A STUDY ON FINANCIAL PERFORMANCE OF CANARA BANK USING CAMEL MODEL APPROACH

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Abstract: Banks are an essential component of every economy's financial structure. As a consequence, the stability of the banking sector is important to a robust and flourishing economy. The Indian economy's financial system is now totally intertwined with the banking industry. The whole financial system could collapse if anything goes wrong with the banking sector. As a result, in order for our economy to develop effectively, it is essential to assess and measure the strength of the banking sector. The goal of this research is to rate a public sector bank based on its financial condition and performance. CANARA bank was considered for this purpose during a four-year period, from 2016 to 2019. The research is based on secondary data gathered from the annual reports of the bank and the RBI statistical database. Bank performance has been measured using the CAMEL model. According to the findings of the study, Canara bank is making an effort to retain sufficient capital and bank should aim to reach more than the necessary level in the next few years. The bank must come up with new solutions to help them deploy money after conducting a thorough risk review.

KEYWORDS: CANARA BANK, PERFORMANCE, CAMEL MODEL, RATIOS, CAR.

INTRODUCTION:

The health of an economy is contingent upon the health of its financial system. A banking sector is critical to the economy's financial system since it assists in channeling monetary resources from surplus to deficit units. Academics and practitioners in the banking industry generally agree that the ultimate success of the banking company is contingent upon capital adequacy, asset quality, management capability, earnings and profitability, and liquidity. This pattern is true regardless of whether the bank is public, private, or international. Canara Bank is one of the country's oldest public sector banks, with its headquarters in Bengaluru. It was founded in Mangalore in 1906. The bank has been confronted with many difficulties during the last five years. In light of this, an attempt has been made to assess the Canara Bank's performance. The researcher aims to accomplish this goal by using a well recognised model of performance assessment, namely the CAMEL model. This article attempts to put a finger on every piece of the Canara bank's performance assessment by examining five critical metrics as defined by the CAMEL model.

CAMEL MODEL

The Camel ratings are a supervisory grading system that was created in the United States to assess a bank's overall health. It applies to every bank and credit union in the United States (about 300 institutions) and is also adopted by other banking supervisory authorities outside the United States.

The ratings are based on a ratio analysis of the financial statements, as well as on-site inspections by a certified supervisory agency. The Federal Reserve, the Office of the Comptroller of the Currency, the National Credit Union Administration, the Farm Credit Administration, and the Federal Deposit Insurance Corporation are among the supervisory regulators in the United States.

CAMEL ratings are not made public and are only available to senior management in order to avoid a bank run on an institution that gets a CAMELS rating reduction. Institutions with worsening conditions and decreasing CAMELS ratings are being scrutinised more and more by regulators. Failed financial institutions are ultimately resolved via a formal resolution procedure aimed at safeguarding retail depositors. The components of a bank's condition that are assessed:

- **(C)**apital adequacy
- **(A)**ssets
- **(M)**anagement Capability
- **(E)**arnings
- **(L)**iquidity (also called asset liability management)

REVIEW OF LITERATURE

Agarwal Pankaj K et. al1 (2011)[1] used the widely recognized CAMEL methodology to compare PSB performance to that of their private sector counterparts. The researchers found by their study that PSBs have lower capital adequacy than private sector banks, but their asset quality is better than private sector banks, as shown by their gross nonperforming assets (NPAs), and there is no substantial difference in their net NPA performance. PSBs' managerial efficiency and profits performance are also comparable to private sector banks', but private sector banks beat PSBs on a liquidity basis.

Chaudhry and Singh2 (2012)[2] analyzed the impact of the financial reforms on the soundness of Indian Banking through its impact on the asset quality. The study identified the key players as risk management, NPA levels, effective cost management and financial inclusion.

Misra and Aspal (2013)[3] investigated at the performance and financial health of the State bank group, which included the State Bank of India, State Bank of Hyderabad, State Bank of Patiala, State Bank of Mysore, State Bank of Bikaner and Jaipur, and State Bank of Travancore, for three years, from 2009 to 2011. To see whether there is a significant difference between the CAMEL ratio means, a one-way ANOVA is used. The researchers point out that the State Bank of India should concentrate on capital sufficiency and asset quality, while the State Banks of Bikaner and Jaipur and Patiala should enhance management efficiency and earning quality, respectively.

