



# A Comparative Study on Performance and Working Capital Management of ICICI and HDFC Banks

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## 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.*

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**Keywords:** Inventory, Profitability, Liquidity, Market ratios, Working Capital

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## 1. Introduction

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 paper is to compare these two banks on all possible aspects.

*ICICI Bank* is the Second 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 stock 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 stock Nifty.

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.

## 2. Significance 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 and control of

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.

### 3. Objectives of the Study

The following are the main objectives of the study :

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

### 4. Database and Methodology

The sample selected for this study is ICICI Bank and HDFC Bank. The study covers five years period from 2007-08 to 2011-12. 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.

#### 4.1 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

**Table 1**

YEAR	CR		QR		TATO		EPS		DPS		RONW		TDOF	
	ICICI	HDFC	ICICI	HDFC	ICICI	HDFC	ICICI	HDFC	ICICI	HDFC	ICICI	HDFC	ICICI	HDFC
2007-08	0.11	0.04	6.42	4.89	5.61	0.11	37.37	44.87	11	8.50	8.94	13.83	5.27	8.76
2008-09	0.13	0.04	5.94	5.23	0.11	0.13	33.76	52.77	11	10.00	7.58	15.32	4.42	9.75
2009-10	0.14	0.03	14.70	7.14	0.10	0.10	36.10	64.42	12	12.00	7.79	13.70	3.91	7.78
2010-11	0.11	0.06	15.86	6.89	0.9	0.10	44.73	84.40	14	16.50	9.35	15.47	4.10	8.22
2011-12	0.13	0.08	16.71	6.20	0.9	0.11	56.09	22.02	16.5	4.30	10.70	17.26	4.23	8.24
Mean	0.12	0.05	11.93	6.07	1.52	0.11	41.61	53.70	12.9	10.26	8.87	15.12	4.39	8.55
GR(%)	18.2	100	160.3	26.8	-84	00	50.1	-51	50	-49.4	19.7	24.8	-19.7	-5.9

Source : Dion Global Solutions Limited

## 5. Findings and Suggestions

### 5.1 Findings

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.

- (1) The Current Ratio of ICICI Bank shows the shortage of liquidity in the bank during the period of study. The Current Ratio of HDFC Bank shows fluctuating trend during the period of study. It is fluctuated between 0.03 to 0.08 times during this study period. 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.
  - But the Growth Rate of Current Ratio shows that HDFC Bank is better compared to ICICI Bank.
- (2) Quick Ratio of ICICI Bank is fluctuated between 5.94 to 16.71 times during the period of study. It shows high liquidity during the last three years. Whereas Quick Ratio of HDFC Bank varies between 5.23 to 7.14 during the period of study. Both the banks maintained ideal ratio in all the years 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 ICICI Bank is also higher in comparison to HDFC Bank. It is almost six times than that of HDFC Bank.
- (3) The Total Assets Turnover Ratio indicates decreasing trend in ICICI Bank. It decreased from 5.61 to 0.9 times during the period of study. While in case of HDFC Bank, this ratio indicates fluctuative trend. It moves between 0.10 and 0.13 during the period of study.
  - The Mean of Total Assets Turnover Ratio of ICICI Bank is higher (1.52) than that of HDFC Bank (0.11). This is due to the ratio for the year 2007-08 (5.61). It indicates that ICICI Bank has maintained the balance between its turnover and total assets as compared to HDFC Bank.
  - The Growth Rate of Total Assets Turnover Ratio in ICICI Bank shows negative trend during the period of study whereas it is constant in the first year and in the last year of study in case of HDFC Bank. So, it can be said that Growth Rate of HDFC Bank is better as compared to ICICI Bank.
- (4) Earning Per Share of ICICI Bank shows increasing trend during the last three years of study. It moves between 33.76 to 56.09 during the period of study. But in case of HDFC Bank, it indicates increasing trend for the first four years. But there is a huge decline in the year 2011-12. The trend of EPS of HDFC Bank is better as compared to ICICI Bank.
  - The Mean of EPS of ICICI Bank is 41.61 whereas it is 53.70 in case of HDFC Bank. It indicates that HDFC Bank is paying higher EPS as compared to ICICI Bank.
  - But the situation is quite different for Growth Rate of EPS. The Growth Rate of EPS in ICICI Bank indicates 50% increase in EPS during the period of study whereas in case of HDFC Bank, it shows 50% decrease during the same period.
- (5) Dividend Per Share of ICICI Bank shows increasing trend during the period of study except second year (2008-09). It moves between 11 to 16.50 during the period of study. In the same way, DPS of HDFC Bank also shows increasing trend for the first four years. But it declines to a great extent in the last year (2011-12).
  - The Mean of DPS in case of ICICI Bank is 12.9 while it is only 10.26 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 ICICI Bank indicates 50% increase in DPS during the period of study whereas in case of HDFC Bank, it shows 50% decrease during the same period. One important conclusion is arrived that the situation is quite similar about the EPS and DPS for both the banks.
- (6) Return on Net Worth in ICICI Bank moves between 7.58 to 10.70 during the period of study. It shows fluctuation in trend during the period of study. Whereas this ratio shows increasing trend during the last three years in HDFC Bank. It moves around 13.83 to 17.86 during the period of study. It is notable that HDFC Bank pays higher return on net worth during all the years of study.
- Mean of Return on Net Worth of ICICI Bank is only 8.87 whereas it is 15.12 in case of HDFC Bank. So, one can say that HDFC Bank is paying higher return on net worth compared to ICICI Bank.
- Growth Rate of Return on Net Worth is also lower than HDFC Bank. It is only 19.7% in case of ICICI Bank whereas it is 24.8% in case of HDFC Bank. So, it can be said that HDFC Bank pays regular and higher return on its net worth in comparison to ICICI Bank.
- (7) Total Debt to Owners Funds ratio of ICICI Bank moves between 3.91 to 5.27 times during the period of study. Whereas for HDFC Bank, it moves between 7.78 to 9.75 during the same period. So, we can say that ICICI Bank has reduced the amount of debt and has done proper use of owner's funds as compared to HDFC Bank.
- Mean of Total Debts to Owners Funds of HDFC Bank is almost double than that of ICICI Bank. It means that HDFC Bank is depending more upon the outside debts whereas ICICI Bank is utilizing more its owner's funds.
- ICICI Bank has reduced its Total Debts Turnover Ratio from 5.27 to 4.23 during the period of study. It means that Growth rate of this ratio has been reduced by 19.7% during the period of study. Growth Rate of this ratio for HDFC Bank has also reduced by 5.9% during the same period.

## 6. Suggestions

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.
2. Proper receivable management is required in both the banks. They should adopt proper collection policy.
3. 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.
4. Total Assets Turnover Ratio of ICICI Bank is very lower in all the years except first year. So, ICICI Bank should increase its turnover by optimum utilization of working capital resources.
5. 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.
6. 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

## 7. Limitations of the study

1. The study is limited to a period of 5 years (2007-08 to 2011-12) 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.

## 8. Conclusion

The results of the research show that in the studied banks, the performance of ICICI Bank is better in some ratios like Current Ratio, Quick Ratio, Dividend per Share and Total Debts to Owners Funds Ratio. But on the other side, the performance of HDFC Bank is better in some ratios like Earning per Share, Total Assets Turnover Ratio and Return on Net Worth Ratio.

Another important result of this study is that working capital management of both the banks is very poor. But out of these banks, the working capital management of ICICI Bank is better than the HDFC Bank.

Overall conclusion of this study is that the performance and working capital management of ICICI Bank is better than the HDFC Bank.

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