



A CAMEL ANALYSIS ON PERFORMANCE OF PUBLIC AND PRIVATE SECTOR BANKS (WITH SPECIAL REFERENCE TO CANARA BANK AND HDFC BANK)

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Abstract:

Indian banking system has transformed in recent years due to globalization in the world market, which has resulted in fierce competition. In this article, an attempt has been made to rank the various commercial banks operating in India. The banks in India have been categorized into Public sector, Private sector and foreign banks. Banking sector is one of the fastest growing sectors in India. Today's banking sector becoming more complex. Evaluating Indian banking sector is not an easy task. There are so many factors, which need to be taken care while differentiating good banks from bad ones. To evaluate the performance of banking sector we have chosen the CAMEL model. In this paper, the researcher has made an attempt to evaluate the financial performance of two leading banks, public sector banks (Canara Bank) and private sector banks (HDFC Bank) by using CAMEL model, which measures the performance of banks from each of the important parameter like Capital Adequacy, Assets Quality, Management Efficiency, Earning Quality and Liquidity.

Key Words: Capital Adequacy, Assets Quality, Management Efficiency, Earning Quality & Liquidity

Introduction:

India has embarked upon the path of liberalization, privatization and globalization, especially after 1991. This paved the way for the economic development of the country. Financial sector in general and banking sector in particular plays a pivotal role in the economic development of the 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 the maxim, efforts have been made from time to time to measure the financial performance of each bank and manage it efficiently and effectively. In this paper, the researcher has made an attempt to evaluate the financial performance of two leading banks, public sector banks (Canara Bank) and private sector banks (HDFC Bank) by using CAMEL model, which measures the performance of banks from each of the important parameter like Capital Adequacy, Assets Quality, Management Efficiency, Earning Quality and Liquidity.

Objectives:

The study aims at the following objectives:

- ✓ To assess the financial performance of Canara Bank and HDFC by using CAMEL Model.
- ✓ To offer suitable suggestions for the betterment of the banks and improve its performance.

Sample of the Study:

The present study seeks to evaluate the financial performance of two leading banks Canara Bank and HDFC. These two banks were purposely selected for the study, keeping in view their role and involvement in shaping the economic conditions prevailing in India, specifically in terms of advances, deposits, manpower employment, etc.

Data and Tools:

The study is mainly based on secondary data drawn from annual reports of the respective banks and other corporate databases. The data is related to five years (2013-2017). For the purpose of the study, the research instrument used is the CAMEL Model. Various ratios calculated under the model help in identifying the strengths and weaknesses of banks and suggesting improvement in its future working. In the present study, following financial ratios under CAMEL model have been used for the analysis of financial performance. Apart from this, statistical tools such as mean, standard deviation (STDEV) and Coefficient of Variation (C.V) are used.

Camel Model:

C	Capital Adequacy	1. Capital Adequacy Ratio 2. Debt-equity Ratio
A	Asset Quality	1. Return on Assets Ratio 2. Total Investments to Total Assets
M	Management Efficiency	1. Credit Deposit Ratio 2. Return on Net worth
E	Earnings Capacity	1. Net Interest Margin

		2. Non-interest Income to Total Funds
L	Liquidity	1. Liquid Assets to Deposits Ratio 2. Liquid Assets to Total Assets Ratio

Analysis and Interpretation:

1. Capital Adequacy:

Capital Adequacy reflects entire financial results of a bank. It also shows the ability of the management to meet the need for additional capital. Capital Adequacy put impact on overall performance of the bank and is an indicator of additional strength of a bank. The ratios which are used under capital adequacy are as follows:

(a) Capital Adequacy Ratio (CAR): Capital Adequacy Ratio constitutes the most important indicator for evaluating the soundness and solvency of the banks. This indicates ratio of capital funds in relation to banks' assets. It measures the strength and stability of the banks. Higher value of this ratio indicates better solvency and financial strength of the banks and lower value indicates poor solvency and financial strengths of the banks. Table 1 shows Capital Adequacy Ratio of Canara Bank and HDFC:

Table 1: Capital Adequacy Ratio

Year/Ratio	CANARA	HDFC
March 2013	12.40	16.80
March 2014	10.63	16.07
March 2015	10.56	16.79
March 2016	11.08	15.53
March 2017	12.86	14.60
Mean	11.51	15.96
STDEV	1.06	0.93
C.V	9.19	5.81

The banks are required to maintain the capital adequacy ratio (CAR) as specified by RBI from time to time. As per the latest RBI norms, the banks should maintain a CAR of 9%. It was found from the table 1, that both the banks (Canara Bank and HDFC) have shown a good sign towards CAR. But, HDFC with mean value of 15.96, standard deviation of 0.93 and Coefficient of Variation of 5.81 is highly successful when compared to Canara Bank with mean value of 11.51, standard deviation of 1.06 and Coefficient of Variation of 9.19.

(b) Debt-Equity Ratio: This ratio indicates the degree of leverage of a bank. It indicates how much of the bank businesses financed through debt and how much through equity. It is the proportion of total outside liability to net worth. Higher ratio indicates less protection for the creditors and depositors in the banking system. Table 2 indicates Debt-equity ratio of CANARA and HDFC:

Table 2: Debt-Equity Ratio

Year/Ratio	CANARA	HDFC
March 2013	15.37	9.09
March 2014	17.04	9.36
March 2015	17.49	8.00
March 2016	18.79	8.25
March 2017	18.25	8.02
Mean	17.39	8.54
STDEV	1.31	0.64
C.V	7.56	7.45

In terms of debt-equity ratio, table 2 shows that, Canara Bank with mean value of 17.39, standard deviation of 1.31 and Coefficient of Variation of 7.56, is the highest as it relies more on cheaper funds, when compared to HDFC banks, which has mean value of 8.54, standard deviation of 0.64 and Coefficient of Variation of 7.45.

2. Asset Quality:

Asset Quality is another important aspect of the evaluation of bank's performance. The main motive in measuring asset quality is to ascertain the proportion of return on assets as a percentage and the amount locked up in investments as a percentage of the total assets. The ratios used under the asset quality are as follows:

(a) Return on Assets Ratio: The return on assets ratio levels helps us to know the efficiency of Credit Risk Management System of the bank. Table 3 indicates Return on Assets Ratio:

Table 3: Return on Assets Ratio

Year/Ratio	CANARA	HDFC
March 2013	0.70	1.68
March 2014	0.52	1.73
March 2015	0.51	1.76
March 2016	0.46	1.75
March 2017	0.22	1.70

Mean	0.48	1.72
STDEV	0.17	0.03
C.V	35.77	1.95

The ratio would help us to determine the quality of assets that banks have. The quality of assets has a return on assets. From the Table 3, it is clear that HDFC with mean value of 1.72, standard deviation of 0.03 and Coefficient of Variation of 1.95 is better when compared to with Canara Bank mean value of 0.48, standard deviation of 0.17 and Coefficient of Variation of 35.77.

(b) Total Investments to Total Assets Ratio: It indicates the extent of deployment of assets in investment as against advances. This ratio is used as a tool to measure the percentage of total assets locked up in investments, which, by conventional definition does not form part of the core income of a bank.

Table 4: Total Investments to Total Assets

Year/Ratio	CANARA	HDFC
March 2013	0.29	0.27
March 2014	0.26	0.24
March 2015	0.27	0.27
March 2016	0.26	0.22
March 2017	0.26	0.24
Mean	0.27	0.25
STDEV	0.01	0.02
C.V	4.87	8.74

The ratio would help us to determine the total investments the bank has made. From the Table 4, it is clear that Canara Bank with mean value of 0.27, standard deviation of 0.01 and Coefficient of Variation 4.87 is better when compared to HDFC with mean value of 0.25, standard deviation of 0.02 and Coefficient of Variation 8.74.

