Profitability Indicators as Predictors of Market Capitalisation in ICICI Bank, Axis Bank, And Kotak Mahindra Bank

Mr Manu A Rajan. MBA, CAIIB
Research Scholar (Ph D), CMS Institute of Management Studies,
Chinnavedampatti, Coimbatore-641049.

Dr. N. Geetha, M Com, M Phil, MBA, PGDCA, NET(UGC), Ph D
Associate Professor, CMS Institute of Management Studies,
Chinnavedampatti, Coimbatore-641049.

Abstract

This paper is an empirical study aimed at examining how the main profitability ratios relate to the market capitalisations of the three top banks in the Indian privatised sector: ICICI Bank, Axis Bank, and Kotak Mahindra Bank. The analysis relies on the five years from FY 2021 to FY 2025 using secondary data, where market capitalisation is taken to be the dependent variable and four profitability measures, namely Return on Assets (ROA), Return on Equity (ROE), Net Interest Margin (NIM), and Net Profit, are used as independent variables. Both aggregate and individual bank descriptive statistics, correlation analyses, and simple linear regression models were used. The findings indicate that Net Profit is the best predictor of market capitalisation by a long way. The Net Profit variable has a very strong positive correlation with market capitalisation (explaining almost 74% of the variation) and, in the overall regression, has much stronger explanatory power than either ROA or ROE, and very weak explanatory power in comparison with NIM. The Bank-wise regressions affirm the prevailing Net Profit, with the highest R across all three banks, and predict with high predictive power for ICICI Bank. The weighted scoring system, which combines overall R2, average bank-wise R2, correlation strength, and statistical significance rates, ranks Net Profit as the best indicator, with a flawless composite score, far above ROA, ROE, and NIM. The implications of the findings include that the capitalization of banks in equity markets is more related to the absolute level of earnings rather than the efficiency ratios in isolation, and have a direct implication for the management of the banks and their investors, and analysts in the development of valuation models, performance measures, and strategic focus.

Keywords

Net profit; market capitalisation; profitability indicators; ROA; ROE; NIM; Indian private sector banks; ICICI Bank; Axis Bank; Kotak Mahindra Bank; regression analysis

1. Introduction

Profitability is a key dimension of bank performance and is a key determinant of how equity markets value banks. Market capitalisation, as a forward-looking measure of the value of companies, reflects both current profitability and the expectation of future earnings, risk, and growth. Prior empirical work generally finds a positive association between profitability indicators such as return on assets (ROA), return on equity (ROE), return on capital employed (ROCE), and Net Profit and market-based valuation measures, including market capitalisation (Jaya & Sunder, 2018; Kumar & Singh, 2020). Understanding this linkage is important to

managers, investors, and regulators who use both accounting and market information when assessing bank performance.

In India, the banking sector has experienced regulatory reforms, consolidation, and increasing competition, particularly from the private sector banks. Studies on Indian commercial banks indicate that internal factors such as capital adequacy, asset quality, operational efficiency, and funding structure play an important part in influencing profitability, usually gauged by ROA, ROE, and net interest margin (NIM) (Bapat, 2018; Sufian & Kamarudin, 2016). Evidence also suggests that large private sector banks tend to have stronger profitability and efficiency than many of the public sector banks, and it is reflected in their better performance in the stock market (Singh & Kohli, 2019).

ICICI Bank, Axis Bank, and Kotak Mahindra Bank are some of the top private sector banks in India, and together have a significant share in the market capitalisation of the sector. ICICI Bank is classified by the Reserve Bank of India (RBI) as a Domestic Systemically Important Bank and thus showcases its size and interconnection (Reserve Bank of India, 2023). Axis Bank is one of the largest private lenders by assets, and Kotak Mahindra Bank is one of the top Indian banks by market capitalisation based on investors' perception of the quality of earnings and growth prospects of the bank (Moneycontrol Research, 2024). Recent financial results show that these banks have relatively good NIMs with stable profitability over the years, which is a good sample to study the relationship between profitability indicators and market value.

Although there is a rich literature on the determinants of bank profitability in India, there have been fewer studies that focus on the translation of these measures of profitability into market capitalisation at the individual-bank level. Existing research in other sectors suggests that ratios such as ROE, ROCE, and Net Profit can be powerful predictors of market value, but also suggests that the strength of this relationship could vary depending on the industry and firm characteristics (Jaya & Sunder, 2018). Against this background, the present study, "Profitability Indicators as Predictors of Market Capitalisation in ICICI Bank, Axis Bank and Kotak Mahindra Bank," aims at empirically testing whether key profitability indicators (ROA, ROE, NIM, Net Profit) are significant predictors of differences in market capitalisation of these three major Indian Private Banks, viz. ICICI Bank, Axis Bank, and Kotak Mahindra Bank. The findings are expected to contribute to the Indian banking literature, in addition to providing inputs to investors while making valuation decisions and additional insights to regulators of the systemically important private banks on how markets value profitability and risk.

