Chapter – I

Introduction and Design of the Study
# CHAPTER - I

## INTRODUCTION AND DESIGN OF THE STUDY

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CHAPTER I

INTRODUCTION AND DESIGN OF THE STUDY

1.1 INTRODUCTION

Banking sector is considered as a booming sector in Indian economy recently. An economy’s financial markets are crucial to its overall growth and development. Banking systems and stock markets enhance growth and are considered the main factor in poverty reduction. Strong financial systems provide reliable and accessible information that lowers transaction costs, which in turn bolsters resource allocation and economic growth. The growth and financial stability of the country depends on the financial soundness of its banking sector. Development Banks are one such member of the financial institutions that can affect growth and development of a country and the regions within its sphere of influence if it provides the accessibility, stability, and efficiency in financial resource allocation to deficit spending unit who can use it for growth and development\(^1\).

In 1992 the RBI launched banking sector reforms, as per the recommendations made by the Narasimhan Committee on financial reforms to create a more profitable, efficient and sound banking system. The reforms opened the banking sector for private players. Domestic Private sector banks are divided into two categories: old banks which existed with the public sector banks before the entry deregulation and the new banks that came into existence after the reforms of 1992. The old banks are smaller in size and are regional. In contrast the new private sector banks are much larger in size, operate primarily in metros and are technologically superior. Interestingly, unlike many developing countries, where the government owned financial institutions own major equity of the private banks, the equity share holders of the old private sector banks were mainly non government bodies. However, most of the new private sector banks, in India are promoted by the government owned financial Institutions. These banks, too, are in the process of reducing promoter’s stake by raising funds through the capital market.

These developments in the area of banking regulations has made public sector banks more concerned about their position and place in the Indian banking industry. On the other hand, banks in private sector and foreign sector are making their operations in

\(^1\) www.data.worldbank.org
their own way. There is a big difference in the operation style of these different types of bank groups. So, there is a need to compare and evaluate the operations of these different bank groups and their achievements on different parameters.  

Private banking is a concept which is new and fast emerging in the world of banking where changes have become a necessity in order, for the banks, to survive in this competitive environment vis-à-vis not only from the public and private sector banks but also from the foreign banks. The objective of the research is to explore the various products, which a private banker deals into and the systematic process involved to match client requirements with the right kind of product. One of the main objectives of this research is to explore banking as business profile to their set of service offerings. Though private banking evolved in late 80"s in Asia, in India it"s not more than 15 years old. ICICI started it in Aug 2002 and since then it has been a remarkable success. Today there are enormous solutions to cater client needs but what suits best to a client is where private banking fits in. Every client will have different needs, likings and preferences. So a customized portfolio for every client is the need of the day.

1.2 AN OVERVIEW OF INDUSTRIAL CREDIT AND INVESTMENT CORPORATION OF INDIA (ICICI)

ICICI Bank (formerly Industrial Credit and Investment Corporation of India) is a major banking and financial services organization in India. ICICI Bank is also the largest issuer of credit cards in India. ICICI Bank is India's second-largest bank with total assets of `4,062.34 billion (US$ 91 billion) at March 31, 2011 and profit after tax `51.51 billion (US$ 1,155 million) for the year ended March 31, 2011. The Bank has a network of 2,610 branches and 8,003 ATMs in India, and presence in 19 countries. ICICI Bank offers a wide range of banking products and financial services to corporate and retail customers through a variety of delivery channels and through its specialized subsidiaries in the areas of investment banking, life and non-life insurance, venture capital and asset management. The Bank currently has subsidiaries in the United Kingdom, Russia and Canada, branches in United States, Singapore, Bahrain, Hong Kong, Sri Lanka, Qatar and Dubai International Finance Centre.

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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 (American Depositary Receipts) listed on the NYSE in fiscal 2000, ICICI Bank's acquisition of Bank of Madura Limited in an all-stock amalgamation in fiscal 2001, and secondary market sales by ICICI to institutional investors in fiscal 2001 and fiscal 2002. 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 1990's, 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 through a number of subsidiaries and affiliates like ICICI Bank. In 1999, ICICI becomes the first Indian company and the first bank or financial institution, from non-Japan Asia to be listed on the NYSE.

Table 1.1

<table>
<thead>
<tr>
<th>Year</th>
<th>No. of Branches</th>
</tr>
</thead>
<tbody>
<tr>
<td>2002</td>
<td>370</td>
</tr>
<tr>
<td>2003</td>
<td>540</td>
</tr>
<tr>
<td>2004</td>
<td>413</td>
</tr>
<tr>
<td>2005</td>
<td>562</td>
</tr>
<tr>
<td>2006</td>
<td>614</td>
</tr>
<tr>
<td>2007</td>
<td>755</td>
</tr>
<tr>
<td>2008</td>
<td>1262</td>
</tr>
<tr>
<td>2009</td>
<td>1419</td>
</tr>
<tr>
<td>2010</td>
<td>1707</td>
</tr>
<tr>
<td>2011</td>
<td>2529</td>
</tr>
</tbody>
</table>

Source: Annual report of ICICI bank

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3 www.icicibank.com
After consideration of various corporate structuring alternatives in the context of the emerging competitive scenario in the Indian banking industry, and the move towards universal banking, the managements of ICICI and ICICI Bank formed the view that the merger of ICICI with ICICI Bank would be the optimal strategic alternative for both entities, and would create the optimal legal structure for the ICICI group’s universal banking strategy.

