

A STUDY OF CAPITAL STRUCTURE OPTIMISATION HOUSING LOANS OF BANKS: ICICI BANK

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ABSTRACT

This study examines capital structure optimisation in housing loan operations with special reference to ICICI Bank. The research focuses on evaluating the balance between debt and equity financing and its influence on housing loan growth, profitability, risk management, and long-term sustainability. The study analyses the role of capital adequacy, leverage, funding sources, and regulatory compliance in supporting efficient home loan portfolios. Secondary data from annual reports, banking publications, and financial statements are used to assess the relationship between capital structure decisions and lending performance. The findings indicate that maintaining an optimal capital structure enhances operational efficiency, strengthens financial stability, improves loan disbursement capacity, and reduces financial risk. Furthermore, effective capital management enables banks to meet Basel regulatory requirements while maximizing shareholder value. The study concludes that strategic capital structure optimisation is essential for sustaining competitive advantage and ensuring continuous growth in the housing finance sector.

Keywords: Capital Structure, Housing Loans, ICICI Bank, Debt-Equity Ratio, Capital Adequacy, Financial Performance, Basel Norms, Risk Management.

I. INTRODUCTION

Housing finance plays a vital role in economic development by facilitating home ownership and supporting the growth of the real estate sector. Banks act as major intermediaries in mobilising funds and extending housing loans to individuals and businesses. Capital structure optimisation has become an important financial strategy for banks because it directly affects profitability, liquidity, solvency, and risk-bearing capacity. The concept of capital structure refers to the combination of debt and equity used by an institution to finance its operations and growth activities. Previous studies highlighted the significance of maintaining an optimal debt-equity balance to enhance organisational performance [1]. Researchers observed that efficient capital allocation improves financial stability [2]. Studies on banking institutions reported a positive relationship between capital adequacy and profitability [3]. The trade-off theory emphasised balancing tax benefits and financial distress costs [4]. The pecking order theory explained financing preferences among firms [5]. Empirical investigations showed that leverage influences lending capacity [6]. Researchers identified capital management as a key determinant of shareholder value [7]. Several studies reported the importance of regulatory capital in banking operations [8]. Basel norms strengthened risk-sensitive capital requirements [9]. Housing finance institutions increasingly rely on capital optimisation strategies to sustain growth [10]. Customer confidence is also influenced by the financial strength of banks [11]. Regulatory compliance remains a critical aspect of capital planning [12]. Capital structure decisions affect credit

risk management and operational resilience [13]. Financial institutions continuously adjust their capital composition to remain competitive [14]. Studies further indicated that optimal leverage improves market performance [15].

ICICI Bank is one of India's leading private sector banks with a significant presence in the housing finance segment. The bank maintains a diversified funding structure to support large-scale home loan disbursements. Researchers observed that capital adequacy positively impacts lending efficiency [16]. Studies found that strong capital buffers improve risk absorption capacity [17]. Effective capital management supports sustainable loan growth [18]. Financial performance is influenced by funding costs and leverage decisions [19]. Capital optimisation contributes to improved return on equity [20]. Banking studies reported that well-capitalised institutions experience lower default risk [21]. Researchers highlighted the role of capital planning in supporting economic growth [22]. Housing loan portfolios require effective risk-adjusted capital allocation [23]. Capital structure influences investor confidence and market valuation [24]. Studies identified profitability enhancement through strategic financing decisions [25]. Technological advancements have improved banking efficiency and capital utilisation [26]. Regulatory reforms continue to shape financing practices [27]. Risk management frameworks support capital sustainability [28]. Housing finance growth depends on stable funding mechanisms [29]. Therefore, capital structure optimisation remains essential for achieving long-term financial performance and competitiveness in ICICI Bank [30].

