A STUDY ON FINANCIAL PERFORMANCE OF ICICI BANK

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ABSTRACT: *The growth of any economy is based on the financial system prevailed in it. The major components of the financial system are financial assets, financial intermediary/institution, financial markets, financial instruments and financial services. A financial intermediary plays a dominant role in the system. Financial intermediaries include banking system, insurance, development banks and other financial organisations. Performance evaluation of the banking sector is an effective measure and indicator to check the reliability of economic activities of an economy. The present study focuses on the individual evaluation of ICICI Bank. The study adopts an analytical and descriptive research design. The data for a period of 10 years i.e., 2007-08 to 2016-17 have been collected from the annual reports of the bank. Seven ratios are selected for the study and made an analysis of selected ratios using growth rate, average, cumulative annual growth rate and other statistical techniques. The study revealed that the bank performing progressively till 2015, later identified a decline in the performance due to Non Performing Assets.*

Key words: Financial system, Intermediary, ratio and statistical tools

Introduction:

The banking industry plays a prominent role in the development of an economy. It supplies the funds that supports and enhances growth in all the industries. Growth of the banking sector is measured by the increase in the number of branches, deposits, credit, etc. Analysis of banking sector helps to study the direction in which the country's economy is moving. In 2017, SBI and its associates merged into one. At present 1 SBI, 19 Nationalised Banks, IDBI Bank, 26 Private Banks, 43 Private Foreign Banks, 31 State Co-operative Banks and 56 Regional Rural Banks are in commercial banking business. ICICI Bank is the largest private sector bank in India.

Statement of the problem

Performance and efficiency of commercial banks are the key elements of competence and efficiency of national financial system. The broad objective of the banking sector reforms in India has been to increase efficiency and profitability of the banks. Prior to banking reforms, the industry was a near monopoly dominated by public sector banks. However, the banking reforms created an opportunity to increase number of private and foreign banks in the market. Operational efficiency is an indicator, which will help not only the public but to the management, regulators, and supervisors to understand and judge the relative efficiency of the players competing in the banking sector. Therefore, this study attempts to apply different ratios on ICICI Bank in order to study its efficiency and solvency position.

Objectives:

1. To study the financial performance of the ICICI Bank.
2. To study the trend in productivity and profit per employee.

Research Methodology

Research Design: Descriptive Research Design is used for the study and it is essentially a fact finding approach. It aims to explain the characteristics of an individual or group characteristics and to determine the frequency with the same things occurs.

Data Collection: The data were collected through annual report from sources that are secondary in nature such as internet, magazines, websites, books, and journals.

Period of study: This study covers a period of ten years, i.e., from 2007-08 to 2016-17

Financial Performance of Banks during 2007-08 to 2016-17

Bench marking is a technique of evaluating the performance of an entity with reference to a widely accepted standard. An attempt is made here to study the financial performance during 2007-08 to 2016-17. Coverage ratio, Performing Assets ratio, Business Per Employee, Profit Per Employee, Credit Deposit ratio, Return on Assets and Income spread to total Assets ratio are selected for the analysis during the study period.

COVERAGE RATIO: Coverage ratio is a measure of owner's contribution to total assets. It is useful to measure to study the relationship between the owners' equity and total assets.

