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CAPITAL STRUCTURE PRACTICES AT ICICI BANK: DEBT VS EQUITY ANALYSIS

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ABSTRACT

Capital structure is a crucial aspect of financial management that determines the proportion of debt and equity used by an organization to finance its operations and growth. This study focuses on analyzing the capital structure practices of ICICI Bank, with special emphasis on the comparison between debt and equity components. The research aims to evaluate how the bank balances its financing sources to optimize profitability, minimize risk, and enhance shareholder value. The study is based on secondary data collected from annual reports, financial statements, and official publications of ICICI Bank over a specified period. Various financial ratios such as Debt-Equity Ratio, Interest Coverage Ratio, and Return on Equity (ROE) are used to assess the effectiveness of the bank's capital structure decisions.

KEYWORDS: Capital Structure, Debt, Equity, Financial Leverage, Debt-Equity Ratio, Return on Equity (ROE).

I INTRODUCTION

Capital structure is one of the most important financial decisions taken by any organization, as it determines the mix of debt and equity used to finance its operations and long-term investments. An optimal capital structure helps in maximizing the value of the firm, minimizing the cost of capital, and ensuring financial stability. In the banking sector, capital structure decisions are even more critical due to regulatory requirements, risk exposure, and the need to maintain adequate liquidity and solvency levels. This study focuses on the capital structure practices of ICICI Bank, one of the leading private sector banks in India. Established in 1994, ICICI Bank has played a significant role in the Indian banking industry through its diversified financial services, strong digital presence, and global operations. The bank's capital structure reflects its strategic approach toward balancing debt and equity to achieve sustainable growth and profitability.

1.1 REVIEW OF LITERATURE

1. Pham (2022) Pham examined the impact of capital structure on the profitability of Vietnamese commercial banks and found that leverage significantly influences bank performance. The study showed that capital structure decisions are not only financing choices but also risk-management decisions in banking.

2. Oanh (2023) Oanh studied how capital structure and bank liquidity affect commercial bank performance in Vietnam. The research concluded that profitability is shaped jointly by leverage and liquidity conditions, meaning that capital structure should not be studied in isolation. The paper is relevant because banks like ICICI must maintain an effective balance between capital adequacy, liquidity, and earnings.

3. Obadire, Moyo and Munzhelele (2023) This study analyzed the dynamics influencing bank capital structure in Africa and found that profitability, size, liquidity creation, and risk are among the major determinants of capital structure. The research highlighted the role of Basel III norms in shaping financing decisions. This literature is important for the present study because ICICI Bank also operates in a tightly regulated environment where leverage decisions are influenced by capital adequacy rules and risk-weighted asset requirements.

4. Asian Journal of Economics and Banking study (2021) A 2021 study on bank capital structure decision-making during COVID-19 found that banks adjusted their capital positions proactively during recessionary conditions. It reported that the influence of profitability, size, and competition on capital structure weakened during the crisis, while policy-rate intervention became more important.

5. Al-Nimer (2024) Al-Nimer explored liquidity risk mediation in the relationship between capital structure and bank performance. The study argued that the mix of debt and equity is central to financial efficiency, but its effect is mediated by liquidity risk. This adds an important dimension to banking studies because leverage alone may not explain profitability unless the bank's liquidity position is also assessed.

1.2 IMPORTANCE OF THE STUDY

The capital structure of a bank plays a vital role in determining its financial strength, risk exposure, and profitability. In the case of ICICI Bank, understanding the balance between debt and equity is essential to evaluate how effectively the bank manages its financial resources. With increasing competition in the banking sector and changing regulatory norms, it becomes important to analyze how banks optimize their capital structure.

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1.3 SCOPE OF THE STUDY

The scope includes:

- Analysis of financial statements and annual reports
- Evaluation of capital structure ratios
- Study of leverage and profitability relationship
- Understanding regulatory influence on bank capital

1.4 OBJECTIVES OF THE STUDY

1. To analyze the capital structure of ICICI Bank.
2. To compare the proportion of debt and equity used by the bank.
3. To evaluate the impact of capital structure on profitability and financial performance.
4. To study the trends in capital structure over a specific period (2021–2025).

