PERFORMANCE EVALUATION OF PRIVATE SECTOR BANKS IN INDIA – A COMPARATIVE STUDY OF ICICI AND HDFC BANK WITH CAMEL APPROACH

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Abstract

The banking sector is in leading position in developing countries economy building through promotion of capital formation, encouraging innovations in the product line and market, monetization and facilitating monetary policy. Performance evaluation of banking sector is the best indicator to check the soundness of an economy. Indian banking system has undergone for many changes in recent years due to the reforms taken by the Govt. and RBI. In this present study an attempt was made to evaluate the performance of ICICI bank and HDFC bank to know the financial soundness of the bank through CAMEL approach. This approach is mainly considered for the purpose of studying the performance of different tools like capital adequacy, asset quality, management efficiency, earnings capacity and liquidity position. The factors taken are predominantly affecting the performance of the bank.

Keywords: Capital Adequacy, Asset Quality, Management Efficiency, Earnings Capacity, Liquidity, Financial Soundness.

Introduction

The economic development of a country is possible through the developments in some sectors like industrial growth and development, expansion of internal trade activities, growth in foreign trade, development of infrastructural facilities, creation of employment facilities, effective utilization of resources, modernization of traditional sectors like agriculture, monetary mechanism of the country. The role and importance of banking sector and the monetary mechanism cannot be separated from the development of a nation. Financial institutions play crucial role in contributing economic development. Sound financial system is indispensible for the growth of a healthy and vibrant economy. Performance of banking sector is an effective indicator to check the financial soundness of an economy. Banking sector is contributing significantly in the development of economy through capital formation, encouraging financial innovations in product line and market area and facilitating the monetary policy implementation.

Role of Private Sector banks

The role of private sector banks in Indian economy is tremendously increasing during the last 15 years. The opening of economy has led to modern cutting edge technology, foreign investments and healthy competition between banks. The liberalization policy led to contemporary innovations and monetary tools and techniques. The importance of private sector banks in Indian economy has been very commendable in generating employment, eliminating poverty, increased quality of life, growth in production and manufacturing sectors, paving to new research and development activities etc. The foot print of private sector banks can be witnessed from tremendous growth, products and range of uses and client based and customer friendly system. In this process they have jotted public sector banks out of complacency and forced them to become more competitive. The private sector banks are catering the needs of all at an affordable costs without having any minimum amount of balance in their accounts. These banks are creating healthy competition, which will enhances the efficiency of the banks, especially the foreign banks in attracting the investments from foreign. Private sector banks in India has got a great response in terms of service and quality banking. Private sector banks are delivering sophisticated services to the customers. They are providing appropriate solutions to customer financial problems and providing financial advice to customers. Private sector banks works for optimum utilization of financial resources of the country.

ICICI Bank

ICICI bank the country’s largest private sector bank, offers comprehensive range of products and services through a multi channel delivery network having 4450 branches and 13766 ATMs spread across the country. It is among the one of the top commercial banks of India in providing a wide range of products and financial services through various delivery channels. This bank continues to be at the forefront of technological innovation to provide simplicity and convenience in banking. This has helped the bank to build a robust pipeline of innovative products and services and consolidate its leadership position. With its cutting edge technology wide distribution network and energetic workforce the bank continues to stay ahead of competition. This bank has founded as a development institution in 1955, the group has been on a continuous journey of transformation and diversification and expansion to become a truly universal bank. This bank seeks to addresses every aspect of financial services needs – savings, investments, credit, protection and payments of each and every customer segment – large corporations, small and medium enterprises, urban customers farming and non-farming rural communities and the under-privileged, those who have far been excluded from access to financial services. This bank also helped millions of individuals and families to achieve their aspirations and a key role player in creating infrastructure and industrial capacity in the country.

