International Journal of Research in Engineering, Science and Management
Volume-3, Issue-11, November-2020
https://www.ijresm.com | ISSN (Online): 2581-5792

An Empirical Study on Liquidity and Solvency Performance in ICICI Bank

Poonam Devi[1*], Arati Pant[2]
[1]*Research Scholar, Department of Commerce, D. S. B. Campus, Kumaun University, Nainital, India*
[2]*Assistant Professor, Department of Commerce, D. S. B. Campus, Kumaun University, Nainital, India*
*Corresponding author: poonamsainiphd@gmail.com

***Abstract*: Liquidity and solvency is the life-belt of every business. In Banking business' liquidity and solvency is prepare for conflict during the economic crisis. Banking Sector-liquidity and solvency is the epicenter in economic crisis. Globally, the liquidity and solvency played a vital role in managing liquidity and solvency issues of commercial banks. This research paper explores the concepts, analysis of liquidity and solvency in the ICICI Bank. Furthermore, this paper focuses on the liquidity aspects of ICICI Banks towards analyzing whether the ownership has any influence on the liquidity and solvency aspects of the banking structure. Besides, it looks into the unpredictability of RBI's policies on liquidity like Cash Reserve Ratio, Statutory Liquidity Ratio etc.**

***Keywords*: Liquidity, Solvency.**

1. Introduction

The banking sector is a vital financial intermediary in beating savings and converting them into substantial investments. Such a procedure has need of due carefulness to ensuring commercial funds of such savings, to honour, safeguard and return the savings in due course with appropriate returns thereon. Hence, Liquidity and Solvency are intimate attributes of a successful banking business. The Liquidity of banks depends on the banks' ability to pay off its liabilities and to appropriate release of their obligations. Liquidity crunch arises when the deposits are demanded and the bankers fail to honour their commitments to repay the same. Asset-Liability mismatch in the period of maturity leads to liquidity risk, resulting in solvency.

With the strengthening of prudential norms of Banking Worldwide Reimbursements, Basel, Switzerland, including but limited to Basel-III norms-all features of bank management like liquidity, capital adequacy, solvency and profitability have been dealt with inflexibility towards ensuring that the banks are sufficiently insulated to absorb the global economic shocks like fall of Lehman Bros, US Federal Policy Changes, Brexit or Bremain etc. Hence Basel – III norms focussed more on managing and controlling risk exposure by assigning weights, introducing more rigorous liquidity ratios and laid standards in attaining capital adequacy ratio.

Although Indian banks are heavily insulated from global shocks due to compliance to prudential norms of RBI, as introduced from time to time, the government owned commercial banks.

2. Review of Literature

Singh and Pandey (2008) studied that, the management of working capital is vital as it has a direct influence on profitability and liquidity. Working capital workings and found a substantial effect of working capital management on profitability for Hidalgo Industries Limited. Of this work and replicates some pivotal indications that sustain its capability, as may be marked here it. Nor has any previous research observed the liquidity position and the presence of liquidity and profitability relationship of private sector steel companies in India.

Ajanthan (2013) studied the relationship between liquidity and profitability of trading companies in Sri Lanka. The study protected 08 listed trading companies in Sri Lanka over a period of past 5 years from 2008 to 2012. Correlation & regression analysis and expressive statistics were used in the analysis and findings suggest that there is an important relationship occurs between liquidity and profitability among the listed trading companies in Sri Lanka.

N. Venkata Ramana, S. MD. Azash and K. Ramakrishnaiah (2011) Profitability analysis measures how a firm will be performing in terms of its ability to generate profits. Profitability of the firm is highly influenced by internal and external variables, i.e., size of organizations, liquidity management, growth of organizations, component of costs and inflation rate. The paper made an attempt to know the profitability and to assess the impact of selected profitability ratios on ROE of the company, for fulfilment of the objectives the data collected from the annual report from 2001- 2010. The data is analysed and computed to fit for drawing inferences .in this investigation correlation and multiple regression analysis was used to find out impact of selected profitability ratios (Gross Profit, Operating Profit, Net Profit, Earning Per Share, Return on Total Assets) on ROE. The result reveals that selected profitability ratios are not have significant impact on ROE.

3. Objectives of the Study

- To identify the liquidity in ICICI Bank.
- To identify the Solvency in ICICI Bank.

