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EVALUATING PERFORMANCE OF BANK THROUGH CAMELS MODEL: A CASE STUDY OF SELECT PUBLIC AND PRIVATE BANKS IN INDIA

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ABSTRACT

Performance evaluation of the banking sector is a powerful measure and indicator to test the stability of financial activities of an economy. In this study an attempt has been made to assess the performance & financial stability of selected Private and Public Banks in India of the year 2018. CAMEL techniques has been used to look at the financial strength of the chosen banks. Composite Rankings and Average has been implemented here to attain conclusion through the comparative and significant analysis of various parameters of CAMEL. HDFC bank is ranked first under the CAMEL analysis followed by Axis bank. ICICI occupied the third position. The fourth position is occupied by SBI, fifth by Bank of Baroda and the last position is occupied by Bank of India amongst all the selected banks.

KEYWORDS: ***Private Banks, Financial Performance, CAMEL Mode, Public Bank, Ranking***

OBJECTIVE

The essential purpose of this paper is a try to Evaluate the overall performance of selected Private and Public Banks and to find out the factors that affects the financial performance of the chosen banks in India.

INTRODUCTION

Banking sector is an essential element of financial system plays a key function in the economic development of nations and it allows in stimulation of Capital formation, innovation and monetization in addition to facilitation of monetary policy. Indian banking industry has gone through many adjustment during the liberalization process. Indian banking sector has been dominated by public sector banks since 1969 when all principal banks were nationalized by the Indian authorities. However, after liberalization in authorities banking policy in the 1990s old and new private region banks have grown faster and larger over the last 20 years by using the latest technology, offering contemporary innovations and monetary tools and techniques. Private region banks have seen development in asset quality and efficiency parameters, whereas public sector banks have seen downfall in each areas (Baru, 2010). Sound financial fitness and overall performance assessment of a financial institution is great for the depositors, shareholders, employees and the whole economy of a country because it determines banks' abilities to compete in the sector and has a critical role for the improvement of the sector. As a end result to this statement, efforts have been crafted from time to time, to measure the economic role of each bank and manage it correctly and effectively (Mohiuddin, 2014). It is of outstanding significance to assess the general overall performance of banks by implementing a regulatory banking supervision framework. One of such measures of supervisory knowledge is the CAMEL rating system which was placed into effect firstly in the U.S. in 1979, and now it's been proven to be a beneficial and efficient tool in response to the financial disaster in 2008 by the U.S. authorities.

Problem: We have seen that private banks are performing well compared to public banks so I have decided to find out why private sector bank is performing well. For that I am going to do Camel analysis of these banks as camel analysis is tool that helps in identifying the performances of banks.

LITERATURE REVIEW

Mathuva (2009) examined the relationship between Cost Income Ratio (CIR), Capital Adequacy Ratio (CAR) and profitability for the period 1998 to 2007. The study found that capital adequacy had differential impact on the profitability of the bank. **Mishra et al (2012)** analyzed the performance of 12 public and private sector banks for the period 2000-2011 by using CAMEL approach. It was concluded that private sector banks were growing at faster pace as compared to public sector banks. Union bank and SBI had displayed low economic soundness. **Misra(2013)** assessed the performance and financial soundness of State Bank Group using CAMEL approach. The study concluded that there is a requirement to improve its position in respect to asset quality and capital adequacy. **Erol (2013)** compared the performance of Islamic banks against conventional banks in Turkey during the period of 2001-2009. The results showed that Islamic banks performed better in profitability and asset management ratios compared to conventional banks but slow in sensitivity to market risk criterion. **Rostami (2015)** analyzed the impact of each parameter of CAMELS model on the performance of Iranian banks. Q-Tobin's ratio was used as performance indicator in this study. It was found that there was significant relation between each category of camel model and Q-Tobin's ratio as bank's performance ratio. **Majumdar (2016)** measured the financial performance of 15 banks in Bangladesh for the period 2009-2013. CAMEL model had been used to examine the financial soundness of selected banks. Composite Ranking, average and ANOVA test had been applied to the data. The study concluded that there had been significant difference in the performance of selected banks. The study suggested that banks should take required steps to recover their shortcomings. **Ramya (2017)** analyse the financial performance of State Bank of India for the study period 2012-2016 through the use of CAMEL approach. It was concluded that there is a need to take necessary steps to improve the position of SBI in the context of few parameters i.e., debt-equity, operating profit, and non-interest income to total income.

