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A Study of Camel Model with reference to Selected Private Sector Banks

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ABSTRACT

Banking sector is one of the fastest growing sectors in India. Today's banking sector becoming more complex. Evaluating Indian banking sector is not an easy task. There are so many factors, which need to be taken case while differentiating good banks from bad ones. To evaluate the performance of banking sector we have chosen the CAMEL model which measures the performance of bank from each of the important parameter like capital adequacy, asset quality, management efficiency, earning quality and liquidity. After deciding the model we have chosen nationalized banks. According to the importance of study each parameter is given equal weights.

1. Introduction of industry

Bank is an institution wherein the deposit is accepted from the public and lends to individuals and institutions. Capital market helps in contributing the amount both by directly and indirectly. Banks are regulated in most of the countries since, financial stability of the country is of most importance. Most of the nations have a fractional reserve banking system. Under this, each bank has to hold liquid assets equal to certain portions of their current liabilities. Also, it is mandatory that banks have to keep minimum capital as per the global capital standards fixed by Basel Accord.

2. Review of related literature

Kapil (2005) examined the relationship between the CAMEL ratings and the bank stock performance. The viability of the banks was analyzed on the basis of the Offsite Supervisory Exam Model—CAMEL Model. The M for Management was not considered in this paper because all Public Sector Banks, (PSBs) were government regulated, and also because all other four components—C, A, E and L—reflect management quality. The remaining four components were analyzed and rated to judge the composite rating.

Satish, JuturSharath and Surenderadopted CAMEL model to assess the performance of Indian banks. The authors analyzed the performance of 55 banks for the year 2004-05, using this model. They concluded that the Indian banking system looks sound and Information Technology will help the banking system grow in strength in future. Banks 'Initial Public Offer will be hitting the market to increase their capital and gearing up for the Basel II norms.

Prasuna analyzed the performance of Indian banks by adopting the CAMEL Model. The performance of 65 banks was studied for the period 2003-04. The author concluded that the competition was tough and consumers benefited from better services quality, innovative products and better bargains. .

Derviz et al.investigated the determinants of the movements in the long term Standard & Poor‘s and CAMEL bank ratings in the Czech Republic during the period when the three biggest banks, representing approximately 60% of the Czech banking sector's total assets, were privatized (i.e., the time span 1998-2001).

Sushendra Kumar Misra and Parvesh Kumar Aspal (2013) on ―A Camel Model Analysis of State Bank Group‖, showed that in Capital Adequacy norms, SBP and SBBJ ranked first while SBI ranked last. Under the parameter ‗Asset Quality‘, the SBBJ topped. Under the parameter ‗Management efficiency‘, SBT ranked top and SBBJ was at the last. Under the ‗Earning Capability‘, the SBM is ranked first and SBP at the last. Under the Liquidity parameter, the SBI was ranked at the first and SBM at the last.

Golam Mohiuddin (2014) studied the ―Use of CAMEL Model: A Study on Financial Performance of Selected Commercial Banks in Bangladesh‖, by taking two major banks as the base for the study (NCB & PSB) operating in Bangladesh. This survey concluded that the banks were all at satisfactory place.

CA. Ruchi Gupta (2014) studied the public sector bank‘s performance from 2009 to 2013 using CAMEL. The survey result shows that there is a considerable distinction between the public sector banks using CAMEL. The ranks were given differently for the banks based on 5 parameters.

3. Understanding Of Concept

In the Eighties, artiodactyls mammal scoring system was initial introduced by U.S. super ordinate authorities as a system If rating for on the scene examination of banking establishments. This rating ensures a bank's healthy condition by reviewing completely different aspects of a bank supported form of info sources like finances, funding sources, macroeconomic information, budget and income. In fact, artiodactyls mammal is associate degree form for 5 elements of bank safety and soundness:

C-Capital Adequacy

- **A-Asset Quality**
- **M-Management Potential**
- **E-Earning Ability**
- **L-Liquidity Position**

I] Capital Adequacy: It's a very important parameter for a bank to conserve and shield stakeholders, confidence and stop the bank from bankruptcy. Associate degree institution's capital adequacy depends on its growth plans, interest and dividend practices, ability to manage risks and economic atmosphere. Depository financial institution of India (RBI) prescribes banks to take care of minimum Capital to Risk.

II] Asset Quality: It covers associate degree establishment loan's quality that reflects the earnings of the institution. Its associate degree indicator of good health of banks against loss important within the plus as asset impairment risks the economic condition of banks. The plus quality is assessed with reference to the amount of non-performing assets, adequacy of provisions, distribution of assets etc. Plus quality is associate degree indicator of associate degree indicator of associate degree institution's investment policies and practices.

III] Management potential: It refers to the aptitude of the management to make sure the safe operation of the establishment because it complies with the required internal and external rules. It reflects the aptitude of management to properly react to money stress in addition on management and mitigate risks of the institution's daily activities.

