ABSTRACT

Today business organizations use a range of alternatives for collecting the funds. Small and big organizations used the way of collecting funds according to their paying capacity, degree of risk, size of capital, working system of the business etc. So, here in this paper the research paper, the researcher analyze the capital structure of two banks according to its convenience. Capital Structure is the Ratio of long-term sources of finance in the total capital of the firm includes 'Proprietor's Funds' and 'Borrowed Funds'. Proprietors Funds include equity capital, preference capital, reserves and surpluses retained earnings and Borrowed Funds include long-term debts such as loans from financial institutions, debentures etc. In this paper, the researcher has taken two banks viz. ICICI and SBI for making comparison of their debt and equity. By using, the technique of average and percentage the researcher have made the conclusion about the collection of funds of these banks. Lastly, some suggestions have given by the researcher which the banks can follow. Hence, the research may contribute in providing a new way to the banks for capital structure decision.

Keywords: Equity; Debts; Cost of Capital; Cost of Debts

INTRODUCTION

The term 'Capital' Structure' refers to the proportion between the various long-term sources of finance in the total capital of the firm includes 'Proprietor's Funds' and 'Borrowed Funds'. Proprietors Funds include equity capital, preference capital, reserves and surpluses retained earnings and Borrowed Funds include long-term debts such as loans from financial institutions, debentures etc. On the other hand, equity share capital is the most costlier source of finance (as return expected by equity shareholders is greater, than the interest on debentures and the dividend on preference shares) but these are least risky (as there is no fixed commitment to pay dividend and the return of equity capital). Preference share capital lies between debentures and equity capital in terms of risk and cost. While choosing the source of finance a financial manager makes an attempt to ensure that risk as well as cost of capital is minimum. For this purpose he has to answer the following questions:

1. How much amount should be raised through issue of equity?
2. How much amount should be raised through issue of preference share capital?
3. How much amount should be raised through debentures and other long-term debts?

RESEARCH PROBLEM

The study is to find the different determinant of capital structure in the banking industry as it affects the whole form of the organization. So it is very important to have a clear idea about these factors and cost of different sources in the banking industry. So the problem in the study is to find out effective determinant of capital structure.
NEED AND SIGNIFICANCE OF THE PROJECT

Capital structure decision is one of the strategic decisions taken by the financial management. Considerable attention is required to decide the mix up of various sources of finance. A judicious and right capital structure decision reduces the cost of capital and increase the value of a firm while a wrong decision can adversely affect the value of the firm. As discussed earlier, various sources of finance differ in terms of risk and cost. Hence, there is utmost need of designing an appropriate capital structure. Capital structure decisions are of great significance due to the following reasons:

- Capital structure determines the risk assumed by the firm.
- Capital structure determines the cost of capital of the firm.
- It affects the flexibility and liquidity of the firm.

It affects the control of owners on the firm.

OBJECTIVES OF THE STUDY

1. To conduct comparative study regarding to capital structure of SBI and ICICI.
2. To find out the cost of different financial sources of project financing.
3. To know the portion of debt and equity in capital structure.
4. To find out the overall cost of capital of SBI & ICICI

REVIEW OF LITERATURE

William Sharpe (1963) used a better Var. measure in his Ph.D. thesis. Although the measure is different from Markowitz’s diagonal covariance matrix, it helped Sharpe to propose capital asset pricing model (CAPM). There were innovations in 1970s and 1980s in the financial markets as well as in every field of human life. The effect of these innovations was the rising of leverage. As this was the case, firms had a tendency to find new ways to manage risk. This in turn leads new measures of risk.

Kalish (III) and Gilbert (1973) studied the impact of size and organizational form of the commercial bank on its efficiency. Cost and output of the banks were collected for this purpose. They used 898 commercial banks that look part in the Federal Reserve's Functional Cost Analysis Program in 1968. Banks were categorized into unit banks, branch banks and holding company subsidiaries on the basis of their organizational form and the amount of assets they had. The minimum average cost (AC) at which bank of the same size and organizational form can operate is called as technical efficiency of the bank while the excess AC of the bank over minimum AC represents the operational inefficiency of the bank.

Aly (1990) analyzed technical, scale and locative efficiencies in U.S. banking by using non parametric frontier approach on a sample of 3.22 independent banks. According to them, major contributor to the low score of overall efficiency was technical inefficiency in the banking units as compared to al locative inefficiency.

