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Financial Performance Analysis of ICICI Bank Using Ratio Analysis

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Abstract
Analysis of financial statement help in making future decision and strategy as it is necessary to depict the financial position which is based on the past and current records. The data is collected from the annual reports, secondary data and can be analyzed using ratio analysis. The aim is to evaluate the bank's operational efficiency, liquidity, solvency, and overall financial health over a specific period. Ratios such as profitability ratios (Return on Assets, Net profit margin), liquidity ratios (Current Ratio, Quick Ratio, Cash ratio), efficiency ratios (Asset Turnover Ratio, cost to income ratio), and solvency ratios (Debt-to-Equity Ratio, Debt ratio) are computed and analyzed to gain insights into the bank's financial strengths and weaknesses.
***Keywords**: Liquidity Ratios, Profitability Ratios.*

1. Introduction
Financial performance ensures the results of a firm's policies and operations in monetary terms. These results are reflected in the firm's return on investment, return on assets, value added, etc. A subjective measure of how well a firm can use assets from its primary mode of business and generate revenues. This term is also used as a general measure of a firm's overall financial health over a given period of time, and can be used to compare similar firms across the same industry or to compare industries or sectors in aggregation [1]. Financial performance analysis is prepared mainly for decision-making purposes. The information given in the financial statements is of immense use is making decisions through analysis and interpretation of financial statements ICICI Bank plays a prominent role in the banking sector, known for its innovative products, financial services and extensive market presence. To examine the financial health and operational efficiency of ICICI bank, employing ratio analysis serves as a fundamental tool [2]. Ratio analysis involves the systematic examination of various financial ratios derives from the bank’s financial statements including balance sheets and income statements. The main objective of the analysis is to evaluate the financial performance of ICICI Bank using ratio analysis. This study aims to determine the financial health of ICICI Bank by looking at their financial ratios and comparing them to the industry. We will be giving detailed information on the respective ratios and how they relate to the bank's financial performance [3]. With this analysis, we make use of the annual reports of ICICI Bank and various non-financial reports and websites for the data required for calculation. The analysis is for the past 5 years to understand the consistency of the performance during the years. ICICI Bank is one of the Big four banks of India, along with the State Bank of India, Bank of Baroda and Punjab National Bank. The bank has subsidiaries in many countries. The company’s UK subsidiary has also set up branches in Belgium and Germany [4]. Equity shares of ICICI Bank are listed on Bombay Stock Exchange (BSE) of India and the National Stock Exchange (NSE) (Sharma, 2012).

2. Purpose
One of the most fundamental facts about business is that the financial performance of the firm shapes its financial structure. Therefore, in order to obtain a favourable financial structure, it is necessary to study the efficiency of the firm [5]. Efficiency measurements imply prior knowledge of the inputs and outputs of an organization to increase the level output for a company it is necessary to study the operating efficiency of the firm. To understand the meaning, significance and limitation of financial statement analysis. To calculate liquidity, solvency, profitability and activity ratios of the

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organization. To make a comparative study and give solutions for the organizational improvement [6].

3. Objectives

- To analyze ratios of the bank.
- To analyze financial position and performance by reviewing financial statements.
- To evaluate the financial stability and liquidity of the ICICI bank.
- To assess short- and long-term solvency

4. Method

This study includes majorly secondary data which contain annual reports like balance sheet, income statements of the bank. Then the ratio analysis is conducted which contain liquidity ratios, solvency ratios, profitability ratios. The secondary data is collected from the annual reports of the bank for the year 2019 to 2023 were collected from different websites, different periodicals published by the bank and research articles have been used in Table 1.

Table 1 Profitability Ratios

Profitability ratios	2019	2020	2021	2022	2023
Net profit margin	0.04	0.07	0.12	0.16	0.18
Gross profit margin	0.13	0.10	0.09	0.09	0.72
Return on assets	0.45	0.81	1.28	1.47	1.75

5. Results and Discussion

5.1. Results

- The company's liquidity exhibited fluctuating trends, with a decline in current assets in 2023, yet maintaining a ratio above 1 for covering short-term debts throughout. Striking a balance between assets and liabilities remains pivotal for sustained financial stability.
- The company experienced a notable improvement in liquidity from 2019-2021, reaching a healthy ratio of 1.8, but faced a significant decline to 0.13 by 2023, highlighting the necessity of vigilant cash flow management for maintaining financial stability.
- The company's debt-to-equity ratio fluctuated over the observed period, initially showing higher debt in 2019 but strengthening equity position by 2020, stabilizing around 0.88.
- The company's debt-to-total-assets ratio varied over the observed years, signaling shifts in leverage and financing strategies
- Over the observed period, the company demonstrated consistent growth in both net income and revenue, signaling improved profitability.
- From 2019 to 2023, despite fluctuating operating expenses, the company consistently increased net income, indicating improved profitability through enhanced cost management and efficiency measures.

5.2. Discussion

The profitability ratios exhibit a positive trend from 2019 to 2023, indicating improving financial performance. The net profit margin steadily increased from 4% to 18%, reflecting enhanced efficiency in converting revenue into profit. Despite fluctuations, the gross profit margin remained relatively stable, with a significant spike in 2023 to 72%. This suggests effective management of production costs. Return on assets surged from 45% to 175%, signifying heightened profitability in asset utilization over the years. Overall, the company demonstrated consistent growth and increasingly efficient operations, portraying a robust financial outlook and potential for further expansion in Figure 1.

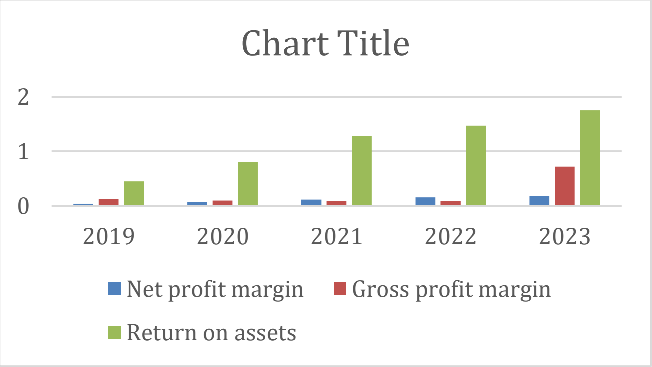

Figure 1 Profitability Ratios

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Conclusion

The financial performance presented is a mixed analysis. While profitability shows a positive trend with consistent net income growth, the significant decline in liquidity from 2021 to 2023 raises concerns. To ensure long-term financial health, the company should prioritize these five action points: improve cash flow management, investigate the reasons behind the decline in current assets, monitor the debt structure, maintain focus on cost management, and conduct regular financial reviews. By addressing these areas, the company can bridge the gap between its current profitability and potential future liquidity issues, positioning itself for sustained success.

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