IV] Earning Quality: It represents the property and growth of future earnings of an represents the property and growth of future earnings of an establishment in addition as its ability to take care of quality and retain aggressiveness.

V] Liquidity position: it's a live of associate degree institution's short economic condition that permits it to acquire comfortable funds either by increasing liabilities or by changing its assets to money quickly at an inexpensive value. It's determined by assessing charge per unit risk determined by assessing charge per unit risk sensitivity, dependence on short volatility.

4. Research Methodology:

CAMEL model is basically ratio based model for evaluating the performance of banks. It is a management tool that measures capital adequacy, assets quality, management efficiency, earnings quality and liquidity of financial institutions.

5. Objectives of the study

- To analyze the capital adequacy of selected banks
- To assess the asset quality of selected banks
- To evaluated the management efficiency of selected banks
- To determination the earnings quality of selected banks
- To identify the liquidity position of selected banks

Type of Research: The present study adopts Quantitative & Analytical research.

Sample Banks: A sample of five HDFC Bank, AXIS Bank, ICICI Bank, KOTAK MAHINDRA Bank and IDBI Bank selected for the purpose of the study.

Tools used: Variables related to CAMEL model are used in the study. While analyzing and interpreting the results M.S.Excel has been used.

Data Collection:

Data Collection The present study is based on Secondary data. The relevant data has been collected from the annual reports of selected banks. In addition to the records of the bank, data were also collected from banking bulletin, websites and various journals.

6. Data Analysis

Table No :I) Comparative Analysis of Capital Adequacy Ratio

Banks	**2015**	**2016**	**2017**	**2018**	**2019**	**Mean**
HDFC	16.79	15.53	14.55	14.82	17.11	15.50
ICICI	17.02	16.64	17.39	18.42	16.89	17.34
AXIS	15.09	15.29	14.95	16.57	15.84	15.66
KOTAK MAHINDRA	17.17	16.34	16.77	18.22	17.45	17.20
IDBI	15.60	16.50	17.00	18.40	16.50	17.10

Source: Annual reports

Table No I show, the Capital Adequacy Ratio (CAR) of selected Bank under study set by RBI. The highest CAR ratio has ICICI bank i.e. 17.34%& lowest CAR Ratio has HDFC Bank i.e.15.50%. Also the above table shows us the mean of the HDFC, ICICI,Axis,Kotak Mahindra And IDBI Bank that are 15.50%, 17.344%, 15.66%, 17.20% and 17.10%.

Table No: II) Analysis of Net NPA

Banks	**2015**	**2016**	**2017**	**2018**	**2019**	**Mean**
HDFC	0.20	0.28	0.33	0.40	0.39	0.32
ICICI	1.61	2.67	**4.89**	**4.77**	2.06	3.20
AXIS	0.44	0.70	0.20	0.28	2.06	1.74
KOTAK MAHIN DRA	0.92	1.06	1.61	2.67	0.75	0.99
IDBI	0.12	0.29	0.81	0.64	1.86	0.74

Source: Annual reports

In this above table there is calculation of Net NPA Risks from the perspective of banks. The highest Net NPA of ICICI, Bank i.e. 3.20%. Whereas the lowest Net NPA to Net. Also the above table shows us the mean of the HDFC, ICICI,Axis,Kotak

Mahindra And IDBI Bank that are 0.32%, 3.20%, 1.74%, 0.99% and 0.74%.

Table No: III) Return on Assets Ratio

Banks	2015	2016	2017	2018	2019	Mean
HDFC	2.00	1.92	1.88	1.93	1.90	1.93
ICICI	1.86	1.49	1.10	0.87	0.39	1.14
AXIS	1.83	1.72	0.65	0.04	0.63	0.97
KOTAK MAHINDRA	1.98	1.19	1.73	1.73	1.69	1.66
IDBI	1.60	1.70	1.80	1.60	0.50	1.44

Source: Annual reports

Return on Assets reflects quality and management potential of an establishment and also the higher the quantitative relation, It's quite clear from this table that each of the banks has low level of assets quality. The best return of assets shows by the HDFC wherever Axis Bank registered lowest on assets quality. Also the above table shows us the mean of the HDFC, ICICI,Axis,Kotak Mahindra And IDBI Bank that are 1.93%, 1.14%, 0.97%, 1.66% and 1.44%.

Table No: IV) Comparison of Net worth Ratio (%)

Banks	2015	2016	2017	2018	2019	Mean
HDFC	16.92	17.22	16.61	16.88	14.53	16.04
ICICI	13.89	11.19	10.11	6.63	3.19	9.00
AXIS	16.46	15.64	6.59	0.43	7.01	9.23
KOTAK MAHINDRA	13.19	8.72	12.35	10.89	11.47	11.32
IDBI	17.16	18.41	15.09	16.40	6.39	14.69

Source: Annual reports

In Table No IV there is calculation of ratios of net worth (%) of selected banks, this ratio help organization to find out the net surplus and efficiency of the banks, in this table the highest net worth of HDFC bank i.e. 16.04%, and lowest net worth ratio was ICICI bank i.e.9.23%.Also the above table shows us the mean of the HDFC, ICICI,Axis,Kotak Mahindra And IDBI Bank that are 16.04%, 9%, 9.23%, 11.32% and 14.69%.

