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Evaluating the performances of selected public sector banks using camel model

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Abstract
Indian banking sector is a back bone and fastest growing sector of an Indian economy. The financial soundness of the selected public sector bank using CAMEL framework have been evaluated under this study. Three public sector banks are chosen according to the size of their asset. 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
The economic development and financial growth of a country is critically dependent on the financial strength of its banks. The Indian banking sector has been the backbone of the Indian economy over the past few decades, helping it survive various national and worldwide economic shocks and meltdowns. It has transformed itself into one of the healthiest performers in the world banking industry seeing tremendous competitiveness, growth, efficiency, profitability and stability, especially in the recent years. The main goal of banks today is to maintain stability and make sure they are impervious to external shocks while at the same time being internally sound and sensible. In the light of the banking crisis in recent years worldwide, CAMEL (capital adequacy, asset quality, management quality, earnings and liquidity) is a useful tool to examine the safety and soundness of banks, and help mitigate the potential risks which may lead to bank failures.

Statement of Problem
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.

Scope of the Study
The scope of the study is limited to three well established public banking companies of India namely, Canara Bank, Indian bank and Punjab National Bank. CAMEL ratings have been used to examine the financial strength of selective banks it have interpreted through the standard criteria set by CAMEL ratings.

Objectives of the Study
- To understand the financial performance of the selected public bank in India.
- To analyze the banks performance through CAMEL model and give suggestion for improvement if necessary.

Research Methodology
Research methodology is a way to systemically solve the research problem it may be understood as a science of studying how research is done scientifically.

Sources of Data
The study is based on secondary data. The information required for study was collected through the annual report. 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
This study covers the period of five years from 2011-2012 to 2015-2016 in order to evaluate the performance of selective public bank through CAMEL model analysis.

Limitations of the Study

- The study was limited to three banks only.
- The study was completely done on the basis of ratios calculated from the balance sheets.
- The CAMEL method pertains only to banks though it can be used for performance evaluation of other financial institutions

Review of Literature
Mishra and Aspal (2013)[1] evaluated the performance and financial soundness of State Bank Group using CAMEL approach and rated different banks using through Capital adequacy, Asset quality Management efficiency, Earning Quality, and Liquidity.
Gupta (2014)[2] analyzed public banks in India and found that there is a statistically significant difference between the CAMEL ratios and thus the performance of all the public financial institutions.

CAMEL Framework
During an on-site bank exam, supervisors gather private information, such as details on problem of loans, with which to evaluate a bank's financial condition and to monitor its compliance with laws and regulatory policies. A key product of such an exam is a supervisory rating of the bank's overall condition, commonly referred to as a CAMEL rating. The acronym "CAMEL" refers to the five components of a bank's condition that are assessed: Capital adequacy, Asset quality, Management, Earnings, and Liquidity. A sixth component, a bank's Sensitivity to market risk was added in 1997, hence the acronym was changed to CAMEL.

Analysis
I. Capital Adequacy

Table 1: Capital Risk Adequacy Ratio

S. no	Bank	Capital Risk Adequacy Ratio (%)				
		2012	2013	2014	2015	2016
1.	Canara Bank	13.76	12.40	10.63	10.56	11.08
2.	Indian Bank	13.47	13.08	12.64	12.86	13.20
3.	Punjab National Bank	12.63	12.21	12.28	12.21	11.28

Source: Annual Report

Inference
Reserve Bank of India prescribes Banks to maintain a minimum Capital to risk weighted Asser 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 CRAR around in the range of 10% to 13%. Indian Bank has maintained its CRAR around in the range of 12% to 13%. Punjab National Bank has maintained its CRAR around in the range of 11% to 12%. Higher the ratio, the banks are in a comfortable position to absorb losses. The higher the capital adequacy ratios a bank has greater level of unexpected losses it can absorb before becoming insolvent.

Table 2: Debt Equity Ratio

S. no	Bank	Debt Equity Ratio (times)				
		2012	2013	2014	2015	2016
1.	Canara Bank	0.74	0.88	1.11	0.95	0.99
2.	Indian Bank	0.45	0.24	0.42	0.21	0.26
3.	Punjab National Bank	1.46	1.37	1.53	1.39	2.10

Source: Annual Report

Inference
High Debt to Equity ratio typically indicates that a bank has been borrowing aggressive to finance its growth and as a result may experience a burden of additional interest expense. 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. In Canara Bank, this ratio is more than expected ratio from 2012 to 2016. Indian Bank shows very less ratio as compared to other years because their profit has been increasing and they have paid their liabilities during the year and vice versa. Punjab National Bank are showing this ratio is less than the expected from 2012 to 2016.