Gupta (2014)[4] examined the performance of India's public sector banks during a five-year period, from 2009 to 2013, by using CAMEL method and discovered that Andhra Bank was the best performer, followed by Bank of Baroda and State Bank of Hyderabad, with United Bank of India coming in last.

Singh (2015)[5] examined the total profitability of four private sector banks: AXIS Bank, ICICI Bank, Karur Vysya Bank, and Yes Bank. He evaluates banks' performance using profitability statistics such as the interest spread, the return on long-term funds, the net profit margin, the adjusted cash margin, the return on assets, and the return on net worth. Additionally, ANOVA is used to determine the significance of the connection between the interest spread, the return on long-term funds, the net profit margin, the adjusted cash margin, the return on assets, and the return on net worth of chosen private sector banks.

Garg and Kumari(2015)[6] examined the different perspectives of profitability of five major private banks for ten years from 2004 to 2014 using ratio analysis and ANOVA technique. The researhers concluded that HDFC Bank has been the excellent performer over the last decade.

Madhurima Lall3 (2017)[7] used the CAMEL model to examine the financial performance of selected public sector banks in India from 2013 to 2016. SBI is determined to be in first place with an overall composite ranking average under the CAMELS criterion, followed by Bank of Baroda and Punjab National Bank in second and third place, respectively. It was also discovered that Canara Bank was at the bottom of a number of CAMELS ratios.

Present study is conducted to analyze the financial performance of Canara Bank by using CAMEL Model.

OBJECTIVES:

1. To assess Canara Bank's financial performance using the CAMEL model.

2. To give suggestions for the financial improvement of Canara Bank.

SCOPE OF THE STUDY: The study analyzed the performance of Canara Bank only. The study is based on secondary data. The period of study is 4 years (2016 to 2019).

RESEARCH METHODOLOGY:

The study is analytical in nature, and it is based on secondary data. The data was taken from the annual reports of Canara Bank. The data has been analyzed by using financial ratios, arithmetic mean, standard deviations, and coefficient of variation.

ANALYSIS

CAPITAL ADEQUACY

A banking entity's capital adequacy is a key indication of its financial soundness. This reflects a bank's ability to retain capital that is proportional to the nature and scope of all kinds of risks, as well as its management' ability to identify, assess, monitor, and control such risks. It shows the banks' overall financial health as well as management's capacity to fulfill the need for additional capital. The following ratios are used to determine capital sufficiency.

Capital Adequacy Ratio (CAR): This ratio is advocated to ensure that banks can bear a reasonable amount of losses occurring during the operations and to ascertain bank's loss bearing capacity. Higher the ratio reflects that banks are stronger and the investors are more protected. In India, the banks have to maintain a CRAR of 9 percent. Capital to Risk-weighted Assets Ratio (CRAR) is calculated by dividing Tier-I and Tier-II capital with Risk Weighted Assets. Tier 1 capital includes shareholders' equity; perpetual noncumulative preference shares, disclosed reserves and innovative capital instruments. Tier 2 capital includes undisclosed reserves, revaluation reserves of fixed assets and long-term holdings of equity securities, general provisions/general loan loss reserves; hybrid debt capital instruments and subordinated debt.

Debt to equity ratio indicates how much debt a company is using to finance its assets relative to the value of shareholders' equity. However, a Debt Equity Ratio of 1.5 or lower is considered desirable and a ratio higher than 2 is considered less favorable.

Total Assets to Total Advance ratio measures the total loans outstanding as a percentage of total assets. The higher this ratio indicates a bank is loaned up and its liquidity is low. The higher the ratio, the more risky a bank may be to higher defaults.

Table 1: Capital Adequacy of Bank

Year/Ratio	Capital Adequacy Ratio %	Debt to Equity Ratio %	Total Advances to Total Assets Ratio %
2016	11.08	0.8	0.58
2017	12.86	0.83	0.58
2018	13.22	1.1	0.61
2019	11.90	1.1	0.61
Mean	12.265	0.957	0.595
SD	0.96	0.165	0.017
CV	7.88	15.868	2.91

Source: Annual Reports of Canara Bank.

According to RBI guidelines, every Indian banking entity has to maintain a CRAR above 9% to reflect better risk coverage. Viewed from this angle, Canara bank's capital adequacy is found satisfactory as its CRAR is greater than stipulated norms for all the years under study. Further, it is noticed that there is an upward trend in the initial study period, i.e. from 11.08 percent in 2016 to 13.22 percent in 2018. Thereafter, there was a decline in CAR during 2019 i.e. 11.90.