HDFC Bank Limited

The Housing Development Finance Corporation Limited (HDFC) was amongst the first to receive an 'in principle' approval from the Reserve Bank of India (RBI) to set up a bank in the private sector, as part of RBI's liberalization of the Indian Banking Industry in 1994. The bank was incorporated in August 1994 in the name of 'HDFC Bank Limited', with its registered office in Mumbai, India. HDFC Bank commenced operations as a Scheduled Commercial Bank in January 1995. HDFC is India's premier housing finance company and enjoys an impeccable track record in India as well as in international markets. Since its inception in 1977, the Corporation has maintained a consistent and healthy growth in its operations to remain the market leader in mortgages. Its outstanding loan portfolio covers well over a million dwelling units. HDFC has developed significant expertise in retail mortgage loans to different market segments and also has a large corporate client base for its housing related credit facilities. With its experience in the financial markets, strong market reputation, large shareholder base and unique consumer franchise, HDFC was ideally positioned to promote a bank in the Indian environment. HDFC Bank's mission is to be a World Class Indian Bank. The objective is to build sound customer franchises across distinct businesses so as to be the preferred provider of banking services for target retail and wholesale customer segments, and to achieve healthy growth in profitability, consistent with the bank's risk appetite. The bank is committed to maintain the highest level of ethical standards, professional integrity, corporate governance and regulatory compliance. HDFC Bank's business philosophy is based on five core values: Operational Excellence, Customer Focus, Product Leadership, People and Sustainability. As on 31st March, 2015 the authorized share capital of the Bank is Rs. 550 crore. The paid-up share capital of the Bank as on the said date is Rs501,29,90,634/- (2506495317) equity shares of Rs. 2/- each). The HDFC Group holds 21.67 % of the Bank's equity and about 18.87 % of the equity is held by the ADS / GDR Depositories (in respect of the bank's American Depository Shares (ADS) and Global Depository Receipts (GDR) Issues). 32.57 % of the equity is held by Foreign Institutional Investors (FIIs) and the Bank has 4,41,457 shareholders. The amalgamation added significant value to HDFC Bank in terms of increased branch network, geographic reach, and customer base, and a bigger pool of skilled manpower. HDFC Bank is headquartered in Mumbai. As of March 31, 2015, the Bank's distribution network was at 4,014 branches in 2,464 cities. All branches are linked on an online real-time basis. Customers across India are also serviced through multiple delivery channels such as Phone Banking, Net Banking, Mobile Banking and SMS based banking. The Bank's expansion plans take into account the need to have a presence in all major industrial and commercial centres, where its corporate customers are located, as well as the need to build a strong retail customer base for both deposits and loan products. Being a clearing / settlement bank to various leading stock exchanges, the Bank has branches in centres where the NSE / BSE have a strong and active member base. The Bank also has a network of 11,766 ATMs across India. HDFC Bank's ATM network can be accessed by all domestic and international Visa / MasterCard, Visa Electron / Maestro, Plus / Cirrus and American Express Credit / Charge cardholders. HDFC Bank operates in a highly automated environment in terms of information technology and communication systems. HDFC Bank caters to a wide range of banking services covering commercial and investment banking on the wholesale side and transactional / branch banking on the retail side.

Need for the Study

Indian banking sector is passing through a phase that is both challenging and exciting. The growth slowdown experienced from 2012 onwards was led to stress on the corporate sector, resulting in both pressure on asset quality as well as limited new growth opportunities in the corporate segment for the banking sector. This environment also giving robust growth opportunities in the retail segment and in the rural areas and also providing opportunities for transformation led by technology. In this aspect the present paper will evaluate the performance of ICICI bank through CAMEL approach to know various aspects of bank's performance by using different tools like capital adequacy, asset quality, management efficiency, earnings capacity and liquidity.

Objectives of the Study

- To evaluate the performance of the ICICI bank and HDFC bank by using parameters of CAMEL approach like
    1. Capital Adequacy
    2. Asset Quality
    3. Management Efficiency
    4. Earnings Capacity
    5. Liquidity Position

- To give suggestions for improvement of performance and financial position of ICICI and HDFC

Scope of the Study

- This study will pave the way to the academic as well as general public about the overall efficiency of the banks.
- This study considers the private sector banks performance limited to ICICI and HDFC
- This study also through light on different aspects where the bank excel and how it will provide an opportunity in banking its activities to achieve the best performance.

Methodology and Database

The relevant data for the preparation of this paper has collected through secondary sources such as Journals, Internet, Website and company annual reports. This study covers a period of five years from 2011-12 to 2015-16.

For the purpose of performance evaluation CAMEL approach was used, which is the latest model for analyzing the financial performance of banks. For applying this model five important dimensions, which reveals the operational and financial efficiency are used.

The following parameters are used for analysis.

