

An Inferential Analysis for Evaluate the Financial Performance of Selected Public and Private Bank Before and After Merger Acquisition.

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Abstract: The Public –Private bank is a spine of the Indian economy therefore it should be controlled more attentively than any other business unit. In this study encroach is made to judge the financial viability of the Private-Public Banks by Camel Approach. In mergers by using the camel approaches evaluate the performance of banks, from all the considerable parameter like Capital Adequacy, Assets Quality, Management Efficiency, Earning Quality and Liquidity. This study used secondary data of 10 years from the annual reports of Public-Private Bank which are analyzed by calculating 19 ratios related to CAMEL Model. According to the Financial Performance of Selected Private Bank after Merger Acquisition give satisfactory result.

Key Words: Inferential, Capital Adequacy, Assets Quality, Management Efficiency, Earning Quality and Liquidity

Introduction to Camel Framework

In the 1980s, CAMEL rating system was exordium by U.S. as a system of rating for on-site observation of bank. According to this approach, every bank subject to on- site examination is evaluated on the basis of five critical points relating to its monetary performance, which is present as namely Capital, Asset Quality, Management, Earnings and Liquidity used to reflect the financial performance, condition, soundness and regulatory compliance of the banks. A group rating is performed is taken as the important indicator of a bank's current financial condition.

Literature Review

The performance of banks has been analyzed by different scholars and administrators using CAMEL model in the last decade. A summary of some of the studies is given below:

Healey, Palepu, and Ruback et.al (1992) studied the post-acquisition accounting data for the 50 largest US mergers between 1979 and mid-1984 and establish that the declaration returns based on stock price changes of the merging institution are remarkably related with enhancement in post-merger operating activity, showing that anticipated profit drive the share prices at

declaration. They also establish remarkable development in asset productivity for these institutions following the acquisition.

Sharma and Ho et.al (2002) studied the impact of acquisitions on the operating activities of Australian firms employing a sample of 36 Australian acquisitions occurring between 1986 and 1991. The conclusion showed that corporate acquisitions did not conclude in remarkable development in post-acquisition operating activities.

Ahluwalia Montek et.al (2002) conducted a study on “Economic Reforms in India since 1991: Has Gradualism worked?” This study deals with the impact of gradualist economic reforms in India on the policy environment from 1991 to 2001. The researcher has gone into depth about the process of economic reforms in India forced by severe BOP crisis, post-reforms performance; need to reduce fiscal deficit and subsidies etc.

Ballabh et.al (2002) examined the various techniques to increase the employees’ productivity. The study stressed the importance of aspects such as technology support for enhancing customer service, emerging e-contact and eye-contact, strategies for redeployment and strategies to make employees more productive. It was further suggested to include contribution of non-fund based activities of the Bank for its performance analysis.

Bhide et.al (2002) in their paper took the critical view of on-going Banking Sector reforms. It is observed that the role of Bank has changed from financial intermediation to extending cost-effective and efficient financial services. Further it is stated that the Indian Banking Sector is currently facing challenges of Consolidation, Recapitalization, Implementation of Prudential Norms, Legal Framework, Corporate Governance, Basel- II Norms etc.

Bisht et.al (2002) studied the impact of Liberalization on the Indian Banking Sector. They established the fact that the present Banking structure is the outcome of a process of Expansion , Re – organization and Consolidation which have been going on for many years and passed through three important phases - Pre – nationalization, Post nationalization and Post Liberalization. With the advent of internet, one can distinctly perceive the arrival of fourth phase which led to mass structural changes in Banking by replacing brick and mortar branches with the electronic delivery channels to provide more options to the customers. Traditional Banking has become a thing of the past; and technology has changed the rule of the game.

Arora et.al (2005) studied the performance evaluation of PSBs in the post reforms period on the basis of four parameters i.e. financial parameters, Operational parameters, Profitability parameters and Productivity parameters and found the performance of PSBs quite satisfactory during the study period.

Al-Tamini et.al (2006) has tried to differentiate service quality and performance of Bank. Differentiation has been made between National and Foreign Banks in the UAE. Mann Whitney non-parametric test has been used for distinguishing the financial performance.

Vrinda J et.al (2007) made an econometric analysis on the performance of PSBs in India. For evaluating a Bank's performance, they have used two Profitability measures: Return on Assets (ROA), Operating Profit Ratio (OPR). They concluded that PBs and Foreign Banks are not found to be superior to the PSBs in any of the performance indicators, while PSBs scored well against benchmarks in the area of ROA, NPAs, Operating costs as proportion of Total Assets, Capital Adequacy requirements etc.

Agarwal Pankaj K et.al (2011) have distinguishing the activities of PSBs with their Private sector counterparts on universally adopted CAMEL model. The study finds that PSBs have lower Capital Adequacy in compare to Private Sector Banks, while the Asset Quality of PSBs is higher than Private Sector Banks which reflected in their Gross NPAs and there is no remarkable difference in the Net NPA performance of these Banks. It is later finds that the management competence and the earnings activities of PSBs are alike to that of PBs, while on liquidity yardstick, the PBs has outperformed the PSBs.

