Research Paper
Impact Factor: 7.358
Peer Reviewed & Indexed Journal
www.ijmsrr.com

IJMSRR
E- ISSN - 2349-6746
ISSN -2349-6738

FINANCIAL MANAGEMENT OF PUBLIC SECTOR BANKS IN INDIA A CASE STUDY OF CANARA BANK

Shanigaram Rajitha
Research Scholar, Department of Management, S.R University,Warangal, Telangana.

Abstract
The finance function is defined as the procurements of funds and their effective utilization. Finance is that business activity that is concerned with the acquisition and conservation of capital funds in meeting financial needs the overall objective of a business enterprise. Banking is a vast subject many economic researchers have studied and focused their attention on various spheres of banking. The objective of the study is to analyze the financial performance of Canara Bank. For analysis, the tools used are financial statement analysis, Trend analysis, and ratio Analysis. It is found that Fixed and current deposits have shown an increasing trend. Equity shareholders are also enjoying an increasing trend in the return on their capital. Though the current assets and liabilities (current liquidity) of the bank are not so satisfactory the bank has succeeded in maintaining a stable solvency position over the years.

Keywords: Financial performance, Canara Bank.

Introduction

The horizon of commercial banking in India that enlarged with nationalization has further widened with the implementation of the banking sector reforms in the years 1922-93. Banks are now increasingly identifying themselves with national problems and thereby trying to bring about social and economic transformation in the country. To quote Bhabha “Banking is the kingpin of the chariot of the economic progress. As such its role in expanding the economy of a country like India can neither be underestimated nor overlooked” The banking system is an important part of any economy. It is one of the many institutions that impinge on the economy and affect its performance. Economists have expressed a variety of opinions on the effectiveness of the banking systems in promoting or facilitating economic development. As an economic institution, the bank is expected to be more directly and positively related to the performance of the economy than most non-economic institutions. Banks are considered to be the mart of the world, the nerve center of the economies and finance of a nation, and the barometer of its economic perspective. They are not merely money dealers but are dealers in development. The bank’s main function is to mobilize idle savings to lend to productive activities. The old scenario of economic growth as a function of land, capital, labour, technology, and entrepreneurship has been modified. The new face of economic growth is that it is a function of savings rate, return on investment, and cost of intermediation. Banking plays an important role in these factors. Bank plays a vital role as the backbone of a nation’s financial system, performing manifold functions through Liquidity, Maturity, and Risk transformation.

Banks are important agencies for the generation of savings in the community. Realizing that, savings are essential for the development plans of the country as well as of the world, Banks have made tremendous achievements in the mobilization of economic resources. World Savings Day is observed on October 31 every year. The first International Thrift Congress was held in Milan, Italy in 1924. The Congress passed a resolution declaring October 31 as World Day. It was a day “devoted to the promotion of savings all over the world”. Credit must be given to PSU banks that have undertaken serious efforts to encourage savings by employing several methods. In India, World Saving Day was

IJMSRR
E- ISSN - 2349-6746
ISSN -2349-6738

also celebrated on October 31 but after the death of Prime Minister Indira Gandhi on the same day in 1984, it is since celebrated on October 30. Banks are also the main agents of credit. They divert and employ the funds to make possible fuller utilization of the resources of a nation. They transfer funds from regions where it is available in plenty to where it can be efficiently utilized. The distributions of funds between regions pave the way for the balanced development of the different regions. They are thus catalytic agents that create opportunities for the development of the resources to speed up the tempo of economic development. In the Indian financial system public sector banks are the major mobilisers and disbursers of financial resources. The Role of Banks in accelerating the economic development of a country like India has been increasingly recognized following the nationalization of fourteen major commercial banks in July 1969 and six more banks in April 1980.

With nationalization, the concept of banking has undergone significant changes. Banks are no longer viewed as mere Lending institutions. They are to serve society in a much bigger way with a Socio-economic development-oriented outlook. They are specially called upon to use their resources to attain social upliftment and speedier economic development. To achieve the varied objectives of nationalization, the nationalized banks have introduced Innovative schemes in the mobilization of resources as well as their disbursement. Nationalizations resulted in comprehensive programs of branch expansion, innovations in the mobilization of savings, lending to the Priority sector and weaker section of society, and so on.

