



A STUDY ON FINANCIAL PERFORMANCE ANALYSIS OF ICICI BANK IN COIMBATORE

T.Kavitha* Latha.M**

*Associate Professor, Department of Commerce & Corporate Secretaryship with CA, Sri Jayendra Saraswathy Maha Vidyalyaya College of Arts and Science, Coimbatore-05, Tamilnadu, India.

**Research Scholar, Department of Commerce & Corporate Secretaryship with CA, Sri Jayendra Saraswathy Maha Vidyalyaya College of Arts and Science, Coimbatore-05, Tamilnadu, India.

1. Introduction

Finance is one of the requisites for all human endeavors – personal, business or government. So finance is regarded as the lifeblood of the business enterprises. Finance refers to the money resources - owned or borrowed available to individuals, business or government for their operations. Ours is a money economy and every person, individual or otherwise, needs, finance and mobilizers finance. As every other resource, finance is unlimited. Printing currency notes or minting coins would only add to the money supply resulting in inflation and reduced value of money in the world. So more money circulation would not mean more finance availability. That is say, finance is a scare resource. Consequently, a person has neither unlimited access to finance nor can that person afford frittering away the resources unwisely. Both mobilizing and spending finance have to be managed properly. Hence, financial management has emerged as a priority function for all concerned.

Finance an-overview

Finance is the life blood of an enterprise. Every enterprise, whether big, medium or small, needs finance to carry on its operations and to achieve its targets. In our present day economy, finance is the provisions of money at the time when it is required and without adequate finance, no enterprise can possible accomplish its objective. The major task of financial management is to get the best out of available funds. The term business finance indicates and activity or a process. This is concerned with acquisition of funds and distribution of profit by a business firm. Thus business finance usually deals with the controls.

Financial statement

“A Financial statement is an organized collection of data according to logical and consistent accounting procedures. Its purpose is to convey an understanding of some financial aspects of a business firm. It may show a position at a movement in time, as in the case of a balance sheet, or may reveal a series of activities over a given period of time, as in the case of an income statement”

Thus the financial statement generally refers to two statements:

1. The position statement or the balance sheet; and
2. The income statement or the profit and loss account.

Concept of Financial Management

The financial management is a management principles and practices applied to finance. Howard and Upton view that financial management is the application of the general management functions to the area of financial decision – making. General management functions include planning execution and control financial decision making including decisions as to size of investment, source of capital, extent of use of different sources of capital and extent of use of retention of profit/dividend payout ratio. Financial management, is, therefore, planning, execution and control of investment of money resources, rising of such resources and retention of profit/payment of dividend.

Nature of financial management

1. Financial management is an integral part of overall management.
2. The central focus of financial management is valuation of the firm.
3. Financial management essentially involves risk-return trade off.
4. Financial management effects the survival, growth and validity of the firm.
5. Financial management is the concern of every concern.
6. Financial management is a subsystem of the business system which has other subsystem like production, marketing etc.
7. Financial management of a business is influenced by the external legal and economic environment.
8. Financial, management is generally centralized.
9. There are some procedural finance functions- like record keeping credit appraisal and collection, inventory replenishment and issue etc.



10. The nature of financial management is influenced by the special characteristic of the business such as research and development function.

Functions of financial management

The functions of financial management are divergent They are :

- a. Operative function.
- b. Investment function.
- c. Financial function.
- d. Dividend function.

Objectives of financial statements

The objective of preparing financial statement (profit and loss account and balance sheet) is to know the profit and loss for the particular period and to find out the financial position of the business on a particular date. The generally accepted accounting principles and procedures are followed in the preparation of these statements. Financial statements are prepared primarily for decision-making. They play a dominant role in setting the frame work of managerial decision. However, the information provided in the financial statements is of immense use in making decisions through analysis and interpretation of financial statements. It is the process of identifying the financial strengths and weaknesses of the firm by properly establishing relationship between the items of balance sheet and profit & loss account.