Table 1.2
Table showing Deposits of ICICI Bank from 2002 to 2011 ( in crores)

<table>
<thead>
<tr>
<th>Year</th>
<th>Deposits</th>
</tr>
</thead>
<tbody>
<tr>
<td>2002</td>
<td>3,20,851.11</td>
</tr>
<tr>
<td>2003</td>
<td>4,81,693.06</td>
</tr>
<tr>
<td>2004</td>
<td>6,81,085.85</td>
</tr>
<tr>
<td>2005</td>
<td>9,98,187.88</td>
</tr>
<tr>
<td>2006</td>
<td>1,65,083.17</td>
</tr>
<tr>
<td>2007</td>
<td>2,30,510.19</td>
</tr>
<tr>
<td>2008</td>
<td>2,44,431.05</td>
</tr>
<tr>
<td>2009</td>
<td>2,18,347.83</td>
</tr>
<tr>
<td>2010</td>
<td>2,02,016.60</td>
</tr>
<tr>
<td>2011</td>
<td>2,25,602.11</td>
</tr>
</tbody>
</table>

*Source: Annual report of ICICI bank*

The merger would enhance value for ICICI shareholders through the merged entity's access to low-cost deposits, greater opportunities for earning fee-based income and the ability to participate in the payments system and provide transaction-banking services.

Table 1.3
Table showing the No. of ICICI Bank ATMs installed between 2002 and 2011

<table>
<thead>
<tr>
<th>Year</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>No. of ATMs</td>
<td>1000</td>
<td>1700</td>
<td>1790</td>
<td>1910</td>
<td>2200</td>
<td>3271</td>
<td>3881</td>
<td>4713</td>
<td>5219</td>
<td>6425</td>
</tr>
</tbody>
</table>

*Source: Annual report of ICICI bank*
The merger would enhance value for ICICI Bank shareholders through a large capital base and scale of operations, seamless access to ICICI's strong corporate relationships built up over five decades, entry into new business segments, higher market share in various business segments, particularly fee-based services, and access to the vast talent pool of ICICI and its subsidiaries.

Table 1.4

Table showing Advances and Loans from 2002 to 2011 (Rs in crores)

<table>
<thead>
<tr>
<th>Year</th>
<th>Advances and Loans</th>
</tr>
</thead>
<tbody>
<tr>
<td>2002</td>
<td>47,035.00</td>
</tr>
<tr>
<td>2003</td>
<td>53,279.00</td>
</tr>
<tr>
<td>2004</td>
<td>62,096.00</td>
</tr>
<tr>
<td>2005</td>
<td>91,405.00</td>
</tr>
<tr>
<td>2006</td>
<td>1,46,163.11</td>
</tr>
<tr>
<td>2007</td>
<td>1,95,865.60</td>
</tr>
<tr>
<td>2008</td>
<td>2,25,616.08</td>
</tr>
<tr>
<td>2009</td>
<td>2,18,310.85</td>
</tr>
<tr>
<td>2010</td>
<td>1,81,205.60</td>
</tr>
<tr>
<td>2011</td>
<td>2,16,365.90</td>
</tr>
</tbody>
</table>

*Source: Annual report of ICICI bank*

Free float holding excludes all promoter holdings, strategic investments and cross holdings among public sector entities. ICICI Bank disseminates information on its operation and initiatives on a regular basis.

The ICICI Bank website serves as a key investor awareness facility, allowing stakeholders to access information on ICICI Bank at their convenience. ICICI Bank’s dedicated Investor Relations Personal play a proactive role in disseminating information to both analysts and investors and respond to specific queries⁴.

⁴[www.icicigroupcompanies.com](http://www.icicigroupcompanies.com)
1.3 STATEMENT OF THE PROBLEM

Indian banks, the dominant financial intermediaries in India, have made good progress over the last five years, as is evident from several parameters, including annual credit growth, profitability, and trend in gross non-performing assets (NPAs). While the annual rate of credit growth clocked 23% during the last five years, profitability (average Return on Net Worth) was maintained at around 15% during the same period, and gross NPAs fell from 3.3% as on March 31, 2006 to 2.3% as on March 31, 2011.

Like profitability, productivity of the banks too shows deceleration: productivity and profitability which are closely inter-related. Not only capital adequacy, quality of assets, productivity and profitability, but also growth, social banking and customer service are areas of concern where a wide difference in performance exists among the Private sector banks. The biggest challenge facing these banks is survival. Meeting this challenge requires good governance, maintaining sufficient capital, profitability, well diversified liability base, robust technologies and internal controls apart from planning and execution of strategies. The opportunities available are intensifying their coverage in their areas of operation, especially

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5 Report of Indian Banking Industry 2012
amongst retail clients and small and medium businesses and increasing the retail deposit base. To obtain a clear picture, it is worthwhile to have a close look at the performance effectiveness of ICICI Bank.

1.4 REVIEW OF LITERATURE

Effectiveness of organizational performance has been an important area and it has undergone continuous development and modification. Many studies have been conducted in India and abroad to study the various aspects of performance measurement in the banking sector. These studies have been reviewed critically with a view to understand the objectives of these studies, research methodology, research findings, etc. and to identify the gap that exists in the literature in this area.

1.4.1 Studies related to Business Performance of Banking Sector

Ram Mohan (2002)\(^6\) evaluated the performance of public sector banks (PSBs) since deregulation in both absolute and relative terms and also highlighted the reason underlying the improved performance of PSBs. The author mentioned that the banking system has neither collapsed nor there has been any banking crisis. One important point that advocates the improved performance of PSBs is the improvement in declining spreads of SBs. The author measured performance of PSBs during the period 1991-92 to 1999-2000 on the basis of key performance indicators like interest spread, intermediation cost, non-performing assets, provision and contingencies and net profits as percentage to total assets. But in the relative performance he makes a comparison between public sector banks, private sector and foreign banks from 1994-95 to 1999-00. In this category he also made comparison of the performance of PSBs and old private sector banks during the same period.

The author concluded that partly due to regulatory norms, the government-owned banks have had minimal exposure to risky assets such as real estate and stock market. Another reason for survival of banks in the deregulation era was that the government wisely stayed away from the move towards full-blown capital convertibility. In his article, the author also talked of recapitalization requirement of PSBs. Not the least,

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government ownership facilitates recapitalization of banks at outset of reforms and this has arguably precipitated costlier bailouts down the road. Further, it was explained that the government had no choice but to infusion funds in the banking sector, the fiscal situation notwithstanding, thanks to mandatory Basel norms for banks.