3. Management Efficiency:

The measurement of management capability is a qualitative and subjective concept. It can be measured through subjective evaluation of management systems, organization culture, control mechanisms, etc. The capability of management can be best measured through deployment of resources, maximization of income reduction of costs, productive utilization of facilities of the bank, etc. The management capability is measured with ratios given below:

(a) Credit Deposit Ratio: The credit deposit (CD) ratio is the ratio of the total outstanding credit in the banking system and the deposits held by them. It shows the management's aggressiveness to improve income by higher lending operations. It indicates the deployment of bank resources by way of loans and advances. Following table 5 indicates credit deposit ratio:

Table 5: Credit Deposit Ratio

Year/Ratio	CANARA %	HDFC %
March 2013	69.51	80.14
March 2014	69.95	81.79
March 2015	70.55	81.71
March 2016	68.66	83.24
March 2017	68.38	85.64
Mean	69.41	82.50
STDEV	0.90	2.07
C.V	1.29	2.51

This ratio measures the efficiency of the management in converting the deposits available with the bank into advances. The ratio of 60% is considered as a norm for banks. If credit deposit ratio is higher a larger percentage of deposits mobilized are lent to different sectors and it will lead to an improvement in the profitability of banks. It is clear from table 5; HDFC shows a good sign with mean value of 82.50%, standard deviation of 2.07 and Coefficient of Variation of 2.51 when compared to Canara Bank with mean value of 69.41%, standard deviation of 0.90 and Coefficient of Variation of 1.29.

(b) Return on Net Worth: Return on net worth is the amount of net income returned as a percentage of shareholders' equity. It is a measure of the profitability of the bank. Table 6 shows the return on net worth of Canara Bank and HDFC:

Table 6: Return on Net worth

Year/Ratio	CANARA	HDFC
March 2013	12.83	18.74
March 2014	10.65	19.79
March 2015	10.57	16.92
March 2016	0.00	17.22

March 2017	4.63	16.61
Mean	7.74	17.86
STDEV	5.29	1.36
C.V	68.39	7.59

Return on net worth determines the management quality as to how the assets are used. This ratio would help the shareholders' determine the management's ability to generate additional value for them. The banks good return on net worth would enhance confidence in the mind of the customer as well as the shareholders. It was found from the table 6 that: HDFC has gained public confidence and faith in the mind of the investors and general public with mean 17.86, standard deviation 1.36 and Coefficient of Variation of 7.59 when compared to Canara Bank with mean value of 7.74, standard deviation 5.29 and Coefficient of Variation of 68.39.

4. Earnings Capacity:

Earning is one of the conventional indicators of measuring financial performance of bank. This parameter is being increasingly used as indicator to measure performance of the bank due to fact that banks are earning much of their income through activities like investments, treasury operation and corporate advisory services, etc. following ratios are used to ascertain earning quality of the bank:

(a) Net Interest Margin: Net Interest Margin (NIM) is defined as the difference between interest earned and interest expended as a proportion of average total assets. Interest income includes dividend income. Interest expended includes interest paid on deposits, loans from RBI, and other short-term and long-term loans. Following table 7 shows the Net Interest Margin

Table 7: Net Interest Margin

Year/Ratio	CANARA	HDFC
March 2013	1.87	3.96
March 2014	1.78	3.79
March 2015	1.73	3.85
March 2016	1.73	3.98
March 2017	1.66	3.94
Mean	1.75	3.90
STDEV	0.08	0.08
C.V	4.43	2.07

Net Interest Margin depend on how the assets are utilized and how the bank is able to cope up with the changes in the economic conditions net Interest Margin of HDFC bank is the highest as the bank depends more on Current and Savings account and the quality of assets is also good with mean 3.90, standard deviation 0.08 and Coefficient of Variation of 2.07 when compared to Canara Bank with mean 1.75, standard deviation 0.08 and Coefficient of Variation of 4.43.

(b) Non-Interest Income to Total Funds: This measures the income from operations other than lending as a percentage of Total funds. A bank's earnings quality reflects its profitability and sustainability of the same.

