

# Performance Analysis of SBI Using CAMEL Approach

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## ABSTRACT

Banking industry plays a very significant role in the development our economy and nation. The banking industry faced so many financial sector reforms. The latest merger exercise in this sector is the merger of SBI with five associate banks and Bharatia Mahila Bank. In this context a study is made to evaluate the performance and financial conditions of SBI in the past ten years using camels and also assess the performance of SBI after the major merger in 2017. Findings of this paper reveals that that the efficiency of the bank in recovering debt was declined after major merger. Under earning quality parameter, the ratio of net profit to total assets ratio and return on average assets showed a negative trend after merger. In terms of liquidity parameter, the banks liquidity position was weak after merger.

## 1. Introduction

The banking sector plays a very significant role in the development of Indian economy. The present banking system is a result of so many reforms and policy changes that have taken place in the past. The largest consolidation in the history of banking industry is the merger of State Bank of India with five associates banks and Bharathia Mahila Bank which took place in first April 2017. State Bank of India is one of the largest public sector bank and is the country's largest lender. SBI is listed as one of the 50 largest banks in the world.

CAMELS models is an international bank rating system was first introduced by US supervisory authorities in 1980s where bank supervisory authorities rate institutions according to six factors- Capital Adequacy, Asset quality, Management quality, Earnings, Liquidity and Sensitivity. It is very effective, efficient and accurate tools to evaluate the performance in banking industry and also used to anticipate the future and relative risks. According to this analysis, bank supervisory authorities assign each bank a score on a scale of one (best) to five( worst) for each factor. If a bank has an average score less than two is considered to be a high quality institutions while bank with scores greater than three are considered to be less satisfactory. This system helps the supervisory authority to identify the banks that need special attention.

## 2. Review of literature

Brahma Chaudhari made a comparative analysis of SBI and ICICI :CAMEL approach. The analysis reveals that both SBI and ICICI have been maintaining the required standard and running profitably. But with regard to profitability and management efficiency, ICIC bank has been a better performance as compared to SBI.

Aswin Purohit and Prince Kabothara, made a comparative analysis of the performance of public sector and private sector banks using CAMELS Model. The study reveals that there is no significant difference between the financial performance of SBI and ICICI banks using CAMELS Ratios.

Chahat Gupta and Amandeep Kaur in their study on financial performance ;A comparative analysis of SBI bank ICICI Bank reveals that the overall performance of SBI is better than ICICI bank.

Vinod Kumar made a CAMEL model analysis of private sector banks in India and the study reveals that AXIS Bank has strong performance in case of Assets Quality, Management Efficiency and Earning Quality while it is lag behind in case of Capital Adequacy Ratio.

## 3. Objective of the study

1. To analyse the financial performance of SBI using CAMELS model
2. To analyze the impact in financial performance of SBI after the major merger in 2017

## 4. Methodology

The study is descriptive and analytical and is purely based on secondary source of data. Annual Report of SBI form financial year 2007-08 to 2017 - 2018 is used for the analysis .Various national and international journals articles etc is also considered for the study. Statistical tools such as ratios and percentages are used for the analysis. Due to non availability of data for Sensitivity analysis is excluded and five factors are analyzed by using ratios

## 5. Capital adequacy ratio

Capital adequacy is the one of the prominent indicators of the financial strength of the banking system. It indicate the requirement for additional capital.

It indicates the strength of the bank and extent of protection of investors. Higher ratio indicates stronger the bank and vice versa.

**Table-I**  
**Capital Adequacy**

Financial Year	Capital Adequacy Ratio	Debt/Equity Ratio	Advance to Total Assets	Govt Securities to Total Investments
2008-09	14.25	0.93	.56	.82
2009-10	13.39	1.56	.60	.77
2010-11	11.98	1.84	.62	.79
2011-12	13.86	1.51	.65	.83
2012-13	12.92	1.71	.67	.78
2013-14	12.96	1.55	.67	.78
2014-15	12.79	1.58	.63	.77
2015-16	13.94	2.24	.62	.82
2016-17	13.56	1.69	.58	.76
2017-18	12.74	1.65	.56	.81
Average	13.24	1.63	.616	.793

Source: Annual Report of SBI

The table reveals that the capital Adequacy Ratio of the SBI during the period under study shows mixed trend. It is highest in the year 2008-09 but after that it shows decreasing trend with fluctuations. The least CAR shows in the year 2010-11 ie 11.98 However in all the years the SBI maintained the minimum requirements as specified by RBI .

