

A study on Return on Assets ratio (ROA) & Return on Equity Ratio of Canara Bank

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Abstract

Return on Assets (ROA) / Return on Equity (ROE) are two of the utmost important measures for evaluating the banks financial performance. Higher earning shows that bank's performance is healthy but simultaneously it is very important to see that this good earning is on account of main or core banking, i.e. interest income on lending operations. This aspect gained importance now in a days in the light of argument, that one big portion of bank's earning is earned through non-core activities, like treasury operations, Investment advisory services, corporate advisory service and other activities. So, earning from core banking activity is very important.

Introduction

CAMEL model is the most popular model to measure soundness any banks. This model measures the performance of Canara bank by the important parameters like Capital Adequacy, Assets Quality, Management Efficiency, Earning Quality and Liquidity. In this study the researcher has made an attempt to evaluate the financial performance of Canara bank by Return on Assets (ROA) and Return on Equity (ROE)

CAMEL MODEL

C	Capital Adequacy	Capital Adequacy Ratio Total Advances to Total assets ratio
A	Asset Quality	Gross Non-Performing Asset (GNPA) Net Non-Performing Asset (NNPA)
M	Management Efficiency	Total Expenditure to Total Income Profit per employee
E	Earnings and Profitability	Return on Assets (ROA) Return on Equity (ROE)
L	Liquidity	Credit Deposit Ratio

Profile of Canara Bank

The Canara Bank is one of the most prominent commercial banks of India. The bank was established in the year 1906 at Mangalore. Canara Bank is one of the leading public sector banks in India. The Vision of Canara Bank is to emerge as a “Best Practices Bank” by pursuing global benchmarks in profitability, operational efficiency, asset quality, risk management and expanding the global reach. The Mission of Canara Bank is to provide quality banking services with enhanced customer orientation, higher value creation for stakeholders and to continue as a responsive corporate.

Literature Review

Khatik, S.K. and Singh, P.K. (2005) in their article “Financial appraisal of IDBI Bank Ltd” have attempted to evaluate the profitability and financial health of the IDBI through the application Capital adequacy ratio and Non-performing assets. **Miss. Kinnari D. Dhruve (2018)** in her study entitled “A Comparative Study of Financial Performance of Selected Public Sector Banks in India” analyzed the financial performance of the selected Public sector banks in India. The ratio analysis tool of the financial performance measurement have been opted. To analyze the overall financial performance researcher has studied the different seven fields of the financial performance such 1) Assets Quality, 2) Profitability, 3) Efficiency, 4) Productivity, 5) Liquidity, 6) Growth and 7) Capital Adequacy.

Objective of the study

1. To analyze the Return On Asset (ROA) and Return on Equity (ROE) of Canara Bank;

Null Hypothesis (Ho)

1. There is no significant difference in performance of Return on Asset(ROA)during the study period.
2. There is no significant difference in performance of Return on Equity(ROA) during the study period.

Research Methodology

Research is a scientific and systematic search for pertinent information. The main aim of research is to find out the truth which is hidden and which has not been discovered as yet or refinement over the existing findings of the earlier research work. The Return on Asset and Return on Equity (ROE)is analyzed.

Methods of Data Collection: The task of data collection begins after a research problem has been identified. The research study is based on secondary data.

Table-1.1: ROA and ROE

Year	ROA Ratio	ROE Ratio
2008-09	1.06	15.01
2009-10	1.3	18.25
2010-11	1.18	22.43
2011-12	1.12	15.91
2012-13	0.82	14.03
2013-14	0.54	10.59
2014-15	0.55	11.06
2015-16	-0.52	-10.69
2016-17	0.2	4.15
2017-18	-0.75	-16.74
AVERAGE	0.55	8.40
SD	0.71	12.70
CV	1.296	1.512

