A COMPARATIVE STUDY ON PERFORMANCE AND WORKING CAPITAL MANAGEMENT OF ICICI AND HDFC BANKS

R. Devaraj
Assistant Professor, Alagappa University Arts and Science College, Paramakudi

Abstract

Working capital is considered to be life-giving force to an economic entity and managing working capital one of the most important functions of corporate management. Working capital management (WCM) is the management of short-term financing requirements of a firm which includes maintaining optimum balance of working capital components -receivables, inventory and payables – and using the cash efficiently for day-to-day operations. This study may enlighten the different ways and techniques of working capital management to develop the sound financial base of the company.
Keywords: Profitability, Liquidity, EPS, DPS, Working Capital, HDFC, ICICI, Growth rate.

Introduction

Banks play an active role in the economic development of a country. Their ability to make a positive contribution in igniting the process of growth depends on the effective banking system. The banking sector reforms were aimed at making banks more efficient and viable. As one who had a role in initiating these reforms, we can say that the period of transition was not that easy. But as a consequence of these reforms the banking system has emerged more sound and safe. The capital adequacy of the Indian banks is now on par with international standards. The level of Net Non-Performing Assets (NPA) has come down to very manageable levels. An issue that is in the forefront of banking reforms currently is that of bank consolidation.

About the Banks

ICICI Bank is the First Largest Bank in India and the Largest Private Sector Bank in the country. The bank has a network of 2800+ branches, 10000+ ATMs and has presence in 19 countries. It was founded in the year 1954 and is headed by Ms. Chanda Kochhar (MD & CEO). It offers a variety of financial services like Consumer Banking, Credit Cards, Corporate Banking, Investment Banking, Private Banking, Wealth Management etc. It is one of the members in the 30 stock Sensex and 50 stocks Nifty.

HDFC Bank is the Second Largest Private Sector Bank in India and one of the top 5 banks in the country. The bank has a network of 2700+ branches and 10000+ ATMs across India. It also has numerous branches across the globe. It was founded in the year 1994 and is headed by Mr. Aditya Puri (MD). It offers a variety of financial services like Consumer Banking, Credit Cards, Corporate Banking, Investment Banking, Private Banking, Wealth Management etc. It is one of the members in the 30 stock Sensex and 50 stocks nifty.

ICICI Bank is the Largest Private Sector Bank in India and HDFC Bank is a close second. If you talk to a random stranger on the road, there is a 50-50 chance that he/she has an account with either of these two private sector behemoths. Both ICICI and HDFC Bank are part of the National Stock Indices and are some of the most active stocks in the country. The purpose of this article is to compare these two banks on all possible aspects. This paper is prepared to examine the relationship between the working capital efficiency and profitability of the ICICI Bank and HDFC Bank. Working capital management is a new area emphasized by the productive utilization of their available funds created out of good cash flow, financial solvency and growth strategies.

Importance of the Study

The purpose of the present study is to analyze the various concepts of working capital and find out the feasibility of the concept of working capital in the light of better planning working capital. Problems of working capital management involve the problem of determining the optimum level of investment in each component of current assets i.e. inventory, receivables, cash, and other short term investment. The basic focus in working capital management should be to optimize the firm's investment. An expert in the financial management is of the opinion that problem of working capital is one of the factors responsible for the low profitability in manufacturing sector. Better planning and control of working capital, or in other words, proper utilization of optimum quantity of working capital increases the earning power subject to the existence of operating margin.

Objectives of the Study

The following are the main objectives of the study:

1. To measure the performance of selected banks.
2. To analyse the working capital management of selected banks.
3. To analyse the trend of performance and working capital of selected banks.
4. To offer some suggestions for the better utilization of resources.

Limitations of the study

1. The study is limited to a period of 5 years (2009-10 to 2013-14) performance of selected banks.
2. The data used in this study has been taken from published annual reports only. So, it is reliable up to that extent only.
3. For this study, only simple accounting ratios and simple statistical tools like mean and growth rate have been used.

Database and Methodology

The sample selected for this study is ICICI Bank and HDFC Bank. The study covers five years period from 2009-10 to 2013-14. This study is based on secondary data which is collected from annual reports of the company and various studies made available through library work. The collected data has been tabulated, analyzed and interpreted with the help of different financial ratios and statistical tool like Mean and Growth Rate.

Abbreviations Used

Current Ratio	=	CR
Quick Ratio	=	QR
Total Assets Turnover	=	TATO
Earning Per Share	=	EPS
Dividend per Share	=	DPS
Return on Net Worth	=	RONW
Total Debts to Owners Funds	=	TDOF
Growth Rate	=	GR

Current Ratio

Current ratio is the most common ratio for measuring the liquidity. Current ratio is the ratio of total current assets to total current liabilities. Current assets are easily converted into cash within a period of one year. Current liabilities are payable within a period of one year.

