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# A Critical Appraisal of Profitability of Canara Bank

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**ABSTRACT**

The study has been undertaken to analyze profitability of Canara bank for the study period of ten years from 2004-05 to 2013-14. The study required accounting data of the bank; they were collected from their annual reports for the above period and other internet sources. The study used ratio analysis as financial tool and mean, standard deviation (SD), co-efficient of variation (CV) and Compounded Annual Growth Rate (CAGR) as statistical tools. The results of the study reported that profitability performance of the bank was good during the study period. It was also found that total interest income and interest expenses of the bank increased considerably during the study period, it revealed good operating performance of the bank. Overall, profitability of Canara bank was good during the study period.

**Key words:** profitability, deposits, interest income and interest expenses.

## 1. INTRODUCTION

Banking industry is the bank bone of all financial activities in a country. In India both public sector and private sector banks are performing well. They route the surplus money from people to the needy persons, it helps for capital formation and economic development of a country. Canara bank is one of the major public sector banks in India. It has many branches and ATM centers all over the country next to State Bank of India. Canara Bank is an Indian state-owned bank headquartered in Bangalore, Karnataka. It was established in 1906, making it one of the oldest banks in the country; the bank was nationalized in 1969. As of July 2014, the bank had a network of 5111 branches and more than 6000 ATMs spread across India. The bank also has offices abroad in London, Hong Kong, Moscow, Shanghai, Doha, Dubai, and New York. As a major bank it is important to study financial performance of the bank. Profitability is the main objective for any business activity. Hence the researcher has undertaken this aspect.

## 2. STATEMENT OF THE PROBLEM

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. In the sense banking business is becoming one of the profitable businesses in India. Until few decades ago public sector banks were rendering banking services to people. After allowing, private sector banks banking sector has become competitive sector. Primary motive of private banks are earning profit, hence they started to introduce innovative banking services and products to their customers in order to retain

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existing customers and attract new customers. Hence public sector banks also are pulled into the competitive field. Among them Canara bank is one of the leading public sector banks which has a wide network across India even in rural areas. Hence the researcher has studied profitability of the bank.

## 3. OBJECTIVES

The study has been undertaken with the following objectives.

- To study the trend of net profit of Canara bank for the study period and
- To analyze profitability performance of Canara bank in terms of various selected ratios.

## 4. METHODOLOGY

The study has been undertaken to analyze profitability of Canara bank for the study period of ten years from 2004-05 to 2013-14. The study required accounting data of the bank; they were collected from their annual reports for the above period and other internet sources. The study used ratio analysis as financial tool and mean, standard deviation (SD), co-efficient of variation (CV) and Compounded Annual Growth Rate (CAGR) as statistical tools.

## 5. RESULTS AND INTERPRETATION

### NET PROFIT AND ITS TREND

Net profit is the common indicator to measure the overall performance of any type of business. Table 1 gives the results of net profit of Canara bank and its percentage change over previous year for the study period.

**TREND OF NET PROFIT RS. IN CRORE**

| Year | Net Profit | % Change over previous Year |
|---|---|---|
| 2004-2005 | 1109.05 | - |
| 2005-2006 | 1343.22 | 21.11 |
| 2006-2007 | 1420.81 | 5.78 |
| 2007-2008 | 1565.01 | 10.15 |
| 2008-2009 | 2072.42 | 32.42 |
| 2009-2010 | 3021.43 | 45.79 |
| 2010-2011 | 4025.89 | 33.24 |
| 2011-2012 | 3282.71 | -18.46 |
| 2012-2013 | 3672.1 | 11.86 |
| 2013-2014 | 3063.2 | -16.58 |
| Mean | 2457.58 | |
| SD | 1073.96 | |
| CV | 43.70 | |

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| | | |
|---|---|---|
| CAGR | 10.69 | |
| Source: Computed from Secondary Data | | |

**TABLE NO 1**

It was known from table 1 that Net profit of Canara Bank for the study period had grown except during 2011-12 and 2013-14. Net profit of the bank ranged from Rs.1109.05 crore to 4025.89 crore over the study period. Net profit of the bank increased at high rate during 2009-10 by 45.79 per cent followed by 2010-11 and 2008-09 by 33.24 per cent and 32.42 per cent respectively. During the years 2011-12 and 2013-14 net profit of the bank decreased by 18.46 per cent and 16.58 per cent respectively. The results of mean, standard deviation and co-efficient of variation of net profit of Canara bank stood at Rs. 2457.58 crore, Rs. 1073.96 crore and 43.70 per cent, it showed that there was moderate level of fluctuation in net profit during the study period. The calculated value of CAGR of net profit of Canara bank stood at 10.69 per cent, it seems to be considerable and profit earning performance of the bank was good.

