

**Analysis of  
Financial Performance of  
Banks in India  
with Special Reference to  
HDFC Bank,  
Standard Chartered Bank  
and State Bank of India**

**Akshat Gupta**

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**By  
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## **ABSTRACT**

A sound financial system is indispensable for a healthy and vibrant economy. The banking sector constitutes important components of the financial services industry. Indian banking sector is an important constituent in the Indian financial system. The performance of Indian economy depends largely on the performance of Indian banking sector. The performance evaluation of Indian banking sector is important through performance measurement system that provides an opportunity to assess of Indian banks.

The studies of efficiencies of bank are very important for policy makers, industry leaders and many others who are reliant on the banking sector. The performance of banks has been an issue of major interest for various stakeholders such as regulators, customers, investors and general public. The performance analysis of banks is useful to the policy-makers to identify the success or failure of bank and to adopt good strategies for the success of the bank. Performance evaluation of bank is an essential tool to understand the financial status of the bank, and to take necessary measures to uplift the standard of financially weak bank to be a successful one. The knowledge of financial performance helps in predicting, comparing and evaluating the earning ability of the company. It also helps in investment and financial decisions. Company provides financial information through financial statement and reports.

Banking industry acts as a backbone of modern business and performs as a bridge to provide a specialized source of financial intermediation. Banks transfigure their multiple inputs in several financial goods. The macroeconomic stability of banks enables them to change their overall performances and plays a crucial role in the reinforcement of fiscal policy. Therefore, the organized and proper allotment of banking encourages the growth level of an economy.

Performance assessment is crucial in the backdrop of an effective and successful financial sector. The efficiency of banking sector is crucial for the firmness and stability of the economy at any given point of time.

CAMEL supervisory rating Model had been employed in the study for rating the three selected banks in India.

The main endeavour of CAMEL Model system is to detect problems which manifest themselves. The RBI has instituted this mechanism for critical analysis of the Balance Sheet and Profit and Loss account of banks by themselves and presentation of such analysis to provide for internal assessment of healthy position of bank.

CAMEL is a ratio-based evaluation model. The present study is an attempt been made to analyse the financial position, overall performance and efficiency of the largest Public-sector bank (SBI), largest Private sector bank (HDFC) and a leading Foreign bank (Standard Chartered).

## **INTRODUCTION**

Banking sector's financial performance shows overall structure of financial system of any economy and it put an impact on the performance of the economy. Typically, the growth of banks mainly depends on its conventional business services like deposits and loans. In case of comparative study, variables like growth, profitability and level of non-performing assets (NPAs), are used to compare the performance of the banks.

The key outcome of Indian banking reform has now been achieved, as financing is now fueling the economy. It certainly offers financial resources for growth and the transformation of the economy at the stage of maturity.

The economic growth of a nation is largely based on the success and expansion of the banking sector. The rapid economic growth in India over the last few decades has been strongly supported by the development of the banking sector, especially following the opening of the private sector, which has created competition with the dominant public-sector banks, resulting in the expansion of services and the overall growth in profitability.

Banks financial performance undertakes or determines the pace of development of economy, if banking sector fails to prove their satiability in the society; undoubtedly customer will lose his trust in the economy and critically the next moment Recession starts. Banks performs only the money transactions, including accepting deposits from the society and lending the funds to the bona fide borrowers in the form of loans. The last few decades witnessed many positive developments in the Indian banking sector; some banks have established an outstanding track record of innovation, growth and value creation. The recent global financial crisis has triggered fall of many economies, and it was contributed by financial losses and volume of large non-performance assets at banking sector. Hence the study of financial performance of banks specifically deposits & loan performance, risk management studies are pivotal to calculate the growth of any economy.

## **2.0 Literature Review**

**Ray and Mohan** (2004) had empirically compared the performance of public and private sector banks. Their paper attempt to compare performance of three banks i.e. public, private and foreign banks using physical quantities of inputs and outputs and comparing the revenue maximization efficiency of banks. The study covers a period of eight years 1992-2000. The study employed total 58 banks for achieving the objectives. The study covered 27 public sectors, 20 private sector banks and 11 foreign banks. The findings show that public sector banks performed significantly better than private sector banks but no differently from foreign banks.

**Nimalathasan** (2008) had done comparative financial performance of banking sector in Bangladesh. Secondary data were used from the annual reports of all banks during the financial year of 1999-2006. Samples of the study were drawn from all the branches of 48 scheduled banks operating in Bangladesh. Out of these, 4 are nationalized, 5 are development financial institutions, 30 are local private commercial and 9 are foreign commercial banks. Data were analysed using CAMEL model. The study found that banks in Bangladesh need to maintain a minimum Capital Adequacy ratio of not less than 9.0 percent of their risk -weighted assets. The study had ranked different banks of Bangladesh according to NPLs ratio.

**Webb and Kumbirai** (2010) had undergone a financial ratio analysis of commercial bank performance in South Africa. The paper investigates the performance of South Africa commercial banking sector and covers a period of 2005-09. Financial ratios were employed to measure profitability, liquidity and credit quality performance of five large South African based commercial banks. The paper used descriptive financial ratios analysis to measure and additionally, t- test was also employed to test the hypothesis. The study found that overall bank performance increased considerable in the first two years of analysis. The study also found that global financial crisis in 2007 resulted in falling profitability, low liquidity and deteriorating credit quality in the South African banking sector.

**Jamal** (2011) had empirically done comparative financial performance of Islamic banks and conventional banks in Kenya. The objective of the study was to compare the financial performance of Islamic banks and conventional banks in Kenya and to establish if there is a significant difference in the financial performance of two banking categories. To achieve the objectives, secondary data mainly from audited annual reports of banks was employed. The study covered the period of 2010-2011. Data obtained was analysed using CAMEL model for evaluating the financial performance of banks. The study revealed that conventional banks performed better than Islamic banks in terms of capital adequacy, assets quality, earnings and liquidity position. However, except for capital adequacy, there were no significant difference between the two banking categories in terms of assets quality, management quality, earnings and liquidity position.

**Brama** (2012) had done financial performance evaluation of Regional Rural Banks of India. The objective of the study was to analyse the development prototype of Indian Regional Rural Banks. To meet the objectives, secondary data have been used and

obtained from different books, journals, articles, publications and newspapers. Indian Banks Association (IBA), the annual reports of banks concerned and RBI. The study covers a period of ten years from 1990-2010. Various statistical techniques like percentage, compound annual growth rate, data envelopment analysis; standard deviation, etc. and ranking has been used for data analysis. The study found that the number of Rural Banks has been increased year by year and the profits and number of branches have also increased.

**Wallia and Kaur** (2013) measures the performance of Indian banking sector in a study entitled “Performance evaluation of Indian banking sector: A study of selected commercial banks in India”. The study aimed at examining performance of selected commercial banks in India and investigated the factors predominantly affecting the performance of selected commercial banks in India. For this purpose, two public sector banks (PNB and SBI) and two private sector banks (ICICI and HDFC) were selected and data were collected for the period of 2009-2014. In order to analyse the performance of each bank individually, ten variables were being used. The study found that net profit as a percentage of total assets on average is highest for HDFC bank followed by ICICI Bank and PNB. Net Non-performing assets ratio as a percentage of loans on average was found to be highest for SBI and lower to HDFC. Bank operating expenditure as percentage of total income on average is found to be lowest for HDFC. The study also found that profitability of bank is affected by a number of factors like deposits, advances, and operating expenses and spread etc.

**Gupta and Kaur** (2014) had undergone a comparative study of the performance of selected Indian private and public-sector banks. The paper analysed the growth, performance and services provided by both public and private sector banks in terms of loans, cash credits, advances outside India, NPAs, net profit etc. To analyse the trend of performance, five banks each from public and private sector were selected for the period 2008-12. The public-sector banks included were SBI, PNB, Oriental bank of commerce, Bank of Baroda and Bank of India, while private sector banks included were Axis Bank, Yes bank, HDFC bank, ICICI Bank and Kotak Mahindra bank. Tokey HSD test was used to compare the performance of public and private sector banks. The study was based on secondary data collected from the RBI website and the annual reports of the selected banks. The results revealed that among all the public-sector banks, SBI performed better during the study period and the performance of Oriental Bank of Commerce was low, except in case of NPAS’S’s. In terms of NPAS’S’s, the performance of Bank of Baroda was lowest among all the banks. In the private sector, HDFC Bank and ICICI Bank performed better than all other banks. YES bank was the least performer.

## **OBJECTIVES OF STUDY**

The objective of the study is to identify financial position and performance of the selected banks and to examine whether any significant differences exists in their performance. The study is based on secondary data which has been collected from annual reports of the selected banks covering a period of five years between 2015-16 to 2019- 20. The CAMEL model has been used to assess the financial strength of the selected banks. Financial performance measures have been used on the important parameters like capital adequacy,

asset quality, management efficiency, earnings ability and liquidity to draw the conclusion the study.

- 1) To understand and evaluate financial performance.
- 2) To understand the relationship between Profitability Performance and Macroeconomic factors:
  - Profitability and Inflation
  - Profitability and Interest Rates
  - Profitability and Money Supply
  - To examine and compare the financial performance and overall profitability of banks with industry averages.
- 3) To analyze risk management procedures of banks.
- 4) To understand the concept of measurement in terms of analyzing the financial performance of banks.
- 5) To understand the importance of performance analysis:
  - From the viewpoint of management
  - From the viewpoint of the Federal Bank
  - From the viewpoint of investors
  - From the viewpoint of customers
  - From the viewpoint of employees
- 6) To understand the financial performance of banks through "CAMEL MODEL"

## **ABOUT BANKS**

Banking is one of the oldest financial institutions. Its origin can be traced in ancient times. Banking system occupies an important role in the economic development of a country. Banking institution is indispensable in modern society. It plays a vital role in the economic development of a country. The basic functions of a bank are to collect ample deposits from customers and mobilize it into the most preferable and profitable sector. Bank itself is an organization engaged in any or all of the various functions of banking viz. receiving, collecting, transferring, paying, lending, investing, dealing, exchanging and servicing (safe deposits, trusteeship, agency, and custodianship), etc. Generally, bank means an institution that provides fundamental banking services such as accepting deposits from the public and providing loans. It is a financial institution that accepts deposits from the public and provides loans from deposits. Banking institution deals in money, so they were acting more like money traders. But with the passage of time, functions of bank have not only increased, but diversified, as well.

In the past several years, Indian banking system has achieved several milestones and some outstanding achievements to its credit. Indian banking has spread even to the remote area of the country that shows the extensive reach of it and for inclusive Indian growth story. Banks are the major and main participants of the financial system in India. In this modern age, banking sector offer various facilities and services to their customers and thereby improves the life of the citizens. There are several popular modalities of banking. It may differ country to country. Commercial banking is one of them. Banking and financial institutions are also transmission channels of monetary policy. It is important



for effective monetary policy management to ensure that their financial health is sound and overall financial sector is stable. Bank plays important role in the development of country economy and forms the core of money market for the country. The banking system which constitutes the core of the financial sector plays a critical role in transmitting monetary policy impulses to the entire economic system. The bank normally has three important functions: first, the operation of payment system; second, mobilizations of savings; and finally, the allocation of savings to investment projects. An efficient banking structure can promote greater amount of investment which can further help to achieve faster growth rate of economy, as the Bank mobilizes the saving of community into productive channels.

Worldwide experience confirms that countries with well-developed and market oriented free banking system grow faster and more consistently. An efficient banking system is globally recognized as a primary requirement for the economic development of any economy in the world.

## **ORIGIN OF BANKS**

The existence of banking in India can be traced back in the first decade of 18th century. The English business community that came to India in the 17th century could not use indigenous banking or bankers, due to language and other problems. The first bank in India called the General Bank of India was established in the year 1786. Then East India Company started the Bank of Bengal in Calcutta in 1809.

The banking industry in India has a huge canvas history, which covers the traditional banking practices from the time of British to the reform period, nationalization to privatization of banks and now increasing number of foreign banks in India. Therefore, banking in India has been a long journey. Banking industry in India has also achieved new heights with the changing time. The use of technology has brought a revolution in the working style of the bank.

### **1.0 Meaning of a Bank**

The meaning of bank can be understood only by its functions just as a tree is known by its fruits. As any other subject, it has its own origin, growth and development. Banks are financial agencies that provide medium and long-term financial assistance and act as catalytic agents in promoting balanced development of the country. Bank accepts deposits, support the payment system and provide the largest sources of funds in the market. Safe and sound banking system is of crucial importance for the financial stability and sustainable development.

### **1.1 Definition of Bank**

Banking Regulation Act, 1949 and Reserve Bank of India (RBI) Act, 1934 are legislated in India to regulate all banking firms in India. The Act regulates the manner in which banks are to be run, the kind of business they should do, how they should be managed, the kind of business they may not do and the likes.

Sec 5 (1) (b) of the Banking Regulation Act, 1949 has defined banking as: “Accepting for the purpose of the lending of investments of deposits of money from the public repayable

on demand or otherwise and withdrawable by cheques, draft, and order or otherwise”. Bank is an establishment for custody of money received from or on behalf of its customers. It’s essential duty is to pay their drafts unit. Its profit arises from the use of the money left employed by them. Thus, bank means an institution which trades in money, accepting deposits money from the public and provides loans and advances to its customers, and also facilitating the transmission of remittances from one place to another.

## 1.2 Function of Banks

The banking sector is considered as the lifeline of modern economy. It can be regarded as one of the important pillars of the financial system which plays a vital role in the success of an economy. Banks are one of the oldest financial intermediaries in the financial system. They play an important role in the mobilization of deposits and disbursement of credit to various sectors of the country’s economy. The strength of economy of any country basically hinges on the strength and efficiency of the financial system, which, in turn, depends on the sound and solvent banking system.

Sec 5 (1) (c) of Banking Regulation Act, 1949 defines banking company as “any company which transacts the business of banking in India”. From the definition given by Banking Regulation Act, 1949, the functions of commercial banks in India emerge. Hence, functions of commercial banks can be categorized into two major functions: Primary and Secondary functions.

**1.2.1 Primary functions:** Primary functions of banks are also known as banking functions. They are the main functions of the banks. Primary functions of banks are given below:

1.2.1 (a) Deposits: Deposits is the main source of funds for commercial banks. The amount mobilized as deposits is then lent in the form of advances. The higher the amount of deposits mobilized, the higher is the amount of funds lent. The growth of deposits depends on savings. For economic growth to take place, it is essential that these savings are mobilized and channelized for capital formation which, in turn, accelerates economic growth.

Banks collect deposits from the public. There are different types of deposits such as:

- 1) Saving deposits: This type of deposits encourages saving habit from the public. The interest is low. Withdrawal of deposits is allowed subject to certain restrictions. This account is suitable to salary and wage earners. This account can be open in single name or joint names.
- 2) Fixed deposits: In this type of deposit, lump sum amount is deposited at one time for specific period. Withdrawals are not allowed before the specific time period. Those who have surplus cash go for this type of deposits.
- 3) Current deposits: This type of account is operated by businessmen. Withdrawal is freely allowed. No interest is paid. In fact, there are services charged. The account holders can get the benefit of overdraft facility.
- 4) Recurring deposits: This type of account is maintained by salaried person and petty

traders. A certain sum of money is periodically deposited in the bank. Withdrawal is allowed only after the expiry of certain period.

1.2.1(b) Granting of loans and advances: Banks are special type of intermediaries which not only accepts and deploy amount of uncollateralized deposits in a fiduciary capacity, but also leverage funds through credit creation. Banks are creators of credit. The creation of credit is an important function of a bank and this function distinguishes bank from non-banking institutions. Different type of bank loan and advances are:

- 1) Overdraft: Overdraft is advanced to holders of current accounts. If borrower requires temporary finance, banker may allow him to overdraw on his account with or without security. No separate account is maintained. A certain amount is sanctioned as overdraft which can be withdrawn within a certain period of time. Interest is charged on actual amount withdrawn.
- 2) Cash credit: It is a financial arrangement through which bank allows borrower to borrow money up to a certain limit. The client is allowed cash credit up to a specific limit fixed in advance. It can be given to current account holder as well as to others who do not have an account with bank. It is given against the security of tangible assets and or guarantee.
- 3) Loans: Loan is an advance sanction by the bank to the customers with or without security. In respect of loan, banker makes lump-sum payment to the borrower or credits his deposits account with the money advanced. It is normally a short-term period of financing cash for reasonable purpose or lending cash to account holder for predetermined purpose. The amount is to be repaid within a fixed time period with interest.
- 4) Discounting of bills of exchange: Bank can give money in advance by discounting or by purchasing bills of exchange both domestic and foreign bills. The bank pays the bills amount to the drawer or beneficiary of the bill by deducting usual discount charges. On maturity, the bill is presented to the drawer or acceptor of the bill and the amount is collected.

