IRJMETS

e-ISSN: 2582-5208

International Research Journal of Modernization in Engineering Technology and Science

(Peer-Reviewed, Open Access, Fully Refereed International Journal)

Volume:06/Issue:05/May-2024 Impact Factor- 7.868 www.irjmets.com

FINANCIAL PERFORMANCE ANALYSIS OF ICICI BANK: A CAMEL MODEL APPROACH

Prof. Nidhi N. Somani*1, Ms. Easha Raja*2, Prof. Chaitanya A. Sakhare*3

*1,3Assistant Professor Department Of Business Administration Dr. Ambedkar Institute Of Management Studies & Research, Nagpur, India.

*2Assistant Manager, ICICI Bank, Mayur Colony, Pune, India.

ABSTRACT

The Indian banking sector serves as a cornerstone of the nation's economy, assisting financial stability and fostering economic growth. It provides money, the lifeblood of the economy, which promotes economic development by promoting and supporting industry expansion across the board. One of the sectors in India that is expanding the fastest is banking. An essential tool for assessing the state of the economy as a whole is the performance evaluation of banks. With a global presence spanning 17 countries and a comprehensive suite of banking products and services, ICICI Bank exemplifies innovation, reach, and customer-centricity. In this regard, an assessment of the financial performance of ICICI Bank, the biggest private sector bank in India, has been conducted. As of April 2024, ICICI Bank is second with a market cap of ₹7.78 lakh crore. The principal objective of this study is to determine the ability to pay interest and the earning capacity or profitability. CAMEL analysis was used to measure the financial performance. Utilizing specific financial ratios and performance indicators, the research aims to provide insights into ICICI Bank's strengths, weaknesses, and areas for improvement. It will be beneficial in giving management relevant data, such as business efficiency. Preliminary findings suggest notable strengths in ICICI Bank's earnings capacity and management efficiency, marked by steady improvements in profitability metrics and resource utilization. However, challenges persist in asset quality management and maintaining adequate capital adequacy, as evidenced by fluctuations in key ratios such as Net NPA to Net Advances and Capital Adequacy Ratio.

Keywords: ICICI Bank, CAMEL Analysis, Financial Performance, Operating Efficiency, Earnings Capacity, Grading Methodology, Banking Sector.

I. INTRODUCTION

The Indian banking sector is the fundamental component of the nation's economy and is essential to the country's financial system's stability. Banks are financial organisations that take public funds and lend money to businesses, industries, and the general public. Because of their involvement in the payment and settlement processes, the transmission of monetary policy, and the intermediation of credit, banks are essential to the operation of every economy. Government operations and the flow of commodities and services are made easier by financing. Additionally, it supplies the nation with a sizable amount of its medium of exchange. The health of the banking industry can be accurately gauged by looking at how other economic sectors are doing. The CAMEL Model is one such tool. The Camel model is a useful tool for comprehending the bank's financial situation and making appropriate recommendations for how to strengthen its weaknesses. Global attention has been focused on the performance of banks, and more especially, on their solvency or lack thereof. A supervisory rating system called the Camel model was created in the US to categorise banks. On the basis of the Padmanabhan Committee's recommendations, the RBI of India adopted this strategy in 1996.

ICICI Bank is another major player in the Indian banking business, known for offering a wide range of financial services and innovative banking solutions. Initiated by the World Bank, the Indian government, and business leaders, ICICI was established in 1955. In 1994, ICICI Bank was established as a division of the ICICI organisation. ICICI was the first bank or financial organisation from outside of Japan Asia and the first Indian corporation to list on the New York Stock Exchange in 1999.

It is the second bank in India to reach the ₹8 trillion milestone and make it into the top five market-value corporations. India's second-biggest private lender is ICICI Bank. ICICI Bank is present in 17 countries and has 6,000 branches and 17,000 ATMs in India as of April 27, 2024. Retail, corporations, and rural customers can choose from a wide range of banking products and services offered by ICICI Bank. Retail banking services

include current and savings accounts, credit cards, loans, investment options, insurance, and wealth management are all offered. In addition, the bank offers its clients corporate banking, investment banking, trade finance, project finance, and treasury solutions. Prominent in the Indian banking scene, ICICI Bank is renowned for its extensive worldwide reach, innovative digital offerings, and varied range of products.