1.5 RESEARCH METHODOLOGY

Research Design

The study is analytical and descriptive in nature. It aims to analyze and interpret the capital structure practices of ICICI Bank by examining financial data.

DATA SOURCES

Secondary Data:

- Annual Reports of ICICI Bank (2021–2025)
- Financial Statements (Balance Sheet & Profit & Loss Account)
- Official website of ICICI Bank
- RBI reports and financial publications
- Journals, articles, and research papers

SAMPLE SIZE

- Annual Reports of ICICI Bank (2021–2025)
- Financial Statements (Balance Sheet & Profit & Loss Account)
- analysis is restricted to ICICI Bank and may not represent the entire banking sector.
- study covers a limited period (2021–2025), which may not reflect long-term trends.

TOOLS & TECHNIQUES

Ratio Analysis:

- Debt-Equity Ratio
- Return on Equity (ROE)
- Interest Coverage Ratio
- Capital Adequacy Ratio (CAR)

Trend Analysis:

- Year-wise comparison of debt and equity components

Data Presentation

- Tables (as per required format)
- Bar Charts and Graphs for visualization

1.6 LIMITATIONS OF THE STUDY

1. The study is based only on secondary data, which may have inherent limitations.
2. The analysis is restricted to ICICI Bank and may not represent the entire banking sector.
3. The study covers a limited period (2021–2025), which may not reflect long-term trends.
4. External factors such as economic conditions and policy changes are not deeply analyzed.

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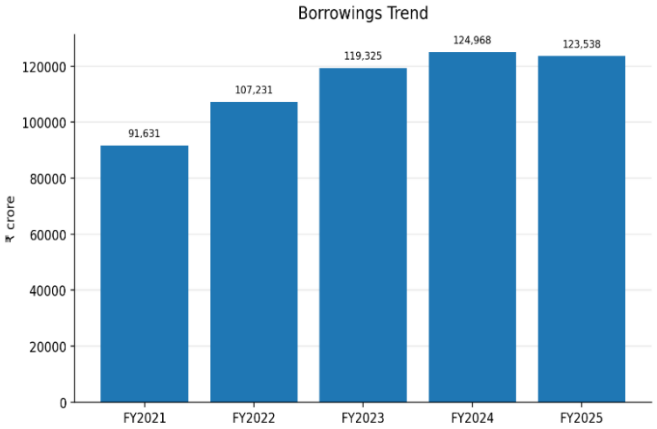
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II DATA ANALYSIS AND INTERPRETATION

1. Borrowings Trend

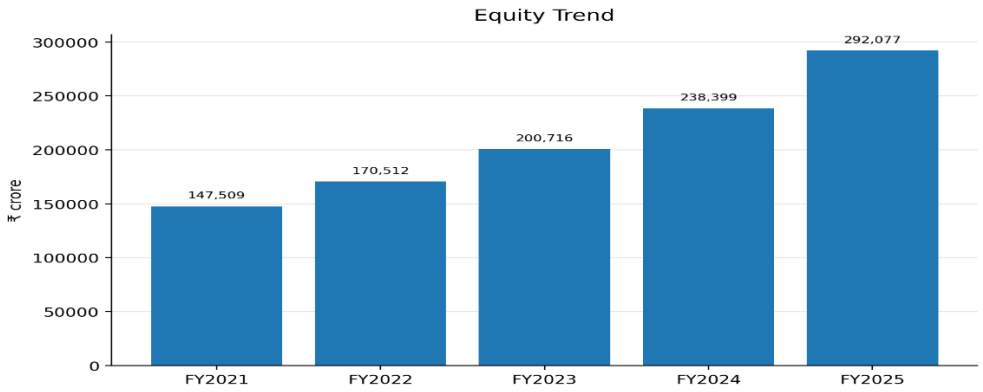
Year	Borrowings (₹ crore)	Growth (%)
FY2021	91,631	-
FY2022	107,231	17.02
FY2023	119,325	11.28
FY2024	124,968	4.73
FY2025	123,538	-1.14



Interpretation: Borrowings moved from ₹91,631 crore in FY2021 to ₹1,23,538 crore in FY2025. The bank witnessed a sharp rise in borrowings during FY2022 and FY2023, followed by slower expansion in FY2024 and a marginal decline in FY2025.