Singh (2017) examined the capital adequacy performance of private and public sector banks in India for a period of 2006-2015. The study found that all the banks had sound capital adequacy position except Central Bank of India.

RESEARCH METHODOLOGY

The current study is Descriptive cum exploratory in nature as it tries to get information keeping the current status of the phenomena and to describe "what exists" with respect to variables. Top banks i.e., HDFC Bank, ICICI Bank, Axis Bank, SBI, BOB, BOI; as per their market capitalization are selected from the listed banks on BSE. This study is totally based on secondary data which is assembled from annual reports of selected banks, distinct databases and Reserve Bank of India. CAMEL approach has been used to determine the financial strength of the chosen banks. Certain ratios have been calculated under each acronym of CAMEL and Composite Rankings, Average, and Covariance are applied here to attain conclusion through the comparative and significant analysis of distinct parameters of CAMEL.

Data Collection

Secondary Sources of data composition have been used, viz. journals, IBA bulletin, statistics released by Reserve bank of India and annual reports released by the banks.

RESULTS AND ANALYSIS

In this phase we can examine the financial soundness of the chosen banks primarily based totally at the CAMEL framework. Only the ones signs are decided on which might be suitable for the take a look at. The choice of signs is primarily based totally on their analytical significance, availability of facts for compilation, calculation and its relevance for the take a look at. The following desk suggests the chosen signs for the take a look at below every acronym of CAMEL:-

Capital Adequacy	Assets Quality	Managerial Efficiency	Earning Capabilities	Liquidity
Capital Adequacy Ratio Capital Adequacy Ratio tier 1 Capital Adequacy Ratio tier 2	Net NPA to Net Advance Secured Advance to total Advance Term loans to Total Advance	Return on Equity(ROE) Business Per Employee Profit per Employee Return on Net Worth	Return on Assets Net Interest Margin Operating Profit to Total Assets Non-Interest Income to total assets	Cash Deposit Ratio Credit Deposit Ratio Investment Deposit Ratio

CAPITAL ADEQUACY

Capital Adequacy suggests whether or not the bank sufficient capital to take in sudden losses. It is needed to hold depositors' self-assurance and stopping the bank from going bankrupt (Reddy, 2012). "Meeting statutory minimum capital necessary is the important problem in finding the capital adequacy, and maintaining an better enough degree of capital is a important component" it infer the componential of corporation that legal responsibility can be privileged. If there's any lack of loans it'll be a super chance for banks to satisfy the call for in their depositors. Therefore, to save you the bank from failure, it's far vital to hold a sizeable degree of capital adequacy (Chen, 2003). As according to regulatory norms, Indian scheduled commercial banks are required to hold a CAR of 9% even as Indian public sector banks are emphasized to hold a CAR of 12%

Capital Adequacy of selected banks

Parameters		HDFC	ICICI	Axis Bank	SBI	BOB	BOI
Capital Adequacy Ratio	Mean	14.82	18.42	16.57	12.60	12.13	12.94
	RANK	**3**	**1**	**2**	**5**	**6**	**4**
Tier 1 Capital	Mean	13.25	15.92	13.04	10.360	10.46	9.73
	RANK	**2**	**1**	**3**	**5**	**4**	**6**
Tier 2 Capital	Mean	1.57	2.50	3.53	2.24	1.67	3.21
	RANK	**6**	**3**	**1**	**4**	**5**	**2**
Composite	Average	3.66	1.67	2	4.66	5	4
	Rank	**3**	**1**	**2**	**5**	**6**	**4**

From the given table we can infer that ICICI bank has highest Capital Adequacy Ratio whereas Bank of Baroda has lowest with the mean value 18.42 and 12.13. ICICI bank captures the better position in respect of Capital Adequacy.

ASSET QUALITY

The quality of assets is a main character to find the degree of financial capabilities. The primary objective to examine the assets quality is to discover the composition of non-performing assets (NPAs) as a percentage of the total assets.

