



ANALYZING FINANCIAL HEALTH OF INDIAN COMMERCIAL BANKS : A CAMEL APPROACH.

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ABSTRACT Commercial Banks play a very significant role in the economy of a country. It is central to a nation's economy as it caters to the needs of credit for all the sections of the society. Several changes have taken place in the operations and structure of the banking system with the introduction of Financial Sector Reforms in 1991. The increased opportunities for the banks provided by the deregulation have extended their portfolios, but at the same time introduced new uncertainties and risks. The objective of this paper is to analyze the performance of 12 public and private sector banks over a period of eleven years (2006-2017) in the Indian banking sector. For this purpose, CAMEL approach has been used. It is established that private sector bank are more sound than public sector bank.

KEYWORDS : Commercial banks, Capital adequacy, Asset quality, Management capability etc.

INTRODUCTION:

Commercial Banks play a positive role in the development of a country as depositories of community's savings and purveyors of credit. Indian Banking had aided the economic development during the last sixty years (1949-2009) in effective ways. The banking sector had shown remarkable responsiveness to the needs of planned economy. It had brought about a considerable progress in its efforts in deposit mobilization and has taken a number of measures in recent past in accelerating the rate of growth of deposits. As recourse of this, the commercial banks have opened a number of branches in urban semi-urban and rural areas. Banks have introduced a number of accelerative schemes to faster economic development. The activities of commercial banking have grown in multidirectional ways as well as in multi-dimensional manner. Banks have been playing a catalyst role in area development, backward area development, extended assistance to rural development, helping agriculture, industry, international trade in a significant manner. In other ways, commercial banks have emerged as the key financial agencies for rapid economic development. Commercial banks in India have undergone immense regulatory and technological changes since financial sector reforms in 1991. Indian banks are faced with increasing competition and rising costs as a result of regulatory requirements, financial and technological innovation, entry of large foreign banks in the retail banking environment. These changes had a significant effect on the performance of the commercial banks in India.

Review of literature

Chawla, A.S.(2012) made an attempt to analyze the emerging trends in profits and profitability of four banks, two each from public sector and private sector banks. Sanjay J. Bhayani in his study, "Performance of New India Private Banks: A Comparative Study", analyzed the performance of new private sector banks with the help of CAMEL model. The study covered 4 leading private sector banks-ICICI,HDFC, UTI and IDBI for a period of 5 years from 2000-01 to 2004-05. It is revealed that the aggregate performance of IDBI Bank is best among all the banks, followed by UTI.

Sheeba Kapil (2011) was to analyze the current financial health of the Indian Public Sector Commercial Banks in the light of banking reforms and predict the future and scope of the same. The viability of the 27 public sector banks has been analyzed on the basis of offsite supervisory exam model i.e., CAMEL Model (C for capital adequacy, A for Asset quality, E for Earnings and L for Liquidity). These four components of each bank have been analyzed and rated on a scale to judge the composite rating of the same. The paper finds that the off-site supervisory exam model (CAMEL) has rated majority of PSBs as non-viable and they require immediate attention and government support. After 19 years of economic and banking reforms, the Indian Banking Sector has still miles to go. Low Profitability, Liquidity, Capital adequacy and high non-performing assets will definitely make the majority of Indian PSBs a bad bargain in near future

Alamelu (2013) in his study entitled, "Profitability in Banks, a matter of survival", pointed out the problem of declining profit margins in the Indian Public Sector Banks as compared to their private sector counterparts. It was observed that in spite of similar social obligations;

almost all the private sector banks have been registering both – high profits and high growth rate with respect to deposits, advances and reserves as compared to the public sector banks. Regional orientation, better customer services, proper monitoring of advances and appropriate marketing strategies are the secrets behind the success of public of the private sector banks.

Singh R (2016), in his paper Profitability management in banks under deregulate environment, IBA bulletin, No25, has analyzed profitability management of banks under the deregulated environment with some financial parameters of the major four bank groups i.e. public sector banks, old private sector banks, new private sector banks and foreign banks, profitability has declined in the deregulated environment. He emphasized to make the banking sector competitive in the deregulated environment. They should prefer non interest income sources.

Ram Mohan (2017), in his paper, Long run performance of public and private sector bank stocks", has made an attempt to compare the three categories of banks-Public, Private and Foreign-using Physical quantities of inputs and outputs, and comparing the revenue maximization efficiency of banks during 1992-2000. The findings show that PSBs performed significantly better than private sector banks but not differently from foreign banks. The conclusion points to a convergence in performance between public and private sector banks in the post-reform era, using financial measures of performance.

