Research Paper COMMERCE

Comparative Analysis of Debt-Equity Ratio : Axis Bank Vs. Various Banks

NEHA GOYAL Asst.Prof., commerce and management, B's Academy, X/1387 Rajgarh Colony Gandhi Nagar Delhi 110031

LEENA BAJAJ Asst.Prof., commerce, and management, B's Academy, 10/97,Geeta Colony, Delhi-110031

ABSTRACT

This study examines the effect of capital structure on bank performance Banks voluntarily choose to maintain capital in excess of the minimum required in order to balance the risks of insolvency, With a strong editorial emphasis on multiple sourcing of key information to ensure accuracy, Capital Structure provides high quality value-added news on and analysis to a client base of fund managers, credit analysts, auditors investors, restructuring advisors, entrepreneur, lawyers and accountants, private equity sponsors. Among financial analysts and investment research services, there is no universal agreement as to what constitutes a debt liability. For many analysts, the debt component in a bank's capitalization is simply a balance sheet's long-term debt. It's the capitalization ratio that delivers the key insights to evaluating a company's capital position. The capital structure referred to mixture of debt and equity financing. Whether or not an optimal capital structure is one of the most important and complex issues in the corporate finance. In general, research predicts that banks choose their capital structures by balancing the benefits of debt as per tax regulation and agency benefits against bank's costs. As we all know, there is not an optimal capital structure of any financial body, this study focus on debt equity ratio of various banks so that to know their capital structure pattern .

KEYWORDS : Capital structure, Debt-Equity Ratio, Comparative Debt-Equity Ratio, Axis bank

Introduction:

The capital structure and regulation of financial intermediaries is an important topic for practitioners, regulators and academic researchers. The important question facing banks in need of new finance is whether to raise debt or equity capital, the issue of finance has been identified as an immediate reason for business failing to start or to progress. It is imperative for Banks to be able to finance their activities and grow over time. These components of capital structure referred to ownership by shareholders and ownership by debt holders. This is the pattern found in developing and developed countries.

The financial crisis on the late 2000s had a major impact on the financial markets, and the banks directly effected by that, In the late 2000s, a financial crisis began in the United States and quickly spread to Europe and other parts of the world .it disrupted the financial markets, reduce the amount of debt and equity capital financing available to businesses and to create a severe recession in the U. S. and other countries included India.

Objectives of the paper :

- To gain the knowledge of the financial position of Axis bank through debt –equity ratio and to compare it with other banks (Hdfc bank, Icici bank and Sbi bank)
- To understand the fund raising pattern or capital structure of these banks.

For this research work, the following questions would serve as a guide identifying the effect of capital structure on banks performance.

Question 1:- What is the long term solvency level through ratio of various banks?

Question 2:-What is the capital structure parameters of axis bank compare to other banks ?

Meaning and definition:

Capital Structure implies the composition of funds raised from various sources broadly classified as debt and equity.

'Balancing the array of funds sources in a proper manner, i.e. in relative magnitude or in proportions'.

Keown et al.

Capital structure and banking sector

A company's capitalization describes the composition of a company's permanent or long-term capital, which consists of a combination of debt and equity. A healthy proportion of equity capital, as opposed to debt capital, in a company's capital structure is an indication of financial fitness. In a company's capital structure, equity consists of a company's common and preferred stock plus retained earnings, which are summed up in the shareholders' equity account on a balance sheet. This invested capital and debt, generally of the long-term variety, comprises a company's capitalization, i.e. a permanent type of company's growth and related assets.

Significance of capital structure:

It directly effect the interest of the equity shareholders.

Capital structure maximizes the market value.

Increases investors confidence

.

It helps to determine how risky and how expensive the financing should be.

Raises market price of shares:- increasing earnings per share also increases dividend receipt of the shareholders.

By determining a proper mix of fund sources, the overall cost of capital is made to the lowest.

It is the based of wealth-creating investments decision.

DEBT EQUITY DESCRIPTION :

DEBT EQUITY Ratio indicating the relative proportion of shareholders' equity and debt used to finance a company's assets. A low d-e ratio indicates lower risk, because debt holders have less claims on the company's assets. A D- E Ratio higher means that debt holders have more claim on assets than equity holders.

A high debt to equity ratio usually means that a company has been aggressive in financing growth with debt and often results in volatile earnings.

It is also known as Debt/Equity Ratio, Debt to Total equity Ratio, and Solvency Ratio.

Formula:

Debt to Equity = (Long Term Debt + Current Portion of Long Term Debt) / Total Shareholders' Equity

Factors that influence the level of D-E Ratio:

Degree of stability and profitability of business environment Availability of suitable assets for offering security to lenders Interest Coverage Regulatory and contractual restrictions

About AXIS banks:

AXIS BANK (Prior known as UTI BANK)

UTI Bank established in 1993 was the first of the new private banks to have begun operations in 1994 .Bank has been promoted by the third largest and the best Financial Institution of the country. UTI Bank Ltd. was promoted by Unit Trust of India, Life Insurance Corporation of India, General Insurance Corporation of India and its four subsidiaries. The Bank was set up with a capital of Rs. 115 cr.

UTI Bank has been officially changed to the Axis Bank Ltd with effect from 30 July2007.

The bank would also change logo and colour of logo. Axis Bank is one of the most aggressive players in the private sector banking industry with a balance sheet size of Rs. 4,61,932 cr. as on 31st March 2015, Axis Bank has achieved consistent growth and stable asset quality with a 5 year CAGR (2010-11 to 2014-15) of 21% in Total Assets, 18% in Total Deposits, 22% in Total Advances and 24% in Net Profit.

