

Original Research Article

PERFORMANCE ANALYSIS USING THE CAMEL APPROACH REFERENCE TO SELECT BANKS IN TAMILNADU DURING COVID 19 – AN EMPIRICAL STUDY

Abstract

The series of an economy is considerably dependent upon deployment as well as optimum consumption of resources and most highly operational competence of the various sectors, of which banking sector plays a very vital role. Banking sector helps in motivation of capital formation, innovation and monetization in addition to facilitation of monetary policy. It is imperative to carefully evaluate and analyses the performance of banks to ensure a healthy financial system and an efficient economy. Evaluating Indian banking sector is not an easy task. There are so many factors, which need to be taken care while differentiating good banks from bad ones. To evaluate the performance of banking sector we have chosen the CAMEL model because it measures the performance of banks from each of the important parameter like Capital Adequacy, Assets Quality, Management Efficiency, Earning Quality and Liquidity. The present study focuses on the evaluation of the performance of two public sector banks in Tamil Nadu. The data of the sample banks for a three year period from 2019-2021 has been collected from the annual reports of the banks.

KEYWORDS: CAMEL, PERFORMANCE, COVID19, BANKS,

1. Introduction

The financial sector plays a very important role in the development of the economy of a country. Banks are vital components of any financial system and thus the stability of the banking sector has gained a lot of importance especially after the global financial crisis in 2008. As opined by Rabi N. Mishra, S. Majumdar and Dimple Bhandia, stability in the banking sector is a necessary condition for maintaining financial stability. Assessment of the financial performance of the banking sector is an effective and necessary measure to judge the strength of the financial system of an economy. The volatility of the financial markets, the intense competition amongst the banks in the aftermath of the economic liberalization, and diversification of banking services into areas like insurance and investments has increased the risk and challenges faced by banks. In the light of this, it is important to have an effective supervisory system which ensures safety and soundness of banks.

In India, RBI is responsible for monitoring the financial condition of the commercial banks

Comment [FBT1]: *The series of an economy is considerably dependent upon deployment as well as optimum consumption of resources and most highly operational competence of the various sectors, of which the banking sector plays a very vital role. The banking sector helps in the motivation of capital formation, innovation, and monetization in addition to the facilitation of monetary policy. It is imperative to carefully evaluate and analyze the performance of banks to ensure a healthy financial system and an efficient economy. Evaluating the Indian banking sector is not an easy task. There are so many factors, which need to be taken care of while differentiating good banks from bad ones. To evaluate the performance of the banking sector we have chosen the CAMEL model because it measures the performance of banks from each of the important parameters like Capital Adequacy, Assets Quality, Management Efficiency, Earning Quality, and Liquidity. The present study focuses on the evaluation of the performance of two public sector banks in Tamil Nadu. The data of the sample banks for a three-year period from 2019-2021 has been collected from the annual reports of the banks.*

and for enforcing regulatory norms on these banks. Much of the information required for monitoring is gathered from the reports submitted by the banks at regular intervals. However, this information has to be corroborated with on-site examinations which verify the accuracy of the reports and also help to gather further information required by RBI. RBI's approach to supervision after the economic liberalization has shifted towards prudential regulation and supervision keeping in tune with best international practices.

In addition, RBI has initiated a Prompt Corrective Action (PCA) framework for commercial banks. Under this framework, certain trigger points have been specified in three areas i.e. capital to risk weighted assets ratio (CRAR), net nonperforming assets (NPA) and Return on Assets (RoA). RBI initiates certain structured and discretionary actions when banks hit these trigger points

Camel Rating System

The CAMEL rating system was adopted first by the United States in the 1980s to conduct onsite examination of their banks' performance. In India, RBI set up the Padmanabhan Working Group (1995) who recommended the adoption of two models for bank supervision viz., the CAMEL method for Indian banks and the CACS method for Foreign based banks in India. The CAMEL rating framework judges the banks on five different parameters viz. Capital Adequacy, Asset Quality, Management, Earnings and Liquidity. The CAMEL model was subsequently revised to CAMELS in 1996 to accommodate another parameter -S which is -Sensitivity to Market Risk. The CAMELS ratings help to determine a bank's overall financial condition and to identify its strengths and weaknesses. RBI has been following the CAMEL model for evaluating bank performance since 1997.

The CAMEL ratings are based on a scale of 1 to 5 where 1 represents the highest rating and 5 represents the lowest rating. A rating of 1 or 2 indicates strong performance and sound management with no cause for supervisory concern. A rating of 3, 4 and 5 presents weakness in one or more parameters, indicating weakness in performance and causing supervisory concerns. The banks are normally examined once a year. In case of banks with low ratings, the assessment may be more frequent. Each CAMEL parameter has several subparameters under it. Each subparameter is given a rating of 1 to 5. A composite rating, which is an abridgement of the individual component ratings, is assigned again on a scale of 1 to 5 to obtain the composite rating. The CAMEL composite rating given by the regulator involves a certain amount of subjectivity based on the regulator's assessment of the individual components and the overall assessment of the organization.

2. Review of literature

P.Kulshrestha and A.Srivastava (2022), analyzed the performance of the banking sector is significant for any economy. The growth of a nation relies significantly upon efficient and optimum utilization of resources and also on operational efficiency of various sectors of an economy, of which the banking sector is a critical part. Banking system strengthens the stimulation of capital formation and provides liquidity. Indian banking sector comprises private, public, rural and foreign banks. In India, public sector banks are encountering challenges from private sector banks and are under constant pressure to perform better. Hence, this study endeavors mainly to analyze and compare the financial performance of the private and public banking sector by using CAMEL rating approach and for this purpose total of fourteen banks, representing the private and public, have been selected. The selected sample are the market leaders and have the highest market capitalization in the capital market. Overall, the paper aims to measure and compare the financial performance of private and public sector banks by employing CAMEL approach on their audited financial reports of eight years period i.e. (2011–2018). The overall results signify that the performance of private sector banks has improved because of the implementation of modern technology banking reforms and recovery mechanism.