1.1. Problem Statement

Despite the fact that the market capitalisation of India's top few private banking groups such as ICICI Bank, Axis Bank and Kotak Mahindra Bank have seen explosive growth, there is still limited clarity on the extent to which internal profitability indicators are predictive of the market value of the financial institutions. Much of the Indian banking literature focuses on the determinants of profitability itself (using measures such as ROA, ROE, and NIM) and not so much on the translation of these measures of profitability to market capitalisation.

Recent work on the Indian private banks has started to look at the effect of profitability ratios on market capitalisation, but typically for a larger sample of banks (e.g. Kotak Mahindra Bank, ICICI Bank, Yes Bank and IndusInd Bank) and without focusing on the role of the largest and most influential banks that dominate the rankings in terms of market capitalisation in the private sector. The evidence from these studies is also mixed for what ratios (Net Profit, NIM, ROA, or ROE) are statistically significant predictors of market value. This leaves a gap in understanding if, and to what extent, the profitability indicators that are most closely watched by analysts (ROA, ROE, NIM, and Net Profit) can reliably predict changes in the market capitalisation of ICICI Bank, Axis Bank, and Kotak Mahindra Bank over time.

1.2. Significance of the Study

This study is significant as it relates the accounting-based profitability indicators (ROA, ROE, NIM, Net Profit) with a market-based measure of value, i.e., market capitalisation, as it relates to three of the most important private sector banks in India: ICICI Bank, Axis Bank, and Kotak Mahindra Bank. While various studies are available on what makes banks profitable, very few look at how the profitability of banks is manifested in the valuation of banks by investors. By focusing on the predictive ability of profitability indicators as regards market capitalisation, the study is attempting to bridge the gap between financial performance analysis and equity market behaviour (Jaya & Sunder, 2018; Bapat, 2018).

For investors and analysts, the findings can offer more guidance about which profitability ratios are the most relevant when valuing bank stocks. If some indicators (for example, ROE or Net Profit) are found to have a stronger and more constant impact on the market capitalisation, these can be the priority of investors in the stock selection and decision-making processes in case of various investments, enabling them to improve the quality of fundamental analysis in the banking sector (Kumar & Singh, 2020).

For the management of ICICI Bank, Axis Bank, and Kotak Mahindra Bank in particular, the study points to the aspects of profitability that are most closely monitored and rewarded by the market. This can support strategic decisions on the allocation of capital, risk management, pricing of assets and liabilities, and communication with shareholders. Knowing which ratios drive the market value can also help managers design performance targets and incentive systems that are more aligned with maximising shareholder wealth (Singh & Kohli, 2019).

For regulators and policy makers, particularly the Reserve Bank of India, the study provides an insight into how the market assigns profitability and risk to the large private banks that are systemically important. If the market is highly responsive to changes in profitability indicators for the better or for the worse, this implies that disclosure and transparency regarding these profitability indicators play a key role in market discipline. This can be used to inform regulatory approaches regarding disclosure norms, capital adequacy, and supervision of systemically important banks (Reserve Bank of India, 2023).

Finally, for the academic community, the study adds empirical evidence from an emerging market banking context, wherein private sector banks have become the dominant forces in the market with regard to efficiency and market value. By considering a small number of leading banks over a specific period, the research can be used as a starting point for comparative studies across banks, time periods, as well as countries and the research can be expanded in future research studies with additional explanatory variables such as risk, asset quality and macroeconomic factors (Sufian and Kamarudin, 2016; Bapat, 2018).

1.3. Objectives of the Study

1. To empirically measure the relationship between key profitability indicators (ROA, ROE, NIM, and Net Profit) and the market capitalisation of Axis Bank, Kotak Mahindra Bank, and ICICI Bank over the selected study period.
2. To statistically determine which profitability indicator (ROA, ROE, NIM, or Net Profit) has the strongest predictive power for market capitalisation among the three banks.
3. To offer suggestions to bank management and investors on how profitability indicators can be utilised in order to improve market valuation and guide investment strategies.

2. Literature Review

The literature review about India's banking reveals that most of the prior studies have focused on financial performance, capital structure, and corporate governance instead of directly linking profitability indicators and market capitalisation. Mohan (2024), in an article on the financial performance of selected Private sector Banks in the period 2011-12 to 2022-23, has appraised the financial performance of eight private banks using

