

A Camel Analysis on the Performance of South Indian Bank

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Jerin Sunil¹ and Bijin Philip^{2*}

¹Final Year BBA, Kristu Jayanti College Autonomous, Bengaluru

²Assistant Professor, Department of Management, Kristu Jayanti College Autonomous, Bengaluru

***Corresponding Author:** Bijin Philip, Assistant Professor, Department of Management, Kristu Jayanti College Autonomous, Bengaluru.

Abstract

An efficient, functional banking system may catalyze rapid growth in numerous areas of the economy and is a critical prerequisite for a country's progress, and India is no exception. This research study will investigate and compare the financial performance of South Indian Bank and HDFC Bank using the CAMEL Model. The purpose of this article is twofold: first, to examine South Indian Bank's financial performance, and second, to compare South Indian Bank's performance to that of HDFC Bank. The study utilizes secondary data from the banks' annual reports over five years, from 2017-18 to 2021-22. The CAMEL Model is used as a framework for the analysis, comprising five dimensions - capital adequacy, asset quality, management quality, earnings, and liquidity. According to the study's findings, both banks performed satisfactorily regarding capital sufficiency, managerial quality, and liquidity. However, regarding asset quality and earnings, HDFC Bank outperforms South Indian Bank. This research will help investors, stakeholders, and policymakers make informed judgments concerning these banks.

Keywords: Capital Adequacy; Asset Quality; Management Efficiency; Earning Capacity; Liquidity; Non-Performing Asset

Introduction

The banking sector is a vital component of a country's economic growth. India's banking sector has changed significantly due to increased competition and regulatory reforms. The banking sector is crucial to the functioning of any modern economy, and it provides various financial services that enable individuals, businesses, and governments to manage their financial affairs. Here are some of the key reasons why the banking sector is essential:

- **Mobilization of Savings:** Banks play a vital role in mobilizing savings from individuals and businesses. This helps to channel these savings into productive investments, such as funding new businesses, building infrastructure, or expanding existing enterprises.
- **Facilitation of Payments:** Banks facilitate transactions between individuals and businesses by providing payment services. This includes providing debit and credit cards, online banking, and other payment solutions.

- **Credit Creation:** Banks create credit by lending money to individuals and businesses. This credit creation helps to finance economic growth and development.
- **Risk Management:** Banks provide a range of financial products that help individuals and businesses to manage their financial risks. This includes insurance products, hedging instruments, and other risk management tools.
- **Economic Stability:** Banks play a crucial role in maintaining the economy's stability by providing a stable funding source for businesses and individuals. They also help to maintain price stability by managing the supply of money and credit.

Overall, the banking sector is critical to the functioning of any modern economy. Without it, businesses would struggle to finance their operations, individuals would have difficulty managing their finances, and economic growth and development would be severely curtailed.

Hence it is essential to assess the financial performance of banks to understand their strengths and weaknesses. The CAMEL Model is a popular tool utilized to evaluate the financial performance of banks, which stands for Capital Adequacy, Asset Quality, Management Quality, Earnings, and Liquidity. This research paper focuses on assessing the financial performance of the South Indian Bank using the CAMEL Model. The study aims to determine the bank's performance across these five dimensions and compare it with other banks in the industry. The study outcomes could be valuable for stakeholders, investors, and policymakers in making informed decisions regarding the bank.

Literature Review

Kaur, H. V. (2010) This article provides a ranking of various commercial banks in India based on their profitability using the CAMEL analysis technique. The author categorized the banks into the public sector, private sector, and foreign banks. The article evaluates each parameter of CAMEL, including Capital Adequacy, Asset Quality, Management Quality, Earning Quality, and Liquidity.

Gupta, S., & Verma, R (2008) The research uses the CAMEL model to analyze the financial performance of central private sector banks in India. It compares their performance using the Composite Ranking Method.

Varghese, T., & Sajan, S (2017) The article discusses the mature banking sector in India, its reach, and strong balance sheets. The research uses the CAMEL model to analyze the financial performance of central private sector banks in India and compares their performance using the Composite Ranking Method.

Meena, G. L (2016) This article examines the impact of CAMEL ratings on the performance of banks in India. The author explains how CAMEL ratings can be used to measure the financial health of banks and how this information can be used to improve their performance.

Objective

1. To assess the financial performance of South Indian banks by using CAMEL Model.
2. To compare the performance of South Indian Bank and HDFC Bank using the CAMEL model.

