CHAPTER-TWO

REVIEW OF LITERATURE

This chapter reviews the research work done in the field of financial appraisal using CAMEL parameters and financial indicators-ROA and ROE, profitability, liquidity, efficiency. This literature relating to banking institution encompasses literature on Commercial Banks, Cooperative Banks, foreign banks, Central Banks and other national and international financial institutions. However the present review is limited to literature on Commercial banks and Cooperative banks. Literatures on Commercial banks are included as the operational details of these banks are controlled within the broad framework of Banking Regulation Act 1949.

The review of literature presented in two major sections viz, those relating to Commercial banks and those relating to Cooperative banks. These two sections are further classified into review relating to general performance, operational efficiency, collection and recovery of overdue, NPA, mobilization and deployment of funds.

Research based on Bank Performance, fund management, Non- performing Assets, those relating to Commercial Banks and those relating to Cooperative Bank using Ratio analysis, ANOVA, CAMEL Model.

Harshita G.S (2007) “Management Appraisal of district central Cooperative bank –a case of D.C.C bank shimoga, Karnataka”. She found that growth in physical and financial performance of banks & resulted very high operating ratio of more than 85% for most of the year and efforts are needed to reduce operating costs so that the profit of the bank can be boosted up and that the overall performance of District Cooperative Central bank was largely influenced by experience and training of the employees.
Chander Ramesh (2010) “financial viability and performance evaluation of Cooperative credit institution in Haryana.” He found the overall environment including agricultural, services, industry, facilities & working culture of people are similar in these districts yet the financial results differ from one bank to another.

Hoodr Vijay (2011) “State Cooperative Banks versus Scheduled Commercial banks: A comparison of three financial ratios”. He found that the calculated value of for credit – deposit ratio is more than its table value. He concluded that there is significance difference statistically between the means of credit – deposit ratio of SCBS and STCBs during the reference period.

E.V.K. Padmini (1997) “Funds management of District Cooperative banks in Kerala” She fund that find mobilization is done reasonably well in most DCBS Sufficient attention is not given for efficient utilization of these funds. The review of literature is presented on & performance fund management, those relating of Commercial banks & those relating to Cooperative banks.

Laxman (1985) “The problem Analysis of decline in profitability of banks in India”, and he recommended for mobilization of potential deposits through special deposit mobilization cell, judicious borrowings, control on mounting over-dues, and construction of professional investment portfolio to increase the profitability and liquidity.

Kishore Anil (1987) has underscored the need for “A study on Effective funds management in banks” in the light of rising operative expenses, cost of deposits, mounting overdue, and soaring social expectations. Maintenance of low cash balance, careful credit appraisal and regular monitoring of advances, cost-benefit approach towards all banking transactions are the important recommendation of the study

Peter S Rose (1987) “A study on Short term borrowing in Domestic money market in India” he found that the banks across the world today are facing a crucial challenge in raising and using of funds. He suggested for short-term borrowings in the domestic money markets, selling old loans, and securitizing loans and other assets, focusing on innovations and new techniques for mobilization of fund.
Chellani (2008), in “A case study on pattern and composition of deposits of Baroda District Central Cooperative bank Ltd –An analysis”. He found that the share of deposits from individuals in total deposits remained around only 1/5th till 2000. But it is raised up to 2/5th at the end of the year 2007. He also concluded that the proportion of fixed deposits in total deposits had been around 4/5th.

Singh, V. (2008) appraised the “financial Performance of the Rohtak Central Cooperative Bank Ltd. (Haryana).” He analyzed the deposits, advances and profitability position the bank. He found that the aggregate deposits of the bank increased with low growth rate and bank did not make good performance in terms of credit advanced to the beneficiaries.


Mohi-ud-Din Sangmi, 2006, used CAMEL discriminate analysis and efficiency ratios for analyzing a paper titled “financial performance of Commercial banks in India: Application of CAMEL Model”, and used standard deviation from the mean of the required parameters. The study concluded that Indian Banks have adhered to the requirement of the norms of CAMEL Ratios.


Misra, B. S.(200 9) “A Study on financial performance of Primary Agriculture Cooperative societies”. He examines the performance of PACSs and observed that government's contribution to the share capital of PACS is found to be detrimental to their recovery performance. He also observed that growth of membership size in the PACSs is another factor for the detrimental of the recovery performance.

