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Original Research Paper

Commerce

A STUDY ON FINANCIAL PERFORMANCE OF SELECTED COMMERCIAL BANKS IN INDIA USING CAMEL APPROACH

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ABSTRACT Commercial banks plays a major role in financial system of an economy, the financial health of a nation is directly related to the financial soundness of its banking system. This paper set out to analyse the financial soundness of major commercial banks in India 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 management quality, interest spread ratio to analyse earnings and quick ratio to analyse liquidity of banks.

KEYWORDS : Financial soundness, Camel rating system, Capital adequacy, Asset quality, Management efficiency, Earnings, Liquidity.

INTRODUCTION:

Banking plays a role of back bone of financial system, development of any country mainly depends upon the banking system. A bank is a financial institution which accepts deposit and advances it. It receives money form savers in the form of deposits and lends money to those who need it. Apart from the main function of accepting deposits and advancing it also acts as an intermediary in serving economy. Therefore the financial and soundness of bank is very crucial to ensure economic development of a country. The Indian banking system is dominated by nationalized bank. As the banks are vital channels of sustainable development in a developing nation like India, it is important to measure the soundness of various bank and identify the weakness of the banks to devise appropriate strategies to overcome these.

Therefore the performance of banks should be given more attention than any time of economic unit. The camel modes is significant tool to assess the financial strength of the banks. The camel model was developed in 1970 by federal banking supervisors in USA and in India it was adapted by RBI in 1996 on the recommendation of Padmanabhan committee

The camel rating system is used by the rating agencies for evaluating the performance of bank when they opt for public issue, issue of bonds, such rating made by rating agencies helps the investors make an assessment of the financial position of the banks

OBJECTIVE OF THE STUDY:

The objective of the study is to evaluate the financial performance of top 5 private commercial banks in India based on market capitalization from 2013-14 to 2017-18.To know the positions of the banks in terms of ranking.

LITERATURE REVIEW:

Many academicians, scholars have analysed the financial performance of the banks using CAMEL model the 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 form 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 those 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.

RESEARCH METHODOLOGY:

For the purpose of analysis, secondary data is collected from the financial statement and annual reports of the banks. A total of 5 private 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. The duration of the study is from 2013-14 till 2017-18.

DATA ANALYSIS AND INTERPRETION:

TABLE 1: CAPITAL ADEQUACY RATIO:

CAPITAL ADEQUACY RATIO							
BANK/ YEAR	2017-18	2016-17	2015-16	2014-15	2013-14	AVERAGE	RANK
HDFC	14.82	14.6	15.53	16.79	16.07	15.562	4
KOTAK MAHENDRA BANK	18.22	16.77	16.34	17.17	18.83	17.466	2
ICICI	17.39	16.64	17.02	17.7	18.74	17.498	1
AXIS	16.57	14.95	15.29	15.09	16.07	15.594	3
INDUSIND	15.03	15.31	15.5	12.09	13.83	14.352	5

Table 1 is represents the average capital adequacy of commercial banks for the period of 2013-2018. With a 5 year average ICICI bank has highest capital adequacy of 17.5% followed by Kotak Mahindra bank with an average of 17.46 % and Indusind bank with the least capital adequacy of 14.35%

TABLE 2: RETURN ON ASSET

RETURN ON ASSETS							
BANK/ YEAR	**2017-18**	**2016-17**	**2015-16**	**2014-15**	**2013-14**	**AVERAGE**	**RANK**
HDFC	409.6	349.12	287.47	247.39	181.23	294.962	3
KOTAK MAHENDRA BANK	196.69	150.01	130.61	183.09	159.35	163.95	5
ICICI	171.59	154.31	138.72	634.6	578.65	335.574	2
AXIS	247.2	232.83	223.12	188.47	813.47	341.018	1
INDUSIND	390.94	338.65	290.79	193.4	164.33	275.622	4

Table 2 represents the average return on asset reflecting the quality of assets of the bank. Axis bank with an average of 341.018 is ranked first, followed by ICICI bank. Kotak Mahindra bank at the least rank.