Table No : V) Analysis of Debt Equity Ratio

Banks	2015	2016	2017	2018	2019	Mean
HDFC	4.23	4.42	4.85	4.97	4.79	4.65
ICICI	7.05	7.36	6.90	7.58	8.02	7.38
AXIS	9.00	8.60	9.31	9.48	10.52	9.38
KOTAK MAHINDRA	4.71	5.39	5.33	4.95	5.04	5.08
IDBI	10.05	10.40	8.23	10.70	12.49	10.37

Source: Annual reports

Debt Equity Ratio of HDFC, ICICI, Axis, and Kotak Mahindra & IDBI for the study period are shows in table no VI. Debt Equity Ratio is highest of Axis Bank i.e.9.38% for the study period exhibited in table VII and HDFC bank has lowest ratio i.e.4.65%.Also the above table shows us the mean of the HDFC, ICICI, Axis, Kotak Mahindra And IDBI Bank that are 4.65%, 7.38%, 9.38%, 5.08% and 10.37% respectively.

Table No: VII) Comparative Analysis of Net Interest Margin to Deposit Ratio (%)

Banks	2015	2016	2017	2018	2019	Mean
HDFC	4.14	4.25	4.21	4.16	4.18	4.19
ICICI	3.07	3.11	2.92	2.80	2.94	2.97
AXIS	3.37	3.41	3.21	2.88	2.91	3.16
Kotak Mahindra	4.36	4.63	3.99	3.98	3.90	4.17
IDBI	2.85	3.03	3.05	2.93	2.83	2.94

Source: Annual reports

As indicated in above table VII the Net interest Margin to Deposit ratio, across the 5 years, It is highest in HDFC bank i.e.4.19% as compared to other bank whereas lowest in IDBI Bank i.e.2.94%.Also the above table shows us the mean of the

HDFC, ICICI,Axis,Kotak Mahindra And IDBI Bank that are 4.19%, 2.97%, 3.16%, 4.17% and 2.94% respectively.

7. Findings:

Capital Adequacy

- The CAR reflects selected Axis Bank, ICICI Bank, Kotak Mahindra Bank HDFC Bank and IDBI banks are showing fluctuating trend of capital adequacy.
- The mean ration of selected banks are in range from 15.50% to 17.34%
- There is no significant difference in the average CAR of banks under study.

Asset Quality

- Gross NPAs expressed as a percentage of advances of all the five banks are in increasing trend except Kotak Mahendra bank.
- The mean ration of selected banks are in range from 0.32% to 3.20%
- Net NPAs expressed as a percentage of Net advances of all the five banks are in increasing trend.
- Return on Asset also showing fluctuating trend.

Management Efficiency

- Profits per employee of all the banks are in increasing trend.
- There is significant difference in the management efficiency of banks under study.

Earnings Quality

- Return on Asset of selected banks showing fluctuating trend.
- The best return of assets shows by the HDFC wherever Axis Bank registered lowest on assets quality.
- the highest return on net worth of HDFC bank i.e. 16.04%, and lowest return on net worth ratio was ICICI bank i.e.9.23%.
- Debt Equity Ratio is highest of Axis Bank i.e.9.38%

Liquidity

- The highest Net Interest Margin to Deposit Ratio is in HDFC bank i.e.4.19% as compared to other bank whereas lowest in IDBI Bank i.e.2.94%.

The highest net worth of HDFC bank i.e. 16.04%, and lowest net worth ratio was ICICI bank i.e.9.23%.

8. Conclusion

The report makes an attempt to examine and compare the performance of the five different sector banks of India i.e. from private sector bank, HDFC bank, AXIS bank, ICICI bank, KOTAK MAHINDRA bank, IDBI bank. The analysis is based on the CAMEL model. The study has brought many interesting results. All the five banks have succeeded in maintaining CRAR at a higher level than the prescribed level, But the ICICI bank has maintained highest across the duration of last five years i.e. more than 17.34%. It is very good sign for the banks to survive and to expand in future. The highest Net NPA to Net Advances of ICICI, Bank i.e. 3.20%, The best return on assets shows by the HDFC wherever Axis Bank registered lowest on assets quality, the highest return on net worth of HDFC bank i.e. 16.04% , credit Deposit Ratio highest of IDBI i.e.91.43%, Debt Equity Ratio is highest of Axis Bank i.e.9.38% for the study period exhibited in table VII and HDFC bank has lowest ratio i.e.4.65% and lastly the Net Interest margin highest in HDFC bank i.e.4.19% as compared to other bank.

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