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A Comparative Analysis of Financial Performance on Banking sectors – A Camel Analysis

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Abstract

Banking industry has a vital role over the development of the economy. They not only offer loans, interest, borrow and lend money but also assure the customers with its safety measures and provide them financial advice. Such a bank's performance in all aspects is ranked and judged by one of the popular methods – CAMELS. It refers to C- Capital adequacy, A-Asset quality, M-Management, E- Earnings, L-Liquidity, S-Sensitivity to market risk. This paper has the comparative study of "HDFC Bank" and "Bank of Baroda" on CAMEL analysis for a period of 5 years based on the annual reports of the selected banks.

Keywords: Banking sector, CAMEL analysis, Efficiency, Management Asset holding.

1. Introduction

The banking sector regulates the monetary system of the economy. It deals with credit, accept deposits and its aim is to earn profit. A developing economy requires a sound and efficient banking system to meet the developing challenges and technologies in the society. For these purposes, various commercial banks, public sector and private sector banks are established. Banks also offer financial advice to the customers. The banking sector has a huge impact on the economy and it is a need to analyze the financial performance of the bank yet they are highly confidential. For this purpose, CAMELS rating analysis is used as a tool to determine the overall performance of the banks. The rating scale will be 1 to 5, 1 being the highest rating, strong performance, least degree of supervision concern and sound health and 5 indicates low rating, inadequate performance, weak health of a bank and having highest degree of supervisory concern. Sensitivity to market risk is not taken into consideration by CBI. [1-5].

1.1. Objective

To assess the profitability and liquidity position of the selected banks.

1.2. Statement of the Problem

The monetary system in the recent years, especially the banks have undergone several changes in the form of reforms, regulations and norms. Here, is an attempt to analyze the performance of the banks using CAMELS framework analysis as this model is widely used and accepted in today's scenario.

1.3. Scope of the Study

To study the importance of using CAMELS framework for performance evaluation in banking industry. The CAMEL model would be helpful for the government authorities to diagnose the financial performance of the banks through its six elements and suggest them steps for its sustainability.

1.4. Research Methodology

a. Research Type

b. The research type would be descriptive research through comparative study. The present study analyses the financial

performance of the banks in comparison with one another using CAMEL framework.

c. Area of Study

d. The study environment will be the banking industry. Two banks have been taken for the study. Bank of Baroda (second top public sector bank) and HDFC bank (first top private sector bank) have been chosen.

e. Period of the Study

f. The period taken up for the study would be 5 years (1/4/2015 -31/3/2020)

g. Data Source

h. Secondary data has been considered for the study, which has been collected from the annual reports and audited financial statements of the banks.

1.5. Limitations of the Study

- Only five years have been considered for the study.
- Only two banks have been taken up for the study.

2. Review of Literature

➤ Brahma Chaudhuri (2018) –A Comparative Analysis of SBI and ICICI: Camel Approach. State Bank of India (SBI) and ICICI Bank are the two largest banks in India in public and private sectors. To compare the financial performance of the banks, various ratios have

3. Analysis and Interpretation

3.1. Liquidity Asset to Total Asset Ratio:

Liquidity Asset to Total Asset = Liquidity Asset/ Total Asset.

Table.1. Liquidity Asset to Total Asset

Particulars		Liquid Asset	Total Asset	Ratio
HDFC Bank	MAR-2016	38918.83	740796.07	5.25%
	MAR-2017	48952.09	863840.19	.67%
	MAR-2018	122915.08	1063934.32	11.50%
	MAR-2019	81347.63	1244540.69	6.53%
	MAR-2020	86618.71	1530511.25	5.65%
BOB	MAR-2016	133900.34	671376.47	19.94%
	MAR-2017	150469.91	694875.42	21.65%
	MAR-2018	92897.37	719999.77	12.90%
	MAR-2019	89229.61	780987.40	11.42%
	MAR-2020	121901.12	1157915.51	10.52%

Interpretation

- Liquidity for a bank means the ability to meet its financial obligations as they come due. This proportion indicates the overall liquidity position of the bank.
- HDFC bank has got smaller proportions of its liquid asset than BOB.

been used to measure the banks’ profitability, solvency position, and management efficiency. According to the analysis, both the banks are maintaining the required standards and running profitably. From the present study, ICICI has been a better performer in terms of profitability and management efficiency compared to SBI for the study period. This study will help enhance further research on the subject by researchers and academicians.

➤ C. Vanlalazawna (2016) – A study of financial performance evaluation of banks in India. Ranking of commercial banks is difficult to the extent that any type of ranking is subject to certain criticism as the ratio used for the purpose of ranking can be interpreted in the way one likes. CAMEL method of analysis provides simplicity, reader friendly version of presenting complex data regarding performance of players in the banking industry. The ranking system makes judging and analyzing the financial data of banks much simpler for the common man. Thus, through this particular data set, it can be established that private sector banks are at the top of the list in terms of different parameters compared to public sector banks.[6-12].