Pathak (2003) while comparing the financial performance of private sector banks since 1994-95, explained that the private sector banks have delivered a new banking experience. Looking to the growing popularity of services provided by them, their public sector counterparts have started emulating them. He studied the performance of these banks in terms of financial parameters like deposits, advances, profits, return on assets and productivity. In this paper, the author made an attempt to have an insight into the financial operation of these institutions. A sample of 5 banks has been taken for financial analysis. Financial track record of all these banks was evaluated, and their financial performance was compared. The working of all the constituents was satisfactory but the HDFC Bank emerged as a top performer among them followed closely by the ICICI Bank.

Ram Mohan and Ray (2004) in their article titled, “Comparing Performance of Public and Private Sector Banks: A Revenue Maximization Efficiency Approach” made a comparison of performance among three categories of banks - public, private and foreign banks - using physical quantities of input and outputs and comparing the revenue maximization efficiency of banks during 1992-00. The findings of the study showed that public sector banks performed significantly better than the private sector banks but in no way different from foreign banks. In this study, a comparison of public, private and foreign banks in India has been made using data envelopment analysis (DEA). In DEA, physical quantities of inputs and outputs are used. Therefore measures of efficiency based on output-input quantities may be more suitable.

In the Indian context, the approach of using deposits and loans as output have been appropriate in the nationalized era when maximizing these was indeed the objective of a bank. But the main business of the banks is to maximize their profits. Interest expense

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and operating expense are treated as input when amount to maximizing revenue. Finally they concluded that the superior performance of PSBs is to be described higher technical efficiency rather than higher allocative efficiency.

**Bansal (2005)**, in his research work, attempted to find out the impact of liberalization on productivity and profitability of public sector banks in India. The researcher evaluated the productivity and profitability of 27 PSBs in the post-liberalization period, i.e., from 1991-02. The productivity of all the PSBs has been measured on the basis of employee productivity (labour productivity), branch productivity and overall productivity. The researcher ranked different banks from all the three levels of productivity. While measuring productivity he used parameters like Deposit, Advances, Business, Total Income, Total Expenditure, Burden, Spread and Net Profit. The study brought out that from the overall productivity angle, BOB, BOI, SBI, COB, OBC have been the top rankers, whereas the ranking of SBBJ, SB, AIIB, SBM and UCB was far from satisfactory. As far as SBI group is concerned, SBI remained the leader followed by SBOP in almost every year of study. While measuring profitability of all the PSBs, the trend analysis results showed that net profits in absolute terms have increased for majority of the PSBs but profitability has witnessed a decline. But a few banks have improved their profitability over the period of study.

The main reason for the declining trend in profitability is due to increased competition which has been resulting in a narrowing spread. While measuring profitability, the researcher used various ratios like interest income, interest expended, spread, non-interest income, non-interest expenditure, burden and net profits to working funds ratios. The researcher also used ratios like interest income to total income ratios, interest expanded to total expenditure ratio and staff expenditure to operating expenditure ratio.

**Business India (2006)** arranged a panel discussion to judge the best bank in the Indian banking sector on the basis of certain selected variables. For the purpose of the panel discussion, Business India looked closely at 24 banks. While the other banks (out of the universe 88 banks) were still eligible to be selected by the panel. This 24-banks universe was essentially short listed by the Business India. The selection was based on consideration,

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such as size and visibility the panelist pick the 24 contenders from each of the three categories of banks – the PSU, private and foreign banks. The profile of the banks that caught the attention include banks which were clearly leaders in selected areas. The panelists selected a few broad parameters to evaluate the contenders in the first round to produce a short list. Such parameters included financial and operational performance, quality of management, the creation of a platform for growth, value creations and how the stockholders have reacted to the same. In Round- I, thirteen banks were short listed; and during Round-II, six banks were selected; and finally in Round-III, two banks, i.e., HDFC Bank and ICICI Bank competed with each other.

The methodology used by the panelists was CRAMEL Model based on different ratios computed under each measure like Capital adequacy, Resources deployed, Assets quality, Management efficiency, Earning quality and Liquidity. Finally, ICICI Bank was selected Business India”s Best Bank for 2006. On current form, it is only a matter of time before the ICICI group emerged the country’s biggest financial powerhouse. In several of the business line, it has built significant market shares, be it home loan or vehicle loan or insurance. Within five years of turning into full- fledged bank, it has shown the world that India can build world class institutions.

Gopal and Dev (2006)\(^\text{11}\) in their research paper empirically analyzed the productivity and profitability of selected public and private sector banks in India. They evaluated the effect of globalization and liberalization on the productivity and profitability of Indian banks during the period 1996-97 to 2003-04. The author observed that emergence of new private sector banks as well as entry of new foreign banks in this era has thrown tremendous challenges in the form of tough competition among the Indian banks. The spirit of competition and emphasis on profitability are also forcing the PSBs towards greater profit orientation.

For the purpose of their study, they selected five large banks each on the basis of highest quantum of deposit mobilization from both the public and private sectors during the period under study. It was found that the process of globalization and liberalization has exerted its huge influence on the Indian banking sector. The ongoing reforms in the banking

sector, with a thrust on transparency and efficiency have forced the Indian banking sector to adopt suitable strategies which focus on productivity and sustainability. The study reveals that except few cases, the productivity index is found to be greater than one in the selected banks. As far as the matter of achieving the target profitability is concerned, SBI and PNB were most successful followed by HDFC Bank and ICICI Bank but the performance of J& K Bank, Canara Bank and Bank of India was poor in terms of achievements. Interest spread emerged as the only strong factor influencing the profitability. A high degree of positive association between productivity and profitability during the study period speaks about the efficiency of the banks in utilizing their resources.

