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**A COMPARATIVE STUDY ON THE FINANCIAL PERFORMANCE OF CANARA BANK AND
ANDHRA BANK DURING THE PERIOD OF 2007-2012**

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ABSTRACT

A bank is a financial institution that provides banking and other financial services to their customers. A bank is generally understood as an institution which provides fundamental banking services such as accepting deposits and providing loans. The financial system's contributes to the economy depends upon the quantity and quality of its service and efficiency with which it provides them. The weakening domestic macroeconomic conditions combined with continuing subdued global growth and its increasing spill over risks posed challenges to the banking sector during 2007-2012. Banks in India have been undergoing major challenges in the dynamic environment over the past few years as it is evident from several parameters, including No. of offices, No. of employees, Business per employee, Profit per employee, Net Worth, Deposits, Investment, Advances, Interest income, Other income, Interest expended, Operating expenses, Cost of Funds (CoF), Return on advances adjusted to CoF, Wages as % to total expenses, Return on Assets, CRAR and Net NPA ratio In order to resist negative shocks and maintain financial stability, it is important to identify the profile of the banks. The current study is mainly concerned with the analysis of comparative profiles of Public Banks, Canara Bank & Andhra Bank in India during the period of 2007-12 that reflects the impact of new competitive environment on the bank's performance in terms of various selected parameters. The study found that Andhra Bank is performing well and they are financially sound than comparing to other bank public sector Bank. The study is descriptive in nature and this attempt is made to evaluate the performance of the bank through the financial data which are disclosed in accounting policies.

Key Words: Financial performance, Comparative study, 2007-12, Andhra Bank, Canara Bank

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A sound banking system is the pulse of a healthy economy. The banking system in India has been steadfast rising up on every occasion to meet the various challenges posed by technology and other factors from time to time. The growth of an economy is widely dependent upon deployment as well as optimum utilization of resources and most importantly operational effectiveness of the various sectors, of which banking sector plays a very important role. Performance evaluation of the banking sector is an effective measure and indicator to check the reliability of economic activities of an economy. The Indian Banks are the back bone of India financial sector and Indian economy. Presently, the Indian financial system is in a process of rapid transformation. There are about 67,000 branches of Scheduled banks spread across India. During the first phase of financial reforms, there was a nationalization of 14 major banks in 1969. This crucial step led to a shift from Class banking to Mass banking. Since then the growth of the banking industry in India has been a continuous process. Banking sector has been suffering since the current crisis started from collapse of major banks and financial institutions in the western economies. The lack of trust in banking sector is death bell. Couple of new private sector banks suffered more due to this lack of trust of people. This paper is an attempt to find out how banks have performed on financial parameters during last 5 years compared to high growth years. Financial performance of banks is compared in two time periods: (1) High growth years of 2004-07, (2) Low growth years of 2008-2012.

Selected Bank Profiles

Canara Bank – “Together We Can” On 1st July 1906, Shri Ammembal Subba Rao Pai, a great visionary and philanthropist established the 'Canara Bank Hindu Permanent Fund' in Mangalore, Karnataka, which blossomed into 'Canara Bank Ltd' in 1910. In 1958, the Reserve Bank of India ordered Canara Bank to acquire G. Raghunathmul Bank, Hyderabad, which had five branches. In 1969 it was nationalized by the Government of India and came to be known as Canara Bank. Mr. Ammembal Subba Rao Pai had envisioned to not only offer financial services but also fulfill social causes such as removal of superstitions and ignorance, promotion of the habit of savings, providing assistance to the people in need and develop a sense of humanity among the people. In June 2006, Canara Bank completed a century of its operations in the Indian banking industry. Several memorable milestones highlight this mammoth journey. Sound founding principles, enlightened leadership, unique work culture and remarkable adaptability to changing banking environment have enabled Canara Bank to be a frontline banking institution of global standards. Canara Bank has many firsts to its credit. They are the first to (1) Launch Inter-City ATM Network (2) Obtain ISO Certification for a Branch (3) Articulate the 'Good Banking' – Bank's Citizen Charter (4) Commission Exclusive Mahila Banking Branch (5) Launch Exclusive Subsidiary for IT Consultancy Issue credit cards for farmers (6) Provide Agricultural Consultancy Services. Canara Bank has emerged as a major 'Financial Conglomerate' with nine subsidiaries/sponsored institutions/joint ventures in India and abroad.

