A Study On Financial Analysis Of Selected Public Sector Banks Using Camels Ratios

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Abstract

Commercial Banks serve as backbone to the Indian financial sector, which facilitate the proper utilization of financial resources of an economy. The Indian banking sector is increasingly growing and it has witnessed a huge flow of investment. In order to cope with the complexity and a mix of risk exposure to banking system properly, responsibly, beneficially and sustainably, it is of great importance to evaluate the overall performance of commercial banks by implementing a regulatory banking supervision framework. One of such measures of supervisory information is the CAMEL rating system which was put into effect. The research paper is an attempt in the assessment of financial analysis of Public Sector Banks for the financial years March 2009 to March 2019. The financial performance and position is an efficient measure and indicator to judge the strength of financial system of an economy. The CAMELS ratings or Camels rating is a supervisory rating system originally developed in the 1Source-RBI U.S. to classify a bank's overall condition. It's applied to every bank and credit union in the U.S. (approximately 8,000 institutions) and is also implemented outside the U.S. by various banking supervisory regulators. The ratings are assigned based on a ratio analysis of the financial statements, combined with on-site examinations made by a designated supervisory regulator.

Introduction

The Indian banking sector's performance is professed as the replica of economic activities performed in an economy. Sound financial health of a Public sector banks provides the assurance not only to its depositors but is equally significant for its stakeholders and economy as a whole. The Public Sector banks penetrate every corner of the Indian economy and have been extending and expanding the business to contribute the growth of the economy and GDP. Public Sector Banks and Private Sector Banks have had the distinction of being recognized as banking institutions, which provides satisfying services to its customers or account holders. During the last two decades the Private Sector Banks emerged in Indian economy and started services by capturing a market share of Public Sector Banks. To grab the customers, they have come up with various offers like more interest on deposits, Penetration in loan and advances offers, online banking, door step services, Core-banking and many more these kind of services rendered has created hindrance and competition to public sector banks.

Therefore, efforts have been made by researcher to compare the strength and performance of the Public Sector Banks. In view of these it is necessary to know how the public sector banks are performing of Financial Analysis. CAMEL Rating Model is used to compare the performance and efficiency of Public Sector banks.

Literature Review:

Research has been undergone by research scholars in India and in other countries so as to derive solutions for various banking problems and prospects in CAMELS RATING MODEL in public sector banks.

Mr. Parveen Chauhan (2019) discussed foreign banks performance of 10 European countries which involved 319 banks and found that entry of foreign banks adversely affects the revenues of domestic banks from point of view of both non-interest income and interest income from assets and profitability. Overhead cost and the competition with domestic banks also gets increased with their entry in the short run.

Mr.Nandan Velenkar, Ms. Surbhi Pahuja (2019) studied the cause and effect relationship was checked by regression model using E-views and the result of the study revealed that cost of human capital has a significant impact on financial performance of the private sector banks of India.

Mr. Parveen Chauhan (2019) studied in the first Stage, efficiency, banking structural and concentration shift has been measured, second stage tried to find out the determinants of banking efficiency and concentration (bank level and country level).

Mr. Pushkala Narasimhan and K.A Venkatesh (2019) studied the last ten years' good number of articles appeared based on Data Envelopment Analysis to study the efficiencies of various industrial sectors. In this paper, we have deployed the two-stage DEA to study the efficiencies of the public and private sector banks in the context of OBS.

Dr. Arasu Raja, (2019), studied the technological era demands continuous learning of the workforce irrespective of the industries they work. It even applicable to the public sector enterprises which need to compete with its counterpart in private sector. The e-learning systems are emerging technology in India which facilitates continuous learning through internet and electronic networks. The main aim of the study is to examine the impact of quality of e-learning systems on organizational performance of the selected public sectors banks at Chennai city.

Mr.Parvesh Kumar Aspal1, Mr. Sanjeev Dhawan2, Mr. Afroze Nazneen (2019), studied - A sound financial system has vital influence on the economic development of a country. Banking system constitutes an important component of the financial system of the country; therefore, the economic importance of banks may not be underestimated. Performance evaluation of the banking system is an effective measure and indicator to check the strength of financial system of an economy. The overall objective of the present study was to explore the influence of bank specific factors and macroeconomic factors on the performance of private sector banks in India. To examine the effect of external or macroeconomic factors, growth rate of gross domestic product [GDP] and average annual inflation rate were considered.