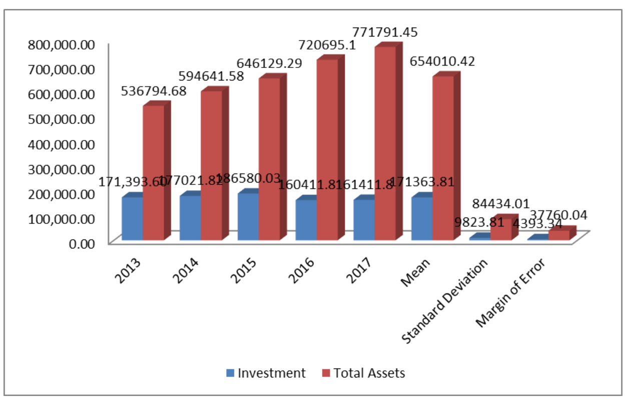
4. Liquidity Performance

Liquidity means how quickly you can get your hands on your cash. In simpler terms, liquidity is to get your money whenever you need it.

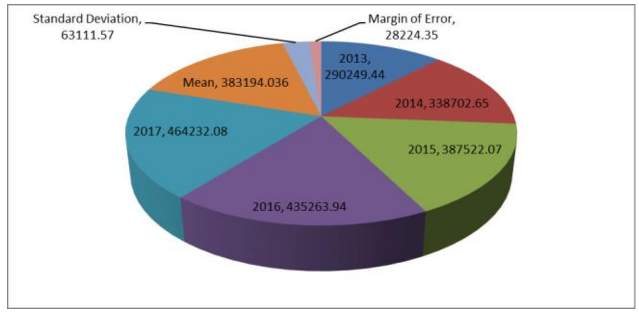
Advance to Total Assets in 2013 was rs. 54.07 cr. and in 2014 rs.53.26 cr. and increased in 2015 rs. 53.57 cr. and after that it will start decline from 2016 which was rs. 54.07 cr. and in 2017 rs. 56.96 cr. Similarly, Debt to Total Assets had shown on increasing trend continuously from the period 2013 to 2014. It was rs. 72.26 cr. in 2013 and increased to rs. 72.64 cr. in 2014. After that it was decrease in 2015 which was rs. 72.29 cr. and after that it was continuously increased from 2016 to 2017 which was rs. 73.32 and 127.32cr. The Mean, Standard Deviation and Margin of Error was rs. 53.386,1.323,0.59 cr. of Advance to Total Assets. And Debt to Total Assets the Mean, Standard Deviation and Margin of Error was rs. 83.566, 21.88, 9.78 cr.

Table 1

Year	Investment	Total Assets	Advance
2013	171,393.60	536794.68	290249.44
2014	177021.82	594641.58	338702.65
2015	186580.03	646129.29	387522.07
2016	160411.8	720695.1	435263.94
2017	161411.8	771791.45	464232.08
Mean	171363.81	654010.42	383194.036
Standard Deviation	9823.81	84434.01	63111.57
Margin of Error	4393.34	37760.04	28224.35



Investment of ICICI Bank had shown an increasing trend continuously from the period from 2013 to 2017. It was rs. 171393.60 cr. in 2013 and increased to rs. 186580.03 cr. in 2015. After that it started decline in 2016 was rs. 160411.8 cr. and in 2017 was rs. 161411.8 cr. Similarly, Total Assets of ICICI Bank had shown an increasing trend continuously from the period 2013 to 2017. It was rs. 536794.68 cr. and increased to rs.771791.45 cr. Similarly, Advance of ICICI Bank had shown an increasing trend continuously from the period 2013 to 2017. It was rs.290249.44 cr. and increased to rs.464232.08 cr. The Mean, Standard Deviation and Margin of Error of Investment was rs.171363.81, 9823.81, 4393.34 cr. and for the Total Assets the Mean was rs. 654010.42 cr. and Standard deviation was rs. 84434.01 cr. and Margin of Error was rs.37760.04 cr.

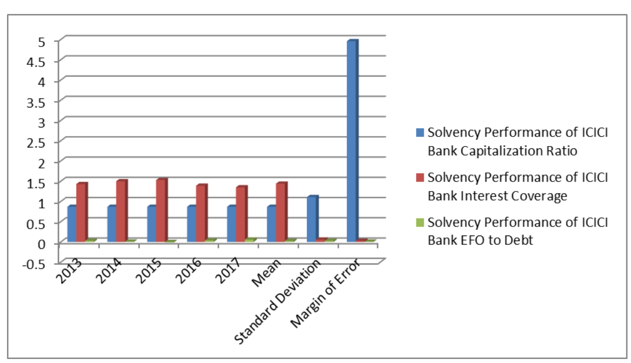


Solvency performance: Solvency can also be defined as the capability of an organization to meet its long-term fixed expenditures and to achieve long-term development and progress.