Data and Tools

The researchers utilized various data sources, including financial statements and annual reports. The data was analyzed using the CAMEL analysis framework, which includes Capital adequacy, Asset quality, Management quality, Earnings quality, and Liquidity analysis. The study also employed comparative analysis tools to evaluate and compare the financial performance of the South Indian Bank. Statistical methods such as mean, standard deviation, and coefficient of variation are also applied in the study.

CAMEL Model

C	Capital Adequacy	1.Capital Adequacy Ratio. 2.Debt-equity Ratio.
A	Asset Quality	1.Return on Assets Ratio. 2.Total Investment to Total Assets.
M	Management Efficiency	1.Credit Deposit Ratio. 2.Return on Net worth.
E	Earnings Capacity	1.Net Interest Margin. 2.Non-interest Income to Total Funds.
L	Liquidity	1.Liquid Asset to Deposit Ratio. 2.Liquid Assets to Total Assets Ratio.

Analysis and Interpretations**Capital Adequacy**

The bank's total financial performance is reflected in capital adequacy, an essential aspect of a bank's financial health and stability. Regulators closely monitor it to ensure that banks meet their obligations and provide a stable and safe environment for depositors and other stakeholders.

Capital Adequacy Ratio (CAR)

A bank's financial health and capacity to fulfill its commitments are gauged by the capital adequacy ratio (CAR). The higher the capital adequacy ratio, the more capable a bank is of weathering financial stress, as it has more capital to absorb losses and meet its obligations.

Table 1 shows the Capital Adequacy Ratio of HDFC Bank and South Indian Bank:

Year	HDFC	South Indian Bank
Mar-18	14.82	12.37
Mar-19	17	13
Mar-20	18.52	13
Mar-21	18.78	15.42
Mar-22	18.08	15.86
Mean	17.44	13.93
STDEV	1.61	1.59
C.V	10.83	8.76

Table 1: Capital Adequacy Ratio.

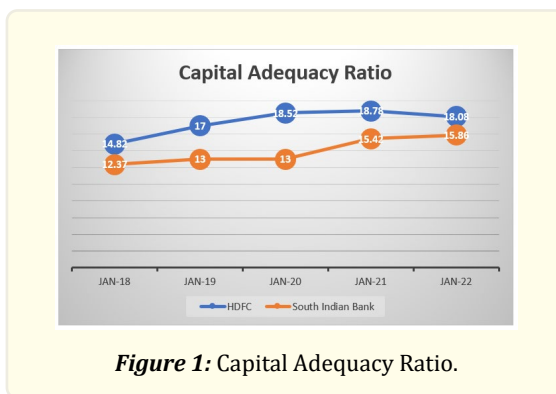


Figure 1: Capital Adequacy Ratio.

The banks must maintain the capital adequacy ratio (CAR) that the RBI occasionally specifies. According to the most recent RBI guidelines, banks must keep a CAR of 9%. Table 1 revealed that both banks, South Indian Bank and HDFC, have exhibited good behavior towards CAR. However, when compared to South Indian Bank, which had a mean value of 13.93, a standard deviation of 1.59, and a coefficient of variation of 8.76, is not so successful when compared to HDFC had a mean value of 17.44, a standard deviation of 1.61, and a coefficient of variation of 10.83.

Debt-Equity Ratio

A debt-to-equity (D/E) ratio calculates how much of a bank’s funding is provided by debt instead of equity. It is determined by dividing the entire debt of the business by its total equity. A high Debt-Equity ratio indicates that a bank has more debt than equity, which can be seen as a sign of financial risk. Table 2 shows the Debt-Equity Ratio of HDFC Bank and South Indian Bank:

Year	HDFC	South Indian Bank
Mar-18	9.87	14.5
Mar-19	6.97	15.98
Mar-20	7.55	16.42
Mar-21	7.21	14.95
Mar-22	7.26	15.79
Mean	7.77	15.53
STDEV	1.19	0.78
C.V	15.32	5.00

Table 2: Debt-Equity Ratio.

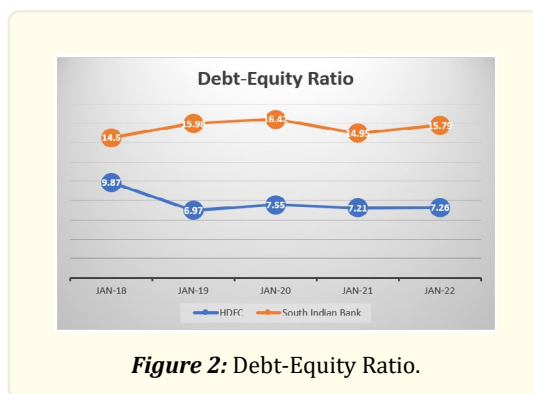


Figure 2: Debt-Equity Ratio.

