FINANCIAL PERFORMANCE ANALYSIS OF SELECTED FOREIGN BANKS IN INDIA- A STUDY THROUGH CAMEL MODEL

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ABSTRACT: A robust financial system is essential for the growth of a strong and vibrant economy. In the globalized economic scenario for economic development of an economy, the role and importance of prudent banking system cannot be underestimated. The banking sector, being a fundamental component of financial system is the backbone of the modern economic system. The present study attempts to evaluate the performance of foreign banks in India using CAMEL approach for a six year period from 2013-18. CAMEL approach has been used to examine the financial strength of the selected banks. Composite Rankings, Average, and Covariance has been applied here to reach conclusion through the comparative and significant analysis of different parameters of CAMEL. CITI Bank ranked first under the CAMEL analysis followed by Deutsche Bank. Development Bank of Singapore(DBS) the third position. The fourth position is occupied by Honkong and shanghai bank (HSBC**).** bank and the last position is occupied by Standard Chartered Bank (SCB) bank amongst all the selected banks.

KEYWORDS: Foreign Banks, Financial Performance, CAMEL Model.

INTRODUCTION

A bank is a financial intermediary that accepts deposits and channels those deposits into lending activities. Banks are a fundamental component of the financial system, and are also active players in financial markets. Banking sector in India is broadly classified into three categories namely Nationalized Banks and SBI and associates, Private Sector Banks and Foreign Banks. All these banks and bank groups are doing banking operations for different objectives to achieve. These banks always compete with each other on different grounds and paravmeters. Their competition has two fold advantages to the economy and to these banks themselves. As it is a well known fact that only with competition, productivity and efficiency increases which is also true in case of the banking industry which is considered as the backbone of the economy. Foreign banks are those banks whose branch offices are in India but they are incorporated outside India, and have their head office in a foreign country. These banks were allowed to set up their subsidiaries in India from the year 2002. They have to operate their business by following all the rules and regulations laid down by the RBI - reserve bank of India. Foreign banks have played an important role in the Indian economy, especially in the priority sectors. Globalization has compelled the banking sector to reach out to more customers in order to expand their business. This meant opening banking businesses even in the foreign countries. Many of the private banks were interested in expanding their business all over the world. They opened up branches across the globe to serve large number of customers, and also improve service to the existing customers. This change was a blessing for India. Currently, the foreign banks are growing tremendously in India. The services provided by these banks are very impressive.

LITERATURE REVIEW

Prasuna (2003), examined the performance of 65 Indian banks according to the CAMEL Model and concluded that better service quality, innovative products and better bargains were beneficial because of the prevailing tough competition

Gupta and Kaur (2008)[8], examined the performance of Indian private Sector banks by using CAMEL model and by assigning rating to the top five and bottom five banks. The CAMEL --model revealed that HDFC was at its higher position of all private sectors banks in India succeeded by the Karur Vysya and the Tamilnad Mercantile Bank

Siva and Natarajan (2011), empirically tested the applicability of CAMEL norms and its consequential impact on the performance of SBI Groups. The study concluded that annual CAMEL scanning helps the commercial bank to diagnose its financial health and alert the bank to take preventive steps for its sustainability.

Srinivas and Saroja (2013), conducted a study to compare the financial performance of HDFC Bank and ICICI Bank using CAMEL framework and found no significance difference between the ICICI and HDFC bank's financial performance but they concluded that the ICICI bank performance is slightly less compared with HDFC.