Andhra Bank

Andhra Bank was founded by Dr. Bhogaraju Pattabhi Sitaramayya in 1923 in Machilipatnam, Andhra Pradesh. The founder Dr. Bhogaraju Pattabhi Sitaramayya was an eminent freedom fighter and a multifaceted genius. The Bank was registered on November 20, 1923 and commenced business on 28 November 1923 with a paid up capital of Rs 1.00 lakh and an authorised capital of Rs 10.00 lakhs. In 1956, linguistic division of States was promulgated and Hyderabad was made the capital of Andhra Pradesh. The registered office of the Bank was subsequently shifted to Andhra Bank Buildings, Sultan Bazar, Hyderabad, and Andhra Pradesh. In the second phase of nationalization of commercial banks commenced in April 1980, the bank became a wholly owned Government bank. In 1964, the bank merged with Bharat Lakshmi Bank and further consolidated its position in Andhra Pradesh. Andhra Bank opened a representative office in Dubai in May, 2006 and another at Jersey City, New Jersey (USA), in June 2009. A foothold in New Jersey is strategic for the bank as the state has a large number of Indians from Andhra Pradesh. In 2010 Malaysia awarded a commercial banking license to a locally incorporated bank to be jointly owned by Bank of Baroda, Indian Overseas Bank and Andhra Bank. The new bank, India BIA Bank (Malaysia), will have its headquarters in Kuala Lumpur, which has a large population of Indians. Andhra Bank will hold a 25% stake in the joint-venture. Bank of Baroda will own 40% and IOB the remaining 35%. Andhra Bank received the MSME National Award for the year 2009-10 for Andhra Bank's outstanding performance in PMEGP Scheme in National Awards Presentation function, Andhra Bank has won

the Banking Excellence Award for the Best Public Sector Bank, instituted by the State Forum of Bankers Clubs Kerala on 13.11.2010; it received the "BEST BANK" award - for the Quality of Assets awarded by BUSINESS TODAY on 08.12.2010 at Mumbai.

REVIEW OF LITERATURE

Luther (1976) chaired the committee appointed by Reserve Bank of India to study the productivity, efficiency and profitability of commercial banks. The committee analyzed the various issues related to the planning, budgeting and marketing in commercial banks.

Rajan S. , Reddy K,Pand others (2011) an attempt has been made to find out the "Efficiency And Productivity Growth In Indian Banking for the period 1979-2008 with the help of semi parametric estimation methods based on secondary data source The endogeneity of multiple outputs is addressed by semi parametric estimates in part by introducing multivariate kernel estimators for the joint distribution of the multiple outputs and correlated random effects. Output is measured as the rupee value of total loans and total investments at the end of the year. After analyzed the result it was founded that in bench marking related to frontier banks the nationalize banks were most technically efficient with the efficiency score of of 100% from 1979 through 2008 as compared to domestic private sector banks and foreign banks..The estimates provide robust inferences of the productivity and efficiency gains due to economic reforms.

Mathuva (2009) exclaimed the relationship between Cost Income Ratio (CIR), Capital Adequacy Ratio (CAR) and profitability for the period 1998 to 2007. The study found that capital adequacy had differential impact on the profitability of the bank

Chaudhry and Singh (2012) analyzed the impact of the financial reforms on the soundness of Indian Banking through its impact on the asset quality. The study identified the key players as risk management, NPA levels, effective cost management and financial inclusion.

Statement of the Problem

Public sector banks are the essence of Indian economy. Public sector banks are acting as instruments in reaching out to the poorest of the poor in India. Government's desire to make the public sector banks as their vehicle for reaching out to the common man is a proof that the government has faith in these banks. Central and state Public Sector Banks (PSBs) play a prominent role in India's industrialization and economic development. Public sector Banks are considered as a powerful engine of economic development and an important instrument of selfreliance. The global meltdown as well as the economic developments in India had profound impacts on the banking sector nationwide. An in-depth analysis of the financial performance of a public sector bank would highlight its position in the post recessionary phase and hence the problem has been identified as „Analytical Study of the Financial Performance of Canara Bank and Andhra Bank". So, the researcher plans to conduct a study on the performance of Public Sector Banks. Hence the present study on "A Comparative Study on The Financial Performance of Canara Bank and Andhra Bank during the Period of 2007-2012" was undertaken. This study is meant to assess the performance of commercial banks with special reference to Canara Bank and Andhra Bank in terms of branch expansion, deposit mobilization, credit expansion and priority sector advance and also in the light of objectives of nationalization.