Source : compiled and calculated from annual reports

Figure – 1.1-ROA and ROE

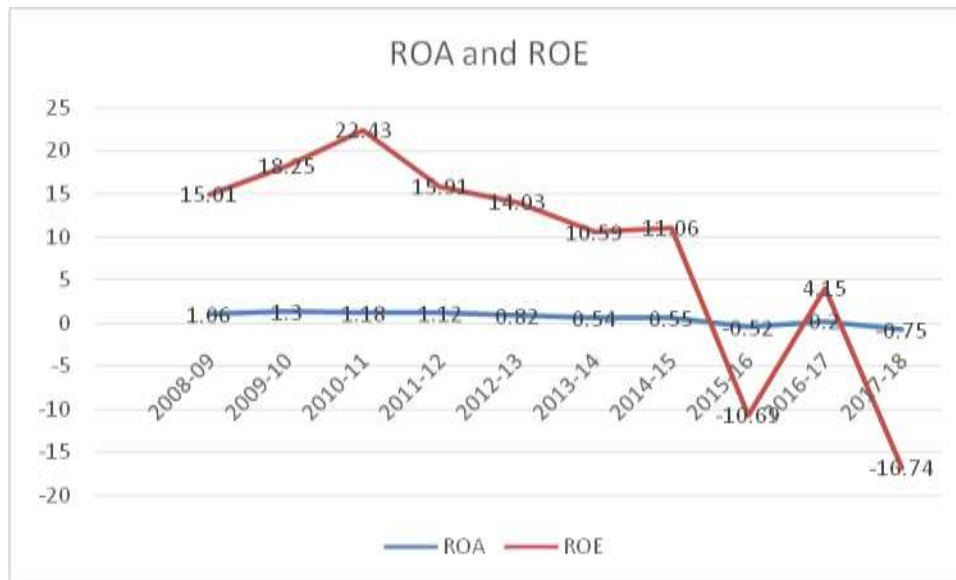


Table- 1.1 indicates the mixed trend of ROA during the study period. The average is 0.55 percent. It is observed that ROA was -0.52 percent in FY 2015-16 and -0.75 percent in FY 2017-18. It decreased sharply and reached negative percent in FY 2015-16. Stringent measures are required to get back on track. Return on Assets (ROA) is one of the widely used measures of profitability. ROA is measured as net profit as a percentage of total assets. A bank with higher level of ROA is inherently sounder than one with a lower level of ROA.

The above table indicates the mixed trend of ROE during the study period. The average is 8.40 percent. It is observed that ROE was -10.69 percent in FY 2015-16 and -16.74 percent in FY 2017-18. It decreased sharply and reached negative percent in FY 2015-16. Stringent measures are required to get back on track. It is a basic test of how effectively a company's management uses investors' money – ROE shows whether management is growing the company's value at an acceptable rate. Also, it measures the rate of return that the firm earns on stockholder's equity.

Chi-square Test-1- ROA

Null Hypothesis (H₀)

There is no significant difference in performance of ROA during the study period.

Alternative Hypothesis (H₁)

There is a significant difference in performance of ROA during the study period

Table showing calculation of χ^2 - value

O _i	E _i	O _i - E _i	(O _i -E _i) ²	(O _i -E _i) ² /E _i
1.06	0.55	0.51	0.26	0.47
1.3	0.55	0.75	0.56	1.02
1.18	0.55	0.63	0.40	0.72
1.12	0.55	0.57	0.32	0.59
0.82	0.55	0.27	0.07	0.13
0.54	0.55	-0.01	0.00	0.00
0.55	0.55	0.00	0.00	0.00
-0.52	0.55	-1.07	1.14	2.08
0.2	0.55	-0.35	0.12	0.2227
-0.75	0.55	-1.30	1.69	3.07
			χ^2	8.31782

Calculated value of Chi-Square = 8.31782

Degree of Freedom = (r-1)(c-1) = (10-1) (2-1)

= 9*1 = 9

Table value of χ^2 for dof = 9 @ 5% level of significance = 16.919

Result: Calculated value of χ^2 (8.31782) is less than the table value of χ^2 (16.919), Hence H₀ is accepted and concluded that there is no significant difference in performance of ROA during the study period.

Chi-square Test-2-ROE**Null Hypothesis (H₀)**

There is no significant difference in performance of ROE during the study period.

Alternative Hypothesis (H1)

There is a significant difference in performance of ROE during the study period

Table showing calculation of χ^2 - value

O_i	E_i	$O_i - E_i$	$(O_i - E_i)^2$	$(O_i - E_i)^2 / E_i$
15.01	8.40	6.61	43.69	5.20
18.25	8.40	9.85	97.02	11.55
22.43	8.40	14.03	196.84	23.43
15.91	8.40	7.51	56.40	6.71
14.03	8.40	5.63	31.70	3.77
10.59	8.40	2.19	4.80	0.57
11.06	8.40	2.66	7.08	0.84
-10.69	8.40	-19.09	364.43	43.38
4.15	8.40	-4.25	18.06	2.1503
-16.74	8.40	-25.14	632.02	75.24
			χ^2	172.86

Calculated value of Chi-Square = 172.86

Degree of Freedom = $(r-1)(c-1) = (10-1)(2-1)$

= $9 \times 1 = 9$

Table value of χ^2 for dof = 9 @ 5% level of significance = 16.919

Result: Calculated value of χ^2 (172.86) is greater than the table value of χ^2 (16.919), Hence H_0 is rejected and concluded that there is a significant difference in performance of ROE during the study period.

References

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