REVIEW OF RESEARCH

A CAMEL MODEL ANALYSIS OF PRIVATE SECTOR BANKS

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ABSTRACT:

Banking Sector plays a predominant role in country's economy growth and development. During the LPG era, private sector banks play significant role to facilitate the monetary policy in an effective manner. Initially, banks are involved in accepting deposits and lending loans and advances to the public, but today in the digital era, the banks are rendering fee based services to their customers. There are number of private banks have been actively engaged in the financial market to satisfy the needs of the customers. It is imperative to measure the financial performance of five selected private banks in India are namely ICICI, HDFC, YES, Kotak Mahindra and IndusInd Bank Ltd by adopting the CAMEL model over a period of 2013-2017. Various parameters such as Capital adequacy, Assets quality, Management efficiency, Earning capacity and Liquidity management of banks have been measured in CAMEL approach. All these five banks are ranked on the each parameter of the CAMEL. The findings of the CAMEL model shows the financial position of the banks and it would be useful to stakeholders of the banks.

KEYWORDS*: CAMEL, Financial Performance, Private Banks.*

INTRODUCTION

Banking sector is an inevitable part of the financial system. The growth and development of the economy depends upon the financial performance of the bank. It is imperative to study the overall performance of the five selected private banks to ensure the sound financial system of the economy. The main objective of the bank is to maintain the stability and make sure they are impervious to external shocks while at the same time being internally sound and sensible. Therefore it is important to measure soundness across various banks in the country, identify the weaker sections of the banking sector, develop appropriate strategies and policies to lift these sections and eventually create an environment that leads banks to converge in soundness and result in a consistently stable system. The CAMEL rating is a supervisory rating system originally developed in the U.S. to evaluate the banks overall performance.

LITERATURE REVIEW

Various authors have made several studies on the financial performance of the banks by using CAMEL model in the different period. A brief review of important studies is presented here, which highlights the findings of the study. Ahamed Lebbe Abdul Rauf (2016) found that capital adequacy, assets quality and earning quality were significantly correlated with financial performance, and management efficiency and liquidity were not significantly correlated with financial performance of the bank. Suba and Jogi (2015), analysed the comparative performance of two private sector banks HDFC and ICICI in India, found that while there was no significant difference between the two selected banks in terms of certain indicators, significance difference was observed between two selected banks in terms indicator of capital adequacy ratio. Geeta Sharma, Amandeep Kaur Arora (2016), examined the comparative performance of private sector banks and public sector banks found that private sector banks holds top position than the public sector banks. Svetlana Tatuskar (2010) found that Public sector bank like BOI had done remarkable position and private sector bank like ICICI was outstanding performance while making the comparison of Indian scheduled banks. Gupta et al (2005), and another by Das et al (2008), found that found that the efficiency increase in the private bank sector has come from the small banks. Using Capital Adequacy Ratio analysis, the paper finds that an increase in CAR results in higher productive efficiency which stems out of high profitability of banks and thus better soundness. Aswini Kumar Mishra and et.al (2013), found that Private banks are growing at a faster pace than public sector banks and will head towards convergence faster than the PSBs. (Azizi and Sarkani, 2014), examined that assessment of the Bank performance in the country is of a prime significance (Misra and Aspal, 2013), Performance evaluation of the banking sector is an effective measure and indicator to check the soundness of economic activities of an economy.

OBJECTIVES

To examine the overall performance of five selected private Banks and assigned the ranks using CAMEL model**.**

METHODOLOGY

The present study is an analytical research design. Secondary data has been used to conduct the study. The study considers five selected private banks for the period ranging from 2013 to 2017. The selection of banks is based on size of asset. Secondary data has been collected from different websites, annual reports of banks and RBI reports. CAMEL model have been used as research instrument to evaluate the performance of bank. Group average of all banks based on their parameters was considered, after that the computation of composite rankings is done. The study includes the following five banks:

- ICICI
- HDFC
- YES
- INDUSIND
- KOTAK MAHINDRA

ANALYSIS AND INTERPRETATION

Camel models

The CAMEL rating is a supervisory rating system originally developed in the U.S. to evaluate the banks overall performance. The tool was adopted across the globe for evaluation and rankings are made.

I) Capital Adequacy (C)

It measures the ability of a bank in absorbing losses arising from risk assets. It is the ratio of TIER-I and TIER-II Capital to the aggregate of risk weighted assets (RWA). TIER-I Capital refers to the core capital, which includes paid –up capital, statutory reserves, capital reserves and other disclosed free reserves. Equity investments in subsidiaries, intangible assets, losses in the current period and those brought forward from previous years are not included in TIER-I Capital and TIER-II Capital consists of undisclosed reserves and cumulative perpetual preference shares, revaluation reserves, general provisions and loss reserves, hybrid debt capital instruments.

Table 1: Capital Adequacy Ratio

Bank	2017	2016	2015	2014	2013	Rank
ICICI	17.39	16.64	17.02	17.70	18.74	1
HDFC	14.60	15.53	16.79	16.07	16.80	5
YES	17.07	16.50	15.60	14.40	18.30	2
INDUSIND	15.31	15.50	12.09	13.83	15.36	4
KOTAK MAHINDRA	16.77	16.34	17.17	18.83	16.05	3

From the above table, it was found that ICICI bank secured the top position with highest average Capital Adequacy Ratio of 17.39 % followed by YES bank 17.07%, KOTAK MAHINDRA bank 16.77%, INDUSIND bank 15.31 % and HDFC bank 14.60% . It is clear that ICICI bank maintains high CAR during all the years and it has a CAR of 17.39% during the last year which is also more than the CAR of other banks. At the same time HDFC bank maintain lower CAR during the year 2017 due to less investment in Government securities.

