A CRITICAL EVALUATION OF FINANCIAL SOUNDNESS OF SELECTED PUBLIC SECTOR AND PRIVATE SECTOR BANKS IN INDIA

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Abstract :　The Indian banking system was formulated after the financial liberalization in India. The Reserve Bank of India (RBI) has taken more actions and regulated the banking standards through recommendations of banking committees. In last 2 decades, the Indian banking regulators have initiated diverse procedures to regulate the banking activities for reducing the risks. The current research is required to assess the present condition of the commercial banks after the demonetization and financial liberalization in India. The researcher has taken descriptive and exploratory research design for the discussion. The current study has purposively evaluated the financial soundness of selected 6 banks such as 3 public sector banks namely State Bank of India (SBI), Indian Bank (IB), Bank of Baroda and 3 private sector banks namely Axis bank, HDFC bank and ICICI bank in India. The required secondary data has taken from the CMIE data. The period of study is 10 financial years from 2007 to 2017. The CAMEL approach has adopted for the evaluation of the commercial banks.

Index Terms - **Indian Banking System, Financial Soundness, Demonetization, Liberalization.**

I. INTRODUCTION

The Indian banking system was formulated after the financial liberalization in India. The Reserve Bank of India (RBI) has taken more actions and regulated the banking standards through recommendations of banking committees. It includes the diversification of banking sector into three categories such as public, private and foreign sector in India. These are the recommendations have made more changes and attained highest position compared to other countries banking industry. In last 2 decades, the Indian banking regulators have initiated diverse procedures to regulate the banking activities for reducing the risks. In the current research, the investigator has examined the financial soundness of the selected Indian commercial banks through CAMEL approach. This approach was initiated by United States (US) banking supervisory authorities in 1980's and the researcher has adopted to know the sea changes of the banking industry in India. It shows the Capital (C), Asset Quality (A), Management efficiency (M), Earnings (E) and Liquidity (L) position of the selected six commercial banks in India.

II. LITERATURE REVIEW

The literature reviews are important one for the research. The existing research studies are **Koeva (2003)** deliberated that the outcome of financial recreation on the performance of Indian commercial banks. The examinations paid notice on explore the bank operating cost and efficiency throughout the banking liberalization era. The study fulfilled that the financial liberalization has associated with slighter costs and more productivity in the banks. **Prasad et al. (2011)** has utilized the CAMEL model for the elected some Public Sector Banks and NPBs by some other criteria in India. It suggested that the banking industry is sound generally, but the banks have efficient movement as per their assets and powers. **Singh and Tandon (2012)** declared that monetary services of banks relatively and it evaluated the financial practices of SBI and ICICI Bank by imperative ratios from 2008 to 2012. The study said that SBI's deposits are better than ICICI Bank and ICICI bank is better management proficiency than SBI bank.

III. NEED FOR THE STUDY

The banking industry has been developing through the financial policies of the banking institutions around the world. The current research is required to assess the present condition of the commercial banks after the demonetization and financial liberalization in India.

IV. OBJECTIVE OF THE STUDY

The prime objective of the current research is to evaluate the financial soundness of the Indian banking institutions by CAMEL rating method.

V. RESEARCH METHODOLOGY

The researcher has taken descriptive and exploratory research design for the discussion. The current study has purposively evaluated the financial soundness of selected 6 banks such as 3 public sector banks namely State Bank of India (SBI), Indian

Bank (IB), Bank of Baroda and 3 private sector banks namely Axis bank, HDFC bank and ICICI bank in India. The required secondary data has taken from the CMIE data. The period of study 10 years from the financial year of 2007 to 2017. The CAMEL approach has adopted for the evaluation of the commercial banks.

VI. SCOPE OF THE STUDY

The research has determined the financial soundness, liquidity position and profitability of selected commercial banks in India. So that it has been providing the people to know in which bank they can invest their money or opening a new account in the banks and so on.