Table 1: Current Ratio

Year	HDFC	ICICI
2009-10	0.03	0.14
2010-11	0.06	0.96
2011-12	0.08	1.00
2012-13	0.78	0.98
2013-14	0.06	0.09
MEAN	0.202	0.634
GR(%)	100	-35.71

Annual Reports of HDFC and ICICI from 2009-10 to 2013-14.

The Current Ratio of HDFC and ICICI Bank's shows fluctuating trend during the period of study. It is fluctuated between 0.78 to 0.03 times in HDFC and 1.00 to 0.09 times in ICICI during this study period. The Current Ratio of ICICI Bank shows the shortage of liquidity in the bank during the period of study. An important result is that in all the years of study period both the banks does not maintain ideal ratio.

- The Mean of Current Ratio shows that position of ICICI Bank is better compared to HDFC Bank.
- The Growth Rate of Current Ratio in ICICI Bank shows negative trend during the period of study. Current Ratio shows that HDFC Bank is better compared to ICICI Bank

Quick Ratio

It is also known as “Liquid ratio” or “Acid test ratio”. It shows the relationship between liquid assets and liquid liabilities. Liquid assets are easily converted into cash immediately without any diminishing value. Liquid assets equal to current assets less stock and prepaid expenses. Liquid liabilities equal to Current Liabilities less Bank Overdraft.

Table 2: Quick Ratio

Year	HDFC	ICICI
2009-10	7.14	14.70
2010-11	6.89	15.86
2011-12	6.20	9.37
2012-13	7.84	10.53
2013-14	8.55	11.31
MEAN	7.324	12.354
GR(%)	19.75	-23.06

Annual Reports of HDFC and ICICI from 2009-10 to 2013-14

The Quick ratio of HDFC and ICICI Bank’s shows fluctuating trend during the period of study. It is fluctuated between 8.55 to 6.20 times in HDFC and 15.86 to 9.37 times in ICICI during this study period. It shows high liquidity during the last two years. Both the banks maintained ideal ratio in all the years except in 2011-12 during the period of study.

- The Mean of Quick ratio of ICICI Bank is almost double than that of HDFC Bank which indicates better liquidity position of ICICI Bank.
- The Growth Rate of HDFC Bank is higher in comparison to ICICI Bank. It is almost two times than that of ICICI Bank.

Total Assets Turnover Ratio

It shows the relationship between fixed assets and sales. It indicates the extend to which the sales value is invested in fixed assets.

Table 3: Total Assets Turnover Ratio

Year	HDFC	ICICI
2009-10	0.10	0.09
2010-11	0.08	0.07
2011-12	0.09	0.08
2012-13	0.10	0.08
2013-14	0.09	0.08
MEAN	0.092	0.08
GR(%)	-10.00	-11.11

Annual Reports of HDFC and ICICI from 2009-10 to 2013-14

The Total Assets Turnover Ratio of HDFC and ICICI Bank’s shows fluctuating trend during the period of study. It is fluctuated between 0.10 to 0.08 times in HDFC and 0.09 to 0.07 times in ICICI during this study period. Whereas it is constant in last three years of study in case of ICICI.

- The Mean of Total Assets Turnover Ratio of HDFC Bank is slight higher (0.092) than that of ICICI Bank (0.08). It indicates that HDFC Bank has maintained the balance between its turnover and total assets as compared to ICICI Bank.
- The Growth Rate of Total Assets Turnover Ratio in HDFC and ICICI Bank shows negative trend during the period of study.

Table 4: Earnings per Share Ratio

Year	HDFC	ICICI
2009-10	64.42	36.10
2010-11	84.40	44.73
2011-12	22.02	56.09
2012-13	28.27	72.22
2013-14	35.34	85.04
MEAN	46.89	58.836
GR(%)	-53.86	135.57

Annual Reports of HDFC and ICICI from 2009-10 to 2013-14

Earning Per Share of ICICI Bank shows increasing trend during the all years of study. It moves between 36.10 to 85.04 during the period of study. But in case of HDFC Bank, it indicates increasing trend for the first two years. But there is a huge decline in the year 2011-12. The trend of EPS of ICICI Bank is better as compared to HDFC Bank.

- The Mean of EPS of HDFC Bank is 46.89 whereas it is 58.836 in case of HDFC Bank. It indicates that ICICI Bank is paying higher EPS as compared to HDFC Bank.
- The Growth Rate of EPS in ICICI Bank indicates 135.37% increase in EPS during the period of study whereas in case of HDFC Bank, it shows 53.86% decrease during the same period.

