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“A study on comparative financial analysis of selected banks of india by using camel model”

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ABSTRACT

This is high time for economic development of India and in such era when mobilization of funds and effective financing of fund banks are playing significant role for accelerating growth of the country in terms of economic and infrastructural development. This research has been carried out with the core objective of analyzing financial performance of two dominating banks of Indian economy i.e. SBI and HDFC, for which CAMEL model for performance evaluation has been utilized and for mapping each are of this model researcher has identified five different ratio and calculated the same and after that statistical test named paired sample for means one tail t-test has been applied and found the all area are showing significant difference except liquidity.

Key Words: Financial Performance, CAMEL Model

INTRODUCTION

Since ancient time, unorganized banking sector was in existence. As time passed, need for organized banking sector came in existence under the regulation of Reserve bank of India. As part of this structure numerous banks are established as per the demand of time which includes public sector banks, private sector banks, co-operative banks, Regional rural banks, Agriculture banks, Industrial Finance banks etc.

The core function of banks in India is encouraging people for savings, mobilizing savings and Financing to the corporate for economic growth. Business organizations borrow money for expansion which leads to overall economic growth. Now a day’s banks have wider networked of branches in India as well as in foreign. Now day’s banks are coming with new and diversified schemes of savings and investment for the people of India which is motivating layman to invest and to save with future perspectives.

Indian banking sector is one of the most active segment of economy for accepting and diverting money and finance by advancing to those sectors which are backbone of Indian economy like small scale industries, textile, agriculture and real estate etc. Indian banks are also playing significant role for encouraging domestic business entities for establishing foreign linkages and entering in the international ventures through making available international finances and payment systems. Indian banks are offering greater level of financial securities by offering loans at competitive interest rates to layman and business man too. For which different financial instruments are also introduced to collect small savings through government securities and bonds etc. Higher level of capital management systems has also been developed now a day through online instant and secure money transfer systems by net banking or authorized applications. So, it's for layman to get banking services without physical visits of banks. It can be said that Indian banking system is crucial part of economy and because of which financial performance of banks is also area of core focus for every stake holders which leads to carry out this research paper for giving valuable inputs in terms of financial analysis of banks by using CAMEL model for measuring it.

RESEARCH METHODOLOGY

Researcher has carried out this particular study with core objective of determination and comparison of the financial performance of the selected two banks named as State Bank of India and HDFC bank Ltd. These two banks are selected by using convenient sampling method. Researcher has utilized CAMEL model for performance evaluation of selected banks for the period starting from 2017-18 to 2019-20. Researcher has utilized secondary sources of data as base line, like Annual Reports, Journals, Books, Periodicals, thesis, dissertation etc. Researcher has applied CAMEL model by identifying and considering ratios for each and every parameter included in this particular model. Ultimately hypothesis testing has also been done by using t-test.

OBJECTIVE OF THE STUDY

1. To determine and compare financial performance of selected banks by using CAMEL model.
2. To analyze whether there is significant difference in financial performance of selected banks or not.

HYPOTHESES OF THE STUDY

H_{01}: There is no significant difference in Capital Adequacy ratio of selected banks of India.

H_{02}: There is no significant difference in Net NPA Ratio of selected banks of India.

H_{03}: There is no significant difference in Return on Net Worth of selected banks of India.

H_{04}: There is no significant difference in Net Interest Income to Total Fund Ratio of selected banks of India.

H_{05}: There is no significant difference in Quick Ratio of Selected banks of India.

DATA ANALYSIS

For carrying out this research study, financial performance has been analyzed by using CAMEL model for which various ratios are identified for each factor of measurement which includes Capital Adequacy Ratio for Capital Adequacy, Asset Quality – Net NPA Ratio, Return on Net worth for Management, Net Interest Income to Total Fund Ratio for Earning Capacity and Quick ratio has been used for determination of liquidity.