Coverage ratio = $\frac{Net\ Worth - Net\ NPA}{Total\ Assets} * 100$

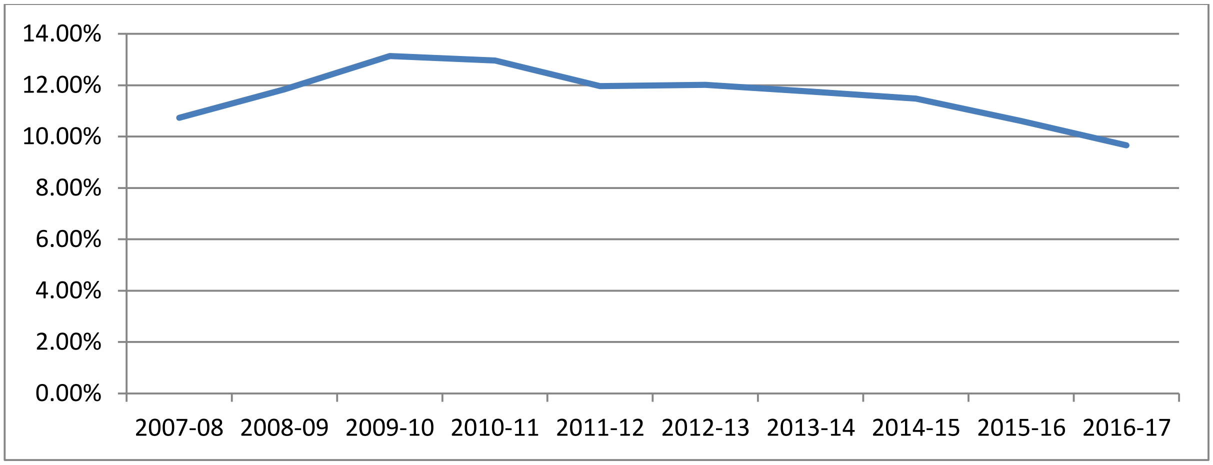
Table-1: Coverage Ratio of ICICI Bank during 2007-08 to 2016-17

(In billions)

Year	Net Worth	Net NPA	Net Worth – Net NPA	Total Assets	Coverage Ratio
2007-08	464.71	35.64	429.07	3997.95	10.73%
2008-09	495.33	46.19	449.14	3793.01	11.84% (10.34%)
2009-10	516.18	39.01	477.17	3634.00	13.13% (10.90%)
2010-11	550.91	24.58	526.33	4062.32	12.96% (-1.29%)
2011-12	604.05	18.94	585.11	4890.69	11.96% (-7.72%)
2012-13	667.06	22.34	644.72	5367.95	12.01% (0.42%)
2013-14	732.13	33.01	699.12	5946.42	11.76% (-2.08%)
2014-15	804.29	63.05	741.24	6461.29	11.47% (-2.47%)
2015-16	897.36	132.97	764.39	7206.95	10.61% (-7.50%)
2016-17	999.51	254.51	745	7717.91	9.65% (-9.05%)
CAGR					-1.06%

Source: Annual Reports of the selected banks.
Note: Figures in brackets show the Annual Growth Rates

Chart 1: Trends in Coverage ratio of ICICI Bank



Interpretation: The study clearly revealed that the coverage ratio of the bank increased in the initial years and later it starts declining continuously year by year. In 2009 and 2010 the growth rate of the coverage ratio is around 10 percent. 2010 is the highest coverage ratio year with 13.13 percent compared to the other years of study. In 2017 the coverage ratio is only 9.65 percent.

PERFORMING ASSETS RATIO: Advances are divided in to performing and non performing assets. Performing assets ration measures the proportion of performing assets in total assets. It is useful to know the proportion of standard assets and its trend over the years. Higher the ratio, higher is the performance and lower the ratio, lower will be the performance.

Performing Assets Ratio = $\frac{Standard\ Advances}{Total\ Advances} * 100$

Table-2: Performing Assets Ratio of ICICI Bank during 2007-08 to 2016-17

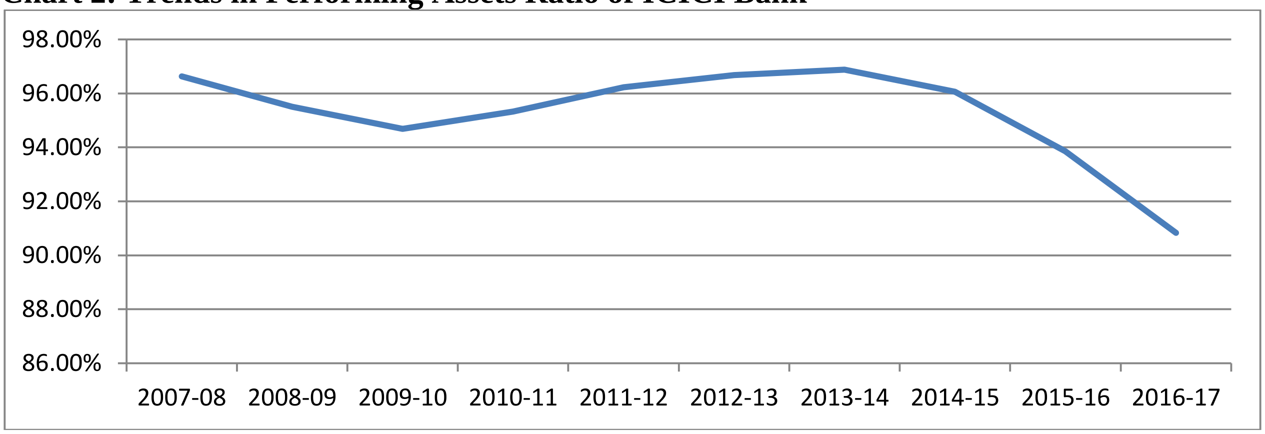
(In billions)

