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A Study on Financial Performance of Selected Commercial Banks in India Using Camel Approach

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ABSTRACT

Commercial banks plays a vital role in financial system of an economy of the country, the financial health of a nation is directly related to the financial soundness of its banking system. The Indian banking system is dominated by nationalized bank. As the banks are vital channels of sustainable development in developing nation like India, it is important to measure the soundness of various banks and identify the weakness of the banks to devise appropriate strategies to overcome these. This paper makes an attempt to analyse the financial soundness of major commercial banks in India by using CAMEL approach for the period 2013-14 to 2017-18. The CAMEL rating system is recognised as an international rating system that is used in order to rate financial institutions accordingly to six factors represented by acronym CAMEL. The aim is to apply CAMEL rating system to evaluate the (C) capital adequacy,(A) asset quality,(M) management efficiency,(E) earnings and (L) Liquidity. We used capital adequacy ratio for the analysis of capital adequacy ratio, return on asset for analysing the asset quality, interest income to total asset for analysing the asset quality, interest income to total asset for analysing management quality, interest income to total asset for analysing management quality, interest spread ratio to analyse earnings and quick ratio to analyse liquidity of banks.

Keywords: appropriate strategies, CAMEL approach, quality, ratio.

INTRODUCTION:

The two last decades are marked by notable in most of a nations domestic banking was generally subjected to heavy regulations and financial repression. The role and importance of banking sector and the monetary mechanism cannot be under-estimated in the development of a nations. The growth and financial stability of the country depends on the financial soundness of its banking sector. Supervision of banking unit can help to make them financially sound.

In Turkey the economic growth of Turkish economy has been expanded in a continuing progress after the economic program that was launched in 2001. In parallel with the aim of reinforcing the market mechanism, important steps for strengthening the regulatory and supervisory institutions have been taken(The Banks Association of Turkey, 2005, p.59). Turkey is one of the largest middle-income partners of the World Bank Group. With a Gross Domestic Product (GDP) of 820.21 billion US dollars in 2013, Turkey is the 17th largest economy in the world.

As of December 2012, the number of banks operating in Turkey was 49, which 4 were participation banks. Out of total deposit and development and investment banks, 32 of the banks were deposit banks, and 13 were development and investment banks. Out of deposit banks, 3 were state-owned, and 12 were private-owned banks. “Turkish banking sector has experienced a dramatic change after 1999 and 2001 economic crises. In the late 1990s and the beginning of 2000s, several frauds were experienced in the Turkish banking sector. After the financial corruption, Turkish banking system experienced a restructuring process. This process was first started with disinflation programed as of the end of 1999 and followed by the extensive banking restructuring program

in 2001. In this process, the financial problems of the banks, which are under the control of the Savings Deposit Insurance Fund (SDIF) were solved, state-owned banks were restructured, the capital of private-owned banks were strengthened, the banking legislation became aligned with international regulations, best practices and European Union directives including the Basel Capital Accord (Basel-II). As a result of banking restructuring program, Turkish banking sector has become excessively regulated since 1999. Banking restructuring program was successful and this was one of the most important factors improving the positive performance of Turkish banks during 2002 – 2008”(IEYG,2014). Turkish banking sector has recently faced major changes due to recent merger and acquisitions and therefore competition has increased in the sector. Turkish banks have reacted to this new competitive environment by widening their operations beyond traditional lending activities so that an increasing share of non-interest income in operating profits was experienced.
CAMEL is, basically a ratio-based model for evaluating the performance of banks. It is a model for ranking of the banks. CAMEL is an acronym for five components of bank safety and soundness (Dang,2011, p. 17):

- Capital adequacy
- Asset quality
- Management quality
- Earning ability

OBJECTIVE OF THE STUDY:

The objective of the study is to evaluate the financial performance of top 5 nationalised banks in India based on market capitalisation from 2014-15 to 2018-19 to know the positions of the banks in terms of ranking.

