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A STUDY ON CAMEL ANALYSIS IN INDIAN BANK

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Abstract:

The banking sector is one of the fastest growing sectors among the service. Current banking system is becoming more complex. To evaluate the performance of the banks many models is introduced by various authors, among that CAMELS Model is more popular to evaluate the performance of the banks because it measures the performance of the banks from each parameters like, C -Capital adequacy, A - Asset quality, M - Management quality, E - Earnings ability, L – Liquidity. The performance of the bank is evaluated through Camel Analysis. For this purpose the Secondary Data is collected from the annual report of the Indian bank for a period of 10 years from 2006-2007 to 2015-16.The tools used for the study is Ratios. The average capital adequacy the ratio of Total Shareholders fund to Total Asset, total asset to Total Shareholders Fund, Total Shareholders Fund to Total deposit is very less in capital value. So the total share holders fund should be increased in order to have better financial soundness. The average Liquidity ratio of Demand Liability to Total Deposit is very high, and hence the Demand liability should be decreased in order to have better financial soundness.

Key Words: Capital Adequacy, Management Quality & Liquidity

Introduction to the Concept of Study:

Banks play a very important role in the economic life of the nation. The word bank means an organization where people and business can invest or borrow money; change it to foreign currency etc. According to Halsbury "A Banker is an individual, Partnership or Corporation whose sole pre-dominant business is banking, that is the receipt of money on current or deposit account, and the payment of cheque drawn and the collection of cheque paid in by a customer". The Word 'Bank' is derived from the Italian word 'Banko' signifying a bench, which was erected in the market-place, where it was customary to exchange money. The Lombard Jews were the first to practice this exchange business, the first bench having been established in Italy A.D. 808. Some authorities assert that the Lombard merchants commenced the business of money-dealing, employing bills of exchange as remittances, about the beginning of the thirteenth century. Banking is defined as an Financial Institution that accepts deposits and channels those deposits into lending activities. Loan facility provided by banks works as an incentive to the producer to increase the production. Modern trade and commerce would almost be impossible without the availability of suitable banking services. Banking promotes investments. Banks easily invest the money they get in industry , agriculture and trade. They either invest it directly or advance loans to other inventers. It is most through banks that foreign trade is carried on. Whether we export or import, it is through banks that money is transferred from one country to another. In 1991, the Indian economy went through a process of economic liberalization, which was followed up by the initiation of fundamental reforms in the banking sector in 1992. Thus banking plays the role of an intermediary as a movement of resources from places of surplus to places of deficit, via this role; resources are evenly distributed in the economy.

Statement of Problem:

The study is conducted to know mainly about the soundness of Indian bank. Banks supervision using CAMEL(S) Technology. Each component in CAMEL(S) is one dimensional as it looks at the specific area of bank's performance. This function derived will be capable of finding the emerging problems in banks as they emerge. The study mainly focuses on examining the financial indicators and banking soundness in Indian bank.

Objectives of the Study:

- ✓ To analyze the banks performance through CAMEL model.
- ✓ To find financial soundness of Indian bank.
- ✓ To give suggestions for improvement.

Scope of the Study:

The study is conducted to measure the performance of the banking sector and banking soundness in Indian bank. The Secondary Data collected from the annual reports of the Indian bank. The Secondary Data is restricted to 10 years.

Methodology:

Research Design: The descriptive research design is adopted in this study.

Method of Data Collection: The data for the research work is secondary data and was collected from annual report of Indian bank for a period of 10years from 2006-2007 to 2009-2010.

Tools: The tools used for the research works are CAMEL Ratios.

Limitations:

- ✓ The information is collected from annual reports of the bank.
- ✓ The study is applicable to Indian bank alone.

Analysis and Interpretation:

Total Shareholders Fund to Total Advance:

Years	Total Shareholders Fund	Total Advance	Capital Adequacy
2006-07	3490.08	21300.05	0.163
2007-08	3501.7	20200.00	0.161
2008-09	3877.5	24700.75	0.159
2009-10	3890.2	24800.20	0.158
2010-11	3910.0	25000.01	0.154
2011-12	4415.09	29058.11	0.15
2012-13	5825.32	39838.71	0.146
2013-14	6710.00	51,465.28	0.13
2014-15	7876.79	62146.13	0.126
2015-16	9156.24	75,249.9	0.12
Average			0.146

Source: Annual Report

The capital adequacy was decreased from 0.16 to 0.12 during the period of study for 2006-07 to 2015-16. The ratio of Total Shareholders fund to total advance average amounts to 0.146.

