International Journal of Advanced Research in Commerce, Management &Social Science (IJARCMSS)
ISSN :2581-7930, Impact Factor : 6.809, Volume 05, No. 04(II), October-December, 2022, pp 125-128

EVALUATING PERFORMANCE OF HDFC BANK: AN APPLICATION OF CAMEL MODEL

Dr. Narpal Yadav*
Dr. Deepak Gupta**
Ms. Nishu***
Ms. Silky****
Dr. Mamta Sharma*****
Dr. Asha Pahwa******
Dr. Rajesh Gahlawat*******

ABSTRACT

The CAMEL rating system evaluates various indexes such as capital adequacy, assets quality, management efficiency, earnings quality and liquidity. By analyzing the ten years data, it is found that overall performance of the bank is efficient in term of capital adequacy, assets quality, management efficiency and earnings quality, but bank has a less volume of liquid assets. It proves that bank follows on generating more profit by efficient utilization of its capital, assets and improving the productive efficiency of their employee to sustain in competitive banking environment. The study helps to judge the financial efficiency of the bank and the economy and useful for the government in framing the policy and provides a base for the bank to take decision regarding liquidity, profitability, solvency and granting loans to the needy.

Keywords: *Capital Adequacy, Assets Quality, Management Efficiency, Earnings Quality and Liquidity.*

Introduction

Banking sector is one of the vital ingredients for the economic development of the country and the structure of banking scenario is going to change rapidly. There is stiff competition in the present dynamic economic environment. Every firm must be ready to change itself in the changing environment. It makes the banks financially stronger in different ways such as enhancing the capital adequacy, improving assets quality and management, gaining earnings and strengthening liquidity. The aim of present study is to familiarize the readers with basic knowledge about banking supervision. The CAMEL framework is the major index to examine the overall safety and soundness of a bank. It provides the significance of the CAMEL rating system in banking examination. A bank is judged on five-point scale (1 to 5) based on the lines of international CAMELs rating model.

Review of Literature

The present study deals with the review of literature on CAMEL model. Review of some of the studies is presented in the following discussion:

Bodla and Verma (2006) analyzed the performance of SBI and ICICI through CAMEL model. SBI had an advantage over ICICI in capital adequacy. In term of assets quality, earnings quality and management quality of ICICI had an edge upon SBI and liquidity position of both banks was sound.

---

* Associate Professor of Commerce, Ahir College, Rewari, Haryana, India.
** Associate Professor, Department of Commerce, Indira Gandhi University, Meerpur, Rewari, Haryana, India.
*** Assistant Professor of Computer Science, Vaish Mahilla Mahavidyalya, Rohtak, Haryana, India.
**** Assistant Professor, Department of Commerce, Government College, Dujana, Haryana, India.
***** Assistant Professor, Department of Commerce, Kishan Lal Public College, Rewari, Haryana, India.
****** Assistant Professor, Department of Commerce, Indira Gandhi University, Meerpur, Rewari, Haryana, India.
******* Associate Professor of Commerce, Sh. L.N. Hindu College, Rohtak, Haryana, India.

Gupta (2008) assessed the performance of Indian private sector banks by using CAMEL model and by assigning rating to the top five and bottom five banks. Reddy and Prasad (2011) examined the financial performance of selected regional rural banks. The study adopted the CAMEL model to assess the overall performance of Andhra Pragathi Grameena Bank and Sapthagiri Grameena Bank.

Balaji and Kumar (2016) examined an analysis and comparison of overall financial position of selected banks. The study observed that growth rate was more for private sector as compared to public sector and contribution in social aspects stood commendable with regard to public sector banks.

Chadha (2017) assessed the impact of SBI, BOB and PNB bank over HDFC and ICICI bank. The study found that profitability of majority of the banks showed good earning over return on assets, equity paid-up to net worth, return on investment and deposits.

Ali and Bisht (21018) examined the satisfaction levels of customers of public and private sector bank. The study found that behavior of public sector bank was not up to mark as compared to private banks and there was no specific variance in satisfaction of customers from rural and urban areas.

Koley (2019) measured the financial performance and efficiency of the selected banks through CAMEL model. The study involved 16 ratios out of which 14 ratios were withstanding with HDFC. Hence, HDFC stood with victory against SBI.

Gupta and Jaiswal (2020) analyzed the financial performance of selected public sector and private sector banks. The results found a significant progress in public sector banks but they still do not meet the performance benchmark set by private sector banks. Private sector banks found to be more successful in controlling the non- performing assets in comparison to the public sector banks.

