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A COMPARATIVE STUDY OF GROWTH ANALYSIS OF BANK OF BARODA AND ICICI BANK LIMITED

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ABSTRACT

The banking industry performs three primary functions in an economy: the operation of the payment system, the mobilization of savings and the allocation of savings to investment projects. By allocating capital to the highest value use while limiting the risks and costs involved, the banking sector can positively influence the overall economy. On behalf of these the main purpose of the banking sector is to generate revenue. Profit is the main reason for the continued existence of every commercial organization and profitability depicts the relationship of the absolute amount of profit with various other factors. In any case, compared to other business concerns, banks in general have to pay much more attention for balancing profitability and liquidity. Liquidity is required to meet out the prompt demands of customers and profitability is required to meet out the expenses of banks. Hence this research paper is an effort to study the Growth rate in Bank of Baroda and ICICI Bank as both the banks are giant banks in public and private sector, so a study of Growth analysis of both the banks for a period of 5 years, i.e. from 2013 to 2017 is made. The main parameters of growth in banks are Net profit growth, Net assets growth, Earning Per Share growth and Reserve and Surplus growth and the results reveal that in terms of the parameters defined ICICI Bank has performed much better than Bank of Baroda.

KEYWORDS: *Net Assets, Earnings per Share (EPS), Reserves & Surplus, Growth, Profitability, Liquidity.*

Introduction

The Banking industry occupies a unique place in economy. A well developed banking system is a necessary precondition for economic development in a modern economy. Higher the profit, greater the efficient organization. That is why profitability is considered, to a large extent, one of the main criteria to adjudge the extent to which the management has been successful in the effective utilization of the funds available with the enterprise. As regards Bank of Baroda, it was established in 1908 and it holds the distinction of being the first Gujarat bank to have been started. Bank has a strong capital base with capital adequacy ratio of 13.17%. The bank has over 60 mn customers through 5481 offices including 421 extension counters. It is the second largest bank in India. As regards ICICI Bank, it was established by Reserve Bank of India in 1994. Bank has a nationwide network of 4850 Branches and 14440 ATM's in 996 Indian towns and cities. Hence research paper is an effort to study the Growth rate in Bank of Baroda and ICICI Bank. As both the banks are giant banks in public and private sector, so the study of Growth analysis of both the banks for a period of 5 years, i.e. from 2013 to 2017 is made. The main parameters of growth in banks are Net profit growth, Net assets growth, EPS growth and Reserve and Surplus growth. The statistical analysis is made on the bases of growth rate based upon correlation technique.

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Objectives of the Study

- To examine the growth rate of both the banks under study.
- To compare the growth of the banks in public and private sector.

Hypothesis

- The Growth rate of net profits of both the banks under study is same.
- The Growth rate of net assets of both the banks under study is same.

Review of Literature

- **Chidambaram R.M and Alamilu (1994)**, the study "Profitability in Banks, a matter of survival", revealed that the profitability of public sector banks is low as compared to private sector banks.
- **Nag and Das (2002)** studied the impact of imposition of capital requirement norms on flow of credit to the business sector by public sector banks of India and the results showed that in the post reform period, public sector banks did shift their portfolio in a way that reduced their capital requirements.
- **Dr. Sanjay Bhayani (2006)** in his study, "Performance of the New Indian Private Banks: A Comparative study". The study covered 4 leading private sector banks- ICICI, HDFC Bank, UTI and IDBI. The result showed that the aggregate performance of IDBI Bank is the best among all the banks.

Concept of Growth

Growth in relation to a banking organization relates to increase in the business over a period of time. Year to year growth is calculated and targets are fixed to evaluate the performance and standing of the bank with reference to Operating profits, net profits, earning per share, dividend per share, return on capital employed. In relation to industry, in relation to competitors, in relation to branch, growth means the increase in advances and deposits of a bank in current year in comparison to previous year, Growth also means the increase in revenue profits, earning of the Bank in comparison to previous year. It also evaluates the increase in business per employee of the bank in comparison to the previous year. Interest coverage ratios are the other yardsticks to measure the growth of a business entity over a period of time. Profit maximization and wealth maximization are the ultimate goals of an organization because it leads to the growth of the organization to a large extent. As regards Growth, it can be studied from various angles like in terms of sales, net profit, reserve and surplus, earning per share, internal growth & sustainable growth. As a matter of fact, the desired growth rate and the debt financing both are interrelated. The higher the growth rate, the greater would be the need for external financing if other things remaining the same or vice-versa. Balanced Debt equity mix and its relationship with growth may better be studied in terms of net assets growth, fixed assets growth, net profit growth, revenue growth, reserves & surplus growth and earnings per share growth.