**1.2.2 Secondary functions of banks:** Apart from the above primary functions, banks also perform secondary functions and it is also known as Non- banking functions. They are as follows:

1.2.2(a) Agency functions: The bank acts as agents of its customers. Banks perform a number of agency functions which are as follows:

- 1) Transfer of funds: The banks transfer funds from one branch to another or from one place to another.
- 2) Collection of cheques: The banks collect the money of cheque through clearing sections of its customers. The banks also collect money of the bills of exchange.
- 3) Periodic payments: On standing instructions of the clients, the banks make periodic payments in respect of electricity bills, rent, etc.

- 4) Portfolio management: The bank also undertakes to purchase and sell the shares and debentures on behalf of the clients and accordingly debits or credits the account through their subsidiaries. This facility is called portfolio management.
- 5) Periodic collections: The banks collect salary, pension, dividend and such other periodic collections on behalf of the clients.

1.2.2(b) General utility functions: The bank also performs general utility functions which are:

- 1) Issue of drafts and letter of credit: Banks issue drafts for transferring money from one place to another. Banks also issue letter of credit, especially in case of, import trade. It also issues travellers cheque.
- 2) Locker facility: The banks provide locker facility for the safe custody of valuable documents, gold ornaments and other valuables.
- 3) Underwriting of shares: The banks underwrite shares and debentures through its merchant banking division.
- 4) Dealing in foreign exchange: The commercial banks are also allowed by Reserve Bank of India to exchange foreign currency.

## **BANKING STRUCTURE IN INDIA**

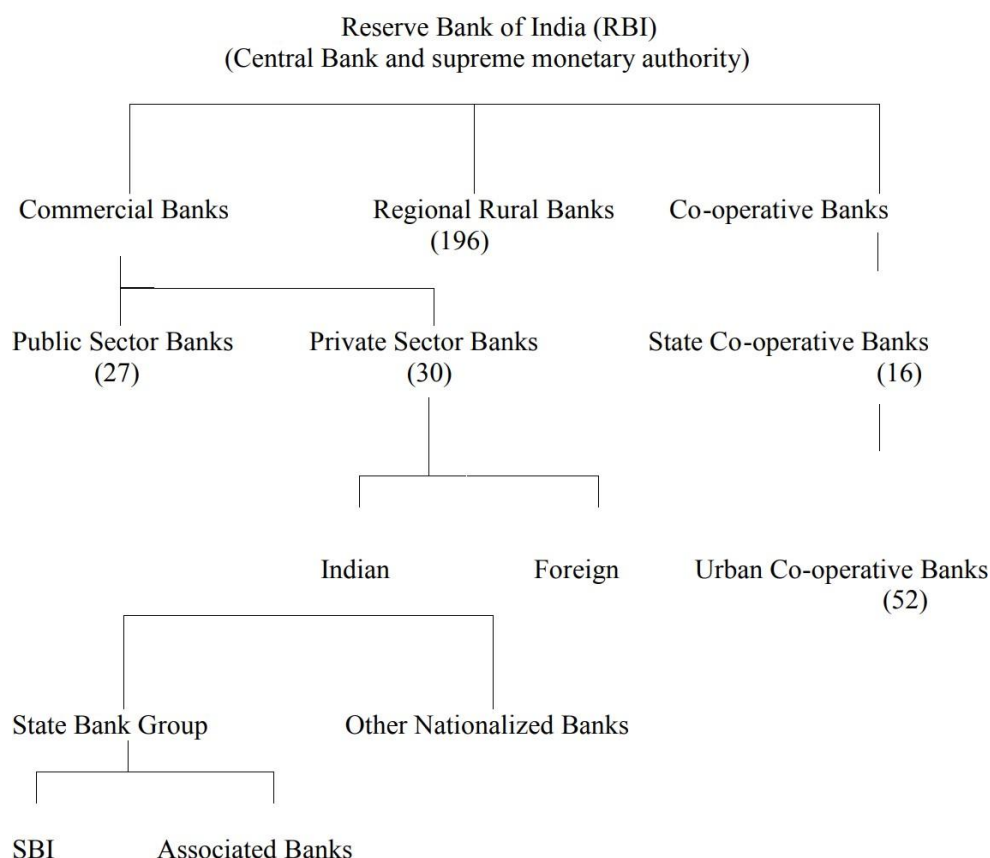
The banking sector in India comprises of banks, big and small, public and private, old and new, viable and non-viable. There are wide diversities in their sizes, organizational patterns, geographical presence and functional specialization. The Reserve Bank of India (RBI) is responsible for all sort of policy formulation and implementation of the banking industry in India. The main purpose of establishing Reserve Bank of India (RBI) is to circulate the currency in the economy apart from computation of currency reserves. It is having vital purpose as to control the subject of bank notes and their custody of treasure with a vision to protect financial consistency in India and usually act as functions to the credit system of the country.

Structure can be defined as the arrangement of and relations between the parts or elements of something complex. It is the way in which the part of the system or object are arranged or organized. Thus, banking structure in India can be understood as the organized arrangement and the interrelationship between banks that exist in India. The exact date of existence of banks in India is unknown. But it is certain that the old banking system has been functioning for centuries. Reserve Bank of India (RBI) is the supreme authority for regulation and supervisory of banks in India. Apart from regulating and supervising, RBI is also entrusted with the responsibility of issuing currency and coins in the country.

As noted earlier, RBI is the only supreme authority for regulating and supervising body of banks in India. The Indian banking system can be divided into three broad categories and they are Commercial Banks, Regional Rural Banks and Co-operative Banks. Commercial banks can be divided into Regional Rural Banks, Foreign Banks, Private Sector Banks and Public-Sector Banks. At present, there are 27 Public Sector Banks that operate in

India and other 19 nationalized banks. Under Private Sector Banks, there are 30 Private Banks and out of which, 22 are old Private Banks and 8 are new Private Banks. At present, there are 196 Regional Rural Banks that operates in India. Under Co-operative Banks, there are 52 Urban Co-operative banks and 16 State Co- operative banks in India. The banking structure in India is shown in the chart 1.1

**Chart 1.1: Banking structure in India**



*Source: Reserve Bank of India 2009 (Banking structure in India; RBI)*

### **A) Meaning and concept of Performance**

The word performance is derived from the word ‘perfourmen’ which means ‘to render’ or ‘to do’. It refers to the act of performing an activity. It means the act of accomplishment or execution. It refers to the level to which a task has been accomplished. From the view point of banks, it takes into account the way of their progress.

The word ‘performance’ is used to mean the efforts extended to achieve the targets efficiently and effectively. The achievements of target involve the integrated use of human, financial and natural resources (Albanese, 1978).

The performance is a general term applied to a part or to all of the conduct of activities of an organization over a period of time, often with reference to past or projected cost,

efficiency, management responsibility or accountability or the like (Kohlar, 1979).

On the basis of the above meaning of two definitions, it can be concluded that performance means not only presentation, but also refers to a sense of quality and ultimate results, that has been achieved by the management of any business. It compares the present achievements with that of past in the context of whatever aims, goals or targets that were set by the management. Therefore, performance is the word that is used to exhibit business enterprises extent of success, failures, reasons, conditions and compliance etc. (Gadhia, 2015).

## **B. Meaning of Financial Statement**

Financial statement is formal records of the financial activities of a business, persons or other entity and provide an overview of a business or person's financial conditions in both short and long term. They give a picture of a company's conditions and operating results in a condensed form. Financial statements are used as a management tool primarily by company executives and investors in assessing the overall positions and operating results of a company. Analysis and interpretations of financial statements helps in determining the liquidity position, long term solvency, financial viability and profitability of a firm.

### **B.1) Meaning of Financial Performance**

Financial performance represents the task of executing financial activity. It indicates the extent to which financial objectives or targets have been fulfilled. Company financial performance is measured in terms of monetary and is used for decision making purpose. Financial performance of a company indicates financial health of a company for a particular period of time. Thus, financial performance analysis is a process of systematically making a proper, critical and comparative evaluation of profitability and financial health of a firm through the applications of financial statement analysis.

### **B.2) Concept of Measurement**

A performance indicator or a Key Performance Indicator (KPI) is a type of performance measurement. A business enterprise may use KPI to evaluate its success or to evaluate the success of a specific activity in which it is engaged. The measurement is the assignment of numerical to characteristics of objects, person, state or events according to rule. What is measured is not the object, person, state or event itself but some characteristics of it: when objects are counted, for example, we do not measure the object itself but also its characteristics of being presented (Tripathi, 1991).

In a business enterprise, specific goals and objectives are designed and to achieve or fulfil these goals and objectives, various groups or associations of people are formed or established. This group of people requires their performance measurement or analysis to decide as how much business has got through its activities towards its goals and objectives, which were designed well in advance. The primary focus of financial reporting is information about an enterprise's performance provided by measures of earnings and its components. The real purpose of preparing financial statement is to reveal the financial performance that has been achieved by the enterprise. A set of financial statement is a systematic collection of data through logical and consistent accounting policies and

procedures. Normally financial statements mean two key basic statements. One is the balance sheet and the other is profit and loss account statements (Hendriksen, 1984).

The balance sheet is a statement which shows financial position of the business on a particular date. It is a summarized statement of financial position of a particular year. The profit and loss account statement shows business firm's revenues and expenses for a particular time period. Analysis of financial statement is a good support and aid to financial performance analysis of business enterprise. Measurement of financial performance gives useful information about the financial strength and weakness of the enterprise and thus provides for decision making purpose (Gadhia, 2015).

### **B.3) Areas of performance**

In a business enterprise, by making a comprehensive assessment, certainly the performance of different types of tasks and activities, various areas of business operations can be improved or modified. These areas of operations may be defined as the area of performance. Financial expert often considers or assess the following important areas for the performance or measurement analysis.

- 1) Performance of productivity
- 2) Performance of profitability
- 3) Performance of fund flow
- 4) Performance of liquidity
- 5) Performance of working capital
- 6) Performance of efficiency etc.

### **B.4) Importance of performance analysis**

There are various interest groups which is associated with the performance analysis of business enterprises. Therefore, these groups are always interested in analysing the financial performance of a firm and want to know the financial position for different purposes. The final results of financial position of a firm are used by different parties and some of them may be as noted below:

- 1) From the view point of management: Management is always interested in internal control, better financial position and performance. Management cannot only measure the outcome of its own plans and business policy by making performance analysis, but also should evaluate the effectiveness of its policies. This is very useful to determine the continuity of present policies or to adopt new policies.
- 2) From the view point of creditors: Creditors are always interested in the liquidity of the business enterprises. Therefore, their interest is in analysis of a firm's liquidity. Creditors can make performance analysis by applying various ratios and can avail the real information regarding liquidity and other aspects of business enterprise.
- 3) From the view point of the Government and Reserve Bank of India (RBI): Government and the Reserve Bank of India are always interested regarding the



performance of banking sector as a whole, because it is directly related with growth of economy. On the bases of performance of banks, the Government and the RBI can have an idea and knowledge of the present country's economy and can also predict the future probable country's economy.

- 4) From the view point of investors: Investors are always interested in present and predicted future earnings as well as stability and improvements of their earnings. Therefore, their interest lies in business firm's profitability, productivity and financial conditions.
  - a) From the view point of depositors and bondholders: Depositors and bondholders are interested in cash flow, liquidity and profitability of banks or business firms. So, they are interested in analysing cash flow and liquidity, present and future profitability as well as capital structure. Depositors and bondholders can have all these aspects by making or referring financial conditions of different banks.
  - b) From the viewpoint of employees and trade unions: Employees are one of the most important stakeholders in any business enterprise. They are interested in the profits, cash flow and financial position of the bank. Therefore, employees can know all these things by referring financial position of banks. Trade unions are also interested in details of financial performance due to their demand for increase in their salaries, facilities and other benefits, etc.
  - c) From the view point of suppliers of long-term finance: Suppliers of long-term debts or finance are interested in profitability and liquidity of business firms. This category of people will focus on solvency as well as survival of the business because they are giving finance for a bit longer period of time. They can know all these aspects by referring financial conditions of a business firm.

### **C) Significance and Scope of the Study**

In the light of various changes taking places in the Indian banking system, it is important to keep an eye on the performance of the banking system. The studies on efficiencies of bank are very important for policy makers, industry leaders and many others who are reliant on the banking sector. The performance of banks has been an issue of major interest for various stakeholders such as regulators, customers, investors and general public. The performance analysis of banks is useful to the policy-makers to identify the success or failure of bank and to adopt good strategies for the success of the bank. Performance evaluation of bank is an essential tool to understand the financial status of the bank, and to take necessary measures to uplift the standard of financially weak bank to be a successful one. It is also essential to know whether the efficiency and performance of the Indian banking sector are in accordance with the regulatory framework.

The knowledge of financial performance helps in predicting, comparing and evaluating the earning ability of the company. It also helps in investment and financial decisions. Company provides financial information through financial statement and reports. A bank's financial performance can also be assessed by analysing the data provided in its annual reports.



Banking industry acts as a backbone of modern business and performs as a bridge to provide a specialized source of financial intermediation. Banks transfigure their multiple inputs in several financial goods. The macroeconomic stability of banks enables them to change their overall preferences and plays a crucial role in the reinforcement of fiscal policy. Therefore, the organized and proper allotment of banking encouraged the growth level of economy. Performance assessment is crucial in the background of an effective and successful financial sector. The efficiency of banking sector is very crucial for the firmness and stability of the economy in overall period of time.

## **ABOUT THE BANKS CHOSEN FOR THE STUDY**

### **1) HDFC Bank Limited (Private Sector Bank):**

**HDFC Bank Limited** is an Indian banking and financial services company headquartered in Mumbai, Maharashtra. It has a base of 104,154 permanent employees as of 30 June 2019. HDFC Bank is India's largest private sector bank by assets.<sup>[9]</sup> It is the largest bank in India by market capitalisation as of March 2020. HDFC Bank provides a number of products and services including wholesale banking, retail banking, treasury, auto loans, two-wheeler loans, personal loans, loans against property, consumer durable loan, lifestyle loan and credit cards. Along with this various digital product are Payzapp and SmartBUY. HDFC Bank merged with Times Bank in February 2000. This was the first merger of two private banks in the New Generation private sector banks category. Times Bank was established by Bennett, Coleman and Co. Ltd., commonly known as The Times Group, India's largest media conglomerate.

In 2008, Centurion Bank was acquired by HDFC Bank. HDFC Bank Board approved the acquisition of CBoP for ₹95.1 billion in one of the largest mergers in the financial sector in India.

In March 2020, HDFC (parent company of HDFC BANK) made an investment of ₹1,000 crores in Yes bank. As per the scheme of reconstruction of Yes Bank, 75% of the total investment by the corporation would be locked in for three years. On 14 March, Yes Bank allotted 100 crore shares of the face value of ₹2 each for consideration of ₹10 per share (including ₹8 premium) to the Corporation aggregating to 7.97 percent of the post issue equity share capital of Yes bank.

The equity shares of HDFC Bank are listed on the Bombay Stock Exchange and the National Stock Exchange of India. Its American Depository Shares are listed on NYSE and the global depository receipt are listed on the Luxembourg Stock Exchange where two GDRs represent one equity share of HDFC Bank.

### **2) State Bank of India (Public Sector Bank):**

**SBI** is an Indian multinational, public sector banking and financial services statutory body headquartered in Mumbai, Maharashtra. SBI is the 43rd largest bank in the world and ranked 236th in the *Fortune Global 500* list of the world's biggest corporations of 2019.<sup>[8]</sup> A nationalised bank, it is the largest in India with a 23% market share by assets and a 25% share of the total loan and deposits market.

The bank descends from the Bank of Calcutta, founded in 1806 via the Imperial Bank of India, making it the oldest commercial bank in the Indian subcontinent. The Bank of Madras merged into the other two presidency banks in British India, the Bank of Calcutta and the Bank of Bombay, to form the Imperial Bank of India, which in turn became the State Bank of India in 1955.<sup>[10]</sup> The Government of India took control of the Imperial Bank of India in 1955, with Reserve Bank of India (India's central bank) taking a 60% stake, renaming it State Bank of India.