Indicator	Parameter	Ratios used
C	Capital Adequacy	i. Capital Adequacy Ratio ii. Debt-Equity Ratio iii. Total Advances to Total Assets Ratio
A	Asset Quality	i. Net NPA to Total Assets Ratio ii. Net NPA to Total Advances Ratio iii. Total Investments to Total Assets Ratio
M	Management Efficiency	i. Interest Income to Total Funds ii. Net Interest income to Total Funds iii. Operating Expenses to Total Funds iv. Net Profit to Total Funds v. Return on Networth
E	Earnings Capacity	i. Return on Assets Ratio ii. Spread Ratio iii. Net Profit Margin
L	Liquidity	i. Liquid assets to Total assets Ratio ii. Liquid assets to Total deposits

Literature Review

- Arathy.C (2014) in her study “Performance Evaluation of selected public and private sector banks” - A camel model approach in terms of capital adequacy ICICIC bank ranked first. In terms of asset quality SBI got top rank and Federal Bank bagged first in management efficiency. In terms of earnings quality and liquidity Federal bank got first position. She concluded the overall performance of ICICI and Federal bank is comparatively better.
- Mohammed Kamrul Ahsan (2016) in his paper “Measuring financial performance based on camel”. A study on selected Islamic banks in Bangladesh, stated that all selected Islamic banks financial performance under CAMEL rating is ‘strong’ in every aspect.
- CA Ruchi Gupta (2014), in her study “An analysis of Indian public sector banks using camel approach” stated that there is a statistical significant different between the CAMEL ratios of all public sector banks in India. So, the overall performance of public sector banks are different from each other. She concluded that the banks with least ranking need to improve their performance to reach the desired standards.
- D. Padma and V.Arulmathi, in their paper ‘financial performance of SBI and ICICI – a comparative study’ says that both banks are maintaining the required standards and running under profitability. They did not mentioned the crucial factors which will influences the performance of banks.

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Discussion and Analysis
Capital Adequacy

Table 1.1: Capital Adequacy Ratio

S. No	Bank Name	2016	2015	2014	2013	2012	Mean	STD
1.	ICICI	16.64	17.02	17.70	18.74	18.52	17.724	0.913
2.	HDFC	15.53	16.79	16.07	16.80	16.52	16.34	0.542

Source: Banks annual reports

Table 1.2: Debt Equity Ratio

S. No	Bank Name	2016	2015	2014	2013	2012	Mean	STD
1.	ICICI	6.86	6.64	6.65	6.57	6.55	6.654	0.1230
2.	HDFC	8.25	8.00	9.36	9.09	9.04	8.748	0.588

Source: Banks annual reports

Table 1.3: Total Advances to Total Assets Ratio

S. No	Bank Name	2016	2015	2014	2013	2012	Mean	STD
1.	ICICI	60.39	59.97	56.95	54.07	51.87	56.65	3.694
2.	HDFC	65.54	61.89	61.63	59.88	57.83	61.354	2.849

Source: Banks annual reports

Capital Adequacy reflects the overall financial soundness of an organization. Capital is a crucial element to elevate and protect the depositors and in promoting a stable business. Capital adequacy indicates whether the organization is capable enough to face unexpected losses. It also reveals the efficiency of management in raising capital whenever it is in need. The following ratios will measure the capital adequacy.

1. Capital Adequacy Ratio (CAR)
2. Debt – Equity Ratio (D/E Ratio) and
3. Total Advances to Total Assets Ratio (ADV/TA)

From the Table 1.1, 1.2., and 1.3 we can say that ICICI is having a better CAR Ratio than HDFC. As per RBI norms, 9 percent is the standard ratio

Both banks are maintaining the standard ratio. When comparing mean and standard deviation ICICI is having good capital adequacy level than HDFC. D/E Ratio reveals the leverage position of the organization. It indicates the proportion of the bank business is financed through equity and debt. Higher ratio indicates less protection for the depositors and creditors vice-versa. ICICI is having a good D/E Ratio than HDFC bank, which is good. The percentage of total advances to total assets of HDFC bank is 61.354% and ICICI is 56.65%, which is higher than ICICI bank. It indicates the bank's vigorousness in lending operations that ultimately leads to better profitability. Higher ratio preferred to a lower one.

Asset Quality

Table 2.1: Net NPA to Total Assets Ratio (%)

S. No	Bank Name	2016	2015	2014	2013	2012	Mean	STD
1.	ICICI	1.79	0.96	0.55	0.41	0.39	0.82	0.14
2.	HDFC	10.18	0.15	0.16	0.11	0.104	0.588	0.033

Source: Banks annual reports

Table 2.2: Net NPA to Total Advances Ratio (%)

S. No	Bank Name	2016	2015	2014	2013	2012	Mean	STD
1.	ICICI	2.97	1.67	0.97	0.76	0.73	1.42	0.945
2.	HDFC	0.28	0.24	0.27	0.19	0.18	0.232	0.045

Source: Banks annual reports

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Table 2.3: Total Investments to Total Assets Ratio (%)

S. No	Bank Name	2016	2015	2014	2013	2012	Mean	STD
1.	ICICI	22.25	28.87	29.76	31.92	33.68	29.296	4.363
2.	HDFC	23.12	28.18	24.60	27.88	28.84	25.445	2.484

Source: Banks annual reports

Asset Quality is an important parameter to examine the financial soundness of the organization. It explains the impact of Non-Performing Assets (NPAs) on the financial performance of the bank. NPA to understand the asset quality position the following ratios have been used.