II. Asset Quality

Table 3: Net Npas to Net Advances Ratio

S. no	Bank	Net Npas To Net Advances Ratio (%)				
		2012	2013	2014	2015	2016
1.	Canara Bank	1.46	2.18	2.00	2.67	6.45
2.	Indian Bank	1.32	2.26	2.26	2.50	4.20
3.	Punjab National Bank	1.52	2.35	2.85	4.06	8.16

Source: Annual Report

Inference

Net NPAs reflects the performance of banks. A high level of NPAs suggests high profitability of a large number of credit defaults that affect the profitability and net-worth of banks and also wear down the value of the assets. The higher the ratio, higher is the credit risks. Above ratio shows the fluctuation of NPA of Canara bank during the last 5 years. Net NPA is decreased in 2004; it shows it is good for the bank to decrease in NPA. The bank has lowest Net NPA is 1.46% in 2012. In Indian Bank, the Net NPA ratio were increased from 1.32% to 4.20% which shows that they been facing difficulties in recovering their bad loans. In Punjab National Bank, Net NPA ratio is more in 2016, so the bank has higher the credit risks.

Table 4: Total Investment to Total Assets Ratio

S. no	Bank	Total Investment To Total Assets Ratio (%)				
		2012	2013	2014	2015	2016
1.	Canara Bank	28.09	30.41	27.03	27.82	27.05
2.	Indian Bank	26.85	25.71	25.09	23.86	26.13
3.	Punjab National Bank	26.74	27.13	25.96	24.65	23.26

Source: Annual Report

Inference

A higher ratio means that the bank has conservatively kept a high cushion of investments to guard against NPA. Here in Canara bank, total investment to total assets ratio was highest of 30.41% in the year 2012-2013. In Indian bank, this ratio was highest of 26.85% in 2011-2012. The bank has kept a high investment to guard against NPA. Punjab National Bank has the highest ratio of 27.13 in 2012-2013 so the bank has maintain the high investments.

III. Management Efficiency

Table 5: Business Per Employee

S. no	Bank	Business Per Employee (Rupees In Lakhs)				
		2012	2013	2014	2015	2016
1.	CANARA BANK	8024	8755	8959	8993	9104
2.	INDIAN BANK	7202	8081	8593	8518	8728
3.	PUNJAB NATIONAL BANK	6710	7486	7578	8037	8161

Source: Annual Report

Inference

Higher the ratio, the better it is for the bank and vice versa. In Canara bank, this ratio increases continuously year by year from 8024 lakhs to 9104 lakhs in year 2012 and in the year 2016. In Indian bank, this ratio has increased continuously from 7202 to 8728 lakhs in 2016. In Punjab National Bank, this ratio was 6710 lakhs in the year 2012, and it was increased to 8161 in the year 2016.

Table 6: Profit Per Employee

S. no	Bank	Profit Per Employee (Rupees In Lakhs)				
		2012	2013	2014	2015	2016
1.	Canara Bank	7.91	6.96	5.39	5.31	4.83
2.	Indian Bank	10.11	9.31	7.02	6.18	4.83
3.	Punjab National Bank	8.82	8.56	6.35	5.93	4.02

Source: Annual Report

Inference

Higher the ratio, higher is the efficiency of the management and vice versa. In Canara bank, the profit per employee was 7.91 lakhs in 2012 and it was decreased to 4.83 lakhs in 2016 which shows decrease in profit per employee. In Indian bank, the profit per employee is highest 10.11 lakhs in the year 2012. It is founded that the Punjab National bank profit has per employee was highest 8.56 lakhs in the year 2013. In 2013, PNB provides higher efficiency of the management.

IV. Earnings Ratio/Profitability

Table 7: Operating Profit to Total Assets

S. no	Bank	Operating Profit To Total Assets (%)				
		2012	2013	2014	2015	2016
1.	CANARA BANK	1.57	1.40	1.36	1.24	1.27
2.	INDIAN BANK	2.45	1.88	1.55	1.56	1.49
3.	PUNJAB NATIONAL BANK	2.26	2.20	1.98	1.88	1.71

Source: Annual Report

Inference

In Canara bank, it has decreased from 1.57% to 1.27% during the year 2012 to 2016 which was not good for the bank. It maintained average Operating Profit to Total Assets ratio of 1.37.In Indian bank, this ratio has also been decreased from 2.45% to 1.49% during the year 2012 to 2016. Indian bank maintained average ratio of 1.79. In Punjab National Bank, this ratio varies from 2.26% in 2012 to 1.71% in 2016. So the bank has to concentrate on better utilization of assets.

Table 8: Net Interest Margin (Nim) To Total Assets

S. no	Bank	Net interest margin (Nim) to total assets (%)				
		2012	2013	2014	2015	2016
1.	CANARA BANK	2.02	1.88	1.79	1.73	1.73
2.	INDIAN BANK	3.12	2.78	2.33	2.31	2.18
3.	PUNJAB NATIONAL BANK	2.91	3.08	2.91	2.73	2.32

Source: Annual Report

Inference

A higher spread Net Interest Margin to Total assets indicates the better earnings given the total assets. In Canara bank, this ratio was highest of 2.02 in the year 2012. It indicates that bank has better earning than the assets.