1.2 Statement of the problem

The present study titled “Analyzing Financial Statement of ICICI BANK” is an analysis and interpretation of financial statements. Analysis and Interpretation of financial statements refers to a treatment of the information contained in the Income statement and Balance sheet, so as to afford full diagnosis of the short-term solvency, long-term solvency, general and overall profitability of the business for 10 years. More over the study throws light on various aspect of the company efficiency in utilizing its financial resources.

1.3 Objectives of the study

The specific objectives of the present study are given below

- To analyze the short-term solvency and long-term solvency of the company.
- To examine the profitability position of the company
- To ascertain the relationship between selected variables such as sales and gross profit, sales and net profit etc.
- To forecast the profit and sales of ICICI for the future periods
- To suggest suitable steps for the better improvement of the financial performance of the company.

1.4 Need of the Study

A firm’s success and its survival in the market depend upon the effective financial management. It guides and regulates all the management activities of a firm. Management of finance is an important task in any organization. It requires both short-term and long-term planning. Financial analysis is the process of identifying the financial strength and weakness of the firm. It is the only one way to measure the firm’s liquidity, solvency and profitability.

Financial management is a crucial factor in every enterprise improper financial management leads to an under – utilization of the available resources and making the finance skill limited. Hence here the present study aims to create awareness among the management of the finance limited regarding the importance of financial management.

1.5 Hypotheses of the Study

For better financial performance analysis of ICICI BANK the following hypothesis are framed.

- There is no relationship between sales and net profit.
- There exists no relationship between debtors and creditors volume.
- There exists relationship between average collection period and average payment period.
- There is no relationship between sales and gross profit.
- There exists no relationship between long-term debt and shareholders funds.

1.6 Limitations of the Study

1. The present study has mainly focused attention on financial performance and of ICICI BANK., If sufficient time and other resources were available, the study could have been more elaborate. In that case interviews and other discussion could have been made in a much elaborate manner.



2. The reliability and accuracy of calculation depends very much on the information found in the annual reports.
3. The study is based on secondary data and hence some of the information is confidential to the management and its non availability also limited the scope of the study.
4. The study is limited for the period of ten years (2005-2006 to 2014-2015).
5. Final reports of the year 2014-2015 are not yet published so, that year analysis is not done.

1.7 Research Methodology

Research Design

As the study is aimed at estimating the financial performance precisely the research design adopted here is based on the analytical method.

Analytical Research Design

Analytical research design is the design where the researcher has used the facts or information already available and analyzed these to make a critical evaluation.

Period of the study

The period of the study started form the financial year 2005-2006 to 2014-2015. For this purpose the sample data is taken form ten years audited report.

Sources of data

The analysis of the financial performance necessitates accurate and reliable data. Therefore the sources for collecting the data include both primary and secondary data.

Primary data:The information collected is mainly based on the personal discussion with the financial executives

Secondary data: Secondary data is mainly collected form annual reports, official records and the web page of the company.

Tools Used:The data collected form various sources were analyzed by ratio analysis, correlation analysis and trend analysis.

Accounting tool

Ratio Analysis

To ratio analysis is an accounting tool used to analyze the liquidity position and relationship between two numeric terms, there are various ratios have been used. A ratio is a mathematical relationship between two items expressed in quantitative terms.

Statistical tool

Correlation Analysis

A large number of problems in business involve two or more variables. If two quantities vary in such a way that a change in one caused a change in the other, then the quantities are correlated. The statistical tool with which the relationship between two or more than two variables are studies is called correlation analysis and is denoted by a symbol 'r'.

In the present day study using Karl Pearson's coefficient of correlation has used in correlation analysis.

- a) Sales and Net Profit
- b) Debtors and Creditors
- c) Average Collection Period and Average Payment Period
- d) Sales and Gross Profit
- e) long-term Debt and Shareholders Fund

Test of significance 'r'

Correlation analysis is an important statistical tool, which helps in determining the relationship between two or more variables. The measure of correlation is called the co-efficient of correlation and is denoted by 'r'.

Trend Analysis

Trend analysis is the dependence of a variable on one or more variables, considering a linear equation. It has been used to forecasting the future sales and net profit.