Year	Standard Advances	Total Advances	Performing Assets Ratio
2007-08	2180.28	2256.16	96.64%
2008-09	2085.08	2183.11	95.51% (-1.17%)
2009-10	1715.79	1812.06	94.69% (-0.86%)
2010-11	2062.52	2163.66	95.33% (0.68%)
2011-12	2441.65	2537.28	96.23%

			(0.94%)
2012-13	2806.01	2902.48	96.68% (0.47%)
2013-14	3281.49	3387.03	96.88% (0.21%)
2014-15	3722.80	3875.22	96.07% (-0.84%)
2015-16	4085.43	4352.64	93.86% (-2.30%)
2016-17	4216.80	4642.32	90.83% (-3.23%)
CAGR			-0.62%

Source: Annual Reports of the selected banks.
Note: Figures in brackets show the Annual Growth Rates

Chart 2: Trends in Performing Assets Ratio of ICICI Bank



Interpretation:

The study observes that ICICI Bank presented a negative growth rate since 2014. The ratio stood at 96.68 percent in 2008 later decreased to 90.83 in the year 2017. It is an indication of increasing nonperforming assets. Growth of nonperforming assets affect's the profitability of the firm. The bank should try to improve the proportion of performing assets.

CREDIT DEPOSIT RATIO: The loan-to-deposit ratio (LTD) is a commonly used statistic for assessing a bank's liquidity by dividing the bank's total loans by its total deposits. This number is expressed as a percentage. If the ratio is too high, it means that the bank may not have enough liquidity to cover any unforeseen fund requirements, and conversely, if the ratio is too low, the bank may not be earning as much as it could be.

Credit deposit ratio = $\frac{Total\ Advances}{Total\ Deposits} * 100$

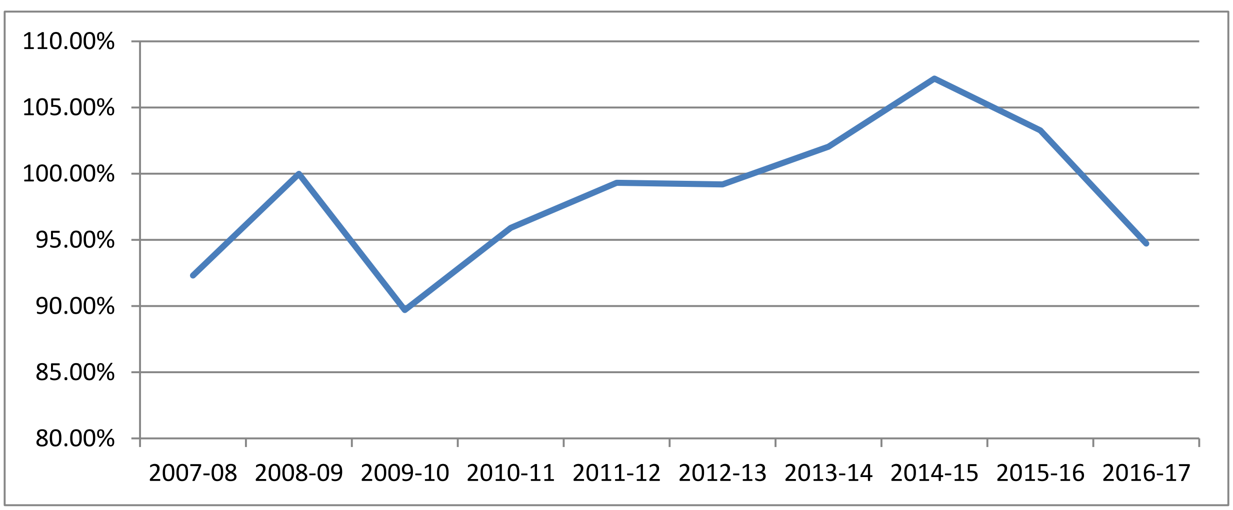
Table-3: Credit Deposit Ratio of ICICI Bank during 2007-08 to 2016-17