Table 2 reveals that South Indian Bank has the most excellent debt-to-equity ratio, with a mean value of 15.53, a standard deviation of 0.78, and a coefficient of variation of 5.00, considered unfavorable for banks. At the same time, HDFC Banks have a mean value of 7.77, a standard deviation of 1.19, and a coefficient of variation of 15.32.

Asset Quality

Another crucial factor in assessing a bank's success is asset quality. Asset quality is primarily measured to determine the percentage of Return on assets and the number of funds locked up in investments as a percentage of total assets.

Return on Asset Ratio

The Return on assets ratio levels enables us to assess the effectiveness of the bank's credit risk management system. Table 3 indicates the Return on Asset Ratio:

Year	HDFC	South Indian Bank
Mar-18	1.64	0.4
Mar-19	1.69	0.26
Mar-20	1.71	0.1
Mar-21	1.78	0.06
Mar-22	1.78	0.04
Mean	1.72	0.17
STDEV	0.06	0.15
C.V	3.49	88.24

Table 3: Return on Assets Ratio.

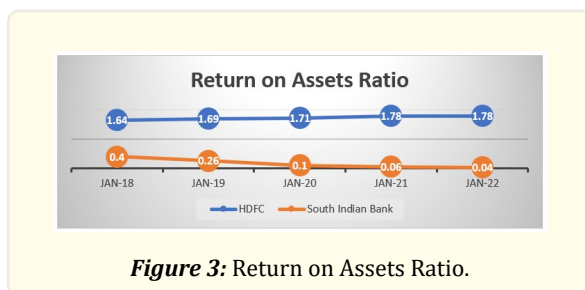


Figure 3: Return on Assets Ratio.

We might assess the quality of the banks' assets using the ratio, and asset returns depend on the quality of the assets. From Table 3, it is evident that HDFC is superior to South Indian Bank, which has a mean value of 0.17, a standard deviation of 0.15, and a coefficient of variation of 88.24. HDFC has a mean value of 1.72, a standard deviation of 0.06, and a coefficient of variation of 3.49.

Total Investment to Total Assets

Compared to advancements, it shows the level of asset deployment in investment. This ratio is a technique for calculating the proportion of total assets held in investments that, by traditional definition, do not contribute to a bank's core income. Table 4 shows the Total Investment to Total Assets.

Year	HDFC	South Indian Bank
Mar-18	0.22	0.22
Mar-19	0.23	0.21
Mar-20	0.26	0.21
Mar-21	0.25	0.22
Mar-22	0.22	0.21
Mean	0.24	0.21
STDEV	0.02	0.01
C.V	8.33	4.76

Table 4: Total Investment to Total Assets.

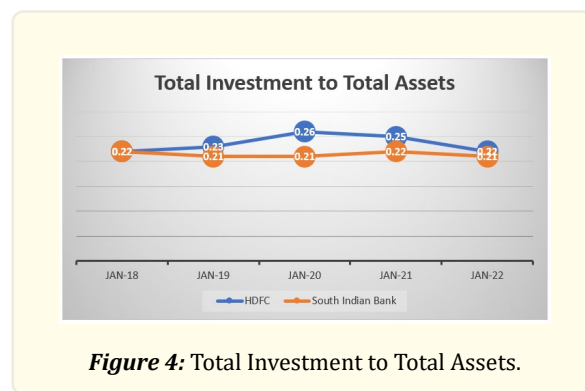


Figure 4: Total Investment to Total Assets.

The ratio would enable us to calculate the total investments made by the bank. From Table 4, it is clear that HDFC, with a mean of 0.24, a standard deviation of 0.02, and a coefficient of variation of 8.33, is better when compared to South Indian Bank, with a mean of 0.21, the standard deviation of 0.01 and coefficient of variation 4.76.

Management Efficiency

Management efficiency is all about the bank's capacity to run its operations profitably, sustainably, and with the best possible use of its resources.