Parvesh Kumar and Sanjeev Dhawan (2014), made an attempt for the assessment of performance of banks in India, Reserve Bank of India has recommended two supervisory rating models (Capital Adequacy, Assets Quality, Management, Earning, Liquidity, Systems and Controls) and CACS (Capital Adequacy, Assets Quality, Compliance, Systems and Controls). The present study is an attempt to use the CAMELS rating model to assess the status and performance of Old Private Sector Banks in India. For analysis all 13 Old Private Sector Banks operating in India are taken as case study. The CAMELS model is applied on the secondary data related to different ratios obtained from Reserve Bank of India annual reports covering the period from 2007-2012. The analytical observations of the study reveal that 6 banks out of 13 selected banks have shown good and excellent financial performance. Tamilnad Mercantile Bank secured first position in terms of overall composite ranking followed by Federal Bank. On the basis of CAMELS criteria Tamilnad Mercantile Bank, Federal Bank and Nainital Bank have shown excellent financial performance. On the contrary Catholic Siyrian Bank, ING Vysya Bank and Dhanalakshmi Bank were worst performing banks in terms of financial performance.

Ramya (2017)analyse the financial performance of State Bank of India for the study period 2012-2016 through the use of CAMEL approach. It was concluded that there is a need to take necessary steps to improve the position of SBI in the context of few parameters i.e., debt-equity, operating profit, and non-interest income to total income. Singh (2017) examined the capital adequacy performance of private and public sector banks in India for a period of 2006-2015. The study found that all the banks had sound capital adequacy position except Central Bank of India.

OBJECTIVE OF THE STUDY

The main objective of the study is to analyse the financial performance of foreign bank operating in India using CAMEL MODEL.

The study will provide true state of financial performance which will be for further research.

RESEARCH METHODLOGY

The study is based on secondary data , the data was collected from RBI website, (CMIE) data base for Centre for Monitor Indian economy namely PROWESS, Capital Line, Published annual reports of selected foreign banks operating in India for research.

To evaluate the financial performance of selected foreign bank following banks are taken namely CITI, HSBC, SCB, DBS, and Deutsche. CAMEL model was adopted for the study to evaluate the performance of the banks. The following table shows the selected indicators for the study under each acronym of CAMEL. Calculated ratio under CAMEL model.

1. **Capital Adequacy**
    - Capital Adequacy Ratio
    - Capital Adequacy Ratio tier 1
    - Capital Adequacy Ratio tier 2

2. **Assets Quality**
    - Net NPA to Net Advance S
    - secured Advance to total Advance
    - Term loans to Total Advance

3. **Managerial Efficiency**
    - Return on Equity(ROE)
    - Business Per Employee
    - Profit per Employee
    - Return on Net Worth

4. **Earning Capabilities**
    - Return on Assets
    - Net Interest Margin
    - Operating Profit to Total Assets
    - Non-Interest Income total assets

5. **Liquidity**

- Cash Deposit Ratio
- Credit Deposit Ratio
- Investment Deposit Ratio

PERIOD OF THE STUDY

The study covers a period of 5 years from 2013-14 to 2018-19.

ANALYSIS AND INTERPRETATION

CAPITAL ADEQUACY: Capital adequacy reflects the overall financial conditions of the banks. Capital is seen as cushion to protect the depositors and promote stability and efficiency. It is required to maintain confidence of depositors and prevent the bank from going bankrupt. Capital Adequacy indicates whether the bank has enough capital to absorb unexpected losses. It also shows the ability of the management to meet the need for the additional capital. In this study following ratios have been used to measure capital adequacy. As per regulatory norms Under Basel III, a bank's tier 1 and tier 2 capital must be a minimum of 8% of its risk-weighted holdings. The minimum capital adequacy ratio, also including the capital conservation buffer, is 10.5%.

TABLE 1: CAPITAL ADEQUACY OF SELECTED FOREIGN BANKS

PARAMETER		Deutsche Bank	HSBC	DBS	SCB	CITI
CAR	MEAN	14.73	16.81	15.78	13	16.21
	ST. DEV	0.81	1.47	2.33	0.63	0.89
	CO.VAR	0.05	0.09	0.15	0.05	0.05
	RANK	**4**	**1**	**3**	**5**	**2**
CAR TIER-1	MEAN	14.08	15.73	11.28	11.72	15.18
	ST. DEV	0.86	1.54	1.38	1.26	0.95
	CO.VAR	0.06	0.10	0.12	0.11	0.06
	RANK	**3**	**1**	**5**	**4**	**2**
CAR TIER-2	MEAN	0.64	1.07	4.5	1.28	1.03
	ST. DEV	0.04	0.36	1.65	0.91	0.11
	CO.VAR	0.06	0.34	0.37	0.71	0.11
	RANK	**5**	**3**	**1**	**2**	**4**
AVERAGE		4	1.6	3	3.7	2.7
RANK		**5**	**1**	**3**	**4**	**2**