NET Assets Growth

Net assets is the sum total of asset side of the balance sheet excluding any provision for depreciation fund or the assets shown at book value less depreciation charges or if the market value of the asset is to be disposed off less any expected loss or provision against that asset. This total of the asset side exclude the fictitious assets if there is any shown in the asset side of the balance sheet like preliminary expenses, discounts on issue of shares or debenture, interest paid out of capital etc. Net assets include both types of assets i.e. fixed asset as well as the current asset possessed by the business entity owned by the concerned. This asset provides the base for making the concern capable for carrying out its business activities for earning revenue and consolidates its position in the years to come. These assets are possessed by the business from various sources shown in the liability side of the concern i.e. owners funds and borrowed funds or the internal resources of the business created out of profits. As regards Net Assets of Bank of Baroda & ICICI Bank limited, it has been computed by deducting all liabilities from total assets as shown in table 1 as under:

Year	Bank of Baroda			ICICI Bank		
	Total Asset	Net Asset	% of Net Assets to Total Assets	Total Asset	Net Asset	% of Net Assets to Total Assets
2017	694875.42	40303.25	5.80	986042.66	104632.00	10.61
2016	671376.48	40198.99	5.99	918756.20	94110.71	10.24
2015	714988.55	39835.35	5.57	826079.17	84704.54	10.25
2014	659504.53	35985.68	5.46	747525.68	76429.85	10.22
2013	547135.44	31969.44	5.84	674821.71	68762.41	10.19

Table 1 reveals that Net Assets of Bank of Baroda indicated an annual compound growth rate of 5.73 percent; whereas that of ICICI Bank indicated an annual compound growth rate of 10.30 percent. All this indicated that net assets of ICICI Bank increased quicker than that of Bank of Baroda. Growth rate of Net Assets of Bank of Baroda and ICICI Bank has been computed by way of annual compound growth rate with the help of the following formula:

$$r = \sqrt[n]{\frac{P_n}{P_o}} - 1$$

Where r = Average rate of Growth

P_n = value at the end of the period

P_0 = value at the beginning of the period

n = Number of years

Using logarithms Growth rate is calculated as

Growth rate of Bank of Baroda = 6.11%

Growth rate of ICICI Bank = 10.64%

As regards Net Assets Growth of Bank of Baroda & ICICI Bank, it has been computed with the help of geometric mean.

Growth Rate of Fixed Assets

Any business entity needs for its smooth functioning two types of assets i.e. fixed assets as well as current assets. Fixed assets are those which are purchased once for the business and remains with it for a long time to come. They are also known as dead investment as once the money invested in these assets cannot be used for any other purpose very easily. As for example land, building, plant and machinery, patents, trade mark, furniture, vehicle etc. the building once constructed for the business cannot be constructed or carried to any other place. Such assets help the organization to carry on its production related operations. These are generally shown in the assets side of the balance sheet as follows:

Gross Block ---------------------------------
Less Depreciation----------------
Net Block----------------

Gross Block refers to the total cost of acquisition of all the, fixed assets. Out of this actual acquisition cost, accumulated depreciation up to date is deducted. The resultant net block indicated the net fixed assets. Intangible assets of the organization are also of permanent nature. Growth Rate of Net Block can be worked out by dividing the net block assets of the current year by the net fixed assets of the base year as shown below:

$$\text{Growth Index of Net Fixed Assets} = \frac{\text{Net Fixed assets at the end of current year}}{\text{Net Fixed Assets at the end of Base Year}}$$

As regards Net Block of Bank of Baroda & ICICI Bank limited, It has been worked out as shown in Table 2:

Year	**Bank of Baroda**			**ICICI Bank**		
	Total Asset	Fixed Asset	% of Fixed Assets to Total Assets	Total Asset	Fixed Asset	% of Fixed Assets to Total Assets
2017	694875.42	5758.37	0.83	986042.66	9337.96	0.95
2016	671376.48	6253.78	0.93	918756.20	8713.46	0.95
2015	714988.55	2874.85	0.40	826079.17	5871.21	0.71
2014	659504.53	2734.12	0.41	747525.68	5506.83	0.74
2013	547135.44	2453.12	0.45	674821.71	5506.83	0.82

Table 2 reveals that fixed assets of Bank of Baroda increased from 2453.12 cr. in 2013 to 5758.37 cr. in 2017 indicating an increase of 134 %; whereas that of ICICI Bank limited increased from 5506.83 cr. in 2013 to 9337.96 cr. in 2017 certifying an increase of 70% over the corresponding period. All this indicated that fixed assets of Bank of Baroda increased more as compared to that of ICICI Bank.

Net Profit / (Loss) Growth

In order to study whether the net profit of an organization has been witnessing growth or not, net profit growth is calculated with the help of Growth rate Growth rate of; Bank of Baroda =163.76% ICICI Bank =4.89%. Relevant formulas have been explained in Chapter II; Techniques of Analysis. Net profit growth in respect of Bank of Baroda and ICIC bank has been calculated by taking Net Profit after Tax so as to adjudge the absolute growth of net profit after tax as shown in Table 3:

Year	Bank of Baroda		ICICI Bank	
	Net Profit	% increase over previous years	Net Profit	% increase over previous years
2017	1777.41	135.17	11340.33	3.78
2016	-5053.09	-231.84	10926.89	-15.57
2015	3832.69	-22.28	12942.30	10.83
2014	4931.24	3.81	11677.12	15.27
2013	4750.48		10129.88	

Table 3 reveals that the Net Profit of Bank of Baroda decreased from 4750.48 cr. in 2013 to 1777.41 cr. in 2017 whereas that of ICICI Bank increased from 10129.88 cr. in 2013 to 11340.33 cr. in 2017 indicating an increase of 17% over the corresponding period. It is certify that ICICI stands better than in view of stability and profitability. Hence the hypothesis “The Growth rate of net profits of both the banks under study is same” is rejected.

