A STUDY ON FINANCIAL PERFORMANCE OF CANARA BANK

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ABSTRACT

"A study on financial performance of canara bank" helps to analyses the financial performance the canara bank. The analyses is done by using various ratios of ratio analysis and using trend analysis. The financial performance of the bank is analyzed by analyzing balance sheet, financial statements and profit and loss account of the bank. The data were collected from the official websites of the company and other websites and journals. The analysis done for the last five years. The ratio provide indicators of how well the bank and business units are performing. Trend analysis are used to analyses the sales and income percentage of the bank.

KEY WORD: financial performance, ratio analysis, trend analysis, balance sheet, profit and loss account

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INTRODUCTION

Ratio analysis refers to the analysis and interpretation of the figures appearing in the financial statements (i.e., Profit and Loss Account, Balance Sheet and Fund Flow statement etc.). It is a process of comparison of one figure against another. It enables the users like shareholders, investors, creditors, Government, and analysts etc. to get better understanding of financial statements. Ratio analysis is a very powerful analytical tool useful for measuring performance of an organization. Accounting ratios may just be used as symptom like blood pressure, pulse rate, body temperature etc. The physician analyses these information to know the causes of illness. Similarly, the financial analyst should also analyze the accounting ratios to diagnose the financial health of an enterprise.

LITERATURE REVIEW

Yusuf and Hakan, (2011) described the short term creditors of a company like suppliers of goods of credit and commercial banks providing short-term loans are primarily interested in knowing the company's ability to meet its current or short-term obligation as and when these become due. Ross et al., (2007) implied that the most researchers divide the financial ratios into four groups i.e. profitability, solvency, liquidity and activity ratios for detailed analysis. Eugene F Brigham and Michael C Ehrhardt (2010) stated that financial ratios are designed to help in evaluating financial statements and used as a planning and control tool. Nadia Zedek (2016) investigated the controlling

shareholders affects product diversification performance of 710 European commercial banks, it was found that when banks have no controlling shareholder or have only family and state shareholders diversification yields diseconomies, while the involvement of banking institutions, institutional investors, industrial companies or any other combination of these shareholder categories, produce diversification economies: they display higher profitability, lower earnings volatility and lower default risk. Abe De Jong, et al (2008) analyses the importance of firm-specific and country-specific factors in the leverage choice of firms around the world. Data suggested that firm-specific determinants of leverage differ across countries, and that there is an indirect impact of country-specific factors on the roles of firm-specific determinants of leverage.

Dimitios Louzius (2012) In his study of Banking sector in Greece found that for all loan categories, NPLs in the Greek banking system could be explained mainly by macroeconomic variables (GDP, unemployment, interest rates, public debt) and management quality. Muhammad Saifuddin Khan, et al (2016) in his research paper examines the relationship between funding liquidity and bank risk taking in the U.S. bank holding companies from 1986 to 2014, results showed that bank size and capital buffers usually limit banks from taking more risk when they have lower funding liquidity risk. Malcom and Jeffrey Wurgler (2002) found that effects on capital structure are very persistent. Results suggest that capital structure is the cumulative outcome of past attempts to time the equity market. Zeitun (2007) investigated the effect which capital structure has had on corporate performance using a panel data sample representing of 167 Jordanian companies during 1989-2003. Results showed that a firm's capital structure had a significantly negative impact on the firm's performance measures, in both the accounting and market's measures.

MEANING OF FINANCIAL RATIOS

Accounting ratios are an important tool of financial statements analysis. A ratio is a mathematical number calculated as a reference to relationship of two or more numbers and can be expressed as a fraction, proportion, percentage and a number of times. When the number is calculated by referring to two accounting numbers derived from the financial statements, it is termed as accounting ratio. It needs to be observed that accounting ratios exhibit relationship, if any, between accounting numbers extracted from financial statements. Ratios are essentially derived numbers and their efficacy depends a great deal upon the basic numbers from which they are calculated. Hence, if the financial statements contain some errors, the derived numbers in terms of ratio analysis would also present an erroneous scenario. Further, a ratio must be calculated using numbers which are meaningfully correlated. A ratio calculated by using two unrelated numbers would hardly serve any purpose.

Metcalf and Tigard have defined financial statement analysis and interpretations as a process of evaluating the relationship between component parts of a financial statement to obtain a better understanding of a firm's position and performance. Khan and Jain define the term ratio analysis as "the systematic use of ratios to interpret the financial statements so that the strengths and weaknesses of a firm as well as its historical performance and current financial conditions can be determined."

PROCEDURE FOR COMPUTATION OF RATIOS

Generally, ratio analysis involves four steps:

- Collection of relevant accounting data from financial statements.
- Constructing ratios of related accounting figures.
- Comparing the ratios thus constructed with the standard ratios which may be the corresponding past ratios of the firm or industry average ratios of the firm or ratios of competitors.
- Interpretation of ratios to arrive at valid conclusions.