R. Raghavendra Rao (2022), discusses the performance and efficiency analysis of selected private sector banks in the light of tough competition and technology up gradation. Right from the establishment of Royal Chartered bank, Indian banking sector has seen a magnanimous growth especially after independence. The nationalization of banks in 1969 and 1980 had added fuel to the growth. The New Economic policy, 1991 has totally changed the facets of the banking sector. The doors are open to the private and foreign banks to India and the services are scattered and spread to various areas like wealth management, insurance, mutual funds, forex trading. The research found that has been performing well among the given three banks when compared with other two banks.

VK Reddy and A Sreeram (2022), investigates Banking sector playing a vital important role fast growing economy of India. It cannot be imagined without the existence of banking sector our nation. Nowadays banks are facing so many challenges. The study of operational performance and profitability of Bank of baroda with analysis of camel model aims to know the operational performance and profitability analysis of BOB. This study uses the CAMEL method to find outperformance of banks with parameters First Capital Adequacy, Second Asset Quality, Third Management Efficiency, Fourth Earning Quality, Fifth Liquidity and Sixth Sensitivity.

DK Raj (2022), investigated the performance evaluation of the banking sector is a powerful measure and indicator to test the stability of financial activities of an economy. In this study an

attempt has been made to assess the performance & financial stability of selected Private and Public Banks in India of the year 2018. CAMEL techniques has been used to look at the financial strength of the chosen banks. Composite Rankings and Average has been implemented here to attain conclusion through the comparative and significant analysis of various parameters of CAMEL. HDFC bank is ranked first under the CAMEL analysis followed by Axis bank. ICICI occupied the third position. The fourth position is occupied by SBI, fifth by Bank of Baroda and the last position is occupied by Bank of India amongst all the selected banks.

Ashish Kumar (2022), analyzed that Indian banking sector is the backbone of Indian economy. Indian banking sector helps in the capital formation, innovation and money supply in the country. In this situation, it is important to carefully evaluate and analyze the performance of the banks to ensure a healthy financial system and an efficient economy. This current research attempts to evaluate the performance of select Public Sector Banks in India using CAMEL Rating System. The research is based on a sample of 18 Public sector banks for five year period from 2015 to 2019. This rating system is one of the most popular methods for measuring banking performance. CAMEL includes the parameter like Capital adequacy, Asset quality, Management quality, Earnings quality and Liquidity. The research shows that overall Bank of Maharashtra has performed best amongst the selected banks and Ranked top position with composite average 14.85 and IDFC First Bank Ltd occupies last position amongst all selected banks with composite average 20.60.

Chandrika C and Rukmini (2021), measured the banking sector is one of the emerging and growing sectors in India. In India, banks consist of public, private, and foreign sectors. Assessing any sector of the banks is a fundamental task. Accordingly, this paper inspects to know the influence of CAMEL components on the financial performance of Indian Overseas Banks, a private bank. CAMEL's major indicators such as capital adequacy, asset quality, management effectiveness, bank liquidity are measured. The research sample of Indian Overseas Bank considers over the 5 years, from 2016 to 2020. The findings ascertain bank's net profit is not on par, management effectiveness is better.

M Dadhich et al. (2021), Attesting to the enhancement of the overall health of commercial banks, accounting-based indicators show wholesome financial performance. The study attempts to appraise the financial performance of selected private and public commercial banks of India for the period from 2015-19. The attempt comprises 10 commercial banks of India, the top 5 scheduled commercial banks of public and private segments each, based on their market capitalization and total asset value. In the present chaotic scenario, it is pertinent to examine the prominent indicators of the selected banks with help of the CAMEL model that encompasses capital-adequacy, asset-quality, management-efficiency, earning-performance, and liquidity-position by employing the panel data estimations.

Dr.Ch. Hymavathi (2021), analyzed Public and Private Sector Banks play a dominant role in portraying the financial system of an economy. An Economy's health can be determined by the conditions prevailing in the financial system. In order to maintain a healthy financial system, it is necessary to analyse the banks regularly for identification of their Strengths and elimination of the potential vulnerabilities. Banks act as fuel for smooth and efficient functioning of an economy's financial system. The objective of my study is to assess and contrast the financial, operational and managerial health of selected public and private sector banks. For the purpose of the study only three public sectors banks which include State Bank of India, Bank of Baroda and Union Bank and three private sector banks which include HDFC, ICICI and Axis Bank are taken into consideration. CAMEL approach is considered for analysing and contrasting the performance of the banks. CAMEL stands for C-Capital Adequacy, A-Asset Quality, M-Management Efficiency, E-Earnings and L-Liquidity.

Mohan M et al (2021), aimed CAMEL model analysis is a vital tool to analyze the banks and financial institutions. The financial performance is to suggest the necessary measures for its improvement where it is required. Indian banks the two public and private banks were selected to analyze the performance of banks five years period from 2015 to 2019. The financial performance of banks analyzed by using five parameters of CAMEL model Capital Adequacy, Asset Quality, Management Efficiency, Earnings Ability and Liquidity are considered.

Dr. R. Mayakkannan et al, (2020), assessed the banking sector is significant to make sure the financial stability of an economy. In light of the worldwide banking predicament in recent years, the CAMEL approach is a useful tool to examine the safety and soundness of banks. The present study attempts to show the relative financial position and performance of selected public and private banking sectors and result over five years from 2015 to 2020. This study aimed at the top ten public and private sector banks based on the assessment of statistical information of net margin, total assets, and market position. In recent years, the private sector banks give a very tough competition in terms of Capital Adequacy, Asset Quality, Management Efficiency, Earning Capacity, and Asset Quality, Hence the CAMEL model has been chosen for the study. The complete study is based on the secondary data, procured, and extracted from the financial statements of the selected banks. The collected information is analyzed using various financial ratios and statistical tools.

Dr V.T Dhanaraj & U. Ponmani (2020), explained CAMEL Parameters are Operational efficiency of an indicator, which will help not only the public save for to the management, regulators, and supervisors to the relative efficiency of the players competing in the banking sector. Therefore, this study attempts to apply CAMEL Capital ratios, Assets ratios, Management efficiency and liquidity ratios on elected Commercial banks in India.