Ramudu and Rao (2006)\textsuperscript{12} while making a fundamental analysis of Indian banking industry, revealed that ever since the Indian economy opened its doors to MNCs, the Indian banking sector has been witnessing bizarre changes in terms of new products and services and shift competition as well. The sorts of IPOs that have been taking place in banking sector are amazing. In the light of these recent developments, a careful analysis of the profitability of Indian banking sector is inevitable.

The researchers have selected three major banks in India, viz. SBI, ICICI, and HDFC. While analyzing profitability of these banks they used different variables of profitability like OPM, NPM, ROE, EPS, PEB, DPS and DPR. They analyzed the data for a period of 5 years from 2001 to 2005. For making analysis of data and interpreting the results, they used different statistical tools like Arithmetic Mean, Compounded Annual Growth Rate (CAGR) and one way analysis of variance (ANOVA).

The study aims at examining the economic sustainability of SBI, ICICI and HDFC. The study concluded that SBI performed better in terms of Earning per Share and Payout Ratio, and its CAGR in most of the parameters was also higher than ICICI and HDFC. On the other hand, HDFC performed better in terms of OPM, NOM, ROE and PER. As far as the pay-out-ratio was concerned, ICICI paid the highest portion of its earnings despite the fact that its earning capacity was not better than that of other two banks. The CAGR in all the parameters of SBI was more than that of ICICI and HDFC.

Uppal, R. K. and Kaur, R. (2007)\textsuperscript{13} analyze the efficiency of all the bank groups in the post banking sector reforms era. Time period of study is related to second post banking sector reforms (1999-2000 to 2004-05). The paper concludes that the efficiency of all the bank groups has increased in the second post banking sector reforms period but these banking sector reforms are more beneficial for new private sector banks and foreign banks. This paper also suggests some measures for the improvement of efficiency of Indian nationalized banks. The sample of the study in Indian banking industry which comprises five different ownership groups and the ratio method is used to calculate the efficiency of different bank groups. New private sector banks are compelling with foreign banks for continuous improvement in their performance.

Bharathi (2007)\textsuperscript{14} in his article titled, “Indian Bank: Banking on Growth” revealed that as the banking sector is on the threshold of exponential growth, consolidation, reforms and compliance remain the dominant factors for the Indian banks boardroom agenda. He mentioned that India is the second fastest growing economy in the world, truly so a robust banking system would be instrumental for enhancing the levels of activities of the economy. The author highlighted that due to liberalization, improving economic conditions, changing consumer demographics and growing market opportunities; the Indian banking sector is growing at a steady pace and has been currently ranked among the most preferred banking destination in the world. This sector has emerged as a key facilitator for sustaining the growth momentum of the Indian economy. According to The analyst 500 ranking based on net sales, SBI topped the league chart by maintaining the 6th position from the previous year. India’s top private sector bank, ICICI, has moved up three places from 12th to 9th position. Besides this, PNB and CANARA Bank have climbed by one position each and occupied the 24th and 27th position respectively.

The author highlighted that the banks are gearing up for number of challenges confronting the IBS to extend financial services to all sections of the society like financial inclusion, Capital Adequacy (Basel-I and Basel- II) Standard requirements, to effectively compete with foreign banks and Consolidation movement to achieve global competitiveness.


Kumar, S. (2008)\textsuperscript{15} in his article on an evaluation of the financial performance of Indian private sector banks wrote Private sector banks play an important role in development of Indian economy. After liberalization the banking industry underwent major changes. The economic reforms totally have changed the banking sector. RBI permitted new banks to be started in the private sector as per the recommendation of Narashiman Committee. The Indian banking industry was dominated by public sector banks. But now the situations have changed new generation banks with used of technology and professional management has gained a reasonable position in the banking industry.

Singla (2008)\textsuperscript{16} in his research paper titled “Financial Performance of Bank in India”, examined how financial management plays a crucial role in the growth of banking. During 2005-06, bank credits witnessed a strong expansion and a steady growth in deposits was also observed. Currently, banking in India is considered as fairly mature in terms of supply, product range and reach. In terms of quality of supply, assets and capital adequacy, Indian banks are considered to have strong and transparent position. As Indian economy is constantly growing especially the service sector, the demand for banking services is also expected to be stronger. Indian banking stands at a threshold of a mega change in the next 3-5 years. Many new situations are predicted to emerge.

The study is conducted by examining the profitability of the selected sixteen banks (BANKEX-based) for the period of six years (2000-01 to 2006-07). For this purpose, the researcher computed various (Nine) ratios, which throw light on the various dimensions of the business. The study revealed that the profitability position was reasonable during the period of study when compared with previous years. Return on investment (ROI) proved that the overall profitability and the position of the selected banks were sustained at a moderate rate. With respect to debt-equity position, it was evident that the banks were maintaining 1:1 ratio, though at one point of time it was quite high. Interest coverage ratio was continuously increasing. Capital adequacy ratio was constant over a period of time. It was also observed that return on net worth had a negative correlation with debt-equity ratio. Interest income to working funds also had a negative association with interest coverage ratio and NPA to Net advances was negatively correlated with interest coverage ratio.

\textsuperscript{15} Kumar, S. (2007). “An Analysis of Efficiency- Profitability Relationship in Indian Public Sector Banks”, Research paper, Reader, Punjab School of Economics, G.N.D.U.

Finally, the researcher predicted that with the increasing level of globalization of Indian banking industry and the evolution of universal banks, competition in the banking industry would intensify further. Though the potential and ability exist, Indian banks have to be faster now to sustain the growth. On the basis of this study, it can be concluded that financial position of banks is reasonable. Debt-Equity ratio is maintaining an adequate level throughout and NPA also witnessed a decline. The ROI remains at a very low position, which is a worrying factor. The banking sector system, which is going through major reforms is one of the emerging sector and will grow at a sustained rate over a period of time.