OBJECTIVES OF RATIO ANALYSIS

Ratio analysis is indispensable part of interpretation of results revealed by the financial statements. It provides users with crucial financial information and points out the areas which require investigation. Ratio analysis is a technique which involves regrouping of data by application of arithmetical relationships, though its interpretation is a complex matter. It requires a fine understanding of the way and the rules used for preparing financial statements. Once done effectively, it provides a lot of information which helps the analyst:

- To know the areas of the business which need more attention
- To know about the potential areas which can be improved with the effort in the desired direction
- To provide a deeper analysis of the profitability, liquidity, solvency and efficiency levels in the business
- To provide information for making cross-sectional analysis by comparing the performance with the best industry standards
- To provide information derived from financial statements useful for making projections and estimates for the future.

RESEARCH METHODOLOGY

Research methodology

Methodology is a way to systematically solve the research problem. It explains various steps that are generally adopted by a researcher in studying the research problem.

Research design

A research design is purely and simply the basic frame work or plan for a study that guides the collection and analysis of the data. In financial analysis, the researcher adopted the collection and analysis of the data.

Conceptual Framework Model

Profitability ratio
- Return on Asset
- Return on Equity
- Cost to Income Ratio
- Return on net worth
- Net profit Margin
- Operating Profit to Working Fund

Liquidity ratio
- Current ratio
- Liquid Ratio
- Quick ratio / absolute liquid ratio
- Net loans to total asset ratio
- Loans to deposit ratio
- Cash and portfolio
- Investment to Deposit Ratio

Activity ratio
- Asset turnover ratio

Asset Credit Quality
- Non-performing loans to total loans

CASA Ratio

Asset Quality Analysis
- Standard
- Non Standard
- Doubtful / Loss Asset

→ Financial Performance

Data collection methods

Data is collected through

Secondary data

Secondary data

The secondary data is collected from the balance sheet and official websites of Canara Bank.

Tools and Techniques

To analyze the financial performance of the company, the following tools were adopted Ratio analysis

Profitability ratio

Liquidity ratio

Turnover ratio

Trend analysis or horizontal analysis

Trend percentage

Profitability Ratios

Profitability reflects the final result of business operations. There are two types of profitability ratios: Profit margins ratios and rate of return 1 items. Profit margin ratios show the relationship between profit and sales. The -two popular profit margin ratios are: gross profit margin ratio and net profit margin ratio. Rate of return ratios reflects the relationship between profit and investment. The important rate of return measures are: return on total assets, earning power, and return on equity.

Solvency Ratios

Financial solvency refers to the use of debt finance. While debt capital is a cheaper source of finance, it is also a riskier source of finance. Solvency ratios help in assessing the risk arising from the use of debt capital. Two types of ratios are commonly used to analyses financial solvency: Structural ratios and coverage ratios. Structural ratios are based on the proportions of debt and equity in the financial structure of the firm. The important structural ratios are: debt-equity ratio and debt-assets ratio. Coverage ratios show the relationship between debt servicing commitments and the sources for meeting these burdens. The important coverage ratios are: interest coverage ratio, fixed charges coverage ratio, and debt service coverage ratio.

Liquidity Ratios

Liquidity refers to the ability o f a firm to meet its obligations in the short run, usually one year. Liquidity ratios are generally based on the relationship between current assets (The sources for meeting short-term obligations) and current liabilities.

Turnover Ratios

Turnover ratios, also referred to as activity ratios or asset management ratios, measure how efficiently the assets are employed by a firm. These ratios are based on the relationship between the level of activity, represented by sales or cost of goods sold, and levels of various assets. The important turnover ratios are: inventory turnover, average collection period, receivables turnover, fixed assets turnover, and total assets turnover.

Activity Ratios

Activity ratios are also known as efficiency ratios. These ratios measure how efficiently the firm is using its resources like turnover of working capital and turnover of fixed assets etc.

DATA ANALYSIS

Profitability ratio

Year	2016	2015	2014	2013	2012
Gross profit	16.91	15.97	15.04	14.59	13.89
Net profit	12.76	14	13.8	14.7	12.16
Operating profit	17.91	16.9	15.97	15.51	14.88
Return on net worth	110.73	115.87	118.04	142.01	76.62
Return on long term funds	160.3	148.75	145.59	163.63	95.42
Cash profit	13.67	12.53	13.61	12.96	12.46

Liquidity ratio

Current ratio	0.75	0.75	0.74	0.76	0.83
Quick ratio	0.49	0.47	0.44	0.45	0.46

Turnover ratio

Debtors turnover ratio	18.06	38.52	33.96	34.13	27.27
Inventory turnover ratio	13.61	12.57	10.76	10.8	9.21
Investments turnover ratio	13.61	12.57	10.76	10.8	9.21
Fixed assets turnover ratio	6.31	6.99	6.77	6.73	6.26

CONCLUSION

Financial performance is refers to the process of determining financial strength and weakness of the public and private banks by establishing strategic relationship between the items of the balance sheet, profit and loss account and other operative data. The main of this analysis is the financial performance of public banks are better than private banks. Financial analysis also known as analysis and interpretation of financial statements refers to the process of determining financial strength and weaknesses of the firm by establishing strategic relationship between the item of the balance sheet profit and loss account and other operative data. The main aim of the financial analysis is better understanding of a firm’s position and performance. Financial statement reveals how a business has respired under the leadership of management personnel. Financial appraisal is a technique to evaluate the past, current and projected performance of a concern. The present study was undertaken with the objective of evaluating the financial performance of selected unit. It can be concluded that the overall financial position is satisfied.

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