Anh Huu Nguyen (2020), investigated and examined the effect of the CAMEL model variables on the profitability and financial soundness of the thirteen Jordanian commercial banks for the

period of 2013 to 2019, the primary data were collected from the published audited financial reports of the Jordanian commercial banks. The study uses CAMEL model variables of Capital adequacy, Asset Quality, Management efficiency, Earnings ability, and Liquidity management to rank banks as per their overall performance and measuring their effect on banks' profitability measures of Return on Assets and Return on Equity separately through applying the fixed effect regression model. It is concluded that the ranking approach shows that Bank of Jordan was in the top position followed by the Capital Bank of Jordan. Jordan Ahli Bank was in the lowest rank in most positions. Furthermore, the empirical results indicates that Non-Interest Income to Total Assets and Net Interest Income to Total Loans and Advances have significant positive relationships with both profitability measures whereas cost to Total Income and Non-Interest Income to Total Assets have strong negative relationships with the profitability measures.

Dr. Ammar Daher Bashatweh et al (2020), aimed at analyzing and evaluating the financial performance of the Jordanian banks. To achieve the objective of the study, the CAMELS framework was used to analyze and evaluate the financial performance of banks. The study sample consisted of 13 commercial banks for the period 2014-2018. The study concluded that the overall Jordanian commercial banks was the degree of classifying them based on CAMELS framework which was acceptable and that the Jordanian commercial banks have a convergence in the rating, which is an indication of the convergence of the procedures and policies adopted in the Jordanian commercial banks. The study also recommended preparing accurate and organized plans for liquidity by the managements of the banks in order to achieve a consistency between assets and obligations in terms of maturity, and distributing them to uses transferable to liquid balances.

Parmod Kumar Singhal (2020), investigated banks form the fundamental component of the financial system of any economy. Soundness of the banking sector is, therefore, essential for a healthy and vibrant economy. Nowadays, the financial system of the Indian economy is completely interlinked with the banking sector. So, it is necessary to evaluate and measure the strength of the banking industry so that our economy improves efficiently. In this study, an attempt has been made to measure the financial position and performance of public sector banks, ranking them accordingly. For this purpose 21 Indian public sector banks have been taken into consideration, over a period of ten years. The CAMEL model has been used to measure the performance of the banks. Findings from the analysis indicates that Indian public sector banks are making an effort toward maintaining adequate capital, and in years to come, all banks should strive toward achieving more than the required level.

Chinmaya Kumar Rout (2020), explained in India, Cooperative Banking has an idiosyncratic position in the rural credit delivery system. Cooperative Banks are providing timely and easy credit to rural people. The financial efficacy of Cooperative Banks is of immense importance for smooth credit disbursement. In the present study, we have taken 17 District Central Cooperative

Banks (DCCBs) of Odisha and attempted to measure their efficacy of finance flow. For this purpose we have used the CAMEL model which is based on five parameters like Capital Adequacy, Asset Quality, Management Quality, Earning Ability and Liquidity. Under each parameter two ratios, are calculated for 10 years and DCCBs are ranked according to their score. Synthesized Index Table is developed by taking the average ranks of each parameter and DCCBs are ranked accordingly

Kiran Kajal (2018), investigated banking is one of the fastest growing sectors in India. Banking sector helps in boosting capital formation, innovation and monetization along with facilitation of monetary policy. Not only the depositors treat sound financial health of a bank as the guarantee but it is equally significant for the shareholders, employees and whole economy of a country as well. The present study measures the financial health of top public sector and private sector banks operating in India using CAMEL Analysis. In the study, seven public sector bank namely State Bank of India, Bank of Baroda, Bank of India, PNB Bank, Union Bank of India, Canara Bank and IDBI Bank and four private sector Banks namely ICICI Bank, HDFC Bank, AXIS Bank and Indusind Bank have been selected as a sample. Data used for the study pertains from 2013–14 to 2016–17 and has been collected from the annual reports of respective banks. To study every major variable use of various ratios have been made which helps to analyze the variable in betterway.

3. Need for the Study

In the age of globalization, banking sectors play a vital role to the development of economy of any country. In fact, banks, as a financial institution contribute toward economy stability for a long time especially crisis time, During the COVID period Banks and financial institutions that assisted the common man as well as Business Community by way of providing Moratorium that really affects the financial health of a bank in terms of Liquidity, Asset Quality and Efficiency. it is very important for stakeholders to know about the financial performance and the financial position of the banks to understand the future prospects of the Bank . For this purpose, Analysis of financial statements through CAMEL approach to identify the financial soundness of select banks.

4. Objectives of the study

- i. To Analyze the financial performance of the public sector banks in Tamil Nadu using CAMEL model during COVID 19
- ii. To examine the financial position of Indian Overseas Bank and Indian Bank by using CAMEL Model.

5. Scope of the study

Comment [FBT2]: The financial sector plays a very important role in the development of the economy of a country. Banks are vital components of any financial system and thus the stability of the banking sector has gained a lot of importance, especially after the global financial crisis in 2008. As opined by Rabi N. Mishra, S. Majumdar, and Dimple Bhandia, stability in the banking sector is a necessary condition for maintaining financial stability. Assessment of the financial performance of the banking sector is an effective and necessary measure to judge the strength of the financial system of an economy. The volatility of the financial markets, the intense competition amongst the banks in the aftermath of the economic liberalization, and the diversification of banking services into areas like insurance and investments have increased the risk and challenges faced by banks. In light of this, it is important to have an effective supervisory system that ensures the safety and soundness of banks. In India, RBI is responsible for monitoring the financial condition of commercial banks and for enforcing regulatory norms on these banks. Much of the information required for monitoring is gathered from the reports submitted by the banks at regular intervals. However, this information has to be corroborated with on-site examinations which verify the accuracy of the reports and also help to gather further information required by RBI. RBI's approach to supervision after the economic liberalization has shifted towards prudential regulation and supervision keeping in tune with best international practices. In addition, RBI has initiated a Prompt Corrective Action (PCA) framework for commercial banks. Under this framework, certain trigger points have been specified in three areas i.e. capital to risk-weighted assets ratio (CRAR), net nonperforming assets (NPA), and Return on Assets (RoA). RBI initiates certain structured and discretionary actions when banks hit these trigger points