SBI provides a range of banking products through its network of branches in India and overseas, including products aimed at non-resident Indians (NRIs). SBI has 16 regional hubs and 57 zonal offices that are located at important cities throughout India.

SBI has over 24000 branches in India. In the financial year 2012–13, its revenue was ₹2.005 trillion (US\$28 billion), out of which domestic operations contributed to 95.35% of revenue. Similarly, domestic operations contributed to 88.37% of total profits for the same financial year.

Under the Pradhan Mantri Jan Dhan Yojana of financial inclusion launched by Government in August 2014, SBI held 11,300 camps and opened over 3 million accounts by September, which included 2.1 million accounts in rural areas and 1.57 million accounts in urban areas.

### **3) Standard Chartered PLC (Foreign Bank):**

**Standard Chartered PLC** is a British multinational banking and financial services company headquartered in London, England. It operates a network of more than 1,200 branches and outlets (including subsidiaries, associates and joint ventures) across more than 70 countries and employs around 87,000 people. It is a universal bank with operations in consumer, corporate and institutional banking, and treasury services. Despite its UK base, it does not conduct retail banking in the UK, and around 90% of its profits come from Asia, Africa and the Middle East.

Standard Chartered has a primary listing on the London Stock Exchange and is a constituent of the FTSE 100 Index. It had a market capitalisation of approximately £24.4 billion as of 4 April 2017, the 28th-largest of any company with a primary listing on the London Stock Exchange. It has secondary listings on the Hong Kong Stock Exchange, the National Stock Exchange of India, and OTC Markets Group Pink. Its largest shareholder is the Government of Singapore-owned Temasek Holdings. The Chartered Bank began when Queen Victoria granted a Royal Charter to Scotsman James Wilson in 1853. Chartered opened its first branches in Mumbai (Bombay), Kolkata (Calcutta) and Shanghai in 1858, followed by Hong Kong and Singapore in 1859. The Bank started issuing banknotes of the Hong Kong dollar in 1862.

The Standard Bank was a British bank founded in the Cape Province of South Africa in 1862 by Scot, John Paterson. Having established a considerable number of branches, Standard was prominent in financing the development of the diamond fields of Kimberley from 1867 and later extended its network further north to the new town of Johannesburg when gold was discovered there in 1885. Half the output of the second

largest gold field in the world passed through The Standard Bank on its way to London. Standard expanded widely in Africa over the years, but from 1883 to 1962 was formally known as the Standard Bank of South Africa. In 1962 the bank changed its name to Standard Bank Limited, and the South African operations were formed into a separate subsidiary which took the parent bank's previous name, Standard Bank of South Africa Ltd. On 9 April 2019, Standard Chartered paid \$1.1 billion to the United Kingdom Government and the United States of America's Department of the Treasury over apparent multiple violations of sanctioned programs.

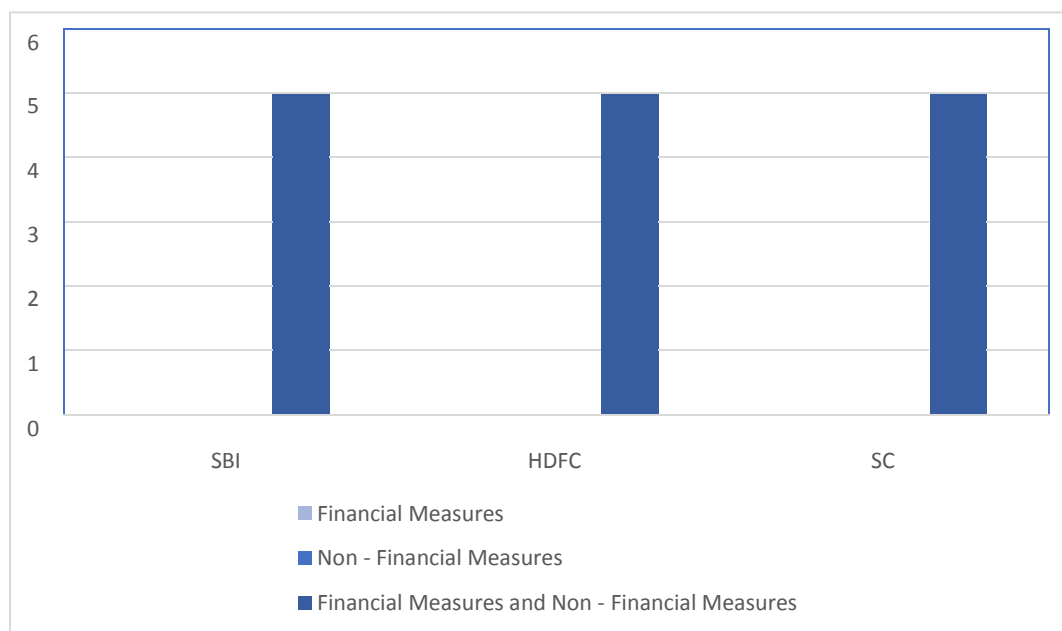
### **FINDINGS OF THE RESEARCH PROJECT's FIELD SURVEY**

A survey was conducted with the Employees and Customers of the three banks which have been selected for the study. The survey was conducted in different cities through e-mediums where as in Mumbai customers and employees were mostly reviewed in person. The purpose of conducting this survey is to understand how customers and employees influence the financial performances of the banks which they are associated with.

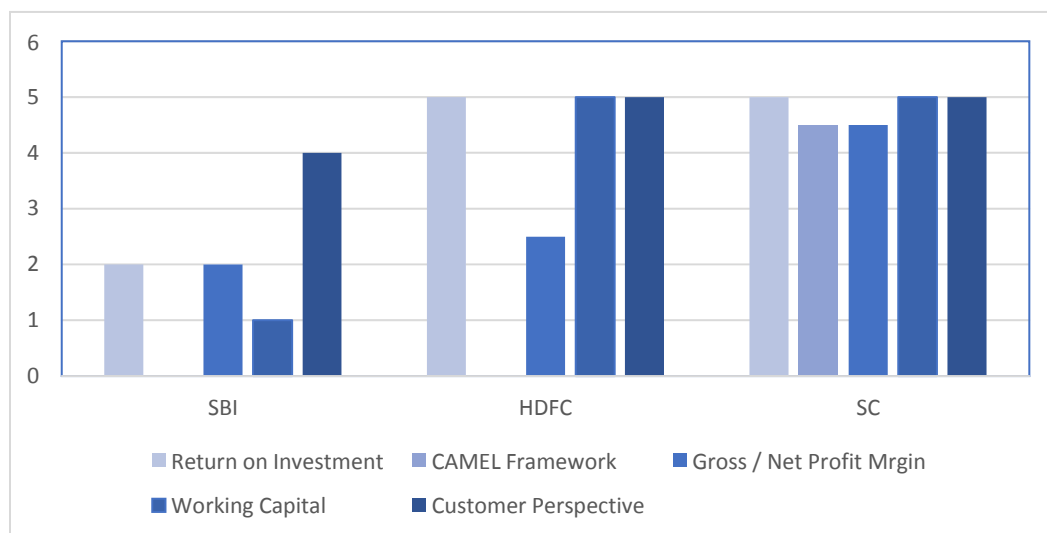
The findings of the survey carried out in different categories are presented below.

#### **Employee**

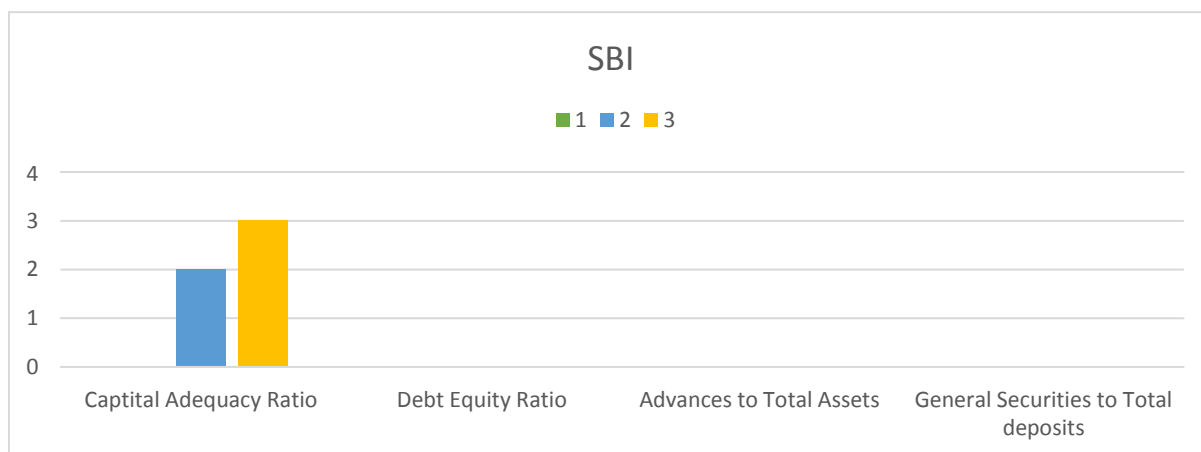
1. What type of performance measures are being used by your bank as a part of measuring and managing the banks overall performance?

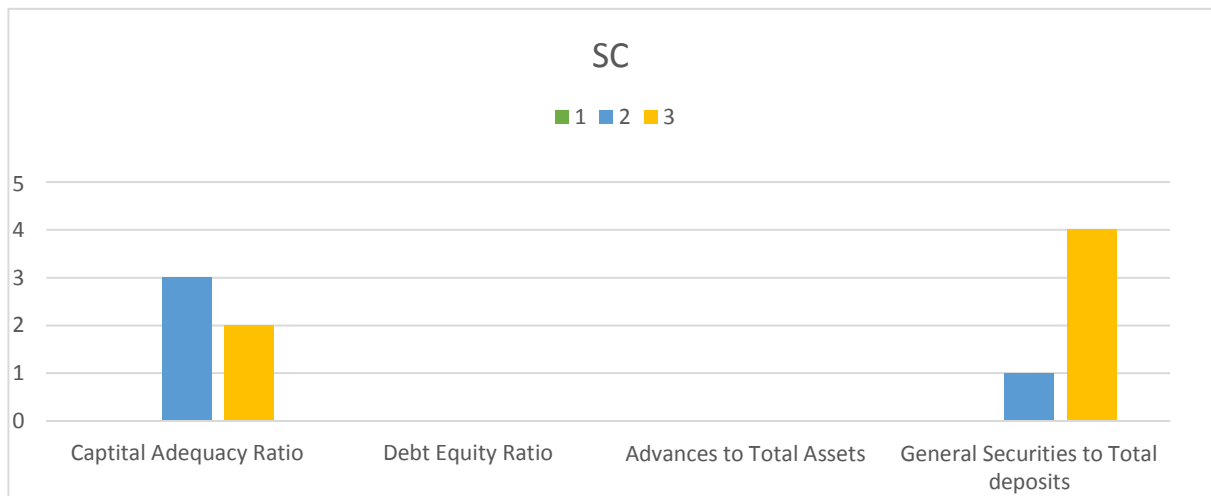
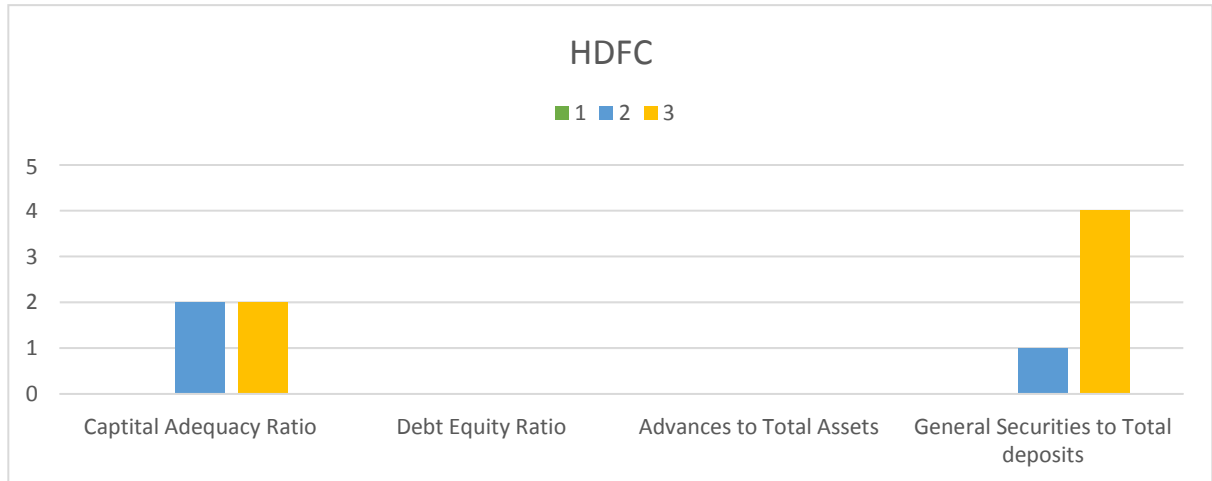


2. Are you aware of the following performance measurement systems?

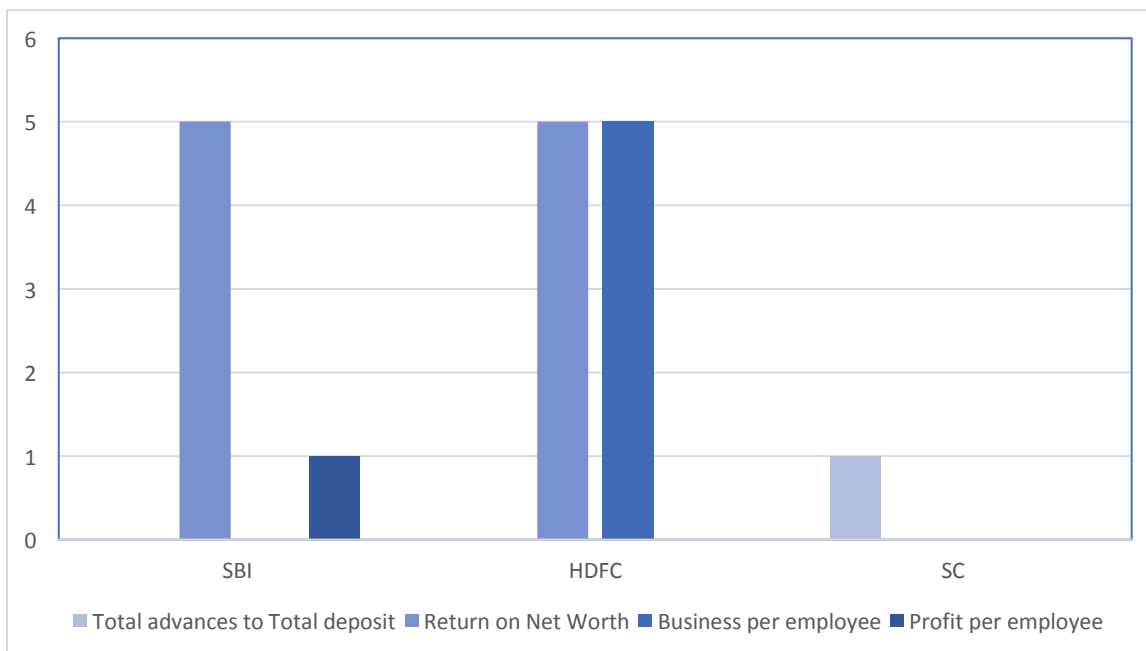


3. According to you which of the following key performance indicators are important. (Please rate from 1-3 next to the option, where, 1 being the most important, 2 being moderate and 3 being the least important.)