II. LITERATURE SURVEY

Several researchers have examined the relationship between capital structure and banking performance. Modigliani and Miller established the foundation of capital structure theory and explained financing relevance under market imperfections [1]. Myers introduced the pecking order theory to explain financing behaviour [2]. Jensen and Meckling discussed agency costs associated with debt financing [3]. Berger analysed capital adequacy and banking performance [4]. Rajan and Zingales investigated determinants of capital structure across industries [5]. Diamond highlighted the role of debt maturity in risk management [6]. Booth et al. compared financing practices across developing economies [7]. Titman and Wessels identified factors affecting leverage decisions [8]. Harris and Raviv reviewed theoretical perspectives on capital structure [9]. Gropp and Heider explored bank-specific determinants of leverage [10]. Frank and Goyal evaluated empirical evidence supporting capital structure theories [11]. Basel Committee studies emphasised stronger capital frameworks [12]. Research by Demirgüç-Kunt reported positive links between capitalisation and banking stability [13]. Studies on Indian banking institutions confirmed the importance of capital adequacy for sustainable growth [14]. Empirical findings showed that leverage significantly influences lending capacity and profitability [15].

Recent studies focused on housing finance and capital optimisation in commercial banks. Nanwani examined customer perceptions and competitiveness in home loan markets [16]. Kaur and Chaudhary compared home loan services offered by public and private sector banks [17]. Nirmal Kumar analysed customer satisfaction regarding housing finance products [18]. Chavan and Gambacorta studied loan growth and non-performing assets in Indian banks [19]. Gupta and Awasthi evaluated customer satisfaction in housing loan services [20]. Researchers found

that capital adequacy improves credit quality [21]. Studies indicated that well-capitalised banks are more resilient during economic downturns [22]. Financial leverage has been linked to improved returns when managed effectively [23]. Risk-adjusted capital allocation enhances operational efficiency [24]. Capital planning supports sustainable mortgage lending practices [25]. Researchers observed that technological innovation improves financial performance [26]. Basel III implementation strengthened capital management practices [27]. Housing finance growth requires efficient funding strategies [28]. Effective capital structure decisions contribute to shareholder wealth maximisation [29]. Therefore, continuous optimisation of debt and equity remains crucial for improving housing loan performance and maintaining long-term banking stability [30].

III. RESEARCH METHODOLOGY

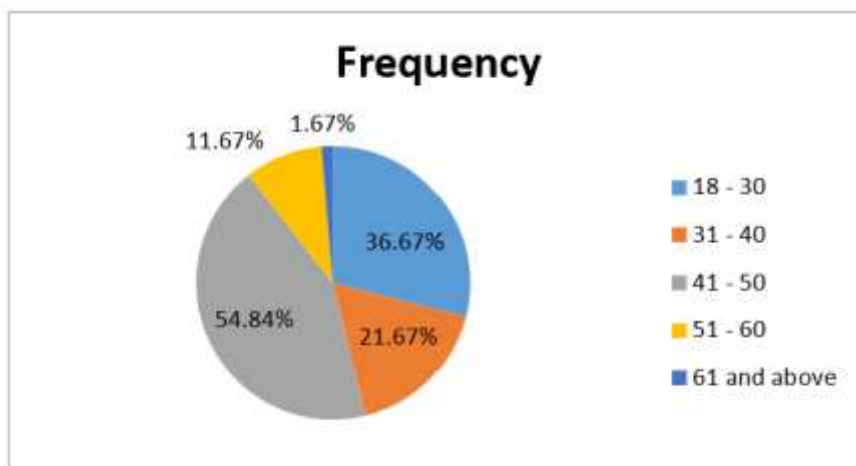
The present study adopts a descriptive and analytical research design to examine capital structure optimisation in housing loans with special reference to ICICI Bank. The study primarily relies on secondary data collected from annual reports, financial statements, Reserve Bank of India publications, banking journals, industry reports, and scholarly articles. Relevant financial indicators such as Debt-Equity Ratio, Capital Adequacy Ratio (CAR), Return on Equity (ROE), Return on Assets (ROA), and leverage ratios are analysed to evaluate the effectiveness of capital structure decisions. The study covers a five-year period to identify trends and patterns in housing loan financing and capital management practices.

Various financial analysis techniques are employed to interpret the collected data. Ratio analysis, trend analysis, comparative analysis, and percentage analysis are used to assess the relationship between capital structure and financial performance. The study evaluates how debt and equity financing influence housing loan growth, profitability, risk management, and regulatory compliance. Graphical and tabular presentations are utilised to improve data interpretation and understanding. The findings are further compared with theoretical concepts such as Trade-Off Theory and Pecking Order Theory to determine the effectiveness of capital structure decisions. The methodology provides a comprehensive framework for analysing the role of capital optimisation in enhancing housing loan performance and organisational sustainability.

