

## “A study on performance and ranking of public sector banks (vs) Private Sector Banks using camel rating system (a case study on State Bank Of India, Canara Bank Vs City Union Bank, ICICI Bank)”

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### Abstract

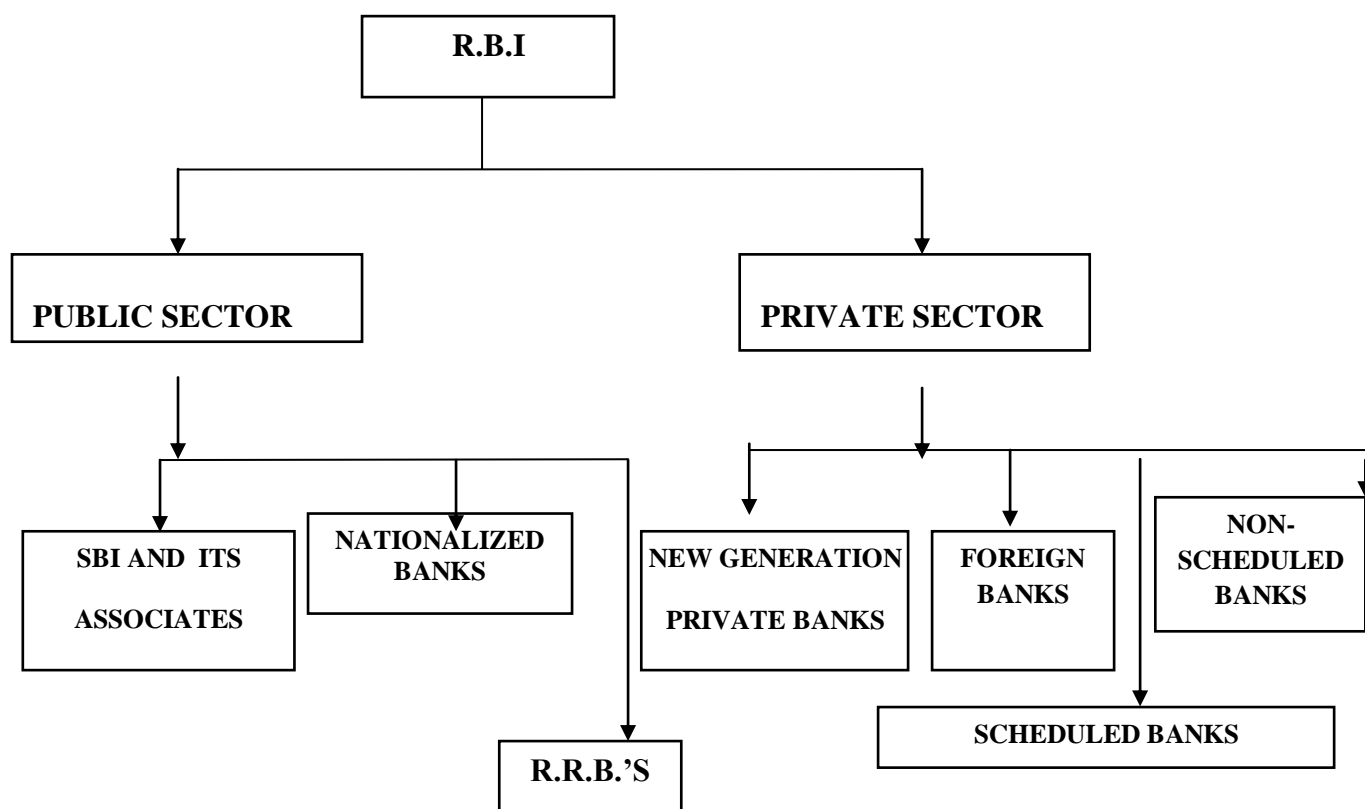
In recent years the Indian Banking Industry has been in transformation phase, i.e. advancement in communications and information technology, due to emphasis on e-commerce which have accelerated and broadened the dissemination of financial information while lowering the costs of many financial activates. Public Sector Banks and Private Sector Banks play an important role in economic development of the country. These are banking financial intermediaries which provide investments avenues in the form of deposits and tax savings schemes on the other way such institutions lends loans at affordable interest rates to the general public, corporates. Public Sector Banks and Private Sector Banks have had the distinction of being recognized as banking financial institutions in India, which provides satisfying services to its customers or account holders. **As a result of this the customers and employees expects the quality services from such intermediaries. This article focuses on how far Public Sector Bank Vs Private Sector Bank is doing their business in a banking industry after liberalization and banking reforms and this article uses CAMEL Rating System in comparing the financial services of the said banks. How far Public Sector Banks or Private Sector Banks are successful in facing these challenges?** This article is a modest effort to study the performance and position of public and private sector banks on the basis of major parameters. With Reference to State Bank of India, Canara Bank (Vs) CITY UNION Bank, ICICI Bank.