OBJECTIVES

1. To analyse the performance of the chosen Nationalised Indian Banks with special reference to Canara Bank and Andhra Bank
2. To recommend remedial measures to boost the banks' performance

Limitations of the Study

- Only data for Five years (2007-8 to -2011-12) were considered for analysis.
- The study included only the two Nationalised Banks and it may not be applicable to other banks.
- Only the quantitative factors were considered for the study
- To offer findings and suggestions in the light of the study.

Data Collection: The study is based on the secondary data obtain from the various sources, viz, the IBA bulletins (annual issue), statistical table related to Andhra bank/Canara Bank annual report of financial performance, banks in India performance highlights of public sector banks , and the RBI reports on trends and progress of banking in India

Methodology : The study is an analysis of financial performance of the Andhra Bank & Canara Bank. By classifying the banks on the basis of different financial values of the selected banks the performance can be measured. The study of financial performance of banks has been carried out from the year 2007-8 to the year 2012-13.

Data Analysis: The all secondary data will be statistically processed, classified and tabulated using appropriate methods and techniques. As there are various methods and techniques to analyze the financial performance.

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. To compare the performance of selected banks in the five years period, ratio analysis method is used. The following ratios are analyzed to examine the performance of the selected banks with respect to profitability and productivity.

ANALYSIS AND DISCUSSION

Profitability Analysis

Three sets of ratios have been employed for assessing the profitability of commercial banks; viz. spread ratio, burden ratios and profitability ratios.

Spread ratios: Spread which is the difference between interests earned (on loans and advances) and interest paid (on deposits and borrowings) by the banks a major rate in determining the profitability of banks.

Burden Ratios: Burden is defined as the difference between non- interest expenditure and non – interest expenditure and non-interest income of the banks.

Profitability is a ratio: Profitability is a ratio of earnings to the funds used. It stands for profits deflated by the size of the unit and indicates the efficiency with which a bank deploys its total resources of maximize its profit. For analysis of data two important statistical tools viz. mean and T-test has been used to arrive at conclusions in scientific way.

Spread Ratios:

In this section we have presented the following spread ratios.

- Interest earned as a percentage of Total Assets
- Interest paid as a percentage of Total Assets
- Spread as a percentage of Total Assets

Ratio of Interest Earned as a Percentage of Total Assets (IE %TAs)

This ratio is an indicator of the rate at which a commercial bank earns income by lending the funds to the public. The higher ratio is an indicator of efficient management of banks' total assets.

Table 1: Interest Earned as a Percentage of Total Assets (IE %TAs)

Average	IE%TA s	
	Andhra Bank	Canara Bank
2007-08	10.24	6.74
2008-09	8.05	7.56
2010-11	5.86	8.38
2011-12	3.67	9.2
2012-13	1.48	10.02
Mean Gap	5.86	8.38
S.E	0.52	1.04
t-value	4.17	0.79
LOS	**	NS

Ratio of Interest Paid as a Percentage of Total Assets:

Interest expended to total assets ratios shows the rate at which a private bank incurs expenditure by borrowing funds. Interest expenses by bank refers to fund bases expenditure which consists of interest paid on total deposit (time deposit plus saving deposit plus demand deposit and interest paid on external borrowings (debt).

Table 2: Interest Paid as a Percentage of Total Assets (IP % TAs)

Average	IP %TAs	
	Andhra Bank	Canara Bank
2007-08	6.72	3.75
2008-09	4.66	5.28
2010-11	5.38	3.00
2011-12	3.73	4.22
2012-13	4.30	2.40
Mean Gap	4.956	3.73
S.E	0.49	0.98
t-value	4.23	1.57
LOS	**	NS

Spread as a Percentage of Total Assets (S%TAs)

Spread which is the difference between interest earned (on loans and advances) and interest paid (on deposits and borrowings) by the banks plays a major role in determining the profitability of banks.

Table 3: Spread as a Percentage of Total Assets (S%TAs)

Average	S%TAs	
	Andhra Bank	Canara Bank
2007-08	2.86	1.82
2008-09	3.05	1.92
2010-11	2.29	1.46
2011-12	2.44	1.54
2012-13	1.83	1.16
Mean Gap	2.493	1.57
S.E	0.28	0.32
t-value	0.67	0.34
LOS	NS	NS

S.E: Standard Error; LOS: Level of Significance, NS - Not Significant

Burden ratio: Burden is defined as the difference between non- interest expenditure and non –interest expenditure and non-interest income of the banks.