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The CAMEL ratings are based on a scale of 1 to 5 where 1 represents the highest rating and 5 represents the lowest rating. A rating of 1 or 2 indicates strong performance and sound management with no cause for supervisory concern. A rating of 3, 4, and 5 presents a weakness in one or more parameters, indicating weakness in performance and causing supervisory concerns. The banks are normally examined once a year. In the case of banks with low ratings, the assessment may be more frequent. Each CAMEL parameter has several subparameters under it. Each sub-parameter is given a rating of 1 to 5. A composite rating, which is an abridgment of the individual component ratings, is assigned again on a scale of 1 to 5 to obtain the composite rating. The CAMEL composite rating given by the regulator involves a certain amount of subjectivity based on the regulator's assessment of the individual components and the overall assessment of the organization.

1. Review of literature

Kulshrestha and Srivastava (2022) analyzed the performance of the banking sector is significant ... [1]

The present study covers only 2 public sector banks which operated during the period of 2019 to 2021. This study has used financial ratios to investigate the banking performance namely: Capital adequacy ratios Asset quality ratios Management efficiency ratios, Earnings quality ratios and Liquidity ratios. CAMEL ratios are used to evaluate their performance and efficiency to come to a conclusion that which bank is leading position in performance and efficiency. All the required data have been collected through annual reports published by the selected banks and websites.

6. Research Methodology

CAMEL model is basically ratio based model for evaluating the performance of banks. It is a management tool that measures capital adequacy, assets quality, management efficiency, earnings quality and liquidity of financial institutions. The present study adopts analytical research design. Data used for the study secondary in nature during COVID period. Altman Z score is used to identify bankruptcy potential of firms

7. Results and Discussion

Table 1: CAMEL Ratings (2019-21): Capital Adequacy

Banks	Capital Adequacy Ratio		Debt-Equity Ratio		Advance to Assets Ratio		Government Securities to Total Investments		Group Rank	
	Mean	Rank	Mean	Rank	Mean	Rank	Mean	Rank	Mean	Rank
Indian Overseas Bank	12.08	2	0.74	2	48.63	2	87.94	1	1.75	2
Indian Bank	14.35	1	0.30	1	61.14	1	41.32	2	1.25	1

Source: Statistical Tables relating to Banks in India, published by the Reserve Bank of India.

Interpretation

It is clear that both banks have maintained higher CAR than the prescribed level. It is found that Indian Bank secured the top position with highest average CAR of 14.3, Indian Overseas Bank with a least average CAR of 12.08. In terms of Debt-Equity Ratio, Indian bank was at the top position with least average of 0.30, Indian Overseas Bank had the highest Debt-Equity Ratio of 0.74 During the study period. In case of Advances to Assets, Indian Bank was at the first position with highest average of 61.14, followed by Indian Overseas Bank (48.63). Indian Overseas bank

Comment [FBT3]: The present study covers only 2 public sector banks that operated from 2019 to 2021. This study has used financial ratios to investigate banking performance namely: Capital adequacy ratios Asset quality ratios Management efficiency ratios, Earnings quality ratios, and Liquidity ratios. CAMEL ratios are used to evaluate their performance and efficiency to conclude which bank is leading position in performance and efficiency. All the required data have been collected through annual reports published by the selected banks and websites.
1. Research Methodology

CAMEL model is ratio-based model for evaluating the performance of banks. It is a management tool that measures capital adequacy, assets quality, management efficiency, earnings quality, and liquidity of financial institutions. The present study adopts an analytical research design. Data used for the study was secondary during the COVID period. Altman Z score is used to identify the bankruptcy potential of firms.

was at the top most position in Government securities to Investments with highest average of 87.94, Indian Bank was at the last position with the least average of 41.32. On the basis of group averages of four sub-parameters of capital adequacy, Indian Bank was at the top position with group average of 1.25 and Indian Overseas Bank (1.75).

Table 2: CAMEL Ratings (2019-21): Assets Quality

Banks	Net NPAs to Net Advances		Net NPAs to Total Assets		Total Investments to Total Assets		Group Rank	
	Mean	Rank	Mean	Rank	Mean	Rank	Mean	Rank
Indian Overseas Bank	6.69	2	3.26	2	30.82	2	2	2
Indian Bank	3.39	1	2.08	1	26.55	1	1	1

Source: Statistical Tables relating to Banks in India, published by the Reserve Bank of India.

Interpretation

In case of Net NPAs to Net Advances, Indian Bank was at the top position with a least average of 3.39 and Indian Overseas Bank with a highest average of 6.69. Indian Bank was at the top position with an average Net NPAs to Total Assets of 2.08, Indian Overseas Bank was at the last position with an average of 3.26. In terms of Total Investment to Total Assets, Indian Bank was at the first position with an average of 26.55, followed by Indian Overseas Bank (30.82).

On the basis of group averages of sub-parameters of assets quality, Indian Bank had the highest group average of 1 and Indian Overseas Bank (2).

