

A Study On Capital Adequacy Ratio and Total Advances To Total Assets Ratio of Canara Bank

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Abstract

The capital adequacy represents the overall financial condition of the bank and its ability to meet the need for additional capital. Capital adequacy of banks is measured by the ratio of capital to risk weighted assets (CRAR). A sound capital Adequacy ratios or position strengthen the confidence of various stakeholders in the bank. It is a ratio of solvency. The banks are required to maintain capital adequacy ratio as specified by RBI from time to time. As per the latest RBI norms, the banks in India should maintain a capital adequacy ratio of 9 %. Higher the capital adequacy ratio, stronger is considered a bank; as it ensures high safety against bankruptcy.

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 using Asset Quality. The capital adequacy is measured by using Capital Adequacy Ratio and Total Advances to total assets ratio.

C A M E L M O D E L

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) Net Interest Margin and Net Profit
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

Mrudul Gokhale (2009) dealt with the study on capital adequacy in banks. She viewed that banks mostly give adequate focus for the credit risk aspect. There is a shift from the qualitative risk assessment to the quantitative management of risk. **C. Srikant, Dr. Ravisha N.S. (2017)** in their study entitled “Analytical Study of The Financial Performance of Canara Bank” examined the progress of Canara Bank related with deposit mobilization, credit distribution, and service diversification. **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 Capital Adequacy Ratio and Total Advances to Total assets ratio of Canara Bank;

Null Hypothesis (Ho)

1. There is no significant difference in performance of Capital Adequacy during the study period.
2. There is no significant difference in performance of Total Advances 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.

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
Capital Adequacy and Total Advances to Total assets Ratio of Canara Bank

Year	Capital Adequacy Ratio	Total Advances to Total assets Ratio
2008-09	14.10	62.93
2009-10	13.43	63.96
2010-11	15.38	62.88
2011-12	13.76	62.13
2012-13	12.4	57.75
2013-14	10.63	60.08
2014-15	10.56	60.23
2015-16	11.08	58.24
2016-17	12.86	53.25
2017-18	13.22	50.26
AVERAGE	12.74	59.17
SD	1.59	4.46
CV	0.125	0.075

Source : compiled and calculated from annual reports

Figure – 1.1
Capital Adequacy and Total Advances to Total assets Ratio of Canara Bank

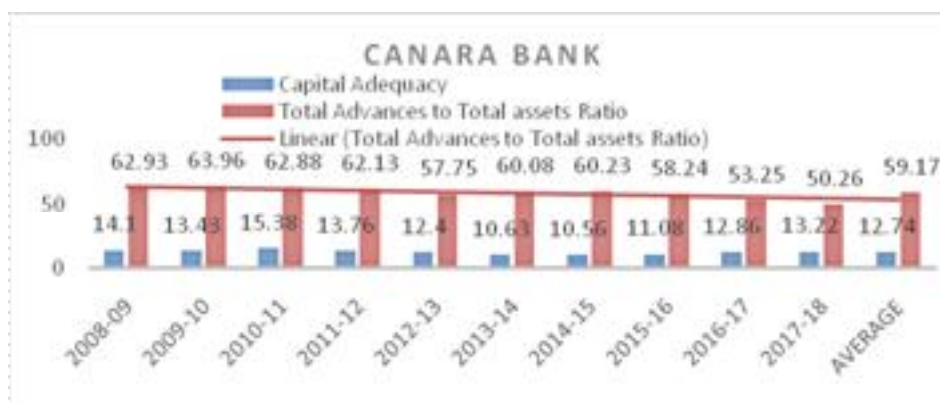


Table- 1.1 reveals the mixed trend of capital adequacy and total advances to total assets ratio throughout the study period. The average capital adequacy is 12.74. The capital adequacy ratio of Canara Bank is more than 9% during the study period. As per RBI a commercial bank has to keep 9% risk weighted asset which is a mandatory. But most of the banks in India are above 12%. A higher ratio indicates it is safer because if loans go bad, it can make up from its net worth. Capital Adequacy Ratio (capital to Risk Weighted Assets) is the most widely employed measure of soundness of banks. It reflects bank’s ability to withstand shocks in the event of adverse developments. It is concluded that capital adequacy ratio is higher in Canara Bank. The average total advances to total assets ratio is 59.17. Higher ratio of advances of bank deposits (assets) is preferred to a lower one. Total advances also include receivables. The value of total assets is excluding the revolution of all the assets.

Chi-square Test-1- Capital Adequacy

Null Hypothesis (Ho) :There is no significant difference in performance of capital adequacy ratio during the study period.

Alternative Hypothesis (H1) :There is a significant difference in performance of capital adequacy 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
14.1	12.74	1.36	1.84	0.1447
13.43	12.74	0.69	0.47	0.0371
15.38	12.74	2.64	6.96	0.5462
13.76	12.74	1.02	1.04	0.0813
12.40	12.74	-0.34	0.12	0.0092
10.63	12.74	-2.11	4.46	0.3501
10.56	12.74	-2.18	4.76	0.3737
11.08	12.74	-1.66	2.76	0.2168
12.86	12.74	0.12	0.01	0.0011
13.22	12.74	0.48	0.23	0.0179
			χ^2	1.78

Calculated value of Chi-Square = 1.78

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 (1.78) 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 capital adequacy ratio during the study period.

Chi-square Test-2- Total advances to total assets ratio

Null Hypothesis (H₀)

There is no significant difference in performance of total advances to total assets ratio during the study period.

Alternative Hypothesis (H₁)

There is a significant difference in performance of total advances to total assets 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
62.93	59.17	3.76	14.13	0.2388
63.96	59.17	4.79	22.93	0.3876
62.88	59.17	3.71	13.76	0.2325
62.13	59.17	2.96	8.76	0.1480
57.75	59.17	-1.42	2.02	0.0341
60.08	59.17	0.91	0.83	0.0140
60.23	59.17	1.06	1.12	0.0190
58.24	59.17	-0.93	0.87	0.0146
53.25	59.17	-5.92	35.06	0.5925
50.26	59.17	-8.91	79.41	1.3420
			χ^2	3.02

Calculated value of Chi-Square = 3.02

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 (3.02) is less than the table value of χ^2 (16.919), Hence H_0 is accepted and concluded that there is no significant difference in performance of total advances to total assets ratio during the study period.

References

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