II. REVIEW OF LITERATURE

The performance of Axis Bank and ICICI Bank has been evaluated using the CAMEL model in several studies. **Raj (2023)** found that Axis Bank ranked second, while ICICI Bank ranked third. **Jha (2021)** also ranked ICICI Bank higher than Axis Bank, with the former being ranked first and the latter second. However, **Devanadhen (2013)** and **Bodla (2006)** both found that ICICI Bank's performance was not as strong as that of Axis Bank. **Devanadhen (2013**) ranked Axis Bank higher than ICICI Bank, and **Bodla (2006)** found that ICICI Bank lagged behind SBI in terms of asset quality, earning quality, and management quality. These studies collectively suggest that while ICICI Bank's performance is generally strong, Axis Bank consistently outperforms it in the CAMEL model evaluation. **Anjali Singh (2022)** conducted a study titled "Performance Evaluation of Indian Banking Sector Post-Global Crisis using CAMEL Ratios". The research aimed to assess the financial performance of three major banks (HDFC, SBI, and PNB) utilizing the CAMEL rating model. Secondary data and tools such as asset and revenue quality were employed by the researcher. The findings revealed that HDFC Bank demonstrated superior efficiency compared to the other banks evaluated. **Jaiswal and Jain (2016)** observed that SBI has a better market position than ICICI in terms of earning per share, price ratio per share, and dividend payout ratio; however, ICICI bank performs well in terms of NPA in contrast to SBI bank.

IV. RESEARCH METHODOLOGY

- **OBJECTIVES OF THE STUDY**

- To examine the financial performance of ICICI bank using the CAMEL model

Period of the study: This study covers 5 years of data (2019 to 2023) pertaining to ICICI bank.

- **Data Collection:** The present study is based on Secondary data. The annual reports of the ICICI bank for the fiscal years 2019-20 through 2022-23 were gathered from the RBI website, as well as various bank publications and research articles.
- **Data analysis**: The CAMEL technique has been used to evaluate the financial soundness of the bank. The CAMEL Model, which assesses capital adequacy, asset quality, management efficiency, earnings, and liquidity, is used to analyse data. Specific ratios and overall rankings are calculated. The banks are ranked based on the scores of each of the CAMEL components, and the ratios are given weights by the CAMEL rating. The final score is obtained by summing each component of the CAMEL model after all the components and ratios have been computed. A bank with a higher score is considered better.

V. RESULTS AND ANALYSIS

In this section, we will assess the financial soundness of the selected banks using the CAMEL framework. The indicators selected for analysis are chosen based on their analytical significance, data availability for compilation and calculation, and relevance to the investigation. Only indicators deemed suitable for the study are included. The selected indicators for each CAMEL acronym are listed in the table below.

- **Capital Adequacy**

Capital adequacy is a key determinant of a bank's financial stability. This indicator assesses the bank's financial position and management's ability to supply extra cash while maintaining investor confidence. It consists of Tier I and Tier II capital. To determine it, divide the bank's quality by its risk-weighted assets. Typically, this ratio is stated as a percentage. A greater ratio indicates a company's ability to withstand unexpected losses owing to capital shortages.

The ratio is expressed as a percentage; a larger percentage is typically indicative of safety. A low ratio suggests that the bank lacks the capital necessary to cover the risk attached to its assets, making it vulnerable to failure in any unfavourable crisis like something that occurred during the recession. A very high ratio could mean that the bank is not lending to its clients in an efficient manner using its capital (Accounting tools, 2021).

Capital adequacy ratio	(Tier 1 capital +Tier 2 capital) Risk weighted capital	It is a measure of bank's core capital and is expressed in the form of a percentage. The higher the ratio it is considered as better
Total Advances to Net Assets Ratio	Total advances Total Assets	This ratio indicates the aggressiveness of the banks' lending which results in profitability.
Debt Equity ratio	Total Debt Total Shareholder's equity	This ratio shows the relationship between the company's total debt and total shareholders fund

Capital Adequacy Ratios from 2019-2023

	2019	2020	2021	2022	2023	Mean (μ)
Capital Adequacy ratio	16.89	16.11	19.12	19.16	18.34	17.924
Total Advances to Net Assets ratio	59.63	60.87	60.87	64.36	64.36	62.018
Debt Equity ratio	7.77	8.24	7.09	7.01	6.6	7.342