Table 3: CAMEL Ratings (2019-21): Management Efficiency

Banks	Business per Employee		Profit per Employee		Credit Deposit Ratio		Return on Net Worth		Group Rank	
	Mean	Rank	Mean	Rank	Mean	Rank	Mean	Rank	Mean	Rank
Indian Overseas Bank	14.27	2	-15.29	2	55.65	2	-23.57	2	2	2
Indian Bank	22.29	1	5.10	1	71.43	1	5.93	1	1	1

Source: Statistical Tables relating to Banks in India, published by the Reserve Bank of India

Interpretation

Indian Bank was at the top most position with an average business per employee of 22.29 and

Comment [FBT4]: Both banks have maintained higher CAR than the prescribed level. It is found that Indian Bank secured the top position with the highest average CAR of 14.3 and Indian Overseas Bank with the least average CAR of 12.08. In terms of Debt-Equity Ratio, Indian bank was at the top position with least average of 0.30, Indian Overseas Bank had the highest Debt-Equity Ratio of 0.74 During the study period. In the case of Advances to Assets, Indian Bank was at the first position with the highest average of 61.14, followed by Indian Overseas Bank (48.63). Indian Overseas bank was at the top position in Government securities to Investments with the highest average of 87.94, Indian Bank was at the last position with the least average of 41.32. Based on group averages of four sub-parameters of capital adequacy, Indian Bank was at the top position with a group average of 1.25 and Indian Overseas Bank (1.75).

Comment [FBT5]: In the case of Net NPAs to Net Advances, Indian Bank was at the top position with the least average of 3.39 and Indian Overseas Bank with the highest average of 6.69. Indian Bank was at the top position with an average Net NPAs to Total Assets of 2.08, and Indian Overseas Bank was at the last position with an average of 3.26. In terms of Total Investment to Total Assets, Indian Bank was at the first position with an average of 26.55, followed by Indian Overseas Bank (30.82).

Indian Overseas Bank (14.27). In terms of profit per employee Indian Bank secured the top position with 5.10, followed by Indian Overseas Bank (-15.29). At the front of Credit Deposit Ratio, Indian Bank was at the first place with an average 71.43 and Indian Overseas Bank (55.65). Indian Bank was at the top position in Return on Net Worth with the highest average of 5.93 And Indian Overseas Bank (-23.57).

On the basis of group averages of 4 sub-parameters of Management Efficiency, Indian Bank was at the top position with group average of 1 and Indian Overseas Bank with group average of 2.

Table 4: CAMEL Ratings (2019-21): Earning Quality

Banks	Return on Assets		Net Interest Margin to Total Assets		Operating Profit to Total Assets		Group Rank	
	Mean	Rank	Mean	Rank	Mean	Rank	Mean	Rank
Indian Overseas Bank	-1.48	2	2.10	2	-3.15	2	2	2
Indian Bank	0.27	1	2.41	1	-0.62	1	1	1

Source: Statistical Tables relating to Banks in India, published by the Reserve Bank of India.

Interpretation

Indian Bank rated top in case of Return on Assets with an average of 0.27, followed by Indian Overseas Bank (-1.48). In case of Net Interest Margin to Total Assets, Indian Bank was at the first position with an average of 2.41 and Indian Overseas Bank (2.10). In case of Operating Profit to Total Assets, Indian Bank stood at the top place with an average of -0.62 and Indian Overseas Bank (-3.15). On the basis of group averages of 3 sub-parameters of Earnings Quality, Indian Bank was at the top followed by Indian Overseas Bank.

Table.5: CAMEL Ratings (2019-21): Liquidity

Banks	Liquid Assets to Total Assets		Government Securities to Total Assets		Liquid Assets to Total Deposits		Liquid Assets to Demand Deposits		Group Rank	
	Mean	Rank	Mean	Rank	Mean	Rank	Mean	Rank	Mean	Rank
Indian Overseas Bank	10.92	1	27.10	1	12.50	1	108.89	2	1.25	1
Indian Bank	7.23	2	10.97	2	8.46	2	123.20	1	1.75	2

Source: Statistical Tables relating to Banks in India, published by the Reserve Bank of India.

Interpretation

Comment [FBT6]: Indian Bank was at the top position with an average business per employee of 22.29 and Indian Overseas Bank (had 14.27). In terms of profit per employee, Indian Bank secured the top position with 5.10, followed by Indian Overseas Bank (-15.29). At the front Credit Deposit Ratio, Indian Bank was in first place with an average of 71.43 and Indian Overseas Bank (55.65). Indian Bank was at the top position in Return on Net Worth with the highest average of 5.93 And Indian Overseas Bank (-23.57).

Comment [FBT7]: Indian Bank rated top in the case of Return on Assets with an average of 0.27, followed by Indian Overseas Bank (-1.48). In the case of Net Interest Margin to Total Assets, Indian Bank was at the first position with an average of 2.41 and Indian Overseas Bank (2.10). In the case of Operating Profit to Total Assets, Indian Bank stood at the top place with an average of -0.62 and Indian Overseas Bank (-3.15). Based on group averages of 3 sub-parameters of Earnings Quality, Indian Bank was at the top followed by Indian Overseas Bank.

Indian Overseas Bank was at the first place in Liquid Assets to Total Assets with highest average of 10.92, followed by Indian Bank (7.23). In case of Govt. Securities to Total Assets, Indian Overseas Bank got first position with highest average of 27.10, followed by Indian Bank (10.97). In contest of Liquid Assets to Total Deposits, Indian Overseas Bank was at top with the average 12.50, followed by Indian Bank (8.46). Indian Bank was at the top position in Liquid Assets to Demand Deposits with an average 123.20, followed by Indian Overseas Bank (108.89).

On the basis of group averages of 4 sub-parameters of Liquidity, Indian Overseas Bank was at the top and Indian Bank secures the next position.

Table .6: Composite Ranking: Overall Performance

Banks	C	A	M	E	L	Average	Rank
Indian Overseas Bank	2	2	2	2	1	1.8	2
Indian Bank	1	1	1	1	2	1.2	1

It is clear from Table.6 that Indian Bank has ranked at top position with composite average 1.2, followed by Indian Overseas Bank 1.8.

ALTMAN Z SCORE - Altman Z score is used to identify bankruptcy potential of firms. However, the initial model developed by Altman does not help in predicting bankruptcy of banks. For that, we need to use Altman's customized model for banks.

Altman Z Score for banks

Altman developed the Z score as a tool for predicting the bankruptcy of a bank.

Z score is computed as the sum of 6.56 (A) +3.26 (B) +6.72 (C) +1.05 (D) + 3.26.