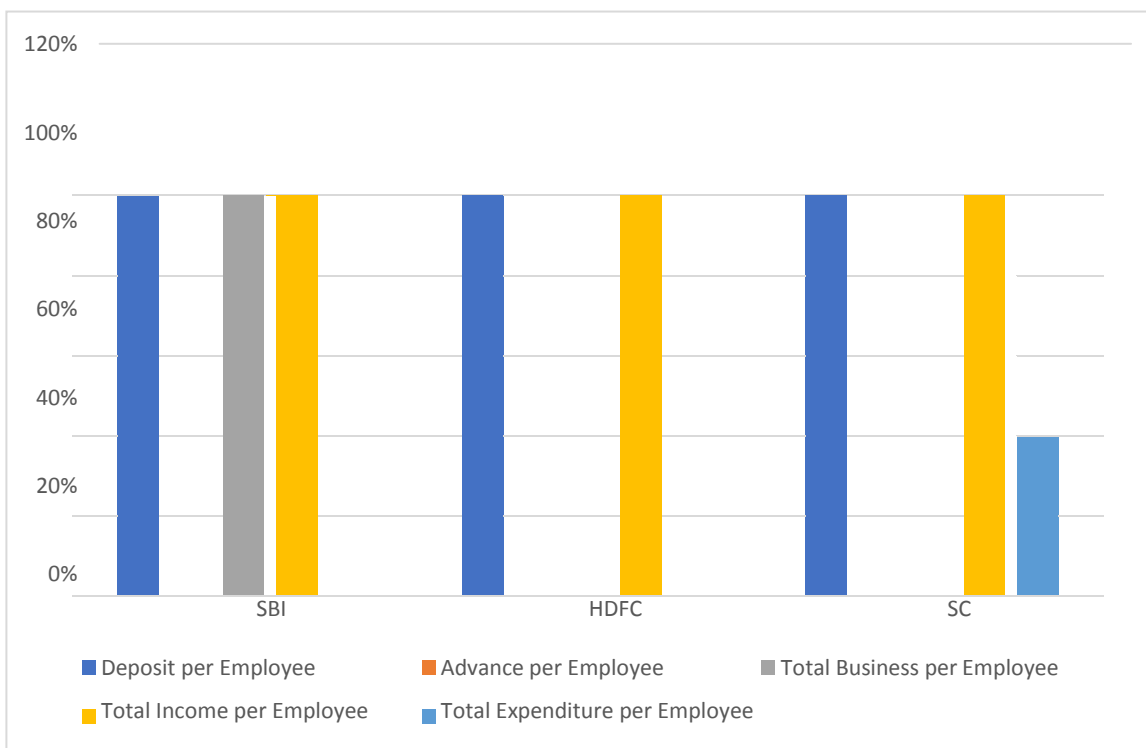




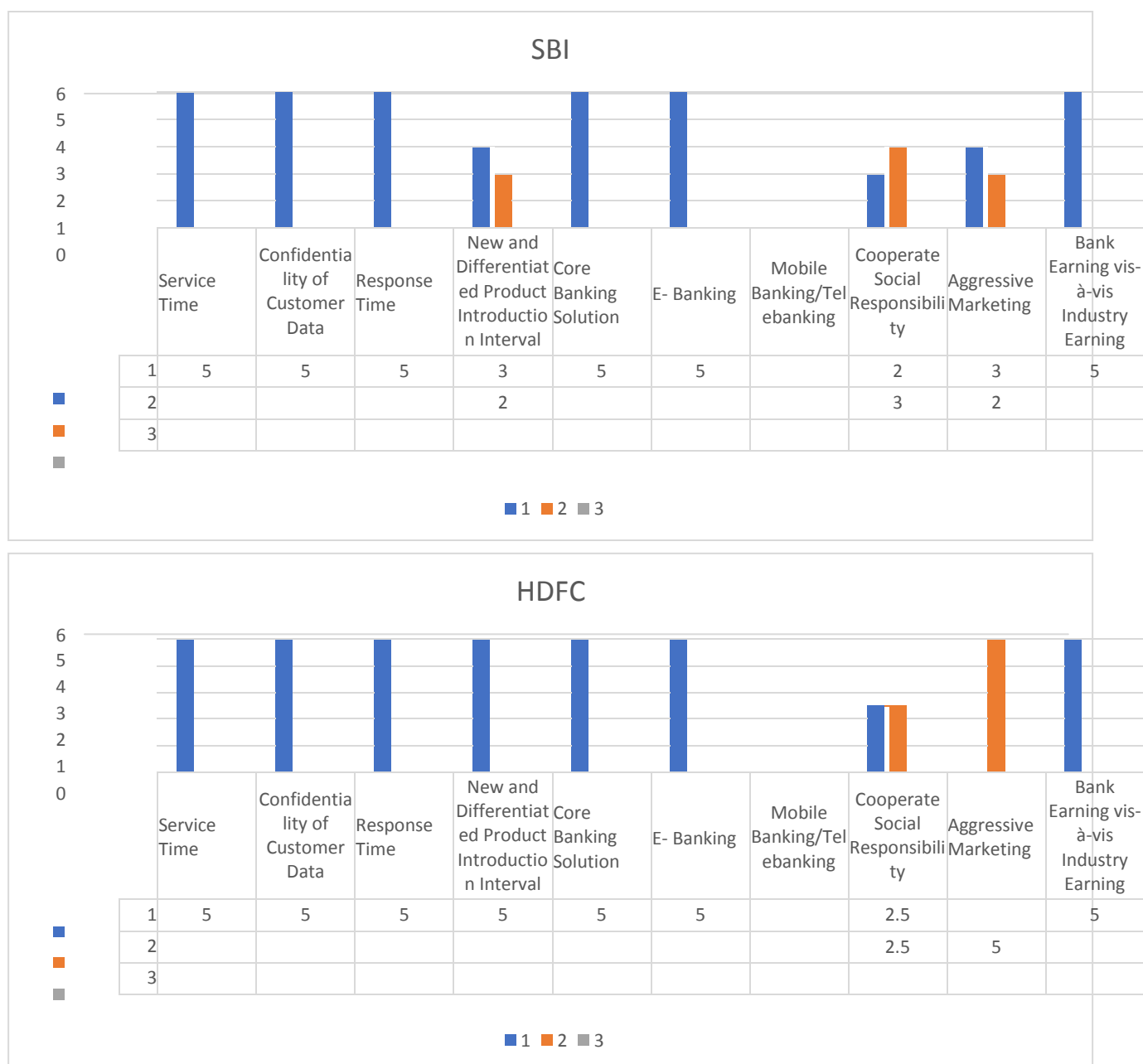
4. According to you which of the Management efficiency measures are more likely to be undertaken by your bank?

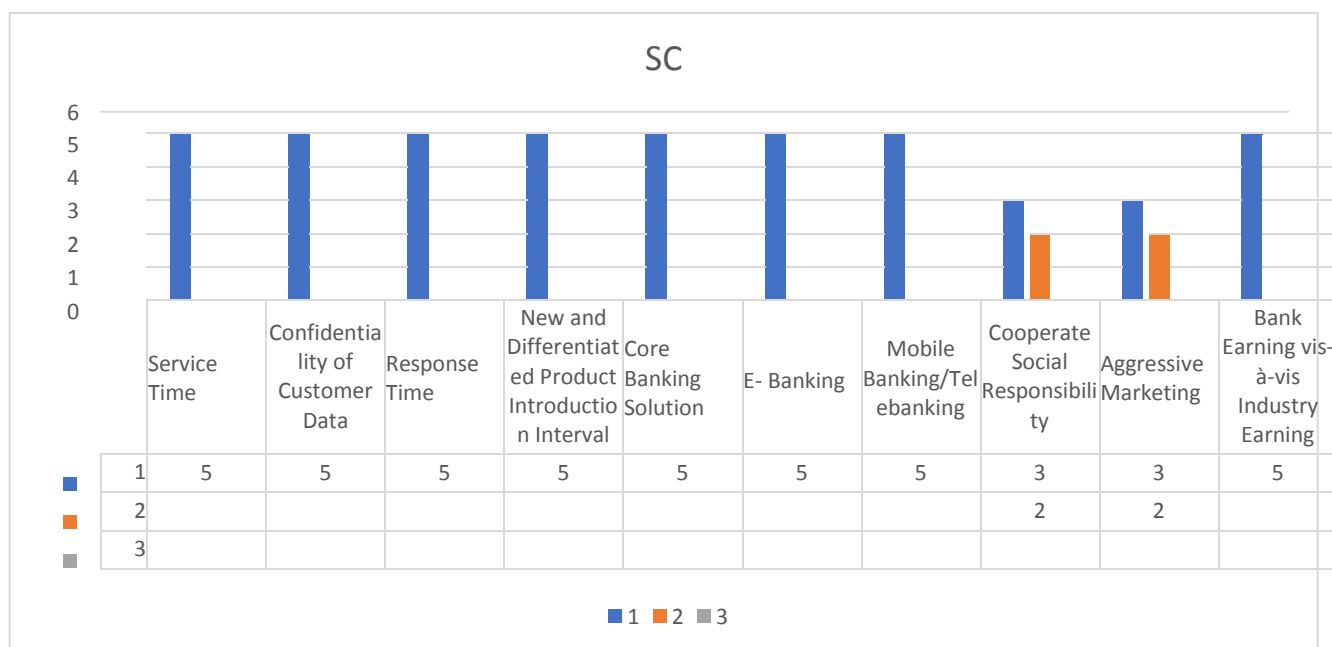


5. According to you which of the Productive Analysis Measures plays an important role in analysing the financial performance of the bank?



6. According to you which Internal Business Perspective plays the most important role in measuring the financial performance of the bank? (Please rate from 1-3 next to the option, where, 1 being the most important, 2 being moderate and 3 being the least important.)





## FINDINGS:

-When asked to choose between the performance measures which were being used by all the three banks as a part of measuring and managing the banks overall performance, there was a 100% vote for both Financial and Non- Financial measures chosen by the employees working there.

- In terms of knowing the performance measurement systems, Standard Chartered's employees were the most aware and knew about all the performances while on the other hand the employees of State Bank of India are the least aware of the same measures. HDFC Bank's employees stay in balance when compared to both the other banks about the following performance measurement systems:

- 1) Return on Investment
- 2) Camel Framework (In this case only Standard Chartered was au courant)
- 3) Gross net profit margin
- 4) Working Capital
- 5) Customer Perspective

- Speaking of the important key performance indicators, for all the three banks the common most key which was selected is the Capital Adequacy Ratio. However, **only** HDFC and Standard Chartered voted for General Securities to Total Deposits. Rest other options are not applicable according to their employees.

- The responses from the employees of the State Bank of India's choose **Return on Net worth** as a 90% to **Profit per employee** as 10% as a management efficiency method. HDFC gave 100% preference to **both Return on Net Worth** and **Business per employee**. While only 10% employees of Standard Chartered agree upon **Total Advances to Total Deposits**.



Rest all the options were either left blank or were not applicable.

-According to SBI's employees **Deposit per Employee**, **Total business per Employee** and **Total income per employee** play an important role in analysing the financial performance of the bank. HDFC's and Standard Chartered's voted for **Deposit per Employee** and **Total income per employee**, however the difference between the two was evident when Standard Chartered also booted for **Total Expenditure per Employee** with around 40% of votes.

- The employees of all the three banks have a few similar preferences for the options provided for Internal Business Perspective that play the most important role in measuring the financial performance of the bank, which would be as follows:

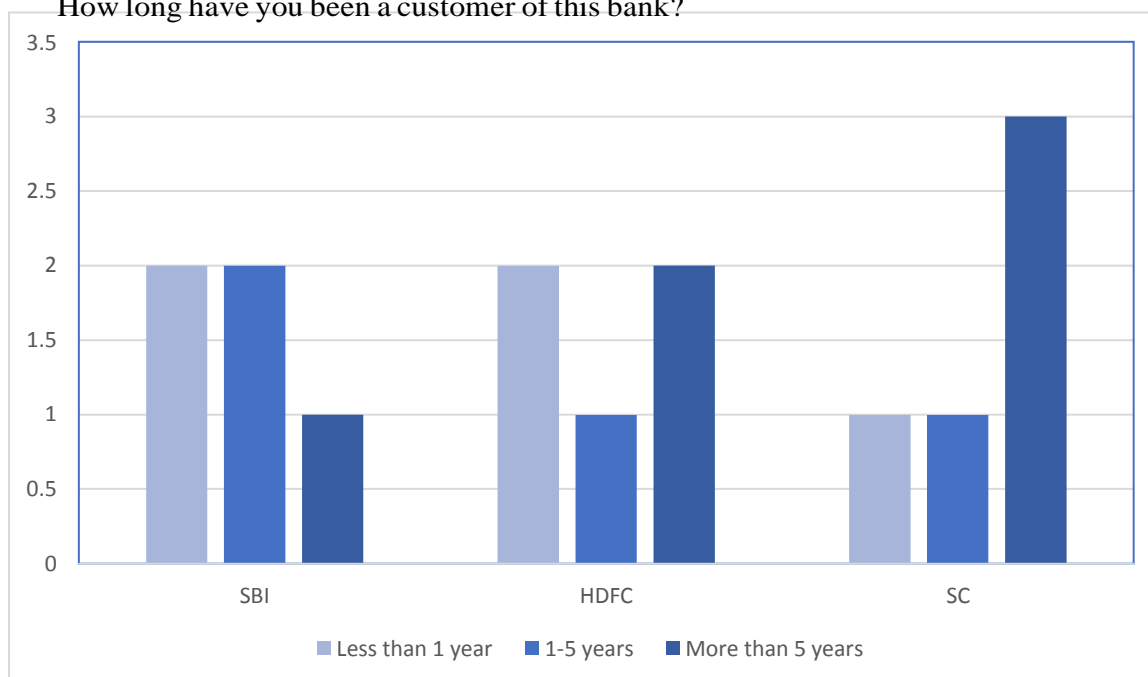
- **Service Time**
- **Confidentiality of Customer Data**
- **Response Time**
- **Core Banking Solution**
- **E- Banking**
- **Bank Earning vis-à-vis Industry Earning**

SBI and HDFC showed no interests in the only point which was **Mobile Banking/Telebanking**.

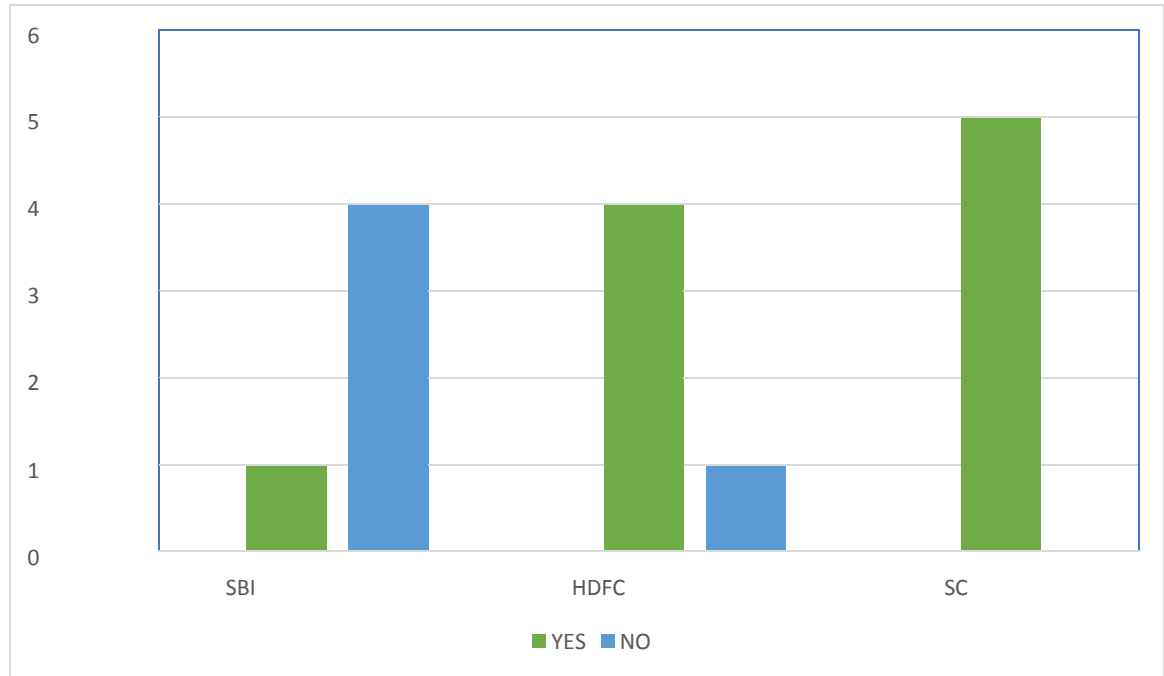
Standard Chartered on the other hand has agreements with every option with most of them having 100% votes of their employees.