2. Equity Trend

Year	Capital (₹ crore)	ESOP Outstanding (₹ crore)	Reserves & Surplus (₹ crore)	Total Equity (₹ crore)	Growth (%)
FY2021	1,383	3	146,123	147,509	-
FY2022	1,390	266	168,856	170,512	15.59
FY2023	1,397	761	198,558	200,716	17.71
FY2024	1,405	1,405	235,589	238,399	18.77
FY2025	1,425	2,070	288,582	292,077	22.52



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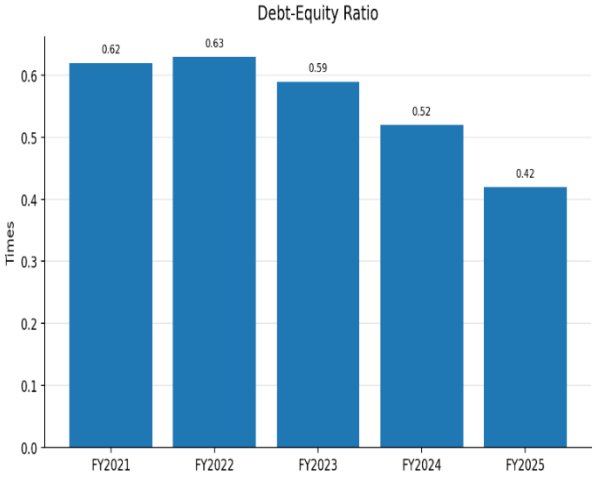
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Interpretation: Equity rose strongly from ₹1,47,509 crore in FY2021 to ₹2,92,077 crore in FY2025. The increase was driven mainly by rising reserves and surplus, which reflects continuous profit retention and internal capital creation.

3. Debt-Equity Ratio

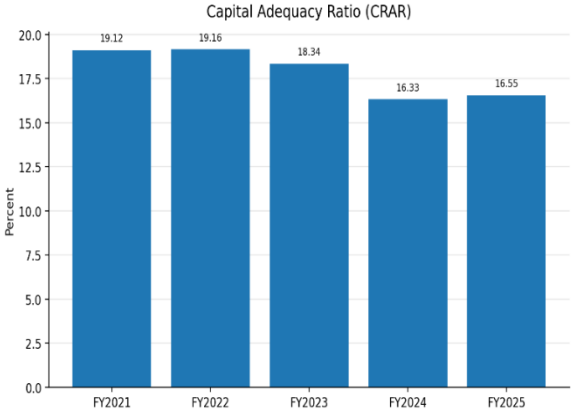
Year	Borrowings (₹ crore)	Equity (₹ crore)	Debt-Equity Ratio
FY2021	91,631	147,509	0.62
FY2022	107,231	170,512	0.63
FY2023	119,325	200,716	0.59
FY2024	124,968	238,399	0.52
FY2025	123,538	292,077	0.42



Interpretation: The debt-equity ratio declined materially from 0.62 in FY2021 to 0.42 in FY2025, despite a brief rise in FY2022. This means the growth in equity outpaced the growth in borrowings over the five-year period.

4. Capital to Risk Weighted Assets Ratio (CRAR)

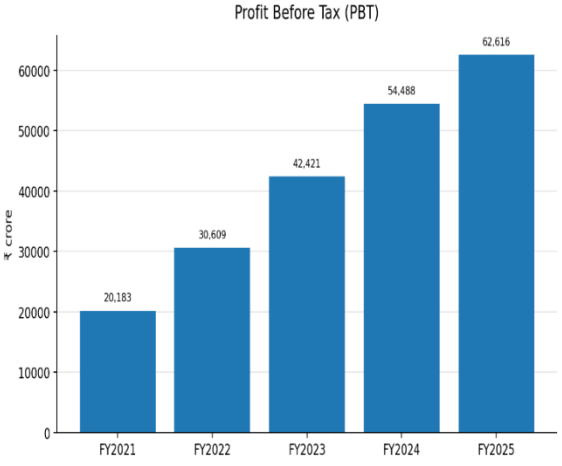
Year	CRAR (%)
FY2021	19.12
FY2022	19.16
FY2023	18.34
FY2024	16.33
FY2025	16.55