Growth and development of world Banking

The Word 'Bank' is derived from French and the word is 'banco' or 'bancus', which means bench. Jews in Italy used to sit on the benches and do the business of lending. Whenever the lender failed to recover the loans and subsequently became bankrupt, he used to break the bench to indicate his insolvency. This is one version regarding the word bank. Another version is that the word bank has been derived from the German language in which there is a word pack, which means joint stock fund. When Germans ruled Italy, the word was analyzed and it became a bank. However, the Word Bank means a storehouse of money. The earliest banking activities were noticed in Egypt, Greece, and Babylonia. As early as 1157, there was a bank in Venice and its activities were opened to the public. Loans were granted to tradesmen, Industrialists, and business class. In 1336, banks were set up in Florence (Italy) and they were known as Monte, which means amount of money. They accepted deposits, from the public and lent them to the business community. In 1401, a public bank was started in Barcelona. The additional functions of this bank were the exchange of money, discounting bills, accepting deposits, and lending loans against security. They carried on this for the benefit of local citizens as well as foreigners. Modern banking was very much in practice in Geneva from the year 1407 and in Amsterdam from the year 1609. Funds were transferred from one account to another.4 In England, banking was initiated by goldsmiths. They used to receive valuables and funds from their customers and issue receipts. These receipts over time became promissory notes. During the regime of Charles II, the valuables that were kept by these goldsmiths for safe custody in the royal mint were confiscated and the goldsmiths suffered heavy losses. Later the city merchants entrusted their cashiers with large sums of money and lending was carried through them. When the cashiers duped the merchants, the city merchants did not have any alternative except to keep their money with goldsmiths.

Role of Public Sector Banks in India

Public sector banks are banks where a majority stake (more than 50%) is held by a government. The shares of these banks are listed on stock exchanges. There are a total of 27 public sector banks in India

IJMSRR
E- ISSN - 2349-6746
ISSN -2349-6738

nationalized banks+6 state Banks group (SBI+ 5 associates) +1 IDBI Bank (another public sector Indian bank) = 26 PSBs +1 recent Bhartiya Mahila Bank. In the Indian financial system, commercial banks are the major mobilizers and disbursers of financial resources. They have an all-pervasive role in the growth of a developing country like India. The role of banks in accelerating the economic development of a country like India has been increasingly recognized following the nationalization of fourteen major commercial banks in July 1969 and six more banks in April 1980. With nationalization, the concept of banking has undergone significant changes. Banks are no longer viewed as mere lending institutions. They are to serve society in a much bigger way with a socio-economic development-oriented outlook. They are specially called upon to use their resources to attain social upliftment and speedier economic development. To achieve the varied objectives of nationalization, the nationalized banks have introduced innovative schemes in the mobilization of resources as well as their disbursement. Nationalization resulted In a comprehensive program of branch expansion, innovations in the mobilization of saving, lending to priority sectors and weaker sections of the society, and so on.

Role of Canara Bank in India

Ammembal SubbaRao Pai, a philanthropist, established the Canara Hindu Permanent Fund in Mangalore, India, on 1 July 1906.Canara Bank is an Indian state-owned bank headquartered in Bangalore, Karnataka. The bank changed its name to Canara Bank Limited in 1910 when it incorporated. The bank was nationalized in 1969. Canara Bank's first acquisition took place in 1961 when it acquired Bank of Kerala. Bank of Kerala had been founded in September 1944 and at the time of its acquisition on 20 May 1961 had three branches. The second bank that Canara Bank acquired was Seasia Midland Bank (), which had been established on 26 July 1930 and had seven branches at the time of its takeover. In 1958, the RBI had ordered Canara Bank to acquire G. Raghumathmul Bank, in Hyderabad. This bank had been established in 1870, and had converted to a limited company in 1925. At the time of the acquisition G. Raghumathmul Bank had five branches. The merger took effect in 1961. Later in 1961, Canara Bank acquired Trivandrum Permanent Bank. Trivandrum Permanent Bank had been founded on 7 February 1899 and had 14 branches at the time of the merger.

