

A Camel Model Analysis of Leading Urban Co-operative Banks in Uttarakhand State- A Case Study of The Kurmanchal Nagar Sahkari Bank Ltd. Nainital, Uttarakhand

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Abstract: As UCBs play an important role in the Indian financial system. Due to certain changes in the banking sector and new economic policies, the co-operative sector in general and Urban Co-operative Banks (UCBs) in particular, have undergone a crisis. At the same time the failure of some good Urban Co-operative Banks has also attracted the attention of the people and raised the question of security of their funds. So that need to find actual financial stability of the UCBs and assure investors about the operational as well as financial efficiency of the UCBs has been felt. Most of the UCBs in State are small in respect of Share capital, membership, loans outstanding, working capital and profit. In this background, the presented study intends to focus on the CAMEL model analysis of a leading UCB named The Kurmanchal Nagar Sahkari Bank Ltd., Nainital in Uttarakhand. On the basis of study, it is found that the Capital adequacy, Asset quality, Management efficiency and Liquidity of the bank was satisfactory But it is need to improvement in earning quality of the bank.

INTRODUCTION: Though limited in number and geographical coverage, UCBs in Uttarakhand have been functioning as an important segment of banking and financial landscape in Uttarakhand. These institutions have been making appreciable contribution in the economic development of the State. The 5 UCBs with a network of 103 branches in the State had aggregate deposits of Rs.37 billion and advances amounting to Rs. 17.5 billion as on March 2016. The Kurmanchal Nagar Sahkari Bank Ltd, Nainital, had emerged as one of the leading banks in the Northern region. The bank was showing profit continuously. The Group recommends that urban co-operatives banks which are presently in satisfactory financial health may be permitted to expand their areas of operations in the State of Uttarakhand through more branches as this would contribute in increasing the outreach of financial services. In this paper several ratios related to CAMEL model are calculated to measure the overall financial performance of the KNSB Ltd, Nainital.

OBJECTIVE OF THE STUDY: The main objective of the study is to analyze the financial position and performance of the Kurmanchal Nagar Sahkari Bank Ltd. Nainital using CAMEL model.

SCOPE OF THE STUDY: The scope of the study is limited as it covers only one leading UCB named The Kurmanchal Nagar Sahkari Bank Ltd., Nainital, to check the financial position of the banks, the data of 5 years from 2012-13 to 2015-16 are considered.

RESEARCH METHODOLOGY: To analyze the financial performance, Descriptive Research has been adopted and it is based on secondary data drawn from annual reports of The Kurmanchal Nagar Sahkari Bank Ltd. Nainital. For applying this model, five main dimensions of the performance (Capital adequacy, Assets quality, Management efficiency, Earning quality and Liquidity) are assessed using ratio analysis. CAMEL is, basically, a ratio-based model for evaluating the performance of banks. Various ratios that make the Framework are detailed as follows:

Capital Adequacy Ratios:

- CRAR
- Debt Equity ratio
- Total Advances to Total Assets Ratio
- Govt. Securities to Total Investment Ratio

Assets Quality Ratios:

- Net non-performing assets to net advances ratio
- Gross non-performing assets to net advance ratio
- Total investment to total assets ratio

Management Capability Ratios:

- Total expenditure to total income ratio
- Credit deposit ratio
- Assets turnover ratio
- Profit per employee
- Business per employee

Earning Capacity Ratios:

- Net profit margin ratio
- Return on equity ratio
- Return on Assets ratio
- Net interest margin ratio
- Interest income to total income ratio

Liquidity Ratios:

- Cash to deposit ratio
- Govt. securities to total assets ratio
- Total investment to total deposit ratio
- Interest expended to interest earned ratio

DATA ANALYSIS AND INTERPRETATION:

Capital adequacy- Capital base of financial institutions facilitates depositors in forming the risk perception about the organization. Also, it is a significant structure for financial managers to maintain adequate levels of capitalization. Capital adequacy is very useful for a bank to conserve & protect stakeholder's confidence and prevent the bank from bankruptcy. Reserve Bank of India prescribes banks to maintain a minimum Capital to risk-weighted Assets Ratio (CRAR) of 9 % with regard to credit risk, market risk and operational risk on an ongoing basis, as against 8 % prescribed in Basel documents. The following ratios have been taken into consideration to judge the capital adequacy of The KNSB Ltd.

	2011-12	2012-13	2013-14	2014-15	2015-16	MEAN
CRAR%	17.98	16.56	15.13	18.63	16.57	16.97
Debt/Equity (times)	9.54	9.59	10.81	9.82	10.13	9.98
Total Advance/Total Asset %	54.79	53.36	52.69	45.37	48.28	50.90
G-Sec/Total Investment (%)	97.84	97.99	99.18	98.09	92.15	97.05

Table 1 indicates that, fluctuating trend was seen in CRAR during study period. On an average, CRAR was 16.97%, far above the standard norms of 9% which is appreciable.

The Debt Equity ratio is total outside liability to shareholders funds. The mean value of Debt- Equity ratio is 9.98 time, high ratios indicates less protection for creditors and depositors.

