A STUDY ON PERFORMANCE ANALYSIS OF SELECTED PRIVATE BANKS USING CAMEL MODEL

C.Karthick[1] and L. Banupriya[2]

[1]Assistant Professors, Department of Commerce, Dr.N.G.P. Arts &Science College(Autonomous), Coimbatore, Tamil Nadu, India

[2]Post Graduate Student, Department of commerce, Dr.N.G.P. Arts &Science College(Autonomous), Coimbatore, Tamil Nadu, India

ABSTRACT

The word bank means an organisation where people and business can invest or borrow money. Today banking business is diversified from traditional approaches to individual approach. To find out the profile of the selected banks. The ratings are assigned based on a ratio analysis of the financial statements, combined with on-sit examinations made by a designated supervisory regulator. The study is based on secondary data. The researcher has analysed the performance of the banks using Camel Model. The study period consists of 5 years from 2012 – 2016 to study the banks performance through CAMEL MODEL. The study was limited to three banks only.

Keyword: *Performance analysis, Private Banks*

INTRODUCTION

The word bank means an organisation where people and business can invest or borrow money; change it to foreign currency etc. according to Halsbury "A banker is an individual, partnership or corporation whose sole pre-dominant business is banking, that is the of money on current or deposit account, and payment of cheque drawn and collection of cheque paid in by a customer".

The word 'BANK' derived from the Italian word 'BANCO' signifying a bench, which was erected in the market- place, where it was customary to exchange money. First commercial bank was bank of Venice which was established in 1157 in Italy.

STATEMENT OF THE PROBLEM

Today banking business is diversified from traditional approaches to individual approach. Now-days almost all banks in India have started retail banking products and value added services along with their traditional banking products. It has become imperative for all the banks to retain the old customers and attract the new customers by providing more value added services and banking incentives under single window system as well as find alternative ways to generate more income. They are so many models of evaluating the performance of the banks, but we have chosen the CAMEL model to evaluate the performance of the banks. We have read lot of books and found it the best model because it measures the performance of the banks from each parameter i.e. capital, assets, management, earnings and liquidity.

SCOPE OF THE STUDY:

The ratings are assigned based on a ratio analysis of the financial statements, combined with on-sit examinations made by a designated supervisory regulator.

Ratings are not released to the public but only to the top management to prevent a possible bank run on an institution which receives a CAMEL rating downgrade. Institutions with deteriorating situations and declining CAMEL ratings are subject to ever increasing supervisory scrutiny**.**

The components of a banks condition that are assessed:

- C-capital adequacy
- A-asset quality
- M-management
- E-earning and profitability
- L-liquidity (also called asset liability management)

OBJECTIVES OF THE STUDY

This study is undertaken with the following objectives.

- To find out the profile of the selected banks.
- To evaluate the financial performance of selected private bank using CAMEL model.
- To offer suggestions based on the findings.

LIMITATION OF THE STUDY

This study contains the following limitations. They are

- The study was limited to three banks only
- Time and resource constrains.
- The method discussed pertains only to banks though it can be used for performance evaluation of other financial institutions.
- It was not possible to get a personnel interview with the top management employees from all banks under study.

REVIEW OF LITERATURE

Barker and Holds worth (1993) found that the CAMEL systemic beneficial, even after controlling for a wide range of publicity available information about the condition and performance of banks. CAMEL system further acts as a bank's failure predicting model. The rating is designated based on both quantitative and qualitative information about the bank.

Cole et al. (1995) conducted a study on "A CAMEL Rating's Shelf Life" and their findings suggest that, if a bank has not been examined for more than two quarters, off-site monitoring systems usually provide a more accurate indication of survivability than its CAMEL rating.

CAMEL MODEL

CAMEL model of rating was first developed in the 1970s by the three federal banking supervisors of the U.S (the Federal Reserve, the FDIC and the OCC) as part of the regulators' "Uniform Financial Institutions Rating System", to provide a convenient summary of bank condition at the time of its on-site examination. The banks were judged on five different components under the acronym C-A-M-E-L:

C – Capital Adequacy

A – Asset Quality

M – Management Soundness

E – Earnings Capacity and

L – Liquidity

TABLE 1

DEBT EQUITY RATIO

SR. NO	BANKS	DEBT EQUITY RATIO				
		2012	2013	2014	2015	2016
1	AXIS	1.49	1.33	1.315	1.78	1.86
2	ICICI	2.32	2.17	2.67	2.14	0.16
3	HDFC	0.79	0.61	0.90	0.78	0.72

The above table shows the percent of debt equity ratio. In AXIS bank, this ratio is more than the expected ratio from 2012 to 2016. In ICICI Bank, shows this ratio is more than the expected ratio from 2012 to 2016. In HDFC Bank this ratio is more than the expected ratio from 2012 to 2016.But in 2013 HDFC bank is showing very less ratio as compared to other years because their profit has been increasing and they have paid their liabilities during the year and vice versa in the other year.

TABLE 2

TOTAL ADVANCE TO TOTAL ASSET RATIO

SR. NO	BANKS	TOTAL ADVANCE TO TOTAL ASSET RATIO(%)				
		2012	2013	2014	2015	2016
1	AXIS	59.12	57.34	60.45	60.42	64.21
2	ICICI	54.12	56.24	52.22	59.11	60.32
3	HDFC	57.11	59.21	62.23	62.63	65.11

Total advance to total asset ratio show that how much amount the bank holds against its assets. Here in AXIS Bank, from 2012 to 2016 this ratio is continuously increased because increase in advances is more than increased in total assets which shows growth in investment.

TABLE 3

OPERATING RATIO

SR. NO	BANKS	OPERATING RATIO(%)				
		2012	2013	2014	2015	2016
1	AXIS	20	21	22	20	20
2	ICICI	19	19	17	18	19
3	HDFC	26	26	25	24	24

It is noticed from the table that both the operating profit & sales in increasing trend. In AXIS bank shows high profit of the year 2013-2014(22%). In ICICI bank shows high profit of the year 2012-2013(19%). In HDFC bank shows high profit of the year 2012-2013(26%).

FINDINGS

- In terms of debt equity ratio HDFC bank was at the top position with the least average of 0.76 followed by AXIS bank with average of 1.6.
- ICICI Bank stood at the last position.
- In case of advance to assets, HDFC bank was at first position with the highest average of 61.25, followed by AXIS bank with average 60.31.

- ICICI bank was at the bottom most position with an average of 56.38
- The operating ratio shows fluctuating during the period. It shows the highest ratio (26) HDFC bank in 2013-2014.

SUGGESSTIONS

CAMEL model is important tool to assess the relative financial strength of a bank and to suggest suitable measures to improve the weaknesses of a bank. In the present study CAMEL approach is used to assess relative performance of Indian private sector banks. It is found that during the year 2012-16 the top two performing banks in all the categories of CAMEL are ICICI bank and HDFC bank because of high capital adequacy and assets quality. The lowest performer is AXIS bank during the study period because of management inefficiency, low capital adequacy poor assets and earing quality. The study recommends that AXIS bank has to improve its management efficiency, assets and earning quality.

CONCLUSION

In today's scenario, the banking sector is one of the fastest growing sectors and a lot of funds are invested in banks. Also today's banking system is becoming more complex. So, I thought of evaluating the performance of the banks. There are so many models available for this purpose, but I have chosen the CAMEL model to evaluate the performance of the bank. The current banking crisis, which is quite unprecedented, underlines the importance of regulatory issues and the effects of incompetence in this area. CAMEL, as a rating system for judging the soundness of banks is a quite useful tool, that can help in mitigating the conditions and risks that lead to bank failures.