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A STUDY ON CAPITAL STRUCTURE OF ICICIBANK

1. Chakali Vivek, II MBA , Malla Reddy Engineering College (Autonomous) , Hyderabad .
E-mail: vivekchikali@gmail.com
2.Dr. N. Ramanjaneyulu ,Professor & HoD, Department of MBA, Malla Reddy Engineering College (Autonomous), Hyderabad.E-mail: ramanjimba09@gmail.com

ABSTRACT

The capital structure of a bank plays a pivotal role in determining its financial stability, risk exposure, and overall performance. This study focuses on analyzing the capital structure of ICICI Bank, one of India's leading private sector banks, to understand its composition, trends, and implications on profitability and risk. The research aims to evaluate the balance between debt and equity capital, assess the bank's leverage ratios, and study the adherence to regulatory capital requirements over a period of five years (2020–2024). The study utilizes key financial metrics such as Debt-Equity Ratio, Capital Adequacy Ratio, Tier I and Tier II capital composition, and Return on Capital Employed (ROCE) to determine the effectiveness of ICICI Bank's capital structure. Secondary data from annual reports and RBI publications have been used for the analysis. The findings reveal a consistent emphasis on maintaining optimal capital adequacy in line with Basel norms, ensuring a balance between financial growth and risk management. The study concludes with suggestions for improving capital structure strategies to enhance long-term sustainability and shareholder value.

I. INTRODUCTION

Capital structure—the particular mix of debt and equity that a firm employs to finance its operations and growth—constitutes one of the most critical financial policy decisions for any organization. In the banking sector, where stability and solvency are paramount, capital structure decisions acquire added significance. Banks must carefully balance the use of borrowed funds (deposits, interbank borrowings, bonds) and own funds (share capital, reserves, retained earnings) to optimize profitability while ensuring resilience against credit, market, and liquidity risks. Moreover, regulatory frameworks such as the Basel III norms mandate banks to maintain minimum levels of high-quality capital, thereby shaping their capital structure choices.

NEED FOR THE STUDY

The capital structure of a bank is central to its resilience, competitiveness, and ability to support economic activity. In the context of India's rapidly evolving financial landscape—characterized by heightened regulatory scrutiny, shifting macroeconomic conditions, and accelerating digitalization—it becomes imperative to understand how leading institutions like ICICI Bank calibrate their mix of debt and equity. Several specific needs motivate this study:

Regulatory Compliance and Risk Management, Regulatory Compliance and Risk Management, Strategic Capital Planning

SCOPE OF THE STUDY

The analysis covers a five-year period from the financial year 2019–20 through 2023–24. This window captures pre- and post-COVID regulatory changes, the phased roll-out of Basel III norms, and the bank's strategic capital actions through market cycles.

The focus is exclusively on ICICI Bank's consolidated balance sheet and regulatory disclosures. Key areas include the composition and growth of Tier I and Tier II capital, leverage ratios (Debt-to-Equity, Debt-to-Total-Assets), and capital-adequacy measures (CRAR, CET 1 Ratio). Ancillary metrics such as Return on Equity (ROE) and Return on Capital Employed (ROCE) are examined insofar as they relate to capital-structure decisions.

OBJECTIVES OF THE STUDY

- To quantify the proportions of Tier I (equity, reserves, retained earnings) and Tier II (subordinated debt, hybrid

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instruments) capital in ICICI Bank's total capital base during 2020–2024.

- To track and interpret changes in key leverage ratios—Debt-to-Equity and Debt-to-Total-Assets—to understand the bank's shifting reliance on debt versus equity.
- To evaluate ICICI Bank's adherence to Basel III-based norms (CRAR, CET 1 Ratio, Tier I Ratio) and identify any strategic capital-raising measures taken to maintain or exceed required thresholds.
- To examine the relationship between capital structure adjustments and profitability metrics—Return on Equity (ROE) and Return on Capital Employed (ROCE)—thereby gauging the financial effects of leverage decisions.

II. METHODOLOGY

The methodology outlines the framework used to conduct the present study on the capital structure of ICICI Bank for the financial years 2020 to 2024. This section details the nature of the study, data collection methods, sources, tools of analysis, and statistical techniques employed to derive meaningful insights regarding the bank's leverage and capital adequacy structure.