Canara Bank acquired four banks in 1963: the SreePoornathrayeesaVilasam Bank, Thrippunithura, Arnad Bank, Tiruchirapalli, Cochin Commercial Bank, Cochin, and Pandyan Bank, Madurai. Sree PoornathrayeesaVilasam Bank had been established on 21 February 1923 and at the time of its acquisition it had 14 branches. Arnad Bank had been established on 23 December 1942 and at the time of its acquisition had only one branch. Cochin Commercial Bank had been established on 3 January 1936, and at the time of its acquisition had 13 branches. The Government of India nationalized Canara Bank, along with 13 other major commercial banks of India, on 19 July 1969. In 1976, Canara Bank inaugurated its 1000th branch. In 1985, Canara Bank acquired Lakshmi Commercial Bank in a rescue. This brought Canara Bank some 230 branches in northern India. In 1996 Canara Bank became the first Indian Bank to get ISO certification for "Total Branch Banking" for its Seshadripuram branch in Bangalore.Canara Bank has now stopped opting for ISO certification of branches. As of December 2014, the bank had a network of 5641 branches and more than 7000 ATMs spread across India. The bank also has offices abroad in London, Hong Kong, Moscow, Shanghai,Doha, Dubai and New York. Canara Bank established its International Division in 1976. In 1983, Canara Bank opened its first overseas office, a branch in London. Two years later, Canara Bank established a subsidiary in Hong Kong, Indo Hong Kong International Finance. In 2008-9, Canara Bank opened its third foreign operation, this one a branch in Shanghai. Later Canara Bank established a branch each in Leicester and Bahrain, and converted its Hong Kong subsidiary into a branch. It also has a representative office in

IJMSRR
E- ISSN - 2349-6746
ISSN -2349-6738

Sharjah.Together with SBI,Canara Bank established a joint venture in Moscow, Commercial Bank of India LLC.Canara Bank provides the general manager and the branch managers for Al Razouki Intl Exchange Co (LLC), which a number of business leaders and Non-Resident Indians established in 1981 in the United Arab Emirates to facilitate remittances to India by tourists and NRIs.

Company Profile

Canara Bank Limited is one of the largest public sector banks owned by the Government of India. It is headquartered in Bengaluru. It was established at Mangalore in 1906 by Ammembal Subba Rao Pai and later the government nationalized the bank in 1969. The bank also has offices abroad in London, Hong Kong, Moscow, Shanghai, Dubai, Tanzania and New York. As per the announcement made by Finance Minister Nirmala Sitharaman on 30 August 2019, Manipal based Syndicate Bank merged with Canara bank on 1 April 2020, making it the fourth largest bank in the country. This had been founded in September 1944 and at the time of its acquisition on 20 May 1961 had three branches. The second bank that Canara Bank acquired was Seasia Midland Bank (Alleppey), which had been established on 26 July 1930 and had seven branches at the time of its takeover. In June 2006, the Bank completed a century of operation in the Indian banking industry. The eventful journey of the Bank has been characterized by several memorable milestones. Today, Canara Bank occupies a premier position in the comity of Indian banks. With an unbroken record of profits since its inception, Canara Bank has several firsts to its credit.

Review of Literature

Sumikhare and Saima Rizvi (2011) focused on capital structure characteristics for BSE 100 index companies in India. The panel data methodology, which incorporates both time series and crosssectional data, has been applied to the actual data to find determinants of leverage ratios for each firm with in the period of 2000-2009. The empirical findings revealed that returns on asset and profit margin on sales significantly affects firms leverage value. Therefore, profitability is one of the most important determinants for leverage. Results also showed that depreciation over operating profit, growth opportunities, size and tangibility do not explain leverage needs. Also, tangibility is found to be negatively affecting leverage.

Shilpa Peswani (2011) compared high and low leveraged FMCG companies in India. The study found that there was substantial difference in the capital structure of BIL and Marico. The difference was due to the source of financing of these two companies for their expansion project. BIL has low degree of leverage and MIL has comparatively higher degree of leverage. Though profitability of the company is not entirely dependent on the sources of financing but the return to equity holders vary according to the sources of capital funding adopted by the company.