The above table shows that in term of overall Capital Adequacy HSBC has top position followed by CITI, SCB, DBS. The lowest composite rank represents the good position for the bank. On the other hand, Deutsche bank has the lowest position in comparison to other banks under the study. Capital adequacy highest in case of HSBC bank which is 16.81 and Deutsche bank has 14.73.DBS has suffered from highest slandered deviation which shows more volatility as compare to other bank.

ASSET QUALITY: Asset quality of banks helps to ascertain the component of non-performing assets as a percentage of the total assets which indicates the types of advances the bank has made to generate interest income. The ratios necessary to understand the asset quality of the banks are the following

TABLE-2 ASSET QUALITY OF SELECTED FOREIGN BANK

PARAMETER		Deutsche Bank	HSBC	DBS	SCB	CITI
NET NPA TO NET ADVANCES	MEAN	0.3	0.38	4.63	0.73	0.81
	ST. DEV	0.35	0.1	3.26	0.6	0.5
	CO.VAR	1.17	0.26	0.70	0.82	0.62
	RANK	**5**	**4**	**1**	**3**	**2**
GROSS NPA	MEAN	3269.8	7650.4	12905.2	70374.6	10663
	ST. DEV	3744.1	1113.2	6132.4	26030.9	3286.9
	CO.VAR	1.15	0.15	0.48	0.37	0.31
	RANK	**5**	**4**	**2**	**1**	**3**
NET NPA	MEAN	12223.2	1740	7519.2	4765.8	4534.2
	ST. DEV	1229.7	617.69	4741.16	3730.7	2581.21
	CO.VAR	0.100604	0.354994	0.63054	0.782807	0.569276
	RANK	**1**	**5**	**2**	**3**	**4**
AVERAGE		3.7	4.3	1.6	2.3	3
RANK		4	5	1	2	3

From the Table No. 2, it is witnessed that assets quality of DBS bank is much better as compare to other bank. SCB got second place in assets quality followed by CITI, Deutsche bank and HSBC respectively. Net NPA to Net Advance ratio (Lowest value provide lowest rank) shows that HSBC (0.38) has the better condition with standard deviation 0.1. Where Gross NPA depicts that highest value 70374.6 obtain by the SCB and standard deviation value is (26030.9). Net NPA showed that Deutsche have highest value (12223.2) with standard deviation (1229.7) which is more volatile in comparison to other.

***MANAGEMENT EFFICIENCY*: Management ratios indicate the effectiveness of management in dealing with their Deposits and Advances. The ratios used to measure the management efficiency are the following: Return on Net worth (RONW); Return on Equity (ROE; Profit per Employee (PPE) and Business per Employee (BPE).

TABLE-3 MANAGEMENT EFFICIENCY OF SELECTED FOREIGN BANKS

PARAMETER		Deutsche Bank	HSBC	DBS	SCB	CITI
RETURN ON EQUITY	MEAN	2.05	1.53	1.01	1.72	2.25
	ST. DEV	0.68	0.24	0.5	0.77	0.17
	CO.VAR	0.33	0.16	0.50	0.45	0.08
	RANK	**2**	**4**	**5**	**3**	**1**
BUSINESS	MEAN	4.51	3.22	1.98	4.21	4.21