Das, S. K. & Chaudhury, Dr. S.K. (2011) “A comparative study on the growth and financial performance of SCBs”. He examines the performance of SCBs in the NER and also makes a
comparative study on the growth and financial performance of SCBs. They observed that SCBs in NER is not performing well at par with all India level. The SCBs in the NER suffers from low profitability and high NPAs which hinders the growth of SCBs in North East.


Bhaskaran and Josh (2000) “study on recovery performance by cooperative credit institution” concluded that the recovery performance of cooperative credit institutions continues to unsatisfactory which contributes to the growth of NPA even after the introduction of prudential regulations. They suggested legislative and policy prescriptions to make co-operative credit institutions more efficient, productive and profitable organization in tune with competitive commercial banking.

Jain (2001) “A comparative performance analysis of District Central Cooperative Banks (DCCBs) of Western India”, has done a comparative performance analysis of District Central Cooperative Banks (DCCBs) of Western India, namely Maharashtra, Gujarat and Rajasthan and found that DCCBs of Rajasthan have performed better in profitability and liquidity as compared to Gujarat and Maharashtra.

Singh and Singh (2006) studied “the funds management in the District Central Cooperative Banks (DCCBs) of Punjab with specific reference to the analysis of financial margin”. It noted that a higher proportion of own funds and the recovery concerns have resulted in the increased margin of the Central Cooperative Banks and thus had a larger provision for non-performing assets.

Mavaluri, Boppana and Nagarjuna (2006) “A study on performance of banks with reference to profitability, productivity and asset quality.” suggested that performance of banking in terms of profitability, productivity, asset quality and financial management has become important to
stable the economy. They found that public sector banks have been more efficient than other banks operating in India.

Narayanaswamy N. and Ramachandran S.R, “Profitability performance of District Cooperative Bank-A Case Study” Indian Cooperative Review, Delhi, Vol.XXV, No.2, Oct.,1987, Narayanaswamy and Ramachandran stated that there is scope for increasing the profit and profitability, if proper attention is paid on areas like recovery, deposit mobilization, branch expansion, reduction in manpower, operating expenses, building up of more owned funds and scientific management of funds.

Krishnaswamy O.R , “Scientific Approach to the evaluation of Cooperatives ”, The Tamil Nadu journal of cooperation, Madras, Vol.LXXVIII, April 1987, Krishnaswamyopined that though a cooperatives society is not guided by profit motive it must earn a reasonable, rate of profit on capital employed as a measure of efficiency.

Kadam H.K. “A study on financial Position of Land Development Banks”, and Research Development Cell, National Cooperative Agriculture and Rural Development Banks Federation, Bombay. 1990, Kadam conducted a study on the financial position of the State Cooperative Agriculture Development Banks in U.P, Gujarat, Bihar and Maharashtra. The methodology adopted was the computation of average annual growth rate for the selected variables like membership, share capital, reserves, lending, interest on borrowings and lending, margin and cost of management. He found that there is no consistency in the growth, rate of variables between banks. He opined that in order to maximize the earning the banks need to reduce the cost of funds and at the same time, deploy the funds were higher margin is available. He also stated that sound financial position of the Agriculture Development Banks is very important for its long run efficient operation.

Sinha S.S , “ Fund Management in Regional Rural Banks”, Agricultural Banker, new Delhi, - Vol.XIV, july-sep.1991. In his study on fund management of Regional Rural Banks, Sinha tried to answer hoe best the funds of regional Rural Banks were managed by reducing the cost of receiving and managing the same.
Munraj R. Improving “Recovery Performance Through Effective Financing Of Agriculture”, Agriculture Banker, New Delhi, Vol. XI, April-June 1988, Muniraj in his study on improving recovery performance through effective financing of agriculture stated that the mounting overdues is one of the reasons for the erosion of profitability of banks, as it impairs banks’ ability to recycle funds and restrict their access to refinance agencies like NABARD.

Krishna (1996), in his article titled, “profitability analysis: an Overview”, has defined the profitability analysis in detail. According to the researcher, it is a rate expressing profit as a percentage of total aspects or sales or any other variables to represent assets or sales. What should be used in the numerator and the denominator to compute the profit rate depends upon the objective for which it is being measured.

