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An Appraisal of the Financial Recital of Jharkhand Gramin Bank with reference to CAMEL Model

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Abstract

The growth and financial stability of the country depends on the financial soundness of its banking sector. Camel approach is a significant tool to assess the relative financial strength of a bank. And also,to suggest necessary measures to improve weaknesses of a bank. In India, RBI adopted this approach in 1996 followed on the recommendations of Padmanabham Working Group (1995) committee. In the present study, an attempt has been made to evaluate the financial soundness of Jharkhand Gramin Bank. For the purpose of ranking, CAMEL MODEL approach has been applied, incorporating important parameters like Capital Adequacy, Assets Quality, Management Efficiency, Earnings Quality and Liquidity. The finding of the study shows that.

Introduction

The growth and financial stability of the country depends on the financial soundness of its banking sector. The Indian banking sector has been working in a more open and globalize environment for a decade and half since liberalization. The liberalization process of Indian Economy has made the entry of new private sector banks possible and allowed the foreign sector banks to increase their branches in the banking sector. Besides, following India’s commitment to the WTO, foreign banks have been permitted to open more branches with effect from 1998-99. With the increased competition and the insistent on profitability, the public sector banks are now moving towards on economic-oriented model departing from the social approach followed for decades.

The banking and financial sector’s roles in the development of any economy cannot be overemphasised, as it’s the sector that fuels economies through mobilisation of deposits and allocation of credit for businesses.

Hence, **any instability can negatively affect the economy of any country.** Transparency and accountability in banks are enhanced by supervisory regulations as these compel greater attention to be paid to the soundness of the banks. The choice of a suitable rating system for comparability and benchmarking is key. 'CAMEL' provides such a system, and indeed **the Basel Committee of the Bank for International Settlements recommends the CAMEL rating system as an early warning mechanism for the assessment of the overall soundness of banks.**

Thus, the restructuring of public sector banks and the emergence of new banks in the private sector as well as the increased competition from foreign banks, have improved the professionalism in the banking sector. The increased presence of the private and foreign banks during the past decade has made the market structure of the banking sector in terms of competitive pricing of services, narrow spreads, and improving the quality of the services. The regional rural banks or even the ultimate Gramin Banks are now feeling the heat of the competition from private and foreign sector banks. In this back drop in the present article **an attempt has been made to evaluate Jharkhand Gramin Bank on the parameter of CAMEL Model that is Capital Adequacy, Assets Quality, Management Efficiency, Earnings Quality and Liquidity.**

Objective of the study

The prime objective of the study is

1. To analyze and discuss the various theoretical aspects ratios pertaining to CAMEL rating model for the assessment of financial performance of Jharkhand Gramin Bank (JGB).
2. To understand the CAMEL rating system.
3. To evaluate CAMEL components of Jharkhand Gramin Bank.
4. To suggest some policy measure for financial improvement of Jharkhand Gramin Bank.

Literature Review

S. No.	literature reviews	Year	Findings of literature review
1	M .Syed Ibrahim	2011	In his article about "Role of Indian Regional Rural banks in the priority sector lending – An Analysis" found that the real growth of Indian economy lies on the emancipation of rural masses from poverty, unemployment and other socio-economic backwardness. Keeping this end in view, Regional Rural Banks were established by the Government of India to develop the rural economy. He stated that "With the passage of three decades, the RRBs are now looked upon with hope for rejuvenating the rural India". In the study, the role of RRBs in the rural credits structure was deeply analyzed. The finding may be considerable use to rural banking institutions and policy makers in developing and shaping the appropriate credit structure as RRBs are integral part of the rural credit structure in India.
2	VershaMohindra and GianKaur	2011	concluded that over the years, RRBs have proved to be the most active agencies in the process of strengthening rural economy by purveying credit and mobilizing deposits from rural areas through their vast network even in the remotest areas of the country. Though the regional rural banks have faced a great threat initially, the introduction of financial sector reforms and other policy initiatives (including recapitalization) by Government of India, Reserve Bank of India and other agencies concerned for strengthening the financial position of regional rural banks have resulted in perceptible improvement in the functioning of these banks. Evidence from the above, regional rural banks are thus required to devote utmost attention to their performances to meet global aspirations
3	Kanika and Nancy	2013	in their research paper on "Financial Performance evaluation of regional rural banks (RRBs) in India" have focused on analysing the growth pattern & financial soundness of RRBs in India.