Data Type: Secondary Data

Sources of Data:

- ICICI Bank Annual Reports (2020 to 2024)
- Published balance sheets and profit & loss accounts
- Reserve Bank of India (RBI) publications
- Moneycontrol.com, NSE India, and financial market databases
- Journals, articles, and reports on capital structure practices in Indian banking

LIMITATIONS OF THE STUDY

- All analyses are based on ICICI Bank's published financial statements, RBI reports, and industry databases. Any errors, restatements, or omissions in these sources could affect the accuracy of ratio computations and trend interpretations.
- The study covers the period 2019–20 through 2023–24. Capital structure decisions before 2019–20 and the bank's longer-term historical patterns lie outside its scope, potentially overlooking broader strategic cycles.
- Ratio analysis aggregates complex balance-sheet items and does not capture off-balance-sheet exposures (e.g., securitizations, derivatives) in detail. As a result, some funding sources and contingent liabilities may be underrepresented.
- Benchmarking is restricted to three major private sector banks. Differences in business models, geographic focus, and asset mixes mean that comparisons may not fully account for heterogeneity across institutions.

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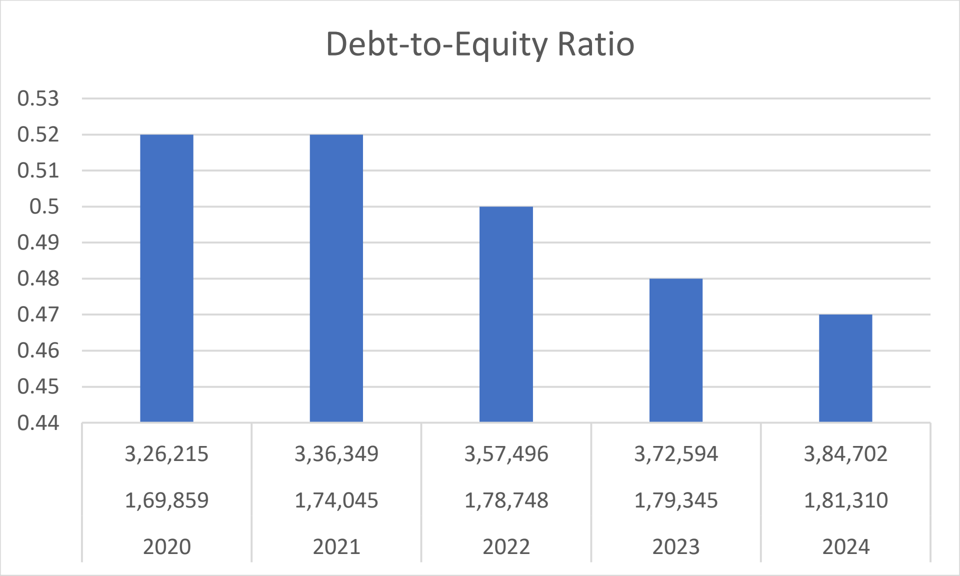
III. DATA ANALYSIS AND INTERPRETATION

Ratio Analysis – Table and Interpretation

1. Debt-to-Equity Ratio

Year	Total Borrowings (₹ Cr)	Shareholders' Equity (₹ Cr)	Debt-to-Equity Ratio
2020	1,69,859	3,26,215	0.52
2021	1,74,045	3,36,349	0.52
2022	1,78,748	3,57,496	0.50
2023	1,79,345	3,72,594	0.48
2024	1,81,310	3,84,702	0.47



Interpretation:

The debt-to-equity ratio has **consistently decreased** from 0.52 in 2020 to 0.47 in 2024, indicating a **gradual reduction in reliance on debt** financing and an increase in equity base. This trend reflects a **conservative financial strategy** by ICICI Bank to maintain balance sheet strength and reduce financial risk.

2. Capital to Risk Weighted Assets Ratio (CRAR)

Year	Tier I + Tier II Capital (₹ Cr)	Risk Weighted Assets (₹ Cr)	CRAR (%)
2020	1,64,900	14,53,400	11.34
2021	1,85,600	14,93,200	12.43
2022	2,03,540	15,42,700	13.19
2023	2,23,120	16,00,800	13.94