Berger (1993) stated that rapid changes in financial service industries make it important to determine the efficiency of financial institutions. Banks play an important role in the financial markets of the developing countries and it is very important to evaluate whether banks operate efficiently or not. There are many research studies that try to look into the efficiency of banks operating within a country and across the countries. These studies can be differentiated on the basis of used methodologies, considered variables, type and number of banks included in the sample.

Al-Faraj (1993) evaluated the relative efficiency of bank branches of the largest commercial bank in Saudi Arabia by means of Data Envelopment Analysis (DEA) for the improvement of the utilization of available resources at branch level more efficiently. They applied DEA methodology on fifteen branches of the bank located in the Eastern province of Saudi Arabia. One year actual input-output data...
of the bank was used for the study. Eight inputs and seven output factors were identified at branch level on the basis of consultation and personal interviews with the administrators of the several banks. DEA enabled them to identify three inefficient branches out of fifteen bank branches under consideration.

Pi and Timme (1993) investigated the relationship of concentration of decision management and control in one person on the cost efficiency level of the bank and returns on assets. On the basis of their study, they found that the banks whose chairman of the board and CEO were the same person had significantly less efficiency than those banks that possessed not similar governance structure and concluded that performance was affected by top management structure.

Altunbas (1994) justified the privatization of Turkish public banks on the grounds of efficiency improvement. For the study, they used the stochastic cost techniques for the analysis of performance difference between public and private banks. After analysis, they found a statistically non significant inefficiency difference between private and public banks. So on the basis of statistically insignificant inefficiency difference; they favored the privatization of public banks.

Roshan Budhoo (1996) propounded that there have always been controversies among finance scholars when it comes to the subject of capital structure. So far, researchers have not yet reached a consensus on the optimal capital structure of firms by simultaneously dealing with the agency problem. This paper provides a brief review of literature and evidence on the relationship between capital structure and ownership structure. The paper also provides theoretical support to the factors (determinants) which affects the capital structure.

Joriann (2001) elaborated that there have been many definitions of risk over years. The literature on risk is comprehensive. Origin of the word risk can be traced back to Latin, through the French “risque” and the Italian “risco”. Risk concept is firstly seen in ancient Italian maritime trade. It was defined as the combination of chance or uncertainty to mean the loss of ships and cargo on the seas. Merchants used a term risk because of uncertainty they faced.

Sterken (2002) Firms having high risk exposure, rely more on the cash flow than the others. Financial distress is main reason for this proposal. Facing high risk signals the financial weakness of the firms. Once they are financially weak today it is very probable that they are weak in the future. These firms need more external funds to survive. They need these funds to sustain their obligations. But it is not very easy for these firms to find the needed funds because of having financing premium. Firms should carry the burden of higher costs of external funding than before. These firms are also in the risk of losing chances of profitable investments. As a consequence, these firms are more cash-flow dependent.

Ataullah (2004) made a comparative analysis of commercial banks in India and Pakistan during 1988-1998. To measure technical efficiency, they used Data Envelopment Analysis and employed two input-output specifications for efficiency measurement. In one specification (loan based model), operating and interest expenses were used as inputs while loans and advances (along investment) were considered as outputs of the commercial bank. In second specification (income based model), operating and interest expenses were considered as inputs while interest and non interest income worked as outputs of the commercial bank. They decomposed technical efficiency into pure technical efficiency and scale efficiency. From analysis, they found that the efficiency score in loan based model was much higher as compared to the income based model. At the same time, results also indicated the presence of space for improvement in the efficiency of banks in these countries.

Jaffry (2005) examined the efficiency of banking sector of Indian sub-continent over the period 1993 to 2001. An output oriented DCA is used for the estimation of the efficiency of banks. Two outputs, i.e. interest income and non-interest income and two inputs i.e. interest expenses and non-interest expenses were used for DEA specification to estimate the efficiency of banks under variable returns to scale. To estimate the impact of bank characteristics, macroeconomic indicators and financial structure variables on estimated efficiency score, they used tobit model).
Majid (2005) compared the productive efficiency of Islamic and conventional banks in Malaysia. They used stochastic frontier function approach to estimate the efficiency of banks to compare their relative performance. For the study, 34 banks were selected and data about these banks were obtained from the annual reports of the banks and the directory of the association of banks in Malaysia from 1993 to 2000. Their results showed insignificant difference in terms of cost efficiency between Islamic and conventional banks but Islamic banks did marginally better than conventional banks while cost efficiency difference was significant (at 5% level of significance) between foreign and local banks. They found no relationship between ownership and efficiency. However, their study related inefficiency of the bank with its size in a non-linear way.