*Keywords: performance, private sector banks, public sector banks, camel rating system.*

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## 1. Introduction

The Reserve Bank of India (RBI) is India's Central Bank. Though public sector Banks currently dominate the banking industry, numerous private and foreign banks exist. The performance of the banking sectors mixed, with a few being consistently profitable. Several public sector banks are being restructured, and as been thinking or dilute the ownership in many of the published banks. The RBI has granted operating approval to a few privately owned domestic banks; of these many commenced banking business. Foreign banks have more than 150 branches in India. The entry of foreign banks is based on reciprocity, economic and political bilateral relations. An inter-departmental committee approves applications for entry and expansion. The Reserve Bank of India is the central banking institution. It is the sole authority for issuing bank notes and the countries supervisory body for banking operations in India. It supervises and administers exchange control and banking regulations, and administers the Government's monetary policy. It is also responsible for granting licenses for new bank branches. 25 foreign banks operate in India with full banking licenses.



The **CAMELS ratings** or **Camels rating** is a supervisory rating system originally developed in the U.S. to classify a bank's overall condition. It's applied to every bank and credit union in the U.S. (approximately 8,000 institutions) and is also implemented outside the U.S. by various banking supervisory regulators.

The ratings are assigned based on a ratio analysis of the financial statements, combined with on-site examinations made by a designated supervisory regulator. In the U.S. these supervisory regulators include the Federal Reserve, the Office of the Comptroller of the Currency, the National Credit Union Administration, and the Federal Deposit Insurance Corporation.

Ratings are not released to the public but only to the top management to prevent a possible bank run on an institution which receives a CAMELS rating downgrade. Institutions with deteriorating situations and declining CAMELS ratings are subject to ever increasing supervisory scrutiny. Failed institutions are eventually resolved via a formal resolution process designed to protect 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)
- (S)ensitivity (sensitivity to market risk, especially interest rate risk)

### **Parameters for rating of a bank:**

Each of these 6 components is weighed on a scale of 1 to 100 and contains several sub-parameters with individual weightage.

#### Rating symbols – Domestic Banks

The rating symbols A to E indicate as under:

A- Basically sound in every respect.

B - Fundamentally sound but with moderate weaknesses.

C - Financial, operational or compliance weaknesses that give cause for supervisory concern.

D - Serious or immoderate finance, operational and managerial weaknesses that could impair future viability

E- Critical financial weaknesses that render the possibility of failure high in the near term.

### **Rating Parameters For Foreign Banks:**

C -Capital adequacy ratio

A -Asset quality

C -Compliance

S - System and controls

## **2. Company profile**

**STATE BANK OF INDIA** is the largest state-owned banking and financial services company in India, by almost every parameter - revenues, profits, assets, market capitalization, etc. The bank traces its ancestry to British India, through the Imperial Bank of India, to the founding in 1806 of the Bank of Calcutta, making it the oldest commercial bank in the Indian Subcontinent.

**CANARA BANK** is a state-owned financial services company in India. It was established in 1906, which makes it among the older Indian banks. As on 2009 November, the bank had a network of 2861 branches, spread across India.

**CITI UNION BANK**, a major international bank, is the consumer banking arm of financial services giant Citigroup. Citibank was founded in 1812 as the *City Bank of New York*. Citigroup is the third largest bank holding company in the United States by domestic deposits, after Bank of America and JP Morgan Chase.

