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Financial Performance of Select Public and Private Sector Banks in India by using "Camel Model"

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***Abstract*—CAMEL model analysis is an important tool to analyse the banks' and financial institutions' performance and to suggest the necessary measures for its improvement where it is required. In the present study, Indian banks- five public and five private sector banks based on its total assets have been considered. This study is taken up for the five year period from 2012-17. The present study analyses the financial performance of the select banks. Five parameters of CAMEL- Capital Adequacy, Asset Quality, Management Efficiency, Earnings Ability and Liquidity are considered to rank the banks on its performance. The study found that Kotak Mahindra has performed better and ranked first among all the banks and Punjab National bank ranked the least position. Among all, private sector banks have outperformed compared to public sector banks. The top five positions are of private sector banks and Bank of Baroda being public sector bank ranked top third with HDFC bank.**

***Index Terms*— CAMEL MODEL, Private and Public sector banks, financialPerformance and measures.**

1. INTRODUCTION:

Banks act as the backbone to the development of the economy. The primary purpose of the bank is to accept the deposits and provide loans to those who need money based on the banking norms. The efficiency of the bank in mobilizing the savings in the productive channel strengthens the economy. Every bank has to perform and function well for the free flow of money in the entire system of the country for which regular inspections and ratings are given based on different ranking models.

Every bank in the world is being rated based on its performance using CAMELS model rating system, credit rating system etc. Mostly CAMELS rating system is used in India and throughout the world to assign each bank a score on a scale. A rating of one is considered the best and the rating of five is considered the worst for each factor. These ratings are assigned to the banks by supervisory authorities.

CAMEL stands for - Capital Adequacy, Asset Quality, Management Efficiency, Earnings Ability and Liquidity. Based on these parameters the financial institutions are rated. The Central Bank plays the regulatory role to inspect the banks performances. Poor management of the banks pressurize the entire financial system of the country. Therefore effective and efficient performance of the banks is necessary for economic development and even to compete globally.

2. REVIEW OF LITERATURE:

1. **Mukund Sharma (2014)** has given a statement in his article that the purpose of CAMEL system is to detect problems before they manifest themselves. He analysed that private sector banks were better than public sector banks in utilising the available resources such as flies and also banks who's investment ratios in Government securities were more to have less gross non-performing assets and net non-performing assets using Friedman test and Mann-Whitney test.
2. **SubendraDutta (2013)** has analysed the most significant factors influencing return on assets of public sector banks which directly or indirectly influenced the economic growth of the country by applying backward multiple regression analysis. He found that NPA had negative impact on RoA and Durbin Watson statistic showed absence of autocorrelation.
3. **ApoorvaTrivedi (2015)** has examined the comparative performance of leading public and private sector banks in India and found that capital adequacy for all the banks have capital about the required level. The earnings ability of banks depends largely on the management of its assets and liabilities which are significant to maintain adequate capital and loan allowance.
4. **Khatik (2014)** has analysed that there is a significant difference in the performances and soundness of selected five nationalised banks by applying ANOVA one way classification model.
5. **Ruchi Gupta (2014)** has evaluated the field Nigel position and performance of public sector banks in India using CAMEL model and signified that the overall performance of public sector banks is different.
6. **AnjuSharan (2016)** has opined that not only earnings, but also the quality of earning has to be seen in the context of sustainability, competitiveness, healthy growth for the banking sector. The study recommended that the banks of the increase the interest and non-interesting come through fully utilisation of resources and improve the operational efficiency.

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3. RESEARCH METHODOLOGY:

3.1. RESEARCH GAP:

- This study is undertaken for the period of five years from 2012-17.
- The top public and private sector banks are chosen for the study based on Total Assets.

3.2. OBJECTIVES OF THE STUDY:

- To study the financial performance of select public and private sector banks in India.
- To compare and rank select public and private sector banks through CAMEL model i.e., based on Capital Adequacy, Assets Quality, Management Efficiency, Earnings Ability and Liquidity.

3.3.SCOPE OF THE STUDY:

- The scope of this study is to analyze the performance of banking industry in India.
- The performance of the banks are analyzed and examined by using CAMEL model ratios.

3.4. LIMITATIONS OF THE STUDY:

- This study is limited to only five select public and private sector banks each in India.
- This study is made only by considering financial statements of the banks which could have undergone through window dressing.
- This study is undertaken only for five years.

3.5. RESEARCH DESIGN:

- Tools used: Ratio analysis for CAMEL parameters.
- Sample size: 5 Public and 5 Private Sector Banks.
- Time period: For 5 years i.e., from 2012-13 to 2016-17.

