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CONTENTS

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   REVIEW OF LITERATURE

   NEED/IMPORTANCE OF THE STUDY

   STATEMENT OF THE PROBLEM

   OBJECTIVES

   HYPOTHESES

   RESEARCH METHODOLOGY

   RESULTS & DISCUSSION

   FINDINGS

   RECOMMENDATIONS/SUGGESTIONS

   CONCLUSIONS

   SCOPE FOR FURTHER RESEARCH

   ACKNOWLEDGMENTS

   REFERENCES

   APPENDIX/ANNEXURE

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- Hunker, H.L. and A.J. Wright (1963), "Factors of Industrial Location in Ohio" Ohio State University, Nigeria.

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COMPARATIVE ANALYSIS OF CAPITAL STRUCTURE OF BANKING COMPANIES WITH SPECIAL REFERENCE TO STATE BANK OF INDIA AND ICICI BANK

DR. ANURAG B. SINGH
ASSOCIATE PROFESSOR
DEPARTMENT OF MANAGEMENT STUDIES
LDC INSTITUTE OF TECHNICAL STUDIES
ALLAHABAD

PRIYANKA TANDON
ASST. PROFESSOR
LDC INSTITUTE OF TECHNICAL STUDIES
ALLAHABAD

ABSTRACT

The purpose of this research was to understand the capital adequacy of SBI and ICICI bank. The capital structure is the mix of equity and debt fund. Capital structure can influence not only the return of a company earnings for its stakeholders, but also helps in determining the financial position of the company whether or not a firm survives will survives in recession or depression. There are two most popular source of fund which a company can get finance owned capital (equity) and borrowings (Debt). An optimal debt equity mix gives a healthy result of the financial wealth for the company. This was the main threshold of the capital structure forecasting and planning. Because of this many industries recognized and reorganized their capital structure. The main aim of present study is to comparatively analyze the capital structure of the banking industry with special reference to SBI and ICICI bank. During the Liberalization, privatization and globalization various banking reforms in India have been taken. After the implementation of Narshimhan committee reports and Basell II norms banks have kept their capital according to the capital adequacy. The research study is descriptive and analytical research which is conducted on the basis of secondary data. The present study is based on the analysis of five years annual reports of SBI and ICICI bank from 2005-06 to 2009-10. The study revealed that both company has the policy using trading on equity. So ICICI bank has more dependence on owned fund and SBI on debt fund. Adopting this policy may be the reason behind its great success in the present situation.

KEYWORDS

Banking reforms, Capitalization, Capital Structure, Debt-equity ratio, Earning Per Share, ICICI bank.

INTRODUCTION

The term capital structure is used to represent the proportionate relationship between debt and equity. Equity includes paid-up capital, share premium and reserves and surplus (retained earnings). The various means of financing represent the financial structure of an enterprise. The financial structure of an enterprise is shown by the left-hand side (liabilities plus equity) of the balance sheet. Traditionally, short-term borrowings are excluded from the list of methods of financing the firm's capital expenditure and therefore, the long-term claims are said to form the capital structure of the enterprise.

The term "capital structure" represents the total long term investment in a business firm. It includes funds raised through ordinary and preference shares, bonds, debentures, terms loans from financial institutions, etc. Any earned revenue and capital surpluses are included. The capital structure is made up of debt and equity securities which comprise a firm's finance of its assets. It is the permanent financing of a firm represented by long-term debt, plus preferred stocks and net worth. The determination of the degree of liquidity of a firm is no simple task. In the long run, liquidity may depend on the profitability of a firm; but whether it survives to achieve long-run profitability depends to some extent on its capital structure. This includes only-term debt and total stockholders investment. It may be defined as one including both short-term and long-term funds.

The capital structure of bank is still relatively under-explored area in the banking literature. There is no clear understanding on how banks choose their capital structure and what factors influence their corporate financing behavior. It is seen that lending of large banks is less subject to changes in cash flow and capital. It is also seen that sifts in deposit supply affect lending at small banks that do not have access to the large internal capital market. The fact that large banks tend to decrease their capital and increase their lending after merger. Due to these relevant aspect that the present study will try to provide indebt knowledge to the concepts.

Capital composition matters to most firms in free markets but there are differences. Companies in non-financial industries need capital mainly to support funding such as to buy property and to build or acquire production facilitates and equipment to pursuer new areas of business. While this is also true for banks, their main focus is some what different. By its very nature, banking is an attempt to manage multiple and seemingly opposing weeds Banks provide liquidity on demand to depositors through the current account and extend credit as well as liquidity to their borrowers through lines of credit. Owing to these fundamental roles, banks have always been concerned with solvency and liquidity. Given the central role of market and credit risk in their core business, the success of banks depend on their ability to identify assess, Monitor and mage these risks in sound and sophisticated way. The competitive and regulatory pressures are likely to reinforce the central strategic issue of capital and profitability and cost of equity capital in shaping banking strategy.

In order to assess and manage risks banks must have effective ways of determining the appropriate amount of capital that is necessary to absorb unexpected losses arising from their market, credit and operational risk exposures. The profits that arise from various business activities of the banks need to be evaluated relative to the capital necessary to cover the associated risks. These two major links to capital – risk as a basis to determine capital and the misplacement of profitability against risk-based capital allocations-explain the critical role of capital as a key component in the management of bank portfolio. The capital structure of bank is still relatively under-explored area in the banking literature. There is no clear understanding on how banks choose their capital structure and what factors influence their corporate financing behavior. It is seen that lending of large banks is less subject to changes in cash flow and capital. It is also seen that sifts in deposit supply affect lending at small banks that do not have access to the large internal capital market. The fact that large banks tend to decrease their capital and increase their lending after merger. Due to these relevant aspect that the present study will try to provide indebt knowledge to the concepts.