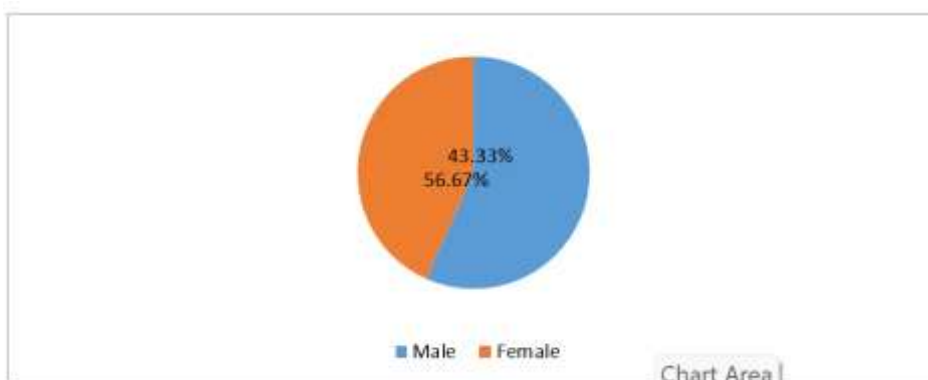
IV. RESULTS & DISCUSSION

The analysis reveals that ICICI Bank has maintained a balanced capital structure that supports sustainable growth in its housing loan portfolio. The bank demonstrates strong capital adequacy levels and compliance with Basel regulatory requirements, indicating effective risk management practices. The findings show that an optimal mix of debt and equity financing contributes significantly to profitability, operational efficiency, and lending capacity. Higher capital adequacy ratios improve financial stability and enhance the bank's ability to absorb unexpected losses. The study also indicates that efficient leverage management supports increased home loan disbursement without adversely affecting financial risk.

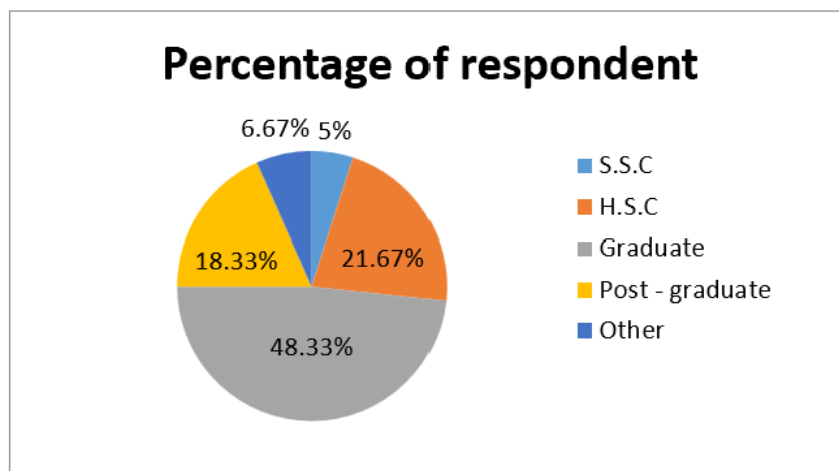
Age		
Basis	Frequency	Percentage
18 - 30	22	36.67%
31 - 40	13	21.67%
41 - 50	17	54.84%
51 - 60	7	11.67%
61 and above	1	1.67%
Total	60	100



Gender			
	Male	Female	Total
No of respondent	34	26	60
Percentage of respondent	56.67%	44.33%	100