### Customer

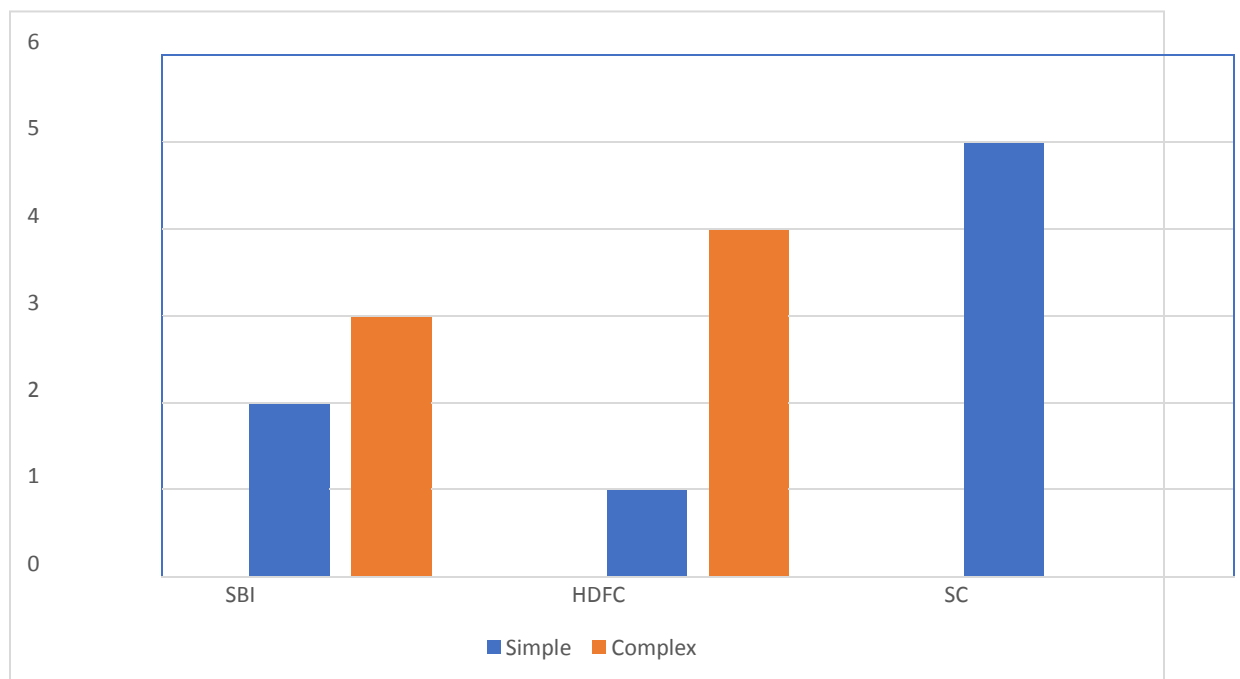
How long have you been a customer of this bank?



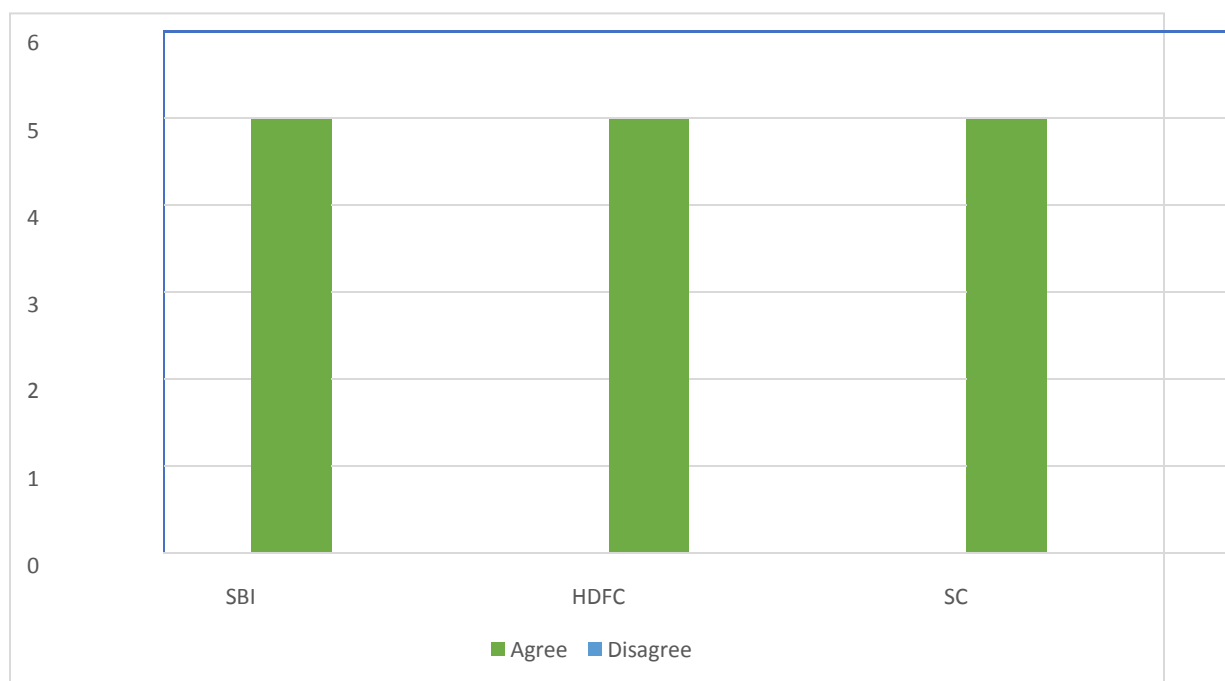
1. Have you experienced prompt service from the bank whenever you visit?



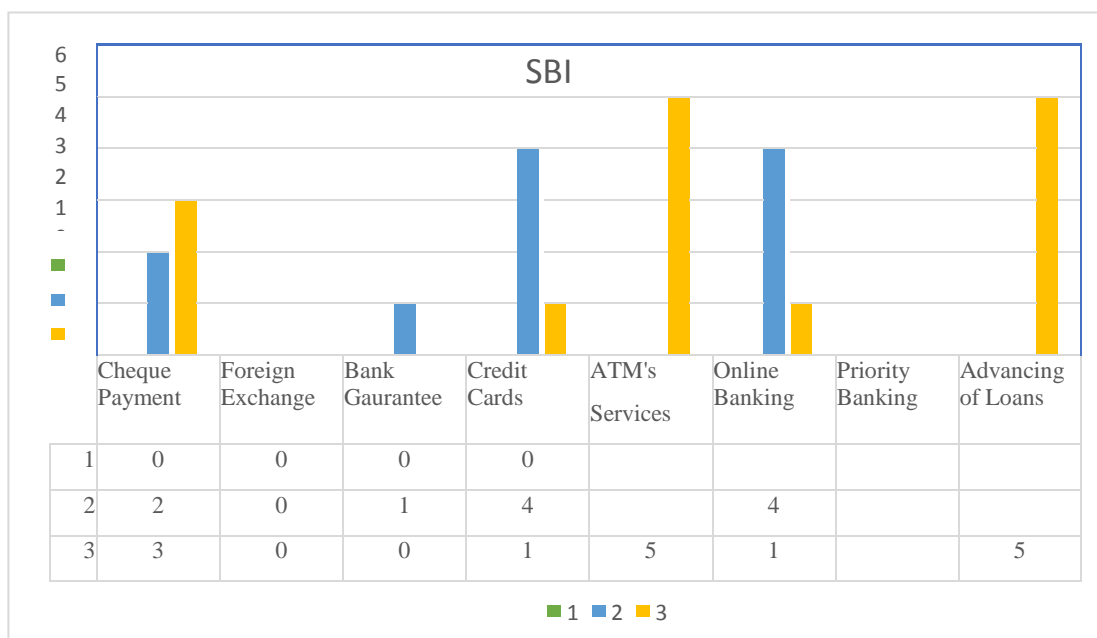
2. How do you find the procedure of depositing and withdrawing money from this bank?

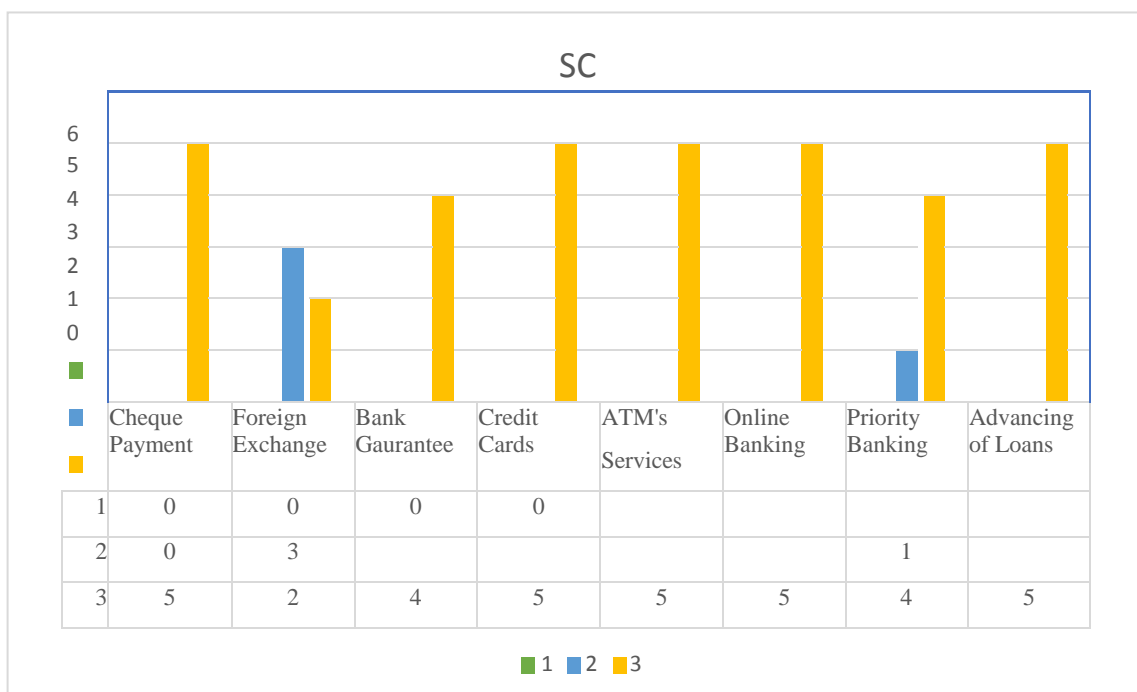
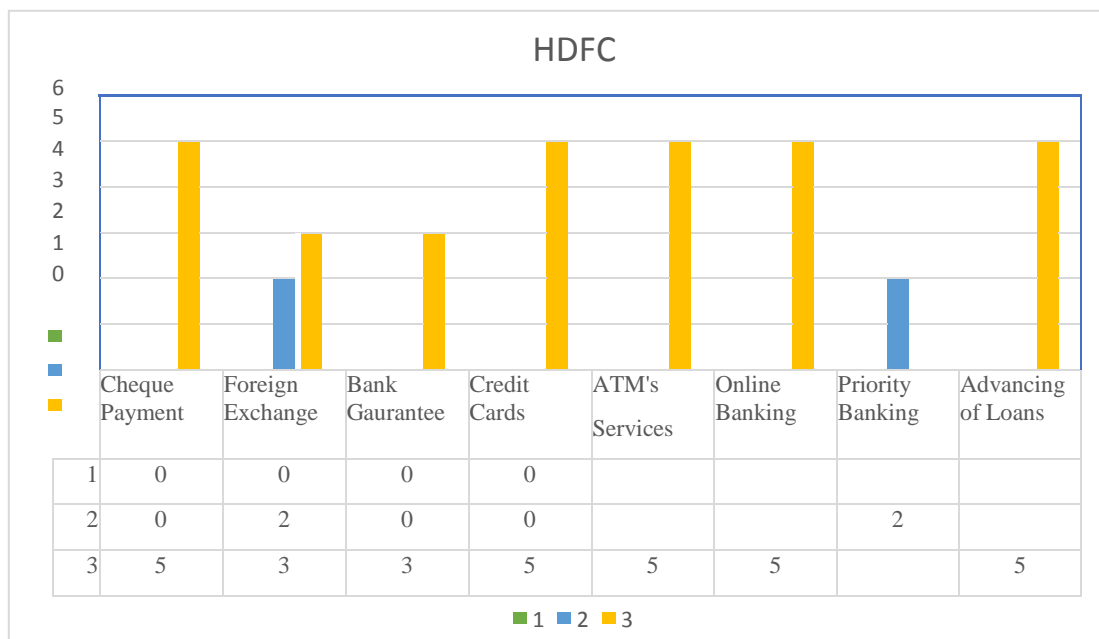


3. Do you agree that maximum account limit is not high and easy to maintain in this bank?

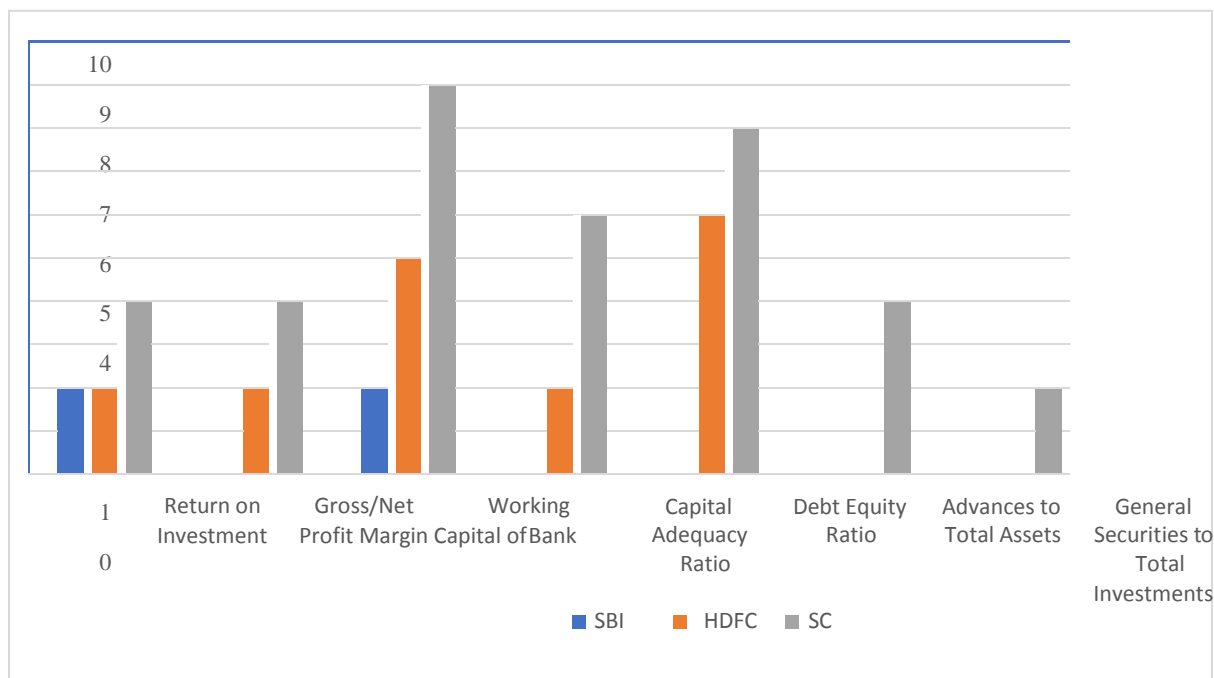


4. How would you rate the services provided by this bank on a scale of 1-3 (1 being the least, 2 being average, 3 being excellent)?





5. Which measures do you think is the best instrument for measuring the financial performance of the bank?



#### FINDINGS:

- The first graph clearly shows the timeline of the customers the banks have had. There is a clear raise of customers for SBI in the recent years, while HDFC has had new and old customers with majority in both, Standard Chartered on the other hand has had low foot fall of customers but have built in loyalties with most of their old members.
- 100% satisfaction was showcased by the customers of Standard Chartered for experiencing prompt service from the bank. HDFC had a vote rate for 90% satisfaction while SBI remains at the bottom for giving prompt service to their customers.
- The procedure of depositing and withdrawing money for Standard Chartered remains **100% simple** according to their customers. SBI has a vote rate of **70% complex to 30% simple**. HDFC has the highest percentage (**90%**) for the complexity in depositing and withdrawing the money as voted by their customers.
- All the customers of all three banks agree that maximum account limit is not high and is easy to maintain in their respective banks.
- HDFC and Standard Chartered have proven to have provided good services to their customers, while SBI lacks in two which are as follows:
  - 1) Foreign Exchange.