In the table Capitalization Ratio had shown an increasing trend continuously from the period 2013 to 2017. It was rs. 0.87 cr. till 2017. Similarly, Interest coverage had shown an increasing trend continuously from the period 2013 to 2015. It was rs 1.43 cr. in 2013 and increased to rs. 1.53 cr. in 2015. After that it started decline and in the year 2016 it was rs. 1.39 cr. and in 2017 it was rs. 1.35 cr. Similarly, EFO to Debt in the year 2013 it was rs. 0.03 cr. and after that it started decline it was rs. 0.01 cr. in 2014 and in 2015 it was rs. -0.01 cr. After that it had shown increasing trend continuously from the period 2016 to 2017 and I was rs. 0.04 cr. in the year 2016 and rs. 0.06 cr. in 2017. The Mean, Standard Deviation and Margin of Error of Capitalization Ratio was rs. 0.87, 1.11, 4.96 cr. and in the Interest Coverage the Mean, Standard Deviation and Margin of Error was rs. 1.44, 0.06, 0.03 cr. EFO to Debt the Mean was rs. 0.026 cr., Standard Deviation rs. 0.03 cr., Margin of Error rs 0.01 cr.

Table 2
Solvency performance of ICICI Bank

Year	Capitalization Ratio	Interest Coverage	EFO to Debt
2013	0.87	1.43	0.03
2014	0.87	1.5	0.01
2015	0.87	1.53	-0.01
2016	0.87	1.39	0.04
2017	0.87	1.35	0.06
Mean	0.87	1.44	0.026
Standard Deviation	1.11	0.06	0.03
Margin of Error	4.96	0.03	0.01



5. Conclusion

It can be concluded that from the above study, the liquidity position and solvency position are not good. There is no correlation between cash deposit ratio, Investment to total Assets, advance to total assets, debt to total assets. Investment, Total assets and Advance are not correlated to each other but all are positive. I also found that there is no impact of liquidity on solvency. The capitalization ratio, interest coverage and EFO to debt are not good and there is no correlation between capitalization ratio, interest coverage and EFO to debt.

References

[1] A. Ajanthan, "A Nexus Between Liquidity & Profitability: A Study of Trading Companies in Sri Lanka," in *European Journal of Business and Management*, vol. 5, no. 7, 2013.
[2] M. Afeef, "Analysing the Impact of Working Capital Management on the Profitability of SME's in Pakistan," in *International Journal of Business and Social Science*, 2011.
[3] J. P. Singh, and S. Pandey, "Impact of Working Capital Management in the Profitability of Hindalco Industries Limited," in *The ICFAI University Journal of Financial Economics*, vol. 36, pp. 64-79, 2008.
[4] N. Venkata Ramana, S. Md. Azash and K. Ramakrishnaiah, "Impact of Liquidity Management on Profitability: A Case study of Lanco Industries Limited (LIL). Srikalahasti (AP)," in *Asian Journal of Management*, vol. 2, no. 4, pp. 182-185, October-December 2011.
[5] A. Raheman and M. Nasr, "Working Capital Management and Profitability – Case of Pakistani Firms," in *International Review of Business Research Papers*, vol. 3, no.1, 2007.
[6] Q. Saleem, and R. U. Rehman, "Impacts of liquidity ratios on profitability (Case of oil and gas companies of Pakistan)," in *Interdisciplinary Journal of Research in Business*, vol. 1, no. 7, 2011.
[7] P. C. Narware, "Working Capital and Profitability-An Empirical Analysis," in *The Management Accountant*, vol. 39, no. 6, pp. 120-127, 2004.
[8] A. Eljelly, "Liquidity-Profitability Tradeoff: An Empirical Investigation in an Emerging Market." In International Journal of Commerce & Management, vol. 14, no 2, pp. 48-61, 2004.
[9] A. Reheman, and N. Nasr, "Working Capital Management and Profitability–A case of Pakistani firms," in *International Review Business Research Papers*, pp. 279-300, 2007.
[10] K. Chakraborty, "Working Capital and Profitability: An Empirical Analysis of Their relationship with reference to selected companies in the Indian Pharmaceutical Industry," in *The ICFAI Journal of Management*, 2008.
[11] P. J. Garcia-Teruel, and P. M. Martinez-Solano, "Effects of working capital management on SME profitability," in *International Journal of Managerial Finance*, 2007.
[12] www.moneycontrol.com