A - Working Capital / Total Assets

B - Retained Earnings / Total Assets

C - EBIT / Total Assets

D - Market Value of Equity / Book Value of Debt

Higher the score of a bank in these variables, the better is its safety margin for investors. If the Z score is less than 1.10, the bank is a bankruptcy candidate; if Z score is above 2.60, the bank is out of the bankruptcy risk; if Z score is between 1.10 and 2.60, the bank is in the gray zone and it is difficult to predict its bankruptcy possibility. Sales to total asset ratio used in the model for manufacturing firms is not considered in the model for banks. Further, 3.26 is added to adjust for emerging market banks.

Table 7 : Comparative accounts for Banking parameters

BANKS(2022)	Indian	Overseas	Indian
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Comment [FBT8]: Indian Overseas Bank was in first place in Liquid Assets to Total Assets with the highest average of 10.92, followed by Indian Bank (7.23). In the case of Govt. Securities to Total Assets, Indian Overseas Bank got the first position with the highest average of 27.10, followed by Indian Bank (10.97). In the contest of Liquid Assets to Total Deposits, Indian Overseas Bank was at the top with an average of 12.50, followed by Indian Bank (8.46). Indian Bank was at the top position in Liquid Assets to Demand Deposits with an average of 123.20, followed by Indian Overseas Bank (108.89).

Comment [FBT9]: The higher the score of a bank in these variables, the better its safety margin for investors. If the Z score is less than 1.10, the bank is a bankruptcy candidate; if the Z score is above 2.60, the bank is out of the bankruptcy risk; if the Z score is between 1.10 and 2.60, the bank is in the gray zone and it is difficult to predict its bankruptcy possibility. The sales to total asset ratio used in the model for manufacturing firms are not considered in the model for banks. Further, 3.26 is added to adjust for emerging market banks.

	Bank	Bank
Working Capital	186685.75	472228.63
Total Asset	288229.96	660681.95
Retained Earning	-10418.66	28368.89
EBIT	12197.79	26271.06
Market Value of Equity	33740.79	20942.07
Book Value of Debt	276376.77	629119.51

Z SCORE:

Indian Overseas bank

$$= 6.56 (0.65) + 3.26 (-0.03) + 6.72 (0.04) + 1.05 (0.12) + 3.26$$

$$= 7.81$$

Indian Bank

$$= 6.56 (0.71) + 3.26 (0.04) + 6.72 (0.03) + 1.05 (0.03) + 3.26$$

$$= 8.36$$

Interpretation:

The Z score of Indian Overseas bank is 4.55 (without adding 3.26 for emerging markets) and 7.81 (with addition of 3.26) and Indian Bank is 5.1 (without adding 3.26 for emerging markets) and 8.36 (with addition of 3.26) which indicates that the banks are safer for investors. Though the coefficients may change if we run the model using current data, the inter and intra comparison of a bank in these four variables may offer more clarity on the financial performance of a bank.

8. Conclusion

Due to radical changes in the banking sector in the recent years, the central banks all around the world have improved their supervision quality and techniques. In evaluating the function of the banks, many of the developed countries are now following uniform financial rating system (CAMEL rating) along with other existing procedures and techniques. The current study has been conducted to examine the economic sustainability of a sample of two banks in Tamil Nadu using CAMEL model during the COVID period. The study concludes that Select Banks in Tamilnadu are financially sound and maintain the standards in line with the statutory Requirements

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Comment [FBT10]: The Z score of Indian Overseas bank is 4.55 (without adding 3.26 for emerging markets) and 7.81 (with an addition of 3.26) and Indian Bank is 5.1 (without adding 3.26 for emerging markets) and 8.36 (with an addition of 3.26) which indicates that the banks are safer for investors. Though the coefficients may change if we run the model using current data, the inter and intra-comparison of a bank in these four variables may offer more clarity on the financial performance of a bank.

Comment [FBT11]: Due to radical changes in the banking sector in recent years, central banks all around the world have improved their supervision quality and techniques. In evaluating the function of the banks, many of the developed countries are now following a uniform financial rating system (CAMEL rating) along with other existing procedures and techniques. The current study has been conducted to examine the economic sustainability of a sample of two banks in Tamil Nadu using the CAMEL model during the COVID period. The study concludes that Select Banks in Tamilnadu are financially sound and maintain the standards in line with the statutory Requirements.

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Comment [FBT12]: Kindly remove the pointers on the referencing sections.

The financial sector plays a very important role in the development of the economy of a country. Banks are vital components of any financial system and thus the stability of the banking sector has gained a lot of importance, especially after the global financial crisis in 2008. As opined by Rabi N. Mishra, S. Majumdar, and Dimple Bhandia, stability in the banking sector is a necessary condition for maintaining financial stability. Assessment of the financial performance of the banking sector is an effective and necessary measure to judge the strength of the financial system of an economy. The volatility of the financial markets, the intense competition amongst the banks in the aftermath of the economic liberalization, and the diversification of banking services into areas like insurance and investments have increased the risk and challenges faced by banks. In light of this, it is important to have an effective supervisory system that ensures the safety and soundness of banks.

In India, RBI is responsible for monitoring the financial condition of commercial banks and for enforcing regulatory norms on these banks. Much of the information required for monitoring is gathered from the reports submitted by the banks at regular intervals. However, this information has to be corroborated with on-site examinations which verify the accuracy of the reports and also help to gather further information required by RBI. RBI's approach to supervision after the economic liberalization has shifted towards prudential regulation and supervision keeping in tune with best international practices.

In addition, RBI has initiated a Prompt Corrective Action (PCA) framework for commercial banks. Under this framework, certain trigger points have been specified in three areas i.e. capital to risk-weighted assets ratio (CRAR), net nonperforming assets (NPA), and Return on Assets (RoA). RBI initiates certain structured and discretionary actions when banks hit these trigger points

Camel Rating System

The CAMEL rating system was adopted first by the United States in the 1980s to conduct the onsite examination of their banks ' performance. In India, RBI set up the Padmanabhan Working Group (1995) which recommended the adoption of two models for bank supervision viz., the CAMEL method for Indian banks and the CACS method for Foreign-based banks. The CAMEL

CAMELS in 1996 to accommodate another parameter —SII which is —Sensitivity to Market Risk. The CAMELS ratings help to determine a bank's overall financial condition and to identify its strengths and weaknesses. RBI has been following the CAMEL model for evaluating bank performance since 1997.

