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A STUDY ON PERFORMANCE EVALUATION OF SELECTED PRIVATE SECTOR BANKS THROUGH CAMEL MODEL IN INDIA

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Abstract: Performance evaluation of the banking sector is an effective measure and index to check the soundness of profitable conditioning of an frugality. In the present study an attempt has been made to estimate the performance & fiscal soundness of named Private Banks in India for the period 2013- 2023. CAMEL approach has been used to examine the fiscal strength of the named banks. Composite Rankings, Average, and Covariance has been applied then to reach conclusion through the relative and significant analysis of different parameters of CAMEL. Axis bank is ranked first under the CAMEL analysis followed by ICICI bank. Kotak Mahindra enthralled the third position. The fourth position is enthralled by HDFC bank and the last position is enthralled by IndusInd bank amongst all the named banks.

***Index Terms* – banking sector, private bank, camel model.**

I. INTRODUCTION

The ‘CAMEL’ standing is a administrative standing system firstly developed in the U.S. IN 1979- 80 to classify a Bank’s overall position. It's applied to every bank and credit union in the U.S. and also enforced outside the U.S. by colorful banking administrative controllers. The invariant fiscal institution standing system generally nominated to the acronym ‘ CAMEL ’ standing was accepted by the civil fiscal institution examination council on November 13, 1979 and also latterly by the public credit union administration in October 1987. The conditions are given grounded on the rate analysis of the fiscal statement. The Banking Regulation Act, 1949 empowers the Reserve Bank of India to check and supervise marketable banks. On the base of recommendations and suggestions given by this commission, a standing system viselike ‘ CAMEL ’ model(grounded on an internationally espoused model) which was latterly modified as ‘ CAMELS ’ was introduced for banks commencing from July, 1998 inspection and examination cycle. Committee recommended that the banks should be rated on a five point scale (1 TO 5) grounded on the guideline of the transnational ‘ CAMEL ’ standing model. This model measures banks on the five parameters

(1) Capital Adequacy

(2) Asset Quality

(3) Management

(4) Earning

(5) Liquidity

CAMELS stand for Capital Adequacy, Asset Quality, Management capability, Earning Quality, Liquidity and perceptivity Liquidity. This model measures the performance of the association using the below five parameters which helps in analysing the associations performance from different point of views. It's a rate grounded model to assay the performance of the banks. Camel models helps to rate the banks performance on a five parameter scale.

CAPITAL Acceptability-

Capital acceptability assesses an institution's compliance with regulations on the minimal capital reserve quantum. Controllers establish the standing by assessing the fiscal institution's capital position presently and over several times.

ASSET QUALITY-

This order assesses the quality of a bank's means. Asset quality is important, as the value of means can drop fleetly if they're high threat. For illustration, loans are a type of asset that can come disabled if plutocrat is advanced to a high- threat existent.

Operation effectiveness-

Operation capability measures the capability of an institution's operation platoon to identify and also reply to fiscal stress. The order depends on the quality of a bank's business strategy, fiscal performance, and internal controls. In the business strategy and fiscal performance area, the CAMELS monitor looks at the institution's plans for the coming many times. It includes the capital accumulation rate, growth rate, and identification of the major pitfalls.

EARNING QUALITY-

Earnings help to estimate an institution's long term viability. A bank needs an applicable return to be suitable to grow its operations and maintain its competitiveness. The monitor specifically looks at the stability of earnings, return on means(ROA), net interest periphery(NIM), and unborn earnings prospects under harsh profitable conditions. While assessing earnings, the core earnings are the most important. The core earnings are the long term and stable earnings of an institution that's affected by the expenditure of one- time particulars

LIQUIDITY-

For banks, liquidity is especially important, as the lack of liquid capital can lead to a bank run. This order of CAMELS examines the interest rate threat and liquidity threat. Interest rates affect the earnings from a bank's capital requests business segment. However, also the institution's investment and loan portfolio value will be unpredictable, If the exposure to interest rate threat is large. Liquidity threat is defined as the threat of not being suitable to meet present or unborn cash inflow needs without affecting day- to- day operations.

How does the CAMELS Rating System Work?

- A scale of 1 implies that a bank exhibits a robust performance, is sound, and complieswith risk management practices.
- A scale of 2 means that an institution is financially sound with moderate weaknessespresent.
- A scale of 3 suggests that the institution shows a supervisory concern in severaldimensions.
- A scale of 4 indicates that an institution has unsound practices, thus is unsafe due toserious financial problems.
- A rating of 5 shows that an institution is fundamentally unsound with inadequate risk management practices.

