PERFORMANCE ANALYSIS OF SELECTED INDIAN BANKS USING THE CAMEL MODEL

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Abstract: It is absolutely necessary to assess the financial soundness of the banking sector in a nation since the financial system of the country is dependent upon it. The primary purpose of this research is to analyse the financial performance of a number of different private sector banks and to make comparisons between those institutions using the CAMEL Model. The research covers the period beginning with the fiscal year 2012–2013 and continuing through the 2016–2017 fiscal year. The CAMEL model was helpful in measuring the performance of banks according to each of the main parameters, including Capital Adequacy, Assets Quality, Management Efficiency, Earning Quality, and Liquidity. The study comes to a conclusion by comparing the relative standings of the banks after doing research on a number of private financial institutions like SBI Bank, BOB Bank, BOI Bank, canara Bank, and Panjab national Bank.

Keyword: Banking, CAMEL Model, Financial Performance, Ratios

1. INTRODUCTION

Banks square measure in the business of managing risk and not avoiding it . It is not in the business of banks to minimize risk; rather, their primary objective is to manage it effectively. The fundamental aspect that controls how people spend and save their money is risk. The monetary system would be much simplified, notwithstanding the absence of any risk. However, risk is an inevitable part of doing business in the real world; consequently, financial institutions have a responsibility to manage risk effectively in order to thrive in this uncertain environment. Without a shadow of a doubt, the dynamics of risk management will determine the course that banking will take in the future. Long-term success in the market is only possible for those banking institutions that practice prudent risk management. The successful management of credit risk is an extremely important component of comprehensive risk management. It is also critical for the continued and sustained performance of a financial institution.

Credit risk is the risk that has been around the longest and is the risk that is the most substantial simply because of the nature of the bank's business. This risk is the risk that a bank is exposed to while accepting deposits. In recent times, the relevance of this issue has substantially expanded as a result of the multiplicity of aspects that are involved. The collective sigh of relief that can be heard all across the globe on the current health of the economy is the first and most important of these factors. There is no reason to believe that the economies of Asian nations will be exempt from this trend toward a market-based economy.

A bank's robust financial health provides a promise not just to its depositors, but also to its shareholders, employees, and the economy as a whole. This is crucial for all of these parties. As a direct consequence of this adage, attempts have, on occasion, been made to meet up to the standards set by the money banks of two big banks that are active in the countries of northern Asia. This investigation was carried out using artiodactyl as a research tool. The most up-to-date model of financial analysis is known as parameters. This model demonstrates that the status of the banks that are the subject of the research is thus adequate in terms of their capital sufficiency, quality management skills, and liquidity. This conclusion is reached as a result of the findings that are presented in the model. The banking industry has made significant contributions toward bringing about a revolutionary transformation in restructuring the sector on the route toward economic what. The capacity of a bank to incur risk and make combinations of risks while staying within acceptable and manageable bounds is essential to the bank's performance. It is not in the business of banks to avoid risk; rather, their primary focus is on mitigating the effects of risk".

2. RISK MANAGEMENT

Without a shadow of a doubt, the dynamics of risk management will determine the course that banking will take in the future. Long-term success in the market is only possible for financial institutions that are equipped with cost-effective risk management systems. The efficient management of credit risk is a key component of comprehensive risk management, which is necessary for the sustained performance of a financial institution over the long term. Credit risk is the risk that has been around the longest and is the risk that is the most significant for a bank to inherit due to the nature of the company that they are in. This has, however, taken on a greater importance in recent times despite the fact that it is not inheritable for a variety of reasons. The first and foremost of them is the sigh of relief that can be heard all throughout the world in regards to the state of the economy. There is no country in Asia that is immune to this shift toward an economy dominated by markets. The level of competition, both from inside and beyond the nation, is quite high. As a consequence of this, markets have become more volatile due to the multitude of risks involved, both in terms of range and volume. To be successful in the management of credit risk, one must first have a crystal clear understanding of the risks involved in loaning, the qualifications of risks contained within each item of the portfolio, and the process of coming to a conclusion regarding the possible composite credit risk profile of a bank.