**RETURN ON ASSETS (ROA)**

ROA is defined as net profit divided by average total assets. This ratio measures a banks profit per currency unit of assets. This is the main indicator of profitability used in international comparisons and it is one among the guidelines of RBI for balance sheet analysis of banks. The return on assets of Canara Bank is shown in the Table 2.

**RETURN ON ASSETS RS. IN CRORE**

| YEAR | NET PROFIT | TOTAL ASSETS | RETURN ON ASSETS (%) |
|---|---|---|---|
| 2004-2005 | 1109.05 | 110,188.24 | 1.01 |
| 2005-2006 | 1343.22 | 132,708.48 | 1.01 |
| 2006-2007 | 1420.81 | 163,718.17 | 0.87 |
| 2007-2008 | 1565.01 | 178,323.83 | 0.88 |
| 2008-2009 | 2072.42 | 217,477.64 | 0.95 |
| 2009-2010 | 3021.43 | 264741.08 | 1.14 |
| 2010-2011 | 4025.89 | 335944.86 | 1.20 |
| 2011-2012 | 3282.71 | 374160.19 | 0.88 |
| 2012-2013 | 3672.10 | 412342.61 | 0.89 |
| 2013-2014 | 3063.20 | 491921.85 | 0.62 |
| Mean | 2457.58 | 268152.70 | |
| SD | 1073.96 | 129764.76 | |
| CV | 43.70 | 48.39 | |
| CAGR | 10.69 | 16.14 | |

Source: Computed from Secondary Data

**TABLE NO 2**

 

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Return on assets of Canara bank was found low during all the years of the study period. But during first two years and during 2009-10 and 2010-11 it was more than one and during other years it was less than one per cent. The results of mean, standard deviation and co-efficient of variation of total assets of Canara bank showed that there was moderate level of variation in total assets over the study period from its mean value. The calculated value of CAGR of total assets stood at 16.14 per cent, it was considered high and there was high growth in total assets of the bank, whereas CAGR of net profit of the bank was lower than the growth rate of total assets. It was summarized that the performance of Canara bank was not good in terms of return on assets during the study period.

**NET PROFIT TO TOTAL INCOME RATIO**

Net profit is the total revenue and gains minus the expenses and losses. For companies that are not in the financial industry. Table 3.3 gives the details of net profit, total income and the ratio of net profit to total income of Canara bank for the study period.

**NET PROFIT TO TOTAL INCOME RATIO**
**RS. IN CRORE**

| YEAR | NET PROFIT | TOTAL INCOME | NET PROFIT TO TOTAL INCOME RATIO |
|---|---|---|---|
| 2004-2005 | 1109.05 | 9115.80 | 12.17 |
| 2005-2006 | 1343.22 | 10089.02 | 13.31 |
| 2006-2007 | 1420.81 | 12876.36 | 11.03 |
| 2007-2008 | 1565.01 | 16509.05 | 9.48 |
| 2008-2009 | 2072.42 | 19546.15 | 10.60 |
| 2009-2010 | 3021.43 | 21752.78 | 13.89 |
| 2010-2011 | 4025.89 | 25890.99 | 15.55 |
| 2011-2012 | 3282.71 | 33800.37 | 9.71 |
| 2012-2013 | 3672.10 | 37230.94 | 9.86 |
| 2013-2014 | 3063.20 | 43480.37 | 7.04 |
| Mean<br>SD | 2457.58<br>1073.96 | 23029.18<br>11853.42 | |
| CV | 43.70 | 51.47 | |
| CAGR | 10.69 | 16.91 | |