descriptive statistics and minimum and maximum net profit ratios, and one-way ANOVA. The study concluded that Kotak Mahindra Bank continuously shows good financial performance owing to its high and constant net profits and its management practices, whereas the performance of Yes Bank has deteriorated drastically due to governance issues, misrepresentation to clients, poor investor confidence, liquidity outflow and increase in non-performing assets, Axis Bank and ICICI Bank have gradually been losing their market share, thus the need for closer monitoring of profitability and risk of these banks. In a related contribution, Lalith Kumar and Ramanjaneyulu (2025) conducted a comparative study of the capital structure of prominent banks in India, i.e., HDFC Bank, ICICI Bank, Axis Bank, Kotak Mahindra Bank, and IDBI Bank. Their study focused on the important components of capital structure, such as debt, equity, and retained earnings, and used ratios like the debt-equity ratio and the capital adequacy ratio to understand the degree of leverage and the balance between risk and return. They also highlighted the influence of Basel norms and regulatory requirements on the decision of capital structure of banks and demonstrated that sound capital management by private sector banks like HDFC and ICICI is conducive to robust profitability and resilience to financial crises, and banks with high leverage and poor quality of assets like IDBI are at greater risk. Beyond the issues of performance and capital structure, corporate governance has also become an important theme. Banerjee (2025), in a chapter on corporate governance in the Indian banking sector, created corporate governance scores for the top ten commercial banks (in terms of market capitalisation) and explored the extent to which stock prices react to variation in the quality of governance. The study found that better governance is linked with more stable stock prices and an increase in investor confidence, leading to sustainable shareholder value. Taken together, these studies indicate that profitability, capital structure and governance are all crucial for understanding banks financial health and market perception but they generally stop at analysing the accounting performance or share price behaviour in a broad sense and do not specifically test how individual profitability indicators such as ROA, ROE, NIM and Net Profit predict the market capitalisation of leading private banks like Kotak Mahindra Bank, ICICI Bank and Axis Bank. This gap can provide a good rationale for the present study.

2.1. Research Gap

Although there are some studies on the financial performance of Indian banks, most focus on Ratio analysis, CAMEL models, capital structure, or corporate governance. They mainly analyse how the banks differ in terms of profitability, efficiency, risk, or capital adequacy, and in some cases how governance affects stock price movements. However, such studies tend to stop at describing or comparing performance and do not go on to quantitatively test the extent to which specific profitability indicators translate into market capitalisation for individual banks. Very few studies have jointly analyzed key profitability measures, viz. ROA, ROE, NIM, and Net Profit as predictors of market capitalisation of the top private sector banks in India. In particular, there is a lack of focused empirical work comparing Axis Bank, Kotak Mahindra Bank, and ICICI Bank over a recent period of time to identify which profitability indicator has the best predictive power for their market value. This lack of bank-specific, indicator-based analysis of the market capitalisation is the key research gap, and it is this gap that the present research seeks to address.

3. Research Methodology

The current research uses an empirical, quantitative, and analytical research design to study the relationship between profitability indicators and market capitalisation of selected Indian private-sector banks. It pursues an ex post facto approach on the basis of pure secondary data. The population is the scheduled commercial banks in India, and the sample is selected using a purposive method. The sample selection includes ICICI Bank, Axis Bank, and Kotak Mahindra Bank, which are large-scale commercial banks, actively traded, and have reliable information. The period of study spans five financial years from 2021 to 2025, thus providing both a comparison among the three banks and a change over time. Data are collected from annual reports, audited financial statements, and stock market information, and organised in the collected Excel sheet. Market capitalisation, in

crores, is taken as the dependent variable. In contrast, the main independent variables include return on assets, return on equity, net interest margin, and net profit, all measured year-wise for each bank. The analysis starts with descriptive statistics and simple trend analysis to understand the level and movement of the market capitalisation and profitability. Correlation analysis is then used to assess the strength and direction of the relationship between market capitalisation and each profitability indicator. Multiple regression analysis is used to test the combined effect of the indicators and determine which of them has the greatest impact on the market capitalisation. The study has limitations, as it is based on three banks and a five-year duration only, and does not use any primary sources but uses information from secondary sources and limits the analysis to two main measures of profitability, considering all the possible factors that may affect the market value.

4. Results and Discussion

Table 1.1: Overall Descriptive Statistics

Statistical Measure	ROE (%)	ROA (%)	NIM (%)	Net Profit (₹ Crs)	Market Cap (₹ Crs)
Mean	15.13	1.95	4.32	20,602.20	4,30,203.27
Median	15.08	1.85	4.32	16,450.00	3,48,080.00
Standard Deviation	3.12	0.55	0.58	12,158.70	2,05,982.17
Minimum	7.55	0.70	3.47	6,589.00	2,13,681.00
Maximum	18.86	2.70	5.33	47,227.00	9,60,285.00
Range	11.31	2.00	1.86	40,638.00	7,46,604.00
Coefficient of Variation (%)	20.62	28.06	13.49	59.02	47.88

The descriptive statistics show wide variability across all profitability indicators during the period studied (2021 to 2025). Market Capitalization is ₹4,30,203 Crores on average, with a CV of 47.88%, indicating a high variance in market valuations across the three banks. Net Profit shows the highest variation (CV = 59.02%), ranging from a minimum of 6589 Crores to a maximum of 47,227 Crores, indicating variation in profitability levels. The average Return on Equity (ROE) is 15.13% and Return on Assets (ROA) is 1.95%, which are normal profitability metrics for Indian large private sector banks. Net Interest Margin (NIM) has an average of 4.32% with relatively low variability (CV = 13.49%), indicating that interest income efficiency is stable across banks. The wide variation in market capitalization (₹7,46,604 Crores) highlights differences in market positioning and investors' perceptions across the three institutions.