PER EMPLOYEE	ST. DEV	0.76	0.31	0.36	0.2	0.23
	CO.VAR	0.17	0.10	0.18	0.05	0.05
	RANK	**1**	**4**	**5**	**3**	**2**
PROFIT PER EMPLOYEE	MEAN	4.04	2.63	1.25	4.03	4.07
	ST. DEV	1.01	0.43	0.26	0.36	0.44
	CO.VAR	0.25	0.16	0.21	0.09	0.11
	RANK	**2**	**4**	**5**	**3**	**1**
RETURN ON NET WORTH	MEAN	1.8	1.48	0.71	2.16	2.14
	ST. DEV	0.69	0.17	0.4	0.43	0.35
	CO.VAR	0.38	0.11	0.56	0.20	0.16
	RANK	4	3	5	1	2
AVERAGE		**2.25**	**3.75**	**5**	**2.5**	**1.5**
RANK		**2**	**4**	**5**	**3**	**1**

Management efficiency is one of the important elements of CAMEL Model as management is ultimately responsible for the sound functioning of banks. In view of increased competition in the Indian banking sector, improving efficiency has become a compulsion for all the banks for their survival and growth Table no 3 depicts that managerial efficiency of CITI is better in comparison to other banks followed by Deutsche bank, HSBC and SCB respectively and DBS got lowest rank. Return on Equity and profit per employee analysis shows that the CITI have highest value with mean 2.25 and 4.07 respectively. SCB bank has highest Business per Employee mean value i.e. 4.51and standard deviation 0.76. SCB shows better position in terms of Return on Net Worth with mean and standard deviation 2.16 and 0.35 respectively.

EARNING CAPABILITY : Earning quality checks the ability of a bank to earn consistently. It determines the profitability of bank and explains its sustainability and growth in earnings in future. The ratios explain the quality of income generation is Percentage Growth. Banks depend on their strong earning capability to perform the activities such as funding dividends, maintaining adequate capital levels, providing for investment opportunities to for bank for growth, strategies for engaging in new activities and maintaining the competitive outlook.

TABLE-4 EARNING CAPACITY OF SELECTED FOREIGN BANKS

PARAMETER		**Deutsche Bank**	**HSBC**	**DBS**	**SCB**	**CITI**
RETURN ON ASSET	MEAN	11.35	10.95	0.76	10.58	16.9
	ST. DEV	2.97	1.49	6.21	5.25	0.79
	CO.VAR	0.26	0.14	8.17	0.50	0.05
	RANK	**2**	**3**	**5**	**4**	**1**
NET INCOME TO TOTAL ASSET	MEAN	377.37	258.32	374.52	187.28	254.08
	ST. DEV	88.66	50.23	28.03	13.89	39.38
	CO.VAR	0.23	0.19	0.07	0.07	0.15
	RANK	**1**	**3**	**2**	**5**	**4**
OPERATING PROFIT TO TOTAL ASSET	MEAN	6.07	4.1	0.17	3.01	5.78
	ST. DEV	1.36	1.03	2.26	1.19	0.96
	CO.VAR	0.22	0.25	13.14	0.40	0.17
	RANK	**1**	**3**	**5**	**4**	**2**

NET INTEREST INCOME TO TOTAL ASSET	MEAN	10.92	10.92	0.32	10.8	16.66
	ST. DEV	3.12	1.74	6.38	5.75	1.09
	CO.VAR	0.29	0.16	19.94	0.53	0.07
	RANK	**2**	**3**	**5**	**4**	**1**
AVERAGE		**1.75**	**4**	**4.25**	**4.25**	**2**
RANK		**1**	**3**	**5**	**4**	**2**

Table depicts that CITI and Deutsche bank has top position in term of Return on Assets followed by SCB and HSBC bank and lowest position secured by DBS. Net income to Total assets is highest in case of Deutsche bank with mean value 377.37 and lowest in SCB bank with mean value 187.28. Deutsche bank has highest operating Profit to total asset and DBS has lowest with mean 6.07 and 0.17 respectively. Net Interest Income to Total asset shows that Deutsche Bank got the highest position of 10.92 respectively.

LIQUIDITY: Bank has to take a proper care to hedge the liquidity risk; at the same time ensuring that good percentage of funds are invested in high return generating securities, so that it is in a position to generate profit with provision for liquidity to the depositor. Liquidity of the banks assures the depositors that they can access to their funds whenever need arise and shows the stability and longevity of banks. While too much liquidity has a negative impact on profitability, too little liquidity increases the risk of insolvency.