Total Shareholders Fund to Asset Ratio:

Years	Total Shareholders Fund	Total Asset	Capital Adequacy
2006-07	3490	48109.00	0.073
2007-08	3501.9	47001.89	0.075
2008-09	3877.50	49990	0.077
2009-10	3890.6	55257.90	0.074
2010-11	3910.07	50123.00	0.078
2011-12	4415.09	56148.64	0.079
2012-13	5825.32	70507.68	0.082
2013-14	6710	84121.74	0.079
2014-15	7876.79	101389.32	0.077
2015-16	9156.24	121718.3	0.075
Average			0.0769

Source: Annual Reports

The capital adequacy was increased from 0.073 to 0.075 during the period of study for 2006-07 to 2015-16. The ratio of Total Shareholders fund to Total asset average amounts to 0.0769.

Total Asset to Shareholders Fund:

Years	Total Asset	Total Shareholders Fund	Capital Adequacy
2006-07	48109.00	3490	12.1
2007-08	47001.89	3501.9	12.3
2008-09	49990	3877.50	12.5
2009-10	55257.90	3890.6	12.1
2010-11	50123.00	3910.07	12.8
2011-12	56148.64	4415.09	12.6
2012-13	70507.68	5825.32	12.1
2013-14	84121.74	6710	12.5
2014-15	101389.32	7876.79	12.8
2015-16	121718.3	9156.24	13.2
Average			12.5

Source: Annual Reports

The capital adequacy was increased from 12.1 to 13.2 during the period of study for 2006-07 to 2015-16. The ratio of total asset to Total Shareholders fund average amounts to 12.5.

Total Shareholders Fund to Net Loan Ratio:

Years	Total Shareholders Fund	Net Loan	Capital Adequacy
2006-07	3490	18400	0.19
2007-08	3501.9	18558	0.185
2008-09	3877.50	20759	0.18
2009-10	3890.6	21213	0.18
2010-11	3910.07	23585	0.164
2011-12	4415.09	29058	0.15
2012-13	5825.32	39838	0.146
2013-14	6710	51410	0.13
2014-15	7876.79	62164	0.126
2015-16	9156.24	74482	0.122
Average			0.155

Source: Annual Reports

The capital adequacy was decreased from 0.19 to 0.122 during the period of study for 2006-07 to 2015-16. The ratio of Total Shareholders fund to Total Net Loans amounts to 0.155.

Debt-Equity Ratio:

Years	Total Borrowing	Total Shareholders Fund	Capital Adequacy
2006-07	1098	3490	0.31
2007-08	1128.57	3501.9	0.32
2008-09	1354.09	3877.50	0.35
2009-10	1543.36	3890.6	0.39
2010-11	1783.23	3910.07	0.46
2011-12	1936.45	4415.09	0.44
2012-13	1283.24	5825.32	0.22
2013-14	830.78	6710	0.12
2014-15	957.36	7876.79	0.125
2015-16	2100.3	9156.24	0.23
Average			0.29

Source: Annual Reports

The capital adequacy was decreased from 0.31 to 0.23 during the period of study for 2006-07 to 2015-16. The ratio of Total Borrowings to Total shareholders fund average amounts to 0.29.

Total Advance to Total Asset Ratio:

Years	Total Advance	Total Asset	Capital Adequacy
2006-07	21300.05	48109.00	0.44
2007-08	20200.00	47001.89	0.42
2008-09	24700.75	49990	0.49
2009-10	24800.20	55257.90	0.45
2010-11	25000.01	50123.00	0.5
2011-12	29058.11	56148.64	0.52
2012-13	39838.71	70507.68	0.56
2013-14	51,465.28	84121.74	0.6
2014-15	62146.13	101389.32	0.612
2015-16	75,249.9	121718.3	0.62
Average			0.52

Source: Annual Reports

The capital adequacy was increased from 0.44 to 0.62 during the period of study for 2006-07 to 2015-16. The ratio of Total Advance to Total Asset average amounts to 0.52.