4	**Mohi-ud-Din Sangmi and Dr. Tabassum Nazir,**	**2013**	in their study of "Analyzing Financial Performance of Commercial Banks in India: Application of CAMEL Model" explained that 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 the two major banks operating in northern India .This evaluation has been done by using CAMEL Parameters, the latest model of financial analysis. Through this model, it is highlighted that the position of the banks under study is sound and satisfactory so far as their capital adequacy, asset quality, Management capability and liquidity is concerned.
5	**Sabitha Devi N**	**2014**	in her article title "Problems and Prospects of Regional Rural Banks" have set objectives to cultivate the banking habits among the rural people and mobilize savings for the economic development of rural areas and to provide finance to Co-operative Societies and Primary Credit Societies and Agricultural Marketing Societies. They have concluded that they should establish proper co-ordination with other institutional financing agencies, Co-operative Banks, Commercial Banks and local participants to enhance their capability and exploit untapped rural market.
6	**Dhanraj N and Saikumar R**	**2018**	in their article titled "Performance of Regional Rural Banks in India" examined the growth-pattern and progress of national agriculture policy and programs in rural credit in India and analyze the financial performance. They have concluded that the establishment of Regional Rural Banks for the development of rural economy by providing financial assistance to agriculture, trade, commerce, small and house hold industry through credit and advances are being met with the establishment of various areas to specific Regional Rural Banks.

7	**Tripti Gupta and Kalpana Singh**	**2019**	in their article titled "Performance Evaluation of Regional Rural Banks in India" examined the growth pattern and progress of RRBs and evaluated the performance of RRBs before and after the merger of the banks and to analysis the financial health of RRBs. They have concluded that improvement in the productivity performance of RRBs in respect to per branch productivity and per staff productivity was realized in the merging of 2005 while results showed the poor performance in 2013 merging process.
8	**S. Selvakumar D. Abima**	**2020**	in his study focused on analysing the short-term & long-term solvency and profitability to know the financial performance of Regional Rural Banks (RRBs)

Statement of Problem

In the recent years the financial system especially the banks have undergone numerous changes in the form of reforms, regulations & norms. Many studies have been done to analyze the performance of private banks on profitability determinants and the financial indicators. However, this study will use financial ratios to analyses the Jharkhand Gramin Bank performance based on the camel model.

Research Methodology

This study is based on Primary as well as Secondary data. Primary data regarding status and organization of JGB is collected by interviewing officials of this bank situated in East and West Singhbhum of Jharkhand. Secondary data is collected from annual reports of Jharkhand Gramin Bank for the period from 2009-10 to 2014-15. Some other data published in money control.com and other related websites are also referred.

Research Methodology Camel model is basically ratio-based model for evaluating the performance of banks. It is a management tool that measures capital adequacy, assets quality, management efficiency, earnings quality and liquidity of financial institutions. As a tools twenty variables related to CAMEL model are used in the study.

Overview of CAMEL model

Banking supervision has been increasingly concerned due to significant loan losses and bank failures from the 1980s till now. In the light of the banking crisis in recent years worldwide, CAMEL is a useful tool to examine the safety and soundness of banks, and help mitigate the potential risks which may lead to bank failures. In order to cope with the complexity and a mix of risk exposure to banking system properly, responsibly, beneficially and sustainably, it is of great importance to evaluate the overall performance of banks by implementing aregulatory banking supervision framework. One of such measures of supervisory information is the CAMEL model which was put into effect firstly in US. **Camels rating** is a supervisory rating system originally developed in the U.S. to classify a bank 's overall condition.

The system became internationally known with the abbreviation CAMEL, reflecting five assessment areas: capital, asset quality, management, earnings and liquidity. In 1995 the Federal Reserve and the OCC replaced CAMEL with CAMELS, adding the "S" which stands for financial Sustainability. This covers an assessment of exposure to *market risk* and adds the 1 to 5 rating for market risk management.

Ratings are not released to the public but only to the top management to prevent a possible bank run on an institution which receives a CAMELS rating downgrade. Institutions with deteriorating situations and declining CAMELS ratings are subject to ever increasing supervisory scrutiny. Failed institutions are eventually resolved via a formal resolution process designed to protect retail depositors.