**ICICI BANK (FORMERLY. INDUSTRIAL CREDIT AND INVESTMENT CORPORATION OF INDIA)** is a major banking and financial services organization in India. It is the second largest bank in India and the largest private sector bank in India by market capitalization.

### **3. Research design:**

#### **1. Statement Of The Problem:**

Performance and ranking of Public Sector Banks and Private Sector Banks play a vital role in rendering financial services to a quality extent. These are banking financial intermediaries which provides various investment avenues in the form of deposits and tax savings schemes on the other way such institutions lends loans at affordable interest rates for general public and corporates. Public Sector Banks and Private Sector Banks have had the distinction of being recognized as banking financial institutions, which provides satisfying services to its customers or account holders. As a result of this the account holders and employees expects the quality level services from the banking institution. This Paper or article focuses on how far Public Sector Bank Vs Private Sector Bank is doing their business in a banking industry after liberalization and banking reforms. This Paper (or) article uses CAMEL Rating System in comparing the financial services of the said banks. And finally this paper (or) article judges the impact of functioning of their banking operations Competitive Indian Banking industry.

#### **2. Objectives of the study:**

1. To evaluate the Performance in terms Profitability of the said banks.
2. To evaluate the Performance in terms financial position of the said banks.
3. To evaluate the ranking process of the said banks through CAMEL Rating System.
4. To suggest the general public in selecting investment avenues in the said banks.
5. To Offer suggestions to improve the banking business of Public Sector banks to compete with Private sector banks in coming years.

### 3. Methodology:

Only secondary data is applicable to the study. The secondary data is collected through annual reports, websites and the companies brochures , comprehensive reference were made from the reference books, journals and magazines and soon. Ratio Analysis and CAMEL rating system are used as tools to analyze and interpret the performance and position of the said banks. To analyze the performance and position of the said banks the five years financial statements from Mar10 to Mar14 are used in this article work. I.e. Balance Sheets, P/L A/c's and Cash Flow statements.

### 4. Limitations of the study:

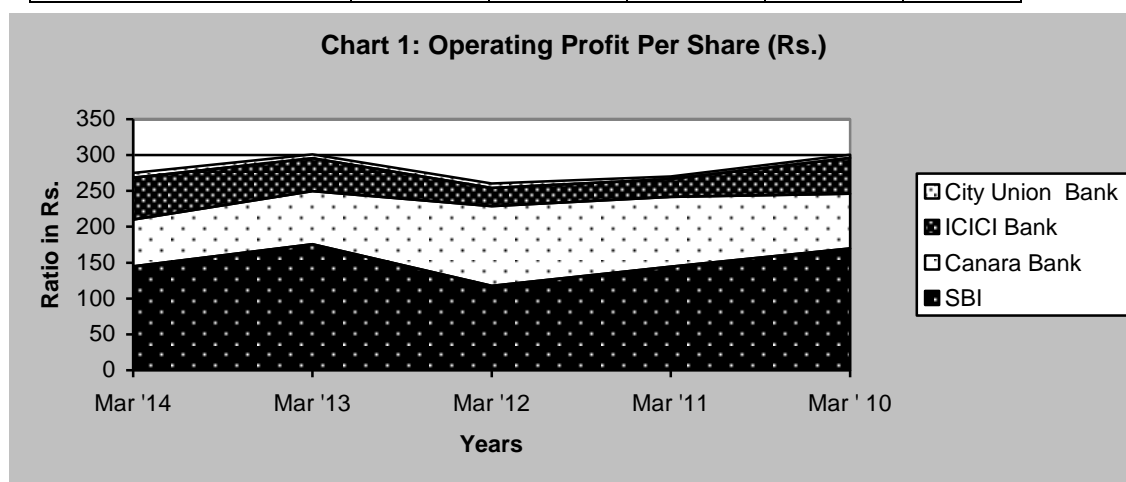
- Since the paper work is carried out for a very short period exhaustive findings could not be made.
- Most of the data is taken from the published sources and it is assumed to be true.