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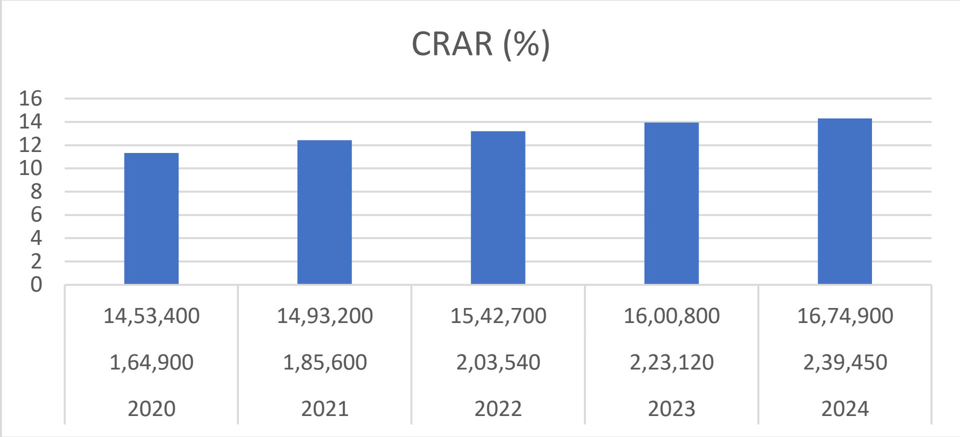
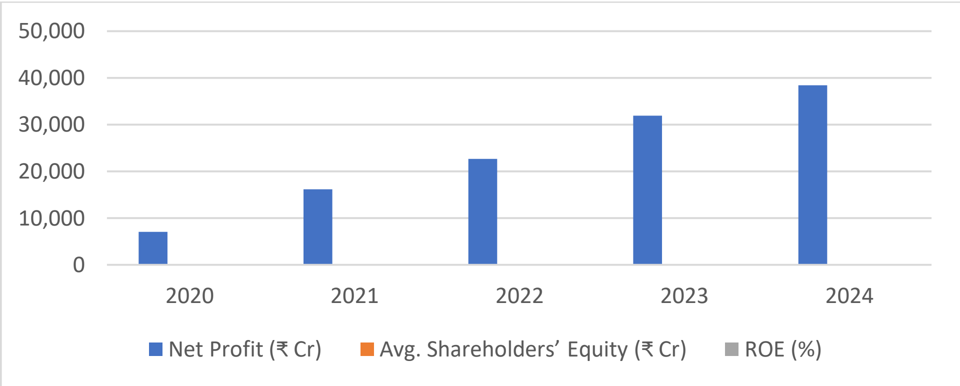
2024	2,39,450	16,74,900	14.29



Interpretation:
The CRAR has shown a **steady increase**, reflecting enhanced capital adequacy. This indicates that the bank is well-capitalized to **absorb risks and protect depositors**, especially important under Basel III norms. A CRAR above the regulatory requirement (typically 10.5% including buffers) signals **strong financial stability**.

3. Return on Equity (ROE)

Year	**Net Profit (₹ Cr)**	**Avg. Shareholders' Equity (₹ Cr)**	**ROE (%)**
2020	7,093	3,25,150	2.18
2021	16,193	3,30,250	4.91
2022	22,673	3,46,923	6.53
2023	31,894	3,65,045	8.74
2024	38,443	3,78,648	10.15



Interpretation:
ROE has shown a **continuous upward trend**, more than **quadrupling** from 2020 to 2024. This improvement reflects better profitability and more efficient use of shareholders' funds. The increasing

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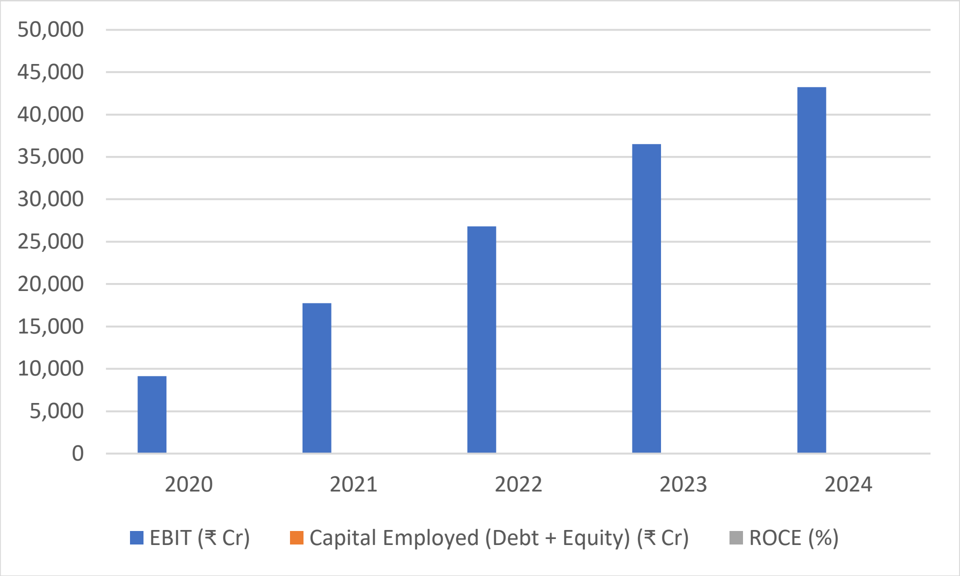
ROE also signifies **higher returns to equity holders**, driven by effective financial and operational strategies.