UTI BANK IS NOW AXIS BANK

(Everything is the same except the name)

Various banks at a glance :

HDFC BANK

The bank was incorporated in August 1994 in the name of 'HDFC Bank Limited', with its registered office in Mumbai, India. HDFC Bank commenced operations as a Scheduled Commercial Bank in January 1995. HDFC Bank is the second largest private sector bank in the country (after ICICI Bank) in terms of asset size. HDFC Bank's business philosophy is based on five core values: Operational Excellence, Customer Focus, Product Leadership, People and Sustainability. As on 31st March, 2015 the authorized share capital of the Bank is Rs. 550 cr.The paid-up share capital of the Bank as on the said date is Rs501,29,90,634/. The HDFC Group holds 21.67 % of the Bank's equity and about 18.87 % of the equity is held by the ADS / GDR 32.57 % of the equity is held by Foreign Institutional Investors (FIIs) and the Bank has 4,41,457shareholders..

ICICI BANK

ICICI Bank was originally promoted in 1994 by ICICI Limited, an Indian financial institution, and was its wholly-owned subsidiary. Despite being the second largest bank in the country after SBI in terms of asset size. The principal objective was to create a development financial institution for providing medium-term and long-term project financing to Indian businesses. ICICI Bank lost its share of the banking sector's advances from 10.2% in FY07 to 8% in FY12. At the end of March 2012, the bank had assets of over Rs 4.8 trillion and 2,750 branches spread across the country. ICICI Bank is India's largest private sector bank with total assets of Rs. 6,461.29 billion (US$ 103 billion) at March 31, 2015. Currently ,it has a network of 4,070 Branches.

SBI BANK

On 1st July State Bank of India was constituted under the State Bank of India Act 1955, for the purpose of taking over the undertaking and business of the Imperial Bank of India. The Imperial Bank of India was founded in 1921 under the Imperial Bank of India Act 1920. The Bank transacts general banking business of every description including, foreign exchange, merchant banking and mutual funds.

SBI is India's largest bank in the country with an asset size of over Rs 13 trillion. As per 2012, SBI has a network of almost 14,270 branches. As of 2014-15, it has assets of INR 20,48,080 cr. and 16,333 branches, including 191 foreign offices spread across 36 countries.

AXIS BANK VS. VARIOUS BANKS :

DEBT EQUITY RATIO OF VARIOUS BANKS (AS ON MARCH 2015):

BANK	AXIS BANK		SBI BANK		
	HDFC BANK		ICICI BANK		
Debt- Equity	9.0	14.2	Ratio	8.1	7.1

(Source: Company Annual Reports, Regulatory Filings, Equitymaster)_

Comparative Analysis of D/E Ratio of Axis bank vs. Var ous banks

Total debt to owner's fund = Debt /Equity

Comparitive D/ E Ratio of two banks = Fraction of D/E Ratio of two banks

Comparison	Comparative D/E Ratio
Axis bank/Sbi bank	9/14.2 = 63.38 %
Axis bank/Hdfc bank	9/8.1 = 111.11 %
Axis bank/Icici bank	9/7.1 = 126.76 %

Such figures shows that on March 2015, D-E Ratio of axis bank was 9.0 and sbi was 14.2 ,comparative D-E Ratio of axis bank and sbi bank is 63.38 % which indicates that there is 63.38 % difference exist between capital structure pattern of these banks while comparative debt equity ratios between axis and hdfc bank is 111.11 % and comparative ratio between axis and icici bank is 126.76 %.Similarly, it is find that there is huge difference exist in investing pattern(Debt/ Equity) of all these banks.

The comparative d/e ratio of all these banks with the axis bank indicates that the maximum difference in investing pattern is 126.76 % which is found between axis and icici bank and the lowest or minimum difference in capital structure pattern is found between axis and sbi bank(63.38 %). After analyzing all these figures , we have concluded that axis bank, inspite of having huge difference with various banks still enjoying the growth rate of 18% as per the data of march 2015 published in "Business standard" by BS reporter Mumbai.

Conclusion:

D-E ratio which is low, say 0.1

Says that the company is not fully utilizing the cheaper source of finance like debt

D-E ratio that is high, say 0.9 indicate that the company is facing a very high financial risk. Companies generally aim to maintain a d-e ratio between the two extremes.

The strength of a company's balance sheet can be evaluated by 3 broad categories of investment-quality measurements: working capital adequacy, asset performance and capital structure. A company's reasonable, proportional use of debt and equity to support its assets is a key indicator of balance sheet strength. A healthy capital structure that reflects a low level of debt and a corresponding high level of equity is a very positive sign of investment quality.

It is manifested that debt- equity ratio of axis bank comes in a mid comparative to other banks while ratio of SBI bank is more than other banks if this exists it shows rather risky financial position from the long term point of view.as it indicates, more and more fund invested in the business provided by the long term lenders.The high debt equity ratio is a dangerous signal for the long term point of view. so axis bank without being risky alongwith 18% growth is a financially sound Bank.

References :

Aubuchon and Wheelock (2009)).,

http://accounting-simplified.com/financial/ratio-analysis/debt-to-equity.html

https://www.equitymaster.com/research-it/compare/compare_comp.asp?symbol=UTIB-SBI& value=AXIS-BANK-SBI

http://www.moneycontrol.com/financials/icicibank/ratios/ICI02