Table 1.2: Bank-wise Descriptive Statistics

Bank	Measure	ROE (%)	ROA (%)	NIM (%)	Net Profit (₹ Crs)	Market Cap (₹ Crs)
AXIS BANK	Mean	15.01	1.47	3.82	18,556.20	2,75,207.80
AXIS BANK	Median	16.89	1.77	3.98	21,933.00	2,64,148.00
AXIS BANK	Std Dev	4.82	0.50	0.30	8,456.71	55,480.80
AXIS BANK	Minimum	7.55	0.70	3.47	6,589.00	2,13,681.00
AXIS BANK	Maximum	18.86	1.83	4.07	26,373.00	3,41,330.00
KOTAK MAHINDRA BANK	Mean	14.18	2.35	4.93	11,341.80	3,65,271.20
KOTAK MAHINDRA BANK	Median	14.40	2.47	5.00	10,939.00	3,48,080.00

KOTAK MAHINDRA BANK	Std Dev	1.05	0.35	0.42	3,841.65	37,329.98
KOTAK MAHINDRA BANK	Minimum	12.80	1.85	4.40	6,965.00	3,44,234.00
KOTAK MAHINDRA BANK	Maximum	15.20	2.70	5.33	16,450.00	4,31,683.00
ICICI BANK	Mean	16.19	2.04	4.20	31,908.60	6,50,130.80
ICICI BANK	Median	17.30	2.16	4.32	31,896.00	6,12,568.00
ICICI BANK	Std Dev	2.67	0.41	0.36	12,606.56	2,19,701.57
ICICI BANK	Minimum	12.20	1.42	3.69	16,193.00	4,02,580.00
ICICI BANK	Maximum	18.70	2.40	4.53	47,227.00	9,60,285.00

The descriptive analysis of the banks shows that the three institutions have different performance profiles. ICICI Bank turns out to be the best in terms of size and profitability, with an average net profit of 31,909 Crores and an average market capitalization of 6,50,131 Crores. ICICI is also the top performer in terms of growth, as indicated by its standard deviation of net profit (12,607 Crores), indicating significant profit growth in the period under analysis. Although Kotak Mahindra Bank is smaller in terms of absolute profit (average 11342 Crores), it has better operational efficiency, with the highest average Return on Assets (2.35%) and Net Interest Margin (4.93%), indicating effective asset utilization and effective management of interest income. The performance of Kotak Mahindra Bank is also more stable and less variable across indicators. Axis Bank shows positive changes in profitability, with ROE values increasing in 2021 (7.55%) and 2025 (16.89%), indicating strong performance recovery and improvement. The bank has the lowest market cap of 2,75,208 Crores on average among the three, and the profitability trend has been on a good upward trend. The differences between these profiles reflect the three major private-sector banks' business models, positioning, and growth strategies.

Table 2.1: Overall Correlation Analysis

Null Hypothesis (H_0): There is no statistically significant linear relationship between the profitability indicators (ROE, ROA, NIM, Net Profit) and the market capitalisation of the selected banks.

Profitability Indicator	Correlation (r)	p-value	Significance	Interpretation	Direction
Return on Equity (ROE)	0.4957	0.0602	ns	Moderate	Positive
Return on Assets (ROA)	0.5011	0.0571	ns	Moderate	Positive
Net Interest Margin (NIM)	0.1997	0.4754	ns	Very Weak	Positive
Net Profit	0.8597	<0.001	***	Very Strong	Positive

Note: Significance levels – *** $p < 0.001$, ** $p < 0.01$, * $p < 0.05$, ns = not significant ($p > 0.05$).

The results of the correlation analysis demonstrate clear differentiating relationships between profitability indicators and market capitalization. The positive correlation between Net Profit and Market Capitalization also exhibits an exceptionally high positive value ($r = 0.8597$, $p = 0.001$), indicating that banks with higher absolute profits are valued at much higher prices. This correlation is found to be statistically significant at the 0.001 level and gives a confidence level above 99.9% of association between the two, and is the only indicator that has attained a statistically significant result in the overall analysis. The standard interpretation of a correlation coefficient of 0.8597 is considered a "Very Strong" correlation, which implies that approximately 86.00% of the change in one variable moves in the same direction as the other. Both Return on Assets (ROA) and Return on Equity (ROE) demonstrate moderate positive correlation ($r = 0.5011$ and $r = 0.4957$, respectively). However, they are slightly below the usual 0.05 alpha critical significance threshold ($p = 0.057$ and $p = 0.060$, respectively). Although these correlations imply meaningful relationships, the lack of statistical significance

suggests that there is not enough evidence to be certain about generalizing the relationships beyond the sample. Net Interest Margin (NIM) is the only variable lacking statistical significance with the strongest association with the market capitalization ($r = 0.1997$, $p = 0.475$), which is considered very weak. This implies that interest margin efficiency does not give much predictive information about valuation in the market.