Table 5: Dividend per Share Ratio

Year	HDFC	ICICI
2009-10	12.00	12.00
2010-11	16.50	14.00
2011-12	4.30	16.50
2012-13	5.50	20.00
2013-14	6.90	23.00
MEAN	9.04	17.10
GR(%)	-42.50	91.67

Annual Reports of HDFC and ICICI from 2009-10 to 2013-14.

Dividend Per Share of ICICI Bank shows increasing trend during the period of study. It moves between 12.00 to 23.00 during the period of study. In the same way, DPS of HDFC Bank also shows increasing trend for the first two years. But it declines to a great extent in the last three year (2011-12 to 2013-14).

- The Mean of DPS in case of ICICI Bank is 17.10 while it is only 9.04 in case of HDFC Bank. So, it can be said that ICICI Bank is paying regular and higher DPS as compared to HDFC Bank.
- The Growth Rate of DPS in case of ICICI Bank is 91.67% while it is negative trend in case of HDFC Bank (42.50%).

Table 6: Return on Net Worth Ratio

Year	HDFC	ICICI
2009-10	13.70	7.79
2010-11	15.47	9.35
2011-12	17.26	10.70
2012-13	18.57	12.48
2013-14	19.50	13.40
MEAN	16.90	10.744
GR(%)	42.34	72.02

Annual Reports of HDFC and ICICI from 2009-10 to 2013-14.

Return on Net Worth ratio of ICICI and HDFC Bank shows increasing trend during the period of study. It moves between 13.70 to 19.50 in HDFC and 7.79 to 13.40 in ICICI during the period of study.

- The Mean of RONW in case of HDFC Bank is 16.90 while it is only 10.744 in case of ICICI Bank. So, it can be said that HDFC Bank is paying regular and higher RONW as compared to ICICI Bank.
- The Growth Rate of RONW in case of ICICI Bank is 72.02%, whereas at the same time it is 42.34% in HDFC Bank.

Table 7: Total Debts to Owners Fund

Year	HDFC	ICICI
2009-10	7.78	3.91
2010-11	8.22	4.10
2011-12	8.24	4.23
2012-13	8.18	4.39
2013-14	8.45	4.53
MEAN	8.174	4.128
GR(%)	8.61	15.86

Annual Reports of HDFC and ICICI from 2009-10 to 2013-14.

Total Debts to Owners Fund ratio of HDFC Bank shows increasing trend during the period of study except third year (2012-13). It moves between 7.78 to 8.45 during the period of study. In the same way, TDOF of ICICI Bank also shows increasing trend in all years. It moves between 3.91 to 4.53 during the period of study.

- The Mean of TDOF in case of HDFC Bank is 8.174 while it is only 4.128 in case of ICICI Bank.

- The Growth Rate of TDOF in case of ICICI Bank is 15.86%, whereas at the same time it is 8.61% in HDFC Bank.

Major Findings of the study

The findings are based on the facts which gathered by the researcher during the project and the figures which are given by the ratio analysis. The major findings are summarized as under.

- The Current Ratio of HDFC and ICICI Bank's shows fluctuating trend during the study period. The Current Ratio of ICICI Bank shows the shortage of liquidity in the bank during the period of study. An important result is that in all the years of study period both the banks does not maintain ideal ratio. The Mean of Current Ratio shows that position of HDFC Bank is better compared to ICICI Bank. The Growth Rate of Current Ratio in ICICI Bank shows negative trend during the period of study. Current Ratio shows that HDFC Bank is better compared to ICICI Bank.
- Liquid ratio is the true test of the business solvency. The ideal ratio is 1:1. It indicates sound financial position. But in our study the Quick ratio of HDFC and ICICI Bank's shows fluctuating trend during the period of study. Both the banks maintained ideal ratio in all the years except in 2011-12 during the period of study. The Mean of Quick ratio of ICICI Bank is almost double than that of HDFC Bank which indicates better liquidity position of ICICI Bank. The Growth Rate of HDFC Bank is higher in comparison to ICICI Bank. It is almost two times than that of ICICI Bank.
- Higher ratio means proper utilization of fixed assets and lower ratio indicates under utilization of fixed assets. The Total Assets Turnover Ratio of HDFC and ICICI Bank's shows fluctuating trend during the period of study. The Mean of Total Assets Turnover Ratio of HDFC Bank is slight higher (0.092) than that of ICICI Bank (0.08). It indicates that HDFC Bank has maintained the balance between its turnover and total assets as compared to ICICI Bank. The Growth Rate of Total Assets Turnover Ratio in HDFC and ICICI Bank shows negative trend during the period of study.
- Earning Per Share of ICICI Bank shows increasing trend during the all years of study. But in case of HDFC Bank, it indicates increasing trend for the first two years. But there is a huge decline in the year 2011-12. The trend of EPS of ICICI Bank is better as compared to HDFC Bank. The Mean of EPS of HDFC Bank is 46.89 whereas it is 58.836 in case of HDFC Bank. It indicates that ICICI Bank is paying higher EPS as compared to HDFC Bank. The Growth Rate of EPS in ICICI Bank indicates 135.37% increase in EPS during the period of study whereas in case of HDFC Bank, it shows 53.86% decrease during the same period.

