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A comparitive study on the financial performance of public sector banks with special reference to Canarabank and bank of Baroda

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Abstract

The development of "Banking" is evolutionary in nature. There is no single answer to the question of what is banking. Because a bank performs a multitude of functions and services which cannot be comprehended into a single definition. For a businessman it is an institution of finance and for a worker it may be a depository for his savings. The study analysed the capital adequacy of selected banks. The study analysed the Asset quality of selected banks and also analysed the Liquidity position of selected banks.

Keywords: financial performance, banking, capital adequacy, asset quality, liquidity position

Introduction

Today bank have become a part and parcel of our life. There was a time when the dwellers of city alone could enjoy their services. Now banks offer access to even a common man and their activities extend to areas. Apart from their traditional business oriented functions they have now come out to fulfill national responsibilities.

Banks cater to the needs of agriculturists, industrialist's traders, and to all the other sections of the society. Thus, they accelerate the economic growth of a country and steer the wheels of the economy towards its goal of 'Self-reliance in all fields'. It naturally arouses our interest in knowing more about the 'bank' and the various men and activities connected with it.

In the new era of globalization the banking sector has witnessed drastic changes at structural and organizational levels. In the financial sector, banks act as an intermediary to transfer the resources from those who spend more than their earnings to those who spend less. Banking plays a key role in deciding the best business practices in developing new markets and clients, and creates new products for e-commerce and the net based technologies.

Faster technological developments have transformed human life in to a virtual mode, a reality that allows people to make purchase and payments online, without risking themselves to errors and frauds. Universal banking has provided a multifunctional supermarket and a highway for both financial and banking services at transnational levels, through a single window. The whole world become a single financial market.

History of Indian Banking

Banking in India

Originated in the last decades first banks were The General Bank of India, which started in 1786, and Bank of Hindustan, which started in 1770; both are now defunct. The oldest bank in existence in India is the State Bank of India, which originated in the Bank of Calcutta in June 1806, which almost immediately became the Bank of Bengal.

This was one of the three presidency banks, the other two being the Bank of Bombay and the Bank of Madras, all three of which were established under charters from the British East India Company. For many years the Presidency banks acted as quasi-central banks, as did their successors. The three banks merged in 1921 to form the Imperial Bank of India, which, upon India's independence, became the State Bank of India in 1955.

Merchants in Calcutta established the Union Bank in 1839, but it failed in 1840 as a consequence of the economic crisis of 1848-49. The Allahabad Bank, established in 1865 and still functioning today, is the oldest Joint Stock bank in India. It was not the first though. That honor belongs to the Bank of Upper India, which was established in 1863, and which survived until 1913, when it failed, with some of its assets and liabilities being transferred to the Alliance Bank of Simla. Foreign banks too started to app, particularly in Calcutta, in the 1860s. The Comptoird' Escompte de Paris opened a branch in Calcutta in 1860, and another in Bombay in 1862; branches in Madras and Pondicherry, then a French colony, followed. HSBC established itself in Bengal in 1869. Calcutta was the most active trading port in India, mainly due to the trade of the British Empire, and so became a banking center.

The first entirely Indian joint stock bank was the Oudh Commercial Bank, established in 1881 in Faizabad. It failed in 1958. The next was the Punjab National Bank, established in Lahore in 1895, which has survived to the present and is now one of the largest banks in India.

The period between 1906 and 1911, saw the establishment of banks inspired by the Swadeshi movement. The Swadeshi movement inspired local businessmen and political figures to found banks of and for the Indian community. A number of banks established then have survived to the present such as Bank of India, Corporation Bank, Indian Bank, Bank of Baroda, Canara Bank and Central Bank of India.

During the First World War (1914–1918) through the end of the Second World War (1939–1945), and two years thereafter until the independence of India were challenging for Indian banking. The years of the First World War were turbulent, and it took its toll with banks simply collapsing despite the Indian economy gaining indirect boost due to war-related economic activities. In 1988, the RBI set up Committee on Computerisation in Banks (1988) headed by Dr. C.R. Rangarajan which emphasized that settlement operation must be computerized in the clearing houses of RBI in Bhubaneshwar, Guwahati, Jaipur, Patna and Thiruvananthapuram. It further stated that there should be National Clearing of inter-city cheque at Kolkata, Mumbai, Delhi, Chennai and MICR should be made Operational

It also focused on computerization of branches and increasing connectivity among branches through computers. It also suggested modalities for implementing on-line banking. The committee submitted its reports in 1989 and computerization began form 1993 with the settlement between IBA and bank employees' association. In March 2006, the Reserve Bank of India allowed Warburg Pincus to increase its stake in Kotak Mahindra Bank (a private sector bank) to 10%. This is the first time an investor has been allowed to hold more than 5% in a private sector bank since the RBI announced norms in 2005 that any stake exceeding 5% in the private sector banks would need to be vetted by them.

Present Banking Scenario

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 nationalizationof14majorbanks in1969. This crucial step ledtoa shift from Class banking to Mass banking. Since then the growth of the banking industry in India has been a continuous process.

Banks in India can be category zedintonon-scheduled banks and scheduled banks. Scheduled banks constitute of commercial banks and co-operative banks. Banking today has transformed into a technology intensive and customer friendly model with a focus on convenience. The sector is set to witness the emergence of financial supermarkets in the form of universal banks providing a suite of services from retail to corporate banking and industrial lending to investment banking. While corporate banking is clearly the largest segment, personal financial services is the highest growth segment.