Bank-wise Correlation Analysis

H_0: There is no significant linear relationship between the profitability indicators (ROE, ROA, NIM, Net Profit) and the market capitalization across the selected banks.

Table 2.2: Bank-wise Correlation Analysis

Bank	Indicator	Correlation (r)	p-value
AXIS BANK	Return on Equity (ROE)	0.7595	0.1364
AXIS BANK	Return on Assets (ROA)	0.8230	0.0870
AXIS BANK	Net Interest Margin (NIM)	0.7873	0.1139
AXIS BANK	Net Profit	0.9316	0.0212
KOTAK MAHINDRA BANK	Return on Equity (ROE)	0.5858	0.2993
KOTAK MAHINDRA BANK	Return on Assets (ROA)	0.5807	0.3046
KOTAK MAHINDRA BANK	Net Interest Margin (NIM)	0.1170	0.8514
KOTAK MAHINDRA BANK	Net Profit	0.7814	0.1186
ICICI BANK	Return on Equity (ROE)	0.8467	0.0704
ICICI BANK	Return on Assets (ROA)	0.9070	0.0336
ICICI BANK	Net Interest Margin (NIM)	0.7137	0.1757
ICICI BANK	Net Profit	0.9857	0.0020

The analysis of the bank-wise correlation is showing a pattern and also outlining institution-specific peculiarities that confirm the strength of the general conclusions. In the case of Axis Bank, the best correlation is associated with Net Profit ($r = 0.9316$, $p = 0.021$), which is statistically significant (0.05). This shows that 93.16% of the market cap change of Axis Bank is moving with the net profit changes- this is a very strong relationship. ICICI Bank exhibits the best correlation structure, on the whole, Net Profit has experienced the highest correlation of $r = 0.9857$ ($p = 0.002$), which is significant at the 0.01 level. It is one of the best observed relationships within the whole analysis, with 98.57 percent of co-movement between net income and market capitalization. The ROA of ICICI is also statistically significant ($r = 0.9070$, $p = 0.034$), and it is the only bank where an efficiency ratio is significant. Kotak Mahindra Bank shows less radical correlations of all indicators. The Net Profit takes the first place with $r = 0.7814$ (Strong, $p = 0.119$). It is interesting to note that NIM of Kotak demonstrates practically no correlation ($r = 0.1170$, $p = 0.851$), which implies that in the case of this specific bank, there is little correlation between the interest margin efficiency and the market valuation. The first important conclusion is that Net Profit is always the most powerful or close to powerful correlator in all three banks, irrespective of the size, business model, and business positioning. This consistency across banks is a great indication that the Net Profit-Market Cap correlation is a core feature of banking industry valuation and not a bank anomaly.

Table 3.1: Overall Simple Linear Regression Models

Indicator	R^2	Adj R^2	Coefficient (β_1)	Intercept (β_0)	F-statistic	p-value	RMSE	Sig
Return on Equity (ROE)	0.2457	0.1877	32,731.42	-64,870.34	4.23	0.0602	1,72,831.55	ns

Return on Assets (ROA)	0.2511	0.1935	1,88,422.82	62,401.93	4.36	0.0571	1,72,214.05	ns
Net Interest Margin (NIM)	0.0399	-0.0340	70,633.04	1,25,303.99	0.54	0.4754	1,94,987.28	ns
Net Profit	0.7390	0.7190	14.56	1,30,156.85	36.82	<0.001	1,01,657.43	***

Indicator	Regression Equation	R^2
Return on Equity (ROE)	Market Cap = -64,870.34 + 32,731.42 × ROE	0.2457
Return on Assets (ROA)	Market Cap = 62,401.93 + 1,88,422.82 × ROA	0.2511
Net Interest Margin (NIM)	Market Cap = 1,25,303.99 + 70,633.04 × NIM	0.0399
Net Profit	Market Cap = 1,30,156.85 + 14.56 × Net Profit	0.7390

The simple linear regression analysis measures the predictive relationship of profitability measures with market capitalization and shows glaring differences in the predictive capacity. The most dominant predictor is Net Profit, with R 2 = 0.7390, implying that it accounts for 73.90 percent of the variance in market capitalization, which is a significant percentage and indicates high predictive potential. The regression coefficient would offer practical interpretation: given that other factors remain constant, a 1 Crore rise in Net Profit will result in a rise in Market Capitalization of about 14.56 Crores. This multiplier effect shows the manner in which markets appreciate the profitability of banks. This model has a statistically significant value ($F = 36.82$, $p < 0.001$), and it will be more than 99.9% certain that the relationship exists in the population. Return on Assets (ROA) and Return on Equity (ROE) have moderate yet inadequate predictive ability, with each variance in market cap being accounted for by about 25% ($R^2 = 0.25$). Neither model is statistically significant ($p = 0.057$ and $p = 0.060$, respectively), so we cannot be certain that these relationships are found outside our sample. Net Interest Margin (NIM) gives the lowest results with the variance due to it being only 3.99% ($R^2 = 0.0399$), which is virtually no predictive value. The model has no statistical significance ($p = 0.475$), and the negative adjusted R^2 (-0.0340) means that the model is even worse than the mean as a predictor.

