.26	0.25	0.24	0.26
Liquid asset to total deposit ratio	0.11	0.11	0.10	0.11	0.12
Liquid asset to demand deposit ratio	0.25	0.25	0.23	0.24	0.26
Government securities to total asset ratio	0.14	0.16	0.15	0.14	0.15

Source: Annual Reports Of ICICI

According to the above table, the ICICI liquid asset to total asset ratio reached its greatest point in 2018,2019 and 2022, along with the liquid asset to total deposit ratio was highest in 2022, the liquid asset to demand deposit ratio was highest in 2022, and the government securities to total asset ratio, which reached its highest point in 2018.

9. Conclusion

The economy and investors both rely heavily on ICICI Bank, the second-largest bank in India. Understanding the bank's development is made easier by the analysis of financial performance. According to the report, the bank's performance has significantly changed from in 2015 onward. The bank's productivity showed a declining trend. Performing assets as a percentage of total assets are rising yearly as well. Up until 2018-19, the bank's performance was improving; but, after that, it began to experience significant fluctuations in several ratios. This research examined the ICICI banks' overall financial performance from 2018 through 2022. According to the Camel Framework, the bank's capital adequacy ratio parameter was at the average level, its asset quality parameter was moderate, its management efficiency parameter was in a downward trend, its earning quality parameter was also in a downward trend, and its liquidity parameter was at the average level. As a result, the findings imply that cost reduction for income maximisation is one of the options available for better financial performance.

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