TABLE 3: INTEREST INCOME /TOTAL ASSET RATIO

INTEREST INCOME/TOTAL ASSET RATIO							
BANK/ YEAR	**2017-18**	**2016-17**	**2015-16**	**2014-15**	**2013-14**	**AVERAGE**	**RANK**
HDFC	7.54	8.02	8.49	8.2	8.36	8.122	3
KOTAK MAHENDRA BANK	7.45	8.24	8.52	9.16	10	8.674	1
ICICI	7.01	7.31	7.59	7.42	7.46	7.358	5
AXIS	6.62	7.4	7.8	7.68	7.99	7.498	4
INDUSIND	7.79	8.06	8.26	8.88	9.48	8.494	2

Table 3 represents the average proportion of interest income over total assets which reflects the management efficiency in generating the income with existing assets, Kotak Mahendra bank with average of 8.67 is ranked first for having highest proportion of income over asset followed by Indusind bank with 8.5 and ICICI bank is ranked 5th with 7.3

TABLE 4: INTEREST SPREAD

INTEREST SPERAD RATIO							
BANK/ YEAR	**2017-18**	**2016-17**	**2015-16**	**2014-15**	**2013-14**	**AVERAGE**	**RANK**
HDFC	7.78	7.46	7.52	8.01	8.01	7.756	2
KOTAK MAHENDRA BANK	6.94	7.64	7.86	8.38	9.52	8.068	1
ICICI	6.58	6.83	7.04	7.35	7.82	7.124	4
AXIS	5.9	6.84	6.81	7.34	7.67	6.912	5
INDUSIND	6.77	7.14	6.96	7.47	7.85	7.238	3

Table 4 represents the average of interest spread reflecting the earning capacity of the banks with an average interest spread of 8.06 Kotak Mahendra bank is ranked first followed by HDFC with average interest spread of 7.8 and AXIS bank ranked 5 with interest spread of 6.9

TABLE 5: QUICK RATIO

QUICK RATIO							
BANK/ YEAR	**2017-18**	**2016-17**	**2015-16**	**2014-15**	**2013-14**	**AVERAGE**	**RANK**
HDFC	17.48	11.19	14.51	12.69	8.55	12.884	5
KOTAK MAHENDRA BANK	19.49	18.09	15.61	14.83	17.39	17.082	3
ICICI	16.31	14.97	13.81	11.31	10.53	13.386	4
AXIS	20.02	17.1	25.74	20.64	18.57	20.414	1
INDUSIND	21.38	14.45	14.16	20.53	22.84	18.672	2

Table no 5 represents the average quick ratio, from the above table it can be said that AXIS bank has maintained more liquid 20.4 assets and stands first followed by Indusind bank 18.67 and HDFC has less liquid asset12.9 and stands last.

TABLE 6: COMPOSIT RANK

COMPOSIT RANK							
BANK	**C**	**A**	**M**	**E**	**L**	**AVERAGE**	**RANK**
HDFC	4	3	3	2	5	3.4	4
KOTAK MAHENDRA BANK	2	5	1	1	3	2.4	1
ICICI	1	2	5	4	4	3.2	3
AXIS	3	1	4	5	1	2.8	2
INDUSIND	5	4	2	3	2	3.2	3

Table no 6 depicts the overall, Kotak Mahendra secured first rank at the composite level which means the banks financial performance is outstanding followed by AXIS in 2nd position and ICICI and Indusind bank sharing 3rd spot and HDFC with 4th position.

CONCLUSION:

The study was undertaken to know the financial performance of the private 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 Kotak Mahendra bank is outstanding followed by AXIS bank which secured 2nd rank and 3rd spot shared by ICICI and Indusind bank and HDFC ranked 4th. Hence it is recommended that HDFC, ICICI and Indusind bank take necessary actions 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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