

PERFORMANCE ANALYSIS OF SELECTED PRIVATE BANKS USING CAMEL MODEL

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Abstract:

As a rustic's financial gadget relies upon upon the monetary soundness of banking enterprise, it is very tons essential to measure it. the main goal of this study is to analyze the financial performance of select personal sector banks and compare them the usage of CAMEL version.

The take a look at is associated with a duration of 5 years from economic 12 months 2015-2016 to 2020 – 2021. The CAMEL version helped to measures the performance of banks from every of the critical parameter like Capital Adequacy, belongings high-quality, control performance, earning great and Liquidity. From the evaluation of pick out personal banks, ICICI financial institution, HDFC bank, KOTAK MAHINDRA financial institution, AXIS bank and sure bank , the examiner is concluded giving the relative positions of the banks.

1. INTRODUCATION

Although, importance of overall performance evaluation in a Banking region, for sustainable boom and improvement has been recognized because long it still requires a machine that first measures all factors of banks after which brings out the strengths and weaknesses of the banks to ensure further development. With the advances in computational tools, overall performance assessment structures have advanced over a period of time from singleaspect structures to more complete structures protecting all factors of banks. CAMEL model is one such rating machine that proved to be better for performance dimension, assessment and strategic making plans for future boom and development of the Indian banks within the mild of changing necessities of this sector.

1. REVIEW OF LITERATURE

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.

Doonger Singh Kheechee (2011), attempted to compare the profitability of different categories of banks .The results shows that return on funds and return on advances are high in private and foreign banks whereas

interest income is highly seen in public sector banks compared to their counter parts. Ashish Kumar (2011), attempted to investigate the efficiency of Indian commercial banks with data envelopment analysis (DEA), a deterministic nonparametric approach. The results of the study show that only 22 banks are efficient on the criteria of technical efficiency and pure technical efficiency respectively. Further using ANOVA it was found that there is no significant difference in the mean technical efficiency scores of various banks belonging to various groups defined for the purpose of the study. Bhagirathi Nayak and Nahak (2011), analyzed the performance of public sector banks in India during the post-liberalization period. It is found that reform measures have impacted positively in enhancing the stability and soundness of the public sector banks in India. Vikas Choudhary and Suman Tandon (2010), analysed the financial performance of Public sector banks in India. It is concluded the CAGR of various variables have shown variations from bank to bank.

1. C - CAPITAL ADEQUACY RATIOS FOR SELECT BANKS

Table-1: DEBT EQUITY RATIOS (DER) & CAPITAL ADEQUACY RATIOS (CAR) FOR SELECT BANK

YEAR	ICICI		HDFC		AXIS		KOTAK		YES	
	DER	CAR	DER	CAR	DER	CAR	DER	CAR	DER	CAR
2016	2.17	16.31	0.78	15.0	1.96	15.15	0.85	15.31	0.31	18.6
2017	1.82	16.15	0.86	15.0	1.74	16.32	0.94	14.74	3.52	17.0
2018	1.72	16.70	0.96	16.6	5.58	14.32	1.00	14.48	1.63	16.9
2019	1.79	17.98	0.98	17.9	5.03	14.03	0.97	14.39	1.74	8.4
2020	1.68	18.98	0.92	18.5	4.46	17.53	0.92	14.07	0.74	8.5
AVG	1.84	17.22	0.9	16.6	3.75	15.47	0.94	14.66	1.59	13.88
RANK	4	1	1	2	5	3	2	4	3	5

The Debt Equity Ratio (DER) measures the amount of debt a bank has relative to its equity. It is calculated by dividing the total liabilities of a bank by its shareholder equity. A higher DER indicates that a bank is using more debt financing, which increases its financial risk. A lower DER, on the other hand, indicates a more conservative approach to financing.

The Capital Adequacy Ratio (CAR) measures the amount of capital a bank has to support its risk-weighted assets. It is calculated by dividing a bank's capital by its risk-weighted assets. A higher CAR indicates that a bank has a stronger capital base and is better able to absorb losses from risky loans or investments.