The CAMEL ratings are based on a scale of 1 to 5 where 1 represents the highest rating and 5 represents the lowest rating. A rating of 1 or 2 indicates strong performance and sound management with no cause for supervisory concern. A rating of 3, 4, and 5 presents a weakness in one or more parameters, indicating weakness in performance and causing supervisory concerns. The banks are normally examined once a year. In the case of banks with low ratings, the assessment may be more frequent. Each CAMEL parameter has several subparameters under it. Each sub-parameter is given a rating of 1 to 5. A composite rating, which is an abridgment of the individual component ratings, is assigned again on a scale of 1 to 5 to obtain the composite rating. The CAMEL composite rating given by the regulator involves a certain amount of subjectivity based on the regulator's assessment of the individual components and the overall assessment of the organization.

1. Review of literature

Kulshrestha and Srivastava (2022) analyzed the performance of the banking sector is significant for any economy. The growth of a nation relies significantly upon efficient and optimum utilization of resources and also on the operational efficiency of various sectors of an economy, of which the banking sector is a critical part. The banking system strengthens the stimulation of capital formation and provides liquidity. Indian banking sector comprises private, public, rural, and foreign banks. In India, public sector banks are encountering challenges from private sector banks and are under constant pressure to perform better. Hence, this study endeavors mainly to analyze and compare the financial performance of the private and public banking sectors by using the CAMEL rating approach and for this purpose total of fourteen banks, representing the private and public, have been selected. The selected sample are the market leaders and have the highest market capitalization in the capital market. Overall, the paper aims to measure and compare the financial performance of private and public sector banks by employing the CAMEL approach on their audited financial reports for eight years period i.e.

mechanisms.

Rao (2022) discusses the performance and efficiency analysis of selected private sector banks in the light of tough competition and technology up gradation. Right from the establishment of Royal Chartered bank, the Indian banking sector has seen magnanimous growth, especially after independence. The nationalization of banks in 1969 and 1980 had added fuel to the growth. The New Economic policy, of 1991 has changed the facets of the banking sector. The doors are open to the private and foreign banks in India and the services are scattered and spread to various areas like wealth management, insurance, mutual funds, and forex trading. The research found that has been performing well among the given three banks when compared with the other two banks.

Reddy and Sreeram (2022), investigate the Banking sector playing a vitally important role in the fast-growing economy of India. It cannot be imagined without the existence of the banking sector in our nation. Nowadays banks are facing so many challenges. The study of operational performance and profitability of Bank of Baroda with analysis of the camel model aims to know the operational performance and profitability analysis of BOB. This study uses the CAMEL method to find the outperformance of banks with parameters First Capital Adequacy, Second Asset Quality, Third Management Efficiency, Fourth Earning Quality, Fifth Liquidity, and Sixth Sensitivity.

Raj (2022), investigated the performance evaluation of the banking sector as a powerful measure and indicator to test the stability of financial activities of an economy. In this study, an attempt has been made to assess the performance & financial stability of selected Private and Public Banks in India in the year 2018. CAMEL techniques have been used to look at the financial strength of the chosen banks. Composite Rankings and Average has been implemented here to attain a conclusion through the comparative and significant analysis of various parameters of CAMEL. HDFC bank is ranked first under the CAMEL analysis followed by Axis bank. ICICI occupied the third position. The fourth position is occupied by SBI, the fifth by Bank of Baroda, and the last position is occupied by Bank of India amongst all the selected banks.

Kumar (2022), analyzed that the Indian banking sector is the backbone of the Indian economy. Indian banking sector helps in the capital formation, innovation, and money supply in the

attempts to evaluate the performance of select Public Sector Banks in India using the CAMEL Rating System. The research is based on a sample of 18 Public sector banks for five-year period from 2015 to 2019. This rating system is one of the most popular methods for measuring banking performance. CAMEL includes parameters like Capital adequacy, Asset quality, Management quality, Earnings quality, and Liquidity. The research shows that overall Bank of Maharashtra has performed best amongst the selected banks and ranked top position with a composite average of 14.85 and IDFC First Bank Ltd occupies the last position amongst all selected banks with a composite average of 20.60.

Chandrikaand Rukmini (2021), measured the banking sector as one of the emerging and growing sectors in India. In India, banks consist of public, private, and foreign sectors. Assessing any sector of the banks is a fundamental task. Accordingly, this paper inspects to know the influence of CAMEL components on the financial performance of Indian Overseas Banks, a private bank. CAMEL's major indicators such as capital adequacy, asset quality, management effectiveness, and bank liquidity are measured. The research sample of Indian Overseas Bank considers over the 5 years, from 2016 to 2020. The findings ascertain bank's net profit is not on par, management effectiveness is better.

Dadhich et al. (2021), Attesting to the enhancement of the overall health of commercial banks, accounting-based indicators show wholesome financial performance. The study attempts to appraise the financial performance of selected private and public commercial banks in India for the period from 2015-19. The attempt comprises 10 commercial banks of India, the top 5 scheduled commercial banks of public and private segments each, based on their market capitalization and total asset value. In the present chaotic scenario, it is pertinent to examine the prominent indicators of the selected banks with help of the CAMEL model that encompasses capital adequacy, asset quality, management efficiency, earning performance, and liquidity position by employing the panel data estimations.