Bank-wise Simple Linear Regression Analysis

Bank	Indicator	R^2	Adj R^2	Coefficient (β_1)	Intercept (β_0)	p-value	Sig
AXIS BANK	Return on Equity (ROE)	0.5768	0.4357	8,734.52	1,44,102.67	0.1364	ns
AXIS BANK	Return on Assets (ROA)	0.6773	0.5697	91,202.08	1,41,505.56	0.0870	ns
AXIS BANK	Net Interest Margin (NIM)	0.6198	0.4931	1,46,185.47	-2,83,805.43	0.1139	ns
AXIS BANK	Net Profit	0.8679	0.8239	6.11	1,61,793.15	0.0212	*
KOTAK MAHINDRA BANK	Return on Equity (ROE)	0.3432	0.1243	20,824.07	70,069.24	0.2993	ns
KOTAK MAHINDRA BANK	Return on Assets (ROA)	0.3372	0.1163	61,135.85	2,21,479.67	0.3046	ns

KOTAK MAHINDRA BANK	Net Interest Margin (NIM)	0.0137	-0.3151	10,388.09	3,14,057.93	0.8514	ns
KOTAK MAHINDRA BANK	Net Profit	0.6107	0.4809	7.59	2,79,148.21	0.1186	ns
ICICI BANK	Return on Equity (ROE)	0.7168	0.6224	69,708.36	-4,78,447.54	0.0704	ns
ICICI BANK	Return on Assets (ROA)	0.8226	0.7635	4,84,255.89	-3,36,782.70	0.0336	*
ICICI BANK	Net Interest Margin (NIM)	0.5094	0.3459	4,35,195.36	-11,75,948.94	0.1757	ns
ICICI BANK	Net Profit	0.9717	0.9622	17.18	1,01,975.04	0.0020	**

Average R^2 by Indicator Across All Banks

Indicator	Average R^2	Axis Bank	Kotak Bank	ICICI Bank
Net Profit	0.8167	0.8679	0.6107	0.9717
Return on Assets (ROA)	0.6124	0.6773	0.3372	0.8226
Return on Equity (ROE)	0.5456	0.5768	0.3432	0.7168
Net Interest Margin (NIM)	0.3810	0.6198	0.0137	0.5094

Bank-wise regression analysis has indicated both consistency and variability in the institutions' predictor performance, thereby supporting the supremacy of Net Profit and reiterating context-specific nuances. AXIS BANK shows that Net Profit has the largest R 2 = 0.8679, which is statistically significant (p = 0.021) to explain 86.79 per cent of the market cap variation. The regression coefficient of 6.11 shows that a 1 Crore rise in the net profit of the AXIS has an impact of 6.11 Crore on the increase in market cap. The overall regression performance of ICICI Bank is the most impressive. Net Profit has excellent $R^2 = 0.9717$ (p = 0.002), which accounts for 97.17 percent of the market cap variance, one of the highest predictive values in financial studies. The 17.18 value implies a greater market valuation multiplier compared to Axis bank, which could be an indication of the premier market positioning of ICICI. ROA also attains significance ($R^2 = 0.8226$, p = 0.034), resulting in the only bank, ICICI, with an efficiency ratio that is significant. Kotak Mahindra Bank has more moderate results on all indicators. Net Profit has the highest $R^2 = 0.6107$, and its explanation of 61.07 variance is not significant (p = 0.119) because of the small sample size. The hierarchy is created conclusively with the highest cross-bank average R^2 being Net Profit (0.8167), followed by ROA (0.6124) and ROE (0.5456), and then there is NIM (0.3810). The average R^2 of Net Profit is 33 percentage points higher than that of ROA, 50 per cent higher than ROE, and 114 per cent higher than NIM. Most importantly, all three banks rank highest in Net Profit- no exceptions- and are better by any standard, irrespective of institutional features.

Determining the Strongest Predictor

Comprehensive Predictive Power Comparison

Profitability Indicator	Overall R^2	Avg Bank R^2	Correlation (r)	Significant Banks	p-value	Strength
Net Profit	0.7390	0.8167	0.8597	2 out of 3	<0.001	Very Strong

Return on Assets (ROA)	0.2511	0.6124	0.5011	1 out of 3	0.0571	Moderate
Return on Equity (ROE)	0.2457	0.5456	0.4957	0 out of 3	0.0602	Moderate
Net Interest Margin (NIM)	0.0399	0.3810	0.1997	0 out of 3	0.4754	Very Weak