Research Methodology

Research methodology is a systematic way to solve a problem. It is a science of studying how research is to be carried out. Essentially, the procedures by which researchers go about their work of describing, explaining and predicting phenomena are called research methodology. It is also defined as the study of methods by which knowledge is gained. Its aim is to give the work plan of research. The section would contain five distinct phases including population & sampling, description of the sample, instrumentation, data collection and data analysis.

OBJECTIVES OF THE STUDY

1. To find out the asset quality, management quality, capital adequacy of banks under study.
2. To analyse the liquidity and earning quality of banks under study.
3. To study the overall trend of financial health of the commercial banks through CAMEL approach.
4. To suggest measures to improve further the financial health of the banks under study.

Research design

A research design is the arrangement of conditions for collection and analysis of data in a manner that aims to combine relevance to the research purpose with economy in procedure. It details the procedures necessary for obtaining the information need to structure and/or solve research problems. The research design lays the foundation for conducting the project. The research work is analytical in nature as for it is based on secondary data.

Universe of Study

The universe of the study consists of all banks irrespective of private, public, semi-state or nationalized whatever the type of ownership of the banking organization active and situated in India.

Sampling method

The sampling design provides detailed explanation of the target population and the sampling method used for this study. The sampling procedure followed for the selection of the sample is purposive sampling. Purposive sampling technique is a type of non probability sampling where the researcher consciously selects particular elements or subjects for addition in a study so as to make sure that the elements will have certain characteristics pertinent to the study. The Banks were selected on the basis of their ranking with regard to investment, advances, deposits and assets. The banks selected for the purpose of the study are Axis Bank Ltd. Bank of Baroda (BOB), Bank of India (BOI), Canara Bank, HDFC Bank Ltd (HDFC), ICICI Bank Ltd (ICICI), IDBI Bank Ltd (IDBI), Kotak Mahindra Bank Ltd (KMB), Oriental Bank of Commerce (OBC), Punjab National Bank (PNB), State Bank of India (SBI) and Union Bank of India (Union Bank).

Sources of Information

Data are distinct pieces of information, usually formatted in a special way. Data may be obtained either from the primary source or the

secondary source. This paper is based on secondary data drawn from the annual reports of the respective banks, research journal, periodical, News paper and related websites. Apart from this data of IBA Bulletin, Statistical Tables relating to banks in India published by Reserve Bank of India, various issues of Report on Trends and Progress of Banking in India, Bank Quest, various books, accounting literature, journals related to banking industry, working papers, etc have been used.

DATA ANALYSIS

The ratios depicting the CAMEL parameters were calculated based on the publicly available information published at Reserve Bank of India, Indian Bankers' Association.

Analysis & Interpretation

The overall ranking of the banks considering all the sub criteria rankings under CAMEL analysis over the eleven years period (2006-2017) is presented in the following tables. The group rankings of all the banks considered for the purpose of study is taken and averaged out to reach at the overall grand ranking. HDFC is ranked first under the CAMEL analysis followed by ICICI. Axis Bank occupied the third position. The fourth position is occupied by IDBI and KMB jointly while Bank of Baroda and PNB follow. The last position under CAMEL analysis is occupied by Union bank amongst all the selected banks during the year 2006-2017.

Capital Adequacy

Particular	Union Bank of India	SBI	PNB	OBC	KMB	IDBI	ICICI	HDFC	BOI	CANERA	BOB	AXIX
Capital Adequacy	12	6	8	10	1	2	3	4	11	7	5	9
Advance /Total Asset	3	9	5	7	11	1	8	12	2	4	6	10

Asset Quality

Particular	Union Bank of India	SBI	PNB	OBC	KMB	IDBI	ICICI	HDFC	BOI	CANERA	BOB	AXIX
Net NPA to net advance	9	10	7	3	2	12	5	1	11	6	8	4

Management Quality

Particular	Union Bank of India	SBI	PNB	OBC	KMB	IDBI	ICICI	HDFC	BOI	CANERA	BOB	AXIX
Market value to equity capital	11	1	5	9	6	12	3	2	10	8	7	4
Total advance/total deposit	5	6	8	11	2	1	3	10	4	7	9	12

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