Non - Interest Expenditure as a Percentage of Total Assets

Non interest expenditure of a bank represents manpower expenses, establishment charges and other contingent expenses.

Table 4: Non - Interest Expenditure as a Percentage of Total Assets (NIE%TAs)

Average	NIE%TAs	
	Andhra Bank	Canara Bank
2007-08	3.14	1.81
2008-09	3.07	2.94
2010-11	2.51	1.45
2011-12	2.46	2.35
2012-13	2.01	1.16
Mean Gap	2.64	1.94
S.E	0.28	0.32

t-value	0.67	0.34
LOS	NS	NS

Burden as a Percentage of Total Assets (B%TAs)

Burden is defined as the differences between non-interest expenditure and non-interest income of the banks.

Table 5: Burden as a Percentage of Total Assets (B%TAs)

Average	B%TAs	
	Andhra Bank	Canara Bank
2007-08	1.83	0.71
2008-09	1.46	0.71
2010-11	1.46	0.57
2011-12	1.17	0.57
2012-13	1.17	0.45
Mean Gap	1.42	0.60
S.E	0.14	0.27
t-value	2.60	0.02
LOS	**	**

Profitability Ratios

Profitability is a ratio of earnings to the funds used. It stands for profits deflated by the size of the unit and indicates the efficiency with which a bank deploys its total resources of maximize its profit.

Net Profit as a percentage of Total Income (NP%TI)

Net profit implies the balance of profit as per profit & loss account. This ratio indicates the efficiency with which a bank deploys its total assets in order to increase its profitability and serves as an index to the degree of asset utilization by banks.

Table 6: Net Profit as a percentage of Total Income (NP%TI)

Average	NP%TI	
	Andhra Bank	Canara Bank
2007-08	7.23	7.58
2008-09	15.15	11.86
2010-11	5.78	6.06
2011-12	12.12	9.49
2012-13	4.63	4.85
Mean Gap	8.98	7.97
S.E	7.23	7.58
t-value	15.15	11.86
LOS	**	NS

DISCUSSION

Comparatively the mean gap of both banks shows increase this may be due to more interest earned on loans and advances determining profitability of banks. Thus Andhra Bank is more in profits than Canara Bank. As far as interest paid as percentage of total assets is concerned there is no significant difference in Andhra Bank when compared to Canara Bank. So this reflects again the confidence of the people in the public sector banks. The public sector banks are forced to reduce the ratio of interest paid, to avoid unforeseen risks

of the market and high accumulation of NPAs. Canara Bank, it is interesting to find that the bank has increased the ratio of interest payable, which may be due to large amount of business with less number of branches. Comparatively the burden on Andhra Bank is less compared to Canara Bank. This may be due to decrease in manpower expenses in Andhra Bank as there is decrease in no. of employees where as in CANARA Bank there may be increase in ratio due to of expansion of premises. The difference of non-interest income between pre and post e-banking in both banks can be attributed to services charges, commissions, brokerage service charges and other miscellaneous receipts. This shows more efficiency of Canara Bank when compared to Andhra Bank. The net profit as a percentage of total income has doubled in Andhra Bank when compared to Canara Bank. This may be due to efficiency of Andhra Bank in deploying its total assets as a result there is increase in profitability. Andhra bank shows more efficiency when compared to Canara Bank. Canara Bank's Net profit as a per cent of total deposits shows a better profitable ratio when compared to Andhra Bank. This may be attributed to high net profits and lowering of total deposits. Thus it can be concluded that in the ongoing analysis of average profitability gap between public and private sector bank indicates that there is a little change in profitability of Canara Bank. But there is paradigm shift in profitability of Andhra Bank

Conclusion

The main aim of this research paper is to analysis the financial performance as well as compares the performance between Canara Bank and Andhra Bank for the period of 2007-08 to 2012-13 for 5 years. This information used to measure the profitability of the bank. As per the study Canara Bank should concentrate to control NPA. The Andhra Bank is a stronger position than Canara Bank in terms. There is no significance difference between selected banks because both the bank maintained below 5% significance level. The weakness of both banks must convert into opportunity to meet the competition. It is concluded from the above data indicates that the financial performance is good and performing well in Canara Bank compared to the Andhra Banks in India.

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