## 2) Priority Banking.

Apart from these their customers are the least satisfied in comparison to the other two banks.

- Most of the customers of Standard Chartered agree on every option thinking are the best instrument for measuring the financial performance of the bank. Customers of HDFC however do not agree upon two points which are **Advances to Total Assets** and **General Securities to Total Investments**. Talking of which along with the above mentioned two points the customers of SBI also do not agree with **Debt Equity Ratio**, **Capital Adequacy Ratio** and **Gross/Net Profit Margin**.

## RESEARCH METHODOLOGY

### (a) Source of Data

Data is collected from secondary source published by RBI and respective banks annual reports, magazines, journals, documents and other published documents.

### (b) Analysis of Data

Data have been analyzed using accounting ratios. The accounting tool used in the present study is ratio analysis. Ratio analysis containing the component under the CAMEL was being used.

## 2.2. LIMITATION OF THE STUDY

There were some limitations inherent in the study. The study was completely done on the basis of ratios calculated from the Balance sheet and Profit and Loss Account. There are many other ratios that could have been used to assess the performances of the Banks; however, selective ratios have been taken to analyze the performance under the CAMEL Model. No standard norms or rules of thumb for the ratios selected are there to compare with the calculated ratios.

## 2.3 Problems and prospects of banking sector in India

India had opened its economy in 1991. A concept of LPG (Liberalization, Privatization, and Globalization) was introduced. Indian banking sector especially public-sector banks still struggles facing some of the problems of this LPG's outcomes. Some of the problems faced by Indian banks are as under:

- a) Lack of professional attitude and behavior.
- b) Managing workforce.
- c) High level of NPAs.
- d) Efficiency and productivity.
- e) Poor corporate governance practices.
- f) Questions of customer satisfactions etc.

## **CHALLENGES OF INDIAN BANKING SECTOR**

Indian banking sector faces various difficult challenges, some of the challenges are internal while some are external. The role and importance of banking sector in the economy, increasing deregulation and rapid changes that are taking place at National and International level in the field of finance and banking development affects and create challenges for Indian banking sector. In the context of this development, it is necessary for the banking sector to plan out strategies for effective and competitive banking in the present era of competition. The Indian banking sector is exposed to several challenges that need to be addressed and some of them are as follows:

### **(a) Non-Performing Assets (NPAs)**

One of the biggest challenges for Indian banking sector is management of Non-Performing Assets. The level of Non-Performing Assets is continued to be a big problem for banking sector in general and for the public-sector banks in particular. High level of NPAs affects banks performance and profitability. Profitability of banking sector can be increased by reducing the level of NPAs that prevails in the banking sector today. The deterioration in Assets Quality was higher in case of public sector banks during 2011-12, the gross NPAs of public sector banks increased at a higher rate than that of a system level. In terms of gross NPAs as percent of Gross advance, Gross NPAs of public sector banks deteriorated more than other banks, it was increased from 2.4 percent in 2010-11 to 3.3 percent in 2011-12. While in terms of Net NPAs, Net NPAs of public sector banks increased from Rs. 300 billion in 2010-11 to Rs. 591 billion in 2011-12 (RBI trends and progress report, 2011).

### **(b) Branch banking**

Banks have been looking forward for expansion of their branch network to increase their business. In spite of public sector banks increase in terms of branch expansion, private banks too are also taking certain steps to increase. The growths of branch expansion of private banks were more than the increase in public sector banks. The total number of branches opened by large public-sector banks excluding SBI is less than the number of those opened by ICICI banks and HDFC Banks. HDFC Banks opened 2301 branches, while ICICI Bank opened 1838 branches. Among public sector banks, only SBI opened more branches than any other banks, it has opened 4630 branches in the same period (Respective annual report, 2013).

### **(c) Capital requirements for public sector banks**

The assets quality of banks has deteriorated significantly due to slow down in the economy. The ratio of Gross NPA to Gross Advance for scheduled commercial banks increased from 2.36 percent in 2011 to 3.92 percent in 2013. Public sector banks hold a disproportionate share of this increase, while private sector banks managing to lower their NPAs ratio in this difficult time. Estimate suggest that for public sector banks, capital will be needed to expand the loan book and provide for NPAs, which rose to 5.17 percent of their advance in 2013 against 4.18 percent a year before. Expert says that capital infusion by the government is grossly inadequate in public sector banks (RBI annual report, 2013).

(d) Technology Advancement

Managing technology is one of the key challenges which are being faced by Indian banking sector. With the implementation of CBS (Core Banking Solution) the banking system is now partially integrated. Now there is a need to move from a transaction processing system into an information processing system. Adoption of CBS in banks almost reaching the final stage of completion, the focus has now shifted from adoption of more advance technologies in the banking sector. The high use of ATM channel and increasing usage of mobile banking and internet is evident. Though it is hard time to convert the Indian banking system into the new era, many banks tried to replicate a branch-based model into internet channel but few banks were successful. Therefore, the adoption of more advance technology in banking sector would enhance their CRM (Customer Relationship Management) by using appropriate tools, internal effectiveness including MIS and managing big risk that arising out of technology implementation (KPMG Report, 2013).

(e) Competition

Going forward to the systematic opening up of Indian banking system to national and international competition, banking sector is needed to equip itself to operate in a highly competitive environment. Foreign banks are also providing competition and converting Indian banks in to Wholly- owned subsidiary thereby creating more new branches and this makes competition intense among the domestic banks in the country. The winner will be the players who can fulfil customer needs and provides high level of customer satisfaction, leveraging technology, knowledge and human resource to make available quality and innovative products and services.

(f) Customer service

There are two types of customers: one who use multi-channel of banking services and the other who still use only branch as the anchor channel for banking services. The challenge is to provide consistent banking services to all customers irrespective of the kind of channel they like to use. A customer who uses branch only as the anchor selects based on the convenience and relationship and would prefer to continue with a particular bank. While those customers who are multi-channel, users insist consistent latest information across all channels and this are the key requirements of these types of customers. Banks are expected to provide banking services to all segments of the customers on prompt and equitable basis. Thus, this becomes one of the key challenges in the Indian banking sector (Kohlar, 2011).

(g) Corporate governance

Banks not only accepts deploying large amount of money of uncollateralized public funds in fiduciary capacity, but also leverages the amount through credit creation. Due to unhealthy events and developments in recent times, corporate governance has assumed greater importance in the banking sector today. The major ingredients of good corporate governance should be accountability, transparency and enhancing image of the banks in society. Ethics must be part of good governance. Corporate governance of the banks in



India is very poor. Therefore, they need to give attention to corporate governance practices. As part of the ongoing reform process and global practices, today banks have been given greater autonomy in their functioning and management. So, it is the responsibility of banks management to adhere good corporate governance practices. Only by doing that, Indian banking sector can raise its level to international standard. Therefore, the focus should be on enhancing and fortifying operations of good corporate governance principles and practices.

## **GOVERNMENT POLICY ON INDIAN BANKING SECTOR**

Bank operating in most of the countries must content with regulations, rules enforced by concerned regulators to govern their operations, service offerings, and the manner in which they grow and expand their facilities to better serve the public. A bank works within the financial system to provide loan, accept deposit and provide other service to the customers (Suba, 2015).

There are certain reasons why banks were being regulated; some of the important points are as follows:

- a) To protect the safety of the public deposits.
- b) To control the supply of money and credit in order to a achieve nation's broad economic goal.
- c) To ensure equal opportunity and fairness in the public access to credit and other vital financial services.
- d) To promote public confidence in the financial system so that savings are made speedily and efficiently.
- e) To avoid concentrations of financial power in the hands of few individual and institutions.
- f) Provide the Government with credits, tax revenues and other services.
- g) To help sectors of the economy that they have special credit needs, etc. (Federal Reserve Act, 1913 and The Banking Act 1933)

## **CAMEL MODEL: CONCEPTUAL FRAMEWORK**

### **A) INTRODUCTION**

#### **B) CAMEL Model in India**

#### **C) Importance of CAMEL rating in banking supervision**

### **A) INTRODUCTION**

A CAMEL is basically a ratio-based model for evaluating the performance of banks. CAMEL Model of rating was first developed in 1970 by the three Federal banking supervisors of the US- the Federal Reserve, Federal Deposits Insurance Corporation (FDIC) and Office of the Comptroller of the Currency (OCC) to classify an overall

position. The rating is assigned based on ratio analysis of the financial statements, combined with onsite- examinations made by designated supervisory regulators.

The uniform financial institution rating system commonly termed to the acronym CAMEL Rating was accepted by the Federal financial institutions examination council on 13th November, 1979 and then afterwards by the National Credit Union Administration Act 1987. The rating is given based on the ratio analysis of financial statement. The bank received a score of 1 to 5 for each component of CAMEL and a final CAMEL rating representing the composite total of the components CAMEL scores as a measure of the bank's overall conditions. The system of CAMEL was revised in 1996 when the agencies added an additional parameter "S" for assessing "Sensitivity to market risk" thus makes it CAMELS that is in vogue today.

C - Capital Adequacy A - Assets quality

M -Management efficiency E - Earning ability

L –Liquidity

### **B) CAMEL Model in India**

Indian banking sector have been passing through a complex but comprehensive phase of reforms and restructuring since 1991. The whole banking scenario has changed a lot in the recent past on the base of implementation of Narasimhan Committee Report and other reforms. Further, Base- III norms also introduced. Entire reform process has been implemented with a view to make the banking system very sound, efficient, internationally competitive and joining its links with economy for promotion of savings, investment and overall inclusive growth. Though, complete turnaround in Indian banking sector performance is not expected in a hurry till the economy turn around and growth of economy rebound. In spite of this, some sign of slow and gradual improvement is there looking in the horizon in some aspects or indicators under the 'CAMEL' framework.

The Banking Regulation Act, 1949 empowers the Reserve Bank of India (RBI) to inspect and supervises commercial banks. These powers are vested through on-site inspection and off-site surveillance. In November 1994, RBI set up the Board of Financial Supervision (BFS) for integrated supervision. The whole mechanism of supervisory system was realigned to suit the changing requirement of a sound and stable financial system. In January 1995, the Board of Financial Supervision (BFS) established an audit Committee, the main functions or focus of which is on upgradation of various auditing functions and practices.

In 1995, RBI established a working group under the chairmanship of Shri S. Padmanabhan to review the entire supervision system of banking sector. On the basis of recommendations and suggestions given by this committee, a rating system namely (Based on international adopted model) "CAMEL" Model was introduced for banks, commencing from July, 1998 audit and inspection cycle. Committee recommended that the bank should be rated on five points scales (1 to 5) based on the guideline of the international "CAMEL" rating model (Gadhia, 2015).

The five parameters included in the "CAMEL" Model are discussed below:

(a) C- Capital adequacy

Capital adequacy is the capital expected to maintain balance with the risk's exposure of the banks. The capital adequacy represents the overall financial conditions of the bank and its ability to meet the needs for additional capital. Capital adequacy of a bank is measured by the ratio of Capital to Risk- weighted Assets Ratio (CRAR). Capital adequacy determines how well financial institutions can cope with shocks to their balance sheet. This ratio is used to protect the depositors and promote the stability and efficiency of financial system around the world. According to Bank Supervision Regulation Committee (BASEL committee) of banks for International settlements, a minimum of 9 percent of CRWA (Capital to Risk-weighted Assets) is required. It is calculated by dividing Capital to Total risk weighed credit exposure. The most commonly available tool used for calculating capital adequacy includes Capital adequacy risk ratio, Debt equity ratio, Total advances to total assets ratio and Governments securities to Total investments, etc.

(b) A- Assets quality

Assets quality determines the healthiness of financial institutions against loss of value in the assets. The weakening value of assets is the prime source of banking problem. The main or prime reason behind determining the assets quality is to ascertain the ingredients of Non-Performing Assets (NPAs) as a percentage of total assets. It also measures the movements of NPAs. The gross Non- performing loans to gross advances ratio is an indication towards the quality of credit decisions of the banks management. Higher NPAs mean that a loan given by the bank are of lower quality and indicates poor credit decision making. Net NPA to Net Advances, Priority sector advance to Total advance, Total investment to total assets ratio, Gross NPAs ratio, Net NPAs ratio are commonly used for obtaining assets quality of bank's assets.

(c) M- Management Soundness

Management of financial institutions is generally evaluated in terms of capital adequacy, assets quality, earning and profitability, liquidity and risk sensitivity ratings. In addition, performance evaluation includes compliance with set norms, ability to plan and react to changing circumstances, technical competence, leadership and administrative ability etc. Sound management is one of the most important factors behind financial institutions performance. It indicates a subjective analysis for measuring the performance of management. There are many ratios that indicate the performance of management, e.g., Business per employee, Profit per employee, Business per branch, Net profit per employee, etc. Higher non-interest expenditure ratio implies that banks management is not able to control some needless expense.

(d) E- Earning ability

Earning ability ratio reveals not only the quantity and trends in earning, but also the factors that may affect the sustainability of earnings. It refers to the net profit made by banks after taking into account all the factors. Strong earnings and profitability of banks reflects the ability to support present and future operations. More specifically, this determines the capacity to absorb losses, financing its expansion, pay dividend to its shareholders, and

build up an adequate level of capital. Higher earnings show the banks performance is healthy and vice versa. The single best indicator used to gauge earning is the Return on Assets (ROA), which is calculated by dividing net income after tax to total assets ratio. Other Income to Total Income, Interest Income to Total Income, Interest Income to Total Assets ratio, Dividend pay-out ratio, return on assets, etc. are frequently used for obtaining the earning ability of banks.

(e) L- Liquidity

Liquidity is one of the important measures to evaluate the performance of banks. These parameters ascertain the ability of banks to pay its liabilities as and when they required or matured. Higher liquidity implies that the bank will be able to meet any ultimately withdrawals by the depositors. Not only that but sometime in a liquidity crunch situation in the market, bank can earn interest income in call money market also. There must be sufficient liquidity sources for present and future requirements and also availability of assets that can be readily convertible into cash without undue loss. Liquidity of a bank can be measured by various ratios. Various tools that are available for calculations of liquidity position of a firm are Liquid assets to total assets, Cash deposits ratio, Liquid assets to total deposits, Government securities to total assets, Liquidity assets to demand deposits, etc.

### C) Importance of CAMEL rating in banking supervision

The main objectives of CAMEL model are to provide a good, accurate and consistent assessment of banks financial position in various keys like Capital adequacy, Assets quality, Management Soundness, Earning ability and Liquidity. Therefore, these parameters will measure the overall strength of the bank and furthermore, it will also measure the inner strength of how far it can take care of itself against the market risk. In addition, from the above, in a situation where financial markets are increasingly becoming more and more integrated, providing a model for measurement or assessment of overall financial performance of a bank is of a big importance for financial markets in general and banking sector in particular (Gadhia,2015).

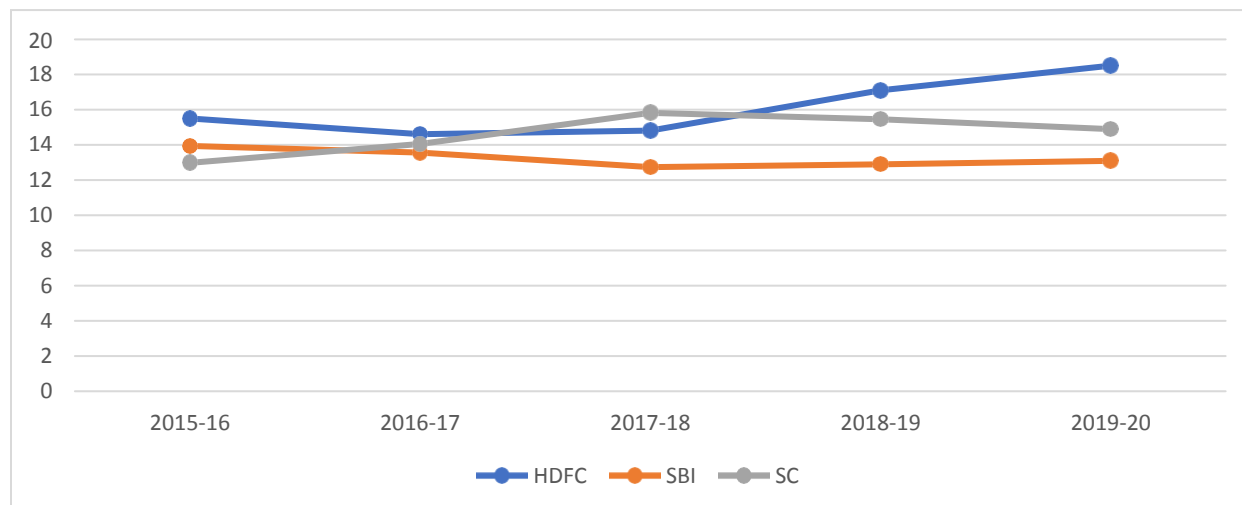
CAMEL Model rating also provides significant compliance data or information that is needed for regulators. This information helps to ensure the extent of supervisory concern and response to issue timely warnings to reduce the negative effects on the banks. Decision relating to invest in the securities of a banks or not to invest can also be made from the view point of investors. Thus, CAMEL model rating system provides relevant and reliable information to all parties involved.