4. DISCUSSION OF RESLUTS:

To measure the financial performance of the public and private sector banks by using CAMEL Model the banks were listed as follows:

PRIVATE AND PUBLIC SECOR BANKSCOMPOSTIE RANKING OF (CAMEL MODEL) TABLE NO 1

Banks		Rank (C)	Rank (A)	Rank (M)	Rank (E)	Rank (L)	Overall Average	Rank
PUBLIC SECTOR BANKS	State Bank of India	6	4	5	8	6	5.80	7
	Punjab National Bank	7	9	10	9	5	8.00	10
	Bank of Baroda	8	1	8	6	1	4.80	3
	Bank of India	9	8	5	10	3	7.00	9
	Canara Bank	10	3	9	6	2	6.00	7
PRIVATE SECTOR BANKS	HDFC Bank	3	4	4	3	10	4.80	3
	ICICI Bank	1	10	2	4	8	5.00	5
	Axis Bank	4	6	3	5	7	5.00	5
	Yes Bank	5	7	1	1	9	4.60	2
	Kotak Mahindra	2	1	7	2	3	3.00	1

From the above table no.1, the composite rankings of the banks i.e., based on the five parameters interpret that, the Kotak Mahindra is the highest performing bank among all the other public and private banks. The second highest performing bank is Yes bank, followed by HDFC bank and Bank of Baroda. The least performing bank is the Punjab National Bank. Bank of India stood at the last second place among all the banks. Among the public sector banks, Bank of Baroda is on the top position and Punjab National Bank on bottom. Among private sector banks, ICICI bank and Axis bank are on bottom. Finally from the above rankings it is interpreted that private sector banks are performing comparatively better than that of public sector banks in all the five parameters.

5. FINDINGS AND CONCLUSIONS:

The CAMEL parameters provide a measurement of banks' and financial institutions' current and overall financial, operational and managerial performance. Every bank needs to follow the guidelines and regulations set by the central bank so that there will be free flow of cash without any obstacles or prohibitions to be faced by general public or by the banks. For a bank to perform well there should be minimum requirements to be maintained such as having good profits with ease of loans and deposits i.e. having balance between loans and deposits. The banks have to maintain minimum capital so that there will be no issues with the public when withdraw their money from the banks. The capital adequacy ratio of ICICI bank is the highest among all the selected banks, followed by Kotak Mahindra at second position, HDFC bank, Axis bank, Yes bank, State Bank of India, Punjab National bank, Bank of Baroda, Bank of India and Canara bank at the lowest position. The debt equity ratio of Kotak Mahindra is better compared to other banks. The public sector banks are poor in maintaining better debt equity ratio than private sector banks. Banks have to work accordingly maintaining good asset quality i.e. having less non-performing assets. Kotak Mahindra and Bank of Baroda ranks top among all the banks in having better asset quality. ICICI bank is the low performing bank in this parameter. Kotak Mahindra has utilized more government securities followed by Canara Bank. ICICI bank is weak in investing in government securities. The performance of the banks highly depends on the management efficiency. Here, Yes bank tops the list among all the banks maintaining good management efficiency compared to other banks and Bank of India stood at the last place. Business per employee of Bank of India is better than other banks. Kotak Mahindra comes at the last position in doing better business per employee. This totally depends on the number of employees and their ability to make profits by attracting new customers and retaining the existing ones. Profit per employee of Yes bank is much better compared to other banks. There is no much profits gained by the employees of Punjab National bank. Profit per employee ratio of private sector banks are far better compared to public sector banks. Every bank need to have good earning ability to sustain in the market and lead in the graph of competition. Banks performance also highly depends on its earnings ability. Yes bank tops the list in performing better in its earnings compared to all other selected banks. Bank of India is the lowest performing bank in this category. Private sector banks performed better compared to public sector banks in earnings ability parameter. The return on asset of HDFC bank is the highest among all other selected banks followed by Kotak Mahindra. Yes bank and Axis bank stood at the same position in maintaining equal return on asset ratio. Bank of India stood at the least among all. The operating profit ratio of all the banks is negative except HDFC bank. Punjab National bank stood behind all other banks. Banks maintain required liquidity to face the emergency circumstances. Bank of Baroda maintained highest liquidity ratio compared all other banks. Punjab National bank is the lowest among all the banks. But comparatively private banks have maintained better liquidity ratio compared to public sector banks. Overall ranking of CAMEL parameters the best performing banks are the private sector banks compared to public sector banks. Among all selected banks Kotak Mahindra performed better followed by Yes bank, Bank of Baroda and HDFC bank, ICICI bank and Axis bank, State bank of India and Canara bank, Bank of India and lastly positioned Punjab National bank.Banks pump in the money as per the requirement only by the approval of the central bank of the country. As the banks and financial institutions are the backbone for the economic development it is the responsibility of every bank and the public to work and act accordingly for the betterment and welfare of the economy with smooth performance and free flow of inflows and outflows of cash.

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