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Performance analysis of city union bank using camel model

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Abstract

Banks play a vital role in the development of Indian economy because the banking industry handles finances including cash and credit. The banking system has become complex and there is a strong need to evaluate the performance of banks. So, it has become necessary to study and analyze the financial performance of banks. The present study examines the financial performance of CUB using CAMEL model. Secondary data is collected from annual reports of CUB, journals and books. The collected data has been analyzed using CAMEL model. The study found that CUB bank was in growing trend and capital adequacy parameter were on the top position. The performance of the studied bank is good except that the current ratio is below the ideal ratio.

Keywords: advances, deposits, growth, financial analysis

Introduction

Banks are regarded as one of the most important economic wings of any country. It also plays an important role within the mobilization of deposits and disbursement of credit to various sectors in an Indian economy. The banking sector is considered to be the ‘heart’ of all the economic activities of a country and a small change in its regulation may hit the whole economy. Credit provided by the banks is very much essential for a country's growth. The Indian banks are now playing a dynamic role in fostering the economic development of the country. City Union Bank Limited is one of the leading Scheduled Commercial banks in the Private sector with a notable presence in urban, semi-urban and rural areas in South India. The segments of the bank comprise of Treasury Banking, Corporate Banking, Retail Banking and other banking operations. The main aim of the bank is to supply short-term and long-term loans to the agricultural sector.

CAMEL rating systems assess the overall performance of the banks and also find out their strengths and weaknesses. CAMEL Rating is done based on the financial statements of the banks, i.e., profit and loss account and balance sheet The CAMEL stands for "Capital adequacy, Asset quality, Management, Earnings, Liquidity". The overall condition of the bank is measured by bank regulators during the assessment of the components of the CAMEL rating system.

Objective of The Study

- To analyze the Capital adequacy, Asset quality, Management efficiency Earning quality and Liquidity of the CUB.

Period of Study

The study covers the period of five years from 2016 - 2020.

Research Methodology

This study is based on analytical research. To achieve the required objectives, information is collected through secondary data like the annual report of CUB, Journals, Magazines and Books. Variables related to earnings efficiency, growth were collected from the balance sheet and profit and loss account of the selected CUB for the period of five years i.e. 2016 - 2020. For the analysis, the data were collected from the bank website https://www.cityunionbank.com/investor/about-cub/annual-results

Tool Used In Analysis

- CAMEL Rating System

Review of Literature

K.V.S. Gayathri and Etal (2020), made a study in the topic “Financial Performance in Indian Commercial Banks”. The main objective of this study is to find out the profitability performance of public sector banks in India and to analyze its growth. Secondary data has been used in this study. The profitability positions of different public sector banks are evaluated by considering net profit. The tools used for this study are mean and standard deviation. The study concludes that the average amount of net profit is higher in SBI bank and the lowest average amount of net profit is found in central bank of India and also found that the SBI is performing better than when compared to all other public sector banks in terms of profitability.

DR. C. Balakrishnan (2019), had reported on” Financial Performance of ICICI bank”. His main aim is to analyze the financial performance of ICICI bank using CAMEL rating system. He used capital adequacy ratios, asset quality ratios and liquidity ratios as tools in his study. This study is analytical and covers the period of 2014-2018. He found that under the capital adequacy ratio ICICI bank was at average, asset quality ratio bank was moderate, management efficiency parameter ICICI bank was in an increasing trend, earning quality parameter ICICI bank was in a growing trend and liquidity ratio ICICI bank were on the top position.

Camel Analysis

The CAMEL Model of rating was first developed in the 1970s by the three federal banking supervisors of the U.S. (the Federal Reserve, the Federal Deposit Insurance Corporation, and the Office of the Comptroller of the Currency). The following factors are examined under CAMEL Rating system.

- **C** –Capital Adequacy
- **A** –Asset Quality
- **M:**Management Efficiency
- **E**: Earning Ability
- **L**: Liquidity

a. C stands for Capital Adequacy

Capital Adequacy Ratio is one of the most important ratios. It safeguards banks against insolvency and surplus leveraged, and keeps them out of difficulty. It is the ratio which determines banks' ability to meet market risk, operational risk, financial risk, and so on.

