



# Analysis of Efficiency Metrics and Essential Financial Ratios for Performance Evaluation of Axis Bank

P. Rohini<sup>1\*</sup> and J. Robert Edwin Chester<sup>2</sup>

<sup>1</sup>Assistant Professor, Department of Commerce, KL University, Vijayawada, Andhra Pradesh, India

<sup>2</sup>Associate Professor, Department of Commerce, KL University, Vijayawada, Andhra Pradesh, India

\*Corresponding Author E-mail: [prohini@kluniversity.in](mailto:prohini@kluniversity.in)

## Abstract

This study provides an in-depth investigation into the efficiency metrics and essential financial ratios of AXIS Bank over a multi-year period, aiming to understand its performance trends, operational efficiency, and overall financial health. The analysis focuses on key financial indicators, including Return on Capital Employed (ROCE), Current Account and Savings Account (CASA) ratio, Net Profit Margin (NPM), Operating Profit Margin (OPM), Return on Assets (ROA), and Return on Equity (ROE). These metrics are critical in evaluating the bank's ability to generate returns, manage costs effectively, and sustain profitability amidst evolving economic conditions. The findings reveal fluctuating trends in these metrics, reflecting the challenges faced by AXIS Bank in navigating a dynamic banking environment characterized by increasing competition, regulatory pressures, and economic uncertainties. While the CASA ratio demonstrates the bank's ability to maintain a strong low-cost funding base, declining profitability and efficiency ratios highlight areas requiring immediate strategic focus. This study builds on recent research that emphasizes the importance of financial ratio analysis as a tool for assessing bank performance and identifying key operational and financial challenges. By offering a detailed evaluation of AXIS Bank's financial efficiency, this research contributes valuable insights for stakeholders, including policymakers, investors, and management. The conclusions drawn aim to assist in formulating strategies that enhance profitability, optimize resources, and ensure sustainable growth in the competitive banking sector.

**Keywords:** AXIS Bank, Efficiency Metrics, Financial Ratios, Banking Performance, Operational Analysis

## **Introduction**

The performance of banks is an essential indicator of a nation's financial stability and economic health. Banks, as intermediaries in the financial system, play a crucial role in channeling savings into productive investments, thereby facilitating economic growth. Their efficiency not only affects their operational profitability but also influences broader economic conditions. AXIS Bank, one of the leading private-sector banks in India, has emerged as a significant player in the country's banking landscape. The bank offers a wide array of financial products and services to individuals, businesses, and institutions, positioning itself as an important contributor to the nation's economic development. However, with the evolving complexities of global financial markets and the growing competition within the banking sector, assessing the financial health and operational efficiency of such institutions has become more crucial than ever before.

Financial ratio analysis is widely recognized as a powerful tool for assessing the performance and efficiency of banks. Financial ratios provide deep insights into various aspects of a bank's operations, including profitability, liquidity, solvency, and operational efficiency. These metrics help stakeholders understand how well the bank is managing its resources and risks. Among the key ratios used in the banking sector, Return on Assets (ROA) and Return on Equity (ROE) serve as critical indicators of a bank's ability to generate profits relative to its assets and equity. High ROA and ROE values suggest that the bank is effectively utilizing its resources to generate returns, which is crucial for attracting investors and ensuring long-term sustainability. On the other hand, the CASA (Current and Savings Account) ratio is an important metric that indicates the stability and cost-effectiveness of a bank's funding sources, as it measures the proportion of low-cost deposits in the bank's total deposit base.

In recent years, the Indian banking sector has faced several challenges, including fluctuating interest rates, regulatory changes, and macroeconomic uncertainties. These factors have had a significant impact on the financial performance of banks, including AXIS Bank. The fluctuating economic environment has led to changes in key financial ratios, which reflect the bank's responses to these external shocks. For instance, the Net Profit Margin and Operating Profit Margin offer valuable insights into the profitability of the bank, while the Cost-to-Income ratio serves as an indicator of how efficiently the bank is managing its operating expenses in relation to its income. These ratios, when analyzed over a period, provide a comprehensive understanding of the bank's operational efficiency, profitability, and overall financial health.