The establishment of a framework that outlines corporate priorities, a loan approval procedure, a credit risk categorization system, a risk adjusted assessment system, a loan review mechanism, and a complete coverage system is the foundational component of credit risk management.

The way that people think about banks and banking has undergone a paradigm change as a result of the integration of the Indian financial industry with the rest of the globe. Prior to the implementation of the money reforms, Indian banks were thriving in a very secure environment, thanks to the dependable cushion provided by the government and their own institutions. Since of this, they have become operationally inefficient, and from a business perspective, they are on the verge of going bankrupt because they have accumulated an excessive amount of NP Advances.

However, with the government taking strong measures primarily based on the recommendations of the Norseman Committee, the landscape of the Indian norms of capital adequacy, quality, provisioning for NPA'S prudent norms, speech act requirements, acceleration of pace and reaching of latest technology, streamlining the procedure and obliging with the accounting standards, and creating money clear has changed. In order to do this, they rethought their goals, plans, policies, procedures, methods, and technologies, all of which have a direct influence on the monetary health and performance of these institutions. This was done in an effort to improve their standing. In this strategy, these banks were not just required to take on the top of the step; rather, this system constantly evaluates their monetary health and performance.

The development of associate degree economy is substantially reliant upon preparation in addition to the optimal usage of the resources and most crucially the operational potency of various sectors, among which banks play a vital part.

In addition to playing a role in the facilitation of financial policy, the banking sector plays a role in the stimulation of capital creation, the invention of new ideas, and the validation of existing ideas. It is very necessary to carefully evaluate and analyze the performance of the bank in order to ensure a healthy monetary system and a prosperous economy. The purpose of this research is to examine the performance of financial institutions over a period of five years, from 2012 to 2016, specifically.

3. OBJECTIVE OF THE STUDY

The gift study tries to accomplish the following objectives-

The primary purpose of the research is to use an artiodactyl model in order to conduct an analysis of the money position and performance of public sector banks in Asian countries. In addition to this, credit risk management practices of industrial banks in Asian countries have been highlighted, as well as the standard that has been established as part of the New Base Capital Accord. Additionally, an analysis of the

concentration of risk in public sector banks has been brought to light. Also included are the elements that have been briefly discussed that have led to the present performance of the money.

4. SIGNIFICANCE OF THE STUDY –

The elementary business of loaning has brought bother to the individual banks and entire system . It is imperative too fastidiously measure and analysis the performance of the banks to guarantee a healthy monetary and economic system . The study also measure the performance of national banks for a period of 5 years .–

The elementary business of disposition has brought bother to the individual banks and entire banking system .It is therefore imperative that the banks are unit the adequate system for the current assessment of individual comes and evaluating risk associated thereupon as well as the business as a whole family .Generally banks measure the proposal through ancient tools of project finance , computing most permissible limits , assessing management capabilities and a ceiling for a business exposure .

Credit risk , that is , default by the receiver to repay lent cash , remains the most necessary risk to manage until date. The predominance of the credit riak is even mirrored in the composition of economic capital , that the banks area unit needed to keep a facet for protection against varied risks . According to one estimate Credit risk takes regarding seventieth and half hour remaining is shared between alternative 2 primarily risks , specially market risks and operational risk . Quality borrowers (Tier 1 borrowers) were in a position to access the capital market directly while not going through the debt route . Hence the credit route is currently a lot of open to lesser mortals .

With margin level going down , banks area unit unable to absorb the level of loan losses .There has been terribly very little efforts to develop a technique where risk might be known and measured . Most of the banks have developed internal rating system for the borrowers , however there has fine –tune the rating system . Also risks peculiar to every business area unit additionally not known and evaluate brazenly .

There is a would like for Strategic approach to CREDIT RISK MANAGEMENT in Indian banks notably in read of ,

1. Higher NPA level in comparison with international benchmarks
2. RBI’s stipulation regarding dividend
3. Revised NPAs level and automobile norms
4. New Basels Capital Accord revolution

5. RESEARCH METHODOLOGY –

Five major players in the banking sector have been analysed for the aim of study

1. STATE BANK OF INDIA
2. BANK OF INDIA
3. BANK OF BARODA
4. CANARA BANK
5. PUNJAB NATIONAL BANK

The present study attempts to evaluate the performance of commercial banks in India through CAMEL approach for a period of five years 2012-13 to 2016-17.