Gross NPA to Total Loan Ratio:

Years	Gross NPA	Total Loan	Asset Quality
2006-07	2619.07	18400	0.142
2007-08	2625	18558	0.14
2008-09	2697.10	20759	0.13
2009-10	2705	21213	0.125
2010-11	2514.3	23585	0.12
2011-12	2999.09	29058	0.11
2012-13	2948.01	39838	0.07

2013-14	3814.7	51410	0.075
2014-15	4055.5	62164	0.06
2015-16	4105.5	74482	0.05

Source: Annual Reports

The Asset Quality was decreased from 0.142 to 0.05 during the period of study for 2006-07 to 2015-16. The ratio of Gross NPA to total loan average amounts to 0.11.

Net NPA to Total Loan Ratio:

Years	Net NPA	Total Loan	Asset Quality
2006-07	81590.1	18400	4.5
2007-08	81443.43	18558	4.38
2008-09	83993.01	20759	4.1
2009-10	79841.12	21213	3.8
2010-11	80947.23	23585	3.43
2011-12	94985.10	29058	3.26
2012-13	111547.1	39838	2.8
2013-14	90742.31	51410	1.76
2014-15	105749.52	62164	1.73
2015-16	135478.12	74482	1.8

Source: Annual Reports

The Asset Quality was decreased from 4.5 to 1.8 during the period of study for 2006-07 to 2015-16. The ratio of Net NPA to total loan average amounts to 3.2.

Management Quality:

Years	Total Advance	Total Deposits	Management Quality
2006-07	21300.05	39989.09	0.53
2007-08	20200.00	44148.90	0.46
2008-09	24700.75	46890	0.52
2009-10	24800.20	45128.01	0.54
2010-11	25000.01	40754	0.61
2011-12	29058.11	47090.91	0.62
2012-13	39838.71	62329.19	0.63
2013-14	51,465.28	73112.61	0.7
2014-15	62146.13	89185.02	0.69
2015-16	75,249.9	107904.5	0.7

Source: Annual Reports

The Management Quality was increased from 0.53 to 0.69 during the period of study for 2006-07 to 2015-16. The ratio of of Total Advance to Total Deposit average amounts to 0.6.

Net Profit after Tax to Shareholders Fund Ratio:

Years	Net Profit After Tax	Total Shareholders Fund	Earnings
2006-07	2798.09	3490	0.8
2007-08	1143.99	3501.9	0.3
2008-09	2847.60	3877.50	0.73
2009-10	1640.2	3890.6	0.41
2010-11	2104.01	3910.07	0.53
2011-12	2201.67	4415.09	0.5
2012-13	3440.99	5825.32	0.6
2013-14	3587.23	6710	0.53
2014-15	5712.03	7876.79	0.72
2015-16	6545.21	9156.24	0.7

Source: Annual Reports

The Earnings was decreased from 0.8 to 0.7 during the period of study for 2006-07 to 2015-16. The ratio of Net Profit after Tax to Total shareholders fund's average amounts to 0.579.

Net Profit after Tax to Total Asset Ratio:

Years	Net Profit After Tax	Total Asset	Earnings
2006-07	2798.09	48109.00	0.06
2007-08	1143.99	47001.89	0.02
2008-09	2847.60	49990	0.056
2009-10	1640.2	55257.90	0.3
2010-11	2104.01	50123.00	0.04

2011-12	2201.67	56148.64	0.039
2012-13	3440.99	70507.68	0.048
2013-14	3587.23	84121.74	0.043
2014-15	5712.03	101389.32	0.056
2015-16	6545.21	121718.3	0.053

The Earnings was decreased from 0.06 to 0.053 during the period of study for 2006-07 to 2015-16. The ratio of Net Profit after Tax to Total Asset average amounts to 0.072.

