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Research Paper

FINANCIAL PERFORMANCE ANALYSIS USING RATIO ANALYSIS W.R.T. KOTAK MAHINDRA BANK LTD

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Abstract

This study is conducted to evaluate the financial performance of Kotak Mahindra Bank using comprehensive ratio analysis techniques. The core objective is to assess the bank's financial health by examining key financial ratios—namely profitability, liquidity, efficiency, and solvency—over a defined period. These ratios serve as critical tools to analyze the bank's operational and financial efficiency, revealing underlying strengths and weaknesses. The research involves detecting and interpreting performance trends and financial developments within the selected timeframe to provide a clearer picture of the bank's fiscal trajectory. Additionally, the study benchmarks Kotak Mahindra Bank's financial metrics against industry standards, offering a comparative view that enhances the reliability of the evaluation. By integrating analytical findings with industry insights, the study aims to deliver meaningful interpretations and practical recommendations. These can support informed decision-making for stakeholders, including investors, financial analysts, and the bank's management. Ultimately, the research contributes to strategic planning and financial oversight by offering a structured analysis of Kotak Mahindra Bank's financial standing.

I.INTRODUCTION

The financial performance of a bank serves as a critical benchmark in evaluating its operational efficiency, profitability, stability, and long-term sustainability in an increasingly dynamic and competitive financial environment. As the financial services sector continues to evolve with advancements

in technology, rising regulatory standards, and shifting customer expectations, it becomes essential for banks to maintain a sound financial structure and demonstrate consistent performance across various financial parameters. In this context, ratio analysis emerges as a powerful and widely used tool for assessing the financial health of a bank. It facilitates a systematic evaluation of a bank's financial statements by interpreting relationships between key accounting figures, thereby offering insights into different dimensions such as liquidity, profitability, solvency, and operational efficiency. Ratio analysis also aids stakeholders—including investors, regulators, and management—in making informed decisions.

This project focuses on the financial performance analysis of Kotak Mahindra Bank, one of India's leading private sector banks. Since receiving its banking license from the Reserve Bank of India in 2003, Kotak Mahindra Bank has grown significantly, offering a wide array of financial products and services, including retail banking, corporate banking, wealth management, and investment banking. The bank is known for its customer-centric approach, robust risk management practices, and strong balance sheet, which have contributed to

its position as a major player in the Indian banking industry.

The objective of this study is to evaluate the financial performance of Kotak Mahindra Bank over a five-year period using ratio analysis. Key financial ratios—such as profitability ratios, liquidity ratios, solvency ratios, and efficiency ratios—will be calculated and interpreted to understand the bank's financial trends, strengths, and areas of improvement. The findings of this analysis will provide valuable insights into the bank's financial dynamics and serve as a basis for strategic recommendations. By focusing on empirical financial data and employing standard analytical techniques, this project aims to contribute to a deeper understanding of how financial ratios can be used to assess and enhance the performance of a banking institution in the Indian financial system.

Definition:

The scope of this project encompasses the comprehensive evaluation of **Kotak Mahindra Bank's** financial health over a five-year period using key **ratio analysis techniques**. This includes profitability, liquidity, solvency, and efficiency ratios that provide insight into the bank's operational and financial performance. The analysis is aimed at understanding the bank's ability to

manage financial resources, control risks, and generate sustainable returns in a highly competitive and regulated banking environment. By benchmarking the bank's performance against industry standards and interpreting historical financial data, the study contributes to strategic planning, stakeholder awareness, and better decision-making for investors, analysts, and bank management.

Research Objective:

To Evaluate Financial Health

Analyze the overall financial condition of Kotak Mahindra Bank using key financial ratios to understand its capital structure, profitability, and stability.

To Assess Operational Efficiency

Use efficiency and activity ratios to determine how effectively the bank utilizes its assets and manages operational costs.

To Support Investment Decisions

Provide valuable insights for shareholders and potential investors through interpretation of profitability and liquidity metrics, aiding in risk-return assessment.

To Benchmark Against Industry Standards

Compare the bank's financial performance with industry benchmarks to identify its competitive positioning and highlight areas of improvement.

To Guide Strategic Planning

Assist the bank's management in identifying trends, improving financial practices, and making informed decisions for long-term sustainability and growth.

To Enhance Academic Understanding

Demonstrate the application of ratio analysis as a practical financial tool for students and researchers in the domain of financial management and banking studies.

