A Comparative Study of Financial Performance of Canara Bank and Union Bank of India

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Abstract

Financial sector becomes more advance as well as backbone of an economy; therefore banking sector is another phase of the development of economy. The development of the economy and financial sectors leads to the investor to know more about the performance of the banking sector and to take necessary step on their investment by comparing and evaluating the profitability of the banking sectors. The main objectives of the study is to highlight the theoretical background and profile of selected banks in India and to examine the capital adequacy ratio performance of Canara Bank and Union Bank and to study the level of gross NPAs and net NPAs of Canara Bank and Union Bank. Finally to assess the performance ROA , ROE and EPS analysis of the both selected banks The purpose of this study is to compare the financial performance of two banks, Canara Bank and Union Bank of India between the year 2012-13 to 2016-17. Quantitative Analysis was under taken to measure the financial performance of the bank. Along with each bank's performance was compared by using descriptive statistical analysis such as mean, co-efficient of variation and standard deviation. The study indicated that Union Bank of India face the problem to generate profitability compared to the Canara Bank.

Keywords: Gross NPA's, Capital Adequacy Ratio, Return on Assets, Efficiency of bank.

Introduction

In the recent era financial institution had shown the remarkable improvement in their performance. The financial inclusion also provides banking services and credit facilities to economically weaker group with affordable cost. An effective society is always depending on the banks performance. The volatility of any financial institution depends on the risk and return in the bank performance. The banking sector reforms aims to improve the bank efficiency and viability. In such cases there is obviously necessary to evaluate the performance of banking sector. The Reserve Bank of India has taken several steps to improve the financial position of the banking sector by implementing new digitalization concept. A strong banking sector helps to improve economy. Now a day's every corner of India has access to banking facilities. RBI has taken several steps to improve the accessibility of the financial services through generating awareness among the public through various advertisement campaign. Now a day's banks also offering investment as well as insurance facilities to the public. Investment and insurance facilities is also another milestone of the banking activities. The main participants of the India economy are a financial sector.

The banking sector is the lifeline of any modern economy. It is one of the important financial pillars of the financial sector, which plays a vital role in the functioning of an economy. It is very important for economic development of a country that financing requirements of trade, industry and agriculture are met with higher degree of commitment and responsibility. Thus, the development of a country is integrally linked with the development of banking. The economic environment in many countries has been change after the global financial crisis. The financial structure in the whole world has been also change due to slow down. Banking sector is also affected by the crisis. Banking sector is the main component of financial sector; hence measuring the performance of banking institution has become a major task of all economies. The functioning of banking sector has change upside down in India also. To evaluate the efficiency of Indian Bank, their financial performance should be assessed. So it is important to examine as to whether the performance of banks has

improved after crisis. Such information can provide use full guidance, to policy maker about understanding the efficiency of banking sector in India.

Financial performance indicates the performance of the financial institution at the end of the year. This information reflects the bank NPA's, return on investment and profitability of the business. Evaluation of financial performance also helps to measures the overall financial conditions of the financial institution over a given period of time. The main purpose of financial performance is for decision making through analysis and interpretation. Financial performance analysis is a process of identifying the financial strength and weakness of the banking sector. Comparative financial statement provides information relating to development of the banking sector for a particular period of time. It also indicates the favorable and unfavorable condition of the banking sector.

Profile of the selected bank:

Canara Bank

Canara Bank is one of the leading public sector banks in India. It was established in the year 1906 by AmmembalSubbaRaoPai. Now the bank had a 6,639 branches and 10,600 ATM's across India. The bank emerges as a "Preferred Bank" by pursuing global benchmarks in profitability, operational efficiency, asset quality etc. The next selected bank for analysis of financial performance is Union Bank. It was established in the year 1917 as Colonial Bank later in 1925 it turned as Union Bank. It has 6,909 ATM's and 4,214 branches all over India. The bank awarded as "Best IT Team", "Technology for FI" etc.

Union Bank of India

It is one of the largest government-owned banks of India the bank own 63.44% of its share capital. It is listed on the Forbes 2000, and has assets of USD 13.45 billion. All the bank's branches have been networked with its 6909 ATMs and 4214 branches though out India. Four of these are overseas in Hong Kong, Dubai International Financial Centre, Antwerp, and Sydney (Australia).The Union Bank of India (Union Bank) was registered on 11 November 1919 as a limited company in Mumbai . After Independence, the growth is accelerated and by the time the Indian government nationalized it in 1969, it had 240 branches. Union Bank began its international expansion in 2007 with the opening of representative offices in Abu Dhabi, United Arab Emirates, and Shanghai in Peoples Republic of China. At present, the offshore banking operations of Union Bank of India are led by its branches in Hong Kong and newly opened branch in Dubai at Dubai International Financial Centre.