This area's ratio indicates the bank's ability to turn a profit and generate revenue. Generally speaking, banks benefit from increased capital adequacy ratios. According to the above table, the ICICI Capital Adequacy Ratio was 16.89 in 2019, decreased to 16.11 in 2020, increased to 19.12 and 19.16 in 2021 and 2022, decreased to 18.34 in 2023 respectively. This indicates that the ratio was at its highest in 2022, as the bank had sufficient capital in that year to handle unforeseen losses in comparison to previous years. However, it decreased to 18.34 in 2023 to indicate that the bank lacked enough capital for the risk associated with its assets compared to 2021–22. The debt-to-equity ratio was 7.77 in 2019, 8.24 in 2020 and 7.09 in 2021. It decreased to 7.01 in 2022 and then decreased to 6.6 in 2023 because the bank employed less debt in 2022–23 than it did in 2019–20. A low ratio suggests that banks will employ more equity than debt in 2023, giving creditors an increased safety cushion. The advance to asset ratio was 2.85 in 2015 and increased steadily to 2.98 in 2019. The reason for this increase is that the bank issued more advances and had very little liquidity in 2019. The advance to asset ratio, as we all know, calculates the entire amount of outstanding loans as a proportion of total assets. The higher this ratio is, the more leveraged and less liquid a bank is. The riskier a bank may be to more defaults, the higher the ratio. The percentage of total investments in government securities was 60.87 in 2020 and 2021, 64.36 in 2022 and 2023, and 59.63 in 2019. Therefore, a high CAR suggests that the organisation can handle more business. CAR is constantly evaluated from the perspective of regulatory standards for each line of activity in the financial services industry. A lower CAR indicates a weaker capacity to absorb losses. All things considered, this ratio indicates that the bank performed better from 2022 to 2023; but, from 2019 to 2021, it is mediocre.

- **Asset Quality**

Asset quality refers to an institution's loan quality, which impacts its earnings. Assessing asset quality entails balancing investment risk considerations against capital earnings. This demonstrates the bank's stability when faced with specific threats.

Net NPA to Net advances	Net NPA Net advances given	Lower the ratio it indicates the better credit efficiency of the bank
Total Investments to Total Assets	Total Investment Total Assets	Higher the ratio the adversity increases towards the profitability of the banks

Net NPA to Total Assets ratio	Net NPA *100 Total Assets	Lower the ratio, better is the performance of the banks

Asset Quality Ratios from 2019-2023

	2019	2020	2021	2022	2023	Mean (μ)
Net NPA to Net advances	2	1	2	0.51	2	1.502
Total Investments to Total Assets	0.22	0.23	0.23	0.22	0.23	0.226
Net NPA to Total Assets ratio	0.741	0.491	0.493	3.251	0.325	1.0602

This section examines the quantity of depreciated and doubtful loans as well as the quality of the bank client portfolio. Lower asset quality ratios are generally preferred. According to the following table, ICICI's net non-performing assets to total advances ratio was 2 in 2019, decreased to 1 in 2020, increased to 2 in 2021, decreased to 0.51 in 2022 and increased to 2 in 2023. These results indicate a poor credit performance of the bank in 2020 and 2022. This is because the bank did not make enough provisions against non-performing assets. As this ratio typically shows how well a bank provides for its customers, a lower ratio is indicative of a bank that provides very good credit. A greater ratio indicates poor bank performance. Therefore, the bank's performance in 2019, 2021 & 2023 is not as good as it was in 2020–2021. The ratio of total investments to total assets in 2019 is 0.22. From then, it increased to 0.23 in 2020 and 2021, and decreased to 0.22 in 2022, then increased to 0.23 in 2023. Therefore, a low ratio suggests that the bank is concentrating more on its primary business in 2019–20, which is advances. Conversely, a higher ratio means that the bank has prudently maintained a sizeable investment buffer to protect against likely non-performing assets. But this has a negative impact on its profitability as well.

- **Management Efficiency**

Banks' managerial efficiency cannot be measured using standard parameters. This parameter measures the bank's senior officers' capacity to make sound decisions. It improves bank quality and promotes long-term growth. Management assesses whether banks have achieved their growth targets. The CAMEL model suggests a few ratios for measuring efficiency.

Total advances to total deposits ratio	Total loans/Total deposits	Helps to assess the bank's liquidity by comparing the banks' total loans to total deposits during the period. Higher the ratio it is better
Business per Employee	Business /No. of employees (Business= Advances + deposits)	Denotes the productivity and how efficiently a bank utilizes its employees. Higher the ratio it is better
Profit per Employee	Net Profit/ No. of employees	How efficiently a bank is utilizing its employees to generate profits. Higher the ratio it is better.

