

A STUDY ON FINANCIAL PERFORMANCE OF THE KOZHIKODE DISTRICT CO-OPERATIVE BANK LTD. USING CAMELS RATING SCALE

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Abstract: The objective of this study is to analyze the financial performance of The Kozhikode District Co-operative Bank Ltd using CAMELS rating analysis approach. The financial performance of the bank is examined over the period of last 5 financial years from 2011-2012 to 2015-2016. It is revealed that KDC bank is in strong position on their composite rating system and is basically sound in capital adequacy, asset quality, management efficiency, earning capacity and liquidity position.

Key words: KDC Bank, CAMELS rating analysis, financial ratios analysis, JEL Classifications: G21, G32, and M41.

Introduction

Banking is the kingpin of the chariot of economic progress. It plays a pivotal role in the development of the economy of any nation. Co-Operative bank is an institution established on the co-operative basis and dealing in ordinary banking business. It has played an important role in our efforts for achieving socio-economic transformation with major focus on the welfare of masses, both in village and in towns, comprising of farmers, craftsmen, small entrepreneurs, women, labourer's and other economically weaker sections of our society.

The Kozhikode District Co-Operative Bank Ltd (erstwhile Malabar Co-Operative Central Bank Ltd.,-known as MCC Bank) was registered and started functioning on 3rd December 1917. KDC bank has emerged as the most preferred bank in the terms of brand, values, and principles with core competence in fostering customer aspirations, to build high quality assets leveraging on the strong and vibrant technology platform. The evaluation of the firm's performance usually employs the financial ratio methods because it provides a simple description about the firm's financial performance in comparison with previous periods and helps to improve the performance of management. Financial ratios based on CAMELS rating analysis system are used in this study to measure the financial performance of bank. CAMELS stand for; C-capital adequacy, A- asset quality, M-management efficiency, E- earning capacity, L-liquidity position, S-system and control.

Review of Literature

Muhammad shehzad Moin,(2013)¹ in his article titled "Financial Performance of Islamic Banking and conventional Banking in Pakistan: A comparative study" complete that Islamic banking is less gainful, more solvent (less dangerous), and less competent during 2003-2007, however, it is informative noticeably over time representative meeting with the presentation of the conventional banks.

Gupta² evaluates the performance of 30 Indian commercial banks adopting CAMEL model data is taken for 2003-2007 and give rating to top five and bottom five banks.

Kwan and Eisenbeis(1997)³ observed that Asset Quality is commonly used as a risk indicator for financial institutions, which also determines the reliability of capital ratios. Their study indicated that capitalization affects the operation of financial institution. More the capital, higher is the efficiency.

Sarker (2005)⁴ scrutinized the CAMEL model for regulation and supervision of Islamic banks by the central bank in Bangladesh. The study enabled the regulators and supervisors to get a Shariah benchmark to supervise and inspect Islamic banks and financial institutions from an Islamic perspective.

Statement of the Problem

The financial system especially, the banks has undergone numerous changes in the form of reforms, regulations and norms. It has both positive and negative impact on the firm's operation. Therefore, performance evaluation is an inevitable factor for all the firms. CAMELS Rating is one of the important technique used to measure the financial performance. This study analyses how well the bank is performing using various financial ratios under CAMELS analysis technique.

Objectives

1. To analyze the financial performance of Kozhikode District Co-Operative Bank Ltd using CAMELS rating system.
2. To evaluate the capital adequacy, asset quality, management efficiency, earning quality and liquidity position of the bank

Scope and Significance of the study

The performance of the KDC bank Ltd is measured based on CAMEL rating scale by analyzing the data that is solely taken from the annual records of The Kozhikode District Co-operative Bank Ltd. The range of this study is to judge working results and financial positions. This study helps to scrutinize the Kozhikode District Co-operative Bank Ltd.

Evaluation of the organization's overall performance and observing the financial condition is essential to owners, potential investors, depositors, managers and, of course, the regulators. The study is conducted to analyze the performance of banks with respect to a CAMEL Model. This research is focused on CAMEL model as it emphasizes on different indicators that are specifically important for safety and soundness of the banking industry.