LITERATURE REVIEW:

Many academicians, research scholars have analysed the financial performance of the banking using CAMEL model summary of the studies is given below:

1. Kumbirai and Webb (2010) examined the performance of south Africa’s 5 largest commercial banks for the year 2005-2009 the study used financial ratios to measure the profitability, liquidity and credit quality the results revealed an improvement in the bank performance in terms of profitability, liquidity and credit quality from 2005-2009.
2. Gupta and Kaur (2008) in their study used CAMEL model for assessment of the performance of Indian private sector banks and ranked the top 5 and bottom 5 banks.
3. Shiva and Natarajan (2011) empirically tested the applicability of CAMEL norms and its consequential impact on the performance of SBI groups. The study concluded that annual CAMEL scanning helps the commercial banks to diagnose it financial health and alert the bank to take preventive steps for its sustainability.
4. Jha and Hui (2012) from Nepal applied CAMEL model to compare the financial performance of different structured banks the study involved was form 2005-10. The analysis was based mainly on the descriptive financial analysis to describe measure, compare and classify the financial situation. The result revealed that ROA of public sector bank were higher than that joint venture and domestic public bank, more over the values determined for the financial ratios discovered that joint venture and domestic public banks were also so strong in Nepal to manage the possible large scale shock to their balance sheet.
5. Aspal and Malhotra, 2013 studied the financial performance of selected midsized Indian public sector bank with the CAMEL rating model from 2007 to 2011, they found that BOB and Andhra bank had highest rating.
6. Shilpa Sahota and Babli Dhaiman made a performance analysis of scheduled Commercial banks in India using CAMEL model approach and concluded that there was a stiff competition among SBI, ICICI, and SCB, and SCB was found to be significantly more efficient during the research period in terms of doing profitability banking business and converting deposits into higher earning advances followed by ICICI AND SBI.
7. Vasu V and Harsha J made a financial performance of selected commercial banks in India using CAMEL approach and concluded that the performance of Kotak Mahendra bank is outstanding followed by Axis bank which secured 2nd rank.

RESEARCH METHODOLOGY:

For the purpose of analysis, secondary data is collected from the financial statement and annual reports of the banks. A total 5 public commercial banks operating in India is selected based on the market capitalization of banks. In this study CAMEL approach is used to analyse the financial performance of the commercial banks and the duration of the study is from 2014-15 to 2018-19.

DATA ANALYSIS AND INTERPRETATION:

Table 1: Capital Adequacy Ratio

Capital Adequacy Ratio							
Bank/Year	**2017-18**	**2016-17**	**2015-16**	**2014-15**	**2013-14**	**AVERAGE**	**RANK**
SBI	12.6	13.11	13.12	12	12.96	12.758	1
Bank of Baroda	12.13	13.17	13.17	12.6	12.28	12.67	2
IDBI Bank	10.41	10.7	11.67	11.76	11.68	11.244	4
Punjab National Bank	9.2	11.66	11.28	12.89	12.11	11.428	3
Central Bank of India	9.04	10.95	10.41	10.9	11.96	10.652	5

Table 1 represents the average capital adequacy of commercial banks for the period 2013-18. With a 5year average State Bank of India has highest capital adequacy of 12.758% followed by Bank of Baroda with an average of 12.67% and Central Bank of India with the least capital adequacy of 10.652%.

Table 2: Return on Asset

Return on Asset (Including Revaluations)							
Bank/Year	**2017-18**	**2016-17**	**2015-16**	**2014-15**	**2013-14**	**AVERAGE**	**RANK**
SBI	245.53	236.14	185.85	172.04	158.43	199.598	3
Bank of Baroda	163.64	174.92	174.46	180.13	838.02	306.234	2
IDBI Bank	68.78	109.6	134.65	151.61	147.38	122.404	4
Punjab National Bank	148.79	196.65	195.1	210.72	991.39	348.53	1
Central Bank Of India	68.7	90.78	104.63	105.27	104.94	94.864	5

Table 2 represents the average return on asset reflecting the quality of assets of the bank. Punjab national Bank with an average 348.53 is ranked first, followed by Bank of Baroda and Central Bank of India at the least rank.

