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PERFORMANCE EVALUATION OF SELECTED PUBLIC AND PRIVATE BANKING SECTORS THROUGH CAMEL MODEL IN INDIA

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Abstract: *The Performance evaluation of the banking sector is important to ensure financial stability of an economy. In the light of the world-wide banking crisis in recent years, CAMEL approach is a useful tool to examine the safety and soundness of banks. The present study attempts to show the relative financial position and performance and evaluation of selected public and private banking sectors and result over a five year period from 2010 to 2015. This study aimed at top ten public and private sector banks based on performance evaluation of statistical information of net margin, total assets and market position. In recent years, the private sector banks give a very tough competition in terms of Capital Adequacy, Asset Quality, Management Efficiency, Earning Capacity and Asset Quality, Hence CAMEL model has been chosen for the study. The entire study is based on the secondary data, procured and extracted from financial statements of the selected banks. The collected data is analyzed using various financial ratios and statistical tools. The study found that on the basis of group averages sub-parameters of capital adequacy, Assets Quality and Liquidity Ratio of public sectors banks was at the top position compared with private sector banks. In terms of, Management Efficiency and Earning quality private sector bank was better than that the selected public sector banks.*

Keywords: *Capital Adequacy, Debt-Equity, Net Non performing Assets, Business per employee, Liquid Assets and Demand Deposits.*

INTRODUCTION

In the 1980s, CAMEL rating system was first introduced by U.S. supervisory authorities as a system of rating for on-site examinations of banking institutions. Under this system, each banking institution subject to on-site assessment was evaluated on the basis of five (now six) critical dimensions relating to its operations and performance, which were referred to as the component factors. These are Capital, Asset Quality, Management, Earnings and Liquidity was used to reflect the financial performance, financial condition, operating soundness and regulatory compliance of the banking institution. A sixth component is relating to Sensitivity to market risk has been added to the CAMEL rating to make the rating system more risk-focused.

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REVIEW OF LITERATURE

Devanadhen K. (2013) "performance evaluation of large size commercial banks in India" found that the Andhra Bank secured the first place followed by Corporation Bank and HDFC Bank. Axis Bank and ICICI Bank were ranked 6^{Th} and 14^{TH} respectively. Central Bank of India stood last in the overall performance and SBI exhibited better performance than ICICI Bank.

Dr. Mahua Biswas (2014). In his study titled "Performance evaluation of Andhra Bank and Bank of Maharashtra with CAMEL model" found that Andhra Bank dominated Management Efficiency and Earning Quality. However an Asset Quality and Liquidity Bank of Maharashtra dominated over Andhra Bank. Both banks were on par with respect to the cash Adequacy ratio.

J. Kumar and Dr. R. Thamil Selvan (2014). In their studies titled "Capital Adequacy determinants and profitability of selected Indian commercial banks" found that ICICI bank has the most favorable capital adequacy ratio compared to other various banks. The Bank of India and Bank of Baroda are expanding their business much more. The advance of assets in State Bank of India is better profitability, Satisfactory. Total assets of HDFC bank higher spread indicates better earning capacity of the banks. The non-interest income of Total income an Axis banks are higher in percentage ratio. It helps to determine the liability of the bank to earn revenue from other than the core activities of banks.

K.N.V Prasad G. Ravinder, Dr. D. Maheshwara Reddy (2011) In their studies titled " A Camel Model analysis of public and private sector banks in India" found that on average Karur vysya bank was at top most position followed by Andhra Bank, Bank of Baroda and also it is observed that central Bank of India was at the bottom most position. The largest public sector banks in India availed 36^{th} position.

Dr. K. Sriharsha Reddy (2012) In her study titled "Relative performance of commercial banks in India using CAMEL approach" found that public sector banks have significantly improved and indicating positive impact of the reforms in liberalizing interest rates, rationalizing directed credit and investment and increasing completion.