Rajput (2008)\footnote{Rajput, B. (2008), “Post-liberalisation Trend in Banking”, National Level Seminar on Service Sector: Opportunity and Challenges, Conducted by Punjabi University, Patiala, March 26.} in her paper highlighted the impact of liberalization measures on the performance of Indian banking sector. The author listed various liberalization measures like reduction in pre-emption funds through reduction of CRR and SLR, introduction of prudential provisioning and capital adequacy norms, phasing out the directed credit programmes, deregulation of interest rates, imparting transparency, infusion of competition, introduction of universal banking and emphasis on corporate governance. She highlighted various performance indicators of different bank groups like growth of banking in terms of assets to GDP, share in total assets, interest income, non-interest income, expenditure and total income as a percentage of total assets, capital adequacy ratios and NPAs as a percentage of total assets. She also stated the impact of liberalization measures on the institutional features of Indian banks like reserve requirements (SLR and CRR), interest rate structure, and priority sector lending. The author revealed that presently all the SCBs have to comply with 40 per cent target for priority sector lending whereas it is 32 per cent in the case of foreign banks.

Finally, the author concluded that the Indian banking system is growing in a robust manner and complies with international standard of prudential regulations. Competitive gains are also reflected in industry in terms of higher efficiency and technological innovations. India is opening up for the entry of foreign banks. Last but not the least, the author listed future challenges for Indian banks like globalization - a challenge as well as opportunity, Basel-II implementation, application of advanced technology and financial inclusion.
**Prof. G. V. Bhavani Prasad; D. Veena (2011)**\(^{18}\) studied NPAs in Indian Banking Sector – Trends & Issues and concluded that PSBs, which currently account for more than 78 percent of total banking industry assets are saddled with NPAs, falling revenues from traditional sources, lack of modern technology and a massive workforce while the new private sector banks are forging ahead and rewriting the traditional banking business model by way of their sheer innovation and service and adoption of modern technology.

**Shalu Rani (2011)**\(^{19}\) examined the existing position of banks in SCBs of India in respect of NPAs, the causes and remedial measures thereof and concluded that the level of NPA has increased, eroding whatever reduction was made with the ever increasing level of fresh NPAs and tightening of norms by RBI time to time. Total elimination is not possible in banking business so it is wise to follow the proper policy for appraisal, supervision and follow up of advances to avoid NPAs.

### 1.4.2 Studies related to Camel Framework

**Rao and Datta (1998)**\(^{20}\) made an attempt to derive rating based on CAMEL. In their study, based on these five groups (C-A-M-E-L), 21 parameters in all were developed. After deriving separate rating for each parameter, a combined rating was derived for all nationalised banks (19) for the year 1998. The study found that Corporation Bank has the best rating followed by Oriental Bank of Commerce, Bank of Baroda, Dena Bank, Punjab National Bank, etc. And the worst rating was found to be of Indian Bank preceded by UCO Bank, United Bank of India, Syndicate Bank and Vijaya Bank.

**Prasuna (2004)**\(^{21}\) analysed the performance of Indian banks by adopting the CAMEL Model. The performance of 65 banks was studied for the period 2003-04. The author concluded that the competition was tough and consumers benefited from it. Better services quality, innovative products, better bargains are all greeting the Indian customers. The coming fiscal will prove to be a transition phase of Indian banks, as they will have to align their strategic focus to increasing interest rates.

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Veni (2004) studied the capital adequacy requirement of banks and the measures adopted by them to strengthen their capital ratios. The author highlighted that the rating agencies give prominence to Capital Adequacy Ratios of banks while rating the bank’s certificate of deposits, fixed deposits and bonds. They normally adopt CAMEL Model for rating banks. Thus, Capital Adequate is considered as the key element of bank rating.

Satish (2005) adopted CAMEL model to assess the performance of Indian banks. The authors analyzed the performance of 55 banks for the year 2004-05, using CAMEL Model. They concluded that the Indian banking system looks sound and Information Technology will help the banking system grow in strength while going into future. Banks’ initial public offers (IPOs) will be hitting the market to increase their capital and gearing up for the Basel-II norms.

Bodla and Verma (2006) in their paper, made an attempt to examine and compare the performance of two largest banks of India - SBI, a public sector bank; and ICICI a private sector bank - through CAMEL Model. The present supervision system in banking sector is a substantial improvement over the earlier system in terms of speed, coverage and focus and also the tool employed. Two supervisory rating models based on CAMEL (Capital Adequacy, Assets Quality, Management, Earning, Liquidity, Systems and Controls) and CACS (Capital Adequacy, Assets Quality, Compliance, Systems and Controls) factors for ranking the Indian and foreign banks have been operating. These models have been worked out on the recommendation of Padamanabhan Working Group (1995). These ratings would enable the RBI (Control Bank) to identify the banks whose conditions warrant special supervision attention. The paper aims to describe the CAMEL Model of rating/ranking banking institutions so as to catch up the comparative performance of various banks. CAMEL is basically a ratio-based model for evaluating the performance of banks. Various ratios are computed under each parameter of CAMEL Model so as to compute the overall ranking of the banks.

While ranking of SBI and ICICI according to average of CAMEL Model ratios for the period 2000 to 2005, the study has brought many interactive results of both the banks. Both SBI and ICICI are performing excellently since beginning of the 21st century. However, in respect to some of parameter of performance, SBI has outperformed ICICI bank. These are: G. Securities to Total Investments, Spread to Total Assets, Interest Income to Total Income, Liquid Assets to Total Assets, G. Securities to Total Assets, etc. In contrast, ICICI has done better than SBI with regard to Advances to Assets, Total Advances to Deposits, Business per Employee, Profit per Employee, Non-interest Income to Total Income, Liquid Asset to total Deposits etc. The study concluded that on the whole, ICICI bank has performed better than SBI.