TABLE-5 LIQUIDITY OF SELECTED FOREIGN BANKS

PARAMETER		**Deutsche Bank**	**HSBC**	**DBS**	**SCB**	**CITI**
CASH DEPOSIT	MEAN	10.28	5.42	5.43	5.12	6.67
	ST. DEV	2.84	1.92	1.35	0.7	2.21
	CO.VAR	0.28	0.35	0.25	0.14	0.33
	RANK	**1**	**4**	**3**	**5**	**2**
CREDIT DEPOSIT	MEAN	100.29	57.84	84.66	92.52	66.6
	ST. DEV	8.91	4.5	6.47	5.52	9.84
	CO.VAR	0.09	0.08	0.08	0.06	0.15
	RANK	**1**	**5**	**3**	**2**	**4**
INVESTMENT DEPOSIT	MEAN	45.06	66.02	80.55	45	64.45
	ST. DEV	18.81	12.33	31.16	3.61	5.53
	CO.VAR	0.42	0.19	0.39	0.08	0.09
	RANK	**4**	**2**	**1**	**5**	**3**
AVERAGE		**2**	**3.7**	**2.3**	**4**	**3**
RANK		**1**	**4**	**2**	**5**	**3**

Above table present that liquidity position of Deutsche bank is much better followed by DBS, CITI, and HSBC respectively. SCB secured the lowest position in term of liquidity. Deutsche Bank has strong position in case of in case of cash deposit ratio and credit deposit ratio. DBS has highest average investment deposit ratio i.e. 80.55 with standard deviation 31.16.

OVERALL PERFORMANCE

The overall ranking of the banks considering all the sub criteria rankings under CAMEL analysis over the ten years period (2013-14 TO 2018-19) is presented in following Table 1-5 The group rankings of all the banks considered for the purpose of study is taken and averaged out to reach at the overall grand ranking. CITI is ranked first under the CAMEL analysis followed by Deutsche Bank. DBS occupied the third position. The fourth position is occupied by HSBC. The last position under CAMEL analysis is occupied by SCB bank amongst all the selected banks during the year 2013-14 TO 2018-19

TABLE-6 OVERALL RANKING OF THE SELECTED BANKS BASED ON THE CAMELS PARAMETERS

BANK	C	A	M	E	L	AVERAGE	RANK
Deutsche Bank	5	4	2	1	1	2.6	**2**
HSBC	1	5	4	3	4	3.4	**4**
DBS	3	1	5	5	2	3.2	**3**
SCB	4	2	3	4	5	3.6	**5**
CITI	2	3	1	2	3	2.2	**1**

CONCLUSION

To assess the performance of the bank is necessary to prepare the financial reports usually consists of a balance sheet, income statement, cash flow statement, statement of changes in equity and notes to the financial statement . Some ratios can show organization situation in society and industry. There are some rating system to demonstrate position and some special point to managers and all stakeholders. CAMELS rating model is a model to confess that an organization where can be successful and where has weaknesses.

Banks can use this method to calculate and discuss ratios and focus on some crisis and find best solution when there is competitive problem and try to challenge and get a new and better position between the others. In fact, the important aspect of CAMELS is to compare an organization with the others in internal and external industry. By considering all of the parameters of CAMEL, it is seen that CITI Bank is at the top position as assessed by the CAMEL Model compared to other banks under the study. CITI Bank has strong performance in case of Asset Quality, Management efficiency and Earnings Ability while it is lag behind in case of capital adequacy. On the other side, SCB bank at the lowest position compared to other banks under the study due to its poor performance in the context of Capital Adequacy, Earnings Ability and Liquidity whereas it perform better in case of capital adequacy. Therefore, SCB bank should improve its position in particular weak areas. Therefore, the policy makers of the related lowest ranking banks should take necessary steps and try to find out solution to improve their weaknesses by using the findings this study.

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