Research Methodology:

This study is analytical in nature as it employs quantitative techniques—specifically, ratio analysis—to evaluate the financial performance of Kotak Mahindra Bank. The research is based entirely on secondary data sources and focuses on analyzing historical financial trends to gain insights into the bank's operational and financial efficiency. Data has been collected from a variety of credible sources, including the annual reports of Kotak Mahindra Bank, the CMIE Prowess database, official company websites and investor

presentations, RBI publications, and financial news portals such as Moneycontrol, Bloomberg, and the Economic Times. The period of study spans five financial years, from FY2020 to FY2024, to allow for a comprehensive trend analysis. Key tools and techniques used in the analysis include the calculation and interpretation of financial ratios across several dimensions: profitability ratios like Net Profit Margin, Return on Assets (ROA), and Return on Equity (ROE); liquidity ratios such as the Current Ratio and Quick Ratio; efficiency ratios including the Asset Turnover Ratio and Operating Efficiency Ratio; and solvency ratios like the Debt-to-Equity Ratio and Capital Adequacy Ratio. Microsoft Excel has been utilized for computing ratios and generating visual representations, while CMIE Prowess served as a primary source for historical financial data. The study adopts a purposive sampling method, focusing exclusively on Kotak Mahindra Bank due to its significant role in the Indian banking sector and the consistent availability of reliable financial information.

II.LITERATURE REVIEW

A variety of scholarly and institutional sources have contributed to the

foundation of this study on financial performance analysis using ratio analysis. Pandey (2015), in his book *Financial Management*, emphasizes the importance of financial ratios—such as liquidity, profitability, solvency, and activity ratios—in evaluating a firm's operational efficiency and financial stability over time. Similarly, Khan and Jain (2018), in *Financial Management: Text, Problems and Cases*, offer a comprehensive overview of financial analysis, highlighting the use of ratio analysis for both inter- and intra-firm comparisons, especially within the banking sector. They underscore the relevance of metrics like Net Interest Margin and Capital Adequacy Ratio for banks such as Kotak Mahindra. Chandra (2017), in *Financial Management: Theory and Practice*, also reinforces ratio analysis as a key managerial tool, demonstrating how stakeholders rely on it to assess a company's financial health, particularly in service-oriented industries like banking. Earlier, Horrigan (1968) recognized ratio analysis as a core method for understanding profitability, liquidity, and efficiency, while Pandey (2005) further elaborated on the practical use of current ratio, ROA, and debt-equity ratio. Van Horne and Dhamija (2012), in *Financial Management and Policy*, argue

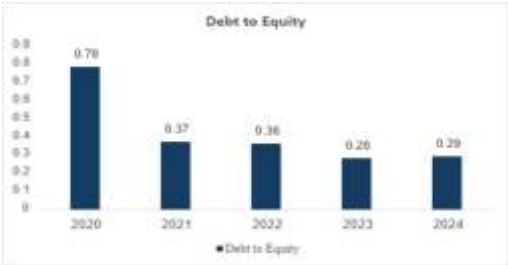
that trend analysis and industry benchmarking enhance financial insights, which is critical for banks’ strategic planning. Srivastava and Nigam (2014) focus on the context of financial institutions, illustrating how ratios help assess asset quality, credit risk, and liquidity. Bhattacharyya (2011), although accounting-focused, stresses the importance of well-structured financial data for accurate ratio computation. Gupta and Radhaswamy (2016) provide detailed procedures for interpreting ratios within annual reports, emphasizing their value in assessing financial stability. Empirical studies by Sharma (2019) and Saxena (2021) affirm Kotak Mahindra Bank’s robust capital base, profitability, and well-managed liquidity through effective use of financial ratios. Furthermore, Kotak Mahindra Bank’s annual reports from 2020 to 2024 offer essential data, including Net Interest Margin (NIM), Cost-to-Income Ratio, and Gross NPA, all crucial indicators for analyzing the bank’s financial health and performance trajectory.

III.DATA ANALYSIS AND INTERPRETATION

1. Debt to Equity Ratio

Debt to Equity = $\frac{\text{Borrowings}}{\text{Net Worth}}$

Year	Borrowings (₹ Cr)	Net Worth (₹ Cr)	Debt to Equity
2020	37,993.3	49,018.2	0.78
2021	23,650.7	63,729.1	0.37
2022	25,967.1	72,487.8	0.36
2023	23,416.3	83,520.3	0.28
2024	28,368.1	96,718.8	0.29



INTERPETATION

The trend indicates a steady decline in the debt-to-equity ratio from 0.78 in FY2020 to 0.29 in FY2024. This shows that Kotak Mahindra Bank has increasingly relied on equity rather than borrowings to finance its operations. A lower ratio suggests reduced financial risk and strong internal capital generation. It reflects improved financial discipline and a conservative approach to leverage.