(In billions)

Year	Total advances	Total deposits	Credit Deposit Ratio
2007-08	2256.16	2444.31	92.30%
2008-09	2183.11	2183.48	99.98% (8.32%)
2009-10	1812.06	2020.17	89.70% (-10.28%)
2010-11	2163.66	2256.02	95.91% (6.92%)
2011-12	2537.28	2555.00	99.31% (3.54%)
2012-13	2902.48	2926.14	99.19% (-0.12%)
2013-14	3387.03	3319.14	102.05% (2.88%)
2014-15	3875.22	3615.63	107.18% (5.03%)
2015-16	4352.64	4214.26	103.28% (-3.64%)
2016-17	4642.32	4900.39	94.73% (-8.28%)
CAGR			0.26%

Source: Annual Reports of the selected banks.
Note: Figures in brackets show the Annual Growth Rates

Chart 3: Trends in Credit Deposit Ratio of ICICI Bank



Interpretation:

Credit Deposit Ratio plays a significant role in the operations of the banking business. It is the ratio of total advances to total deposits. The higher the C-D ratio the greater is said to be the lending performance of a banking institution. The banks should try to turn deposits into loans for improving the return. The C-D ratio of the ICICI Bank presented a growth rate till 2015 and the advances are more than the deposits. From 2013 to 2016 the advances are more than the deposits.

RETURN ON ASSETS (ROA): Returns on asset ratio is the net income (profits) generated by the bank on its total assets (including fixed assets). The higher the proportion of average earnings assets, the better would be the resulting returns on total assets. Similarly, ROE (returns on equity) indicates returns earned by the bank on its total net worth.

$$ROA = \frac{Net\ Profit}{Average\ Total\ Assets} * 100$$

Table-4: Return on Assets Ratio of ICICI Bank during 2007-08 to 2016-17

(In billions)

Year	Net Profit	Average Total Assets	Return on Assets Ratio
2007-08	41.58	3997.95	1.04%
2008-09	37.58	3793.01	0.99% (-4.81%)
2009-10	40.25	3634.00	1.11% (12.12)
2010-11	51.51	4062.32	1.27% (14.41)
2011-12	64.65	4890.69	1.32% (3.94%)
2012-13	83.25	5367.95	1.55% (17.42%)
2013-14	98.10	5946.42	1.65% (6.45%)
2014-15	111.75	6461.29	1.73% (4.85%)
2015-16	97.26	7206.95	1.35% (-21.97%)
2016-17	98.01	7717.91	1.27% (-5.93%)
CAGR			1.89%

Source: Annual Reports of the selected banks.
Note: Figures in brackets show the Annual Growth Rates
Note: Ratio’s are calculated based on data