Asset Quality of selected banks

Parameters		HDFC	ICICI	Axis Bank	SBI	BOB	BOI
Net NPA to Net Advance	Mean	0.32	0.45	0.50	1.81	0.56	1.24
	RANK	**1**	**2**	**3**	**6**	**4**	**5**
Secured Advance to total Advance	Mean	74.49	75.25	71.23	81.38	81.78	80.43
	RANK	**5**	**4**	**6**	**2**	**1**	**3**
Term loans to Total Advance	Mean	71.17	70.21	65.67	57.940	44.71	45.28
	RANK	**1**	**2**	**3**	**4**	**6**	**5**
Composite	Average	2.33	2.66	4	4	3.33	4.33
	Rank	**1**	**2**	**4.5**	**4.5**	**3**	**6**

From the above table, it is witnessed that assets quality of HDFC bank is much better as compare to other bank. ICICI got second place in assets quality followed by Bank Of Baroda, Axis, SBI and Bank Of India respectively. Net NPA to Net Advance ratio (Minimum value gives lowest rank) infers that HDFC (0.32) is in the better condition whereas SBI is in bad condition. Where Secured Advance to total Advance represent that maximum value 81.78 obtained by the Bank Of Baroda whereas Axis bank has lowest rank with the value of 71.23. Term loans to Total Advance showed that HDFC have highest value (71.17) which is more volatile in comparison to other.

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MANAGMENT EFFICIENCY

Management performance is some other essential issue of the CAMEL version that guarantees the survival and boom of a bank. While the opposite elements of CAMEL version may be quantified without problems from current financial statements, control first-class is a extremely indefinable and subjective measure, but one this is vital for institutional success. The banking region reforms improve the want to enhance productiveness of the banks thru suitable measures which purpose at decreasing the working value and enhancing the profitability of the banks.

Managerial Efficiency of selected banks

Parameters		HDFC	ICICI	Axis Bank	SBI	BOB	BOI
Return on Equity	Mean	17.87	6.61	18.70	-3.210	-5.81	-18.23
	RANK	**2**	**3**	**1**	**4**	**5**	**6**
Business Per Employee	Mean	150.80	107.80	122.54	167.00	176.60	182.90
	RANK	**4**	**6**	**5**	**3**	**2**	**1**
Profit per Employee	Mean	2.00	1.07	1.05	-0.24	-0.4	-1.23
	RANK	**1**	**2**	**3**	**4**	**5**	**6**
Return on Net Worth	Mean	18.49	11.51	18.71	14.11	17.99	14.64
	RANK	**2**	**6**	**1**	**5**	**3**	**4**
Composite	Average	2.25	4.25	2.5	4	3.75	4.25
	Rank	**1**	**5.5**	**2**	**4**	**3**	**5.5**

Above table infer that managerial efficiency of HDFC bank is better with respect to other banks followed by Axis, Bank Of Baroda and SBI banks respectively and Bank Of India got lowest rank. Return on Equity and business per employee analysis shows that the Axis banks have highest value with mean 18.70 and 122.54 respectively. Axis bank has highest Profit per Employee mean value i.e. 18.71. Axis bank shows better position in terms of Return on Net Worth with mean 18.71.

EARNING QUALITY

The quality of earnings is vital criterion that determines the capacity of a banks to earn consistently. Basically, it determines the profitability of bank and explains its sustainability and increase in profits in destiny context. Banks rely upon their sturdy incomes functionality to carry out the things including investment dividends, keeping ok capital levels, supplying for funding possibilities to for financial institution for increase, techniques for accomplishing new sports and keeping the aggressive outlook.

Earning Quality of selected banks

Parameters		HDFC	ICICI	Axis Bank	SBI	BOB	BOI
Return on Assets	Mean	1.93	1.40	1.58	0.884	1.154	0.99
	RANK	**1**	**3**	**2**	**6**	**4**	**5**
Net Interest Margin	Mean	4.29	2.47	3.04	2.73	2.69	2.55
	RANK	**1**	**6**	**2**	**3**	**4**	**5**
Operating Profit to Total Assets	Mean	3.38	3.00	2.90	1.93	1.70	1.16
	RANK	**1**	**2**	**3**	**4**	**5**	**6**
Non-Interest Income to total assets	Mean	1.85	2.11	2.05	1.45	0.94	0.93
	RANK	**3**	**1**	**2**	**4**	**5**	**6**
Composite	Average	1.5	3	1.25	4.25	4.5	5.75
	Rank	**2**	**3**	**1**	**4**	**5**	**6**