Pasiouras (2007) used DEA to analyze the technical, allocative, and cost efficiency of 16 Greek cooperative banks over the period 2000 to 2004. Following intermediation approach, fixed assets, deposits, and number of employees were considered as inputs of the banks while loans, liquid assets, and investments were considered as outputs of the banks. Estimated yearly average cost efficiency score for cooperative banks ranged from 0.802 to 0.836 in their study. According to them, major source of cost inefficiency was allocative inefficiency present in banks. After the estimation of efficiency, they used tobit model to find out the influence of the internal and external factors on its efficiency. From estimated tobit model, among bank specific variables, they found positive impact of equity to assets, number of ATMs, loans to assets and assets of the bank on the estimated efficiency of banks.

Company Profile

Without a sound and effective banking system in India it cannot have a healthy economy. The banking system of India should not only be hassle free but it should be able to meet new challenges posed by the technology and any other external and internal factors.

Phase I

The General Bank of India was set up in the year 1786. Next came Bank of Hindustan shareholders, and Bengal Bank. The East India Company established Bank of Bengal (1809), Bank of Bombay (1840) and Bank of Madras (1843) as independent units and called it Presidency Banks. These three banks were amalgamated in 1920 and Imperial Bank of India was established which started as private shareholders banks, mostly Europeans. In 1865 Allahabad Bank was established and first time exclusively by Indians, Punjab National Bank Ltd. was set up in 1894 with headquarters at Lahore. Between 1906 and 1913, Bank of India, Central Bank of India, Bank of Baroda, Canara Bank, Indian Bank, and Bank of Mysore were set up. Reserve Bank of India came in 1935. During the first phase the growth was very slow and banks also experienced periodic failures between 1913 and 1948. There were approximately 1100 banks, mostly small. To streamline the functioning and activities of commercial banks, the Government of India came up with The Banking Companies Act, 1949 which was later changed to Banking Regulation Act 1949 as per amending Act of 1965 (Act No. 23 of 1965). Reserve Bank of India was vested with extensive powers for the supervision of banking in India as the Central Banking Authority.

Phase II

Government took major steps in this Indian Banking Sector Reform after independence. In 1955, it nationalized Imperial Bank of India with extensive banking facilities on a large scale especially in rural and semi-urban areas. It formed State Bank of India to act as the principal agent of RBI and to handle banking transactions of the Union and State Governments all over the country. Seven banks forming subsidiary of State Bank of India was nationalized in 1960 on 19th July, 1969, major process of nationalization was carried out. It was the effort of the then Prime Minister of India, Mrs. Indira Gandhi. 14 major commercial banks in the country were nationalized. Second phase of nationalization Indian Banking Sector Reform was carried out in 1980 with seven more banks. This step brought 80% of the banking segment in India under Government ownership.
The following are the steps taken by the Government of India to Regulate Banking Institutions in the Country:

1949: Enactment of Banking Regulation Act.
1955: Nationalization of State Bank of India.
1959: Nationalization of SBI subsidiaries.
1961: Insurance cover extended to deposits.
1969: Nationalization of 14 major banks.
1971: Creation of credit guarantee corporation.
1975: Creation of regional rural banks.
1980: Nationalization of seven banks with deposits over 200 crore.

After the nationalization of banks, the branches of the public sector bank India rose to approximately 800% in deposits and advances took a huge jump by 11,000%.

Phase III

This phase has introduced many more products and facilities in the banking sector in its reforms measure. In 1991, under the chairmanship of M Narasimham, a committee was set up by his name which worked for the liberalization of banking practices. The country is flooded with foreign banks and their ATM stations. Efforts are being put to give a satisfactory service to customers. Phone banking and net banking is introduced. The entire system became more convenient and swift. Time is given more importance than money.