### CAMEL MODEL CRITERION

#### CAPITAL ADEQUACY (%)

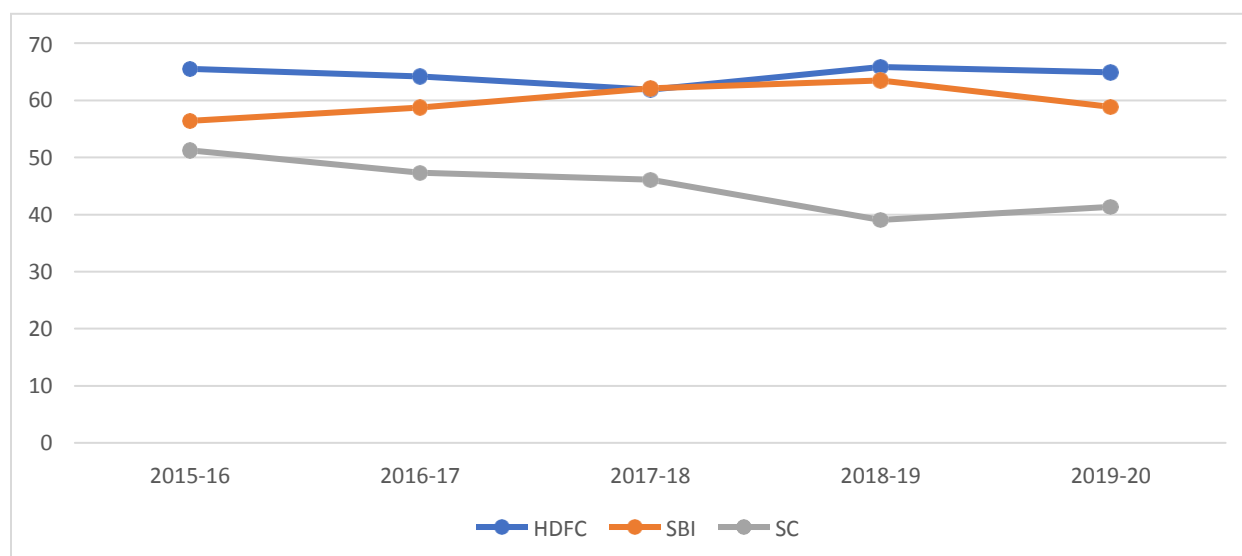
BANKS	2015-16	2016-17	2017-18	2018-19	2019-20	Mean	Rank
HDFC	15.5	14.6	14.8	17.1	18.5	16.1	I
SBI	13.94	13.56	12.74	12.9	13.1	13.28	III

<b>SC</b>	12.98	14.05	15.82	15.46	14.89	14.64	<b>II</b>
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#### ADVANCES TO ASSETS (%)

BANKS	2015-16	2016-17	2017-18	2018-19	2019-20	Mean	Rank
<b>HDFC</b>	65.54	64.2	61.88	65.84	64.92	64.48	<b>I</b>
<b>SBI</b>	56.41	58.74	62.08	63.47	58.84	59.91	<b>II</b>
<b>SC</b>	51.23	47.33	46.07	39.03	41.30	44.99	<b>III</b>



## COMPOSITE CAPITAL ADEQUACY

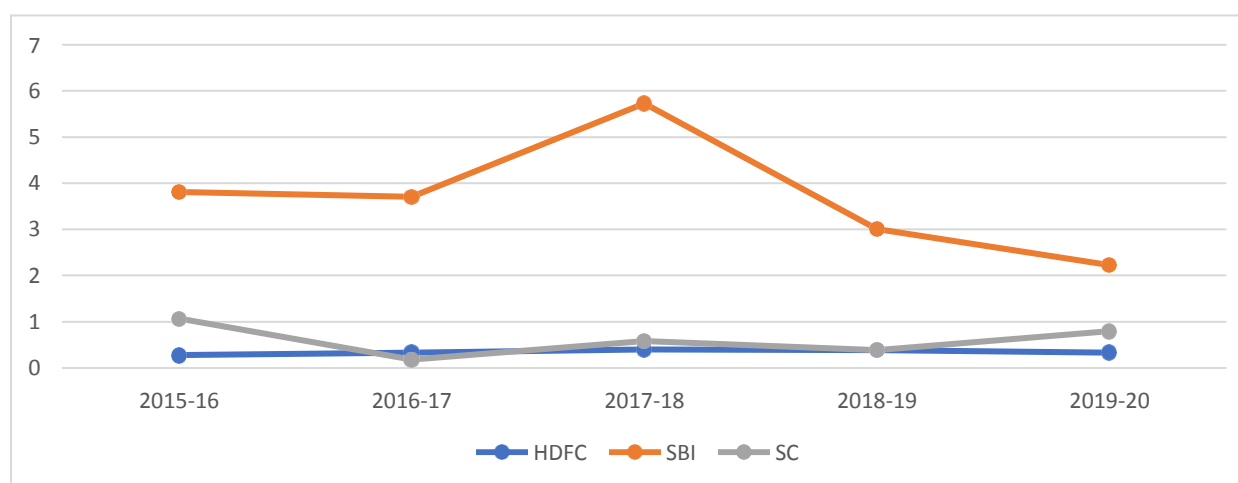
BANKS	CAPITAL ADEQUACY RATIO		ADVANCES TO ASSETS		GROUP RANK	
	%	RANK	%	RANK	MEAN	RANK
<b>HDFC</b>	16.1	I	64.48	I	1	I
<b>SBI</b>	13.28	III	59.91	II	2.5	III
<b>SC</b>	14.64	II	44.99	III	2.5	II

It is observed that group average of two ratios of capital adequacy and advance assets as expressed in HDFC bank was at the top position with group average of 1 followed by Standard Chartered bank. State Bank of India scored the lowest position due to poor performance in the above ratios.

## ASSET QUALITY (%)

### NET NPA TO NET ADVANCES

BANKS	2015-16	2016-17	2017-18	2018-19	2019-20	Mean	Rank
<b>HDFC</b>	0.28	0.33	0.4	0.39	0.33	0.35	I
<b>SBI</b>	3.81	3.71	5.73	3.01	2.23	3.70	III
<b>SC</b>	1.07	0.18	0.58	0.39	0.80	0.61	II



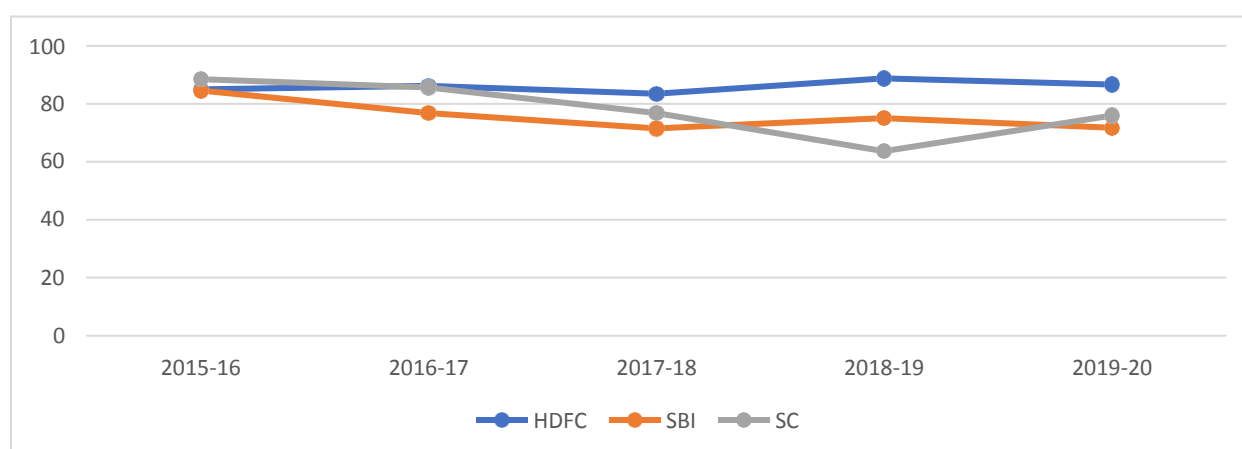
The above clearly indicates the performances of selected banks on asset quality. HDFC

bank with the highest score followed by Standard Chartered bank and State Bank of India.

## MANAGEMENT EFFICIENCY

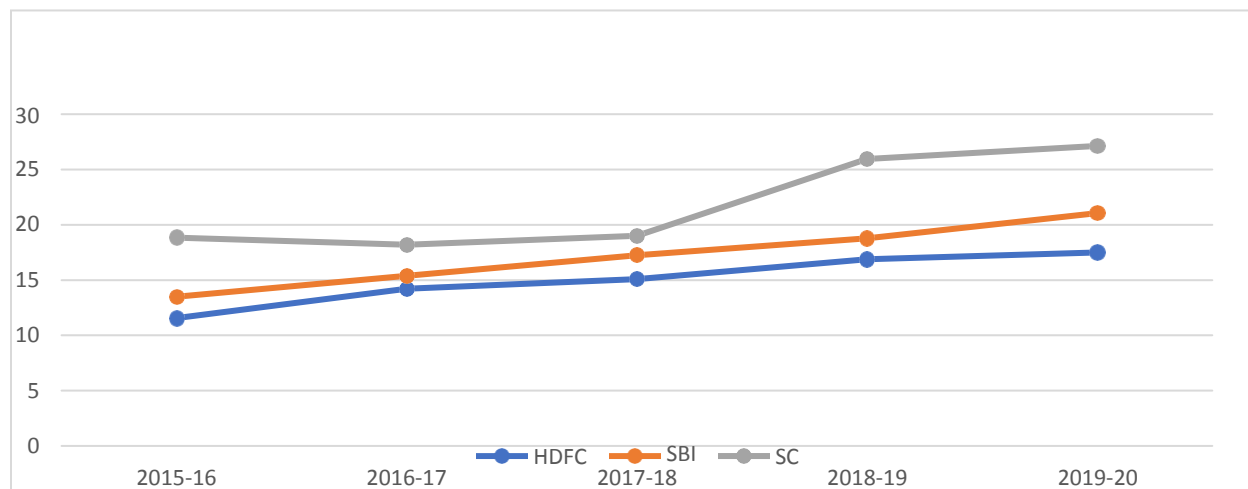
### TOTAL ADVANCES TO TOTAL DEPOSITS

BANKS	2015-16	2016-17	2017-18	2018-19	2019-20	Mean	Rank
<b>HDFC</b>	85.02	86.16	83.46	88.76	86.59	85.99	I
<b>SBI</b>	84.57	76.83	71.49	75	71.73	75.92	III
<b>SC</b>	88.48	85.66	76.75	63.60	75.91	78.08	II



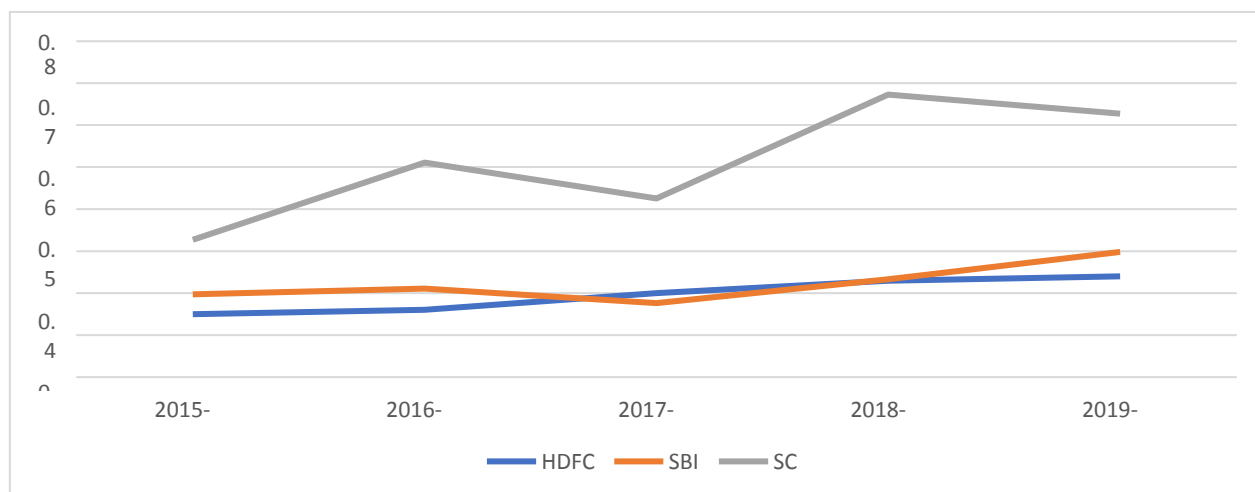
### BUSINESS PER EMPLOYEE

BANKS	2015-16	2016-17	2017-18	2018-19	2019-20	Mean	Rank
<b>HDFC</b>	11.55	14.21	15.08	16.87	17.49	15.04	III
<b>SBI</b>	13.49	15.38	17.25	18.77	21.05	17.19	II
<b>SC</b>	18.84	18.20	19.01	25.96	27.13	21.83	I



#### PROFIT PER EMPLOYEE

BANKS	2015-16	2016-17	2017-18	2018-19	2019-20	Mean	Rank
HDFC	0.15	0.16	0.20	0.23	0.24	0.196	II
SBI	0.047	0.051	-0.024	0.003	0.058	0.027	III
SC	0.13	0.30	0.25	0.44	0.33	0.29	I





## COMPOSITE MANAGEMENT EFFICIENCY

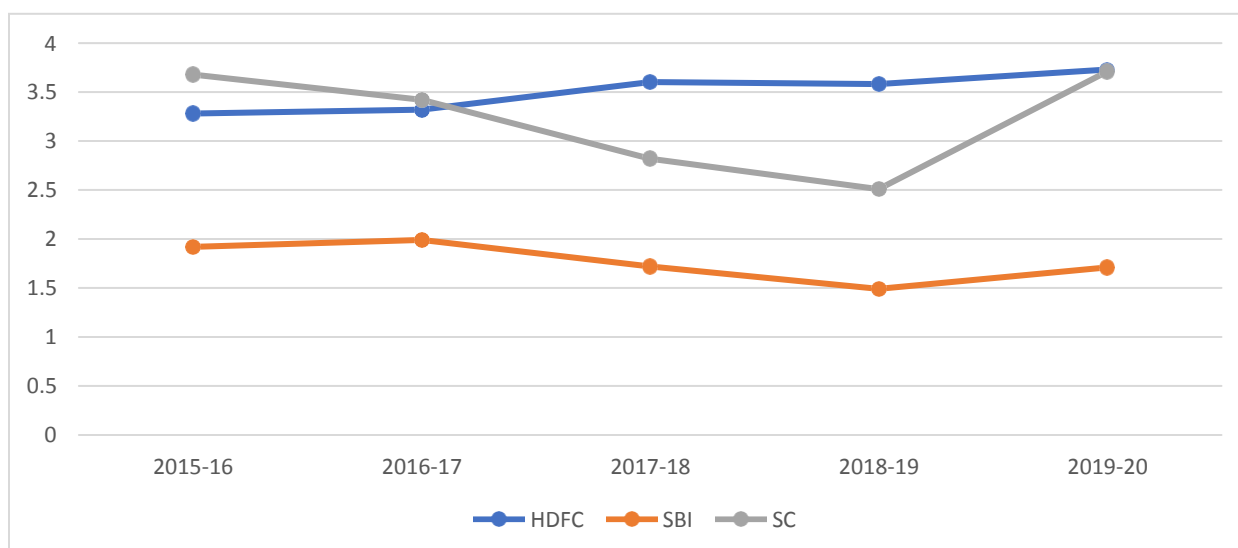
BANKS	TOTAL ADVANCES TO TOTAL DEPOSITS		BUSINESS PER EMPLOYEE		PROFIT PE EMPLOYEE		GROUP RANK	
	%	RANK	%	RANK	%	RANK	MEAN	RANK
<b>HDFC</b>	85.99	I	15.04	III	0.196	II	2	II
<b>SBI</b>	75.92	III	17.19	II	0.027	III	2.67	III
<b>SC</b>	78.08	II	21.83	I	0.29	I	1.33	I

The table shows the relative performance of selected banks with respect to management efficiency on several perimeters. Standard Chartered bank indicates efficiency in its management decisions by having a group mean of 1.33. HDFC bank is relatively a good performer by having a score of 2 overall. State Bank of India indicated least management efficiency.