Credit Deposit Ratio

The ratio of bank assets to liabilities is called the credit-deposit ratio. A bank's liquidity is calculated by dividing the total amount of loans it has distributed by the total amount of deposits it has taken. It reveals how much of a bank's primary resources are going into lending, which is the primary function of a bank. The following table 5 indicates the credit deposit ratio:

Year	HDFC	South Indian Bank
Mar-18	84.68	73.08
Mar-19	86.32	76.92
Mar-20	87.56	77.60
Mar-21	85.66	70.19
Mar-22	86.43	67.30
Mean	86.13	73.02
STDEV	1.06	4.39
C.V	1.23	6.01

Table 5: Credit Deposit Ratio.

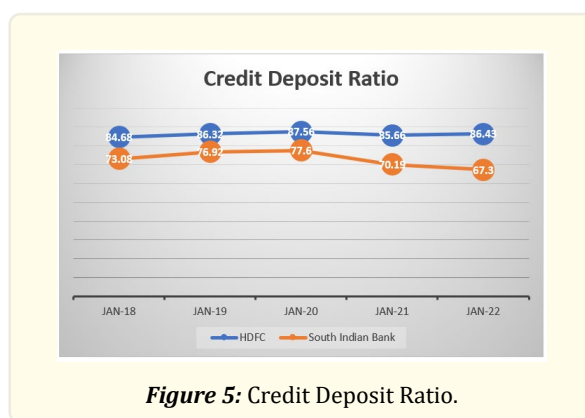


Figure 5: Credit Deposit Ratio.

This ratio evaluates how well management converts bank-available deposits into advances. For banks, a 60% ratio is regarded as the standard. A more excellent credit deposit ratio will result in a more significant proportion of deposits mobilized to various industries, boosting bank profitability. It is clear from Table 5; HDFC shows a good sign with a mean value of 86.13%, a standard deviation of 1.06, and a coefficient of variation of 1.23 when compared to South Indian Bank with a mean value of 73.08, a standard deviation of 4.39, and coefficient of variation of 6.01.

Return on Net Worth

The net income returned as a proportion of shareholders’ equity is the Return on net worth. It is a measure of the bank’s profitability. Table 6 shows the Return on the net worth of HDFC Bank and South Indian Bank:

Year	HDFC	South Indian Bank
Mar-18	16.88	6.69
Mar-19	14.53	4.85
Mar-20	15.45	2.02
Mar-21	15.17	1.12
Mar-22	15.38	0.76
Mean	15.48	3.09
STDEV	0.86	2.57
C.V	5.56	83.17

Table 6: Return on Net Worth.

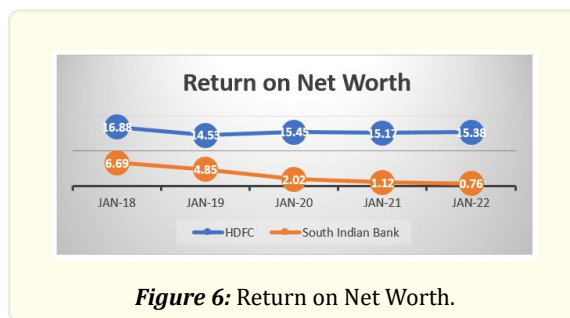


Figure 6: Return on Net Worth.

The shareholders might assess the management's capacity to create more value using this ratio. Customers' and shareholders' confidence would increase due to the bank's strong Return on net worth. It was found from Table 6 that: HDFC gained the public trust and faith in the mind of the investors and general public with a mean of 15.48, a standard deviation of 0.86, and a coefficient of variation of 5.56 when compared to South Indian Bank with a mean of 3.09, the standard deviation of 2.57 and coefficient deviation of 83.17.

Earnings Capacity

One of the traditional indicators for assessing a bank's financial success is earnings. Since banks generate a significant portion of their income from operations like investing, managing treasuries, and providing corporate consulting services, this criterion is being used increasingly as a performance indicator for banks. The following ratios are used to determine the bank's earning quality.

Net Interest Margin

The difference between interest earned and interest paid as a percentage of average total assets is known as net interest margin (NIM). Dividend income is a part of interest income, and interest on deposits, loans from the RBI, and other short- and long-term loans are all included in the interest expenses. The following table shows the Net Interest Margin.

Year	HDFC	South Indian Bank
Mar-18	3.76	2.37
Mar-19	3.87	2.08
Mar-20	3.67	2.38
Mar-21	3.71	2.55
Mar-22	3.48	2.23
Mean	3.70	2.32
STDEV	0.14	0.18
C.V	3.78	7.76

Table 7: Net Interest Margin.