6. DATA ANALYSIS –

A standardized technique that provides an evaluation of the quality of the bank based primarily on the standard criteria is followed, and each bank is given a consistent composite rating as part of this process. Depending on the circumstances at the banks, some aspects of the evaluation may be given more weight than others when it comes to being assigned a composite score. Ratings that are composites may take into account a variety of aspects that have a substantial influence on the rating's validity as a whole and its general state. Calculations are made to determine the ratio for each of the five categories, and the results are then graded.

BANK	2012	2013	2014	2015	2016	Avg.	Rank
SBI	12.92	12.96	12.00	13.12	13.11	12.82	2
BOB	13.30	12.28	12.60	13.17	13.17	12.904	1
PNB	12.72	12.11	12.89	11.28	11.66	12.132	3
BOI	11.02	9.97	10.73	12.01	12.14	11.174	5
Canara	12.40	10.63	10.56	11.08	12.86	11.506	4

1. **CAPITAL ADEQUACY RATIO (Amount in Cr.)**

All the five banks namely State Bank Of India , Bank Of Baroda , Punjab National Bank , Bank Of India , Canara Bank have fairly equal amount of CRAR with 12.82, 12.904, 12.132, 11.174, 11.506 which means these banks have greater capacity to adapt the loss if occur. And among these, Bank of Baroda has highest ranking in CRAR (basel2). Likewise, Bank of India scored minimum rank. Still we can conclude that the banks are able to maintain the minimum CRAR of 9% as per RBI norms.

2. DEBT EQUITY RATIO (Amount in Cr.)

State Bank of India secured first rank among all five with 14.08 followed by Punjab National Bank, Bank of Baroda, Bank of India and lastly Canara Bank which secured fifth rank which means State Bank of India and Punjab National Banks are more secured and their respective depositors and creditors are at less risk than other three banks.

BANK	2012	2013	2014	2015	2016	Avg.	Rank
SBI	13.87	13.34	13.87	14.24	15.08	14.08	1
BOB	15.65	16.83	16.39	15.11	15.69	15.934	3
PNB	13.80	14.48	14.51	17.28	17.39	15.492	2
BOI	17.44	17.56	18.19	18.19	18.83	18.042	4
Canara	16.47	18.57	18.88	19.37	18.89	18.436	5

3. Total Advances to Total Assets Ratio

State Bank of India secured highest position in the advances to assets ratio by Avg. Of 0.634 followed by Punjab National Bank, Bank Of India, Canara Bank and lastly Bank Of Baroda. It is clearly noticeable that the performance of all Banks are approximately the same , which implies that the banks are able to maintain good lending policy , State Bank Of India and Punjab National Bank have better lending policy than other three banks which states that the profit of such banks will boost favourably.

BANK	2012	2013	2014	2015	2016	Avg.	Rank
SBI	0.66	0.675	0.634	0.620	0.580	0.634	1
BOB	0.599	0.601	0.598	0.571	0.551	0.584	5
PNB	0.644	0.634	0.630	0.617	0.582	0.622	2
BOI	0.639	0.646	0.649	0.588	0.585	0.621	3
Canara	0.587	0.612	0.602	0.587	0.586	0.594	4

7. CONCLUSION

According to the research conducted by the CAMEL Model for leading Five banks , it is noted that the SBI has performed better in Capital Adequacy and has good risk management system . All the banks may take stringiest policies to overcome increasing NPA,s in the future . BOI must take appropriate steps to overcome its negative profit per employee . PNB should try to improve its earnings to distribute more dividend to its investors . Canara bank has generate adequate income from its assets . There has been significant change in the performance of these banks over few years . BOB has better solvency and working capacity for day to day operations . SBI has lesser capacity to fulfil the demand and advance the money to the people . Due to the technological advancement , banks all around the world has increase their supervision quality too. Overall , we can say that BOB and SBI has performed better than other banks as due to passage of time there has been fluctuations in the other selected bank

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