### 5. Analysis And Interpretations

Tables And Charts/ Graphs Showing Financial Ratios Analysis:

**Table 1. Operating Profit Per Share (Rs.)**

Operating Profit Per Share (Rs)	Mar '14	Mar '13	Mar '12	Mar '11	Mar '10
<b>SBI</b>	<b>144.99</b>	<b>175.52</b>	<b>117.59</b>	<b>144.46</b>	<b>169.69</b>
<b>Canara Bank</b>	<b>65.08</b>	<b>73.96</b>	<b>111.14</b>	<b>97.35</b>	<b>76.53</b>
<b>ICICI Bank</b>	<b>58.45</b>	<b>46.32</b>	<b>25.38</b>	<b>25.03</b>	<b>49.80</b>
<b>City Union Bank</b>	<b>6.70</b>	<b>5.34</b>	<b>6.24</b>	<b>3.56</b>	<b>4.61</b>



Source: Dion Global Solutions Limited, <http://www.moneycontrol.com>

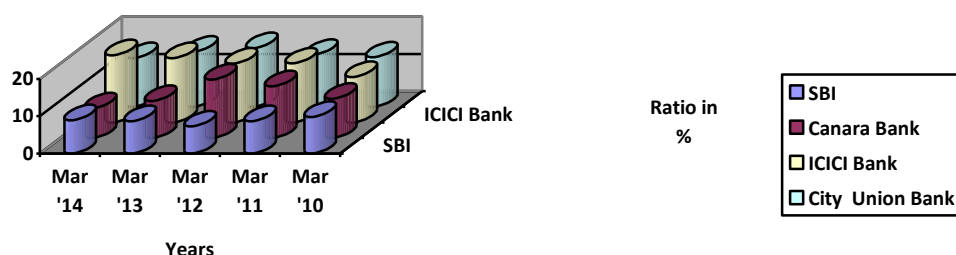
**Interpretation and Inference:** From the above table and chart we can summarize that the Operating Profit Per Share (Rs) of the said banks from Mar 10 to Mar 14 indicates it is in Positive trend i.e. Private sector banks. Whereas on a comparative basis we can interpret that public sector banks performance when compare to private sector banks.

I.e. SBI and Canara bank as Operating profit per share as come down 144.99 from 175.52 and 65.08 from 73.96 respectively from Mar 14 from Mar 13. On the other way the Private Sector banks Performance is quite good i.e. Operating profit per share has increased i.e. ICICI and CITY UNION Bank Position in this regard 46.32 to 58.45 and 5.34 to 6.70 respectively from Mar 14 from Mar 13. **Overall the performance of city union bank operating profit per share even though it is increased from mar 13 to mar 14 the profitability position is not so high as compared to public sector banks i.e. SBI and Canara Bank. Therefore the Management of the said bank has to strive hard to fulfil this position.**

**Table 2. Net Profit Margin (%)**

Net Profit Margin (%)	Mar '14	Mar '13	Mar '12	Mar '11	Mar '10
SBI	8.93	8.70	7.26	8.67	9.80
Canara Bank	7.94	9.89	15.64	13.83	10.48
ICICI Bank	17.96	17.19	15.75	15.79	12.17
City Union Bank	13.07	14.77	15.72	13.94	13.26

**Graph 2: Net Profit Margin In %**



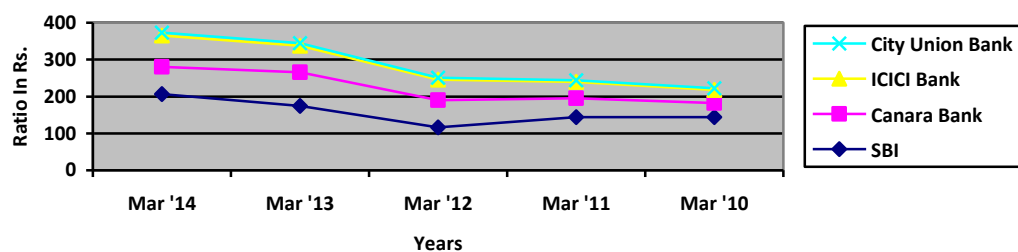
**Source: Dion Global Solutions Limited, <http://www.moneycontrol.com>**