Table 1: Capital Adequacy Ratios

Financial year	Capital adequacy ratio (%)	Advances to total assets ratio (%)	Government securities to total investment (%)
2016	15.58	67.38	93.36
2017	15.83	67.57	95.15
2018	16.22	69.74	96.89
2019	15.55	72.19	96.94
2020	16.76	68.22	98.05
Average	15.988	69.02	96.078

Source: *Annual report of CUB*

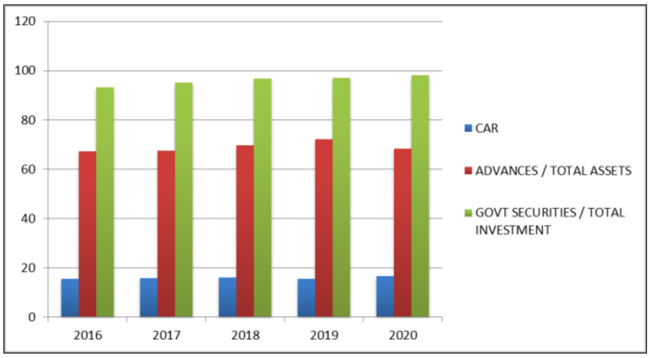

Fig 1: Capital Adequacy Ratios

Interpretation

The above table reveals that the capital adequacy ratio of CUB during the period (2016-2020) shows mixed trend. However in all the years CUB maintained a minimum of 8% Capital adequacy under Basel II and 10.5% Capital adequacy under Base III norms. The advances to total assets ratio indicates fluctuating trend. However, the higher the advances to total assets ratio is preferable. It was highest in the year 2018-19 i.e. 72.19. The ratio of investment in government securities also shows increasing trend. It was highest during the financial year 2019-20 i.e. 98.05%. It shows an average of nearly 90% of investments are in the government securities. This indicates that the risk of investment is low and risk taking ability of the bank is low.

b. A stands for the Assets Quality

Asset quality assesses the soundness of financial institutions against loss of value in the assets. Asset impairment adversely affects the solvency of the financial institutions. The level and severity of non-performing assets, adequacy of provisions, distribution of assets etc impacts the asset quality.

Table 2: Asset Quality Ratios

Financial year	Net NPA to total assets (%)	Gross NPA to total assets (%)	Net NPA to net advance (%)	Gross NPA to gross advances (%)
2016	1.03	1.63	1.53	2.41
2017	1.15	1.93	1.71	2.83
2018	1.18	2.14	1.70	3.03
2019	1.30	2.15	1.81	2.95
2020	1.56	2.84	2.29	4.09
Average	1.244	2.138	1.808	3.062

Source: *Annual report of CUB*

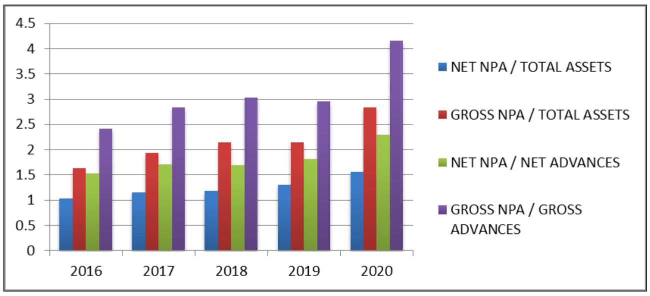

Fig 2: Asset Quality Ratios

Interpretation

In general, loans become NPAs when they are outstanding for 90 days or more. The above table represents the asset quality ratios of CUB. The ratio of net NPA to advances shows an increasing trend during the period under the study (2016-2020). Higher ratio represents that the bad quality of loans is increasing, thus lower ratio is preferable. Net NPA to total assets ratio also shows an increasing trend. Lower ratio is preferable as non-payments lead to losses to the bank and poor quality of assets. This ratio indicates the efficiency of bank in recovering debt. Gross NPA to total assets ratio shows an increasing trend. This ratio measures the overall quality of the bank loan books. Gross NPA to total advances shows fluctuating trend.

c. M stands for the Management Efficiency

The management efficiency signifies the ability of banks top management to take right decisions. It enables the evaluation of better management quality and discounting poorly managed ones and helps a bank to achieve sustainable growth. It sets vision and goals for the business and checks out that it achieves them.

Table 3: Management Efficiency Ratios

Financial Year	Business PER Employee (RS,IN Crores)	Profit Per Employee (RS,IN Crores)	Return On Assets (%)	Return On Equity (%)
2016	10.69	0.10	1.50	15.60
2017	11.53	0.11	1.50	15.26
2018	11.48	0.11	1.60	15.37
2019	12.96	0.12	1.64	15.25
2020	13.13	0.08	1.00	9.47
AVERAGE	11.958	0.104	1.448	14.19

Source: *Annual report of CUB*

Interpretation

The above table represents Management Efficiency Ratios of CUB. Business per employee shows an increasing trend. Higher ratio reveals the greater efficiency of the employees. Business as per employee shows an increasing trend even in the year 2019-2020. Profit as per employee shows an increasing trend up to 2018-2019. It decreases in the year 2019-2020 Return on assets shows an increasing trend up to 2018-2019 and the decreases in the year 2019-2020. The higher return on equity ratio is preferable. Return on equity shows a fluctuating trend.

d. E stands for Earning Quality

The sustainability in income and growth of future earnings indicates the quality of earnings. Interest rate policies and sufficiency of provisioning help to evaluate the earnings and profitability. This ratio will be calculated to see stability in bank's earnings.