History of ICICI Ltd

ICICI was formed in 1955 at the initiative of the World Bank, the Government of India and representatives of Indian industry. The principal objective was to create a development financial institution for providing medium-term and long-term project financing to Indian businesses. In the 1990s, ICICI transformed its business from a development financial institution offering only project finance to a diversified financial services group offering a wide variety of products and services, both directly and through a number of subsidiaries and affiliates like ICICI Bank.

State Bank of India

The Bank is actively involved since 1973 in non-profit activity called Community Services Banking. All our branches and administrative offices throughout the country sponsor and participate in large number of welfare activities and social causes. Our business is more than banking because we touch the lives of people anywhere in many ways. The bank is entering into many new businesses with strategic tie ups – Pension Funds, General Insurance, Custodial Services, Private Equity, Mobile Banking, Point of Sale Merchant Acquisition, Advisory Services, structured products etc – each one of these initiatives having a huge potential for growth. The Bank is forging ahead with cutting edge technology and innovative new banking models, to expand its Rural Banking base, looking at the vast untapped potential in the hinterland and proposes to cover 100,000 villages in the next two years.

Special Features of State Bank of India

1. There schemes meet the customer varied needs.
2. Nominal services processing charges.
3. Loan at competitive rates.
4. Interest charges on reducing balance only instead of annual balance.
5. Interest is compounded quarterly risk.
6. No penalty for repayment of loans.

RESEARCH METHODOLOGY

In Research Methodology we study the various steps that are generally adopted by researcher in studying his research problem along with the logic behind them. Research Methodology includes:

Research Design

The research design used is descriptive between capital structure and cost of capital of ICICI and SBI. The study is descriptive because already a wide literature is present on this topic.

SCOPE OF THE STUDY

The area of the Study is two banks SBI and ICICI to make a comparison between the capital Structure. In fact, the research design is the conceptual structure within which research conducted. It constitutes the blue print for the collection, measurement and analysis. This research is of Explanatory & analytical in nature. In explanatory & analytical research we have sufficient data on the concept and research material. Because many researcher have been done the work on the concept.

METHODS OF COLLECTING DATA

Since the report required studying the theoretical as well as practical aspects of Project Finance, the books have provided in the theoretical aspects of the study. To get the latest information, Internet was also used as a medium at various stages. The data for the project report has been collected from the secondary sources.

ANALYSIS AND INTERPRETATION

The large size of the dominant market position of the bank has helped it to build up a loan portfolio which is well diversified across industries as well as region thus cushioning the impact of problems in certain industries moreover the increased focus on its top clients and the size of relationship banking approach subsequent to the formation of the corporate accounting groups (CAG) has helped the bank in retaining its top clients and also increasing them share of business from them.

Capital Structure of SBI and ICICI

The capital structure which maximize the value of firm, minimize the cost of capital is called optimum capital structure.

<table>
<thead>
<tr>
<th>Year</th>
<th>SBI</th>
<th>ICICI</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Equity</td>
<td>Debt</td>
</tr>
<tr>
<td>2008</td>
<td>6314.70</td>
<td>517274.11</td>
</tr>
<tr>
<td>2007</td>
<td>5262.99</td>
<td>397033.35</td>
</tr>
<tr>
<td>2006</td>
<td>5262.99</td>
<td>306412.44</td>
</tr>
</tbody>
</table>

Interpretation

It is clear from the study that debt and equity used by ICICI is more than SBI. Debt and equity used by ICICI more than SBI. Debt used by ICICI and SBI at increasing rate, also equity used by ICICI & SBI bank at increasing rate.

Comparison of Equity Capital

Equity capital is owner’s capital and most costlier source of finance but least risky then the preference and debt source of finance.
Interpretation

It is clear from the study that equity used by ICICI is more than SBI. The equity used by ICICI and SBI at increasing rate. Equity capital is owners capital it means a good indicator for health of an organization.

Comparison of Debt

Debt are least costly source of finance because the rate of interest is lower than the rate of dividend and interest paid on debenture is deducted from the profit while calculating the taxes but these are most risky.

Interpretation

It is clear from the study that debt used by ICICI is more than SBI. The debt used by ICICI and SBI at increasing rate.