The winds of change are refreshing and the private sector banks also making more innovative value added and beyond banking products to attract their customers. Public sector banks are also not far behind.

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 self-reliance. The public sector banks are acting as an integral part of the Indian economy and a key growth driver.

With the advent of globalization, the private sector banks entered into the field of Banking. So the competency position of public sector banks have increased. Services offered by the private sector banks are more technical and advanced technologies are offered by them.

The public sector banks are not having that much of advanced technologies as like private sector banks. In services offered to the public, the public sector occupy the high position because it is difficult to found even a village without a branch of public sector bank. The private sector banks have not reached to that extent of every nook and corner to the public.

Most of the people greatly depend on Public Sector Banks for their Banking services because of its availability, safety, low service cost, etc. even though people greatly depend on public sector banks, there are some criticism posed on their performance of private sector entity for many reason.

The high-tech services offered by private sector banks made the public to feel dissatisfied about public sector banks in some aspects, compared to Public Sector Banks the Profitability of Private Sector Banks are highly attractive, because Public Sector Banks concentrate more on services than on profitability. They need to concentrate on their performance to increase Profitability, for offering high tech services as like Private Sector Banks.

So, the researcher plan to conduct a study on the performance of Public Sector Banks. Hence the present study on “A Comparative Study on the Financial Performance of Public Sector Banks – with Special Reference to Canara Bank and Bank of Baroda” was undertaken.

Objectives of the Study

- To analyse the Capital adequacy of selected banks
- To analyse the Asset quality of selected banks
- To identify the Liquidity position of selected banks

Period of Study

This study covers a period of five years from 2011--2016.

Scope of the Study

This study helps in understanding the financial performance evaluation of selected public sector banks in the banking industry during the study period.

Methodology

Ratio Analysis

Ratio analysis is an effective and suitable tool of financial analysis. Analysis of financial statement with the support of ratios would guide the management in important decision making, implementation and control.

Times

When one value is divided by another, the unit used to express the quotient is termed as “Times”.

Percentage

The quotient obtained is multiplied by 100, the unit of expression is termed as “Percentage”.

Two-way ANOVA

Two-way ANOVA technique is used when the data are classified on the basis of two factors. ANOVA technique in context of two-way design when repeated values are not there.

Financial Performance Evaluation

In this study, the financial performance of the two public sector banks is evaluated in terms of selected CAMEL parameters, the same indicators are used for the comparison of the relative performance of two public sector banks.

Camel Model
- Capital Adequacy Analysis
- Asset Quality Analysis
- Liquidity Analysis

Limitations of the Study
The study is subject to the following limitations.
1. This study is a micro level study. The finding of this study is applicable only to Canara Bank and Bank of Baroda and may not be suitable for other units in the industry.
2. The findings of this study are applicable to the period of study only.
3. The findings of the study may be influenced by the inherent limitation in the secondary data.

Table 1: Analysis Of Variance of Percentage Growth in Net Profit

Source of Variance	SS	d.f.	MS	F	5% F limit (table value)
Between Columns	0.07	1	0.07	0.14	F(1,4) = 7.71
Between Rows	0.25	4	0.06	0.12	F(4,4) = 6.38
Residential Error	1.96	4	0.49		
Total	2.28	9			

Summary of Findings and Conclusion
Analysis of Capital Adequacy
- Average debt-equity ratio of Canara Bank was (15.57%) and it was (15.38%) for Bank of Baroda. It is inferred that the debt component of both the banks are equal, they are equally levered.
- Advance to Assets Ratio of Bank of Baroda was slightly expand to that of Canara Bank.
- Average G-sec to investment ratio of Canara Bank was (87.21%) and it was (80.03%) for Bank of Baroda. It showed that investment in G-sec of Canara Bank was more than Bank of Baroda and it indicates that the risk free investments were more in case of Canara Bank.

Analysis of Assets Quality
- The ratio of Net NPAs to total assets of Bank of Baroda was comparatively lower than that of Canara Bank.
- Net NPAs to total advances of both the banks was fluctuating over the period of study. The comparative analysis showed that the average ratio of Bank of Baroda was better than that of average ratio of Canara Bank.
- The comparison of the ratio of total investment to total assets showed that the ratio was higher for Canara Bank than that of Bank of Baroda.

Analysis of Liquidity
- The average ratio of liquid assets to demand deposits of Bank of Baroda was (196.46%) and it was (134.66%) for Canara Bank. The comparative analysis indicates that the position of liquid asset of Bank of Baroda was stronger than the liquid assets position of Canara Bank.
- The ratio of liquid assets to total deposits of Bank of Baroda was more compared to Canara Bank, the liquidity position of Bank of Baroda was better than Canara Bank.
- Average ratio of liquid assets to total assets of both the banks were fluctuating over the study period. Compared to Canara Bank the ratio was better in Bank of Baroda.
- Approved securities to total assets ratio was slightly higher in Bank of Baroda than that of Canara Bank.
- The comparison of the ratio of Canara Bank and Bank of Baroda showed that the ratio for Canara Bank (23.09%) was higher than the Bank of Baroda (17.22%).

Conclusion
There is no significant difference in the return on net worth ratio between the selected units during the period of study. There is no significant difference in the return on net worth ratio within the selected units during the period of study.There is no significant difference in the percentage growth in net profit ratio between the selected units during the period of study. There is no significant difference in the percentage growth in net profit ratio within the selected units during the period of study.

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