Anita Makkar and Shveta Singh (2013) In their studies titled "Analysis of the Financial Performance of Indian Commercial Bank : A Comparative Study" found that on an average , there is no statistically significant different in the financial performance of the public and private sector banks in India, but still , there is a need for overall improvement in the public sector banks to make their position strong in the competitive market.

Dr. Vikas Choudhary and Suman Tandon in their Studies (2010) "Performance Evaluation of Public Secotor Banks in India" found that the CAGR of various variables have shown variations from banks to bank. State bank of Indore has shown maximum CAGR in case of total advances, total deposits and total assets. Punjab & Sind Bank has shown least growth of deposits and advances and State Bank of India has least growth of deposit. CACR of return on equity and return on asset was at peak o United Bank of India whereas Dena Bank, Punjab & Sind Bank and Indian Bank have shown negative trend in these ratios. Decline of NPA's Ratio was highest in case of State Bank of Hyderabad and Least in case of Dena Bank.

OBJECTIVES OF THE STUDY

1. To evaluate the performance of selected public and private banking sectors in India.
2. To measure the financial performance of selected public and private banking sectors by using CAMEL Model.
3. To find and suggest the way to improve the financial position of banking sectors.

RESEARCH METHODOLOGY

The present study is purely an analytical Research Design. The study were covered the selected public and private sector banks in India. The selection of banks are related to their Total assets, and market position of Top ten public and private sector banks like State Bank of India, Bank of Baroda, Bank of India, Punjab National Bank, Canara Bank, Union Bank of India, Industrial Development Bank of India, ICICI Bank, HDFC Bank and Axis Bank. Judgmental sampling is adopted for the study and it depends on secondary data. Suitable financial and Statistical techniques have been used for analysis.

ANALYSIS AND DISCUSSION

Table 1
Capital Adequacy Ratio

Ratio	*Banks*	*Mean*	*S.D*	*Mean Difference*	*t-value*	*Sig. value*
CAR (%)	psbs	12.4180	0.89770	14.4890	19.971	0.000
	pvtsbs	16.5600	0.56103			
D/E (times)	psbs	15.4880	0.53812	11.9410	10.025	0.003
	pvtsbs	8.3940	0.42158			
Adv/Ast(%)	psbs	63.9800	1.9926	61.110	54.635	0.000
	pvtsbs	58.2420	1.89814			
G-sec/Inv (%)	psbs	82.0460	1.38439	73.5280	25.622	0.000
	pvtsbs	65.0100	1.40938			

Sources: Annual report of Banks and results generated with the help of SPSS

It is clear that all banks have maintained higher CAR than the prescribed level. It is found that private sectors banks secured the top position with highest average CAR of 16.56 followed public sectors Bank (12.41), In terms of Debt equity ratio public sectors bank is at the top position with least average of 15.48 followed by private sectors banks (8.39). In terms of Total Advances to Total Assets, public sector Bank was at the first position with highest average of 63.98 followed by private sector banks (58.24) On the basis of group averages of three sub-parameters of capital adequacy of public sectors banks was at the top position with group average of 82.04 followed by private sectors banks (65.01) stood at the last position due to poor performance in CAR and D/E.

Table 2
Assets Quality

Ratio	*Banks*	*Mean*	*S.D*	*Mean Difference*	*t-value*	*Sig. value*
GNPA/NA	psbs	3.4120	1.11174	2.5970	7.204	0.000
	pvtsbs	1.7820	0.16574			
NNPA/NA	psbs	1.8800	0.69707	1.2080	4.481	0.002
	pvtsbs	0.5360	0.14258			
TI/TA	psbs	24.3940	0.99294	26.8290	30.466	0.000
	pvtsbs	29.2640	1.28029			

Sources: Annual report of Banks and results generated with the help of SPSS

Public sector banks were at the top position with an average Gross NPA ratio of 3.41, followed by private sectors banks (1.78). Private sector banks were at the last position with an Net NPA average ratio of 0.53. It's again public sector banks was at the top position with a least average of 1.88. In terms of TI/TA, private sector bank was at the first position with an average of 29.26 followed by public sector banks (24.39),