Source: Computed from Secondary Data

**TABLE NO 3**

Table 3 indicates that net profit of the bank increased at a considerable rateduring the study period as shown by CAGR. Total income of the bank stood at Rs.9115.80 crore during 2004-05 and it increased to Rs. 43480.37 crore during 2013-14. The calculated values of mean, standard deviation and co-efficient of variation of total income of Canara bank stood at Rs.23029.18

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crore, Rs.11853.42 crore and 51.47 per cent respectively, it showed there was moderate level of deviation in total assets of the bank from its mean value. The calculated value of CAGR of total income of the bank was 16.91 per cent, it was considered high and therefore there was high growth in total income of the bank during the study period, growth rate of total income was higher than growth rate of net profit, it indicated high increase of expenses by the bank. The ratio of net profit to total income of the bank was in decreasing trend over the study period. The ratio ranged between 7.04 and 15.55 per cent. The performance of Canara bank in terms of net profit to total income was found to be considerable.

## NET PROFIT TO TOTAL DEPOSITS

Table 4 is demonstrating the results related to net profit to total deposits of Canara bank. This ratio is a direct measure to know the returns to total deposits and can be calculated as the percentage of net profit to total deposits.

**NET PROFIT TO TOTAL DEPOSITS RATIO RS. IN CRORE**

| YEAR | NET PROFIT | TOTAL DEPOSITS | NET PROFIT TO TOTAL DEPOSITS RATIO (%) |
|---|---|---|---|
| 2004-2005 | 1109.05 | 96908.42 | 1.14 |
| 2005-2006 | 1343.22 | 116,803.23 | 1.15 |
| 2006-2007 | 1420.81 | 142,381.45 | 1.00 |
| 2007-2008 | 1565.01 | 154,072.42 | 1.02 |
| 2008-2009 | 2072.42 | 186,892.51 | 1.11 |
| 2009-2010 | 3021.43 | 234651.44 | 1.29 |
| 2010-2011 | 4025.89 | 293436.64 | 1.37 |
| 2011-2012 | 3282.71 | 327053.73 | 1.00 |
| 2012-2013 | 3672.10 | 355855.99 | 1.03 |
| 2013-2014 | 3063.20 | 420722.82 | 0.73 |
| Mean | 2457.58 | 232877.87 | |
| SD | 1073.96 | 111267.70 | |
| CV | 43.70 | 47.78 | |
| CAGR | 10.69 | 15.81 | |
| Source: Computed from Secondary Data | | | |

**TABLE NO 4**

It was noted from table 4 that net profit of Canara bank increased considerably during the study period as shown by the result of CAGR. Total deposit of the bank was in increasing trend over the study period. The amount of total deposit increased from Rs.96908.42 crore during 2004-05 to Rs.420722.82 crore during 2013-14. Calculated value of mean of total deposits stood at Rs.232877.87 crore, its standard deviation and co-efficient of variation were Rs.111267.70 crore and 47.78 per cent respectively, they showed moderate level of deviation in total deposits of the

 

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bank from its mean value. The result of CAGR of total deposits (15.81 per cent) showed good growth during the study period. The ratio of net profit to total deposits of Canara bank was found to be low during the study period. It ranged from 0.73 per cent to 1.37 per cent. The ratio stood at 1.29 per cent during 2009-10, it went up to 1.37 per cent during 2010-11, during 2011-12 it met a slight decrease and stood at 1 per cent, even though during 2012-13 the ratio met an increase to 1.03 per cent during 2013-14 the ratio went down to 0.73 per cent due to major decrease in net profit during such year. The performance of Canara bank in terms of net profit to total deposit was not good during the study period.

## INCOME AND ITS TREND

Table 5 gives the results of income, its components and its trend of Canara bank for the study period.