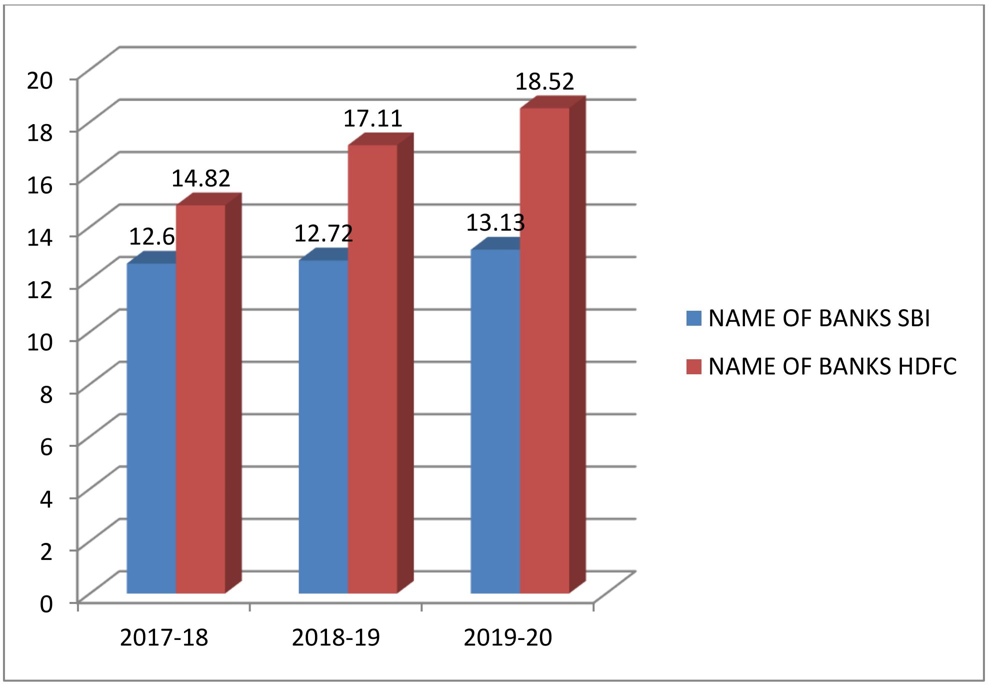
FINANCIAL PERFORMANCE ANALYSIS

1. CAPITAL ADEAQUACY RATIO

(In Percentage**)**

Year	NAME OF BANKS	
	SBI	**HDFC**
2017-18	12.60	14.82
2018-19	12.72	17.11
2019-20	13.13	18.52
Average	12.82	16.82

Source:www.moneycontrol.com



As it can be observed in the above chart capital adequacy ratio of the both the banks during the period 2017-18 to 2019-20 is continuously increase which good sign for losses absorption capacity.

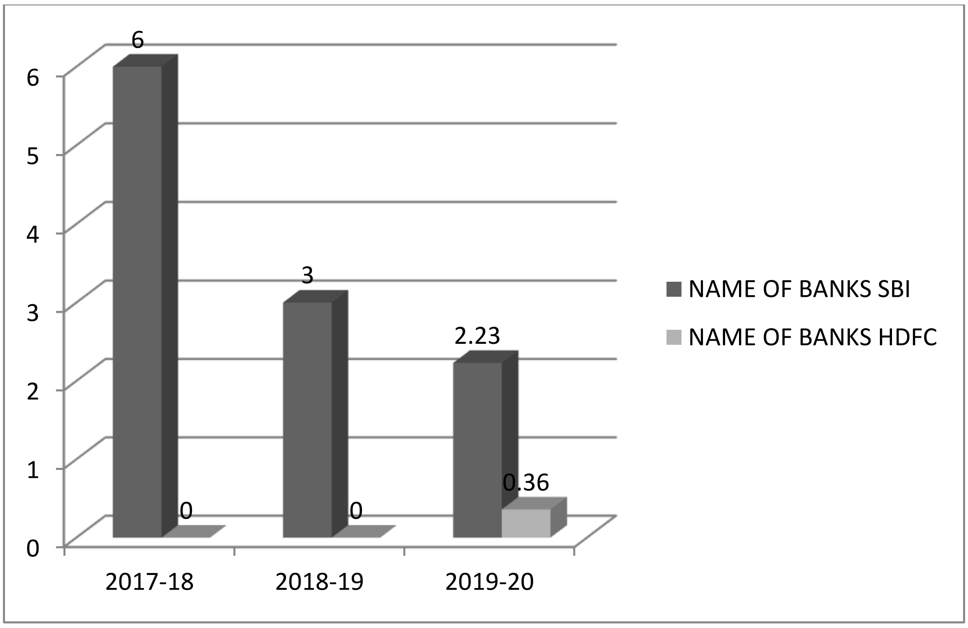
It can be seen that average capital adequacy ratio of HDFC ltd. is 16.82 which is higher than SBI's capital adequacy ratio i.e.12.82.