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Above table infer that HDFC and Axis bank has top position in term of earning quality followed by SBI and ICICI bank and lowest position secured by Bank Of India. Return on Assets is maximum in case of HDFC bank with mean value 1.93 and lowest in Bank Of India with mean value 0.99. HDFC has highest net interest margin and ICICI has lowest with mean 4.29 and 2.47 respectively. Operating Profit to Total Assets shows that HDFC has the maximum position and Axis bank got the highest position in term of Non-Interest Income to total assets with least value 3.38 and 2.11 respectively.

LIQUIDITY

Liquidity has a large effect on financial soundness and it evaluates the operational overall performance of a bank. It shows the capability of a bank to pay its quick time period money owed and face surprising withdrawals of depositors. Liquidity suggests the capacity of an enterprise to transform its property into coins with none loss. Liquidity of the banks assures the depositors that they are able to get entry to to their budget each time want get up and suggests the steadiness and sturdiness of banks. While an excessive amount of liquidity has a poor effect on profitability, too little liquidity will increase the hazard of insolvency.

Liquidity Quality of selected banks

Parameters		HDFC	ICICI	Axis Bank	SBI	BOB	BOI
Cash Deposit Ratio	Mean	13.270	5.90	7.82	5.56	3.84	6.02
	RANK	**1**	**4**	**2**	**5**	**6**	**3**
Credit Deposit Ratio	Mean	83.46	91.34	96.92	71.49	72.28	65.54
	RANK	**3**	**2**	**1**	**5**	**4**	**6**
Investment Deposit Ratio	Mean	30.71	36.19	33.92	39.20	27.60	26.32
	RANK	**4**	**2**	**3**	**1**	**5**	**6**
Composite	Average	2.66	2.66	2	3.66	5	5
	Rank	**2.5**	**2.5**	**1**	**4**	**5.5**	**5.5**

Above table present that liquidity position of Axis bank is much better followed by ICICI, HDFC, SBI, BOB and BOI respectively. BOI bank secured the lowest position in term of liquidity. HDFC Bank has strong position in case of in case of cash deposit ratio and credit deposit ratio. SBI has highest average investment deposit ratio i.e. 39.20.

OVERALL RANKING

Overall ranking of the selected banks based on the CAMELS parameters

Banks	HDFC	ICICI	Axis Bank	SBI	BOB	BOI
Capital Adequacy	3	1	2	5	6	4
Assets quality	1	2	4.5	4.5	3	6
Managerial efficiency	1	5.5	2	4	3	5.5
Earning Quality	2	3	1	4	5	6
Liquidity	2.5	2.5	1	4	5.5	5.5
AVERAGE	1.9	2.8	2.1	4.3	4.5	5.6
Rank	1	3	2	4	5	6

The overall ranking of the banks considering all the sub criteria rankings under CAMEL analysis of 2018 is presented in the above tables. The group ranking of all the banks considered for the purpose of study is taken and average out to reach at the overall grand ranking. HDFC bank is ranked first under CAMEL analysis followed by Axis bank. ICICI bank got the 3rd Rank. Fourth position is occupied by SBI followed by Bank of Baroda. Bank of India got the last position.

CONCLUSION AND SUGGESTION

By considering about all the parameters of CAMEL, it's far visible that HDFC is on the pinnacle role as assessed with the aid of using the CAMEL Model in comparison to different banks below the examine. HDFC bank has best total performance in case of Asset Quality, Management efficiency and Earnings Ability whilst it's behind in case of capital adequacy. On the other side, Bank Of India is at the bottom in comparison to different banks below the examine because of its negative overall performance withinside the context of Capital Adequacy, Earnings Ability and Liquidity while it carry out higher in case of capital adequacy. That's why Bank of India have to enhance its role specially exposed areas. Therefore, the coverage makers of the associated minimum rating banks have to take essential steps and attempt to discover answer to enhance their weaknesses with the aid of using the usage of the findings this examine.

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