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A COMPARATIVE STUDY ON SELECTED BANKS WITH REFERENCE TO CANARA BANK AND STANDARD CHARTED BANK

KEYWORDS: Foreign Bank, Public Sector Bank, Financial performances, Ratio analysis

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ABSTRACT *The banking sector in India contributes to increase the economic level of the country. The banks control the credit in the country. Today there is a great competition between public sector banks and foreign banks. Foreign Banks in India always brought an explanation about the prompt services to customers. After the set up foreign banks in India, the banking sector in India also become competitive and accurate. In this paper, an effort has been made to evaluate the financial performance of the CANARA bank and SCB (standard charted bank).This evaluation has been done by using ratio analysis.*

INTRODUCTION

Indian banking is the lifeline of the nation and its people. The main business of banks are accepting deposits and lending loans to the customers. An efficient banking system is recognized as basic requirement for the economic development of any economy. Banks mobilize the savings of community into productive channels. The banking system of India is featured by a large network of bank branches, serving many kinds of financial needs of the people.

Public Sector Banks (PSBs) are banks where a majority stake (i.e. more than 50%) is held by government. The shares of these banks are listed on stock exchanges. There are a total of 23 Public Sector Banks in India. At the same time large number of foreign banks are now keen on opening shop in India to gain a critical mass by April 2009, when private banking space is expected to open up for foreign players. Foreign Banks in India always brought an explanation about the prompt services to customers. After the set up foreign banks in India, the banking sector in India also become competitive and accurate. The share of foreign banks in the business done in the country (deposits and advances) has been hovering between 5 and 7 per cent during the past decade.

The present study is an analysis on the performance of the selected public sector bank and foreign bank in India. The paper evaluates the earning performance of CANARA bank and SCB (standard charted bank).

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.

Standard Chartered Bank, the oldest foreign bank that came to India 150 years ago, now operates the maximum number of branches, 83. It is a London based bank, currently operational within over 70 nations with more than 1,700 branches and 73,000 strong workforces as of April 2009. Standard Chartered Bank was formed as the merger of two banks viz. The Chartered Bank of India, Australia & China and The Standard Bank of British South Africa. The merger took place in the year 1969.

REVIEW OF LITERATURE

Rakhe (2010) analyzed the financial performance of foreign banks in comparison with other bank groups in India during 2002-03 to 2008-09. The study indicates that access to low cost funds, diversification of income and other income to fully finance the operating expenses are the important factors to the higher profitability of foreign banks vis-à-vis other bank groups in India. Author expressed that efficiency of fund management, generation of other income are the most important factor determining profitability in the banking system.

Pat (2009) made an assessment of the RBI's Report on "Trend and Progress of Banking" in India, 2007-08, which reported a relatively-healthy position of the Indian banking system. He noted that the various groups of banks reported improvements in net profits, return on assets and return on equity. Two basic indicators of sound banking system, namely, capital to risk weighted assets and quality of assets, also revealed considerable improvements over the years.

Singla HK (2008), in his paper,' financial performance of banks in India,' in ICFAI Journal of Bank Management No 7, has examined that how financial management plays a crucial role in the growth of banking. It is concerned with examining the profitability position of the selected sixteen banks of banker index for a period of six years (2001-06). The study reveals that the profitability position was reasonable during the period of study when compared with the previous years. Strong capital position and balance sheet place, Banks in better position to deal with and absorb the economic constant over a period of time.

STATEMENT OF THE PROBLEM

Finance plays an important role in all the sectors, since Indian Economy is a developing economy the banks plays a major role in the growth of our economy. In India profit earned by foreign bank is more than the public sector bank. Hence the study is undertaken to analyze the earnings of the public sector bank (Canara) and foreign bank (SCB).

OBJECTIVE OF THE STUDY

- To study the financial performance of CANARA bank and STANDARED CHARTED BANK.

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SCOPE OF STUDY

The present study is to analyze the earning performance of the public sector bank (CANARA) and foreign bank (SCB). Through the study we came to know the financial status of the CANARA bank and SCB.

RESEARCH METHODOLOGY

Research in common parlance refers to a search for knowledge. Once can also define research as a scientific and systemic search for pertinent information on a specific topic. In fact, research is an art of scientific investigation.

The following are the various components that constitute research methodology:

Data collection

The study is based on the secondary data collected from the sources like annual reports and financial statement of selected banks. The data has also been sourced from magazines, journals and internet sources.

Period of the study

The period considered for the purpose of the study was eight years from 2007-2014.

Tools used

The financial tool which are used as follow:

- **Ratio analysis**

ANALYSIS AND INTERPRETATION

INTEREST INCOME TO TOTAL INCOME

Interest Income to Total Income shows the proportionate contribution of interest income in total income. Banks lend money in the form of loans and advances to the borrowers and receive interest on it. This receipt of interest is called interest income. Total income includes interest income, non-interest income and operating income.

Interest Income

$$\text{Interest Income to Total Income} = \frac{\text{Interest Income}}{\text{Total Income}} \times 100$$

TABLE 1.1

YEAR/BANK	CANARA	SCB
2007	88.26	75.02
2008	86.02	68.42
2009	87.58	64.59
2010	86.20	66.67
2011	89.08	71.99
2012	91.27	72.66
2013	91.53	76.39
2014	90.96	76.03

INTERPRETATION

The above table shows the result of interest income to total income ratio of CANARA bank and standard charted bank. The ratio of CANARA bank shows the decreasing trend from 2007-2010 and the increasing trend from 2011-2013. In case SCB it maintains a pretty high ratio ranging from 66.67% to 76.39 % over the years 2010-2014. On comparing, it is observed that CANARA bank has great ability in generating the interest income as it maintains high margin of interest income to total income.