2. **NET NPA RATIO**

(In Percentage**)**

Year	**NAME OF BANKS**	
	SBI	**HDFC**
2017-18	6.00	0.00
2018-19	3.00	0.00
2019-20	2.23	0.36
Average	3.74	0.12

Source: www.moneycontrol.com



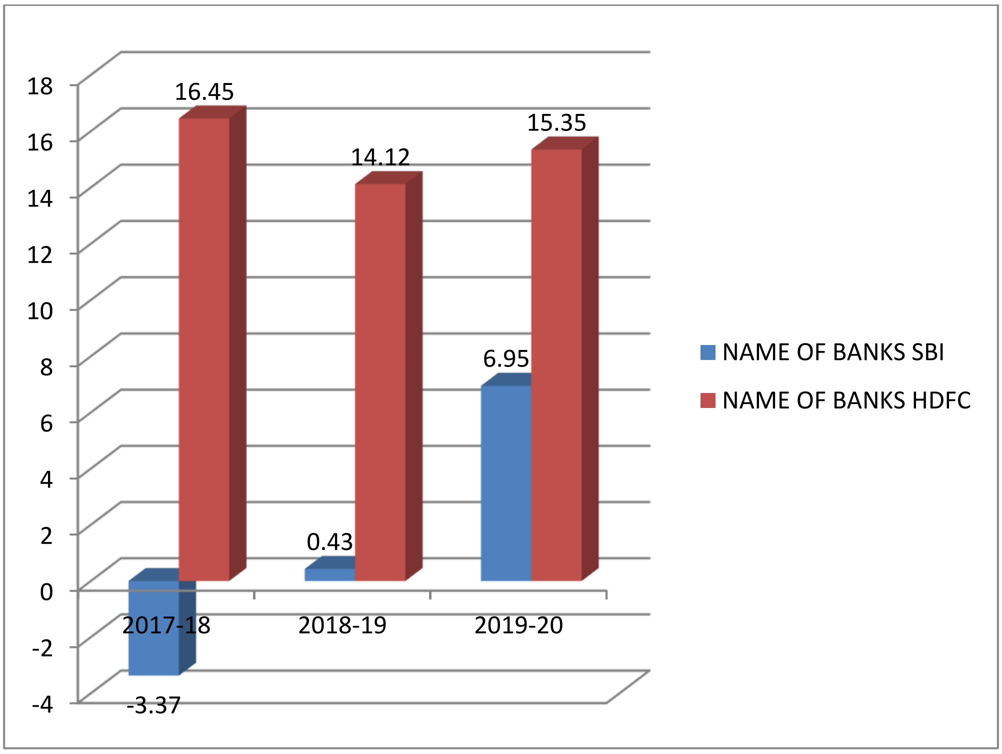
As it can be seen in the above charts and tables Net NPA Ratio during the period 2017-18 to 2019-20 is showing downward trend in the case of SBI which is good sign for bank in terms of higher recoverability ratio of advances while in the case of HDFC Ltd. it's showing zero rated NPA in first two years but after that its increased by minor rate in last year so, HDFC Ltd. should focus on minimization of it.