II) Asset quality (A)

The quality of assets is an important measure of the strength of bank with the aim to ascertain the component of nonperforming assets as a percentage of the total assets. It determines the healthiness of financial institutions against loss of value in the assets as asset impairment risks the solvency of the financial institutions

Table 2: Net Non Performing Assets

Bank	2017	2016	2015	2014	2013	Rank
ICICI	5.00	2.98	1.61	0.97	0.77	1
HDFC	1.00	0.28	0.2	0.3	0.2	4
YES	1.00	0.29	0.12	0.05	0.01	5
INDUSIND	1.00	0.36	0.31	0.33	0.31	3
KOTAK MAHINDRA	1.00	1.06	0.92	1.08	0.64	2

ICICI are stood at first position with 5.00 followed by HDFC, YES, INDUSIND, and KOTAK MAHINDRA has 1.00 are secured the second position due to portfolio risk of the bank. The ratio portrays the quality of the asset class in the portfolio and the also the extent of deterioration of the quality of the asset portfolio.

III) Management efficiency (M)

The most important component of Camel model is Management Efficiency that shows how management is efficiently and effectively run the operations for their growth and sustainable development of bank. It measures the leadership and administrative capability of the bank.

Table 3: Return on Assets (ROA)

Bank	2017	2016	2015	2014	2013	Rank
ICICI	1.31	1.42	1.80	1.73	1.62	5
HDFC	1.81	1.85	1.89	1.90	1.82	1
YES	1.75	1.68	1.64	1.55	1.31	3
INDUSIND	1.78	1.80	1.80	1.76	1.62	2
KOTAK MAHINDRA	1.68	1.40	1.93	1.75	1.62	4

From the above table, HDFC bank was at the top position in Return on Asset with the highest percentage 1.81% followed by INDUSIND bank 1.78%, YES bank 1.75%, and KOTAK MAHINDRA bank has 1.68% and ICICI ban has 1.31% were at the bottom position due to its poor performance on ROA.

IV) Earning quality (E)

The quality of earnings represents the sustainability and growth of future earnings, value of bank's lucrativeness and its competency to maintain quality and earn consistently. It indicates the earning consistency of the banks and help to determine the profitability of banks. The best indicator used to gauge earning is the Return on Assets (ROA), which is net income after taxes to total asset ratio

Table 4: Net Profit Ratio

Bank	2017	2016	2015	2014	2013	Rank
ICICI	18.09	18.44	22.16	22.20	20.77	5
HDFC	20.99	20.41	21.07	20.61	19.18	1
YES	20.27	18.76	17.32	16.20	15.68	2
INDUSIND	19.27	12.75	19.19	17.13	16.91	4
KOTAK MAHINDRA	19.96	19.74	18.50	17.05	15.19	3

HDFC bank was at the top position of 20.99 followed by YES bank, KOTAK MAHINDRA, INDUSIND banks. ICICI was at the bottom position of 18.09 due to its poor performance on profitability position.

V) Liquidity (L)

Liquidity management in banks has assumed prime importance due to competitive pressure and the easy flow of foreign capital in the domestic markets. The impact of liquidity crisis in the banks can adversely impact the financial performance of the banks. It measures the liquidity position of the bank. The adequate liquidity position, of the bank can obtain sufficient funds, either by increasing liabilities or by converting its assets to cash quickly at a reasonable cost.

Table 5: Current Ratio

BANK	2017	2016	2015	2014	2013	Rank
ICICI	16.59	14.91	14.33	11.88	11.22	2
HDFC	11.38	14.74	12.95	8.89	9.92	5
YES	14.25	14.31	12.58	10.60	10.31	4
INDUSIND	19.87	16.06	15.31	18.29	19.48	1
KOTAK MAHINDRA	15.66	14.93	22.34	23.70	25.18	3

Indusind bank has a high current ratio followed by ICICI, Kotak Mahindra, and YES bank while HDFC bank has lower current ratio; therefore Indusind bank is more liquid than other banks.

Table 6: Composite Ranking

CAMEL model is used to rating the banks according to their performance. The composite ranking is as follows:

Banks	Rank (C)	Rank (A)	Rank (M)	Rank (E)	Rank (L)	Average	Rank
HDFC	5	4	1	1	5	3.2	3
ICICI	1	1	5	5	2	2.8	1
INDUSIND	4	3	2	4	1	2.8	1
KOTAK MAHINDRA	3	2	4	3	3	3	2
YES	2	5	3	2	4	3.2	3

In order to assess the overall performance of five Private Sector Banks in India, the composite rating has been calculated from the group ranking of the private sector banks in India for the period of 2013-2017 and results are shown in the above table. On the basis of CAMEL model analysis, ICICI and INDUSIND banks are stood at first position followed by Kotak Mahindra and HDFC, and YES banks are secured the least position

CONCLUSION

Due to drastic changes such as core banking, net banking in the banking industry, all the banks have been improved their supervision quality and techniques. The economic development of any country is mainly depends on the growth of the banking industry. In evaluating the financial performance of the banks, many of the developed countries are now adopting the uniform financial rating system CAMEL RATING along with other existing procedures and techniques. The current study has been conducted to measure the performance of five selected private banks in INDIA using CAMEL model during the period 2013-2017.The study reveals that ICICI and INDUSIND banks are stood at first position followed by Kotak Mahindra and HDFC, and YES banks are secured the least position. There is scope of improvisation in HDFC, and YES banks in terms of Asset Quality and Management efficiency.

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