Table 3
Management Efficiency

Ratio	*Banks*	*Mean*	*S.D*	*Mean Difference*	*t-value*	*Sig. value*
AD/DEP	Psbs	77.4500	0.90094	82.4740	46.198	0.000
	pvtsbs	87.4980	2.79222			
BPE	Psbs	14.7210	2.17545	12.0800	12.046	0.000
	pvtsbs	9.4480	0.76005			
PPE	Psbs	7.2640	1.1353	61.110	9.9490	0.002
	pvtsbs	12.6340	1.56811			

The private sector banks was at the top most position with an average AD/DEP of 87.49 followed by public sector banks (77.45), In terms of BPE public sector banks secured the top position with 14.72 followed by private sector banks (9.44). At the front of PPE ratio, private sector banks was at the first place with an average 12.63, followed by public sectors banks (7.26)

Table 4
Earning quality

Ratio	*Banks*	*Mean*	*S.D*	*Mean Difference*	*t-value*	*Sig. value*
SP/TA	psbs	2.2840	0.14843	2.7050	9.000	0.000
	pvtsbs	3.1260	0.19527			
N/P/AA	psbs	0.7040	0.21149	1.1270	7.489	0.002
	pvtsbs	1.5500	0.13472			
II/TI	psbs	86.9800	5.52823	84.2190	55.978	0.000
	pvtsbs	81.4580	1.1445			
NI/TI	psbs	10.4680	0.73282	14.5540	10.419	0.000
	pvtsbs	18.6400	1.27986			

Sources: Annual report of Banks and results generated with the help of SPSS

The private sector Bank was ranked highest in case of Dividend Pay-out Ratio with an average of 3.12 followed by public sector Bank (2.28), In case of Return on Assets Ratio, private sector bank was at the first position with an average of 1.55, followed by public sector banks (0.70). In case of II/TI ratio, public sector banks stood at the top place. On the basis of group averages, public sector banks performed poorly in Dividend Pay-out Ratio & II/TI Ratio and stood at last place.

Table 5
Liquidity Ratio

Ratio	*Banks*	*Mean*	*S.D*	*Mean Difference*	*t-value*	*Sig. value*
LA/TA	psbs	9.1860	0.81430	8.2620	19.146	0.003
	pvtsbs	7.3380	1.17988			
G.Sec/TA	psbs	19.5940	0.65809	19.0740	58.632	0.000
	pvtsbs	18.5540	1.12789			
LA/DD	psbs	155.2940	22.23822	110.9490	7.442	0.000
	pvtsbs	68.6040	4.86409			
LA/TD	psbs	11.0760	0.92297	11.0510	29.740	0.000
	pvtsbs	10.0260	1.50108			

Sources: Annual report of Banks and results generated with the help of SPSS

Public sector Bank stood at the top position with LA/TA level of average 155.29 followed by private sector banks (68.60). In LA/TA public sector was ranked at the top place 9.18 as well as private sector banks was ranked (7.33) in next to public sector banks. Both the LA/DD (155.29) and LA/TD (11.07) stood at top place and private sector banks was ranked lower than public sector banks.

CONCLUSION

In the process of Performance Evaluation of Selected Public and Private banking sectors through CAMEL Model our study concluded that, different banks have obtained different performances with respect of CAMEL ratios. Our study also concluded the following the public and private banks stood at top position in terms of capital adequacy. In terms of asset quality, the public sector Bank was at top most position. In context of management quality, private sector banks positioned at first. In terms of earnings quality, public sector banks obtained the top position. The private sector Bank was ranked top in liquidity criteria. The overall performance table shows that, public sector banks are ranked first followed by private sector banks. Most of these banks, including private sector banks lay in a similar rank region. However, these banks' assets etc. vary a great deal and they cannot be judged solely based on the absolute values of the CAMEL ratios. Looking at the trend, we can say that private banks are growing at a faster pace than public sector banks.

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