As far as debt equity ratio is concerned , SBI's debt was an average of 1.63 times of equity. This is not a good sign. It was least in the year 2008-09 and highest in the years 2017-18 and 2018-19. The advance to total assets ratio indicates fluctuating trend . It was lowest in the year and end year of the

period under study. This ratio indicates that SBI are aggressive in lending money.

SBI's the ratio of investment in govt securities also shows mixed trend. It shows that an average of nearly 80% of investments are in govt securities. This indicates that the risk of investment is low and risk taking ability of the bank is low.

## 6. Assets Quality

Quality of assets is an important parameter to determines the healthiness of banks against loss of value in the assets. This ratio identify the percentage of nonperforming assets on total assets.

**Table -2**  
**Assets Quality**

Financial Year	Net NPA to Advances	Total Investment to Total Assets	Net NPA to Total Assets	Percentage change in Net NPA
2008-09	1.79	28.61	1	0.3
2009-10	1.72	27.13	1	0.11
2010-11	1.63	24.16	1	0.12
2011-12	1.82	23.38	1	0.28
2012-13	2.1	22.4	1.4	0.39
2013-14	2.57	22.25	1.73	0.14
2014-15	2.12	23.52	1.35	0.11
2015-16	3.81	24.42	2.36	1.02
2016-17	3.71	28.31	2.15	0.45
2017-18	5.73	30.71	3.2	0.9
Average	2.7	25.489	1.619	0.382

Source: Annual Report of SBI

The ratio of Net NPA to Advances shows an increasing trend during the period under study with fluctuation. It was lowest in the year 2008-9 and highest in the year 2017-18. This indicate that the credit performance of the bank is weak. As far as the period after largest merger is concerned it was increased to 5.73. This depicts that the ability in reducing credit risk is declined after merger.

SBI's total investment to total assets ratio was also shows mixed trend. But it is highest in the year 2017-18. But the average of this ratio is 25.489, which indicates that SBI uses more its assets for profitable activities and less amount was locked up in investments.

Net NPA to Total assets also shows fluctuating trend. However it was highest in the year 2017-18. This indicates that efficiency of the bank in recovering debt was declined after largest merger. There is no considerable decrease in the percentage change of net NPA during the period under study.

## 7. Management Efficiency

It shows the administrative and leadership quality of the management. It also shows the ability of the mgt to cope with changing environment. It is a subjective measurement.

**Table-3**  
**Management Efficiency**

Period	Total Advance to Total Deposits (%)	Profit per Employees (in lacks)	Business per Employees (in lacks)	Return on Equity (%)
2008-09	73.1	474	623	15.07
2009-10	78.58	446	716	14.04
2010-11	81.02	385	758	12.84
2011-12	83.13	531	886	14.36
2012-13	86.94	645	984	15.94
2013-14	86.76	485	1168	10.49
2014-15	82.44	602	1349	11.17
2015-16	81.71	470	1508	7.74
2016-17	83.15	511	1725	7.25
2017-18	84.10	-243	1757	-3.78
Average	84.82	430.60	1,147	10.51

Source: Annual Reports

The ratio of total advances to total deposits shows that SBI is properly manage its deposits. An average of 84.82% of deposits are converted into advances. It shows an increasing trend with fluctuations. It was lowest in the year 2008-09 and highest in the year 2012-13. After the merger in 2017 also, it shows an increase, i.e. from 83.15% to 84.10%. Profit per employees also shows fluctuating trend upto 2016-17, but in 2017-18 it shows loss. But the business per employees shows an increasing trend even in the year 2017-18 also. In case of

return on equity, it also shows fluctuating trend upto 2016-17, but in the year 2017-18 the business per employee is negative.

## 8. Earning Quality

The quality of earnings reflects the bank's profitability and its growth and sustainability in future. By increasing earning capacity bank can ensure their growth and productivity.