Review of Literature:

Jha and Hui (2012) conducted a study on compared the financial performance of different banks in Nepal using camel framework. The study included year from 2005 to 2010 to assess the financial performance of the eighteen commercial banks in Nepal. The analysis was based mainly on the descriptive financial analysis to describe, measure, compare, and classify the financial situations. They used multivariate regression model to test the significance of the variables used. Finally they found that return on assets (ROA) of public sector banks were higher than those of joint venture and domestic public banks. The values determined for the financial ratios revealed that joint venture and domestic public banks were also not so strong in Nepal to manage the possible large-scale shock to their balance sheet.

Goel and Rekhi (2013) focused a study on the performance of three major public sector banks (SBI, PNB, BOB) and three private sector banks (ICICI, HDFC, AXIS) from 2009 to 2012. They analysed the data ratios and coefficient correlation techniques were employed. Further his analysis for SBI had revealed that the overall profitability is not that high because they there NIM is less and need to increase NIM. For PNB return on equity was very high as compared to other banks and they have good association with deposits. In case of BOB bank doesn't have good association with deposits so there CDR is also very less and NIM is also

need to increase. For ICICI bank it has good association with CAR and deposits in banks are very high and NIM is less which needs to be increased which will impact the profitability.

Sharma (2014) attempts a study on comparative study of financial performance of Syndicate Bank &Canara Bank. He examined that financial statement is necessary because it helps in depicting the financial position on the basis of past and current records. Analysis of financial statement helps in making the future decision and strategies. Financial performance analysis has now become an important technique of credit appraisal. The investors, financial experts, management executives and the bankers all analyze this statement. His paper is initiated a comparative study of financial performance of Syndicate bank and Canara Bank.

Farzand Ali Jan (2015), focused a study on financial performance of Banks In Pakistan: A comparative analysis Of public and private sectors he analyze and compare the financial performance of MCB Bank Ltd and National Bank of Pakistan by applying common size analysis and ratio analysis of financial statement of banks. The findings of the analysis of financial statements of both banks show that MCB had utilized their assets more efficiently and effectively as compared to NBP. The return on equity ratio of MCB Bank is much better then National bank of Pakistan for the FY-2005-09 which banks ability to produce earning & therefore is an excellent indicator both of viability & capability of banks management.

Singh (2016) discusses a study on financial performance: A comparative analysis study Of PNB And HDFC Bank. He said that company's financial performance can be determined by evaluating and analyzing the data provided in its annual reports and financial bulletin. His research based on descriptive and analytical in nature. In his study, financial performance of PNB and HDFC Bank is evaluates and compare. The study shows PNB face the problems to generate the income and NPAs of PNB is increasing. The study shows that the financial performance of HDFC Bank is better than PNB.

Jayawardhana (2016), conducted a study on financial performance of Adidas AG stated that the financial statement indicates the balance sheet, income statement and the cash flow statement. He studied financial performance by using horizontal analysis, vertical analysis, trend analysis and mainly ratio analysis to suggest improvements to increase finance flow, improve dividend and reduce liabilities. His study is based on 2014 and 2013 financial years which are ending on 31st of December in every year. The latest performance being compared with company's statements over the last five years starting 2010 for showing trends. Finally, his recommendations and suggestions have been made to ensure the revenue of the company and reduce the liabilities while improving the stability of the company

Objectives of the Study:

The major objectives of the study are as follows;

1. To highlight the theoretical background and profile of selected banks in India;

2. To examine the capital adequacy ratio, Gross and Net NPAs and Profitability ratios of Canara Bank and Union Bank; and

3. To offer findings and suggestions in the light of the study.

Research Methodology:

The research study is based on secondary data. The data were collected from the selected bank bulletin, published and unpublished data, annual report, website, magazine, journals etc. To evaluate the financial performance of the selected bank of Canara Bank and Union Bank, the study adopted the Capital Adequacy Ratio, Gross NPA's, Net NPA's, Return on Average Assets, Earning per share, Return on Equity with the statistical tools used are arithmetic mean, co-variance, standard deviation etc.In this study includes 5 years from 2013-2017.The present study covers two important banks one is Canara Bank and another one is Union Bank as a sample.