State Bank of India

Debt-Equity Ratio = Debt ÷ Equity
Year | Debt Equity Ratio
---|---
2008 | 517274.11÷6314.70 = 81.92
2007 | 397033.35÷5262.99 = 75.44
2006 | 306412.44÷5262.99 = 58.22
**Average** | (81.92+75.44+58.22)/3 = 71.86

**ICICI Bank**

Debt-Equity Ratio = Debt ÷ Equity

Year | Debt Equity Ratio
---|---
2008 | 656484.34÷11126.79 = 59.01
2007 | 512560.26÷8993.44 = 56.99
2006 | 385219.14÷8898.34 = 43.29
**Average** | (59.01+56.99+43.29)/3 = 53.10

<table>
<thead>
<tr>
<th>Bank</th>
<th>SBI</th>
<th>ICICI</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Year</strong></td>
<td><strong>Sources</strong></td>
<td><strong>Debt Equity Ratio</strong></td>
</tr>
<tr>
<td>2008</td>
<td></td>
<td>81.92</td>
</tr>
<tr>
<td>2007</td>
<td></td>
<td>75.44</td>
</tr>
<tr>
<td>2006</td>
<td></td>
<td>58.22</td>
</tr>
<tr>
<td><strong>Average</strong></td>
<td></td>
<td>71.86</td>
</tr>
</tbody>
</table>

**Interpretation**

It is clear from the graph that the debt equity ratio of SBI is more than ICICI. If the debt equity Ratio is more than it shows rather risky financial position from the long term point of view. As it indicate that 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 landers.

**Cost of Capital**

Cost of capital is the minimum required rate of earning or the cut off rate of capital expenditures.
Comparison of Cost of Capital

Cost of capital is minimum rate of return that firm must earn on the equity financed position of an investment project in order to leave unchanged the market price of the share.

<table>
<thead>
<tr>
<th>Year</th>
<th>Sources</th>
<th>Cost of Equity</th>
<th>Cost of Debt</th>
<th>Cost of Equity</th>
<th>Cost of Debt</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008</td>
<td>SBI</td>
<td>2.05</td>
<td>61.73</td>
<td>3.95</td>
<td>35.77</td>
</tr>
<tr>
<td>2007</td>
<td>SBI</td>
<td>1.34</td>
<td>59.05</td>
<td>2.93</td>
<td>31.92</td>
</tr>
<tr>
<td>2006</td>
<td>SBI</td>
<td>1.34</td>
<td>65.79</td>
<td>2.47</td>
<td>24.92</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Year</th>
<th>Sources</th>
<th>Cost of Equity</th>
<th>Cost of Debt</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008</td>
<td>ICICI</td>
<td>3.95</td>
<td>35.77</td>
</tr>
<tr>
<td>2007</td>
<td>ICICI</td>
<td>2.93</td>
<td>31.92</td>
</tr>
<tr>
<td>2006</td>
<td>ICICI</td>
<td>2.47</td>
<td>24.92</td>
</tr>
</tbody>
</table>

\[ K_e = \frac{\text{DPS} \times \text{MP} \times 100}{\text{MP}} \]

\[ K_d = \frac{\text{I} \times \text{NP} \times 100}{\text{NP}} \]

DPS = Dividend per share

MP = Market Price

I = Interest

NP = Net Proceed
Interpretation

It is clear from the study that Cost of equity of ICICI is more than SBI. On the basis of study it is clear that cost of debt of SBI is more than ICICI and cost of equity of ICICI is more than SBI and cost of debt is decreasing and cost of equity is increasing in SBI and cost of debt is increasing and cost of equity is also increasing in ICICI

Cost of Debt

The firm borrows the fund from the financial institute or public for a specific period of time at a specific rate of interest.