Recent studies on financial performance evaluation in banking have highlighted the critical role of financial ratios in assessing bank performance. For instance, Rajan et al. (2022) pointed out that the CASA ratio is not only an important metric for assessing a bank's funding structure but also a crucial factor for maintaining profitability in a highly competitive market. Similarly, Choudhary and Gupta (2023) emphasized the importance of Net Interest Margin (NIM), arguing that it reflects a bank's core operational efficiency and its capacity to generate income from its interest-earning assets. In addition, research on the post-pandemic recovery of banks has shown how external shocks, such as the COVID-19 pandemic, can significantly affect the financial health of banks and lead to volatility in key performance metrics (Pandey & Mishra, 2023). These studies underscore the need for a continuous and in-depth evaluation of a bank's financial ratios to understand its long-term sustainability.

AXIS Bank's financial performance in recent years reflects the broader trends observed in the banking sector. While the bank has demonstrated strength in certain areas, such as its CASA ratio, which provides a solid base of low-cost deposits, it has also faced challenges in other aspects of its operations. For instance, fluctuations in the Operating Profit Margin and Return on Equity highlight operational inefficiencies and potential difficulties in maintaining profitability amidst rising costs. These trends point to the importance of analyzing financial ratios over time to identify potential areas of concern and to develop strategies for improvement. The analysis of AXIS Bank's performance is especially relevant given the highly competitive and constantly evolving nature of the banking sector.

The aim of this study is to conduct a comprehensive analysis of AXIS Bank's key financial ratios and performance metrics over a multi-year period. By examining the trends in ratios such as ROA, ROE, Net Profit Margin, CASA, and Cost-to-Income, this research seeks to uncover underlying patterns in the bank's performance and offer valuable insights for strategic decision-making. This study will not only contribute to the growing body of literature on bank performance evaluation but also provide actionable recommendations for improving AXIS Bank's operational efficiency and profitability. Furthermore, this research aligns with the increasing emphasis on financial ratio analysis in the banking sector and its role in guiding stakeholders toward informed decisions that enhance financial sustainability.

In the subsequent sections of this paper, the study will analyze the financial data of AXIS Bank, identify trends, and discuss their implications for the bank's future performance. By bridging theoretical insights with practical applications, the study aims to provide a

roadmap for AXIS Bank to enhance its operational efficiency, optimize resource utilization, and maintain long-term profitability in a dynamic financial environment. This paper will also highlight the importance of ratio analysis as an indispensable tool for banking institutions, policymakers, and investors in navigating the complexities of the modern banking landscape.

### **Objectives**

1. To evaluate the efficiency metrics and financial ratios of AXIS Bank over the past five years.
2. To analyse the trends in key performance indicators and their impact on the bank's overall financial health.
3. To compare the bank's efficiency with industry benchmarks and identify areas of improvement.
4. To provide actionable insights for stakeholders to enhance strategic decision-making in AXIS Bank.

### **Methodology**

This study adopts a quantitative approach, utilizing secondary data collected from AXIS Bank's annual reports and financial statements available in internet. Key financial ratios, including Return on Capital Employed (ROCE), CASA ratio, Net Profit Margin, Operating Profit Margin, Return on Assets (ROA), and Cost-to-Income ratio, were analysed over a multi-year period to evaluate the bank's efficiency and performance. To ensure comprehensive analysis, the study incorporates time-series analysis to identify trends and patterns in financial performance. Descriptive statistics such as mean, standard deviation, and coefficient of variation are used to understand the variability and consistency of the ratios. Further, inferential statistical tools, including correlation analysis and regression models, are employed to explore relationships between efficiency metrics and performance indicators.

### **Research Gap**

Although several studies have explored the performance evaluation of banks using financial ratios, limited research specifically focuses on AXIS Bank in the post-pandemic period. Existing studies often emphasize either profitability or liquidity metrics in isolation, neglecting a holistic view that includes cost efficiency, operational margins, and revenue dynamics. This study aims to bridge this gap by integrating multiple efficiency metrics to provide a comprehensive evaluation of AXIS Bank's performance.

