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HEALTH CHECK OF NEW PRIVATE SECTOR BANKS IN INDIA USING CAMEL MODEL

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Abstract: *As creators of money, depositors of public savings, allocators of credit and conduits of the payment system, the banks have a unique position in the economy of any country. Sound financial health of a bank is the guarantee not only to its depositors but is equally significant for the shareholders, employees and whole economy as well. As a sequel to this maxim, efforts have been made from time to time, to measure the financial position of each bank and manage it efficiently and effectively. In this paper, an effort has been made to evaluate the financial performance of new age private sector banks operating in India. This evaluation has been done by using CAMEL parameters. The CAMEL model is a useful tool in understanding the soundness of a bank with respect to their **C**apital adequacy, **A**sset quality, **M**anagement capability, **E**arnings and **L**iquidity concerned. In this research an attempt has been made to rank new age private sector banks based on their CAMEL scores.*

I. INTRODUCTION TO CAMEL MODEL

The Indian banking sector has been the backbone of the Indians economy over the past few decades, helping it survive various national and worldwide economic shocks and meltdowns. It is one of the healthiest performers in the world banking industry seeing tremendous competitiveness, growth, efficiency, profitability and soundness, especially in the recent years.

Various aspect of the Indian banking sectors have been highlighted in recent studies. Many of these refer to convergence and soundness of the sector. There has been a lot of literature covering both of these aspects and, to a great extent, establishing different relationship between these and key macroeconomic and financial variables.

The main objective of financial institution is to act as an intermediary between those who have funds and those who seek funds for running their business or for personal use. For performing these activities the financial institution needs to have a

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proper management that is efficient in mobilizing the bank's resources in a proper manner, a capital that is used as a resource to render the service, proper amount of revenue that will exceed the cost of operations, a proper system that will safeguard the assets of the business and an adequate financial position to settle claims at the time of liquidity.In this paper the researchers attempt to assess the financial performance of private banks in India using CAMEL approach.The five factors represented by the acronym "CAMEL" examined are as follows:

C-Capital Adequacy

A-Asset Quality

M-Management Capacity

E-Earning

L-Liquidity

Bank supervisory authorities assign each bank a score on a scale one to five for each factor. If a bank has an average score less than two it is considered to be a high-quality institution while banks with scores greater than three are considered to be less-than satisfactory establishments. The system helps the supervisory authority identity banks that are in need for attention.

II. LITERATURE REVIEW

The financial performance of banks, both in the public as well as the private sector has been extensively researched by academicians, scholars and administrators using the CAMEL framework. A summary of the work in this area is as follows:

Gupta and Kaur (2008) conducted a study with the main objective to assess the performance of Indian Private Bank on the bases of CAMEL Model and gave rating to top five and bottom five banks. They ranked 20 old and 10 new private sector banks on the bases of CAMEL model. Dash, Mihir and Das, Annyesha (2009) used the CAMEL approach to analyze the Indian banking industry. In their analysis they take sample of fifty-eight banks operating in India, of which twenty-nine were private sector/ foreign banks. The study covered the financial years 2003-08. At the end they concluded that private/foreign banks fared better than public sector banks on the most of the CAMEL factors in the study period. The two contributing factors for the better performance of private/foreign banks were management soundness earnings and profitability.

Adesina (2012) has used CAMEL model to make comparative evaluation of the banking sector performance in Nigeria. Reddy (2012) has conducted a research to examine the relative performance of commercial banks in India by applying CAMEL model. In this study Reddy took 26 public, 19 domestic private sector and 16 foreign banks. After analysis, Reddy concluded that public sector banks have significantly improved.

Vivid V. Tuna (2013) uses a CAMEL model for making a comparative analysis between two banks in Indonesia to determine level of health of the banks. At the end of the study he concludes that he didn't get any significant difference the two banks in their financial soundness.

III. RESEARCH METHODOLOGY

Research Design

Methodology describes the research route to be followed, the instrument to be used, universe and sample of the study for the data to be collected, the tools of analysis used and pattern of deductions and conclusions. This study uses the CAMEL approach to evaluate the financial performance of new private sector banks in India. In this study the financial statement of 7 new private sectors that are operating in our country is analyzed.