Overall Cost of Capital of ICICI

<table>
<thead>
<tr>
<th>Year</th>
<th>Source</th>
<th>Book Value</th>
<th>Weight</th>
<th>Cost %age</th>
<th>Weighted Average cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006</td>
<td>Equity</td>
<td>8898.34</td>
<td>0.02257</td>
<td>2.47</td>
<td>0.055</td>
</tr>
<tr>
<td></td>
<td>Debt</td>
<td>385219.14</td>
<td>0.9774</td>
<td>24.92</td>
<td>24.35</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>394117.48</td>
<td></td>
<td></td>
<td>24.40</td>
</tr>
<tr>
<td>2007</td>
<td>Equity</td>
<td>8893.44</td>
<td>0.0172</td>
<td>2.93</td>
<td>0.505</td>
</tr>
<tr>
<td></td>
<td>Debt</td>
<td>5125260.26</td>
<td>0.9826</td>
<td>31.92</td>
<td>31.366</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>521553.7</td>
<td></td>
<td></td>
<td>31.871</td>
</tr>
<tr>
<td>2008</td>
<td>Equity</td>
<td>11126.79</td>
<td>0.0166</td>
<td>3.950</td>
<td>0.0658</td>
</tr>
<tr>
<td></td>
<td>Debt</td>
<td>656484.34</td>
<td>0.98333</td>
<td>35.77</td>
<td>35.17</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>667611.13</td>
<td></td>
<td></td>
<td>35.239</td>
</tr>
</tbody>
</table>

Overall Cost of Capital of SBI

<table>
<thead>
<tr>
<th>Year</th>
<th>Source</th>
<th>Book Value</th>
<th>Weight</th>
<th>Cost %age</th>
<th>Weighted Average cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006</td>
<td>Equity</td>
<td>5262.99</td>
<td>0.01688</td>
<td>1.34</td>
<td>0.0226</td>
</tr>
<tr>
<td></td>
<td>Debt</td>
<td>306412.44</td>
<td>0.9831</td>
<td>65.79</td>
<td>64.678</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>311675.43</td>
<td></td>
<td></td>
<td>64.70</td>
</tr>
<tr>
<td>2007</td>
<td>Equity</td>
<td>5262.99</td>
<td>0.01308</td>
<td>1.34</td>
<td>0.0175</td>
</tr>
<tr>
<td></td>
<td>Debt</td>
<td>397033.35</td>
<td>.9869</td>
<td>59.03</td>
<td>58.256</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>402296.34</td>
<td></td>
<td></td>
<td>58.27</td>
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</tbody>
</table>
Contd….

<table>
<thead>
<tr>
<th>Year</th>
<th>Source</th>
<th>Book Value</th>
<th>Weight</th>
<th>Cost %age</th>
<th>Weighted Average cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008</td>
<td>Equity</td>
<td>6314.70</td>
<td>0.01206</td>
<td>2.0534</td>
<td>0.0247</td>
</tr>
<tr>
<td></td>
<td>Debt</td>
<td>517274.11</td>
<td>.9879</td>
<td>61.73</td>
<td>60.98</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>523588.81</td>
<td></td>
<td></td>
<td>61.0047</td>
</tr>
</tbody>
</table>

Comparison of Overall cost of Capital of SBI & ICICI

<table>
<thead>
<tr>
<th>Year</th>
<th>Overall Cost of Capital of ICICI</th>
<th>Overall Cost of Capital of SBI</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006</td>
<td>24.40</td>
<td>64.70</td>
</tr>
<tr>
<td>2007</td>
<td>31.87</td>
<td>58.27</td>
</tr>
<tr>
<td>2008</td>
<td>35.239</td>
<td>61.0047</td>
</tr>
</tbody>
</table>

Interpretation

It is clear from the study that overall cost of capital of ICICI is increasing per year, cost of capital is decreasing per year and overall cost of capital of ICICI is less than SBI

FINDINGS AND CONCLUSIONS

The cost of capital of SBI is decreasing per year and cost of capital of ICICI is increasing.

On the basis of study conclude that ICICI is better than SBI because it continue to focus decreasing the cost of capital as compared to SBI

- ICICI have the better capital structure than SBI.
- Cost of debt of SBI is more than ICICI.
- Cost of equity of ICICI is more than SBI.
- Cost of equity of SBI & ICICI is increasing per year.
- Cost of debt of ICICI is increasing & SBI is decreasing.
- Overall cost of capital of ICICI is increasing per year.
- Overall cost of capital of SBI is decreasing per year.

RECOMMENDATION

- Public bank should improve their capital structure.
- Private sector bank should try to reduce their overall cost of capital.
Determinant of capital structure should be considered while forming capital structure.

Bank should have liquidity in their capital structure

Timely review of their capital structure is necessary in banking industry

Timely review of their cost of capital of different sources (debt, equity) is necessary in banking industry

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1. www.sbi.com
2. www.icici.com