Chart 4: Trends in Return on Assets of ICICI Bank

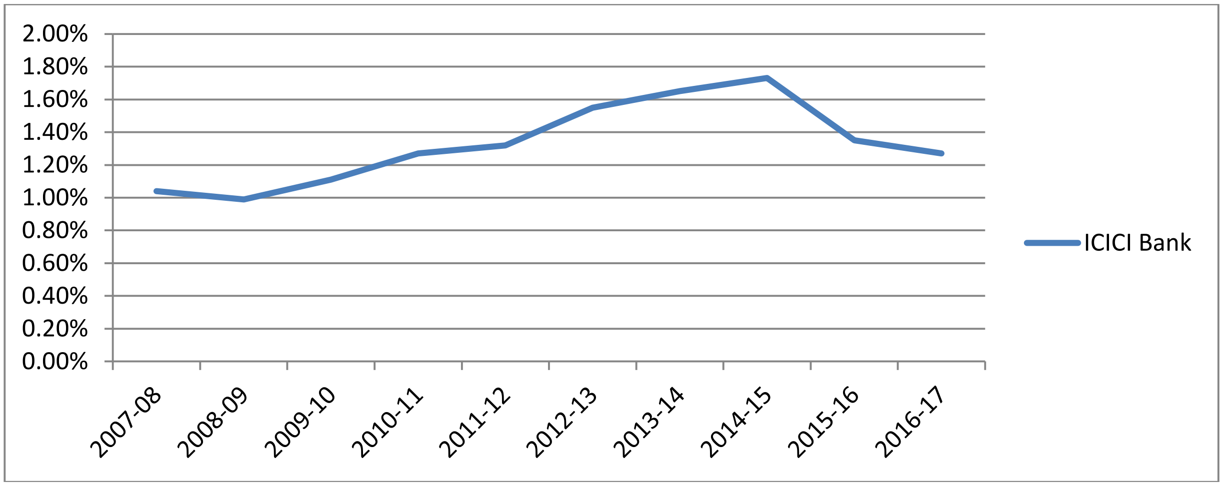
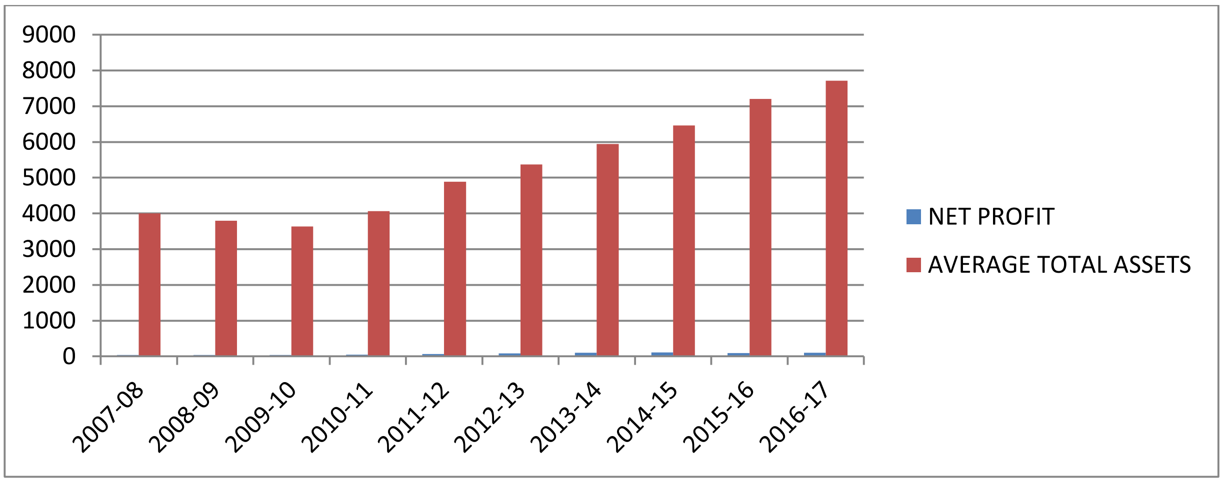


Chart 5: Net profit and Total Assets of ICICI Bank



Interpretation:

Return on assets measures what proportion of returns is receiving by the banks out of its total assets. The data reveals that the bank is not performing well as its ratio is decreasing from the last two years. The ratio increased till 2015with a positive growth rate from 0.99 percent to 1.73 percent in the year 2015.

INCOME SPREAD TO TOTAL ASSETS RATIO: Income spread is the difference between interest income and interest expenditure. The ratio is a measure of income spread to total assets of the bank. It measures what amount of spread available compared to its total assets.

Income spread to total assets ratio = $\frac{Interest\ Earned - Interest\ Spended}{Total\ Assets} * 100$

Table-5: Spread to Total Assets Ratio of ICICI Bank during 2007-08 to 2016-17

(In billions)

Year	Income Spread	Total Assets	Spread to Total Assets Ratio
2007-08	73.04	3997.95	1.83%
2008-09	83.67	3793.01	2.21% (20.77%)
2009-10	81.14	3634.00	2.23% (0.90%)
2010-11	90.17	4062.32	2.22% (-0.45%)
2011-12	107.34	4890.69	2.19% (-1.35%)
2012-13	138.66	5367.95	2.58% (17.81%)
2013-14	164.75	5946.42	2.77% (7.36%)
2014-15	190.40	6461.29	2.95% (6.50%)
2015-16	212.24	7206.95	2.94% (-0.34%)
2016-17	217.34	7717.91	2.82% (-4.08%)
CAGR			4.42%

Source: Annual Reports of the selected banks.
Note: Figures in brackets show the Annual Growth Rates
Note: Ratio's are calculated based on data