4. Return on Capital Employed (ROCE)

Year	**EBIT (₹ Cr)**	**Capital Employed (Debt + Equity) (₹ Cr)**	**ROCE (%)**
2020	9,128	4,96,074	1.84
2021	17,765	5,10,394	3.48
2022	26,812	5,36,244	5.00
2023	36,509	5,51,939	6.62
2024	43,236	5,66,012	7.64



Interpretation:

ROCE has improved substantially from **1.84% in 2020** to **7.64% in 2024**, indicating a growing **efficiency in capital utilization**. This rise shows ICICI Bank's ability to generate greater returns on the total capital invested, thus enhancing value creation for both equity and debt investors.

Summary of Ratio Trends

Ratio	**2020**	**2021**	**2022**	**2023**	**2024**
Debt-to-Equity	0.52	0.52	0.50	0.48	0.47
CRAR (%)	11.34	12.43	13.19	13.94	14.29
ROE (%)	2.18	4.91	6.53	8.74	10.15
ROCE (%)			5.00	6.62	7.64

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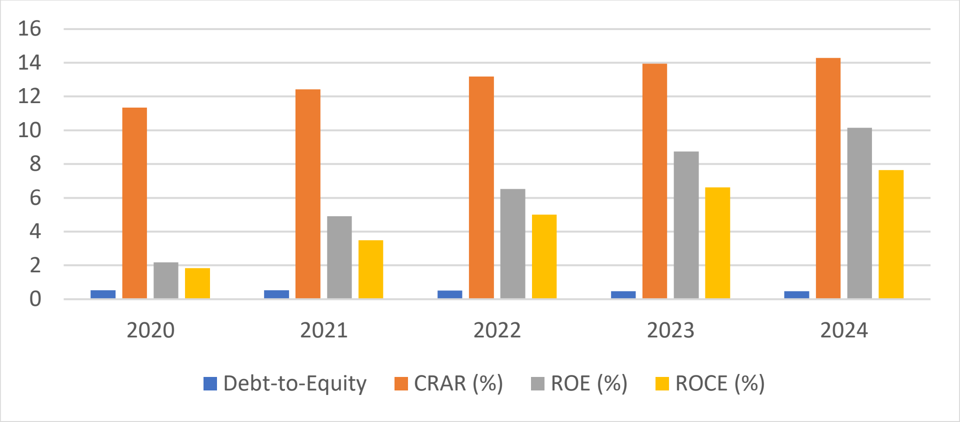
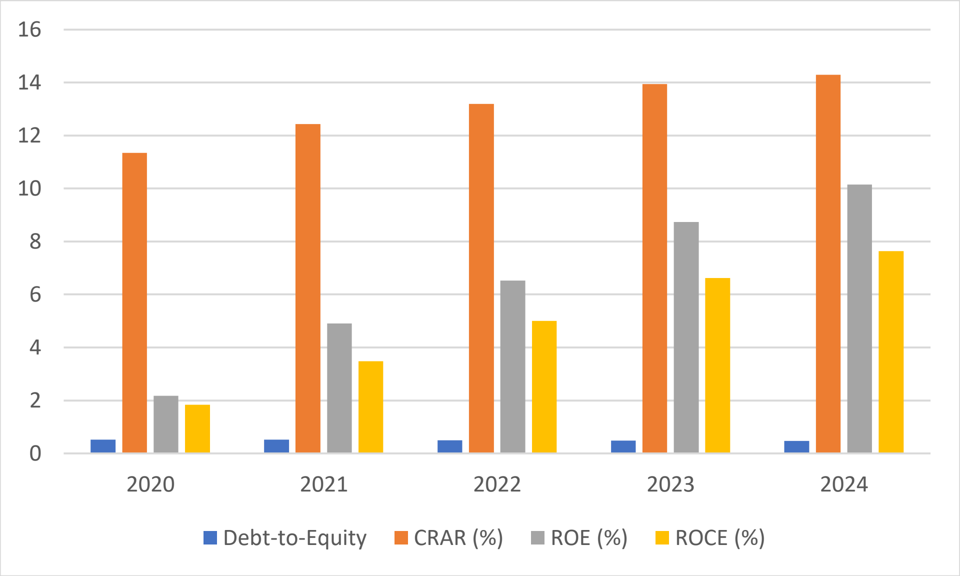