VII. RESULTS AND DISCUSSION

7.1 Results of Descriptive Statics of Study Variables

For the evaluation of financial soundness, the selected 6 commercial banks financial position and Compound Annual Growth Rate (CAGR) have provided by the researcher. The CAGR is taken for the ranking of the financial ratios in the present study.

Table 7.1: Capital Adequacy of Banks

Ratios		BOB	IB	SBI	AXIS	HDFC	ICICI
Capital adequacy ratio	Mean	13.5	13.18	13.11	14.79	15.93	17.45
	CAGR %	0.2	0.59	-0.27	0.85	0.71	2.21
	Rank	5	4	6	2	3	1
Debt equity ratio	Mean	15.75	13.01	13.87	10.67	8.93	6.82
	CAGR %	1.75	-0.31	-1.02	-6.89	-2.48	-4.89
	Rank	6	5	4	1	3	2
Credit deposit ratio	Mean	70.79	70.28	80.4	14.79	15.93	17.45
	CAGR %	0.37	2.26	1.3	0.85	0.71	2.21
	Rank	6	1	3	4	5	2
Cash deposit ratio	Mean	4.8	6.68	7.22	6.76	8.23	8.52
	CAGR %	-1.82	-3.06	1.78	-1.44	-1.56	-0.36
	Rank	5	6	1	3	4	2
Overall Mean		5.50	4.00	3.50	2.50	3.75	1.75
CA Rank		6	5	3	2	4	1

Source: CMIE Data

The table 7.1 revealed that the capital adequacy position of the selected six banks in India. The CRA of the banks have followed the Basel committee norms in Indian banking industry. The debt equity ratio of the banks is higher than the standard norm was not satisfactory and the other ratios have showed better position in the banks. The ICICI bank has ranked first and followed by the AXIS bank, SBI bank, HDFC bank, IB and BOB bank.

Table 7.2 - Asset Quality of Banks

Ratios		BOB	IB	SBI	AXIS	HDFC	ICICI
Sale on Net Assets Ratio	Mean	0.343	0.312	0.36	0.3	0.34	0.313
	CAGR %	3.007	3.3576	4.987	7.1773	4.913	3.173
	Rank	6	4	2	1	3	5
Net Assets on Net worth Ratio	Mean	3.78	4.59	4.62	4	3.32	2.53
	CAGR %	-1.71	-4.49	-2.23	-11.6	-7.28	-6.82
	Rank	1	3	2	6	5	4
PBDIT on Net Assets Ratio	Mean	0.23	0.22	0.24	0.19	0.20	0.21
	CAGR %	1.06	3.9	4.20	7.18	6.79	2.27
	Rank	6	4	3	1	2	5
Overall Mean		4.33	3.67	2.33	2.67	3.33	4.67
AQ Rank		5	4	1	2	3	6

Source: CMIE Data

The table 7.2 revealed that the asset quality of the selected six banks in India. The asset quality of banks showed that the asset management and the SBI bank has ranked as first and followed by Axis bank, HDFC bank, IB bank, BOB bank and ICICI bank in the present study.

Table 7.3 - Management Efficiency of Banks

Ratios		BOB	IB	SBI	AXIS	HDFC	ICICI
Interest income ratio	Mean	4.54	5.56	4.85	7.98	8.93	7.59
	CAGR %	0.71	2.59	1.72	1.36	1.41	0.45
	Rank	5	1	2	4	3	6
Interest expenses ratio	Mean	2.35	3.08	2.8	4.93	4.64	5.13
	CAGR %	-4.08	-4.1	-0.73	0.06	2.67	-1.74

	Rank	5	6	3	2	1	4
Non-interest income ratio	Mean	0.95	1.16	1.3	2.06	1.87	1.99
	CAGR %	-4.32	-5.43	-0.66	1.42	-1.56	-0.39
	Rank	5	6	3	1	4	2
Operating expenses ratio	Mean	1.47	1.86	2.04	2.2	2.97	1.87
	CAGR %	-4.39	-3.84	-1.9	0.35	-1.48	-1.94
	Rank	6	5	3	1	2	4
Overall Mean		5.25	4.50	2.75	2.00	2.50	4.00
ME Rank		6	5	3	1	2	4

Source: CMIE Data

The above ratios determined that the management efficiency of the selected banks in India. The result indicated that the Axis bank has ranked as first and it efficiently managing their business followed by HDFC bank. The other public sector banks have managing their banking business by moderately in the present study.