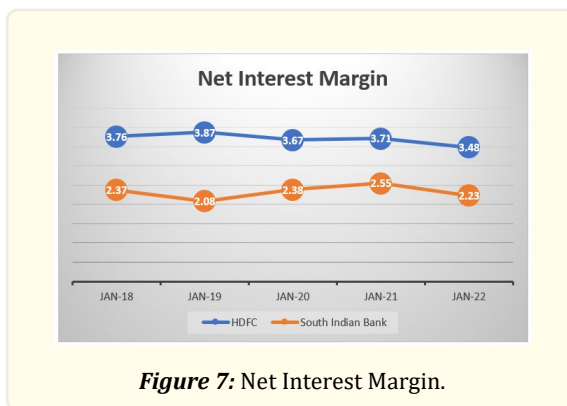


Figure 7: Net Interest Margin.

The use of assets and the bank’s ability to adapt to changing economic conditions affect the net interest margin. When compared to South Indian Bank, which has a mean of 2.32, a standard deviation of 0.18, and a coefficient of variation of 7.76, HDFC Bank has the most significant net interest margin since it relies more on current and savings accounts and because the quality of its assets is likewise vital with mean of 3.70, a standard deviation of 0.14 and coefficient of variation of 3.78.

Non-interest to Total Funds

As a proportion of the total funds, this calculates the income from operations other than loans. The caliber of a bank’s earnings reveals its profitability and capacity to maintain it. The following table indicates the non-interest to total fund of HDFC Bank and South Indian Bank:

Year	HDFC	South Indian Bank
Mar-18	1.43	1.01
Mar-19	1.41	0.78
Mar-20	1.51	1.07
Mar-21	1.44	1.25
Mar-22	1.42	1.03
Mean	1.44	1.03
STDEV	0.04	0.17
C.V	2.78	16.50

Table 8: Non-interest Income to Total Fund.

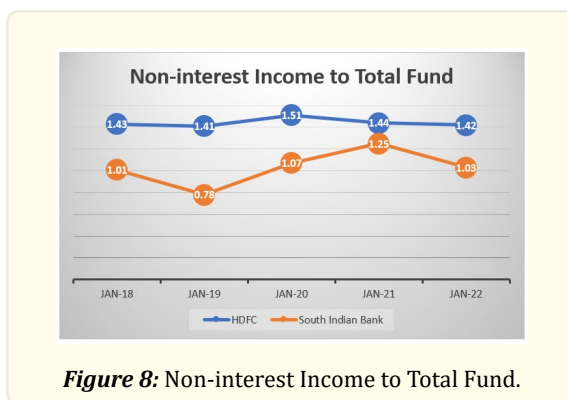


Figure 8: Non-interest Income to Total Fund.

We may assess the bank's capacity to generate money from sources other than its primary business by looking at its non-interest income. Lending and borrowing are the bank's primary business operations, and the different activities that have grown over time are primarily fee-based businesses, such as treasury operations and investment activities. It was found that both the banks have shown promising signs and HDFC with a mean value of 1.44, a standard deviation of 0.04, and coefficient of variation of 7.09, and South Indian Bank with a mean value of 1.03, a standard deviation of 0.17 and coefficient of variation of 16.50.

Liquidity

One of the crucial factors used to evaluate a bank's success is liquidity. These CAMEL Model factors evaluate a bank's capacity to meet its short-term obligations to its depositors within a specific time frame. It can be measured with the help of the following ratios:

Liquid Asset to Total Deposits

This ratio shows what proportion of deposits are retained as liquid assets. This liquidity can be sufficient to cover the banks' immediate liabilities. Table 9 shows the performance of liquid assets to deposit ratio of South Indian Bank and HDFC Bank:

Year	HDFC	South Indian Bank
Mar-18	1.34	1.14
Mar-19	1.34	1.14
Mar-20	1.33	1.16
Mar-21	1.31	1.13
Mar-22	1.32	1.12
Mean	1.33	1.14
STDEV	0.01	0.01
C.V	0.75	0.88

Table 9: Liquid Asset to Total Deposits Ratio.