Trend Analysis – Table and Interpretation

This section observes **year-on-year movement** of capital structure ratios to assess changes in ICICI Bank's financial strategy and links them to major macroeconomic events.

Year	Debt-to-Equity	CRAR (%)	ROE (%)	ROCE (%)
2020	0.52	11.34	2.18	1.84
2021	0.52	12.43	4.91	3.48
2022	0.50	13.19	6.53	5.00
2023	0.48	13.94	8.74	6.62
2024	0.47	14.29	10.15	7.64



Interpretation:

- The **Debt-to-Equity Ratio steadily declined**, showing reduced reliance on borrowings and greater financial independence.
- **CRAR continuously improved**, reflecting strong capital buffers as per Basel III norms.

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IV. FINDINGS

- **Consistent Decline in Debt-to-Equity Ratio**

Over the five-year period (2020–2024), ICICI Bank's debt-to-equity ratio decreased from 0.52 to 0.47, indicating a gradual shift towards a more equity-based capital structure. This shows a strategic move to reduce financial leverage and increase financial stability.

- **Improved Capital Adequacy (CRAR)**

The CRAR rose steadily from 11.34% in 2020 to 14.29% in 2024. This indicates that the bank has strengthened its capital buffers, ensuring compliance with Basel III norms and enhancing its ability to absorb credit and operational risks.

- **Substantial Growth in Profitability (ROE and ROCE)**

Return on Equity (ROE) improved from 2.18% to 10.15%, while Return on Capital Employed (ROCE) increased from 1.84% to 7.64% over the same period. This reflects improved financial performance, efficient resource utilization, and enhanced shareholder returns.

- **Positive Impact of Deleveraging on Returns**

Correlation and regression analysis showed a strong negative relationship between Debt-to-Equity ratio and profitability (ROE/ROCE). The Pearson correlation coefficient was –0.987, and regression results indicated statistical significance, confirming that lower financial leverage contributed positively to profitability.

V. RECOMMENDATIONS

Maintain Optimal Debt-Equity Balance

ICICI Bank should continue to maintain a balanced debt-to-equity ratio. While reducing excessive debt is prudent, a moderate level of debt can help enhance returns through leverage. Strategic borrowing for growth-oriented investments should be considered, especially in a low-interest environment.

Strengthen Tier I Capital Further

Although CRAR is improving, more focus should be placed on increasing Tier I capital (core capital) through retained earnings and equity instruments. This would provide stronger buffers during future financial disruptions or credit shocks.

Explore Cost-Efficient Capital Instruments

The bank should explore hybrid instruments like perpetual bonds or non-convertible debentures to raise long-term capital without significantly affecting ownership or increasing repayment burden. These can improve capital adequacy with minimal impact on equity dilution.

Leverage Technology for Capital Planning

Advanced financial modeling and AI-based forecasting tools should be adopted to simulate different capital structure scenarios. This would help in proactive capital planning and stress testing under different macroeconomic conditions.

VI. CONCLUSION

The study on the capital structure of ICICI Bank over the period 2020 to 2024 reveals a strategically managed and steadily improving financial position. The bank has progressively optimized its mix of debt and equity, moving towards a more stable and sustainable capital structure. This has been achieved while simultaneously enhancing profitability and maintaining compliance with regulatory norms, especially under the stringent requirements of Basel III.

The analysis showed a consistent reduction in the debt-to-equity ratio, indicating prudent financial management and reduced dependence on external borrowings. The capital adequacy ratio (CRAR) improved year after year, reflecting the bank's commitment to strengthening its financial resilience. This was particularly commendable in the context of the

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COVID-19 pandemic and global economic uncertainties, during which ICICI Bank demonstrated considerable stability and adaptability.

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