Table 3: Interest Income to Total Assets

Interest Income to Total Assets Ratio							
Bank/Year	**2017-18**	**2016-17**	**2015-16**	**2014-15**	**2013-14**	**AVERAGE**	**RANK**
SBI	6.38	6.48	6.95	7.44	7.6	6.97	3
Bank of Baroda	6.06	6.07	6.56	6	5.9	6.118	5
IDBI Bank	6.57	7.68	7.49	7.9	8.08	7.544	2
Punjab National Bank	6.26	6.26	6.56	7.1	7.67	6.77	4
Central Bank of India	7.36	7.39	8.47	8.46	8.43	8.022	1

Table 3 represents the average proportion of interest income over total assets which reflect the management efficiency in generating the income with existing assets. Central Bank of India with average of 8.022 is ranked first for having highest proportion of income over assets followed by IDBI bank with 7.544 and Bank of Baroda is ranked 5th with 6.118.

Table 4: Interest Spread

Interest Spread Ratio							
Bank/Year	**2017-18**	**2016-17**	**2015-16**	**2014-15**	**2013-14**	**AVERAGE**	**RANK**
SBI	6.94	7.07	6.33	6.5	6.09	6.586	3
Bank of Baroda	6.18	6.77	6.52	5.72	5.55	6.148	5
IDBI Bank	7.83	7.79	6.44	6.55	6.5	7.022	2
Punjab National Bank	6.41	6.46	6.12	6.58	6.86	6.486	4
Central Bank of India	9.5	11.72	7.53	7.2	6.93	8.576	1

Table 4 represents the average of interest spread reflecting the earning capacity of the banks with an average interest spread of 8.576 Central Bank of India is ranked first followed by IDBI bank with average interest spread of 7.022 and Bank of Baroda ranked 5 with interest spread of 6.148.

Table 5: Quick Ratio

Quick Ratio							
Bank/Year	**2017-18**	**2016-17**	**2015-16**	**2014-15**	**2013-14**	**AVERAGE**	**RANK**
SBI	8.09	7.9	8.13	8.36	9.66	8.428	5
Bank of Baroda	17.23	16.13	15.81	17.98	20.64	17.558	4
IDBI Bank	12.75	16.76	23.13	22.74	22.84	19.644	3
Punjab National Bank	22.71	28.67	27.02	23.28	24.75	25.286	1
Central Bank of India	28.11	24.63	17.8	16.48	17.33	20.87	2

Table 5 represents the average quick ratio, from the above table it can be said that Punjab national bank has maintained more liquid assets 25.286 and stands first followed by Central Bank of India 20.87 and SBI has less liquid assets 8.428 stands last.

Table 6: Composit Rank

Composite Rank							
Bank/Year	**C**	**A**	**M**	**E**	**L**	**Average**	**Rank**
SBI	1	3	3	3	5	3	2
Bank of Baroda	2	2	5	5	4	3.6	1
IDBI Bank	4	4	2	2	3	3	2
Punjab National Bank	3	1	4	4	1	2.6	4
Central Bank of India	5	5	1	1	2	2.8	3

Table no 6 represents the overall composite rank, Bank of Baroda secured first rank at the composite level which means the banks financial performance is outstanding followed by State bank of India and IDBI Bank shared 2nd rank, central bank of India and Punjab National Bank are in 3rd and 4th position respectively.

CONCLUSION:

The study was undertaken to know the financial performance of the public commercial banks based on last 5 years data i.e. from 2013 to 2018. From the above study it can be said that the performance of Bank of Baroda is outstanding followed by SBI and IDBI Bank shared the 2nd position. Hence it is recommended that Central bank of India and Punjab National Bank take necessary action to improve its capital adequacy, asset quality management efficiency, earning capacity and liquidity to improve the financial performance of the bank.

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