Management Efficiency ratios from 2019-2023

	2019	2020	2021	2022	2023	Mean (μ)
Total advances to total deposits ratio	78.68	80.69	80.69	86.35	86.35	82.552
Business/ Employee	14,28,68,072 .08	14,25,96,981 .88	16,87,34,303 .89	18,17,38,412 .40	17,37,31,170 .26	16,19,33,788 .10

Net Profit/ Employee	3,87,642.38	7,98,519.16	16,39,765.48	22,05,083.96	25,18,276.98	15,09,857.59

This ratio examines into the bank's ability to make enough profit to run its primary businesses. This ratio must to be below 100 percent but yet not negative, as that would indicate that the bank's operating margin is already negative. According to the following table, the ratio of total advance to total deposit reached its peak in 2022 and 2023 at 86.35. The ideal loan to deposit ratio is often between 80% and 90%, signifying that in all years except 2019, the bank was able to pay both customer loans and withdrawals. In 2019, the business per employee was 14,28,68,072.08, and from that year until 2023, it increased steadily. This ratio shows how effectively all bank employees generate business for the bank; in other words, employees in 2023 were more productive than those in 2019, This ratio shows how effectively workers produce profit for the bank. The efficiency of employees will increase with a higher ratio.

- **Earnings capacity**

Earnings capacity: A bank's ability to generate earnings to sustain operations, expand, and remain competitive is a vital component in determining its legitimacy. This indicator considers the bank's earnings, growth, stability, valuation allowances, net margins, and asset quality.

Net Interest Margin	Investment Income - Interest expenses /Average earning Assets	Reveals the amount of money bank is earning via the loans compared to the interest bank is paying on deposits
Net Profit Margin	Net Profit/Revenue X100	Measures the percentage of a company's revenue
Return on Net Worth / Equity	Net Income/Shareholder's Equity	Denotes the profit earning capacity of the company on a shareholder's invested amount.

Earnings capacity ratios from 2019-2023

	2019	**2020**	**2021**	**2022**	**2023**	**Mean (µ)**
Net Interest Margin	2.8	3.02	3.16	3.36	3.92	3.25
Net Profit Margin	5.3	10.6	20.46	27.02	29.2	18.516
Return on Net Worth / Equity	3.19	6.99	11.21	13.94	16.13	10.292

Based on the above table, the net interest margin, which reflects the efficiency of managing interest income and expenses, displays an increasing trend over the five years. Starting at 2.8% in 2019, it gradually rises to 3.92% in 2023. This suggests a progressive improvement in effectively leveraging interest-related operations to generate income. Similarly, the net profit margin, representing the proportion of net income relative to total revenue, exhibits a significant upward trajectory from 2019 to 2023. Beginning at 5.3% in 2019, it climbs to 29.2% by 2023. This surge indicates a substantial enhancement in profitability, potentially driven by increased revenue or improved cost management. The return on net worth or equity, which signifies the profitability generated in relation to shareholders' equity, demonstrates a consistent rise throughout the observed period. Starting at 3.19% in 2019, it increases to 16.13% in 2023. This steady increase implies enhanced efficiency in generating profits relative to the equity invested.

- **Liquidity**

Banks' liquidity reflects their ability to meet financial obligations. Low liquidity might hinder bank expansion and ability to satisfy current liabilities. If a bank's liquidity is too high, it may not be able to fully utilise its cash, leading to decreased profitability.

Therefore, an equilibrium must exist between these two positions.

Liquid Ratio	Liquid Assets/Current Liabilities	Reveals the liquidity position of the bank
Current Ratio	Current Assets/Current Liabilities	Indicates the efficiency of the usage of the assets
Cash to Deposit Ratio	Total Cash/ Total Deposits	Reveals how much core funds of the bank are used for lending

Liquidity ratios from 2019-2023

	2019	2020	2021	2022	2023	Mean (μ)
Liquid Ratio	18.66	15.76	14.52	14.26	13.94	15.428
Current Ratio	0.12	0.09	0.07	0.06	0.06	0.08
Cash to Deposit Ratio	5.85	5.14	4.77	5.32	5.73	5.362