1. Net NPA to Total Assets Ratio (NPA/TA)
2. Net NPA to Total Advances Ratio (NPA/TADV)
3. Total Investments to Total Assets Ratio (TI/TAR)

Table 2.1 shows that NPA to TA Ratio of ICICI bank is more than HDFC bank. This ratio shows the bank's efficiency in assessing the credit risk and recovering debts. Net NPA to Total advances ratio will judges the quality of assets. This ratio indicates the level of NPA in advances. Lower ratio indicates better position of organization. HDFC is having better position than ICICI. Total Investments to Total Assets Ratio indicates the extent of deployment of assets in investment as against advances. This ratio is a tool to measure the percentage of total assets locked up in investments. Higher ratio indicates the conservative policy of the bank to provide safeguard to the investments against NPAs. ICICI bank is having more TI/IAR ratio than HDFC bank, which shows the bank is deploying more assets in investments, which will safeguard the investments.

Management Efficiency

Table 3.1: Interest Income to total funds

S. No	Bank Name	2016	2015	2014	2013	2012	Mean	STD
1.	ICICI	7.73	7.91	7.81	7.93	7.62	7.8	0.128
2.	HDFC	9.27	8.96	9.22	9.50	8.87	9.164	0.252

Source: Banks annual reports

Table 3.2: Net Interest Income to Total Funds

S. No	Bank Name	2016	2015	2014	2013	2012	Mean	STD
1.	ICICI	3.11	3.07	2.91	2.74	2.44	2.854	0.278
2.	HDFC	4.25	4.141	4.18	4.28	4.00	4.17	0.11

Source: Banks annual reports

Table 3.3: Operating Expenses to Total Funds

S. No	Bank Name	2016	2015	2014	2013	2012	Mean	STD
1.	ICICI	1.76	1.75	1.72	1.69	1.67	1.718	0.038
2.	HDFC	2.50	2.46	2.55	2.87	2.62	2.62	0.162

Source: Banks annual reports

Table 3.4: Net Profit to Total Funds

S. No	Bank Name	2016	2015	2014	2013	2012	Mean	STD
1.	ICICI	1.43	1.80	1.73	1.65	1.47	1.616	0.161
2.	HDFC	1.89	1.86	1.90	1.82	1.68	1.68	0.089

Source: Banks annual reports

Table 3.5: Return on Networth

S. No	Bank Name	2016	2015	2014	2013	2012	Mean	STD
1.	ICICI	11.19	13.89	13.40	12.48	10.70	12.332	1.374
2.	HDFC	16.91	16.47	19.50	18.57	17.26	17.26	1.256

Source: Banks annual reports

A management efficiency ratio indicates the effectiveness of management in dealing with their deposits and advances. Management is responsible for the smooth functioning of bank. This component will decides the possibility of growth and survival of the bank. Management efficiency means adherence with set norms, ability to plan and responding to the changing environment, leadership and administrative capacity of the bank. In this analysis the following ratios are used to Management Efficiency.

- Interest income to total funds (IT/TF)
- Net Interest income to total funds (NII/TF)
- Operating expenses to total funds (OE/TF)
- Net Profit to total funds (NP/TF)
- Return on Net worth

Table 3.1, 3.2, 3.3, 3.4 and 3.5 shows that the interest income to total assets ratio of HDFC bank is higher than ICICI. It shows the efforts of the management in converting the funds into income based investments. The HDFC Bank is dealing smoothly with their deposits and advances which leads the bank in smooth functioning. Net interest income to total funds ratio of HDFC is higher than ICICI. Higher ratio indicates the better in the position. It shows the banks supervision and capability in maintaining their funds. Operating expenses to total funds will reveal the bank's efficiency in controlling the expenses. It shows their strategy in cutting down the expenses. Lower ratio indicates better in the financial performance. ICICI bank is having less ratio than HDFC bank, which shows the management efficiency in controlling the operating expenses. It shows their administrative capacity and leadership style in managing the funds in the changing business environment. Net Profit to Total Funds Ratio of HDFC bank is slight higher than ICICI, 1.680 and 1.616 respectively. Both the banks are managing their funds to this changing and competitive business environment. This ratio is also indicating the seriousness of management in setting norms and their capability in planning and their decision making in the volatile business conditions. Return on Networth shows the efficacy in planning and executing the plans and fulfilling the given targets. Higher ratio indicates better the managerial efficiency in channelizing their funds in proper an useful manner. HDFC bank is having higher ratio than ICICI i.e. 17.26.