*Satish and Bharathi (2006)*\(^{25}\) revealed that the Indian banking system has come a long way since independence going through different phases of nationalization and liberalization and is now preparing itself for the very critical phase, i.e., Globalization. The liberalization phase brought out the best in the industry inducing competition among banks. During this period, banks were re-structured, shed the flab of over-employment, embraced technology, ventured into new business and re-branded themselves to cater over-demanding customers. In a nutshell, banks across the board have improved their profits while reducing their operational costs. Having reached a comfortable position, Indian banking is cautiously preparing itself to take the next big leap. Given this background and the development of the banking sector, it is interesting to see how the banks have performed in financial year 2005-06. The researchers undertook a study of the banking sector based on their annual results for the year 2005-06 using CAMEL model. The study covered 59 banks consisted of 25 public sector banks (including the SBI and its associates), 14 private sector banks (old and new) and 20 foreign banks.

Under CAMEL model, the researchers analyzed the performance of the above 59 banks by ranking these banks on the basis of capital adequacy, asset quality, management, earning quality and liquidity. Subsequently, they computed composite average ranking of the public, private banks and foreign banks. For the performance snapshot, they made use of additional indicators like total income, interest income, profit after tax, operating profit, deposits, advances and total assets. They believed that the coming year will see more

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\(^{25}\) *Satish, D.; and Bharathi, Y. Bala (2006), “Indian Banking Coming of Age – Performance Snapshot 2005-2006”; Charted Financial Analyst, Special Issue, October, pp.6-30*
and more banks re-structuring, re-organizing as well as re-branding themselves to face tough competition. This could also increase the much awaited pace of consolidation in the industry. Though India has many banks, none of them has reached the global scale and are nowhere comparable to global banking giants. They suggested that ongoing developments in the Indian economy should scale up quality global banks both in size and in quality of service.

*Sisodiya (2007)*26 adopted CAMEL model to assess the performance of Indian banks. The authors analysed 67 banks for the year 2006-07. On the basis of composite ranking of all the selected banks, they selected 10 CAMEL topper banks under public sector, private sector and foreign banks category. They concluded that with the buoyancy in the overall economy led by robust corporate performance, the banking sector reported sterling performance. A host of positives characterized the banking sector in the country during 2006-07. The banking sector”s performance is seen as the replica of economic activities of the nation as the healthy banking system acts as the bedrock of solid economic and industrial growth of a nation. As India celebrates its 60th independence anniversary and an amazing ascendance as one of the fastest growing economies in the world (second only to China), one sector which had played a vital role in propping up its economy is undoubtedly the banking sector. To assess the performance and assign the rank, the globally renowned model, CAMEL was used. The acronym “CAMEL” refers to five components of a bank”s condition that is assessed: Capital Adequacy, Assets Quality, Management, Earnings and Liquidity.

*Sisodiya (2008)*27 in their article titled, “Indian Banking Industry: Sustaining the Growth Momentum” revealed that the banking sector in India has once again come out with another fiscal of robust performances. This is commendable given the fact that the banking environment has suddenly become quite challenging after the US subprime crisis which resulted in an unprecedented global liquidity crunch. The fiscal also confirmed the end of the era of benign interest rates as the country”s apex bank embarked on a belt-tightening spree and with a series of tougher measures. This has nevertheless posed significant challenges to the banks to maintain the growth momentum of the last few years.

The authors ranked banks on the basis of the famous CAMEL (Capital Adequacy, Assets Quality, Management, Earning and Liquidity) rating. They analyzed 68 banks for the year 2007-08. On the basis of ranking of each measure of CAMEL Model, they selected five banks under Capital Adequacy winner (PSU banks), Assets Quality winner (Private sector banks), Management Efficiency winner (PSU banks), Earning Quality winner (Private sector banks) and Liquidity winner (PSU banks).

Sisodiya and Pemmaraju (2009)27 in their article said that the Indian banking has shown remarkable resilience even amidst the worst ever financial catastrophe that hit the global economy about a year ago and caused the collapse of several financial giants. Now, with the effects of the carnage in the global banking sector subsiding and financial numbers being out, all eyes are on the performance of domestic banking sector. While it would not be correct to expect a repetition of the solid performances that banks delivered in the past 3-4 fiscal years, their performances for the fiscal just gone by are not disappointed either.

They have ranked the banks on the basis of CAMEL rating. Banks have been classified into three categories based on their ownership group, viz. public sector banks (PSBs), private sector banks and foreign banks. They analyzed 66 banks for the year 2008-09. The ranking threw several surprises. The top ranked bank among public sector banks is the Bank of Baroda, which has undergone a significant facelift in the recent years. It is followed by Punjab National Bank and Bank of India which too have shown lot of aggression in recent times. The result in case of private sector banks are also unexpected, City Union Bank, ahead of many high profile names. Yes Bank, a late entrant retained its last year ranking of No. 2 among the private sector banks. Among the foreign banks, Bank of Ceylon replaced last year’s winner Shinhan Bank, jumping 15 ranks to emerge as the No. 1 bank this year, while the latter drops to the second rank.

1.5 NEED FOR THE STUDY

The study is mainly conducted on the basis of secondary data rather than the primary data. The researcher managed to collect the secondary data from ICICI bank. The study highlights the process of ICICI bank mechanism and the manner in which operational

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efficiency and financial performance take place in ICICI bank. The study is conducted in a simple manner and most of the data are collected through various sources. This study refers to the overall performance technique as an effective managerial tool to enhance the efficiency and effectiveness to achieve the organizational and individual goals. It also refers to the role of performance in a wide and systematic manner that takes place in a sequential way and covers almost all the aspects of the appraisal from employees to organization under the universal approach called "Performance Management".

1.6 SCOPE OF THE STUDY

This study will also help to identify the bank that is lagging behind in its performance. This study is focused on the ICICI Bank in India for the period of ten years from 2001-2002 to 2010-2011. It covers the evaluation of financial performance regarding profitability, credit efficiency, operational efficiency and productivity of banks. The study is limited only to its financial performance covering CAMEL framework. The tool for appraisal of financial performance is ratio analysis.