Demand Liabilities to Total Deposit Ratio:

Years	Demand Liabilities	Total Deposit	Liquidity
2006-07	45785.01	39989.09	1.14
2007-08	50873.89	44148.90	1.15
2008-09	54543.01	46890	1.16
2009-10	51790.99	45128.01	1.15
2010-11	46482	40754	1.14
2011-12	56148.65	47090.91	1.19
2012-13	70507.69	62329.19	1.15
2013-14	85121.75	73112.61	1.16
2014-15	101389.32	89185.02	1.14
2015-16	125518.3	107904.5	1.15
Average			1.14

The liquidity was increased from 1.14 to 1.15 during the period of study for 2006-07 to 2015-16.The ratio of Demand Liability to total deposits average amounts to 1.14

Total Net Loan to Total Deposit Ratio:

Years	Total Net Loan	Total Deposit	Liquidity
2006-07	18400	39989.09	0.46
2007-08	18558	44148.90	0.49
2008-09	20759	46890	0.5
2009-10	21213	45128.01	0.53
2010-11	23585	40754	0.56
2011-12	29058	47090.91	0.68
2012-13	39838	62329.19	0.65
2013-14	51410	73112.61	0.7
2014-15	62164	89185.02	0.69
2015-16	74482	107904.5	0.69

The liquidity was increased from 0.46 to 0.69 during the period of study for 2006-07 to 2015-16.The ratio of Net Loan to total deposits average amounts to 0.59

Gross Loans to Total Deposit Ratio:

Years	Gross Loans	Total Deposit	Liquidity
2006-07	1224.0	39989.09	0.03
2007-08	985.90	44148.90	0.025
2008-09	901.10	46890	0.02
2009-10	875.05	45128.01	0.19
2010-11	950.09	40754	0.023
2011-12	966.67	47090.91	0.02
2012-13	1050.72	62329.19	0.017
2013-14	2194.17	73112.61	0.03
2014-15	2269.06	89185.02	0.025
2015-16	2352.4	107904.5	0.022

Source: Annual Reports

The liquidity was increased from 0.03 to 0.02 during the period of study for 2006-07 to 2015-16.The ratio of Demand Liability to total deposits average amounts to 0.023

Findings and Suggestions:

The capital adequacy of Indian Bank has been calculated and findings are as follows,

- ✓ The ratio of Total shareholders fund to total advance average amounts to 0.146.
- ✓ The ratio of Total Shareholders fund to total asset average amounts to 0.076.
- ✓ The ratio of Total Asset to total shareholders fund average value amounts to 12.5.
- ✓ The ratio of Total shareholders fund to total net loan average amounts to 1.55.
- ✓ The ratio of Total shareholders fund to total deposit average amounts to 0.087.

- ✓ The ratio of Total shareholders fund to contingent liability's average amounts to 1.47.
- ✓ The ratio of Total Borrowings to Total shareholders fund average amounts to 0.29.
- ✓ The ratio of Total Advance to Total Asset average amounts to 0.52.
- ✓ The average capital adequacy the ratio of Total Shareholders fund to Total Asset, total asset to Total Shareholders Fund, Total Shareholders Fund to Total deposit is very less in capital value.
- ✓ So the Total Sshareholders fund should be increased in order to have better financial soundness

Management Quality:

The Management Quality of Indian Bank has been calculated and findings are as follows,

- ✓ The ratio of total advance to total deposit average amounts to 0.6

Earnings:

The Earnings of Indian Bank has been calculated and findings are as follows,

- ✓ The ratio of Net Profit After Tax to Total shareholders fund's average amounts to 0.579
- ✓ The ratio of Net Profit After Tax to Total Asset average amounts to 0.072
- ✓ The average Earning ratio of Net Profit after Tax to Total Shareholders fund is very low, and hence the Net profit should be increased in order to have better financial soundness.

Conclusion:

The average capital adequacy the ratio of Total Shareholders fund to Total Asset, total asset to Total Shareholders Fund, Total Shareholders Fund to Total deposit is very less in capital value. So the total share holders fund should be increased in order to have better financial soundness. The average Asset Quality ratio of Gross NPA to Total loans is very high, and hence the Loan Loss Provision should be reduced in order to have better financial soundness. This is because lower the financial aspect of this ratio better the soundness of the bank. The average Earning ratio of Net Profit after Tax to Total Shareholders fund is very low, and hence the Net profit should be increased in order to have better financial soundness. The average Liquidity ratio of Demand Liability to Total Deposit is very high, and hence the Demand liability should be decreased in order to have better financial soundness.

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