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An analysis of selective Indian public sector banks using camel approach

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Abstract
Banking sector constitutes the backbone of the Indian economy and contributes significantly to her growth and development. This study looks at the financial soundness of selective public sector banks under globally accepted CAMEL framework. The study observes the behavior of various parameters of CAMEL rating model and their consistency over the study period. The financial analysis finds the fundamental soundness of selective public sector banks with minor flows in certain areas.

Keywords: Public Sector Banks, CAMEL, Financial Soundness.

Introduction
In today's scenario, the banking sector one of the fastest growing sector and a lot of funds are invested in Banks. Also today's banking system is becoming more complex. So, we thought of evaluating the performance of the banks. There are so many models of evaluating the performance of the banks, but we have chosen the CAMEL Model to evaluate the performance of the banks. We have read a lot of books and found it the best model because it measures the performance of the banks from each parameter i.e. Capital, Assets, Management, Earnings and Liquidity. After deciding the model, we have chosen six Indian public sector banks, i.e. Bank of Baroda, Bank of India, Canara Bank, Punjab National Bank, Syndicate Bank, Union Bank of India. Then we have collected annual reports of the consecutive 5 years i.e. 2009-2010 to 2013-2014 of all the banks. And we have calculated ratios for all the banks and interpreted them.

Statement of the Problem
Today banking business is diversified from traditional approaches to individual approach. With the shift in customer preference from deposits in banks to investments, ever increasing competition and number of banking facilities to customers at their doorstep, there is tendency that the profit margins of the banks are divided and declined. Now-days almost all banks in India have started retail banking products and value added services along with their traditional banking products. It has become imperative for all the banks to retain the old customers and attract the new customers by providing more value added services and banking incentives under single window system as well as to find alternative ways to generate more income. Another important factor led to utilize the excess deposit through large quantities of customers and create image about banks quality products

Scope of the Study
In order to sustain their competitiveness, banks must focus on their performance. Currently study will be useful to vast spectrum of nationalized banks operating in India to draw a bird's eye-view on their performances based on CAMEL rating and the recommendations proposed in this study can be used for the strengthening nationalized banks performances in India.

Objectives of the Study
- To do an in-depth analysis of the model.
- To understand the financial performance of the selective Indian public sector banks. To analyze the banks performance through CAMEL model and give suggestion for improvement if necessary.

Methodology of the Study
In general financial soundness and infer about convergence of the commercial banks operating in India researcher have used a very simplified approach using internationally accepted CAMEL rating parameters. CAMELS are an acronym for five measures (capital adequacy, asset quality, management soundness, earnings and liquidity). The analysis the five indicators which reflect the financial soundness of the Public Sector banks for a period of 5 years 2009-2010 to 2013-14.

Sources of Data
The study is based on secondary data. The information required for study was collected through the annual report and other relevant information from the banks. The researcher has gone through various journals, newspapers etc., for obtaining information.

Tools for Analysis
The researcher has analyzed the CAMEL Model to evaluate the performance of the banks. With the help of some ratio analysis.
- C-Capital Adequacy
- A-Asset Quality
- M-Management
- E-Earning and profitability
- L- Liquidity

Period of Study
The study covers the period of five years from 2009-2010 to 2013-2014 in order to evaluate the performance of selective Indian public sector bank through CAMEL model analysis

Limitations of the Study
- The study was limited to six Indian public sector banks.
- The study was depended only for five years data.
- The study was completely done on the basis of ratios calculated from the balance sheets.

Review of Literature
- Siva and Natarajan (2011) [1] have analyzed the "CAMEL Rating Scanning (CRS) of SBI Groups". In order to measure the financial performance of SBI group through CAMEL rating by selecting eight constituents of SBI group using evaluator type of research methodology. It is concluded that there is a significant difference in ratios in CAMEL among the SBI group in India.
- Prasad and Ravinder (2012) [2] have analyzed a study entitled "A Camel Model Analysis of Nationalized Banks in India". The performance of twenty nationalized banks in India was analyzed through camel model for the period from 2005-2010. The analysis results that one on the other aspects some banks are in the top position. It is concluded that the following banks were holding top five positions namely Andhra Bank is ranked first followed by Bank of Baroda, Punjab & Sindh Bank, Indian bank and Corporation Bank. It is also found that Central Bank of India, Bank of Maharashtra, UCO Bank, United Bank of India, and Vijay Bank were holding least five banks.

