Original Research Paper

Volume - 12 | Issue - 05 | May - 2022 | PRINT ISSN No. 2249 - 555X | DOI : 10.36106/ijar

Management

PERFORMANCE ASSESSMENT OF PRIVATE SECTOR BANKS IN INDIA BASED ON CAMEL MODEL

Dr. Jalpaben K. Patel Assistant Professor, Children's University, Gandhinagar, Gujarat.

ABSTRACT One of India's fastest expanding industries is banking. The banking industry is growing more complex nowadays. There are several factors to consider while evaluating performance. It is difficult to assess the Indian banking industry. When determining which banks are excellent and which are poor, there are a number of things to consider. The banking sector has seen regulatory requirements as a result of the RBI's and other policymakers' contributions. In the last several years, these regulatory developments have a significant impact on the efficiency and performance of Indian Scheduled Commercial Banks. The purpose behind this research was to evaluate the performance and financial soundness of private sector banks for the year 2020 and 2021 with the help of CAMEL model.(Capital Adequacy, Asset Quality, Management, Earnings, and Liquidity).

KEYWORDS : Private Banks, CAMEL Analysis

Introduction

The banking industry is critical to a country's economic success. India's banking sector changes began as part of the country's liberalisation and financial sector reforms. The banking sector's development began in the early 1990s and has continued to this day, with the Indian banking systems seeing remarkable growth in the post-liberalization period. The laws and regulations, structure, scope, and activity level of the Indian banking industry have all changed dramatically since 1991. Private sector banks in India, that are able to compete; maintain capital adequacy requirements, compliance with prudential asset liability and risk management rules, massive technological investment to move toward comprehensive computerization, and other factors have placed significant burden on all banks, even historic private banks. In India's banking sector, there have been significant developments in the post-reform period as well.

Literature Review:

Such ratings, according to Bodla and Verma (2006), will aid the Reserve Bank of India in identifying banks whose performance requires more supervision. The basic goal of the CAMEL system is to identify difficulties that banks confront and to compile a comparative study of the performance of different banks.

Hirtle and Lopez (1999) expressed concern that the bank's CAMEL rating is extremely secret, and that it is only shared with top management and suitable supervisory officials for the purpose of projecting business goals. The acronym CAMEL stands for capital adequacy, asset quality, management quality, earning capacity, and liquidity.

"A CAMEL standard has become a crucial tool for examiners and regulators," Barr et al. (2002) stated. This grade determines a bank's health by examining many components of the institution using a number of data sources such as financial statements, financing sources, macroeconomic statistics, budget, and cash flow.

Said and Saucier (2003) used the CAMEL grading technique to assess Japanese banks' liquidity, solvency, and efficiency. They looked at capital sufficiency, asset and management quality, earnings capabilities, and liquidity situation.

In Bangladesh, a research by Sarker (2005) looked at the CAMEL model for central bank regulation and supervision of Islamic banks. This research provided a Shariah standard for regulators and supervisors to use when supervising and inspecting Islamic banks and Islamic financial organisations.

Reddy, Maheshwara, and Prasad (2011) looked at the financial performance of a number of regional rural banks after they were reorganized. The entire performance of Andhra Pragathi Grameena Bank and Sapthagiri Grameena Bank was examined using the CAMEL model.

Siva and Natarajan (2011) have firsthand experience with the application of CAMEL criteria and their influence on SBI Groups' performance. According to the findings, yearly CAMEL scanning assists commercial banks in diagnosing their financial health and alerting them to take preventative measures to ensure their long-term viability.

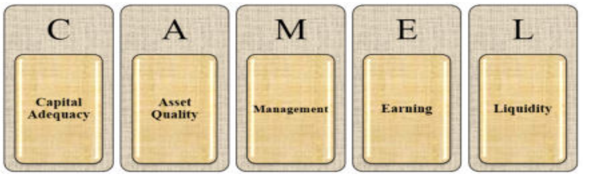
Methodology of the Study:

The objective of this study is to assess the financial performance of private sector banks with the help of CAMEL Model.

The current research is a descriptive study that employs an analytical research approach. CAMEL is a ratio-based approach for evaluating financial institution performance. Only private sector banks are included in this research of commercial banks.

Analysis & Discussion:

- **CAMEL analysis:**



Capital Adequacy Ratio (CAR):

Bandhan bank, Kotak Mahindra Bank ltd, and CSB bank ltd were the top three banks in terms of capital adequacy ratio (CAR) in the year 2021, with 23.47 percent, 22.26 percent, and 21.37 percent, respectively. Bandhan bank, CSB bank ltd, and HDFC bank were the top three banks in2020, with 27.43 percent, 22.46 percent, and 18.52 percent, respectively. In the years 2020 and 2021, Lakshmi Vilas Bank Ltd and Jammu & Kashmir Bank Ltd had lower CAR of 1.12 percent and 12.20 percent, respectively.