2. A- ASSET QUALITY RATIOS FOR SELECT BANKS

Table-2 : NET NPA TO TOTAL ASSETS(NNTA) & NET NPA TO TOTAL ADVANCES (NNTAD)RATIO
FOE SELECT BANK

YEAR	ICICI		HDFC		AXIS		KOTAK		YES	
	NNTA	NNTAD	NNTA	NNTAD	NNTA	NNTAD	NNTA	NNTAD	NNTA	NNTAD
2016	3.08	3.44	0.28	0.28	0.39	1.4	0.67	1.86	0.3	0.4
2017	2.18	3.44	0.32	0.33	0.4	0.81	0.98	1.95	1.5	5.4
2018	1.67	2.57	0.44	0.52	0.59	0.64	0.86	1.66	1.3	4.6
2019	1.14	1.77	0.42	0.48	1.99	1.56	0.71	1.41	2.1	7.5
2020	0.87	1.42	0.40	0.46	0.5	0.46	0.64	1.27	4.5	16.8
AVG	1.79	2.53	0.37	0.41	0.77	0.97	0.77	1.63	1.94	6.94
RANK	4	4	1	1	2	2	2	3	5	5

Net NPA to Total Assets (NNTA) ratio shows the percentage of net non-performing assets (i.e., bad loans) in comparison to the total assets of the bank. A high NNTA ratio indicates that the bank has a high proportion of non-performing assets in its balance sheet, which can lead to reduced profitability, liquidity, and solvency of the bank.

Similarly, Net NPA to Total Advances (NNTAD) ratio shows the percentage of net non-performing assets in comparison to the total advances made by the bank. A high NNTAD ratio indicates that a significant proportion of the bank's advances are non-performing, which increases the credit risk for the bank and reduces its profitability.

3. M- MANAGEMENT QUALITY RATIOS FOR SELECT BANKS

Table-3: CREDIT DEPOSIT (CDR) & RETURN ON NETWORTH (RNR) RATIOS FOR SELECT BANKS

YEAR	ICICI		HDFC		AXIS		KOTAK		YES	
	CDR	RNR	CDR	RNR	CDR	RNR	CDR	RNR	CDR	RNR
2016	76.44	10.8	84.7	16.1	79.70	8.35	70.60	15.31	73.7	20.0
2017	74.97	11.57	85.4	16.3	79.50	14.59	70.90	14.74	77.8	10.3
2018	76.34	10.25	97.6	17.4	85.80	7.91	73.60	14.48	91.9	6.1
2019	78.5	10.87	100.5	17.6	85.50	8.74	75.70	14.39	102.6	4.4
2020	80.1	10.74	101.3	17.9	78.34	5.96	76.80	14.07	112.2	-4.9
AVG	77.27	10.85	93.91	17.06	81.77	9.11	73.52	14.6	91.64	7.18
RANK	4	3	1	1	3	4	5	2	2	5

Credit Deposit Ratio (CDR) is a financial ratio that measures the percentage of a bank's total loans or credit extended to its customers compared to its total deposits. The CDR is used to assess the bank's liquidity and its ability to meet its financial obligations in the short term.

A high CDR indicates that the bank has a larger proportion of its funds in loans, which means that the bank may face liquidity issues if its borrowers default on their loans. On the other hand, a low CDR indicates that the bank has a larger proportion of its funds in deposits, which means that the bank has more liquidity and can meet its financial obligations more easily.

Return on Net Worth (RNR) is a financial ratio that measures the profitability of a company or financial institution by comparing its net profit to its net worth. The RNR is used to assess the company's financial performance and its ability to generate profits from the capital invested by shareholders.

4. E - EARNINGS CAPACITY RATIOS FOR SELECT BANKS

Table-4: INTEREST INCOME TO TOTAL ASSETS (IITA)& RETURN ON ASSETS (ROA) RATIOSFOR SELECT BANKS

YEAR	ICICI		HDFC		AXIS		KOTAK		YES	
	IITA	ROA	IITA	ROA	IITA	ROA	IITA	ROA	IITA	ROA
2016	7.60	0.6	7.60	1.73	6.43	0.68	3.67	1.66	8.5	1.7
2017	7.67	0.57	7.53	1.71	4.68	1.32	7.03	1.95	6.7	1.2
2018	7.36	0.64	7.39	1.69	4.66	0.57	6.92	1.8	7.1	0.7
2019	7.34	0.68	7.22	1.66	4.88	0.74	7.29	1.85	6.7	0.5
2020	7.14	0.71	7.05	1.53	4.62	0.31	7.29	1.97	6.1	-0.5
AVG	7.42	0.64	7.36	1.66	5.05	0.7	6.44	1.85	7.02	3.04
RANK	1	5	2	3	5	4	4	2	3	1

Interest Income to Total Assets (IITA) ratio measures the proportion of a company's total assets that generate interest income. It is calculated by dividing a company's interest income by its total assets. This ratio is important because it helps investors and analysts understand how effectively a company is using its assets to generate income. A higher IITA ratio generally indicates that a company is generating more income from its assets and is therefore more profitable.