3. RETURN ON NET WORTH

(In Percentage**)**

Year	NAME OF BANKS	
	SBI	**HDFC**
2017-18	-3.37	16.45
2018-19	0.43	14.12
2019-20	6.95	15.35
Average	1.34	15.31

Source:www.moneycontrol.com



Above table and chart is showing Return on Net worth of the selected banks for the period of 2017-18 to 2019-20. It can be observed that return on net worth of SBI is showing increasing trend while of HDFC Ltd. is showing fluctuating trend which is not good sign. Average return on net worth of SBI is 1.34 which is less than average of HDFC Ltd. i.e.15.31.

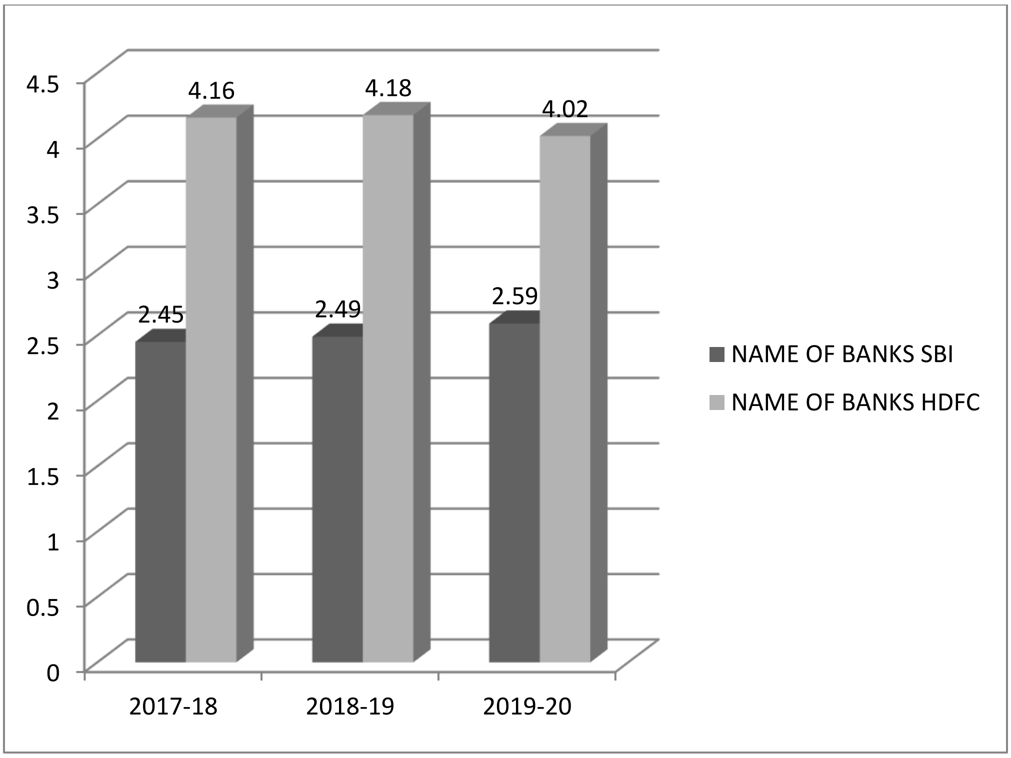
4. NET INTEREST INCOME TO TOTAL FUND RATIO

(In Percentage**)**

Year	NAME OF BANKS

	SBI	HDFC
2017-18	2.45	4.16
2018-19	2.49	4.18
2019-20	2.59	4.02
Average	2.51	4.12

Source:www.moneycontrol.com



Above table and chart is displaying Net interest income to Total fund ratio of the selected banks for the period of 2017-18 to 2019-20. It can be observed that in the case of SBI it's showing continuous growing trend while in the case of HDFC Ltd. it's showing initial increment after that linear decline in the last one years. Comparison of average shows that Net interest income to Total fund ratio of HDFC Ltd. 4.12 which is far greater than of SBI which is 2.51.