Limitation of the study

The study is based on the accounting information of the bank for past 5years i.e., from 2011-2012 to 2015-2016 only.

Methodology

Descriptive type of research design is used to conduct the study. The study uses secondary data in the form of annual reports and other journals of KDC Bank Ltd. for five financial years ranging from 2011-2012 to 2015-2016. CAMEL rating system is been used to measure the financial performance of the bank. Financial ratios like CRAR ratio, Total advance to Total asset ratio, Net NPA ratio, Return on Net profit, EPS, Spread, liquid asset to total deposit ratio, Liquid asset to total asset ratio, etc. are been used to measure various parameters like capital adequacy, asset quality, management efficiency, earning capacity and liquidity position of the bank.

Analysis and Discussions

Table No. 1: Ratio Analysis of KDC Bank Ltd for the Period 2011-12 to 2015-16

	<u>Ratios</u>	<u>Years</u>				
		2011-12	2012-13	2013-14	2014-15	2015-16
1.	<u>Capital Adequacy</u>					
	Capital to Risk weighted Asset ratio	9.12	9.57	9.84	10.01	10.11
	Total advance to Total asset ratio	54.69	55.41	56.14	57.27	56.63
2.	<u>Asset quality</u>					
	Net NPA ratio	7.41	7	7.96	6.54	6.55
	Trend in NPA	15.08	3.83	25.00	-9.71	20.59
3.	<u>Management</u>					
	Total advances to Total deposits ratio	84.13	78.99	74.23	71.24	68.76
	Business per employee	15858.47	15266.94	17386.78	13759.39	16025.11
	Profit per employee	4182.67	4539.99	5326.98	5864.45	6159.17
	Branch profitability	30672.89	39346.62	27700.29	30997.78	34315.40

	Return on Net Profit	38.24	46.61	51.95	77.26	76.08
	Earnings Per Share	5.35	6.86	8.05	11.92	13.20
4.	<u>Earning Quality</u>					
	Spread	1465.21	3131.23	5258.21	7976.31	10214.86
	Percentage change in Net Profit	-	28.28	17.33	56.67	10.70
	Interest income to Total income ratio	96.22	94.68	99.14	96.46	98.56
	Non-Interest income to Total income	3.78	5.32	0.86	3.54	1.44
5.	<u>Liquidity</u>					
	Liquid asset to Demand deposit ratio	43.71	44.20	42.65	39.80	36.83
	Liquid asset to Total deposit ratio	28.49	36.58	42.08	46.96	55.15
	Liquid asset to Total assets ratio	3.59	3.52	3.23	3.20	3.03

Source: Computed from annual report of KDC Bank Ltd

The table 1 shows the results of various financial ratios under CAMELS rating system. The CRAR ratio of KDC Bank is showing an increasing trend over last five years, which indicates the bank's capital adequacy, is satisfactory. Non-Performing Asset (NPA) adversely affects the asset quality of the banks. During year 2014-2015 KDC Bank has an NPA of 6.54% of advances. Decreasing trend in Net NPA to Total Assets is an evidence of improving asset quality. As profitability is directly related with efficiency of the management, Branch profitability, Profit per Employee and such other parameters indicates that the quality of management is in favorable situation. . Percentage growth in Net Profit of KDC Bank shows a decreasing trend for the last two years. Spread of the bank shows an increasing trend which means the interest income is above the interest expense during entire period, and thereby reveals that the bank's earning quality is satisfactory. The liquidity position of the bank is good and stable. It is clear that the bank is able to meet its liabilities on time. The overall financial performance of the Bank is satisfactory.

Conclusion

Without a sound and effective banking system, India cannot have a healthy economy. In this competitive era, no banks could survive without understanding their strength and weakness. Here is the importance of performance evaluation. In this research, the impact of CAMEL model parameters on Bank performance has been analyzed. The study was made covering a period of five financial years i.e. from 2011-2012 to 2015-2016. By analyzing last five years data, it is found that KDC Bank is making improvements in their financial performance and is having a healthy position.

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