Furthermore, while recent studies highlight the impact of macroeconomic factors on banking performance, there is a lack of detailed analyses that combine financial ratio trends with statistical insights to predict future performance. This research fills this void by employing advanced statistical tools to draw meaningful conclusions.

### Statement of the Problem

AXIS Bank has exhibited fluctuating trends in its financial performance over recent years, with notable variations in its Net Profit Margin, Operating Profit Margin, and Return on Assets. Despite maintaining a competitive CASA ratio, other efficiency metrics suggest challenges in cost management and profitability. This variability raises concerns about the bank's ability to sustain operational efficiency and achieve long-term financial stability. Understanding these dynamics is critical for stakeholders, including investors, policymakers, and management, to implement effective strategies.

### Analysis and Interpretation

Analysing and interpreting financial ratios is essential to understanding a bank's operational efficiency, profitability, and overall financial health. This study evaluates AXIS Bank's key financial ratios over the past five years to identify trends, strengths, and areas requiring improvement. Metrics such as ROCE, CASA, NPM, and OPM provide insights into the bank's ability to generate returns, manage costs, and optimize resources. By interpreting these ratios in conjunction with statistical tools, this analysis offers a comprehensive understanding of the bank's financial performance and provides actionable insights for strategic decision-making.

#### Operational Efficiency

| Details                          | March, 2024 | March, 2023 | March, 2022 | March, 2021 | March, 2020 |
|----------------------------------|-------------|-------------|-------------|-------------|-------------|
| ROCE (%)                         | 2.62        | 1.57        | 2.20        | 2.70        | 2.68        |
| CASA (%)                         | 42.98       | 47.15       | 44.99       | 44.92       | 41.19       |
| Net Profit Margin (%)            | 22.73       | 11.24       | 19.33       | 10.35       | 2.59        |
| Operating Profit Margin (%)      | 2.21        | -8.12       | -3.25       | -12.96      | -22.20      |
| Return on Assets (%)             | 1.68        | 0.72        | 1.10        | 0.66        | 0.17        |
| Return on Equity / Net worth (%) | 16.45       | 7.63        | 11.30       | 6.48        | 1.91        |

## **1. Return on Capital Employed (ROCE)**

The Return on Capital Employed (ROCE) is a pivotal metric that evaluates the efficiency with which AXIS Bank employs its capital to generate profits. Over the five-year period, the ROCE demonstrates moderate stability, starting at 2.62% in 2019 and ending at 2.68% in 2023. However, a significant decline to 1.57% in 2021 reflects underlying challenges, possibly stemming from pandemic-induced economic disruptions and a constrained lending environment. This period marked heightened uncertainty in the financial sector, leading to reduced capital productivity. The recovery in subsequent years to 2.20% in 2022 and 2.68% in 2023 suggests an improvement in capital utilization strategies, likely driven by better asset management and operational efficiencies. Despite this recovery, the overall low ROCE indicates that AXIS Bank could optimize its capital deployment further to enhance profitability. Investments in high-yield assets, better cost management, and a strategic focus on profitable growth avenues could help boost this ratio, reflecting better returns to shareholders and efficient use of resources.

## **2. CASA Ratio**

The CASA (Current Account Savings Account) ratio is a vital indicator of AXIS Bank's ability to attract and retain low-cost deposits, which are crucial for maintaining profitability in a competitive interest rate environment. AXIS Bank's CASA ratio has exhibited a fluctuating trend over the years, starting at 42.98% in 2019 and reaching a high of 47.15% in 2021 before declining steadily to 41.19% in 2023. The peak in 2021 can be attributed to favorable deposit mobilization during the pandemic, as customers preferred savings accounts for liquidity. However, the subsequent decline raises concerns about customer retention and competitive pressures from other banks offering higher interest rates on fixed deposits. A lower CASA ratio indicates a potential increase in funding costs, which can squeeze the Net Interest Margin (NIM). To maintain a strong CASA ratio, AXIS Bank must focus on enhancing customer engagement, offering value-added services, and deploying digital banking solutions to attract and retain depositors.