## EARNING QUALITY

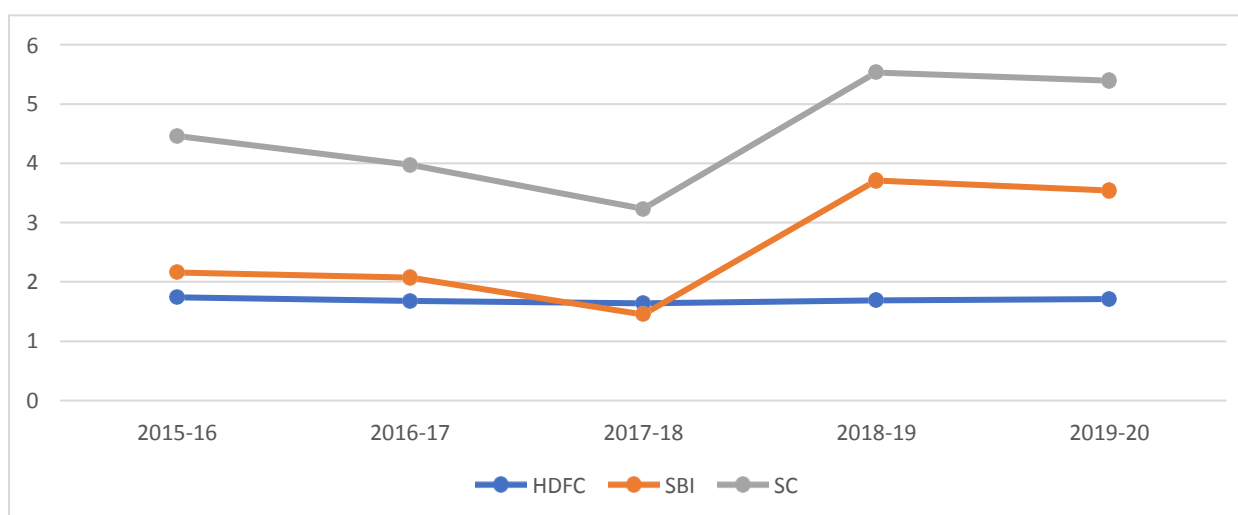
### OPERATING PROFIT TO TOTAL ASSETS

BANKS	2015-16	2016-17	2017-18	2018-19	2019-20	Mean	Rank
<b>HDFC</b>	3.28	3.32	3.60	3.58	3.73	3.5	I
<b>SBI</b>	1.92	1.99	1.72	1.49	1.71	1.77	III
<b>SC</b>	3.68	3.42	2.82	2.51	3.71	3.23	II



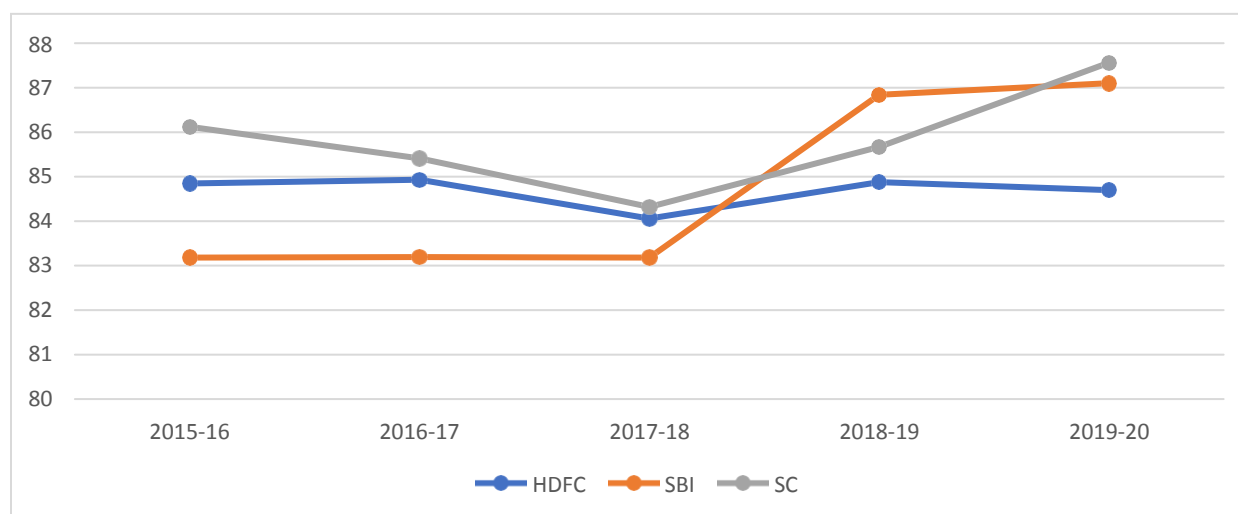
#### NET PROFIT TO TOTAL ASSETS

BANKS	2015-16	2016-17	2017-18	2018-19	2019-20	Mean	Rank
<b>HDFC</b>	1.74	1.68	1.64	1.69	1.71	1.69	II
<b>SBI</b>	0.42	0.39	-0.19	2.02	1.83	0.89	III
<b>SC</b>	2.3	1.9	1.78	1.82	1.85	1.93	I



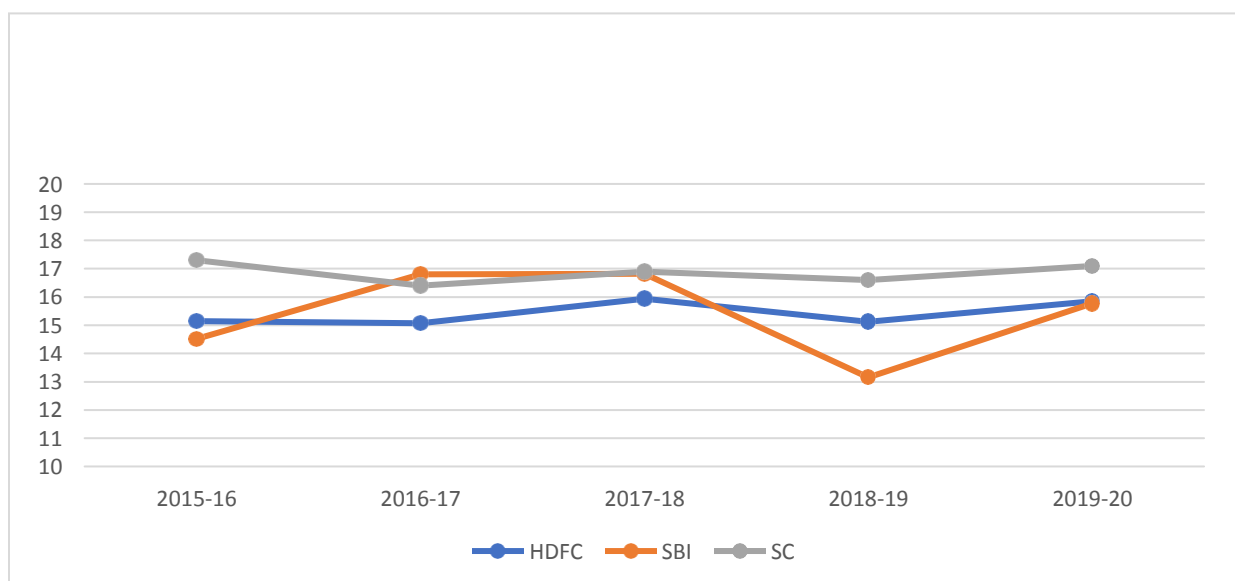
## INTEREST INCOME TO TOTAL INCOME

BANKS	2015-16	2016-17	2017-18	2018-19	2019-20	Mean	Rank
<b>HDFC</b>	84.85	84.93	84.06	84.88	84.70	84.68	II
<b>SBI</b>	83.18	83.19	83.18	86.84	87.1	84.70	III
<b>SC</b>	86.12	85.41	84.32	85.67	87.56	85.82	I



## NON-INTEREST INCOME TO TOTAL INCOME

BANKS	2015-16	2016-17	2017-18	2018-19	2019-20	Mean	Rank
<b>HDFC</b>	15.15	15.07	15.94	15.12	15.85	15.42	II
<b>SBI</b>	14.51	16.8	16.82	13.15	15.77	15.41	III
<b>SC</b>	17.3	16.4	16.89	16.6	17.1	16.86	I



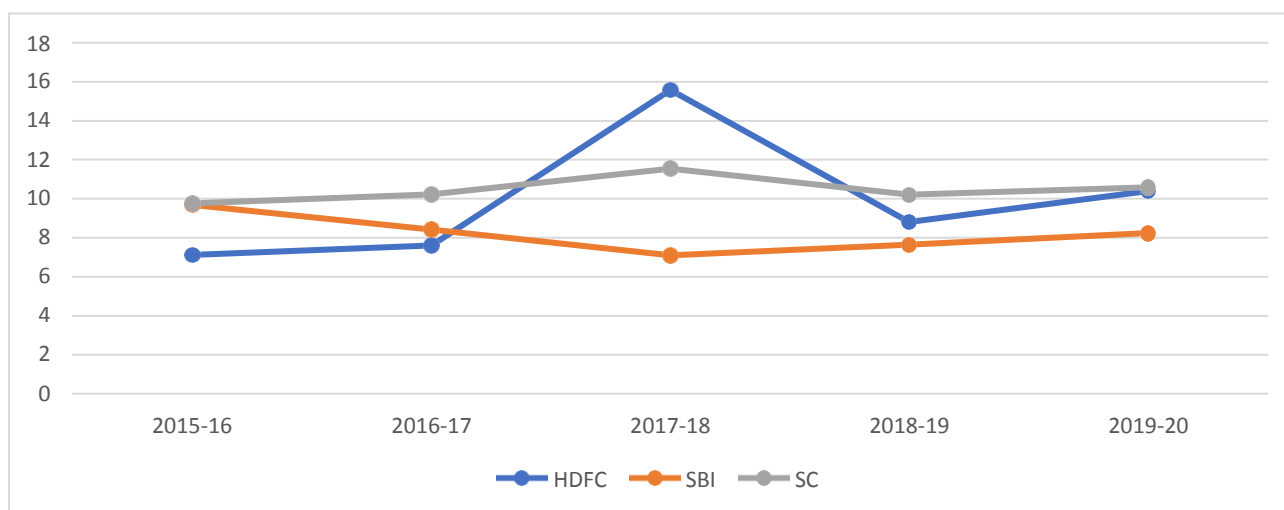
### COMPOSITE EARNING QUALITY

BANKS	OPERATING PROFIT TO TOTAL ASSETS		NET PROFIT TO TOTAL ASSETS		INTEREST INCOME TO TOTAL INCOME		NON-INTEREST INCOME TO TOTAL INCOME		GROUP RANK	
	%	RANK	%	RANK	%	RANK	%	RANK	MEAN	RANK
<b>HDFC</b>	3.5	I	1.69	II	84.68	II	15.42	II	1.75	II
<b>SBI</b>	1.77	III	0.89	III	84.70	III	15.41	III	3	III
<b>SC</b>	3.23	II	1.93	I	85.82	I	16.86	I	1.67	I

The table reveals that Standard Chartered bank and HDFC bank have good earning quality. Both these banks rely on their robust capabilities of income for performing the sports like investments dividends, retaining adequate capital stages, imparting opportunities of funding for financial institution for bank to grow.

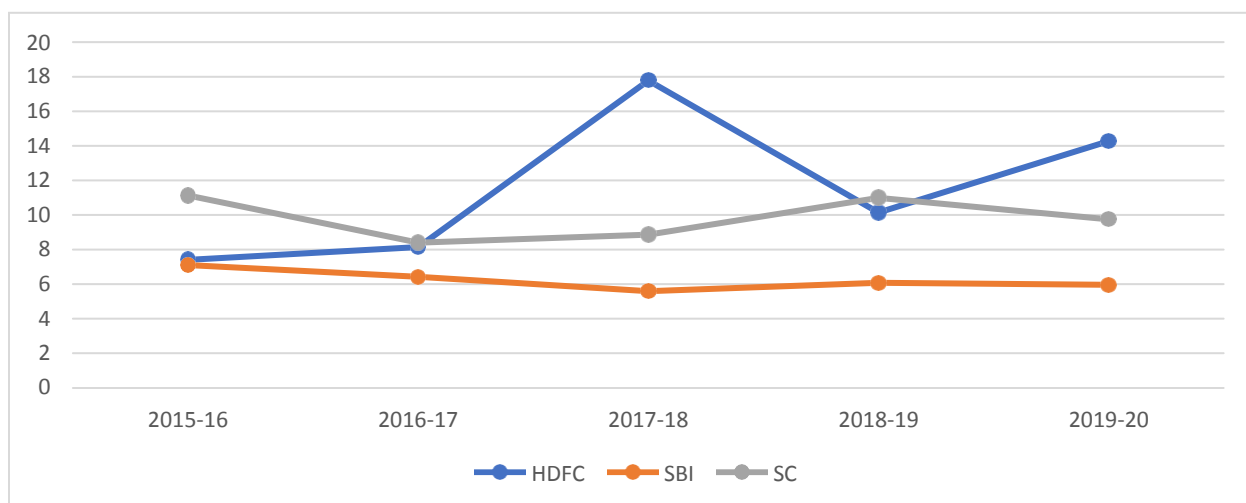
## LIQUID ASSETS TO TOTAL ASSETS

BANKS	2015-16	2016-17	2017-18	2018-19	2019-20	Mean	Rank
HDFC	7.41	8.14	17.78	10.15	14.28	11.55	I
SBI	7.1	6.43	5.59	6.08	5.97	6.23	III
SC	11.13	8.4	8.87	11	9.76	9.83	II



## LIQUID ASSETS TO TOTAL DEPOSITS

BANKS	2015-16	2016-17	2017-18	2018-19	2019-20	Mean	Rank
HDFC	7.12	7.6	15.58	8.81	10.40	9.9	II
SBI	9.68	8.41	7.09	7.64	8.24	8.21	III
SC	9.76	10.22	11.54	10.21	10.58	10.46	I



### COMPOSITE LIQUIDITY QUALITY

BANKS	LIQUID ASSETS TO TOTAL ASSETS		LIQUID ASSETS TO TOTAL DEPOSITS		GROUP RANK	
	%	RANK	%	RANK	MEAN	RANK
HDFC	11.55	I	9.9	II	1.5	I
SBI	6.23	III	8.21	III	3	III
SC	9.83	II	10.46	I	1.5	I

The data indicates the liquidity position of three banks. HDFC bank and Standard Chartered bank have a same average score of 1.5. Both the banks are considered to be relatively highly liquid bank. SBI seems to have some problem with keeping up with its liquidity by showcasing a mean score of 3 overall.

### COMPOSITE OVERALL RANKING

BANKS	C	A	M	E	L	MEAN	RANK
HDFC	1	0.35	2	1.75	1.5	1.32	I
SBI	2.5	3.70	2.67	3	3	2.97	III
SC	2.5	0.61	1.33	1.67	1.5	1.52	II

The table depicts the overall performance of all the banks as per CAMEL rating approach. HDFC bank topped the list because its overall performance in all the segments have been remarkable, hence having a grand mean score of 1.32. Standard Chartered Bank has also shown a good performance overall and hence is rated second in the financial performance measure overall. State Bank of India have performed the least when it comes to financial performance in almost every aspect, it has shown a relatively low performance and hence needs to improve in order to survive the future hurdles.

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