Objectives of the Study

The study proposes to achieve the following objectives:

- To diagnose the financial performance and efficiency of the bank using the CAMEL model.
- To suggest measures for effective use of funds and to sustain in competitive banking environment.

Scope of the Study

Keeping in the view of study, it has been decided to choose the bank on random sampling basis. The sample of one unit of top five has been taken in private sector banks in India. The study covers the ten years periods from 2010-11 to 2019-20.

Methodology

The secondary data is taken as input to achieve the objectives in the present study. The data have been taken from annual reports, official websites, publications and journals. The techniques of financial statement analysis which are used in the study are basically the bank ratios. For analyzing the behavior of ratios and compiled data rated on a five point scale (1 to 5) based on the lies of international CAMELs rating model.

Table 1: Efficiency Index of CAMEL Model

Sr. No.	Parameters/ Index	Ratios	Ratio (on a five Point Scale)
1	Capital Adequacy	Capital Adequacy	Less than 5 (5), 6-10 (4), 11-15 (3), 16-20 (2), more than 20(1)
2	Assets Quality	NPA to Advances	More than 11(5), 8-10(4), 5-7 (3), 2-4 (2), less than (1)
3	Management Efficiency	Net Profit Per Employee	Less than 1 (5), 1-2 (4), 2-3 (3), 3-4(2) more than 4(1)
4	Earnings, Quality	Return on Assets	0-0.5 (5), 0.6-1.0 (4), 1.1-1.5 (3), 1.6-2.0 (2), more than 2.0 (1)
5	Liquidity Position	Cash to Deposit	Less than 5(5), 6-9 (4), 10-12 (3), 13-15 (2), more than 15(1)

Table 1 Capital Adequacy (Risk Weighted Capital to Assets); clearly explains efficiency index on a five-point scale (1 to 5) based on CAMEL rating model rating (1) shows strong capital level which adequately supports the risk profile, while rating (5) highlights inadequate capital signifying an urgent need for external capital to sustain the operations. It reflects the financial position of the bank and specifies the level of capital required to meet additional requirement of funds for a bank.

Assts Quality (NPA to Advances), it helps to judge in term of potential credit risk associated with the lending. Rating (1) proves strong assets quality and very good credit monitoring, while rating (5) helps to judge critically deficient assets quality severely affecting bank viability.

Management Efficiency (Net Profit to Employees), it reflects the quality of the management and to suggest on efficiency of the manpower in the bank. Rating (1) indicates better efficiency of the manpower in the bank while rating (5) shows a critically deficient management efficiency of the employees. This may be due to the failure of the bank to utilize its employee force effectively.

Earning quality (Net profit after tax to Assets), it measures the efficiency in utilization of assets by the bank. Rating (1) shows strong earning quality, (2) reflects satisfactory level, (3) means less than satisfactory, (4) indicates poor level and (5) indicates critically deficient level of earnings quality.

Liquidity Management (Cash to Deposit), it reflects the cash position of a bank and to meet its customer's day to day cash needs. The rating (1) shows strong liquidity level, (2) indicates satisfactory liquidity, (3) means less than satisfactory, (4) reflects poor level and (5) shows critically deficient liquidity position of the bank.

Table 2: Analysis of Financial Parameter Rating (CAMEL Model) of HDFC Bank

Year	Capital Adequacy	Assets quality	Management Efficiency	Earnings Quality	Liquidity Position
2010-11	16(2)	.185 (1)	7.04 (1)	1.60 (2)	14.2 (2)
2011-12	17(2)	.180 (1)	7.82 (1)	1.80 (2)	8.4 (4)
2012-13	17(2)	.196 (1)	9.73 (1)	1.90 (2)	9.0 (4)
2013-14	16(2)	.271 (1)	12.43 (1)	2.00 (2)	10.7 (3)
2014-15	17(2)	.245 (1)	13.39 (1)	2.00 (2)	8.1 (4)
2015-16	16(2)	.284 (1)	14.04 (1)	1.92 (2)	7.1 (4)
2016-17	15(3)	.332 (1)	17.25 (1)	1.88 (2)	7.6 (4)
2017-18	15(3)	.395 (1)	19.81 (1)	1.93 (2)	15.6 (1)
2018-19	17(2)	.392 (1)	21.49 (1)	1.90 (2)	8.8 (4)
2019-20	19(2)	.356 (1)	22.45 (1)	2.00 (2)	7.5 (4)
Mean	17(2)	.284 (1)	14.50 (1)	1.89 (2)	9.7 (3)

