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Financial Performance Analysis of Canara Bank

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Abstract

This study measures the financial performance of Canara Bank in India from 2012–13 to 2021–22. Hypothesis testing was done in the study with t-test by using SPSS. The banks performance was efficient using strategic plans. This present study evaluates the bank performance using financial ratios. The use of financial ratio analysis to compare the bank's financial situation to previous year's performance and helps in decision making of the concern. Descriptive statistics were used in the study. Per share ratio, Interest income and net profit per branch, Return on capital employed, Return on assets and Operating ratio. The present study is useful for the bank to improve their financial performance of the bank for further growth. Financial performance analysis of canara bank shows that the year 2021–22 has the enhancement as Rs. 31.3 in Net profit per share and Basic EPS Rs. 32.49 which shows positive growth of the bank compared to the previous years. ROA and ROCE showed positive trend and the growth is satisfactory in last 3 years. The study results showed that Operating Ratio of the bank in all years showed same trend and the bank has shown keen interest in spending operating expenses in all years.

Keywords: Financial Performance, Financial Ratios, Descriptive Study, T-Test, Finance

INTRODUCTION

Financial ratio analysis is overall financial performance which is used in decision making for business operation. In financial analysis process ratio analysis is the most important. There are a few categories to identical areas of financial institutions under the financial ratio analysis method. Thus, company stakeholders make an effort to focus in order to obtain a comprehensive picture of the business from analyses of profitability, liquidity, asset management, and solvency ratios. These ratios not only aid in decision making but also place emphasis on elements linked to reducing risk and maximising profit. This ratio must be calculated using quantitative information from bank trade activity and other sources [1].

This study evaluates bank performance for the period from 2012–13 to 2021–22 using financial ratio analysis (hereafter FRA. The use of financial ratio analysis to compare the bank's financial situation to previous year's performance offers numerous benefits [2]. I am using information from Canaral Bank Limited's annual report to analyse the ratio. That has made it easier for me to comprehend the bank's financial situation and the study's objectives. The Financial Ratio Analysis (FRA) method and hypothesis testing were utilized in the investigation [3].

The Canaral Bank Ltd. annual report served as the secondary source for the data for this study. This data analysis aids in assessing the overall financial health of the bank. Make descriptive statistical analyses that include the following to

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analyse the data: Mean, Standard deviation, Minimum, and Maximum. We examine the National Bank's financial performance using these descriptive statistics [4]. I utilised the SPSS and MS Excel programmes to calculate the data and identify differences between two periods using descriptive statistics and the student's T-test [5]. This bank financial ratio allows us to pinpoint specific bank accomplishments over a six-year period, which in turn sheds light on the bank's profitability, liquidity, and credit standing [6].

REVIEW OF LITERATURE

In recent years, there has been more interest in measuring bank performance, particularly that of commercial banks. The accounting methodology, which uses financial ratios, and econometric methods are the two main methods used to assess bank performance. For evaluating bank performance historically, accounting techniques focused mostly on the use of financial ratios have been applied. But given the drawbacks of this approach and the advancements in management sciences, alternative approaches like the non-parametric DEA and the parametric Stochastic Frontier Approach (hereinafter, SFA) have been developed [2].

According to Berger & Humphrey[2] (1997), the goal of monitoring bank performance is to distinguish between banks that are performing well and those that are not [2]. They added that "by analysing the effects of deregulation, mergers, and market structure on efficiency, evaluating the performance of financial institutions can influence government policy" (p175). In order to intervene when necessary and to anticipate possible issues, bank regulators screen banks by assessing their liquidity, solvency, and general performance. By finding the best and worst practices linked to high and low measured efficiency, bank performance assessment can also aid in enhancing managerial performance at the micro level.

The performance of the seven commercial banks was evaluated in comparison to Bahrain's banking sector, which served as a benchmark. The findings showed that Bahrain's commercial banks were significantly less lucrative, liquid, and susceptible to credit risk than the banking sector as a whole, of which wholesale banks make up the majority [7].

The SFA, financial ratios, and the Tobit regression are used in the paper to give cross-country information on the effectiveness and performance of African commercial banks [8]. The study's findings demonstrate that South African banks' cost efficiency dramatically increased between 2000 and 2005, with the most cost-effective banks also being the most profitable. The same time period's efficiency benefits on profitability, however, were determined to be insignificant.

Objectives of the Study

The objectives of the study are:

- To analyze the financial ratios
- To measure profitability of Canara Bank and descriptive statistics.
- Understand overall Bank financial performance condition.