Table 8: Non-interest Income to Total Funds

Year/Ratio	CANARA	HDFC
March 2013	0.83	1.71
March 2014	0.91	1.61
March 2015	0.90	1.52
March 2016	0.92	1.51
March 2017	1.37	1.42
Mean	0.99	1.55
STDEV	0.22	0.11
C.V	22.06	7.09

Non-interest income would help us determine the ability of the bank to earn revenue from other sources other than the core activities of the bank. The bank's core activities are lending and borrowing. The other activities which have developed over the years are mainly fee based activities like treasury operations and investment activities. It was found that both the banks have shown good sign and HDFC with mean value of 1.55, standard deviation 0.11 and Coefficient of Variation of 7.09 and Canara Bank with mean value of 0.99, standard deviation 0.22 and Coefficient of Variation of 22.06.

5. Liquidity:

Liquidity is one of the important parameters through which the performance of a bank is assessed. These parameters of CAMEL Model assess the ability of bank to pay its short term liabilities towards its deposit holders in a particular span of time. It can be measured with the help of the following ratios:

(a) Liquid Assets to Total Deposits: This ratio indicates that what percent of total deposits are held as liquid assets. This liquidity can be considered adequate enough to meet the immediate liabilities of the banks. Table 9 shows the performance of liquid assets to deposit ratio of Canara Bank and HDFC:

Table 9: Liquid Assets to Total Deposits Ratio

Year/Ratio	CANARA	HDFC
March 2013	1.17	1.36
March 2014	1.17	1.36
March 2015	1.15	1.34
March 2016	1.16	1.33
March 2017	1.19	1.38
Mean	1.17	1.35
STDEV	0.01	0.02
C.V	1.27	1.44

Liquid Assets to Total Deposits Ratio measures the liquidity available to the total deposits of the bank. Higher value of this ratio indicates higher liquidity of bank and lower value of the ratio indicates lower liquidity of bank. HDFC bank has shown good sign with mean value of 1.35, standard deviation 0.02 and Coefficient of Variation of 1.44 when to Canara Bank with mean value 1.17 standard deviation 0.01 and Coefficient of Variation of 1.27.

(b) Liquid Assets to Total Assets Ratio: It measures the overall liquidity position of the bank. The liquid asset includes cash in hand, balance with institutions and money at call and short notice. The total assets include the revaluation of all the assets.

Table 10: Liquid Assets to Total Assets Ratio

Year/Ratio	CANARA	HDFC
March 2013	0.99	0.99
March 2014	0.99	0.99
March 2015	0.99	0.99
March 2016	0.99	1.00
March 2017	0.99	1.00
Mean	0.99	0.99
STDEV	0.00	0.00
C.V	0.27	0.10

Table 10 shows liquid assets/total assets ratio. This ratio indicates that what percent of total assets are held as total assets. This liquidity can be considered to be adequate enough to meet the immediate liabilities of the banks. Higher value of this ratio indicates higher liquidity of banks and lower value indicates lower liquidity of banks. It was found that both the banks have shown good sign in the liquidity position; Canara Bank and HDFC both banks mean value of 0.99, Standard deviation 0.00 and Coefficient of Variation of 0.27 and 0.10.

Conclusion:

Economic development of any country is mainly influenced by the growth of the banking industry in that country. The current study has been conducted to make comparison over the financial performance of public sector and private sector banks with special reference to Canara Bank and HDFC, using CAMEL model during the period 2012-13 to 2016-17. Based on the analysis, it was found that HDFC has shown a fair sign in profitability and liquidity, when compared with Canara Bank. But in case of capital adequacy, the results are contrary. It is very important for bank. To improve the performance of the banks, following recommendations are made:

- ✓ Banks should build up buffer capital base in good times to be drawn upon in period of stress and crises.
- ✓ Framing reasonably well documented loan policy and rules
- ✓ Due to lower credit risk and consequent higher profitability, greater encouragement should be given to small borrowers.
- ✓ Adopting market intelligence for deciding the credibility of the borrowers.
- ✓ It is advised for banks to introduce diversified and innovative financial products which are best suited to common man.

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