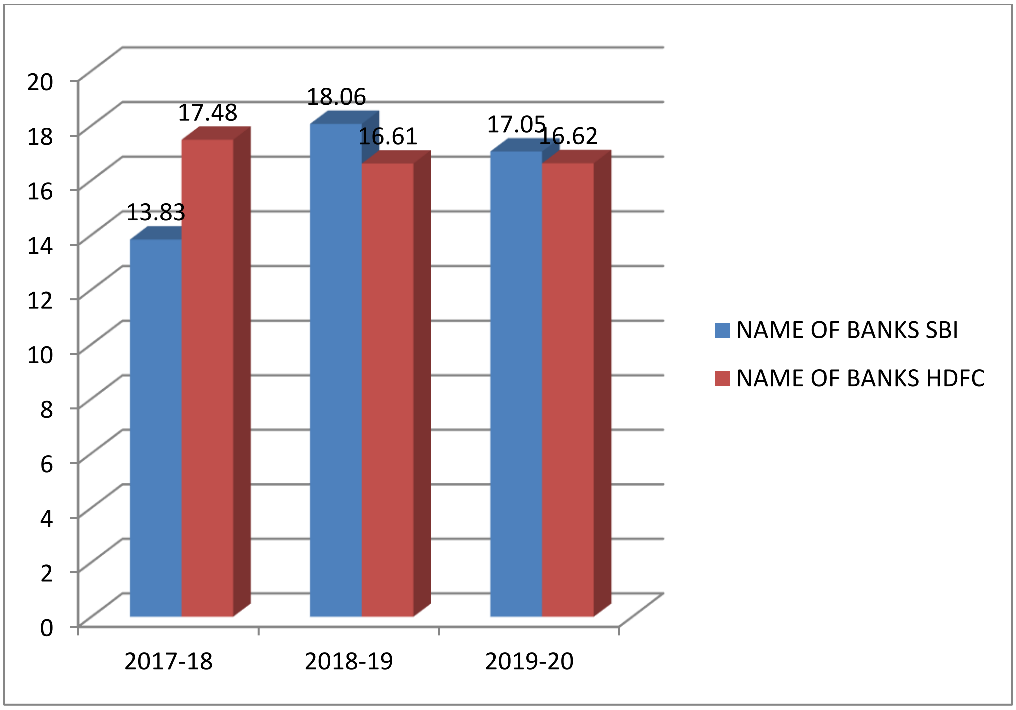
5. QUICK RATIO

(In Percentage**)**

Year	NAME OF BANKS	
	SBI	HDFC
2017-18	13.83	17.48
2018-19	18.06	16.61

2019-20	17.05	16.62
Average	16.31	16.90

Source: www.moneycontrol.com



Above char and table is showing Quick Ratio for the period of 2017-18 to 2019-20 of selected banks of India. It can be clearly seen that Quick Ratio of SBI and HDFC both are showing fluctuating trend during the tenure of three years. If an average is to be compared than, in that case average quick ratio of HDFC 16.90 is higher than average of SBI i.e.16.31.

RESULTS OF HYPOTHESES TESTING

Paired Sample one tail T-test Results are as follows according to researcher’s statistics:

Sr. No.	Hypothesis	P Value	Result
1	There is no significant difference in Capital Adequacy ratio of Selected banks of India.	0.025	Rejected
2	There is no significant difference in Net NPA Ratio of selected banks of India.	0.049	Rejected
3	There is no significant difference in Return on Net Worth of selected banks of India.	0.025	Rejected
4	There is no significant difference in Net	0.001	Rejected

	Interest Income to Total Fund Ratio of Selected banks of India.		
5	There is no significant difference in Quick Ratio of Selected banks of India.	0.370	Accepted

CONCLUSION

On the basis of above analytical research study of financial performance analysis of selected banks by using CAMEL model, it can be concluded that there is significant difference has been found out on the area of capital adequacy, Assets, Management and Earnings on the basis of ratios named Capital Adequacy Ratio, Net NPA Ratio, Return on Net worth and Total Income to Total Fund Ratio respectively but no significant difference has been identified by statistical tools in the case of Liquidity on the basis of Quick ratio between both the banks.

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