RESEARCH METHODOLOGY

Research Design

The two categories into which this research's approach might be divided are qualitative and quantitative methods. The focus of quantitative methods is on the objective measurement and numerical analysis of data gathered through surveys, polls, and questionnaires. For my research study, I've chosen a quantitative approach. The study was done only once, and it serves as a snapshot of a certain moment in time. Therefore, it falls within the temporal dimension category and is a descriptive research. Instead of focusing on depth, the research was structured for breadth. The representativeness of the sample served as the basis for the quantitative testing of null hypotheses and the presentation of the generalisation of our findings.

Methodology

The choice of the FRA approach for this examine is stimulated through the reality that from the overview of beyond research on diverse banks and to the researchers' knowledge, few researchers has used FRA to degree the overall performance of business banks. Additionally, monetary ratios may be used to perceive a financial institution's precise strengths and weaknesses in addition to offering exact facts approximately financial institution profitability, liquidity and credit score high-satisfactory rules FRA lets in a ancient caricature of financial institution returns and dangers which shows offers an possibility to assess the beyond overall performance of the financial institution that's an critical step for making plans for destiny overall performance [9]. Although accounting information in monetary statements is challenge to manipulation and monetary statements are backward looking, they may be the best exact facts to be had at the financial institution's standard activities [10, 11].

Table 1 shows that the year 2021–22 has the enhancement as Rs. 31.3 in Net profit per share and Basic EPS Rs. 32.49 which shows positive growth of the bank compared to the previous year 2020–21 which was Rs. 15.53. The year 2012–13 showed highest Basic EPS Rs. 64.83 and Net profit per share Rs. 64.83. But the years 2015–16 showed negative trend and increased from 2020–21 and the current trend is going good.

Table 1. Per Share Ratios

Years	Basic EPS (Rs.)	Net Profit/Share (Rs.)
2021–22	32.49	31.3
2020–21	16.91	15.53
2019–20	-26.5	-21.7
2018–19	4.71	4.61
2017–18	-70.47	-57.58
2016–17	20.63	18.78
2015–16	-53.61	-51.8
2014–15	58.59	56.87
2013–14	54.48	52.86
2012–13	64.83	64.83

Interest Income/ Branch

Net interest income is a financial performance measure that reflects the distinction among the revenue generated from a financial institution's hobby-bearing assets and the costs associated with paying on its interest-bearing liabilities.

Net Profit/ Branch

Net income margin in banks measures how lots net income is generated as a percent of sales received. Net profit margin allows buyers check if a organisation's control is generating enough benefit from its sales and whether or not operating charges and overhead prices are being contained. Net earnings margin is one of the maximum crucial signs of a employer's universal economic health.

Table 2 shows that the year 2012–13 showed highest Basic EPS Rs. 91,410,769.85 and Net profit per share Rs. 7,704, 138.68. All the years showed positive growth in Interest Income and Net Profit of the branches. The year 2017–18 showed negative profit and increased from 2020–21 and the current trend is going satisfactory.

Return on Capital Employed (ROCE)

Return on capital hired (ROCE) is a economic ratio that may be used to assess a business enterprise's profitability and capital performance. In other phrases, this ratio can assist to apprehend how properly a employer is producing profits from its capital as it's far placed to apply. The ROCE ratio is one in all several profitability ratios economic managers, stakeholders, and capability traders may additionally use while analyzing a corporation for funding.

Table 3 and Figure 1 shows that the year 2015–16 showed small dip and again ROCE is showing a positive trend.

Table 2. Interest Income and Net Profit per branch

Years	Interest Income/ Branch (Rs.)	Net Profit/ Branches (Rs.)
2021–22	71,307,005.65	5,833,584.24
2020–21	66,474,445.28	2,455,430.88
2019–20	77,318,676.25	-3,532,494.23
2018–19	74,184,376.86	549,944.69
2017–18	70,528,445.20	-7,218,734.14
2016–17	68,038,212.89	1,844,356.73
2015–16	75,264,379.21	-4,809,066.34
2014–15	76,997,611.05	4,756,466.39
2013–14	83,170,582.12	5,127,643.74
2012–13	91,410,769.85	7,704,138.68

Table 3. Return on Capital Employed

Year	2021–22	2020–21	2019–20	2018–19	2017–18	2016–17	2015–16	2014–15	2013–14	2012–13
ROCE (%)	1.92	1.78	1.32	1.56	1.59	1.56	1.32	1.3	1.42	1.46