- Though BOB has a fall in every year’s performance of liquid assets, it has a higher ratio when compared to HDFC.
- So, we conclude that BOB maintains a higher proportion of liquid assets than HDFC bank.

3.2. Government Securities to Total Asset Ratio:

Government Securities to Total Asset = Government Securities/ Total Asset

Table. 2. Government Securities to Total Asset Ratio

Particulars		Govt. Sec.	Total Assets	Ratio
HDFC Bank	MAR-2016	8948.60	740796.07	1.20%
	MAR-2017	31413.37	863840.19	3.63%
	MAR-2018	62745.05	1063934.32	5.89%
	MAR-2019	62745.05	1244540.69	5.04%
	MAR-2020	89162.10	1530511.25	5.82%
BOB	MAR-2016	17554.95	671376.47	2.61%
	MAR-2017	56950.91	694875.42	8.19%
	MAR-2018	41792.29	719999.77	5.80%
	MAR-2019	19677.63	780987.40	2.51%
	MAR-2020	31500.00	1157915.51	2.72%

Interpretation

- Government securities are the most liquid and safe investments. This ratio measures the risk involved in the assets handled by a bank.
- HDFC Bank has stayed cautious enough by investing a fair amount of assets in government securities.

- BOB has made a less investment in government securities compared to HDFC.
- HDFC has spent more of its assets in government securities ensuring their liquidity and safety.

3.3. Liquidity Asset to Demand Deposit Ratio:

Liquidity Asset to Demand Deposit = Liquidity Asset/ Demand Deposit

Table. 3. Liquidity Asset to Demand Deposit Ratio

Particulars		Liquid Asset	Demand Deposit	Ratio
HDFC Bank	MAR-2016	38918.83	88424.67	44.00%
	MAR-2017	48952.09	115573.85	42.35%
	MAR-2018	122915.08	11928.57	103.00%
	MAR-2019	81347.63	142497.76	57.08%
	MAR-2020	86618.71	17424.87	49.71%
BOB	MAR-2016	133900.34	34269.06	3.90%
	MAR-2017	150469.91	42519.26	3.53%
	MAR-2018	92897.37	46061.86	2.01%
	MAR-2019	89229.61	46900.72	1.90%
	MAR-2020	121901.12	64580.62	1.88%

Interpretation

- It measures the ability of a bank to meet the demand from deposits for a particular year.
- Both the banks have fluctuating ratios in maintaining demand from deposits.

But, HDFC bank has maintained a higher proportion of liquid asset to meet the demand for deposits when required than BOB.

3.4. Liquidity Asset to Total Deposit:

Liquidity Asset to Total Deposit = Liquidity Asset/ Total Deposit

Interpretation

- It shows the liquidity available to the total deposits of the bank.
- HDFC maintained a slight fall in its ratio year by year by showing a peak at 2018 by 15.58%.
- BOB also showed a decreasing trend in its ratio but better than HDFC Bank.
- So, we find BOB showing a good liquid asset to deposit over the years.

Table.4. Liquidity Asset to Total Deposit:

Particulars		Liquidity Asset	Total Deposit	Ratio
HDFC Bank	MAR-2016	38918.83	546424.19	7.12%
	MAR-2017	48952.09	643639.65	7.60%
	MAR-2018	122915.08	788770.63	15.58%
	MAR-2019	81347.63	923140.92	8.81%
	MAR-2020	86618.71	1147502.29	7.54%
BOB	MAR-2016	133900.34	574037.87	23.32%
	MAR-2017	150469.91	601675.17	25.00%
	MAR-2018	92897.37	591314.82	15.71%
	MAR-2019	89229.61	638689.71	13.97%
	MAR-2020	121901.12	945984.42	12.88%

4. Findings

- BOB maintains a higher proportion of liquid assets than HDFC bank.
- HDFC bank has spent more of its assets in government securities. This ratio shows the risk involved in the assets handled by the banks.
- HDFC bank has maintained a higher liquid asset to meet the demand deposits.
- BOB showed a good liquid asset to deposit ratio than HDFC.

5. Suggestion

HDFC bank would have maintained more assets than BOB. But its investment in government securities shows the risk bearing capacity.

Conclusion

This study is on the comparative financial performance of BOB and HDFC bank using camel analysis. Both the banks are in a stable and safe position. On comparing, HDFC bank has better asset quality and capital adequacy than BOB. But the management of employees and control is better in BOB than HDFC bank. From the present study, HDFC bank is a better performer than BOB in terms of capital adequacy, earning profitability compared to BOB. The significance of CAMEL ratios and its rating methodology can be published as a part of the annual report of the banks to get a better understanding of the following position, their management efficiency by the investors and the public.

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