Objectives of the Study

The main objective of the study is to analyze the financial performance of the New Private Sector banks using CAMEL approach.

DATA COLLECTION AND SAMPLING

Sampling

All the 7 new private sector banks have been analyzed for this purpose of study. Hence no samping is involved.

Data Collection

Secondary sources of data collection have been used i.e. Journals, Statistics published by Reserve Bank of India and annual reports published by the banks.

ALL THE BANKS HAVE BEEN HIGHLIGHTED AS FOLLOWS

	Top two banks in a particular category
	Bottom two banks in a particular category

IV. ANALYSIS OF COMPONENTS OF CAMEL FRAMEWORK

a) Capital Adequacy

A bank needs to have sufficient capital to prevent it from going bankrupt. The Reserve Bank of India prescribes a bank to maintain a minimum Capital to risk-weighted Assets ratio (CRAR) of 9% on an ongoing basis as against the 8% prescribed in Basel Accord. The following is the analysis of various ratios used to measure capital adequacy:

Table 1
Camel Ratings (2009-14) : Capital Adequacy

Banks	*CAR*		*AA*		*D/E*		*GSTI*		*CR*		*Group rank*	
	%	*Rank*	%	*Rank*	%	*Rank*	%	*rank*	%	*rank*	*Avg*	*Rank*
Axis bank	15.04	5	73.25	6	8.68	4	59.69	6	0.82	1	4.4	5
DCB	14.19	7	73.79	5	8.81	5	69.16	5	0.19	7	5.8	7
HDFC bank	15.54	4	79.46	1	8.30	3	79.27	3	0.69	3	2.8	2
ICICI bank	18.78	1	67.84	7	4.23	1	56.47	7	0.50	4	4	4
Indusind bank	14.86	6	75.72	3	8.91	6	78.30	4	0.41	5	4.8	6
KMB	18.17	2	79.00	2	4.92	2	86.90	1	0.77	2	1.8	1
Yes bank	17.54	3	74.33	4	10.65	7	83.45	2	0.40	6	3.2	3

CAR-Capital Adequacy Ratio; AA-Advances to Asset; DE-Debt to Equity; GSTI-Govt.Securities to Total Investments; CR-Coverage ratio

Analysis and Interpretation

On the basis of the group averages of five sub parameters of Capital Adequacy, Kotak Mahindra Bank (KMB) is at the first position with HDFC in the second position. Indusind Banks stands last. Capital adequacy is an essential component for any bank as this helps to protect depositors and other creditors in the event of liquidation. The top position secured by KMB thus implies that the banks financial position has the shock absorbing capacity. KMB with its presence in retail, rural and corporate segments has been further strenghthened by its acquisition of ING Vysya Bank which gives it access to the SME segment. This has led to better capital adequacy.

(b) Asset Quality

The quality of assets is an important parameter to examine the degree of financial strength. The foremost objective to measure the asset quality is to ascertain the composition of non-performing asset (NPAs) as a percentage of the total assets. The following is the analysis of various ratios used to measure asset quality:

Table 2
Camel Ratings (2009-14) Asset Quality

Banks	*NNPA*		*AU*		*TITA*		*SATA*		*Group rank*	
	%	*Rank*	%	*Rank*	%	*rank*		*rank*	*Avg*	*Rank*
Axis bank	0.32	5	0.09	6	40.99	4	0.81	4	4.75	6
DCB	1.24	3	0.10	4	39.55	3	0.88	2	3	1
HDFC bank	0.23	7	0.10	4	36.52	1	0.73	6	4.5	5
ICICI bank	1.09	2	0.08	7	58.18	7	0.79	5	5.25	7
Indusind bank	0.36	6	0.01	1.5	36.98	2	0.84	3	3.12	2.5
KMB	0.89	4	0.11	1.5	54.64	6	0.90	1	3.12	2.5
Yes bank	0.04	1	0.10	4	49,80	5	0.61	7	4.25	4

NNPA-Net Non-performing Assets; AU-Asset Utilization; TITA-Total Investment to Total Assets; SATA-Standard Advance to Total Advance