Earnings Capacity

Table 4.1: Return on Assets Ratio

S. No	Bank Name	2016	2015	2014	2013	2012	Mean	STD
1.	ICICI	154.31	138.72	634.60	578.65	524.43	406.141	240.24
2.	HDFC	287.47	247.39	181.23	152.20	127.52	199.162	66.677

Source: Banks annual reports

Table 4.2: Spread Ratio

S. No	Bank Name	2016	2015	2014	2013	2012	Mean	STD
1.	ICICI	6.83	7.04	7.35	7.82	7.45	7.298	0.382
2.	HDFC	7.52	8.01	8.01	8.78	8.42	8.062	0.541

Source: Banks annual reports

Table 4.3: Net Profit Margin

S. No	Bank Name	2016	2015	2014	2013	2012	Mean	STD
1.	ICICI	18.44	22.76	22.20	20.77	19.27	20.68	1.847
2.	HDFC	20.41	21.07	20.61	19.18	18.93	20.04	0.934

Source: Banks annual reports

Strong earnings capacity reflects the good performance and their ability to support present and future policies in a successful way. It determines the capacity to absorb losses by building adequate capital base, and suitable financial resources for implementing expansion and growth strategies and also for distributing good dividends to the shareholders. This parameter is important to know the bank's earnings position, the quality of profits and also reveals the capacity of the bank to earn these profits consistently. The following parameters were used to assess the earning capacity of the ICICI and HDFC. They are

- Return on Assets (RoA)
- Spread Ratio (SR)
- Net Profit Margin (NPM)

RoA is a key profitability ratio, which reveals the bank's efficiency in using its assets to generate net income. High ratio indicates the good performance of the bank ICICI bank is having the highest average RoA than HDFC i.e. 406.142. So ICICI bank is taking good measures in generating net income. Spread Ratio indicates how much a bank can earn for every rupee of investment made in assets. Higher ratio indicates good profitability position. During the study period HDFC bank is having higher average than ICICI bank. It indicates the HDFC bank is having good earning capacity than ICICI. Net Profit margin ratio explains the value of profit level as a percentage of net income. It is a comprehensive measure which shows the company's profitability position.

Liquidity

Table 5.1: Liquid Assets to Total Assets Ratio

S. No	Bank Name	2016	2015	2014	2013	2012	Mean	STD
1.	ICICI	8.30	6.54	6.98	7.71	7.64	7.42	0.684
2.	HDFC	5.49	6.48	8.05	6.81	6.19	6.60	1.168

Source: Banks annual reports

Table 5.2: Liquid Assets to Total Deposits

S. No	Bank Name	2016	2015	2014	2013	2012	Mean	STD
1.	ICICI	14.20	11.70	12.51	14.15	14.17	13.346	8.72
2.	HDFC	7.12	8.05	10.77	9.20	8.48	0.943	1.36

Source: Banks annual reports

Liquidity is a crucial aspect, which reflects bank's ability to meet its financial obligations in time. An adequate liquidity means it is a situation, where organization can obtain sufficient liquid funds, either by increasing liabilities or by converting its assets quickly turned into cash. Liquidity problem may lead to insolvency and may end up with bankruptcy. The following ratios are used to measure the liquidity position of ICICI and HDFC banks.

- Liquid assets to total assets ratio
- Liquid assets to total deposits

Liquid assets to total assets ratio reveals the liquidity available to the depositors of the bank. ICICI bank is having higher average ratio than HDFC bank. Both the banks are having good position in meeting he obligations in time. This ratio measures the liquidity position of the bank. Higher ratio indicates better is the liquidity. ICICI bank is having higher ratio than HDFC which shows the bank is in good position in meeting their depositors in time

Conclusion

ICICI bank and HDFC bank were analyzed for their comparative performance by using CAMET approach. ICICI bank was dominated in the field Asset Quality, Earnings Capacity and Liquidity. However, HDFC bank dominated over ICICI bank in the Capital adequacy and Management efficiency segments. Both the banks are on par with respect to capital adequacy ratio and net profit ratios. Both the banks were performing better and also on par with each other.

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