Mr. Nandan Velenkar, Ms. Surbhi Pahuja (2019) studied the cause and effect relationship was checked by regression model using E-views and the result of the study revealed that cost of human capital has a significant impact on financial performance of the private sector banks of India.

Objectives:
1.   To evaluate the overall financial performance and position of the public sector banks and private sector banks with reference to CAMELS rating Model.
2.   To evaluate the financial rating procedure followed by the public sector and private sector banks through CAMELS rating model.

Analysis and Interpretations:
ANOVA Analysis for PSB's from 2010-2019 Table 4.17: CAMELS Ratios of
Public Sector Bank's from 2010-2019

Hypothesis-1
H0: The CAMELS rating model shall not facilitate in the evaluation of financial   performance and position of both public and private sector banks in India.

H1: The CAMELS rating model shall facilitate in evaluating the financial performance and position of both public and private sector banks in India.

Name of the Bank	CAR	Assets	Management	Earnings	Liquidity	Sensitivity
State Bank of India	138.45	20.50	126788796.2	110.12	11.76	6.03
Canara Bank	125.27	21.23	811227662.1	100.74	23.39	5.98
PNB	129.03	18.96	123664502.9	37.73	24.15	6.43
BOB	123.90	18.53	178468320.5	85.58	20.89	5.70
CBI	126.74	14.66	106753433.8	11.60	24.44	7.51

Source	DF	Sum of Squares (SS)	Mean Squares (MS)	F statistics (df1, df2)	P-Value
Factor A - rows (A)	4	61646088060000000	15411522020000000	1 (4,20)	0.4307
Factor B - columns (B)	5	302357711300000000	60471542270000000	3.9238 (5,20)	0.01216
Error	20	308230391900000000	15411519590000000		
Total	29	672234191300000000	23180489350000000		

Factor - A

1.H0 hypothesis

Since the p-value > α, H0 cannot be rejected. The averages of all groups assume to be equal.

In other words, the difference between the averages of all groups is not big enough to be statistically significant. A non-significance result cannot prove that H0 is correct, only that the null assumption cannot be rejected.

2.   P-value

The p-value equals 0.4307, ($P(x \leq 1) = 0.5693$). It means that the chance of type I error, rejecting a correct H0, is too high: 0.4307 (43.07%). The larger the p-value the more it supports H0.

3.   Test statistic

The test statistic FA equals 1, which is in the 95% region of acceptance: $[-\infty : 2.8661]$.

4.   Effect size

The observed effect size $\eta 2$ is large, 0.17. This indicates that the magnitude of the difference between the averages is large.

Factor - B

1.   H0 hypothesis

Since the p-value < α, H0 is rejected.

Some of the groups' averages consider to be not equal.

In other words, the difference between the averages of some groups is big enough to be statistically significant.

2.   P-value

The p-value equals 0.01216, ($P(x \leq 3.9238) = 0.9878$). It means that the chance of type I error (rejecting a correct H0) is small: 0.01216 (1.22%). The smaller the p-value the more it supports H1.
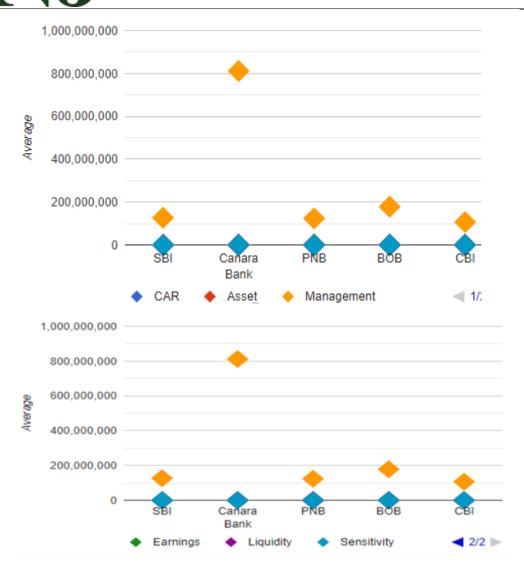
3.   Test statistic

The test statistic FA equals 3.9238, which is not in the 95% region of acceptance: $[-\infty : 2.7109]$.

4.   Effect size

The observed effect size $\eta 2$ is large, 0.5. This indicates that the magnitude of the difference between the averages is large.

From the above results, the P-value is equal to 0.430. It means rejecting the null hypothesis i.e CAMELS rating model will help in measuring the public sector banks performance and position.

Chart 4.1: CAMELS ratio of PSB's from 2010-2019

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