## **3. Net Profit Margin (NPM)**

Net Profit Margin is a crucial measure of AXIS Bank's profitability, reflecting the proportion of revenue converted into net profit. The NPM data reveals a volatile trend, with a significant decline from 22.73% in 2019 to a mere 2.59% in 2023. This sharp drop underscores considerable challenges in sustaining profitability. Factors such as increased provisioning for

non-performing assets (NPAs), rising operational expenses, and external economic pressures likely contributed to this downward trajectory. The recovery periods, such as the 19.33% margin in 2021, highlight the bank's ability to rebound through strategic cost management and enhanced revenue streams. However, the overall downward trend is a cause for concern, signalling the need for a strategic focus on cost optimization, asset quality improvement, and revenue diversification.

#### **4. Operating Profit Margin (OPM)**

The Operating Profit Margin reflects the bank's core profitability before considering non-operational expenses and taxes. AXIS Bank's OPM has shown a consistent decline, starting at 2.21% in 2019 and deteriorating to a deeply negative -22.20% in 2023. This alarming trend indicates escalating operating expenses and declining operating revenues. The negative margins suggest significant inefficiencies, which may stem from increased costs in technology, employee benefits, or marketing without corresponding revenue growth. To reverse this trend, the bank must undertake a rigorous review of its cost structure and identify areas where expenses can be controlled. Additionally, focusing on high-margin products, leveraging technology to reduce costs, and streamlining operations could help AXIS Bank improve its OPM.

#### **5. Return on Assets (ROA)**

The Return on Assets ratio measures how effectively AXIS Bank is utilizing its assets to generate profits. The trend reveals a sharp decline from 1.68% in 2019 to a meager 0.17% in 2023. This decline signifies reduced profitability relative to the bank's asset base, which could be attributed to increased NPAs, reduced loan growth, or declining interest income. A low ROA not only reflects suboptimal asset utilization but also raises concerns about the sustainability of earnings in a challenging economic environment. AXIS Bank must focus on improving asset quality, increasing loan disbursement to profitable sectors, and reducing provisions for bad debts. A strategic emphasis on asset-light business models and efficient allocation of resources can help improve ROA in the long term.

#### **6. Return on Equity (ROE)**

Return on Equity measures the bank's ability to generate profits from shareholders' equity. AXIS Bank's ROE has experienced a drastic decline, falling from a robust 16.45% in 2019 to a dismal 1.91% in 2023. This trend highlights significant erosion in shareholder value over the years, driven by declining profitability and increased equity injections to meet



regulatory capital requirements. The drop in ROE underscores the need for AXIS Bank to focus on enhancing revenue generation while optimizing its equity base. Improving ROE requires a strategic approach that balances revenue growth with cost efficiency and prudent capital management. Shareholders are likely to demand enhanced performance metrics to justify their investments, and the bank must align its strategic goals accordingly.

### **Summary of Findings**

AXIS Bank, over the analysed period, exhibits both strengths and challenges in its financial performance. The bank has managed to maintain a strong CASA ratio, reflecting its ability to attract low-cost deposits, which is crucial for profitability in the banking sector. Its interest income, while stable, indicates that the bank's traditional lending business continues to play a significant role in its revenue generation. However, the declining trends in profitability ratios, such as Return on Assets (ROA) and Return on Equity (ROE), signal inefficiencies in utilizing assets and equity to generate profits. The significant drop in operating profit margins also reflects operational inefficiencies, with rising costs impacting the bank's ability to convert its revenue into profits. The cost-to-income ratio has been on the rise, suggesting that operating costs are increasing at a faster pace than income, which could negatively affect long-term profitability if not controlled. Additionally, while non-interest income has seen a slight increase, it still remains low, implying that the bank has room to diversify its revenue streams further. The negative operating profit to total assets ratio points to the bank's struggle to generate sufficient profits from its asset base. This highlights the need for improved asset management strategies. Overall, AXIS Bank must focus on enhancing its operational efficiency, optimizing asset utilization, controlling costs, and expanding its non-interest income to remain competitive in a challenging banking environment. Addressing these areas will be crucial for sustaining profitability and ensuring long-term growth.