1.7 OBJECTIVES OF THE STUDY

The following are the objectives of the study:

(i) To study the growth and development of Indian banking sector.

(ii) To know the importance of private sector bank to economic development in India.

(iii) To discuss the ICICI banking system in India, its characteristics and mode of operation, especially, its financial instruments for mobilization and allocation of monetary resources (deposits).

(iv) To measure the financial performance of ICICI bank considering the variables such as advances, assets, borrowings, deposits, capital etc.,

(v) To recommend for improving the operational efficiency and performance of the ICICI bank.

1.8 HYPOTHESES

"A hypothesis is a special proposition formulated to be tested in a certain given situation as a part of research which stats what the researcher is looking for."

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Hypotheses formulated under the study are as follows:

For the present study the researcher has formulated two hypothesis viz. Null hypothesis and Alternative hypothesis. Both hypotheses were tested with the help of statistical tools. A null hypothesis is taken that the variance appeared is not significant while alternative hypothesis is also taken that the variance appeared is significant.

The null hypothesis that there is no significant difference in the perception of private sector bank regarding importance of various ratios of capital adequacy under CAMEL Model stands rejected regarding ratios, such as capital adequacy ratio and spread to working funds, burden to working funds, operating profit to total assets and return on assets.

The null hypothesis that there is no significant difference in the perception of ICICI bank regarding importance of various ratios of asset quality under CAMEL Model stands rejected regarding ratios, such as asset quality ratio and spread to working funds, burden to working funds, operating profit to total assets, return on assets and interest income to total income.

There is no significant difference in the perception of public and private sector bankers regarding importance of various ratios of management efficiency under CAMEL Model stands rejected in ratios, such as management efficiency and spread to working funds, burden to working funds, operating profit to total assets, return on assets and interest income to total income.

The null hypothesis that there is no significant difference in the perception of public sector and private bankers regarding importance of various ratios of liquidity under CAMEL Model stands rejected in ratios, such as liquidity and spread to working funds, burden to working funds, operating profit to total assets, return on assets and interest income to total income.

1.9 DEFINITIONS OF CONCEPTS
1.9.1 Operational Efficiency

Operational efficiency refers to the degree of efficiency of a process (or set of processes) whether it relates to the level of success of processing within an organization, the cost effectiveness of a market, or the erosion of income by expense. A commonly used ratio that bankers use to measure the overall cost effectiveness (or the
operational efficiency) of an organization is the cost/income ratio. This is a measure that broadly expresses the total operating costs incurred by an organization as a percentage of its operating income. Deming (2000) defines as operational efficiency, “a procedure agreed upon for translation of a concept into measurement of some kind”. The cost/income ratio can be applied to any entity but when it is specifically applied to a bank, it is an expression of the bank’s total operating costs over its net interest income (the difference between its interest earned on investments less the interest paid out to depositors) plus any other operating income such as fees and commissions.

Key to overall profitability is the need for banks to shore up internal operations to ensure that the entire organization is running at peak efficiency. Every department, every branch, every function, and every employee directly affects bottom line. Operational efficiency is the capability of an enterprise to deliver products or services to its customers in the most cost-effective manner possible while still ensuring the high quality of its products, service and support. Operational efficiency is often achieved by streamlining a company's core processes in order to respond more effectively to continually changing market forces in a cost-effective manner.

1.9.2 Financial Performance

A statement of financial performance is an accounting summary that details a business organization's revenues, expenses and net income. A statement of financial performance is also referred to as statement of profit and loss or statement of income. A corporation may prepare a statement of financial performance on a monthly, quarterly or annual basis. The level of performance of a business over a specified period of time, is expressed in terms of overall profits and losses during that time. Evaluating the financial performance of a business allows decision-makers to judge the results of business strategies and activities in objective monetary terms.

According to Tripathi, P.C., Measurement may be defined as “The assignment of numerals to characteristics of objects, persons, states or events accounting to rules. What is measured is not the object, person, state or event itself but some characteristics of it. When

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28 www.ihsintelligence.com
29 www.ibm.com
30 www.ehow.com
31 Tripathi, P.C. Research Methodology, Sultan Chand publication 1991
objects are counted, for example, we do not measure the object itself but only it's characteristic of being present. We never measure people, only their age, height, weight or some other characteristics."

According to *Eldon Hendriksen.*

"The primary focus of financial reporting is information about an enterprise’s performance provided by measures of earnings and its components”. There are many different ways to measure financial performance, but all measures should be taken in aggregation. Line items such as revenue from operations, operating income or cash flow from operations can be used, as well as total unit sales. Furthermore, the analyst or investor may wish to look deeper into financial statements and seek out margin growth rates or any declining debt.

1.10 PERIOD OF STUDY

The present study has been undertaken to measure and evaluate the Financial performance of ICICI bank. The study covers the period of 10 years that is from year 2001-2002 to 2010-2011.

1.11 METHODOLOGY

The present study is exploratory in nature and makes use of secondary data. The data for this research work is secondary and extracted from the Annual Reports of the banks for a period of ten (10) years (2002-2011). The data except number of employees is measured in monetary units. The journals like the Banker and the Journal of Indian Institute of Bankers have also been referred. The study is confined to overall deposit mobilized, credits and investments made by ICICI for the ten years period starting from 1.04.2001 - 31.03.2002 to the year 1.4.2010 - 31.03.2011. The data for the study consisted of financial variables and financial ratios based on the CAMELS framework.

