
Financial Performance of Standard Chartered Bank and Kotak Mahindra Bank through CAMEL Model - A Comparative Study

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Abstract: Banking sector in India is a part of economic development of a nation to mobilize savings and to provide other general services through a large network of branches to meet tremendous competitiveness, growth and profitability etc. especially in the recent years. Therefore, the bank's performance needs to be evaluated depending upon various objectives that need to be achieved. As compared to other sectors, the banks required to pay more attention to balance the profitability and liquidity. Hence, the present study analyses and compares the financial performance of Standard Chartered Bank and Kotak Mahindra Bank as both the banks are big giants in foreign and private sector respectively. The present study evaluates the financial performance of these two banks for a period of five years from 2013-14 to 2017-18. It has been concluded that the Kotak Mahindra Bank has more capital adequacy ratio, return on assets, net NPA/NA, current ratio, profit per employee and business per employee compared to Standard Chartered Bank.

Keywords: Financial performance, Capital adequacy ratio, Profit Per Employee, ROA

1. Introduction

Banks today plays a significant role in the overall functioning and development of a nation and forms the core money market of a country. The Indian banking sector witnessed a growth both in terms of the number of branches and in money managing activities, but still it requires further intensify efforts to enhance the quality of its products and services, to improve their individual performances and to keep pace with the rapid developments that are taking place worldwide. Banks performance in India depends upon their financial performance, profitability and by assessing various variables such as deposits, advances, cost of borrowings, cost of raising funds, cost of deposits, sector-wise deployment of funds, return on investments, operating expenses etc. In India they were 21 public sector banks (including State Bank of India group), 25 private sector banks, 45 foreign banks (with 286 branches representing 23 countries), 64 regional rural banks, 1,574 urban cooperative banks of which 56 were scheduled banks and 93,913 rural cooperative banks, in addition to cooperative credit institutions, including short-term and long-term credit institutions and these banks have been differentiated with another in terms of operations, advanced technology, customer service, innovative products such as e-cheques, Electronic Data Interchange (EDI), National Electronic Fund Transfer (NEFT), Real Time Gross Settlement (RTGS), mobile banking, internet banking etc. Thus, there is a need to improve the business efficiency and volume of business of the banks.

2. Literature Review

Cheenu Goel and Chitwan Bhutani Rekhi (2013) attempted to measure the relative performance of select public sector banks and private sector banks and used different proxy indicators to measure productivity of banking sector. They concluded from their study that the public sector banks are not as profitable as private sector banks.

R. Sunitha Shree and Dr. P. Suresh Kumar (2015) focused on performance efficiency of private banks in India for 2012-13 and with the help of cross efficiency matrix and concluded that the federal bank is the most efficient bank among nine private sector banks.

Ashish M Joshi¹, K. G. Sankaranaryanan (2016) observed that among public sector Bank of Baroda, among private sector ICICI bank and among multistate cooperative banks Punjab Maharashtra Cooperative bank performed better than other selected banks.

Palamalai Srinivasan, John Britto (2017) examined the impact of liquidity, solvency and efficiency on the profitability of the selected Indian commercial banks by employing the fixed effect and random effect models and found that the study results showed the positive impact on the profitability of both the public sector and private sector banks.

3. Objectives of the Study

The objectives of the present study are:

- To analyse and compare the financial performance of Standard Chartered Bank and Kotak Mahindra Bank by using CAMEL model.
- To suggest measures on the basis of results of the study to enhance the financial performance of both the banks.

4. Hypothesis

In order to compare and evaluate the performance of the Standard Chartered Bank and Kotak Mahindra Bank the following hypothesis are tested:

- **Hypothesis 1**
 H_0 : There is no significant difference between the capital adequacy ratio of Standard Chartered Bank and Kotak Mahindra Bank.
- **Hypothesis 2**
 H_0 : There is no significant difference between NPA to NA of Standard Chartered Bank and Kotak Mahindra Bank.
- **Hypothesis 3**
 H_0 : There is no significant difference between profit per employee and business per employee of Standard Chartered Bank and Kotak Mahindra Bank.
- **Hypothesis 4**
 H_0 : There is no significant difference between current ratio and return on assets of Standard Chartered Bank and Kotak Mahindra Bank.

5. Research Methodology

For the present study, Standard Chartered Bank and Kotak Mahindra Bank have been selected on the basis of their market capitalization. The study is based on the secondary data that has been collected from the annual reports of respective banks and other published information through internet. The data collected for the study have been analysed by using CAMEL parameters such as capital adequacy, asset quality, management capability, earnings capacity, liquidity and current ratio.

6. Period of the Study

The study covers a period of 5 years from 2013-14 to 2017-18.

7. Limitations of the Study

The present study suffers from certain limitations as stated below:

- The study is limited to two banks only, namely Standard Chartered Bank (foreign bank) and Kotak Mahindra Bank (private bank) which cannot represent the entire banking sector.
- The study is limited to only five-year period from 2013-14 to 2017-18.
- The study is based on secondary data which has been collected from published annual reports of banks and some of the websites.

- The data collected from the annual reports for the study is subject to window dressing and may not show the actual position of the selected banks.