Companies short and long term debt is considered when analyzing capital structure. A method of analyzing the impact of alternative possible capital structure choices on a firms credit statistics and reported financial results, especially to determine whether the firm will be able to use projected tax shield benefits fully. There are different method of analyzing capital structure of the bank are ratios, trend analysis, common size statements, comparative statements. In this study the analysis of capital structure of state bank of India and ICICI Bank is done through ratios.

OBJECTIVE OF THE STUDY

The objective of the study is to comparatively analyze the capital structure position of state bank of India and ICICI Bank. The above objective has been approached by analyzing the various ratios of the banks which include debt equity ratio, funded debt to capitalization ratio, solvency ratio, interest coverage ratio, capital gearing ratio, proprietary ratio. Other objectives are to examine the bank policy regarding capital structure and the effect of capital structure on the profitability of the companies in relation of various ratios

The area of the study had remained an unexplained field in India as for as in the depths study was concern; therefore the thesis will bridge the gap as it is useful to all these banks which are associated with the present study. This will also serve as a literature in the field of banking. It will also help the professionals, academicians who have a better understanding of the relevance of capital structure of banks. The study covers the depths knowledge on the role of capital structure in banks which are fast changing fact of the economy.

The importance of capital structure in banking companies become helpful in development of industries, as provision of rupee and foreign currency loans, subscription to share and debentures, underwriting of share and debentures guaranteeing of deferred payments and loans are the important types of financial assistance provided by institutions. Development of entrepreneurship through training and motivation, assistance in project identification feasibility of studies and preparation of project reports, technical and managerial consultancy seed/risk capital assistance etc.

The present study will be helpful for the society in view of various scheme as acceptance of deposits, provide facility of insurance mutual fund management, long-term pension fund and provide consumer loan for various purpose as housing loan, car loan, educational loan etc. and it also provide electronic banking facilities which save the important time of consumer.

RESEARCH METHODOLOGY

In the present research the data is taken from the secondary sources. Research methodology explains and chooses the best (in terms of quality and economy) way of doing it. The information and data for the research can be collected through primary as well as secondary sources i.e. published articles, journals, news papers, reports, books and websites. The profit & loss account and balance sheet of the State Bank of India and ICICI Bank for the last five years i.e. from 31st March 2005 to 31st March 2010 were studied to get the clear picture of the capital structure. The available data between these periods has been carefully analyzed, interpreted and presented by studying the capital structure of State Bank of India and ICICI Bank. Commensurate with the objective of the study, various tools of analysis have been employed in order to arrive at certain conclusions regarding “Comparative analysis of capital structure of state bank of India and ICICI Bank”. Tabular analysis, percentage and graphs have been used for analysis of the data.

STATE BANK OF INDIA-PROFILE

The State Bank of India was constituted on 1st July 1955, pursuant to the State Bank of India Act, 1955 (the "SBI Act") for the purpose of creating a state-partnered and state-sponsored bank integrating the former Imperial Bank of India. In 1959, the State Bank of India (Subsidiary Banks) Act was passed, enabling the Bank to take over eight former state associated banks as its subsidiaries.

The Bank is India's largest bank, with approximately 9,000 branches in India and 54 international offices. Its Associate Banks have a domestic network of around 4,600 branches, with strong regional ties. The Bank also has subsidiaries and joint ventures outside India, including Europe, the United States, Canada, Mauritius, Nigeria, Nepal, and Bhutan. The Bank has the largest retail banking customer base in India.

The Bank is engaged in corporate banking for many of India's most significant corporate and institutions, including State-owned enterprises, as well as providing banking services to commercial, agricultural, industrial and retail customers throughout India. The Bank services its most important corporate customers, including certain state-owned enterprises, through its Corporate Banking Group, and its other customers, including other large corporations and State-owned enterprises, small scale industries, agriculture and personal banking customers through its National Banking Group. The National Banking Group also provides financial services to the Government and the state governments, including tax collection and payment services. The Bank is engaged in international banking and has foreign operations in 28 countries with a global network of 54 branches.

The Bank has a presence in diverse segments of the Indian financial sector, including asset management, factoring and commercial services, insurance, credit cards and payment services.

“The Authorized Share Capital of the Company is Rs.25,0000,000 (Rupees Twenty Five Crores Only) divided into 25,00,000 (Twenty Five Lakhs) Equity Shares of Rs.100/- each (Rupees One Hundred Only) with powers to the Company acting through its Directors to increase, reduce or modify its capital and to divide all or any of the shares in the capital of the Company, for the time being, classify and reclassify such shares from shares of one class into shares of other class or classes and to attach thereto respectively such preferential, deferred, qualified, or other special rights, privileges, conditions or restrictions as may be determined by the Company in accordance with the Articles of Association of the Company, and to vary, modify or abrogate any such rights, privileges, conditions or restrictions in such manner and by such persons as may, from the time being, be permitted under the provisions of the Articles of Association of the Company or legislative provisions, for the time being in force in that behalf.”

ICICI BANK-PROFILE

ICICI Bank limited is major banking and financial services organization in India. The bank is the second largest bank in India and the largest private sector bank in India by market capitalization. They are publicly held banking company engaged in providing a wide range of banking and financial services including commercial banking and treasury operations. The bank and their subsidiaries offers a wide range of banking and financial services including commercial banking, retail banking, project and corporate finance, working capital finance, insurance, venture capital and private equity, investment banking, broking and treasury products and services. They offer through a variety of delivery channels and through their specialized subsidiaries in the area of investment banking, life and non-life insurance, venture capital and assets management.

The bank has a network of 2035 branches and about 5518 ATMs in India and presence in 18 countries. They have subsidiaries in the United Kingdom, Russia and Canada, branches in United States, Singapore, Bahrain, Hong-Kong, Srilanka, Qatar and Dubai International finance centre and representative offices in United Arab Emirates, China, South Africa, Bangladesh, Thailand, Malaysia and Indonesia. Our UK subsidiary has established branches in Belgium and Germany.