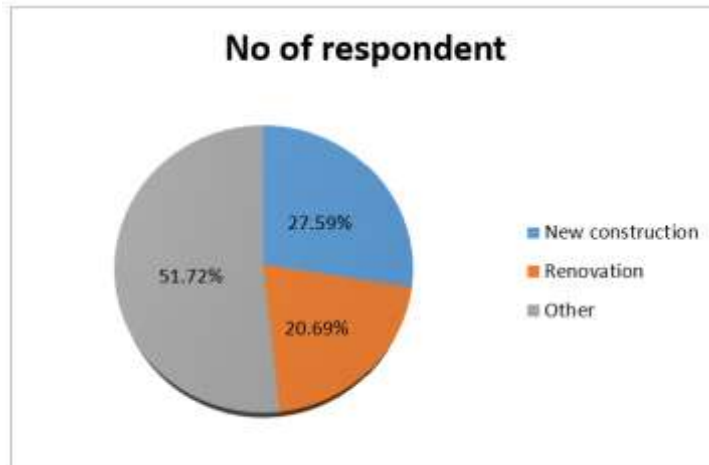


Education qualification		
	No of respondent	Percentage of respondent
S.S.C	3	5%
H.S.C	13	21.67%
Graduate	29	48.33%
Post - graduate	11	18.33%
Other	4	6.67%
Total	60	100

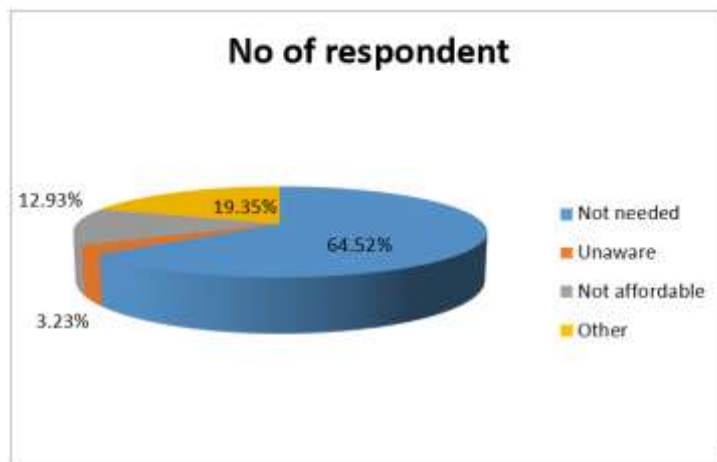


Trend analysis suggests that improvements in capital structure have positively influenced return on equity, return on assets, and overall financial performance. Furthermore, the bank's diversified funding sources reduce dependency on a single financing channel and strengthen liquidity management. The results highlight that strategic capital planning enables ICICI Bank to maintain customer confidence, regulatory compliance, and competitive advantage in the housing finance market. Overall, the findings confirm that capital structure optimisation plays a crucial role in improving lending efficiency, reducing risk exposure, enhancing profitability, and supporting long-term sustainability in housing loan operations.

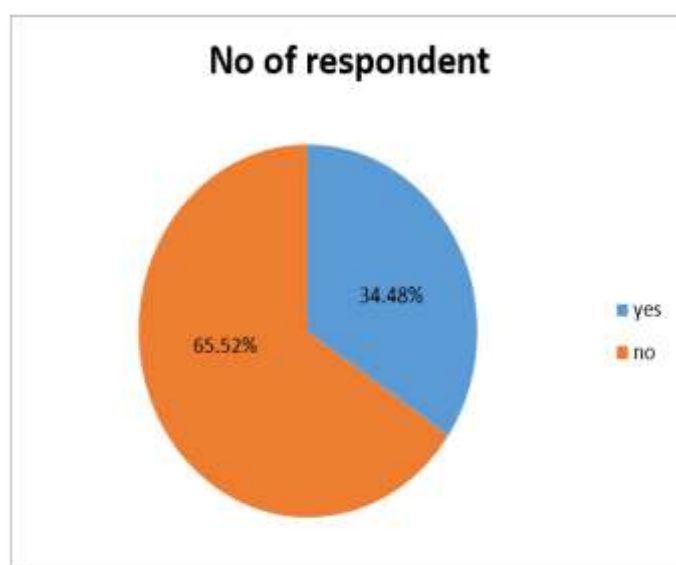
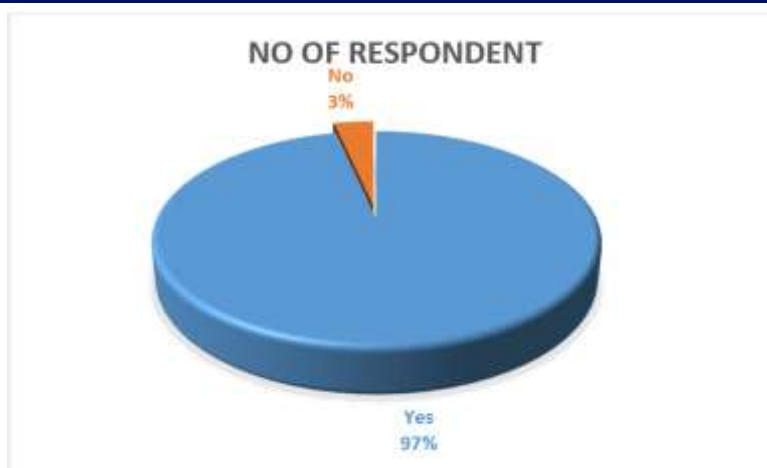
Reason for taking home loan		
	No of respondent	Percentage of respondent
New construction	8	27.59%
Renovation	6	20.69%
Other	15	51.72%
Total	29	100