Camel Framework and Major Ratios

Table - (1) Parameters for CAMEL model

Category	Ratios	Formula	Significance	Evaluation Criteria
Capital Adequacy	CRAR	Tier – I and Tier – II Capital/ aggregate of risk weighted assets (RWA)	It measures the ability of a bank in absorbing losses arising from risk assets. The higher the value of thisratio, the better the financial health of a bank.	Higher the Better
	Debt/Equity Ratio	(Capital + Reserves)/ (Deposits + Borrowings + Other Liabilities).	This ratio thus indicates the bank's financial leverage. In the case of manufacturing sector the ideal ratio is 2:1. However, in the case of commercial banks, there is no standard norm for debt – equity ratio	Lower the Better
	Net advances to total asset	Net advance / Total assets	This ratio indicates banks aggressiveness in lending which ultimately results in better profitability.	Higher ratio is preferred
	Gov Sec to Investment	Government Securities / Total	This ratio indicates a bank's Strategy as	Higher the Safer.

	Ratio	Investments	being high-profits high risk or low profits – low risk.	

Asset Quality	Gross NPA Ratio	Std advances (net of total advances and gross NPAs) / total advances	This ratio means that if the bank has high performing Assets it may result in higher earnings.	Higher the Better
	Net NPA/Net Advance Ratio	Non Performing Assets/Net advances	It indicates the level of nonperforming assets in net advances.	Lower the Better
	return on investment	Total Investment / Total Assets	It is a profitability ratio that Compares a department‘s profits with the total assets required to generate those profits.	Higher the Better
	Coverage Ratio	(Net worth-net NPAs)/ total assets	This ratio indicates availability of capital to meet any Incidence of loss assets in NPAs	Higher the Better
Management Quality	Total advances/total deposit Ratio	Total advances/total deposit	This ratio indicates the ability of a bank to convert its deposits into higher earning advances.	Higher the Better
	Business per Employee	Total advances and Total Deposits / No of Employees	This ratio is used to find out whether a bank is relatively Over or under staffed.	Higher the Better
	Profit per Employee	Profit / No of employee	This is also a ratio to check efficiency of bank in maximizing profits per employee.	Higher the Better
	Business per Branch	Business / Branch	This ratio is taken into consideration for evaluation and comparison of the efficiency of a bank at its branch level.	Higher the Better
	Profit per Branch	Profit after tax / Branch	It indicates profitability at each branch level and the same time indicates its efficiency.	Higher the Better
	RONW	Income / Net Worth	the ratio is developed from the perspective of the shareholder, not the company, and is used to analyze investor returns.	Higher the Better

	Dividend pay-out ratio	Dividend / Net Profit	It shows the percentage of profit shared with the shareholders.	Higher the Better
	Return on Asset	Net profit after tax / Total assets	This ratio indicates the returns earned on assets deployed by the bank.	Higher the Better
	Operating Profit to average working fund	Operating Profit / average working fund	This ratio indicates how much a bank can earn from its operations net of the operating expenses for every rupee spent on working funds.	Higher the Better
Earning Ability	Net profit to average asset	Net Profit / Average Assets	It indicates the efficiency of the banks in utilizing their assets in generating profits.	Higher the Better
	Income Spread/Total Income Ratio	(Interest Income earned – Interest Expended) / Total Income	The interest income to total income indicates the ability of the bank in generating income from its lending.	Higher the Better
	Other Income to Total Income	Other Income / Total Income	Fee based income account for a major portion of the bank's other income. The bank generates higher fee income through innovative products and adapting the technology for sustained service levels.	Higher the Better

	Liquid assets to total assets	Liquid assets / total assets	Liquidity for a bank means the Ability to meet its financial obligations as they come due.	Indicates the overall liquidity position of the bank.
	Gov Sec/Total Asset Ratio	Gov Sec/Total Asset	This ratio measures Government securities (most liquid and safe investments) as a proportion of total asset.	Higher the Better
Liquidity	Approved securities to total assets	Approved securities / total assets	Approved securities include securities other than government securities. This ratio measures the Approved Securities as a proportion of Total Assets.	This ratio measures the risk involved in the assets hand by a bank.
	Liquid Asset/ Total deposit Ratio	Liquid Asset/Total deposit	This ratio indicates ability of the bank to meet its deposit obligations with available liquid funds	Higher the Better

