ISSN (Online): 2455-3662
EPRA International Journal of Multidisciplinary Research (IJMR) - Peer Reviewed Journal
Volume: 11| Issue: 6| June 2025|| Journal DOI: 10.36713/epra2013 || SJIF Impact Factor 2025: 8.691 || ISI Value: 1.188

PROFITABILITY ANALYSIS OF SELECTED PRIVATE BANKS USING CAMEL MODEL

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ABSTRACT
The performance and profitability of banks play a pivotal role in the economic development of a country. This study aims to evaluate the financial soundness and profitability of selected private sector banks using the CAMEL model – an established framework encompassing five key parameters: Capital Adequacy, Asset Quality, Management Efficiency, Earnings, and Liquidity. By applying this model to a sample of leading private banks over a specific period, the research provides a comparative analysis of their operational strengths and weaknesses. The findings highlight how different components of the CAMEL model influence profitability and overall financial health. The results reveal that while most banks maintain strong capital adequacy and liquidity positions, variations exist in earnings and asset quality, affecting their relative profitability. The study offers insights for investors, policymakers, and banking professionals to make informed decisions and improve strategic performance management within the private banking sector.
KEY WORDS: *Capital Adequacy, Asset Quality, Management Efficiency, Earnings Performance, Liquidity Management.*

INTRODUCTION

Profitability analysis is a key indicator of a financial institution's performance and sustainability. In the context of private banks, profitability not only reflects the bank's ability to generate earnings relative to its revenue, assets, or equity, but it also provides insight into the effectiveness of its financial management strategies. A robust profitability analysis helps stakeholders such as investors, regulators, and management in making informed decisions regarding the bank's performance and operational strategies.

One of the most comprehensive frameworks used to assess the financial performance of banks is the CAMEL model, which evaluates five key aspects of a bank's financial health: Capital Adequacy, Asset Quality, Management Quality, Earnings Quality, and Liquidity. This model helps in understanding the stability and risk exposure of banks, making it an essential tool for assessing profitability.

The CAMEL model serves as a multidimensional tool that looks beyond profitability ratios to provide a deeper insight into how well a bank is managed, the riskiness of its assets, and the quality of its earnings. By applying the CAMEL framework, this analysis will aim to evaluate the profitability of selected private banks, with particular focus on their operational efficiency, risk management practices, and overall financial stability.

REVIEW OF LITERATURE

Siva and Natarajan (2011), meticulously analyzes various parameters: Capital Adequacy, Asset Quality, Management Efficiency, Earnings Quality, and Liquidity, to assess the overall health and stability of selected banks. The authors utilize data spanning multiple years to highlight trends and draw comparisons. They emphasize the model's effectiveness in identifying strengths and weaknesses within the banks' operations. The findings reveal significant insights into the banks' financial soundness, pinpointing areas requiring improvement. Siva and Natarajan's work underscores the CAMEL model's utility as a diagnostic tool in the banking sector, contributing valuable perspectives to both academic research and practical applications in banking supervision and regulation.

K.V.N Prasad, G. Ravinder (2012), explores the application of the CAMEL model in assessing the financial health of banks. It reviews various studies that utilize CAMEL to evaluate banks' performance based on Capital Adequacy, Asset Quality, Management Quality, Earnings Capacity, and Liquidity. The authors emphasize the model's effectiveness in predicting bank failures and its utility in regulatory assessments. They discuss methodological variations in CAMEL application across different countries and regulatory environments. The study highlights CAMEL's role in guiding strategic decisions and enhancing risk management practices in banking. Overall, Prasad and Ravinder underscore CAMEL's significance as a comprehensive framework for evaluating banking sector stability and performance.

OBJECTIVES

Evaluate the financial performance of selected Indian private-sector banks via the CAMEL model and analyse how each component impacts profitability and soundness. Identify their management strengths and weaknesses, then recommend strategies to enhance financial health based on the analysis.

DATA COLLECTION SECONDARY DATA

- Annual reports of selected private sector banks
- Financial statements (Balance Sheet, Profit & Loss Accounts)
- RBI publications (e.g., Financial Stability Reports,

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Banking Sector Analysis)

- Data from banking databases like CMIE Prowess, Money control.
- Research journals, industry reports, and relevant literature from academic sources
- Banking sector data from NSE and BSE website.

CAMEL MODEL RATIOS

Capital Adequacy

Capital Adequacy Ratio (CAR): Measures a bank's capital in relation to its risk-weighted assets, indicating its ability to absorb potential losses.

Asset Quality

Gross NPA Ratio: Represents the proportion of gross non-performing assets to total advances, showing the overall asset quality.

Net NPA Ratio: Indicates the proportion of net non-performing assets (after provisions) to net advances, reflecting the real risk of credit losses.

Management Efficiency

Cost to Income Ratio: Measures the bank's operating efficiency by comparing operating expenses to operating income.

Earnings

Return on Assets (ROA): Shows how efficiently a bank uses its assets to generate net profit.

Return on Equity (ROE): Indicates how effectively a bank uses shareholders' equity to generate profit.

Net Profit Margin: Reflects the percentage of total income that remains as net profit after all expenses.

Liquidity

Current Ratio: Assesses a bank's ability to meet short-term obligations using its current assets.

Liquid Assets to Total Deposits: Measures the proportion of a bank's liquid assets to its total deposits, indicating its short-term liquidity strength.

Interpretation

HDFC bank

HDFC Bank maintains a healthy liquidity position with an average of 7.30. Its standard deviation (1.16) and coefficient of variation (0.158) indicate moderate stability. The bank's liquidity trend suggests a generally prudent approach to cash and liquid asset management, though with some fluctuations, possibly due to market or seasonal operational dynamics.