As depicted in the table, the banks' Debt equity ratio is less than 1.5. It means it is considered favorable for the bank. Further, the bank maintained steady debt equity ratio during 2018 and 2019. The average Debt to Equity is 0.957. Standard deviation is 0.165 and coefficient of variation is 15.86.

Aggressiveness of a bank in lending, thus resulting in better profitability. Higher the ratio better it is. Total Advances to Total assets ratio of the bank is high during 2018 and 2019 i.e. 0.61 percent and low during 2016 and 2017 i.e. 0.58 percent.

ASSET QUALITY

Asset Quality reflects the magnitude of credit risk prevailing in the bank due to its composition and quality of loans, advances, investments and off- balance sheet activities. The financial soundness of a bank is determined with the quality of assets that the bank possesses. Asset quality defines the financial health of banks against loss of value in the assets, as asset weakening, risks the solvency of the financial institutions especially banks

Table 2: Asset Quality of the Bank

Year/Ratio	Net NPA to Total Asset Ratio %	Net NPA to Total Advances Ratio %	Total Investment to Total Advances Ratio %
2016	6.42	0.064	0.43
2017	6.33	0.063	0.43
2018	7.48	0.074	0.37
2019	5.37	0.053	0.35
Mean	6.4	0.0635	0.395
SD	0.86	0.008	0.041
CV	13.47	13.51	10.43

Source: Annual Reports of Canara Bank

As depicted in table-2, the Net NPA to Net Assets ratio dropped from 6.42 percent in 2016 to 6.33 percent in 2017. The bank's Net NPA to Net Assets ratio was at its peak in 2018, at 7.48 percent, and it's lowest in 2019, at 5.37 percent.

The smaller the ratio of Net Nonperforming Assets to Net Advances, the better the bank's credit efficiency. The total quality of bank advances is measured by this ratio. It depicts the bank's actual financial burden. The greater ratio indicates a rise in loan defaults. In comparison to the rest of the research period, the bank exhibited excellent credit efficiency in 2019. Throughout the research period, the Net NPA to Total Advances Ratio fluctuated. The standard deviation was 0.008, and the coefficient of variation was 13.51.

The Total Investment to Total Assets ratio is a common metric for determining the proportion of total assets invested. The average Total Investment to Total Assets ratio was 0.395 percent with standard deviation was 0.041.

MANAGEMENT EFFICIENCY

Management Efficiency is an important element of the CAMEL model. The management of the bank takes crucial decisions depending on its risk perception. It sets vision and goals for the organization and sees that it achieves them. This parameter is used to evaluate management efficiency as to assign premium to better quality banks and discount poorly managed ones.

Table 3: Management Efficiency of Bank

Year/Ratio	CD Ratio %	Return on Net worth %
2016	68.66	-10.75
2017	68.38	3.96
2018	72.74	-14.51
2019	71.40	1.16
Mean	70.295	-20.14
SD	2.12	8.97
CV	3.02	-179.27

Source: Annual Reports of Canara Bank

The CD ratio is an essential metric for determining liquidity since it shows the availability of average cash balance against total bank deposits. As shown in the table, the bank had the greatest proportion of CD ratio in 2018, at 72.74 percent, and the lowest percentage in 2017, at 68.38 percent. During the research period, the average CD ratio was 70.295. The coefficient of variance was found to be 3.02 percent.

The bank's Return on Net Worth (RONW) fluctuated significantly. The bank's average return on net worth was -20.14. The finest Return on Net Worth is 3.96 and the lowest is -14.51.

EARNING CAPACITY

The quality of earnings is a critical criterion for determining a bank's capacity to profit regularly. It essentially determines a bank's profitability and explains its long-term viability and profits growth. The quality of income generation is explained by the following ratios.

Table 4: Earning Capacity of the Bank

Year/Ratio	Net Interest Margin %	Non-interest Income to Total Funds %	ROA %
2016	1.73	0.92	-0.52
2017	1.66	1.29	0.19
2018	1.97	1.12	-0.68
2019	2.08	0.94	0.04
2020	1.81	1.07	-0.30

Mean	1.86	1.0675	-0.2425
SD	0.197	0.173	0.422
CV	10.63	16.25	-174.187

Source: Annual Reports of Canara Bank

The proportion of interest income to total income is represented by the net interest to total income ratio. The greater the net interest to total income ratio, the better the bank's performance. The bank's net interest to total revenue ratio stood at 2.08 percent in 2019, up from 1.66 percent in 2017. Non-interest income to total funds reached a high of 1.29 percent in 2017 and a low of 0.92 percent in 2016.