Asset Quality:

- **Net NPA to Net advances:**

In 2021, HDFC bank had a ratio of 0.40 percent, but Yes bank had a ratio of 5.88 percent, which was the worst. In the year2020, HDFC bank was in a good situation with a ratio of 0.36 percent, while Lakshmi Vilas Bank ltd was in a bad position with a ratio of 10.04 percent. In comparison to 2020, HDFC Bank's Net NPA to Net Advances ratio increased, which was not a favorable omen for the bank.

Management:

- **Profit per Employees:**

Among the Private Banking firms, HDFC Bank leads with a profit per employee of 26 lakhs in 2021 and 24 lakhs in 2020. Yes bank ltd had the poorest PPE in the years 2021 and2020, with -15.10 lakhs and -73.40 lakhs, respectively.

Earnings:

- Operating Profit /Total Assets:
- In the years 2021 and 2020, the Bandhan bank limited had the greatest ratios of 6.63 percent and 7.35 percent, respectively.

Dhanlakhmi Bank Ltd had the lowest Operating Profit to Total Assets in 2021, at 0.83 percent, while Lakshmi Vilas Bank ltd had the lowest in 2020, at -0.05 percent.

Liquidity:

On the basis of liquidity metrics, IDFC First Bank Limited had the greatest liquidity in 2021, while Yes Bank Ltd had the highest liquidity in 2020.

Table:1 Overview of CAMEL Analysis

Year	Capital Adequacy	Asset Quality	Manageme nt	Earnings	Liquidity
2021	Bandhan Bank limited	HDFC bank ltd.	HDFC bank ltd.	Bandhan Bank limited	IDFC First Bank limited
2020	Bandhan Bank limited	HDFC bank ltd.	HDFC bank ltd.	Bandhan Bank limited	Yes bank ltd.

Conclusion:

The CAMEL method is a useful tool for evaluating a bank's relative financial health and recommending required solutions to remedy a bank's deficiencies. According to the CAMEL study, HDFC Bank Ltd. and Bandhan Bank Ltd. have strong financial results. It is very important for drawing customers and establishing client confidence. IDFC First Bank Limited and Yes Bank Limited, on the other hand, have had dismal financial results. Because of its poor financial performance, Lakshmi Vilas Bank ltd ceased to exist in the market in the year 2021.

References:

1. Angadi and Devraj 1983, 'Profitability and Productivity of Banks in India', Economic and Political Weekly, Vol. 18 (Nov), pp. 26.
2. Barr, Richard S. et al. 2002, 'Evaluating the Productive Efficiency and Performance of U.S. Commercial Banks', Engineering Management, Vol. 28, No.8, pp. 19.
3. Beck, Thorsten and Rose Levine 2004, 'Stock Market, Banks and Growth: Penal Evidence', Journal of Banking and Finance, Vol. 28, pp. 423-42.
4. Bodla, B.S. and Verma, R. 2006, 'Evaluating Performance of Banks through CAMEL Model: A Case Study of SBI and ICICI', The ICFAI Journal of Bank Management, Vol.5, No.3, pp.49-63.
5. Gerschenkron, Alexander 1962, 'Economic Backwardness in Historical Perspective: A Book of Essay', Cambridge, Mass.: The Belknap Press of Harvard University Press.
6. Gupta, R. 2008, 'A CAMEL Model Analysis of Private Sector Banks in India', Journal of Gyan Management, Vol. 2, No. 1, pp. 3-8.
7. Kapil, S. & Kapil, K. N 2005, 'CAMEL's Ratings and its Correlation to Pricing Stocks—An Analysis of Indian Banks', University Journal of Bank Management, Vol. 4, No. 1, pp. 64-78.
8. Levine, Ross and Sara Zervos 1998, 'Stock Market, Bank and Growth', The American Economic Review, Vol. 88, No. 3, pp. 537-58.
9. McKinnon, Ronald I 1973, 'Money and Capital in Economic development', Washington, D. C.: Brookings Institution
10. Padmanabhan Working Group 1995, 'On-site Supervision of Banks', RBI. Prasuna, D G 2004, 'Performance Snapshot 2003-04', Chartered Financial Analyst, Vol. X, No. 11, pp. 6-13.
11. Sarker, A. 2005, 'CAMEL Rating System in the Context of Islamic Banking: A Proposed
12. S' for Shariah Framework', Journal of Islamic Economics and Finance, Vol. 1, No. 1, pp. 78-84.
13. Satish, D; Jutur, Sharath and Surender, V 2005, 'Indian Banking Performance and Development 2004-05', Chartered Financial Analyst, Vol. 11, No. 10, pp. 6-15.
14. Singh, D. and Kohli, G. 2006, 'Evaluation of Private Sector Banks in India: A SWOT Analysis', Journal of Management Research, Vol. 6, No. 2, pp. 84-101.
15. Shaw, E. 1973, 'Financial Deepening in Economic Development', New York: Oxford University Press.
16. Stiglitz, Joseph E. 1994, 'The Role of the State in Financial Markets', Proceedings of the World Bank Annual Conference on Development Economics 1993, (Supplement to the World Bank Economic Review and World Bank Research Observer), Washington D.C. Reserve Bank of India, 'Trend and Progress of Banking in India 2014, 2015, 2016'.