**Interpretation and Inference:** The above table and graph indicates that the Net Profit Margin of the said banks from Mar 10 to Mar 14. We can analyze the Profitability position of the said banks. This is the key aspect of the performance of the said banks. On a comparative basis we can summarize that the SBI Net Profit Margin as increased to 8.93 from 8.70% in Mar14 from Mar13 and Canara Bank Net Profit Margin as come down to 7.94 from 9.89% in Mar14 from Mar13 . On the Other way private sector banks Profitability position is good in respect of ICICI bank where as CITY Union Bank Net Profit Margin as come down to 13.07 from 14.77% in Mar14 from Mar13. **Both SBI and CITY Union Bank as to implement right strategy to improve the performance and ranking position in this respect in coming years .**

**Table 3.Earnings Per Share (Rs.)**

Earnings Per Share (Rs)	Mar '14	Mar '13	Mar '12	Mar '11	Mar '10
SBI	206.20	174.46	116.07	144.37	143.67
Canara Bank	74.10	90.88	73.69	50.55	38.17
ICICI Bank	85.04	72.22	56.09	44.73	36.10
City Union Bank	7.85	6.87	5.31	3.83	3.82

**Graph 3:Earning Per Share (Rs.)**



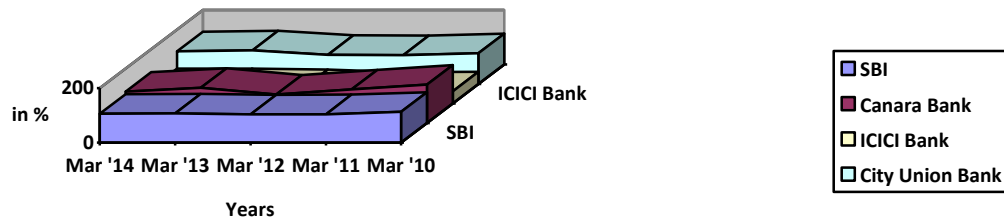
**Source: Dion Global Solutions Limited, <http://www.moneycontrol.com>**

**Interpretation and Inference:** The above table and graph highlights Earning per share of the said banks in terms of EPS (Rs) position and depicts that all four banks is able to match the shareholders expectations. On the comparative basis we can analyze and make out that the EPS (Rs) Position of SBI as increased to 206.20 from 174.46 and the percentage of increase is quite well and satisfactory in the case of Canara bank the EPS (Rs) Position is unsatisfactory as the EPS ratio has come down to 74.10 from 90.88 in Mar14 from Mar13 respectively. On the other way the private sector banks EPS (Rs) position is good and both the banks Ratio as increased i.e. ICICI EPS (Rs) is increased to 85.04 from 72.22 and CITY Union Bank EPS (Rs) as also increased to 7.85 from 6.87 in Mar14 from Mar13 respectively. **Canara Bank as to improve the EPS (Rs) Ratio in coming years to fulfil the shareholders expectations.**

**Table 4. Return on Long Term Funds (%)**

Return on Long Term Funds (%)	Mar '14	Mar '13	Mar '12	Mar '11	Mar '10
SBI	106.13	106.66	103.78	104.21	112.68
Canara Bank	115.78	129.77	104.44	123.27	141.63
ICICI Bank	56.48	56.37	52.33	43.05	44.72
City Union Bank	119.93	123.89	107.30	105.47	113.00

Graph 4: Return on long term Funds



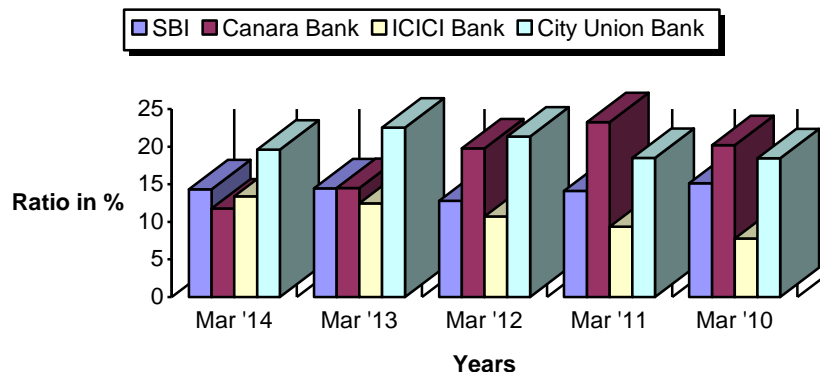
Source: Dion Global Solutions Limited, <http://www.moneycontrol.com>