Total advance to total assets ratio is an important parameter to measure the aggressiveness of banks in lending and indicates sternness in lending which ultimately results in better profitability. On an average, this ratio was 50.90% which are appreciable.

Govt. securities to total investment ratio indicates of safe investments in the total investment of the bank and also measures the risk involved in a bank's investment. Govt. securities are risk free higher investment in G sec has lower risk but also lower return. The mean value of this ratio is 97.05%, indicates that the banks have shown concern on investing much amount of investment in Govt. securities.

Assets Quality: Asset quality determines the healthiness of financial institutions against loss of value in the assets as asset impairment risks the solvency of the financial institutions. The weakening value of assets has a spillover effect, as losses are eventually written-off against capital, which eventually expose the earning capacity of the institution. With this framework, the asset quality is assessed with respect to the level and severity of non-performing assets, adequacy of provisions, distribution of assets etc. The following ratios have been used to measure assets quality.

	2011-12	2012-13	2013-14	2014-15	2015-16	MEAN
Net NPA/ Net Advances %	0	0	0	1.72	0.40	0.42
Gross NPA/ Net Advances %	0.97	0.62	2.29	4.67	3.80	2.47
Total Investment/ Total Advances %	41.70	44.09	45.24	69.71	60.20	52.19

The net NPA to Net advances ratio is a measure of the overall quality of bank advances, it shows the actual financial burden on the bank. The ratio was ZERO % in 2011-12 which increased to 1.72 % in 2014-15, but got a good recovery in 2015-16. Mean of net NPA ratio was 0.42% during the study period which was not more than 3%, criteria for financial sound and well managed primary co-operative banks as per RBI, its shows that bank management succeeds to maintain this ratio with in regulation criteria.

Gross NPA to Net Advances ratio is a measure of the quality of assets in a situation, where the management has not provided for loss of NPAs. During the study period bank show fluctuating trend in gross NPA to total advances ratio, but the mean was 2.47% which is appreciable.

Total investment to total advances ratio is a standard measure to know the percentage of total assets locked up in investments. The average ratio was 52.19% which clearly shows the bank invested just half of its assets in investment.

Management efficiency: Management efficiency, another indispensable component of the CAMEL framework, means adherence to set norms, knock to plan and be proactive in the dynamic environment, leadership, innovativeness and administrative competence of the bank. The following ratios have been used to measure management efficiency.

	2011-12	2012-13	2013-14	2014-15	2015-16	MEAN
Total Expenses/Total Income %	73.04	73.02	75.14	82.06	85.07	77.67
credit / deposit %	63.84	66.61	69.35	53.81	57.99	62.32
Assets Turnover (times)	0.09	0.09	0.08	0.09	0.09	0.09
Profit Per Employee (Rs.)	7.20	6.59	7.14	4.31	4.13	5.87
Business Per Employee (Rs.)	706.10	606.23	656.01	660.23	668.49	659.41

The total expenses to total income ratio of the bank is increased continuously year by year, which is not good for bank. On an average the ratio was 77.67 during the study period. It is ideal for banks to have a lower ratio as it will enhance profit of the bank and subsequently enhance returns to the stakeholders.

CD ratio is the first indication of the health of a bank as this ratio is a measure of banks competence to convert deposits available with a bank into high earning advances. On an average this ratio was 62.32%, it varied over range between 53.81% minimum in 2014-15 to 69.35% maximum in 2013-14 which was in standard limit of 65% to 70%.

Assets turnover measures how quickly a bank turns its assets through its income. The ratio remained at 0.09 times during the study period.

Profit per employee indicates the average profit generated per person employed by bank. Its shows the profit was decreasing after 2013-14 with lowest of 4.13 laces in 2015-16. Mean of profit per employee was 5.87 laces.

Business per employee indicates the efficiency of bank in terms of doing business with lesser number of employees. On an average business per employee was Rs.659.41 laces during the study period.

Earning Quality: The quality of earnings represents the sustainability, growth of future earnings, value of a bank's curativeness, competency to maintain quality, earn consistent Earnings and profitability are examined as against interest rate policies and adequacy of provisioning. The following ratios have been used to measure earnings quality:

	2011-12	2012-13	2013-14	2014-15	2015-16	MEAN
Net Profit Margin %	15.51	15.94	16.56	9.95	9.38	13.47
Return on Equity %	69.00	77.58	81.92	49.31	44.34	64.43
Return on Assets %	1.44	1.46	1.40	0.93	0.83	1.21

Net Interest Margin %	5.23	3.19	3.26	3.36	2.13	3.43
Interest Income/Total Income %	67.40	64.67	62.14	59.19	56.55	62.00

Net Profit Margin is an important criterion to measure the earnings quality in Banks. From the FY 2011-12 to 2013-14 bank was showed a good NPM but after that margin was decreased to 9.95% in 2014-15 and 9.38% in 2015-16. A high NPM clearly signifies that the bank has stable and steady earning vice versa.