INDUSTRY PROFILE

➢ *Profile of HDFC Bank*

As part of the Reserve Bank of India's (RBI) liberalization of the Indian Banking Industry in 1994, the Housing Development Finance Corporation Limited (HDFC) was among the first to receive 'in principle' approval to establish a bank in the private sector.

➢ *Profile of ICICI Bank*

ICICI Bank was founded in 1994 as an entirely owned subsidiary of ICICI Limited, an Indian financial institution. Through a public contribution of offers in India in fiscal 1998, a value offering as ADRs recorded on the NYSE in fiscal 2000, ICICI Bank's acquisition of Bank of Madura Limited in an all-stock combination in fiscal 2001, and auxiliary market deals by ICICI to institutional financial backers in fiscal 2001 and fiscal 2002, ICICI's shareholding in ICICI Bank was reduced to 46 percent (Jaya & Gopinath, 2020).

Types of Banks in India

Banks in India are categorized into Central Bank, Commercial Bank, Specialized, and Cooperative Bank.

LITERATURE REVIEW

Sumit K. Majumdar, and Pradeep Chhibber. (1999) investigated the relationship between the degrees of obligation in capital construction and execution using an Indian firm as an example. Existing hypotheses place a positive relationship; however, examination of the data reveals that the relationship for Indian firms is entirely negative.

The design of capital business sectors in India, where both current and long haul lending establishments are government-owned, was theorized to represent the discovery of this relationship, and it confirmed that corporate administration components that work in the West will not work in the Indian setting unless the credit capital inventory is privatized.

Resole Rezvanian and Seyed Mehdian. (2002) examined the creation execution and cost construction of a Singaporean business bank using a parametric methodology in the system of a Trans log cost work and a non - parametric methodology in the structure of straight programming. The parametric system results indicated that the normal expense bend of these banks is U shaped, and there were economies of scale for small and medium-sized banks.

NEED FOR THE STUDY

The ICICI Bank and HDFC Bank monetary exhibition has become an intriguing topic for debate, remark, and discussion. Experts are increasingly concerned about the financial framework's declining monetary execution as a result of unstable credits and advances (Gopinath et al., 2019). With changes in the social and financial target of ICICI business banks, particularly State Bank of India and its partners, the RBI puts pressure on banks to benefit and recommend various strategies to reduce the unstable advances significantly. It becomes very comprehensive and discovers medicinal measures to lessen the monetary presentation in the worth of new financial way of thinking. The methodology of strategy producers toward monetary execution has shifted, resulting in low profits becoming an unavoidable reality. As a result, it is now time to focus on the monetary presentation of ICICI Bank and HDFC Bank.

OBJECTIVES OF THE STUDY

- To investigate the monetary performance of ICICI Bank and HDFC Bank.
- To consider the monetary performance of ICICI Bank and HDFC Bank.

SCOPE OF THE STUDY

The investigation focused heavily on evaluating any changes that were visible and revealed in the monetary exhibitions of ICICI Bank and HDFC Bank. Furthermore, the investigation attempted to distinguish regions in order to work on the financial performance of ICICI Bank and HDFC Bank.

LIMITATIONS OF THE STUDY

Because of time and asset constraints, the investigation is likely to suffer the negative consequences of specific constraints. A portion of these are mentioned below in order for the investigation's findings to be perceived in a legitimate light. The investigation is dependent on auxiliary data, and the limitation of using optional data may have an impact on the results. The optional data is derived from the annual reports of ICICI Bank and HDFC Bank. It is possible that the information presented in the annual reports is skewed and does not accurately reflect the banks' current situation.

RESEARCH METHODOLOGY

RESEARCH DESIGN

Methodology and Data Collections:

This study is based on secondary data. The data were collected from the annual report of State Bank of India and ICICI Bank. In addition to the records of the bank, data were also collected from banking bulletin, websites, newspapers, magazines, and various journals.

Period of the Study:

The study will cover a period of five financial years from 2017-18 to 2021-22. Statistical Tools Used:

- Ratio Analysis
- Arithmetic mean
- Average
- Rank
- Percentage

Sampling:

One public sector bank namely State Bank of India and one private sector Banks namely ICICI Bank has been taken as a sample.