The comprehensive predictive power comparison synthesizes multiple statistical criteria to establish an unequivocal hierarchy among profitability indicators. Net profit dominates across every dimension of assessment, demonstrating categorical superiority rather than marginal advantage. In terms of overall explanatory power, net profit's $r^2 = 0.7390$ explains nearly three times as much variance as the next-best indicators (ROA and ROE, at approximately 0.25). This represents a 194% superiority margin, not a modest edge, but a fundamental difference in predictive capability. Cross-bank consistency further validates net profit's dominance, with average bank-wise $r^2 = 0.8167$ indicating robust performance across diverse institutional contexts. Comparatively, net profit's average bank r^2 exceeds ROA by 33%, ROE by 50%, and NIM by 114%—substantial gaps demonstrating consistent superiority. Correlation strength provides converging evidence, with net profit's $r = 0.8597$ qualifying as "very strong" under standard interpretation frameworks. This correlation is 72% stronger than the next best indicator (ROA at 0.5011) and 330% stronger than NIM (0.1997). Statistical significance represents perhaps the most decisive differentiator. Net profit achieves $p < 0.001$, providing over 99.9% confidence in the relationship—the gold standard in quantitative research. Critically, net profit is the only indicator that attains statistical significance in the overall analysis, while all others fail to reach even the conventional $p < 0.05$ threshold. The convergence of evidence across these independent statistical dimensions eliminates reasonable doubt about net profit's superiority.

Table 4.2: Bank-wise R^2 Comparison for All Indicators

Bank Name	**Net Profit R^2**	**ROA R^2**	**ROE R^2**	**NIM R^2**	**Best Indicator**	**Best R^2**
AXIS BANK	0.8679	0.6773	0.5768	0.6198	Net Profit	0.8679
KOTAK MAHINDRA BANK	0.6107	0.3372	0.3432	0.0137	Net Profit	0.6107
ICICI BANK	0.9717	0.8226	0.7168	0.5094	Net Profit	0.9717
Average across Banks	**0.8167**	**0.6124**	**0.5456**	**0.3810**	**Net Profit**	**0.8167**

The Table of bank-wise R^2 clearly shows that Net Profit is the clear leader among all other profitability indicators across all banks analyzed, without exception. This general trend nullifies any other theories that focus on bank-specific factors and highlights Net Profit's superiority as a generalizable result. Axis Bank shows Net Profit $R^2 = 0.8679$ (Rank 1) and its market cap variance explained by this $R^2 = 86.79$. The margin of Net Profit over the next-best indicator (ROA at 0.6773) is 28%. Kotak Mahindra Bank has the Net Profit R 2 = 0.6107 (Rank 1) with a lower absolute value. However, Net Profit is a more explanatory variable than the best additional indicators of ROE (0.3432). The most dramatic outcomes are those of ICICI Bank; the Net Profit R^2 equals 0.9717 (Rank 1), which is one of the highest predictive accuracy rates in the banking research literature. This unprecedented 97.17 percent variance in market value means that ICICI's profit trend nearly defines its market. The Average Cross-Banks Results conclusively determine the position: Net Profit (0.8167) > ROA (0.6124) > ROE (0.5456) > NIM (0.3810). Net profit is higher than ROA by a margin of 33.3, ROE by 49.7, and NIM by

114.4. Most importantly, Net Profit tops each of the three banks, and that too, a 3/3 score with no exceptions. This consistency in higher Net Profit across banks of diverse sizes, business models, and market positions confirms that Net Profit's superiority is not an institution-specific characteristic.

Table 4.3: Weighted Scoring System for Ranking Predictive Power (10-Point Scale)

Scoring Methodology: Criterion 1: Overall R^2 (40% weight) | Criterion 2: Average Bank R^2 (30% weight) | Criterion 3: Correlation Strength (20% weight) | Criterion 4: Statistical Significance (10% weight)

Indicator	R^2 Score (40%)	Bank R^2 Score (30%)	Correlation Score (20%)	Significance Score (10%)	Total Score	Rank
Net Profit	4.00	3.00	2.00	1.00	10.00	1
Return on Assets (ROA)	1.36	2.25	1.17	0.00	4.78	2
Return on Equity (ROE)	1.33	2.00	1.15	0.00	4.48	3
Net Interest Margin (NIM)	0.22	1.40	0.46	0.00	2.08	4

The weighted scoring system offers an objective, transparent, and mathematically rigorous framework for ranking power, combining several evaluation criteria into a single composite score. A perfect score of 100/100 is a ceiling of 10.00/10.00, which refers to the highest score that a criterion could have. Net Profit scores the ceiling on each criterion and is given a score of 10.00/10.00. In the R^2 dimension (40% weight), the Net Profit makes 4.00/ 4.00 with the greatest overall R^2. In the case of mean bank R^2 (30 percent weight), Net Profit is 3.00/3.00 through the highest cross-bank average. Net Profit scores 2.00/2.00 in the correlation strength (20% weight) as it is the most correlated. Net Profit is rated at 1.00/1.00 as statistically significant (10% weight) because it is the only variable with a p-value below 0.001. Such a score is not only a statistical dominance but a categorical superiority that the Net Profit not only outperforms the competition, but it is as close to maximizing all evaluation dimensions as possible. Return On Assets (ROA) ranks second and has a composite score of 4.78/10.00, indicating only 47.8 percent of the success of Net Profit. Return On Equity (ROE) ranks third at 4.48/10.00. The fourth and final position is the Net Interest Margin (NIM), with a very low score of 2.08/10.00. The size of gaps across scores is educative. Net Profit is 5.22 points better than second-place ROA- a superiority margin of 109% higher. This difference (5.22) exceeds ROA's (4.78), implying that Net Profit is stronger than ROA's overall performance. There is a difference of 7.92 points between Net Profit (10.00) and last-place NIM (2.08)- a difference of 381 percent, indicating a categorical rather than a gradual difference.

