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Analysis of financial performance of state bank of India using camels approach

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Abstract
Financial performance of a bank indicates the strength and weakness of that particular bank by properly establishing the association between the items of the balance sheet and profit and loss account. The objective of the present paper is to analyse the financial performance of SBI (State Bank of India) over a period of five years (2012-2016). For this purpose, financial ratio analysis has been used. With the help of this analysis, it was inferred that in the public-sector banks, SBI is the top-ranking bank in India, with its performance in terms of financial soundness being the best. For this analysis, investment valuation ratio, profitability ratio, management efficiency ratio, balance sheet ratios were used. Results indicate that the performance of SBI in the study period has been excellent. SBI's excellent performance can be attributed to the adoption of modern technology, banking reforms, and good recovery mechanisms. However, SBI needs to improve its position with regards to a few parameters including debt-equity, operating profit, and non-interest income to total income.

Keywords: Financial Performance, Capital Adequacy, Asset Quality, Liquidity, Investment, Profitability.

1. Introduction
Camels rating system is used by the bank supervisory authorities in order to evaluate an overall performance and rate the financial institutions based on the financial statement of the banks according to six factors represented by the acronym CAMELS. Soundness of a bank is measured on a scale of 1 (strongest) to 5 (weakest). Banks that are given a score of less than two are considered to be high-quality institutions. Banks with scores greater than three are considered to be less-than-satisfactory institutions

Objectives
- To find out how capital adequacy, asset quality, management soundness, earnings and profitability, liquidity and systems and control affect the performance of the bank,
- To analyze the bank's performance through CAMELS model and give suggestions for improvement if necessary.

Statement of the problem
In the recent years the financial system especially the banks have undergone numerous changes in the form of reforms, regulations and norms. CAMELS framework for the performance evaluation of banks is an addition to this. This study is conducted to analyse the strength of bank using CAMELS framework as a tool for performance evaluation of SBI.

Scope of the study
Performance evaluation of SBI ltd. Based on various parameters of CAMELS rating system is useful for banks as well as for those who deal with the bank in order to identify the weakness and take corrective measures. This also helps the prospective investors as they can evaluate the bank based on this study and take decision about their investments.

Research methodology

Period of the study

Data for the study has been collected from for 10 years from 2005-2006 to 2015-2016.

Area of study: The study has been done in the state bank of India for a period from 2011-2012 to 2015-2016.

Sources of data: Analysis and interpretation has been given based on data's collected from secondary sources.
Tools used for the study
Ratio analysis
Percentage analysis

Limitations of the study

- The accuracy and reliability of the study depends upon the correctness of secondary data collected.
- There are lots of qualitative factors that affect the performance of the bank which is out of the scope of this study.
- The scope of the study is confined to state bank of India only as the model is often used for comparative study between banks.
- The methods discussed pertain only to banks though it can be used for performance evaluation of other financial institutions.

Review of literature

1. CA Ruchi Gupta**,** (2014) [1]. *An analysis of Indian public sector banks using CAMELS approach"*. In this project an analysis has been made on the progression of the economy that significantly depends upon the deployment as well as optimum utilization of resources and most importantly operational efficiency of various sectors. This study attempts to evaluate the performance of public sector banks in India for the period 2009-2013.The resource shows that there is statistically significant difference between the camel ratios of all the public sector banks.
2. Anita Makkar, Shveta Singh, (2013) [2], "*Analysis of the financial performance of Indian commercial banks: a comparative study"*, financial performance of the banks indicates the strength and weakness of that particular bank by properly establishing the associations between the items in the balance sheet and the profit and loss account. The study considered a sample of 37 banks (22 public se tor and 15 private sector) from the period 2006-2007and 2010-2011.Camels rating methodology was used. The study found that IDBI BANK was the best performing bank followed by the KOTAK MAHINDRA and ICICI BANK. DANALALSHMI BANK had the worst performance.

Analysis and interpretation

Capital adequacy ratio

The idea of capital adequacy norms is that the long run source of finance in a bank should be a descent percentage of the assets of the bank after considering their risk realization. However, as per RBI norms, Indian scheduled commercial banks are required to maintain a CAR of 9% while Indian public sector banks are emphasized to maintain a CAR of 12%.

Table 1

financial year	capital adequacy ratio	debt-equity ratio	advances to total assets ratio
2015-2016	13	1.01	0.687
2014-2015	12	1.01	0.653
2013-2014	12	0.95	0.688
2012-2013	13	1.02	0.685
2011-2012	13	0.84	0.674

Source: secondary data

Interpretation

During the period 2011-2012 to 2015-2016, THE STATE BANK OF INDIA is in a position to maintain more than the minimum requirement as specified by RBI (CAR). In 2011-2012 it was 13% and shows an increasing trend up to 2012-2013. Then from 2013-2014 onwards it shows a decreasing trend. Generally, any bank that has a debt to equity ratio of over 40% to 50% should be looked at more carefully to make sure there are no liquidity problems. The debt-equity ratio of the state bank of India shows a mixed trend. But this ratio indicates that the bank is not able to maintain its liquidity position. The total advances to total asset ratio shows a mixed trend. It shows an increasing trend from 2011-2012 to 2013-2014 and it shows a decreasing trend in the year 2014-2015 and again it has increased in the previous year 2015-2016. This indicates that the bank has used more of its advances to grow its business in the years 2011-2012 to 2013-2014 and in 2015-2016 and less of its advances in the year 2014-2015.