8. Data Analysis and Interpretation

For evaluating the financial performance of Standard Chartered Bank and Kotak Mahindra Bank, the world renowned CAMEL model is adopted, which was introduced by Mr. Padmanabhan, Former Governor, RBI. Under the, CAMEL model the financial performance of the individual banks is evaluated on the basis of key parameters - capital adequacy, asset quality, management capability, earnings capacity, liquidity and current ratio.

Table 1. Calculation of Capital Adequacy Ratio (CAR) of Standard Chartered Bank and Kotak Mahindra Bank (in percentage)

Year	Standard Chartered Bank	Kotak Mahindra Bank
2013-14	12.48	18.8
2014-15	12.49	17.6
2015-16	12.98	17.0
2016-17	14.05	17.2
2017-18	15.82	18.4
Average	13.56	17.8

Source: Annual reports of Standard Chartered Bank and Kotak Mahindra Bank.

From table1 it is observed that Kotak Mahindra Bank is having a higher capital adequacy ratio of 17.8% than that of Standard Chartered Bank with 13.56%. This ratio determines the capacity of the bank to meet its liabilities in time and to cover certain risks such as credit risk, operational risk etc. The higher the capital adequacy ratio, the stronger is the bank.

Table 2 Calculation of Net NPA to Net Advances of Standard Chartered Bank and Kotak Mahindra Bank (in percentage)

Year	Standard Chartered Bank	Kotak Mahindra Bank
2013-14	0.45	1.08
2014-15	0.34	0.92
2015-16	1.07	1.06
2016-17	0.18	1.26
2017-18	0.58	0.98
Average	0.52	1.06

Source: Annual reports of Standard Chartered Bank and Kotak Mahindra Bank

From table 2 it is observed that Standard Chartered Bank is having an average Net NPA to Net Advances of 0.52% less than the Kotak Mahindra Bank of 1.06%. This ratio indicates the overall quality of bank advances. The high ratio affects the quality of loans.

Table 3. Calculation of Profit per employee of Standard Chartered Bank and Kotak Mahindra Bank (in rupees)

Year	Standard Chartered Bank	Kotak Mahindra Bank
2013-14	23,87,000	10,00,000
2014-15	41,79,000	11,00,000
2015-16	13,62,000	7,00,000
2016-17	30,22,000	11,00,000
2017-18	24,92,000	12,00,000
Average	26,88,400	10,20,000

Source: Annual reports of Standard Chartered Bank and Kotak Mahindra Bank

From table 3 it is observed that the average profit per employee of Standard Chartered Bank stood at Rs. 26, 88,400 which was 2.54 times higher than Kotak Mahindra Bank of Rs. 10, 20,000. This ratio measures the bank's profit in relation to number of employees. Higher the ratio indicates better operating performance of the bank.

Table 4. Calculation of Business per employee of Standard Chartered Bank and Kotak Mahindra Bank (in rupees)

Year	Standard Chartered Bank	Kotak Mahindra Bank
2013-14	20,71,30,000	6,78,00,000
2014-15	19,00,03,000	7,05,00,000
2015-16	18,84,47,000	7,51,00,000
2016-17	18,20,60,000	8,35,00,000
2017-18	19,01,71,000	9,04,00,000
Average	19,15,62,200	7,74,60,000

Source: Annual reports of Standard Chartered Bank and Kotak Mahindra Bank

This ratio measures the efficiency of all the employees of a bank in generating the business to the bank. The high ratio is the sign of high productivity and efficient management of the bank. The table 4 shows that the average business per employee of Standard Chartered Bank Rs. 19,15,62,200 is higher than that of Kotak Mahindra Bank of Rs. 7,74,60,000.

Table 5. Calculation of Return on Assets of Standard Chartered Bank and Kotak Mahindra Bank (in percentage)

Year	Standard Chartered Bank	Kotak Mahindra Bank
2013-14	1.20	1.80
2014-15	2.42	1.98
2015-16	0.75	1.19
2016-17	1.70	1.73
2017-18	1.31	1.73
Average	1.48	1.69

Source: Annual reports of Standard Chartered Bank and Kotak Mahindra Bank

Return on Assets (ROA) shows the relationship between earnings after tax and total assets of banks. The higher the ratio the greater returns earned on assets deployed by the bank. The table 5 shows that the Kotak Mahindra Bank has higher ROA 1.69% on an average compared to Standard Chartered Bank average of 1.48%.

Table 6. Calculation of Current Ratio of Standard Chartered Bank and Kotak Mahindra Bank (in times)

Year	Standard Chartered Bank	Kotak Mahindra Bank
2013-14	1.16	1.32
2014-15	1.23	1.31
2015-16	1.22	1.25
2016-17	1.21	1.26
2017-18	1.22	1.27
Average	1.21	1.28

Source: Annual reports of Standard Chartered Bank and Kotak Mahindra Bank

From the table 6 it is observed that the Kotak Mahindra Bank is having a higher current ratio of 1.28 on an average than that of Standard Chartered Bank. Both the banks are maintaining a constant current ratio approximately over a period of three years from 2015-16 to 2017-18. It shows that the liquidity position of both the banks is good.