Research Methodology

A ratio analysis is done on camel model which is used to examine the internal structure of banks included Capital Adequacy, Asset Quality, Management Quality, Earnings and Liquidity.

Objectives of the Study

The main purpose of the research is to analyze the position and performance of the Private-Public Sector banks on the bases of financial ground by using CAMEL approach.

Data Collection

A Secondary Sources of data collection is used which includes journals, IBA bulletin, statistics published by Reserve bank of India and annual reports published by the banks.

Analysis OF Components of CAMEL Framework

Capital Adequacy

Capital adequacy ratio is the ratio which safeguards banks against insolvency, protects banks against surplus leverages, insolvency and keeps them out of difficulty. It is defined as the ratio of banks capital in relation to its current liabilities and risk weighted assets. As per RBI norms, Indian SCBs should have a CAR of 9% i.e., 1% more than stipulated Basel norms while as per the latest RBI norms, public sector banks are emphasized to keep this ratio at 12%. For the study, the following ratios have been used to measure capital adequacy:

- Capital Adequacy Ratio
- Debt Equity Ratio,
- Total Advances to Total Assets Ratio,

Table 1: Overall calculation of Capital Adequacy of Selected Private and Public Banks

Banks	Capital adequacy		Debt equity			Total advance to total assets		
	Average	Rank	Average	Rank	Average	Rank	Average	Rank
SBI	12.85	5	3598.64	2	0.573	3	1204.02	2
KMB	17.46	2	244.53	6	0.62	2	87.53	6
ICICI	17.72	1	513.06	5	0.564	4	177.12	5
HDFC	15.07	3	4157.38	1	1.034	1	1391.16	1
INDIAN OVERSEAS BANK	11.89	6	1530.78	4	0.43	6	514.36	4
IDBI	13.65	4	1834.56	3	0.48	5	616.23	3

Source: Data collected from Annual reports of RBI and related banks sites.

Result

On the basis of group averages of three sub-parameters of capital adequacy, HDFC Bank was at the top position with group average of 1391.1, followed by SBI (1204.02) and IDBI (6.50). KMB stood at the last position due to its poor performance in CAR.

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. This declining value of the bank's assets has a rippling effect, as losses are ultimately written-off against capital, which eventually affects the earning capability of the bank.

For the study, the following ratios have been used to measure assets quality

- Net Non-Performing Assets (NPA) to Net Advances Ratio,
- Gross NPA to Net Advances Ratio,
- Total Investments to Total Assets Ratio

Table 2: Overall Calculation of Assets Quality of Selected Private and Public Banks

Banks	Net Non-Performing Assets (NPA) to Net Advances		Gross NPA to Net Advances		Total Investments to Total Assets			
	Average	Rank	Average	Rank	Average	Rank	Average	Rank
SBI	31.32	2	16.014	2	1.146	2	16.16	2
KMB	12.11	6	5.78	6	0.256	4	6.04	6
ICICI	21.42	4	10.43	3	0.31	3	10.72	3
HDFC	37.55	1	18.77	1	1.18	1	19.16	1
INDIAN OVERSEAS BANK	23.98	3	7.88	4	0.11	5	10.656	4
IDBI	17.66	5	7.34	5	0.09	6	8.36	5

Source: Data collected from Annual reports of RBI and related banks sites

Result

On the basis of group averages of sub-parameters of assets quality, HDFC had the highest group average of 19.16, followed by SBI (16.16) and ICICI (10.72). KMB (6.06) was positioned last in terms of assets quality.

MANAGEMENT EFFICIENCY

The Management Efficiency parameters signal the ability of the board of directors and senior managers to identify, measure, monitor and control risks associated with the bank. 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. For the study, the following ratios have been used to measure Management efficiency

- Total Expenditure to Total Income Ratio,
- Total Advances to Total Deposits Ratio
- Assets Turnover Ratio
- Diversification Ratio

Table 3: Overall calculation of Management Efficiency of Selected Private and Public Banks

Banks	Total Expenditure to Total Income		Total Advances to Total Deposits		Assets turnover ratio		Diversification ratio			
	Average	Rank	Average	Rank	Average	Rank	Average	Rank	Average	Rank
SBI	0.98	3	0.73	5	0.07	6	0.168	4	1.948	5
KMB	0.825	6	0.827	4	0.085	5	0.155	3	1.892	6
ICICI	1.02	2	1.05	1	0.09	4	0.20	1	2.36	3
HDFC	1.03	1	1.02	2	1.02	1	0.22	2	3.29	2
INDIAN OVERSEA BANK	0.93	4	0.69	6	0.79	2	0.88	6	2.29	4
IDBI	0.87	5	0.99	3	0.69	3	0.79	5	3.34	1

Source: Data collected from Annual reports of RBI and related banks sites

Result

On the basis of group averages of sub-parameters of management quality, IDBI had the highest group average of 3.34, followed by HDFC (3.29) and ICICI (2.36).KMB (1.892) was positioned last in terms of management quality

