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COMPARATIVE ANALYSIS OF EARNING QUALITY PERFORMANCE OF HDFC BANK AND ICICI BANK

Dr. Manish Seth

Assistant Professor, Faculty of Commerce, RGSC, BHU.

ABSTRACT:

Earning quality, in banking, refers to the ability of reported income to predict a bank's future earnings. It is an assessment criterion for judging better earning capacity of any bank which is running in present era. For better cash flows in the organization, it is necessary to have a better earning quality. Better earning quality of any bank ensures long term sustainability of the bank.

In this paper, an effort has been made to comparative analysis of earning quality of HDFC Bank and ICICI Bank (which is first and second largest private sector bank respectively as per market capitalization, operating in India). In the field of banking it is considered that sound earning quality performance helps in getting more and more

customers and large market share. It also helps in supporting present and future operations of banking for any bank. The assessment of sound earning quality performance of HDFC Bank and ICICI Bank has been done by using various accounting ratios.

KEYWORDS: Earning Quality, Organization, Performances and Capitalization.

I. INTRODUCTION

(A) ICICI Bank:

ICICI Bank Limited (Industrial Credit and Investment Corporation of India) is an Indian multinational banking and financial services company headquartered in Mumbai, Maharashtra, India with its registered office in Vadodara, Gujrat, India. It offers a wide range of banking products and financial services for corporate and retail customers through a variety of delivery channels and specialized subsidiaries in the areas of investment banking, venture capital and asset management.

(B) HDFC Bank:

HDFC Bank Limited is an Indian banking and financial services company headquartered in Mumbai, Maharashtra, India. HDFC Bank is India's largest private sector lender by assets. It has been secured rank 69th in 2016 Brand Z top 100 most valuable Global Brands. It provides products like credit cards, consumer banking, banking finance and insurance, investment banking, mortgage loans, private banking, private equity and wealth management to their customers.

II. OBJECTIVES

The main objective of the study is to compare earning quality performance of HDFC Bank and

ICICI Bank.

III. RESEARCH METHODOLOGY

- **Scope of the Study:**-This study will provide wider scope to earning quality performance of HDFC Bank and ICICI Bank. This will be helpful for its strength and development in future for this bank.
- **Period of the Study:**-This research paper is an attempt of comparative research on earning quality performance of HDFC Bank and ICICI Bank covering the period of last 10 years i.e. 2007-08 to 2016-17, based on the secondary data sourced from journals,

magazines, articles, media reports and annual reports of this bank.

- **Data Collection-** Secondary Data.
- **Statistical Techniques-** In accordance with the analysis and interpretation averages and various accounting ratios has been used with the help of MS- Excel.

IV. DATA ANALYSIS AND INTERPRETATION

**Table-1: Earning Quality of ICICI Bank
(In Percent)**

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Average
Ratios											
Operating Profit to Working Fund	2.14	2.33	2.72	2.37	2.41	2.69	3.00	3.29	3.65	3.64	2.82
Spread to Total Assets	1.83	2.21	2.23	2.22	2.19	2.58	2.77	2.95	2.94	2.82	2.47
Net Profit to Total Assets	1.04	0.99	1.11	1.27	1.32	1.55	1.65	1.73	1.35	1.27	1.33
Interest Income to Total Income	77.75	80.35	77.47	79.62	81.72	82.76	80.90	80.13	77.49	73.52	79.17
Non-Interest Income to Total Income	22.25	19.65	22.53	20.38	18.28	17.24	19.10	19.87	22.51	26.48	20.83

Source: Compiled and computed from Various Annual Reports of ICICI Bank.