- **Capital Adequacy:** The results in table no. 2 shown that the level of capital adequacy of the bank has been satisfactory. The bank has been rated on an average 2 under the study period, which supports the bank's risk profile.
- **Assets Quality:** Table no. 2 highlighted that bank has been obtained rating (1) throughout the study period, which proves strong assets quality, very good credit monitoring and effective recovery system.
- **Management Efficiency:** Table no. 2 shows the management efficiency of the bank over the ten-year periods of the study. The bank has been observed to be rating (1) throughout the periods of the study, which proves higher efficiency of the employees of the bank.
- **Earning Quality:** Table no. 2 reflects the earning quality of the bank over the study periods. The bank has been found to be rating 2 throughout the period of the study, which proves satisfactory level of earnings quality of the bank.
- **Liquidity position:** Table no. 2 reports the liquidity position of the bank over the ten years period of the study. The bank has rated one in the year of 2017-18, which proves the strong liquidity position, and rated 2 found in the year of 2010-11, which proves satisfactory liquidity position, and rated 3 in the year of 2013-14 indicates less satisfactory and remaining year of the study awarded with rating 4 which proves poor level of liquidity position of the bank. The average rated found to be 3. It means that over all liquidity position of the bank is less satisfactory.

Conclusion

The growth and efficiency of the country can be measured through financial performance of the banking sector. The camel rating system was introduced to assess the performance of the bank. Rating of capital adequacy has been reported to be 2 under study that supports the bank's risk profile, which is quite satisfactory. The rating of assets quality has been observed to be 1 throughout the study period, which proves very good monitoring and effective recovery system of the bank. The rating of management efficiency found to be 1, which proves profit per employee has been very good. The bank has been awarded with rating 2 throughout the study periods, which proves satisfactory level of earnings. The liquidity rating of the bank has been recorded on an average 3, which indicates less satisfactory. So, the liquidity position of the bank needs to be improved as it can have an immediate impact on its functioning. Thus, the overall performance of the bank is efficient in term of capital adequacy, assets quality, management efficiency and earning quality, but bank has a less volume of liquid assets. It means that bank emphasizes on generating more profit by efficient utilization of its capital, assets and improving the productive efficiency of their employees to sustain in competitive banking environment. The study would be beneficial for the government in framing the policy and provides a base for banks to take decisions regarding liquidity, profitability, solvency, and granting loans to the needy.

Scope for Further Research

Further researchers can conduct a comparative study on public sector banks and private sector banks. It would be good for further research to include other banks also. The present study is based on secondary data only. For further research, primary data may also be utilized to give a clearer picture of the banks.

References

1. Anand Sharma (2007). Quantitative techniques for decision making, Himalaya Publishing House, New Delhi.
2. Balaji, C., Kumar (2016). A Comparative study on financial performance of selected public and private sector banks in India. Journal of Commerce and Trade, 11(2), 89-96
3. Bodla, B.S., Verma, R. (2006). Evaluating performance of banks through CAMEL model: A case study of SBI and ICICI. The ICFAI Journal of bank Management, 5(3), 49-63.
4. Chadha, N. (2017). A Comparative study of operational effectiveness of public and private sector banks. International Journal of Business Administration and Management, 7 (1), 103-117.
5. Dave, S.R. (2011). Balance scorecard: Experimenting with Indian banks (1st ed.). New Delhi: Himalaya Publishing House.
6. Gupta, P. & Jaiswal, K.K. (2020). Analysis of Financial performance of selected public and private sector banks. Indian Journal of Finance, 14(1), 45-56.
7. Gupta, R. (2008). A Camel model analysis of private sector banks in India. Journal of Gyan Management, 2 (1), 3-8.
8. Justin Paul and Padmalatha Suresh (2008). Management of Banking and Financial services, Second impression, Dorling Kindersley (Idian) Pvt. Ltd.
9. Koley, J. (2019). Analysis of financial position and performance of public and private sector banks in India. Journal of Business Management & Social Science Research, 2 (7), 46-56.
10. Reddy D., & Prasad K.V.N. (2011). Evaluating performance of regional rural bank: An application of CAMEL Model. Researcher's World Journal of Arts, Science & Commerce, 2 (4), 61-67.
11. Varghese, T. (2016). Evaluating performance of a service co-operative bank: An application of CAMEL Model. Indian Journal of Finance, 10(3), 7-27.