**INCOME AND ITS TREND RS. IN CRORE**

| YEAR | INTEREST INCOME | NON-INTEREST INCOME | TOTAL INCOME | % CHANGE OVER PV |
|---|---|---|---|---|
| 2004-2005 | 7572 | 1544 | 9116 | |
| 2005-2006 | 8712 | 1378 | 10089 | 10.68 |
| 2006-2007 | 11365 | 1512 | 12876 | 27.63 |
| 2007-2008 | 14201 | 2308 | 16509 | 28.21 |
| 2008-2009 | 17119 | 2427 | 19546 | 18.40 |
| 2009-2010 | 18752 | 3001 | 21753 | 11.29 |
| 2010-2011 | 23064 | 2827 | 25891 | 19.02 |
| 2011-2012 | 30851 | 2950 | 33800 | 30.55 |
| 2012-2013 | 34078 | 3153 | 37231 | 10.15 |
| 2013-2014 | 39548 | 3933 | 43480 | 16.79 |
| Mean | 20526 | 2503 | 23029 | |
| SD | 11079 | 832 | 11853 | |
| CV | 53.97 | 33.24 | 51.47 | |
| CAGR | 17.98 | 9.80 | 16.91 | |
| Source: Computed from Secondary Data | | | | |

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**TABLE NO 5**

Table 5 shows that interest income was the major component of total income of Canara bank during all the years of the study period. Both interest income and non-interest income of the bank were in increasing trend during the study period. The calculated value of CAGR of interest income (17.98 per cent) was higher than CAGR of non-interest income (9.80 per cent) of the bank. It showed good operating efficiency of Canara bank during the study period. Total income of the bank increased more than double over the study period. The amount of total income of Canara bank increased from Rs.9116 crore in 2004-05 to Rs.43480.37 crore in 2013-14. Total income of the bank increased at high rate during 2011-12, 2006-07 and 2007-08. During all the years' total income of the bank increased over the previous year.

**EXPENSES AND ITS TREND**

Table 6 gives the results of expenses, its components and its trend of Canara bank for the study period.

**EXPENSES AND ITS TREND RS. IN CRORE**

| YEAR | INTEREST EXPENSES | NON-INTEREST EXPENSES | TOTAL EXPENSES | % CHANGE OVER PV |
|---|---|---|---|---|
| 2004-2005 | 4422 | 3585 | 8007 | |
| 2005-2006 | 5,130 | 3616 | 8,746 | 9.24 |
| 2006-2007 | 7,338 | 4118 | 11,456 | 30.98 |
| 2007-2008 | 10,663 | 4281 | 14,944 | 30.45 |
| 2008-2009 | 12,401 | 5073 | 17,474 | 16.93 |
| 2009-2010 | 13071 | 5660 | 18731 | 7.19 |
| 2010-2011 | 15241 | 6624 | 21865 | 16.73 |
| 2011-2012 | 20040 | 10478 | 30518 | 39.57 |
| 2012-2013 | 26199 | 7360 | 33559 | 9.96 |
| 2013-2014 | 30603 | 9814 | 40417 | 20.44 |
| Mean | 14511 | 6061 | 20572 | |
| SD | 8751 | 2490 | 10998 | |
| CV | 60.31 | 41.08 | 53.46 | |
| CAGR | 21.34 | 10.60 | 17.57 | |

Source: Computed from Secondary Data

**TABLE NO 6**

Table 6 indicates that both interest expenses and non-interest expenses of Canara bank increased over the study period. The growth rate as per the results of CAGR of interest income (21.34 per cent) was higher than CAGR of non-interest expenses (10.60 per cent), these results showed that Canara bank increased its deposits from its customers over the study period. It is also a sign of good operating performance of Canara bank during the study period. Total expenditure of the bank

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increased around five times during the study period. Total expenses of the bank increased at high rates during 2011-12, 2006-07 and 2007-08. The result of CAGR of total expenses of Canara bank was 17.57 per cent, it was considered high and there was high rate of growth in total expenses of the bank.

## 6. CONCLUSION

Canara bank is one of the leading public sector banks in India next to State Bank of India. It has branches in all nook and corners of the country. As a major banking company in India, the researcher has analysed profitability of the bank for the period of ten years from 2004-05 to 2013-14. The study has dealt with various profitability ratios and tested its profitability performance. The results of the study reported that profitability performance of the bank was good during the study period. It was also found that total interest income and interest expenses of the bank increased considerably during the study period, it revealed good operating performance of the bank. Overall, profitability of Canara bank was good during the study period.

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