The bank equity shares are listed in India on Bombay Stock Exchange and National stock exchange of India Limited and their American Depository Receipts (ADRs) are listed on NYSE. The bank is first Indian banks listed NYSE.

In September 12, 2003 the bank incorporated ICICI bank Canada as a 100 % subsidiary company. In may 2005, the bank acquired the entire paid- up capital of Investitsionno-Kreditny Bank , a Russian bank with their registered office in Balabanovo in the Kaluga region and a branch in Moscow. Thus, IKB became a subsidiary of bank with effect from May 19, 2005. In August, 2005, the bank acquired additional 6% equity share capital of Prudential ICICI Assets Management company limited and Prudential ICICI Trust Limited from Prudential Corporation Holdings Limited and thus these two companies became the subsidiaries of the bank. During the year 2006-07 ICICI bank Canada incorporated ICICI health management insurance as a subsidiary company. In April 2007, Sangli bank Limited merged with the bank with effect from April 19, 2007. In 2007 June, the bank entered into an agreement with networking solution provider GTL Limited to lease out their call centers facility at Mahape worth of around Rs 100 crore for a period of 25 years. During the year 2007-08 the bank increased their branches and extension counter from 755 Nos to 1262 Nos including the additional of about 200 branches through the merger of Sangli bank. They increased their ATM network from 3271 ATMs to 3881 ATMs. They launched the mobile banking service enabling a wide range of banking transaction using the mobile phones. During the year 2008-09, bank increased their branches and extensions counter from 1262 Nos to 1419 Nos. They also received license for 580 additional branches from RBI.

The bank is committed to using its effort to adopt technology to achieve efficiency in its business operations. The bank is moving towards centralized database using enhanced technology to credit it "CBS". The CBS will enable on time, real time transaction processing and provide live interface to a multitude of technology delivery channels.

“The Authorized Share Capital of the Company is Rs.1275 Crores but issued capital is Rs.1152.71 crore divided into 115271442 Equity Shares of Rs.100/- each (Rupees One Hundred Only) with powers to the Company acting through its Directors to increase, reduce or modify its capital and to divide all or any of the shares in the capital of the Company, for the time being, classify and reclassify such shares from shares of one class into shares of other class or classes and to attach thereto respectively such preferential, deferred, qualified, or other special rights, privileges, conditions or restrictions as may be determined by the Company in accordance with the Articles of Association of the Company, and to vary, modify or abrogate any such rights, privileges, conditions or restrictions in such manner and by such persons as may, from the time being, be permitted under the provisions of the Articles of Association of the Company or legislative provisions, for the time being in force in that behalf."

ANALYSIS OF THE STUDY
The finding is achieved after analyzing the following capital structure ratios of State Bank of India (SBI) and ICICI Bank. These ratios are as follows:
- Five years analysis of debt equity ratio
- Five years analysis of funded debt to total capitalization ratio
- Five years analysis of solvency ratio
- Five years analysis of interest coverage ratio
- Five years analysis of capital gearing ratio
- Five years analysis of earning per share

The financial position of the firms can be studied and analyzed in two perspectives i.e., the short term financial position and long term financial position. The long term financial position, its composition and implications have been considered.
The long term source of funds for any firms are comprising of the shareholder's funds and long term resources of funds may consists of the following:
- The Preference share capital.
- The equity share capital.
- The accumulated profit
- The long term debt.

The debt position of the firm indicates the amount of loans and borrowings used in generating profits. If the raised from debts earn more than the cost of these funds, then the surplus ultimately belongs to the equity shareholders. As the debt involves firm's commitment to pay interest over the long run and eventually to repay the principles amount, the financial analyst, the debt lender, the preference shareholders and the management will all pay close attention to the degree of indebtedness and capacity of the firm to serve the debt. The more the debt a firm use, the higher is the profitability that the firm may be unable to fulfill its commitments towards its debt lenders. The position of the debt and its implications can be analyzed in two different ways:
- As degree of indebtedness.
- As the ability to service the debt.

MEASURES OF THE DEGREE OF INDEBTEDNESS
The measures of identifying the degree of indebtedness attempt to establish the relationship of the total liabilities or only long term liabilities with the shareholders funds or total assets of the firm.

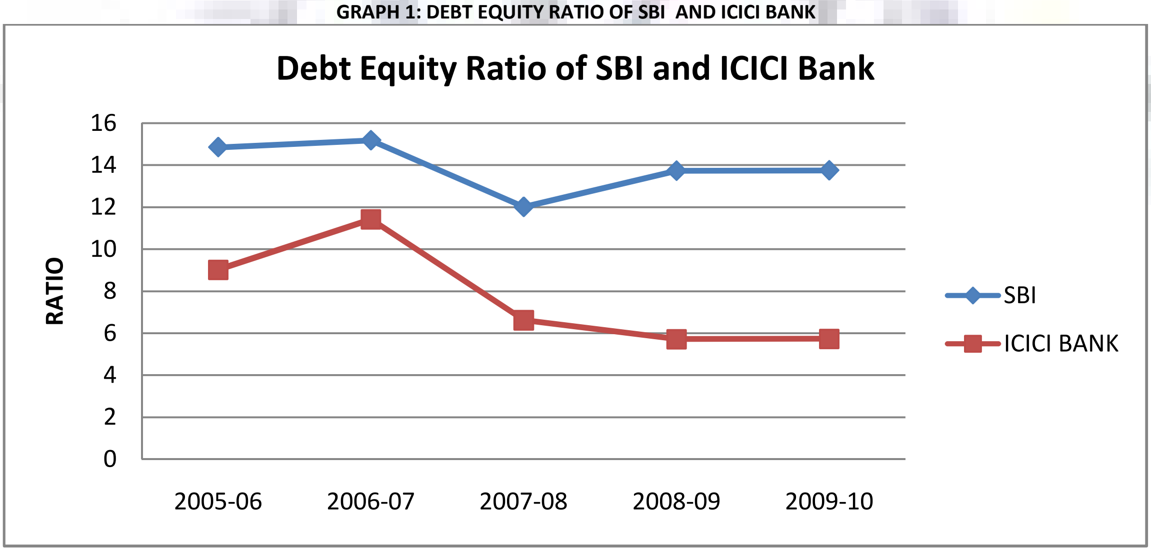
ANALYSIS OF DEBT EQUITY RATIO
This ratio indicates the relationship between loan and the net worth of the company, which is known as gearing. If the proportion of the debt to the equity is low, a company is said to be low geared, and vice-versa. A debt equity ratio of 2:1 is norm accepted. The higher the gearing, the more volatile the return to the shareholders. It is calculated to measure the extent to which financing has been used in business. The objective is to provide a security to outsiders on liquidation of the firm. An appropriate mix of the debt and equity improves the value of the firm. Usually in calculating the ratio, the preference share capital is excluded from debt, but if the ratio is to effect of use of fixed interest sources on earnings available to the shareholders then it is included. On other hand, if the ratio is to examine financial solvency, then the preference shares shall form part of capital.