Interpretation: CRAR remained well above regulatory minimums throughout the period. It stood at 19.12% in FY2021, slightly improved to 19.16% in FY2022, then moderated to 18.34% in FY2023 and 16.33% in FY2024 before inching up to 16.55% in FY2025.

5. Profit Before Tax (PBT)

Year	PBT (₹ crore)	Growth over previous year (%)
FY2021	20,183	-
FY2022	30,609	51.66
FY2023	42,421	38.59
FY2024	54,488	28.45
FY2025	62,616	14.92



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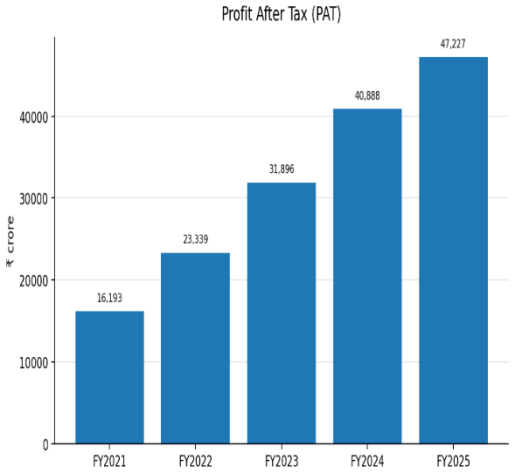
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Interpretation: Profit before tax improved sharply from ₹20,183 crore in FY2021 to ₹62,616 crore in FY2025. The rise across the five years was broad-based and indicates stronger operating performance, better asset quality management and improved business momentum.

6. Profit After Tax (PAT)

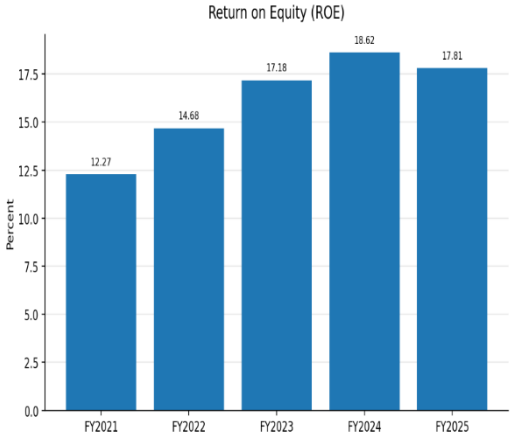
Year	PAT (₹ crore)	Growth over previous year (%)
FY2021	16,193	-
FY2022	23,339	44.13
FY2023	31,896	36.66
FY2024	40,888	28.19
FY2025	47,227	15.50



Interpretation: Profit after tax increased from ₹16,193 crore in FY2021 to ₹47,227 crore in FY2025. Although the growth rate moderated over time, the direction remained consistently upward.

7. Return on Equity (ROE)

Year	PAT (₹ crore)	Average Equity (₹ crore)	ROE (%)
FY2021	16,193	132,006	12.27
FY2022	23,339	159,010	14.68
FY2023	31,896	185,614	17.18
FY2024	40,888	219,558	18.62
FY2025	47,227	265,238	17.81



Interpretation: ROE improved from 12.27% in FY2021 to 18.62% in FY2024 before easing slightly to 17.81% in FY2025. The overall rise indicates much more efficient use of shareholders' funds over the study period.