**Interpretation and Inference:** The above table and graph highlights Return on Long term Funds (%) Profitability position which clearly explains that SBI Position is almost steady in the case of Canara Bank it is reduced to 115.78 from 129.77% in Mar14 from Mar13. This is very high and the percentage of reduction is also high. On the other way the Private sector banks profitability position in this respect i.e. ICICI bank ratio is almost steady in the case of CITY Union Bank ratio is reduced to 119.93 from 123.89% in Mar14 from Mar13 respectively. **All the four banks have to see that the return for long term fund holders has to be increased in coming years.**

**Table 5. Return on Net Worth (%)**

Return on Net Worth (%)	Mar '14	Mar '13	Mar '12	Mar '11	Mar '10
SBI	14.32	14.44	12.80	14.11	15.13
Canara Bank	11.79	14.50	19.77	23.26	20.21
ICICI Bank	13.40	12.48	10.70	9.35	7.79
City Union Bank	19.62	22.54	21.36	18.50	18.47

Graph 5:Return on Net Worth in %





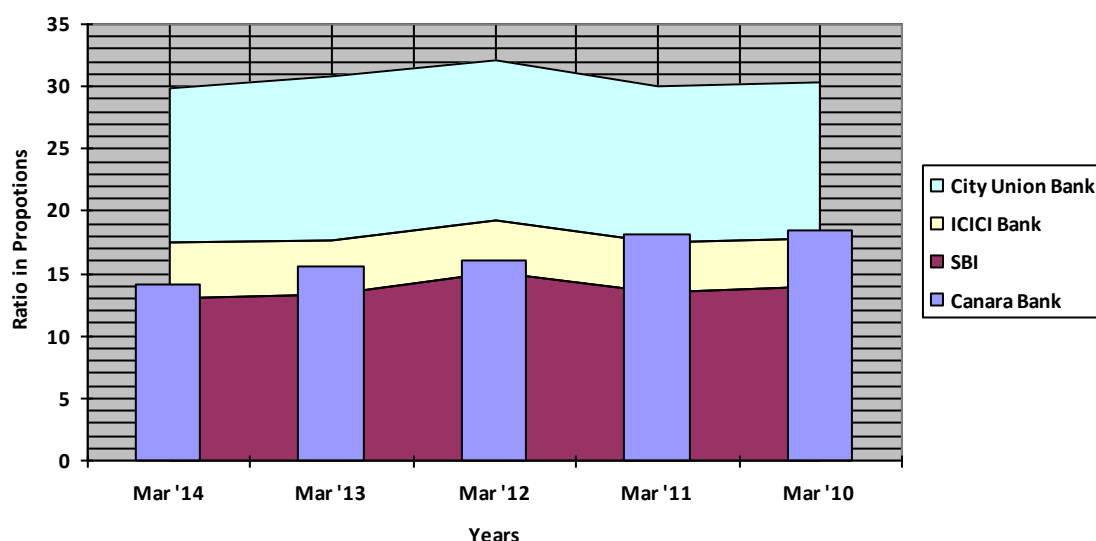
**Source: Dion Global Solutions Limited, <http://www.moneycontrol.com>**

**Interpretation and Inference:** The above table and graph highlights Return on Long term Funds (%) Profitability position which clearly depicts that the SBI ratio has come down to 14.32 from 14.44% in Mar14 from Mar13 in the case of Canara Bank ratio has come down to 11.79 from 14.50% in Mar14 from Mar13 respectively. On the other way the ICICI Bank ratio has increased to 13.40 from 12.48% in Mar14 from Mar13 in the case of the CITY Union Bank has come down to 19.62 from 22.54% in Mar14 from Mar13 respectively. **The Performance and ranking of Public sector banks in this respect is not good these banks as to see that the ratio will be increased in coming years i.e. S.B.I and Canara Bank.**