ICICI bank

ICICI Bank shows the most consistent liquidity ratios over the period, with the lowest standard deviation (0.44) and lowest coefficient of variation (0.082). Although its average liquidity (5.36) is the lowest among the three, the stability of its liquidity profile reflects effective treasury management and a well-balanced asset-liability structure.

AXIS bank

Axis Bank holds the highest average liquidity ratio among the first three banks at 9.18, indicating a strong ability to cover short-term liabilities. Despite its higher average, the bank exhibits moderate variability (S.D: 1.28, CoV: 0.139), reflecting occasional fluctuations in its liquidity levels. This suggests that while the bank is generally well-positioned, there may be underlying changes in asset-liability management or external market influences.

SUMMARY

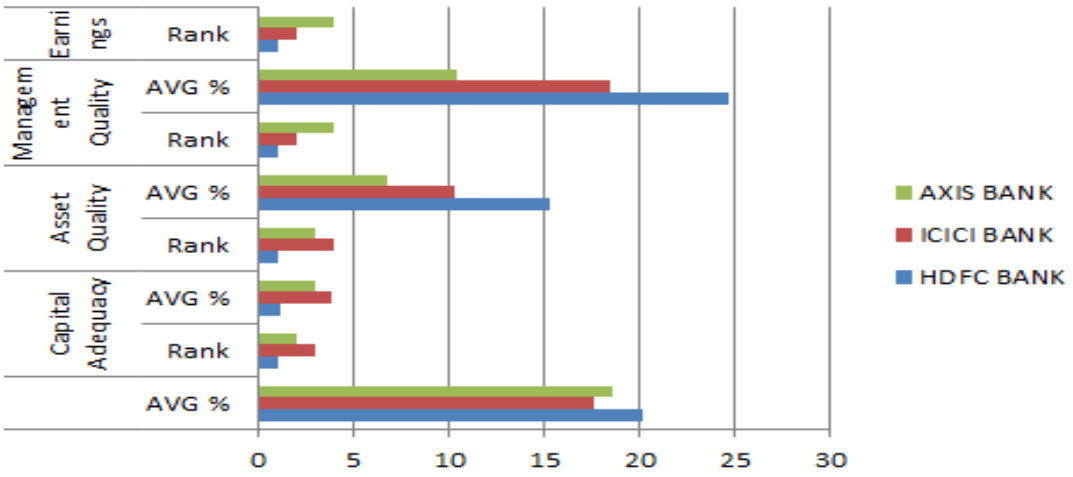
Among the first three banks, Axis Bank stands out with the highest average liquidity, indicating a robust short-term financial position. HDFC Bank follows with strong but slightly more variable liquidity ratios. ICICI Bank, despite having the lowest mean, showcases exceptional consistency, making it the most stable in liquidity terms. Collectively, all three banks demonstrate sound liquidity management, vital for sustaining operations and weathering financial uncertainties.

Composite Rank Table

DETAILS		HDFC BANK	ICICI BANK	AXIS BANK
Capital Adequacy	AVG %	20.14	17.56	18.58
	Rank	1	3	2
Asset Quality	AVG %	1.22	3.81	2.97
	Rank	1	4	3
Management Quality	AVG %	15.28	10.31	6.81
	Rank	1	2	4
Earnings	AVG %	24.64	18.51	10.40
	Rank	1	2	4
Liquidity	AVG %	7.30	5.36	9.18
	Rank	2	4	1
Composite Rank	AVG %	13.72	11.11	9.59

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FINDINGS FROM CAMEL ANALYSIS



Capital Adequacy

- HDFC leads with a robust ₹20.14% average CAR, reflecting strong buffers and regulatory compliance, followed by Axis (18.58%) and ICICI (17.56%).
- All three comfortably exceed Basel norms, with HDFC and ICICI designated as Domestic Systemically Important Banks, warranting additional capital buffers

Asset Quality

- HDFC's superior asset quality is evident at only 1.22% average gross NPA, significantly lower than ICICI (3.81%) and Axis (2.97%).
- Recent trends confirm improvements across the sector, but private banks face non-performing asset risks, especially in unsecured lending.

Management Quality

- HDFC tops with 15.28%, followed by ICICI (10.31%) and Axis (6.81%), showing HDFC's operational efficiency and high per-employee productivity

Earnings

- HDFC's earnings are the strongest (24.64%), then ICICI (18.51%), with Axis lagging (10.40%).
- HDFC outperforms peers on NIM, ROA, and ROE metrics, while Axis continues to struggle with income diversification and cost-to-income pressures

Liquidity

- Axis leads at 9.18%, followed by HDFC (7.30%) and ICICI (5.36%). Axis's high liquidity coverage reflects a conservative funding approach .

Composite Ranking

- Cumulatively, HDFC outperforms with a composite score of 13.72, followed by ICICI (11.11) and Axis (9.59), indicating a clear ranking hierarchy favoring HDFC's balanced strength across CAMEL dimensions.

HDFC Bank stands out as the most resilient across capital, earnings, and management, though modest liquidity improvements could further solidify its position.

ICICI Bank holds competitive capital adequacy and asset control, but has room to grow cost-efficiency and liquidity reserves.

Axis Bank's liquidity strength forms a solid foundation, but enhancements in management effectiveness and income generation are essential to close the gap.

CONCLUSION

HDFC Bank, Axis Bank, and ICICI Bank lead the Indian private banking sector through strong capital adequacy, asset quality, and management. HDFC Bank stands out with the highest overall financial stability and profitability. Axis Bank excels in liquidity and balanced performance, while ICICI Bank shows consistent earnings and effective leadership.

The success highlights the importance of strategic risk management and governance. These banks set the benchmark for resilience and competitiveness in a dynamic market.

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