Camel Model
Banking supervision has been increasingly concerned due to significant loan losses and bank failures from the 1980s till now. In the light of the banking crisis in recent years worldwide, CAMEL is a useful tool to examine the safety and soundness of banks, and help mitigate the potential risks which may lead to bank failures. The current study applies CAMEL Model for data analysis. The CAMEL model consists of the: Capital Adequacy, Asset Quality, Management and systems evaluation, Earning Potential and Liquidity. By performing the CRAMEL model the researcher aims to analyze the impact of NPA on profitability of Public sector banks in India.

Analysis
1. Capital Adequacy (Quality of Capital)

Table 1: Capital Adequacy Ratio

Years	Bank of Baroda	Bank of India	Canara Bank	Punjab National Bank	Syndicate Bank	Union Bank of India
2009-10	14.36	12.94	13.43	14.16	12.70	12.51
2010-11	14.52	12.17	15.38	12.42	13.04	12.95
2011-12	14.67	11.95	13.76	12.63	12.24	11.85
2012-13	13.30	11.02	12.40	12.72	12.59	11.45
2013-14	14.56	12.16	14.15	11.60	12.83	12.46

Source: Annual Reports of RBI

Inference
Reserve Bank of India prescribes Banks to maintain a minimum Capital to risk weighted Assets Ratio (CRAR) of 9 percent with regard to credit risk, market risk and operational risk on an ongoing basis, as against 8 percent prescribed in Basel Documents. Canara Bank has maintained its CAR around in the range of 12% to 15%.Higher the ratio the banks are in a comfortable position to absorb losses. The higher the capital adequacy ratios a bank has, the greater the level of unexpected losses it can absorb before becoming insolvent.

Table 2: Debt-Equity Ratio

Years	Bank of Baroda	Bank of India	Canara Bank	Punjab National Bank	Syndicate Bank	Union Bank of India
2009-10	5.74	5.46	5.87	6.35	4.22	5.64
2010-11	6.22	5.18	6.34	6.03	4.72	5.72
2011-12	6.54	5.77	6.46	6.19	5.21	5.91
2012-13	6.21	5.58	6.42	6.07	5.15	5.87
2013-14	6.27	5.66	6.38	6.44	4.82	5.86

Source: Annual Reports of RBI

Inference
The Debt to Equity Ratio measures how much money a bank should safely be able to borrow over long periods of time. Generally, any bank that has a debt to equity ratio of over 0.4 to 0.5 should be looked at more carefully to make sure there are no liquidity problems. Syndicate Bank is showing very less ratio as compared to other banks because their profit has been increasing and they have paid their liabilities during the year and vice versa in the other year.

II. Asset Quality (Quality of Assets)

Table 3: Return on Advances

Years	Bank of Baroda	Bank of India	Canara Bank	Punjab National Bank	Syndicate Bank	Union Bank of India
2009-10	7.88	8.42	9.07	9.79	8.95	8.98
2010-11	8.03	8.12	8.93	9.85	9.33	8.90
2011-12	8.67	8.76	10.57	10.61	10.74	9.75
2012-13	8.40	8.60	10.27	10.57	9.97	9.92
2013-14	8.13	8.70	9.85	10.30	9.71	9.32

Source: Annual Reports of RBI

Inference
- Net NPAs reflects the performance of banks. A high level of NPAs suggests high probability of a large number of credit defaults that affect the profitability and net-worth of banks and also wear down the value of the asset. The higher the ratio, higher the credits risk. Compare to other banks Punjab National Bank ratio shows the higher the credits risk.

Table 4: Return on Investments

Years	Bank of Baroda	Bank of India	Canara Bank	Punjab National Bank	Syndicate Bank	Union Bank of India
2009-10	6.43	7.46	7.18	6.49	7.14	7.15
2010-11	7.21	6.76	7.55	6.52	6.49	7.10
2011-12	8.00	8.27	7.59	7.10	7.21	7.57
2012-13	7.32	8.01	8.17	7.55	7.47	7.92
2013-14	6.18	7.00	6.76	5.73	6.10	6.38

Source: Annual Reports of RBI

Inference
A higher ratio means that the bank has conservatively kept a high investment to guard against NPA. Bank of India total investment to total assets ratio is highest Performance in the year 2013-2014.

III. Management Efficiency (Quality of Operational Management)

Table 5: Profit per Employee

Years	Bank of Baroda	Bank of India	Canara Bank	Punjab National Bank	Syndicate Bank	Union Bank of India
2009-10	8.00	4.39	7.35	7.31	3.18	7.47
2010-11	11.00	6.20	9.76	8.35	3.99	8.00
2011-12	12.00	6.40	8.21	8.42	5.29	6.00
2012-13	10.00	6.40	7.00	8.10	8.10	7.00
2013-14	11.85	7.55	9.04	9.48	6.42	8.47

Source: Annual Reports of Rbi

Inference
Higher the ratio, higher is the efficiency of the management and vice versa. Bank of Baroda profit per employee was highest at 11.85 in the year 2013-2014. In 2013-2014. Bank of Baroda provides higher efficiency to the management.