Chart 6: Income Spread and Total Assets of ICICI Bank

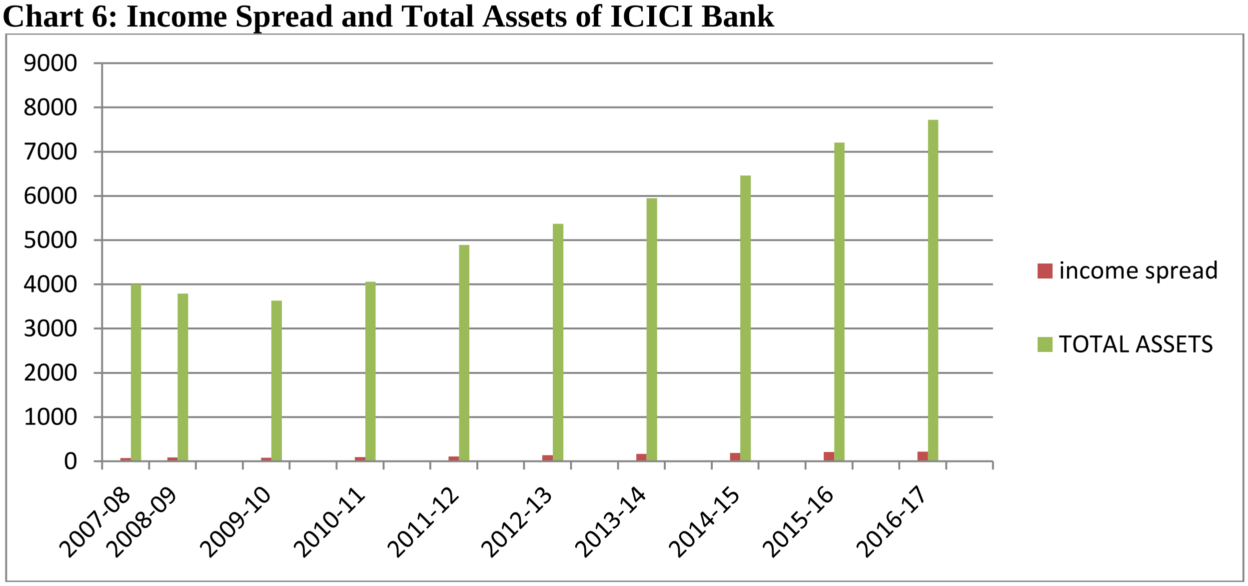
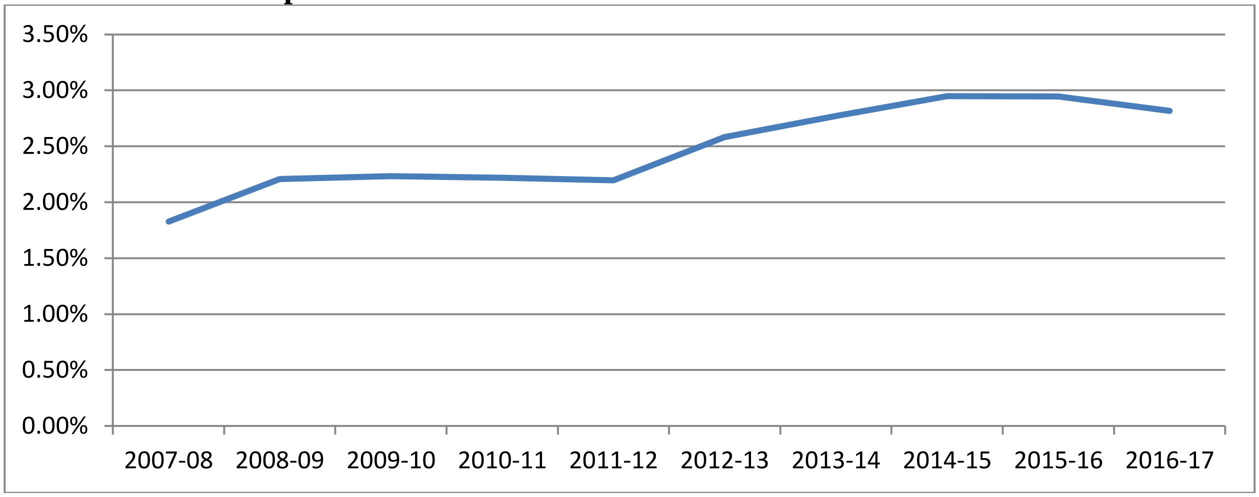


Chart 7: Trends in Spread to Total Assets ratio of ICICI Bank



Interpretation:

Spread is the difference between interest incomes to interest expenditure. A study of spread helps to observe the performance of bank in meeting the competition. The study identified that the spread proportion in total assets increasing year to year. It indicates the growth in performance of the bank. The increased from 1.83 percent (2008) to 2.82 percent in the year 2017.