Pathak (2003), “A comparative study of financial performance of private sector banks” while comparing the financial performance of private sector banks since 1994-95, explained that the private sector banks have delivered a new banking experience. Looking to the growing popularity of services provided by them banks in terms of financial parameters like deposits, advances, profits, return on assets and productivity.

Business India (2006) “A study on financial and operational performance of selected banks in India”,. He arranged a panel discussion to judge the best bank in the Indian banking sector on the basis of certain selected variables. For the purpose of the panel discussion, Business India looked closely at 24 banks. While the other banks (out of the universe 88 banks) were still eligible to be selected by the panel. This 24-banks universe was essentially short listed by the business India. The selection was based on consideration, such as size and visibility the panelist pick the 24 contenders from each of the three categories of banks-the PSU, private and foreign banks. The profile of the banks that caught the attention includes banks which were clearly leaders in selected areas. The panelists selected a few broad parameters to evaluate the contenders in the first round to produce a short list. Such parameters include financial and operational performance, quality of management, the creation of platform for growth, value creations and how the stockholders have reacted to the same. In Round I, thirteen banks were shortlisted; and during Round-II, six banks were selected; and finally in Round-III, two banks, i.e. HDFC Bank and ICICI Bank competed with each other. The methodology used by the panelists was CAMEL
model based on different ratios computed under each measure like capital adequacy, Resources deployed, Assets Quality, management Efficiency, Earning quality and Liquidity.

Finally, ICICI bank was selected business India’s best for 2006. On current form, it is only a matter of time before the ICICI group emerged the country’s biggest financial powerhouse. In several of the business line, it has built significant market shares, be it home loan or vehicle loan or insurance. Within five years of turning into full-fledged bank, it has shown the world that India can build world class institutions.

Rao and Datta (1998) “ A study of performance of banks through CAMEL model” made an attempt to derive rating on CAMEL. In their study, based on these five groups (C-A-M-E-L) 21 parameters in all were developed. After deriving separate rating for each parameter, a combined rating was derived for all nationalized Bank the years 1998. The study found that Corporation Bank has the best rating followed by Oriental Bank of Commerce, Bank of Baroda, Dena Bank, Punjab National Bank, etc. And the worst rating was found to be of Indian Bank preceded by UCO Bank, United Bank of India, Syndicate Bank and Vijaya Bank

Bodla and Verma (2006), “A Comparative study on public sector and private sector banks through CAMEL Model” in their paper, made an attempt to examine and compare the performance of two largest bank of India-SBI, a public sector Bank; and ICICI a private sector Bank- through CAMEL Model. The present supervision system in banking sector is a substantial improvement over the earlier system in terms of speed, coverage and focus and also the tool employed. Two supervisory rating models based on CAMEL (Capital Adequacy, Asset Quality, Management, Earning, Liquidity, System and Controls) and CACS (Capital Adequacy, asset Quality, Compliance, Systems and Controls) Factors for ranking the Indian and foreign banks have been operating. These models have been worked out on the recommendation of Padamanabhan Working Group (1995). These rating would enable the RBI (Control Bank) to identify the banks whose conditions warrant special supervision attention.
The paper aims to describe the CAMEL Model of rating / ranking banking institutions so as to catch up the comparative performance of various banks. Camel is basically a ratio-based model for evaluating the performance of banks. Various ratios are computed under each parameter of CAMEL Model so as to compute the overall ranking of the banks.

While ranking of SBI and ICICI according to average of CAMEL model ratios for the period 2000 to 2005, the study has bought many interactive results of both the banks. Both SBI and ICICI are performing excellently since beginning of the 21st century. However, in respect to some of parameter of performance, SBI has outperformed ICICI bank. These are: G. Securities to Total Investment, Spread to Total Assets, Interest Income to Total Income, Liquid Asset to Total Assets, G.Securities to Total Assets, etc. In contrast, ICICI has done better than SBI with regard to Advances to Assets, total Advances to Deposits, Business per Employee, Profit per Employee, Non- interest Income to Total Income, Liquid Assets to Total Deposits etc. The study concluded that on the Whole, ICICI bank has performed better than SBI.