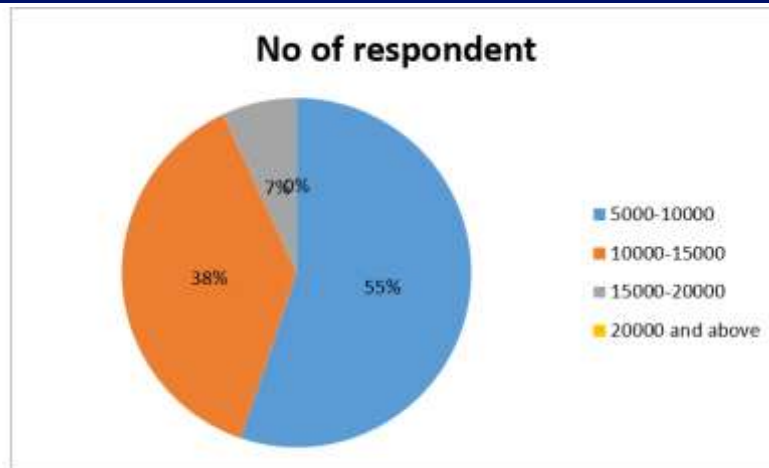
Reason for not taking home loan					
	Not needed	Unaware	Not affordable	Other	Total
No of respondent	20	1	4	6	31
Percentage of respondent	64.52%	4.23%	12.93%	19.35%	100



AWARENESS ABOUT DOCUMENTATION OF HOME LOAN.			
	Yes	No	Total
No of respondent	28	1	29
Percentage of respondent	96.55%	4.45%	100



Processing fees		
	No of respondent	Percentage of respondent
5000-10000	16	55.17%
10000-15000	11	37.93%
15000-20000	2	6.89%
20000 and above	0	0
Total	29	100



V. CONCLUSION

The study concludes that capital structure optimisation is a critical factor influencing the success and sustainability of housing loan operations in ICICI Bank. An appropriate balance between debt and equity financing enables the bank to maintain financial stability, improve profitability, and effectively manage risks associated with lending activities. The analysis demonstrates that strong capital adequacy, efficient leverage utilisation, and compliance with regulatory requirements contribute significantly to organisational performance. The bank's ability to maintain adequate capital reserves enhances its resilience against market uncertainties and credit-related risks while supporting continuous expansion in housing finance operations. The findings further indicate that optimal capital structure decisions positively affect return on equity, return on assets, and overall shareholder value. Effective capital management also improves liquidity position, funding flexibility, and operational efficiency, thereby strengthening the bank's competitive position in the housing finance sector. The study highlights the importance of adopting strategic financing policies that align with evolving regulatory frameworks and market conditions. Moreover, the implementation of advanced risk management practices and diversified funding strategies can further improve capital efficiency and long-term growth prospects. As the housing finance market continues to expand, banks must focus on maintaining adequate capital buffers and optimising financing structures to ensure sustainable development. Therefore, ICICI Bank should continue to strengthen its capital planning mechanisms, monitor leverage levels, and adopt innovative financial strategies to maximise profitability while minimising risk. Overall, capital structure optimisation remains an essential tool for achieving financial stability, supporting housing loan growth, and creating long-term value for stakeholders.

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