Return on Equity ratio is a key profitability ratio for investor which measures the profitability of shareholder's investment. ROE showed fluctuating trend during the study period. The ratio increased from 69% in 2011-12 to 81.92% in 2013-14. Afterwards the ratio suddenly decreased to 49.31% and 44.34% in 2014-15 and 2015-16. However it was higher than the standard norms of 15%.

Return on Assets ratio indicates the bank's efficiency in using its assets to generate net income. From 2011-12 to 2013-14 ROA ratio was above the standard norms of 1% but afterwards it was decreased to 0.93% in 2014-15 and 0.83 in 2015-16. The mean of ratio was 1.21 during the study period.

Net Interest Margin ratio is calculated as a percentage of interest bearing assets. It shows the ability of bank to keep the interest on deposits low and interest on advance high. The ratio was decreased from 5.23 in 2011-12 to 2.13 in 2015-16 and mean was 3.43% which is more than the standard norms of 3.5%.

Interest income to total income ratio indicates the capability of the bank in generating interest income from its advances. The mean of ratio was 62%.

Liquidity: In case of an adequate liquidity position, the institution can obtain sufficient funds, either by increasing liabilities or by converting its assets to cash quickly at a reasonable cost. The following ratios have been used to measure liquidity.

	2011-12	2012-13	2013-14	2014-15	2015-16	MEAN
Cash/Deposit %	1.58	1.37	2.16	1.62	1.93	1.73
Govt. Security/Total Assets %	22.33	23.03	23.57	30.91	26.68	25.30
Total Investment/Total Deposit %	26.62	29.37	31.71	37.51	34.91	32.04
Interest Expended/interest earned %	0.87	0.88	0.96	1.08	1.17	0.98

This is an important parameter to measure liquidity as it evaluates the amount of cash that the bank has from the deposits that it has generated. Bank need to maintain sound cash to deposit ratio so as ensure that the large volume of cash is not maintained. On an average the cash to deposit ratio was 1.73% during the study period.

Government securities to total asset ratio measures the amount of risk free liquid assets invested by a bank in govt. securities as a percentage of the total assets held by the bank. The mean value of G-sec to total assets is 25.30%.

Total investment to total deposit indicates the effectiveness of a bank to convert their deposits in to investment and how liquid the bank is in meeting its obligation towards the depositors of the bank. The ratio registered fluctuating trend for the entire study period. The lowest ratio was recorded in 2011-12 is being 26.62% and highest ratio was in 2014-15 is being 37.51%. The average ratio remained at 32.04%.

Interest expended to interest earned ratio measures the ability of the bank to meet the interest expenditure on deposits from the interest income from advances. From 2011-12 to 2013-14 the ratio was below 1% and afterwards it was above 1%. If the ratio is less than 1, the bank is generating enough interest from its advances to meet interest obligations of deposits which signifies sound liquidity of the bank.

CONCLUSIONS:

The management of the Kurmanchal Nagar Sahkari Bank Ltd, Nainital succeeds to maintain CRAR and Debt equity ratio but the growth of total advance to total assets ratio was weak which is not good for the profitability of the bank in future, therefore bank should try to Maintain a good level of aggressiveness towards loan and advances. A higher investment in G-sec decreases the risk involved in bank's investment.

Asset quality of bank In terms of NPAs was as per the norms indicates that the bank has granted sound loans and proves good quality of advances as well as active performance of recovery departments of bank But increasing trend of NPAs is a serious problem for the management of the bank. In terms of total investment to total assets ratio bank invested more than half of its assets in investments which guard against loan loss. But the high ratio adversely affects the profitability of the bank since the interest income generated through investments is much less than interest income earned through granting advances.

The expenditure to total income ratio of the bank was very high. It is ideal for bank to have a lower ratio as it will enhance the profit of the bank and subsequently enhance returns to the stakeholders. CD ratio of the bank was far below from the standard norms of 65 to 70% during 2014-15 and 2015-16 indicates the bank is not efficient to convert their deposits in to profitable advances. The average assets turnover ratio remained on 0.09 times indicates that the bank is utilizing all its assets efficiently to generate income. Profit per employee is decreased during 2014-15 and 2015-16 but at the same time business per employee remain constant.

The sound earning quality performance would stimulate the confidence of depositors, investors, creditors and the public at large. But in case of the The KNSB Ltd, net profit margin, return on equity, return on assets, net interest margin and interest income to total income ratios was decreased during 2014-15 and 2015-16 and gone below the standard norms of minimum 1% for ROA and 3.5% for NIM. Bank is not generating enough interest income from its advances. Overall the earning quality of the KNSB Ltd was not satisfactory which is not good for its future and it is need to improvement in earning quality.

The KNSB Ltd maintained a sound balance of cash and having a high ratio of total investment to total assets. It affects the earning quality of bank since G-sec did not give high returns unlike other market investing instruments. Total investment to total deposit ratio indicates the effectiveness of the management of the bank to convert their deposits in to investment and at the same how liquid to the bank is in meeting its obligation towards the depositors. Interest expended to interest earned ratio of the bank was above standard norms of 1% during 2014-15 and 2015-16 signifies the bank is not generating enough interest income from its advances to meet its interest expenditure on deposits. Overall the liquidity of the KNSB ltd was satisfactory.

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