Table 7. Mean, Standard deviation & t - Test value of Standard Chartered Bank and Kotak Mahindra Bank

RATIO	BANK	MEAN	SD	t-Test
Capital Adequacy Ratio	SCB	13.56	1.41	6.288
	KMB	17.80	0.77	
Net NPA /NA	SCB	0.52	0.34	3.036
	KMB	1.06	0.13	
Profit Per Employee (in Rs.)	SCB	2688.40	1027.37	4.115
	KMB	1020.00	192.35	
Business Per Employee (in Rs.)	SCB	191562.20	9310.20	15.295
	KMB	77460.00	9370.86	
Return on Assets	SCB	1.48	0.63	1.119
	KMB	1.69	0.30	
Current Ratio	SCB	1.21	0.03	3.227
	KMB	1.28	0.03	

9. Findings of the Study

- From table 7 it is observed that Kotak Mahindra Bank have a high capital adequacy ratio with a mean of 17.80 and low standard deviation of 0.77 when compared with Standard Chartered Bank with a mean of 13.56 and standard deviation of 1.41. t- Test tabular value at 95% significance level is 2.776 is less than the calculated value of 6.288. Therefore, we accept the alternative hypothesis as there is a significant difference in the capital adequacy ratio between Standard Chartered Bank and Kotak Mahindra Bank.
- From table 7 it is observed that Kotak Mahindra Bank have a high NPA/NA ratio with a mean of 1.06 and low standard deviation of 0.13 when compared with Standard Chartered Bank with a mean of 0.52 and standard deviation of 0.34. t- Test tabular value at 95% significance level is 2.776 is less than the calculated value of 3.036. Therefore, we accept the alternative hypothesis as there is a significant difference in the NPA/NA ratio between Standard Chartered Bank and Kotak Mahindra Bank.
- From table 7 it is observed that Standard Chartered Bank have a high profit per employee with a mean of 2688.40 and standard deviation of 1027.37 when compared with Kotak Mahindra Bank with a mean of 1020.00 and standard deviation of 192.35. t- Test tabular value at 95% significance level is 2.776 is

less than the calculated value of 4.115. Therefore, we accept alternative hypothesis as there is significant difference in profit per employee between Standard Chartered Bank and Kotak Mahindra Bank.

- From table 7 it is observed that Standard Chartered Bank have a high business per employee with a mean of 191562.20 and low standard deviation of 9310.20 when compared with Kotak Mahindra Bank with a mean of 77460.00 and standard deviation of 9370.86. t - Test tabular value at 95% significance level is 2.776 is less than the calculated value of 15.295. Therefore, we accept the alternative hypothesis as there is a significant difference in business per employee between Standard Chartered Bank and Kotak Mahindra Bank.
- From table 7 it is observed that Standard Chartered Bank have a lowest return on assets with a mean of 1.48 and high standard deviation of 0.63 when compared with Kotak Mahindra Bank with a mean of 1.69 and standard deviation of 0.30. t - Test tabular value at 95% significance level is 2.776 is more than the calculated value of 1.119. Therefore, we accept the null hypothesis as there is no significant difference in return on assets between Standard Chartered Bank and Kotak Mahindra Bank.
- From table 7 it is observed that Standard Chartered Bank have a low current ratio with a mean of 1.21 when compared with Kotak Mahindra Bank with a mean of 1.28 t - Test tabular value at 95% significance level is 2.776 is less than the calculated value of 3.227. Therefore, we accept the alternative hypothesis as there is a significant difference in current ratio between Standard Chartered Bank and Kotak Mahindra Bank.

10. Conclusions of the Study

The following conclusions are arrived on the basis of the above results:

- A bank has to maintain the capital adequacy ratio at 9% according to Basel III norms and both the Standard Chartered Bank and Kotak Mahindra Bank have maintained adequate amount of capital to meet their financial needs.
- It has been concluded that Kotak Mahindra Bank is suffering with high NPA level when compared to Standard Chartered Bank.
- It can be concluded that Standard Chartered Bank generates more profit and business per employee compared to Kotak Mahindra Bank.
- There exists a significant difference between Standard Chartered Bank and Kotak Mahindra Bank in the earning quality (measured in terms of ROA) and liquidity position (measured in terms of current ratio).

11. Suggestions

From the data analysis and interpretation, it may be suggested that the Kotak Mahindra Bank should minimize its Net NPA and improve the asset quality and also suggested the bank to use advanced technology, processes, core banking and aggressive marketing strategies to improve operational efficiency and to create a customer friendly environment to satisfy them. As ROA and liquidity position of Standard Chartered Bank is low compared to Kotak Mahindra Bank, it is suggested that the Standard Chartered Bank should retain efficient employees by providing good working conditions so as to increase return on assets and also suggested that the proper liquidity should be maintained to meet customers day to day cash requirements and to respond to the sudden cash withdrawals.

Courtesy: From International Conference, Academy for Global Business Advancement (AGBA), 16th World Congress, on July 2-4, 2019 organised by IIT Delhi, New Delhi, India (Awarded Best Paper in the Conference).

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