### **Conclusion**

The analysis of AXIS Bank's financial ratios over the past five years provides critical insights into the bank's operational efficiency, profitability, and financial health. While some metrics indicate resilience, others reveal areas requiring immediate strategic focus. The Return on Capital Employed (ROCE) displayed stability but remained low, indicating the need for better capital utilization strategies. The CASA ratio, while competitive, showed a declining trend in recent years, signaling potential challenges in maintaining a low-cost depositor base.



The Net Profit Margin (NPM) and Operating Profit Margin (OPM) highlight significant concerns, with consistent declines pointing to increasing costs and shrinking profit margins. The negative OPM emphasizes inefficiencies in cost management and revenue generation, necessitating a thorough evaluation of the bank's operational strategies. Furthermore, the Return on Assets (ROA) and Return on Equity (ROE) have shown substantial declines, reflecting reduced profitability relative to assets and shareholders' equity.

These trends collectively underscore the need for AXIS Bank to adopt a more strategic approach. Enhancing cost efficiency, improving asset quality, and diversifying revenue streams can help address these challenges. Additionally, leveraging technology for digital transformation and focusing on high-margin business areas can boost profitability and efficiency.

Statistical analysis further supports the interpretation, revealing strong relationships between variables such as CASA and NPM, and Cost to Income and ROCE. These insights suggest that focusing on key operational areas could lead to significant improvements in financial performance.

### **Suggestions**

AXIS Bank should prioritize improving cost efficiency by optimizing processes and adopting automation to reduce operational and interest expenses. This approach will directly enhance the bank's profitability margins. Diversifying revenue streams is another critical area, where the bank can focus on expanding non-interest income sources such as fee-based services, wealth management, and investment banking, reducing over-dependence on interest income. Enhancing CASA retention strategies is essential to maintain a stable low-cost depositor base. Offering innovative products, personalized banking solutions, and attractive benefits can help achieve this goal. Additionally, investing in digital transformation is vital. By leveraging advanced technologies like AI, data analytics, and robust digital banking platforms, AXIS Bank can streamline operations, enhance customer experiences, and improve overall efficiency. A focused approach in these areas will help the bank overcome current challenges and strengthen its competitive position in the financial sector.

### **References**

Chandra, P. (2020). *Financial Management: Theory and Practice*. McGraw Hill Education.

Khan, M. Y., & Jain, P. K. (2018). *Financial Management: Text, Problems and Cases*. Tata McGraw Hill.

Bhattacharya, H. (2019). *Banking Strategy, Credit Appraisal, and Lending Decisions: A Risk-Return Framework*. Oxford University Press.

Berger, A. N., & Bouwman, C. H. S. (2013). "How Does Capital Affect Bank Performance During Financial Crises?" *Journal of Financial Economics*, 109(1), 146–176.

Sufian, F., & Habibullah, M. S. (2009). "Determinants of Bank Profitability in a Developing Economy: Empirical Evidence from Bangladesh." *Journal of Business Economics and Management*, 10(3), 207–217.

Dietrich, A., & Wanzenried, G. (2011). "Determinants of Bank Profitability Before and During the Crisis: Evidence from Switzerland." *Journal of International Financial Markets, Institutions, and Money*, 21(3), 307–327.

Almazari, A. A. (2014). "Impact of Internal Factors on Bank Profitability: Comparative Study between Saudi Arabia and Jordan." *Journal of Applied Finance and Banking*, 4(1), 125–140.

Vinh, V. Q., & Thai, D. T. (2021). "The Impact of Financial Ratios on Profitability: Evidence from the Banking Sector in Vietnam." *Asian Economic and Financial Review*, 11(8), 670–683.

Reserve Bank of India (RBI). (2024). "Trends and Progress of Banking in India." Available at: <https://www.rbi.org.in>

AXIS Bank Official Website. (2024). "Annual Reports and Investor Relations." Available at: <https://www.axisbank.com>

Statista. (2024). "Banking Sector Performance Indicators in India." Available at: <https://www.statista.com>

Investopedia. (2024). "Understanding Bank Efficiency Ratios." Available at: <https://www.investopedia.com>