EARNING QUALITY

The quality of earnings is a vital parameter that determines the ability of a bank to earn steadily, going into the future. The quality of earnings represents the sustainability and growth in future earnings of the bank and the competency of the bank to sustain maintain this quality and earn steadily. It is an indicator of profitability of banks. The ultimate aim of a bank is to increase its bottom line and bring profit to the stakeholders. For the study, the following ratios have been used to measure earnings quality:

- Net Profit Margin,
- Return on net worth,
- Adjusted cash Margin,
- Interest Spread,
- Interest Income to Total Income Ratio,
- Interest Expended to Interest Earned Ratio

Table 4: Overall calculation of Earnings Quality of Selected Private and Public Banks

Banks	Net Profit Margin		Return on net worth		Adjusted cash Margin		Interest Spread		Interest Income to Total Income Ratio		Interest expended to interest earned ratio			
	Average	Rank	Average	Rank	Average	Rank	Average	Rank	Average	Rank	Average	Rank	Average	Rank
SBI	15.13	4	5.922	6	9.612	6	6.15	5	7.6	6	64.7	2	109.072	5
KMB	17.80	3	11.35	3	16.48	3	8.04	1	9.64	4	54.8	5	118.12	4
ICICI	20.68	1	12.33	2	17.77	2	7.29	3	7.8	5	63.4	3	129.27	2
HDFC	20.41	2	16.91	1	18.31	1	7.52	2	11.34	1	65.8	1	140.45	1
INDIAN OVERSEA BANK	14.22	5	9.5	5	14.6	4	6.5	4	10.66	2	56.3	4	119.34	3
IDBI	13.06	6	10.67	4	12.7	5	5.5	6	9.8	3	53.7	6	105.87	6

Source: Data collected from Annual reports of RBI and related banks sites

Result

On the basis of group averages of sub-parameters of earning quality, HDFC had the highest group average of 1140.45, followed by ICICI (129.20) and Indian oversea bank (119.34).IDBI (105.87) was positioned last in terms of earning quality

LIQUIDITY

Liquidity management in banks has assumed key prominence due to competitive force of peer banks and the smooth flow of foreign capital in the domestic markets. Every bank should ensure that it is able to maintain adequate level of liquidity to meet its financial commitments in a timely manner. In order to fulfill the demands of the customers; the creditors and the depositors, banks must maintain liquidity in their asset, as the influence of liquidity crisis in banks can adversely impact their financial performance. The following ratios have been used to measure liquidity:

- Cash to Deposit Ratio
- Current ratio,
- Quick ratio.

Table 5: Overall calculation of Earnings Quality of Selected Private and Public Banks

Banks	Cash to deposit		Current ratio		Quick ratio			
	Average	Rank	Average	Rank	Average	Rank	Average	Rank
SBI	6.354	5	0.058	4	12.25	3	18.66	3
KMB	4.886	6	0.04	5	10.21	4	15.13	6
ICICI	7.188	2	0.08s	3	12.266	2	19.534	2
HDFC	8.12	1	0.12	1	13.01	1	21.25	1
INDIAN OVERSEA BANK	7.13	3	0.09	2	9.11	6	16.33	5

IDBI	6.80	4	0.03	6	10.12	5	16.95	4
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Source: Data collected from Annual reports of RBI and related banks sites

Result

On the basis of group averages of sub-parameters of liquidity quality, HDFC had the highest group average of 21.25, followed by ICICI (19.534) and SBI (18.66). KMB (15.13) was positioned last in terms of liquidity quality

Table 6: ONE WAY ANOVA TEST

	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	6390581.190	28	228235.043	1.202	.223
Within Groups	7.156E7	377	189801.095		
Total	7.795E7	405			

For certain conclusion, whether there is any significant difference between the means of CAMEL ratios, one-way ANOVA test is used. According to the ANOVA test we calculated that the F test is 1.202 and the Sign value is .223. The analysis of ANOVA test calculated the significance values of F test is less than 0.05. It shows that the calculated value of F test 1.202 is more than the accepted value 0.05. According to the ANOVA Test performance of private banks are higher than public sector banks.

Conclusion

Due to regular changes in the banking sector in the recent years, all banks have increases their essential quality and techniques. Various studies have been conducted in India as well on various banks using CAMEL framework. In this study selected different banks are ranked according to the ratings obtained by them on the five parameters. According to the result capital adequacy, Assets quality, Earning quality and Liquidity HDFC and SBI banks are in top position while KMB bank in the last. In Management quality the IDBI bank performance is up to the desirable standards. According to the Financial Performance of Selected Private Bank after Merger Acquisition give satisfactory result. Also, it can be resulted that the private and public banks with least ranking need to improve their performance to come up to the desired standards.

LIMITATIONS

The present study is detained to secondary data, appropriated for financial figures and the restriction of using secondary data may affect the results. The present study is largely based on ratio analysis; such analysis has its own limitations, which also applies to the study. The scope of this study is confined to the banking sector only.

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