Debt-Equity Ratio= Long Term Debt/ Shareholders funds or Net Worth **{Equation-1}**

TABLE- 1 DEBT EQUITY RATIO OF SBI AND ICICI BANK

YEAR	STATE BANK OF INDIA			ICICI BANK		
	Debt Rs. Crores	Equity Rs. Crores	Ratio	Debt Rs. Crores	Equity Rs. Crores	Ratio
2005-06	410,687.30	27,644.09	14.856	203,605.08	22,555.99	9.02
2006-07	475,224.43	31,298.56	15.184	281,766.22	24,663.26	11.42
2007-08	589,131.35	49,032.66	12.015	310,079.48	46,820.21	6.62
2008-09	795,786.81	57,947.70	13.733	285,671.51	49,883.02	5.72
2009-10	907,127.83	65,949.20	13.755	296,280.17	51,618.37	5.73
Compound Growth Rate	**120.88%**	**138.56%**		**45.51%**	**128.84%**	

GRAPH 1: DEBT EQUITY RATIO OF SBI AND ICICI BANK



Source: Annual report of SBI and ICICI Bank from 2005-06 to 2009-10

As per the table 1 debt-equity ratio of SBI is 14.856 in the year 2005 -06 in subsequent years it is 15.184 in 2006-07, 12.015 in 2007-08, 13.733 in 2008-09 and in 2009-10 it is 13.755. The analysis clearly show that the ratio is increasing in 2006-07 but it decreases in 2007-08 and increases in 2008-09. On the basis of this trend, it reflects that SBI does not have the stability in their Debt and have the positive relationship between Equity and debt as well. After analyzing, compound growth rate of debt is 120.88% which is less as compare to equity whose compound growth rate is 138.56s%. If we look at overall equity and debt ratio initially it increases in 2006-07 but decreases in 2007-08, 2008-09 and constant in 2009-10. Hence, SBI is emphasizing more on owned capital or net worth which is increasing.

Whereas debt-equity ratio of ICICI is 9.02 in the year 2005 -06 in subsequent years it is 11.42 in 2006-07, 12.0156.62 in 2007-08, 5.72 in 2008-09 and in 2009-10 it is 15.73. The analysis clearly shows that the ratio is increasing in 2006-07 but decreases in subsequent years. On the basis of this trend, it reflects that ICICI does not have the stability in their Debt and have the positive relationship between Equity and debt as well. After analyzing, compound growth rate of debt is 45.51% which is less as compare to equity whose compound growth rate is 128.84%. If we look at overall equity and debt ratio initially it increases in 2006-07 but decreases in 2007-08, 2008-09 and constant in 2009-10. Hence, ICICI is also emphasizing more on owned capital or net worth which is increasing.

ANALYSIS OF FUNDED DEBT TO TOTAL CAPITALIZATION RATIO

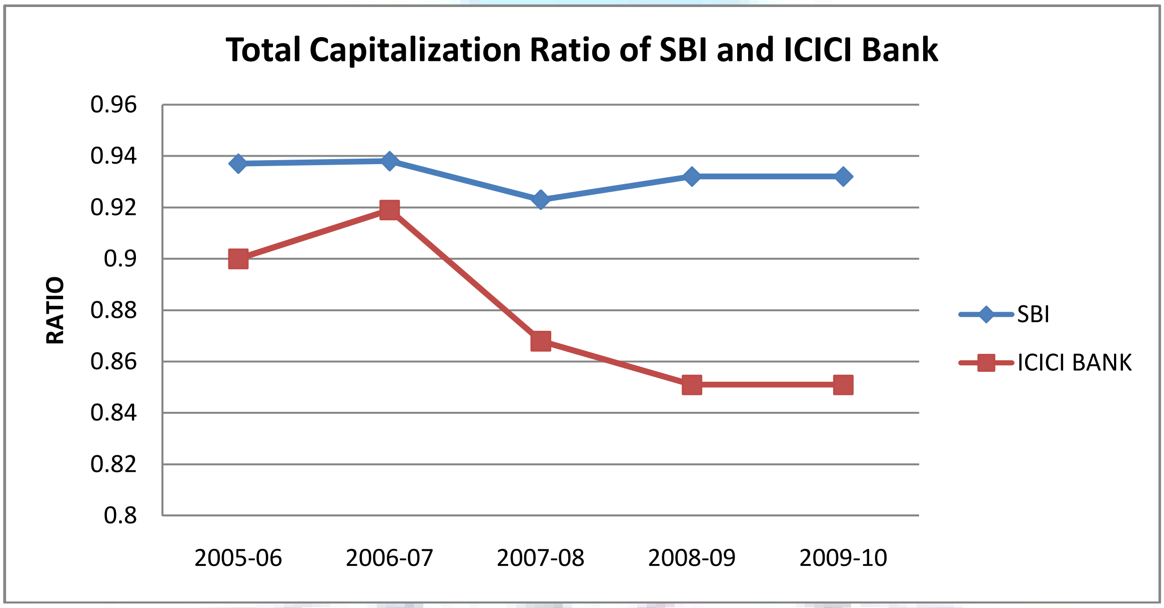
The funded debt to total capitalization ratio establishes the relationship between the long term fund raised from outsiders and total long term funds available from the owners of the business. Funded debt to total capitalization is also one of the important ratios that explain the capital structure position of the company. There is no standard rule for the ratio but normally the smaller the ratio the better it will be