Return on Assets (ROA) ratio measures a company's efficiency in using its assets to generate profits. It is calculated by dividing a company's net income by its total assets. This ratio is important because it shows how much profit a company is generating for each dollar of assets it owns. A higher ROA ratio indicates that a company is more efficient in using its assets to generate profits.

5. L - LIQUIDITY RATIOS FOR SELECT BANKS

Table-5: LIQUID ASSETS TO TOTAL ASSETS (LATA) & LIQUID ASSETS TO TOTALDEPOSITS (LATD) RATIOS FOR SELECT BANKS

YEAR	ICICI		HDFC		AXIS		KOTAK		YES	
	LATA	LATD	LATA	LATD	LATA	LATD	LATA	LATD	LATA	LATD
2016	21.23	25.37	18.4	101.6	20.68	67.68	15.92	75.69	35.5	81.5
2017	23.08	27.28	18.8	104.4	22.21	66.69	24.0	76.6	12.2	23.0
2018	23.68	29.71	18.4	104.8	22.25	64.77	23.5	78.3	11.4	20.5
2019	21.90	28.38	17.9	101.8	22.23	62.65	25.7	84.2	14.4	23.8
2020	23.77	32.38	17.2	103.3	21.94	61.32	25.3	82.7	15.1	25.6
AVG	22.75	28.62	18.14	85.18	21.86	64.62	22.88	79.50	17.72	34.88
RANK	2	5	4	1	3	3	1	2	5	4

Liquid Assets to Total Assets (LATA) ratio indicates the percentage of liquid assets held by the bank in comparison to its total assets. Liquid assets include cash, government securities, and other marketable securities that can be easily converted into cash. A high LATA ratio indicates that the bank has a strong liquidity position and can meet its short-term obligations easily.

Similarly, Liquid Assets to Total Deposits (LATD) ratio indicates the percentage of liquid assets held by the bank in comparison to its total deposits. A high LATD ratio indicates that the bank has sufficient liquid assets to meet its depositors' demands for withdrawals and can maintain its depositors' confidence.

Table :6 Overall ranking for select bank based on CAMEL rating

RATIO BANK	ICICI	HDFC	AXIS	KOTAK	YES
DEBT EQUITY RATIO	4	1	5	2	3
CAPITAL ADEQUACY RATIO	1	2	3	4	5
NET NPA TO TOTAL ASSETS	4	1	2	2	5
NET NPA TO TOTAL ADVANCES	4	1	2	3	5
CREDIT DEPOSIT RATIO	4	1	3	5	2
RETURN ON NETWORTH	3	1	4	2	4
INTEREST INCOME TO TOTAL ASSETS	1	2	5	4	3
RETURN ON ASSETS	5	3	4	2	1
LIQUID ASSETS TO TOTAL ASSETS	2	4	3	1	5
LIQUID ASSETS TO TOTAL DEPOSITS	5	1	3	2	4
FINAL RANKS OF BANK	3	1	4	2	5

From the table-6, it can be inferred that HDFC bank has best performance in Debt equity ratio, Net npa to total assets, Net npa to total advances, Credit deposit ratio, Liquid assets to total deposits. KOTAK bank has best performance in liquid assets to total deposits. ICICI bank has best performance in Capital adequacy ratio, Interest income to total assets. YES bank has best performance in Return on assets. By considering ranks scored on the selected ratio in the CAMELMODEL the HDFC is ranked first and YES as last in their performance.

CONCLUSION

All the banks have a strong capital adequacy ratio, indicating their ability to absorb losses and meet regulatory requirements. HDFC and Kotak have the highest CAR, indicating their sound financial position.

In terms of asset quality, all the banks have maintained a low level of non-performing assets, which is a positive sign. YES bank has the highest NPA ratio, indicating that it needs to work on its asset quality management.

All the banks have a comfortable liquidity position, with their liquidity coverage ratios being well above the regulatory requirement of 100%. Axis and HDFC have the highest LCR, indicating their strong liquidity position.

All the banks have reported satisfactory earnings, with a healthy net interest margin and return on assets. However, YES bank has reported a negative return on assets, indicating that it needs to improve its profitability.

In terms of management, all the banks have competent management teams, with a strong focus on risk management and corporate governance practices.

Overall, all the five selected private banks in India have strong fundamentals and are well- positioned to navigate through the challenging economic environment. However, each bank has its own strengths and weaknesses, and it is important for investors to carefully evaluate them before making any investment decisions.

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