(1) *CAPITAL ADEQUACY:*

Capital Adequacy is a major indicator of the financial health of a bank. It indicates whether the bank has enough capital to absorb unexpected losses. It reflects the overall financial position of the banks and also the ability of the management to meet the need for additional capital and also to maintain depositor's confidence and preventing the bank from going bankrupt.

(2) *ASSETS QUALITY:*

The quality of assets is an important parameter to measure the strength and financial health of the bank assets. The poor quality of assets can force the bank to fail. Assets quality indicates the type of the debtors the bank is having. So it should be undertaken to find out as to why Non-performing assets are getting created and Non-performing assets classification of 90 days, 180 days and so on has to be strictly followed. If a bank has lent high amounts of credit to such sectors it is bound to have the problem of bad loans

(3) *MANAGEMENT EFFICIENCY:*

The management efficiency is calculated as the ability of bank's top management to take right decisions. It is used to evaluate better management quality and discount poorly managed ones and also helps a bank in achieving sustainable growth. It sets vision and goals for the organization and sees that it achieves them. The ratios in this element involve subjective analysis to measure the efficiency and effectiveness of management

(4) *EARNING QUALITY:*

The earning quality determines the ability of a bank to earn consistently, going into the future. This parameter explains the sustainability and growth in earnings in future and how a bank earns its profits. Banks can increase their growth and productivity by increasing earning capacity

(5) *LIQUIDITY:*

Liquidity is an important aspect of any organization dealing in money which measures the capacity of banks to meet its financial obligations. Among assets, cash and investments are the most liquid of bank assets. If liquidity is too much low, then banks are not in a position to meet its current financial liabilities. On another hand, if liquidity is too much high, then banks arenot utilizing their cash properly. Thus a proper balance is necessary for liquidity so that banks can generate high profit while at the same time provide liquidity to the depositors.

DATA ANALYIS AND INTERPRETATION

CAPITAL ADEQUACY

Parameters		HDFC	ICICI	Kotak Mahindra	Axis Bank	IndusInd Bank
Capital Adequacy Ratio	Mean	15.77	16.88	17.63	14.46	13.89
	St. Dev.	1.33	2.40	1.89	1.59	1.47
	C. V.	1.78	5.77	3.57	2.53	2.16
	RANK	**3**	**2**	**1**	**4**	**5**
Tier 1 Capital	Mean	11.63	12.23	15.25	10.53	10.76
	St. Dev.	1.49	1.71	2.41	1.87	2.69
	C. V.	2.22	2.93	5.82	3.50	7.22
	RANK	**3**	**2**	**1**	**5**	**4**
Tier 2 Capital	Mean	4.15	4.65	2.38	3.92	3.12
	St. Dev.	0.96	1.23	1.34	0.77	1.92
	C. V.	0.93	1.52	1.80	0.60	3.69
	RANK	**2**	**1**	**5**	**3**	**4**
Composite	Average	2.66	1.67	1.4	4	4.33
	Rank	**3**	**2**	**1**	**4**	**5**

ASSET QUALITY

Parameters		HDFC	ICICI	Kotak Mahindra	Axis Bank	IndusInd Bank
Net NPA to Net Advance	**Mean**	**0.32**	**1.50**	**1.29**	**0.45**	**0.82**
	St. Dev.	**0.14**	**0.69**	**0.60**	**0.15**	**0.81**
	C. V.	**0.02**	**0.47**	**0.36**	**0.02**	**0.66**
	RANK	**1**	**5**	**4**	**2**	**3**
Secured Advance to total Advance	**Mean**	**74.95**	**80.86**	**78.85**	**83.16**	**89.56**
	St. Dev.	**2.47**	**4.65**	**4.66**	**3.17**	**2.46**
	C. V.	**6.12**	**21.65**	**21.68**	**10.03**	**6.05**
	RANK	**5**	**3**	**4**	**2**	**1**
Term loans to Total Advance	**Mean**	**66.47**	**80.96**	**78.32**	**70.21**	**67.72**
	St. Dev.	**8.05**	**2.62**	**7.38**	**1.25**	**5.61**
	C. V.	**64.77**	**6.85**	**54.50**	**1.55**	**31.52**
	RANK	**5**	**1**	**2**	**3**	**4**
Composite	**Average**	**3.67**	**3**	**3.33**	**2.33**	**2.67**
	Rank	**5**	**3**	**4**	**1**	**2**