Earnings per Share Growth

It is the profits before tax but after interest divided by the number of shares issued by the business house. Higher earnings per share show the effectiveness of the management and their policies and decision making. Earnings per share when increases the goodwill, overall confidence of the investor to remain with the company and the potential of future growth of the business house. This depends upon the fundamentals of the business like competition, environment, and nature of the product, technology used and applied and long standing history of the enterprise.

$$\mathrm{EPS} = \frac{\text{Net Income} - \text{Preference dividend}}{\text{No. of equity shares}}$$

More the earning per share better are the performance and prospectus of the company. The higher EPS has a favorable impact on the market price of share. As regards EPS of Bank of Baroda and ICIC Bank, it has been calculated as shown in Table 4:

Year	Bank of Baroda		ICICI Bank	
	EPS	% increase over previous years	EPS	% increase over previous years
2017	8	136.36	19.47	3.29
2016	-22	-222.22	18.85	-15.89
2015	18	-84.75	22.41	-77.86
2014	118	0.85	101.22	15.18
2013	117		87.88	

Table 4 reveals that the Earning per share of Bank of Baroda decreased from 117 in 2013 to 8 in whereas that of ICICI Bank also decreased from 87.88 in 2013 to 19.47 in 2017 indicating an decrease of 7 times over the corresponding period. All this certify that ICICI Bank limited stands better than Bank of Baroda in view of earning per share.

Reserve and Surplus Growth

Various types of reserves and profits of the current year as well as the previous year balance of profits are shown under this head. This consists of ; Capital reserve which includes Capital Redemption Reserve, Securities Premium, Other reserve less debit balance of profit and loss account, appropriation account (if any). Surplus means credit balance of profit and loss account. Proposed addition to reserve, Sinking Fund when the reserves are invested outside the business in securities or tangible assets, are known as reserve fund. They may be for specific purpose or general purpose. The reserve and surplus is the 2nd head in the liability side of the balance sheet of a company. Various types of reserve and profits of the current year as well as the previous year balance of profits are shown under this head. This shows the following items. Capital reserve, Capital redemption reserve, Securities premium, Other reserve less debit balance of profit and loss account appropriation account (if any),Surplus means credit balance of profit and loss account, Proposed addition to reserve, Sinking fund- if the reserves are invested outside the business in securities or tangible assets these are known as reserve fund. They may be for specific purpose or general purpose. As regards Reserve and Surplus Growth of Bank of Baroda and ICICI Bank, it has been calculated as shown in Table 5:

Year	Bank of Baroda			ICICI Bank		
	Shareholders Fund	Reserve and Surplus	% of Reserve and Surplus to Shareholders Funds	Shareholders Fund	Reserve and Surplus	% of Reserve and Surplus to Shareholders Funds
2017	40303.25	39841.16	98.85	104632.00	103460.63	98.88
2016	40198.99	39736.89	98.85	94110.71	92940.85	98.76
2015	39835.35	39391.79	98.89	84704.54	83537.44	98.62
2014	35985.68	35555.00	98.80	76429.85	75268.23	98.48
2013	31969.44	31546.92	98.68	68762.41	75268.23	109.46

Table 5 reveals that the Reserve and Surplus of Bank of Baroda increased from 31546.92 cr. in 2013 to 39841.16 cr. in 2017 indicating an increase 26% whereas that of ICICI BANK increased from 75268.23 cr. in 2013 to 103460.63 cr. in 2017 indicating an increase of 37% over the corresponding period. And if we compare the growth rate it is 26% of Bank of Baroda and 37% of ICICI Bank .All this certify that ICICI Bank stands better than Bank of Baroda.

Analysis and Findings

Net Assets of Bank of Baroda indicated an annual compound growth rate of 26.07 percent; whereas that of ICICI Bank indicated an annual compound growth rate of 49.84 percent. As regards fixed assets, there is an increase of 1.34 times in case of Bank of Baroda whereas that of ICICI Bank there is an increase of 0.02 times over the corresponding period. Reserve and Surplus growth rate of Bank of Baroda is 26% of Bank of Baroda and 37% of ICICI Bank. As regards Capital Adequacy, it is found that both the banks achieved capital adequacy greater than 9% in all the years under study. But in case of ICICI Bank the CAR 17.44% shows that the bank has made more than requirement, resulting the insufficient utilization of resources.

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