Charts & Diagrams

Charts, schedules and diagrams are used to have a quick and clear view of the study.

ii. Review of Literature

Introduction

Ganesan (2001) examined the determinants of profitability of public sector banks by an empirical estimation of profit function model which showed that interest cost, interest income, other income, deposits per branch, credit to total assets, proportion of priority sector advances to interest income are the significant determinants of profit and profitability of Indian public sector banks. He concluded that the average establishment cost positively contributes to the profitability but in adversely affects the net profit of the public sector banks.

D'souza (2002) in his study evaluated the performance of public sector, private sector and foreign banks during the period 1991 to 2000. The efficiency of the banking system was measured in terms of spread/working funds ratio and turnover / employee ratio. With reference to the spread to working funds ratio, the efficiency of the commercial banks as a whole has declined in the post-reform period. The public sector banks have been responsible for this decline in efficiency, as the efficiency of the private and foreign banks has improved over the course of 1990s. Through the turnover/employee ratio has risen in the public sector banks, the turnover per employee in the private and foreign banks doubled relative to the ratio for public sector banks during this decade. However, the analysis revealed that the profitability of the public sector banks in late nineties improved relatively to that of private and foreign banks.

III. Profile of the company

3.1 industry profile

ICICI Bank Limited (the Bank), incorporated on January 5, 1994, is a banking company. The Bank is engaged in providing a range of banking and financial services, including commercial banking, retail banking, project and corporate finance, working capital finance, insurance, venture capital and private equity, investment banking, broking and treasury products and services. The Bank's business segments are Retail banking, Wholesale banking, Treasury, Other banking, Life insurance, General insurance and Others. The Retail banking segment includes exposures, which satisfy the criteria of orientation, product, granularity and low value of individual exposures for retail exposures laid down in Basel Committee on Banking Supervision document International Convergence of Capital Measurement and Capital Standards. Wholesale Banking includes all advances to trusts, partnership firms, companies and statutory bodies, which are not included under Retail Banking. Treasury includes the entire investment and derivative portfolio of the Bank.

Other banking includes leasing operations and other items not attributable to any particular business segment of the Bank. Life insurance represents results of ICICI Prudential Life Insurance Company Limited. General insurance represents results of ICICI Lombard General Insurance Company Limited. Others includes ICICI Home Finance Company Limited, ICICI Venture Funds Management Company Limited, ICICI International Limited, ICICI Securities Primary Dealership Limited, ICICI Securities Limited, ICICI Securities Holdings Inc., ICICI Securities Inc., ICICI Prudential Asset Management Company Limited, ICICI Prudential Trust Limited, ICICI Investment Management Company Limited, ICICI Trusteeship Services Limited and ICICI Prudential Pension Funds Management Company Limited. The Bank has a network of approximately 18,210 branches and automated teller machines (ATMs). The Bank's mVisa service allows customers to scan a Quick Response (QR) Code at merchant outlets and make a payment.

IV. Analysis and interpretation

4.1 introductions

Ratio analysis is a powerful tool of financial analysis. A ratio is defined as "relationship between two or more variables". In financial analysis a ratio is used as a benchmark for evaluating the financial position and performance of the firm. The absolute accounting figures reported in the financial statement do not provide a meaningful understanding of the performance and financial position of the firm. The relationship between two accounting figures expressed mathematically is known as a financial ratio. The ratio reveals the company's ability to meet its current obligations. It measures the company's liquidity position and vice-versa. The ratio indicates the quantitative relationship, which can be in turn, used to make a qualitative judgment.

4.2 liquidity analysis

The short-term creditors of a company like suppliers of goods of credit and commercial banks providing short-term loans, are primarily interested in knowing the company's ability to meet its current or short-term obligations as and when these become



due. At the short-term obligations of a firm can be met only when there are sufficient liquid assets. Therefore, a firm must ensure that it does not suffer from lack of liquidity or the capacity to pay its current obligations. If a firm fails to meet such current obligations due to lack of good liquidity position, its goodwill in the market is likely to be affected beyond repair. It will result in a loss of creditors confidence in the firm and may cause even closure of the firm, given a very high degree of liquidity is not good for a firm because such a situation represents unnecessarily excessive funds of the firm being tied-up in current assets. Therefore, it is very important to have a proper balance in regard to the liquidity of the firm. Two types of ratios can be calculated for measuring short-term financial position or short-term solvency of a firm.