- Dividend Per Share of ICICI Bank shows increasing trend during the period of study. In the same way, DPS of HDFC Bank also shows increasing trend for the first two years. But it declines to a great extent in the last three year (2011-12 to 2013-14). The Mean of DPS in case of ICICI Bank is 17.10 while it is only 9.04 in case of ICICI Bank. So, it can be said that ICICI Bank is paying regular and higher DPS as compared to HDFC Bank. The Growth Rate of DPS in case of ICICI Bank is 91.67% while it is negative trend in case of HDFC Bank (42.50%).
- Return on Net Worth ratio of ICICI and HDFC Bank shows increasing trend during the period of study. The Mean of RONW in case of HDFC Bank is 16.90 while it is only 10.744 in case of ICICI Bank. So, it can be said that HDFC Bank is paying regular and higher RONW as compared to ICICI Bank. The Growth Rate of RONW in case of ICICI Bank is 72.02%, whereas, at the same time it is 42.34% in HDFC Bank.
- Total Debts to Owners Fund ratio of HDFC Bank shows increasing trend during the period of study except third year (2012-13) The Mean of RONW in case of HDFC Bank is 16.90 while it is only 10.744 in case of ICICI Bank. So, it can be said that HDFC Bank is paying regular and higher RONW as compared to ICICI Bank. The Growth Rate of RONW in case of ICICI Bank is 72.02%, whereas at the same time it is 42.34% in HDFC Bank.

Suggestions

- Current ratio is an index of the banks financial stability. It provides the margin of safety to the creditors. Therefore, a significant (ideal) current ratio for a sound banking system is 2:1. The Current Ratio of both the banks is very lower. They can face a serious problem while need to pay its current liabilities. It is a very critical situation for the banks. So, both the banks should try to maintain its Current Ratio at ideal level so that they can pay its liabilities when required to pay it.
- Proper receivable management is required in both the banks. They should adopt proper collection policy.
- Quick Ratio of both the banks is very higher than the standard ratio. They should reduce the investment in debtors and should make efficient use of cash balance.
- Total Assets Turnover Ratio of ICICI and HDFC Bank is very lower in all the years. So, HDFC and ICICI Bank should increase its turnover by optimum utilization of working capital resources.
- Return on Net Worth of ICICI Bank is very lower than the HDFC Bank. So, ICICI Bank should try to give more return on its net worth to attract more customers and shareholders.
- Total Debts to Owners Funds Ratio of HDFC Bank is very higher than ICICI Bank. It means that HDFC Bank is depending more upon the outside liabilities. So, it should

reduce the amount of outside debts and increase the use of internal sources of funds.

Conclusion

The results of the research show that in the studied banks, the performance of HDFC Bank is better in some ratios like Current Ratio, Quick Ratio, Dividend per Share and Return on Net Worth Ratio. On the other side, the performance of ICICI Bank is better in some ratios like Earning per Share, Dividend Per Share, Return on Net Worth and Total Debts to Owners Fund Ratio. Another important result of this study is that working capital management of both the banks is very poor. Out of these banks, the working capital management of HDFC Bank is better than the ICICI Bank. Overall conclusion of this study is that the performance and working capital management of ICICI Bank is better than the HDFC Bank.

References

1. Kulkarni, P.V. (1981). Financial Management, A Conceptual Approach, Himalaya Publishing House, Bombay
2. Panday, I.M. (1990). “Financial Management” New Delhi: Vikash Publications House
3. Raman B.S.(2010). Banking Theory, Law and Practice, United Publishers, Mangalore
4. Gami, N.D. (2011). Financial Management, New Popular Prakashan, Surat
5. Website of Bombay Stock Exchange and National Stock Exchange.
6. Website of Dion Global Solutions Limited.
7. Annual Reports of ICICI and HDFC Banks from the year 2009-10to 2013-14.