Asset quality

Asset quality determines the healthiness of financial institutions against loss of value in the assets. The weakening value of assets, being prime source of banking problems, directly pours into other areas, as losses

Table 2

financial year	net NPA to total asset	net NPA to total advances	gross NPA to total loan	investment to total asset	percentage change in net npa
2015-2016	0.026	0.073	0.129	0.224	1.02
2014-2015	0.013	0.043	0.089	0.242	-0.11
2013-2014	0.017	0.057	0.113	0.227	0.41
2012-2013	0.014	0.051	0.122	0.230	0.38
2011-2012	0.012	0.046	0.117	0.242	0.28

Source: secondary data

Interpretation

The ratio of Net NPA to Total Asset in 2011-2012 was 0.012 and it shows an increasing trend up to 2013-2014 and it decreases in the year 2014-2015 and again increases in the year 2015-2016. This indicates that the STATE BANK OF INDIA is not able to manage the NPAs to Total Asset.

During the year 2011-2012 the ratios of Net NPA to Total Advances was 0.046 and it shows an increasing trend up to 2013-2014. It decreases in the year 2014-2015 and again increases in the year 2015-2016.In 2011-2012 the state bank of India's gross NPA is 0.117 and it shows a fluctuating trend. It is less in the year 2014-2015. Total investment to total assets ratio shows a mixed trend. The highest ratio of 0.242 is recorded in the year 2011-2012 and the same ratio is recorded in the year 2014-2015. And the lowest ratio of 0.224 is recorded in the year 2015-2016. Percentage change in net NPA shows a mixed trend. It even becomes negative in the year 2014-2015.

Management soundness

Management is the most important ingredient that ensures sound functioning of banks. With increased competition in the Indian banking sector, efficiency and effectiveness have become the rule as banks constantly strive to improve the productivity of their employees.

Table 3

Financial year	total advances to total deposits	profit per employee	business per employee
2015-2016	0.845	0.047	0.923
2014-2015	0.824	0.061	0.820
2013-2014	0.867	0.051	0.726
2012-2013	0.869	0.063	0.611
2011-2012	0.831	0.051	0.529

Source: secondary data

Interpretation

The total advances to total deposit ratio shows a mixed trend. Profit per employee of the bank also shows mixed trend. It is high in the year in the year 2012-2013 and this indicates that per employee gets more benefit out of the profit earned by the bank. Business per employee of state bank of India also shows an increasing trend from 2011-2012 to 2015-2016.

Earnings

Earnings and profitability, the prime source of increase in capital base, is examined with regards to interest rate policies and adequacy of provisioning. In addition, it also helps to support present and future operations of the institutions.

Table 4

Financial year	spread to total asset	percentage change in net profit	interest income to total income	non-interest income to total income
2015-2016	0.026	-0.240	0.853	0.146
2014-2015	0.076	0	0.870	0.129
2013-2014	0.028	0.203	0.880	0.119
2012-2013	0.029	-0.227	0.881	0.118
2011-2012	0.033	0.913	0.881	0.118

Source: secondary data

Interpretation

State bank of India shows highest spread of 0.076 in the year 2015. In 2016 it is 0.026 and shows a decreasing trend. In 2012 the ratio was 0.913 and negative in 2013 and again positive of 0.203 in 2014 and it becomes zero in 2015 and again negative in the previous year 2016. Interest income to total income is high in the year 2011-2012 and 2012-2013,this indicates that interest earned by the bank constitutes less of its total income.

Liquidity

The business of banking is all about borrowing and lending money. Timely

Repayment of deposits is of crucial importance to avoid a run on a bank. Hence banks have to ensure that they always maintain liquidity. Through mandatory SLR and CRR, RBI ensures that banks maintain ample liquidity.

Table 5

financial year	liquid asset to total total asset	liquidity asset to total deposits	government security to total asset	liquidity asset to demand deposit
2015-2016	0.078	0.096	0.169	11.926
2014-2015	0.087	0.110	0.189	1.403
2013-2014	0.075	0.095	0.175	1.170
2012-2013	0.075	0.095	0.176	1.018
2011-2012	0.075	0.093	0.198	0.816

Source: secondary data

Interpretation

The ratio of Liquid asset to Total Assets shows an increasing trend up to the year 2015and decreasing in 2016.The percentage of Liquid Asset to Total Deposits is showing a mixed trend. During the year 2015 the ratio is highest. By comparing the last five year data we can ascertain that State bank of India has made investments in Govt. securities (inside India) around 0.175 of its total asset.

Findings

- State bank of India has maintained more than the minimum requirement of CAR during the last five years. It has raised its capital.
- In 2013-2014 the shareholders of the bank are benefited with more earnings due to less debt. In 2011-2012 and 2012-2013 the bank has been aggressive in financing in growth with debt.
- In 2014-2015 the bank has used more of its advances to grow its business and less of its advances in the year 2015-2016.
- The asset quality of the bank is high in the year 2014-2015 and less in the year 2015-2016 due to more NPA in the bank in that year 2015-2016.
- In the year 2011-2012 and 2014-2015 there are more investments computing the total assets.
- The low spread situation is an indicator of the inefficiency of the management, there was inefficiency in the management in the year 2015-2016.
- In the year 2011-2012 and 2012-2013 the income earned by the bank is more and it is less in the year 2015-2016.
- The state bank of India has made investments in government securities both inside India and outside India during the last 5 years.

Suggestions

- A year over year decrease in total advances to total assets ratio may suggest a company is progressively becoming less dependent on debt to grow its business.
- Lower the net NPA to total advances ratio, lower the risk therefore the bank has to maintain less NPA.
- By maintaining high total investment to total asset ratio the bank can increase its reputation.
- It may be turned out risky for the bank if it would have maintained more total advances to total deposit ratio.
- The management of the bank can maximize the efficiency of its employees by maintaining business per employee

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 other 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 ratings obtained by them on the five Parameters. The results show that there is a statistically significant difference between the CAMEL ratios of all The Public Sector Banks in India, thus, signifying that the overall performance of 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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