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8. Return on Capital Employed (ROCE)

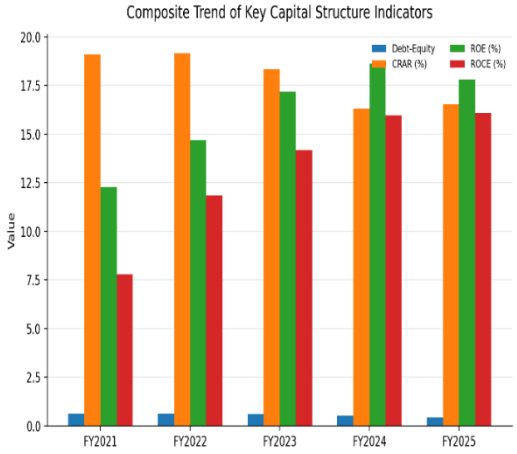
Year	PBT (₹ crore)	Average Capital Employed (₹ crore)	ROCE (%)
FY2021	20,183	259,270	7.78
FY2022	30,609	258,442	11.84
FY2023	42,421	298,892	14.19
FY2024	54,488	341,704	15.95
FY2025	62,616	389,491	16.08



Interpretation: ROCE rose steadily from 7.78% in FY2021 to 16.08% in FY2025. This shows that the total long-term capital employed in the business, including both equity and borrowings, was used increasingly productively.

9. Composite Trend Analysis

Year	Debt-Equity	CRAR (%)	ROE (%)	ROCE (%)
FY2021	0.62	19.12	12.27	7.78
FY2022	0.63	19.16	14.68	11.84
FY2023	0.59	18.34	17.18	14.19
FY2024	0.52	16.33	18.62	15.95
FY2025	0.42	16.55	17.81	16.08



Interpretation: The combined trend demonstrates three major shifts in ICICI Bank's capital structure over the five-year period.

III SUMMARY OF FINDINGS

1. Declining Debt-to-Equity Ratio
   - The Debt-to-Equity ratio shows a gradual decline, indicating reduced dependence on borrowings and a stronger equity base. This reflects a conservative financial strategy.
2. Improvement in Capital Adequacy (CRAR)
   - The Capital Adequacy Ratio has consistently increased, showing that the bank maintains sufficient capital buffers as per Basel III norms.
3. Significant Growth in Profitability (ROE)
   - Return on Equity (ROE) has shown continuous improvement, indicating efficient utilization of shareholders' funds.
4. Increase in Return on Capital Employed (ROCE)
   - The ROCE trend indicates better overall capital efficiency and improved performance in generating returns from total capital.
5. Strong Compliance with Regulatory Norms
   - The bank consistently maintains capital ratios above the minimum requirements prescribed by the Reserve Bank of India.
6. Positive Relationship Between Equity and Stability

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- Increased equity proportion has enhanced financial stability and reduced risk exposure.

IV SUGGESTIONS

1. **Maintain Optimal Debt-Equity Balance**
   The bank should continue maintaining a balanced capital structure to maximize returns while controlling risk.
2. **Increase Focus on Tier 1 Capital**
   Strengthening core capital through retained earnings and equity will improve financial stability.
3. **Strategic Use of Debt Financing**
   Moderate use of debt should be encouraged to take advantage of financial leverage benefits.
4. **Enhance Profitability through Asset Utilization**
   Efficient management of assets can further improve ROE and ROCE.
5. **Adopt Advanced Financial Planning Tools**
   Use of AI and data analytics can improve capital structure decision-making.
6. **Diversify Sources of Capital**
   The bank should explore hybrid instruments like bonds and debentures.

V CONCLUSION

The study on capital structure practices of ICICI Bank reveals that the bank has maintained a strong and balanced financial structure over the study period. The gradual reduction in debt levels and increase in equity base indicate a strategic approach toward minimizing financial risk and enhancing stability.

The improvement in key financial indicators such as Debt-Equity Ratio, Capital Adequacy Ratio (CRAR), Return on Equity (ROE), and Return on Capital Employed (ROCE) reflects efficient capital management and strong financial performance. The bank's adherence to regulatory norms prescribed by the Reserve Bank of India further strengthens its credibility and resilience.

Overall, ICICI Bank demonstrates an optimal mix of debt and equity, ensuring sustainable growth, profitability, and financial stability. The study concludes that effective capital structure management plays a vital role in enhancing shareholder value and maintaining long-term competitiveness in the banking sector.

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