**Table 6. Total Debt to Owners Fund**

Total Debt to Owners Fund	Mar '14	Mar '13	Mar '12	Mar '11	Mar '10
SBI	13.02:1	13.32:1	15.04:1	13.43:1	13.98:1
Canara Bank	14.13:1	15.58:1	16.05:1	18.19:1	18.48:1
ICICI Bank	4.53:1	4.39:1	4.23:1	4.10:1	3.91:1
City Union Bank	12.38:1	13.15:1	12.83:1	12.46:1	12.42:1

**Chart 6: Total Debt to Owners Funds**



**Source: Dion Global Solutions Limited, <http://www.moneycontrol.com>**

**Interpretation and Inference:** From the above table and chart which express the trading on equity position of the said banks i.e. Debt equity Position. The entire four banks ratios are more than the Banking Industry standard ratio 2:1. I.e. In the case of Public Sector banks such as S.B.I the Ratio is 13.02:1; Canara bank ratio is 14.13:1 respectively. On the other way the Private Sector banks such as ICICI Bank the ratio is

4.53:1 and City Union Bank ratio is 12.38:1 respectively. **All the four banks have to go on par with Banking Industry standard debt equity ratio 2:1.**

**Table7. Quick ratio**

Quick Ratio	Mar '14	Mar '13	Mar '12	Mar '11	Mar '10
SBI	8.97:1	8.91:1	7.26:1	7.96:1	5.70:1
Canara Bank	15.08:1	19.39:1	22.00:1	21.69:1	10.74:1
ICICI Bank	11.31:1	10.53:1	9.37:1	15.86:1	14.70:1
City Union Bank	30.30:1	31.92:1	22.03:1	19.69:1	17.02:1

**Source: Dion Global Solutions Limited, <http://www.moneycontrol.com>**

**Interpretation and Inference:** The above table which explains the working capital position i.e. short term financial position of the said banks. Quick ratio is a comparison of quick Assets with quick liabilities .As per banking industrial standard the ratio must be in the proportion of 1:1 respectively. If you go through the above table we can analyze and interpret that the ratio performance of all four banks is more than the requirement due to CRR and SLR requirements time to time. **The Comparative analysis of Public sector banks with Private Sector banks i.e. SBI, Canara bank and ICICI and City Union Bank it can be advisable to invest excess funds so that the banks can enhance their liquidity position in coming years.**

### **5. Summary of Findings and Recommendations:**

- The Performance of city union bank operating profit per share even though it is increased from Mar 13 to Mar 14 the profitability position is not so high as compared to public sector banks i.e. SBI and Canara Bank. Therefore the Management of the said bank has to strive hard to fulfil this position.
- The SBI and CITY Union Bank's Net Profit Margin is not so good. Both SBI and CITY Union Bank as to implement right strategy to improve the Net Profit Margin the performance and ranking position in this respect in coming years.
- Canara Bank's EPS Position is not satisfactory as compare to others banks. Canara Bank as to improve the EPS (Rs) Ratio in coming years to fulfil the shareholders expectations.
- Return on long term fund ratio of all four banks as marginally reduced from Mar13 to Mar14. Therefore all the four banks have to see that the return for long term fund holders has to be increased in coming years.
- The Performance and ranking of Public sector banks in terms of Return on Net Worth (%) ratio is not good these banks as to see that the ratio will be increased in coming years i.e. S.B.I and Canara Bank.
- The Debt Equity ratio of all four banks is more than the banking industry standard ratio. All the four banks have to go on par with Banking Industry standard debt equity ratio 2:1.

- The Comparative analysis of Public sector banks with Private Sector banks suggests that the quick ratios of all four banks are more than the banking industry standard ratio. i.e. SBI, Canara bank and ICICI and City Union Bank it can be advisable to invest excess funds so that the banks can enhance their liquidity position in coming years.

## 6. Conclusion:

The Performance and Ranking of Public Sector Banks (VS) Private Sector Banks reveals that all the four banks are competing each other with innovative products and services. In terms of Profitability Position the Public Sector Banks i.e. S.B.I and Canara Bank are satisfactory in some parameters like E.P.S (Rs) and Return on long term Funds, Return on Net Worth. On the Other Way even Private Sector Banks Performance and Ranking Position in terms of liquidity and profitability are far better and quite rewarding for shareholders. **Overall all the four banks are striving for excellence.**

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