BUSINESS PER EMPLOYEE: The efficiency of management is measured through different variable and ratios. Business per employee is one of the very important variables to be considered to measure the productivity and efficiency of the employees.

Business per employee = $\frac{Deposits+Advances}{No.of\ employees}$

Table-6: ICICI Bank wise analysis of Business Per Employee during 2007-08 to 2016-17

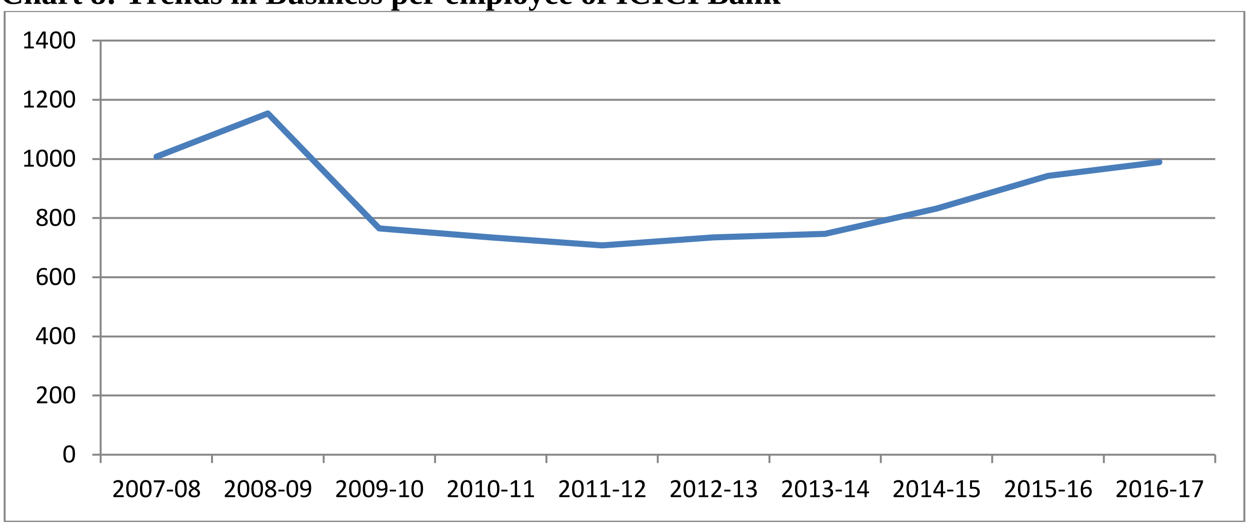
(In billions)

Year	Total of Deposits	Total Advances	No. of Employees	Business Per Employee in Lakhs
2007-08	2444.31	2256.16	40686	1008
2008-09	2183.48	2183.11	34596	1154 (14.48)
2009-10	2020.17	1812.06	35256	765 (-33.71)
2010-11	2256.02	2163.66	56969	735 (-3.92)

2011-12	2555.00	2537.28	58276	708 (-3.67)
2012-13	2926.14	2902.48	62065	735 (3.81)
2013-14	3319.14	3387.03	72226	747 (1.63)
2014-15	3615.63	3875.22	66327	832 (11.38)
2015-16	4214.26	4352.64	72175	943 (13.34)
2016-17	4900.39	4642.32	81129	989 (4.88)
CAGR				-0.19%

Source: Annual Reports of the selected banks.
Note: Figures in brackets show the Annual Growth Rates
Note: Ratio's are calculated based on data

Chart 8: Trends in Business per employee of ICICI Bank



Interpretation:

The business (deposits plus advances) per employee is a measure of productivity of the employees in an organisation. From the year 2010 to 2012 decreased the productivity with a rate of around 33 percent. From 2012 onwards there is a growth in the performance of the employees. The productivity increased from 708 lakhs to 989 lakhs in the year 2017. The bank presented a continuous growth rate from 2012 onwards.