Total capitalization = Total Debt + Equity

TABLE-2 TOTAL CAPITALIZATION RATIO OF SBI AND ICICI BANK

YEAR	STATE BANK OF INDIA			ICICI BANK		
	Funded Debt Rs. Crores	Total Capitalization Rs. Crores	Ratio	Funded Debt Rs. Crores	Total Capitalization Rs. Crores	Ratio
2005-06	410,687.30	438,331.39	0.937	203,605.08	226,161.07	0.900
2006-07	475,224.43	506,522.99	0.938	281,766.22	306,429.48	0.919
2007-08	589,131.35	638,164.01	0.923	310,079.48	356,899.66	0.868
2008-09	795,786.81	853734.51	0.932	285,671.51	335,554.53	0.851
2009-10	907,127.83	973,077.03	0.932	296,280.17	347,898.54	0.851
Compound Growth Rate	**120.88%**	**120.99%**		**45.51%**	**53.82%**	

GRAPH 2: TOTAL CAPITALIZATION RATIO OF SBI AND ICICI BANK



Source: Annual report of State Bank of India and ICICI Bank from 2005-06 to 2009-10

As per the table-2, capitalization ratio is 0.937 in 2005-06, 0.938 in 2006-07, 0.923 in 2007-08, and 0.932 in 2008-09 and 2009-10. It shows that the ratio is more or less stable over the years except in 2007-08 which is good for the company itself. The dependence of SBI on outsider's long term fund is stable, so high, which is the financial burden on Firm. If analysizing the compound growth rate of funded debt it is 120.88% and the total capitalization is 120.99% which shows funded debt is the more higher than the total capitalization. Hence the firm is more dependent on debt as a source of fund.

Whereas capitalization ratio of ICICI Bank is 0.900 in 2005-06, 0.919 in 2006-07, 0.868 in 2007-08, and 0.851 in 2008-09 and 2009-10. It shows that the ratio is more or less stable over the years except in 2007-08 which is good for the company itself. The dependence of ICICI on outsider's long term fund is stable, so high, which is the financial burden on Firm. If analyzing the compound growth rate of funded debt it is45.51% and the total capitalization is 53.82% which shows funded debt is the higher than the total capitalization. Hence the ICICI Bank is more dependent on debt as a source of fund.

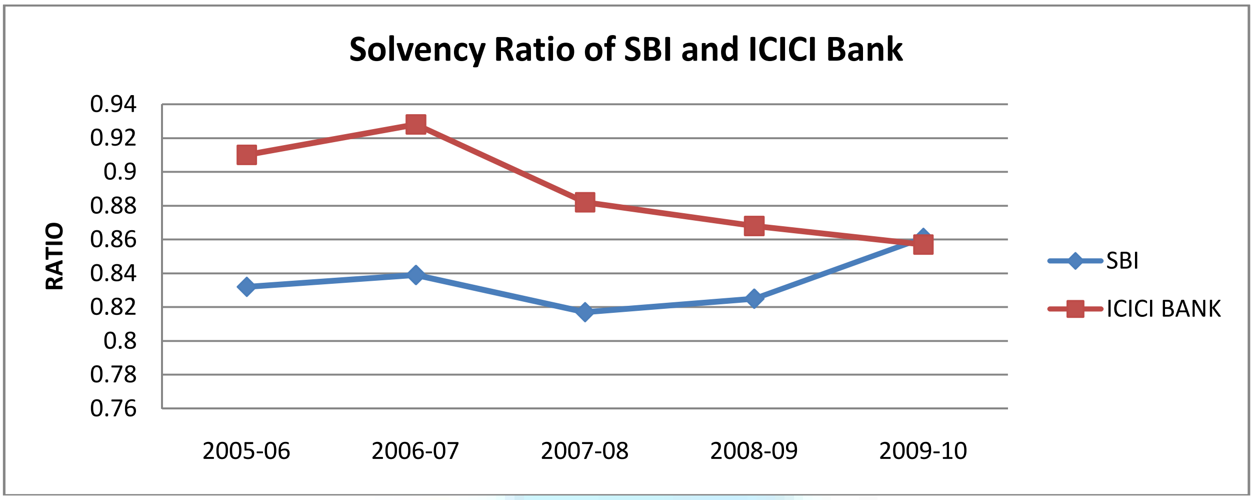
ANALYSIS OF SOLVENCY RATIO

Solvency ratio is a variant of proprietary ratio. It shows the relationship between total liabilities to outsiders to total assets. It provides a measurement of how likely a company will be continue meeting its debt obligations. Acceptable solvency ratios will vary from industry to industry. Generally it is observed that the lower ratio i.e. outsiders liabilities in the total capital of company the better is the long term solvency of the company.