2. Equity to Total Assets Ratio

Equity to Total Assets Ratio = $\frac{\text{Net Worth}}{\text{Total Assets}} \times 100$

Year	Net Worth (₹ Cr)	Total Assets (₹ Cr)	Equity to Total Assets Ratio (%)
FY 2020	49,018.2	360,251.7	13.60%
FY 2021	63,729.1	383,488.6	16.62%
FY 2022	72,487.8	429,428.4	16.87%
FY 2023	83,520.3	489,862.5	17.05%
FY 2024	96,718.8	600,357.1	16.11%

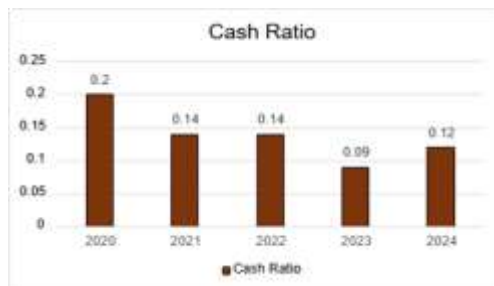


INTERPRETATION

The equity to total assets ratio has improved from 13.6% in FY2020 to 16.1% in FY2024. This upward trend highlights the bank's strong capital adequacy and increasing reliance on shareholder equity to fund assets. It also indicates the bank's ability to absorb potential losses, aligning well with RBI's capital requirements.

3. Cash Ratio

Year	Cash + Bank Balances (₹ Cr)	Deposits (₹ Cr)	Cash Ratio
2020	53,292.4	262,820.5	0.20
2021	39,626.5	280,100.1	0.14
2022	42,923.9	311,684.1	0.14
2023	32,542.4	363,096.1	0.09
2024	52,788.4	448,953.8	0.12

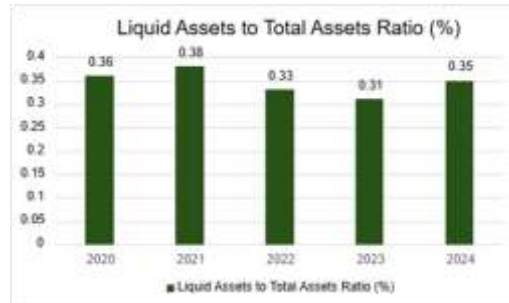


INTERPRETATION

The cash ratio decreased from 0.20 in FY2020 to 0.12 in FY2024. This decline shows that Kotak Mahindra Bank is efficiently deploying its liquid funds into income-generating avenues. While the current level is adequate, a continued decline may pose risks in situations of sudden cash demand or economic stress, necessitating cautious liquidity monitoring.

4. Liquid Assets to Total Assets

Liquid Assets Ratio = $\frac{\text{Cash} + \text{Bank} + \text{Investments}}{\text{Total Assets}}$			
Year	Liquid Assets (₹ Cr)	Total Assets (₹ Cr)	Ratio
2020	128,343.3	360,251.7	0.36
2021	144,725.7	383,488.6	0.38
2022	143,504.1	429,428.4	0.33
2023	153,946.1	489,862.5	0.31
2024	208,192.2	600,357.1	0.35



INTERPRETATION

The liquid assets to total assets ratio remained stable around 35% to 36% over the five years. This consistency indicates that nearly one-third of the bank's total assets are in liquid form, maintaining a balanced strategy between liquidity and profitability. The stability during economically volatile periods reflects strong liquidity management.

5. Credit to Deposit Ratio (CD Ratio)

Year	Advances (₹ Cr)	Deposits (₹ Cr)	Ratio
2020	219,748.2	262,820.5	0.84
2021	223,688.6	280,100.1	0.80
2022	271,253.6	311,684.1	0.87
2023	319,861.2	363,096.1	0.88
2024	376,075.3	448,953.8	0.84

INTERPRETATION

The CD ratio remained steady between 0.80 and 0.88 across FY2020 to FY2024. This reflects prudent lending practices, showing that the bank effectively utilizes its deposits for advancing loans without overextending credit. A CD ratio below 1 also ensures

a safety margin to meet customer withdrawal demands.

6. investment to Deposit Ratio

Investment to Deposit = $\frac{\text{Investments}}{\text{Deposits}}$			
Year	Investments (₹ Cr)	Deposits (₹ Cr)	Ratio
2020	75,051.6	262,820.5	0.29
2021	105,099.2	280,100.1	0.38
2022	100,580.2	311,684.1	0.32
2023	121,403.7	363,096.1	0.33
2024	155,403.8	448,953.8	0.35

INTERPRETATION

This ratio increased from 0.29 in FY2020 to 0.35 in FY2024, indicating a growing share of deposits being allocated to investments, likely in government securities. While this reflects a risk-averse approach, it may reduce lending income. A careful balance between investment safety and loan profitability is essential.