(A) Liquidity Ratios

(B) Current Assets Movement or Activity Ratios.

(A). Liquidity Ratio

This refers to the ability of a concern to meet its current obligations as and when these become due. The short-term obligations are met by realizing amounts from current, floating or circulating assets. The current assets should either be liquid or near liquidity. These should be convertible into cash for paying obligations of short-term nature. The sufficiency or insufficiency of current assets should be assessed by comparing them with short-term (current) liabilities. If current assets can pay off current liabilities, then liquidity position will be satisfactory. On the other hand, if current liabilities may not be easily met out of current assets then liquidity position will be bad. The bankers, suppliers of goods and other short-term creditors are interested in the liquidity of the concern. They will extend credit only if they are sure that current assets are enough to pay out the obligations. To measure the liquidity of a firm, the following ratios can be calculated:

- I. Current Ratio
- II. Quick Ratio or Liquid Ratio
- III. Absolute Liquid Ratio

Table No. 1 - Current Ratio

(Rs. in crores)

Year	Current Asset	Current Liabilities	Ratio
2005-2006	131.09	27.49	4.77
2006-2007	163.31	43.81	3.73
2007-2008	230.75	54.8	4.21
2008-2009	239.71	80.48	2.98
2009-2010	273.61	72.67	3.77
2010-2011	363.24	128.03	2.84
2011-2012	318.93	93.09	3.43
2012-2013	326.77	115.71	2.82
2013-2014	431.71	163.89	2.63
2014-2015	606.65	175.86	3.45

(Source : Secondary Data)

Interpretation

The average current ratio during the study period is 3.45 which is above the standard norms of 2:1, so the company has to improve its current ratio by increasing its current assets. The maximum current ratio in the year of 2005-2006 is 4.77 and the minimum ratio in the year of 2013-2014 is 2.63. Therefore, there is a fluctuating trend in current ratio, so that the company can meet current liabilities with the available current assets.

4.2.2 Quick Ratio

Quick Ratio / Liquid Ratio / Acid Test Ratio is the ratio of liquid assets to current liabilities. Those current assets, which can readily be converted into cash, are known as liquid assets, or quick assets. Usually inventories and prepaid expenses are excluded from current assets because it takes time to sell finished goods, and convert raw materials and work-in-progress into finished goods, and prepaid expenses cannot be converted into cash. Liquid assets include cash, debtors after providing for bad and doubtful debts and securities which can be realized without difficulty. Liquid or quick liabilities are creditors, Bills payable and outstanding less bank or assumed expenses.

$$\text{Quick Ratio} = \frac{\text{Quick Assets}}{\text{Current Liabilities}}$$



Table No. 2 - Quick Ratio

(Rs. in crores)

Year	Quick Asset	Current Liabilities	Ratio
2005-2006	30.55	27.49	1.11
2006-2007	35.28	43.81	0.81
2007-2008	53.84	54.80	0.98
2008-2009	75.16	80.48	0.93
2009-2010	70.49	72.67	0.97
2010-2011	102.50	128.03	0.80
2011-2012	87.42	93.09	0.94
2012-2013	127.66	115.71	1.10
2013-2014	196.71	163.89	1.20
2014-2015	296.19	175.86	1.68

(Source : Secondary Data)

Interpretation

Usually a high acid test ratio is an indication that the firm is liquid and has the ability to meet its current liabilities in time and vice versa. It is inferred from the table, the liquidity position of the ICICI is stable during the period of study. It has sufficient amount of liquid assets to pay off its current liabilities. The minimum ratio is 0.81 in the year 2002-2003 and the maximum is 1.68 in the year 2014-2015. The average ratio is 1.05. The liquid ratio goes in hand with the standard norms of 1:1.