In ICICI Bank, operating profit to working fund ratio, exhibits about how much operating profit is earned by any bank in comparison to its working fund. In the year 2007-08 operating profit to working fund ratio has been found 2.14 percent which regularly increased except in the year 2010-11 and 2016-17 with average operating profit to working fund ratio of 2.82 percent. It clears that this bank is earning operating profit 2.82 percent every year of its total working fund during the study period. Spread exhibits about net interest income of any bank, in spread to total assets ratio we try to know how much spread is earned by any bank of its total assets. In the year 2007-08, spread to total assets has been found 1.83 percent of its total assets of this bank and it is increasing every year and reached to 2.23 percent 2009-10 but in the next year 2010-11 it has been decreased. After that year it has been secured increasing trend every year except in the last year of the study. Average spread to total assets has been found 2.47 percent in this bank during the study period. Net profit to total assets has been found increasing every year except in the years 2008-09, 2015-16 and in 2016-17. This bank is earning average net profit of 1.33 percent of its total assets during the study period. This bank is earning fluctuating rate of interest income in comparison to its total income during the study period with average 79.17 percent. In the same way non-interest income to total income has been found fluctuating during the study period with average 20.83 percent during the study period, bank should try to uniform and improve it.

**Table-2: Earning Quality of HDFC Bank
(In Percent)**

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Average
Operating Profit to Working Fund	3.13	2.94	3.33	3.12	3.22	3.23	3.39	3.44	3.28	3.32	3.24
Spread to Total Assets	3.93	4.05	3.77	3.80	3.81	3.95	3.76	3.79	3.72	3.84	3.84
Net Profit to Total Assets	1.19	1.22	1.33	1.42	1.53	1.68	1.72	1.73	1.66	1.68	1.52
Interest Income to Total Income	81.59	83.23	80.24	82.13	82.82	83.65	83.86	84.35	84.85	84.93	83.16
Non-Interest Income to Total Income	18.41	16.77	19.76	17.87	17.18	16.35	16.14	15.65	15.15	15.07	16.84

Source: Compiled and computed from Various Annual Reports of HDFC Bank.

In HDFC Bank, in the year 2007-08 operating profit to working fund ratio has been found 3.13 percent which have been secured fluctuating trend throughout the study period with average operating profit to working fund ratio of 3.24 percent. And it is 0.42 percent more than ICICI Bank. It clears that this bank is earning operating profit of 3.24 percent every year of its total working fund during the study period. Spread shows about the net interest income of any bank for lending operation. In the year 2007-08, in spread to total assets ratio has been found 3.93 percent of its total assets in this bank. And it has been secured fluctuating trend throughout the study period. Average spread to total assets has been found 3.84 percent in this bank during the study period. Net profit to total assets has been found increasing every year except in the year 2015-2016. This bank is earning average net profit of 1.52 percent of its total assets during the study period. This bank is earning increasing rate of interest income in comparison to its total income except in the year 2009-10 during the study period with average 83.16 percent. Non-interest income to total income has been found fluctuating during the study period with average 16.84 percent during the study period.

Table-3: Ranking on the Basis of Average Earning Quality Secured by HDFC Bank and ICICI Bank during the Study Period

Ratios	HDFC Bank	ICICI Bank
Operating Profit to Working Fund	1	2
Spread to Total Assets	1	2
Net Profit to Total Assets	1	2
Interest Income to Total Income	1	2
Non- Interest Income to Total Income	2	1

On the basis of ranking it has been found that HDFC Bank secured better earning quality in comparison to ICICI Bank in all aspect of earning except only in non-interest income to total income.

V. FINDINGS and SUGGESTIONS

The performance of operating profit to working fund of ICICI Bank has found poor in comparison to HDFC Bank, "this bank should improve its operating income sources". Spread earning is regularly decreasing in ICICI Bank, it clears that performance of lending activities is not proper in this bank; bank should try to improve it. Due to poor productivity net profit is not well in ICICI bank, with improving productivity net profit can be increased in this bank. In only one aspect of earning quality (non-interest income to total income), ICICI Bank has been performed better in comparison to HDFC Bank, it clears that services through technology is better in this bank in comparison to HDFC Bank.

VI. CONCLUSION

Finally, it is concluded that both bank is performing its duties with better earning quality but not as much as we all expected form both banks. And there is a need for both banks to do extreme level of working on its earning quality performance for the betterment of bank in future. ICICI Bank should try to improve its quality of earning for securing first position in the market otherwise this bank will be in third position soon and so on, if it will not take suitable measures on time.

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Dr. Manish Seth

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