Analysis and findings of collected information

		2009-2010	2011-2012	2012-2013	2013-2014	2014-2015
CAPITAL ADEQUACY - C	Capital adequacy ratio	3.8%	5.2%	5.7%	5.7%	5.6%
	Debt Equity Ratio:	25.3%	68.8%	64.0%	69.1%	72.3%
	Net Advances to Total Assets Ratio	24.0%	26.1%	24.1%	25.5%	26.2%
	Government Security to Total Investment	32.0%	53.7%	48.3%	49.9%	52.4%
ASSET QUALITY – A	Gross NPA to Net Advance Ratio	8.5%	8.5%	22.0%	18.9%	17.6%
	Net NPA to Net Advance Ratio	8.5%	8.5%	22%	18.9%	17.6%
	Total Investment to Total Assets	59.2%	36.0%	40.2%	40.4%	37.6%
	Net NPA to Total Assets	2.0%	2.2%	5.3%	4.8%	4.6%
MANAGEMENT – M	Total Advances to Total Deposits Ratio	27.0%	31.0%	29.0%	30.0%	30.0%
	Business Per Employee	26.3%	31.0%	28.0%	32.80%	37.97%
	Profit after tax per employee	0.4%	0.4%	0.8%	0.6%	0.8%
	Business Per Branch	97.0%	11.06%	11.3%	12.2%	13.6%
	Profit after tax Per Branch	0.1%	0.1%	0.2%	0.2%	0.2%
	Return on Net worth	53.2%	65.3%	70.1%	69.3%	67.3%
EARNINGS & PROFITABILITY – E	Earning & Profitability	0.0%	12.0%	27.0%	12.0%	7.0%
	Return on Assets	1.1%	0.9%	0.5%	0.5%	0.4%
	Operating Profit to Average Working Fund	72.0%	25.0%	26.0%	27.0%	25.0%
	Net Profit to Average Assets	12.0%		0.5%	0.6%	0.4%
	Interest Income to Total Income	97.0%	94.0%	94.0%	96.0%	97.0%
	Other Income to Total Income	2.9%	6.0%	6.2%	3.8%	3.0%
LIQUIDITY – L	Liquid Assets to Total Assets	16.7%	37.7%	35.5%	34.0%	36.0%
	Government Securities to Total Assets	19.0%	19.4%	19.5%	20.2%	19.7%
	Approved Securities to Total Assets	0.0%	0.0%	0.0%	0.0%	0.0%
	Liquid Assets to Demand deposits	22.2%	8.9%	6.4%	5.5%	5.5%
	Liquid Assets to Total Deposits	19.0%	44.9%	42.0%	39.7%	41.3%

Findings

From the evaluation of above table the following findings are exhibited:

1. Increase is reported on Capital Adequacy ratio and Net Advances to Total Assets ratio for year-on-year shows JGB is continuously gaining strength. But in the same time continuous increase in Debt Equity ratio required checked by the authority of Jharkhand Gramin Banks.

2. Total NPA to Net advance ratio also increased continuously till 2013, which is not favorable for financial health of JGB but it also revived in following years. Which is a good practice noticed here in our evaluation. Bank need to continuously maintain a sufficient provision against loan.

   Increase in total Investment to total Assets ratio is favorable for a Bank and we find JGB also reported a momentum increase in total investment to total assets.

3. Since efficiency of management of a bank depends on proficiency of its employee which ultimately reflected in branch performance. In our evaluation which is based on ratio of Business Per Employee, Profit after tax per employee, Profit after tax Per Branch and Return on Net worth , we find that all there parameters are continuously gaining force which shows financial strength of JGB.

4. Earning and profitability parameters are continuously increasing and it is favorable condition for JGB but one parameter Operating Profit to Average Working Fund is decreasing year-on-year. It required to improve; this ratio indicates how a bank has employed its working funds in generating profits. So, JGB require to deploy tis funs efficiently.

5. Ensuring adequate liquidity is anintegral part of a bank’s management. Different parameters related to liquidity position is increasing year-on-year, which shows that, the JGB is liquid at short term; and the bank is able to cope long term liquidity risk.

Concluding note

CAMEL model is important tool to assess the relative financial strength of a bank and to suggest suitable measures to improve its weaknesses. In the present study CAMEL ranking approach is used to assess relative performance of JGB. We examine CAMEL ratings, their information content, and their determinantsover the period from 2009 to 2015. We find individualManagement component rating, have significant predictive power for future bank performanceand risk measures relevant to banking regulators and supervisors. We also find that CAMELratings have significant predictive power for aggregate variables in the economy, including the unemployment rate and bank lending in the economy.

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