CORRELATION BETWEEN SALES AND NET PROFIT

(Rs. in crores)

Year	Sales (X)	x = X - Mean	x ²	Net Profit (Y)	y = Y - Mean	y ²	xy
2005-2006	194.83	-265.22	70341.65	13.15	-23.96	574.08	6354.67
2006-2007	218.83	-241.22	58187.09	14.95	-22.16	491.07	5345.44
2007-2008	283.98	-176.07	31000.64	17.98	-19.13	365.96	3368.22
2008-2009	407.5	-52.55	2761.50	21.11	-16	256.00	840.80
2009-2010	360.4	-99.65	9930.12	13.11	-24	576.00	2391.60
2010-2011	488.42	28.37	804.86	34.41	-2.7	7.29	-76.60
2011-2012	503.13	43.08	1855.89	44.63	7.52	56.55	323.96
2012-2013	646.98	186.93	34942.82	78.21	41.1	1689.21	7682.82
2013-2014	817.02	356.97	127427.58	90.85	53.74	2887.99	19183.57
2014-2015	679.45	219.4	48136.36	42.67	5.56	30.91	1219.86
Total			385388.52			6935.06	46634.34

$$r = \frac{XY}{\sqrt{X^2 \times Y^2}}$$

$$= \frac{46634.34}{\sqrt{385388.52 \times 6935.06}}$$

$$r = 0.90$$

Hypothesis test of significance

Hypothesis: There is no relationship between sales and net profit.



$$t = r \frac{\sqrt{n-2}}{1-r^2}$$

$$= 0.90 \frac{\sqrt{8}}{0.19}$$

$$= 0.90 \times 14.89$$

$$t = 13.40$$

The correlation between sales and net profit the value of 'r' (0.90) is highly positive and also the calculated value of t (13.40) is more than the table values of t (2.447) at 5% level of significance hence the hypothesis is rejected and there exists a relationship between sales and net profit.

Finding, Suggestions and Conclusion

5.1 Finding

Liquidity Analysis

1. The current ratio is not up to the standard norms.
2. Liquid ratio is stable and is up to the standard norms hence the company is having sufficient amount of liquid assets to pay off its current liabilities.
3. Absolute liquid ratio of the company is not exactly meet standard norms and ICICI should maintain bank & cash position.

5.2 Suggestions

Based on the findings, the following suggestions are offered for the improvement of the financial performance of the company.

- The liquid ratio is in a sound position. But the current ratio and absolute liquid ratio is not up to the standard norms. Hence, the company has to take necessary steps to improve the ratio to the standard norms.
- The company recently maintains a better stock turnover ratio, it is suggested to maintain the same.
- The company could reframe the debt collection policy and maintain better relation towards debtors.
- The claims of outsiders are less to those of owners and hence the company has to utilize its funds optimally to get more returns to its owners.
- The company has to take necessary steps to reduce the costs and it should increase level of profitability.
- Return on share holder's investment should be improved.
- The ICICI overall performance is commendable in this world economic predicament compare to the challengers.

Conclusion

The present study entitled "The financial performance analysis of ICICI BANK" was undertaken with the main objective of analyzing the financial position of the company.

The study enables to arrive at certain conclusion regarding the financial strength of ICICI BANK . It reveals that the short term solvency of the company is commendable, but at the same time, it has to increase its cash position to improve its absolute liquidity. The use of long-term debt could be increased, to increase the return on the shareholder investment and by reducing outsider's funds. The company by framing better debt collection policy it could speedup the collections from debtors. Hence, the funds could be utilized to the extent possible, resulting maximum profitability. The study made on the efficiency position of the company is satisfactory. The trend analysis shows the favorable position of the company in the future sales and profits.

Bibliography

Books

1. Advanced Accountancy, Gupta R.L & Radhaswamy, M. Sultan Chand & Sons, New Delhi, year 1991
2. Management Accounting Sharma R.K, Shashi K Gupta, Kalyani Publishers, New Delhi, year 1997
3. Principles of Management Accounting, S.N. Maheswari, Sultan Chand & Sons, New Delhi, year 1987
4. Financial Management Khan M.Y & Jain P.K, Tata Mc-Graw Hill Publishing Company Ltd., year 1994
5. Financial Management Kuchhal, S.C. Chaitanya Publishing House, Allahabad, year 1993
6. Research Methodology Kothari C.R. Wishwa Prakashan, New Delhi, year 1990.