The efficiency with which a bank utilizes its assets to produce net revenue is measured by its return on assets (ROA). In comparison to the rest of the study period, the bank's ROA was low in 2018, at -0.68, and high in 2017, at 0.19 percent.

LIQUIDITY

Liquidity in banks is managed by an effective mechanism called Asset and Liability Management. It reduces maturity mismatches between assets and liabilities to optimize returns. The risk of liquidity is a curse on the image of the bank. The bank has to take proper care to hedge the liquidity risk, at the same time, ensure a good percentage of funds are invested in high return generating securities, so that it is in a position to generate profit while providing liquidity to the depositors. The following ratios are required to assess the liquidity.

Table 5: Liquid Assets to total Assets and to Total Deposits

Year/Ratio	Liquid Asset to Total assets %	Liquid Asset to Total Deposits %
2016	0.087	0.101
2017	0.097	0.11
2018	0.095	0.112
2019	0.072	0.083
Mean	0.088	0.101
SD	0.011	0.013
CV	12.93	13.03

Source: Annual Reports of Canara Bank

The percentage of liquid assets to total assets shows the bank's overall liquidity situation. As seen in the table the ratio of liquid assets to total assets was high in 2017, which was beneficial to the bank. In 2019, it was at a record low of 0.072. From 2016 to 2020, the average ratio was 0.088.

The Liquid Assets to Total Deposits ratio gauges the bank's liquidity for its deposits. The high percentage reflects the bank's cautious investing strategy, which results in low risk and poor return. As shown in the table, the bank had a high liquid assets to total deposits ratio of 0.112 in 2018 and a low ratio of 0.083 in 2019. The average ratio was 0.101, with an 13.03 coefficient of variance.

FINDINGS:

1. With regard to CAR, Canara bank's capital adequacy is found satisfactory as its CAR is greater than stipulated norms for all the years under study.

2. The asset quality of the bank was average as it achieved good credit efficiency during 2019 by registering low Net NPA to Net Assets, i.e. 5.37 percent compared to the remaining study period.

3. The average CD ratio was 70.295 during the period of study. The management efficiency of the bank was good.

4. The bank registered the highest percentage of net interest to total income during 2019, i.e. 2.08 percent, and this ratio was low during 2017, i.e. 1.66 percent.

5. The earning capacity of the bank was not satisfactory. The ROA of the bank was low during 2018 i.e.-0.68 and it was high during 2017 i.e. 0.19 compared to the remaining period of the study.

6. The liquid assets to total assets was high during the year 2017 and it was good for the bank. It was low at 0.072 during 2019. The average ratio from 2016 to 2019 was 0.088.

SUGGESTIONS:

1. For an effective monitoring system, more standard financial ratios should be established and applied periodically.
2. The evolution of profitability indicators suggests that banks should reduce the higher cost of deposits and concentrate on high-yielding advances, which will ultimately improve their earnings.

CONCLUSION: The Canara bank's assets and liabilities have been thoroughly analysed using the CAMEL model's five factors to determine the bank's financial viability. The bank's performance in terms of capital adequacy and liquidity is deemed acceptable. However, the bank's performance in terms of asset quality, profits and profitability, and managerial competence is less than promising. As a result, it is critical for the bank to plan strategically and take aggressive action to manage the overdue portfolio. While the bank has successfully maintained its capital adequacy ratio, this should not lead to complacency, as it needs careful asset quality management to prevent future deterioration. If the bank's reserves decrease enough to do this, it may run into liquidity difficulties. Additionally, the research revealed that the bank's profitability situation deteriorated throughout the study period, as shown by falling values for different profitability measures. This may be due to a variety of reasons, including insufficient business scaling, excessive provisioning for non-performing assets during the NPA era, and difficulties recovering overdue portfolios. Canara Bank's management must pay particular attention to NPA management and take necessary measures to avoid the development of new NPAs and recover current NPAs. Canara Bank would benefit from being skilled at adapting to changing banking business conditions by starting time-sensitive initiatives.

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