Data Analysis and Interpretation

1. Capital Adequacy Ratio:

Table No.1 indicates the performance of capital adequacy ratio of Canara Bank and Union Bank. It is a tool to measure the financial efficiency of the bank. It is also called as "Capital to Risk Weighted Assets Ratio (CRAR). According to RBI presently directed to all commercial banks should maintain a minimum of 9% of risk weighted assets. In the context of CAR ratio performance of both the bank shows increasing trend was recorded 12.4% to 12.86% and 11.45% to 12.91% in 2012-13 to 2016-17 respectively. The Tier I capital ratio of Canara Bank showing constant trend was recorded 9.77% in 2012-13 to 2016-17 and Union Bank shows the increasing trend 8.23% to 9.35% in 2012-13 to 2016-17.Further Tier II capital ratio of both banks showing increasing trend was recorded 2.63% to 3.09% and 3.22% to 3.56% in 2012-13 to 2016-17.

Table No.1

Capital Adequacy Ratio

Capital Adequacy Ratio			Tier I Capital Ratio		Tier II Capital Ratio	
Year	Canara Bank	Union Bank	Canara Bank	Union Bank	Canara Bank	Union Bank
2012-13	12.4	11.45	9.77	8.23	2.63	3.22
2013-14	10.63	11.89	7.68	8.13	2.95	3.76
2014-15	10.56	10.74	8.02	7.6	2.54	3.14
2015-16	11.08	11.14	8.8	8.23	2.28	2.91
2016-17	12.86	12.91	9.77	9.35	3.09	3.56
Mean	**11.51**	**11.63**	**8.81**	**8.31**	**2.70**	**3.32**
Standard Deviation	**1.06**	**0.83**	**0.97**	**0.64**	**0.32**	**0.34**
Variance	**1.12**	**0.69**	**0.94**	**0.41**	**0.11**	**0.12**

Source: Annual Reports of Canara Bank and Union Bank.

Capital Adequacy Ratio = (Tier I capital + Tier II Capital)/Risk Weighted Capital.

From the above table, the highest mean were found in capital adequacy ratio, Tier I and Tier II capital ratio category around 11.63, 8.81 and 3.32respectively. In the context of the highest standard deviation were found in capital adequacy ratio, Tier I and Tier II capital ratio category around 1.06, 0.97 and 0.34 respectively.

2. The level of Grossand Net NPA:

Table No.2 represents the level of gross NPAs and net NPAs of Canara Bank and Union Bank. In the context of Canara Banks gross and net NPAs shows increasing trend was recorded 2.57% to 9.63% and 2.18% to 6.33% in 2012-13 to 2016-17 respectively. The highest Gross and net NPAs was recorded 9.63% and 6.42% in 2016-17 and 2015-16.as against the lowest gross and net NPAs was recorded 2.49% and 1.98% in 2013-14 respectively. Further the Union Banks gross and net NPAs shows increasing trend was recorded 2.98% to 11.17% and 1.61% to 6.57% in 2012-13 to 2016-17 respectively. The highest Gross and net NPAs was recorded 11.17% and 6.57% in 2016-17as against the lowest gross and net NPAs was recorded 2.98% and 1.61% in 2013-14 respectively.

Table No.2

Gross and Net NPAs

	Gross NPA		Net NPA	
Year	Canara Bank	Union Bank	Canara Bank	Union Bank
2012-13	2.57	2.98	2.18	1.61
2013-14	2.49	4.08	1.98	2.33
2014-15	3.89	4.96	2.65	2.71
2015-16	9.4	8.7	6.42	5.25
2016-17	9.63	11.17	6.33	6.57
Mean	5.60	6.38	3.91	3.69
Standard Deviation	3.62	3.43	2.26	2.11
Variance	13.11	11.80	5.12	4.47

Source: Annual Reports of Canara Bank and Union Bank.

From the above table, the highest mean were found in gross and net NPAs category around 6.38 and 3.91respectively. In the context of highest standard deviation were found in gross and net NPAs category around 3.43 and 2.26 respectively.

3. Profitability Ratios:

Table No.3 indicates the performance of profitability ratios in Canara Bank and Union Bank. The profitability ratios are classifies into two categories such as, return on assets and return on equity. In the context of Canara Banks ROA and ROE shows decreasing trend was recorded 0.77% to 0.2% and 14.03% to 4.15% in 2012-13 to 2016-17respectively. The highest ROA and ROE was recorded 0.77% and 14.03% in 2012-13.as against the lowest ROA and ROE was recorded -0.52% and 4.15% in 2015-16 and 2016-17respectively. Further the Union Banks ROA and ROE shows decreasing trend was recorded 0.79% to 0.13% and 13.68% to 2.91% in 2012-13 to 2016-17 respectively. The highest ROA and ROE was recorded 0.79% and 13.68% in 2012-13.as against the lowest ROA and ROE was recorded -0.13% and 2.91% in 2016-17 respectively.