PROFIT PER EMPLOYEE (in lakhs): Profit per employee is a measure of studying the average profit after taxes gained by the employees of the bank. Profit per employee is a ratio of profit after taxes to total number of employees.

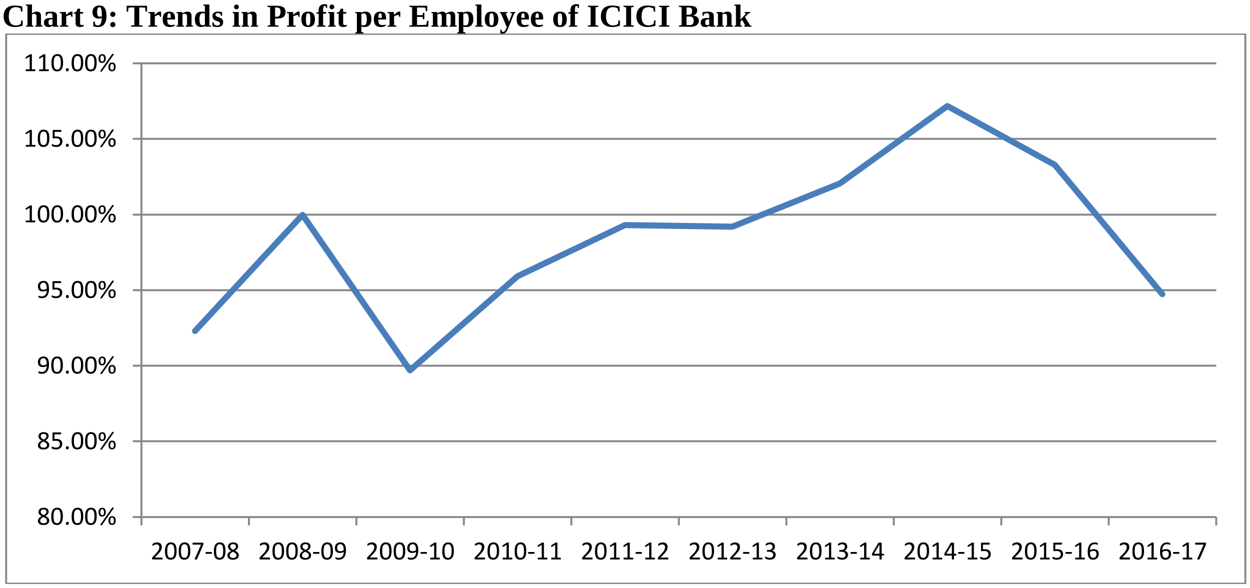
Profit per employee = $\frac{Profit\ after\ Taxes}{Total\ Number\ of\ Employees}$

Table-7: Profit Per Employee of ICICI Bank during 2007-08 to 2016-17

Year	Profit After Taxes (in billions)	Total No. of Employees	Profit Per Employee in Lakhs
2007-08	41.58	40686	10
2008-09	37.58	34596	11 (10.00)
2009-10	40.25	35256	9 (-18.18)
2010-11	51.51	56969	10 (11.11)
2011-12	64.65	58276	11 (10.00)
2012-13	83.25	62065	14 (27.27)
2013-14	98.10	72226	14 (0.00)
2014-15	111.75	66327	16 (14.29)
2015-16	97.26	72175	14 (-12.50)
2016-17	98.01	81129	12 (-14.29)
CAGR			1.84%

Source: Annual Reports of the selected banks.
Note: Figures in brackets show the Annual Growth Rates
Note: Ratio's are calculated based on data

Chart 9: Trends in Profit per Employee of ICICI Bank



Interpretation:

The statistics identifies a different result in the progress of profit per employee. The profit per employee increased to 16 lakhs in the 2015 and later decreased to 12 lakhs in the year 2017. Major part of the study period presented a growth rate in the measure, only in last two years the profit per employee decreased.

Conclusion: The study of financial performance and trend helps to understand the progress of the bank. The study identified that there is a significant difference in performance of the bank from 2015 onwards. The productivity of the bank presented down trend. The proportion of performing assets is also decreasing year by year. The performance of the bank is progressive till 2015, later the bank suffering from huge variations in different ratios. The study also observed that there is a sharp decrease in performing assets.

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