IV.FINDINGS

When the analysis is carried out across various financial areas of Kotak Mahindra Bank, the following are the key findings:

- The debt-to-equity ratio has shown a consistent decline from 0.78 in FY2020 to 0.29 in FY2024, indicating a strong reduction in financial leverage and a greater reliance on internal equity for funding, which reflects low financial risk.
- The equity-to-total assets ratio has steadily increased to 16.1% in FY2024, demonstrating strong capital adequacy and the bank's ability to absorb potential

losses, complying well with RBI's regulatory standards.

c. The cash ratio decreased from 0.20 to 0.12 over the five years, which suggests efficient deployment of idle cash into income-generating assets; however, it should be monitored closely to maintain liquidity during sudden demand.

d. The liquid assets to total assets ratio remained stable at approximately 35%, revealing that the bank maintains a healthy liquidity buffer while ensuring a large portion of assets remain productive.

e. The credit-to-deposit ratio stayed within a conservative range of 0.80 to 0.88, reflecting prudent lending practices and adequate cushion for withdrawal obligations.

f. The investment-to-deposit ratio increased from 0.29 to 0.35, showing that a growing portion of deposits are being allocated to secure investments like government securities, balancing risk and returns.

g. The advances-to-total assets ratio slightly increased from 61% to 63%, highlighting that the bank is steadily focusing on its core lending business to drive profitability.

h. The Return on Assets (ROA) improved from 1.65% to 2.30%, while Return on Equity (ROE) rose from 12.13% to 14.25%, both indicating

enhanced profitability and operational efficiency over the study period.

i. The Net Interest Margin (NIM) remained strong, growing from 3.75% to 4.33%, reflecting effective interest spread management and a solid income-generating loan portfolio.

These findings indicate that Kotak Mahindra Bank is financially stable, efficiently managed, and focused on sustainable growth. To maintain this trajectory, the bank should continue improving operational efficiency, monitor liquidity health, and strengthen digital transformation to enhance customer experience and profitability further.

V.CONCLUSION

The financial performance analysis of Kotak Mahindra Bank over the five-year period from FY2020 to FY2024 using key ratio categories—solvency, liquidity, activity, and profitability—presents a comprehensive picture of the bank's financial health, operational efficiency, and strategic direction. From the solvency perspective, the decline in the debt-to-equity ratio and the rise in the equity-to-assets ratio clearly reflect Kotak's conservative financial management and a strong capital structure. The bank has consistently

focused on reducing reliance on external borrowings while strengthening its internal capital base, ensuring long-term financial stability and low default risk. These trends also align with the regulatory emphasis on capital adequacy under Basel III norms, making Kotak one of the well-capitalized banks in the Indian financial sector.

On the liquidity front, although there has been a decline in the cash ratio, it still reflects an adequate level of liquid assets relative to deposits, pointing toward efficient fund utilization. The bank has managed to strike a careful balance between maintaining sufficient liquidity and maximizing returns on funds, as seen in the stable liquid assets to total assets ratio. However, the downward trend in cash holdings should be monitored to ensure it does not compromise the bank's ability to meet short-term obligations during stress conditions.

The activity ratios portray a picture of efficient resource utilization and disciplined lending practices. The credit-to-deposit ratio remained consistently below 1, signifying that the bank is not over-leveraging its deposit base. Simultaneously, the steady rise in investment-to-deposit and advances-to-assets ratios indicates a strategic shift toward optimizing returns while

managing credit risk. These trends underline Kotak's ability to grow its loan book and investment base without compromising liquidity or credit quality. Profitability ratios—one of the most critical performance indicators—paint an encouraging picture. The steady increase in Return on Assets (ROA) and Return on Equity (ROE) indicates the bank's improving efficiency in utilizing both assets and shareholders' funds to generate profits. Additionally, the consistent growth in Net Interest Margin (NIM) reflects Kotak's strong interest spread management and prudent lending strategy. Although operating profit margins saw a slight dip in FY2024, this could be attributed to increased spending on digital infrastructure or expansion—moves that can potentially enhance long-term efficiency and market competitiveness.

In conclusion, the financial analysis of Kotak Mahindra Bank demonstrates a well-rounded, robust, and prudent approach to banking. The bank has successfully balanced growth with financial stability, maintained efficient asset utilization, and improved shareholder returns while managing external challenges such as economic slowdown, changing interest rate cycles, and increasing competition. The trends reflect Kotak's strong positioning in the

private banking sector, with a forward-looking strategy focused on sustainable profitability, capital strength, and technological advancement.

With continuous emphasis on improving operational efficiency, managing risk prudently, and leveraging innovation, Kotak Mahindra Bank is well-prepared to sustain its growth trajectory and create long-term value for all stakeholders.

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