The liquid ratio measures a company's ability to pay off its short-term liabilities with its most liquid assets. The trend shows a decrease in the liquid ratio from 18.66 in 2019 to 13.94 in 2023. This decline suggests a reduction in the proportion of liquid assets relative to short-term liabilities over the years, potentially indicating a decrease in financial flexibility or an increase in short-term obligations. The current ratio assesses a company's ability to cover its short-term liabilities with its short-term assets. The data indicates an extremely low current ratio, decreasing from 0.12 in 2019 to 0.06 in 2023. Such low values suggest a significant imbalance between current assets and liabilities, raising concerns about the company's short-term solvency and its ability to meet immediate financial obligations. The cash to deposit ratio evaluates the proportion of cash reserves to total deposits. Despite minor fluctuations, the ratio remains relatively stable over the years, ranging from 4.77 to 5.85. This stability suggests a consistent level of cash reserves in proportion to total deposits, which can indicate careful liquidity management.

VI. CONCLUSION

The evaluation of ICICI Bank's financial performance using the CAMEL model over the period from 2019 to 2023 reveals important insights into the bank's operational efficiency, risk management, and overall stability. While the bank exhibited strengths in earnings capacity and management efficiency, with noticeable improvements in profitability metrics and resource utilization, challenges persisted in asset quality management and maintaining adequate capital adequacy. Fluctuations in asset quality indicators, such as the Net NPA to Net Advances ratio, highlighted inconsistencies in credit performance management. Moreover, declining trends in liquidity ratios, including the Liquid Ratio and Current Ratio, raised concerns regarding financial flexibility and short-term solvency. Despite these challenges, ICICI Bank's stable Cash to Deposit Ratio indicated prudent liquidity management practices. Moving forward, strategic focus on enhancing asset quality management and bolstering capital adequacy will be imperative for ICICI Bank to circumnavigate uncertainties and maintain its position as a key player in the Indian banking sector.

VII. REFERENCES

[1] Accounting tools. (2021, April). efficiency- ratios. Retrieved April 2021, from: https://www.accountingtools.com/articles/efficiency-ratios

[2] Bansal, R., & Mohanty, A. (2013). A Study on Financial Performance of Commercial Banks in India: Application of Camel Model. Al-Barkaat Journal of Finance & Management, 5, 60-79.

[3] Bodla, B.S., & Verma, R. (2006). Evaluating Performance Of Banks Through Camel Model: A Case Study Of SBI And ICICI. The IUP Journal of Bank Management, 49-63.

[4] Devanadhen, K. (2013). Performance Evaluation of Large-Size Commercial Banks in India. Indian Journal of Finance, 7, 5-16.

[5] Jaiswal, A. &. Jain (2016). A Comparative Study of Financial Performance of SBI and ICICI. A Comparative Study of Financial Perform International Journal of Scientific Research in Computer Science and Engineering, 4 (3), 1-6.

IRJMETS

e-ISSN: 2582-5208

International Research Journal of Modernization in Engineering Technology and Science

(Peer-Reviewed, Open Access, Fully Refereed International Journal)

Volume:06/Issue:05/May-2024 Impact Factor- 7.868 www.irjmets.com

[6] Jha, P., & Natarajan, S. (2021). Asset Quality Evaluation of Select Indian Banks: A Camel Model. Orissa Journal of Commerce. 42(1), 59-77.

[7] Lalitha.B., Sunaina (2023). Performance Evaluation of Banks through Camel Model with Reference to SBI and HDFC Bank. International Journal of Advances in Engineering and Management (IJAEM), 5, 664-671.

[8] Munjal, S., & Grover, D.K. (2022). FINANCIAL PERFORMANCE ANALYSIS: A CASE STUDY OF ICICI BANK.

[9] Raj, R. (2023). Analysis and Evaluation: Performance of Bank Through CAMEL Model, A Case Study of Selected Public and Private Banks in India. INTERANTIONAL JOURNAL OF SCIENTIFIC RESEARCH IN ENGINEERING AND MANAGEMENT.

[10] Rastogi, S., & Saxena, P.K. (2013). An Analysis of Public and Private Sector Banks Performance Using CAMEL Model. Journal of Applied Management and Investments, 2, 268-278.

[11] Shivappa, J. N. (2020). Financial performance analysis of selected banks using CAMEL Model. International Journal in Management and Social Science, 4 (6), 922-928.

[12] Singh. A., (2022). PERFORMANCE EVALUATION OF INDIAN BANKING SECTOR AFTER THE GLOBAL CRISIS via CAMELS RATIOS. EPRA International Journal of Economics, Business and Management Studies (EBMS), 9, 10-17.