Table 7.4 - Earning Capacity of Banks

Ratios		BOB	IB	SBI	AXIS	HDFC	ICICI
Return on Equity	Mean	13.78	18.3	14.00	18.71	18.49	11.51
	CAGR %	0.00	-14.7	0.70	-2.22	-0.63	-1.39
	Rank	2	6	1	5	3	4
Net Profit Margin	Mean	9.70	13.34	9.95	17.58	17.26	16.68
	CAGR %	-2.01	-0.14	-0.06	0.06	0.04	0.07
	Rank	6	5	4	2	3	1
Earnings Per Share	Mean	64.69	27.77	102.26	65.97	46.48	43.61
	CAGR %	-1.98	-0.015	-0.191	0.044	0.013	-0.078
	Rank	6	3	5	1	2	4
Overall Mean		4.67	4.67	3.33	2.67	2.67	3.00
Earning Rank		5.50	5.50	4.00	1.50	1.50	3.00

Source: CMIE Data

The earning capacity shows that the banks worthiness and the return on equity of SBI bank have highest growth in the present study. The overall earning capacity of the banks showed that the Axis bank and HDFC have taken first place and followed by the ICICI bank in the present study. The SBI bank has ranked as fourth and followed by Bank of Baroda and Indian bank in India.

Table 7.5 - Liquidity Position of Banks

Ratios		BOB	IB	SBI	AXIS	HDFC	ICICI
Current ratio	Mean	0.03	0.03	0.05	0.04	0.05	0.1
	CAGR %	2.92	9.60	11.20	12.79	4.15	0.87
	Rank	5	3	2	1	4	6
Liquid ratio	Mean	20.2	20.23	10.11	19.28	8.51	12.64
	CAGR %	7.32	4.13	6.86	11.97	8.63	9.77
	Rank	4	6	5	1	3	2
Overall Mean		4.50	4.50	3.50	1.00	3.50	4.00
LQ Rank		5.50	5.50	2.50	1	2.50	4

Source: CMIE Data

The liquidity position ratios show that the short term funds and the banks have not followed the standard norm of current ratio of 2:1 in table 7.5. As per the liquidity ratios, the Axis bank has ranked as first and followed by the SBI and HDFC in the present study. The liquidity position of banks was good and the banks should follow the standard norms.

Table 7.6 - Overall Camel Ranking

	BOB	IB	SBI	AXIS	HDFC	ICICI
C	6	5	3	2	4	1
A	5	4	1	2	3	6
M	6	5	3	1	2	4
E	5.50	5.50	4.00	1.50	1.50	3.00
L	5.50	5.50	2.50	1	2.50	4
Overall Rank Mean	5.63	4.88	2.75	1.63	2.63	3.50
Overall Rank	6	5	3	1	2	4

Source: Calculated Value

The table 7.6 indicated that the selected banks financial soundness through CAMEL approach. As per the CAMEL approach, the AXIS bank ranked as first and followed by the HDFC bank ranked as second rank. The third rank is SBI bank and other banks namely ICICI, IB and BOB ranked in the present study. The private sector banks have higher maintenance of the

capital and other efficiency criteria due to competition in India. The public sector banks have maintained their capital position and profitability moderately in the banking industry.

VIII. CONCLUSION

In India, the banking industry has attained huge developments through more recommendations of RBI committees. After the reformations of banking industry, the banking institutions have followed the RBI recommendations and BASEL norms in our country. The CAMEL model result indicated that the private sector bank namely Axis bank and public sector bank namely SBI banks has ranked as first in the present study. The private sector banks have competitively increased their profitability due to competition and the public sector banks have maintained their asset quality. The private sector banks have been developing their efficiency better than public sector banks. The commercial banks were mostly maintaining their capital adequacy as per the BASEL norms in India.

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