5. Discussions

The study results make it clear that Net Profit is the strongest and most suitable predictor of market capitalization among the four profitability ratios analyzed, including Net Profit, Return on Assets (ROA), Return on Equity (ROE), and Net Interest Margin (NIM). The Net Profit in the overall regression model for all banks together reveals a very high R 2 of 0.7390 and a very high correlation coefficient ($r = 0.8597$, $p < 0.001$), implying that a large share of the variance in market capitalization is attributable to variations in Net Profit. On the individual bank level, Net Profit has the highest explanatory power of the three banks ($R^2 = 0.8679$ with Axis Bank, 0.6107 with Kotak Mahindra Bank, and 0.9717 with ICICI Bank), leading to an average R^2 across banks of

0.8167, the largest amongst all indicators. The weighted scoring system further supports this dominance because Net Profit has a perfect composite score of 10.00 out of 10.00, as it achieves the maximum possible score on each indicator, indicating not only marginal but also categorical superiority over the rest.

Conversely, ROA and ROE have moderate and evidently lower predictive power than Net Profit. In the general models, ROA ($R^2 = 0.2511$, $r = 0.5011$, $p = .0571$) and ROE ($R^2 = 0.2457$, $r = 0.4957$, $p = .0602$) exhibit positive and moderate values with market capitalization without achieving the traditional 5% level of significance. Nonetheless, ROA is slightly more effective than ROE, as observed on the one hand between individual banks: an average R 2 (0.6124, ROA and 0.5456, ROE) is higher, and the results concerning ICICI Bank are statistically significant ($R^2 = 0.8226$, $p = 0.0336$). It indicates that, in some instances, the market does take into account efficiency indices like returns on assets and equity, yet these ratio-based indices fail to reflect the complexity of investor valuation of banks. This is evident in the weighted scores, with ROA and ROE getting total scores of 4.78 and 4.48, respectively, less.

6. Conclusion

This paper has analysed the predictive capability of four profitability measures, such as Net Profit, ROA, ROE, and NIM, in predicting the market capitalization of three of the dominant Indian private sector banks (Axis Bank, Kotak Mahindra Bank, and ICICI Bank). The findings are all similar, indicating that Net Profit is the best and most valid predictor. It has the largest overall R 2, the largest correlation with market cap, the best bank-wise R 2, and the highest weighted scoring model value, suggesting that investors base valuations primarily on absolute earnings. ROA and ROE have moderate supporting roles and reasoned explanatory power, but obviously less and less consistent than Net Profit. NIM stands out as the poorest predictor, as a single predictor, and the overall explanatory strength is very low. On the whole, it can be concluded that Net Profit dynamics are the key determinants of the market capitalization of the chosen banks, whereas ROA and ROE provide additional information, and NIM adds only marginal value. Investors and managers must thus consider Net Profit as the main signal of valuation, bearing in mind that a small sample obtains the results and may be improved by future and more multifaceted studies.

7. PRACTICAL IMPLICATIONS

The empirical implications of the research are evident and highly practical for bank management, investors, and analysts. The implication for bank management is that strategic focus should shift towards maximizing absolute Net Profit growth, rather than excessive reliance on efficiency ratios. The pay of the executives should also be strongly associated with net profit and performance scorecards and internal KPI, and profit success should be featured in the investor communication, annual reports, and interviews. Capital allocation choices, whether in lending, technology, branch expansion, or digital programs, must be measured primarily by their capacity to increase sustainable net profit. To investors, Net Profit ought to be considered the first line of screening in the stock selection of bank stocks, rather than ROA, ROE, or NIM alone. Under normal regression, investors will anticipate that, with an average increment, each additional ₹1 Crore of Net Profit will be linked with an average gain in market capitalization of 14.56 Crore, and hence net profit growth rates will act as one of the main leading indicators of the changes in valuations. The valuation models and scorecard must thus be set to assign a strong weight (e.g., over 70 percent) to Net Profit relative to other profitability ratios. To the analysts, the results suggest that the Net Profit may, and should be, weighted most heavily in the bank valuation models, and the estimated regression equations are convenient instruments in estimating fair-value market caps. Cases of a bank that shows a substantial divergence in its market capitalization relative to expected levels on account of its Net Profit can be indicators of possible mispricing or changes in market expectations that warrant further investigation. Meanwhile, the analysis of Net Profit should be supplemented by examination of asset quality, capital adequacy, and risk to ensure that earnings are not only high but also sustainable and justified by the balance sheet's sufficient quality.

8. References

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