NIM to total assets ratio of Indian bank was highest of 3.12 in the year 2012. In Punjab National Bank, this ratio was highest of 3.08 in the year 2013. It shows the bank has high earnings given the total assets in the year 2013.

V. Liquidity Ratio

Table 9: Liquid Asset to Total Asset

S. no	Bank	Liquid Asset To Total Asset (%)				
		2012	2013	2014	2015	2016
1.	Canara Bank	7.45	8.29	8.95	8.71	10.07
2.	Indian Bank	6.23	5.92	5.60	6.78	5.88
3.	Punjab National Bank	6.40	5.67	8.15	9.16	10.81

Source: Annual Report

Inference

In Canara bank, this ratio was increased from 7.45% to 10.07% in the years 2012 to 2016. In Indian bank, liquid assets to total assets ratio was fluctuating year by year. The bank was maintained average ratio is 6.08% in last 5 years. In Punjab National bank, this ratio has been increased to 10.81% from 6.40%.

Table 10: Liquid Asset to Total Deposit

S. no	Bank	Liquid Asset To Total Deposit (%)				
		2012	2013	2014	2015	2016
1.	Canara Bank	8.64	9.78	10.67	10.27	11.83
2.	Indian Bank	7.30	6.79	6.47	7.73	6.73
3.	Punjab National Bank	7.84	7.05	10.16	11.31	13.51

Source: Annual Report

Inference

In Canara bank, this ratio was increased from 8.64% in the year 2012 to 11.83% in 2016. The deposits and the assets were increased. In Indian bank, this ratio was decreased from 7.30% to 6.73% in the year 2016. Liquid Asset to Total Deposit ratio of Punjab National bank was 7.84% in 2012 and after fluctuation it was 13.51% in 2016.

Findings

- **Capital Risk Adequacy Ratio**

Indian bank secured the top position with highest average CRAR of 13.05 followed by Punjab National Bank 12.12. Canara bank was at the bottom most position with least average CRAR of 11.69.

- **Debt Equity Ratio**

Indian bank was at the top position with a least average of 0.32 followed by Canara bank with average of 0.93.Punjab National bank stood at the last position with average of 1.57

- **Net NPAs to Net Advances**

Indian bank secured top position with least average of 2.51 followed by Canara bank with average of 2.95.Punjab National bank secured last position with average of 3.79.

- **Total Investments to Total Assets**

Indian bank secured first position with least average of 25.53 followed by Punjab National bank with average of 25.55.Canara bank stood at last position with average of 28.08.

- **Business per Employee**

Canara bank secured top position with highest average of 8767 followed by Indian bank with average of 8224.Punjab National bank stood at last position with average of 7594.

- **Profit per Employee**

Indian bank was at top with highest average of 7.49 followed by Punjab National bank with average of 6.73.Canara bank secured last position with average of 5.11

- **Operating Profit to Total Assets**

It is found that the Punjab National bank secured top position with highest average of ratio of 2.01 followed by

Indian bank with average of 1.79. Canara bank was at bottom most position with average of1.37.

- **Net Interest Margin (NIM) to Total Assets**

Punjab National bank secured top position with highest average of 2.79 followed by Indian bank with average of 2.54. Canara bank was at bottom most position with average of 1.83.

- **Liquid Assets to Total Assets**

It is found that the Canara bank secured top position with highest average of Liquid Assets to Total Assets ratio of 8.69 followed by Punjab National bank with average of 8.04. Indian bank was at bottom most position with average of 6.08.

- **Liquid Assets to Total Deposits**

In terms of Liquid Assets to Total Deposits ratio, Canara bank secured top position with highest average of 2.48 followed by Indian bank with average of 2.05.Punjab National bank stood at last position with average of 1.43

Suggestions

CAMEL model is important tool to assess the relative financial strength of a bank and to suggest suitable measures to improve the weakness of a bank. In the present study CAMEL ranking approach is used to assess relative performance of Indian public sector banks. It is found that the during the year 2012-2016 the top two performing banks in all the categories of CAMEL are Indian bank and Canara bank because of high capital adequacy and asset quality. The lowest performer is Punjab National bank during the study period because of management inefficiency, low capital adequacy, poor assets and liquidity. The study recommends that Punjab National bank has to improve its management efficiency, assets quality and liquidity.

Conclusion

This report makes an attempt to examine the performance of the three different public banks of India. Data is collected from reliable sources. They were then interpreted and analyzed with the help of significant ratios. All the ratios are being calculated in order to determine the strength and weakness of the selected public banks. The findings are justifies with the Inference and analysis and on that basis appropriate suggestions are given to the banks to improve upon some parameters which are major part of their financial performance.

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