Analysis and Interpration

On the basis of the group averages of five sub parameters of Asset Quality , Development Credit Bank (DCB) has the highest group average , followed by IndusInd and Kotak Bank with average of 2.5. ICICI bank is the last, with group average of 7. Asset quality hinges strongly on credit risk management. The top position secured by DCB implies that the bank has astute ability to recover risky assets and the quality of the banks assets is more stable and consistent with its profit potential. Also, the bank's credit process and policies has contributed to this.

c) Management Efficiency

Management efficiency is another essential component of the CAMEL model that guarantees the growth and survival of a bank. Management efficiency means adherence with set norms, ability to plan and respond to the changing environment, leadership and administrative capability of the bank. The sub-parameters of management efficiency and the performance of banks are as below:

Table 3
Camel Ratings (2009-14): Management Efficiency

Banks	*LT*		*BpE*		*PpE*		*RoNW*		*CDR*	*Group rank*		
	%	*Rank*	*%*	*rank*	*%*	*Rank*	*%*	*Rank*		*rank*	*Avg*	*Rank*
Axis bank	0.14	7	120.56	2	1.34	2	16.80	2	77.21	5	3.6	2.5
DCB	0.16	6	52.66	7	0.36	7	9.70	7	77.05	6	6.6	7
HDFC bank	0.22	3	70.74	5	0.87	5	16.50	3	78.87	4	4	5
ICICI bank	0.17	5	81.94	4	1.14	3	10.74	6	94.75	1	3.8	4
Indusind bank	0.24	2	82.93	3	0.83	6	15.72	4	81.76	3	3.6	2.5
KMB	0.18	4	53.36	6	0.90	4	12.93	5	94.27	2	4.2	6
Yes bank	0.25	1	167.08	1	1.98	1	20.12	1	75.89	7	3.4	1

LT-Loan Turnover; BpE-Business per Employee; PpE-Profit per Employee; RoNW-Return on Networth;CDR-Credit Deposit Ratio

Analysis and Interpretation

On the basis of group averages of five ratios in table 3.6, Yes bank stands in the first position with group average of 3.4, followed by Axis bank (3.6), Indusind bank (3.6) and ICICI bank (3.8). Management Efficiency implies the ability of a bank to take important decisions based on risk perception. Yes Bank's management is therefore ensuring survival and growth of the bank. By converting deposits to high earning advances and by ensuring efficiency of workforce this bank scores high on the management efficiency parameter.

d) Earning Quality

The quality of earning is a very important criterion which represents the quality of a bank's profitability and its capability to maintain quality and earn consistently. It primarily determines the profitability of bank and explains its sustainability and growth of future earnings. The performance of new private sector banks on this parameter is as follows:

Table 4
Camel Ratings (2009-14): Earnings Quality

Banks	*IITI*		*NITF*		*RoA*		*NIMTA*		*Group rank*	
	%	*Rank*	*%*	*rank*	*%*	*rank*	*%*	*Rank*	*Avg*	*Rank*
Axis bank	8.40	6	1.70	1	1.67	3	3.55	3	3.25	3
DCB	9.48	4	0.57	7	0.85	7	2.60	5	5.75	7
HDFC bank	9.08	5	1.42	2	1.76	1	5.14	1	2.25	2
ICICI bank	7.74	7	1.39	3	1.42	6	2.29	6	4	5
Indusind bank	10.50	1	1.31	5	1.50	5	2.97	4	3.75	4
KMB	10.43	2	1.34	4	1.74	2	3.78	2	2	1
Yes bank	9.88	3	0.67	6	1.61	4	2.24	7	5	6

IITI-Interest income to Total income; NITF-Non-interest to Total fund; RoA-Return on Assets; NIMTA-Net interest margin to Total Assets

Analysis and Interpretation

On the basis of group averages of four ratios of quality of earning as expressed in table 4. Kotak Mahindra bank is at the top position with average of 2, followed by HDFC bank (2.25) and Axis bank (3.25). This parameter is an indicator of the bank's capacity to carry risk and/or increase its capital. Kotak Mahindra Bank is able to generate sufficient profits that provide a cushion against short term problems and this profit is a good source of retained earnings which increases the capital and consequently the capacity to grow business.

e) Liquidity

Risk of liquidity can have an affect on the image of the bank. Liquidity is a crucial aspect which reflects bank's ability to meet its financial obligations. An adequate liquidity position means a situation, where organization can obtain sufficient liquid funds, either by increasing liabilities or by converting its assets quickly into cash. The following is the analysis of various ratios used to measure liquidity:

Table 5
Camel Ratings (2009-14): Liquidity

Banks	*LATA*		*LRTD*		*LADD*		*QR*		*Group rank*	
	%	*Rank*	*%*	*rank*		*Rank*	*%*	*rank*	*Avg*	*Rank*
Axis bank	6.48	4	8.71	6	46.01	7	15.36	5	5.5	7
DCB	6.53	3	8.90	5	69.25	4	14.03	6	4.5	4.5
HDFC bank	6.73	2	9.26	4	47.29	6	9.23	7	4.75	6
ICICI bank	5.91	6	11.35	2	81.36	3	49.28	1	3	2
Indusind bank	6.84	1	9.29	3	56.59	5	19.39	4	3.25	3
KMB	6.09	5	14.90	1	85.79	2	31.13	2	2.5	1
Yes bank	5.92	7	8.36	7	89.48	1	24.21	3	4.5	4.5

LATA-Liquid Asset to Total Asset; LRTD-Liquid Ratio to Total Deposit; LADD-Liquid Asset to Demand Deposit; QR-Quick Ratio

On the basis of group averages of four ratios of liquidity as expressed in table- 5, Kotak Mahindra bank (2.5) is at the first position, followed by ICICI bank (3) and Indusind bank (3.25). Yes Bank and Development Credit bank have the same ranking (4.5) and Axis bank is in the last position.

Management of liquidity risk involves a complex interaction between expected cash flows and interest rates. This parameter measures a bank's ability to meet customer's withdrawal request. Thus Kotak Mahindra Bank's top position indicates the stability of funding available to the bank as well as its cost of funds.

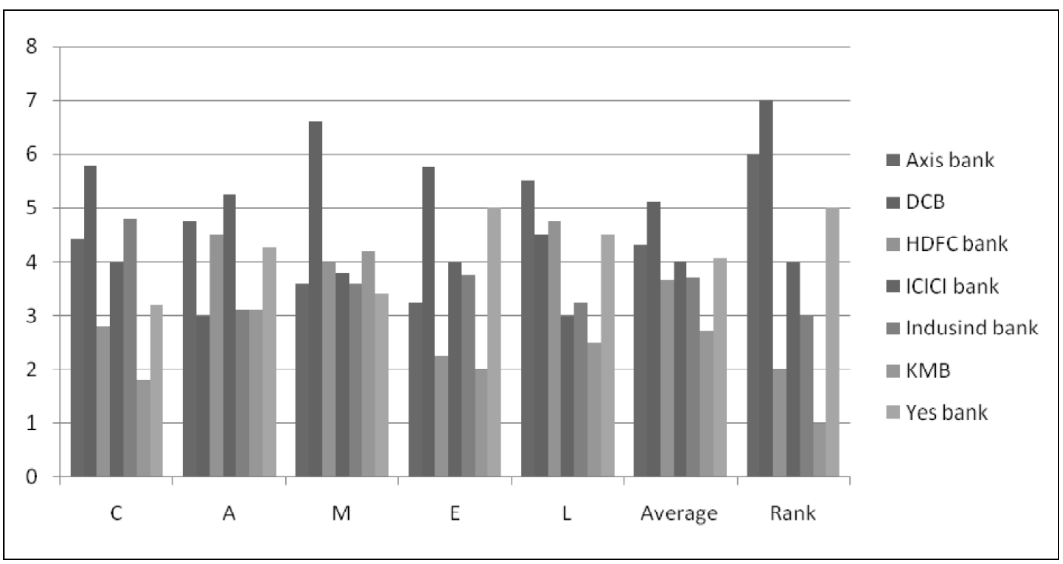
V. COMPOSITE RANKING

Based on the overall scores obtained the composite ranking of the new privtae sector banks is as follows:

Table 6
Overall Performance of New Private Sector Banks

Bank	*C*	*A*	*M*	*E*	*L*	*Average*	*Rank*
Axis bank ltd	4.4	4.75	3.6	3.25	5.5	4.3	6
Development credit bank ltd	5.8	3	6.6	5.75	4.5	5.13	7
HDFC bank ltd	2.8	4.5	4	2.25	4.75	3.66	2
ICICI bank ltd	4	5.25	3.8	4	3	4.01	4
Indusind bank ltd	4.8	3.12	3.6	3.75	3.25	3.70	3
Kotak Mahindra bank ltd	1.8	3.12	4.2	2	2.5	2.72	1
Yes bank	3.2	4.25	3.4	5	4.5	4.07	5

Chart showing overall CAMEL rank of new private sector banks (2009-14)



INTERPRETATION

Table 6 provides a summary of the group ranking of new private sector banks in India for the period of 2009-2014. It is inferred that under the capital adequacy ratio parameter Kotak Mahindra Bank occupies the top position, while Development Credit Bank secures the lowest rank. Under asset quality parameter, Development Credit Bank occupies the top position while ICICI Bank secures the lowest rank. Under management efficiency parameter, it is observed that top rank is taken by Yes bank and the lowest rank by Development Credit Bank. In terms of earning squality parameter, Kotak Mahindra Bank secures the top position while Development Credit Bank is at the lowest position. Under the liquidity parameter Kotak Mahindra Bank is on the top and Axis bank is in the lowest position.

VI. NEW PRIVATE BANKS, CAMEL RANKING AND INFERENCE

Rank 1(Kotak Mahindra Bank): Indicates strong performance and risk management practices that consistently provide safe and sound operations. The historical trend and projection of key performance measure are consistently positive. It is not performing well in earning but it performs strong in other ratios, which adequately covers up weak performance thereby implying that any weaknesses can be handled by the management. The bank is considered stable, well managed and capable of withstanding all but the most severe economic downturns. Risk management practices are strong and minimal supervisory oversight is required to ensure the continuation and validation of the banks fundamentals.

Rank 2(HDFC Bank): HDFC reflects satisfactory performance and risk management practices that consistently provide for safe and sound operations. It maintains a good earnings and capital adequacy ratio, which is its strength. In order to lead, it should focus more on liquidity. HDFC bank is a bank with a good composite rating and is in substantial compliance with law and regulations. Only moderate weakness are present and well within the capabilities of management's to correct it. HDFC bank is stable and can withstand economic downturns. Overall risk management practices are satisfactory and there are no material supervisory concerns.

Rank 3(Indusind Bank): Indusind bank represents performance that is flawed to some degree and is of supervisory concern. Performance is marginal. Risk management practices are satisfactory. The bank needs to maintain the capital adequacy and earnings ratio so that it will be able to compete with its competitors.

Rank (ICICI Bank): The performance of ICICI bank is marginal and the CAMEL ranking suggests that it must concentrate on risk management practices. To do better in future it must improve in asset quality ratio and liquidity ratio. The bank seems to be performing at an average level so it must perform better in all the ratios.

Rank 5(YES Bank): The performance of Yes bank is not encouraging as the banks ranking other than management efficiency is not encouraging. Thus the bank should take concentrated efforts to improve its performance across all the other parameters.

Rank 6(Axis Bank): Axis bank reflects poor performance that is of supervisory concern. Risk management practices are generally unacceptable and the bank should improve its operations. It is performing well in earnings quality but management and liquidity of the bank needs improvement and should give more importance to these factors in order to be par with other banks.

Rank 7 (Development Credit Bank): Development Credit Bank is showing the worst condition in comparison to other banks. Problem of liquidity are immense in the bank which the management has to take care. Bank has weaknesses in one or more component areas that if not corrected within reasonable time frame could result in significant solvency or liquidity concerns. Development Credit Bank seems less capable of withstanding business fluctuations.

VI. CONCLUSION

The strength and weakness of a particular financial institution depends up on its financial performance. Financial performance also can be used as a parameter to measure the achievements of the bank in the industry it operates.

During the process of evaluation of performance of the seven new private sector banks our study highlights that, different banks have obtained different ranks with respect to CAMEL ratios. Our paper is of use to investors in understanding how new private banks fare against each other. This paper is also helpful to the bank's management in understanding the areas that calls for improvement. Thus CAMEL rating measure helps not only the regulatory bodies like the Reserve Bank of India in banking supervision but is also helpful to investors to better appreciate the working and performance of banks.

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