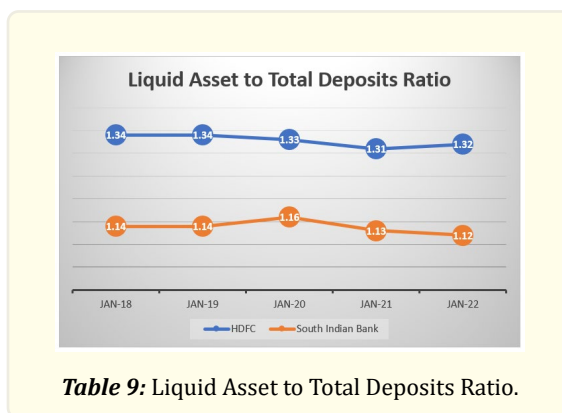


Table 9: Liquid Asset to Total Deposits Ratio.

The ratio of liquid assets to total deposits calculates the bank's overall liquidity. Higher values of this ratio imply greater bank liquidity, whereas lower values indicate less liquidity. HDFC Bank has shown promising signs with a mean value of 1.33, a standard deviation of 0.01, and a coefficient of variation of 0.75 compared to South Indian Bank, with a mean of 1.14 and a standard deviation of 0.01, a coefficient of variation of 0.88.

The liquid Assets to Total Assets Ratio measures the bank's total liquidity status. "liquid asset" refers to cash on hand, institutional balances, and money available on short notice or call. The revaluation of all the assets is included in the total assets. The following table

shows the liquid assets/total assets ratio.

Year	HDFC	South Indian Bank
Mar-18	1	0.99
Mar-19	1	0.99
Mar-20	0.99	0.99
Mar-21	0.99	0.99
Mar-22	0.99	0.99
Mean	0.99	0.99
STDEV	0.01	0.00
C.V.	1.01	0.00

Table 10: Liquid Assets to Total Assets Ratio.

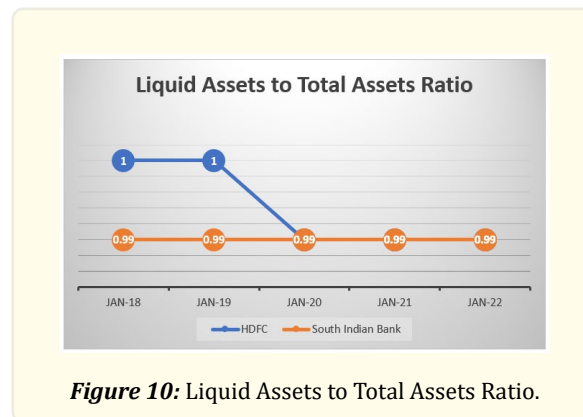


Figure 10: Liquid Assets to Total Assets Ratio.

This percentage tells us how much total assets are kept as tangible assets. This liquidity can be seen as sufficient to cover the banks' immediate obligations. Higher values of this ratio indicate greater bank liquidity, whereas lower values indicate less bank liquidity. It was discovered that both banks' liquidity positions showed positive signs; South Indian Bank and HDFC had a mean value of 0.99, a standard deviation of 0.00 and 0.01, and a coefficient of variation of 0.00 and 1.01.

Comparative Findings between South Indian Bank and HDFC Bank

- When we compare the Capital Adequacy of South Indian Bank and HDFC Bank, it is found that HDFC Bank is performing well compared to South Indian Bank.
- The Return on assets of South Indian Bank is low and does not meet the minimum standard of 1% compared to HDFC Bank.
- Both the HDFC Bank and the South Indian Bank are showing a good sign credit depository ratio of 86.13 and 73.02, respectively. When comparing, HDFC has more advantages than South Indian Bank.

Conclusion

An efficient, functional banking system may catalyze rapid growth in numerous areas of the economy and is a critical prerequisite for a country's progress, and India is no exception. This research study will investigate and compare the financial performance of South Indian Bank and HDFC Bank using the CAMEL Model. The research indicates that the financial performance of South Indian Bank is good in terms of its capital adequacy ratio. Still, there is room for improvement in its Return on Asset Ratio. Despite a high credit deposit ratio, the bank's overall performance is still commendable. Although its net interest margin is healthy, the Liquid Assets to Total

Deposit Ratio is relatively low, making it vulnerable to liquidity risks. Conversely, HDFC Bank's performance is robust, with higher ratios across all five dimensions, surpassing South Indian Bank's performance. Therefore, HDFC Bank performs better regarding capital adequacy, Return on Asset Ratio, and Credit Depository Ratio when compared to South Indian Bank.

Banks play an undeniably important part in modern India's financial system, which is admirable and endearing. The efficiency of banks is critical for the smooth flow of trade both locally and internationally. Top management's evident commitment to balancing value and cost, reducing wasteful spending, and implementing metrics and accountability can lead to increased efficiency and profitability.

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