TABLE 3: SOLVENCY RATIO OF SBI AND ICICI BANK

YEAR	STATE BANK OF INDIA			ICICI BANK		
	External Liabilities Rs. Crores	Total Assets Rs. Crores	Ratio	External Liabilities Rs. Crores	Total Assets Rs. Crores	Ratio
2005-06	410,687.30	493,869.54	0.832	228,832.96	251,388.95	0.910
2006-07	475,224.43	566,565.24	0.839	319,994.86	344,658.11	0.928
2007-08	589,131.35	721,526.32	0.817	352,974.87	399,795.07	0.882
2008-09	795,786.81	964,432.08	0.825	329,417.94	379,300.96	0.868
2009-10	907,127.83	1,053,413.74	0.861	311,781.35	363,399.71	0.857
Compound Growth Rate	**120.88%**	**113.29%**		**36.24%**	**44.55%**	

GRAPH 3: SOLVENCY RATIO OF SBI AND ICICI BANK



Source: Annual report of State Bank of India and ICICI Bank from 2005-06 to 2009-10

As per the table-3, the solvency ratio of SBI is continuously rising except in 2007-08 in which it decreased to 0.817 from 0.839. In 2009-10, the ratio is 0.861 which highest during the study.On the other hand, the solvency ratio of ICICI Bank is highly volatile. In 2006-07 in which it increased to 0.928 from 0.910 decreased to 0.882 to in 2007-08 and again increased to 0.868 in 2008-09.In 2006-07, the ratio is 0.928 which highest during the study. Hence, it clearly shows that both the banks have greater dependence on external sources of finance thereby resorting to the favorable financial device of trading on equity.

ANALYSIS OF INTEREST COVERAGE RATIO

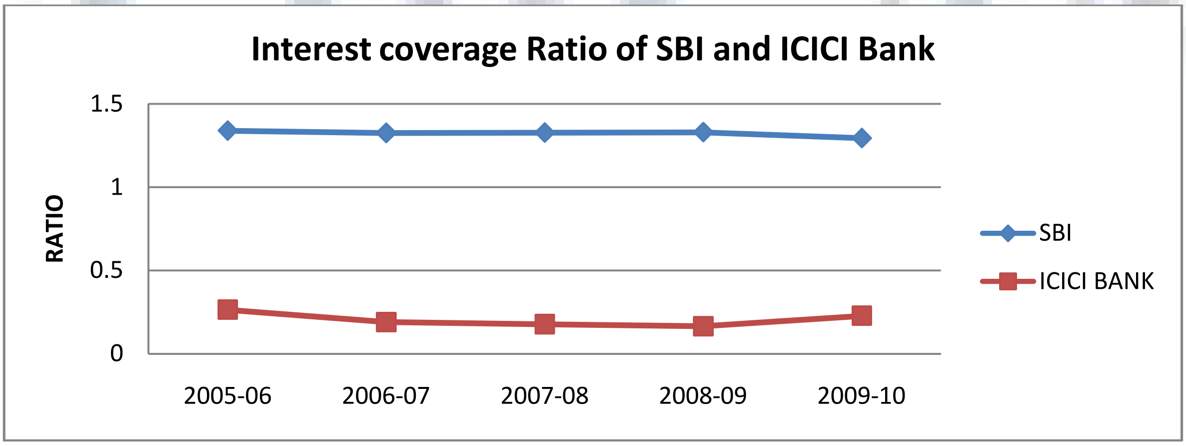
The employment of debt financing by firm should be examined not only in relation to the shareholders funds, but equally important is the consideration of the firm's ability/capacity to services the debt. The ability to service the debt refers to how easily and readily the firm will be able to meet its commitments in respect of contractual interest payment and repayment schedule. The firm's ability to service the fixed liabilities can be measured with the help of coverage ratios. The coverage ratios establish the relationship between fixed claims and the firm's profitability out of which these claims are to be paid. So, this measure tries to relate profitability to the level of debt payments to assess the degree of comfort with which the firm can meet these payments. The interest coverage ratio help to analyze the firm's ability to service the fixed interest claims.

Interest Coverage Ratio= EBIT/Interest **{Equation-2}**

TABLE 4: INTEREST COVERAGE RATIO OF SBI AND ICICI BANK

YEAR	STATE BANK OF INDIA			ICICI BANK		
	EBIT Rs. Crores	Fixed Interest Charges Rs. Crores	Ratio	EBIT Rs. Crores	Fixed Interest Charges Rs. Crores	Ratio
2005-06	26,996.65	20,159.29	1.339	2540.07	9597.45	0.264
2006-07	31,061.19	23,436.82	1.325	3110.22	16,358.50	0.190
2007-08	42,367.98	31,929.08	1.327	4157.73	23,484.24	0.177
2008-09	57,095.93	42,915.29	1.330	3758.13	22,725.93	0.165
2009-10	61,248.58	47322.48	1.294	4024.98	17,592.97	0.228
Compound Growth Rate	126.98%	134.74%		58.45%	83.30%	

GRAPH 4: INTEREST COVERAGE RATIO OF SBI AND ICICI BANK



Source: Annual report of SBI and ICICI Bank from 2005-06 to 2009-10

As per the table-4, interest coverage ratio of SBI is 1.339 in 2005-06 which reduces to 1.325 in 2006-07, Further it slightly decreases to 1.327 in 2007-08 and it increases to 1.330 in 2008-09 , further it decreased to 1.294 in 2009-10. It means firm has no stability in Interest coverage but at last it decreased from 1.339 in 2005-06 to 1.294 in 2009-10.

While interest coverage ratio of ICICI is 0.264 in 2005-06 which reduces to 0.190 in 2006-07, Further it slightly decreases to 0.177 in 2007-08 and it decreases to 0.165 in 2008-09 , then after it increase to 0.228 in 2009-10. It means ICICI Bank has stability in Interest coverage from 2005-06 to 2008-09 but at last it increased from 0.264 in 2005-06 to 0.228 in 2009-10. On the whole analysis, trend of SBI is highly volatile while that of ICICI Bank is quite stable.As per the compound growth rate SBI has earnings increased the interest to be paid whereas ICICI Bank has earnings decreased due to the interest paid . This clearly show that SBI having balance earning to be paid to shareholders thereby increasing their returns. While ICICI Bank having balance earning to be paid to shareholders thereby decreasing their returns.