**Table-4**  
**Earning Quality**

Period	Operating Profit to total Assets	Net Profit to Total Assets	Interest Income to Total Income	Return on Average Assets	Operating Expense to Net Income
<b>2008-09</b>	<b>1.86</b>	<b>0.95</b>	<b>0.83</b>	<b>1.04</b>	<b>46</b>
2009-10	1.7	0.87	0.83	0.88	52
2010-11	2.1	0.67	0.84	0.71	47
2011-12	2.4	0.88	0.88	0.88	45
2012-13	2.0	0.9	0.88	0.97	48
2013-14	1.8	0.6	0.88	0.65	52
2014-15	1.9	0.64	0.87	0.68	49
2015-16	1.8	0.42	0.85	0.46	49
2016-17	1.9	0.39	0.83	0.41	47
2017-18	1.7	-0.19	0.83	-0.19	50
	<b>1.9</b>	<b>0.58</b>	<b>0.85</b>	<b>0.61</b>	<b>48.78</b>

The analysis reveals that operating profit to total assets ratio shows an increasing trend upto the year 2011-12 and after that it shows fluctuating trend. It was least in the year 2009-10 and 2017-18. This indicate that the post merger

performance was weak.. As far as net profit to total assets concerned bank was top position in the year 2012-13 and after that it decreases widely and reaches negative in the year 2017-18. In case of interest income to total income concerned

the bank maintained more or less the same ratio even the year 2017-18. Return on assets also shows decreasing trend except in the year 2011-12 and 2012-13 and become negative in the year 2017-18. The operating expense to total income ratio shows that operating expense is an average of nearly 50% of total income and SBI maintain more or less the same level even in the year 2017-18.

## 9. Liquidity

The banks liquidity represents ability to meet its financial obligation. The bank should maintain a proper liquidity so that bank can generate high profit and ensure liquidity to depositors. The ratios as per CAMEL Model for analyzing liquidity are shown in the table

**Table-5**  
**Liquidity**

Period	Liquid Assets to Total Assets	Liquid Assets to Total Deposits	Total Investment to Total Assets	Total Investment to Total Deposits
2008-09	10.82	14.06	28	37
2009-10	9.13	11.96	27	35
2010-11	10.04	9.33	24	31
2011-12	7.27	9.3	25	25
2012-13	7.3	9.5	22	29
2013-14	7.3	9.5	22	28
2014-15	7.6	9.8	23	30
2015-16	7.4	9.67	24	33
2016-17	6.36	8	28	37
2017-18	5.55	7	30	39
<b>Average</b>	<b>7.88</b>	<b>9.81</b>	<b>25.30</b>	<b>32.40</b>

Source; Annual report of SBI

The analysis reveals that an average of nearly 8% of total assets are liquid assets. But the percentage of liquid assets to total assets shows a decreasing trend with slight fluctuations. It was lowest in the year 2017-18 ie, 5.55 which indicates that after major merger the liquidity position in relation to total assets is very weak. In relation to liquid assets to total deposits an average of 9.81 percentage of total deposits are in the form of liquid assets. It also shows a decreasing trend with slight fluctuation. It was lowest in the year 2017-18 and highest in the year 2008-09. An average of 25.30% of total assets are locked up in investment. It was highest in the year 2017-18. As far as the ratio total investments to total deposits is concerned, It was highest in the year 2017-18 with 39%.

## 10. Conclusion

The performance analysis of SBI by using CARMELS analysis reveals that the capital adequacy ratio and

investment in govt securities are good but debt equity ratio shows very high which is not a good sign. In terms of assets quality parameter, Net NPA to total Advances shows a increasing trend and which is highest in the year 2017-18. The ratio of total investment to total assets shows that the bank invest more in profitable activities. But ratio of Net NPA to total assets shows that the efficiency of the bank in recovering debt was declined after largest merger. Under management efficiency parameter, total advance to total deposits and business per employees shows favorable ratio. But the profit per employees and return on equity shows negative after merger. Under earning quality parameter, the ratio of net profit to total assets ratio and return on average assets showed a negative trend after merger. In terms of liquidity parameter, the banks liquidity position was weak after merger.

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