Table 4: Earning Quality Ratios

Financial Year	Dividend Payout Ratio (%)	Operating Profits To Total Assets (%)	Net Interest To Total Income (%)
2016	16.13	0.11	29.25
2017	3.57	0.05	32.77
2018	3.27	0.14	36.34
2019	5.22	0.37	37.62
2020	7.71	-0.40	34.57
Average	7.18	0.054	34.11

Source: Annual report of CUB

Interpretation

The above table represents earning ability ratios of CUB. Operating profit to total assets ratio shows an increasing trend up to the year 2018-2019. It becomes negative (-0.40) in the year 2019-2020 as the EBIT decreases in that year. Net interest to total income ratio shows an increasing trend up to the year2018-2019. Then it decreases to 34.57% in the year 2019-2020. The higher ratio is preferable i.e. 37.62% in the year2018-19. As it indicates that the bank is working very well. Dividend payout ratio shows fluctuating trend in the past 5years 2016-20. It does not exceed 33.33% as per RBI guidelines**.** It was highest in the year 2015-16 i.e. 16.13%.

e. L stands for the Liquidity

Liquidity refers to the ability of the banks to meet their short term obligations. An adequate liquidity position means a situation, where organization can obtain sufficient liquid funds, either by increasing liabilities or by converting its assets quickly into cash.

Table 5: Liquidity Ratios

Financial year	Credit deposit ratio (%)	Current ratio	Liquid assets to total assets (%)	Liquid assets to total deposits (%)
2016	77.53	1.13	8.32	9.57
2017	79.14	1.25	8.16	9.55
2018	84.78	1.14	6.6	8.02
2019	84.98	1.11	6.5	7.7
2020	83.08	1.10	9.49	11.5
Average	81.902	1.146	7.814	9.268

Source: *Annual report of CUB*

Interpretation

The above table represents liquidity ratios of CUB. Higher Liquid assets to total assets ratio will be considered better i.e. 9.49% in the year 2019-20. Liquid assets to total show a decreasing trend with slight fluctuation. Higher ratio is preferable and it was 2019-20 i.e. 11.5%. Credit deposit ratio shows an increasing trend with slight fluctuations. This ratio should neither be too high nor too low and also varies from bank to bank. But for the purpose of lending higher ratio is to be considered i.e. 84.98% in the financial year 2018-19. Current ratio shows the fluctuating trend. It was low at 1.10 in the year 2019-20 and was high at 1.25 in the year 2016-17. It reveals that the current ratio of the bank is not as per the norms (2:1) in the last five years.

Findings

- The capital adequacy ratio is quite satisfactory as it maintained 8% minimum requirement under Basel III norms for all the 5 years.
- The ratio of Government Securities to total investment increases and was highest in the year 2020. It was also found that nearly 90% of investments are in government securities indicating lower risk.

- The assets quality ratio of CUB was at the average.
- Return on assets ratio is showing a increasing trend up to 2019 and declines in the year 2020. This implies that the CUB utilizes its assets to make a profit.
- The return on equity was stable till 2019 and decreases to 9.47% in the year 2020 and it was considered as a bad sign for the financial year 2020.
- Dividend payout ratio is considered good as it does not exceed 33.33% as per RBI guidelines.
- Credit deposit ratio was highest in the year 2019 and was low at 77.53% in the year 2015. It indicates that the deposit of CUB is in a growing trend.
- The current ratio was low at 1.10 in the year 2020 and was high at 1.25 in the year 2017. But the ratio got declined in the last 3 years. It reveals that the current ratio of CUB is not as per norms (2:1) in the last 5 years.

Suggestions

- Current ratio of CUB is being lower than the standard level of 2:1. Hence, the management should take steps to properly utilize the current assets.
- Need to focus upon building confidence of its customer which will help to multiply the credit facilities.

Conclusion

Bank is one of the important financial pillars in the development of Indian economy. It plays an important role in the mobilization of deposits and lending Loans to various sectors in the economy. So, the purpose of the study is to concentrate on the “FINANCIAL PERFORMANCE OF CUB”. This study uses CAMEL model as a technique to analyze the overall performance of CUB for the five years from 2016 to 2020. It is found that under CAMEL rating system, it was found that

the Capital adequacy parameter were at the top position, asset quality parameter was at the average, management efficiency parameter was in an increasing trend, earning quality parameter was moderate and liquidity parameter was in an growing trend.

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