Table 6: Business per Employee

Years	Bank of Baroda	Bank of India	Canara Bank	Punjab National Bank	Syndicate Bank	Union Bank of India
2009-10	981.00	1011.00	982.58	807.95	746.84	853.00
2010-11	1229.00	1284.00	1199.13	1017.80	875.44	1043.00
2011-12	1466.00	1360.00	1374.36	1131.99	1074.10	1070.00
2012-13	1689.00	1582.00	1420.20	1165.10	1257.00	1215.00
2013-14	1634.98	1564.76	1476.76	1225.21	1223.99	1244.11

Source: Annual Reports of RBI

Inference
Higher the ratio, the better it is for the bank and vice versa. Here in the last year Bank of Baroda has shows highest performance.

III. Earnings Ratio/Profitability (Quality of Profitability)

Table 7: Ratio of Net Interest Income to Total Assets

Years	Bank of Baroda	Bank of India	Canara Bank	Punjab National Bank	Syndicate Bank	Union Bank of India
2009-10	2.35	2.3	2.35	3.14	2.03	2.35
2010-11	2.76	2.49	2.56	3.50	2.97	2.88
2011-12	2.56	2.26	2.17	3.21	3.00	2.73
2012-13	2.28	2.16	2.00	3.17	2.74	2.63
2013-14	2.33	2.22	2.05	3.08	2.24	2.46

Source: Annual Reports of Rbi

Inference
Higher the ratio reflects better earning potential of a bank in the future. In the last year Punjab National Bank show the highest performance. It reveals that the higher the ratio reflects better earning potential of a bank in the future.

Table 8: Ratio of Operating Profits to Total Assets

Years	Bank of Baroda	Bank of India	Canara Bank	Punjab National Bank	Syndicate Bank	Union Bank of India
2009-10	1.95	1.88	2.09	2.70	1.39	2.06
2010-11	2.19	1.72	2.03	2.68	1.86	2.00
2011-12	2.13	1.82	1.67	2.54	1.97	2.11
2012-13	1.81	1.78	1.50	2.33	1.74	1.94
2013-14	1.87	1.73	1.49	2.45	1.70	1.91

Source: Annual Reports of Rbi

Inference
Punjab National Bank, have been a stable ratio for the last five years.

IV. Liquidity Ratio (Quality of Liquidity)

Table 9: Ratio of Liquid Assets to Total Assets

Years	Bank of Baroda	Bank of India	Canara Bank	Punjab National Bank	Syndicate Bank	Union Bank of India
2009-10	26.43	29.83	32.02	31.93	28.64	34.06
2010-11	25.05	30.44	31.24	30.98	28.88	32.04
2011-12	23.17	26.16	31.76	30.39	27.03	27.98
2012-13	24.36	25.37	32.84	30.46	24.80	29.12
2013-14	23.83	26.81	31.29	30.03	26.83	29.82

Source: Annual Reports of Rbi

Inference
In the last year Punjab National Bank show the highest performance.

Findings
- Canara Bank has maintained its CAR around in the range of 12% to 15%.
- Syndicate Bank is showing very less ratio as compared to other banks because their profit has been increasing and they have paid their liabilities during the year and vice versa in the other year.
- Compare to other banks Punjab National Bank ratio shows the higher the credits risk.
- Bank of India total investment to total assets ratio is highest Performance in the year 2013-2014.
- Bank of Baroda provides higher efficiency to the management.
- Here in the last year Bank of Baroda has shows highest performance.
- Punjab National Bank shows the highest performance. It reveals that the higher the ratio reflects better earning potential of a bank in the future.
- Punjab National Bank, have been a stable ratio for the last five years.
- In the last year Punjab National Bank show the highest performance.

Conclusion
Due to radical changes in the banking sector in the recent years, the central banks all around the world have improved their supervision quality and techniques. In evaluating the function of the banks, many of the developed countries are now following uniform financial rating system CAMEL rating along with existing procedures and techniques. Various studies have been conducted in India as well on various banks using CAMEL framework. Different banks are ranked according to the rating obtained by them on the five parameters. The results show that there is a statistically significant difference between CAMEL ratio of selective public sector banks in India, thus, signifying that the overall performance of selective public sector banks is different. Also, it can be concluded that the banks with least ranking need to improve their performance to come up to the desired standards.

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