Hymavathi (2021), analyzed Public and Private Sector Banks play a dominant role in portraying the financial system of an economy. An Economy's health can be determined by the conditions prevailing in the financial system. To maintain a healthy financial system, it is necessary to analyze the banks regularly to the identification of their Strengths and elimination of potential

and managerial health of selected public and private sector banks. For the study, only three public sector banks which include State Bank of India, Bank of Baroda, and Union Bank, and three private sector banks which include HDFC, ICICI, and Axis Bank are taken into consideration. CAMEL approach is considered for analyzing and contrasting the performance of the banks. CAMEL stands for C-Capital Adequacy, A-Asset Quality, M- Management Efficiency, E-Earnings, and L-Liquidity.

Mohan et al (2021), aimed CAMEL model analysis as a vital tool to analyze the banks and financial institutions. The financial performance is to suggest the necessary measures for its improvement where it is required. Indian banks the two public and private banks were selected to analyze the performance of banks five years period from 2015 to 2019. The financial performance of banks analyzed by using five parameters of the CAMEL model Capital Adequacy, Asset Quality, Management Efficiency, Earnings Ability, and Liquidity are considered.

Mayakkannan et al. (2020), assessed the banking sector is significant to make sure the financial stability of an economy. In light of the worldwide banking predicament in recent years, the CAMEL approach is a useful tool to examine the safety and soundness of banks. The present study attempts to show the relative financial position and performance of selected public and private banking sectors and results over five years from 2015 to 2020. This study aimed at the top ten public and private sector banks based on the assessment of statistical information of net margin, total assets, and market position. In recent years, the private sector banks give a very tough competition in terms of Capital Adequacy, Asset Quality, Management Efficiency, Earning Capacity, and Asset Quality, Hence the CAMEL model has been chosen for the study. The complete study is based on the secondary data, procured, and extracted from the financial statements of the selected banks. The collected information is analyzed using various financial ratios and statistical tools.

Dhanaraj and Ponmani (2020), explained CAMEL Parameters are the Operational efficiency of an indicator, which will help not only the public for to the management, regulators, and supervisors to the relative efficiency of the players competing in the banking sector. Therefore, this study attempts to apply CAMEL Capital ratios, Assets ratios, Management efficiency, and

profitability and financial soundness of the thirteen Jordanian commercial banks for the period 2013 to 2019, the primary data were collected from the published audited financial reports of the Jordanian commercial banks. The study uses CAMEL model variables of Capital adequacy, Asset Quality, Management Efficiency, Earnings ability, and Liquidity management to rank banks as per their overall performance and measures their effect on banks' profitability measures of Return on Assets and Return on Equity separately through applying the fixed effect regression model. It is concluded that the ranking approach shows that the Bank of Jordan was in the top position followed by the Capital Bank of Jordan. Jordan Ahli Bank was in the lowest rank in most positions. Furthermore, the empirical results indicate that Non-Interest Income to Total Assets and Net Interest Income to Total Loans and Advances have significant positive relationships with both profitability measures whereas the cost to Total Income and Non-Interest Income to Total Assets have strong negative relationships with the profitability measures.

Bashatweh et al (2020), aimed at analyzing and evaluating the financial performance of the Jordanian banks. To achieve the objective of the study, the CAMELS framework was used to analyze and evaluate the financial performance of banks. The study sample consisted of 13 commercial banks for the period 2014-2018. The study concluded that the overall Jordanian commercial banks were the degree of classifying based on the CAMELS framework which was acceptable and that the Jordanian commercial banks have a convergence in the rating, which is an indication of the convergence of the procedures and policies adopted in the Jordanian commercial banks. The study also recommended preparing accurate and organized plans for liquidity by the managements of the banks to achieve consistency between assets and obligations in terms of maturity, and distributing them to uses transferable to liquid balances.

Singhal (2020) investigated banks form the fundamental component of the financial system of any economy. The soundness of the banking sector is, therefore, essential for a healthy and vibrant economy. Nowadays, the financial system of the Indian economy is completely interlinked with the banking sector. So, it is necessary to evaluate and measure the strength of the banking industry so that our economy improves efficiently. In this study, an attempt has been made to measure the financial position and performance of public sector banks, ranking them accordingly. For this purpose, 21 Indian public sector banks have been taken into consideration,

maintaining adequate capital, and in years to come, all banks should strive toward achieving more than the required level.

Rout (2020) explained in India, Cooperative Banking has an idiosyncratic position in the rural credit delivery system. Cooperative Banks are providing timely and easy credit to rural people. The financial efficacy of Cooperative Banks is of immense importance for smooth credit disbursement. In the present study, we have taken 17 District Central Cooperative Banks (DCCBs) of Odisha and attempted to measure their efficacy in finance flow. For this purpose we have used the CAMEL model which is based on five parameters like Capital Adequacy, Asset Quality, Management Quality, Earning Ability, and Liquidity. Under each parameter two ratios, are calculated for 10 years and DCCBs are ranked according to their score. A synthesized Index Table is developed by taking the average ranks of each parameter and DCCBs are ranked accordingly

Kajal (2018), investigated banking as one of the fastest-growing sectors in India. The banking sector helps in boosting capital formation, innovation, and monetization along with the facilitation of monetary policy. Not only do the depositors treat the sound financial health of a bank as a guarantee but it is equally significant for the shareholders, employees, and whole economy of a country as well. The present study measures the financial health of top public sector and private sector banks operating in India using CAMEL Analysis. In the study, seven public sector banks namely State Bank of India, Bank of Baroda, Bank of India, PNB Bank, Union Bank of India, Canara Bank, and IDBI Bank, and four private sector Banks namely ICICI Bank, HDFC Bank, AXIS Bank, and IndusInd Bank have been selected as a sample. Data used for the study pertains from 2013–14 to 2016–17 and has been collected from the annual reports of respective banks. To study every major variable use of various ratios has been made which helps to analyze the variable in a better way.

1. Need for the Study

In the age of globalization, banking sectors play a vital role in the development of the economy of any country. Banks, as financial institutions contributed toward economic stability for a long time, especially during crisis times, During the COVID period Banks and financial institutions assisted the common man as well as Business Community by way of providing a Moratorium

banks to understand the prospects of the Bank. For this purpose, Analysis of financial statements through the CAMEL approach to identify the financial soundness of select banks.