The Report of the Banking Commission 1972-RBI Mumbai. The commission made several recommendations for making the Indian Banking system healthier. The commission observed that the system of controls and supervisory oversight were lax and underlined the need for closure supervision of Banks to avoid bank Failures. However most of the recommendations of the commission lost their relevance in view of the priorities of the government which is more concerned with its political compulsions. The nationalization of Banks and the tight control on the Banks of the Government left little scope for or implementation of the recommendations of the commission. If only recommendations which are meant to restore tighter regulatory measures, strengthening of the internal control system and professionalization of the Bank Boards were properly appreciated and Implementation, Indian Banks would not have ended in the mess of erosion of capital, mounting burden of non-performing assets etc.

As a part of the Review of literature, the Reports of Various committees and Commissions have been perused. Important among them are given below:

The Report of the committee on the financial System 1991 Chairman Shri M.Narasimham by far is the most important document while discussing the Reform process in Indian Banking. The
Following recommendations made by the Committee which were largely implemented put the Indian Banking System on an even keel:

Main Recommendations:

1. Operational flexibility and functional autonomy

2. Pre-emption of lendable resources to be stopped by progressively reducing the SLR and CRR

3. Phasing out of directed Credit Programme

4. Deregulation of interest rates

5. Capital Adequacy requirements to be gradually stepped up

6. Stricter Income Recognition norms

7. Provisioning requirements tightened

8. Structural Organization
   i) Three to four Large Banks (including State Bank of India) which could become international in character
   ii) Eight to ten national banks with a network of branches throughout the country engaged in ‘universal’ banking
   iii) Local Banks whose operations would be generally confined to a specific region’
   iv) Rural Banks including Regional Rural Banks confined to rural areas

9) Level playing field for Public Sector and Private Sector Banks no further nationalization

10) Entry of Private Sector Banks recommended

11) Bank required to take effective steps to improve operational efficiency through computerization, better internal control systems etc.

Committee on Banking Sector Reforms (1998) – Chairman Shri M. Narasimham (popularly known as Narasimham Committee II) Report discusses the steps required for further
Strengthening the Banking system by concentrating on 69 prudential management, introduction of technology etc. The main recommendations of the committee are

1. Capital Adequacy norms further tightened to include market risk in addition to credit risk
2. Capital requirement for foreign exchange open positions
3. Capital adequacy to be increased to 10 per cent in a phased manner further tightening of prudential norms
4. Ever greening of assets to be detected and errant Banks punished
5. No recapitalization from the Govt. Budgets
6. Transfer of Assets to Asset Reconstruction Co.
7. Introduction of Tier II Capital
8. Asset/Liability Management: Risk Management
9. Internal Systems
10. Human Resources Management
11. Technology Up gradation
12. The Report laid emphasis on the strengthening of regulatory measures and implement Risk Management strategies to secure the soundness of Banks.

Research Gaps Identified

Based on the literature review, there are some gaps in past in research, especially in India. Some of gaps identified include:

1) Each of these models has advantage and disadvantage. The various techniques cannot be easily compared due to possible difference in assumption, data sets, time periods and failure definitions. After reviewing all of the above approaches, it can be concluded that there is no
single model that is superior to the others. Each can be useful in certain conditions, under certain assumptions.

2) There is little agreement among researches regarding the best accounting ratios for determine the likelihood of financial failure. Most researchers who use ratios as predictor variables do so on the basis of their popularity in the literature. There is no basic rule or theory for choosing which variables to use among the literally hundreds of ratios to choosing which variables to use among the literally hundreds of ratios to choose from. But from the above work it is evident that the performance evaluation of banks can best be done by ratios which form a part of CAMEL model.

3) When financial appraisal research began due weight age was given to DEA technique only or mere standard deviation was used.

4) Researchers did not make any distinction between public and private banks.

Further, there is scarcity of literature in the area of fund management and analyzing the impact of the collective and aggregate performance indicators namely, efficiency, liquidity, profitability, effective utilization and effective mobilization of funds in banks. Based on the above gaps, this research will examine the performance of DCCB’s with the Ratio analysis, CAMEL parameters, and will analyze the data using ANOVA-one way.