David, McMillan and Omar Camara (2012) used dynamic panel estimators to test whether there are differences in the speed of capital structure adjustment between US-based multinationals and domestic corporations and whysuch differences may occur. The results show that average domestic corporations adjust to target leverage faster than multinationals. This provides support for the market-timing, pecking order and dynamic trade-off theories of capital structure. Further they identified the overall relatively faster capital structure adjustment speed of domestic corporations to relatively higher equity returns for multinational corporations, relatively lower incidence of under-leverage for domestic corporations and the relatively higher incidence of above-target leverage for domestic corporations. Further, tests show that agency costs, financial flexibility and capital investments have different effects on adjustment process for multinational corporations relative to domestic corporations.

IJMSRR
E- ISSN - 2349-6746
ISSN -2349-6738

Objectives

1. To examine the growth and development of Public Sector Banks in India.
2. To examine the extent of achievements of Canara Bank in relation to :

Methodology

Data relating to Bank and financial performance analysis are collected from standard books, various web-sites and research publications. The annual reports and publications of various banks are utilized for the purpose of secondary data. The all secondary data will be statistically processed, classified and tabulated using appropriate methods and techniques.As there are various methods and techniques to analyze the financial performance. Data will be evaluated with the help of the following techniques:

Finance is a life blood of business it is required from the establishment of the business to liquidity or winding up of a business, so financial institutions played a very important role on the operation of the business. In the early days banking business was been confined to receiving of deposits and lending of money. But now a modern banker undertakes wide variety of functions to assist their customers. They provide various facilities to customers which makes the transaction easy and comfortable. Financial institutions such as banks, financial service companies, insurance companies, securities firms and credit unions have very different ways of reporting financial information. Running a bank is just difficult as analyzing it for investment purposes. The project undertaken had been an attempt on my part to learn and comprehend the financial trends of the company over a period of five years with the ratios as the analysis tools. The project involves calculation of various ratios and margins using the data made available by the company. The documents made available to extract related data were the summarized balance sheet for five financial years from the period of 2015-16 to 2019-20. The summarized profit and loss account for the same period was also supplied with, in order to have a thorough study and derive appropriate conclusions. The study undertaken involves leverage ratios and profitability ratios which are the key determinants of the financial health of any company. These ratios have been of great assistance in determining the financial status of the bank under review. The rationale behind ratio analysis lies in the fact that it makes data comparable. It is a systematic use of ratio to interpret the financial statements so that the strengths and weaknesses of a firm as well as its historical performance and current financial condition can be determined. When we observed the financial statement comprising the balance sheet and profit or loss account is that they do not give all the information related to financial operations of firm, they can provide some extremely useful information to the extent that the balance sheet shows the financial position on a particular date in terms of structure of assets, liabilities and owner ‘s equity and profit or loss account shows the results of operation during the year. Thus, the financial statements will provide a summarized view of the firm.

Business Process of the Industry

The banking sector is a competitive environment, where business process re-engineering is constantly needed. Business process modeling and automation are effective tools towards this direction, improving the performance of business activities and enabling enterprise-wide monitoring and coordination. In this paper, we present a case study of modeling and automating business processes in the Loan Monitoring Department of a medium-sized Bank. Loan monitoring is a typical banking activity, which includes business processes concerning loan approval, collection of delinquent loans and initiation of appropriate legal claims. These processes are often performed in cooperation with external business partners, such as legal firms and brokers, have collaborative properties and are considered to be of dynamic nature. Their efficiency strongly depends on human operator experience

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and subjective criteria. The loan monitoring policy employed is a significant factor for determining profits. Thus, relevant business processes should always be monitored, evaluated and refined. Business process modeling was conducted using the Modified Petri-Net (MPN) model, which allows the description of ad-hoc and collaborative business activities. Business process automation was performed using Lotus Domino/Notes groupware platform, since widely known workflow management systems do not provide the means for the description of such activities. The direct mapping and support of MPN main entities within Notes environment ensured the accurate and complete implementation of all business processes and reduced significantly programming cost. Loan Management System is the integrated environment build to support loan monitoring activities. Our experience and the potential of the business process modeling and automation approach is also presented