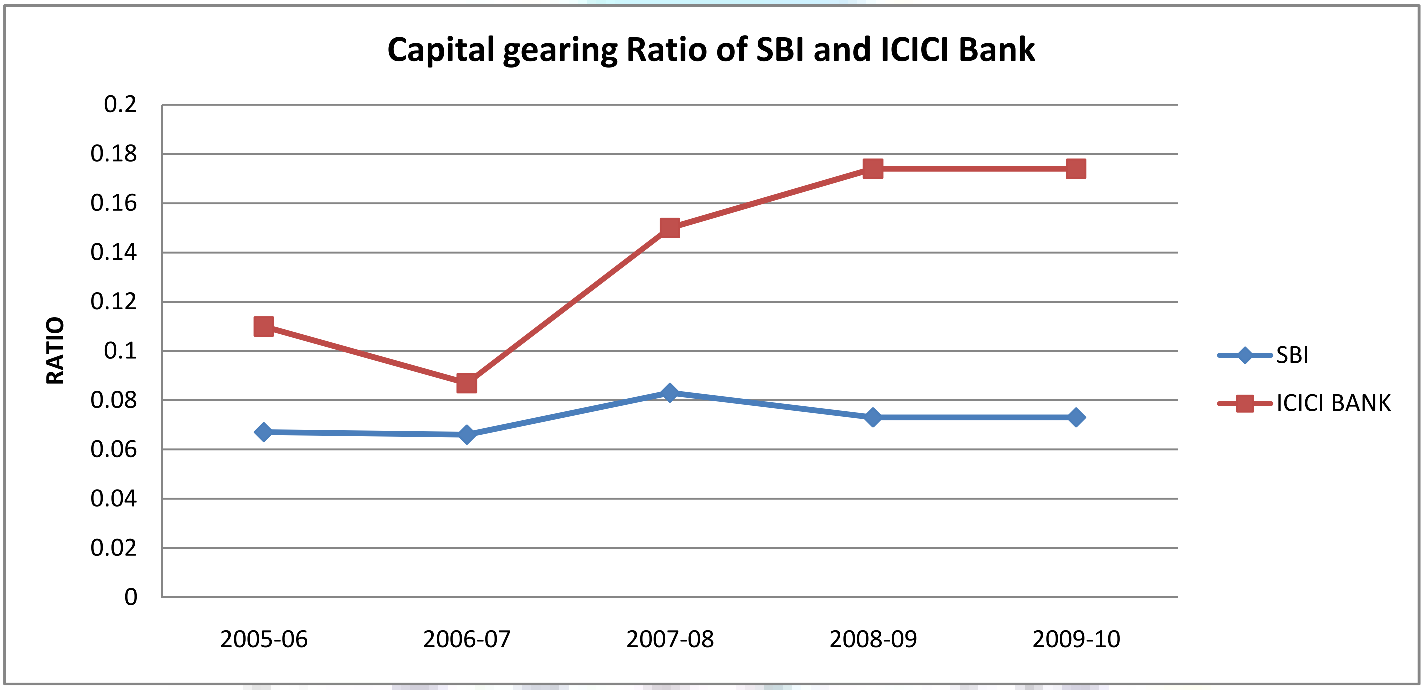
ANALYSIS OF CAPITAL GEARING RATIO

Financial institutions and banks in banks in India also focus on debt –equity ratio in their lending decision. The First two measures of financial leverage are also measures of capital gearing. The First two measures of financial leverage can be expressed either in terms of book value or market value. The market value to financial leverage is theoretically more appropriate because market value reflects the current attitude of investors but it is difficult to get reliable information on market value in practice. The market value of securities fluctuates quite frequently. They are static in nature as they show borrowing position of the company at a point of time these measures thus failed to reflect the level of financial risk which inherent in the position failure of the company to pay interest and repay debt.

TABLE 5: CAPITAL GEARING RATIO OF SBI AND ICICI BANK

YEAR	STATE BANK OF INDIA			ICICI BANK		
	Equity Rs. Crores	Funded Debt Rs. Crores	Ratio	Equity Rs. Crores	Funded Debt Rs. Crores	Ratio
2005-06	27,644.09	410,687.30	0.067	22,555.99	203,605.08	0.110
2006-07	31,298.56	475,224.43	0.066	24,663.26	281,766.22	0.087
2007-08	49,032.66	589,131.35	0.083	46,820.21	310,079.48	0.150
2008-09	57,947.70	795,786.81	0.073	49,883.02	285,671.51	0.174
2009-10	65,949.20	907,127.83	0.073	51,618.37	296,280.17	0.174
Compound Growth Rate	**138.56%**	**120.88%**		**128.84%**	**45.51%**	

GRAPH 5: CAPITAL GEARING RATIO OF SBI AND ICICI BANK



Source: Annual report of SBI and ICICI Bank from 2005-06 to 2009-10

As per the table-5, the capital gearing ratio of SBI is 0.067 in 2005-06, 0.066 in 2006-07, 0.083 in 2007-08, 0.073 in 2008-09 and 0.073 in 2009-10. The analysis shows that ratio is decreasing continuously except in 2007-08 which is 0.083. In the year 2007-08, it increased to 0.083 from 0.066. Moreover, the compound growth rate of debt is 120.88% is less than that of equity which is 138.56%. It clearly shows that the firm is low levered. For a firm like SBI being low geared is good. It means firm is taking advantage of it by increasing the return of shareholders. While the capital gearing ratio of ICICI is 0.110 in 2005-06, 0.087 in 2006-07, 0.150 in 2007-08, 0.174 in 2008-09 and 0.174 in 2009-10. The analysis shows that ratio is decreasing in 2007-08 which is 0.087. In the year 2007-08, it increased to 0.150 from 0.087 but consistent in subsequent years. Moreover, the compound growth rate of debt is 45.11% is less than that of equity which is 128.84%. It clearly shows that the firm is low levered. For a firm like ICICI being low geared is good. It means firm is taking advantage of it by increasing the return of shareholders.