RETURN ON ASSET

Return on asset is the ratio of net profit to total assets of a business during a financial year. It measures efficiently of the business in using its assets to generate net incom

$$\text{Return on Asent} = \frac{\text{Net profit}}{\text{Total Assets}}$$

TABLE 1.2

YEAR/BANK	CANARA	SCB
2007	0.86	2.32
2008	0.87	2.32
2009	0.94	1.96
2010	1.14	2.38
2011	1.20	1.94
2012	0.88	1.43
2013	0.70	2.47
2014	0.50	1.29

INTERPRETATION

The above table contains the return on asset ratio of CANARA bank and standard charted bank. In case of CANARA bank maintain increasing trend from 2007 to 2009 and it shows a decreasing trend ranging from 1.20(2011) to 0.50(2014). In SCB it has a fluctuating ratio over eight years and it maintains a constant ratio in 2007 & 2008. Hence the return on assets of both banks has to be improved in order to earn better rupee value invested in its assets.

TOTAL ADVANCES TO TOTAL ASSET

Ratio of advances to assets shows the profitability and efficiency of an organization. This helps to know about the total advances over assets to obtain profit through assets in various ways of acquiring or selling it.

$$\text{Total Advances to Total Assets} = \frac{\text{Total Advances}}{\text{Total Assets}} \times 100$$

TABLE 1.3

YEAR/BANK	CANARA	SCB
2007	59.35	51.12
2008	59.40	45.41
2009	62.93	38.46
2010	63.96	46.40
2011	63.22	46.28
2012	62.14	45.67
2013	58.73	51.73
2014	61.20	52.23

INTERPRETATION

The table shows the total advances to total asset ratio of CANARA bank and standard charted bank. In case of CANARA bank the ratio is rising from 59.40 to 62.93 in 2009. The ratio is decreasing from 63.96(2010) to 58.73(2013). In SCB the ratio is decreasing from 46.40(2010) to 45.67(2012). In 2013 and 2014 it shows the increasing value (52.23).

On comparing, it is found that CANARA bank has maintained greater advances to assets ratio, indicating the bank is aggressiveness in lending which ultimately results in better profitability.

OTHER INCOME TO TOTAL INCOME

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Other income to total income reveals the proportionate share of other income in total income. Other income includes non-interest income and operating income. Total income includes interest income, non-interest income and operating income.

$$\text{Other Income to Total Income Ratio} = \frac{\text{Other Income}}{\text{Total Income}}$$

TABLE 1.4

YEAR/BANK	CANARA	SCB
2007	11.74	24.98
2008	13.98	31.58
2009	12.42	35.41
2010	13.80	33.33
2011	10.92	28.01
2012	8.73	27.34
2013	8.47	23.61
2014	9.04	23.97

INTERPRETATION

The above table contains the other income to total income ratio. In case of CANARA bank the highest ratio is 13.80(2010) and lowest ratio is 8.47(2013). In case of SCB the highest ratio is 35.41(2009) and lowest ratio is 23.61(2013). In both bank the ratio shows decreasing trend from 2010 to 2013. But in 2014 the ratio is increased in both banks.

On comparing it is observed that SCB has highest other income to total income ratio and has a greater ability in generating the non-interest income.

NET INTEREST MARGIN

Net interest margin (NIM) is a measure of the difference between the interest income generated by banks or other financial institution and the amount of interest paid out to their lenders (for example, deposits), relative to the amount of their (interest-earning) assets.

$$\text{Net Interest Margin} = \frac{\text{Interest Earned (-) Interest Expended}}{\text{Assets}} \times 100$$

TABLE 1.5

YEAR/BANK	CANARA	SCB
2007	2.43	4.07
2008	1.96	3.74
2009	2.15	3.24
2010	2.15	4.35
2011	2.33	3.76
2012	2.06	3.49
2013	1.91	4.19
2014	1.82	4.11

INTERPRETATION

This table shows the net interest margin ratio of CANARA bank and standard charted bank. In case of CANARA bank the highest ratio is 2.43(2007) and lowest ratio is 1.82(2014). It shows little fluctuating over eight years. In SCB the ratio shows decreasing trend from 4.35 to 3.49 except a rise in 2013(4.19). On comparing, it is observed that SCB bank has higher NIM ratio over eight years.

CONCLUSION

The study helps to have a clear and perfect knowledge about financial performance of the banks from the year 2007 to 2014. The study found that the interest income to total income ratio in CANARA bank was higher than the SCB. This shows that CANARA bank has greater ability in generating the interest income. The return on asset is relatively higher in SCB as compared to CANARA bank. Total advances to total asset ratio of CANARA bank is higher than the SCB. It shows that CANARA bank has maintained greater advances than SCB. The ratio of other income to total income is higher in SCB and it has a greater ability in generating the non- interest income. Net interest margin ratio of CANARA bank shows little fluctuating over eight years. The overall performance of both the banks is good and in some case one bank is lacking than other bank. This study could be useful in making better decision in the future course of action.

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