Table No.3

Profitability Ratios of banks

	Return on Assets		Return on Equity	
Year	Canara Bank	Union Bank	Canara Bank	Union Bank
2012-13	0.77	0.79	14.03	13.68
2013-14	0.54	0.52	10.59	10
2014-15	0.55	0.49	11.06	9.73
2015-16	-0.52	0.35	-10.69	6.84
2016-17	0.2	0.13	4.15	2.91
Mean	0.31	0.46	5.83	8.63
Standard Deviation	0.51	0.24	9.91	4.02
Variance	0.26	0.06	8.25	16.13

Sources: Annual Reports of Canara Bank and Union Bank

From the above table, the highest mean were found in ROA and ROE category around 0.46 and 8.63 respectively. In the context of highest standard deviation were found in ROA and ROE category around 0.51 and 9.91 respectively.

4. Earnings Per Share:

Table No.4shows the growth of earning per share of Canara Bank and Union Bank. In the context of Canara Banks EPS shows decreasing trend was recorded 64.83% to 20.63% and in 2012-13 to 2016-17 respectively. The highest and lowest EPS was recorded 64.83% and -53.61% in 2012-13 and 2015-16 respectively. Further the Union Banks EPS shows decreasing trend was recorded 38.93% to 8.1% and in 2012-13 to 2016-17 respectively. The highest and lowest EPS was recorded 38.93% and 8.1% in 2012-13 and 2016-17 respectively. From view point of statistical analysis, the highest mean and standard deviation were found in earning per share category around 28.98 and 19.25 respectively.

Table No.4

Earnings per share of banks

Earnings Per Share		
Year	**Canara Bank**	**Union Bank**
2012-13	64.83	38.93
2013-14	54.48	32
2014-15	58.59	28.1
2015-16	-53.61	20.4
2016-17	20.63	8.1
Mean	**28.98**	**25.51**
Standard Deviation	**19.25**	**11.81**
Variance	**15.76**	**19.54**

Sources: Annual Reports of Canara Bank and Union Bank.

Findings of the Study:

The following are the major findings of the study:

❖ The CAR ratio performance of both the bank shows increasing trend was recorded 12.4% to 12.86% and 11.45% to 12.91% in 2012-13 to 2016-17 respectively.

❖ In the context of Canara Banks gross and net NPAs shows increasing trend was recorded 2.57% to 9.63% and 2.18% to 6.33% in 2012-13 to 2016-17 respectively.

❖ Further the Union Banks gross and net NPAs shows increasing trend was recorded 2.98% to 11.17% and 1.61% to 6.57% in 2012-13 to 2016-17 respectively.

❖ In the context of Canara Banks ROA and ROE shows decreasing trend was recorded 0.77% to 0.2% and 14.03% to 4.15% in 2012-13 to 2016-17 respectively.

❖ Further the Union Banks ROA and ROE shows decreasing trend was recorded 0.79% to 0.13% and 13.68% to 2.91% in 2012-13 to 2016-17 respectively.

❖ In the context of Canara Banks EPS shows decreasing trend was recorded 64.83% to 20.63% and in 2012-13 to 2016-17 respectively.

❖ The highest and lowest EPS was recorded 38.93% and 8.1% in 2012-13 and 2016-17 respectively.

❖ From view point of statistical analysis, the highest mean and standard deviation were found in earning per share category around 28.98 and 19.25 respectively.

Suggestions for the Study:

❖ The study found that all of the banks under study have become sensitive and responsive to customers' needs and have very well migrated to BASEL II norms. Therefore reframe the policies to development of banking industry.

❖ Bank should try to reduce cost at the minimum possible level, but not at the cost of quality of service. Optimum use of technology, proper utilization of human resources can help the bank to cut down the cost.

❖ Banks should allot Unique Customer Identification Code for customers which will help to identify a customer, track the facilities availed of, monitor financial transactions in various accounts, improve risk profiling as soon as possible.

❖ Banking sector reforms have been set in motion, the profitability became the buzzword, and the prime mover of the financial strength and performance of banks. Unlike in the past, all banking operations gradually came to be measured in terms of their ability to generate possibilities of social banking for their meaningful survival and growth.

❖ High level of NPAs is the most crucial challenge face by India banking system. To tackle this problem, different options are available and reducing the existing NPAs and curbing their further build up in banking sector.

❖ The public sector banks are moving back in the sequence of earning per share ratio. It is necessary for public sector banks to reduce their operating expenses and NPA to increase the profit. So, as they can increase earnings per share up to the mark.

Conclusion:

The main aim of this research paper is to analysis the financial performance as well as compares the performance between Canara Bank and Union Bank for the period of 2012-13 to 2016-17 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 Canara Bank is a stronger position than Union 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 Union Banks in India.

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