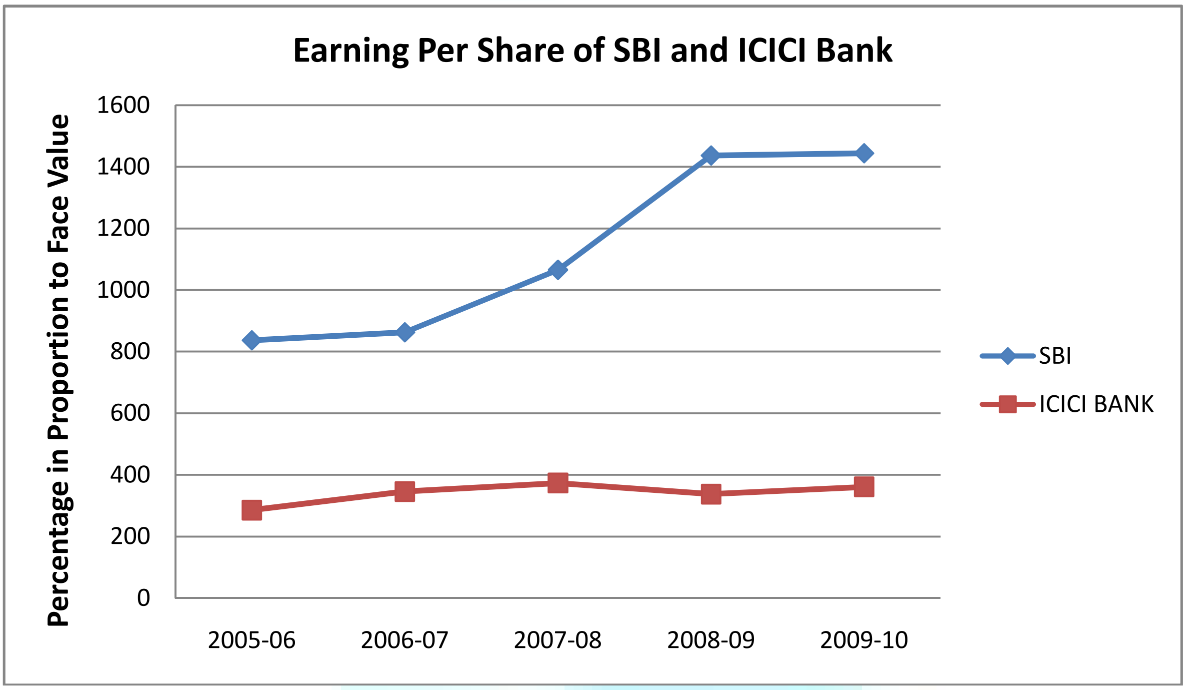
ANALYSIS OF EARNING PER SHARE

The profitability of the shareholders' investment can also be measured in many other ways. One such measure is calculated earning per share. EPS calculations made over years indicate whether or not the form's earning power on per share basis has changed over that period. The EPS of the company should be compared with the industry average and the earning per share of other firms. EPS simply shows the profitability of the firm on a per share basis; it does not reflect how much is paid as dividend and how much is retained in the business. But as a profitability index, it is a valuable and widely used ratio.

TABLE 6: EARNING PER SHARE OF SBI AND ICICI BANK

YEARS	STATE BANK OF INDIA		ICICI BANK	
	Earning Per Share	Percentage in Proportion to Face Value	Earning Per Share	Percentage in Proportion to Face Value
2005-06	83.73 (Face Value Rs. 10)	837.30	28.55 (Face Value Rs. 10)	285.50
2006-07	86.29 (Face Value Rs. 10)	862.90	34.59 (Face Value Rs. 10)	345.90
2007-08	106.56 (Face Value Rs. 10)	1065.60	37.37 (Face Value Rs. 10)	373.70
2008-09	143.67 (Face Value Rs. 10)	1436.70	33.76 (Face Value Rs. 10)	337.60
2009-10	144.37 (Face Value Rs. 10)	1443.70	36.10 (Face Value Rs. 10)	361.00

GRAPH 6: EARNING PER SHARE OF SBI AND ICICI BANK



Source: Annual report of SBI and ICICI Bank from 2005-06 to 2009-10

The earning per share of SBI is increasing year after year. There is continuous rise in earning per share. Earning per share was 837.33% in 2005-06, 862.90% , 1065.60% in 2007-08, 1436.70 in 2008-09 and 1443.70 in 2009-10. Whereas the earning per share of ICICI Bank is increasing year after year except in 2008-09. There is continuous rise in earning per share. Earning per share was 285.50% in 2005-06, 345.90%, 373.70% in 2007-08, 337.60% in 2008-09 and 361.00% in 2009-10. The overall analysis of the table clearly reflect that EPS of the SBI is nearly 1.5 times in the last two year of the study as compare to first year i.e 2005-06 while EPS of the ICICI Bank is increasing continuously except 2008-09. Both the banks have good earning available to the shareholders, reason being high use of the debt in SBI and high use of the owned fund in ICICI Bank. Increase use of debt and owned fund has reduced the overall cost of capital of SBI and ICICI Bank respectively and improved earnings of shareholders which is very good indicator of sound capital structure.

FINDINGS AND CONCLUSION

After analysizing the various capital structure ratios of State Bank of India and ICICI Bank , it is clear that capital structure consists of Equity and debt funds. Having glimpse over the trend of the shared capital, it is crystal clear that it has increasing trend. It is revealed form the above study the dependence of State Bank of India on outsider fund but the dependence of ICICI Bank on owned fund is increasing continuously. Earnings per share of the firm are also showing an increasing trend . As per the solvency ratio, which is showing an increasing trend in SBI which depicts the favorable device on Trading on Equity whereas in ICICI Bank showing an decreasing but stable. From the above study it can be concluded that SBI is using more debt fund as compared to equity fund which decreases the weighted average cost of capital thereby increasing the return of shareholders while ICICI Bank is using less debt fund as compared to equity fund which increases the weighted average cost of capital thereby increasing the return of shareholders. Hence, the SBI and ICICI Bank is following the successful trading on equity policy and having sound financial position which is the reason of the never ending success of the firm.

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