MANAGMENT EFFICIENCY

Parameters		HDFC	ICICI	Kotak Mahindra	Axis Bank	IndusInd Bank
Return on Equity	Mean	18.53	11.45	12.66	18.70	14.50
	St. Dev.	1.52	2.25	2.34	1.26	4.55
	C. V.	2.31	5.07	5.47	1.58	20.74
	RANK	2	5	4	1	3
Business Per Employee	Mean	72.45	69.09	55.70	122.54	84.50
	St. Dev.	21.18	36.80	14.26	14.26	11.28
	C. V.	448.64	1354.48	203.33	203.29	127.32
	RANK	3	4	5	1	2
Profit per Employee	Mean	0.84	18.63	0.72	1.31	0.70
	St. Dev.	0.32	35.15	0.28	0.33	0.28
	C. V.	0.10	1235.39	0.08	0.11	0.08
	RANK	3	1	4	2	5
Return on Net Worth	Mean	18.49	11.51	12.68	18.71	15.80
	St. Dev.	1.57	2.26	2.33	1.27	4.33
	C. V.	2.48	5.13	5.41	1.61	18.74
	RANK	2	5	4	1	3
Composite	Average	2.5	3.75	4.25	1.25	3.25
	Rank	2	4	5	1	3

EARNING QUALITY

Parameters		HDFC	ICICI	Kotak Mahindra	Axis Bank	IndusInd Bank
Return on Assets	Mean	1.67	1.40	1.52	1.58	1.27
	St. Dev.	0.28	0.30	0.38	0.23	0.60
	C. V.	0.08	0.09	0.14	0.05	0.36
	RANK	1	4	3	2	5
Net Interest Margin	Mean	4.29	2.47	4.68	3.04	2.81
	St. Dev.	0.20	0.43	0.48	0.29	0.88
	C. V.	0.04	0.18	0.23	0.08	0.77
	RANK	2	5	1	3	4
Operating Profit to Total Assets	Mean	3.19	2.59	2.85	2.90	2.32
	St. Dev.	0.09	0.46	0.48	0.36	0.88
	C. V.	0.01	0.21	0.23	0.13	0.78
	RANK	1	4	3	2	5
Non-Interest Income to total assets	Mean	1.85	1.97	1.74	2.05	1.95
	St. Dev.	0.14	0.25	0.31	0.20	0.44
	C. V.	0.02	0.06	0.10	0.04	0.19
	RANK	4	2	5	1	3
Composite	Average	2	3.75	3	2	4.25
	Rank	1.5	4	3	1.5	5

LIQUIDITY

Parameters		HDFC	ICICI	Kotak Mahindra	Axis Bank	IndusInd Bank
Cash Deposit Ratio	Mean	8.02	8.57	6.42	6.75	6.47
	St. Dev.	2.54	2.32	1.79	1.06	1.05
	C. V.	6.43	5.37	3.21	1.13	1.11
	RANK	2	1	5	3	4
Credit Deposit Ratio	Mean	76.15	97.39	94.76	76.82	79.80
	St. Dev.	6.74	6.38	6.62	8.90	10.40
	C. V.	45.37	40.74	43.78	79.17	108.26
	RANK	5	1	2	4	3
Investment Deposit Ratio	Mean	37.77	50.81	51.81	39.97	35.39
	St. Dev.	5.59	8.61	8.55	3.44	2.46
	C. V.	31.28	74.14	73.14	11.82	6.04
	RANK	4	2	1	3	5
Composite	Average	3.67	1.33	2.67	3.33	4
	Rank	4	1	2	3	5

CONCLUSIONS/SUGGESTIONS

By considering all of the parameters of CAMEL, it is seen that Axis bank is at the top position as assessed by the CAMEL Model compared to other banks under the study. Axis bank has strong performance in case of Asset Quality, Management efficiency and Earnings Ability while it is lag behind in case of capital adequacy. On the other side, IndusInd bank at the lowest position compared to other banks under the study due to its poor performance in the context of Capital Adequacy, Earnings Ability and Liquidity whereas it perform better in case of capital adequacy. Therefore, IndusInd bank should improve its position in particular weak areas. Therefore, the policy makers of the related lowest ranking banks should take necessary steps and try to find out solution to improve their weaknesses by using the findings this study.

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