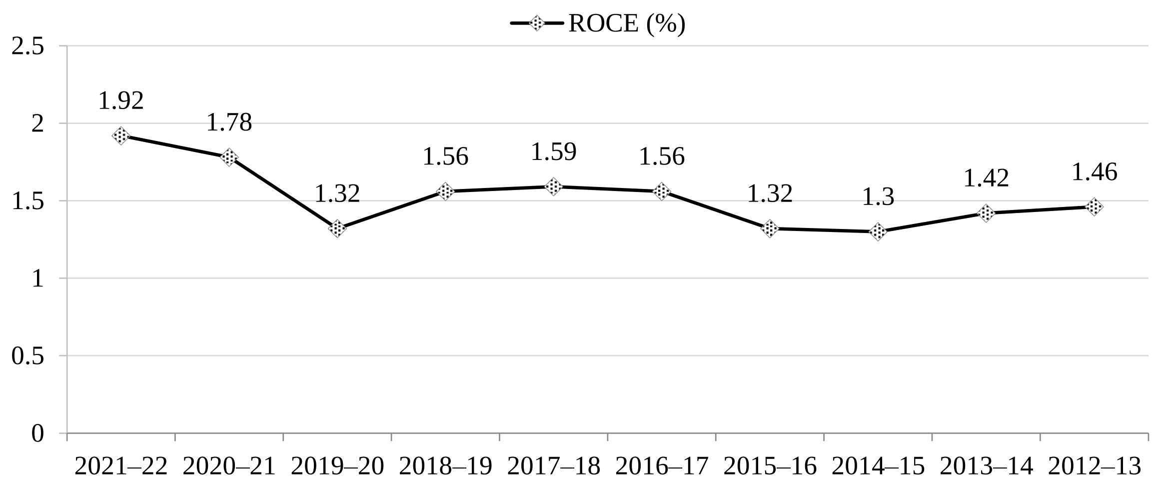

Figure 1. Return on Capital Employed

Return on Equity (ROE)

Return on fairness (ROE) is a degree of monetary performance calculated with the aid of dividing internet earnings through shareholders' fairness [12]. The better the ROE, the more green a agency's management is at generating income and growth from its fairness financing. This metric helps potential investors decide whether or not to put money into a given financial services company by means of providing visibility into the profitability in their hobby profits versus their interest charges

Table 4 shows that Return on Assets (ROA) in the year 2012–2013 is 0.69 it decreased and showed negative trend for some years till 2019–20 and then it showed positive trend and the growth is satisfactory.

Table 4. Return on Assets

Years	Return on Assets (%)
2021–22	0.46
2020–21	0.22
2019–20	-0.3
2018–19	0.04
2017–18	-0.68
2016–17	0.19
2015–16	-0.5
2014–15	0.49
2013–14	0.49
2012–13	0.69

Operating Ratio

The working ratio is used in the actual property enterprise and is a dimension of what it expenses to perform a belongings compared to the income that the assets generates. It's far calculated by means of dividing a assets's working rate (minus depreciation) by way of its gross running profits [13]. The OER is used for evaluating the costs of comparable residences. However, the operating ratio is the assessment of a enterprise's general charges in comparison to the sales or net income generated. The working ratio is used for employer evaluation in numerous industries whilst the OER is used inside the real estate enterprise

The operating ratio is used inside the real estate industry and is a measurement of what it prices to function a property as compared to the earnings that the property generates. It's far calculated through dividing a property's working price (minus depreciation) via its gross working earnings [14]. The OER is used for evaluating the prices of similar homes. On the other hand, the running ratio is the assessment of a enterprise's overall prices as compared to the sales or internet income generated. The operating ratio is used for employer evaluation in diverse industries whilst the OER is used in the actual estate industry.

Table 5 shows that Operating Ratio of the bank in all years has showed same trend and the bank has shown keen interest in spending operating expenses in all years.

Table 5. Operating Ratio

Years	Operating Expenses/Total Assets (%)
2021–22	1.61
2020–21	1.67
2019–20	1.59
2018–19	1.5
2017–18	1.54
2016–17	1.45
2015–16	1.35
2014–15	1.32
2013–14	1.23
2012–13	1.24

SUMMARY AND CONCLUSION

This paper measured the overall performance of Canara bank over the length of 10 years from 2012–13 to 2021–22. The consequences suggest that the financial institution overall performance in terms of profitability and credit best has been improving due to the fact that 2020–21. We additionally located vast variations in profitability overall performance for the duration 2015–16 to 2019–20. The consequences suggest that profitability deteriorated during the later period. There is probably several motives for the vast deterioration in profitability·One of the motives could be growing financial institution operating costs and decreased earning amid the worldwide economic disaster. Moreover in these recessionary instances, whilst company and private customers discover it hard to service their debts, the extent of the provision for loan losses and bad debts expanded. The comparable performance outcomes in terms of liquidity and credit score first-rate among those intervals can be as a result of the truth that financial institution entered the downturn with a sound macro function, enabling competitive counter-cyclical fiscal and financial responses. Cyclical monetary developments and the banking device remained stable with accurately capitalised and profitable. The study showed that the financial institution has regained its progress in the previous few years after the pandemic and showed a positive boom.

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