The variables used in the analysis were: Tier-I Capital, Tier-II Capital, and Capital Adequacy Ratio (for Capital Adequacy); Gross Non-performing Assets, Net Non-performing Assets, and Net Non-performing Assets to Total Advances Ratio (for Asset Quality); Total Investments to Total Assets Ratio, Total Advances to Total Deposits Ratio, Sales per Employee, and Profit After Tax per Employee (for Management Soundness); Return on Net

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Worth, Operating Profit to Average Working Fund Ratio, Profit After Tax to Total Assets Ratio (for Earnings and profitability); and Government Securities to Total Investments Ratio and Government Securities to Total Assets Ratio (for Liquidity);

In order to calculate the CAMELS ratings for the banks, the ratios corresponding to each CAMELS factor were considered: viz. Capital Adequacy Ratio, Net Non-performing Assets to Total Advances Ratio, Total Investments to Total Assets Ratio, Total Advances to Total Deposits Ratio, Sales per Employee, Profit After Tax per Employee, Return on Net Worth, Operating Profit to Average Working Fund Ratio, and Government Securities to Total Investments Ratio.

1.11.1 Data collection

The first part is a study of the banking industry, ICICI Bank using secondary data sources. This secondary information has been sourced from the internet and from business related magazines and newspapers. Sometimes, primary data is also collected through observation method to facilitate the research work.

1.11.2 Type of data used in the study

The required data for the study are basically secondary in nature and the data are collected from

- The audited reports of the company.
- INTERNET – which includes the required financial data collected from ICICI Bank’s official website i.e., www.icici.com and some other websites on the internet for the purpose of getting all the required financial data of the bank and to get detailed knowledge about ICICI Bank for the convenience of study.
- Broachers of ICICI Bank.

1.11.3 Research design

Research design constitutes the blue print of collection, measures and analysis of data. In specific terms, a research design is the arrangement of conditions and analysis of data in a manner that aims to combine relevance to the research purpose with economy in procedure. Here in this study, the researcher used Descriptive Research Design and studies concerned with specific predictions, with narration of facts and characteristics concerning individual, group or situation are all examples of descriptive research studies.
1.11.4 Tools of data collection

By virtue of a mass data obtained from secondary sources collected and presented in this report, descriptive and analytical research was considered the most appropriate for this study. The suggestions offered in the final chapter of the present research report emerged from the inferences drawn from the sample.

1.11.5 Plan of analysis

Trend Analysis

Relationship Analysis

Correlation matrix

Multiple Regression Analysis

1.11.5.1 Trend analysis

Trend analysis becomes imperative to evaluate the overall profits and profitability performance of commercial banks. It clearly indicates the magnitude and direction of operations observed over a period of time; it also helps to identify certain banks in respect of their level of efficiency in operations. It shows the trend pattern in order to identify the historical development. The study attempts to assess the profits and profitability of banks, through trend analysis of the following parameters:

1. Advances
2. Deposits
3. Total Assets
4. Expenditure
5. Income
6. Net Profit
7. Return on assets

1.11.5.2 Relationship analysis

Mean values and graphs were used to analyze the general trends of the data from 2002 to 2011 based on the data. The relationship analysis shows that all the variables are somehow related to profitability. The aim of this section is to explore in detail the above relationships by using regression analysis which is more robust than the scatter plot analysis. To determine and evaluate the effects of bank specific factors on profitability.
1.11.5.3 Correlation matrix

The correlation matrix was used to examine the relationship between the dependent variable and explanatory variables. The correlation matrix for estimating interrelationships among the chosen parameters of selected private bank. To ensure that none of the explanatory variables were highly correlated to each other, a correlation matrix was used and none of the variables were highly correlated to each other.

1.11.5.4 Multiple regression analysis

Multiple regression analysis has shown that bank-specific factors are not only related to the profitability of banks, but they also influence the profitability of ICICI bank significantly. A multiple linear regression model and t-statistic were used to determine the relative importance of each independent variable in influencing profitability. The t-statistic was used to test the two hypotheses at a maximum of 10% significance level. The positive coefficients mean an increase in capital leads to an increase in profitability and the high t-statistic value indicates that the impact is statistically significant at 1% test level.

1.12 LIMITATIONS

One of the data sources in this research is secondary data taken from ICICI Bank’s annual reports, other economic institutions, the Ministry of Industry, the Ministry of Agriculture, the Statistics Centre of banking and so on. However, data from secondary sources are in many aspects inconsistent and incomplete.

Another, more general shortcoming, common for all studies of finance-growth nexus, is that financial institutions induce economic growth by reducing information, outdated data, new scheduled information, and transaction costs, monitoring borrowers, managing risk or facilitating exchange of goods. Researchers, however, do not posses very good measures to assess how well a financial system provides these kinds of services to the economy.

The findings are based on banking components like deposits, advances and investments and financial ratios of the selected banks and other variables were considered as constant, though the performance of old private sector banks was influenced by a number of factors. During these periods, it was out of scope of the study to evaluate the influence of each and every variable.
1.13 ORGANIZATION OF THE STUDY

To fulfill the aims and objectives of the study this research is carried out by the researcher systematically, as much as possible according to the ability and knowledge of the researcher and time limitations.

In Chapter I, Introduction, Design of the study, objectives, aims, hypotheses, methodology, banks in economical development and limitation of the study and organization of the study are discussed.

Chapter II “Private sector Banks and Economic Development” presents theoretical issues. In this chapter some theories regarding the structure of Indian banking Industry in general, importance of Private Sector in Indian Economy and ICICI banking in particular in economic development are presented. In addition, to cover the background of the issue more completely, literature regarding the relationship between financial development and economic growth is reviewed.

Chapter III “ICICI Profile” introduces the ICICI banking system and its performance. In this regard the profile of ICICI bank Ltd, history, modes of mobilization and allocation of monetary resources and monetary policy instruments are discussed.

Chapter IV “Comparison of ICICI bank with other Private sector Banks”, provides some advantages of ICICI banks are compared with those banks to analyze the growth of the selected banks.

Chapter V gives an analysis of data by applying the statistical tools like Trend Analysis, Relationship Analysis, Correlation matrix and Multiple Regression Analysis to evaluate the Profitability and performance of the Bank.

Chapter VI summarizes research the findings and suggestions of the researcher.