However, the development of electronic banking has also led to new areas of risk such as data security and integrity requiring new techniques of risk management. Cooperative (mutual) banks are an important part of many financial systems. Ina number of countries, they are among the largest financial institutions when considered as a group. Moreover, the share of cooperative banks has been increasing in recent years; in the sample of banks in advanced economies and emerging markets analyzed in this paper, the market share of cooperative banks in terms of total banking sector assets increased from about 9 percent in mid1990s to about 14 percent in 2004. The Indian banking system consists of 12 public sector banks, 22 private sector banks, 44 foreign banks, 56 regional rural banks, 1,485 urban cooperative banks and 96,000 rural cooperative banks in addition to cooperative credit institutions. As on May 31, 2020, total number of ATMs in India increased to 210,415 and is expected to reach 407,000 by 2021. According to Reserve Bank of India (RBI), India ‘s foreign exchange reserve reached US$ 534.56 billion as on July 31, 2020. According to RBI, bank credit and deposits stood at Rs 102.19 lakh crore (US$ 1.45 trillion) and Rs 140.20 lakh crore (US4 1.98 trillion), respectively, in the fortnight ending July 31, 2020. Credit to non-food industries stood at Rs 101.33 lakh crore (US$ 1.43 trillion) on July 31, 2020. Asset of public sector banks stood at Rs 72.59 lakh crore (US$ 1,038.76 billion) in FY19. Total assets across the banking sector (including public, private sector and foreign banks) increased to US$ 2.27 trillion in FY19. Indian banks are increasingly focusing on adopting integrated approach to risk management. The NPAs (Non-Performing Assets) of commercial banks has recorded a recovery of Rs 400,000 crore (US$ 57.23 billion) in FY19, which is highest in the last four years. As per Union Budget 2019–20, investment-driven growth required access to low-cost capital, and this would require investment of Rs 20 lakh crore (US$ 286.16 billion) every year. RBI has decided to set up Public Credit Registry (PCR), an extensive database of credit information, accessible to all stakeholders. The Insolvency and Bankruptcy Code (Amendment) Ordinance, 2017 Bill has been passed and is expected to strengthen the banking sector. Total equity funding of microfinance sector grew 42% y-o-y to Rs 14,206 crore (US$ 2.03 billion) in 2018–19.

Fixed Assets Ratio compared to the base year 2015-16. During the year 2016-17 the trend indices of Fixed Assets Ratio had been decreased to 94.35091976 and during the subsequent year 2017-18 the same had been increased to 103.8961412. While during the year 2018-19 the same had been decreased to 92.49398845, during the last year 2019- 20 the same was decreased to 87.19443034.

Solvency ratio compared to the base year 2015-16. During the year 2016-17 the trend indices of Solvency ratio had been decreased to 99.93895936 and during the subsequent year 2017-18 the same had been decreased to 99.94014513. While during the year 2018-19 the same had been increased to 100.5389685, during the last year 2019- 20 the same was increased to 100.3045318.

Trend of debt equity ratio compared to the base year 2015-16. During the year 2016-17 the trend indices of debt equity had been decreased to 99.02410513 and during the subsequent year 2017-18 the same had been decreased to 98.7318051. While during the year 2018-19 the same had been increased to 110.3499816, during the last year 2019- 20 the same was increased to 106.0584791.

Conclusion

The decrease in profitability in recent years compared to previous years indicates that there is no improvement in operational efficiency that means administrative activities of the bank are not properly managed. From the ratio analysis, we can conclude that the financial position and performance of Canara bank is not steady for the past five years. The firm fails to maintain a satisfactory level of leverage ratios throughout the period of study, which is an indication of poor financial health. By analyzing the profitability ratios, it is clear that the profitability of the bank in the last year is not satisfactory and should be improved in order to increase its financial performance among the peers.

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IJMSRR
E- ISSN - 2349-6746
ISSN -2349-6738

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